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The Growth and Evolution of Private Markets

Data provided by PitchBook

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Executive summary

In the 1980s, when the ambitious founders of Blackstone were raising their first fund, some potential investors were asking basic questions—not around strategies or strengths, but around what a "buyout" was. It was a new concept four decades ago. Understandably, it took some time for Blackstone to launch its first fund. Private equity ("PE") wouldn't be called "private equity" until the 1990s. In the early years, firms like Blackstone and KKR were simply called "buyout shops," and raising money was an arduous process. This is no longer the case. For PE firms with strong track records, fundraising can take as little as a handful of months, and Limited Partners ("LPs") vie to get into the most promising funds.

PE is a poster child of the private markets. The idea of buying entire companies and taking them private was a watershed moment for the finance industry; the number of public companies is on a slow decline, while the number of PE-backed companies almost doubled over the past decade (see Figure 8). Going back further, the global PE company inventory—the number of companies backed by PE at any given time—stood at 3,418 companies in 2000. As of 2022, there were about 26,216 companies backed by PE worldwide, a sevenfold increase.

When companies or assets are controlled by private owners, radical change can happen in a short time. Difficult or controversial ideas can be implemented away from the unblinking eyes of retail investors, and companies can pursue initiatives that spur growth and capture market share. For those reasons and others, alternative asset classes like PE, venture capital ("VC"), real estate, and private debt have posted consistently strong returns for their investors. They can be innovative or prudent when they need to be, and the end results are often superior companies. Private markets cut their teeth in the US before migrating to Europe and Asia, and today's private investors can be found everywhere.

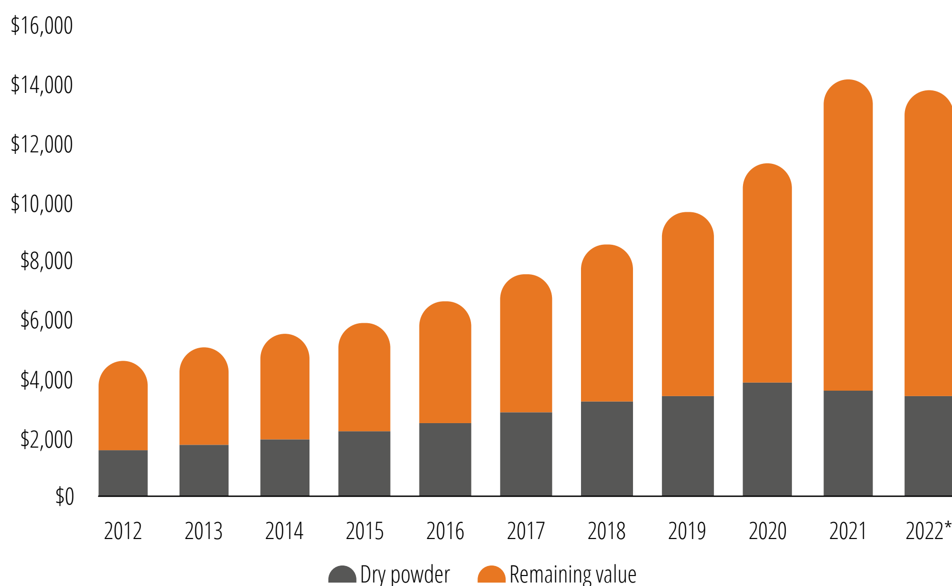
This report, produced in conjunction with PitchBook Data, is an in-depth look at the global private markets. For most institutional investors, private markets account for anywhere between 10% to 30% of their asset allocations. Manager selection is critical, and taking care of a fund can be a daunting task. At Apex Group, we've developed tools to help our clients manage their funds using technology, automation, and streamlining tools. We understand the pressures and constraints of managing funds big and small, and data-driven insights and time-saving tools can have a big impact on bottom lines and, ultimately, returns.

The evolution of private markets

Total assets under management ("AUM") within the global private markets has skyrocketed. In 2005, about $1.6 trillion was under the private markets umbrella. By the end of 2022, total AUM was estimated to be $13.7 trillion, according to PitchBook. The 2022 number is notable considering that the prior year had an estimated $14.2 trillion under management. 2022 represented the first "down" year for private markets AUM, which had been climbing steadily for several years. AUM declined because dry powder declined in 2021, which was a historic year for deal activity. PE and VC had record-breaking performances, and dealmakers were passing up good deals for great ones.

