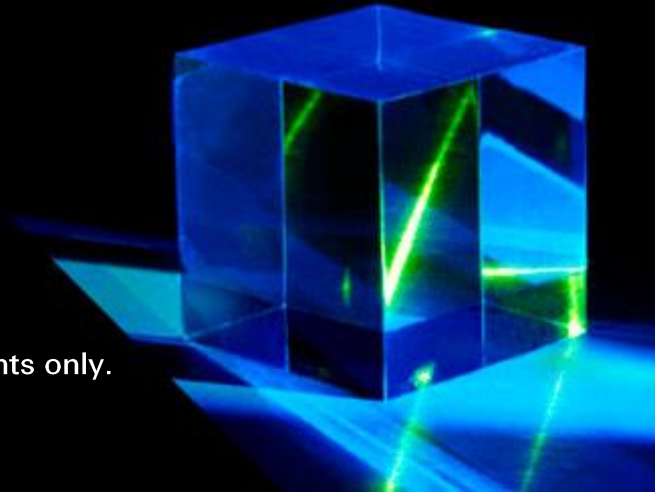


Weathering the storm: A brighter outlook for private equity?

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Private equity investors have had a rocky ride in 2025. The Trump administration's tariffs and rising geopolitical risks have created uncertainty and emphasised the importance for investors to be aligned with the best private equity GPs.

HSBC Alternatives' Kutty Dutta (KD), Head of Secondaries and Patrick Sixsmith (PS), Head of Co-Investments provide their views on the outlook for private equity.

Q: How would you evaluate the state of private equity in the first half of 2025?

KD: It's been quite a bifurcated year so far. Private equity deal flow started well in the first quarter, continuing the 2024 trend of rising dealmaking and exits. The anticipation had been that a pro-business Trump administration could provide a further boost to private equity activity.

However, the introduction of the 2 April 'Liberation Day' tariffs and the general unpredictability of policymaking from the Trump administration has put pressure on dealmaking. Preliminary second quarter figures show that estimated deal value is down 15.3% compared to the first quarter and marginally down year-on-year¹.

Meanwhile, exits have been challenged by a quieter M&A and IPO market, traditional exit routes for privately held companies. Holding periods have increased and distributions as a proportion of NAV are low by historical standards.

The slowdown in dealmaking and exits has meant LPs are not able to recycle distributions into new allocations. Fundraising in Q1 2025 was down 12% compared to the previous quarter and almost 30% on a year-over-year basis. The number of funds raising has also fallen by 11% compared to the previous quarter and has almost halved compared to a year prior².

On a positive note, the exits that we are seeing are happening at attractive multiples highlighting GPs' ability to continue to generate value despite market challenges.

PS: Yes, we shouldn't lose sight of the bigger picture – there are positive signs on the horizon. Despite the headwinds, many of the GPs in which we invest are creating value in sectors with secular tailwinds, such as technology (particularly enterprise software), services, and healthcare. These sectors have so far been less affected by market turbulence, though we are closely monitoring developments in the US healthcare market on the back of the 'Big, Beautiful Bill'.

¹ Pitchbook (July 2025)

² Q2 2025 figures are not yet published at the time of writing.

Importantly, though, private equity has historically achieved strong returns after downturns, such as after the global financial crisis and the COVID pandemic. GPs can often purchase companies at lower valuations and then benefit from rebounds in the macroeconomic environment. There is dry powder waiting to be deployed – especially with the best GPs, who also tend to be our partners – once market conditions settle, confidence returns, and valuation gaps narrow. With further clarity around tariffs (of which there is ever more, despite some new Trump administration curveballs), we should see a resurgence of activity.

So, while the recent market conditions have been challenging, when we step back, we see the longer-term outlook for private equity is brighter.

Q: Do you have examples of sponsors creating value and achieving attractive exits in your portfolios?

