BLUE OWL

2024 GP Strategic Capital Outlook

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Introduction

For over a decade, our GP Strategic Capital platform has been at the forefront of providing innovative, long-term minority equity and financing solutions to leading private capital managers. As we reflect on the last twelve months, alternative assets remain an important component of multi-asset portfolios, as investors can look to hedge against public markets and mitigate portfolio asset value volatility. We have seen private capital fundraising and realizations from underlying portfolios have both significantly slowed industry-wide, our diverse portfolios of stakes in large, institutionalized private capital firms have continued to produce both cash flow and capital appreciation. Looking ahead to 2024, we believe that the private market is positioned to continue to provide opportunities for the success of the strategy.

Considering the coming year, we offer five key investment themes for the private capital industry broadly, and GP stakes specifically, in 2024.

1. Private equity remains a dominant private capital asset class
2. Larger managers are proving to be resilient
3. Active asset management is key to consistent outperformance
4. M&A is an accelerating trend
5. The retail channel remains under-allocated to private markets

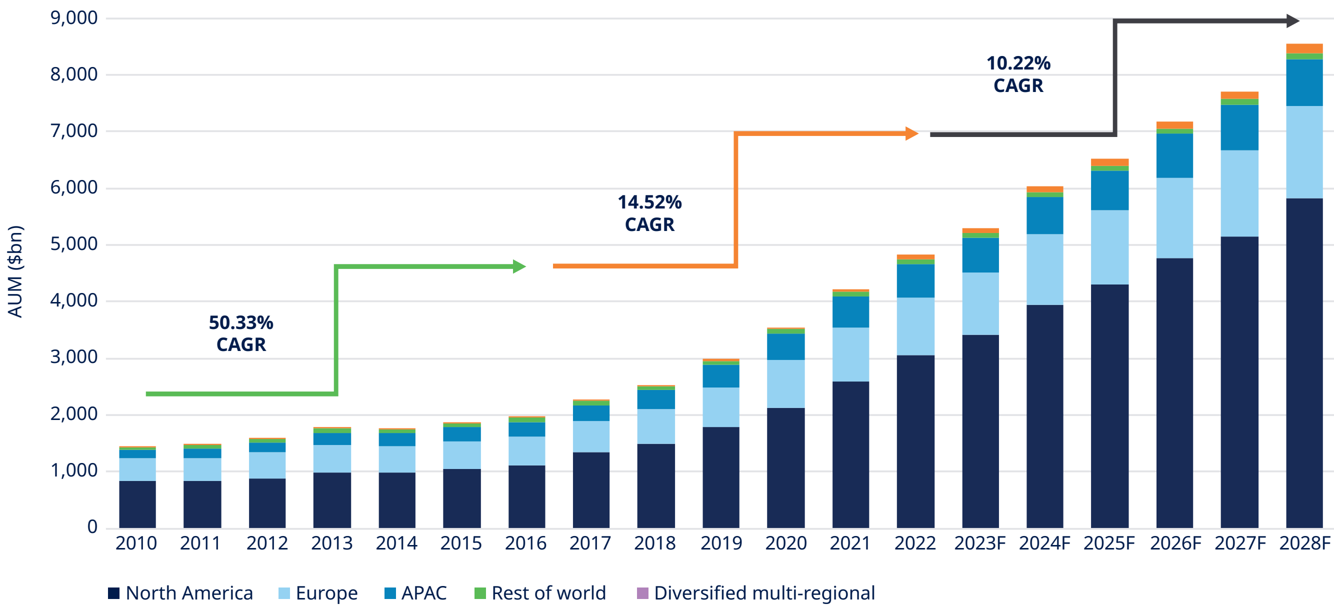
1 Private equity remains a dominant private capital asset class

We believe private equity remains one of the dominant private capital asset classes in North America. Private equity assets under management are expected to reach $8.5 trillion by 2028, which represents a 10% compound annualized growth rate in the period from 2022 to 2028[1]. As of year-end 2022, private equity AUM was $4.8 trillion.[1] Private equity experienced rapid growth, particularly in buyout strategies, between the start of 2019 and the third quarter of 2022, growing at a compound annual growth rate (CAGR) of 22%, compared with the global average of 18.4%.[2]

North America-based funds are forecasted to reach $5.8 trillion in 2028, which is equivalent to 68.1% of the global private equity market in 2028, compared with 64.3% in 2023.[1] We are excited to continue to watch this market grow into the future.

