

Elkstone's *Private Markets Report*

April 2025



elkstonepartners.com



Table of *Contents*

Executive Summary	01
Macroeconomic Backdrop	03
Private Equity	05
Venture Capital	08
Private Credit	11
Infrastructure	14
Real Estate	17
Sources	20

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ELKSTONE

01. Executive Summary

By Karl Rogers, Elkstone's Chief Investment Officer

The conversation in the macroeconomy in the first quarter of 2025 revolved around the impact of the trade tariffs that newly re-elected US President Donald Trump said he was going to implement. The uncertainty created among market participants by the 'will he, won't he' back and forth made its way into global markets as investors repositioned their portfolios frantically to try and take advantage of – or limit losses to – any potential consequences.

Private Equity

Unlocking the private wealth channel and increasing accessibility of private markets has been a growing trend over the past 24 months. Evergreen structures have been gaining in popularity across both private wealth and institutional investors alike, they have outperformed both their closed-end fund and public equity peers while doing so with cheaper fees than the traditional closed-end fund structures.¹

In global private equity markets, what stands out most is that public markets are finally outperforming private markets from the 2022 vintage.² Buyouts had maintained a 22-year streak of outperforming their public market counterparts.³ While public equities have recently taken the lead, this outperformance has been largely driven by the 'Magnificent 7' tech stocks—fuelled more by market momentum and supply-demand dynamics than by fundamental growth in revenues or earnings. Whether buyouts will reclaim their edge remains to be seen, especially as public markets slipped into bear market territory in Q1 2025, putting its recent outperformance gains at risk.

Venture Capital

Google's recent acquisition of Wiz has some important lessons for venture investors. Wiz's seed round closed in 2020, a year remembered for COVID and a reminder that investors can't time venture, so it is important to keep a consistent investment pace in this space. Also, the ~200x return that seed investors are making is a reminder of the potential of venture-like payoffs, and a reminder that the distribution curve is not like other asset classes.

My view is that limited partners (LPs) are taking a 'fear driven' approach towards the venture capital asset class, consequently harming the innovation layer [the early stage] of the industry due to a lack of funding going into startups when compared to historical norms. We're seeing fundraising reduced, and the capital that is available is going to the mega funds, where general partners (GPs) are focusing on mature companies in artificial intelligence, cybersecurity and climate technology that are already delivering more than €10m annual recurring revenue.⁴

Private Credit

Public equity earnings yield – as measured by the S&P500 – is lower than current US Treasury yields, meaning that credit is more attractive relatively and absolutely. It is providing higher than expected absolute yields at a lower risk than public equity, given its higher position in the capital stack. This has been a tailwind to private credit's recent strength in fundraising and performance and is expected to continue due to the 'risk-off' environment given 2025's capital market performance thus far.

Warning signs are emerging, however. There has been a pickup in payment-in-kind [PIK] levels from business development companies in the US to 10.5% of income⁵, leading to concerns that their ability to repay may be starting to falter. While this is a cautious sign for direct lending, it should provide openings for opportunistic lending strategies. Overall, macros continue to look positive for credit investors with 'higher for longer' interest rate expectations feeding into higher payments in direct lending strategies.

Infrastructure

Resilience is the keyword for the infrastructure asset class. Performance and asset valuations held strong last year despite the impact of higher interest rates⁶ as assets that provide inflation-linked revenues such as toll roads and utilities provide a hedge against yield curve steepening. Should inflation pick up, as many expect it to, infrastructure should expect continued strong inflows as an inflation-protection investment.

An interesting note on Ireland here – whilst global GPs are focusing on data centres, power generation and digital infrastructure, the Irish energy regulator has imposed a moratorium on new data centre approvals due to grid strain as they've been using 20% of national grid capacity.⁷ Still, that is an outlier – with electricity use from artificial intelligence set to double by 2030,⁸ the sector has tailwinds, and government policy geared towards greater energy independence, added to the increased fundraising seen last year means there is plenty of demand and supply to go around in the asset class.

Real Estate

While performance for private real estate has been slightly negative over the past two years, the asset class has significantly outperformed its public counterpart [REITs].⁹ Over a 10-year period, however, annualised returns for private and public indices provide very similar levels.¹⁰

Real Estate is a broad asset class – while some sub-sectors are performing well, due to the high-interest rate environment, valuations have been negatively impacted meaning that investors and GPs alike are waiting for interest rates to come back down. President Trump tweeted on April 4th that he'd like to see interest rates come down – the real estate sector agrees with him.

While real estate and infrastructure tend to share some similar characteristics, the former tends to be more susceptible to interest rates and inflation, so the areas in favour are currently those where higher rates can be passed through to the tenants such as the European residential sector, or where demand is high, such as logistics, where the demand is supporting stable yields.

Conclusion

Traits in the growth asset classes in the private markets – which we at Elkstone consider to be private equity and venture capital – appear to be in something of a defensive mood, as most capital raising is going to the larger, more established funds. This trend is driving concern about increased competition at higher transaction size, however there is appetite for mid-market buyouts. Very often, periods of market participant caution lead to strong returns – as Warren Buffett said, be fearful when others are greedy, and greedy when others are fearful.

In defensive asset classes such as private credit, the outlook is currently very positive, supported by the prevailing interest rate environment. While there will always be some caution in areas, for example due to increased PIK levels in direct lending, there are also areas with tailwinds such as a potentially increased opportunity set in distressed and opportunistic strategies and a growth outlook in asset-backed finance.

Lastly, in real assets, the nuances that separate infrastructure and real estate are a reminder to investors to dig deep into the relative risk/reward of these opportunities. However one interesting trend to watch is happening close to home. In Ireland, Elkstone's home market, the government is prioritising housing and infrastructure under the National Planning Framework and Housing for All Plan. Another bright spot for Ireland is the high forecasted GDP growth of 4.2% in 2025 versus 1.4% growth forecast for the wider Eurozone.¹¹ This positive outlook is backed by the 30% year on year increase in real estate transaction activity, led by retail [43%] and industrial/logistics [21%] and headlined by the acquisition of Blanchardstown Shopping Centre in Dublin, which was purchased for €575m in 2024.¹²

02. Macroeconomic Backdrop

While the macroeconomic backdrop tends to be slow moving, Q1 2025 has been a quarter filled with significant change and increased uncertainty of direction driven by President Trump's import tariffs.

GDP

Coming into Q1 2025, growth was expected across the board. Ireland, notably, was an outlier at a 3.7% growth expectation (vs 1.3% across the wider Euro Area) while the US was expected to grow at 2.4%.¹³ While growth rates do not tend to move away from the 2%-3% range over the long-term, President Trump's tariffs and how the current trade war plays out could materially change the growth rates predicted at the beginning of the year.

Inflation

Tariffs also indirectly impact the private markets via inflationary pressures. The annualised inflation rate in the US was 2.4% at the end of March, down from 2.8% in February and 3.0% in January,¹⁴ but has remained relatively stable since the middle of 2023 – at least, when compared to the two-and-a-half-year period from 2021 – mid-2023. In the Eurozone, the data has been better, with 2.2% inflation estimated in March,¹⁵ the second lowest in any month since this time last year.

Should inflationary pressures increase, however, the US Federal Reserve could resume the tightening regime that began in the spring of 2022, which could once again see capital allocators reposition their asset allocation model away from growth assets and into those more defence orientated assets.

Interest Rates

Base rates have had a roller-coaster quarter as the year started with the expectation of two rate cuts. The move down in yields after the tariff announcement, however, was

driven by the market's expectation of a drop in the base rate as a US Federal Reserve (Fed) response to a higher expectation of a recession. This downwards move sharply turned around; some claiming it was due to China and Japan selling some their US debt holdings while others argued that the Fed cares about the risk of higher inflation more than the risk of a recession right now.

While the US has enjoyed the label as a risk-free rate (meaning no credit premium requirement), that tag has been questioned due to its mounting national debt and associated interest burden. For all other counterparties, credit spreads, both Investment Grade and High Yield, are enjoying being at the low end of their historic ranges but this kind of optimism makes many feel uneasy.

Government - Monetary Policy

Monetary policy, broadly, has a direct impact on interest rates not only via the setting of the rate but also as a magnifier of market psychology. Whilst the Fed has indicated an expectation of two interest rate cuts in 2025, yields moved higher initially due to the expectation of a 'higher for longer' interest rate environment. This changed, however, upon the tariffs announcement as market participants priced in a higher likelihood of a recession, thus incentivising the Fed to reduce interest rates to get ahead of the risk. Not long after the drop, however, there was a steep reversal in bond yields; unlike the '09 – '21 period, the Fed is simultaneously dealing with higher inflation, providing mixed signals on how best to move interest rates. Both fundamentals and market psychology are paying close attention to where markets will go from here; there is currently a heightened level of uncertainty around direction.

