

Time to Prepare for An Uncertain Stretch

ECONOMY

2 While lagging economic indicators showed a relatively robust economy heading into 2025, leading indicators telegraphed a slowdown. This is critical since 1Q25 lagging data reflect the economy as of March 31, before the president's early April tariff announcement.

Steady Results Until End of Quarter Shift

FIXED INCOME

8 U.S. interest rates and corporate credit spreads held steady for most of 1Q until policy signals from the Trump administration prompted investors to reprice risk assets. Muni bonds were flat while global indices were slightly lower as economic forecasts were trimmed.

Fundraising Low; Strong Growth Seen

PRIVATE CREDIT

12 Over the past 10 years private credit has generated a net IRR of 8.8%. The number of funds raised in 4Q24 was the lowest in eight years. North American private credit assets under management is expected to grow from \$1.01 trillion in 2024 to \$1.74 trillion in 2029.

Positive Results but Tariff Changes Loom

INSTITUTIONAL INVESTORS

4 Results for all investor types were positive for the year ending 4Q24, although they struggled to match a 60% stocks/40% bonds benchmark. While 1Q25 was relatively quiet, the tariff announcements right after quarter end introduced a fair amount of uncertainty.

Income Returns Up; REITs Top Equities

REAL ESTATE/REAL ASSETS

10 Income returns for private real estate were positive across sectors and regions; appreciation returns for property sectors were mixed. Global REITs outperformed equities. U.S. REITs saw a gain, in contrast to the S&P 500, which fell 4.3%. Redemption queues are plunging.

Mixed Results; Gains Driven by Credit

HEDGE FUNDS/MACs

13 The median Callan Institutional Hedge Fund Peer Group rose 1.4%. The Callan Absolute Return FOF ended 1.3% higher, while the Callan Core Diverse FOF fell 0.03%. The Callan Long/Short FOF ended 0.9% lower. MAC strategies showed gains, mostly due to fixed income.

Choppy Start in U.S. but Global Stocks Up

EQUITY

6 The S&P 500 Index fell by 4.3%, partially driven by escalating trade tensions and the potential negative impact of a Chinese AI rival. Global equity markets rebounded, with broad indices posting their best one-quarter period compared to the S&P 500 in a decade.

Activity Mixed and Uneven Across Cycle

PRIVATE EQUITY

11 There has been a big drop in the number of funds raised, but buyout activity jumped. Venture capital is still recovering from the peak of 2021, while exits are still depressed. Performance continued to lag public equity, which has been driven by the Magnificent 7.

DC Index Dips After Four Straight Gains

DEFINED CONTRIBUTION

15 The Callan DC Index™ fell 0.2% in 4Q24, after seeing gains in the four previous quarters. The Age 45 Target Date Fund had a slightly lower quarterly return but topped the index over the full year. Balances fell by 0.8% after a 4.7% increase in the previous quarter.

Broad Market Quarterly Returns

U.S. Equity
Russell 3000



-4.7%

Global ex-U.S. Equity
MSCI ACWI ex USA



5.2%

U.S. Fixed Income
Bloomberg Agg



2.8%

Global ex-U.S. Fixed Income
Bloomberg Global Agg ex US



2.5%

Sources: Bloomberg, FTSE Russell, MSCI

Time to Prepare for an Uncertain Stretch

ECONOMY | Jay Kloepper

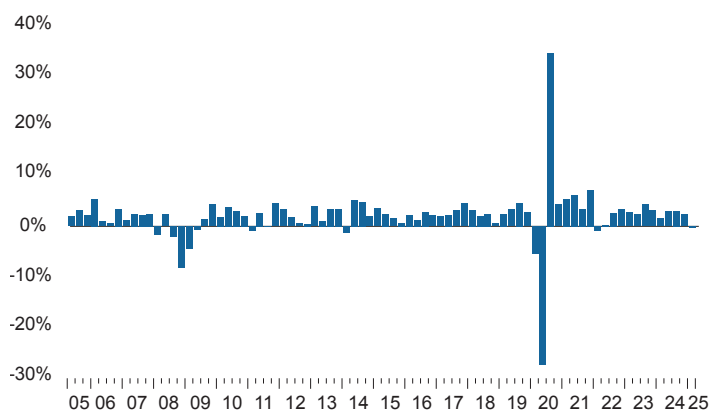
The U.S. and global economies showed signs of slowing toward the end of 2024, through leading indicators such as sentiment, consumer confidence, planned discretionary spending (think of travel, vacations, leisure), and business spending plans and capital investment. The stock and bond markets are also leading indicators of investor sentiment. Broad economic indicators such as employment, income, production, and housing, in contrast to the leading indicators, held up through 2024 and into 1Q25, but these data are collected after the fact. The typical pattern of macroeconomic data is that if a recession is expected, the stock and bond markets will react while the economy is still doing well (according to these after-the-fact data points). The same process works in reverse; the stock market looks forward to better times after repricing and can often look rosy while the economy struggles to hit bottom and recover. The lag in reporting of the broad economic data can frustrate us as the economy hits a turning point; we sense the situation has changed but we have to wait for confirmation.

Why does this data lag matter? March 31 now seems like a long time ago. We must remind ourselves that the upheaval in global capital markets did not strike until April, after 1Q25 ended. The data through March confirm expectations for a softening in the economy in the first quarter, but these data do not include the impact of the tariff announcements in April. The 1Q data do include declines in business and consumer confidence that began to accumulate in advance of the April announcements and actions by the administration.

U.S. GDP fell by 0.3% (annual rate) in 1Q25, the first quarterly decline since the pandemic. While GDP grew 2.8% in 2024, the third year in a string of strong growth, the sharp reversal in 1Q surprised no one. Markets believed a recession was coming at the start of last year. The Federal Reserve telegraphed that it was considering rate cuts as early as 1Q24 and finally acted in September, despite the seeming lack of compelling evidence to support the need to ease. The leading indicators listed above started flashing recession signs in 4Q24, maybe earlier, as both consumer and business sentiment showed growing unease and caution about

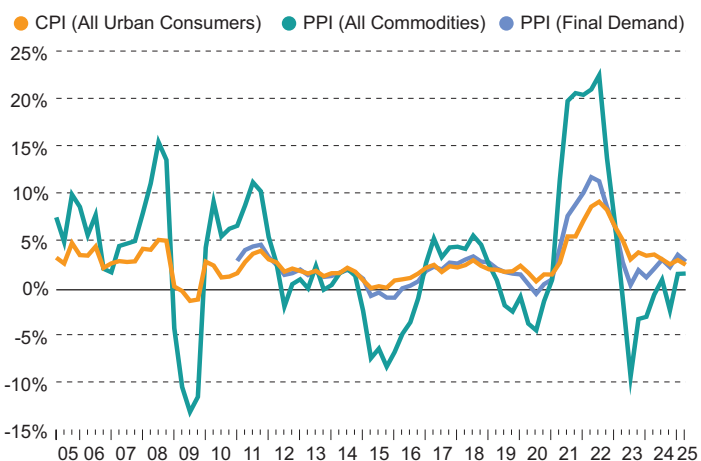
Quarterly Real GDP Growth

(20 Years)



Source: Bureau of Economic Analysis

Inflation Year-Over-Year



Source: Bureau of Labor Statistics

spending. In the PMI data from S&P, it is important to note that U.S.-based manufacturers, the intended beneficiaries of tariffs, were split. Those competing with imported final goods reported positive sentiment, while those that rely on inputs from around the globe were more cautious. Last year was marked by a tumultuous U.S. presidential election, looming potential trade conflicts, and geopolitical upheaval spread around the world. Actors in the economy were clearly preparing for potential uncertainty in 2025, but it would be safe to say few were expecting the extent of the tariffs announced in early April and the resulting large market impact.

