RBC Global Asset Management
PH&N Institutional

Private Markets Report 2025


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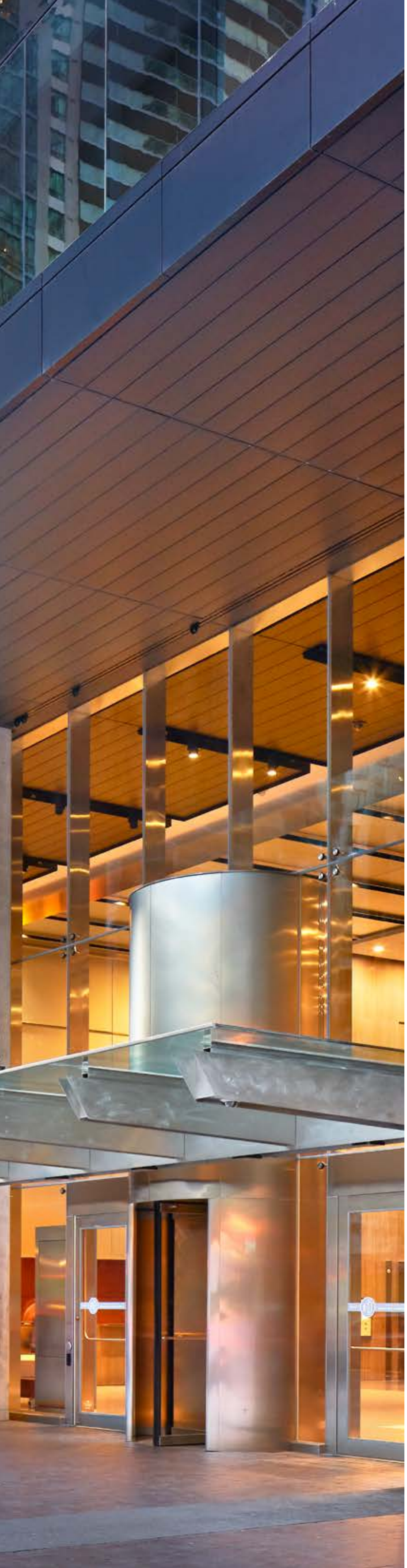


PH&N Institutional has long been committed to the investment success of our clients. We combine a relentless pursuit of strong investment performance across a broad range of asset classes with thoughtful investment ideas and advice to help clients build resilient portfolios that are aligned with their long-term goals.

This report focuses specifically on a range of private market asset classes that have become foundational elements in many institutional portfolios – real estate, infrastructure, and private credit (in the form of commercial mortgages). In the following pages, we describe the philosophy underpinning our approach to investing in these asset classes, review market conditions, and discuss some of the themes that we expect will be relevant for the year ahead.

For decades, public market equity and fixed income assets dominated most investment portfolios, but for reasons described below, core private market investments now represent a meaningful component of the policy asset mix of many institutional investors. Among other things, core private market investments offer the following features:

- An attractive mix of current income and long-term growth potential.
- The diversification benefits of direct exposure to assets in sectors of the domestic and global economy where public market investment opportunities are not necessarily available – this is particularly important today as public equity markets have become increasingly concentrated by geography and in a relatively small handful of individual companies.
- Incremental returns stemming from the illiquid nature of these investments relative to public market assets – an appealing feature for investors that have capacity for managing some illiquidity risk in a portion of their portfolio.
- Enhanced return stability resulting from the fact that many of the underlying assets are valued less frequently, and not subject to the vagaries of short-term market sentiment.

Buddha-Full

Investment philosophy

Private market asset classes such as real estate, infrastructure, and commercial mortgages offer a diverse range of domestic and international investment opportunities, with varying return and risk characteristics. By focusing on high-quality investment opportunities available within these asset classes, our flagship private market strategies are designed to provide investors with the building blocks to establish a long-term foundation for their investment portfolios, alongside traditional fixed income and equity investments. The following core principles guide our investment philosophy:

Focus on core markets

Diversified portfolios of high-quality investments located in core markets deliver stable yields in our fixed income portfolios, and provide growing current income and long-term capital appreciation potential in our equity investments. In a global context, developed markets offer stable regulatory regimes that are conducive to investing in long-term real assets.