Government - Fiscal Policy

April 2nd in the US was branded by some as “Liberation Day” when President Trump signed an executive order imposing a minimum 10% tariff on all US imports effective April 5th.

Tariff levels ranged, however, with some regions, such as the European Union, receiving a 20% hit, and China, for which the tariff rose to 145% at their highest point before the US began to make concessions.

Tariffs have the potential to impact the private markets in many ways. For private equity and venture capital firms, tariffs can squeeze portfolio company margins, especially for businesses that rely heavily on global supply chains or imported raw materials. This can lead to lower profitability and valuations, complicating exit strategies and dampening investor returns. In private credit markets, increased uncertainty and pressure on corporate earnings may raise default risks, particularly among highly leveraged borrowers. Real estate and infrastructure projects, which often depend on imported materials like steel, glass, and machinery, may face higher costs, project delays, or reduced returns, particularly in sectors like construction, logistics, and energy.

At the same time, tariffs can create opportunities for investors who are positioned to adapt quickly. Private equity firms may find attractive acquisition targets among distressed companies struggling to manage tariff-induced costs. Venture capitalists might see growth potential in startups offering supply chain resilience solutions, reshoring technologies, or alternative sourcing platforms. In real estate, demand could increase for domestic manufacturing and logistics spaces as companies move production closer to end markets and in infrastructure, investors might benefit from new government incentives aimed at bolstering domestic production capabilities, leading to expanded investment in strategic areas such as energy independence projects.

03. Private Equity

Fundraising

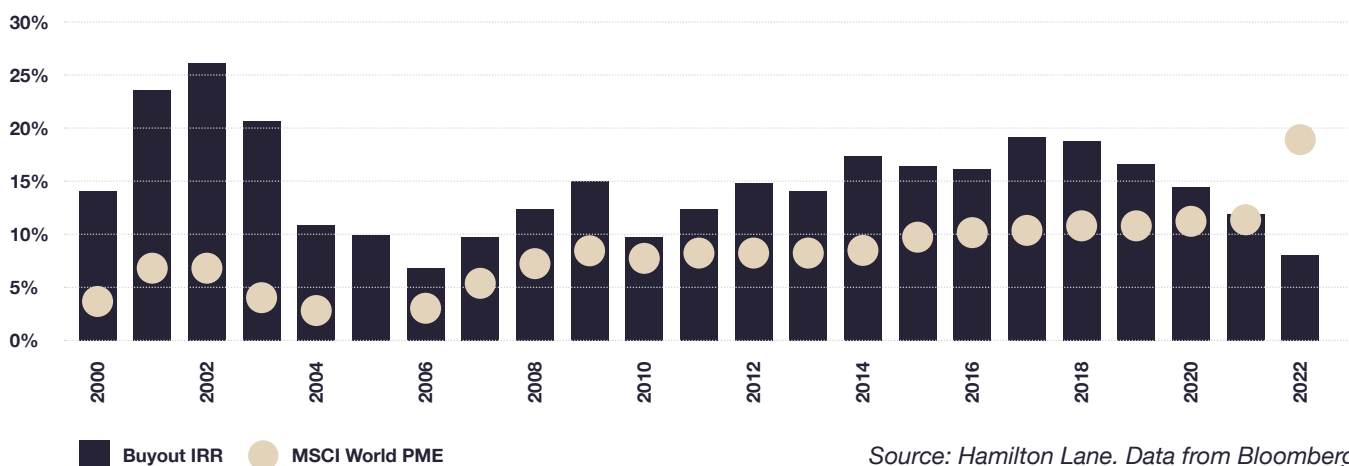
A notable development highlighted by Hamilton Lane¹⁶ is the outperformance of public equities versus their private counterparts in the post-Covid (the end of 2021 to 2024) period, thanks to the almost 50% surge in the value of the S&P 500 since the beginning of 2022. Whilst the index has fallen off in March and April this year, by approximately 400 points, **Figure 1** below, which is from the Hamilton Lane report, shows the jump in the MSCI World Public Market Equivalent when compared to the average buyout IRR.

The premium on offer to investors in private equity versus public equity has always been predicated on the benefits that a longer time horizon and control of a company that private ownership brings, and we would expect that

trend to revert to the norm over time; indeed, buyout funds continue to outperform for time frames exceeding five years. Over 25 years, for example, the spread is 5.2 percentage points (13.4% versus 8.2%).¹⁷ It's worth noting that the public equity surge has been largely driven by multiple expansion while earnings growth did not outpace its buyout peers.

Looking back at drivers of performance in private equity specifically in 2024 included the adoption of AI at buyout portfolio companies. Bain & Company¹⁸ suggests that 20% of portfolio companies were actively integrating AI into their operations such as human resources, vendor management and customer experience.

Figure 1: Pooled Returns by Vintage Year: Buyout IRR vs. PME



Valuations

Median enterprise values reached 11.9x in North American and 12.1x in Western Europe last year,¹⁹ both near all-time highs despite the higher interest rate environment when compared to the past decade. Mid-market multiples, however, declined slightly last year, perhaps reflecting caution in cyclical sectors.

In the large and mega-cap space, the average deal size rose to \$849m and \$1bn+ deals accounted for three-quarters of total deal value in the mega-cap market.²⁰ Large cap deals – those over \$500m – were up 37% in value in 2024, accounting for almost half of all buyout activity, regardless of size.²¹

Fundraising

In 2024, buyout funds raised anywhere from \$400bn - \$500bn (depending on definitions) globally, a decline of 23% compared to 2023^{22/23} but that largely meant that firms just added to their dry powder levels - around \$1.4trn entering 2025²⁴ as fundraising outpaced deal activity.

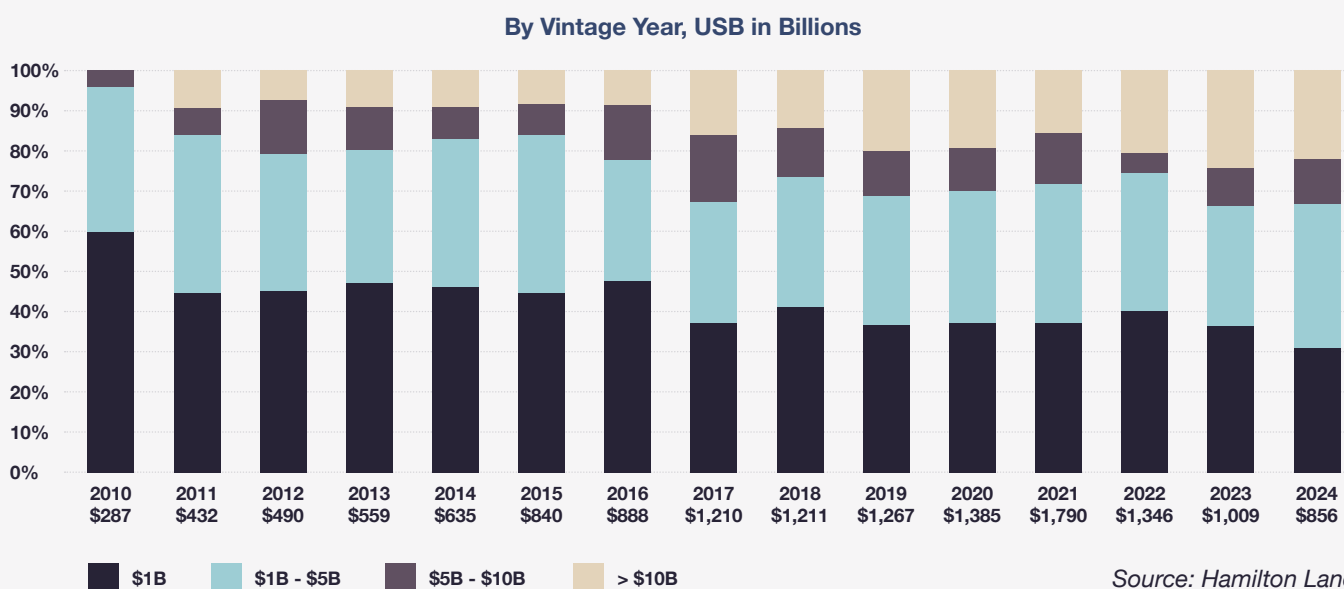
Interesting, however, is the type of funds that are receiving these capital commitments. [Figure 2](#) below, from Hamilton Lane, suggests that fundraising for primary market buyout funds – the bread and butter of the industry for the past 40 years – was essentially flat in 2024 compared to prior year, but secondaries and direct/co-investment allocations are clearly on the rise. This shift has been driven by investors' desire for greater liquidity, quicker capital deployment, and more control over portfolio construction; secondaries allow

investors to buy into existing assets with more immediate visibility into performance, reducing the so-called “blind pool” risk associated with primary commitments, while co-investments offer the opportunity to invest directly into specific deals alongside established managers, often with lower fees and more targeted exposure. Against a backdrop of macroeconomic uncertainty, longer fundraising timelines, and slower exits, many investors have favoured these strategies as a way to stay flexible, mitigate risk, and potentially enhance returns.

