Adams Street

2024 GLOBAL INVESTOR SURVEY

Navigating Private Markets in 2024: Opportunity Knocks as Change Accelerates

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INSIDE THE REPORT

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Optimism Builds as Headwinds Ease

Optimism about the outlook for private markets is improving, according to our fourth annual Global Investor Survey. Private markets were buffeted over the past year to 18 months by headwinds including a drop in liquidity as exit options narrowed; a challenging fundraising environment as allocations exceeded portfolio limits amid public market declines; and pressure on returns from higher interest rates, inflation and supply chain constraints, caused in many cases by geopolitical tensions.

There are indications that these pressures are easing. The US Federal Reserve is expected to begin cutting interest rates in 2024 after inflation receded faster than expected. That could be a catalyst for an uptick in M&A and dealmaking overall as managers put dry powder to work. Liquidity options may widen as the initial public offering (IPO) market again shows signs of life following share sales in late 2023 by UK chip designer Arm Holdings,[1] Instacart parent Maplebear Inc.,[2] and marketing automation provider Klaviyo Inc.[3]

More realistic valuation expectations by founders may also benefit venture and growth equity strategies, as companies that delayed returning to market during 2022 and 2023 seek funding to keep growth on track at a time when a number of non-traditional investors have exited the market, creating excess demand for capital.

Partly due to these factors, two-thirds of survey respondents expect to increase private market deployments in 2024, while almost nine in 10 believe that private markets will continue to outperform their public market equivalents over the long term.

But there are always risks. Perhaps the biggest "known unknown" is that almost half the world's population has the opportunity to vote in national elections in 2024[4] in countries including the US, Mexico, Ukraine, Russia, India, Pakistan, South Africa, and a number of western European nations. This creates trade and regulatory uncertainty.[5]

Risks notwithstanding, investors are increasingly confident that private markets will play a pivotal role in ongoing and emergent megatrends, such as generative artificial intelligence (AI). Two-fifths of respondents expect the greatest investment opportunities in 2024 to be in technology and healthcare, sectors that we see benefiting significantly from generative AI applications.

To take advantage of such opportunities, most survey respondents say they prefer to work with private markets managers with scale and a platform that crosses multiple strategies.

The era of ultra-low rates is over. Private equity investors can no longer rely on "beta" from macro tailwinds to lift all boats. Generating repeatable alpha requires skillful identification and selection of companies by the private equity investor. Those that can apply resources repeatedly across market cycles to help companies achieve their maximum growth and profit margin potential relative to their peers have historically been best positioned for resilience and growth.

At Adams Street, we remain excited about the opportunities that we see globally in private markets.

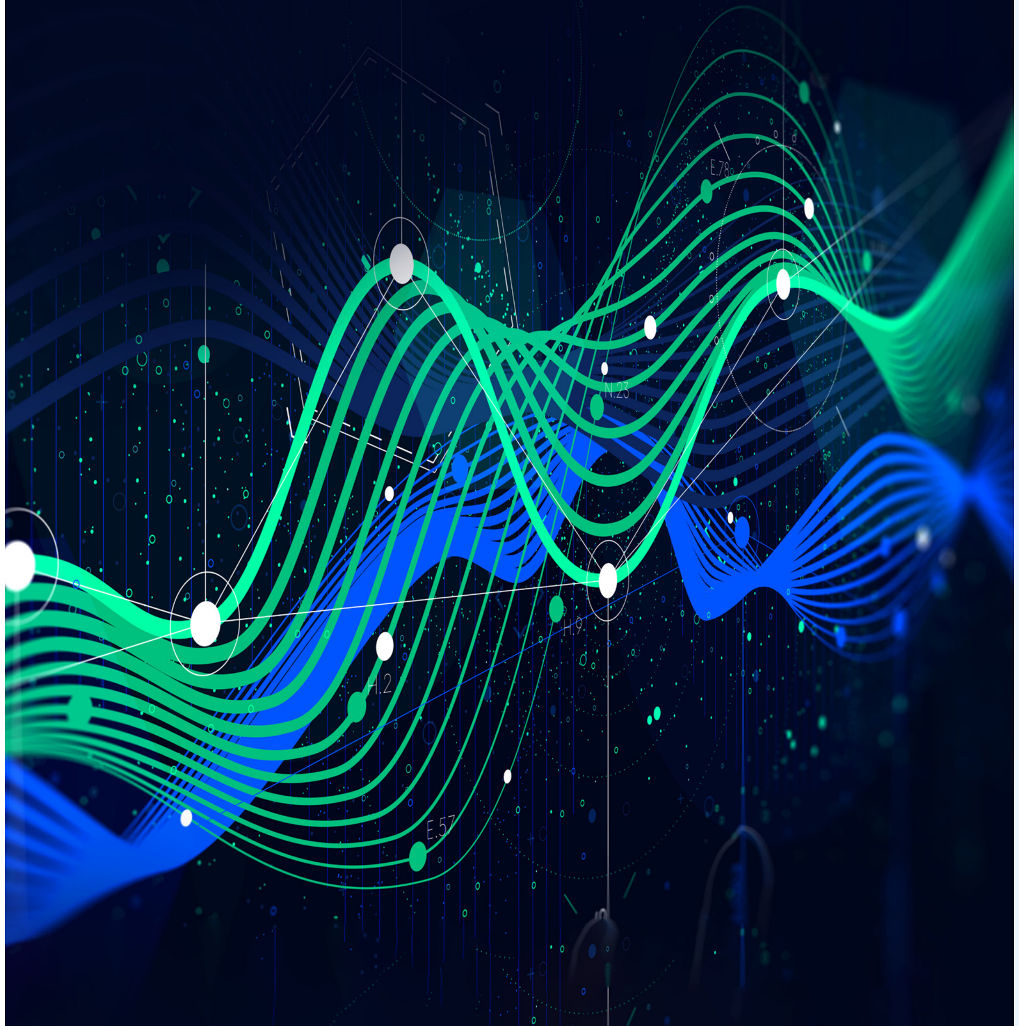
Jeff Diehl
Managing Partner & Head of Investments, Adams Street Partners

Opportunity Knocks as Change Accelerates

Investors remain optimistic about the long-term outlook for private markets. Confidence appears to come from a belief that private markets have the structural flexibility to navigate near-term challenges such as geopolitical uncertainty and more muted global growth, caused in part by interest rates and inflation remaining above target in many markets. The resiliency of businesses to adapt to change and the transformative opportunity of technology megatrends such as AI have given investors confidence that private markets will continue to offer attractive investment opportunities in 2024 and beyond.

Our annual global survey of institutional investors shows almost nine out of 10 agree that private markets will continue to outperform public markets in the long run. Fundraising and deal activity slowed during 2023 amid a higher cost of capital in major markets including the US and Europe. This misalignment in valuation expectations between buyers and sellers dampened returns. Investors believe valuation disconnects may begin to reverse in 2024 as IPO activity increases, as growth-stage companies that delayed financing rounds return to market, and as limited partners (LPs) increase allocations to private markets as a percentage of total assets following advances in public markets. In 2024, almost half of the world's population is eligible to vote in elections,[6] and investors are aware they will need to skillfully navigate political uncertainty in important markets worldwide.

> **Our annual global survey shows almost nine out of 10 investors agree that private markets will continue to outperform public markets in the long run**



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What Institutional Investors are Thinking

Adams Street's fourth annual global survey of institutional investors found:

- 88% of respondents agree that private markets will continue to outperform public markets in the long run, up from 86% in last year's survey
- 67% of investors expect to increase private market deployments in 2024
- 39% of respondents view rising interest rates and inflation as the biggest challenges in private markets, down from more than half a year ago
- 88% of investors expect interest rates to be lower at the end of 2024
- Over 60% of investors say environmental, social, and governance (ESG) considerations are a determining factor in their investment strategies
- Half of respondents identified financial services as the sector they expect to offer the best investment opportunities in 2024, followed by technology, healthcare, software, and energy
- Over half of respondents say political uncertainty in the US is the biggest geopolitical risk in 2024
- 21% of respondents said North America offers the best investment potential in 2024, a drop of 5 percentage points from a year ago. 19% said the best investment opportunities will be in China, 3 percentage points lower than last year. Emerging Asia-Pacific saw a 4 percentage point rise to 13%, while Europe saw a 2 percentage point rise to 20%

HIGHLIGHTS

88%
believe private markets will outperform their public market equivalents in the long run

67%
of investors expect to increase private market deployments in 2024

Financial services, tech, software, healthcare, and energy are seen as best investment opportunities

88% of investors expect interest rates to be lower at the end of 2024

Higher Interest Rates for Longer; What it Means for Investors

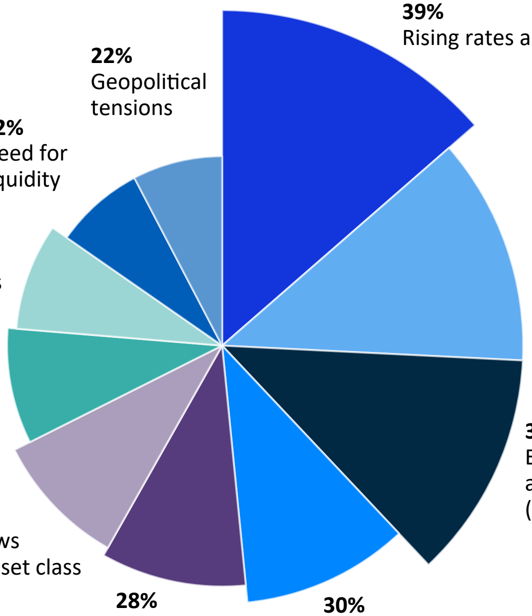
Many investors expect interest rates to remain "higher for longer". A more costly borrowing environment following more than a decade of cheap financing means most managers are now emphasizing high-quality assets that demonstrate profitable, sustainable growth, and operational efficiency. We believe this favors general partners (GPs) with deep expertise and success across market cycles, and those that provide added value through operational know-how that helps portfolio companies to grow efficiently.

