OAKPOINT ADVISORS

Oakpoint 2024 Year in Review

First, I want to wish everyone a Happy and Healthy New Year! As we reflect on 2024, I thought I would summarize what we experienced in 2024 fundraising in the private capital markets.

I want to start by thanking all the LPs we have reached out to over the year to introduce investment opportunities that Oakpoint is or was partnering with. Since our founding in 2009, Oakpoint has endeavored to partner with differentiated opportunities that possess some or all the following characteristics: proven historical performance, favorable forward-looking risk/reward analysis, differentiated expertise, limited access, and lack of correlation or idiosyncratic characteristics. We are acutely aware of how high the bar is for new investments, so we have always endeavored to perform a level of diligence that gives us comfort that all our managers are best-in-class.

We attempted to summarize the main trends and themes we saw in 2024 and give our view on how the capital-raising environment is shaping up for 2025.

It's not getting easier! – The capital-raising environment, particularly for small to mid-size firms, is incredibly challenging. This has been obvious to LPs, internal marketing people, cap intro groups, and placement agents for several years—we live it every day. However, many of the GPs we met in prior years had unrealistic hopes and expectations. That has changed, and there is a broad awareness across all GPs, small or large, start-up or established, that raising money is tougher than ever. While hedge fund AUM increased by $148 billion in 2024 (HFR), most of this was due to performance. New inflows were still positive, but only $15 billion, and those assets were highly concentrated with large managers. That bears out in new fund launch stats. According to Preqin, hedge fund launches in 2024 were at a 24-year low. Institutional Investor reported that PE launches in the first half of 2024 were down 47% at 365 funds. Considering there were over 3,000 PE funds launched in 2020, and over 4,000 in 2021, the drop-off is very significant.

Why? There are several reasons for this. We know that hit rates (LPs that ultimately invest / LPs reached out to) are very low and have been for some time. Most LPs that we speak with made significantly fewer investments in 2023/24 than their average, often reporting only having made 1 or 2 investments all year across all alternative asset classes. This is partly the result of a maturing industry where turnover naturally slows. It is also due in part to the fact that the biggest managers continue to control an outsized portion of invested capital. However, the most important factor affecting the ability to raise capital is the lack of liquidity of many LPs. Almost all investors that invest in PE/Venture funds have not seen the liquidity they expected as those sponsors struggle to find liquidity for their portfolio companies. Equity market performance has helped the "denominator effect" so these LPs are not necessarily over-allocated to private company funds, but that has not improved liquidity.

The Big Still Dominate! The largest hedge funds' AUM has stayed flat in 2024 over 2023, but this is partly by design. Many of the largest managers, including Citadel, D.E. Shaw, and Point 72, have announced recently that they will be returning some capital to investors. However, they have grown significantly over the last 10 years (see below chart). Hedge funds have grown at a much faster rate than PE funds, albeit off a much smaller base. The multi-strategy hedge fund managers alone manages close to 10% of the $4.5 trillion industry. These large platform managers mostly grew by doing more of the same—a large, diversified pool of investment teams under a tight risk control system. LPs seem happy with their risk-adjusted performance and have rewarded them by staying invested. The largest sponsors also grew significantly over the past 10 years, but most of that growth in the last few years comes from their private credit business. That has been good business—so good that the private credit business of the large public-listed sponsors is bigger than their legacy PE business in some cases.

	Aum $b's	Aum $b's
Hedge Funds	2014	2024
Citadel	16	66
Millenium	23	72
Marshall Wace	18	69
Elliott	23	70
Private Equity	2014	2024
Carlyle	203	447
Blackstone	571	1,110
KKR	98	601

(source: Morningstar, S&P Global)

However, **large-cap private equity funds remain challenged.** Those concerns are clear in the challenges some of the largest funds have had in raising money over the last two years. While there have been exceptions, many large sponsors fell well short of their capital-raising goals in the last two years, and it took longer than planned. That is not surprising given they have returned so little capital recently, investors have less to recycle. Large PE firms distributed about 50% less capital in 2024 than their annual average. The three-year total of this liquidity shortfall in private equity totals a whopping $400 billion. There are more fundamental issues at play than just a lack of liquidity. Higher interest significantly dampens the LBO appetite and puts pressure on existing levered portfolio companies. They also don’t help valuations as the discount rate goes up. Investors also have significant apprehension over marks, particularly in large-cap tech. A Goldman report highlights that many of the asset sales we have seen in the last two years have come at a 10-15% discount on the portfolio marks. The backlog from the lack of portfolio sales recently is a real concern, and holding periods lengthened to 5.8 years in 2024, up from the 3.2 historical average. We have seen good interest in LMM opportunities in PE where growth is more obvious, valuations are less stressed, and exits are more visible. However, no matter the strategy, any PE fund marketing in 2025 will be spending a lot of time discussing DPI, as they had to in 2024.

Retail – the New Frontier – The above-mentioned challenges of raising capital in the institutional LP market have driven many GPs, particularly large ones, to focus on the retail market. This is still early days; per McKinsey, only about 6% of individual investors are invested in the private markets, but the total capital from individual investors in private markets is expected to triple over the next decade to $12 trillion, according to Bain. Platforms like iCapital have made significant progress in democratizing access to private investments, and private funds are doing their part to go after this capital by dedicating marketing resources, creating RICs and BDCs, and partnering with traditional retail platforms. This feels like a trend that has legs.

2025 – We expect 2025 to be a good year for fundamental investors, both in the public and private markets. The regulatory and policy changes coming with the new Administration in Washington may be starker than any other Presidential turnover. Exactly how specific industries and companies are affected will not be known until Congress rolls out new laws and the President signs executive orders and applies proposed tariffs or other policies. These changes, coupled with the implications of AI, tighter credit and a likely more M&A friendly regulators, will create the need to evaluate opportunities in real-time. This should give fundamental investors across all asset classes a leg up on passive investors in 2025.

That was not the case in 2024 as we had another very strong year for beta in equities; the S&P was up over 20% again for the second year in a row. It has paid to be passive in recent years, one reason we have seen ETFs, including those that invest in alternatives, explode. Listed ETFs have approximately doubled over the last five years to 4,000. Each year after a strong beta performance many people speculate the upcoming year should be a good year for stock pickers. That has not always played out, but there are signs it may this time. While beta worked at the index level again in 2024, we have started to see real dispersion recently. In 2024, 73% of the S&P constituents underperformed the benchmark. Morgan Stanley Prime Brokerage recently reported that the long/short spread (appreciation of longs vs shorts) of their hedge fund clients hit record highs in 2024. While these stats are specifically equity-related, we believe the same fundamentals apply across all asset classes. Rapidly changing policies on tariffs, energy, crypto, a normalizing yield curve, generally tighter credit, geopolitical tensions, and the ongoing digestion of inflation all bode well for bottom-up investors. All of this is dependent on markets not reacting in a meaningful way to the growing concern of debt and deficits. As everyone has seen, the 10 yr yield has moved up significantly in the last month or so.

We look forward to continuing our mission of working with best-in-class opportunities in 2025. We will continue to endeavor to only show in opportunities that we have reason to believe to be a good potential fit. We always appreciate any feedback on your investment objectives as well as our process.

Here is to a healthy and successful 2025!

Kind regards,

Oakpoint Advisors