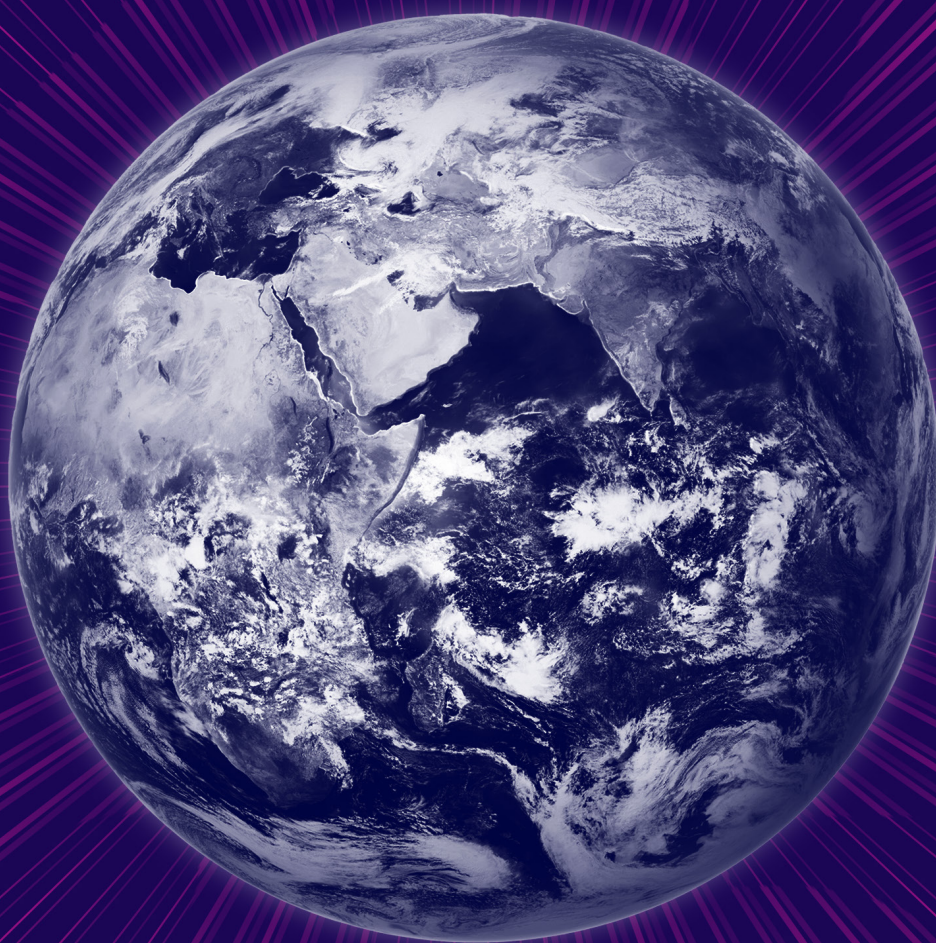


Alternatives in 2025



PREQIN

Acknowledgements

Lead author

Harsha Narayan, CAIA

Research Insights analysts

Cameron Joyce, CFA, CAIA

Victoria Chernykh, MBA

Michael Patterson, CFA

RJ Joshua, CFA

Charles McGrath, CFA, CAIA

Henry Lam, CFA, CAIA

Alex Murray, PhD

Executive editor

Libby Fennessy

In-house designers

James Flanagan

Tim Short

Client contribution managers

Manuel Oliva Alegre

Aaron Reid

All rights reserved. The entire contents of Alternatives in 2025 are the Copyright of Preqin Ltd. No part of this publication or any information contained in it may be copied, transmitted by any electronic means, or stored in any electronic or other data storage medium, or printed or published in any document, report, or publication, unless expressly agreed with Preqin Ltd. The information presented in Alternatives in 2025 is for information purposes only and does not constitute and should not be construed as a solicitation or other offer, or recommendation to acquire or dispose of any investment or to engage in any other transaction, or as advice of any nature whatsoever. If the reader seeks advice rather than information then it should seek an independent financial advisor and hereby agrees that it will not hold Preqin Ltd. responsible in law or equity for any decisions of whatever nature the reader makes or refrains from making following its use of Alternatives in 2025. While reasonable efforts have been made to obtain information from sources that are believed to be accurate, and to confirm the accuracy of such information wherever possible, Preqin Ltd. does not make any representation or warranty that the information or opinions contained in Alternatives in 2025 are accurate, reliable, up to date, or complete. Although every reasonable effort has been made to ensure the accuracy of this publication, Preqin Ltd. does not accept any responsibility for any errors or omissions within Alternatives in 2025 or for any expense or other loss alleged to have arisen in any way with a reader's use of this publication.

Contents

- 5** In brief: how is the alternatives industry faring in a changing macroeconomic landscape?
- 6** Reengineering operating models to unlock global alternatives potential in 2025 and beyond – *McAllister Kirschner, MUFG Investor Services*
- 8** Unlocking private capital for retail investors – *Nicolas Audhoui-Darthenay, Natixis Investment Managers*
- 10** Private equity
- 13** From challenges to strategies: GPs navigating market shifts and LP expectations – *Karine Litou, BNP Paribas and Nicholas Brooks, ICG*
- 15** Is your private markets back office 'retail-investor ready'? – *Justin Partington, IQ-EQ*
- 18** Venture capital
- 21** Three trends shaping private capital in 2025 – *Ray Zhou, Affinity*
- 23** Private debt
- 26** Get ready to reap the benefits of private credit 2.0 – *Zach Lewy, Arrow Global*
- 29** How private debt is developing and why investors are looking for quality – *Laura Parrott, Nuveen*
- 32** Hedge funds
- 35** Real estate
- 38** Private credit is unlocking growth in the fast-expanding senior housing sector – *Eric Smith, Locust Point Capital*
- 40** Real estate for the future: diversification, credit, and the impact of climate change – *Donald Hall, Nuveen Real Estate*
- 42** Infrastructure
- 45** Why now is a generational opportunity for infrastructure debt, *Nuveen, Don Dimitrievich*

Preqin Insights+

Institutional research
powered by Preqin data

**Unlock data-driven analysis,
unparalleled reports, and...**

- Leverage experienced industry practitioners
- Uncover forecasts for each asset class
- Allocate capital with more conviction
- Navigate a challenging capital raising environment
- Gain the upper hand in negotiating fee terms

FIND OUT MORE

PREQIN



In brief

How is the alternatives industry faring in a changing macroeconomic landscape?

We summarize the key highlights below, with further details in the preface to each asset class chapter, all excerpted from the [*Preqin 2025 Global Reports*](#), which are available to [*Insights+ subscribers*](#).

→ **Private equity could turn a corner**

After two challenging years for private equity, driven by the steepest interest-rate hikes in two decades, 2024 has brought relief with the start of a monetary-easing cycle. This may have a positive impact on private equity valuations, deal-making, and the exit environment.

→ **Venture capital has a brighter outlook for the year ahead**

Despite a weak fundraising and exit environment up to the third quarter of 2024, rate-cuts will likely be a tailwind for the asset class, promoting an improvement in performance and exits.

→ **Private debt managers and investors adapt to changing macroeconomic conditions**

As central banks begin monetary easing, private debt will likely benefit from increased deal flow and more capital deployment. However, investors are concerned about the effect of lower rates on performance, which may temper near-term deployment. Overall, while our investor survey suggests increased caution compared with last year, sentiment remains strong in the long term.

→ **Hedge funds AUM rises despite net outflows**

Despite net outflows being negative for most of the past decade, hedge funds have continued to prove to be an effective source of risk mitigation in 2024, particularly as bond markets exhibited unusual volatility. Investors are increasingly turning to strategies, such as CTA (managed futures), macro, and relative value, that are less correlated to public markets and help lower portfolio volatility.

→ **Real estate shows signs of an improving landscape**

Real estate investors are altering their allocations in terms of strategy and risk exposure to cater to the lower-interest-rate market cycle. Some strategies, such as core and value-added, will likely see greater recovery in performance and regain investors' attention.

→ **Infrastructure fundraising remains subdued despite resilient performance**

Investor commitments to the asset class have waned since 2023 as part of a rebalancing, following a surge of inflows in 2022. Despite continued strong performance over the longer term, managers and investors are closely monitoring the geopolitical landscape which they now believe presents the greatest challenge to return generation in the next 12 months.

Reengineering operating models to unlock global alternatives potential in 2025 and beyond

With significant industry changes underway, fund managers and their trusted service partners are reengineering operating models at break-neck speed to accommodate a new paradigm

Sponsored by:



McAllister (Mac) Kirschner
Chief Operating Officer,
MUFG Investor Services

What were the significant operating model changes we saw in 2024?

Throughout 2024, fund managers have continued to work with trusted service partners up and down the value chain regarding operating models and outsourcing decisions. We're focused on delivering new products and solutions to help managers generate returns. As a result, we've coordinated on outsourcing a range of functions, including fund accounting, NAV or shadow NAV production, reconciliations, collateral management, Know Your Customer/Anti-Money Laundering for investor onboarding, corporate services, regulatory filings, foreign exchange hedging, and trade and portfolio administration.

In one of 2024's more interesting trends, fund managers introduced new custom funds and products at a fast pace. We saw a corresponding increase in requests for tailored solutions and workflows to help them resolve new operational demands.

For example, hedge funds accelerated the use of separately managed accounts (SMAs) for clients seeking access to specific portions of portfolios. We're working with fund managers to create unique tools and processes to manage SMA portfolios, and to address operational complexities involving workflows, increased staffing, and enhanced compliance requirements.

In 2025, what will fund managers be focusing on when creating their next-generation operating models?

Fund managers will continue to move away from back-, middle-, and front-office functions, and focus limited resources on growing and protecting assets, and driving enterprise expansion. We'll see more managers outsource commoditized functions whenever possible, relying on outsourcing partners to provide efficient processes, automated platforms, and experienced teams to help them reduce costs and improve efficiency.

Regarding those custom solutions for SMAs and other products, we'll be working together with our buy-side partners to improve their performance and efficiency. Often, those solutions are developed on tight deadlines, and as we continue to refine them, they can be used for other new products. These types of tools and systems frequently can be commoditized and used for other clients, which standardizes processes, reduces the need for continuous development, and ensures they are priced competitively.

When your teams meet with fund managers to discuss new models, do you typically concentrate on wholesale change or more discrete initiatives?

It depends on the fund manager. Our client-centric model emphasizes personal service, listening to clients, and exploring their needs. Our goal is to establish long-term, trusted relationships and we're fond of saying to clients: 'What do you need? If we don't have it, we'll build it for you.' We take a holistic approach to reengineering. With long-term clients, we already know their business and can offer thoughts on reengineering models.

When we meet with newer clients to discuss their needs, they might suggest a discrete project to start, such as automating a fee calculation or a custom client report. Then we might follow with another slightly larger engagement involving both our teams – for example, building application programming interfaces (APIs) to allow for real-time data exchange. Generally, after we have completed some smaller projects, we can begin exploring more extensive changes to an operating model.

How do outsourcing partners convince managers that they have the right skills to handle new funds or more esoteric investment strategies?

We're very focused on being proactive. We hire top talent in all 17 of our global locations, and we're committed to ensuring that we have the correct team for each client. Learning and development is critical. A few years ago, we struggled to find people with back- and middle-office experience from private markets. So, we took a different approach: We hired smart people with traditional finance experience, created private market academies in private equity and real assets, and trained those colleagues for the private markets discipline. That has been, and continues to be, a very positive outcome with measurable results. We even have clients who put forth their people to participate in our academies. Our digital academy, which focuses on artificial intelligence (AI) principles, is our newest employee offering.

Co-sourcing and lifts-outs are becoming more common. What are the benefits and how do you ensure that they address current needs and will support future growth and scalability?

For some in our industry, outsourcing (our people, our technology) is barely distinguishable from co-sourcing (our people, your technology). One of the benefits of co-sourcing is it provides a comfort level for fund managers who may be reluctant to give up control of processes or data, but recognize the need for specialized expertise or tools to help their businesses grow.

There are meaningful possibilities for lift-outs (your teams become our teams) because when fund managers decide they want to remove functions entirely, those teams move to a partner that shares the same skills. The fund managers achieve their objective of reducing costs and streamlining operations, and the partner inherits a team that can be used with other clients, too.

How important are technology and data/risk-management in discussions about new operating models?

Updating technology and improving the ability to capture, harmonize and distribute data are among the most important elements of reengineering operating models. Managers need to eliminate outdated, legacy technology to handle the influx of new investors and capital, and to

process volumes of data. To address disaggregated data in varied formats—from their own systems and external parties—fund managers are moving to secure, automated common data platforms to collect and process information about clients, investors, legal entities, funds, portfolios and transactions.

After data is cleaned to eliminate duplication and inconsistencies, and is translated into a standard syntax to create a single 'golden source,' it will flow into a secure data lake or aggregators where access is tightly controlled. With a clear audit trail, the data can be used for management and investor reporting, analytics for investment strategies and internal governance, as well as multi-jurisdictional regulatory and compliance reporting.

Global regulators are increasingly demanding more disclosure and transparency from fund managers, often with a wide range of reporting requirements. How important will automated systems be in meeting regulatory requirements?

Managing change is complicated and automated systems are critically important for meeting new compliance and regulatory standards. Funds with many strategies will have a difficult time manually coordinating regulatory and compliance requirements, which are often not harmonized across jurisdictions. Automated systems also rapidly streamline the reporting process.

