# Private Market Environment

Pathway Research

Second Quarter 2026

PATHWAY®
CAPITAL MANAGEMENT

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# 2Q26 Market Review

# Macro View

## Themes we are watching in 2H26

### 1

### Markets Stabilized in 2Q26 after a Turbulent Start

Public markets rebounded sharply in 2Q26, shaking off the concerns that drove first-quarter declines to deliver the strongest quarter for equities since 2020. The S&P 500 returned 14.3%, lifting its year-to-date gain to roughly 9.4%, with technology leading on rising AI and semiconductor earnings forecasts. The PHLX Semiconductor Index rose ~74%—its best quarter on record—on accelerating demand for AI compute. The macro backdrop, however, remains less settled: energy prices retreated from spring highs but stayed volatile amid the U.S.–Iran conflict, and that spike fed through to inflation, with headline CPI peaking at 4.2% in May—its highest since April 2023. In his first remarks as Fed chair, Kevin Warsh identified inflation as his primary concern, prompting markets to price possible rate increases later in 2026 rather than the further cuts they had expected.

### 2

### Exit Markets Show Strength Despite Growing Backlog

Exit market activity remained healthy through the first half of 2026, though second-quarter value fell moderately amid market uncertainty and a dearth of software exits. Global PE-backed M&A exit value reached $450B across 1,348 exits—up 16% in value and 19% in count year over year—keeping the year on track for the second-highest annual total on record, behind only 2021. IPO markets had a standout quarter: PE-backed issuance hit a record high on SpaceX’s $86B June listing; even excluding it, the quarter was the strongest since 4Q21, though performance for recent tech listings has softened. Rising activity has lifted LP distributions for three consecutive years—welcome progress, but still short of what’s needed to materially unwind the industry’s backlog of unrealized holdings.

### 3

### Buyout Market Softens amid Software Uncertainty

Buyout markets slowed in the first half, driven by software-sector uncertainty and a decline in large-cap activity that pushed average deal size to its lowest since 4Q24. U.S. buyout value totaled $157B across 613 transactions, down 22% in value and 10% in count from 1H25; software-specific buyout value fell 76% year over year. AI disruption remained a defining theme, posing headwinds for some sectors while acting as a catalyst for others. Buyout managers have continued to devote significant attention to theses connected to the infrastructure build-out needed to support rising energy and AI demand. Activity picked up outside the U.S.: European buyout value rose 22% quarter over quarter to €38B, led by EQT’s ~£10.9B take-private of Intertek, while investment in Asia climbed to $55B on a sharp rebound in China.

# Macro View (continued)

## Themes we are watching in 2H26

### 4

### AI Growth Drives Venture to a Record High

U.S. venture capital investment reached a record high in 1H26, notching the two largest quarters on record and a first-half total that already exceeds any prior full-year figure. The total was driven by a handful of outsized AI rounds: the five largest accounted for roughly 60% of 1H26 value, led by Anthropic's $65B Series H in May. Excluding those deals, conditions were considerably softer: the number of financings fell 6% year over year, and valuations outside AI remain under pressure. The rapid growth of the largest AI platforms has also lifted venture performance: according to MSCI Private Capital Solutions, venture funds globally generated a pooled 1-year return of 22.6%, as of March 31, 2026—the strongest for any private market asset class during the period.

### 5

### Software Landscape Undergoing Meaningful Change

The software market has remained a core focus for investors gauging portfolio risk amid intense debate over AI disruption. That debate cooled somewhat in the second quarter: early concern about wholesale replacement gave way to a narrower focus on growth durability and the multiples it can support. Even so, valuation uncertainty has made risk difficult to price, driving PE activity in traditional software to a near standstill. Although operating growth has held up across much of the landscape, the industry is clearly undergoing meaningful change. GPs have moved quickly to integrate AI tools into portfolio-company products and evaluate operational strategies. We expect this period to drive a wider dispersion in return outcomes, benefiting companies with differentiated proprietary data, integrated workflows, and strong customer relationships.

### 6

### A Second-Half Revival, Once Again?

Although the private equity market kept a reasonable pace in the first half, momentum from a strong 2H25 was derailed somewhat by volatility tied to persistent inflation, energy disruption from the Iran conflict, and fears over AI's impact on software. Those fears are by no means settled, but sentiment appears to have steadied, offering a more constructive path to resuming momentum. Many firms remain optimistic for the rest of the year, citing improving deal pipelines, healthy operating performance across portfolios, and continued interest in quality assets from strategic and financial buyers. Ultimately, the proof will be in liquidity—a focal point for investors and the catalyst for both stronger performance and unlocking capital for investors to redeploy.

# Private Equity Update

# Private Equity Highlights

## 1H26 Market Snapshot

**-22%**
U.S. buyout value, YoY

**86%**
AI share of U.S. VC value

**+16%**
M&A exit value, YoY

**83%**
U.S. PE capital raised in funds >$1B

### Buyouts

Buyout activity slowed in 1H26, reflecting market uncertainty driven by inflationary pressure, the ongoing conflict in Iran, and a selloff in the software market.

- Capital deployment was concentrated in durable, cash-generative businesses, including AI infrastructure, energy, and financial services.
- Financing remained available for high-quality deals, but wider spreads drove more-conservative underwriting.
- Non-U.S. activity showed stronger momentum.

### Venture Capital

Venture investment reached record levels in 1H26 but was highly concentrated in a small number of AI financings.

- The 5 largest AI financings accounted for approximately 60% of 1H26 value.
- AI-related growth has driven a strong rebound in VC performance in recent quarters.
- Overall financing volume remains slow, and non-AI-driven sectors have faced valuation weakness.

### Exits

Exit activity maintained positive momentum in 1H26, although market volatility in 2Q26 put pressure on valuations and deal execution.

- Headline M&A numbers continue to grow meaningfully, although distributions remain below pace.
- Quality companies have attracted interest from both private and public markets investors.
- IPO headlines are up, but conditions remain challenging and recent listings have produced mixed results.

### Fundraising

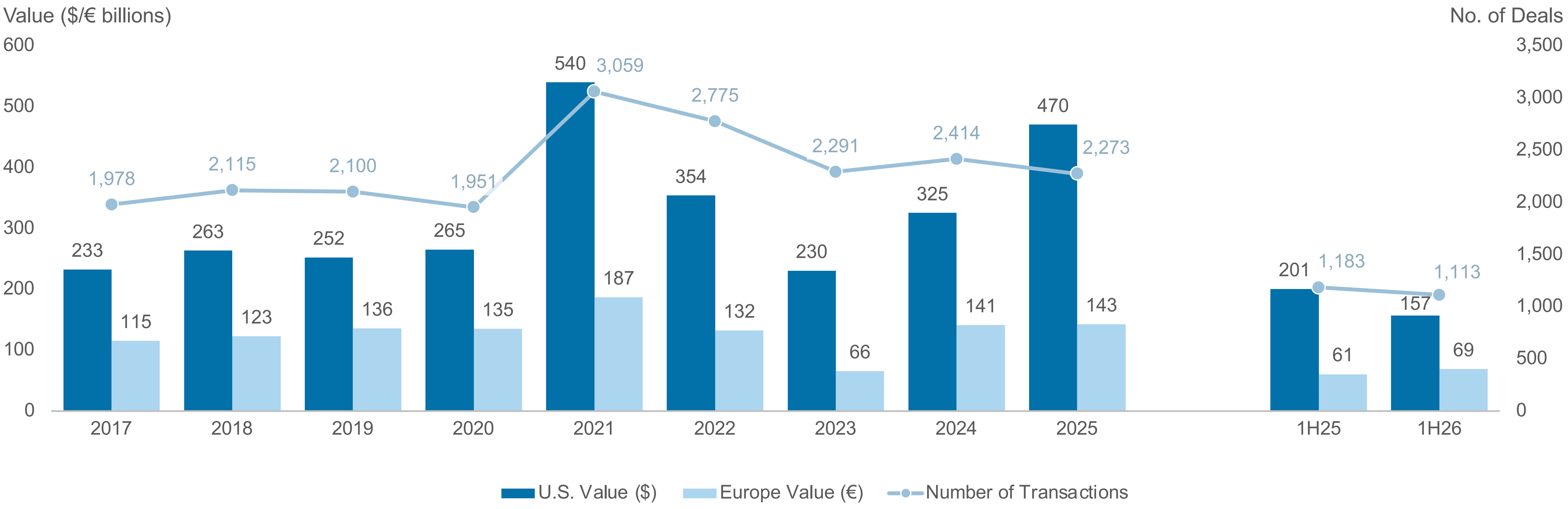
Fundraising market remains highly competitive: 2026 activity is expected to remain broadly in line with 2025.

- Slower pace of distributions and modest performance relative to publics continue to be impediments for many LPs.
- VC fundraising on track to improve in 2026 following a sluggish 3 years.
- Capital has continued to concentrate in the large- and upper-middle-market segments of the PE universe.

# Buyout activity moderated in 1H26 amid market uncertainty.

Although activity remains on pace for a solid year, macroeconomic and geopolitical uncertainty have continued to weigh on overall market sentiment and impact the depth of the M&A market.

## Buyout Investment Activity




SOURCE: Mergermarket; LSEG Data & Analytics; Pathway Research. NOTE: As of June 30, 2026.

# Software buyouts came to near halt in 2Q26, driven by concerns surrounding AI disruption.

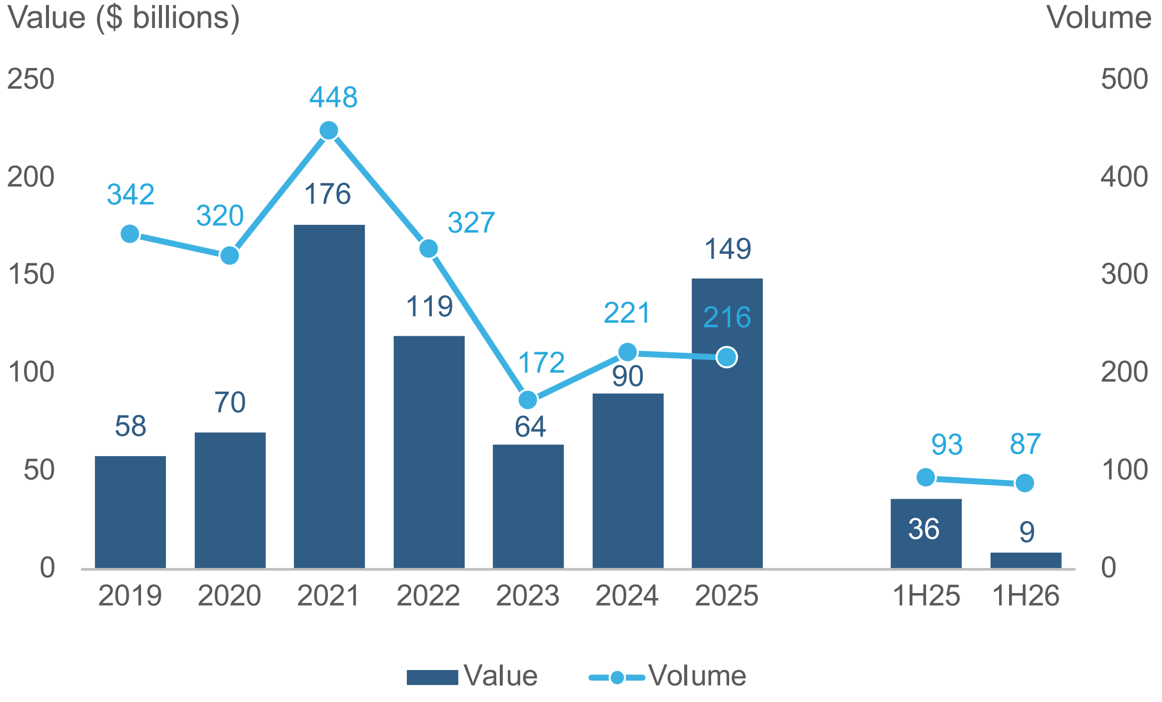
**-22%**
1H26 SEG SaaS Index return

**75%**
YoY decline in buyout value

**$99m**
Average software buyout size in 1H26

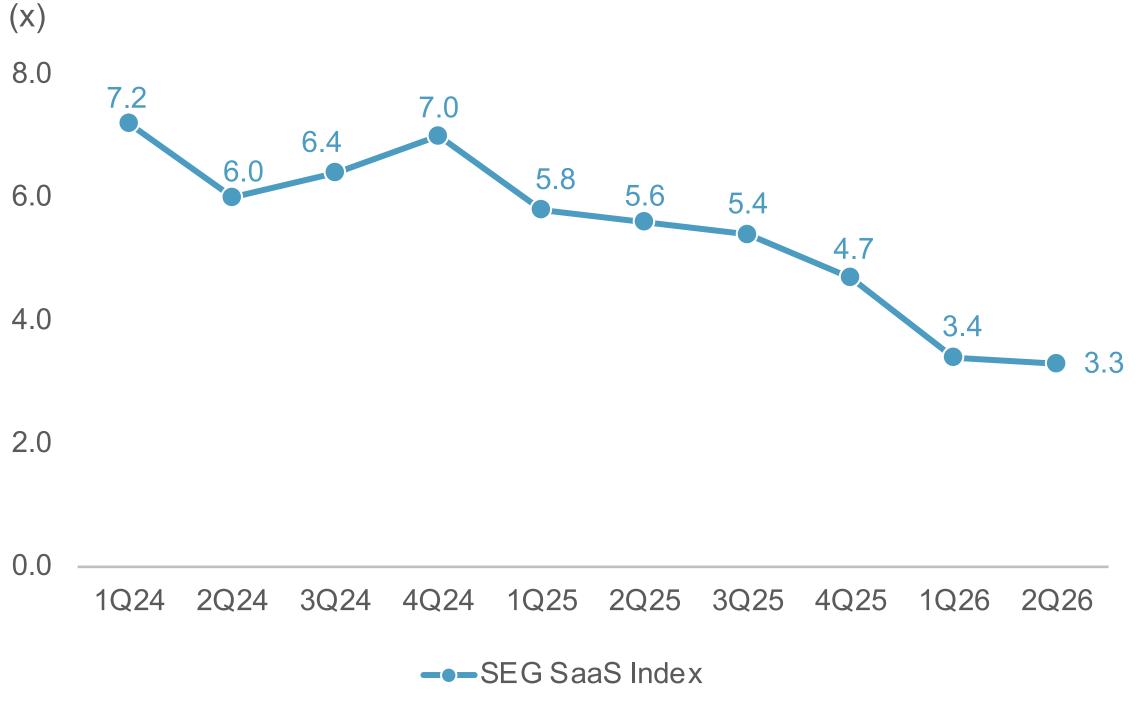
**44%**
LTM decline in median public SaaS valuations

## U.S. Software Buyout Activity




SOURCE: MergerMarket. NOTE: As of June 30, 2026.

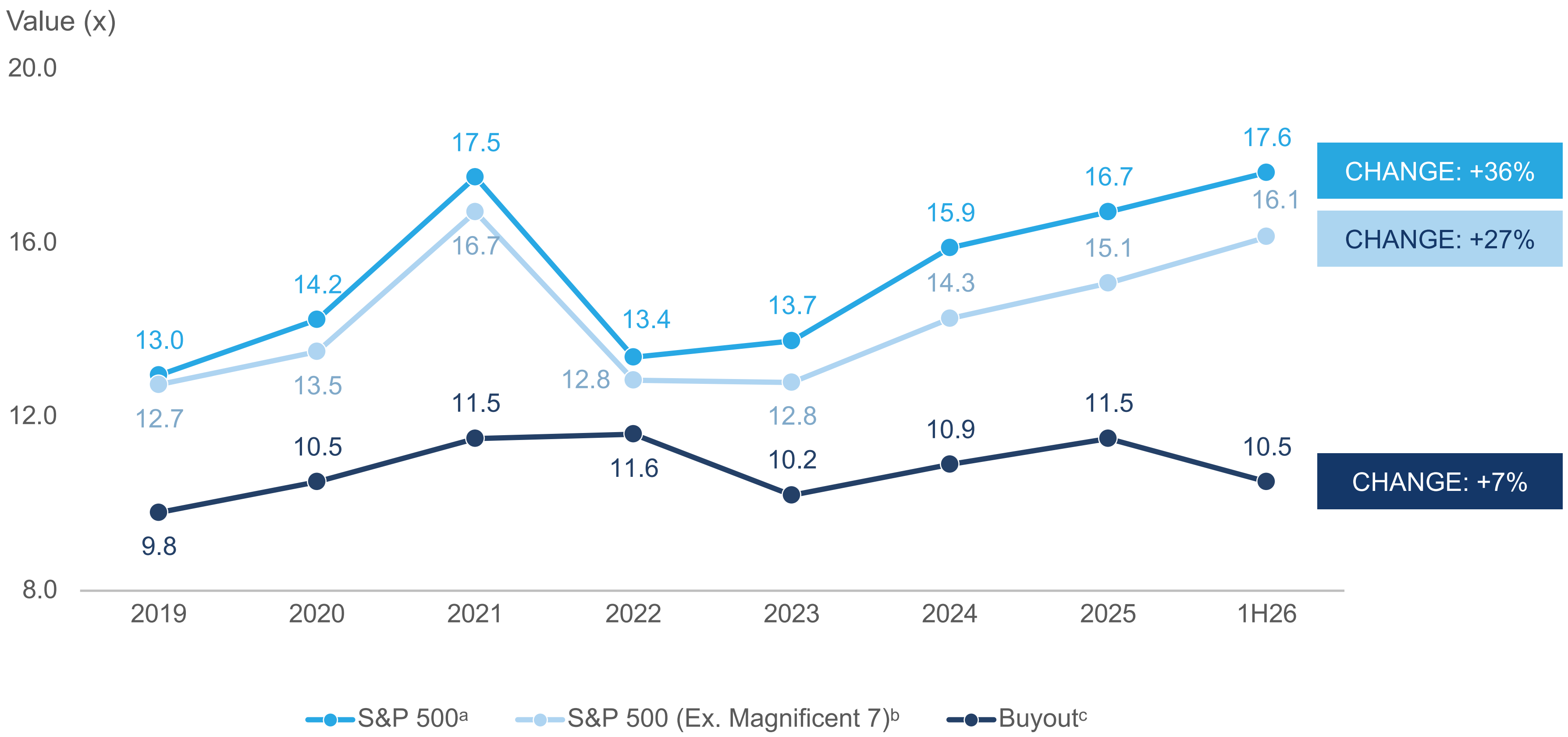
## SaaS EV/LTM Revenue Multiple




SOURCE: Software Equity Group; Bloomberg.

