

A&O SHEARMAN**ARTICLE**

Global trends in private markets: Spotlight on the Middle East 2025

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The global private markets landscape is undergoing a profound transformation, marked by rapid growth, heightened competition, and a wave of innovation that is reshaping investment strategies and fund structures.

Private markets are attracting unprecedented attention from institutional investors, sovereign wealth funds (SWFs), and family offices worldwide, with Preqin projecting their value will rise from USD18trillion(trn) in 2024 to over USD29trn by 2029. Nowhere is this evolution more pronounced than in the Middle East, where regional investors are leveraging their scale and strategic capital to influence global fund terms, demand greater transparency, and set new standards for governance and alignment.

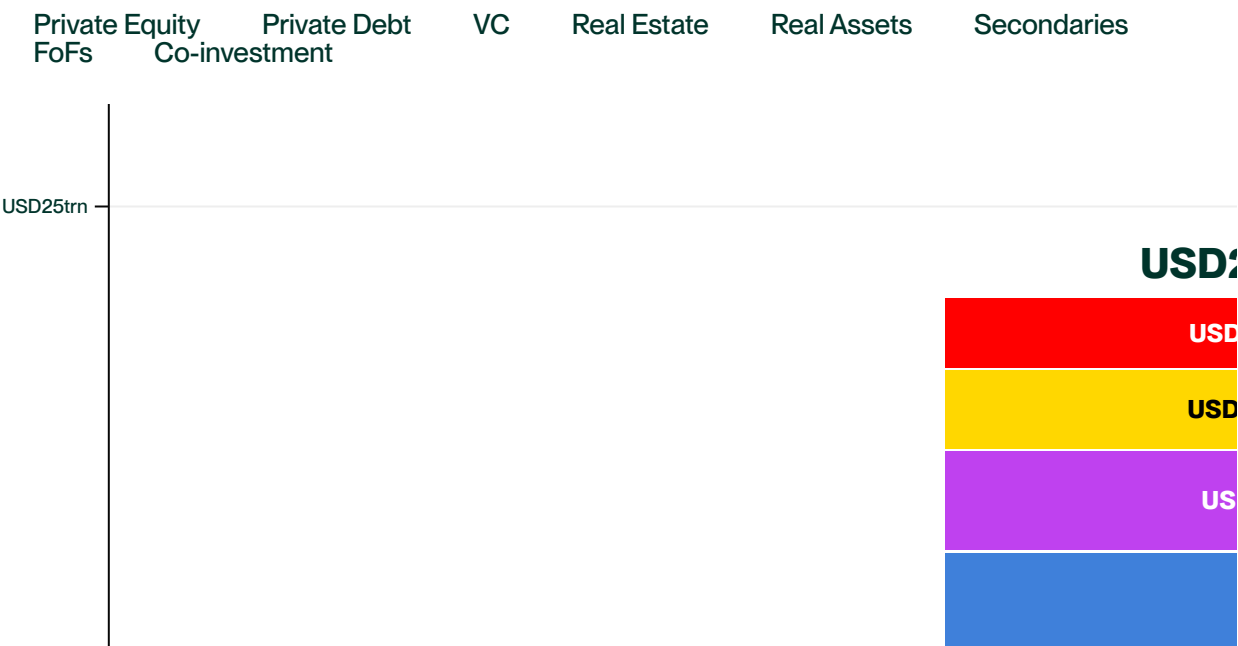
As traditional models such as the “2 and 20” fee structure come under pressure, general partners (GPs) are responding with more flexible, customized arrangements, while limited partners (LPs) are increasingly focused on performance metrics, liquidity solutions, and direct investment