One of the fundraising stories of recent years, however, is the continued flight of capital towards the larger, ‘mega’ funds, as can be seen in [Figure 2](#) below. The top 10 funds in the market last year captured 36% of the total buyout capital raised,²⁵ with a corresponding decline in allocations to large cap, \$10bn+ funds which likely contributed to the 34% reduction in buyout fundraising overall in North America last year. That said, the US middle market could see renewed interest going forward due to diversification and operational inefficiency opportunities.

One important point to note, however, is that the increasing presence of evergreen funds in the private equity market is not captured here, given the open-ended nature of these investment vehicles. The rise in the number of evergreen offerings in recent years can be attributed heavily to the increased participation of private wealth in the asset class, largely from the wealth manager channel. Separately managed accounts and ELTIFs in Europe are also seeing increased interest from this cohort.

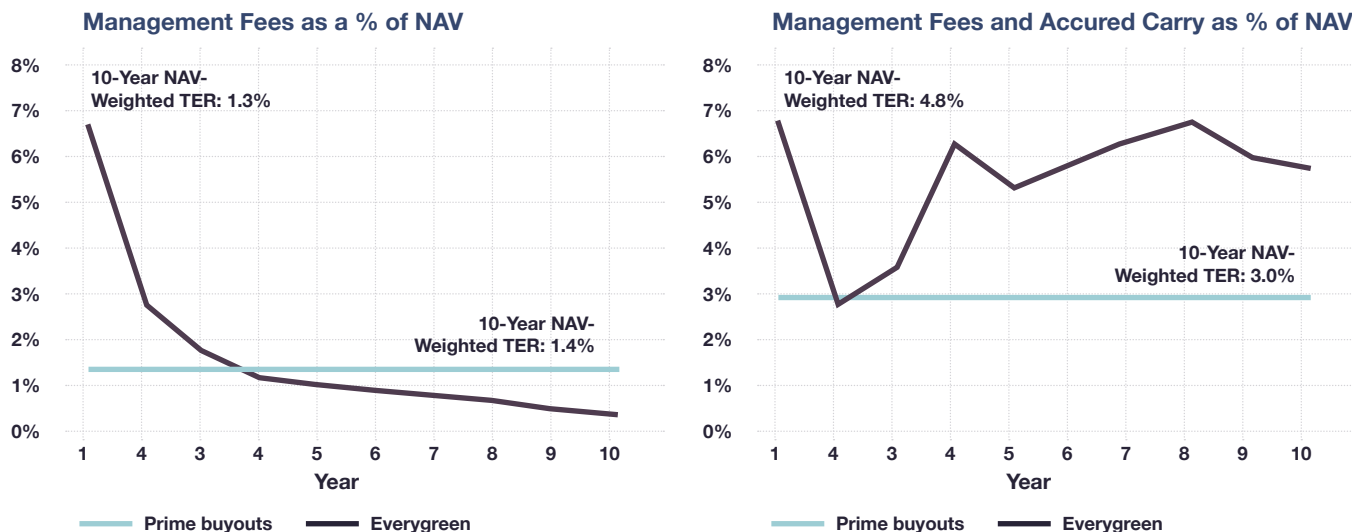
Figure 2: Share of Fundraising by Fund Size



Source: Hamilton Lane

One possible explanation could be pricing. In [Figure 3](#) below, Hamilton Lane analyses the fees on six evergreen funds and compared them to the fees and carry of the managers that offered the evergreen structures. Evergreen funds look cheaper, once the carried interest is factored in.

Figure 3: Management Fees and Carry as a Percentage of NAV



Source: Hamilton Lane

Transactions

The surge in aggregate deal values seen in 2024 is mirrored by the surge in transactions, rising 10% to approximately 3,000, according to Bain & Company.²⁶ Significant growth was observed across all three regions, with North America up 37% in aggregate value, Europe up 54% and Asia up 11%.²⁷

At the sector level, technology provided the lion's share of all deal activity with a third of all deal value. Within technology, AI-based M&A activity dominated, with Blackstone's \$16bn purchase of AirTrunk just one example. Financial services and industrials deal values rose 92% and 81% respectively, with sustained activity in healthcare, the aging population continuing to provide a structural tailwind in this sector.

The average deal size hit \$849m, the second highest on record, with 77% of that coming from deals in excess of \$1bn.²⁸

It is not only acquisitions that delivered a jump in growth in 2024. Global exit value increased 34% year on year to \$468bn, driven by secondary buyouts and sponsor to sponsor exits. Strategic exits were essentially flat, however, and the IPO market provided only 6% of overall exit value for buyout firms. Interestingly, mid-life recapitalisations were worth 4% of all deals – they were only 1% in 2017 –

and co-investment volumes have risen 30% since 2021 and are outperforming their parent funds. Torgs predicts that almost two-thirds of LPs will increase their co-investments this year.²⁹

High multiples, aging dry powder and geopolitical risks all present potential challenges this year, but the relentless march of AI technology, and the upper middle market focus on operational improvements in the US in particular should shield these investments to a certain extent

Private Equity Outlook

The outlook for 2025 reflects cautious optimism, driven by easing rates, sectoral resilience in areas such as tech and healthcare, and innovative liquidity mechanisms.

The significant increases in aggregate deal values in both North America and Europe seen in 2024 shows that confidence is returning, and the availability of a record level of dry powder means that the chances that a similar, or even higher level of activity in the remainder of 2025 and into next year could continue, provided that geopolitics does not make too much of an impact. Sector specialisation, and therefore manager selection, is as important as it has ever been if investors are to insulate themselves from these challenges; while recovery is underway, disciplined execution and strategic foresight remain critical.

04. Venture Capital

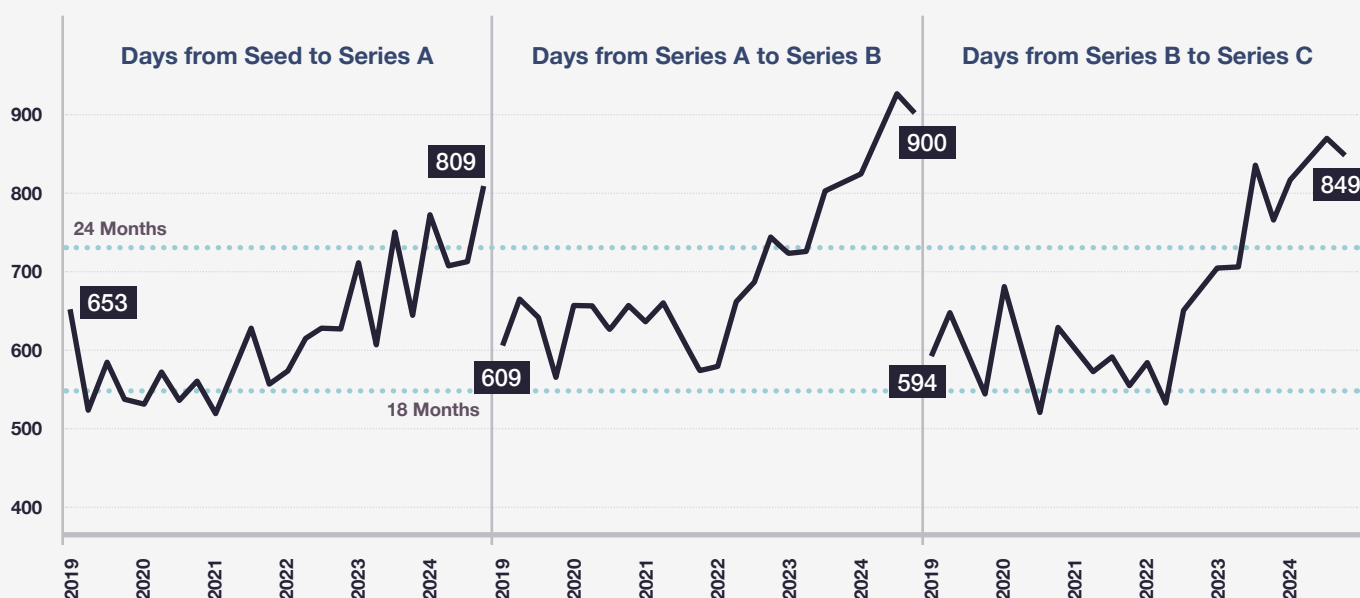
Performance

Whilst it might be a surprise that younger private equity vintages seem to be underperforming versus their public peers, this has been the case in venture capital for the past 50 years thanks to the j-curve effect that is a feature of the return stream of the asset class. It should be no surprise, then, that the 2021 vintage year – three years old at the end of 2024 – in venture capital remained negative (-0.3%),³⁰ but what is a little low – by historical standards – is only 12% of VC funds recorded distributions to paid-in capital (DPI) by the fourth quarter of 2024.³¹ Elsewhere, the median internal rate of return (IRR) for the 2017 vintage fell from 16.8% in the fourth quarter of 2021 to 12.0% in Q4 last year, but smaller, \$1m - \$10m funds – those that LPs

are pulling back from (see fundraising below) – in the 2018 vintage achieved a Total Value to Paid-In Capital (TVPI) of 4.03x vs. 1.67x for \$100m+ funds.³²

What is almost certainly impacting fund performance at the moment is the lengthening of the median time between fundraising rounds at the portfolio company level. **Figure 4** below, from Carta, shows that the median Series A round raised in Q4 2024 came 809 days after a company's seed round, compared to a median interval of 653 days back in the first quarter of 2019.

