

Celebrating **10**  
2011-2021

**R** | Rede  
PARTNERS

## THE FUTURE OF PRIVATE EQUITY



**FIVE PREDICTIONS FOR THE NEXT DECADE**

[rede-partners.com](http://rede-partners.com)

# FIVE PREDICTIONS FOR THE NEXT DECADE IN PE

## Contents

Executive summary	1
New PE models and a huge growth in illiquids	2
Specialisation will create an impenetrable 'moat' around the best GPs	3
The end of the 10-year blind pool (but not as you might expect)	4
Carbon targets will become a focal point across the corporate landscape	5
Increased government oversight and the end of privacy in private markets	6



# FIVE PREDICTIONS FOR THE NEXT DECADE IN PE EXECUTIVE SUMMARY

**In this report, Rede Partners examines five key trends expected to be at the top of the private markets agenda between now and 2031 – including fundamental shifts such as the reimagining of traditional private equity’ (PE) models through to increased oversight and scrutiny.**

In the 10 years since Rede Partners was founded, there has been considerable change in the world at large, as well as in the private markets space.

PE has enjoyed remarkable growth in the past decade – with assets under management rising from \$1.7trn in 2010 to \$4.4trn in 2020. Likewise, the secondaries market has grown roughly as much as the NASDAQ Composite, at about 4x where it stood in 2011. At the same time, there has been major ‘churn’ in PE, with 90% of the firms in the 2020 HEC-Dow Jones PE Performance Ranking being new entrants compared with 2011 – meaning that only two firms maintained their positions.

For this report, we challenged ourselves to make some fairly bold – or at least less obvious – predictions for what the private markets will look like in 2031. Of course, looking back to 2011, we would have been hard pressed to predict Brexit, the Trump Presidency, or the global pandemic – so any predictions will always be tempered by the knowledge that new trends can arrive from left-field at any time.

As such, we’ve identified what we feel will be five key trends in the years ahead.

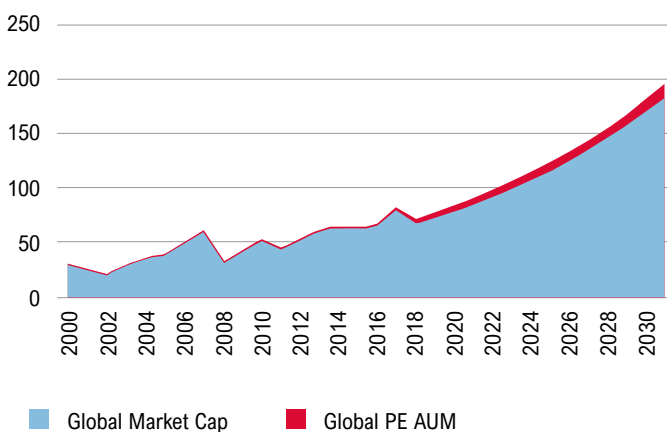
- 1 New PE models and a huge growth in illiquids**  
Private markets will undergo a ‘great rotation’ from liquids to illiquids, and a change in PE products that will start to fill the gaps that currently exist in the risk/return spectrum.
- 2 Specialisation will create an impenetrable ‘moat’ around the best GPs**  
GPs will be focused, as never before, on building sustainable, hard-to-replicate competitive advantages that will help them consolidate their position and fend off newcomers.
- 3 The end of the 10-year blind pool**  
The growth of GP-related M&A will change the longstanding PE model, but not in ways that most people within the industry might expect.
- 4 Carbon targets will become a focal point across the corporate landscape**  
The shift towards decarbonisation will be felt across all business sectors, with company valuations and PE performance directly impacted by approaches towards environmental issues.
- 5 Increased government oversight will herald the end of privacy in private markets**  
PE firms will be in the spotlight of public opinion more than ever before, which will lead to more government oversight and the loss of privacy – potentially changing some of PE’s unique characteristics.

**While private markets have undeniably seen massive growth in the last decade, there remains a question mark over where this could reasonably be expected to plateau.**

Figures from Preqin show that PE assets under management (AUM) almost tripled from \$1.7trn in 2010 to \$4.5trn in 2019. Even as global economies and capital markets went through a major convulsion in 2020 due to Covid-19, that figure only slipped back slightly – to \$4.4trn. But how much room is left to run for private markets allocations and what sort of evolution will be needed to accommodate future growth?

On the first point, there is reason to be confident that PE will continue to grow. Right now, PE accounts for a relatively small percentage of total global market capitalisation, at 6.6%. If that percentage remains the same and market cap grows at a constant rate, then PE AUM will stand at around \$12.8trn in 2030.