For example, a fund manager marketing in 11 European Union jurisdictions with distinct disclosure and formatting requirements used our platform to submit AIFMD Annex IV reports. The automated platform filed the reports instantly to all the jurisdictions with verified data in the correct fields and format.

Where do you see AI fitting into new operating models?

Validated data is critical for using generative AI, and fund managers that effectively manage and analyze that data are likely to be the most successful.

The long-term potential for AI is enormous, but there are also risks. At this point, AI is still making mistakes and hallucinating in certain situations, and even as that number drops, it will be hard to have complete confidence until AI results significantly improve.

The industry needs to move slowly and establish guardrails for how, when, and where AI can be used.

McAllister (Mac) Kirschner is Chief Operating Officer for **MUFG Investor Services**. He is responsible for business and banking operations, and public and private market businesses, and has served as Global Head of Relationship Management. Mac joined MUFG Investor Services in 2016 from BlackRock, where he served as a Managing Director in Global Fund Services, focused on BlackRock's Alternatives business.

Unlocking private capital for retail investors

What are the opportunities, challenges, and paths forward for retail investors in private capital?

Sponsored by:



Nicolas Audhoui-Darthenay
Head of Private Assets Product
Natixis Investment Managers

Private assets deserve retail investors' attention and retail investors deserve access. More than 80% of the global economy is driven by privately held companies, yet retail investors have largely been left out.

To put it into perspective, the combined capital of private wealth is equal to that of all pension and institutional money worldwide. However, half of this capital is effectively sidelined, unable to invest in the companies that make up the bulk of the economy.¹

This is a significant, untapped opportunity – not only for retail investors but for economic development.

Why private assets should be on retail investors' radar

Fast-growing companies – particularly those driving innovation and addressing ESG challenges – are often privately held, accessible primarily to institutional and, to some extent, ultra-high-net-worth investors (UHNWIs) through private asset funds.

These companies present higher risks, but also offer the potential for outsized returns. In addition to their growth potential, private assets often provide a complexity premium (higher returns due to fewer investors for complex assets) and an illiquidity premium (extra yield for less liquid investments).

Adding private assets to a portfolio may also enhance diversification, reducing overall volatility and downside risk.

Why haven't retail investors gained access to private assets?

While some family offices and UHNWIs have allocations to private assets, retail investors have almost no exposure. There are a few reasons for this: regulatory barriers, lack of knowledge and understanding of private markets' risks and rewards, and current investment structures being tailored to large institutional investors.

For example, retail investors may typically want some liquidity in their long-term investments, but traditional private-asset funds, which are closed-ended, fail to offer this flexibility. Minimum investment amounts and unpredictable capital calls (the need to contribute additional capital at short notice) have also discouraged retail participation.

Ultimately, for retail investors, private assets are inherently more complex, require higher minimum investments, and are accessible only through assets managers due to their private nature, with sourcing often based on capacities, trust and established relations.

How can this change?

Regulations and fund structures are changing favorably. The private capital landscape is evolving, with new regulations and fund structures paving the way for individual investors. A significant development is the relaunch of the EU's European Long-Term Investment Funds (ELTIFs). ELTIF 2.0, effective as of January 2024, offers retail investors large-scale access to private markets for the first time.

¹ Source: Preqin, Bain analysis, 2024.

Initially launched in 2015, ELTIFs aimed to finance long-term projects and small-to-medium enterprises (SMEs) using non-institutional capital, but they struggled to gain traction, raising less than €10bn to date from individual investors and marketing in just a handful of EU countries. In particular, the requirement for ELTIFs to be closed-ended without any exit, even in exceptional circumstances, combined with harsh guidelines, made them fail their initial target.

ELTIF 2.0 addresses previous limitations, such as high investment thresholds and strict liquidity restrictions. The new framework eliminates the €10,000 minimum and lifts the 10% cap on exposure for investors with less than €500,000 in financial assets, making private assets more accessible than ever.

The new ELTIF regime allows for the launch of evergreen funds. Unlike traditional closed-end private asset vehicles, evergreen funds have more liquidity windows and regularly updated NAVs, meaning investors have frequent opportunities to invest and withdraw money – similar to UCITS funds retail investors are familiar with.

With an evergreen fund, investors' capital is at work from day one, without having to wait for capital calls. Track record and historical performance are also easier to read, which is important for investors seeking both education and simplicity.

Asset managers need to simplify processes for retail investors

To succeed in engaging retail investors, asset managers must aim to provide a seamless, UCITS-like experience, making investing in private assets as straightforward as possible. Investors should be able to simply pay cash and gain exposure to private assets immediately, with asset managers handling complexities like deployment, cash drag, liquidity, and flow management behind the scenes. This requires them to leverage their expertise, access transactions (buy or sale), modeling capabilities and to move from a closed-ended management style which is mostly about originating and selecting deals to a broader perspective which includes diversifying vintages and durations.

Retail investors value diversification in one place

Retail investors expect access to a range of private asset types and strategies to diversify their allocations. As the retail segment becomes a significant force in private markets, firms that can offer a variety of strategies – ranging from private equity to real estate to infrastructure – will stand out.

Success in this space requires technical excellence in each of the asset classes, access to top-tier opportunities, a network of trusted partners and providers and the ability to structure and model portfolios with the right cash flow and liquidity profiles – all while navigating complex tax, legal, and regulatory environments.

Next wave is on the horizon

The rise of private capital allocations by UHNWIs in recent years is just the beginning. In the next five years, we expect mass retail investors to become a more and more important driver. The future of private capital is wide open for retail investors, and we believe the time to seize the opportunity is now.

Nicolas Audhoui-Darthenay joined **Natixis Investment Managers** in 2021. He was previously Head of Structured Solutions at Younited Credit, in charge of innovative financing, and Head of Structuring for Securitised & Structured Assets for five years at AXA IM Structured Finance, where he was leading the effort on new products and complex structures. Prior to that, he spent nine years as a senior structurer at Merrill Lynch and Deutsche Bank in London, where he focused on synthetic CDOs, ABS, repacks, credit index options and regulatory capital solutions for banks and insurance companies.

Any securities mentioned above are for illustrative purposes only and do not constitute advice, a recommendation, or a solicitation to buy or sell. All opinions are those of the author at the time of publication and are subject to change. Past performance is not a guarantee of future returns.

For Professional Investors only. All investing involves risk, including the risk of capital loss. Natixis Investment Managers is the holding company of a diverse line-up of specialized investment management and distribution entities worldwide. Services and products managed by Natixis Investment Managers are not available to all investors in all jurisdictions.

Provided by Natixis Investment Managers UK Limited which is authorized and regulated by the UK Financial Conduct Authority (register no. 190258) - registered office: Natixis Investment Managers UK Limited, 4th floor, Cannon Bridge House, 25 Dowgate Hill, London, EC4R 2YA, UK.

Private equity:

LPs and managers believe that a better year lies ahead for the asset class

The findings and data in this section are from the [Preqin 2025 Global Report: Private Equity](#).



The lead analyst on the report is **Victoria Chernykh, MBA**. She is an AVP, Research Insights, and specializes in private equity.



[DOWNLOAD THE REPORT](#)

Ongoing easing cycle could help boost fundraising efforts in 2025

- Due to an extended wait for interest-rate cuts and global economic and geopolitical uncertainties, private equity funds globally raised less capital in the first three quarters of 2024 compared than in the same period in 2023.
- By the third quarter of 2024, \$482bn had been raised, making it unlikely to surpass 2023's full-year historic record of \$781bn by the end of this year (Fig. 1.1).
- With monetary policy expected to loosen further in 2025, investor confidence appears to be rebounding. According to our latest survey, half of LPs plan to increase allocations to private equity in the next 12 months, up significantly from 28% in 2023.

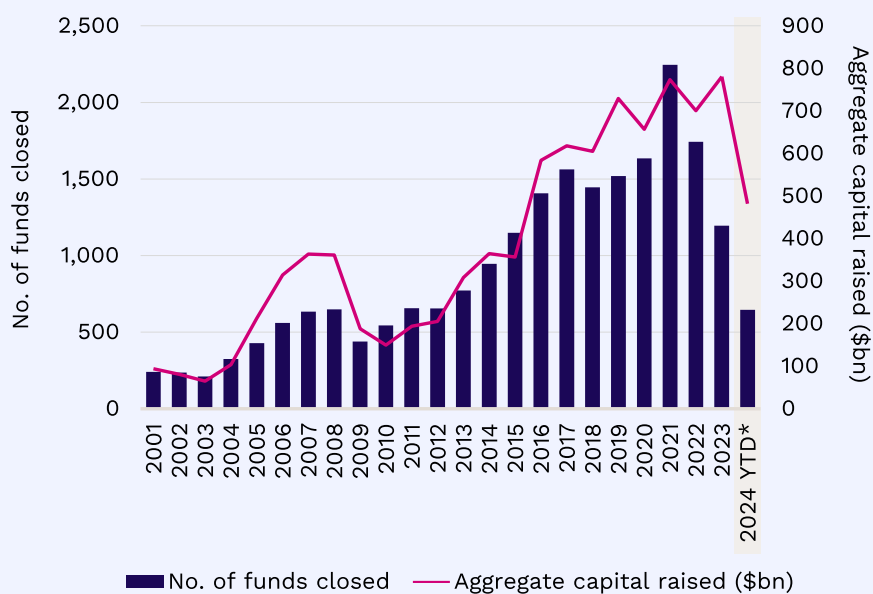
The worst of the current exit cycle may be over

- Higher discount rates have suppressed valuations, resulting in weak exit (and deal) activity over the past two years. However, the latest deal activity data suggests a possible recovery.
- IPOs accounted for 9% of all exits by the third quarter of 2024, a historically low level akin to the 2008 credit crunch. Nevertheless, it is up from just 7% in 2023, signaling a potential bottoming out last year (Fig. 1.2).
- Monetary easing policy in Europe and the US should boost valuations and reinvigorate both exits and deal-making.

Investors' strategy preferences for the next 12 months shift back to small- to mid-market buyouts from secondaries

- A tough exit environment in 2023 slowed distributions to LPs, driving interest in secondaries as a liquidity solution.
- Our latest investor survey, however, shows a pivot from secondaries, making small- to mid-market buyouts the most popular strategy among investors for the near-term.
- With liquidity expected to return to the private equity market as rate cuts happen, investors are expecting increased activity in the small- to mid-market space, which has historically delivered strong performance.

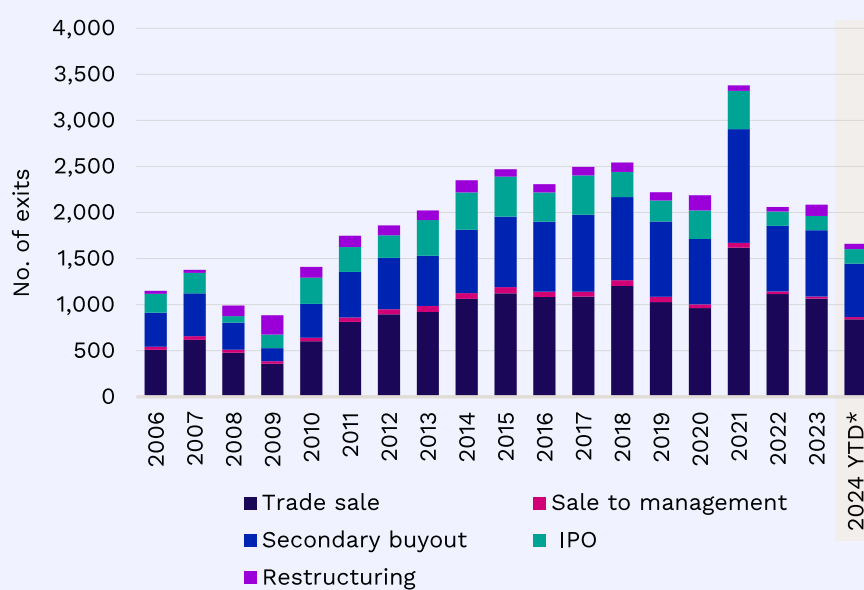
Fig. 1.1: Number of private equity funds closed and aggregate capital raised globally



*YTD to end-Q3 2024

Source: Preqin

Fig. 1.2: Annual number of private-equity backed exits by type



*YTD to end-Q3 2024

Source: Preqin

Global viewpoints

Preqin viewpoint

- “When we look at 2024 in review, we see that investors and private equity managers alike appear more optimistic as we head into 2025. However, fund managers are wary of regulatory and geopolitical risks, remaining concerned about asset valuations. The long-term demand for higher and uncorrelated returns compared to public markets should give the industry a head start..”

Victoria Chernykh, MBA
AVP, Research Insights

Client viewpoint

- “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.”

Jason Stevens
Chief Technology Officer, Ultimus LeverPoint

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

Sponsored by:



BNP PARIBAS



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

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.

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.

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

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.

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.¹ 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.

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.

¹ <https://securities.cib.bnpparibas/powering-private-markets-growth-why-gps-cant-do-it-alone/>

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

Sponsored by:



Justin Partington
Global Head of Fund and
Asset Managers,
IQ-EQ

'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.

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

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/elitif-2-0-reforms-set-to-drive-significant-growth-in-european-private-markets.html>

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. 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.¹ Additionally, subscription line financing is being used in the sector to aggregate capital calls, creating a more predictable and periodic drawdown profile.

