PREQIN

Press Release

North America remains focal point of global alternatives markets – Preqin reports

Fund managers raised almost half of the $1.53bn total global capital, while deal value dropped 55% since previous year

LONDON, September 12, 2023 – Today, Preqin, the global leader empowering the alternatives community with essential data and insight, published its Alternatives in North America report. The fifth annual report examines the current state of the private capital industry in North America, looking at the US and Canada, and how it has fared in the past year.

North America remains dominant region in alternative assets as AUM to outpace slower market

The Preqin report shows that from the second half of 2022 through to the end of May 2023, North America-based fund managers raised $749.7bn, just under half (49%) of the $1.53tn total private capital* raised globally. This was despite overall slower fundraising and deal-making support for private debt and private equity, excluding venture capital (VC), in 2023 so far.

North America is expected to remain the dominant region in alternative assets, both in terms of assets based in the region and fundraising. Looking forward, Preqin analysts project global alternative assets to grow at an annual rate of 11.9% between 2021 and 2027 to $18.3tn. North America's contribution to this projection, $11.4tn, is expected to outpace that growth, at 12.7% annually. That said, this growth is expected to slow in the near term, then accelerate later in the decade.

Hampered deal activity as managers hold back

The Preqin report also found that fund managers in North America are showing more restraint in putting LP capital to work. Between the third quarter of 2022 and May 2023, this has been the weakest period for deal activity since the outbreak of COVID-19. Total private equity deal value for the region dropped significantly between June 2022 and May 2023. When looking at the year prior to June 2022 (June 2021 to June 2022), deal value amounting to $229.5bn in this period was 55% lower. Venture capital deal activity had also declined since June 2022. From Q3 2022 through to the end of Q1 2023, it averaged just $41.7bn per quarter, down from the $90.9bn average per quarter from June 2021 to June 2022.

Renewable energy assets charged by positive policy, and remains at the core of infrastructure investment

North American renewable energy assets benefited from rising demand for electricity and efforts by the administration under US President Joe Biden to encourage clean energy generation. The late-2021 Infrastructure Investment and Jobs Act focused on building a cleaner power grid to achieve net-zero emissions by 2050 and was followed by the 2022 Inflation Reduction Act, which expanded those efforts to include clean vehicles, fuels, manufacturing, and carbon management. These bills provide billions of dollars in grants, loans, and tax credits to attract capital for new and ongoing investment programs. Last year's run-up in non-renewable energy prices led to a surge in deal flow for related assets, yet non-renewables are still very much a part of the equation. Renewable energy deals have turned their focus to operating companies from specific assets like wind farms or solar fields.

Charles McGrath, AVP Research Insights, at Preqin says, *"The impact of higher interest rates can't be overstated. Even with a bounce back in public equities, neither private capital investors nor managers are fully buying into a full-scale recovery with both fundraising and deal activity on pace to fall below 2022 figures. Global AUM growth in alternative assets is expected to slow over the six years towards the end of 2027 compared to 2014 to 2021. Much of this will come from a decline in fundraising, which is expected to slow in the short term. But lower performance is also expected across the major asset classes. That being said, the region is home to the majority of the world's private capital managers and funds which has helped North America outpace slower markets when it comes to alternative assets."*

More key Preqin Alternatives in North America facts:

- **Gap in pension allocations hits fundraising:** The fundraising environment in North America is becoming a case of haves and have-nots as target allocations among pension plans appear to be moving at different paces. For example, the average target allocation for North America-based pension plans in the top quartile, by AUM, for private equity was 13%, while those in the bottom quartile showed an average allocation of 7%, according to 2022 plan-year data. In addition, Preqin analysts believe that relationships between larger managers and the region's largest allocators are likely to strengthen as pension administrators seek safety in numbers and the security of brand names as they consider private equity's strong risk-adjusted returns. Conversely, mid-size and smaller managers are likely to feel the impact of any pullback in fund commitments from smaller LPs with greater liquidity needs.
- **Real estate slows as decreased demand for office properties continued**: Even as interest rates threaten asset net present values (NPVs), stubbornly high residential rents are largely supporting returns in that market. It is the decline of the office market following the COVID-19 pandemic that has threatened the asset class the most. Employees remaining in work-from-home mode has hurt office investments in most major US cities, leaving many asset owners with either stranded assets or assets in need of modification. Large cities like NYC, San Francisco, and Chicago have seen a large drop in office investment while Miami has moved opposite.
- **The acceleration of AI has been a boost to some sections of the private market in North America**: Applications go beyond search engines to chatbots and image generators, with implications for investments in healthcare, industrials, and cybersecurity. As further developments in AI lead to enhanced applications and regulation becomes more defined, AI could continue to be an ever-expanding focal point for investors across asset classes.

#ENDS#

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Notes to the editors

* Excluding hedge funds

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