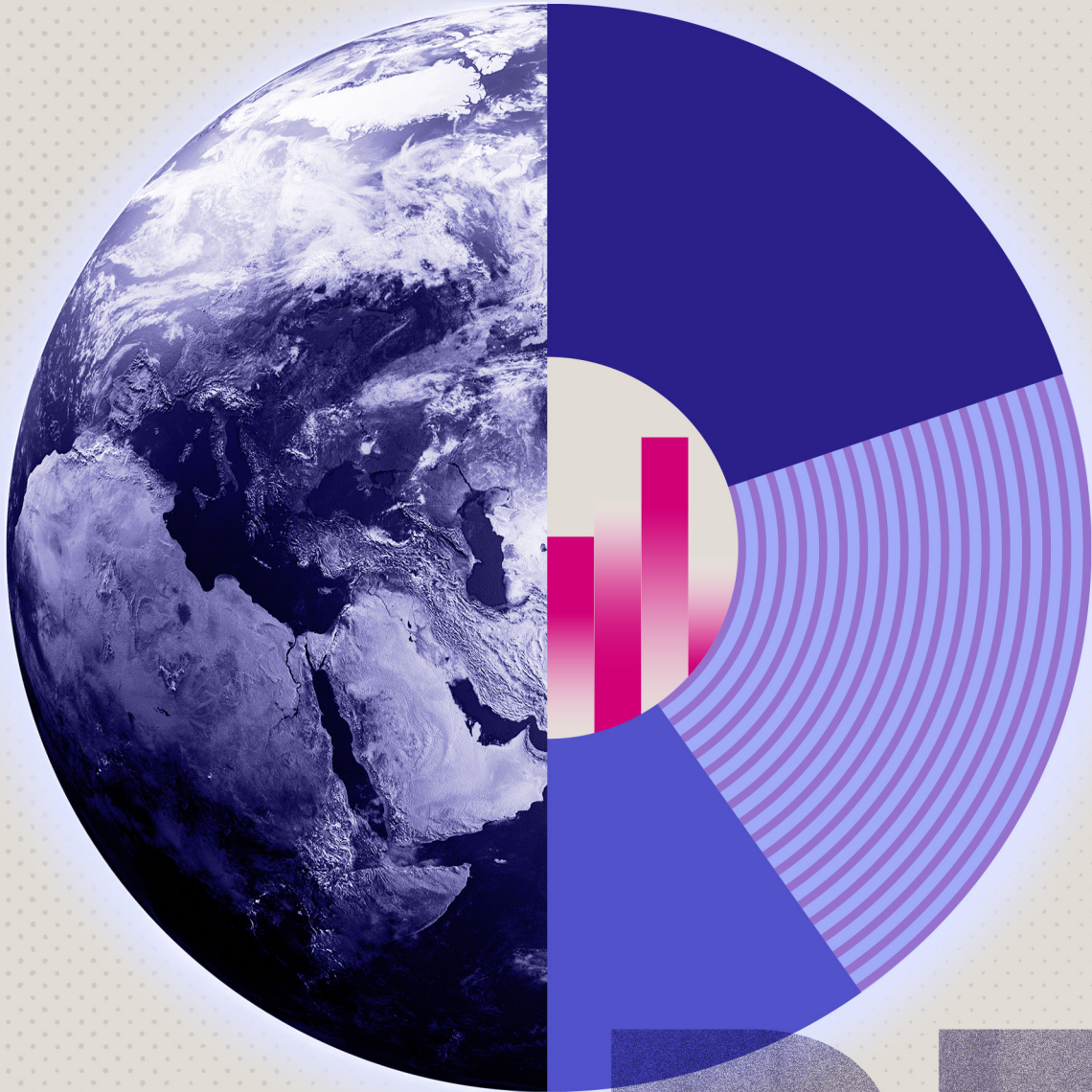


insights⁺

Preqin Global Report

Private Equity 2025



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PREQIN

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Executive summary

Both investors and fund managers believe a better year lies ahead for private equity



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After two challenging years for private equity in 2022 and 2023, driven by the steepest interest rate hikes in two decades, 2024 has brought relief with the start of a monetary-loosening cycle. Uncertainty over the outcome of the US presidential election has been resolved, although the policies of the new administration are expected to be a source of inflationary risk.¹ Additionally, the global recessionary risks that concerned the market in 2024 did not materialize, and the industry appears better positioned for 2025.

We expect private equity assets under management to continue to grow, albeit at a slower pace, and to double from \$5.8tn at end-2023 to reach \$12.0tn by end-2029 (see Preqin's Future of Alternatives 2029 report).² This projected growth will be supported by structural trends, such as industry expansion to non-institutional investors. Expectations of higher-for-longer interest rates are weighing on our expected returns from private equity compared with 2017–2023. This comes at a time when a tougher fundraising environment has shifted the negotiating position of LPs, leading to an expected decline in buyout management fees, as explored in The 2024 Preqin Private Capital Fund Terms Advisor report.³

On the deals front, private equity has had a subdued year, with exit activity contracting sharply due to lower valuations from higher discount rates and negatively impacting the overall deals market. Even so, deal-making could still match or exceed the levels achieved in 2023. By the end of the third quarter this year, deal-making achieved 69% and 74% of 2023 volume and value, respectively. However, the 5,571 and \$350bn in volume and value of deals over the first three quarters of 2024 are still far from the last five-year averages of 8,378 and \$610bn.

While public markets have had a good year so far, driven primarily by a handful of large technology stocks, and private equity is unlikely to catch up with global public equities performance in 2024, we expect private equity to continue outperforming over the medium term. (For more on private vs. public equities and their performance, see 'The shifting landscape of equity markets' chapter.) Historically, technology (see our Strategy in Focus: Tech report)⁴ and small- to mid-market buyout funds (see our Strategy in Focus: Mid-Market Buyouts report⁵ and the 'Focus on the mid-market' chapter in this report) have been among the top-performing within private equity, showing strong aggregate performance relative to other fund strategies. We expect them to continue to drive private equity outperformance over the longer term. The private equity industry backed more tech companies than those from any other sector over the past five years.⁶ With exits slowing in 2022–2024, it is likely to remain overweight in the technology sector for a typical investment period of 5–7 years.

Despite these challenges, the global private equity industry achieved record aggregate fundraising of \$781bn in 2023 – a figure that will be difficult to surpass this year due to the extended wait for interest rate cuts and global economic and geopolitical uncertainties. One key contributor to the robustness of fundraising in 2023 was the secondaries market, which raised a record \$91bn (see our Sector in Focus:

¹ <https://www.reuters.com/markets/rates-bonds/boes-mann-says-central-bank-should-keep-rates-hold-given-global-risks-2024-11-14/>

² <https://preqin.com/insights/research/reports/future-of-alternatives-2029>

³ <https://preqin.com/insights/research/reports/the-2024-preqin-private-capital-fund-terms-advisor>

⁴ <https://www.preqin.com/insights/research/sector-in-focus/strategy-in-focus-tech>

⁵ <https://preqin.com/insights/research/sector-in-focus/strategy-in-focus-mid-market-buyouts>

⁶ See Fig. 2.2 of Preqin's Strategy in Focus: Tech report

Secondaries in 2024 report⁷ and the ‘Investors bullish on secondaries’ chapter in this report), accounting for about 12% of overall industry fundraising that year. Yet there has been a cooling of interest in secondaries, which may impact secondaries fundraising in 2024. Our November 2024 investor survey shows investors are looking toward small- to mid-market buyouts, at the expense of secondaries, for the next 12 months (see the ‘Our survey’ chapter).

Both investors and private equity managers appear more optimistic as we head into 2025, although fund managers are wary of regulatory and geopolitical risks, and remain concerned about asset valuations. We believe the long-term demand for low-correlated assets and the expected higher growth of private vs. public equity will give the industry a head start.

All this and more is examined in this Global Report on the private equity industry, as it undergoes transition and adapts to the operational challenges of the last few years. To meet the ever-growing client demand for accurate, data-backed private markets intelligence at this turning point for the industry, our Research Insights team has expanded our research output, and this report showcases some of the most relevant and impactful research from the past year.

⁷ <https://preqin.com/insights/research/sector-in-focus/secondaries-in-2024>

Key findings

1 Investors return to small- to mid-market buyouts at expense of secondaries

The tough exit environment, triggered by sharp interest rate rises in 2022, led to slower distributions to LPs. Out of this, secondaries emerged as the most popular strategy among investors for near-term investing in 2023 and remained so for a year. With liquidity expected to return to the private equity market as rate cuts are implemented, it is perhaps unsurprising that our November 2024 investor survey shows a shift back to the small- to mid-market buyout strategy. Investors expect increased activity in the small- to mid-market space, which has historically delivered strong performance within private equity and is well positioned to continue to outperform.

2 Recent Europe private equity returns beat North America

Our deal-level performance data shows signs of outperformance by buyouts in Europe from 2021 to 2023. This is linked to lower entry valuations in the region, which may be largely explained by lower growth rates in corporate revenues and profits of European companies compared with their North America counterparts. This performance is evident in median net IRRs, with Europe's 2021 IRR of 14.5% significantly exceeding North America's IRR of 11.6%.

3 Smaller-sized exits have supported activity this year

In 2024 – as in 2023 – GPs have been more successful with smaller exits as they are typically easier to execute than larger ones, especially given the challenging valuations and deal activity environment. Up to the third quarter, total exits reached 80% of the 2023 total, but only 54% of the 2023 aggregate value. Larger deals and exits rely more on multiple expansion, which was difficult amid the rate-hiking cycle and elevated interest rates of 2022–2023. Many larger deals and exits have been postponed due to these conditions until GPs reach valuations they consider fair.

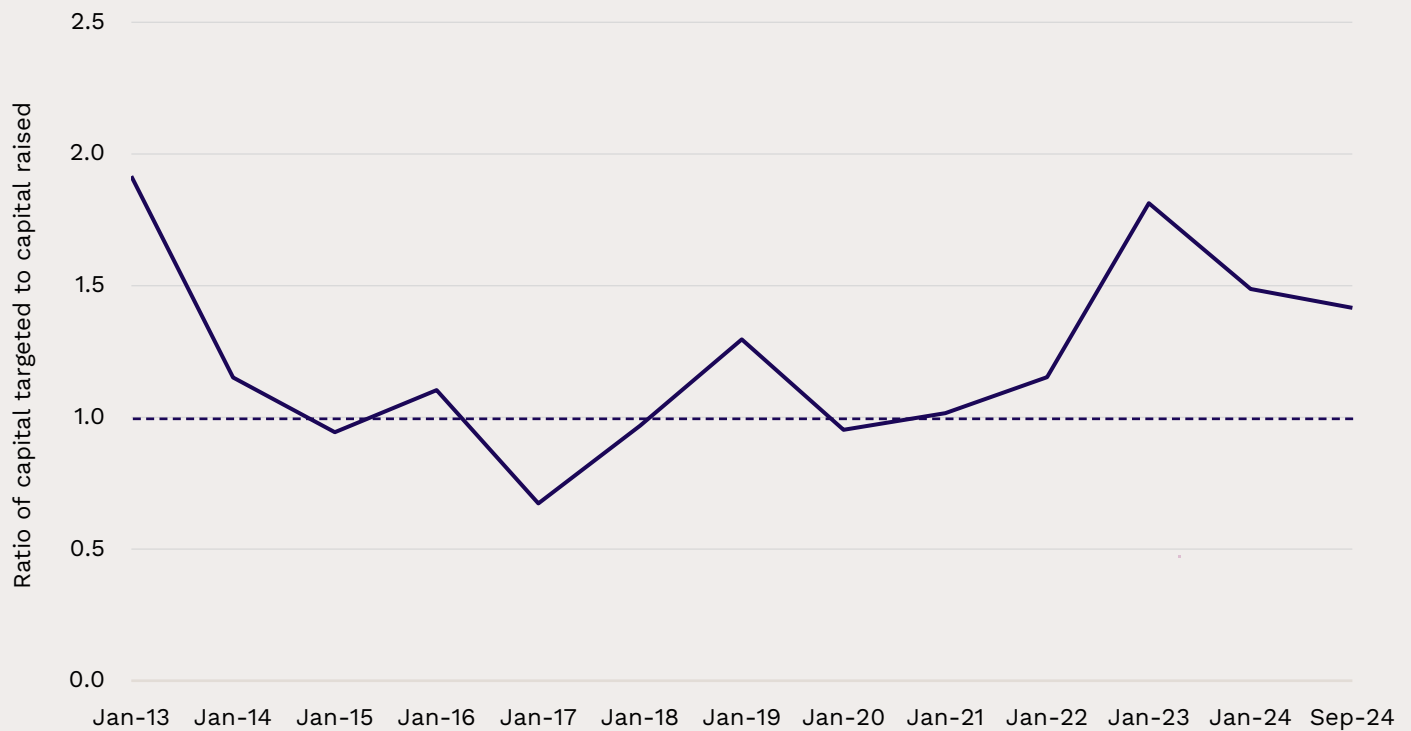
4 Investors expect stronger performance in 2025

As central governments and banks tackle inflation and lower interest rates, their actions have boosted investor sentiment for the year ahead. According to our November 2024 survey, key investor concerns, particularly about inflation and interest rates, have broadly subsided this year. While the exit environment and asset valuations continue to worry investors, they are less of a concern than in 2023. Most survey respondents expect stronger performance for private equity in 2025 than in 2024. This optimism has translated into increasing investor appetite for the next 12 months. Half of investors aim to increase their investment in private equity, compared with 28% the year before. Only 8% of respondents plan to invest less, down from 18% in our November 2023 survey.

Chart of the year

Fundraising ambitions have settled this year

Ratio of aggregate capital targeted vs. capital raised in private equity (previous 12 months)



Source: Preqin Pro

“ The interest rate cuts that began in H2 2024 are likely to further improve the balance between targeted and closed funds ”

Investors and private equity managers are entering 2025 in a more optimistic mood, according to our latest survey. To assess whether their appetites for fundraising are aligned, we can consider the ratio of capital targeted by funds in market to capital raised over the past 12 months. A ratio of one indicates the capital targeted matches the capital raised over the preceding period. A ratio above one signals an overhang in fundraising: the higher the ratio, the more funds remain on the market.

By the end of September 2024, this ratio improved to 1.42x from the 10-year peak of 1.81x in January 2023 – meaning private equity funds were more likely to be satisfied by the level of investor demand in the market. While the ratio still reflects some overhang in the fundraising pipeline and investor caution, the interest rate cuts that began in the second half of 2024 are likely to improve the balance between targeted and closed funds. This should bring the ratio closer to the 1.0x level, where capital targeted closely matches capital raised.

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→ Year in review: 2024

2024 turned out to be better than expected. The monetary-easing cycle should facilitate deal-making and support fundraising efforts



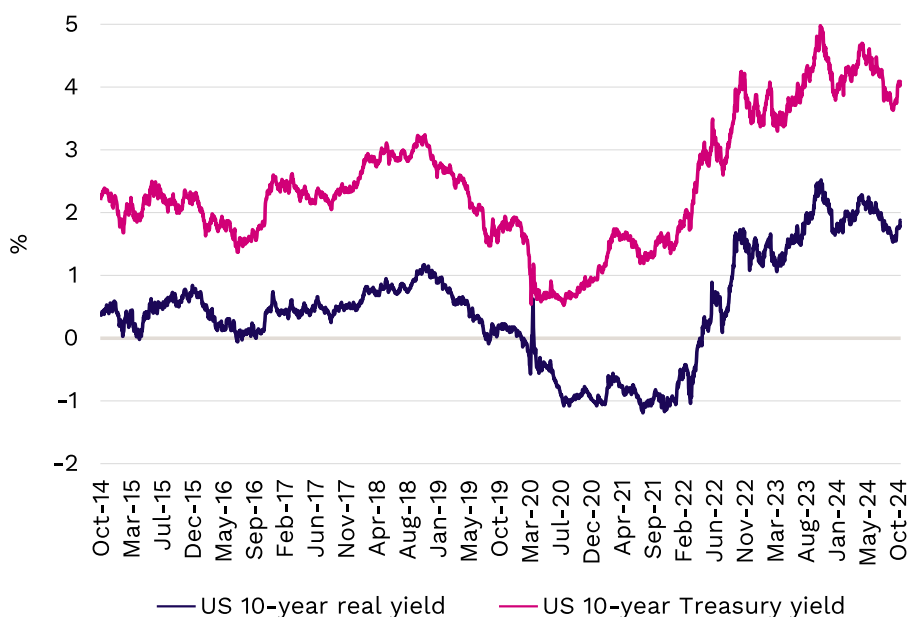
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In 2024, the global recessionary risks that the market was concerned about did not materialize. A recession did not occur (at least so far) and is unlikely as we reach the end of the year. Private households and businesses have withstood a year of elevated interest rates and remain on a relatively firm footing. And a new cycle of rate cuts has started now that inflation appears back under control. The Federal Reserve’s (Fed’s) first cut in 2024 – a cut of 50 basis points (bps) in September – occurred despite the continued strength of the US economy. The European Central Bank lowered its three key interest rates by 25bps in October 2024, as expected, following similar moves in September and June.

From May 2024 US bond yields were on a downward trend, but positive economic news pushed them back upwards, with 10-year US Treasury yields climbing in October (Fig. 1.1). Real yields remain in positive territory, hovering at around 2% for the past year, leaving room for further interest rate cuts in the coming months.

Fig. 1.1: Interest rates are coming off their peak

10-year US Treasury yields and real interest rate



Source: FRED

Private underperforms public equity in 2024, but lower valuations create upside

Through 2024, as developed economies remained resilient, risk assets performed well. Global equities rose 16%¹ year to date on a total return basis to the end of October. A large component of that comes from large and predominantly US technology stocks (26% total return for the MSCI World Information Technology ex-UK Index) that the market anticipates being major beneficiaries of the artificial intelligence infrastructure rollout. The rise of the so-called Magnificent Seven US tech stocks² has been striking: they are up 35% year to date as of end of October as an aggregate.³ The equity performance of these large companies continues to attract investors, including those who might have invested elsewhere in public or private equities.

Other factors also come into play, including the improved ease of private equity to raise capital, the onerous and costly requirements for public listing, and the relatively short-term focus of public market investors and sell-side analysts.

¹ MSCI ACWI Index: <https://www.msci.com/indexes/index/892400>

² Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.

³ S&P Capital IQ.

All these factors combined likely explain the slow performance of recent initial public offerings (IPOs), why companies – including private equity-owned ones – are hesitant to pursue IPOs, and why investors are reluctant to back IPOs with their capital. As a result, the overall strong public market performance has not yet translated into increased private equity exits and IPO activity.

For the US market, the Russell 2000, which had a total return of 10% year to date to end of October, is arguably a better comparison to private equity buyout than the S&P500 or MSCI ACWI indices. We do not yet have finalized figures for the performance of private equity buyouts year to date to end of October (this sector had a total return of 2.5% to end of June, according to Preqin Quarterly Index data), but this is likely to be below double-digit numbers.

Private capital overall, and private equity in particular, have had a subdued year so far. In the higher interest rate environment, sponsors have found it challenging to exit at desired valuations as higher rates have weighed on what the market is prepared to pay. Private equity-backed companies are facing higher costs due to the increased cost of financing, which is compounded by the prevalence of floating-rate borrowing. This contrasts with larger publicly listed companies, who typically have longer-term financing through banks and the corporate bond market. Additionally, other private asset classes, such as private debt and infrastructure, have partially diverted some investor capital flows away from private equity. On the flip side, lower valuations provide more favorable entry points for investors.

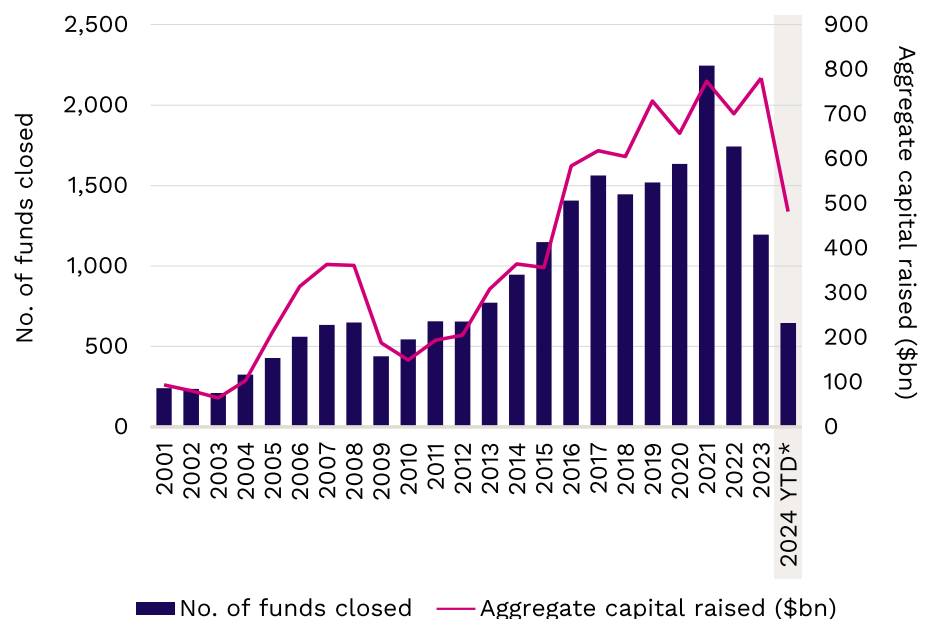
While inflation seems to be under control, downside risks remain. Equity markets are sensitive to geopolitical tensions, which have intensified since the COVID-19 pandemic. The recent rise in bond yields reflects market uncertainty about how far the Fed's rate cuts will go this year but, at the time of writing, the market still prices in a further cut in December.

Fundraising bears the brunt of higher rates and global uncertainty

Global private equity raised less capital during the first three quarters of 2024 compared with the same period in 2023. As funds continue to become larger, a 25.1% drop in the number of funds closed (646) resulted in only an 11.8% drop in aggregate capital raised (\$482bn) (Fig. 1.2). That said, fundraising in the fourth quarter is likely to improve on the funds raised in each of the preceding three quarters this year, as investor confidence in private equity returns grows following the rate cuts in North America and Europe.

Fig. 1.2: Global fundraising has another challenging year

Number of private equity funds closed and aggregate capital raised globally



*YTD to end-Q3 2024

Source: Preqin

It seems unlikely that global fundraising in 2024 will surpass that of 2023 in aggregate, as last year’s figure of \$780.7bn broke the all-time record from 2021.

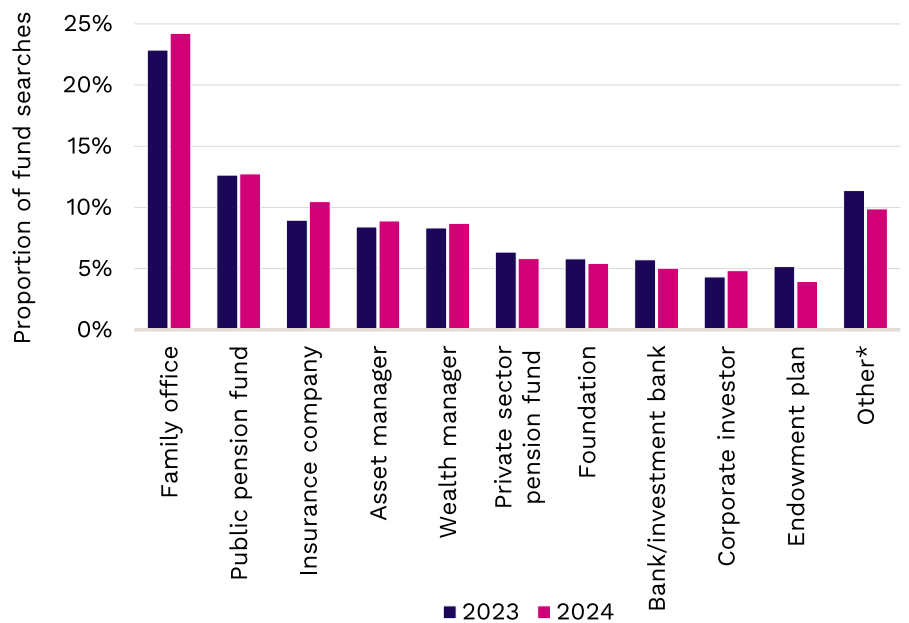
By the end of the third quarter, the industry’s fundraising accounted for 62% of global aggregate funds raised during the full year 2023. Providing fundraising picks up in the fourth quarter, this might be sufficient to meet our full-year expectations highlighted in Future of Alternatives 2029.⁴ In that report, we predicted private equity fundraising would remain stagnant in 2024 and pick up when the interest rate environment stabilizes in a couple of years.

Investor interest remains steady

Fundraising has been supported by increased interest from some investor categories, especially non-institutional investors. The latest fund search data from Preqin suggests that non-institutional investors, including family offices and wealth managers, are increasingly interested in private equity funds, alongside insurance companies and asset managers. The proportion of these investors’ fund searches has increased compared with 12 months ago (Fig. 1.3). Investors in all the categories retained their interest in private equity investing at a similar or slightly lower level between 2023 and 2024. In addition, our investor survey from November 2024 found the vast majority of all types of investors (around two-thirds of respondents) were willing to invest more in private equity in the next 12 months.

Fig. 1.3: Private wealth shows increased interest in private equity

Fund searches by investor type, 2023 vs. 2024



Source: Preqin Pro

*Other includes fund of funds manager, government agency, investment company, investment trust, sovereign wealth fund, and superannuation scheme

North America and Europe take share from APAC in raised funds

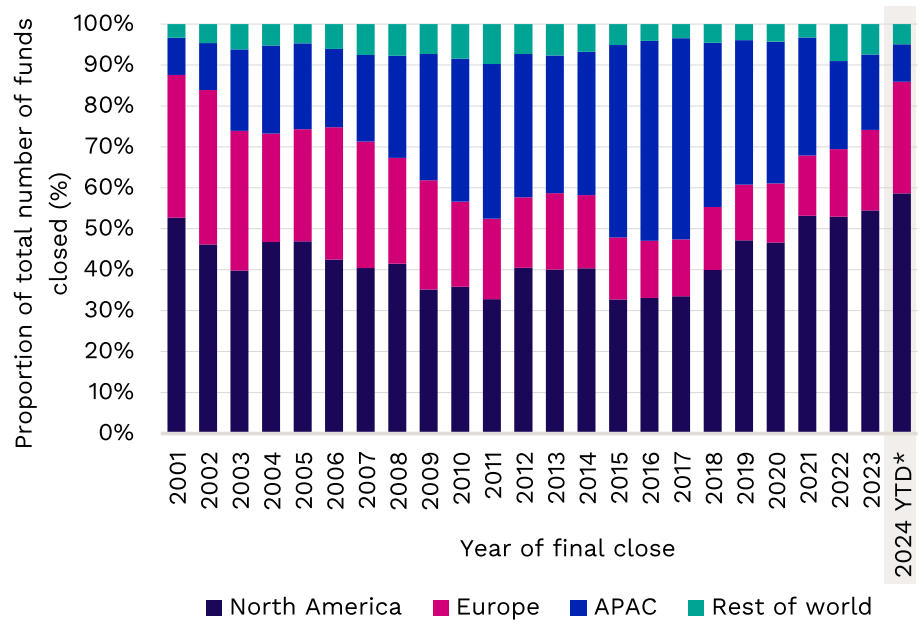
In the APAC region, 2024 year to date fundraising with 59 funds closed points to this year matching the 10-year low in 2004, when 70 funds closed in the full year, and also represents the smallest proportion (9.1% so far) of global fundraising by number of funds since 2001. North America continues to dominate, with almost double the share of Europe (58.7% vs. 27.2% at 2024 year to date (Fig. 1.4). In our view, set out in Future of Alternatives: moving forward in APAC,⁵ we believe that fundraising in the region has bottomed out, although cautious investor sentiment toward China will continue to weigh on overall fundraising.