¹ <https://www.preqin.com/insights/research/reports/future-of-alternatives-2028>

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).¹

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.

¹ <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.

Venture capital:

Valuations and performance may be at a turning point after a challenging 2024

The findings and data in this section are from the [Preqin 2025 Global Report: Venture Capital](#).



The lead analyst on the report is **Michael Patterson, CFA**. He is a Senior Associate, Research Insights, and leads our coverage of the venture capital industry.



[DOWNLOAD THE REPORT](#)

Fundraising struggles continue due to a weak exit environment

- With fewer and less profitable venture capital (VC) exits, capital is not as readily flowing back to LPs. This has constrained the capital available for investment into new funds.
- In the first three quarters of 2024, 800 funds (down from 1,645 in 2023) raised a combined \$85bn (down from \$136bn).
- This has also led to reduced dry powder – down from \$665bn in December 2023 to \$600bn at the end of the first quarter of 2024. This has in turn impacted deal-making activity.

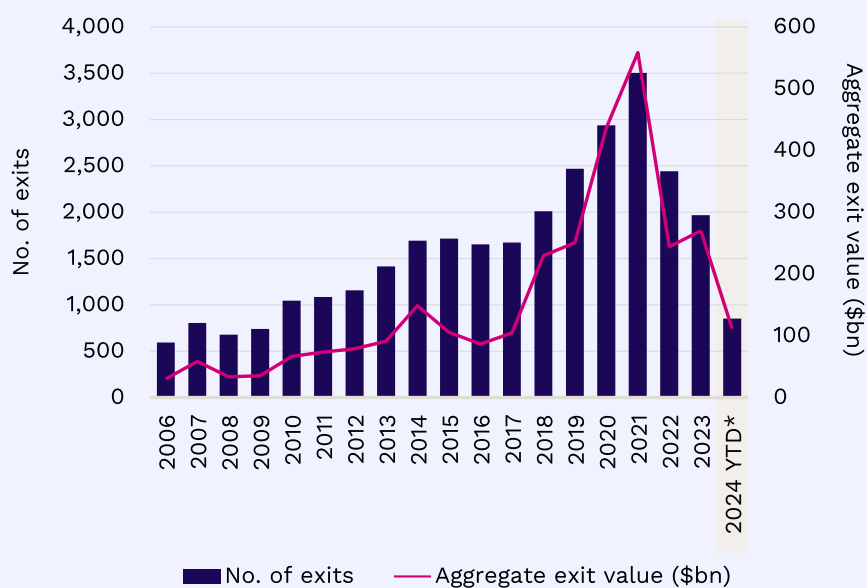
Deal activity softens but some areas fare better than others

- By the third quarter of 2024, 14,056 VC deals had been recorded at an aggregate value of \$201bn, suggesting 2024 will underperform 2023 in terms of both volume and value. However, not all sectors or regions are equal (Fig. 2.1).
- Some sectors such as artificial intelligence (AI) have bucked the broader trend, seeing robust deal activity and elevated valuations.
- Regionally, Asia's sharp decline in deals due to weak exits and fundraising has had the biggest impact on the global total, while North America shows signs of a recovery, expected to exceed 2023's deal value.

Performance is expected to pick up

- VC funds of vintages 2019–2021, the latest for which we have data, have seen subdued performance due to lower valuations and a weak exit environment.
- The Preqin Venture Capital Index reached a low in December 2023 after several quarters of contractions from its December 2021 peak, suggesting a turning point (Fig. 2.2).
- With falling interest rates in the US, performance and exits are expected to improve in 2025.

Fig. 2.1: Annual global venture capital-backed deals*

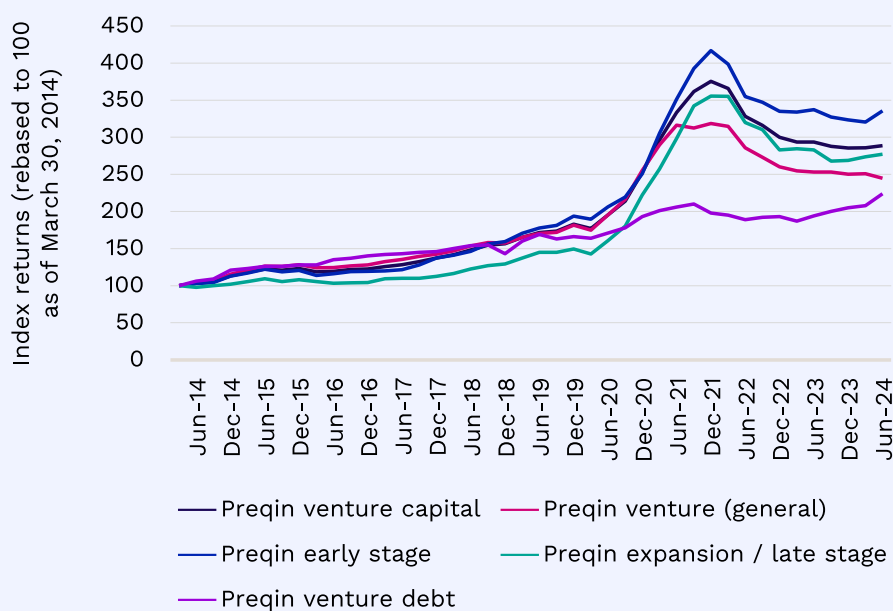


Source: Preqin Pro

*Figures exclude add-ons, grants, mergers, sec. stock purchases, and venture debt

**YTD to end-Q3 2024

Fig. 2.2: Top-performing venture capital fund types by net IRR (vintages 2014–2024)



Source: Preqin Pro

Global viewpoints

Preqin viewpoint

- “The outlook for venture capital is better going into 2025. Falling rates in the US may prompt an improvement in performance and exits. We expect early-stage venture capital to be better positioned than later stages over the coming year. Nonetheless, venture capital remains the best method for investors looking to gain exposure to innovation and technological disruption.”

Cameron Joyce CFA, CAIA
Global Head of Research Insights

Three trends shaping private capital in 2025

Why fund managers are bullish about investment opportunities ahead – and still need to focus on value creation

Sponsored by:



Ray Zhou
Co-Founder,
Affinity

In 2024, private capital continued to experience the effects of macroeconomic headwinds: low distribution rates, a shrinking pool of active investors, and a sluggish exit market. Many general partners (GPs) took a more cautious approach to deploying capital, focusing on opportunities with solid traction and a path to profitability.

However, the industry also saw large pockets of growth,¹ especially in sectors like artificial intelligence (AI) and healthcare. Assessing the landscape, 2024 was largely a year of normalization for private capital. While global VC investment declined to \$59.3bn in Q3 2024, a 20% decrease year on year, the quarterly average in the first three quarters of 2024 was almost the same as the first three quarters in 2019, before the pandemic hit, according to Preqin data.

Now, with less macroeconomic uncertainty thanks to declining interest rates and the US election behind us, many investors are optimistic about a more active year in 2025.

GPs are more bullish on deal-making opportunities

In our recent survey of nearly 300 private capital professionals in Private Capital Predictions for 2025,² 72% expect higher deal volume in 2025 compared with 2024, and they're re-doubling their efforts on deal sourcing in anticipation. This optimism appears rooted in two primary factors: a more promising economic outlook and growing pressure on GPs to deploy capital.

There are some tailwinds for private markets. For a start, inflation has moderated, and elevated valuations have begun to adjust. We saw the Fed cut rates in September and November, and private markets continue to sit on high levels of dry powder, \$880bn for growth equity and venture capital investors as of November 2024.

'We've never been as excited about the opportunity in front of us,' said Alexander Ross, General Partner at UK-based venture capital firm Illuminate Financial, on an Affinity webinar about benchmarking success.³ 'There aren't just lots of tailwinds from the macro side, but also opportunities if you build the relationships and dig under the hood.'

That said, many funds are experiencing slower capital deployment and declining fund graduation rates. As investment periods close, there's increasing pressure on funds to deploy their capital. Fund managers will be hoping for more favorable private market conditions in 2025. 'The very best funds recognize that good deals will always be able to get done,' Adam Shuaib, Partner at UK-based fund Episode 1 Ventures, said on our webinar.⁴ 'If you want to win those deals you need to stay ahead of the pack.'

¹ <https://www.bain.com/insights/global-venture-capital-outlook-latest-trends-snap-chart/>

² <https://bit.ly/affinity-predictions-report-2025>

³ <https://bit.ly/affinity-private-capital-trends-webinar>

⁴ <https://bit.ly/affinity-private-capital-trends-webinar>

AI is a key driver of deal activity

While healthcare and fintech companies featured prominently in private capital activity in 2024, it was AI that stole the headlines. In Q3 2024, AI companies accounted for a fifth of all venture funding, according to Preqin. But it was the mega deals from numerous AI companies throughout the year, including xAI's \$6bn raise in May and OpenAI's \$6.6bn raise in October, that caught people's attention.

It's clear that AI is transforming the industry – not just in terms of investments made, but in how private capital firms operate, driving their efficiency and productivity. Firms are figuring out where AI adds the most value in their investment processes and where it's just noise. Compared with last year, there has been a substantial decrease in investors using AI to make investment decisions, from 40% to just 13%, Affinity data⁵ shows.

What remains unclear is the extent to which AI is a bubble. A key question in 2025 will likely be the scope of AI's capabilities, including how close we are to realizing them and which industries will see the most impact. Since the vast majority of AI revenue remains captured by a small handful of companies (and few application businesses have achieved significant scale), the risk of an impending and painful reset is there – not unlike the one we saw across tech as a whole in 2022.

Shuaib at Episode 1 urges caution: 'If you look at the Gartner Hype Cycle, you have this period of inflated expectations and then this trough of disillusionment. I think in 2025, the AI bubble is going to burst to some degree. I think people will realize that companies branding themselves as AI are not AI at all, and there's just a lot of AI-washing going on – we've seen plenty of it.'

Value creation is front and center

A consistent theme in private capital – especially VC – over the past several years has been the dismal state of fundraising. Fund count is projected to end 2024 at the lowest level in almost 10 years, according to Preqin data. Limited partners (LPs) are exercising more caution with emerging managers and concentrating their capital with fewer, larger players.

Competition is intense. Joe Schorge, Founder and Managing Partner at UK-based Isomer Capital, a private investment firm focused on European venture capital, said: 'LPs are spoilt for choice. They might invest in your fund, but there are 100 other funds that they also could invest in. Having seen both sides of fundraising as a GP and LP, what I want to hear is why you're the best, why your thesis is powerful, why you have some competitive advantages to what you're doing.'

GPs need to concentrate on what differentiates their fund and firm to drive success in an already challenged arena. Our data reflects this tougher fundraising environment, with 7% more investors⁶ indicating they see the same or fewer opportunities for fundraising in 2025. This doesn't bode well, given the suboptimal fundraising conditions in 2024. Aside from market factors, there's one key fundraising challenge that's top of mind for 50% of the investors we surveyed: proving the value of their existing funds. LPs have limited incentives to surrender more capital when their existing investments haven't paid off.

The heat is on for GPs – and not just those looking to fundraise soon – to return capital to investors. The ones who don't deliver value now risk sacrificing their track record when it's inevitably time to raise again. Therefore, GPs are focused on driving value creation by growing revenue in their portfolio companies.

Gearing up for growth

Private capital faces familiar and emerging challenges – from economic pressures to growing competition for LP commitments and the race to create value. However, there are signs that 2025 holds a more promising year for activity and growth, especially for firms with the right strategies. For private capital investors, 2025 will be a year to differentiate and drive value.

Ray Zhou, Co-Founder of **Affinity**, believes every opportunity begins with a relationship—and knows that business networks become unwieldy and harder to leverage as they grow larger. In response, he co-founded Affinity, whose CRM automatically captures and organizes communication data, combining it with other datasets to provide the relationship intelligence needed in industries where relationship-building is foundational to deal-making.

A native of the Bay Area, Ray met Affinity's Co-Founder, Shubham Goel, at Stanford, where they studied computer science. Affinity is now used by over 3,000 relationship-driven organizations worldwide, including more than 50% of the top venture capital firms. For more information, visit affinity.co

⁵ <https://bit.ly/affinity-predictions-report-2025>

⁶ <https://bit.ly/affinity-predictions-report-2025>

Private debt:

LPs and managers adapt to changing macroeconomic conditions

The findings and data in this section are from the *Preqin 2025 Global Report: Private Debt*.



The lead analyst on the report is **RJ Joshua, CFA**. He is the Head of Private Debt and Fees within the Research Insights team, and is based in Singapore.



[DOWNLOAD THE REPORT](#)

Fundraising started slow in 2024 but gathered momentum

- The sluggish start to fundraising in the first quarter of 2024 was offset by a rebound in the second and third, driven by improved macroeconomic data and a higher likelihood of a soft landing.
- By the end of the third quarter, private debt fundraising reached \$118bn. If fundraising maintains the same pace to year-end, it would suggest a full-year total of \$157bn, down from 2023's \$214bn but close to the 10-year average of \$161bn.
- While our investor survey analysis suggests increased caution in the near term, sentiment toward the asset class in the long term remains strong.