# Private multiples declined in 1H26 following rotation out of software.

## Public Market vs. Private Market EV/EBITDA Multiples



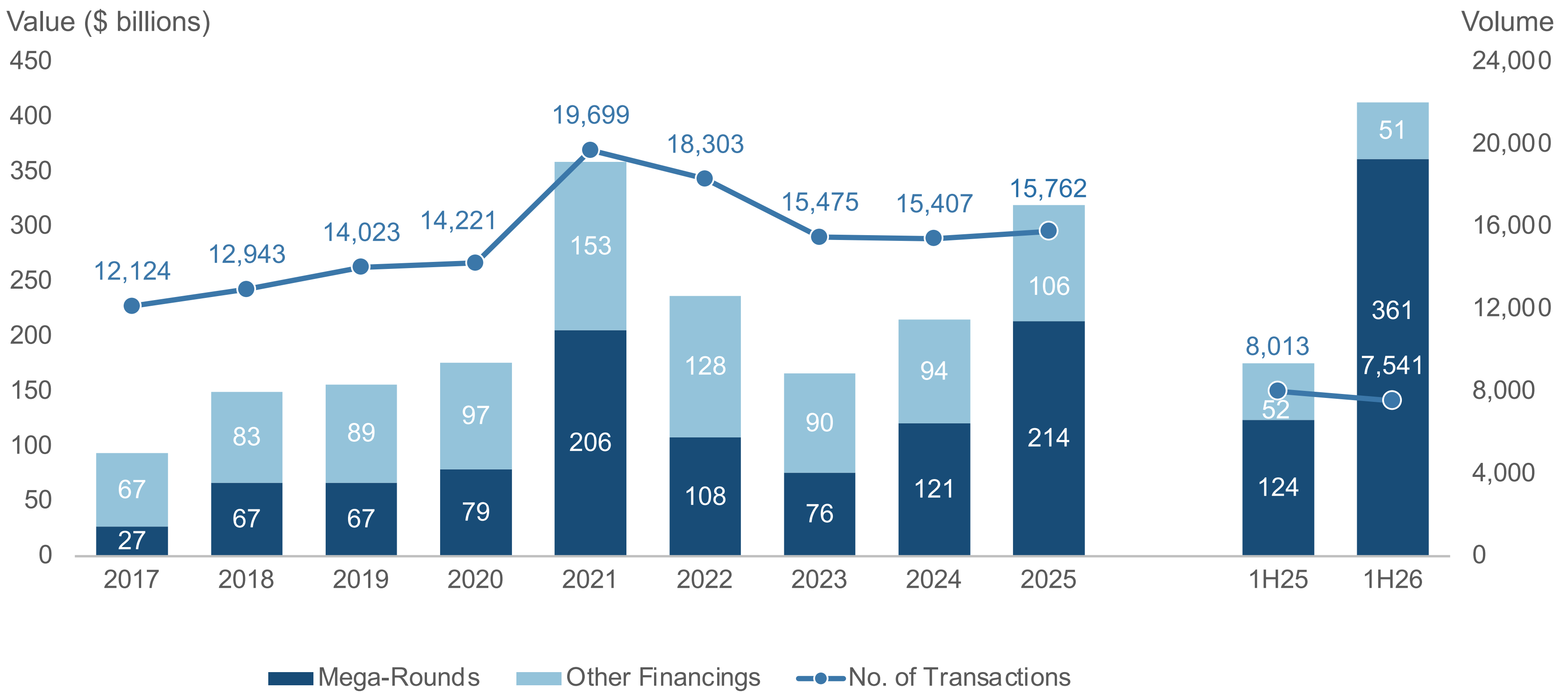

- The valuation gap between public and private multiples continued to widen in 1H26.
- Less activity in the software sector contributed to a moderate decline in buyout multiples in 1H26.
- The public market valuation premium widened to 68%—nearly 2x the 10-year average of 37%.

NOTES: As of June 30, 2026. Investors should consider the limitations inherent in comparisons between public and private markets; private market investments may pose additional and/or different risks. [a]SOURCE: Bloomberg. NOTE: Represents the average daily EV/TTM EBITDA multiple of all companies included in the S&P 500 index, as of the years listed. [b]SOURCE: Bloomberg. NOTE: Represents the average EV/TTM EBITDA multiple of all companies included in the S&P 500 (ex. Magnificent 7) index, as of the years listed. [c]SOURCE: MSCI Private Capital Solutions. NOTE: Represents the EV/EBITDA multiple at entry for all transactions included in the MSCI data set during the years listed.

# Mega-rounds powered record pace of VC investment.

Investment value more than doubled year over year in 1H26 despite a decline in deal volume.

## U.S. VC Investment Activity



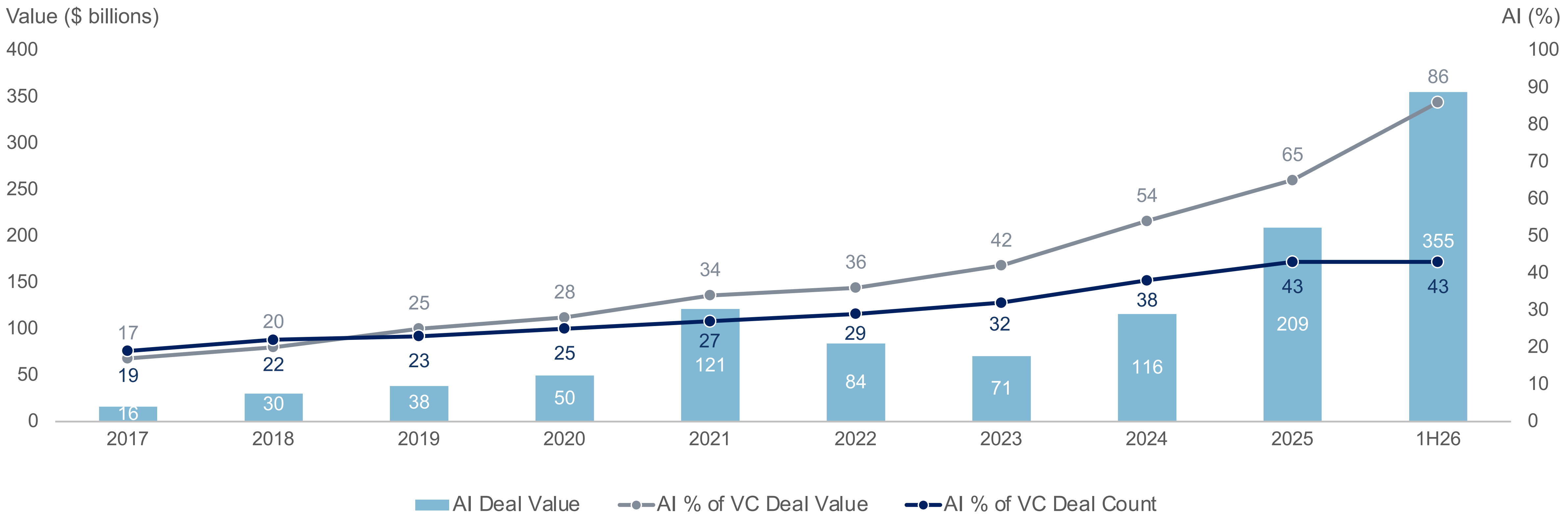

- Investment value in 1H26 surpassed every prior full year.
- Approximately 60% of investment value concentrated in the 5 largest AI rounds.
- AI innovation has driven a sharp increase in VC performance.
- Financing count still slow, highlighting softness in some segments of VC market.

SOURCE: PitchBook-NVCA Venture Monitor Report. NOTE: As of June 30, 2026.

# AI investment demand shows no sign of slowing.

VC investment in AI in 2026 alone is on pace to match the total amount invested in the sector over the past decade, now accounting for nearly 90% of VC dollars deployed.

## U.S. Venture Capital Investment in AI

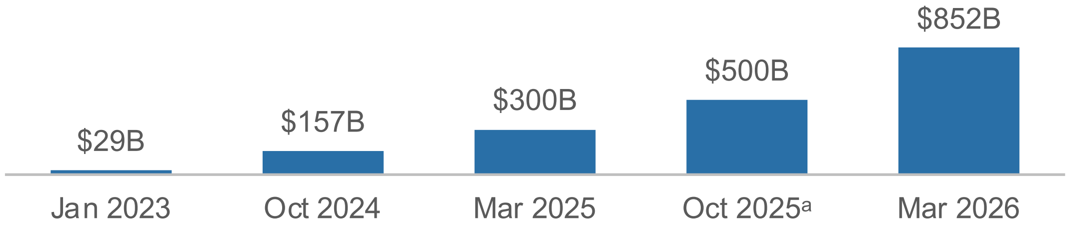



SOURCE: PitchBook-NVCA Venture Monitor Report. NOTE: As of June 30, 2026.

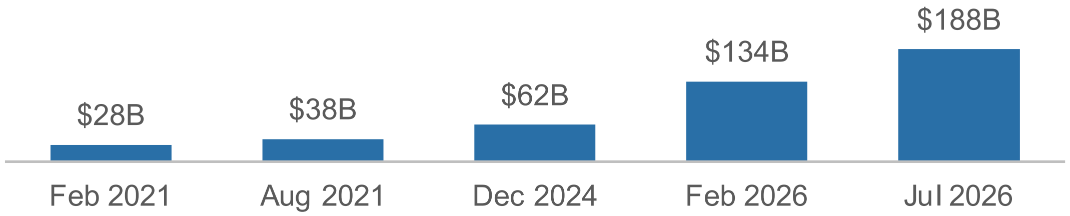
# The rich get richer… as far as valuations go.

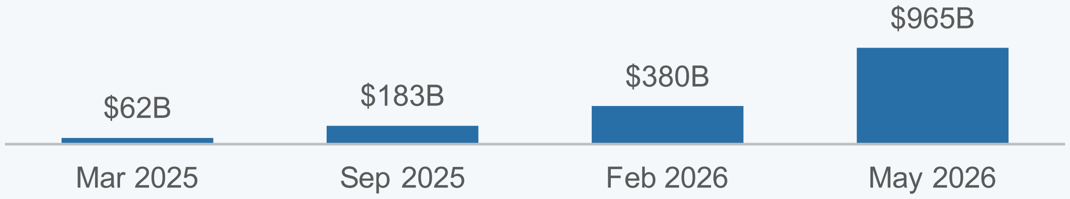
The pace of growth in private market valuations continues at an unprecedented rate for select VC-backed companies.

## OpenAI

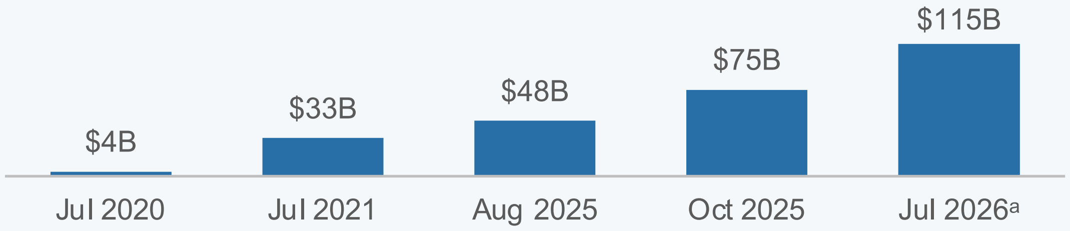



## databricks



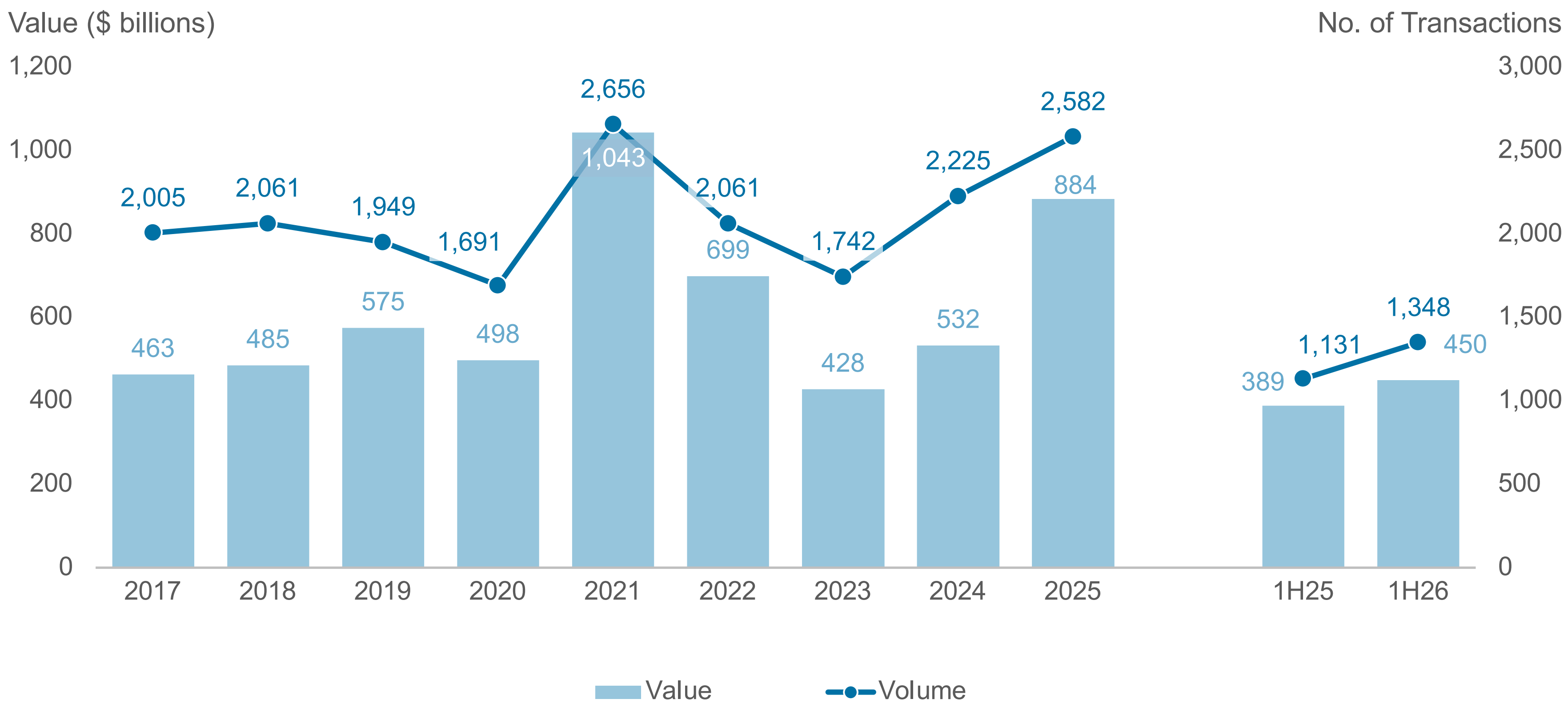

## Revolut




SOURCE: PitchBook Data, Inc.; company announcements; reported financing disclosures. NOTES: Based on publicly reported valuations. [a]Based on reported secondary sales.

# M&A exit markets on pace for another active year.

## Global PE-Backed M&A Exit Activity



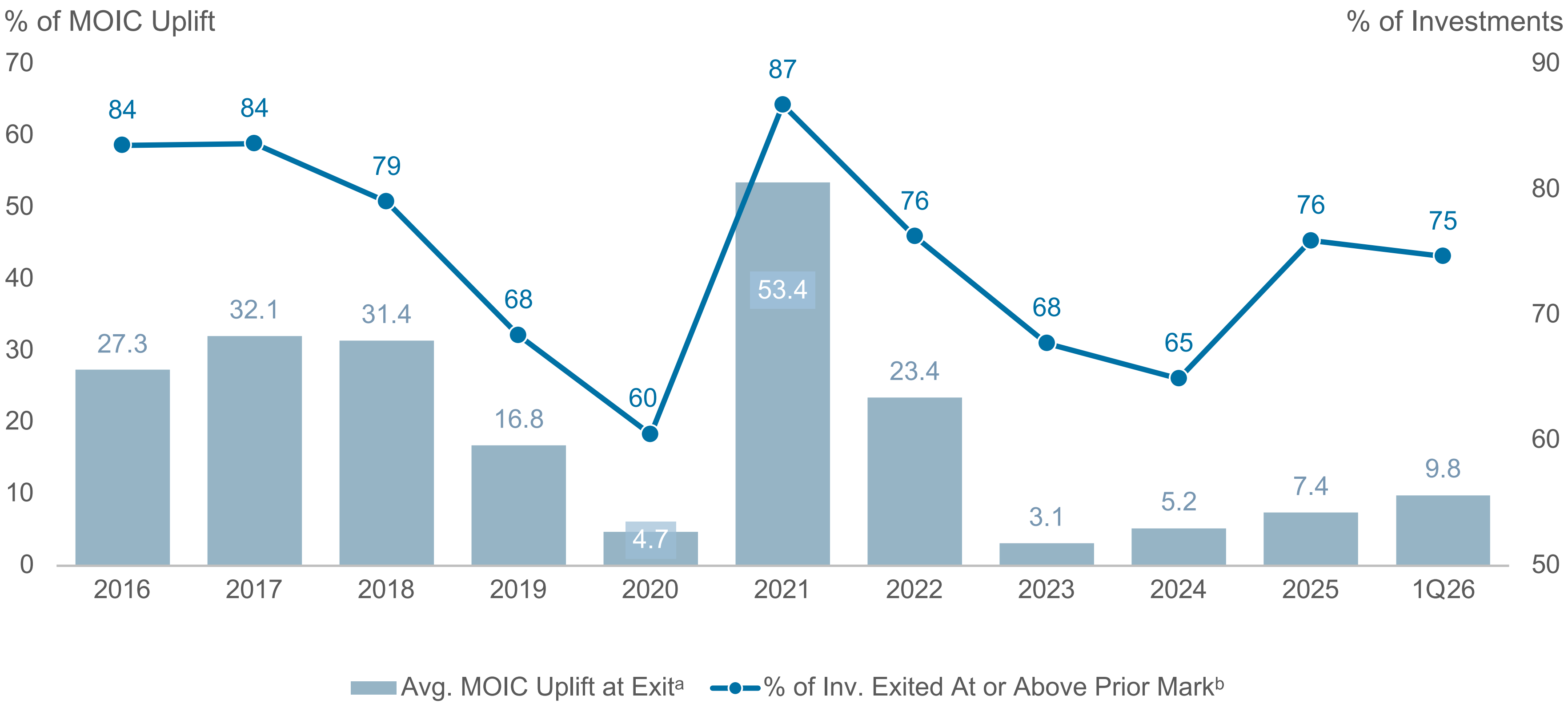

- M&A exit volume was up 19% YoY during 1H26, signaling improving but still selective liquidity markets.
- The backlog of aging PE-owned assets should continue to support the exit pipeline.
- Software segment remains a question mark, with limited activity expected until markets stabilize.
- Sustained macro stability remains a key impediment to further recovery.

SOURCE: Mergermarket. NOTE: As of June 30, 2026.

# M&A exits have showcased improving multiple uplift at the time of sale.

The trend is supportive of improving performance as the volume of exits increases.