⁴ <https://preqin.com/insights/research/reports/future-of-alternatives-2029?chapter=private-equity-to-take-a-larger-share-of-alternatives>

⁵ <https://preqin.com/insights/research/research-notes/future-of-alternatives-moving-forward-in-apac>

Fig. 1.4: Europe steals fundraising share from APAC

Aggregate capital raised by private equity funds closed, by primary geographic focus



*YTD to end-Q3 2024

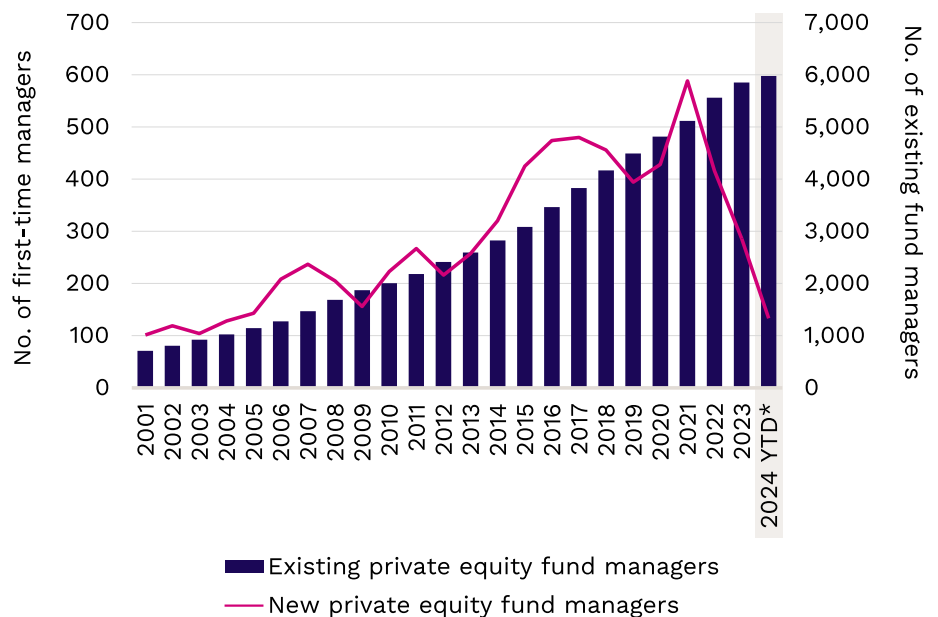
Source: Preqin Pro

First-time fund managers continue to plummet

Over the past three years, the number of first-time fund managers has dropped considerably, to levels close to those in the early 2000s (Fig. 1.5). Investors remain very cautious about who they entrust their capital to, preferring those with solid track records of performance. This risk aversion is to the detriment of new managers. LPs with well-established private market investment programs are much more likely to recycle distributions into the new vintages from existing GP relationships, rather than exploring new ones.

Fig. 1.5: Number of first-time managers plummets

New and existing private equity fund managers



*YTD to end-Q3 2024

Source: Preqin Pro

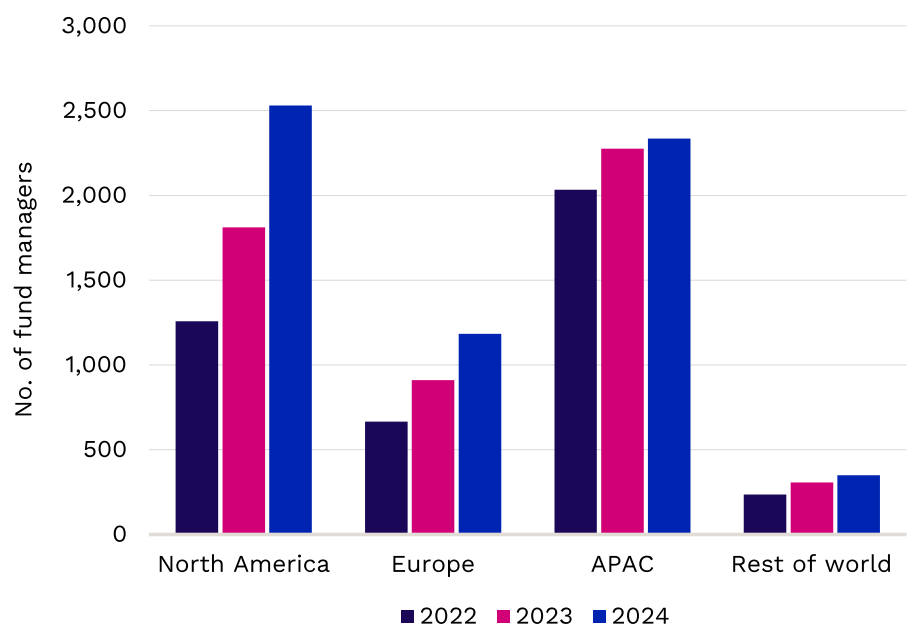
Nevertheless, our view is that first-time managers remain critical to long-term vibrancy and innovation within private equity. A total of 133 new private equity fund managers have ventured into the market so far this year, bringing fresh starts and competition to the industry.

APAC has nearly as many managers as North America

Numerous private equity managers in APAC continue to fiercely compete for investors’ capital, and this is likely to help the region pick up pace from the current lows. According to our 2024 forecast, APAC managers run close to \$720bn (see Fig. 2.2 in the data pack), which is around 11% of global assets under management. As such, survival of the fittest should facilitate fundraising and industry growth in the region. In our view, competition in North America and Europe also remains healthy, as the number of managers increases (Fig. 1.6).

Fig. 1.6: More active fund managers, particularly in North America

Number of managers by region



Source: Preqin Pro

Targeted aggregate capital declines for second consecutive year

After interest rate hikes further increased the challenges of fundraising, it is not surprising to see a record number of funds in the market (FIM), with 4,835 funds raising capital as of September 2024 (Fig. 1.7), the decrease in targeted capital is notable. The number of funds increased by 17% during the first three quarters of 2024, but with a 14% decline in aggregate targeted capital – indicating smaller average fund size targets and reflecting the industry’s fundraising challenges. That said, the current target is close to the last five-year average, pointing to relative stability and robustness within the private equity market.

Private equity managers offer a diverse range of strategies

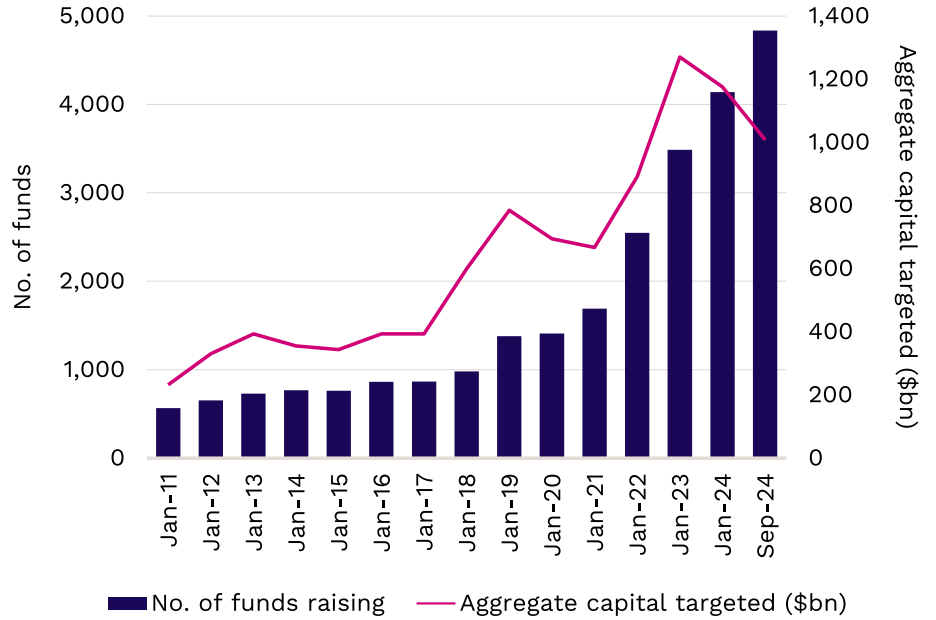
Splitting FIM by type reveals an almost equal distribution among buyout, growth, and fund of funds, as GPs raise capital for these and other strategies (Fig. 1.8). Behind these, the secondaries strategy ranks fourth, driven by investor demand and GPs willing to sell some of their primary investment. The number of secondaries FIM is 170 as of 2024 year to date – a 22% increase from the full year 2023.

Secondaries strategies have gained in popularity. Our investor survey in November 2024 shows that half of responding LPs continue to believe this strategy presents the best opportunities in the next 12 months over other private equity strategies. However, small- to mid-market buyouts were favored even more, with 62% of respondents

considering it the winning strategy for the year ahead. In the 'Investors bullish on secondaries' chapter, we also discuss how the second layer of fees in secondaries could be worth the benefits of vintage and manager diversification.

Fig. 1.7: Fundraising ambitions shrink as competition increases

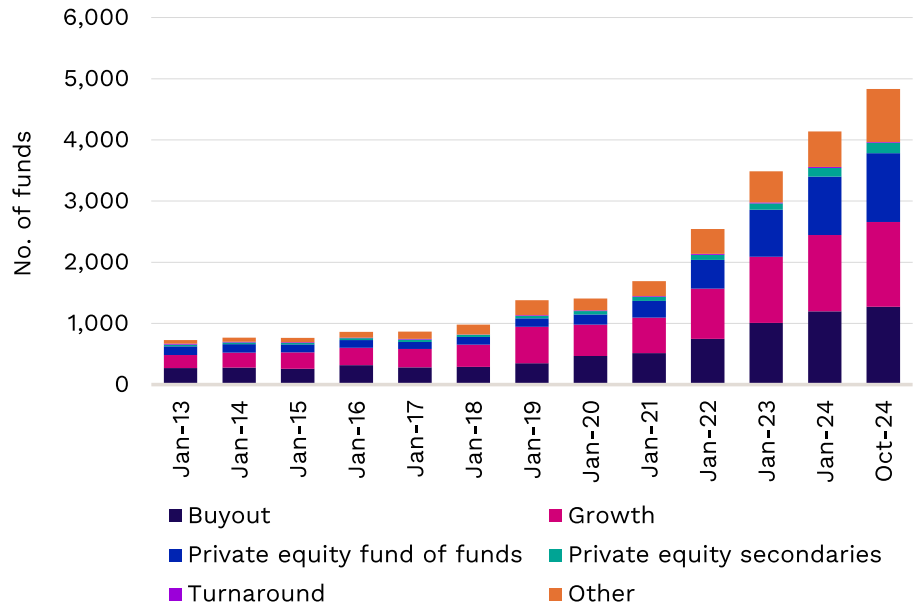
Private equity funds in market and aggregate capital targeted



Source: Preqin Pro

Fig. 1.8: Almost equal proportion of buyout, growth, and fund of funds in market

Private equity funds in market by fund type



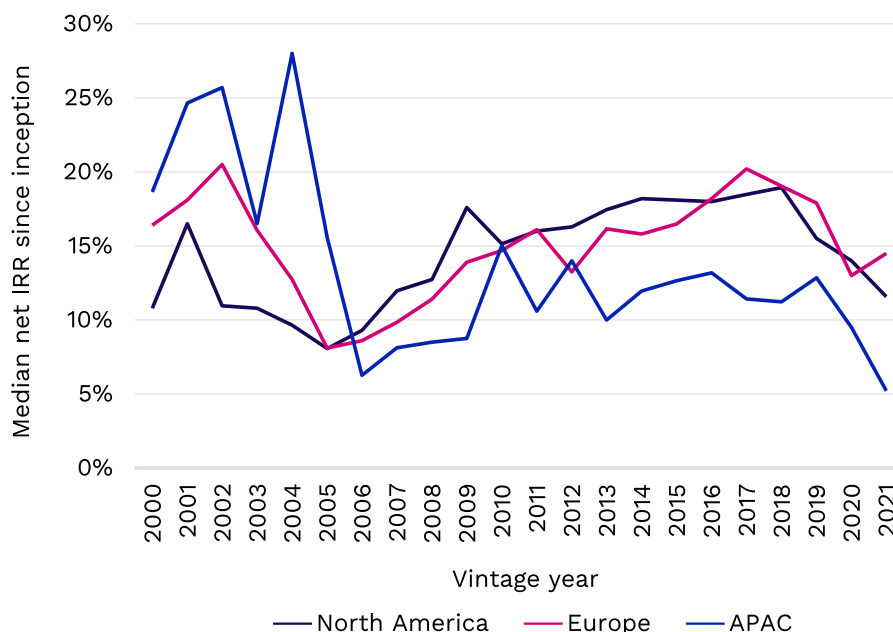
Source: Preqin Pro

Signs of Europe outperformance emerging

As discussed in our Alternatives in Europe 2024 report,⁶ deal-level performance data shows signs of outperformance by buyouts in Europe from 2021 to 2023. This is linked to lower entry valuations in Europe, which may be largely explained by lower growth rates in corporate revenues and profits of European companies compared with their North American counterparts. Fig. 1.9 shows that this performance translates from deal-level activity into median net internal rates of return (IRR), with Europe’s 2021 IRR of 14.5% significantly exceeding the North America IRR of 11.6%. Our use of median IRRs here differs from our forecasting methodology later in this report, which uses weighted average IRRs over separate time intervals. Weighted average IRRs tend to skew toward larger funds, therefore favoring North America over Europe.

Fig. 1.9: Europe outperforms in five of the past six years

Private equity: median net IRRs by primary geographic focus and vintage year*



Source: Preqin Pro. Most up-to-date data

*Custom benchmark using strategies including balanced, buyout, co-investment multi-manager, co-investment, direct secondaries, growth, turnaround, fund of funds, and secondaries. Primary region focus, tagged geographic focus

Deal-making could still match or exceed 2023 levels

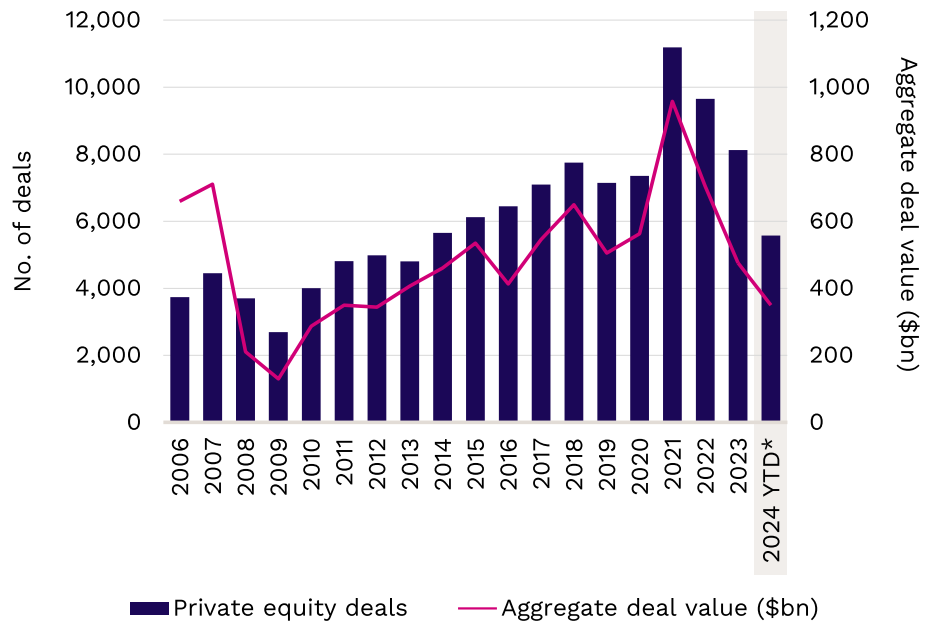
Although private equity deal-making failed to pick up in the third quarter of 2024, this was not as bad as was feared. Deal-making could still match or exceed the levels achieved in 2023. So far this year, deal-making has achieved 69% and 74% of 2023 volume and value of deals, respectively. However, the 5,571 and \$350bn in volume and value of deals over the first three quarters of 2024 are far from the last five-year averages of 8,378 and \$610bn (Fig. 1.10). We note that these five-year averages were skewed by the hyperactivity of post-COVID-19 deals in 2021, which continued into the first half of 2022 (see the ‘Deal-flow evolution’ chapter). Aside from these two years, and with interest rates gradually adjusted downward from their 2023 peaks, the private equity industry appears to be stabilizing around the activity levels observed in the years prior to 2021.

The mismatch in valuations for corporate buyers and sellers has been the major obstacle to more deals in the past couple of years. This should gradually subside as assets are revalued at lower discount rates, given that interest rates should trend downwards from the levels at the end of 2024’s third quarter.

⁶ <https://preqin.com/insights/research/reports/alternatives-in-europe-2024>

Fig. 1.10: 2024 full year deal volume may still reach 2023 level

Total private equity deal volume and value



*YTD to end-Q3 2024

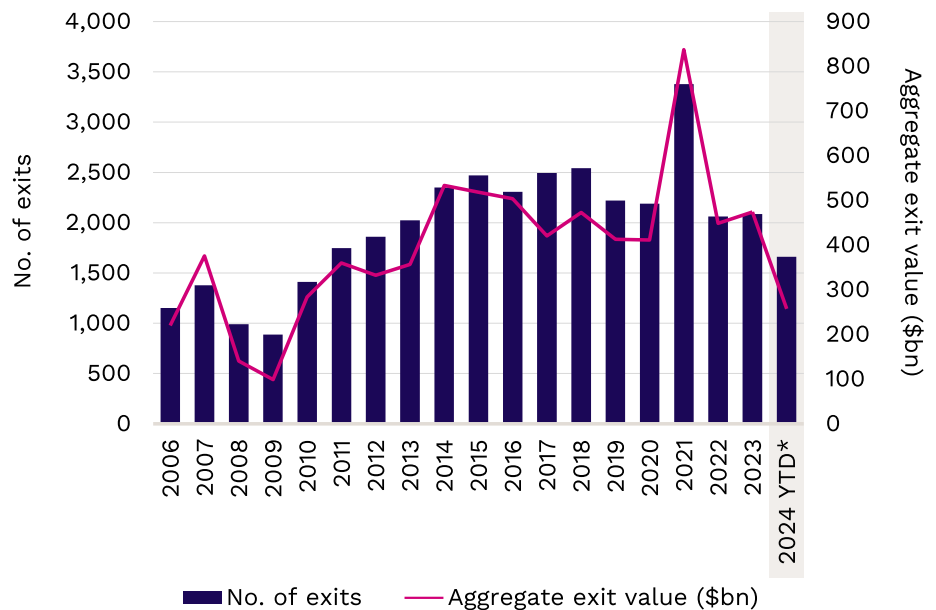
Source: Preqin Pro

Average exit value size is smaller than 2023

Exits that are smaller in size, compared with historical annual averages, have so far prevailed in 2024. Up to the third quarter, total exits had reached 80% of the 2023 total volumes but only 54% of the 2023 aggregate value (Fig. 1.11). This indicates GPs have been more successful with smaller exits, as they are typically easier to execute than larger ones.

Fig. 1.11: Value of private equity exits drops in 2024

Annual global private equity-backed exits



*YTD to end-Q3 2024

Source: Preqin Pro

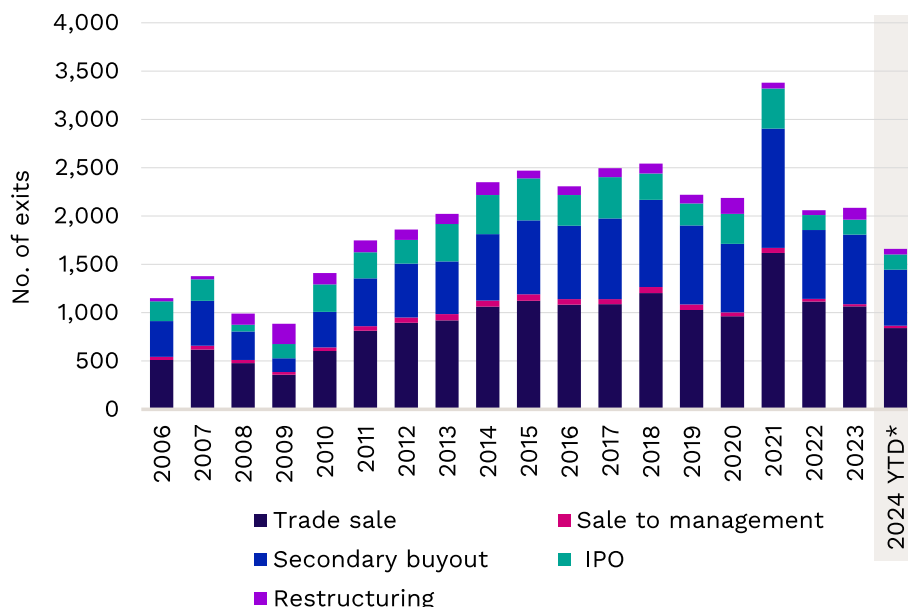
Larger deals and exits rely more on multiple expansion, which can be challenging during a rate-hiking cycle and when interest rates still remain elevated relative to the past decade. Both larger deals and exits may struggle under these conditions, particularly as GPs aim for profit levels they consider fair. Often, exit valuations for assets acquired at higher values do not meet sellers' expectations compared with smaller (and typically lower-valued) acquisitions. This can lead to postponed exits until a satisfactory valuation is achieved.

The worst of this exit cycle might be over

The last time IPOs represented as low a share of total exits as they did this year to the end of the third quarter was during the 2008 credit crunch. However, it is possible that the bottom was reached last year and the situation is now improving. So far this year, 156 exits through the IPO channel have matched the total number for 2023 (Fig. 1.12). The number of IPO exits accounted for 9% of all exits by the end of the third quarter, up from 7% in 2023.

Fig. 1.12: IPOs might end the year better, while restructuring is down

Annual number of private equity-backed exits by type



*YTD to end-Q3 2024

Source: Preqin Pro

Trade sales and secondary buyouts have behaved normally this year, shrinking proportionally to each other as high interest rates impacted the exit environment. The 58 restructurings, less than half of those in 2023, also suggest the worst of this exit cycle might be over.

We believe the start of an easing cycle in Europe and the US, accelerated by the Fed's interest rate cut in September, will have a positive impact on private equity valuations, including those on the exit side. This should increase the number of deals and exits going forward, particularly if further rate cuts from the Fed come this year and next.

Correction: In the section 'North America and Europe take share from APAC in raised funds', a correction was made on January 20 to indicate APAC fundraising was based on number of funds, rather than capital raised.

From challenges to strategies: GPs navigating market shifts and LP expectations

Technology can help solve some of the challenges GPs face as they adapt to market changes and meet evolving LP demands

What will the macroeconomic environment look like in 2025?

Nicholas Brooks, Head of Economics and Investment Research, ICG:

With inflation finally starting to near central banks' targets, interest-rate-cutting cycles have begun, which should support households, companies, and deal flow in 2025. If this macro environment holds, we believe the overall investing environment will remain constructive.

Despite these positives, geopolitical risk remains high, with the Middle East and the recent US presidential election in focus. The lagged impact of high interest rates is still feeding through segments of the market, and for some companies, the wounds from the pandemic and energy price crisis have not yet fully healed. Therefore, while we think system-level risks are quite low, we think idiosyncratic risks remain higher than normal.¹

Karine Litou, Deputy Head of Private Capital, Securities Services, BNP Paribas:

Despite the risks, the rationale for investing in private markets remains strong. LPs have increased their allocations to private capital markets in recent years to diversify their portfolios and seek long-term, stable returns. Managers are keen to raise capital from this growing pool of investors, but operating in this environment can be challenging. Investors are cautious, and they're in search of assets that offer the right risk-return profile. Managers need to cater to these shifting expectations.

Some are offering a flexible, multi-asset-class strategy that allows managers to pivot to in-demand asset classes such as private debt and infrastructure. The returning cashflows and stable revenues of private debt and infrastructure debt can act as a natural inflation hedge and offer stability against economic fluctuations.

Along with sustained investment performance, managers need to deliver transparent and responsive services to clients and comply with evolving regulatory obligations. As investors demand a more bespoke service, fund structures are becoming more complex, increasing the operational challenge. Asset servicers such as BNP Paribas can help GPs manage this complexity.



Karine Litou

Deputy Head of Private Capital and Global Head of Product & Solution for Private Capital, Securities Services, BNP Paribas



Nicholas Brooks

Head of Economic and Investment Research, Intermediate Capital Group

How have the current market conditions influenced the needs of LPs in private capital markets?

Karine: With the current economic landscape, LPs are placing a stronger emphasis on liquidity. They are seeking ways to access it, such as through the secondaries market, allowing them to manage their cash-flow needs more effectively and diversify their investments.

They are also increasingly asking for greater clarity from GPs on distribution to paid-in (DPI) metrics. DPI is a crucial indicator of a GP's ability to return capital efficiently, and in these uncertain times, LPs want assurance that their investments will yield timely returns.

For GPs, this means they must place stronger emphasis on liquidity and adapt their strategies and fund structures to meet these evolving demands. They must navigate the complexities of providing liquidity solutions and transparent reporting, while continuing to pursue long-term investment strategies that align with the investors' goals.

What challenges do GPs face in adapting to these new expectations?

Karine: GPs must now navigate a broader range of investor profiles and expectations. Many funds cater to a diverse group of investors, from institutional investors who can commit significant amounts, to smaller retail investors with lower ticket sizes. This diversification requires GPs to significantly enhance their operational capabilities to manage varying demands.

¹ <https://www.icgam.com/2024/10/12/the-easing-cycle-begins/>

Another key challenge is the extended timelines within an investment cycle as a result of the market environment and cautious investor sentiment. GPs are taking longer to invest in target companies and subsequently exit those investments. The extended timeframes for investments and exits put pressure on them to provide liquidity and distributions to their investors.

Fundraising has also become a longer process, sometimes taking up to two years.

As more individual investors enter the private capital space, traditional asset managers that previously focused on public markets are now expanding into private capital to offer these opportunities to their clients. This shift to private capital may present new challenges around managing subscriptions, redemptions, capital calls, drawdowns, valuations, P&L allocations, performance calculations, and reporting – and may require specialist solutions.² For instance, hybrid funds offering access to private markets with partial liquidity windows are one increasingly popular approach

GPs have also had to become more flexible, shifting toward bespoke solutions that meet investors' evolving needs. As a result, fund structures are becoming more complex. GPs have to incorporate different master-feeder arrangements, multiple currencies, segregated management accounts, parallel vehicles, and co-investment vehicles to meet the diverse needs of investors and ensure efficient operations.

This proliferation of fund structures has led to a greater need for consolidated reporting and transparency as LPs seek a holistic view of their investments across the various

vehicles. GPs must now provide consolidated capital account statements that encompass all vehicles involved, which can be a huge operational challenge.

What strategies should GPs implement to address these challenges?

Karine: Effective collaboration with asset-servicing partners can help GPs navigate the evolving landscape and meet the growing expectations of LPs. By leveraging technology, asset servicers can help scale their clients' operations, enhance their data security, and manage their client reporting. Technology is key. GPs need to have a single, integrated technology solution that can manage the increasing complexity of fund structures. This allows them to consolidate data, automate processes, and produce comprehensive investor reports – such as capital call and distribution notices and capital account statements – across multiple investment vehicles.

Utilizing a digital portal like CapLink Private by BNP Paribas could give GPs secure and real-time access to data, as well as streamlined workflows for validating information and interacting with the asset servicer that can enhance efficiency, transparency, and control for the GPs.

Outsourcing some of the functions such as accounting, fund registry monitoring, and investor reporting to the asset servicer can help GPs cope with the complexities of fund structures and the specific requirements of running private capital funds. It can also alleviate the operational burden on internal teams, while allowing GPs to focus on strategic decision-making and generate value for their investors.

² <https://securities.cib.bnpparibas/powering-private-markets-growth-why-gps-cant-do-it-alone/>

Karine Litou brings over 20 years of experience in the private capital industry. She joined BNP Paribas' Securities Services business in April 2018 and currently she serves as Deputy Head of Private Capital and Global Head of Product & Solution for Private Capital.

Previously, she was the Global Head of Private Equity, Real Estate and Securitization at CACEIS. Karine had 13 years of experience at Ardian (formerly AXA Private Equity) where her last position was Global Chief Financial Officer, responsible for management company group finance and fund financial control of Ardian Funds. She joined AXA Private Equity in 2002 as Senior Financial Officer in the Venture Front Office Team, followed by role as the Head of Middle Office.

→ **Private equity:**

Preqin's forecasts through 2029

The asset class looks set to take a larger share of alternatives over the next six years, but performance in North America and Europe will soften



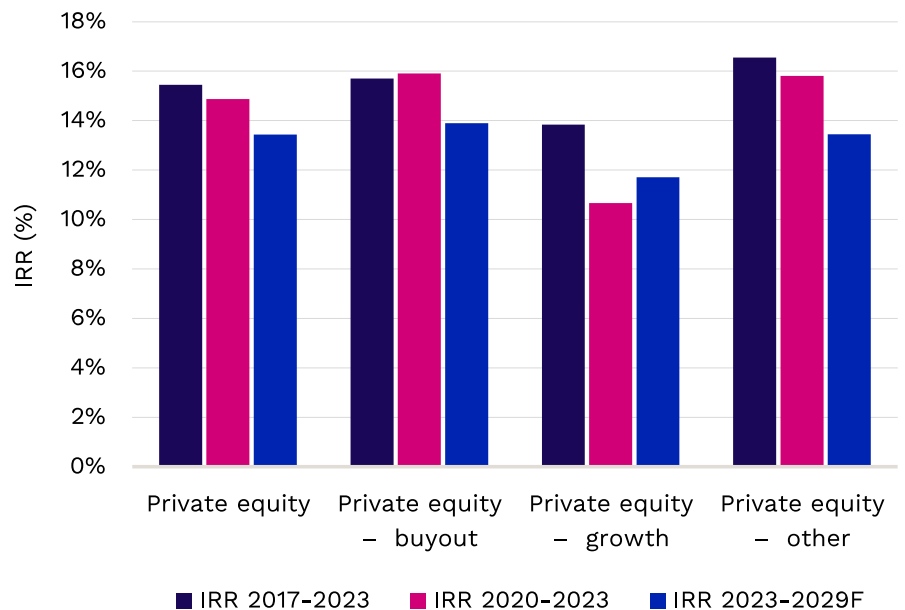


Victoria Chernykh, MBA
 AVP, Private Equity
victoria.chernykh@preqin.com

We expect private equity to continue to grow, albeit at a slower pace. Our forecast includes lower returns across most presented private equity strategies and regions (APAC being an exception) over the period end-2023 to 2029F, compared with the previous six years. To a large extent, this is due to higher interest rates increasing the cost of capital for GPs. Internal rate of return (IRR) from the largest two strategies, buyout and growth, is expected to decline to 13.9% and 11.7%, respectively, from 15.7% and 13.8% in 2017–2023 (Fig. 2.1).