Figure 1

Private equity assets under management - Globally[1]



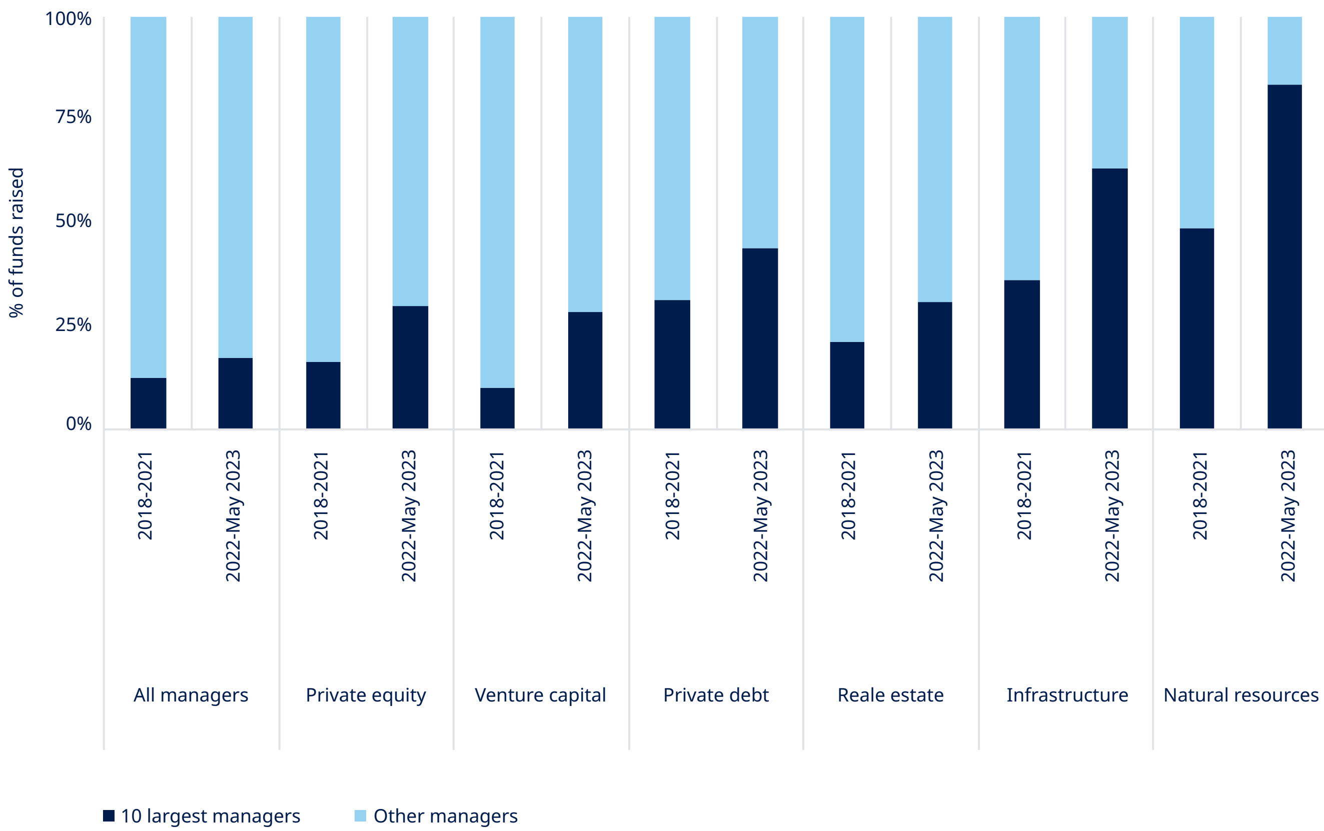
[1] Source: Preqin, "2024 Global Report Private Equity", December 2023.
[2] Source: Preqin, "Alternatives in North America 2023", September 2023.

