

What We Are Watching in Private Markets for 2026

PRIVATE MARKET
VIEWPOINTS

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What we are watching

Private markets enter 2026 moving more towards a normalized but highly dispersed environment. After several years defined by higher discount rates, reduced exit activity, and extended holding periods, conditions for private markets are gradually improving. However, outcomes across private markets are likely to remain uneven, reinforcing the importance of selectivity, governance, and process discipline.

The three backbone themes provide a practical lens:

- Infrastructure: opportunities exist well beyond AI data centers, but execution constraints, particularly power availability, grid interconnection, and development timelines, are increasingly central to underwriting outcomes.
- Private equity: A broader recovery remains tied to exits and valuation clearing, with small and middle-markets differentiated by their ability to generate operational value rather than relying on leverage or multiple expansion.
- Private credit: As the asset class matures, underwriting discipline and governance are more decision-useful than simplified labels.

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Across asset classes, governance complexity is rising. Secondary transactions, continuation vehicles, and evolving product structures can help manager liquidity and duration, but they also increase the importance of objective clarity, transparency expectations, and process discipline. For investors, the focus very well may be less about market inflection points and more about monitoring the mechanisms that drive liquidity, valuation, and the feasibility of business plans.

Private markets in 2026: liquidity, valuation, and implementation realities

Private markets are currently following a multi-year adjustment period after several years in which higher discount rates, wider bid-ask spreads, and reduced exit activity influenced transaction volumes and realized liquidity.¹ Even if financing conditions improve, the pace at which valuation expectations clear may differ by sector and by asset type.² For fiduciaries, the central task is not to forecast timing but to monitor mechanisms that drive liquidity, valuation marks, and the feasibility of business plans, and to ensure that portfolio objectives and liquidity needs remain aligned with implementation realities.

Across private equity, venture capital, and real estate, partial and full realized exits convert unrealized value into distributions. When exits slow, as we've seen in recent years, holding periods extend and investor pacing can become constrained.³ In that environment, secondary market tools and GP-led solutions can be used to manage asset duration, but they also increase governance requirements around pricing validation, disclosures, and conflicts. Deal activity and exits did increase for private equity in 2025 vs. the previous year and combined with greater mechanisms for creating liquidity and a lower interest rate environment, should continue to improve in 2026.

¹ Source: Preqin, "Private Markets in 2030," December 2025.

² Source: BlackRock, "2026 private Markets Outlook: A New Continuum," December 2025.

³ Source: Hamilton Lane, M. Giannini, "2025 Mid-Year Market Update," November 18, 2025.

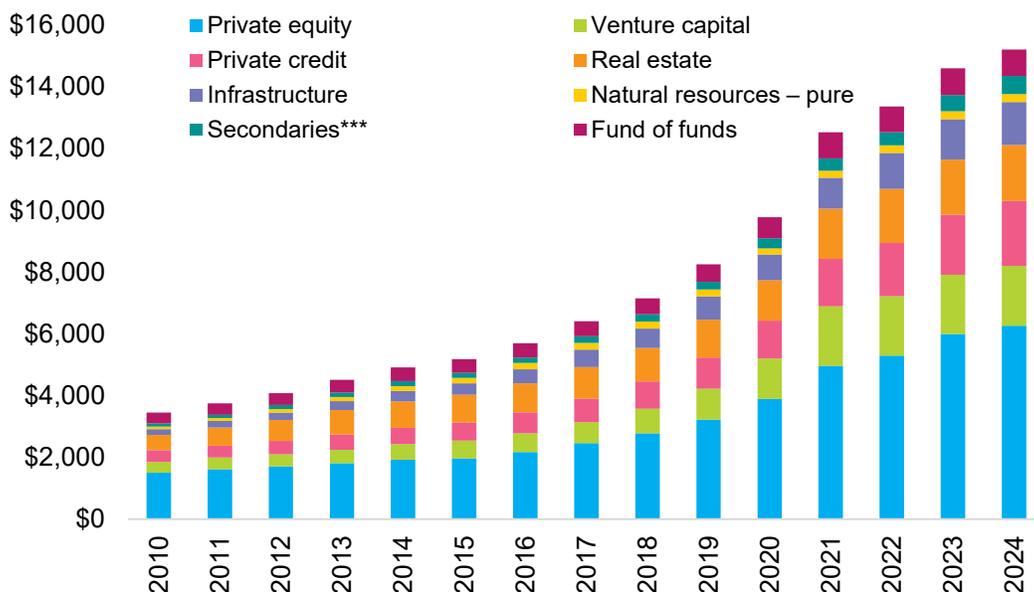


FIGURE 1
Growth of Private Markets Through 2030 (\$T)

Source: Preqin, "2026 Private Markets Outlook," December 2025.

Two additional cross-asset developments may merit additional attention. First, fundraising concentration can increase the importance of manager selection and terms: larger platforms may benefit from scale and resources, while specialized managers may offer focus and differentiated sourcing. Second, as private markets broaden access channels and expand product structures, transparency, education, and investor protection considerations become more salient.

