mcp

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Annual Investor Survey 2024

Private equity investors in the spotlight

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IMPORTANT INFORMATION

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Introduction

For the 12th year in a row, prominent institutional investors – including banks, asset managers, pension funds, and insurance companies[1] – as well as family offices, foundations, and endowments[2], provided insights into their approaches toward private equity, with a particular focus on the secondaries market, making this edition of our Annual Investor Survey yet another helpful tool to our readers as they navigate the current environment.

Since last year's survey, geopolitical tensions have further increased, while the macro environment has remained broadly resilient. Global buyout-backed exits in 2024 are showing a recovery from muted 2023 levels with an expected increase in volume; however, absolute figures for 2024 will likely stay significantly below pre-Covid levels[3]. This continues to impact the cash flow planning of investors who are faced with low levels of distributions in their portfolios and therefore have to be even more selective when allocating to new private equity funds. Looking ahead, our survey results point to a positive future for the asset class, with continued strong investor appetite and an improved outlook on valuations relative to last year.

[1] Banks, asset managers, pension funds, and insurance companies are referred to as "institutional investors" throughout this report
[2] Family offices, foundations, and endowments are referred to as "Family offices/foundations" throughout this report
[3] Bain & Company Private Equity Midyear Report 2024

Key findings

1 Private equity allocations remain high and have increased further compared to last year, mostly driven by institutional investors

30% of institutional investors now allocate more than 15% of their portfolio to the asset class, compared to 23% last year. Furthermore, institutional investors are also increasing their allocation to secondaries. This year, 13% of them allocate more than 25% of their private equity allocation to secondaries, a five-percentage point increase compared to last year and a testament to the continuous growth of the strategy. In 2022, only 3% of our institutional investor respondents dedicated more than 25% of their private equity allocation to secondaries.

2 Geopolitical tensions emerge as the top concern of investors over the next 12 months for the first time in the history of this survey

Last year, an economic recession was the number one concern for investors. Against the backdrop of the ongoing war between Ukraine and Russia, escalating tensions in the Middle East, and the mounting trade conflict between the U.S. and China, this year 41% of respondents selected geopolitical tensions as their main concern regarding market activity over the next 12 months.

3 Private equity buyout multiples are expected to remain stable

Approximately three out of four investors believe private equity multiples will remain flat at current levels (58% of respondents) or even trend higher by one to two EBITDA turns (16% of respondents), while one quarter expects a decrease. This is in stark contrast to last year's results, where more than half of investors expected multiples to decrease. The more positive responses this year could be due in part to easing recession fears and supportive interest rate movements, and may point to an expectation of stronger performance of the asset class lying ahead.

4 Specialist GP-led or LP-led secondaries funds are not a priority for most investors

More than one-third (35%) of investors prefer investing in generalist secondaries funds, which allows them to capture the benefits of both GP-led and LP-led transactions within the same fund. Only one in five (19%) investors prefers investing in secondaries via a specialist fund (LP or GP-led). However, even though specialist funds do not seem to be a focus for the vast majority of investors, specialization of investment teams around either transaction type was selected as a key priority by respondents for secondaries firms in the near term.

