PREQIN

Press Release

A quarter of surveyed investors plan to increase pace of private capital allocations as market confidence grows – Preqin reports

Only 5% of respondents plan to reduce their private market allocations despite concerns about near-term asset performance

LONDON, 22 August 2023 – Today Preqin, the global leader in alternative assets data, tools, and insights, published its Investor Outlook: Alternative Assets, H2 2023. The report found while concerns remain around the ability of private asset classes to outperform over the next 12 months, global investors are increasingly targeting private allocations across portfolios to hedge against ongoing uncertainty.

Preqin's annual report presents the responses from investors across the globe, surveying 178 institutional investors*. The report breaks down global investor sentiment in the following categories: private equity, venture capital, private debt, hedge funds, real estate, infrastructure, and natural resources.

The survey found that there may be positive signs of an economic turnaround. More than three quarters (81%) of investors surveyed believe we are currently on a decline or approaching the bottom of the macro-economic and real estate market cycle. At the same time, just over a quarter (26%) of respondents think public equity markets are already starting to recover. As a result, allocations to private assets are set to grow further. Only 5% of investors surveyed plan to sell down their private capital allocations in the next 12 months, with over a quarter (26%) planning to increase allocations.

Additionally, despite concerns about the denominator effect turning institutions into forced sellers of assets to balance portfolios, impacts are not as big as expected: Three quarters (74%) of investors surveyed stated that the denominator effect has had no impact or has been a minor consideration for private capital allocation decisions in the past year. However, respondents with assets under management greater than $25bn have been more heavily hit, as they do not have the luxury to move larger amounts of capital with ease, with 82% noting 'some impact' from the denominator effect.

Private equity set to grow position as most-held asset class, while infrastructure is second-most popular

Preqin's Investor Outlook further found that four out of five investors surveyed (80%) now have allocations to **at least one** private asset class, while two in five (39%) have allocations to **three or more**. Private equity maintains its position as the most popular, with almost two thirds of investors (63%) surveyed allocating to the asset class. More capital is expected to flow into private equity in the next 12 months despite a more pessimistic returns outlook over the short term.

The survey also found that over a third of respondents (34%) plan to allocate more capital to private equity in the next 12 months, with 84% of those investors planning to do so before the end of 2023. This is despite over half (53%) of investors surveyed believing private equity to be 'overvalued' currently, and a quarter (25%) expecting performance to be worse in the year ahead than the previous 12 months.

Infrastructure is the asset class set to be second-most popular with investors in the next 12 months, with 41% expecting to allocate more capital in the next 12 months. The US market is likely to be the beneficiary of the asset flows with a jump year-on-year – from 60% in 2022 to 70% in 2023 – in investors seeing opportunities in the region. At the same time, UK infrastructure saw a big decline in the portion of investors identifying it as an attractive investment opportunity from 30% in 2022 to 18% in the 2023 survey.

Investors bullish on private debt performance outlook

Private debt is the asset class which has most outperformed investor expectations, with 90% of those surveyed reporting that the asset class had met or exceeded expectations over the past year. This trend is expected to continue, with respondents having the highest conviction about continued strong performance of private debt versus all other asset classes. Over half of investors surveyed (53%) predict that private debt will perform even better over the next 12 months. As a result, it is the asset class where the highest proportion of investors surveyed intend to increase allocations over the next 12 months (45%).

Much of the interest in private debt is due to the current economic environment and concerns around interest rates lingering, with almost two thirds of all survey respondents (61%) pointing to reliable income as the main reason for investing in private debt, compared to only 19% who cite high absolute returns as the primary factor for investing.

Cameron Joyce, SVP, Head of Private Equity, Research Insights, at Preqin says "*Investors are striking a cautious tone as they await more certainty from the global economic picture. While they continue to tentatively increase allocations across private asset classes, returns expectations remain tempered following a challenging 12 months, and the appetite is firmer for more stable assets such as private debt and infrastructure.*

"However, there may be some light at the end of the tunnel. As confidence starts to grow that we are approaching or have already hit the bottom of the market, investors look set to continue to deploy capital to private assets throughout Q3 and Q4. Equity markets tend to be a lead indicator of investor sentiment, so if optimism continues to grow, we could see greater activation of capital deployed over the coming years."

Additional findings from Preqin's H2 2023 Investor survey include:

- **Real estate cycle nears end:** 81% of investors believe the real estate cycle is starting to decline or is approaching the bottom, but that short-term pain awaits. Almost half of survey respondents (47%) believe performance of their real estate portfolio will decline in the coming year. The number of those surveyed expecting to decrease their allocation to the asset class has doubled since last year to 16%.

- **Hedge funds poised for recovery:** 60% of investors feel that hedge funds either met or exceeded their expectations in the past 12 months, an increase on 2022 (53%). Over three quarters of hedge fund investors (79%) believe the US presents the best opportunities for investment across developed markets, while perception of the UK has soured, with the country seeing the largest decrease in sentiment – from 22% in 2022 to 8% in 2023).

- **Limited funding flowing towards venture capital (VC):** 67% of survey respondents reported that their portfolio pricing had decreased over the last 12 months. The view is that there may be more pain to come, as 68% of investors think their VC portfolio is overvalued. As a result, 76% of investors surveyed plan to commit less than $50m into VC funds in the next 12 months.

- **Natural resources slowdown:** The environment for natural resource exposure has shifted over the past 12 months and fewer investors expect to increase their allocations to the asset class (17%) than a year earlier (27%), with commodity price volatility cited as the key concern (70%).

#ENDS#

For more information, and to receive a full copy of the report contact Josh Sarson, preqin@fticonsulting.com or call 0755 499 1072.

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Notes to editors

* The surveyed investors have collectively over $10trn in assets under management (AUM). Please note that this AUM figure is based on self-reported figures and therefore an estimate.

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