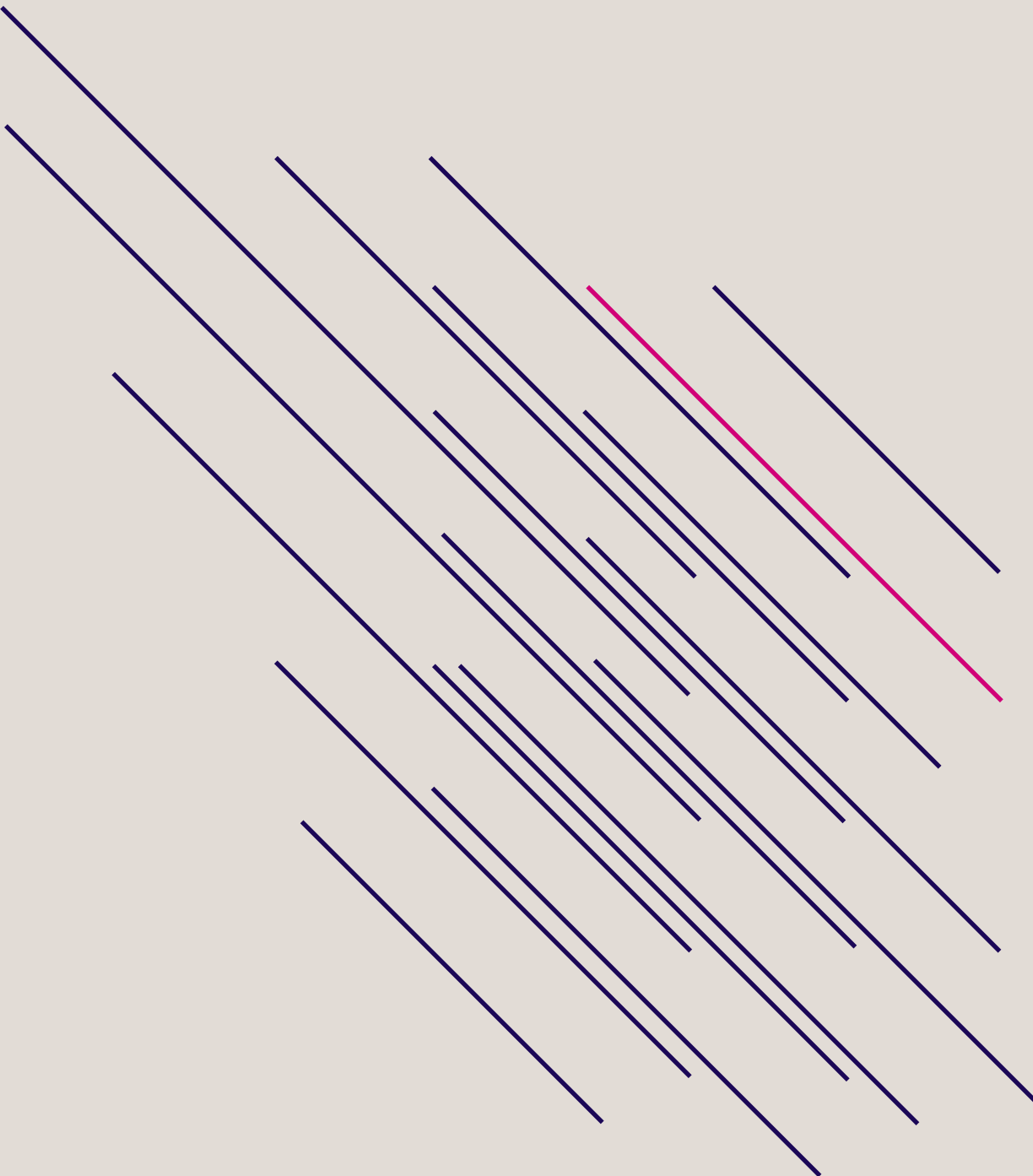


A special joint report with  
Dubai International Finance Centre

# The Future of Private Equity and Venture Capital



# Introduction

**By numbers**

\$4.3tn

Global private equity assets under management 2022

\$2.5tn

Venture capital assets under management 2022

61%

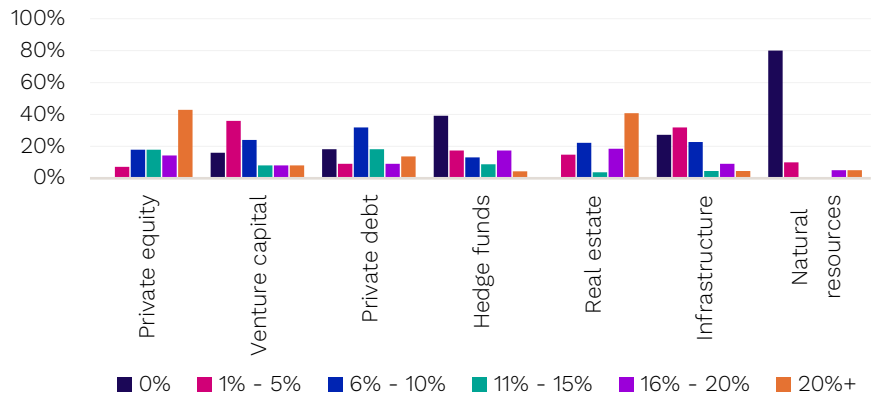
The proportion of Middle Eastern investors that are ‘very optimistic’ about private equity and venture capital over the next five years (Source DIFC Investor Poll – Investor Conference 16th May 2023)

Middle Eastern interest in private equity (PE) and venture capital (VC) is increasing. 65% of investors in the region say that they will maintain or increase exposure to PE this year, while 56% say the same about VC. The region is keen on the opportunities offered by these and other alternative investments, in part because of its relative under-exposure historically but also because of an optimistic view on the regional economic and market cycle.

