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July 2025

Macro Insight

Private Equity: Where Does Smart Capital Go from Here?

A Multi-Thematic Approach

For Institutional and Accredited Investors Only

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Foreword

Private Equity: Where Does Smart Capital Go from Here?

Private equity is not in retreat — it is recalibrating. As fundraising cycles lengthen and exit windows narrow, capital is moving with greater deliberation. Investors are navigating mounting constraints around liquidity and valuations. In this environment, thoughtful deployment, structural flexibility, and disciplined underwriting have become critical to long-term success.

This thought piece is anchored in a simple yet timely principle: clarity emerges not by reacting to noise, but by recognising secular shifts and adapting with rigour. Rather than offering a single outlook, we explore the tools, themes, and regional dynamics that are reshaping private equity portfolios today.

The first section examines how private equity is responding to slower distributions and rising demand for liquidity. We explore the growing role of secondaries, the resilience of mid-market strategies, and how evergreen and semi-liquid structures are unlocking new pathways into private markets.

The second section presents perspectives and thematic insights from our asset management companies.

Starting with Azalea, the write-up explores multi-manager approaches spanning buyouts, growth equity, venture capital, and sustainability. It highlights the role of co-investments, secondaries, and mid-market GPs in navigating today's complex environment, while showcasing how retail-focussed innovations like the Astrea platform are broadening access to private equity.

Turning to Fullerton, we examine decarbonisation in Asia as compelling and underexplored lens for private equity allocation.

SeaTown discusses the strategic potential of buy-and-build strategies, particularly in ASEAN, where platform consolidation and operational control offer meaningful advantages.

InnoVen Capital adds a complementary perspective, positioning venture debt as a minimally dilutive entry point into the private capital stack – offering downside protection with equity-linked upside through warrants.

To close, we offer key considerations around private equity portfolio construction, including pacing, liquidity, and strategic allocation. These are not prescriptive formulas but prompts for thoughtful integration within broader portfolio frameworks.

We hope these insights provide a useful foundation for allocators and advisers seeking to engage private equity with greater clarity, discipline, and conviction.

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Private Equity: Where Does Smart Capital Go from Here?

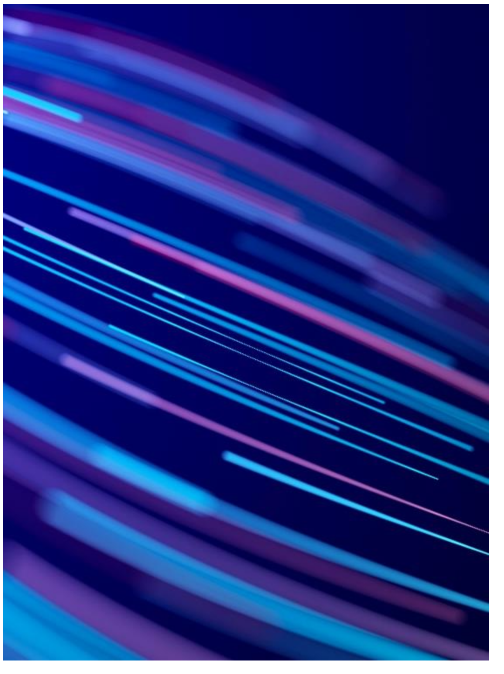
The global private equity landscape is evolving, not retreating. Amid tighter liquidity, delayed exits, and rising allocator scrutiny, the asset class is shifting toward more disciplined and deliberate capital deployment. Despite persistent fundraising headwinds, the industry is adapting through innovative tools, sharper strategies, and renewed attention to long-term fundamentals.

We observe several key forces shaping the path forward:

- Liquidity drives structural innovation: As distributions lag, General Partners ("GPs") are increasingly relying on NAV loans, continuation vehicles ("CVs"), and other liquidity tools to manage cash flow and fund lifecycles. While these mechanisms offer relief, they also heighten the need for transparency, valuation discipline, and strong investor alignment.

- Secondaries and mid-market strategies step up: Secondaries provide faster Distributed to Paid-In Capital ("DPI") and value creation. Mid-market private equity is emerging as a compelling investment opportunity in the current environment due to attractive entry multiples, lower leverage, operational value creation, and broader exit optionality.

- Regional deployment is more deliberate: North America remains a core allocation but is approached with more selectivity. Europe has held steady, attracting interest through industrial carve-outs and energy themes. Asia-Pacific is resetting — not retreating — as allocators favour differentiated managers and market-specific theses.



As the private equity cycle matures, the fundamentals that underpinned a decade of expansion are being tested. The following analysis examines key macro trends impacting the asset class — from tightening fundraising and stalled exits to shifting regional flows and the rising influence of sovereign and private wealth. While headwinds are apparent, they are also catalysing a transition toward more disciplined capital deployment and structural innovation.

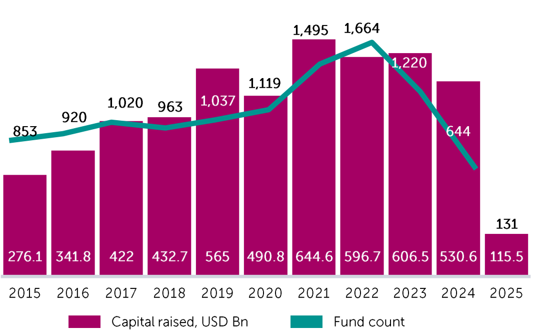
In the Market's Wake

1. **Fundraising Decline**
2. **A More Cautious Exit Cycle**
3. **A Liquidity Squeeze Takes Shape**
4. **Secondaries: No Longer the Back Door**
5. **Mid-Markets: The New Frontier of Private Equity?**
6. **Evergreens and Semi-Liquids**
7. **Regional Developments in Private Equity Allocations**
8. **Sustainability: A Recalibration – Same Destination, Clearer Route**

1. Fundraising Decline

Private equity fundraising continues to decline in 2025, particularly across buyout, growth, diversified PE, and turnaround strategies, as defined by PitchBook. In Q1 2025, 131 funds raised US$115.5 billion globally, down from US$178.8 billion in Q1 2024[1]. The annualised total is on track to underperform an already muted 2024. Both fund count and capital raised have declined for four consecutive quarters on a rolling 12-month basis[1], signalling a sustained correction rather than a temporary dip (see Figure 1).

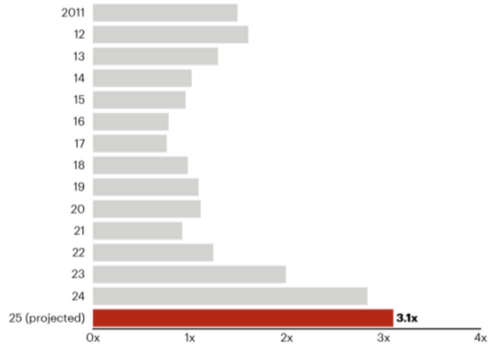
Figure 1: Global PE Fundraising Activity



Source: PitchBook, 2025
Note: Data excludes secondaries, fund-of-funds (FoFs), and co-investments. Source: PitchBook.

The gap between fundraising ambition and actual closings has also widened to historic levels. Bain & Company notes that this imbalance is becoming more pronounced across private capital — a broader universe that includes private equity, private credit, infrastructure, and real assets. At the start of 2025, the ratio of capital being targeted to what is expected to be closed by year-end stands at 3.1 times, the highest in more than a decade (see Figure 2). More than 18,000 private capital funds are currently on the road, collectively seeking nearly US$3.3 trillion[2]. Yet none of the buyout funds that closed in Q1 2025 raised more than US$5 billion, suggesting that even well-established GPs are facing extended timelines or downsizing[2].

Figure 2: Ratio of Private Capital Sought at Start of Year to Funds Closed in Year



Source: Bain & Company, 2025, Projections based on data as of April

Fundraising timelines show a fragmented picture. PitchBook data indicates that in Q1 2025, the median time to close a private equity fund fell to 13 months, down from 17 months in 2024 — a potential signal of increased fundraising efficiency. But this improvement is far from broad-based[1]. Beneath the median, many managers continue to face prolonged timelines and uncertain outcomes, highlighting a growing divide between the top-tier and the rest.

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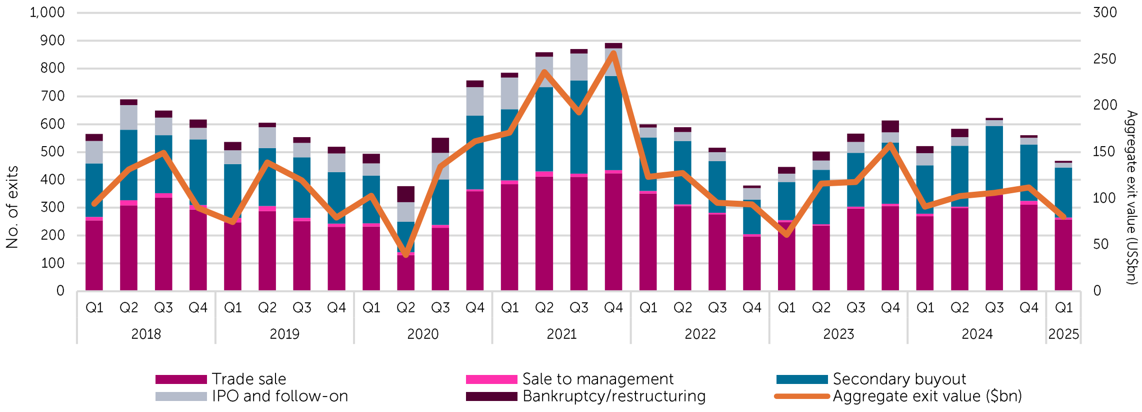
2. A More Cautious Exit Cycle

Private equity exit activity reached a record high in 2021, driven by ultra-low interest rates, favourable capital markets, and pent-up M&A demand. In 2022, exit volumes and values tumbled sharply, with Q4 buyout exit value falling to just US$93.6 billion — a dramatic correction from 2021's peaks[3]. The pullback was driven by rising interest rates, valuation mismatches, and tighter credit conditions. Sponsors held off on exits, IPOs collapsed, and Limited Partners ("LPs") saw slower distributions (see Figure 3).

Figure 3: Exit remain slow compared with 2021



Source: Private Equity Q1 2025: Preqin Quarterly Update

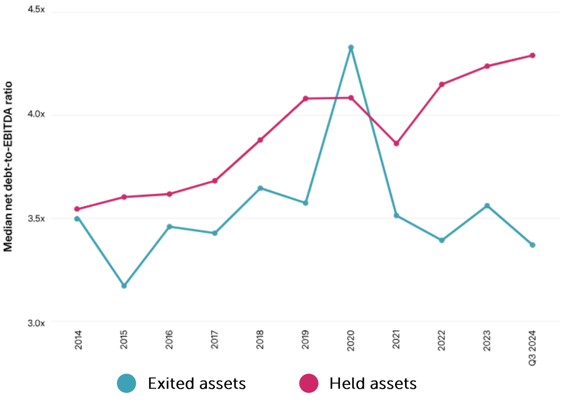
Exits are often delayed as GPs hold onto assets longer, especially when valuation expectations diverge between buyers and sellers. This was particularly evident from mid-2022 through early 2023, when dealmaking slowed dramatically. According to Preqin, buyout-backed exits declined by 43% in aggregate value and 33% in transaction volume from their 2021 peak[3]. This slowdown occurred across all regions, reflecting a global deceleration in PE exit activity. In Q1 2025, the trend continued, with aggregate buyout exit value falling to US$80.2 billion — a two-year low[3]. The IPO window remains narrow, reinforcing a shift toward negotiated exits such as sponsor-to-sponsor deals, continuation funds, and strategic trade sales.

GPs Exiting Higher Quality Assets

Between 2022 and Q3 2024, a discernible shift emerged in exit dynamics. As shown in Figure 4, assets brought to market were typically less leveraged — with median net debt-to-EBITDA ratios in the low-to-mid 3x range — while those still held in portfolios saw leverage rise steadily to 4.3x[4]. Operationally, these exited assets also showed stronger performance, with positive EBITDA margin expansion of up to 1.5 percentage points[4]. By contrast, retained assets experienced median margin erosion of up to 1.4 points, yet continue to be carried at relatively higher valuation multiples — pointing to a growing mismatch between pricing and fundamentals [4].

While these data points are not directly linked to the broader exit slowdown (Figure 3), they offer a compelling subplot: in a constrained liquidity environment, exited assets are of higher quality.

Figure 4: Exited Assets Carried Lower Leverage Than Held Assets



Source: MSCI Private Capital Universe, 2025

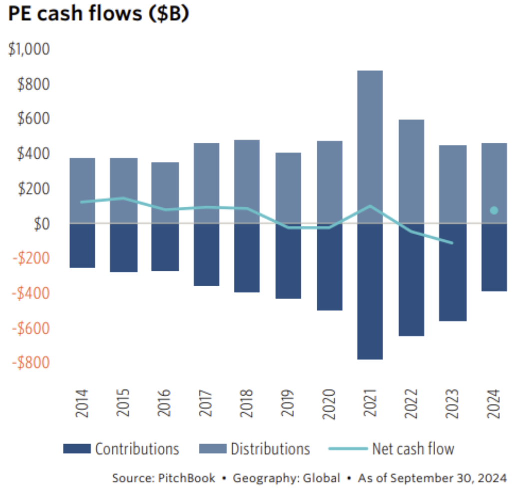
3. A Liquidity Squeeze Takes Shape

Exits are not just milestones — they are a vital source of fund liquidity. When exits stall, distributions to LPs slow, DPI progress weakens, and fund life stretches longer. This bottleneck has downstream effects on fundraising, as LPs become constrained by unreturned capital and reduced capacity to recycle commitments.

The Net Cash Flow Crunch

One of the clearest signals of this strain is the prolonged stretch of negative net cash flows from primary PE funds[1]. As shown in Figure 5, capital calls have exceeded distributions for most of the past five years, reversing the typical distribution-heavy profile expected of mature funds.

Figure 5: Net Cash Flows Remain Negative as Distributions Lag Contributions



Source: Pitchbook, 2025

While part of this may reflect the natural J-curve of newer vintages, the persistence and magnitude of net outflows suggest something deeper: a liquidity imbalance driven by delayed exits and sluggish realisations. For LPs, this raises portfolio planning challenges — fewer distributions to recycle, increased reliance on secondaries, and tougher decisions around re-ups.

Rather than framing this purely as a temporary setback, the data points to a broader recalibration of liquidity expectations in PE. In a more constrained environment, capital is staying trapped longer — and that changes how investors navigate pacing, allocation, and even fund selection.

Alternative Exit Avenues

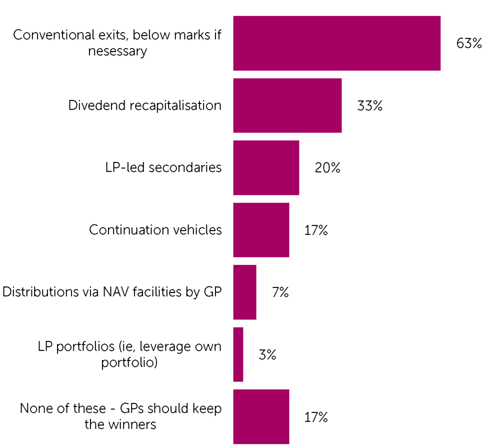
This dynamic is increasingly steering GPs toward structured liquidity solutions. According to S&P, many funds are turning to NAV-based lending and other fund-level facilities as interim tools to navigate the drought in traditional exits[5]. These mechanisms provide short-term relief but also add complexity and leverage — substituting exit friction with balance sheet risk.

Meanwhile, LPs are signalling greater flexibility. As shown in Figure 6, a Private Funds CFO survey found that over 60% would accept lower returns on exit in exchange for faster distributions[6]. This highlights a growing misalignment in priorities. GPs are holding out to preserve headline valuations, while LPs facing their own liquidity constraints are pushing for quicker capital recycling.

