Private markets

Private equity

Private credit

Private infrastructure

Portfolio construction

Northleaf Capital Partners

Private Markets Outlook

Northleaf Capital Partners' perspective on what is driving growing demand in private markets investing.

MACKENZIE Investments

Northleaf

Published on: September 8, 2025

Opportunity amid uncertainty

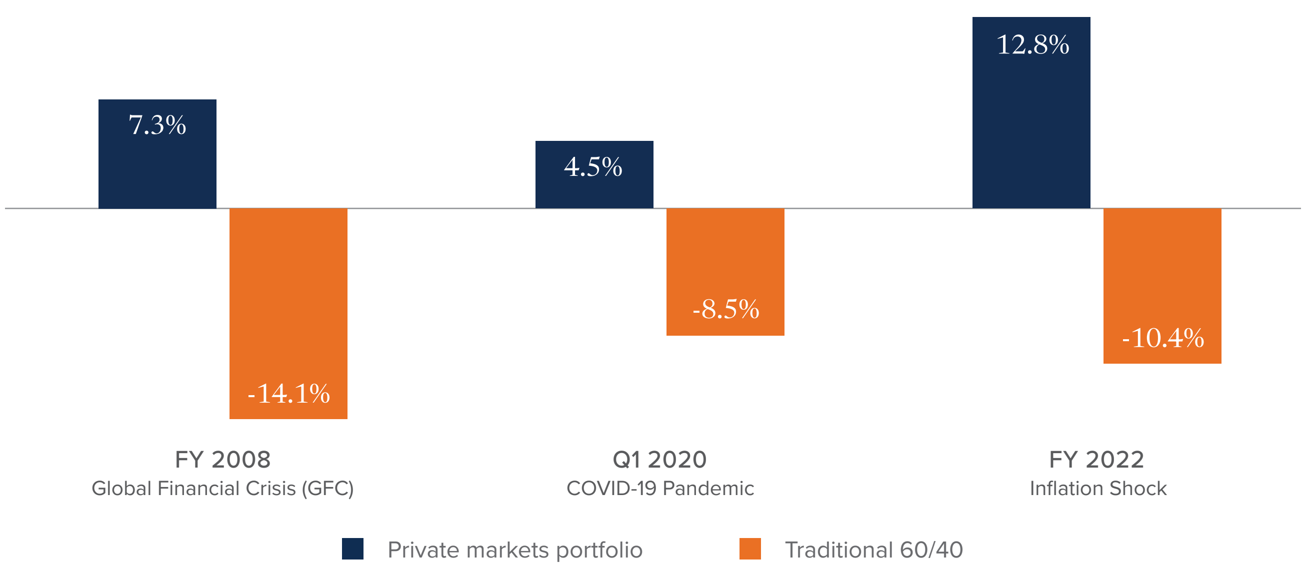
With public markets unsettled, private markets may present selective opportunities for growth and resilience.

We entered 2025 confident that we'd see a strong resurgence in market deal volumes. At the end of 2024, inflation was stable and interest rates were declining. Deal makers were more comfortable with the outlook and more optimistic about their ability to confidently underwrite investment opportunities. Nevertheless, this confidence soon faded, as the new US administration's tariffs generated uncertainty and impacted markets, causing deal activity to pause once again.

The broader markets have since stabilized. However, the uncertainty has resulted in an overall increase in the hold period of assets, contributing to lower liquidity levels and slower return of capital to investors.

Be that as it may, private markets traditionally thrive compared to public equities during periods of disruption. In times of volatility, private markets have access to capital and the ability to focus on long-term value creation. In contrast, public markets are beholden to short-term swings and changing investor sentiment. During such periods, private markets have historically provided greater resilience and stability, generating opportunities for attractive, non-correlated returns as the graph below shows.

FIGURE 1 – Market resilience: private markets vs. traditional 60/40



This simulated performance information is provided for illustrative purposes only and is subject to a number of limitations.
Source: Preqin and MSCI, as at December 31, 2024. Traditional 60/40 is comprised of MSCI World Index GR CAD (20%), S&P/TSX. Composite Index TR CAD (20%), S&P 500 TR CAD (20%), ICE Bofa Canada Broad Market TR CAD (40%). The private markets portfolio is comprised of Preqin Global Private Equity Index CAD (1/3), Preqin Global Private Credit Index CAD (1/3), Preqin Global Private Infrastructure Index CAD (1/3). Portfolios are rebalanced on a quarterly basis. Data denominated in CAD. Private equity returns are shown net of fees, expenses and carried interest.

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Private equity

Private credit

Private
infrastructure

Portfolio
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Within private markets, we believe the mid-market space is particularly attractive. The mid-market features a large inventory of high-quality, privately-owned businesses and assets, with more than 90% of companies in the United States owned privately.[1] Mid-market companies are generally more regionally or nationally focused, and therefore less affected by global trade tensions. In addition, there tends to be less competition for investment opportunities in the mid-market, whereas significant capital has been raised in the large-cap segment, driving competition for deals in this space.

We maintain that mid-market companies are well placed to navigate a more constrained environment for a number of reasons.

More value-creation levers

There are often more ways to drive earnings growth for mid-market firms. These include enhancing the management team, expanding product or geographic focus, and more opportunities for M&A. In contrast, large-cap companies tend to rely on leverage or financial engineering to increase returns.

More information advantages

Unlike public markets, where everyone has access to the same information, the mid-market features attractive opportunities for those with access to additional information, management teams and relationships that open doors.

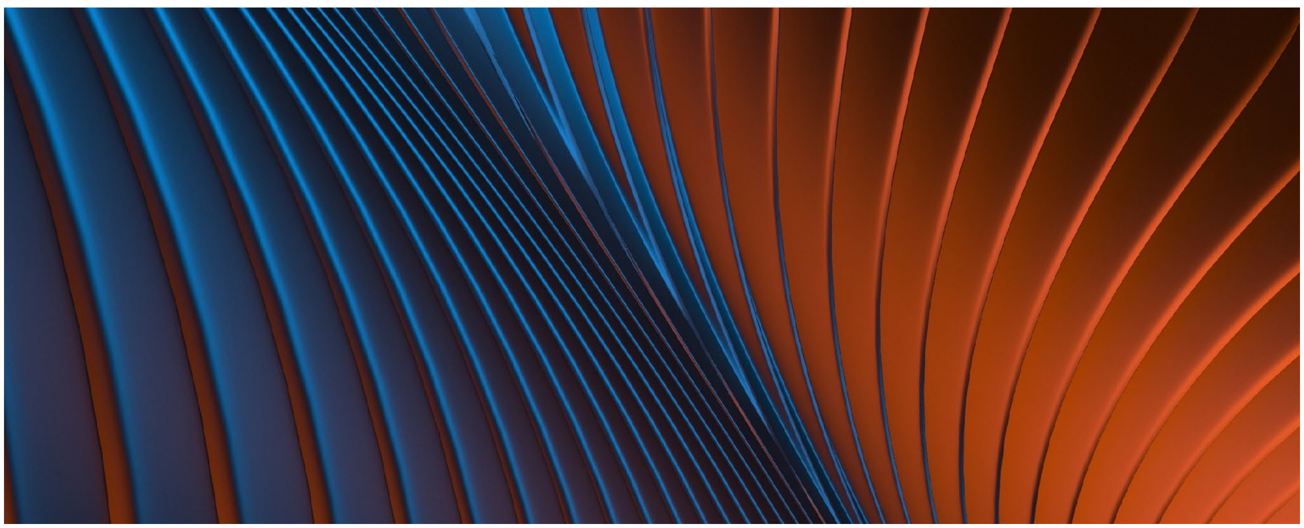
More room to grow

In relative terms, it's easier to take a $25 million EBITDA business and double it to $50 million, than to turn a $500 million EBITDA business into a billion-dollar business.

