BLUE OWL

GP Strategic Capital Outlook

JANUARY 2025

Introduction

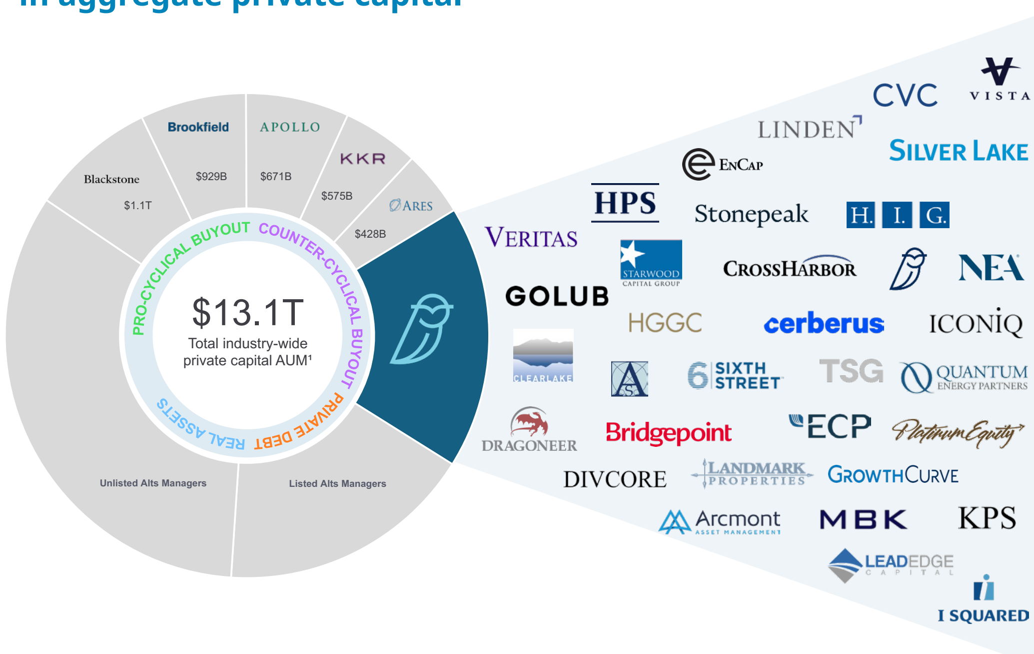
2024 may be remembered as a year where anticipation greatly exceeded action in private markets.

While that may have been true for deal and especially exit activity, beneath the surface we observed accelerating change as both GPs and LPs prepared to compete in the next era of private capital expansion.

Last year was another year of private market growth. While the footprint and profile of private capital in the real economy continued to evolve and expand, we believe that the immense product innovation and collaboration between private capital firms and the insurance and private wealth investor segments, both of which have been a source of net new flows, was more significant. Led by large managers with brand recognition and scale, clunky market infrastructure has been enhanced and, in some cases, replaced entirely.

Blue Owl GP Strategic Capital has equity partnerships with over 45 of the world's leading private capital firms who, in aggregate, manage over $2 trillion in assets, or approximately a fifth of total private capital AUM.[i] We believe that this broad array of partnerships, as well as our deep engagement with thousands of institutional and individual investors globally, gives us a unique vantage point over trends in the industry.

Our partner managers oversee ~$2.1T in aggregate private capital[ii]



In our key themes for 2025, discussed below, we highlight the industry's entry into a period of "survival of the fittest" – a world in which the gap will widen between top and bottom performers and the ability to balance overall fund performance with investor liquidity may well determine whether a manager can raise its next fund.

The competitive advantage of scale is only now being amplified

Our view

We have believed that “the big are getting bigger” for many years, but with an economic tide that raised all boats, it was less obvious how much of a firm’s investment performance and capital-raising came from the manager’s own efforts versus a benign market. Today, on the other hand, the competitive advantage afforded by scale is readily apparent, and significant scale is increasingly a prerequisite to participate in some of the industry’s most lucrative growth areas. When we talk about “scale” in this context, we are referring to the depth and breadth of a manager’s capital base and its ability to support scalable operational infrastructure.

