Gresham Partners
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Type of Firm:	Multi-Family Office
AUM:	EUR9bn (Feb 2025)
Ticket size:	Estimate USD25-50mn
Amount in Public Equities:	Unknown
Invest in Europe:	Unknown
Invest in Small Caps:	Unknown
Which European Managers	Unknown
Tax	Guess mainly tax sensitive clients

Questions

- What are the essential requirements for any of your managers you invest in. Are there any constraints?
  - Size
  - Liquidity
  - Structure
- Are you currently exposed to European managers and are you currently actively looking for European exposure
- How does your investment process look like
- How important is valuation or valuation level in your allocation process

TEAM
11 people, private and public:

CIO (Ted Neild) – from 2005 before Gresham at Nuveen Investments 1989-2005
MBA Northwerstern, and University of Michigan, golfer and avid reader of countervailing perspectives and fiction
Head of Public Investments (Joe Simpson) from 2008, prior Merrill Lynch, Denver Broncos Fan, spending time in Colorado Mountains
Investment Director (Steve Loman) – he developed a framework to quantitatively and qualitatively monitor managers – 2005 before investment accountant William Blair and financial analyst STRATTEC Security. Crossfit and kids play soccer. University Wisconsin, De Paul University MBA
Investment Officer Funds and Co-Investments (Coco Li) – from 2019, prior associate leverage finance group at Merrill Lynch, enjoys travelling abroad and learning local languages. BBA Xián Jiaotong, Master Hong Kong Business School, MBA Northwestern University
Senior Investment Analyst (Tom Yeoh) joined 2022, prior University of Oregon Foundation, reading books in coffee shops and diploma in classical piano, University of Oregan

WHO ARE WE

Independence There's nothing more important to us than our **independence**. It informs everything we do, from the way we think to the way we're structured to our unconventional approach to investing. It enables us to generate what we believe to be exceptional results and frees us from many of the conflicts of interest that entangle so many of our competitors.

Unconventional. We believe the investment industry's conventional approach to investment management is an outdated one. Instead of managing to benchmarks, we center our process on what's important to families: **growing their wealth while protecting their capital**. We work to identify **uncommon investment themes** that reject conventional wisdom.

Expertise We understand that every family has unique and complex wealth planning needs, and we believe wealth transfer planning should contribute meaningfully to their long-term financial success. Our approach is founded on our technical expertise and decades of experience helping families efficiently transfer wealth to future generations and meet their personal philanthropic goals.

Engagement Whether it's investment management, wealth planning, reporting, or advisor collaboration, we make it our top priority to ease the burdens that often accompany the responsibility of managing significant wealth. At the end of the day, we provide more than just a service. We help families live their lives by managing and simplifying the complexities of wealth.

How is Gresham Different

REAL DIVERSIFICATION Traditional approaches to portfolio construction rely on statistical simplifications of backward-looking statistics. Often these solutions have failed to provide the downside protection that individual investors require to stay invested through volatile market cycles. Designed to provide real, not illusory, diversification, **Our Strategic Purpose approach** provides clarity on portfolio exposure and tends to organize assets in a manner that reduces the illusion of diversification often created by conventional models.

DIFFERNTIATED SOLUTIONS Data (SPIVA SCORECARD S&P) shows that many fund managers fail to outperform the markets. However, **it has been our experience that an elite minority of active managers with extraordinary talent have the ability to add tremendous value**. We have found them to be independent thinkers and experienced investors who exercise discipline with their capital base. We cultivate relationships with these managers and create access to their limited-capacity strategies.

Multi-Generational Focus

We focus on providing customized and innovative investment solutions specifically designed for multigenerational families. We believe our deep understanding of the unique challenges families face including tax considerations, long-term time horizons, illiquidity tolerance, and structural complexities—sets us apart from traditional and institutional wealth management firms.

Background Information – Investment Manager (Coco Li)

Coco Li joined Gresham in 2019 and currently holds the position of Investment Officer. She takes a lead role in the full cycle of an investment, which includes sourcing of opportunities, conducting thorough due diligence, making recommendations to the Investment Committee, and monitoring investment results across all marketable strategies. As a senior member in the Investment Team, she also plays a key role in decisions related to asset allocation, portfolio construction, and risk management.

Prior to joining Gresham, Coco was an Associate in the Leveraged Finance group of Bank of America Merrill Lynch.

Outside of work, Coco is a curious explorer of foreign cultures as she enjoys traveling abroad and learning local languages. That said, she also has a special talent of getting lost five blocks from home thanks to her poor sense of direction.

FIRM LETTER INFORMATION

February 2025

Dear clients and friends,

It's that time of year again when Wall Street firms feel compelled to produce forecasts for market returns. Despite numerous academic studies confirming the inaccuracy of these predictions, the tradition continues. As John Kenneth Galbraith famously said, "The only function of economic forecasting is to make astrology look respectable." Yet, the forecasts keep coming. You might think that after being wrong repeatedly, the experts would admit their shortcomings and stop. But no.

Why do they persist? First, no one really keeps score, and there are no consequences for being wrong. When was the last time you heard of a Wall Street analyst being fired for an incorrect forecast? Probably never. Second, it's our own fault! Human nature craves the illusion of certainty and the belief that an expert with a crystal ball is guiding their investment portfolio.

Perhaps they have stopped trying and just haven't admitted it publicly? Goldman Sachs, Morgan Stanley, and J.P. Morgan all predicted that the S&P 500 Index would end the year at precisely 6,500. It's almost as if they said, "Why not pick a decent return number that will make our clients happy, say 10% or so, and then let's find the nearest round number." Voila…6,500!

A few months earlier, Goldman Sachs, in a well-reasoned research piece, suggested that given strong equity performance over the last decade (13% annualized) and the current high valuations, the range of annualized equity market returns over the next decade should be between -1% and 7%, with a median estimate of 3% (or 1% on a real basis). This type of rational, well-researched view that provides a wider and less certain (and lower) range of long-term performance expectations, rather than the typical short-term predictions, can be helpful for investors tilting and rebalancing their portfolios.

One of the largest misconceptions about investing is that one must be able to predict the future. Quite the opposite is true. Recognizing and accepting that uncertainty and volatility are inherent in successful long-term investing should be liberating. Numerous studies highlight that investor returns are far worse than investment returns. Aggregated mutual fund returns are higher than aggregated investor returns. How can that be? Investors tend to want control and their natural instinct is to trade markets…chasing returns when they have been good – typically missing much of the upside – and selling when things are bad – thereby locking in losses. We often lack the patience to allow the long term to play out. This is one reason that private investments can be so powerful for investors. Not only can we typically capture higher returns present in many portions of the private markets, but we as investors are saved from ourselves and prohibited from tinkering.

While we can agree with the report mentioned above that equity market returns over the next decade may be underwhelming by historical standards, this does not necessarily mean they will perform poorly in the coming year. A similar report last year also predicted muted long-term returns based on then current valuations, and yet the S&P 500 produced a 27% return in 2024. According to J.P. Morgan, the S&P 500 registered two 20%+ years in a row just ten times since 1871 and only during the 1990's bull market and the Roaring Twenties did the markets continue their strong returns. Will the market correct in 2025? The honest answer is that no one knows. While valuation has been a strong contributor to long-term performance expectations, it is no better than the forecasters in predicting short-term returns.

In addition to enjoying strong equity market returns, we have also witnessed an extraordinary market structure in which a few large companies have driven the majority of S&P 500 returns, which is a capitalization-weighted index that heavily weights stocks such as Apple, Microsoft, and Amazon. What many fail to realize is that, despite what we have seen in recent years, cap-weighted indices tend to underperform most other methods of index construction over the long term, and the reason is quite simple. In a cap-weighted index, overvalued stocks will be overweighted compared to their intrinsic value and undervalued stocks will be underweighted. Will this market dynamic correct in 2025? The honest answer once again is that no one knows. Although, it is interesting to note that the Goldman Sachs research paper cited above suggests that an equal-weighted S&P 500 index is likely to outperform the cap-weighted index over the next decade by an annualized 2% to 8%!

Long-term investors who are patient and recognize that these market dynamics may not correct over the next year are likely to prudently rebalance (i.e., not trade or attempt to market time) their portfolios away from these appreciated and arguably overvalued areas of the capital markets.

Shifting to the business side of things, Gresham continues to be healthy, reaching an all-time high in client assets as we enter our 28th year. Strong public and private market performance over the last decade have certainly contributed to this, but our clients' continuing confidence is the bedrock of our success and for which we are extremely grateful. Importantly, this steady growth has allowed us to continue to invest in our business, becoming deeper and more capable in many ways, the most important of which is our people.

While businesses have a variety of different assets, ours consists primarily of people. Our team is the engine of our business. They provide the ideas, the execution, and the energy to perform for our clients. We are gratified to once again be voted among the top places to work in Chicago by a Crain's Magazine survey of employees, but this is merely a milestone on a never-ending journey. The competition to attract, retain, and develop our professionals has never been fiercer. We continually push ourselves to improve our hiring practices and enhance our development programs. We know our competition won't stop and neither will we.

From all of us at Gresham, thank you for your continued support.

08.29.2023

Diversification is No Free Lunch

Introduction

Over the last few decades, the lackluster performance of traditional active managers has fueled the rise of "closet indexing," For some, this trend, and the related systemic underperformance of the active management industry, have renewed interest in concentrated investing in pursuit of improved investment performance. This paper leverages empirical evidence and expert insights to outline the merits of concentrated investing as an alternative or complement to more diversified solutions.

Diversification: A Brief Overview

In 1952, Modern Portfolio Theory ("MPT") emerged as a landmark mathematical model that posited diversification as the key to reducing risk while simultaneously enhancing returns. Harry Markowitz, the Nobel laureate and architect of MPT thus declared that "Diversification is the only free lunch." Unfortunately, as with most good things, MPT became overused and misapplied in practice, producing overly diversified portfolios. In our opinion, this over diversification has been the primary driver of systemic underperformance within the active management industry over the last few decades, as managers have become "closet indexers" whose portfolios closely resemble their benchmark.

Gresham has long preferred investing in portfolios concentrated in our managers' best ideas. This approach arises from our frustration with the bland portfolios of traditional actively managed approaches. Fortunately, we have been able to find compelling investment solutions that run counter to this industry convention, which we believe may create excellent long-term results for our clients.

