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PRIVATE MARKETS 2025

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INTRODUCTION

HedgeNordic is the leading media covering the Nordic alternative investment and hedge fund universe. The website brings daily news, research, analysis and background that is relevant to Nordic hedge fund professionals from the sell and buy side from all tiers.

HedgeNordic publishes monthly, quarterly and annual reports on recent developments in her core market as well as special, in-depth reports on "hot topics".

HedgeNordic also calculates and publishes the Nordic Hedge Index (NHX) and is host to the Nordic Hedge Award and organizes round tables and seminars.

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Editor´s Note…

Time is Money – Rethinking Liquidity in a Private World

Liquidity is a cornerstone of modern finance. In public markets, it is often viewed as a measure of security and an assurance that capital can be reallocated swiftly in response to new information or changing conditions. It is prized for the flexibility it provides and the sense of control it offers to asset managers and allocators alike.

Some of the most compelling investment opportunities lie beyond the reach of instant liquidity. They are found in the private markets where capital is locked up, time horizons stretch years into the future, and value creation follows a deliberate, often nonlinear path. In this issue of our magazine, we explore this paradox: why more and more institutional investors are willingly surrendering liquidity in exchange for the potential of higher returns, diversification, and strategic depth.

The central idea behind this shift is the concept of the illiquidity premium. By committing capital for longer periods, investors may be rewarded for the risks they take and the constraints they accept. In theory, and increasingly, in the real world, too, this premium compensates for the inability to exit quickly. But more than that, it reflects the nature of the opportunities themselves. Building a company, developing infrastructure, or restructuring distressed debt these are not trades, much rather they are projects. They require time, patience, and sustained engagement, which traditional public market structures are often ill-equipped to support.

Institutional investors, from pension funds to family offices have taken this to heart. Their long-dated liabilities align naturally with the timelines of such private assets. Moreover, in a world of compressed yields and volatile equity markets, private markets offer an attractive alternative. They provide access to a broader set of economic activities which often less correlated to public market cycles and enable investors to play an active role in shaping outcomes.

Yet while the appeal of private assets is clear, the mechanics of accessing them continue to evolve. One of the most important decisions facing allocators today is structural: how to gain exposure in a way that matches their objectives, constraints, and liquidity needs. One key distinction of how such vehicles can be accessed is the decision on setting up, or investing in aclosed-end or open-end product vehicle.

Closed-end funds have long been around in private equity, venture capital, private credit, and other less-illiquid strategies. They offer defined fund lives, structured capital calls, and predictable exits through asset sales or IPOs. Importantly, they align investor capital with the investment timeline, allowing managers to deploy capital patiently and focus on value creation without the pressure of redemptions.

But this structure is not without its challenges. Closed-end funds can be operationally complex, with long periods of capital commitment and delayed cash flows. The "J-curve" effect, where early returns are negative due to fees and undeployed capital, requires careful portfolio planning and expectation management. Moreover, the lack of interim liquidity may limit participation by certain investor types or require additional layers of liquidity management at the total portfolio level.

Open-end structures, by contrast, have begun to take hold in segments of the private markets, particularly core infrastructure, real estate, and some forms of private credit. These funds offer periodic liquidity, which can range from daily to quarterly or any other timeframes, subject to gating provisions. While this structure may limit the investment scope to more stable, cash-flowing assets, it provides a degree of flexibility that is attractive to a broader range of investors, including those with more frequent liquidity needs or shorter planning horizons.

Still, the introduction of liquidity into inherently illiquid markets is not without risk. Redemption pressures in stressed environments can force managers to sell assets at unfavorable prices or invoke gates that frustrate investors. Pricing methodologies may lag or smooth over market realities, creating mismatches between NAV and realizable value. For all their advantages, open-end funds require robust governance, transparent valuation practices, and clear communication to function effectively.

Ultimately, the choice between closed-end and open-end structures reflects a broader set of trade-offs. It is not merely a technical decision, but a strategic one that must take into account investment goals, risk tolerance, operational capacity, and the evolving nature of private markets themselves.

At its heart, the conversation is about time: how much of it investors are willing to give up in exchange for greater potential upside. In private markets, time is not a constraint, rather it is a resource. Investors who understand this are increasingly positioning themselves not just as capital providers, but as long-term partners in enterprise building.

In this edition, we delve into these dynamics from multiple angles. We feature insights from leading asset managers and allocators, explore innovations in fund structure and liquidity management, and examine how institutions are rebalancing their portfolios to accommodate the realities of private investing.

As access expands and product design continues to evolve in the private market space, the boundaries between public and private, liquid and illiquid, are becoming more fluid. But the underlying question remains the same: what are we willing to give up today, in order to earn more tomorrow?

We hope this issue offers valuable insights and a thoughtful starting point for investors navigating this complex, often complex, but deeply rewarding corner of the investment universe.

Kamran Ghalitschi

PUBLISHER, HEDGENORDIC

What Would a Totally Unconstrained Portfolio Look Like?

By Christoph Junge

Over the course of my career working with strategic asset allocation and alternative investments, I've often found myself reflecting on a simple question: What would I do differently if there were no constraints? No regulatory hurdles, no governance committees, no cost ceilings, no need for liquidity. Just the freedom to build the most effective portfolio possible in pursuit of long-term, risk-adjusted returns.

This thought experiment is more than idle curiosity. Institutional investors operate within a highly structured framework of constraints, some explicit, others implicit. Regulations, internal guidelines, reputational considerations, fee sensitivities, and the practical realities of board-level governance all shape the investment architecture. Most of these constraints exist for good reasons: they safeguard solvency, protect clients, and promote transparency. Yet they also limit access to certain strategies, reduce flexibility, and can lead to suboptimal portfolio design. Others are self-imposed or at least accepted, like tremendous focus on fees.

By contrasting today's constrained reality with an unconstrained ideal, we can uncover the implicit trade-offs institutional investors make every day. What opportunities are we leaving on the table? Which constraints are genuinely necessary, and which are legacy artifacts that deserve to be re-examined?

In the following pages, I will outline the key constraints that shape institutional portfolio construction and then explore the design of a portfolio unconstrained by these limitations. The goal is not to disregard the realities of institutional investing, but rather to sharpen our understanding of how these constraints influence decision-making and identify opportunities to push boundaries in pursuit of maximizing the terminal wealth of beneficiaries.

As with any thought experiment, the true value lies not in the feasibility of the imagined outcome, but in the clarity, it brings to the world we live in.

To begin with, let us examine the most common constraints that shape institutional portfolios today, why they exist, how they influence portfolio construction, and what the landscape might look like if we could set them aside.

Christoph Junge, founder of Alternative Investments Research & Education

"The most immediate shift in an unconstrained portfolio would be a significantly higher allocation to illiquid assets – not because I was Head of Alternatives in my previous role but because the capital market assumptions of leading institutions are highly favorable for these types of asset classes."

With the institutional constraints laid out, we now turn to the core of the thought experiment: If all those limitations disappeared, if we could construct a portfolio governed solely by investment merit, what would it look like?

The most immediate shift in an unconstrained portfolio would be a significantly higher allocation to illiquid assets – not because I was Head of Alternatives in my previous role but because the capital market assumptions of leading institutions are highly favorable for these types of asset classes. Without cost sensitivity, the need to meet short-term liquidity demands or comply with solvency metrics, one could allocate far more capital to private equity, venture capital, real assets, and private credit to harvest the complexity and illiquidity premia embedded in these types of investment.

Cost sensitivity is often framed as prudence. However, in a portfolio unconstrained by fee caps, implementation

TABLE 1: OVERVIEW OF COMMON INSTITUTIONAL PORTFOLIO CONSTRAINTS

Constraint	Rationale	Impact on Portfolio	Unconstrained Alternative
Cost Sensitivity	Pressure to minimize fees; belief in low-cost beta;	Underweights high-fee alpha strategies (e.g. hedge funds, private equity)	Willing to pay high fees for high alpha or differentiated exposures
Liquidity Requirements	Need for regular redemptions (e.g. daily NAV); regulatory liquidity rules	Avoidance of illiquid assets; shorter time horizon; limited private market exposure	Embrace of illiquid strategies (e.g. VC, real assets, private credit)
Governance Complexity	Senior Management or Board may lack time or expertise to assess complex products	Preference for simple, transparent strategies; benchmark-driven investing	Portfolio includes complex, opaque but effective strategies (e.g. ILS & CTAs)
Time Horizon Misalignment	Performance often judged on short-term results despite long-term liabilities	Herding behavior; aversion to short-term drawdowns and peer risk	Patience for long-term payoffs; tolerance for temporary underperformance
Regulatory Constraints	Investment restrictions (e.g. MiFID II, UCITS, Solvency II)	Limited alternative asset allocation due to prohibitive capital charge; limited product offering for private clients	No regulatory ceilings; free use of leverage, derivatives and alternative investments
Capacity Constraints	Too much capital to deploy efficiently in niche strategies	Underexposure to high-alpha, low-capacity strategies (e.g. small-cap value, frontier EM, certain hedge fund strategies)	Access to boutique managers and esoteric strategies
Benchmark Constraints	Career risk and evaluation against peers or indices	Benchmark hugging; constrained tracking error; reduced peer tracking error tolerance	Absolute return focus; no benchmark anchoring
Reputation / Headline Risk	Aversion to negative press or politically sensitive investments	Avoidance of controversial areas (e.g. ESG-sensitive sectors, hedge funds, commodities)	Opportunistic allocation, unconcerned with optics if risk-adjusted return justifies it

would prioritize net-of-fee outcomes over optics. For instance, a 2-and-20 buyout fund would be entirely justifiable if it delivered net returns exceeding those of listed equities. Even the Medallion Fund by Renaissance Technologies, despite its steep 5% management fee and 44% performance fee, would remain a compelling choice (if it was open to external investors), given its exceptional net-of-fee performance.

This opens the door to a full embrace of active management, especially in less efficient markets. In a truly unconstrained context, indexing would remain a useful tool for certain markets, but not a default. The implementation lens would shift from "How cheap is it?" to "How valuable is it?"

In parallel, we would likely see greater use of diversifying strategies with low correlation to traditional risk factors. CTAs (managed futures) and insurance-linked securities, often overlooked due to their complexity or headline risk, could play a central role as portfolio stabilizers.

In a constrained world, scale and simplicity often trump alpha. Large institutions cannot meaningfully deploy capital into small-cap value in emerging markets, niche hedge funds, or local distressed credit managers. But if capital and capacity constraints were lifted, these high-alpha, hard-to-access areas would gain prominence.

Institutional investors often claim to be long-term

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but operate under significant short-term pressures. Monthly performance rankings against peer groups, critical newspaper articles, rolling three-year track records and ultimately clients shifting to another provider after periods of underperformance. Freed from these pressures, an unconstrained investor could adopt genuine long-term patience. A long-horizon investor could allocate heavily into dislocated markets or out-of-favor sectors without fear of tracking error or career risk.

CHARACTERISTICS OF THE UNCONSTRAINED PORTFOLIO

To highlight the stark contrast between a typical institutional portfolio and an unconstrained portfolio, we can examine the figures in Tables 2 and 3.

It quickly becomes evident that institutional portfolios heavily allocate to equity risk, while real assets, an essential hedge against inflation, and strong diversifiers (CTAs and ILS) remain underweighted compared to an unconstrained approach. The unconstrained portfolio seems like a more balanced approach.

Having sketched the architecture of a portfolio free from institutional constraints, we now turn to its defining features.

HIGH TOLERANCE FOR COMPLEXITY

The unconstrained portfolio is unapologetically complex. It leverages a wide variety of strategies: private markets, insurance-linked securities, managed futures. This complexity is not pursued for its own sake, but because it expands the opportunity set and enhances risk-adjusted returns. Whereas constrained investors often favor simplicity for governance reasons (e.g., ease of explanation, board-level oversight), the unconstrained allocator can embrace complexity - as long as it is paired with genuine insight and manager oversight.

TABLE 2: ASSET ALLOCATION WEIGHTS OF UNCONSTRAINED PORTFOLIO VS. A TYPICAL INSTITUTIONAL PORTFOLIO

Asset Class	Category	Unconstrained Portfolio	Typical Institutional Portfolio
Buyout	Equity	20%	8%
Private Credit	Fixed Income	15%	5%
Venture	Equity	5%	1%
CTA	Diversifier	10%	0%
Insurance-Linked Securities	Diversifier	10%	0%
Global Fixed Income	Fixed Income	7%	27%
Global Equity	Equity	13%	50%
Real Estate	Real Assets	5%	6%
Timberland	Real Assets	5%	0%
Farmland	Real Assets	5%	0%
Infrastructure	Real Assets	5%	3%

TABLE 3: ASSET ALLOCATION GROUPED INTO CATEGORIES

	Unconstrained Portfolio	Typical Institutional Portfolio
Equity	38%	59%
Diversifier	20%	0%
Fixed Income	22%	32%
Real Assets	20%	9%

ILLIQUIDITY AS A FEATURE, NOT A BUG

Illiquidity is traditionally framed as a risk, but in the unconstrained portfolio, it is reframed as a source of return. The portfolio is not designed for daily mark-to-market pricing or redemptions; it is designed for long-term capital compounding. This allows it to harvest the illiquidity and complexity premia across private equity, real assets, and private credit in a size that is typically not possible to many institutions due to regulatory or internal constraints.