#### TOTAL GLOBAL MARKET CAP<sup>1</sup> vs GLOBAL PE AUM<sup>2</sup> (USD trn)



Source: 1) World Bank data (2021), 2) PE Wire (2020)

At Rede, however, we're rather more bullish and believe that PE will continue to take a larger market share. Assuming that it will rise to 10% of global market cap by the end of the decade, a reasonable estimate is that PE will become a \$20trn industry – that's over \$15trn of additional PE AUM.

“ We foresee markets undergoing a ‘great rotation’ ”

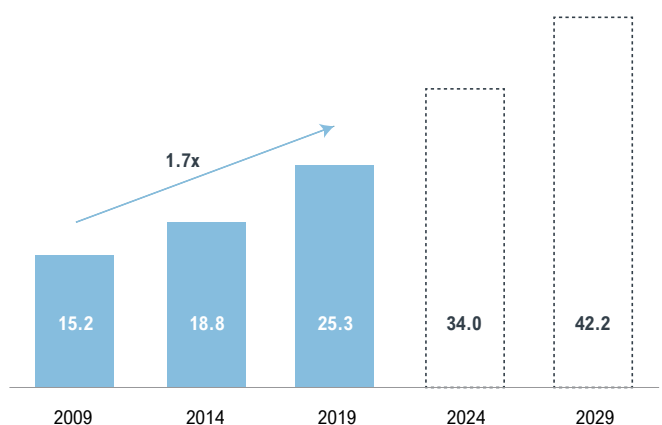
The question is how this considerable amount of new capital formation in private markets is going to happen.

#### Increased allocation to illiquids

We foresee markets undergoing a ‘great rotation’. This will involve a huge growth in illiquids with new models filling in the risk/return and liquidity/fees gaps.

In part, this will be funded by new buckets of capital coming online that currently aren't allocated to PE. A prime example of this is in emerging markets. As these economies have grown and matured during the past 20 years, so have their savings and pension funds.

#### AVERAGE EM FUNDED PENSION FUND ASSETS AS A SHARE OF GDP (%)



Source: OECD (2021). Note: Chile, Brazil, Uruguay, Mexico, Bulgaria, Costa Rica, Korea. Data trends extrapolated for 2024, 2029

“

**The old way of thinking – split by equities, fixed income, cash and a small percentage of alternatives – will move to a liquids versus illiquids concept,”**

Take South Korea’s national pension scheme, which is already number three in the world by AUM. It grew by 13.2% in 2020 to \$765.9bn and is expected to triple over the next 10 years. Meanwhile, Mexico has proposed to increase contribution rates from 6.5% to 15% from 2023 through 2030, which would have an enormous impact on AUM.

