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REGIONAL

Alternatives in North America 2025

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Contents

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Key findings

1

North America holds grip on global private capital
Our latest estimates put North American private capital AUM at $8.34tn, or 57% of the $14.75tn in global private capital. The region has strengthened its hold on global assets, growing at an annual rate of 14.6% since the start of the decade – ahead of the 12.6% global annual increase. The rising influence of the world's largest managers, many of which are US-based, has driven much of this growth, and they continue to outraise their smaller peers by a significant margin. With fundraising expected to be lower in 2025 than in 2024, performance will continue to drive short-term AUM growth.

2

Lower distributions have dampened fundraising
Both the number of funds closed and the total capital raised by North America–based funds fell for the second consecutive year in 2024. The year marked the lowest totals for capital raised ($685bn) and the number of funds closed (1,900) since 2018 and 2019, respectively. Driving this trend is the interplay between capital called and distributions, which has left LPs with less available capital to recommit. Investor optimism around exits in 2025 may portend a reversal of this trend of net calls, allowing LPs who are already at or near their allocation limits to reinvest that capital, in turn helping find a bottom to the current downside of the fundraising cycle.

3

Institutions overallocated to private equity
Driving a large part of the slowdown in fundraising has been many LPs in the region finding their alternatives allocations at or close to policy level. Preqin data shows that the average institutional investor is under allocated to private debt, real estate, infrastructure, and natural resources. While this should (theoretically) point to increased scope for fundraising here, our data reveals that investors are slightly overallocated to private equity. Therefore, GPs raising funds for private equity investments are targeting US private wealth, where 63% of a $179tn pool of capital is held by the wealthiest 10%.

4

VCs more optimistic for exits this year
Our survey data reveals that nearly three-quarters of North America–based VCs believe 2025 will provide a better exit environment than the year before. Falling interest rates would be a major positive for VCs looking to offload portfolio companies through trade sales or IPOs following a very abrupt slowdown during 2022 and 2023. But for LPs hoping to finally get their capital back from these investments, there is also recognition that companies are staying private for longer.

Executive summary

Economics will increasingly drive the agenda in a more regionalized market

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North America remains the epicenter for global private capital, even as the global industry has faced challenges – both economic and political. Economics have been a significant burden as factors including inflation and higher interest rates compete with overall positive equity market returns and (in the case of the US) strong economic growth. While global politics are an ever-changing factor, the results of the 2024 US presidential election look to greatly shape the investment landscape of 2025 and beyond; US-centric policies would create a greater divide between the regions and sectors that will prosper and those that will fall behind.

North American private capital growth has slowed as both fundraising and performance continue to come off previous highs from 2021 and 2022. Regardless, North America's $8.34tn total private capital AUM in June 2024[1] made up 57% of the global total. When accounting for the $4tn in North America–based hedge fund assets, that share rises to 63%.

The impact of the decline in fundraising for North America–based managers has been a weight on private capital. Since the fundraising peak in 2021 and 2022, fewer funds have closed and aggregate capital raised has been lower. Yet performance has been generally positive, particularly in private equity, private debt, and infrastructure. Driving this disconnect has been an LP constituency that has slowed its commitment activity while focusing the capital they are allocating into larger, established managers. Further, the number of funds in market is still rising, suggesting that the slowdown in fundraising is likely to continue into 2025 and perhaps beyond.

Private equity (which constitutes the core of private capital) has remained localized. In North America, regional LPs invest primarily with North American GPs, which hasn't been an impediment to performance until recently. However, returns – even from North American private equity buyouts – may be falling prey to high entry valuations (when exit values fail to reciprocate). Europe looks comparatively attractive in terms of valuations at entry, but economic disparities between the two regions could widen, feeding back into exit prospects.

We are expecting a prolonged downswing while the market continues to recover from the risk-on post-pandemic period. Dips in both performance and fundraising are predicted by Preqin in our Future of Alternatives[2] forecasts, as elevated asset valuations and a more selective exit environment are expected to affect both growth factors. Expect this conservative outlook to remain for the near future, with capital outlays likely to focus on established funds where risks will overall be lower – even if such allocation decisions curtail performance expectations.

1 Per Preqin data, as of February 2025

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

Year in review

North American private capital AUM grew faster than other regions last year but fundraising remains down since 2022

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North America continued to lead global markets higher in 2024 as both public and private asset valuations outperformed their global peers. The world's largest economy saw consumer and business spending remain strong in the face of falling, but higher than desired, inflation as other parts of the globe struggle with sluggish growth and higher levels of uncertainty.

The year wasn't all positive and had its share of volatility and rather unique economic conditions. The 25.02% total return of the large-cap US S&P 500 index in 2024 outpaced the 6.1% gain of the MSCI ACWI ex-US index and the 10.7% gain recorded by the S&P/TSX composite index. Regardless of regional results for each index, equities oscillated throughout the period on data releases and geopolitical tensions. Changes in US-China trade relations only drew a greater divide between US and ex-US markets as emerging markets fell sharply on the outcome of the 2024 US presidential election.

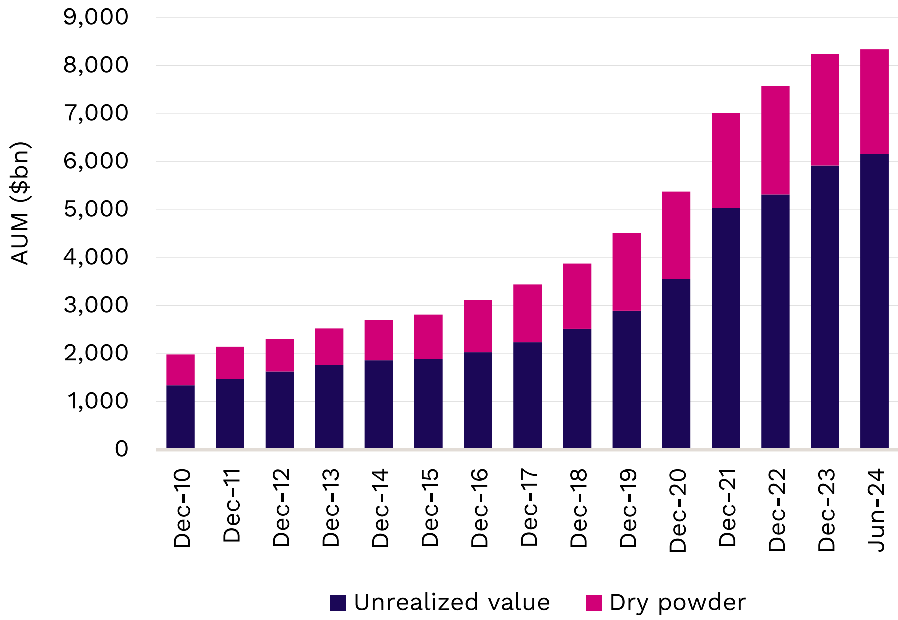
In the US in particular, the contrast between economic growth and interest rates put central banks in an interesting situation with no apparent need to drop rates to spur growth.

North American home to almost 60% of global private capital AUM

North American private capital assets under management (AUM) stood at $8.34tn as of June 2024 (Fig. 1.1). Those assets made up 57% of the $14.75tn in global private capital AUM. That share has ticked higher over the past five years, reversing course after moving towards parity with the assets based outside of the region. This trend is no doubt a product of the rapid growth of the large listed North America-based firms that continue to outraise their global peers.

Fig. 1.1: North American private capital AUM up to $8.34tn, dry powder falls

North American private capital AUM



Source: Preqin, data as of February 2025

Over the four and a half years ended June 2024, North American private capital AUM grew at an annual rate of 14.6% to that \$8.34tn figure. That growth rate was ahead of the global private capital rate of 12.6%. Assets based outside the region grew at an annual rate of 10.2% over the period, led largely by Europe-based private capital. Unrealized value, or the value of AUM attributed to invested capital, rose to \$6.16tn in the first half of 2024, or 55% of the global total. Since December 2020, the estimated balance of North America-based unrealized value rose 18.3% (CAGR), ahead of the 13.4% growth of its non-North American counterpart.

Dry powder, or capital committed but not yet called, held by North American managers fell about 6% over the first six months of 2024 to \$2.18tn from its then high of \$2.32tn at the end of 2023. While this dry powder balance is still high on an absolute basis, the decline coincided with the fall in dry powder's share of total AUM. As of June 30, 2024, dry powder stood at just over 26% of North American AUM, down from close to 30% at the end of 2022.

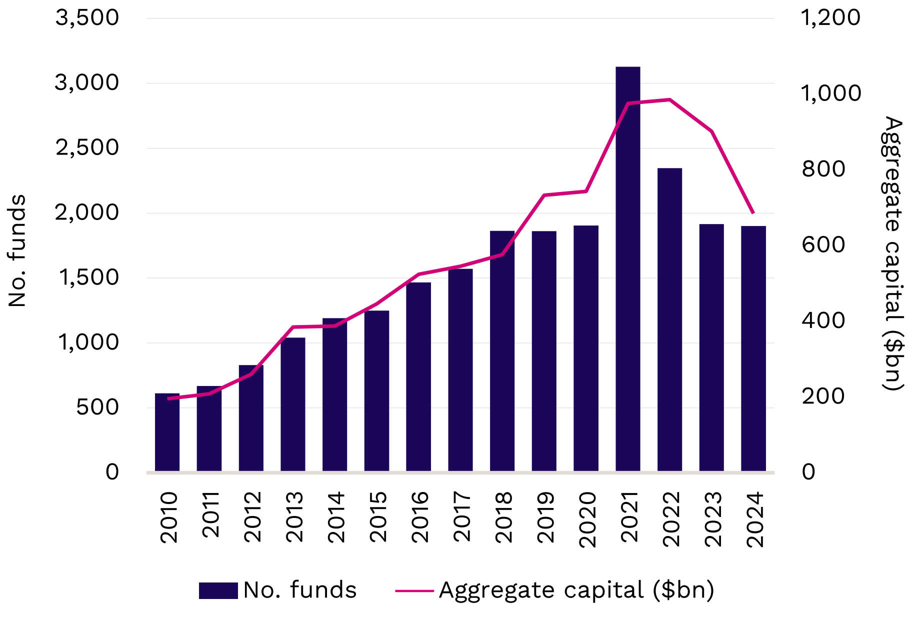
The divergence of these figures for unrealized value and dry powder on both the global and regional level is being driven by a confluence of factors like a slowdown in fundraising relative to deal-making, and lower, yet still positive, performance. Ultimately the outcome has been an overall slowdown in AUM growth.

Fundraising trends lower in North America

Private capital fundraising in North America continued to trend lower in 2024. Both the number of funds closed and the total capital raised by those funds fell for the second consecutive year. The \$684.6bn in total capital raised by North American private capital managers across 1,900 funds was the lowest total since 2019 (Fig. 1.2). Although these numbers are healthy on a historical level, the overall trajectory shows that the enthusiasm that drove the industry to record highs in 2021 has calmed.

Fig. 1.2: Total capital raised slides in 2024

North America-based private capital fundraising



Source: Preqin, data as of February 2025

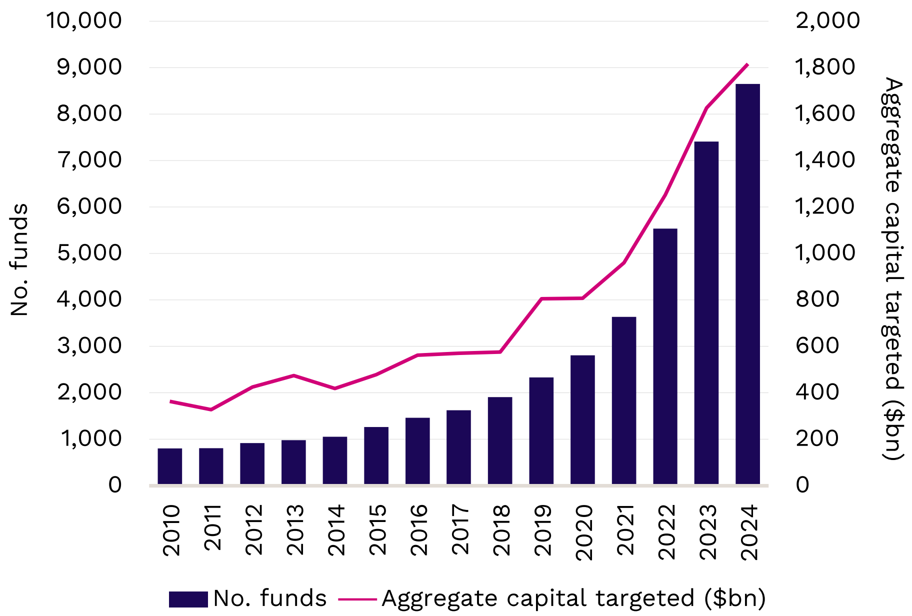
While the reasons behind the decline in each asset class will vary – and will be examined later in this report – overall opinions towards further private capital allocations point to most investors maintaining current allocations. In Preqin's November 2024 investor survey, only 21% of respondents planned to increase their allocations to private capital over the next year because of their views on the market cycle.

North America continues to account for the largest share of fundraising; its $684.6bn makes up 67% of the $1.02tn global total in 2024. Further, of the $6.77tn raised globally over the past five years, more than 63%, or $4.29tn, went to North America-based funds. Data shows the largest North America-based fund managers taking a larger share of global AUM in 2024, amid LPs' increasing preference for larger, brand-name fund managers.

As fundraising numbers fell, the number of funds in market continued to increase. At the end of 2024, there were 8,652 funds still open looking to raise an aggregate $1.82tn (Fig. 1.3). This figure has grown significantly since 2020, as more funds came to market following the rise in private capital allocations. Looking at this figure relative to fundraising, it would, theoretically, take 2.7 years for this available inventory to clear based on 2024 fundraising data and assuming no new funds came to market.

Fig. 1.3: Funds in market continue to climb as fundraising slows

Funds in market (North America-based)



Source: Preqin, data as of February 2025

Fueling this decline in fundraising is a continued period of funds calling capital at greater rates than they are distributing it back to investors. This trend of net distributions is not entirely new to global LPs. North American LPs have been at a net negative cash flow, or less capital is being called than given back, since 2018, according to Preqin data, while funds outside the region have called more than they paid back since 2016. There are two observations to make on this deficit. The first is that managers are finding more opportunities to deploy that capital, as we see with the decline in dry powder. Secondly, it indicates they may be holding onto legacy investments longer, hoping to divest those holdings at a higher price in the future. Regardless, the result will logically lead to an aggregate drop in global fundraising as LPs, particularly institutional LPs, with firm investment policies are less likely to commit capital above already met allocation limits.

Private capital performance comes off highs

Performance has been a major factor in both the rapid growth of AUM as well as attracting new capital. Over the 10 years ended 2024, Preqin's broad private capital index was up 11.9% while the global MSCI World Equity index gained 10.7% over that time with less than half the volatility.[3] For North America-specific private capital, Preqin's Private Capital index for assets focused on the region rose 12.2%, whereas the S&P 500 index gained 13.4% (again with far less volatility). This private market performance closely mirrored the performance of US public equities to their global counterparts.

3 All performance figures are annualized

In the more recent 5-year period ending 2024, covering the years during and after the pandemic, performance trends become more interesting. Over this period private market returns rapidly began to outpace their public market counterparts before losing much of that early momentum. This was evident in both North America-based assets as well as assets in Asia and Europe, which did not initially respond as quickly to high inflation and rising rates as public markets did. But while public markets recovered in 2023 and 2024, private markets struggled to follow.

Regionally, North American assets fared better than their APAC and European peers. Focusing on rolling five-year return periods, North American assets both declined less during the drawdown period and caught more of the upswing on the reversal, but the overall downward trend indeed shows a possible mean reversion to pre-pandemic return levels. Comparatively, this should be less of a concern for North American assets, but underlying asset volatility may still surface. High interest rates will continue to suppress asset prices across nearly every private capital asset class, which should encourage buyers and stimulate the deal market. If increased exit activity follows, then shifts in multiples on both entry and exit should result.

Asset classes in review

Macroeconomic conditions have impacted fundraising and deal-making in each asset class during 2024

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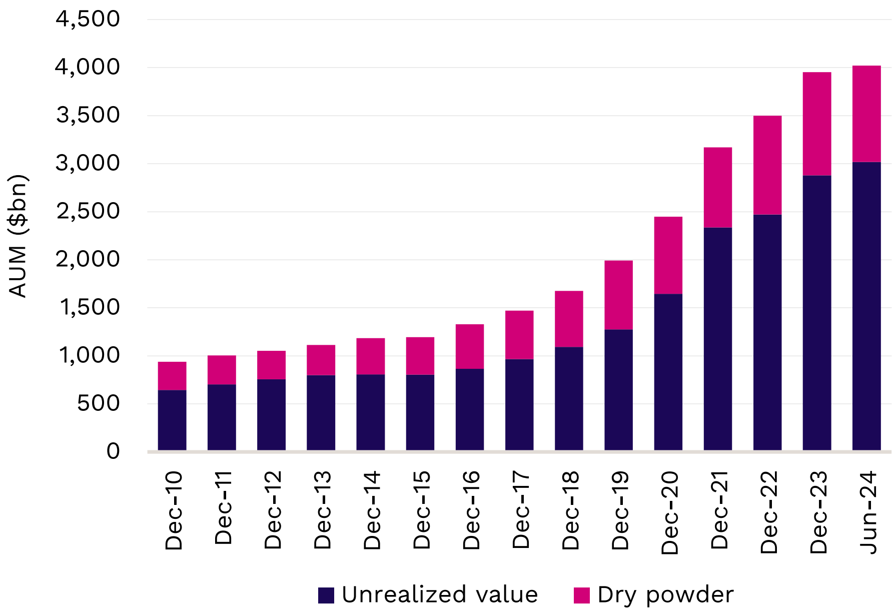
North American private equity AUM was estimated at about $4.02tn as of June 30, 2024 (Fig. 1.4). Private equity assets based in the region made up 61% of the asset class's global AUM, and for better perspective, more than one quarter of global private capital assets. Further, North America-based private equity is the second-largest asset class (by AUM), smaller only than hedge funds.

Fig. 1.4: North American private equity passes $4tn in 2024

North America-based private equity AUM



Source: Preqin, data as of February 2025.

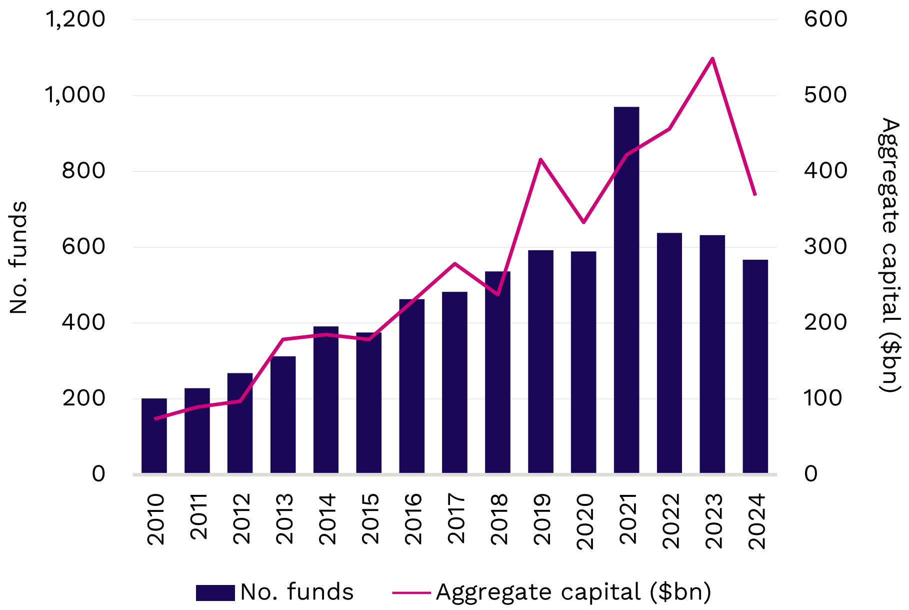
Despite being one of the largest asset classes by AUM, North American private equity has grown at a rapid pace. Over the four and a half years ending June 2024, assets in the region grew 16.9% annually, second only to venture capital (17.6% CAGR). Further, North American private equity growth has also proven to be far more resilient and stable year-over-year compared other alternative asset classes. While it hasn't shown the sometimes-spectacular growth of venture capital, it has also not had the declines those funds saw in 2016 and 2022, years highlighted by equity market volatility and rising interest rates.

The asset class, both globally and regionally, has been better managing its dry powder stores. As of June 30, 2024 North America-based private equity dry powder stood at just over $1tn, which was just below 25% of total AUM. While that number is historically high, it is under the $1.07tn mark that it breached at the end of 2023 when the stock of yet-to-be-called capital made up a slightly higher 27% share of regional private equity AUM.

Fundraising for private equity fund managers dipped in 2024 even if it remained at the core of global fundraising. During the year, regional fund managers raised $368.1bn across 567 funds (Fig. 1.5). Both figures were off 2023's total capital raised, and the volume of funds raised continued to slide from its 2021 peak. In 2024, the average size of a private equity fund based in North America at final close was $740mn, $140mn larger than the average private equity fund based outside the region.

Fig. 1.5: Private equity fundraising down following run-up in commitments

North America-based private equity fundraising

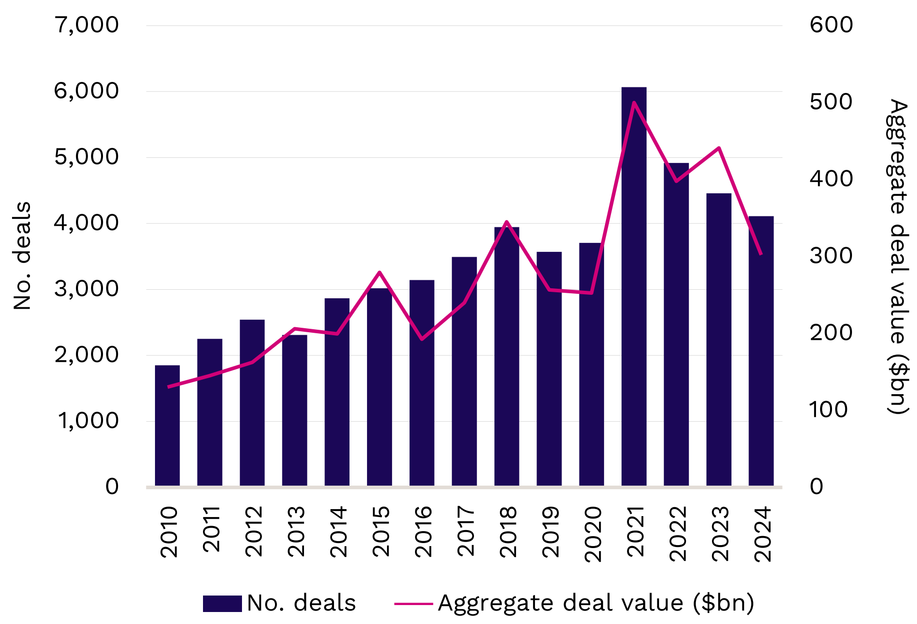


Source: Preqin, data as of February 2025.

Through the five years ended 2024, the $2.13tn raised by North American private equity funds made up 59% of the $3.62tn raised globally. Over this time, regional fundraising was the prime mover of global private equity growth with annual fundraising growth moving counter to funds based outside the region. This was especially evident between 2020 and 2023 as North American fundraising saw rapid expansion while global growth was flat to lower. Deal activity also contributed to the decline in uninvested capital. Deal activity for North American assets spiked for a period following the pandemic, but it then drifted towards the historical global mean as inflation and interest rates began materially impacting valuations and growth expectations. While down from the post-pandemic heights, deal levels have stabilized and are trending above where they were before 2020 (Fig. 1.6). While deal volume did slide after 2021, the average deal size increased up to 2023, suggesting growing competition for fewer quality assets. The average private equity deal for North American assets reached $924mn in 2022 before sliding to $654mn last year.