BENCHMARK AGNOSTIC

The unconstrained investor is not concerned with tracking error or peer group rankings. Success is not defined relative to a benchmark, but in terms of achieving absolute returns with favorable downside characteristics. The focus shifts from "how do I compare?" to "how do I compound?"

TRUE DIVERSIFICATION

Diversification is more than just spreading capital across traditional asset classes. The unconstrained portfolio actively seeks uncorrelated or counter-cyclical strategies, especially those with positive convexity in crisis periods, like managed futures. Unconventional strategies like insurance-linked securities may be difficult to govern or justify, but they can shine with uncorrelated returns when traditional portfolios suffer. This results in a portfolio that is better equipped for regime change and less reliant on central bank tailwinds.

These portfolio characteristics indicate theoretical advantages, but theory alone is not enough. To truly validate this approach, we must examine historical performance and assess how an unconstrained portfolio has fared in real-world market conditions.

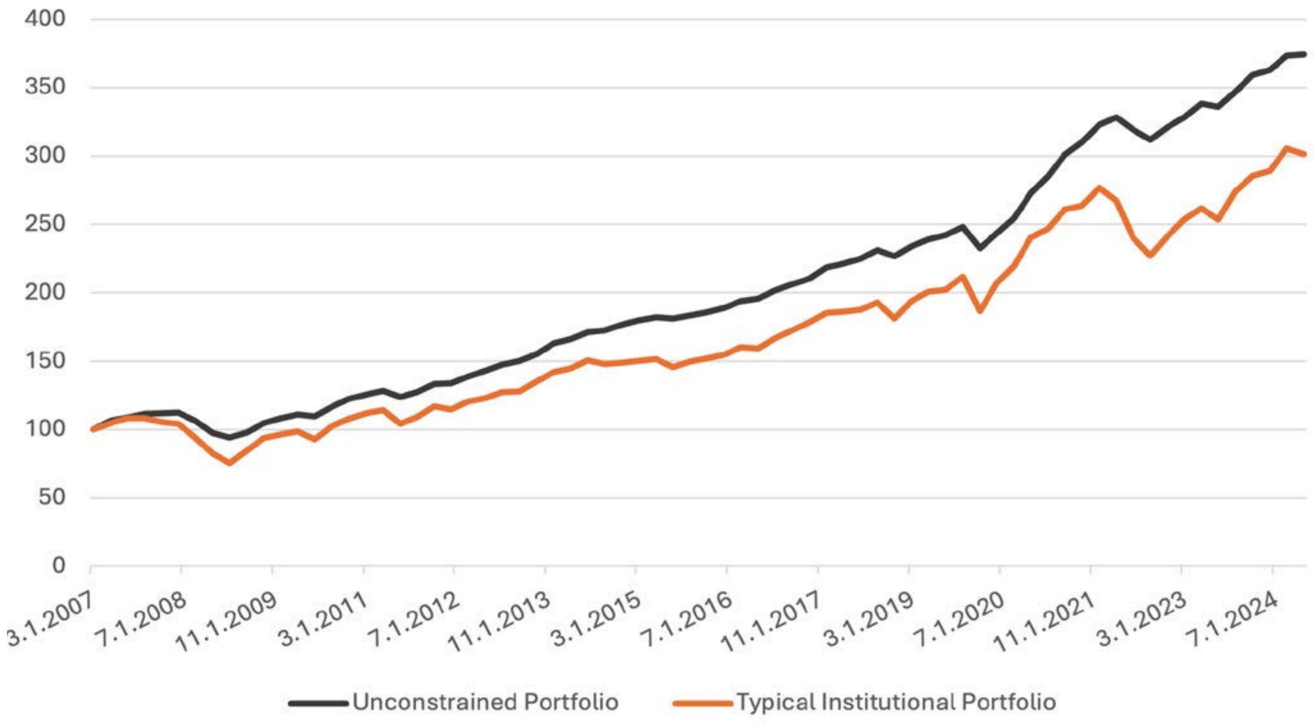
The historical results are also in favor of the unconstrained approach, as shown in figure 1. The unconstrained portfolio outperforms the traditional portfolio by 72,8% since 2007, equal to 1,3% p.a. – and this is after fees for most of the alternative asset classes. To account for the few asset classes reporting gross of fees returns, we would have to subtract app. 25 bps. p.a. - still a massive outperformance.

The standard deviation is nearly cut in half, but this must be taken with a large grain of salt as this is influenced by the smoothing effect of unlisted asset classes. However, not all downside protection comes from the smoothing effect as for example the diversifier bucket (which are liquid and hence not subject to smoothing) delivered outstanding returns in 2022 – a year where both equities and traditional fixed income suffered.

CONCLUSION

This thought experiment began with a simple question: What would an institutional portfolio look like if we removed all constraints? The answer, as we've seen, is not a fantasyland of speculative bets or unlimited risk-taking. On the contrary, it is a portfolio defined by better diversification and downside protection, delivering superior returns, albeit one unconstrained by the operational, political, and regulatory realities that shape most institutional mandates.

FIGURE 1: HISTORICAL PERFORMANCE EVALUATION OF THE UNCONSTRAINED VS. THE TYPICAL INSTITUTIONAL PORTFOLIO



Of course, most institutional investors cannot (and should not) adopt a fully unconstrained approach. Regulations must be respected, governance frameworks upheld, and liquidity needs met. Yet the value of this exercise lies precisely in what it reveals: by stepping outside the current structure, we can see more clearly where that structure is helpful and where it may be unintentionally limiting.

What makes this exercise valuable is not the impracticality of the unconstrained ideal, but the contrast it provides. It shines a light on what we may be missing, what we might be overemphasizing, and where we could rethink legacy practices. In particular, it challenges us to ask:

- Are we forgoing long-term returns in pursuit of short-term optics?
- Are our governance processes enabling intelligent risk-taking or stifling it?
- Are we mistaking simplicity for prudence, and liquidity for safety?

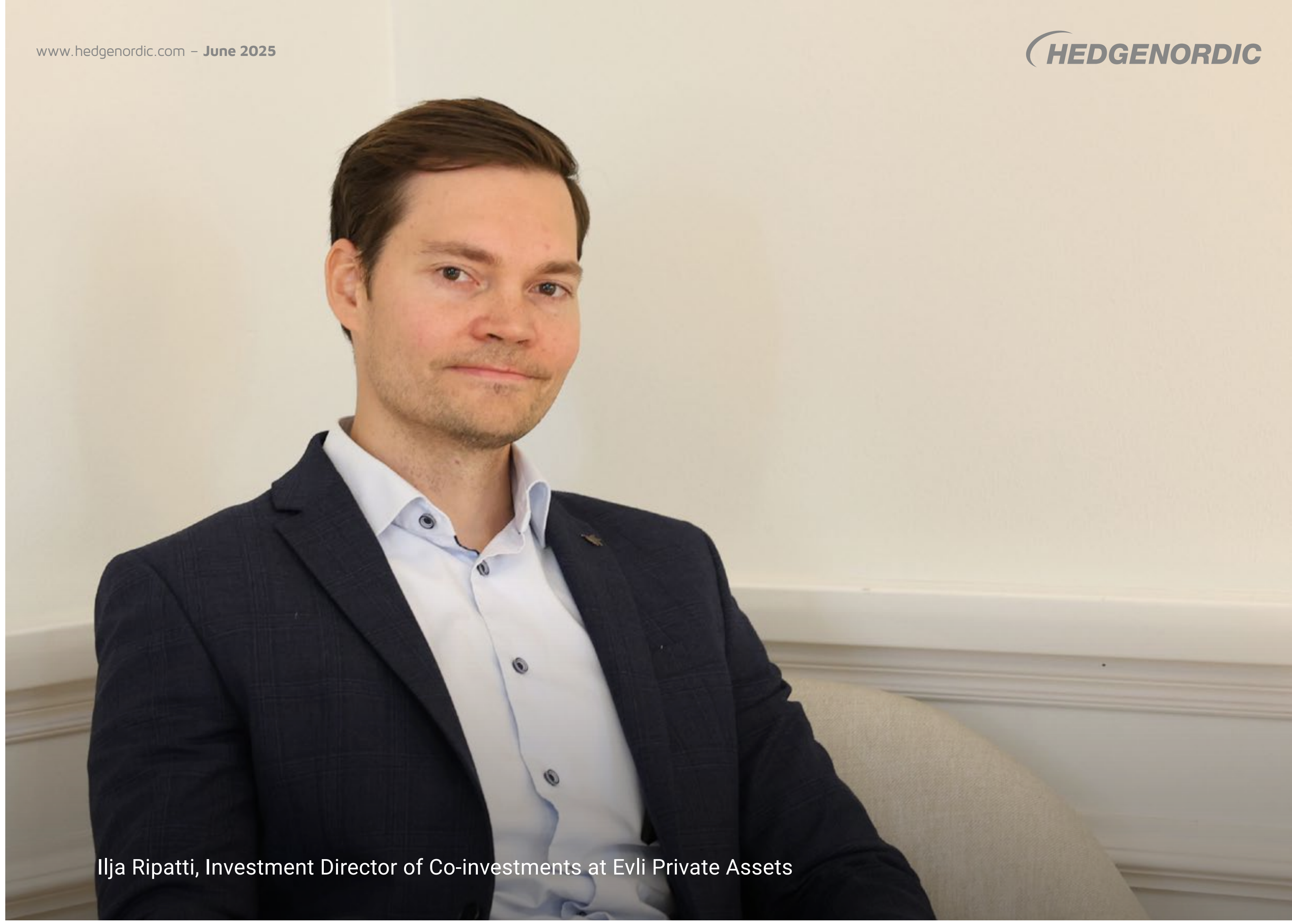
Few institutions will ever operate without constraints, but every institution can benefit from periodically stepping outside its own mental models. The more clearly we understand the trade-offs we're making, the better we can decide which constraints to respect, which to challenge, and where we might push past convention to build better portfolios for the long term.

About the author

Christoph Junge is the founder of Alternative Investments Research & Education, providing courses and consulting services in Alternative Investments. Previously, he served as Head of Alternative Investments at Velliv, a major Danish pension fund, and has extensive experience in Asset Allocation, Manager Selection, and Investment Advisory from roles at Nordea, Tryg, and Jyske Bank. He holds the Chartered Alternative Investment Analyst (CAIA) designation and brings more than two decades of experience from the financial sectors of Denmark and Germany. He is a sought-after speaker and advisor, known for combining deep industry expertise with a practical, forward-looking approach to investing.

Evli's Co-Investment Strategy: Opening the Door to Direct Private Equity Deals

By Eugeniu Guzun – HedgeNordic



Ilja Ripatti, Investment Director of Co-investments at Evli Private Assets

"Managers increasingly see co-investing as a way to build stronger, more durable relationships with their LPs. It's a useful tool to have – both for managing the portfolio and for deepening investor relationships."

Co-investing alongside private equity funds has become increasingly important for institutional investors seeking greater control, reduced fees, and selective deal exposure. Once reserved for the largest investors with direct access to sponsors, co-investing is now becoming more accessible through dedicated co-investment funds. Building on its longstanding experience in private markets through fund-of-funds strategies in private equity, infrastructure, and beyond, Finnish asset manager Evli has launched a co-investment fund called Evli Private Equity Co-Investment Fund I.

WHY CO-INVESTING WORKS – FOR ALL PARTIES

Co-investments – direct, unlisted equity investments made alongside private equity managers – offer a range of benefits for both private equity managers (GPs) and their investors (LPs). "Private equity managers often invite co-investors to participate in a deal. This allows the manager to tap into additional capital without having to partner with other GPs," explains Ilja Ripatti, Investment Director of Co-investments in Evli's Private Assets team. "Private equity managers also use co-investing as a portfolio allocation tool." For instance, a manager might not want to commit more than 8 percent of a fund to a single deal, with co-investments helping stay within that limit.

Beyond capital needs and portfolio construction, co-investments also serve a strategic relationship-building tool. "Managers increasingly see co-investing as a way to build stronger, more durable relationships with their LPs," Ripatti adds. "It's a useful tool to have – both for managing the portfolio and for deepening investor relationships."