In contrast to the drop in GDP, underlying economic data still looked solid through 1Q25. The U.S. economy added another 228,000 jobs in March, well above the rate that signals expansion, and the unemployment rate remains near a historic low at 4.2%. One sign of labor market normalization is the ratio of the number of unemployed looking for work to job openings; after dropping to 0.5 following the pandemic, the tight labor market appears to be loosening, with this ratio rising to 1.0 in March. However, the official data do not capture the impact of a sharp drop in immigration (both legal and illegal) and mass deportations of immigrants stated to be in the country without authorization, particularly on the labor market that serves the agriculture, construction, and services industries; these sectors are likely to face severe labor shortages in 2025 and thus pose a threat to labor costs. Inflation as measured by the CPI dropped to 2.4% in March, while average hourly earnings rose by 3.8% during 1Q25, meaning real income continues to rise. The economic data and the GDP report for 1Q depict an economy that may be on the precipice of greater change.

Three details in 1Q GDP bear pointing out. First, we saw a surge in imports, as businesses and consumers likely stocked up in advance of the tariff announcements, and these are a negative to GDP. Net exports—exports minus imports—fell by 50% annualized in 1Q and subtracted 5 percentage points off GDP. Second, one of the positive contributors to GDP was inventory building of products, some made in the United States, notably consumer goods such as drugs, perhaps in anticipation of rising prices from tariffs. Third, physical gold and silver imports as investments surged over the last year, and these are now excluded from consumption. GDPNow estimates from the Atlanta Fed during 1Q pointed out the impact of gold on GDP. Taking large gold imports out of consumer

The Long-Term View

Index	1Q25	Periods Ended 3/31/25			
		1 Yr	5 Yrs	10 Yrs	25 Yrs
U.S. Equity					
Russell 3000	-4.7	7.2	18.2	11.8	7.4
S&P 500	-4.3	8.3	18.6	12.5	7.4
Russell 2000	-9.5	-4.0	13.3	6.3	6.8
Global ex-U.S. Equity					
MSCI EAFE	6.9	4.9	11.8	5.4	3.9
MSCI ACWI ex USA	5.2	6.1	10.9	5.0	--
MSCI Emerging Markets	2.9	8.1	7.9	3.7	--
MSCI ACWI ex USA Small Cap	0.6	1.9	11.8	5.3	6.1
Fixed Income					
Bloomberg Agg	2.8	4.9	-0.4	1.5	4.0
90-Day T-Bill	1.0	5.0	2.6	1.9	1.9
Bloomberg Long G/C	3.6	1.7	-3.7	1.0	5.3
Bloomberg GI Agg ex US	2.5	1.5	-2.4	-0.2	2.6
Real Estate					
NCREIF Property	1.3	2.7	3.2	5.4	7.5
FTSE Nareit Equity	0.9	9.9	11.3	5.3	9.8
Alternatives					
Cambridge PE*	2.7	7.9	14.3	13.4	12.4
Cambridge Senior Debt*	3.3	10.2	7.9	7.3	4.6
HFRI Fund Weighted	-0.4	4.6	9.5	5.0	5.2
Bloomberg Commodity	8.9	12.3	14.5	2.8	2.2
Inflation – CPI-U	1.3	2.4	4.4	3.1	2.5

*Data for most recent period lags. Data as of 3Q24.

Sources: Bloomberg, Bureau of Economic Analysis, FTSE Russell, Hedge Fund Research, MSCI, NCREIF, Refinitiv/Cambridge, S&P Dow Jones Indices

spending reduces total imports. One final note, the impact of the California wildfires is muted in GDP, since the destruction of fixed assets (structures) does not impact GDP or incomes directly.

Recent Quarterly Economic Indicators

	1Q25	4Q24	3Q24	2Q24	1Q24	4Q23
Employment Cost: Total Compensation Growth	3.6%	3.8%	3.9%	4.1%	4.2%	4.2%
Nonfarm Business: Productivity Growth	-0.6%*	1.5%	2.9%	2.1%	1.6%	3.5%
GDP Growth	-0.3%	2.3%	2.8%	3.0%	1.6%	3.2%
Manufacturing Capacity Utilization	76.9%	76.2%	76.7%	77.1%	77.1%	77.6%
Consumer Sentiment Index (1966=100)	64.5	72.1	68.1	71.1	78.4	64.9

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve, IHS Economics, Reuters/University of Michigan

* Estimate

Gains Ease but Still Positive; Tariff Uncertainty the Main Concern

INSTITUTIONAL INVESTORS

Investor Performance

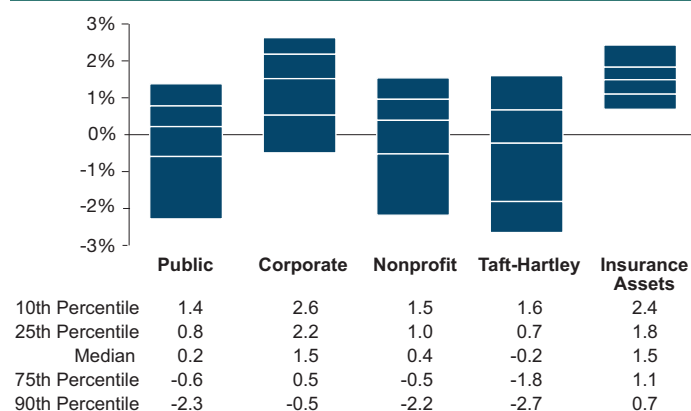
- While returns moderated from the double-digit levels in the four quarters ending 4Q24, all institutional investors reported gains for the four quarters ending 1Q25.
- The gains were tightly clustered, with nonprofits doing best.
- The performance was helped by robust gains for U.S. and global stocks and fixed income.
- But investors did not top a 60% S&P 500/40% Bloomberg US Aggregate Bond Index benchmark.
- Performance over longer time periods was mixed compared to the benchmark:
 - Three Years:** The benchmark easily topped investor returns.
 - Five Years:** Aside from typically bond-heavy corporate defined benefit (DB) plans, investors came close to matching the benchmark return.
 - 10 Years:** Investor returns struggled against the benchmark.
 - 20 Years:** While still trailing the benchmark, investors did relatively better (again, aside from corporate DB plans).

Macroeconomic Issues

- The Federal Reserve Open Market Committee held rates steady at 4.25% in 1Q25.

Quarterly Returns, Callan Database Groups

(3/31/25)



Source: Callan

- The Fed signaled a cautious approach.
- With inflation continuing to persist above 3%, future rate cuts are unlikely.
- The yield curve stayed “flat” but declined.
 - The short end was essentially unchanged.
 - The 1-year U.S. T-bill was down 13 bps to 4.02%.
 - The 10-year and 30-year U.S. Treasury yields were off by 26 bps (to 4.21%) and 20 bps (to 4.58%), respectively.
- Equity and fixed income performance was mixed in 1Q25.
 - S&P 500 fell 4.3% (coming off two straight years of 20%+ annual returns).

Callan Database Median and Index Returns* for Periods Ended 3/31/25

Database Group	Quarter	1 Year	3 Years	5 Years	10 Years	20 Years
Public Database	0.2	5.5	4.4	10.3	7.0	7.0
Corporate Database	1.5	4.5	1.5	6.2	5.2	6.3
Nonprofit Database	0.4	5.6	4.6	10.5	6.7	6.8
Taft-Hartley Database	-0.2	5.0	3.9	9.9	6.8	6.8
Insurance Assets Database	1.5	5.9	3.6	4.9	4.0	4.5
All Institutional Investors	0.5	5.2	4.0	9.8	6.5	6.7
Large (>\$1 billion)	0.8	5.4	3.8	10.0	6.9	7.0
Medium (\$100mm - \$1bn)	0.3	5.0	4.0	9.9	6.6	6.8
Small (<\$100 million)	0.3	5.4	4.3	9.8	6.3	6.5
60% S&P 500/40% Bloomberg Agg	-1.5	7.0	5.8	10.9	8.3	7.7

*Returns less than one year are not annualized.