Fig. 2.1: IRRs for buyout and growth expected to decline

Private equity historical and forecast performance*



Source: Preqin

*When we calculate performance we exclude funds denominated in yuan renminbi
 Values relate to end of year
 To avoid double-counting we exclude secondaries and funds of funds from all the remaining aggregates

We also expect deal activity to accelerate from 2027 and fundraising growth to improve from that point. This will be supported by increasing interest from non-institutional investors, such as family offices, wealth managers, private banks, and individual investors, who currently have relatively low exposure to private equity. The asset class is attracting these investors due to its diversification characteristics, lower correlation with public markets, and lower returns volatility.¹

Our forecast suggests that, amid industry growth, the proportions of assets under management (AUM) between private equity strategies will remain fairly stable at or close to their current levels during end-2023 to 2029F, with a slight shift toward buyout from growth and fund of funds.

Private equity AUM to double by 2029

AUM is projected to more than double, reaching \$11.97tn by 2029F, growing at a compound annual growth rate (CAGR) of 12.8% from the current \$5.80tn at the end of 2023. This will maintain private equity’s position as the largest private capital asset class. Additionally, our model suggests private equity’s share within global private capital AUM will increase from 35% at the end of 2023 to 41% in 2029F.

The growth of private equity is driven by companies in the real economy: the greater number of private companies compared with public ones and the ongoing slowdown in IPOs indicate that private markets will continue to gain ground on public markets through faster growth in the coming years, following the trend of the past decade (see ‘The shifting landscape of equity markets’ chapter).

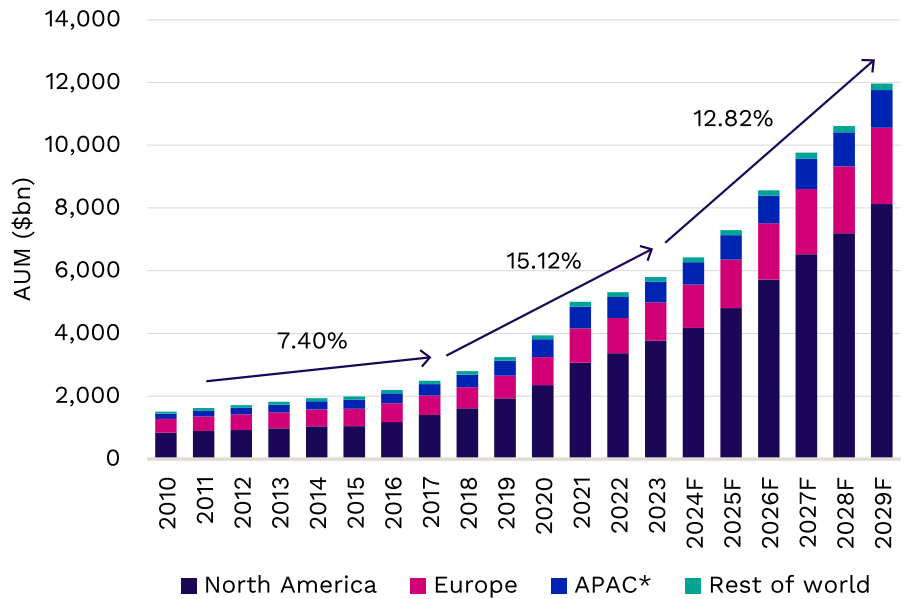
1 <https://preqin.com/insights/research/reports/preqins-state-of-the-market-h1-2024>

During the forecast period we expect North America to remain the dominant private equity market, with a 68% share of global AUM by region in 2029. Europe and APAC are expected to account for around 20% and 10% shares by 2029F, respectively.

Regarding strategies, the buyout strategy is expected to be the largest and to increase to 70% of AUM by the end of 2029F, up from 67% at the end of 2023 (Fig. 2.2). Buyout is also forecast to grow at a CAGR of 13.6% between 2023 and 2029F (Fig. 2.3). As deals and funds become larger, buyout will be the key strategy to

Fig. 2.2: Private equity to reach \$12tn by 2029

Private equity AUM by primary region focus

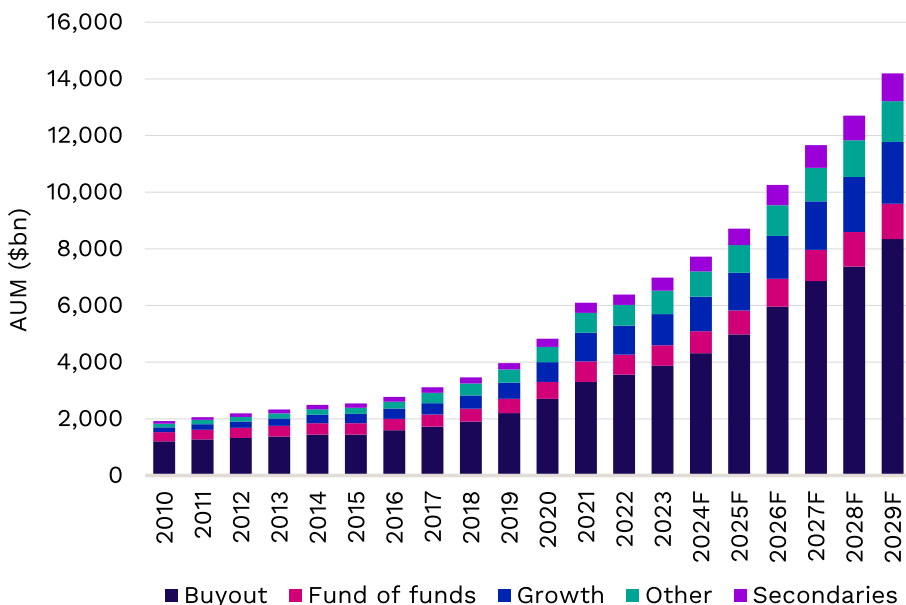


*AUM figures exclude funds denominated in yuan renminbi
 Values relate to end of year
 To avoid double-counting, totals exclude secondaries and funds of funds

Source: Preqin

Fig. 2.3: Buyout is projected to expand further and remain the largest strategy

Global private equity AUM by sub-strategy*



*AUM figures exclude funds denominated in yuan renminbi
 Values relate to end of year
 To avoid double-counting, totals exclude secondaries and funds of funds

Source: Preqin

benefit due to its high proportion of large and mega deals compared with other private equity strategies. This growth will come at the expense of fund of funds and growth strategies.

Although exits remain the main challenge in the industry – as highlighted by our June 2024 investor survey² in which around 80% of investors expressed concern – the industry is adapting to the new investment environment. At the same time, the market consensus is for interest rates to continue decreasing in the US, Europe, and the UK. Lower rates should facilitate the healthy growth of the buyout strategy in the coming years.

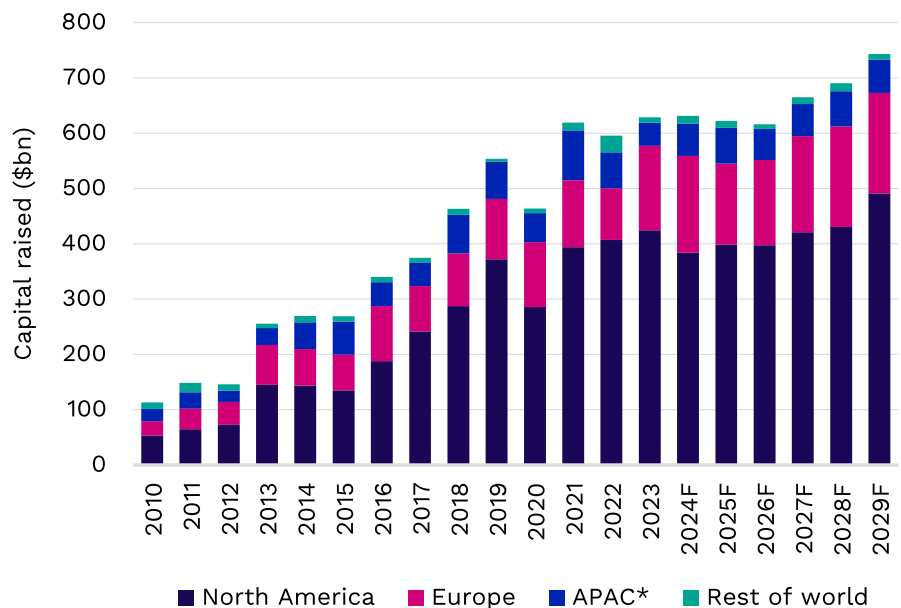
As the private equity market continues to expand, we anticipate the growth of AUM to outstrip the growth of dry powder. As the interest rate environment stabilizes due to rate cuts, GPs are likely to target and invest in more companies globally, resulting in a decrease in the share of dry powder from 25% at the end of 2023 to 23% at the end of 2029F.

Fundraising mixed ahead of expected revival

Private equity raised more capital in the challenging environment of 2023 than in the previous year. Global private equity raised \$629bn (Fig. 2.4), accounting for 53% of all global private capital fundraising, up 5.5%. In contrast, global private capital fundraising was down 16% from 2022, reaching \$1.18tn.

Fig. 2.4: Fundraising may start to recover from 2027

Private equity historical and forecast fundraising by region



*Capital raised figures exclude funds denominated in yuan renminbi
 Values relate to end of year
 To avoid double-counting, totals exclude secondaries and funds of funds

Source: Preqin

Global fundraising for private equity is expected to remain stagnant at \$631bn in 2024F. We forecast that North America fundraising will be impacted this year by investors in 2023 turning more toward rallying public equities and away from private North American equities due to their lowered return expectations. Global private equity fundraising is forecast to significantly pick up between 2027F and 2029F, after a slight decline in 2025F and 2026F, resulting in an overall CAGR of 2.8% between the end of 2023 and 2029F.

² <https://preqin.com/insights/research/investor-outlooks/investor-outlook-h2-2024>

Despite the forecast drop in North America fundraising in 2024F, the region is expected to remain dominant, with over 60% share of fundraising in the forecast period. Europe’s share is expected to be around 26%. We do not anticipate any major strategic shifts that would significantly tip the balance of the industry toward Europe in the period to 2029F.

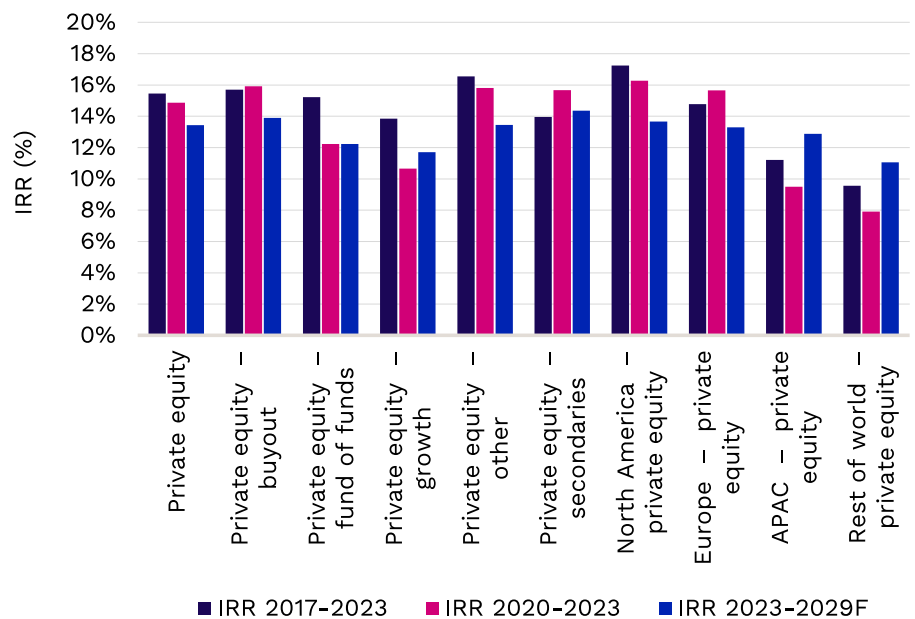
APAC fundraising is forecast to pick up at an average of 6.3% CAGR between 2023 and 2029F, recovering from the -0.4% average between 2017 and 2023, as the anticipated challenges in bringing capital into China – the largest APAC market – abate.

Performance of most strategies hit by higher rates

We expect higher interest rates to negatively affect the performance of most private equity strategies covered by our forecast. Global private equity is projected to have a lower return on investment of 13.4% over the period end-2023 to 2029F, compared with 15.5% from 2017 to 2023 (Fig. 2.5).

Fig. 2.5: IRRs for buyout and growth expected to decline

Private equity historical and forecast performance*



Source: Preqin

*When we calculate performance we exclude funds denominated in yuan renminbi
 Values relate to end of year
 To avoid double-counting we exclude secondaries and funds of funds from all the remaining aggregates

Regional returns in Europe and North America are expected to decrease and remain lower in 2023–2029F than in the previous six-year period (Fig. 2.6). In APAC, we anticipate a significant recovery in returns from growth and fund of funds strategies, which are currently experiencing a downturn (Fig. 2.7). But the economic slowdown in China will likely weigh on the region’s overall performance.

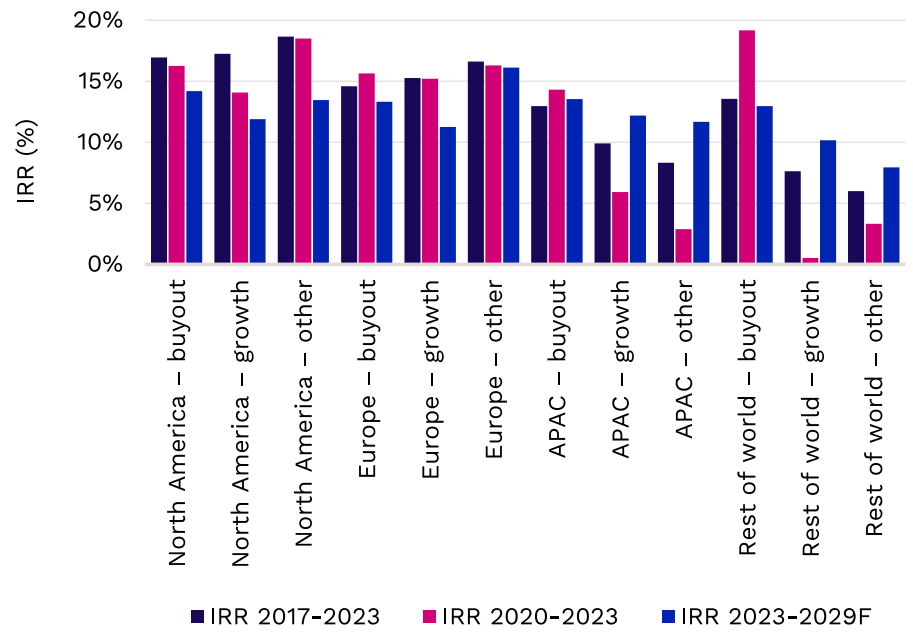
Secondaries market to remain stable

As the secondaries market has grown and matured over the past decade, its share of AUM, currently at 8%, is expected to remain stable over the forecast period. Our transaction data currently indicates more secondary transaction interest concentrating in Europe is likely to lead to higher prices in this region, depressing its performance relative to North America.

We forecast an IRR of 12.3% from Europe secondaries, which is lower than the 15.0% from North America from end-2023 to 2029F, in line with the trend of historical returns for secondaries between the two regions.

Fig. 2.6: General softening of returns in Europe and North America

Private equity historical and forecast performance by region and strategy*

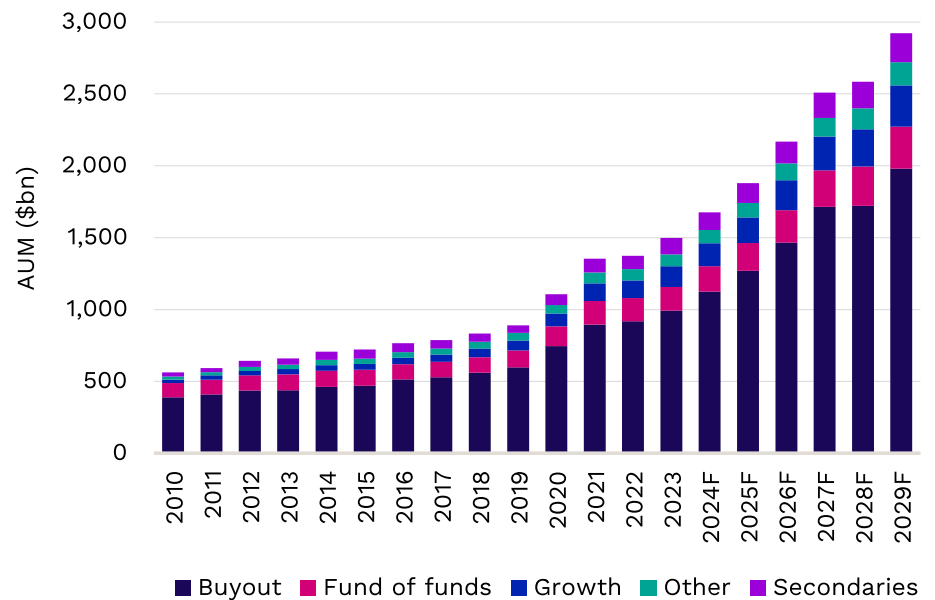


Source: Preqin

*When we calculate performance we exclude funds denominated in yuan renminbi
Values relate to end of year

Fig. 2.7: Recovery in APAC growth strategy and fund of funds

APAC-focused private equity AUM by sub-strategy*



Source: Preqin

*AUM figures exclude funds denominated in yuan renminbi
Values relate to end of year
To avoid double-counting, totals exclude secondaries and funds of funds

Is your private markets back office 'retail-investor ready'?

Technological advancements and regulatory updates are driving retail participation in alternatives, which leads to new capital pools but also operational complexities for asset managers

'We are now being presented with a market that is at least as large as the entirety of our industry.'¹ Speaking at its recent Investor Day, Apollo Management's CEO Marc Rowan reflected on the firm's ambitious plans to expand beyond institutional investors and welcome a diverse pool of retail investors into its funds.

By engaging investors like high-end retail and family offices, firms like Apollo stand to gain huge benefits – not only attracting fresh capital, but also acquiring diversified perspectives and new ways of thinking to encourage market resilience.

The growth of private wealth fundraising

Private wealth fundraising is expected to become a significant source of capital in private markets. Individual investors hold roughly 50% of the estimated \$275–295tn in global assets under management (AUM),² but only 16% of AUM³ in alternative investment funds. According to Bain & Company analysis based on data from Preqin, institutional capital in alternative investments is projected to grow by 8% annually over the next decade. Individual wealth investments in alternatives are expected to rise even faster at 12% annually, supporting a 9% annual growth in AUM through 2032.⁴ Thus, asset managers are increasingly turning their attention to wealthy individuals. Larger GPs are also improving their distribution channels to better cater to private wealth investors.

Factors catalyzing the rise in demand for retail funds

Technological leaps and bounds

New technologies are vital for democratizing private markets. Platforms such as Moonfare, Marketplace Airfund, and iCapital are disrupting the market by enabling crowdfunding and investment decisions via a few clicks on a smartphone. They offer individual investors a gateway into private equity through access to private company shares – allowing them to engage often well before companies go public. They also allow for better liquidity.



Justin Partington

Global Head of Fund and Asset Managers,
IQ-EQ

The regulatory game changers

As technological innovations continue to transform the investment landscape, regulators are responding by drafting new legislation to ensure regulations keep pace. For instance, the new European Long-Term Investment Fund (ELTIF) 2.0 framework could prove to be a game changer for both retail investors and the alternative investments asset class. It will lower barriers to entry, offering easier access to private markets with lower minimum investments. The impact of this regulatory change has led to AIMA forecasting that ELTIFs will attract €100bn in flows by 2028.⁵

Rise of the secondary market

Another key vehicle for retail engagement in private markets is the rise of the secondary market. Increased liquidity in this market is making it easier for private wealth investors to participate, providing an alternative to the long lock-up periods typically associated with private equity. The secondary market offers the ability to mitigate the J-curve and smooth capital calls, alongside better portfolio visibility and a lower risk and return profile.

Operational considerations for retail participation in private markets

Digital experience expectations and transparency

Retail investors have high expectations for a seamless digital experience and on-demand oversight over their data, so real-time reporting functions are critical. Fund managers should revamp the onboarding process to reduce friction, minimize documentation, and enhance the overall experience. Continuous digital engagement via investor portals ensures retail investors have easy access to updates and support.

¹ <https://ir.apollo.com/news-events/presentations>

² <https://www.bain.com/insights/why-private-equity-is-targeting-individual-investors-global-private-equity-report-2023/>

³ [https://www.bain.com/insights/why-private-equity-is-targeting-individual-investors-global-private-equity-report-2023/#:~:text=The%20opportunity%20can%20be%20captured,funds%20\(see%20Figure%201\).](https://www.bain.com/insights/why-private-equity-is-targeting-individual-investors-global-private-equity-report-2023/#:~:text=The%20opportunity%20can%20be%20captured,funds%20(see%20Figure%201).)

⁴ <https://www.bain.com/insights/why-private-equity-is-targeting-individual-investors-global-private-equity-report-2023/>

⁵ <https://www.aima.org/article/elftif-2-0-reforms-set-to-drive-significant-growth-in-european-private-markets.html>

Asset managers should look to implement advanced data platforms that support natural language processing (NLP) query tools, empowering investors to generate their own reports and insights using intuitive queries. Integration with business intelligence (BI) tools, such as Tableau or Power BI, also enables real-time analytics and data visualizations. Asset managers must adapt reporting practices to move beyond traditional reporting cycles to offer more frequent and transparent communication. Hence, scalable data management strategies are increasingly necessary.

Investor relations functionality

A critical first step to reach retail investors is building a robust investor relations function to manage efficient communication and deliver timely, personalized updates. Managers should establish clear processes for handling frequent valuations – especially for daily or near-daily updates. Opting for a service provider that supports daily net asset value (NAV) calculations can help maintain this transparency and investor trust.

In addition, a modern data platform is critical to managing data, including collection, aggregation, and exchange, which simplifies the reporting process for clients. IQ-EQ's data platform, powered by Snowflake, ensures more efficient data handling and strengthens the overall investor experience.

Protecting against money-laundering risks is also essential to the business's bottom line and reputation. Incorporating digital anti-money laundering (AML)/Know Your Customer (KYC) collection and workflow tools is critical to streamlining verification and regulatory checks.

Systems integration and management

Retail investors may require a high volume of subscriptions and redemptions. It is crucial to integrate private market systems for asset-level transactions and special-purpose vehicles seamlessly, and then separately with transfer agency functions via a specialist application for high-volume and open-ended funds. Working with service providers that offer comprehensive system support can help reduce costs and operational complexity.

Automation and operational efficiency

Automation can play a pivotal role in scaling operations for retail participation. Implementing robotic process automation can automate aspects of onboarding, AML/KYC processes, and routine reporting tasks, helping to improve speed, accuracy, and efficiency. Yet systems and processes must also be developed with scalability in mind, capable of transitioning from servicing a few institutional clients to managing thousands of individual investors – without compromising efficiency and security.

Liquidity management

Asset managers must manage liquidity mismatches between retail investors' redemption needs and the illiquid nature of underlying assets. Strategies to align these mismatches include creating cash and money market pools and implementing lockup periods and/or redemption gates to ensure smooth operations during periods of market dislocation or higher investor liquidity demands.

Legal structuring

Engaging legal experts to design funds in line with regulatory frameworks, such as ELTIFs and listed vehicles, is critical to ensure compliance while offering investor protections. Tailored, transparent fund structures are also increasingly important for retail investors, who may prefer simpler and more accessible vehicles.

GPs are also exploring innovative fund structures – like tokenized funds, retail infrastructure funds, and retail private credit funds – to address some of the challenges faced by smaller investors, such as managing the cash flow of traditional drawdown funds, high minimum investment requirements, and complex tax reporting. Closed-end listed private equity funds offer an alternative by mitigating these issues, yet currently only represent about 1% of the private equity market.

On the other hand, open-ended structures facilitate easier capital inflows and offer greater flexibility for retail investors while balancing liquidity with the nature of underlying assets.⁶ Additionally, subscription line financing is being used in the sector to aggregate capital calls, creating a more predictable and periodic drawdown profile.

Increased regulatory scrutiny

One significant intervention in recent years is the Securities and Exchange Commission's proposed private funds rule, which has faced resistance from the U.S. Courts of Appeals. However, investor associations like the ILPA are still encouraging GPs to conform with some of the reporting measures, particularly the Quarterly Statements rule, through a new industry coalition known as the ILPA Quarterly Reporting Standards Initiative (QRSI).⁷

The influx of HNWIs and family offices will not only broaden the investor base for private markets, but also create a more dynamic, diversified, and resilient ecosystem that can better withstand the challenges and opportunities of the modern global economy. Now is the time for private market investors to ensure that their back office is retail-investor ready.

⁶ <https://www.preqin.com/insights/research/reports/future-of-alternatives-2028>

⁷ <https://ilpa.org/news/decision-on-secs-rules-does-not-slow-progress-on-evolved-reporting-standards/>

Justin Partington, Global Head of Fund and Asset Managers at leading investor services group **IQ-EQ**, is responsible for leading IQ-EQ's global offering for alternative asset managers across all its jurisdictions, encompassing central administration, accounting, AIFM and depositary services, compliance, and other services. He is an expert in the operation, delivery, and marketing of fund and investment administration in the alternative asset space.

→ The shifting landscape of equity markets

Private equity is gaining the critical mass to influence wider capital markets, blurring the lines between public and private in the process



Cameron Joyce, CFA, CAIA
 Global Head of Research Insights
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Equity markets have been undergoing a profound transformation. Traditionally dominated by active public equity managers, equity markets have now shifted in favor of passive investments on the one hand and private equity on the other.

Both institutional and non-institutional investors have been increasingly drawn to passive strategies, such as exchange-traded funds, to secure low-cost, diversified access to public equity and fixed-income markets. The rise of these vehicles has eroded the market share of active public equity managers, especially those who struggle to generate a sufficient level of excess returns to compensate for the operating costs incurred and outperform the benchmark, net of fees.

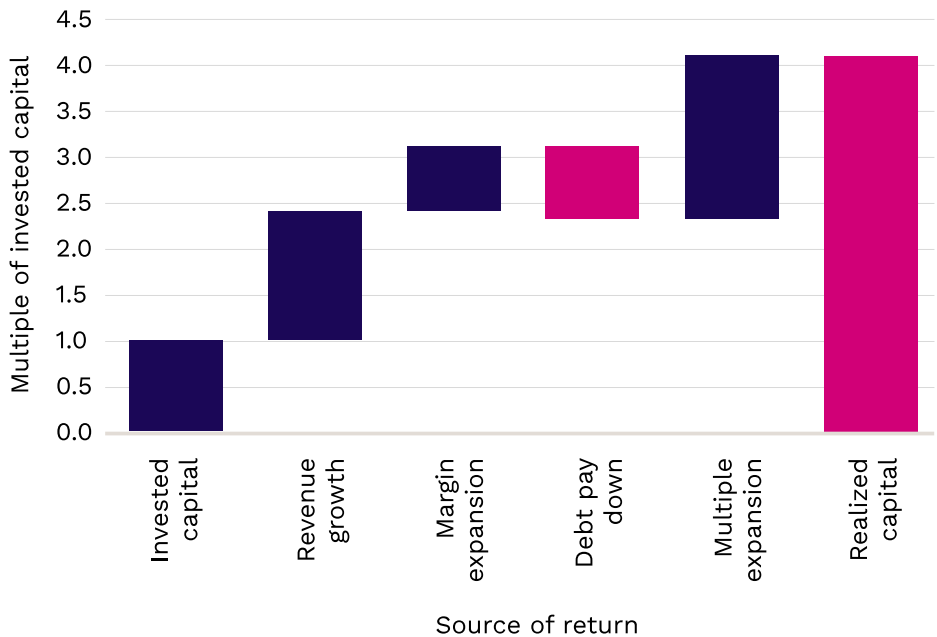
At the same time, private equity has been attracting more institutional LPs aiming to generate excess returns over the longer term. One of the key advantages for private equity fund managers is that the lockup of capital helps managers avoid many of the behavioral pitfalls of public equity investing. The lockup of capital that facilitates a long-term investment horizon allows these funds to align more closely with the goals of long-term institutional investors like pension funds and endowments.

Meanwhile, public equity managers often need to guard against swings in capital flows resulting from near-term changes in market sentiment. By contrast, private equity managers are able to embed operating partners into portfolio holdings to actively engage with management teams. Private equity firms at least have the opportunity to create value, given the higher levels of ownership and/or control, in ways that traditional asset managers cannot.

