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Video Transcript

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## Zooming In: Episode 1 – Navigating challenges and opportunities in private equity

### Neha Sahni and Mathieu Forcioli

**Neha**

Hi everyone! Welcome to a new episode of our CIO Zooming-In series, where we discuss burning market and investor questions. Recent market dynamics have been very challenging for private equity, but these challenges have opened up new opportunities as well. To discuss how investors should navigate these challenges and opportunities, today I'm joined by Mathieu Forcioli, our Global Head of Alternatives. Mathieu, welcome and thanks for joining us today! Let's start with the key investor question, which is on top of most investors – mind today. As we know, private equity exits have been very challenging in recent years. After lower dealmaking activity in 2023 and 2024, 2025 was expected to be ,"the year of comeback" of M&A activity, especially as the Fed was expected to cut rates and the new US administration was expected to deregulate. However, given the tariffs and policy uncertainty, the Fed may not be able to cut as much as we hoped for. What is your outlook for PE exits and dealmaking in such a scenario in 2025?

**Mathieu**

You are right, Neha. The most pressing issue in private equity right now are the lack of exits and distributions to investors. This has led to two important things. Number one is the activity on the secondary market has picked up significantly and you probably have read in the press, we received quite a few endowments, for example, that are selling their private equity portfolios on the secondary market to generate liquidity. And separately, it has impacted fundraising activity because investors today that are already exposed to private equity don't have enough liquidity to invest in new funds. That being said, this environment doesn't mean that it's a bad moment to invest in private equity, if you have liquidity. If I look at the portfolio, the companies in our managers – portfolios are actually growing very rapidly. They show EBITDA growth that is very, very strong. More often than not, they are actually not exposed to tariffs, so they're not impacted by the current geopolitical environment. So for investors that have liquidity, it is actually a very good time to invest in private equity.

**Neha**

So, effectively, in times of public market turbulence – the so called "bad vintage years" – are actually good time to invest in PE. And in hindsight, 2025 could prove to be one of those good years to invest in private equity.

**Mathieu**

Indeed, with one big caveat, that you have to pick the right manager and, you will hear me say this over and over again, today.

**Neha**

Mathieu, another key investor concern relates to the lower PE returns we've seen in the last few quarters. Due to lower dealmaking activity, PE managers have been sitting on dry powder, which has been adversely impacting investor returns. How are our preferred managers dealing with this challenge? Are you seeing any pick-up in deployments?

**Mathieu**
I'm going to repeat what I just said. And it's really, really dependent on the managers. When we select managers for our platform, what we want to make sure is that they're able to deploy money across the cycle. In order to be able to do that, they need to show us that they have access, for example, to financing at attractive conditions, regardless of the market environment. They are able to implement an operational playbook to improve the companies that they invest into. And that will generate performance regardless of market conditions. And that will allow them to deploy money regardless of market conditions. What is clear though, is that in volatile market conditions, when we experience reasonable valuations in private markets like today, and with tight financing conditions, this provides a very, very healthy ground for very strong performance, provided you have the right managers.

**Neha**
In recent times of market stress, we've seen that stocks and bonds have sold-off in tandem. As such, it appears that US sovereign bonds may have lost some of their traditional hedging capability. In such an environment of heightened uncertainty, heightened positive correlation, or at least no negative correlation between stocks and bonds, what diversification benefits does a well sized, geographically diversified private equity allocation bring to a multi-asset portfolio?

**Mathieu**
The number one reason why investors will allocate to private equity is because of usually superior returns, and lower volatility. That's due to a concept that is really relatively easy to understand. Most of our listeners today are probably entrepreneurs, or they know someone who's an entrepreneur, and our private equity managers are like an entrepreneur, they behave like an entrepreneur. What I mean by that is that they are actively managing the company that they invest in. They're very focused on revenue growth, operational improvements, and less sensitive to what's happening in the markets. And maybe to a lesser extent, what's happening with whether it's geopolitics and so on. So they really look at creating value over the long-term and with probably less volatility. And that's what makes private equity in a portfolio a very, very good diversifier compared to listed bonds or equities.

**Neha**
At this point, I'd like to bring to our viewers attention a few charts which show that historically private equity has outperformed public markets, especially when public markets have faltered. And like most alternative assets, private equity has historically had smaller drawdowns and faster recovery times.

**Mathieu**
One point though Neha, there's no free lunch. These proven benefits that you have shown viewers in your charts come at a cost. And it's the cost of giving away liquidity, right.  And our viewers should be well aware that they are taking a liquidity risk when they're investing in private equity.

**Neha**
Now let's talk about US companies. Data show that nearly 80% of US companies are operated as private companies. With AI being the new "democratiser", it is in this particular space where the most undervalued and innovative companies can be found to be invested in. However, up until recently, only accredited and institutional investors have been able to leverage these investment opportunities. How in your view, is the alternatives space changing to ensure that individuals too, can access these opportunities and optimise their portfolios for higher returns, better liquidity and more diversification?

**Mathieu**
Historically, the way to invest in private equity was through what we call, closed ended funds. And when you invest in close ended funds, you have to be able to manage capital calls, distributions. You have to be able to time the investment into the different funds properly. And so, it's okay for large institutions to invest in such a way because they typically have teams, that are really managing the portfolio and dedicated to managing the portfolio. But obviously individuals don't have such support, right. So, what we've seen recently, over the past few years is that managers have now come up with new structures. We call them open ended funds that are allowing individuals to invest immediately in the asset class, and basically stay invested for as long as they want. And that sort of removes the need to manage cash flows. And this management of cash flows has been passed on to the manager effectively. And that has been a game changer for us and for our investors, and allowed them now to access the asset class in a much more efficient way. And the interesting part is that, we're now seeing even institutions investing through these kinds of vehicles, again because of the convenience.

**Neha**
So, to conclude, everything that we've discussed today, Mathieu. Firstly, whilst private equity exits and distributions remain challenged, there are some investment opportunities in the secondary market. Secondly, manager selection remains key for alpha generation in private equity. Thirdly, in an environment of heightened uncertainty, a typical 60/40 portfolio may no longer be diversified enough. Adding a well-sized, geographically diversified private equity allocation should help. And lastly, open-ended private market funds now give individual investors the same access to opportunities in private equity, which have long been enjoyed by accredited and institutional investors. Does this summary cover everything that we've discussed today on private equity, Mathieu?

**Mathieu**
That's a great summary of our conversation, Neha.

**Neha**
Thank you, Mathieu, for sharing your razor sharp insights today.