Institutional investors think private markets will do better in long term – survey

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The vast majority of institutional investors (86%) expect private markets to outperform public markets over the long term due to their emphasis on innovative, high-growth companies and sectors, according to a survey by Adams Street Partners of institutional limited partners in private markets issued Wednesday.

The third annual Global Investor Survey also showed that respondents think private markets are more resilient than public markets, particularly during periods of heightened short-term uncertainty and risk.

Moreover, inflation, rising interest rates, volatility and geopolitical risks were named as the top investment concerns of respondents for 2023.

Specifically, 55% of respondents identified rising interest rates/inflation among their top three challenges for the year, followed by market volatility (46%) and geopolitical tensions (29%).

The survey also revealed 26% of respondents ranked North America as the most favored geographic region for investment opportunities this year, followed by China (22%) and Europe (18%). The survey cited a study by Preqin that projected that private capital assets under management in North America will grow by 12.7% annually between 2021 and 2027.

By sector, some 40% of respondents said technology and health care were likely to offer the best investment opportunities for private markets in 2023, up from 35% last year. Tech and health care were followed by impact and/or environmental, social and governance; and venture capital opportunities (both at 33%).

However, the survey also found that fewer respondents are considering ESG as a determining factor in their investment decisions — 56% in 2023, down from 67% in the prior year. The report speculated that a potential reason for this decline might be "macroeconomic disruption, in particular the impact on global energy markets of Russia's invasion of Ukraine."

The survey also revealed that respondents are somewhat more cautious about adding new managers — some 60% said they will do so this year, but that figure is down from 64% in 2022.

In addition, 14% of respondents said they will not increase commitments to new or existing managers in 2023, up from 6% last year.

Investors are also placing more of a premium on managers with strong track records — this quality was cited as important by 32% of respondents, up from 26% in 2022.

"Institutional investors have become more discerning, putting fear of missing out behind them," said Jeffrey Diehl, managing partner and head of investments at Adams Street, in a news release issued in conjunction with the survey. "Investors have indicated they are seeking resilient companies with pricing power, meaningful share in growing markets, strong balance sheets, and a clear path to profitability."

Mr. Diehl added that investors are "increasingly placing their trust in global private markets managers that emphasize strong diligence, fundamental analysis and sector expertise as they seek to produce attractive risk-adjusted returns through market cycles."

The survey of 106 LPs in the U.S., Europe and the Asia-Pacific region was conducted in the final six weeks of 2022.

Adams Street is a private markets investment firm with more than $52 billion in assets under management.

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