This report offers a brief outline of recent PE and VC performance globally as well as future prospects for these two alternative asset classes. It has been prepared by Preqin in collaboration with the Dubai International Financial Centre, drawing on Preqin’s unrivalled global database of more than 50,000 PE funds and 7,300 VC funds.

We also asked some of the region’s top alternative investment professionals to give their views on regional and global prospects for alternative asset classes.

**Fig. 1: What are your current allocations to alternatives (% of AUM)?**



Source: Middle East Investor Survey 2023

# The future of private equity

Private equity (PE) will continue to play an important part in our financial future. There are many reasons why company sellers and investors are attracted by the PE model, including the opportunity to re-structure a business out of the public eye. But the most compelling rationale for PE is its ability to reward investors, offering significantly better returns than, for example, the S&P 500 and the MSCI World Index over the past 15 years (Fig. 2).

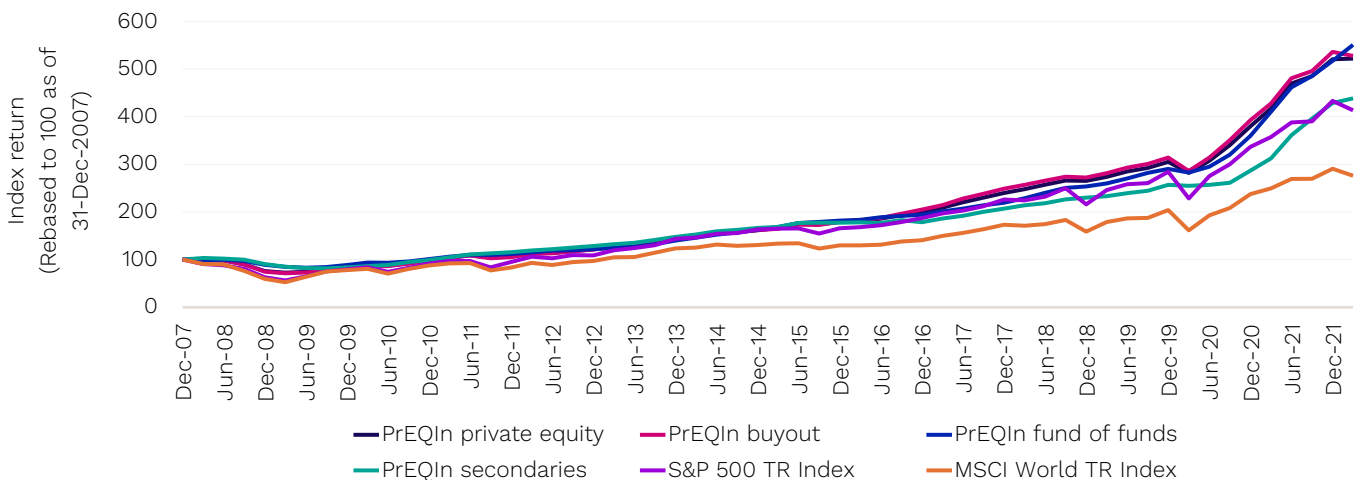
While not immune to bad news, the flexibility of a well-managed PE portfolio can offer a degree of insulation from the shocks of public market volatility. PE is still a relatively small part of the world’s combined public and private equity markets – just 7.4% in its philosophical heartland of North America for example – which gives it both reason and room to grow over the long term.

Preqin forecasts that PE will continue to be the biggest class of alternative investment assets under management (AUM) in the medium term, growing to \$7.6tn by 2027, up from \$4.3tn at the time of writing. The best-performing region will continue to be North America, followed by Europe, and the APAC region.

### Headwinds and tailwinds

Growth in the PE market has slowed in recent months, with pressure from geopolitical tensions, accelerating inflation, and higher interest rates taking their toll on performance, especially for growth funds looking for strong macro fundamentals.

