BLUE OWL

2025 Market Outlook

JANUARY 2025

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Foreword

Entering the first quarter of 2025, we remain cautiously optimistic that the US economy will continue experiencing steady and incremental growth. We expect favorable tailwinds for US businesses to include continuing AI innovation, a more pro-business regulatory framework, and a focus on extending the 2017 tax cuts. Conversely, we may see a potential headwind if there were a resurgence in inflation.

For Blue Owl, our investment concentration in US-based businesses across our Credit, GP Strategic Capital, and Real Estate platforms positions us well to continue delivering value for our investors and users of our capital.

In terms of how we view our business broadly, we foresee three themes cutting across the private markets ecosystem over the coming year.

First is identifying what value creation looks like in a potentially higher for longer interest rate environment. While expansionary policies should stimulate economic growth, there is a potential for higher inflation. LPs will remain laser focused on how GPs are navigating a higher rate environment. Expect more candid conversations around topics such as distributed to paid-in capital (DPI) and liquidity options over the coming months.

Second is understanding that the opportunity set in private markets is rapidly expanding. The impact of this multi-decade-long arc is readily seen across our business where bank retrenchment enabled us to provide private capital solutions to sponsors and other capital users who historically engaged in public-market financing. The beauty of this shift from public to private financing is better alignment between lenders and capital users, where long-term, often permanent capital, is able to meet long-term investment needs. Areas in public markets where there is a significant capital duration mismatch remain ripe for disruption by private-markets firms.

Third is acknowledging that the competitive advantage afforded by scale is only now being amplified. In the past 12 months, we've witnessed an acceleration of M&A activity across private-markets firms. With Blue Owl, our multiple strategic acquisitions and subsequent integrations provide a roadmap for how specialist asset managers can benefit from the scale of a global manager while remaining focused on what they do best – delivering strong returns for investors.

In the corresponding market outlooks, our Credit, Real Estate, and GP Strategic Capital teams outline how the above-mentioned themes will impact their respective sectors.

We invite you to read these outlooks and wish you all the best for 2025.

Doug Ostrover
Co-Chief Executive Officer

Marc Lipschultz
Co-Chief Executive Officer

2025 Market Outlook

Credit Outlook

Craig Packer, *Co-President*

JANUARY 2025

Introduction

2024 illustrated the difficulty of economic forecasting as well as the benefits of an all-weather asset class that is resilient amidst changing conditions.

Early in the year, a series of higher-than-expected inflation prints quickly tampered expectations for easing from the Federal Reserve, with some market participants questioning if any rate cuts would be seen by year-end. Therefore, borrowing costs remained elevated through much of the year. However, public credit markets did reopen after nearly two years of muted activity, allowing a significant number of borrowers to reprice existing capital structures at lower spread levels.

While a flurry of repricing and refinancing activities drove high transaction volumes, new deal issuance related to M&A continued to underperform expectations, likely driven by historically high borrowing costs and a mismatch in valuations between buyers and sellers. As we entered the final months of the year, inflation resumed its downward trend which, combined with modestly softened employment data, allowed the central bank to enact its first rate cut in September, followed shortly thereafter by additional rate cuts in November and December.

Against this backdrop, private credit portfolios performed well throughout the year. Within direct lending, elevated base rates remain supportive of all-in yields and fund returns. This has reinforced the outperformance of direct lending relative to traditional fixed income and public credit markets. The resilience that borrowers have consistently demonstrated, despite elevated interest rates, has been notable.

As we look to 2025, the trend of shifting economic narratives appears likely to continue against a backdrop of secular trends that may lead to new and expanding opportunities in private markets. In this piece, we will provide our outlook for 2025 while examining three key themes within private credit that may help orient investors as they seek to navigate the evolving marketplace.

What value creation looks like in a "higher for longer" environment alongside an expected increase in M&A

Our view

We believe 2025 could prove uniquely attractive for value creation within private credit, provided that managers are positioned correctly. Specifically, we believe scaled, pure play lenders with meaningful incumbency positions will be best positioned to benefit from an expected increase in M&A and therefore deal flow, allowing greater investment selectively and, ultimately, better performance.

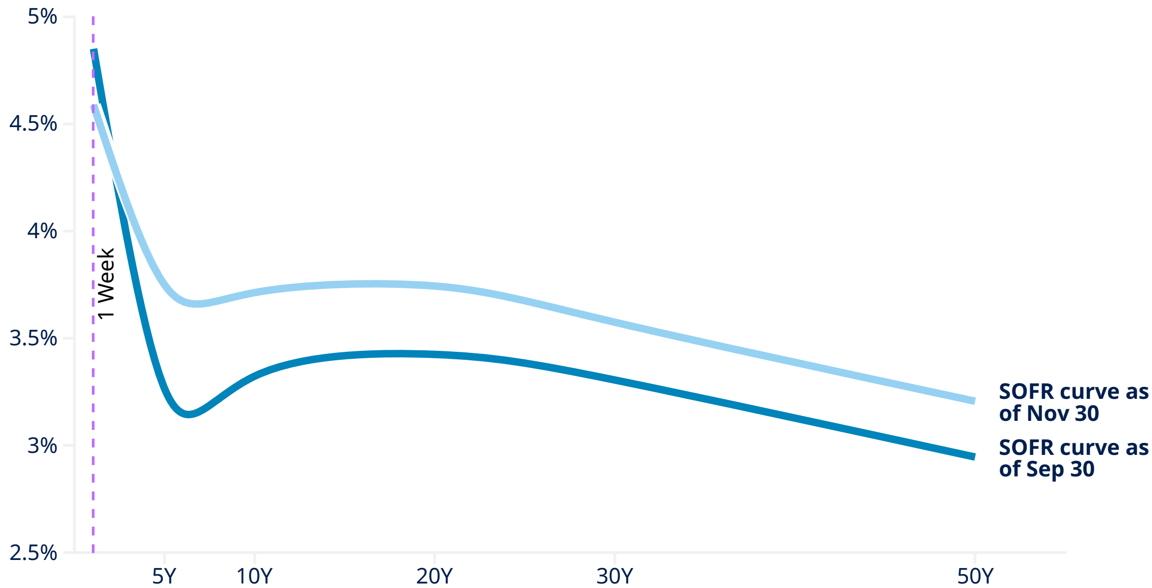
With interest rates easing and the incoming US administration expected to roll back regulations, private equity sponsors may look to take advantage of the more favorable dealmaking environment to execute consolidation strategies, make strategic acquisitions, and sell portfolio companies. We expect this environment to generate enhanced deal flow for direct lenders in comparison to recent years. In addition, with the long-term forward curve for interest rates projected to stay "higher for longer," we expect floating rate loans associated with direct lending to continue to deliver historically attractive (and elevated) returns.

Our strategy

The US Federal Reserve has begun an easing cycle, with three rate cuts made as of December 2024, but the central bank has indicated fewer cuts in 2025. Meanwhile, 2024's US election brings in a new administration that market participants anticipate will place a greater emphasis on economic growth. From a policy standpoint, this may lead to a rollback of regulations, potentially increasing M&A activity as companies are less constrained in executing consolidation strategies. Additionally, we may see more expansionary fiscal policies expressed through tax cuts and greater deficits. While such policies may spark higher growth, they may also be accompanied by higher inflation, and therefore a "higher for longer" interest rate environment.

A "higher for longer" expectation

SOFR forward curve pre and post-election



Source: Bloomberg. Curve ID S490 Corp which represents USD SOFR overnight index swaps.

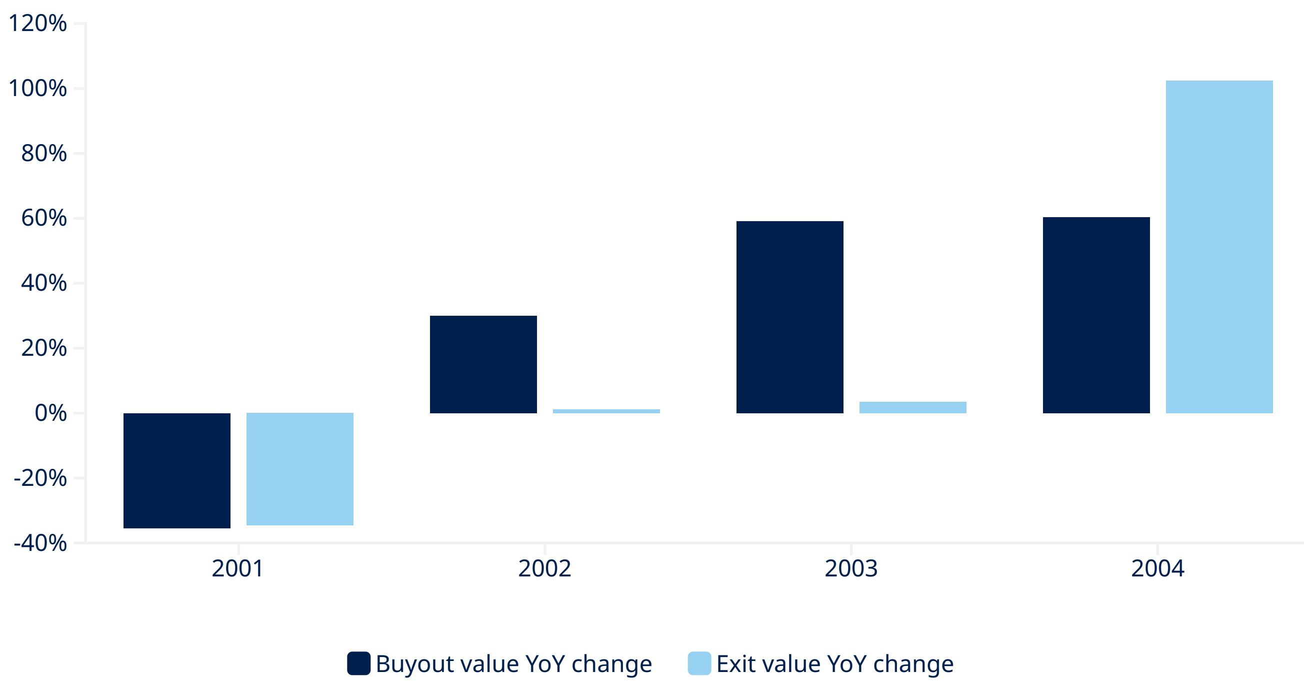
> The opportunity set in private markets is expanding, and managers with scale, established strategies, and incumbent relationships will take greater market share.