A monitoring framework for fiduciaries

Rather than anchoring decisions on macro forecasts or headline narratives, a decision-useful approach in 2026 emphasizes monitoring mechanisms and process quality.

Key cross-asset themes fiduciaries may monitor include:

- Exit velocity and exit mix (trade sales, sponsor-to-sponsor, IPOs), including the use of continuation vehicles to manage timing.
- Secondary market capacity, pricing, and governance practices around GP-led transactions.
- Private credit amendments and restructuring mechanisms that affect cash flow timing, including payment-in-kind (PIK).
- Infrastructure execution constraints tied to power procurement and grid interconnection.
- Real estate refinancing conditions and transaction friction, with continued dispersion by sector and asset quality.
- Venture capital deal concentration, particularly in AI-related investments, and associated valuation dispersion risk.

This framework provides context for evaluating the three backbone themes discussed below.

Theme 1

Infrastructure is broader than AI data centers

AI-driven data center investment has increased the visibility of infrastructure. In practice, infrastructure is a massive category: energy generation and transmission, utilities, transportation networks, communications infrastructure, and social assets each carry different demand drivers, regulatory regimes, and contracting structures.⁴ This breadth means the same headline theme can mask very different risk profiles and portfolio behaviors. AI driven data center investment has grabbed all the headlines, and we believe that. AI will be a transformative technology over the long term across economies and capital markets, but this sector now trades at high valuations and faces numerous obstacles.⁵

⁴ Source: KKR, W. Szlezak et al., "Beyond the Bubble: Why We Think AI Infrastructure Will Compound Long After the Hype," November 2025.

⁵ Source: Pitchbook, B. Wright et al., "2026 Artificial Intelligence Outlook: The Great Competition Wars Have Begun," December 9, 2025.

Even within digital infrastructure, deal activity has been concentrated in secondary (already built) data centers, while greenfield development involves longer build cycles and higher capex. Operating assets may behave more like contracted cash-flow investments with refinancing risk; development projects embed construction, commissioning, and leasing risk. This distinction supports a keen focus on what is being underwritten rather than on label-based narratives.

As both a potential tailwind and risk of opacity, AI-related infrastructure private investment opportunities can be found in private infrastructure, private real estate, private credit, and private equity funds.⁶ This raises further due diligence questions around circular financing, off balance sheet transactions, and mismatches in asset and liability durations.

It is important for investors to understand that there are many positive risk/reward opportunities outside of this specific opportunity set and infrastructure is in fact a broad category of sectors, types, and geographies that has significant tailwinds.⁷ Private infrastructure investment may benefit from several tailwinds: lower interest rate environment, meaningful funding gap over the short and long term, necessary assets, and solid defensive characteristics (inflation protection, lower risk) for investors wanting to diversify their portfolio return sources outside of public equities.⁸

Why it matters

Infrastructure is often discussed as a diversifier due to its essential-service orientation and potential for contracted or regulated cash flows. In 2026, this “defensive” characterization may be tested by execution realities. Where cash flows depend on timely development and commissioning, the relevant risks may include permitting, supply chain, interconnection queues, and counterparty timing.⁹ Where assets are operating and contracted, the relevant risks may shift toward refinancing, contract renewal, and regulatory change. A decision-useful conversation is therefore one that maps exposure to drivers: contract type, counterparty quality, regulatory framework, and execution risk.

Execution constraints: power, grid capacity, and “speed-to-power”

Power availability and grid capacity are practical constraints for data center development.¹⁰ Increased construction can intensify pressure on power supply and costs, and developers increasingly focus on “speed-to-power”-the time required to secure electricity at the needed scale. These constraints introduce underwriting questions around interconnection queues, permitting timelines, procurement terms, and contingency planning.¹¹ Contracts for power, whether projects rely on incremental grid upgrades, and how cost escalation is allocated across sponsors and tenants may impact long-run returns.¹²

⁶ Source: KKR, W. Szlezak et al., “Beyond the Bubble: Why We Think AI Infrastructure Will Compound Long After the Hype,” November 2025.

⁷ Source: Brookfield, “Building the Backbone of AI,” August 2025.

⁸ Source: Hamilton Lane, M. Giannini, “2025 Mid-Year Market Update,” November 18, 2025.

⁹ Source: Brookfield, “Building the Backbone of AI,” August 2025.

¹⁰ Source: KKR, W. Szlezak et al., “Beyond the Bubble: Why We Think AI Infrastructure Will Compound Long After the Hype,” November 2025.

¹¹ Source: Morgan Stanley, V. Tirupattur et al., “Data Center Financing – Bridging the Gap,” July 21, 2025.

¹² Source: KKR, W. Szlezak et al., “Beyond the Bubble: Why We Think AI Infrastructure Will Compound Long After the Hype,” November 2025.