KD: Yes, despite the market challenges, the GPs in our portfolios have conducted some great deals and achieved attractive exits this year:

In 2021, GP 1 acquired the business-to-consumer gaming businesses of a multinational gaming products and services company. The GP received approximately US\$596m proceeds from the company (relative to ~152.0% of invested capital for this position). As of Q4 2024, Gross IRR stands at 92.0% and the gross MOIC stands at 6.7x. Over five years, the GP transformed the company from a primarily retail-based gaming operator into Italy's leading omnichannel gaming champion. This transformation was driven by a strategic series of acquisitions executed at attractive multiples and structured creatively to minimise equity outlay. The GP capitalised on deep sector expertise, market misperceptions, and regulatory clarity in Italy. Value creation was sustained through disciplined M&A, proprietary tech integration, and proactive financing strategies.

In June 2025, GP 2 signed an agreement to sell a multinational digital entertainments company for an enterprise value of \$1.1 billion. The transaction will bring total distributions from the company to \$1.8 billion following earlier non-core divestments and refinancings and deliver a final return of a 2.8x gross multiple on invested capital (MOIC) and a 24% gross IRR. The GP privatised the company from the Tokyo Stock Exchange in 2019 and completed a wholesale transformation of the business by disposing of more than 10 non-core subsidiaries and refocusing on its core automotive technologies. This final sale to a strategic player demonstrates the successful transformation of the company under the GP's ownership from a distressed and disorganised business into an institutionalised global automotive technology company with a clear path for long-term growth.

In April 2025, GP 3 sold a data-driven, national video platform, to an affiliate of another GP for a \$550 million purchase price. Under GP, the company completed several major strategic initiatives, including recruiting key additions to the company's management team; scaling the sales and marketing teams; expanding analytics capabilities; completing a strategic merger; investing in programmatic capabilities; and diversifying revenue sources. In total, the consideration represents a 4.9x Gross MOIC and 29% Gross IRR.

GP 4 acquired a revenue cycle management organisation servicing healthcare provider in 2019. Following a competitive sale process, the GP signed an agreement to sell the company at a gross MOIC of 4.7x and a 29% gross IRR, materially higher than the Q1 2025 valuation. The sale is expected to close in Q3 2025. The prospective sale underscores growing interest in healthcare-related business process outsourcing and technology services, amid digital transformation and cost pressures across US healthcare systems.

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Q: These are great examples, but many GPs and LPs are struggling to exit investments. How are investors reacting to an environment of lower exits and distributions?

KD: GPs have turned to a broad array of alternative liquidity strategies to address the exit challenge – either returning capital directly to investors or reducing capital calls. In 2024, there was record secondary deal volume at \$160bn and we expect this to continue in 2025.

A recent survey³ found that 40% of investors view selling assets into the secondaries market as a top priority – the highest reading recorded since the survey’s inception in 2020. This has long been a key tool for an LP to manage its portfolio.

Much of the growth in the secondary market has been from GP-led secondaries, which commonly involve the transfer of assets to a continuation vehicle to extend the ownership period of certain portfolio companies. LPs have the option to roll over their interest into the vehicle and maintain exposure or to liquidate.

LPs can use secondaries to address the so-called ‘denominator effect’ when an investor’s relative allocation to private assets increases beyond their target allocation ranges. These LPs may look to the secondary market to reduce their private fund exposure to bring their portfolios into balance.

There are also benefits for secondary buyers. LP-led secondaries (in which LPs sell their stake in a private equity fund or portfolio of funds to another investor), allow secondary buyers to invest in proven assets that have a track record, avoiding the blind pool risk associated with primary investments (though with commensurately reduced return expectations on a money multiple basis). Secondaries can also provide relatively early liquidity and allow quicker exits as the assets are more mature.

GPs are also using debt to create liquidity, through dividend recapitalisations and net asset value (NAV) financing. These solutions can help return funds to investors but are only a temporary solution to the scarcity of organic exits.

Q: Co-investments have become attractive for many LPs. What is their role in investor portfolios?