Two-fifths of investors say rising rates and inflation are the biggest investment challenges in private markets, significantly down from 55% in last year's survey. There is also growing consensus that rates have peaked: 46% strongly agree that they will be lower at the end of 2024 than at the end of 2023.

> **"The interest rate concern will still be present, but less so because of the rate of inflation, and more so because of federal budget deficits and the expense load of higher interest rates."**
>
> – **Stephen P. McCourt, CFA**, Managing Principal / Co-CEO, Meketa Investment Group

Challenges for Private Markets in 2024[7]

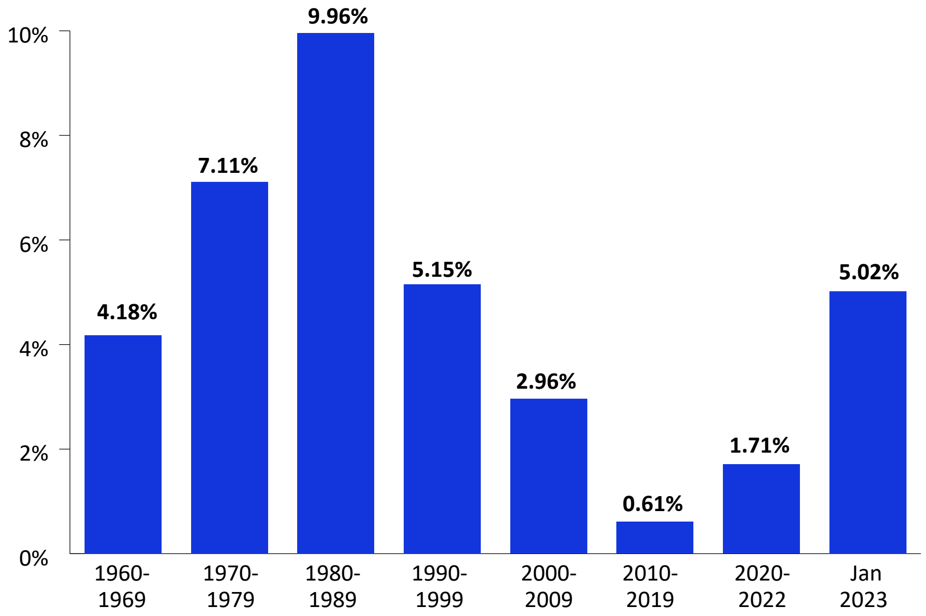
What do you anticipate will be the biggest investment challenges in private equity/private markets in 2024? Respondents selected up to three.



“The interest rate concern will still be present, but less so because of the route of inflation, and more so because of federal budget deficits and the expense load of higher interest rates,” says Stephen McCourt, CFA, Managing Principal and Co-CEO at Meketa Investment Group.

While a “higher for longer” interest rate scenario is a possibility, interest rates are below the average for the 1970s and 1980s, an era when venture capital in its modern form began to flourish,[8] suggesting that a higher cost of capital may not be an impediment to the asset class today. However, higher rates impacted both deal activity and fundraising in 2023. The value of private equity and venture capital deals declined nearly 35% from 2022 to $474.14 billion, according to S&P Global Market Intelligence,[10] while the number of deals fell to 12,016 from 17,549.

Fed Funds Rate Near Historical Average[9]



> **“The era of ultra-low rates is over, private equity investors can no longer rely on ‘beta’ from macro tailwinds to lift all boats. Generating repeatable alpha requires skillful identification and selection of companies by the private equity investor.”**

– **Jeff Diehl**, Managing Partner & Head of Investments, Adams Street Partners

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Private equity funds raised $785 billion in 2023, $38 billion less than in 2022, while the 1,757 funds that closed represented the smallest annual number since 2018, according to Private Equity International's (PEI) Fundraising Report FY 2023.[11] More established managers attracted an outsized share of new capital, PEI said.

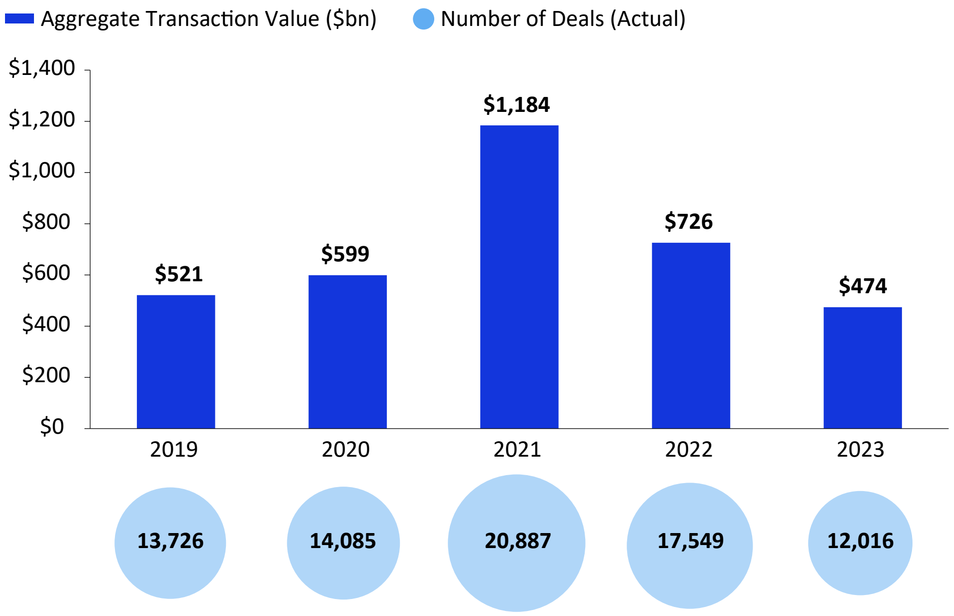
And because higher interest rates act as a natural governor on borrowing capacity, average leverage multiples for new leveraged buyouts (LBO) dropped to 5.9x in 2023 from 7.1x in 2022. As a result, the average equity contribution for large LBOs reached a record 52% in 2023, according to the Harvard Law School Forum on Corporate Governance.[12]

If inflation continues to trend downward towards target, as was the case in major markets such as the US in 2023, and if interest rates have indeed peaked, investors believe this will augur well for dealmaking and exit activity in 2024 and beyond. With as much as $2.59 trillion in dry powder as of December 2023, the GP community sees a solid pace of deals ahead.[13] Survey respondents expect deployment to increase amid more realistic valuation expectations, and for IPO and M&A activity to begin to return to more normal levels.

The GP community sees a solid pace of deals ahead; survey respondents expect deployment to increase amid more realistic valuation expectations

GPs, meanwhile, expect fundraising in 2024 to closely mirror 2023 levels, with managers increasing their efforts to target additional sources of capital, such as high-net-worth individuals.[14]

Global Private Equity and Venture Capital Activity Since 2019[10]

