STATE STREET

2024 Private Markets Outlook

An analysis of capital distribution and fundraising

Begin

July 2024

Contents

Introduction and methodology

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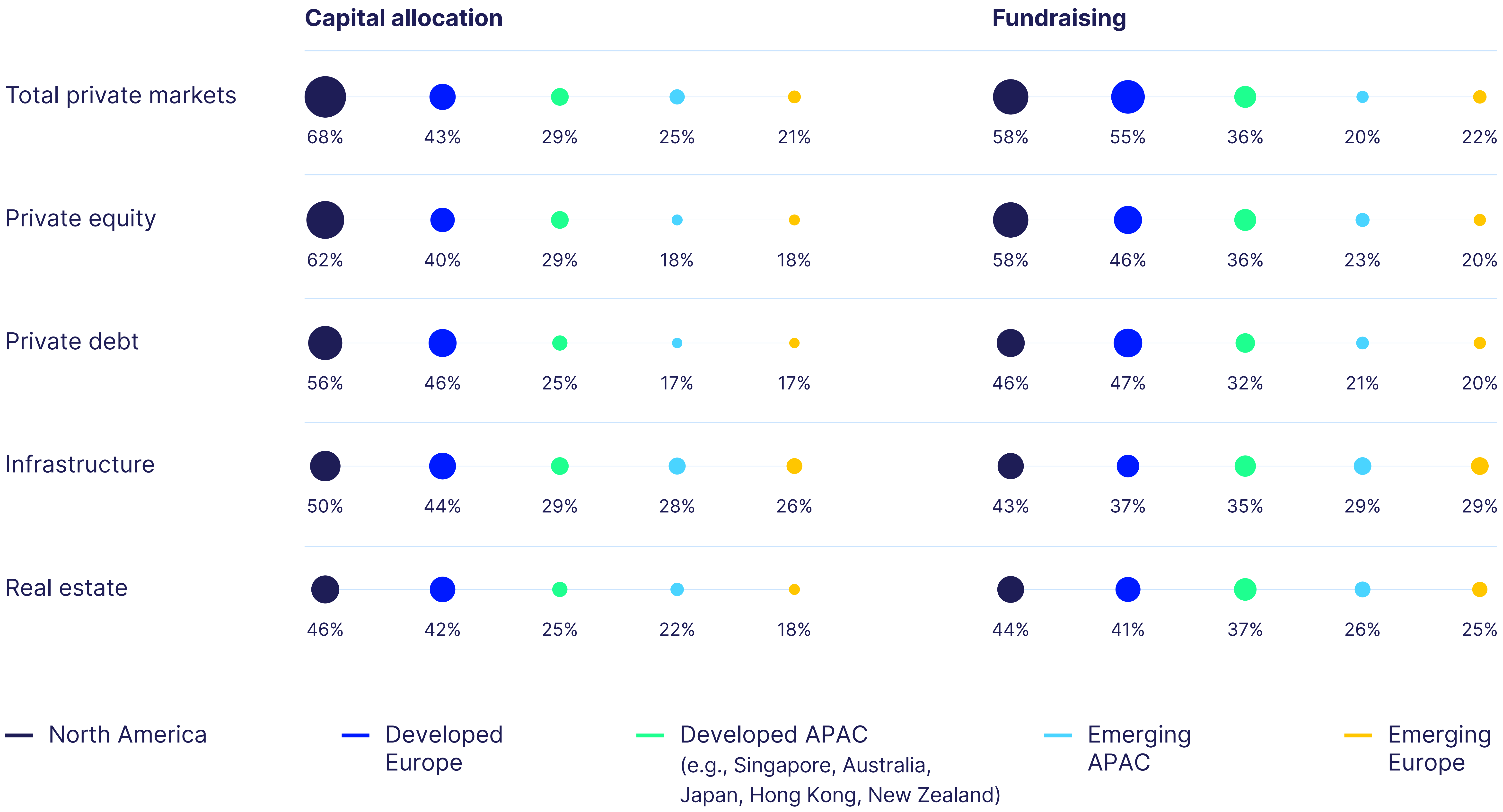
In our 2024 Private Markets Study[1] we analyzed private markets general partners' (GPs) plans for raising capital and limited partners' (LPs) plans for allocating across five core global regions: North America, Developed Europe, Emerging Europe, Developed Asia Pacific (APAC) and Emerging APAC to gain insights into the inflow and outflow of funds within the asset class.

We further examined this data by the respondents' regions and private markets sub-asset classes (private equity, private debt, infrastructure and real estate).