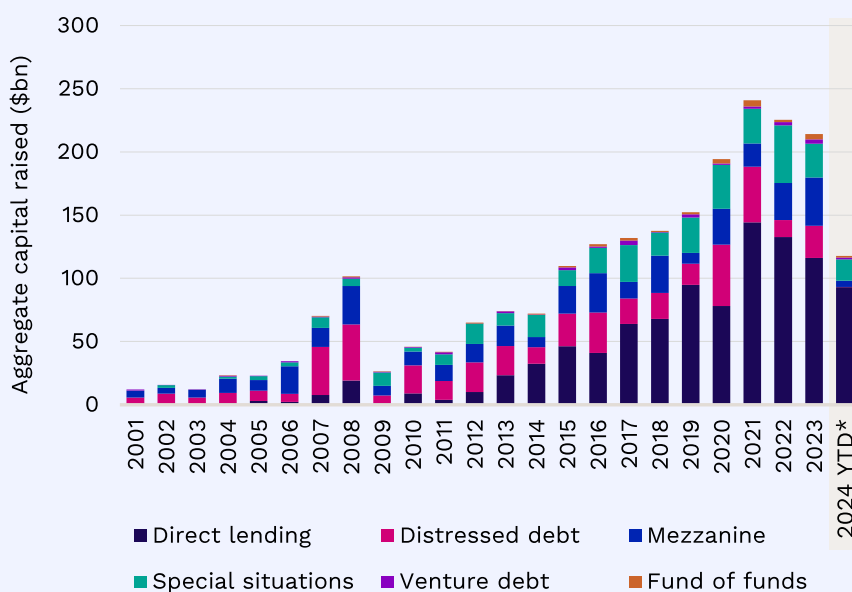
Investors favor direct lending over distressed strategies

- With inflation and interest rates declining and default rates for private debt remaining low, investor sentiment is more optimistic than this time last year.
- Direct lending's share of global fundraising jumped from 54% in 2023 to 79%, with \$93bn raised by the third quarter of 2024, making it the most popular strategy (Fig. 3.1).
- Meanwhile distressed debt has reverted to being seen as a niche strategy, with only 35% of investors favoring it versus 51% last year, according to our survey.

Lower fees reflect LPs' increased bargaining power

- Given the weaker fundraising environment, the 2024 vintage mean management fee for direct lending funds is down 26 basis point (bps) from last year to 1.42% (Fig. 3.2).
- Other private debt strategies such as mezzanine, distressed debt, and special situations tend to have higher levels of fees, reflective of the active management required. The median management fee for non-direct lending strategies was 2.00%, compared with 1.50% for direct lending.
- This fee pressure may continue for direct lending until fundraising conditions improve, benefiting LPs.

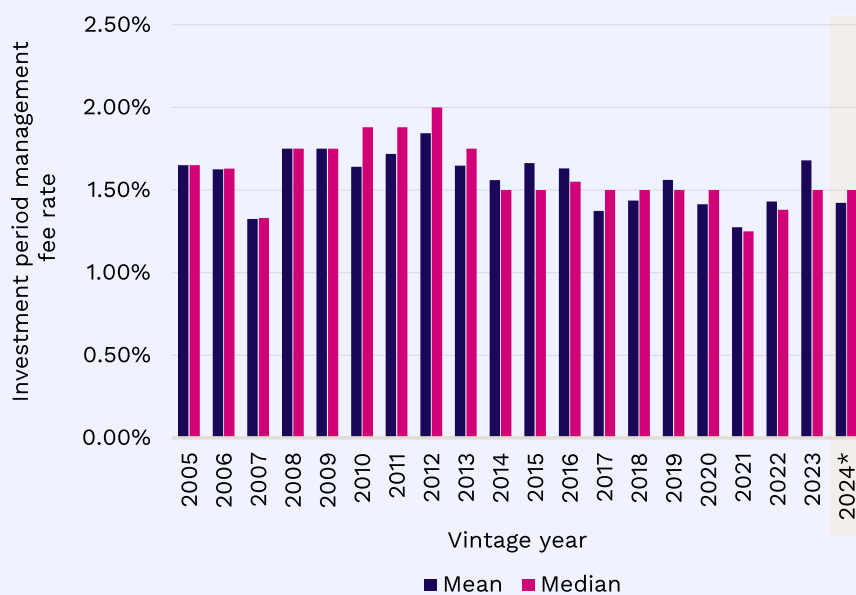
Fig. 3.1: Aggregate capital raised by private debt funds closed by type



*YTD to end-Q3 2024

Source: Preqin

Fig. 3.2: Direct lending funds average management fee by vintage year



*2024 (funds raised YTD and closed)

Source: Preqin Pro. Data as of June 2024

Global viewpoints

Preqin viewpoint

- “We see a defensiveness, with investors allocating mostly to North America as the best-known geography; direct lending as the simplest and best-known strategy; and disproportionately to the largest, best-known managers. Investors may remain positive on private debt in the long term, while appearing to be less adventurous overall than 12 months ago.”

RJ Joshua, CFA

VP, Head of Private Debt and Fees, Research Insights

Client viewpoint

- “Private debt has grown from a niche product that helped the middle market and highly levered businesses access critical financing to a trillion-dollar asset class that helps businesses of all types and in all situations.”

Drew Maloney

President and CEO, American Investment Council

Get ready to reap the benefits of private credit 2.0

As banks continue to derisk, the opportunity set for private credit funds is growing exponentially, but success outside of direct lending requires a new approach and a different business model

Sponsored by:



Zach Lewy
Founder, CEO, CIO,
Arrow Global

What factors are driving the growth in distressed debt investment opportunities in Europe?

The factors driving distressed debt investment opportunities in Europe vary widely across countries due to unique economic pressures. For instance, Germany, historically advantaged by affordable energy and low interest rates, now faces pressures due to rising input costs, particularly in its heavily industrial and construction-focused economy. This has created significant financial strain, a trend seen in other manufacturing-oriented northern European economies as well.

In sectors like real estate, especially residential construction, rising interest rates and housing shortages across multiple regions have disrupted growth, however, we are seeing renewed activity as interest rates decrease. In countries where pre-sale deposits are commonly used to fund projects, construction has been particularly affected by the combination of higher costs and a slowdown in pre-sales.

On a broader level, macroeconomic trends like aging populations, labor shortages, rising defense costs, and the ongoing energy crisis are creating additional pressure across sectors. However, certain bright spots, such as tourism and stable sectors like agriculture, continue to offer opportunity and resilience.

Interest rates remain a dominant factor from a distress perspective. When rates were zero or negative, banks, facing minimal opportunity costs, were often reluctant to address awkward loan positions. It was essentially a marriage of convenience. But now, as the cost of loan extensions rises, certain borrowers face greater strain, leading to a surge in restructurings – an area where we are highly active.

What role do non-core banking assets play in Europe's current private debt market?

For a whole host of regulatory reasons, it's possible – trending towards probable – that the role of banks has fundamentally shifted. Banks are starting to function more like utilities, shifting much of their risk management activities into their asset management arms. Here, they aren't subject to the same capital requirements and can focus on increasing fee income.

This shift benefits us greatly, as capital for high-risk investments is increasingly channeled toward private credit and third-party asset management. Given the ongoing response to the Global Financial Crisis, there's little debate left on the role banks should play. Core banking activities are contracting, and as a result, other lending categories – construction loans, bridge loans, agricultural loans, buy-to-let mortgages, specialized mortgage products, margin loans, leveraged buyouts, and similar areas – are becoming non-core and increasingly open to private capital.

Which sectors in Europe are most likely to experience an increase in non-performing loans, and why?

Some industries are super complicated, and they suffer more in challenging times. For example, airlines face a range of challenges, from strict regulatory oversight to high capital expenditures, extensive inventory and marketing costs, exposure to fuel and commodity price fluctuations, and complex financing needs. Managing these variables is a significant challenge, especially in the current environment.

The office sector is another area facing difficulties, impacted by shifting demand patterns and a growing realization among investors that office properties are not a reliable substitute for bonds. This combination of changing demand and limited investment reliability is a deeply negative double impact on the sector.

Nonetheless, certain areas present opportunities. Tourism, for example, is booming, although the question remains whether this trend is structural or cyclical. With people more mobile and the rise of ‘work from anywhere,’ economic activity is shifting in new directions, creating unique opportunities across sectors. In retail, while investment in shopping malls has slowed, locations that meet daily needs retail and are proximate to consumers remain promising. E-commerce comprises 21% of European retail, yet large portions of the remaining 79% are still highly valuable.

Green energy capex is another area showing strong demand. Although the ESG agenda has decelerated, particularly in the US, renewable installations, such as solar panels, continue to be popular as people invest in sustainability.

Arrow has been recognized for its successful track record in distressed situations. What are the key success factors?

You need to know your circle of competency. Success in distressed situations requires a deep understanding of core competencies. While it’s crucial to know the relevant processes and strategies, true expertise comes from accurately assessing asset value and knowing what you’re willing to pay. With a team of 3,000 people across 22 platforms, we have the skills and resources to capitalize on these opportunities effectively.

Beyond valuing the asset, a key success factor is the technical skill to manage it and implement value-add steps that ultimately drive a profitable exit. These three competencies – valuing, managing, and exiting – are essential for delivering strong returns.

We can do that well against granular asset-backed real estate in most countries in Europe. We can do it against tourism and hospitality assets because of the different platforms we own. We can do it in parts of real estate and in mortgages. We prefer real assets as collateral over corporate exposures, which aligns with our focus on sectors where we can leverage our strengths and available resources. It’s about knowing what you can do and having the resources to do it.

Is this private credit’s golden moment? Will it last?

Is this a golden moment? There’s certainly extensive potential ahead. Five years ago, private credit was one bucket and most of it was direct lending. Now it’s clearly evolving and diversifying. There’s direct lending, real estate lending, construction lending, litigation finance, capex finance, and infrastructure debt, to name a few. Private credit is significantly broader now, and I do believe it’s going to be a huge asset class.

And it’s important to stress that much of private credit remains symbiotic with traditional banks. Banks aren’t exiting the private credit space; they simply don’t wish to act as last-mile lenders in every activity. But they will still be there providing capital behind the scenes.

We are moving toward a stable equilibrium where private credit often fulfills the last-mile lender role outside mass-market categories. In cases where banks seek exposure to these specialized sectors, they are likely to do so through warehousing or loan-on-loan leverage.

While the generational opportunity in direct lending may be behind us, we are in a second wave, expanding into new categories and with an exceptionally long runway of growth ahead.

How does asset-based lending compare to corporate lending, and what are the key factors for success in this area?

I’m hugely in favor of asset-based loans. Asset-based lending is a compelling area for investment. Would you rather lend at 3–4 times corporate earnings or at a 60% loan-to-value on a property?

When you look at the metrics, asset-based lending is superior to corporate lending, though the model is inherently less scalable. You must be local. The assets physically exist in the real world, and it’s regulated in most jurisdictions, so you need the local expertise and compliance position. This development represents an exciting evolution for us, as it aligns with our local platform-led approach. Asset-based lending differs from corporate private credit, which necessitates a different business model and distinct operational structures.

What trends are you excited about in real estate credit across Europe?

Real estate is a big boom area. Banks are exiting specialty lending categories, creating a gap that funds are ready to fill. Bridge loans, construction loans, agricultural loans, mixed-use mortgages, and other products are increasingly shifting into the realm of fund-based lending.

This shift presents unique opportunities, especially for funds with the expertise and structure to handle complex real estate transactions across varied European markets.

How will changes in the interest rate environment affect private credit?

Rising rates obviously benefited private credit, as most loans are floating rate. However, we have safeguards for when rates decline. For example, we may lend at SONIA plus 400 basis points but with a floor of 300bps on SONIA, or there's a minimum multiple on redemption, or a redemption fee. These are different ways of achieving the same minimum return from those activities.

While it may be demanding to replicate the returns seen at higher rates, there are enough tools available to continue delivering strong results for investors, regardless of the interest rate environment.

The ESG movement has lost some momentum. Is ESG still important to you?

Lending aligns very well with ESG goals, allowing for comprehensive assessments using sustainability scorecards. For instance, in real estate, around 60% of European housing stock dates to before 1980. As the market shifts to newer, energy-efficient stock, we see improvements in insulation, heating sources, energy provision, and other sustainability measures.

Aligning lending practices with ESG standards is essential. As private market players continue to grow and extend into other categories, they will play an ever larger role in social causes. We have participated in multiple affordable housing deals, bringing clear benefits to local communities and aligning with municipal objectives.

Our operational model means we have literally thousands of people in these local communities, allowing us to engage meaningfully and act as positive contributors to the local economies. This approach supports our long-term relationships, as community engagement, local planning support, and sustainable impact are crucial. There are questions about measurement and trade-offs but being a positive force in the regions where our employees, their families, and our clients live is central to running a business like ours.

Arrow Global was founded in 2005 by **Zach Lewy**, CEO, CIO, with the ambition of creating Europe's leading private credit and real estate investment platform. Arrow's platform franchise creates sustainable value across a range of alternative asset classes including opportunistic credit, real estate lending, and real estate equity. With the added benefit of key European regulatory licences, it services approximately €90bn of third-party AUM.