## MOIC Uplift at Exit Relative to 1 Year Prior




## 2016–1Q26

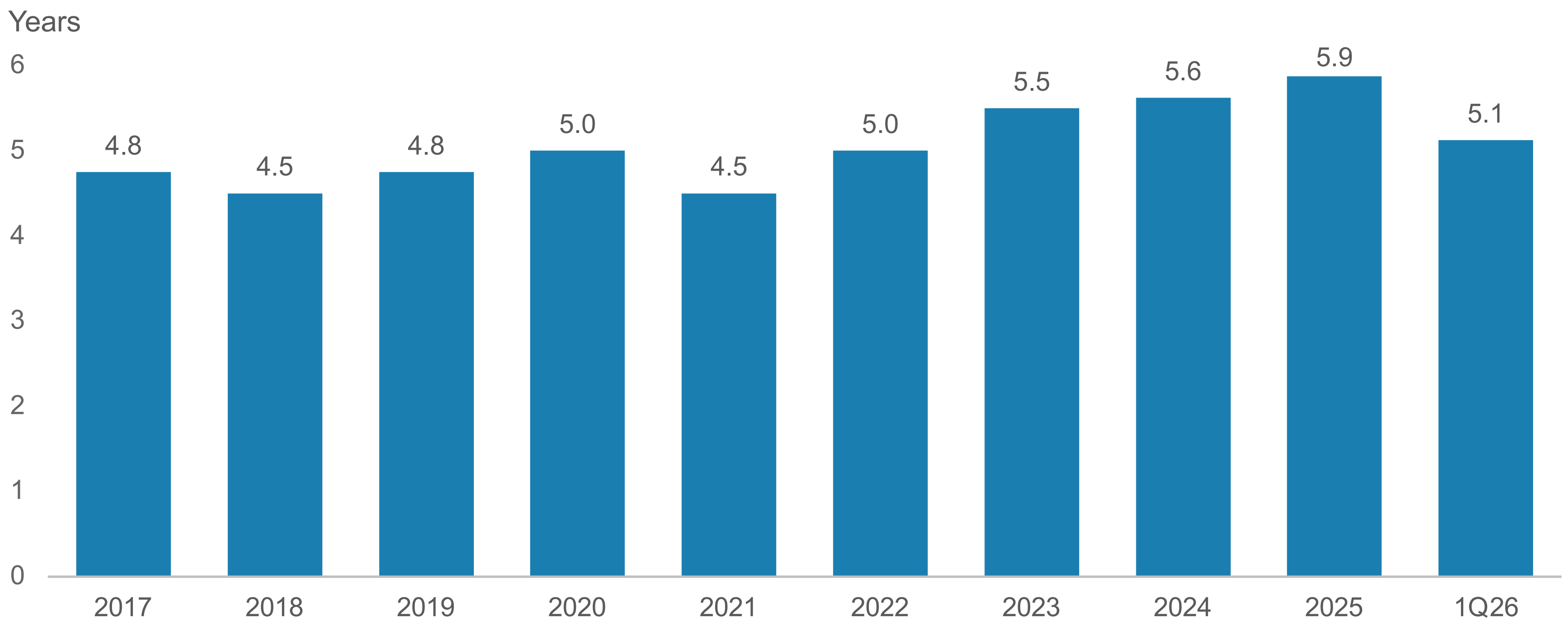
**21%**
Avg. valuation uplift at exit[a]

**75%**
Companies exited at or above prior mark[b]

SOURCE: Pathway Research. NOTE: Based on buyout investments in Pathway's database with exit dates from 2016 to March 31, 2026. Data comprises over 2,800 underlying investments. [a]Represents the average percentage uplift in MOIC for underlying investments relative to their valuations one year prior to exit. [b]Represents the percentage of companies exited at or above their valuations one year prior to exit.

# Holding periods have steadily increased amid slower exit markets.

## Median Buyout Holding Period at Exit

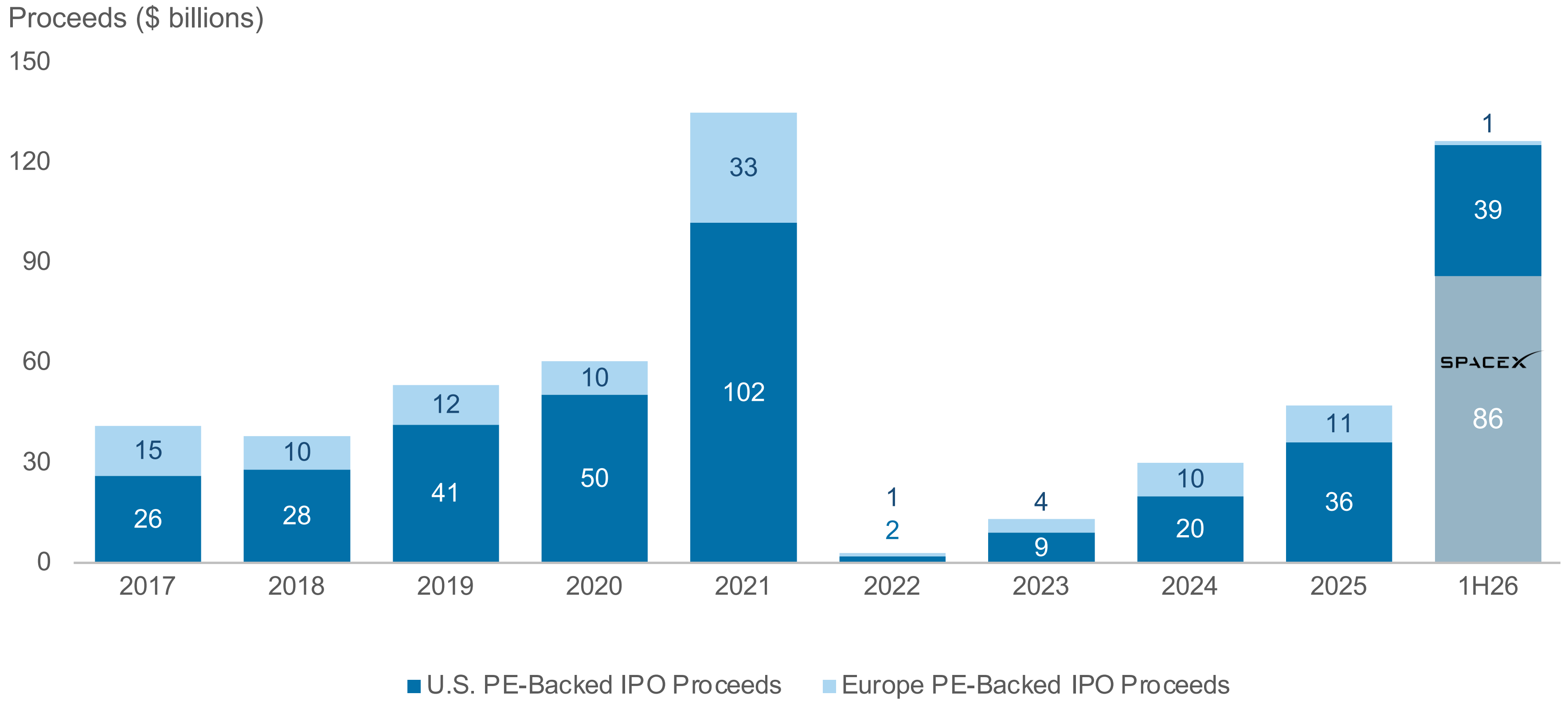



- Median hold periods reached a decade high in 2025.
- Elongated exit cycle has created record high inventory of aging assets owned by PE.
- Currently ~32k active PE-owned companies and $3.8 trillion in value.

SOURCE: Bain & Co. Global Private Equity Report 2026; Pathway Research. NOTE: Based on buyout investments in Pathway's database with exit dates from 2016 to March 31, 2026. Data comprises over 2,800 underlying investments.

# PE-backed IPO issuance accelerated in 1H26, driven by record-setting SpaceX IPO.

## PE-Backed IPO Issuance

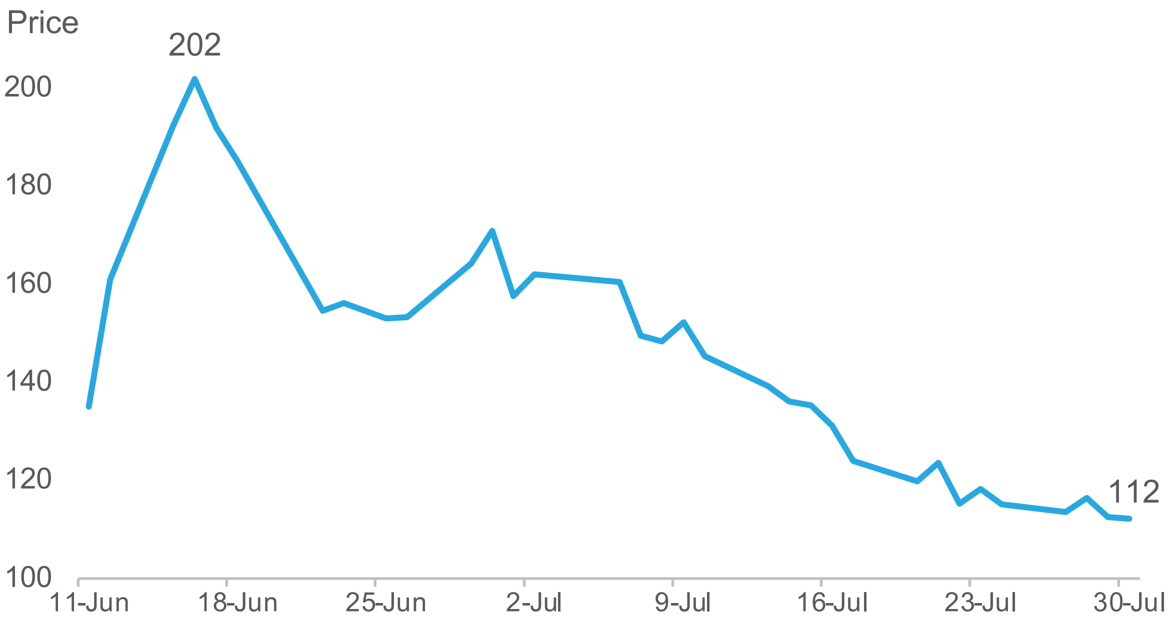



- SpaceX accounted for 68% of 1H26's total PE-backed IPO proceeds.
- 2Q26 IPO value excluding SpaceX still finished as strongest quarter since 2021.
- AI chipmaker Cerebras Systems' $6.4 billion IPO in May marked the largest U.S. tech IPO since 2019.

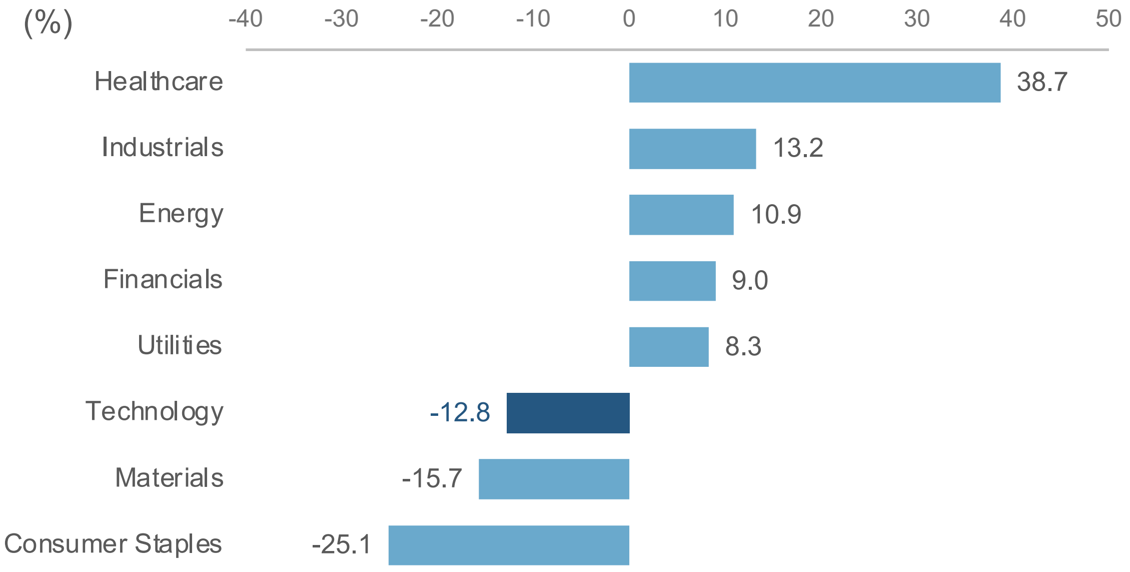
SOURCE: Bloomberg; Renaissance Capital; Pathway Research. NOTE: As of June 30, 2026.

# Technology IPO performance lags the broader market.

## SpaceX Performance since IPO[a]




## 2Q26 IPO Performance by Sector[b]



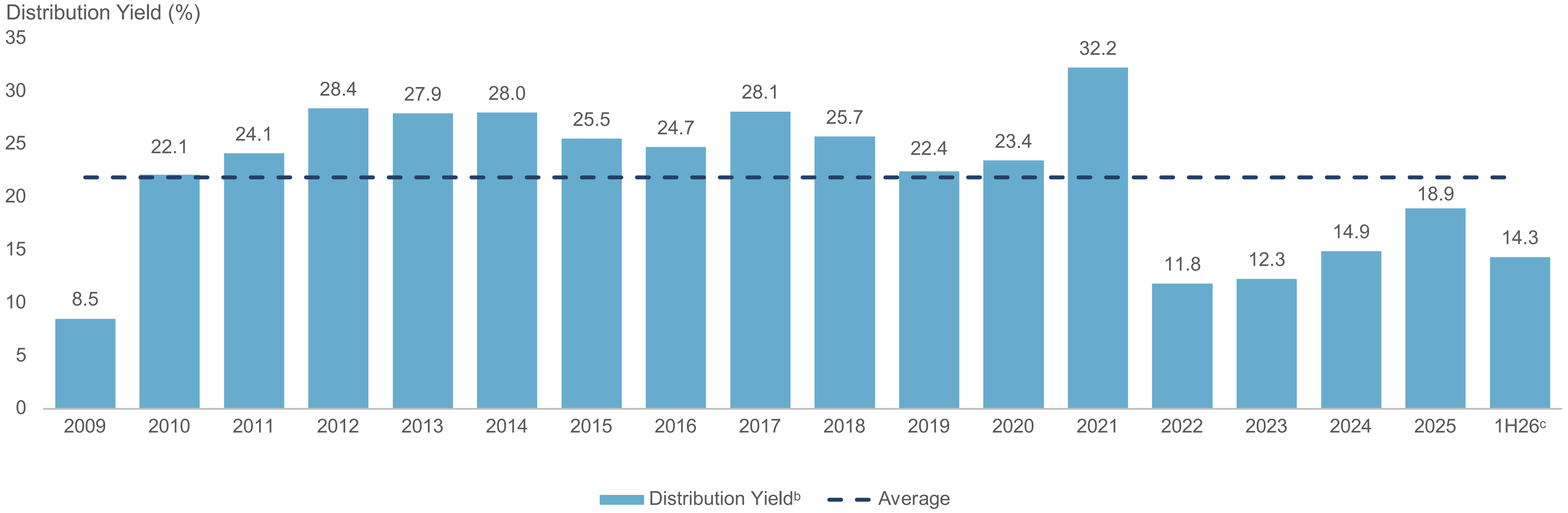

- **SpaceX IPO marks historic milestone**—the largest U.S. IPO by a wide margin. Following successful early trading, the stock has declined ahead of approaching lock-up expirations.
- IPO performance has trended positively overall, though technology listings have suffered.
- Several additional prominent IPOs have filed; market volatility has somewhat dampened near-term enthusiasm and will likely dictate the pace of IPOs in 2H26.

[a]SOURCE: Bloomberg. NOTE: As of July 30, 2026. [b]SOURCE: Bloomberg; Renaissance Capital. NOTE: As of June 30, 2026.

# Distributions remain below long-term average…

## Private Equity Distribution Yield

Assumes Consistent Annual Commitment Pace[a]

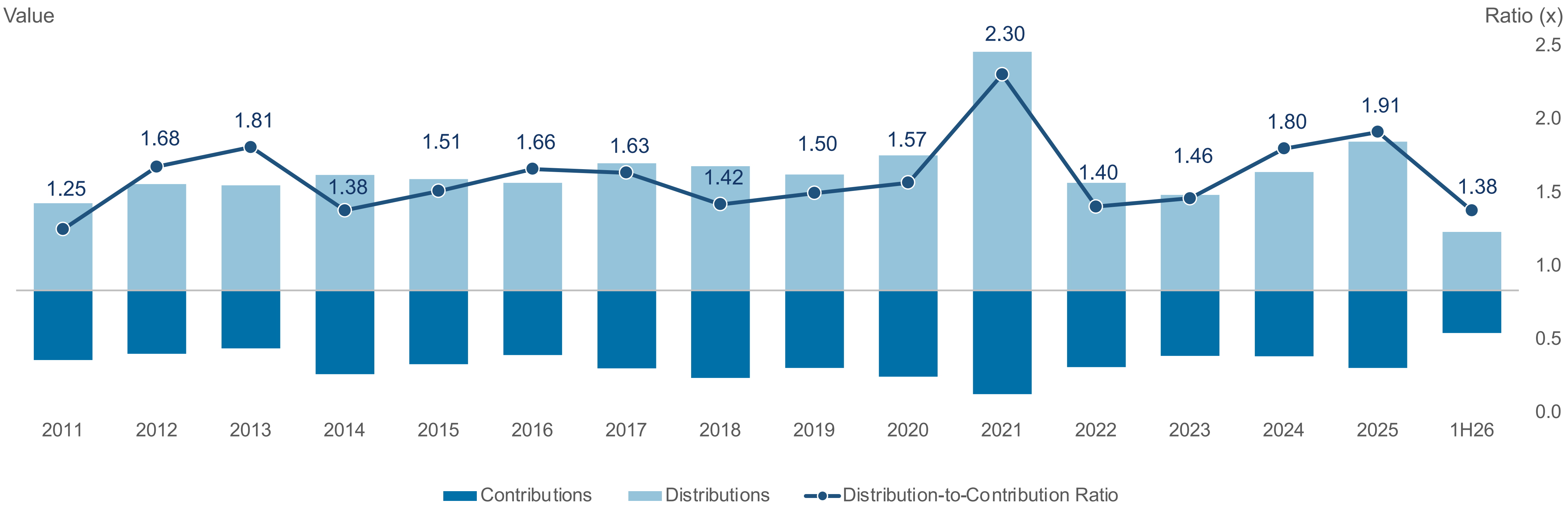



SOURCE: Pathway Research. NOTES: As of June 30, 2026. Data based on a representative sample of private equity portfolios tracked by Pathway, which comprise over $66 billion contributed from 1993 to 2Q26. [a]Output reflects modeled cash-flow trends for a portfolio committing consistent annual amounts per year, indexed for inflation, to primary private equity funds beginning in 1993. Data is intended to be representative of a mature private equity portfolio and may differ from overall market statistics. [b]Defined as annual distributions divided by the prior period ending market value. [c]Annualized.