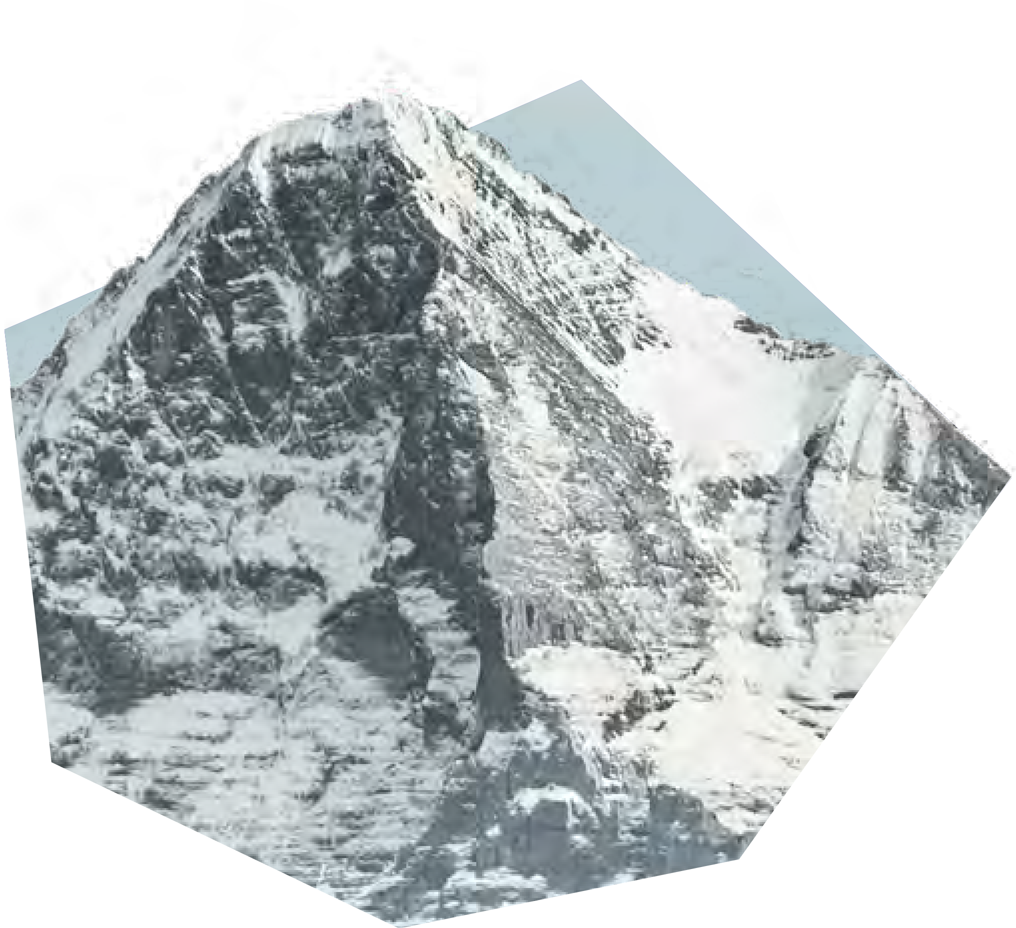
About mcp

Montana Capital Partners ("mcp") is an established global private equity secondaries investment manager with a focus on the mid-market. As an adviser to five funds, all of them raised at their respective hard caps, mcp (together with its affiliates) manages total assets of EUR 3.7 billion[4] (USD 3.9 billion) for its investors.

mcp pursues a differentiated investment approach providing customized liquidity solutions in the secondary mid-market with a focus on proactive sourcing and a balanced portfolio construction across GP-led and LP-led transactions. mcp employs more than 40 professionals and has invested in more than 130 transactions since its inception.

Since 2021, mcp has been part of PGIM, the USD 1.3 trillion[4] AuM global investment management business of Prudential Financial, Inc. (NYSE: PRU), benefitting from its combined market positioning and global footprint. For more information visit www.mcp.eu

We hope that the 2024 edition of the mcp Annual Investor Survey offers you valuable insights to navigate the current market environment. Please do not hesitate to get in touch in case of any questions.



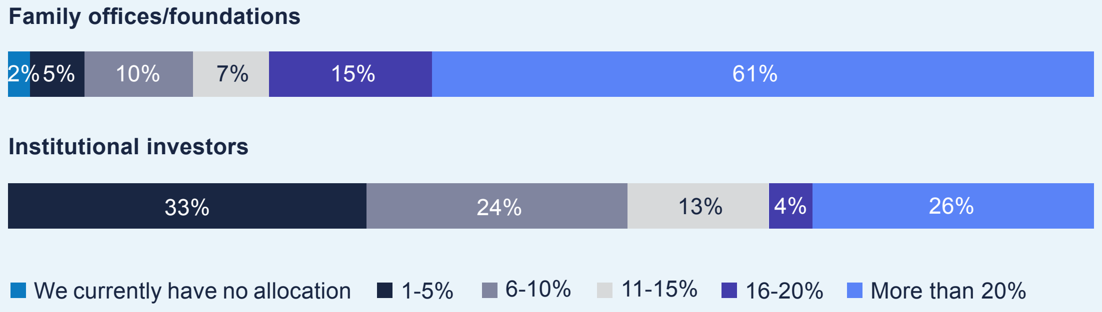
[4] As of June 30th, 2024. mcp figure includes funds raised through October 31st, 2024

Investor allocations to private equity

Institutional commitments to private equity remain strong, with 43% (vs. 41% in 2023) of institutional investors showing allocations above 10% to the asset class. Family offices remain particularly enthusiastic as well, with 83% (vs. 84% in 2023) maintaining portfolio allocations above 10%. Notably, there has been a shift towards higher allocation levels among institutional investors, with 30% now allocating more than 15% of their portfolio to private equity – a substantial increase from 23% in the previous year.

Figure 1

What is your current allocation to private equity?[5]



[5] Percentages throughout the report may not sum to one hundred due to rounding or questions allowing multiple choice answers.

Allocation dynamics remain robust, with 89% of investors either maintaining or increasing their private equity exposure. Although there was a slight uptick in investors who have reduced allocations over the past twelve months compared to the previous year, forward-looking indicators are positive, with a higher proportion of investors signalling intentions to increase their private equity commitments over the next year. This planned increase in allocations may suggest diminishing concerns around overallocation to the asset class and liquidity constraints, while simultaneously reflecting investor confidence in the fundamental resilience of the asset class (see also Figure 8).

> **"We have continued investing in private equity, despite the slowdown in distributions. We find it important to allocate consistently across various vintage years."**

Figure 2

How has your allocation to private equity changed in the last 12 months?