Markets quickly priced in this new paradigm, as we can see from the upward shift in the SOFR forward curve immediately before and following the election. Notably, base rates are still expected to fall over the near term, which would bring relief to borrowers, but long-term expectations for rates have shifted up by approximately 50 basis points, which would benefit returns in direct lending.

In addition to easing debt burdens for borrowers, lower base rates would reduce financing costs for private equity sponsors, potentially resulting in increased M&A activity. Indeed, there is historical precedent for this dynamic, as shown below by the growth in private equity buyout and exit transaction volumes following interest rate cuts in 2001. Importantly, over 80% of leveraged buyouts executed in 2024 were financed by private credit[i], indicating that a resurgence in dealmaking could be expected to largely benefit direct lending, given its status as the preferred financing solution for M&A transactions. And further, this feeds into our thesis that the opportunity set in private markets is expanding, and managers with scale, established strategies, and incumbent relationships will take greater market share, as we explain below.

Rates down, M&A up

PE buyout & exit activity following rate cuts



Source: Pitchbook 3Q24 US PE Breakdown. Note: For the period 2001-2004. The first rate cut occurred on January 3, 2001.

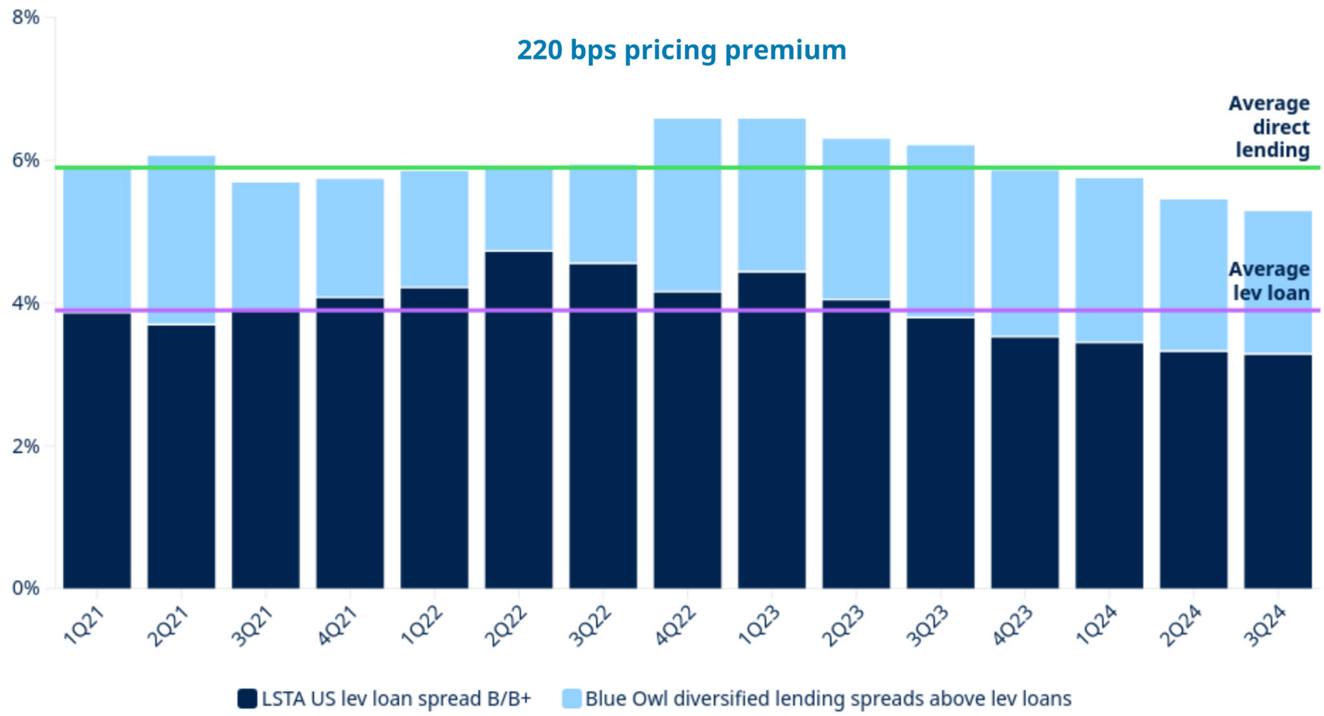
The opportunity set in private capital markets is rapidly expanding

Our view

We believe we are in the early stages of a significant change in the way not just institutions, but individuals, will choose to invest when it comes to deciding between public and private markets. In the fixed income markets in particular, the majority of what exists in the public markets is now becoming available in the private markets as well, including leverage/financing, ratings, and daily pricing. Initially this has been focused on the investment grade areas of the market, but we believe this blurring of the lines between the public and private credit markets will continue to expand, and ultimately investors will focus on how much additional return they may achieve in the private markets versus the public markets. Since the inception of our strategy at Blue Owl, we have witnessed a consistent yield premium relative to the public markets, and we believe that premium will continue to persist.

The private credit advantage

Private credit yield premium vs. the BSL market



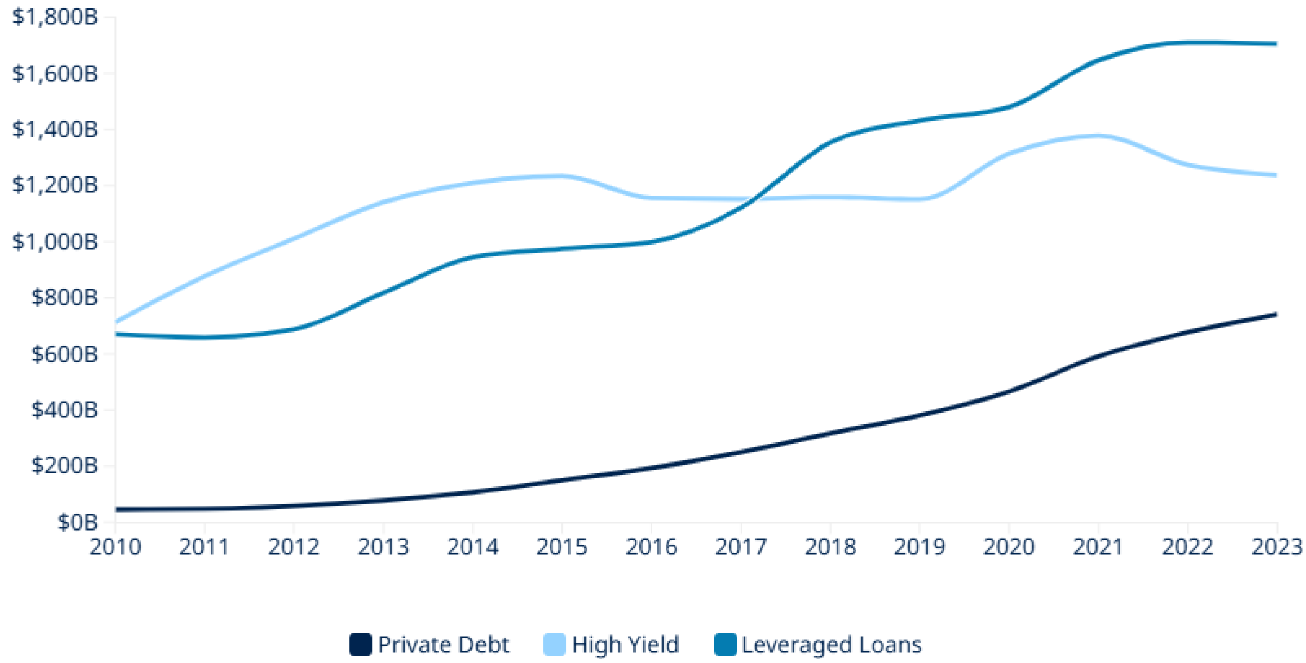
Source: KBRA DLD and Pitchbook LCD

Our strategy

Following the 2007-2008 Global Financial Crisis, more restrictive regulations prompted banks to reorganize their balance sheets away from illiquid assets with higher capital requirements, including corporate loans. This retrenchment in bank lending allowed direct lending to fill the void, especially in the lower and core middle markets. Meanwhile, the growth of direct lending in recent years and its expansion into the upper middle market has been driven by increasing demand from larger borrowers and private equity sponsors seeking more flexible financing solutions — including multi-currency tranches, delayed draw and revolving credit facilities, and payment-in-kind flexibility — which public credit markets are unable to accommodate. Indeed, we can see that the size of the private credit market has grown to approximately 20% of the leveraged finance market, which includes high yield bonds and leveraged loans, and we expect its growth to continue in the years ahead.

