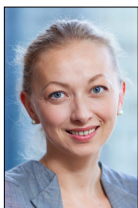


From Turbulence to Traction



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In 2024, lingering macroeconomic headwinds continued to cast a shadow over real asset fundraising. While some asset classes—specifically infrastructure—demonstrated relative resilience, real estate closed-end fundraising activity declined approximately 36% year over year.¹ This slowdown is attributable to a combination of factors, including elevated interest rates, market uncertainty, and a corresponding lack of transaction activity. Additionally, we observed changing preferences among institutional limited partners (LPs), who shifted allocations within real assets, impacting fundraising dynamics.

The subdued real estate transaction environment, because of persistently wide bid-ask spreads and tight lending conditions, restricted general partners' (GPs') ability to exit investments from older funds, thereby limiting distributions to limited partners. With fewer distributions, LPs were unwilling—or unable—to commit new capital amid an uncertain market environment, further challenged by ongoing declines in property valuations.

The NCREIF Fund Index—Open End Diversified Core Equity (NFI-ODCE), a value-weighted index, recorded nine straight quarters of declining valuations from the third quarter of 2022 to the third quarter of 2024, resulting in approximately 25% of gross asset value depreciation. Aside from the office sector, write-downs were primarily driven by the effects of elevated interest rates rather than the fundamental performance of assets. While not as dramatic as the global financial crisis market reset, when prices declined by 44%, the recent repricing will undoubtedly leave a dent in the performance of COVID-19-era vintage funds (2020–2021). The recent real estate market dynamics have affected many market participants, but perhaps none more so than open-end core and core-plus fund managers. These managers have faced the dual challenge of needing to mark their

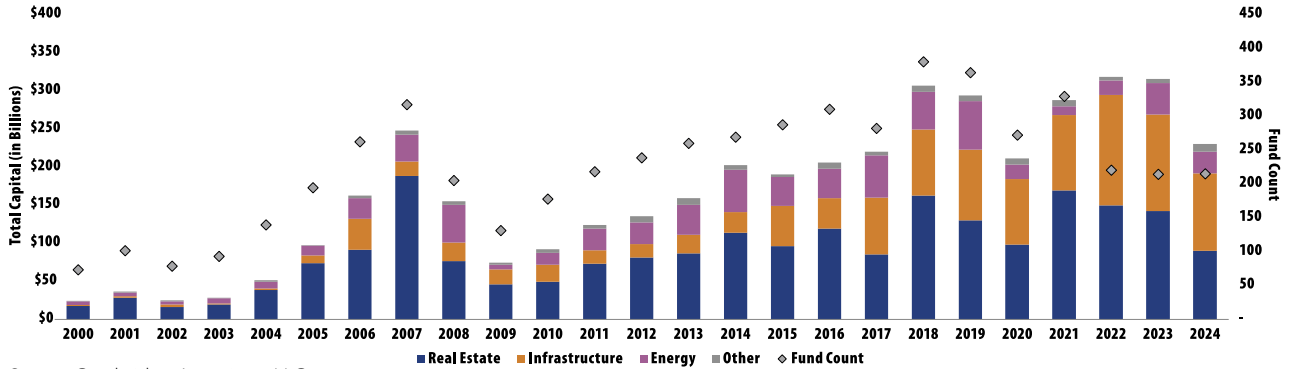
Cambridge Associates has been helping endowments, foundations, private clients, pensions, and other large institutional investors invest in real assets (defined as infrastructure, real estate, and natural resources such as energy and commodities, mining, agriculture, and timber) since the 1980s. The Cambridge Associates Real Estate, Natural Resources, and Infrastructure database includes nearly 2,000 investment managers representing more than 6,000 funds. Our investment coverage includes funds, co-investments, secondaries, and separate accounts investing in public and private debt and equity investment vehicles across the risk spectrum. In this article series, supported by our robust database, we reflect on a variety of trends in capital-raising by investment managers in the marketplace for institutional real assets.

portfolios to market in unfavorable market conditions while also facing pressure to satisfy increasingly large redemption requests. Together, these market forces not only impacted the performance of legacy assets but also restricted GPs' abilities to deploy new capital into a more favorable market environment.

As 2025 begins, both sentiment and market conditions seem to be improving, and we are cautiously optimistic that the fundraising environment will pick up across real assets. Infrastructure should continue to garner the attention of LPs in search of diversification and exposure to megatrends such as renewable energy and digital infrastructure. Natural resources fundraising should benefit from mounting global energy demands as LPs increasingly recognize the need for additional energy supply in all forms. Though natural resource fundraising is unlikely to reach levels observed during the 2010s, the sector's strong cash-flow profile and attractive valuations should serve as additional catalysts for fundraising activity.