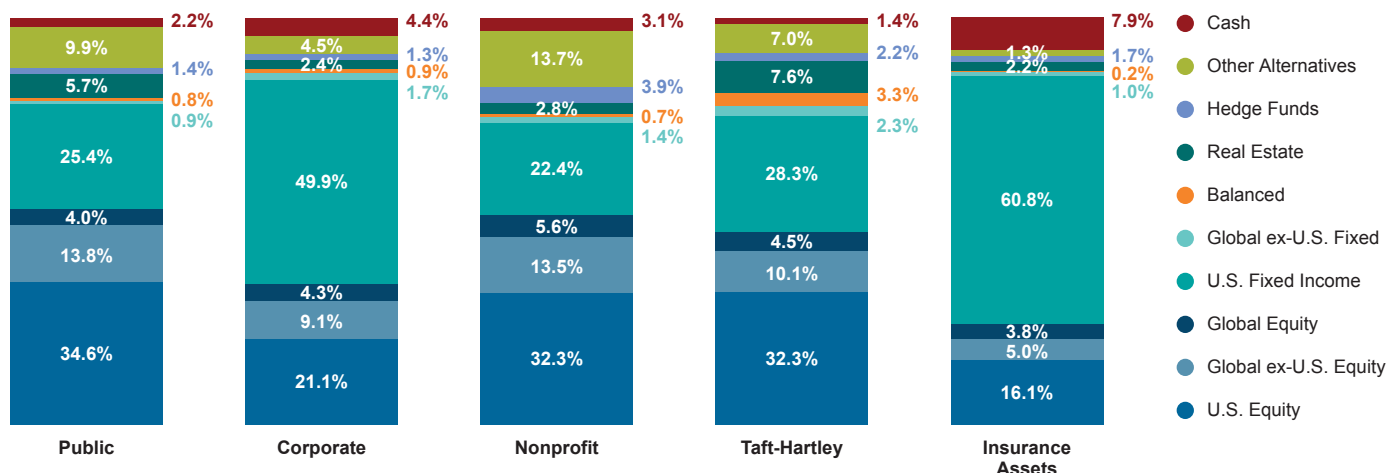
Source: Callan. Callan's database includes the following groups: public defined benefit (DB) plans, corporate DB plans, nonprofits, insurance assets, and Taft-Hartley plans. Approximately 10% to 15% of the database constituents are Callan's clients. All database group returns presented gross of fees. Past performance is no guarantee of future results. Reference to or inclusion in this report of any product, service, or entity should not be construed as a recommendation, approval, affiliation, or endorsement of such product, service, or entity by Callan.

- The Bloomberg Aggregate gained 2.8%.
- While 1Q25 was, relatively, quiet—everything changed.
- Tariffs announced by President Trump on April 2.
- The tariff amounts ranged from 10% (Singapore, Ukraine, U.K.) to 49% for Cambodia.
- The immediate capital markets reaction was negative.
 - Equity markets across the globe immediately dropped.
 - Treasury rates rose and credit spreads widened.
- A week later, Trump announced a 90-day pause.
 - The equity market responded with the best one-day gain in years.
 - Rates and spreads fell slightly.
- From April 4 through April 12 the S&P 500 index moved at least 4.9% each intra-day (longest since COVID)

Public DB Plans

- Based on the results of our proprietary Consultant Survey, funded status and return enhancement were neck and neck as the most significant issue.
- Interest in private real estate continued at high levels as more than 20% of plans indicated they are considering increasing allocations.
- In another sharp reversal, there was a jump in the share of clients planning to decrease global ex-U.S. equity allocations after a big share said they planned to increase allocations in 3Q24.
- There was almost no interest in changing allocations to other public markets asset classes, either increasing allocations or decreasing them.

Average Asset Allocation, Callan Database Groups



Note: Charts may not sum to 100% due to rounding. Other alternatives include but is not limited to: diversified multi-asset, private credit, private equity, and real assets.
Source: Callan

Corporate DB Plans

- For the first time, hibernation was the top goal for clients, according to our survey.
- Closing the funding gap, which had typically been the top goal, was No. 2.
- The share of plans with a funded status above 100% has held fairly steady. The share of plans with a funded status below 91% is at its lowest level ever.

DC Plans

- The share of plans in our survey that indicated they were considering cutting the number of funds in their lineup hit its highest level since 3Q17.
- Fees remain the top issue for DC plans, as they have been for years. Compliance and investment structure have shifted over time as No. 2 and 3.

Nonprofits

- Liquidity is the top concern, displacing return enhancement, according to our survey.
- Overall interest in changing private markets allocations was low.
 - Just as many nonprofit clients indicated they planned to increase as decrease private equity.
 - The share of clients planning to cut hedge fund allocations, while small, was steady compared to other quarters and showed the asset class remains under some pressure.
 - Interest in private real estate rose slightly.
 - Client interest in increasing allocations to private credit also stayed steady as in previous quarters after bumping up in 3Q23 and 1Q22.

Equity

U.S. Equities

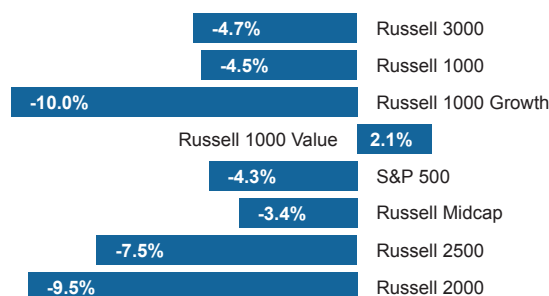
Choppy start to the New Year

- The U.S. equity market gave back some of its 2024 gains in 1Q25. The S&P 500 Index fell by 4.3%, partially driven by escalating trade tensions and the potential negative impact from the emergence of China-based AI company DeepSeek as a rival to U.S.-based AI leaders.
- Mega-cap growth stocks, particularly the Magnificent 7, lagged the broad index. Market leadership broadened out during the quarter.
- From a sector perspective, Consumer Discretionary and Technology were the two worst-performing sectors, while Energy and Health Care performed the best.
- During 1Q, mid cap stocks performed the best followed by large cap stocks. Small cap stocks continued to underperform as elevated interest rates and fear of tariffs weighed on smaller, more leveraged business models.
- Value outperformed growth across the market cap spectrum, reversing the long-term trend of growth outperformance.
- Given the macroeconomic uncertainty, volatility has spiked to levels last seen in the early months of the pandemic.
- Investors were focused on tariff impacts as some of the better-performing sectors (e.g., Financials, Health Care, and Utilities) are more insulated.
- Factors that performed well during the quarter included return on equity, dividend yield, and low beta.
- Despite their outperformance, value stocks remain cheap versus growth stocks based on forward P/E ratios.

- The Russell 2000 Index has a trailing four-year annualized return of -1% due in part to rising rates, lower sales growth, and fiscal stimulus skewing in favor of larger companies. Long-term periods of small cap underperformance have been followed by periods of outperformance historically.
- Small caps, on both an absolute and relative (to large caps) basis, continue to trade at historic lows.

