SS&C | Intralinks®

2025 SS&C Intralinks LP Survey

Insights on alternative investments

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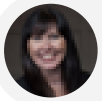
Contents

Editor's Note



Meghan McAlpine
Sr. Director, Strategy & Product Marketing, Alternative Investments

Welcome to the ninth annual *SS&C Intralinks LP Survey*, produced with Private Equity Wire, where we gathered insights from 171 limited partners (LPs) across six continents to learn about their alternative investment plans. Amidst ongoing global volatility and the backdrop of expectations of a higher-for-longer interest rate environment, our findings reveal a significant shift in the outlook for alternative investments.

These insights provide general partners (GPs) with exclusive access to understanding investor sentiment regarding the performance of their alternative asset portfolios and a range of other critical issues. They also provide LPs with important indicators relating to decision-making and current practices among their peers.

In a world of fast-changing private market dynamics, our findings reveal that private equity (PE) is considered the top-performing asset class, outshining private credit which has gained considerable attention since the pandemic. North America is the primary region for investment.

Despite continued anxiety about ongoing macroeconomic uncertainty and high interest rates, there is optimism about increased deal activity. However, declining valuations continue to be a concern among investors. On the operational front, LPs believe there are significant opportunities for GPs to improve and enhance their performance, particularly from a technology perspective.

We extend our sincere gratitude to the LPs who participated in our annual survey. Their insights and candor are appreciated. We hope you find their contributions equally valuable.

Executive Summary

1 Private equity reigns supreme

LPs reported that private equity outperformed other asset classes over the last 12 months. Despite falling valuations and extended timeframes, GPs delivered, with 39 percent saying that private equity offered the best risk-adjusted returns, followed by private credit (23 percent). PE's success in a higher-rate environment bodes well for the rest of the decade.

2 LPs are less satisfied with alternatives

Satisfaction with returns in alternatives declined from last year. This was expected given the events of 2022 when historic sell-offs across public stock and bond markets made alternatives appear particularly attractive. However, this serves as a warning sign for the sector to continue prioritizing strong risk-adjusted returns going forward.

3 LPs preffered geo is North America

Three-quarters of LPs (75 percent) prefer the U.S. and Canada as investment regions, followed by the U.K. and Europe at 49 percent (respondents could select more than one region). Since the pandemic, the U.S. economy has remained resilient, led by chip designer Nvidia and the ongoing dominance of the Magnificent Seven.

4 Digital transformation is on track

Nearly three-fifths (58 percent) of LPs are satisfied with the technology capabilities of their GPs, and another 34 percent are neutral. However, many LPs say there's plenty of room for improvement. Some 28 percent of LPs remain frustrated by disparate dashboards, while 36 percent highlight a lack of access to analytics as their key challenge.

Executive Summary

5 LPs want centralized portfolio monitoring

LPs are increasingly seeking a unified platform to monitor their entire portfolio, especially as they diversify and cultivate more GP relationships. A majority (68 percent) already leverage technology for portfolio monitoring. However, most expressed a need for improvement in aggregating data across multiple funds into a single platform, with 81 percent saying it would be beneficial.

6 Reporting demands are evolving

Reporting demands are continually increasing, and not just about performance. Environmental, social and corporate governance (ESG) and new regulatory initiatives are also having an impact. ESG due diligence of GPs has increased for 29 percent of LPs over the past 12 months, and significantly so for a further 11 percent. Only three percent said it had decreased.

7 LPs are bullish about deal activity

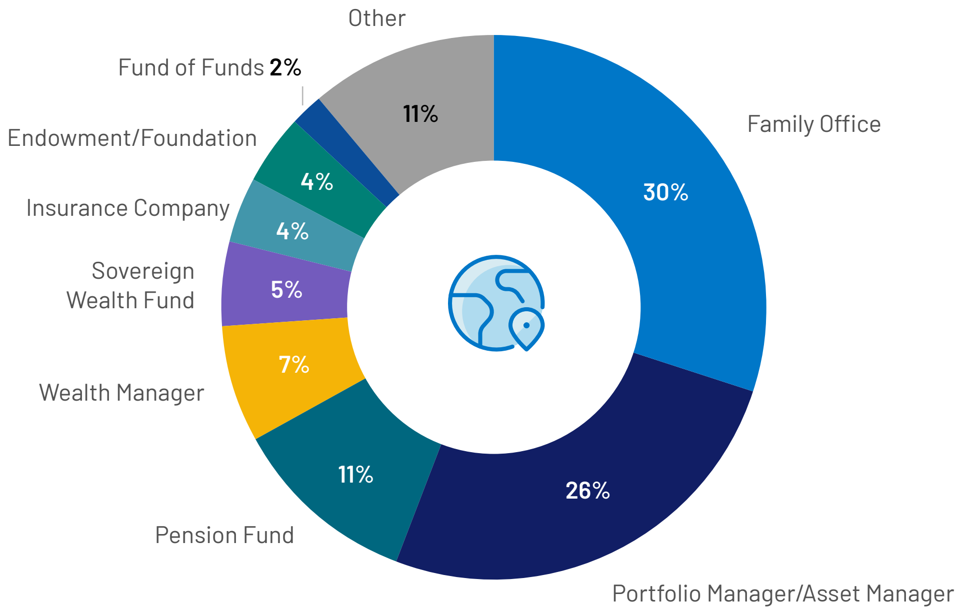
An impressive 78 percent of LPs anticipate deal activity to pick up in the next 12 months, with 15 percent expecting a significant uptick. This optimism is bolstered by the influx of new fund and deal structures in the private markets. Additionally, more than a third (37 percent) of LPs say co-investments are highly compelling for their strategies.

8 Geopolitics and valuations are top of mind

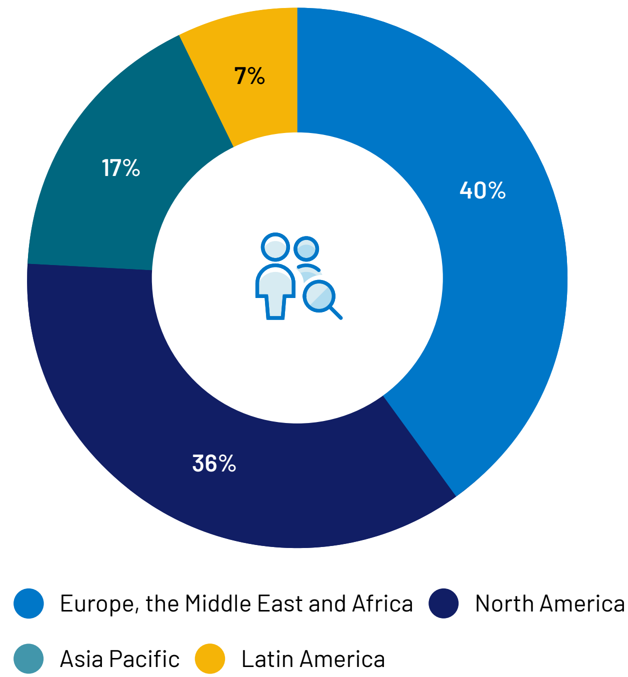
Geopolitical uncertainty and valuations are the primary concerns for LPs when asked about key challenges to the well-being of their alternatives portfolios. These challenges are expected to escalate with several major democracies holding elections in 2024, coupled with the continued persistence of the higher-for-longer interest rate environment.

