PREQIN UPDATE[1]

By Zainab Al-Qaimi

The "Preqin Update" discussed the state of the market across various asset classes using data to analyse past performance and predict future trends.

Current challenges in the market

Investors are focused on the interest rate environment and inflation. The key question on everyone's mind is when will rates fall – but these are set to remain higher as central banks have indicated that they need to see more data before making any cuts. It is predicted that higher inflation is also here to stay, playing a key role in the correlation between various asset classes.

Trends in asset allocation

Alternative assets – why are clients gravitating towards this?

From GPs and LPs to sovereign wealth funds and family offices, there have been underlying regime changes to traditional portfolios. The key driver here is the correlation between public markets, equities and bonds. This correlation has increased over the last 25 years.

A shift in the market

A wide variety of assets constitute alternatives – these range from endowments, foundations, insurance and pension funds. In the past five years, there has been a huge growth in allocation towards these kinds of assets. As of 2023, allocations to alternatives make up nearly 20% of weighted average portfolios. Within this, endowments are the biggest allocators at 46%.

Looking ahead

Figures suggest that more than 50% of investors plan to commit more capital to private debt – it is predicted that this asset class will see the most benefit in the next 12 months. Positive sentiment has also been expressed towards private equity and infrastructure in particular. Following on from recent performances, it is no surprise that venture capital and hedge funds do not have positive projections for the upcoming year given the significant growth in down rounds over the last two years.

[1] The speaker was Paul Sinthunont (Preqin).

Looking back – 2023

Fundraising

Last year was a muted year in terms of the fundraising activity in comparison to previous years (2021 and 2022). 2023 presented a tough year, and no recovery is expected until 2026. Q1 data in 2024 indicates that this year will see a similar performance unless there are significant macro-shocks. From an asset class perspective, only private equity managed to outperform last year on the fundraising front, other asset classes suffered significant falls – some even double digit.

Deals

This landscape proved similar to that of fundraising, as there has been a fall in the number of deals since the peak of 2021. However – while deal count has reduced, there has been an increase in aggregate value at the tail end of 2023, which could signal a turning point for the market when it comes to transactions.

Impact on LPs

The slowdown in fundraising and deals has resulted in fewer distributions being received by LPs – either slowing down or completely pausing. This is hurting the pacing models of LPs, and in the long run this could result in lower commitments being made.

AUM

Looking at both dry powder and unrealised value, it is projected that the market will reach the £25.5 trillion mark. Generally, over the past decade the growth of AUM year-on-year has sat around 16%. While this level of growth is no longer expected, it is still projected to stay in the double-digit range at 10% – with private debt, infrastructure and private equity being key in driving this. From an aggregate perspective, the only asset class expected to outperform in the next six years is private debt.

Asset class updates

Private equity – while M&A deals have been falling (including sponsor backed ones), the European markets have shown positive signs as a rebound in global exits spark hope for recovery – with the LP-led secondaries market being of growing interest among clients. Generally speaking, the market seems to be awaiting direction from central banks as interest rates will play a key role. Funds-wise, despite more fundraising, fewer have been able to close.

Real estate – deal count has seen 8 consecutive quarters of decline, with contraction expected to continue. A lot of structural changes within the economy (e.g. the rise in working from home) have impacted this sector in particular. However, real estate debt has seen steady capital deployment despite deal decline. There has been a surge in dry powder across the different strategies in response to the slower deals market, with GPs waiting on the right time to invest.

Private debt – direct lending remains the most popular strategy here. Europe in particular has experienced a huge push towards private lending, while the US has remained more diverse; taking advantage of opportunities in both direct and mezzanine lending. In Europe, direct lending has taken the dominant share of AUM, with experienced managers capturing the majority of this.