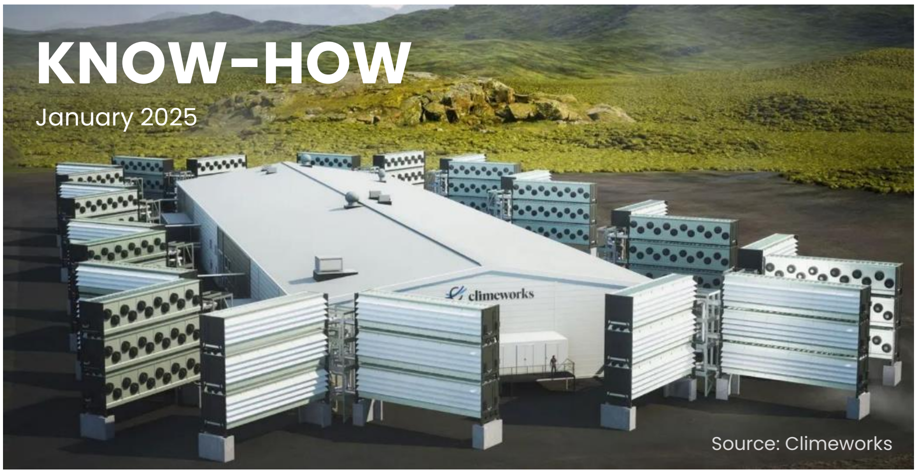

Private markets: an update

The performance of investments in the private market universe varied in the 2024 investment year depending on their subcategory. While investments in private debt (PD) performed satisfactorily in line with expectations, investments in private equity (PE) did not live up to expectations.

Investments in the PD universe remain attractive because US base rates are still relatively high. For investors calculating in Swiss francs, however, the wide USD-CHF interest rate differential and the related high forex hedging costs continues to be a major challenge, significantly reducing the expected yields. Compared to yields in the CHF bond universe though, they are still very attractive even after hedging costs.

As for real assets (i.e. private infrastructure/PI and private real estate/PRE), there is continued very high demand for infrastructure investments, especially in the renewable energy sector (decarbonization) and in digitalization. The G20 estimates that global demand for infrastructure investments will reach around USD 94,000 billion by 2040.

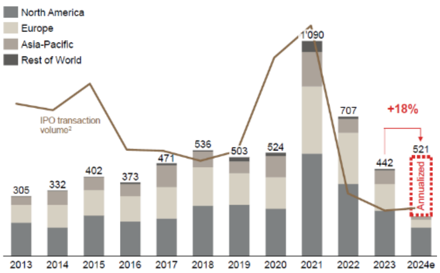

Fig. 1: Global exit and IPO volumes in USD billions as at 15 May 2024 (source: Partners Group, Dec. 2024)

Given the generally high levels of government debt, private investors will continue to play a vital role in financing long-term infrastructure projects.

The PRE sector, on the other hand, is still confronted with structural, corona-related headwinds. There is still uncertainty regarding future usage in the commercial real estate sector (offices and department stores). The PRE market is undergoing a phase of consolidation.

Private equity

In 2024, the world's major economic areas entered a phase of lower interest rates, which is basically positive for activity in the private equity universe. For private market investments, however, the *US dollar economic area* is by far the most important. Here the first interest rate cut of the year kept getting pushed further and further back.

At the beginning of 2024, market expectations were for six US interest rate cuts by the end of the year. But with inflation falling slower than expected and the economy proving remarkably resilient, the Fed held back. It eventually made its first rate cut in September and followed up with two more cuts.

An acceleration of buyout activities is already noticeable. After slumping in 2022 and 2023, there was a resurgence in global exits and initial public offerings (IPOs) by volume and number of deals in. On an annualized basis, activity is back to 2018 to 2020 levels 2024 (Fig. 1). It will take some time, however, for the full effect of lower rates to feed through to the dynamics of investing.

Partners Group is also actively reducing existing investments. Recent exits on Partners Group's PE platform include Galderma (IPO on SIX), SRS Distribution (sold to Home Depot), Techem (sold to TPG and GIC), KinderCare (IPO on NYSE) and Zabka Group (IPO on the Warsaw Stock Exchange). This shows that PE houses are increasingly considering going public (public offerings) as an exit strategy.

Evergreen gaining in popularity

The growth of the private equity market also saw semi-liquid open-ended investment vehicles gain traction in 2024. These funds, often referred to as "evergreen" funds, offer investors a mix of liquidity and long-term investment opportunity. Unlike traditional, closed-end private equity funds, semi-liquid funds are open to new investment at any time and offer more frequent redemption opportunities, typically on a monthly or quarterly basis. PE-providers from the US, such as KKR, Apollo and Blackstone, have recently started to target European private investors in this area.

Conclusion

While investments in the PD universe performed in line with yield expectations, the full potential of PE investments could still not be fully unlocked despite the pick-up in buyout activity. It will take some time before the lower US interest rate level accelerates the investment dynamic in this universe.

A broader range of investment alternatives that includes semi-liquid funds stimulates competition. However, this makes a careful selection of providers and an intelligent composition of the portfolio even more demanding.

The fundamental illiquidity of the asset class must not be forgotten, despite semi-liquid investment vehicles.

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