**Fig. 2: PrEQIn Index: private equity strategies vs. public markets (rebased to 100 as of 31 December 2007)**



Source: Preqin

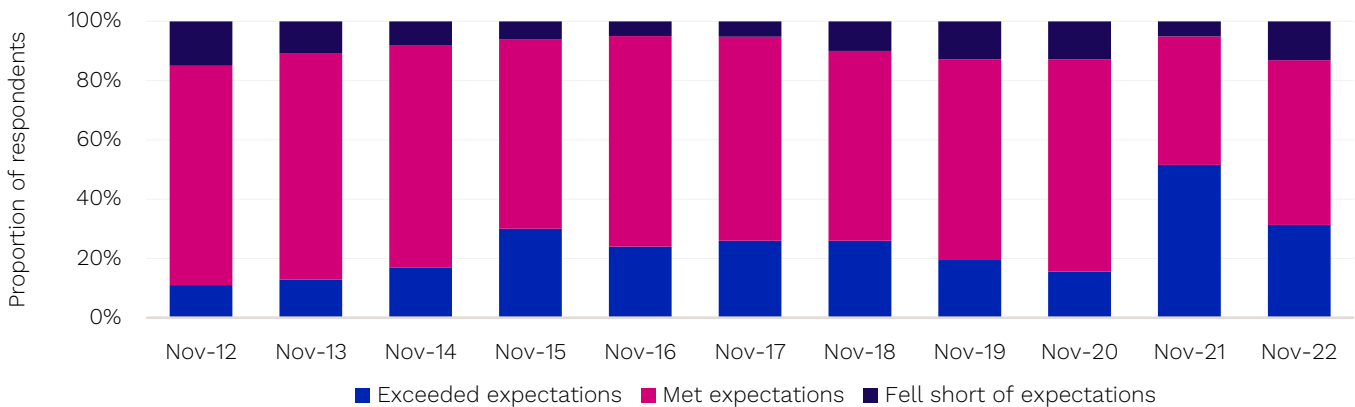
In the short term, there is a double squeeze on this asset class with volatile equity markets and challenging macroeconomics making it harder to realize value, both through public listings and trade sales. Meanwhile, many investing institutions say that they are close to their agreed strategic investment limits in PE. While such limits could theoretically be increased, these factors will together make fundraising for new PE opportunities harder.

At the moment the region is still an under-served market. I believe the industry will continue to grow from here.

**Dr. Helmut M. Schuehler**, Chairman & CEO, TVM Capital Healthcare

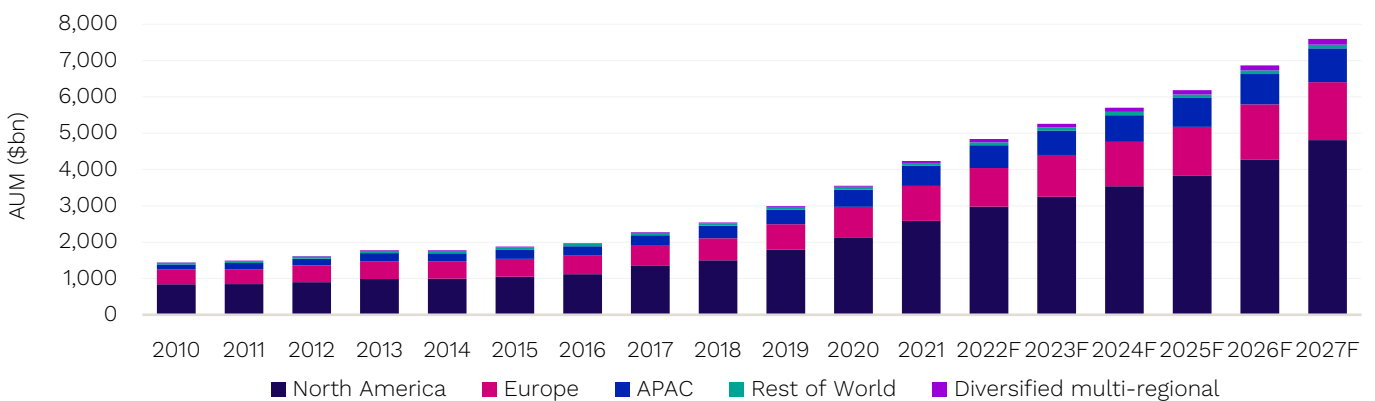
Despite these headwinds, Preqin expects PE to grow in relative popularity over the next twelve months. Comparative investment returns remain the most compelling growth driver. Survey data shows that, globally, PE met or exceeded the expectations of 87% of investors last year (Fig. 3). That said, last year’s difficult conditions were reflected in a lower proportion of investors seeing PE exceeding expectations (31%, down from 52% the previous year), and a higher number that were disappointed by PE results (13%, up from 5%).

**Fig. 3: Extent to which investors feel their private equity investments have lived up to expectations over the past 12 months, 2012 – 2022**



Source: Preqin Investor Surveys. Data as of November 2022

**Fig. 4: Private equity assets under management (\$bn) by primary region of focus, 2010 - 2027F**



Source: Preqin Investor Surveys. Data as of November 2022

# \$4.3tn

of surveyed ME investors have a 20%+ current allocation to private equity

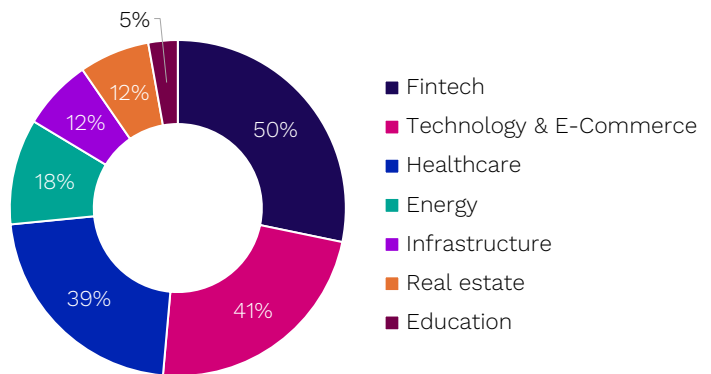
In aggregate, however, performance in the asset class has continued to impress. PE funds set up between 2009 and 2019 returned a median net internal rate of return (IRR) of 19.2%. Growth funds in particular showed strong outperformance of 23.9% median net IRR, while buyout funds, which tend to be more heavily leveraged, delivered 19.8%. Funds of funds showed the lowest returns of the asset class at 13.4%, although they also had the strongest risk-adjusted return of all PE strategies, as measured by standard deviation.