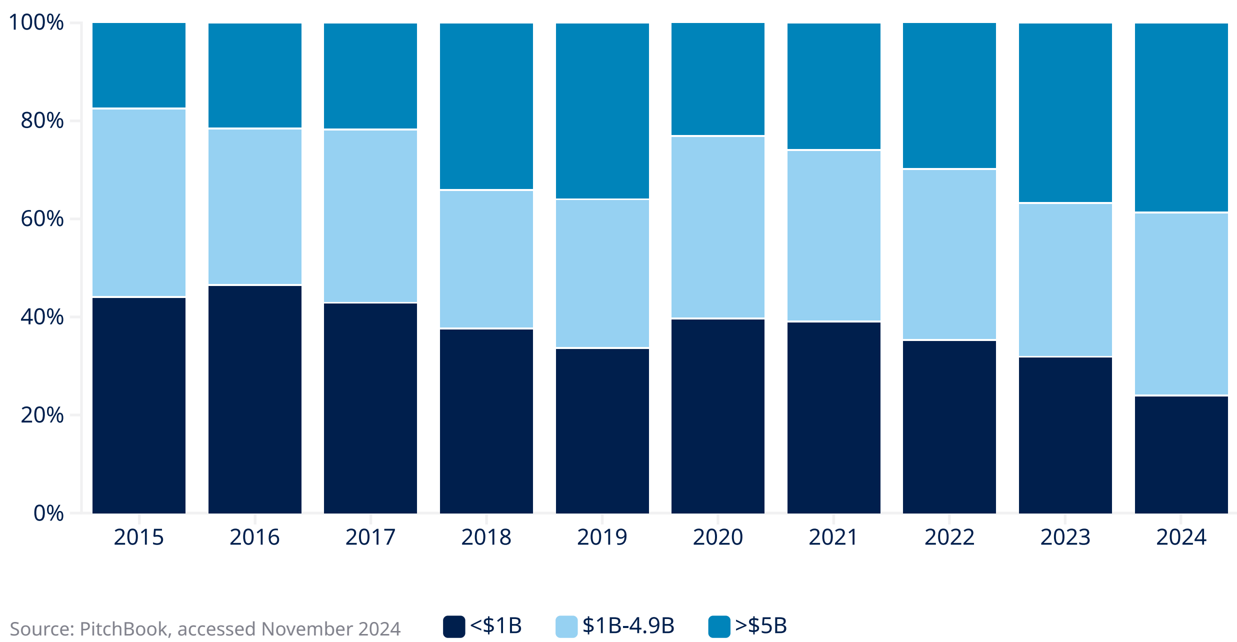
At the time of writing, the 50 largest funds closed in 2024 raised $475 billion and “mega-funds” (i.e., funds over $5 billion in size) commanded a record 39% share of total capital committed.[iii] Consolidation is even more acute for smaller vehicles: Data from Preqin shows that funds ranked below the top 300 raised only $56 billion in the first half of 2024, trending down from $356 billion for the whole of 2023.[iv]

The capital required to build new distribution and operational capabilities favors larger players. Highly-specialized teams with expert regulatory knowledge and local presence are vital to access the types of investors we believe are going to be the largest drivers of capital formation in private markets over the next decade – insurance, private wealth, and certain sovereign wealth investors.

> The depth and sophistication of private capital markets today may allow many businesses to never need to access public capital markets to finance and realize their strategic ambitions.