# …but net cash-flow trends remain healthy for mature portfolios.

## Private Equity Distribution-to-Contribution Ratio

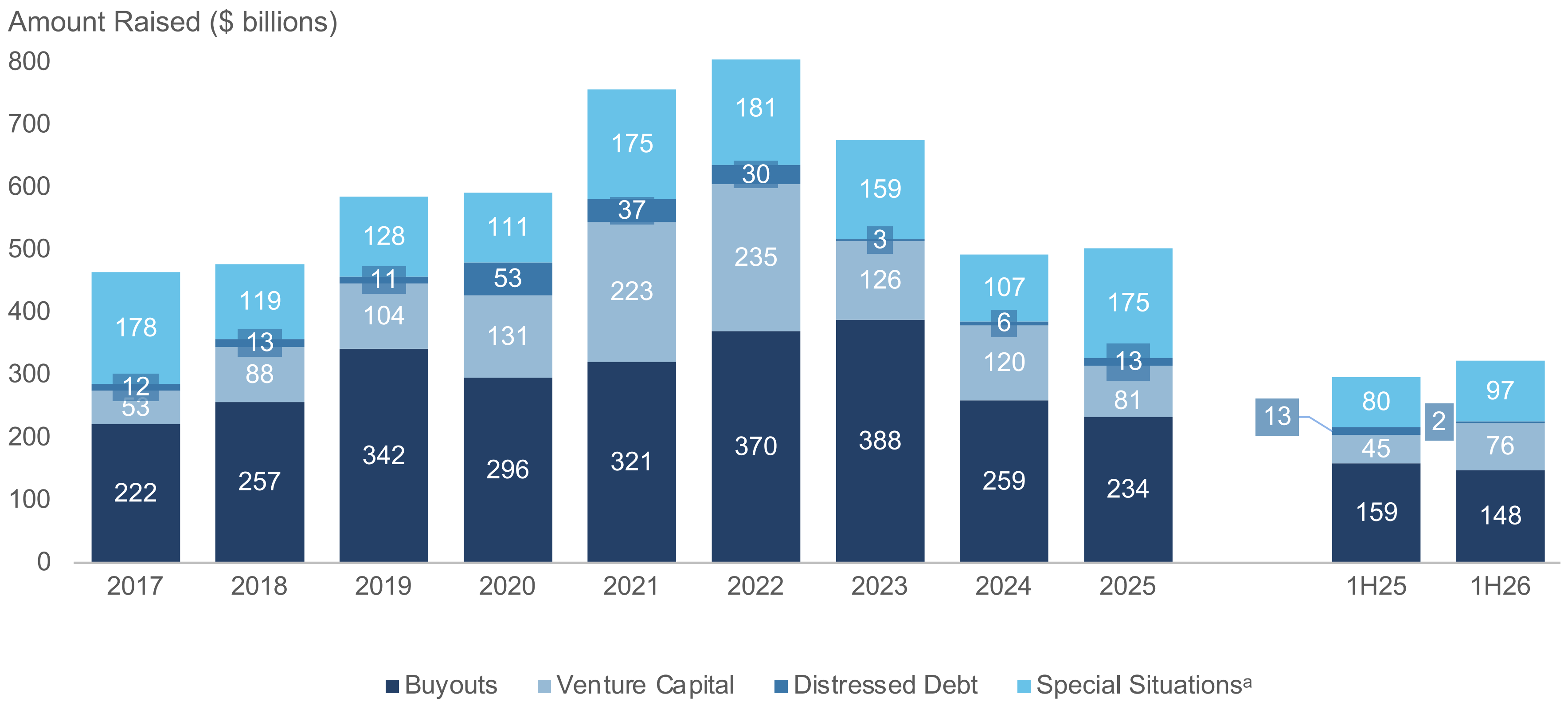
Assumes Consistent Annual Commitment Pace[a]




SOURCE: Pathway Research. NOTES: As of June 30, 2026. Data based on a representative sample of private equity portfolios tracked by Pathway, which comprise over $66 billion contributed from 1993 to 2Q26. [a]Output reflects modeled cash-flow trends for a portfolio committing consistent annual amounts per year, indexed for inflation, to primary private equity funds beginning in 1993. Data is intended to be representative of a mature private equity portfolio and may differ from overall market statistics.

# Private equity fundraising market remains highly selective.

## Global Fundraising by Strategy



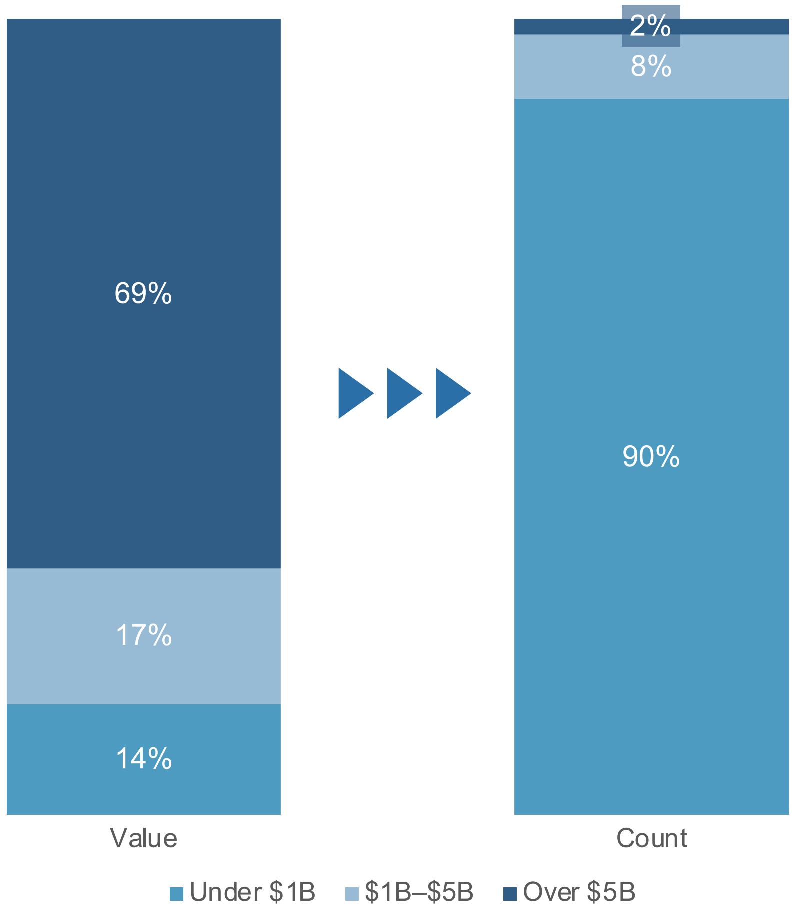

- Liquidity constraints and underperformance relative to public markets continue to dampen investor enthusiasm.
- Venture capital fundraising increased 70% YoY in 1H26, supported by improving performance.
- Semi-liquid fund structures are increasing in prevalence as GPs eye wealth market.
- Strong pipeline of credible funds is expected to come to market in 2027.

SOURCE: LSEG Data & Analytics; Pathway Research. NOTES: As of June 30, 2026. Data is continuously updated and therefore subject to change. Amounts may not foot due to rounding. [a]Comprises special situations and other fund strategies not classified as buyout-, venture capital–, or credit-focused.

# Capital continues to concentrate in larger funds.

Fund sizes over $1B account for 86% of capital raised over the past 5 years, despite representing only 10% of fund count.

## Global PE Fundraising (Past 5 Years)[a]




## Notable Funds Raised in 1H26

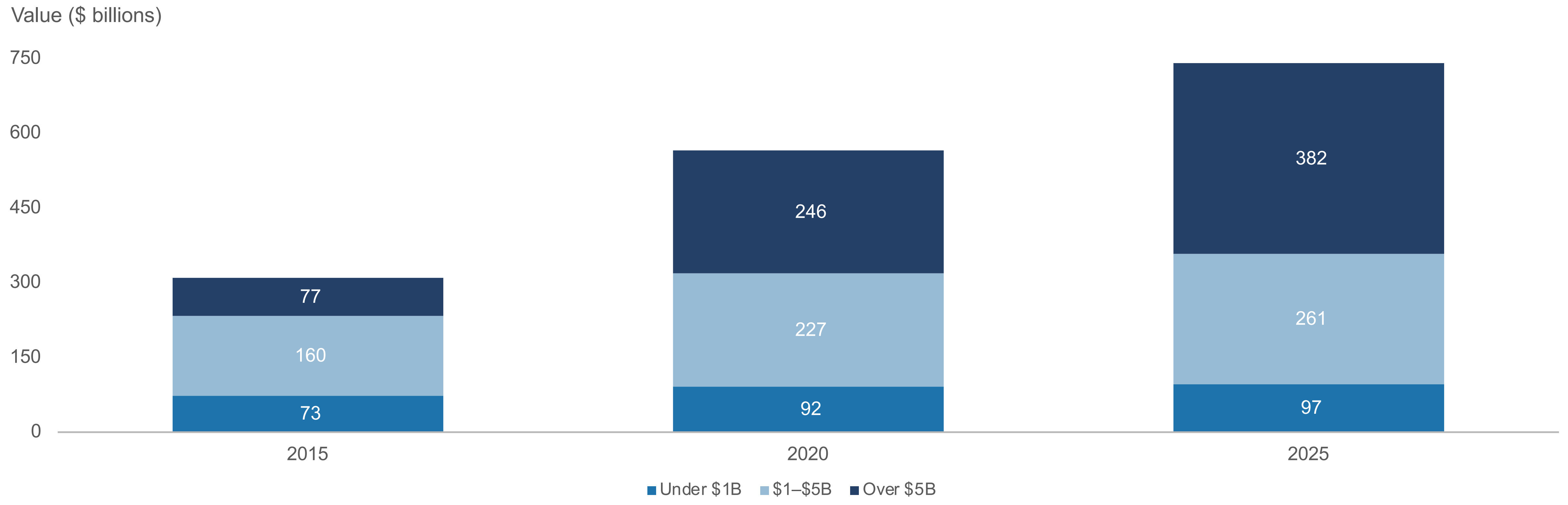
| GP | Fund | Strategy | Size ($MM) |
|---|---|---|---|
| KKR | KKR North America XIV | Buyout | 23,000 |
| BPEA EQT | EQT BPEA IX | Buyout | 15,600 |
| CLEARLAKE | Clearlake VIII | Buyout | 14,800 |
| Blackstone | BCP Asia III | Buyout | 13,100 |
| BainCapital | Bain Asia VI | Buyout | 10,500 |

SOURCE: LSEG Data & Analytics; Pathway Research. NOTE: As of June 30, 2026. [a]Represents fundraising for private equity strategies during the 5-year period ended June 30, 2026.

# Growth in dry powder is attributable primarily to larger funds.

## Buyout Dry Powder by Fund Size

Dry powder has grown over 6x faster for buyout funds over $5B vs. under $1B over the past decade.




SOURCE: MSCI Private Capital Solutions, Pathway Research. NOTES: As of June 30, 2026. Dry powder calculated based on paid-in-capital metrics for the five most recent vintage years, as of the time periods listed.

# Regional Trends

# North America

## Investment Activity

- Buyout activity declined moderately in 1H26, falling 22% in value and 10% in count year over year.
- Industrials and energy-related themes are attracting meaningful attention, driven by forecasts for rising energy demand.
- In the VC market, substantial capital has continued to support a small number of large AI platforms at rapidly growing valuations.
  - U.S. VC investment activity in 1H26 alone surpassed all prior full-year totals.

## Exit Markets

- The market remains selective, but quality, durable businesses are commanding attractive prices from both financial and strategic buyers.
  - The median hold period has been over 5½ years for buyout companies exited since 2023.[a]
- Secondaries are continuing to reach record levels as a viable exit path for LPs seeking liquidity.
  - 78% of LP transaction volume in 1H26 was in North America.[b]
- SpaceX IPO marks the first of several mega-listings expected in the next 12 months.

## Fundraising

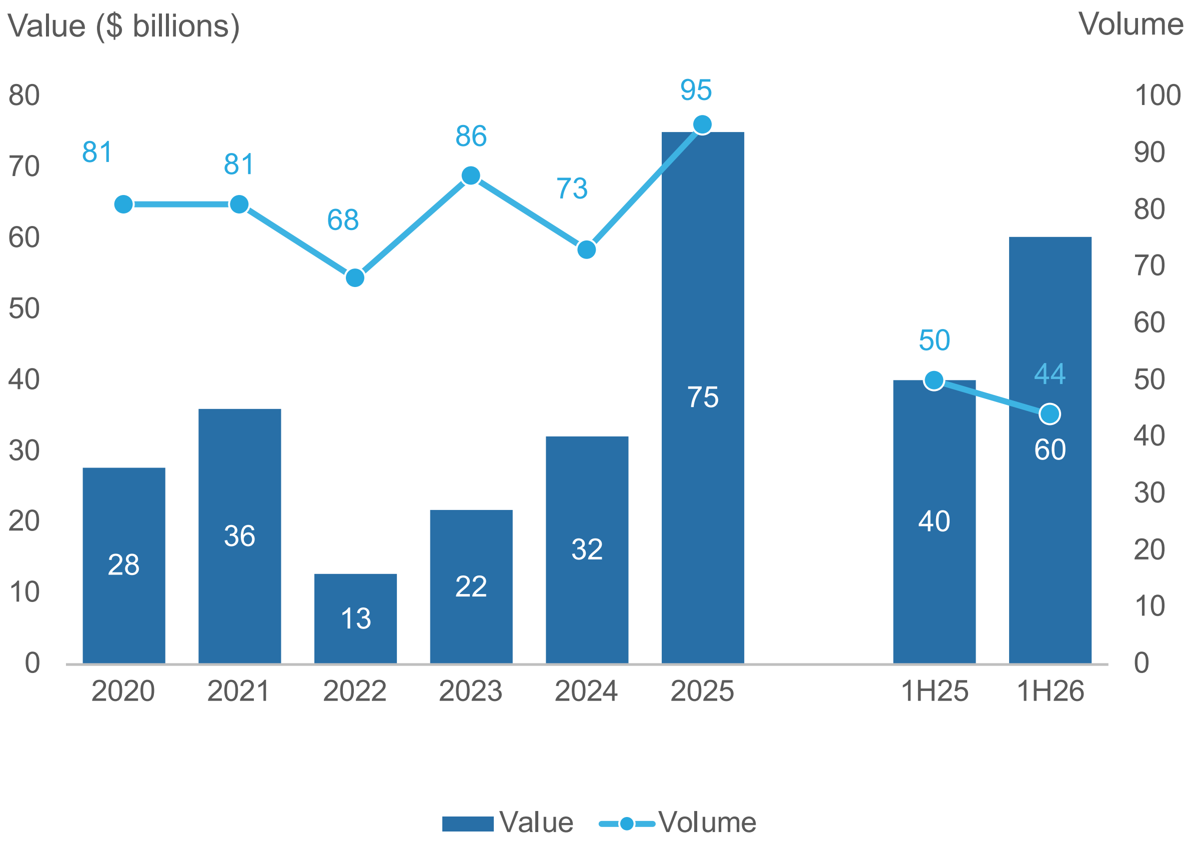
- U.S. PE market continues to remain subdued, although select processes for experienced, proven managers have been quite competitive.
- VC market recovering in 2026 after several slow years of fundraising.
- Lack of mega-funds raised in 2026 is impacting buyout fundraising headlines, although several large funds are expected to launch soon.
- Strong pipeline of quality funds expected to be targeting 2027 fundraisings, which may increase activity over the next year.

[a]Based on buyout investments in Pathway's database with exit dates from 2023 to March 31, 2026. [b]Jefferies H1 2026 Global Secondary Market Review, July 2026.

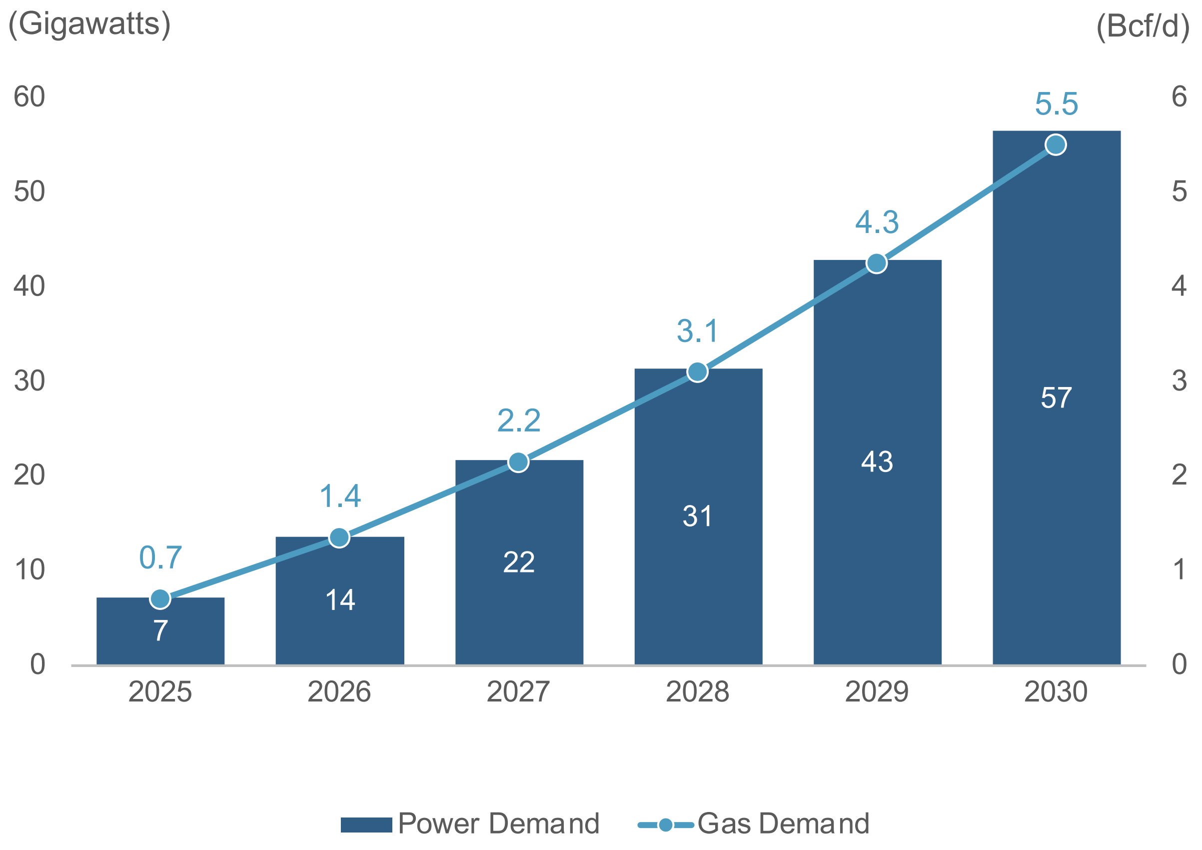
# Chart in Focus: AI infrastructure and energy security are driving structural growth in U.S. energy demand.

Rising energy demand is driving a material increase in both traditional energy investments and areas related to supporting this industry, including manufactured components, infrastructure supply chains, and industrial services.

## U.S. Energy Buyout Activity




## Projected U.S. Cumulative AI Power Demand




SOURCE: Mergermarket; Pathway Research; TPH & Co., TPH Energy Outlook. NOTE: As of June 30, 2026. Bcf/d=Billion cubic feet per day.

# Europe

## Investment Activity

- Aggregate value of buyouts increased to €38 billion in 2Q26, up 22% QoQ and 15% above the trailing 5-year quarterly average.
  - 1H26 deal value totaled €68.8 billion, up 14% from 1H25.
- Europe's rebound stood in contrast to the U.S.; the divergence may partly reflect sponsors' increased interest in Europe's more fragmented market and lower entry multiples.
- Mid-market activity was subdued, accounting for just 16% of total deal value, significantly below the 5-year average of 34%.
- AI-related uncertainty continued to weigh on TMT dealmaking; the sector's share of quarterly deal value was 61% below the 5-year average.

