FORESIGHT

# Global Private Markets Outlook 2024

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# From the CEO

We are pleased to present the results of the third edition of our annual Private Markets Survey, which we have expanded to provide even more comprehensive market coverage. We continued to attract the participation of professionals from across strategies, regions and firms, with many providing valuable nuggets of insight.

We take great pride in our two-decades-long association with the sector. We have assisted more than 150 Private Markets firms and have long-standing relationships with more than 100 of them, supporting them with their research, reporting and operations management requirements. We have become a trusted partner in effective decision making and streamlining process efficiency.

Our annual surveys aim to provide perspective on both current and future challenges facing the sector. Through these surveys, we strive to generate collective wisdom for Private Markets firms and stakeholders.

Our surveys revealed contrasts in the past two years – strong optimism in 2022 and a more cautious outlook in 2023. In this latest edition, we observe cautious optimism for 2024. Collective wisdom suggests that interest rates will decline, driven by improving macroeconomic indicators and central-bank actions, although the systemic risk of continued geopolitical disruption tempers positivity. Our respondents report that they are working on their fundraising plans and remain open to augmenting capacity through outsourcing and technology adoption. We remain both vigilant and mindful of this fragile equilibrium and aim to assist Private Markets participants in navigating these tricky waters.

We hope that these survey results provide readers with greater transparency and insight on this rapidly evolving market.

**Robert King**

Chief Executive Officer and Board Member,

**Acuity Knowledge Partners**

# From the CRMO

We are a trusted partner to more than 150 Private Markets firms. Our close strategic partnerships with them have helped us witness both the opportunities and challenges facing the sector, enabling us to develop customised offerings for these clients while working as extensions of their teams.

The third edition of our survey is drawing increasing interest, particularly as new headwinds seem to be brewing for private equity and private credit.

Some of the extremes of last year are expected to ease in 2024, although the issues that the sector faced remain. The sector, therefore, is cautious and concerned about valuations, exits, competition and fundraising.

As Private Markets become more mainstream and assets under management amount to trillions of dollars, regulators are becoming more vigilant.

The sector has always tended to be self-sufficient but would now require assistance to manage the increasing number of regulations and comply with ESG frameworks. It is slowly but surely evolving to welcome support from strategic partners across the investment lifecycle. For example, in terms of portfolio monitoring, firms are engaging with vendors or integrating new software to improve investor reporting.

We endeavour to identify the environmental and operational challenges and opportunities relating to the sector so that together we could create suitable solutions and capitalise on the opportunities. We hope you find these survey results useful.

**Damian** Burleigh

Chief Revenue and Marketing Officer,
**Acuity Knowledge Partners**

# Sentiments in a nutshell

Private Markets, an important constituent of the overall asset management space, experienced a wide swing in fortune amid the pandemic and in post-pandemic years. Geopolitical events, along with adverse macroeconomic developments, resulted in headwinds for the sector.

The impact of these twin challenges was apparent in business activity, or the lack of it, as deals declined. The previous edition of our survey reported how professionals anticipated these challenges. There is a glimmer of hope for the sector in 2024, with regulators suggesting that interest rates may soften, because interest rates have caused concern around fundraising, valuations and exits.

Rising interest rates are not negatively impacting the sector equally. Private credit strategies are growing and are considering funds that can generate high returns (above 10%) within a short period of five years, with direct lending the most preferred sub-strategy.

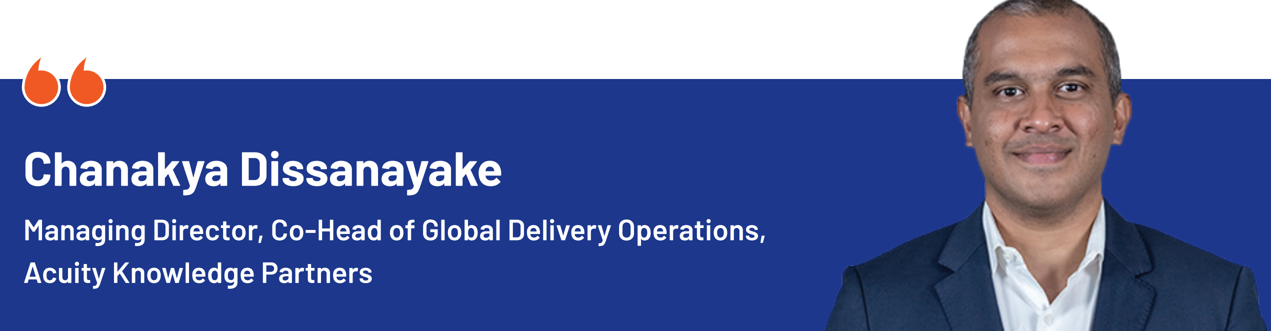
After the first tumultuous nine months of 2023, green shoots emerged in the fourth quarter, when deal volumes grew 19% y/y. Respondents are, therefore, slightly more optimistic about 2024. However, the sector feels that suitable opportunities have declined, and respondents consider this to be a challenge, a very close second to their main concern – economic uncertainty.

Private equity (PE) and venture capital (VC) firms in developed regions are more inclined to invest in healthcare-related opportunities, while those in the developing world are long on digital technology. Middle East- and Africa-based firms are more inclined towards the energy sector.

Professionals are investing slightly less than 10% of their time on ESG considerations. These considerations continue to increase as more and more companies adopt ESG frameworks; professionals' time spent on ESG activity is, therefore, likely to increase.

The sector is very positive about third-party portfolio-monitoring tools. Spreadsheets continue to dominate portfolio monitoring, but the sector seems to be considering the new tools available and adopting them.

In addition to deal-related issues, regulations and compliance have become a significant concern for Private Markets firms, with about one-fifth of the respondents rating them as the biggest pain point. Regulations are being strengthened, with the aim of further protecting investor interest. However, this has led to the introduction of more stringent disclosure requirements. The sector is concerned that new-age tech may also come under scrutiny, stifling innovation. With geopolitical tensions heightening, regulatory action has also made the sector wary. Taxation remains a concern.



# Sector pulse check

Encouraged by the overwhelming response of respondents and readers over the past two years, we present the third edition of our survey results. In this edition, we widen our focus on private investing and address in depth key elements of all the main strategies of private investing. Accordingly, we rebrand it Private Markets Survey, from Private Equity and Venture Capital Survey.

This rebranding and expansion feel natural to us, as we are the largest and oldest professional services firm, having served Private Markets firms for close to two decades now. As our Private Markets practice grows across regions and strategies, we continue to strive to identify and report the pulse of the sector.

After a tumultuous 2023, which was completely different to 2022, we expect 2024 to offer some respite to Private Markets professionals. There is optimism surrounding activities such as fundraising, investment opportunities and the investing environment, as interest rates are expected to moderate in 2024, despite the continuing economic and geopolitical headwinds.

Fundraising expectations were dampened in 2023 as interest rates rose. With interest rates likely to moderate from 2024, we see signs of positive sentiment, increasing competition for both small and large funds. The sector believes that investing opportunities may remain weak in 2024 but that the level of difficulty in funding may ease versus last year. Investing preferences vary by strategy – private equity (PE) and venture capital (VC) firms expect to focus the most on technology, energy and healthcare. Firms involved in artificial intelligence and machine learning may gain more attention from VC firms. Real estate firms prefer value-added and industrial opportunities, infrastructure firms prefer renewable energy and digital infrastructure, and funds of funds prefer buyout funds and credit funds.

Due diligence, portfolio monitoring and deal sourcing remain the main activities demanding most of PE professionals' time. Due diligence is back in second position as deals declined. The sector continues to consider outsourcing as a force multiplier, with willingness to outsource remaining strong across regions, strategies and firms.

Valuation expectations improved slightly from last year as global indices failed to move in tandem and high interest rates continued to impact expectations. Expectations in terms of challenges in exit strategies increased slightly from last year but are significantly higher (4x) than in 2022, and secondary sales registered a slight increase in preference.

ESG integration with operations has gained momentum. The respondents follow one standard or another, with significant variance across regions. Firms continue to adopt ESG and related reporting, and more firms are reporting the presence of monitoring committees and resources designated to handle ESG matters.

**Sumit Chhabra**

**Managing Director, Co-Head of Global Delivery Operations, Acuity Knowledge Partners**

# Summary of observations

The Private Markets sector, after a dream run in 2021 fuelled by strong optimism and low interest rates, faced the highest interest rates since the global financial crisis. This was driven by rising inflation due to factors such as supply-chain bottlenecks, impacted by the geopolitical developments in recent years.

**The Federal Reserve's dovish hints raise fundraising expectations**

The situation seems to be improving on many fronts in 2024. Fundraising seems to be recovering, with the sector expecting policymakers to take a dovish stance. As a result, fundraising plans are being revisited; nearly two-thirds of the respondents plan to raise funds in 2024 – far more than the 22% in the last survey. Like last year, emerging markets are more optimistic than developed markets about fundraising, driven by stronger economic activity.

Policymakers' dovish approach has mitigated the challenge posed by interest rates; we considered this as a separate challenge in fundraising in the current survey. The respondents believe that macroeconomic conditions are less of a challenge in fundraising and that the main challenges are competition and convincing limited partners.

**Investment opportunities are expected to be better than last year's**

The respondents expect investment opportunities to increase this year but not to levels seen two years ago. Half of the respondents expect opportunities to increase in 2024; this is more than the 40% of respondents who expected opportunities to increase in 2023 but far less than the 67% who expected opportunities to increase in 2022.

With the situation expected to improve this year, the level of difficulty in funding is likely to move to "moderate" from "moderate to slightly high" in the previous survey. This slight change in expectations was likely fuelled by expectations relating to interest rates, as underlying factors – such as a lack of suitable opportunities and concerns in terms of valuations and geopolitical tensions – remain.

**Artificial intelligence, machine learning and renewable energy see increased focus**

Private equity (PE) and venture capital (VC) firms continue to focus on opportunities in the tech sector more than on opportunities in other sectors. In the disruptive-tech space, they focus more on artificial intelligence and machine learning, followed by equal focus on other tech areas. Real estate firms globally are interested in value-added and industrial projects. Key focus areas for real assets/infrastructure firms are renewable energy and digital infrastructure.

**Deal sourcing accounts for more of professionals' time amid subdued deal activity**

Professionals continue to spend most of their time on three activities – due diligence, deal sourcing and portfolio monitoring. Fund accounting seems to account for 8% of their time. The addition of fund accounting to this year's list makes comparing changes in time spent difficult. Of the top three activities, deal sourcing ranked third in terms of time spent versus ranking second in our last survey.

**Respondents are open to augmenting capacity and adopt sophisticated portfolio-monitoring tools**

Despite the challenges expected in the investing environment, Private Markets firms continue to consider augmenting their teams' capacity by outsourcing: 70% of the firms surveyed are willing to outsource their operations (including accounting, administration, human resources, operations and technology infrastructure). All levels of the private-markets sector remain willing to outsource because of access to additional bandwidth.

The use of spreadsheets in portfolio monitoring (ranking as the most time-consuming in the three surveys) remains in vogue, although there seems to be a strong openness to adopting tools including third-party tools.

**Valuations and exits may remain subdued**

Expectations in terms of valuations are slightly better than in the 2023 survey but behind the strong optimism reported in the 2022 survey. Most of the respondents expect valuations to decline, fuelled by high interest rates and economic conditions, with VC-backed companies impacted the most.

Two-thirds of the respondents feel that exits would be challenging, slightly less than last year. Preferences in terms of method of exit remain the same, with a few more respondents favouring secondary sales.

**Fundraising and regulations are likely to be key challenges**

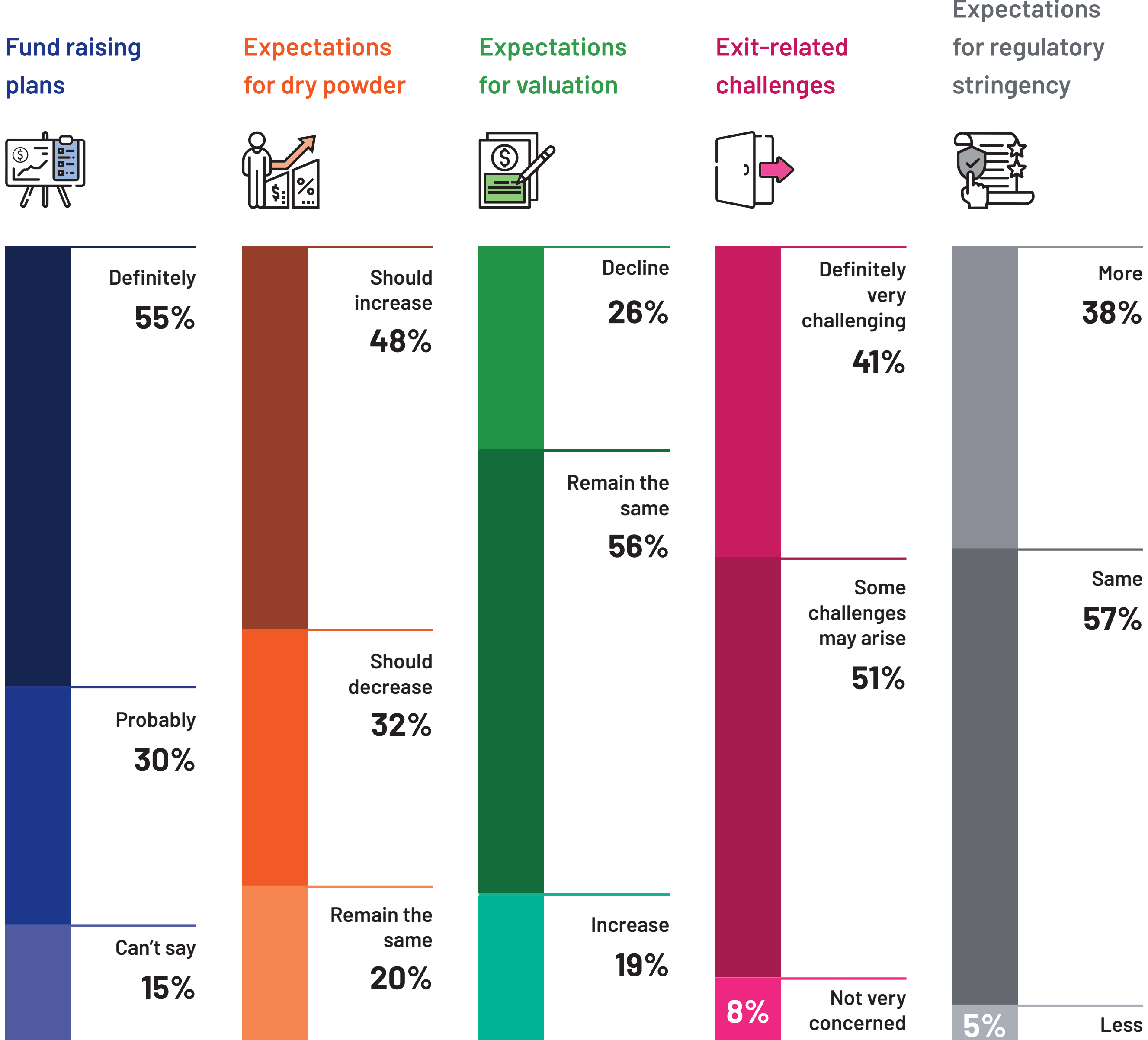
In terms of challenges in the investing environment, fundraising remains the most pressing globally, followed by limited exits and investment opportunities. Respondents from the Middle East also face challenges in managing limited partners. This resonated with ESG funds, likely because of the recent scandals. High competition is another key challenge. Challenges in valuation cooled this year but resonated with one-third of the respondents.

The regulatory environment remains demanding, with respondents feeling that compliance is effort-intensive and expensive. PE&VC professionals are especially concerned about ESG, jurisdiction, taxation and reporting obligations. UK-based respondents were disappointed that the Venture Capital Trust (VCT) sunset clause was not abolished.

**Professionals invest c.10% of their time in ESG as the sector increasingly adopts frameworks**
ESG is influencing decision making of Private Markets firms as concerns over climate change, corporate governance and social disparity continue to heighten. The number of signatories to the United Nations Principles for Responsible Investment continues to increase, and the respondents follow a number of ESG-related frameworks. Adoption of these frameworks varies by region as it did last year but has strengthened this year.

The number of Private Markets firms that have a designated resource to deal with ESG-related matters and an ESG committee and report on ESG, CSR or sustainability is consistently increasing.

**PE&VC sector is keeping abreast of developments**




*Number may not add up to 100% due to rounding

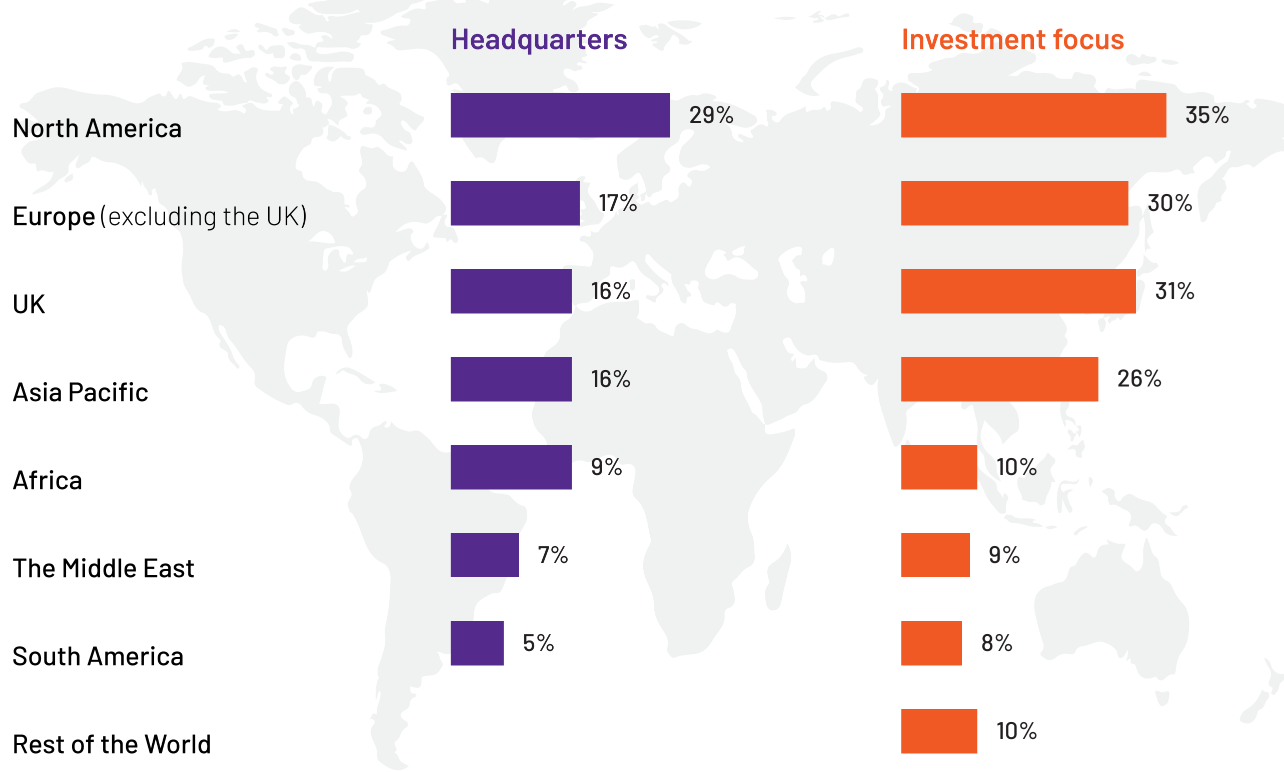
# Introduction

Acuity Knowledge Partners has a strong, decades-long relationship with the Private Markets sector, serving its professionals and executives across the sub-sectors – private equity (PE), venture capital (VC), private credit (PC), funds of funds (FoF), real estate (RE) and infrastructure. We are also the global leader in serving the sector. Building on this detailed understanding, we launched our first global survey in 2022 and received a remarkable response.

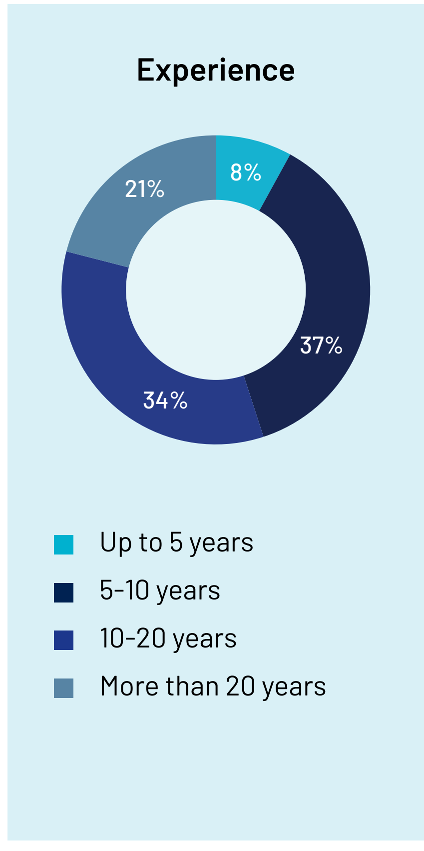
This third edition of our sector-leading survey, measuring the pulse of the sector, also received an overwhelming response, helping us determine the markets' environmental and operational aspects. It continues to present the associated opportunities and concerns, especially those since last year, when almost all the sub-sectors faced strong headwinds.