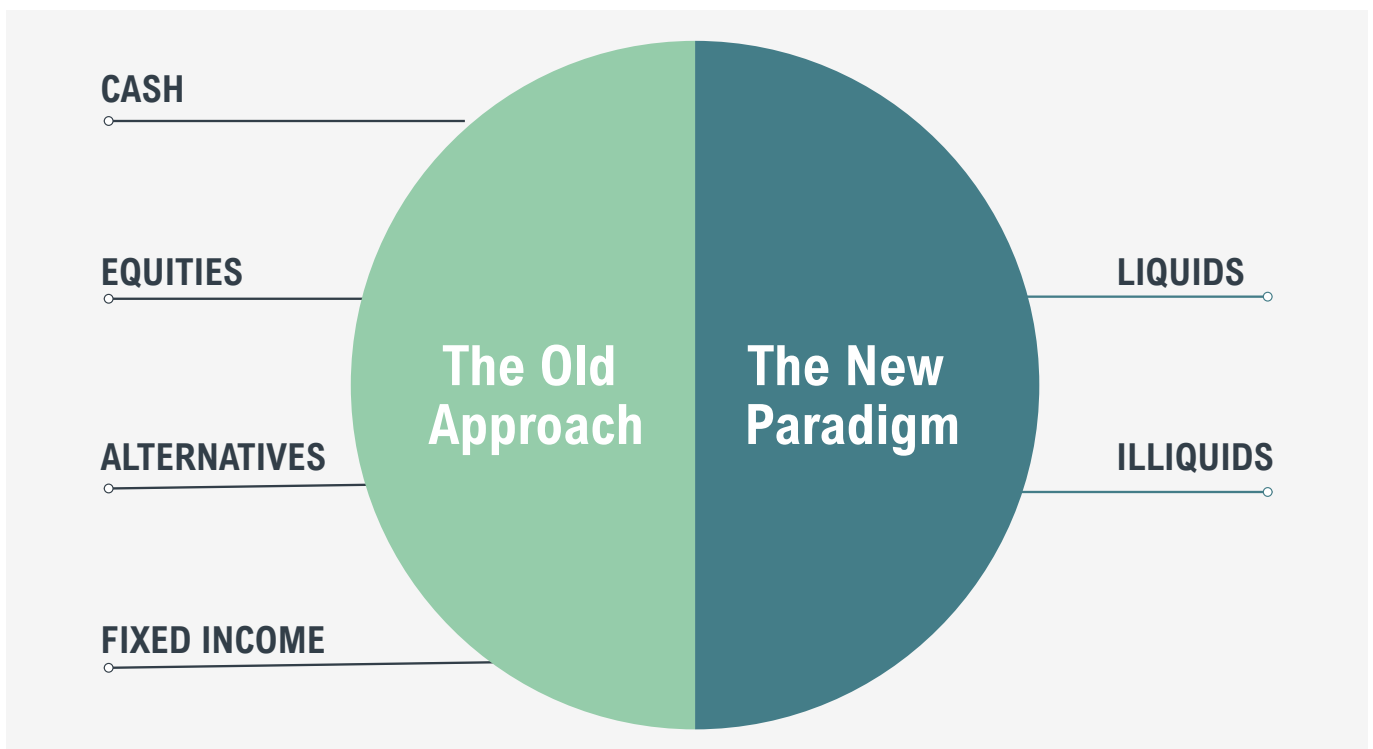
While these potentially massive increases are significant, they will likely be allied with a fundamental shift across institutions, signified by a whole new approach to asset allocation. The old way of thinking – split by equities, fixed income, cash and a small percentage of alternatives – is going to move to a liquids versus illiquids concept, with investors splitting equity and credit across these two buckets.

We can follow this by looking at the Swedish AP1-6 pension funds. Up to the end of 2018, AP funds had a 5% cap on PE, which not only limited their investment options but also made them susceptible to any swings in

the market. There was a lot of debate within the country about lifting this cap, with the government ultimately deciding not only to lift it but to restructure how they thought about alternatives more broadly. As a result, a new 40% cap on ‘illiquids’ as a whole was implemented.

Not only does this mean that there is a huge potential growth for PE, but it also opens AP funds to a broader set of asset classes to invest in, such as private credit and infrastructure. Indeed, just as PE AUM has grown in the past decade, so has private credit AUM – rising from \$315bn in 2010 to \$848bn in 2020, according to Preqin.

We expect this increased investor appetite for both PE and private credit to spread to many other areas as institutions seek to fill the gaps in strategies and across the risk/reward spectrum. The ‘old world’ of sharp delineation between private markets asset classes will become increasingly blurred with a much richer, more complex tapestry of investment funds that are defined more by their risk/return profile than their investment style.







**A whole new asset class for PE**

As the dividing lines between public and private markets are broken down, trade-offs between cost, liquidity and how actively assets are managed naturally start to appear. This is also heavily driven by the shift from defined benefits to defined contributions, which is putting considerable pressure on fees.

A perfect example of this is Nest, the UK's largest workplace pension scheme, which currently has no investments and no exposure at all to PE due to the

fees. It is, however, pressing for lower fees in return for regular capital allocations.

As a result, we anticipate that a new 'PE lite' product will come into play – which we have dubbed the 'Armani Exchange' version of PE – with lower costs, some aspects of liquidity and lower active management than with a traditional PE firm. Effectively this won't be a replacement to PE, but a different model that sits between liquids and illiquids.



**The past decade has seen a radical shift in the PE firms that are most prominent in the sector. Indeed, 90% of the top 20 GPs who were the leading lights in 2011 no longer hold that position today, having been replaced with new or up-and-coming firms.**