The survey captured the sentiment of a range of professionals investing in the private markets. Family offices were the most represented, accounting for 30 percent, followed by portfolio and asset managers allocating to alternatives. Pension funds, wealth managers, sovereign wealth funds and insurance companies were also well represented. The vast majority are based in North America (36 percent) or Europe (40 percent).

Types of Investors Surveyed



Investors Surveyed by Geography



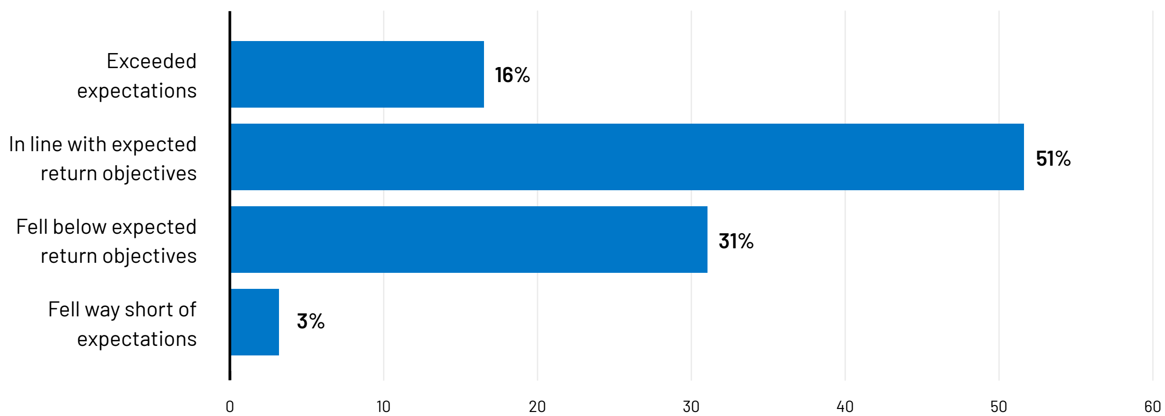
Performance Sentiment Insights

This year's research revealed a high level of bullishness among LPs on key strategies, particularly private equity, although overall satisfaction with alternatives was down from last year.

Only 16 percent of LPs said returns in alternatives exceeded expectations, down from 20 percent last year. The proportion who felt returns were in line with expectations fell from 57 percent to 51 percent (see Figure 1).

Meanwhile, over a third (34 percent) reported returns were below or well short of expectations, up from 23 percent last year.

Figure 1: How would you assess the performance of your alternatives over the last 12 months?

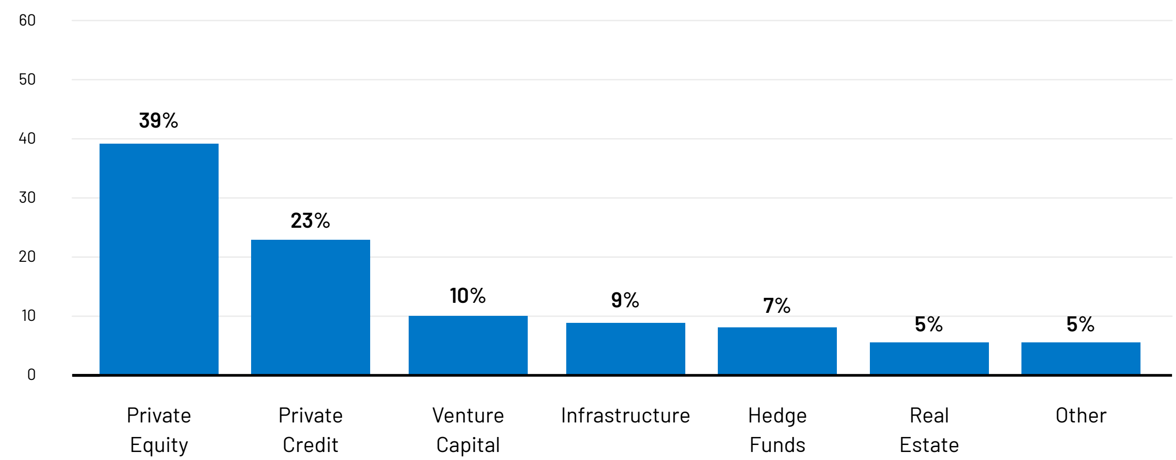


Smaller allocators were more likely to be satisfied, with 18 percent of sub-USD five billion LPs saying returns exceeded expectations, compared to 11 percent among USD 50 billion-plus LPs.

That finding suggests alternative strategies have struggled to deliver the risk-adjusted returns valued by investors during periods of market and geopolitical stress. This is perhaps not surprising, given the exceptional circumstances of 2022, when both public stock and bond markets fell in unison, and many private markets strategies significantly outperformed. In 2023, however, market conditions changed and alternatives did not perform as well as they had previously.

Private equity emerged as the top-performing alternative asset class in 2023, according to 39 percent of LP respondents (see Figure 2). This finding contrasts with the mixed sentiment prevailing in the sector, which has been under pressure in the higher interest rate climate. Despite falling valuations and longer holding periods, the survey indicates that LPs remain satisfied with PE performance.

Figure 2: Within alternatives, which of the following asset classes generated the best risk-adjusted returns? (Respondents were allowed to select more than one answer.)



"The public stock market returns in 2023 were very strong, obviously guided by the Magnificent Seven. The fact private equity satisfaction highlighted in this survey remains strong is a positive," says Andrea Auerbach, global head of private investments at Cambridge Associates.

Private equity managers have delivered strong returns despite falling valuations and stretched timeframes in the space, according to Carl Lomsdalen, a senior associate at Golding Capital Partners. Lomsdalen, whose firm runs in-house strategies and invests in external private credit strategies, believes there are still reasons for optimism in the space.

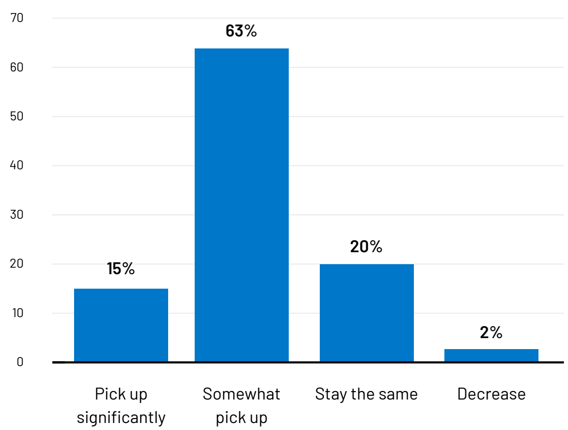
"The current PE market shows some signs of M&A revitalization with almost all PE GPs involved in some form of exit process across their portfolios, mainly driven by the sale of top performing assets to show liquidity to LPs," he says.

"Valuation for premium assets remains robust. LPs are still actively deploying capital to private equity and private debt but remain highly selective."

HSBC's private bank forecasted that the private equity asset class is poised to thrive in its investment outlook. "We expect to see a competitive buyer's market with dealmaking and exit activity picking up along with a growing slate of mature assets coming to market. We expect therefore in turn to see a normalization of distributions to investors over the medium term."

An overwhelming 78 percent of LPs expect deal activity to increase in 2025, with 15 percent anticipating a significant rise (see Figure 3).

Figure 3: In your opinion, deal activity in 2024 will?



"Private companies continue to deliver solid fundamental performance in the first half of 2024, despite some macro headwinds which could slow growth in the coming quarters," concurred UBS Asset Management in a market note.

