2024 PRIVATE ASSETS REPORT

Six trends driving private investment in 2024

NATIXIS
INVESTMENT MANAGERS

The quest for yield and differentiated returns has resulted in a boom of private investment in the 15 years since the global financial crisis. Few see demand easing in the coming years.

With the economic picture evolving from low rates and high growth to one marked by higher rates and recessionary fears that have yet to be realized, investors continue to turn to private assets in 2024. Whether it’s private equity, private credit, infrastructure, or real estate, private invest-ment will be front and center in portfolio plans for institutional and individual investors in six significant ways.

1

The 60/40 portfolio may be back, but will it deliver in 2024?

Last year the 60/40 portfolio delivered its best returns since 2019. Despite the win, correlations between the S&P 500® and the Bloomberg US Aggregate Bond Index reached a 40-year high, giving professional investors reason to rethink strategy and more reasons to look to private markets for diversification in 2024.

Overall, 65% of institutional investors say a 60/20/20 allocation diversified with alternative investments is more likely to outperform in 2024.[1] Many are focusing on private investments for those alternative allocations.

Private investments have taken a prominent role in institutional strategy over the past decade and now account for 83% of all alternative allocations in institutional portfolios, including private equity (29%), private credit (17%), infrastructure (14%), and real estate (23%). Many indicate minimal allocation adjustments over the long term.[1]

Among those who invest: 83% will maintain (44%) or increase (39%) allocations to private equity; 88% will maintain (43%) or increase (45%) allocations to private debt; 90% will maintain (50%) or increase (40%) allocations to infrastructure; and 79% will maintain (50%) or increase (29%) their real estate allocations.[1]

One reason for investors finding appeal in private equity is the asset classes' potential to deliver outsized returns based on long-term historical returns. Flexstone managing partner Nitin Gupta believes the potential remains attractive even in a higher rate and slowing growth environment. He says, "Success comes down to manager selection, especially as median PE returns are very attractive relative to other asset classes and there is a greater variability of returns between top and bottom quartile."

PRIVATE ASSETS CONTINUE TO MAKE UP THE BULK OF INSTITUTIONAL ALTERNATIVES ALLOCATIONS[1]

Class	2023	Long term
Private Equity	**29%**	**29%**
Private Credit	**17%**	**17%**
Infrastructure	**14%**	**15%**
Real Estate	**23%**	**22%**
Hedge Funds	9%	9%
Option-Based Strategies	5%	4%
Managed Futures	4%	3%

2

Despite overcrowding concerns, the smart money remains bullish on private assets.

With more than $11 trillion invested in private assets, there are reasonable concerns about overcrowding. Overall, 59% of institutional investors go so far as to say the increased popularity of private equity is making it difficult to find opportunities.[1]

Despite challenges in finding deals, and sub-par distribution performance of 11.25% of net asset value on average in the last year[2], institutional teams will not reverse course on the centerpiece of their alternatives strategy in 2024.

Overall, 60% remain bullish on private equity. One key reason for their optimism is the potential to outperform public markets, as nearly two-thirds (66%) of institutions believe there is a still a significant delta in returns between private and public markets.[1]

While private investment helped enhance returns over the past 15 years, the macro picture is changing: Low rates are in the rearview mirror and there is concern about economic growth. But rather than moving out of the asset class, institutions are emphasizing the deal quality and 72% say they have stepped up their due diligence in their analysis of opportunities.[1]

"Whether for institutional investors or to address the growing demand from private individuals, building diversified private equity portfolios within the small & mid market is key to delivering sustained risk-adjusted superior performance," says Eric Deram, Managing Partner, Flexstone.

Institutions are bullish on private equity, but they may be looking at it in a new light. After going all-in on the asset class for the better part of a decade, many are reaching their limits for private investment. As result they will look to sell off some of their holdings, creating opportunity in the secondary market.

This is likely why they rank secondaries (32%) right behind sustainable investing (35%) as the best source of private investment opportunity in 2024.[1]

WHERE THE BEST OPPORTUNITIES FOR PRIVATE INVESTMENT LIE[1]

35%	32%	28%	27%	26%
Sustainable investing	Secondaries	M&A	Co-investing	Middle market

3

Private credit opportunity expands as traditional lending tightens.

In the wake of the biggest interest rate hikes in decades, traditional lenders find themselves operating in an unfamiliar environment and private lenders are poised to seize the opportunity.