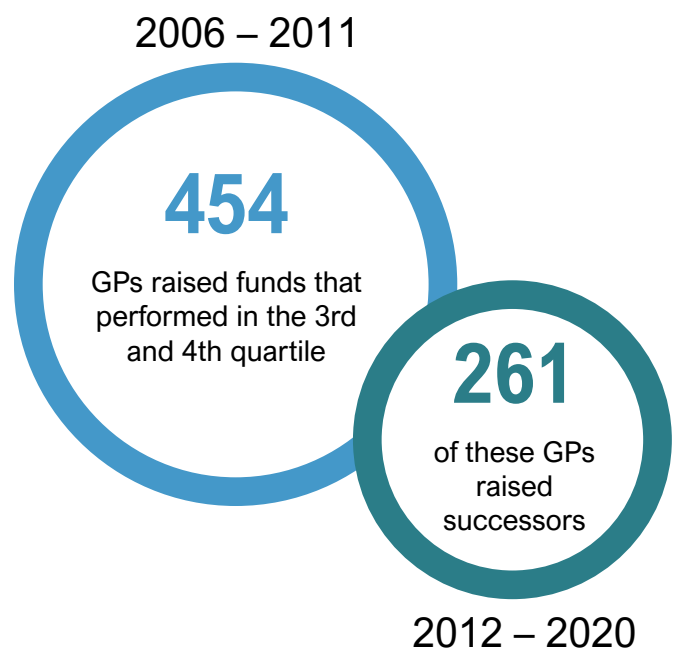
Considering such a significant change, it's reasonable to question whether the picture will be similarly transformed over the next 10 years. Will there be a new group of performers in that top echelon of GPs, or will many of today's leading firms remain?

#### **The need to outperform**

There are a multitude of reasons why GPs succeed or fail – be they specific to the GP or just natural industry churn. PE is a highly competitive sector and firms have to perform at a high level or they will find themselves under considerable pressure from many directions.

Figures from Preqin show that between 2006 and 2011, 454 GPs raised funds that performed in the 3rd and 4th quartile. As a result, between 2012 and 2020, only 261 of those GPs were able to raise successors. It's difficult for investors to be confident about backing GPs if they aren't performing in the top quartile, or at least in the second.

With this challenging background in mind, we have made a number of predictions for the future. First, rather than the proliferation of PE firms that has occurred over the course of the last few years, it's quite possible that the number of active PE firms in the next 10 years won't grow at all. This is a natural recalibration of an industry that has boomed in the last decade.



Source: Preqin (Asset Class: PE, Global, Fund Size >\$50m)







## We are seeing a shift to where PE managers are viewed as domain experts with distinctive skills”

Second, in order to develop their organisations in ways that will create persistent outperformance versus their peers, GPs will become increasingly specialised. This follows a trend we’ve seen over the last decade – in 2010, only 33% of funds were sector specialist as opposed to generalist. By 2020, that figure had risen to 47%. With marginal performance gains generating outsize rewards, this shift is unsurprising.

And indeed, many of the generalist funds actually have clear elements of specialisation – by deal type or value creation strategy, for instance. It’s arguable that it’s more or less impossible today to raise a fund unless there is some element of specialisation.

What is interesting, however, is how this trend is going to develop in the years ahead.

### Watch this space

When it comes to specialisation, technology and healthcare have been strong performers in the single-sector fund space – a trend that looks set to continue.

Digital transformation will likely be a major theme, as will healthcare – we believe it’s not unreasonable to believe that we will see a €10bn healthcare fund raised in the near future. And it’s anticipated that climate-related funds will grow into a sector in their own right – going way beyond energy and dealing with companies’ carbon footprints in various different ways. Food and agriculture also looks set to continue as another big theme in the next 10 years.

Yet this sector specialisation in itself isn’t going to be sufficient to create the protective moats and walls mentioned earlier. GPs will also be looking increasingly to their operational capabilities.

There has already been a huge evolution in how GPs operate. Groups are now structured with more domain expertise in specific areas of value creation – such as data and HR, for instance. This development of specialist in-house operational know-how has helped create advantage across the investment cycle.

We are now seeing a shift to where PE managers are viewed as domain experts with distinctive skills, such as the value creation services they offer their portfolio companies. As a result, they will be increasingly sought out for that ‘product’, building deep competitive ‘moats’ around their distinctive brands.

### Watch this space:



Digital transformation



Healthcare



Climate



Food and agriculture

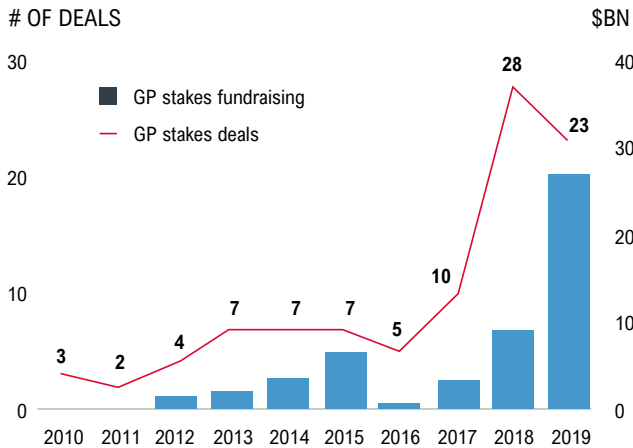
### Staking a claim

Supporting this concept of GPs as brands is the GP stake business. GPs are a long way past the point where they were merely partnerships of like-minded individuals, running small operations, trying to generate alpha. While that is still a part of the market, there is now a large part that is highly institutionalised and supported by GP stakes.