Private credit followed, selected by 23 percent of respondents. The greater satisfaction with private equity compared to private credit highlights the challenge the latter strategy faces as it continues to expand. Before the pandemic, the private debt space was estimated to be worth USD 819.8 billion by Preqin, and it doubled from the end of 2019 to September 2023 to USD 1.65 trillion. Firms like BlackRock believe it could double again before the end of the decade.

However, that growth will bring pressure to justify the hype and deliver outsized returns. For some, it is delivering. Private debt was the biggest contributor to the 9.3 percent gain by the California Public Employees' Retirement System (CalPERS) in its most recent fiscal year, through June 2024.

Private debt delivered a 17.3 percent return, beating private equity by 10.9 percent (both were outpaced by the pension fund's public equity gains).

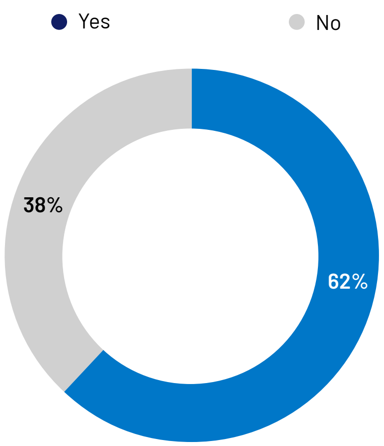
"Private credit outperformed private equity last year and is becoming a larger share of the absolute return allocation, where investors traditionally housed their hedge fund investments," adds Auerbach. "Private credit has been creeping into absolute return and crowding out hedge strategies, due to the high and predictable returns currently on offer."

Private credit was the second-ranked alternative asset class, followed by venture capital (10 percent), infrastructure (nine percent) and hedge funds (seven percent).

Asset allocation trends will be examined in detail later in the report. However, performance in alternatives in the pandemic period and therefore has led to plans to increase allocations.

Significantly, 62 percent of LP respondents said they plan to increase exposure to alternatives (see Figure 4).

Figure 4: Do you expect to increase your allocation to alternatives over the next 12 months?



The rate was slightly higher (63 percent) among pension funds, with more following CalPERS' lead in upping exposure. The U.S. public pension announced plans in March to increase its target allocation to private equity from 13 percent to 17 percent, and private debt from five percent to eight percent. Its overall private markets exposure will rise from 33 percent to 40 percent.

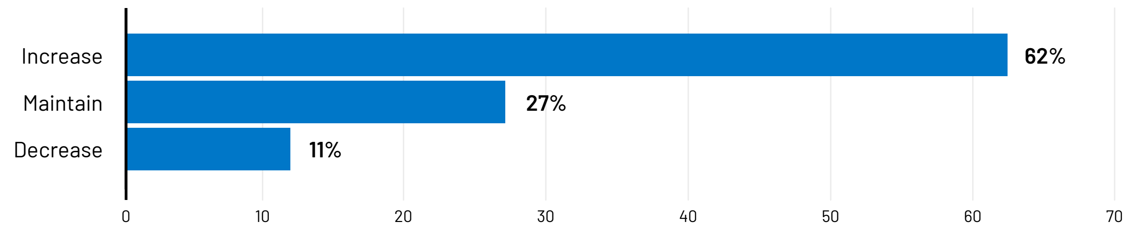
The American Investment Council found that in the decade from 2014 to 2023, private equity delivered an annual 15.2 percent return to pension funds, beating all other asset classes, and that even the bottom 25th percentile of PE returns outperformed median public equity returns.

> "Valuations for premium assets remain robust. LPs are still actively deploying capital to private equity and private debt but remain highly selective."
>
> **Carl Lomsdalen**
>
> Golding Capital Partners

GP Selection Intelligence

With ongoing market and macro turbulence, and the relatively recent paradigm of higher-for-longer interest rates, getting GP selection right is crucial.

Figure 5: Are you planning to increase, decrease or maintain the number of GP relationships you have over the next 12 months?



The headline finding in this section is that well over half (62 percent) of LPs are planning to increase the number of GP relationships in the next 12 months — which matches the proportion planning to increase exposure to alternatives (see Figure 5).

This suggests that LPs recognize the need to diversify not only by increasing their exposure to alternatives, but also by spreading the risk across a greater number of individual managers.

"In private equity, we're looking at less levered strategies and companies going forward," says Alex Band, CIO at Partners Capital, an outsourced investment office for LPs.

"Valuations have come down, so you are getting better entry points in terms of what you're doing. Fundamentally, there seems to be this opportunity to drive earnings growth in companies and get paid for doing that. That's the heart of the interest in the asset class."

The next question provides insight into how GPs can bolster their offerings to LPs and potentially attract more allocations. When asked what would help improve relations with GPs, "better report analytics" was the most popular answer, picked by 59 percent (see Figure 6). That was followed by "standardized reporting such as ILPA templates," picked by 34 percent (multiple selections were permitted). Reporting trends will be explored in further detail in the next section.

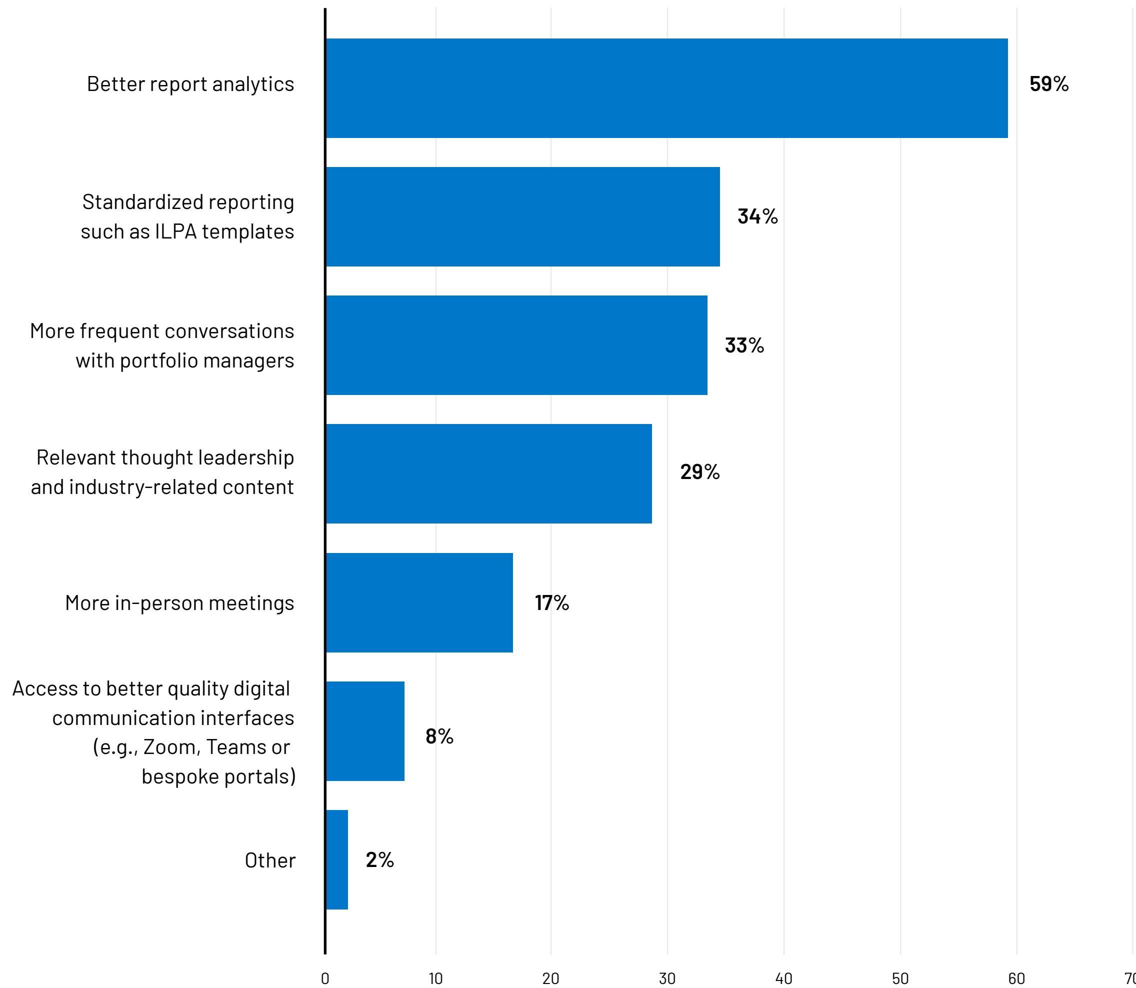
LPs don't just want better reporting, they want more interaction overall, judging by answers to this question. "More frequent conversations with portfolio managers" was a request from 33 percent, followed by "relevant thought leadership and industry-related content" picked by 29 percent.