More exit options

Mid-market assets typically don't rely on realizations, or exits, via the IPO market, which can be cyclical. Mid-market private equity managers more often sell a business to a strategic buyer or a larger private equity firm.

1 Capital IQ/NAICS association data as of December 2024.



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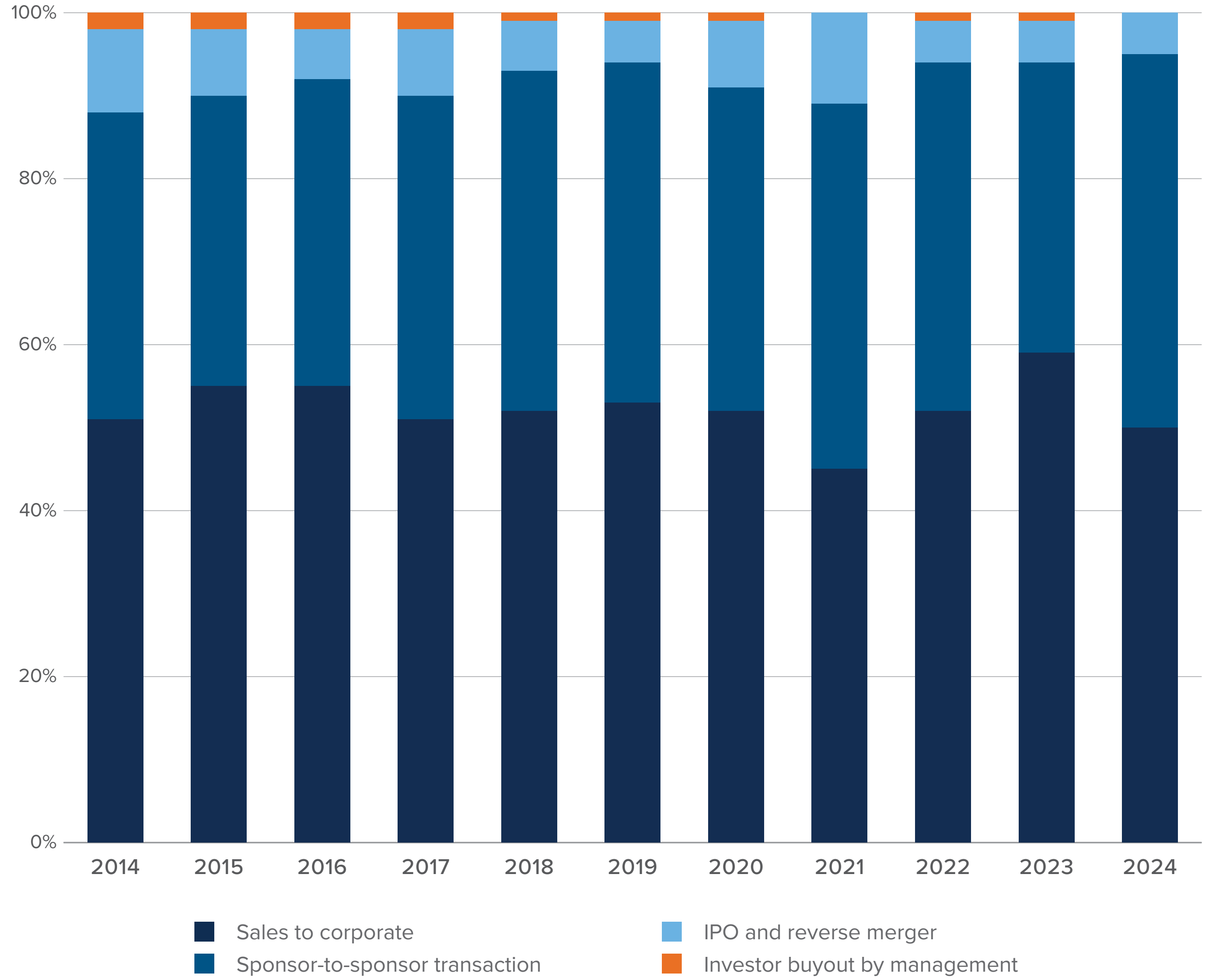
As illustrated in Figure 2, the vast majority of private equity investments (~95%) exit via a strategic buyer or another private equity sponsor looking to grow and scale the business further.

By and large, market-leading positioning and strong pricing power help make high-quality companies resilient to market turmoil.

FIGURE 2 – Sponsor-to-sponsor transactions as a share of total private equity-backed exit count reached a 10-year high in 2024
Private equity-backed exit count, by type, %



Note: Figures may not sum to 100%, because of rounding.

Exits of private equity investments, including both those made by private equity investors and those made by additional investor types into mature companies and excluding venture capital. Source: McKinsey & Company Global Private Markets Report, 2025, and PitchBook.

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Against this market context and backdrop, there are some key themes that we expect to drive growth in private markets over the rest of 2025 and into 2026.

- Strong and growing demand for mid-market private equity secondaries.
- Private credit continues to be a preferred source of financing, providing attractive yields and downside protection.
- Public sector funding gaps creating attractive investment opportunities in essential infrastructure.

Private equity

Demand for secondaries surges

The secondary market has become a favourable liquidity channel for both private equity managers and investors, driving opportunities.

Over the past 15 years, private equity has delivered a 3.5% return premium over public equities,[2] even through periods of market volatility and dislocation. We expect this to hold true during the current market uncertainty, with the mid-market producing particularly compelling investment opportunities for investors.

Secondaries come of age

Recent market conditions have contributed to asset owners holding companies for longer, waiting for a more favourable time to sell. As a result, private equity investors who need access to liquidity are increasingly turning to the secondary market, which saw a sharp uptick in activity in 2024, with volumes up 45% year-on-year.[3]

Secondaries are transactions where an investor buys another investor's interest in a private equity fund, or certain companies within a fund. Private equity funds typically have long time horizons and investors' capital may be locked up until the fund reaches maturity. This makes secondaries useful for investors looking to exit a fund early, but also useful as a portfolio management tool for institutional investors to rebalance private equity exposures in an otherwise illiquid market.

They are also employed by fund managers looking to hold onto high-performing assets that have further upside potential but are nearing the end of a fund's life. By establishing a continuation vehicle, the fund manager can raise capital in the secondary market to generate liquidity without needing to sell a prized asset at a sub-optimal time. The fund manager may have conviction that there is significant further value that can be created from an asset with an extended hold period, and that they are best positioned to execute.

Approximately 40% of LP sellers in 2024 were first-time users of secondaries, signifying a growing trend.[4] Investors continue to leverage the secondaries market to generate liquidity and rebalance their portfolios. We expect this to continue, with secondary transaction volumes predicted to reach over $200 billion in 2025, a significant increase from the previous high-water mark of $160 billion in 2024.

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2 Source: Burgiss / MSCI, Bloomberg. Data as at December 31, 2024.
3 All figures in USD. There can be no assurance that the trends highlighted above will continue in the future. Total Secondaries Transaction Volume Source: Evercore Private Capital Advisory – FY 2024 Secondary Market Review, January 2025.
4 Source: Global Secondary Market Review, Jefferies Jan 2025.