How private debt is developing and why investors are looking for quality

Nuveen's Laura Parrott explains why infrastructure credit is offering new opportunities, and how insurance companies are looking to lock in on higher rates

Sponsored by:

nuveen
A TIAA Company



Laura Parrott

Senior Managing Director, Head of
Private Fixed Income,
Nuveen

Nuveen and CoreData surveyed 800 institutions globally spanning North America (NORAM); Europe, Middle East and Africa (EMEA); and Asia Pacific (APAC) in October and November 2023. Respondents were decision-makers at corporate pensions, public/governmental pensions, insurance companies, endowments and foundations, superannuation funds, sovereign wealth funds, and central banks. Survey respondents represented organizations with assets of more than \$10B (53%) and less than \$10B (47%), with a minimum asset level of \$500 million. The survey has a margin of error of $\pm 3.5\%$ at a 95% confidence level. For more information visit nuveen.com/equilibrium

What innovations are we seeing in private markets, and particularly private debt?

As the private credit market expands, both from capital flowing in as well as issuance that has traditionally been in the public market, we are seeing all sorts of new opportunities within private credit. Specifically, we are seeing innovation in infrastructure credit with new opportunities to help fund the energy transition and other infrastructure needs. There's quite a tailwind there, with innovative structures around infrastructure.

One of these strategies, which Nuveen has been a first mover on, is commercial PACE – or Property Assessed Clean Energy – an opportunity to invest in energy efficiency upgrades to commercial real estate. This is a credit product that can help financing within real estate, an example of an innovative credit solution for a specific area of the marketplace. As an investor, it is a good diversifier away from traditional corporate exposure, while having structural protections and collateral.

Why could private debt be an attractive asset class in a recession?

Whether it's in a recession or just in general, there remains a lot of market uncertainty, particularly geopolitical. Of course, we're seeing recessionary concerns. There is interest-rate volatility globally as central banks are starting or continuing to make moves, and institutional investors are starting to recognize that traditional portfolios might be a little too exposed to these types of risks.

Private credit allows investors to diversify from those more traditional areas within your portfolio, but it can also serve as a ballast from the liquid markets where there could be more volatility. In the private markets, we generally don't see volatility in the same way because, for the most part, there are structural protections in these private credit instruments. And in infrastructure, there's oftentimes collateral that gives certainty of interest payments. All of this combined can provide more comfort going into a potential credit cycle or recessionary period, adding stability to your portfolio.

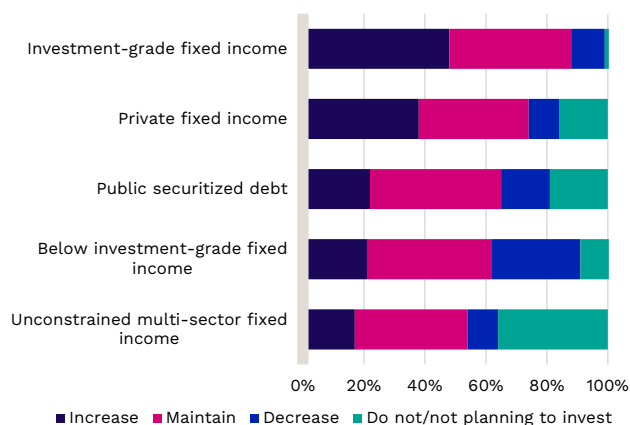
Why are investors placing a greater emphasis on quality?

In our surveys of Nuveen's institutional clients, there's an increased interest in investment grade opportunities (Fig. 1). Part of this goes back to what we've talked about – in a period of potential global geopolitical instability, recessionary pressures and interest-rate volatility, having investment grade exposure can be a ballast to some of the more volatile areas.

The other argument would be that right now, investment grade is very attractive vis-a-vis what we're seeing for below investment grade credit. The delta between an investment grade yield and a below investment grade yield, isn't very significant given historically tight spreads. So now that we're out of the zero-rate environment and in a more historical norm from an underlying yield perspective, those investment grade exposures become more appealing to add back into your portfolio. Investors are not taking as much risk, but they're still enjoying an attractive yield. In private markets, investors also benefit from yield enhancement from the liquidity premium, so it's even more attractive.

For those reasons, we're seeing a lot more interest in the asset class and, when there is capital coming into an asset class, there is more issuance. Issuers recognize that there's capital there, and certainty of execution. When the two marry, that means the market in total is expanding.

Fig. 1: How are institutional investors shifting fixed income allocations over the next two years?



What other trends are you observing in alternative assets?

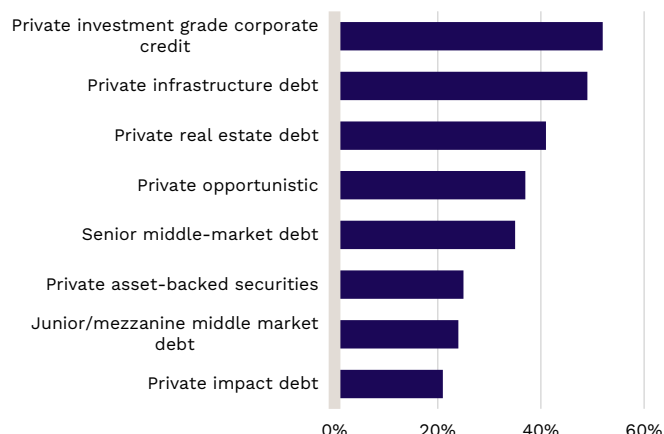
One of the other trends that we're seeing is infrastructure credit investing, in both the investment grade and the below-investment-grade context (Fig. 2).

I already mentioned our commercial PACE product, which is a nascent market that's really starting to grow and a great investment opportunity in the investment grade securitization space.

Along those lines, I'd be remiss if I didn't mention the growth in the private asset-backed security market. It's an option for issuers wanting to move away from the public ABS market, and it's also an option to help finance more esoteric types of collateral pools. That has been an area of focus for us, and we've seen a tremendous amount of innovation within the ABS market.

The tailwind here is not just the capital coming in and issuers wanting the certainty of execution and access to that capital. We also have an environment where banks have been somewhat dislocated due to regulatory issues. So there simply is white space for other institutions to come in and capture that issuance, and we're seeing that in a significant way. That will remain a real source of growth for the private credit market, and we're excited about how we can participate and lead in that market.

Fig. 2: Within private fixed income, where are institutional investors increasing allocations over the next two years?



How is the role of insurance-based investors changing as new entrants forge their way in alternatives? Are you seeing any changes in the types of investor or sources or capital in the private debt market?

We're certainly seeing more interest in private capital, below investment grade but especially, as we discussed, in the investment grade construct. Nuveen conducts its Equilibrium Survey every year, where we survey 800 clients globally to gauge their desires, which helps us know where the market is going (Fig. 1 and Fig. 2).

What we have found is that the majority of respondents are looking to increase their exposure to investment grade and private credit. And that's across our institutions. Insurance companies in particular are looking for ways to capitalize and lock in on the higher rates we've been enjoying over the past couple of years. Even with the rate cuts we've seen, we're still seeing attractive rates. So you can capture and lock them in for a longer duration and still enjoy the benefits that private capital provides. We mentioned structural protection, but the yield enhancement through the illiquidity premium and call protection are other features that that this market enjoys. These are all attributes insurance companies are interested in and so, we've heard first-hand from our clients that this is an area they're looking to expand their investment horizon in. As an investor focused on the market, this is something that we are experiencing in real time.

Laura Parrott is a Senior Managing Director and Head of Private Fixed Income at **Nuveen**, responsible for the growth and commercialization of private corporate credit, infrastructure debt, credit tenant loans, and private ABS. Laura also oversees the Nuveen Green Capital and the Energy Infrastructure Credit investment teams.

Nuveen offers a comprehensive range of outcome-focused investment solutions designed to secure the long-term financial goals of institutional and individual investors. Nuveen has \$1.3tn in AUM as of September 2024 and operations in 27 countries. For more information, please visit www.nuveen.com.



Global Fund Services

A photograph of a middle-aged man with grey hair and glasses, wearing a light-colored suit jacket over a blue shirt. He is smiling and looking towards a woman whose back is to the camera. The woman is wearing a yellow top. They appear to be in a professional setting, possibly a meeting or consultation. The word "PARTNER" is overlaid in large white letters across the middle of the image.

PARTNER

Every step of the way, we're by your side to support your growth and help manage your assets.

With expert guidance, comprehensive solutions and innovative technology, you'll receive a seamless servicing experience for your private debt and private credit strategies.

Partner with U.S. Bank.

usbank.com/globalfundservices

Investment products and services are:

NOT A DEPOSIT • NOT FDIC INSURED • MAY LOSE VALUE • NOT BANK GUARANTEED • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

U.S. Bank Global Fund Services is a wholly owned subsidiary of U.S. Bank, N. A. Custody and lending services are offered by U.S. Bank, N.A. U.S. Bank Global Fund Services (Ireland) Limited is regulated by the Central Bank of Ireland. U.S. Bank does not guarantee products, services or performance of its affiliates and third-party providers.

©2024 U.S. Bank 1273402 (9/24)

Hedge funds:

Investors favor strategies that provide diversification and reduced portfolio volatility amid market challenges

The findings and data in this section are from the [*Preqin 2025 Global Report: Hedge Funds*](#).



The lead analyst on the report is **Charles McGrath, CFA, CAIA**. He is an AVP, Research Insights, and leads the team's coverage of the hedge funds industry.



[DOWNLOAD THE REPORT](#)

Q3 2024 was a bright spot amid long-term outflows

- Hedge funds experienced a net inflow of \$26bn in the third quarter of 2024, the highest since mid-2021.
- This resulted in a year-over-year AUM growth of 11.5%, well above historical averages, to reach \$4.88tn in the first three quarters of the year.
- The strong asset inflows this quarter remain an outlier for now as long-term trends show much of the assets under management (AUM) growth has been driven by performance, with net outflows negative for most of the past decade.

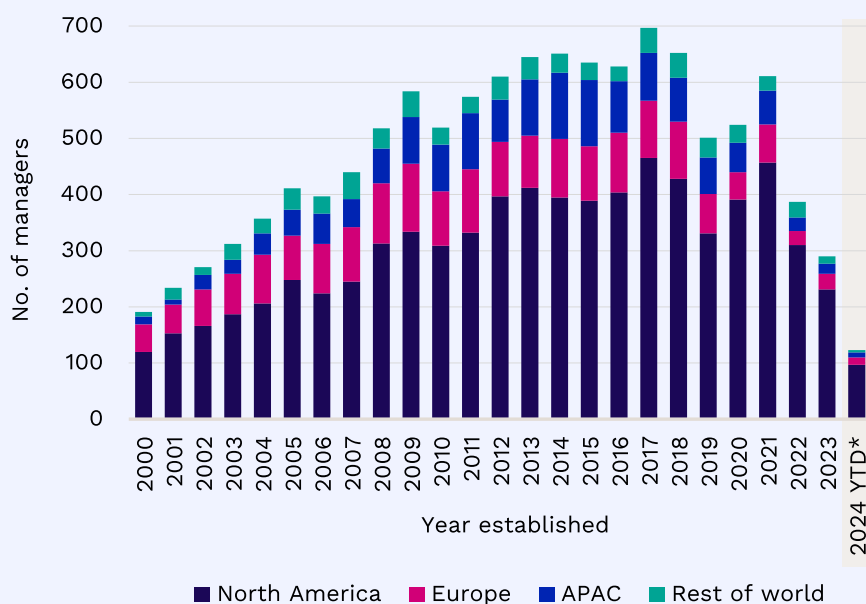
New fund launches at a record low

- Institutional investors have steadily reduced their hedge fund allocations in recent years.
- Public pension funds, in particular, have decreased their average hedge fund allocation from nearly 8% to around 7% of total assets over the past five years, representing a significant amount of capital moving away from the asset class.
- Amid this lukewarm investor sentiment, the number of new managers coming to the market has trended lower over the past eight years, and 2024 will likely end at its lowest level since 2000 (Fig. 4.1).

Some strategies stand out to investors

- Despite the challenges, investors remain optimistic about hedge funds' ability to deliver strong risk-adjusted returns and volatility hedging – traits consistently valued in their hedge fund allocations, according to our investor surveys.
- Hedge funds have proved an effective source of risk mitigation in 2024, particularly as bond markets exhibited unusual volatility. Preqin's All Hedge Fund Index returned 10.1% (13.7% CAGR) in the first nine months of 2024, expectedly lagging public equities but outperforming public debt (Fig. 4.2).
- Investors currently favor strategies such as CTAs (managed futures) and global macro funds. These are less correlated to public markets and help lower portfolio volatility, aligning with investors' priorities.