VC and PE managers who prove themselves to be steady and reliable partners with a long term investment horizon will do well.

| **Vignesh Vijayakumar**, COO Single Family Office

Preqin’s survey of Middle Eastern investors in February 2023 found a regional story similar to the global one, with over 72% considering PE to have met or exceeded their return expectations over the previous year. More than 44% of the region’s investors said that they planned to commit more capital to the asset class in the coming year, while just under 15% said that they intended to reduce their allocations.

**Fig. 5: Sectors attracting the most investment from Middle East private equity and venture capital investors**



Source: DIFC Investor Conference 16th May 2023

# The future of venture capital

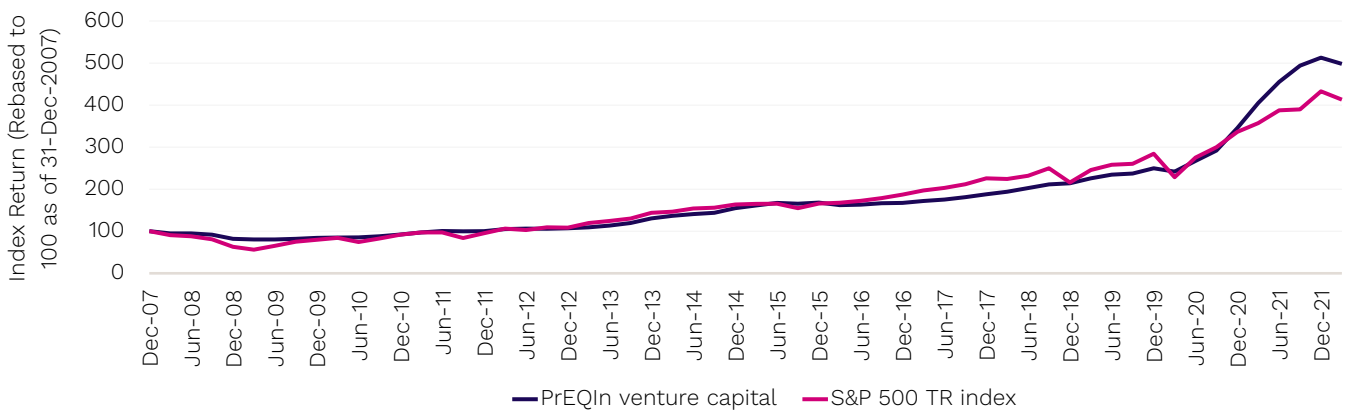
Compared with private equity, the short-term global outlook for venture capital (VC) is not as bright. Preqin’s VC indices have dipped in line with the S&P 500 Total Return Index, and are expected to continue to fall over the next couple of quarters as venture capital firms price in current market conditions (Fig. 6).

The more pronounced fall in global VC returns compared with PE is due to the longer duration of VC investments, which are more sensitive to changes in interest rates. This will not improve in the short term as the deteriorating exit environment for expansion/late-stage strategies is yet to be reflected in Preqin VC Indices. This effect will kick in over the remaining months of 2023.

Many observers consider deflation in the VC bubble inevitable after the abundance of liquidity in the market during the super-low interest rate phase following the Global Financial Crisis of 2008/9. As rates edged up and IPO markets became less accessible, VC valuations became more conservative. This was especially painful for portfolios constructed during the later stages of the liquidity boom.

This slowdown followed a sensational run of good returns. VC led the alternative investments pack in 2019 – Preqin’s most recent measurable vintage – with a median net internal rate of return of 33%. This was on a par with the previous year’s record high.

**Fig. 6: PrEQIn index: venture capital strategies vs. S&P 500 TR Index (Rebased to 100 as of December 31, 2007)**



Source: Preqin Pro

2019’s top quartile returned an IRR of 57%, the highest ever for this portion. The bottom quartile meanwhile returned a reasonably respectable 15%. Rolling three-year horizon IRRs for VC reached 25.2% for the period ending March 2022 – just short of private equity’s returns over the same period (25.4%) (Fig. 7).

Macroeconomics and geopolitical tensions may obscure the story. So too will questions around the future of regulation. Artificial intelligence, genetic modification of foodstuffs and rules governing the environmental, governance, and social (ESG) obligations of enterprises all present regulatory and competition challenges at present. There are plenty of reasons for cautious investors to stop and catch their breath.