2 Larger managers are proving to be resilient

The overall fundraising decline has been partially offset by a shift in assets to larger, more established, “brand-name” firms.[1] Funds raised by the ten largest managers increased in every asset class between 2018 and 2021, and from 2022 to May 2023.[2] For example, the ten largest managers in private equity took 30% of LP commitments in the latter period, an increase from 17% in 2018 to 2022.[2]

Figure 2

Assets raised by strategy[2]

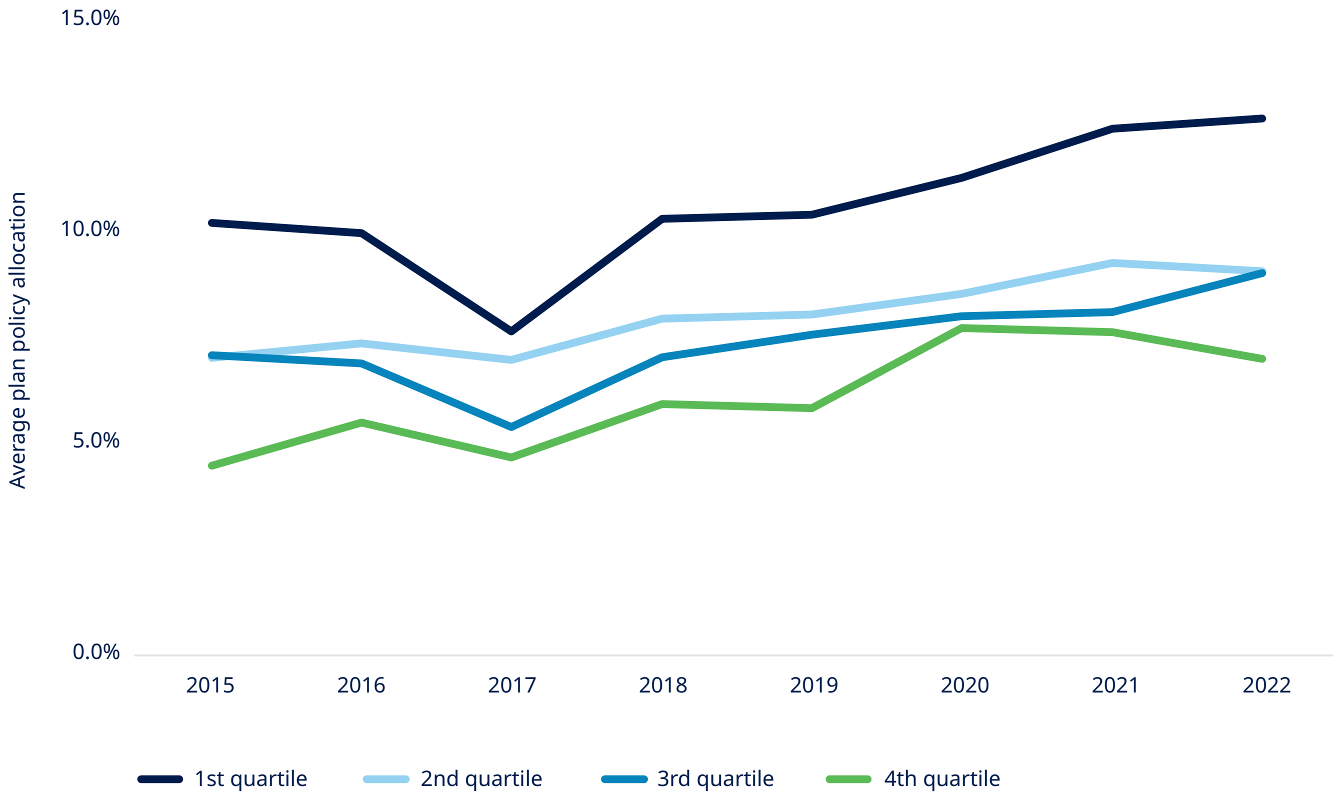


[1] Source: Preqin, “2024 Global Report Private Equity”, December 2023.
[2] Source: Preqin, “Alternatives in North America 2023”, September 2023.

Additionally, we believe that large pension plans are not likely to reduce their allocations to their larger partners, as many investors are likely seeking to concentrate their manager relationships across strategies and, in many cases, asset classes. The data below supports this conclusion as the average target allocation across all asset classes for most public pensions has increased since 2017, but more so for the largest plans.[1] As of the 2022 plan year, the average target private equity allocation for the top quartile was 13%, an increase from 9% in the 2017 plan year.[1]

Figure 3

Pension plan allocations to alternatives[2]



[1] Source: Preqin, "Alternatives in North America 2023", September 2023