## Exit Markets

- Exit activity increased 46% QoQ to €94 billion, driven primarily by several corporate-led mega-cap transactions.
- DACH emerged as the most active exit region, accounting for 63% of exit value during the quarter.
  - Value was driven by Advent and Cinven's €29.4 billion sale of TK Elevator to KONE.
- PE-backed IPO activity remained subdued, with proceeds falling 67% QoQ, despite select large listings abroad.
  - Advent-backed Innio completed a $2.4 billion Nasdaq listing, underscoring the pull of a deeper U.S. public market.

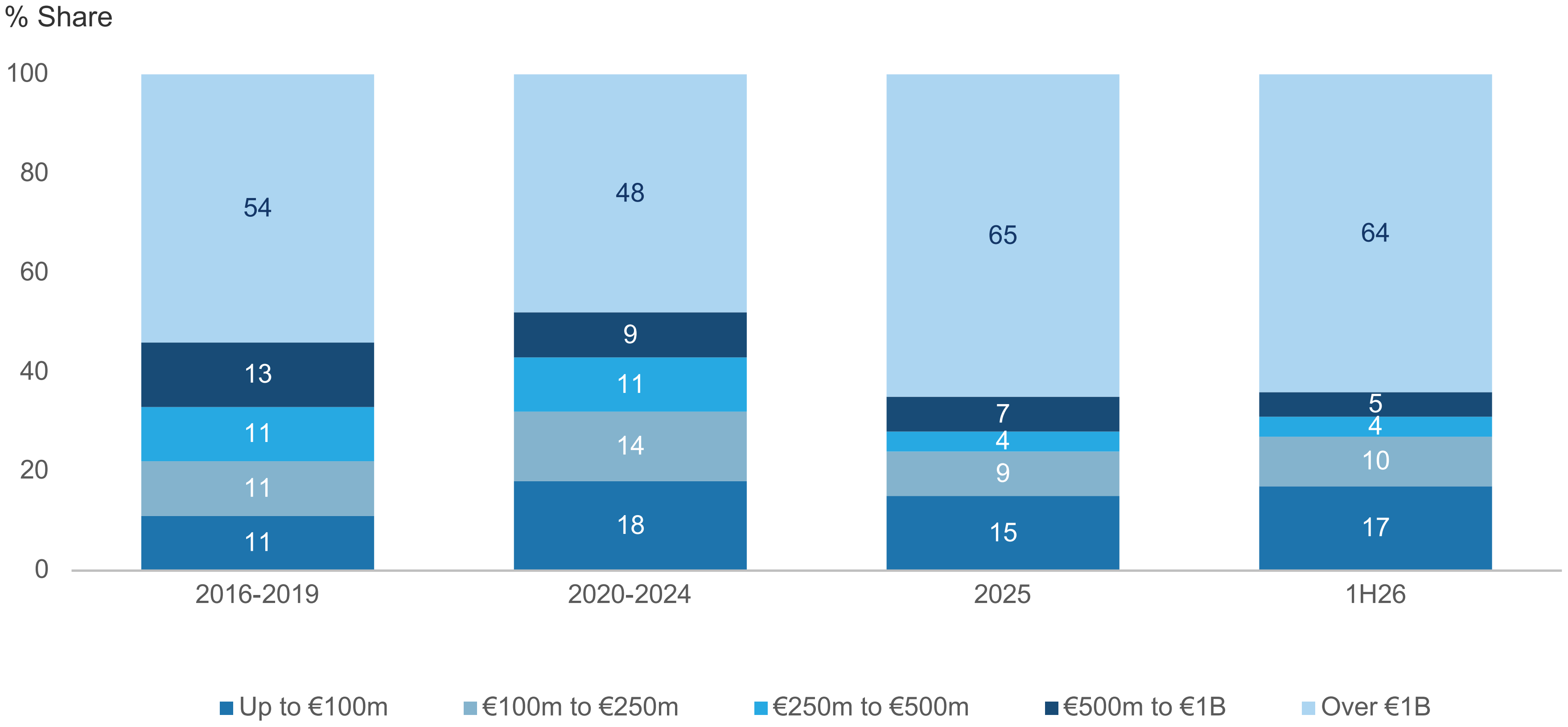
## Fundraising

- Fundraising in Europe reached $61 billion during 1H26, exceeding 1H25 by over 25%.
- Mid-market European buyout fundraising was active in 2Q26 despite a challenging fundraising environment.
  - Main Capital and Waterland each closed funds totaling over €4 billion.

# Chart in Focus: Mid-market buyout investment activity continued to decrease.

Despite increasing overall buyout totals, mid-market activity has been significantly below historical levels due to sponsors remaining selective outside their highest-conviction assets.

## European Buyout Value by Size




**+61%**
2Q26 large-cap value vs. 5-year average

**5 of 6**
Prior quarters in which large-cap deals represent over 60%

**-43%**
2Q26 mid-market value vs. 5-year average

SOURCE: LSEG Data & Analytics. NOTE: As of June 30, 2026.

# Asia

## Investment Activity

- Asia PE investment activity maintained its strong momentum in 2Q26, reaching $55 billion (+181% YoY)—the highest quarterly level since 1Q22.
- Growth was driven by China, where deal activity rose 653% YoY, marking the fourth-consecutive quarter of growth and returning to levels seen at the 2021 market peak.
- The three largest AI platforms accounted for ~40% of China's quarterly activity.
  - Led by DeepSeek's $7.4 billion financing round at a valuation of $50 billion.
- Australia experienced a 270% YoY increase in deal value and has a healthy pipeline of pending deals that are expected to close over the coming quarters.

## Exit Markets

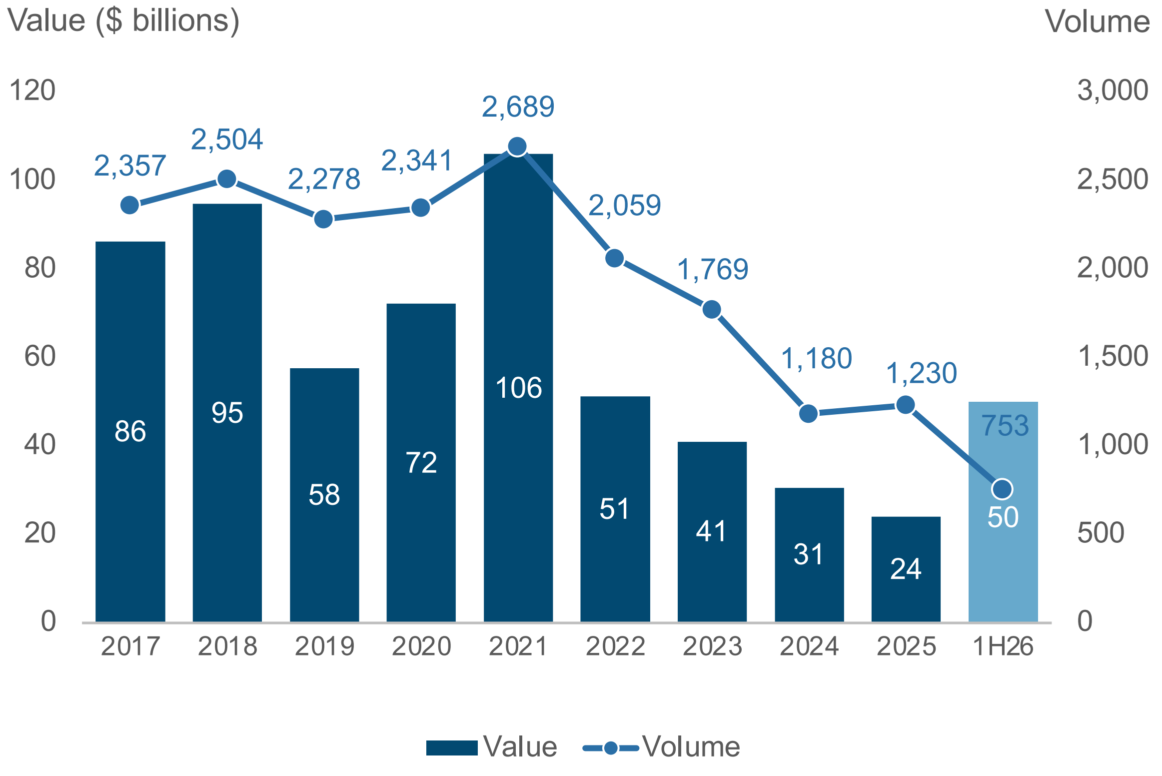
- Asia IPO activity remained resilient in 2Q26, with proceeds rising 16% YoY despite a modest 1% QoQ decline.
- Chinese companies continued to dominate Asia's IPO market, accounting for 88% of quarterly IPO proceeds and 96% of PE-backed IPO proceeds.
- IPO pipelines also continued to expand: 420 H-share and 365 A-share listings are in the pipeline as of the end of 2Q26.
- Outside China, IPO activity was muted amid the Iran conflict and weaker sentiment toward the software sector.

## Fundraising

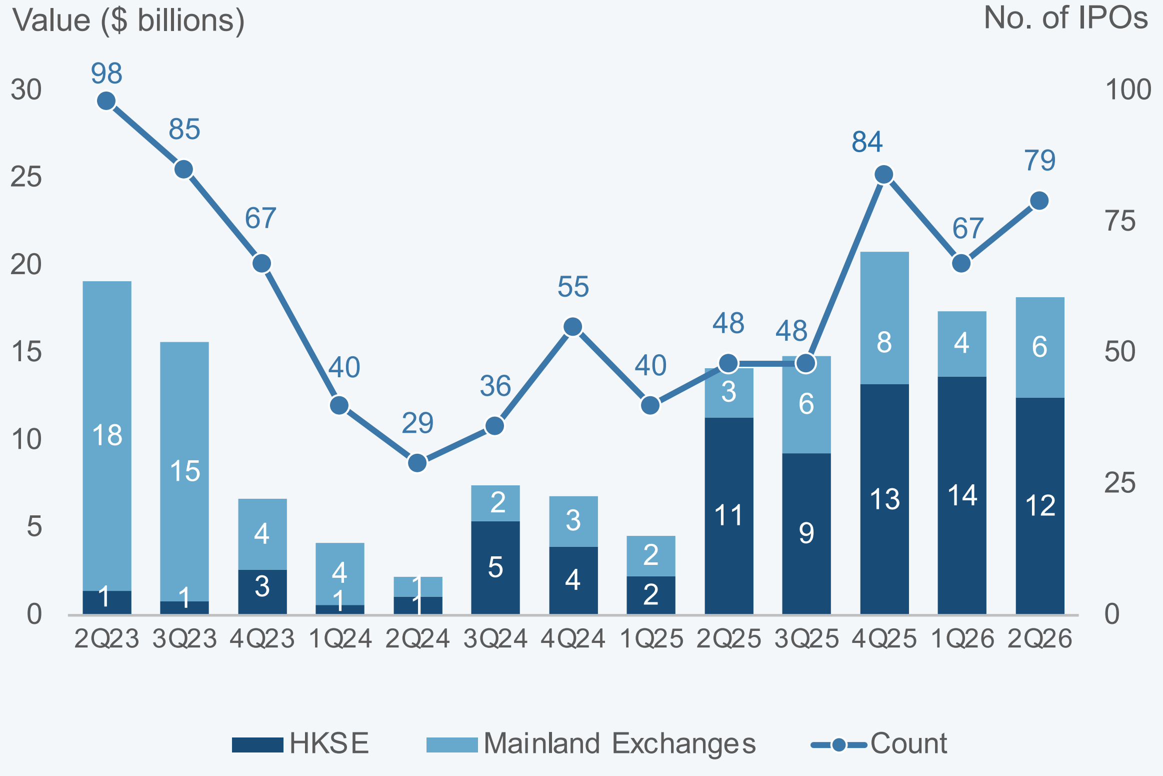
- Fundraising in Asia has shown positive momentum: the $35 billion raised in 1H26 already exceeds the full-year 2025 total.
- Pan-regional managers, including EQT, Blackstone, and Bain, raised their largest Asia funds to date. Japan-focused managers, including NSSK and Advantage Partners, closed at their hard caps.
- China fundraising is beginning to recover, supported by faster deployment into AI-related sectors and improving investor sentiment toward the market and its long-term growth prospects.

# Chart in Focus: China PE investment and IPO activity accelerated in 1H26.

## China PE Investment Activity




## Chinese Stock Exchanges IPO Activity




SOURCE: Mergermarket; Pathway Research. NOTE: As of June 30, 2026.

# Secondaries Update

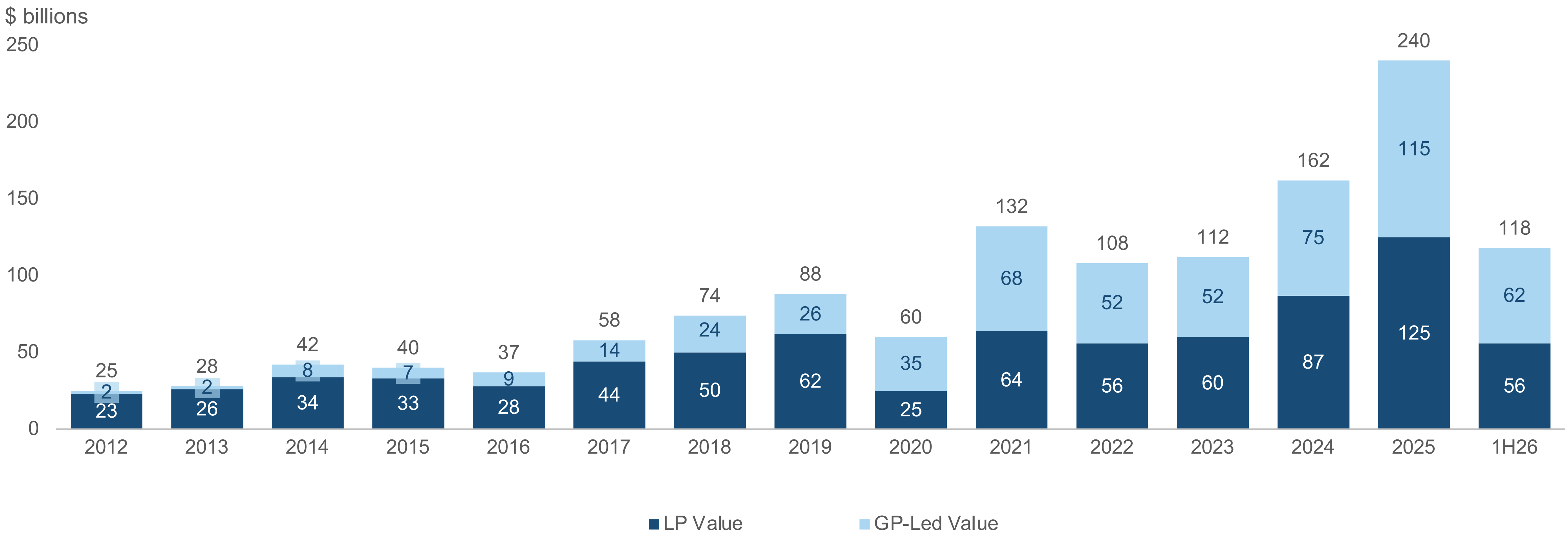
# Secondaries Market Highlights

- Secondary market transaction activity maintained its record pace in 1H26, following a record year in 2025.
  - Global secondary volume reached $118 billion, a first-half record, which represents 15% YoY growth.
  - The market is on pace to exceed 2025's record volume of $240 billion, driven by strong buyer demand across private market strategies.
- The market remains balanced between GP-led (53% of total volume) and LP transactions (47%); single-asset continuation funds drove the GP-led growth.
  - GP-led volume grew 32% YoY, with abundant continuation fund opportunities focused on trophy assets in single-asset transactions.
  - Buyer appetite for software transactions reduced due to AI disruption; however, other sectors, such as healthcare, financial services, industrials, and business services, made up for the decline.
- The credit secondary market posted its largest first half ever in 1H26, with $20 billion in volume—a 122% increase YoY.
  - 1H26 credit secondary volume has already exceeded full-year 2025 volume, and GP-led transactions are leading the way (~83% of 1H26 volume).
  - Volume was spread across a larger number of processes and sponsors than in any prior period, showcasing market adoption from sponsors and buyers.
  - Buyer scrutiny increased across the board for 1H26 transactions, with investors focusing on granular borrower-level and asset-level underwriting.
- Dedicated available capital for secondaries transactions remained robust at $290 billion at the end of 1H26, slightly down from the record $328 billion in 4Q25.
  - This decline was driven by higher secondary market deployment across a diverse set of channels, including secondary funds, evergreen vehicles, retail/private wealth, and a growing set of traditional LPs and specialist investors.

SOURCE: Jefferies 1H26 Global Secondary Market Review; Evercore July 2026 Secondary Market Report; Morgan Stanley 2025 Continuation Fund Market Review. NOTES: The information presented has been developed internally and/or obtained from sources believed to be reliable; however, Pathway does not guarantee the accuracy, adequacy, or completeness of such information. Pathway has not independently verified such information and accepts no responsibility or liability for any error, omission, or inaccuracy of such information. 1. SOURCE: Jefferies Capital Markets Intelligence. Midpoint of estimated $100-$200 billion traditional LP capital allocated to secondaries.

# Continued supply of and robust demand for LP- and GP-led deals has fueled an active market.

## Secondaries Transaction Value

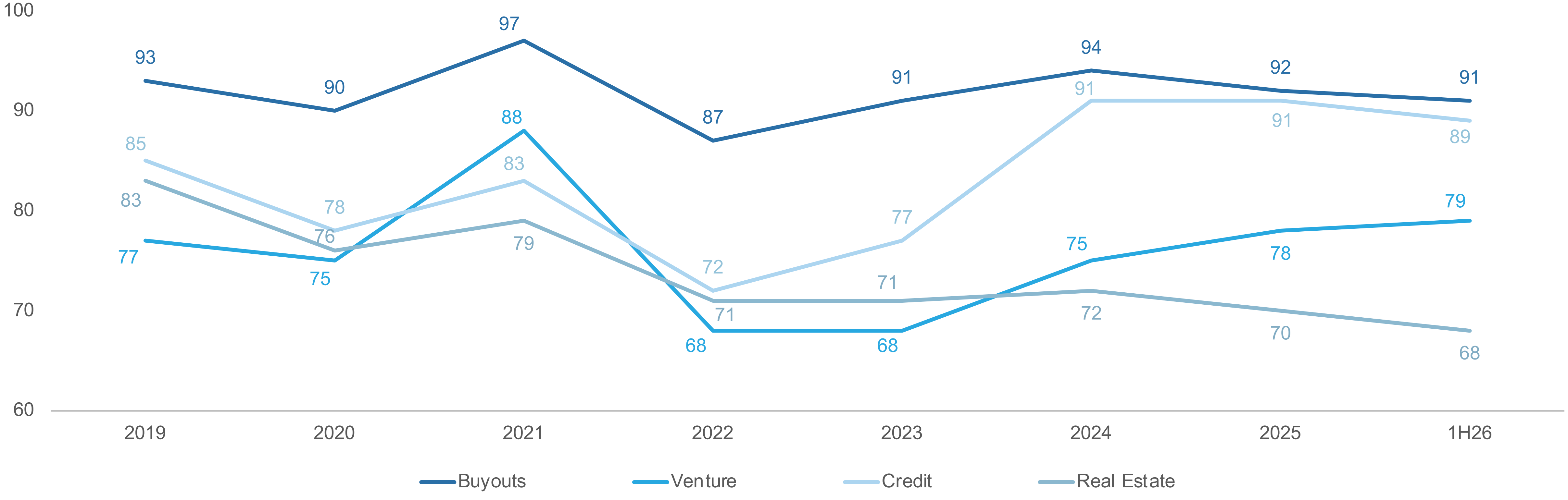



SOURCE: Jefferies 1H26 Global Secondary Market Review. NOTE: The information presented has been developed internally and/or obtained from sources believed to be reliable; however, Pathway does not guarantee the accuracy, adequacy, or completeness of such information. Pathway has not independently verified such information and accepts no responsibility or liability for any error, omission, or inaccuracy of such information.