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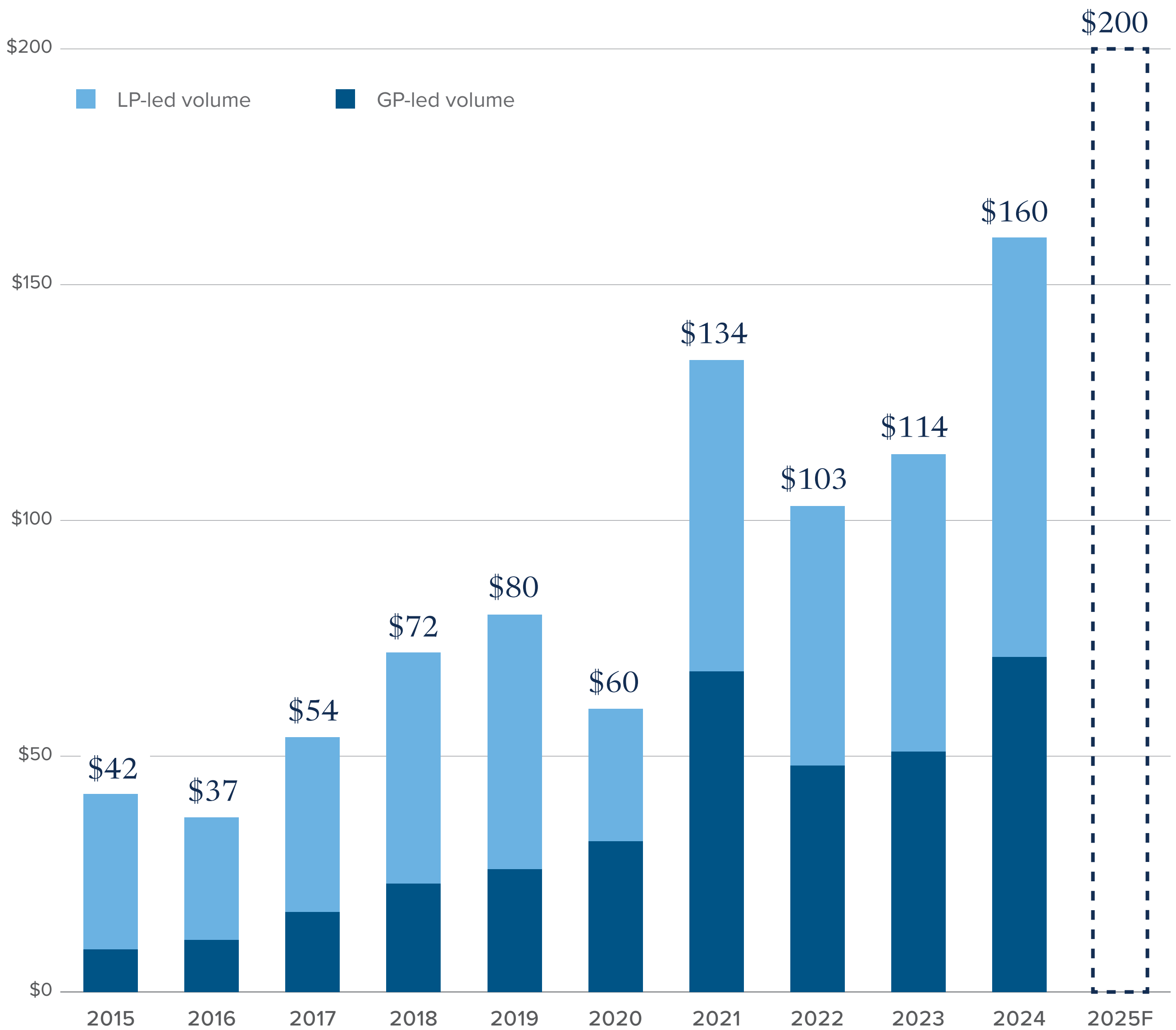
FIGURE 3 – Total secondaries transaction volume
(in billions, USD)



All figures in USD. There can be no assurance that the trends highlighted above will continue in the future. Total Secondaries Transaction Volume Source: Evercore Private Capital Advisory – FY 2024 Secondary Market Review, January 2025.

Secondaries traditionally outperform in difficult market environments as shown in Figure 4. In the current environment, we are seeing a rapid acceleration of the use of the secondary market to resolve liquidity challenges. With more motivated sellers looking to the secondary market, we believe there will be more opportunities to source compelling deals at attractive prices.

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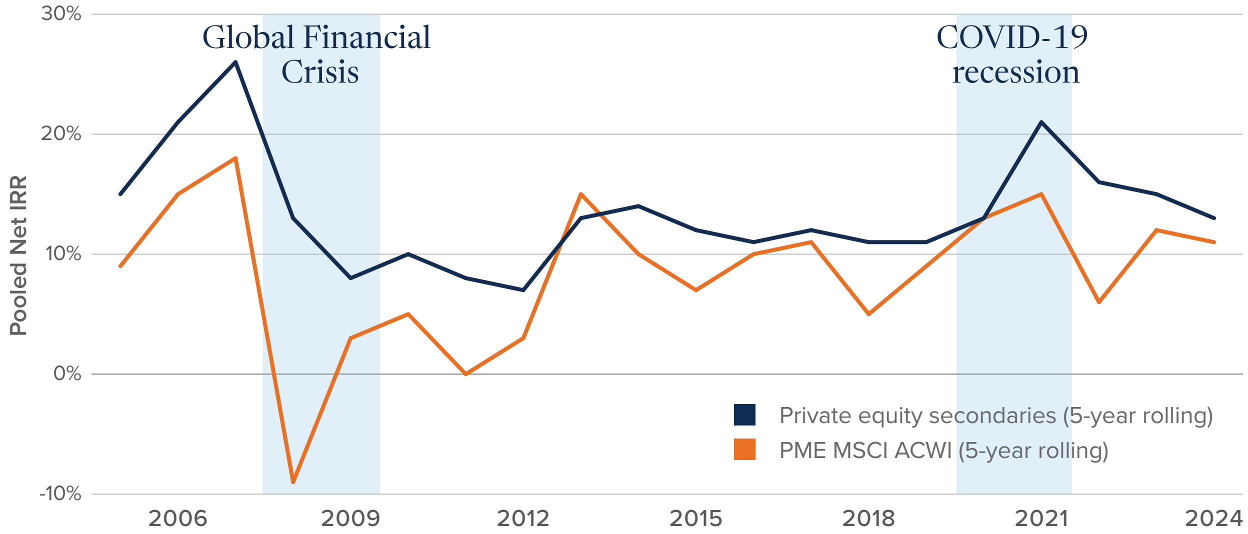
FIGURE 4 – Secondaries historically outperform during recessions
(in billions, USD)



Differential	6%	6%	8%	21%	5%	5%	8%	4%	-2%	4%	5%	1%	1%	6%	2%	0%	5%	9%	2%	0%

Data as at December 31, 2024. Source: Cambridge. Asset class: Secondary Funds. Vintage year by first cash flow. Currency in USD. There can be no assurance that the trends highlighted above will continue in the future. Past performance Is not an indication of future results.

Quality driving mid-market company resilience

The mid-market segment will have a significant impact on projected growth in the secondary market and in private equity overall. The current environment is favourable for mid-market opportunities, due to the larger opportunity set and lower competition for deals. However, success in the mid-market requires a highly selective approach, focusing on deals where deep due diligence, access to information in a timely fashion and strong industry relationships provide private equity managers a competitive advantage. While this can lead to considerable effort for smaller transactions, we believe there is more upside potential and the opportunity to drive stronger performance over time.

As illustrated in Figure 5, the volume of transactions in the mid-market space provides investors with a much larger opportunity set compared to the larger end of the market, which has significantly more competition.

While markets remain uncertain, we expect mid-market companies in resilient sectors, with strong management teams that can adapt nimbly to challenges will continue to deliver growth. It is our belief that these companies will not only be well-positioned to withstand volatility, they will also have enhanced access to capital to take advantage of market dislocation, leading to strong long-term return potential for investors.

Looking ahead, we believe high-quality mid-market companies and the rapid acceleration of the secondary market will continue to drive opportunity in the private equity space as uncertainty impacts investor confidence in public markets.