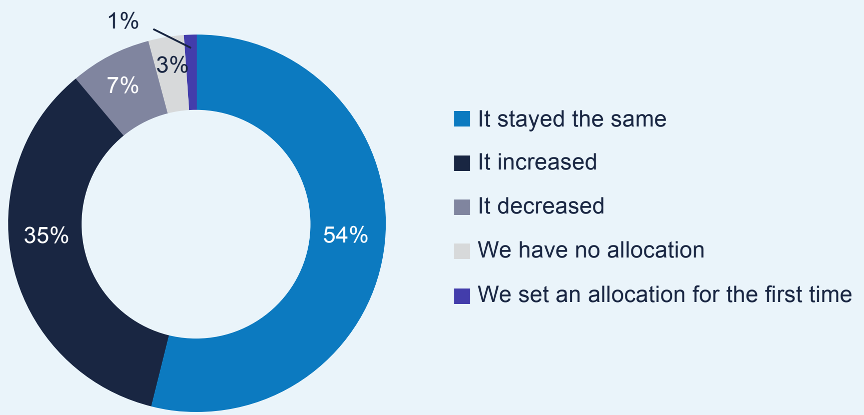
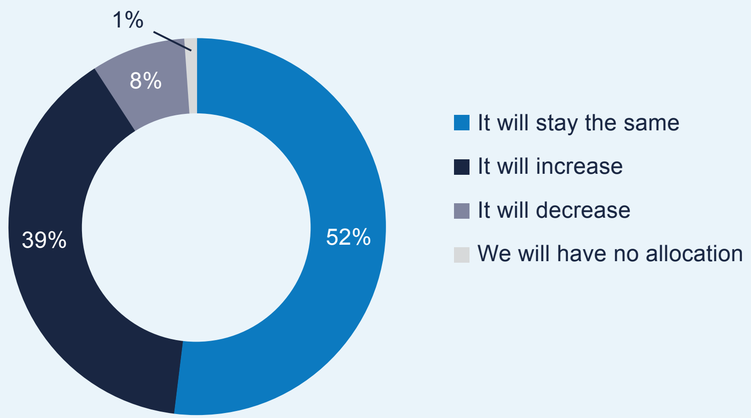


Figure 3

How do you expect your allocation to private equity to change in the next 12 months?



Investment preferences

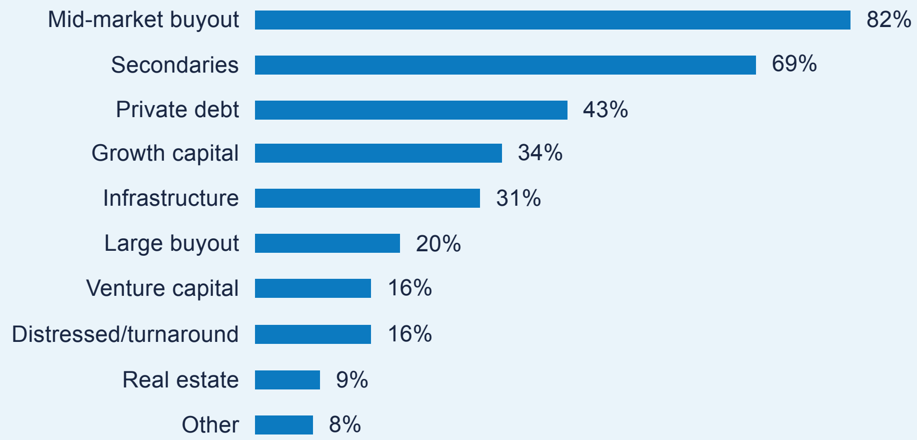
In the current market environment, our survey's respondents indicated that they are allocating to investment strategies with proven resilience during periods of economic uncertainty and higher interest rates, particularly mid-market buyout, secondaries, and private debt. Venture capital and infrastructure have each advanced one position since last year, while large buyouts and distressed strategies were viewed as less favorable among investors.

Sector preferences remain concentrated in historically defensive and well-performing segments, with software and technology, healthcare, and business services each being favored by approximately two out of three respondents. A notable shift has emerged in the financial services sector, which has experienced a significant uptick in investor interest, with now one quarter of respondents identifying it as a preferred sector – a notable increase from 18% in the previous year.

These portfolio construction preferences appear well-calibrated to current market dynamics, where strong confidence in private equity valuations (Figure 8, p. 10) coexists with continued, albeit reduced, recession concerns (Figure 7, p. 10), suggesting investors are actively optimizing their risk-return profiles through targeted sector exposure.

Figure 4

What are your strategic preferences in the current market environment?



> We are comfortable paying a slight premium for quality assets in software and technology, business services, and healthcare, over potentially cheaper assets in other sectors.

While 62% of investors consider ESG policies important or essential to their investment decisions, the data reveals significant regional divergence. European investors maintain the strongest ESG focus, with 79% viewing ESG as a significant factor, while their global counterparts demonstrate markedly different attitudes. This geographical disparity is particularly pronounced in North America, where only one-third of investors view ESG as a significant factor, and across other non-European markets, where less than half (44%) consider it material to their investment decisions.

> The private equity mid-market is attractive because there are more opportunities to invest capital in founder-led businesses with large value creation potential. There are also unique opportunities that are not subject to auction processes, and there are attractive exit routes to larger private equity funds. Generally, there is less money chasing deals and a lower capital overhang when compared to large cap private equity.

Figure 5

Which sectors currently present the most attractive risk/return profile?