In response, GPs are again turning to alternative exit strategies, as outlined earlier, such as NAV loans, continuation vehicles, and subscription lines that allow partial distributions without markdowns. These structures offer breathing room but raise questions around long-term transparency and alignment of interests.

Figure 6: LPs will put up with lower exit prices

PE investors' preferred liquidity solutions (% of respondents)



Source: Private Funds CFO, 2025

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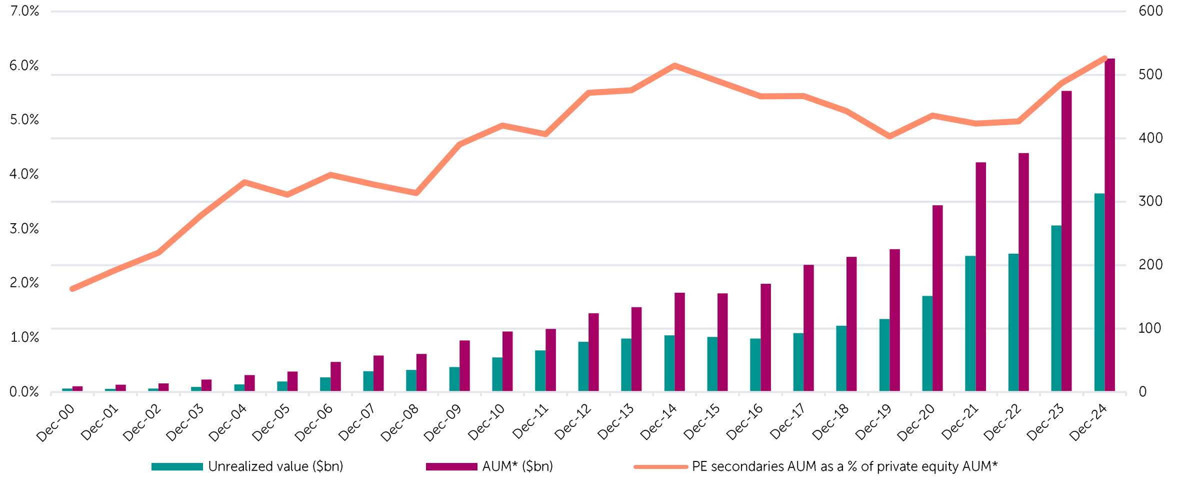
4. Secondaries: No Longer the Back Door

As traditional exits stall and liquidity pressures build, secondaries have shifted from a niche solution to a more mainstream tool for unlocking capital in a constrained market. Over time, they have matured into a strategic mechanism for investors — offering timely capital deployment and more targeted portfolio construction.

Secondaries now represent 6.1% of global private equity AUM, totalling US$525.8 billion as of December 2024 (see Figure 7)[7].

That's a sharp rise from just 1.9% in 2000, according to Preqin — underscoring the space's expansion[7]. Perhaps more importantly, their role is evolving. While secondaries were once seen primarily to offload legacy or less strategic positions, they are increasingly viewed as an effective route for gaining tailored access — especially among private wealth investors seeking vintage-diversified exposure without the burden of capital calls or long J-curves.

Figure 7: Secondaries have stabilised as a percentage of private equity



Source: Preqin Pro. Data as of July 2025. Private equity AUM excludes venture capital

This growing appeal is translating into fundraising momentum. While traditional buyout funds have struggled to scale — with Bain noting that most are finding it difficult to raise above US$5 billion — the secondaries market appears more resilient. According to Secondaries Investor, fundraising reached US$80.8 billion in H1 2025 alone[8]. Even after excluding a US$30 billion outlier fund, the adjusted total of roughly US$50 billion still suggests robust allocator interest[8].

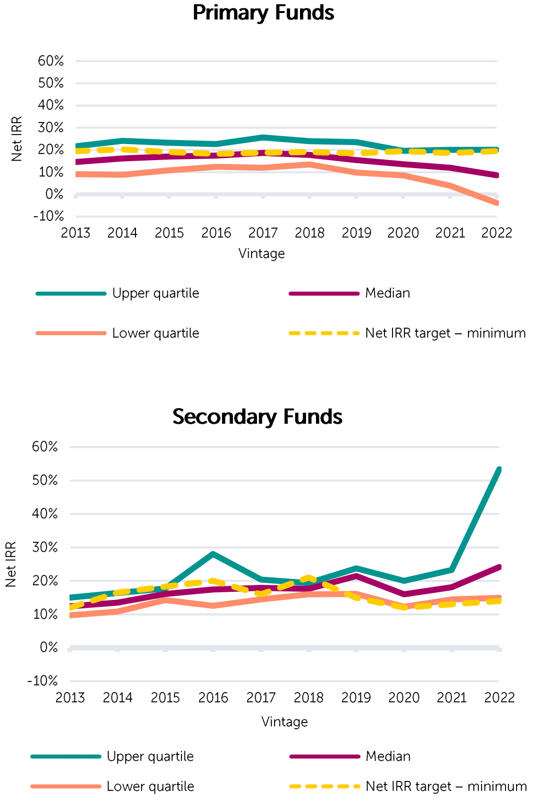
The contrast is telling. At a time when many LPs remain cautious about locking up capital in long-duration vehicles, secondaries offer a nimbler entry point: faster deployment, vintage diversification, and a clearer liquidity profile. It reflects how secondaries are no longer just reactive tools for portfolio clean-up — they are now proactive allocations shaped by shifting priorities across the capital stack.

Delivering on the Numbers

While secondaries have garnered attention for their structural advantages, their performance profile further reinforces their appeal.

GP-led secondaries have consistently posted median internal rates of return ("IRRs") in the mid-to-high teens across vintages since 2013, with lower quartile funds seldom dipping into single digits[10]. This stands in contrast to primary PE funds, where lower quartile IRRs have been more volatile and have fallen below net IRR targets more frequently, particularly in post-2017 vintages[9]. This narrower dispersion in secondaries suggests a more dependable return profile — likely due to greater visibility into maturing assets, shorter J-curves, and enhanced diversification (see Figure 8).

Figure 8: IRR Dispersion vs Target Minimum for Primary and GP-Led Secondary Funds by Vintage Year

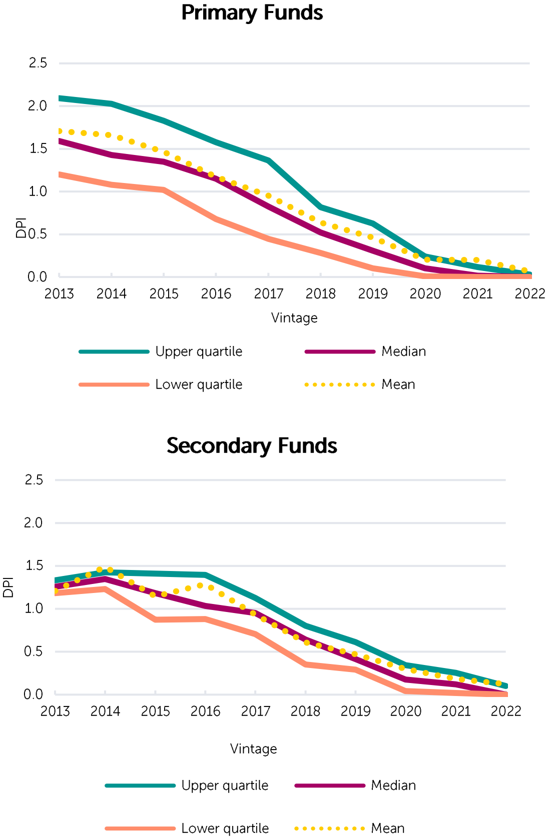


Source: Preqin – "Secondaries in 2025" ,2025

The pattern extends to DPI. Since 2013, secondaries have generally returned capital more reliably across all quartiles[9]. Even vintages affected by recent market dislocations saw lower quartile secondaries funds generate some DPI, whereas primary PE funds in comparable vintages (post-2018) reported little to no capital returned[9]. For investors prioritising tangible liquidity over paper gains, this distinction is becoming increasingly relevant (see Figure 9).

With LPs sharpening their focus on cash outcomes, secondaries stand out for their ability to deliver realised returns with greater consistency. That dynamic continues to shape their role in long-term portfolio construction[9].

Figure 9: DPI Dispersion Across Vintage Years — Comparing Primary and GP-Led Secondary Funds



Source: Preqin – "Secondaries in 2025" ,2025

5. Mid-Markets: The New Frontier of Private Equity?

In the Private Equity space, mid-market refers to funds focusing on acquiring and growing mid-sized businesses, typically with enterprise values below US$1bn. . Mid-market strategies are attractive because they focus on profitable yet under-optimised businesses — often founder-led, under-institutionalised, and operating in fragmented sectors across industries like B2B services, healthcare, and industrials. These firms lack scale but offer clear opportunities for hands-on value creation through operational improvements rather than just financial engineering.

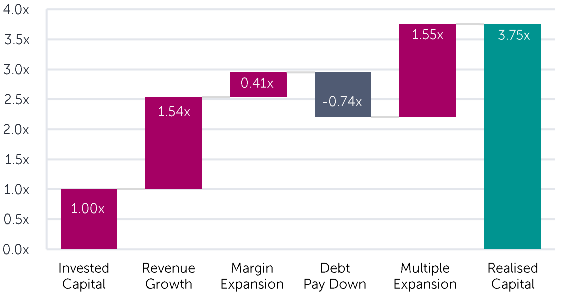
Buy-and-build strategies enable consolidation within sectors, allowing investors to create platforms that unlock synergy, accelerate revenue, and grow enterprise value. By acquiring smaller businesses at lower multiples and integrating them into a larger platform, GPs benefit from multiple arbitrage — buying low and exiting high. These strategies also deliver operational efficiencies, broaden customer bases, and diversify risk. Deals are often accessed at more reasonable valuations through proprietary sourcing, bypassing the competitive auction dynamics seen in large-cap transactions.

Pricing Discipline and Operating Leverage

One of the most compelling advantages of mid-market private equity lies in GPs that generate returns through value creation at the company level — not simply through financial engineering or market beta. According to CAIA, a Preqin study examining deals from 2006 to 2019 found that revenue growth accounted for 1.54x of value creation in mid-market transactions, nearly double the 0.80x contribution[10] in large-cap buyouts (Refer to Figure 10).

This reflects the operational nature of mid-market investing. The results speak for themselves. Realised capital multiples for mid-market deals averaged 3.75x, compared to 3.2x for large-cap buyouts over the same period[10]. In a world where multiple expansion is no longer a given, the ability to drive organic and strategic growth is not just a differentiator — it's becoming the defining edge.

Figure 10: Return drivers for Middle Market Buyouts (2006 – 2019)



Source: CAIA, 2024. Data compiled as of February 29, 2024

Exit Flexibility and Liquidity Advantage

Mid-market strategies also often have better exit flexibility. According to FS Investments, from 2018 to 2022, nearly 97% of mid-market exits were achieved through strategic acquisitions or sales to larger private equity sponsors, with minimal reliance on IPO markets[11].

This is particularly relevant in today's environment. With public listing windows remaining narrow and valuation mismatches persisting, mid-market managers continue to find viable paths to liquidity. Shorter holding periods compared to large-cap buyouts support more consistent DPI realisation and capital recycling. For LPs facing slower distributions across their portfolios, this liquidity profile enhances the role of mid-market strategies — not just as return generators, but as contributors to portfolio cash flow.

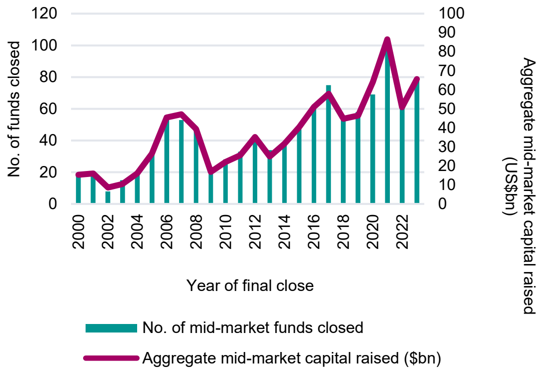
Growing Investor Momentum

Investor demand for mid-market strategies has grown steadily in recent years. As shown in Figure 11, private equity investors have shown consistent interest in these strategies. Since 2000, mid-market funds have raised more capital and delivered greater aggregate value, with 2023 marking a particularly strong year[12].

While many mid-market funds maintain diversified strategies, others specialise by sector. Regardless of approach, they help bridge the capital gap between small enterprises and large corporations — enabling professionalisation, scale, and long-term growth.

Figure 11: Mid-market funds raised more funds by number and value in 2023

Mid-market private equity historic fundraising

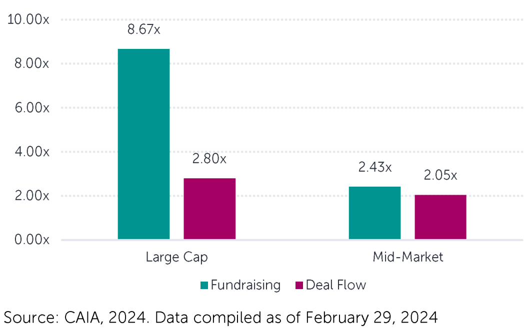


Source: Preqin Private Equity Global Report, 2024

Mid Market Strategies to Complement Large-Cap Buyouts

Although the appeal of mid market buyouts continues to accelerate, large cap buyouts continue to command the bulk of investors' capital. From 2011 to 2023, large-cap fundraising grew by 8.67 times, while deal flow increased by only 2.8 times[10]. In contrast, mid-market fundraising and deal flow expanded at a more measured pace, at 2.43 and 2.05 times respectively (Figure 12)[10].

Figure 12: Fundraising far outpaces deal flow for large cap (2011 – 2023)



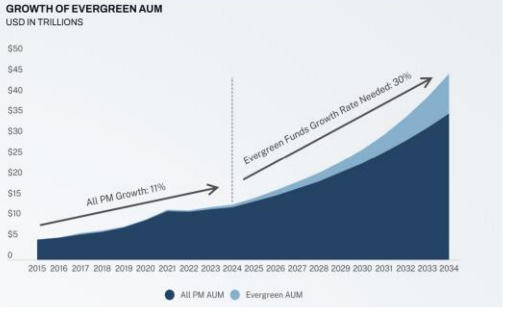
Source: CAIA, 2024. Data compiled as of February 29, 2024

In an environment where capital is harder to raise and performance expectations are rising, strategies grounded in value creation and operational leverage are drawing greater interest.

6. Evergreens and Semi-Liquids

Investor interest in evergreen and semi-liquid private equity (PE) funds has surged—from niche innovation to structural evolution. These open-ended vehicles now account for ~5% of total private markets AUM, or around US$700 billion[13]. Hamilton Lane projects that evergreen funds could reach 20% market share over the next decade, a fourfold expansion requiring aggressive capital formation, especially from new investor segments[13].

Figure 13: Growth of Evergreen AUM (USD in Trillions)

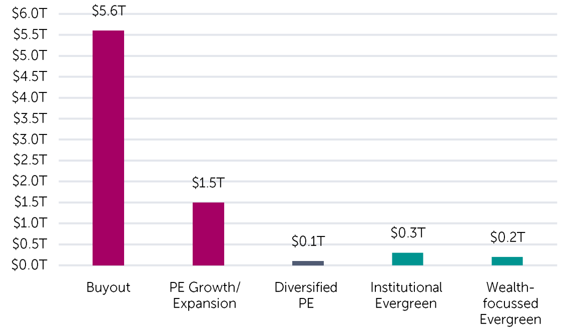


Source: Hamilton Lane, 2025

Retail-focussed evergreen funds are projected to grow from $70 billion to $220 billion by 2029, eventually representing 2.8% of total private equity AUM[14]. This puts them just behind institutional evergreen structures, which are expected to reach 3.6% of PE AUM over the same period[15]. Managers such as Golden Gate Capital serve traditional LPs through perpetual vehicles, while wealth-oriented offerings like Blackstone's Private Equity Strategies Fund package multiple strategies into a single, accessible structure tailored for HNWIs[15].