What we are watching in infrastructure

- How underwriting explicitly incorporates power access, interconnection timelines, and procurement risk for energy-intensive projects.
- Whether capital deployment broadens across infrastructure subsectors rather than concentrating only in the most visible theme.
- How contracting structures allocate inflation, volume, and regulatory risk across different subsectors.
- Evidence of disciplined pricing and execution buffers when timeline-to-revenue is uncertain (e.g., phased builds, contingency reserves, contractual remedies).



What is the primary driver of expected cash flows (contracted revenues, regulated returns, volume growth, development uplift), and which driver is most sensitive to execution timing? What evidence supports assumptions for power availability and interconnection timelines, and how is uncertainty reflected in underwriting and downside cases? How are refinancing risk and inflation linkage characterized and monitored at the portfolio level?

Theme 2 Small and middle-market buyouts may lead a broader private equity recovery

Private equity enters 2026 with a cycle that has been constrained by reduced exits and valuation gaps. Recovery in private equity could depend on improved exit activity and valuation convergence as financing conditions normalize.¹³ For LPs, exits are a practical mechanism: they drive distributions, influence pacing, and affect the ability to recycle capital into new commitments.¹⁴ When exits lag, the industry may rely more heavily on secondary transactions and structured solutions to manage asset duration. We expect that de-regulation and lower interest rates could support M&A and exits in 2026 and beyond.¹⁵ Conversely, tariffs, trade wars and policy uncertainty could complicate deal-making exits.¹⁶

¹³ Source: JP Morgan, J. Laskowitz et al., "Alternative Investments Outlook 2026: A New Era of Public-Private Convergence," December 2025.

¹⁴ Source: Hamilton Lane, M. Giannini, "2025 Mid-Year Market Update," November 18, 2025.

¹⁵ Source: Preqin, "Private Equity Outlook," December 2025.

¹⁶ Source: KPMG, "Gaming Out Trade Wars: Parsing the Impact," April 2025.

The mid-market thesis emphasizes differences in levers for value creation. Operational improvement is an increasingly important driver as reliance on multiple expansion and leverage diminishes. While buyouts are generally thought of as highly-levered deals, the amount of debt relative to overall deal/enterprise value has declined consistently over the last ~15 years as entry valuations have increased – a trend that has continued in recent years in the higher interest rate environment.

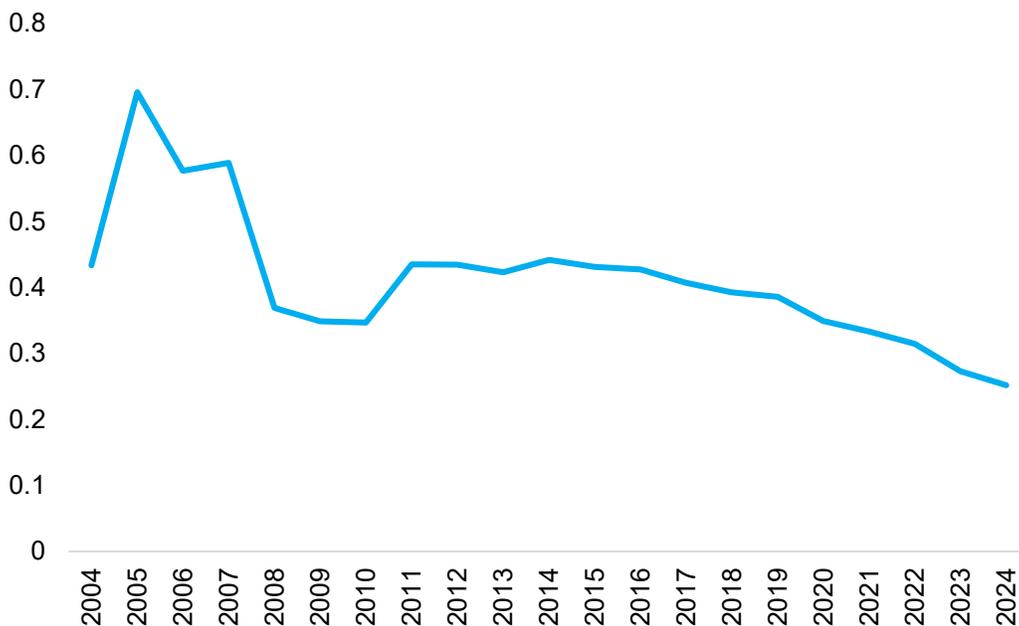


FIGURE 2
Average Entry Net Debt/
Enterprise Value of Buyout
Deals

Source: Preqin Transaction Intelligence. 2025 data points to an uptick in average net debt/EBITDA but is based on a significantly more limited set of deals than other prior years and thus is not included.

Strategic operational initiatives can include differentiated sources of revenue, pricing enhancement, procurement, productivity, commercial strategy, geographic expansion, product expansion, economies of scale, and investments in systems and talent.¹⁷

¹⁷ Source: Boston Consulting Group, M. Harris et al., "Private Equity's Advantage is Shifting, Not Shrinking," January 14, 2026.