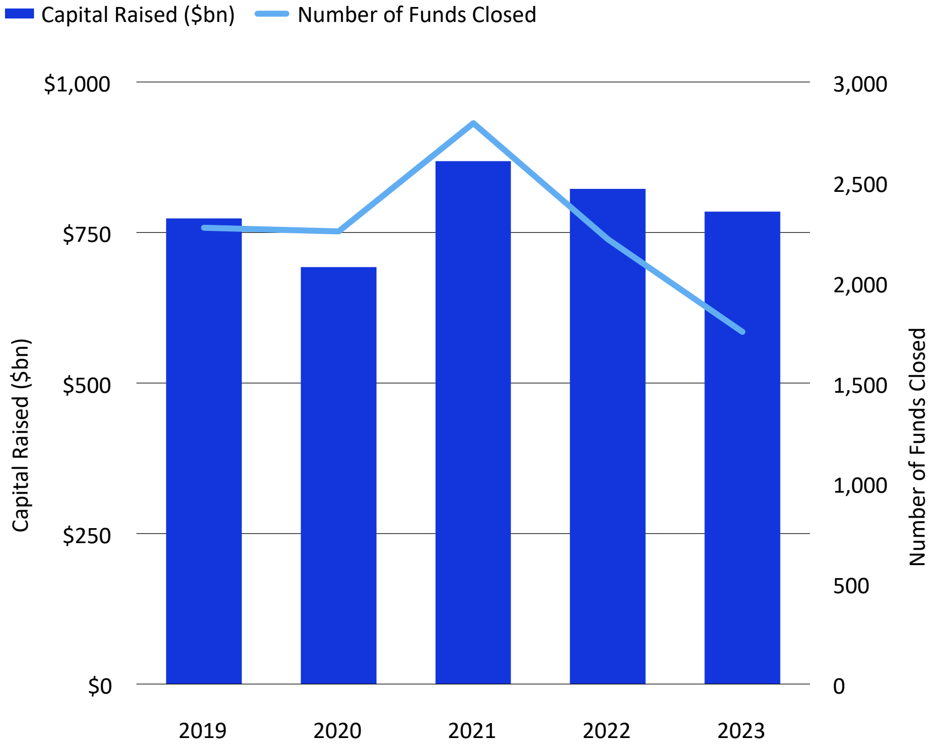


As for returns, we believe higher interest rates are likely to lead to a wider dispersion in manager performance. In our view, this makes it even more important to select private markets managers who can demonstrate alpha generation, and to avoid those who goose performance metrics by relying on financial engineering. Managers who avoid levered beta and focus on repeatable alpha typically do so by backing well-managed, innovative, market-leading companies that are likely to benefit from change, dislocation, and growth in large and expanding sectors.

We believe higher interest rates are likely to lead to a wider dispersion in manager performance; in our view, this makes it even more important to select private markets managers who can demonstrate alpha generation

Common characteristics of companies that are more likely to generate above-average returns through the life of an investment include strong and sustainable revenue growth, expanding EBITDA margins, strong cashflow generation, and low debt. We have found that managers whose portfolio companies lack these traits are more likely to rely on leverage to generate returns, thus increasing the chances of underperformance.

Private Equity Year-on-Year Fundraising (2019 - 2023)[11]
Volume drops as value stabilizes



Private Markets Investors Stay the Course

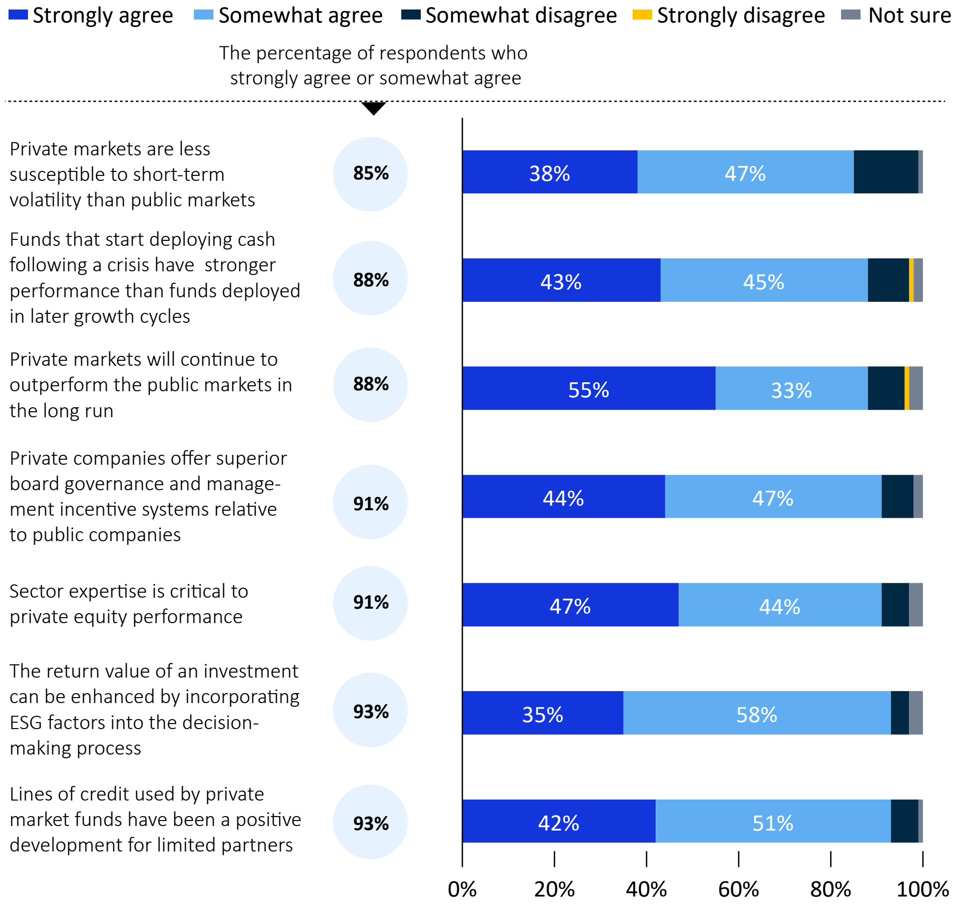
Our survey reveals that 88% of respondents believe that private markets will continue to outperform public markets in the long run. Investors are confident about the ability of private markets to navigate short-term volatility and economic uncertainty. They also believe privately owned companies offer superior governance.

Investors expect to increase commitments to existing managers and to add new relationships over the next 12 months, in each case broadly aligned with last year's survey.

> **"Institutional investors believe that private markets will continue to outperform their public market equivalents. Respondents are placing trust in investors that undertake meticulous diligence and fundamental analysis, have strong sector expertise, and deep relationships that are expected to create exceptional access to deals."**
>
> – **Jeff Diehl**, Managing Partner & Head of Investments, Adams Street Partners

Investor Sentiment on Private Markets is Bullish[7]

Respondents ranked the following statements to what extent they agree or disagree



"LPs will have demand for a little more capital in the marketplace, depending on how the year shakes out with returns between now and the end of 2024," says Meketa's Mr. McCourt. Institutional clients continue raising private equity allocations or are entering the asset class for the first time, he adds. The lag in valuation changes between public and private market assets can affect allocations, with private market assets often showing less pronounced moves (both higher and lower), amplifying the denominator effect.

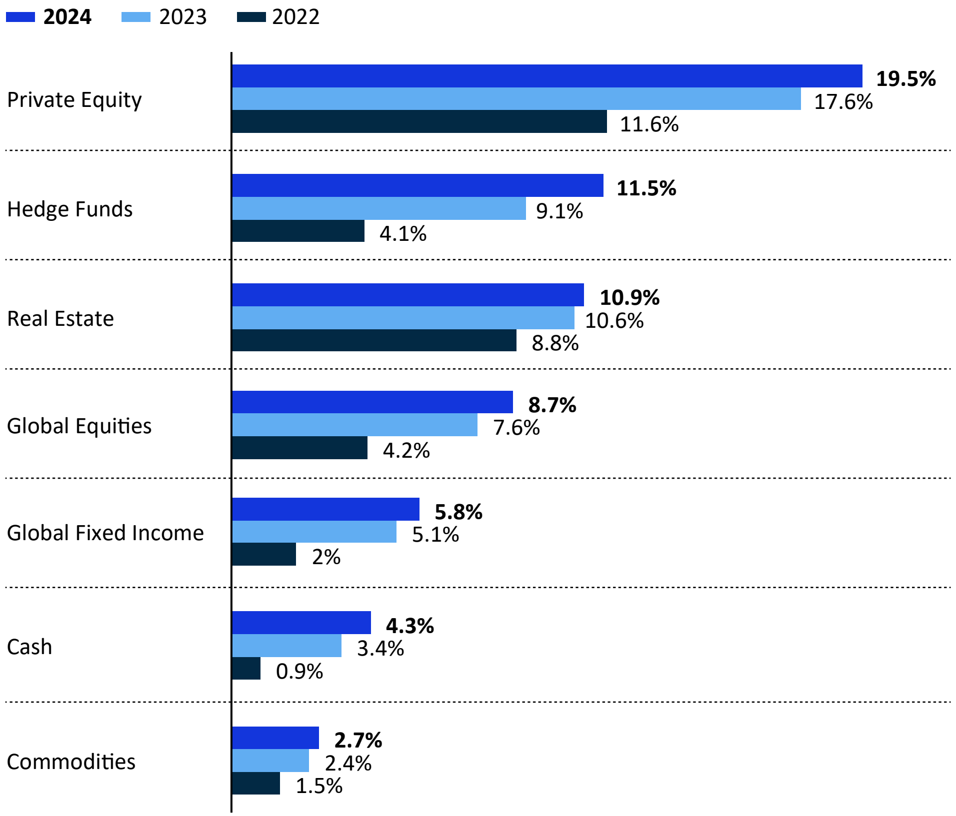
"On average, public equity allocations increased in value in 2023, and private equity allocations have, as a consequence, come down slightly from where they were in 2022," Mr. McCourt says. "Some of that denominator effect that we saw in 2023 is going to be alleviated, but probably just marginally."

