



The rise and rise of private equity

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The private equity industry powered through 2021 setting record highs in terms of buy-out activity and fund raising. This should come as no surprise, as it was widely reported at the mid-year stage that private equity firms had their busiest six months since records began four decades ago, striking deals worth more than US\$500 billion.

The size of the private equity market has now tripled in the last decade, from nearly US\$2 trillion in 2010 to over US\$6 trillion in November 2021, according to Preqin. The sector has clearly demonstrated resilience to the effects of the pandemic, and so will this upward trajectory continue in 2022?

Outlook for 2022

While some may worry that PE has reached a peak, there is little evidence to suggest a slowdown in 2022, especially as many of the larger PE funds have amassed vast war chests and will be keen to deploy this dry powder in 2022.

Some of the biggest players in the PE market have described their outlook for 2022 as one of "cautious optimism", expecting the current rapid pace of investment to continue, supported by low interest rates, open capital markets and an abundance of dry powder after two years of strong fundraising.

While the private equity sector has remained robust, there is a concern about overpaying for assets just to deploy capital. Higher buy-out multiples have put pressure on the industry to keep generating higher returns. As a result, many firms are shifting their focus to value creation and use of longer-term funds and fund extensions facilitated by the secondary market.

Firms are also increasingly focused on environmental, social and governance (ESG) factors to drive value creation and positive societal impact. It will be interesting to see how deals are impacted by the ESG profile of certain potential investments during 2022, especially as there seems to be no universally accepted set of metrics, as ESG areas of focus can vary from carbon emissions to diversity and inclusion.

Other potential causes for concern in 2022 include the risk of inflation (as governments have pumped large amounts of liquidity into the market following the pandemic) and China's economy, as it nears the end of a large real estate boom with developers carrying US\$5 trillion in debt. Any defaults on this scale (on top of a general slowing of economic growth in China) could have a global ripple effect.

Notwithstanding these potential risks though, the prevailing view (and one shared by us at Ogier) is that we are likely to witness the continued rise of the private equity sector this coming year.

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