Speaking about the benefits of co-investments from the LP perspective, Ripatti – who previously served as a senior portfolio manager focused on co-investments and direct unlisted equity at Finnish pension insurer Ilmarinen – notes that institutional investors are drawn to co-investing as a way to reduce costs, enhance returns, and gain greater control over their portfolios. "Investors looking to access unlisted companies want to lower their fees and, of course, improve returns. They also want more visibility and control over what they're actually investing in," he explains.

This growing demand reflects several key advantages. "Lower fees and the potential for higher returns – that's the first," Ripatti says. Second is better control over portfolio construction. And third is the ability to manage deployment pace more flexibly. "You can hit the accelerator when opportunities arise, or apply the brakes when needed," he explains. "Plus, co-investments typically come with fewer unfunded commitments, making portfolio management more predictable and efficient."

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EVLI PRIVATE EQUITY CO-INVESTMENT STRATEGY: FOCUSED, SELECTIVE, MID-MARKET

After years of allocating to private equity via fund-of-funds, Evli has launched a dedicated fund focused exclusively on co-investments alongside private equity managers. "We aim to invest in 15 to 20 co-investments over the next three to four years, with a fund maturity of around ten years – similar to a traditional buyout fund," says Ripatti. The fund is managed by a dedicated three-person team supported by Evli's broader private assets platform comprised of 39 people and primarily targets control buyouts. "We are looking at control buyouts, situations where the manager holds a controlling stake in the company and has a tangible value creation plan with multiple levers to enhance value."

"We aim to invest in profitable, growing, and mature companies operating in resilient sectors and at reasonable valuations," explains Ripatti, outlining the fund's investment criteria. "The company should be in an attractive industry, hold a solid market position, and be led by a competent management team." Valuation discipline is key. "Time and again, we have seen that overpaying – even for high-quality companies – can erode returns and lead to poor outcomes, especially when the typical investment horizon is around five years."

Ripatti and his team place particular emphasis on the strength of the underlying business and the broader industry. "The industry must be attractive. We focus on resilient sectors and companies that are less likely to suffer immediately in a downturn," he says. "This is especially important in buyout investments, where leverage is often involved. The companies need to be able to withstand economic shocks." Just as crucial is the fit between the deal and the private equity manager leading it. "The manager should have experience in the sector and ideally, some kind of unique angle or edge in the deal itself," Ripatti adds.

The fund targets a broad range of enterprise values – from around €100 million to several billion. "The challenge with very large transactions is that they can limit your exit options," notes Ripatti. In such cases, an IPO may be the only viable route. "We prefer companies with multiple potential exit avenues, which tend to steer us toward the mid to upper mid-market segment. The mid to upper mid-market range is our sweet spot."

> "Investors looking to access unlisted companies want to lower their fees and, of course, improve returns. They also want more visibility and control over what they're actually investing in."

SOURCING: RELATIONSHIPS AND NETWORK DEPTH

Successfully running a co-investment strategy requires robust and reliable deal sourcing channels – typically accessible only to large institutional investors with established relationships in the private equity space. Evli draws on three distinct sourcing channels to identify and access co-investment opportunities.

"Our most natural channel is our existing relationships with private equity managers, developed through our funds-of-funds program, where we've made commitments to over 60 funds," explains Ripatti. "These are managers we know well and have backed for years." The second channel involves new or prospective managers that Evli has been monitoring and is interested in partnering with. "In the current fundraising environment, many GPs are using co-investment opportunities as a 'carrot' to attract LPs to their funds or to incentivize due diligence," he notes. "This makes it a very good market to be a co-investor."

Having previously served as a senior portfolio manager focused on co-investments at Ilmarinen, Ripatti brings a well-established personal network to Evli's sourcing efforts. "I've been doing this for over a decade and have built strong relationships with many private equity managers," he explains. "Co-investments offer a natural way to nurture and deepen those relationships."

More importantly, allowing Evli – or institutional investors – to co-invest in a deal ahead of making a fund commitment offers a powerful due diligence opportunity. "It's an excellent way to conduct due diligence on a manager," says Ripatti. "By looking at a live deal the manager is executing, we gain far deeper insights than we would from just reviewing fund pitchbooks," he explains. "It's a highly effective way to assess how a manager thinks, operates, and adds value."

BROADENING ACCESS TO PRIVATE EQUITY

Private equity investing is often associated with notable fees for end investors, and co-investing offers a way to access the asset class at a lower cost. "Carried interest is typically around 10 percent for co-investment funds, which is roughly half of what you usually see in traditional private equity funds," explains Ripatti. Moreover, the underlying co-investments generally do not charge any management fees. "In some cases, there might be transaction-related fees, but overall, compared to a typical private equity fund, co-investing tends to be significantly more cost-efficient – both in terms of ongoing fees and performance-related costs."

Given the vast opportunity set in the unlisted space – illustrated by the fact that only about 13 percent of U.S. companies with revenues over $100 million are publicly listed – co-investing offers an efficient way to gain access to this otherwise hard-to-reach segment. Evli's Private Equity Co-Investment Fund is designed to open the door for smaller investors who may lack the internal expertise or resources to independently execute such transactions. "It's quite resource-intensive to do this well," notes Ripatti. "Even some fairly large investors have struggled with co-investments because direct deals require a very different toolkit."

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Tero Pesonen, Director for Private Equity and Private Credit at Local Tapiola Asset Management

The Changing Role of Private Credit in a New Interest Rate Environment

By Eugeniu Guzun – HedgeNordic

During the era of near-zero or negative interest rates, traditional fixed income delivered minimal returns, prompting investors to turn to private credit for higher yields driven by illiquidity and complexity premia. However, the shift to a higher-for-longer interest rate environment has altered the dynamics and appeal of the asset class. The role of private credit in an investor's portfolio has "changed a bit" over the years, according to Tero Pesonen, Director for Private Equity and Private Credit at Local Tapiola Asset Management.

"When rates were zero or negative, moving to private credit was a conscious choice to get a yield pickup, and the mandate was much narrower," says Pesonen. "Today, mandates have broadened to capture illiquidity premia wherever they're best attainable." He emphasizes that private credit now serves primarily as a return enhancer and portfolio diversifier. "You get different return components, diversification benefits, and non-mark-to-market exposure. But that last part is not a target or design – it's more of an added advantage."

Local Tapiola Group is one of Finland's largest insurance and financial services companies, formed through the merger of Lähivakuutus and Tapiola in 2012. Since 2015, the group's private equity and private credit allocations have been made through fund-of-fund structures launched approximately every three years for both asset classes. Since 2020, these vehicles have also raised external capital. "It's a good mix of internal capital and a business-building exercise on the side," says Pesonen, who oversees manager selection and manages about €2.4 billion invested in third-party private credit funds.

DEFINING PRIVATE CREDIT: BEYOND DIRECT LENDING

While private credit has cemented its position as a standalone asset class and a cornerstone in most institutional portfolios, Pesonen emphasizes the importance of first agreeing on what the term actually means. "More often than not, private credit is almost synonymous with direct lending," he notes. However, private credit reflects a broader universe. "Direct lending is a big part, but just a part." Although private credit existed well before the global financial crisis – through mezzanine financing within private equity and distressed debt within hedge funds – "the wave of post-crisis bank regulation truly established direct lending as a standalone asset class." Today, the private credit market stands at around $1.5 trillion, roughly equivalent in size to the syndicated loan market.

> "You get different return components, diversification benefits, and non-mark-to-market exposure. But that last part is not a target or design – it's more of an added advantage."

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COLLABORATION BETWEEN BANKS AND PRIVATE CREDIT MANAGERS

International banking regulation increased capital requirements and made many forms of lending less profitable for banks. Direct lending – the largest sub-strategy within private credit – has emerged to fill this gap, with direct lending managers increasingly resembling banks in function. However, banks remain present and increasingly collaborate with private credit players.

“Origination partnerships between private credit managers and banks have been a very natural progression,” argues Pesonen, adding that he’s “quite surprised this trend has only emerged recently – perhaps banks were a bit slow to realize the opportunity.” He believes that the market is well divided, with banks having established partnerships with private credit managers. “There are already large players with very strong market positions.”

However, Pesonen does not see these origination partnerships as the main driver behind the ‘bigger-getting-bigger’ or ‘winner-takes-all’ trend. Instead, he emphasizes that banks need these partnerships because private credit players provide the necessary capital when clients seek to raise funds, making collaboration essential on both sides. “Buyout firms, in particular, prefer to work with lenders who have substantial capital,” he points out. This makes sense because the buyout strategy is primarily buy-and-build – acquiring a platform and then expanding through further acquisitions. To support this growth, “they need lenders capable of financing those acquisitions.”

On the other side, limited partners (LPs), have recently shown a clear preference for investing in the biggest players. While these firms may not always be the absolute best, their size gives them an undeniable advantage. “This creates a reinforcing cycle: larger firms find it easier to raise capital, and buyout firms are increasingly inclined to work with them, further consolidating their market dominance.”

DIRECT LENDING VS. SYNDICATED LOANS: INCREASING CONVERGENCE

Private credit has not only caught up with the broadly syndicated loan (BSL) market in terms of scale – now standing at roughly the same size – but direct lending is increasingly beginning to mirror the syndicated loan market in both structure and competitive dynamics. “Direct lending has become a standardized commodity,” says Pesonen. “In many ways, it resembles the syndicated bank loan market from 20 years ago when the banks used to syndicate loans between themselves.” Today, direct lenders are syndicating loans among themselves, particularly in the upper mid-market, which is driving increased price competition and putting downward pressure on spreads.

At the larger end of the market, loan documentation is increasingly similar to the covenant-light terms common in syndicated loans. “The weaker documentation is also coming into the direct lending market,” notes Pesonen. Borrowers often have a choice between syndicated bank loans and direct lending, creating real competition between the two. “The syndicated loan market typically lacks certain features like acquisition lines suited for buy-and-build strategies, which direct lenders offer.” Nevertheless, “these two options compete closely.” One manager described their upper-market offering as essentially “BSL plus,” highlighting how the boundaries between these markets are increasingly blurring.

In 2022 and 2023, the broadly syndicated loan (BSL) market faced a significant disruption due to issues in the collateralized loan obligation (CLO) market, which underpins much of the loan syndication process. “Seventy percent of bank loans end up in CLOs,” Pesonen explains, highlighting how deeply interconnected these markets are. While the spreads on the underlying loans remained relatively stable, the spreads on the AAA tranches of CLOs – the safest liability slices – widened sharply. This spike made funding via CLO liabilities too costly for managers to issue new debt. “The math didn’t work, so the liabilities were too pricey,” Pesonen says. This bottleneck allowed direct lending to temporarily replace the syndicated loan market as the primary financing source. In 2024, “the triple-A spread tightened back to around 110 basis points,” reviving CLO issuance and normalizing syndication once again.

> “You get different return components, diversification benefits, and non-mark-to-market exposure. But that last part is not a target or design – it’s more of an added advantage.”

CHALLENGES AND SYSTEMIC RISK IN PRIVATE CREDIT

At the same time, signs of strain are emerging in legacy private credit portfolios. “While transparency remains limited, anecdotally you hear in many places that extended holding periods are becoming common,” Pesonen notes. “Maturities are being pushed back, and amendments are used to delay refinancing because securing new financing has become more challenging.” Although new deals may still offer attractive pricing, older vintages – originated under very different market conditions – are starting to show pressure as exit timelines lengthen and refinancing options remain constrained.

The question of whether private credit poses a systemic risk has been much debated. To that, Pesonen is clear: “My answer is a definite no. This really comes down to the fundamental differences between private credit and traditional bank lending.” He explains that banks historically were highly leveraged – sometimes up to 30 times – and faced significant asset-liability mismatches, borrowing short-term funds while lending long-term. “This imbalance created a fragile system susceptible to runs and liquidity crises.”

“In contrast,” Pesonen continues, “private credit funds operate in a very different environment. Most private credit vehicles are closed-end funds with long-term capital, and they tend to be hardly leveraged.” This structure aligns asset and liability durations much more closely, reducing the risk of sudden liquidity shortfalls. “From a societal and systemic point of view, this makes private credit a far more stable and less risky component of the financial ecosystem.”

In conclusion, Pesonen highlights growing regulatory scrutiny around private credit, noting that while increased regulation could pose new challenges, the broader trend in bank oversight over the past 15 years has consistently moved toward stricter standards. He also emphasizes the role of political uncertainty: “Political shifts could lead to looser bank regulation.” Givan that banks and private credit funds effectively compete for the same business, “regulatory changes in one can influence the other.”

