Proskauer

Question of the Week:

What is your outlook for private capital in 2024?

January 25, 2024

"Fund managers will continue to innovate and be creative in how they address challenges in the market. For example, fund and portfolio level restructurings will progress at a steady pace to address limitations on exit opportunities and sponsors will increasingly establish tailored investment structures responsive to investor demands to help mitigate a slower fundraising environment. The consolidation in the industry will likely continue – particularly with larger institutions diversifying their offerings by opportunistically acquiring specific strategies and sectors synergistic to their legacy businesses. We will see a continued increase in secondaries activity as a critical path to liquidity for many investors."

Monica Arora, Private Funds, New York

"I expect an increase in M&A following a sustained period of subdued activity. Investors are keen to see an increase in distributions and sponsors will explore a variety of means to provide liquidity and improve their fundraising objectives. Notwithstanding the record levels of dry powder, I believe outright sales will only become prevalent once the valuation gap narrows further. In the interim, we will see structured solutions pursued in order to provide some liquidity and bolt-on acquisitions to existing performing platforms will be at the forefront of activity. Despite it looking like interest rates having peaked and inflation falling, I consider distressed M&A will increase as sponsors may decide that cash strapped companies with upcoming maturities that are unlikely to be refinanced on a like-for-like basis are best sold."

Steven Davis, Mergers & Acquisitions, London

"While M&A activity remains muted impacting distributions to investors, investors will continue to be liquidity constrained and therefore, with a few notable exceptions, fundraising in 2024 will remain challenging and take longer. Investors will continue to take their time on investment decisions, being under no pressure to invest as many GPs are not able to use allocation scarcity as a technique to drive momentum in their fundraisings and in some cases, investors will use the challenged market to drive term changes. As investors seek liquidity and GPs look to find innovative ways of making distributions, we will see more volume and innovation in liquidity solutions – traditional secondary transactions, more GP-led continuation funds, and the use of NAV facilities. Despite the challenging fundraising environment, secondary funds have had strong fundraisings and have large amounts of capital to deploy; the current market presents a great opportunity for them. What this points to is GPs need experienced and seasoned fund counsel who know how to defend terms in a challenging market and who are able to help their GP clients think innovatively about ways to drive momentum in fundraising processes."

Nigel van Zyl, Private Funds, London

"Over the next 12 months, I expect to see a measured uptick in deal volume as the interest rate environment becomes somewhat more favorable. This will not be a dramatic shift from 2023, with a significant amount of activity focused on deals that can be accomplished predominantly with equity capital, including smaller to mid-size add-ons to existing portfolio company platforms. If there is a reason to be cautiously optimistic, it will be the product of waning patience over delayed exit timelines for sellers eager for realization events and the slightly softening interest rate environment that enables buyers and sellers to bridge the stubborn valuation divide of the last few years. As constraints on exits linger, I expect the proliferation of GP-led continuation fund transactions to persist as a widely pursued alternative pathway."

Grant Darwin, Mergers & Acquisitions, New York

Related Professionals

- **Monica Arora**
  Partner
- **Steven Davis**
  Partner
- **Nigel van Zyl**
  Partner
- **Grant R. Darwin**
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