# Secondary market pricing remained strong through early 2026.

## LP Portfolio Pricing

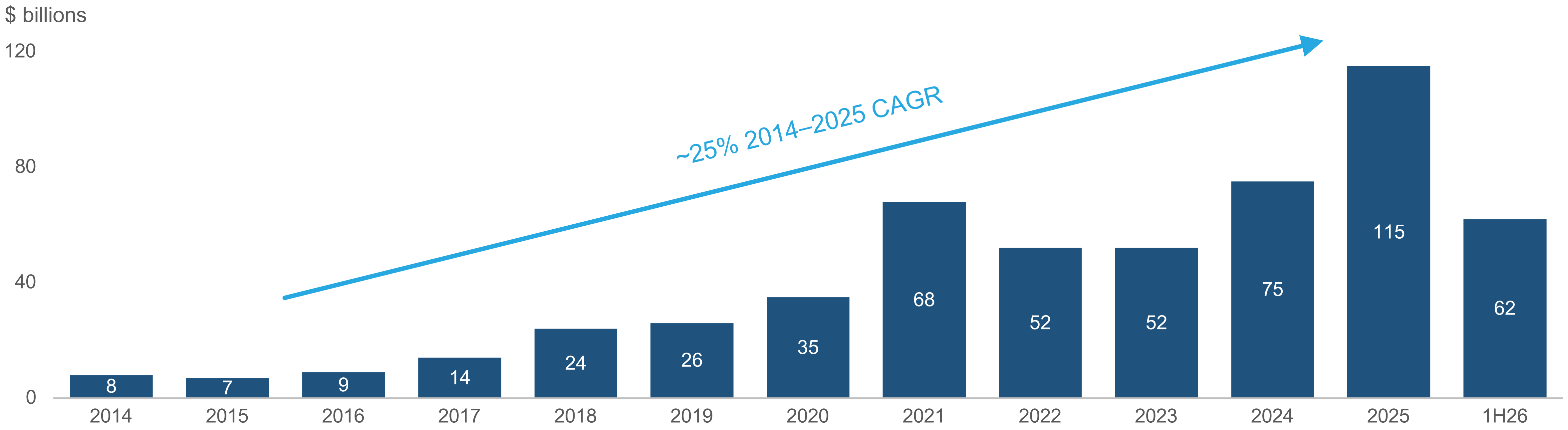
(% of NAV)




SOURCE: Jefferies 1H26 Global Secondary Market Review. NOTE: The information presented has been developed internally and/or obtained from sources believed to be reliable; however, Pathway does not guarantee the accuracy, adequacy, or completeness of such information. Pathway has not independently verified such information and accepts no responsibility or liability for any error, omission, or inaccuracy of such information.

# GP-led market continues to grow as a portfolio management tool for high-conviction assets.

## GP-Led Annual Transaction Value




**53%**
Of secondaries value is GP-led

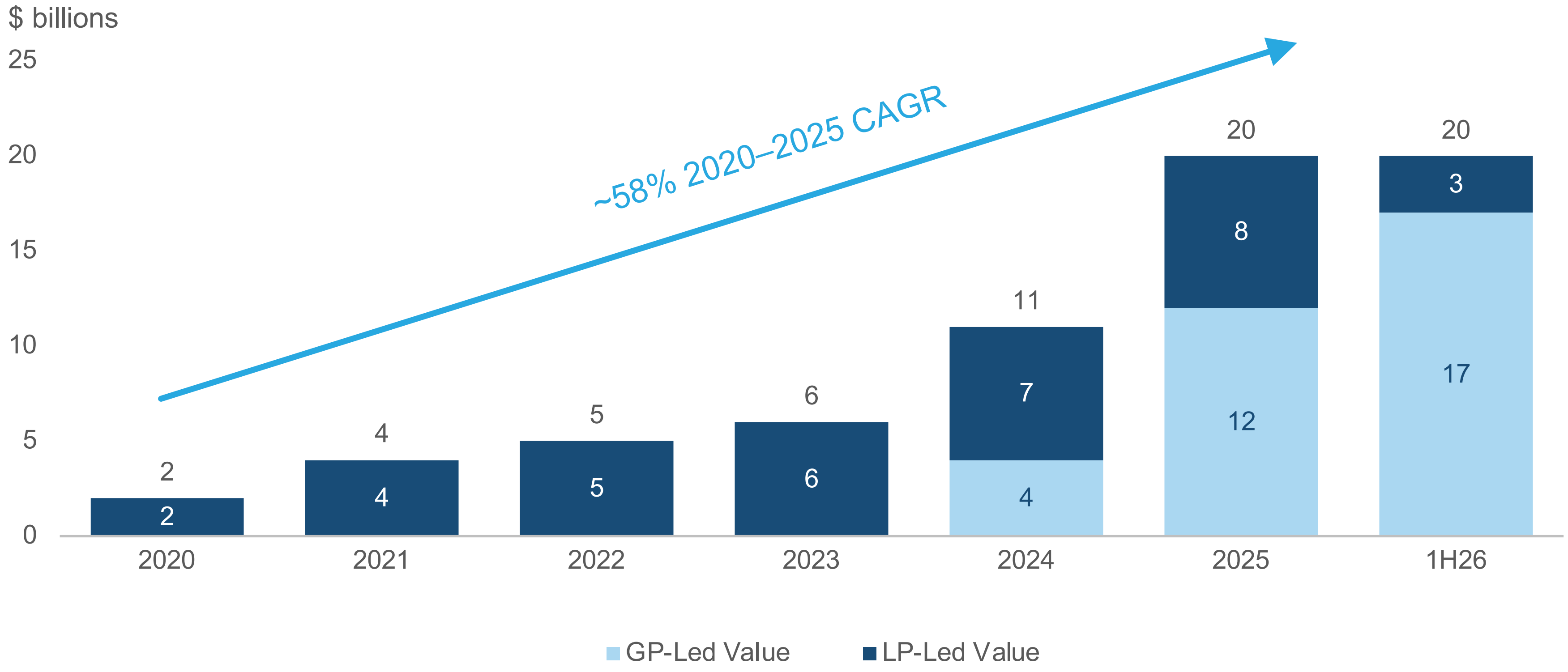
**14%**
GP-led value
(% share of M&A exit value)

**89%**
Continuation fund transactions
(% share of GP-led value)

SOURCE: Jefferies 1H26 Global Secondary Market Review. NOTE: The information presented has been developed internally and/or obtained from sources believed to be reliable; however, Pathway does not guarantee the accuracy, adequacy, or completeness of such information. Pathway has not independently verified such information and accepts no responsibility or liability for any error, omission, or inaccuracy of such information.

# Credit secondaries demonstrate significant growth, becoming the second-largest GP-led strategy.

## Credit Secondaries Transaction Value




Credit secondaries account for 17% of 1H26 total secondary volume

Near 3x increase YoY in credit CVs

Quantity of $1.0B+ CVs grows YoY from 1 deal to 5 deals

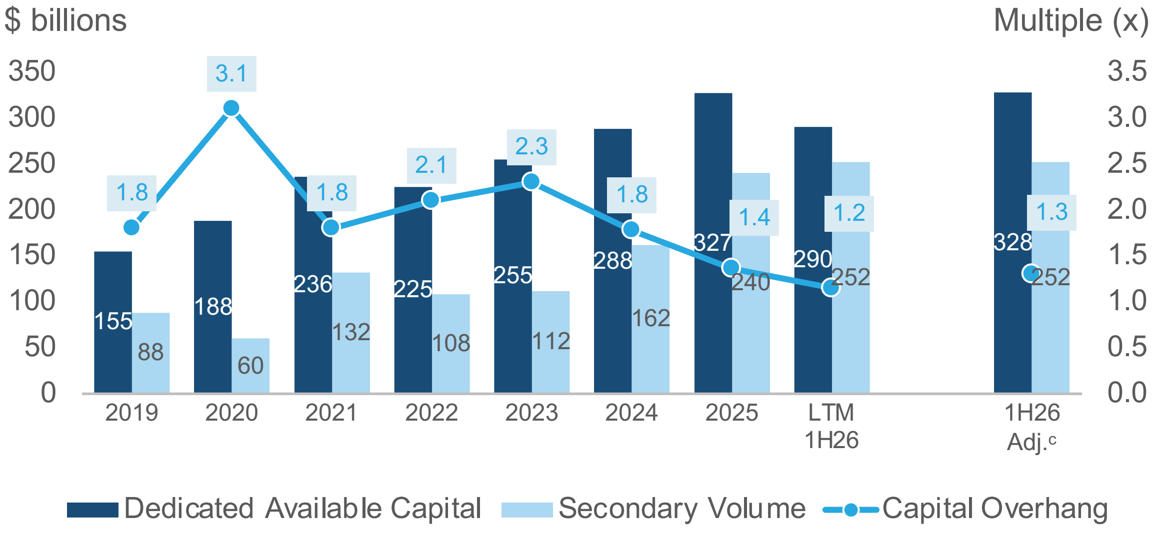
Yields are higher compared with new direct lending assets[a,b]

Redemption requests are running at up to ~3x the standard 5% cap[c]

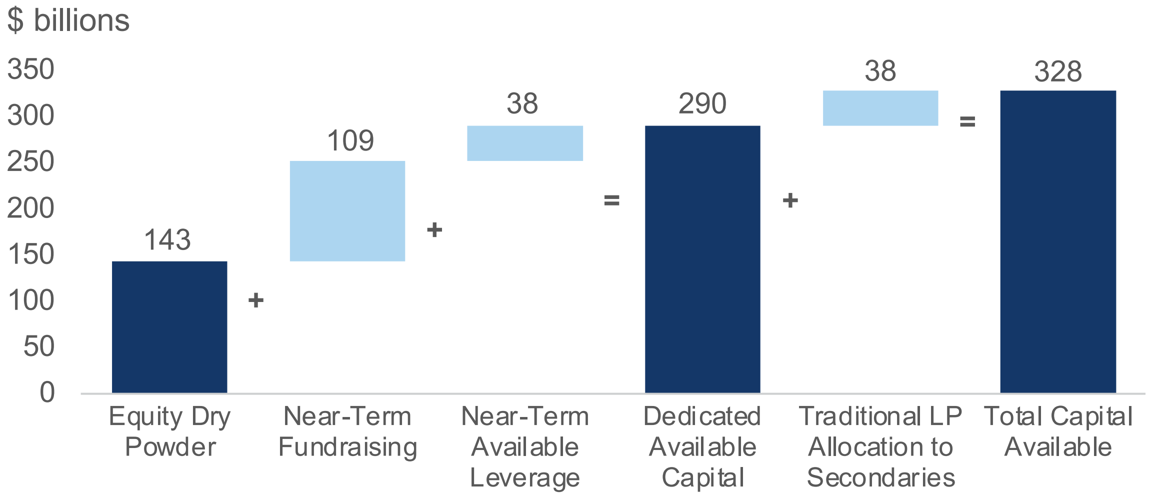
SOURCE: Jefferies 1H26 Credit Secondary Market Review; Evercore July 2026 Global Secondary Market Review; Reuters (April 2026). NOTE: The information presented has been developed internally and/or obtained from sources believed to be reliable; however, Pathway does not guarantee the accuracy, adequacy, or completeness of such information. Pathway has not independently verified such information and accepts no responsibility or liability for any error, omission, or inaccuracy of such information. [a]SOURCE: Jefferies estimates; Jefferies Credit Secondary database; Jefferies FY2025 Credit Secondaries Buyer Survey. NOTE: Credit secondary transactions in 2025 typically have spreads between ~550 and 600bps. [b]SOURCE: PitchBook LCD Private Credit Monitor. NOTE: Direct lending spread data reflects senior secured first-lien loans and unitranche facilities with spreads between ~450 and 550bps. [c]SOURCE: Reuters. NOTE: Based on reported ~15.7% redemption requests for Carlyle's private credit interval fund versus typical quarterly redemption caps of ~5%.

# Strong investor interest has driven substantial growth in secondaries dry powder.

## Capital Overhang Multiple[a]




## Dedicated Available Capital[a,b]




## Capital Overhang Key Stats

**$290B**
Dedicated Available Capital

**$240B**
2025 Secondary Volume

**1.2x**
Secondary Market Capital Overhang

**1.3x**
Adj. Secondary Market Capital Overhang[c]

[a]SOURCE: Jefferies 1H26 Global Secondary Market Review. NOTES: The information presented has been developed internally and/or obtained from sources believed to be reliable; however, Pathway does not guarantee the accuracy, adequacy, or completeness of such information. Pathway has not independently verified such information and accepts no responsibility or liability for any error, omission, or inaccuracy of such information. [b]Available leverage estimated at 15% of equity dry powder plus current fundraising. [c]SOURCE: Jefferies Capital Markets Intelligence. Midpoint of estimated $100-$200 billion traditional LP capital allocated to secondaries.

# Private Credit Update

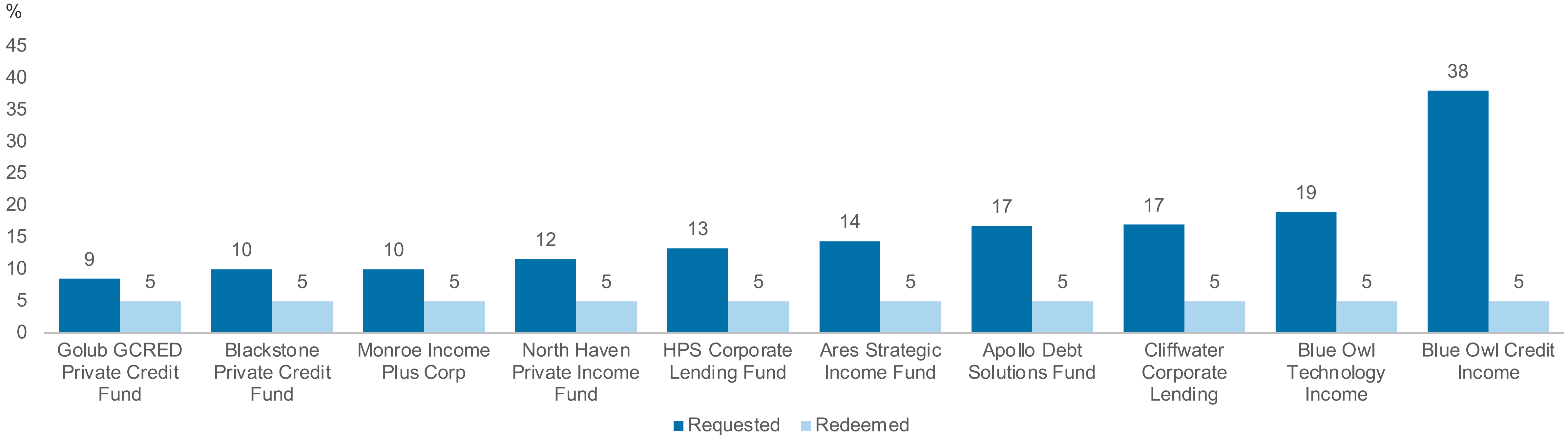
# Private Credit Highlights

- Private credit sentiment remained under pressure in 2Q26 due to retail redemption headlines, AI disruption concerns around software borrowers, valuation scrutiny, and weaker sponsor-backed dealmaking.
  - Average tender requests across non-traded BDCs increased to 10.3% of shares, up from 9.7% in 1Q26.
- Direct lending activity slowed sharply in 2Q26, driven by a slowdown in PE-backed exit activity amid an unstable macroeconomic/geopolitical backdrop fueled by the U.S.–Iran conflict.
  - Direct lending activity totaled $33 billion across 149 transactions, down from $74 billion across 217 deals in 1Q26.
- Software remains the primary sector under scrutiny across both private credit and leveraged loans. Lenders have reduced exposure, demanded stronger borrower metrics, and shifted focus toward companies better insulated from AI disruption.
  - In the BSL market, software's share of new issuance fell to roughly 9% YTD, the lowest level since 2013.
- Stress indicators are elevated, but traditional payment defaults remain limited.
  - Fitch's U.S. Private Credit Default Rate reached a record 6.0% in May, but most default events were driven by PIK/interest deferrals and stressed maturity extensions rather than by uncured payment defaults or bankruptcies.
- Institutional fundraising remains robust despite negative retail headlines. Private debt fundraising reached $219 billion in 1H26, including ~$103 billion in 2Q. More than half of funds closed above target.
- Pricing and documentation have shifted in lenders' favor in the first half of 2026. Plain-vanilla direct lending spreads have widened roughly 25–50bps compared with YE 2025, with significant dispersion between software and non-software pricings.
- CLO issuance dropped to $33 billion in 2Q (from $47 billion in 1Q)—the lowest quarterly CLO volume since 4Q23, when distress from regional bank failures dented institutional demand for structured products.
  - The 2026 slowdown is attributed to a combination of the recent software sell-off in leveraged loans, as well as fresh macro volatility from the war in Iran.

# Dislocation in Semi-liquid Private Credit Vehicles

- Elevated redemption requests persisted across non-traded BDCs in 2Q26, in continuation of the trend observed during 1Q26.
  - Average tender requests increased to 10.3% of shares, up from 9.7% in 1Q26.
  - With most non-traded BDCs capping quarterly repurchases at 5%, unfulfilled requests are expected to roll forward and keep pressure elevated in the coming quarters.
- Fundraising weakness intensified net outflow pressure across the semi-liquid BDC market.
  - New inflows in 2Q26 declined by approximately 56% on average, causing most funds to experience net outflows of roughly 3% of prior-quarter NAV.
  - Rated perpetually non-traded BDCs generally have sufficient liquidity and asset coverage cushions to meet several quarters of maximum tenders, but persistent outflows could pressure balance sheets over time.