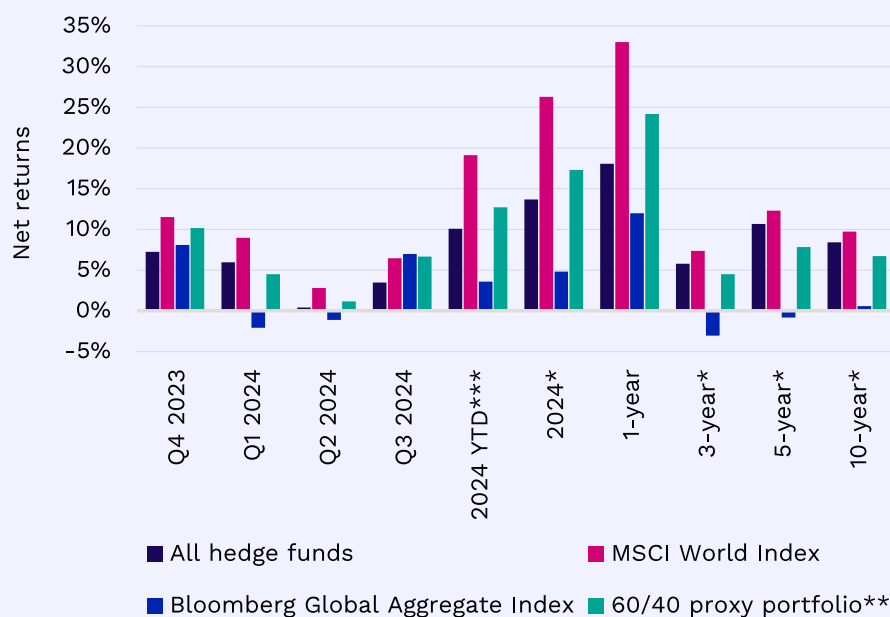
Fig. 4.1: Hedge fund managers by year established and region



*2024 (funds raised YTD and closed)

Source: Preqin Pro. Data as of September 2024

Fig. 4.2: Performance of hedge funds vs. public markets



*annualized

**60% MSCI World index/40% Bloomberg Global Aggregate index

***to end-Q3 2024

Source: Preqin Investor Outlook: H2 2024

Global viewpoints

Preqin viewpoint

- “As expected, overall hedge fund returns lagged public equities while outperforming public debt through to the end of September. However, in terms of risk, the recent downside volatility of the investment grade bond market significantly impacted the relationship between those assets and equities, increasing their correlation. This development has allowed hedge funds to step in as a risk mitigator.”

Charles McGrath, CFA, CAIA
AVP, Research Insights

Client viewpoints

- “The outlook for many hedge funds is ‘opportunity-rich’. We expect to see more funds and structures coming to market making it easier for all clients, not just institutional and UHNW investors, to gain access to top-tier funds.”

Joseph Burns
Managing Director, Head of Hedge Fund Research, iCapital

- “Liquid alternatives and liquid hedge funds provide the ability to generate absolute returns irrespective of the point in the economic cycle, while private market funds can provide investors with access to new assets and sources of return that aren’t available in the public markets.”

Alexander Schoenfeldt
Head of Investments, Lumyna

Real estate:

Fundraising remains subdued but there are indications of an improving landscape

The findings and data in this section are from the *Preqin 2025 Global Report: Real Estate*.



The lead analyst on the report is **Henry Lam, CFA, CAIA**. He is an AVP, Research Insights, and specializes in real estate.



[DOWNLOAD THE REPORT](#)

Average capital targeted by funds in market contracted

- If the current pace persists, 2024 is unlikely to match last year's fundraising levels. In the first three quarters of 2024, 416 real estate funds globally raised an aggregate \$96bn, down by 22% and 6% year-on-year, respectively.
- At the same time, the aggregate capital targeted by funds in market decreased from \$632bn at the start of the year to \$615bn at the end of the third quarter – the first decline since 2013 (Fig. 5.1).
- The average capital targeted by funds in market contracted by \$45mn to \$223mn, indicating an increase in the portion of smaller funds in the market.

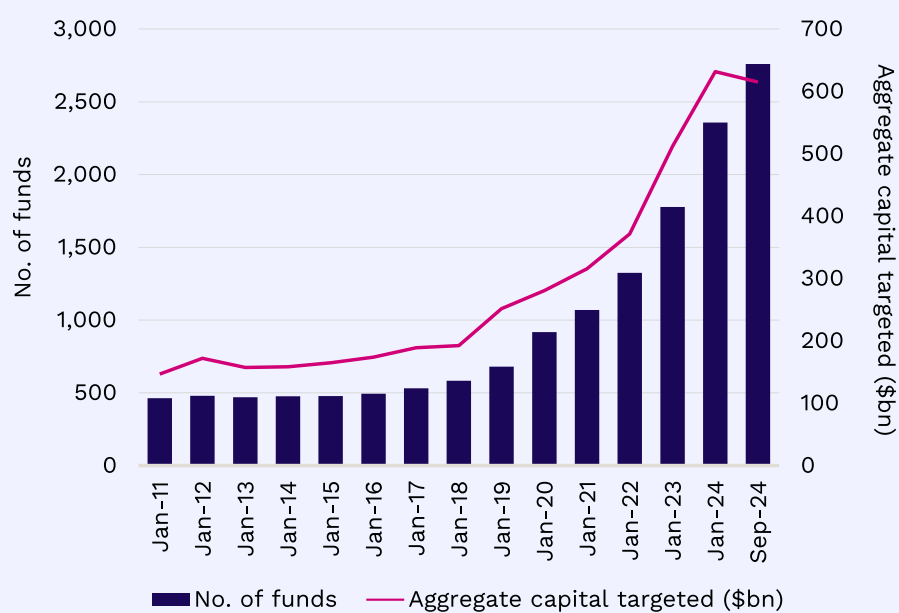
Fundraising by first-time managers saw a rebound

- Our data indicates a potential increase in investors' risk appetite as they alter their allocations to cater to the anticipated lower-interest-rate market cycle. As a result, first-time private real estate fundraising has rebounded after a significant drop of over 70% in aggregate capital raised in 2023.
- By the end of the third quarter of 2024, aggregate capital raised by first-time funds had already surpassed 2023's full-year total by \$1.7bn to reach \$6.8bn.
- This is a positive sign. Our analysis shows that first-time funds have demonstrated higher median IRRs with greater return variance. Investors optimistic about real estate in the long term will likely continue to allocate to first-time funds, attracted by preferable fund terms and higher upside.

Core and value-added strategies stand out

- Core was the only real estate strategy to raise more capital in the first nine months of 2024 than in the whole of 2023 (Fig. 5.2).
- Value-added funds raised \$36bn, accounting for 37% of the total capital raised by the third quarter, overtaking opportunistic funds, which led fundraising in 2023, securing 43% (\$52bn) in the same period.
- As key real estate markets implement rate-cuts, we expect valuations of existing properties to improve. Consequently, strategies such as core and value-add – which emphasize buy-and-hold and adding value to properties – will likely see greater recovery in performance and regain investors' attention.

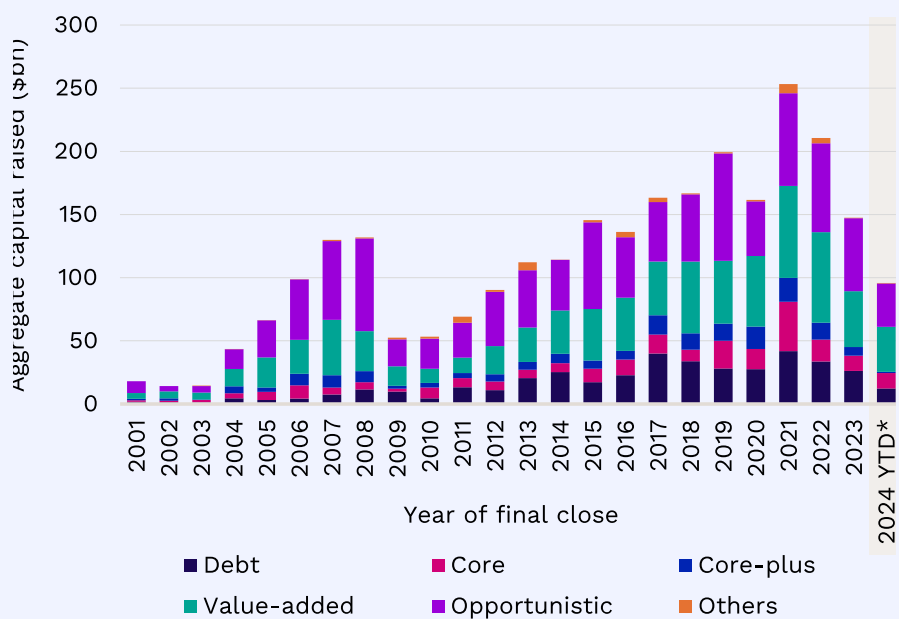
Fig. 5.1: Private real estate funds in market



*2024 (funds raised YTD and closed)

Source: Preqin Pro. Data as of September 2024

Fig. 5.2: Real estate aggregate capital raised by strategy



*annualized

**60% MSCI World index/40% Bloomberg Global Aggregate index

***to end-Q3 2024

Source: Preqin Investor Outlook: H2 2024

Global viewpoints

Preqin viewpoint

- "It is worth noting that the later-than-expected US rate-cut may have delayed the pace of investors' deployment of new capital to funds in this year's report. Investors are altering their allocations in terms of strategy and risk exposure to cater to this expected lower-interest-rate market cycle."

Henry Lam, CFA, CAIA
AVP, Research Insights

Client viewpoint

- "The appetite for private credit has been very strong over the past few years given its solid 'equity like' returns which are extremely attractive on a risk-adjusted basis. Credit positions in housing have provided durable, low double digit returns at a great basis in an asset class that has demonstrated cash flow resiliency."

Kevin Kaberna
Executive Director
North America Investment Management Leader
Greystar

Private credit is unlocking growth in the fast-expanding senior housing sector

Alternative lenders such as Locust Point Capital are filling the financing gaps left by traditional lenders and addressing the unique needs of the senior housing sector

Sponsored by:



Eric Smith
CEO, Co-founder,
Locust Point Capital

What distinguishes the senior housing sector from other real estate sectors, and why is it attractive to investors?

In my view, investing in the senior housing sector is a prime opportunity to tap into powerful demographic shifts. The US population aged 85 and older is set to nearly triple from 6.5 million in 2020 to an estimated 13.7 million by 2040, largely driven by the aging baby boomer generation.¹ With around 70% of people turning 65 expected to need long-term care services at some point during their lifetime, there's a stable demand for senior housing for the foreseeable future.²

But even with this clear growth trajectory, the sector is significantly undersupplied. By 2030, an additional 755,000 units will be required to meet the needs of this aging population.³ Construction starts, however, are lagging, with only 23,897 new units in 2022 and just 13,322 in 2023.⁴

Our view is that this significant drop off in construction starts is primarily the result of the contracting capital markets. This supply-demand imbalance suggests existing facilities will see high occupancy rates, creating substantial room for growth in new developments.

Additionally, the senior housing sector is highly fragmented, with nearly 73% of facilities owned by operators that manage less than 25 facilities.⁵ Many of these facilities were built before 2010, and some as far back as the 1960s, highlighting the need for redevelopment.

Overall, we believe that the senior housing sector can be a strong foundation for long-term investment. We're looking at compelling demographic trends, a clear undersupply, and a market that's primed for growth. For investors, it's a resilient, needs-driven sector with solid potential for both returns and sustained demand well into the future.

How are alternative lenders better positioned to meet the needs of senior housing compared with traditional lenders?

The senior housing sector is distinct because it blends both real estate and corporate lending elements, as financing typically supports not only the property itself but also the business operations that provide essential healthcare services to elderly residents.

Most traditional lenders keep their real estate and corporate credit divisions separate, with very little crossover. But senior housing requires expertise in both areas, which can make it challenging for conventional lenders to fully meet the sector's demands.

¹ US Census Bureau (data as of 2024) 2023 Profile of Older Americans (acl.gov) [https://acl.gov/sites/default/files/Profile of OA/ACL_ProfileOlderAmericans2023_508.pdf](https://acl.gov/sites/default/files/Profile%20of%20OA/ACL_ProfileOlderAmericans2023_508.pdf)

² <https://acl.gov/ltc/basic-needs/how-much-care-will-you-need>

³ NIC MAP® VISION: Senior Housing Market Outlook, Opportunities from a supply and demand imbalance 2024

⁴ NIC MAP® Data Service, powered by NIC MAP Vision | NIC MAP Construction Starts Trends 1Q2024 | All Markets

⁵ NIC Investment Guide Sixth Edition (data as of 2019)

Financing these projects also means navigating a range of operational complexities, including projecting occupancy, Medicaid and Medicare reimbursements, and strict regulatory compliance. These factors can vary significantly from state to state and often call for customized financing solutions that accommodate the extended timelines needed to stabilize assets.

Traditional bank products tend to be standardized, so they generally lack the flexibility to address these unique nuances. Plus, regulatory constraints often make banks more risk-averse, limiting their willingness to lend to sectors with such complex operational factors.

This is where alternative lenders, such as Locust Point Capital, can add value. With a deep understanding of the senior housing sector, we're able to provide tailored financing solutions that meet the specific challenges of the sector.

As a non-bank lender, we can structure financing that addresses the full range of capital needs, from senior debt to mezzanine financing and preferred equity. Our loan structures are designed to fit the cash flows of the facilities we are financing. For instance, we often provide bridge loans that enable operators to stabilize their assets before transitioning to permanent financing through programs like Fannie Mae, Freddie Mac, or the US Department of Housing and Urban Development.

We are also able structure deals that align with the realities of the senior housing market – whether that means extended lease-up periods or fluctuating occupancy rates. We combine this adaptability with deep industry knowledge, which allows us to underwrite loans with a clear understanding of the sector's specific risks and opportunities. As a result, we're able to serve as a true strategic partner, offering not just capital but also insights and support to help our borrowers succeed.

How has the senior housing finance landscape changed with rising interest rates, and what do you foresee for the future of financing in this sector?