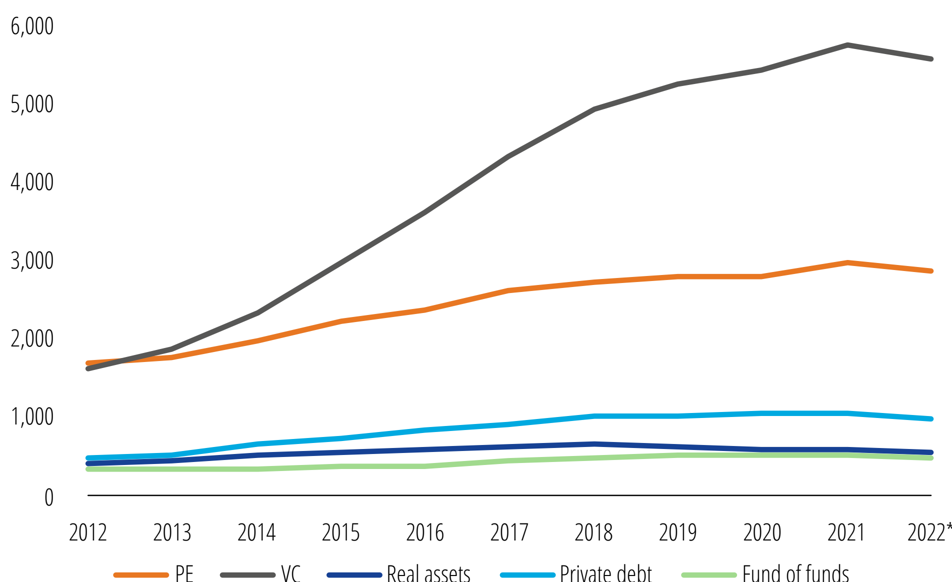
But in early 2022, inflation set in, and recession worries grew. Policymakers in the US, Europe, and Asia ratcheted up interest rates, thus triggering equity market sell-offs in most major indexes. 2022 and 2023 offered an opportunity for the private markets to pause, which they hadn't done in some time. Before the next inevitable climb in private market activity, there are several questions worth raising across all of the major alternative asset classes.

Figure 1: Private market AUM ($B)



Source: PitchBook • Geography: Global
*As of December 31, 2022

Figure 2: Active investors by asset class



Source: PitchBook • Geography: Global
*As of December 31, 2022

How will PE managers overcome the current fundraising challenges?

PE fundraising hit a high point in 2021, which recorded the most fund closings in history. $578.9 billion was raised overall, not far behind the record $583.0 billion raised in 2019. Between 2019 and 2022, over $2 trillion was raised globally. With leverage, the total purchasing power of those funds is estimated to be above $5 trillion.

But sentiment has faded in recent months. The denominator effect, wherein lower valuations in equities artificially inflate PE allocations, is impacting LPs. To get back in line with allocation targets, LPs have reduced commitments to PE managers or paused new investments altogether. At the same time, rising interest rates are making fixed-income opportunities more attractive, and some LPs are opting to reallocate capital to fixed-income products at the expense of PE funds. In certain countries, such as Japan, exchange-rate pressures are leading to a numerator effect: A weaker yen is causing commitments to dollar-based funds—and the capital calls required to implement them—to become more expensive.[1] In those cases, too, Japanese LPs are opting to reduce fund recommitments. Finally, the significant drop in PE exits is reducing the amount of capital being distributed back to LPs—capital that is typically recycled into new PE funds.

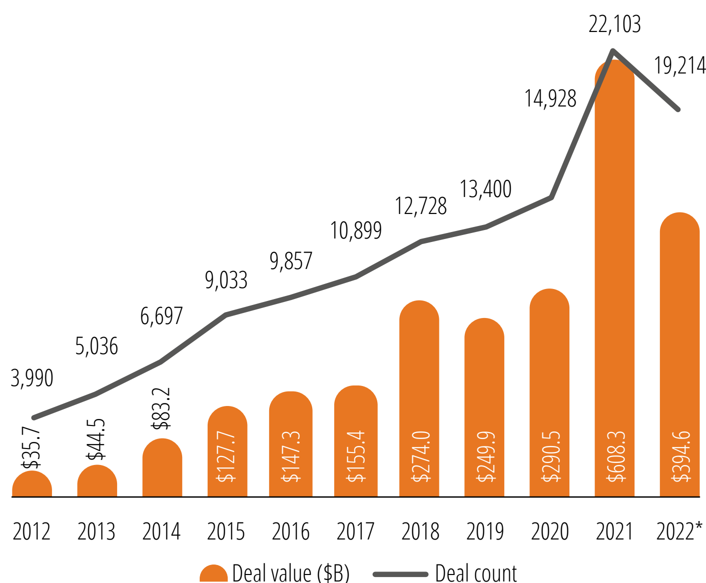
PE managers around the world are facing a slower fundraising cycle than they enjoyed just a year or two ago. Silver linings can be found in developed markets, where a flight to quality has pushed North America and Europe's share of global fundraising above 90%, up from 68% in 2016.

For now, most managers have plenty of dry powder to work with. In order to regenerate the PE gold rush, PE managers need to navigate today's risky dealmaking environment and once again prove their mettle to institutional investors.

Figure 3: PE fundraising activity

Source: PitchBook • Geography: Global
*As of December 31, 2022

Figure 4: VC deal activity with nontraditional investor participation



Source: PitchBook • Geography: Global
*As of December 31, 2022

The ever-changing investor base within the VC sector

While the nature of VC hasn't changed in decades, its investor base has. With monumental success stories, particularly in technology, a wide array of investors has migrated to venture to capture pre-IPO stakes in the most promising companies. Hedge funds, PE firms, mutual funds, and sovereign wealth investors are now common