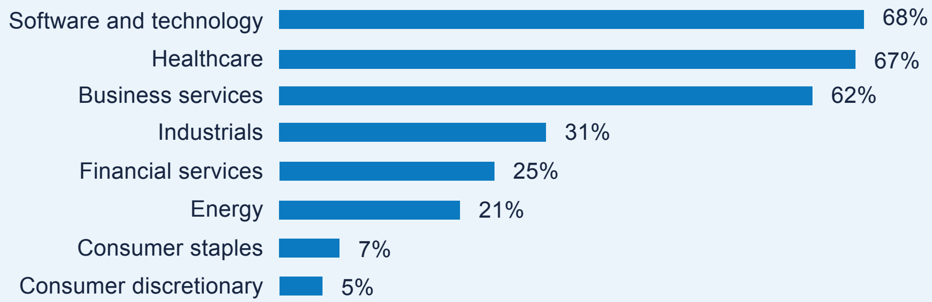
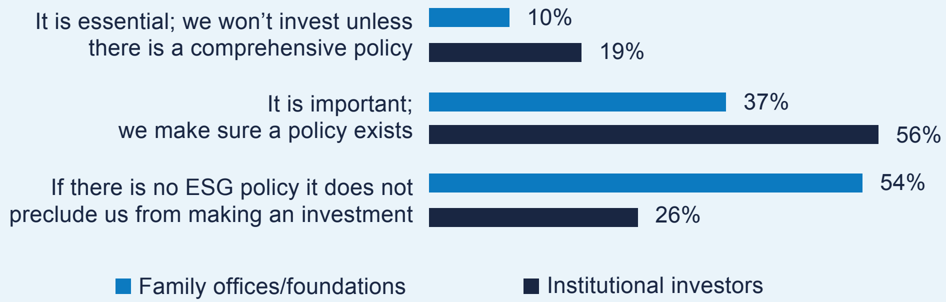


Figure 6

To what extent does a GP's ESG policy impact your decision to invest in a fund?



Market trends and performance

Global equity markets have demonstrated remarkable strength in 2024 year to date, with major indices reaching or approaching all-time highs. This positive momentum marks a significant shift in market sentiment from the previous year, when recession concerns dominated the investment landscape.

This year, investor focus has pivoted away from a possible economic recession toward geopolitical tensions. At a time when there are ongoing conflicts in Ukraine and the Middle East, as well as rising tensions between the U.S. and China, geopolitical tensions have emerged as the primary concern for investors over the next twelve months. However, despite this heightened geopolitical uncertainty, investors appear to maintain conviction in their geographical allocation strategies. Furthermore, with regard to respondents' U.S. allocation, an overwhelming majority (89%) indicate that the outcome of the recent presidential election will not influence their private equity investment decisions.

Investor sentiment around private equity valuations reflects increased confidence in the asset class, with approximately three out of four respondents anticipating buyout multiples to either maintain current levels or expand by one to two turns over the coming twelve months. This marks a significant shift from the previous year's outlook, when a majority of investors expected multiple compression.

> "As deal flow picks up and interest rates come down, valuations should increase. Additionally, there is significant dry powder waiting on the sidelines that will increase competition for deals and as a result, drive up valuation multiples."

Figure 7

What is your main concern regarding market activity over the next 12 months?

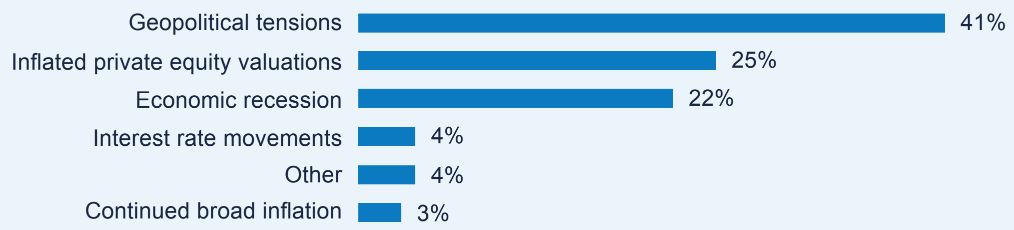
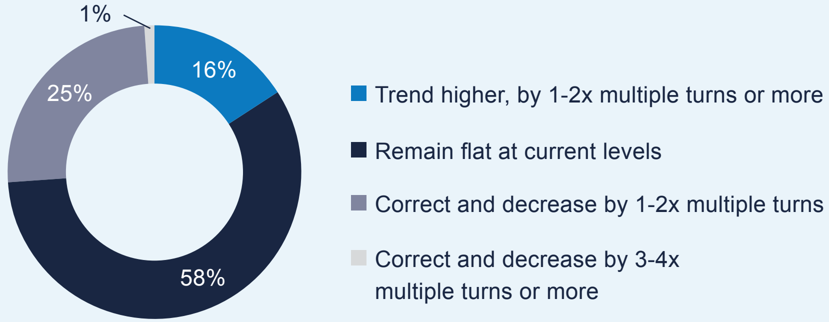


Figure 8

How do you expect average private equity buyout multiples to develop over the next 12 months?



> In the long run AI could have a significant impact on the economy. In our view, it is likely to impact portfolio company performance more than investment decision-making processes.

Institutional conviction in artificial intelligence's transformative potential for private equity continues to strengthen but uncertainty persists regarding the areas that will reap the greatest benefits. There is growing consensus among investors that AI implementation offers significant value creation opportunities, particularly at the portfolio company level.

> We are taking a long-term view on the U.S. market and are not too concerned about which side wins the election.

> We expect public markets to react to the election, but private markets are unlikely to shift.

Figure 9

Which aspect of private equity will benefit the most from AI?