Cathy Bevan, Head of Structured Credit and Portfolio Manager at Alcentra

From Loans to Layers: Navigating the CLO Capital Stack

By Eugeniu Guzun – HedgeNordic

Collateralized Loan Obligations (CLOs) play an important role in credit markets by bridging the capital needs of corporate borrowers with the return objectives of institutional investors. At their core, these structured vehicles pool hundreds of senior secured loans and repackage them into tranches with varying levels of risk and return. Beyond their structure, CLOs serve two fundamental purposes: they provide efficient financing for companies and offer investors a diverse set of risk-adjusted return opportunities across the capital stack.

"A CLO functions like a mini closed-ended fund, where limited partner (LP) commitments are tranched into AAA- to B-rated securities," explains Cathy Bevan, Head of Structured Credit and Portfolio Manager at Alcentra. "This structure imposes a strict priority of payments on both principal and interest cash flows generated by the underlying loan portfolio." That portfolio typically comprises broadly syndicated loans, with average spreads of approximately 320 basis points in the U.S. and 390 in Europe, while the CLOs themselves carry a weighted average cost of capital of around 200 basis points.

"From an equity perspective, investors gain exposure to levered excess spread," Bevan continues. "From the debt side, CLO tranches offer attractive floating-rate income with built-in structural protections and asset subordination."

TAILORED RISK AND RETURN PROFILES

The CLO structure allows investors to tailor their exposure based on risk appetite and return objectives. Senior tranches offer strong credit protection and stable income, while junior and equity tranches provide higher return potential in exchange for higher risk. "AAA tranches are very remote from risk and are currently trading at base rates [SOFR/EUR] plus 140 basis points – still very attractive, though spreads are tightening," notes Bevan. "BB tranches, by contrast, are trading around base rates plus 550 to 600 basis points. That's compelling relative to leveraged loans and high yield, especially given the structural benefit of asset subordination, which shields them from the first losses in the portfolio."

> "From an equity perspective, investors gain exposure to levered excess spread. From the debt side, CLO tranches offer attractive floating-rate income with built-in structural protections and asset subordination."

CLO equity in both the U.S. and Europe is currently trading at an internal rate of return (IRR) of around 13 percent, roughly in line with the yields on European single-B tranches, which offer base rates [SOFR/EUR] plus 900 basis points. Given that CLO equity is more directly exposed to default risk in the underlying loan portfolio, the team at Alcentra currently favors single-B tranches over equity. However, "CLO Equity is in demand at the moment because investors are seeking assets with high cash flow. CLO equity offers this, due to the leveraged interest income," explains Bevan.

The bulk of the CLO equity return is driven by the excess interest earned on the underlying loans compared to the interest paid out on the CLO's debt. "Because CLOs employ leverage, that difference – or "excess spread" – gets amplified, generating the majority of the equity returns," she elaborates. "That cash yield is a key reason why many investors are being drawn to the CLO equity."

A less discussed risk is the mismatch in non-call periods between the underlying assets and the liabilities. "Underlying loans typically have a non-call period of around six months, while CLO liabilities are often non-callable for 1.5 to 2 years," explains Bevan. When loan spreads tighten, the loan portfolio can be refinanced quickly, which compresses the excess spread and reduces equity returns – yet the liability costs remain fixed, at least until the expiry of the non-call period. "This erosion of the interest rate arbitrage is a unique risk to CLO equity that many fail to fully account for," says Bevan.

For this reason, Alcentra tends to favor purchasing CLO equity in the secondary market. "This strategy often provides more attractive risk-adjusted opportunities compared to investing in primary issuance during tight-spread environments."

STRUCTURAL PROTECTION AND VOLATILITY AS OPPORTUNITY

Collateralized Loan Obligation (CLO) debt tranches offer a compelling mix of solid returns and structural credit protection. However, this comes with trade-offs: CLO tranches are more sensitive to market sentiment, exhibiting greater mark-to-market volatility and less liquidity during periods of stress. "Sub-IG CLO tranches offer higher returns than loans or high yield, with the added benefit of first-loss protection," confirms Bevan. "But when markets widen, CLO tranche discount margins tend to widen even more."

The longer credit spread duration of CLO debt tranches – relative to broadly syndicated loans – also contributes to their greater price sensitivity. While CLO tranches tend to experience sharper spread widening than loans or high-yield bonds during periods of market dislocation, this volatility can be advantageous, creating attractive entry points. "CLO debt tranches offer better risk-adjusted returns than loans or direct lending from a fundamental standpoint, despite exhibiting higher mark-to-market volatility," considers Bevan. "We view that volatility as an opportunity, and generally recommend maintaining a core allocation to CLO tranches with the flexibility to increase exposure in times of market dislocation or investing through closed-end vehicles with the ability to draw capital to allocate opportunistically."

While CLO debt tranches are less liquid than broadly syndicated loans or high-yield bonds, they remain relatively tradeable. Dealers often hold inventory and support two-way markets, but a significant proportion of trading volumes occur via bond auctions called "BWICs" (Bids Wanted in Competition). "Given that each CLO is usually around $400–$500 million in total size, you're unlikely to see observable two-way quotes across a large portion of your CLO tranche portfolio at any given time," notes Bevan. Still, for allocators who can tolerate some liquidity constraints, CLO tranches offer a compelling long-term return profile, underpinned by strong structural protections and resilient credit fundamentals – making them a valuable component of a diversified income strategy.

MANAGER SELECTION: A CRUCIAL DETERMINANT OF RETURNS

When investing in CLOs – especially in mezzanine and equity tranches – choosing the right manager is absolutely critical. "We observe significant dispersion in manager performance, particularly in the US, and this variation becomes increasingly impactful deeper down the CLO capital structure," notes Bevan. However, she cautions that the label "top-tier" can be misleading; reputation and brand recognition do not always translate into strong performance. Instead, the Alcentra team takes a rigorous approach, "looking through to the underlying credit risk in each portfolio based on our own independent views – not relying solely on rating agency assessments – and evaluating managers accordingly."

Assessing a manager's true quality demands a deeper dive into their credit selection, portfolio construction, and skill in navigating the intricate structural dynamics of a CLO. "Some managers are better at portfolio construction and managing the CLO structure better," explains Bevan. "Because of the leverage inherent in CLO equity, the portfolio should differ significantly from a typical high-yield or loan fund. Position sizing is crucial, as one large misstep in an overweight name can materially affect the CLO equity's performance."

REGIONAL MARKET DIVERGENCE

The European CLO market has been growing at a faster pace than its U.S. counterpart, but the demand for CLO tranches hasn't expanded at the same rate. "This imbalance creates attractive opportunities for investors like us to buy CLO debt tranches at attractive levels," notes Bevan. Meanwhile, underlying loan markets in both the U.S. and Europe have experienced limited growth, which in turn pressures the traditional CLO equity arbitrage – the excess interest income generated through leverage. "That dynamic is putting strain on the new issue CLO equity arb, which is why we currently have a preference for single Bs over equity," she adds.

Ultimately, CLOs remain a powerful vehicle for accessing diverse credit exposures with tailored risk and return characteristics. Structural protections, enhanced cash yields, and opportunities from market dislocations make them an attractive option for institutional allocators – provided investors apply rigorous manager due diligence.

Building Blocks for a Sustainable Future

Maria Aguilar-Wittmann, Co-Head of Infrastructure Equity Funds and Co-Investments and Secondaries at Allianz Global Investors

By Eugeniu Guzun – HedgeNordic

Infrastructure across many parts of the world is either decades old or, in some regions, barely existent. Against this backdrop, the need for infrastructure investment is immense. Powerful structural shifts – such as the transition to sustainable energy, widespread decarbonization, and the rapid expansion of AI-driven technologies – are only accelerating demand. With the capital-intensive nature of infrastructure projects, public funding alone is insufficient. This gap creates an important role for private capital, with global institutional investors like Allianz Global Investors stepping in to meet the growing need.

"Infrastructure investment is not only a need in emerging markets," says Maria Aguilar-Wittmann, Co-Head of Infrastructure Equity Funds and Co-Investments and Secondaries at Allianz Global Investors. "Of course, the need is more acute in some of those regions, but the necessity for modernizing infrastructure spans virtually every jurisdiction." Aguilar-Wittmann, who has over 15 years of experience in infrastructure investing, notes that demand consistently outpaces actual infrastructure spending – "a trend that hasn't changed over the last five, ten, or even twenty years."

This is driven not only by the aging state of current infrastructure but also by deep-rooted structural trends. "Decarbonization efforts cut across all sectors – energy, transport, mobility, buildings, agriculture, forestry," she notes. "Studies show that achieving net-zero targets would require approximately $9 trillion in annual infrastructure investment in energy and land-use systems. And we are nowhere near that figure today.[1]"

As governments face fiscal constraints and competing priorities, the role of private capital in infrastructure has become increasingly essential. Beyond merely plugging funding gaps, private investors are helping to shape what gets built and how. "Private capital is not just there to fill the space left by governments or public sources," says Aguilar-Wittmann. "It's also helping steer the direction of infrastructure development. Institutional investors

"Studies show that achieving net-zero targets would require approximately $9 trillion in annual infrastructure investment in energy and land-use systems. And we are nowhere near that figure today."

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and fund managers are focused on ensuring that these projects address infrastructure needs while delivering attractive, risk-adjusted returns."

KEY INVESTMENT THEMES: ENERGY, DIGITALIZATION, AND GEOPOLITICS

Infrastructure plays a foundational role in transitioning to a more sustainable and resilient global economy. Recent geopolitical disruptions – particularly the war in Ukraine – have underscored vulnerabilities in existing systems, catalyzing the shift toward long-term infrastructure solutions. The energy crisis following the invasion revealed Europe's heavy reliance on fossil energy imports, which could be reduced through investments in renewable energy produced within Europe. Decarbonization is no longer just about clean power; it now includes broad sectors such as mobility and industrial production.

Another structural trend reshaping infrastructure needs is digitalization, an area that has seen explosive growth with the rise of artificial intelligence. "Even before the AI boom, demand for digital services drove major investments in macro towers, fiber networks, and data centers," says Aguilar-Wittmann. "The public cloud and the increasing speeds demanded by mobile users were already pushing capacity to its limits."

AI has added a new dimension to the infrastructure narrative. "The AI wave has created incremental demand, particularly for data centers," Aguilar-Wittmann continues. "And data centers are extremely energy-intensive. Generative AI, in particular, is driving up workloads and therefore dramatically increasing energy needs across digital infrastructure that preferably should be met with green energy."

WHY INFRASTRUCTURE MATTERS FOR INSTITUTIONAL PORTFOLIOS

The surge in infrastructure investment needs is underpinned by aging assets, growing populations, urbanization, digital transformation, and the energy transition. For institutional investors, infrastructure offers more than just impact – it also delivers long-term, often inflation-linked, and relatively stable cash

> "The AI wave has created incremental demand, particularly for data centers. And data centers are extremely energy-intensive."

flows. These features align well with the liabilities of pensions and insurance companies.

"There are different risk-return profiles in infrastructure: core, core-plus, value-add," explains Aguilar-Wittmann. "But across the board, infrastructure is known for capital preservation, even in downside scenarios," she notes. "Long-term contracts support cash flows, and contractual protections provide visibility over the investment period."

These protections can vary depending on the type of infrastructure investment, from regulatory guarantees to strong market positions. Aguilar-Wittmann, whose focus is on infrastructure equity, emphasizes that even though equity sits at the bottom of the capital structure, it carries relatively lower risk compared to other private market investments. "Returns typically range from single digits in super-core assets to high teens for value-add investments. The downside protection makes this asset class uniquely attractive."

Infrastructure equity can also serve as a hedge against inflation. "Many infrastructure business models have built-in inflation protection, whether through contractual indexing or market positioning that allows for pricing power," says Aguilar-Wittmann. "That's a valuable feature in today's macro environment." Over time, infrastructure has proven to deliver recurring cash yields, particularly appealing to institutions seeking income.

LONG-TERM NATURE: CHALLENGE AND OPPORTUNITY

The long-term horizon of infrastructure can be a barrier for some investors. "Liquidity can be a hurdle for those just becoming familiar with the asset class," Aguilar-Wittmann acknowledges. Regulatory complexity is another challenge, particularly for global investors. "Some jurisdictions treat infrastructure the same as private equity from a regulatory standpoint, even though the risks are quite different. That misalignment can affect allocations."

As in many private market strategies, sourcing high-quality opportunities remains one of the key challenges in infrastructure investing. However, for established players like Allianz, scale and reputation help to ease that burden. "Allianz is the number one institutional infrastructure investor in Europe[2]," says Aguilar-Wittmann. "Between Allianz's insurance business and Allianz Global Investors' private markets arm, we have strong brand recognition, and fund managers in the space often come to us."