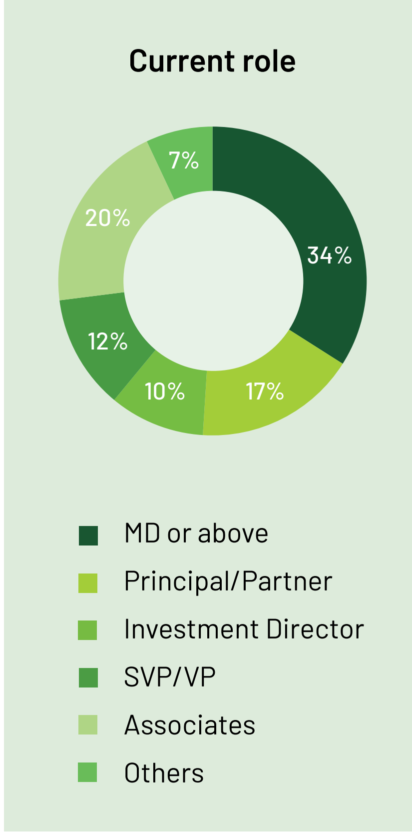
We had **128 respondents, representing all regions and with investing interest worldwide.** However, due to the heavy concentration of capital, Private Markets firms and investment opportunities, North America, the UK, Europe and Asia accounted for over three-quarters of the respondents in terms of location of headquarters and investment focus. In this edition, the share of key markets declined, as we obtained more responses from other regions (Africa, South America and the Middle East), widening our global reach. The survey continues to capture the essence of the global investing environment.

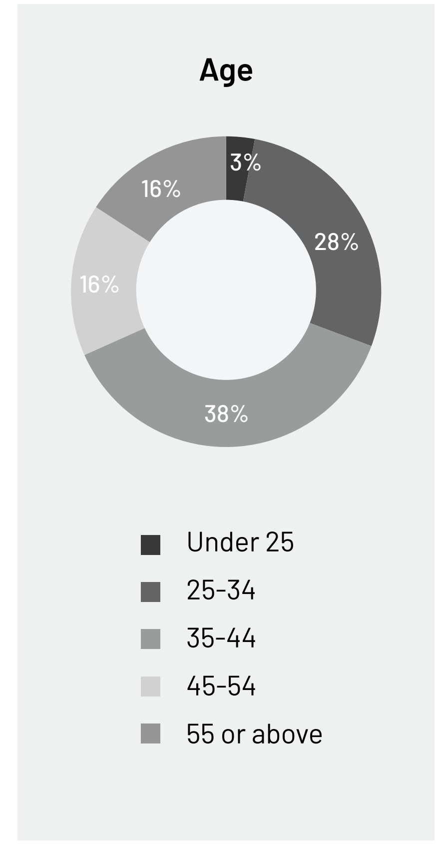
**Locations of respondents' headquarters and investing focus**




Sector veterans continued to provide insights; 92% of the respondents have over five years of experience in the sector and 55% over 10 years of experience. More than 60% of the respondents hold leadership positions.

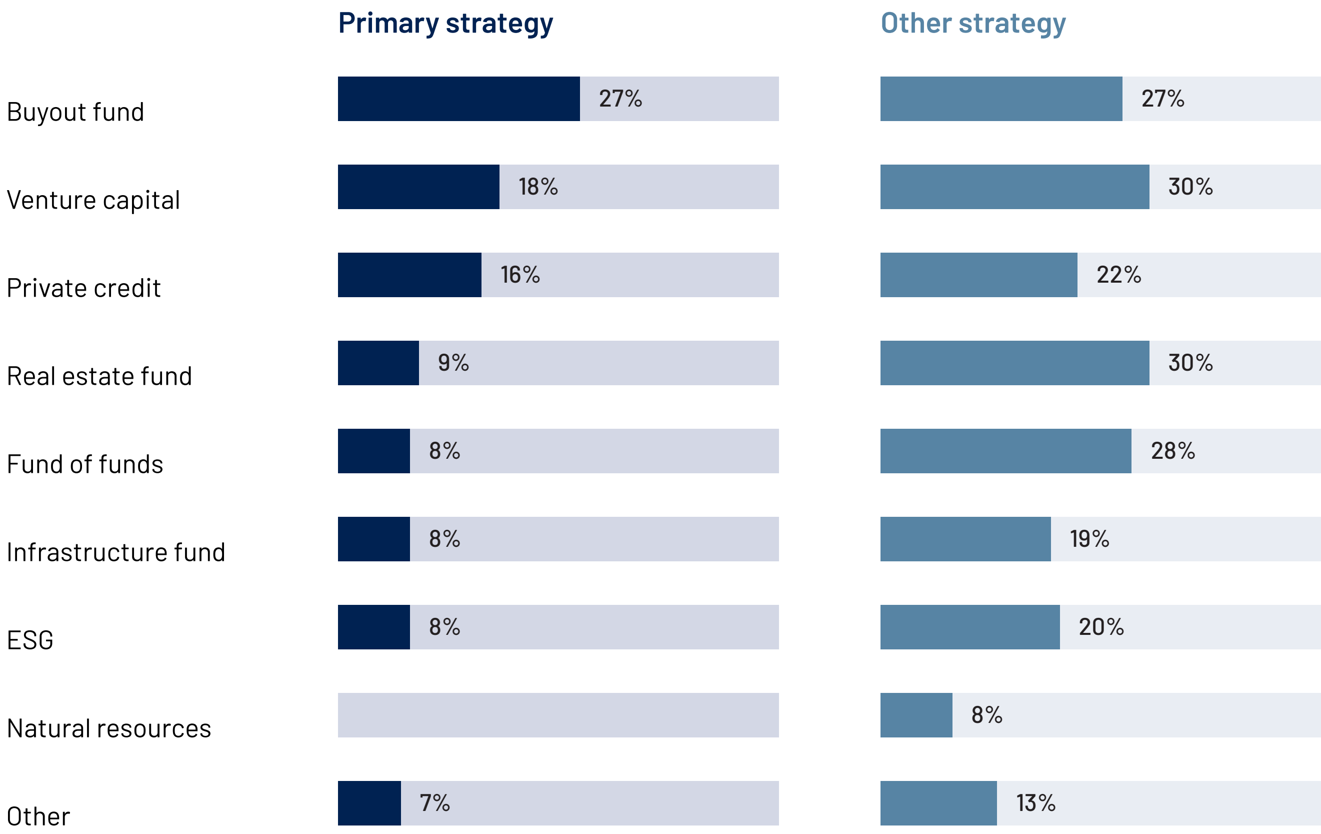


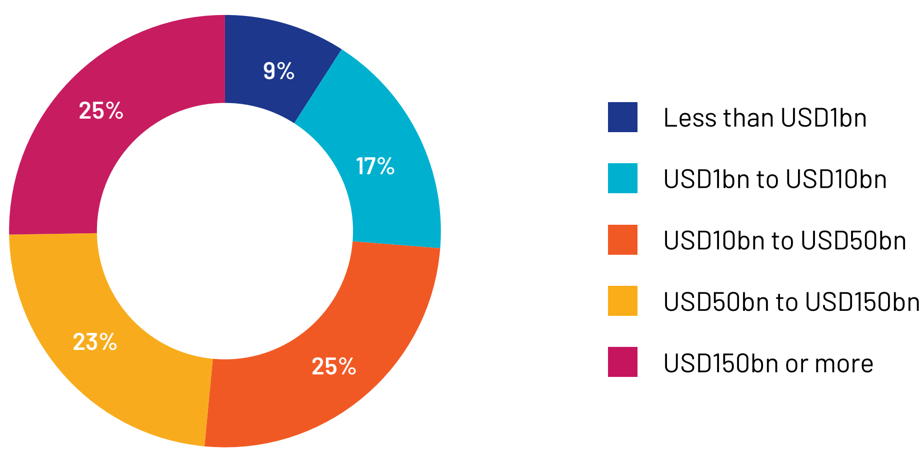



The respondents represent firms that together represent the sector. Most PE firms are buyout funds; therefore, the respondents mostly represent buyout funds, followed by VC firms, which are a subset of their own. We also received responses from firms pursuing other strategies. Sixteen percent of our respondents were from funds with over USD150bn in AuM and 32% from smaller firms, with under USD1bn in AuM.

### Strategy




### AuM (USDbn)



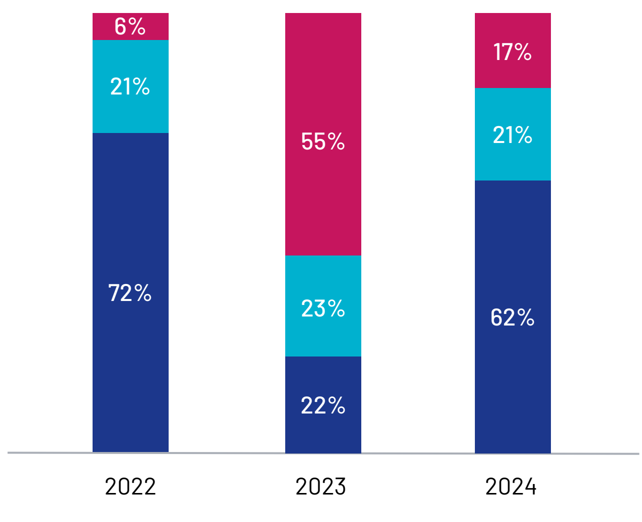
# Fundraising

- *Sentiment towards fundraising was very pessimistic in 2023 due to high interest rates but is shifting as investors expect interest rates to moderate in 2024*
- *Nearly 85% of the respondents were either confident that they will raise new funds in 2024 or saw the likelihood of raising new funds this year*
- *Willingness to diversify strategy is strongest in emerging markets of the Middle East and Africa; Europe- and Asia-based respondents registered a strong increase in willingness*
- *Likely challenges in fundraising in 2024 are the same as in 2022, with the upheavals of 2022- 23 expected to moderate in 2024; limited partners remain concerned about valuation, although less than they were last year*

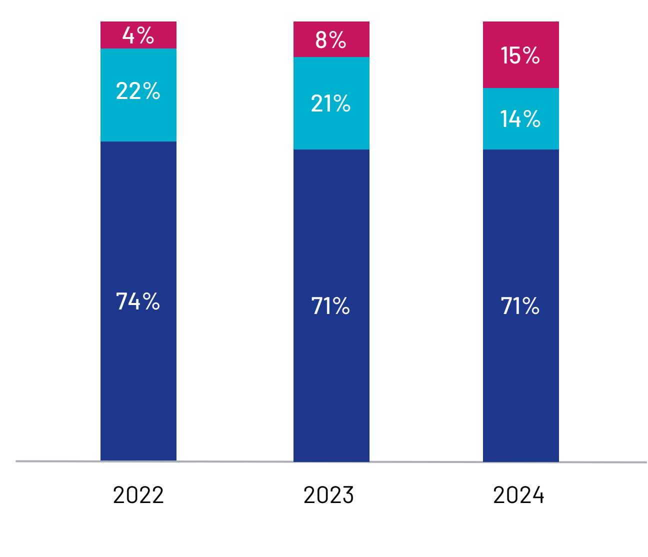
Sentiment towards fundraising in 2024 seems to be improving, with nearly two-thirds of the respondents expecting fundraising to increase (compared to less than one-fourth who expected fundraising in 2023 to increase). Although somewhat less than the strong optimism in 2022, it is encouraging to see sentiment and expectations recovering.

The number of those on the fence and expecting no change has remained consistent in the three years that this survey has been conducted. The share of respondents expecting a decline, although having declined substantially from more than half last year, is still sizeable at 17%, indicating that fundraising may face more challenges than it did in 2022.

**Expectations for fundraising**




**Competition for fundraising has changed from previous years**




Increased | No change | Declined

The improvement in sentiment towards fundraising seems to be driven by an expectation that interest rates will moderate in 2024, after a tumultuous 2023, when interest rates were at their highest in one and a half decades. The US Federal Reserve did not raise rates at its last three meetings[1] and adopted a dovish approach at its December meeting[2]. Expectations for rate cuts, therefore, are increasing. Goldman Sachs and Bank of America expect interest rate cuts to start in March 2024[3] (Bank of America previously expected this in June 2024). Bank of America expects a cumulative 100bps cut in 2024[4], and JP Morgan expects a cumulative 125bps cut[5]. CME FedWatch expects six rate cuts of 25bps each this year (it previously expected five cuts)[6]. Fitch believes that although the expected recession may not materialise in 2024[7], global growth may decline[8].

[1] https://ny1.com/nyc/all-boroughs/news/2023/12/22/fed-inflation-gauge-falls-november#:~:text=Encouraged%20by%20the%20progress%2C%20the,rates%20three%20times%20next%20year.
[2] https://www.forbes.com/sites/danirvine/2023/12/18/feds-dovish-shift-puts-stock-party-in-full-swing/?sh=521a1bad2b80
[3] Goldman Sachs boosts 2024 S&P 500 target on increased confidence for Fed rate cuts in March (yahoo.com)
[4] https://www.reuters.com/markets/rates-bonds/bofa-sees-four-rate-cuts-fed-next-year-2023-12-18/
[5] Wall Street Banks Readjusts 2024 Interest Rate Predictions After Fed's Dovish Turn | Nasdaq
[6] Wall Street Banks Readjusts 2024 Interest Rate Predictions After Fed's Dovish Turn | Nasdaq
[7] https://www.reuters.com/markets/global-markets-recession-analysis-pix-2023-12-20/
[8] https://www.fitchratings.com/research/sovereigns/world-growth-to-fall-sharply-in-2024-us-recession-avoided-08-12-2023

Other markets may also move in tandem as they did when rates were increasing. The UK may begin its rate-cut cycle in August 2024, with the interest rate reaching 3.25% by 2Q 2025[9]. ANZ expects a 25bps rate cut in Australia in 4Q 2024[10]. Key Asian markets India[11] and Singapore[12] expect rate cuts in 2024. However, the European Central Bank (ECB) seemed hawkish as of 14 December 2023, with President Lagarde stating that inflation may soon rebound[13].

Many of the factors that impacted the Private Markets sector in 2023 – such as high inflation, high rates and geopolitical concerns – remain. The sector has likely matured and believes that these factors may persist; hence, any supportive development may trigger growth, particularly considering that **although 2023 was a challenging year, it delivered performances above long-term averages.** While the year was marred by sector-shattering events such as the collapse of Silicon Valley Bank that negatively impacted startup funding[14] and the lacklustre performance of high-profile IPOs (Arm Holding PLC and Instacart)[15], valuation remained higher than historical trends and deal count remained above the quarterly totals of 2020[16].

Unlike in the 2023 survey, when associates were more optimistic than leadership, optimism around fundraising has widely recovered, with ~65% of the associates and leadership surveyed expecting fundraising to improve; however, vice presidents are still less upbeat – only 40% expect fundraising to improve.

As in 2022, limited partners invested more time in fund due diligence in 2023 as distribution slowed[17]. This is reflected in competition for funds, which increased across regions and strategies – amid substantial growth in 2022 and the challenging environment in 2023.

[9] Bank of England set to hold interest rates as economists debate 2024 cuts (cnbc.com)
[10] Interest Rates Forecast in 2024 – Forbes Advisor Australia
[11] RBI to hold rates at 6.50% through mid-2024, cut seen in Q3: Reuters poll | Reuters
[12] Singapore stocks rise amid rate cut expectations; STI up 0.1% | The Straits Times
[13] ECB resists rate cut bets with pledge to stay tight | Reuters
[14] https://www.nytimes.com/2023/03/27/technology/silicon-valley-bank-start-ups.html
[15] https://www.reuters.com/markets/deals/after-us-ipo-stumbles-companies-under-pressure-offer-bargains-2023-10-19/
[16] 2024 venture capital outlook: moderate rebound to 2020 levels amid economic optimism – SiliconANGLE
[17] https://www.privateequityinternational.com/lps-put-emphasis-on-due-diligence-as-they-get-selective/

Respondents from North America and Europe expressed strong pessimism about fundraising last year, but the number of those believing that fundraising will improve in 2024 increased 3x. Half of the respondents from North America (despite the US Federal Reserve's rate being at its highest in two decades) are optimistic about the prospects for fundraising as are more than half of the respondents from Europe. Respondents from the UK are the most confident: nearly three-quarters (3.5x more respondents than in the 2023 survey) expect an improvement in fundraising.

As sentiment improves, almost all the respondents from Africa and South America believe that fundraising will improve, as opposed to more than three-quarters of the respondents from Asia Pacific and the Middle East. **Part of the stronger optimism in these economies than in the West is likely due to stronger economic activity in these economies.** Despite headwinds, Asian economies are faring better, according to the Asian Development Bank, supported by a recovery in tourism, a resumption of infrastructure projects, healthy domestic demand and moderating food inflation[18]. Africa is also set to witness improved economic activity as food inflation moderates with global supply chains easing, commodity prices reducing and monetary policy becoming more dovish[19]. In line with the results of our previous two surveys, we see that respondents from **the Middle East continue to mirror the fundraising-related sentiments of those from Western markets, with a little over half of the respondents from the Middle East optimistic.**

In terms of strategy, infrastructure and real-estate funds are witnessing a complete turnaround in expectations – while one-third of these funds expected a decline in 2023, almost all of them expect a roller-coaster year in 2024: 82% of real-estate funds and 90% of infrastructure funds are optimistic about fundraising. Interest rates have a significant impact onboth these sectors. The other strategies also show a recovery in sentiment, with private equity and venture capital firms showing the most optimism (more than a 3x increase).

Amid this increasing optimism about fundraising, an important shift is emerging with respect to competition for funds. While expectations relating to competition remain elevated and constant, the number expecting a decline in competition has doubled from 2022. Large players were confident in their ability to out-manoeuvre smaller funds in 2023, but firms of all sizes expect competition for funds to decline in 2024.

The largest numbers of respondents expecting competition to increase were from North America and Europe. Among professionals, the largest group of respondents who expect competition to increase is vice presidents (over 90%). They are followed by associates, of whom 86% expect an increase in competition. Surprisingly, only three-fifths of those in leadership expect competition to increase; more than 20% expect it to decline.

[18] https://www.adb.org/sites/default/files/publication/931316/ado-december-2023.pdf
[19] https://africanreview.com/finance/positive-prospects-for-africa-in-2024

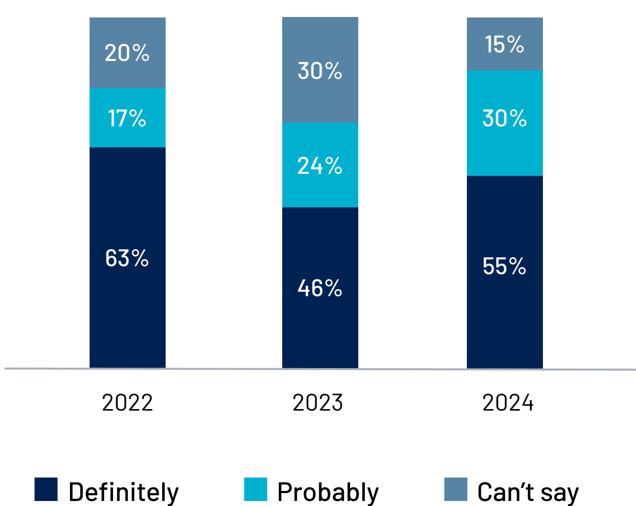
## New fundraising

Aspirations for raising new funds in 2024 seem to be reverting to levels in 2022, when 80% of the respondents were either confident of raising new funds or saw the likelihood of raising new funds. For 2024, 85% of the respondents feel this way. This confidence was evident across the hierarchy of Private Markets firms.

The strongest inclination to raise new funds is in the UK, with two-thirds of the respondents willing to raise new funds. This is closely followed by the Middle East and Africa, with similar numbers of respondents willing to raise new funds. Shares decline in other established Private Markets – Europe (59% of the respondents) and Asia (55%). Eighty percent of the respondents from North America answered in the affirmative, but most of them are becoming wary, with 40% responding that they "probably" will and only slightly more than one-third confident that they will raise new funds (versus 44% in the 2023 survey) and less than one-fourth unsure about raising new funds (versus 36%).

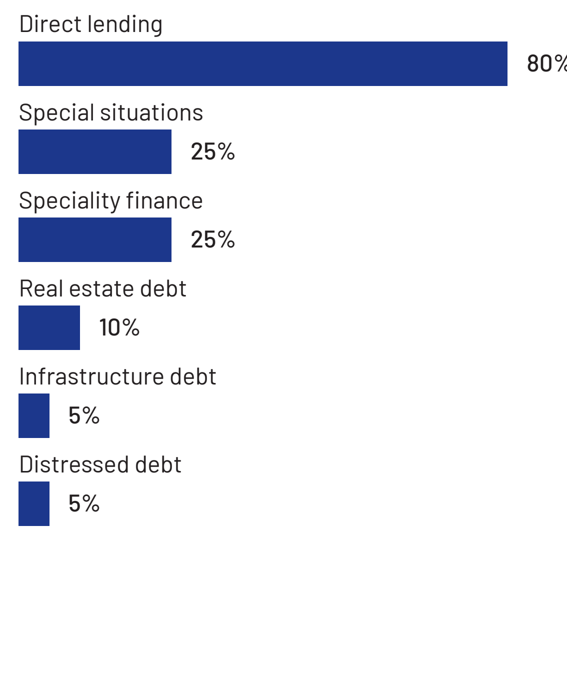
Optimism about new funds is observed across fund strategies: more respondents from buyout, venture capital, funds of funds and real estate are willing to raise new funds; respondents from infrastructure funds are less upbeat than in the past about raising new funds.