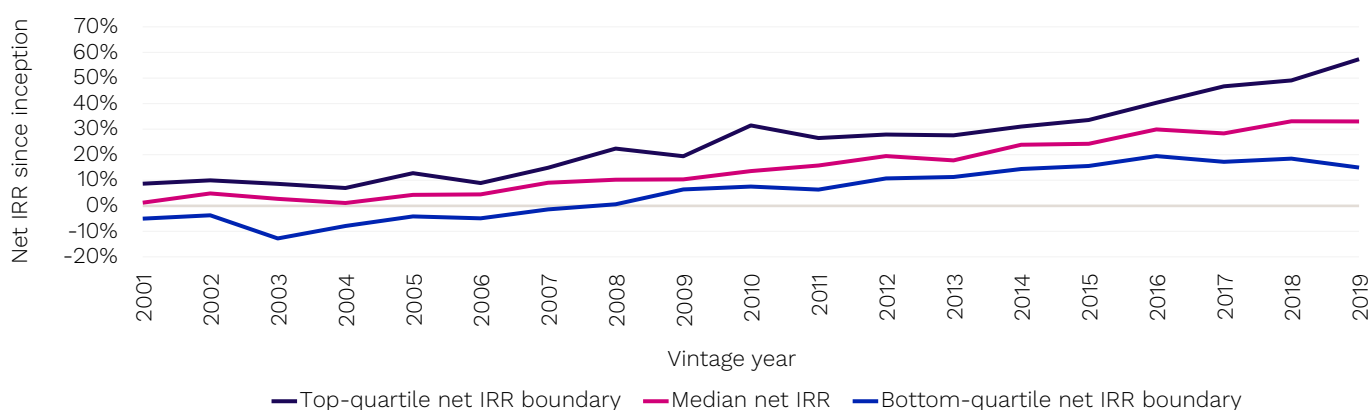
The likely slowdown will be a positive long-term development for the industry. VC will adjust to, and thrive in, the new conditions. The pace of world change is not decelerating and continues to be driven by technological advances across the industrial and service spectrum, from biotech and pharmaceuticals to finance and manufacturing. Venture capital has proven its value working at the heart of these advances. We expect that it will continue to do so.

### VC in the Middle East

The Middle Eastern alternatives market is remarkable for its positive investor sentiment, contrasting strongly with global pessimism. Only 19% of Middle Eastern investors considered that the macroeconomic cycle was declining when Preqin surveyed them in February this year, compared with 94% of global investors surveyed three months earlier. This may be attributed to several factors, including a general abundance of capital in the region, and its relatively small exposure to the alternatives market to date.

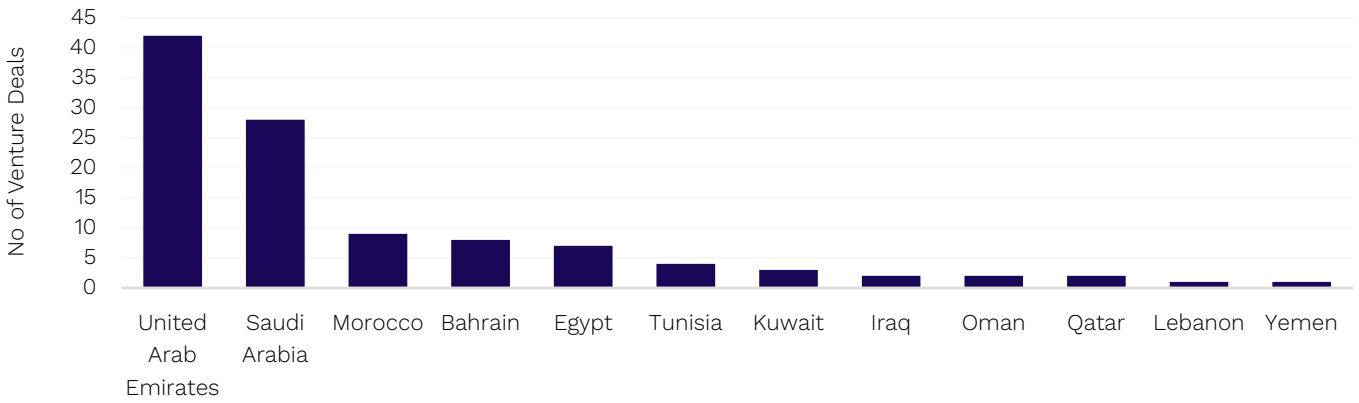
In the first nine months of 2022, the region closed \$10bn worth of deals, compared with \$12bn for the whole of 2021, which was itself a record and more than double the previous year’s total. By comparison, the more established markets saw dealmaking tail off significantly in 2022, but the absolute numbers still dwarfed the Middle East total. There were \$324bn worth of deals in North America, Europe, and Asia in the nine months to September 2022, down from \$645bn for the whole of 2021. In the year to May, 2023 Preqin has counted 89 VC deals in the Middle East, 39 of which were under \$5mn in value. The 18 larger deals, across sectors ranging from finance and e-commerce to transport and coffee shops, had an aggregate value of just over \$1.1bn.