The survey revealed stark regional preferences when it comes to GP selection.

Three-quarters (75 percent) of LPs chose the U.S. and Canada as an attractive region to invest in, followed by the U.K. and Europe chosen by 49 percent (see Figure 7, multiple selections permitted). The U.S. economy has outperformed others since the pandemic, with the recent artificial intelligence (AI) trend led by Nvidia and continued Magnificent Seven dominance setting it apart.

Just 16 percent picked the APAC region, way behind North America, the U.K. and Europe.

Figure 6: What would help improve your relationships with GPs? (Multiple selections permitted)



When asked about their organization's view of Asia Pacific (APAC) as a region for investment, 44 percent of respondents were neutral (see Figure 8), though answers skewed more positive than negative among the remainder.

Asia Pacific has seen more of a resurgence in public markets this year, from Japan to India and other major markets generating trading opportunities and attracting more hedge fund interest. Private markets growth has been more concentrated in other regions to date, and this trend is likely to continue.

For 18 percent, it is large firms managing USD five billion or more. However, for 44 percent it is less than USD 500 million, showing a spread of responses and preferences on this front (see Figure 9).

Figure 7: Which of the following regions do you most want to see managers invest in? (Multiple selections permitted.)

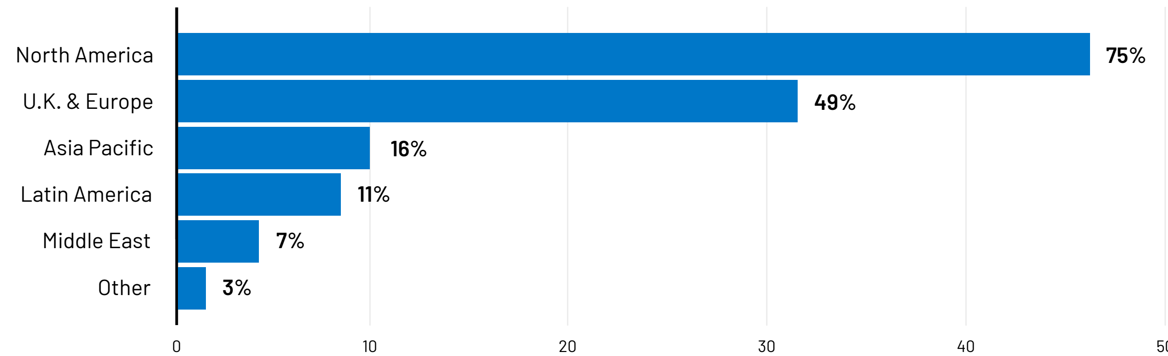


Figure 8: What is your organization's view of APAC as a region for investment?

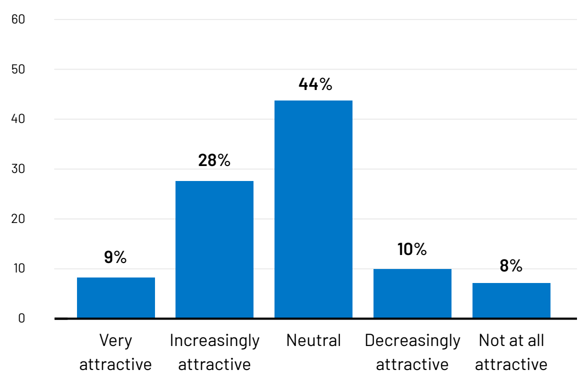
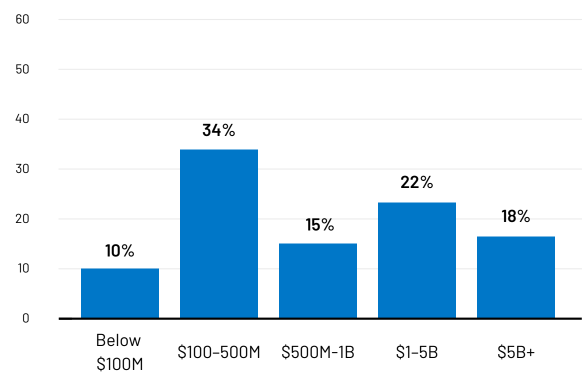


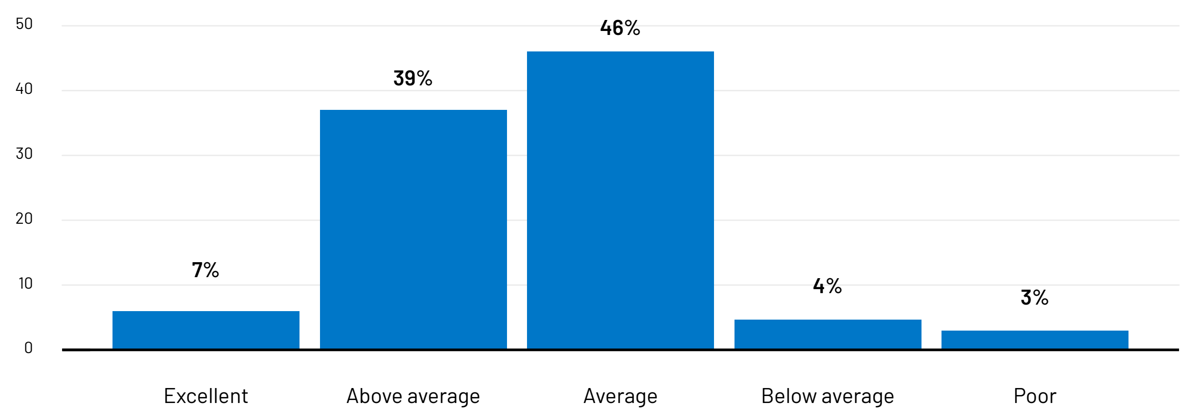
Figure 9: Overall, what fund manager AUM size will you be favoring over the next 12 months?



Transparency, Reporting and ESG

When it comes to transparency, the headline news is positive. There is a higher rate of satisfaction among LPs regarding GP transparency as compared to last year, suggesting progress has been made on this front.

Figure 10: How would you rate the level of transparency provided by your GPs?