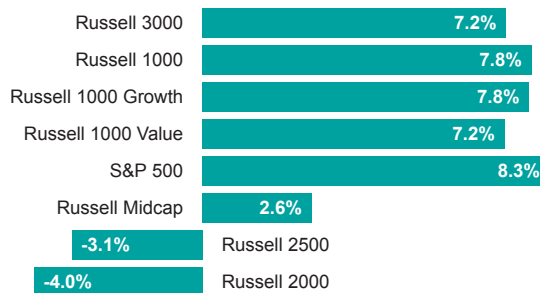
U.S. Equity: Quarterly Returns

(3/31/25)



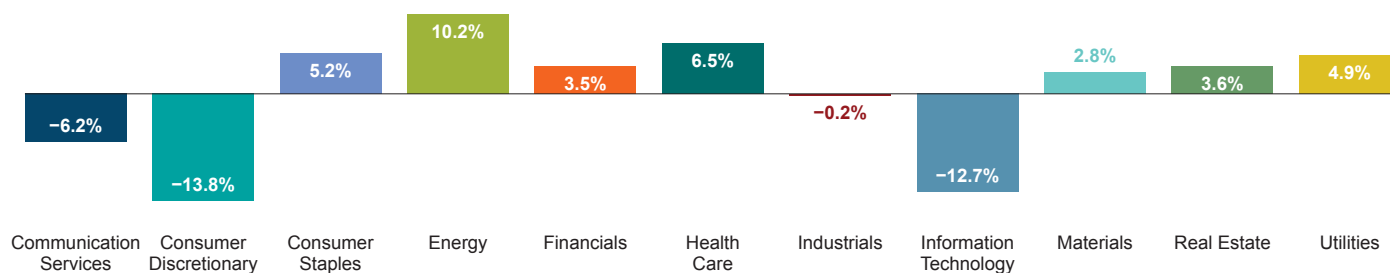
U.S. Equity: One-Year Returns

(3/31/25)



Sources: FTSE Russell and S&P Dow Jones Indices

Quarterly Performance of Industry Sectors (3/31/25)



Source: S&P Dow Jones Indices

Global Equities

Broad market

- Following a challenging 4Q24, global equity markets rebounded, with broad indices posting their best one-quarter period compared to the S&P 500 in a decade.

Emerging markets

- Emerging markets ended the quarter in positive territory, although trailing their developed market peers.
- India, which accounted for nearly 20% of the index, had another negative quarter.
- China, which struggled in 4Q, saw strong gains and ended with the highest trailing 12-month return in five years.

Growth vs. value

- Value was the decisive winner in both emerging and developed markets. This had multiple causes, including European stimulus, higher expected interest rates, and persistent inflation driving investors to defensive, dividend-paying stocks.

U.S. dollar

- The U.S. dollar experienced a significant decline, dropping 4% relative to a broad basket of developed currencies, which provided additional support to developed ex-U.S. markets but was less supportive in emerging markets.

Seven states propose legislation to remove China

- Indiana, Florida, Missouri, Oklahoma, Kansas, Texas, and North Dakota proposed legislation to divest from Chinese/Hong Kong investments in the last 18 months; all but one passed.
- The divestment initiatives reflect national security concerns, economic considerations, and political factors.

Ex-China universe

- According to Morningstar, the number of ex-China emerging market funds has nearly doubled to approximately 70 globally over the past two years.
- These funds have attracted substantial investor interest, with assets under management increasing by 75% in 2024 (through October) to over \$26 billion.

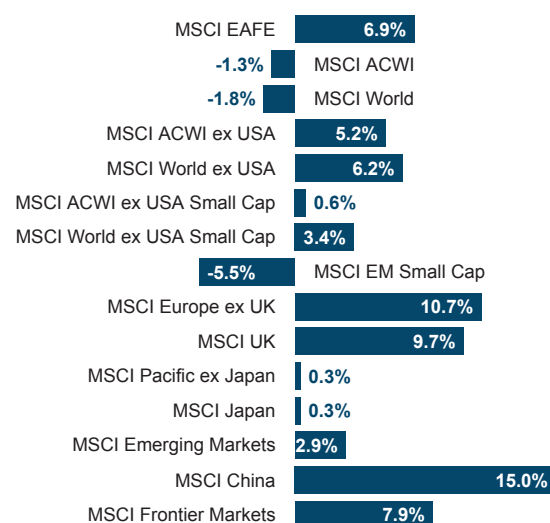
Reversing the trend with currency

- The U.S. dollar depreciated against the euro, yen, pound, and most emerging market currencies. After a strong

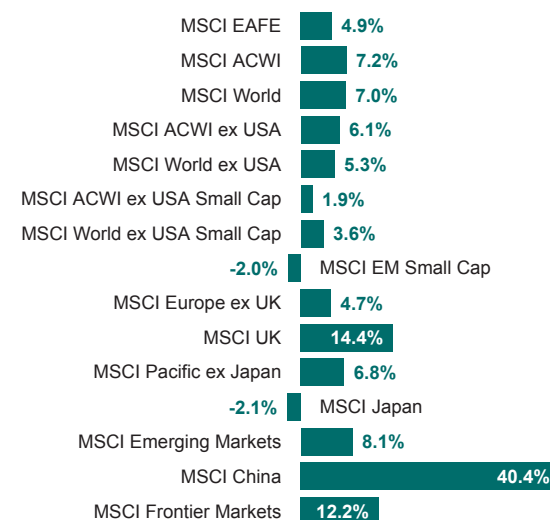
performance throughout 2024, the U.S. Dollar Index declined approximately 4% in 1Q25, driven by increased investor allocations to non-U.S. assets.

- Concerns about fading U.S. exceptionalism and reduced confidence in the dollar's safe-haven status—amid rising geopolitical and economic isolation—contributed to last quarter's market shifts.

Global ex-U.S. Equity: Quarterly Returns (U.S. Dollar, 3/31/25)



Global ex-U.S. Equity: One-Year Returns (U.S. Dollar, 3/31/25)



Source: MSCI

Fixed Income

U.S. Fixed Income

Macro environment

- U.S. interest rates and corporate credit spreads held steady for most of the quarter until policy signals from the Trump administration—including deficit reduction and tariff rumors—prompted investors to reprice risk assets.
- In March, the Fed kept rates unchanged despite rising volatility from softer economic data and White House uncertainty, while other major central banks shifted to a more accommodative stance.

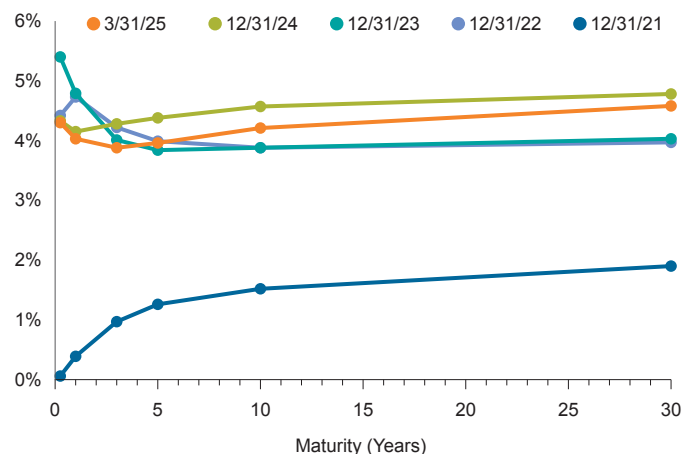
Performance and drivers

- The Bloomberg US Aggregate Bond Index rose 2.8% as falling rates drove gains, making it the top contributor to the quarter's positive returns. Although investors demanded higher premiums for credit risk, these concerns did not offset overall gains.
- Nonetheless, credit spreads across public markets generally widened in March.

Valuations

- Corporate credit spreads across investment grade and leveraged finance were “priced to perfection” before the administration induced uncertainties that caused spreads to widen.
- New issuance across IG and HY were also on pace to match 2024 YTD supply, but issuers delayed offerings as demand softened.
- Credit remains in high demand, driven by attractive absolute yields. New issuance is healthy in response to the demand for credit, with issuance on par with the YTD 2024 pace.
- Spreads tightened for both investment grade and high yield during the quarter. April's bout of volatility cheapened BBs vs BBBs, thus giving more opportunities for sector rotation and security selection.
- Liability management exercises (LMEs), including distressed exchanges, have become increasingly common in leveraged finance. In these cases, borrowers restructure stressed or distressed debt outside of bankruptcy court, spurring lender-on-lender aggression. Including LMEs in default calculations materially elevates default metrics.