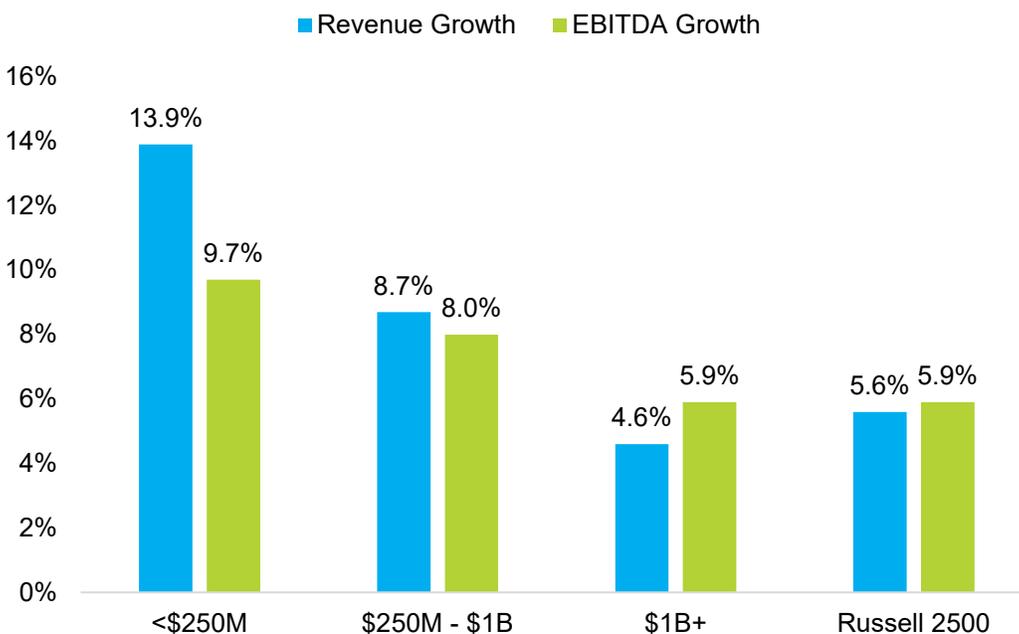


FIGURE 3
Revenue and EBITDA Growth
of Buyout Deals by Size
(2008-2020)

Source: Performance Equity Management "The Argument for Small and Middle Market Buyouts"; Cambridge Associates Private Investments Database, FactSet, Frank Russell, as of December 31, 2020. Operating metrics reflect averages as of December 31, 2020, and outliers were identified and excluded from calculations. Sample includes unrealized and realized US-based buyout and growth equity companies acquired in 2000-2020. Public company growth and margin figures are based on the calendar years 2008-2020.

Small and mid-sized transactions should benefit more because: (i) More levers for value creation beyond financial engineering and multiple expansion (i.e. operational improvements) (ii) more robust set of exit opportunities versus VC and large market buyouts and (iii) entry valuations have been consistently lower which may help with exits as GPs are not clinging to unrealistic valuations based on their need to make money off higher entry multiples.¹⁸

¹⁸ Source: Schroders, R. Ender, "The Appeal of Small to Medium Sized Private Equity Buyouts," July 2024.

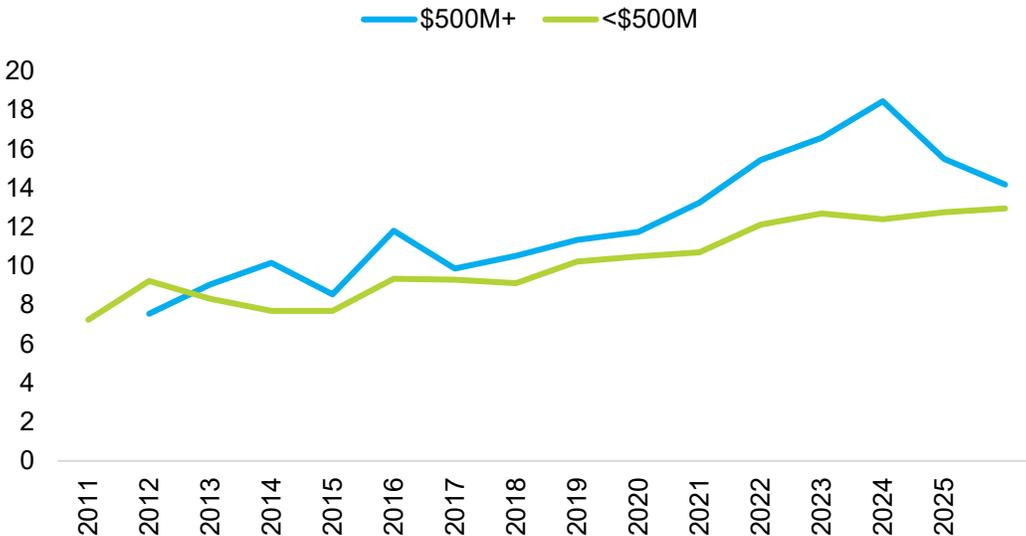


FIGURE 4
Median Deal Multiples
(Enterprise Value/EBITDA)
for Deals Below & Above
\$500 Million

Source: Preqin Transaction Intelligence.