Partnerships

Combining resources with strategic partners that bring complementary expertise in specific geographies and sectors creates advantage in accessing and managing the high-quality investments opportunities we seek for our portfolios.

Geographic focus

It is our view that the core Canadian real estate market provides an investable universe that is large and liquid enough to support high-performing and diverse mortgage and real estate portfolios while eliminating foreign tax and currency risk. This view is complemented by an infrastructure program that is globally diverse, primarily focused on developed markets outside of Canada.

Responsible ownership

Active and engaged ownership is a critical aspect of our investment approach. We maintain constructive relationships across various stakeholders (e.g., property owners, tenants, regulators, customers, employees) and focus on long-term value creation with the goal of generating superior risk-adjusted returns for our investors.

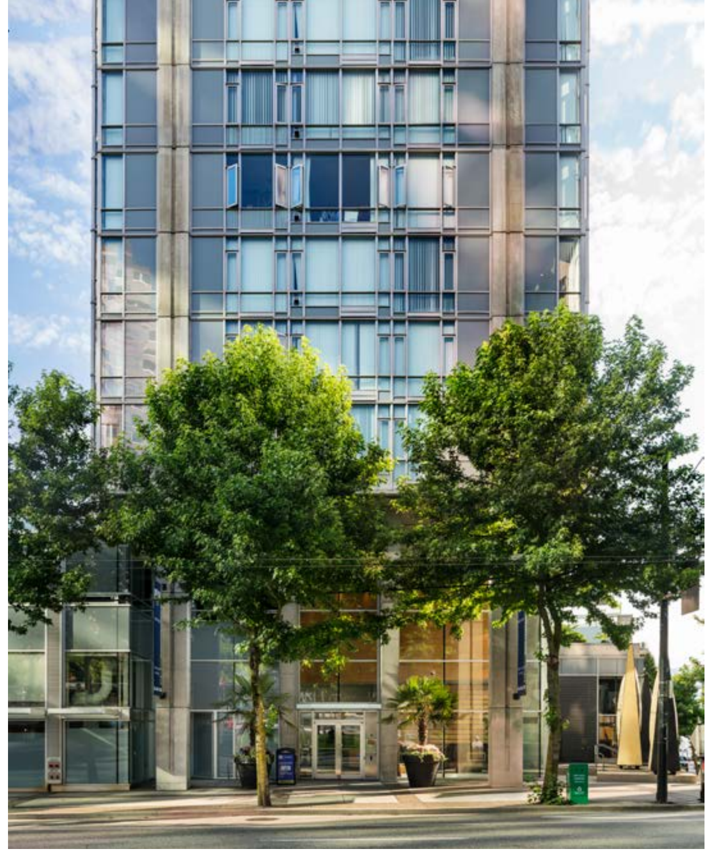
Liquidity management

Maintaining diversified sources of liquidity and balance sheet strength is central to the way we manage all of our strategies.

Open-ended fund structures

All our strategies are offered through open-ended fund structures that allow investors to maintain long-term allocations to these fundamental elements of their investment portfolios.

Canadian core real estate



In a market environment characterized by an advancing business cycle, allocations to high-quality, core real estate can provide important benefits to institutional portfolios, including potential for low correlations, low levels of earnings volatility, inflation hedging characteristics, and attractive total returns.

Canadian core real estate: 2024 market review

Operating fundamentals for higher-quality assets continued to drive positive earnings momentum through 2024, while valuations remained largely flat due to wider valuation metrics. Debt capital markets remained supportive, with lenders competitively focused on high-quality mortgage opportunities, lending spreads tightening, and the Bank of Canada commencing rate cuts mid-year, taking absolute borrowing rates lower. Despite the strong operating environment and supportive lending conditions, transaction activity in the real estate sector levelled off for much of 2024 as buyers and sellers alike paused to assess the uncertain environment.