Fig. 1.6: Deal activity falls in 2024, remains historically high

North America-based private equity deal activity



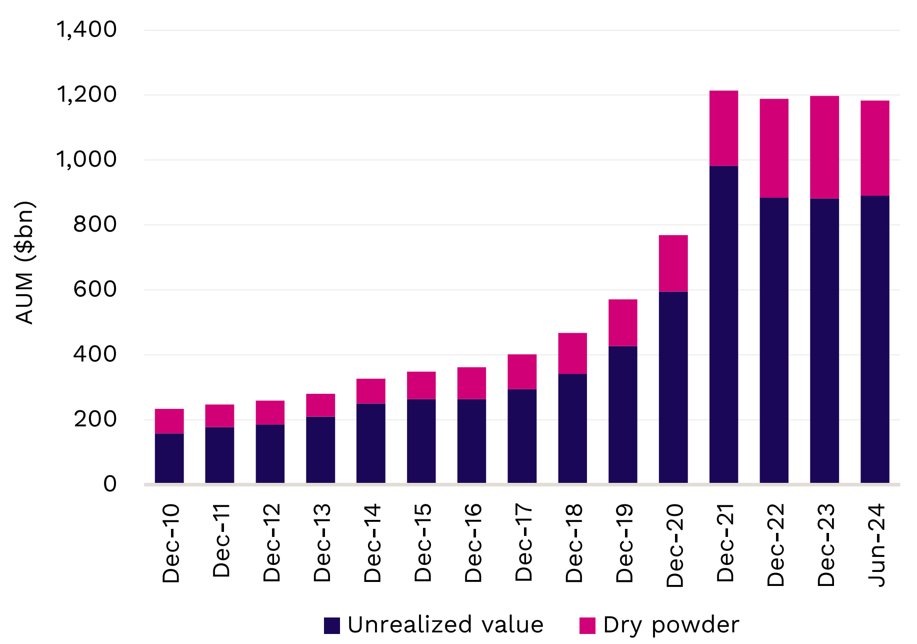
Source: Preqin, data as of February 2025

Venture capital in review

Venture capital (VC) AUM has remained in a stall since their rapid run-up in 2021. North American VC AUM was estimated at $1.18tn as of June 30, 2024, down slightly from the start of the year, and overall showing sluggish growth since crossing the $1tn mark in 2021 (Fig. 1.7). To emphasize this point, North American VC AUM grew 17.6%, annually, from the start of 2020 through June 2024, making it the fastest-growing asset class in the region. Since the end of 2021, AUM has slid 1% (CAGR). Throughout the more recent

Fig. 1.7: VC AUM growth plateaus after crossing $1tn mark

North America-based VC AUM



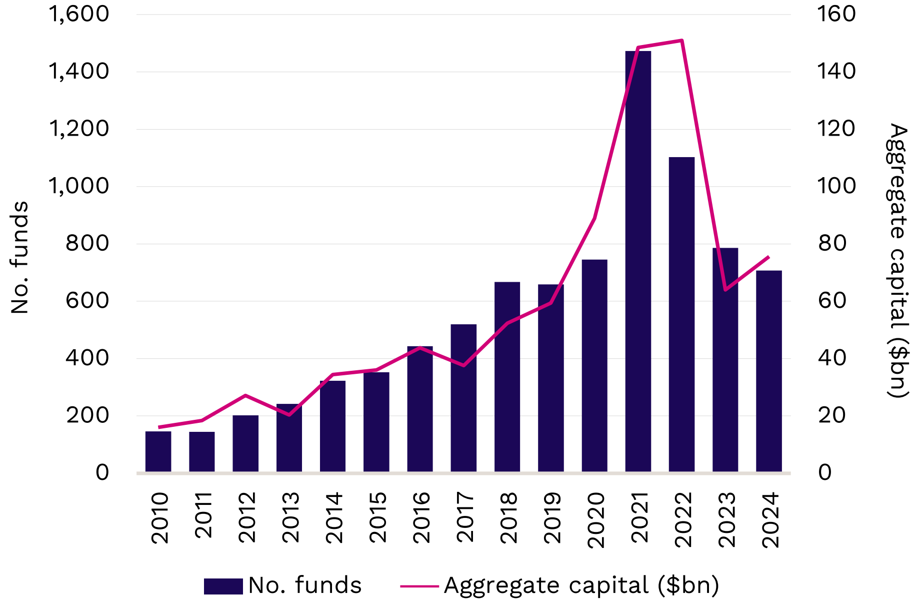
Source: Preqin, data as of February 2025

period, AUM growth, both in North America and globally, has been negatively impacted by high interest rates as a combination of fundraising, deal activity, and performance have all been flat to lower.

Looking at fundraising first, both the volume of funds and the capital committed fell off sharply in 2022 as central banks raised base rates to combat rising inflation. Two-plus years later and little has changed. In 2024, North American VC funds raised $75.6bn across just over 700 funds, both figures well off post-pandemic highs (Fig. 1.8). Over 2024, the average fund size remained comparatively buoyant, at $124.9mn. VC funds are historically much smaller than their private equity peers, which have shown a bit more reversion to the mean. As such, the average VC fund has held closer to its $123.9mn five-year (2019–2023) average than the average North American private equity fund ($740.2mn average fund size in 2024 vs. $790.3mn five-year, 2019 to 2023, average)

Fig. 1.8: VC fundraising finding a floor

North America-based VC fundraising

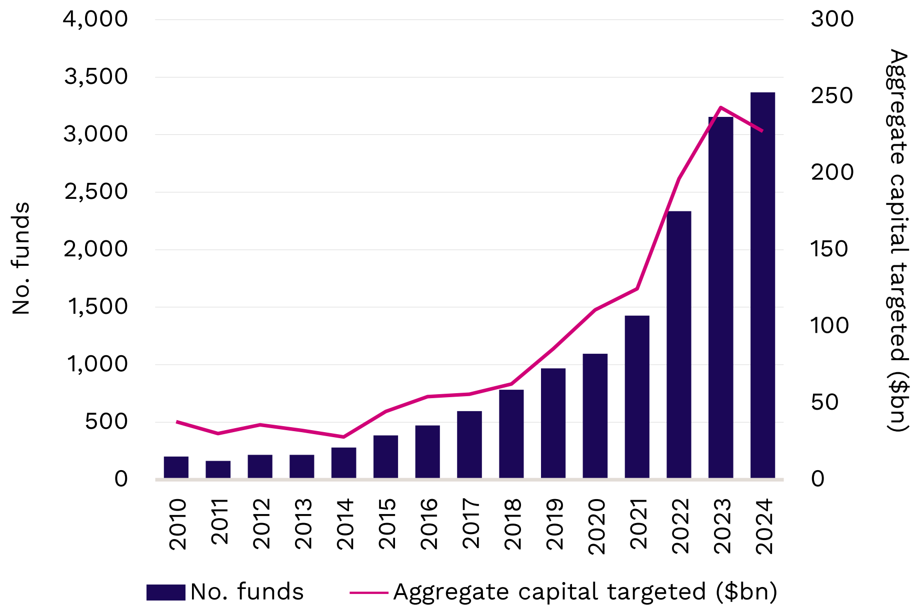


Source: Preqin, data as of February 2025

Along with the decline in fundraising, the number of new funds in the market is increasing at a slower rate as fewer managers find incentive to join a slowing industry. As of the end of 2024, there were about 3,369 funds actively raising capital, hoping to raise an aggregate $227.2bn (Fig. 1.9). To put this figure into perspective, we can estimate how long it would take that stock to effectively clear the market. Dividing the aggregate amount of capital currently targeted to be raised by the total raised in the past 12 months, it would take about three years for those funds to meet their targets based on 2024's fundraising record. This number is indeed historically high; however, it is below the 3.8-year estimate from the year before.

Fig. 1.9: VC funds in market slow as fundraising demand falls

North America-based VC funds in market

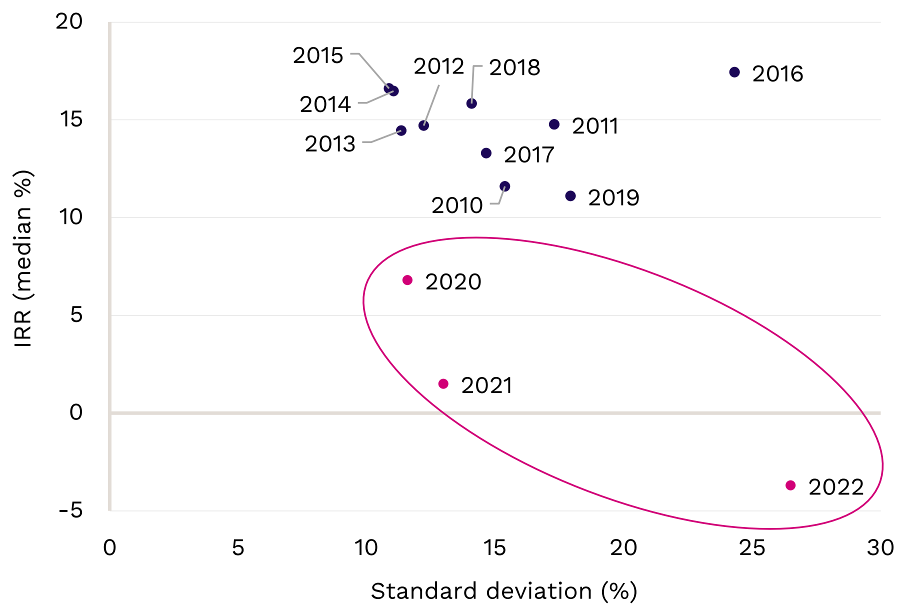


Source: Preqin, data as of February 2025

Performance has been another factor that has impacted North American VC funds. The series of interest rates increases from 2022 and into 2023 – the most rapid rate hikes in the history of many central banks – quickly made many investors more risk averse than they were between 2020 and 2021. Comparing vintages between 2010 and 2022, there is a notable drop in performance in the three most recent vintages. Indeed, the effect of the J-curve is likely impacting 2022 vintages, also adding to the wider dispersion, but the impact rate hikes had on these funds is notable. Early results show a median IRR of -3.7% for 2022 vintage VC funds with a 26.5% standard deviation within that cohort of funds (Fig. 1.10) For the slightly more mature 2020 and 2021

Fig. 1.10: Recent VC fund performance well off historical returns

North America-focused VC median fund IRR and return standard deviation, by vintage



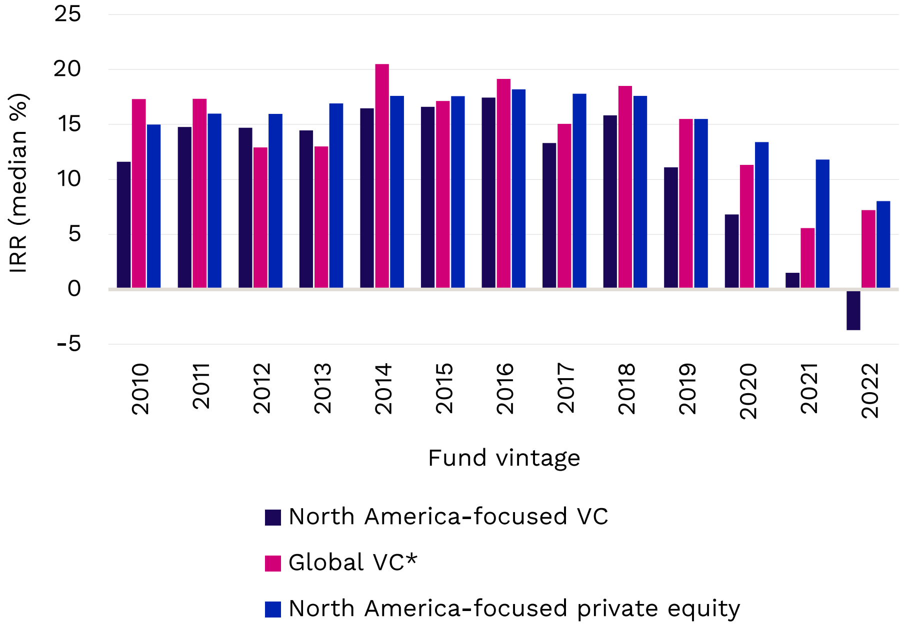
Source: Preqin, data as of February 2025

vintages, which would have had their early investment periods well within the zero-rate environment, the impact of both the low discount rate during 2020 and 2021 and the high discount rates on current valuations is quite observable.

North American VC funds have also had a far worse go of it than their global peers. Although the impact of both high interest rates and public market volatility has been felt on global VC assets, VC funds outside the region have outperformed their North American peers by a wide margin (Fig. 1.11).

Fig. 1.11: North American VC performance not keeping up

Median fund IRR by vintage and region



*Global VC figure excludes North America

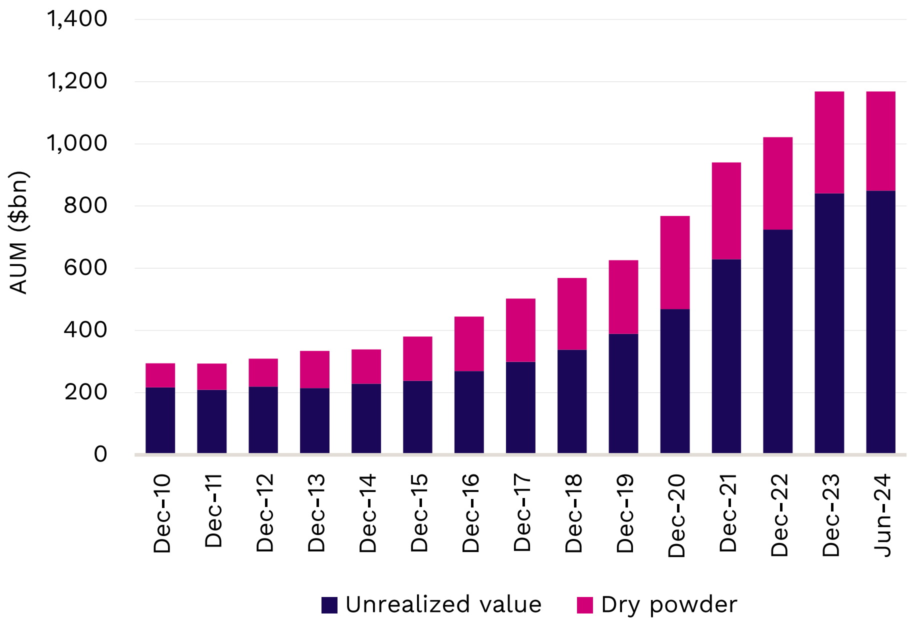
Source: Preqin, data as of February 2025

Private debt in review

North American private debt assets stood at $1.17tn as of June 2024. Since the start of 2020, North American AUM has grown 14.9% annually (Fig. 1.12), versus 13.4% global annual growth. North American AUM crossed the $1tn mark in 2022 as rising interest rates put pressure on more growth-oriented asset classes, particularly VC. Over this time, AUM growth both in the region and globally outpaced the broader private capital market as investors flocked to the relatively lower risk and now higher-yielding allocations.

Fig. 1.12: Private debt AUM growth flat in H1 2024

North America-based private debt AUM



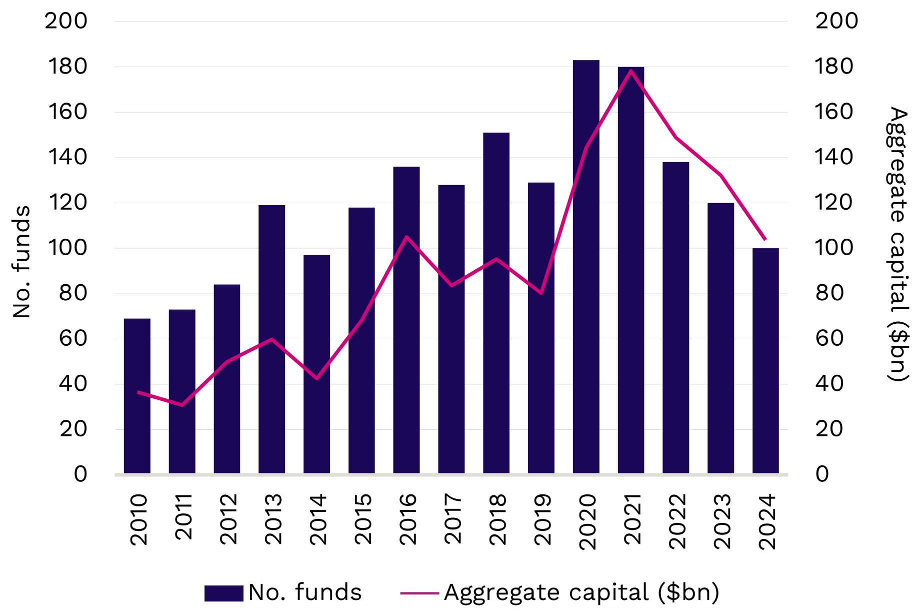
Source: Preqin, data as of February 2025

For much of private debt's history, North America has been home to a larger share of the global AUM than other asset classes. As of June 30, 2024, just under 74% of all private debt AUM was based in the region, slightly above historical averages. Private debt's history and evolution since the GFC is a well-known story as larger funds continue to come to market, but from a smaller group of managers than private equity and certainly VC.

Amid this long-term enthusiasm, private debt fundraising has come off recent highs, like its peers, as the $103.6bn in total capital raised in 2024 was below 2021's $178.2bn peak (Fig. 1.13). However, the average fund size has risen rapidly. At the end

Fig. 1.13: Private debt fund raising at five-year low

North America private debt fundraising

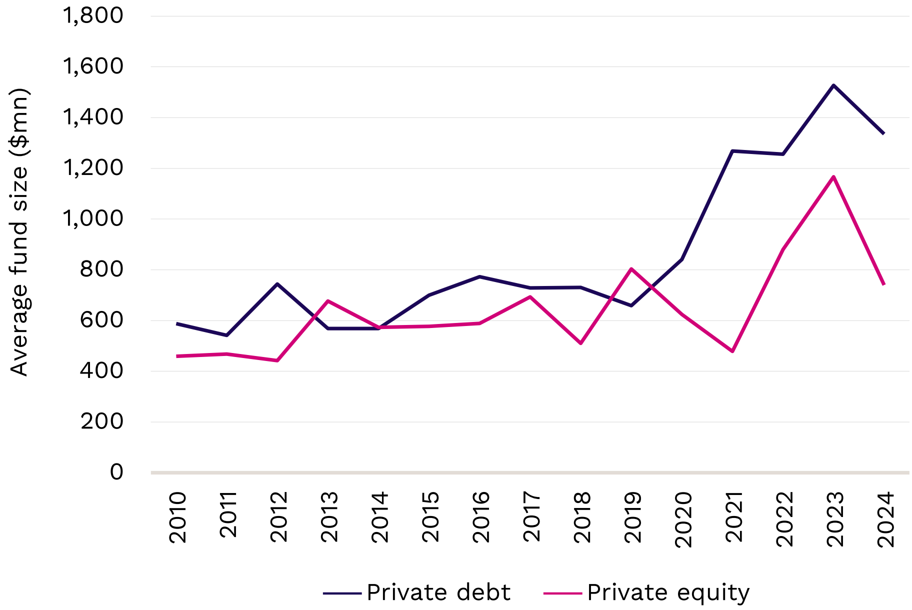


Source: Preqin, data as of February 2025

of 2024, the average North America-based private debt fund was about $1.33bn, compared to the average size of a North America-based private equity fund of $740mn. While their private equity counterparts did briefly breach the $1bn mark in 2023, private debt funds have been above that mark since 2021 (Fig. 1.14). This trend has been driven by a higher concentration of experienced managers. As the industry continues to mature, we expect those figures to come down some as new funds come to market from managers looking to tap into the capital flows.

Fig. 1.14: Larger funds more common in private debt

North American private debt average fund size

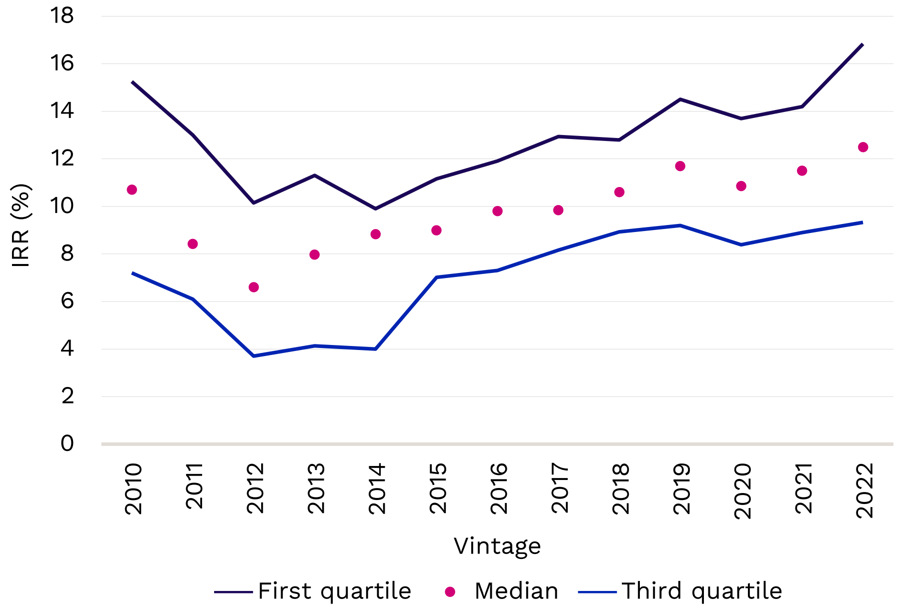


Source: Preqin, data as of February 2025

Even though the market has become more competitive with a relatively small number of funds wielding large bases of capital, performance has largely trended upward. The median IRR for 2022 vintage North America-based private debt funds was 12.5% (CAGR), above the median 11.5% IRR investors have gotten from their 2021 vintages (Fig. 1.15). Regardless, higher base interest rates have helped propel performance above historical ranges, lifting low-range expectations on par with past medians.

Fig. 1.15: Private debt performance consistent, but growing more varied

North America-based private debt performance, median net IRR, quartile bounds



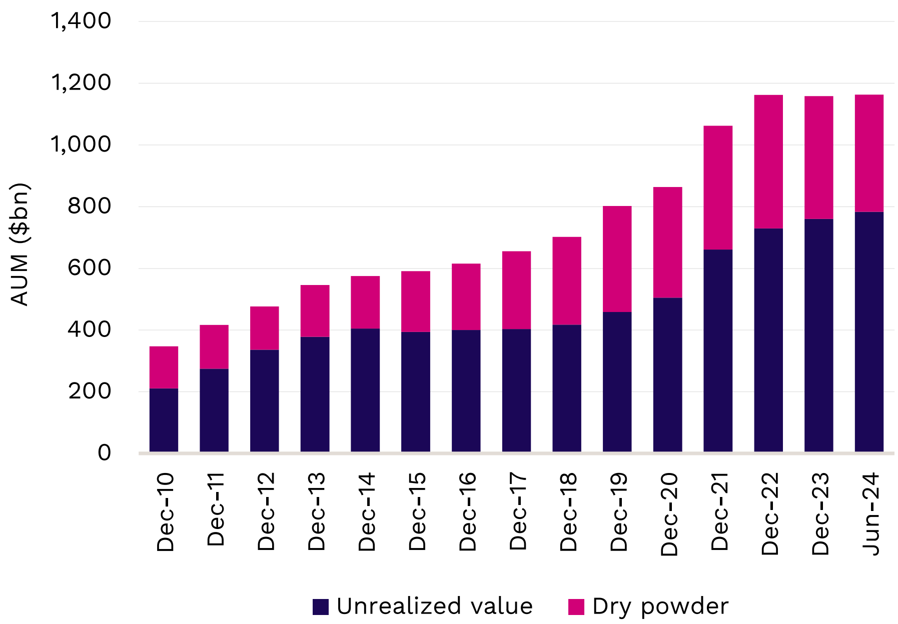
Source: Preqin, data as of February 2025

Real estate in review

North American private real estate AUM was estimated at about $1.16tn as of June 30, 2024 (Fig. 1.16). While still two-thirds of global real estate AUM, growth has flatlined since 2022, closely mirroring the path of their VC peers. Private real estate assets jumped in 2021, crossing the $1tn mark as low rates fueled investments largely in residential and industrial properties. But as inflation rose, with housing costs a major component of those increases, central banks rate hikes quickly slowed further investment.