Small and mid-sized companies still represent the largest opportunity set within buyouts and the greatest number of specialized managers versus the large and mega market buyout firms which have become massive, multi asset platforms that may risk organization drift. The mid-market can also differ in organizational structure. The mid-market includes many specialized managers, while mega-buyout firms have increasingly become multi-asset platforms.¹⁹

¹⁹ Source: JP Morgan, T. Jayroe, "A Big Role for Small and Middle-Market Private Equity Investments," July 2025.

Sector specialization may produce deeper domain expertise and tighter accountability, but may also increase concentration risk.²⁰ Conversely, platforms may offer resources and breadth but may introduce organizational complexity and potential drift. Committees may evaluate these tradeoffs through evidence of repeatable process, retention of key personnel, and clarity of decision rights.

²⁰ Source: Preqin, Private Equity Outlook 2026," December 2025.

Mid-market portfolios may have broader exit pathways, including strategic buyers and sponsor-to-sponsor transactions. However, exit markets can remain episodic and policy uncertainty can influence M&A activity and buyer confidence. Continuation vehicles and related structures are expected to remain important tools in 2026, reinforcing the need for governance around conflicts, disclosures, and pricing validation.²¹ The question is not whether continuation tools are "good or bad," but whether they are used with appropriate transparency, alignment, and independent validation.

²¹ Source: Cliffwater, "Evergreen Private Equity for the Long Run," September 24, 2025.

What we are watching in private equity

- Signals of improved exit velocity and narrowing valuation gaps, and whether improvements are concentrated by deal size or sector.
- How managers describe, resource, and measure operational value creation (KPIs, milestones, operating partner engagement).
- The prevalence of continuation vehicles and the quality of governance practices around GP-led transactions (process, disclosure, validation).
- Outcome dispersion by manager and vintage, including how managers reconcile valuations with clearing levels when exits are limited.

Theme 3

Private credit - move beyond “bubble” shorthand

Private credit has matured into a substantial financing channel for private companies and sponsor-backed transactions. As the market has grown, investment committee discussions have increasingly shifted away from yield alone and toward cycle behavior, downside management, and the durability of cash flows. This framing is more decision-useful than broad “bubble” language because it encourages clarity around protections, diversification, and the manager’s ability to negotiate amendments and workouts.²²

²² Source: Preqin, “Private Credit Outlook 2026,” December 2025.

Cycle dynamics: yield sensitivity and restructuring mechanisms

Two dynamics may be salient in 2026. First, if base rates decline, all-in yields may decline. Second, if growth weakens, restructurings may rise. Increased “shadow restructurings,” including conversion to PIK, which can shift cash flow timing and complicate interpretation of reported performance

have not expanded to impact the broader sector.²³ From a fiduciary perspective, these dynamics highlight the importance of understanding how managers define defaults, how amendments are reflected in performance reporting, and how valuations incorporate revised cash flow expectations.

²³ Source: MSCI, "Private Capital In Focus: Trends to Watch," January 2026.

A practical diligence and monitoring lens includes: covenant and documentation quality; early-warning indicators (liquidity metrics, margin compression, sponsor support); and the manager's workout infrastructure. Investors may also consider how portfolios are diversified across issuers, sectors, sponsors, and vintages, since idiosyncratic events can dominate outcomes in concentrated credit books.

Private credit may experience lower total returns, and yield, due to lower interest rates and default/restructuring rates ticking up due to weaker economic conditions, but this does not mean there is a "bubble" (can compare spreads and default rates to high yield, leveraged loans).²⁴

²⁴ Source: MSCI, "Private Capital In Focus: Trends to Watch," January 2026.

80% of direct lending is sponsor backed and given the large amount of dry powder in PE, going forward there will still be strong demand for debt to finance the transactions.²⁵ Vast majority of companies in the US are private and they need/utilize debt financing.²⁶ Relative to public fixed income, a well-diversified private credit portfolio should still produce higher total returns and insulate investors against large single defaults/fraud cases.

²⁵ Source: Morgan Stanley Private Credit, "Evolution of Direct Lending: Private Credit Primer," 2025.

²⁶ Source: MSCI, "Private Capital In Focus: Trends to Watch," January 2026.

Market structure and sponsor linkage

Over the long term an expanding relationship between banks and private credit providers, including partnerships and competitive overlap, potentially broadening strategy mixes beyond traditional direct lending.²⁷ Private credit deal activity is principally sponsor-backed, linking demand to private equity activity and portfolio company financing needs. These linkages encourage monitoring of underwriting discipline and sponsor behavior during stress, including whether sponsors inject equity, pursue amendments, or seek liability management transactions.

²⁷ Source: Morgan Stanley Private Credit, "Evolution of Direct Lending: Private Credit Primer," 2025.