1. Cambridge Associates (CA) defines fundraising activity as the total number of real asset funds and target fundraising amounts, as in our database, that were launched and had their first closes in each respective vintage year.

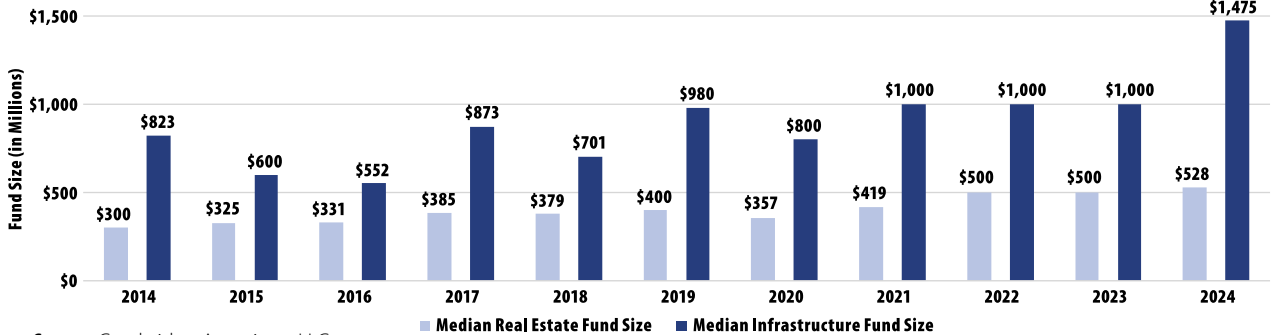
Exhibit 1: Closed-End Real Asset Historical Fundraising



Source: Cambridge Associates LLC

Notes: "Other" includes timber, agriculture, and diversified real assets. Energy, as defined in Cambridge Associates' databases, includes funds investing in upstream, midstream, energy services, mining, hybrid carbon-based power and renewables, natural resource funds of funds and secondaries, and other diversified energy strategies. Cambridge Associates is often made aware of new managers and funds and provided with current material that impacts historical fundraising data. Latest data may deviate from prior reporting as a result.

Exhibit 2: Infrastructure and Real Estate Fund Size Data Over Time



Source: Cambridge Associates LLC

Note: Each vintage year includes data from at least 25 infrastructure funds and 110 real estate funds.

We expect the fundraising recovery to be notable within real estate, where capital raising efforts may be supported by moderating interest rates and some recovery in property valuations. Rising levels of distress over the next year may also spark investor interest in real estate, although the extent of distress remains uncertain and constrained to certain sectors and markets.

What We've Observed

Year over year, real asset fundraising activity dropped 27% in aggregate in 2024 coming off the historically active years of 2021–2023 (Exhibit 1). Within real assets, real estate fundraising posted the largest decline (approximately 36%). Infrastructure and natural resources fundraising also lagged 2023 levels, each decreasing about 20% year over year. Interestingly, 2024 marked the first year since 2000

in which infrastructure fundraising activity surpassed that of real estate by gross target capital raised. Although there were fewer infrastructure funds in the market compared with real estate (53 versus 110), the relative increase in infrastructure fundraising activity stems from steadily increasing fund sizes and growing LP interest.

The Rise of Infrastructure

Over the past decade, the median size of both private real estate and infrastructure funds has increased by nearly 80% (Exhibit 2). This increase is more pronounced for infrastructure in total dollar amount because of the scale of underlying investments. Infrastructure projects are capital intensive and can range from traditional roads and bridges to multi-billion-dollar operating platforms targeting renewable energy, utilities, transportation, and digital