Secondaries provide an avenue for LPs seeking liquidity during the drought in M&A and IPO activity, especially for the highest-quality assets. The proportion of investors looking to sell assets in the secondary market rose to 36% of respondents, compared with 27% a year earlier.

> **"It might be an interesting time to look at companies that are going to need cash in the next 12 to 24 months. Not all of these businesses are profitable. Most of them are still burning cash, and so they will need to come back and raise money. Valuations would have fully reset in two years, which could actually be attractive vintage years."**
>
> – **Thomas Lurquin**, Chief Investment Officer, Kaiser Permanente

Long-Term Outlook for Asset Classes[15]

Citibank strategic return estimates



Last year was the second biggest for secondaries, with $114 billion of transactions recorded, up from $103 billion in 2022, according to Evercore's 2023 Secondary Market Survey.[16] Deals were mainly driven by LPs' need for liquidity, with LP-led transactions accounting for 55% of total value.

The rise in interest in the secondary market indicates an increased appetite among investors to utilize the asset class to manage their private markets exposure

The rise in interest in the secondary market indicates an increased appetite among investors to utilize the asset class to manage their private markets exposure. In addition to a need for liquidity, this is driven by factors including a narrowing of the bid-ask spread in secondaries, ongoing market innovation, and an estimated $220 billion in secondaries market dry powder.[17]

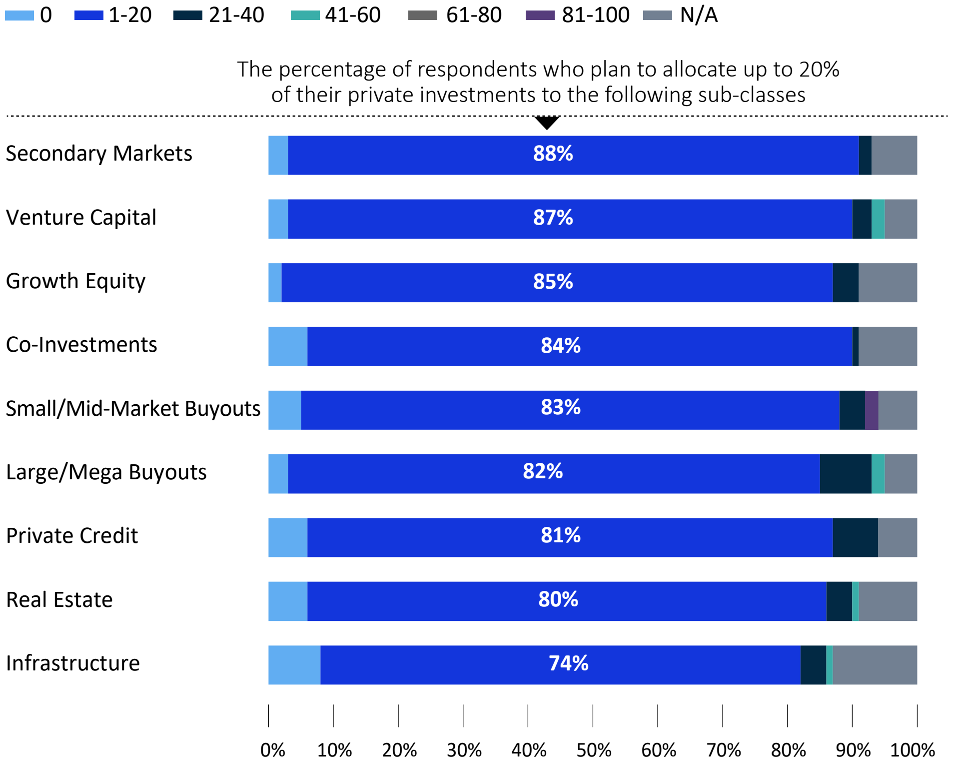
Over the next five years, between 81% and 88% of investors in our survey expect to allocate up to a fifth of their private market assets each to secondaries, private credit, venture capital, and/or buyouts.

The flexibility offered by private credit providers, coupled with attractive returns from floating-rate structures and greater lender protections, make the asset class highly favored by investors and borrowers.

Eric Molinier, Head of Private Equity at SOCIETE GENERALE Private Banking, says clients had a clear preference for private credit and infrastructure exposure in 2023. The relative success of these strategies amid market volatility is partly due to their resilient profiles and inherent downside protection.

Strong Interest Across Private Markets Sub-Classes[7]

Respondents anticipated allocations of private investments to the following sub-classes over the next five years



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Mr. McCourt notes that he sees private credit strategies needing to explain how they compare with traditional coupon-paying liquid debt options that investors may be more familiar with.

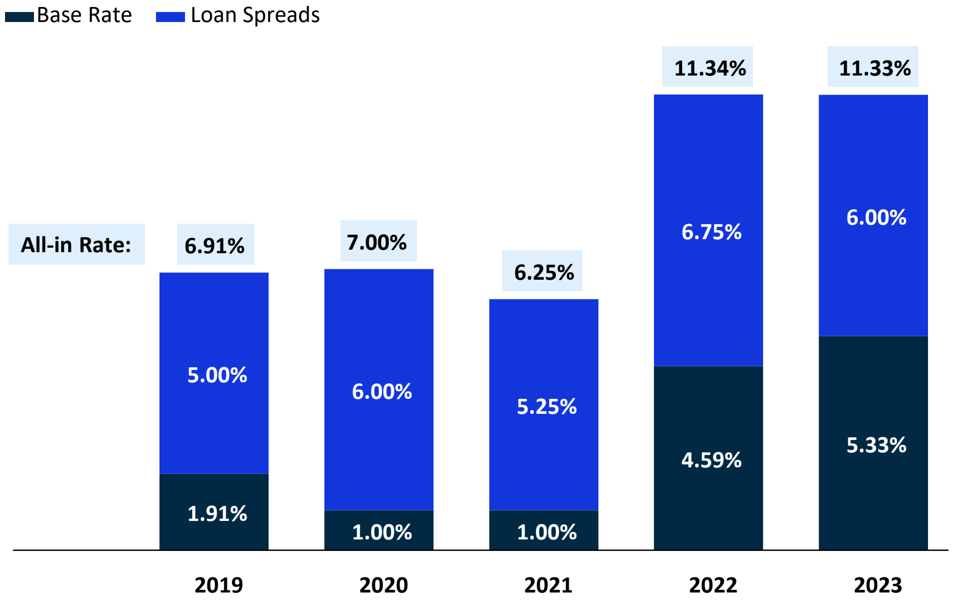
"Investors in private credit and infrastructure are asking more questions around income generation. 'What can I expect for cashflow out of these investments, and not just total return?' There's a new emphasis on it because policymakers at institutional funds are looking at and comparing private markets opportunities with public opportunities, and comparing not just total return expectations, but actual cash yield on a year-by-year basis."

Investor appetite for buyouts is also robust, with 82% planning to allocate up to 20% of their total private market assets to the strategy, higher than a year ago. Despite a 58% year-on-year decline in global buyout activity in the first half of 2023, to $202 billion, Bain & Company reports demand for the strategy held up in fundraising.[19] Buyouts made up more than half of total capital raised in 2023, according to PEI data.[11]

"Even if current market dynamics for performance and exits are not strong for private equity, especially for the large cap segment, we have a preference for LBO, especially for small- and mid-caps, which should benefit as inflation recedes and interest rates begin to decline," says Mr. Molinier.

Our survey indicates a greater focus from investors on deep sector expertise, more conservative approaches to valuing portfolio companies, and deal teams that employ tech-enabled and data-driven strategies in managers' value creation plans.

Private Credit Benefits From Higher Yields, Widening Spreads[18]



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The Potential of AI for Venture and Growth Equity in Tech, Healthcare

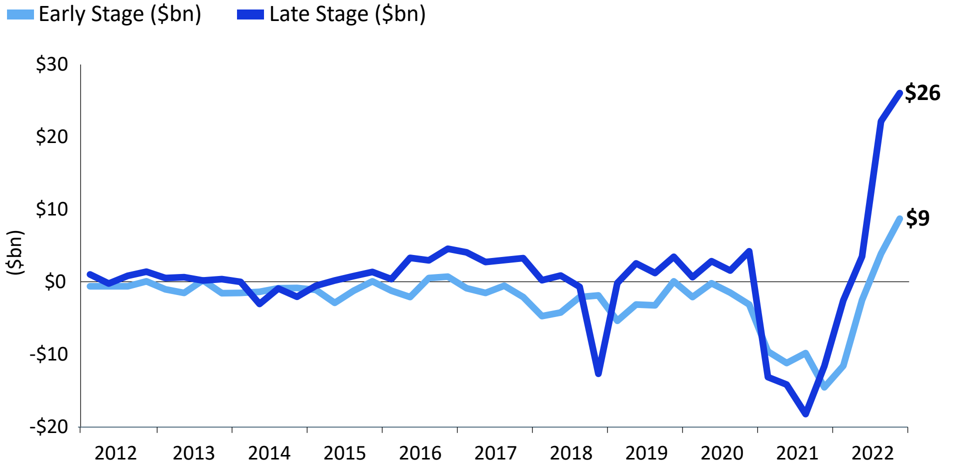
Venture capital and growth equity – challenged over the past 18 months by a growing IPO backlog and a pullback in commitments – appear set to benefit from a broad-based funding recovery, with over 85% of survey respondents considering allocating up to a fifth of their private market holdings to these strategies.