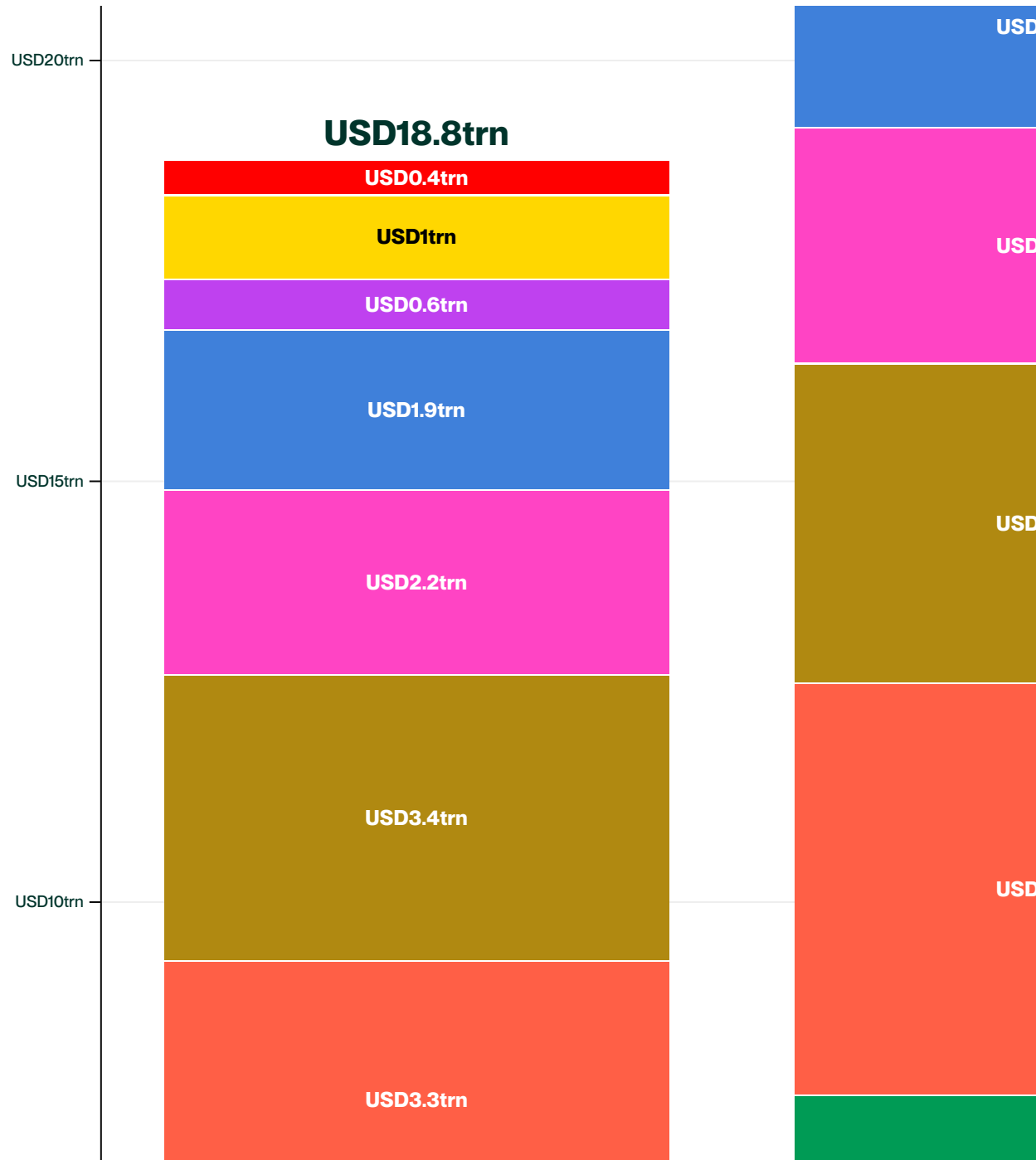
opportunities. The surge in secondaries, the rise of co-investments, and the adoption of innovative fund structures are all testament to a market in flux—one that is increasingly collaborative, sophisticated, and attuned to the needs of a diverse investor base.

