

# **The widening gap between promise and performance:**

What this means for  
mid-market firms

PRIVATE MARKETS INSIGHTS  
FROM MID-MARKET FUNDS  
AND INSTITUTIONAL INVESTORS

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# Foreword

## Investor expectations remain as high as ever in the maturing mid-market

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The private markets industry is operating in a tougher environment today than during its rapid entrepreneurial growth over the past decades. A more mature and crowded market has led to increasing competition for both high-quality assets and investor allocations.

Institutional appetite is still there, but it is becoming more selective, and investors are demanding more from their GPs. They still want high returns but also a clearer articulation of risk and greater transparency on how value is created in an environment where AI is rapidly disrupting and reshaping business models. In addition, non-institutional investors that are still relatively new to the asset class require a great deal of education.

Against this backdrop, investors are asking whether private markets can continue to deliver on their historic promise of outperformance, and are looking for GPs to make that case more convincing against public markets that have closed the gap in recent times.

They are more openly questioning whether the trade-off between returns, risk and liquidity still holds in this new environment. For mid-market firms, this tension is felt even more sharply. The segment still offers strong fundamentals, but this is offset by higher perceived risk and lower brand visibility compared to some of the larger players that have invested significantly in marketing their diversified platforms in recent years.



Our proprietary research shows that this gap cannot be closed by evidencing performance alone. Although track record and returns remain essential, they are no longer enough to stand out and secure new capital in a more challenging environment. Relationships also remain a core strength of the mid-market, however, as every firm invests in these relationships, they have become largely expected rather than fundamentally distinctive.

For communications professionals shaping the voice and reputation of private markets firms, this creates a clear inflection point. In addition to evidencing past success, the challenge is to articulate consistently and credibly how value is being created in the mid-market today

and for the future. This means explaining how portfolio value is being protected during periods of uncertainty and why a firm's strategy remains relevant in a market being reshaped by structural shifts including changing liquidity dynamics and the AI revolution.

This report brings these themes together. It shows a mid-market where investor expectations are rising, differentiation is becoming harder, and the gap between promise and performance is under closer scrutiny. In that context, timely and impactful communications is a critical strategic lever, central to how firms build credibility, maintain trust and ultimately earn their place in increasingly concentrated investor portfolios.



# Executive Summary: The mid-market promise under scrutiny

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## AGAINST A BACKDROP OF WIDESPREAD MACRO ECONOMIC UNCERTAINTY, THE PRIVATE MARKETS PROMISE IS UNDER SCRUTINY

Private markets funds continue to be tested by a more challenging investing environment today. A sustained period of higher interest rates has made it more difficult to exit investments, leading to longer hold periods and a slowdown of distributions. At the same time, competition for high-quality assets in a maturing investment landscape in the UK has also intensified.

As a result, the traditional narrative of private markets' outperformance versus public markets is beginning to fracture. This raises questions about whether the asset class can continue to deliver the strong returns investors expect and how the mid-market can remain attractive in an intensely competitive environment.

## MID-MARKET FIRMS ARE HAVING TO WORK HARDER THAN EVER TO ATTRACT CAPITAL

Whilst institutional investors continue to view private assets as a key component of a diversified portfolio they maintain heightened return expectations versus other asset classes. 6 in 10 (63%) of LPs currently investing in private markets expect a minimum rate of return of 16% or above on their portfolio. In this context, mid-market GPs report that fundraising remains a challenge today.

While investors still believe that the mid-market offers the potential for delivering superior returns faster, this continues to be attached to perceptions of greater risk. This dynamic raises the bar on performance and puts pressure on mid-market GPs to convincingly articulate how they balance risk and return in the current environment to attract new capital.

## RELATIONSHIPS ARE KEY, BUT THE NEED TO BUILD AND MANAGE REPUTATION HAS NEVER BEEN GREATER

Beyond the fundamentals, strong relationships remain highly influential in driving investment decisions for LPs. This is a key strength of the mid-market, which provides the opportunity for more active investor management including direct face-to-face engagement.

While the mid-market should continue to leverage these strengths when communicating with investors, alone they are no longer sufficient to sustain appeal of the mid-market, and GPs must also invest in building a more distinctive and compelling brand identity.



# Executive Summary: What this means for the future of the mid-market

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## **DESPITE SIGNALS THAT BRANDS INCREASINGLY MATTER, GPs CONTINUE TO RELY PRIMARILY ON TRACK RECORD TO ATTRACT INVESTORS**

In the context of rising investor caution, LPs are gravitating towards larger, more established firms, due to perceptions that they offer greater security and investment flexibility. The depth of a platform and strength of a brand are playing an increasingly important role in influencing manager selection.

GPs recognise this but do not always actively manage and reinforce their message, instead continuing to rely primarily on track record and performance. With most firms relying on these markers, there is an opportunity for GPs to differentiate how they communicate their brand to investors to stand out in a crowded market.

## **AI PRESENTS OPPORTUNITY AND UNCERTAINTY, CREATING A NEED FOR CLEAR COMMUNICATION ON HOW GPs INTEND TO APPROACH AI - INTERNALLY IN THEIR ORGANISATIONS AND IN THEIR INVESTMENT STRATEGIES**