In addition to inbound opportunities, the firm maintains an active sourcing effort. "We have a large, dedicated infrastructure equity team – about 70 professionals globally – covering energy, digital infrastructure, and all other infrastructure sectors," notes Aguilar-Wittmann. "This breadth allows for deep sector expertise and internal knowledge-sharing."

A RAPIDLY GROWING ASSET CLASS

Infrastructure has evolved from a niche asset class to a \$1.5 trillion industry over the past two decades[3]– a transformation driven by the global need for modern, resilient systems. That growth is expected to accelerate further as long-term structural trends like decarbonization and digitalization continue to shape investment needs. "At the same time, emerging dynamics such as market consolidation, deglobalization, and the push for national energy independence are opening new avenues for deployment," concludes Aguilar-Wittmann. As countries invest to strengthen both their physical and strategic infrastructure, the asset class is becoming an increasingly vital component of institutional portfolios.

1) Pathway toward 1.5°C using the Net Zero 2050 scenario from the Network for Greening the Financial System (NGFS). https://www.mckinsey.com/capabilities/sustainability/our-insights/the-net-zero-transition-what-it-would-cost-what-it-could-bring

2) IPE Real Assets top 100 ranking (2024).

3) Preqin data as of June 2024.

Philip Ajina, Chief Investment Officer at Infranode

Investing in Nordic Infrastructure Through Partnership with the Public Sector

By Eugeniu Guzun – HedgeNordic

Infrastructure investment is often viewed as a public sector responsibility, heavily influenced by political priorities. However, the growing need for new infrastructure projects – coupled with the urgent renewal of aging assets – has made private capital, particularly from institutional investors, an increasingly vital component. Founded in 2013, infrastructure manager Infranode has pioneered a collaborative approach by partnering with local authorities and mobilizing capital from both institutional investors and public bodies to help build resilient, sustainable infrastructure that serves the long-term needs of society.

Before founding Infranode, the three co-founders – Philip Ajina, Christian Doglia, and Leif Andersson – identified two critical gaps in the Nordic infrastructure universe that lacked a connection. "On the one hand, there was a massive infrastructure investment need across the Nordics – at the municipal, regional, and national levels," explains Founding Partner Philip Ajina. "On the other hand, Nordic institutional investors were significantly under-allocated to infrastructure as an asset class," he continues. "We saw two sides with clear investment needs but no

> "On the one hand, there was a massive infrastructure investment need across the Nordics. On the other hand, Nordic institutional investors were significantly under-allocated to infrastructure as an asset class."

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bridge to connect them. That was the gap we set out to close."

BRIDGING THE NORDIC INFRASTRUCTURE INVESTMENT GAP

Despite the Nordic region being widely regarded as advanced in many aspects of society –including strong infrastructure – the need for investment stems from two underlying dynamics. "There's a bit of a conundrum," says Ajina. "Even with relatively high tax rates across the Nordic countries, the public sector has consistently underfunded reinvestment in infrastructure." Much of the existing infrastructure, he explains, was built in the 1960s and 1970s and is now approaching or exceeding its technical lifespan.

Ajina also highlights that, on paper, the Nordic countries are well positioned to fund such investments. "From a debt-to-GDP perspective, the region has been fiscally sound for many years. Municipalities and regions have their own taxation rights and relatively strong credit profiles and can access capital markets," notes Ajina. But despite all that, there simply has not been enough investment to keep pace with the natural wear and tear. "The need for renovation remains significant."

At the same time, the onset of the energy transition in recent years has further intensified the demand for infrastructure investment. "With the Nordics becoming the bedrock of the transition to a more sustainable society, it created two extremely powerful investment drivers," says Ajina. "That, in turn, has increased the resource pressure on the public sector." These two forces – the urgent need to renew aging infrastructure and the accelerating energy transition – remain the primary reasons why alternative sources of capital, particularly from institutional investors, are essential. "On top of this, a more recent third force is driving infrastructure investment demand – the geo-politically related resilience of our Nordic countries," continues Ajina, saying that infrastructure investments in this area also play a key role to strengthen society, for instance, Sweden's commitments linked to the NATO membership. "These are the same fundamental drivers across all the Nordic countries," Ajina emphasizes.

Ajina goes on to emphasize that virtually all areas of infrastructure require investment –particularly within the traditional sectors of energy, transportation, digital infrastructure, and social infrastructure, which form the core of Infranode's investment focus. "Typically, we look for regulated businesses – electricity distribution being a good example – where regulation grants an exclusive concession to operate," says Ajina. "It's a protected environment, but also one where the regulator determines how you're allowed to charge your customers." He further notes other types of infrastructure that function as natural monopolies. "These businesses often have very high barriers to entry, mainly because infrastructure is a very capex- and balance sheet-heavy sector." Long-term contracts is also a typical feature in infrastructure investing. "Inflation-linked long-term contracts are quite common in the infrastructure sector."

> "Most of the deals we do start with identifying investment needs within the public sector and actively sourcing opportunities. We see that this model is also politically viable for decision makers."

POLITICAL REALITIES AND COLLABORATIVE INVESTMENT MODELS

The founding team at Infranode early on identified a key challenge in the Nordics: despite the substantial investment needs and limited resources – both in terms of capital and sector expertise – fully privatizing critical infrastructure remains highly politically sensitive. "Perhaps the main differentiator between infrastructure and other asset classes is that you're investing in assets closely tied to society, involving not just citizens but also politicians," Ajina explains. Because of this dynamic, Infranode aimed to develop a model that enables co-ownership of assets alongside local and regional governments, including municipalities and regions.

"This approach has proven to be very effective," Ajina explains. "Most of the deals we do start with identifying investment needs within the public sector and actively sourcing opportunities. We see that this model is also politically viable for decision makers." Infranode's strategy centers on making the majority of its investments contribute to building a stronger society – whether through climate action, social development, or digital innovation. The investments, therefore, are highly attractive both to investors and to society at large, including the decision makers. "This co-ownership model has been essential in unlocking these opportunities," says Ajina. "As a result, Infranode has become synonymous with being a trusted partner to the public sector."

A LOCAL PARTNER ACROSS THE NORDICS

Infranode also fully owns infrastructure investments by acquiring assets directly from private infrastructure owners and developers. "But what truly sets us apart is our ability to build strong partnerships with the public sector and the trust we have established," Ajina explains. Because local infrastructure investments inevitably involve politics, Infranode has made a deliberate decision to be a local partner throughout the Nordic region. "We don't see ourselves merely as a Swedish manager operating in the Nordics; we are a Nordic manager serving the entire region," he adds. Infranode early on recognized the importance of being perceived as a local partner in each country. "That's why we have established offices and local teams in every Nordic country."

Infranode's infrastructure funds are supported by institutional investors such as KPA Pension, Folksam, Keva, Kyrkan Pension, AP4 and many others. According to Ajina, "this type of capital is very welcome back into society." Not only do the beneficiaries of these institutional investors gain from the attractive characteristics of infrastructure investments –such as solid long-term returns, inflation protection, and portfolio diversification – but they also benefit from the tangible, real-world infrastructure these investments help build and maintain. "When these investors consider infrastructure investments through us, they appreciate the sound financial rationale. But they also recognize the added value of returning pension capital to strengthen the local communities where their customers and pensioners live and work. Instead of investing in a port in Sydney, why not invest closer to home, outside of Stockholm?"

Building on the appeal to institutional investors, Ajina draws a comparison between infrastructure and real estate returns, noting that the range of return varies depending on the risk profile. "If you look at strategies focused on scaling infrastructure companies, it's similar to private equity-style investing, where you might expect mid-teen percentage returns," he explains. "On the other hand, the lower the risk you take, the lower the expected returns."

Infrastructure is particularly well suited to deliver cash yield returns, making it comparable to a fixed income-like investment strategy. "If you invest in lower-risk infrastructure, a significant majority of your returns will come from steady cash flows. This means you are less dependent on exiting the investment to realize returns, which provides an additional layer of diversification," further highlights Ajina. He points out that this is especially relevant today, given the current market dynamics where private equity exits are not unfolding as planned.

Whereas in the previous low-interest-rate environment capital was abundant but quality asset opportunities in infrastructure were limited, the balance has now shifted, concludes Ajina. "Now the situation is somewhat reversed, there are more infrastructure needs and investment opportunities than available capital."

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Interrupted Momentum in Private Markets as Evergreen Structures Reshape Dynamics

By Eugeniu Guzun – HedgeNordic

> "Private markets have already navigated three distinct phases in 2025. Going into the year, sentiment across private markets was broadly positive…"

The Manager Selection team at SEB Asset Management published their annual Private Markets Report in early April, which explores the shifting momentum across private equity, credit, infrastructure, and real estate, as well as some more niche private assets.

"Private markets have already navigated three distinct phases in 2025. Going into the year, sentiment across private markets was broadly positive – returns in 2024 were higher, and the latest data showed positive cash flows, something we hadn't seen in several years," says Alexandra Voss, Senior Manager Selector at SEB. "That was a significant shift and created expectations for increased deal-making and capital returns, which would in turn support better fundraising." Then, she notes, tariff-related uncertainty in April reintroduced volatility especially in the macroeconomic outlook and increased the dispersion of possible market

Alexandra Voss, Senior Manager Selector at SEB

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trajectories. "And since our report was published in April, we have now entered a new phase where uncertainty remains, but the worst of the fear has receded, revealing a few potential bright spots of opportunity."

TARIFF UNCERTAINTY CLOUDS AN ENCOURAGING START TO 2025

In the private credit space, Voss agrees with the consensus that tariff uncertainty will slow private equity-sponsored deal activity, leading to more supply than demand for direct lending loans. However, in a more uncertain environment, she notes that private equity sponsors are likely to place greater emphasis on execution certainty. "While overall deal volume may decline, direct lending's share of completed deals in upper middle market may actually increase," she adds. This shift, according to Voss, could preserve spreads and maintain quality in the direct lending space. "While the hard data still shows compression, the most recent forward looking survey data shows expectations for slightly higher spreads and more protections in Q2 versus Q1, as well as an increase in deal volume."

Private equity deal-making has slowed notably in recent years. Higher interest rates, economic uncertainty, and tighter credit conditions have made transactions harder to finance and complete. At the same time, valuation gaps between buyers and sellers remain, leading to longer negotiations and more failed deals. Although the outlook heading into 2025 was generally positive, deal activity typically slows in periods of uncertainty – a dynamic amplified by the current U.S. administration's tariff agenda.

Roughly 35 percent of private equity-backed companies in the U.S. have now been held for more than five years, increasing pressure to return capital to investors. But Alexandra Voss thinks the problem is bigger. "The 3-5 year holding period reflected a strategy similar to buying a fixer-upper house. The sponsor would identify a company that could benefit from improvements, both cosmetic and functional. Once the fixes are complete, the sponsor looks to sell it at a higher price." It's largely an operational play, she says, with value creation often coming from improving efficiency, cutting costs, honing market fit, and professionalizing management – factors that, along with access to cheap leverage, have historically driven strong returns.

"But given the amount of capital raised for large cap private equity, it seems reasonable that the number of large fixer-uppers available has declined. You see this in the increase in secondary buyouts as exits, where one PE firm buys a company from another PE firm. This has become the most common form of exit for PE holdings in Europe and North America." Instead, Voss thinks that one area that may stand out in 2025 is the middle market. "Smaller and middle market companies are typically less exposed to global supply chains, and valuations remain well below large-cap levels, yet less than 15 percent of buyout capital in 2024 went to funds under USD 1 billion, the lowest share on record." This dynamic has left the middle market less crowded, creating a potentially favorable backdrop.

EVERGREEN STRUCTURES GAIN TRACTION

Traditional private equity managers often feel pressure to return capital to investors so LPs can invest in their next fund vintage. However, the rise of evergreen and semi-liquid fund structures may be shifting this traditional dynamic, impacting how managers raise capital, make investments, value their portfolios, and distribute returns. Voss points to "push, pull, and [ELTIF] policy" as the driving forces behind the emergence of semi-liquid structures.

"There have been lower levels of deal making, and that has real consequences for the traditional model," says Voss. "This has pushed managers to look to new ways to attract capital." On the pull side, these structures offer under-allocated investors access that better fits operational needs. "While these structures come with important considerations, they solve a problem for many investors," Voss says.

When first encountering semi-liquid structures in illiquid markets like private equity or private credit, Voss was skeptical. "I have always invested on behalf of institutions putting hundreds of millions of euros to work, and it's a very intellectually rigorous way of investing," she recalls. However, she soon recognized a practical reality: "If you're investing in private debt, for example, and want to maintain a strategic allocation, you need to create an allocation program and be making new investments continuously to sustain that level." Each vintage entails managing an average of 80 independent cash events – capital calls and distributions – requiring substantial infrastructure and effort. "For many managers and investors, that's a significant amount of work and results in under-allocation for non-investment reasons."