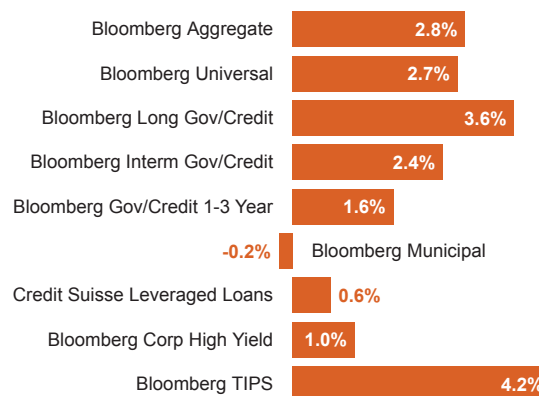
U.S. Treasury Yield Curves



Source: Bloomberg

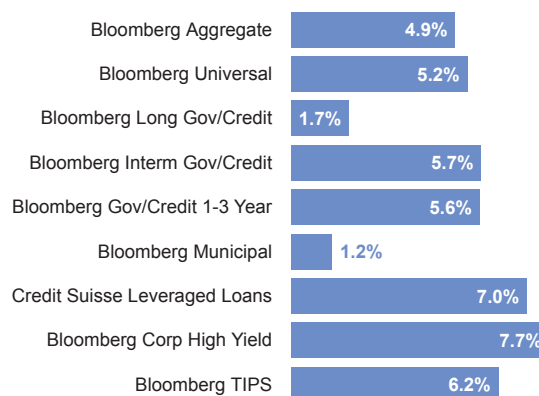
U.S. Fixed Income: Quarterly Returns

(3/31/25)



U.S. Fixed Income: One-Year Returns

(3/31/25)



Sources: Bloomberg and Credit Suisse

FIXED INCOME (Continued)

- Rising interest costs and weak covenant structures spur the rise in LMEs. Borrowers are transferring previously collateralized assets to new unrestricted subsidiaries and issuing new debt that becomes senior to existing debt.
- Loan issuer downgrades vs. upgrades remain elevated.

Municipal Bonds

Flat in 1Q

- The municipal bond AAA-rated curve steepened notably, with short yields falling but long-end yields rising 30–40 bps.
- The spread between AAA 2-year bonds and 10-year bonds widened 30 bps over the quarter, while Muni/Treasury ratios rose sharply across the curve.

Strong issuance met with mixed demand

- New issuance totaled \$119 billion, up 15% YOY, supported by March's \$41.4 billion in volume.
- Demand softened, with funds experiencing outflows in March, weighted toward ETFs.

Muni valuations cheapened, still rich vs 10-year average

- 10-year AAA Muni/10-year Treasury yield ratio climbed to 77.25%, from 66.96% in 4Q.
- Longer maturities saw the biggest move: 30-year ratio surged to 92.4%, up 10.8 percentage points.

Global Fixed Income

Macro environment

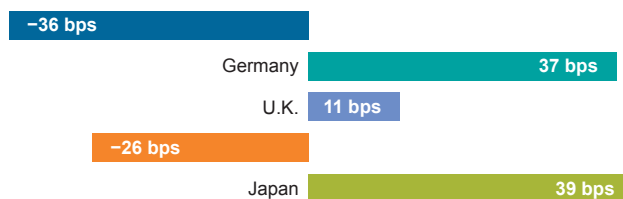
- Forecasts for global economic growth in 2025 were revised slightly downward by 0.1 percentage points to 3.1%, citing weakening business and consumer sentiment.
- Global central banks maintained a cautious tone, balancing disinflationary pressures with ongoing political and trade-related uncertainties.
- The ECB and BOE cut rates, while the BOJ raised its short-term rate by 25 bps to 0.5%, its highest level since 2008.

U.S. dollar weakened

- The U.S. dollar declined after reaching a two-year high in early January; the heaviest decline occurred in early March when tariffs on Mexican and Canadian goods went into effect.
- The Bloomberg Global Aggregate ex US Hedged Index traded down 0.2% for the quarter, while the Unhedged Index rose by 2.5% due to U.S. dollar weakness.

Change in 10-Year Global Government Bond Yields

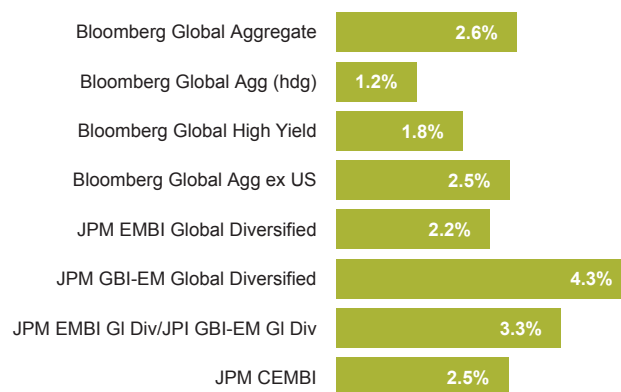
4Q24 to 1Q25



Source: Bloomberg

Global Fixed Income: Quarterly Returns

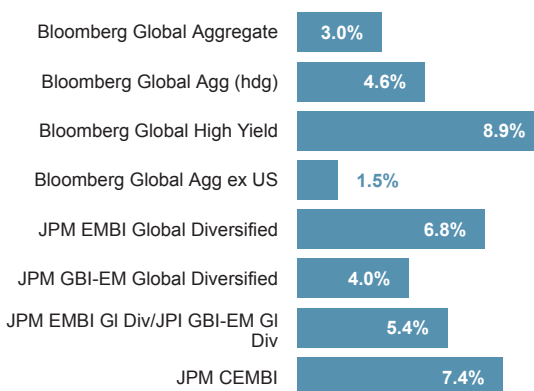
(3/31/25)



Sources: Bloomberg and JPMorgan Chase

Global Fixed Income: One-Year Returns

(3/31/25)



Sources: Bloomberg and JPMorgan Chase

Emerging market debt was a bright spot

- Local currency sovereign bonds (JPM GBI-EM GD) led the strength in EM debt, while hard currency sovereigns (JPM EMBI GD) also had a solid quarter as investors repriced the U.S. for slower growth and a weaker dollar.

Income Returns Were Positive; REITs Topped Equities

REAL ESTATE/REAL ASSETS | Munir Iman

Valuations reflect higher interest rates

- Valuations appear to have bottomed and now reflect higher borrowing costs.
- Income returns were positive across sectors and regions.
- Property sectors were mixed; Office and Hotel experienced negative appreciation, and the remaining sectors had flat or positive appreciation.

REITs outperformed equities, both in the U.S. and globally

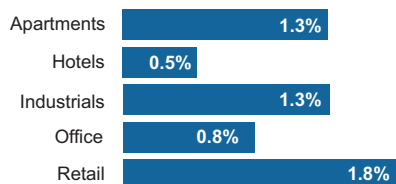
- Global REITs outperformed in 1Q25, up 1.6% compared to a 2.8% decline for global equities (MSCI World).
- U.S. REITs gained 0.9% in 1Q25, in contrast with the S&P 500 Index, which fell 4.3%.
- Global REITs are trading at a discount to NAV (-6.8%). Historically, they have traded at a -3.8% discount to NAV.

Over \$250 billion of dry powder

- ODCE redemption queues are approximately 13.0% of net asset value, with a median queue of 10.2%. This compares to the GFC when queues peaked at approximately 15% of net asset value (NAV).
- Outstanding redemption requests for most large ODCE funds are approximately 6% to 33% of NAV (one outlier at 51%).
- Redemption queues are now sharply decreasing after having peaked at 19.3% of NAV in 1Q24. This has been driven

Sector Quarterly Returns by Property Type

(3/31/25)



Source: NCREIF

primarily by rescissions of redemption requests within a handful of managers with large queues and increased redemption payments due to increased transactions.