To fully grasp the impact of rising rates, you have to look back to the pre-COVID environment. Before 2020, traditional lenders such as banks dominated the financing landscape for senior housing, providing most of the capital for development and acquisitions. Back then, with low borrowing costs, banks offered highly competitive terms and were the primary source of financing in the sector.¹

By early 2022, however, the industry was still dealing with the lingering effects of COVID and inflation. The pandemic caused a major drop in occupancy across the board, and inflation-driven cost pressures have only further squeezed operating margins and affected overall performance.²

As rates began to rise, the cost of capital surged, putting pressure on loan covenants. Banks responded by tightening their underwriting criteria, and many simply pulled back from the sector as challenges emerged within their commercial real estate portfolios which impacted their ability to originate new commercial loans.

The higher rates also created significant refinancing challenges. Loans that were initially issued at near-zero interest rates suddenly couldn't be refinanced at maturity without major rebalancing, forcing many borrowers to negotiate extensions. With fewer refinancings, banks' balance sheets became more constrained, reducing their capacity to issue new loans and tighten capital availability across all commercial real estate.

This shift revealed a gap in the financing landscape. Higher borrowing costs and stricter lending terms made it tough for traditional lenders to meet the unique needs of the senior housing sector. Alternative lenders, such as Locust Point Capital, can offer much-needed capital tailored to the sector's specific requirements environment.

Moving forward, with rate cuts on the horizon, we might see traditional banks becoming more active again as the cost of capital goes down. However, this won't necessarily end the 'golden era' of private credit – especially in sectors like senior housing. In our experience, both institutional investors and borrowers have come to value customized financing solutions that traditional banks often can't match.

There's still a strong demand for specialized, strategic capital, and alternative lenders will keep playing an essential role in sectors such as senior housing. In these areas, traditional lenders often aren't equipped to meet the nuanced financing needs. We foresee private credit remaining a critical part of the landscape, supporting growth in industries where tailored financing is key.

Eric Smith is the CEO and Co-Founder of **Locust Point Capital**, a boutique asset management firm specializing in the US senior housing sector. Under his leadership, Locust Point Capital has become a prominent lower mid-market lender, providing tailored financing solutions that drive the growth of senior living communities across the US. Since co-founding the firm, Eric has been instrumental in defining its investment strategy and building its reputation as a trusted partner for operators and investors alike.

¹ NIC Investment Guide Sixth Edition (data as of 2019) (page 79)

² NIC MAP® VISION: Senior Housing Market Outlook, Opportunities from a supply and demand imbalance 2024 (pages 5–9)

Real estate for the future: diversification, credit, and the impact of climate change

Nuveen Real Estate's Donald Hall explains the signals of a real estate recovery, and what to expect over the next decade

Sponsored by:

nuveen
REAL ESTATE



Donald Hall
Global Head of Research,
Nuveen Real Estate

The past two years have been volatile for the global real estate market. What is the current situation, and are there signs of a recovery?

We're starting to see signs of a rebound globally. In the second quarter of this year, global total returns were positive for the first time in two years. Of the 15 global markets that comprise the MSCI Global Property Index, eight saw valuation write-ups and 12 saw positive total returns. We're seeing similar trends in the transaction indices. Numerous global markets saw pricing gains in the second quarter, including Japan, Canada, the US, France, and the UK. Anecdotally, we're seeing more competition for the assets we're bidding on and those we're selling. It feels like we've crossed the bridge to recovery, and we're returning to a sense of normality.

Why should investors allocate to real estate in a portfolio now?

Real estate offers excellent diversification benefits, and most global investors are now significantly below their ideal allocation. If you rewind the clock to the final quarter of 2021, global institutional investors were 140 basis points below their target allocation to real estate.¹ As we entered 2022, private real estate continued to perform well for investors, while the value of stocks and bonds fell precipitously. This raised investors' allocations to real estate significantly over target, so by late 2022, everyone in real estate was talking about the denominator effect. Fast forward to today, and we're in the exact opposite situation. Real estate values are down 15% globally.² The equity market is near an all-time high, and real estate allocations are now generally below investors' targets. With the signs of a budding rebound, investors are rightly making plans to return to the asset class in 2025. Broadly speaking, the greatest interest from investors today is in higher-returning strategies and in niche sectors. We think there are excellent opportunities there, but we also think core real estate is looking compelling.

How will the new market environment change existing real estate opportunities, and which new opportunities may present themselves?

With traditional lenders pulling back a bit from the asset class, we continue to see good opportunities in real estate credit. As a lender today, you have the advantage of higher base rates and wider spreads, and you're lending on an asset with a reset value, so the returns are compelling, particularly on a risk-adjusted basis.

Separately, both cyclical and secular shifts are creating opportunities across sectors. On the cyclical side, investors have largely ignored retail over the last decade, which has given the sector time to heal. On the secular side, a rapid increase in the need for computing power due to AI is creating an opportunity for digital real estate, and e-commerce is continuing to offer tailwinds for industrial.

¹ Hodes Weill's 2021 Institutional Real Estate Allocations Monitor – <https://www.hodesweill.com/single-post/2021-institutional-real-estate-allocations-monitor>

² 15.3% from Q2 2022 to Q2 2024, MSCI Global Quarterly Property Index

What are the expected short-term risk factors and medium-to-long-term prospects for the global real estate market? How can investors navigate these challenges and capitalize on opportunities?

In the short term, we're still working through elevated levels of deliveries in some sectors, for example the US apartment market. But very little construction has started over the last two years, which means this short-term headwind is already beginning to heal itself. As a result of the fall-off in new starts, construction levels are already down to pre-pandemic levels, so the worst of the supply headwinds are behind us.

In the medium term, there's an opportunity for investors to capitalize on improving fundamentals as a result of decreasing new supply amid rebounding demand. Meanwhile, reset values and the opportunity for price appreciation further sweetens the pot.

Which regional differences in real estate will play out over the next few years, when looking at North America, Europe, and APAC?

We think there are excellent opportunities in all three major regions. Particularly purpose-built student accommodation in Europe and APAC, where supply is low relative to demand. Necessity retail is also a compelling opportunity in the US, Europe, and Australia, where we're seeing strong fundamentals, almost no supply risk, resilient pandemic-tested demand, higher yields, and less competition. We think senior housing is a good opportunity, particularly in the US and Japan, due to a mix of demand tailwinds, current supply, and the frameworks in which those assets operate in those countries.

In terms of some differences, we're not actively investing in traditional offices in the US, but we do think there are some opportunities outside of the US, particularly in Asia. Both Seoul and Singapore, for example, continue to have very low vacancies and have remained resilient. There may also be opportunities in Australia's East Coast markets in the medium term, as new supply continues to abate there.

What consequences will megatrends such as urbanization, rising inequality, and the impact of climate change have on real estate?

We expect continued urbanization will help winning cities continue to thrive in a world where we're starting to see a declining working-age population at a macro level. We focus on identifying what we call Tomorrow's World cities.

Regarding rising inequality, we continue to invest in and develop affordable housing communities. In that strategy, we're focused on what we call the double bottom line, meaning we can provide social good and benefits to residents while offering stable returns to our investors.

On the climate front, we continue to use the most advanced models possible to make sure we're properly accounting for potential flooding, drought, and wildfire among others, in our target market lists and our asset underwriting models.

What regulatory changes can investors expect in real estate?

Investors should expect continued increases in residential rent regulations, sustainability regulations with specific environmental targets, and disclosure regulations to prevent greenwashing. None of that is particularly new. Between 2020 and 2022, the prevalence of the term 'sustainability' across regulatory content increased 47-fold.¹ While some states in the US offer competing views of how to address ESG issues, that doesn't necessarily reduce disclosure regulation. Rather, it leads to calls for further transparency on green claims.

In addition to disclosure regulations, there are also many states or cities with building performance standards in place or forthcoming, which is consistent with the trend we've seen in Europe and Asia. Overall, investors should be prepared for greater complexity and ensure they're keeping abreast of the shifting regulatory landscape.

What is the outlook for real estate for the future?

Real estate has historically offered investors consistent income returns, a degree of inflation protection, and low correlation with other asset classes. All this benefits a portfolio. Over the next five, 10, and 15 years, we believe all those attributes to remain true. We've seen investors consistently increase their allocations to the asset class over the last decade, and I expect that to continue. When investing in real estate, you need to take a long-term view, but at the same time, be comfortable shifting your portfolio as various cycles play out, as new trends emerge, and as new data become available. In 15 years, your portfolio isn't going to look like what it looks like today. Overall, we believe investors will continue to diversify within real estate, adding more exposure to non-traditional sectors and continually getting comfortable entering new markets.

Donald Hall is the Global Head of Research at **Nuveen Real Estate**. Using a mix of nontraditional and traditional data sources and the expertise of the professionals within the organization, Donald strives to uncover insights that help shape market-beating property portfolios.

¹ The Evolution of ESG Regulation, Cube Global, 2023 – <https://cube.global/resources/report/the-evolution-of-esg>

Infrastructure:

Fundraising remains subdued despite rates beginning to fall

The findings and data in this section are from the [*Preqin 2025 Global Report: Infrastructure*](#).



The lead analyst on the report is **Alex Murray, PhD**. He is the Head of Real Assets, Research Insights, and is based in London.



[DOWNLOAD THE REPORT](#)

Dry powder's share of AUM drops to record low

- Dry powder in infrastructure dropped to \$335bn at the end of the first quarter of 2024, with its proportion to AUM hitting a record low of 24%. For context, this was at 35% at the end of 2020 (Fig. 6.1).
- Despite this drop, dry powder stock is still 3.6 times the \$93bn capital calls in the 12 months to the end of the first quarter of 2024.
- While current risks are contained due to slowing capital calls, dwindling dry powder could eventually impact asset valuations unless fundraising recovers.

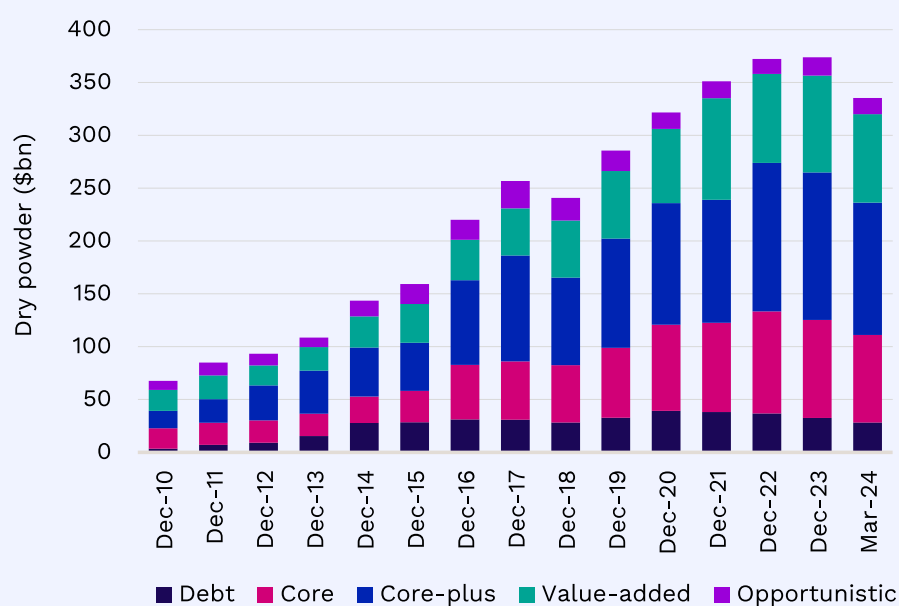
North America-focused fundraising drags on an already subdued market

- Despite infrastructure's strong performance through the global pandemic and over the longer term, investor commitments to the asset class have waned as part of a rebalancing, after a surge of inflows in 2022.
- North America-focused fundraising has slowed particularly, with the number of funds closed dropping from a peak of 63 in 2021 to just 18 in the first three quarters of 2024. The aggregate capital raised by these funds in 2024 is half the average value over the preceding five years' first three quarters (Fig. 6.2).
- While there remains uncertainty surrounding US policies in the short term, our investor survey shows that LPs are still keen on the market, with 92% suggesting it is the developed market offering amongst the best opportunities.

Manager concerns about return generation shift

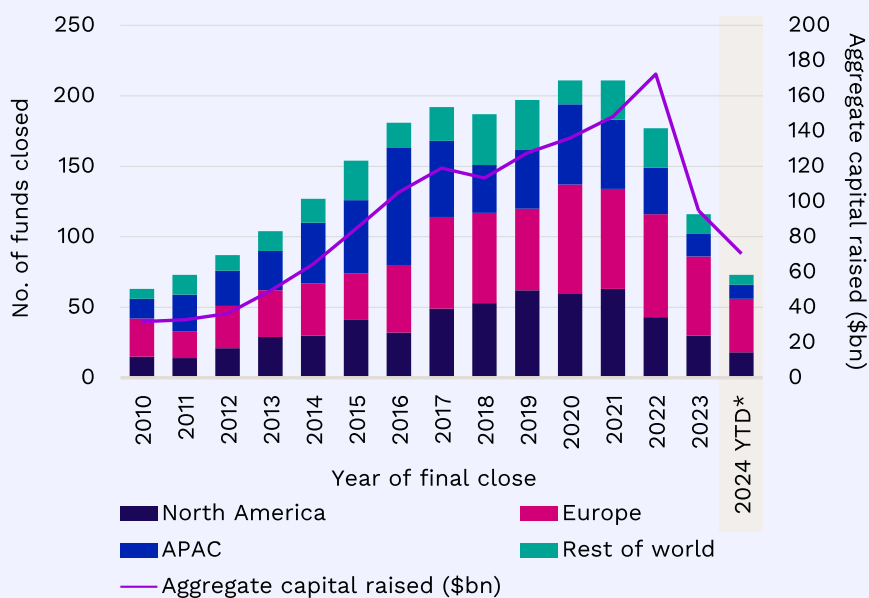
- The proportion of infrastructure managers citing the geopolitical landscape as a key challenge for return generation in the next 12 months in our latest investor survey rose to 41%, making it the leading concern.
- Investors are watching for signals regarding President-elect Donald Trump's stance on repealing the Inflation Reduction Act (IRA) and imposing tariffs on Chinese cleantech – and the impact this would have on renewables-focused funds.
- On the upside, investors are becoming less concerned about interest rates, with 47% of respondents to our latest survey citing them as a challenge to returns generation, down from 65% in 2023.