Two-fifths (39 percent) of LPs we surveyed rated it as above average, up two points from last year, and another seven percent as excellent, up one percentage point from last year (see Figure 10). The number saying it was average rose from 42 percent to 46 percent, while those rating it below average/poor fell from a combined 15 percent to seven percent.

How does satisfaction vary between LP size and type? The largest group of LPs in the mid-size USD five billion to 50 billion tier were most satisfied, with 62 percent saying GP transparency was above average or excellent, compared to a 46 percent rate among all respondents. Smaller LPs' (sub-USD five billion) satisfaction levels were roughly in line with the average, but the largest (USD 50 billion-plus) were least satisfied, suggesting GPs need to improve their performance for their biggest clients.

North America appears to be leading on the transparency front, with 15 percent of LP respondents describing transparency as excellent and a further 51 percent as above average. In the U.K. and Europe, the figures are six percent and 33 percent, respectively, falling to zero and 29 percent in APAC.

Technology is central to the transparency issue; it holds the key to unlocking better outcomes for LPs and driving higher future satisfaction levels by easing the administrative burden.

Lack of access to analytics (36 percent) and disparate LP dashboards with multiple logins (28 percent) were the top two frustrations for LPs (see Figure 11). GPs that can aggregate data across multiple funds in one place will gain a competitive edge by providing LPs the transparency they require.

The rate of LP satisfaction with GP technology is solid — more than half were satisfied — but there is room for improvement, with 34 percent saying they were neither satisfied nor dissatisfied (see Figure 12).

Better investor reporting could drive improvements in this area. Only 25 percent of LPs report using technology

Figure 11: What are your biggest frustrations around your GPs' technology infrastructure?

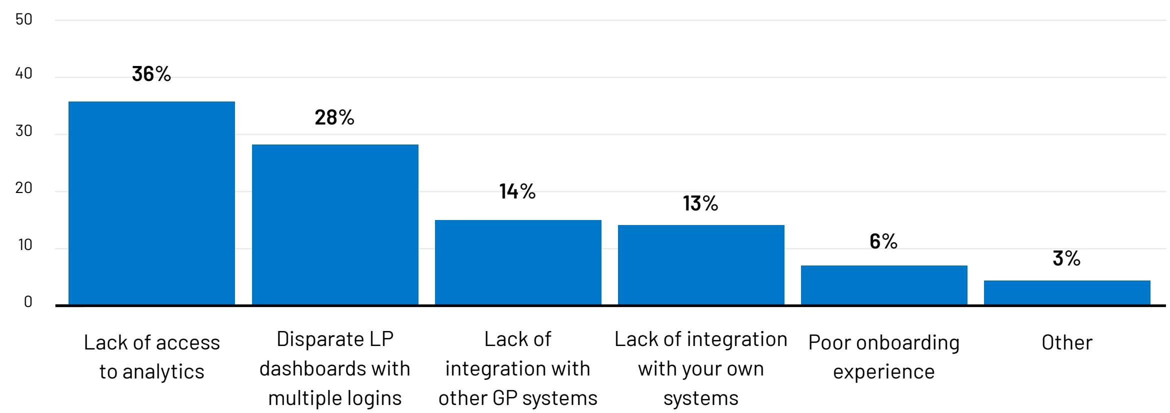
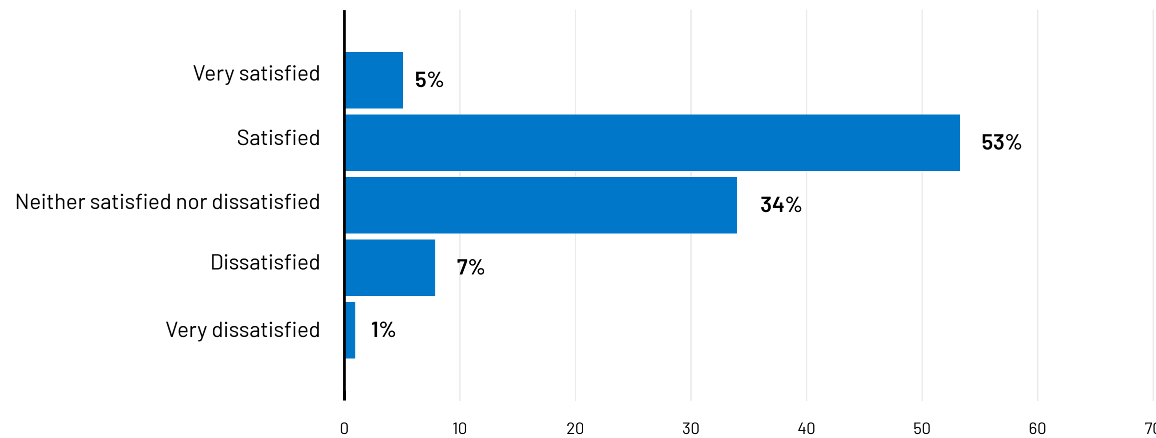


Figure 12: How satisfied are you with the technology capabilities of the GPs you currently invest with?



to extensively monitor investments and performance (see Figure 13). Greater adoption by LPs, both internally and in GP-provided portals, would likely drive satisfaction.

Among those not using technology, there was a strong indication that using a single tool to aggregate data across a private markets portfolio would be beneficial (see Figure 14).

Two-fifths (40 percent) said this would be somewhat helpful. More than half (55 percent) of LP respondents said it would be extremely helpful.

Such a tool was seen as the best way to monitor GP investments, with 49 percent saying the ability to aggregate information across multiple managers in one place would be the most helpful form of technology. This was followed by a better ability to forecast cash flows by 25 percent (see Figure 15).

Reporting demands are continually increasing, not only concerning performance

Figure 13: To what extent do you leverage technology to monitor your investments and performance?

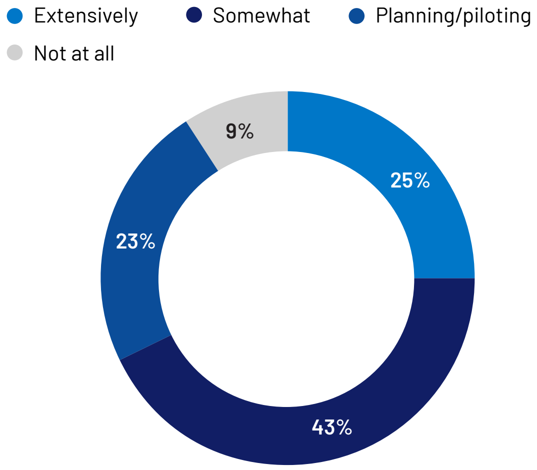


Figure 14: If not, how helpful would a tool to aggregate data across your private markets portfolio be?