Objective alignment: yield versus total returns

Objective alignment drift can occur when a manager emphasizes "total return" while a client's stated objective is "yield."²⁸ Institutional investors may reduce this risk by documenting objectives, aligning evaluation metrics to those objectives (for example, cash income stability and drawdown tolerance), and ensuring reporting reinforces the agreed frame during stress. Objective clarity can also influence portfolio construction choices such as seniority, leverage tolerance, and the acceptable use of payment-in-kind (PIK) solutions. There has been a notable rise in "shadow" restructurings which is conversion to PIK.²⁹

²⁸ Source: Guggenheim Investments, "The ABCs of Asset Backed Finance," September 25, 2025.

²⁹ Source: TWC, R. Miller, "The Big PIK-ture," August 2025.

What we are watching in private credit

Amendments, PIK prevalence, (Figure 5) and other restructuring mechanisms, and how managers report and value these positions. Although defaults have risen slightly and are roughly in line with public high yield and leveraged loan default rates, when including shadow defaults such as conversion to PIK, restructurings without formal default or bankruptcy, on top of loosening of covenants, direct lending is facing more obstacles heading into 2026 and beyond.

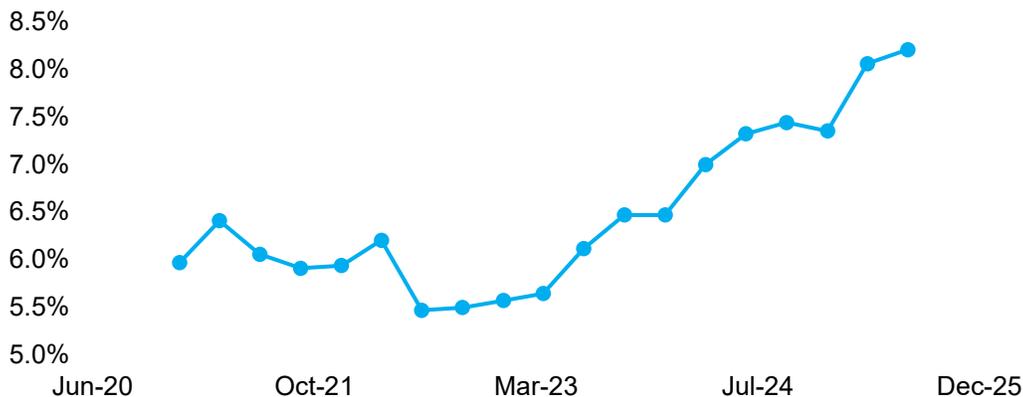


FIGURE 5
Payment in Kind (% of BDC Investment Income)

Source: With Intelligence as of December 2025. Illustration recreated with AI.

Documentation quality (covenants, protections) and evidence of workout resources and discipline.

How sponsor-linked demand evolves with PE transaction volumes and refinancing cycles: There has been much discussion around the significant inflows of the private credit asset class. To date this has largely been due to the significant pullback in bank lending after higher liquidity and solvency ratios, and tightened lending standards after the Global Financial Crisis, in addition to more robust private credit offerings. However, despite the influx of capital over the past 15 years, recent history has seen deal volume stabilize while the number of deals has decreased.

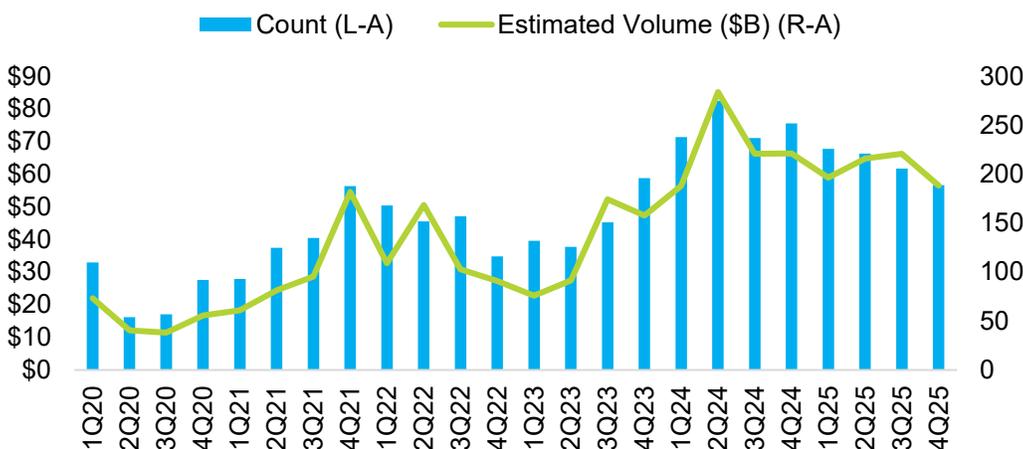


FIGURE 6
Quarterly Direct Lending Deal Count & Estimated Volume (\$B)

Source: Pitchbook December 2025.