Global respondents



Global private markets capital distribution and fundraising: An interactive infographic

In this infographic, we look at the key trends that are likely to drive these capital flows and allocations over the short to medium term. Choose a region to easily see the proportion of respondents' local fundraising and investing. For more details, narrow your selection by respondents, and use the left-rail tools for a more granular view into sub-asset class investments and capital fundraising.

State Street Private Markets Study 2024

Regional and PMs sub-asset class analysis of fundraising and investment flows

Respondent region

Global | North America | Europe inc. UK | APAC

Asset class

- Private equity
- Private debt
- Real estate
- Infrastructure
- Total private markets

Select respondent region and asset class, then click + for more details

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North America: Bringing dynamism to illiquid markets

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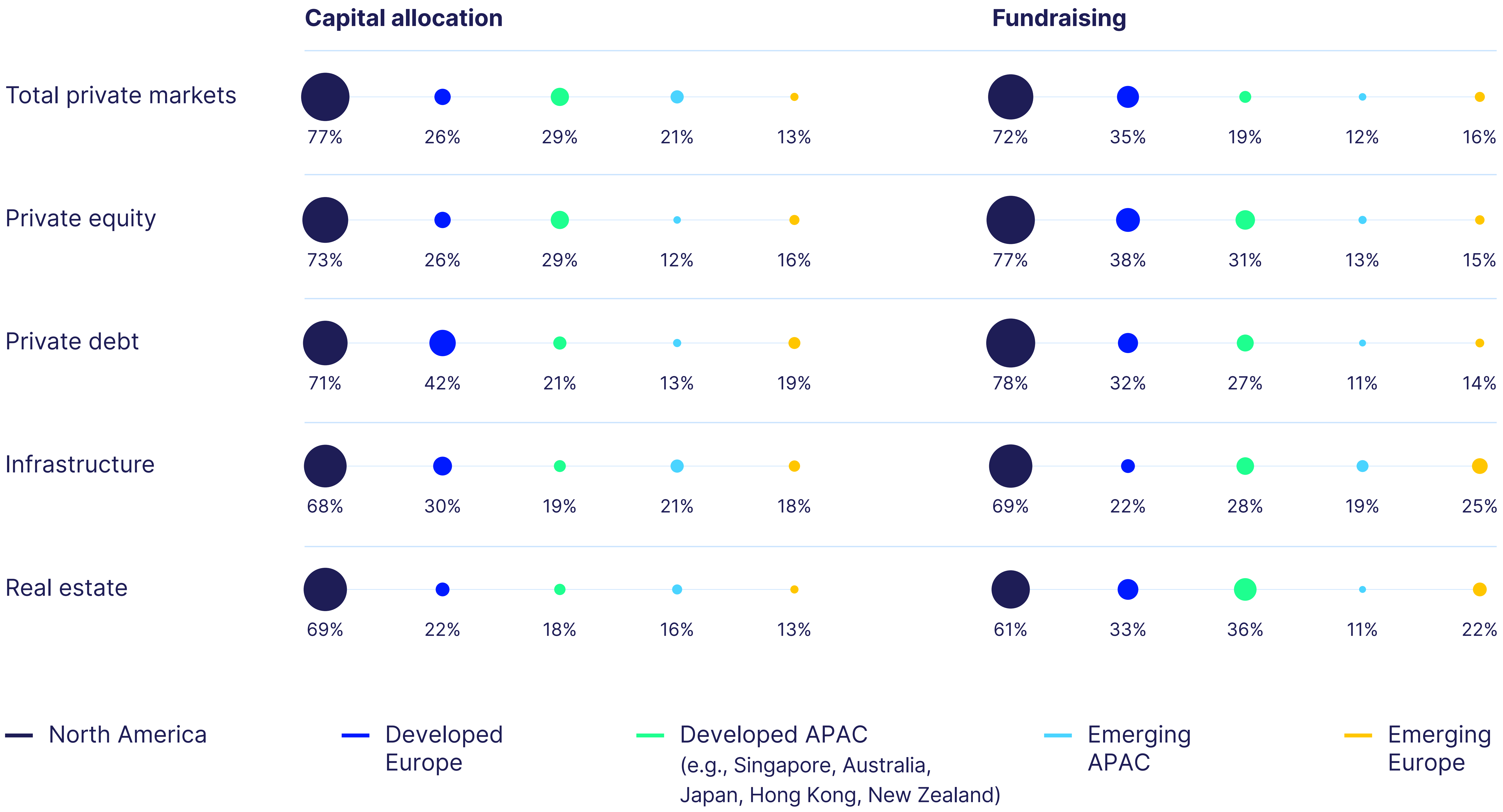
North America remains the dominant region for raising and allocating capital in private markets funds. The region has been at the forefront of a global trend toward introducing liquidity into private markets to access more permanent sourcing of capital via the wealth channels and more retail-style fund structures.