This shift is reflected in asset allocation forecasts. As shown in Figure 14, buyouts and growth equity remain dominant, but evergreen structures — across both institutional and private wealth channels — are steadily gaining ground.

Figure 14: Share of Base Case PE AUM (USD)



Source: Pitchbook, 2025

At the same time, wealth-focussed vehicles are driving a longer-term "wealth-ification" of private markets, expanding access and reshaping capital flows beyond the traditional institutional base.

As institutional dry powder slows and exit activity remains tepid, GPs are recalibrating their capital stack—pursuing permanent capital sources that offer fee durability, flexible NAV-based deployment, and broader distribution reach through wealth platforms and advisers.

How Evergreen Funds Work: Mechanics, Flexibility, and Liquidity Design

Evergreen funds are open-ended vehicles that allow investors to enter and exit at set intervals, typically monthly or quarterly, while remaining invested in long-term, illiquid private assets.

Unlike traditional PE drawdown funds with a fixed life and capital call structure, evergreen funds are fully funded upfront and continuously reinvest distributions—avoiding the stop-start deployment cycle of vintage-based investing.

Instead of raising commitments and calling capital over years, evergreen funds pool investor capital immediately, enabling instant exposure, compounding, and reinvestment. This structure removes the classic J-curve effect—where early returns are negative due to fees and uninvested capital—and enables smoother NAV progression over time.

Redemptions are allowed within predefined gates (often ~5% of NAV per quarter), but access is not guaranteed during market stress[16]. Liquidity is managed through cash buffers, liquid credit sleeves, and vintage diversification, allowing the portfolio to meet redemption needs without disrupting core holdings.

Evergreen portfolios are often built using a blend of primary, secondary, and co-investments, rebalanced continuously to maintain target exposures. This dynamic design contrasts with vintage-specific PE funds that deploy over a narrow window and harvest after 5–10 years.

Fee structures also differ across evergreen funds, which typically charge fees on NAV (rather than committed capital), and crystallise carry on realised gains or at periodic intervals—rather than waiting for the fund's full lifecycle.

In short, evergreen structures are designed for ongoing capital formation, continuous reinvestment, and periodic investor access—a model that aligns more closely with wealth channel preferences than institutional blind pools.

Risks and Trade-offs: What Evergreen Structures Don't Solve

While evergreen funds offer simplified access and periodic liquidity, they are not without their limitations. The flexibility they promise comes with trade-offs that require thoughtful consideration.

One key concern is the structural mismatch between liquid investor expectations and the illiquid nature of private equity assets. Evergreen funds typically offer monthly or quarterly liquidity. To manage redemptions, these funds often maintain a liquidity buffer, usually in the form of cash or liquid securities. While necessary, this cash reserve introduces a performance drag, particularly in rising markets where idle capital fails to compound at the same pace as invested assets.

Another challenge lies in valuation transparency. Evergreen vehicles typically update NAVs quarterly based on internal models rather than real-time market pricing. This opens the door to valuation smoothing, where drawdowns are delayed or muted, potentially misrepresenting portfolio risk during volatile periods.

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The Road Ahead: A Parallel Lane, Not a Replacement

Evergreen and semi-liquid funds are no longer fringe experiments—they are becoming an essential part of the private market toolkit. While they won't replace flagship closed-end funds, they offer a complementary pathway to access, scale, and capital resilience.

For GPs, they represent a way to build fee-stable, permanent capital platforms. For investors—especially in the private wealth channel—they offer a more intuitive and frictionless experience. But neither should view these structures as silver bullets.

The next phase of growth will depend on how well managers can balance liquidity with discipline, simplify without diluting, and educate a new class of investors entering private markets for the first time. The evolution of evergreen vehicles marks not just a new fund structure, but a new social contract between GPs and LPs—one built on continuous access, alignment, and adaptability.

7. Regional Developments in Private Equity Allocations

Global private equity assets have become increasingly diversified beyond the US. While US-focussed funds still account for the majority of global AUM at 52%, Asia, Europe, and the rest of the world have steadily gained ground[17]. The combined share of Asia and Europe has grown from 22% in 2000 to 45% in 2024[17]. Both regions have exhibited faster growth in AUM, with compound annual growth rates of 20.7% for Asia and 12.7% for Europe since 2000, compared to just 10.5% for the US over the same period[17].

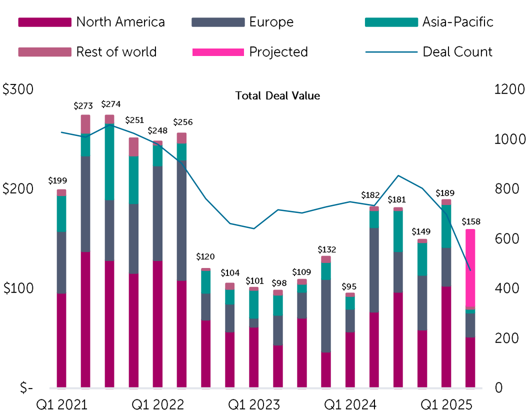
We expect these shifts to continue, driven less by strategic reallocation and more by navigating a fragmented global landscape shaped by local dislocations, policy divergence, and evolving risk preferences. This is not a retreat from globalisation. It is a retreat from generalisation. Regional exposure is becoming more intentional, and conviction is being rebuilt market by market — not through sweeping top-down calls.

North America and Europe: Still the Anchor, but the Winds Are Shifting

From Figure 15, it is evident that following the post-COVID surge in deal activity in 2021, buyout volumes began to decline between 2022 and 2024, amid growing macroeconomic uncertainty and rising interest rates. While Q1 2025 saw a brief recovery, the rebound was short-lived. Preliminary data and projections suggest that global deal value for Q2 2025 could settle around US$158 billion, the lowest since early 2023.

Regionally, this decline was led by North America, where deal value halved from US$103 billion in Q1 to US$52 billion in Q2 2025. Europe experienced a similarly sharp contraction, with deal value falling from US$39 billion to US$24 billion over the same period. While part of this slowdown may be attributed to Liberation Day disruptions affecting transaction timelines, the broader pullback reflects a more cautious and selective deployment pace across both regions.

Figure 15: Global buyout dealmaking lost momentum in the second quarter of 2025
Global buyout deal value, by region ($USbn)



Source: Bain Private Equity Midyear Report, 2025

However, we believe that North America and Europe remain the anchors of global private markets.

The Bar Has Been Raised for Developed Market GPs

In US, its depth, deal infrastructure, and mature GP base continue to offer scale advantages. Even amid cyclical softness, the US and Canada remain go-to markets for allocators seeking liquidity, governance standards, and sectoral breadth. GPs with strong sourcing networks and clear pricing discipline continue to attract capital, particularly in large-cap and mid-market segments where earnings visibility has stabilised.

This may suggest that capital is becoming more concentrated among a narrower set of GPs. Allocators appear to be shifting away from broad regional exposure, favouring managers with clearer differentiation and execution strength.

But allocators are engaging with the region differently. North America is no longer a reflexive overweight. Foreign LPs have begun scaling back or pausing new US commitments due to macro uncertainty and perceived saturation, according to Buyouts Insider[18]. To stand out, GPs need to demonstrate differentiated access to quality managers and strategies, backed by strong execution capabilities. In a more selective fundraising environment, allocators are prioritising partners with clear sourcing advantages, operational value-creation levers, and thoughtful deployment pacing, rather than broad-based exposure to US private equity.

In Europe, investors are leaning into complexity rather than chasing momentum, favouring situations that require structure, operational clarity, and thematic depth. Industrial carve-outs remain a key area of focus, accounting for 18.2 percent of European buyout deal value in Q3 2024, the region's highest share since 2019[19].

Infrastructure and energy transition strategies also continue to attract capital, supported by policy tailwinds and long-term investment demand. While broader market sentiment has softened in recent months, Europe's deal flow has held up through sponsor-to-sponsor trades and corporate divestitures. With IPO windows largely shut, many GPs are breaking up businesses into smaller units for sale or using continuation funds to manage liquidity and extend hold periods[20].

For GPs, succeeding in this environment means offering more than just regional exposure. Firms that can demonstrate differentiated access to complex carve-outs, specialised execution in energy or infrastructure, and clear operational value-creation plans are better positioned to earn allocator trust. In a cycle where resilience matters more than reach, precision and repeatability are becoming the new currency of conviction.

Asia-Pacific: No Longer the Easy Bet — Just the Harder One to Ignore

Asia-Pacific's private equity outlook is no longer defined by consistent growth or capital exuberance. What used to be a near-automatic overweight for global allocators is now a region under scrutiny. The past ten quarters paint a picture of volatility rather than structural momentum (see Figure 15).From a trough of US$8 billion in mid-2023, deal value in Asia rebounded steadily across four consecutive quarters, reaching US$43 billion in Q1 2025.

This was a high point that mirrored previous cycles of optimism. But the sharp collapse to just US$4 billion in Q2 2025 marked the steepest quarter-on-quarter decline among major regions — underscoring the fragility of allocator conviction when sentiment turns. This was mirrored in the deal value as well, with activity sliding to one of the lowest levels in years (see Figure 16).

However, with US tariff-related headwinds in 1H25, deal activity is expected to slow in the coming quarters. This volatility suggests that Asia is no longer driven by regional momentum or macro narratives alone. It is not that investors have abandoned the region, but rather that they are approaching it with greater discrimination. Allocators today are less inclined to take top-down bets on "Asia" as a monolith.

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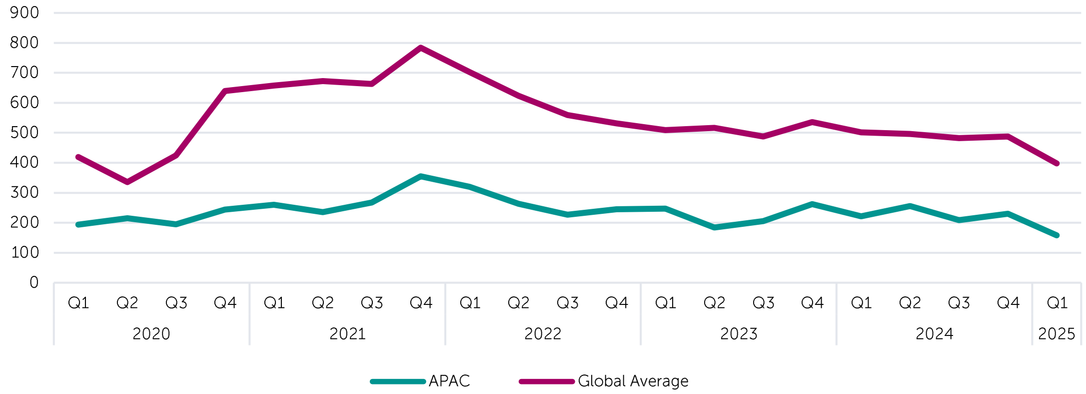
Figure 16: Private Equity Deal Volume: APAC vs Global Average (Q1 2020 – Q1 2025)



Source: Excerpt from Preqin Deal Flow Monitor Q1

Instead of exiting the region, investors are drilling deeper. They are focusing on specific themes, differentiated managers, and local market insight. The sharp correction may signal a reset rather than a retreat. Valuations have come down, forcing sellers to adjust expectations and creating a more attractive entry point for buyers with conviction and patience.

Pockets of resilience remain, even amid the broader decline. India was the only market in Asia to record double-digit growth in both deal value and deal count in 2024[22]. While overall sentiment has cooled, India's strong domestic demand, expanding tech ecosystem, and stable policy environment continue to support investor interest. Japan also stood out, with deal value exceeding three trillion-yen[23]. Activity there has been driven by corporate carve-outs, increased shareholder activism, and succession-driven transactions in family-owned businesses.

These trends do not cancel out the region's volatility, but they suggest that structural opportunities are still taking shape. In contrast, Southeast Asia and the broader region remain highly fragmented. There is no unifying macro narrative. China's ongoing reset continues to weigh on regional sentiment, and allocator interest has become more selective. In this environment, success depends less on top-down exposure and more on access. GPs need strong local networks, proprietary deal origination, and differentiated market intelligence to outperform.

Asia may be harder to navigate, but it remains relevant. Opportunities still exist for those who take a selective, engaged, and informed approach.

Private equity is no longer moving in lockstep. Allocators are recalibrating with greater care, shifting focus from broad regional exposure to where conviction is earned through precision and discipline

Success today depends on thoughtful sourcing, local insight, and the ability to build value through fundamentals rather than momentum. In a more selective environment, LPs can take confidence in managers who offer clarity, differentiated access, and consistency across cycles.

8. Sustainability: A Recalibration – Same Destination, Clearer Route

Political headwinds and shifting rulebooks have pushed some GPs to rethink how they present and execute their sustainability agendas.

In the United States, "anti-ESG" rhetoric and state-level legislation have made managers strip away the slogans and double-down on quality data, risk controls and clear value-creation levers.

Across the Atlantic, the European Union's "Omnibus" review is simplifying reporting requirements[24], leading some firms to pause, map their gaps and relaunch disclosures on a more predictable footing.

Yet the market's direction has not changed. When The People's Pension, one of the United Kingdom's largest schemes, moved roughly £28 billion away from a manager it believed was retreating on sustainability, capital spoke louder than politics[25].

Going forward, successful fundraising will depend on GPs' ability to customise their approach to satisfy divergent regulations while preserving a core set of measurable, financially material factors.

Financially Material Risks Still Matter

Private equity assets are generally held for five to ten years. The long duration nature of investments means unmanaged negative externalities have the potential to impact cash flows and exit multiples.

Climate transition costs, physical climate damage and shifting consumer preferences can erode revenue or strand assets over the investment period.

Opaque supply chains can expose portfolio companies to operational stoppages and reputational risk.

Meanwhile, governance lapses or cyber breaches can negatively impact equity value.
Ignoring these forces is no longer a viable option for any manager seeking resilient investment returns.

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Value Creation — Quiet Work, Real Uplift

While the headlines around sustainability have become quieter, the work behind the scenes has not.

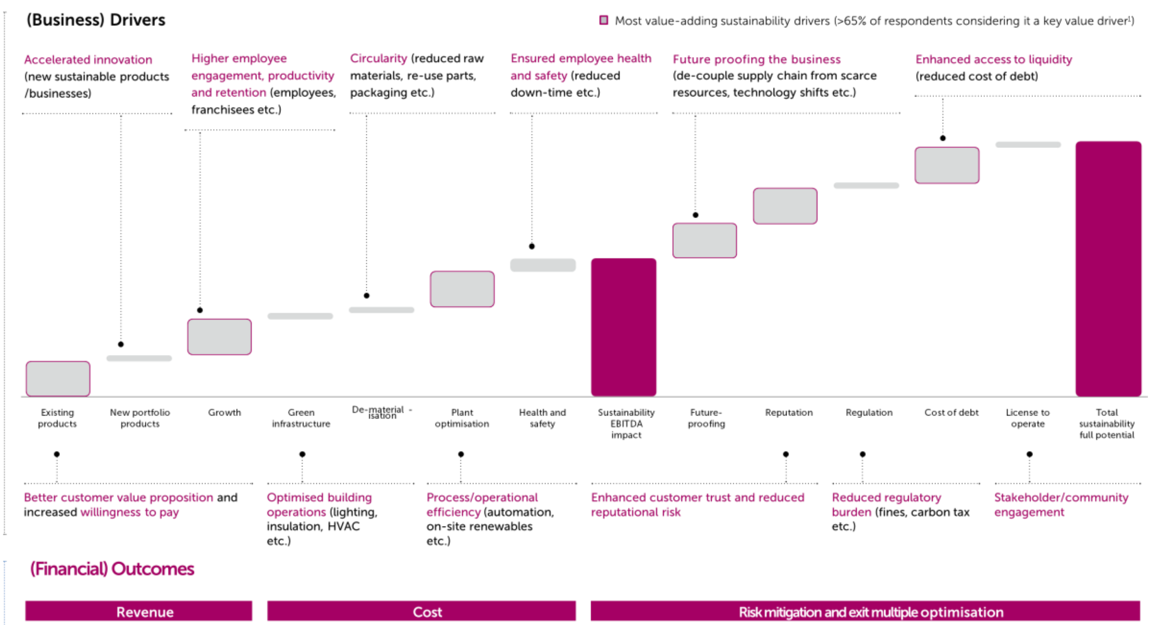
A 2025 study by PRI, NYU Stern and Bain found that 64 percent of private-equity managers now consider sustainability-linked value creation integral to their strategy[26].