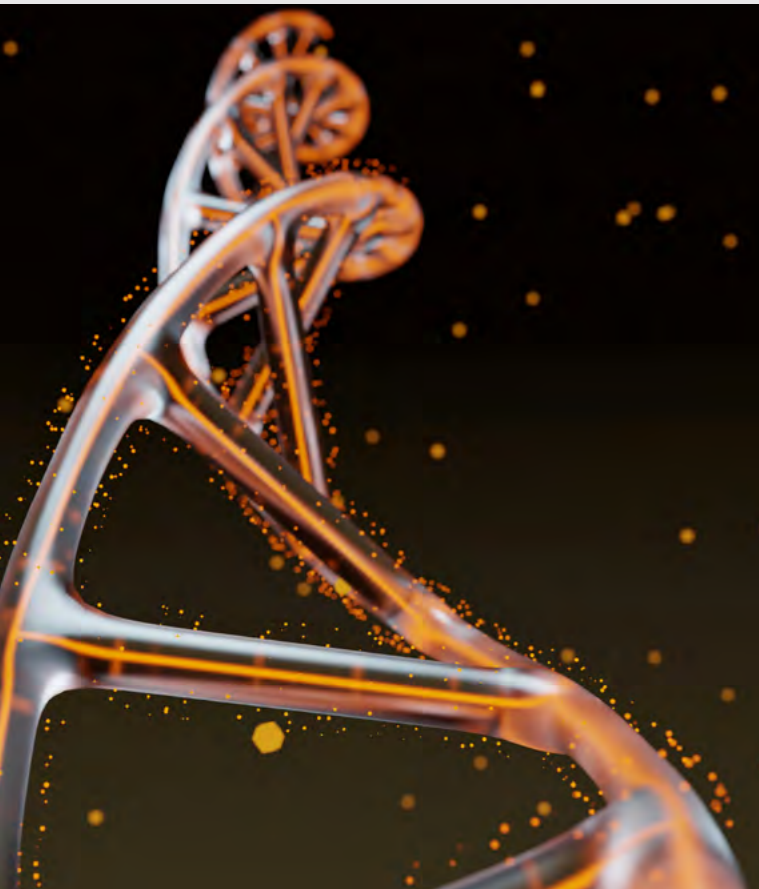
While AI presents a once-in-a-generation source of investment opportunity for investors, this sits alongside uncertainty about how the AI revolution will impact and reshape private markets - both at fund and portfolio levels - in the coming years.

GPs share similar concerns, but place AI alongside a broader set of risks, suggesting that to sustain investor confidence, firms must communicate how they are responding to AI disruption more visibly and address both challenges and opportunities to create value and protect investors' interests.

While the fundamentals of performance and track record remain important to investors, expectations are shifting, and alone this is no longer enough to attract capital in an increasingly complex and competitive landscape.

**Instead, firms must focus on demonstrating how they can deliver differentiated value for investors, genuinely evidence relationship management strengths, and communicate with greater transparency and reassurance. This will be essential to sustain investor confidence in an uncertain macro environment which is undergoing a major paradigm shift driven by the AI revolution.**

# The DNA of the private markets landscape is fundamentally changing, creating a more challenging operating environment for mid-market GPs



Fundraising is under strain for GPs as higher and rising interest rates constrain liquidity and reshape performance expectations among investors.

Mid-market GPs across private assets are clear that fundraising remains the defining challenge in today's environment, as macroeconomic conditions tighten and it becomes increasingly difficult to raise and deploy capital.

Rising interest rates sit at the heart of this shift; with UK interest rates increasing from 1.00% in May 2022 to a peak of 5.25% in August 2023 and remaining elevated at 3.75% in April 2026\*. GPs recognise that this has reset both liquidity and returns expectations for investors. Higher interest rates have made exits more difficult and slowed the flow of capital back into the market, whilst also raising the bar on performance expectations.

\*Bank of England. 2026. Bank Rate Maintained at 3.75% - April 2026 Monetary Policy. <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2026/april-2026>. Accessed 29/05/2026. Bank of England. 2026. Official Bank Rate History. <https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp>. Accessed 29/05/2026.

“

“In the market at the moment, **raising institutional capital is probably as difficult as it's ever been.**”

GP

“Something very important has happened over the last few years, which is interest rates have gone up. Which means that **many investors are looking at alternative asset classes not anymore as a fixed income replacement**, i.e. the stable asset class that provides yield, but also as an **asset class that has to provide a return premium over listed equities.**”

GP

“The other challenge was that **as the market has been impacted by higher interest rates, you've seen fewer investors being able to exit assets.** Typically, a fund buys an asset, manages it, and exits it, and returns capital to investors. This has been more challenging in the current environment, and this has, to some extent, led to a slowdown in new money that could come in.”

GP

“The main challenge today is and remains **fundraising.**”

GP

”



**Macroeconomic uncertainty and a maturing investment landscape are heightening competition for high-quality assets.**

Against a backdrop of macroeconomic uncertainty, GPs face increasing difficulty in sourcing genuinely valuable investment opportunities, with competition intensifying for a limited pool of attractive opportunities.

This is compounded by the maturity of the UK private markets, where a highly intermediated environment is further constraining deal flow and increasing competitive pressure.

**GPs are concerned about a widening gap between private markets' promise and performance.**

A more challenging operating environment raises concerns among some GPs that the private markets value proposition is increasingly being called into question by investors. The traditional narrative of outperformance versus public markets has weakened in recent years, placing increasing pressure on GPs to defend the case for private markets.

In a more constrained fundraising environment, it will become increasingly important for private markets to evidence and defend their value relative to other asset classes, to ensure they continue to play a role in investor portfolios.

This means clearly demonstrating how they are managing capital and returns during periods of economic uncertainty and providing reassurances on how they are competing effectively to source and win high quality deals.



**"The market has become so competitive for capital, both from a fundraising perspective, as well as a deployment perspective. The quality of deals in the market today to invest in have reduced, and you want to deploy that capital as well."**

**GP**

**"The graph that they always used to raise money was that private markets beat public markets...And they're not, and they have not, so where do you go from there? I think people are going to say, okay, why should I lock up my money for 10 years if I can just buy the index and do better?"**

**GP**

**"How do you find value in a very...risk-uncertain market? You have rates moving out...it's very hard to spot true value, right? So, it's really hard and really competitive to deploy the capital in things that work to achieve certain risk returns."**

**GP**

**"The UK is mature and very well intermediated... it's a harder market to try and find those off-market deals."**

**GP**





# Private credit redemptions have dented investor confidence, but mid-market GPs are confident this will be temporary

**GPs attribute redemptions to low understanding among high-net-worth and retail investors, highlighting the need for clearer product design and communication.**

GPs acknowledge that recent private credit redemptions have negatively impacted investor confidence, not just in the private credit space but across private markets. This is especially true for private equity, where delayed exits and extended holding periods have generated concerns about liquidity and trust in unrealised portfolio valuation accuracy.

However, they emphasise that redemptions have been largely driven by new smaller non-institutional investors misinterpreting how semi-liquid private credit products work at times of stress and over-reacting to the situation. Negative media headlines are accelerating withdrawals, creating liquidity pressures and fund level disruption in a somewhat vicious circle which is undermining trust in private assets more generally.

Therefore, GPs are confident that this is an isolated incident driven by a gap in understanding rather than a more structural risk, and do not expect it to have a significant long-term effect on the private markets landscape.