In particular, Business Development Companies (BDCs)[2] have had a period of strong growth in assets under management. Our survey data validates this trend. More respondents in North America (52 percent) expect "retail fund-like vehicles" to make up at least half of private markets flows over the next two or three years than in any other region (globally 47 percent).

North American respondents



Diversification of the capital base for private markets investments is one of the major trends poised to underpin regional fundraising and distribution in the asset class over the coming years, according to Jesse Cole, our global head of Private Markets Product. “As GPs seek more permanent capital, the ongoing move toward mass affluent individual investors and other ‘retail’ style pools of capital will continue to drive more flexible product structures to address the transparency, liquidity and flexibility needed to align with these pools of capital,” says Cole. “We see this playing out as fund structures move for monthly, and even daily subscriptions, from one-time capital raising for a vintage; and as investors (and their advisors) seek to include private funds as part of their portfolios through separate accounts.”

In addition, there is a push-and-pull relationship between the LPs (investors) and GPs that will continue to shape private markets’ evolution and journey toward inclusion of private fund assets in all investment strategies and portfolios. “This will drive innovation as well as product complexity leading to more regulatory oversight,” he notes.

Regulations such as the Securities and Exchange Commission’s Private Funds Advisor Rule aim to increase the frequency and consistency of the flow of data between private assets managers and their investors[3], which in turn can support their increased inclusion in more semi-liquid portfolios. The rule is currently subject to a court challenge[4] in the US, which will delay – and could potentially stop altogether – the rules from taking effect, but the overall trend toward encouraging the availability of private assets in relatively liquid fund structures remains a priority for lawmakers and regulators.

The other big private markets growth driver in the region is legislation encouraging private sector investment in infrastructure in the United States. This has seen an increase in projects in the country[5], and is also likely to be a factor in our respondents’ positive attitude toward the region as a growth area for investing in the asset class.

When asked which regions and sub-asset classes of private markets were going to benefit from increased investment, specifically on the back of government policy, infrastructure in North America was the top choice for respondents in all regions globally.

Europe: The private debt opportunity

Europe: The private debt opportunity

Europe is establishing itself as a global growth engine for private debt. A trend toward diminished capital raising since 2021 appears to be reversing this year[6], while deal volumes also rose toward the end of 2023[7]. Our research indicates Developed Europe is the preferred market for private debt fundraising among all respondents globally. Nearly half of respondents (47 percent) described it as a main area of opportunity, narrowly edging out North America (46 percent) and significantly ahead of Developed APAC (36 percent). When it came to allocating this capital, Developed Europe was in second place, with 46 percent of respondents citing it as a key market for deals, compared to 56 percent in North America and Developed APAC.

European respondents

	Capital allocation					Fundraising				
	North America	Developed Europe	Developed APAC	Emerging APAC	Emerging Europe	North America	Developed Europe	Developed APAC	Emerging APAC	Emerging Europe
Total private markets	61%	64%	27%	19%	27%	50%	69%	26%	17%	25%
Private equity	58%	58%	25%	10%	19%	55%	57%	26%	16%	31%
Private debt	51%	56%	23%	9%	18%	36%	60%	29%	17%	25%
Infrastructure	45%	58%	22%	25%	31%	40%	47%	31%	24%	34%
Real estate	37%	62%	18%	19%	22%	38%	50%	26%	28%	33%

North America
Developed Europe
Developed APAC (e.g., Singapore, Australia, Japan, Hong Kong, New Zealand)
Emerging APAC
Emerging Europe

Enabling and growing alternative corporate lending arrangements has been a priority for European businesses and policymakers since the Global Financial Crisis of the late 2000s and early 2010s caused a significant reduction in the availability of bank lending on the continent. As bank lending remains a much more significant avenue for corporate finance in Europe than in comparable economic regions, particularly the US[8], private credit has been growing to meet the demand.

"The growth of private credit in EMEA really began during the banking crisis, with funds stepping in to provide loans to financially healthy companies looking to raise capital for growth," says Ciaran Grant, head of Private Equity and Real Assets for State Street in Ireland, "but, more recently, it's certainly been the sector with the biggest growth rate we've seen in the private markets space in the past few years."