Preparing portfolio companies for incoming ISSB-style disclosure mandates (already adopted or in motion across 36 jurisdictions representing more than half of global GDP) also boosts IPO readiness and streamlines secondary exits[27].

When woven into core operating plans, these levers increase revenue, cut costs, reduce downside risk and can improve asset valuation.

64%	+6-7%
of private equity firms see sustainability value creation as important to their strategy and operations	multiple uplift in estimated portfolio gains at exit resulting from sustainability efforts at portfolio companies

Figure 17: Survey on sustainability-linked value creation in private markets (N=85)



Source: PRI, NYU Stern CSB, Bain & Co. (2024)

From Rhetoric to Results

In this new phase, execution counts far more than labels. GPs that translate climate, cyber, supply-chain and governance imperatives into verifiable operating KPIs can protect capital, unlock upside and meet the evolving objectives of their investors. Those who convert resilience into measurable outcomes can set the benchmark for the next generation of top-quartile returns.

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In the Spotlight: Perspectives from Our Asset Management Companies (AMCs)

Azalea Investment Management

Private Equity: Where Does Smart Capital Go from Here?

Chue En Yaw
CEO & CIO
Azalea Investment Management

Our View on Private Equity

2024 began with uncertainty around inflation, monetary policy and geopolitical risks. Despite these macroeconomic uncertainties, global private equity investment and exit activity demonstrated remarkable resilience and strong momentum. This positive trajectory extended into the first quarter of 2025, even as volatility intensified, underscoring the enduring strength of this asset class.

Global buyout deal value and exits surged year-on-year at 37%[1] and 34%[1] respectively in 2024. The positive momentum carried into the first quarter of 2025 with deal value and exits posting steady quarter-on-quarter growth of 27%[2] and 19%[2] respectively.

While the optimism for a sustained deal-making recovery was short-lived following US President Donald Trump's tariff announcements on April 2 ("Liberation Day") and rising geopolitical tensions, the market continues to demonstrate strength.

Although transaction and exit activity have moderated in response to the ongoing uncertainty, the industry remains flush with $1.2tn in buyout dry powder[1], positioning GPs to capitalise on emerging opportunities.

Yet within uncertainty lies opportunities. As investment pacing slows and fundraising challenges persist, GPs are responding creatively, offering co-investments and deploying innovative value creation strategies in a more competitive environment.

Since Liberation Day, we have proactively engaged with our GPs and have confidence in their robust risk management and adaptability, given their proven track records in navigating through various economic cycles.

Our **portfolio remains well-insulated from the direct tariff impacts**, thanks to our diversification and focus on resilient sectors such as healthcare and information technology.

As a result, Azalea is well-positioned to continue delivering consistent, attractive returns to our investors or LPs.

But what continues to make PE so attractive? The asset class has displayed resilient outperformance against the public markets over the last 20 years, especially during periods of economic downturns. **PE valuations are compelling, with global buyout entry multiples (at 11.9x) below public equity multiples (at 13.1x)** in 2024[2]. The mid-market segment is especially appealing, offering lower entry valuations, opportunities for value creation, and a track record of outperformance versus the large caps.

We also observed exciting innovation and emergence of new exit avenues through GP-led secondary deals. GPs' ability to execute innovative transactions will be crucial for capitalizing on these opportunities. In addition, the increasing adoption of artificial intelligence ("AI") is reshaping the PE landscape, paving the way for value creation and new investment opportunities.

Looking ahead, how will Azalea continue to adapt and thrive in an ever-changing world? What new opportunities will arise, and how can we best serve our investors while navigating uncertainty?

Azalea's blue-chip heritage and deep network provide us with privileged access to well sought-after mid-market managers and attractive co-investment opportunities, allowing us to unlock alpha and drive sustainable growth. We are focussed on investing in top-tier assets in sectors that are tariff-resilient and supported by long-term secular trends. As we innovate to broaden investor access, we remain committed to being a trusted partner in PE for all our investors.

Azalea Investment Management

Private Equity: Where Does Smart Capital Go from Here?

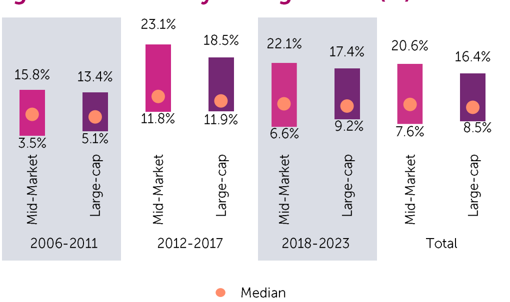
Diwakar Chada
Managing Director, Investments
Azalea Investment Management

Unlocking Alpha Via Mid-Market GPs

While large-cap buyouts have traditionally commanded much of investors' capital and attention, mid-market buyout (typically defined as deals involving companies with enterprise values below US$1bn) is emerging as a compelling investment opportunity. Mid-market GPs are attractive in the current environment due to a large universe of investable companies, attractive entry multiples, lower leverage, multiple levers for value creation, and flexibility for generating exits.

Many mid-market companies do not have institutionalised management teams, systems, or processes, enabling PE managers to transform these companies to their next stage of evolution. **This strategy has proven to provide attractive risk-adjusted returns over the long term**. Top quartile mid-market funds have historically delivered internal rates of return of 20.6%, outperforming their large-cap peers who generated 16.4% from 2006 to 2023.

Figure 1: Net IRR by Vintage Years (%)



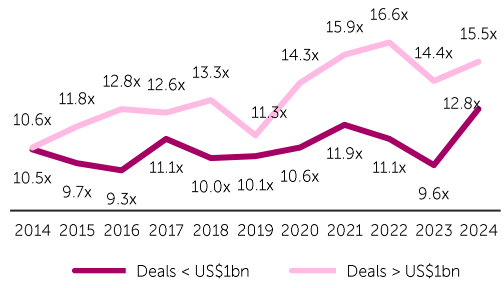
Source: Preqin fund performance data, accessed on 24 June 2025
Global private equity buyout funds. Returns as of Q4 2024

According to Pitchbook, sub-US$1bn deals in North America and Europe traded at a median EV/EBITDA of 12.8x in 2024, up 22% since 2014. On the other hand, larger deals above US$1bn averaged 15.5x, a 40% increase over the same period.

In addition, with significant dry powder available in large cap and upper mid-market PE space, mid-market companies attract a large universe of potential buyers, including financial sponsors as well as strategic, rather than relying on public listings. We have observed that high-quality mid-market managers sell their companies at a significant premium to the entry multiples due to significant value creation during the holding period.

"While mid-market funds present a compelling investment opportunity, it comes with greater execution complexity. As a result, dispersion of outcomes is wider relative to the large-cap market. Success hinges on the ability to select the right managers amidst a crowded space."

Figure 2: Median EV/EBITDA multiples



Source: Pitchbook. Data as of Q3 2024

Azalea is an active investor in mid-market GPs, especially through our Altrium platform. We partner with high-quality managers, known for their differentiated and consistent strategy, strong operational expertise, stable teams, and proven track record.

We focus on a GP's ability to effect operational improvements and strategic growth initiatives to drive higher returns, and not just rely on financial engineering or multiple arbitrage as sole value drivers. Leveraging our GP network and affiliation with Temasek, Azalea can get privileged access to difficult-to-access mid-market GPs, often getting allocations to highly sought-after and oversubscribed funds.

We have an institutionalised process of mapping the mid-market and meeting top-quartile GPs regularly for a long duration prior to their fundraising. In our commitment to generate top-quartile returns to our investors, we remain dedicated to mid-market PE strategy and will continue to deploy our resources and time, ensuring that we can access and secure allocations in attractive mid-market opportunities.

Azalea Investment Management

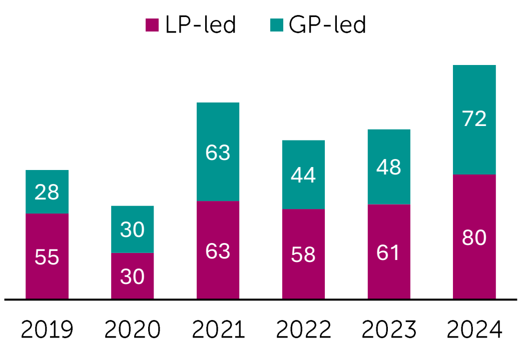
Private Equity: Where Does Smart Capital Go from Here?

Mark Hindriks
Managing Director, Investments
Azalea Investment Management

New Exit Avenues and Strategic Opportunities through Secondaries

The PE landscape has seen a marked shift toward secondary transactions as a strategic lever for both liquidity and value creation – particularly in times of muted distributions. In 2024, **global secondary transaction volume reached a record ~US$160bn**[3] , underscoring the growing importance of the market.

Figure 3: Secondary Volume (US$'bn)



Source: Lazard Secondary Market Report 2024

Despite a 34% year-on-year increase in exit volumes in 2024, PE firms entered 2025 still burdened by **~US$3.6tn in unrealised value across nearly 29,000 unsold companies**[1]. This persistent overhang highlights the need for alternative exit avenues and represents a structural tailwind for secondaries.

In response, **GPs are increasingly turning to CVs** – a GP-led secondaries structure where high performing assets are carved out into new vehicles.

This approach offers a targeted path to extend asset duration, raise follow-on capital, while unlocking liquidity optionality for LPs.

Investors appear to be increasingly receptive to the CV strategy, helped by early evidence of its performance. **Recent studies have shown that CVs have delivered returns on par with, or exceeding, traditional buyout funds yet with lower return dispersion**. As of Q4 2024, around 300 CVs with 2018-2023 vintages have an average TVPI of 1.46x, with top-quartile CVs even reaching an impressive 29.8% IRR[4].

Because of all the above, we anticipate **continued growth in secondaries**, with more opportunities emerging as LPs seek early liquidity and GPs face pressure to generate distributions.

Azalea's approach to secondaries is rooted in **partnering with high-quality, cycle-tested GPs, backing assets with resilient business models and strong financial performance**.

Diwakar Chada
Managing Director, Investments
Azalea Investment Management

Access and Optimise Returns through Co-Investments

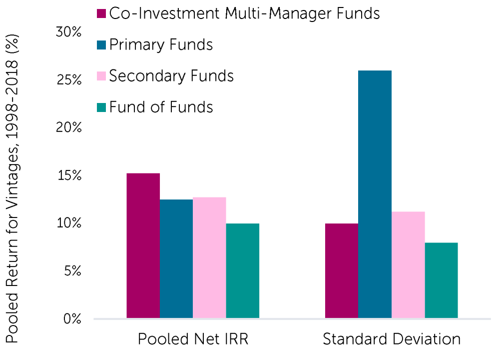
LPs are increasingly turning to co-investments to enhance returns, build more targeted portfolios, and accelerate capital deployment. However, building a dedicated co-investment programme requires extensive resources and a well-established primary fund investment programme – barriers that can limit access for many investors.

To address this, LPs are turning to pooled co-investment solutions. Some GPs offer co-investment sleeves alongside their funds, enabling select LPs to participate in specific deals. Alternatively, multi-manager co-investment funds can offer a more selective, diversified solution that invests in best co-investment opportunities from high-quality GPs into a single, diversified vehicle.

These funds offer **access to highly curated deal flow across strategies, sectors,** and **geographies, while leveraging the sourcing and value creation capabilities of fund managers.**

Over the 20 vintage years from 1998 to 2018, multi-manager co-investment funds have outperformed primary, secondary, and PE Fund of Funds strategies, with relatively low return dispersion.

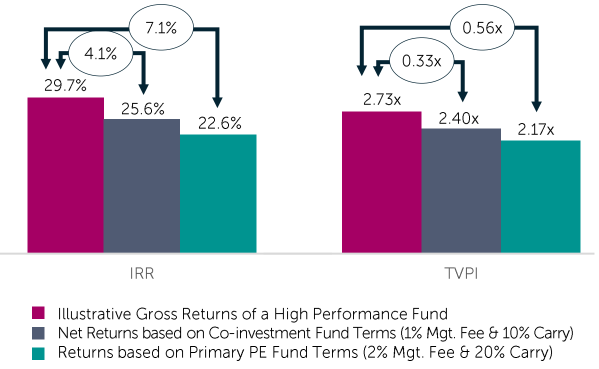
Figure 4: Co-Investment Funds have generated higher returns with lower dispersion than other type of Private Equity Funds



Source: GSAM: The Case for Co-Investments, Q4 2023

A key contributor to this outperformance is the **more attractive economics of co-investment funds,** which typically charge lower management fees and carried interest than primary PE funds. For example, fees and carry can reduce gross returns by more than 7% for primary funds, but only about 4% for co-investment funds. This cost advantage meaningfully narrows the gap between gross and net returns, especially in high-performing funds, and can improve overall net returns for investors.

Figure 5: Gross to Net Yield Spreads: Co-Investment Funds vs Primary PE Funds



Source: Capital Dynamics – Private Equity Co-investment Funds – A Comparison of Risk and Returns, Feb 2020

Despite rising demand, the supply of co-investment opportunities remains constrained. A StepStone survey found that only 20-30% of the deals under a global buyout fund offer co-investment opportunities, with an average co-investment capital ratio of just 1:5 relative to the fund size. Hence, GPs tend to allocate opportunities selectively, prioritising their most strategic and sophisticated LPs who have proven capabilities and can move decisively.

Therefore, **building a successful co-investment platform requires significant scale, strong GP relationships, and proven underwriting capabilities.** As both an Investor and a Manager, Azalea **has built strong, direct relationships with leading PE fund managers, and gained privileged access to high-quality co-investment opportunities**. As part of the Temasek ecosystem, we also benefit from additional deal flow and insights through Temasek's global network. This strategic positioning allows Azalea to more effectively source, evaluate, and underwrite attractive co-investment opportunities.

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Azalea Investment Management

Private Equity: Where Does Smart Capital Go from Here?

Pauline Phua
Managing Director, Investments
Azalea Investment Management

Integrating Sustainable Impact and Long-Term Returns in PE

Sustainable private equity experienced breakout growth, driven by strong structural tailwinds, particularly in the climate sector. Global investment in energy transition technologies reached a record US$2.1tn in 2024[6]. However, this remains well below the annual US$5.6tn needed through 2030 to meet climate targets. This significant shortfall **underscores the urgent need to accelerate sustainable investments**, especially in the evolving climate sector.

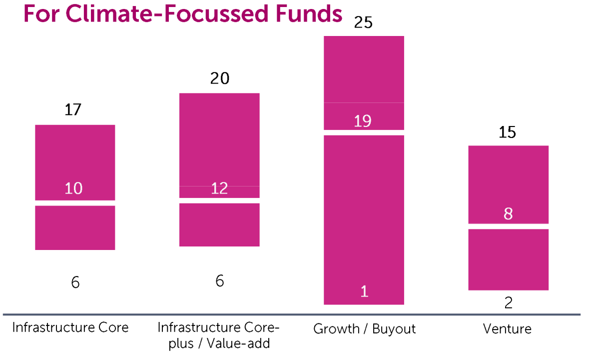
"PE is uniquely positioned to drive financial returns and sustainable impact outcomes."