Fig. 6.1: Dry powder by primary strategy



Source: Preqin Pro

Fig. 6.2: Unlisted infrastructure funds closed by primary geographic focus



*2024 (funds raised YTD and closed)

Source: Preqin Pro.

Global viewpoints

Preqin viewpoint

- “Despite infrastructure’s still slow fundraising and deals environment, performance remains resilient for the asset class. The Preqin index shows that performance has consistently been positive, rising in all but one quarter since 2009. However, infrastructure’s success in recent years has been hampered by high interest rates more recently, raising concerns over performance sustainability.”

Alex Murray, PhD

VP, Head of Real Assets, Research Insights

Client viewpoint

- “A successful secondaries strategy requires a relative information advantage on both manager and asset quality, which in turn supports the quality of underwriting and speed of execution. This information advantage can be sourced from three key areas: the scale of your primary program, the quality of your manager and asset-level database, and your ability to leverage asset-level insights from your co-investment platform.”

James O’Leary

Head of Infrastructure and Real Assets, StepStone Group

Why now is a generational opportunity for infrastructure debt

Nuveen's Don Dimitrievich explains how decarbonization, energy security, and AI have created a step change in power demand

Sponsored by:

nuveen
A TIAA Company



Don Dimitrievich

Senior Managing Director and Portfolio Manager, Energy Infrastructure Credit, Nuveen

Why should investors allocate to infrastructure debt now? And which strategies look especially promising?

The demand for capital in infrastructure debt, particularly within the energy and power sectors, is expanding at an unprecedented rate – levels unseen in the last 20 years. The reason for that is threefold.

Number one is the trend to decarbonize, which typically takes the form of electrification. Number two is energy security reasons, particularly in Europe and North America, where there's a concern associated with relying on Russia for natural gas and China for critical materials and equipment for clean energy. As a result, there's a renewed focus on the onshoring of the infrastructure supply chain, which will require significant power for those domestic production facilities. Number three is the development of artificial intelligence (AI) and the power consumption that will potentially entail. The convergence of these three trends means we're likely to see a historical capital deployment opportunity to facilitate this increased power demand.

So how do we fund that? A typical infrastructure project is debt financed for 60–80% of the capital structure. In the US, you often also have tax equity as part of the capital solution, and project equity. For the hundreds of billions or potentially trillions of investment that will be needed annually to meet power demand globally, infrastructure debt is going to be a critical source of capital. In terms of the current infrastructure debt opportunity, we're seeing two key themes.

Firstly, with the increase in base rates over the last two years, you're able to generate all-in returns that are equivalent to where infrastructure equity returns have historically been. Secondly, by accessing the market opportunity as a credit investor, you are better protected than equity providers, while benefiting from very appealing risk-adjusted returns. When structured properly these transactions can offer significant structural and covenant protection.

How are the effects of climate change affecting both the demand and risk/return profile for infrastructure as an asset class?

Energy and power demand is growing globally, so how do we fund that in a responsible way? Hydrocarbons still make up about 80% of the global energy supply, so part of our strategy is to invest in projects that cut CO2 emissions while also supporting assets that bolster energy resilience and security. We can't just disregard 80% of the energy supply that is hydrocarbon-based, so we continue to look at investing in opportunities that provide secure energy supply in a responsible manner that reduce CO2 or methane emissions on a unit basis.

As an industry, we've also had some challenges with the pace of clean energy deployment to meet the anticipated need for growing power demand. One challenge is capital intensity, as most of the capital for renewable projects must be invested upfront, as sun or wind are free, contrary to traditional energy assets, where the input costs of oil or gas are considerable. The increased interest rates

that we've experienced over the past two years have made the construction of renewable projects more costly. Then there are permitting delays. In the US, it takes on average 40 to 70 months to get a project approved, which has put pressure on being able to develop renewable projects to meet demand growth. And lastly, infrastructure supply chain delays. Even though supply chains have normalized in a lot of industries since COVID-19, in infrastructure we're still seeing long lead times for transformers, breakers, and in some cases inverters. The delays and increased costs have created tension as we try and rapidly invest in these technologies. That said, it's also an opportunity for investors such as Nuveen where we can provide flexible capital.

How has the increased need for power and electrification developed historically?

Using the US as an example, power demand has been relatively flat for the last two decades. Over the past 10 years, it's estimated that the compound annual growth has been approximately less than 0.5%. Estimates going forward for this decade are anywhere from 1.5–2.5% due to decarbonization, the onshoring of the infrastructure supply chain and increased manufacturing activity, and AI-related power demand. As a result, you're talking about a step-fold increase from where we've been over the past two decades. The reality is that most of the people working at utilities haven't seen this type of demand growth in their careers. So we need to invest in renewables and energy storage, as well as energy efficiency that can help reduce demand.

The war in Ukraine, and the consequent disruption in Russian gas to the European continent, led to the increased use of coal-fired power generation. This in turn, created more awareness for the need for energy security and the recognition that natural gas can be part of the solution, to avoid reliance on dirtier sources of energy. In commercial and pragmatic terms, we should invest in natural gas to help meet surging power demand but remain vigilant in doing so responsibly and committing to investment strategies that help facilitate the longer-term trend of decarbonization.

How will the growth of digitalization impact power needs, and consequently infrastructure?

Generative AI is potentially a powerful game-changer. All the major tech companies are investing in this technology, which will require a significant amount of incremental power. We've been seeing this trend build over the last several years, and it's now widely recognized that power supply is the bottleneck for the build-out of large-scale data centers. The one cautionary point I would also make is that we're seeing potentially hundreds of billions of expected investment in AI. If it turns out that the anticipated efficiency gains from AI don't fully materialize, we're going to find ourselves with significant excess data center and power capacity. As credit investors, we're focused on ensuring that projects we finance have off-takers that are well-capitalized and strong counterparties so that we can guard against potential issues down the road associated with excess power capacity.

What are the benefits of non-investment grade infrastructure debt when applied to investing in the clean energy and natural gas sectors?

The investment project finance market can be appropriate if the project meets certain defined criteria to meet investment grade credit risk, such as fully contracted offtake or certain debt service coverage ratio and other cashflow metrics. In those instances, the private placement project finance debt is often the right solution, and from a cost of capital perspective, it's appropriate.

Where non-investment grade infrastructure debt really comes into the equation is where there's a need for the project equity owner to have more flexibility in terms of the capital structure. As non-investment grade debt providers, we may not need as long of an offtake duration as traditional investment grade project finance, and we can work with different ways of being paid down through excess cash sweeps.

The Basel III framework has imposed stringent regulatory requirements on banks, including increased capital charges, which impacts their ability to provide debt capital. That limits banks' ability to lend, which could have an impact in investment areas where banks have been more active. For example, commercial banks have been more active in the European infrastructure market, so banks may be more constrained to meet the growing capital needs as the addressable market expands dramatically. This creates a significant opportunity for providers of flexible capital.

What misconceptions may investors still hold about infrastructure debt?

When people hear the term infrastructure debt, they sometimes only think about the very long-duration project finance investments. While there is a need for such capital, there is more room in investors' asset allocation for flexible capital solutions like we focus on in the non-investment grade space, as it provides attractive risk-adjusted returns. The misconception here is that achieving higher returns than historically expected involves taking on equity-like risks, but there are more opportunities available apart from equity and project financing. Part of this stems from the asset class's evolution. In the coming years, we're likely to see hundreds of billions in annual capital deployment, and, when structured with an appropriate return profile for each project, non-investment grade infrastructure can offer attractive returns. This can be achieved while maintaining downside risk mitigation, allowing investors to avoid the risk levels associated with equity investments.

Don Dimitrievich is a Senior Managing Director and Portfolio Manager for Energy Infrastructure Credit at **Nuveen**. He joined Nuveen in November 2022 to establish a multi-billion credit and structured equity investment business to ensure secure energy supply and provide sustainable energy solutions to decarbonize energy consumption.



Strength and Depth on Both Sides of the Atlantic

Gen II navigates the complexities of fund administration so you can focus on what you do best — investing. We're setting new standards in the industry, providing you with a service that's as refined as it is robust.

Welcome to the new standard in fund administration.

Welcome to Gen II.

To find out more about how we can help you, please contact:

James Morris
Commercial Director, Europe

james.morris@gen2fund.com

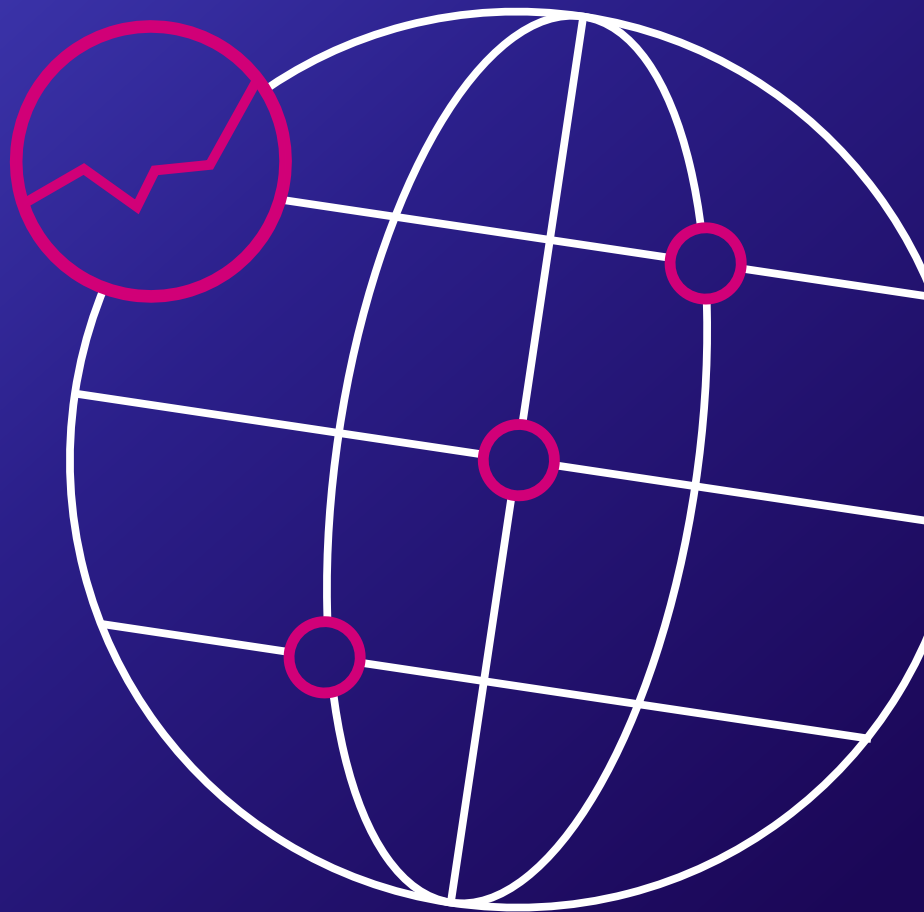


gen2fund.com

Gen II (Jersey) Limited and Affiliation Members are regulated by the Jersey Financial Services Commission. Gen II Fund Services (Luxembourg) SARL is regulated by the Commission de Surveillance du Secteur Financier as Professional of the Financial Sector. Gen II Management Company (Luxembourg) SARL is regulated by the Commission de Surveillance du Secteur Financier as Management Company and Alternative Investment Fund Manager and EuVECA Manager Gen II Fund Services (UK) Limited – Authorised and regulated by the Financial Conduct Authority. Gen II Management Company (UK) Limited – Authorised and regulated by the Financial Conduct Authority. Gen II Corporate Services (Ireland) Limited – Authorised Trust or Company Service Provider by the Department of Justice in Ireland. Gen II Nominee Services (Ireland) Limited – Authorised Trust or Company Service Provider by the Department of Justice in Ireland. Gen II Fund Services (Ireland) Limited – Regulated by the Central Bank of Ireland. Authorised as an Investment Business Firm under Section 10 of the Investment Intermediaries Act, 1995 (as amended).

Preqin Anywhere

Access Preqin data where and when you want it with flexible data delivery solutions



It's now easier than ever to integrate Preqin data directly into your internal systems via

- Preqin plugins for Excel and Salesforce
- Data marketplaces such as Snowflake and AWS
- Off-the-shelf integrations for CRMs and other providers
- Data feeds and APIs

FIND OUT MORE

Empowering the global
alternatives **community** with
essential **data** and **insights**.

preqin.com

info@preqin.com

PREQIN