He adds that the proportion of growth in funds containing debt issued by financially healthy companies looking to raise capital for growth, as opposed to distressed debt funds, has also been growing in recent years. Globally, distressed debt funds have been falling as a proportion of the private debt market[9].

The European Union's European Long-Term Investment Fund (ELTIF) 2.0[10] and UK Long-Term Asset Funds[11] aim to provide a similar liquidity function to BDCs, enabling funds and their underlying investors to make up a greater share of European private markets fundraising and distribution in the future.

It's a more nascent market than the BDCs, however it is witnessing growth. There are currently 116 registered ELTIFs[12], (up from 84 in early 2023[13]).

European survey respondents see an increased role for this form of wrapper, with 17 percent (more than in any other region) saying "retail fund-like vehicles" would make up the majority of flows into private markets over the next two to three years. Further, nearly one third (32 percent) said such vehicles would account for a "roughly equal mix" with traditional institutional fundraising.

Infrastructure is another growing area of private markets in Europe at the moment, according to Grant, with "renewable energy and decarbonisation projects" becoming more prevalent, but also increased investor inflows into traditional infrastructure "such as bridges and roads," as governments in the region continue to take a more public-private approach to funding essential public utilities and services.

Asia Pacific: A growing source of capital for the world’s private markets

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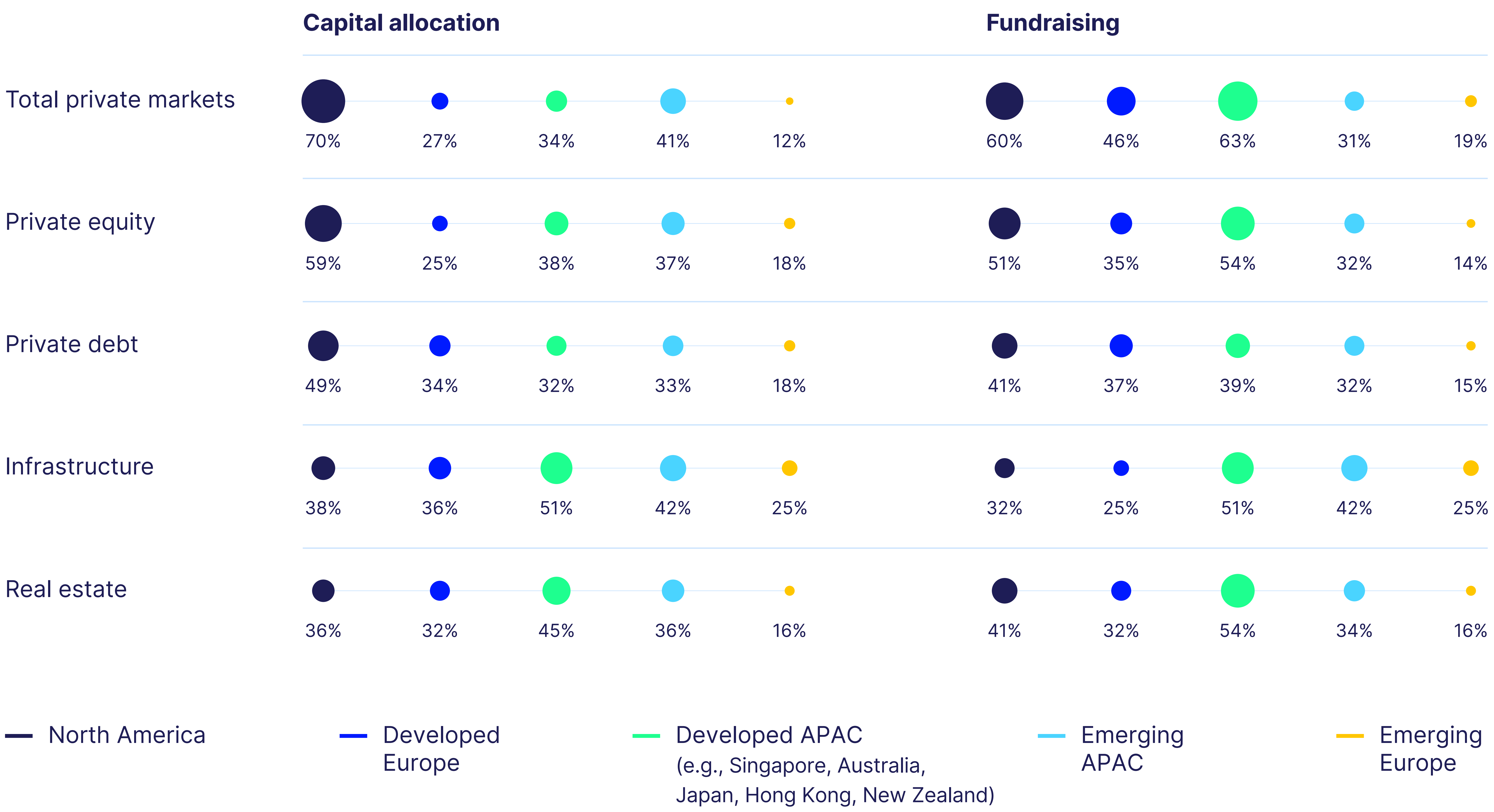
APAC currently trails North America and Europe when it comes to plans for fundraising from outside the region. Only around a quarter (26 percent) of GPs from Europe planned to raise money from Developed Asia, and just under a fifth (19 percent) of North American respondents said the same.