- The **office** sector continued to work through its well-documented challenges as valuation metric pressure persisted, influenced by higher interest rates, negative capital markets sentiment, and elevated vacancy levels. The market remained bifurcated, as tenants continued to favour high-quality, well-located space to support the return-to-office trend. Accordingly, while the overall national office vacancy rate was relatively unchanged throughout the year, vacancy was stable for Class A properties and above, largely offsetting the rise in Class B/C vacancy. Encouragingly, office attendance continued to trend upwards throughout the year, while supply tightened as the construction pipeline reached its lowest level in 20 years and lower-quality office space was converted to other uses.[1,2]
- The **industrial** sector's growth continued to normalize to more sustainable long-term levels and supply/demand fundamentals remained consistent with a healthy market. The national vacancy rate rose from historically low levels as new supply outpaced leasing activity, and is now more consistent with the historical average. The national average asking net rental rate moderated as well, after more than a decade of very strong growth. Like the office sector, the industrial construction pipeline continued to ease as a rise in delivery of new supply more than offset new starts, which should support an eventual tightening of market conditions.[3]
- The **residential** sector continued to be affected by housing affordability challenges, mainly stemming from the supply/demand imbalance driven by record population growth. The moderation in new supply was exacerbated by labour shortages, high construction/financing costs, and a softer housing market, most notably in the high-rise segment of the condominium market, which had been a significant source of new supply over the past decade. Policy measures aimed at improving affordability, lowering construction costs, and slowing population growth are beginning to work their way through the residential development industry, but will take time to have a measurable impact on affordability. Notably, average rent levels have begun to level off in most markets as the higher-priced condominium rental market adjusted to the new policies more quickly.[4]
- The **retail** sector maintained positive momentum during the year, though retail sales remained under pressure due to higher interest rates, inflation, slowing population growth, and a softening labour market. Leasing activity remained strong and outpaced new supply; as a result, vacancy was low and rent growth remained positive. Leasing demand for enclosed malls was modest and focused on stronger core locations, particularly from fashion tenants, while demand for necessity-based retail remained strong. [5,6]

[1] CBRE, Canada Office Figures – Q4 2024, January 7, 2025
[2] Strategic Regional Research Alliance Occupancy Index, December 1, 2024
[3] CBRE, Canada Industrial Figures – Q4 2024, January 7, 2025
[4] Rentals.ca, December 2024 Rentals.ca Rent Report, December 2024
[5] RBC, RBC Consumer Spending Tracker, December 19, 2024
[6] CoStar, Retail National Report – Q4 2024, January 2025

Canadian core real estate: 2025 outlook

As we look ahead to 2025, the divergence between positive underlying property operating performance and softer capital markets sentiment that emerged in 2024 has created favourable investment conditions for well-capitalized investors. Market support is expected to come from further potential cuts to the Bank of Canada's policy rate, and declining new construction activity; these factors are expected to increase market tightness and support occupancy levels across all sectors. While population growth is expected to slow in the near term, we expect the more sustainable long-term rate of growth to remain robust and supportive of the asset class. Meanwhile, key risks to monitor include slowing economic growth and labour market headwinds. In addition, certain investors remain challenged in accessing equity to either fund development commitments or lower leverage levels, reinforcing the value of a low-leverage, diverse core asset/core market strategy.

Office

We expect pressure on the office sector to moderate and potentially reverse course, as inflated valuation metrics begin to stabilize and uncertainty related to the return-to-office trend clears. Operating fundamentals are expected to continue their positive trend, with potentially high-income growth driven by new leasing activity, particularly for higher-quality assets.

Industrial

The industrial sector's growth is expected to remain positive, though is likely to moderate to more sustainable levels. Supply and demand fundamentals remain well balanced in core locations, supported by a shortage of available land and demand drivers such as e-commerce, inventory management, supply chain resiliency, and onshoring. Accordingly, we expect well-located assets in major hubs to continue to outperform.

Residential

The residential sector's fundamental drivers of population growth and constrained supply are largely expected to remain in place, while its defensive attributes and history of recession- resilience should provide support in the event the economy weakens further.

Retail

In the retail sector, the outlook for the necessity- based retail category remains the strongest given this segment's ability to generate stable income growth in the face of fluctuations in consumer discretionary spending and the longer-term trend of e-commerce adoption.

While 2024 presented broad challenges for the asset class, we believe that the Canadian commercial real estate market is positioned to benefit from the country's superior long-term population growth, its education and health care system, its natural resources, and its political stability – all positive valuation drivers for scarce real assets.