In the Middle East, this dynamism is further fueled by ambitious economic diversification agendas, a burgeoning appetite for alternative assets, and a strategic focus on sectors such as energy infrastructure, digital transformation, and artificial intelligence. Nearly 80% of Middle East investors plan to increase their private equity allocations in the next 12 months, with almost half already allocating more than 20% of AUM to the asset class, according to Preqin.

As global and regional players navigate this shifting terrain, the interplay between regulatory developments, technological innovation, and evolving investor expectations is set to define the next chapter of private markets—both within the region and on the world stage. This article explores the key trends, challenges, and opportunities shaping private markets in 2025, with a particular spotlight on the Middle East’s pivotal and increasingly influential role.

Private capital AUM forecast (USD trillion) by fund strategy





Source: Pitchbook *Global Private Market Fundraising Report* (May 2025)

I. The evolution of management fees and discounts in private funds

The private funds industry is experiencing a marked shift in management fee structures, driven by investor demand for greater alignment and value.

Traditional “2 and 20” models are under pressure, with reductions in management fee rates, early bird discounts, and bespoke arrangements for large or early investors now commonplace.

In the Middle East, where SWFs and institutional investors are playing a more prominent role, there is a growing expectation for tailored fee arrangements and enhanced transparency. Regional LPs are leveraging their scale to negotiate more favorable terms, particularly in large or strategic mandates.

What are we seeing?

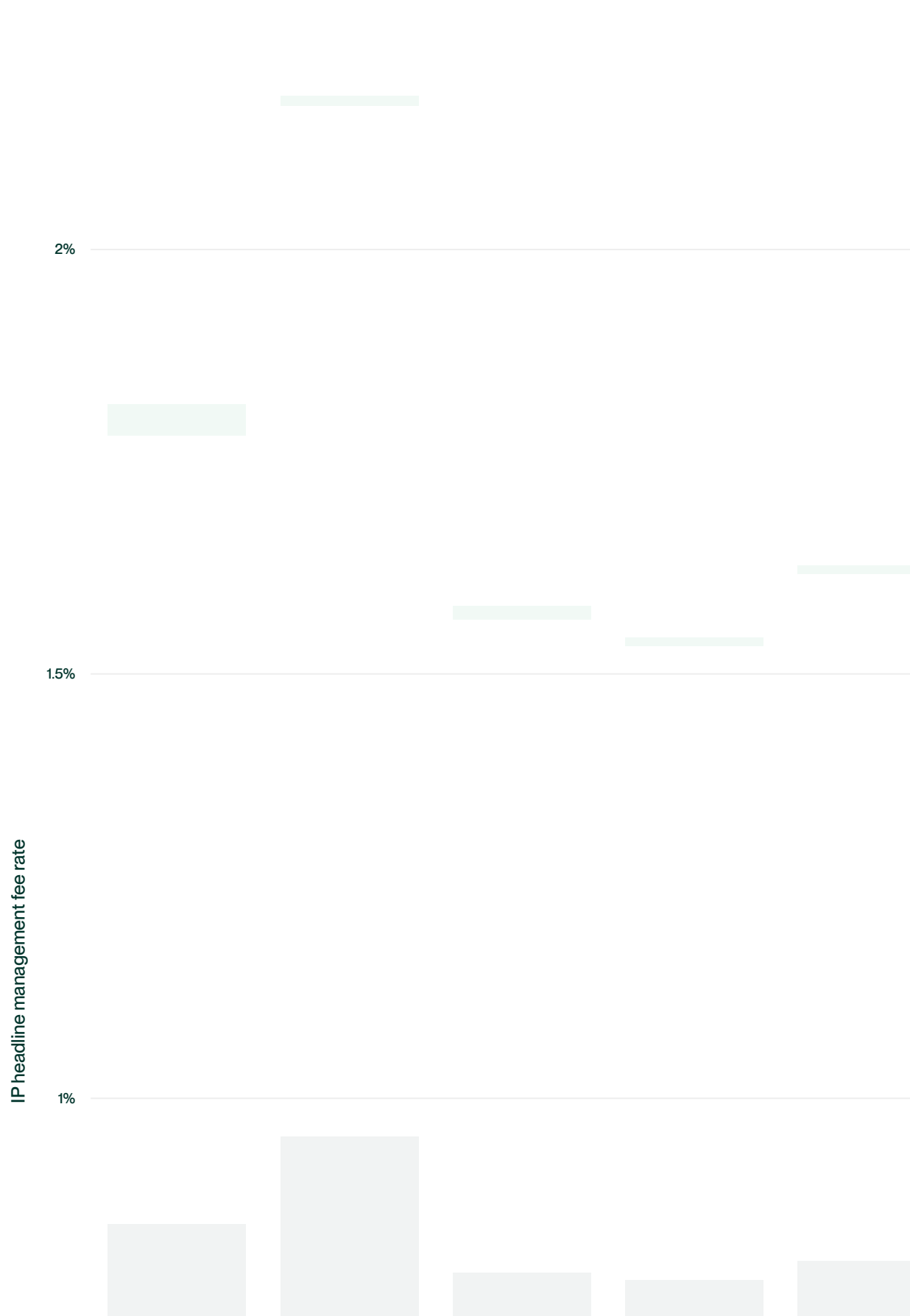
- **Declining headline fees:** There is a trend towards lower headline management fees. Headline management fee rates of below 2% are now common except for in venture capital funds. As competition for capital intensifies, GPs are increasingly willing to negotiate fee reductions, particularly for cornerstone and strategic investors. However, we note that certain blue-chip managers with a strong track record may charge 2% or more in management fees in respect of specialist funds or strategies.
- **Customization and tiering:** Fee structures are becoming more bespoke, with tiered rates based on commitment size, commitment time (e.g., first or early closing) or strategic relationships. Large or early investors may benefit from discounted fees.
- **Alignment with performance:** Some funds are experimenting with performance-linked management fees, where the base fee is reduced but can be supplemented by higher carried interest if certain return thresholds are met.
- **Fee transparency:** There is a push for greater disclosure of fees and expenses, including ancillary fees charged by GPs, to ensure alignment.