Private debt's rise

Global corporate credit market sizes



Source: Preqin, Credit Suisse, Pitchbook LCD, Bloomberg, StepStone Group. As of June 2024. Refers to United States and Europe combined.

As we look to alternative credit, and specifically asset-based finance, we see a similar, albeit more nascent, theme: Banks are increasingly retrenching from holding asset-based portfolios given a mismatch in duration between these assets and their deposits, leading to potential risks absent an effective hedging strategy. Additionally, recent regulations have provided an additional tailwind to the theme, as banks now take a significant capital charge on asset-based holdings while being required to mark these assets at a discount. This has led many banks to seek to sell their asset-based portfolios to more appropriate long-term investors, creating a growing opportunity for managers. Notably, the estimated addressable market within asset-based finance is believed to be nearly $11 trillion, with private markets currently accounting for only approximately 4% of that, highlighting the high potential for growth. We believe that private market penetration of alternative credit will likely double to 8% over the next five years while the overall market continues to expand.

The estimated addressable market within asset-based finance is believed to be nearly $11 trillion, with private markets currently accounting for only approximately 4% of that, highlighting the high potential for growth.

Credit market size

Estimated Corporate Credit Market[1]

Estimated Asset-Based Finance Market[2]

> Blue Owl believes there is significant growth potential for the private market segment within the $11 trillion asset-based finance market.

Past performance is not a guarantee of future results. There can be no assurance that historical trends will continue. The estimated addressable Asset-Based Financial markets discussed above have been amalgamated from various sources including, but not limited to:

1. Morgan Stanley Into the Great Unknown November 19, 2023, Preqin Private Debt 2022 data, Interval Fund Tracker Most Recent Quarter Data 2023, S&P Global Credit Trends Report October 2, 2023.
2. Federal Reserve Z.1 Financial Accounts of the United States Q3 2023, FRB NY Quarterly Report on Household Debt and Credit November 2023, SIFMA statistics Q3 2023, Secured Finance Foundation 2023 Secured Finance Market Sizing and Impact Study, 2022 Equipment Leasing & Finance Industry Horizon Report, CFPB Fact Sheet March 30, 2023, Preqin Private Debt 2022 data, S&P Global Credit Trends Report October 2, 2023, Ginnie Mae Global Markets Analysis Report December 2023, Interval Fund Tracker Most Recent Quarter Data 2023, MSI research Q4 2023.
3. With Intelligence, Private Debt Investor, Preqin, NAIC, Morgan Stanley Into the Great Unknown November 19, 2023, Private Equity International: Sizing the NAV finance market December 1, 2023, company websites, MSI research Q4 2023.

The competitive advantage afforded by scale is only now being amplified

Our view

We believe a significant factor in our strong performance in direct lending has been our focus on companies in the upper middle market (typically $100 million or more in EBITDA). This is a core tenet of our investment philosophy for two primary reasons: First, we believe larger companies tend to be more durable across the market cycle — this facilitates our goal of constructing a conservative portfolio aimed to generate attractive risk returns for our investors.

Second, we believe the upper middle market enjoys favorable competitive dynamics compared to the core or lower middle markets. While there are many lenders that can make commitments in the range of $100 – $250 million, there are far fewer that can speak for significantly larger deals. This in turn helps support discipline on pricing and documentation terms within the upper middle market.

Notably, this thesis also plays itself out in the data. According to Proskauer's direct lending database, through the third quarter of 2024 companies with greater than $50 million of EBITDA have seen a long-term default rate of approximately 1.7%, notably lower than the long-term average of approximately 3.0% for borrowers with an EBITDA of less than $25 million and 2.5% for companies with $25 to $50 million of EBITDA. This performance differential has been even more stark in times of market stress, such as COVID in 2020 (see chart below).

Larger companies, smaller default rates

Credit default rate by EDITDA

Source: Proskauer Q3 2024 Default Report

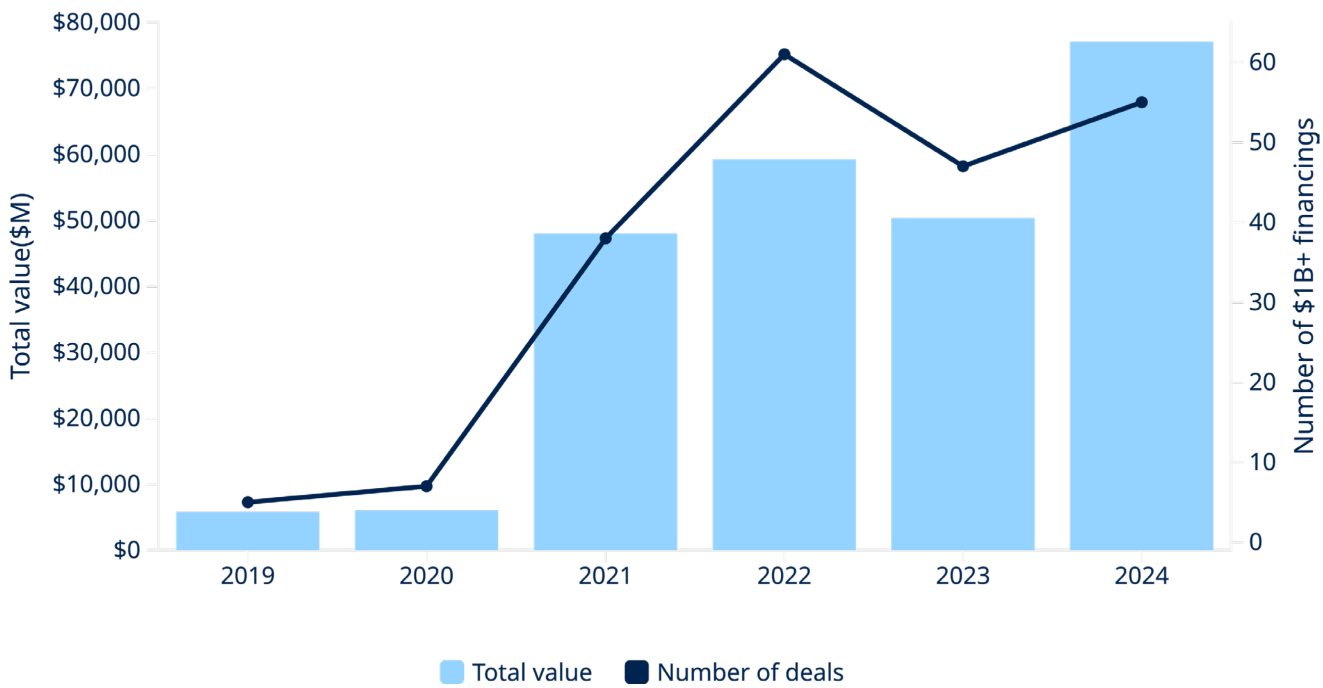
Our strategy

As mentioned above, direct lending has grown significantly in recent years as borrowers and sponsors of increasing sophistication and size seek flexible private capital solutions. Indeed, a direct lending deal of $1 billion or more was relatively uncommon as recently as 2020, but such financings have become commonplace as ever larger borrowers tap private credit markets. This trend of rising deal sizes has increased the relevance of scaled, pure-play lenders. Such lenders, who can write checks of at least $400 million (and often over $1 billion) are able to lead even the largest deals and serve as the fulcrum in structuring and document negotiations while ensuring execution. Since there are only a handful of lenders who can compete at the upper end of the market, we believe this segment of the middle market enjoys favorable competitive dynamics. Smaller lenders, however, typically face greater competition for deals given the growth of capital providers in the core and lower middle markets, potentially leading to adverse selection as well as pricing and credit documentation pressure.

Similar to our expectation that the direct lending market will continue to grow in absolute terms, we believe there is the potential for more frequent and increasingly larger deals, which will likely further benefit scaled lenders.

Bigger deals, and more of them

History of $1 billion+ direct lending transactions



Source: KBRA

Within asset-based finance, we expect scale to play a meaningful role as the asset class matures. We believe banks and non-bank lenders seeking to sell asset-based portfolios will look to establish long-term partnerships with scaled managers who are able to consistently speak for size, following a trend similar to what we have observed within direct lending. Additionally, large platforms are often able to negotiate and secure lower cost financing, which allows scaled players to bid more competitively while selecting investments from a potentially broader universe of opportunities. Finally, we have observed that banks and non-banks alike prioritize relationships with scaled investment managers that have a range of costs of capital available to serve needs for capital across secured warehouse financing, forward flow purchase programs, opportunistic portfolio sales, and growth capital solutions.

Conclusion

We believe long-term market dynamics will continue to favor private credit in 2025 and beyond.

As a scaled, well-established platform, we believe Blue Owl can be a key beneficiary of the continued growth of private credit. We believe we are set up to succeed given our deep origination capabilities, strong sector specialized underwriting expertise, in-house portfolio management, and workout and fund financing capabilities. Because we can anchor large private transactions and are strategically well positioned, we believe we can receive better access to deal flow and can be highly selective on credit selection and deal terms. Above all, we believe Blue Owl will continue to deliver attractive risk-adjusted returns to our investors, by virtue of our broad origination footprint, prudent asset selection, conservative structuring, and focus on capital preservation.