[2] Source: Preqin, "Alternatives in North America 2023", September 2023. Quartile rankings are based on a fund's pre-assigned benchmark grouping. Market Benchmarks are made based on funds' vintage, investment strategy, and geographic focus. Within each benchmark group, performance metrics of called-up, distributed, unrealized value, multiples, and net IRRs are calculated for the following:

- Median – the middle value from an ordered set of a specific benchmark grouping (for each performance metric).
- Average – the mean net IRR is taken from a specific benchmark grouping to calculate the average fund performance metrics.
- Pooled – accounts for the timing of calls/distributions; aggregates cash flows of constituent funds and calculates resultant net IRRs.
- Weighted – takes the performance ratios of each individual fund and calculates a weighted average using the size of each fund.

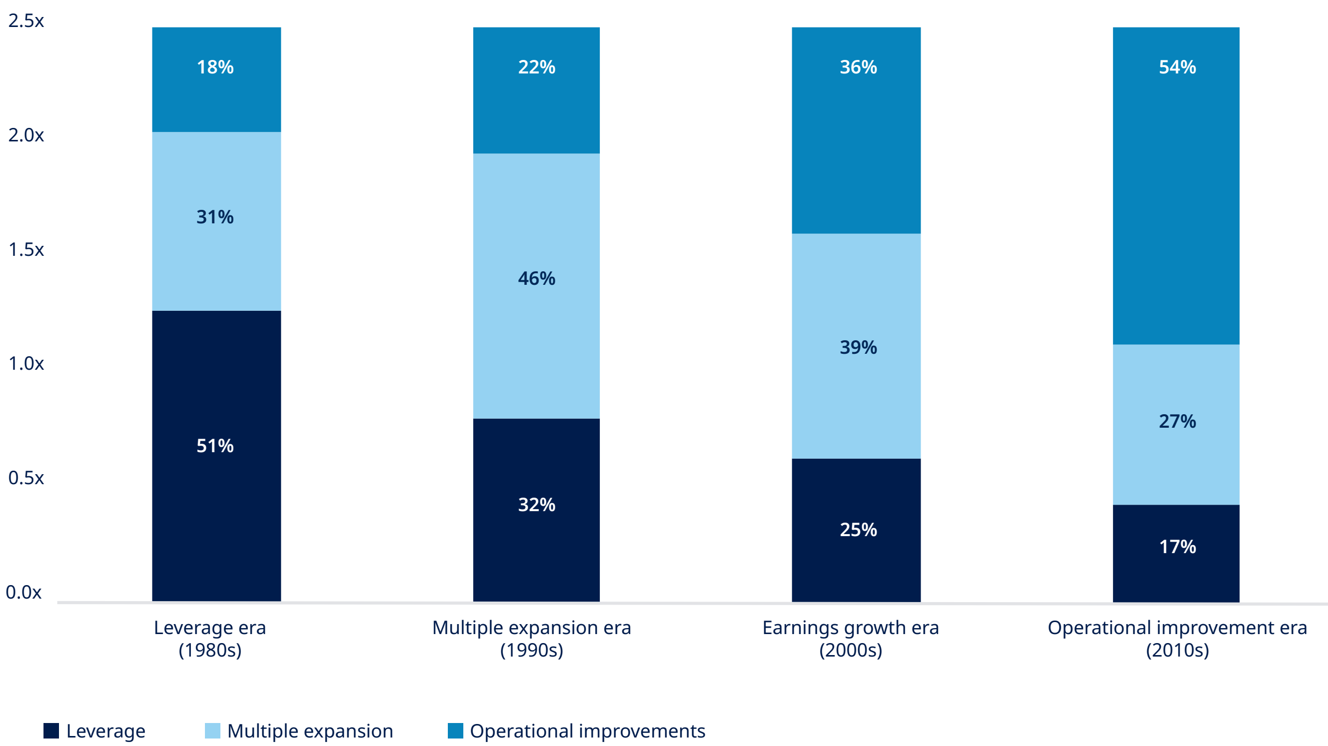
Within each benchmark, funds are assigned a Quartile Ranking – an easy indicator of how a fund is performing relative to other constituents in the benchmark group. The ranking applies to funds that are included in our 'most up-to-date' range, i.e. have reported data within the past 5 quarters. Both the multiple and net IRR rankings of each constituent fund are used to determine the fund's overall quartile rank, with equal weighting. If one of the two metrics is unknown, its ranking is estimated based on the known metric's ranking. In instances where the sample size is too small for a specific benchmark group, the fund will be compared to a broader category.