Fig. 1.16: Real estate AUM growth slows

North America-based real estate AUM

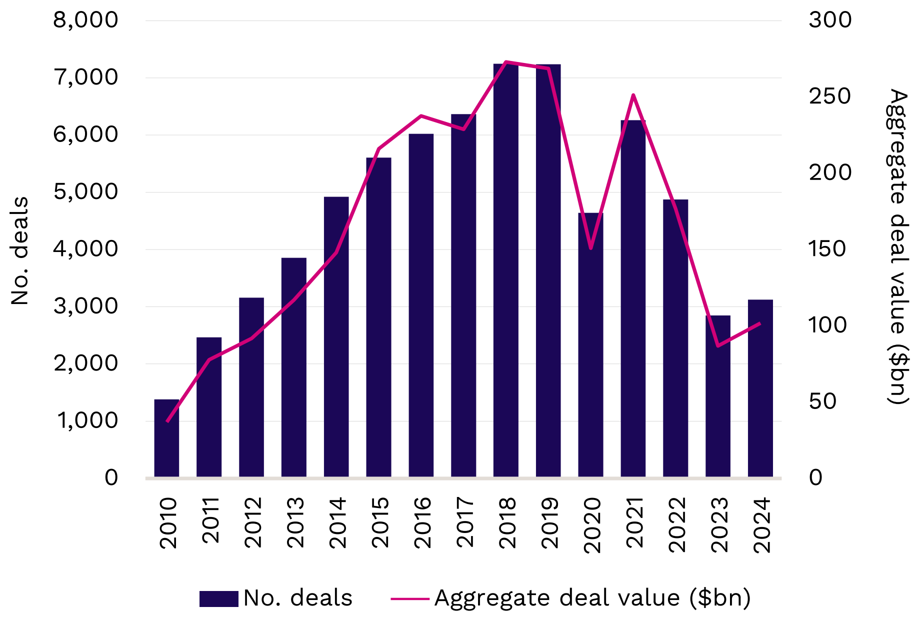


Source: Preqin, data as of February 2025

Deal activity was immediately impacted, falling to decade lows by 2023. However, deals in 2024 crept higher than the year before; 3,123 deals were completed in the region and were valued at an aggregate $101.8bn (Fig. 1.17). Still a far cry from historical averages but perhaps finding a floor following a period of decline. Two critical properties to the asset class, office and residential, saw the sharpest decline in deal activity during the rate hike cycle but showed some life during the year; particularly as remote work policies leftover from the pandemic are steadily being lifted, hinting at a return for offices. Deals for office properties made up only about 14% in both volume and value of 2024 deal activity.

Fig. 1.17: Real estate managers hold back on deal-making

North America-based real estate deal activity

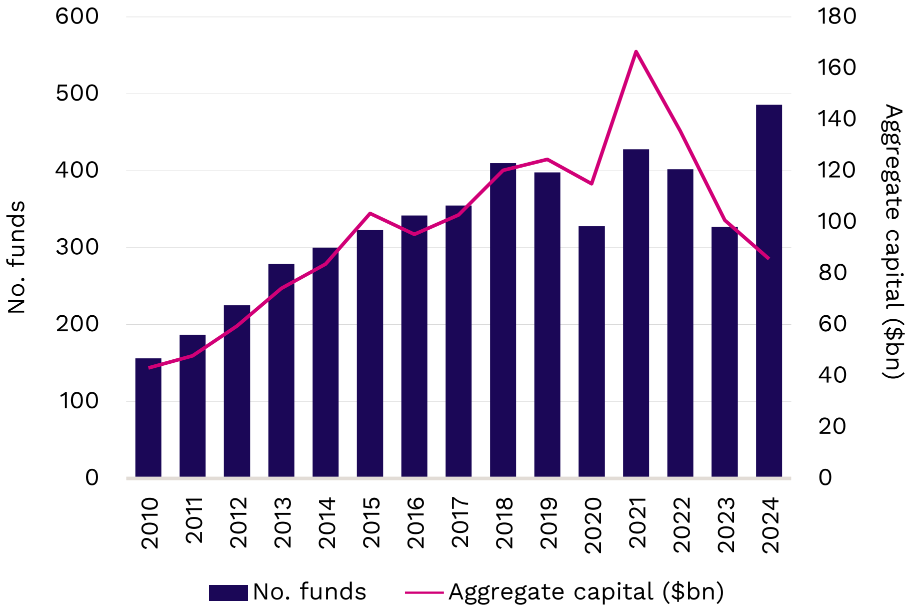


Source: Preqin, data as of February 2025

Fundraising remains an issue for private real estate funds. The aggregate $85.6bn raised in 2024 was 15% below the $100.7bn raised the year before, and just over half of the $166.5bn raised in 2021 (Fig. 1.18). This drop in aggregate capital was in line with other asset classes, but what was unique was the jump in the number of funds closed during the year: more than 480 funds closed during the year. Each datapoint reveals trends moving in the opposite direction of other asset classes as the size of the average real estate fund in North American declined rather than increased. The $231.2mn average fund size in 2024 was $137.2mn lower than in 2023 and approximately half of 2020's $451.4mn peak.

Fig. 1.18: More real estate funds closed, but less capital raised

North America-based real estate fundraising

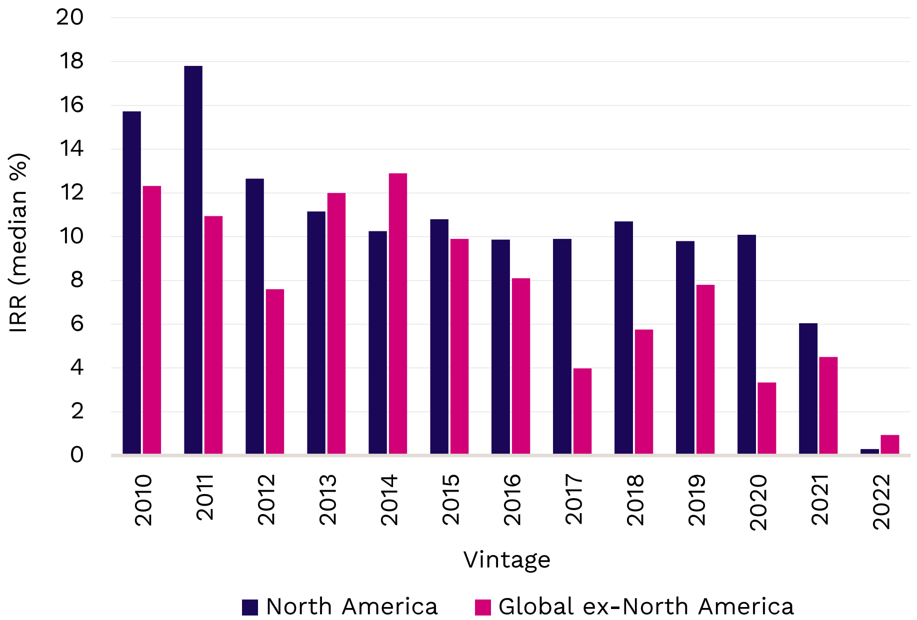


Source: Preqin, data as of February 2025

The impact of interest rates and asset devaluations on private real estate performance was swift. Fund vintages 2021 and 2022 show weakness relative to earlier vintages. Through June 2024, 2021 vintages focusing on North American assets had a median IRR of 6.1% while 2022 vintages were barely above water with a median IRR of 0.3% (Fig. 1.19).

Fig. 1.19: North American funds still outperform rest of world

North America vs. non-North American real estate median IRR



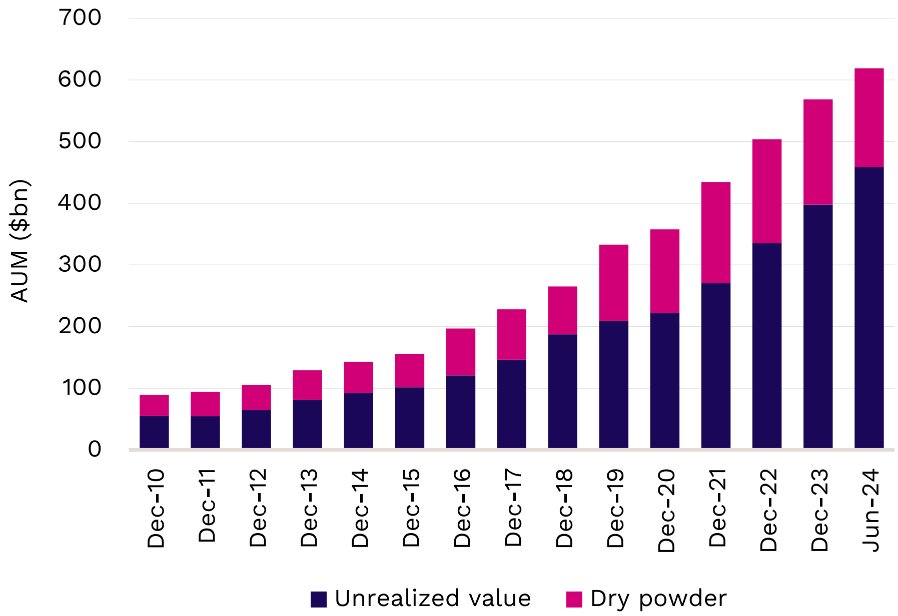
Source: Preqin, data as of February 2025

Infrastructure in review

North American infrastructure AUM stood at $618.9bn as of June 2024; that figure was up 9% through the first half of the year (Fig. 1.20). Assets based in the region made up 42% of global infrastructure assets and were the fastest growing assets regionally since the start of 2022 with a 15.2% annual growth rate.

Fig. 1.20: North American infrastructure steadily rises in 2024

North America-based infrastructure AUM

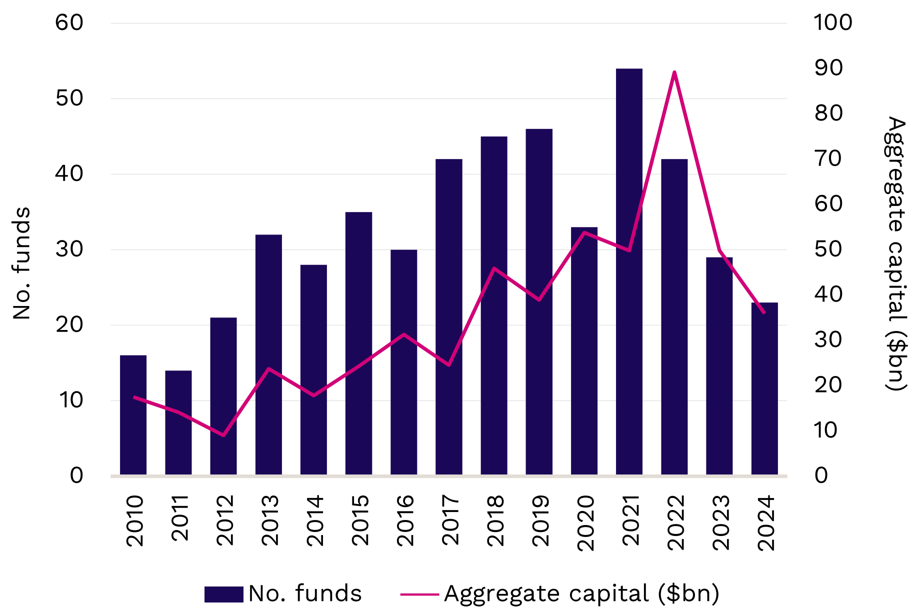


Source: Preqin, data as of February 2025

This asset growth has been largely performance-driven as fundraising has fallen off 2021 and 2022's highs. Twenty-three infrastructure funds closed in 2024, just under 2023's total, with an aggregate of $35.9bn in total capital (Fig. 1.21). This slowdown in

Fig. 1.21: Infrastructure fundraising follows global trend lower

North America-based infrastructure fundraising



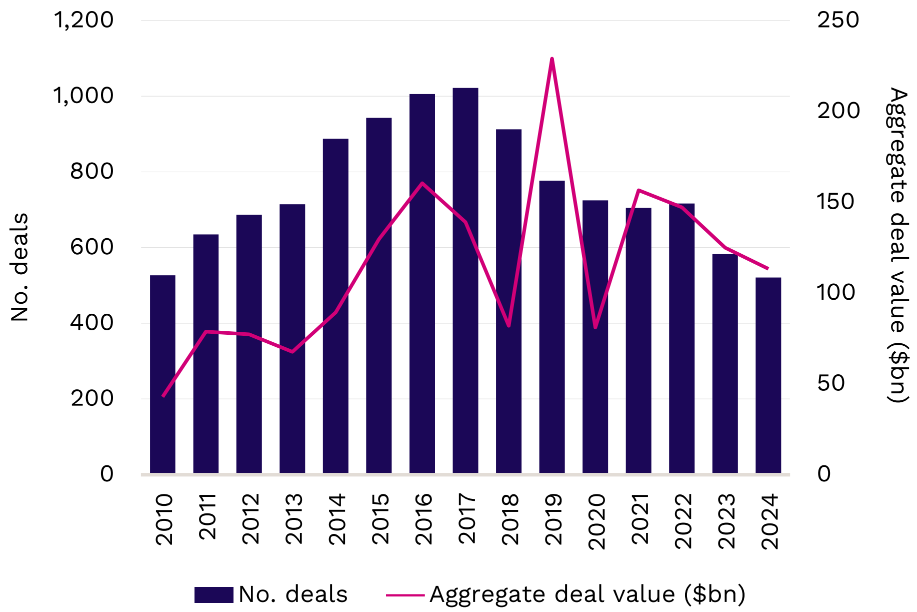
Source: Preqin, data as of February 2025

fundraising can also be indirectly noted in the level of dry powder, in both absolute terms and relative to total AUM. Dry powder stores shrank by 6.3% over the first half of 2024 as unrealized value of assets rose 15.4%.

Deal activity also came off highs and trended lower into 2024. Private infrastructure funds invested a total of $113.4bn in North American assets during the year across 521 deals (Fig 1.22). Both figures were below 2023 results as the average deal size dipped to $680mn from $758mn. The most recent aggregate deal valuations are still above historical averages, showing a robust interest in the asset class relative to the early and mid-2010s.

Fig. 1.22: Fewer infrastructure deals, less value

North America-based infrastructure deal activity

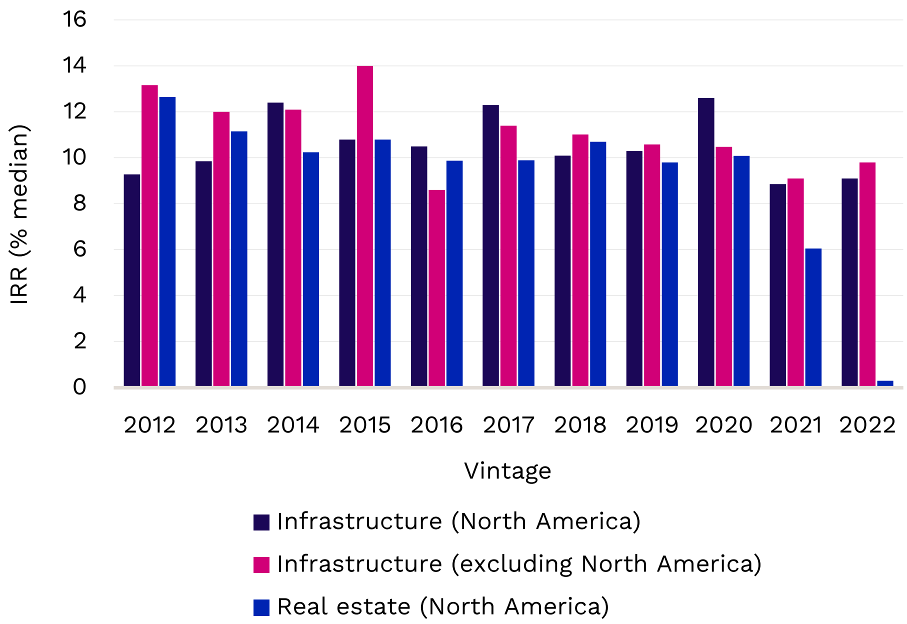


Source: Preqin, data as of February 2025

Median IRRs indeed dipped for 2021 and 2022 vintages, to 8.9% and 9.1% respectively, but haven't slid to the degree of real estate (Fig. 1.23). Energy, both conventional and renewables, is a major component of the asset class's performance and stands to see significant change under the Trump administration in the US as clean energy policies become less of a focus while tariffs may impact both the export and import of non-renewable energy sources.

Fig. 1.23: Infrastructure outperforms real estate

North America vs. Non-North America infrastructure median IRR



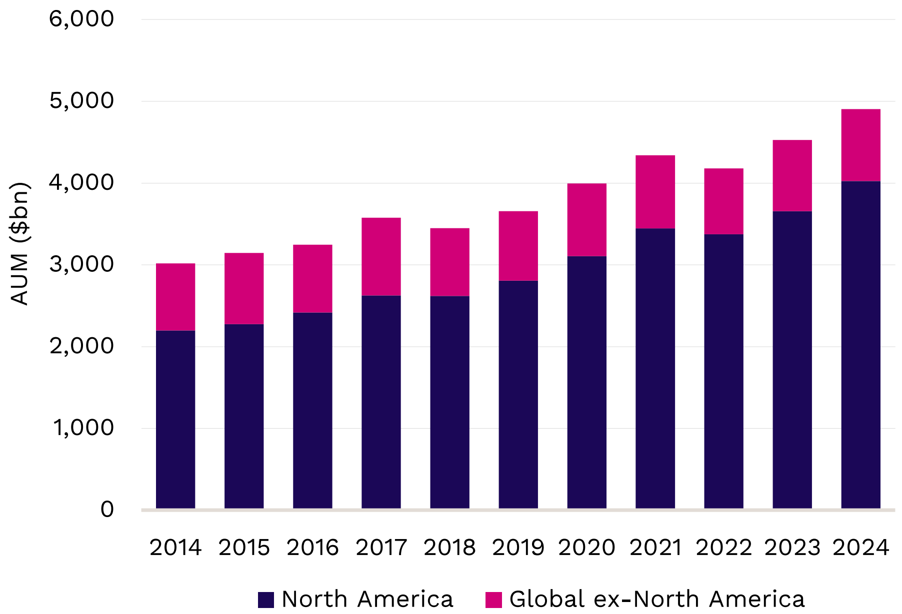
Source: Preqin, data as of February 2025

Hedge funds in review

North American hedge fund assets dominate the global industry. The $4.03tn in assets managed by managers based in the region make up 82% of the $4.91tn global hedge fund AUM (Fig. 1.24). A continuing consolidation of hedge fund assets to largely US-based managers has been driving this, even as the number of new managers coming to the market is falling and has slowed growth in the number of fund launches.

Fig. 1.24: North American hedge fund assets 82% of global AUM

North America-based hedge funds AUM



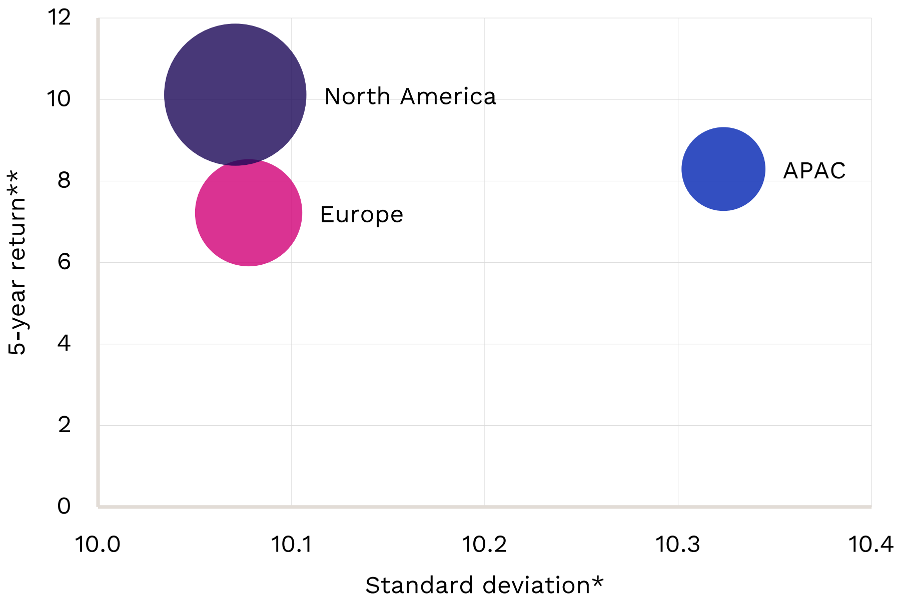
Source: Preqin, data as of February 2025

Asset growth for North America-based hedge funds outpaced their global peers, even if the asset class lagged behind the overall alternative asset industry. North American hedge funds' collective 7.5% annual growth since the start of 2020 drove global hedge fund AUM growth (6.1%) as assets based outside of the region grew a modest 0.7%.

Much of this relative growth has been performance-driven as funds based in the region have outperformed their peers in both Europe and APAC. Over the trailing five-year period ended December 31, 2024, the average North America-based hedge fund returned 10.1% on an average annual basis, while the average APAC and Europe-based funds returned 8.3% and 7.2% (Fig. 1.25), respectively. The highly publicized returns of large multi-strategy funds and a growing number of cryptocurrency managers based in the region who have ridden their underlying assets higher have driven this growth.

Fig. 1.25: Higher returns, less volatility with North American hedge funds

Average return vs. standard deviation of regional returns (Bubble size is no. funds in region)



*Standard deviation of fund returns in region
**Annualized

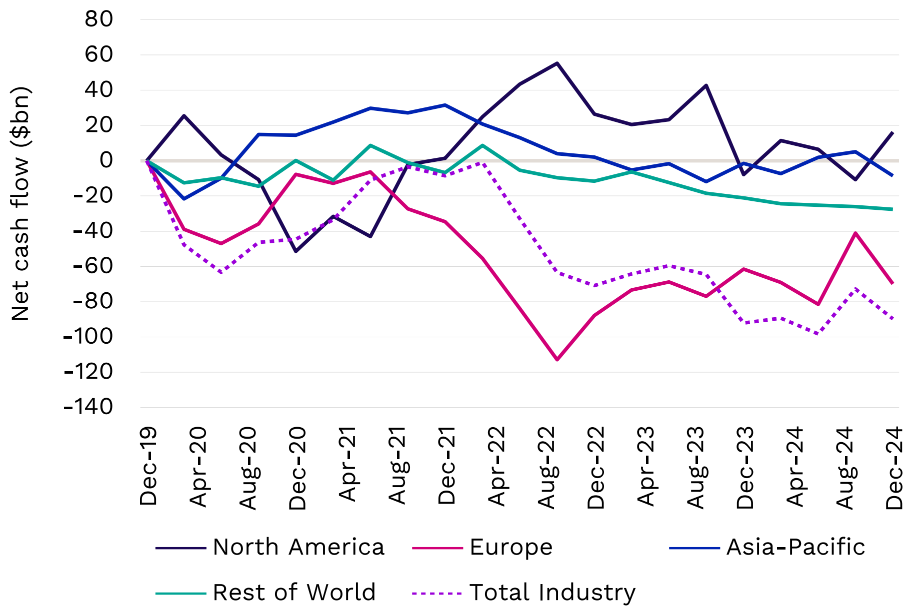
Source: Preqin, data as of February 2025

Cash flows have also added to the relatively higher rate of AUM growth in the region. Cash flows have overall been a net negative for global hedge funds, but North American funds have avoided the worst of it. Since the start of 2020, global hedge funds have seen $89.8bn in net outflows. North America funds bucked that trend with a $16.2bn net inflow over that time (Fig. 1.26).

Those outflows, while a small share of the global and regional AUM, have had an impact on new manager openings, particularly as investors prefer to commit to proven entities, rather than relative unknowns. Aside from a brief spike in new managers in 2021, the larger trend has been downward since 2018. Consistent with AUM and cash flow trends, North America has seen less of a negative impact than the rest of the world. Only 127 new managers came to market in 2024, yet 106 of those, or 84%, were based in North America (Fig. 1.27). That share has grown steadily for much of the past decade.