PRIVATE DEBT EMERGES AS NATURAL FIT FOR SEMI-LIQUID FUND FORMATS

Thus, with the growth of structures like ELTIFs (European Long-Term Investment Funds), Voss sees a clear push and pull dynamic between the careful, traditional way institutions invest and the need for more practical, flexible solutions to manage ongoing investments. Yet, she stresses that evergreen structures won't suit all private market segments equally. "Based on data, growth of evergreen funds won't be evenly spread across private markets," she explains. "I don't expect many evergreen venture capital funds because of their wide return variability." Instead, Voss sees the strongest potential for evergreen growth in private debt, a natural fit given its steady cash flow, more predictable liquidity, and narrower valuation ranges.

Evergreen structures can be applied to other asset classes across private markets, but doing so demands a thorough understanding of each asset's valuation range and outcome distribution. "This is why I don't expect venture capital to gain much traction in this space –the range of outcomes there is extremely wide," Voss explains.

From an investor's perspective, achieving a strategic allocation to private debt or private equity typically involves managing multiple vintages individually or opting for an evergreen fund that provides built-in vintage diversification – an outcome otherwise difficult to attain. "Operationally, it's much simpler. You get valuations and returns more comparable to your other liquid investments, along with the flexibility to adjust your allocation," she says, cautioning that "this isn't a product to trade in and out of quickly. It's designed to make a strategic portfolio allocation more accessible."

> "Based on data, growth of evergreen funds won't be evenly spread across private markets. I don't expect many evergreen venture capital funds because of their wide return variability."

Chasing the Premium in Private Credit's Next Frontier: Emerging Markets

By Eugeniu Guzun – HedgeNordic

"In developed markets, private credit is a fairly mature and well-defined asset class. The emerging market side of this universe has only started to take shape over the past seven years or so."

"Every financial innovation starts in the United States, then moves to Europe after five to ten years, and eventually reaches emerging markets another decade later," says Mihai Florian, Senior Portfolio Manager at RBC BlueBay Asset Management. Private credit has followed this same path. While it is a mature and competitive asset class in developed markets, it is still relatively young – and full of opportunities – in emerging markets.

"In developed markets, private credit is a fairly mature and well-defined asset class," says Florian, part of RBC BlueBay's Emerging Markets team. "You have clearly delineated segments such as direct lending, infrastructure, real assets, special situations, and distressed opportunities." By contrast, he adds, "the emerging market side of this universe has only started to take shape over the past seven years or so."

Mihai Florian, Senior Portfolio Manager in the Emerging Markets Team at RBC BlueBay Asset Management

As the global private credit market has matured, competition among managers has intensified. “When competition increases, two things typically happen,” Florian explains. “Returns are being driven down, and risks start creeping up.” That risk, he continues, stems from increased borrower leverage and weaker documentation standards as managers stretch to deploy capital. In emerging markets, however, the competitive landscape remains far less crowded, with only a few dedicated private credit strategies focused specifically on EMs. “That means from a pure credit perspective, you can get a better profile for which you’re getting a better return relative to risk,” says Florian.

A SATURATED DEVELOPED MARKET

Before turning to emerging markets, Florian outlines the current state of private credit globally, especially in direct lending – the sector’s largest component. “Direct lending is typically sponsor-driven, bullet loans linked to private equity acquisitions,” he says. “Repayments are often tied to the private equity exit.” As private equity deal activity has slowed over the past year, repayments of private credit capital have also been delayed.

Compounding this is the legacy of vintages issued during 2020, 2021 and 2022, when base interest rates were close to zero. With current rates now significantly higher – 300 to 400 basis points or more in both the U.S. and Europe – borrowers face pressure. “About a third of borrowers in direct lending either can’t pay interest or are switching to payment-in-kind structures,” says Florian. This further compresses investor returns.

THE CASE FOR EMERGING MARKETS

In emerging markets, by contrast, limited alternative financing options allow private credit managers to lend to high-quality borrowers on more favorable terms. “We target corporates with leverage between two to four times EBITDA,” says Florian, “compared to around five times for senior direct lending in developed markets, and up to seven times for unitranche or mezzanine deals.”

In terms of returns, Florian notes that developed market strategies typically yield high single digits. “On a per-turn-of-leverage basis, that equates to about 150 to 200 basis points,” he explains. “In our emerging markets portfolio, the actual returns on deals we are doing are

> “Ultimately, you need to be compensated for the inherent risks of operating in emerging markets.”

north of 20 percent, with an average leverage of around three times for the underlying corporates. That translates to roughly 700 basis points per turn of leverage.”

This, he argues, highlights the significant premium available in emerging markets. “You’re essentially getting an extra 500 to 600 basis points per turn of leverage for taking EM risk,” Florian says. “And even on an absolute return basis – 20 percent versus high single digits –there’s a clear emerging markets premium.”

That premium, however, must be seen in the context of risk. “Ultimately, you need to be compensated for the inherent risks of operating in emerging markets,” Florian cautions. “You don’t have the same legal frameworks as in the U.S. or the UK. You need to understand local nuances, such as contract enforcement and jurisdictional peculiarities,” he adds. “These risks are specific to emerging markets, and they require compensation on an absolute return basis.”

“As a private credit manager in emerging markets, you need to find ways to mitigate those risks,” Florian continues. “The legal environment in a country is what it is – you can’t change that.” What managers can do, however, is structure deals in a way that reduces exposure. “For example, we typically set up offshore holding company structures – whether in the Netherlands, Luxembourg, or the UK – where we also take security. This gives us the ability to enforce at the UK level if something goes wrong, rather than having to rely on local enforcement mechanisms right away.”

MANAGING FX RISK

Another key risk in emerging markets is foreign exchange. “In my view, local currency risk is probably the biggest concern and a major reason why many EM corporates have historically run into trouble,” explains Florian. “In a five-year period, most EM currencies experience sharp and sometimes sudden depreciation.” To mitigate this, the team focuses exclusively on hard currency investments, with most loans denominated in U.S. dollars and some in euros. “From our perspective, mixing illiquidity with local currency is a recipe for disaster.”

Going a step further, the team at RBC BlueBay ensures that underlying borrowers generate revenues in hard currency to service their hard-currency debt obligations. “We would never lend to a local retailer with low margins and local-currency revenues – any currency devaluation would wipe them out if they have dollar liabilities,” Florian says. “Instead, we focus on exporters and commodity producers.”

Florian explains that many emerging market corporates have been managing currency devaluation risks for decades. “If you look at markets like Turkey, Brazil, or Mexico, many corporates have lived with currency volatility for decades. Even if they’re local businesses, they often have contracts in hard currency,” he notes. “Take ports, for example. Most port operators in EMs have contracts denominated in U.S. dollars or other hard currencies. So even when they operate solely within their country, they have embedded hard-currency exposure.”

UNDERINVESTED AND UNDERSERVED

While the private credit asset class in emerging markets remains in its early stages and represents a relatively small opportunity set, RBC BlueBay sees significant room to grow. “We could deploy much more capital than we currently have,” says Florian. “We believe there’s space for more players – although certain pockets will inevitably attract increased competition.”

The greatest constraint, however, isn’t deal flow – it’s institutional investors’ willingness to allocate to emerging markets. “Large institutional investors that are willing to invest in infrastructure often won’t touch emerging markets, not even in the public space,” he notes. “Relative to global GDP, emerging markets are still significantly under-allocated in many portfolios.” While in Europe the private credit opportunity set is mature, crowded, and capital-rich – “with too many funds chasing the same opportunities,” Florian believes some of that competition-heavy capital could be more efficiently deployed in emerging markets – benefiting both local businesses and global portfolios.

Thor Schultz Christensen, Deputy Chief Investment Officer at Velliv

Velliv Moves Away from Alternatives as Low-Cost Investing Takes Center Stage

By Eugeniu Guzun – HedgeNordic

Danish pension provider Velliv has recently overhauled its investment strategy, placing greater emphasis on low-cost, index-based strategies in response to shifting client preferences. In a move that caught much of the industry off guard, Velliv disbanded its entire alternatives team along with several individuals responsible for selecting external equity managers – just ahead of Lea Vaisalo, formerly Head of Private Markets at Nordea Asset Management, stepping in as Chief Investment Officer. The shift reflects Velliv's move to lower-cost investment options and highlights the growing appeal of passive strategies among its clients.

CLIENT-DRIVEN SHIFT TOWARD LOW-COST, INDEX-BASED INVESTING

The decision to discontinue the teams overseeing external managers in equities and alternatives is "primarily client-driven," says Thor Schultz Christensen, Deputy Chief Investment Officer at Velliv. "We offer three pension products: a classic actively managed product, a sustainable product,

> "Lower costs are simply a 'bird in the hand than ten birds on the roof' – a guaranteed saving."

and a balanced product built entirely on index-based building blocks," he explains. "The index-based option is more cost-effective, and demand for this type of solution has been steadily increasing – today, around 60 to 65 percent of all new pension contributions are directed to the indexed product."

The decision also reflects broader global trends, with an increasing number of institutional investors turning to low-cost index funds to reduce expenses, according to Christensen. A key factor behind Velliv's move involves the overall cost burden of managing pension assets – both internal costs and those associated with external managers. Christensen highlights an important distinction between commercial pension providers like Velliv and labor union pension funds when discussing cost structures.

COMMERCIAL VS. LABOR UNION PENSION FUNDS: COST STRUCTURES AND PRESSURES

"Labor union pension funds have always had lower total costs because they don't need a sales force and can offer the same investment portfolio to all members," explains Christensen. "By contrast, we're a commercial pension provider and offer a broader range of options." Velliv provides three distinct product lines – an index-based product, an active product, and a sustainable product – each available in high, medium, and low risk profiles. "That gives our clients nine different investment options, whereas labor union pension funds typically offer a single, standardized solution and have a lower-cost setup," he elaborates. "This structural difference puts commercial pension providers like us under much greater price pressure."

"Lower costs are simply a 'bird in the hand than ten birds on the roof' – a guaranteed saving," notes Christensen. For many years, active management has faced increasing challenges as passive strategies have proven to be a reliable and cost-efficient solution for many investors. "Since 2013, none of the commercial pension funds have managed to outperform that product," he emphasizes. "For us, it's about accepting how difficult it really is to beat a low-cost indexed product – one that charges half the fees of active products."

"We don't include alternatives in the passive product. As clients shift from our active product to the passive one, we expect this to create a natural balance by pausing any new alternative investments."

PAUSING AND MANAGING THE ALTERNATIVES

In mid-2024, approximately 10 percent of Velliv's €45 billion investment portfolio was allocated to alternatives, encompassing private equity, private credit, liquid alternatives such as trend-following CTAs and commodities, as well as infrastructure and timberland. However, with the majority of new client inflows directed toward Velliv's index-based product, "we recognized there was no room for new investments in alternatives," explains Christensen. This realization led to the difficult decision to disband the entire alternatives team, including the Head of Alternatives.

"The old team was responsible for three main tasks," Christensen begins. "First, making new investments, which is very time-consuming because you need to ensure you're invited to participate in those deals. Obviously, we no longer need to do that," he continues. "They also spent a lot of time evaluating various market opportunities to see if they fit the portfolio, which involved extensive internal discussions and fundraising efforts – all of which have now stopped." Today, the only task remaining is monitoring the existing portfolio.

With Lea Vaisalo joining as CIO in early May – after years as Head of Private Markets at Nordea Asset Management – alongside a Head of Governance who previously spent eight years as Head of Alternatives at another pension fund, plus two younger team members, Velliv has the capacity to continue monitoring its existing alternatives portfolio. "We have two younger employees dedicated full-time to this, guided by two very seasoned illiquid investors," Christensen notes. This means Velliv is not immediately selling off its entire alternatives portfolio.

"We don't include alternatives in the passive product. As clients shift from our active product to the passive one, we expect this to create a natural balance by pausing any new alternative investments," Christensen explains. With this client shift, stopping new alternative investments reduces the risk of Velliv falling behind the flow curve. "In that respect, liquidity becomes an even greater concern – we'd rather hold slightly too few alternatives than risk having too many."

RESTRUCTURING THE ACTIVE PRODUCT

The shift toward passive investing does not mean Velliv is abandoning its actively managed product entirely. "We basically made two key changes," Christensen explains. "We decided to use our index product as the core of our active product. Today, 60 percent of the active product consists of our index portfolio, which means we no longer have any external active equity managers in that product – they've been replaced by this index-based core."