This dynamic has contributed to the excess returns private equity has generated over public markets, since it allows managers to focus on operational improvements at the company level. The ability to grow returns through operational improvements is becoming an increasingly important source of return generation as the higher interest rate environment erodes the advantage of cheap cost of capital that was driving higher returns in the pre-COVID-19 environment. Low rates were also one of the primary tailwinds that helped drive higher exit multiples and therefore increase the proportion of returns derived through multiple expansion – particularly for larger deals (Fig. 3.1). Private equity allocations are now so widespread among institutional investors that to label the asset class ‘alternative’ increasingly seems a misnomer.

Fig. 3.1: Multiple expansion a key return driver for larger buyout deals in the pre-COVID era

Value creation bridge: global buyout deals with EV greater than \$499m, 2006–2019



Note: Number of constituents: 285

Source: Preqin

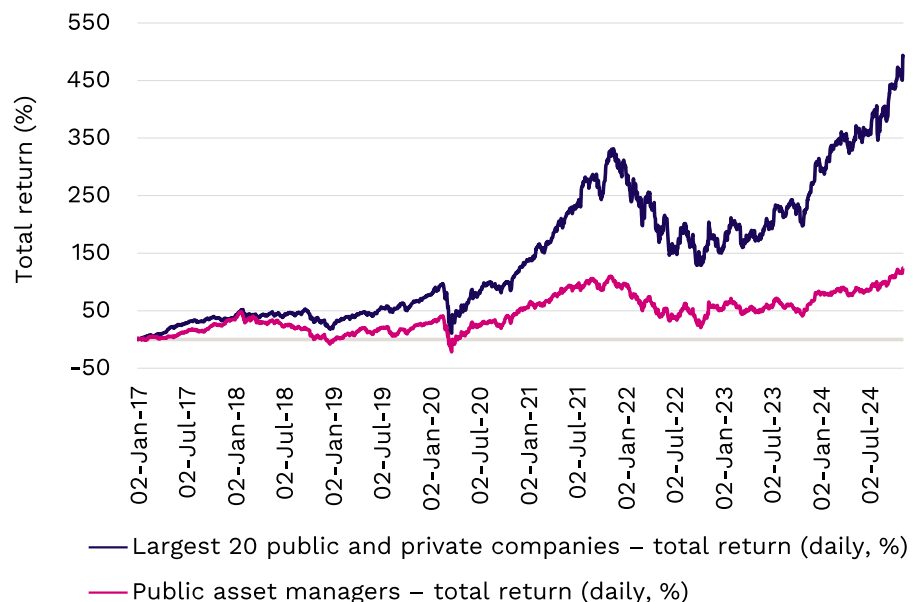
Growing size of private equity in overall equity markets

Driven by these excess returns and inflows of capital, the private equity asset class has grown as a percentage of the overall public and private equity markets globally. As of end-2010, private equity unrealized value accounted for 2.7% of the combined private and public equity market total value.¹ The influx of capital and high returns since then has pushed this up to 5.2% as of end-2023.

In turn, there has been a marked outperformance of listed private capital managers compared with traditional asset managers (Fig. 3.2). This is primarily due to strong inflows from LPs into their funds, the higher level of performance from the underlying assets, and the higher fee structures being charged. As a result of this trend, traditional asset managers are continuing to show heightened acquisition interest in private capital managers. In our view, more acquisitions of private market asset managers can be expected, prompting further consolidation in this fast-maturing industry.

Fig. 3.2: Stock price of listed GPs has significantly outperformed traditional managers

Stock price performance of private vs. traditional managers



Source: S&P Capital IQ

Going public not what it used to be

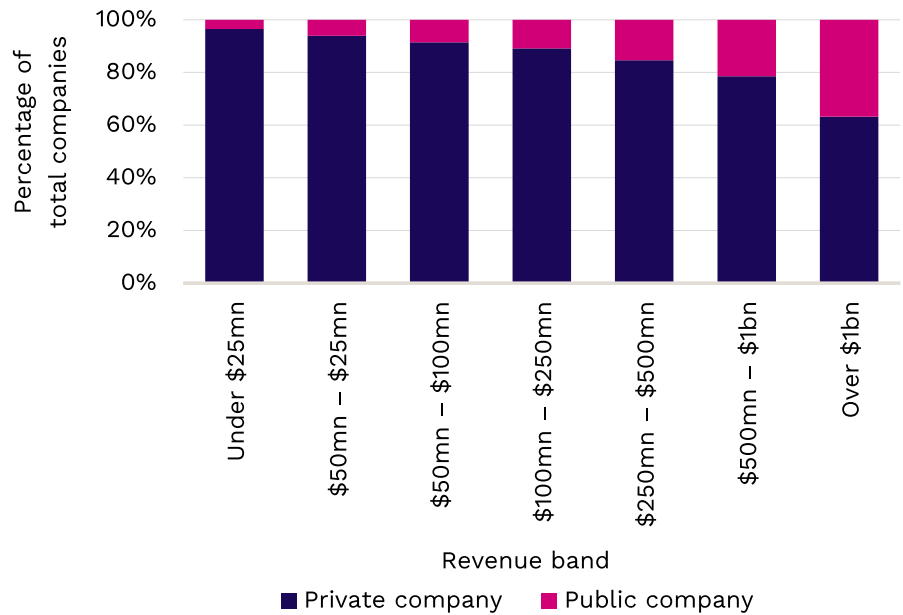
While being public has its advantages for companies of sufficient scale, companies are increasingly choosing to stay private, which will only lead to a diminishing universe for public market investors. The number of publicly listed companies has been in structural decline. Even in the US, which is renowned for its deep and liquid equity markets, the number of listed companies has dropped from a peak of 30 companies per million people in 1996 to just under 13 per million by 2019.² This is dwarfed by the number of private companies that private equity companies view as their investment universe (Fig. 3.3).

¹ Preqin Pro and SIFMA. Venture capital, secondaries, and fund of funds are excluded from private equity unrealized value; in the case of the latter two, this is to avoid double-counting.

² <https://fred.stlouisfed.org/series/DDOM01USA644NWDB>

Fig. 3.3: Number of private companies in private equity universe dwarfs number of public companies in US

Number of public and private companies in the US by revenue band



Source: S&P Capital IQ. Data as of November 2024

This has been partly driven by de-listings, as well as take-private transactions from private equity firms, while the initial public offering market has failed to replenish these numbers sufficiently.

The rising ongoing costs of remaining public is one of the problems. The liquidity offered by a public listing can have its advantages, but the quarterly short-term scrutiny of financial metrics by sell-side analysts can easily distract management from long-term strategic goals. Furthermore, the \$1.68tn of dry powder available for private equity-backed companies both in terms of debt and equity is relatively ample and often more flexible than share or corporate bond issuance.

Private equity – the new source of alpha generation

Not only do public markets represent a weaker representation of the global economy than private markets, they may also have lower return prospects than private equity-backed entities. Public equity managers typically secure minority positions in public companies and need to maintain positions that are easy to liquidate in the event of portfolio redemptions. With these managers often taking control positions, or at least much larger minority positions, it provides them with much greater opportunities to add value to the firm.

By directly controlling businesses, private equity managers can influence strategic decisions, streamline operations, and drive long-term value creation in ways that are often inaccessible to minority stakeholders in public companies. By contrast, public equity managers typically hold minority stakes and exert influence primarily through voting proxies, such as Institutional Shareholder Services or Glass Lewis.

AI and private equity

The impact of artificial intelligence over the next decade is likely to be profound for both public and private equity markets. Investors have priced expectations into asset prices to reflect this. This has given renewed momentum to venture-backed deals in this sector, as well as strong price appreciation for Big Tech firms who are perceived to be the main providers of the data center infrastructure required to run AI applications.

Having said that, as with the implementation of previous groundbreaking technologies such as the internet, it is likely to be highly challenging for investors to predict who the beneficiaries will be. Some of the more obvious investments in this space could prove to be overpriced and result in value destruction for investments being made in these companies today.

Nevertheless, it is reasonable to expect that a large portion of the value creation will be captured by private equity-backed companies compared with publicly listed companies. Young, innovative companies have the capacity to stay private and retain a long-term focus given the availability of capital and expertise from private equity backers. This will no doubt widen the gap between the public and private equity markets in the minds of investors over the much longer term.

Enhancing cybersecurity in private equity

Jason Stevens from Ultimus explains the critical role of fund administrators when providing high levels of protection for sensitive data

As the private equity industry becomes more sophisticated, the challenges it faces also evolve, especially in data privacy and cybersecurity. With rising threats and stricter regulations, private equity firms are navigating a complex landscape. One of the keys to overcoming these challenges is partnering with a fund administrator. By identifying, assessing, and mitigating operational risks, fund administrators safeguard assets and ensure long-term stability. Embrace their expertise and secure your fund's future.

The growing threat landscape

Private equity firms handle vast amounts of sensitive data, making them attractive to cybercriminals. A breach could expose financials and strategies, or damage client trust, potentially derailing deals and causing significant financial and reputational harm.

Partnering with a fund administrator offers significant advantages, as they implement comprehensive security protocols to protect sensitive data. These include advanced encryption techniques, intrusion detection systems, and continuous monitoring. By leveraging their robust understanding of cybersecurity and partners, private equity firms can work to shield themselves from the increasing threat of cyberattacks while remaining focused on their core investment strategies.

Data privacy regulations and compliance

Navigating data privacy laws demands vigilance, especially as regulations evolve.

By outsourcing these responsibilities, firms reduce the administrative burden on internal teams and minimize the risk of data privacy breaches. This allows firms to focus on deal sourcing and value creation, knowing experts are handling data privacy concerns. Administrators provide oversight, ensuring each portfolio entity complies with relevant laws. Here are some of the top advantages:

Comprehensive security infrastructure: Fund administrators invest heavily in advanced cybersecurity technologies. This encompasses encryption, firewalls, multi-factor authentication, and continuous monitoring to defend against unauthorized access and cyber threats. They uphold rigorous encryption standards to protect sensitive client and investor information, ensuring data security during both transmission and storage.



Jason Stevens
Chief Technology Officer,
Ultimus LeverPoint

Regulatory compliance: Administrators are well-versed in financial regulations and data privacy laws such as GDPR, CCPA, and industry-specific rules like the SEC's cybersecurity requirements. They ensure your fund complies with these laws, avoiding fines and legal risks.

Regular audits and monitoring: Fund administrators perform continuous risk assessments, vulnerability tests, and security audits. This ensures timely detection of threats and enhances the system's resilience against breaches.

Business continuity and disaster recovery: Fund administrators employ specialized cybersecurity teams, providing you access to professionals who are experienced in identifying, mitigating, and responding to cyber threats. In case of a breach or technical failure, they often have advanced disaster recovery plans to maintain data integrity and ensure smooth operations with minimal downtime.

Cost efficiency: Investing in an in-house cybersecurity team can be costly. Fund administrators provide the same or higher levels of protection without the need to allocate additional resources for staffing and technology upgrades.

Investor confidence: Having a third-party fund administrator with strong cybersecurity measures boosts investor confidence, as it demonstrates a commitment to protecting sensitive information and maintaining high operational standards.

Through a strong relationship with your fund administrator, firms can not only safeguard sensitive information but also ensure compliance with evolving data privacy regulations. This partnership ultimately enhances the value of their portfolio companies and mitigates risks, positioning them for successful exits. Fund administrators offer private equity firms the expertise and infrastructure needed to navigate these challenges, allowing them to focus on their core mission: creating value for their investors.

Jason Stevens oversees technology at **Ultimus LeverPoint**, including infrastructure, security, application development, and data. He previously led a large service provider's global securities and fund services application team, managing over 50 tech professionals and supporting multiple global business lines. Throughout his career in financial services, Jason has held various roles in fund accounting and IT at major service providers.

→ Focus on the mid-market

Mid-market funds have proved they can deliver winning private equity performance over the mid and long term





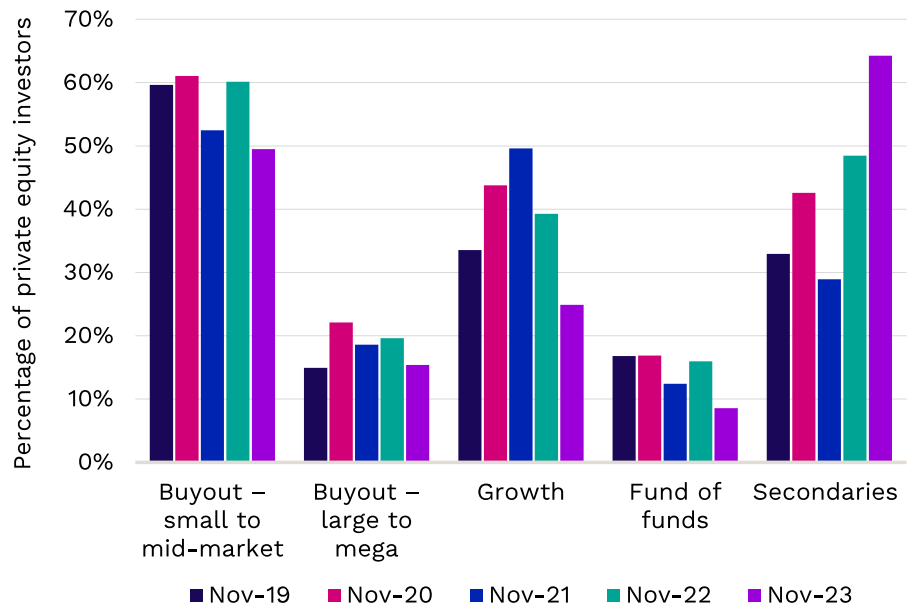
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We expect ongoing investor interest in mid-market buyouts, as they continue to be an important – yet often overlooked – segment of the global private equity buyout market. Mega deals may attract most of the attention, but more investors target mid-market buyout strategies than large buyouts because mid-market funds continue to outperform their larger counterparts (Fig. 4.1).

Both the number of funds and capital raised by mid-market funds grew through 2023: 78 mid-market funds raised a total of \$66bn, compared with the 63 funds that raised \$51bn in 2022 (Fig. 4.2). This represents a year-on-year doubling of the share of all private equity fund closes attributed to mid-market funds, by number of funds – from 4% to 8% of the total.

Fig. 4.1: Small- to mid-market buyout strategies remain popular

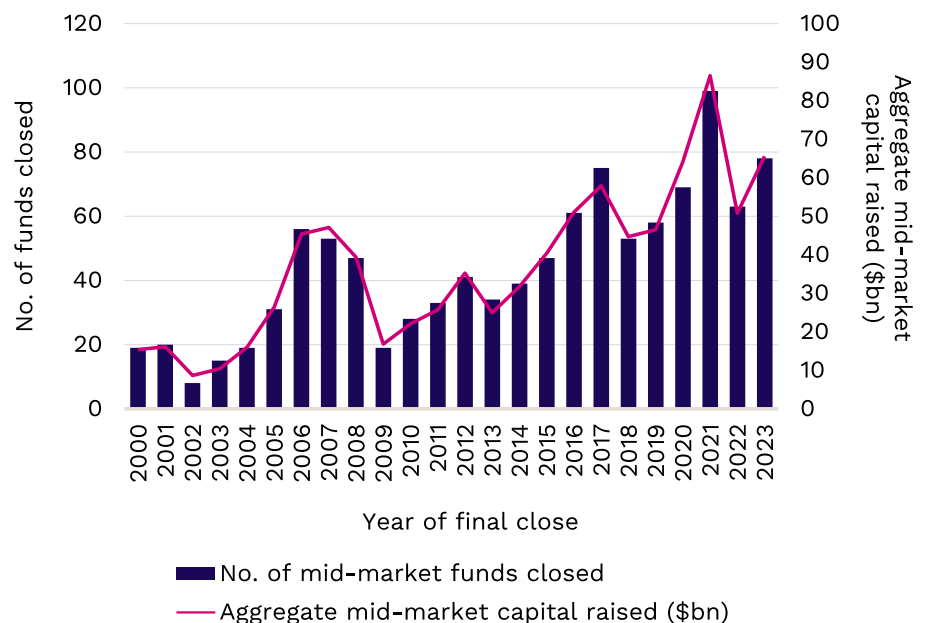
Strategies private equity investors plan to target over the next 12 months



Source: Preqin investor surveys, November 2019 – 2023

Fig. 4.2: Mid-market funds raised more funds by number and value in 2023

Mid-market private equity historic fundraising



Source: Preqin Pro

Most mid-market funds closed above target in 2022 and 2023 (66% and 65% of total mid-market funds closed, respectively).

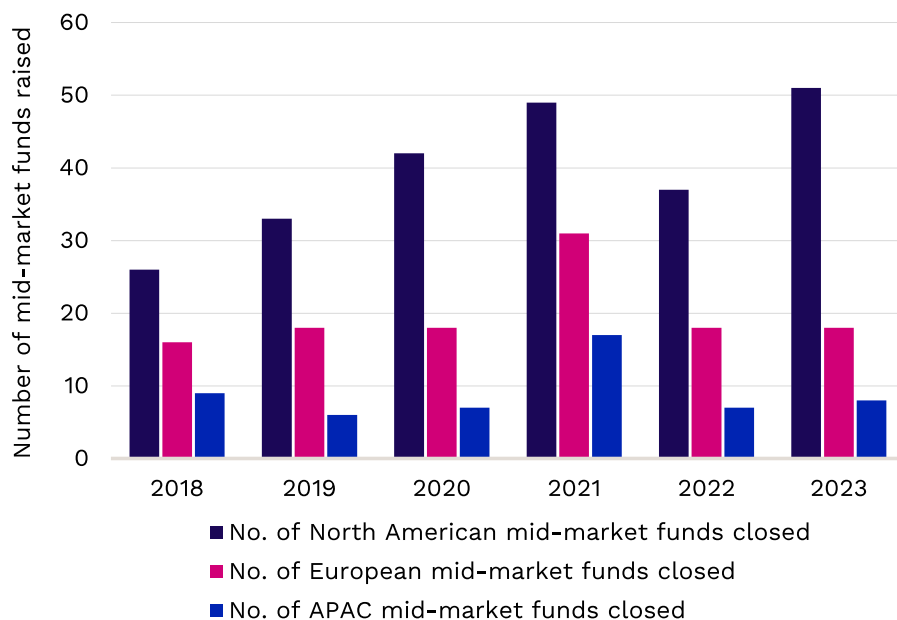
The mid-market fund universe is highly diverse and offers opportunities across different manager specialisms. This contrasts with the increasing concentration of generalist larger managers. With fundraising on the rise within the mid-market space, the challenge for GPs is to revive the exit market and return capital to LPs within expected timeframes.

North America the top target, with most funds diversified

North America has the most favorable conditions for growth in private equity strategies worldwide, including mid-market. Both the number of mid-market funds closed and the value raised increased in 2023, with 51 funds raising \$44bn (Fig. 4.3 and Fig. 4.4). This is in contrast to the muted growth in Europe (where 18 funds closed in 2023 – the same number as in 2022 – raising \$15bn) and the APAC region (where eight mid-market funds raised \$5.5bn in 2023, almost on par with the \$5.8bn in 2022).

Fig. 4.3: More North American mid-market funds closed in 2023

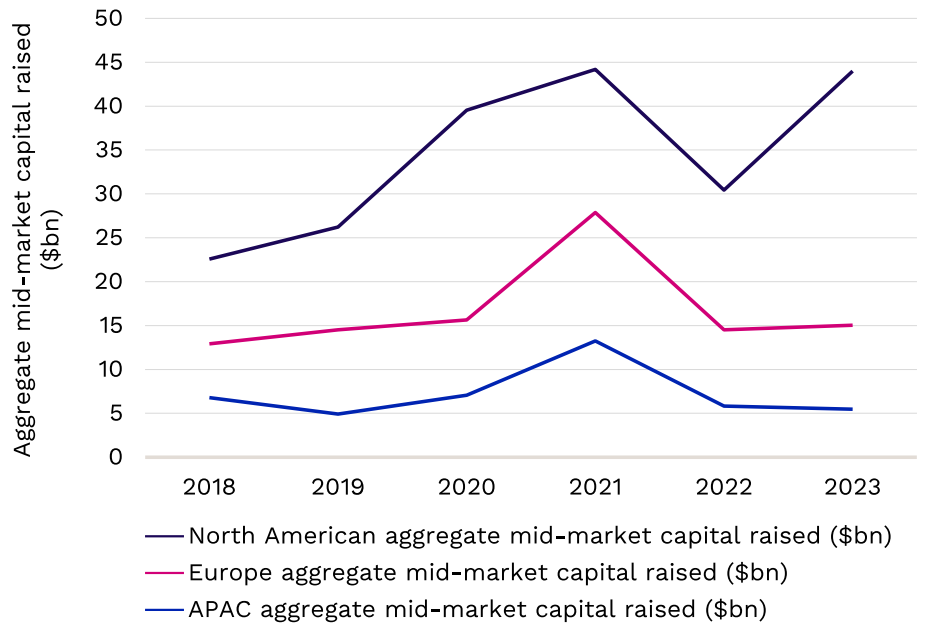
Mid-market buyout fundraising by region



Source: Preqin Pro

Fig. 4.4: And more North American mid-market capital raised too

Mid-market buyout total capital raised by region

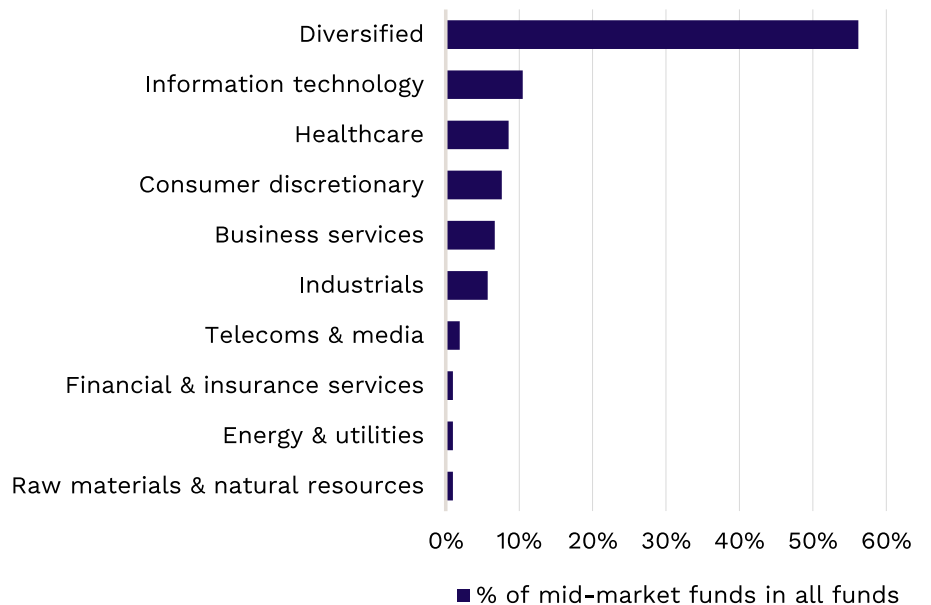


Source: Preqin Pro

Fig. 4.5 shows the sector breakdown of 105 mid-market funds raising capital during the first quarter of 2024 (9.1% of all Preqin-tracked buyout funds from vintages 2020–2024). The majority are diversified, but notable sectors of focus include information technology (10% of all mid-market funds in market), healthcare (9%), consumer discretionary (8%), and business services (7%).

Fig. 4.5: Most mid-market funds are diversified, but some have sector focus

Mid-market funds in market raising capital, Q1 2024



Source: Preqin Pro

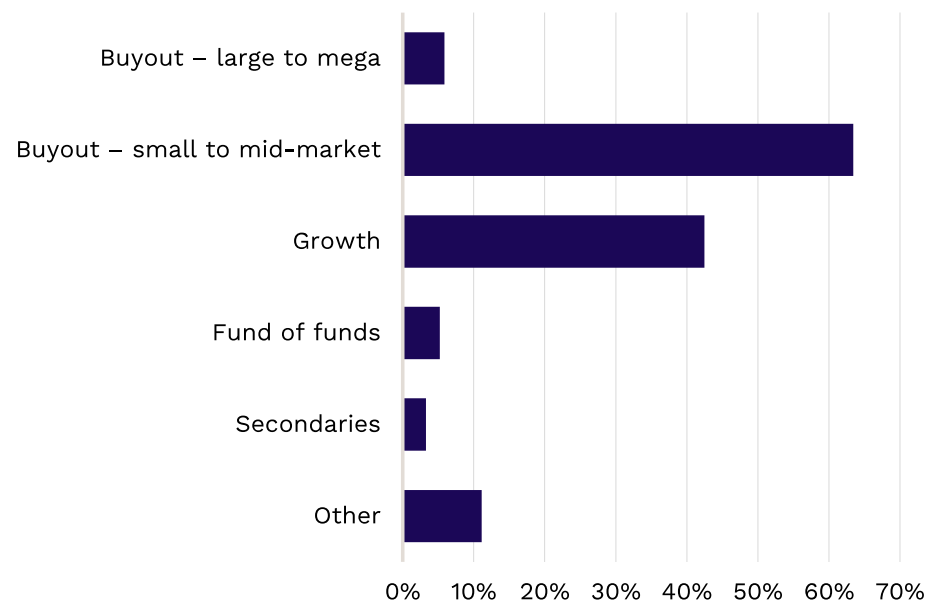
Creating value across a diverse range of industries

Mid-market private equity funds have an important role in the investment landscape because they bridge the funding gap between small businesses and conglomerates. These funds typically target companies with valuations ranging from \$50mn to \$500mn. They strike a balance between utilizing leverage in deals and focusing on growth and operational improvements. This sets the stage for significant value creation. For instance, many advancements in the technology sector occur within mid-market companies before they become big, well-known brands.

The advantages of mid-market buyouts have ensured their place at the forefront of GP strategies. According to the fund manager survey conducted by Preqin in November 2023, small- to mid-market buyout is the most common strategy employed by GPs (Fig. 4.6).

Fig. 4.6: Small- to mid-market buyout strategies are favored by GPs

Fund managers were asked: ‘What is your primary investment strategy?’*



Source: Preqin fund manager survey, November 2023

*Percentages do not add up to 100 as some respondents chose more than one answer

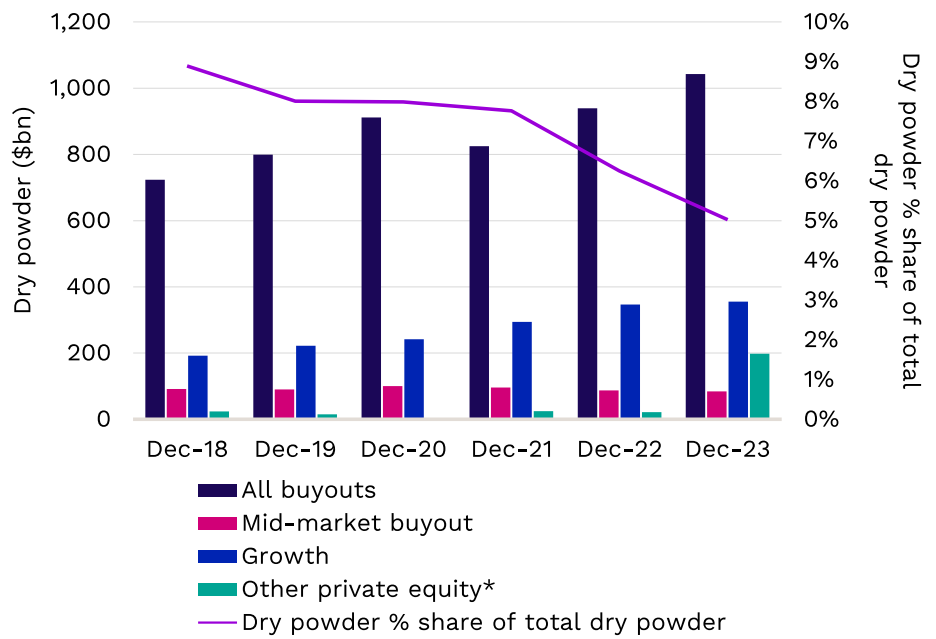
Many mid-market investment strategies fall into the ‘buy-and-build’ category. This strategy involves buying smaller companies within the same sector to build and grow a business. It can provide value when larger deal multiples are high because the market tends to assign big companies higher valuations. In the mid-market space, buying a strong target company and rapidly building value through well-executed add-on acquisitions of smaller and relatively inexpensive businesses can generate impressive returns. In contrast with large and mega buyouts, mid-market strategies do not heavily rely on traditional tailwinds like falling interest rates and stable GDP growth.

Deal flow in mid-market appears more resilient than buyout

Although 2023 mid-market deal flow was lower than the previous year, it held up better than global private equity deal flow, as GPs continued to grapple with higher interest rates and asset devaluations. The mid-market private equity segment, which primarily focuses on investments in medium-sized enterprises, demonstrates resilience and dynamism. During times of crisis, mid-market companies tend to manage well. The data shows mid-market funds raised more money in 2023 than 2022, while mid-market dry powder reduced in that period – suggesting at least some of the dry powder went into mid-market deals (Fig. 4.7). This is an encouraging sign that a private equity revival is under way, following the slowdown in 2022 across all deals and fund sizes worldwide.