While GPs are largely unconcerned about the impact of recent private credit redemptions on the broader private markets ecosystem, some do acknowledge that it may be a learning for private credit to strengthen their credit analysis, improve product design, and provide greater transparency and reassurance to investors. This suggests that firms that can address these gaps will be better positioned to re-establish and maintain investor confidence in the medium term.



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“Its most evident symptoms are in the private credit space, that’s true, but unfortunately, from what we see, **it impacts other private markets spaces as well, especially on the private equity side.** This has been caused by the fact that there has been some bad news made public that we have pretty long investment holding periods in the PE space now. [Portfolio companies] have been held for a longer time than they were initially planned to stay within these funds. **This has caused a loss of trust in these products.**”

GP

“Fundamentally, you’re looking at evergreen funds, where you’re putting in capital and then there are liquidity windows when you could take that liquidity out. That issue is **mainly miscommunication to the retail or high net worth world.** In other words, **these products have been sold to a market segment which is not professional investors that have not understood it,** and in the context of weaker credit performance, [this] has led to many of those trying to redeem these assets.”

GP

“It’s **mainly a liquidity mismanagement element,** because it was sold to retail and high net worth rather than institutional [investors], but there is an element of distortion. I think there is **a lot of space for GPs to improve their credit analysis.**”

GP

“**For investors that are not doing this on a day-to-day basis, I understand why there is a worry of ‘Is there going to be another financial crisis?’**...Deals like Tricolor and First Brands have raised a lot of concerns because, even though these were more broadly syndicated debt deals, a lot of institutions think this is going to ripple into private credit which actually isn’t the case. **If you dig into these cases, you’ll notice these are less systematic issues and more one-off, fraudulent issues.**”

GP

“Yes, there is an element of risk there. **Is it a systemic risk, like in 2008? No.** For a very simple reason. If you think about how a bank works, banks lend the same money 40 to 50 times, right? Private credit funds don’t do it, they lend it only once, **so I wouldn’t expect any systemic crisis.**”

GP

“I am puzzled as to how people are reacting to MFS’ demise, because **this is not a systemic issue.** It’s one or more people committing fraud and multi-pledging assets and this isn’t something that suggests there is a systemic problem in the industry. **I am surprised as to how that has [...] received so much coverage.**”

GP

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# Institutional investor appetite remains strong, but mid-market GPs need to work harder to attract capital

Mid-market firms are at a defining moment. Rising interest rates, a maturing market, and increasing competition for high-quality assets are creating greater constraints for GPs ability to deliver high returns.

**Despite systemic pressures, there is sustained appetite for private markets investments among LPs.**

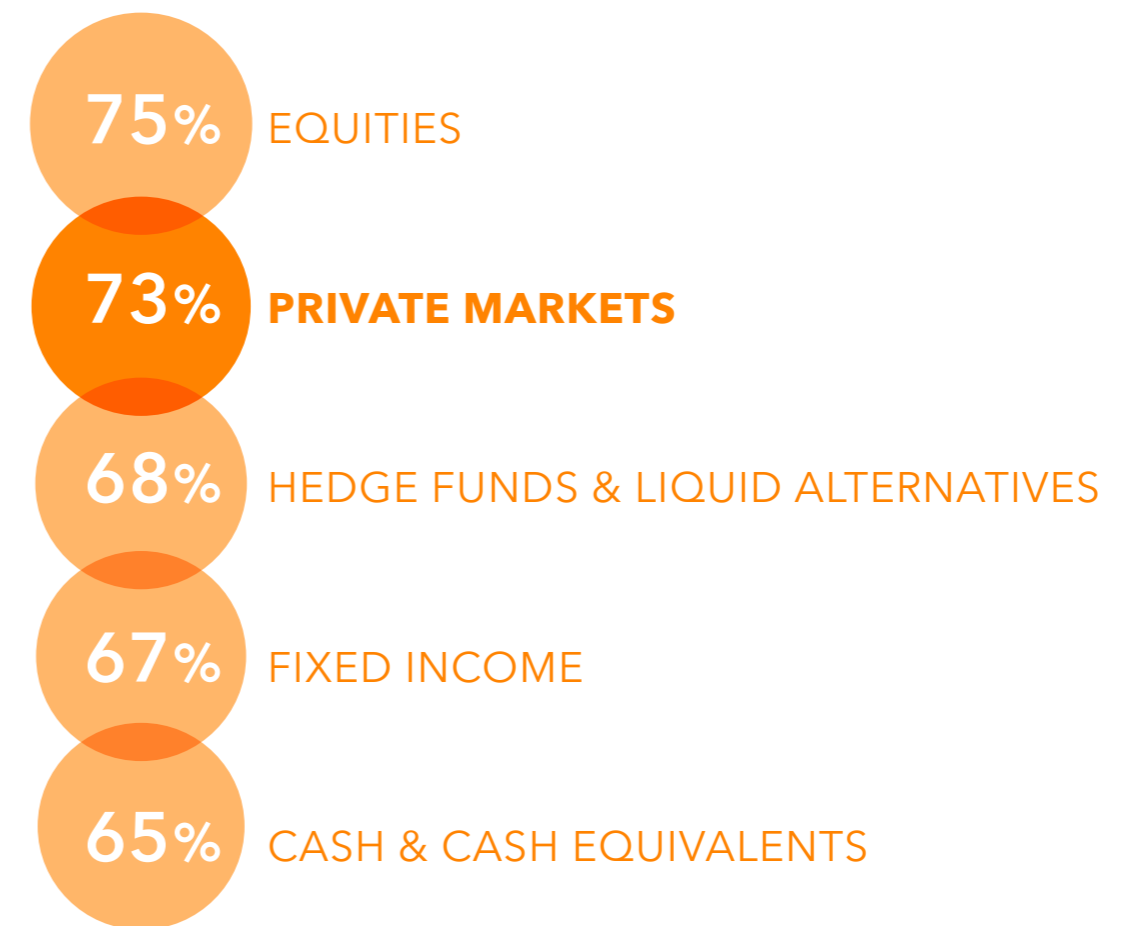
Nearly three in four (73%) LPs surveyed have *appetite to expand their investment mandate* in UK private markets, with 7 in 10 (71%) expecting to do so within the next one to two years.