Active Share Defined

In 2006, a study from two professors at the Yale School of Management's International Center for Finance introduced the term "active share" to measure the percentage of a portfolio that differs from its benchmark index(1). This study illuminated a problem within the U.S. mutual fund industry: Funds that are highly diversified (i.e., those with a low active share) tend to underperform compared to those with a high active share. This intuitively makes sense; many of the holdings in the portfolio are not performance oriented, but rather diversifying "filler" to enable better benchmark tracking. These overly diversified "benchmark-huggers" seemed to prioritize the interests of their parent firm (e.g., increase assets under management) rather than those of their investors (e.g., benchmark-relative performance). Further, their often high active management fees are charged on the entire portfolio, including the filler portion, implying an even higher effective fee rate for their active management, since only a portion of the portfolio is truly active (or different from the benchmark). For example, when a fund charges a 1% fee but only half the fund is actively managed, you're effectively paying a 2% fee on the active portion since the other half is merely tracking an index, something you could achieve at very low cost.

The Waning Success of Traditional Active Managers

Over the past two decades, active fund managers, especially those with lower active share, have struggled to consistently outpace their designated benchmarks. Numerous industry reports highlight this issue:

- A report released by Morningstar in 2022 noted that over a ten-year period, approximately 80% of global large-cap blend mutual funds fell short of their respective benchmarks(2).
- The same 2022 Morningstar study found that the decade-long success rate – a measure combining survival (fund remaining in business) and outperformance versus passive peers – hovered around a paltry 25%, and only 10% for U.S. large cap funds(2).
- A 2023 report from S&P Dow Jones Indices revealed that over a span of 15 years, roughly 85% of actively managed international mutual funds underperformed the S&P International 700 index, a broad proxy for developed international equity markets(3). Moreover, this report revealed that over the same period, an alarming 90% of emerging market mutual funds underperformed their respective benchmarks[3].

While it might seem safer for active managers to diversify a greater portion of their funds, the research also shows it makes it more challenging for those funds to beat their respective benchmarks.

The Emergence of "Closet Indexing"

For decades, investors have sought to exploit market inefficiencies to achieve superior investment results. The poor performance of most actively managed mutual funds amid a healthy environment for global equity markets has fueled a major shift of investor flows from active to passive funds. The resulting reduction in assets, revenues and resources has contributed to an exodus of talent to more rewarding areas such as hedge funds, private equity funds or even non-financial sectors like technology. To mitigate the flight risk of their talent and in hopes of protecting their management fee revenue, many firms in the active management space have narrowed and restricted their investment mandates. Rather than seeking above benchmark performance, they instead seek to "be less bad than the others" and avoid termination by investment committees and consultants. As a result, more managers became "closet indexers." It's unsurprising that these managers' performance outcomes have often disappointed due to this excess diversification and the low active share [(1)].

Adding to the complexity of this analysis is that investment outperformance often begets growth in assets under management (AUM). Managers welcome the assets, as many are compensated on the assets they manage, not for outperformance. As successful active managers grow, it becomes more difficult to invest larger sums in a small number of portfolio holdings, particularly in smaller companies where there are greater pricing inefficiencies. As elucidated by Charles Ellis in his work, "The Rise and Fall of Performance Investing," the sheer size of most large managers restricts their ability to operate concentrated portfolios, instead compelling them to invest primarily in a diversified group of the largest, most popular and most closely scrutinized stocks. We have long held a similar view that assets under management are the enemy of every good asset management firm, as larger asset bases necessitate increasing diversification that often dilutes performance of these once promising managers.

Similarly, the issue of closet indexing was highlighted in a recent whitepaper by Antti Petajisto, a former professor at the Yale School of Management. He evaluated this trend within the U.S. equity market and discovered that truly active investment managers, defined as those with an 80% or higher active share, plunged from over 60% of mutual fund managers in 1980 to less than 20% in 2009 [6]. In the same study, the average “stock picker,” defined as having an active share of more than 95%, was found to outperform their benchmark by 1.3% per year after taking out manager fees. All other segments, including the closet indexers and low-cost index funds, trailed their respective indices net of fees. Furthermore, the closet indexers, known for their benchmark-like performance and inflated effective management fees, typically underperformed the most.

On a related note, genuine active managers demonstrated superior capital protection especially during the 2008 market downturn and during the bursting of the tech bubble when this group was the only one to outperform their benchmark. This compelling evidence underscores the potential value and resilience of true active management despite the trend toward lower active share and closet index portfolios.

The Reaction of Investors

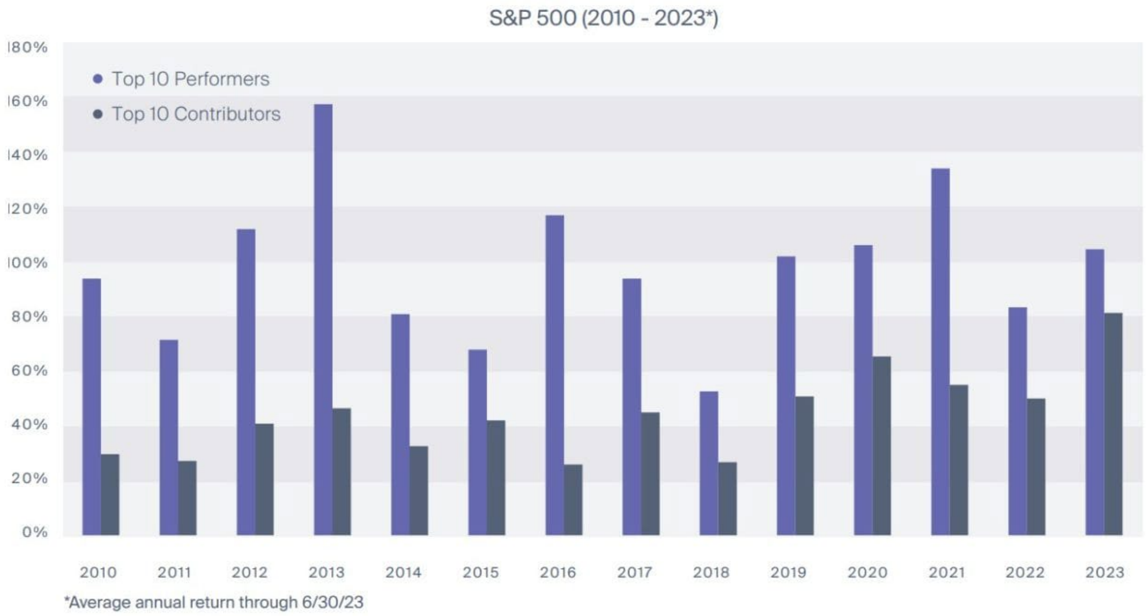
With the continued underperformance of traditional active managers, there has been a discernible shift towards low-cost, passive investments that are designed to replicate the return experience of their reference benchmark index. John Bogle, Vanguard’s founder and the innovator of index funds, famously advised, “Don’t look for the needle in the haystack. Just buy the haystack,” underscoring his support for low-cost and highly diversified solutions[8]. He posited that investors are better off investing in a widely diversified portfolio, or in an entire market, rather than attempting to single out individual winners. A Morningstar report confirmed that in 2019, passive U.S. equity funds overtook their active counterparts in AUM for the first time, closing a $2 trillion gap over a 20-year period[7]. This multi-decade trend indicates the reduced influence of active managers in the market.

Why don’t more investors seek out these true stock pickers with concentrated portfolios? First, the vast majority of active managers still cling to the old excessively diversified approaches. Further, the best of these managers are capacity constrained and don’t often offer their strategies on retail asset gathering structures such as mutual funds and separate account platforms found in the large banks and broker dealers. This makes identifying and accessing them difficult for the average investor. These managers are often among the largest investors in their own strategies, so performance rather than management fees matters most to them. This creates powerful alignment of interests with their investors, and they typically constrain capacity and the number of investors they allow into their strategies, making identifying and accessing them difficult for the average investor.

Making a Case for Concentrated Investing

While some may consider the approach of highly active, concentrated portfolios as being at the initial stages of a renaissance, concentrated investing is not new. It traces back to notable economist John Maynard Keynes who in 1934 advocated investing in a few carefully understood and trusted companies. Studies by renowned academics[1] [10] [11] further endorse concentrated portfolios’ potential for outperformance, albeit with the very important caveat of needing superior stock-picking abilities.

With concentrated strategies, each security commands sufficient weight to significantly influence performance unlike those in highly diversified strategies where individual stock performance is largely lost in the sea of the market’s movements. A review of S&P 500 index performance starting in 2010 reveals that the annual top-performing stocks have consistently outpaced the “contributors” or those that most affect the index’s performance, a factor that takes into account both returns and weight of each security in the index. Despite the buzz around the returns of the largest companies the last couple of years, the average return of the top 10 performers has consistently eclipsed that of the top 10 contributors each year. This reiterates that, if executed proficiently, there are abundant opportunities to surpass the return of the index itself.



What is the right number of securities?

Striking the right balance between diversification to protect a portfolio and trying to generate alpha has been a topic of considerable debate among finance professionals. Burton Malkiel, in his iconic 1973 book, “A Random Walk Down Wall Street,” proposed that an ideal portfolio should contain around twenty securities. This concept as illustrated below shows how portfolio risk consistently decreases as the number of securities increases until reaching a point of plateau. This plateau represents non-diversifiable, systemic risk which is not reduced by further additions to the portfolio. This concept is widely accepted,but largely ignored by industry practitioners.

This exploration of optimal diversification started even before Malkiel's milestone work with a seminal paper by John Evans and Stephen Archer in 1968 titled "Diversification and the Reduction of Dispersion: An Empirical Analysis," where its authors suggested that as few as 15 stocks could achieve optimal diversification. A subsequent analysis in 2010, "Evans and Archer, 40 Years Later," revisited this subject. This review revealed that most academics post-Evans and Archer have suggested the plateau of risk reduction is reached with a portfolio closer to 50 stocks, and in fact the 2010 paper presents a compelling argument that when risk is measured using standard deviation, full diversification is generally achieved with about 40 stocks.

Gresham's Implementation of Concentrated Portfolios

While the emphasis in this article is on concentration, it is important to remember that we embrace diversification at a client's overall portfolio level. However, we seek concentration any time we are pursuing individual actively managed strategies. Often, we recommend that clients build portfolios using a "core and satellite" framework, where the core of an equity portfolio might be a low cost passively managed index fund or, better still, a tax-managed index-tracking strategy where the underlying portfolios are lower-fee, widely diversified and highly liquid.