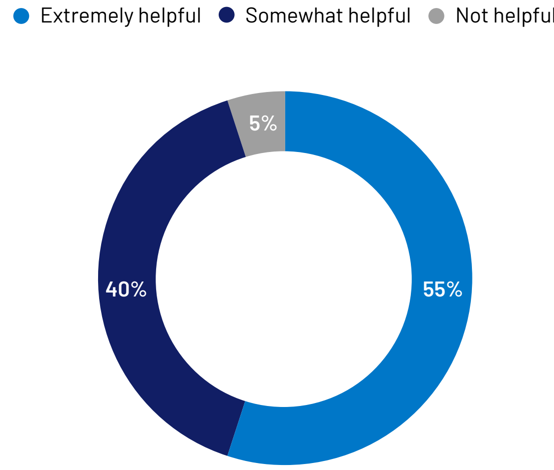
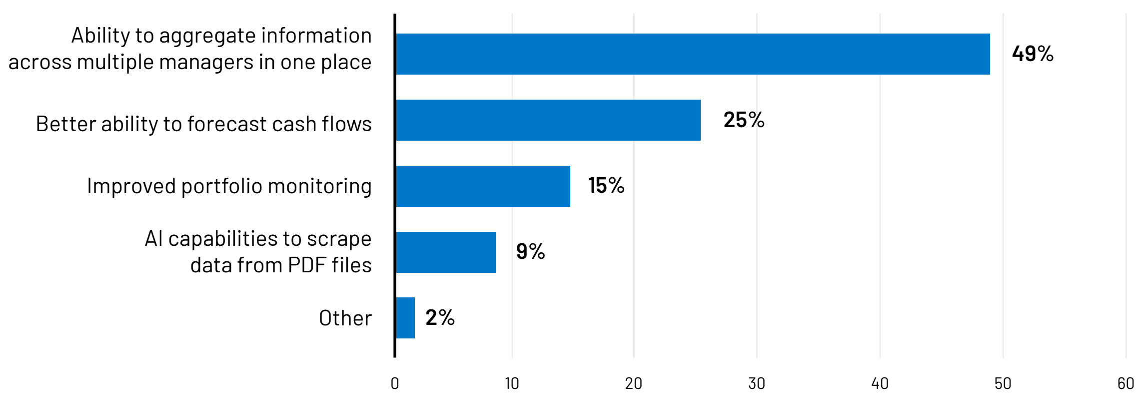


Figure 15: Which improved areas of technology would most boost your ability to monitor GP investments?



but also due to ESG considerations and new regulatory initiatives.

ESG due diligence of GPs has increased for 29 percent of LPs in the past 12 months, with 11 percent noting a significant increase (see Figure 16). Only three percent reported a decrease.

More than half (53 percent) of LPs said the SEC's now vacated Private Fund Adviser rules had intensified their compliance monitoring/demands from GPs (see Figure 17). The future path of these rules is unclear after the U.S. Court of Appeals for the Fifth Circuit struck down the new rules (there may be an appeal). The Institutional Limited Partners Association (ILPA) has responded by issuing guidelines on the new rule through its Quarterly Reporting Standards Initiative (QRSI), which will create new quarterly reporting standards for industry-wide adoption.

Figure 16: To what extent has your ESG due diligence of GPs changed in the last 12 months?

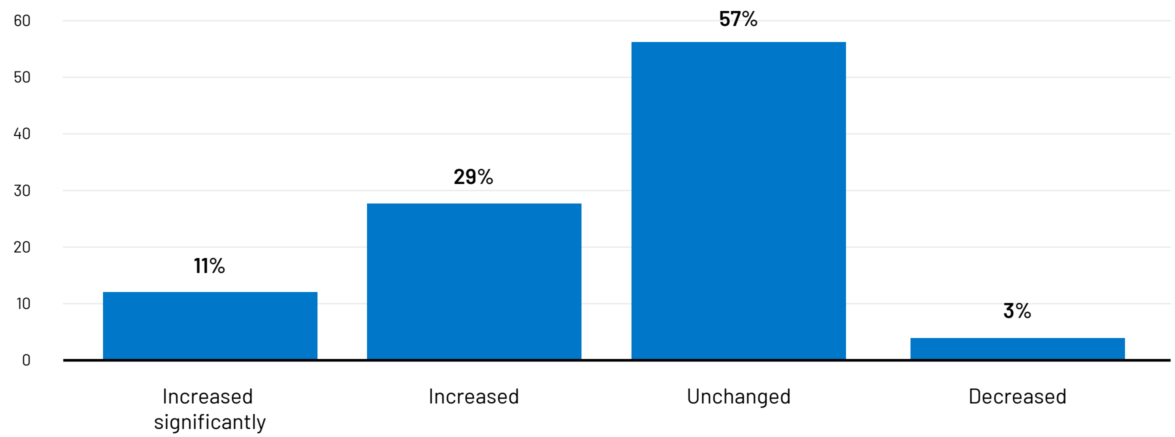
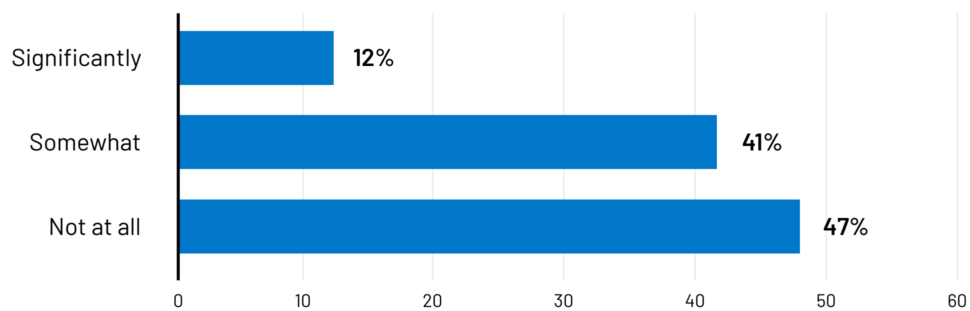


Figure 17: To what extent have the SEC's now vacated Private Fund Adviser rules intensified your compliance monitoring/demands from GPs?



Asset Allocation and Liquidity Trends

Almost two-thirds (62 percent) of LPs plan to increase their exposure to alternatives due to strong performance.

More than a third (36 percent) of respondents planning to increase exposure to alternatives plan to do so by more than ten percent, a significant increase (see Figure 18). For the majority (58 percent), the increase will be between one percent and six percent.

Private equity will likely be the leading beneficiary, given that 45 percent of LPs expect to be overweight to the asset class, more than any other strategy in the next 12 months (see Figure 19). This trend may also reflect liquidity considerations, given recent trends in private equity.

Figure 18: How much do you expect to increase your allocation to alternatives over the next 12 months?

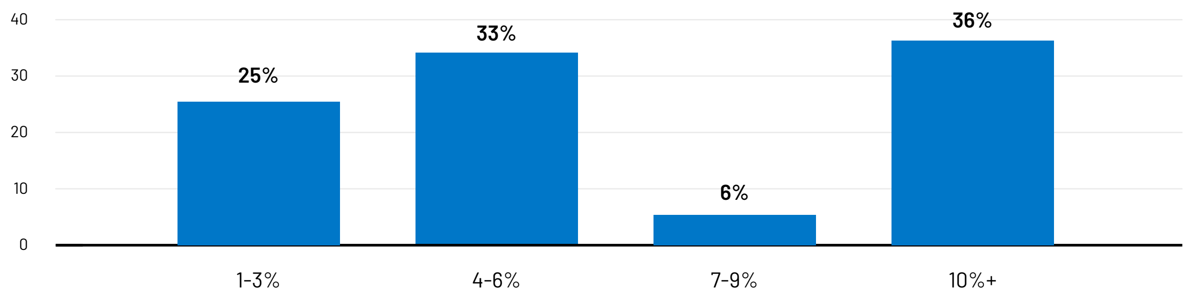
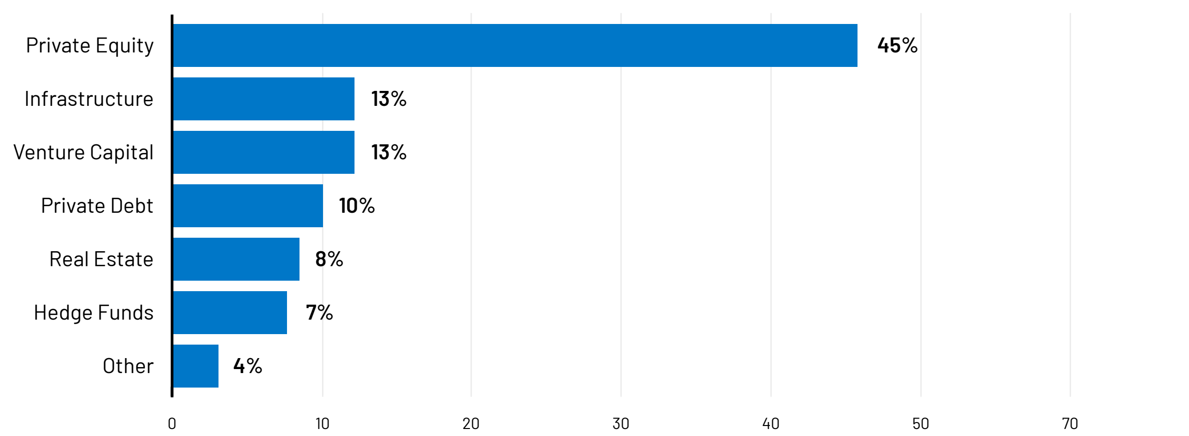