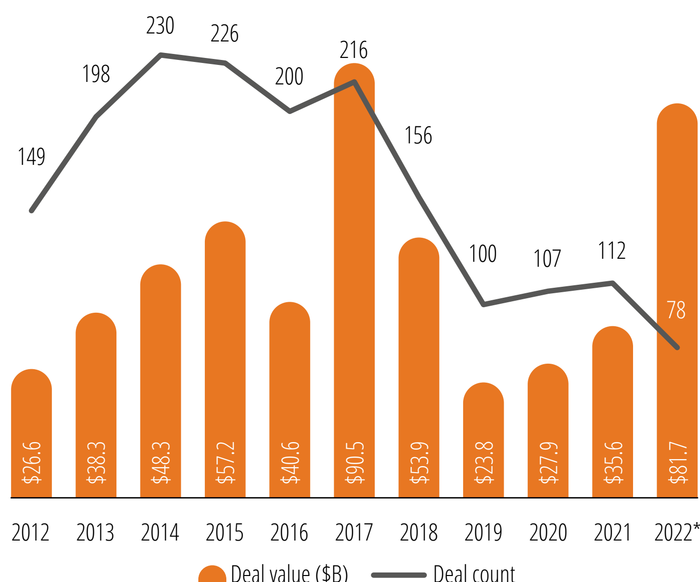
1: "Denominator Woes Prompt Japanese LPs to Get Selective," Private Equity International, Alex Lynn, April 3, 2023.

players in late-stage venture investing, and in some cases even early-stage investing.

2021 was a watershed year for venture, including nontraditional venture investors. Globally, over $600 billion worth of VC rounds included nontraditional investors, spread across more than 22,000 rounds. One decade ago, those numbers were much smaller—about $16 billion worth of rounds across fewer than 4,000 transactions. But with opportunities such as Facebook and Uber presenting themselves, large asset managers have acted upon the chance to take single-digit stakes in technology companies before they go public. IPOs used to be a major financing event for startups, and the capital that was raised was important to their balance sheets. Today, VC-backed IPOs can be delayed by years thanks to abundant private financing, and IPO proceeds are often smaller than previous rounds financed by hedge funds and mutual funds.

In addition to new late-stage investors, there are also new entrants to early-stage investing. Corporate venture capital ("CVC") is the most prominent. One of the oldest CVC firms, Intel Capital, has been around for decades, but other corporations across multiple sectors have invested time, energy, and money to join the fray.

Figure 5: Infrastructure PE deal activity



Source: PitchBook • Geography: Global
*As of December 31, 2022

Boeing, John Deere, Johnson & Johnson, and Comcast are just a handful of today's heavyweights backing their industries' most disruptive startups. Even 7-Eleven, the convenience store chain, has a corporate venture arm.

The ever-changing investor base within VC has introduced new options for the companies themselves,which no longer need to rely solely on Silicon Valley outfits for financing. But without discipline, the asset class is risky. Traditional venture investors still have an abundance of investment opportunities, but they remain the most disciplined investors by necessity; their portfolio companies are their only avenues for returning capital to investors and remaining in business, while other, nontraditional investors can come and go as they please.

Can infrastructure emerge as an asset class uncorrelated to economic cycles and a winner in fundraising rounds?

In 2022, the G20's Global Infrastructure Outlook initiative estimated that global infrastructure spending needs to hit $94 trillion by 2040. At the current investment pace, it estimated that a $15 trillion gap that needs to be filled, including a $3.8 trillion gap in the US alone.[2]

Private investors have become a growing force in the global infrastructure market, but they're only a piece of the puzzle. PitchBook data shows a topsy-turvy dealmaking environment for infrastructure. Investing trends tend to be uncorrelated to broader macroeconomic trends, with the exception of political tailwinds.

For infrastructure to emerge as a fundraising winner, co-investment opportunities will need a starring role. LPs such as public pension funds and university endowments have long investment timelines, stretching 50 years or more. Infrastructure projects are tailor-made for those timelines, as "exits" may take a decade or longer to occur. General Partners ("GPs") that can offer lucrative co-investment chances will have an easier time raising commitments from pension plans and endowments, which want more direct exposure to individual deals and value the portfolio diversification that infrastructure projects can offer.

2: "Forecasting Infrastructure Investment Needs and Gaps," Infrastructure Outlook, Global Infrastructure Hub, n.d., accessed May 10, 2023.

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How has the private debt market grown in the wake of the global financial crisis?

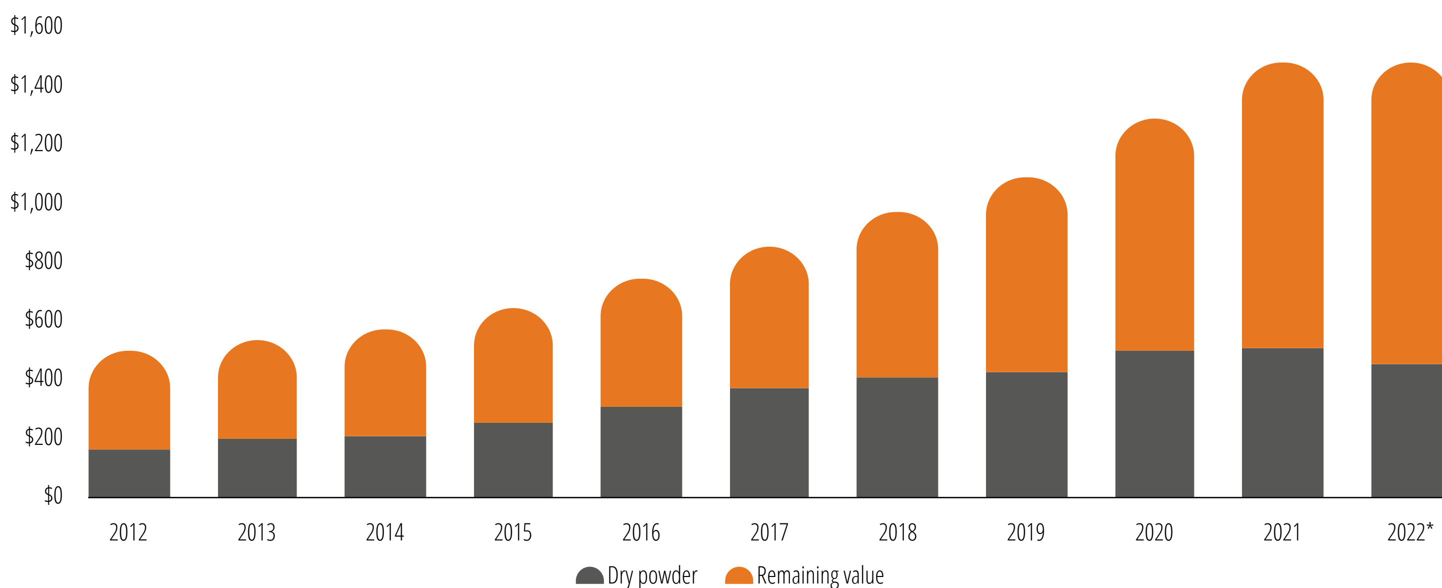
As an asset class, private debt is relatively new. It grew from the ashes of the 2008 financial crisis, after investment banks became skittish of financing large buyouts and regulators began cracking down on loan packages from "systemically important" players.