Large funds continue to take disproportionate share

Private capital raised by fund size



Source: PitchBook, accessed November 2024

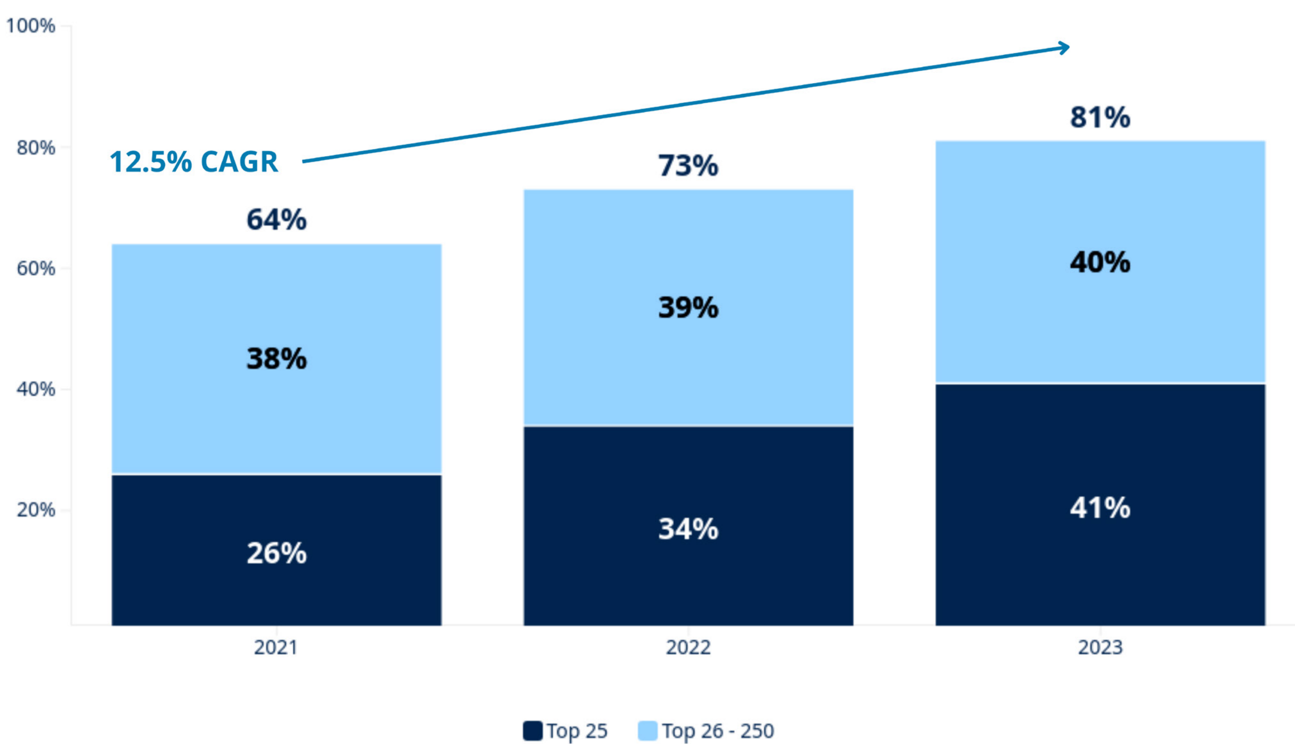
The convergence of insurance and alternative asset managers — particularly private credit managers — has also accelerated and now spread to banks, with a myriad of new partnerships announced in the last 12 months. Alternative asset managers have also expanded into the high-net-worth channel, with first movers like Blue Owl building scaled wealth platforms organically and others attempting to enter the market through acquisition or partnership. These channels have seen significant product innovation and, in the case of private wealth, huge improvement in investor accessibility that we believe lay the foundations for continued structural growth. Allocations vary dramatically across different investor types and the ability to navigate the increasingly complex and varied allocator ecosystem will create winners and losers among managers. The opportunity set in private capital markets is rapidly expanding, but the bar to participate effectively is ever higher.