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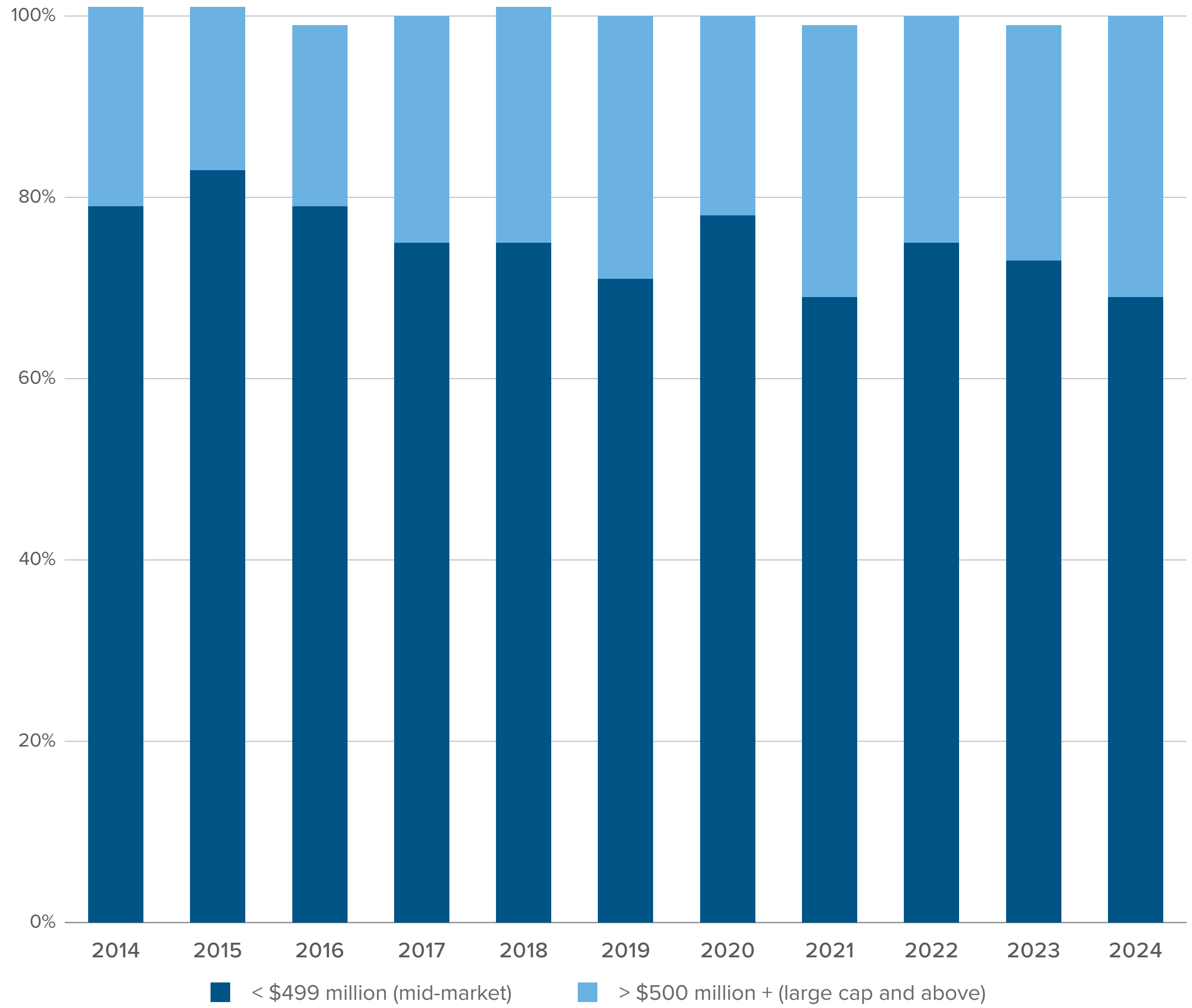
FIGURE 5 – North America buyout deal count, by deal size, % of total buyout deal count
(in billions, USD)



Source: PitchBook. Figures may not sum to 100%, because of rounding. Exits of private equity investments, including both those made by private equity investors and those made by additional investor types into mature companies and excluding venture capital.

> With current public market volatility, we see opportunity anchored in resilient mid-market companies and a rapidly evolving secondary market.

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Private credit has demonstrated its resilience during market uncertainty

This year started with improving mergers and acquisitions (M&A) activity and related financings. However, following the US tariff announcements and the ensuing market uncertainty, caution from lenders has led to credit volumes remaining below expectations. With the 90-day tariff pause, the market saw positive momentum in new issuances supporting M&A activity towards the end of Q2.

However, dealmakers have moved from a “risk on” stance to a “wait and see” approach. There is early evidence of a flight to quality, with activity focused in service-based businesses with recurring, predictable revenues and limited direct impact from tariffs.

Key themes amid volatility

Historically, market volatility has created opportunities for private lenders, and we expect that to hold true. We believe private credit will continue to deliver attractive absolute and risk-adjusted returns in light of key themes:

Higher spread premium than public markets.

Private credit spreads widened for certain mid-market loans in April but stabilized by the end of Q2 as investor confidence improved. Spreads across credit markets remain lower than historical averages, although private credit continues to offer investors a ~150-200 bps return premium compared to broadly syndicated loans and high-yield bonds.

Elevated interest rates create attractive yields.

Interest rates are expected to remain elevated, with a three-year projection for US secured overnight financing rate (3M SOFR) at around 3.5%. While “higher for longer” rates will keep yields higher, this will also keep borrowing costs for businesses elevated.

Resilient borrowers perform despite challenging times.

Borrower performance remains generally resilient, with default rates increasing modestly due to higher borrowing costs and slower growth. There is also dispersion in performance across sectors, with more softness in health care, consumer and highly levered businesses, due to structurally higher costs of capital. Prudently capitalized borrowers in resilient industries, with limited direct tariff impacts, should continue to outperform.

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Private credit

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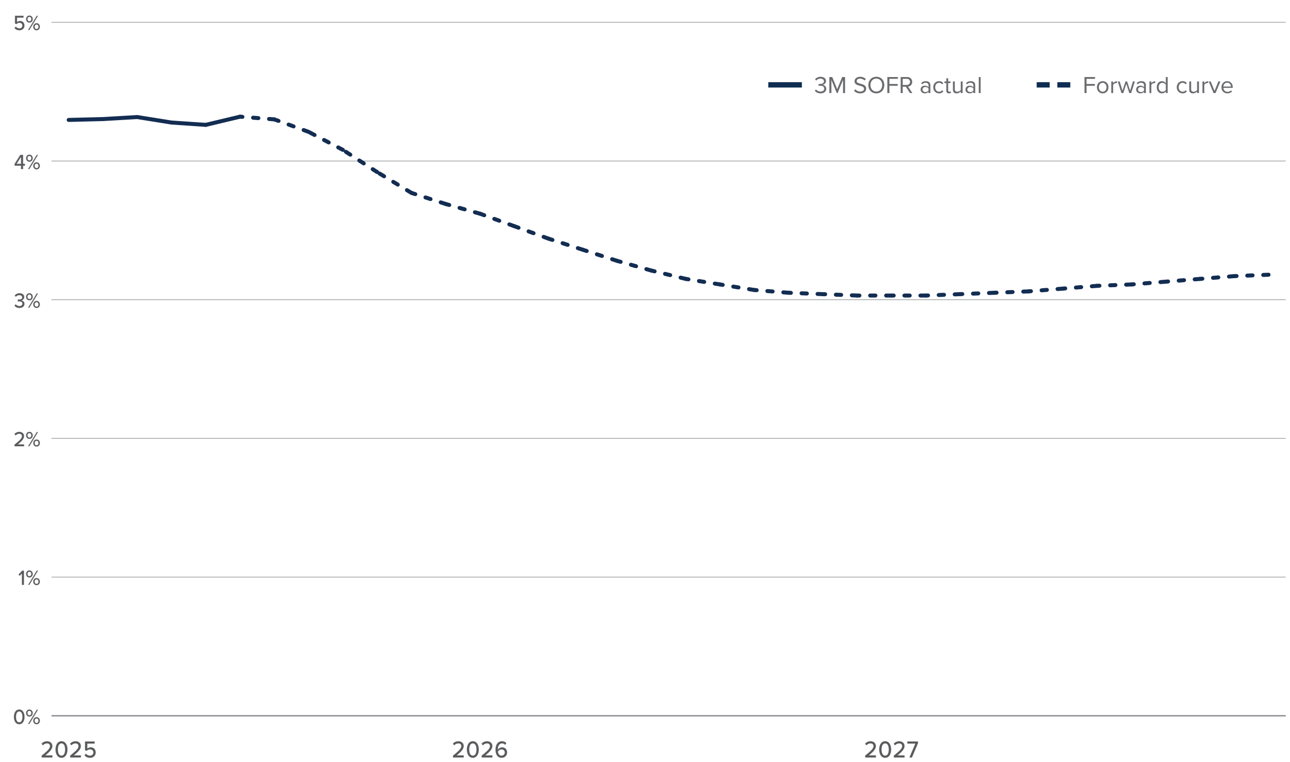
FIGURE 6 – Projected US base rates
January 2025 to December 2027



