

# PE Hub

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## FINANCIAL SERVICES

# Cambridge Associates' Andrea Auerbach: 'After 10 long quarters, we are back in positive territory for buyouts'

'There are half a trillion dollars in distributions that should have happened by now. LPs have been reminding GPs of this fact for a while, increasing pressure for more exits in 2025.'

PE Hub's ongoing series of Q&As with private equity thought leaders continues here with Andrea Auerbach, the global head of private investments and a partner at Cambridge Associates.

Auerbach's career with CA spans more than two decades. She leads a 50-person team sourcing and underwriting private equity, growth equity, distressed, and venture capital funds, as well as direct, co-investment, and secondary investment opportunities. She also heads the firm's discretionary private investments practice. PE Hub and Buyouts profiled Auerbach in our special report, *Women in Private Equity: Class of 2024*.

Here, she provides insights on what to expect in PE dealmaking in 2025.

### What's your outlook for 2025?

The private markets are poised to emerge from the doldrums in 2025, with expected upticks in transaction, distribution, and fundraising activities as we move into the year.

One indication we are leaving the doldrums is CA's analysis regarding quarterly changes in private equity valuations for more recent vintage years – after 10 long quarters, we are back in positive territory for buyouts.

The same cannot be said quite yet about growth equity and venture capital, but we



Andrea Auerbach, Cambridge Associates

continue to actively monitor those asset classes for green shoots, which ultimately may emerge for specific managers or sectors, but I'll take them!

Fundraising seems to be closer to its long-term "if 2021 never happened" trend line, if not a little under, but a couple of funds could tip those scales into markedly positive territory for 2025.

Distributions are still not where we want them to be; in fact, we estimated there are half a trillion dollars in distributions that should have happened by now. LPs have been reminding GPs of this fact for a while, increasing pressure for more exits in 2025.

### Did you notice a change in manager behavior by the end of 2024? What do you expect for 2025?

Managers are starting to get cracking. They have spent the last several years largely monitoring the health of their portfolio companies while navigating the volatile market environment and leaning in with whatever value their firm's amassed resources and capabilities could supply. They also sought to stretch their fund investment periods. As a way to buy time, managers were offering more co-investment capacity, which had the added benefit of keeping LPs happy given how many have been clamoring for more co-investment opportunities.

Many managers have been biding their time, waiting for a more positive investment environment to develop for investing and exiting. Fortunately, 2025 looks like it has potential. We expect to see increased activity (which is a low bar in certain activity categories). GPs need something to show investors if they want to successfully raise another fund.

### So you're expecting an uptick in exit activity?

I'm expecting an uptick in authentic exit activity, absolutely. When traditional exit markets were more muted, managers fully explored all other options, including

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continuation vehicles, NAV loans, and other forms of synthetic distributions, with capital largely supplied by secondaries and private credit managers, which helped to fuel fundraising in those strategies.

While these liquidity approaches remain on offer, with the recent drop in interest rates, more traditional exit activity should start to increase, particularly M&A, further supported by the highest level of dry powder we have seen. We estimate half of that dry powder resides with managers deploying funds of \$5 billion or more, so as that capital goes to work it should particularly benefit smaller funds looking to sell their portfolio companies to larger funds or larger sponsor-backed strategies.

LPs are still waiting on that expected distribution activity, and while continuation vehicles, etc. provide some respite, GPs are aware they are on notice.

## **Which sectors and strategies do you expect will see the most private equity dealmaking activity in 2025?**

Some of the trends we saw in 2024 will continue, namely capital flowing towards more value-oriented, industrial strategies – which coincidentally are less likely to be immediately disrupted by AI. That also includes strategies such as infrastructure.

Investors will continue to invest in tech, which has long been the top sector for private equity, but looking for signals that managers are “AI-aware.”

Healthcare – be it life sciences, devices, HCIT – rounds out the top three sectors.

Consumer sector investing has proven to be more volatile, perhaps due to the shift in demographics and buying habits, and so despite being a dominant part of our economy, consumer-related investments have actually faded a bit from a private markets standpoint.

Private credit continues to run, delivering short-term returns besting private equity and venture capital, leading to more investor attention in its direction. Private credit dry powder has been piling up, and the competition to put that capital to work is providing an assist to private equity transaction activity, and that should accelerate in 2025 if and when there are further rate cuts.

## **Have institutional investors adjusted their expectations?**

I don't think institutional investors have adjusted their expectations one iota. Investors have high expectations for managers given the cost and illiquidity of private investing strategies, and capital shows up for managers capable of delivering on those expectations, namely DPI, IRR, and TVPI (yes, currently in that order).

I should add portfolio challenges brought on by weak private markets returns amid a booming yet concentrated public market have led to some wariness among investors.

## **What about fundraising?**

Fundraising is going to tack back to its long-term trend (ex-2021), with the one

caveat being mega funds, which have increasingly become swing factors in overall fundraising totals. Mega firms, among others, have also been successfully pursuing the individual investor – there were dozens of announcements last year as platforms built out their offerings or sought partnerships that would bring them closer to this constituency – these efforts are likely to culminate in additional growth of the retail investor in 2025 which could buoy fundraising as well.

## **What other trends are you expecting for 2025?**

Watch for continued expansion of strategies squarely aiming for middle returns, which is perhaps the private market's way of acknowledging the difficulty of truly delivering a 2.5x MOIC and a 25 percent IRR. This 12 percent to 15 percent target encompasses such a wide range of strategies it's hard to clearly define.

There is likely to be continued scrutiny on private market performance, particularly how it compares to that of the public markets. Despite the concentration of returns in a few stocks (and really one sector), the recent short-term public market outperformance has put the private markets under a microscope, for both LPs and GPs. The diversification and exposure the private markets offer is not as strong an investor argument without strong returns to back it up.

Here's hoping 2025 answers that question!