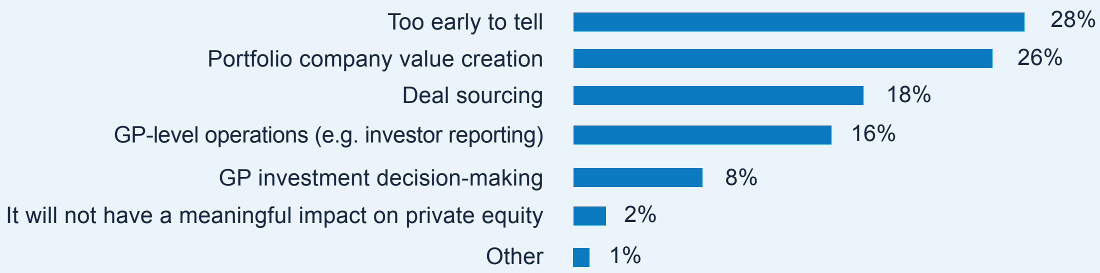
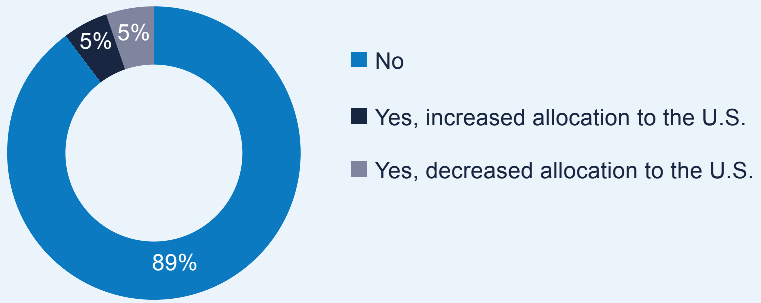


Figure 10

Do you expect the outcome of the 2024 U.S. election to have an impact on your geographical private equity allocation?



Secondaries – investor allocations and preferences

Secondary strategies continue to attract investor attention with 69% of respondents investing in secondary funds, with respondents highlighting their distinctive characteristics of broad diversification, accelerated cash flow profiles, and mitigated blind pool risk. In the current market environment, where primary fund distributions remain subdued, secondaries appear to be particularly appealing to investors.

The growing prominence of secondaries is particularly evident among institutional investors, where allocation levels have reached new heights. Notably, 13% of institutional investors now dedicate over 25% of their private equity exposure to secondaries – a significant increase from 8% last year and a more than four-fold increase from 2022's figure of 3%. While this substantial increase in secondary allocations may have led a minority of investors (13%) to expect allocation reductions over the next twelve months, possibly due to overallocation, the majority of investors maintain a favorable view on the strategy. Most participants plan to maintain (48%), increase (23%), or introduce secondary allocations (4%).

> **"Now is a good time to invest in secondaries. We believe secondaries firms will be able to capitalize on attractive opportunities as many primary investors, large and small, are seeking liquidity due to slower distributions in their portfolios."**

Figure 11

How would you describe your relationship with secondaries?

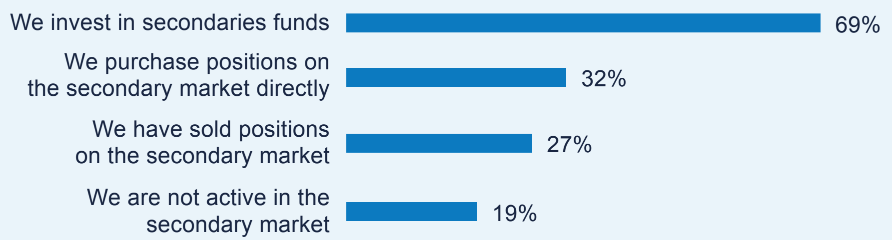
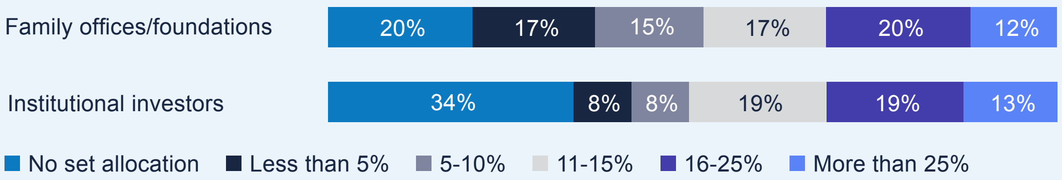


Figure 12

What proportion of your private equity allocation is dedicated to secondaries strategies?*



*commitments to secondaries funds and/or direct secondaries purchases

> Secondaries cash flow curves are generally more attractive to us than buyout ones as secondaries tend to return capital earlier. There is a clear advantage to investing via a secondary transaction in buyout funds that are already further along in their fund life.

An analysis of investors' preferences for preferred vintage year secondary sales reveals a pronounced concentration around mature portfolios, with funds from 5-8-year old vintages emerging as the clear focus for potential secondary sales, cited by 37% of respondents.

> The funds we have tried to sell in the 5-8-year vintage range have received the best pricing compared to both younger and older fund vintages, likely due to limited remaining blind pool capital and some further upside potential in the portfolio.

Figure 13

How do you expect your allocation to secondaries to change over the next 12 months?