PE stands out for **its longer investment horizon, and its ability to exert control and take a hands-on approach**. PE managers work closely with management teams to execute strategic and operational improvements, and integrate sustainable initiatives for lasting impact, going beyond short-term gains. This extended timeframe and active ownership model enable PE firms to deliver strong financial returns and drive meaningful impact outcomes.

"Manager selection is critical to achieving strong returns, given the wide performance dispersion among climate-focussed funds."

Bridging the gap between innovation and large-scale deployment requires **operational excellence and a proven ability to create value.** Historical performance revealed that growth/buyout strategies in climate investing have the potential to generate stronger returns if the right managers are selected.

Figure 6: Net IRR Dispersion By Fund Strategy For Climate-Focussed Funds



Note: Figures denote top quartile, median and bottom quartile IRR
Source: Climate Investing Across Private Markets: A Return-Focused Perspective by HarbourVest, 2025

Recognising the merits of sustainable PE investing, Azalea has been an early mover in sustainable PE investing since 2020. We developed our **proprietary sustainability assessment framework** to contribute to positive environmental and societal outcomes while generating attractive financial returns for investors.

This has given us exceptional access to a select group of specialised fund managers who combine clear impact intentionality with relevant expertise. We continuously refine our investment strategy to capture the most compelling opportunities, with a focus on transformative themes such as Energy Transition, Resource Management, and rapidly emerging areas like Climate Adaptation and Resilience.

By building deep expertise and leveraging our extensive GP network and robust deal selection capabilities, Azalea is uniquely positioned to unlock direct investments in companies that deliver both strong growth and meaningful impact outcomes.

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Azalea Investment Management

Private Equity: Where Does Smart Capital Go from Here?

GP-led Secondary in Sustainability: Market Leader in Delivering Sustainable Refrigeration and HVAC Solutions

- Azalea invested in a leading European company specialising in the installation and maintenance of refrigeration and Heating, Ventilation, and Air-Conditioning ("HVAC") systems. Through its design of complex natural fluid refrigeration systems, the company drives reduction in CO_2 emissions and promotes energy efficiency and savings. With few competitors possessing comparable technical expertise in this field, the company plays a key role in mitigating global warming and advancing sustainable energy use.

- Beyond its positive environmental impact, the company is a **market leader in a large and growing sector**. It has consistently delivered strong top-line growth and outperformed its peers, underpinned by its competitive advantages in technician training, robust local proximity and reactivity, and a loyal and diversified customer base.

AI Reshaping Venture and Growth

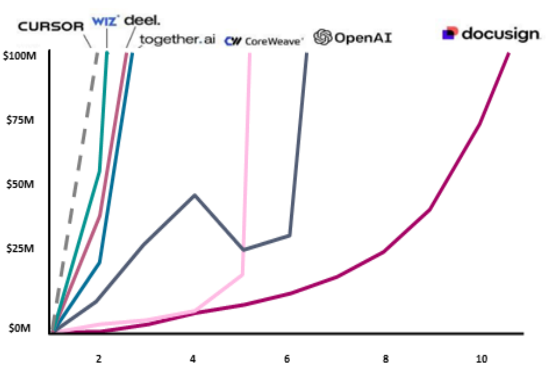
Technology has evolved through transformative waves – the Internet, smartphones, and now AI. This advancement is expected to have a profound and far-reaching impact on the global economy. AI is projected to drive a **7% increase in global GDP and a 1.5 percentage points increase in productivity** over the next 10 years[7].

Since the launch of ChatGPT in 2022, the AI wave has gained momentum in the VC and Growth ecosystem. While global VC deal activity has moderated from the 2021 peak, AI & machine learning ("ML") deals have surged. As of Q1 2025, AI & ML deals accounted for over 70% of the global deal value (up from c.25% in 2021) and one-third of the global deal volume (up from c.20% in 2021).

"AI creates far more significant value, growing much faster, more efficiently with fewer resources used."

Innovation continues to deepen across both the infrastructure and application layers of the AI stack. Foundational models and computer infrastructure remain active areas of investment, while a growing wave of application-layer companies are embedding AI directly into vertical software products, unlocking enterprise value across industries. **This new wave of AI-native companies has redefined growth expectations, with many reaching US$100m in annual recurring revenue ("ARR") in record time with less resources.** For instance, Cursor, an AI-powered data analytics assistant, achieved US$100m ARR in under 18 months following its commercial launch[9].

Figure 7: AI-Native Companies Are Scaling Faster Than Ever



Source: Sacra Research, Feb 2025

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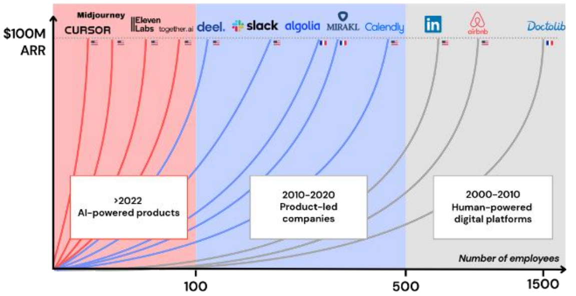
Figure 8: Number of Employees to reach US$100M ARR

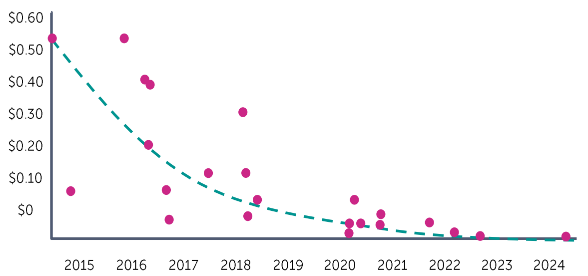


Source: Newfund Capital, 6 Mar 2025

Beyond topline growth, AI offers significant operational leverage. It enables automation, improves decision-making, and delivers economies of scale and scope, all while reducing reliance on entry-level labour. Additionally, operational costs to train and run advanced AI models have declined exponentially. Coupled with the increasing speed of AI advancements, we will likely see a catalytic adoption and increasing accessibility of AI across industries.

Figure 9: Cost of running AI models has fallen dramatically

Price per Nvidia FLOP/s, 2015-2014



Source: Epoch AI 2025, Robeco

Azalea believes that AI represents the next major technology super cycle, poised to fundamentally transform the way we live, work, and interact. Given this conviction, we view early exposure to AI as essential. Through our growth vehicle, we aim to capitalise on this transformative trend by investing in managers with deep expertise and exposure to AI. Our managers are investing across the entire AI stack, from the infrastructure layer (e.g., foundational models) to the application layer. This positioning is aligned with broader market observations where AI & ML remain the standout themes within the VC asset class.

Justin Keh
Managing Director, Investments
Azalea Investment Management

Pioneering Innovation, Singapore's Largest Retail Bond Platform

Traditionally, PE has been accessible only to a select group of investors with significant capital and a long-term horizon. Since our inception in 2015, Azalea's mission has been focussed on developing innovative products to make PE accessible for a broader range of investors.

A key innovation is the **Astrea Platform**, a series of investment products based on diversified portfolios of PE funds that offer PE exposure through a stable, income-generating fixed income format.

"We seek to generate resilient risk-adjusted returns and steady cash flows to meet investor obligations. The Astrea portfolio is thoughtfully constructed around mature, cash-generative buyout funds managed by large-cap managers with longstanding track records."

During the product development stage, each Astrea portfolio undergoes rigorous stress testing – we constructed a hypothetical model that incorporates adverse scenarios such as pandemic shocks and the Global Financial Crisis. In all cases, the models demonstrated that Astrea bonds are fully repaid even under adverse conditions.

The platform also **incorporates multiple structural safeguards to mitigate risks.** These include: (i) setting aside cash into reserves accounts for repayment of the bonds issued; (ii) maintaining a maximum loan-to-value ("LTV") ratio; (iii) having a credit facility to cover potential cash flow shortfalls; (iv) institutionalising a priority of payment mechanism.

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Astrea PE bonds are also highly sought after by institutional investors such as pension funds, endowments, insurance companies and asset managers. This strong interest is underpinned **by Astrea's robust credit quality and attractive fixed coupon payments, which align well with asset-liability matching requirements.** Institutional demand remains robust, evidenced by the placement tranche that are also oversubscribed by at least three times on average over the past five issuances. To-date, institutional and accredited investors account for over 70% of our Astrea transactions.

Pauline Phua
Managing Director, Investments
Azalea Investment Management

Solutioning Expert with an Investor-Centric Mindset

Launched in 2019, the **Altrium Platform** offers a broad spectrum of product offerings, including buyout, growth and venture, sustainability, and co-investment funds, to meet the diverse needs of investors. **Diversification remains central to our investment philosophy**, with the belief that it offers more favourable and resilient risk-adjusted returns.

"Azalea is well-positioned to capitalise on current market trends. Leveraging our expertise and strong GP relationships, we offer unparalleled access to hard-to-access PE investment opportunities to investors."

Through our Altrium platform, investors can **access a wide range of investment opportunities – which are typically out-of-reach** – while enjoying **convenience and economies of scale** for investors who would otherwise have to source and commit multiple PE investments on their own.
Opportunities such as GP-led secondaries and co-investments usually require direct GP access, while mid-markets and niche sustainability funds typically require extensive due-diligence to select the right investments with strong performance. With our robust manager selection capabilities and extensive network, we can get allocations in these opportunities, offering investors exposure to strong-performing assets that are often oversubscribed or have done "one-and-done" fund closes.

"Investor-centricity is at the heart of our approach, reflected in our portfolio construction and investor-friendly features that we have in place."

Our commitment to product innovation is exemplified by our disciplined and thoughtful approach to portfolio construction and structural safeguards.

A standout feature is our Sponsor Warehousing, where Azalea makes a significant contribution to seed our fund portfolios prior to the fund launch for external fundraising. This demonstrates strong alignment of interest with our investors and effectively mitigates blind pool risks and the J-curve effect.

Investors in the Altrium platform can enter at cost, whilst benefitting from earlier capital deployment and portfolio appreciation, hence optimising risk-adjusted returns.

Fullerton Fund Management

Private Equity: Where Does Smart Capital Go from Here?

Mervin Teo
Managing Director
Fullerton Fund Management

The Climate Imperative: A Strategic Investment Opportunity

Climate change is one of the most pressing global challenges with the global green financing gap estimated at over US$2.5 trillion annually and rising. Both the private and public sectors have accelerated efforts towards addressing this challenge with over US$30 trillion of sustainable assets under management today, expected to grow to over US$40 trillion by 2028[1].

In addition to domestic and regional regulations around climate action, global investors are also increasingly considering a company's carbon footprint and its plan to cut greenhouse gas emissions when deciding on new investments[1].

These underlying megatrends are driving the global climate investment sector, making it a financially compelling opportunity today and in the future. In particular, the emerging Asia economies are poised to capture this opportunity given their massive populations, favourable regulatory tailwinds and deep integration with global supply chains.

Emerging Asia's unique advantages in capturing the global decarbonisation opportunity

Whilst there is a global urgency to address climate change, emerging Asia is particularly well-positioned to capture this opportunity given a myriad of factors.

Firstly, rapid adoption of established green technologies has enabled emerging Asia to supply green products, services and solutions in a commercially attractive manner.

For example, the advancement of solar panel technology has enabled India today to generate solar power at a cost lower than coal-fired power plants. Similarly, the cost of EV batteries has also fallen significantly making ownership of battery electric vehicles at cost parity with gasoline-fuelled vehicles in many regions today or in the near future.

Secondly, emerging Asia remains a largely secondary economy consisting of industrials, manufacturing and services – these are businesses that are imperative in the global supply chain. Unlike in the West, these businesses are more traditional in nature and rely on technology adoption rather than innovation in the green economy. As such, these companies generally focus on underlying business models that deliver annual profitability, cash flows and growth, companies well-suited for private equity / growth capital.

Thirdly, emerging Asia has unique advantages such as access to raw materials critical for sectors such as EV batteries, solar PV manufacturing, green building materials, recycling/waste-to-energy, to name a few. Further, the region's large population coupled with access to technology positions it as an engine to provide products and services for the global green economy.

Last but not least, whilst decarbonisation-related business models in emerging Asia are focussed on fundamentals and are less reliant on green premiums or policies, evolving carbon regulations are creating a favourable backdrop for sustainable businesses.

These policies not only drive compliance but also open new revenue streams and competitive advantages for these companies.

Rethinking Opportunity with Intent

The case for decarbonisation is growing, but so is scrutiny. ESG-labelled strategies face rising investor scepticism, political pushback, and questions about actual impact versus stated ambition. This shift is prompting a more grounded phase — one where substance outweighs slogans.

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We believe the most resilient opportunities lie in companies where decarbonisation reinforces its core fundamentals — not replaces them. That means identifying commercially viable models with the capacity to scale, endure, and transition meaningfully over time.

Rather than impose top-down climate themes, we take an operator's lens. We support (not prescribe) realistic transition plans through rigorous screening, structured ESG diligence, and practical engagement. For us, decarbonisation is not a niche play. It's a lens through which we assess value, manage risk, and enable long-term resilience.

Backing What Can Transition — and What Enables It

We approach decarbonisation by identifying where capital can play a constructive role in accelerating change.

Two types of companies typically emerge:

- **Green Beneficiaries** are businesses in carbon-intensive sectors — such as manufacturing, logistics, and construction — that are taking measurable steps toward lower-emissions models. These are often traditional enterprises adapting to new operating realities, where emissions reduction is tied to efficiency, regulatory readiness, or market access.
- **Green Enablers** provide the tools, systems, or infrastructure that support others in reducing emissions. These may not drive emissions reduction directly but play a critical supporting role across value chains and industrial processes.

To separate signal from noise, we apply a consistent framework across all opportunities. This begins with assessing a company's emissions baseline, the credibility of its transition pathway, and the feasibility of execution based on sector dynamics and economic viability.

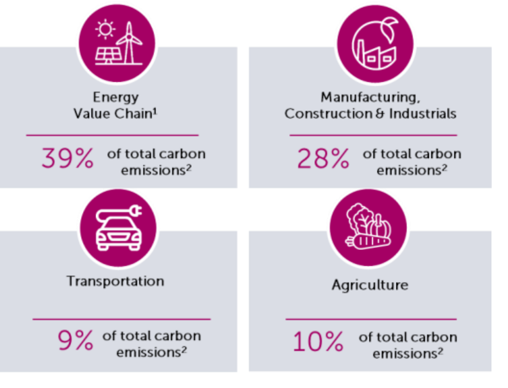
Each investment goes through a three-stage ESG diligence process:

1. A **preliminary scan** to flag material issues;
2. An **intermediate review** focussed on operations, ambition, and risk;
3. A **comprehensive review** with field diligence and integration into the investment case.

Not every opportunity makes it through. Some lack the internal capability to transition; others rely too heavily on assumptions that do not hold under scrutiny. The framework helps us focus on companies where decarbonisation is not just possible, but material, measurable, and grounded in operating realities.

The Biggest Emitters Could Become the Strongest Enablers

Figure 1: Fullerton's Scope of Investment



Source: Fullerton Fund Management. (a) Includes Electricity, Heat, Renewables (b) Of China, India and SEA5 (Indonesia, Malaysia, Thailand, Vietnam and Philippines.)

Approximately 90% of Asia's carbon emissions can be traced to just four sectors. We do not see these as liabilities; in fact, we view them as opportunities. These are industries where practical decarbonisation pathways already exist, and where progress is increasingly driven by market forces, not mandates. In our view, these sectors represent the greatest alignment of commercial viability and climate impact.

Next, we take a closer look at each of these sectors.