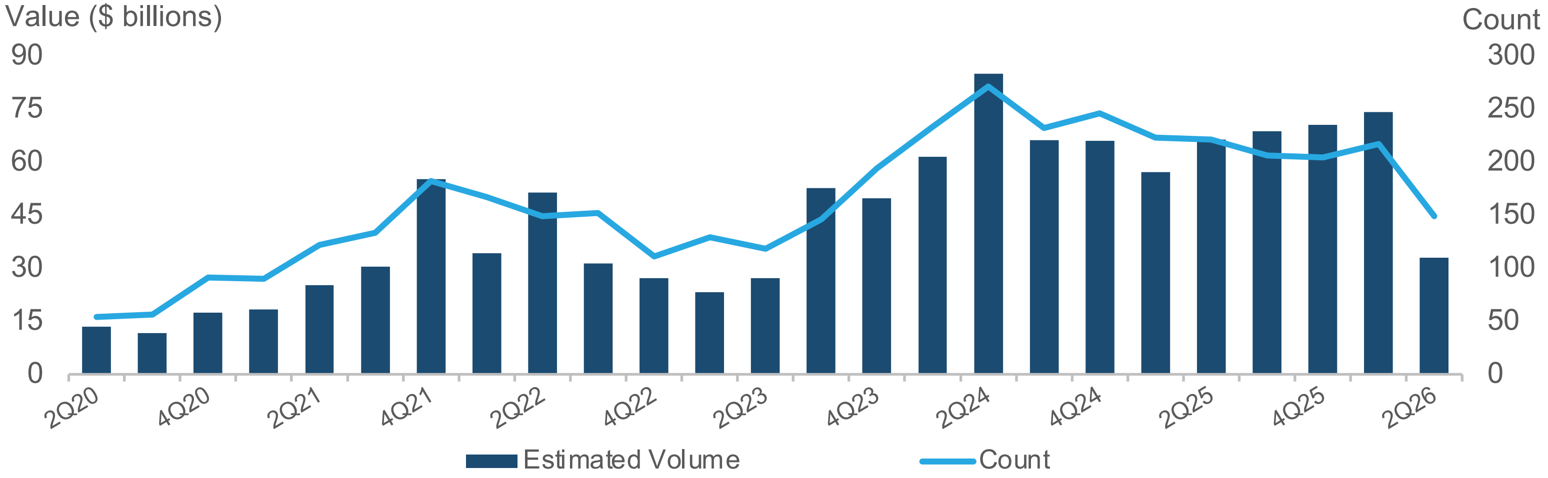
## 2Q26 Redemption Activity for Select BDCs and Interval Funds




SOURCE: Pathway Research.

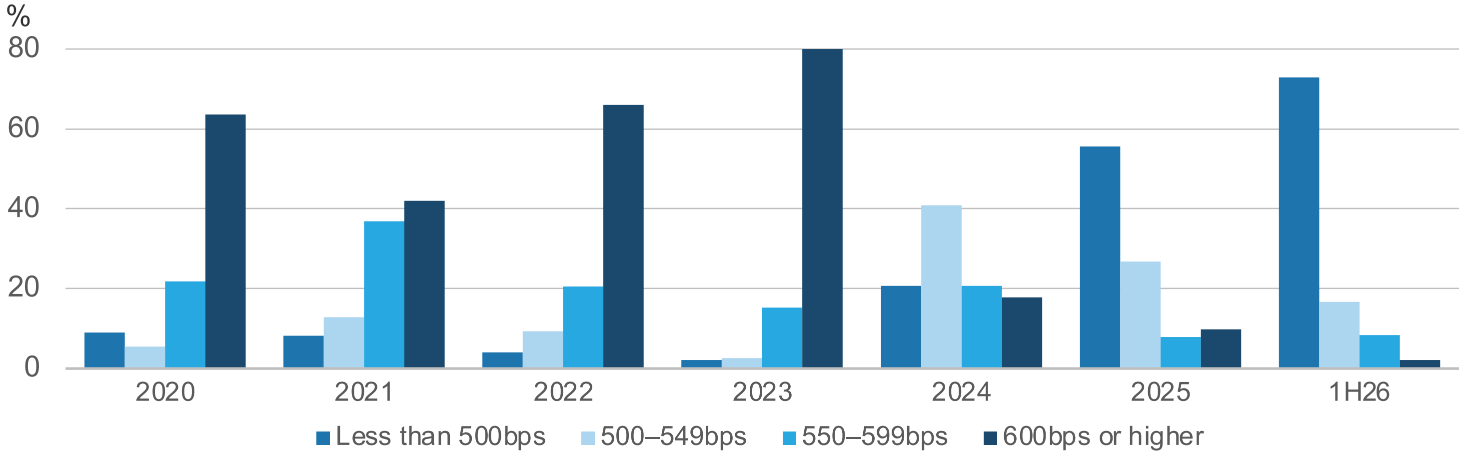
# Direct lending activity slowed as PE dealmaking weakened; spreads and software risk remain in focus.

## U.S. Direct Lending Deal Count and Estimated Volume




SOURCE: PitchBook LCD. NOTE: As of June 30, 2026.

## Spread Distribution of PE-Backed Private Credit Loans




SOURCE: PitchBook LCD; Pathway Research. NOTE: As of June 30, 2026.

- Private credit pricing has reset wider, with plain-vanilla direct lending spreads moving out roughly 25–50 bps.
- Software remains under pressure as lenders reassess AI disruption risk. Software's share of new-issue BSL volume fell to 9% YTD, roughly half the 2025 level and the lowest share since 2013.
- Private credit secondaries gained momentum as redemption pressure drove more loans into the market. JPMorgan reported roughly $2 billion of private credit loan trades across more than 20 borrowers by mid-May.

# Direct Lending Market Conditions: Sponsored Middle Market

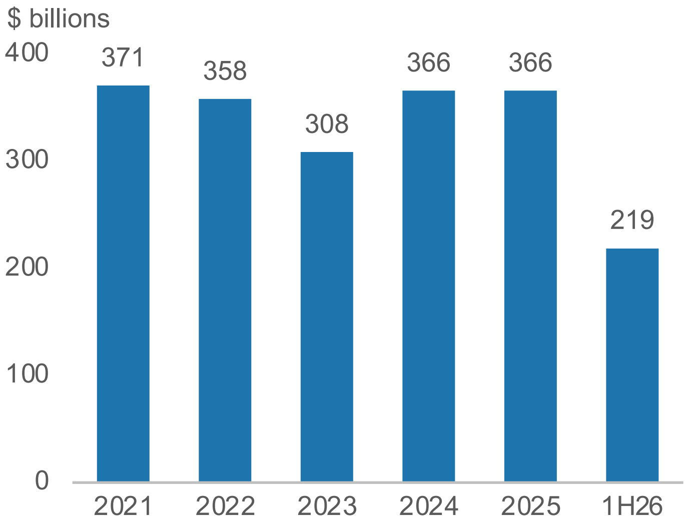
| | 2021 | 1H23 | 2Q26 |
|---|---|---|---|
| Credit Documentation | Less Restrictive | More Restrictive | Restrictive |
| Middle-Market Spread | 500–600bps | 600–725bps | 450–550bps |
| 3-Month SOFR | ~0.0% | ~5.0% | ~3.7% |
| OID | 98 | 97 | 98/99 |
| Unitranche Leverage Multiples | Up to 6.5x | Up to 5.5x | Up to 6.0x |
| Unitranche Loan-to-Value | Up to 65% | Up to 50% | Up to 60% |
| Average Equity Contribution % | 35%–50% | 50%–60% | 40%–55% |
| Unitranche Yield-to-3-Year Call | 6.5%–8.0% | 11.5%–13.0% | 9.0%–10.0% |

SOURCE: Pathway Capital Management. NOTES: Based on Pathway's general observations of current market data and is subject to change depending on the market environment. Not all deals will have all these characteristics. Past performance does not guarantee future results.

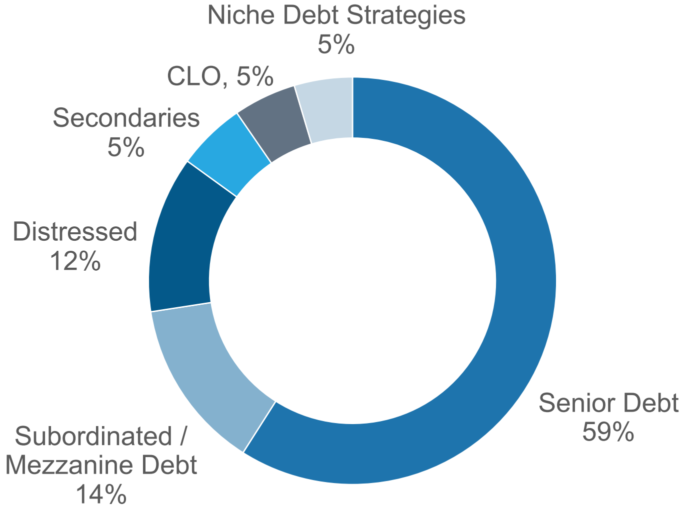
# Institutional private credit fundraising momentum continued despite retail sentiment.

- Private debt fundraising totaled $219 billion in 1H26. The pace is already more than half of full-year fundraising in prior peak years, suggesting potential for a record year if momentum continues.
- Senior debt strategies dominated fundraising, accounting for 59% of 1H26 capital raised, up from 43% in 2025. Investor demand appears to have shifted toward safer, more-senior strategies amid concerns over market volatility.
- Public BDC market performance remains weak despite private credit fundraising strength: the Raymond James BDC Index was down approximately 12%–13% YTD and roughly 16% LTM through 2Q26.

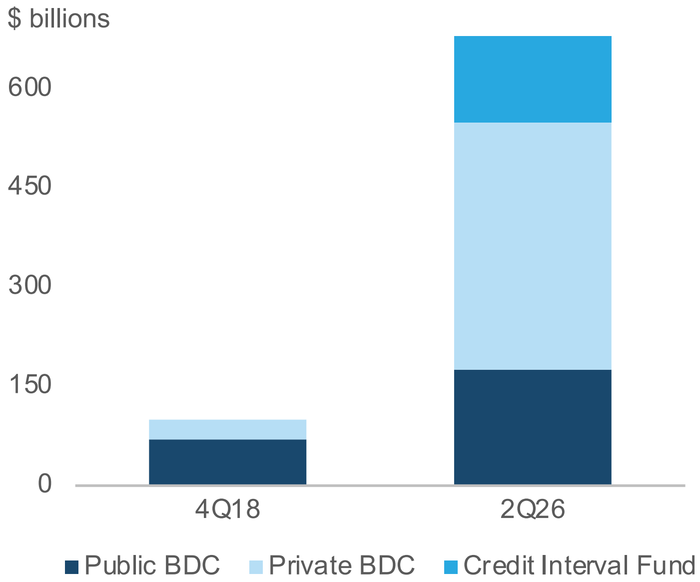
## Annual Private Credit Fundraising[a]




## Fundraising by Strategy[a]



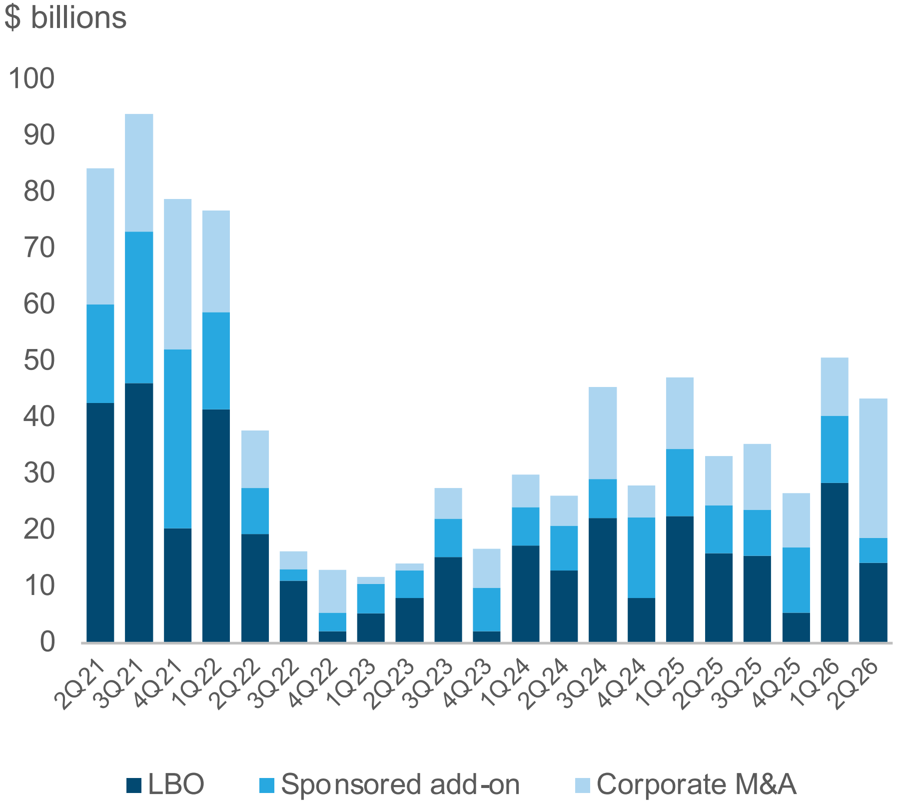

## AUM Growth of BDC and Credit Interval Funds[b]



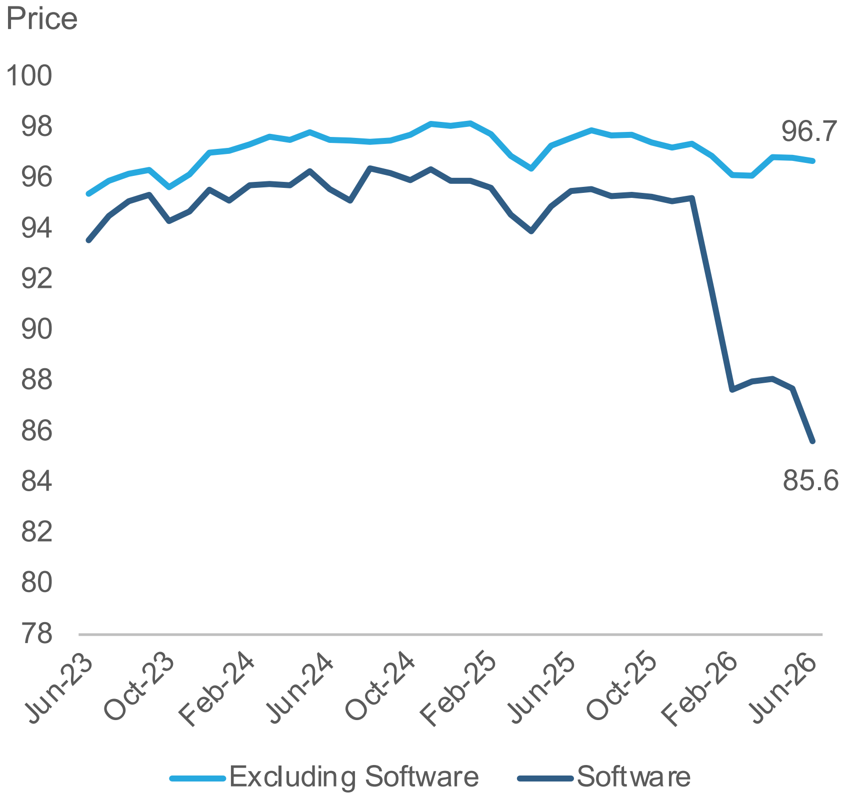

[a]SOURCE: Private Debt Investor (PDI) 2026 Fundraising Report. NOTE: As of June 30, 2026. [b]SOURCE: Interval Fund Tracker; Raymond James BDC Weekly Insight. NOTE: As of June 30, 2026.

# Corporate M&A and extensions supported BSL activity amid PE slowdown.

## U.S. Institutional M&A Loan Issuance[a]




## Average Bid Price of Leveraged Loans[b]



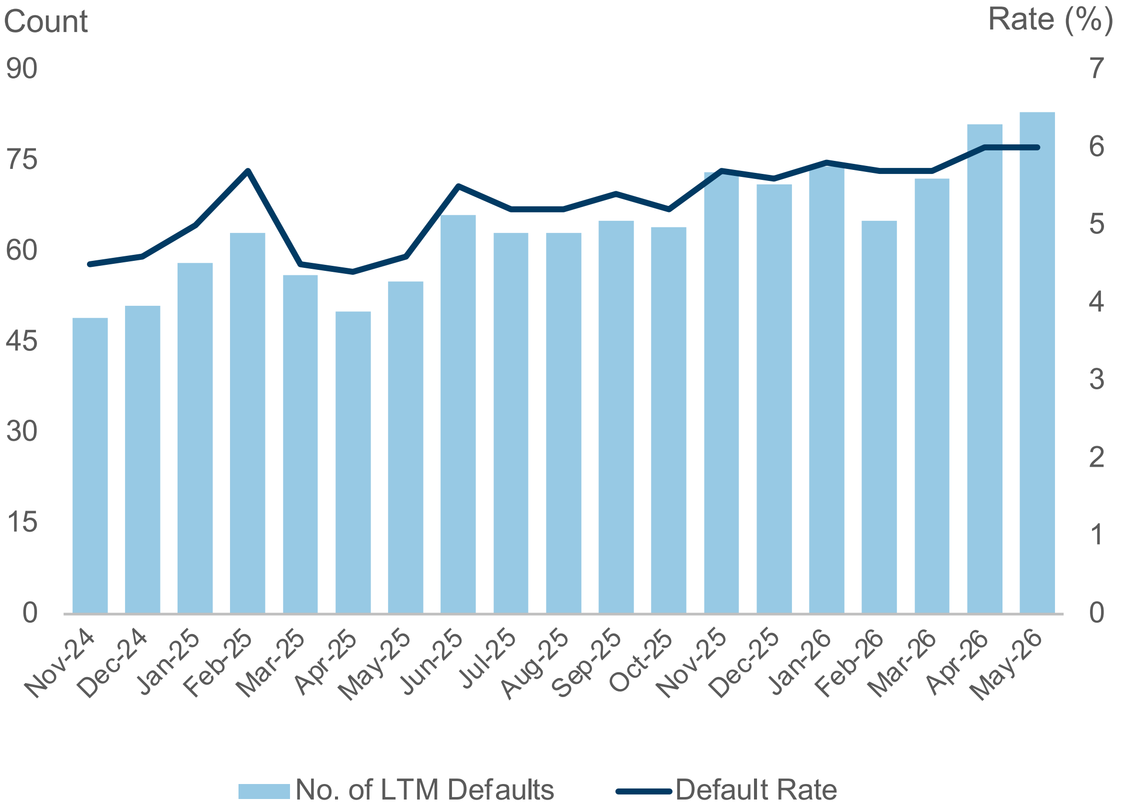

- M&A loan issuance remained constructive, with institutional M&A loan volume reaching $43 billion in 2Q26, up 31% YoY.
- Software remained under pressure. Performing software loans traded at an average bid price of 85.6 by late June, widening the gap versus the broader loan market to roughly 11 points.
- CLO issuance dropped to $33 billion in 2Q (from $47 billion in 1Q)—the lowest quarterly CLO volume in 2½ years.

[a]SOURCE: PitchBook LCD. NOTES: As of June 30, 2026. Repricings and extensions done via amendment only. [b]SOURCE: PitchBook LCD; Morningstar LSTA U.S. Leveraged Loan Index. NOTE: As of June 30, 2026.