Source: Chatham Financial. 3-month SOFR forward curve as of June 30, 2025. There can be no assurance that base rate projections will be validated by actual events.

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Capturing the mid-market advantage

Although the environment has created opportunities, some sectors and companies will be better placed to weather market dislocation. We remain convinced that mid-market companies are particularly attractive for several reasons:

Demand for flexible, agile financing.

With borrowing costs rising and some lenders tightening lending criteria, private credit can offer the speed, flexible terms and certainty of execution that mid-market companies need. It also provides a potential long-term partner for their businesses as they navigate different stages of maturity. This will increase demand for private credit for both new and existing borrowers as their businesses scale.

Resilience to tariffs.

Mid-market companies with a regional or national focus will be less exposed to cross-border trade and the potential impact of tariffs or global supply chain disruption. Mid-market private equity-backed companies typically also have minimal exposure to the most heavily impacted sectors (such as autos, heavy manufacturing and retail), with a high proportion of service-based businesses.

Historically lower loss rates.

Defaults could rise moderately in a tougher economic environment, but the mid-market has historically experienced lower loss rates than broadly syndicated loans and high-yield debt. We expect the mid-market to provide strong downside protection, given that the loans are directly originated and structured with well-documented covenant packages. These provide an additional layer of protection that allows the lender to identify early warning signs and step in promptly if warranted.

Experienced private credit managers are better equipped to identify credit issues early and work directly with management teams and small groups of lenders to help borrowers navigate difficult times.

Overall, private credit remains resilient and has provided investors with attractive risk-adjusted returns and contractual cash yield. Mid-market private credit has historically delivered lower loss rates relative to leveraged loans and high-yield debt due to conservative structures and strong lender protections.

> We expect strong fundamentals and lender protections to keep mid-market private credit well-positioned going forward, even as macro uncertainty persists.

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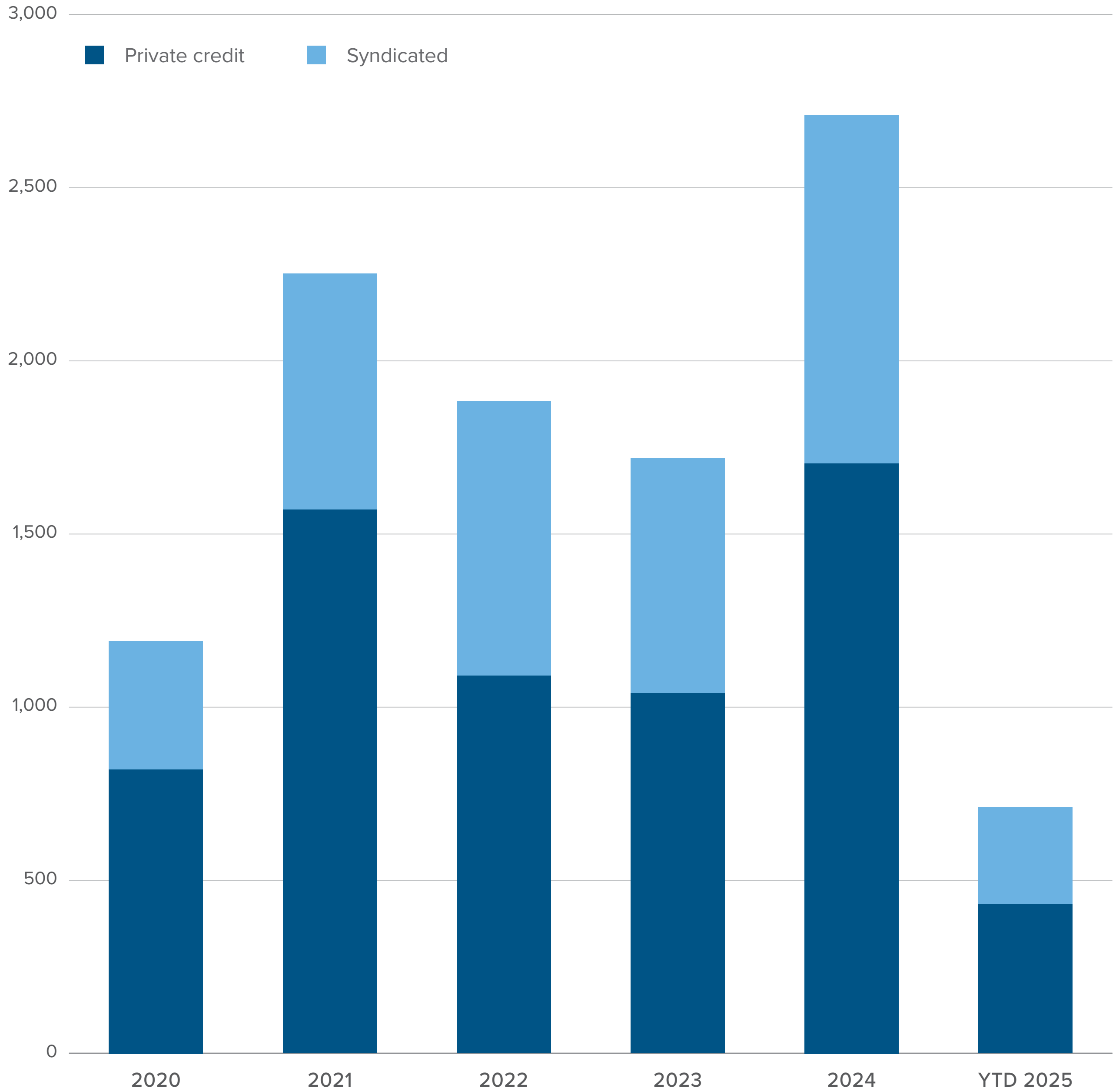
FIGURE 7 – Private credit continues to be a preferred source of financing
Count of US financing transactions, private credit and syndicated



Source: Pitchbook/LCD. Data through June 30, 2025. Count is based on transactions covered by LCD News. There can be no assurance that any of the trends highlighted above will continue in the future. Excludes repricing and extension amendments; includes LBOs, refinancings and follow-ons.