**Plan to raise new funds**




Private credit, which had a spectacular year on the back of a favourable macroeconomic environment and continues to enjoy many of those tailwinds, demonstrated the same sentiments as in the 2023 survey, with all respondents responding in the affirmative to raising new funds. Eighty percent of the respondents from private credit firms plan to raise direct-lending funds; a quarter of the respondents prefer special-situation and speciality-finance funds. Real estate, infrastructure and distressed debt are the next best preferences. Special-situation funds have a higher preference among private credit leadership in North America and the UK. Speciality finance is preferred across regions. Notably, **respondents from North America are more willing to explore wider sub-strategies,** expressing intent to raise direct-lending, distressed-debt, special-situation, speciality-finance and real-estate debt. **Respondents from other regions are inclined only towards a couple of sub-strategies.**

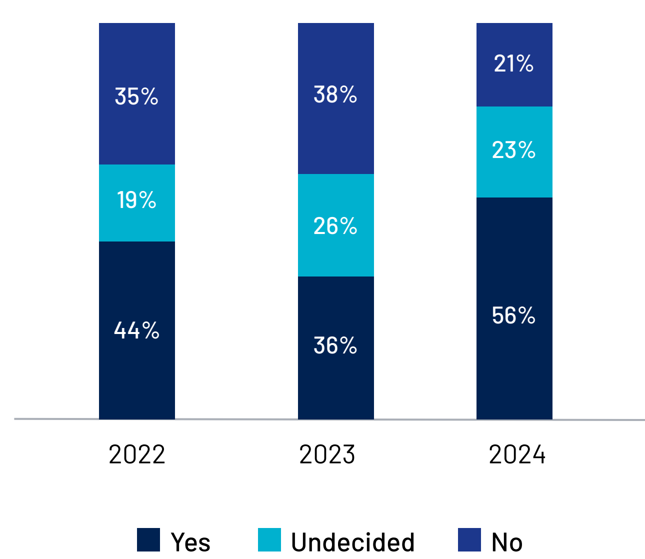
**Private credit firms' preferences for fundraising sub-strategies**



In fundraising, private credit firms consider funds that can generate high returns (above 10%) within a short span of five years. Eighty-five percent of the respondents are looking at investment horizons of one to five years and expect returns in excess of 7% (65% expect returns of more than 10%, with those at the lower end of the hierarchy seemingly more ambitious). Those in leadership positions are more pragmatic and seem to be taking a long-term view of 7-10% returns over a longer period of time.

## Openness to adopting additional strategies

Results of our previous surveys showed that firms were strongly inclined to continue pursuing existing strategies, with more than half of the respondents undecided about pursuing additional strategies or unwilling to do so. However, the latest survey results show that more than half of the respondents are willing to diversify their strategies, with a strong willingness in the emerging markets of the Middle East and Africa. The established markets of Europe and Asia also show a substantial increase in strategy diversification, with ~60% of the respondents answering in the affirmative. Only UK- and North America-based respondents seem to be following the historical trend of focusing on existing strategies.




Larger funds continue to express willingness to diversify their strategies, as evidenced by a larger number of respondents. Smaller funds, typically more focused on their respective strategies, are also seeing a spike in willingness to diversify.

In strong contrast, less than one-third of the respondents from funds with more than USD150bn in AuM were willing to diversify in 2022; two-thirds of the respondents from these funds are now open to diversification, as diversification presents opportunities for their limited partners as well[20]. Over half of the respondents from funds with AuM of USD10-50bn continue to show a willingness to diversify (the same as in 2022).

The largest (4x) improvement in sentiment towards diversification was witnessed in buyout funds. Niche strategies, such as real estate and infrastructure that favour diversification, seem to be returning to their path to diversification, with the share of respondents who are undecided declining from the 2023 survey. Similarly, professionals across the board registered increased interest in diversifying, with investment directors demonstrating the highest optimism: nearly three-fourths of the respondents from that category are willing to diversify.

On the other hand, venture funds' interest in diversifying moderated slightly for 2024.

[20] Why large private equity firms are moving to a multi-strategy approach – Private Equity News (penews.com)

## Challenges in fundraising

Challenges in fundraising expected in 2024 mirror expectations for 2022. As the Private Markets sector embraces the upheavals of 2022-23 as the new normal and expects 2024 to see a moderation, the challenges in fundraising expected in 2024 are more or less the basic challenges amid market dynamics. Competition for funds is back as the main challenge, after firms adopted a wait-and-see approach in 2023, followed by challenges associated with convincing lead partners to invest.

One notable change is in how strong the challenge of "convincing lead partners" is – in 2022, only 14% of the respondents considered it to be the main challenge, versus 20% now. With this ranking higher, the difference in scores for competition for funds and convincing lead partners has narrowed. Thus, although **convincing lead partners remains the second-largest challenge, it is now a bigger challenge, likely because of the constraints lead partners are facing after over-allocating to private equity.**

Based on the discussions at our Private Markets webinar in March 2023[21], we decided to gauge the impact of interest rates on fundraising decisions. Interest rates are part of macroeconomic considerations, the third key challenge in fundraising. Interest rates emerged only a notch below the challenges associated with convincing lead partners, which is likely due to other investment avenues available to them as rates rise. Note that macroeconomic challenges were the main and the most significant challenge expected for 2023. The respondents expect these to reach steady state again in 2024.

**Challenges in fundraising in 2024 (with weighted-average scores)**

| Challenge | Rank 1 | Rank 2 | Rank 3 | Rank 4 | Rank 5 | Rank 6 | Rank 7 | Rank 8 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| High competition | 27% | 16% | 20% | 17% | 5% | 6% | 7% | 1% | 5.56 | 5.54 | **4.58** |
| Convincing LPs to invest | 20% | 16% | 19% | 12% | 15% | 9% | 10% | | 4.59 | 5.10 | **4.32** |
| Interest rates | 20% | 23% | 12% | 11% | 11% | 10% | 9% | 4% | N/A | N/A | **4.25** |
| Macroeconomic factors | 10% | 16% | 16% | 18% | 13% | 14% | 13% | 1% | 4.95 | 6.90 | **3.90** |
| LPs' preference for large funds | 6% | 13% | 15% | 15% | 16% | 22% | 10% | 2% | 4.83 | 4.64 | **3.56** |
| Difficulty in fundraising for first-time funds | 8% | 8% | 12% | 8% | 20% | 16% | 23% | 5% | 3.95 | 4.00 | **3.21** |
| High existing dry powder | 5% | 8% | 7% | 16% | 17% | 21% | 22% | 4% | 4.24 | 3.98 | **3.10** |

Weightage average score (2022, 2023, 2024)

Note: Score is a weightage-average score of the share of respondents assigning importance (ranked) to a particular response divided by 100

[21] https://www.acuitykp.com/our-events/unlocking-value-in-private-markets/

Smaller firms face certain challenges with respect to large managers, as large multi-strategy groups often present "staple commitments" that skew the market in their favour. Hence, nearly half of the respondents from firms with less than USD1bn in AuM consider lead partners' preference for large funds as their first or second key concern. Note that funds of funds, real estate funds and private credit funds are not as concerned about the size of the firm when raising funds.

Economic, geopolitical and lead partner-related concerns (e.g., over-allocation and demand for co-investment) continue to present challenges in fundraising. Furthermore, lead partners remain concerned about valuation, albeit less than they were in the 2023 survey. Past performance and valuation remain challenges despite the dynamic nature of the market environment. **A firm's structure, co-investment opportunities and internal processes also influence fundraising.**

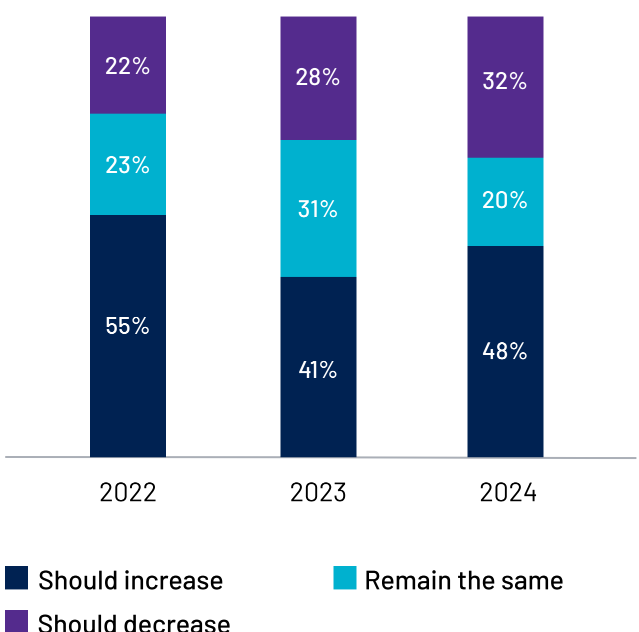
Respondents from developing markets are experiencing changes in financing conditions, such as the impact of development finance institutions and the emergence of business development companies (BDCs)[22].

## Levels of dry powder

The number of respondents expecting dry powder to decline in 2024 increased versus the number for 2023. One-third of the respondents expect levels of dry powder to decline; this is the highest amount of pessimism in the past three years. However, the large number of respondents expecting dry powder to increase or remain the same suggests that the sector is likely to enjoy a sufficient level of dry powder; this is still very high despite all the upheavals in the market.

Dry powder reached USD2.39tn[23] as of 1 December 2023. Increased expectations for lower levels of dry powder may be due to expectations of more deals in 2024 than in 2023 as inflation eases and leads to lower interest rates[24,25].

**Expectations for dry powder**




[22] https://www.linkedin.com/posts/acuity-knowledge-partners_business-development-companies-an-alternative-activity-7141457193412771841-kzFr?utm_source=share&utm_medium=member_desktop
[23] https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/private-equity-firms-face-pressure-as-dry-powder-hits-record-2-59-trillion-79762227.
[24] https://www.spglobal.com/marketintelligence/en/news-insights/podcasts/private-markets-360-episode-8
[25] https://www.oecd.org/newsroom/economic-outlook-a-mild-slowdown-in-2024-and-slightly-improved-growth-in-2025.htm

# Investment opportunities

- *Expectations for investment opportunities in the Private Markets sector for 2024 seem to have increased from expectations for 2023 but remain considerably below expectations for 2022*

- *After a 27% decline in deal activity in the first nine months of 2023, the last quarter witnessed a 19% y/y increase*

- *Economic uncertainty and a lack of suitable opportunities have significantly surpassed high valuation in terms of challenges in deploying dry powder*

- *Private equity and venture capital (PE&VC) firms' main focus is on the digital technology sector (according to more than 45% of the respondents); "artificial intelligence and machine learning" is the tech category most in focus. Infrastructure firms are also focused on digital infrastructure and renewable energy*

Investment opportunities in the Private Markets sector in 2024 have increased from 2023, according to half of the respondents but remain considerably below those in 2022. All three editions of the survey results show that one-fourth of the respondents stated that opportunities remain the same.

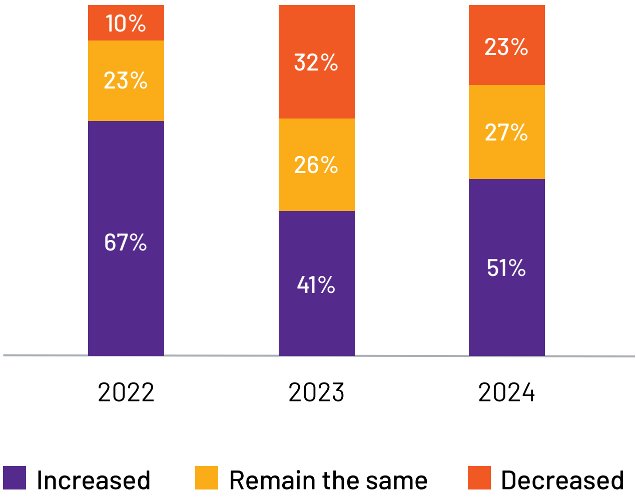
In the 2023 survey, sentiment nosedived as deal activity weakened; this resulted in a 27% decline in deal activity in the first nine months of 2023[1]. Green shoots emerged in the fourth quarter of 2023, with deal volume up 19% y/y[2]. Respondents are, therefore, slightly more optimistic for 2024.

Leadership in Private Markets remains the most assured (more than associates and vice presidents) about opportunities, in line with the results of our previous two surveys. While they stated in 2023 that opportunities had somewhat moderated, they currently feel that opportunities are at levels similar to those in 2022.

However, this positive observation is not universal, with only two-thirds of the respondents from Asia Pacific and the Middle East positive. Respondents from most of the other regions reported an improvement in opportunities this year; half of the respondents reported more opportunities. Only 43% of the respondents from the UK and 41% of the respondents from North America felt that there were more opportunities. Twenty-five percent of the respondents from Asia Pacific believe that opportunities have declined (this is the second highest, after 35% of the respondents from North America).

In terms of strategy, half of the respondents from all strategies – give or take a few – believe that opportunities have increased.

**Investment opportunities compared to those in the past two years**




Funds of funds and ESG strategies had more respondents who said that opportunities have increased (60% and 70% of the respondents, respectively), with none saying that opportunities had declined. However, one-third or more of the respondents from infrastructure (30%), real estate (36%) and private credit (40%) firms believed that opportunities had declined.

In gauging observations by fund size, we observe a curious reversal of trend. **According to the results of our previous two surveys, smaller funds – especially those with less than USD1bn in AuM – reported an increase in opportunities. Three-fourths of the respondents in our current survey from funds with more than USD150bn in AuM are confident about opportunities (compared to 30-40% of the respondents in the 2023 survey).** Slightly more than half of the respondents from funds with less than USD1bn in AuM reported more opportunities (a significant drop from 80% of the respondents who reported more opportunities in the 2023 survey).

[1] https://www.skadden.com/insights/publications/2023/12/2024-insights/corporate-trends/global-ma-activity
[2] https://www.reuters.com/markets/deals/dealmakers-see-rebound-after-global-ma-volumes-hit-decade-low-2023-12-21/

## Analysing the decline in opportunities

The number of respondents reporting a decline in sourcing opportunities and difficulty in identifying suitable targets declined moderately from the 2023 survey but remained higher than the number in 2022.

Level of difficulty in finding investment opportunities: ~70% of the respondents (of those believing that opportunities had declined) rated the difficulty between 4 and 7, indicating that the level of difficulty has decreased, moving to "moderate" from "moderate to high" in previous years.

**Difficulty in finding investment opportunities**

| Difficulty (Low → High) | 2022 | 2023 | 2024 |
|---|---|---|---|
| 1 | | | 3% |
| 2 | | | |
| 3 | | 4% | 3% |
| 4 | 9% | 7% | 7% |
| 5 | | 14% | 7% |
| 6 | 9% | 14% | 31% |
| 7 | 45% | 36% | 31% |
| 8 | 18% | 18% | 17% |
| 9 | 9% | 4% | |
| 10 | 9% | 4% | |

Low ← → High

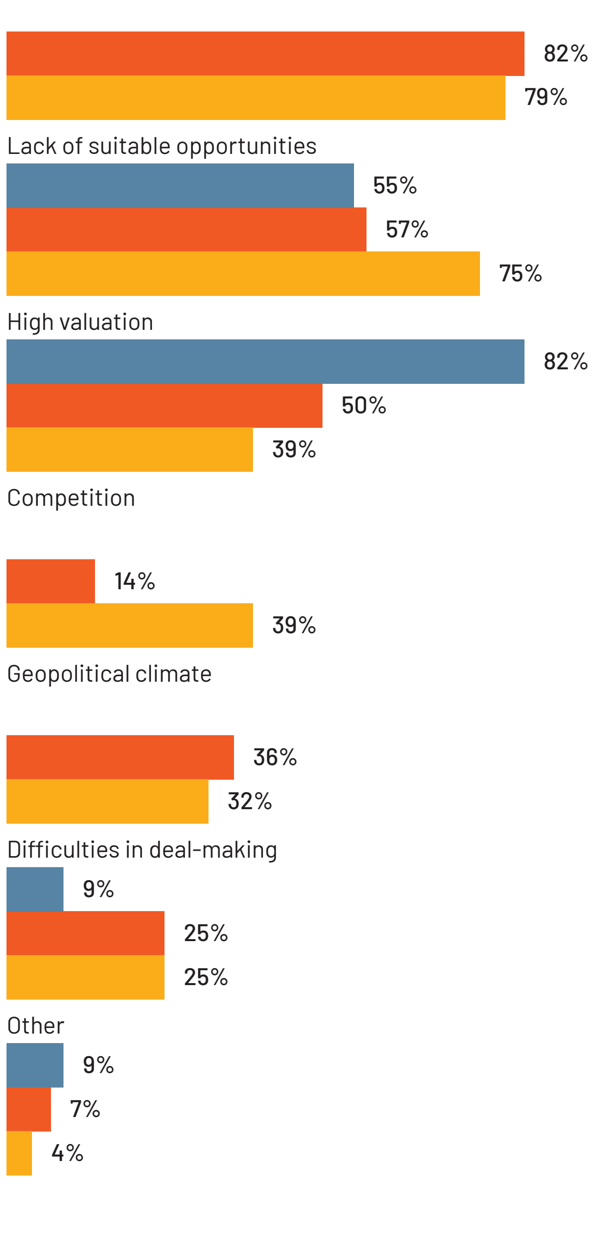
Share of total respondents: 22% (versus 32% in the 2023 survey and 10% in the 2022 survey)

Dry powder deployment is facing challenges on the same lines as last year in terms of economic uncertainties and identifying suitable opportunities. Valuation remains a concern, but further muted. The sector is also concerned about the geopolitical climate, which will likely remain in focus this year, too. Deal making has become almost three times more difficult since 2022.

We began assessing competition as a challenge in deal making in the 2023 survey. While it did not appear to be a significant impediment then, it has emerged as the third-largest challenge (~40% of the respondents), driven mainly by Asian markets where the number of respondents who mentioned competition as a factor increased significantly (to 100% of the respondents in the current survey from 0% in the 2023 survey).

In line with the results of our previous two surveys, **these challenges are cited across regions, types of firms and designations.** Some respondents from Africa consider only economic stability as a significant impediment.

**Challenges envisaged in deploying dry powder**



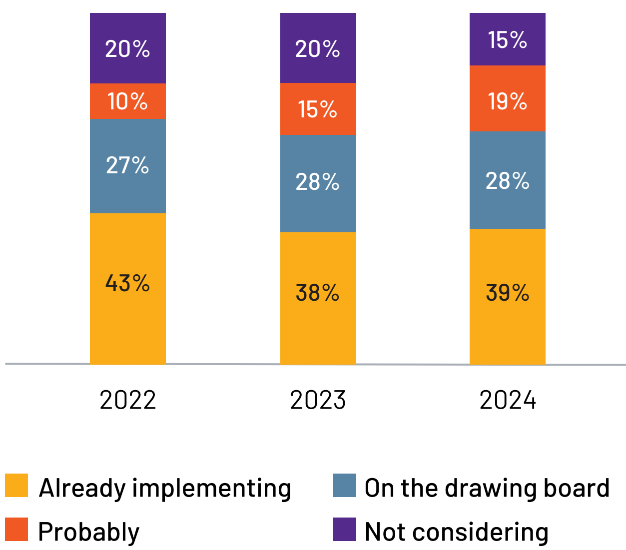

Note: Share of respondents may not total 100%, as respondents cited multiple challenges

## New strategies

The number of firms modifying their strategies (67%) remained similar to the trend in the 2023 survey. However, with market expectations for 2024 becoming more positive than those for 2023, the share of firms saying they will "probably" modify their strategies increased compared to the number in 2023.

On a regional level, there seems to be a large shift, with a ~60% decline in the number of respondents from firms based in or focused on North America and the UK willing to modify strategy. On the other hand, the number of respondents from South America and Europe willing to modify strategy increased significantly.

PE&VC firms planning to modify existing investment strategies




## Sector-focused strategies

Within Private Markets, firms maintained their focus on target sectors, in line with their respective strategies. Unlike in our previous two surveys, we adopted a more granular approach in this one to assess the focus of each strategy.

### *Private equity and venture capital*

PE&VC firms remain focused on their key sectors. As in previous years, their focus on digital technology and healthcare remains intact, although they expect to slightly reduce their focus on healthcare in 2024.

Their focus on energy has more than doubled compared to 2022, fuelled by the significant increase in interest in renewable energy. On the other hand, their focus on media and telecom has declined considerably – to 16% from 52% in 2022. PE&VC firms maintain their focus on the other sectors at more or less the same level as in the previous two years.

The slight increase in focus on non-tech sectors (such as food and beverages, and agriculture) seems to have been driven by concerns related to the stock market collapse and large layoffs in the tech space[3, 4] in 2022 and 2023.