Figure 19: Within alternatives, in which asset class do you expect to be most overweight on an absolute basis?



The post-pandemic deal slowdown has made it more challenging to find liquidity in private equity. Alongside performance gains, this difficulty will be why more LPs expect to be overweight in private equity.

"There has been a reduction in the pace at which private equity funds have been returning capital," says Colin Greene, head of private debt at Swiss manager and investor UBP.

This issue has risen to the top of the agenda and some think asset allocation priorities have now changed from a focus on low volatility and high returns to liquidity. "In the past six to eight months we have entered a period where investor mindsets have changed," adds Greene. "They have started to prize liquidity over an absence of volatility."

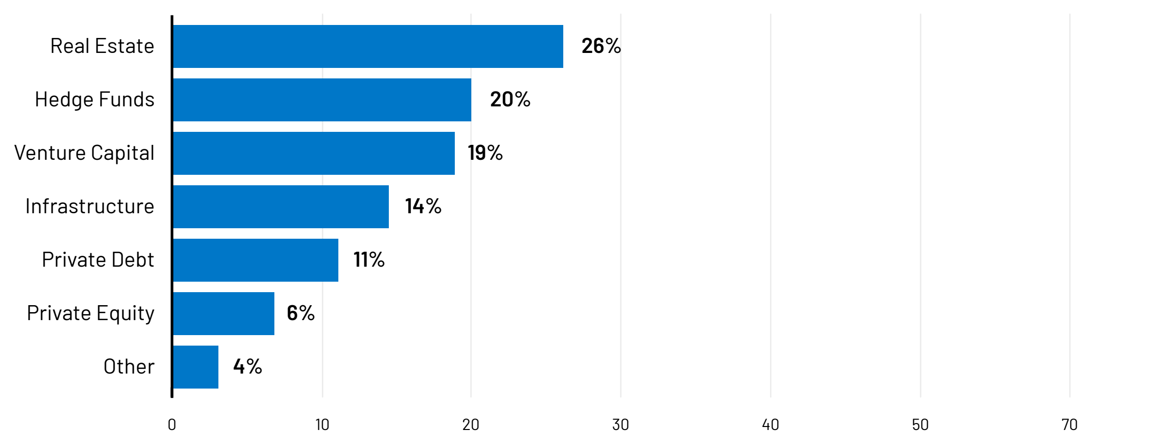
Auerbach, of Cambridge Associates, adds that exits have been harder to come by since interest rates rose, causing the gap between buyers and sellers to widen. "U.S. private equity distributions back to LPs were running about USD 125 billion last year. That's in line with the long-term average, but half the level in 2021, when it spiked.

"From a distribution yield standpoint, last year was super-low. If you [took] the distributions last year and divided it into the net asset value of the asset class at the beginning of the year, it was at a 15-20 year low."

LPs are tapping hedge funds, which offer greater liquidity, with 20 percent expected to be underweight, while poor performance means 26 percent expect to be underweight on Real Estate (see Figure 20).

Continuation funds were a key theme in last year's survey, but they have dropped in prominence, with only 11 percent of respondents identifying them as the most relevant trend in private equity investments

Figure 20: Within alternatives, in which asset class do you expect to be most underweight on an absolute basis?



(see Figure 21). Co-investments have now emerged as the most interesting trend for private equity, with liquidity being a key factor driving this shift.

"Secondaries and co-investments [are showing] good momentum," says Olivier Cassin, managing director and head of research at London LP consultant bfinance.

LPs are increasingly mindful of liquidity considerations in private markets and so are more comfortable acting on a deal-by-deal basis rather than moving into new funds. This gives them control and helps GPs develop new ways to put fresh capital to work in the current fundraising landscape.

Auerbach, of Cambridge Associates, has seen more use of continuation vehicles, GP-led secondaries and exploration of NAV loans in private equity.

"Investors need to see distributions from GPs to consider making further investments, and these structures facilitate that. GP-leds and continuation vehicles also extend timeframes and allow time for market valuations to improve, which can offer enhanced exit potential," she says.

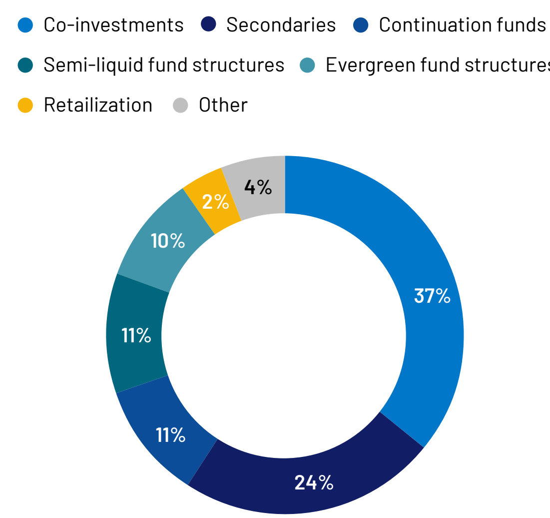
Co-investments, which tend to offer a fee advantage, provide another way for institutional LPs to lower their cost of access to the asset class. But she sounds one note of caution on co-investments: "Although it is a long-term trend, given the tentative investment environment, LPs may need to be more intrepid to pursue co-investments over fund investments at present."

Hedge funds are becoming more attractive among LPs hunting a diversification option. "We are starting to observe renewed interest in hedge fund strategies, which represents a marked change on a historically quiet 2023," says Cassin of bfinance.

"Absolute return hedge funds are a really interesting allocation and have advantages over, say, government bonds, or a more traditional safety net asset," says Band of Partners Capital.

"Government bonds have been undermined by interest rate and duration risk in recent years. And what we're trying to do with absolute return is get [a] better expected return, but also have diversified exposures."

Figure 21: Which of the following trends in private equity is most interesting for your investment strategies?



Macro and Sector Outlook

The findings were collected during a period of ongoing global volatility and against the backdrop of expectations of higher interest rates remaining in place, which has significantly impacted the outlook for alternative investments.