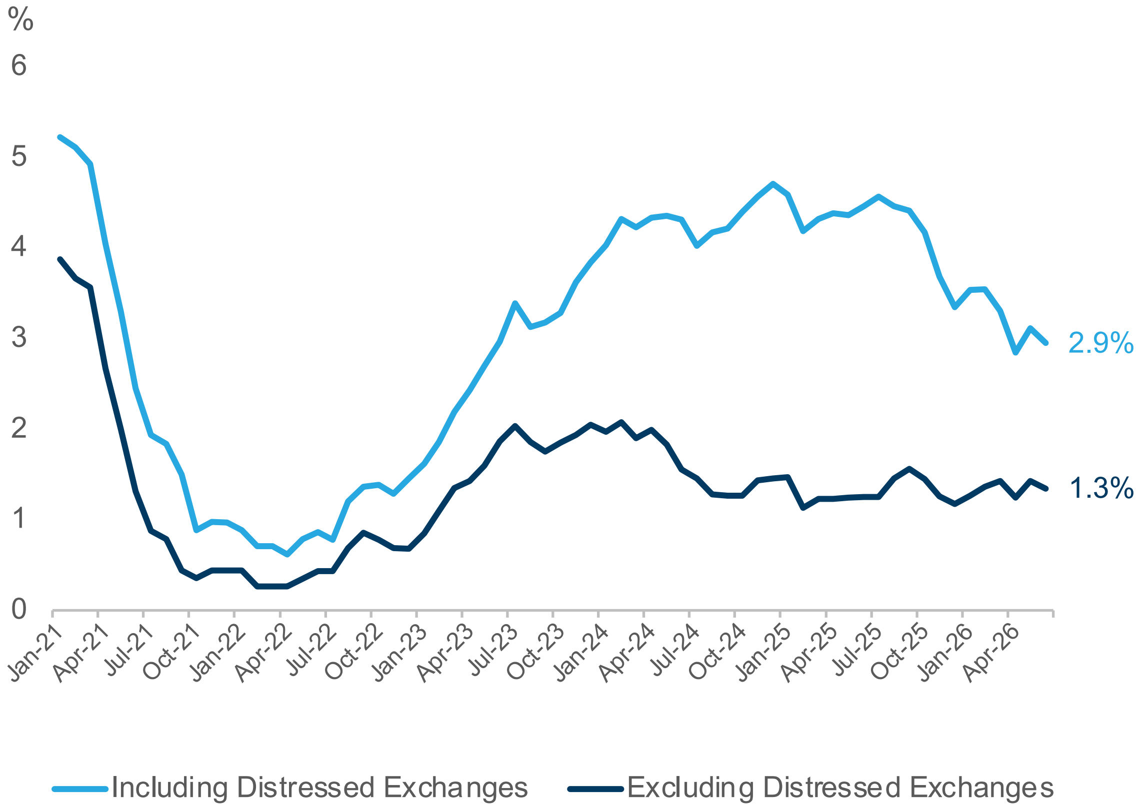
# PIK conversions and DDEs elevate default rates; bankruptcies and payment defaults remain low.

The Fitch Private Credit Default rate, which includes interest deferrals and PIK conversions, is at the highest level since inception; the default rate including only payment defaults and bankruptcies was less than 1%.

## Fitch Private Credit Default Rate[a]




## LSTA U.S. Leveraged Loan Default Rate[b]




[a]SOURCE: Fitch Ratings PRO U.S. Private Credit Default Rate. NOTE: As of May 31, 2026. [b]SOURCE: PitchBook LCD. NOTE: As of June 30, 2026.

# Infrastructure Update

# Infrastructure Market Highlights

- Infrastructure fundamentals remain supported by structural demand drivers, with global grid investment expected to exceed $5 trillion over the next decade as electrification, digital infrastructure, and aging network assets require significant transmission and distribution upgrades.

- Infrastructure dealmaking gained significant momentum in the second quarter, driven by surging capital demand into AI data centers, transportation and broader energy transition, and grid modernization.
  - Transaction value rose 72% QoQ, putting 2026 on track to become a record-setting year, if current trends persist.

- Conversely, infrastructure fundraising declined by approximately 42% YoY during the first half of 2026 following a record-setting 2025, reflecting the timing of several mega-funds closing.

- Electricity demand growth continues to accelerate, with AI-driven data centers expected to account for roughly half of incremental power demand growth through the end of the decade, alongside rising electrification of buildings, transportation, and industry.

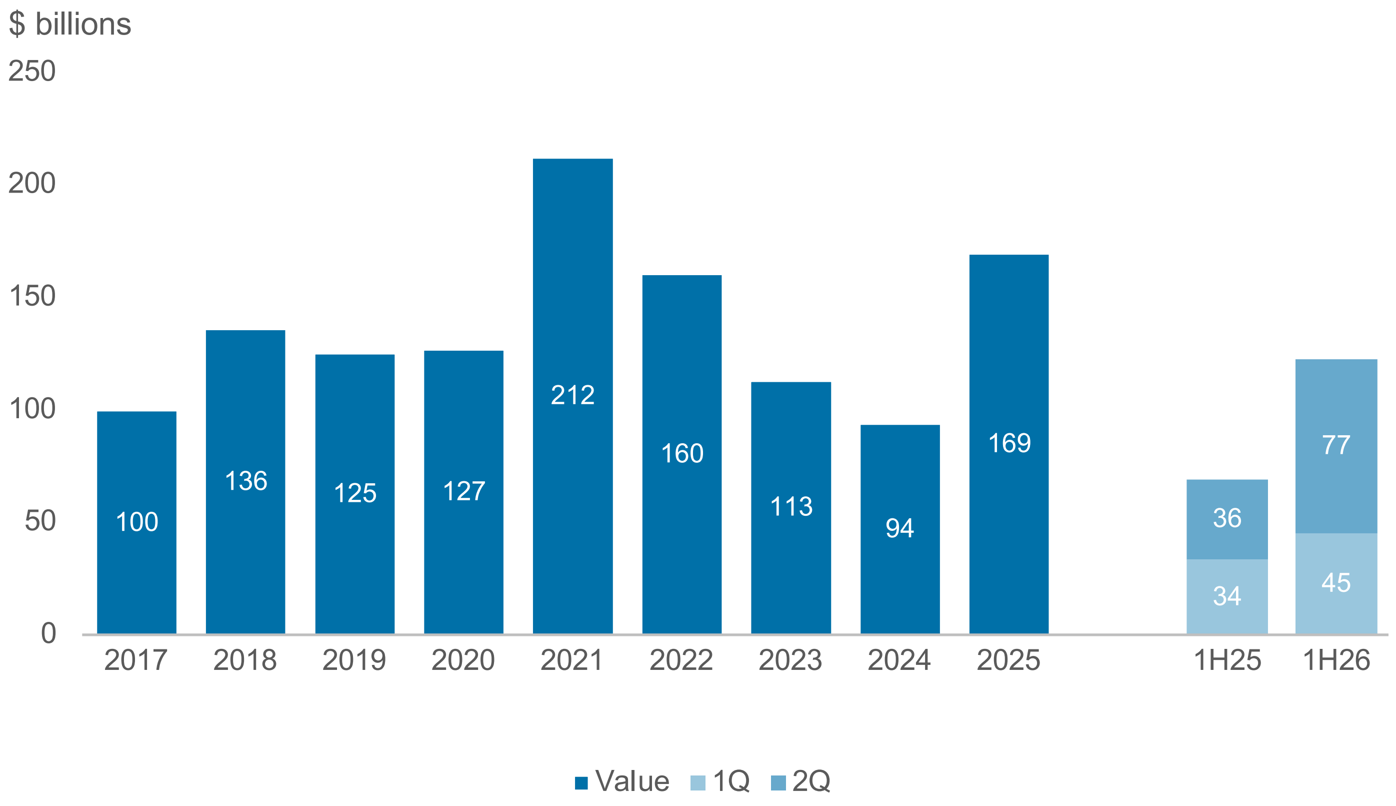
- Grid infrastructure remains a key bottleneck to electrification, as interconnection queues continue to grow and transmission projects often require 5 to 15 years to develop—well behind the pace of new demand from data centers, transportation electrification (e.g., EV charging, freight corridors, and port electrification), and broader energy transition, which are all seeing record demand globally.

- The significant investment required to modernize and expand critical infrastructure continues to create compelling opportunities for investment, supported by sustained societal need and long-term demand drivers.

SOURCE: Pathway Research. J.P. Morgan, based on BloombergNEF (BNEF) NEO 2025 Grids Data Viewer, Economic Transition Scenario.

# Infrastructure deal activity accelerated in the second quarter, on pace for a record year.

## Infrastructure Deal Value




## 2Q26 Notable Deals

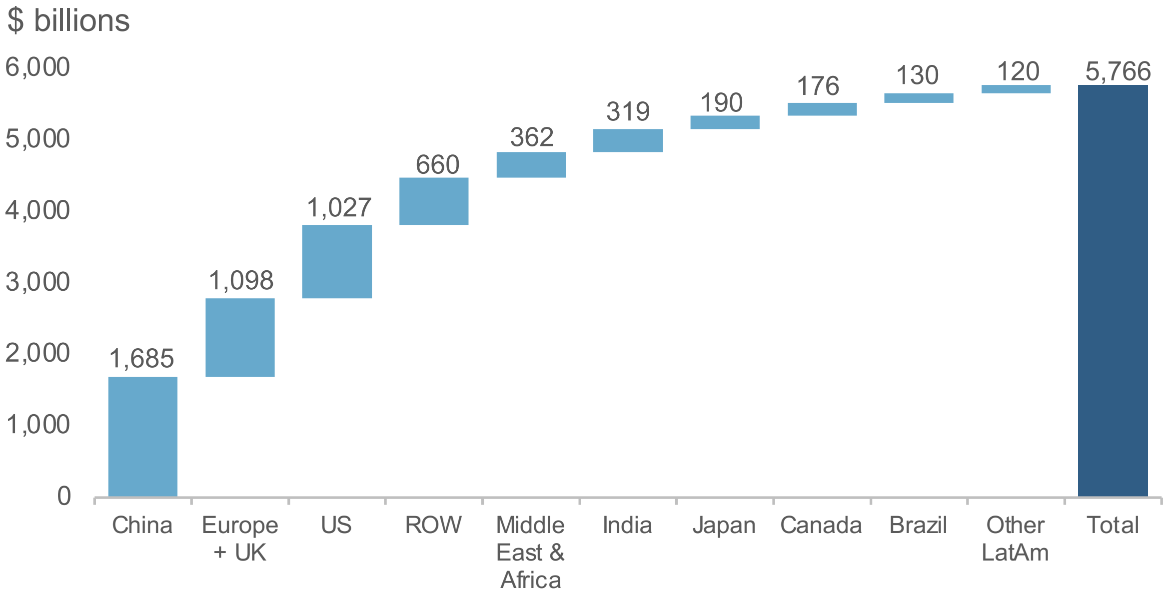
| Target | Acquirer | Deal Size ($MM) |
|---|---|---|
| Air Lease Corp. | Brookfield, Apollo | 27,000 |
| Cleco | Stonepeak, BCP | 6,000 |
| EDF Renewable Energy | KKR | 4,200 |
| Sabre Industries | TPG | 3,500 |
| Ramudden Global | L2 Capital Partners | 2,900 |

SOURCE: PitchBook Data, Inc.; Pathway Research. NOTE: As of June 30, 2026.

# Grid infrastructure remains the bottleneck to electrification.

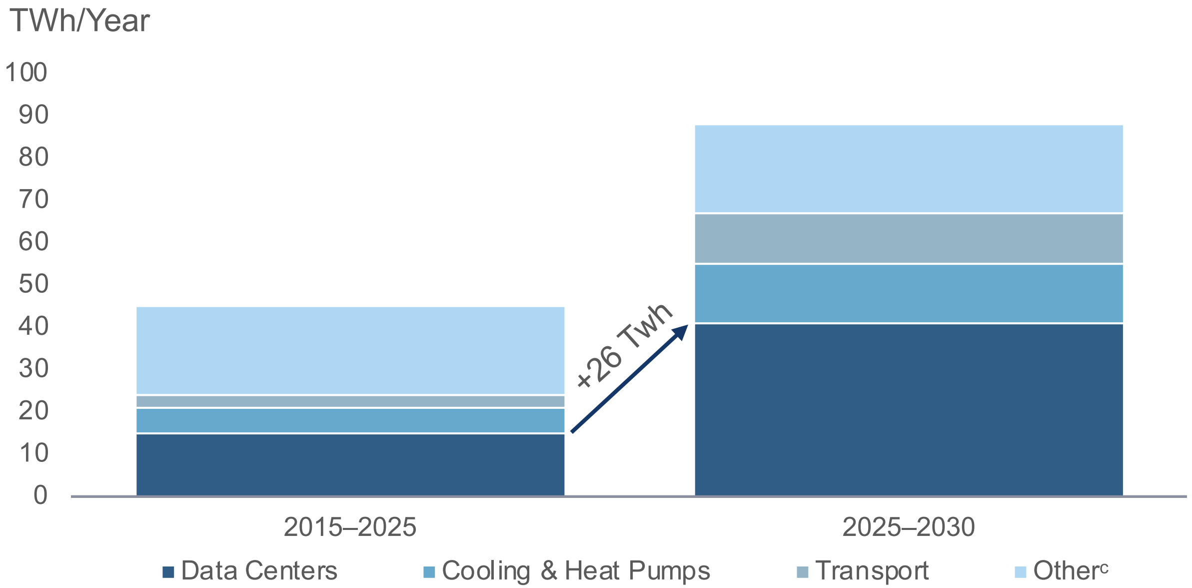
## Grid Modernization Spend Continues to Grow[a]

Projected Grid Spend by Region, 2026–2035




## Driven by Significant Demand across End Markets[b]

Average Annual Electricity Demand Growth in the U.S.



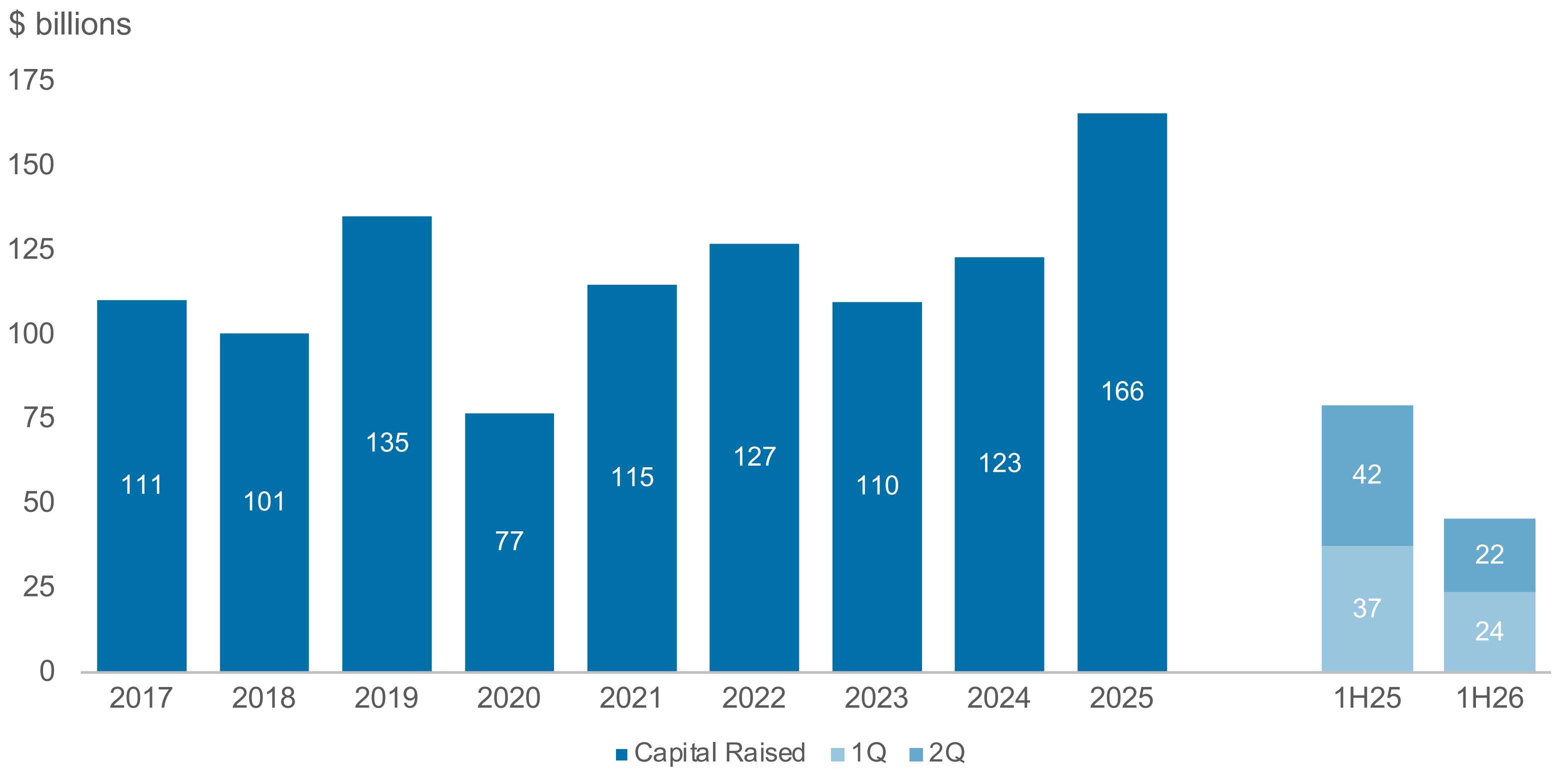

- Grid spend continues to accelerate, driven by data centers and rising electricity demand. U.S. grid investment is expected to reach over $1.0 trillion over the next decade, with annual investment more than doubling from 2021 to 2026.
- Demand growth across end markets is reshaping long-term electricity consumption and increasing the need for investment across grid infrastructure.

[a]SOURCE: J.P. Morgan, based on BloombergNEF (BNEF) NEO 2025 Grids Data Viewer, Economic Transition Scenario. NOTES: Published March 25, 2026. Forecast cumulative global grid investment for 2026–2035. Excludes offshore wind connections. Includes asset replacements, new connections, and system reinforcements across both transmission and distribution networks. Figures are presented in nominal U.S. dollars. [b]SOURCE: International Energy Agency (IEA), Electricity 2026. NOTES: Updated February 13, 2026. Average annual U.S. electricity demand growth by sector and end use for 2015–2025 (historical) and 2025–2030 (forecast). Values are expressed in terawatt-hours per year (TWh/year). Figures may not sum due to rounding. [c]Includes industry, rest of buildings, and IEA-defined *Other*.

# Infrastructure fundraising normalized in 1H26 following record pace of 2025.

Investor demand remains strong, supporting record infrastructure investment across AI, electrification, and grid modernization.

## Global Private Infrastructure Capital Raised




## Notable Funds Raised in 2Q26

| Fund | Regional Focus | Size ($MM) |
|---|---|---|
| ISQ Global Infrastructure Fund IV[a] | Global | 10,000 |
| ArcLight Infrastructure Partners Fund VIII | North America | 3,900 |
| ISQ Growth Markets II[a] | APAC, LatAm | 2,000 |
| NOVA Infrastructure Fund II | North America | 1,450 |
| Vesper Next Generation Infrastructure Fund I | Europe | 1,150 |

SOURCE: PitchBook Data, Inc.; Infrastructure Investor; Pathway Research. NOTE: As of June 30, 2026. [a]First close.