Kaiser Permanente's Chief Investment Officer, Thomas Lurquin, sees opportunity in growth equity now that founders are more realistic about valuations, after the heady days of 2021. Additionally, many companies that opted to postpone fundraising in 2022 and 2023, owing to concern that lower valuations would result in a down round, now need capital to keep growth on track. Just as demand is set to rise, many non-traditional investors, such as hedge funds, have exited the sector, leading to a decline in available capital.[20]

"It might be an interesting time to look at companies that are going to need cash in the next 12 to 24 months," says Mr. Lurquin. "Not all of these businesses are profitable. Most of them are still burning cash, and so they will need to come back and raise money. Valuations would have fully reset in two years, which could actually be attractive vintage years."

This year's survey shows 40% of investors expect technology and healthcare to present the greatest investment opportunities in 2024. It is widely believed that AI has the potential to improve numerous aspects of healthcare, including more efficient diagnoses, safer and more effective treatments, speedier and less expensive drug discovery, better record keeping, and less administrative waste.

Excess Demand Creates $26 Billion US Late-Stage VC Funding Gap[20]



"A key question is whether value from generative AI will accrue to incumbents, venture-backed startups, or both. The tech mega caps clearly see a bright future for generative AI, but we believe startups will also build significant value across the ecosystem."

– **Brijesh Jeevarathnam**, Partner & Global Head of Fund Investments, Adams Street Partners

"We see a tremendous amount of disruption in the healthcare industry, from very targeted service models to sub-segments of the population to the technology angle, which is really underutilized today in healthcare. I expect AI will have a big impact on physician productivity," Mr. Lurquin says.

Investments into the healthcare sector reached $60 billion in 2023 and accounted for 15% of global buyout deal count, according to Bain & Company data.[21] Biopharma deals involving contract research organizations made up nearly half of global deal value.

Venture capital and growth equity funding are likely to be at the epicenter of the AI mega trend, as both have record levels of dry powder to deploy

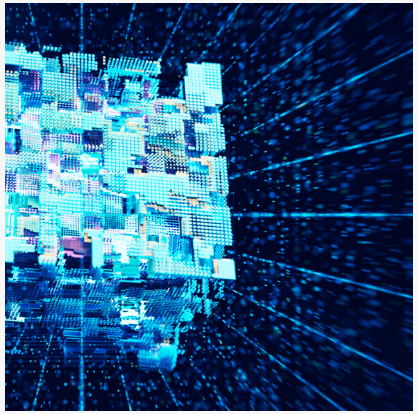
The longer-term view of AI as a gamechanger across all industries is gaining ground. Venture capital and growth equity funding are likely to be at the epicenter of this megatrend, as both have significant levels of dry powder to deploy.[22] Investments in startups focused on AI, sustainability, and the energy transition kept funds flowing to global venture capital, according to Bain & Company.[23]

We believe that venture capital has a disproportionate influence on backing innovative, technology-focused startups. Although views on its revolutionary power shift by the day, AI has the potential to transform every sector. An analysis by Goldman Sachs suggests that only 5% of chief executives expect AI to have a "significant impact" on their business within one to two years, but 65% think it will have an impact in the next three to five.[24] Such expectations are turning AI into a clear market catalyst.

"A key question is whether value from generative AI will accrue to incumbents, venture-backed startups, or both," says Brijesh Jeevarathnam, Partner & Global Head of Fund Investments at Adams Street Partners. "The tech mega caps clearly see a bright future for generative AI, but we believe startups will also build significant value across the ecosystem."

Startups are likely to have an initial impact in two areas, Mr. Jeevarathnam suggests. The first is in AI-powered applications that target workflows across business functions, new verticals, and changing consumer behaviors. The second is in development tools and infrastructure services – the picks and shovels of AI that are essential for data enhancement, database management, and model training.

Venture capital and growth equity strategies have a multidecade history of facilitating innovation. In our view, robust innovation coupled with a favorable ratio of capital demanded to capital supplied are set to create one of the best venture and growth-stage investing environments in recent memory.



Blockchain Curiosity Returns As Crypto Winter Ends

Despite wild volatility, a lack of regulatory clarity and instances of outright fraud, the cryptocurrency winter ended in 2023, with bitcoin surging over 150% during the year.

The trend continued at the outset of 2024, and the US Securities and Exchange Commission announced it would allow spot bitcoin exchange-traded funds. The decision could lead to more widespread acceptance of cryptocurrencies, providing a further tailwind for prices.

57%

of survey respondents are highly likely to invest in cryptocurrency or blockchain-targeted funds in 2024-2025

Nine out of 10 investors who took part in our survey are looking to invest in cryptocurrency or blockchain-targeted opportunities in 2024-2025 (up 11 percentage points from 2022); 57% say they are highly likely to do so.

High-net-worth channels gaining access to tokenized assets

Enthusiasm around digital assets has also penetrated capital raising strategies. With access to private markets expanding beyond traditional institutions to high-net-worth channels, blockchain technology is a potential route for retail investors to enter the alternative investments universe.

Blockchain-based tokenization, which converts private equity funds into tradable securities, is gaining interest among private markets participants, with the likes of KKR, Hamilton Lane, and Partners Group lowering the minimum buy-in for funds.[25]

$469bn

is the expected size of the global blockchain market by 2030

Fortune Business Insights expects the global blockchain technology market to reach $469 billion by 2030, with a compound annual growth rate of almost 60%.[26] Although the potential of blockchain-related investments cannot be ignored, we believe there is a need for caution when considering investment in a fast-changing emergent technology that many investors still do not fully understand.

Opportunities for companies building blockchain-related software and technology

Beyond the headline-grabbing world of bitcoin and other tokens, there is scope for investment at the infrastructure level of blockchain technologies in companies that create the software, protocols, and other tools needed to build and operate digital-only businesses.

"We see long-term potential for select use cases of the technology, particularly from firms investing through a venture capital lens as opposed to a short-term, trading lens," says Mr. Jeevarathnam.

For Mr. Jeevarathnam, areas of opportunity for venture investors include Layer 1 and Layer 2 infrastructure, comprising application-specific blockchains, storage networks, general purpose blockchains, and scalability solutions; and Layer 2 smart contracts and applications, including decentralized finance (or DeFi), vertically integrated protocols such as payment blockchains, and supporting infrastructure such as crypto-enabling businesses.

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Decarbonization and the Lure of Financial Services

The growing consensus around the global energy transition is reflected in our survey. Investors take the view that governments will invest heavily in renewable energy in coming years, in order to meet climate goals. The Energy Transitions Commission, a London-based think-tank, says the net-zero transition will require $110 trillion in global capital investments between 2021 and 2050, an average of $3.5 trillion annually, indicating the colossal size of the investment opportunity.[28]

Almost half of those surveyed chose impact and/or ESG as among the three greatest opportunities. Impact and ESG replaced technology and healthcare, which were top-ranked last year and held steady in the latest survey at 40%. Some 34% of investors opted for infrastructure while a similar percentage chose co-investments – a way for investors to gain diversified exposure to private equity, typically at an all-in lower cost.

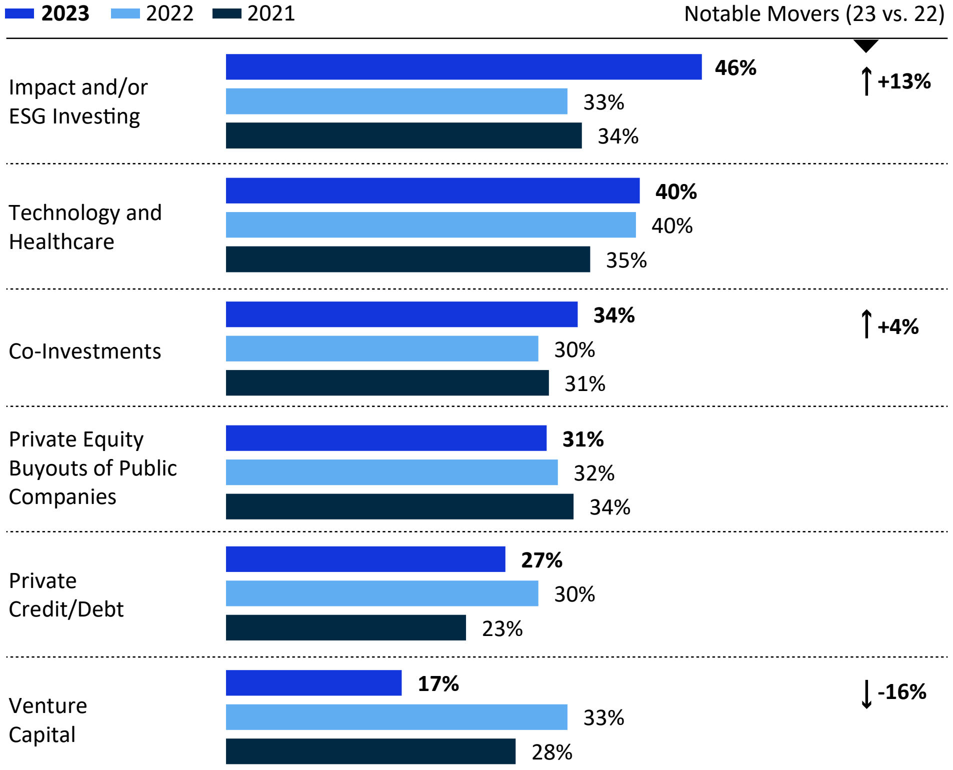
For Hiroyuki Hashizume, Finance Team Manager at Osaka Gas Co., Ltd, ESG and technology are important investment themes. "Through regulations and actions to tackle climate change, sustainability investments will be scaled and diversified every year," he says. "The energy transition provides attractive opportunities towards carbon neutral."