Author

Craig Packer
Co-President and Head of the Credit platform

Endnotes

i. Pitchbook LCD Private Credit & Middle Market Quarterly Wrap 4Q24

2025 Market Outlook

Real Estate Outlook

Marc Zahr, *Co-President*

JANUARY 2025

Introduction

Investors appear to be entering a new era of optimism for commercial real estate following a challenging few years of declining valuations, persistent inflation, and higher interest rates and credit spreads paired with lower credit availability.

For the limited number of real estate managers and investors who are fortunate enough to have access to dry powder, they will be able to take advantage of what many believe to be a once-in-a-generation buying opportunity.

The economic headwinds of the recent past have created increased interest from investors who are eager to invest their capital in net lease strategies that may deliver contractual, predictable income in an unpredictable environment. Blue Owl Real Estate's all-weather net lease strategy was intentionally designed just for this need: Our net lease strategy is focused on partnering with high quality investment grade and creditworthy firms to help them unlock capital through acquiring their most mission-critical real estate assets. Since our tenants assume the expense risk in a net lease structure, we can target consistent cash flow to our investors along with downside protection.

Our stringent investment criteria have resulted in Blue Owl Real Estate's net lease strategy outperforming the broader real estate market.[i] We have several billion of dry powder to deploy and believe we are well positioned to take advantage of this unique investment opportunity in 2025 and beyond.[ii]

What value creation looks like in a "higher for longer" interest rate environment

Our view

Net lease strategies have grown and evolved in recent years. What was once considered a niche sector has now become a mainstream option for investors who are drawn to its compelling characteristics of stability, predictability of cash flow, downside protection, and if executed properly, the potential for opportunistic returns. The triple net lease structure seeks to provide inflation protection for investors through its insulation from operating expenses as the tenant bears responsibility for expenses (i.e., real estate taxes, maintenance, insurance, etc.).

Net lease transactions have become equally appealing to corporations that own real estate. As higher interest rates have impacted companies of all sizes and capital structures, sale-leaseback activity has accelerated materially over the past few years.[iii] Many firms are now looking to optimize their balance sheets through the monetization of their real estate, and they are utilizing those proceeds to fuel growth or finance various initiatives. Companies have shown a preference to partners that can provide scale, speed, and certainty of execution as they are more inclined to pursue a large, single solution in the private markets that offers a greater level of assurance.

> Many firms are now looking to optimize their balance sheets through the monetization of their real estate and they are utilizing those proceeds to fuel growth or finance various initiatives.

The net lease advantage

Tenant

Responsible for expenses such as:

- Repairs
- Maintenance
- Insurance
- Real estate tax

Net Cash Flow / Rent →

Blue Owl

- Landlord receives rent, net of all expenses
- Long-term lease obligations mitigate vacancy risk
- Target contractual 2% annual rent escalations provide clarity on future cash flows

Our strategy

When you examine the evolution of our net lease strategy dating back to the inception of the predecessor to Blue Owl Real Estate in 2009, our strategy and investment criteria have remained largely consistent, year over year and vintage over vintage. Having launched the business on the heels of the 2007-2008 Global Financial Crisis, our team sought to create an investment thesis that could stand the test of various market cycles and perform regardless of the economic environment. We are proud to say our strategy has continuously delivered attractive, risk-adjusted returns to investors over the past 15+ years regardless of the market or interest rate environment.

A key focus of our investment strategy is to maintain an attractive spread between our all-in cost of financing and our entry cap rates, which results in positive leverage for our investments. While the cost of our financing has risen, we have been able to maintain our cash yield by deploying at some of the most attractive valuations observed historically. The entry cap rates we have been able to achieve have meaningfully increased in the current market as a result of corporations seeking alternative and bespoke capital solutions. Our team's ability to structure a flexible and creative solution to meet the unique needs of these corporate counterparties allows Blue Owl Real Estate to drive attractive pricing and better terms. Our strategy focuses on securing fixed-rate debt which provides our investors with certainty of cash flow throughout the investment hold period. Furthermore, our portfolio of real estate assets carries annual net rent growth of approximately 2% on average, providing a compelling hedge against inflation throughout a range of long-term economic cycles.

Companies utilize our capital for many reasons, whether it is paying down debt, pursuing M&A activity, or solving for capital expenditure needs with sale-leaseback proceeds. Looking ahead, we expect organic and inorganic growth to be a key theme for firms in 2025. With corporate M&A activity expected to increase in the coming months, we expect companies will be searching for partners that can help them scale to drive earnings and growth.

We believe these dynamics will allow Blue Owl Real Estate to put considerable dollars to work in pursuit of delivering favorable yields and risk adjusted total returns for our investors.

> "Companies utilize our capital for many reasons, whether it is paying down debt, pursuing M&A activity, or solving for capital expenditure needs with sale-leaseback proceeds.

The opportunity set in private capital solutions is rapidly expanding

Our view

Private markets have historically been dominated by institutional capital such as public pension funds and endowments, but the past few decades have brought a meaningful shift in those markets' underlying investor bases, as private wealth demand for private market investment opportunities has increased substantially.[iv] Investment managers have provided greater access to their private funds to high-net-worth investors who are in search of higher yielding investments and diversification.

Simultaneously, the expansion of the private markets, coupled with evolving economic conditions, have enabled investment managers to continue to innovate and offer investors new private capital solutions. Within private real estate, we observe three major investment opportunities we believe will have tremendous tailwinds for years to come: European sale-leaseback transactions, Real Estate Credit, and Digital Infrastructure.

Our strategy

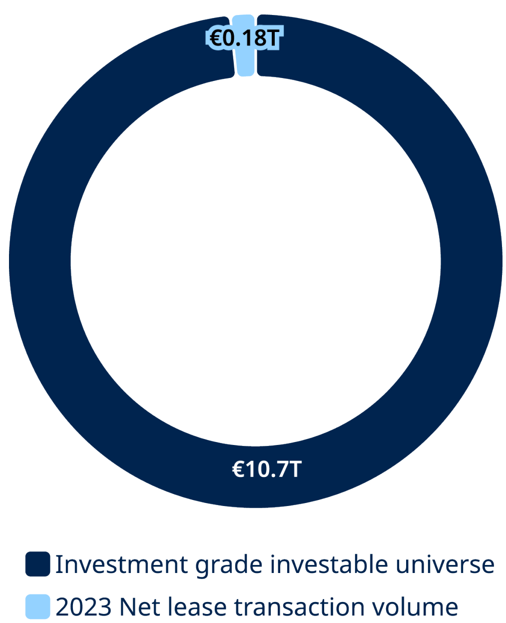
Over the past two years, Blue Owl Real Estate has raised over $6 billion of high-net-worth private capital, which has allowed us to scale our business and capitalize on the unique and attractive buying opportunity in today's market.

The first opportunity we have been actively pursuing is executing sale-leaseback transactions in Europe. The Blue Owl Real Estate net lease strategy in Europe is a replica of the net lease strategy Blue Owl has successfully executed in the United States for over 15 years. We believe the European real estate market is experiencing similar cyclical distress we have experienced in the United States – one driven by macroeconomic uncertainty, capital markets volatility, and the lack of liquidity available in the market today. Historically, we have also seen cap rates trade much more tightly in Europe compared to the US, making the opportunity set less appealing to our team relative to the opportunities we have been pursuing domestically for over a decade. However, as a result of lower cap rates in Europe, the liquidity challenges and rising rates in Europe have created even more distress compared to what we have seen in the US, which has removed many of the historical sale-leaseback market constituents out of the business as they manage their troubled portfolios.[v] This has catalyzed an incredible entry point for Blue Owl Real Estate to enter the market with less competition.

Europe presents a vast addressable market with the potential sale-leaseback investment universe representing, according to our estimates, approximately €10.7 trillion while annual transaction volume is only approximately €18 billion, which is less than 1% of the market size. Additionally, there is now notably less competition in Europe compared to the US, giving us strong conviction our deal pipeline will remain incredibly robust for the foreseeable future. Our team has spent the past 15 years developing deep relationships with investment grade corporations and their most trusted advisors. Going forward, Blue Owl Real Estate plans to expand its partnerships with many of these same firms who have an international presence and have expressed a strong desire to monetize their assets overseas, while also developing new relationships with the many investment grade rated companies domiciled in Europe.

