PRIMARK PRIVATE MARKETS

AI Shockwaves Hit Software:

Why PMPEX Is Positioned to Withstand—and Win From—the Potential Disruption

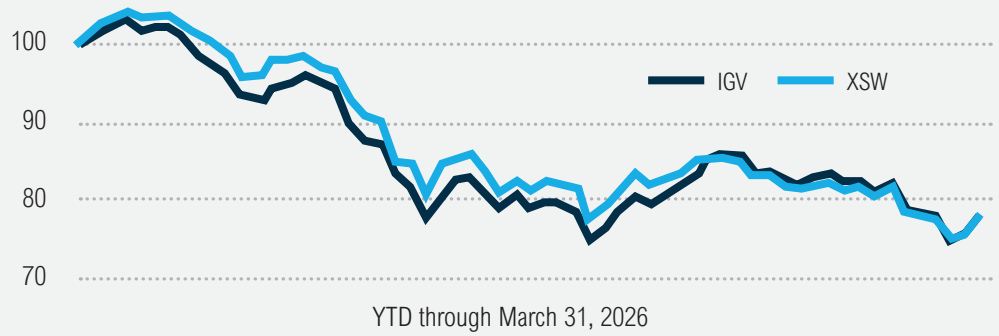
The market and investor sentiment has quickly pivoted from worries that there was an AI bubble in late 2025 to worries that AI disruption, especially in the software sector, is underestimated and could lead to significant pressure on certain software companies, especially those with a Software as a Service (SaaS) business model.[1] AI disruption is the profound, structural shift caused by artificial intelligence that forces companies to rethink business models, workflows, and roles, often changing where value is created.

The catalyst for the reversal, and subsequent concern for the future of software companies, started with the release of Claude's Opus 4.5 model in November of 2025 and quickly followed by the launch of Claude Cowork and Code plugins in January of 2026.[2] These models represented significant advancements over current iterations and raised fears that certain SaaS providers may be replaced by AI. Or, even if not outright replaced, concerns that the short- and long-term growth trajectory for these companies has been disrupted.

The evidence of these worries, and the speed at which they hit, can be seen in the year-to-date performance of publicly traded software companies as well as the publicly traded private market firms for which their underlying private credit portfolios have a high allocation to the software sector (see Figure 1).

FIGURE 1

Software Sector Performance YTD



Past performance is not indicative of future results.

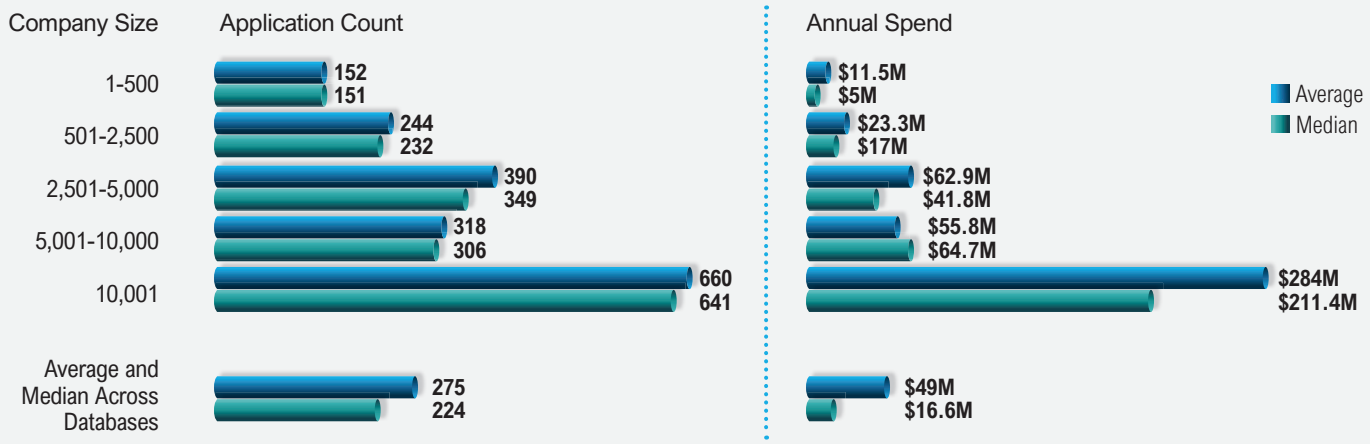
Software Sector as represented by ETFs:

IGV: iShares Expanded Tech-Software Sector ETF

XSW: State Street® SPDR® S&P® Software & Services ETF

FIGURE 2

Saas Portfolio Size and Spend



Source: Zylo 2025 SaaS Management Index Report

This raises the question of whether the fears are justified and what the effect may be on the co-investments within the Primark Meketa Private Equity Investments Fund (PMPEX) portfolio.

AI may cut seats but software companies win on outcomes, not licenses

The SaaS model is under threat because its business model has traditionally been high margin, high cash flow generative, and thought to be based on "seats" or the number of licenses purchased to use the software. If AI can decrease the number of seats needed and/or replace the software altogether, then both the SaaS business model and/or the underlying software value add (purpose of software) may be at risk.

However, the success of a specific software company is far more tied to value creation and aligning monetization with the outcome, rather than number of seats. It's important to realize that software spans a large spectrum of uses and outcomes and is highly complex. In fact, the number of software applications used by the average company, was about 275 in 2025 (Figure 2).[3] With an average of 275 different software applications per company, it becomes clear that applying a one-size-fits-all "AI will disrupt" narrative may be naïve and overlook important nuances across the various workflows for which each application is used.

AI may help determine software winners and losers

Although the total addressable market (TAM)[4] for SaaS is expected to decrease over the next five years, the overall software market including AI agents is still expected to increase.[5] We expect the ultimate winners will reflect a provider-by-provider triangulation involving the type of software and how actively are AI agents integrated into the newest iterations.

Even for companies more vulnerable to AI disruption, technological change has historically unfolded gradually. It's also important not to underestimate how effectively organizations can adapt. Disruption, after all, doesn't necessarily mean destruction. In many cases, there's a meaningful gap between market sentiment around AI-driven disruption and the operational and financial realities of transitioning within an enterprise.

For example, the introduction of the first iPhone in June 2007 dramatically and permanently disrupted the mobile phone market and also drove what were the largest players (Nokia in personal and BlackBerry in enterprise) essentially out of business. However, other companies such as Samsung grew their market share and Motorola pivoted to provide other goods and services. Hindsight also belies how long it took for investor sentiment on BlackBerry to turn. Indeed, from the date of the introduction of the iPhone (January 9, 2007), BlackBerry's stock did not reach its peak until almost 18 months later and had increased over 230%, before beginning its dramatic decline over subsequent years.

A software application provider with, for example, proprietary data, high switching costs, and deeply embedded roles within enterprise systems are likely better positioned to defend their franchises. In many cases, AI may strengthen their product further by enhancing the API via AI agents, expanding functionality, navigating difficult regulatory environments, or protecting customer data.

By contrast, generic SaaS products with heavy reliance on seat-based pricing for which AI may now perform the same task autonomously are prime candidates for disruption.

It will be critical that enterprise software companies invest heavily in AI, either organically or through M&A, which may lead to pressure on operating margins. But if done thoughtfully and strategically (and with the right private equity partner!), this investment could well position such companies for long-term success.

A disciplined co-investment strategy built for transparency and resilience in an AI-disrupted market

All the noise and news around AI disruption indirectly highlights the strength of how we have structured our private equity fund, the Primark Meketa Private Equity Investments Fund (PMPEX).

Utilizing a curated portfolio of direct co-investments means we have transparency into each of our holdings and how they might be enhanced or disrupted by AI. In addition, we have partnered with general partners (GPs) that engage in a high level of comprehensive underwriting due diligence and scenario analysis. This extensive research helps them respond and adapt quickly to any new business developments.