Fig. 4.7: Mid-market fund dry powder declines slightly over the past six years

Global private equity dry powder by strategy



Source: Preqin Pro. Data as of March 2024

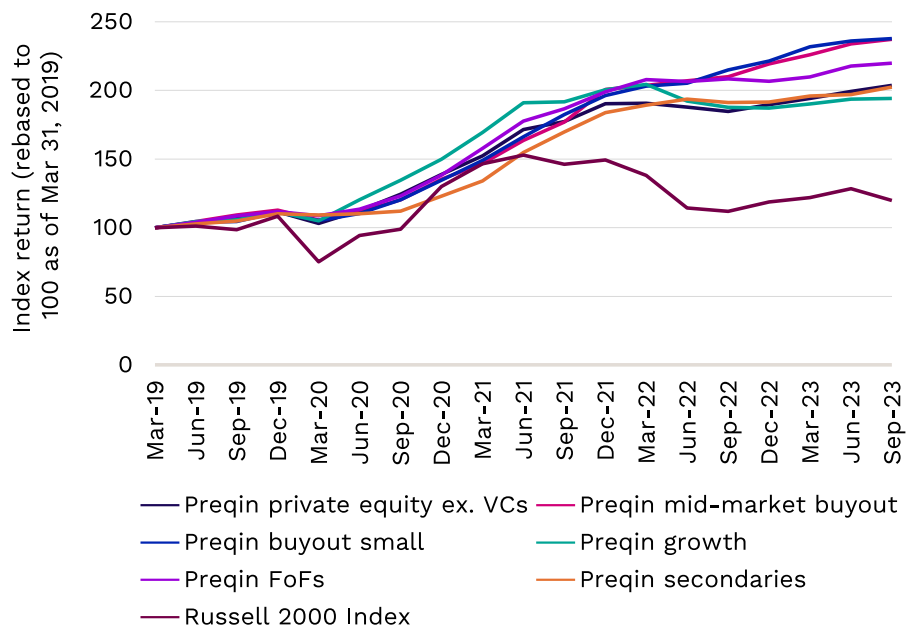
*'Other private equity' includes balanced, co-investment, co-invest multi-manager, direct secondaries, and turnaround funds

Strong performance over the mid and long term

Historically, mid-market buyouts have been among the top-performing private equity strategies (Fig. 4.8 and Fig. 4.9), which is reflected in their strong performance relative to other strategies and global equities over the mid and long term. Notably, the mid-market not only outperformed larger buyout strategies during that period, but also performed almost in line with riskier small buyouts.

Fig. 4.8: Mid-market outperforms general buyout and public equity over the medium term

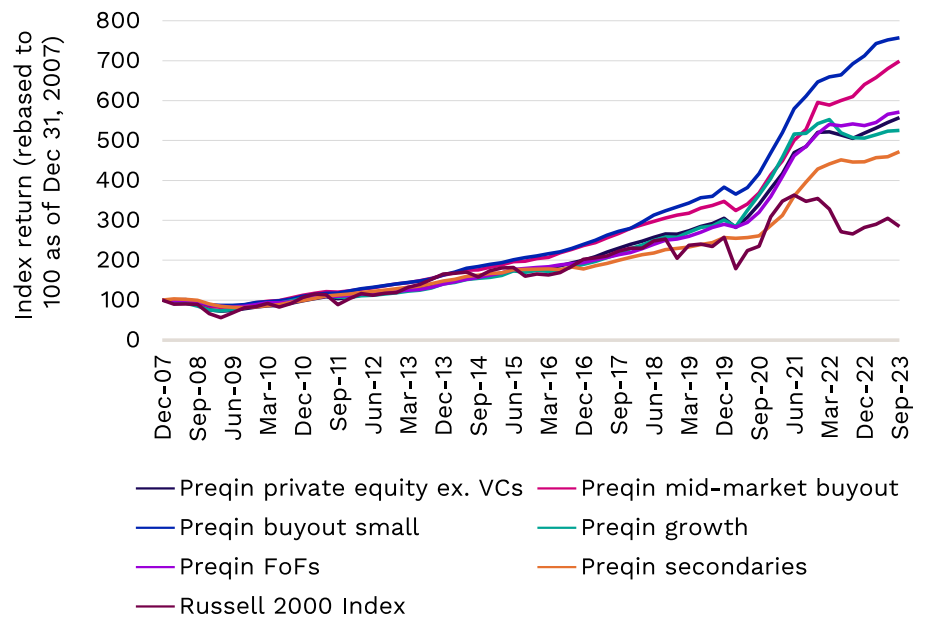
Private equity strategies vs. public markets



Source: Preqin Pro

Fig. 4.9: Mid-market outperforms general buyout over the long term

Private equity strategies vs. public markets



Source: Preqin Pro

We believe mid-market strategies will continue to perform strongly in the future, with the wide range of mid-market deals, companies, and funds providing a constantly evolving opportunity for portfolio diversification.

Power deeper performance analysis with **Preqin Benchmarks**

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PREQIN

→ Deal-flow evolution

Focusing on the two largest deal types in private equity in 2024, we find take-privates have been led by the US and tech, while add-ons have proved more sector-diverse



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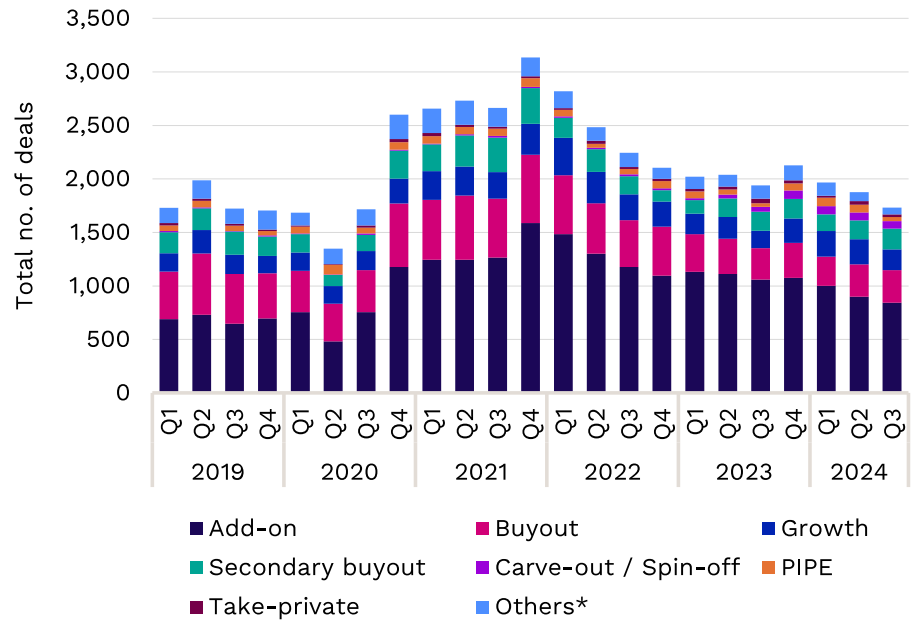
The peak in deal-making following the COVID-19 pandemic and the subsequent interest rate cycle was a highly unusual period for the private equity deal market, driven by historic low interest rates and optimism for market recovery. Since then, private equity has been searching for some sense of normality and, particularly through 2024, add-on and public-to-private (take-private) deals have become more prominent. In this chapter, we examine these two deal types with a view to understanding their relevance in the deal market for 2025.

Buyouts lose market share from mid-2022

Buyouts, the second-largest deal type by volume and value based on the historical five-year average, began losing market share in mid-2022 as rising interest rates made debt-financed acquisitions more costly, particularly for larger transactions. Prior to that, from 2019 to 2021, buyouts accounted for an average of about 22.5% of deal volume, but from 2022 through to the third quarter of 2024, this share declined to 17.0%, falling below the five-year average (Fig. 5.1). While buyout deal values dropped, take-private deals, the largest deal type by value, started to support deal values.

Fig. 5.1: Number of buyouts deals has been shrinking

Private equity buyout deal volume by type



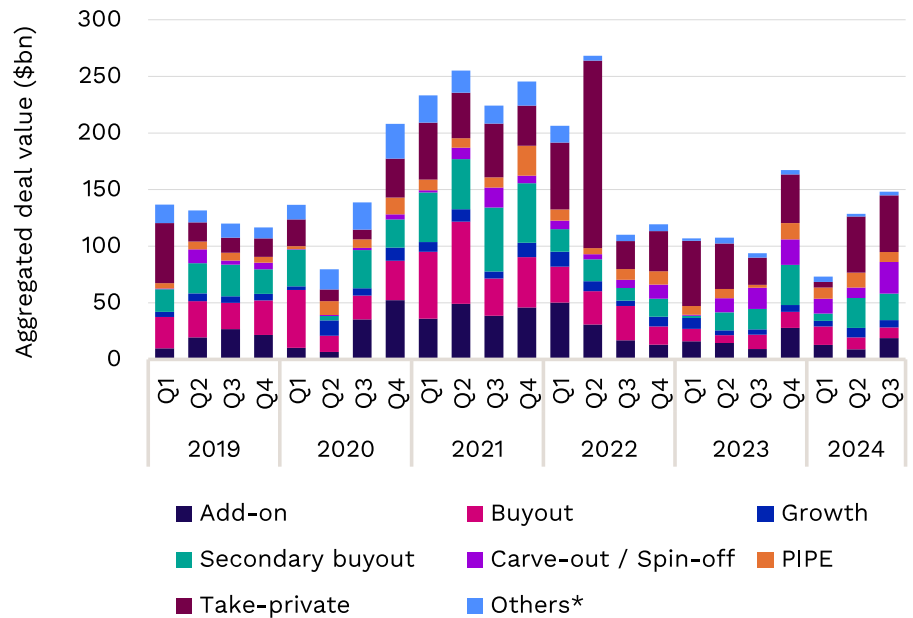
Source: Preqin Pro

*Others include company formation, joint venture, merger, recapitalization, and restructuring

From the first to the third quarter of 2024, take-private deal value accounted for nearly 30% of total deal value, significantly higher than the five-year historical average (Fig. 5.2). In the third quarter of 2024, four of the five-largest private equity deals were take-privates.

Fig. 5.2: Take-privates support overall deal value

Private equity buyout deal value by type



Source: Preqin Pro

*Others include company formation, joint venture, merger, recapitalization, and restructuring

This recent focus on take-privates reflects changes in the market environment. When interest rates rose in March 2022, publicly listed company valuations began declining. Deal-makers seized this opportunity to acquire what they deemed would be undervalued. Furthermore, a high number of special-purpose acquisition companies began to delist after 2021, and there was less competition from strategic buyers who may have been feeling pressure on their share price.

In contrast to large buyouts, many of the recent large take-privates, particularly in the software sector, were able to use less leverage as interest rates increased. Having said that, take-private activity tends to be cyclical and, although such deals are large, they account for an average of just 1% of total private equity deal volume over the last five years. This mismatch between value and volume can be attributed to the size of such transactions. For instance, in the US, there are fewer than 4,000 listed companies, compared with over 25 million private firms.¹ This may limit deal-makers as they are largely dependent on the number of firms available on the public market. However, listed firms are increasingly attracted to the idea of going private because it means strategic and operational improvements can be made away from shareholder scrutiny and the regulatory reporting environment.

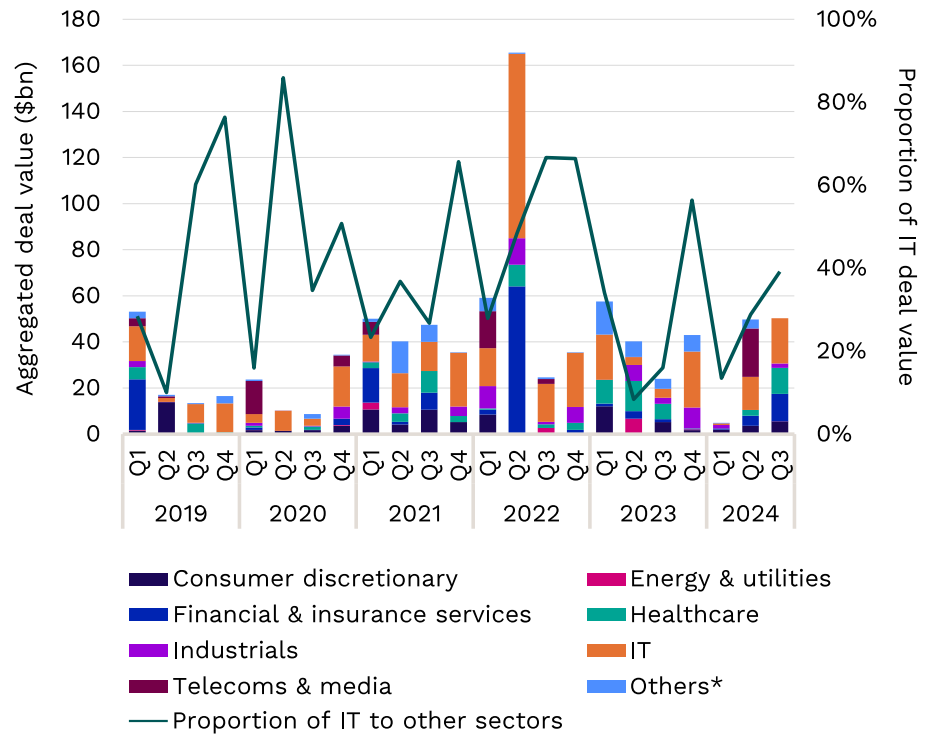
¹ <https://www.cato.org/research-briefs-economic-policy/where-wild-things-are-governance-private-companies>

In the broader take-private sector, most deal value and volume is concentrated in information technology (IT) (Fig. 5.3). This trend is also evident from the 20-largest take-private deals between 2022 and the third quarter of 2024 (Fig. 5.4). Notably, 90% of these deals occurred in the US, which is home to the world’s largest listed market, accounting for 72.7% by market capitalization.² Of these US deals, approximately half involved IT companies, underscoring the sector’s dominance in take-private transactions.

² <https://www.msci.com/documents/10199/178e6643-6ae6-47b9-82be-efc565ededb>

Fig. 5.3: Most take-private deals occur in the IT sector

Private equity’s take-private deal value by industry



Source: Preqin Pro

*Others include business services, raw materials & natural resources, and real estate

Fig. 5.4: Majority of the largest take-private deals occur in the US

20 largest take-private deals, 2022 – Q3 2024

Deal name	Country	Deal size (\$bn)	Deal date	Status	Industry
Housing Development Finance Corporation Ltd	India	61.7	04-Apr-22	Completed	Financial & insurance services
X Corp	US	44.0	25-Apr-22	Completed	IT
Citrix Systems Inc	US	16.5	31-Jan-22	Completed	IT
Nielsen Holdings plc	US	16.0	28-Mar-22	Completed	Telecoms & media
Qualtrics LLC	US	13.5	12-Mar-23	Completed	IT
Adevinta ASA	Norway	13.5	21-Nov-23	Completed	IT
Endeavor Group	US	13.0	02-Apr-24	Announced	Telecoms & media
Toshiba Corporation	Japan	11.7	23-Mar-23	Completed	Consumer discretionary
Oak Street Health LLC	US	10.4	07-Feb-23	Completed	Healthcare
Zendesk Inc	US	10.2	24-Jun-22	Completed	IT
R1 RCM Inc	US	8.9	01-Aug-24	Announced	Healthcare
Avalara Inc	US	8.4	08-Aug-22	Announced	IT
Smartsheet Inc	US	8.4	24-Sep-24	Completed	IT
Univar Solutions Inc	US	8.1	13-Mar-23	Completed	Raw materials & natural resources
Coupa Software Inc.	US	8.0	11-Dec-22	Announced	Telecoms & media
Paramount Global	US	8.0	03-Jun-24	Completed	IT
Textainer Group Holdings Ltd	Bermuda	7.4	22-Oct-23	Completed	Industrials
Insurance Auto Auctions Inc	US	7.3	07-Nov-22	Completed	IT
Syneos Health Inc	US	7.1	09-May-23	Completed	Industrials
Tenneco Inc	US	7.1	22-Feb-22	Completed	Healthcare

Source: Preqin Pro

To better understand the US stock market’s sector composition, the MSCI USA Index³ serves as a useful proxy. Based on this Index, the IT sector accounts for 31.0% of the total market capitalization, up from 20.4% in 2019. This sectoral weighting explains the strong representation of IT companies in take-private deals, where market capitalization and sector dynamics both play a key role.

Interest rates are expected to decline further in 2025, making borrowing slightly cheaper. Competition and demand may increase, potentially driving up valuations of publicly listed companies. This rise in valuations could make take-private transactions less attractive.

³ <https://www.msci.com/documents/10199/255599/msci-usa-index-gross.pdf>

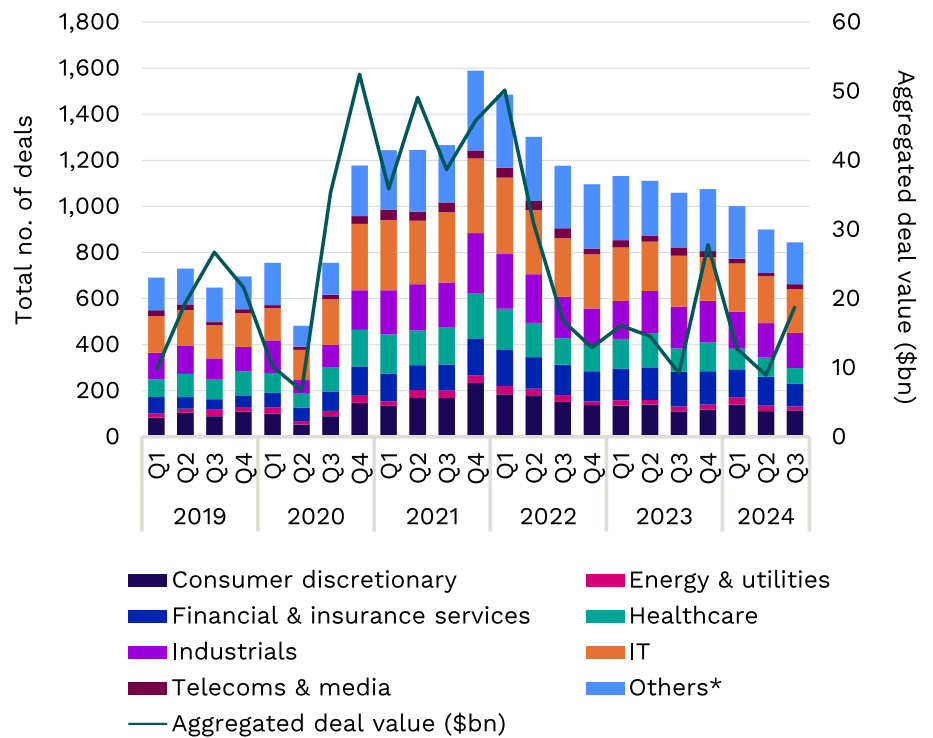
The strategic appeal of add-ons in current deal markets

Globally, add-ons remain the most popular deal type among deal-makers, accounting for nearly half of total private equity deal volume over the last two years (Fig. 5.1). An add-on is defined by Preqin as a private equity-backed portfolio company acquiring another smaller company or the asset of another company. This is typically to consolidate its market position, and often involves acquiring smaller rivals.

In contrast to take-private transactions, add-on deals are more sector-diverse, with IT making up just over 20% of total deal volume in the past five years (Fig. 5.5). Sectors such as industrials and consumer discretionary closely follow, highlighting a broader distribution across industries. This trend is also reflected in the 20 largest add-on deals over the last two years, with no single sector holding a significant majority (Fig. 5.6).

Fig. 5.5: Add-on deals are mostly diversified across sectors

Private equity’s add-on deal volume by industry



Source: Preqin

*Others include business services, raw materials & natural resources, and real estate

Fig. 5.6: Large add-on deals scattered across sectors globally

20 largest add-on deals, 2022 – Q3 2024

Deal name	Country	Deal size (\$bn)	Deal date	Status	Industry
Afterpay Australia Pty Ltd	Australia	21.7	31-Jan-22	Completed	IT
Datto Holding Corp	US	6.2	11-Apr-22	Completed	IT
Vodafone Spain	Spain	5.4	31-Oct-23	Completed	Telecoms & media
Vivint Inc	US	5.2	06-Dec-22	Completed	IT
Viatis Inc's Biosimilars Business	US	3.3	28-Feb-22	Completed	Healthcare
Motor Fuel Ltd	UK	3.1	30-Jan-24	Completed	Energy & utilities
The Neiman Marcus Group LLC	US	2.7	04-Jul-24	Announced	Consumer discretionary
Polyplus-transfection SA	France	2.5	31-Mar-23	Completed	Healthcare
Colgate Energy LLC	US	2.5	19-May-22	Completed	Energy & utilities
Diaverum AB	Sweden	2.5	19-Apr-23	Completed	Healthcare
Sul América SA	Brazil	2.4	22-Feb-22	Completed	Financial & insurance services
Ghost Robotics Corporation	US	2.4	08-Dec-23	Completed	Industrials
ASM Global	US	2.3	07-Nov-23	Completed	Consumer discretionary
OpenText's Application Modernization and Connectivity business	Canada	2.3	28-Nov-23	Completed	IT
Jabil Inc's Mobility business	China	2.3	27-Aug-23	Completed	IT
Telefónica SA	Spain	2.2	06-Feb-23	Completed	Telecoms & media
OneOncology LLC	US	2.1	20-Apr-23	Completed	Healthcare
Aera Energy LLC	US	2.1	01-Jan-24	Completed	Energy & utilities
Citizen Energy	US	2.0	26-Sep-24	Announced	Energy & utilities
iFood.com Agência de Restaurantes Online SA	Brazil	2.0	19-Aug-22	Completed	Consumer discretionary

Source: Preqin

Deal values for most add-ons typically range from tens of millions up to a billion, whereas take-private transactions generally fall within a significantly higher range, from around a hundred million to five billion. This makes add-ons particularly attractive, as their smaller size supports a 'buy-and-build' strategy. By acquiring several smaller companies to consolidate a larger entity, private equity firms can often avoid regulatory challenges, such as Federal Trade Commission (FTC) scrutiny on private equity add-on strategies relating to healthcare.⁴

In the current high interest rate environment, small- to mid-market deals from \$10mn to \$999mn offer an additional advantage: a reduced reliance on debt financing, helping private equity firms mitigate exposure to interest rate risk. This allows private equity firms to grow companies incrementally and build robust platforms with greater financial flexibility, supporting strategic growth without the high leverage typically associated with larger transactions.

We expect add-on deals to remain the preferred strategy for most private equity firms seeking to strengthen their portfolio companies. Furthermore, with interest rates expected to remain elevated or ease slightly in the US and Europe, the smaller size of add-on deals would benefit private equity firms by insulating them from bearing interest rate risks.

⁴ <https://www.preqin.com/insights/research/research-notes/us-election-four-fault-lines-for-private-markets>

Easing rates to drive private equity deals despite other uncertainties

With the Federal Reserve and European Central Bank preparing to enter an interest rate easing cycle, a reduction in rates is expected to boost deal activity. However, uncertainties loom, including potential shifts in tax policy following the US presidential election, ongoing geopolitical tensions in Asia and Europe, and heightened regulatory scrutiny from the FTC.⁵ Despite these challenges, add-on deals will likely remain the primary driver for deal volume, while the outlook for take-private transactions on deal value is dependent on how interest rates affect company valuations.

Secondary buyouts have gained traction recently, presenting a compelling option for buyers to acquire attractive portfolio companies they believe can unlock more potential, often from sellers seeking liquidity. At the same time, carve-outs and spin-offs – historically less than 1% of deal volume – have surged, and now account for an average of 3.9% over the last four quarters. While this figure might appear modest, the deal value for carve-outs and spin-offs represents an average of 14.3% of total deal value over the same period – significantly higher than the five-year average of 6.1%. This growth can be partly attributed to the anticipation of interest rate reductions, as parent companies shed non-core assets, creating carve-outs and spin-offs to capitalize on lower rates. The refinancing opportunities resulting from interest rate cuts enable these entities to operate with healthier valuations, appeal to investors, and support the ‘buy-and-build’ strategy that is central to private equity’s add-on ecosystem.

⁵ <https://www.preqin.com/insights/research/research-notes/us-election-four-fault-lines-for-private-markets>

→ Investors bullish on secondaries

An extra layer of fees in secondaries could be worth the benefits of vintage and manager diversification

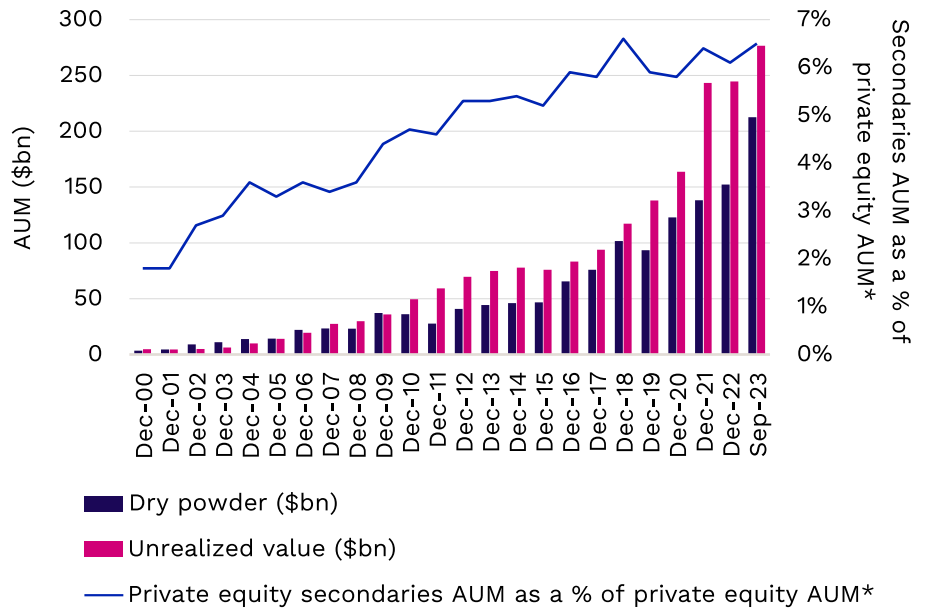


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In September 2023, private equity secondaries comprised 6.5% of direct private equity assets under management (AUM), at \$489bn, modestly higher than the previous year (Fig. 6.1). Since 2016, private equity secondaries AUM has stabilized at around 6% of private equity AUM, after steady growth from 1.8% in 2000. This reflects how secondaries has evolved from being an avenue for LPs to sell unwanted interests, to a common way for investors new to private equity to quickly build a portfolio diversified across vintages.

Fig. 6.1: Secondaries have stabilized as a percentage of private equity

Private equity secondaries AUM



*Private equity AUM excludes venture capital

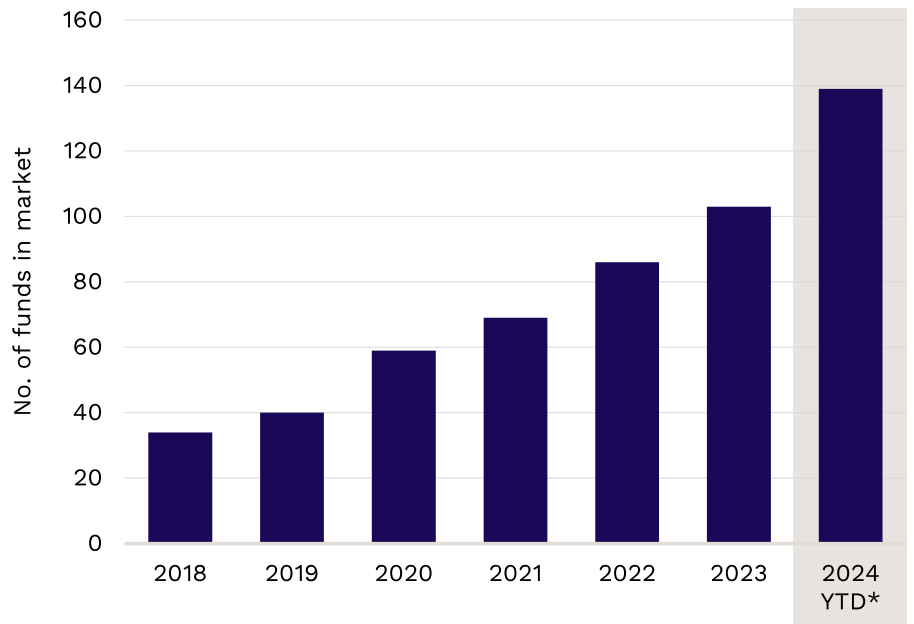
Source: Preqin Pro. Data as of May 2024

Secondaries’ surge in popularity is partly related to new investors – such as those in private wealth – building allocations to private equity. Secondaries funds hold interests in various private equity funds, each of which hold interests in many portfolio companies. As such, secondaries offer investors vintage and manager diversification, which can function as downside protection.