Fig. 1.26: North American hedge funds buck global cash flow trend

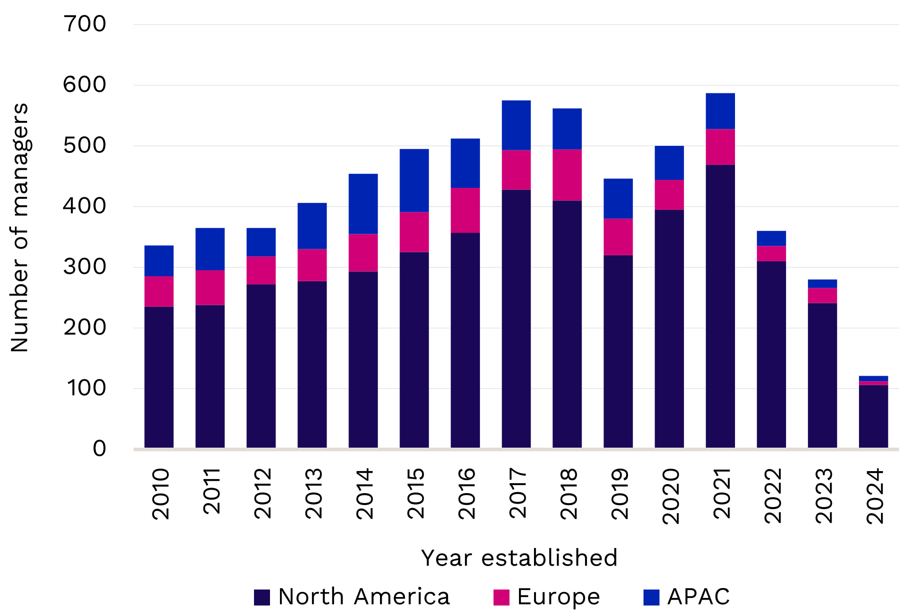
Net hedge fund cash flow by region



Source: Preqin, data as of February 2025

Fig. 1.27: New managers concentrate in North America as fewer come to market

Hedge fund manager by year established and region

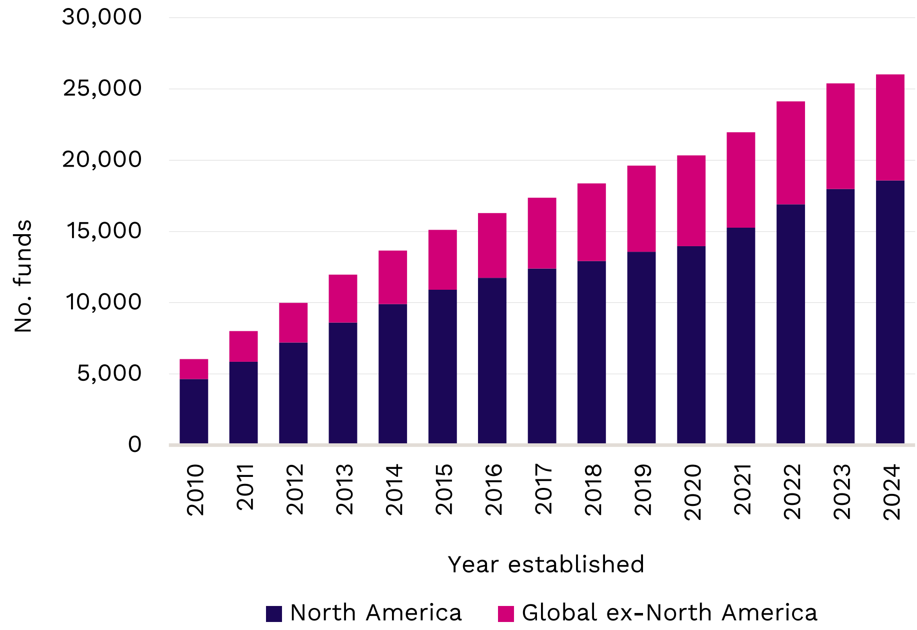


Source: Preqin, data as of February 2025

As the number of new managers coming to market has fallen off, the number of funds offered is showing signs of reaching a plateau. North American funds are no exception to this trend. While the 18,585 funds based in the region make up 71% of the active global hedge fund universe, fewer funds are being added each year, a sign that the supply of funds is adjusting to falling demand (Fig. 1.28). Global net fund launches (454), or fund launches minus liquidations, moved closer to equilibrium in 2024 than they have since at least 2010, with North American fund launches (514) offsetting net liquidations (60) outside the region, largely in Europe (Fig. 1.29).

Fig. 1.28: North America is home to 70% of global hedge funds

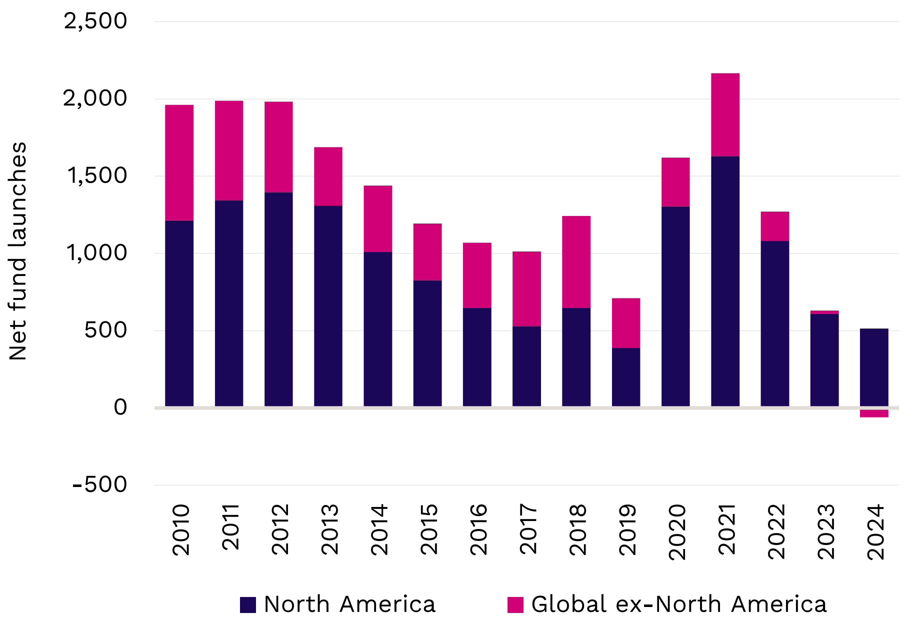
Number of active funds by year established and region



Source: Preqin, data as of February 2025

Fig. 1.29: North America drives global hedge fund growth

Hedge fund net fund launches



Source: Preqin, data as of February 2025

Hedge funds as an asset class are undergoing a very unique transformation. This slowdown in growth shows signs of being more structural rather than temporary. While we see a decline in fundraising across private capital, there is still a long-term vision of growth illustrated by the continued rise of the funds in market – or supply. In contrast, hedge funds are seeing both a drop in demand through cash flows and supply, demonstrated by the drop off in new managers as well as the flat-to-low growth in the number of new funds being offered. The combination of these factors underlines Preqin's expectations that hedge funds will be one of, if not the slowest growing asset class heading into the latter years of the decade.

Investors: Institutions in focus

Private equity continues to draw overallocated institutions, but manager selectivity is increasing

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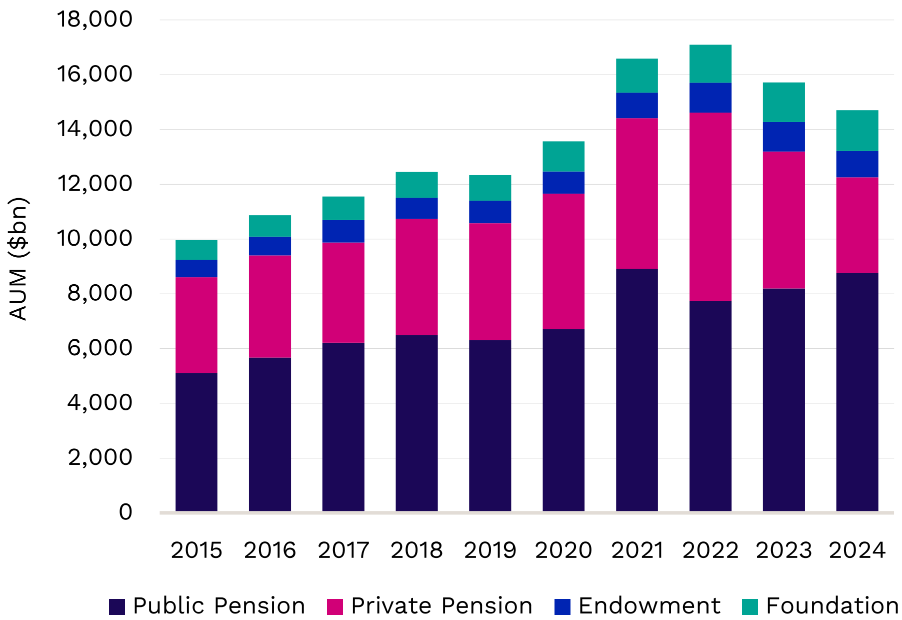
North American institutional investors are one of the largest allocators to alternative investments globally. Since the Global Financial Crisis (GFC), risk-adjusted returns have become a key priority for managing liabilities and long-term investment horizons among these investors who have, in turn, steadily increased their allocation to alternatives over the past decade. Over that time, these allocations have generally delivered on that mandate, providing strong performance and less volatility compared to their public-market counterparts, which LPs have been happy to accept regardless of drawbacks like high fees and limited liquidity. Yet in the more recent period, those appetites have reduced as both risk appetites and objectives have evolved and LPs have become more selective across assets classes and the funds they choose.

North American institutional investor AUM stood at about $14.71tn according the most recent Preqin data (Fig. 2.1).[4]

Fig. 2.1: North American institutional investors tracked by Preqin manage $14.71tn in assets

North American institutional investor AUM by type



Source: Preqin, data as of February 2025.

4 Public pensions, private pension, endowments, and foundations were used for this research. AUM data is based on most recent reported data and may not be an aggregate at a single point in time

According to 2024 Preqin data, private equity is the most invested-in alternatives asset class, with an average allocation (on a weighted average basis) of 11.5% among North American institutional investors in our sample.[5] Overall, a smaller sample of institutions for which we have target and actual allocations data for 2024 (Fig. 2.3) suggests that North American institutional investors are overallocated (on a simple average basis) by 0.4 percentage points (ppts) to private equity (Fig. 2.4).

5 Private equity allocation figures include venture capital

Fig. 2.2: Endowments and foundations have largest allocation to alternatives

Average weighted asset allocation* of North American institutional investors

Asset class	Public pensions	Private pensions	Endowments	Foundations	All institutions
Private equity**	12.6%	7.9%	17.6%	15.8%	11.5%
Private debt	2.8%	1.5%	1.6%	0.6%	2.2%
Hedge funds	3.4%	7.1%	11.6%	13.7%	5.6%
Real estate	9.1%	6.0%	8.1%	2.1%	7.5%
Infrastructure	3.7%	1.4%	1.1%	0.2%	2.6%
Natural resources	1.3%	0.5%	1.0%	0.9%	1.0%
Public equity	38.1%	27.1%	34.7%	32.6%	34.1%
Public debt	23.0%	39.0%	13.3%	12.7%	27.0%
Alternative assets	**33.0%**	**24.3%**	**41.1%**	**33.3%**	**30.4%**
Public assets	**61.1%**	**66.1%**	**48.1%**	**45.2%**	**61.1%**
Cash	**1.7%**	**2.8%**	**4.1%**	**3.0%**	**2.2%**
Other	**3.9%**	**6.6%**	**6.2%**	**18.3%**	**6.1%**
Sample size* **	**846**	**1,856**	**111**	**1,009**	**3,822**
Aggregate AUM ($mn)	**5,139,356**	**2,736,724**	**119,845**	**805,116**	**8,801,041**

*weightings are averages and may not add to 100%
**includes VC
***investors selected from Preqin's database that met data quality criteria for 2024 allocations

Source: Preqin, data as of February 2025

Fig. 2.3: Private equity most targeted alternative asset class

Simple average actual and target asset allocation of North American institutional investors, 2024

Asset class	Average actual allocation	Average target allocation	Sample size (institutions)*	Aggregate AUM of sample** ($mn)
Private equity***	11.8%	11.4%	433	5,956,847
Private debt	5.3%	6.7%	157	2,538,993
Hedge funds	11.6%	10.5%	266	2,691,713
Real estate	8.8%	9.9%	580	5,230,810
Infrastructure	6.6%	6.9%	153	1,626,018
Natural resources	3.7%	4.4%	89	973,437

*Only includes data where investors reported both actual and target allocation
**Reflects investors' total AUM, not asset-level AUM
***includes VC

Source: Preqin, data as of February 2025

Fig. 2.4: Overallocation to private equity and hedge funds could still slow fundraising

Underallocation or overallocation to major asset classes, 2024

Asset class	Over/under allocation	Sample size (institutions)*	Aggregate AUM of sample** ($mn)
Private equity***	0.4%	433	5,956,847
Private debt	-1.3%	157	2,538,993
Hedge funds	1.1%	266	2,691,713
Real estate	-1.1%	580	5,230,810
Infrastructure	-0.4%	153	1,626,018
Natural resources	-0.6%	89	973,437

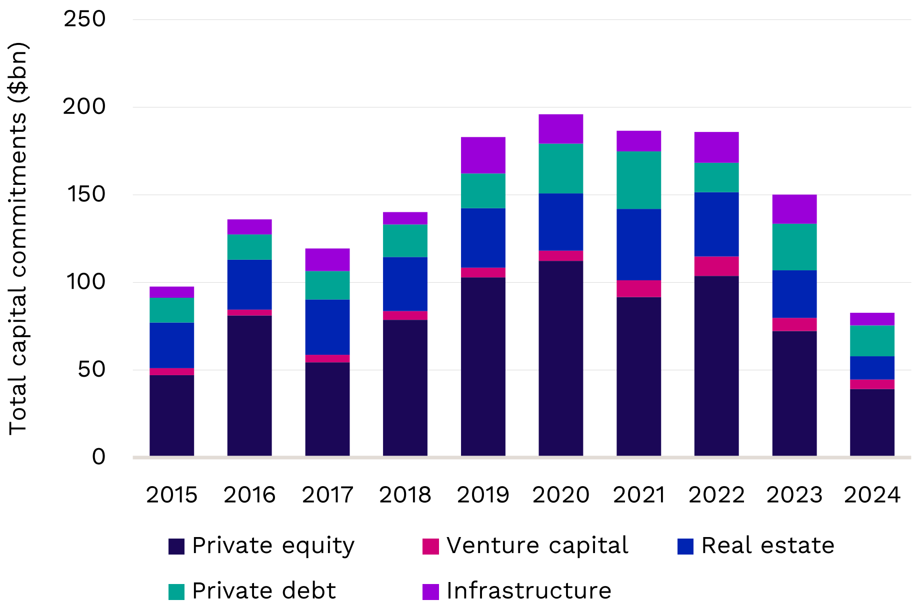
*Only includes data where investors reported both actual and target allocation
**Reflects investors' total AUM, not asset-level AUM
***includes VC
A positive number indicates overallocation

Source: Preqin, data as of February 2025

Private equity at the helm of private capital, even as tides remain low
Even with total fundraising figures under pressure, private equity continues to receive the largest share of capital from North American pensions, endowments, and foundations. Between 2020 and 2024, this group of LPs committed $801bn to global alternatives managers, more than half of which, $418.8bn, went to private equity funds (Fig. 2.5). But while the asset class maintains that majority, the total capital being committed is trending lower and the average commitment value, or ticket size, has been increasing. Fewer managers are taking larger shares of a falling amount of available capital as LPs become more selective.

Fig. 2.5: Capital commitments fall by nearly half in 2024

Annual private capital commitments by North American institutional investors

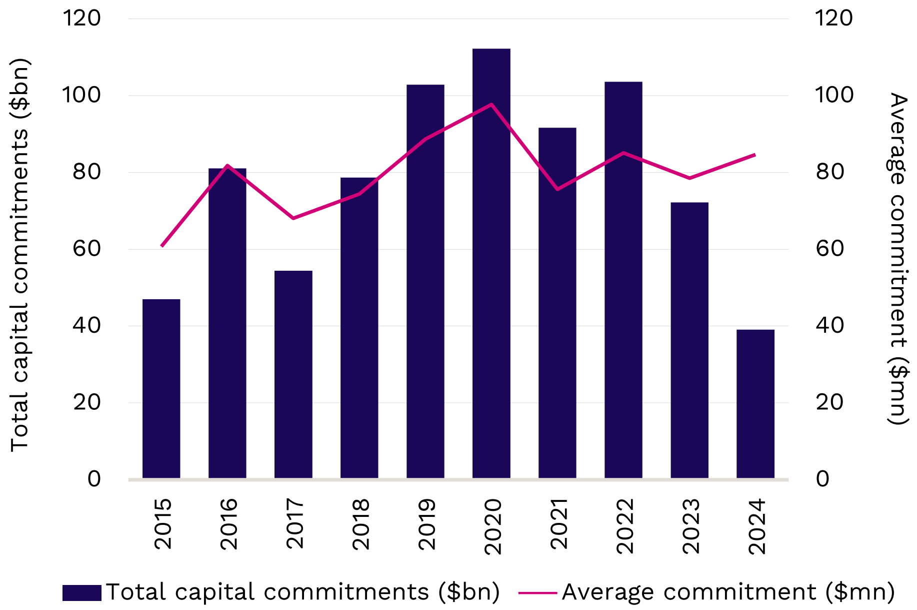


Source: Preqin Pro

As private equity commitments from North American institutional investors fell in aggregate value in 2023 and into 2024, the average commitment made to the funds that were raising capital remained high. These LPs committed an estimated $39.1bn to private equity funds in 2024, continuing the downward trend from the prior two years. Yet over that time the average commitment size rose from $78.5mn to $84.6mn (Fig. 2.6).

Fig. 2.6: Average private equity commitments remain high as overall fundraising is down

Annual private equity commitments by North American institutional investors



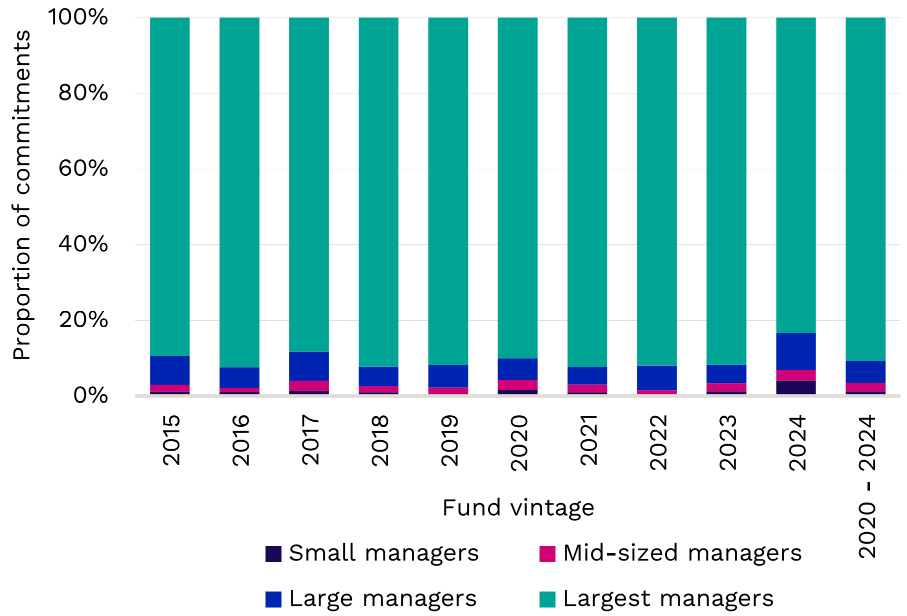
Source: Preqin, data as of February 2025

Capital commitments from North American LPs have historically favored larger managers. Across fund vintages 2020 through 2024 the largest quartile of managers, measured by their 10-year total fundraising record, assumed more than 90% of the total capital committed (Fig. 2.7). Digging further and dividing the dataset by fund vintage, larger North American LPs appear more closely tied to the largest managers while the smallest LPs[6] increased their share to these funds, with limited allocations to mid-sized and small managers across the 2020 to 2024 vintages (Fig. 2.8).

6 LP quartiles determined by most recent AUM figures

Fig. 2.7: Largest managers dominate private equity fundraising

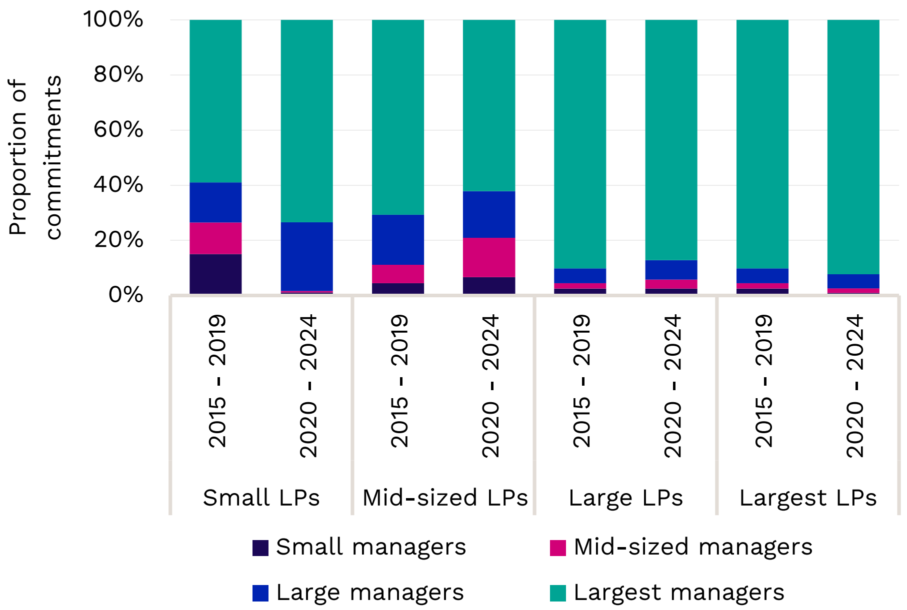
Distribution of LP commitments by fund manager size



Source: Preqin, data as of February 2025

Fig. 2.8: Small LPs increase commitments to largest managers

Distribution of LP commitments by fund manager size by quartile

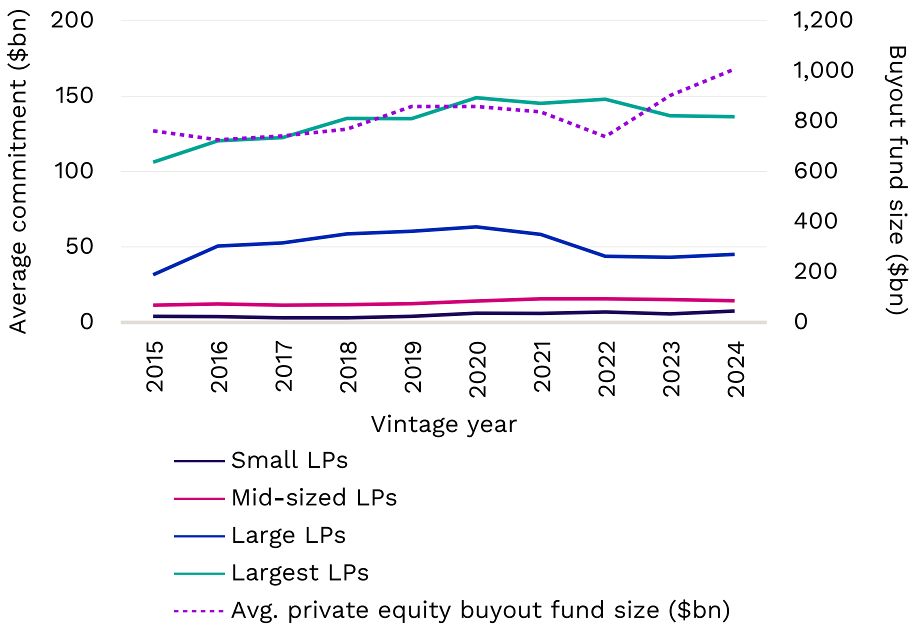


Source: Preqin, data as of February 2025

The market is moving towards a trend of larger LPs making larger commitments. The largest institutional LPs' average commitment size to 2024 vintage funds was nearly three-fold that of the next tier of investors: $136.4mn vs. $45.2mn (Fig. 2.9).[7] While this growth has slowed in recent years, overall average fund size has also risen to meet this demand. Because GPs have historically preferred to maintain ongoing relationships and assume fewer larger commitments, rather than a larger number of smaller ones, smaller LPs may face increasing challenges in accessing larger managers with larger funds. New fund structures and technology may help to mitigate this over time, however.

Fig. 2.9: Average fund commitments remain steady by LP size

Average commitment size vs. average buyout fund size (rolling three-year windows)



Source: Preqin, data as of February 2025

Looking into 2025, it's likely 2024's slowdown will remain. Preqin's most recent Future of Alternatives report[8] predicts only a modest uptick in North American private equity fundraising this year, and even into the next. As interest rates remain high, impacting valuations, and ultimately, returns, demand for new private equity exposure from North American LPs is expected to be low until the economics improve. And while most LPs in the region will still allocate capital to private equity funds, we can expect a larger share of that limited supply to be focused on large funds managed by established GPs. For smaller and newer managers, the solution may be to look outside of this cohort of LPs and to channels such as private wealth where there is a growing appetite for alternative assets.

The capital that is being allocated, mostly to larger funds managed by established GPs, could very well be all the supply the market requires.