Europe's opportunity

Sale-leaseback investable universe vs. annual transaction volume



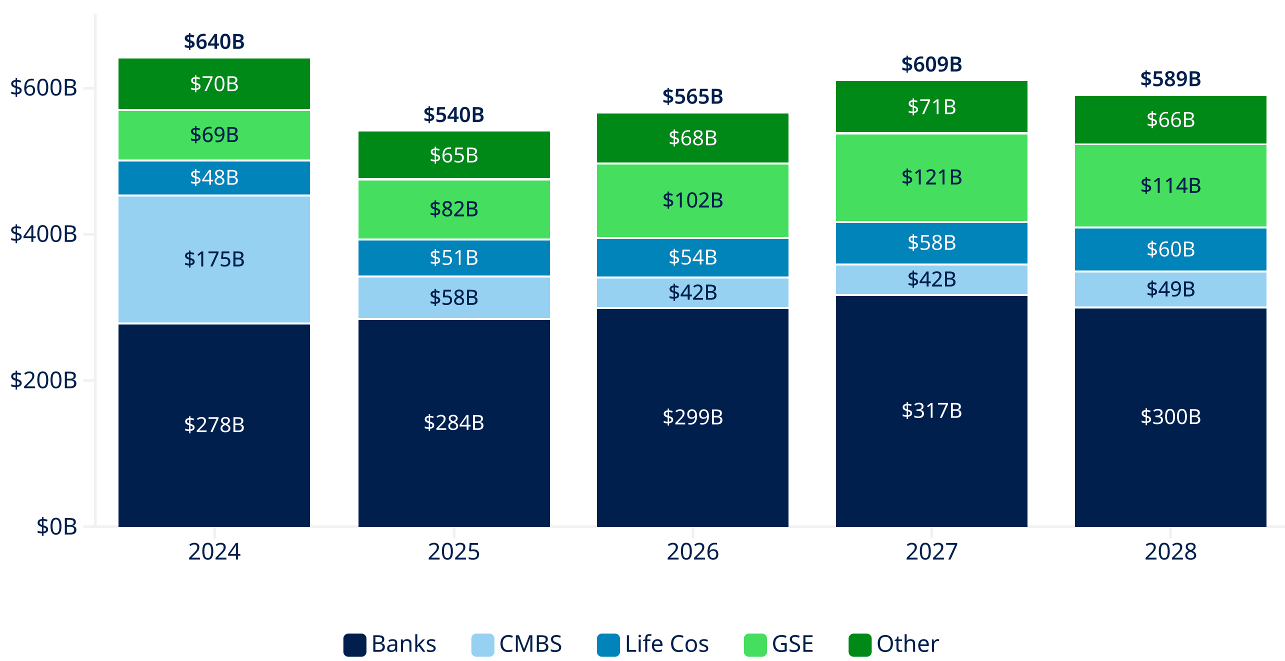
Source: Jones Lang Lasalle Incorporated — "Raising Capital From Corporate Real Estate" — April 2024

The second opportunity we are enthusiastic about is Real Estate Credit. We believe the lack of credit availability in the market today, coupled with higher interest rates, has created a unique opportunity for private lenders such as Blue Owl Real Estate to fill the void. Historically, banks have been the largest lenders in the commercial real estate industry, but those firms have pulled back in recent years due to market volatility. Additionally, the higher-for-longer interest rate environment has made it challenging for borrowers to find alternative sources of capital to refinance their existing lenders. It is estimated nearly $3 trillion of mortgage loans will come to maturity in the next four years[vi], causing industry experts to believe portfolio deterioration will continue and lead to a significant need for private debt capital moving forward.[vii]

Europe presents a vast addressable market with the potential sale-leaseback investment universe representing, according to our estimates, approximately **€10.7 trillion** while annual transaction volume is only approximately **€18 billion**, which is less than **1% of the market size.**

The $3 trillion wave

Commercial real estate debt maturities by year



Source: Trepp, Inc. based on Federal Reserve flow of funds data

Investor appetite for private real estate debt is robust, as evidenced by PERE's Real Estate Debt 50 ranking which shows a 3% increase in fundraising in 2024, a notable statistic despite overall real estate capital raising falling to its lowest level in 11 years. We have observed commercial real estate lending strategies delivering higher returns at lower leverage levels in today's market compared to recent years. This is due to higher interest rates and credit spreads coupled with lower loan to value ratios driven by re-priced assets and a more conservative lender underwriting environment. As such, we believe our Real Estate Credit strategy is well positioned for upcoming market volatility.

The third opportunity we are incredibly excited about, digital infrastructure, also overlaps with our third theme—the importance of scale, which we will now examine in the next section.

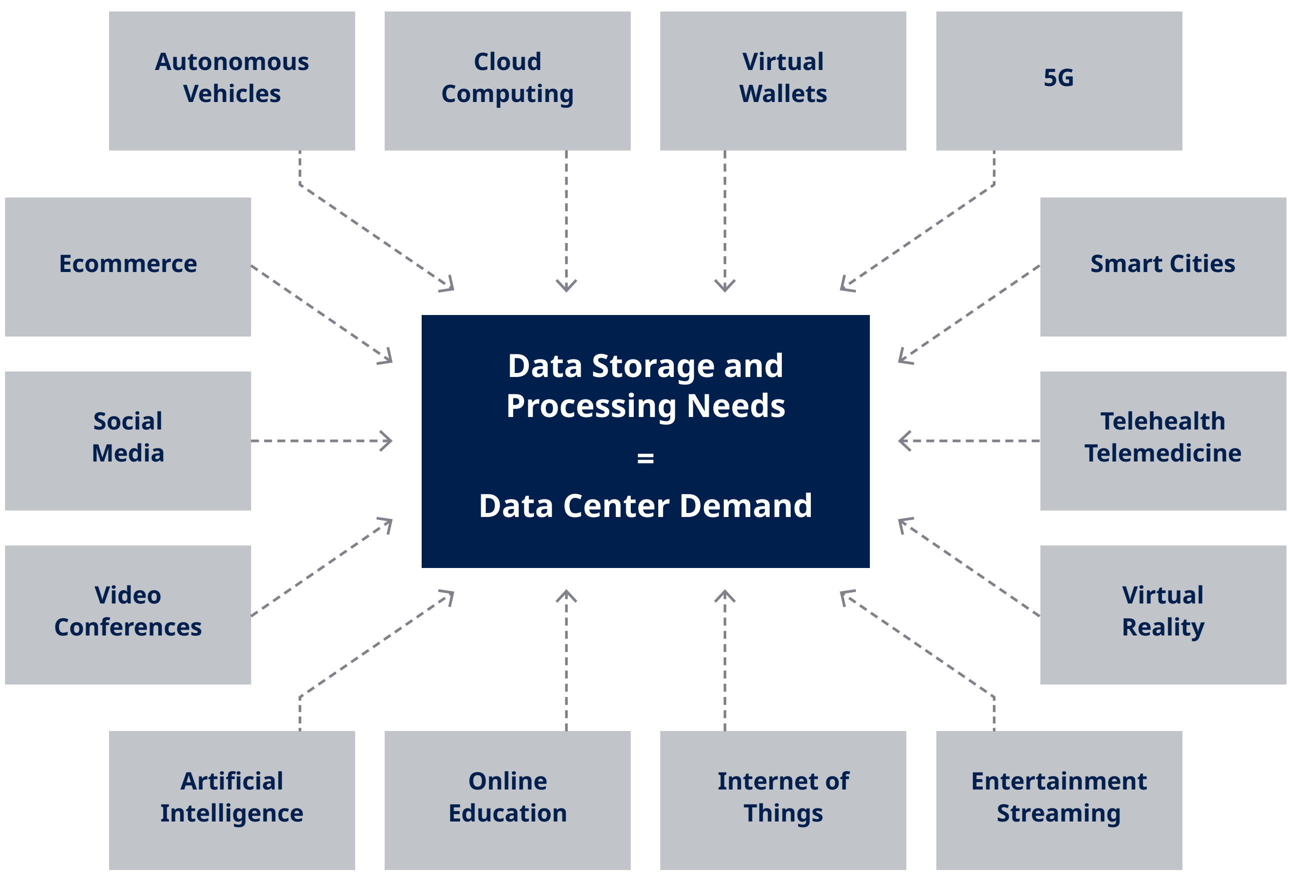
The competitive advantage afforded by scale is only now being amplified

Our view

We believe the opportunity for growth within the net lease industry has never been larger than it is today. It is clear an increasing number of corporations are seeking alternative forms of liquidity and, as a result, transaction volumes have increased accordingly. Corporations are now prioritizing capital partners who can provide them with greater scale, increased speed, and deep experience in structuring bespoke solutions as they look to grow their business.

These factors are most evident in digital infrastructure. The explosive growth of cloud services and proliferation of artificial intelligence has led to an increased need within the technology sector to meet the heightened demand for expanded data and latency capabilities. Cloud service providers are encountering a massive supply/demand imbalance and are desperately searching for capital partners that can provide scale. Firms appear to be moving toward custom-built facilities they control so they can efficiently build these assets to meet the needs of end-users. As such, hyper-scalers, including some of the world's largest technology companies, will be looking for partners to fund the expansion of their data center footprint by providing cost efficient and scaled financing solutions.

The data center ecosystem



Our strategy

These conditions have allowed Blue Owl Real Estate to put significant capital to work, as we can provide the exact solution firms are seeking. We have been fortunate to raise approximately $11 billion over the past 24 months, making Blue Owl Real Estate one of the largest capital raisers in private real estate, which has created an opportunity for us to provide companies sizeable and scalable solutions that can have a significant impact on their strategic initiatives and overall business growth. As such, our pipeline of opportunities is greater than it has ever been and shows no signs of slowing down.

Due to the limited number of pure-play data center owners and managers with meaningful size, our team is optimally positioned to leverage our corporate infrastructure expertise and creative capital solutions in an ever-growing sector. Blue Owl Real Estate currently has over $27 billion worth of data center deals in the pipeline with over $15 billion closed or under contract.

Considering the magnitude of these developments, often in the billions of dollars, we believe there are few market participants capable of providing the capital and depth of partnership to compete with Blue Owl's Real Estate platform.

Expanding on these advantages, Blue Owl recently announced the closing of its acquisition of IPI Partners, a leading digital infrastructure manager. IPI's team is focused on transacting with large, high quality hyperscale and enterprise datacenter users and has grown to become one of the largest US-based data center owners and operators. This acquisition will further expand Blue Owl Real Estate's existing digital infrastructure strategy and provide immediate and scaled expansion into a multi-trillion-dollar (and growing) data center market. We believe IPI's investment strategy complements our existing net lease real estate platform and positions us well within the largest and fastest growing part of the global real assets landscape.

> "There is one industry in particular where the ability to scale has become the number-one criteria when evaluating capital partners: digital infrastructure.