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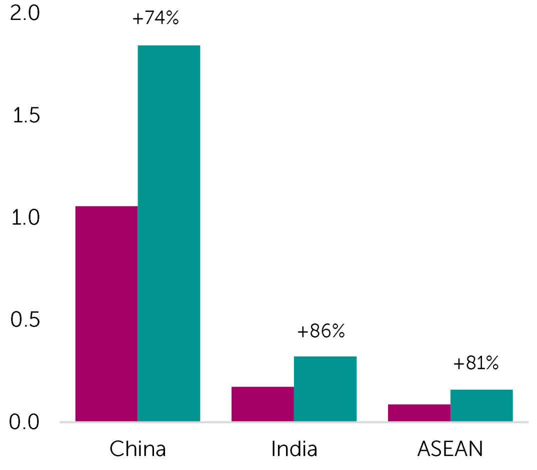
1. Energy Value Chain

The energy value chain remains Asia's largest contributor to emissions—accounting for close to 40% of the regional total. But momentum is building. Installed renewable capacity across China, India, and ASEAN is projected to increase by approximately 80% between 2021 and 2026.

This shift is creating space for commercially viable solutions across power generation, storage, energy management and related services. Rather than relying on future breakthroughs, many transitions are being driven by existing technologies that are already reaching cost competitiveness.

Figure 2: Expected ~80% increase of Installed Renewables Capacity (TW) from 2021 to 2026[3]



Source: IEA Renewables, 2021

2. Manufacturing Construction & Industrials

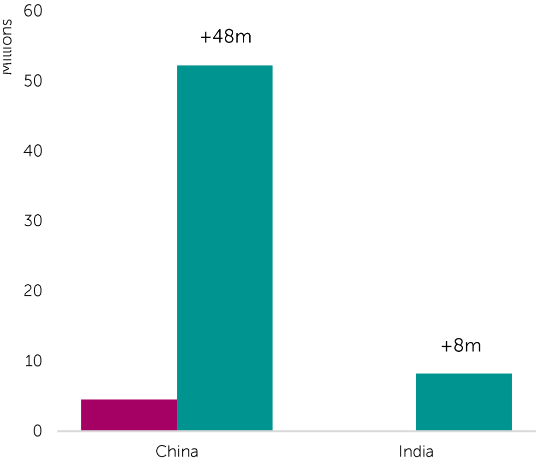
Accounting for around 28% of Asia's total carbon emissions, this sector remains one of the region's largest emitters. Yet it also shows active capital movement — with industrials, utilities, and real estate comprising roughly 27%[2] of Asia's M&A transactions in 2021.

This level of deal activity suggests a dynamic investment landscape, where decarbonisation efforts such as process improvements, resource efficiency, and alternative materials are not just viable, but increasingly aligned with exit pathways.

3. Transportation

While transportation is not the highest-emitting sector, its impact is far from marginal. The projected ~10x increase in EV stock by 2030 - particularly across China and India reflects a deep shift underway. We believe electrification, modal shifts, and smart logistics will reshape this landscape. Our focus lies in supporting the development of an electric vehicle (EV) ecosystem - including adjacent enablers like battery supply chains, EV components charging infrastructure, and fleet transitions to drive scalable decarbonisation across the sector.

Figure 3: ~10 times EV car stock increase from 2020 to 2030[4]



Source: IEA Global EV Outlook

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4. Agriculture

Agriculture accounts for roughly 10% of Asia's carbon emissions — a footprint often overlooked but ripe for transformation. With over 100 million farmers across Southeast Asia and India[5] , even small shifts in behaviour, inputs, and post-harvest practices can drive outsized impact. We view this sector as a long-term green beneficiary: one where decarbonisation pathways — from agri-tech and waste-to-value models to sustainable aquaculture — align with both climate goals and rural livelihoods.

The opportunity lies in reducing value chain emissions through the optimisation of agrochemical use, improving yields, minimising post-harvest losses, and adopting climate-smart farming practices. These interventions not only lower emissions intensity but can also unlock efficiency gains and resilience at scale.

Figure 4: US$250 billion investment opportunity[6] in SEA and India involving changing the behaviour and farming practices of over 100 million farmers

Source: International Finance Corporation, "Climate Investment Opportunities in South Asia"

Terraforming Intent into Impact

Emerging Asia presents practical and scalable opportunities for long-term decarbonisation. We believe the path forward lies in identifying credible transition plans, supporting strong business models, and applying a disciplined framework that balances impact with returns. As the region evolves, capital must play a role that is measured, intentional and enduring.

SeaTown Holdings International

Private Equity: Where Does Smart Capital Go from Here?

Dickson Loo
Managing Director,
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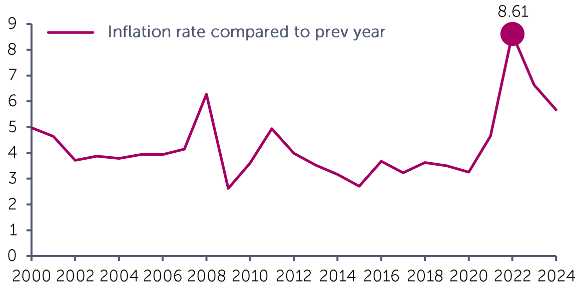
"The buy-and-build strategy allows investors to acquire smaller targets at attractive valuations and benefit from valuation arbitrage, even if market multiples remain depressed."

The post-pandemic era has ushered in a dramatically altered geopolitical landscape. The re-emergence of great power competition, supply chain realignment, and new flashpoints—such as the ongoing Russia-Ukraine war and growing tensions in the Taiwan Straits—have introduced a layer of volatility unseen in over a decade. The economic decoupling between the US and China, combined with nationalist industrial policy in Europe and North America, is also reshaping global capital flows and investor risk appetites.

This instability has significantly clouded the macroeconomic outlook, slowing global growth projections to approximately 3% annually for the coming years, according to the International Monetary Fund (2024). These geopolitical shifts have influenced capital flows significantly, redirecting investments towards politically stable regions with strong internal demand dynamics and less dependence on global trade fluctuations.

Over this period, the global economy experienced the highest inflationary pressures in more than two decades. This marks the end of the second Zero Interest Rate Policy (ZIRP) period, as many central banks responded by raising lending rates.

Figure 1: Global Inflation Rate from 2000 to 2024 (% change from previous year)



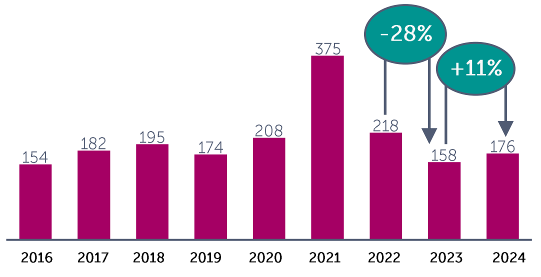
Source: Statista, June 2025

Such macroeconomic shifts have inevitably presented challenges for investors and impacted private equity (PE) deal activities. However, seeking opportunities and capitalising on this uncertainty could be lucrative for private equity investors.

Asia-Pacific PE Activity: Signs of Renewed Momentum

Asia-Pacific private equity activity has experienced volatility over the past two years. Bain & Company's Asia-Pacific Private Equity Report (2024) highlights a 28% decrease in deal values in 2023 due to macroeconomic headwinds. Yet, 2024 brought renewed optimism with deal values rising 11%, totalling approximately US$176 billion, as investor confidence gradually returned.

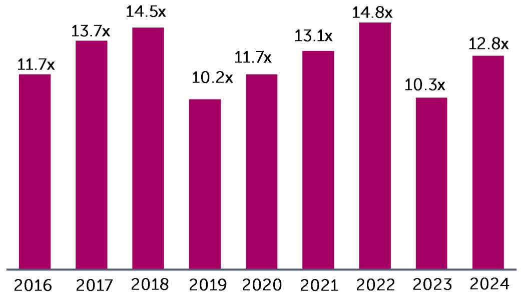
Figure 2: Asia-Pacific Private Equity Investments (US$B)



Source: Bain & Company "Southeast Asia Private Equity - Year in Review, April 2025", AVCJ, Preqin; excludes real estate and deals with a value under $10M

Multiples similarly have increased to 13x in 2024 from a low of 10x in 2023. This still represents meaningful moderation from the peak of 15x in 2022 to a more sustainable level.

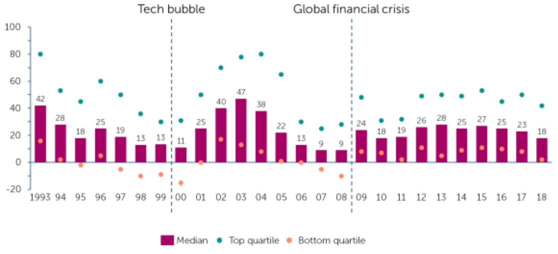
Figure 3: Median EV/EBITDA Multiple on Asia-Pacific Private Equity-backed Transactions



Source: Bain & Company "Southeast Asia Private Equity - Year in Review, April 2025", S&P Capital IQ, January 2025. EV is enterprise value; equity contribution includes contributed equity and rollover equity; based on pro forma trailing EBITDA; excludes multiples less than 1 or greater than 100.

Whilst there are signs of renewed momentum, the outlook for 2025 remains uncertain and may remain so in the near term as the world adjusts to many massive secular trends such as deglobalisation, as well as technological advancements like artificial intelligence. Historically, investors earn superior internal rate of return in years following recessions. Similarly, this period of uncertainty will create unique opportunities for private equity investors with differentiated investment strategy.

Figure 4: Buyout Deal Internal Rate of Return, by Year of Entry (Global, US$)



Source: Bain & Company: Shifting Gears: Private Equity Report Midyear 2022, DealEdge; includes fully and partly realized deals.

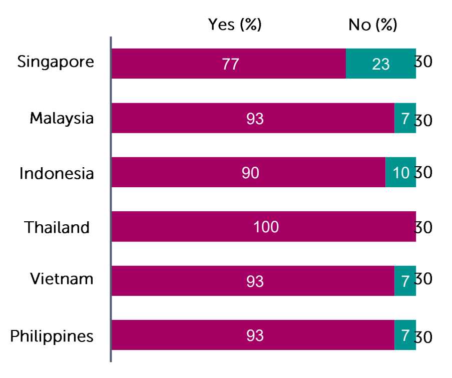
ASEAN Mid-market: A Vibrant Growth Engine

The Association of Southeast Asian Nations (ASEAN) region emerges prominently as an attractive investment destination, propelled by compelling macroeconomic fundamentals. With approximately 680 million inhabitants and a rapidly expanding middle class[3], ASEAN is projected to become the world's fourth-largest economy by 2030[4], underscored by favourable demographic trends such as a young, increasingly educated population, rising urbanisation, and growing digital connectivity.

At the heart of ASEAN's economic vibrancy are small and medium-sized enterprises (SMEs), whose c.45% contribution to the region's GDP is expected to expand to c.53% in 2029[5].

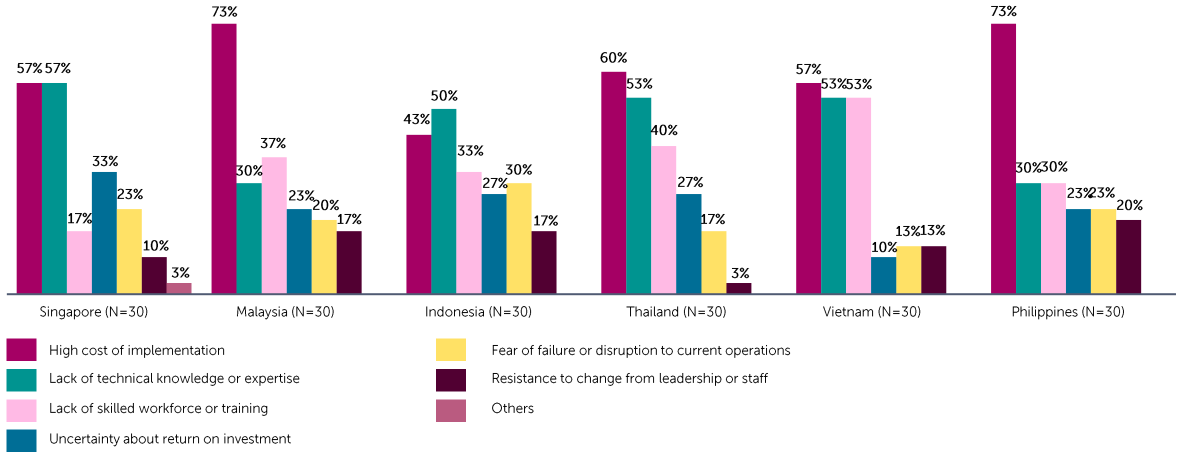
A proprietary survey[5] was conducted with 180 SME respondents in the ASEAN countries. Most expressed keenness to expand into new geographies and segments, intend to adopt new technologies, but are hindered by the cost and their ability to implement.

Figure 5: Intention To Adopt New Technologies In The Next 2-3 Years (N=180)



Source: SeaTown Private Equity proprietary study, February 2025. An SME may select multiple options.

Figure 6: Primary Barriers Preventing SMEs Business From Embracing The Technological Disruption (N=180)



Source: SeaTown Private Equity proprietary study, February 2025. An SME may select multiple options.

The ASEAN mid-market remains relatively underpenetrated and presents particularly attractive opportunities, not just for investment but also for private equity partners to add value.

To effectively capitalise on this vibrant market segment, a differentiated investment approach is essential.

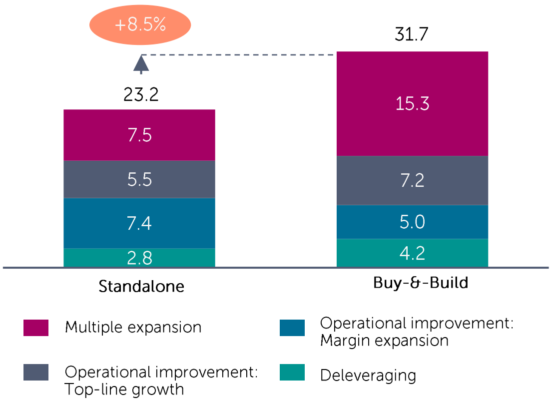
Buy-and-Build: Proven Pathway to Resilient and Superior Returns

One highly effective strategy to tap into ASEAN's mid-market opportunities is the buy-and-build approach. The buy-and-build strategy involves acquiring a core or platform company, followed by a series of smaller complementary acquisitions to create value through operational synergies, market consolidation and economies of scale. According to a Boston Consulting Group (BCG) study (2016), firms utilising buy-and-build strategies generated an average internal rate of return (IRR) of ~32%, significantly outperforming standalone buyouts, which averaged 23%.

This strategy is particularly effective in fragmented sectors and markets with significant white space, enabling private equity investors to consolidate market positions, realise operational synergies, and enhance returns.

With 69 million SMEs, the ASEAN region is primed for a buy-and-build investment strategy.

Figure 7: Buy-&-Build Outperformance



Source: "The Power of Buy and Build", HHL-BCG Feb 2016, based on a sample of 121 deals (of which ~90% involved European companies)

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The buy-and-build strategy is also a resilient one that is well-suited to capitalise on the market uncertainty. The strategy allows investors to acquire smaller targets at attractive valuations and benefit from valuation arbitrage, even if market multiples remain depressed. Inorganic growth from acquisition can supplement organic growth, allowing companies to achieve robust growth rates even in weak market environments.