The asset allocation data in this chapter (Fig. 2.2, 2.3, and 2.4) was updated on April 2 based on a new methodology to better reflect the underlying Preqin sample.

7 Rolling three-year average

8 https://www.preqin.com/insights/research/reports/future-of-alternatives-2029

US and European buyouts compared

Economics and valuations make Europe fertile ground for buyout activity, as North American risk premiums remain high

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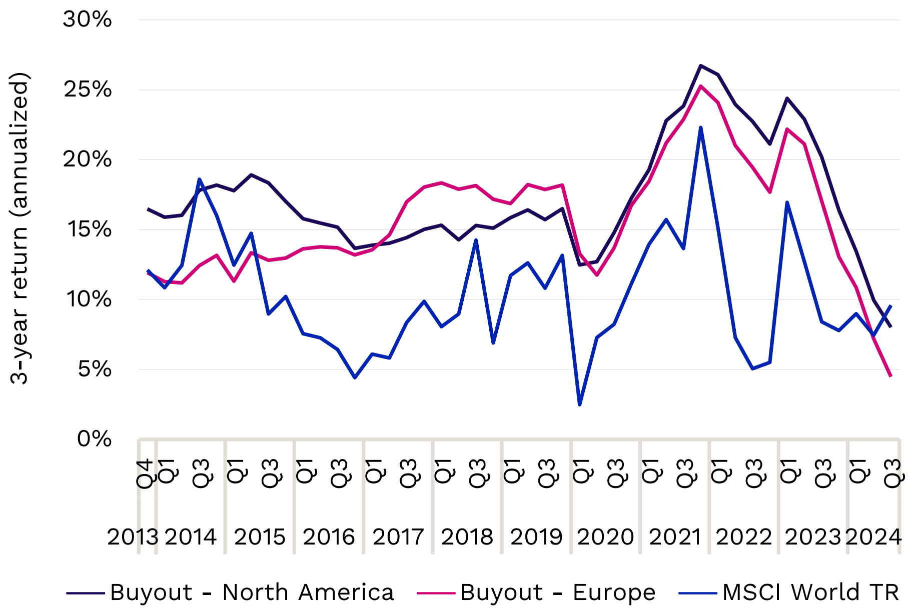
Private equity buyout assets make up the largest share of global private capital, with North America–based assets firmly at the helm. Private equity continues to become a larger share of the global institutional portfolio, its appeal driven largely by a history of outperformance and low volatility relative to both private and public market peers. But a recent combination of higher risk premiums, mixed macroeconomic data, and investor expectations has put pressure on funds in North America to find value in a more crowded market.

The pressure on returns has been stark. Looking at three-year rolling windows of Preqin's quarterly indexes, we can see that private equity buyout fund performance fell off after the highs of the pandemic to well below pre-pandemic averages, and in Q3 2024 buyout performance fell below public equities as well (Fig. 3.1).

Fig. 3.1: Buyout returns fall below public equities

Rolling 3-year annualized returns, Preqin quarterly indexes



Source: Preqin Pro

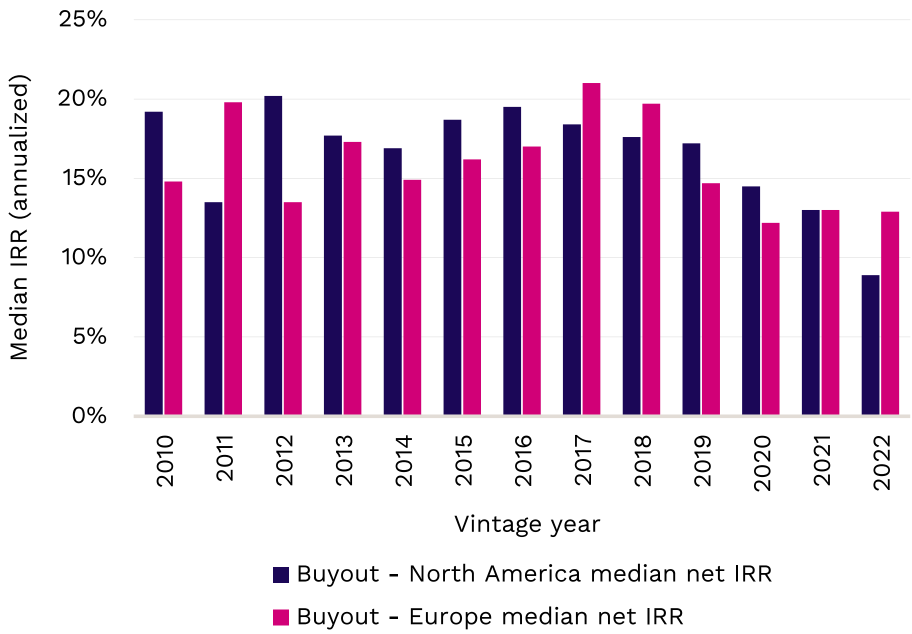
At first glance, interest rates have been an easy explanation; returns fell synchronously with most central banks raising rates in 2022 and into 2023. Given that private market performance lags public markets during economic shifts, the impact of rising interest rates and the increase in the implied risk premium weren't fully realized until the spring of 2023. At this point, Preqin's quarterly indexes show buyout performance sliding materially, eventually dipping below public equities.[9] What has been unique, however, and suggests the decline is less macro-driven, is the degree of the recent downside volatility, which appears less attached to public markets.

9 MSCI World Index (TR)

Buyout funds focused on Europe, the next-largest market by AUM, have shown more resilience than their North America–focused counterparts. Although median IRR has fallen across several vintages in both regions, the landing has been much softer for European funds and their investors. Recent-vintage performance (after 2012) peaked with the 2016 and 2017 vintages for North America and Europe buyout funds, respectively. However, high entry valuations, higher risk premiums, and a slowdown in exits have affected more-recent vintages.[10] The median IRRs for 2021- and 2022-vintage North America–focused buyout funds were 13.0% and 8.9%, respectively, and Europe-focused funds of the same vintages had median IRRs of 13.0% and 12.9%, respectively. While these return figures are some way off peak performance numbers, we can see clearly that the median European fund has been less impacted (Fig. 3.2).

Fig. 3.2: European buyout IRRs more resilient

Rolling 3-year annualized returns, Preqin quarterly indexes



Source: Preqin Pro, as of Q1 2025

Relative outperformance of North American funds affected by rate hiking

The historical relative outperformance of North America–focused funds has come despite North American portfolio companies largely having higher entry multiples (even though they have greater amounts of leverage). In our Alternatives in Europe 2024 report[11] we acknowledged that, overall, investors in North American buyout assets were rewarded for these risks. But as interest rates rose in 2022, the costs related to those risks came due, and the higher-priced, higher-levered North American asset returns felt the pressure, affecting fund performance.

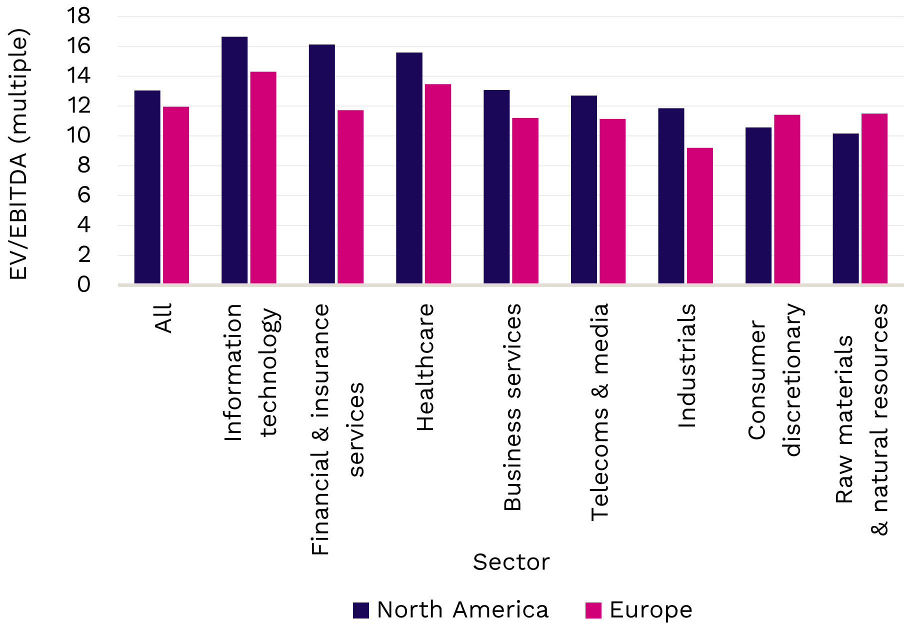
Deal valuations are still comparatively attractive in Europe based on our latest data. Deal entry multiples for almost every major economic sector in Europe were lower than their North American peers, presenting a potential opportunity for North American GPs to cross into the market. For buyout deals completed between 2022 and 2024, Preqin data shows that the median EV/EBITDA ratio for a European asset was 12x, compared with 13.1x for a deal done in North America (Fig. 3.3). Additionally, for the higher-valued IT, financial services, and healthcare sectors in particular, European entry multiples were at a notable discount to their North American counterparts, suggesting additional value could be found.

10 https://www.preqin.com/insights/research/reports/private-asset-valuations-evaluating-the-europe-discount

11 https://preqin.com/insights/research/reports/alternatives-in-europe-2024?chapter=bargain-hunting-in-europe

Fig. 3.3: European assets show attractive valuations

Median EV/EBITDA multiple for private equity buyouts at entry, by sector*



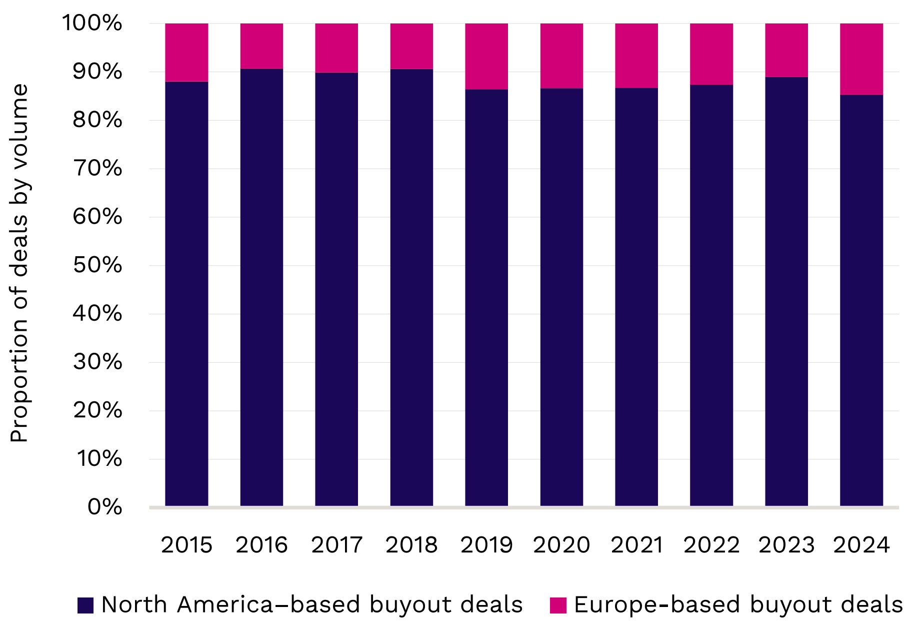
*Figures displayed represent averages across 2022–2024

Source: Preqin Pro, as of Q1 2025

North America–based buyout funds have been less active in European deals than European funds. North America–based private equity funds have only accounted for, or been involved in, an average of 13% of deals in Europe over the five years through 2024 (Fig. 3.4). Although North America's annual share of European buyout deals has slightly grown in recent years, it has not moved materially higher. European funds have likewise been involved in a small minority of buyouts in North America (5.1% on average between 2020 and 2024). It is difficult to fully account for global private equity

Fig. 3.4: North American buyout funds heavily favor regional deals

Regional distribution of buyout deals invested in by North America–based managers

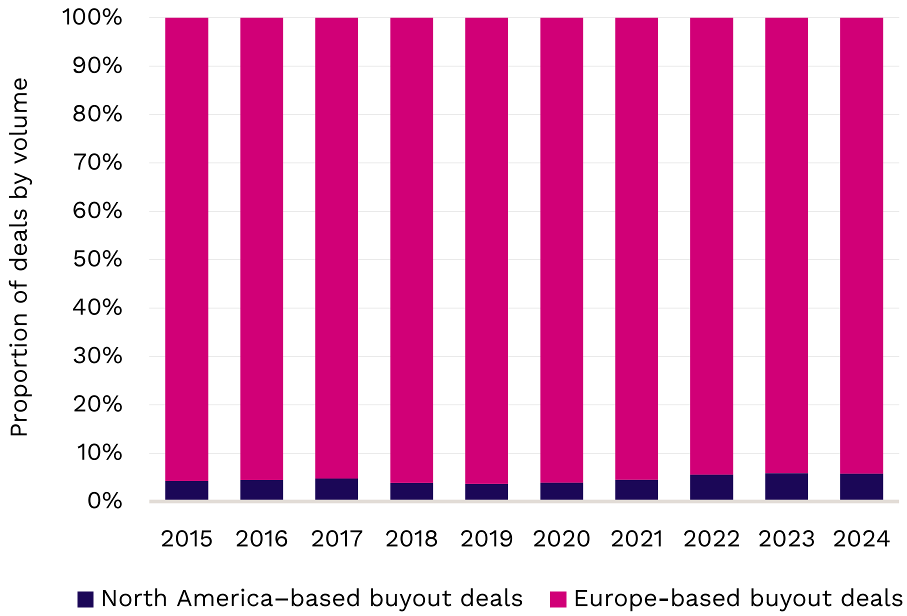


Source: Preqin Pro

funds with exposure to both regions in our data, but both trends point to clear regional delineations that remain historically sticky and present high barriers for funds looking at overseas options (Fig. 3.5).

Fig. 3.5: Likewise, European funds favor European deals

Regional distribution of buyout deals invested in by Europe-based managers



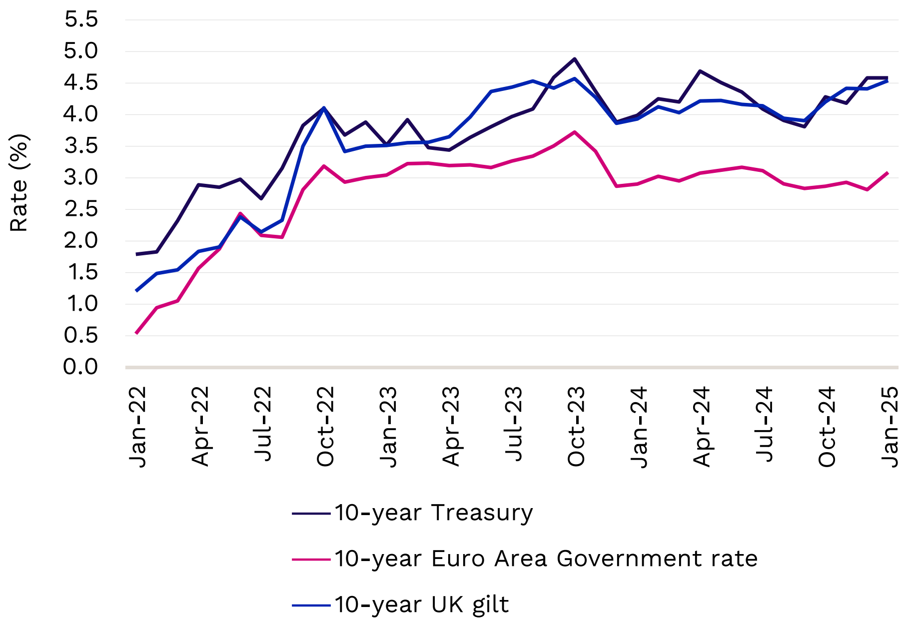
Source: Preqin Pro

North American funds face differences in Europe's investment landscape
For North America–based funds investing in European assets, some key differences between the two markets must be discussed. First is the size and volume of deals being done in each region. According to Preqin's deal data, buyout activity in North America exceeds that of Europe in terms of average deal size. Preqin's data for the past 10 years captures approximately 8,300 buyout deals completed by North America–based investors compared with 7,500 completed by Europe-based investors. For these transactions, the average buyout deal size was $528.5mn in North America vs. $256.2mn in Europe.

Second, in Europe (particularly the euro area) market economics look cautiously attractive. Currently, monetary policy in the EU appears to be moving independently from the US Fed. Even as the Fed lowered US base rates by a combined 100 basis points to an upper bound of 4.5% in the second half of 2024, the ECB lowered its benchmark rate to 2.75% in early 2025. While base rates loosely influence longer-tenured issues, 10-year government bond rates in both regions are also far apart, with the 10-year Euro Area Government bond yielding around 3.09% as of the end of January – 149 basis points lower than the 10-year Treasury's 4.58% yield for end January (Fig. 3.6). This suggests a lower cost of capital in Europe, even if borrowing levels overall are lower than in North America.

Fig. 3.6: US–Euro interest rate spreads favor borrowing in Europe

Month-end yield on 10-year government bond (nominal)

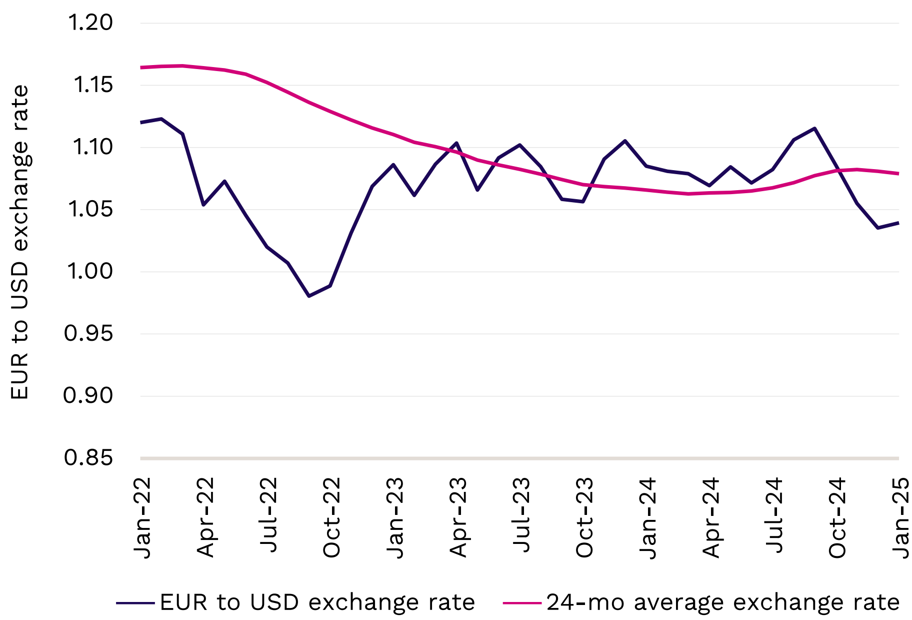


Source: Federal Reserve Bank of St. Louis, Bank of England

Finally, the dollar has strengthened against the euro. The current[12] exchange rate of $1.04, below the three-year average, makes investment from US funds into European assets slightly more attractive from a currency perspective (Fig. 3.7). This advantage would not only apply to traditional buyouts of private companies but also to the take-private of public companies in the region.

Fig. 3.7: EUR/USD exchange rates favor European investment

Month-end USD/EUR exchange rate, with rolling 24-month average



Source: S&P Capital IQ

12 As of February 18, 2025

The other side of the coin, however, is the subject of economic growth. GDP growth has been slow in the EU, the eurozone, and also the UK, especially when compared with US GDP growth. In 2024, gross domestic product rose 1.1% in the EU, 0.9% in the eurozone, and 0.8% in the UK. By contrast, the US economy rose 2.5% in 2024, near both its target rate and historical averages. This growth figure is – and will continue to be – a key factor in determining interest rate paths, risk premiums, and overall prospects of investments in each region. So even as European deal multiples appear attractive compared with North American private markets, the former region's sluggish economics threaten the prospect of higher multiples at exit. This is the same issue of multiple expansion that North American deals are facing. And while the interest rate and currency environments may look attractive on paper, there are good reasons why rates are low and the dollar is strong against the euro: slow growth in Europe and lower demand for regional output.

With these economic realities in mind, Preqin still expects North American buyouts to outperform European counterparts. In our most recent Future of Alternatives report,[13] we forecast that North American buyouts could deliver a 14.2% return to investors between end-2023 and 2029, vs. a 13.3% gain for the same strategy in Europe. These broad performance expectations favor North America, suggesting that finding opportunity in Europe will be more idiosyncratic – and perhaps more niche for funds looking to diversify portfolios to include European assets.

13 https://www.preqin.com/insights/research/reports/future-of-alternatives-2029

Venture capital: Exit outlook

Venture capital managers in North America are hopeful about a revived exit environment

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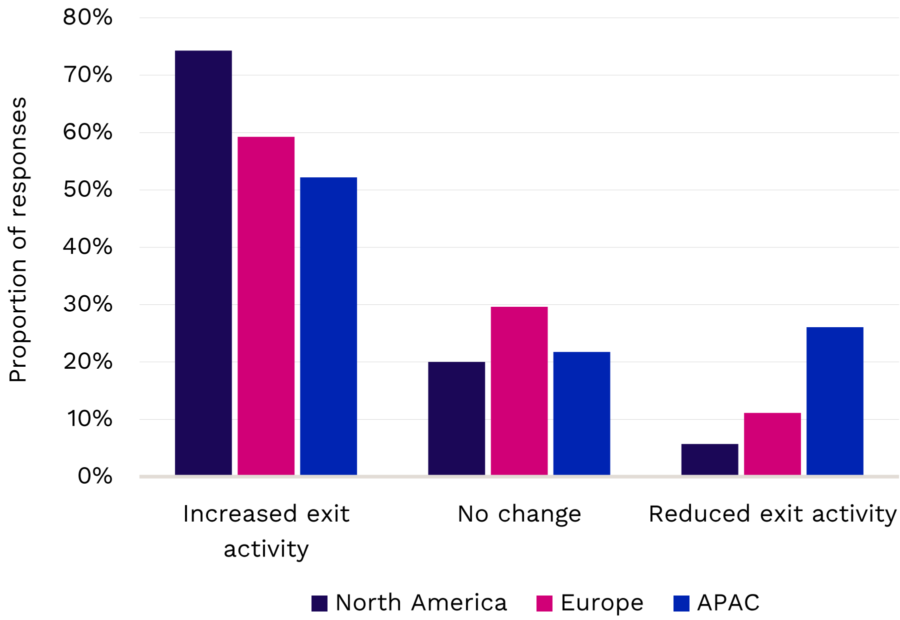
A slow exit environment has caused headaches for North America–based VC managers since 2022, but optimism has jumped for the year ahead. According to our Investor Survey in November 2024, around three quarters (74.3%) of North America–based VC fund managers expect exit activity to increase over the coming year – a significantly higher proportion than the corresponding figures for Europe (59%) or APAC (52%) (Fig. 4.1). Respondents based in North America expect to see increased exits though trade sales (62%) and IPOs (60%) (Fig. 4.2); in this latter category we see a considerably more positive outlook compared with the same survey at the end of 2023.

Fig. 4.1: North American venture capital managers optimistic on exits

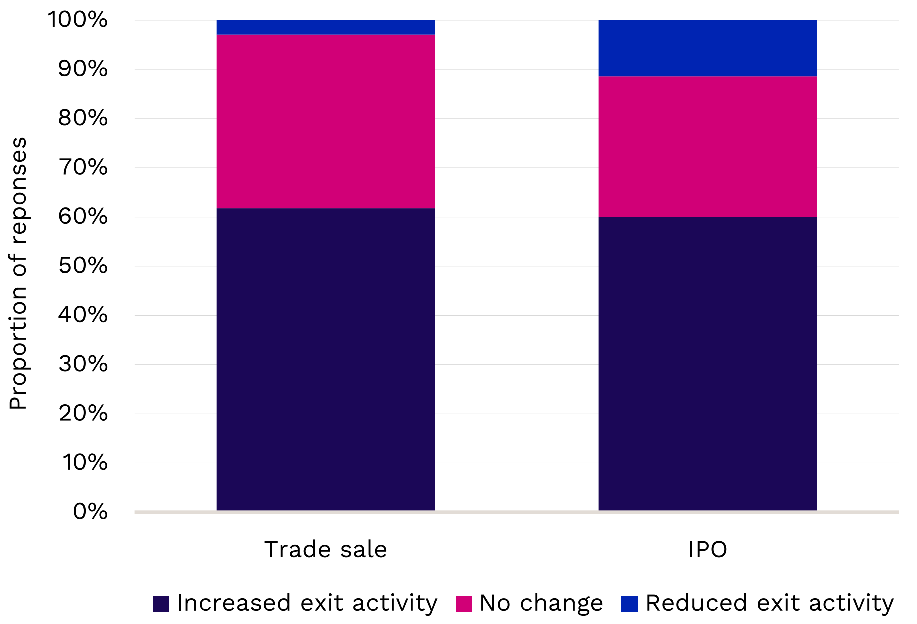
North American VC managers were asked: 'How do you think the exit environment will change over the next 12 months?'



