Fundraising, deal–making, and rates: private capital trends under the spotlight

Schulte Roth & Zabel's Stephanie Breslow, Peter Greene, and Joseph A. Smith address three major trends in private capital for 2025.

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How will fundraising for both multi- and single-strategy managers compare in 2025?
Peter: Consolidation will continue to be a theme in 2025, with the biggest of the big attracting the most assets. Multi-strategy managers had more fundraising success than single-strategy managers in late 2022 and 2023. That said, there's still a place for the single-strategy manager. It's harder for the less well-pedigreed single-strategy managers to raise money now than it was five years ago, but they can succeed. One interesting byproduct from this era of consolidation is that many of the biggest funds are taking well-pedigreed single-strategy emerging managers under their wings by offering them capital and back-and-middle office support in return for an initial period of exclusivity. So, that means that the universe of single-strategy managers going out to the market may seem smaller because the big players are starting to seed some of these opportunities.

At the potential end of the rate-rise cycle, what is the outlook for those reliant on credit?
Stephanie: In this high-rate environment, the winners were able to lend at higher rates, and the losers were people who had to borrow at higher rates, including some whose strategies were not in themselves interest-rate correlated, but who still had to compete for investors against higher rates in the risk-free market.

It was a challenge in private equity when funds were trying to do leverage buyouts or other leverage-dependent deals, and that leverage was more expensive. It was a challenge for the portfolio companies who used leverage. It was a challenge for funds using subscription lines because, historically, those had been virtually free, but with high interest rates, they are a meaningful expense. Sponsors of distressed credit strategies, found new buying and lending opportunities, but high interest rates pushed some already troubled assets into further decline. And of course, it was harder to get people out of distress using leverage, because it was so expensive.

Now declining interest rates should be good for the buyout market. It will be easier to add leverage and buy portfolio companies. It should make strategies that are buying recurrent cash flows – for example, music rights – and equity investments relatively more appealing when compared to risk-free returns. On the other hand, funds that lend will face lower returns and less desperate borrowers. There are opportunities and tradeoffs in both directions.

Will the resumption of deal-making activity arrive as a trickle or a flood?
Joe: There is enormous pent-up demand for a good year with lots of transactional deal flow. Whether it's a trickle or a flood will depend on exactly where interest rates land. Moderately lowered rates would lead to a more sustainable recovery, and I think that's what the Fed is shooting for.

More interesting are the potential secondary (pardon the pun) repercussions of lower rates. GPs have a pent-up demand to exit their portfolio companies, because buyers are scarce in a high-rate environment. But LP's have been more frustrated because they haven't been getting sufficient distributions to be able to redeploy capital, so fundraising has been slow. This is one of the key factors leading to the fantastic growth of the sponsor-led secondary market, where secondary funds still have some dry powder from the prior fundraising cycle, and LP's in the primary funds have had a strong cognitive bias to cash-out (rather than roll-forward into continuation vehicles), so as to put some good marks on the board in an otherwise dry economy. This may well change when, with moderately lower rates, customary trade sales and pass-the-parcel deal flow resumes.

Hence, I think there will be a significant increase in buyout activity, as well as a return of real asset activity, although I think that will continue to be sector-specific, with a continued focus on infrastructure, logistics and tech-related property assets. In sum, traditional deal flow will increase markedly in 2025 and beyond.