Gresham's reputation for generating long-term performance rests on our ability to identify strategies across the global capital markets where active management is best suited for driving excess returns, and in turn identifying the best managers to implement those strategies. For these so-called alpha satellites, we must embrace concentration to generate better-than-benchmark performance. We agree with Warren Buffet that "very few people have gotten rich on their seventh best idea." In building an alpha-seeking satellite strategy, such as our global equity partnership, we focus on underlying managers whose performance is driven by concentration, sometimes investing in only a handful of stocks. These managers endeavor to own misunderstood or mispriced companies with asymmetrical risk/reward dynamics, which are relatively rare. A deep understanding of the individual companies is necessary for this concentrated approach, which is more achievable when you own fewer companies.

The balance between core and satellites, or between diversified and concentrated exposures, should reflect a client's individual preferences, goals and constraints. Our approach to portfolio construction was described in more detail in our paper "Gresham's Refined Approach to Portfolio Construction and Improved After Tax Outcomes."

Conclusion

The active management industry has become its own worst enemy by minimizing the art of risk-taking and concentration from their portfolios. The rise of passive investing can be directly linked to the ongoing and persistent underperformance of traditional active management. However, active management underperformance is not an investment truism, it is simply a reflection of current investment manager behavior. If this is the prevalent choice for most investors, this shift to passive, low-cost strategies shouldn't surprise anyone. Fortunately, there is a better way, by simply returning to the golden age of active investing and embracing the idea that a concentrated portfolio of best ideas has a far stronger chance of outperforming broad market benchmarks.

We recognize that investing in concentrated portfolios for our actively managed, alpha-seeking strategies may lead to higher volatility and substantial deviation from short-term equity market performance. While enduring such volatility – and benchmark deviations – can be challenging, we believe this is an appropriate trade-off when pursuing performance. An investor can't both track and beat a benchmark. There is room in a broad portfolio for both approaches, but investors must avoid landing in the muddled middle of the closet indexers who have become so prevalent

06.06.2024

What is the Equity Risk Premium and Why It Matters Now?

By Ted Neild

History has shown that no one can time the markets or predict near-term returns, despite Wall Street analysts continuing to bombard us with their predictions. However, numerous studies have determined that current market prices or valuations do have an impact on future *long-term* returns. This won't help us time markets, avoid crashes, or predict the S&P 500 return this year. But knowing where we are can help us improve our chance of long-term investment success. Understanding the Equity Risk Premium ("ERP") can be helpful in this regard.

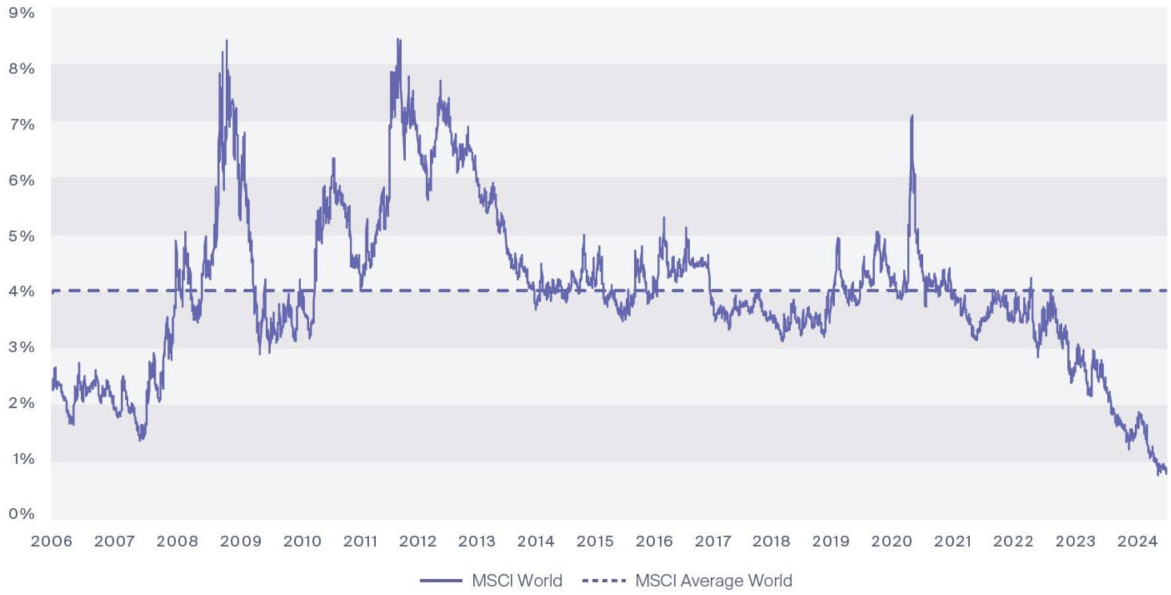
What Is It?

The Equity Risk Premium is a simple but powerful tool that provides a measure of relative market valuations. Specifically, it represents the expected extra return that investors demand for choosing the volatility of the stock market over the safety of risk-free assets like government bonds.

There are different ways to measure ERP, though they all share conceptual similarities. One simple approach is to compare the earnings yield (the inverse of the price/earnings multiple) of the S&P 500 Index with the yield on 10-year U.S. Treasuries. The former is a simple proxy for the broader stock market and the latter is a proxy for risk-free returns or high-quality bonds. When the earnings yield of equities is high relative to bond yields (high ERP), this signals equities are cheap and are likely to be relatively more appealing over the long term. Conversely, when the earnings yield for stocks is low relative to bond yields (low ERP), equities are relatively expensive and less attractive.

Where Are We Now?

Due to a combination of strong recent equity market performance and increasing stock valuations alongside rising interest rates, ERP has been steadily declining and is nearing historically low levels not seen since prior to the Global Financial Crisis (see chart below). The low ERP indicates that bonds are becoming more attractive relative to stocks, just as the high ERP 15 years ago suggested that stocks were more compelling in the aftermath of the GFC.



What Should Investors Do?

Recognize that this is a rough cut using only the S&P 500 Index and the U.S. 10-year Treasury yield and is only one of many relative value indicators. And remember that the Equity Risk Premium cannot forecast how the stock market will perform in the short term. The ERP fluctuates every day and is at best a crude indicator for relative long-term return potential, not a tool for day trading.

However, today's low ERP provides a general indication that equities have become more expensive while bonds have become relatively more attractive with implications for long-term investors. With that in mind, here are some other things to keep in mind:

1. **Do not time markets.** It's a loser's game. While price has been shown to have an influence on long-term market returns, it has also been a horrible predictor of short-term market movements. There are no crystal balls and we are not (nor are we capable of) predicting a market crash.

2. **See #1 above.**

3. **Rebalance. Aggressively**. With recent market appreciation, most portfolios have become overweight relative to their long-term or strategic allocation targets. The risk of remaining overweight an overvalued asset class will eventually come back to bite us. I know it's tempting to ride a winner, but don't do it.

4. **Consider going further.** Many investors' portfolios have known cash needs such as spending, taxes, and capital calls to fund private investments. Typically, these expected annual outlays are measured in single digit percentage points (e.g., 4%) of the total investment portfolio. Consider raising a year of estimated outlays and simply holding it in cash or something similar. It may not seem like much, but it helps us to stay the course if the market declines and most importantly allows us to fund these outlays without selling equity assets after they have declined, locking in those losses.

5. **Don't overdo it!** It's very possible – and even likely – that markets will muddle along and ERP will normalize. Making large, drastic changes away from your long-term strategic allocations can cause serious damage to your portfolio.

2024 Private Market Review

Overview

2024 opened with several challenges for private markets, including elevated interest rates, a difficult fundraising environment, and a suppressed exit landscape. Although the macroeconomic backdrop improved over the course of the year, with deal activity showing encouraging signs of recovery, it remains well below the heights of the 2021 market peak. The exit environment in both private equity and venture capital continues to lag, with exit values showing little meaningful recovery post the zero-interest-rate-policy (ZIRP) era that was in place for more than a decade following the Great Financial Crisis that began in 2008. This tepid exit market has resulted in smaller distributions to investors, compounding fundraising challenges and adding pressure to the private market ecosystem.

Overall, 2024 was a year of measured recovery with several positive signs emerging toward the end of the year. As 2025 begins, the reopening of primary exit channels is critical for maintaining a healthier private market environment for unlocking value for investors and driving more activity. Investors remain cautiously optimistic for improving financial conditions and a more favorable deal environment.

Private Equity

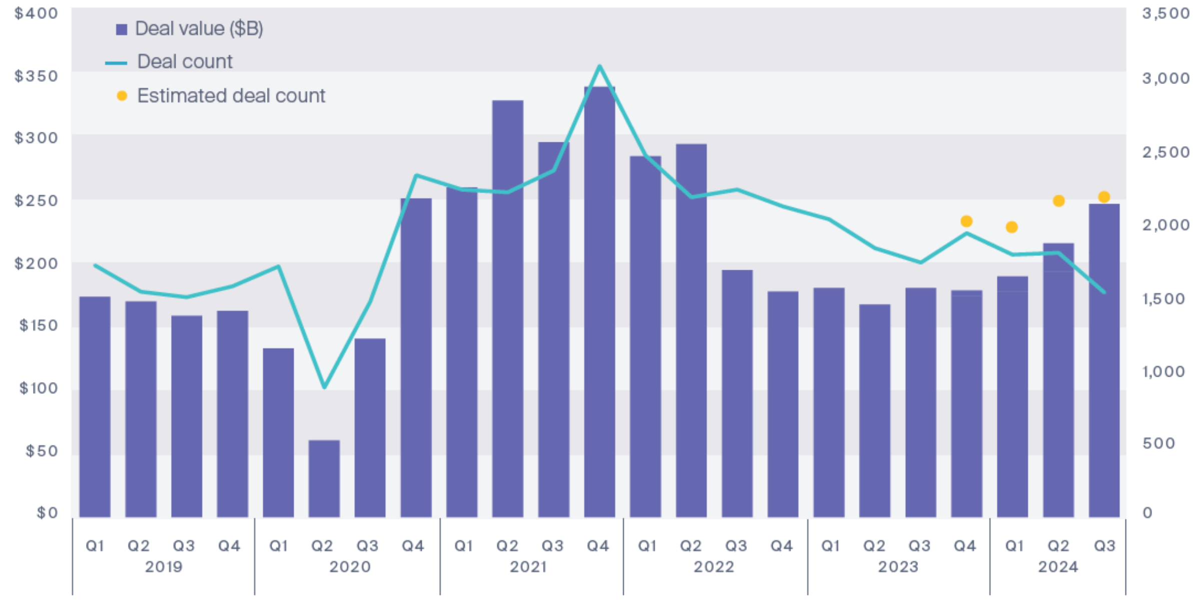
Buyout

The private equity (PE) market experienced a notably quiet year in 2024, characterized by muted transaction volumes, reduced fundraising activity, and distribution yields hitting 10-year lows. Whether improved investor sentiment post election will translate into heightened deal activity in 2025 remains to be seen.