Source: Preqin Investor Survey, November 2024

Fig. 4.2: North American venture capital managers see more IPOs and trade sales in 2025

North American VC managers were asked: 'How do you think the exit environment will change over the next 12 months?'

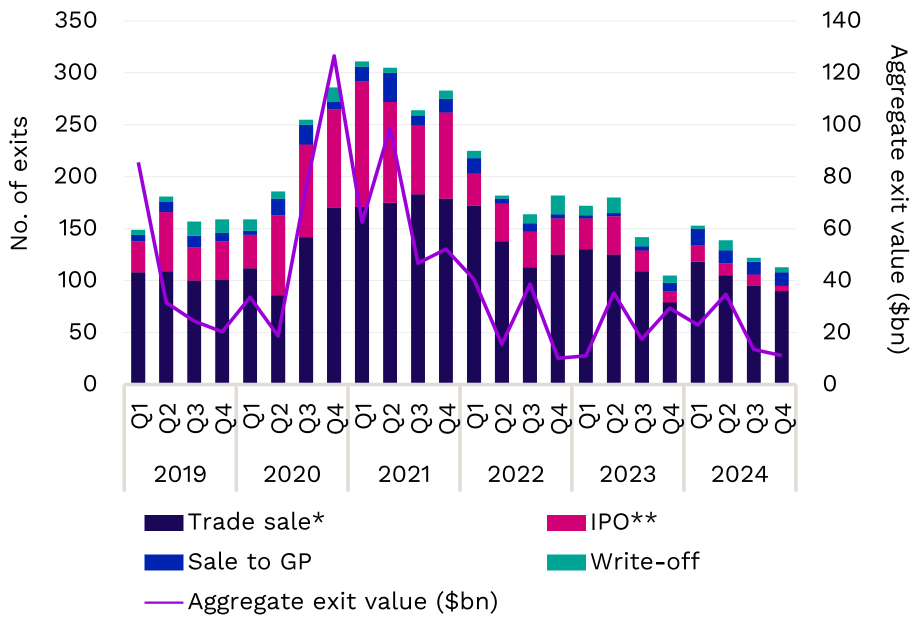


Source: Preqin Investor Survey, November 2024

VC exits have come off the peak of 2021, when they were supported by record low interest rates in the US, a buoyant equity market, and post-COVID optimism in the asset class. Exits since then have been held back by pessimism from rising interest rates and falling valuations, which has meant that we have seen fewer opportunities for exits. The 527 exits and $82.4bn aggregate exit value in 2024 remained below the five-year rolling averages for North American VC (Fig. 4.3), down 55% and 68%, respectively,

Fig. 4.3: Exits are below the five-year average

Number of VC-backed exits by type and aggregate exit value (North America)



*Includes mergers and sales to management
**Includes private placements

Source: Preqin Pro

from 2021. More recently, the 'higher for longer' rates now reflected in long-term US Treasuries means that investors now expect more from higher-risk asset classes such as VC (given the risk-free alternative provides a modest yield at the time of writing).

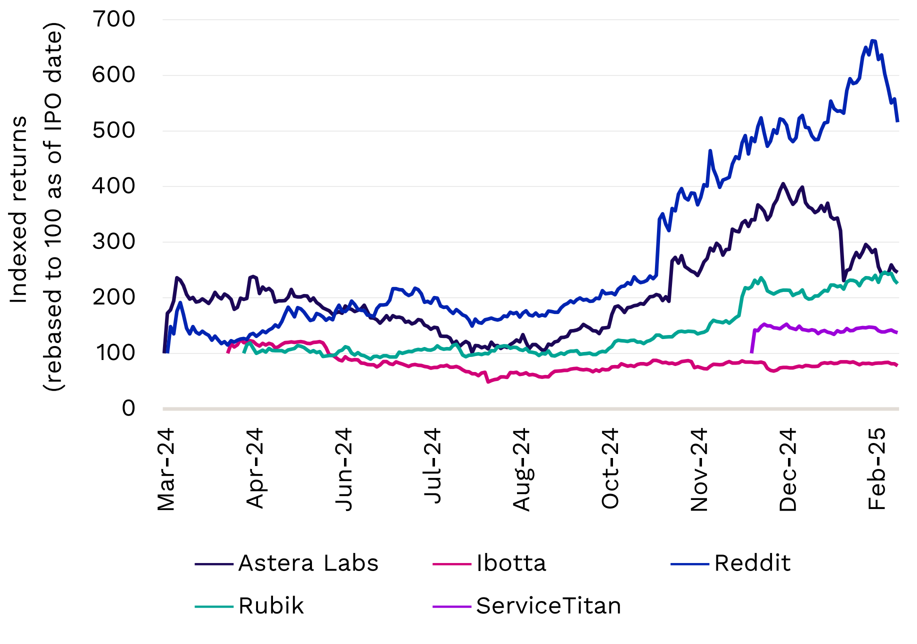
Pent-up demand for exits as large start-ups line up to test the water
Demand for exits has been building among investors waiting to receive distributions from their GPs and frustrated by the slower rate of exits in the current environment. We may begin to see some of this demand ease later in 2025 if conditions for exits continue to improve. Several larger start-ups have filed[14] (or indicated their intention to file[15]) for IPO in 2025, including Chime Financial,[16] CoreWeave,[17] Cerebras Systems,[18] and Hinge Health.[19] This is a promising sign, but we are yet to see a significant number of larger start-ups test the IPO window more recently; IPOs over $1bn in enterprise value are in the low single digits over the last three years.

If the IPO for ServiceTitan[20] is any indication, public markets may be receptive to large listings. ServiceTitan listed in December 2024 at a price of $71 per share, marked up from its original pricing range of $65–$67, but this valuation was still lower than the $84.60 per share recorded in its Series H funding round back in November 2022.[21]

Equity markets have generally remained friendly to larger VC-backed firms that completed an IPO in 2024; current pricing in most cases is holding above IPO valuations, which is promising for start-ups eyeing public markets (Fig. 4.4). If further rate cuts are realized by the US Federal Reserve in 2025 and these cuts flow through to favorable IPO pricing, GPs may consider the market environment in the latter half

Fig. 4.4: VC-backed IPOs generally remain above listing price

Five largest North American VC-backed IPOs in 2024



Source: Capital IQ

14 https://www.bloomberg.com/news/articles/2024-12-19/financial-startup-chime-submits-confidential-filing-for-ipo
15 https://www.reuters.com/technology/artificial-intelligence/coreweave-targets-valuation-over-35-billion-2025-us-ipo-sources-say-2024-11-22/
16 https://pro.preqin.com/asset/154813
17 https://pro.preqin.com/asset/453672
18 https://pro.preqin.com/asset/219545
19 https://pro.preqin.com/asset/240345
20 https://pro.preqin.com/asset/150148
21 https://pro.preqin.com/asset/150148/deals/764858/profile

of 2025 more conducive to exits. At the time of writing, CME FedWatch suggests there is a 50% chance of a 25-basis point cut in June,[22] and more rate cuts could follow later in the year.

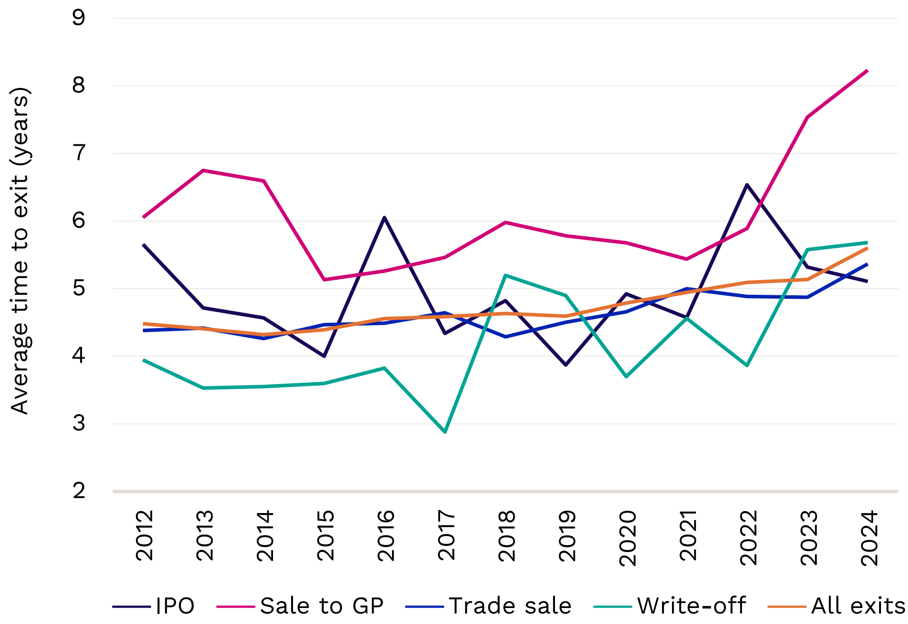
Start-ups are staying private for longer

Holding periods before exit have been increasing over the past decade for VC assets in North America, with the average time from first investment to exit increasing from 4.5 years in 2012 to 5.6 years in 2024 (Fig. 4.5).

As private markets have matured and grown, there has been more capital available

Fig. 4.5: Average time to exit increasing

North America VC exit horizons by type



Source: Preqin Pro

to pay for growth – annual VC fundraising grew 4.7-fold between 2010 and 2024, from $16bn to $75.6bn (see Fig. 1.8 in the Year in review chapter). This has allowed companies to stay private for longer, with a greater component of value creation now being captured within private markets; larger firms like Stripe, Databricks, Spacex, Anthropic, and OpenAI have been able to raise remarkable levels of capital to remain private.

The growing secondaries market for larger VC-backed start-ups has helped in relieving some of the exit-related pressure coming from investors and employee equity holders, but this secondaries growth may only delay the inevitable – investors' need for liquidity will eventually draw start-ups to public markets.

22 https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html

Distressed debt: Beyond cyclicality

Though a declining share of North American private debt, the long-term outlook for distressed debt is more positive

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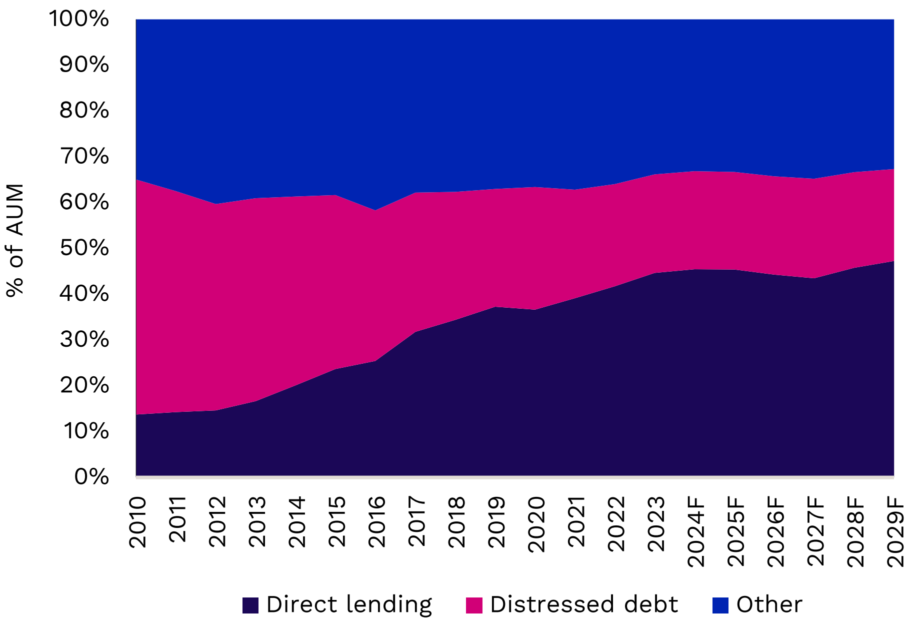
Distressed debt's market share in the North American private debt market has steadily declined over the past decade (Fig. 5.1). This can be attributed to multiple causes. First, the rapid growth of direct lending as an asset class is eroding the overall market share. This has little to do with distressed debt as a strategy by itself – it is more reflective of the popularity of direct lending and adjacent strategies.

Fig. 5.1: Distressed debt losing share of North American private debt

North America-focused private debt AUM by sub-strategy



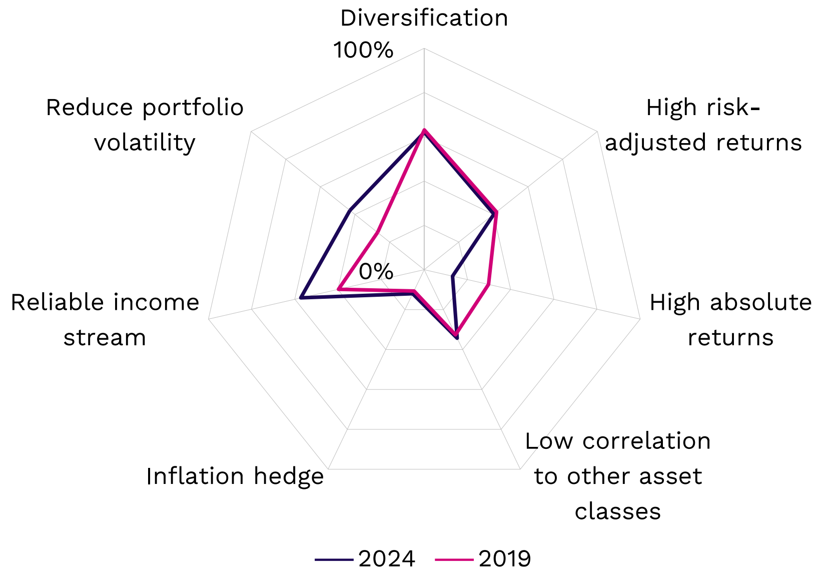
Source: Preqin Future of Alternatives. All figures are nominal

We have enhanced our methodology for calculating private capital assets under management – more information available on request

Second, there is a change in how LPs see their debt allocations, with more of a focus on income generation (Fig. 5.2). This is partly driven by the aforementioned availability of lending strategies. It is also part of the development of private markets. When surveyed by Preqin in 2019, only 40% of investors stated they invested in private debt funds for "reliable income streams". In our most recent survey, in November 2024, that figure was 57%. The share of investors looking to private debt to reduce portfolio volatility rose from 27% to 43%.

Fig. 5.2: Investors increasingly come to private debt for income

Investors were asked: 'What are your main reasons for investing in private debt?'

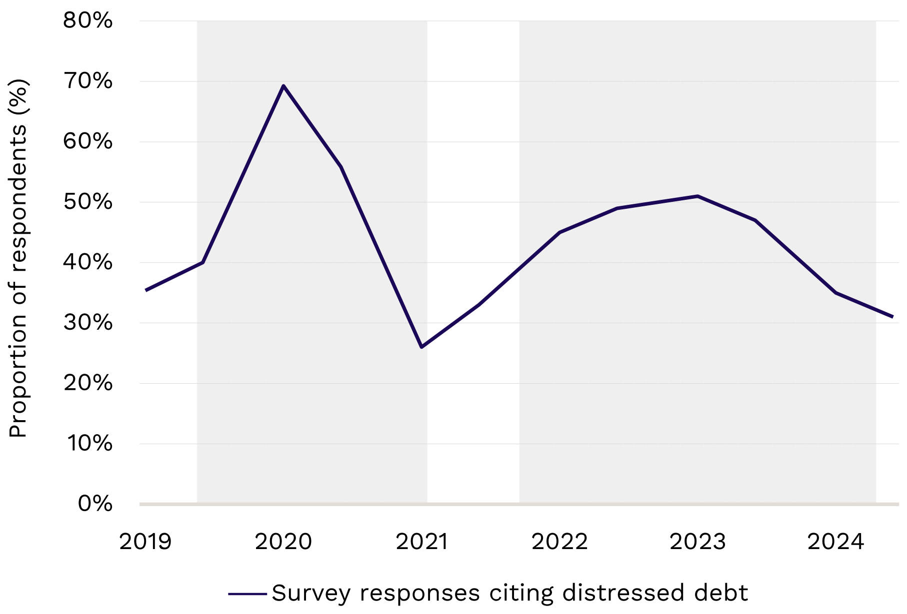


Source: Preqin Investor Surveys, November 2019 and 2024

Third, and perhaps most notably for distressed debt managers, has been the relative underperformance of the asset class as a whole from 2009 to 2019, relative to 2000 through 2008. Our data shows that North America-focused distressed debt funds had a median net IRR of 11.5% for the 2000 through 2008 vintages. From 2009 to 2019, the post-Crisis but pre-COVID period, median net IRRs fell to 9.8% (Fig. 5.4).

Fig. 5.3: Interest in distressed debt can fluctuate greatly based on economic circumstances*

Investors were asked: 'Which fund types present the best opportunities?'



Source: Preqin Investor Surveys, June 2019-November 2024

*Grayed out area indicates times of market stress: COVID-19 and interest rate hikes

Cyclical interest likely weighs on returns

The cyclicality of investor interest in distressed debt is an issue faced by fund managers. Our survey sees surges in interest around times of market stress. For example, LP interest spiked when COVID first emerged, as the share of respondents indicating interest in our June 2020 survey stating that distressed debt was one of the best opportunities in private debt rose to 69%, up from 40% in the November 2019 survey (Fig. 5.3).

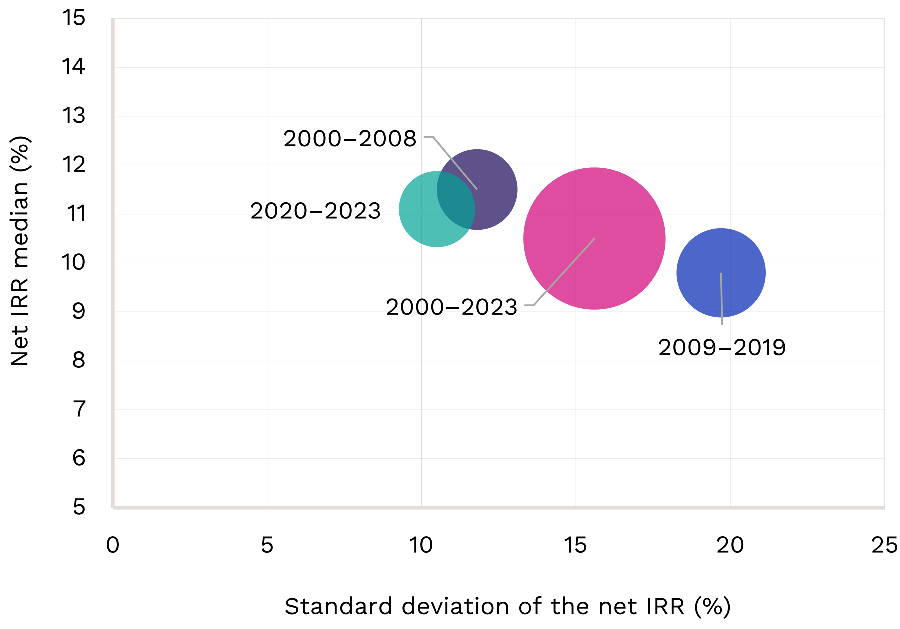
Turning LP interest into actual funds raised has proven quite difficult at times: investor interest does not always manifest in new fund commitments. While the COVID-19 shock to markets did end up manifesting in higher fundraising for North America-focused distressed debt funds, this coincided with a massive increase in fundraising across the board, making the impact hard to single out.

Poor performance in 2010s may be impacting distressed debt funds

Looking at risk-return data, we see that vintages in the aftermath of the GFC (2009-2019) show higher standard deviations and lower median IRRs than pre-Crisis funds (2000-2008) (Fig. 5.4). Our index tracking distressed debt returns shows a similar tempering of returns in the post-Crisis period. This can be explained by the low-rate environment and aggressive interventions in credit markets by central banks, who created many liquidity tools after the GFC and were more than willing to ramp up those facilities in the event of a shock.

Fig. 5.4: Distressed debt returns are higher in pre-GFC period

North America distressed debt median net IRR and standard deviation, by period



Source: Preqin Investor Surveys, June 2019-November 2024

As a strategy – across all funds rather than any individual fund – for distressed debt to perform, opportunities need to be abundant. However, with rates being set at extremely low levels in the US and the government intervening at the first signs of credit stress to avoid a repeat Crisis or upset a fragile recovery, the scope of opportunities in the US declined in the 2010s, only coming to an end with significant policy shifts around COVID's emergence. High yield bond spreads were extremely tight in this period, a reflection of the relatively low widescale credit risk that would underpin distressed returns.

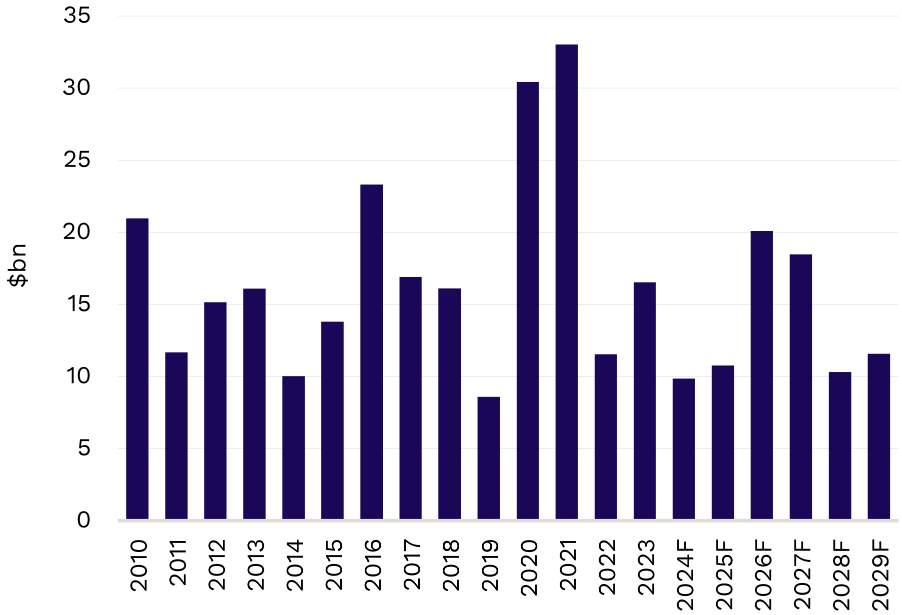
A higher interest rate regime, where central banks are more hesitant to intervene in markets, may open the door to more return potential for distressed debt funds.

North American distressed debt remains an important strategy

Though inconsistent returns and oscillating LP interest combine to create challenges for distressed debt managers, the strategy remains key in the North American asset mix, representing over 20% of private debt assets, compared to 12% in Europe as of end-2023. Our Future of Alternatives[23] forecasts for distressed debt fundraising show an average $14.2bn in fundraising per year from 2025 through 2029, down from $20bn from 2019 to 2023. Though this is a decline in fundraising for North American distressed debt funds, it is still relatively in line with pre-COVID levels, which averaged $15.7bn per year from 2015 to 2019 (Fig. 5.5).