This provides a stronger balance sheet for GPs – and allows them to escape the straightjacket of fundraising cycles that other GPs have to go through every three to five years. And this is something that is spreading across the PE size spectrum.



## GP STAKES FUNDRAISING AND DEALS



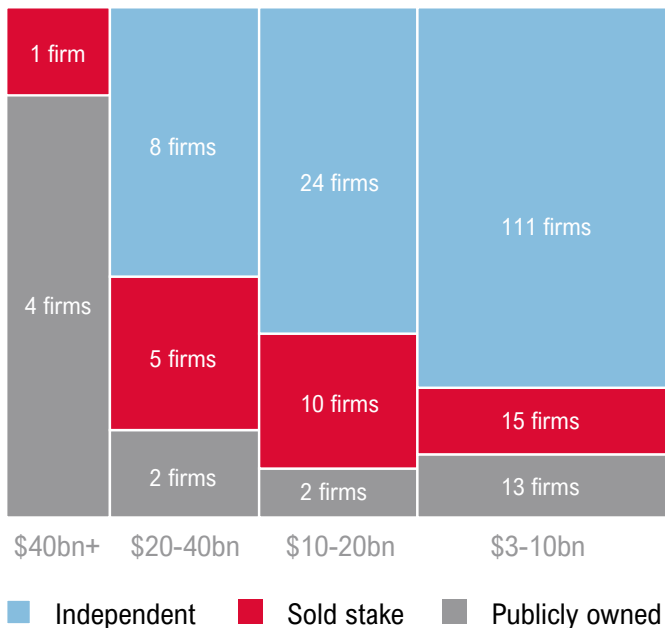
Source: Pitchbook (2020)

Across GPs of all sizes, the rise of GP stake funding allows for greater investment in teams, in new strategies and in new funds.

Critically, this will impact the industry in two ways. First, for those established GPs, it will help build the moats and walls around their operations, securing continued outperformance, and may keep them in that top 20 group over the longer term.

Ironically, however, it will also open up possibilities for the smaller GPs and disruptors who will provide fresh competition for the bigger firms. So, while on one hand there's an ongoing moat building, on the other there's a steady stream of challengers seeking to storm the castle. Indeed, we believe there will be a lot of growth in the GP seeding industry – those providing anchor capital to first time funds, taking a share of the GP's economics in return.

## GLOBAL PE FIRM AUM BY GP EQUITY OWNERSHIP STATUS



Source: Pitchbook (2020)

All of this makes for a heady environment in the years ahead, that will see the very nature of PE change, as GPs look to not only deliver top quartile performance, but build in resilience at the same time.

“ While on one hand there's an ongoing moat building, on the other there's a steady stream of challengers seeking to storm the castle ”

Not only has the value and number of GP stakes fundraising and deals increased – most notably since 2016 – so has investment in smaller GPs. There is no reason to believe this won't continue over the course of the next 10 years.

**The end of the traditional 10-year blind pool has been a subject of discussion within the PE industry for some time. Many professionals have expressed the opinion that the model would become obsolete, but few have offered a definitive view on exactly how (and when) it will happen.**

It all starts with the slaying of one of the ‘sacred cows’ of the private markets industry – the prohibition on related-party transactions. Transactions between vehicles managed by the same GP have recently exploded into acceptability, with massive consequences in terms of how GPs manage their businesses and will potentially completely reshape certain parts of the market.

It is worth considering the historical reality of the 10-year blind pool. Industry data shows clearly that 82% of PE funds from vintage years 2005-2009 are still active. So, while PE is often ‘sold’ as a 10-year industry, this is clearly not the whole story. GPs often need more time to maximise value from their portfolio companies and it’s difficult to always make that fit within a 10-year period, particularly when events get in the way.

One potential way of addressing this has been through the long-term fund. And while there have been certain funds using this strategy, it’s a relatively small phenomenon – accounting for less than 2% of total PE fundraising from 2016-2020.

### **The growth of single-asset transactions**

Where there has been serious growth, however, is in the GP-led secondary industry. On one hand through continuation funds, and on the other through single-asset transactions – selling whole funds to yourself or selling one or two of your assets to yourself. In particular, single-asset transactions have made a huge impact on the market recently – according to Secondaries Investor, single-asset transactions accounted for more than 30% of the GP-led transactions market in 2020.