**However, private markets will have to work a lot harder to attract capital.**

LPs are viewing private markets as one component of a diversified portfolio, with expansion intentions broadly in line with other asset classes such as *equities* (75%), *hedge funds and liquid alternatives* (68%), *fixed income* (67%), and *cash and cash equivalents* (65%). This suggests that while private markets remain attractive, they must compete harder for allocation within LP portfolios.

LP expectations of returns from private market investments remain a lot higher vs. other asset classes. Among LPs currently investing in private markets, 6 in 10 (63%) expect a *minimum rate of return of 16% or above*. Although this is nothing new, the recent macro environment has made this more challenging to achieve than ever, especially given that it has been harder to outperform passive public markets indexed strategies in recent years. It is clear that returns expectations remain high for the asset class which raises the bar further for GPs, increasing pressure to deliver strong performance against an already challenging and competitive backdrop.

## LP APPETITE FOR FURTHER EXPANSION OF INVESTMENT LEVELS IN ASSET CLASS (% SHOWN IS NET APPETITE TO EXPAND INVESTMENT LEVELS IN ASSET CLASS AMONG CURRENT INVESTORS & NON-INVESTORS IN THE ASSET CLASS)



SEC Newgate Private Markets Institutional Investor Survey 2026. Question: A1. Regarding your organisation's investment mandate in the UK market, which of the following best describes your current mandate or appetite to invest in each of the following asset classes? Base: Excluding those who selected 'Prefer not to say': Equities n=200, Private markets n=200, Hedge funds n=200, Fixed income n=198, Cash & cash equivalents n=197. A3. What is the minimum rate of return your organisation targets for the asset classes it invests in? Base: Current private market investors n=152. A4. And thinking about the next 12 to 24 months, how do you expect your organisation's allocation to the following classes to change? Base: Private markets (excluding those who selected Prefer not to say) n=199.

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**The mid-market presents an attractive opportunity for stronger and faster returns, but LPs are weighing this up against heightened perceptions of risk.**

GPs believe the mid-market appeals to investors, as it enables returns to be generated more quickly (driven by more frequent exits and distributions) and offers strong potential for growth through active value creation. These strengths are validated by the LPs surveyed in our research, who rank *better potential for higher returns* as a top three benefit of investing in the mid market compared to megafunds.

However, this is offset by concerns around increased risk, with LPs identifying both *higher investment risk* and *greater operational risk* at a GP level among the top three challenges of investing in the mid-market; placing greater onus on GPs to provide reassurance to their investors about how they are balancing risk and return effectively in today's complex environment.



“More institutional investors want to access the mid-market...because the **speed of capital there is still faster than in the large cap sector**, so there are more exits, therefore more distributions.”

**GP**

“In the mid-market, the perception is that **the company sizes allow for real value creation...** there is **growth potential** in the companies in those markets.”

**GP**

“There is **greater risk in smaller, mid-market deals** currently”.

**Institutional Investor**

“There is **higher uncertainty** [in mid-market funds]”.

**Institutional Investor**

“Our organisation expects increasing allocation to [mid-market] funds since they offer attractive entry valuations and **strong performance potential.**”

**Institutional Investor**

“There is more potential for **return on investment** [in the mid-market] in our eyes.”

**Institutional Investor**

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While there is continued appetite for private markets investments among LPs, it is clear that they are constantly reviewing their allocation strategy and taking a more cautious and balanced approach to managing their investment portfolios. Investing in the mid-market is viewed as relatively higher risk, against an already uncertain macroeconomic backdrop.

Therefore, mid-market firms must not only demonstrate the stronger returns potential the mid-market can offer but also provide clear evidence of how they are managing asset-level risks to ensure consistent performance and reliable returns.



SEC Newgate Private Markets Institutional Investor Survey 2026. Question: D2. Regardless of your organisation's current investment mandate, what do you see as the top three benefits of investing in mid-market funds compared to megafunds? D3. Regardless of your organisation's current investment mandate, what do you see as the top three challenges of investing in mid-market funds compared to megafunds? Base: Total excluding those who have no appetite to invest in private markets n=179.

# In response to investor need, mid-market GPs retain a core focus on the value of relationships

## For LPs, strength of relationships still underpin how they invest with GPs.

Beyond returns, expectations of strong relationships with investment managers are critical for LPs. Nearly 3 in 4 (73%) institutional investors surveyed rank *stability of the investment team* as highly important in driving investment decisions, and nearly 2 in 3 (64%) rate *alignment of strategic interests between their organisations* as highly important.

### FACTORS DRIVING INVESTMENT MAKING DECISIONS FOR LPs (% SHOWN IS NET 8-10 - HIGHLY IMPORTANT)

73%

STABILITY OF THE INVESTMENT TEAM

64%

ALIGNMENT OF STRATEGIC INTERESTS BETWEEN MY ORGANISATION AND THE ASSET MANAGER

## GPs consistently frame their role around relationship building and strengthening - and recognise the growing importance of this.

Mirroring investor sentiment, GPs are observing a shift in expectations towards more consistent and transparent communications, more visible and high-quality reporting, and continued investor engagement.

From the GP perspective, this plays to a key strength of the mid-market, which offers greater scope for active investor management and hands-on engagement through the ability to cultivate personal relationships with investors, having dedicated relationship management teams, and proactively addressing investor queries.

However, few GPs are communicating about their firm beyond this, meaning there is little to set themselves apart to investors and highlighting the importance of investing in building a more distinctive brand positioning.

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“**Manager due diligence or operational due diligence is higher than ever**, in terms of what’s expected, just because [investors] do want less managers. ...They want to know is it a robust firm, has it been around a long time, is it their first fund?”

GP

“Investors look for two things. One is fund performance...The second is **building the relationships with those investors**. When I say building relationships, it’s getting on planes and going to see them. It’s making an effort to make my life harder. The fact that you do that and another fund doesn’t, just **gets you to the top of the list.**”

GP

“We have a **dedicated institutional solutions team, and they do the management of relationships and the outreach**. A lot of the capital that we’ve raised has come through relationships that we, the partners of the firm, have directly with people in the market.”

GP

“Mid-market is still relevant, because **every investor to us is really important... they know us personally...** which I think is still super important in this kind of environment.”