At the same time, the recent slowdown in exits has reduced distributions, prompting LPs to turn to secondaries to gain liquidity. The number of secondaries funds raising capital quadrupled from 2018 to January 2024 (Fig. 6.2). In 2023, secondaries raised a record \$91bn – almost triple the prior year’s figure (Fig. 6.3).

Fig. 6.2: Number of secondaries funds raising capital has quadrupled

Private equity secondaries funds in market by year

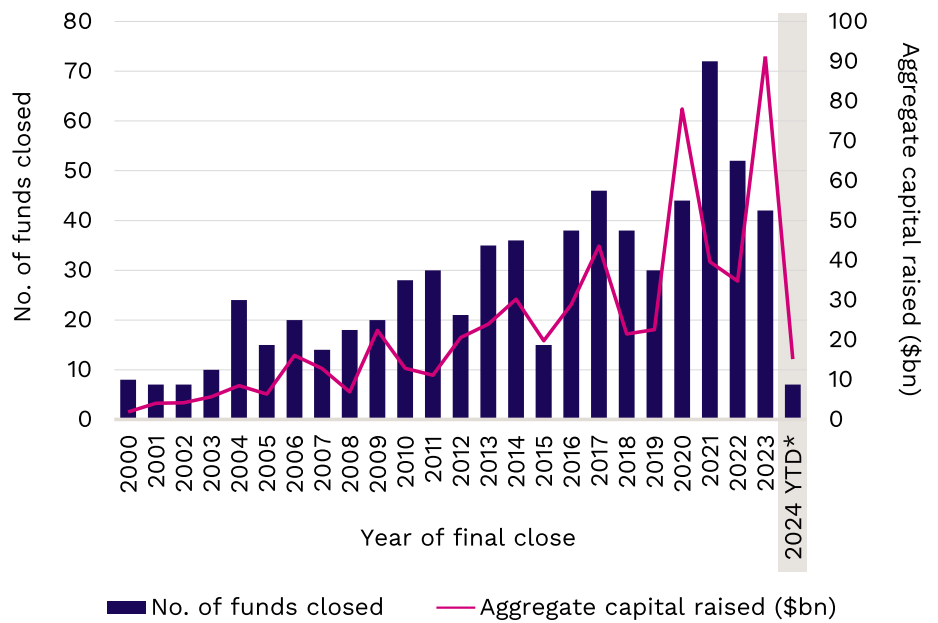


*YTD to end-Jan 2024

Source: Preqin Pro

Fig. 6.3: 2023 was a banner year for secondaries fundraising

Global private equity secondaries market fundraising



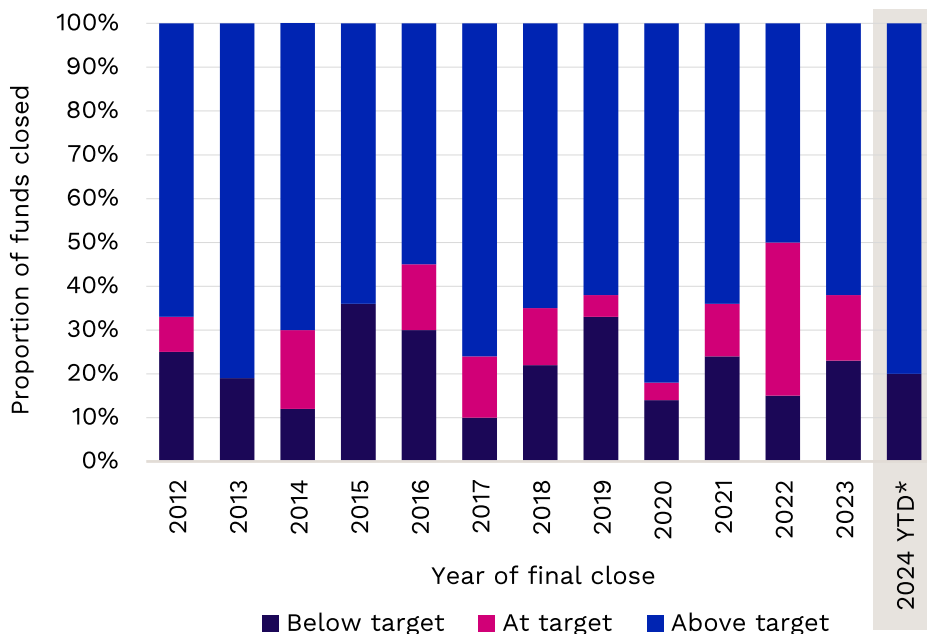
*YTD to end-May 2024

Source: Preqin Pro

Notably, there have been fewer funds closed each year since 2021. This reflects both the fundraising environment and the increase in the largest fund sizes. In 2023, three secondaries funds raised between \$14bn and \$23bn. Asset managers currently raising capital include Ardian, whose ASF IX fund is targeting \$25bn, and Alpinvest, Collier, and HarbourVest, each targeting between \$10bn and \$12bn. For private equity secondaries, the final close size has frequently beaten the target fund size (Fig. 6.4).

Fig. 6.4: Most secondaries funds still close above target

Proportion of private equity secondaries funds closing below, at, or above target



*YTD to end-May 2024

Source: Preqin Pro

Over-allocated North American pensions could increase transactions

The denominator effect came to the fore in 2022 as public equities pulled back and private markets lagged valuation changes. As a result, public pensions as well as private pensions, endowments and foundations reported over-allocation. Over-allocated LPs are concentrated in North America almost universally across investor types. Due to their investment policy statements, this group may need to sell urgently.

Sellers abound across investor types, but are especially concentrated among pensions, fund of funds and secondaries, and family offices (Fig. 6.5). Fund of funds and secondaries comprise 30% of buyers, but pension plans and family offices are also buying. While many investor types, including pensions, endowments and foundations, and wealth managers, are net sellers, there is interest among both buyers and sellers. Market sentiment and transaction interest indicate the potential for increased transactions as over-allocated North American pensions sell to fund of funds and secondaries managers on both sides of the Atlantic.

Based on reported interest in secondary transactions, investors in Europe are most keen to transact, with more buyers than sellers (Fig. 6.6). However, given the volume of AUM and especially over-allocated investors, Europe investors may have to look to North America for purchases, as it is the only region with more sellers than buyers.

Fig. 6.5: Fund of funds top buyers while pensions are top sellers

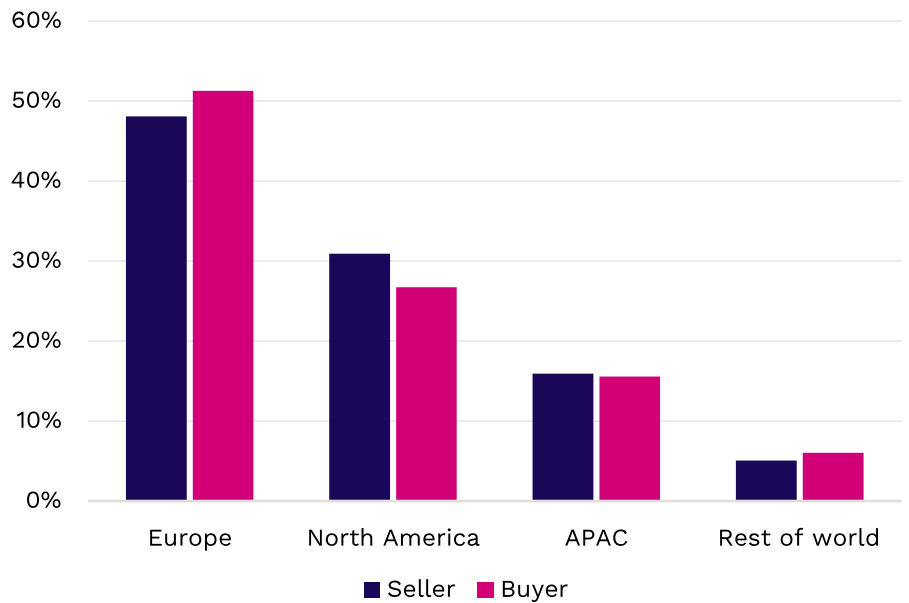
Proportion of buyers and sellers in the secondaries market



Source: Preqin Pro. Data as of May 2024

Fig. 6.6: Secondary transaction interest is concentrated in Europe

Buyers and sellers highly likely or opportunistically interested in the next 24 months*



*Data taken from transaction section of Preqin Pro

Source: Preqin Pro. Data as of May 2024

Vintage diversification offers pros and cons

Secondaries performance appears more stable than direct private equity performance. This is due to the built-in diversification of the underlying portfolio companies. Although a secondaries fund may have a vintage of 2016, for example, the vintages of the underlying funds comprising it could range across four or more vintages.

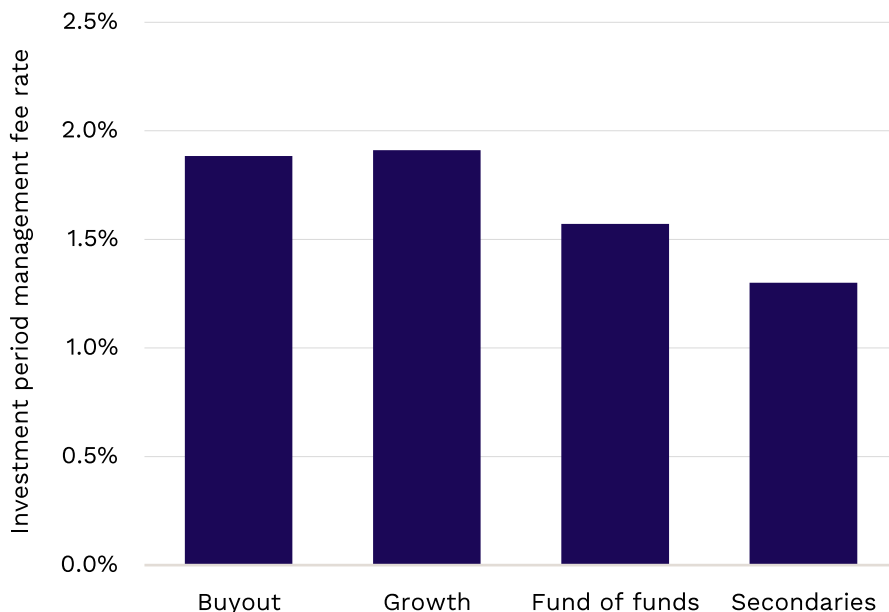
Another perceived benefit is the pace of distributions compared with direct private equity. Just as for internal rate of return (IRR), vintage diversification allows for quicker distributions. However, diversification can be a double-edged sword. Due to vintage diversification, early distributed to paid-in (DPI) is higher for secondaries than direct, but lifetime DPI will likely be lower for two reasons. First, some of the underlying funds' distributions have been made before the interests were acquired, thereby decreasing distributions. Second, there is an extra layer of fees for secondaries, thereby increasing the amount paid in.

A double layer of fees

The benefits of secondaries come at a price: a second layer of management fees and carried interest. In funds of vintages 2018–2024, buyout investment period management fees averaged 1.9% and secondaries management fees averaged 1.3% (Fig. 6.7). Their respective investment period lengths were 5.0 and 3.1 years. Over the life of a private equity fund, net management fees averaged 10.5%. For performance fees, buyout funds averaged 19.7% for carry with an average hurdle rate of 8%, while the average carried interest rate for secondaries was 12.7% with a hurdle of 7.9% (Fig. 6.8).

Fig. 6.7: Secondaries' investment period management fee rate lowest but additive to underlying fee

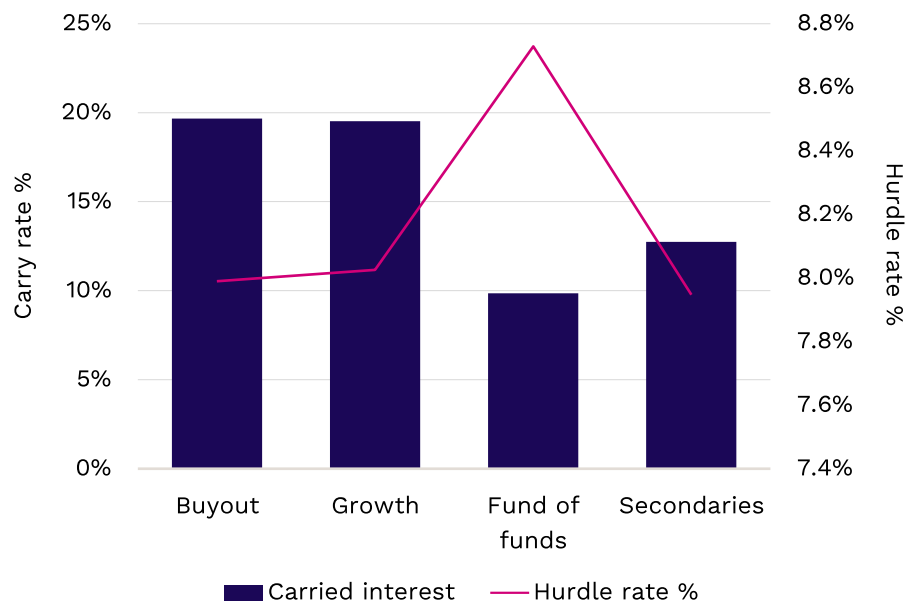
Management fee rates during investment period, vintages 2018–2024



Source: Preqin Pro. Data as of May 2024

Fig. 6.8: Secondaries' carry rate lower but layered on top of underlying fees

Average carried interest and hurdle rate, vintages 2018–2024



Source: Preqin Pro. Data as of May 2024

The waterfall type could have an outsized effect on total value to paid-in capital (TVPI) when compounded! For two layers of European waterfall, the diversification principle will benefit only the strongest manager selection skills. For American waterfalls, net TVPI could potentially be quite low.

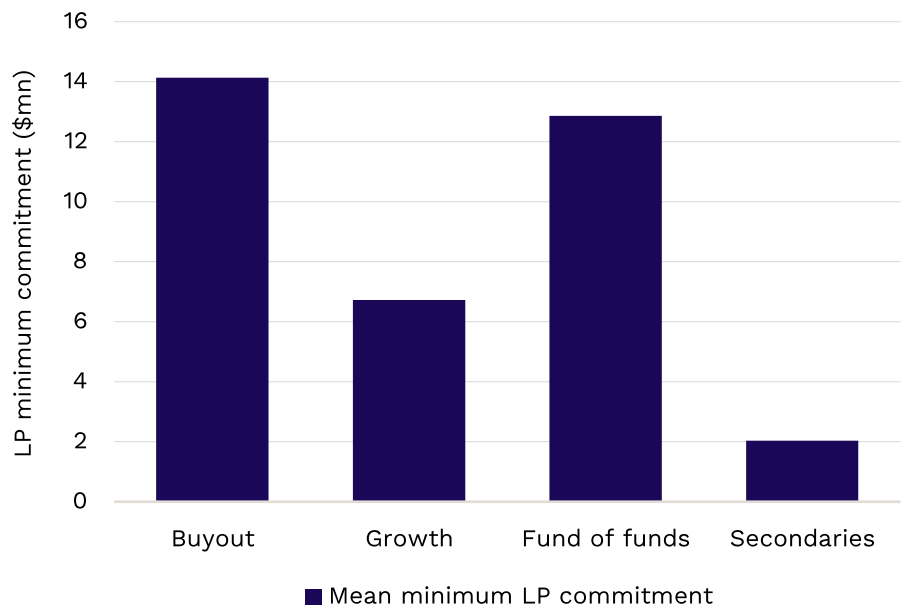
Secondaries more accessible for smaller investors

One of the biggest benefits to LPs investing in secondaries is the relatively low minimum LP commitment (Fig. 6.9). Compared with the \$14mn LP commitment minimum for buyouts, secondaries' \$2mn is much more accessible, including for those in private wealth. However, a major concern for LPs relating to LP-GP alignment is GP commitment, which tends to be lower for secondaries funds than for other private equity strategies.

1 We define European waterfalls as those which combine cash flows of all portfolio companies in order to calculate performance; American waterfalls are those which calculate performance on each portfolio company separately. European waterfalls require the portfolio as a whole to exceed the hurdle before carried interest is paid and are considered LP-friendly. In contrast, American waterfalls allow carry to be taken on portfolio companies that are performing strongly, even when poor performers would drag down portfolio-level performance. American waterfalls are considered GP-friendly.

Fig. 6.9: Secondaries accessible to smaller LPs

Average LP commitments, vintages 2018–2024



Source: Preqin Pro. Data as of May 2024

Fees and costs associated with secondaries are much higher than direct private equity funds. But for newer entrants to private equity, the added layer of fees could be worth the vintage and fund manager diversification benefits, the reduced complexity of back- and middle-office requirements, and smoother DPI and IRR. Key points to consider in private equity secondaries due diligence include the waterfall type and GP commitment.

As highlighted in our Private Equity Q3 2024 update, secondaries funds currently trail only buyout and growth strategies when it comes to aggregate capital targeted.² This is largely down to investors, concerned about the exit environment, considering new outlets for their capital. We expect the secondaries strategy to continue to thrive in 2025.

² <https://preqin.com/insights/research/quarterly-updates/q3-2024-private-equity>

→ GP stakes on the rise

This niche strategy looks set to expand, benefiting from AUM growth in private equity



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Investing in GP stakes is a strategy gaining prominence due to the potential for steady cash flow from fee-based revenues. These revenues come from LPs on committed capital.

GP stakes are usually minority, non-control positions in the management companies of alternatives asset managers. Investment value is derived from three primary sources: net fee-related earnings; carry; and balance sheet value from the GP’s own investments.

Owning a minority GP stake in a private manager comes with equity risk, but it is mitigated. GP stakes strategy combines the defensive features of credit, providing cash flows and offering some downside protection with the return upside of an equity strategy. As such, GP stakes offer a unique blend of credit and equity strategy in private equity.

Current GP stakes AUM estimated at over \$60bn

We estimate the current assets under management (AUM) for GP stakes at over \$60bn, according to Preqin Pro and conversations with industry practitioners. The leading four investment management companies buying into GP stakes – Blue Owl, Blackstone, Goldman Sachs Asset Management, and Wafra – manage about \$58.3bn in GP stakes funds (Fig. 7.1). In our view, total GP stakes AUM will grow further, benefiting from AUM growth in private equity. According to Preqin’s forecasts, published in our Future of Alternatives 2029 report, global private equity AUM will grow at 12.8% between 2023 and 2029.¹

¹ <https://preqin.com/insights/research/reports/future-of-alternatives-2029>

Fig. 7.1: The most established investor firms to date in private GP stakes

The largest market participants (estimated by AUM in GP stakes strategy) owning minority stakes in privately owned GPs as at 2024

Company name	Public/private	Known as	GP stakes est. AUM (\$bn)*	Activity in the GP stakes strategy	GP stakes partner-firm examples
Blue Owl	Public	Dyal Capital	31	Over 40 investments. Blue Owl Capital was formed in 2021 after Owl Rock merged with Dyal Capital (founded in 2012)	Cerberus, Bridgepoint, CVC, Silver Lake, Vista
Blackstone Strategic Partners	Private (parent company Blackstone – public)	Blackstone Strategic Partners	9	14 private market GP investments since 2017	Leonard Green, Francisco Partners, GTCR, New Mountain Capital
Goldman Sachs Asset Management	Private (parent company Goldman Sachs Inc – public)	Petershill Partners	8.5	Over 48 investments in the past 17 years	Harvest Partners, ACP, Industry Ventures, Piney Lake, Westbrook Partners, Caxton
Wafra	Private	Wafra	9.8	30 private market GP investments since 2012	Digital Bridge, Greenbelt Capital Partners, Motive Partners, Oak Hill Capital, Citation
Total			58.3		

*These are AUM in GP stakes funds available on Preqin Pro

Source: Preqin Pro

There are four key exit opportunities for investors in GP stakes: exit at net asset value; selling on the secondary market; acquisition by the GP partner; and IPO of the GP partner. The major challenges with these exit routes relate to capital value creation and timing. None of these routes are guaranteed.

A GP listing is an exit route for an investor in a GP stake, but it can also serve as an entry point for investors looking to invest in GP stakes by purchasing less risky shares of a listed GP on a stock exchange that offers daily liquidity.

Key investor risks with GP stakes funds

The main risks for investors include:

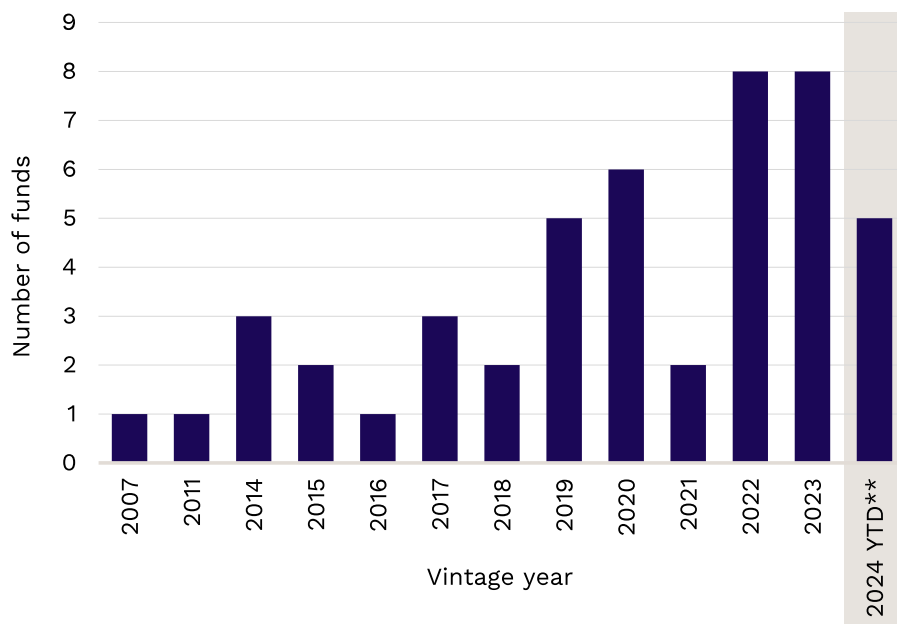
- As with most private capital strategies, portfolio companies risk significantly underperforming in growth and profitability. Investors in GP stakes need to closely monitor fundraising capabilities, fee structures, and market competition.
- GP stakes are generally illiquid, and the secondary market for these investments may be limited.
- Exiting GP stakes can take longer than an investor anticipates, potentially freezing investor capital and reducing their near-term returns.
- Capital concentration/asset gathering: GP stakes owners benefit directly from the alternatives asset manager’s success, being GP’s co-owners. In contrast, GPs launching funds can be tempted to gather assets from LPs and collect their fees on these commitments, but then struggle to deploy them.

Funds vary by region and size, with ambitious return targets

As GP stakes is a niche strategy, there are only a few dozen funds investing in this way. The 47 GP stakes funds on Preqin Pro vary by manager, vintage, size, strategy, and regional focus (Fig. 7.2). The total AUM of the 28 closed funds tracked on Preqin Pro is \$60bn.

Fig. 7.2: More funds in recent vintage years

GP stakes funds (closed and raising capital) by vintage*



Source: Preqin Pro

*For vintage years not included, either no funds were launched or they were not recorded in Preqin Pro
 **YTD to end-Aug 2024

We have identified 18 GP stakes funds currently in market. Managers include Blue Owl, Wafra, Armen, Almanac Realty Investors, AXA IM Prime, Azimut, Bonaccord Capital Partners, Goldman Sachs Alternative Investment and Manager Selection (AIMS), Investcorp, and Fund Launch Partners. Of those, Blue Owl, Wafra, Bonaccord Capital Partners and AIMS are well known to the market, and others are building their presence.

Our conversations with experienced GP stakes managers, as well as our own estimates of the strategy, suggest GPs target between 5% and 15% cash-on-cash annual return on their GP stakes investments, and potentially more in stronger years. Furthermore, GP stakes funds have unlimited upside potential, similar to growth equity. Returns will correlate closely with the strategies of the underlying GPs.

Performance of two GP stakes funds custom benchmarks

Net median internal rate of return (IRR) for the 2007–2019 benchmark is 14.9% (Fig. 7.3). The 2020–2022 vintages benchmark is still early in its constituent funds’ period, so IRR is not yet available (Fig. 7.4).² Distributed to paid-in (DPI) measures differ for the two benchmarks, with median DPI of 51.7% and 11.0% for the 2007–2019 and 2020–2022 vintages, respectively. We expect the benchmark for earlier vintages to have higher DPI as managers distribute capital back to investors.

Fig. 7.3: Performance factors vary between funds

GP stakes funds custom benchmark performance, 2007–2019 vintages, eight funds

	Net IRR (%)	Net multiple (X)	RVPI (%)	DPI (%)	Called (%)	Fund size (\$bn)
Median	14.9	1.49	97.8	51.7	94.9	2.1
Weighted	20.7	0.5	29.6	20.4	29.6	n/a
Average (mean)	16.3	1.59	77.2	81.4	89	3.3
Standard deviation	12.3	0.56	47.6	90.6	17.9	n/a
Maximum	41	2.65	119.4	264.5	100.6	n/a
Minimum	-0.7	0.96	0	28	53.8	n/a

Source: Preqin Pro

Fig. 7.4: For recent vintages capital is still to be returned to investors

GP stakes funds custom benchmark performance, 2020–2022 vintages, six funds

	Net IRR (%)	Net multiple (X)	RVPI (%)	DPI (%)	Called (%)	Fund size (\$bn)
Median	n/a	1.37	126	11	36	1.4
Weighted	n/a	0.54	44.5	9.3	15.1	n/a
Average (mean)	n/a	1.29	116.4	12.1	40.1	3.7
Standard deviation	n/a	0.24	25.3	14.2	20.7	n/a
Maximum	n/a	1.52	139	35.3	72	n/a
Minimum	n/a	0.89	87.8	0	18.6	n/a

Source: Preqin Pro

Listed GPs outperform most major equity indices and listed asset managers

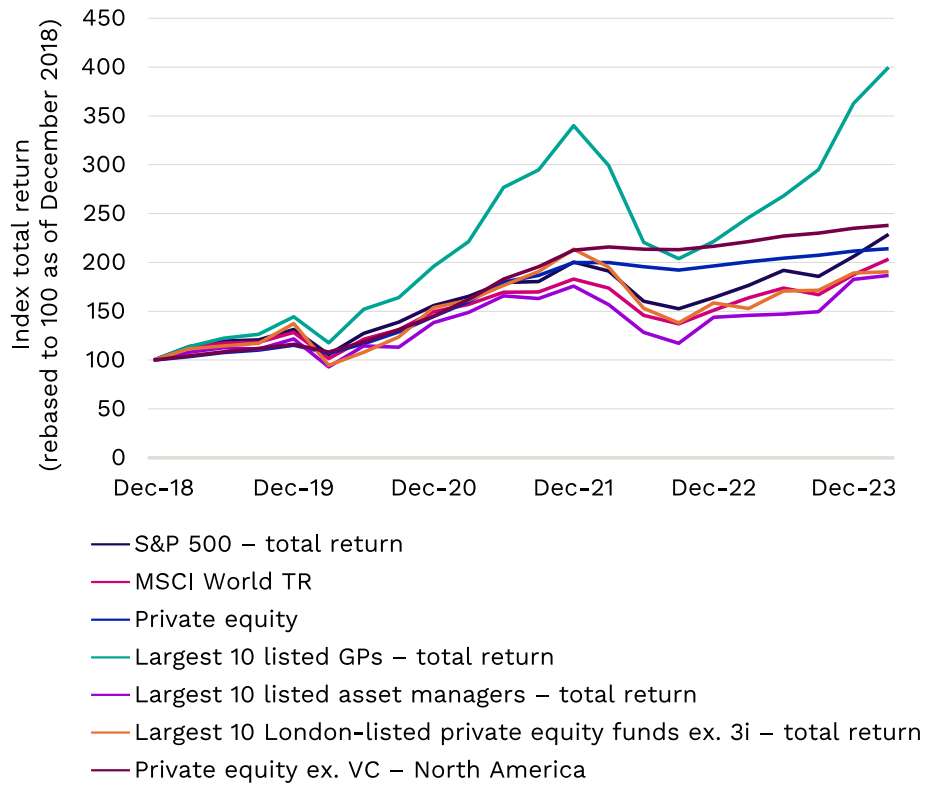
The recent performance of listed GPs has been strong. The shares of the largest 10 listed GP companies (by market capitalization) outperformed comparable indices since December 2018, with a total return of 399.8% (Fig. 7.5). During the same period, the S&P 500 Index and MSCI World Index had total returns of 228.6% and 203.4%, respectively. The largest 10 listed GPs also outperformed the Preqin Private Equity Quarterly Index, which had a 214.0% total return.

² Not all funds have complete performance factors’ data on Preqin Pro, such as net IRR or DPI. Analysis is for indicative purposes only.

In recent years a few more GPs have gone public, including CVC and TPG. We expect this trend to continue with more GPs listing as they grow. GP stakes owners with publicly traded equity stakes can choose to hold their stakes with a public company to further benefit from income and capital appreciation of their investment or sell their stakes following an IPO.