Facing higher liquidity constraints, higher capital costs, and increased regulatory scrutiny, banks are pulling the reins on commercial and industrial lending. As reported in the Fed's January 2024 Senior Loan Officer Opinion Survey, banks are tightening premiums on riskier loans, spreads of loans over the cost of funds, costs of credit lines, and collateral requirements.[3]

Private lenders are stepping in to fill the void. Institutions are taking note and two-thirds (66%) anticipate more private debt will be issued in 2024 to meet growing borrower demand.[1] This is likely to be a long-term trend as private debt AUM is projected to grow to $2.8 trillion by 2028, nearly double the total from 2022.[4]

"This sentiment mirrors our own experience as a direct lender. Private debt remains resilient and attractive for investors, who continue to see good returns on their investments," says Nicole Downer, Managing Partner, MV Credit. "On the flip side, borrowers and Private Equity firms welcome the growth of the asset class which provides them with a reliable source of financing capital."

Commercial real estate in particular, is creating opportunities. "Commercial property values generally speaking are anticipated to hit a bottom this year and, at the same time, $900 billion in loans will come due on commercial properties according to Mortgage Bankers Association figures," says Sara Cassidy, Managing Director at AEW. "Owners need refinancing options – that will likely come with a greater amount of required equity – and with traditional lending sources on the sidelines or less active, this creates a significant opportunity for private lenders to fill the gap by entering the capital stack at a valuation that may be below replacement cost on high quality assets in good markets."

Institutions are also anticipating that a boom in private lending will add up to investment opportunity in 2024 and 64% are bullish on the asset class. Competition for new deals may be fierce, as 45% say they will increase private debt allocations this year – more than any other alternative investment.[1]

When it comes down to how they will invest, it's likely they will stick with the familiar. Right now, their investments focus on funds of funds (41%), direct lending (40%) and co-investment (39%).[1]

HOW INSTITUTIONS ARE INVESTED IN PRIVATE DEBT[1]

Funds of Funds	**41%**
Direct Lending	**40%**
Co-investment	**39%**
Secondaries	**32%**
Venture Debt	**26%**
Mezzanine	**26%**
Distressed Debt	**26%**

4

Amidst an AI boom, tech ranks as top sector bet in private assets.

Tech has been on a roll as Moore's Law of technological advancement plays out in real time. Recent developments in artificial intelligence are following suit and 66% of institutions say the race for AI supremacy is the new space race.[1]

Many see opportunity in the race and 66% say AI will supercharge tech growth, making information technology their top sector pick for private equity. One key challenge, though, may be the number of investors seeking out a limited number of opportunities as deal volume in the space declined from $266 billion in 2022 to just $133 billion last year.[5]

Institutions may find additional opportunity in tech-adjacent sectors. For example, demand for data centers has grown tremendously in the past decade as tech companies make ever-greater use of cloud computing and storage. As more AI companies and solutions come online, this demand is set to grow exponentially. Institutional investors see the potential and identify data centers (52%) as the best opportunity in non-traditional real estate.[1]

Tech may factor into their second-best private opportunity: infrastructure (37%).[1] Investments in 5G, electric transport, power grids and other projects tap new technologies for enhanced efficiency, and many will also fit the bill on sustainable investment goals.

The same number (37%) also see opportunity in healthcare, a sector that is benefiting from a rising number of aging Baby Boomers beginning to increase demand for hospitals, home health care, and nursing homes.[1]

INSTITUTIONS LOOK TO TECH-ADJACENT SECTORS FOR ADDITIONAL OPPORTUNITY[1]

52%
as the best opportunity in non-traditional real estate.

37%
infrastructure.

37%
also see opportunity in healthcare.

5

Sustainable investments rank as top private opportunity in 2024.

Globally, investor interest in sustainable investments remains high as evidenced by the 87% of institutions invested in green bonds who say they will maintain (44%) or increase (43%) their investments in 2024.[1] Institutions have similar convictions when it comes to opportunities for sustainable investments in the private markets.

In fact, 35% of institutions say sustainable investments present the biggest opportunity in private markets for 2024.[1] One likely reason is that government funding to support energy transition projects ranging from electrified transport to renewable energy has grown from $526 billion globally in 2018 to $1.7 trillion in 2023.[6]

Another reason may be the ability to influence how assets are managed with private investments, which is a significant positive for investors looking to make a tangible impact. Within private assets and alternatives, investors are more likely to make ESG (environmental, social and governance) investments in private equity (41%) and infrastructure (39%), ahead of real estate and private debt.[1]

Wealth management firms are taking note of the private opportunity for sustainable investments as well. Half (52%) of selectors selecting investments for wealth management platforms report greater client demand for sustainable investments. To help meet those demands, selectors plan to add sustainable investments (36%) to their private asset offering in the next 12 months, building on the 44% who added these strategies in 2023.[7]

96% of institutions with ESG investments anticipate maintaining (40%) or increasing (56%) their investments in 2024.[1]

6

The democratization of private assets continues to gain steam.