GP

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SEC Newgate Private Markets Institutional Investor Survey 2026. Question: B1. Thinking about your current asset class allocation, how important, if at all, are each of the following factors in your decision to invest? Base: Total n=200

# Despite intensifying competition, mid-market GPs have less focus on differentiation



## A push to large cap highlights the importance of a strong brand proposition to attract investment.

In the context of rising investor caution, GPs are noticing that institutional capital in private markets is being increasingly concentrated among larger players. This is perceived as being driven by investor appetite for 'safe havens' in a more uncertain environment, alongside a preference to invest in a single large fund over multiple smaller funds to reduce the operational burden of dealing with multiple managers.

This is reflected in LP sentiment towards the mid-market, with LPs surveyed citing lower brand recognition as a challenge of investing in the mid-market compared to megafunds. Overall, this demonstrates that brand perception is playing an increasingly important role in shaping where LPs allocate capital.

## Executorial challenges reinforce the need for differentiation in the mid-market.

GPs also believe they lack the breadth of expertise to compete with larger players at scale, reinforcing the need for mid-market firms to clearly articulate where they can deliver value in a differentiated way to position themselves as an attractive alternative to larger players.

"[Large cap players] are just **lower risk**, right?... You're never going to lose your job investing in one of these big, big brands... so I think for a lot of investors, **brands are still very, very important.**"

GP

"I think in a context where it's really hard to know where the market's going... people are looking probably more for safe havens. And **large cap funds really appear as a safer place, a branded place to put your money.**"

GP

"If you're a big institution, if you're the likes of a big Middle Eastern sovereign wealth fund or Scandinavian pension fund with £5 billion to deploy a year, **you can't invest 150 million cheques in 100 low mid market funds, it's operationally too inefficient.**"

GP

"**The challenge is having a big enough team to be an expert at everything...** whereas if you raise a twenty billion dollar fund, you can hire very excellent experts in every single area you want to cover."

GP

"**Capital is concentrating more and more in the larger players.** Why? ... Some institutional investors have limited teams. If you are adding the mid-market, you need to manage 5, 6, 10 relationships more, which means... reporting... dealing with the relationship... looking at co-investments... so it's not easy at all from an operational perspective."

GP



SEC Newgate Private Markets Institutional Investor Survey 2026. Question: D3. Regardless of your organisation's current investment mandate, what do you see as the top three challenges of investing in mid-market funds compared to megafunds? Base: Total excluding those who have no appetite to invest in private markets n=179.

**However, GPs are still depending on traditional strategies to engage LPs - relying on performance and track record.**

While GPs recognise that brand is important, they are not significantly changing how they position themselves, continuing to rely primarily on track record and performance. This suggests a gap between what investors are looking for and how managers are choosing to compete, with limited appetite for true differentiation.

A strong financial performance is still very important to LPs, with 70% of those surveyed citing *income generation potential* and 62% citing *historical performance across market cycles* as highly important in driving investment decisions. However, this is a baseline expectation, and mid-market GPs are now expected to go beyond this to more clearly demonstrate what makes them stand out from other firms to attract highly competed for capital from investors.

It is no longer enough for mid-market firms to rely on the fundamentals of track record and financial performance to attract investors.

In an environment where brand perceptions are increasingly shaping investment allocation decisions, mid-market firms must invest in developing a stronger, more compelling proposition that highlights where they can deliver differentiated value to investors.



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**“The spiel is always the same.** The vast majority want inflation linkage, dividends and downside protection, meaning that **they want their capital to grow, not in an exciting way, but to grow and never come down.”**

GP

“A lot of allocators are building their own direct activities and so it’s getting more difficult, and **you need to have a combination of a strong track record with a very professional, institutionalised approach** that is end-to-end.”

GP

**“In terms of marketing efforts, we are quite conservative** actually, so we do not attend too many conferences, for example. **People know where to find us.”**

GP

“The ability to have successful capital raising in this fairly challenging environment comes down to **trust and track record.”**

GP

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SEC Newgate Private Markets Institutional Investor Survey 2026. Question: B1. Thinking about your current asset class allocation, how important, if at all, are each of the following factors in your decision to invest? Base: Total n=200



# The AI revolution raises expectations for GPs to communicate how they are navigating its impact to investors

Reflecting current trends, SEC Newgate's research with LPs confirms Artificial Intelligence is already a major focus of institutional capital, with strong appetite for further expansion.

Regardless of current investment mandate, 3 in 4 (75%) of institutional investors surveyed say they have *appetite to expand their investment levels in Artificial Intelligence (AI)*. This sits alongside *telecom and digital infrastructure (75%)*, *social infrastructure (68%)*, *commercial real estate (68%)*, and *software development (68%)*.

While AI demonstrates the strongest appetite for expansion, software development still appears to be playing an integral part in portfolios. This suggests that whilst AI is attracting the most attention, it is not completely displacing software investment at this stage. Instead, both are being supported in parallel, reflecting a broader pattern of continued focus on seizing investment opportunities across various areas of ongoing technological development.

## LP APPETITE FOR FURTHER EXPANSION OF INVESTMENT LEVELS IN SECTOR (% SHOWN IS NET APPETITE TO EXPAND INVESTMENT LEVELS IN SECTOR AMONG CURRENT INVESTORS & NON-INVESTORS IN THE SECTOR) - SHOWING TOP 5



**75%**  
ARTIFICIAL INTELLIGENCE



**75%**  
TELECOM AND DIGITAL INFRASTRUCTURE



**68%**  
SOCIAL INFRASTRUCTURE



**68%**  
COMMERCIAL REAL ESTATE



**68%**  
SOFTWARE DEVELOPMENT

SEC Newgate Private Markets Institutional Investor Survey 2026. Question: A5. Looking at the list below, please indicate which of the following best describes your organisation's current investment or willingness to invest into the following UK sectors. Base: Total excl. Prefer not to say: AI n=200, Telecom and digital infrastructure n=198, Social infrastructure n=199, Commercial real estate n=198, Software development n=200

However, LPs and GPs share concerns about how the AI revolution will impact legacy investments and transform the private markets landscape in the coming years.

SEC Newgate's research reveals that LPs identify *AI disruption* as one of the main factors expected to shape private markets over the next three to five years. They identify potential shifts in cost structures and business models, and uncertainty around how assets, legacy and new, should be valued in that context. Others see opportunity for AI to support major operational improvements which would lead to increased portfolio company valuations at exit.