> **"Through regulations and actions to tackle climate change, sustainability investments will be scaled and diversified every year. The energy transition provides attractive opportunities towards carbon neutral."**

– **Hiroyuki Hashizume**, Manager, Finance Team, Osaka Gas Co., Ltd.

Interest in ESG has Grown[27]

Respondents were asked in 2023 for their view on the greatest investment opportunities in 2024. Respondents selected up to three answers.



Our survey shows that 61% of investors say ESG considerations are a "determining factor" in their investment strategy. Preqin's annual ESG report shows capital raised for ESG-focused funds in 2022 surged more than threefold to $92 billion from 2020.[30]

SOCIETE GENERALE's Mr. Molinier notes that family offices and high-net-worth individuals are increasingly seeking to ensure that their capital integrates ESG or is positively impactful from a social perspective. "With the rise in sustainable investments, we take real care in identifying and stopping greenwashing. At the client level, we see this moving up in their list of priorities, with more interest in investments focused on decarbonization," he says.

About half of respondents selected financial services among the top three sectors to offer the best opportunities, a 15 percentage point uptick from a year ago. Technology, healthcare, software, and energy were also favored.

Kaiser Permanente's Mr. Lurquin points out that interest in financial services spans a rich ecosystem from banks and insurers to disruptive digital-first financing. Niche companies such as insurance brokerages, specialty lenders and fintech firms are attractive to LPs, he adds.

> **"With the rise in sustainable investments, we take real care in identifying and stopping greenwashing. At the client level, we see this moving up in their list of priorities, with more interest in investments focused on decarbonization."**
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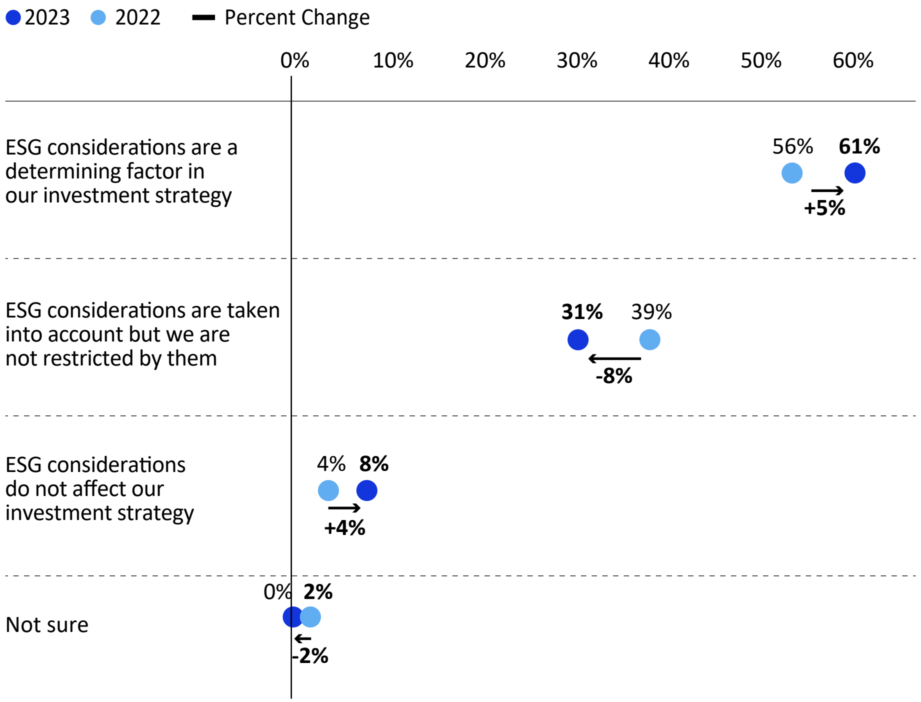
ESG is Increasingly a Determining Factor[29]

In which of the following ways are ESG considerations affecting your private markets investment strategy?



Geopolitical Tensions Abound

With about 40 countries heading to the polls this year and more than 3 billion people set to choose leaders in nations that collectively account for more than 40% of the world's GDP, the potential for change and disruption is unprecedented in 2024.[31]

A significant proportion of survey respondents are concerned about the threat to economic stability and growth in 2024 from geopolitical risk, with two wars raging and tensions between the US and China increasing.

US political uncertainty on its own is seen as the greatest threat by 55% of respondents, followed by the Israel/Hamas conflict and US/China tensions. Of chief concern is the US presidential election, which could create uncertainty over foreign policy and affect everything from climate deals to military support for Ukraine.

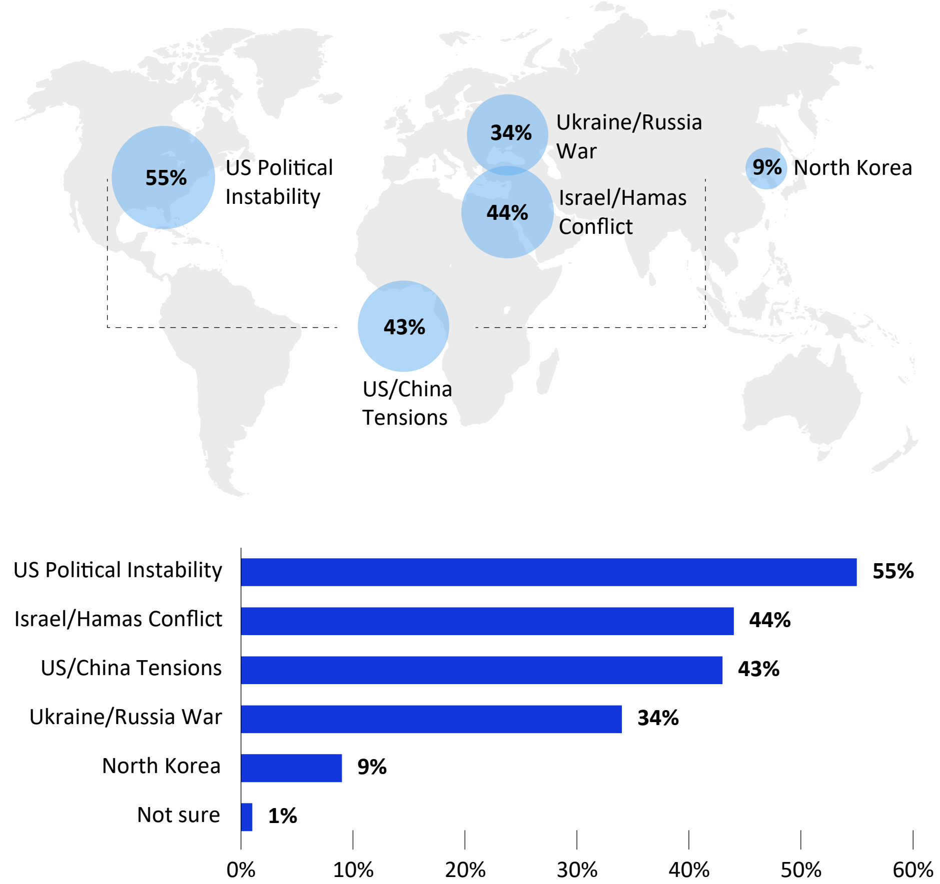
When looking at the geographic mix of investors responding to our survey, 60% in Asia and 59% in North America believe the outcome of the 2024 US election is more relevant to global markets. Over half of European investors are worried about the Israel/Hamas conflict and the possibility of tensions escalating across the Middle East, while nearly half of Asia-based investors are concerned about how China deals with US relations.

Mr. Hashizume says he is taking increased geopolitical risk into account when considering risks and returns.

Mr. Lurquin says that the US presidential election is likely to further inflame partisan division. "There's a big debate in US society about the role that the country should play in the world, as opposed to focusing inside its borders in terms of reducing income inequality and disparities," he says.