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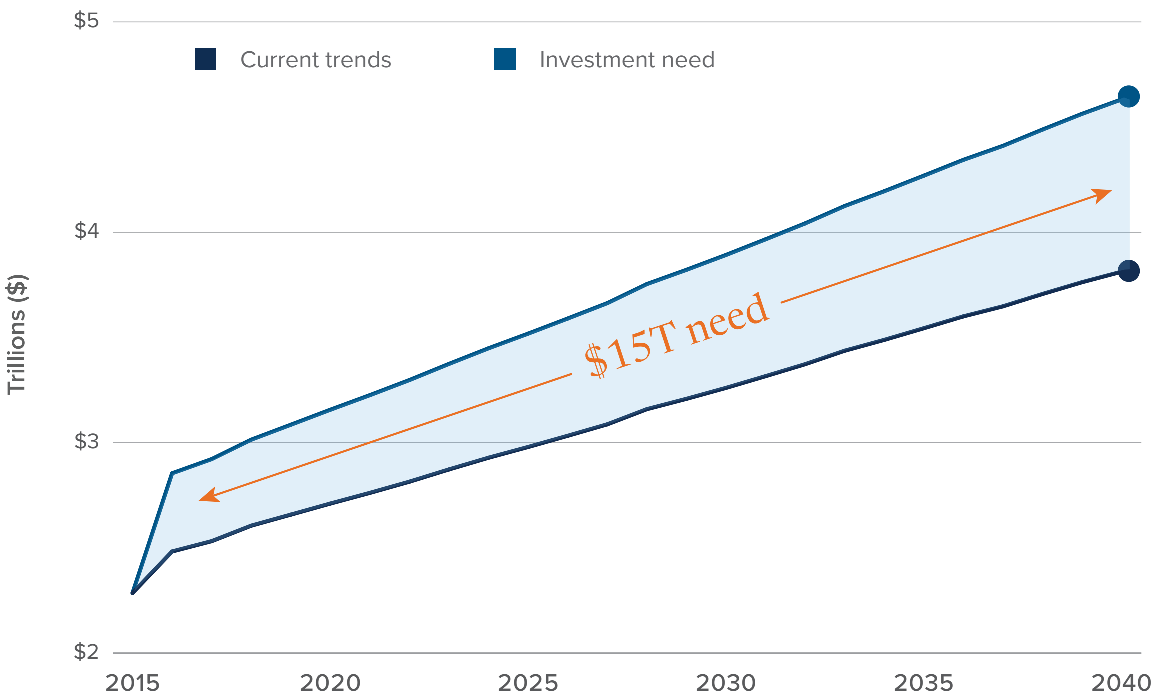
Bridging the infrastructure funding gap

Blending compelling investment characteristics with strong secular drivers, we believe private infrastructure offers a generational opportunity to invest in essential assets and services.

Thriving economies depend on functioning infrastructure, but many countries are struggling to maintain aging infrastructure that has fallen into disrepair. By 2040, an estimated $100 trillion of capital will be needed to maintain, replace and build essential infrastructure in both developed and developing markets.[5] The demand for infrastructure will also be supported by demographic shifts, with the world's population expected to increase by almost 2 billion people by 2040.[5] Governments around the world, many already grappling with high debt, lack the capital to fund the replacement and urgent upgrade of aging assets or the construction of new assets, leading to a massive funding gap.

FIGURE 8 – Infrastructure investment at current trends and need



Source: G20 Global Infrastructure Outlook (as of December 2024). In USD. $15 trillion need is projected cumulative gap between 2015 to 2040.

5 Source: Global issues: Population, United Nations, accessed on March 19, 2025

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At the same time, strong macro themes and global megatrends are also driving the demand for new and updated infrastructure.

AI and digitalization

Powering AI is increasing energy consumption at data centres, providing opportunities for both updating energy and network infrastructure.

Energy transition

The global shift to diversify energy sources from fossil fuels will need significant investment in clean energy generation and transmission, creating opportunities throughout the energy value chain.

Decarbonization

Governments everywhere are exploring ways to meet their decarbonization targets, including subsidies and public-private partnerships. The need for green transport solutions is also driving demand for all manner of electric vehicles, and the infrastructure needed to enable it.

These themes are long term and non-negotiable, making the associated infrastructure also non-negotiable. As societies adapt to meet these challenges and transition to a more sustainable future, they are increasingly turning to private investors to make up for the shortfall in public funding.

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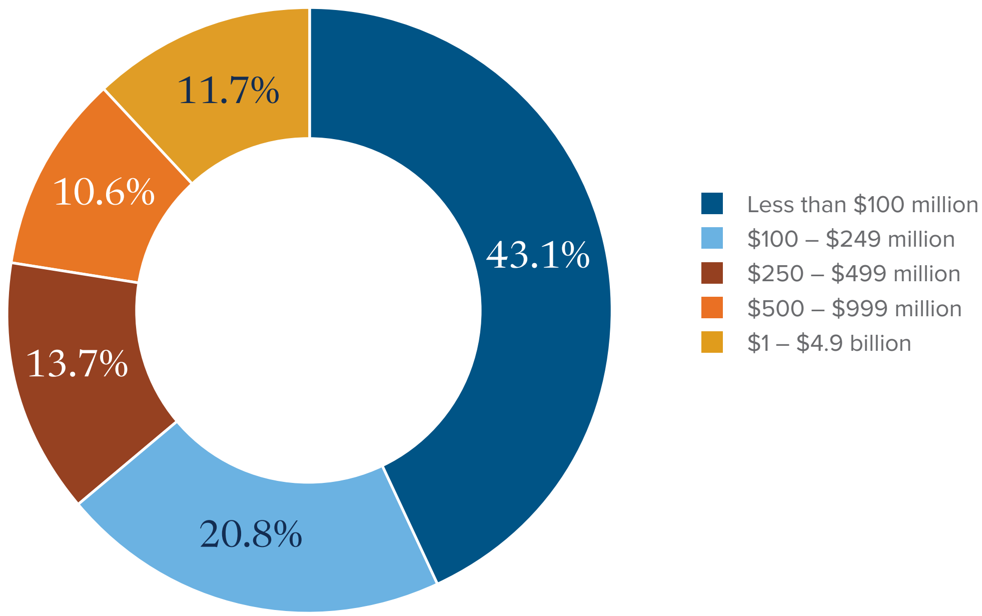
The mid-market sweet spot

Similar to our discussion around private equity and private credit, we believe the mid-market presents the most compelling opportunities in the private infrastructure space. Mid-market deals accounted for over 85% of infrastructure transactions completed in 2024,[6] and we expect that tilt towards the mid-market to intensify as the private infrastructure market evolves and diversifies. But smaller scale enterprises may have fewer options in terms of raising capital. The market is large and growing, and in need of funding partners, giving experienced managers a broad pool of transactions to consider for attractive deals.

FIGURE 9 – Breakdown by size: number of infrastructure transactions completed in OECD countries in 2024



Source: Preqin (as at December 31, 2024)

> Mid-market deals (less than $1B in enterprise value) accounted for over 85% of infrastructure transactions completed in 2024.

6 Source: Preqin (as at December 31, 2024)

Private infrastructure

Mid-market infrastructure assets can provide essential services to a region but may be overlooked by governments and large-cap infrastructure managers due to their size and scale. These enterprises might have strong development capabilities but are undercapitalized and less experienced at taking a company to its next stage of growth. An experienced partner can help fund and manage that growth through strategic asset management initiatives. Private infrastructure partners that are adept at evaluating operations and assessing the potential for growth will be able to identify these types of opportunities and capitalize on them.

Overall, we expect the private infrastructure market to continue to grow strongly as the need for investment becomes both more urgent and more undeniable. We believe this has the potential to create a broad range of long-term growth opportunities that offer investors a unique combination of equity-like returns, stable income with inflation protection and low correlation to public markets. These potential benefits appear particularly attractive during periods of market uncertainty like we are experiencing today.

> We believe private infrastructure is entering a long-term growth phase, offering equity-like returns, yield, inflation protection, and stability amid public market volatility.

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Exploring portfolio resilience through private markets: a strategic perspective

In the current market environment, characterized by elevated interest rates, persistent inflation and uncertain public market performance, investment portfolios are facing significant challenges.