GPs have similar, and additional, concerns about the likely impact of AI. They are very concerned about the impact that the rise of AI is having on the valuations of software-heavy legacy portfolios which would significantly affect private equity funds before private credit funds whose exposure is relatively less risky by nature.

They expect AI to change how their own firms and portfolio companies operate and reflect wider concerns about the impact on the job market. Some GPs wonder whether analysts - a typically graduate entry-level role - will be required in the future.

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“There will be many “experts” who only rely solely on AI and **that would bring many questionable results in the long run.**”

**Institutional Investor**

“It is because **AI is rapidly changing cost structures and businesses models**, creating uncertainty around future valuation and returns in private markets.”

**Institutional Investor**

“**Businesses that use AI technology achieve major operational improvements**, which lead to higher company valuations and increased interest from investors.”

**Institutional Investor**

SEC Newgate Private Markets Institutional Investor Survey 2026. Question: F1. Which of the following factors do you expect to have the biggest impact on private markets in the UK and Europe over the next three to five years? Base: Total n=200.

“I think ultimately AI is going to have a **big impact. How many analysts will firms need** when Claude and other models can do a lot of what we need it to do? It will be very interesting to see not only how companies change and adapt but also how people are going to work and do things differently.”

**GP**

“There was **no way of [portfolio managers] accounting for a risk like AI in older vintages within their fund, because you hold these assets for so long.** AI became a disruptor, starting in [...] 2022. That's when ChatGPT came out and was very nascent in its stage. And in those situations, there's no way you would have taken it into consideration when you were underwriting very high, healthy multiples within the technology and software world. So, **LPs are rightfully concerned** and correct in their place to be concerned about the broader AI trends and the impact it has.”

**GP**

“There's no doubt that a lot of private credit has gone into sponsor-led deals in software-backed businesses. And obviously private equity will lose its money first before lenders suffer but there will be issues there because **AI is driving huge disruption and a lot of people will lose a lot of money.** There's no doubt.”

**GP**

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However, due to the long-term nature of private markets investments, GPs acknowledge that unforeseen risks will inevitably arise that they will need to respond to in real-time.

GPs will need to observe how the businesses they are investing in are harnessing new technology, as well as explaining how they are responding to AI disruption more visibly within their own firms, and how they are protecting investor interests to maintain confidence.

# Current and future challenges for the private markets asset classes

# Beyond shared challenges, mid market firms across asset classes are navigating their own distinct pressures

## CHALLENGES



Competition for assets is intensifying.



Deeper scrutiny of private equity's performance relative to public markets.



Greater challenges in the mid-market where competition, execution and performance dispersion are more visible.

"If you look at the European mid-market in particular [...] There are about **three times more opportunities for the capital that's chasing those opportunities in Europe** compared to the US."

GP

"There is quite an increasing group of fund managers [...] **There is definitely a struggle for LPs to pick the mid-market managers which will generate above medium returns in the end.** Only when you are able to select above-medium return managers, you are able to outperform public markets in the long run."

GP

"There is **execution risk**. You have a thesis of buying a company, and you're going to do lots of M&A, and you're going to do a lot of hiring, and you're going to put in systems. **All that stuff has to be done in the right way.** It's different to an established business where everything works. **You have to be very thoughtful about it, and have lots of experience.**"

GP

## Looking ahead...

**Private equity may be facing a more direct question over its ability to create value.**

Some GPs interviewed point to a need for mid-market firms to demonstrate how growth is delivered and how returns are generated more practically, rather than relying on past assumptions and knowledge of track record alone.

Looking to the future, mid-market PE firms talk about this in several clear ways:

- Specialisation will be central to generate real alpha.
- Consistency in delivering on what has been set out in a fund's LPA and sticking to the stated investment strategy.
- A move towards more quantitative approaches in parallel with human judgement to assess the quality of the investment and value creation story will be vital. This will include an increasing use of and reliance on data analysis throughout the due diligence, investment and value creation processes.
- Higher reporting expectations are anticipated to continue to respond to LPs increasing requests for detail and reassurance.

"We've seen an **increased demand for reporting** [from LPs]. [...] As a fund manager, we are managing the information flow to be **as transparent as possible.**"

GP

"In line with public markets, **we will also move to a more quantitative assessment** [for investment]. The story has always been that alternatives are a people-oriented business...you need to assess on a small number of communications moments with management teams of investment opportunities to assess: 'Is the story this team is telling, is that a feasible story? Does it add up with the materials we are being presented with?' ... **It's taking different sets of information but also having the EQ to make the assessment.**"

GP

"**Not moving out of your sweet spot unless there's very good reason to do it.** This game is long, so people back you for a fund that's contractually obliging for 10 years. If you decide 3 years into that, your team changes, the management changes, and you decide you're going to go after a different strategy, that's very difficult for institutional investors to get on board with. **Consistency is probably the word I would say there, and specialisation.**"

GP

"**Doing what you say you're going to do** is always the most important thing."

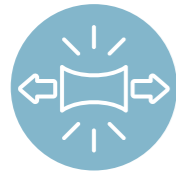
GP

# Private credit under the microscope

## CHALLENGES



Signs of weaker credit performance, including rising defaults and increased use of payment-in-kind structures rather than cash payments.



Tension between rapid capital deployment and maintaining underwriting discipline, with concerns that credit analysis can be looser vs. more regulated lending environments.



Increased scrutiny of the asset class as it moves into a period of sustained pressure, rather than the low default environment seen previously.



The operational burden of conducting high-quality due diligence to assess and actively monitor borrowers.

“Within private credit itself, default rates were quite low, maybe 1-ish percent, around the COVID era, and then...you’ve seen an increase in these default rates. When you account for deals that have just been amended for the sake of being amended, or the amount of deals that are now PIK-ing, because they’re **no longer able to fulfil their obligations of paying on a quarterly basis to firms**, there’s been quite a bit of focus on these trends.”

GP

“There is an element of risk because often, private credit strategies enjoy a flexibility in terms of lending compared to banks that are heavily regulated, that gives them the possibility to provide attractive loans at attractive prices. **It’s a little bit misaligned when it comes to really understanding the underlying credit risk.** And I’ve seen this directly. I’ve seen **GPs allocating to private infrastructure credit do a very loose credit analysis compared to a bank.**”

GP

“**A big challenge is quality of the borrowers and their experience.** That is a challenge, you need to spend a lot of time with a borrower, you need to do a lot of background work and due diligence and you need to monitor them very carefully. **It’s time consuming and it requires more hands-on involvement.**”

GP

“There are genuine concerns. For instance, rates are falling. What does that mean for our yield? **We enjoyed a golden era of the credit market, where rates were high.** We had a conference a year ago, and we could finally and confidently say, private credit is the new sexy kid on the block, because it was. **And unfortunately, you can’t say that a year from now, and that’s just very normal, in the private credit market.** It comes in waves with rate trends, now AI is leading to a lot of concern.”