Executing a related-party transaction was previously seen as completely off limits, because of the potential for creating an unmanageable conflict. Yet now, LPs and GPs alike are beginning to understand that these transactions are not only manageable, but can actually represent a win-win for all parties involved.

For GPs, there are a number of significant benefits – not least that they get to hold star assets for longer; and they avoid playing into the hands of their competitors by selling them high quality businesses.

The benefits for LPs are equally significant. They get to benefit from the full value creation envisaged by the GP’s business plan for the asset. Costs to the LP are also reduced as related-party transactions are considerably cheaper than doing an IPO or a SPAC, for instance.

“

...minority stake price setters will emerge as an entirely new industry...”

### Direction of travel

As with any relatively new trend, however, it's natural to question whether related-party transactions can gain real traction – particularly in an industry that has largely adhered to tried and tested ways of operating.

With the caveat that such transactions need to be managed in the right way – we, at Rede, feel that the drivers and the benefits create compelling reasons for believing that this trend is going to continue. And that GP-led secondaries will grow substantially and rival sponsor-to-sponsor volume.

At the moment, the GP-led secondary market accounts for about \$30bn in total, whereas the total for transactions where GPs sell to other GPs is just shy of \$200bn. Considering that many GPs, given the choice, would probably rather sell assets to themselves rather than to another GP, we expect that gap to close quite dramatically in the years ahead – with related-party transactions almost becoming a standardised part of the fund architecture and the way GPs do business.

This in itself is going to have major consequences. Firstly, the 'blind' part of the 10-year blind pool is going to disappear. LPs will be investing with GPs in part because of who they are, but also in part because of what they already own and what they will be expected to transfer into the new vehicle. This is a fairly radical change.

Secondly, in order to avoid conflict, related-party transaction processes will not only become standardised, they will also be 'policed'. While LP Advisory Committees (LPACs) have always had a role in conflict management, it has always been a fairly modest role because those conflicts didn't arise too frequently. As these transactions become more commonplace, however, LPACs will have a very important role in policing them or will find a way of outsourcing the responsibility to some other body.

This close monitoring of related-party transactions will create a virtuous circle as both GPs and LPs will have increasing confidence in their use.





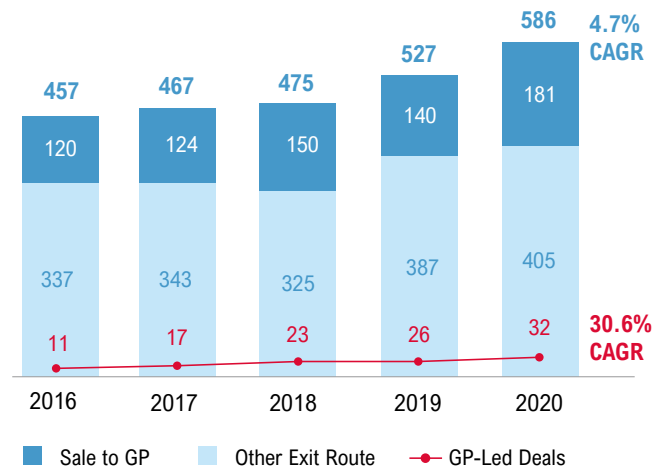
“

**LPs will be investing with GPs in part because of what they already own and what they will be expected to transfer into the new vehicle”**

On a tangential note, setting the price for these kinds of transactions is tricky and open to concerns about conflict of interest – GPs shouldn’t be allowed to ‘mark their own homework’ when determining the price at which an asset transfers from one of their investment vehicles to another. It can be useful in these situations to have a third party investor come in to the transaction as a minority stake holder, acting as external validation for the transfer price. At the moment, the universe of people who can actually undertake that is still relatively limited. We believe that as a result of the rise of related party transactions, we will separately see a new class of investors emerge who invest in price-setting minority stakes alongside lead GPs.

The acceptance and growth of these transactions – as previously long-held barriers are broken down – will create a paradigm shift in PE, that will do away with the 10-year blind pool model. This can only be a good thing as it gives both GPs and LPs increased options when it comes to investing.