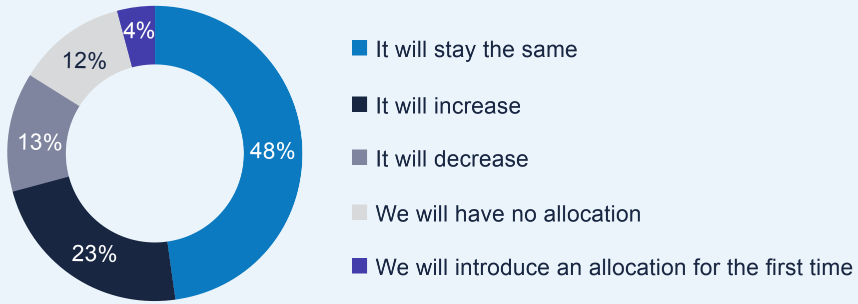


Figure 14

Do you expect to sell positions on the secondary market in the next 12 months?

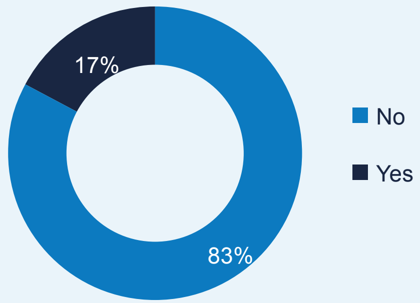
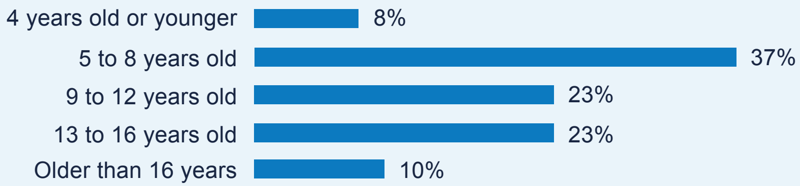


Figure 15

Which private equity vintage years do you expect to sell over the next 12 months?



A notable shift has emerged regarding the drivers of secondary market activity, with strategic portfolio repositioning cited as the most likely reason for secondary sales by 40% of investors – a significant increase from 26% in the previous year and outpacing liquidity needs, which were tied with strategic repositioning last year, as the dominant reason for secondary sales. That said, liquidity needs remain the second most likely reason for secondary sales.

Secondary market strategy preferences remain consistent with historical answers, as small and mid-market LP-led transactions remain the predominant focus, selected by 35% of investors as a priority. While GP-led transactions remain the second most favored strategy, investors show an increased appetite for single-asset GP-led transactions relative to multi-asset deals.

> **“We prefer LP-led secondaries, as we believe there are better pricing dynamics than GP-leds, particularly in small and mid-cap deals.”**

> **“We have a preference for investing in single-asset GP-leds because these are often the star assets in a manager’s portfolio, and we are seeing particularly attractive opportunities in the lower mid-market.”**

Figure 16

What would be your most likely reason for selling positions on the secondary market in the current market environment?

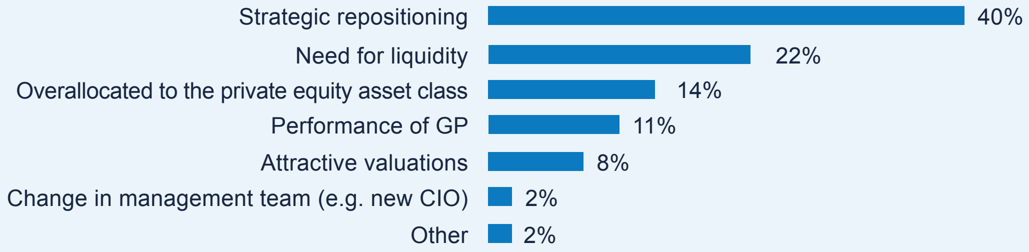
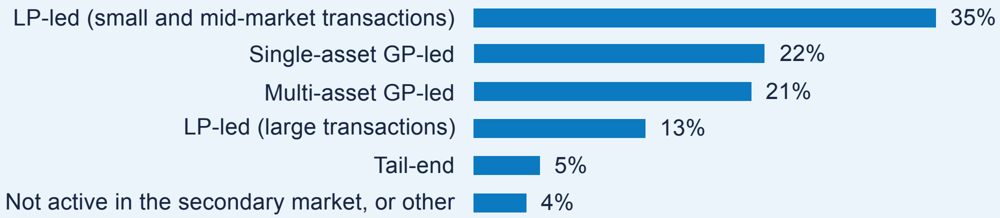


Figure 17

As an allocator of capital to secondaries strategies over the next 12 months, which deal type would you prioritize?



The evolving landscape of specialized secondaries funds, which are gaining attention in the market, shows mixed investor preferences. Notably, 35% of respondents demonstrate a preference for generalist secondary funds, potentially to capture the benefits of both GP-led and LP-led transactions within the same fund. The relatively modest appetite for specialist vehicles, with only 19% of investors favoring dedicated LP-led or GP-led strategies, suggests that despite the market's growing sophistication and segmentation, investors continue to value generalist platforms.

> **We like mid-sized generalist secondaries strategies as these programs can generate alpha through multiple market environments.**

Market sentiment suggests continued expansion of the secondaries market, with 84% of investors anticipating significant growth from current transaction volumes. This anticipated growth appears predominantly driven by expected increases in GP-led transaction volumes, with over half of respondents identifying this segment as the primary reason for volume expansion. This perspective likely reflects the increasing adoption of continuation vehicles as a mainstream portfolio management tool for private equity sponsors.