GP

## Looking ahead...

**Private credit is described as entering a period where underwriting discipline will be under ever closer observation.**

Looking to the future, mid-market private credit firms point to the need to remain focussed on maintaining high underwriting standards and remembering the core principles of the asset class, as competition and broader market pressures increase.

In practice, this means exercising ever greater discipline and maintaining a clear focus on downward protection with tight documentation and covenants, even when this means losing a deal to the competition. There is an acceptance that slower deployment of the fund may be preferable to weakening lending standards, with portfolio quality taking precedence over growth at this point in the lending cycle.

Political and economic uncertainty, along with practical constraints such as more limited exit optionality and tighter financing conditions, are expected to make deployment and fundraising more difficult in the near term. This is seen as a shift from the previous benign low-interest high-growth period rather than a defined end state.

However, private credit GPs are optimistic about their firms’ ability to navigate these conditions and capitalise on future opportunities for investment.

“Making sure you’re **staying true to the fundamentals of private credit**, which was to underwrite high-quality investments in very defensive sectors. **If you’re taking risks out there** with the broader kind of headwinds we’re seeing within these sectors that are not as recession resilient, then **you’re risking the very safe capital that these institutional LPs have kept with you.**”

GP

“There are different views of where we are in the economic cycle and there are some **risks that will affect every investor and so some caution has to be exercised.** It’s going to be a bit more tricky I expect over the next few years.”

GP

“I think for investors **there will be opportunities and there will be capital, and we plan to take advantage.**”

GP

# Great opportunities create scale and expertise constraints

## CHALLENGES



Expertise is a key constraint, especially for firms shifting to more specialist, growth sectors such as data centres, EV charging and battery storage.



Higher rates are resulting in rising return expectations for infrastructure beyond income yield, forcing managers to expand into new geographies, sectors and higher-return strategies to remain competitive.



GPs anticipate an influx of non-institutional capital into infrastructure, but this is accompanied by concerns about pricing distortion and regulatory uncertainty.

“The higher interest rate environment has fundamentally reset expectations. **Infrastructure is no longer viewed simply as a fixed income substitute** providing stable yield, but as an asset class expected to deliver a premium over listed equities. In response, **managers are expanding beyond traditional core assets** into new geographies, sectors and higher-return strategies to meet these more demanding return thresholds.”

GP

“The other main challenge is **understanding how the retail and high net worth markets will be integrated, because a lot of capital is coming to the asset class, and the risk is that that capital is mispriced**.... I think also from a regulatory perspective, some regulators may move late, some early, but **I think you will see increased regulation and scrutiny**.”

GP

“In terms of risk... **the challenge is having a big enough team**...It’s something we wrestle with a lot... when you get into Green transport and digital infrastructure and others, justifying the team is hard.”

GP

## Looking ahead...

**As pressure within the mid-market grows, infrastructure appears to be moving towards a more concentrated and selective landscape.**

Some GPs expect consolidation to intensify in the mid-market. There is a view that not all firms will continue through this phase, with weaker or less differentiated managers more likely to be acquired or absorbed.

This sits alongside a shift on the investor side, where LPs are described as wanting to work with fewer managers, adding further pressure on smaller or mid market firms.

Strong interest remains in sectors linked to longer term structural trends, such as the energy transition and digital infrastructure. Areas like battery storage, EV charging and data centres are seen as offering higher growth potential. This creates a contrast between parts of the market that are expanding and others where competition is intensifying.

In response, GPs describe a need to both differentiate and scale. There is an emphasis on being clear about what a firm does well, while also finding ways to extend capability or reach. For some, this may involve combining with other firms or expanding their offer to meet investor expectations around service and scale.

“I think they’re all those same trends on consolidation ... Limited partners, investors, our clients just **don’t want to deal with too many managers**.”

GP

“There are sectors which are growing way more rapidly, and these are linked to the megatrends. Think about energy transition, digitalisation. **When you have megatrends, you have growth potential. What becomes attractive is effectively emerging infrastructure sectors, where you can build these assets and benefit from higher returns.** Examples are battery storage, or EV charging, or data centres.”

GP

“You really need to stand out and, be first-rate at what you do...and I think then **just finding ways to get the scale to continually offer that level of service to more things.** So, we need to keep growing. **Which means doing what we do now, and doing that very well, but also finding ways to do other stuff**...Whether you join [another firm], whether you buy them, whatever, there’s a lot of consolidation to deal with all of those cost and scale pressures.”

GP

“I’ll tell you what a very senior manager told me at the Berlin Infrastructure Conference... he said, look around, probably half of the GPs you see here are already dead, they just don’t know it. There will be a consolidation, we’ve seen this happening already... **I think you will increasingly see some GPs on the market being acquired and aggregated, because some of them will fail.**”

GP

# Affordability and reallocation pressures

## CHALLENGES



Mid-market real estate firms are adjusting how capital is allocated within strategies, with a shift towards more sustainable segments as a way to manage weaker performance.



There is a growing tendency among LPs to favour larger platforms, which are seen as offering more diversified exposure compared with more focused propositions.



Amongst wider challenges impacting the private markets, real estate is coming up against pressures from the UK planning environment, where delays are slowing development, and a lack of affordability is weakening demand.



Execution risk is also evident after fundraising. Mid-market firms in particular describe pressure to demonstrate that capital can be deployed effectively and supported by on the ground capability.