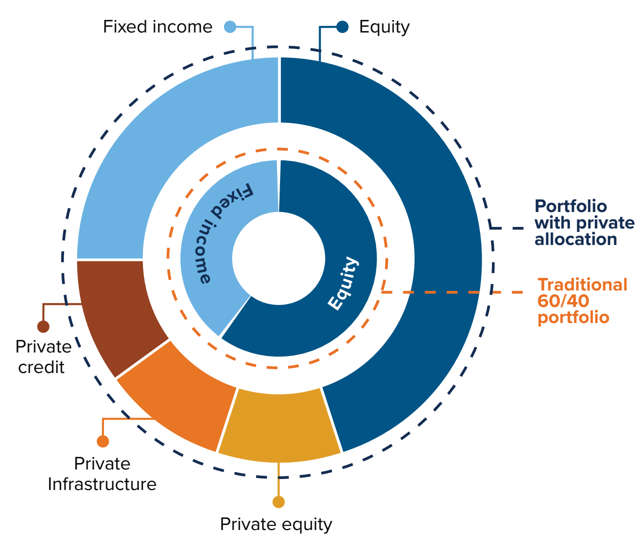
The traditional 60/40 portfolio, once considered a stalwart investment strategy, is under renewed pressure to deliver the returns and resilience investors seek. For accredited investors, incorporating private markets into their portfolios presents a compelling opportunity to enhance the potential for long-term returns, reduced volatility and improved diversification.

Strategic allocation to private markets

A practical approach to incorporating private markets into investment portfolios is to evolve the traditional 60/40 portfolio into a more diversified model. For example, we believe allocating 30% of a portfolio to private markets, 45% to public equity and 25% to fixed income, could provide a balanced risk-return profile suitable for investors looking to navigate uncertain markets.

Private equity focuses on long-term value creation and has historically delivered strong returns across economic cycles. Private credit has generated attractive yields and often adjusts with interest rates, making it particularly useful in a high-rate environment. Private infrastructure investments typically generate stable cash flows from essential services such as energy and transportation, and often act as a hedge against inflation.

FIGURE 10 – Traditional 60/40 vs. portfolio with private markets

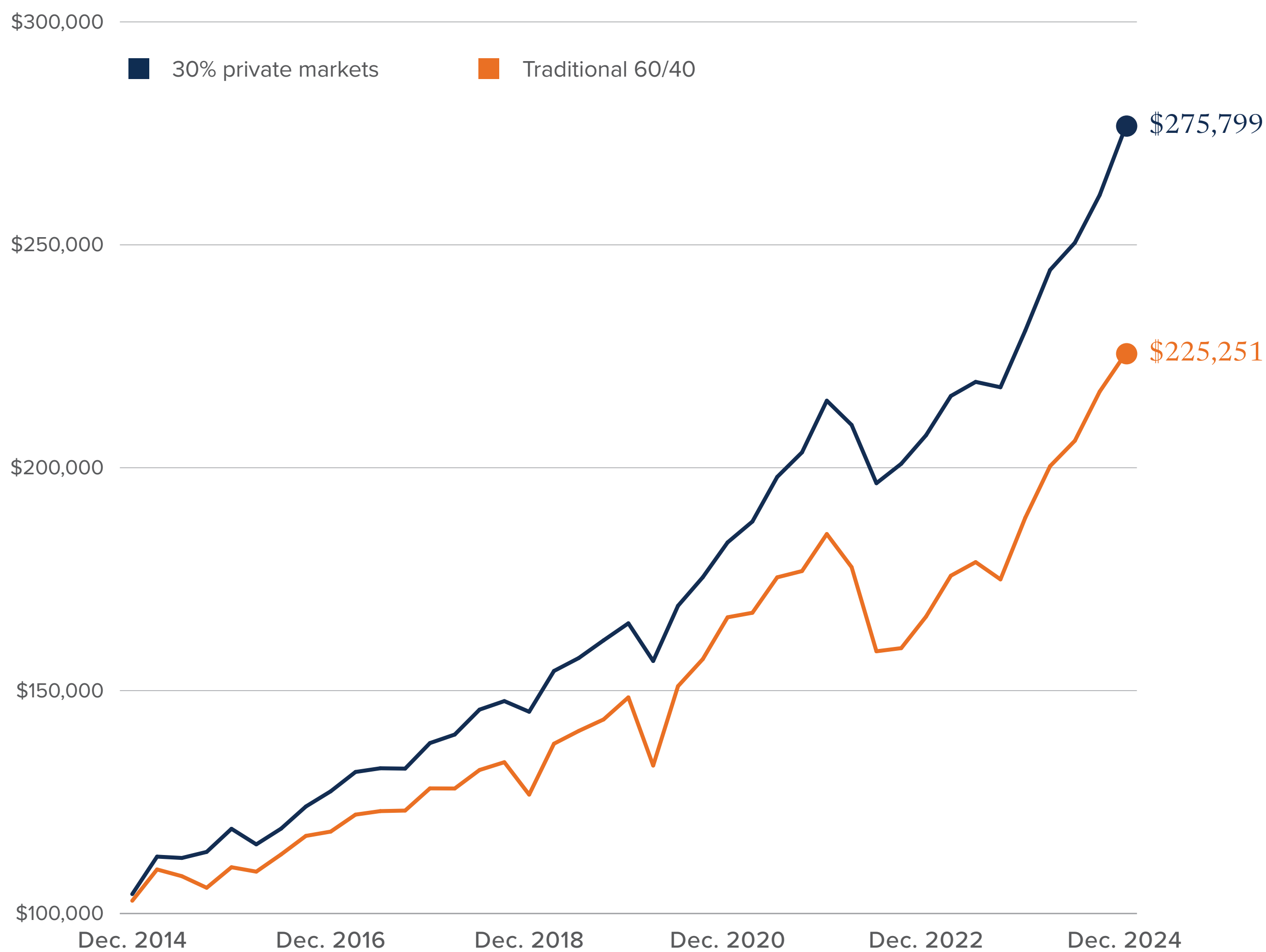


Provided for illustrative purposes only and not intended to be financial advice.

Performance: traditional 60/40 vs. portfolios with private markets

Historical data suggests that adding such an allocation to private markets within a traditional portfolio can meaningfully improve performance potential while maintaining balanced risk exposure. A simulated performance analysis over the last decade shown below illustrates this point.

FIGURE 11 – Return potential of private markets



Provided for illustrative purposes only. Hypothetical performance is theoretical, subject to risk and does not reflect actual client trading or the impact of material economic and market factors on the investment decision-making process for an actual account. Hypothetical performance is based on certain assumptions that could change without notice or prove to be incorrect. Different assumptions would produce different results. Fees and expenses applicable to investments in each asset class (not included within the assumptions described herein) would have reduced returns. Source: Preqin and MSCI, as at December 31, 2024. Traditional 60/40 is comprised of MSCI World Index GR CAD (20%), S&P/TSX Composite Index TR CAD (20%), S&P 500 TR CAD (20%), ICE BofA Canada Broad Market TR CAD (40%). The 30% private markets portfolio is comprised of Preqin Global Private Equity Index CAD (10%), Preqin Global Private Credit Index CAD (10%), Preqin Global Private Infrastructure Index CAD (10%), MSCI World Index GR CAD (15%), S&P/TSX Composite Index TR CAD (15%), S&P 500 TR CAD (15%), ICE BofA Canada Broad Market TR CAD (25%).