- **PE Deal & Fundraising Activity:** PE deal activity in the US remained subdued throughout 2024 as investors awaited potential rate cuts and greater macroeconomic stability. Elevated multiples paid by PE buyers in recent years have created a valuation disconnect between buyers and sellers who continue to anchor to these prices, further stalling deal flow. YTD 2024 through September 30th totaled $650 billion of deal value, up 23% by value and 13% by deal count compared to first three quarters of 2023 (**Chart 1**). However, the activity level remains well below the highs seen in 2021-2022.

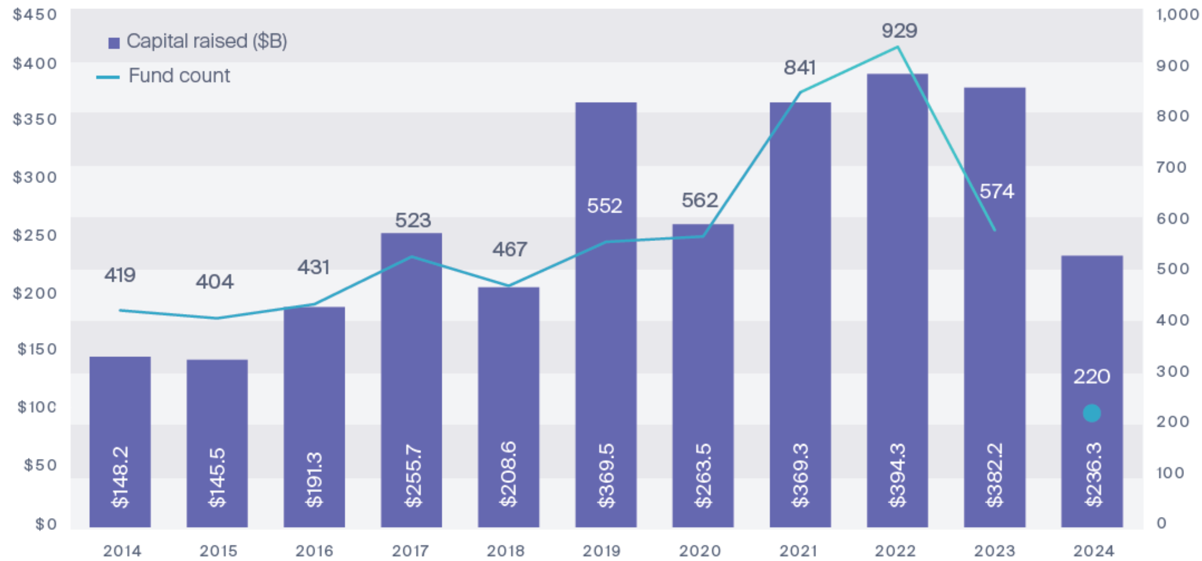
  On the fundraising front, activity declined in both the number of funds raised and the total capital committed (**Chart 2**). However, the capital raised continues to concentrate among larger, well-established managers, reflecting investors' preference for perceived safety during uncertain times (**Chart 3**).

Chart 1. US PE Deal Activity by Quarter



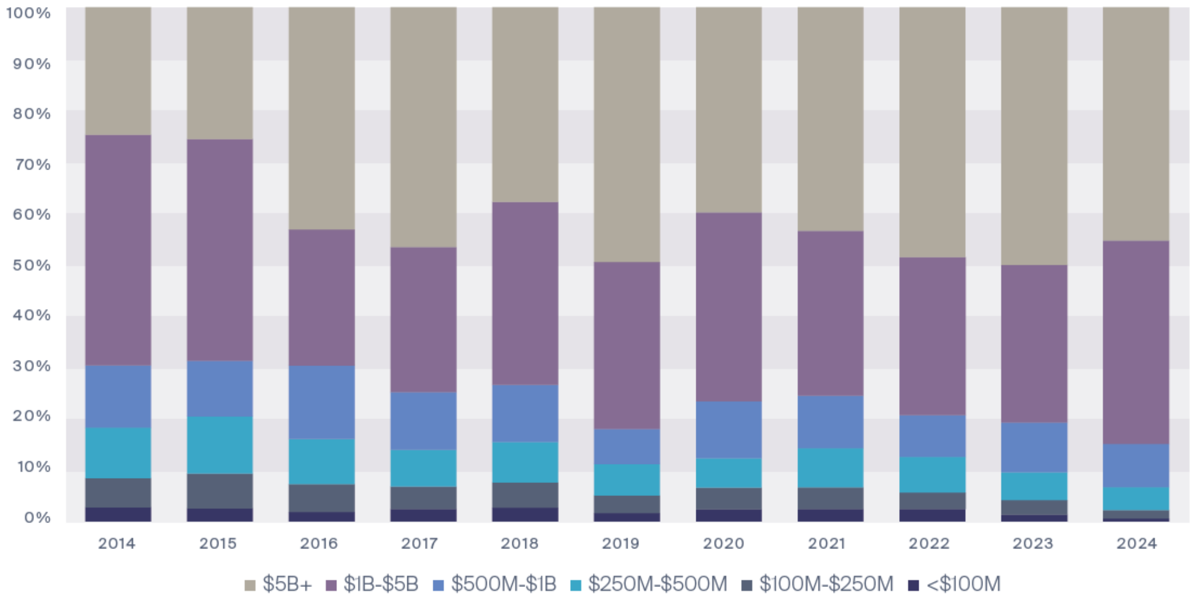
Source: Pitchbook US PE Breakdown Q3 2024

Chart 2. PE Fundraising Activity



Source: Pitchbook US PE Breakdown Q3 2024

Chart 3. Share of PE Capital Raised by Size Bucket

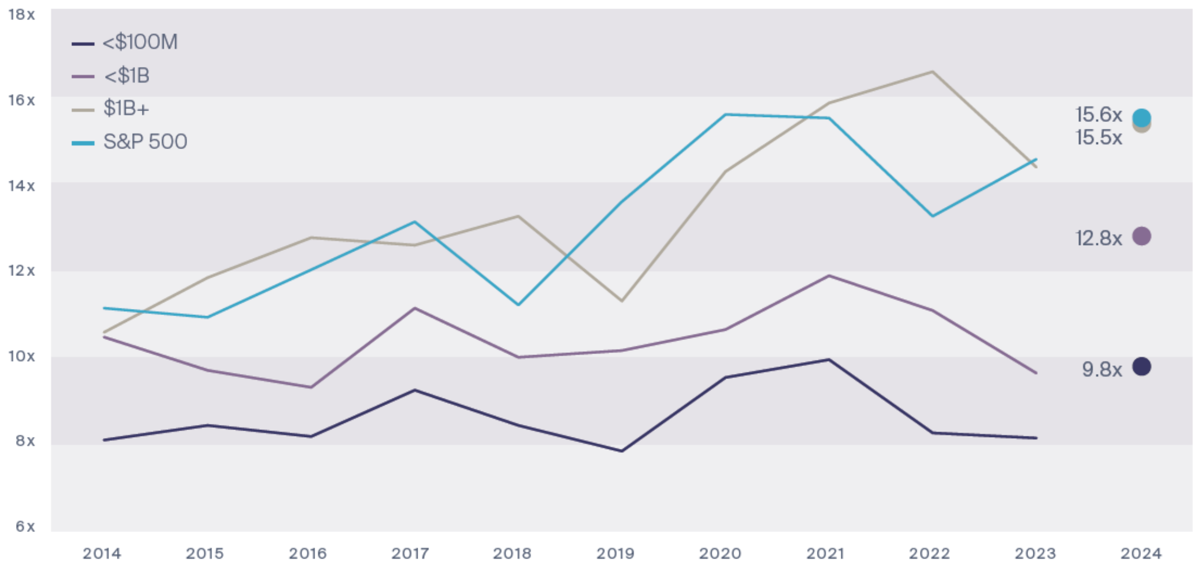


Source: Pitchbook US PE Breakdown Q3 2024

- **Valuation**: The recent higher interest rate environment has lowered private market valuations after reaching highs over the past few years. Rising interest rates drive up borrowing costs for acquisitions, directly influencing enterprise value (EV)/EBITDA multiples. The 2023 figure marked a low since the ZIRP era, reflecting a recalibration of valuations as rate hikes reshaped market dynamics.

  Interestingly, opportunities at the smaller end of the market are more pronounced given lower valuations. As shown in **Chart 4**, the median EV/EBITDA transaction multiple across **North America and Europe has been 12.8x in 2024 for deals less than $1 billion in size, growing about 22% from 2014's median entry multiples. Larger deals, $1 billion and up, have been done at a median of 15.5x in 2024, an expansion of more than 40% over the past 10 years, and a level that has kept pace with trading multiples for the median S&P 500 company.** At the lowest end of buyout deals, under $100 million in size, multiples have remained under 10x. Overall, entry pricing appears increasingly attractive for investors targeting smaller deals, where valuations remain less inflated.

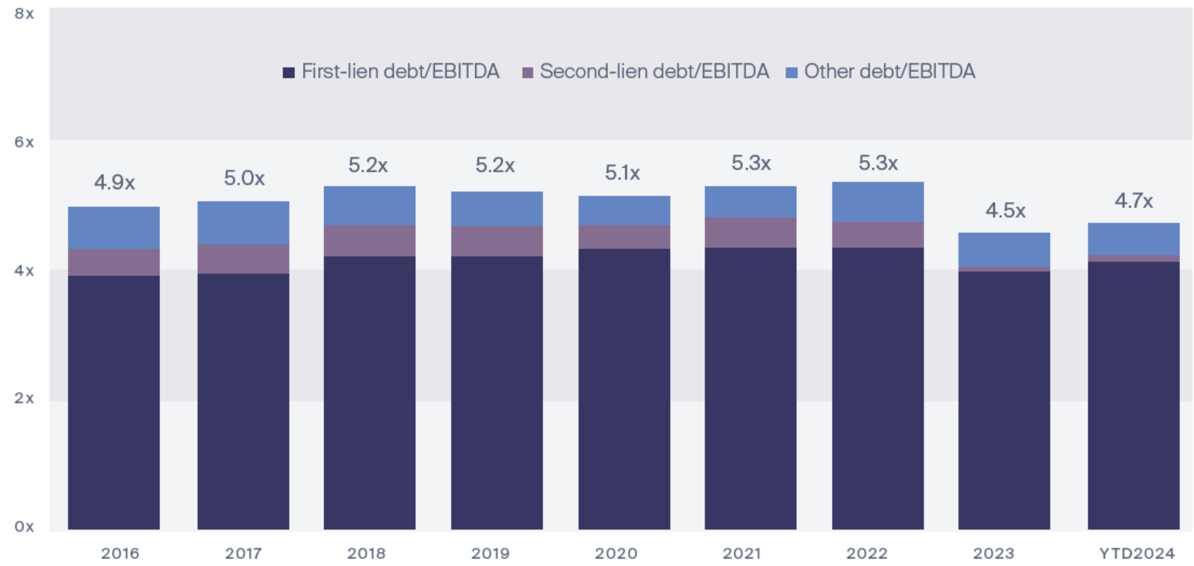
Chart 4. Median EV/EBITDA Multiples in North America & Europe Buyout Transactions vs S&P 500



Source: Pitchbook 2025 Allocator Private Market Solution

- **Leverage:** As shown in **Chart 5**, in 2024, the average leverage ratio in buyout deals edged up slightly from 4.5x to 4.7x Debt/EBITDA, a surprising outcome given the higher cost of financing in the current environment. However, this metric remains below the 5.3x average multiple observed during 2022–2023.