Geopolitics a Top Concern for Investors[7]

Which geopolitical risks do you find most threatening to economic stability and growth in 2024? Respondents selected up to two.



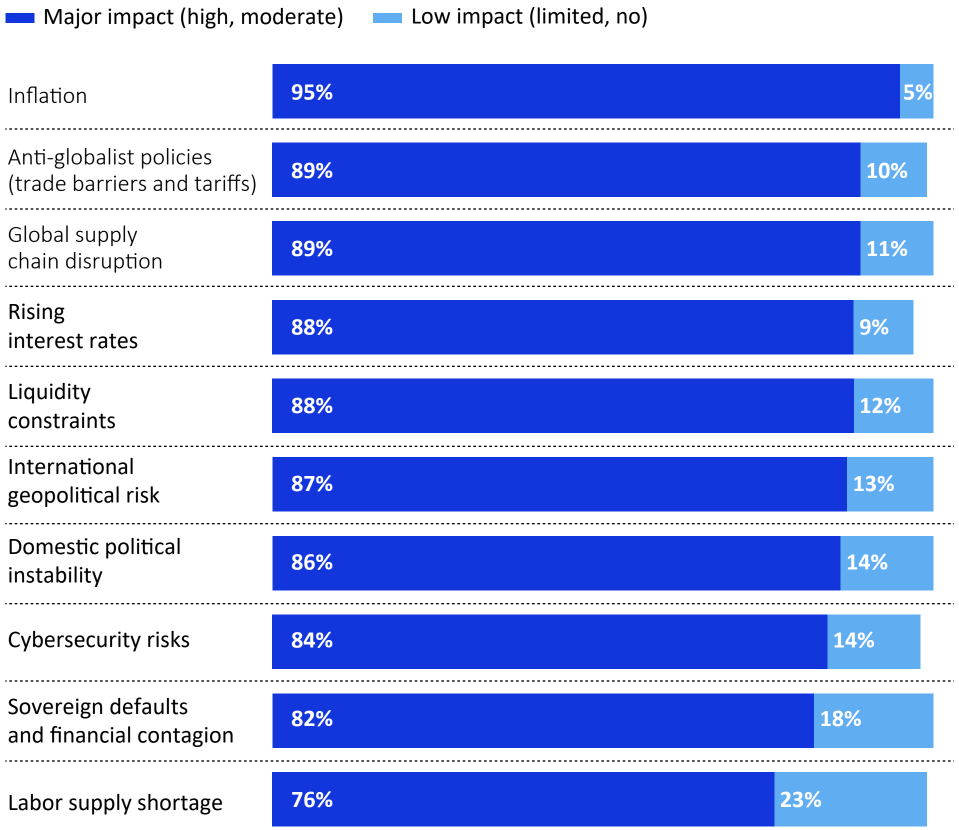
Reshoring and nearshoring of production are likely to continue to impact investment decisions, investors say. In the US, concern about competition with China has intensified. A new Outbound Investment Program prohibits certain US investments in China in technology sectors relevant to military, intelligence, surveillance, or cyber-enabled capabilities.[32] The restriction targets private equity and venture capital investments in semiconductors, quantum computing, and artificial intelligence, and requires government notification of deals. Related M&A, greenfield and joint venture transactions will also be blocked.

Just five years ago, investors clamored for exposure to China in a bid to benefit from strong growth while adding diversification. The second-biggest economy's luster has now dimmed amid a souring of relations with Western governments and an unprecedented decline in its outlook. Headwinds include slower growth, a slump in property markets that led to a court order in January 2024 to liquidate Evergrande (a developer with $300 billion in liabilities), declining stock markets, record youth unemployment, and concern about municipal debt, among other structural concerns.

"The brakes are on China, and they have been for a little while for private equity in particular," Meketa's Mr. McCourt says. "There's been a growing amount of caution, both economically and, more recently, politically with China." How integrated China will be in the global economy remains an important question for investors, he adds.

Navigating Uncertainty: Investors on Alert[7]

Respondents were asked to what degree do you expect the following risk scenarios will impact your private equity/private market investment strategy in 2024? Respondents selected up to three.



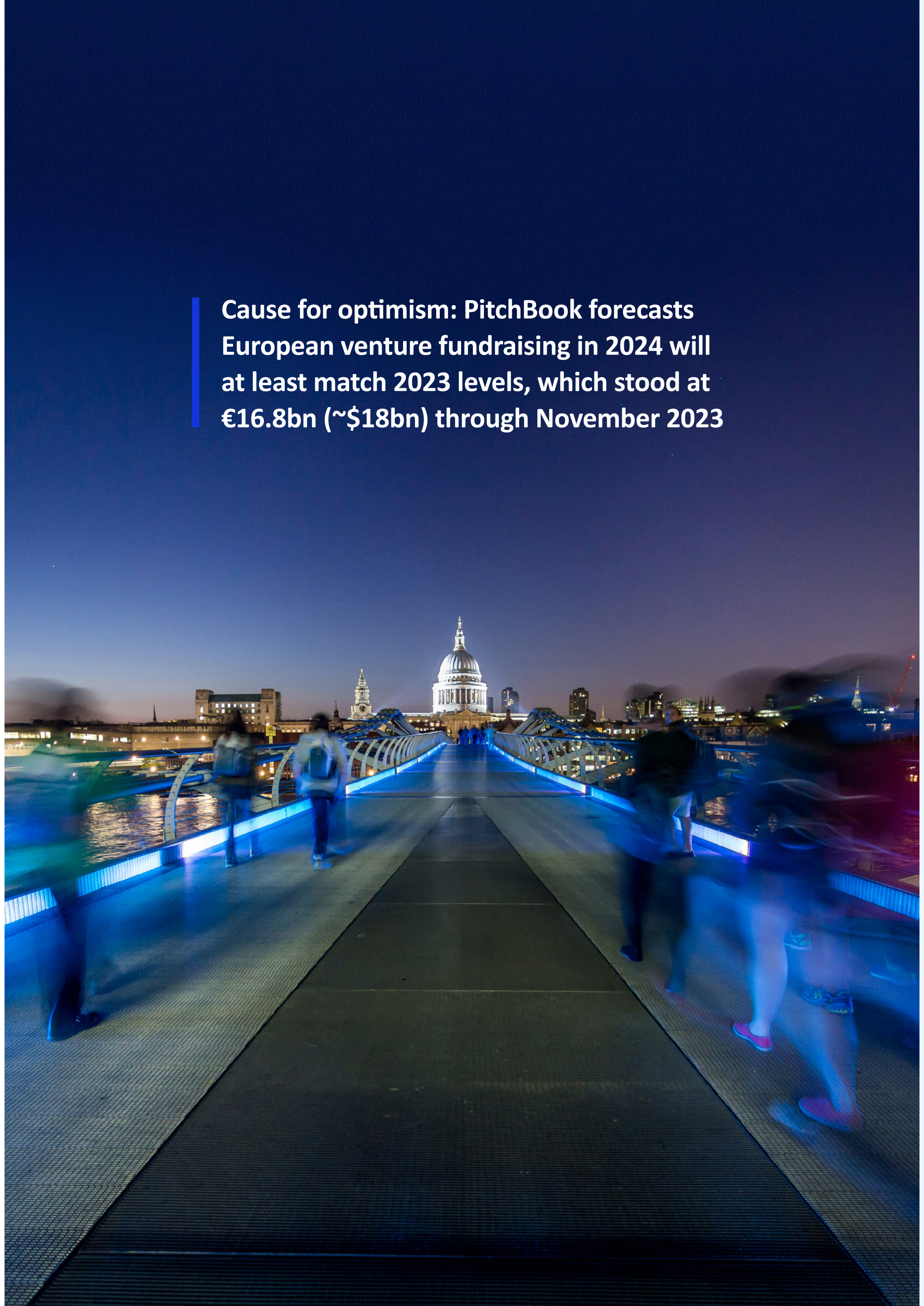
Canadian pension giants Caisse de dépôt et placement du Québec and British Columbia Investment Management Corporation are among noteworthy investors that have paused private investments or reduced exposure to China.[33] Many US private equity and venture capital firms have also slowed their investments in Chinese technology companies or severed ties with their Chinese arms.

A fifth of respondents identified Europe as the region they believe will offer the best investment opportunities in 2024. This is 2 percentage points higher than a year ago, even as the continent experiences similar valuation and exit uncertainties, and challenging financing conditions as other regions.

One potential cause for increased optimism may be the outlook for venture. PitchBook forecasts European venture fundraising in 2024 will at least match 2023 levels, which stood at €16.8 billion (~$18 billion) through November 2023 – still a significant drop from the €28.3 billion (~$30 billion) raised in 2022.[34]

In 2023 aggregate capital invested in the European tech ecosystem is estimated to have reached $45 billion. Europe has also grown to produce nearly the same amount of tech startups as the US.[22] Overall, European private equity and venture firms have more than €1 trillion in assets under management, a record, and €348 billion in dry powder, according to a report on the European private equity industry by consulting firm Arthur D. Little and trade association Invest Europe.[35]

National security and antitrust concerns will likely remain in focus during 2024, resulting in more complex and extended due diligence processes for cross-border transactions.