Our strategy

Our partner managers are among the largest, most-diversified alternative asset management platforms, with an average of $52 billion AUM, and they have generally benefited from the acceleration of these broad market trends. Our partners manage 10 of the 50 largest funds to close in 2024, or 22% by value, across buyout, growth, private debt, and real assets.[v] Looking out over the next 12-18 months, our partner managers are expected to raise approximately $250 billion[vi] across a diverse range of strategies, 27% of which is expected to come from private wealth investors, versus 10% over the past 12 months[vii]. As managers progressively seek to diversify their sources of capital and investors continue to consolidate their manager relationships, we are confident that larger managers will continue to attract a disproportionate share of capital inflows.

LPs are consolidating their relationships with top GPs

Percentage share of private markets fundraising by year



Source: McKinsey — “Global Private Markets Review 2024: Private Markets in a Slower Era” — March 2024

The opportunity set in private capital markets is rapidly expanding

Our view

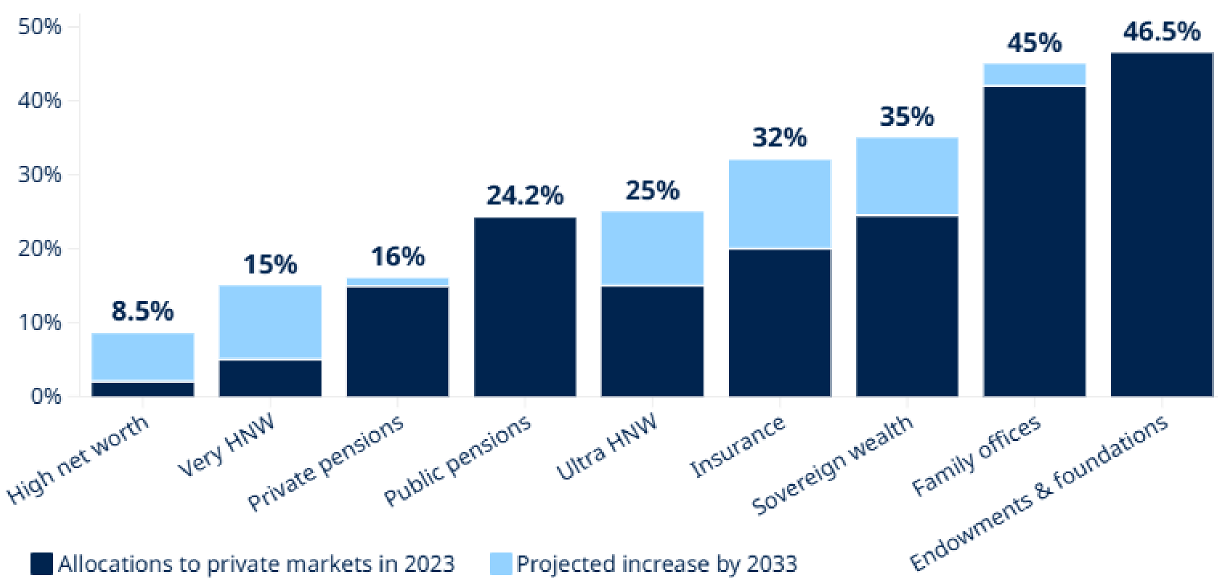
Private markets have experienced enormous growth and diversification since 2010, evolving from a niche alternative investment strategy supported by a limited group of early institutional investors to an increasingly significant force driving economic growth globally. At the same time, the number of large public companies has shrunk, active management has largely been supplanted by passive investing, IPOs have become increasingly rare, and indices have concentrated around large technology companies. We expect these trends to continue.

Pension funds, endowments, and certain sovereign funds turned to private equity early in an effort to generate outsized returns in the low interest rate and turbulent equity environment that followed the 2007-2008 Global Financial Crisis. These early investors provided private markets with a solid capital base whose organic growth, coupled with consistent outperformance versus other asset classes, resulted in exponential capital inflows over the next decade. We believe that the next wave of capital formation is underway and is being fuelled by product innovation and improved accessibility that accommodates a broader base of allocators seeking diversification, resilience, and excess return.