> **We expect GPs to continue pursuing continuation vehicle exits, particularly via single-asset transactions. This will drive volumes up, but at the same time, investors will need to undertake thorough asset-level due diligence to select the right opportunities.**

Figure 18

Do you have a preference for generalist or specialist funds?

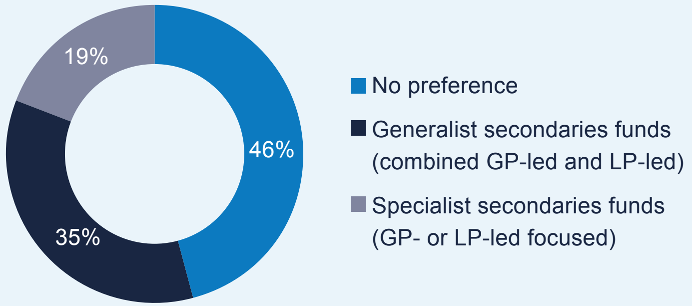
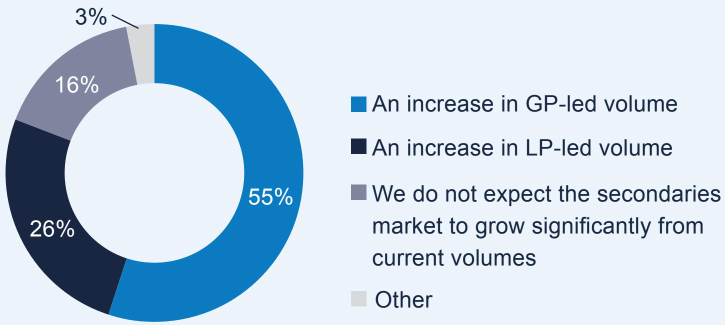


Figure 19

What will be the key driver of volume growth in the secondaries market over the next 5 years?



Investor appetite for secondary market exposure beyond traditional private equity reveals two dominant alternatives, with private credit secondaries being the most considered alternative followed by infrastructure secondaries. This strategic focus aligns with broader market dynamics, particularly evident in private credit, where accelerated market growth has been catalyzed by the prevailing high-interest rate environment.

Despite limited investor appetite for secondaries funds that specialize in GP-led or LP-led transactions, specialization of investment teams toward either transaction type emerges as a key consideration in the near term, with nearly one-third of investors identifying transaction-type expertise within investment teams as the main focus area for secondary firms.

This preference for transaction-type expertise is further reinforced by investor perspectives on key success factors, where specific secondaries expertise stands as the most important attribute, cited by 76% of respondents, followed closely by robust due diligence capabilities at 68%. The emphasis on these competencies appears particularly relevant as the secondary market continues to mature, with increasing sophistication among market participants and growing complexity of transaction structures.

Figure 20

What alternative strategies to private equity secondaries do you invest in or would consider investing in?

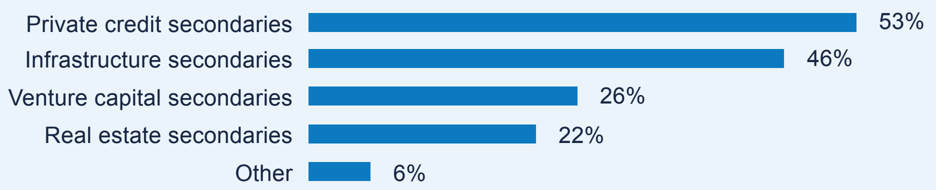


Figure 21

What should be the most important focus area for secondaries firms in the near-term?

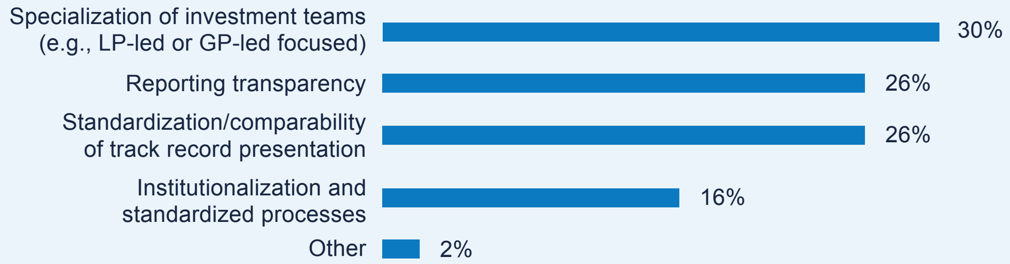
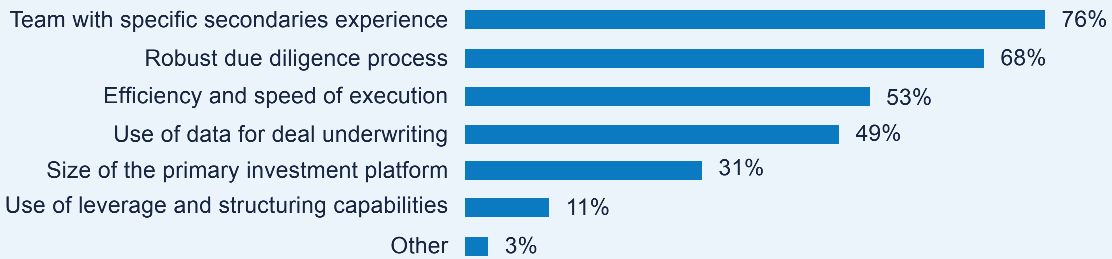


Figure 22

What key factors make a secondaries firm successful?