[3] https://news.crunchbase.com/startups/tech-layoffs/
[4] https://www.computerworld.com/article/3685936/tech-layoffs-in-2023-a-timeline.html

In terms of focus area, the sectors can be classified into three broad segments, based on the respondents' preferences:

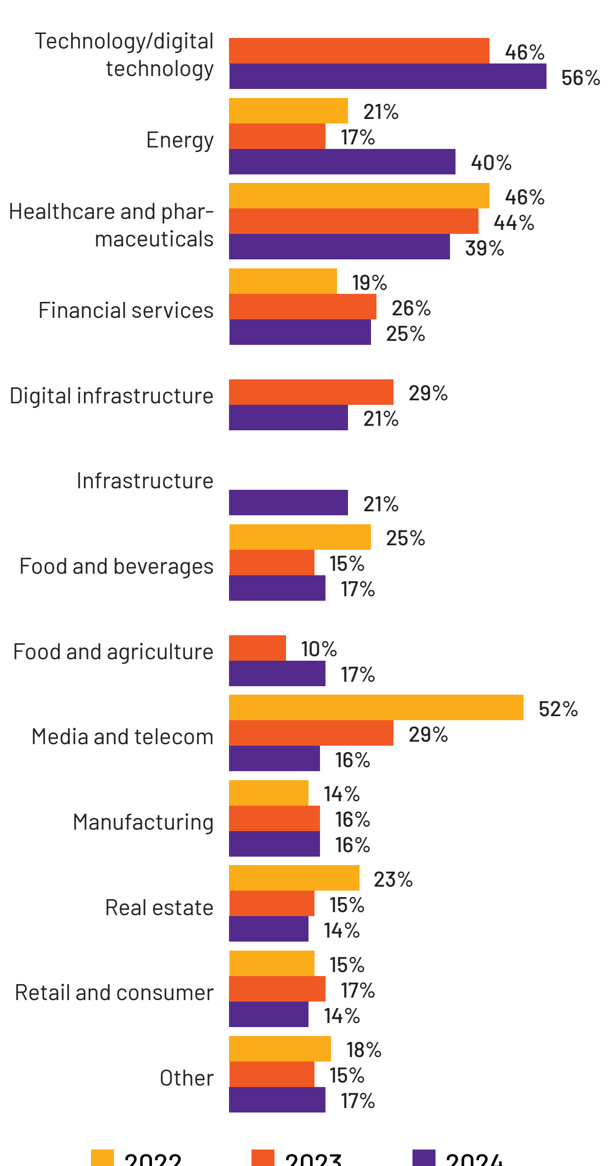
1. **High focus:** Only digital technology qualified as a high-focus sector (although this has a very wide definition), according to 45% or more of the respondents. Healthcare, which gained prominence amid the pandemic, continued to receive significant attention, but saw a decline.

2. **Medium focus:** 16-45% of the respondents are focused on most of their target sectors, as investors prefer areas that offer the required returns.

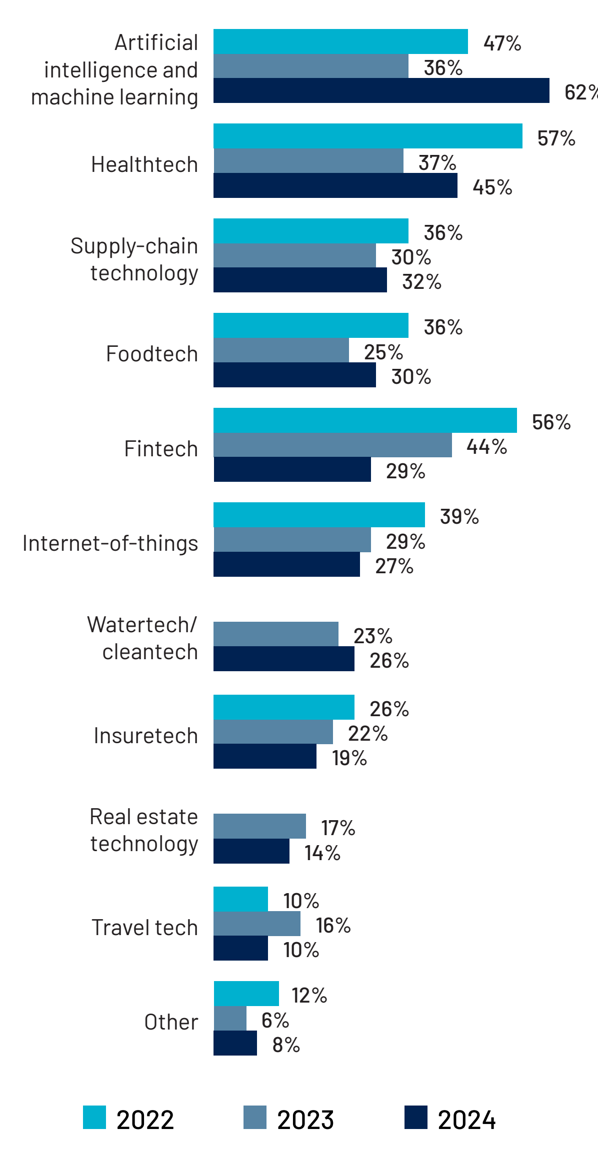
3. **Low focus:** 15% or fewer respondents are focused on sectors such as energy and food.

PE&VC firms of all sizes have more or less the same sector focus. The only notable exceptions are firms in the Middle East, Africa and Asia Pacific, which are keen on the energy sector, and Middle East-based firms that have a significant focus on real estate.

**Sectors expected to gain investment focus from PE&VC firms**




**Disruptive technologies preferred by PE&VC firms**



## Tech focus

Tech focus has also become more distributed and more homogenised. With ChatGPT gaining the focus of developers and funders, PE&VC firms cite artificial intelligence and machine learning as the tech category they prefer the most. Healthcare was the second-highest preference, after losing its attraction in 2023. North American and UK markets prefer artificial intelligence and healthtech the most, although for different reasons. While most of the tech research is conducted in North America, the region has a large elderly population, increasing interest in any health-related development. The other tech areas received similar interest as in 2023, other than for the low interest in traveltech and real estate tech.

Funding for startups in fintech declined further in 2023[5]. Other tech areas on the radar of PE&VC firms include ESG projects, business services and green infrastructure.

**In the post-pandemic world, almost all tech areas have a similar appeal. The only exceptions are artificial intelligence and machine learning, driven by the recent surge in artificial intelligence-related developments and healthcare, where market demand is growing. This suggests that the sector has overcome past trends and is focused on projects with clear growth potential and intrinsic value.**

PE&VC focus on technology by region

| | North America | South America | UK | Europe | Asia Pacific | The Middle East | Africa |
|---|---|---|---|---|---|---|---|
| Healthcare and pharmaceuticals | 50% | 17% | 58% | 50% | 36% | 43% | 25% |
| Technology, media and telecom | 9% | 50% | 17% | 19% | 4% | 14% | 13% |
| Technology/digital technology | 41% | 67% | 58% | 50% | 76% | 43% | 50% |
| Digital infrastructure | 23% | 33% | 17% | 19% | 44% | - | - |
| Energy | 32% | 33% | 33% | 19% | 40% | 57% | 63% |
| Financial services | 14% | 50% | 13% | 23% | 28% | - | 25% |
| Manufacturing | 18% | - | 13% | 12% | 16% | 29% | 25% |
| Real estate | 5% | - | 13% | 4% | 4% | 43% | 13% |
| Infrastructure | 18% | 17% | 21% | 15% | 24% | 14% | 13% |
| Food and beverages | 9% | 17% | 17% | 19% | 12% | 29% | 25% |
| Retail and consumer | 18% | - | 13% | 19% | 24% | - | - |
| Food and agriculture | 14% | - | - | 12% | 16% | 14% | 38% |

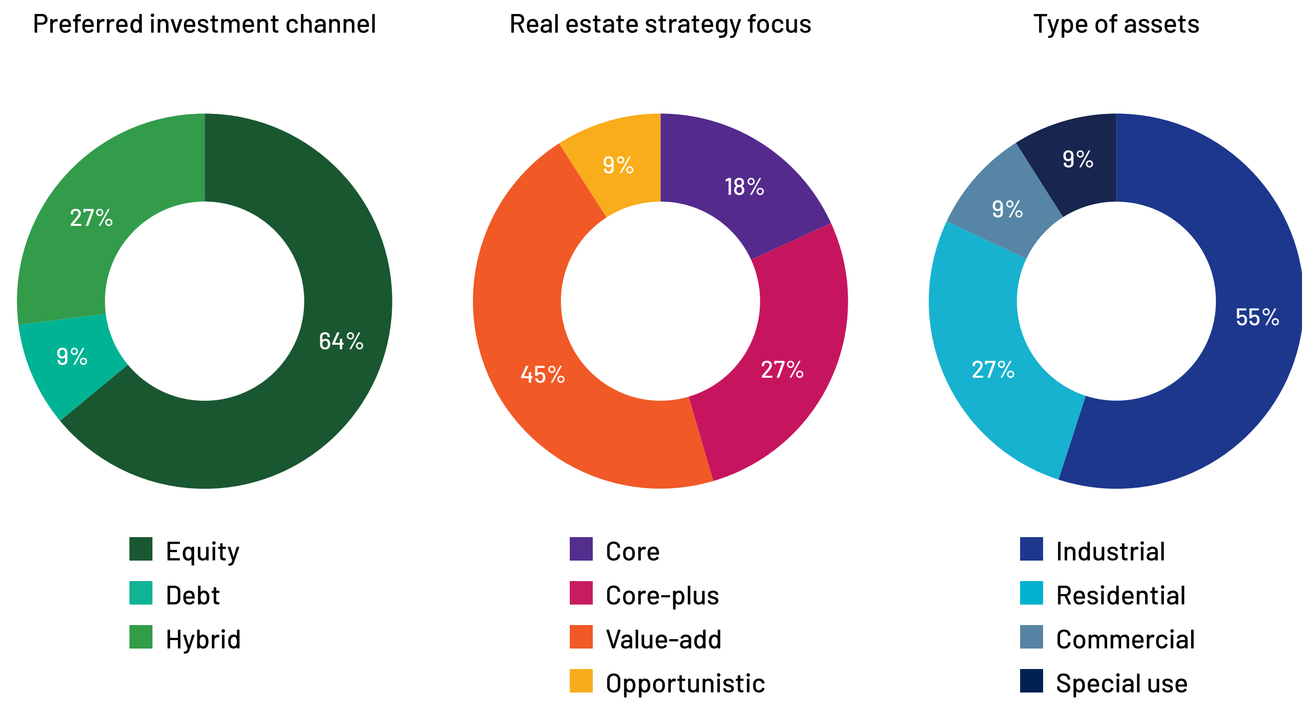
HIGH — LOW

[5] https://sifted.eu/articles/uk-tech-in-2023-review

## *Real estate*

Real estate funds globally seem to prefer to invest in equity in value-added projects, but real estate investment preferences vary between geographies. UK-based respondents seem to prefer core-plus projects while Asia Pacific-based respondents prefer value-added projects.

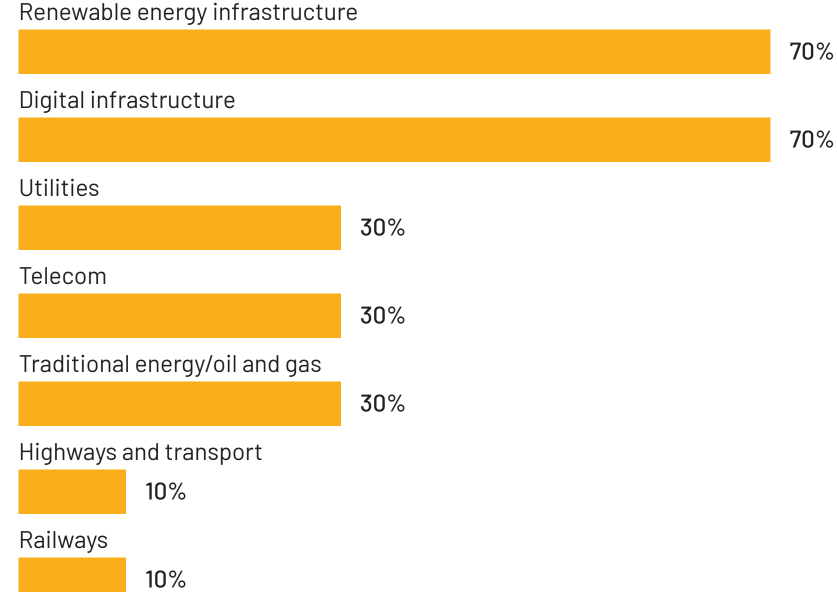
In terms of fund size, funds of all sizes except for smaller funds (with less than USD1bn in AuM) remain focused on value-added real estate. Smaller funds seem to prefer core and opportunistic real estate. In terms of asset type, the sector seems to prefer industrial and residential assets more.



## *Infrastructure*

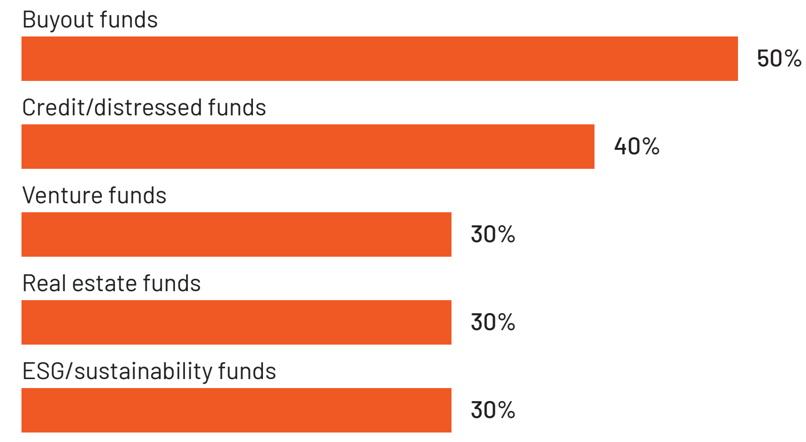
All sizes of infrastructure firms, across geographies, are most focused on renewable energy and digital infrastructure projects. Funds based in or focused on the emerging markets of South America and Asia Pacific – where critical infrastructure is insufficient – are also focused on utilities and traditional oil and gas-related projects.

We also checked preferences for aviation projects, but none of the respondents were inclined to invest in these.




## *Funds of funds*

Venture funds, real estate funds and ESG funds have a similar focus on buyout and credit strategies. However, there is some regional bias: North America-based funds prefer buyout and credit/distressed funds while Europe-based funds prefer buyout, venture and ESG funds.




# Regions likely to attract interest

Private Markets firms' regional focus is similar to that in 2023: North America (43% of the respondents), Europe (33%), Asia Pacific (27%) and the UK (27%) are key target regions for investment.

# Private Markets operations

- *Portfolio monitoring and deal-related activity (due diligence and deal sourcing) continue to demand more than half of professionals' time*
- *Outsourcing remains strong overall, with 79% of the respondents continuing to derive value from and augment capacity by outsourcing; the others seem to be aware of the benefits and may consider outsourcing*
- *Portfolio monitoring via Excel-based tools is still preferred, but there is a need for and acceptance of third-party tools*

We added one more activity to private professionals' operational activities – fund accounting – so as to conduct a more comprehensive analysis of Private Markets activities.

Although this makes a comparison with previous years' results difficult, professionals' time spent on the different activities seems to be the same.

Portfolio monitoring and deal-related activity (due diligence and deal sourcing) continue to demand more than half of the professionals' time.

**Time spent on PE&VC activities**

| | 2022 | 2023 | 2024 |
|---|---|---|---|
| Portfolio monitoring | 21% | 22% | 19% |
| Due diligence | 24% | 19% | 17% |
| Deal sourcing | 21% | 23% | 16% |
| Valuation | 11% | 12% | 11% |
| Fund marketing | 8% | 8% | 11% |
| Investor reporting | 8% | 10% | 11% |
| Fund accounting | | | 8% |
| ESG and compliance | 8% | 6% | 7% |

In terms of designation, associates and analysts continue to spend a significant amount of time on portfolio monitoring, due diligence and valuation, and very little time on ESG and compliance. Leaders spend most of their time on deal sourcing and portfolio monitoring. The trends are more or less the same as the results of the 2022 survey show, except for a considerable decline in the time spent by analysts and associates on deal sourcing (12.9%) versus 20% in 2022, probably due to a decline in deal-related activity. As a result, deal sourcing fell slightly behind due diligence; however, with the deal landscape expected to recover in 2024, associates may spend more time on deal sourcing as in previous years.

**Even in the current market scenario where deal activity is slow, professionals spend considerable time on deal-related activity and portfolio monitoring. Besides, other operational activities such as valuation, fund marketing and fund accounting are putting a strain on professionals' time.**

Activities vary across regions, but due diligence, portfolio monitoring and deal sourcing continue to account for a large share of professionals' time. Interestingly, portfolio monitoring accounted for most of their time in 2023 in North America and the Middle East, surpassing time spent on due diligence and deal sourcing. Respondents from Africa reported fund marketing as taking most (15.6%) of their time.

In terms of strategy, professionals from venture funds spend nearly half of their time on deal sourcing and portfolio monitoring, while professionals from private-credit funds focus more on due diligence (~24% of their time). Professionals from real estate funds spend more time on monitoring and reporting and less on deal sourcing and due diligence. Those from infrastructure funds spend about the same time on all activities.

## Outsourcing

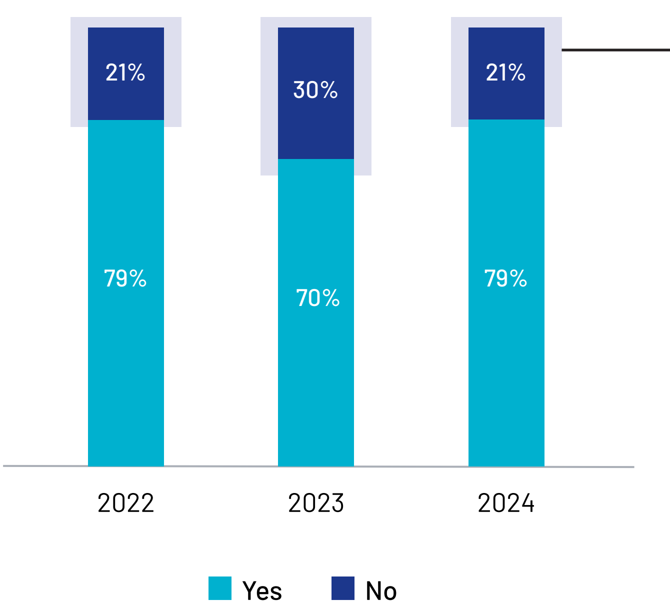
Private Markets firms are actively augmenting their teams (including accounting, administration, human resources, operations and technology infrastructure) with outside support; 79% of the respondents stated that they outsource work. All strategies seem to be benefiting from outsourcing, but the respondents from buyout and private credit were the most positive about outsourcing.

Outsourcing remains strong overall, with 79% of the sector continuing to derive value from and augment capacity by outsourcing. Although 21% of the respondents currently do not outsource work, they are aware of its benefits; they are open to outsourcing and are considering it as an option. This leaves only ~10% of the sector currently not open to outsourcing.

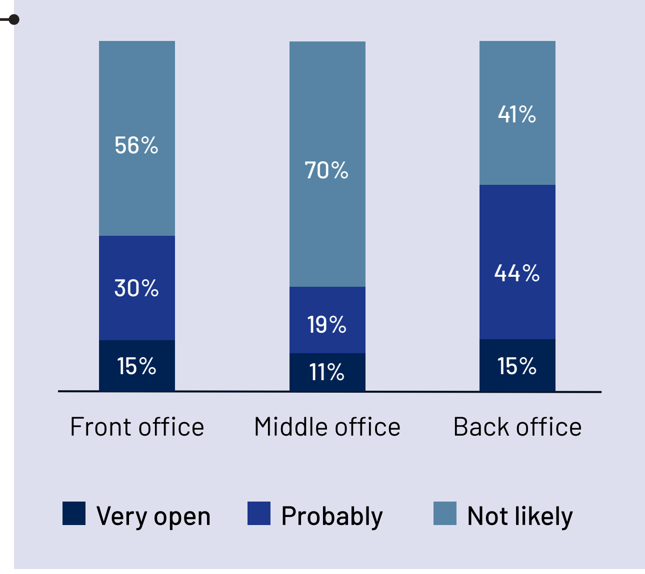
In line with the results of the 2022 survey, **lower designations are more open to work being outsourced – 60% of the associates surveyed are open to outsourcing front- and middle-office operations, and 80% of them are open to outsourcing back-office functions. Seventy-five percent of the vice presidents surveyed are willing to outsource front-office operations, and 100% of them are willing to outsource back-office operations to augment capacity.**

The Private Markets sector believes that outsourcing complements operations and improves efficiency. Thus, unlike in other sectors, where decisions such as those relating to outsourcing are taken mainly by senior management, the Private Markets sector continues to see outsourcing being accepted across designations.

**Use of outsourcing to support/expand deal teams**




**Open to outsourcing research-oriented tasks**




Private Markets firms in North America and the UK continue to outsource significantly; interest in outsourcing is also increasing in Europe and Asia.

In terms of fund size, large funds tend to outsource more, as seen over the years. However, 60-70% of funds with less than USD1bn in AuM are also open to outsourcing, indicating how strongly the sector feels about outsourcing to augment capacity. **Private Markets firms' preference for outsourcing remains strong across strategies, regions and sizes.**

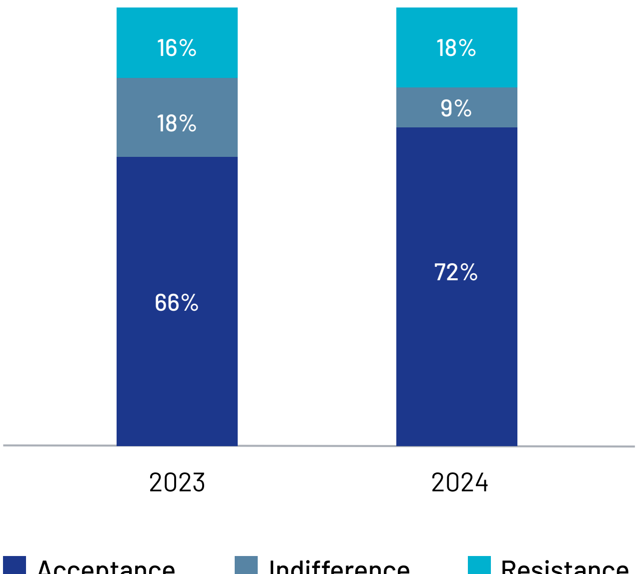
## Portfolio monitoring

In line with the results of our previous surveys, most Private Markets firms rely on Excel-based tools and customised in-house methods for portfolio monitoring. More than half of the firms rely on spreadsheets for monitoring portfolios. **Reliance on tools remains limited even if these tools are customised in-house.** In terms of third-party tools, iLevel, followed by eFront, continues to dominate the market. Other tools with considerable preference include Alluve, Dynamo and Cobalt. Interestingly, when the sector was facing headwinds last year, respondents preferred in-house tools less than third-party tools. However, with the sector set to recover this year, in-house tools are preferred again over third-party tools, as they were in 2022.