The active product is now composed of 60 percent index-based exposure, 20 percent allocated to alternatives, and 20 percent to internally managed strategies where Velliv aims to generate alpha. "By replacing much of the external active management with the index product, our internal 20 percent allocation is actually more actively managed than before," says Christensen. As a result, the overall portfolio now carries a higher active share than previously. "At the same time, we've reduced costs by approximately 10 percent through this replacement, although the challenge remains to generate internal alpha at least as effectively as external managers did."

This shift allows Velliv's investment team to have "much greater control by eliminating overlapping positions." When constructing an equity portfolio with eight active managers, achieving a tracking error above one is extremely difficult because their positions often overlap. "In that sense, we have better control now, without overlapping alpha bets," Christensen explains. "This enables us to take on more active risk and ultimately achieve higher active share per unit of cost."

"This shift really is very much focused on the debate between active and passive investing," Christensen concludes. "In redesigning our active product, we've come to accept how difficult it is to consistently outperform a low-cost passive product," he continues. "An index-based product starts with a significant advantage – about half a percent – due to its lower costs." While Christensen does not rule out that, with the new CIO on board, Velliv might revisit its approach to alternatives or active management, he emphasizes that any future strategy must be based on a firm conviction that "it can generate sufficient returns per unit of cost – not just returns after costs."

Christian Munafo, Chief Investment Officer at Liberty Street Advisors

Active Thinking: PE Investing Amid Tariff Waves

By Christian Munafo – Liberty Street Advisors

Many investors have legitimate concerns regarding potential impacts of both recent tariff announcements made by the US and initial responses from other countries. While we cannot be certain of the ultimate outcomes, we continue to believe that private markets can provide investors with numerous benefits including volatility reduction, diversification, enhanced return potential and access to opportunities that have been historically unavailable in public markets. We think this particularly holds true with strategies like ours that focus on investment opportunities in late-stage, high-growth private technology companies that drive innovation and disruption across the economy in sectors such as aerospace/space economy, cybersecurity, artificial intelligence (AI)/ machine learning (ML), big-data/cloud, advanced manufacturing, fintech/digital assets, digital health, ecommerce and agricultural technology.

We are closely monitoring how current market dynamics evolve and believe there could be some near-term disruptions to capital formation and exit activity due to increased volatility and macro-uncertainty, but we anticipate a resurgence of activity and improving sentiment in the second half of 2025. In parallel, we believe there will continue to be attractive investment opportunities in high performing companies due to these dislocations which could potentially generate outperformance in the future, but investors must be disciplined and highly selective.

CAPITAL FORMATION

The National Venture Capital Association (NVCA) reported approximately 3,003 US Venture Capital (VC)-backed deals closed in the first quarter of 2025, with an aggregate deal value of USD 91.5 billion. This represents an 11% increase in the number of deals and an 18% increase in deal value compared to the first quarter 2024. Larger deals represented a greater share of activity with 10 transactions exceeding USD 500 million, accounting for over 61% of total VC investments. Excluding OpenAI’s USD 40 billion capital raise that closed in March, the other nine deals represent 27% of the total.

According to various sources, VC dry powder now sits at roughly USD 290 billion, but there remains a significant supply/demand ratio imbalance as more companies seek capital and shareholders seek liquidity, while investors exhibit greater discipline. As a result, this creates greater negotiating leverage for active investors willing to commit capital in both secondary transactions and new financing rounds. That said, high-performing companies demonstrating strong operating metrics will continue to be rewarded with more attractive valuations.

While current macro-uncertainly may impact the velocity of new company financings in the near term, we think it is important to be reminded that these are often attractive periods for capital deployment as investors gain negotiating leverage due to various macro and micro dislocations.

THE STARS ARE ALIGNING FOR DEALS

We are looking at one of the largest and most compelling

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initial public offering (IPO) backlogs in recent history, with many high-performing technology and innovation companies generating a healthy balance of strong growth rates and profitability. For example, in January 2025, space and defence solutions company Voyager Technologies filed its confidential paperwork for an IPO and eventually raised $382.8 million in its U.S. initial public offering in June, while Meta signed on as an investor to data analytics software leader Databricks as it reportedly inches towards its widely anticipated IPO. In addition, AI chipmaker Cerebras announced Committee on Foreign Investment in the United States (CFIUS) clearance in March 2025, a key step toward its planned IPO.

In April, the gaming-focused social messaging service Discord announced the hiring of former Activision Blizzard Vice Chairman as its new CEO in advance of its expected IPO. Despite the challenging environment, AI cloud computing firm CoreWeave went public in March, largely driven by increasing demand for compute and inference capabilities required by large language models (LLMs), marking the largest tech IPO in years. Although Coreweave's IPO priced at the low end of the predicted range, the stock initially surged and has held on fairly well despite subsequent tariff related headwinds.

Additionally, we are seeing increased merger and acquisition (M&A) activity involving VC-backed companies. According to Pitchbook, exit activity for the first quarter of 2025 reached the highest quarterly levels since Q4 2021, generating USD 52.6 billion across 385 deals. While we continue monitoring tariff developments and potential implications, we believe increases in corporate M&A activity and private equity (PE)-led buyouts can continue throughout 2025. In March 2025, Google announced an agreement to acquire cloud security company Wiz for USD 32 billion, marking Google's largest ever acquisition. Also in March, Elon Musk's AI company, xAI, acquired X (formerly known as Twitter) in an all-stock transaction valued at UAD 33 billion (net of debt).

Although tariff-related uncertainty may temporarily delay new listings and M&A activity in the near-term, we expect to see a pickup in both public market offerings and deal activity over the coming quarters as volatility subsides and headwinds calm.

> "While we cannot be certain of the ultimate outcomes, we continue to believe that private markets can provide investors with numerous benefits including volatility reduction, diversification, enhanced return potential and access to opportunities that have been historically unavailable in public markets. "

VALUATION TRENDS

While public company valuations have recently pulled back due to the aforementioned macro-headwinds, we continue to observe a significant gap when comparing the valuations of our private companies with their public market equivalents. Public market comparables are just one of many inputs in our valuation framework for private companies. For instance, movements in public cybersecurity companies can affect our private cybersecurity valuations. Similarly, exit comparables, such as Google's acquisition of Wiz also serve as new valuation inputs. Other factors include private rounds of financing, secondary transactions and employee stock option issuance.

Despite the resilient operating performance of most of our companies with record levels of revenue and profitability exhibited across the current portfolio, many are still valued below their last round of financing due to various depressed valuation inputs referenced above. We believe this represents significant embedded value potential for harvesting as market conditions and underlying valuation inputs improve.

MEASURING POTENTIAL TARIFF-RELATED IMPACTS

Since the inception of our strategy over a decade ago, the overwhelming majority of our holdings have involved US-domiciled companies where the underlying technology, operations and revenue primarily (if not exclusively) reside in the US.

While several of our holdings have asset-heavy business models including those in aerospace/space economy, most involve asset-lite business models with very little (if any) debt on their balance sheets. By default, these companies are typically not engaged in the traditional importing and exporting of hard assets.

Although we believe the capital structures and business models of many of our holdings provide a layer of protection from the newly proposed tariffs, there will likely be some degree of both direct and indirect impacts at a macro and micro level. For example, an extended period of increased volatility and uncertainty may hit growth rates as customers pull back on consumption and spend. Furthermore, companies with less flexible supply chains may face cost increases that cannot be fully passed on to their customers, which would hurt margins and profitability.

In addition, potential disruptions to capital formation and exit activity will likely force companies to manage their balance sheets and expenditures more efficiently while further delaying realisations for shareholders and investors. Related to this, US companies may see less demand from foreign investors as the demand for dollar-denominated assets could decline.

AI: THE RISE OF DEEPSEEK

A major development this year was the introduction of the DeepSeek model from China, which received significant global attention with initial data indicating far greater efficiency compared to major LLMs. While the initial data is impressive, it is important to note that DeepSeek's R1 model was trained by leading LLMs and offers narrower, distilled modelling capabilities. What may not be widely known is that DeepSeek leveraged Cerebras' technology to achieve processing speeds 57 times faster than the most advanced graphics processing units (GPUs) currently available with greater energy efficiency. We believe these efficiencies will accelerate AI adoption across sectors.

This development shows that AI does not always require expensive, comprehensive models. Distilled versions can accomplish specific tasks effectively. While we believe differentiated LLMs like xAI are well positioned to continue benefiting from the often referred to Fourth Industrial Revolution or Industry 4.0, this shift allows us to move from AI enablement to companies facilitating and more broadly adopting AI, which should also bode well for companies such as Databricks for increased data warehousing and analytics, Nanotronics for defect-free chip manufacturing with AI driven inspection and process control, and Cerebras for more powerful and energy efficient computing solutions.

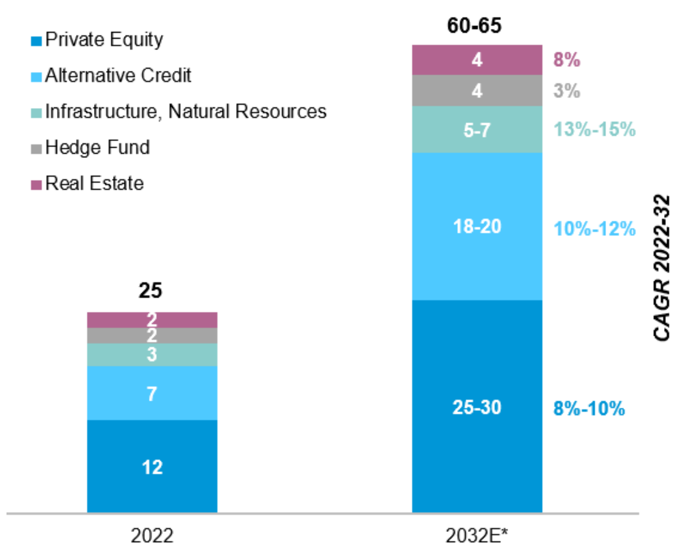
We already see a progression from companies enabling AI to those adopting it at more attractive price points. This shift is likely to foster sustainable business models around AI adoption. However, we advocate patience and discipline when it comes to investing in this area as certain aspects remain nascent and vulnerable to disruption. We continue to believe in the tremendous demand for AI compute, datacentres/infrastructure, and energy solutions, and are exploring these areas with great interest.

BROADENING ACCESSIBILITY TO PRIVATE MARKETS

More asset managers are launching strategies like ours that broaden investor accessibility, something that we have been strongly advocating and offering for the past decade. We believe this is largely driven by a combination of increased demand from non-institutional channels seeking better diversification and an interesting dynamic in which institutional investors are increasingly overexposed to illiquid assets due to a lack of exit/distribution activity. The former provides an exciting opportunity to engage with retail and wholesale investors that have historically been unable to access these types of strategies, while the latter creates an attractive investment opportunity for groups like us to purchase securities in high performing assets from fatigued investors and shareholders often at dislocated prices.

Setting the current macroeconomic environment aside, significant global growth across various alternative asset categories is expected for the foreseeable future (with PE accounting for lion's share) as both institutional and non-institutional investors continue seeking strategies outside of traditional public equity and fixed income.