Canadian core real estate: Our approach

Our core Canadian real estate strategy provides investors with access to a high-quality portfolio of assets diversified by geography, property type, and tenancy. Through its adherence to quality and diversification, the strategy seeks to provide a predictable and growing source of income, and stable total returns over the long term. The strategy is an open-ended investment trust with a quarterly subscription and redemption schedule.

Underpinning the design of our strategy is the belief that an allocation to core Canadian real estate – core assets in core markets with core tenants – can be a foundational element of an investor's portfolio, working alongside traditional fixed income and equities. The strategy gives investors exposure to the asset class in the most efficient structure possible, eliminating foreign tax, transaction costs, and currency drag, while positioning investors to integrate global exposure through other more liquid asset classes.

The strategy was created through a distinctive partnership with British Columbia Investment Management Corporation (BCI), a leading Canadian pension plan manager in one of Canada's largest diversified core commercial real estate portfolios. Investors benefit from the collective oversight of two independent professional investment firms in a unique partnership model whereby both firms are economically and reputationally aligned to deliver long-term investment performance.

The strategy's investment thesis is focused and consistent: hold a diverse portfolio of quality real assets in core locations that will benefit from positive demand and supply characteristics over time; invest in each asset's modernization; maintain a strong and liquid balance sheet; and commit to high environmental, social, and governance standards.

Core portfolio

Unprecedented alignment
A partnership that represents complete economic and reputational alignment between two of Canada's most respected fiduciaries, RBC Global Asset Management and BCI/QuadReal.

Investment discipline
Aligned investment and asset management decision-making provides discipline, focus, and access to off-market opportunities.

Fully diversified
Access to an established portfolio of signature properties across Canada's largest cities, diversified by asset class, geography, and tenancy.

Governance & sustainability
Combined oversight provides exceptional governance and consistent industry-leading ESG results.

Global infrastructure

The stable, predictable, and defensive cash flow profile of infrastructure assets, along with their attractive portfolio construction characteristics, offer the potential for enhanced risk-adjusted returns within long-term portfolios.

Global infrastructure: 2024 market review

Investment activity in private infrastructure was relatively muted for much of 2024 and equity return requirements appeared to rise slightly over the course of the year. The decline in investment activity and rise in return requirements was a function of many factors, including: a higher cost of capital, elevated capital expenditure requirements due to inflation, tighter labour markets, residual supply chain issues, and increased uncertainty around revenue forecasts given the heightened risk of an economic slowdown.

The resulting scarcity of capital created opportunity for those investors with capital available to deploy. A small number of very large fundraising outcomes for certain fund managers led to intense competition for a few mega-infrastructure deals even as we were seeing less competition in the mid-cap infrastructure space. As a result, we saw an increase in the expected risk/return profile of certain mid-cap opportunities.

We also observed several large institutional investors seek out experienced and aligned partners to support future growth in their private infrastructure investments, as they approached their internal portfolio concentration limits. This brought a set of high-quality investment opportunities to the market alongside strong potential co-investment partners.

Each of these factors contributed to what many are speculating will be a good vintage year for buyers of private infrastructure companies.

From a sector perspective, infrastructure investments continued to be supported by strong fundamentals:

- Within the **power, energy, and utilities** sector, financial incentives offered by governments to modernize and improve existing infrastructure continued to support these projects and the transition to clean energy. This includes both power generation and transmission (the electrical grids). For example, in the U.S., clean energy investments are a key component of the Inflation Reduction Act, while in Australia, regulated electricity transmission utilities are beneficiaries of the Australian government's A$20 billion commitment to modernize the electricity grid to make clean energy more accessible and affordable.
- We continued to see positive developments in the **transportation** sector, as many modes of traffic – such as public transit, roadways, and airports – reached or exceeded their pre-pandemic levels across many countries. In January and February of 2024, security screening of passengers at the eight largest Canadian airports finally exceeded pre-pandemic records previously reached in early 2020.[7]
- Within the **digital infrastructure** sector, there continued to be a push for growth in connectivity to support the increasing demands of people and the Internet of Things, and huge investments in support of growing demand for large language models and generative artificial intelligence (AI). Training these tools requires significant computational power, and some estimates indicate that by 2040, up to 80% of data centre computational power and capacity will be consumed by AI.[8]

[7] Canadian Air Transport Security Authority (CATSA), Screened passenger data, accessed March 19, 2024.
[8] Ropes & Gray, Looking Ahead: Key U.S. Digital Infrastructure Insights for 2024, March 12, 2024.