Conclusion

Today's buying opportunity has the potential to yield some of the best performing vintages for real estate investments we have seen in more than a decade. Our differentiated sourcing and ability to transact off-market will allow us to take advantage of these rare opportunities. The increased need for partners who can provide scale and creative capital solutions will continue to distinguish us from our peers and make Blue Owl a partner of choice for companies seeking firms who can provide certainty of execution and assist them in their growth. Our strategy was purposefully designed to perform in varying economic environments, and we believe we are well positioned to continue delivering consistent current income and attractive risk-adjusted returns as we enter the new year.

Author

Marc Zahr
Co-President and Head of the Real Estate platform

Endnotes

i. Preqin; Blue Owl RE data as of September 30, 2024 (Preqin data as of Most-up-to-Date)

ii. Blue Owl Pulse Check: 2024 Market Outlook

iii. PERE – "Net Lease Report" – May 2024

iv. Private Banker International – "Private markets: the new frontier for private wealth investors" – October 28, 2024

v. CBRE - "The Case for European Real Estate"

vi. Trepp - CRE Mortgage Maturities and Debt Outstanding" - May 202

vii. PERE "Red 50 Managers shrug off market woes" – May 2024

BLUE OWL

2025 Market Outlook

GP Strategic Capital Outlook

Michael Rees, *Co-President* | Sean Ward, *Senior Managing Director*

JANUARY 2025

Introduction

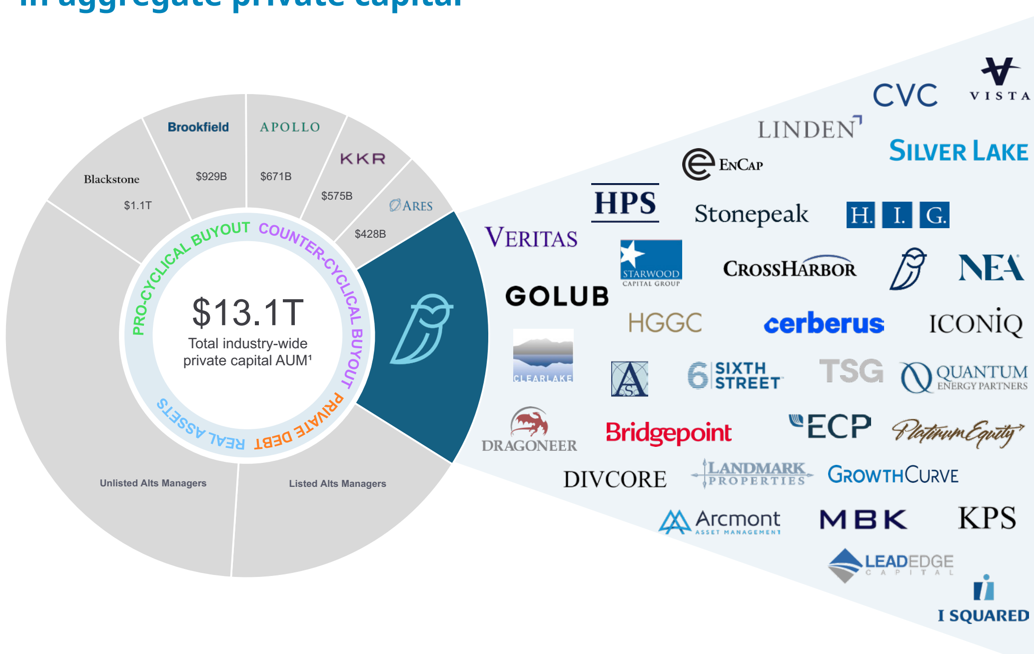
2024 may be remembered as a year where anticipation greatly exceeded action in private markets.

While that may have been true for deal and especially exit activity, beneath the surface we observed accelerating change as both GPs and LPs prepared to compete in the next era of private capital expansion.

Last year was another year of private market growth. While the footprint and profile of private capital in the real economy continued to evolve and expand, we believe that the immense product innovation and collaboration between private capital firms and the insurance and private wealth investor segments, both of which have been a source of net new flows, was more significant. Led by large managers with brand recognition and scale, clunky market infrastructure has been enhanced and, in some cases, replaced entirely.

Blue Owl GP Strategic Capital has equity partnerships with over 45 of the world's leading private capital firms who, in aggregate, manage over $2 trillion in assets, or approximately a fifth of total private capital AUM.[i] We believe that this broad array of partnerships, as well as our deep engagement with thousands of institutional and individual investors globally, gives us a unique vantage point over trends in the industry.

Our partner managers oversee ~$2.1T in aggregate private capital[ii]



In our key themes for 2025, discussed below, we highlight the industry's entry into a period of "survival of the fittest" – a world in which the gap will widen between top and bottom performers and the ability to balance overall fund performance with investor liquidity may well determine whether a manager can raise its next fund.

The competitive advantage of scale is only now being amplified

Our view

We have believed that "the big are getting bigger" for many years, but with an economic tide that raised all boats, it was less obvious how much of a firm's investment performance and capital-raising came from the manager's own efforts versus a benign market. Today, on the other hand, the competitive advantage afforded by scale is readily apparent, and significant scale is increasingly a prerequisite to participate in some of the industry's most lucrative growth areas. When we talk about "scale" in this context, we are referring to the depth and breadth of a manager's capital base and its ability to support scalable operational infrastructure.

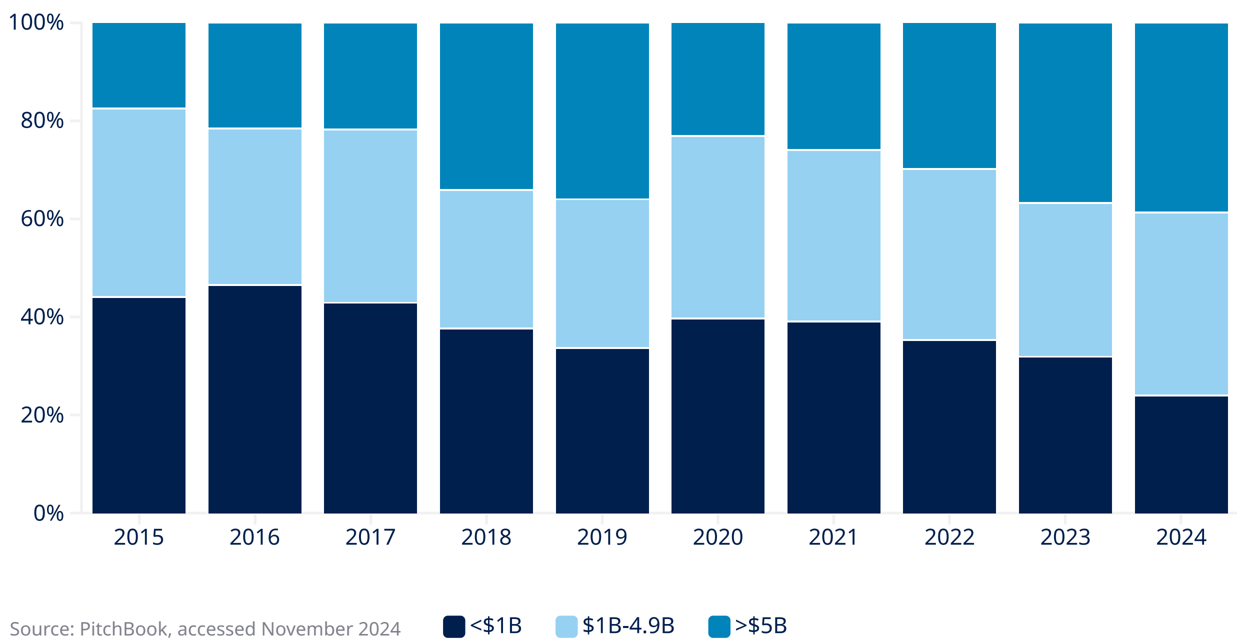
At the time of writing, the 50 largest funds closed in 2024 raised $475 billion and "mega-funds" (i.e., funds over $5 billion in size) commanded a record 39% share of total capital committed.[iii] Consolidation is even more acute for smaller vehicles: Data from Preqin shows that funds ranked below the top 300 raised only $56 billion in the first half of 2024, trending down from $356 billion for the whole of 2023.[iv]

The capital required to build new distribution and operational capabilities favors larger players. Highly-specialized teams with expert regulatory knowledge and local presence are vital to access the types of investors we believe are going to be the largest drivers of capital formation in private markets over the next decade – insurance, private wealth, and certain sovereign wealth investors.

> The depth and sophistication of private capital markets today may allow many businesses to never need to access public capital markets to finance and realize their strategic ambitions.