CHART 1: GLOBAL ALTERNATIVE ASSETS UNDER MANAGEMENT (AUM), USD TRILLIONS



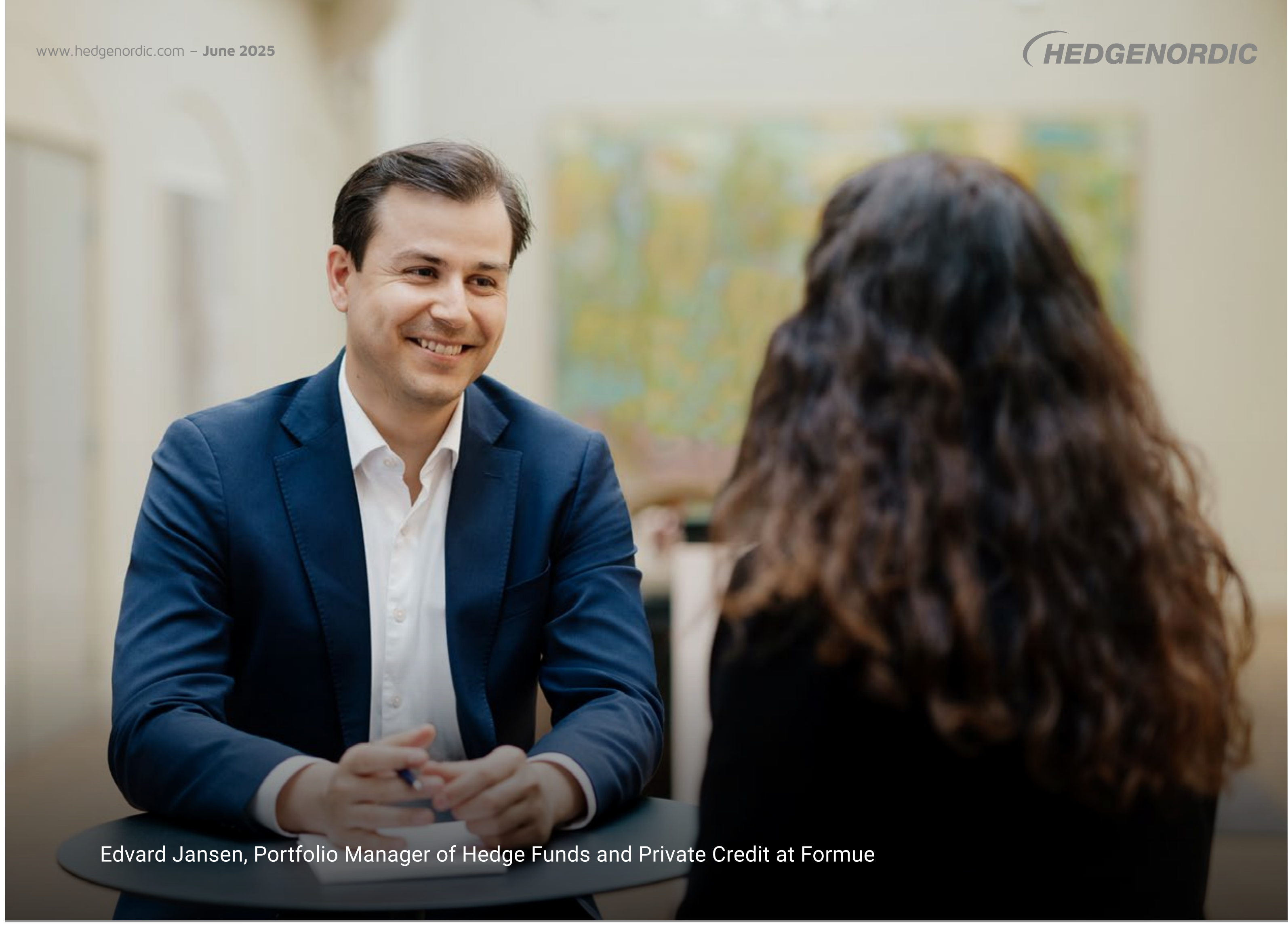
Source: Preqin, Company financials, Bain and Company Analysis, PwC, as at 21 September 2024. Estimates may not be realised.

While recent tariff announcements are certainly raising new questions, challenges and concerns for the broader economy and both public and private market investors alike, we think it is important to be reminded that these are often attractive periods for capital deployment as investors gain negotiating leverage due to various macro and micro dislocations. As long-term investors focused on private innovation companies that improve efficiency, productivity and ultimately profitability for end customers across many sectors of the economy, we continue to believe that our underlying portfolio is well-positioned to benefit as capital formation, valuation and exit activity improve.

Everything we mentioned requires a lot of education, and that is what we are also aiming to do - educate the market.

Formue Highlights Private Credit's Role in New Economic Era

By Eugeniu Guzun – HedgeNordic



Edvard Jansen, Portfolio Manager of Hedge Funds and Private Credit at Formue

Nordic wealth manager Formue has long prided itself on delivering institutional-grade investment solutions to high-net-worth individuals. As global economic conditions shift, Formue sees an important role for private credit in client portfolios – especially in a world that is becoming more volatile, uncertain, and inflation-prone.

FROM GLOBALIZATION TO GEOPOLITICAL FRAGMENTATION

"We believe we've entered a new economic era," says Edvard Jansen, Portfolio Manager of Hedge Funds and Private Credit at Formue. That new era, according to Formue, is no longer defined by globalization, low and declining interest rates, and low and predictable inflation. Instead, it is shaped by "rising geopolitical tensions, demographic shifts, climate and defense-related investments, and disruptive technological change."

> "Today, we believe private credit deserves a larger role in portfolios, primarily by reallocating from the traditional fixed income and liquid credit buckets."

These forces are fracturing the previous economic consensus and upending the low-inflation environment. "Everything else equal, geopolitical tensions, deglobalization and tariffs are creating uncertainty," Jansen explains. "And uncertainty creates volatility – and likely more inflation volatility." Although certain structural shifts – such as AI-induced productivity gains – might put downward pressure on inflation, Jansen believes that the broader trend points toward a "higher-for-longer" and volatile inflationary backdrop, making inflation protection increasingly important.

PRIVATE CREDIT: FLOATING-RATE YIELD AND STRUCTURAL RESILIENCE

In a world of higher inflation and interest rate normalization, investors are still trying to figure out how best to protect their portfolios against inflation. Private credit, in Jansen's view, offers compelling risk-adjusted returns and protection against inflation. "We see private credit as a powerful blend of attractive yield with build-in inflation protection, due to the floating-rate nature of most loans," says Jansen.

However, not all private credit strategies are created equal and some can perform well even in a lower interest rate environment. "If you're not in the extremely commoditized parts of private credit such as some segments of direct lending, you can negotiate structural features like rate floors and make-whole," notes Jansen. "These provide a cushion even if inflation and interest rates decline sharply."

A HOLISTIC APPROACH TO PORTFOLIO CONSTRUCTION

The emergence of private credit as an asset class can be traced back to the aftermath of the 2008 Global Financial Crisis. As regulators tightened the rules around traditional banking, private markets stepped in to fill the lending void. "Banks are increasingly regulated – Basel III, Basel IV, Dodd-Frank," Jansen notes. "That has fundamentally constrained their ability and willingness to lend. Someone has to fund the real economy, and that someone is increasingly private capital." Jansen sees no sign of this structural trend reversing. "The world needs financing – whether for green infrastructure, innovation, or defense – and private markets are stepping in where banks can't."

At Formue, private credit is not treated as a standalone product but as part of a well-diversified, institutional-style portfolio. The firm uses six asset class "building blocks," –including unlisted real estate, hedge funds, private equity, traditional fixed income, traditional public equities and private credit – to build portfolios tailored to each client's specific risk and liquidity preferences.

To determine each client's allocation to private credit, the team at Formue evaluates their risk appetite, tolerance for illiquidity, and overall investment objectives. "If a client doesn't have the tolerance for illiquidity, they simply can't hold private equity, unlisted real estate, or private credit," explains Jansen. "We essentially use a matrix that considers illiquidity tolerance, risk appetite and the expected return the client is aiming for." For those who fall somewhere in the middle of that matrix, a typical allocation to private credit within their overall portfolio is currently around 2 percent.

"Today, we believe private credit deserves a larger role in portfolios, primarily by reallocating from the traditional fixed income and liquid credit buckets," he emphasizes. Private credit serves multiple purposes within a well-diversified portfolio, according to Jansen. "It can be a powerful income generator, offering yields well beyond what's typically achievable in public investment-grade or high-yield markets with comparable credit quality."

LONG-TERM MINDSET AND SEMI-LIQUID STRUCTURES

However, Jansen underscores the importance of maintaining a long-term mindset – not just when investing in private markets, but also in public markets. "What matters is that you start out with a long-term mindset – and that it doesn't suddenly shift when markets get volatile," Jansen emphasizes. "If you're committed to that long-term view, it helps you avoid selling at the wrong time."

> "Ultimately, the reasons to invest in private credit via evergreen funds are the same as with traditional closed-end funds."

This philosophy holds even for semi-liquid or evergreen fund structures, which are increasingly popular in private markets. Formue has been an active advocate in the industry for the broader adoption of such structures since 2017. "However, we're also highly critical of those launching them purely for asset gathering, especially when the structures present a clear mismatch between the liquidity offered and the underlying assets."

Investors should be mindful of potential asset-liability mismatches and approach these structures with realistic expectations. "They should invest for reasons of capital efficiency, not purely for the promise of liquidity," says Jansen. "In fact, investors should appreciate when managers implement features like initial lock-ups and investor- or fund-level gates – these mechanisms help protect the integrity of the fund and ensure that remaining investors aren't penalized by others redeeming."

On the manager side, Jansen warns against the risk of becoming "forced to deploy" amid strong inflows. "That pressure can lead to compromised terms, weaker covenants, or even style drift just to get capital invested." Managers often face pressure to deploy capital quickly, "but sometimes holding more cash or liquid assets is the prudent choice," argues Jansen. "Especially when markets tighten and there are fewer quality deals available, it could be better to slow down deployment than to compromise on terms and/or quality."

He sees the growing momentum behind evergreen structures as a way to broaden access, especially for investors lacking the infrastructure to manage capital calls, distributions, and cash flow forecasting. "Ultimately, the reasons to invest in private credit via evergreen funds are the same as with traditional closed-end funds," Jansen explains. "You're seeking excess returns driven by illiquidity premiums, complexity premiums, among others, and to get compensated for higher risk." This comes in addition to cost efficiencies, "because with a semi-liquid structure, we can avoid legal fees associated with using external lawyers for every re-up to a new vintage of the same strategy." However, "it is critically important that the continuous evaluation and due diligence is not compromised."

ADAPTING LOAN SELECTION TO STRUCTURE

In semi-liquid structures, managers must align loan selection with the fund's liquidity profile, prioritizing assets with features that support more flexible redemption terms. "Segments with faster refinancing cycles or companies with predictable amortization schedules – rather than bullet payments – are more attractive for these lenders," Jansen explains. He stresses that investors need to understand the difference in asset types between semi-liquid and closed-ended structures. "Avoiding asset-liability mismatches is key. While such mismatches rarely cause issues, when they do, the consequences can be significant."

Ultimately, Formue sees opportunity – but also caution – in the democratization of private markets. "These structures open access to more investors," says Jansen. "But with access comes responsibility. We believe it is critical that professional investors oversee these investments on behalf of non-professional investors to ensure the right incentives and risk controls are in place."

For end investors – or those investing on their behalf – understanding the underlying loans made by private credit managers is crucial to assess whether the investments fit within a semi-liquid structure. Transparency is key, and the team at Formue has made it a priority to obtain that from their managers. "We invest in semi-liquid structures – some are UCI Part II, some Cayman offshore perpetual vehicles, and is diligently evaluating ELTIF 2.0 structures – however, all of these do not require similar reporting standards to LPs."

But Formue goes further by negotiating and securing side letters that provide deeper access. "We require transparency into the loan tape for new investments since 2020, on a non-disclosure basis," Jansen explains. "That means access to borrower terms, new deal details, and financials at entry, current status, or exit." This level of detail is vital to ensure there isn't style drift or pressure to deploy capital at unfavorable terms. "If a manager is forced to compromise on terms, at least we know and they know we're aware – and that creates a disciplinary effect."

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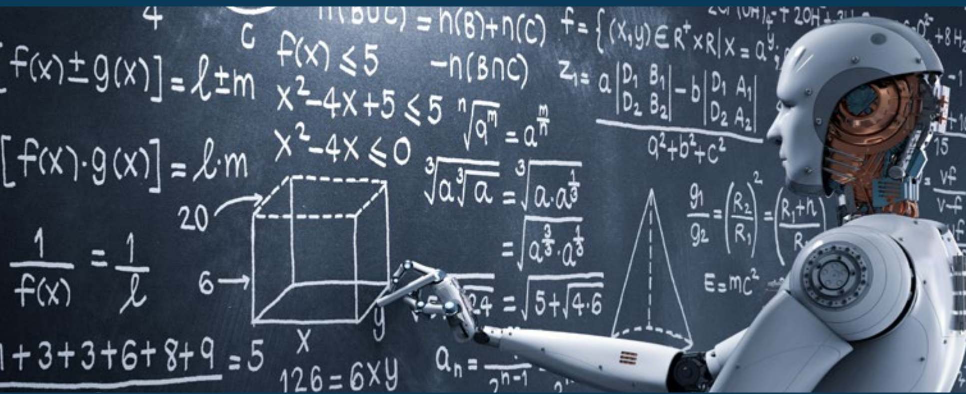

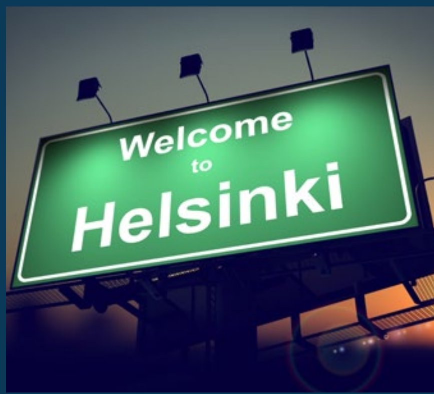

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