Pricing, transaction volumes increasing

- Transaction volume is increasing on a rolling four-quarter basis yet remains below five-year averages.
- In 1Q25, transaction volume slightly increased on a quarter-over-quarter basis despite a modest decline in the number of properties sold. Transaction volume remains lower compared to 2022.
- The volatile rise in interest rates is the driving force behind the slowdown in transactions. Increasing transactions are driven by increasing confidence in multi-family and industrial values. Valuations have largely adjusted to increased borrowing costs.

Callan Database Median and Index Returns* for Periods Ended 3/31/25

Private Real Assets	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years	20 Years
Real Estate ODCE Style	0.9	0.9	1.2	-5.1	2.1	5.2	5.2
NFI-ODCE (value-weighted, net)	0.9	0.9	1.2	-5.1	2.0	4.7	5.4
NCREIF Property	1.3	1.3	2.7	-2.1	3.2	5.4	6.9
NCREIF Farmland	0.1	0.1	-1.7	3.5	4.8	5.7	11.1
NCREIF Timberland	0.8	0.8	5.6	8.9	7.9	5.3	6.8
Public Real Estate							
Global Real Estate Style	1.5	1.5	4.5	-3.0	7.4	4.1	6.5
FTSE EPRA Nareit Developed	5.8	5.8	14.8	2.4	9.5	6.1	--
Global ex-U.S. Real Estate Style	1.6	1.6	-3.7	-6.9	3.3	2.8	--
FTSE EPRA Nareit Dev ex US	3.3	3.3	-3.5	-7.7	1.1	-0.2	--
U.S. REIT Style	1.2	1.2	10.7	-0.7	10.8	6.2	8.3
FTSE EPRA Nareit Equity REITs	0.9	0.9	9.9	-0.6	11.3	5.3	7.5

*Returns less than one year are not annualized. Sources: Callan, FTSE Russell, NCREIF

Activity Mixed and Uneven Across the Cycle

PRIVATE EQUITY | Ashley Kahn

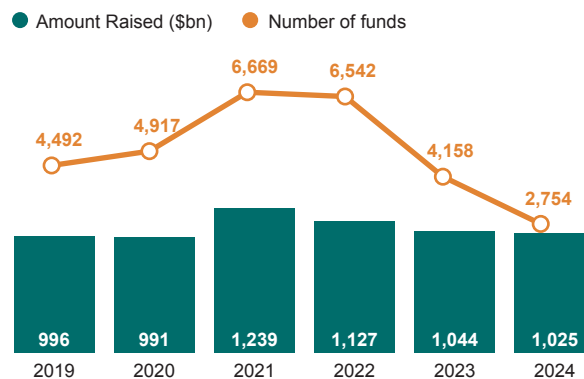
Fundraising ► There has been a steep decline in the number of funds raised since 2021—and it was down another 40% in 2024. With volume essentially flat compared to last year, capital continues to concentrate in the larger, often buyout, funds. Lingering feelings of uncertainty and more constrained capital budgets tend to drive LPs toward proven managers (and re-ups), as opposed to smaller, emerging managers.

Buyouts ► 2024 activity was up 22% by volume and 5% by count from 2023, with valuations nearing the record-highs of 2021. Activity reflects a more supportive macro environment closing out the year, driven by drops in interest rates, moderating inflation, and improved credit availability. These favorable conditions were short-lived and have since waned in 2025. With rising macroeconomic uncertainty and fluctuating tariff levels, operational acumen and the ability to respond to changing conditions will become even more essential for buyout managers.

Venture Capital and Growth Equity ► As venture/growth finishes the third year since its peak in 2021, recovery has been mixed and uneven, especially by stage. It saw steady declines in deal count over the last 3 years, with the number of deals in 2024 on par with pre-pandemic levels. In contrast, deal volume is up by 16% this year compared to 2023. Early-stage valuations have reached record highs, up 28% from last year. This has been driven by today's artificial intelligence (AI) "supercycle," with greater competition for AI startups pushing

Annual Fundraising

(12/31/24)



Source: Pitchbook

up valuations. In contrast, VC managers are paring back late-stage fund sizes as they come back to market, knowing they cannot deploy the same levels of capital as predecessor funds.

Exits ► This is the third year of depressed exit activity, spanning 2022-24. This year it was at ~75% of pre-pandemic levels, in line with last year. A huge backlog of pending exits remains today, totaling nearly 4,000 companies

Performance ► Short-term performance continues to lag public equity (driven by the Magnificent 7). Due to the smoothed nature of its returns, private equity doesn't outperform when public equity rises rapidly (it likewise doesn't drop as sharply when public equity drops).

Private Equity Performance (%) (Pooled Horizon IRRs through 9/30/24*)

Strategy	Quarter	1 Year	3 Years	5 Years	10 Years	20 Years
All Venture	1.4	2.4	-5.3	14.9	14.8	12.2
Growth Equity	2.8	7.7	-0.5	13.9	13.2	13.5
All Buyouts	3.3	10.1	6.3	15.2	14.0	14.0
Mezzanine	3.0	10.4	9.1	11.7	10.9	11.4
Credit Opportunities	2.5	9.9	7.6	9.2	7.6	9.2
Control Distressed	0.9	3.3	6.7	13.3	10.8	11.2
All Private Equity	2.7	7.9	2.8	14.4	13.4	13.1

Note: Private equity returns are net of fees. Sources: LSEG/Cambridge and S&P Dow Jones Indices

*Most recent data available at time of publication

Note: Transaction count and dollar volume figures across all private equity measures are preliminary figures and are subject to update in subsequent versions of the *Capital Markets Review* and other Callan publications.

Fundraising Hits 8-Year Low but Strong Growth Seen

PRIVATE CREDIT | Cos Braswell

Performance ► Private credit returns vary across sub-asset class and underlying return drivers. Over the past 10 years the asset class has generated a net IRR of 8.8%, outperforming leveraged loans. Higher-risk strategies have performed better than lower-risk strategies.

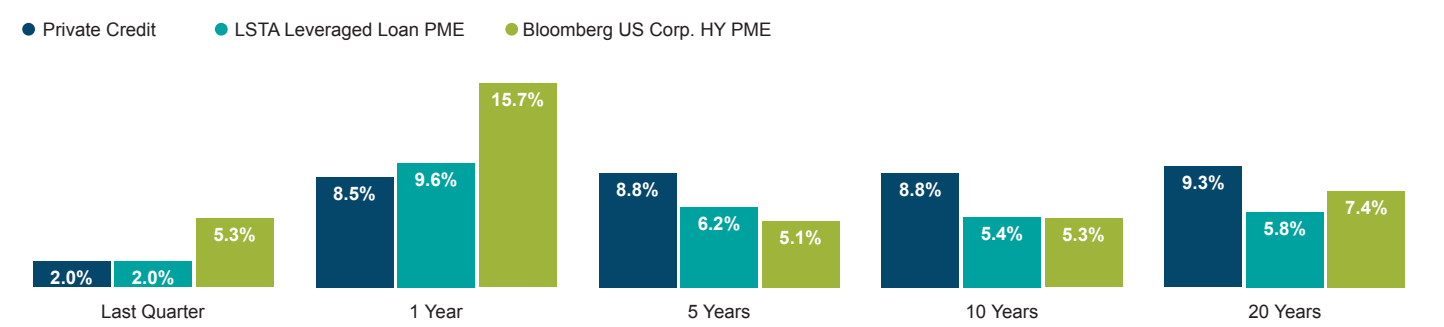
Fundraising ► The number of funds raised in 4Q24 was the lowest in eight years. Private credit fundraising ended 2024 down, the third yearly decline in a row. Direct lending continues to dominate fundraises with special situations following. There is increased interest in specialty finance/ABL strategies for more mature PC portfolios.