Nevertheless, acceptance of third-party tools remains strong as does the market for these. The slight increase in acceptance for 2024 was probably driven by some of the previously indifferent respondents choosing to accept them. However, some of these previously indifferent respondents have also moved to resisting such tools and preferring in-house tools.

Infrastructure funds seem to be the most open to deploying third-party tools: none of the respondents from infrastructure firms cited use of customised in-house tools; they seem to be relying on Excel-based tools and strongly open to using third-party tools.

Acceptance/resistance to adopting third-party tools




**iLevel continued to have the highest adoption rate in North America and seems to be a strong preference of buyout funds. Respondents from the UK and Europe seem to prefer eFront more. Real estate funds globally seem to prefer Real Insight the most, followed by RedIQ and Rockport.**

In terms of portfolio-monitoring tools, use and preference patterns in all markets – Western and emerging regions – seem homogenous.

Geographical reach of portfolio-management tools[1]

| | North America | South America | UK | Europe (excluding the UK) | Asia Pacific | The Middle East | Africa |
|---|---|---|---|---|---|---|---|
| Excel-based | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Customised in-house | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Alluve | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Chronograph | ✓ | ✓ | | | ✓ | ✓ | |
| Cobalt | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Dynamo | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| FolioSure | | ✓ | | ✓ | ✓ | ✓ | ✓ |
| RedIQ | | | ✓ | | ✓ | ✓ | ✓ |
| Rockport | | | ✓ | ✓ | | | ✓ |
| Real Insight | | | ✓ | ✓ | ✓ | | ✓ |
| eFront | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| iLevel | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mercatus | | | ✓ | | | | |
| Affinity, Zoho | | | ✓ | | | | |
| Carta | ✓ | | | | | | |
| Salesforce | | | | | ✓ | | |
| Confluence | ✓ | | | | | | |
| Altvia | ✓ | | | | | | |
| Integra VaaS | ✓ | | | | | | |
| Maestro | | | | | ✓ | | |
| Ascent; Zuput; Fundwave | | | | | ✓ | | |
| E-Venture | | | ✓ | | | | |

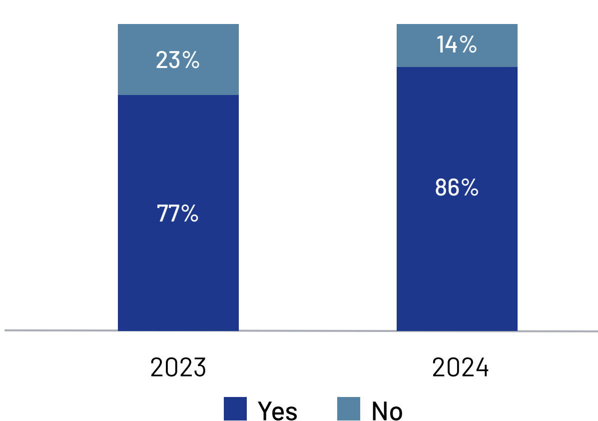
[1]Note: As disclosed by the respondents; may not represent actual distribution; excludes FolioSure (our proprietary tool) to avoid conflict of interest

As preference for tools increases, more than three-quarters of the respondents across regions and designations stated that they use multiple tools and systems in their operations.

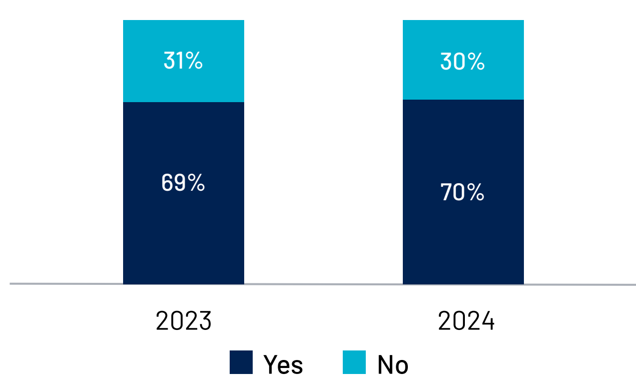
Of these, ~70% would welcome a one-system tool to streamline operations, as complex and disjointed systems result in inefficiency.

This mindset is the strongest among vice presidents and associates, as they are the ones who directly manage the nuances that result from the complexities and multiplicities of the various systems. Leadership also seems to be moving towards this approach. In terms of strategy, except for funds of funds, the others seem to be open to using such tools. Infrastructure funds, which prefer third-party tools, favoured an integrated solution the most.

**Organisation uses multiple tools/software?**



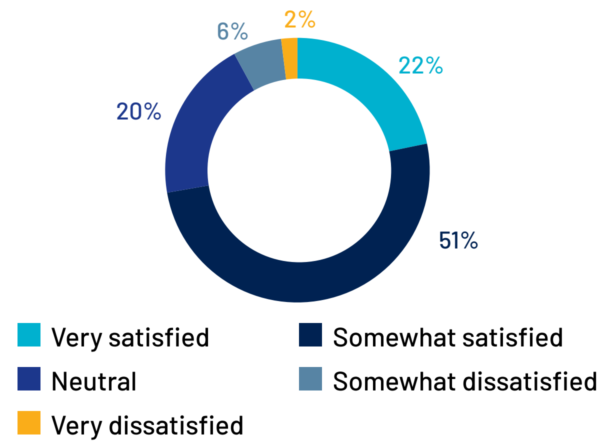

**Interested in adopting a one-system tool and decommissioning complex systems?**



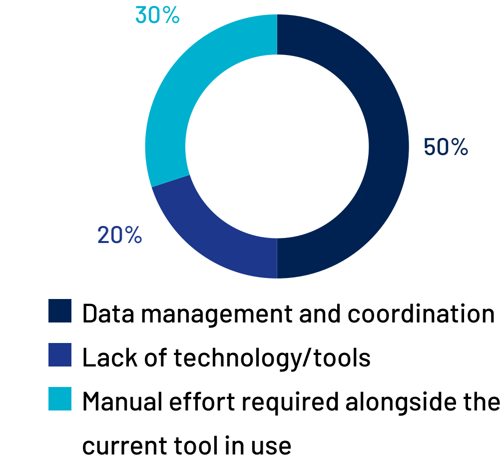

In general, firms seem satisfied with their current processes of portfolio monitoring, indicating a slow adoption of new tools. Less than 10% of the respondents expressed dissatisfaction with the current process, mainly due to challenges in data management and coordination, followed by the manual effort required. Professionals seem to want a more feature-rich tool.

The strongest dissatisfaction is among respondents from funds of funds and private-debt strategies. Large funds seem to be very satisfied with their portfolio-monitoring processes while mid-size funds seem to be the most critical.

**Satisfied with the organisation's current portfolio-monitoring process?**




**Primary source of dissatisfaction**



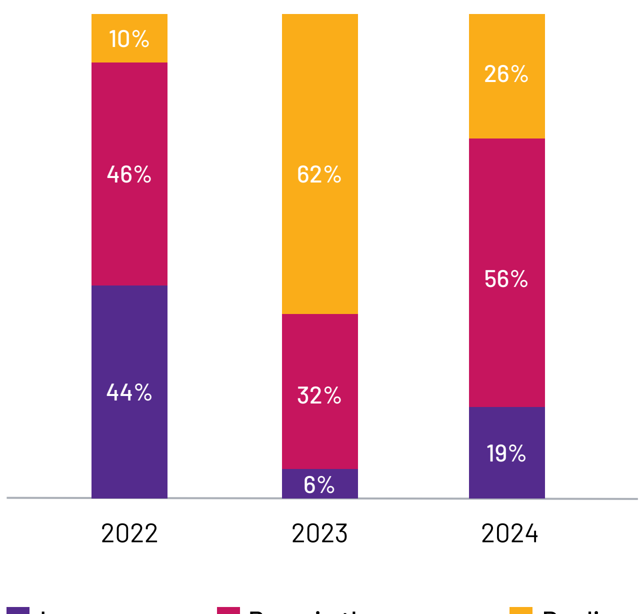
# Valuations and exits

- *Valuation expectations have shifted significantly in the past two years. While the optimism of 2022 remains elusive, respondents are more confident as global indices recover*
- *Economic conditions and interest rates are key factors in determining valuations in 2024*
- *Difficulty in identifying targets based on valuation seems to have eased but remains "moderate to difficult"*
- *Respondents expect exits to be more challenging on the back of less support from valuations; strategic sales seem to be the sector's most preferred option*

## Valuation expectations

Valuation expectations have shifted significantly in the past two years. Although the number of respondents who believe that valuations may decline has reduced, the market has yet to reflect the confidence of 2022, as most respondents expect valuations to remain the same. Global indices behaved differently in 2023 – some, like the S&P500 and Euronext, were delivering growth towards the end of 2023. On the other hand, the FTSE remained volatile for a good part of the year. Emerging-market indices delivered low growth (Brazil) to high growth (India).

Based on a recent assessment of leading Private Markets firms and thought leaders, the era of high valuations seems to have passed, and moderate valuations could be the new normal.




Amid the current macroeconomic environment – high inflation, expensive debt and disrupted supply chains – the Harvard Business Review says that exit valuations could be harder to achieve[1]. KKR expects the valuation gap between buyer and seller to narrow in 2024 – Private Markets valuations are moderating[2]. According to Goldman Sachs Asset Management (GSAM), "the era of structurally higher interest rates and elevated valuations, leverage and multiple expansion are unlikely to add much to private equity value creation. Instead, operational value creation levers are poised to become the main determinants of success in the new regime"[3].

Venture-backed companies continue to face valuation resets[4] as valuation declines deepened in 2023[5].

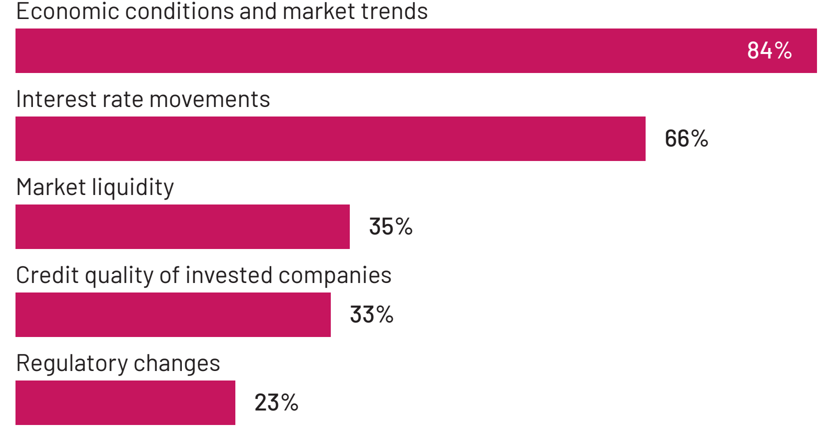
However, this does not hold true universally, as fintech valuations seem to be stabilising after the recent declines[6]. On the other hand, agritech startups may witness more decline in their valuations[7]. Artificial intelligence and machine learning firms' valuations keep rising[8] as this technology attracts the attention of the venture capital sector (as discussed under Investment opportunities).

In the infrastructure space, forward-looking EV/EBITDA multiples and dividend yields have started normalising as the recovery in air and rail traffic and earnings continues[9].

[1] https://hbr.org/sponsored/2023/12/how-private-equity-firms-create-value-in-uncertain-times
[2] https://www.kkr.com/content/dam/kkr/insights/pdf/infra-market-review-2023.pdf
[3] https://www.gsam.com/content/gsam/us/en/institutions/market-insights/gsam-insights/2023/private-equity-value-creation-in-todays-market.html#section-none
[4] https://news.crunchbase.com/venture/startup-valuation-fluctuations-ai-openai-msft-eoy-2023/
[5] https://theloadstar.com/pb-vc-valuations-just-keep-falling/
[6] https://www.finextra.com/newsarticle/43356/fintech-valuations-stabilising-says-vc-fund-chief
[7] https://agfundernews.com/startup-valuation-correction-will-continue-in-2024-but-worst-may-be-yet-to-come-say-a-third-of-agrifoodtech-vcs
[8] https://pitchbook.com/news/articles/generative-AI-vc-huge-valuations-small-revenue
[9] https://www.clearbridgeinvestments.com.au/perspectives/valuation-of-infrastructure-assets-q3-2023/

Valuation expectations seem to be the same across the Private Markets hierarchy, although leadership appears to be slightly more optimistic about an increase in valuations. Respondents from the mature markets of North America and Europe have high expectations that valuations will decline, while nearly half of the respondents from the less developed nations of Africa (50%) and South America (43%) expect them to increase. Respondents from South America do not think valuations will decline.

**Potential factors impacting investment valuations of Private Markets over the next 12 months**




Share of respondents may not total 100%, as respondents cited multiple challenges

Confidence in the region's investment climate looks mixed. The Bovespa Index of Brazil (the largest market in South America) and the IGPA of Chile (the second largest) rose in 2023. The S&P Merval of Argentina (the fifth largest) grew substantially. However, the third largest (Colombia) declined, and the fourth largest (Peru) was flat.

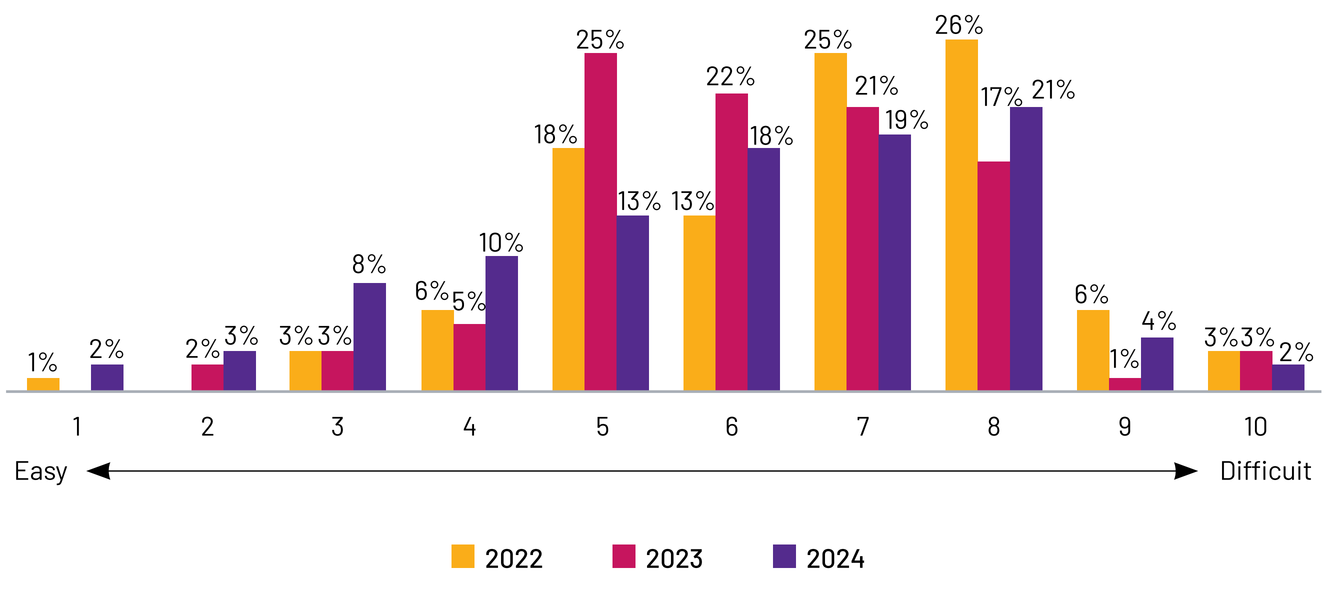
In terms of strategy, venture capitalists seem to be the most pessimistic about valuations; nearly half of them expect valuations to decline. Buyout funds are the most optimistic; nearly one-third of the respondents expect valuations to rise. About one-fifth of the respondents from real estate also believe that valuations will rise, while an overwhelming two-thirds of them expect valuations to remain the same. Some respondents from buyout and real estate from South America and Africa believe that valuations will increase by more than 60%.

## Finding targets with the right valuation

The level of difficultly seems to be moderating. On a scale of 1 to 10 (10 being the most difficult), over 80% of the respondents expected the difficulty between 5 and 8 in 2023, versus between 4 and 8 in 2024.

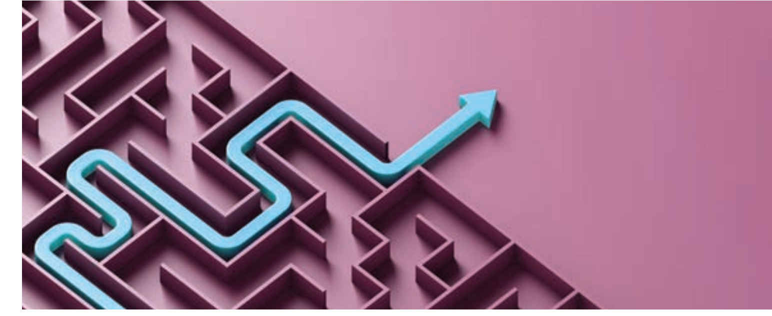
The difficulty in identifying targets based on valuation seems to have moderated further but remains "moderate to difficult".

**How easy or difficult is it to find investible targets with the right valuation?**

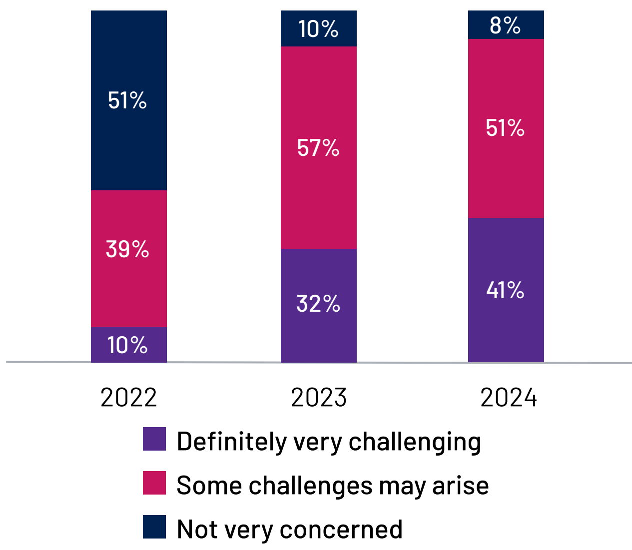



## Exit plans

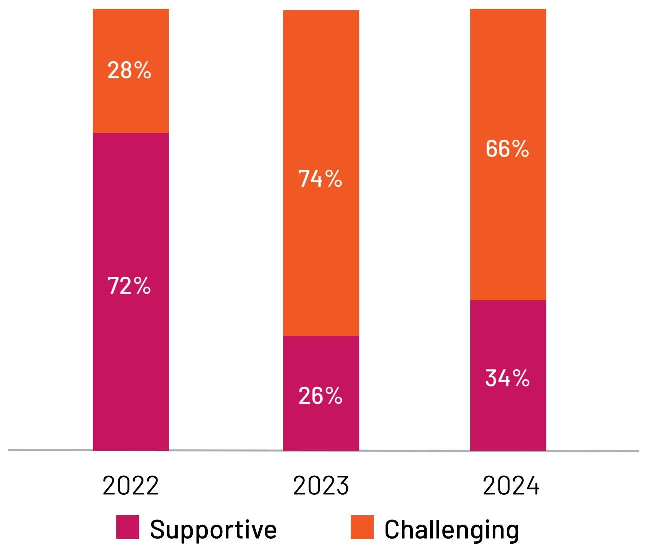
The sector experienced significant challenges in executing exit plans. One-third of the respondents said that exits may be very challenging in 2023; this increases to 40% expecting exits to be challenging this year. The number of respondents confident in their exit plans for 2024 declined further: more than 90% of them are concerned about their exit plans.



Challenges in the current exit environment




Contribution of valuations to current exit plans




The respondents continue to find valuations a challenge to their exit plans. In the 2023 survey, the number of respondents saying that valuations did not support their exit plans increased threefold. This share declines slightly in the current survey as the sector adjusts to the new normal.

In the 2022 survey, most respondents found valuation levels supportive of exits, with selected pockets such as real estate finding them very supportive. In the past two years, the observation has been perfectly inverted (as the chart shows), with respondents across regions, strategies and fund sizes saying that valuations are challenging. However, certain variations were observed in the current survey. For example, responses from participants from large funds (with more than USD50bn in AUM) were split equally between valuations being supportive and presenting challenges, while small funds (with less than USD1bn in AuM) found them challenging. In terms of strategy, venture capital funds face the most challenges, with over 90% of the respondents from these funds believing that valuation levels are challenging. Responses from real estate and buyout were also split equally.

Accordingly, the number of respondents who believe that their exit plans are on track declined considerably – to 8% from 51% in 2022. The number of those who expect the exit environment to be very challenging has increased fourfold since 2022. Half of the respondents from the key markets of North America, Asia and the Middle East expect a very challenging exit environment. On the other hand, only 14% from South America expect a very challenging environment, while almost three-fourths of the respondents expect some challenges to arise.

In terms of strategy, every strategy expects similar challenges, with ~10% saying that exits "should be as planned" and the rest nearly equally split between expecting exits to be "very challenging" and facing "some challenges". Venture capitalists seem to be the most concerned, with 61% of the respondents expecting exit plans to be very challenging.