We also believe that one of the most significant structural shifts in private markets over the next decade will be what types of investors support continued industry growth. Small incremental percentage shifts in allocations from certain investors can have a meaningful AUM impact both to individual managers and the industry writ large. We conservatively expect at least $14 trillion of fresh capital to flow into private markets by 2033, solely driven by changes to target allocations away from traditional equities and bonds.

Different allocators, different allocations

Increases to private market allocations by 2033



Source: Data Sources: AUM Figures from Bain Capital Global Private Equity Report 2023 and held constant for 2033. 2023 and 2033 Private markets allocation figures for HNW, Very HNW from CapGemini World Wealth Report. 2023 Private markets allocation figures for Private Pension, Insurance, Public Pension, E&Fs from Preqin, Institutional Allocation Study 2024. 2023 Private markets allocation figures for UHNW from KKR Family Office Survey 2023. 2023 Private markets allocation figures for SWFs from Bain & CO Global Private Equity Report 2030. 2023 Private Market allocation figures for FOs from Forbes, "The Rise and Rise of The Family Office: An Analysis", January 11, 2024. 2033 Public Pension and E&F private market allocation figures are held constant. 2033 private market allocation figures for UHNW from CapGemini World Wealth Report 2033. 2033 private market allocation figures for Private Pension and E&Fs from Preqin (accessed June 2024). 2033 private market allocation figures for SWF from Global SWF Rankings and Categorisation (June 2024) and Global SWF Data Platform Annual Report 2024. 2033 private market allocation figures for Insurance from Allianz Global Insurance Report (May 2024) and KKR Insurance Survey 2024. 2033 private market allocation figures for Family Offices from Preqin and UBS Global Family Office Report 2024.

Managers seeking differentiated opportunities and idiosyncratic returns are increasingly encountering engaged entrepreneurs and family businesses, as the duration, alignment and bespoke nature of private capital is an attractive funding alternative to traditional bank finance or public capital markets. The depth and sophistication of private capital markets today may allow many businesses to never access public capital markets to finance and realize their strategic ambitions.

The inherent duration mismatch between traditional funding sources and an asset or enterprise's capital needs has also driven innovation and opportunity within the private capital universe. GP stakes investing itself is a fantastic example of such innovation, as GPs need to somehow finance fund commitments with 10-to-12-year terms. The GP stakes industry, which has grown to over $60 billion of dedicated capital raised over approximately 15 years[viii], was developed in direct response to this significant unmet need. We believe that we are seeing the start of a similar phenomenon in private credit, where specialty finance-led bank disintermediation may result in a doubling or even tripling of investable universe compared to today.

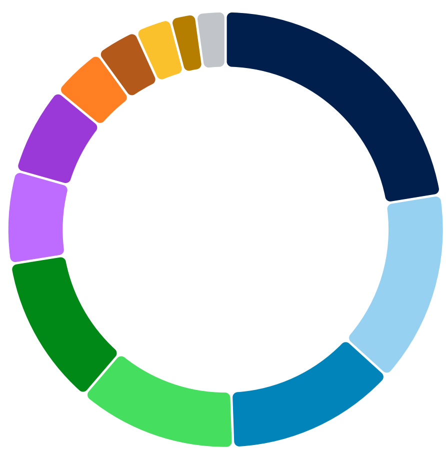
Our strategy

As a result of the ongoing relative decline of public markets discussed above, allocators seeking diversification and exposure to some of the most impactful megatrends in the coming years, such as the energy transition or education, will increasingly seek that exposure through private rather than public markets.

Our private markets-focused minority equity stake strategy has always sought to construct portfolios replicating the broad asset and economic exposure of private markets generally. We have not attempted to time the market, but rather to build portfolios that can perform across cycles with highly diversified exposure to pro-cyclical buyout and growth strategies, counter-cyclical value buyout firms, private credit managers, and real-asset focused businesses, among others. We expect the expansion of private capital markets to be reflected in our future portfolios with a level of diversification that we believe is not possible to replicate in any other single investment.