Assets ► North American private credit assets under management (AUM) is expected to grow significantly, from \$1.01 trillion in 2024 to \$1.74 trillion in 2029, representing an annualized growth rate of 11%. European private debt AUM is projected to grow at a slower pace of 7.8%, reflecting resilience despite a more challenging economic environment.

Loan Markets ► In 4Q24, both the private credit and syndicated loans markets remained slow, compared to the first half of the year. Despite the low volume, both markets continue to have a large appetite for deals. Direct lending volumes have been relatively more stable but remain at a lower level compared to institutional issuance in 2024 YTD, showing approximately \$50 to \$55 billion in 1Q24 and 2Q.

Yields ► U.S. sub-investment grade corporate yields rose dramatically at the beginning of 2022 with yields peaking in September. This was a combination of higher interest rates due to tighter Fed policy and a widening of high yield spreads. Effective yields dropped in 2024 but then increased to start 2025. Spreads contracted in 2024, a continuation from late 2023, due to stronger credit conditions as the U.S. economic outlook improved. However, in April 2025 we observed a spike in high yield effective yields.

Private Credit Performance (%) (Pooled Horizon IRRs through 9/30/24*)



Private Credit Performance (%) (Pooled Horizon IRRs by Strategy through 9/30/24*)

Strategy	Quarter	1 Year	5 Years	10 Years	20 Years
Senior Debt	2.3	9.1	7.8	8.2	8.4
Subordinated	0.8	7.5	10.1	10.3	10.3
Credit Opportunities	1.6	8.1	8.8	8.7	9.4
Total Private Credit	2.0	8.5	8.8	8.8	9.3

Source: LSEG/Cambridge
*Most recent data available at time of publication

Mixed Quarter With Gains Driven by Credit

HEDGE FUNDS/MACs | Joe McGuane

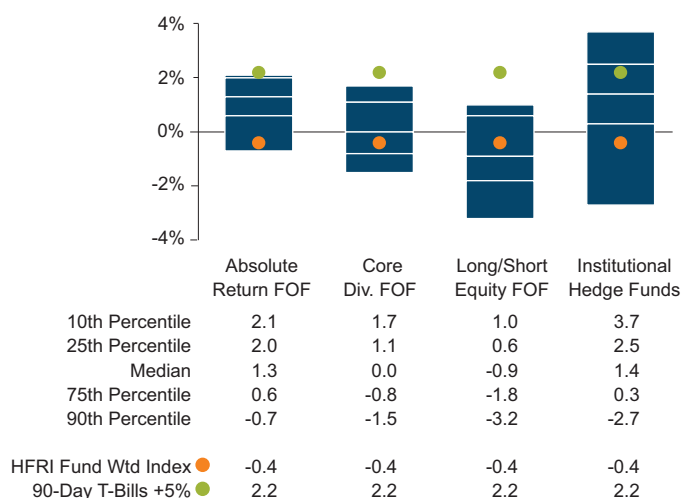
U.S. equity markets ended 1Q25 lower, as the DOGE-driven cutting of government jobs and programs caused confusion in Washington, and rising concerns over tariffs as well as signs of a weakening consumer stoked fears of a recession. The Federal Reserve kept monetary policy on hold, even while cutting its forecast for economic growth this year, citing the risk of inflation from evolving trade policy. Credit markets were relatively unmoved, as high-yield credit spreads widened during the quarter but remained tight by historical standards.

The S&P 500's performance was led lower by Consumer Discretionary and Technology, which were hurt by a weaker growth outlook, offset by gains in Energy as well as Health Care and Staples in a rotation to defensives.

Hedge funds ended the quarter mixed, as credit and interest rate-sensitive fixed income-based relative value strategies drove the majority of performance to start off the year. Macro strategies ended slightly higher as performance was mixed on interest rate volatility and a declining U.S. dollar. Equity hedge strategies ended lower, as strategies that were focused on technology

Hedge Fund Style Group Returns

(3/31/25)



Sources: Callan, Credit Suisse, Federal Reserve

suffered declines on trade/tariff volatility. Event-driven strategies also suffered losses during the quarter, as corporate activity ground to a halt during the quarter.

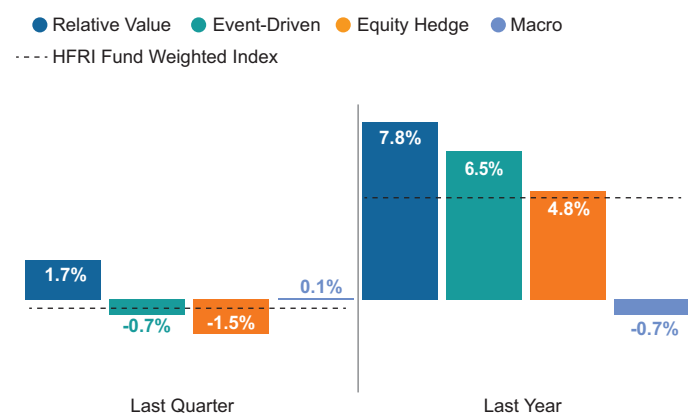
Serving as a proxy for large, broadly diversified hedge funds with low-beta exposure to equity markets, the median Callan

Callan Peer Group Median and Index Returns* for Periods Ended 3/31/25

Hedge Fund Universe	Quarter	1 Year	3 Years	5 Years	10 Years	15 Years
Callan Institutional Hedge Fund Peer Group	1.4	7.9	6.3	9.5	6.7	6.8
Callan Fund-of-Funds Peer Group	0.2	7.1	5.3	8.3	4.8	5.0
Callan Absolute Return FOF Style	1.3	8.1	6.1	8.8	4.4	4.8
Callan Core Diversified FOF Style	0.0	6.4	5.5	8.5	4.7	4.9
Callan Long/Short Equity FOF Style	-0.9	5.0	4.9	7.9	5.1	5.3
HFRI Fund Weighted Index	-0.4	4.6	4.6	9.5	5.0	4.8
HFRI Fixed Convertible Arbitrage	3.3	9.8	6.1	9.0	5.9	5.5
HFRI Distressed/Restructuring	0.3	9.6	4.6	11.2	5.4	5.4
HFRI Emerging Markets	2.5	9.0	4.3	8.5	4.5	3.4
HFRI Equity Market Neutral	1.8	7.9	6.6	6.0	3.7	3.4
HFRI Event-Driven	-0.7	6.5	5.1	10.6	5.2	5.3
HFRI Relative Value	1.7	7.8	5.3	7.8	4.5	5.0
HFRI Macro	0.1	-0.7	2.4	5.7	2.8	2.6
HFRI Equity Hedge	-1.5	4.8	4.8	11.2	5.9	5.5
HFRI Multi-Strategy	0.5	12.2	5.1	8.8	4.0	4.1
HFRI Merger Arbitrage	0.4	5.8	4.2	8.4	4.9	4.3
90-Day T-Bill + 5%	2.2	10.0	9.2	7.6	6.9	6.3

*Net of fees. Sources: Callan, Credit Suisse, Hedge Fund Research

HFRI Hedge Fund-Weighted Strategy Returns (3/31/25)



Source: HFRI

Institutional Hedge Fund Peer Group rose 1.4%. Within this style group of 50 peers, the average hedge credit manager gained 2.1%, driven by interest rate volatility during 1Q. Meanwhile, the average hedge equity manager moved 1.7% lower, as those with longer biased exposure to technology experienced lower performance. The median Callan Institutional hedge rates manager fell 0.5%, largely driven by interest rate volatility across the curve.

Within the HFRI indices, the best-performing strategy was relative value, up 1.7%, as managers profited from the volatility in credit and interest rates. Macro strategies ended up 0.1%, as managers were actively trading around interest rates, U.S. dollar positions, and volatility during the quarter. Equity hedge strategies ended 1.5% lower, as managers with a focus on technology experienced negative performance, as tariff talk heated up during the quarter. Event-driven strategies ended 0.7% lower, as the expected increase in corporate activity during 1Q had yet to materialize.