Chart 5. Debt / EBITDA Ratio Levels

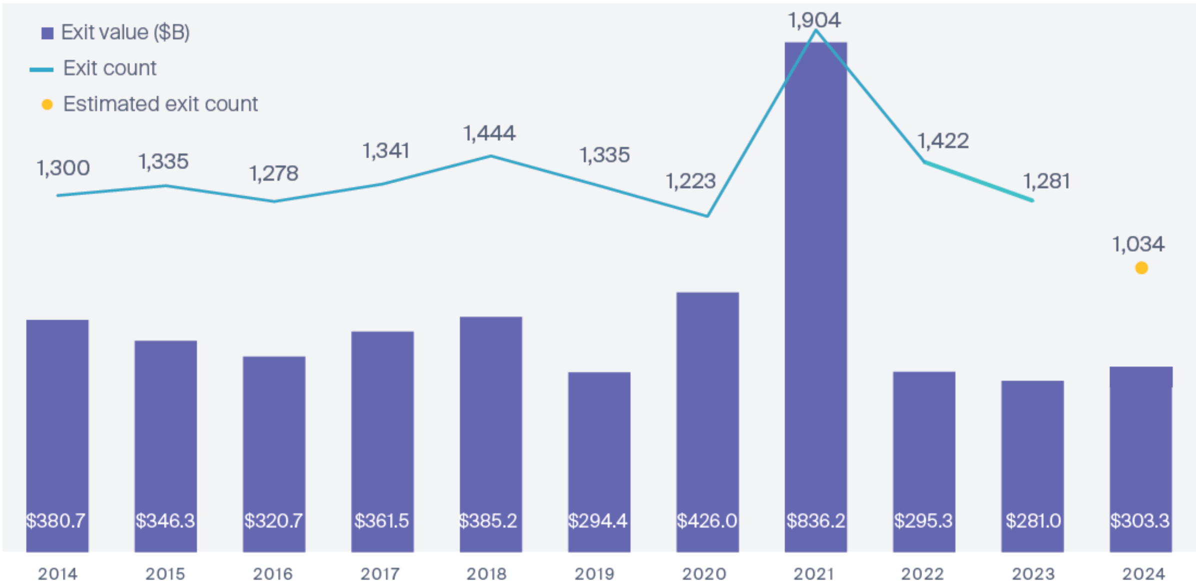


Source: https://www.capstonepartners.com/insights/middle-market-leveraged-finance-report/

- **Exit/Liquidity:** While already ahead of full-year 2023 values, US private equity exit activity in the first three quarters of 2024 remained insufficient to clear the sizeable backlog of portfolio companies that have yet to be realized (which stood at $3.2 trillion globally in early 2024). By value, private equity exits totaled $303 billion through September 30, 2024, versus $281 billion for all of 2023 (**Chart 6**).

  As exits and investor liquidity continues to lag, managers have increasingly turned to alternative avenues for liquidity, such as continuation vehicles and other secondary market strategies. The first half of 2024 achieved a record-breaking deal volume of these types of deals, reaching approximately $70 billion. GCM Grosvenor estimated that secondary market transactions by the end of 2024 are on track to surpass $140 billion—marking the highest level ever observed, representing a 20%+ increase over 2023[1].

Chart 6. PE Exit Activity



Source: Pitchbook US PE Breakdown Q3 2024

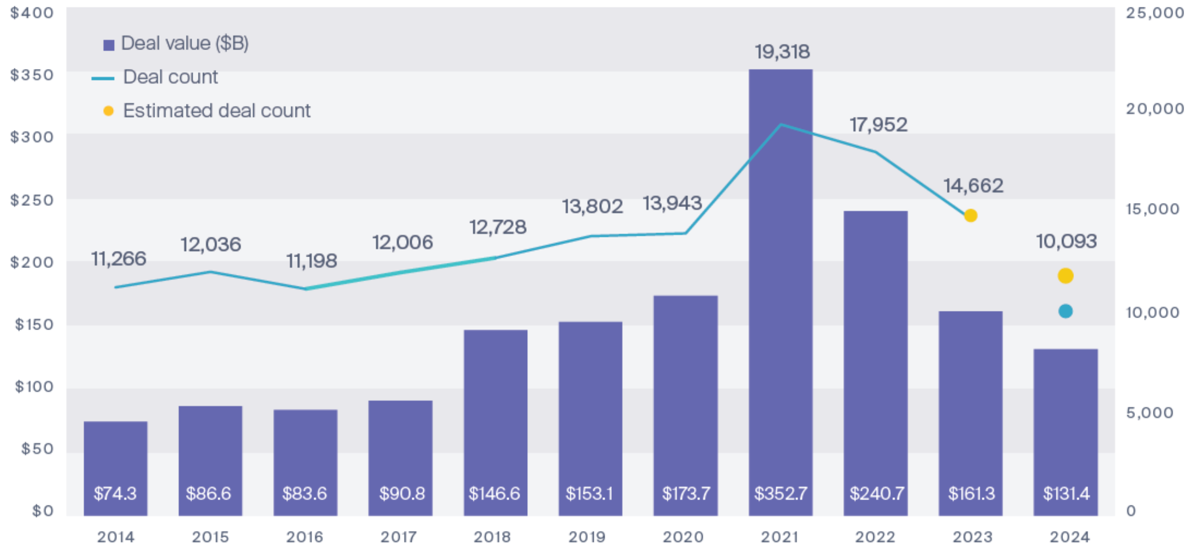
- **Gresham Perspective:** We remain focused on the lower end of the US buyout market where valuations are less sensitive to interest rate movements and general partners (GPs) typically employ more conservative leverage ratios (below the market median of 5x) and pay lower entry prices (below 10x). We believe this segment also offers GPs greater exit potential, allowing portfolio companies to be sold to middle-market sponsors or strategic buyers at higher multiples in the larger segments of the market. Relatedly, we remain committed to partnering with GPs who demonstrate a proven ability to create value through operational improvements and strategic growth, rather than relying solely on multiple expansion.

Venture

2024 was a year of stagnation for venture capital. While fundraising and deal activity experienced a fourth consecutive year of decline, 2024 showed some signs of stabilization though meaningful improvement in the sector is unlikely until exit activity accelerates. ServiceTitan’s IPO at a nearly $9 billion valuation in Q4 2024 was a significant and positive signal for venture markets, sparking hope for a broader recovery in exit conditions. However, investor sentiment is likely to depend on more companies’ signaling readiness to file IPOs in 2025.

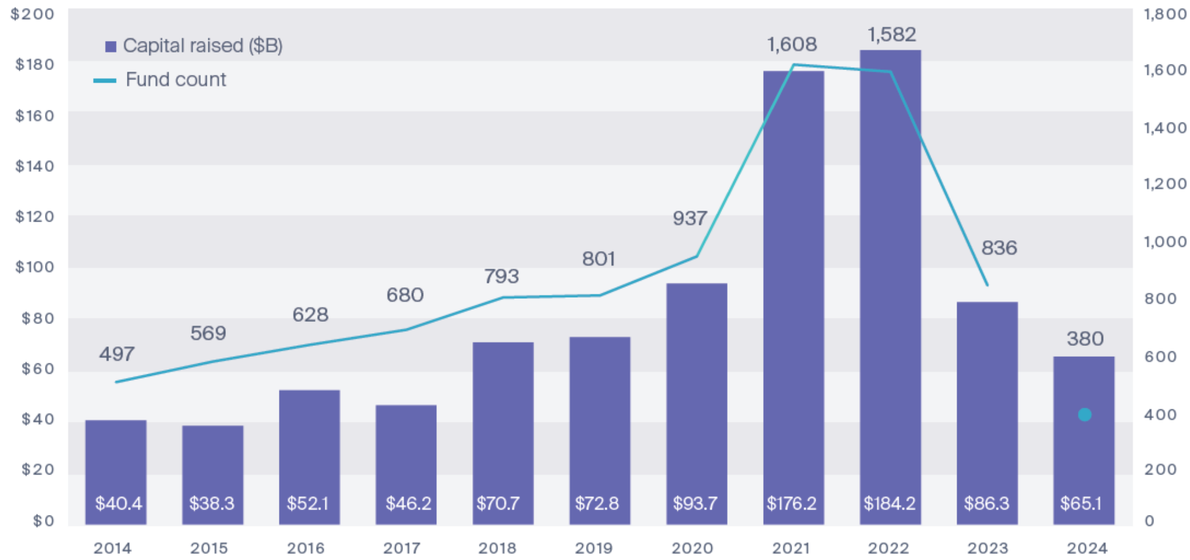
- **VC Deal and Fundraising Activity**: VC deal activity in 2024 remained flat compared to 2023 albeit with lower deal count, suggesting mega deals in the AI space are elevating the total deal value (**Chart 7**). On the fundraising side, VC firms raised $65.1 billion through Q3 2024 (**Chart 8**), putting the year on track to roughly match 2023’s total. But the annualized fund count of 506 is the lowest since 2014’s total of 497. More than 80% of the capital raised in 2024 was by established managers. For example, Andreessen Horowitz alone accounted for over 10% of the total market, closing $7.2 billion across new funds during the. First-time and emerging managers—most of which tend to have smaller fund sizes—are bearing the brunt of the fundraising slowdown. The bifurcation underscores a flight to “perceived safety” among limited partners (LPs) who are prioritizing investments with established managers in the more uncertain current environment.