Heading into 2026 the estimated level of dry powder within private equity is approximately \$1.5 trillion, globally. Even after applying an aggressive 20% adjustment for venture and growth equity transactions that do not require debt, as well as committed capital that is never called, the remaining \$1.2 trillion of dry powder could require between \$800 billion and \$1.2 trillion of debt to finance future transactions based on historical funding patterns, creating a significant source of future demand for direct lending.

→ Objective alignment in credit allocations and how success is evaluated (income stability vs total return; liquidity expectations).

What triggers heightened monitoring (covenant breaches, margin compression, liquidity metrics), and how does the manager respond? How are amended/PIK positions valued, and what controls support timely incorporation of updated cash flow expectations? How is diversification managed (issuer, sector, sponsor, vintage), and how is idiosyncratic risk monitored? Are objectives documented and consistently used in reporting and evaluation?

Indeed, we see nothing alarming or remotely “bubble” like in the space. Rather, private credit, and direct lending in particular, will remain an asset class highly dependent on good manager selection, diversification across geographies, sectors, credit ratings, and cap structures, and subject to a reasonable recalibration of future returns based on downward adjustments to floating rates and a potential uptick in defaults. Although down from recent years, despite some of the negative headlines the number of institutional investors increasing or maintaining their allocation to private credit outnumbers the number planning to decrease their allocation by a ratio of 9 to 1.³⁰

³⁰ Source: Preqin as of November 2025.



FIGURE 7
November Survey of Investors Plans To Increase, Maintain, or Decrease Private Credit Allocation in the Future (%)

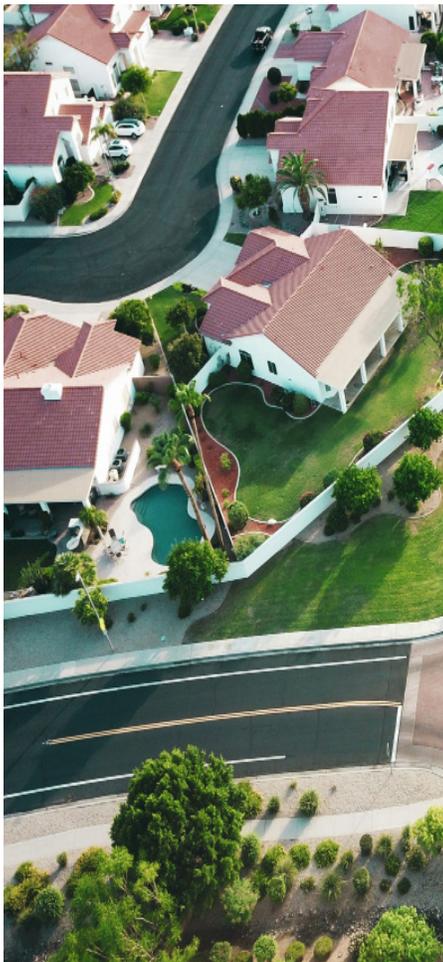
Source: Preqin as of November 2025.

Extending the framework: how the themes translate across other private assets

While infrastructure, private equity, and private credit form the backbone of private markets themes, the same forces shaping those segments, liquidity availability, valuation clearing, execution risk, and governance complexity, also influence outcomes in real estate and venture capital.

Rather than representing distinct market cycles, real estate and venture capital in 2026 reflect different expressions of the same underlying dynamics. In both cases, dispersion remains high, and results are increasingly driven by entry basis, asset quality, and the alignment between underwriting assumptions and realizable exit pathways.

For investors, the decision challenge may not be whether these asset classes are “early” or “late” in a cycle, but whether the mechanisms for value realization, refinancing, and liquidity are credible under current conditions. Viewed through this lens, real estate and venture capital reinforce the broader conclusion of this report: outcomes in private markets are likely to depend more on execution, governance, and manager discipline than on broad market direction.



Real estate: dispersion driven by entry basis, asset quality, and refinancing risk

Real estate fundraising stabilization led by debt-focused and opportunistic strategies, alongside continued caution and underwriting friction in certain sectors. Transactions can take longer to close and that office remains challenged.³¹ These points support a dispersion-oriented conversation: outcomes may depend more on sector mix, asset quality, leverage, and entry basis than on broad market direction.³²

A common committee question is whether the next several years could represent improved “vintage” conditions for certain real estate strategies after a repricing.³³ Without making a return forecast, a decision-useful lens is to ask: has the entry basis reset relative to cash flows?

³¹ Source: Hamilton Lane, M. Giannini, “2025 Mid-Year Market Update,” November 18, 2025.

³² Source: Preqin, “Real Estate Outlook 2026,” December 2025.

³³ Source: BlackRock, “2026 Private Markets Outlook: A New Continuum,” December 2025.

Are refinancing risks manageable? What capex is required to maintain competitiveness? And how do downside cases look under slower leasing or higher costs? Office may warrant a separate discussion of tenant demand, conversion feasibility, and the interaction between capex needs and financing availability.