Figure 4: Median time between rounds, Q1 2019 – Q4 2024



Source: Carta: VC Fund Performance, Q4 2024

Valuations

The observation that venture capital funds taking a more cautious approach to where they place their bets is clearly reflected in deal valuations of later-stage venture – in the series D and beyond. The median pre-money valuation in the series D+ round in the US hit \$787.5m, thanks in large part to deals in the AI and autonomous driving segments. The median deal size in this space hit \$100m, a significant uptick compared to 2023.³³

A similar story could be observed in Europe, where the median series D pre-money valuation came in at \$825.6m. The same could not be said for Asia, however, where the series D median dropped to \$414m.³⁴

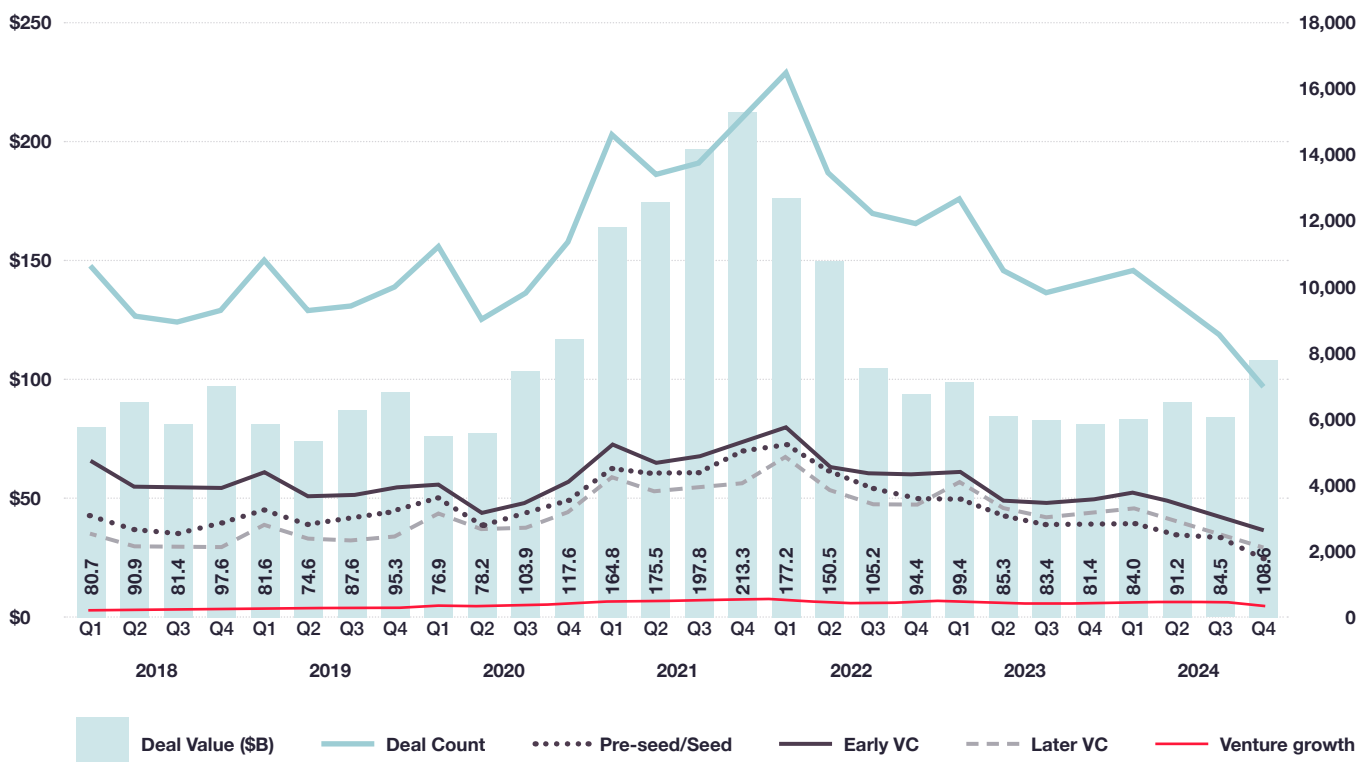
Structural features supporting valuations in the AI space include unique datasets and scalable manufacturing, considered critical for the success of these investments, and there was caution against overvaluing sub-\$10m startups, with profitability metrics becoming more of a requirement for VCs looking at this part of the market. This highlights a post-2021 valuation reset more generally, with 2024 startup capital raising on the Carta platform at \$93bn (22% year on year growth but below 2021's \$140bn+).³⁵

Transactions

Venture capital aggregate deal value in the fourth quarter of last year was the highest since Q2 2022, but interestingly, the total number of deals was at its lowest since at least 2017, according to [Figure 5](#) below from KPMG. The reason was because generally, VCs seemed to move down the risk curve last year, preferring mature companies, with startups generating less than \$10m in annual recurring revenue (ARR) seeing less interest than those already producing more than \$10m in ARR.

The US saw almost \$75bn deployed by VC funds in the fourth quarter of 2024, across nearly 2,900 portfolio companies, continuing the country's dominance in terms of where the VC investment dollars flow, but there was notable activity in Ireland, Elkstone's home market. Multiple \$40m deals were seen in Ireland in 2024, and the fourth quarter of 2024 delivered something of a rebound in financing activity in our venture capital market.³⁶

Figure 5: Global Venture Financing, 2018-Q4 2024



Source: KPMG Venture Pulse, Q4 2024

Fundraising

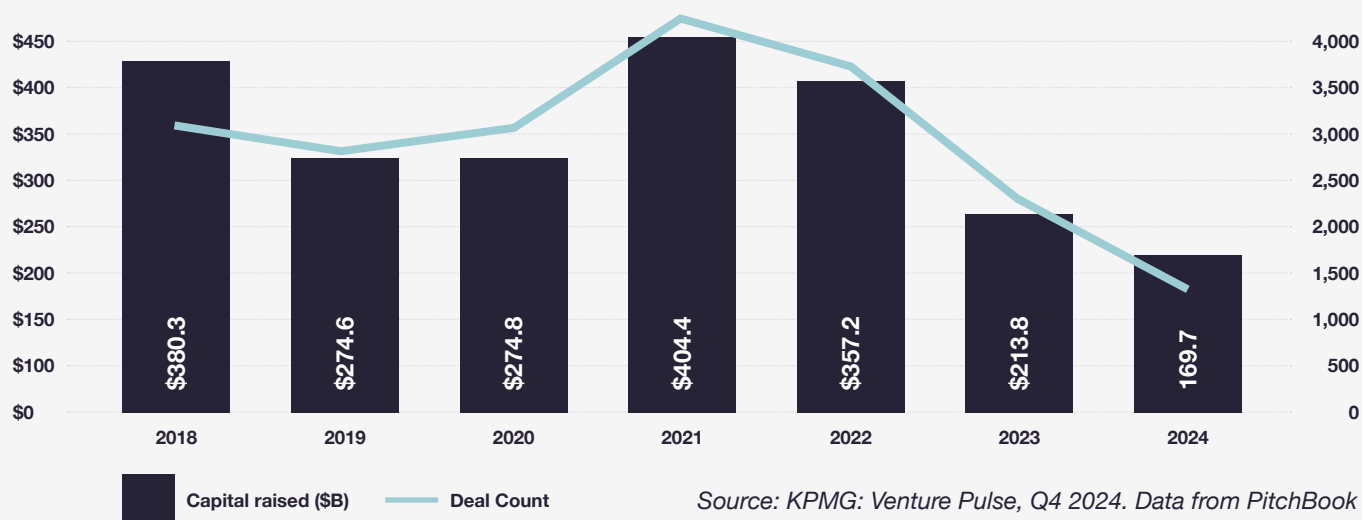
Global venture capital fundraising fell to a seven-year low of \$169.7bn in 2024, approximately one-fifth less than in 2023, across roughly 1,000 funds. Asia suffered most, with the \$116.4bn raised there a record low. The US also delivered a much lower figure, around \$70bn, but Europe showed mild resilience as the \$22.5bn raised in the region was not far off 2023 levels.³⁷

LPs diverted capital towards secondary funds in 2024 to ease liquidity concerns, with more than \$100bn allocated to these vehicles.³⁸ That impacted allocations to the primary fund space, with the \$100m - \$250m space seeing the average number of LPs per fund almost halving, with anchor cheques for these products now accounting for approximately one quarter of the total capital commitments of the fund.³⁹

That trend continued downstream. For funds that raised less than \$10m, anchor LPs were worth nearly a third of the entire capital raise, with a quarter of these funds' anchors responsible for more than 40% of the total fund size.⁴⁰

There should be few surprises with regards to where the capital found a home. AI dominated venture capital circles in 2024, and defence tech-focused funds also saw success, while generalist funds – the bulk of the market – faced LP selectivity, particularly in the first-time fund segment, with almost two-thirds of aggregate commitments going to follow-on funds.⁴¹

Figure 6: Global Venture Fundraising, 2018-2024



Venture Capital Outlook

The dominant influence in the outlook for venture capital investing is, unsurprisingly, the US market. It leads in lead in deal volume and megadeals (AI, defence tech), buoyed by policy shifts and economic stability but significant trends are emerging in the space.