Chart 7. VC Deal Activity



Source: https://nvca.org/wp-content/uploads/2024/10/Q3-2024-PitchBook-NVCA-Venture-Monitor.pdf

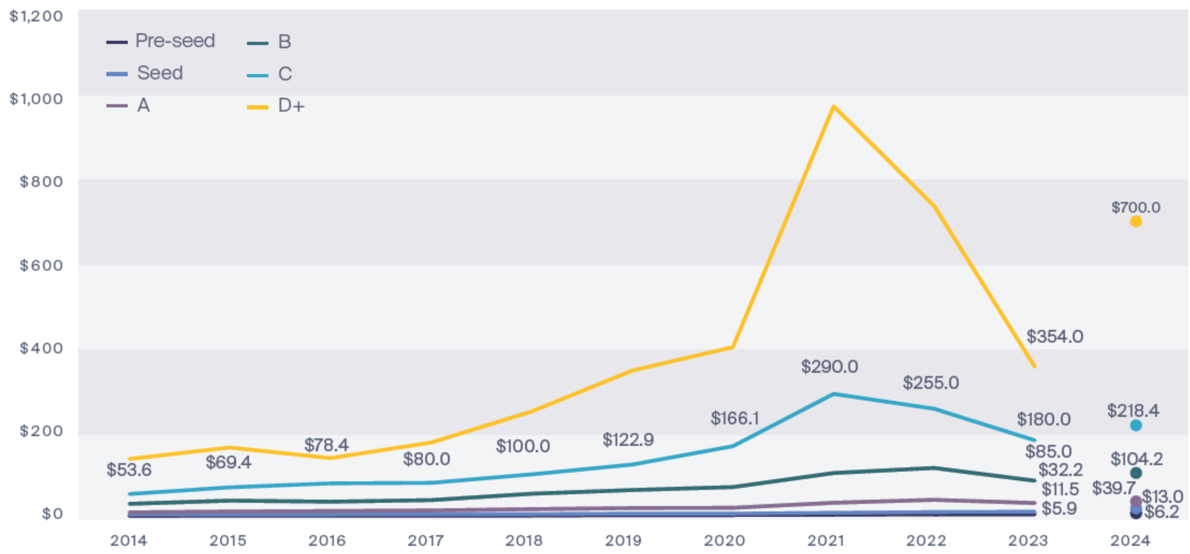
Chart 8. VC Fundraising Activity



Source: https://nvca.org/wp-content/uploads/2024/10/Q3-2024-PitchBook-NVCA-Venture-Monitor.pdf

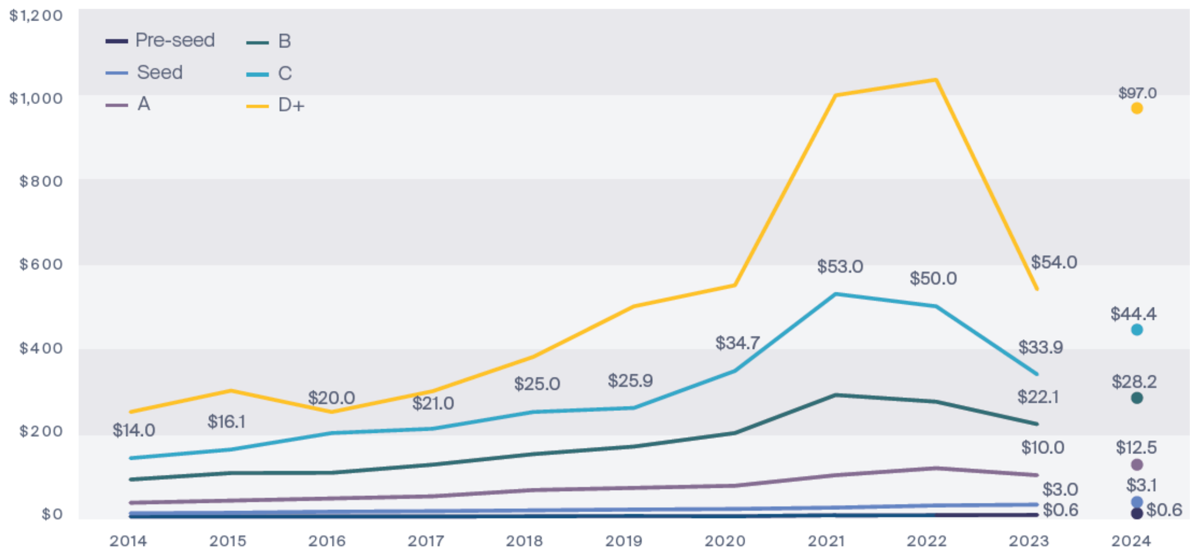
- **Valuation:** While early-stage valuations have remained relatively consistent, later-stage valuations are still below the highs seen in 2021–2022. In 2024, overall median deal sizes and pre-money valuations trended higher compared to 2023. However, this growth has been significantly influenced by outsized deals in the AI sector. Investor enthusiasm for AI-related deals remains robust, with many deals closing at eye-popping valuations, a trend that historically correlated with weaker future returns.

Chart 9. Median VC Pre-Money Valuation by Series



Source: https://nvca.org/wp-content/uploads/2024/10/Q3-2024-PitchBook-NVCA-Venture-Monitor.pdf

Chart 10. Median VC Deal Value by Series



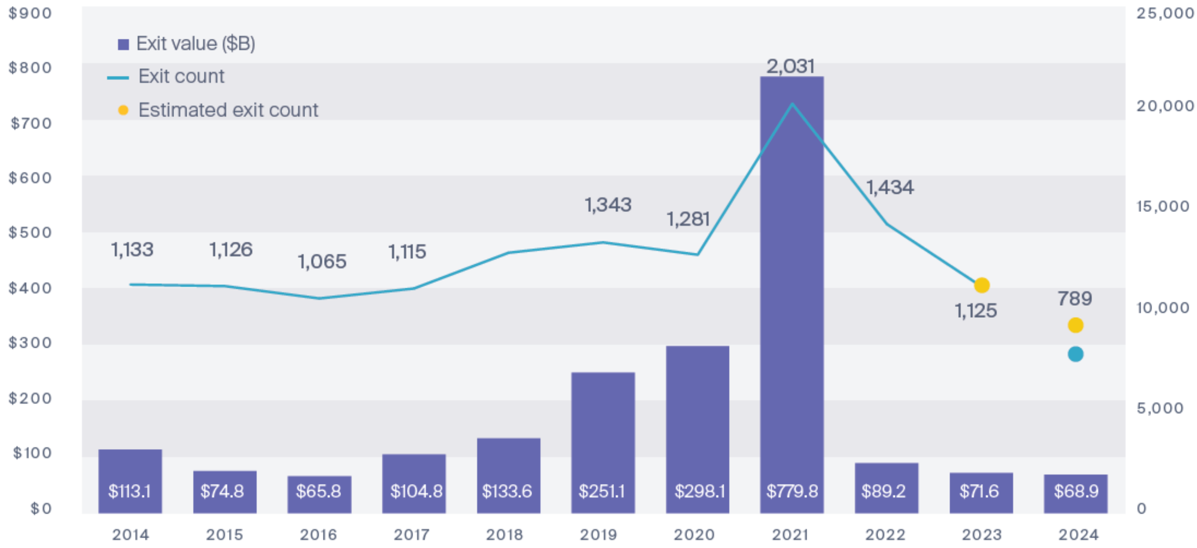
Source: https://nvca.org/wp-content/uploads/2024/10/Q3-2024-PitchBook-NVCA-Venture-Monitor.pdf

- **M&A Activity**: Corporate strategic acquisitions, which historically created a strong exit path and generated prolific returns for investors, remain suppressed by two forces. The first is heightened regulatory scrutiny. In recent years, the Federal Trade Commission (FTC) and the Antitrust Division of the Department of Justice (DOJ) have taken a more aggressive approach to antitrust enforcement. In 2023, the antitrust agencies filed complaints against a record 13 transactions compared to an average of six per year over the previous five years[2]. While their success in merger challenges to date has been limited, the message to the market is clear: regulatory scrutiny has intensified. The resulting uncertainty has added significant complexity to mergers and acquisitions (M&A). In addition, in late 2024 the FTC overhauled the Hart-Scott-Rodino Act filing process by introducing stricter rules that impose significant new disclosure requirements. These changes have delayed M&A activity considerably, creating a more challenging environment for corporate buyers. The second factor is the high valuations stemming from the frothy market in the early 2020s. Many corporations remain cautious and have been unwilling to engage in acquisitions at premium valuations. As valuations normalize, optimism exists for increased activity. Together, these forces have suppressed activity in the corporate

M&A space, leaving a notable gap in a historically vibrant liquidity pathway for investors.

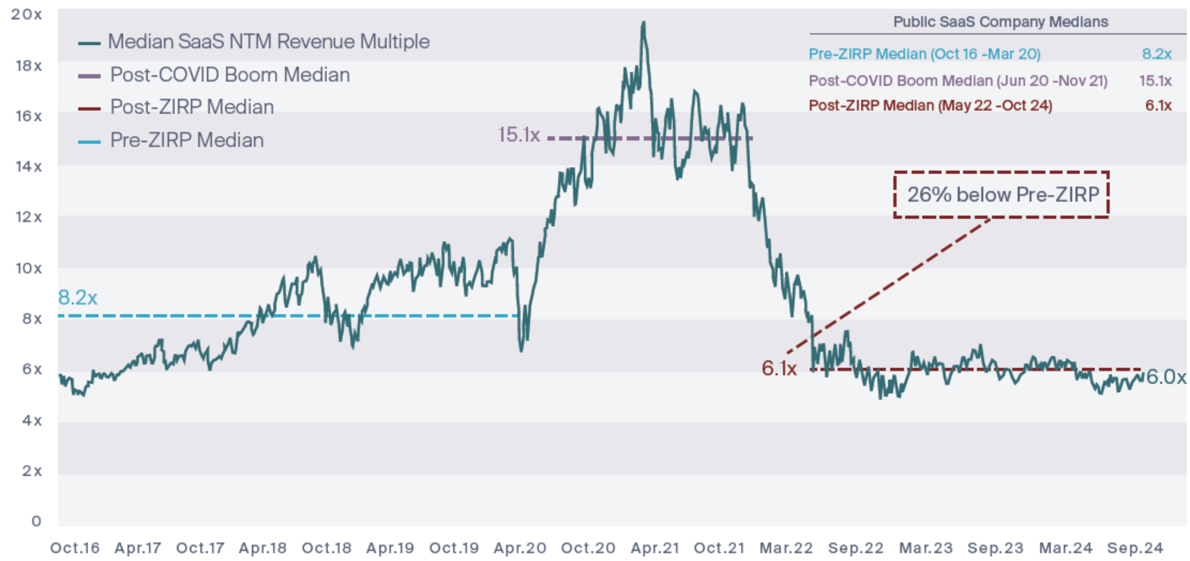
- **Exit/Liquidity:** Exit activity for venture-backed companies remained subdued in 2024 (**Chart 11**), weighed down by a lack of large IPOs, unfavorable valuation multiples, and persistent market volatility. In particular, SaaS ("Software as a Service") companies have experienced significant valuation declines, with public market multiples declining to 6.1x revenue—well below the pre-ZIRP average of 8.2x (**Chart 12**). As a result, many venture-backed companies are choosing to remain private longer, waiting for a more favorable dealmaking environment to emerge. In the absence of large IPOs, GPs have become more creative around liquidity via continuation vehicles and secondaries. Additionally, PE firms have become more active buyers of VC-backed startups, offering an alternative path to liquidity for VC LPs.

