Post-Election Market Shifts and the Rise of Co-Investment Opportunities

With the U.S. Presidential Election now behind us, private equity investors are evaluating how evolving economic conditions and market shifts will shape deal activity in the coming quarters. While headwinds such as delayed interest rate cuts and persistent inflationary pressures have tempered the pace of activity, key dynamics—including record levels of dry powder and expanding liquidity options—present a path forward. In this Q&A, we examine how GCM Grosvenor has successfully identified and capitalized on private equity co-investment opportunities, even in a challenging market environment.

Q **With the U.S. Presidential Election in the rearview mirror, how do we expect private equity deal activity to perform over the next few quarters?**

Uncertainty around the U.S. Presidential election, as well as ongoing inflationary challenges and delayed rate cuts from the Federal Reserve, has hampered the robust return of deal activity that many had hoped to see this year. However, as we look ahead, we see several factors that could transform the landscape over the next several quarters.

Sponsors are currently sitting on record amounts of dry powder, and we have seen a broadening of liquidity options for PE-backed companies this year, including through public offerings and reverse mergers. A shift toward a more stable interest rate and inflationary environment could encourage firms to increase their pursuit of new investments in the near term.

Clarity on the results of the election and potential improvements in the economic landscape may restore investor confidence and drive increased activity from here. These factors could unlock some of the backlog of companies that have remained in portfolios longer than usual and restart the cycle of returning capital to allocators, which can then be re-committed to future vintages.

Q **Over the last two years, during a period when many firms retreated from the market, GCM Grosvenor continued to execute on a steady stream of co-investment opportunities. How was this possible in a less active market?**

While large-cap deal activity has been more constrained by financing market conditions in recent years, middle-market activity has remained consistent and increased its share of the overall pie. Higher equity contribution requirements in today's new rate environment stemming from reduced debt capacity have also driven the need for more co-investment capital to make deals happen. At the same time, many co-investors have been less active due to overallocation to private equity, driven by slower exit pacing and increased public market activity, thus creating an opportunity for those with dry powder.

Our private equity platform's strategic focus on the middle-market, consisting of a broad base of over 500 general partners (GPs), has enabled us to continue sourcing an average of over 300 co-investments each year, even during a more challenged environment when PE market deal activity declined by over 20% between 2021 and 2023.

In our opinion, middle-market companies tend to be nimbler and more responsive to changes in market conditions than larger companies, allowing sponsors to implement changes that can have a significant impact on near-term cash flows and ultimate returns. Additionally, middle-market buyouts generally feature more attractive valuations and more prudent capital structures, when compared to large-cap deals. This resilience can lead to higher returns for investors and more consistent distribution activity.

Q Could you highlight a recent transaction that underscores your ability to identify attractive co-investment opportunities, amidst even a challenging market backdrop?

Corporate carve-outs and divestitures have significantly increased as a share of private equity buyouts in recent years. Public companies, driven by the need to streamline operations or address financial pressures, are increasingly leveraging these transactions to improve liquidity and focus on core businesses. Private equity firms with specialized expertise in carve-outs are well-positioned to capitalize on these trends, acquiring business units at compelling valuations and under favorable conditions.

This year, GCM Grosvenor co-invested in the acquisition of a leading producer in the industrial and consumer goods space from a multinational parent company. The deal benefited from a targeted sale process with a motivated seller, resulting in advantageous terms. Our firm's experience with complex carve-outs, including navigating sensitive information and managing accelerated deal timelines, was instrumental in executing the transaction. This example highlights the growing appeal of carve-outs as a source of attractive opportunities for skilled investors who can navigate their unique challenges and dynamics.

GCM GROSVENOR

About GCM Grosvenor

GCM Grosvenor (Nasdaq: GCMG) is a global alternative asset management solutions provider with approximately $80 billion in assets under management across private equity, infrastructure, real estate, credit, and absolute return investment strategies. The firm has specialized in alternatives for more than 50 years and is dedicated to delivering value for clients by leveraging its cross-asset class and flexible investment platform.

GCM Grosvenor's experienced team of approximately 550 professionals serves a global client base of institutional and individual investors. The firm is headquartered in Chicago, with offices in New York, Toronto, London, Frankfurt, Tokyo, Hong Kong, Seoul and Sydney.

For more information, visit: **www.gcmgrosvenor.com**

Our Locations

Headquarters
Chicago
+1-312-506-6500

900 North Michigan Avenue, Suite 1100, Chicago, IL 60611

New York
+1-646-362-3700

Toronto
+1-647-417-7361

London
+44-0-20-3727-4450

Frankfurt
+49-69-5899-6526

Tokyo
+81-3-5573-8110

Hong Kong
+852-2452-9400

Seoul
+82-2-2158-8500

Sydney
+61-2-9231-8600