**PE EXITS VS. GP-LEDS (\$BN)**



Source: Preqin (Asset Class – All PE, Global, Fund Size >\$100m)

### Consequences of change

**Greater visibility for LPs committing to new funds**



**Increased importance of LPACs in policing related party transactions**



**Rise of a whole new class of minority stake price setters**



**One of President Joe Biden's first actions upon assuming office in January this year was to sign the US back up to the Paris Agreement. As at July 2021, 191 of the 197 parties signed up to the convention had ratified its terms, which include limiting global warming to below two degrees compared to pre – industrial levels.**

Notably, President Biden also blocked the Keystone XL pipeline, which would have brought oil from Canada to the US to be refined – and has moved to halt oil and gas drilling at two national monument locations in Utah.

There are two things to consider here. First, the importance that governments around the world are placing on mitigating the climate crisis. And second, just how the appetite for certain industry sectors can shift over time. Indeed, looking at PE alone, it's notable how oil and gas has gone from being one of the hottest sectors, 10 years ago, to being almost uninvestable now.

Conversely, 'impact' or sustainability-focused investment has been garnering increased attention for a number of years now – moving ever more into the mainstream. And it would appear that this trend is only set to grow.

We believe that carbon usage will be a key economic driver over the next decade. World leaders are already setting clear target dates for reaching carbon net zero. Underpinning these goals are a series of increasingly incentives and penalties that authorities will introduce in the years ahead. Companies can benefit from incentives, but will also be forced to change their practices around issues such as carbon emissions and use of plastics in order to avoid breaking the law.

While the move towards carbon neutrality and compliance with sustainability regulation will be essential, it isn't without distinct challenges. Moving forward, carbon debt looks set to be as relevant over the next 10 years as technology debt – carbon debt being the difference between the amount of carbon dioxide produced by a company and the amount that it offsets. We are already seeing this in relation to the oil and gas sector but we expect carbon debt management will soon become a vital part of managing any business.



“

**A decade ago, SaaS companies were typically valued around 3x revenues...these are now above 11x revenues today. There is no reason to believe this will not happen again with companies that address climate in the right way”**

Company CEOs already see this as a big problem, with recent research showing that 64% believe the economics of operating at net zero don't stack up for their organisations. Yet they know managing climate-related risks is an issue that must be dealt with – with 78% of UK CEOs saying it will play a part in whether they keep their jobs over the next five years.

It's against this backdrop that both GPs and LPs need to consider present and future investment decisions – along with how certain markets are changing.

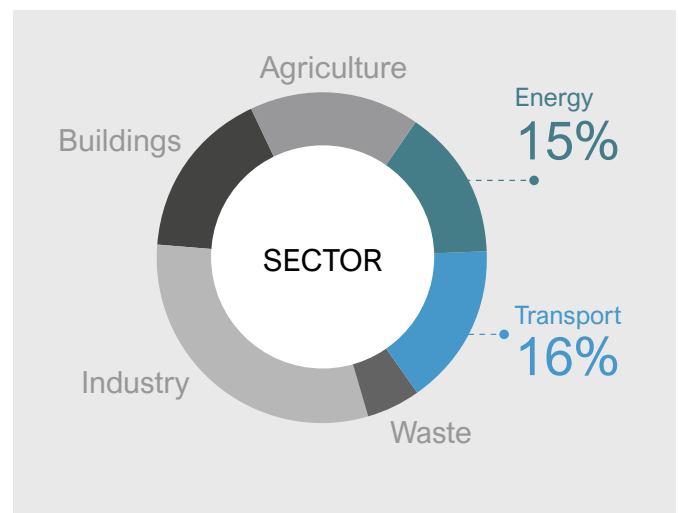
Within energy, for example, the cost of renewables has fallen dramatically, making it increasingly economically viable. Between 2009 and 2019, the price of solar energy fell by 89%, and the relative price has flipped versus coal – a new coal plant today would need to charge a higher price than a solar plant to break even. This is a dramatic shift.

Similarly, huge progress has been made in transportation, especially in the manufacture of electric cars. The rise in the Tesla share price – from \$112 in April 2020 to \$683 a year later – is indicative of the significant role that electric cars will play in helping reduce global greenhouse gas emissions.

However, energy and transport only account for 31% of those greenhouse gas emissions – other major areas of the economy from agriculture to manufacturing also have a critical role to play, yet their journey has only just begun. This obviously creates a massive opportunity for PE.

And this type of opportunity is something that PE has witnessed before. A decade ago, SaaS companies were typically valued around 3x revenues, which, at the time, was viewed by many as being extremely expensive. These are now above 11x revenues today. There is no reason to believe that this will not happen again with all companies that address climate in the right way.