Large funds are more confident than small ones about their exit plans, while small funds seem to be struggling and more conscious of challenges. Seventeen percent of the respondents from funds with more than USD150bn in AuM and 14% from funds with USD50-150bn in AuM are confident about their exit plans compared to single-digit levels of confidence for the rest of the funds. Similarly, smaller funds see more challenges, with 43-53% of the respondents expecting very challenging exit situations.

## Preferred types of exit

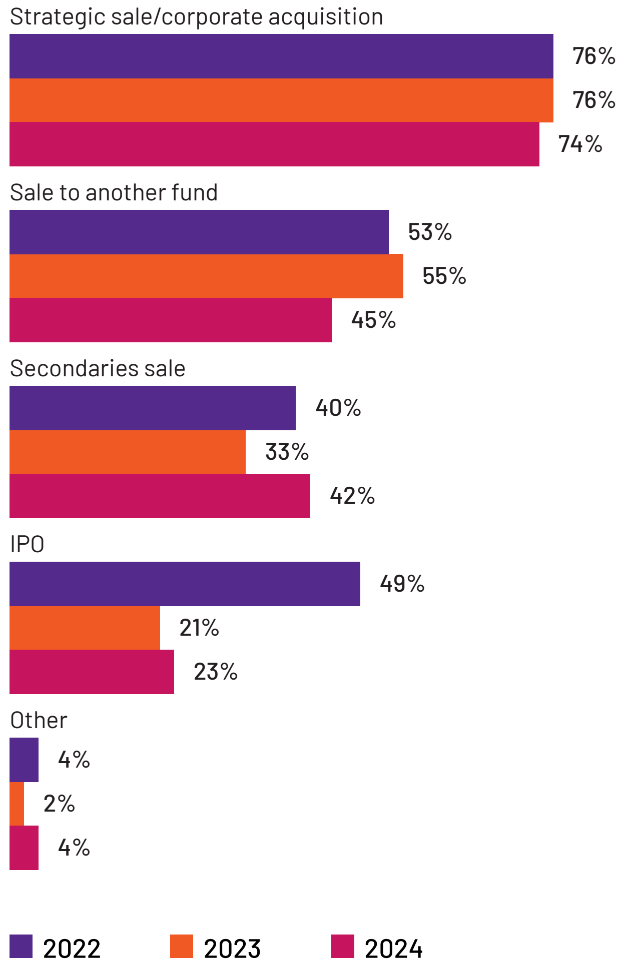
The pessimism that prevailed in 2022 and 2023 did not result in a change in exit preferences; the top choices remain intact. Over three-fourths of the respondents continue to favour a strategic sale/corporate acquisition. As pricing is a challenge in the current uncertain global economic environment, Private Markets firms continue to prefer a strategic sale, as it allows management and investors to cash out[10] and enables ease of exit in a volatile market[11]. In addition, IPOs fell out of preference for most of 2023 as SPACs lost their appeal in 2022-23, and many indices did not perform in line with expectations in 2023.

Strategic sales are a universal option among funds and professionals across geographies.

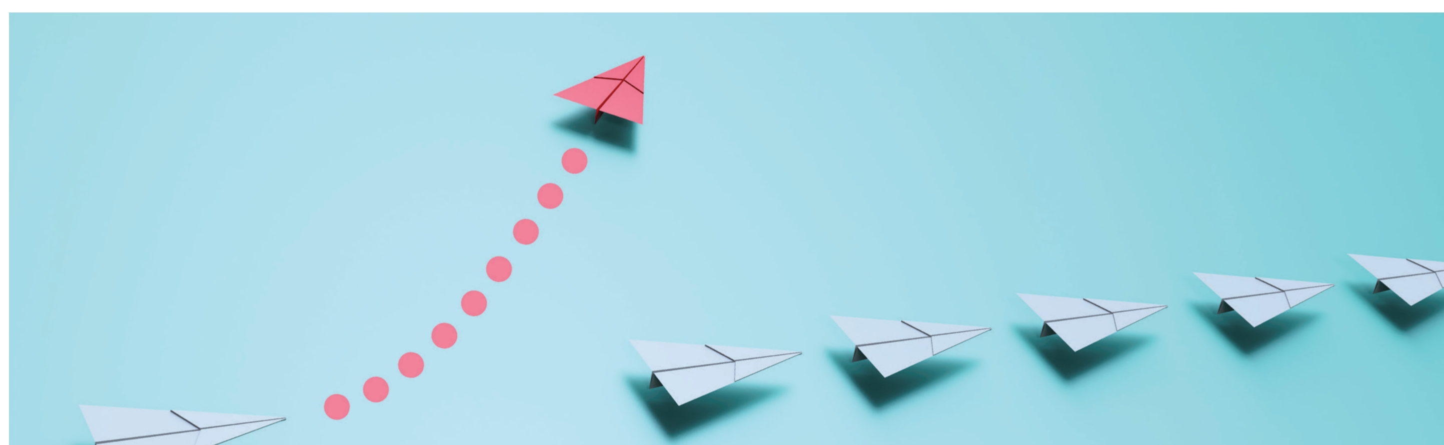
Buyout funds' preference for secondaries declined more than it did in 2023. Secondaries gained in currency as the number of respondents from venture capital who preferred secondaries grew a sharp 13%, likely driven by the challenges they face in terms of valuations and exits. Similarly, real estate funds' interest in secondaries increased threefold.

Respondents from Asia continue to prefer this option, although the preference moderated from 2023 (50% in the 2024 survey versus 58% in 2023). North America and Europe increased preference for secondaries while the UK noted a decline.

**Preferred exit avenues**




Note: Share of respondents will not total 100%, as respondents cited multiple exit avenues



[10] https://www.criticaleye.com/inspiring/insights-servfile.cfm?id=2310#:~:text=Often%20referred%20to%20as%20the,to%20be%20entirely%20cashed%20out.
[11] https://www.livemint.com/Companies/r8KIsfOCKkn7NjAITyAvLO/PE-firms-opt-for-strategic-sales-in-volatile-markets.html

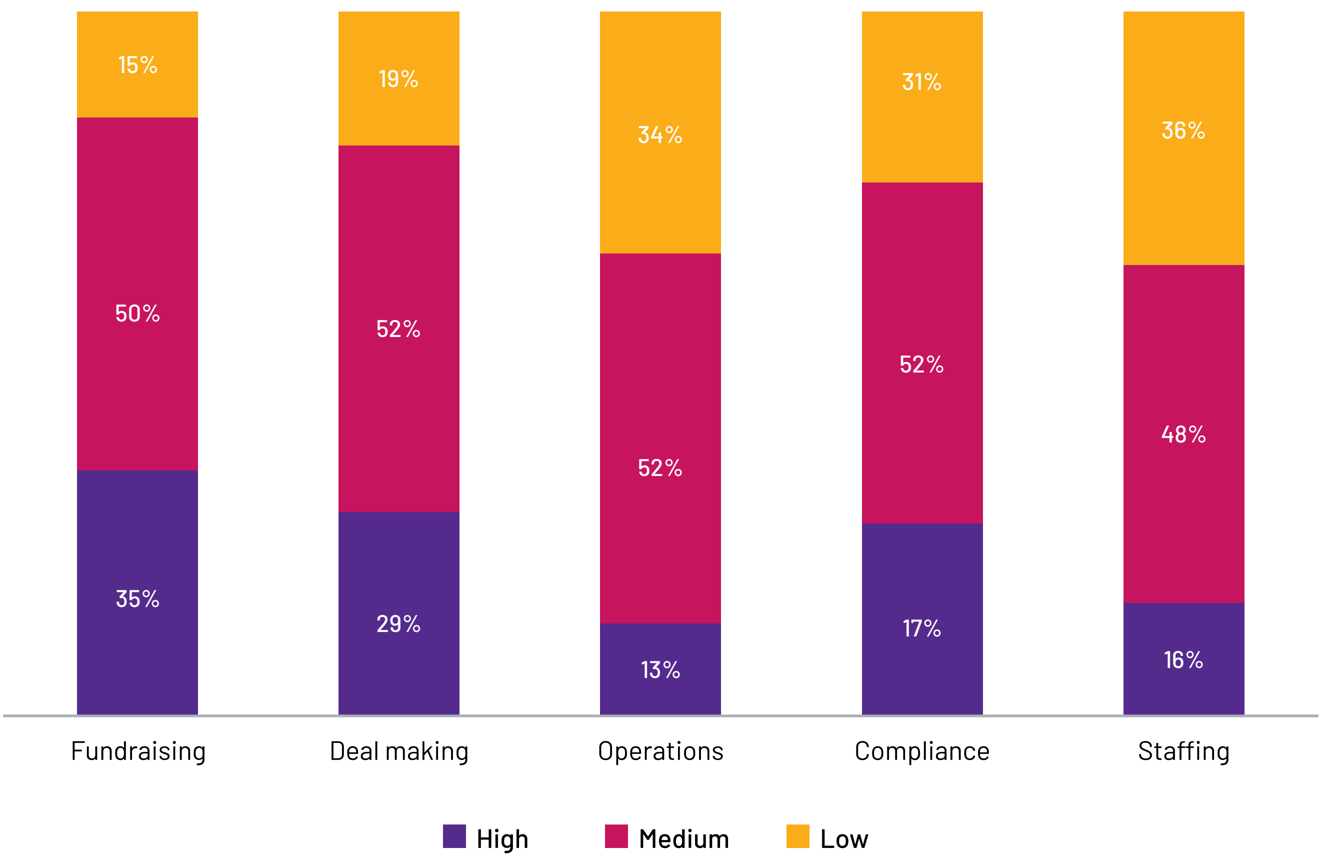
## Impact of geopolitics on fund activity

The economic climate eased concerns that prevailed at the beginning of the year[12]. With low unemployment and declining inflation in most parts of the world, 2024 is likely to start on a comfortable base. However, uncertainties remain, as interest rates are high, wars continue and climate-related events increase[13]. Global GDP faces weak trade growth, and lower business and consumer confidence[14].

Current economic conditions are expected to have more of an impact on fundraising and deal-related activity than on operational activity. Respondents from North America, the UK and Europe expect less of an impact from geopolitical developments than do those from South America, the Middle East and, to some extent, Asia Pacific. This difference is likely due to more policy predictability in the regions mentioned first.

Fundraising and operations in the Middle East and South America may be impacted more by geopolitics. Respondents from the Middle East also expect geopolitics to have a large impact on compliance, and respondents from South America expect geopolitics to have an impact on staffing.

Impact of geopolitics on fund activity




[12] https://hbr.org/2023/12/what-to-expect-from-the-global-economy-in-2024
[13] https://hbr.org/2023/12/what-to-expect-from-the-global-economy-in-2024
[14] https://www.oecd.org/economic-outlook/november-2023/

In the current geopolitical landscape, respondents cite three stress points – the Russia-Ukraine war, the Palestine-Israel conflict and tensions across the Taiwan Strait. Respondents mention three scenarios: (1) a potential start of World War 3, (2) China's invasion of Taiwan and (3) cybersecurity concerns. While these are considered to be extreme scenarios, an invasion of Taiwan would have a drastic impact on the global supply chain. These developments would cause volatility in energy prices, with a knock-on effect on global businesses and economics.

Macroeconomic concerns are real, with elevated risk of high inflation and interest rates. This could result in difficulties in distribution, excessive debt and tighter credit and liquidity. Government regulations are also a concern, with respondents expecting requirements relating to deal making and compliance to increase. Upcoming elections in key markets and their impact on policy are also a source of uncertainty. Infrastructure funds are also concerned about municipal elections, as municipalities have greater decision-making power when it comes to utility projects in their jurisdictions.

On a micro level, firms are concerned about the shortage of required skills. Some also seem to be hesitant about deploying dry powder due to fear of failure of their strategy and/or a lack of suitable investment opportunities.

# The investing environment

- *Fundraising and limited investment and exit opportunities remain top concerns; fundraising was the main concern, as it was for last year*
- *Regulatory concerns remain high, and professionals expect them to increase further*
- *Key areas of concern are an increase in regulations, a lack of uniformity among jurisdictions, overwhelming reporting obligations, ESG, taxation, high interest rates and the cost and time required to comply*
- *Limited partners' requests for modification of reporting requirements are similar to what they were two years ago, closely following sentiment towards fundraising*

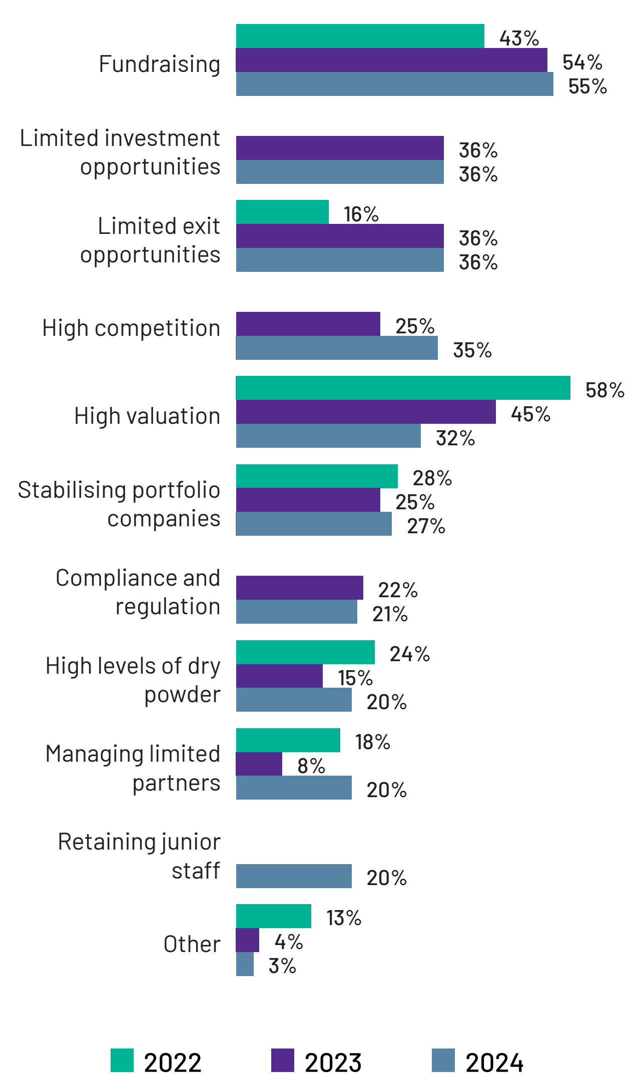
# The biggest challenges/pain points

As valuations decline, they have ceased to be the top concern; fundraising has been the key concern for the past two years, according to more than half of the respondents. Senior management (i.e., investment director and above levels) has been citing this as a major concern since last year. Limited investment opportunities and limited exit opportunities were the next two major challenges (36% of the respondents each). Among professionals, vice presidents consider limited exit opportunities (53%) and analysts/ associates consider limited investment opportunities (58%) as their major concern.

An exception to this trend is noted in Middle East-based firms and funds of funds. Middle East-based funds consider limited exit opportunities and managing limited partners as their top concern (44% of the respondents from these funds). On the other hand, 60% of the respondents from funds of funds consider limited exit opportunities as their main concern, followed by fundraising (50% of these respondents). Since last year, limited exit opportunities have been one of the key concerns for North America-based funds as well.

Other challenges that resonated with respondents include high competition (35%). Valuations correcting for the past two years has resulted in fewer respondents counting valuations as a challenge (32% compared to 58% in 2022). This was followed by challenges in stabilising portfolio companies (27%) and compliance and regulation (21%). The number of respondents considering managing limited partners challenging halved last year, but expectations recovered similar to 2022 levels, with one-fifth of the respondents considering it a concern. We note that almost half of the respondents from ESG funds have rated managing limited partners as a challenge, likely due to the impact of recent scandals surrounding ESG funds' fundraising ability[1].

Biggest challenges/pain points for a firm




Note: Share of respondents will not total 100%, as respondents cited multiple challenges/pain points

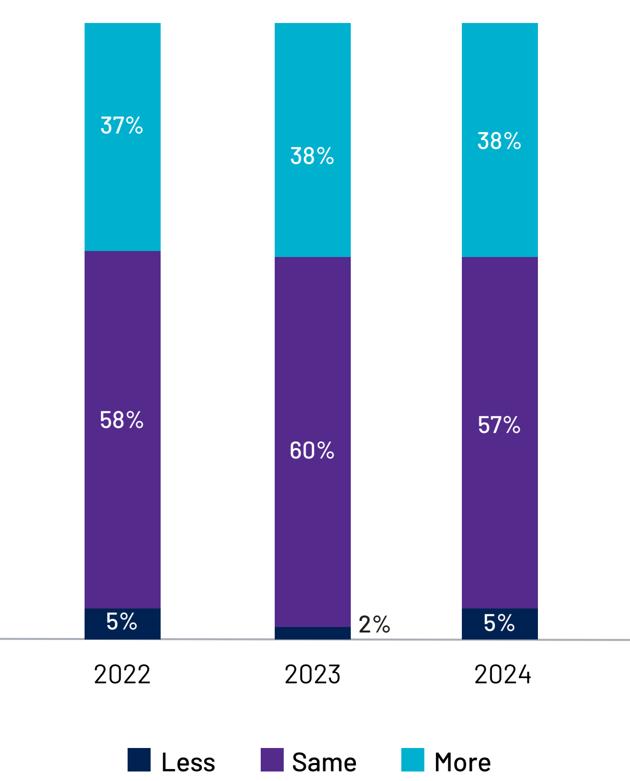
Based on feedback from our previous survey, we asked the respondents to rate the challenge of retaining junior staff. While it was among the least concerns globally, resonating with only one-fifth of the respondents, nearly half of the respondents from Asia Pacific considered it to be a key concern. High levels of dry powder are a key concern, according to 20% of the respondents; nearly half of the respondents from real estate consider it a challenge.

[1] https://www.institutionalinvestor.com/article/2cll8d60ulbur92i2gmio/corner-office/esg-scandals-hurt-a-pe-firms-ability-to-fundraise-but-not

## Regulatory oversight

Concerns relating to regulatory oversight have been stagnant over the three editions of the survey. In all three years, ~60% of the respondents have expected it to be the same while slightly less than 40% have expected it to increase. High expectations for more regulations stem from discussions around tightening regulations for private equity (PE), venture capital (VC) and hedge funds[2]. There are areas in which more regulations are expected[3]. The US Securities and Exchange Commission (SEC) adopted rules relating to transparency, efficiency and competition in August 2023[4]; such developments require managers to review their disclosures and policies.

Half of the leadership and veterans from the Private Markets continue to expect regulations to become more stringent. One-third of the respondents from most regions expect regulations to increase, as opposed to more than half of the respondents from South America and the Middle East.



[2] https://fortune.com/2023/08/08/private-equity-vc-hedge-funds-regulation-sec/
[3] https://middlemarketgrowth.org/3-areas-sec-pe-regulation/
[4] https://www.privateequityinternational.com/regulation-complicates-the-pe-playbook-story-of-the-year/

The respondents believe that regulators aim to manage risk and protect Private Markets investors from fraud and misconduct and that they face challenges in balancing investor protection with innovation that drives growth. PE&VC executives' specific areas of regulatory concern include the following:

**Regulations:** Regulators continue to strengthen regulations to protect investor interest, have introduced more stringent disclosure requirements and marketing rules and have modified rules governing limited-partner agreements.

In general, the respondents believe that compliance with the new rules is time-consuming, costly and risky, and that at times, the rules are ambiguous. Rules keep evolving and sometimes lack coherence, resulting in uncertainty. The sector also believes that there is limited implementation of regulations, as regulations are one-sided, too prescriptive and come with too much red tape.

**Regulations for new-age tech:** The sector believes that policy should support the tech ecosystem. There is concern that the tech ecosystem may face more regulatory burdens (and overregulation), considering the discussions relating to regulating the use of artificial intelligence. The respondents also expect sector-specific regulations.

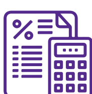
**Venture Capital Trust (VCT) sunset clause:** In November 2023, UK Chancellor Jeremy Hunt extended the VCT and Enterprise Investment Scheme (EIS) sunset clause that supports investors backing startups[5] to April 2035. This rule was previously scheduled to end in 2025; the concern is, therefore, prolonged by a decade, as the rule is not abolished.

**Geopolitics and global governance:** The sector is conscious about geopolitical developments. Although they have not commented on an impact so far, they are concerned about the restrictions of the Committee on Foreign Investment in the United States (CFIUS), regulatory approaches to money laundering and ongoing and potential wars. All these could impact cross-border investment opportunities. International regulations governing Private Markets also need to be made uniform.

[5] https://www.ftadviser.com/investments/2023/11/22/hunt-extends-vct-and-eis-sunset-clause-to-2035/?saveConsentPreferences=success

**Reporting obligations:** Overwhelming reporting requirements remain a major concern for Private Markets firms. This has been aggravated by the introduction of new regulations by the SEC in 2023, which they believe will increase their compliance efforts. The new regulations have further restricted private funds' activities, tightening rules governing preferential treatment. Such trends are likely to increase compliance and reporting costs while increasing the complexity of fundraising[6].

Despite such concerns, regulatory developments are likely to continue, enhancing transparency and investor confidence in the long run[7].



**Taxation:** The respondents feel that taxation is high and have cited this as one of their key concerns. Uncertainty revolved around tax treatment, capital gains taxation, carried interest and incentives for investment. They were also concerned about post-Brexit tax rules.

**ESG:** ESG factors are increasingly coming into focus and becoming a concern for Private Markets firms. Firms face pressure to integrate ESG considerations into their operations and investment decisions. Inconsistencies in regulation between different jurisdictions are another challenge.

**Increasing interest rates:** Interest rates increasing consistently in the past few quarters is a key concern. The sector expects interest rates to decline in 2024 (see the discussion on interest rates under Fundraising) but are a concern at current levels, as they determine the liquidity of Private Markets, which are less liquid than public markets.