Not only is there a clear trend towards LP consolidation and an allocation environment where capital is flowing to larger, later-stage venture capital funds, but the post-2021 valuation reset means that startup capital raising, while up last year when compared to 2023, lower than 2021, reflecting the shift towards a requirement by VCs to see better profitability metrics and a sustainable growth

trajectory over customer-acquisition-at-all-costs and hypergrowth. Down rounds and realignments are expected to continue as startups adjust to stricter investor criteria.

2025 is projected as a rebound year post-2022 slowdown, driven by improving economic indicators such as low unemployment and stable inflation. While consumer confidence remains below pre-pandemic levels, and the IPO market exit route remains unclear due to the current geopolitical environment, the fourth quarter of last year saw a seven-quarter high in global VC investment (\$108.6bn), signalling the beginnings of a recovery.⁴²

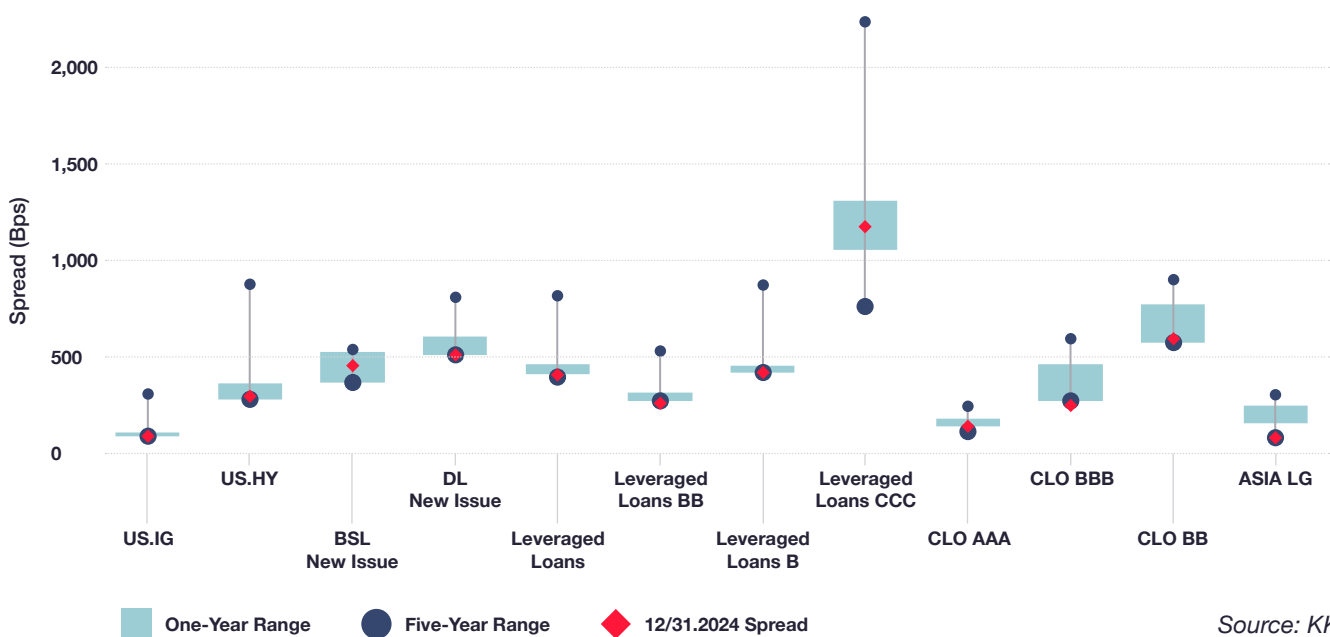
05. Private Credit

Performance

A handful of credit markets delivered handsome returns in 2024. US leveraged loans, the backbone of the country's private equity market, returned +8.95% in 2024,⁴³ primarily from carry (interest returns), but the BBB and BB tranches of collateralised loan obligations (CLOs) delivered +11.79% and +19.16%, respectively, driven by risk-on investor sentiment and easing monetary policy. Asia high yield also posted strong returns at +16.38%.⁴⁴

Credit spread dispersion across various segments of the debt market is currently elevated as can be seen in [Figure 7](#) below, likely reflecting greater risk differentiation by investors — underscoring the importance of strategy and manager selection at this stage of the cycle.

Figure 7: Credit Spreads Dispersion



Source: KKR

Fundraising

Aggregate private credit assets under management reached \$1.6trn in 2024, 15% higher than any point in the past five years; the asset class is now responsible for approximately 10% of the entire alternative investment universe, despite being the new kid on the block, relatively speaking.⁴⁵

Specialty finance and opportunistic credit strategies surged in popularity last year, accounting for almost 40% of new launches, up approximately 15 percentage points compared to 2023.⁴⁶ Regionally, North America held almost two-thirds of private debt AUM although Europe and Asia delivered solid growth, with Asia's green infrastructure sector emerging as a bright spot in a difficult fundraising environment, although the region now provides 7% of all private credit AUM, doubling in size over the previous five years.⁴⁷

The Asia private credit market remains dominated by banks, however, which account for approximately 85% of the market; in comparison, only 30% of the US private credit market can be attributed to the banking sector.⁴⁸

Direct lending mega-funds – those over \$10bn – raised an aggregate \$89bn in 2024, good for two-thirds of direct lending capital raising overall. Similar to the private equity and venture capital markets, the bulk of the capital committed to the space went to the 'brand name' investment houses. 67% of 2024 fundraising (\$209B) flowed to managers with pre-2008 track records, reflecting LP caution over impairments.⁴⁹

Valuations

Direct lending strategies – the largest subcategory within the broader private credit space – benefited from elevated base rates in 2024, with the floating-rate loans that comprise the bulk of the market projected to deliver historically attractive returns in a “higher for longer” interest rate environment, with these products able to maintain a 220-basis points premium over the broadly syndicated loan (BSL) market, as can be seen in [Figure 8](#).

Figure 8: Private Credit Yield Premium vs BSL Market



Transactions

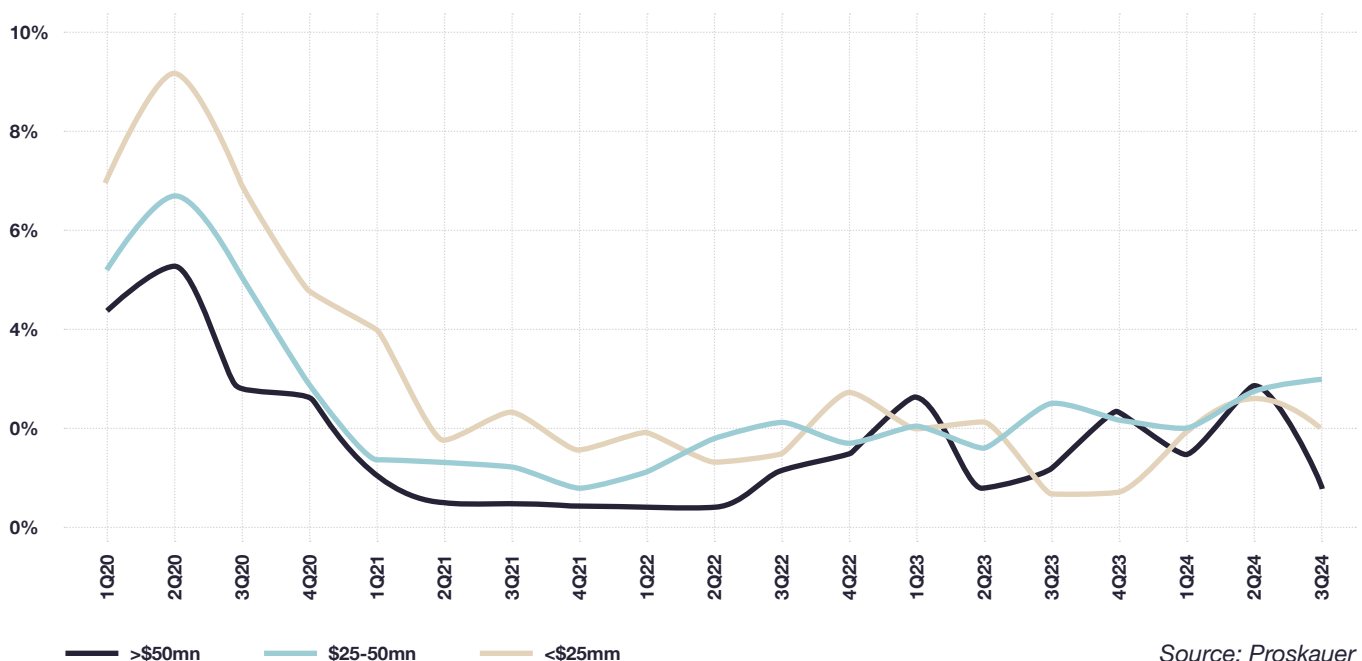
Bank-private credit fund collaboration was a notable theme that emerged from the private credit market in 2024, with more than a dozen banks entering into a partnership with private credit firms which deployed capital into the middle market and sub-investment grade debt markets. Additionally, the growth in significant risk transfer transactions resembles something of a juggernaut, with Apollo saying that these deals had exceeded \$1trn in aggregate as of October last year.⁵⁰