#### GLOBAL GREENHOUSE GAS EMISSIONS



Source: Signals – Jeff Desjardins (2020)



**In the previous sections of this report, we identified four trends that will transform the PE landscape in the coming decade, and which primarily spoke to the continued success of an industry which has grown significantly over the past decade. But with greater success comes increased scrutiny – and PE may well experience some downsides as a result.**

“**...with greater success comes increased scrutiny...**”

While we have predicted a huge increase in private AUM; democratisation and broadened access to PE for quasi-retail investors; and PE groups making money and gains out of visible issues such as the climate and sustainability; this will also lead to ‘tall poppy syndrome’ with greater government oversight an inevitable consequence.

Ever since the global financial crisis, there has been a worldwide shift towards greater regulation and increased transparency across the entire spectrum of financial

services. Consequentially, as PE becomes more widespread and more widely adopted – with the man or woman on the street increasingly having exposure to PE via their pension, for instance – authorities will want to ensure that as many safeguards are in place as possible.

With this proliferation of PE also comes the risk of encountering a ‘bad actor’ – the potential emergence of a Bernie Madoff of PE. In the event of such a bad actor having a seriously negative impact on individual pensions, for instance, it is inevitable that the public and the media will look to appoint blame on the PE industry and make accusations of unchecked greed.

All of this will increase scrutiny and regulation, which could eventually lead to the end of privacy as we know it in the private markets.

As PE’s profile is increased, privacy could well be eroded because of shifts in four key areas:

- Transparency and reporting will put pressure on the patient long-term capital approach of private markets
- Regulation and compliance will increase costs and the friction within deal-making and ownership
- Visibility and scrutiny will create greater reputational risk for individuals and firms, with scrutiny around pay and rewards
- The spotlight of tax policy on carried interest will intensify, requiring firms to think hard about how they structure, align and remunerate their teams.

#### Expected consequences of growth in private markets

Transparency and reporting



Regulation and compliance



Visibility and scrutiny



The spotlight of tax policy



## Feeling the pressure

So, what does all this mean for GPs? With regards to organisational structure, PE firms will have to bolster not only their compliance resource, but also their in-house communication departments to ensure that everyone is singing from the same, compliant hymn sheet.

Diversity and inclusion will no longer be a nice to have, LPs will absolutely demand it. And new frontiers of diversity will be required – not just in areas such as gender and race, but also socio-economically and in neurodiversity.

“ Diversity and inclusion will no longer be a nice to have, LPs will absolutely demand it,”

Incentivisation will come under the microscope, and new approaches to talent recruitment and retention will emerge, while scrutiny of GP ownership and economics will increase.

And finally, in sustainability and ethics, GPs will need to be on the front foot with their corporate body language – ESG alignment will be incorporated in remuneration policies and GPs generally will have to be on the right side of public opinion.

A lack of attention to these areas could ultimately lead to a new equilibrium as the benefits of private ownership are eroded. Indeed, it's likely that in the drive towards greater oversight, some of the unique characteristics of private markets may be lost.

Take, for example, if there were to be a shift in the long-term focus from patient capital to quarterly NAV uplift. Similarly, scrutiny of fees and rewards may create a shift from a well-aligned reward structure to pressure on pay and fees. And then consider one of the key characteristics of PE firms being nimble and acting quickly, running lean, entrepreneurial teams. Under greater oversight, GP organisations risk becoming more bureaucratic to deal with – with increased regulation and visibility creating costs and fee drag.

Despite the outstanding opportunities that are anticipated to come along in the next 10 years, PE needs to make sure that, because of increased oversight, it doesn't become generic. Those within the industry need to fight for what makes PE distinct and great at what it achieves for investors. Otherwise, there is a risk some of the things that make PE attractive from a value creation and performance standpoint could be undermined.

Celebrating **10**  
2011-2021



---

**UK office: 110 Park Street, London W1K 6NX | +44 20 7952 2460**

**US office: Suite 408, 1270 Avenue of the Americas, New York, NY 10020 | +1 (212) 224 8220**

**[info@rede-partners.com](mailto:info@rede-partners.com)**

---

Rede Partners LLP is a limited liability partnership registered in England and Wales with registered office at 3rd Floor, 110 Park Street, London W1K 6NX (Registered No.OC361093). Rede Partners LLP is authorised and regulated by the Financial Conduct Authority.

Rede Partners (Americas) LLC is a limited liability company registered in Delaware with registered office at Suite 408, 1270 Avenue of the Americas, New York 10020. Rede Partners (Americas) LLC is a registered broker-dealer with the U.S. Securities and Exchange Commission and various U.S. state securities administrators and is a member in good standing of FINRA and the Securities Investor Protection Corporation.