The numbers were smaller still for fundraising in Emerging APAC. However, this is beginning to change, and APAC as a source of capital for US-based managers is a growing trend, according to head of Alternatives Solutions for State Street in APAC, Eric Chng, who says GPs are facing an increasingly competitive landscape for raising capital. "Asia is increasingly becoming not just an investment destination, but one for fundraising as well," he says.

APAC respondents



"Traditionally, the large liquidity pools were in the US and managers would raise money there and deploy it in Asia. But Asia is becoming more of a fundraising destination now as pools of capital get bigger in APAC and managers seek to diversify their sources of funding." As LPs in APAC grow, they are also developing an increasing interest in co-investment and direct primary investment, notes Eric which reduces the management fees they pay under the traditional fund-of-funds model. "The other trend is Asian investors are increasingly going into the US to compete for things to buy," he says. "So that is definitely a contrast to a few years ago."

The jurisdictional and economic diversity of the region also adds nuance to its investment, particularly around currency liquidity. While some currencies such as the Japanese Yen and Australian Dollar are large and liquid, other major local economies such as China and India impose restrictions on foreign ownership and use of their currencies, which can impact fundraising and deal times. Doing deals in smaller, less liquid local currencies also adds time and complexity.

However, certain themes are relevant to large parts of APAC. One is infrastructure, as fast-growing, emerging economies like India, Vietnam and Indonesia are investing heavily in bringing core infrastructure areas like energy, transport and communications up to the standards of scale and technological modernity their economic size and development requires. In these countries, the drive to infrastructure is heavily government- and policy-driven, and private markets opportunities are largely in government contracts and public private partnerships[14]. Australia remains a major global infrastructure market, driven by its large and mature pension funds ecosystem[15].

These developments mirror a longstanding trend in Chinese economic policy, where the encouragement of foreign direct investment in private business also continues. Historically this has been manufacturing, but financial and professional services and technology sectors are opening up increasingly to western investment. This trend faces significant headwinds, however, from growing political moves in the West (particularly the US, via measures like the CHIPS Act) to keep its most strategically and economically significant firms and sectors ringfenced from China[16]. This, in turn, stands to benefit other regional economies with well-established technology sectors, such as Japan and South Korea, while more traditional manufacturing is also diversifying geographically across the region in response to US and European policy[17].

Conclusion

Conclusion

The anticipated growth in private markets that we identified in the first report in this series will have wide ranging implications for how distribution and dealmaking is conducted. And as our research shows, the several trends driving change in these areas will have particular relevance in different parts of the world.

Increased liquidity

Increased liquidity of private assets through diversified fund structures and enhanced data and reporting requirements will open new distribution channels for private markets in the US.

Private debt

Private debt growth is set to continue as a wider range of company types enter the market for fundraising. EU and UK legislation is driving impetus for similar developments to those in the US, as more liquid fund structures are able to contain private assets.

Growing capital pools

Growing capital pools in APAC make the region's domestic institutional investors a source of increasing interest to global fundraisers, while direct and co-investment is also an emerging theme in the region.

Endnotes

1. In December 2023, State Street commissioned CoreData Research to conduct a survey of nearly 500 investment institutions worldwide, to understand their private markets investments and operations. The respondents were C-suite and other senior decision-making executives from a spread of traditional asset managers with private markets businesses, private markets-only asset managers (including private equity, private debt, real estate and infrastructure), pension funds, insurance companies and other asset owners. The key themes of the research were: near and medium-term asset allocation and fundraising plans; responses to the ongoing macroeconomic environment, in both immediate term investment strategies and long-term operational improvements; and the global trend among governments and regulators toward encouraging more domestic private markets investment, including bringing retail investors into private markets.

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