Venture capital: improved conditions, ongoing liquidity pressure, and AI connection

Improved conditions and increased exit activity relative to prior years have recently supported venture capital fund performance, but continued distribution pressure and low DPI persist for vintages entering their harvesting stage.³⁴ In addition, a high concentration of deal value in AI may signal future risks.³⁵ Elevated AI deal concentration introduces hype-cycle dynamics that could increase valuation dispersion, prompting institutional investors to focus on exposure concentration, pacing assumptions, and the relationship between unrealized valuations and realized outcomes.³⁶

Managers could be evaluated on how well they maintain underwriting discipline when a theme dominates deal flow, how they size positions and manage follow-on capital, and how they communicate valuation assumptions. Institutional investors may also monitor whether exit improvements are broad-based or concentrated in a small number of high-profile transactions, since concentration can influence portfolio-level liquidity and performance dispersion.

Policy and sentiment: separating optimism from implementable opportunity

Periods of optimism can follow expectations of deregulation or lower rates, but implementation outcomes can be uneven when tariffs, regulatory shifts, or fiscal policy create uncertainty for corporate planning. A decision-useful approach is to translate “macro views” into specific monitoring questions:

³⁴ Source: Preqin, “Venture Capital Outlook 2026,” December 2025.

³⁵ Source: McKinsey & Company, Global Private Markets Report 2025, Braced for Shifting Weather,” May 20, 2025.

³⁶ Source: Institutional Investor, J. Comtois, “The Problem with VC: Its All Going to AI,” November 12, 2025.

does policy uncertainty change customer demand or input costs for portfolio companies; does it affect M&A pipelines or financing availability; and does it change underwriting assumptions for revenue growth, margins, or capex?

Rather than anchoring on a single narrative about “tailwinds” or “headwinds,” committees can ask managers to explain how they are adapting underwriting and portfolio management. This can include scenario analysis, procurement strategies, and disclosure of how sensitive valuations are to changes in rates, spreads, and operating assumptions. This approach keeps discussions grounded in process and evidence while avoiding prescriptive conclusions.

From themes to practice

Private markets in 2026 appear to be moving toward a more normalized environment that still features meaningful dispersion. (Figure 8) The three backbone themes provide a practical lens: infrastructure breadth beyond AI data centers and the importance of execution constraints; private equity recovery mechanisms tied to exits and operational value creation, with differentiated mid-market dynamics; and private credit maturity, where underwriting discipline and governance are more decision-useful than simplified labels. Across all segments, fiduciary oversight can be strengthened by objective clarity, transparency expectations, and process discipline.

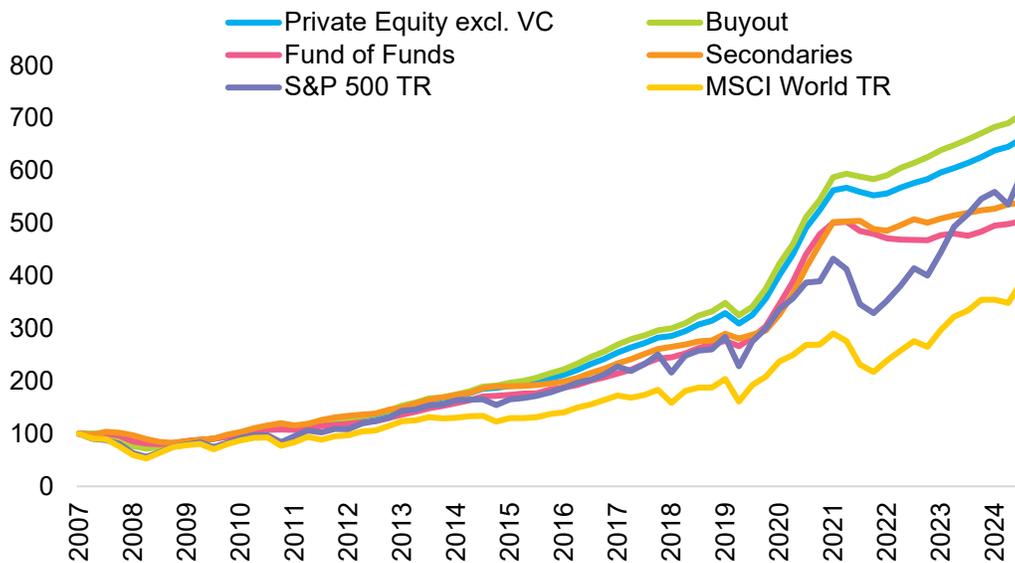


FIGURE 8
Private & Public Market
Performance (Index TR)

Source: Preqin, “Private Markets Outlook,” 2026.

As a documentation practice, committees may consider capturing in meeting minutes the specific indicators they intend to monitor (exits, amendments, valuation practices, and liquidity tools), the rationale for any changes to pacing or manager lineups, and any information requests made to managers. This supports a consistent, repeatable process that is defensible across market environments and aligns with an education-first fiduciary approach.

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