"I think real estate credit has done better than real estate equity, which is where I'm at. So again, there's been a big focus on real estate credit versus real estate equity, and then ... **there's the big push to large cap.**"

GP

"One risk to a major investor as well is they give you half a billion or more, and then you don't spend it fast enough, and then it's just sitting there... **The ability to actually execute is quite important as well.**"

GP

"If you're one of these large institutions that can invest in multi-asset strategies... you can get your real estate equity allocation, you can get your private equity allocation, you can get your VC allocation... [large cap] is an easier place to invest... **To come to someone like us... that's purely a mid-market real estate player, you really need to believe in that sector, because we don't offer much diversification.**"

GP

"Looking at housing, which is a big part of what we do in our residential development business, planning continues to be a challenge. The ability of consumers to get mortgages, **for our borrowers to deliver exits** with interest rates not continuing the downward trend that they had started on even before the war in Iran. **That could potentially be a challenge. We're finding the UK is a more difficult place for a number of reasons.**"

GP

## Looking ahead...

**Mid-market real estate firms describe a market where capital raising will continue to be a constraint on growth.**

Rising costs are seen as affecting affordability, with implications for both demand and occupancy.

Some GPs identify consolidation as a potential route to scale and diversification, while others focus on maintaining a strong track record, attracting talent and specialising.

Across these views, reputation is again highlighted as important, built through delivery and supported by clear communication.

This returns to a broader question of how firms present performance and manage investor expectations in uncertain conditions.

**"We can't be everything to everyone.** Effectively, to stand out in this kind of mid-market space, we've sought to be thematic."

GP

"We just have to evolve a little bit in the way we are doing things... the products will evolve, but **if we're going to do anything more revolutionary then I think it's more selling and merging would be the way that we would find a way to continue to become relevant and grow this business,** maybe partner with a real estate equity business or become part of a large private equity business that doesn't have a real estate team. **The way we will start with competing with someone in the large cap is becoming something bigger.**"

GP

**"I think having a good track record and continuously evolving that track record** [will most clearly set apart mid-market firms that remain attractive to institutional investors]. I think both are important. **It's how you communicate about yourself, about the firm.** I think reputation can be lost very quickly but takes a long time to get there. **It's also the track record of the individuals and the way people work with each other, as well as the investment strategies.**"

GP

**"[Real estate] credit had its day in the sun** and I think the tide is beginning to change between credit to equity again... **the margins that a lot of lenders are providing are actually very competitive,** and there's a bit of a race to deploy... there will be a change in the tide where equity markets will start to come back if good deals can be done."

GP

# Methodology

SEC Newgate conducted two streams of research with key audiences within the private markets landscape, to gain a comprehensive picture of appetite for and attitudes towards private markets investment in the UK.

## 1 Online survey with senior decision makers at institutional investment organisations in the UK.

Fieldwork was conducted between 16 April and 1 May 2026.

We spoke to the following types of institutional investors within the research:

- Pension funds
- Insurance firms
- Real estate investment funds
- Investment banks
- Sovereign wealth funds
- Credit unions
- Family offices
- Infrastructure funds
- Endowment funds

Professionals had a mix of the following job titles:

- C-Suite
- Trustee / Board Members
- Investment Committee Members
- Senior Leadership / Head of Function
- Senior Director / Director
- Senior Manager / Manager

To qualify for the research, participants also had to be **responsible for making investment decisions** within their organisation and **invest in UK markets**.

## 2 In-depth interviews with GP-side senior leaders | at mid-size private market firms.

Fieldwork was conducted online between 23 April and 20 May 2026.

Interviewees had a mix of the following job titles:

- Managing Partner / Managing Director / Head of Function
- Partner
- Director (e.g. Director of Investment, Director of Investor Relations / Investor Relations & Accounting)

To qualify for the research, participants had to:

- Be GP-side **senior leaders** at **mid-size** private market firms
- Be **interacting with UK markets** as a core component of their role
- Have capacity to talk about their **relationships with institutional investors**
- Meet the **following average fund size** within their firm:
  - Private Equity - £250m-2bn
  - Private Credit - £500m-3bn
  - Infrastructure - £1bn-6bn
  - Real Estate - £500m-3bn

# Your Partner for Private Markets

**SEC Newgate is an award-winning strategic corporate affairs adviser with deep private markets expertise.**

Our team advises leading GPs, LPs and advisory firms across a range of asset classes, including private equity, private credit, venture capital, real estate, infrastructure, natural resources and impact.

We have an in-depth understanding of the global trends driving the growth of private capital today, including more recent democratisation trends.

We have a strong track record in helping our clients build brand equity, sharpen positioning, secure stakeholder support

across fundraising, deployment and exit cycles, and protect their reputation at more challenging times.

Our UK team combines senior corporate affairs advisers, former journalists and in-house heads of communications, with deep expertise across private equity, private credit, infrastructure and real assets, delivering insight-led strategies and highly targeted engagement campaigns.

Our specialists have extensive experience in advising funds' portfolio companies, including start-ups and growth companies, through various stages and funding cycles and across a range of sectors and geographies.

## SPECIALIST TEAM



**NOÉMIE DE ANDIA**  
Senior Counsel



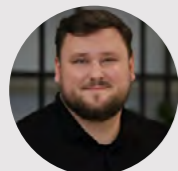
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Senior Counsel



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Director



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We are experts at helping our clients build their profile and influence, protect their reputation and secure support from all stakeholders to meet their strategic ambitions. This is particularly critical in the current volatile macro environment where certain private markets strategies are being intensely scrutinised."

**NOÉMIE DE ANDIA**

## CORE CAPABILITIES

BRAND BUILDING & PROFILE RAISING	FUNDRAISING & LP COMMUNICATIONS	M&A, DELISTING & IPO COMMUNICATIONS	CONTENT & DIGITAL MEDIA STRATEGY
POLICY & REGULATORY ENGAGEMENT	PORTFOLIO COMPANY COMMUNICATIONS	CRISIS PREPAREDNESS & CRISIS MANAGEMENT	SUSTAINABILITY STRATEGY & COMMUNICATIONS



The SEC Newgate team is highly proactive and well networked, which has allowed us to get our message out to a wider selection of key stakeholders including - media, influencers and analyst engagement."

**LONGSTANDING PRIVATE EQUITY CLIENT**

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For more information contact: [privatemarkets@secnewgate.co.uk](mailto:privatemarkets@secnewgate.co.uk)

# Get in touch

LEYLA HART-SVENSSON

MD, Insight and Intelligence

[leyla.hartsvensson@secnewgate.co.uk](mailto:leyla.hartsvensson@secnewgate.co.uk)

NOÉMIE DE ANDIA

Senior Counsel, Private Markets

[noemie.deandia@secnewgate.co.uk](mailto:noemie.deandia@secnewgate.co.uk)