Fig. 7.5: Largest 10 listed GPs index outperforms

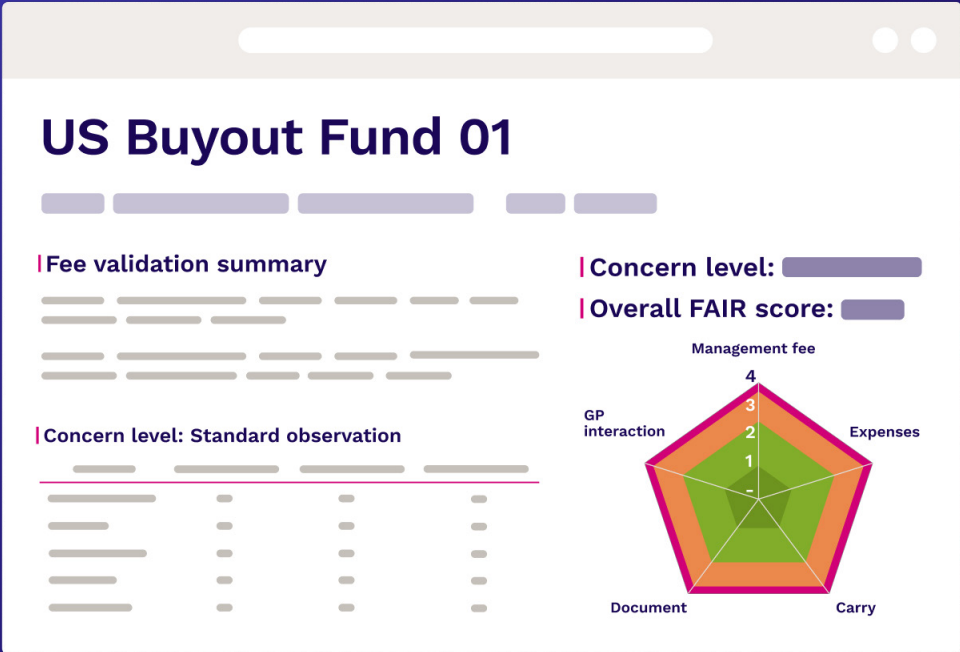
Listed GP performance vs. Preqin private equity indices and public equity indices



Source: Preqin Pro, S&P Capital IQ

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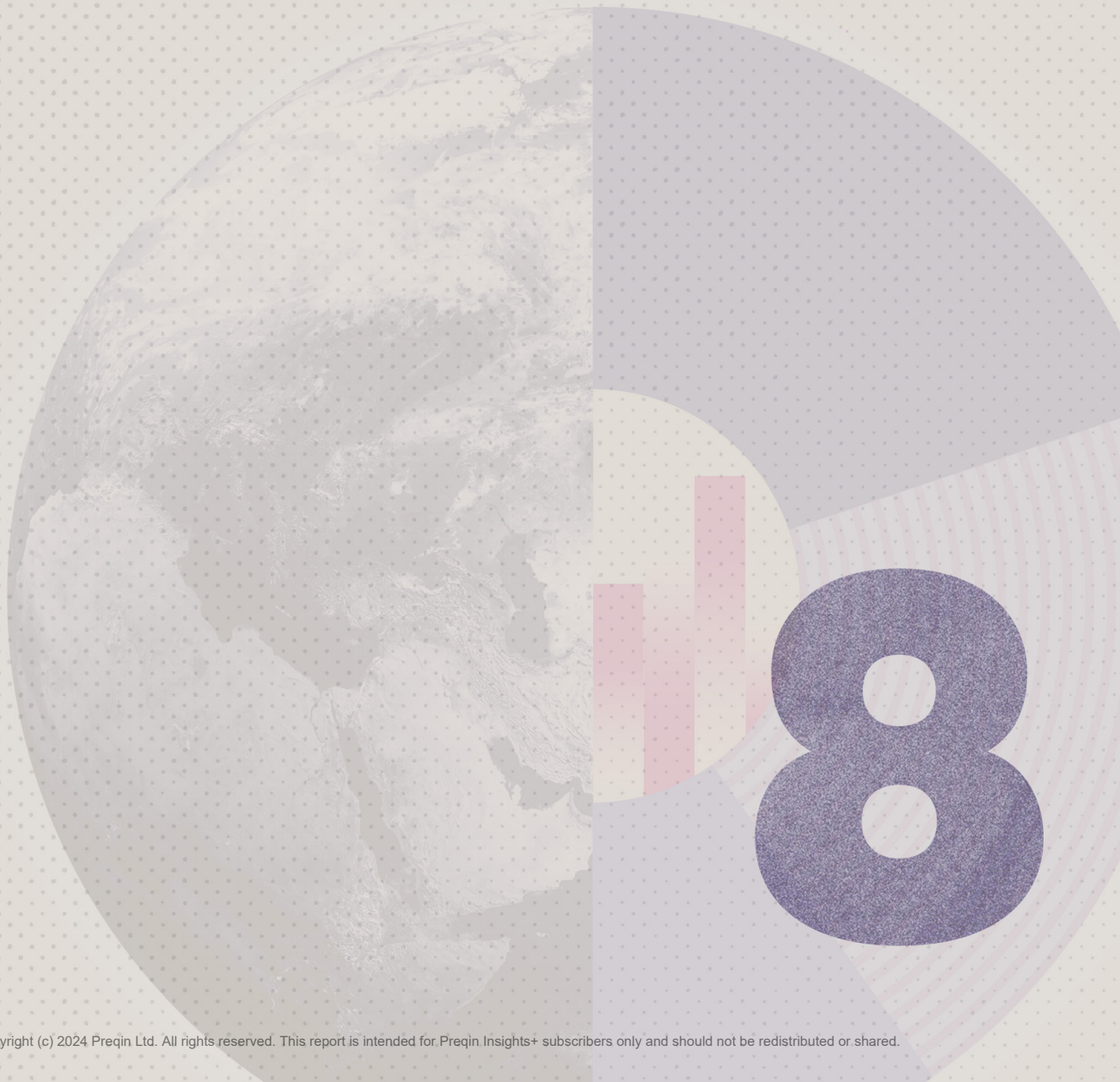
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→ Our survey: Taking the pulse

With one-third of investors disappointed with private equity returns last year, nine out of ten believe 2025 will be better



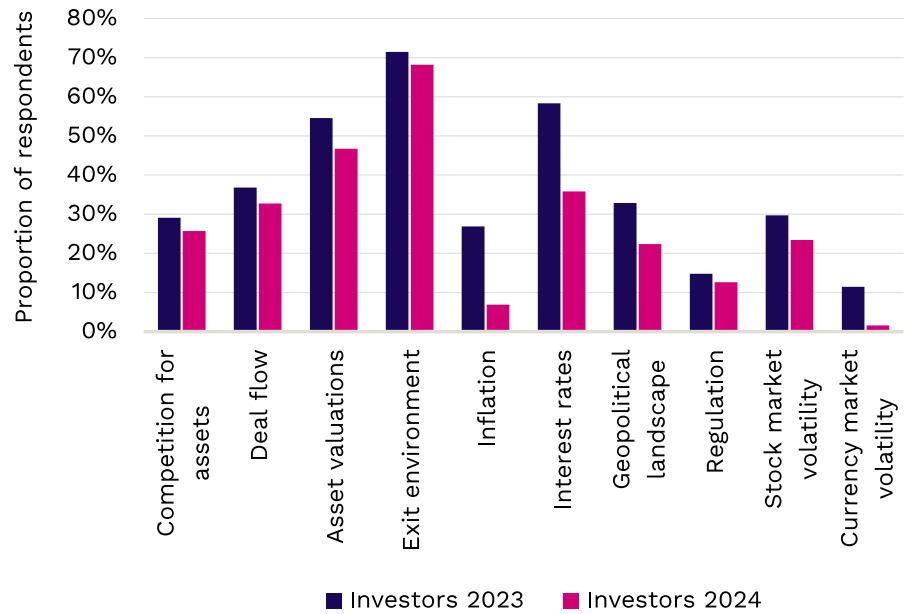


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Interest rate cuts and the prospect of more to come have boosted private equity investor sentiment for 2025. Our latest survey, carried out in November 2024, found that key investor concerns have broadly subsided this year. Compared with our November 2023 survey, the proportion of investors viewing inflation and interest rates as the main challenges dropped from 27% to 7% and from 58% to 36%, respectively (Fig. 8.1). While the exit environment and asset valuations continue to worry some

Fig. 8.1a: Private equity investors' concerns eased over a year

Investors were asked: 'What are the the main challenges to return generation in the next 12 months?'



Source: Preqin investor surveys, November 2023 – 2024

Fig. 8.1b: Private equity fund managers' concerns eased over a year

Fund managers were asked: 'What are the the main challenges to return generation in the next 12 months?'



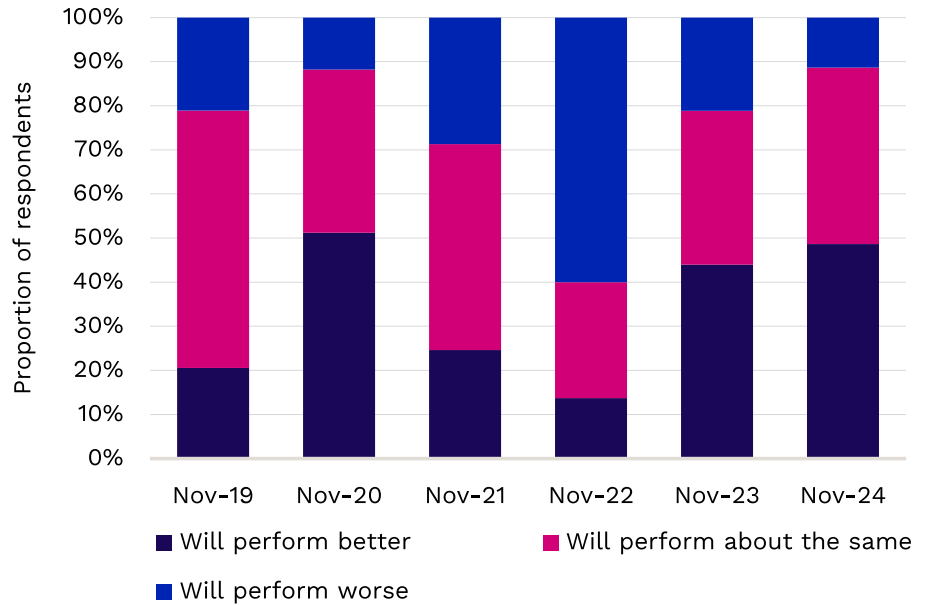
Source: Preqin fund manager surveys, November 2023 – 2024

investors, they do so less than in 2023. Fund managers, also surveyed in November 2024, are more cautious this year than last, with increased concerns about regulation, asset valuations, geopolitics, and currency volatility.

Investor optimism has shifted performance expectations for private equity portfolios over the next 12 months, with just 11% of respondents believing the asset class will perform worse, compared with 21% in the 2023 survey (Fig. 8.2). More investors are looking to the next year with optimism, despite one-third of investors being disappointed about private equity performance over the past year (Fig. 8.3).

Fig. 8.2: Private equity investors more optimistic on performance in 2025

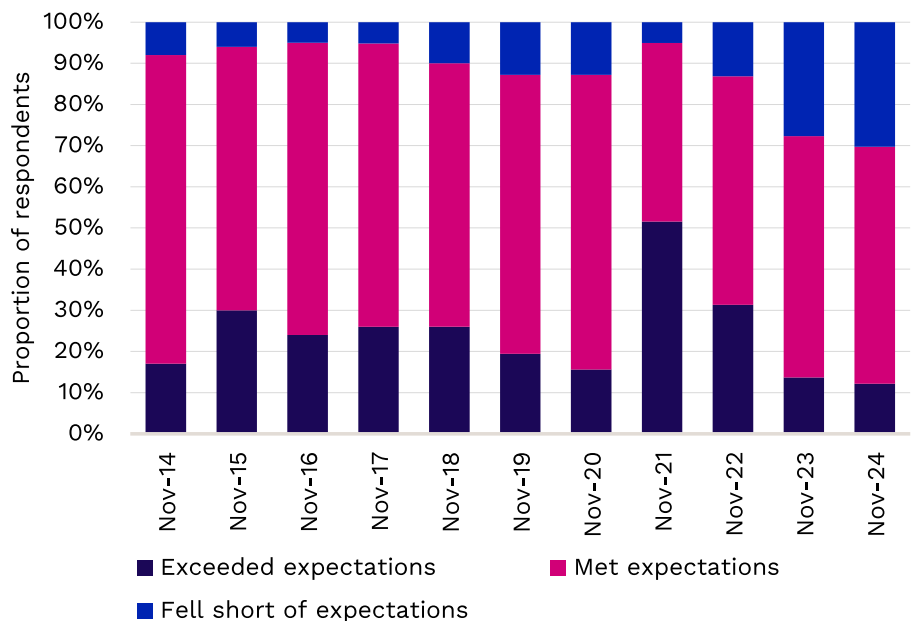
Investors were asked: ‘How will next 12 months’ performance compare to previous 12 months?’



Source: Preqin investor surveys, November 2019 – 2024

Fig. 8.3: Private equity has disappointed more investors in 2024

Investors were asked: ‘Has the performance of private equity in your portfolio lived up to your expectations in the past year?’



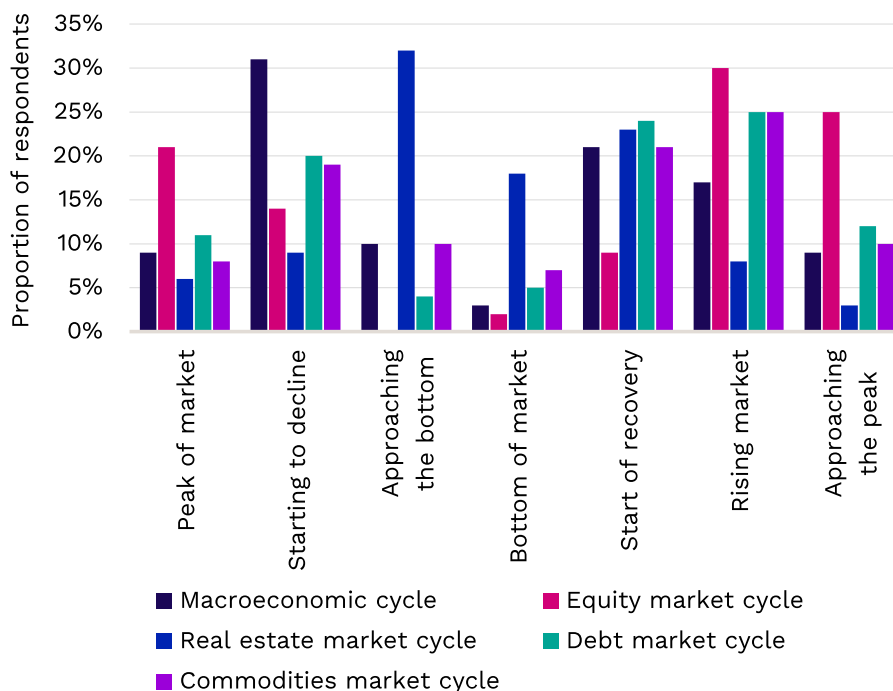
Source: Preqin investor surveys, November 2014 – 2024

Investors have split opinions on the macroeconomic cycle

The optimistic mood spreads to investors’ views about the macroeconomic cycle, with one-third of respondents seeing the economy as starting to recover or in a rising market (Fig. 8.4). Only 9% of respondents to our November 2023 survey thought this way. That said, opinions remain divided: about one-third believe the global economy is starting to decline, and that we have not yet reached the turning point. The focus toward a recovery phase is evident, with fewer investors than in the last survey believing the economy is in decline and more believing it is approaching the peak. The proportion of respondents who consider the economy to be approaching the bottom has shrunk, from 26% in 2023 to 10% in this year’s survey.

Fig. 8.4: About one-third of investors now see the economy starting to recover or in a rising market

Investors were asked: ‘How would you describe the current point in the following market cycles?’



Source: Preqin investor survey, November 2024

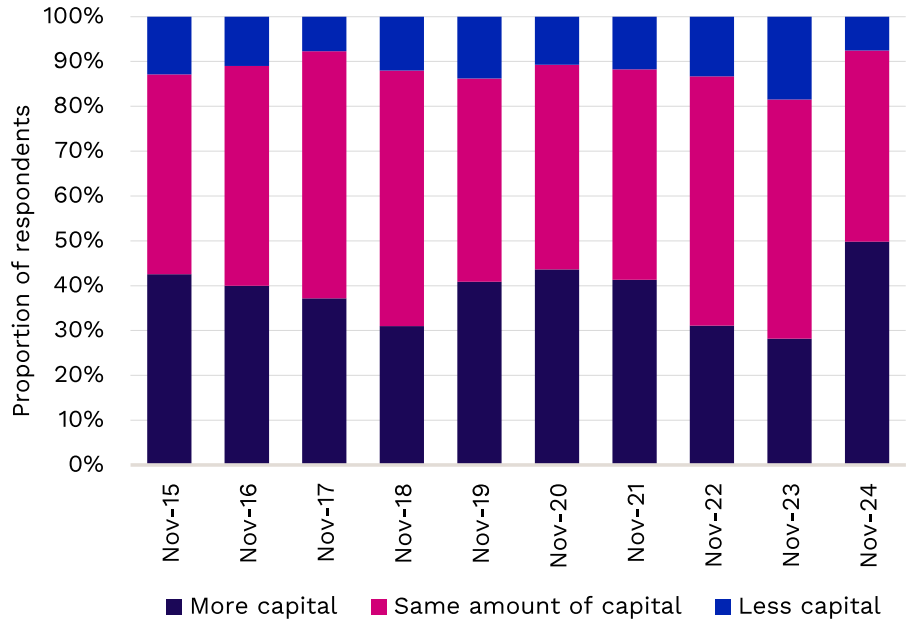
This shift in sentiment aligns with the actions of central banks to stimulate the economy, with both the European Central Bank and the Federal Reserve moving ahead with their interest rate cutting cycles. Most investors agree the economy, equities, debt securities, and commodities are either in recovery, in a rising market, or approaching market peaks. Some 90% of respondents believe the equity market is either rising, nearing or at its peak, or starting to decline, which is logical given the equity rally in 2024. A small minority of 2% think it has reached the bottom, while 9% consider it to be in the early stages of recovery.

Proportion of investors aiming to increase exposure to private equity jumps

This optimism translates into increasing investor appetite for the next 12 months. Half of investors aim to increase their investment in private equity, compared with 28% the year before (Fig. 8.5). Only 8% of respondents plan to invest less, down from 18% in the November 2023 survey. Reassuringly, long-term private equity allocation plans remained stable: 48% of investors are looking to increase their long-term exposure, the same as in the November 2023 survey, while 46% plan to maintain allocation, up four percentage points from the last year (Fig. 8.6). Only 6% of investors are allocating away from the asset class in the long term.

Fig. 8.5: Half of investors to increase investment in private equity

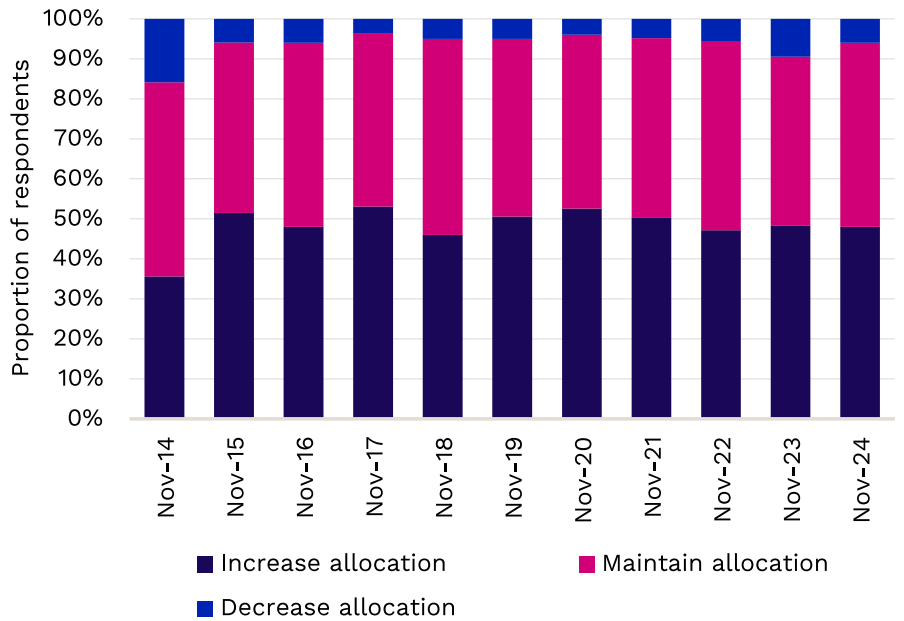
Investors were asked: 'In the next 12 months do you expect to invest more, less, or the same amount of capital in private equity than you did in the last 12 months?'



Source: Preqin investor surveys, November 2015 – 2024

Fig. 8.6: Long-term allocation plans edge up slightly

Investors were asked: 'In the longer term, do you expect to increase, decrease, or maintain your allocations to private equity?'



Source: Preqin investor surveys, November 2014 – 2024

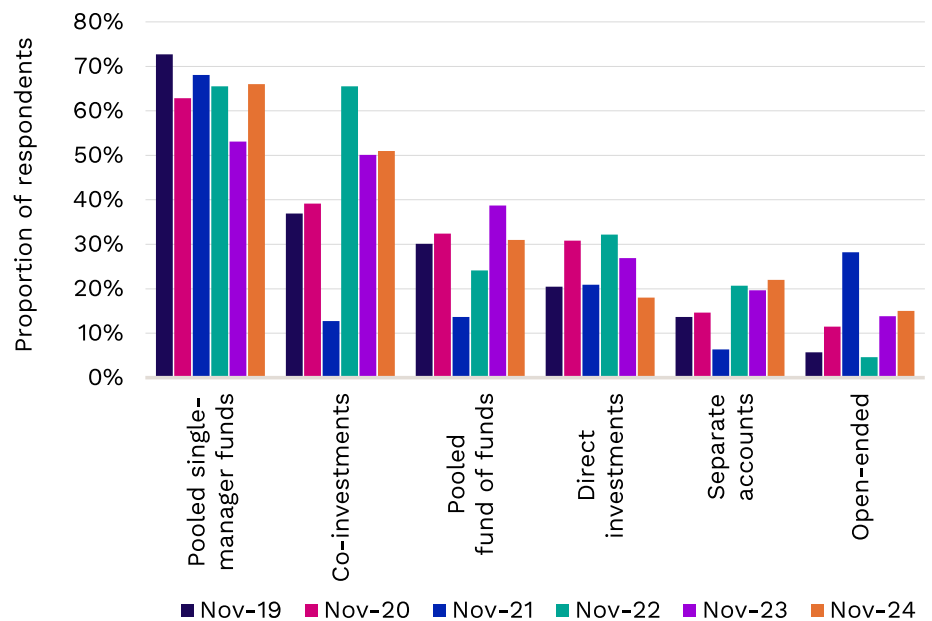
Renewed appetite for pooled single-manager funds, away from direct investing

The most popular investment structure – pooled single-manager funds – has seen renewed interest from investors, with over two-thirds using it (Fig. 8.7). Open-ended funds are also on the rise, with 15% of investors interested, slightly up from the previous year and three times more than in our November 2022 survey. Open-ended mandates are regaining investor interest because they allow investors more flexibility to enter and exit. Separate accounts, as customized solutions, are also gaining traction.

All this comes at the expense of direct investments (investor interest has dropped from 27% in the November 2023 survey to 18% this year) and is helped by the democratization of the private equity market, with more non-institutional investors entering. These investors typically have less risk appetite and capital to invest directly.

Fig. 8.7: New fund structures mean direct investing is trending downward

Investors were asked: ‘What structures will you look to utilize for your future investments in private equity?’



Source: Preqin investor surveys, November 2019 – 2024

The developments in investor preferences for various fund structures confirm the structural movement of the private equity industry into the non-institutional space, including family offices, wealth managers, and private banks.

Small- to mid-market buyout strategy regains the lead from secondaries

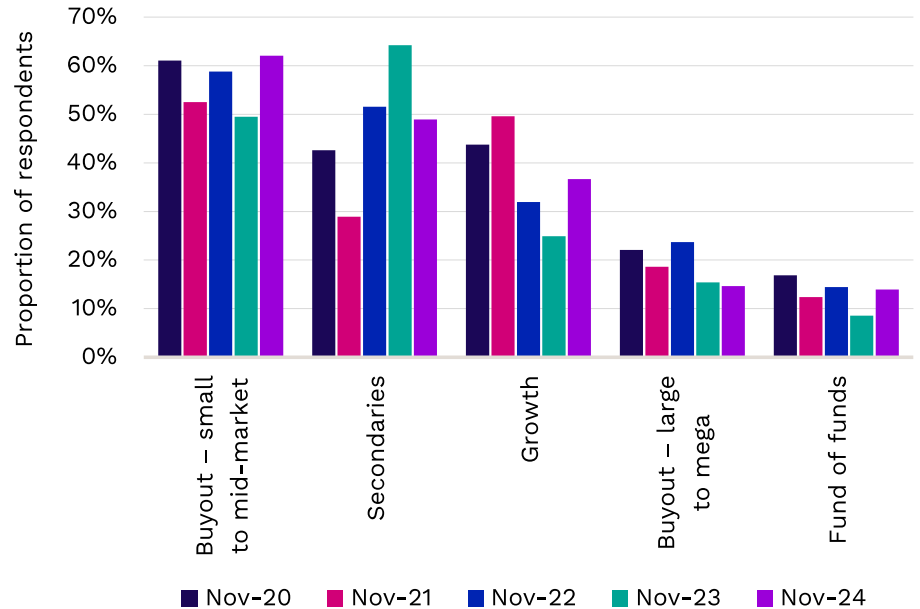
In last year’s Global Report on private equity,¹ we highlighted that secondaries had emerged as the most popular strategy among investors for near-term investing, surpassing the small- to mid-market buyout strategy. Secondaries led in 2024, but our November 2024 survey shows that investors have shifted their preference back to small- to mid-market buyout (Fig. 8.8). This is understandable, particularly as liquidity

¹ <https://preqin.com/insights/global-reports/2024-private-equity>

is expected to return to the private equity market as rate cuts are implemented. Investors expect increased activity in the small- to mid-market space, which has historically delivered strong performance within private equity and is well positioned to continue to outperform. We provide more details in the ‘Focus on the mid-market’ chapter.

Fig. 8.8: Investors are turning back to small- to mid-market buyouts

Investors were asked: ‘What types of private equity funds will present the best opportunities in the next 12 months?’



Source: Preqin investor surveys, November 2020 – 2024

Historical trends continue in developed and emerging market geographies

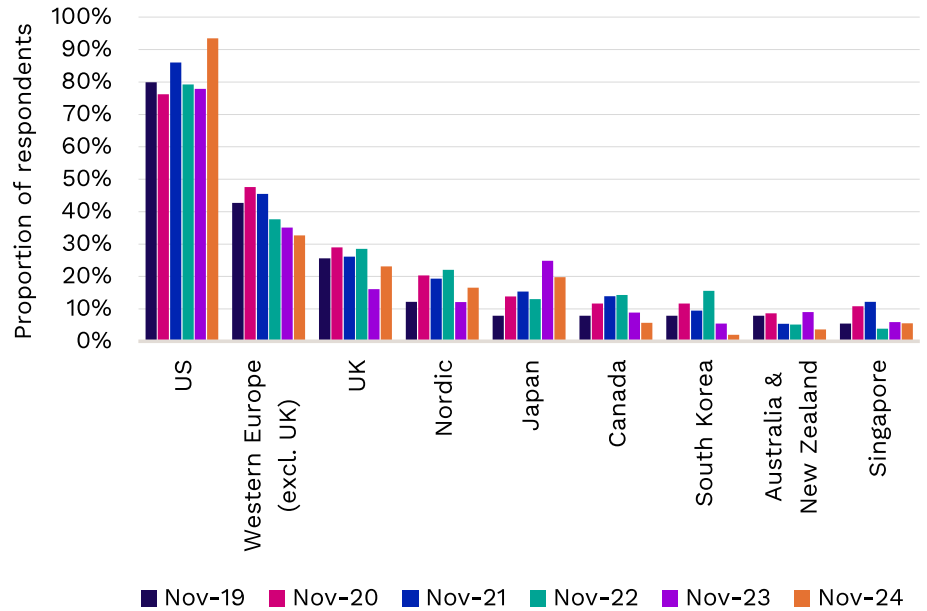
Investors did not seem to be immediately spooked by the results of the November 2024 US presidential election and have downplayed election risk in private markets.² Historically, the US has always been the largest private equity market, with the majority of investors preferring to have their largest exposure there, but in the past six years a record proportion of investors have chosen the US as their preferred geographic opportunity, with the largest proportion (93%) in November 2024 (Fig. 8.9).

² <https://peqin.com/insights/research/research-notes/us-election-four-fault-lines-for-private-markets>

Other developed markets have gained back interest after a loss of popularity in 2023, including the UK and the Nordics, which are up 7 percentage points (ppts) to 23% and 5ppts to 17%, respectively. Japan remains a popular market, although the 20% of respondents favoring it is a 5ppt drop from the November 2023 survey and contrasts with its surge in popularity the previous year.