In addition to sharing their views on success factors for secondaries firms, respondents also shared their preferences regarding fund structures. While evergreen funds have gained prominence in recent years as a vehicle to democratize access to the private equity asset class, institutional appetite for these products remains limited.

Despite their growing market presence, only 11% of respondents report current allocations to evergreen vehicles, while 74% indicate no intentions to pursue such investments. This pronounced disparity between product proliferation and institutional adoption suggests that evergreen structures continue to primarily serve as a retail investor access point, with sophisticated investors – including family offices and institutions – maintaining their preference for traditional closed-end fund structures that more closely align with their investment objectives and operational requirements.

> **"The recent push of retail investors into private equity has led to the proliferation of evergreen vehicles, which are pursuing LP-led transactions and driving LP-led volumes higher."**

> **"We believe closed-end fund structures are better aligned to achieve our investment return targets than evergreen funds, which are structurally less incentivized to deliver liquidity and as a result could underperform their closed-end peers down the road."**

Figure 23

Have you or would you consider investing in an evergreen secondaries vehicle?

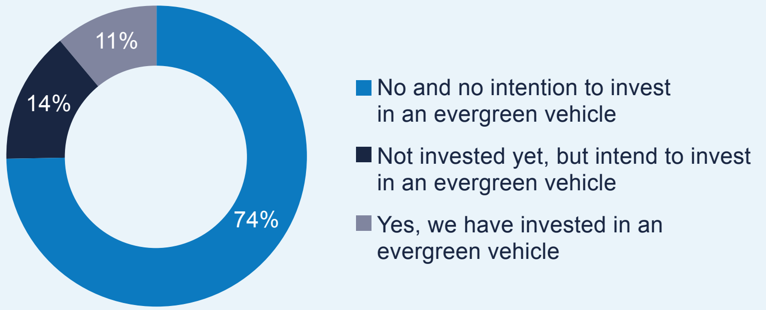
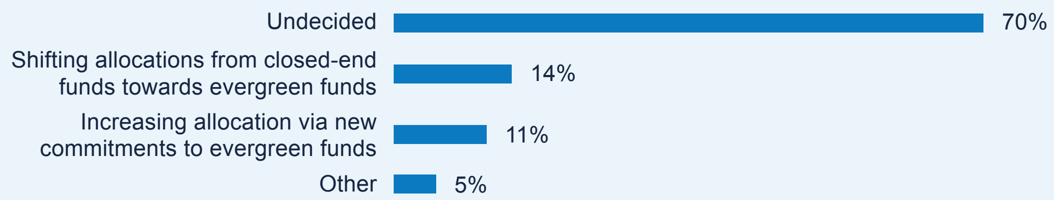


Figure 24

If yes, which of the following best characterizes your future secondaries allocation plans with respect to evergreen funds?



Participant information

The mcp Annual Investor Survey 2024 captures perspectives from 113 leading private market investors, providing a comprehensive view of investor sentiment across the industry. The respondent base represents a balanced distribution of leading capital allocators, with family offices (both single and multi-family) comprising 41% of participants and various types of institutional investors representing the remaining 59%. Half of the responding organizations have been operating for more than 15 years.

Figure 25

What type of institution are you?

Figure 26

Where is your institution located?

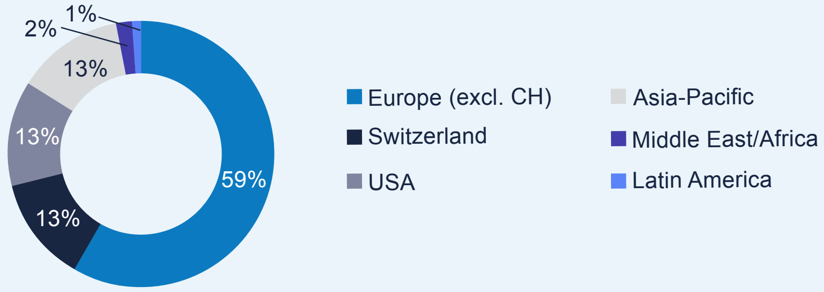


Figure 27

How long have you been operating?

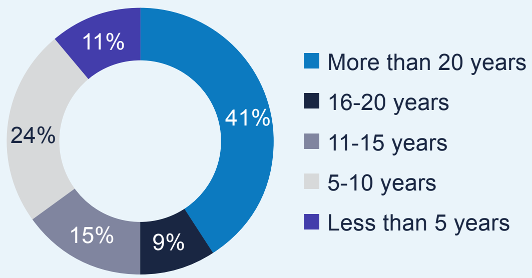
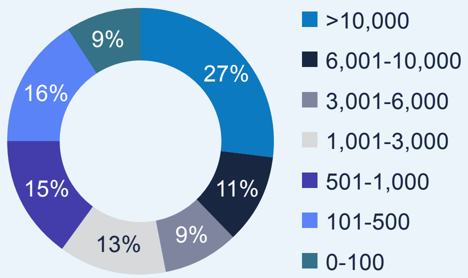


Figure 28

What is your AuM (in USD million)?



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