For the PE industry, a major source of debt financing diminished in popularity, but dealmaking couldn't slow down. In its place, the private debt asset class began to take shape and fill the void left by investment banks. While private debt funds could loan to a variety of companies, their primary relationships involved PE-backed companies. There was more than enough opportunity to go around, but private lending mostly revolved around middle- and lower-middle-market deals in the US and Europe.

For years, new private lenders cropped up, and LPs welcomed them as new sources of portfolio diversification.

As the asset class matured, big investors like Blackstone, KKR, and Ares formed teams and funds to get into the market. LPs once again welcomed the move, and the funds available to buyout shops became much bigger. Over time, private debt funds became the primary option for even billion-dollar deals, which had been the provenance of investment banks. In 2023, a $15 billion deal for Cotiviti, a software company, turned into a watershed moment for private debt, as a direct loan package from Apollo, Ares, and Blackstone was chosen over a more traditional package from Goldman Sachs and J.P. Morgan. According to the Financial Times, the deal underscored "the growing power of private credit in the wake of the global financial crisis, which ushered in a new era of tougher capital requirements for banks that made it harder for them to fund risky takeovers."[3] In the years ahead, it will take more multibillion-dollar loan packages to cement private debt's reputation, but they are likely to come sooner than later.

Figure 6: Private debt AUM ($B)

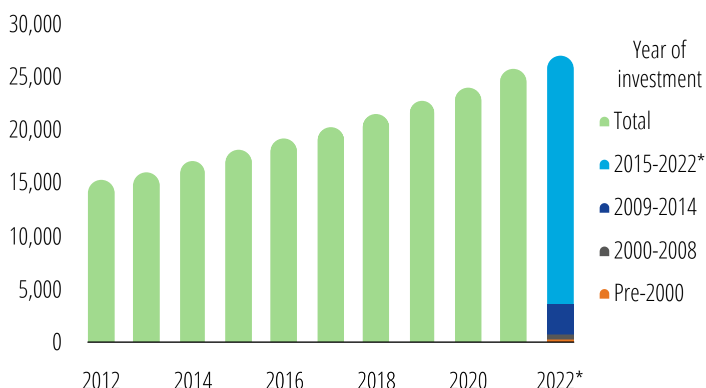


Source: PitchBook • Geography: Global
*As of December 31, 2022

3: "Private Credit Edges Out Banks to Offer Carlyle Largest Direct Loan of Its Kind," Financial Times, Eric Platt, March 6, 2023.

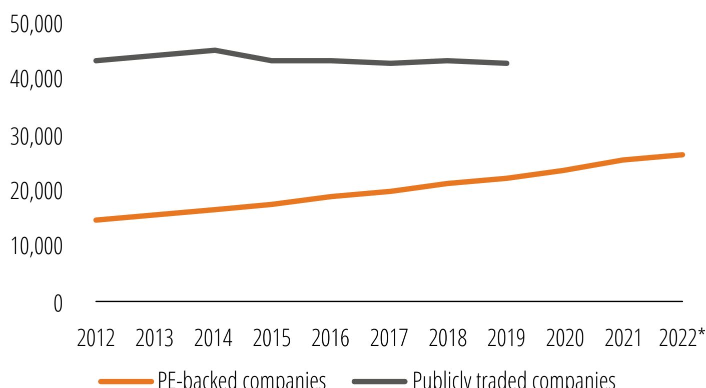
By the numbers

Figure 7: PE company count



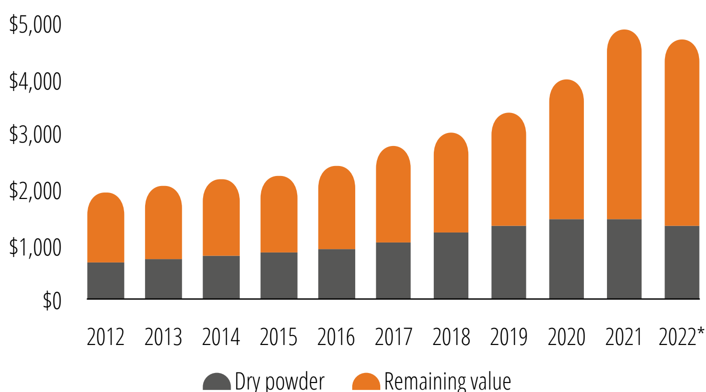
Source: PitchBook • Geography: Global
*As of December 31, 2022