Fig. 8.9: US interest is at a record high, as UK edges up

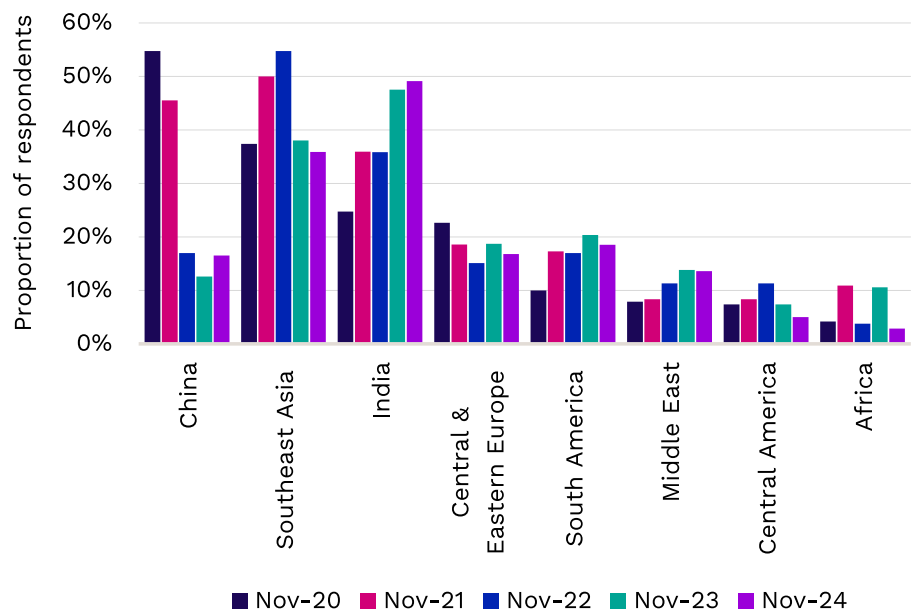
Investors were asked: ‘Which developed markets present the best opportunities in the next 12 months?’



Source: Preqin investor surveys, November 2019 – 2024

Fig. 8.10: India leads the way but sentiment toward China improves slightly

Investors were asked: ‘Which emerging markets present the best opportunities in the next 12 months?’



Source: Preqin investor surveys, November 2020 – 2024

In terms of emerging markets, both China and Southeast Asia are gaining renewed interest, with sentiment toward China gradually improving, but many investors are still cautious. India retains its leading position in the eyes of investors (Fig. 8.10). As outlined in our research note *Future of Alternatives: moving forward in APAC*, we take the view that returns from all highlighted regional private equity strategies in APAC – such as buyout, growth, fund of funds, and secondaries – will improve from 2023 to 2029 compared with the 2017–2023 period.³ Higher-performing APAC markets, including India and Japan, are expected to offset the anticipated lagging performance from China due to highly subdued market sentiment and the prospect of sustained macroeconomic stimulus from Beijing. We also noted that potential upside for our forecasts could come from China. Meanwhile, investors are cautious about both Western and Central/Eastern Europe, likely due to geopolitical tensions in the region and lower-than-historical expected economic growth.

³ <https://www.preqin.com/insights/research/research-notes/future-of-alternatives-moving-forward-in-apac>

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→ Private equity: Fees and terms

Buyout mean management fee rates are at a 20-year low while, for smaller funds, other terms favor GPs



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The current evolution of private equity management fees is likely to set the precedent for private capital. This is because private equity is the largest asset class, comprising about 45% of private market assets under management¹ as of 2023, and also one of the most established. In this chapter, we examine trends in management fees, with special attention on cumulative net fees paid over the fund’s life. We also look at performance fees and GP commitment to the fund.

Mean management fee rates lower but median is flat, reflecting fundraising and manager diversification

In 2024,² mean buyout and growth investment period management fee rates fell to 1.74% and 1.93%, respectively (Fig. 9.1 and Fig. 9.2). For growth, it was a three-year low; for buyout, it was a 20-year low. However, the medians for both strategies remained at 2.00%. The medians have not fluctuated over the 20-year horizon. As fee rates march lower, it is tempting to dismiss these decreases as solely a function of fundraising. But, while this is likely a contributing factor, there is at least one other factor that affects decreasing fee rates.

If buyout management fee rates are segmented by fund size, we see an arch form in which the smallest and largest fund-size quartiles have lower mean fee rates (Fig. 9.3). The largest fund sizes have economies of scale that allow them to charge a lower fee. The smallest fund sizes could be associated with smaller, emerging managers who do not yet have a track record to help market their fund. This group could find itself having to compete on fees with mid-sized funds and more experienced managers. The median consistently reads 2.00%.

1 <https://www.preqin.com/insights/research/reports/future-of-alternatives-2029>

2 Data as of June 2024.

Fig. 9.1: Mean buyout management fee rate lowest in 20 years while median flat

Buyout funds – average management fee by vintage year

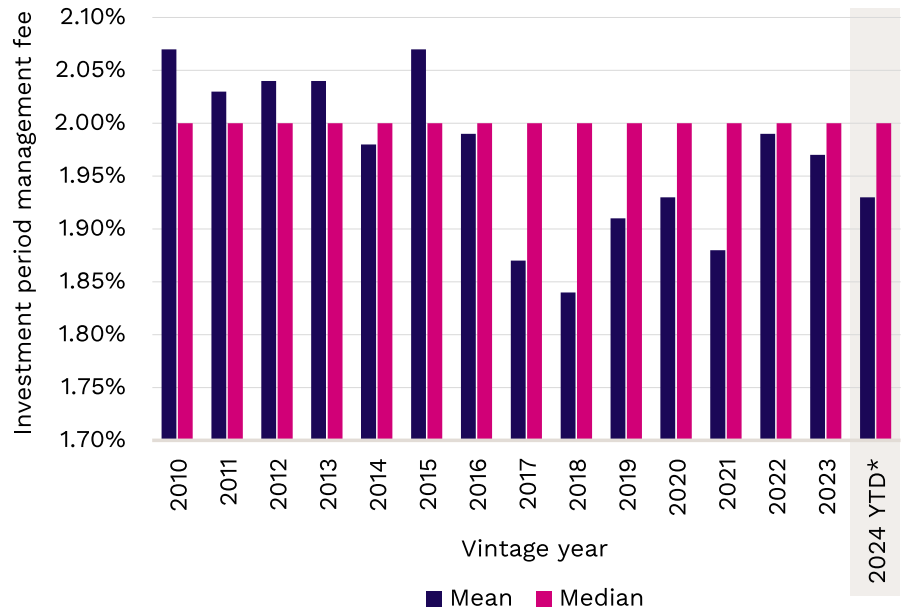


*2024 (funds raised YTD and closed)

Source: Preqin Pro. Data as of June 2024

Fig. 9.2: Mean growth equity management fee rate lower but above recent average

Growth funds – average management fee by vintage year

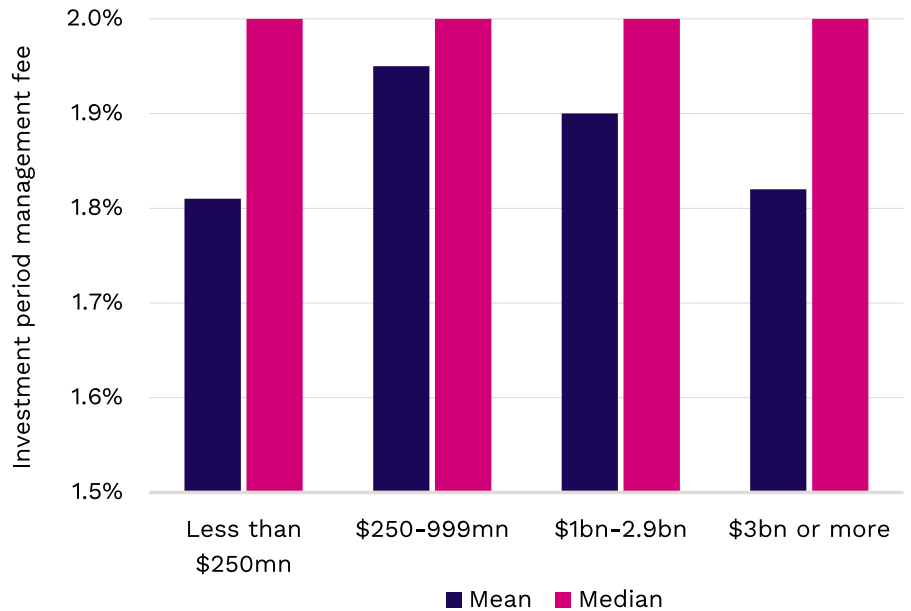


*2024 (funds raised YTD and closed)

Source: Preqin Pro. Data as of June 2024

Fig. 9.3: Smallest and largest fund sizes have lower mean fee rates

Buyout funds – average management fee by fund size (raising, and closed 2023 and 2024 funds)



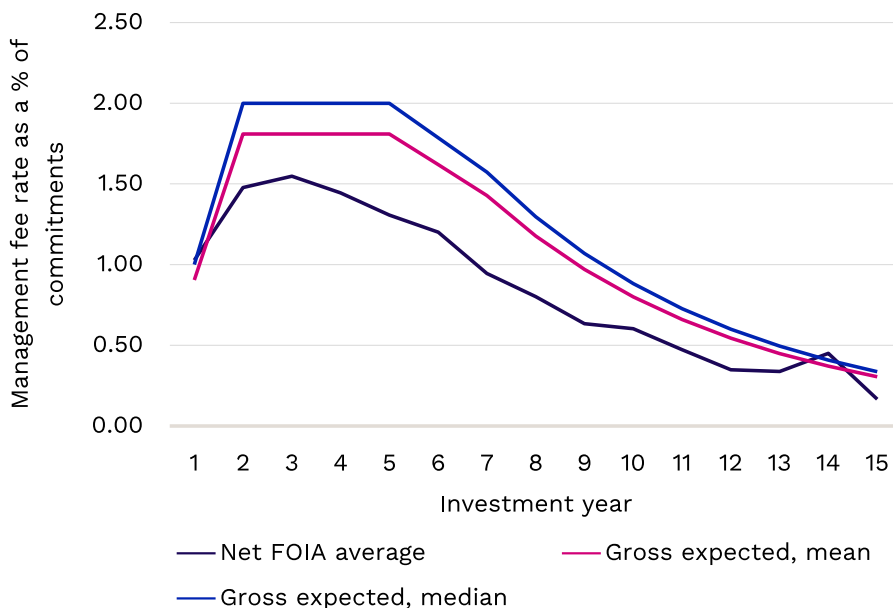
Source: Preqin Pro. Data as of June 2024

Gross to net spread can be explained by offsets and discounts

Over a 12-year private equity fund life, LPs have paid 11.81% of their commitment in management fees, net of any offsets, discounts, rebates, and waivers (Fig. 9.4). This statistic is based on Freedom of Information Act (FOIA) data. Based on limited partnership agreement (LPA) terms such as management fee rate, investment period (IP) and post-IP length, and management fee basis, an investor could model gross fees. In our model, investors could expect to pay on average 15.35% of their commitments.³ The difference between the gross expected and net paid management fees is 3.54 percentage points.

Fig. 9.4: Private equity funds have a large gross-to-net spread

Management fees by investment year as a percentage of commitment



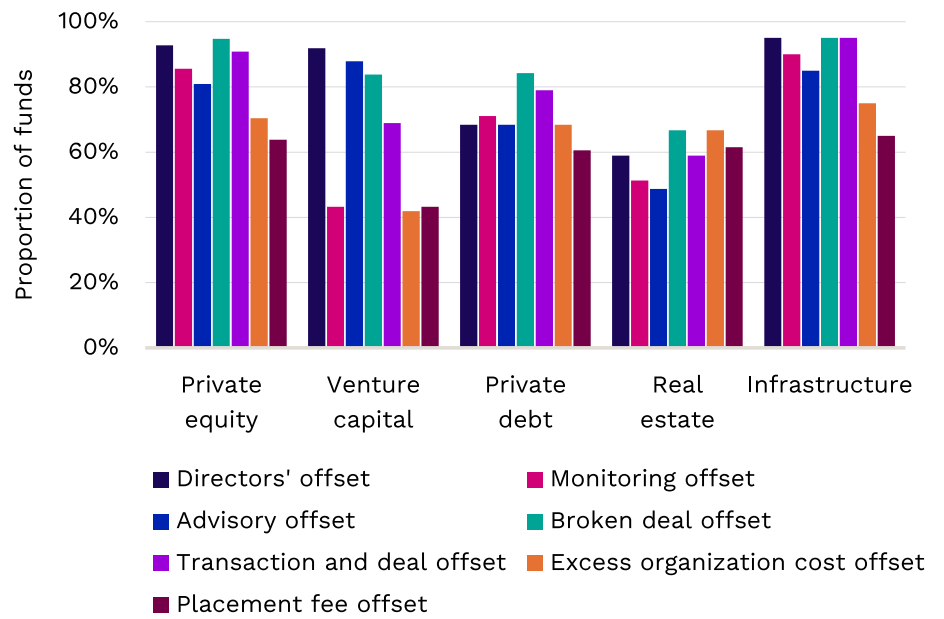
Source: FOIA, Term Intelligence. Data as of July 2024

Offsets and discounts account for much of the gross-to-net spread. In over 90% of LPAs, private equity funds offer offsets for directors’ fees, broken deal expenses, and transaction and deal fees (Fig. 9.5). Although only 64% of private equity LPAs offer placement agent fee offsets, this proportion is similar in other asset classes.

³ For a full list of assumptions in this model, see the data sources chapter in The 2024 Preqin Private Capital Fund Terms Advisor: <https://preqin.com/insights/research/reports/the-2024-preqin-private-capital-fund-terms-advisor>

Fig. 9.5: Infrastructure fee offsets incidence resemble those of private equity

Management fee offsets incidence by asset class (vintages 2020 onward)*



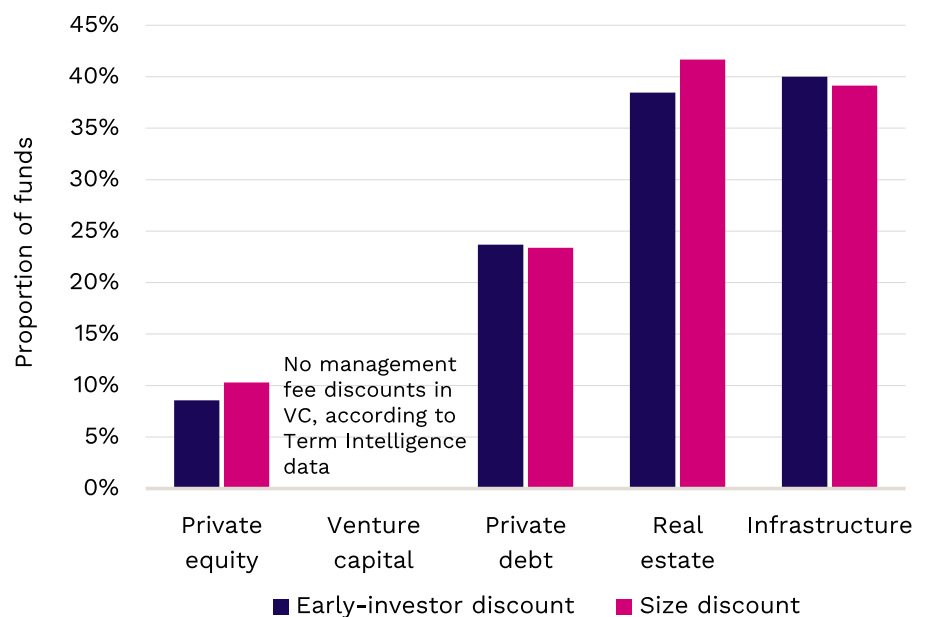
*2024 (funds raised YTD and closed)

Source: Term Intelligence

Discounts in private equity funds are reserved for two kinds of investors: those who commit funds early and those with large commitments (Fig. 9.6). Although private equity funds may appear unlikely to offer discounts compared with funds of other asset classes, private equity funds may opt to reserve discounts for side letters⁴ rather than the LPA, which all investors can read. When written in the LPA, median discounts

Fig. 9.6: Private equity LPAs appear to offer few discounts but side letters contain additional discounts

Incidence of management fee discounts by asset class (vintages 2020 onward)*



*All funds are closed

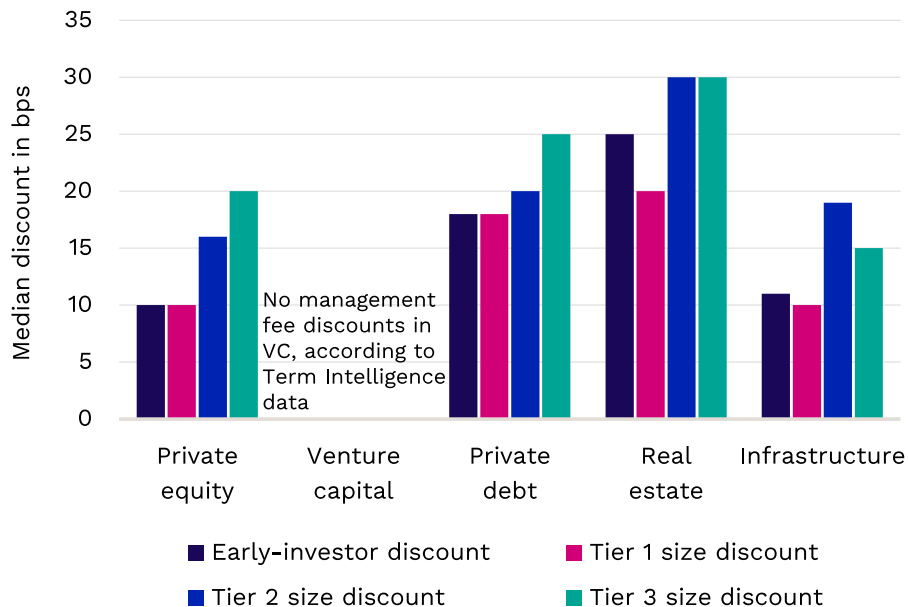
Source: Term Intelligence

⁴ Side letters are unique to every investor and are not disclosed to other investors.

for early investors were 10 basis points (bps) and median discounts for large investors ranged between 10 and 20bps (Fig. 9.7). Discounts may apply for the entire term or for the investment period only.

Fig. 9.7: Private equity fee discounts below private debt and real estate

Median size of discounts by asset class in basis points (vintages 2020 onward)*



*All funds are closed

Source: Term Intelligence

Performance fees

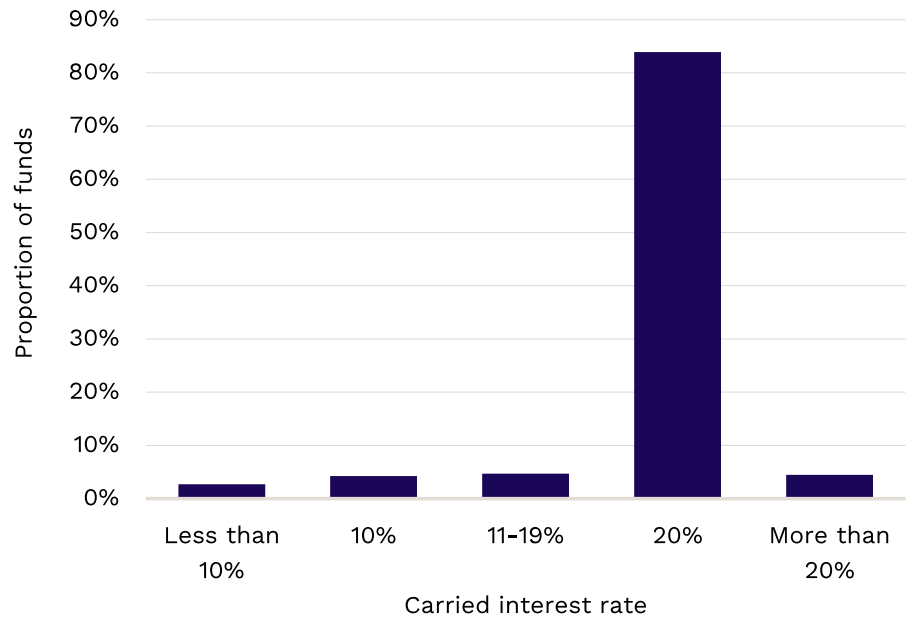
While market forces have affected management fees over the past 20 years, they have had comparatively little effect on carried interest. Raising and closed in 2023 and 2024 private equity funds (Fig. 9.8) had a median carry rate of 20% and a mean of 19.3%. This has changed little in the past two decades. Whereas the nominal value of management fees are predictable over a fund’s life, actual carried interest fees earned are not, as they are based on performance. This makes the latter a bigger focal point for negotiation. Further, negotiating down a performance fee could disincentivize a manager from seeking outsized performance.

After the LP receives distributions in the amount of the preferred return, distributions in a plain vanilla distribution waterfall⁵ flow to the GP in what is known as the ‘GP catch-up’. This is generally between 50% and 100%. In the case of 100%, the GP receives all cash flows for a given time period while the LP receives none. As of our latest reading, the 100% catch-up occurred in almost 70% of cases for the above-mentioned fund group (Fig. 9.9).

⁵ A plain vanilla distribution waterfall has 4 stages: 1) return of capital – distribution to LPs to return capital for all investment and expense contributions; 2) preferred return – distribution to LPs in the amount of the hurdle rate, often 8%; 3) GP catch-up – distribution to GP to catch it up to the preferred return, can be up to 100%; 4) carried interest – further distributions split between LPs and GP in the amount of carried interest, often an 80/20 split.

Fig. 9.8: 20% carried interest remains the mode

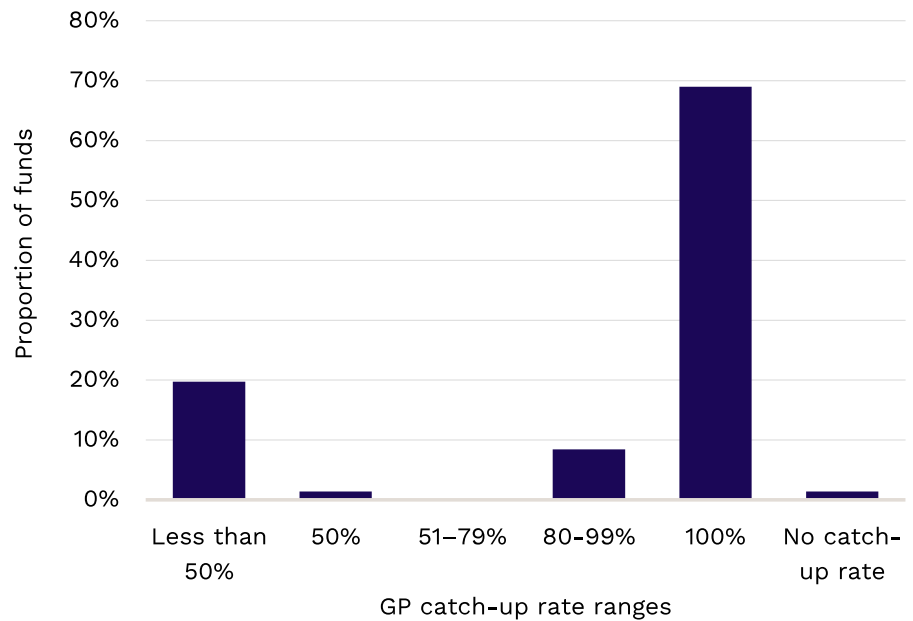
Carried interest rate used by direct private equity funds (raising, and closed 2023 and 2024 funds)



Source: Preqin Pro. Data as of June 2024

Fig. 9.9: 100% catch-up rates in almost 70% of recent funds

GP catch-up rate private equity (raising, and closed 2023 and 2024 funds)



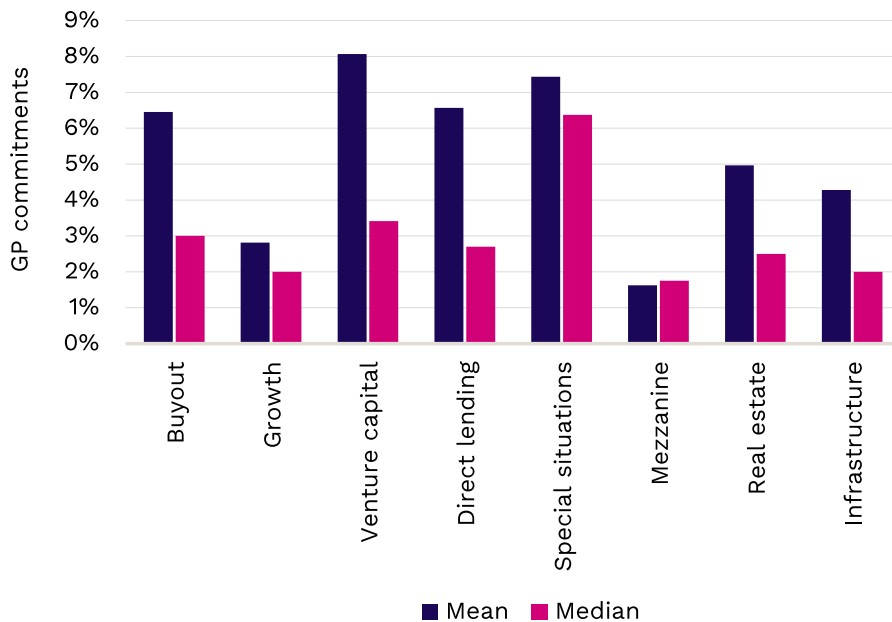
Source: Preqin Pro. Data as of June 2024

GP commitment to the fund rises in buyout

As a measure of skin in the game, the GP commitment is increasingly a focal point for LPs, as reflected in our June 2024 investor survey.⁶ A GP commitment of at least 2% in cash is considered best practice. For raising and closed 2023 and 2024 funds, buyout funds had a median of 3.00% GP commitment while growth had a median of 2.00% (Fig. 9.10). From last year’s reading, the mean and median GP commitments increased in buyout and in smaller managers. This appears to reflect the more difficult fundraising environment both in buyout and for smaller managers.

Fig. 9.10: GPs often commit 2% of fund size or more across fund types

Average GP commitment as a percentage of fund size, by fund type (raising, and closed 2023 and 2024 funds)



Source: Preqin Pro. Data as of June 2024

For additional analysis on private equity fees and terms, read The 2024 Preqin Private Capital Fund Terms Advisor.⁷

6 <https://www.preqin.com/insights/research/investor-outlooks/investor-outlook-h2-2024>

7 <https://preqin.com/insights/research/reports/the-2024-preqin-private-capital-fund-terms-advisor>

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Predictions

1 2023's record aggregate fundraising will be hard to surpass

Global aggregate private equity fundraising decreased during the first three quarters of 2024, compared with the same period in 2023. As funds continue to grow larger, a 25.1% drop in the number of funds closed (646) resulted in only an 11.8% drop in aggregate capital raised (\$482bn). Other alternative strategies, along with strongly performing public markets, diverted some investor capital that would have otherwise gone to private equity, slowing capital flows into private equity during this period. It is unlikely that 2024 will surpass the record in aggregate achieved in 2023, but the start of the monetary-loosening cycle should stimulate private equity fundraising in the fourth quarter of 2024 and early 2025 as investors consider allocations.

2 Growth of non-institutional investors will attract asset managers and regulators

The trend of increasing capital raised from non-institutional investors, such as family offices, wealth managers, private banks, and individual investors – who currently have relatively low exposure to private equity – is here to stay. Over the six-year forecast period from end-2023 to 2029F, we expect traditional asset managers to continue making acquisitions to grow their private markets offerings. With private equity remaining the largest asset class within private markets, many of these acquisitions involve the non-institutional segment. The growing importance of the private wealth channel, and the potential for concerns over growing systemic market risk, is likely to prompt a gradual increase in interest from regulators.

3 Deals and exits will turn a corner

We might be at a turning point on the deal and exit level, and the overall private capital deals market might be bottoming out. With further cuts to interest rates and an expected push to close deals in the fourth quarter, 2024 could surpass 2023 in terms of deal value. An analysis of actual estimated deal volumes indicates private equity deal volume is normalizing at around the five-year average, and the first decline in dry powder since 2019 may point to deal-maker optimism. As the rate environment becomes more favorable to the industry, we expect an increase in the number of deals and exits of all sizes going forward.

4 Despite lower returns, private equity will remain the largest asset class in alternatives

Our forecast includes lower returns across most presented private equity strategies and regions (except in APAC) from end-2023 to 2029F, compared with the previous six years. Global private equity is projected to generate annualized returns of 13.4% over this period, down from 15.5% for 2017–2023. This decline is largely due to higher interest rates increasing the cost of capital for GPs. We forecast private equity to remain the largest alternatives asset class within investor portfolios. While investors may be tempted to rebalance their tactical asset allocations toward private debt (due to its stronger expected IRR, rising to 12.0% in the forecast period from 8.1% in 2017–2023)¹, we expect the long-term private equity/debt balance to remain broadly unchanged.

¹ <https://www.preqin.com/insights/research/reports/future-of-alternatives-2029>