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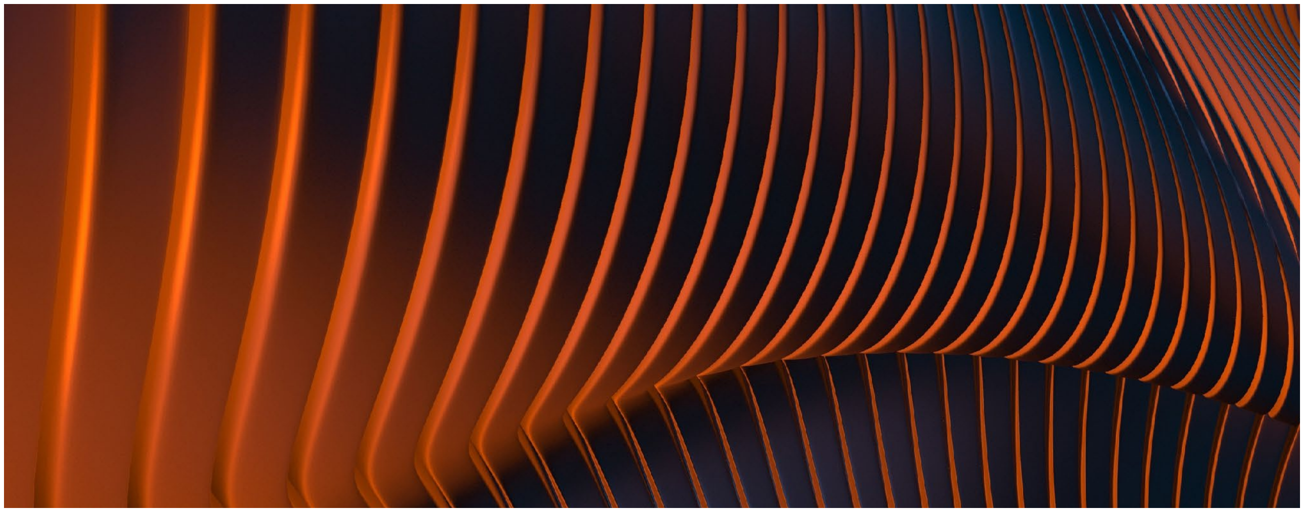
We believe one of the most compelling advantages of private market investing is its ability to support investor discipline and long-term investment outcomes, especially when public markets are volatile or uncertain. During major public market selloffs, private markets have historically helped insulate investors from the volatility of public markets, with smaller drawdowns and stronger rebounds, underscoring their role in enhancing portfolio stability.

FIGURE 12 – Private markets historical outperformance over public markets

+ 22.9%	+ 6.1%
GFC (2008)	Euro debt crisis (2011)
+ 14.8%	**+ 22.8%**
COVID-19 shutdown (2020)	Inflation shock (2022)

Source: Preqin and MSCI, as at December 31, 2024. Traditional 60/40 is comprised of MSCI World Index GR CAD (20%), S&P/TSX Composite Index TR CAD (20%), S&P 500 TR CAD (20%), ICE Bofa Canada Broad Market TR CAD (40%). The private markets portfolio is comprised of Preqin Global Private Equity Index CAD (1/3), Preqin Global Private Credit Index CAD (1/3), Preqin Global Private Infrastructure Index CAD (1/3). Time period, 01/01/2004 – 12/31/2023. Data denominated in CAD. Private equity returns are shown net of fees, expenses and carried interest.



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Practical considerations for private markets

When considering the incorporation of private markets into client portfolios, there are several key factors to be aware of:

Diversification characteristics

Private markets offer a unique diversification benefit due to their low correlation with traditional public assets.

Long-term commitment

Private market investments typically require long-term commitments, which can help investors avoid making impulsive decisions based on short-term market fluctuations.

Risk management

Advisors and accredited investors should carefully assess the risk profiles of private market investments and ensure they align with their overall risk tolerance and investment objectives.

Access and platforms

The increasing availability of private market investments through new fund structures and platforms has made it easier for advisors to access these asset classes on behalf of their accredited investor clients.

As the investment landscape continues to evolve, the role of private markets in portfolio construction is likely to become increasingly important. Incorporating private markets into investment portfolios may offer a timely opportunity for investors to enhance their potential for portfolio resilience and improved long-term outcomes. By understanding the benefits and strategic allocation of private markets, advisors and accredited investors may be better positioned to develop more diversified investment strategies that aim to navigate the complexities of today's market environment.

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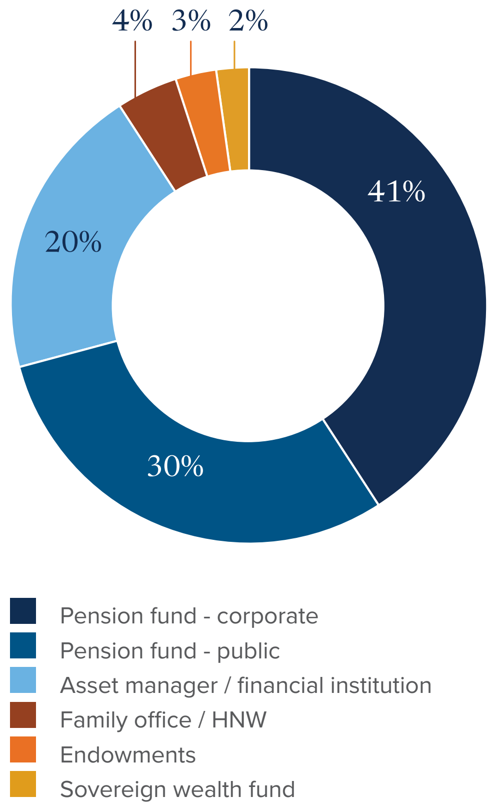
Seeking to achieve investors' portfolio objectives: Northleaf's differentiated approach

Northleaf Capital Partners is a global private markets specialist firm, focused on mid-market private equity, credit and infrastructure throughout developed markets. With a proven long-term track record, Northleaf has raised over $37 billion (CAD) in commitments from more than 300 institutional investors and family offices globally. Mackenzie is proud to partner with Northleaf to offer accessible private markets opportunities for accredited investors through their advisors.

FIGURE 13 – Northleaf investor base by type



$37B+
Investor commitments raised

300+
Institutional investors

275+
Global professionals

10
Global offices

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Private equity

Private credit

Private infrastructure

Portfolio construction

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FIGURE 14 – Strong support from a growing institutional, family office and individual investor base

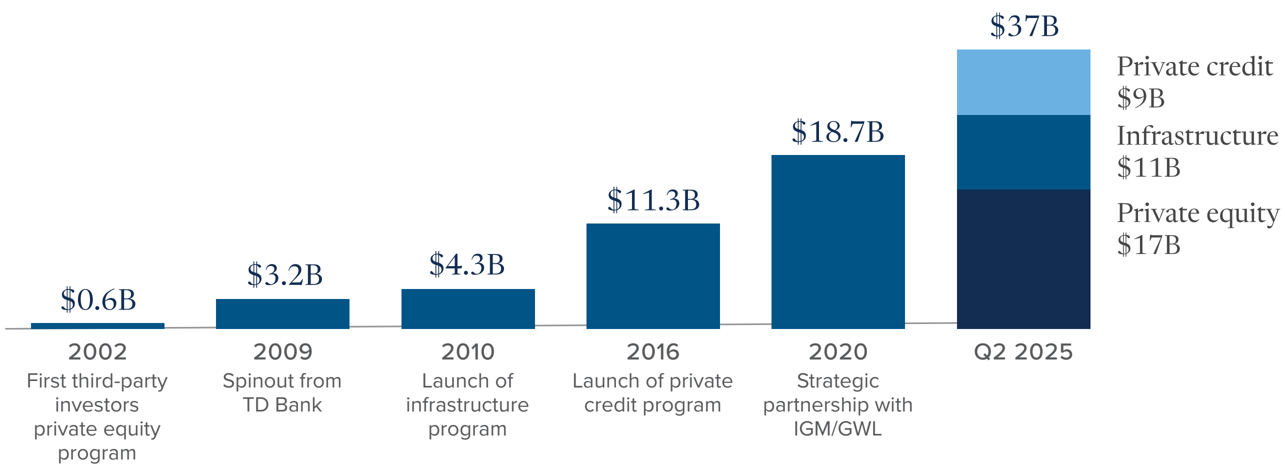

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FIGURE 15 – Global footprint for on-the-ground sourcing, diligence and investment oversight

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Private equity

Private credit

Private infrastructure

Portfolio construction

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