Figure 8: Public company and PE-backed company count



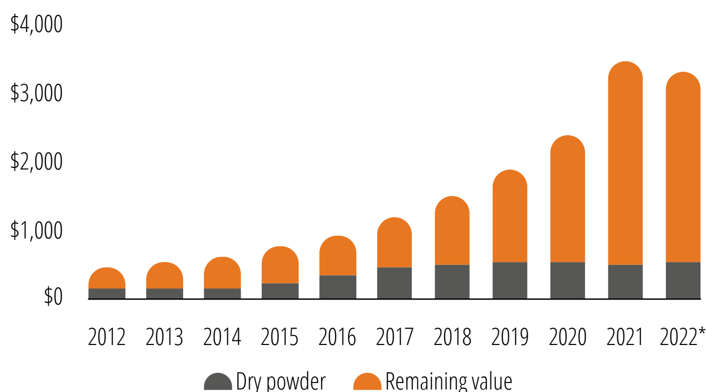
Sources: PitchBook and The World Bank • Geography: Global
*As of December 31, 2022
Note: World Bank data is the most recent available.

Figure 9: PE AUM ($B)



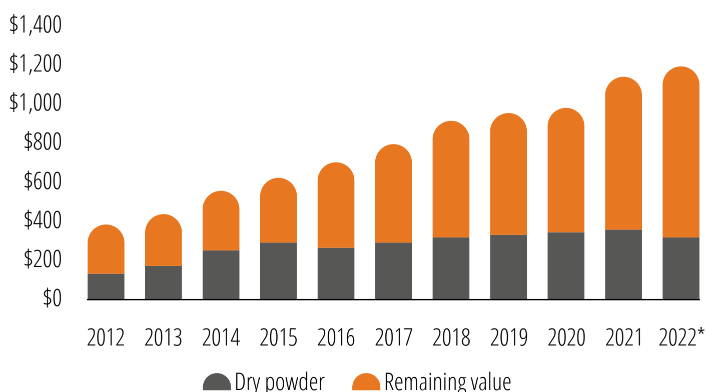
Source: PitchBook • Geography: Global
*As of December 31, 2022

Figure 10: VC AUM ($B)



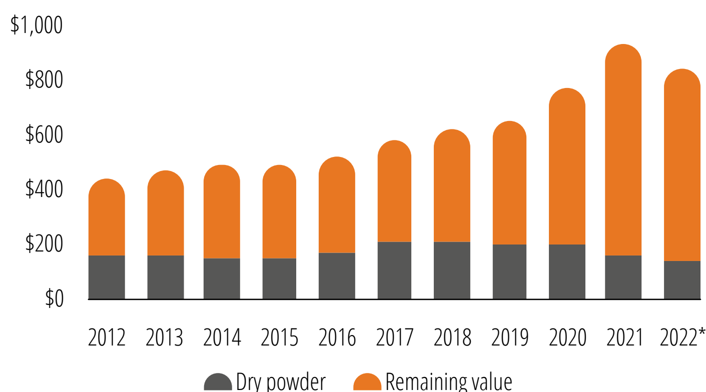
Source: PitchBook • Geography: Global
*As of December 31, 2022

Figure 11: Real assets/infrastructure AUM ($B)



Source: PitchBook • Geography: Global
*As of December 31, 2022

Figure 12: FoF AUM ($B)



Source: PitchBook • Geography: Global
*As of December 31, 2022

Fundraising

Private equity

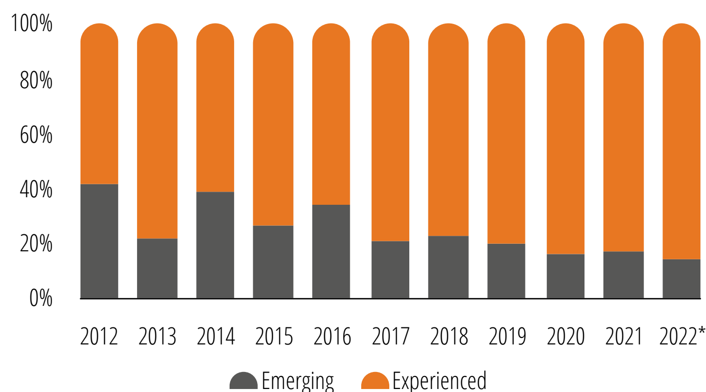
As mentioned, the PE industry has enjoyed a wide-open fundraising trail for the past four years. Between 2019 and 2022, over $2 trillion was raised globally, including several funds with $10 billion or more. Over the past decade, the big investors have become much bigger and more diversified; firms like Blackstone and KKR now boast over a dozen strategies, spread out by market concentration, sector focus, and more niche categories such as infrastructure, direct lending, and special situation funds.

For their part, many LPs prefer to invest in the biggest firms, as they offer the opportunity to invest more capital and manage the number of GP relationships in their portfolios. They also offer experience, which LPs have shown a preference for. In 2012, about 60% of fundraising dollars went to experienced managers, a percentage that has grown to 90% today.