The private credit market saw its own version of the ‘bigger is better’ trend seen in the private equity and venture capital markets emerge last year. The default rate for companies delivering more than \$50m of EBITDA per year is now at its lowest point since the end of 2021/beginning of 2022 and notably lower than those in the \$25-50m and sub-\$25m

EBITDA brackets, as can be seen in [Figure 9](#) below, which again points to the importance of counterparty selection in the private credit markets given the lack of control and ability to impact portfolio company operations.

Other cautionary trends also emerged in 2024. SLC Management highlights the rising use of payment-in-kind (PIK) amendments in private credit portfolios. For publicly traded business development companies (BDCs) in the US, PIK interest averaged 10.5% of investment income in 2024 (up from 8.9% in 2023), with some portfolios reaching 18.3%;⁵¹ the increasing use of PIKs can mask the true picture of defaults in the market.

Figure 9: Default Rate by Company Size



Outlook

The US remains the dominant private credit market, favoured for its robust economic growth - projected at 2.1% GDP for 2025 – and large middle market, which, given a retreating banking cohort, turned to credit funds to secure capital on the debt side of the balance sheet. However, European deal activity surged in 2024, and the region now accounts for approximately 25% of global private credit dollars raised since 2008.⁵²

The 2025 credit investing outlook emphasizes granular credit selection, with opportunities in secured private credit and risks in overleveraged sectors. Macro factors such as interest rate cuts and refinancing walls, and structural advantages including illiquidity premiums and covenants will shape valuations.

06. Infrastructure

Performance

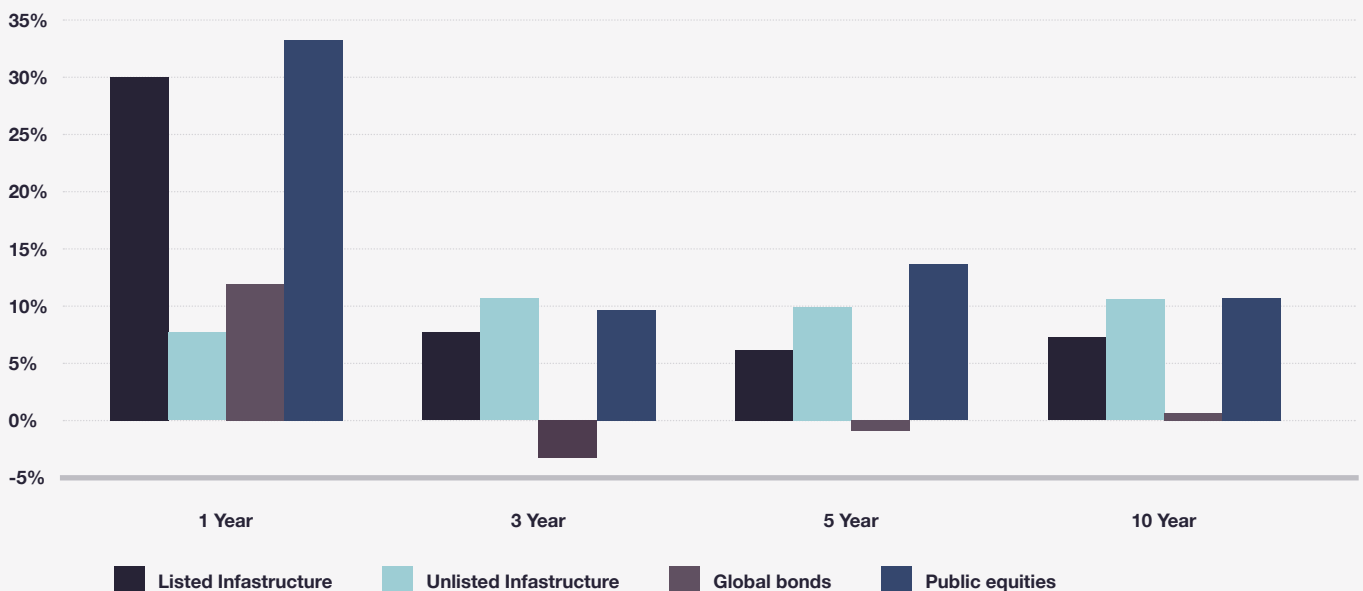
Infrastructure assets demonstrated significant long-term resilience in 2024, outperforming the MSCI World Total Return Index (TR) by 80% over the period from 2007 to the middle of the year; the Infrastructure Index reached 450 cumulative points compared to the MSCI World TR's 250 points.⁵³

An interesting comparison was seen in listed infrastructure when compared to its private cousin. As can be seen in [Figure 10](#), the former surged with a 30% one-year return as of Q3 2024, a rebound from 5.3% in the second quarter of last year, driven by easing inflation and interest rate cuts. Unlisted, or private, infrastructure lagged, however, due to delayed valuation adjustments. Over 10

years, listed infrastructure achieved approximately 10% in annualized returns, compared to around 8% for unlisted infrastructure. The former also outperformed global bonds (-5% annualized) and public equities (15%) over one year.⁵⁴

In terms of specifics, merchant assets (those that are market-exposed) outperformed contracted and regulated assets (which are less so) over 3-, 5-, and 10-year periods, with higher Sharpe ratios; regulated assets, while lower in risk-adjusted returns, remained attractive for stability-seeking investors. Overall, private infrastructure delivered positive total returns in 2024, albeit below medium-long-term averages.⁵⁵

Figure 10: Infrastructure, Bonds and Equities Annualized Total Returns



Source: CBRE Investment Management – Infrastructure Quarterly: Q4 2024. Data from FTSE Global Core Infrastructure 50/50 Index, Cambridge Associates Infrastructure Index Global, Bloomberg Aggregate Fixed Income Index, MSCI World Index

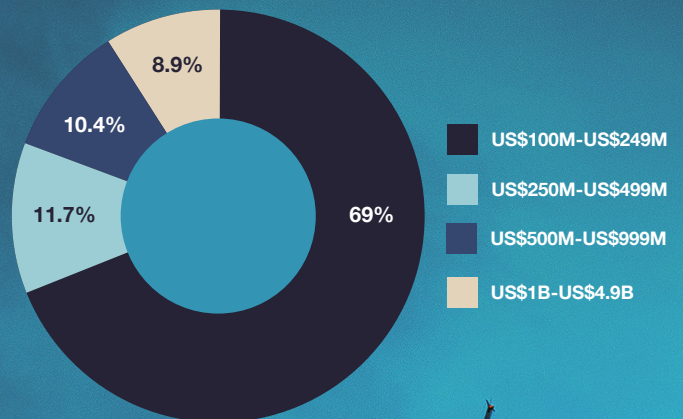
Valuations

Valuations in the infrastructure asset class in 2024 held firm, offsetting the higher interest rate environment. Digital infrastructure, energy and transport enjoyed robust earnings growth and the benefits of inflation-mitigating features inherent to certain infrastructure assets combined to provide resilience last year.⁵⁶

In terms of deal size, infrastructure transactions under \$250m accounted for 69% of the total market activity in 2024 (as of September 30th), signalling a rebound in the smaller deal segment, as can be seen in **Figure 11**. These deals attract a broader range of investors, including smaller investment firms and individual investors, and can be more agile and quicker to execute, allowing for faster adaptation to market changes and emerging trends, a feature beneficial in a market environment of heightened volatility and uncertainty.