Fig. 5.5: Distressed debt fundraising forecast to grow

North American private debt historical and forecast fundraising for distressed debt



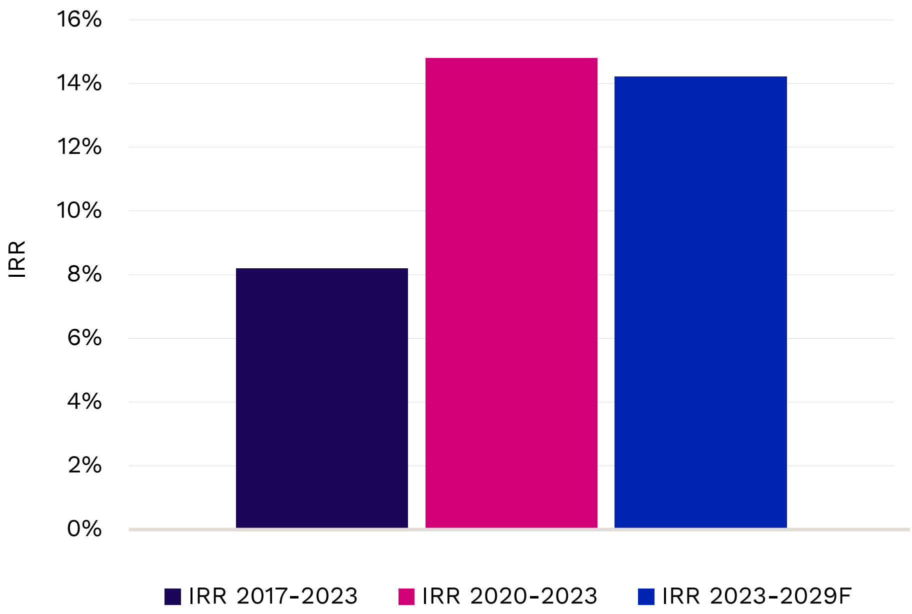
Source: Preqin Future of Alternatives 2029

Further, we expect returns to improve compared to the 2010s. Economic and market conditions should be more supportive of the strategy in North America in the coming years, which helps support the return outlook (Fig. 5.6). With inflation a concern, central banks may be more hesitant to intervene aggressively, especially if growth remains robust, as it has been in the United States. Further, fiscal constraints may limit the scope of fiscal interventions. Both factors then combine to suggest that policy actors may be more tolerant of corporate credit stress in the coming years than through the 2010s.

23 https://www.preqin.com/insights/research/reports/future-of-alternatives-2029

Fig. 5.6: Return pickup expected through our forecast period

North American private debt historical and forecast performance* for distressed debt



Source: Preqin Future of Alternatives 2029. All figures are nominal

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

On the whole, distressed debt is becoming a slightly smaller part of North America's private debt mix, though it remains a crucial part of the overall market. Further, the return outlook over the coming years seems to be somewhat brighter than in the post-Crisis but pre-COVID period.

Private wealth: Sizing the market

An analysis of the Federal Reserve's distributed financial accounts sheds light on the size and structure of the current private wealth investor segment in the US

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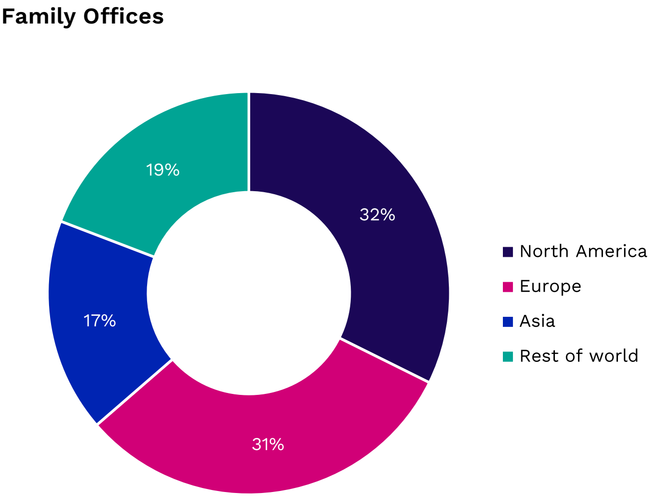
Fundraising efforts are increasingly focused on private wealth investors, but challenges remain in identifying and addressing this segment across different regions. North America remains the region that holds the greatest proportion of private wealth LPs, and this is more evident for wealth managers than family offices. When it comes to wealth managers, 71% are in North America, followed by 14% in Europe, 8% in Asia, and 7% in the rest of the world (RoW) (Fig. 6.1). In the case of North America, despite housing some of the larger wealth managers with over $500bn in AUM, it is a market dominated by smaller managers that allocate varying amounts to alternatives.[24] The global dispersion of family offices is not as concentrated within North America: 32% are in North America, followed by 31% in Europe, 17% in Asia, and 19% in RoW.

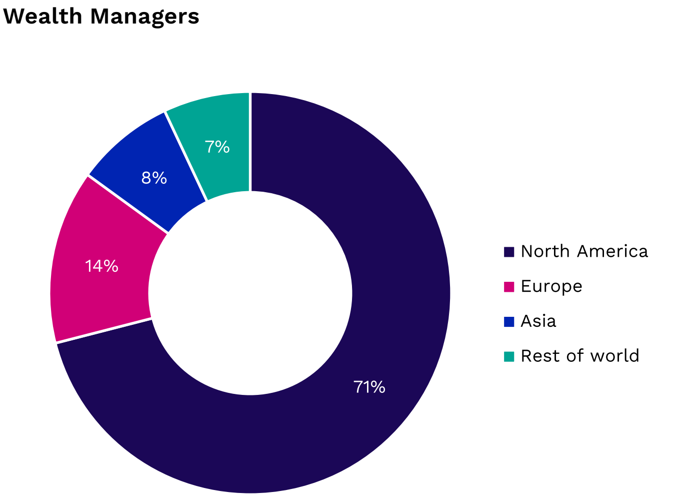
Assets owned by private wealth holders in the United States reached $179.37tn in Q3 2024, growing 11% since Q3 2023. This growth is driven by assets held by Americans on the top end of the socioeconomic spectrum, with the assets of the *wealthiest*[25] individuals increasing 16% from $19.29tn in Q3 2023 to $22.33tn in Q3 2024. *High wealth*[26] individuals saw asset growth of 14% from $24.33tn to $27.84tn, and the remaining *wealthy*[27] individuals saw asset growth of 11% from $55.81tn to $62.19tn (Fig. 6.2). Our three wealth categories, which represent the top 10% wealthiest Americans, now hold 63% of the private wealth assets in the country.

24 https://www.preqin.com/insights/research/reports/fundraising-from-private-wealth-2024-a-guide-to-raising-capital
25 Referring to the top 0.1% of Americans
26 Referring to the top 1% of Americans, excluding the top 0.1%
27 Referring to the top 10% of Americans, excluding the top 1%

Fig. 6.1: North America is home to the most wealth managers in alternatives

Proportion of global wealth managers and family offices active in alternatives by region according to Preqin

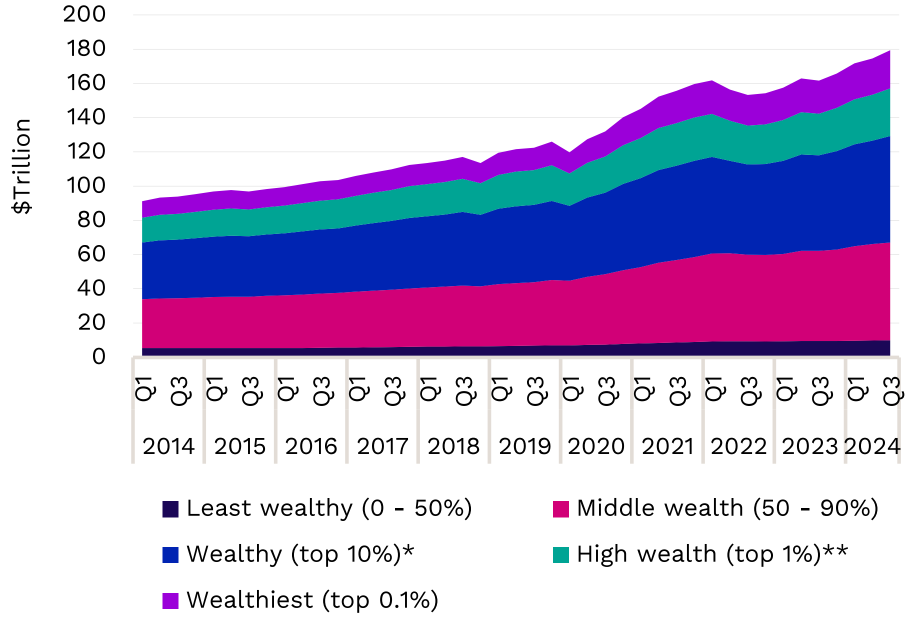




Source: Preqin, January 2025

Fig. 6.2: Wealthiest North Americans drive total assets to US$180tn

US household wealth since 2014, by wealth segment



* *Wealthy* 10% excludes the top 1%
** *High wealth* 1% excludes the top 0.1%

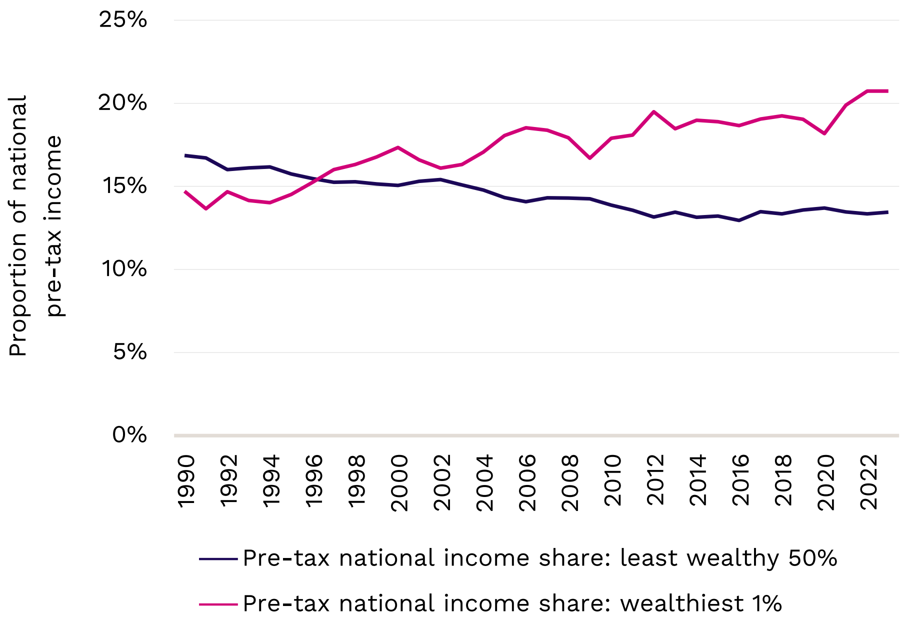
Source: US Federal Reserve DFA, February 2025

Liquidity lies with the wealthiest Americans

Wealth concentration in the United States remains considerable and is expected to persist, given current income distribution trends. In the late 1990s, the proportion of pre-tax income held by the wealthiest and high wealth Americans surpassed the proportion of pre-tax income held by the bottom 50% of Americans. This intensified in 2022 when the proportion of pre-tax income held by the wealthiest and high wealth Americans surpassed 20% and stayed at this level into 2023 (Fig. 6.3).

Fig. 6.3: US income distribution gap widens

Share of pre-tax national income for the wealthiest and least wealthy Americans

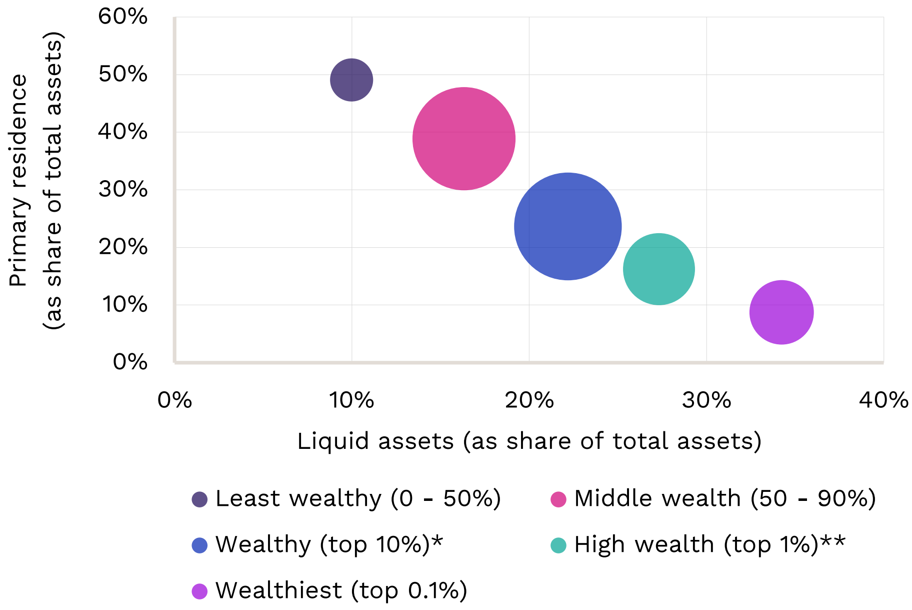


Source: World Inequality Database (WID), February 2025

As individuals move up the wealth spectrum, indicators of their allocation trends show a favoring of liquid and financial asset. For wealthy Americans, at least 22% of their assets are highly liquid (Fig. 6.4). This highlights a large pool of liquid capital held by this group, with cash equivalents of $11.20tn and $40.64tn in corporate equities and mutual fund shares (Fig. 6.4). The bottom 50% of Americans hold just under $1tn, 10% of their assets, in liquid form, showing a clear distinction between the assets of the most and least wealthy.

Fig. 6.4: More liquid assets held by the wealthy

Proportion of liquid assets and real estate (primary residence) assets, by wealth demographic (Q3 2024)



Source: US Federal Reserve DFA, February 2025

* *Wealthy* 10% excludes the top 1%
** *High wealth* 1% excludes the top 0.1%
***Includes only: deposits, money market funds, debt securities, corporate equities and mutual fund shares

The top 10% of Americans by wealth hold a smaller proportion of their wealth in their primary residence, due to their larger share of investable assets. This group of Americans hold approximately $29tn in deposits, money market funds, debt securities, and corporate equities and mutual funds as of Q3 2024. Included within the equities figure are assets held in Individual Retirement Accounts (IRAs), which cannot currently be invested in private markets. This could change, as some private equity firms, as of January 2025, are preparing to lobby within the US to allow this portion of liquid assets to be invested.[28] These assets combined underscore the substantial pool of potentially deployable wealth in the United States.

A reflection of US household asset distribution

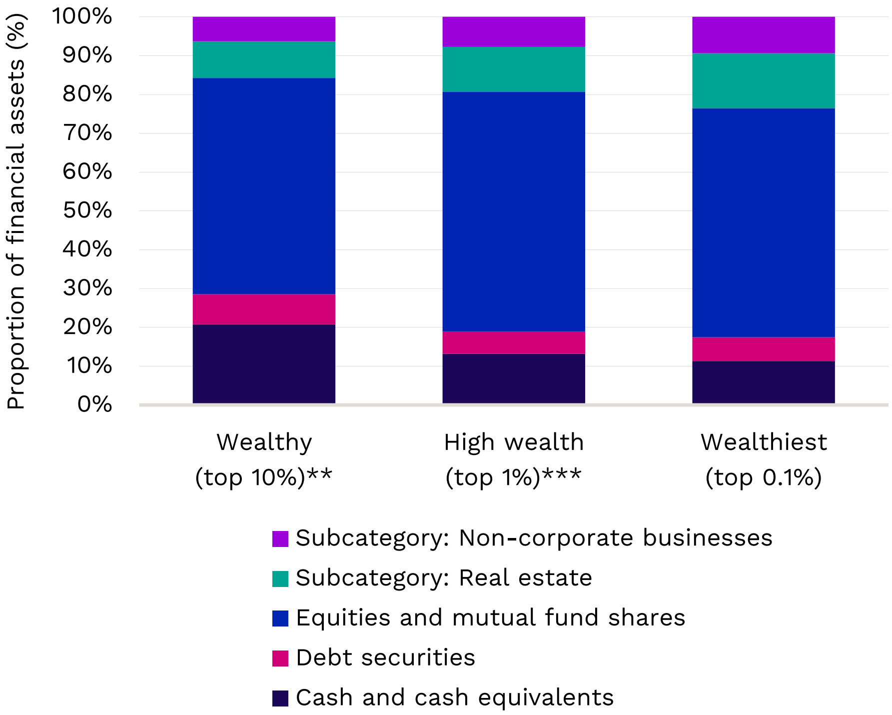
Using the Federal Reserve's (Fed's) distributed financial accounts as an estimate for the asset allocations of wealthy Americans is now achievable with the Distributed Financial Accounts' (DFA's) updated categorizations, although this analysis is not without some challenges. Removing pension contributions, life insurance reserves, and annuities from the financial assets number can give a proxy of the assets outside of pension plans and insurance annuities, helping provide a potential estimate of wealth by socioeconomic group.

28 https://www.ft.com/content/dddd1752-789a-40b6-9aa8-d7cf6f408c81

Within the group of wealthy Americans, there is a shift away from cash and cash equivalents as wealth increases (Fig. 6.5). The wealthiest Americans hold a greater proportion of their assets in alternatives[29] than all other wealth groups, 60% of which is real estate investments (non-primary residences) and the other 40% of which is non-publicly traded businesses held by these households. This figure is the best representation of asset distribution towards alternatives using the data provided by the DFA.

Fig. 6.5: The wealthiest Americans hold the most in alternatives

Allocation of financial assets* for the *wealthy, high wealth*, and *wealthiest* demographics



Source: US Fed DFA, Feb 2025

*Removed pensions, life insurance, loans, and annuities from the Fed's financial assets number
** *Wealthy* 10% excludes the top 1%
*** *High wealth* 1% excludes the top 0.1%

For the wealthiest Americans, their assets held in alternatives fell 4%, from roughly $4.58tn in Q3 of 2023 to $4.38tn in Q3 of 2024. Within the non-corporate business allocation, roughly 60% is held in rental real estate, which has seen rising yields.[30] Conversely, the value of the wealthiest's assets held in equities grew 32% from $8.33tn in Q3 2023 to $11.01tn in Q3 2024, in line with the percent change of the S&P 500 over that period. The growth of public equities in line with public market returns shows that there have been potentially few outflows from public equity assets to private markets, indicating a still somewhat untapped pool of capital for GPs to approach.

Wealth transfers on the horizon

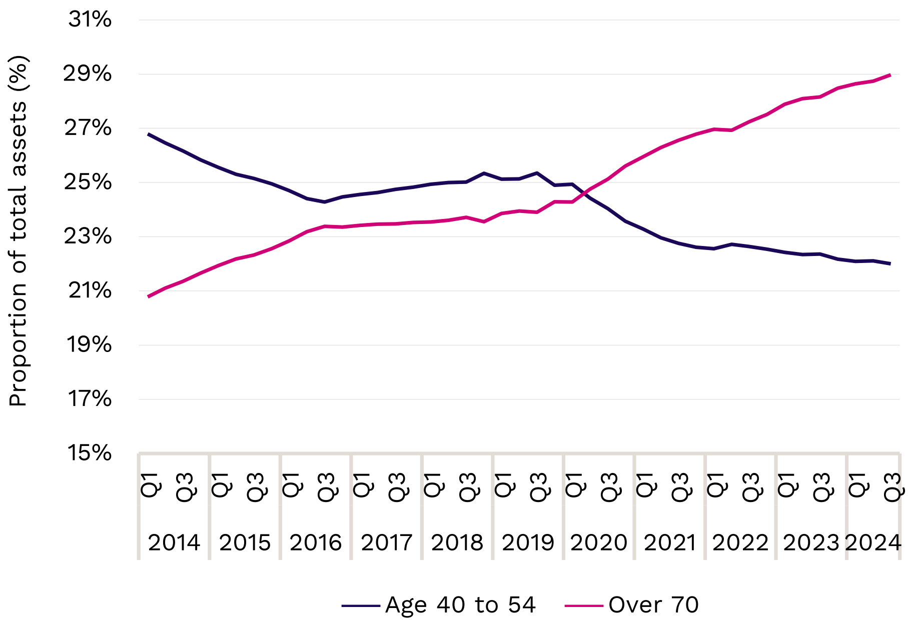
The transfer of larger pockets of wealth within the US from older to younger generations helps us understand the trajectory of private wealth holders' assets. Bifurcation of private wealth distribution by age group has been evident in recent history, but has narrowed since Q2 2020, when those aged over 70 began to hold a greater share of assets than those aged 40 to 54. The gap in assets between these two groups has only widened, and in Q3 2024 those aged over 70 held approximately $52.01tn in assets compared to the $39.46tn held by those aged 40 to 54 (Fig. 6.6).

29 https://www.nber.org/system/files/chapters/c14456/c14456.pdf

30 https://www.americamortgages.com/the-average-rental-yield-in-the-u-s-is/

Fig. 6.6: Oldest Americans now hold more wealth

Proportion of US private wealth assets held by age demographic

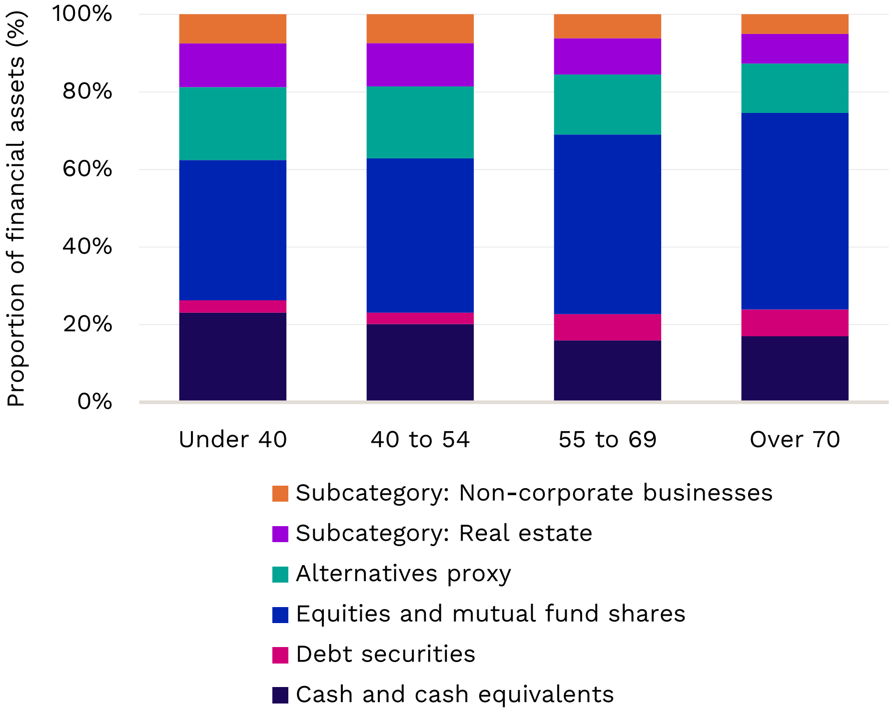


Source: US Fed DFA, Feb 2025

As this wealth is inherited by younger generations, there are greater signs of diversification. When looking at the DFA, those under 40 and aged 40 to 54 both hold 23% of their assets in non-corporate businesses and real estate (not including their primary residence), compared to 18% of financial assets for those aged 55 to 69 and 15% for those over 70 (Fig. 6.7). A Bank of America study of their high-net-worth clients found a similar trend, where those aged 21-43 allocated 17% towards alternatives compared to 5% for those over 44. Although the younger generations hold a smaller portion of wealth, the ability of GPs to educate and involve this generation could help shape how they invest the assets they inherit.

Fig. 6.7: Younger Americans have a greater proportion of wealth in cash and alternatives

Proportion of financial wealth* by age



Source: US Fed DFA, Feb 2025

*Removed pensions, life insurance, loans and annuities from the Fed's financial assets number

Fees & terms: Power dynamics

Investor sentiment surges as management fees in North America private equity funds are lower than other regions

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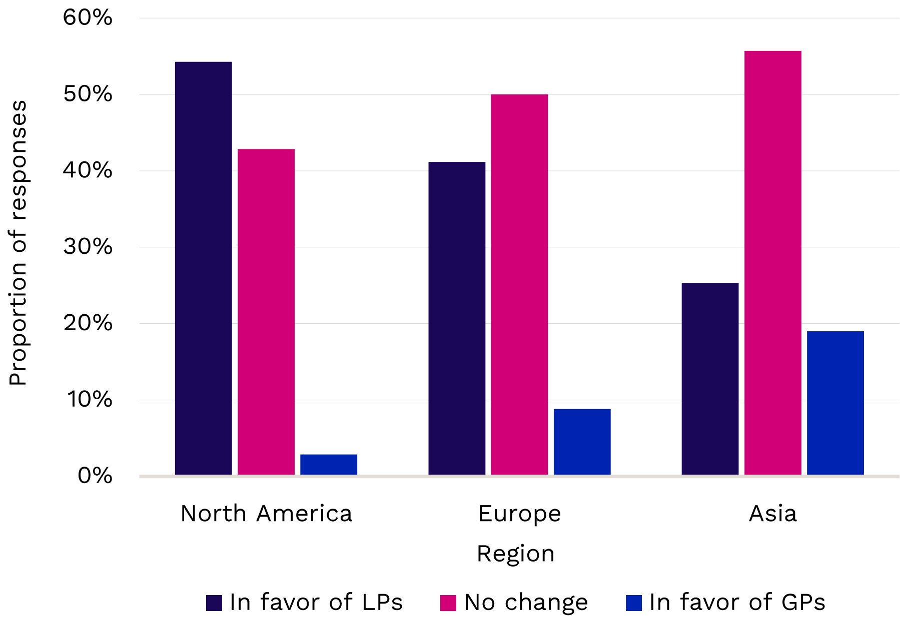
North American private market investors believe they in a good place right now.[31] Over half believe that fees and fund terms are strongly in their favor, according to our latest survey. This is a higher proportion than in any other region and is a welcome development for LPs, as the negotiating table has historically favored GPs.

