

The views expressed in these posts are those of the authors and are current only through the date stated. These views are subject to change at any time based upon market or other conditions, and Eaton Vance disclaims any responsibility to update such views. These views may not be relied upon as investment advice and, because investment decisions for Eaton Vance are based on many factors, may not be relied upon as an indication of trading intent on behalf of any Eaton Vance fund. The discussion herein is general in nature and is provided for informational purposes only. There is no guarantee as to its accuracy or completeness.

[OUTLOOK](#)

2023 Investment Outlook: Private Equity

December 20, 2022

Record Levels of Dry Powder and Earnings Propel Private Equity

KEY POINTS

- 1 Earnings serve as the engine of growth in private equity, accounting for nearly half of value creation.
- 2 Rising interest rates may lead to reduced leverage and lower multiple expansion.
- 3 Dry powder remains at record levels of \$3.6 trillion and should fuel high transaction volume.

What We Are Seeing

Earnings growth is likely to be the principal driver of PE returns ahead, and manager selection will remain key, with experts in profitability-enhancing operational improvements and strategies that capture synergies best placed to generate alpha.

Leverage's contribution comprised roughly one-quarter of total Multiple on Invested Capital (MOIC), only slightly behind multiple expansion.

Higher borrowing costs and less buoyant IPO and strategic buyer demand are hindering multiples.

Monetary tightening, fiscal retrenchment and supply-side disruptions are shrinking global demand. The economic slowdown, coupled with higher inflation and rising interest rates, has pushed global equity markets into bear market territory. Rising interest rates may trigger reduced leverage and lower multiple expansion, limiting the contribution to performance from these key return levers.

What We Are Doing

We emphasize capturing value at entry in transactions because in an environment of rising interest rates, we don't expect multiple expansion to drive returns as much as it has over the past 20 years.

Buy-and-build strategies are key to unlocking stronger revenue growth and maximizing operational efficiencies, as they help to grow scale and capture synergies. This investment approach is repeatable and often enables add-on acquisitions at below headline valuation multiples.

We are staying the course as PE absorbs market dislocations and capitalizes on interesting entry points. PE is showing the most growth potential among private asset classes and is on track to account for nearly 70% of alternatives AUM by 2025, according to Preqin.¹ We continue to build on PE's exceptionally robust performance over the past decade.

We focus on profitability-enhancing operational improvements and strategies that capture synergies best placed to generate alpha.

What We Are Watching

General partners (GPs) must implement best-in-class operations and capture synergies and scale through strategies such as buy-and build.

Fundraising may slow, but dry powder remains at record levels of \$3.6 trillion, which should sustain high transaction volumes. Amid continued competition for quality assets, deal origination at attractive value-at-entry levels is not a given, and GPs must remain selective and disciplined to create value.

Earnings become increasingly important as a source of value creation due to multiple compression and rising debt costs. Investors continue to increase their allocations to alternatives to meet their long-term investment objectives.

Partnering with founders in the midmarket — particularly those seeking support from financial investors for the first time — and reducing operational vulnerabilities may make businesses less sensitive to economic headwinds.

Patrick Reid, CFA

¹ "The Future of Alternatives 2025," Prequin, August 2020.

Risk Considerations: *Historical performance information is not indicative of future results. Alternative investments are speculative and include a high degree of risk. Investors could lose all, or a substantial amount, of their investment. Alternative instruments are suitable only for long-term investors willing to forgo liquidity and put capital at risk for an indefinite period of time. Alternative investments are typically highly illiquid — there is no secondary market for private funds, and there may be restrictions on redemptions or the assignment or other transfer of investments in private funds. Alternative investments often utilize leverage and other speculative practices that may increase volatility and risk of loss. Financial intermediaries are required to satisfy themselves that the information in this document is suitable for any person to whom they provide this document in view of that person's circumstances and purpose. Morgan Stanley Investment Management (MSIM), its affiliates and its and their respective directors, officers, members, partners, employees, agents, advisors, representatives, heirs and successors shall have no liability whatsoever with respect to any person's or entity's receipt, use of or reliance upon this document or any information contained herein. If such a person considers an investment, she/he should always ensure that she/he has satisfied herself/himself that she/he has been properly advised by that financial intermediary about the suitability of an investment.*



"Amid continued competition for quality assets, deal origination at attractive value-at-entry levels is not a given, and GPs must remain selective and disciplined to create value."