Global infrastructure: 2025 outlook

Lower lending rates in response to easing inflation have led to the expectation of increased transaction flow in the year ahead, as investors see the opportunity to use financial leverage to fund transactions. While increased appetite for leverage should act as a tailwind for investment activity going forward, investments with more defensive profiles – including strong financial quality (relatively low amounts of predominantly fixed rate debt) and inflation-protected yield – will continue to present the most compelling opportunities, in our view.

The outlook by sector remains strong, with both opportunities and risks facing each:

Power, energy, and utilities

We expect that investors will continue to benefit from the significant investment need and government support programs.

Transportation

We expect demand to continue to revert to pre-pandemic norms. Monitoring the health of the consumer through potential economic weakness in 2025 will be important, as discretionary activities such as air travel may be impacted.

Digital infrastructure

Investments in AI and related industries offer attractive opportunities for growth. These investments have been in high demand in recent years and investors need to be vigilant when assessing the pricing and forecasted cash flows.

Looking ahead to 2025, we expect the private infrastructure asset class to remain resilient due to its attractive investment characteristics, significant investable opportunity set, and the ongoing need for private capital to support growth.

Global infrastructure: Our approach

Our global infrastructure strategy aims to provide investors with attractive risk-adjusted returns comprised of income and capital appreciation. The strategy invests in a portfolio of core and core+ private infrastructure assets diversified by sector and geography, with a focus on developed market countries included in the Organization for Economic Co-operation and Development (OECD). A focus on developed markets provides benefits of stable economic growth, positive demographic trends, yields underpinned by contractual income, and inflation sensitivity. The strategy can also offer exposure to positive environmental, social, and governance themes (infrastructure 2.0), as we seek investments that support economic development, enable higher standards of living, and drive the transition to a more sustainable future.

The strategy is open ended to align investor capital with the long asset lives of private infrastructure assets. The strategy is actively managed by the RBG GAM Private Markets Global Infrastructure Investment team and leverages the internal support of RBC Global Asset Management's (RBC GAM) investment and operational platform as well as the external support of experienced and aligned co-investment partners and advisors.

Diversified
By sector, geography and co-investment partner

Global
Developed markets with robust transaction opportunities

Core / Core+
Targeting attractive risk adjusted returns

Infrastructure 2.0
Seek to mitigate risks and responsibly enhance value

Open-ended
Aligns with long-term value creation and allows investors ongoing access and liquidity

Partnerships
Experienced and aligned co-investment partners

The strategy benefits from proprietary (and often non-competitive) access to a broad range of unique and high-quality investment opportunities. This access is attributable to:

- An investment team with a broad and deep network of industry contacts, and extensive experience that includes senior roles in origination, investing, and governance at Canada's largest pension plans. The team's proprietary global network is augmented by opportunities sourced through its co-investment partners.
- A flexible mandate, including a willingness to take minority interests in investments and invest in both mid- and large-cap opportunities.
- Access to capital from a large and diverse investor base, which provides certainty of capital for co-investment partners.
- The scale and global brand of the Royal Bank of Canada (RBC).

This broad range of high-quality deal flow gives the team a wide opportunity set to select from, and allows them to capitalize on situations where there may be gaps in the supply and demand for capital in certain segments of the infrastructure market.

The strategy's focus remains on building a globally diversified portfolio of high-quality core/core+ private infrastructure assets alongside experienced and aligned co-investment partners. With low leverage and a strong pipeline of investment commitments, we are entering 2025 in a position of strength to deploy capital into a capital-constrained environment. We are actively considering a broad set of potential transactions that have near-term execution timelines, and we continue to see additional new deal flow every quarter driven from existing and new co-investment partners. As we consider portfolio construction and diversification within the strategy, the addition of two new investments in 2024 brought attractive diversification benefits to the portfolio by sector, geography, value driver, and co-investment partner. Going forward, we are prioritizing additional sectors and value drivers to enhance the diversification of the strategy.