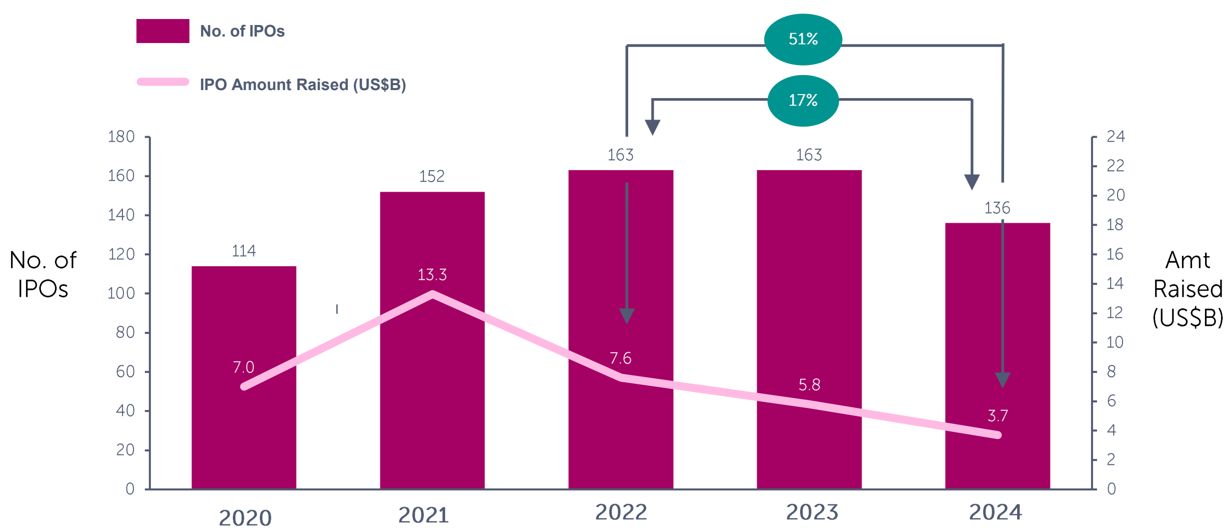
ASEAN Private Equity: Navigating Diversity and Exit Challenges

ASEAN is widely recognized as one of the most diverse regions in the world, comprising 11 countries and home to nearly 700 million people. With over 1,000 languages and dialects spoken across the region, ASEAN represents a mosaic of cultural, political, and economic systems. Each country operates under its own political structures and regulatory frameworks and is at different stages of economic development.

No two markets are alike, and it is critical for private equity investors to understand not just the macroeconomic fundamentals but also the micro-level nuances that drive how local businesses operate, how regulatory environments evolve, and how cultural factors influence both consumer behaviour and business practices.

Another common concern regarding ASEAN private equity is exits. While regional stock exchanges have launched initiatives to facilitate easier and more attractive public listings, the number of IPOs and amount raised in 2024 is 17% and 51% below the peak in 2022, respectively.

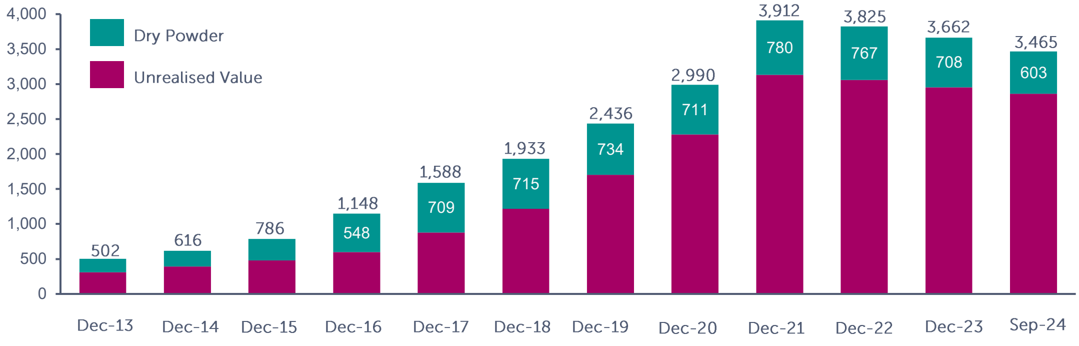
Figure 8: Southeast Asia IPO Market Performance, 2020 - 2024



IPO Market Cap (US$B)	29	51	56	42	19

Source: Deloitte "Southeast Asia IPO Capital Market", January 2025.

Figure 9: Asia-Pacific Private Equity Assets Under Management

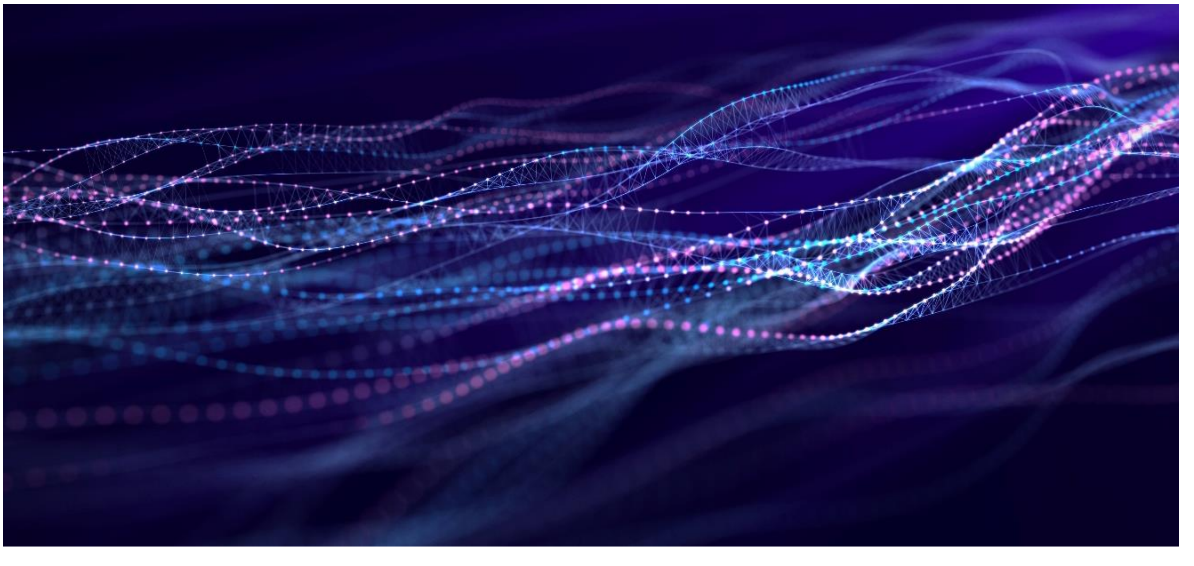


Source: Preqin Pro, June 2025

Private Equity Opportunities in Uncertain Times

Despite prevailing geopolitical and economic uncertainties, these conditions create unique opportunities for private equity investors with a differentiated investment strategy. By focussing on stable sectors, employing differentiated strategies like buy-and-build targeting under-tapped growth markets like ASEAN mid-market, private equity will continue to deliver resilient and superior investment returns.

Historical trends reinforce the fact that periods of uncertainty often yield exceptional investment outcomes for investors who adopt proactive, disciplined, and strategically adaptive approaches. As geopolitical and macroeconomic challenges continue to evolve, private equity remains well-equipped to navigate complexities, turning uncertainty into long-term strategic advantages.



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InnoVen Capital

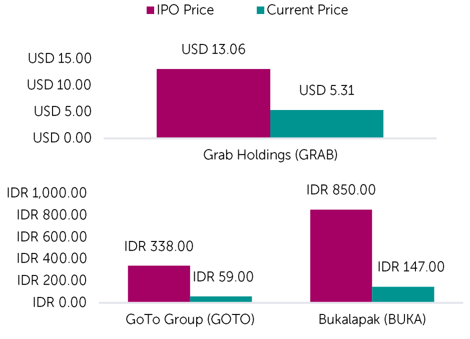
Private Equity: Where Does Smart Capital Go from Here?

Ben Cheah
Partner
InnoVen Capital

Unlocking Asia's Venture Market: Why Venture Debt Is the Smart Play Amid Equity Slumps

Asia has long been hailed as one of the world's most exciting venture markets. Yet beneath the headlines of soaring valuations and mega-rounds lies a tougher reality: the region has seen very few blockbuster exits. While the IPOs that did materialise, such as Grab's Nasdaq debut, initially sparked excitement, many have underperformed expectations over time. For example, Grab, has seen significant share price volatility and pressure due to challenging macroeconomic conditions and regional competition. Similarly, other notable exits have failed to deliver the sustained returns investors had hoped for, signalling a more cautious investment environment (see Figure 1 below).

Figure 1: Post-IPO Performance of Major Southeast Asian Tech Firms: Then vs. Now



Source: InnoVen Capital, 2025
*Price information compiled from regulatory filings and compilation websites for e.g. Yahoo Finance as of 29th July 2025

This mixed performance has been reflected in recent news coverage. Headlines have increasingly highlighted challenges facing SEA startups—ranging from funding slowdowns and layoffs to regulatory hurdles and tough market conditions. Reports of funding rounds shrinking and startups focusing on profitability overgrowth dominate the narrative, suggesting that the frothy market optimism of previous years has given way to a more pragmatic phase. As a result, the SEA venture equity market is experiencing a noticeable slump. According to data from Dealstreet Asia, equity funding in SEA declined by nearly 46% in Q1'2025 compared with the same period last year[1]. This contraction signals investor caution and tighter capital availability, especially for late-stage deals and higher valuations.

Despite these headwinds, high-growth startups must keep moving forward. The realities of a cooling equity market have forced many to pivot towards lower cash burn and higher profitability. Gone are the days when rapid expansion at all costs was the default strategy. Instead, founders are sharpening their focus on sustainable business models and efficient operations—prioritizing revenue generation and disciplined spending.

Entrepreneurial spirit remains vibrant in the region, but the capital markets have clearly shifted. Equity financing is no longer the default path to growth; the slow pace of exits and cautious investor appetite mean startups cannot rely solely on equity raises. This is where debt financing emerges as a vital, often overlooked solution.

Unlike equity, debt financing does not depend on the timing or success of an IPO or acquisition to generate returns. Instead, venture debt investors rely on the company's organic ability to generate cash flow and service its debt obligations. This shift in emphasis means startups that can demonstrate solid unit economics and positive cash flow potential become attractive candidates for venture debt. The debt structure offers minimally dilutive capital, allowing founders to grow without sacrificing ownership or control.

Moreover, venture debt typically provides faster access to capital compared to equity rounds, with less rigorous valuation negotiations and a clearer repayment timeline. This makes it especially suited for startups in transition—those refining their path to profitability rather than chasing explosive growth fuelled by endless capital.

1. DealStreetAsia. (2025, April 17). Southeast Asia Deal Review: Q1 2025.

In this evolving landscape, venture debt presents a balanced, strategic avenue for investors and startups alike. For investors, it offers predictable returns and downside protection through secured or senior debt positions, coupled with some equity upside via warrants. For startups, it provides essential growth capital that aligns incentives towards building sustainable, cash-generative businesses.

Asia's venture market may be navigating a challenging phase, marked by fewer exits and tighter equity funding. Yet, innovation and growth are far from stalled. Instead, venture debt is carving out its role as the definitive way to access and support the region's next wave of high-potential companies, bridging the gap between startup ambition and market realities.

Seviora Capital

Private Equity: Where Does Smart Capital Go from Here?

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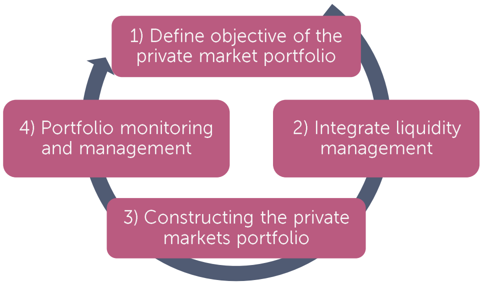
Asset Allocation Considerations in Private Markets

As the private markets industry matures and becomes the mainstay of investors' portfolios, we believe that having a disciplined framework for building and managing a private markets portfolio is integral to achieving the desired risk and return objective:



Define Objective of the Private Markets Portfolio

Returns enhancement: Apart from harvesting an illiquidity premium, investors expect to harvest alpha, through access to differentiated deal flow and manager skills. However, a key trade-off of allocations to private assets is liquidity.

Diversification: Private markets are expected to provide diversification benefits, by providing access to sectors and business models not typically available in public markets. Whilst private market returns have been more stable during market shocks, it tends to underperform public markets during beta rallies.

Allocation range: In sizing an appropriate private allocation range, we think that the performance considerations above can help inform the lower bound of the allocation range. This needs to be overlaid against the investor's constraints around time horizon, liquidity, risk appetite, manager selection and governance capacity, to inform the upper bound of the allocation range. Typical institutional allocations to private investments have ranged between 10-30%.

Integrating Liquidity Management

In managing a private equity program, investors often face two, sometimes competing, priorities: (a) harvesting the illiquidity premium and (b) maintaining sufficient liquidity to meet liabilities and commitments, rebalancing needs and strategic/tactical investment opportunities. Given the considerations above, liquidity management should be integrated within the strategic asset allocation process:

1) *Strategic liquidity planning* – having a comprehensive and dynamic cash flow model that incorporates cash flow profiles, strategic asset allocation assumptions, liability outflows and private asset pacing and commitment forecasts. Depending on an investor's liquidity runway and programme maturity, an overcommitment of 130-150% of target NAV can also help provide better capital efficiency.

2) *Portfolio liquidity structure* – classifying the portfolio into liquidity tiers and defining a waterfall of the sources and uses of liquidity under normal and stressed conditions. This will help ascertain the funding source of the private markets programme, and minimum liquidity thresholds that need to be maintained.

Figure 1 illustrates the IRR of a private equity program that seeks to commit $25m p.a. to reach $150m of commitments in 6 years (150% overcommitment ratio). A liquid portfolio comprising public market ETFs amounting to 20% of commitments is maintained at the start of each year.

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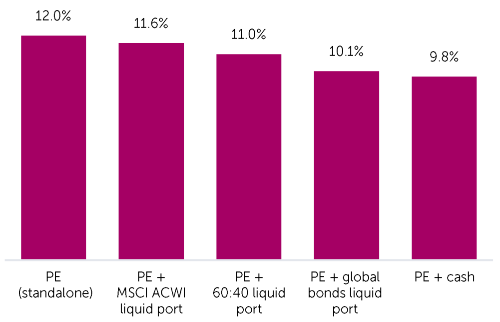
Figure 1: IRR of a PE Programme



Seviora Capital Analyses - Source: Preqin / Bloomberg

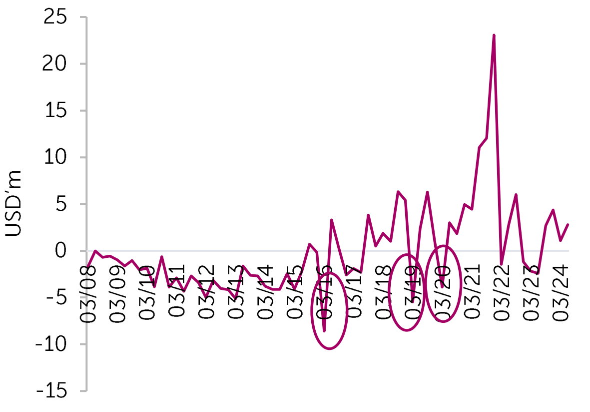
In this illustration, after including returns of the liquid portfolio, IRR of the programme declines by 0.4% to 2%. Investing in the "beta-equivalent" portfolio of global equities is the least returns-dilutive. However, a key trade off is that the investor will have less flexibility to rebalance its public equities exposure during stressed markets. In contrast, having an overly-conservative liquidity management strategy will offset the illiquidity premium that the asset class is intended to harvest.

3) *Stress testing*
Stress testing is a vital aspect of the liquidity management process. It involves developing an understanding of how various historical and hypothetical market scenarios e.g., a sharp economic downturn, delayed distributions from a weak exit environment, elevated capital calls will impact the portfolio's liquidity and performance.

As seen from Figure 2, an illustrative private equity programme which incepted in 2008 would take approximately 7-8 years before annual net cash flows start turning positive.

That said, exogenous shocks could cause the portfolio to experience years where annual net cashflow could once again head into negative territory as highlighted by events such as Brexit uncertainty in 2016, US-China trade tensions in 2019, and the start of the COVID-19 pandemic in 2020.