Cause for optimism: PitchBook forecasts European venture fundraising in 2024 will at least match 2023 levels, which stood at €16.8bn (~$18bn) through November 2023

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Building Resilient Portfolios, Ushering in a "Return to Normal" Era

Private markets investors seeking to build resilient portfolios face a constantly shifting set of challenges and priorities. Investing in longer-term funds is no longer seen as the sole shield against perceived risks in the next year. Instead, respondents stated that investing in managers with multiple growth strategies is a top priority.

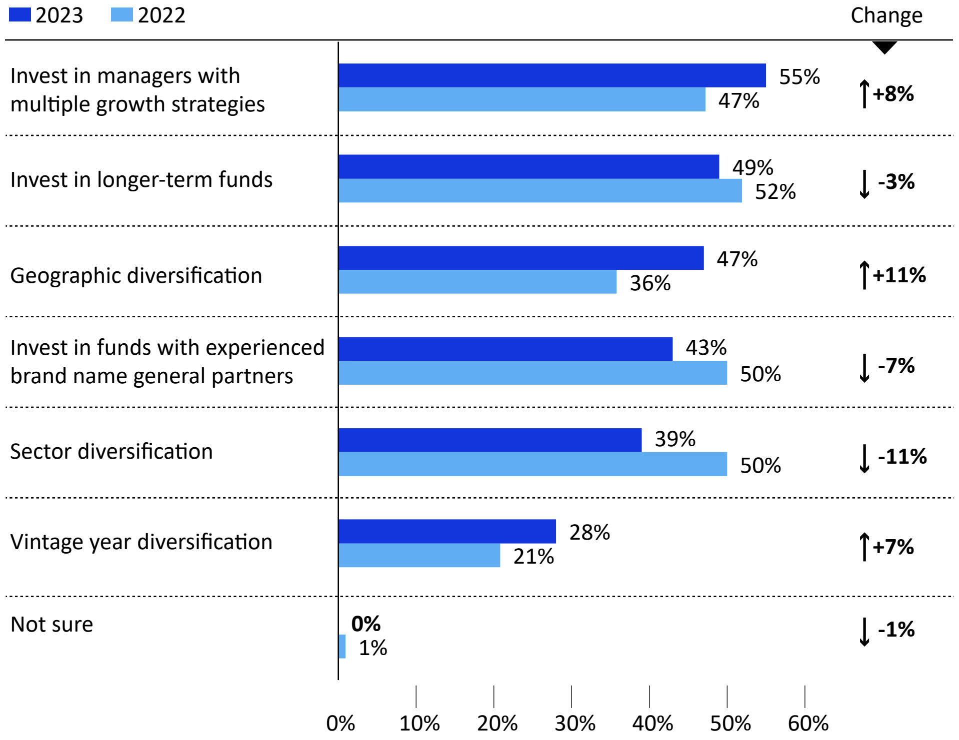
Faced with more expensive debt financing, we believe strong top-line revenue growth in portfolio companies combined with operational efficiency improvements are essential and fundamental drivers for above-median performance by private equity managers. Investors concur, stating that they continue to favor market leaders in high-growth sectors that demonstrate strong and durable revenue growth, pricing power, secure cashflows, expanding margins, resilient business models, skilled and experienced management teams, and robust balance sheets.

Many private market firms in recent years have grown their strategic options to engage a wider number of potential investors. Managers are acquiring sector-specific firms, such as in life sciences, or are building out dedicated secondaries, private credit, and private wealth teams.

Geographic diversification, meanwhile, ranked third among ways to protect against risk, at 47%, up from 36% a year ago. This reflects investors seeking exposure to regional champions and beneficiaries of shifting trade and supply chain patterns, while reducing potential geopolitical risk.

How Investors are Navigating Risk[29]

What are the most important considerations to protect your private equity/private market investments against risk scenarios?



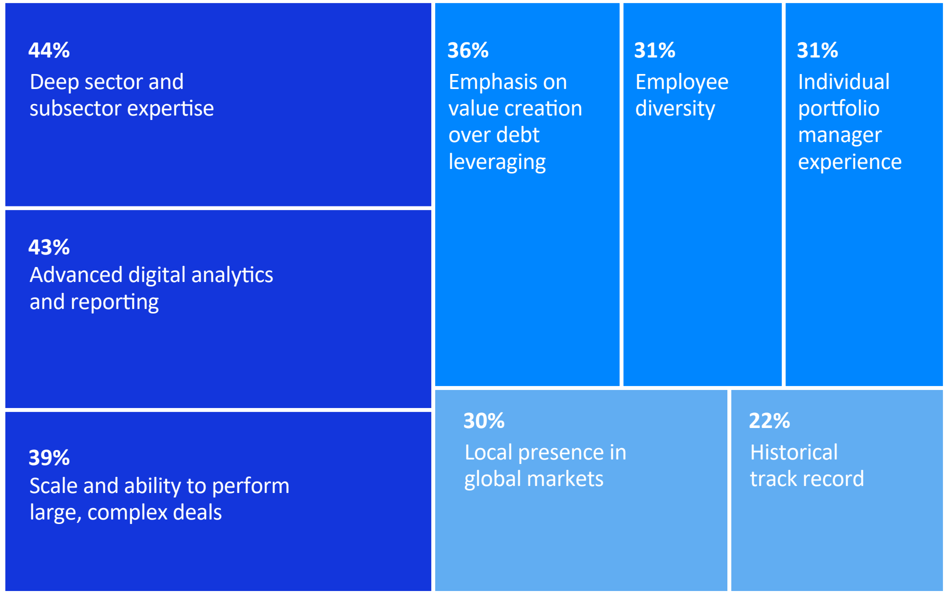
The top characteristics valued most by investors in private market funds are deep sector expertise (44%), advanced digital analytics and reporting in portfolios (43%), the scale and ability to perform large, complex deals (39%), and an emphasis on value creation over debt leveraging (36%).

In a higher interest rate environment, we believe that buyout managers can no longer lean on leverage. Returns are likely to increasingly be driven by growth in revenue and operating earnings. Such an environment should favor managers who are deep sector specialists and have the capability to improve portfolio operations.

Kaiser Permanente's Mr. Lurquin notes that, for investors, the quality of the manager-partner matters. "If we can find somebody who can identify the right opportunities in a space, who has a track record of having done so, who's aligned with our capital, who has been able to add significant value other than just pure financial engineering, then those are people we really want to consider for inclusion in the portfolio."

What Investors Look for in Private Investment Managers[7]

Which characteristics do you value most in a private market fund?



What the Future Holds

Making predictions about 2024 is risky, if not impossible. A wide number of factors are at play, which are sure to impact the range of potential outcomes in a highly complex system. However, 2024 may be an important transition year for private markets operators who potentially face a “higher-for-longer” interest rate environment. Working alongside trusted managers with a provable record across market cycles will likely be a key element to investment success.

We believe a focus on portfolio diversification and manager selection will be important in 2024. Generating a competitive return for investors will require a keen focus on strong diligence at a portfolio company and fund level, to ensure quality assets with strong growth prospects are selected at realistic valuations.

Global economies have proven resilient as central banks hiked interest rates to rein in generationally high inflation in multiple major markets. Such resilience could be a sign of optimism for both portfolio company earnings and dealmaking in the year ahead, even as a higher cost of capital weighs on activity.

One key takeaway is that investors continue to hear opportunity knock in private markets. And if there is a final conclusion from our survey, it may well be confidence among investors that the innovation supercycle powering the decades-long digital transformation of the global economy will be driven in large part by disruptive companies backed by private markets.

> **Investors seem confident that the innovation supercycle powering the decades-long digital transformation of the global economy will be driven in large part by disruptive companies backed by private markets**

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ABOUT THIS RESEARCH

Over six weeks leading into 2024, Adams Street Partners surveyed 100 limited partners for their views on a variety of topics that were a cause for optimism or concern. Participants included pension funds, institutional accounts, and portfolio managers located in the US, Europe, and APAC.

The findings of this research are shared across a variety of media to effectively highlight key conclusions on geopolitical risk, ESG trends, and the outlook for select strategies, sectors, and geographies. Included in the research are insights into what institutional investors report they are considering to best seize opportunities in the future.

LEADING WITH FORESIGHT™

Adams Street Partners is a global private markets investment manager with investments in more than thirty countries across five continents. The firm is 100% employee-owned and over $58 billion in assets under management. Adams Street strives to generate actionable investment insights across market cycles by drawing on over 50 years of private markets experience, proprietary intelligence, and trusted relationships. Adams Street has offices in Austin, Beijing, Boston, Chicago, London, Menlo Park, Munich, New York, Seoul, Singapore, Sydney, and Tokyo. **adamsstreetpartners.com**