According to North America–based investors, terms developments over the 12 months ending November 2024 were strongly in favor of LPs. Fifty-four percent of North America–based respondents agreed that terms moved in LPs' favor, a greater proportion than was reported for any other major region (Fig. 7.1). Conversely, 3% of North America investors (a lower proportion than any other region) reported terms moving in favor of GPs.

Fig. 7.1: North America reported the most LP-favorable changes of major regions

Investors were asked: 'How have terms changed in the past 12 months?'



Source: Preqin Investor Survey, November 2024

Investors in North America funds have historically had cause for celebration. From end-2017 to end-2023, net IRR for North America private equity was 17.24%,[32] ahead of Europe (+14.78%) and APAC (+11.22%). However, this lead is forecast to narrow significantly over the horizon 2023–2029F.

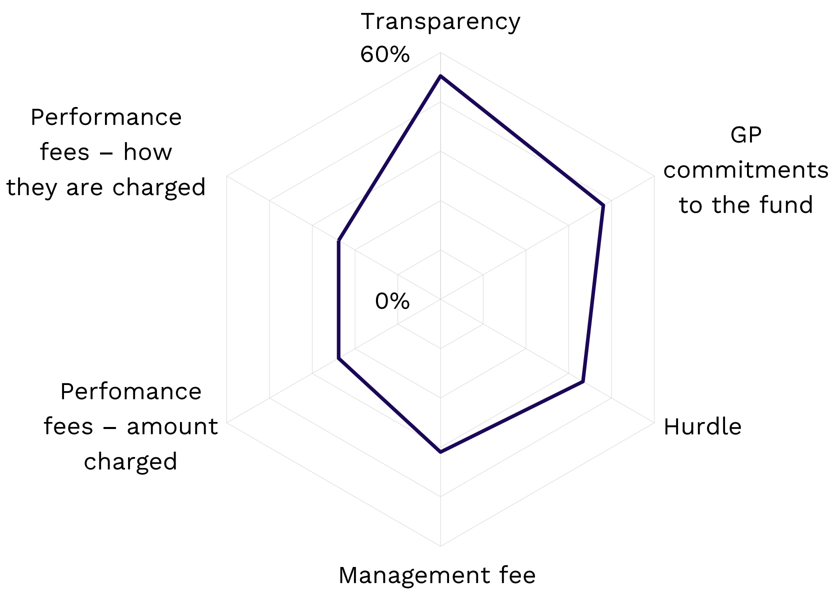
31 In this report, "North America(n) investors" refers to survey respondents based in North America. These respondents may be investing either in North America–focused funds or in funds targeting markets outside North America

32 https://www.preqin.com/insights/research/reports/future-of-alternatives-2029

As to their wish list for changes in LP–GP relations, North American investors ranked transparency and GP commitment to the fund as their top two priorities (Fig. 7.2). This could mean LPs in North America will prioritize negotiating for more disclosures in reporting (such as performance metrics with and without the use of leverage and clearer fee and expense details[33]) as well as larger GP cash commitments to demonstrate GP 'skin in the game.' LPs could use the next two years as a window of opportunity to make negotiating gains;[34] if fundraising turns around as forecast in 2027,[35] the balance may start to swing back towards GPs.

Fig. 7.2: North America investors seek improvements to transparency and GP commitments

Investors were asked: 'Where can terms improve?'



Source: Preqin Investor Survey, November 2024

Management fee rates most LP-favorable in North America

As a priority for improvement, management fees ranked fourth out of six for North America respondents. Mean management fee rates for vintage 2024 funds declined across most asset classes.[36] We note that relative fee rates within a strategy rise and fall in relation to fund size – small and mega funds have the lowest fee rates, while mid-sized and large funds generally have higher fees.

For vintages 2020 through 2023, the mean management fee rate (+1.80%) charged by North America private equity funds was lower than the corresponding rates in Europe and Asia (1.83% and 1.86%, respectively). However, the median management fee was consistent across the three regions, at 2.00%.

33 See, for example, ILPA's updated reporting template – https://ilpa.org/news/ilpa-releases-updated-reporting-template-and-new-performance-template-for-industry-adoption/

34 https://www.preqin.com/insights/research/research-notes/where-lps-are-gaining-on-fund-terms

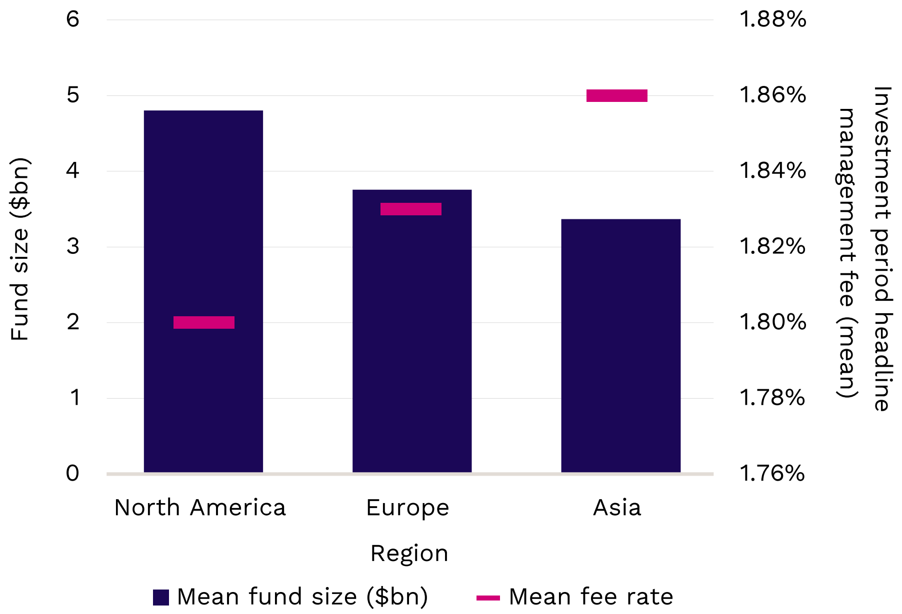
35 https://www.preqin.com/insights/research/reports/future-of-alternatives-2029

36 https://www.preqin.com/insights/research/reports/the-2024-preqin-private-capital-fund-terms-advisor

To make sense of this, we examine mean and median fund sizes in the context of economies of scale. North America private equity funds of vintages 2020–2023 had the largest mean fund size ($4.8bn), nearly 30% larger than their Europe-based ($3.76bn) and over 40% larger than their Asia-based ($3.37bn) counterparts (Fig 7.3a). The larger fund size provides a larger base from which to draw fees. Across asset classes, the largest funds are associated with lower fee rates.[37]

Fig. 7.3a: North America mean management fee rate is lowest while fund size is largest

Mean private equity management fee rate and fund size by region (for vintages 2020–2023)



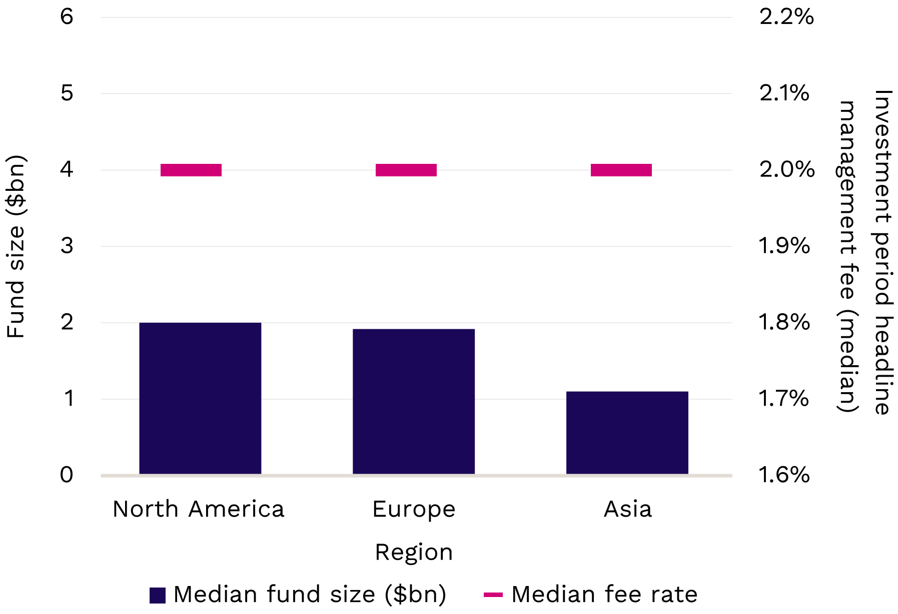
Source: Term Intelligence, February 2025

While the mean figures can be eye-catching, the median figures provide important color. The median fund size for North America was similar to that of Europe ($2.00bn and $1.92bn, respectively), meaning the economics of the 2.00% median fee rate were comparable (Fig 7.3b). An investor in a median-sized fund could generally expect to see the 2.00% headline rate before discounts.

37 https://www.preqin.com/insights/research/reports/the-2024-preqin-private-capital-fund-terms-advisor

Fig. 7.3b: Median is close across geographies

Median private equity management fee rate and fund size by region (for vintages 2020–2023)



Source: Term Intelligence, February 2025

Generally, there are two types of discounts available in limited partnership agreements (LPAs): early investor and large-commitment discounts. Early investor discounts were largest in North America, at 13 basis points (bps), but were far from common; they were found in only 10% of North America LPAs, which is slightly rarer than in Asia LPAs (11%) but far outpaces their incidence in Europe (6%) (see Fig. 7.8 in the data pack). Similarly,

Fig. 7.4: Large-commitment discounts in North America moderate, but behind those offered in Asia

Large-commitment management fee discounts* in private equity by region

Source: Term Intelligence, February 2025

*For management fee discounts related to commitment size, there are often tiers. Aside from the headline rate, there can be one or more levels (tiers) of discount, with each successive level corresponding to both a higher check size and higher fee discount in basis points large-commitment discounts were found more frequently in North American private equity LPAs (16%) than in their European counterparts (4%). For the largest check sizes, discounts in North American LPAs were typically more generous in terms of bps than European LPAs (Fig. 7.4).

Discounts are typically found in the largest fund sizes. North America–based private equity funds offering either type of discount had a median size of $4.75bn, whereas those that did not offer either discount had a median size of $2.60bn. As mega fund sizes have increased, these funds' economics allow not only lower headline fees but also a greater likelihood of discounts. This phenomenon has been observed in other asset classes, too.

North American funds are less favorable to LPs on waterfall style, but larger managers offer additional layers of protection

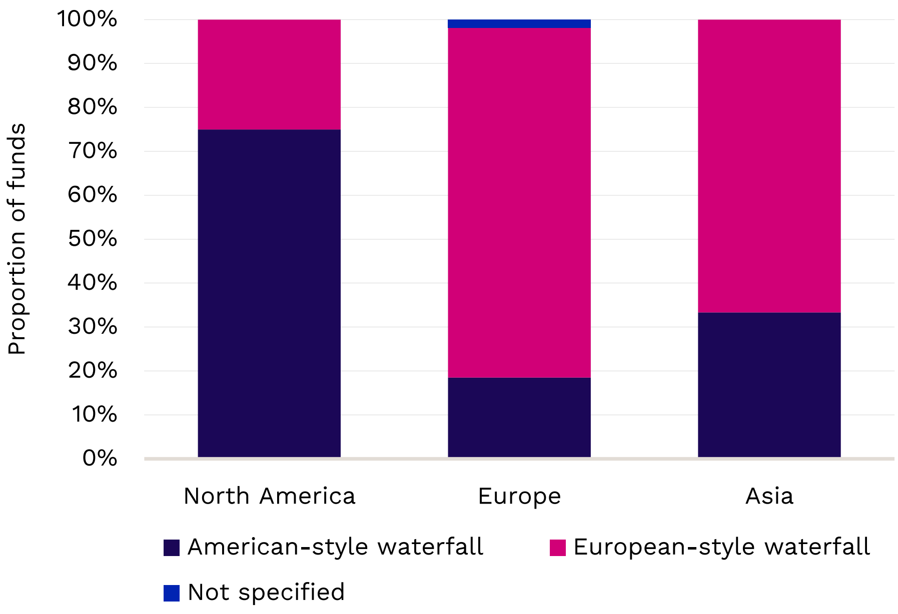
In contrast to management fee rates, performance fees are not dynamic over time or across geographies. While there are differences in hurdle and carry rates by strategy, hurdle and carry rates for a given strategy have little variation between regions. Given the nature of upside in GP performance fees, GPs have historically been less flexible on negotiating carry terms. As such, terms here are considered GP-favorable.

Looking specifically at private equity, performance fees are remarkably similar across geographies, with an 8% hurdle, 20% carry fee, and 100% GP catch-up generally the rule. However, a more nuanced picture emerges when we examine waterfall mechanics, such as waterfall type, escrow incidence, and interim clawback provisions. There are regional differences in these terms that have a considerable effect on the economics of waterfalls.

North America–based private equity funds overwhelmingly (75% of funds) favor an American-style waterfall, while Europe private equity funds show a strong preference (80% of funds) for a European-style waterfall (Fig. 7.5). In an American-style waterfall, carry is calculated on each deal individually rather than the portfolio as a whole. As such, carry could be taken on a few strongly performing deals despite an overall poorly performing portfolio – this arrangement is considered GP-friendly. These terms have been the hallmark of waterfall terms in North America since our records began and are unlikely to change.

Fig. 7.5: North America leads in American-style waterfall incidence

Waterfall style in private equity by region (for vintages 2020–2023)



Source: Term Intelligence, February 2025

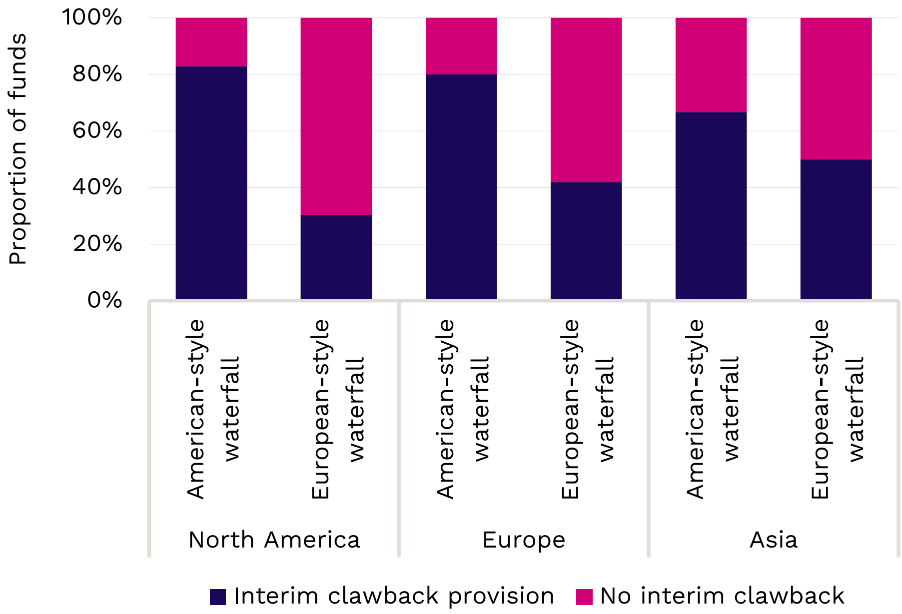
Two terms – escrow and interim clawback – can serve as investor protections in both American- and European-style waterfalls.

In 30% of North America private equity funds with an American-style waterfall, carry is held in escrow before being paid out. However, this investor protection mechanism is not found in any of the North America funds offering a European-style waterfall in our data sample. Other regions are more likely to offer this investor protection regardless of the waterfall style.

North America private equity funds with American-style waterfalls lead in interim clawback provisions (83%) (Fig. 7.6). This investor protection can balance the GP-friendly nature of the American-style waterfall.

Fig. 7.6: In North America, interim clawback more likely in American-style waterfalls than European-style waterfalls

Interim clawback incidence in private equity by waterfall style and region (for vintages 2020–2023)



Source: Term Intelligence, February 2025

As it does in management fees, fund size plays an interesting role in waterfall styles. Across regions, larger funds are more likely to have an American-style waterfall than a European-style waterfall. Likewise, escrow provisions are more likely to be found in larger funds. Larger funds are associated with more established GPs with strong track records, which can give them power to set fund terms. The strong track record attracts sophisticated institutional investors who, in turn, are likely to demand investor protections.

North America lags on GP removal terms

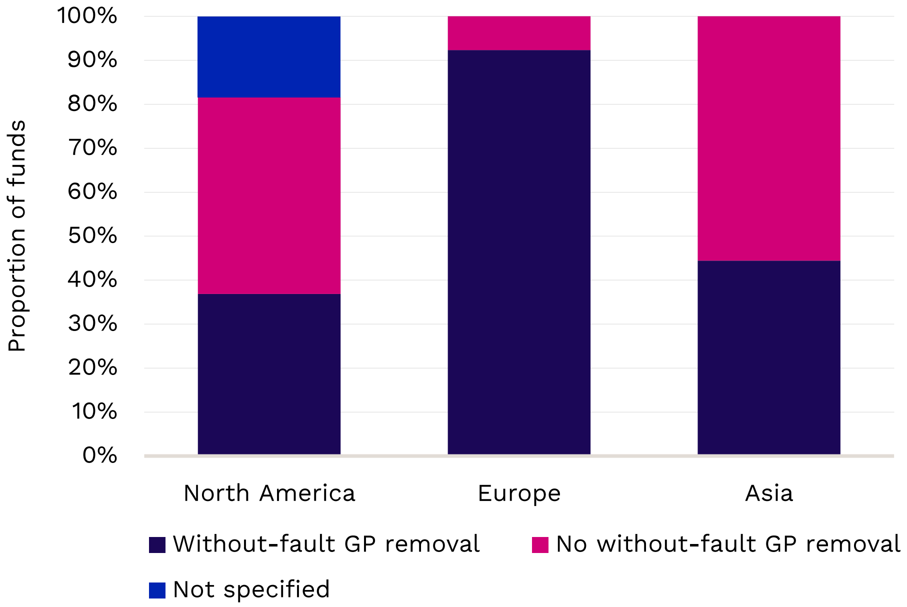
GP removal terms plus waterfall terms have largely painted a GP-friendly picture in North America, but there is scope for change – predominantly in the former. Although North America leads on historical performance, it lags other regions on at least two governance terms: for-cause GP removal and without-cause GP removal.

In for-cause GP removal, a GP can be removed for a breach of conduct such as a felony related to financial misconduct. The voting threshold for this provision to be exercised is at least 50% of LP interests. In North America, 79% of funds offer this provision, behind Asia (89%) and Europe (85%), making North America a more GP-friendly geography.

Another LP protection, the without-cause GP removal, is considered more theoretical; it is rarely exercised and considered more of a barometer for a fund's governance terms. Under this provision, a GP can be removed for any or no reason. North America funds contained the provision in 37% of LPAs, compared with 92% in Europe and 44% in Asia (Fig. 7.7).

Fig. 7.7: Without-cause GP removal provisions rare in North America

Without-cause GP removal provisions in private markets by region (for vintages 2020–2023)



Source: Term Intelligence, February 2025

Large tickets in North America funds receive best terms from largest North America–based GPs

The next two years are set to be golden for LPs seeking better terms in North America and beyond. In 2025 and 2026, in response to fundraising headwinds, we could see more North America GPs offering LP-friendly terms such as lower management fee rates, higher discounts, escrow, interim clawback, and without-fault GP removal.

Negotiating power may be tipping (or have tipped) in favor of LPs, but the largest North America–based GPs remain in the best position relative to their competitors; their economies of scale allow them to offer the most competitive management fees and discounts while maintaining GP-favorable carry terms. In response, and given mega funds' inherent fundraising advantage, the adoption of LP-friendly terms could become more widespread among small- to mid-sized GPs competing more intensely for capital.

However, the American-style waterfall is likely to prove more sticky; GPs have historically stood their ground on performance fees, and the Investor Survey results reveal that investors consider improvements to performance fee terms a relatively low priority. LPs should also be aware that, after the next two golden years, their position could lose its luster.

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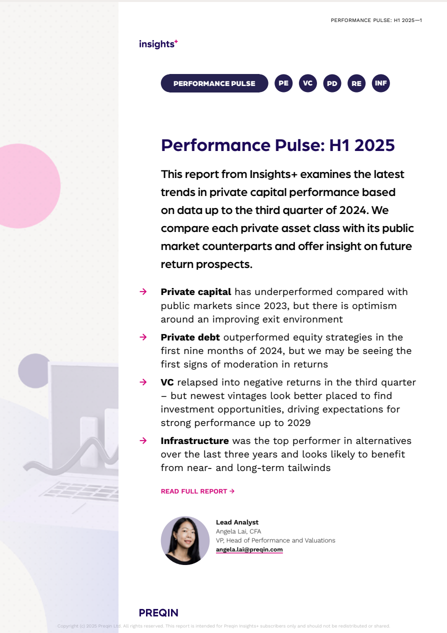

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This report from Insights+ examines the latest trends in private capital performance based on data up to the third quarter of 2024. We compare each private asset class with its public market counterparts and offer insight on future return prospects.

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- **Private debt** outperformed equity strategies in the first nine months of 2024, but we may be seeing the first signs of moderation in returns
- **VC** relapsed into negative returns in the third quarter – but newest vintages look better placed to find investment opportunities, driving expectations for strong performance up to 2029
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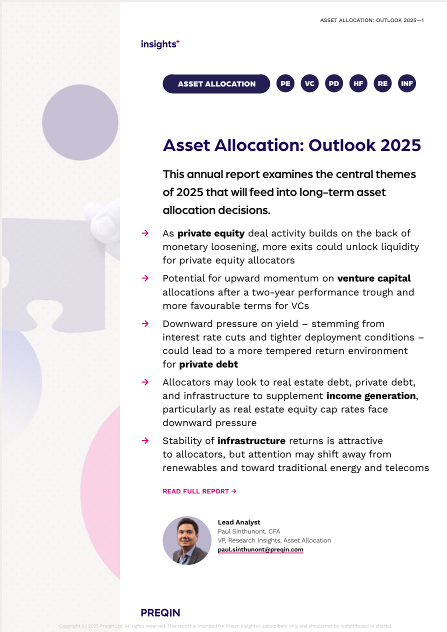

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- As **private equity** deal activity builds on the back of monetary loosening, more exits could unlock liquidity for private equity allocators
- Potential for upward momentum on **venture capital** allocations after a two-year performance trough and more favourable terms for VCs
- Downward pressure on yield – stemming from interest rate cuts and tighter deployment conditions – could lead to a more tempered return environment for **private debt**
- Allocators may look to real estate debt, private debt, and infrastructure to supplement **income generation**, particularly as real estate equity cap rates face downward pressure
- Stability of **infrastructure** returns is attractive to allocators, but attention may shift away from renewables and toward traditional energy and telecoms

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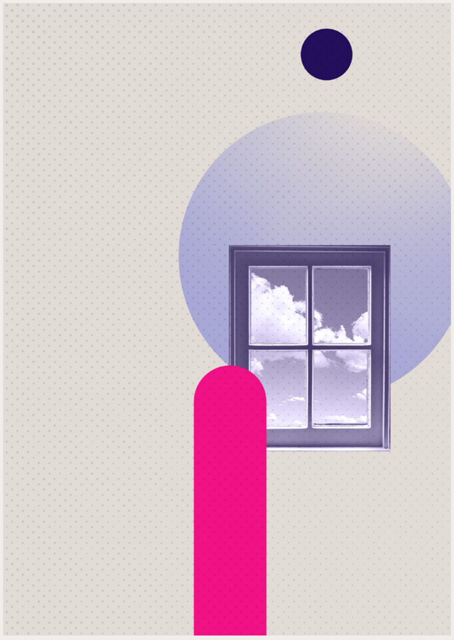

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