Large funds continue to take disproportionate share

Private capital raised by fund size



Source: PitchBook, accessed November 2024

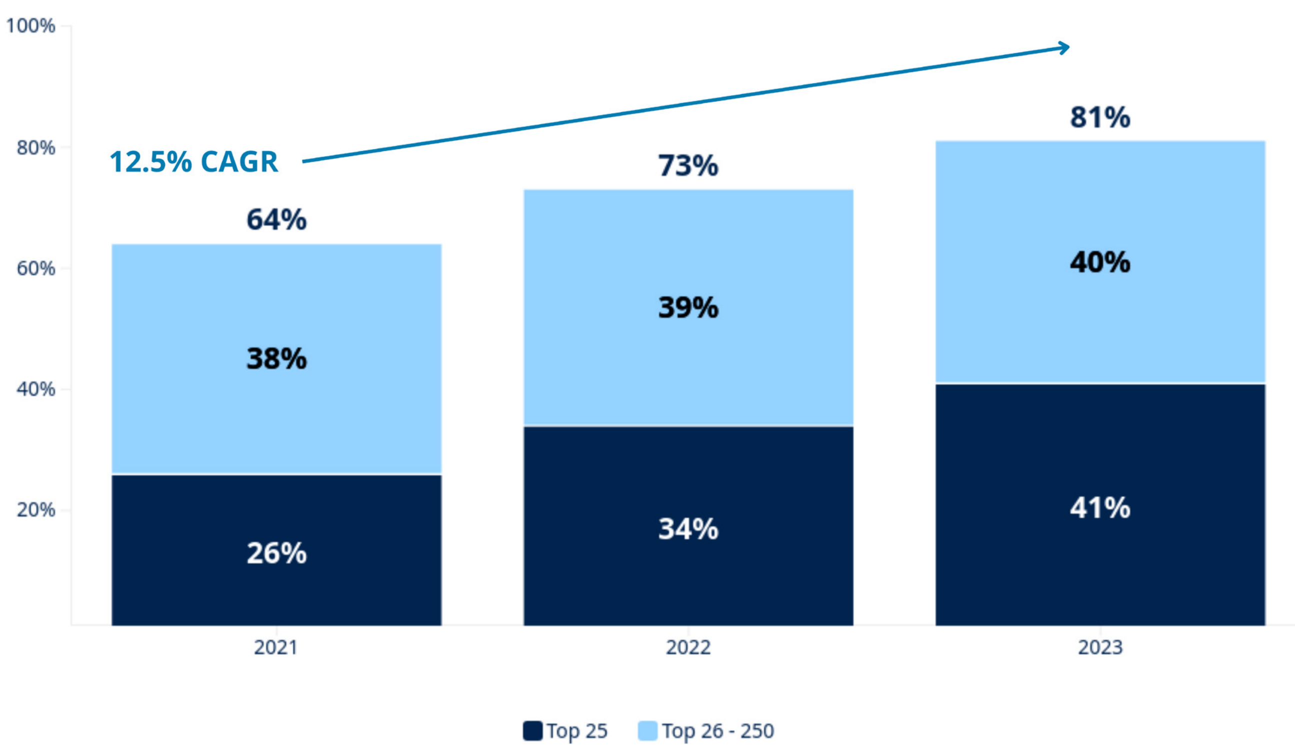
The convergence of insurance and alternative asset managers — particularly private credit managers — has also accelerated and now spread to banks, with a myriad of new partnerships announced in the last 12 months. Alternative asset managers have also expanded into the high-net-worth channel, with first movers like Blue Owl building scaled wealth platforms organically and others attempting to enter the market through acquisition or partnership. These channels have seen significant product innovation and, in the case of private wealth, huge improvement in investor accessibility that we believe lay the foundations for continued structural growth. Allocations vary dramatically across different investor types and the ability to navigate the increasingly complex and varied allocator ecosystem will create winners and losers among managers. The opportunity set in private capital markets is rapidly expanding, but the bar to participate effectively is ever higher.

Our strategy

Our partner managers are among the largest, most-diversified alternative asset management platforms, with an average of $52 billion AUM, and they have generally benefited from the acceleration of these broad market trends. Our partners manage 10 of the 50 largest funds to close in 2024, or 22% by value, across buyout, growth, private debt, and real assets.[v] Looking out over the next 12-18 months, our partner managers are expected to raise approximately $250 billion[vi] across a diverse range of strategies, 27% of which is expected to come from private wealth investors, versus 10% over the past 12 months[vii]. As managers progressively seek to diversify their sources of capital and investors continue to consolidate their manager relationships, we are confident that larger managers will continue to attract a disproportionate share of capital inflows.

LPs are consolidating their relationships with top GPs

Percentage share of private markets fundraising by year



Source: McKinsey — "Global Private Markets Review 2024: Private Markets in a Slower Era" — March 2024

The opportunity set in private capital markets is rapidly expanding

Our view

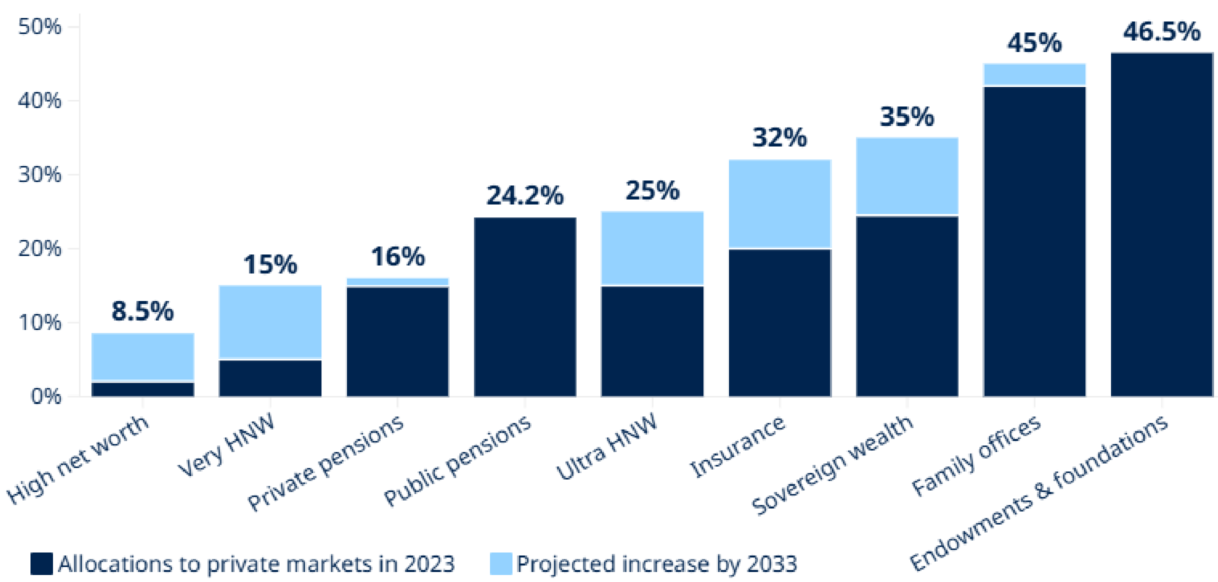
Private markets have experienced enormous growth and diversification since 2010, evolving from a niche alternative investment strategy supported by a limited group of early institutional investors to an increasingly significant force driving economic growth globally. At the same time, the number of large public companies has shrunk, active management has largely been supplanted by passive investing, IPOs have become increasingly rare, and indices have concentrated around large technology companies. We expect these trends to continue.

Pension funds, endowments, and certain sovereign funds turned to private equity early in an effort to generate outsized returns in the low interest rate and turbulent equity environment that followed the 2007-2008 Global Financial Crisis. These early investors provided private markets with a solid capital base whose organic growth, coupled with consistent outperformance versus other asset classes, resulted in exponential capital inflows over the next decade. We believe that the next wave of capital formation is underway and is being fuelled by product innovation and improved accessibility that accommodates a broader base of allocators seeking diversification, resilience, and excess return.

We also believe that one of the most significant structural shifts in private markets over the next decade will be what types of investors support continued industry growth. Small incremental percentage shifts in allocations from certain investors can have a meaningful AUM impact both to individual managers and the industry writ large. We conservatively expect at least $14 trillion of fresh capital to flow into private markets by 2033, solely driven by changes to target allocations away from traditional equities and bonds.

Different allocators, different allocations

Increases to private market allocations by 2033



Source: Data Sources: AUM Figures from Bain Capital Global Private Equity Report 2023 and held constant for 2033. 2023 and 2033 Private markets allocation figures for HNW, Very HNW from CapGemini World Wealth Report. 2023 Private markets allocation figures for Private Pension, Insurance, Public Pension, E&Fs from Preqin, Institutional Allocation Study 2024. 2023 Private markets allocation figures for UHNW from KKR Family Office Survey 2023. 2023 Private markets allocation figures for SWFs from Bain & CO Global Private Equity Report 2030. 2023 Private Market allocation figures for FOs from Forbes, "The Rise and Rise of The Family Office: An Analysis", January 11, 2024. 2033 Public Pension and E&F private market allocation figures are held constant. 2033 private market allocation figures for UHNW from CapGemini World Wealth Report 2033. 2033 private market allocation figures for Private Pension and E&Fs from Preqin (accessed June 2024). 2033 private market allocation figures for SWF from Global SWF Rankings and Categorisation (June 2024) and Global SWF Data Platform Annual Report 2024. 2033 private market allocation figures for Insurance from Allianz Global Insurance Report (May 2024) and KKR Insurance Survey 2024. 2033 private market allocation figures for Family Offices from Preqin and UBS Global Family Office Report 2024.

Managers seeking differentiated opportunities and idiosyncratic returns are increasingly encountering engaged entrepreneurs and family businesses, as the duration, alignment and bespoke nature of private capital is an attractive funding alternative to traditional bank finance or public capital markets. The depth and sophistication of private capital markets today may allow many businesses to never access public capital markets to finance and realize their strategic ambitions.