At the same time, the biggest PE funds represent a fraction of the total number of investors worldwide. The smallest PE fund sizes tracked by PitchBook, $100 million or less, represent about 40% of all GPs worldwide. Smaller firms populate smaller economies in Europe, Asia, and South America, but even in the US and Europe, a significant number of investors are focused on small, regional companies that can benefit the most from PE. From an LP's standpoint, those small firms can grow into bigger ones if they're successful; unlike VC, PE firms can easily scale over time without compromising their investment models. While their share of fundraising has gone down, "emerging" managers are important to the industry. They provide new insights and focus areas for companies, and they give LPs a chance to invest in tomorrow's best managers while they're still in their infancy.

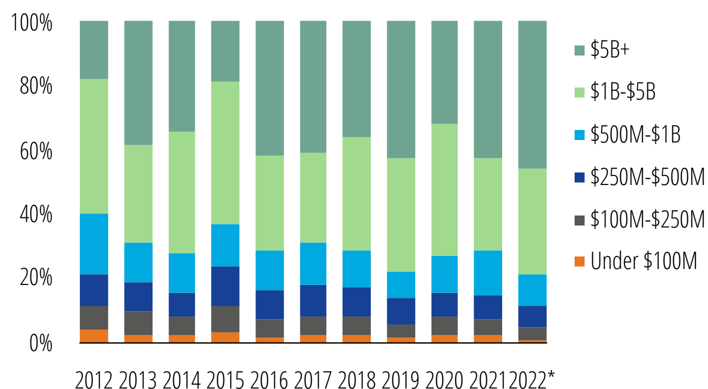
The fund-of-funds ("FoF") market, a historically popular market among LPs, has lost some allure over the years. Global AUM (Figure 12) within the asset class grew slowly compared to PE, pulling its share of total private market AUM down significantly. FoF managers need to prove themselves among investors, given the second layer of fees required to invest in them.

Figure 15: Share of PE capital raised by manager experience



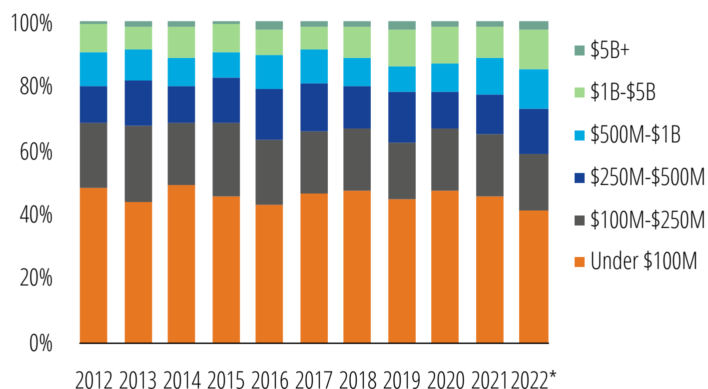
Source: PitchBook • Geography: Global
*As of December 31, 2022

Figure 16: Share of PE capital raised by fund size bucket



Source: PitchBook • Geography: Global
*As of December 31, 2022

Figure 17: Share of PE fund count by fund size bucket



Source: PitchBook • Geography: Global
*As of December 31, 2022

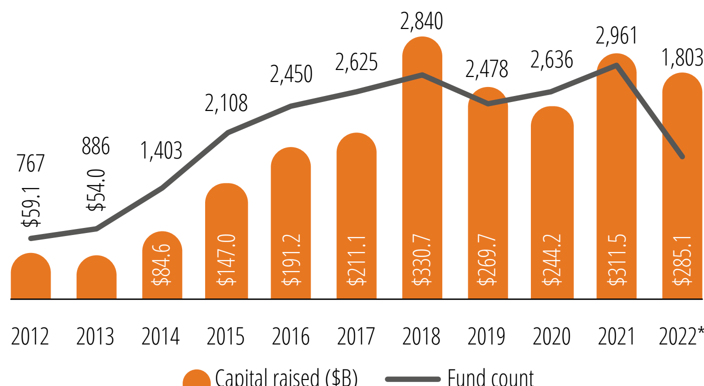
Venture capital

20 years ago, one of the smallest asset classes of the global economy singlehandedly caused a recession in the US. As a result, VC fundraising had a long pause following the dot-com crash of 2001.

In 2012, less than $60 billion was raised by venture capitalists globally, a tiny number for an asset class that normally punches above its weight. Around that time, technology became a household word again thanks to the advent of mobile, social media, cloud computing, and the sharing economy. After a 10-year hiatus, VC fundraising began ramping up again. By 2015, fundraising numbers almost tripled, to $147 billion, and by 2018, global VC fundraising ballooned to $330 billion. Moreover, the number of VC funds worldwide multiplied, from 767 in 2012 to almost 3,000 in 2018. In the US, ecosystems such as New York City, Los Angeles, and Boston turned into powerhouses. Worldwide, China briefly surpassed the US in terms of fundraising, while cities such as London and Berlin put the European VC market on the map. Between 2018 and 2021, between 2,500 and 3,000 VC funds were raised annually, with combined values between $244 billion and $330 billion.