Marketing Communication

To report a website vulnerability, please go to [Responsible Disclosure](#).

Eaton Vance is part of Morgan Stanley Investment Management, the asset management division of Morgan Stanley.

This site (<https://global.eatonvance.com>) is operated by Eaton Vance Management (International) Limited ("We"). We are a limited company, registered in England and Wales under company number 4228294 and have our registered office at 125 Old Broad Street, London, EC2N 1AR. Our VAT number is 762717416. Eaton Vance Management (International) Limited is authorised and regulated by the Financial Conduct Authority ("FCA") and is entered on the FCA's register with register number 208634.

Eaton Vance Management (Registration No. 1121368) and Parametric Portfolio Associates LLC (Registration No. 1217626) are the registered trade marks of The Eaton Vance Group.

Information on this website does not constitute an offer to sell, or a solicitation of an offer to purchase, securities in any jurisdiction to any person to whom it is not lawful to make such an offer. It is your responsibility to be aware of and to observe all applicable laws and regulations of any relevant jurisdiction. The information on this webpage is not intended for U.S. residents. To visit our U.S. website please click [here](#). Information on this website does not constitute an offer to sell, or a solicitation of an offer to purchase, securities in any jurisdiction to any person to whom it is not lawful to make such an offer. It is your responsibility to be aware of and to observe all applicable laws and regulations of any relevant jurisdiction. The information on this webpage is not intended for U.S. residents. To visit our U.S. website please click [here](#).

The views expressed are those of the authors and are current only through the date stated. These views are subject to change at any time based upon market or other conditions, and Eaton Vance disclaims any responsibility to update such views. These views may not be relied upon as investment advice and, because investment decisions for Eaton Vance are based on many factors, may not be relied upon as an indication of trading intent on behalf of any Eaton Vance fund. The discussion herein is general in nature and is provided for informational purposes only. There is no guarantee as to its accuracy or completeness.

In the EU this website is operated by MSIM Fund Management (Ireland) Limited (MSIM FMIL). The business of Eaton Vance Global Advisors Limited was transferred to MSIM FMIL on 1 October 2021. MSIM FMIL has been appointed as management company of the Eaton Vance International (Ireland) Funds plc and is responsible for the distribution of the funds together with the distribution of Eaton Vance strategies and strategies of Eaton Vance affiliates. For any queries in respect of the products and strategies referred to on this website, please contact MSIM FMIL at 7-11 Sir John Rogerson's Quay, Dublin 2, D02 VC42, Ireland. MSIM FMIL is regulated by the Central Bank of Ireland with Company Number: 616661.

Outside of the US and EU, this material is issued by Eaton Vance Management (International) Limited ("EVMIL") 125 Old Broad Street, London, EC2N 1AR, UK, and is which is authorised and regulated in the United Kingdom by the Financial Conduct Authority.

This material is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.

This material does not constitute an offer to sell or the solicitation of an offer to buy any services referred to expressly or impliedly in the material in the People's Republic of China (excluding Hong Kong, Macau and Taiwan, the "PRC") to any person to whom it is unlawful to make the offer or solicitation in the PRC.

The material may not be provided, sold, distributed or delivered, or provided or sold or distributed or delivered to any person for forwarding or resale or redelivery, in any such case directly or indirectly, in the People's Republic of China (the PRC, excluding Hong Kong, Macau and Taiwan) in contravention of any applicable laws.

EVMIL is registered as a Discretionary Investment Manager in South Korea pursuant to Article 18 of Financial Investment Services and Capital Markets Act of South Korea.

Morgan Stanley Investment Management (Australia) Pty Limited ACN 122 040 037, AFSL No. 314182 arranges for Eaton Vance Management International Limited to provide financial services to Australian wholesale clients. This publication is disseminated in Australia by Morgan Stanley Investment Management (Australia) Pty Limited ACN: 122040037, AFSL No. 314182, which accepts responsibility for its content. This publication, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.

We are actively incorporating accessibility practices, such as those outlined in the Web Content Accessibility Guidelines, into our go-forward website design and content development to make information more accessible and user-friendly. In addition, we are developing a multi-year accessibility strategy and content guidelines that further support the use of assistive and adaptive tools. Our ultimate goal is to meet federal guidelines and policies or provide equivalent accommodations and service support for all customers.