Chart 11. VC Exit Activity



Source: https://nvca.org/wp-content/uploads/2024/10/Q3-2024-PitchBook-NVCA-Venture-Monitor.pdf

Chart 12. Median SaaS NTM Revenue Multiples



Source: Meritech 2024 Market Update

- **Gresham Perspective:** Venture capital has delivered significant returns to investors over the past few decades, but the substantial influx of LP capital has increasingly institutionalized the asset class while increasing competition. To sustain the potential for top-quartile returns, we prioritize early-stage investments, which are less vulnerable to valuation inflation and broader market pressures.

We also recognize a shift in the venture market's emphasis—from firm brands to the individuals making investment decisions. As such, our approach focuses on partnering with these standout individuals who demonstrate unique access to opportunities, manage smaller-sized funds, and possess the potential to deliver outsized returns. With the venture market currently facing headwinds such as constrained exit conditions, we take a long-term view of this highly productive investment area and recognize our approach, while accretive to our clients' portfolios, may create longer paths to liquidity.

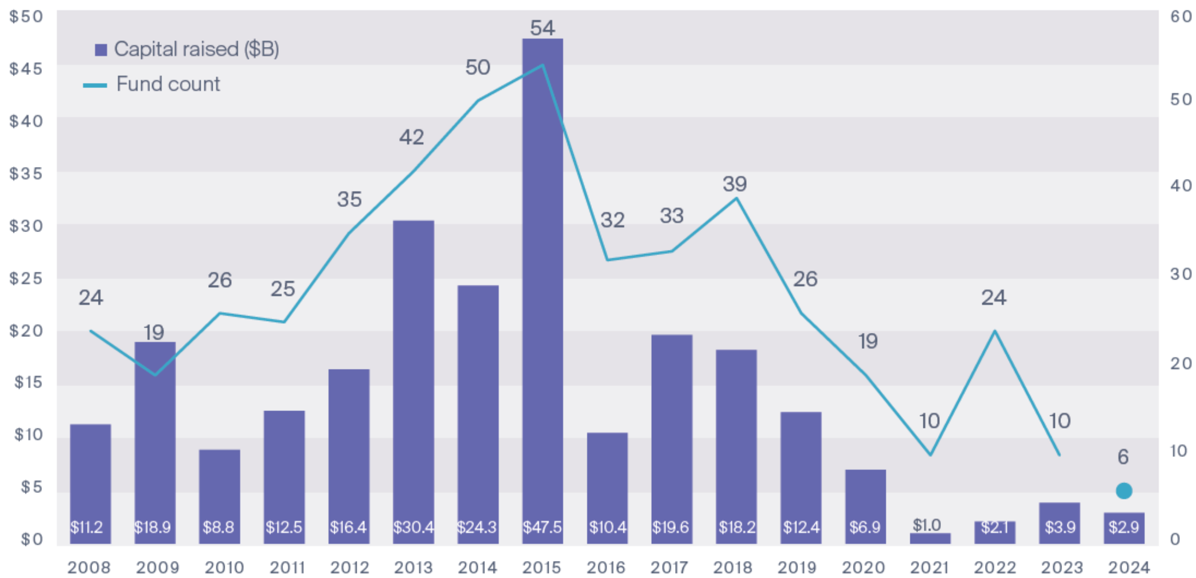
Real Assets

Natural Resources (oil and gas)

In 2024, the oil and gas sector operated within a challenging landscape shaped by heightened geopolitical tensions and continued global transition towards renewable energy. Despite these headwinds, oil prices showed resiliency and exhibited far less volatility compared to previous years.

- **Fundraising** for natural resources investments has steadily declined over the past decade. Consistent with the global transition towards renewable energy, institutional LPs have increasingly shifted their focus away from the oil and gas sector. YTD 2024 through September 30th, oil and gas managers raised $2.9 billion from investors, remaining consistent with the subdued levels seen in recent years.

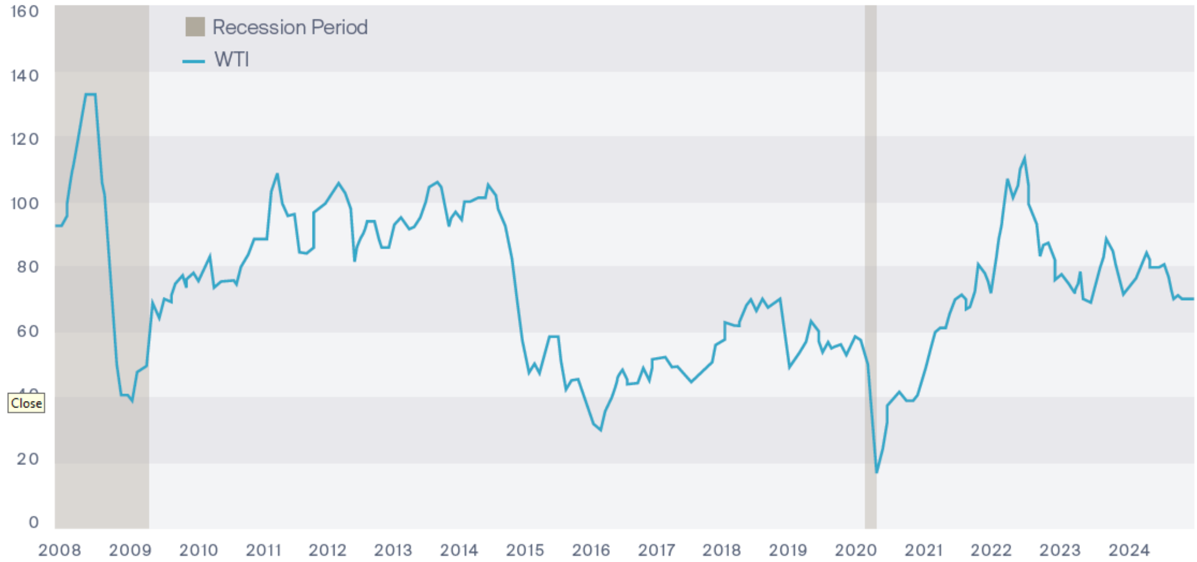
Chart 13. Oil & Gas Fundraising Activity



Source: Pitchbook Global Real Assets Report

- **Oil Prices** in 2024 have remained relatively range-bound between $65 and $90 per barrel, a stark contrast to the heightened volatility observed from 2020 to 2022, as seen in **Chart 14**.

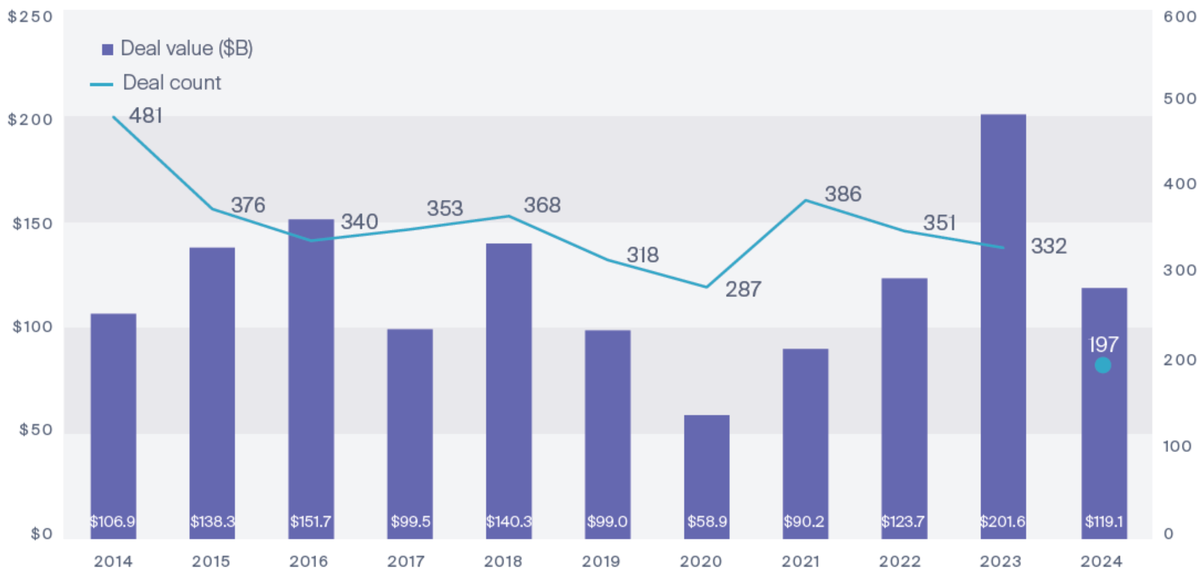
Chart 14. Price of Crude Oil (WTI)



Source: https://fred.stlouisfed.org/series/MCOILWTICO# (Monthly data)

- **M&A Activity**: Over the past few years, the oil and gas sector has undergone significant consolidation. The heightened M&A activity was driven by public majors spending excess cash generated from the elevated oil prices in 2022 to acquire assets. These acquisitions have been aimed at enhancing scale and expanding inventory. This trend created a favorable exit environment for smaller operators. Notable deals during the year included Diamondback Energy's $26 billion merger with Endeavor Energy Resources and ConocoPhillips' $22.5 billion acquisition of Marathon Oil.

Chart 15. Oil & Gas M&A Activity



Source: Pitchbook Q3 2024 Global Real Assets

- **Gresham Perspective**: Gresham aims to assemble a private real asset portfolio of inflation-sensitive assets designed to protect clients' portfolios during periods of rising inflation when many other traditional asset classes tend to perform poorly. We believe oil and gas continue to play a strategic role in private real asset portfolios as the “exodus” of LP capital from the sector presents a contrarian opportunity for us to exploit. Our strategy focuses on partnering with GPs with proven track records, an ability to exploit inefficiencies, are cautious with their use of leverage given the inherent volatility in this area and who demonstrate disciplined capital efficiency.