Average multiples for closed transactions remained stable at approximately 15x in 2024, slightly below historical averages, but still a good performance considering the broader environment.⁵⁷

Figure 11: Percentage of Deals by Size



Source: SLC Management – 2025 Global Investment Outlook. Data from Preqin

Transactions

There has been a reduction in private infrastructure M&A in the past two years as a consequence of the lag effect from the rising interest rate environment of 2021-2023. Whilst this has been partially offset by the increase in greenfield dealmaking, aggregate valuations are approximately \$100bn off the Q3 2022 level. At the sector level, a fall in renewables and energy versus last year hints at the uncertainty created by the new Trump administration's energy policy, given how these markets move based on government policy, but the counter argument there is that

they are showing resilience despite the uncertainty, as they benefit from structural tailwinds such as energy transition investments and digitalisation.

The resilience shown by the asset class can be attributed to structural tailwinds such as energy transition investments and digitalisation, and infrastructure's inflation-linked strategies, such as those that include toll roads and utilities, provided an inflation hedge, mitigating impacts from the yield curve steepening in 2024.

Figure 12: Private Infrastructure Dealmaking by Deal Type, Sector

Figure 12a: Private infrastructure dealmaking, values by deal type (\$ billions)

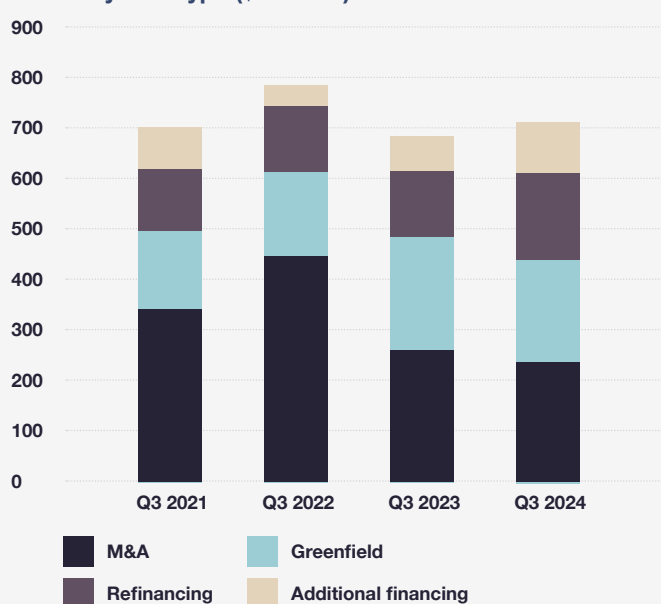
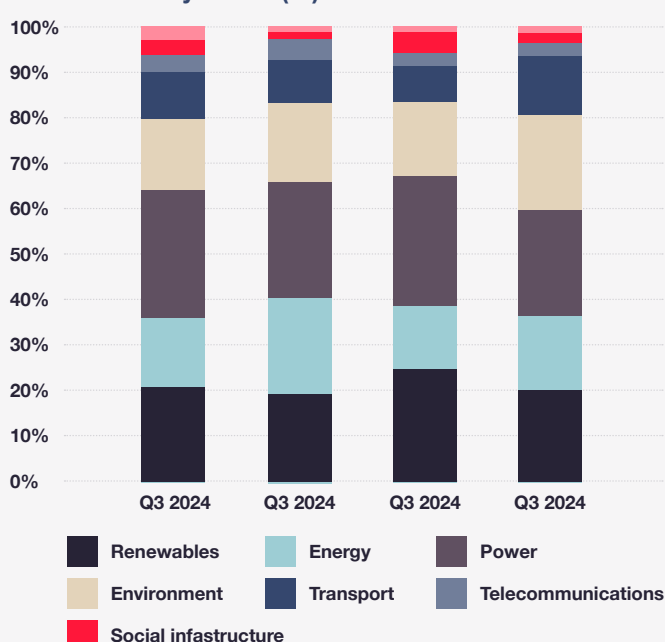


Figure 12b: Private infrastructure dealmaking, market share by sector (%)



Source: CBRE Investment Management - Infrastructure Quarterly: Q4 2024. Data from Infralogic

Market Outlook

Medium-long-term inflation is expected to remain above pre-pandemic levels which is supportive for infrastructure assets with inflation-linked cash flows, such as toll roads, and utilities.

At the geographical level, there are structural trends where governments of differing political persuasions are keen to build greener, sustainable energy projects domestically, which would also increase their energy security. In many countries, this is a bipartisan trend, and private capital has a role to play here. Indeed, DWS says that there is a remarkable EUR2.5trn shortfall in funding for decarbonisation and digital transformation initiatives in Europe⁵⁸ alone which will require the participation of the private markets in some way, shape or form. At the

asset level, the relentless rate of adoption of AI will fuel the requirement for data centres across the globe. Indeed, electricity demand from AI-optimised data centres is projected to more than quadruple by 2030 with half of that coming from the U.S. alone.⁵⁹

Whilst headwinds remain such as the uncertainty around trade tariffs and their consequent impact on demand, supply, inflation and interest rates - infrastructure investors can look to 2025 with cautious optimism. The recovery that began last year is being supported by a significant amount capital now available to be deployed thanks to the rebound in fundraising last year. A normalisation of the prevailing interest rates level and stabilised valuations provide additional tailwinds to infrastructure investors.

07. Real Estate

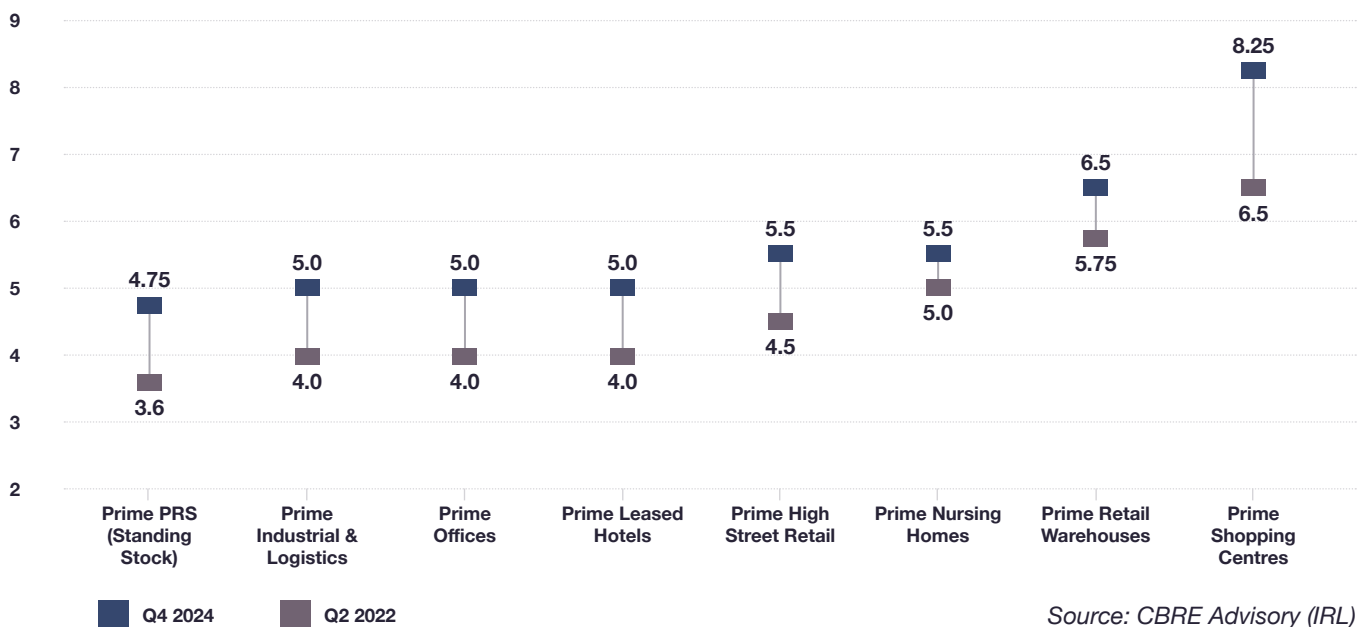
Performance

Global real estate property price performance declined generally from 2022–2024 due to the impact of higher interest rates on the sector. U.S. industrials and apartments, however, showed evidence of stabilisation by September 2024 thanks to sustained income growth due to tight labour markets and housing undersupply, and so pricing even rose slightly in some cases, while the U.S. office sector lagged. It is a trend that is in stark contrast to observed pricing trends in European and Asia Pacific office occupancy, which have now returned to near pre-pandemic levels.⁶⁰

Valuations

There were encouraging signs coming out of Ireland towards the end of last year. Prime yields in Ireland stabilized at 5.0% for offices/logistics and 4.75% for residential and retail warehouses yielded 6.5%. Dublin office yields expanded to 8.0%, reflecting multiyear adjustments.