Fig. 7: Venture capital: median net IRRs and quartile boundaries by vintage year, 2001 - 2019



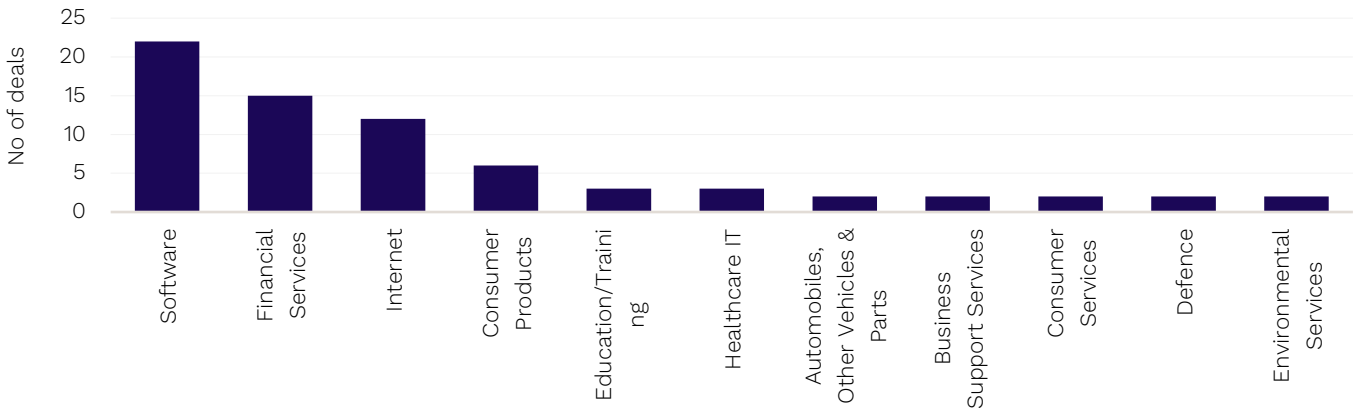
Source: Preqin Pro. Data as of May 2023

**Fig. 8: Middle East VC deals by country**



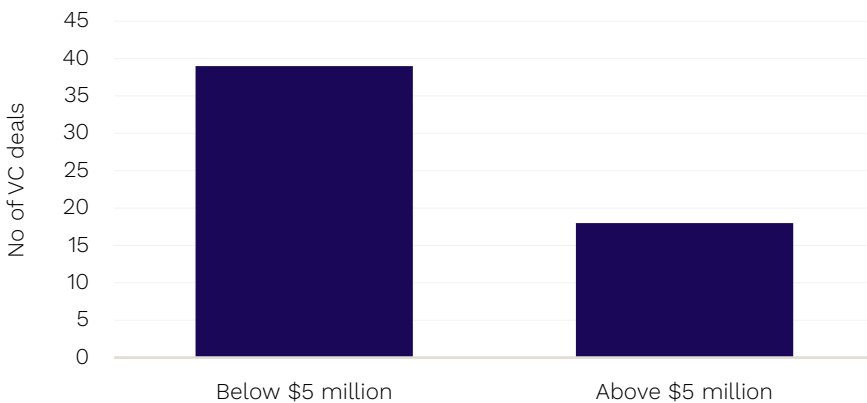
Source: Preqin Pro. Data as of May 2023

**Fig. 9: Middle East VC deals by sector**



Source: Preqin Pro. Data as of May 2023

**Fig. 10: Middle East VC deals by deal value**



Source: Preqin Pro. Data as of May 2023



## Regional Viewpoint

# TVM Capital Healthcare interview

### **What makes the Middle East an attractive investment market? Which particular sectors or segments are most attractive?**

Mostly the fact that the markets are all growing. Oil provides a strong underpinning of liquidity and regional budgets, while the young demographic and a huge, growing influx of expatriates is an abundant source of talent. Plus there is hardly any competition on the private equity side. It is a nascent market.

Regarding sectors, we are especially interested in healthcare. There are tremendous investment opportunities – like local medical product manufacturing - supported by a general focus by the region's governments on improving their healthcare systems. I can't really comment on other sectors beyond a general observation that many are in growth mode.

### **Do you apply value creation levers – for example leverage, arbitrage, M&A etc - differently to other regional markets?**

As a firm our focus is very much on strategy, operations, execution and the quality of our management teams. This is the same everywhere. We are also straight equity investors and do not leverage our deals, so this is not a question for us. However, for investors using different Private equity models, they might find it difficult to raise cash flow based debt from the region's commercial banks, who are very conservative in this respect.

### **What exit options exist today for Middle East-based portfolio companies? And how do you expect that to change/evolve over the next 5-10 years?**

All of the investments/companies that we have realized have been sold through M&A transactions. In the next 10 years the regional stock exchanges, in particular, Saudi Arabia's Tadawul, will provide fundraising and exit opportunities for fast growing and successful entrepreneurial companies, just like stock markets do elsewhere in the world.

**Dr. Helmut M. Schuehler**  
Chairman & CEO  
TVM Capital Healthcare

**TVM|Capital**  
**HEALTHCARE**

### **Are you seeing more investment opportunities in the technology sector? Which segments are most attractive?**

Tech is a big theme in the ME, especially in Dubai and Riyadh, where a great number of tech VCs have sprung up. Fintech is a big topic, so is AI for many applications, including consumer-oriented platforms. Health-tech is the part that is interesting to us.

### **Does ESG play a part in your investment decisions? Why?**

ESG plays a big part of our deal making and a bigger part in our development approach. The role is less significant when we come to make the investment decision than it is post-investment. We always do ESG due diligence, but the deeper focus comes with our daily work with portfolio companies as they grow and develop. Our core focus – being in healthcare – is on governance, compliance and quality, followed by social and environmental considerations. We have established a very elaborate system of policies and implementation manuals to guide that process.