PMPEX and its current exposure to potential AI disruption

Given the negative media sentiment around software and the abrupt share price downturn of publicly traded software companies, we engaged in a "health check" of our portfolio to get a better idea of the potential negative exposure. Importantly, we believe the vast majority of the important work is done at the front end by working with high-quality, operationally focused GPs with strong underwriting standards. Therefore, this exercise was more akin to a snapshot of where PMPEX stands.

As of March 31, 2026, PMPEX had approximately 30% allocated to the technology sector, almost all of it in software. However, exposure is diversified across application software, vertical software, and enterprise-wide systems software that target a variety of workflows and end business clients.

About 23% of the fund NAV has a high, potentially negative exposure to AI disruption and 8% had a high, positive exposure. The rest of the portfolio has medium-to-low exposure. Importantly, we measure exposure based on the current NAV of the underlying holding and not potential changes in valuation.

Within the 23% high exposure category, however, we believe that the majority of our holdings are in a strong defensibility position due to the nature of their software and/or a record of proactively developing and executing on an AI roadmap well before this year.

We subjectively categorized the fund's exposure into four different tiers:

Tier 1 — Very High AI Defensibility
(AI strengthens position; displacement risk is extremely low)

Tier 2 — High but Actively Managed Defensibility
(Defensible today; must continue executing on AI roadmap)

Tier 3 — Moderate / Mixed Defensibility
(AI both helps and threatens parts of the business)

Tier 4 — Lower (But Improving) AI Defensibility
(Most exposed but proactively repositioning)

Our analysis confirmed that PMPEX is well diversified, and we believe that our software-focused portfolio companies are in a strong defensive position to navigate most scenarios of AI disruption. However, a key caveat emerged from the analysis, which was the majority of the portfolio fell into the Tier 2 and Tier 3 categories, for which future success is contingent on the successful execution, at the company management level, of an AI roadmap.

A standout positive was that the portfolio had a 5% allocation at quarter end to one of the largest agentic AI providers,

Potential AI Impact	NAV (as of 3/31/2026)	% of Co-Investments NAV	% of PMPEX NAV
High Positive Exposure	$29 million	10%	8%
High (-) Potentially Negative Exposure	$88 million	29%	23%
Medium Exposure	$14 million	5%	4%
Low Exposure	$174 million	57%	45%
Ability to Defend/Adapt in HIGH (-)	**NAV (as of 3/31/2026)**	**% of Co-Investments NAV**	**% of PMPEX NAV**
Tier 1	$15.8 million	5.2%	4.1%
Tier 2	$50.4 million	16.5%	13.1%
Tier 3	$14.8 million	4.9%	3.8%
Tier 4	$6.9 million	2.3%	1.8%

which would be one of the most direct beneficiaries of AI disruption in the enterprise software space, given their models have been the catalyst for much of the disruption. Evidence of the strength of this portfolio holding was the most recent official funding round which resulted in a significant valuation increase.

Moreover, the portfolio's allocation to Project Radiant, a company specializing in the maintenance and repair of critical infrastructure components of the electric grid, should also benefit the fund, given the power generation and transmission requirements needed for the AI data center build out.

Indeed, many of the fund's portfolio companies have already been utilizing AI in enhancing their products and/or have unique characteristics that provide a strong moat to outright replacement.

One example is Project Aftermath. This company is a provider of mission-critical services and software to the U.S. government and national security community. The firm offers full-stack, agile software development services, data engineering and advanced AI/machine learning-based analytics solutions, and cyber operations software and solutions.[6]

As a service provider, it actively uses Large Language Models (LLMs) and has seen benefits to the efficiency of their workflows. Some of what their services may be done by client directly using AI, but other frictions would make it difficult. These frictions include the fact that 95% of Aftermath employees hold top secret security clearance and the underlying data in the workflows is highly sensitive and proprietary, raising numerous cybersecurity, compliance, and data protection risks.