3 Active asset management is key to consistent outperformance

Leading private markets managers historically focus on fundamental operational transformation in seeking to generate alpha. Approximately 80% of fund managers with more than $10 billion in AUM engage in value creation planning before making the decision to invest.[1] Despite widespread misconceptions to the contrary, leverage as a source of private equity value creation has declined over time, leaving room for operational improvements to grow as the main generator of returns.[2] We expect this trend to continue into 2024, creating the possibility for outsized performance for many private market managers who field large operational/value creation teams.

Figure 4

Sources of value created by private equity managers[2]



[1] Source: KPMG 2022 Market Insights Survey covering 120 PE firms in the US (44%) and UK (56%) of whom 22% had AUM of>$10bn.

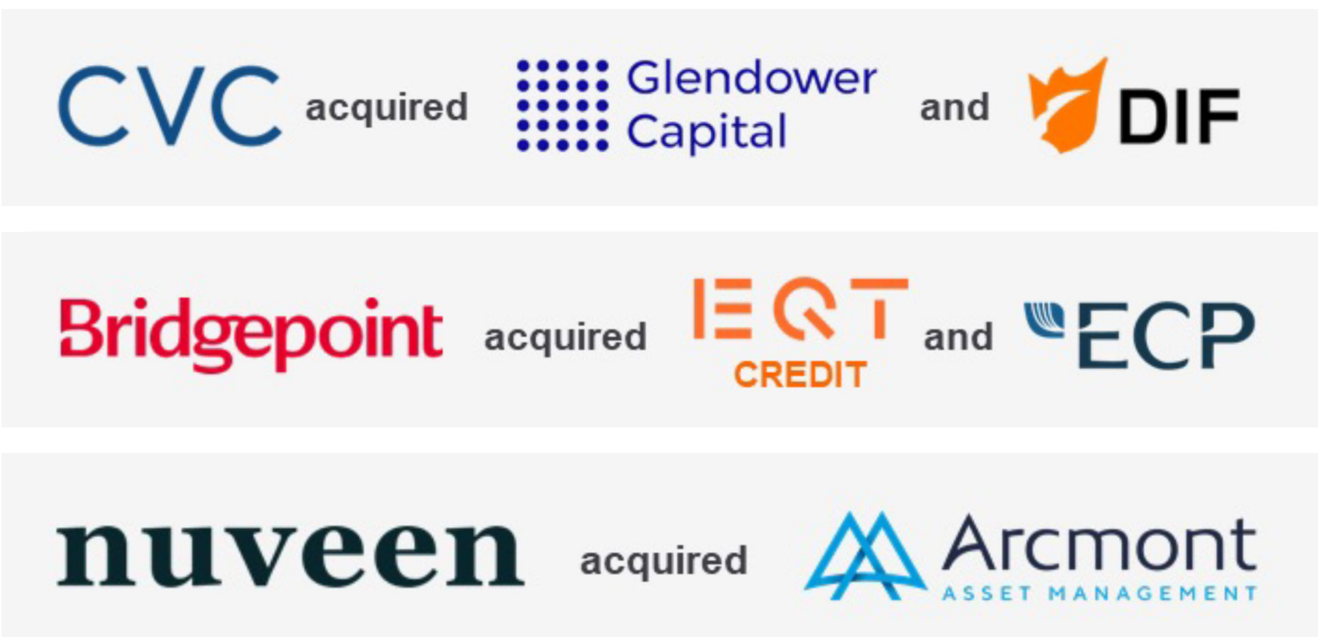
[2] Source: The Advantage of Persistence: How the Best Private Equity Firms "Beat the Fade", February 2008.

4 M&A is an accelerating trend

Large asset managers seek to expand their product offerings and increase AUM. This growth is typically created organically, by launching new funds with internal teams. Recently, however, the pace of M&A activity among private markets firms has increased substantially, driven by multiple motivations, including enhancing the scale and global presence of a firm or filling product gaps through targeted acquisitions or team lift-outs. M&A also provides traditional asset managers the opportunity to expand into private markets or new geographies more quickly and efficiently than attempting to launch new products in the face of a challenging fundraising environment. Nuveen's recent acquisition of Arcmont, a leading European private credit business (and Blue Owl GP Stakes Fund IV's partner manager), is an illustration of this trend.

Other recent strategic M&A across our partner base includes CVC acquiring Glendower Capital and DIF Infrastructure, as well as Bridgepoint acquiring EQT's credit business as well as ECP. We believe this trend will continue in 2024.