### **Where do you see the PE & VC industry in the Middle East in 5 years' time? Where do you think the opportunities for growth will be, and how are you positioning yourself in the region to capitalise on that.**

The industry is poised to grow again, this time round led by the much smaller VC funds, and a multitude of approaches and strategies. It is more of a "grass roots" movement now. The industry has become much more diverse in the last 2 to 3 years, which is a healthy development. It is less monolithic and there is more opportunity for regional entrepreneurs to get funded. This includes early stage investments, where value gets created with new solutions, products, services and job creation. At the moment the region is still an under-served market. I believe the industry will continue to grow from here. For our part, we are doubling down on our commitment to the Middle East by raising another fund for healthcare private equity in the region as we speak.

Dr. Helmut Schuehler is Chairman and CEO of TVM Capital Healthcare, an emerging markets-focused healthcare private equity firm headquartered at DIFC Dubai (DFSA regulated) and Singapore (MAS regulated), with offices in Riyadh, Ho Chi Minh City, Boston, and Munich.

# Nuwa Capital interview

## What makes the Middle East an attractive alternatives investment market?

The region is quickly becoming a more innovative economy, driven by entrepreneurial capability, supported by positive demographics, a high rate of economic growth and rapid liberalization.

## Do you apply value creation techniques - such as leverage, multiple arbitrage, M&A etc - differently to other regional markets?

The huge opportunity that we see in tech companies in this region is value creation through efficiency gains and strategic support in driving both productivity and market entry.

## What exit options exist today for Middle East-based portfolio companies? How do you expect that to change/ evolve over the next 5-10 years?

Public markets are opening up. The successful IPO of KSA's leading online food delivery platform, Jahez, is an encouraging signal in this respect. It was only the first listing of a tech start up on the Tadawul, but we anticipate more tech firms preparing for share listings.

**Khaled Talhouni**  
Managing Partner  
Nuwa Capital



## Does ESG play a part in your investment decisions? Why?

We take ESG very seriously and believe that it will help us to build the sustainable innovative industries of the future in the region.

## Where do you see the PE & VC industry in the Middle East in 5 years time?

There is a lot of room for growth in the PE and VC industries in the Middle East and Africa. The private capital sectors overall are significantly smaller than those in other emerging markets, so given the favourable conditions and opportunities we describe above, we foresee a huge influx of alternative investment in the region. This is vital for building the region's companies of the future.

Prior to founding **Nuwa Capital**, **Khaled** was Managing Partner at Wamda Capital, a Venture Capital fund investing in technology-enabled companies in the Middle East, North Africa and Turkey. He started his career at Dubai International Capital where he supported the development of the MENA region's first seed capital fund. Since then Khaled assumed a number of venture capital and startup roles including heading investments and strategy at twofour54 in Abu Dhabi.

# Tarabut Gateway interview

## Where do you see the opportunities to grow your business?

We are always exploring ways to expand into new markets, introduce new offerings, and establish strategic partnerships, such as DIFC, to enhance our presence and drive growth. We see tremendous opportunities in the Middle East and Africa (MENA) region, where the fintech sector is going through a revolution, with a thriving ecosystem of over 800 startups. There is significant venture capital funding and this is a vibrant landscape and fertile ground for us to expand our business and leverage the support of our investors.

A key factor driving growth is a supportive regulatory environment. Regulators in the region have shown strong commitment to fostering innovation and facilitating growth in the fintech sector. This lets us operate with confidence and enables us to seize emerging opportunities. Regulatory support also helps us to attract investment and capitalise on new markets and products.

There is growing demand from customers for digital financial solutions as awareness of and trust in fintech grows. This is a great opportunity for us to capture increasing and evolving demand and to deliver innovative products and services.

## What are the main constraints to achieving growth?

As noted, MENA regulators are working hard to provide stability, protect consumers, and foster fair competition across the region. However, navigating regulations across multiple markets is still a challenge that many businesses encounter. Ongoing discussions among regulatory bodies in MENA countries to launch open banking frameworks offer exciting opportunities, but the complexities of regulation and implementation require us to be agile and adaptable.

For some start-ups, the lack of standardized regulations can be a barrier to entry and expansion because compliance in each market can be time consuming and costly. This is intrinsic to the MENA dynamic. Start-ups can overcome such constraints by closely monitoring regulatory developments, engaging with regulatory bodies and advocating reform that promotes cross-border operations and standardization. By working closely with regulators and demonstrating the value they bring to the market, fintech start-ups can help shape regulations and therefore strike a balance between enabling innovation and maintaining necessary safeguards.

**Abdulla Almoayed**  
Founder and CEO  
Tarabut Gateway



## What do you look for in a financial partner?

We seek financial partners who share our vision and recognise the transformative power of collaboration in financial services – partnerships that bring valuable expertise, technology, and strategic guidance to the table. We value strategic partnerships that can help us to accelerate our growth and expansion and empower us to harness the full potential of open banking in the region.

## Where do you see your business in 5 years' time? Where do you think the opportunities for regional growth will be, and how are you positioning yourself to capitalise on that?