Figure 13: Real Estate Investment Yields in Ireland, Q2 2022 – Q4 2024

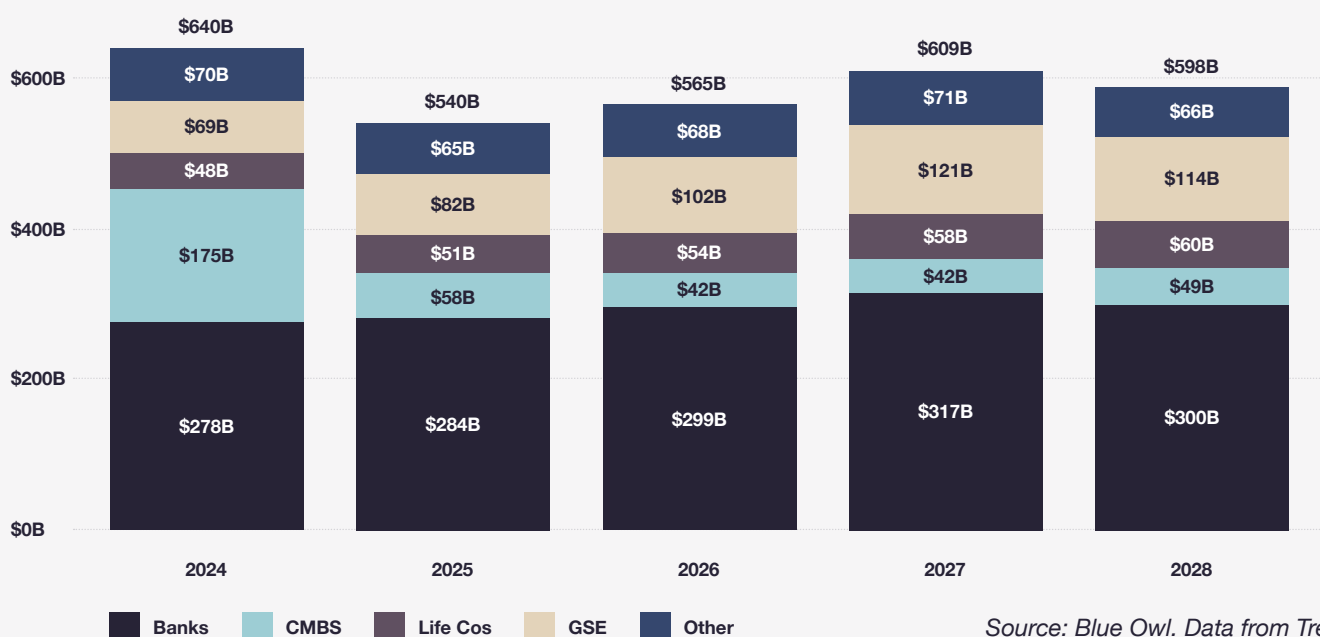


Transactions

BlackRock reported stabilization and price rebounds in residential and logistics sectors, particularly in U.S. industrials and APAC markets like Sydney's logistics hubs.⁶¹ Thematic investments surged in Australian life sciences facilities and European urban housing, underpinned by structural trends such as aging demographics and urbanization.⁶² In Europe, the region's sale-leaseback investable universe is €10.7trn, so with annual transaction volume at €18bn (0.17% penetration), there is a long-term opportunity in this market.⁶³

In the real estate credit market, a \$3tn wave of commercial real estate debt maturities between 2024 and 2028, of which 42% is held by banks (**Figure 14** below), will likely drive demand for private credit solutions in the asset class above simple refinancings, which in turn is driving fundraising activity in the space – real estate debt was up 3% in 2024 despite the broader decline in capital allocations to the private real estate asset class generally.

Figure 14: Commercial Real Estate Debt Maturities by Year



Fundraising

The past two years have been poor for closed-ended, private real estate fundraising, with both 2023 and 2024 being the two worst performers in at least the past ten years, both in terms of the number of funds raised and the aggregate dollar value committed. There are regional disparities, however, Asian and European funds seeing

commitments falling by more than 50% year on year whereas North America fell by only 17%.⁶⁴ Similarly to the private equity and venture capital markets, the capital went to the bigger firms - 87.4% of commitments went to managers that had raised more than three funds, with just \$10.8bn going to emerging managers.⁶⁵

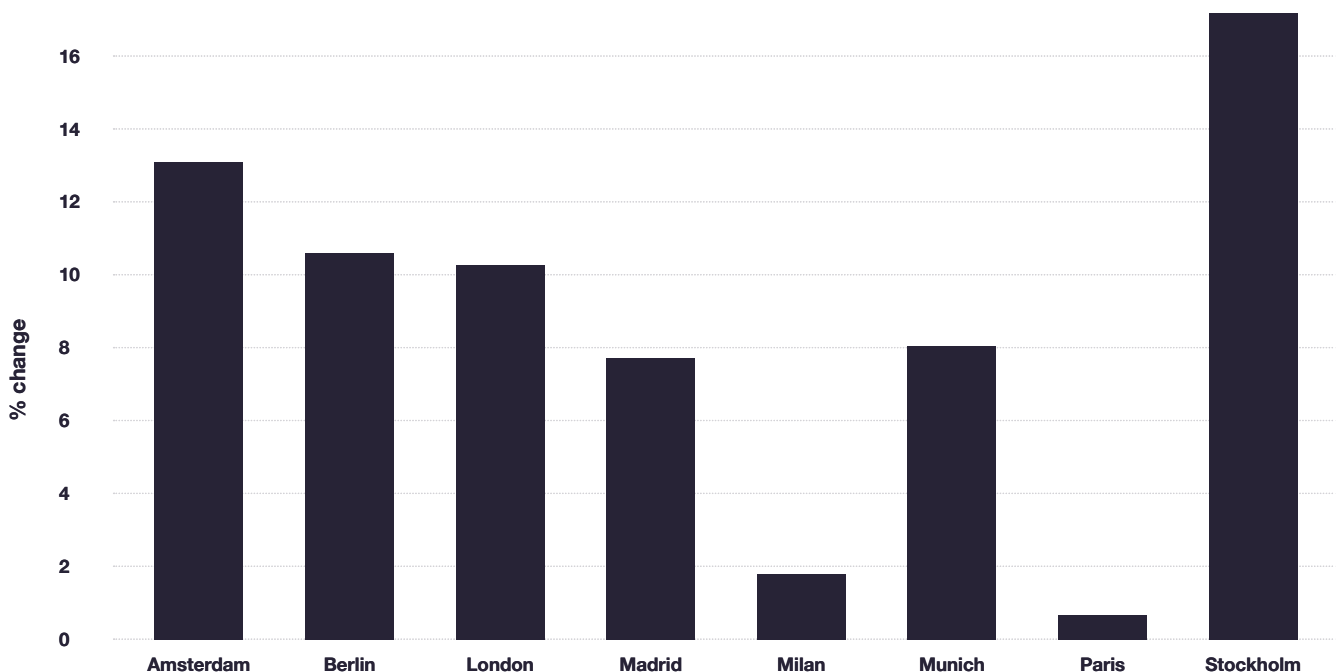
Market Outlook

The outlook for the global private real estate market reflects a transition toward recovery, shaped by monetary policy shifts, sectoral divergence, and regional opportunities. In the US Sun Belt, there is an oversupply of multifamily apartment buildings, but the region enjoys solid strength in the industrial market. In Europe, there is a significant opportunity in the sale-and-leaseback market, which has an investable universe of more than €10.7trn⁶⁶, and in the Asia-Pacific region, lag markets – those such as self-storage and life sciences which are not as developed as they are in North America and Europe – in Japan, Singapore, and New Zealand look likely to provide lower-risk, higher-growth opportunities.⁶⁷

Additionally in Europe, the forecasted growth in the number of households (**Figure 15**) in major cities such as Berlin, London and Amsterdam in the next decade provide tailwinds for multifamily residential investors.

In a similar vein to the other private market sectors, such as private equity, geopolitical risks such as the recent tariffs enacted – and withdrawn and enacted again – by President Trump could add significant operational costs which would hamper returns. In turn, this could make the inflation level, which is already sticky, more persistent, which then makes further rate cuts less likely. Industries such as real estate, which rely on global supply chains, would therefore feel the impact of protectionist trade policies more than other sub-categories of the private markets. Still, the interest rate cuts of 2024 and structural trends (demographics, AI-driven infrastructure) underpin a multiyear recovery. Investors must navigate regional disparities and sector specialization, prioritizing liquidity in APAC, distressed opportunities in Europe, and emerging US niches.

Figure 15: Forecasted Growth in Household Numbers, Major European Cities



Source: BlackRock – 2025 Private Markets Outlook. Data from Oxford Economics

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