PS: Co-investments can offer several clear benefits for LPs. Traditional private equity funds typically charge a 2% management fee and 20% carried interest, whereas co-investments are usually structured without these fees (although some other fees may be present). Co-investments also offer the potential for higher returns. A 2023 study found that multi-manager co-investment funds generated higher returns (net IRR) and lower dispersion than other types of private equity funds⁴. Clearly, performance can vary based on deal selection and market conditions so thorough due diligence is key.

LPs can also have more control and visibility with co-investments. They are often involved in analysis of specific deals and managers, alongside the GP. Co-investments allow greater flexibility in capital deployment than blind pool investments, particularly important in volatile market conditions. Risk sharing and alignment between GPs and LPs inherent in co-investments is also beneficial in the current environment.

All this explains why co-investment activity was strong in 2024 and the first quarter of 2025. Following the announcement of US tariffs, we are still seeing deals but not at the same pace. However, we expect activity to pick up

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³ Adams Street Partners’ 2025 Global Investor Survey: [Offloading stakes a top consideration for 40% of LPs in 2025 – report](#)

⁴ GSAM: [The-Case-for-Co-Investments.pdf](#)

again shortly. Presently, at HSBC Alternatives, we are evaluating fifteen live co-investment deals, and we expect this number will increase as clarity emerges on US trade policy.

Overall, we believe co-investments have a key role to play in many LP portfolios, but LPs should carefully consider the risks and whether co-investments are appropriate for their needs and objectives. A significant level of LP governance and resources is required to conduct due diligence and monitoring of deals effectively.

Q: Recent years have seen evergreen funds rising in popularity. Could you outline your views on this trend and the risks for retail investors?

KD: In general, we support the rise of semi-liquid evergreen funds in the context of the democratisation of private equity. The recent creation of new structures like ELTIFs (European long-term investment funds) and UK LTAFs (Long-Term Asset Funds) promise to expand long-term private markets access beyond traditional institutional investors.

The opportunity set is huge. Research shows that individuals globally hold roughly the same amount of financial assets as institutions (\$150 trillion), yet they have a fraction of the allocation to private markets⁵.

Evergreen funds possess features that make them particularly attractive to high-net-worth investors, including smaller investment minimums, continuous fundraising, and periodic, partial liquidity. They also offer faster deployment, mitigating the J-curve effect.

Given these benefits, evergreen funds are gaining in popularity among private wealth investors. Pitchbook estimates that approximately \$2.7 trillion is currently managed in various indefinite-life formats globally and this is projected to reach \$4.4 trillion by the end of 2029, of which \$1.1 trillion will come from wealth-focussed evergreen funds⁶.

PS: Yes, new evergreen private equity funds can be seeded with mature portfolios acquired through secondary transactions or transferred from a GP's balance sheet. This provides a mature and diversified base, which can be scaled with co-investments and primary fund commitments.

However, investors should be aware of the risks, which generally fall into three categories. First, as the name suggests, 'semi-liquid' funds offer partial, rather than full liquidity. Investors can redeem their funds up to a limit each quarter. Second, evergreen funds are more operationally complex for a GP to run than closed-end funds, requiring oversight of both portfolio management and fund operations, and adherence to regulatory requirements. Given the nascent nature of the space, these structures have not been tested in times of serious market dislocations. Third, is the wide dispersion of returns among GPs managing evergreen products. Many GPs market their ability to capture the illiquidity premium associated with closed-end drawdown funds, but even over shorter timeframes, return dispersion has been wide⁷.

So, caveat emptor – or buyer beware – is particularly advisable for evergreen funds. Investors should do their research before allocating, bearing in mind the risks, and that asset mix, portfolio construction, and strategy focus all play a key role in shaping outcomes. As these fund structures grow, they will benefit from institutionalisation, particularly the introduction of standardised and relevant return benchmarks.

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⁵ 3: "How Tokenization Can Fuel a \$400 Billion Opportunity in Distributing Alternative Investments to Individuals," Bain & Company, Tyrone Lobban, et al., December 2023.

⁶ "2029 Private Market Horizons Forecasting", Pitchbook (May 2025)

⁷ Pitchbook (May 2025)

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