The inherent duration mismatch between traditional funding sources and an asset or enterprise's capital needs has also driven innovation and opportunity within the private capital universe. GP stakes investing itself is a fantastic example of such innovation, as GPs need to somehow finance fund commitments with 10-to-12-year terms. The GP stakes industry, which has grown to over $60 billion of dedicated capital raised over approximately 15 years[viii], was developed in direct response to this significant unmet need. We believe that we are seeing the start of a similar phenomenon in private credit, where specialty finance-led bank disintermediation may result in a doubling or even tripling of investable universe compared to today.

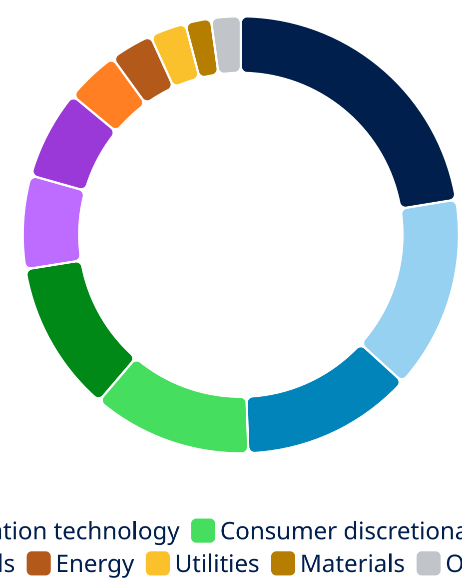
Our strategy

As a result of the ongoing relative decline of public markets discussed above, allocators seeking diversification and exposure to some of the most impactful megatrends in the coming years, such as the energy transition or education, will increasingly seek that exposure through private rather than public markets.

Our private markets-focused minority equity stake strategy has always sought to construct portfolios replicating the broad asset and economic exposure of private markets generally. We have not attempted to time the market, but rather to build portfolios that can perform across cycles with highly diversified exposure to pro-cyclical buyout and growth strategies, counter-cyclical value buyout firms, private credit managers, and real-asset focused businesses, among others. We expect the expansion of private capital markets to be reflected in our future portfolios with a level of diversification that we believe is not possible to replicate in any other single investment.

Broadly diversified

Blue Owl GP Stakes V- Partner manager portfolio companies by segment



Note: Partner Manager Portfolio Companies by Segment based upon information provided by Partner Managers and includes GPS V's existing Partner Managers. Note the chart excludes Public Credit investments and CLO AUM. Percentages calculated based upon fair value-weighted portfolio of GPS V's Partner Managers as of June 30st, 2024, or most-up to date available. Blue Owl does not control Partner Manager investment decisions. For illustrative and discussion purposes only. There is no guarantee the Fund's portfolio will exhibit similar attributes or characteristics.. Diversification does not guarantee a profit or protect against a loss in a declining financial market. This chart excludes WarwickRe which is a reinsurance business, credit investments (CBF) and new leaders (Growth Curve).

What value creation looks like in a "higher for longer" environment alongside an expected increase in M&A

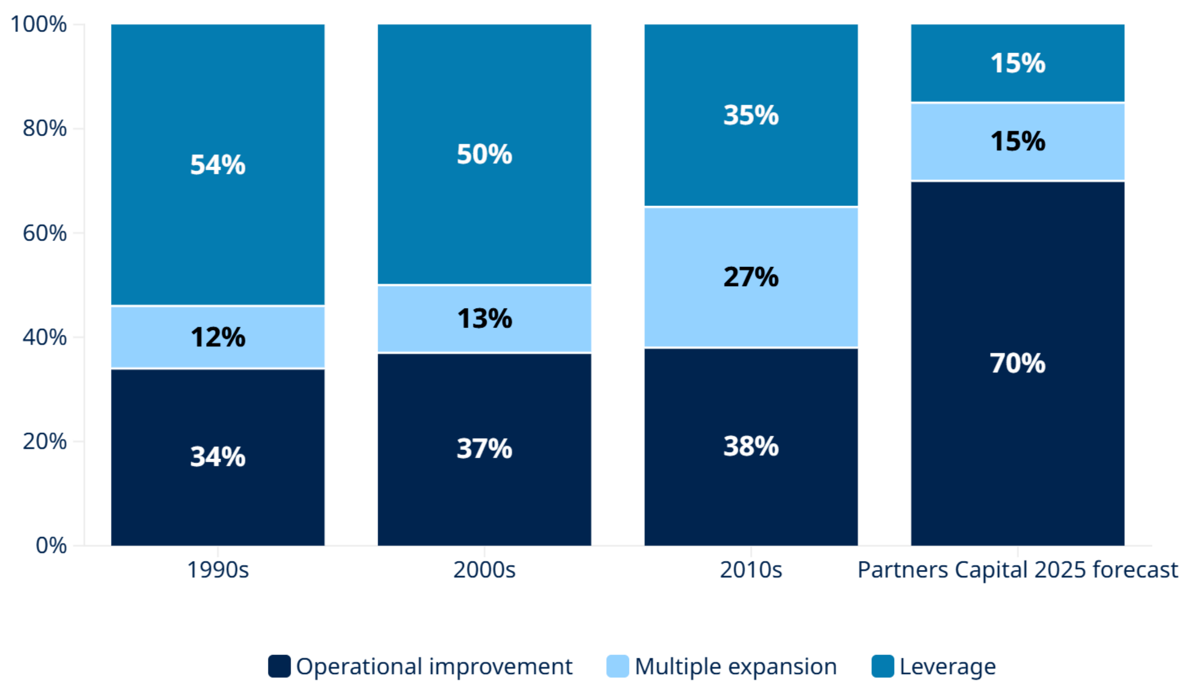
Our view

Operational improvement and active asset management are expected to be the primary drivers of value creation in the next 10 years. In what is likely to be a lower real growth environment (i.e., nominal growth ex-inflation), increasing revenue and improving margins will be critical for investment success. Investors can no longer rely on record low interest rates to enhance returns, and multiple expansion at exit is more likely to result from a manager's sourcing or partnership advantage at entry than from the availability of cheap financing for their eventual buyer.

While we are not yet brave or foolhardy enough to predict an opening of the deal floodgates, leading indicators suggest that we are entering a more constructive environment for M&A activity. A consensus has emerged that we are facing a "higher for longer" rates environment and a potential uptick in inflation, but some dealmakers at least feel increasingly confident underwriting with these factors in mind. We say "some" because replicating the returns of the previous decade against the current macro backdrop is going to require investment specialization, value-creation expertise, and sophisticated capital formation capabilities, as well as increasingly complex operating infrastructure.

Valuation and value creation remain top of mind

Median % of PE equity value creation by exit year



Source: Partners Capital Insights 2024, based on analysis of Bain Deal Edge

> The dispersion in returns within sectors tends to vary more widely than between sectors, suggesting that good deals can almost always be found if you have the right expertise.

Specialization will be key. The ability to identify and structure opportunities in niche markets has become a critical franchise differentiator in a challenging fundraising environment. The 2021-2022 investment period demonstrated that style drift and momentum trades can generate very bad outcomes. We believe investors should focus on deploying capital with specialists who have a demonstrated ability to transform assets or who are positioned to benefit from specifically identified long-term secular growth trends. Increased political uncertainty also makes us wary of long-term investments that seek to benefit from the current administration's public policy.

In "hot" sectors where valuations may continue to trend upward – such as technology and software or inflation-linked assets – underwriting discipline will be critical in identifying and evaluating potential investments. Paying full price in an environment of tighter and potentially more volatile financing conditions coupled with less stable geopolitical conditions, requires deep conviction and expertise to be done well. Even during initial acquisition diligence, investment teams should have identified their value creation plan and a group of potential ultimate buyers for the asset. Having a clear view of the next best owner of an asset based on efficiency, corporate strategy, or incremental value creation capabilities may help narrow the bid-offer spread when it comes time to sell.

Our strategy

We have a strong track record of partnership with specialists and category leaders. The dispersion in returns within sectors tends to vary more widely than between sectors, suggesting that good deals can almost always be found if you have the right expertise. While it is almost a cliche, it remains true that the locked-up nature of private capital allows managers to adopt a longer-term investment horizon that allows them to implement strategies and create value regardless of swings in short-term sentiment. We believe that specialist investors with a demonstrated advantage in sourcing assets and creating value through active management will continue to do so in the future, increasing their own market share while expanding the overall market.

Conclusion

We see enormous opportunity for both capital formation and deployment in private markets, supported by an expanding and diversifying opportunity set. That said, the private capital industry has entered a period of natural selection, in which a more specialized skill set is required to support consistent performance and scale is increasingly critical.

We have a track record of providing capital to some of the largest and best performing GPs globally, within a strategy that was designed to perform in varying economic conditions. Embedded structural trends in private markets are likely to benefit firms with scale. As a well-established, scaled player ourselves, we are well positioned to provide strategic growth capital to help fuel the next wave of market growth and expansion.

Authors

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Endnotes

i. Represents equity partnerships across Blue Owl GP Stakes I-V, the Blue Owl Financing Fund and the Blue Owl GP Stakes Advantage Fund as of December 2024

ii. 1. Preqin's "Future of Alternatives in 2028" as of October 17, 2023. 2. As of September 30, 2024

iii. Pitchbook – October 2024

iv. Preqin – "First Close Newsletter" – September 2024

v. Pitchbook – October 2024

vi. GPSC Partner Manager Fundraising Data as of November 1, 2024

vii. Recent partner survey

viii. Company announcements and Preqin Pro (fund series analysis) as of 12/31/2024

2025 Market Outlook

Disclosures

JANUARY 2025

Important information

Unless otherwise indicated, the information referenced herein is as of December 31, 2024.

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