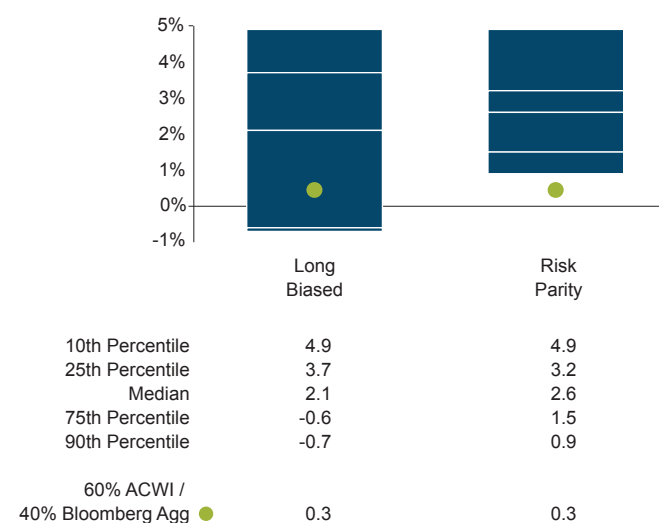
Across the Callan Hedge FOF database, the median Callan Absolute Return FOF ended 1.3% higher, as exposure to lower equity beta managers and macro managers drove performance. The median Callan Core Diverse FOF ended flat, as equity hedge and event-driven strategies were a drag on performance. The Callan Long/Short FOF ended 0.9% lower, as an overweight to higher equity beta strategies drove performance lower.

Since the Global Financial Crisis, liquid alternatives to hedge funds have become popular among investors for their attractive risk-adjusted returns that are similarly uncorrelated with traditional stock and bond investments but offered at a lower cost. Much of that interest is focused on rules-based, long-short strategies that isolate known risk premia such as value, momentum, and carry found across the various capital markets. These alternative risk premia are often embedded, to varying degrees, in hedge funds as well as other actively managed investment products.

Within Callan's database of liquid alternative solutions, the Callan MAC Risk Parity peer group rose 2.6%, as fixed income and commodity performance offset negative performance from the U.S. dollar and U.S. equities. The Callan Long Biased MAC peer group rose 2.1%, as fixed income and commodity performance offset negative equity performance.

Markets entered 2025 with optimism, supported by strong momentum in U.S. equities, technological innovation, and a resilient U.S. economy. Policy shifts, geopolitical shocks, and evolving investor expectations contributed to a sharp increase in volatility. With all of this complexity, opportunity presents itself for hedge fund strategies. Elevated dispersion across sectors, countries, and asset classes is creating opportunities for active managers, especially those that have the ability to dynamically manage risk. Hedge funds are well positioned in this market environment where capital preservation is key.

MAC Style Group Returns (3/31/25)



Sources: Bloomberg, Callan, Eurekahedge, S&P Dow Jones Indices

DC Index Dips After Four Straight Gains

DEFINED CONTRIBUTION | **Scotty Lee**

Performance: Index Dips After Four Straight Gains

- The Callan DC Index™ lost 0.2% in 4Q24, which brought the Index's trailing one-year return to 14.3%. The Age 45 Target Date Fund (analogous to the 2045 vintage) had a lower quarterly return (-1.6%) but a higher YTD return (+14.4%).

Growth Sources: Balances Fall Due Mostly to Net Flows

- Balances within the DC Index fell by 0.8% after a 4.7% increase in the previous quarter. Investment losses (-0.2%) were not the primary cause as net flows (-0.6%) fell more.

Turnover: Slight Rise After All-Time Low

- Turnover (i.e., net transfer activity levels within DC plans) increased to 0.11% from the previous quarter's all-time low of 0.02%. The Index's historical average (0.53%) remained steady.

Net Cash Flow Analysis: U.S. Equity Falls Sharply

- For the second straight quarter, U.S. fixed income outpaced target date funds, earning 35.7% of quarterly net flows. Brokerage windows held the top spot for inflows, receiving 40.6% of flows.
- Notably, within equities, investors withdrew assets from U.S. large cap equity (-25.5%) and U.S. small/mid-cap equity (-19.1%), similar to the large outflows of the previous quarter. Stable value (-34.0%) also saw relatively large outflows for the 10th consecutive quarter.

Equity Allocation: Exposure Rises

- The Index's overall allocation to equity (74.4%) rose slightly from the previous quarter's level (74.0%).

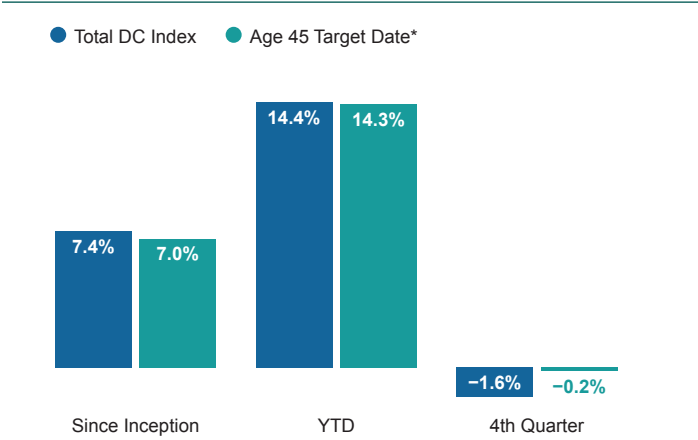
Asset Allocation: Large Cap Equity Gains

- U.S. large cap equity (29.0%), target date funds (36.0%), and brokerage windows (3.1%) were among the asset classes with the largest percentage increases in allocation, while stable value (-5.6%) had the largest decrease in allocation from the previous quarter due to net outflows.

Underlying fund performance, asset allocation, and cash flows of more than 100 large defined contribution plans representing approximately \$400 billion in assets are tracked in the Callan DC Index.

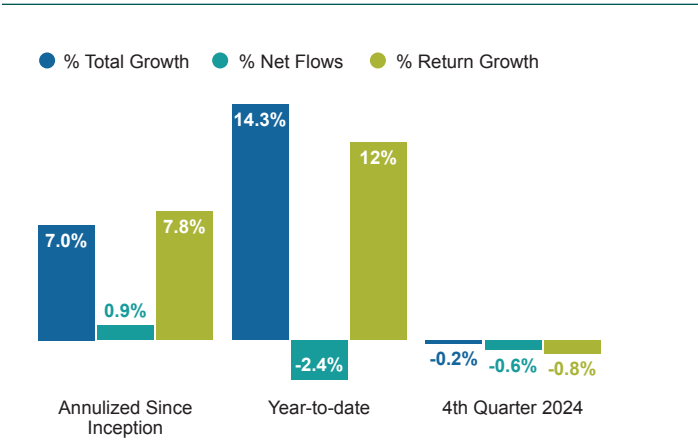
Investment Performance

(12/31/24)



Growth Sources

(12/31/24)



Net Cash Flow Analysis 4Q24

(Top Two and Bottom Two Asset Gatherers)

Asset Class	Flows as % of Total Net Flows
Brokerage Window	40.6%
U.S. Fixed Income	35.7%
U.S. Large Cap	-25.5%
Stable Value	-34.0%
Total Turnover**	0.1%

Data provided here is the most recent available at time of publication.

Source: Callan DC Index

Note: DC Index inception date is January 2006.

* The Age 45 Fund transitioned from the average 2040 TDF to the 2045 TDF in June 2023.

** Total Index "turnover" measures the percentage of total invested assets (transfers only, excluding contributions and withdrawals) that moved between asset classes.

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The *Capital Markets Review* is a quarterly macroeconomic indicator newsletter that provides thoughtful insights on the economy and recent performance in the equity, fixed income, alternatives, real estate, and other capital markets.

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