AI as a selective force: Navigating disruption, differentiation, and opportunity in software

While AI-driven innovation is clearly reshaping expectations across the software landscape, we believe the current wave of concern is better characterized as a period of re-rating and reprioritization rather than wholesale disruption. The evolution of AI is accelerating change, but it is also sharpening the distinction between durable, value-creating software franchises and those reliant on more commoditized, seat-based models.

Within this environment, winners will not be defined simply by whether they are "AI-enabled," but by the depth of their integration into enterprise workflows, the defensibility of their data and systems, and their ability to continuously align pricing with measurable outcomes. As history has shown, technological disruption tends to reward adaptability as much as invention, and periods of uncertainty often create the most attractive entry points for well-positioned, fundamentally strong businesses.

For PMPEX, this backdrop reinforces the importance of a disciplined, transparent, and actively underwritten co-investment strategy. Our portfolio is intentionally constructed to balance exposure across varying degrees of AI sensitivity while emphasizing companies with strong moats, mission-critical functionality, and proactive AI roadmaps. Where disruption risk is higher, we believe it is often paired with management teams already investing ahead of the curve, positioning them to adapt rather than be displaced.

In this fast moving environment, we believe that the public markets have "thrown the baby out with the bathwater" and failed to do a diligent deep dive into the ramifications of the technological changes and idiosyncratic effects on each software company or software related investments. We cannot predict the exact outcome and in the absence of a crystal ball we always endeavor to team up with GPs that have strong underwriting standards and seek protection through diversification. Therefore, we believe PMPEX is positioned not only to withstand disruption, but to benefit from the dispersion of outcomes that it creates.

[1] Software as a Service (SaaS) is a cloud-based software delivery model where users subscribe to applications over the internet rather than buying and installing them locally. The vendor manages the infrastructure, maintenance, and updates, enabling users to access the software via a browser.

[2] Claude Opus 4.5 is Anthropic' s advanced, high-intelligence AI model (released Nov 2025) optimized for coding, agentic workflows, and complex reasoning. It boasts superior performance in software engineering, faster speeds, and improved reliability over previous versions. It is designed to handle complex, multi-step tasks, such as full-stack coding, and supports a one-million-token context window. Claude Cowork is an agentic AI tool by Anthropic designed to operate as a virtual employee on your computer, capable of autonomously handling multi-step tasks within local files and apps. Unlike chatbots, it focuses on delivering finished work—such as managing folders, updating spreadsheets, or drafting documents.

[3] Data compiled from Backlinko, December 2025, CloudZero, April 2025, and Omnius, SaaS Industry Trends Report 2025.

[4] Total Addressable Market (TAM) for SaaS represents the maximum total revenue opportunity available if a company captures 100% of the market demand for its product. It acts as a "pie in the sky" number to show potential scalability and attract investors, calculated by multiplying the total potential customers by the annual contract value (ACV).

[5] Gartner, 2024 and Goldman Sach, 2024.

[6] AI/ML-based analytics solutions use artificial intelligence and machine learning to automatically analyze, interpret, and visualize large datasets. By combining data management, statistical models, and machine learning (ML), these tools move beyond manual reporting to identify hidden patterns, forecast future trends, and automate decision-making.

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- The Fund is a "non diversified" management investment company registered under the Investment Company Act of 1940.
- Investments in the Fund involves risk. The Fund is new with no significant operating history by which to evaluate its potential performance. There can be no assurance that the Fund's strategy will be successful.
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- Shares are appropriate only for those investors who can tolerate a high degree of risk, and do not require a liquid investment.
- There is no assurance that you will be able to tender your shares when or in the amount that you desire. Although the Fund will offer quarterly liquidity through a quarterly repurchase process, an investor may not be able to sell or otherwise liquidate all their shares tendered during a quarterly repurchase offer.
- The Fund's investments in private equity companies is speculative and involve a high degree of risk, including the risk associated with leverage.

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