Broadly diversified

Blue Owl GP Stakes V- Partner manager portfolio companies by segment



Note: Partner Manager Portfolio Companies by Segment based upon information provided by Partner Managers and includes GPS V's existing Partner Managers. Note the chart excludes Public Credit investments and CLO AUM. Percentages calculated based upon fair value-weighted portfolio of GPS V's Partner Managers as of June 30st, 2024, or most-up to date available. Blue Owl does not control Partner Manager investment decisions. For illustrative and discussion purposes only. There is no guarantee the Fund's portfolio will exhibit similar attributes or characteristics.. Diversification does not guarantee a profit or protect against a loss in a declining financial market. This chart excludes WarwickRe which is a reinsurance business, credit investments (CBF) and new leaders (Growth Curve).

What value creation looks like in a "higher for longer" environment alongside an expected increase in M&A

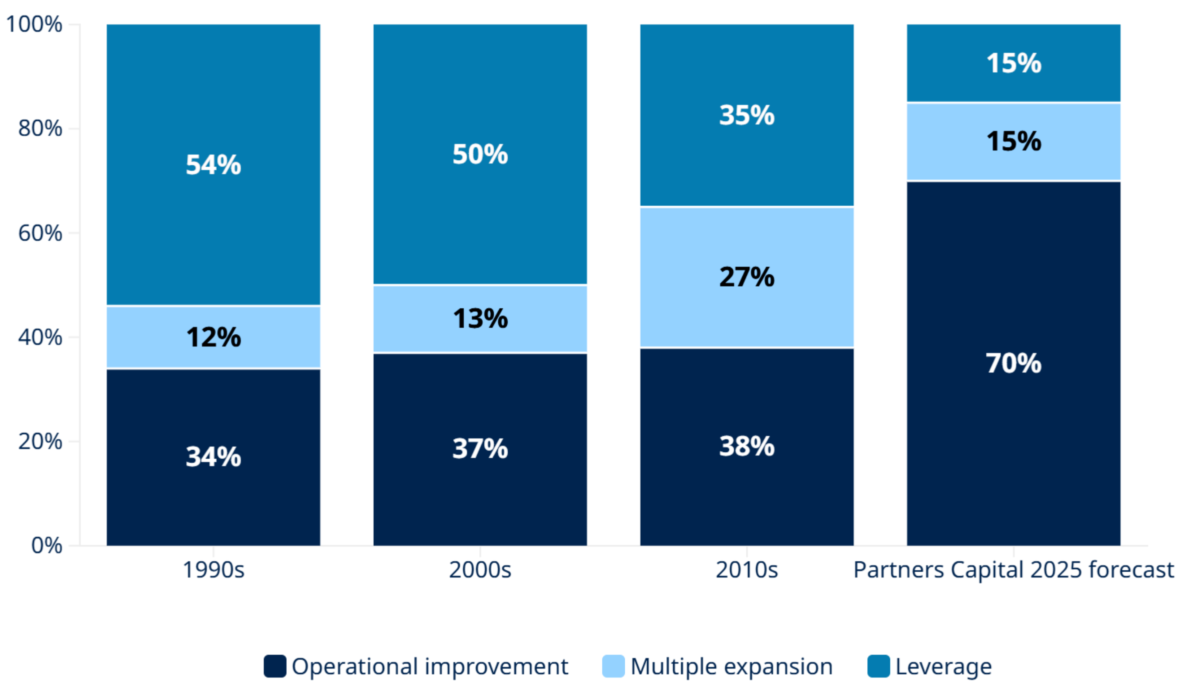
Our view

Operational improvement and active asset management are expected to be the primary drivers of value creation in the next 10 years. In what is likely to be a lower real growth environment (i.e., nominal growth ex-inflation), increasing revenue and improving margins will be critical for investment success. Investors can no longer rely on record low interest rates to enhance returns, and multiple expansion at exit is more likely to result from a manager's sourcing or partnership advantage at entry than from the availability of cheap financing for their eventual buyer.