**Jurisdiction:** Like last year, Private Markets firms are concerned about regulatory requirements across jurisdictions, in many of which rules change with a change in government. The respondents stated that it is complex to navigate international regulations, as they lack uniformity. Sanctions against Russia have also led to Private Markets firms re-examining their limited-partner bases. Regulations such as the US's CFIUS and the UK's National Security and Investment Act increase risk[8].

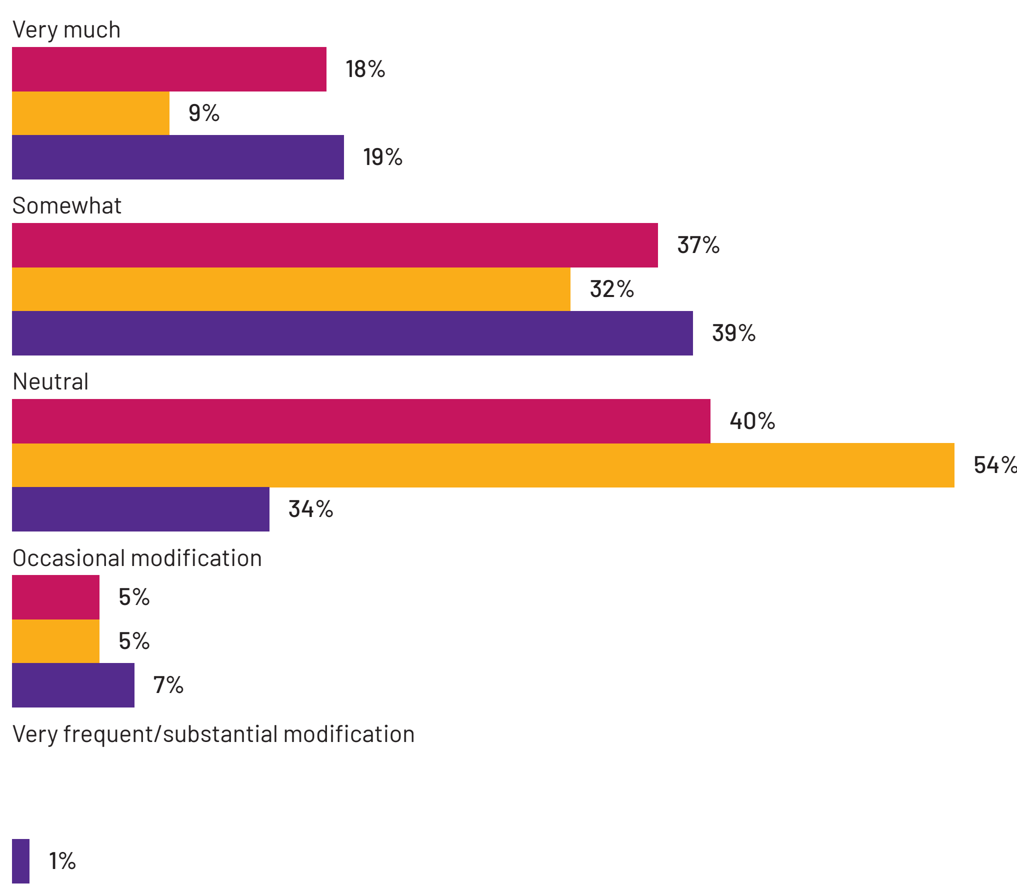
[6] https://www.ftadviser.com/investments/2023/09/27/what-impact-will-the-sec-s-new-rules-have-on-private-funds/#:~:text=The%20new%20rules%20prohibit%20fund,have%20informed%20consent%20from%20investors
[7] new SEC private fund adviser rules | Acuity Knowledge Partners (acuitykp.com)
[8] https://sifted.eu/articles/vc-geopolitics

## Limited partner-related challenges

According to the 2023 survey results, professionals from Private Markets firms believe that requests from limited partners to change reporting frequency have increased to levels last seen two years ago.

Limited partners' requests to change reporting frequency and detailing have also increased from 2022. **This trend seems to be highly correlated with fundraising activity**. Despite the number of reporting templates and designs in place, limited partners have begun asking for more modifications, especially from buyout firms in South America; 14% of the respondents from the region reported requests for substantial modification.

Limited partners' requests to change reporting frequency and level of detail



# ESG

» *ESG investing is becoming popular as more and more Private Markets participants sign on to the United Nations' Principles for Responsible Investment (UN PRI)*

» *Emerging markets continue to show affinity towards ESG considerations in capital raising and investment*

» *The number of respondents claiming to have a mature or partly developed ESG policy system, indicating greater inclination towards incorporating ESG considerations in investment decision making, has increased considerably*

» *Global tailwinds promoting ESG considerations to be included in investment decisions are set to continue across strategies and geographies*

After realigning our queries on ESG in the last survey, we continued our quest to understand ESG activities in the sector. We look at these from different perspectives, including adherence to globally recognised ESG frameworks, systems and processes governing ESG and tracking and monitoring ESG considerations of portfolio investments. We conducted an in-depth analysis of the responses by size of fund, region and strategy and other parameters to present a holistic view of how ESG considerations feature in the current private- markets investment scenario.

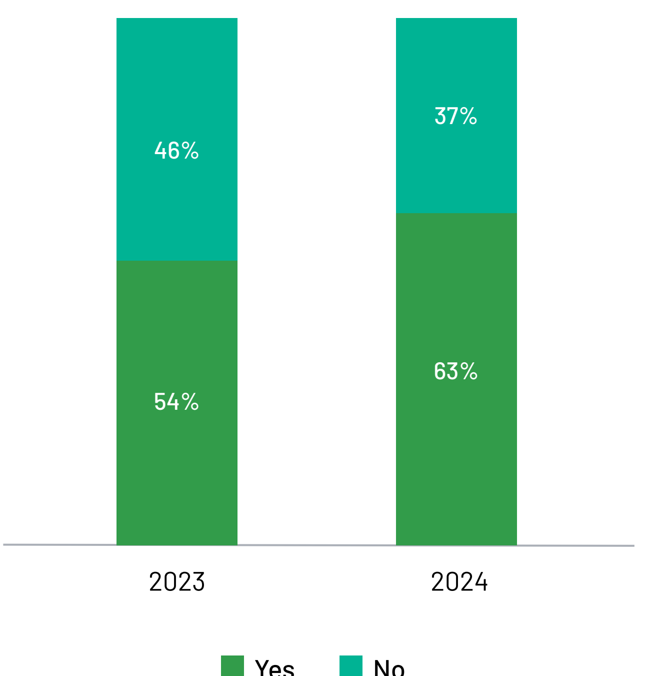
The UN PRI was developed by a group of investors aiming to integrate ESG considerations into investment decisions. Signatories to the UN PRI commit to adopt and implement responsible investment principles by adequately screening and reviewing all investments.

In the current survey, the number of respondents who are signatories to the UN PRI has increased significantly, to 63% of respondents from 54% the previous year.

This increase is driven by the benefits that signatories typically gain, including a public demonstration of commitment towards responsible investing, access to a range of resources and support from the UN PRI and benchmarking to the best industry practices. The number of global signatories to the UN PRI was 5,391 as of December 2023 (a 3.8% increase from September 2022), representing USD120tn+ in AuM[1].

Other ESG frameworks also provide broad guidelines for disclosing ESG considerations in business operations. They help identify and integrate business risks arising from concerns around ESG management as well.

**UN PRI signatory status**



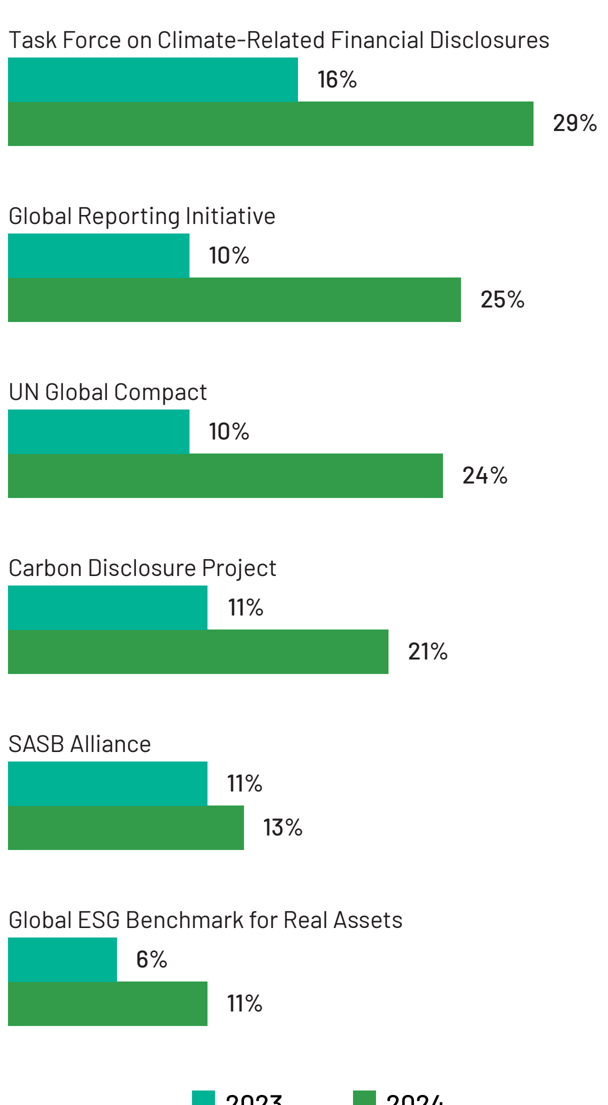

*Signatory status as measured by share of respondents

[1] https://www.unpri.org/signatories/signatory-resources/signatory-directory

The Task Force on Climate-Related Financial Disclosures (TCFD) and the Global Reporting Initiative (GRI) include reporting on risks; these two frameworks are reported as being the most popular ones, with 29% and 25% of the respondents saying they have opted for the TCFD and the GRI, respectively. The UN Global Compact (UNGC) comes a close third, with 21% of the respondents opting for it. All three frameworks have seen a significant increase in popularity since the previous year.

By region, the same pattern seems to be followed – the TCFD is one of the most popular frameworks in the UK (38% of the respondents say they follow it) and Asia (30%), while the Carbon Disclosure Project (CDP) and the UNGC share the same level of interest in the rest of Europe (a little over one-third of the respondents say they follow it). The GRI is followed mainly in Asia (45% of the respondents say they follow it) and Europe (41%). Asian respondents seem to be adopting these frameworks at a faster rate; one-fourth or more of them have adopted the TCFD, CDP and Global ESG Benchmark for Real Assets (GRESB) frameworks. The UNGC and the Sustainability Accounting Standards Board (SASB) frameworks also have healthier adoption than in other regions. The TCFD has a very large following in the emerging markets of South America and the Middle East; 50% and 58% of the respondents, respectively, say they are aligned to this framework. Respondents from North America indicate a slightly higher preference for the TCFD this year, while preference for frameworks such as the GRI, CDP and SASB seems to have moderated. This could be attributed to the conscious effort by North American businesses to redefine priorities under ESG considerations to move towards more responsible business practices[2].

**ESG frameworks and share of firms following them**




*Signatory status as measured by share of respondents

A cross-section of strategies suggests that the UN PRI remains the most preferred framework, mainly among private debt, buyout funds and funds of funds. Interestingly, more real estate funds (more than half of them) follow the GRI, TCFD and SASB than the sector-specific GRESB.

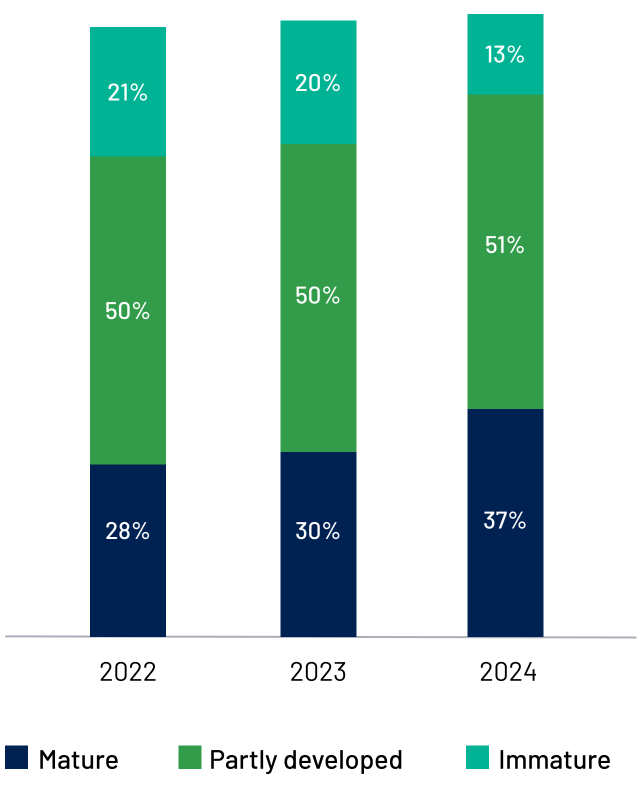
[2] https://www.livemint.com/companies/the-latest-dirty-word-in-corporate-america-esg-11704811690341.html

## Maturity of ESG policies

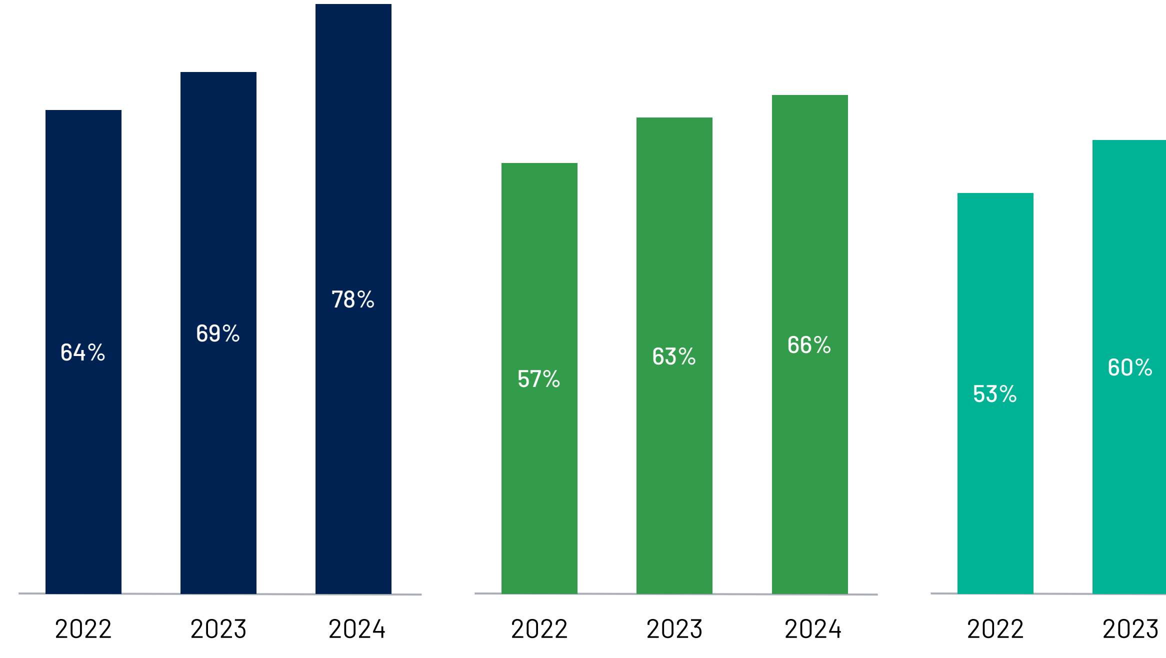
ESG policies are fundamental to developing a fully- fledged ESG strategy. These policies serve as broader guidelines for meeting defined ESG objectives and could be considered to be a north star, helping an organisation navigate the incorporation of ESG considerations into its operations. An effective and mature policy clearly outlines how to establish procedures and systems around ESG, identify the executives responsible for including ESG considerations within its KPIs and other parameters and communicate ESG-related performance to internal and external stakeholders.

The number of respondents who say that their ESG policies and systems are "mature" has continued to increase in the past three years. Half of the respondents considering them as a work in progress indicates a continued rate of adoption. This could be attributed to the penetration of ESG considerations in Private Markets firms on the back of stricter regulations requiring incorporation of ESG-related matters in business decisions.

Thirty-seven percent of the respondents say that their policies are mature; this is an increase from 2023 (30%) and 2022 (28%). The number of respondents saying that their policies were "immature" dipped to 13% from 20% in the 2023 survey. Among strategies, buyout and real estate funds have the largest share of respondents who say that their policies are "mature"; this is an increase from the 2023 survey. Venture firms seem to be starting to focus on ESG, but amid the current challenges facing the sector, these considerations seem to have taken a backseat: the number of respondents from these firms who say that their policies are "mature" has halved in the past two years.




The share of respondents who say that their policies are "partly developed" remained nearly unchanged at 51% versus 50% in the 2023 survey. From a fund-strategy point of view, a considerable number of respondents from funds of funds (80%) and infrastructure funds (60%) say that they have "partly developed" policies.




Our previous survey results indicate that Private Markets firms have been taking steps to incorporate ESG considerations into their day-to-day activities; they show steady progress in all aspects of ESG adoption and reporting over the years.

The share of respondents who say that their firms have a dedicated professional overseeing ESG matters increased to 78% in the 2024 survey from 64% in 2022. The share of respondents saying that their firms' ESG committees monitor portfolio companies rose to 66% from 57% and those saying their firms publish public ESG disclosures rose to 70% from 53% over the period.

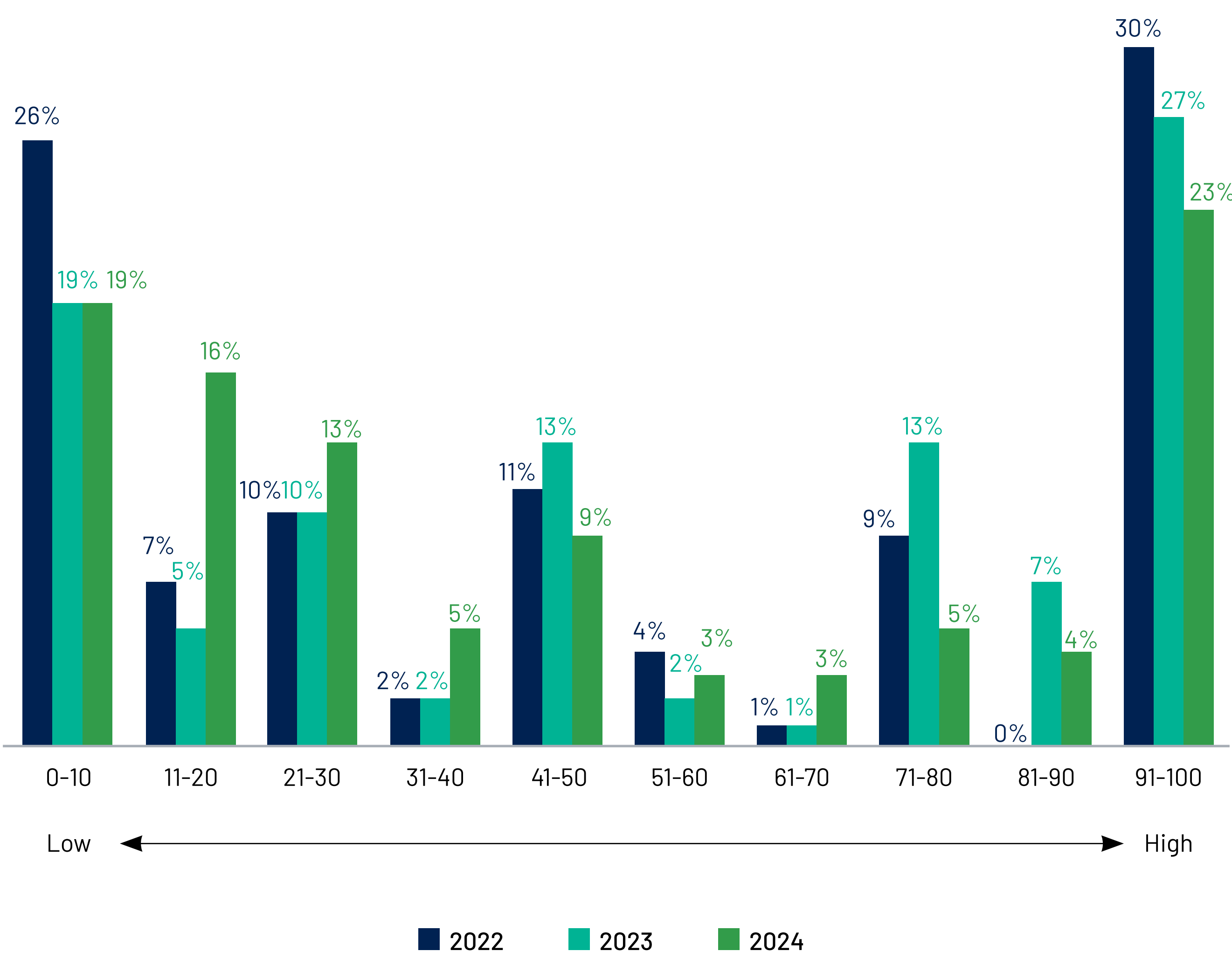
**We, therefore, believe that the global tailwinds promoting ESG considerations to be included in investment decisions are set to continue across strategies and regions**

A significant part of managing overall ESG relates to defining, monitoring and tracking the relevant parameters. Some of the parameters of the individual ESG topics are common across the frameworks while many others are specific to sectors. ESG performance is typically tracked at the level of portfolio companies. Certain key parameters are then collated over the entire fund/firm in order to assess ESG performance.