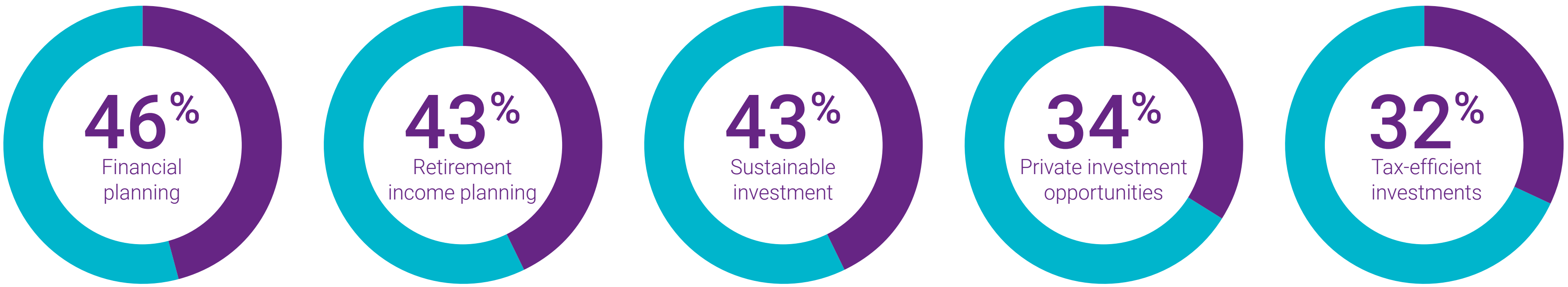
Institutional investment has been a boon to private investment over the past decade, and individual investors have taken note. Advisors and wealth managers have responded in kind.

Globally, 34% of individual investors are interested in private investment opportunities, ranking them just behind financial planning, retirement income planning and sustainable investments as the service they most want from their advisor.[8] More than half of fund selectors (51%) at leading wealth managers say their firms are responding by offering more private asset strategies to meet higher demand.[7]

But the rationale for private investment extends beyond demand as 61% of selectors say retail-friendly private asset vehicles are helping them enhance client diversification. In looking at client investment objectives, 64% also say that the long-term nature of retirement saving makes investing in private assets a sound strategy.[7]

Selectors are split on their ability to deliver private assets at mass scale, as just 51% believe that increased deal flow is allowing them to offer private investment more broadly to clients. This is a likely reason that funds of funds (42%) top their lists of private asset offerings followed by infrastructure (40%), growth capital (39%), venture capital (38%) and direct co-investment (37%).[7]

TOP SERVICES CLIENTS WANT FROM THEIR FINANCIAL ADVISOR[8]



The outlook for 2024

Faced with a 2024 outlook marked by higher interest rates, concerns about slowing growth, and recession fears, professional investors are looking to private markets to diversify portfolios and enhance return potential. In fact, beyond bonds (69%), the only other markets where institutional investors are bullish are private equity (60%) and private credit (64%).[1]

Overall, they see private assets as a way of capitalizing on tighter bank lending, as a platform for investing in leading edge technology, and a way to claim profits from sustain-ability. They are planning to invest with renewed vigor.

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1. Natixis Investment Managers, Global Survey of Institutional Investors conducted by CoreData Research in October and November 2023. Survey included 500 institutional investors in 27 countries throughout North America, Latin America, the United Kingdom, Continental Europe, Asia and the Middle East.

2. "Private Equity Returns Plunge to Global Financial Crisis Levels." Bloomberg.Com, Bloomberg, 12 Feb. 2024, www.bloomberg.com/news/articles/2024-02-12/private-equity-returns-plunge-to-global-finan-cial-crisis-levels.

3. "The January 2024 Senior Loan Officer Opinion Survey on Bank Lending Practices." Board of Governors of the Federal Reserve System, www.federalreserve.gov/data/sloos/sloos-202401.htm.

4. Stranne Petersen, Anne-Louise, and Zak Bentley. "How to Navigate Infra's Worst Fundraising Market in a Decade." Infrastructure Investor, 1 June 2023, "http://www.infrastructureinvestor.com/how-to-navigate-in-fras-worst-fundraising-market-in-a-decade
/"www.infrastructureinvestor.com/how-to-navigate-infras-worst-fundraising-market-in-a-decade/.

5. 2023 Annual US PE Breakdown, pitchbook.com/news/reports/2023-annual-us-pe-breakdown/.

6. BloombergNEF. (January 25, 2024). Investments in energy transition technologies worldwide from 2004 to 2023
(in billion U.S. dollars) [Graph]. In Statista. Retrieved February 28, 2024, from https://www.statista.com/statistics/1201435/global-investment-in-energy-transition/

7. Natixis Investment Managers, Global Survey of Fund Selectors conducted by CoreData Research in November and December 2023. Survey included 500 respondents in 26 countries throughout North America, Latin America, the United Kingdom, Continental Europe, Asia and the Middle East.

8. Natixis Investment Managers, Global Survey of Individual Investors conducted by CoreData Research in March and April 2023.
Survey included 8,550 individual investors in 23 countries.

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