Commercial mortgages

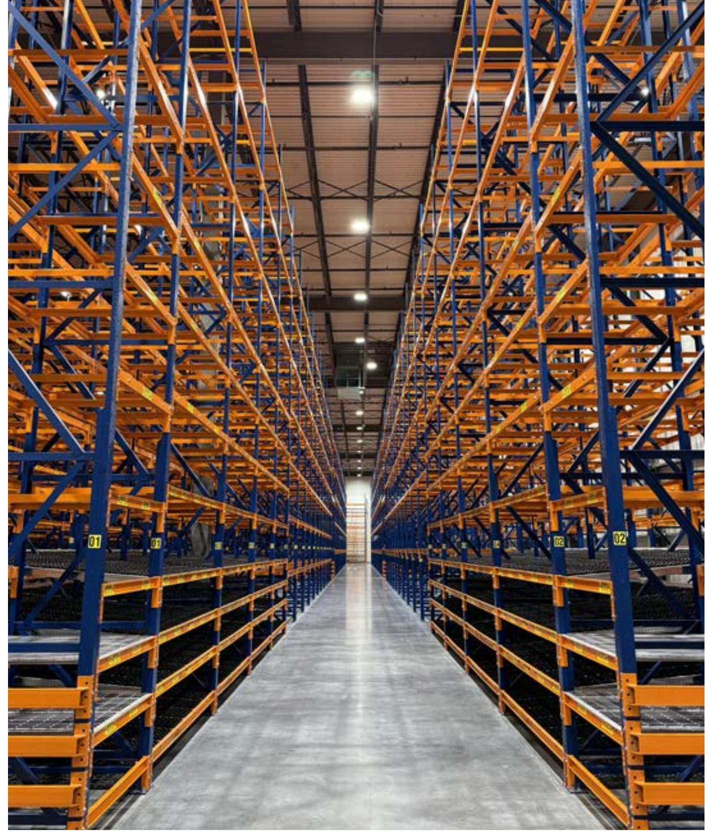
The Canadian commercial mortgage market provides a compelling opportunity for institutional investors to allocate to the private credit sector in a segment that is secured by an underlying real asset, providing investors an opportunity to access strong risk-adjusted fixed income returns.

Commercial mortgages: 2024 market review

Commercial mortgage investment activity remained sporadic through most of 2024, primarily as a result of moderate transaction volume occurring in the commercial real estate market. Liquidity remained very strong amongst most lenders and across all market segments from conventional through to high yield, resulting in strong competition for attractive mortgage opportunities. These competitive conditions were not universal, however, as office assets and higher-risk segments of the high yield market continued to be met with limited liquidity and apprehension from lenders given the uncertain outlook.

Borrower sentiment remained cautious given evolving inflation conditions and the resulting expectation for interest rates to a neutral monetary policy position. As a result, vendor and purchaser expectations on value remain diverged, which further contributed to lower transaction volume.

Credit fundamentals remained strong with delinquencies and loan losses remaining very low across most sectors of the commercial real estate market. Industrial, retail, and multi-family residential delivered strong operating metrics with low market vacancy levels and positive income growth. Most stress remains focused at the specific borrower level or within distinct asset classes rather than being the result of broader market issues. Borrowers with large low-quality office allocations or concentrated construction projects combined with limited liquidity appear to be the common theme surrounding most default situations over the past year.



Limited real estate market activity drove lenders to bid aggressively for larger high-quality conventional deals, causing some spread compression during the year. Notwithstanding, commercial mortgages continue to offer an attractive spread premium relative to corporate bonds, as compensation for illiquidity. Although high yield credit spreads have not compressed, this segment of the market has seen a reduction in overall yields due to a decline in prime rates.

Through the second half of 2024, declining interest rates dominated headlines and actually caused a slight slowdown in mortgage origination opportunities as borrowers paused with the expectation that they could benefit from even lower absolute rates. Again, spreads remained tight for quality opportunities throughout the second half of the year. While spread tightening increases returns on outstanding loans in the near term, it reduces the coupon available on new lending opportunities.

Overall, low mortgage default rates combined with declining Government of Canada interest rates and mortgage spreads have driven strong returns from commercial mortgage portfolios over the past year.