Figure 2: Illustrative Net Cash Flows of a PE Programme



Source: Preqin Pro Cashflow Data

Therefore, defining a "liquidity waterfall" will also help investors plan for the available liquidity levers ahead of stress events. Stress-scenario liquidity levers can include funding lines, secondary sales, reallocations from other asset classes etc. Such stress tests can help ensure alignment between the long-term investment goals and the investor's operational and investment liquidity needs.

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Figure 3: Year-on-year performance of key private market asset classes including Buyout, Growth, Venture, Real Estate, Infrastructure, and more, ranked by IRR

1 Year Horizon IRRs (%)										
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Sept-24
Venture 19.9	Growth 17.6	Natural Resources 18.6	Buyout 20.7	Growth 17.4	Growth 23.7	Venture 31.8	Venture 46.8	Natural Resources 30.2	Infra 11.8	Infra 12.1
Real Estate 15.4	Private Capital - Asia 15.8	Infra 13.7	Growth 20.7	Venture 13.1	Buyout 20.5	Buyout 24.7	Buyout 34.9	Infra 15.9	Buyout 9.5	Growth 10.4
Buyout 14.8	Buyout 14.9	Buyout 12.6	Private Capital - Asia 19.2	Buyout 12.8	Venture 15.8	Private Capital - Asia 22.6	Growth 34.6	Real Estate 10.6	Private Debt 7.4	Buyout 9.1
Private Capital - Asia 13.8	Real Estate 13.5	Private Debt 10	Infra 16.4	Infra 12.8	Real Estate 10.4	Growth 19.7	Natural Resources 34.5	Private Debt 9.3	Natural Resources 5.8	Private Debt 8.9
Growth 12.6	Venture 12.5	Growth 8.6	Natural Resources 13.9	Real Estate 8	Private Capital - Asia 9.5	Private Debt 5.5	Private Debt 32.2	Buyout 2.1	Private Capital - Asia 5	Private Capital - Asia 5.6
Private Debt 9.3	Infra 7.8	Real Estate 5.3	Real Estate 12.3	Natural Resources 5.7	Infra 8	Infra -0.1	Real Estate 23.5	Private Capital - Asia -4.1	Growth 3.5	Natural Resources 4
Infra 8.7	Natural Resources 2.5	Private Capital - Asia 4.1	Venture 11	Private Debt 3.1	Private Debt 6.4	Real Estate - 2.2	Private Capital - Asia 21.7	Growth - 10.9	Real Estate -1.1	Venture -0.4
Natural Resources 5.8	Private Debt 1	Venture -0.6	Private Debt 10.2	Private Capital - Asia 2.3	Natural Resources 0.7	Natural Resources - 7.1	Infra 11.3	Venture - 16.8	Venture -5.3	Real Estate -0.8

Source: Preqin Pro

Top-down portfolio construction

Within the private markets allocation, we believe that a well-constructed portfolio needs to be diversified across asset classes, strategies, geography, sector, and vintage years.

Asset class – As each private market asset class exhibits different sensitivities to macroeconomic and market cycle conditions, diversification across various asset classes can help investors deliver a more robust, "all weather" portfolio. As illustrated in the chart above, no one private investment asset class outperforms consistently. For example, companies with strong pricing power, infrastructure and real estate have lower business cycle sensitivity and are more naturally hedged in inflationary environments.

Strategy, geographic and sector – Within private equity, we believe that there should be a "core" sleeve of the portfolio, to provide a diversified returns stream for the asset class, and a "satellite" sleeve as additional alpha generator or tool to make tactical shifts in the portfolio. A core portfolio should comprise a diversified portfolio of buyout and growth equity funds as the core engine of returns, complemented with "satellite" sleeves as additional alpha generators or tool to make tactical shifts in the portfolio.

Examples of satellite sleeves include:-

- Venture Capital – Exposure to innovative business models, typically longer J curves. Given large returns dispersion, access to top-quartile VC funds will be essential.

- Co-Investments – Enhance returns by building more targeted portfolios, and accelerating capital deployment. As deal selection is critical, partnering with GPs with demonstrable track records will be integral.

- Secondaries – Offer broad diversification across a larger number of underlying holdings, and accelerated capital deployment. Secondaries also can generate distributions earlier in their lives, mitigating the J-curve effect.

- Sector and geographies : Sector specific and geographic tilts can be integrated, to reflect longer-term thematic convictions.

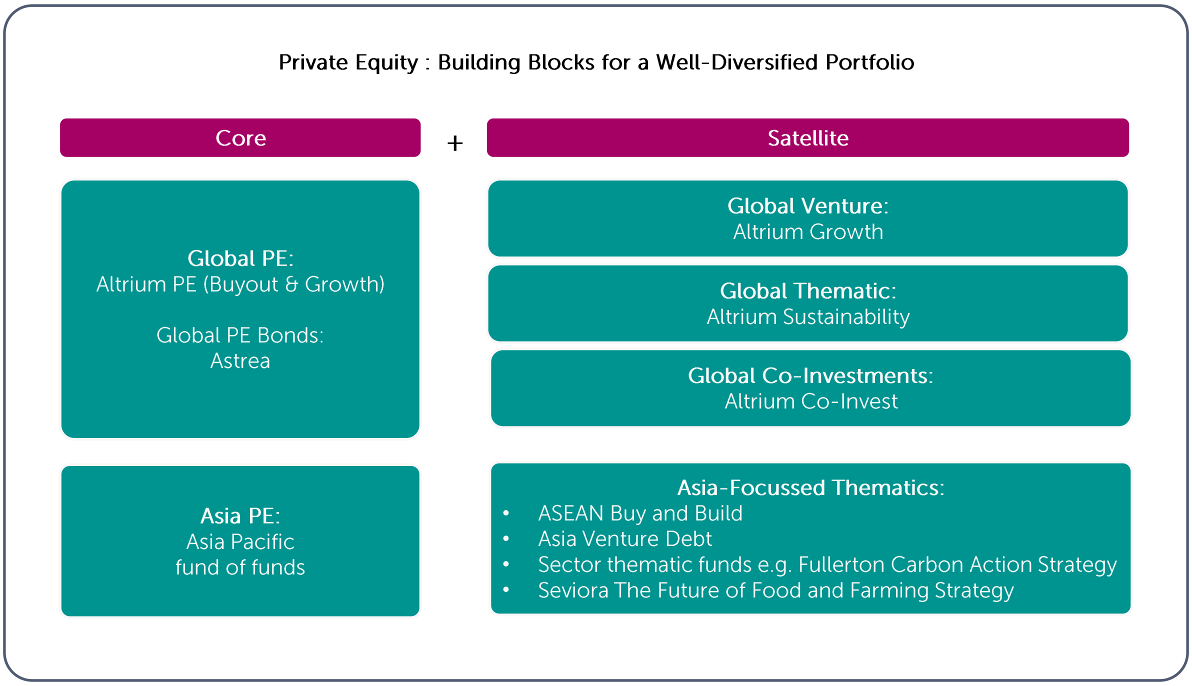
Vintage year diversification – Time in the market beats timing the market. It will take approximately 7-8 years for a private investments portfolio to mature, as most portfolios experience the effects of the J-curve in early years. Therefore, maintaining a disciplined commitment pace is important to ensure a smooth buildout of an investor's private investment program. PE funds also invest across multiple years, (typically 3-5 years investment periods) so a disciplined commitment pace will allow LPs to capture opportunities across cycles.

Bottom-up Manager Selection

With high returns dispersion in private equity, an allocator needs to be able to consistently pick top quartile managers to generate the desired returns enhancement benefits of the asset class. Top quartile managers are usually access-constrained; and the ability to invest (and remain invested) in top performing managers produce better returns persistency.

We illustrate below a sample portfolio that brings together the concepts above, constructed with the capabilities of the Temasek group of asset management platforms as key building blocks:

Figure 4: Sample Private Equity Portfolio Construction



Performance and Risk Management

Lofty IRR headlines are widely reported in the industry and considered a key measure of rate of return for private markets. We believe that IRR needs to be considered in conjunction with other metrics such as TVPI, DPI, PMI benchmarks, and horizon IRRs. NAV estimates also need to be considered in the context of lagged reporting and "smoothing" of valuations.

As IRR is a money-weighted measure, early, large cash flows tend to have a greater impact. This means that all things remaining equal, a fund that exits its top-performing investments early but retains poorly-performing investments will outperform a fund with more consistent performance across its underlying investments. In addition, IRRs can also be distorted by use of credit lines. Another drawback of using IRR as a proxy for returns is the implicit assumption that cash inflows are reinvested at the same rate as the IRR.

Therefore, we believe that a wider set of metrics is needed to measure the "true" performance of a private markets programme. Public market equivalent benchmarks are also useful, to objectively assess if the allocation to private markets delivers the intended returns enhancement and/or diversification benefits relative to public markets.

Additional risk considerations should also include manager, strategy, sector, geographic concentration, tracking underlying portfolios' leverage, exit timelines and macro exposures.

Conclusion

Private Equity: Where Does Smart Capital Go from Here?

Private equity plays an integral role in a multi-asset investment portfolio, particularly for long-horizon investors. However, the benefits of the asset class can only be realized through discipled integration within the broader strategic asset allocation framework, proactive liquidity management, thoughtful portfolio construction and rigorous manager selection.

As we navigate an evolving macro and market landscape, a robust private markets programme, grounded in governance, deployment discipline and risk oversight will be instrumental in delivering the investor's long-term investment goals.

As investors recalibrate their private equity exposures in light of shifting macroeconomic conditions and capital market dynamics, we think a more nuanced and selective approach will be key. We expect greater emphasis on returns from value-creation and earnings growth, over multiple arbitrage or financial engineering. Scale alone is no longer a sufficient alpha driver.

Differentiated sourcing, operational value creation, and selectivity in segments with attractive entry valuations will be critical in delivering alpha over the next decade.

Global Perspectives: Unlocking alpha through mid-market buyouts, secondaries and co-investments

Mid-Market Buyouts: With lower entry valuations, opportunities for value creation, and more execution complexity, we believe this space has greater scope for outperformance versus the large cap buyouts. Given the wide performance dispersion and greater execution complexity, a successful mid-market buyout strategy will require access to top-quality managers with strong sourcing networks and a repeatable value creation process.

Secondaries and Co-Investments: Apart from being used as tools to accelerate deployment or build target exposures, secondaries and co-investments also offer scope for enhanced returns. As information asymmetry between GPs and LPs is an inherent risk in secondaries and co-investment transactions – avoiding adverse selection is key to delivering enhanced returns. Therefore, we think a successful co-investments and secondaries programme will require partnering with top-performing, cycle-tested GPs to invest in high-quality assets, and having a well-established primary fund investment programme.

Opportunities in Asia: Differentiated returns through specialist GPs

To harvest private market alpha in Asia, we believe investors need to look beyond top-down growth themes. As private markets in Asia are a highly fragmented and relationship-driven, managers with differentiated sourcing, ability to build trust with business owners and flexibility to structure capital creatively have an edge over larger-scale, global players.

Differentiated Sourcing: Unlike US and Europe, sourcing in Asia depends heavily on long-standing relationships. This is particularly evident in the lower mid-market space, where trust and speed of execution is paramount. Managers that navigate this fragmentation to build proprietary sourcing channels, for example through buy and build strategies, can benefit from better entry valuations and lower competition.

Delivering Real Value-Add to Business Owners: In Asia, targets are often led by founders or families. Leverage capacity is also more limited. The most effective GPs act as trusted partners to founders, providing hands-on operational support, strategic guidance and governance enhancements. Examples include support on critical strategic issues such as carbon transition, digitisation, regional expansion, succession planning etc. For investors, selecting managers that have the track record to deliver value-add beyond capital is key, especially in the mid-market and growth equity space, where operating leverage is a key IRR driver.

Flexible solutions across the capital structure: In Asia, traditional buyouts can sometimes be culturally and operationally misaligned with founder-led or family businesses.

Conclusion

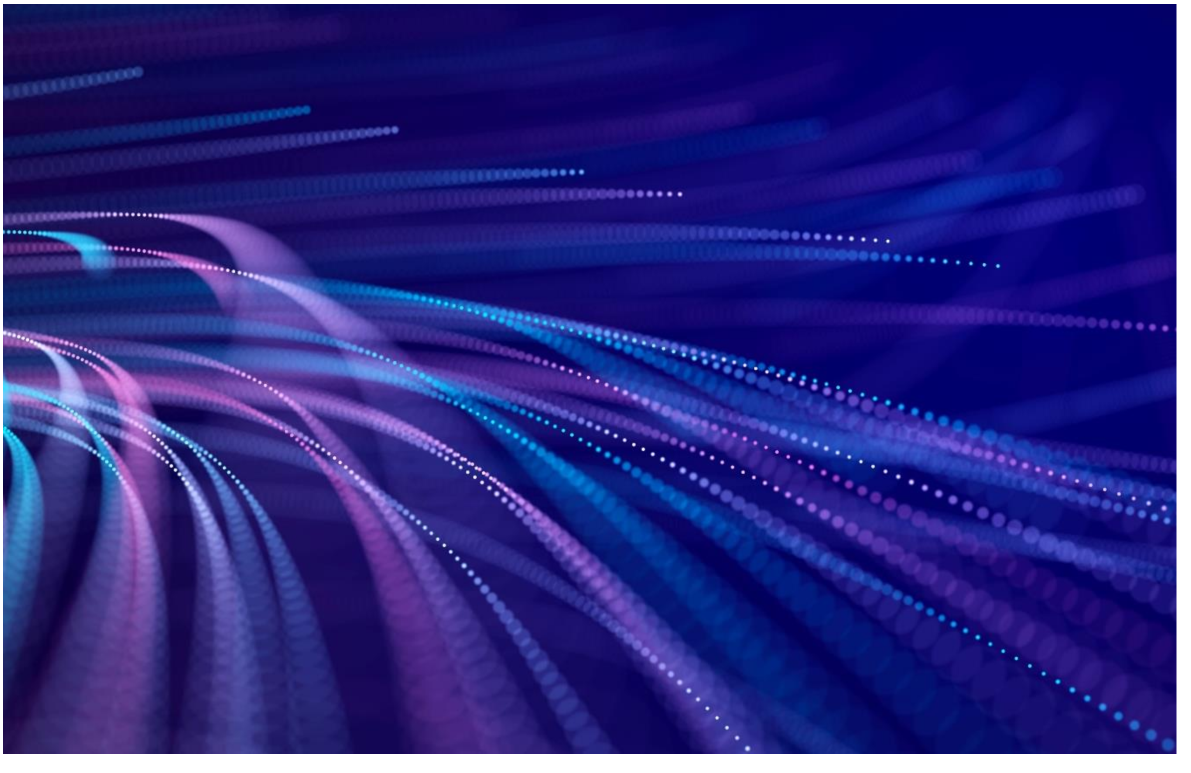
Private Equity: Where Does Smart Capital Go from Here?

Managers that adapt their deal structure to provide creative capital solutions, for example through structured equity, convertible or preferred instruments, mezzanine structures or venture debt can help support growth without forcing ownership change or significant equity dilution. The flexibility to toggle between control and non-control approaches can help optimise risk/return profiles whilst solving for target company objectives.

As we evaluate the impact of major trends shaping private equity in the next decade, we believe private markets remain an integral part of a multi-asset portfolio for long-horizon investors, as they offer a broader exposure to the real economy.

Against the backdrop of slower exits, higher rates and greater returns dispersion, alpha in the next decade will be shaped less by scale and leverage, but more by earnings growth, value-creation and leaning into opportunities with attractive entry valuations. Mid-market buyouts, secondaries, co-investments and Asia-focussed investment strategies are no longer niche areas, but core components of a more resilient, forward-looking portfolio.

Realising the full potential of this asset class in the coming decade will require manager selectivity, intentional strategy and geographic selection, grounded by a disciplined portfolio construction and governance framework.



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