While we are not yet brave or foolhardy enough to predict an opening of the deal floodgates, leading indicators suggest that we are entering a more constructive environment for M&A activity. A consensus has emerged that we are facing a "higher for longer" rates environment and a potential uptick in inflation, but some dealmakers at least feel increasingly confident underwriting with these factors in mind. We say "some" because replicating the returns of the previous decade against the current macro backdrop is going to require investment specialization, value-creation expertise, and sophisticated capital formation capabilities, as well as increasingly complex operating infrastructure.

Valuation and value creation remain top of mind

Median % of PE equity value creation by exit year



Source: Partners Capital Insights 2024, based on analysis of Bain Deal Edge

> The dispersion in returns within sectors tends to vary more widely than between sectors, suggesting that good deals can almost always be found if you have the right expertise.

Specialization will be key. The ability to identify and structure opportunities in niche markets has become a critical franchise differentiator in a challenging fundraising environment. The 2021-2022 investment period demonstrated that style drift and momentum trades can generate very bad outcomes. We believe investors should focus on deploying capital with specialists who have a demonstrated ability to transform assets or who are positioned to benefit from specifically identified long-term secular growth trends. Increased political uncertainty also makes us wary of long-term investments that seek to benefit from the current administration's public policy.

In "hot" sectors where valuations may continue to trend upward – such as technology and software or inflation-linked assets – underwriting discipline will be critical in identifying and evaluating potential investments. Paying full price in an environment of tighter and potentially more volatile financing conditions coupled with less stable geopolitical conditions, requires deep conviction and expertise to be done well. Even during initial acquisition diligence, investment teams should have identified their value creation plan and a group of potential ultimate buyers for the asset. Having a clear view of the next best owner of an asset based on efficiency, corporate strategy, or incremental value creation capabilities may help narrow the bid-offer spread when it comes time to sell.

Our strategy

We have a strong track record of partnership with specialists and category leaders. The dispersion in returns within sectors tends to vary more widely than between sectors, suggesting that good deals can almost always be found if you have the right expertise. While it is almost a cliche, it remains true that the locked-up nature of private capital allows managers to adopt a longer-term investment horizon that allows them to implement strategies and create value regardless of swings in short-term sentiment. We believe that specialist investors with a demonstrated advantage in sourcing assets and creating value through active management will continue to do so in the future, increasing their own market share while expanding the overall market.

Conclusion

We see enormous opportunity for both capital formation and deployment in private markets, supported by an expanding and diversifying opportunity set. That said, the private capital industry has entered a period of natural selection, in which a more specialized skill set is required to support consistent performance and scale is increasingly critical.

We have a track record of providing capital to some of the largest and best performing GPs globally, within a strategy that was designed to perform in varying economic conditions. Embedded structural trends in private markets are likely to benefit firms with scale. As a well-established, scaled player ourselves, we are well positioned to provide strategic growth capital to help fuel the next wave of market growth and expansion.

Authors

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Endnotes

i. Represents equity partnerships across Blue Owl GP Stakes I-V, the Blue Owl Financing Fund and the Blue Owl GP Stakes Advantage Fund as of December 2024

ii. 1. Preqin's "Future of Alternatives in 2028" as of October 17, 2023. 2. As of September 30, 2024

iii. Pitchbook – October 2024

iv. Preqin – "First Close Newsletter" – September 2024

v. Pitchbook – October 2024

vi. GPSC Partner Manager Fundraising Data as of November 1, 2024

vii. Recent partner survey

viii. Company announcements and Preqin Pro (fund series analysis) as of 12/31/2024

Important information

Unless otherwise indicated, the information referenced herein is as of December 31, 2024.

Past performance is not a guarantee of future results.

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