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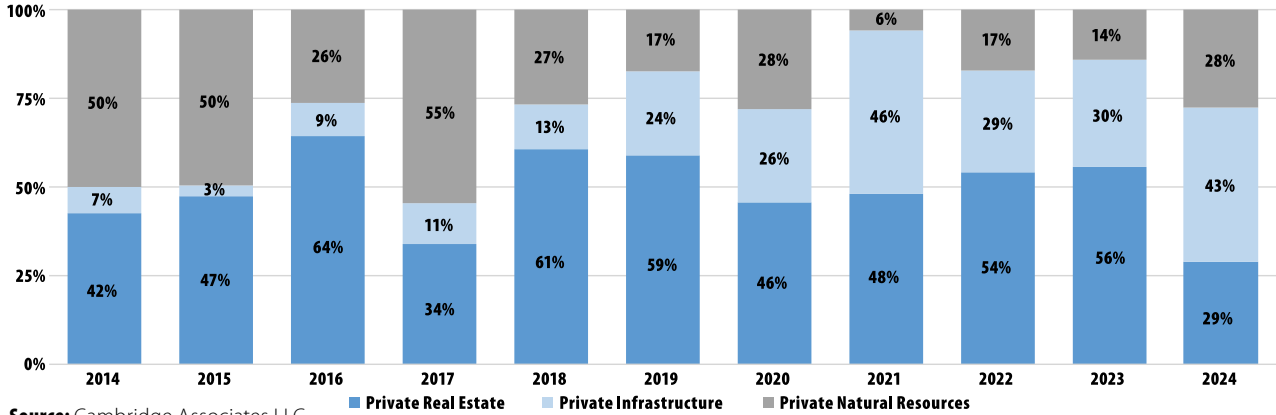
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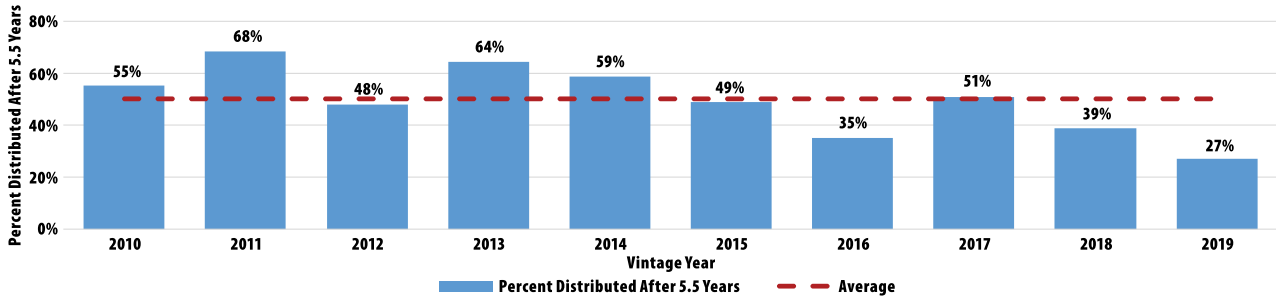
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Exhibit 3: Sample of CA Client Commitments to Private Real Assets by Asset Class



Source: Cambridge Associates LLC

Exhibit 4: Real Estate Fund Distributions as a Percent of Total LP Commitments



Source: Cambridge Associates LLC; as of June 30, 2024

assets. More recently, the proliferation of data center-focused funds (which Cambridge Associates [CA] classifies as “infrastructure”), driven by the increase in device usage and technological advancements in AI, cloud computing, 5G, and the Internet of Things, is accelerating the need to store, process, and interconnect data, further contributing to the increase in infrastructure fund sizes.

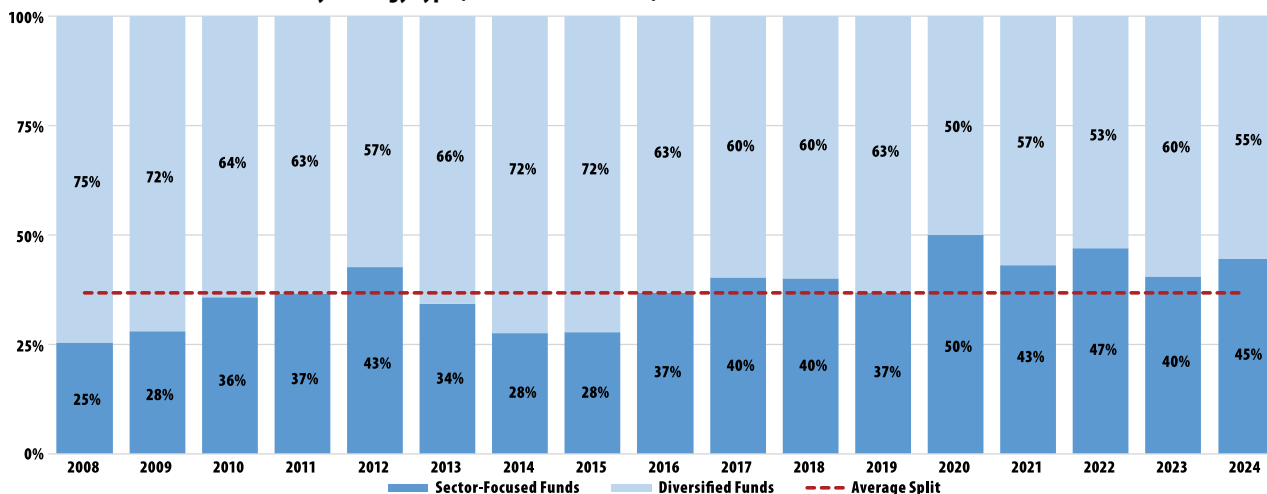
Infrastructure has also become a harbor for LPs seeking predictable, inflation-linked cash flows. Such investments typically feature contracted revenue streams that are linked to inflation, which may help mitigate liquidity pressure elsewhere in LPs’ private investment portfolios during periods of high inflation. Over the past decade, although CA’s clients’ overall allocations to real assets have stayed relatively consistent, hovering around 7%, increasing interest in infrastructure is notable. Exhibit 3 illustrates a sample of CA’s clients’ historical allocations of commitments to private real assets across real estate, infrastructure, and natural resources.