Commercial mortgages: 2025 outlook

After several years of low transaction volume across the Canadian commercial real estate market, sentiment appears to be improving in response to rate cuts by the Bank of Canada, which began earlier this year and are expected to continue into 2025. Despite aggressive Bank of Canada activity, Government of Canada (GoC) bond rates have remained volatile, driven most recently by U.S. trade uncertainty. Stabilization in GoC interest rates should help stimulate real estate market activity as leverage would become supportive and act as a tailwind for activity moving forward. This improved sentiment has already resulted in several notable office transactions recently, and we expect commercial mortgage origination activity will continue to increase from here.

From a credit risk perspective, we expect the commercial mortgage market to remain healthy heading into 2025 as current interest rate levels and moderate inflation alleviate potential borrower stress. The lending market remains liquid, and most borrowers have been able to source options to finance their assets. Troubled construction projects and office assets are being resolved through sale or court-ordered process, which is positive for the broader industry.

Overall, the commercial mortgage market has performed well given various headwinds caused by the pandemic, inflation, and high interest rates. There is always uncertainty within any outlook, but we feel the industry is well positioned to deal with inevitable volatility over the next year. We are optimistic that a return to neutral interest rate levels will improve market sentiment and lead to an increase in attractive lending opportunities, although we expect competition to remain particularly strong for high-quality new mortgage opportunities. The risk of future economic weakness combined with remaining uncertainties in certain segments of the mortgage market may result in capital funnelling into those areas of the market exhibiting the most fundamental strength.

Commercial mortgages: Our approach

PH&N Institutional has been managing commercial mortgage investments for more than 50 years. While our capabilities have evolved, our focus on protecting investor capital while aiming to consistently deliver strong risk-adjusted returns remains in place.

At the core of the RBC GAM Private Markets Mortgage Investment team's approach is a central conviction that for clients who are able to tolerate the illiquidity of commercial mortgages, mortgage solutions can potentially improve the yield and diversification of their overall portfolio and provide a compelling entry point into the private credit sector. The goal across RBC GAM's commercial mortgage platform is to capitalize on the illiquidity premium offered by the mortgage market, while managing credit risk through diligent risk management and underwriting.

RBC GAM commercial mortgage platform

50+ years of managing commercial mortgages

We have been managing commercial mortgage investments since the 1970s

50+ year track record of capital preservation through multiple business cycles

Exceptional coverage, relationship-focused

Nation-wide origination network provides valuable private market insight and opportunities

Deep, established relationships with borrowers generates direct deal flow, avoiding reliance on broker mandates

Solution-orientation toward clients & borrowers

Platform evolution allows us to offer investment solutions to institutional clients across the risk spectrum

Flexible approach with borrowers, a competitive advantage in sourcing opportunities and generating returns

Robust internal controls & objective valuation

Comprehensive internal controls, ESG integration,* and compliance monitoring

Independent, third-party mortgage valuations to ensure transparency and objectivity

*Please refer the ESG disclaimer at the end of the document.

The team focuses on investing in loans that offer attractive reward-for-risk, and benefits from exceptional access across the mortgage market through our market-leading origination network. To support our clients' investment objectives, our platform offers access across the commercial mortgage risk and return spectrum from conventional to high yield, including strategies that comprise U.S. commercial mortgage-backed securities (CMBS).

Conventional	Conventional plus	High yield	U.S. CMBS
Financing high quality properties with stable, in-place income.	Short-term and higher leverage, used to reposition or develop a property.	High leverage mortgages, greater income risk.	Liquid CMBS backed by investment grade borrowers

Risk & return

The team typically reviews over $15 billion of mortgage opportunities and invests in $1–1.5 billion annually. Our platform provides access to opportunities, information, and enhanced visibility on risk in a private market where access to information is closely held. The team has a strong market position that benefits from real-time market information sourced from our existing $7 billion portfolio comprised of 450 loans.[9] We employ a disciplined approach to underwriting and continue to target quality properties, borrowers, and sponsors when originating new loans.

[9] As at December 31, 2024

Thank you for your interest in our perspectives.

We hope this document serves as a useful reference, and your portfolio managers welcome the opportunity of further discussion with you.

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