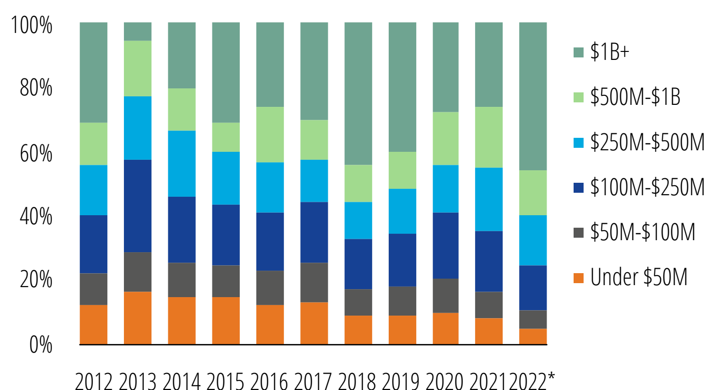
Due to its size, the VC asset class is sometimes shunned by LPs, which argue that VC commitments can't move the needle for them. That reasoning becomes harder to defend when VC-backed companies generate the returns they do and, in some cases, redefine how societies operate. While more slowdowns will come, the VC asset class has earned itself a permanent place in the global economy, and future fundraising numbers will reflect that.

Figure 18: VC fundraising activity



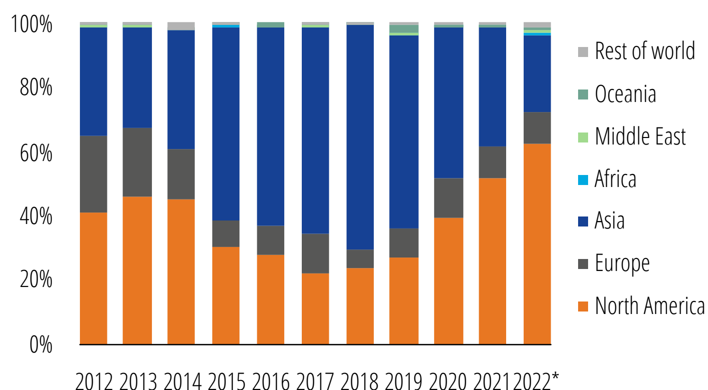
Source: PitchBook • Geography: Global
*As of December 31, 2022

Figure 19: Share of VC capital raised by fund size bucket



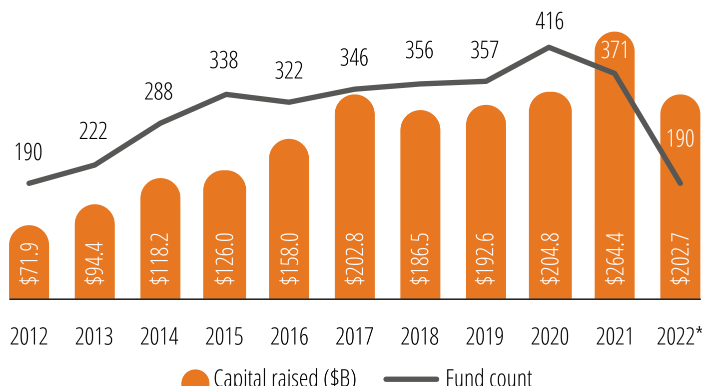
Source: PitchBook • Geography: Global
*As of December 31, 2022

Figure 20: Share of VC capital raised by region



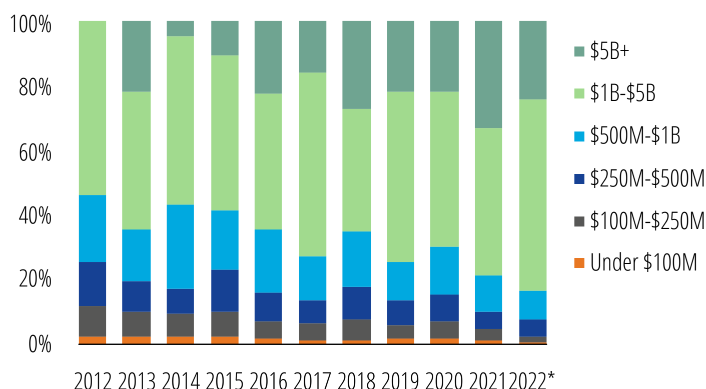
Source: PitchBook • Geography: Global
*As of December 31, 2022

Figure 21: Private debt fundraising activity



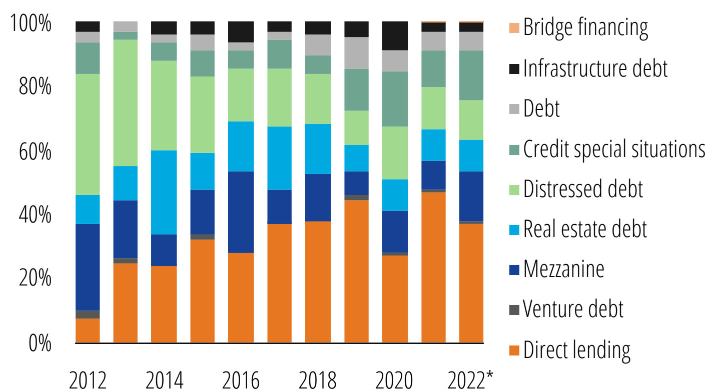
Source: PitchBook • Geography: Global
*As of December 31, 2022

Figure 22: Share of private debt capital raised by fund size bucket



Source: PitchBook • Geography: Global
*As of December 31, 2022

Figure 23: Share of private debt capital raised by debt type



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Private debt

While the size of the private debt market is the most notable change over the past decade, the makeup of the market has also significantly evolved. 10 years ago, distressed debt and venture debt were the two biggest strategies within private debt. Considering how small the market was at the time, those made sense. Private lenders were most needed in bankruptcy-type transactions, while riskier, niche loan packages went to startups. Today, the biggest private debt strategy is direct lending, which works hand-in-hand with traditional buyout transactions. To put its rise into perspective, in 2012, direct lending accounted for just 7% of private debt fundraising; in 2021, it commanded 46%.