Lackluster Distributions

As noted earlier, real estate transaction activity has fallen well below peak levels achieved in 2021. Beyond real estate, private equity exits have also decreased substantially, as mergers and acquisitions and initial public offering activity ground to a halt amid rising rates, inflation, and slower growth. With fewer transactions, private market GPs were challenged to exit their existing holdings, leaving LPs with fewer distributions than budgeted in their private investment portfolios, reducing their capacity to allocate new capital into private markets.

As shown in Exhibit 4, by the second quarter of 2024, 2019 vintage real estate funds, which were about five and a half years into their lives, had distributed approximately 27% of total investor capital back to LPs. In comparison, at that same “age,” prior vintages (2010–2018) had distributed an average of 52% of invested capital, nearly double the distribution rate of the 2019 funds.

Exhibit 5: Real Estate Fund Share by Strategy Type (Based on Fund Count)



Source: Cambridge Associates LLC

Note: Each vintage year includes data from at least 86 real estate funds.

Without the expected distributions, LPs have been unable or unwilling to recommit capital, as many are at or above their target real estate exposure. Meanwhile, GPs have been seeking extensions of their fund terms because they cannot liquidate assets to generate proceeds for their LPs. Additionally, slow transaction activity has left many GPs with ample dry powder in recent vintages. For GPs who have recently launched funds, raising capital is taking much longer. The amount of time between a fund’s legal inception to the first cash flow increased to approximately 15 months for 2023 vintage funds, up from just over 10 months for 2022 vintage year funds.

Are Diversified Funds Poised to Perform in 2025?

Turning back to the opportunity set and fundraising activity, diversified opportunistic funds are expected to perform better in times of market dislocation and when markets begin a cyclical recovery because of their ability to pivot across sectors, markets, and a broader range of transaction types. Data show that the share of sector-focused strategies has grown over time on a fund-count basis, but diversified funds continue to dominate, especially in terms of total dollars raised (Exhibit 5).

Across real asset managers, a growing number of “diversified” offerings that are no longer as diversified across real estate sectors as before instead have turned into “industrial and multifamily” funds. This is not

surprising given the performance of these sectors over the past decade; however, one may wonder whether such diversified funds will generate alpha and whether an investor is better off investing with sector specialists instead. In future columns, we will analyze relative performance of sectors and strategy types and refresh our analysis on different fund structures, such as operators, allocators, and hybrids. That said, regardless of the cycle and structure, manager selection remains critical.

Looking Forward

Following the initiation of the Federal Reserve’s easing cycle, the NFI-ODCE recorded 0.14% appreciation in the fourth quarter of 2024, the first quarter of valuation increase since the repricing began in late 2022, based on preliminary data released in mid-January. The positive 0.14% return, though modest, nonetheless suggests that valuations may be nearing a bottom. Lending markets provided further indication of a bottom, with higher advance rates and narrowing spreads toward the end of 2024. The improvement in debt markets was also evidenced by stable, albeit low, year over year levels of transaction activity following significant declines in 2022 and 2023. Higher transaction volumes reflect that buyers and sellers are converging on their price expectations, also consistent with the bottoming process.



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Finally, listed real estate, measured by the Nareit All Equity REITs Index, typically a leading indicator for private CRE in both downturns and recoveries, troughed in October 2023 and rose approximately 30% from that point through December 2024. Taken together, there is reason to believe valuations are near a bottom, creating an attractive investment environment for new CRE commitments in 2025. Although we expect these positive market factors to be a catalyst for increased private real estate fundraising activity in 2025, the market is not without risks.

The 2025 outlook will be impacted by the new Trump administration, bringing with it some policy uncertainties. These include potential changes in tariffs, possibly affecting the industrial and manufacturing sectors; new immigration enforcement, potentially leading to increased wage pressures and further slowing of the already stalled construction industry; and possible modifications to IRA tax incentives, which could impact some infrastructure

sectors. Geopolitical risks also play a significant role. The conflict in the Middle East could disrupt global energy supplies, and the ongoing war in Ukraine has contributed to Europe's lagging performance, a trend that is expected to continue into 2025. This situation is further exacerbated by a strong US dollar and potential tariffs.

As 2025 begins, let this be the year of normalization, marked by improving market conditions that foster a more robust fundraising environment. ■

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