Middle East fintech is poised for continued growth and global recognition. As regional fintech hubs such as Saudi Arabia and the UAE continue to thrive, they will solidify their positions on the global fintech map. This is reshaping the region's economic landscape. Together with governments pushing boundaries, opening borders, and adopting new policies to drive foreign direct investment (FDI), we are setting the stage for remarkable progress. Redseer Strategy Consultants, for example, estimate that the MENA region will have more than 300 startups with valuations exceeding \$1 billion by 2030 and that the region's digital economy will be worth more than \$500 billion by 2030.

As a fintech startup, we are excited to be part of this thriving ecosystem. We are committed to playing an active role in its growth. By embracing these opportunities, we aim to position ourselves as a key player in MENA fintech.

**Tarabut Gateway** is MENA's first and largest regulated Open Banking platform that connects a regional network of banks and FinTechs via a universal application programming interface (API). Tarabut Gateway enables seamless and secure data flow and connectivity between banks and fintechs, supports the creation of a thriving ecosystem, and ultimately provides a better consumer experience.

# Family Office interview

## **You have been in the Family Office industry for a long time. Based on your experience, how are family offices looking at the Investment landscape today?**

Family offices benefit from long term investment view and a stable patient capital which allows the family offices to achieve a targeted level of capital growth on real return terms whilst still preserving capital.

During the previous decade of low interest rate environment, most family offices had to lean extensively on risk assets in achieving the desired return. Those investors who were thoughtful and disciplined in investing across different asset classes (including risk assets but in a diversified manner) achieved the remarkable returns. However, this high allocation also proved to be a challenge in 2022 when the traditional correlation between asset classes were challenged and many family offices suffered notable drawdowns.

Given where interest rates are today, there is merit in revisiting some of the historic asset allocations levels and review the role played both by public credit and private credit in the portfolio. Holding a healthy level of liquidity in your portfolio is also critical given that you have optionality to rebalance and cash is also yielding reasonable returns today.

Most family offices tend to be allocators and invest in managers. Important consideration I would add is that the underwriting criteria/manager assessment which investors have historically relied upon needs to be reviewed given that most of the managers have generated these attractive historic returns in a completely different macro environment to the one we are facing today.

## **What role typically do alternative assets play in portfolios? Do you expect that role, or allocation levels, to change in the future?**

Alternatives are very powerful asset classes. Uncorrelated absolute return strategies can help to deliver stable and positive annual returns across different market cycles, whilst private equity and venture capital deliver superior return profile over the long term. The key, naturally, is to stay disciplined and choose the right managers and the right strategies. To my mind, the current environment favors selective areas of credit, PE/VC investments that rely on operational efficiency, rather than financial engineering and macro investing.

As I alluded to in my comment above, the key is to identify the right managers after assessing whether the managers will be able to deliver the superior return profile during the current difficult macro environment. It is important to remember that the attractive historic return profile demonstrated by the managers are achieved in a different macro environment.

## **Vignesh Vijayakumar**

COO

Single Family Office Based in Dubai

This is where data comes in and you will have to invest heavily in data so that you can really drill down into managers' investment strategies and develop a granular understanding of their approach and assess how these historic returns are generated and whether that can be replicated in the future. The environment we find ourselves in today is extremely dynamic, so you can't simply rely on historical performance charts and reports. I do not see many family offices investing adequately in data and this is an area I can see evolving in the future.

## **How should one think about achieving Geographical diversification when thinking about Alternative Investments and what trends do you see evolving here?**

Geographical diversification is extremely important, but it is more complicated to achieve in private assets compared to public assets. Private assets are incredibly long term and the industry is also much more developed in the more mature markets compared to the emerging markets. Hence, it is fairly typical that most allocators would have significant exposure to developed markets in their private investment program. When it comes to credit investing, there is merit in thinking about the legal framework in that country and whether the bankruptcy courts are equipped in handling these credit events before investing as defaults will increase in the current environment. Achieving the desired diversification in private investment programs can take time and you will have to work harder to identify the expert managers in the various emerging markets. I will also add that you need to use data more extensively to understand the companies where your PE/VC managers have invested in and identify where the revenues are generated by those companies rather than just the corporate base of those companies.

## **Are you seeing more investment opportunities in the technology sector? Which segments are most attractive?**

All long-term allocators are best placed to hold healthy exposure towards technology and it is important to stay away from short term market movements and take a longer-term view.

## **Do regional Investors think about ESG? Why?**

Governance is extremely important as good governance drives strong returns and ensures that Companies stay resilient across different market cycles. Impact investing, which is an extension of ESG, for example plays an

important role in guiding an investment decision, but this is always alongside achieving the desired goal of capital preservation and growth.

**Where do you see the PE & VC industry in the Middle East in 5 years' time? Where do you think the opportunities for growth will be, and how are you positioning yourself in the region to capitalize on that?**

There is a great deal of liquidity in the Middle East, supporting the region's economic and social growth and development. Alongside that we will see private equity

and venture capital accounting for a greater share of the allocation over the longer term. We have seen a number of hedge fund managers establishing significant presence in the region and it would be beneficial to see the trend extending to PE/VC managers as well. Vast majority of the Companies in most economies are privately owned and having a thriving private capital industry can play a significant role in the broader development of the Economy and the Region.

**Vignesh Vijayakumar** has extensive experience in family investment offices and other institutional asset owners built during his time with Royal bank of Canada and Northern Trust. Vignesh Vijayakumar presently serves as COO for a family office based in Dubai.