Direct lenders filled the gaps abandoned by big banks. In the same time frame, near-zero interest rates were the norm as the direct lending industry matured. The question now is how will private lenders react and perform in an environment where interest rates are increasing rapidly around the world. Other types of private lenders, including distressed debt, real estate debt, mezzanine, and venture debt, are not seeing similar revolutions with how they're used.

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Unlocking opportunities: The major trends reshaping the industry

The finance industry is undergoing a significant transformation driven by several trends reshaping the industry and opening new possibilities for investors and companies. Our report explores these dynamics and their impact on investors and the market.

The rise of new asset classes

Private credit emerged as an asset class on the back of post-2008 regulatory changes imposed by the bank retrenching from structured corporate lending. As the private credit market expanded, so too has the variety of available investment opportunities (see Figure 23).

Mezzanine and corporate special situation strategies had historically high fundraising figures in 2022, while direct lending, infrastructure debt, and bespoke lending strategies have become increasingly attractive to LPs, even as broader PE fundraising levels have struggled this year.

Real estate has long been a popular alternative asset class, but investors are seeking new and innovative ways to invest in the sector. This has led to the emergence of new investment vehicles and a greater focus on niche real estate segments. With a fairly distressed real estate market at present, new vintages will take longer to raise and valuations of existing vintages have dropped.

The battle being waged around ESG

Investors continue to demand a responsible and sustainable approach aligns investment strategies with long-term value creation and the generation of attractive returns, but also contributes to positive change and a more sustainable, inclusive future.

However, the pursuit of long-term sustainability is clashing with the allure of immediate profits. Some investors continue to give precedence to short-term gains over long-term sustainability, and a fascinating battle of trends is emerging. As the world faces diminishing valuations and the ongoing effects of the global energy crisis, it's crucial to strike a balance between financial returns and environmental/social impacts.

The FinTech frontier

The growing interest in cryptocurrencies and blockchain technology is reshaping the alternative asset landscape. Private funds are embracing these technologies and offering clients crypto-based investment opportunities. This exciting frontier combines innovation, digital, and financial growth.

The increasing connectivity between GPs and LPs is spurring a new era of innovation. The collaboration and knowledge-sharing is leading to a competitive edge in their respective markets.

Streamlining fund management

Amid these conflicting trends, investors must stay informed and make strategic decisions. It's essential to evaluate investment opportunities based on long-term potential, sustainability practices,and alignment with values. By understanding these dynamics, fund managers can navigate the ever-evolving landscape and seize the opportunities that arise.

Using trusted and established service providers and outsourcing aspects of fund management, such as back-office operations, compliance, or even investment research, can increase efficiency.

The access this provides to expert knowledge and advanced technology can reduce costs and mitigate operational risks, allowing fund managers to focus on delivering value to their investors and grow their businesses.

Pain points: The pressures of managing a fund

The right balance of automation

The rise of automation and artificial intelligence has created both opportunities and challenges for businesses across all industries. While automation can increase efficiency, reduce errors, and lower costs, it can also be a double-edged sword for managers. On one hand, managers need to keep up with the latest technological trends to remain competitive and stay ahead of the game. On the other hand, the cost of implementing and maintaining automation systems can be high, and the fear of job loss and disruption can create resistance among employees. Furthermore, managers need to ensure that automation does not compromise the quality of customer service, data privacy, or ethical standards. Finding the right balance between human and machine capabilities can be a daunting task, requiring strategic planning, investment, and stakeholder engagement.

How managers are leveraging technology to their advantage

While automation can pose challenges for managers, it can also offer significant benefits if used wisely. By embracing automation, managers can streamline routine tasks, such as data entry, record keeping, and reporting, thereby freeing up time and resources for more strategic activities. Automation can also improve decision-making by providing real-time data analytics, predictive modeling, and scenario analysis, thus enabling managers to make informed choices based on facts rather than intuition. Moreover, automation can enhance collaboration and communication among team members, facilitate remote work, and create new business models and revenue streams. To reap the full benefits of automation, managers need to invest in employee training, change management, and risk assessment, and ensure that automation aligns with the company's vision, values, and goals. By doing so, they can turn the threat of automation into an opportunity for growth and innovation.

Going beyond the surface

In today's fast-paced and complex business environment, managers and investors need access to timely and accurate information to make informed decisions. To address this gap, there is a growing demand for granular reporting, which breaks down data into more detailed and specific categories such as product lines, customer segments, geographical regions, and operational metrics.

Importance of granular reporting

Investors are increasingly seeking granular data to support their investment decisions as they look for companies that demonstrate strong governance, sustainability, and social responsibility. They want to know how the company manages its environmental and social impact, how it addresses risks and opportunities related to climate change, and how it aligns with global standards and frameworks. Investors also expect transparency and accountability from the company's management, including clear communication on performance, risk management, and long-term strategy. By providing granular reporting, managers and investors can build trust and credibility, enhance stakeholder engagement, and achieve their financial and nonfinancial objectives.