M&A in private markets continues to accelerate

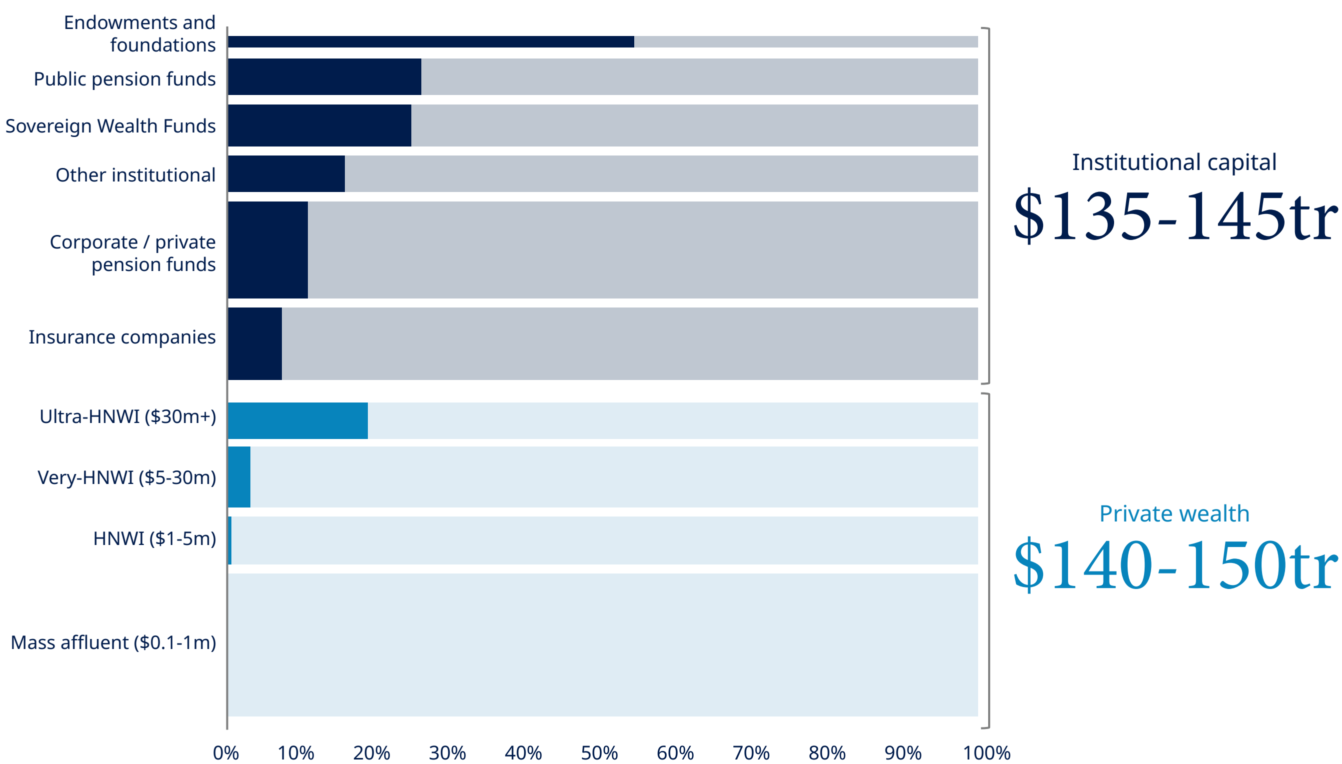


5 The retail channel remains under-allocated to private markets

The retail channel remains a vast, largely untapped market that can be increasingly attractive to alternative asset managers seeking to sustain double-digit growth. Individual investors hold roughly 50% of the estimated $275 trillion to $295 trillion of global assets currently under management, yet these same investors represent just 16% of AUM held by alternative investment funds.[1] This disjunction alone can be a strong motivation for alternative managers to launch funds that can provide high-net-worth individuals access to various alternative asset classes. We further believe that large, institutionalized firms can benefit the most, at least in early days, from increased retail investment, as these firms may have the resources to build-out the necessary infrastructure to address the manifold sales. Due to operational and regulatory complexities for this investor base, brand recognition may be the driving force to attract early investors.

Figure 5

Allocation to alternatives by investor type[1]



[1] Source: Bain & Company's Global Private Equity Report 2023, March 2023.

Conclusion

Even through a year of slower growth and fundraising, we believe that Blue Owl's GP Strategic Capital platform continues to be a partner of choice for both investors and managers. For fund investors, our strategy provided cash flow and access to the GP economics of a diversified set of leading private market managers spanning multiple asset classes, strategies and geographies around the world. For managers, bringing in a minority partner can provide an infusion of liquidity that can be used for various corporate purposes, as well as expertise, strategic guidance and access to invaluable networks through our Business Services Platform. We believe that our tenure and track record demonstrate that we are well-positioned to capitalize on the market opportunities having raised over 60% of capital raised by the ten largest funds pursuing our strategy[1] and having closed over 85% of transactions ever completed.[2] While no one can predict the future, we continue to believe that a strategy focused on acquiring minority stakes in a diversified set of leading, highly-profitable private capital firms can continue to perform well through many market cycles.

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[1] Source: Private Equity International, "Spot the Difference: How GP stakes firms differentiate their capital", as of April 19, 2023.

[2] Source: Represents transactions by GP Stakes vehicles since 2010 to July 31, 2023.

Important information

Unless otherwise indicated, the information referenced herein is as of September 30, 2023.

Past performance is not a guarantee of future results.

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