It is therefore no surprise that geopolitical uncertainty and valuations are the two biggest concerns for LPs when it comes to the welfare of their alternatives portfolio. The two themes were selected by 46 percent and 45 percent, respectively, as their top concerns (see Figure 22, multiple responses permitted).

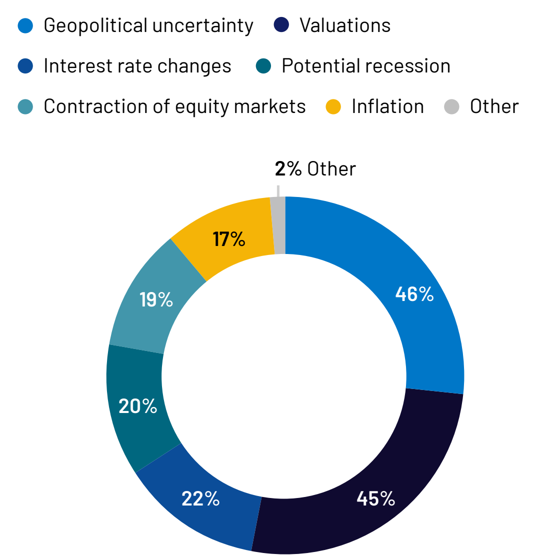
"We anticipate a growing acceptance of a valuation reset for private companies," UBS Asset Management wrote in a recent market note.

"This will bring short-term pain for funds which have maintained elevated marks but could serve as a catalyst for more companies to change hands in the medium term, creating much-needed liquidity."

A mismatch in views on valuations was a factor in slower private equity performance by some firms last year, but this survey has revealed a notable level of LP satisfaction with performance in the space.

Healthcare, Technology and Infrastructure continue to be favorable sectors in which LPs are keen to see GPs invest. AI advances in particular have driven tech interest. "From a sector perspective, Tech remains a dominant theme," according to EY.

Figure 22: What are you currently most concerned about when it comes to the welfare of your alts portfolio? (Multiple selections permitted)



Underlying demographic trends are contributing to increased healthcare sector investment, while population trends and investor demands for long-term opportunities are fueling interest in the infrastructure sector.

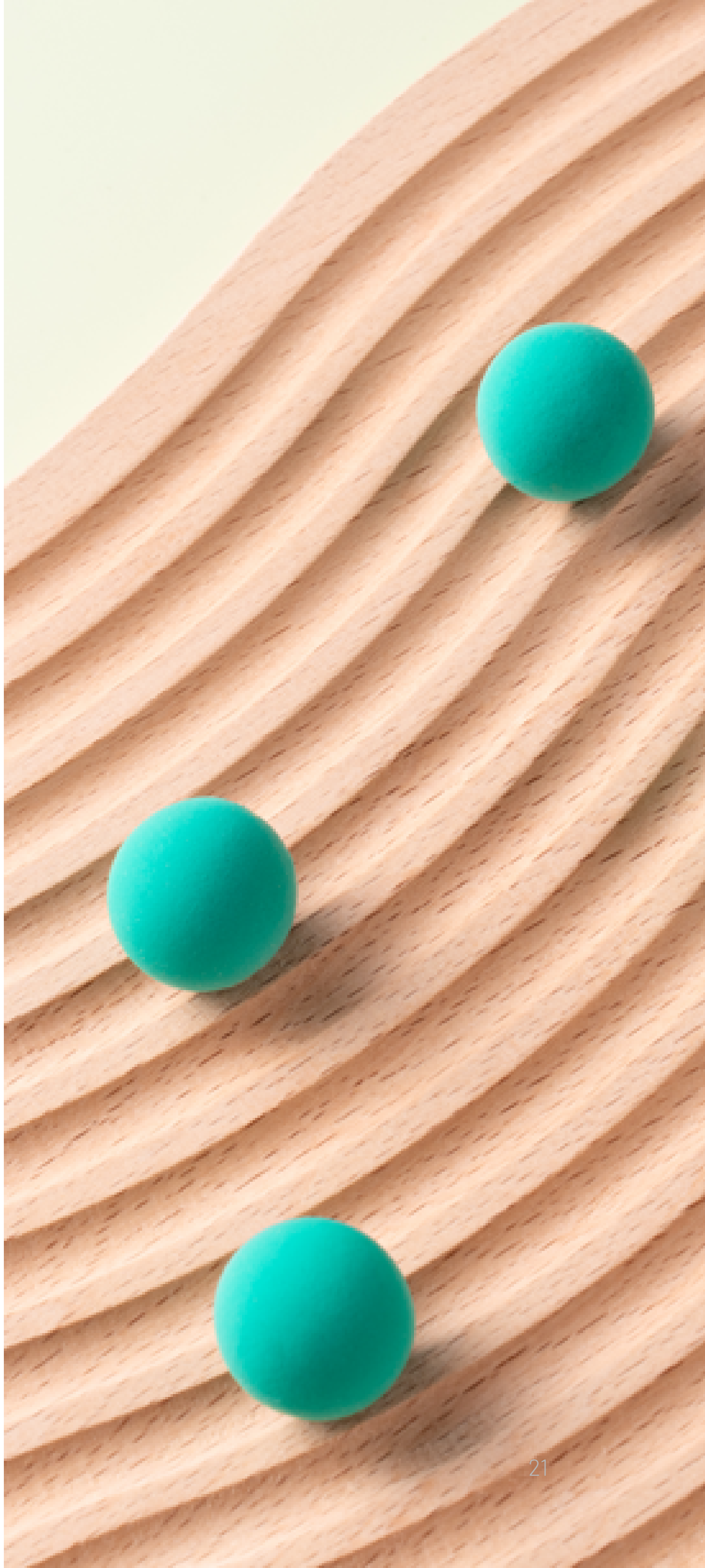
Looking Forward

LPs' appetite for alternative investments remains robust despite headwinds ranging from valuations pressure to geopolitical and macro upheaval. The key reason? Diversification.

The uncertain outlook for stock and bond markets since the pandemic has diminished the appeal of traditional portfolios. "The shape of portfolios we see from LPs are quite far from the traditional 60/40," says Cassin of bfinance. To avoid the beta risk of public markets, "LPs continue to seek yield, inflation protection, defensive protection [and] exposure to sustainable/impact assets — characteristics offered by a range of alternative investments."

The numbers — evidenced by private credit's expansion — and the intentions revealed by this year's survey are clear: More than half of all LPs (52 percent) surveyed currently allocate more than USD 500 million to alternatives. These allocations are expected to increase significantly: 62 percent of respondents plan to increase their allocation to alternatives in the next 12 months, with more than a third of them by more than 10 percent.

A lot of that positive intent is also rooted in performance. Investors take a long-term view and are willing to overlook slower years, as Andrea Auerbach of Cambridge Associates explains.



"Longer-term, U.S. private equity looks very good with average returns of 15.4 percent in the decade to the end of Q1 2024," she says, pointing out that the average holding period in PE is seven years. "The one-year return for privates is something we look at, but we take a longer-term view and focus on the compass and not the clock."

However, LPs are exercising caution, with 62 percent planning to increase the number of GP relationships they have over the next 12 months. This trend underscores the need to de-risk portfolios through diversification. LPs continue to seek greater transparency, both in their own portfolios and about wider industry trends. North America leads in this regard, while other regions need to up their game to remain competitive.

If GPs can deliver this level of transparency as well as strong risk-adjusted returns, then alternatives will justify their growing share of allocations in the second half of the decade.

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