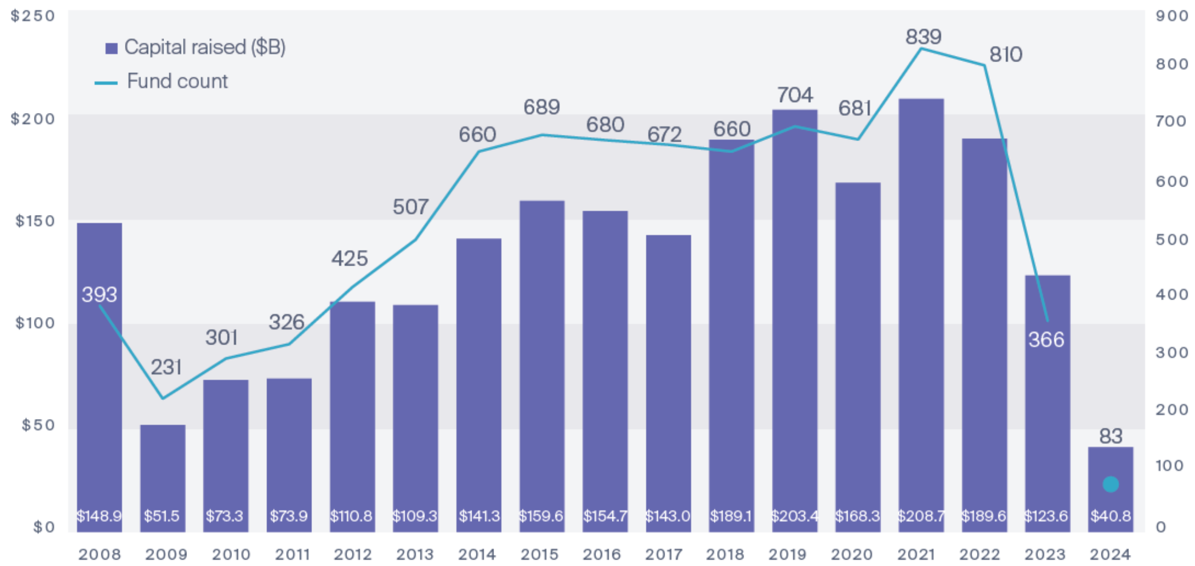
Real Estate

Elevated financing costs, expanding cap rates (the ratio of a property’s net operating income (NOI) to its purchase price) and valuation uncertainty continue to weigh on broader commercial real estate deal volumes, fundraising and investment performance. Even with interest rates starting to decline, investors remain cautious as they await improving market conditions and a more favorable lending environment. However, certain segments of real estate such as retail, hospitality, and industrial have shown signs of rebounding.

- **Deal & Fundraising Activity:** US real estate deal activity remains significantly below its COVID-era highs across most property types. Through the first three quarters of 2024, transaction volume by dollar value hit its lowest level since 2013, totaling ~$40 billion while deal count hit its lowest point since 2011, totaling ~29,000[3].

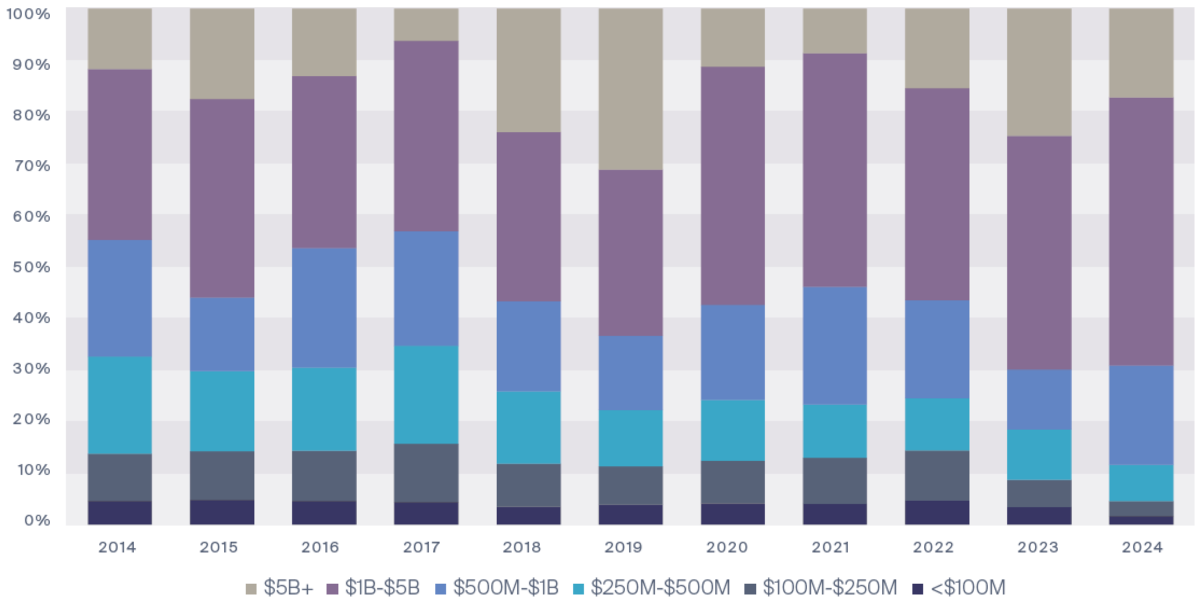
  The fundraising landscape has been equally challenging, with managers navigating one of the toughest environments in recent memory. Total capital raised hit one of its lowest points since the Great Financial Crisis, totaling $40.8 billion (**Chart 16**). Similar to other private market asset classes, fundraising is increasingly concentrated as LPs gravitate toward established managers and larger funds. YTD 2024, funds exceeding $1 billion in size accounted for more than 60% of total fundraising activity (**Chart 17**).

Chart 16. Real Estate Fundraising Activity



Source: Pitchbook H1 2024 Global Real Estate Report

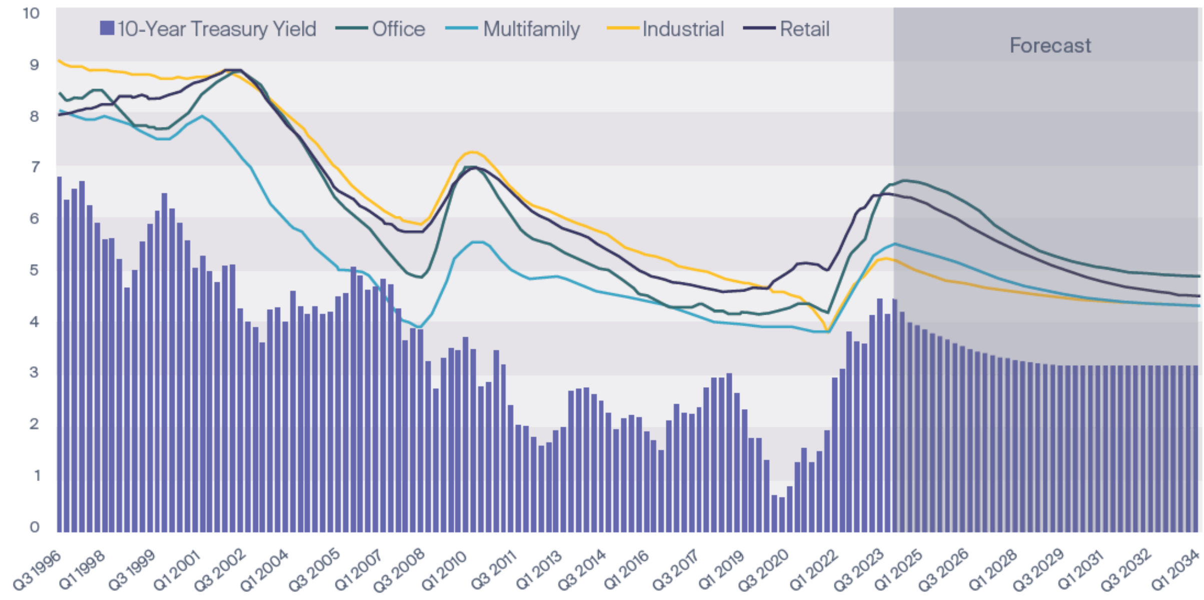
Chart 17. Share of Real Estate Capital Raised by Size Bucket



Source: https://www.altusgroup.com/featured-insights/cre-transactions/

- **Cap Rates:** Despite recent interest rate cuts, cap rates remain elevated compared to the pre-pandemic level. CBRE projects a gradual compression in cap rates throughout 2025. According to CBRE, peak-to-trough cap rates by the end of 2025 are expected to decline by 40 bps for industrial, 35 bps for retail, 25 bps for multifamily and 20 bps for office (**Chart 18**), but investor appetite will need to improve or Treasury yields will need to fall to see these predictions come true.

Chart 18. Cap Rates & 10-Year Treasury Yields



Source: https://www.cbre.com/insights/briefs/impact-of-interest-rate-cuts-on-real-estate-cap-rates

Subsector

- **Multifamily**[4] – Vacancy rates fell for the first time since the end of 2021 as demand outpaced new supply, but still remain above the long-run average of 5.0%.
- **Industrial**[5] – Industrial remains a favored subsector among investors given its lower sensitivity to long-term interest rates and continued strong demand for logistic assets. Improvements in NOI prevented industrial cap rates from climbing as much as those of other subsectors.
- **Retail**[6] – Retail market fundamentals have strengthened, with record-high occupancy and strong rent growth. CoStar reported their lowest national vacancy rate of 4.1% in 2024, with just over 0.4% of inventory currently being developed[7].
- **Office**[8] – This subsector remains the weakest of the major ones in real estate. Office transaction volume has improved YoY but remains ~50% lower than 2021 volume.

- **Gresham Perspective:** Despite numerous headwinds the real estate sector has faced in recent years, we see attractive opportunities in select niches. It is important to note that real estate investments are highly dependent on local markets and individual asset selection. We continue to explore investments in specialized real estate sectors such as manufactured housing, senior housing, and marinas, specific areas where value-add and opportunistic returns remain compelling.

Conclusion

Despite the challenges private market investors face, we continue to believe private market investments can deliver significant long-term returns for investors and that these remain a strategic cornerstone of portfolio allocation. The asset class has inherent cycles, and thus we adopt a long-term investment approach, avoiding the pitfalls of market timing. By maintaining a disciplined and consistent pace of commitments, we strive to capture opportunities across cycles and position our clients' portfolios to benefit from the enduring value creation potential of private markets.