The sector has been more inconsistent than in the past two years in terms of following a particular trend in ESG adoption and tracking portfolio companies.

Recent adopters (responding to the ongoing push for ESG compliance) have a greater weight in terms of overall portfolio tracking; 62% of the respondents say they track up to 50% of their portfolio companies. The number of respondents falling under recent adopters has increased since last year, with 49% of the respondents now in this category. Recent legislation relating to ESG investing, including the Non-Financial Reporting Directive (NFRD) and the Corporate Sustainability Reporting Directive (CSRD), in addition to rules governing avoidance of greenwashing under the Sustainable Finance Disclosures Regulation (SFDR) and EU Taxonomy, indicates an increase in the number of recent adopters with limited portfolio tracking[3]. This is likely due to more firms beginning to track ESG performance of their portfolios. This also explains the decline in share of early adopters tracking more than 90% of their portfolios.

**Distribution of portfolio companies tracking key ESG-related performance**




The X axis represents the percentage of portfolio companies

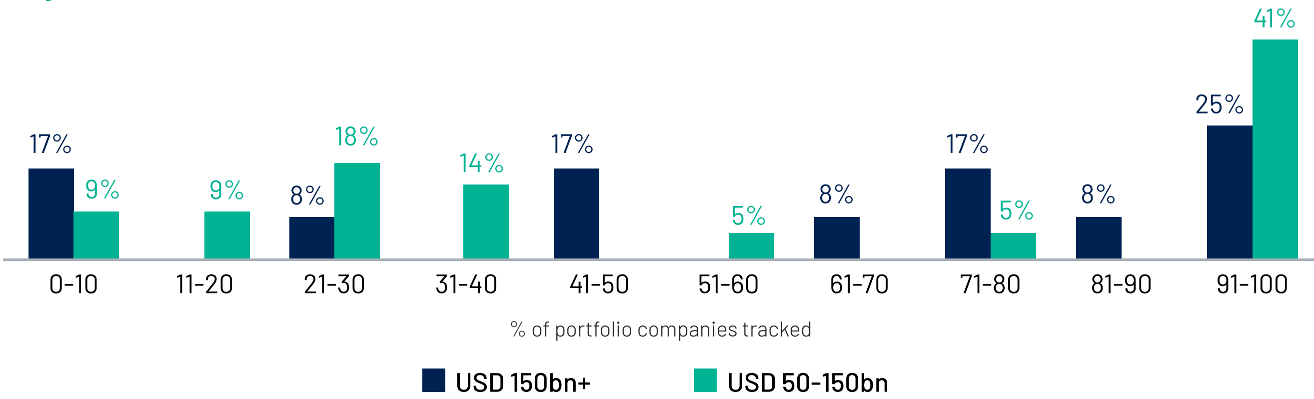
[3] Corporate Sustainability Reporting Directive - KPMG Netherlands

# ESG adoption by size of fund

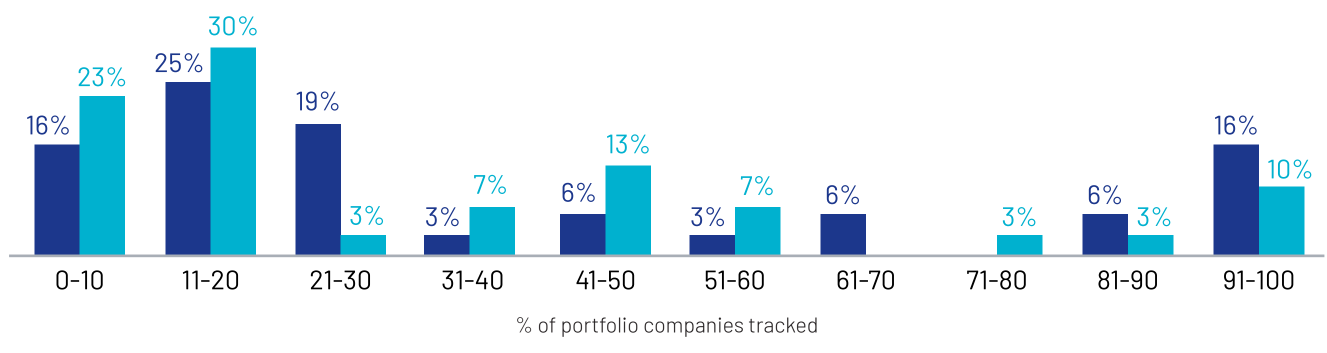
The size of a fund plays an important role in its propensity to adopt ESG parameters. We note that most regulations are meant for large funds/companies. Regulators have given mid-size and small firms/ funds more leeway, making ESG adoption more or less voluntary for them.

In terms of ESG adoption by firms, our survey results confirm that at least half of the respondents from large funds say that they track 70% or more of their portfolios. As this exercise is less stringent for smaller funds, more than half of the mid-size firms track 30% or less of their portfolio companies for ESG performance. Smaller funds at the extremes – early adopters and recent adopters – seem to be tracking portfolio companies.

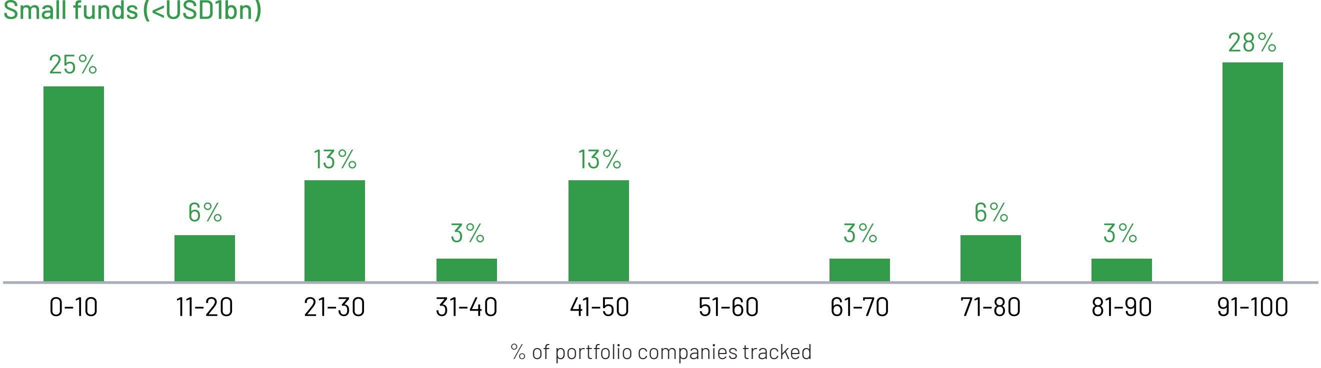
Large funds (USD150bn+ and USD50-150bn)




Mid-size funds (USD10-50bn and USD1-10bn)



Small funds (<USD1bn)



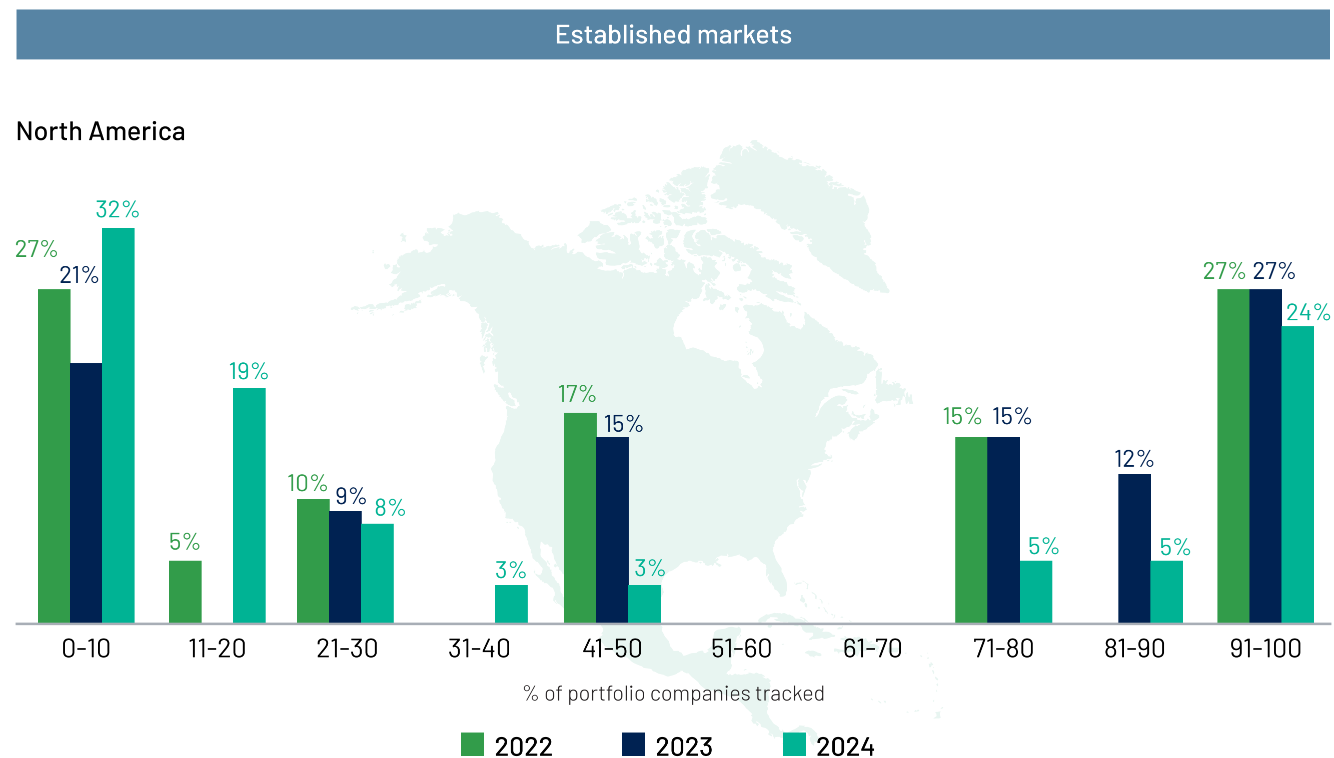
## ESG adoption by region

ESG adoption is prevalent across regions. Emerging markets such as Asia have a large number of firms in various stages of adoption clearly influenced by early adopters and leaders.

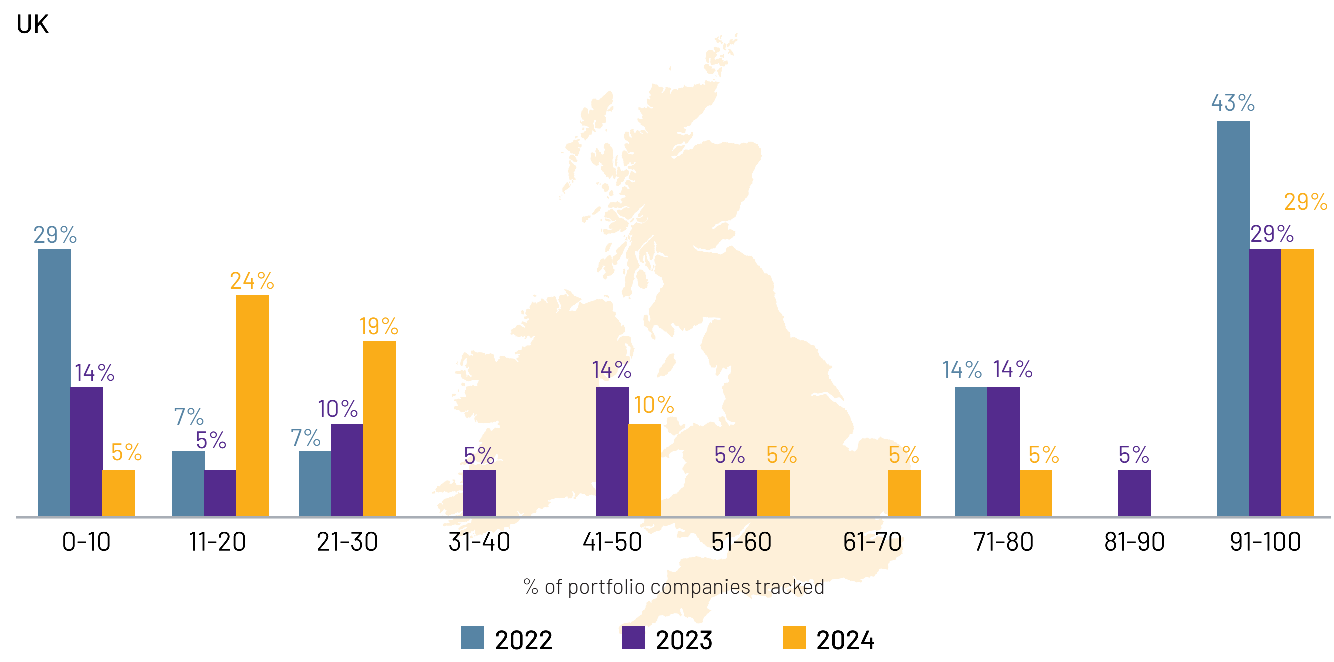
Western markets such as North America, Europe and the UK, generally considered to be developed regions, continue to show enhanced albeit sporadic adoption across portfolios.

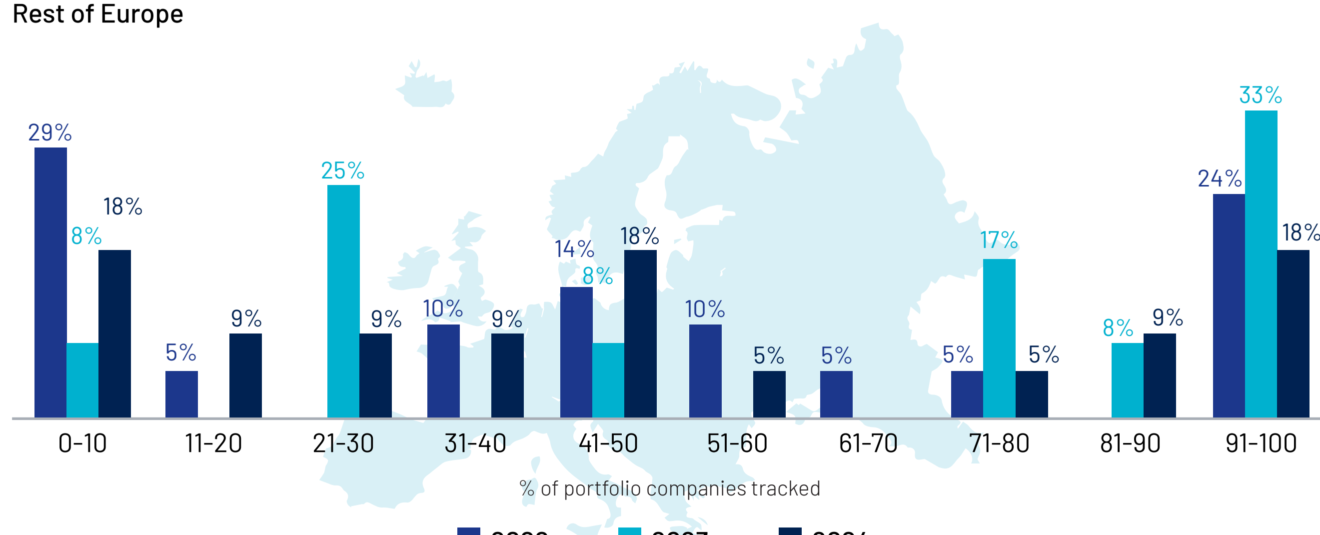
Established markets

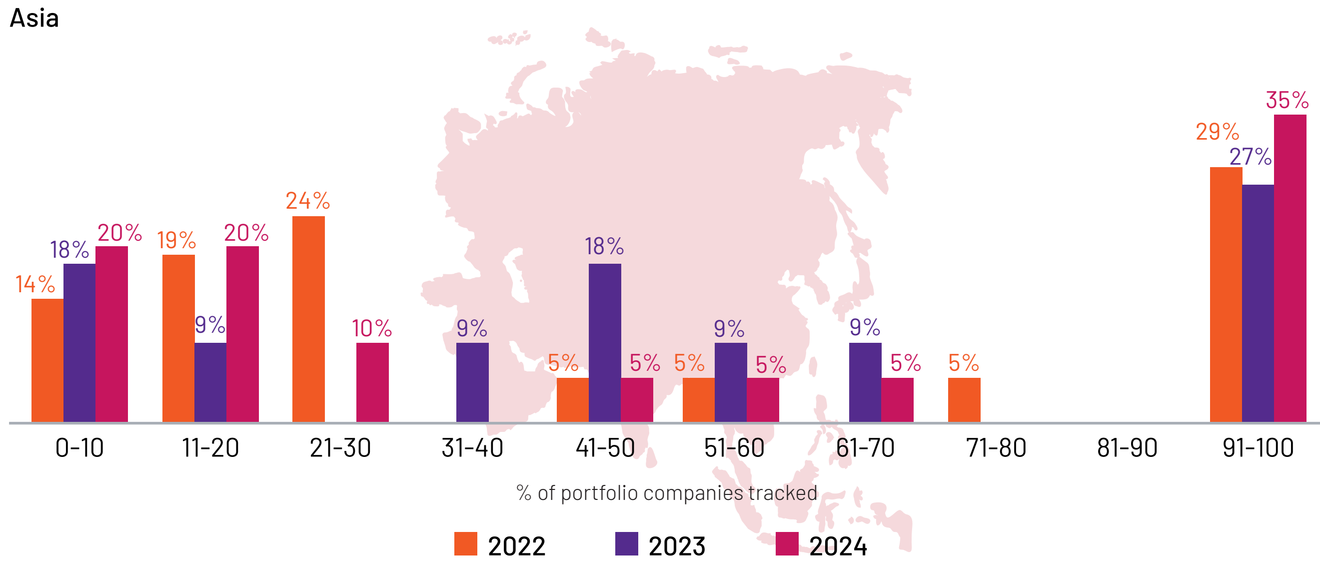
North America




UK






The regional variations in ESG adoption are a result of different ESG-related regulatory requirements being introduced in the different regions. The EU leads the way, having successfully introduced the SFDR, EU Taxonomy and CSRD. Almost 50,000 corporations are incorporating ESG considerations as a result of these regulations[4].

The State of California (in the US) recently passed a law that introduced climate disclosures, changing its ESG reporting landscape[5]. With the US Securities and Exchange Commission's (SEC's) climate proposal and other developments scheduled in terms of ESG reporting, the US market may become as cognisant as Europe of ESG-related matters when investing.

In addition to regulatory requirements, increasing investor demand for green investments and enhanced due diligence on ESG matters are driving ESG adoption across the investment lifecycle.

[4] ESG reporting mandates | Acuity Knowledge Partners (acuitykp.com)
[5] https://frv.kpmg.us/reference-library/2023/california-introduces-climate-disclosures-and-assurance.html

# Conclusion

We are delighted to present the findings of the third edition of our survey of the Private Markets sector. This year, we expanded our horizon and focused not only on increasing our reach to the various Private Markets strategies, but also on understanding the preferences of these strategies. This has helped us develop a deeper understanding of emerging trends and underlying forces.

Fundraising sentiment remained depressed compared with the strong optimism two years ago, but we see a silver lining, as interest rates are expected to moderate despite concerns relating to geopolitical and economic headwinds. Levels of dry powder are expected to remain elevated. Limited partners seem to be more cautious again this year, fuelling competition in the Private Markets sector.

The respondents expect investing opportunities to improve this year; more than half of them expect this, versus 40% of them last year. All tech sectors seem to have attracted investor attention, but fintech appears to be losing steam.

PE&VC investors' tech focus is towards artificial intelligence and machine learning while infrastructure investors prefer digital infrastructure and renewable energy. Valuation-related concerns remain strong, with levels determined by economic conditions and interest rates. Exit preferences remain similar – IPOs are still out of favour.

We added fund reporting to the list of activities PE professionals engage in; the top four activities continue to account for about two-thirds of their time, and the sector has consistently been willing to outsource most tasks.

The sector expects regulatory stringency to continue, and ESG adoption is progressing. The biggest challenge is in fundraising. Investment and exit opportunities may be among the top three concerns this year, resulting in more competition.

We expect this year to offer some respite and the coming years to present both opportunities and challenges for the sector.

**Pratap Narayan Singh**

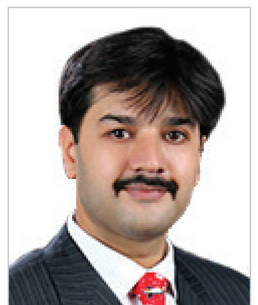
**Head of Private Markets,**
**Acuity Knowledge Partners**

## Lead author

**Ambarish Srivastava**
**Associate Director, Private Markets**

Ambarish has about 17 years of experience in business research, analysis and consulting. He is engaged in leading deep-dive strategic projects, due-diligence support, issue-focused trend analysis and similar assignments for our Private Markets clients. His previous experience includes tenures with startups, the Big Four and consulting organisations, where he focused on industry studies, price forecasting, company analysis, macroeconomic studies and other strategic engagements.

## Lead researcher



**Abhishek Bhatia**
Associate Director, Primary Research

Abhishek has more than 18 years of experience in market research, consulting and data analytics. He is an expert in market research and project management. Abhishek leads multiple large client engagements and key strategic projects. He was instrumental in setting up and expanding our primary research business.

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# NOTE

For more details scan the QR code or visit
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Acuity was established as a separate business from Moody's Corporation in 2019, following its acquisition by Equistone Partners Europe (Equistone). In January 2023, funds advised by global private equity firm Permira acquired a majority stake in the business from Equistone, which remains invested as a minority shareholder.

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