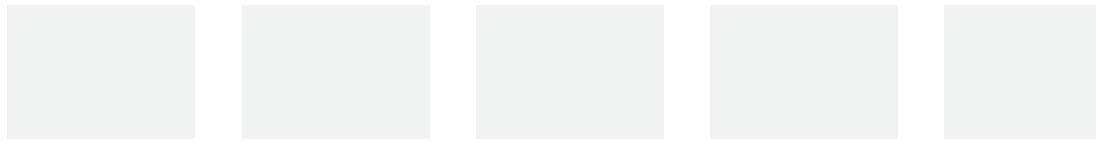
This trend is fostering a more collaborative GP-LP dynamic and setting new benchmarks for fee alignment across global markets.

Market-Weighted management fees lowest in

PE

Market-weighted management fee rate Spread between market and equal weighted





Hover over bar segments for full data

Source: Preqin *Fees and Terms Update* (November 2024)

Key data points:

- Private debt fee benchmarking: Private debt funds offer the lowest average management fees among private capital asset classes, with an average of 1.40% inside the investment period and 1.33% outside, compared to higher rates in private equity, venture capital, real estate, and infrastructure. This reflects a strategic move by managers to attract more investors as the asset class rapidly expands (Preqin Primer, How fund terms differ across geographies and strategies, Q1 2025).
- Regional fees: EMEA-focused private equity funds generally charge lower management fees than their North American counterparts (1.76% vs. 1.82% inside the investment period for 2020–2023), but often offset this with higher organizational expense caps (USD4.5 million vs. USD3.8m on average), reflecting a nuanced approach to cost allocation (Preqin Primer, How fund terms differ across geographies and strategies, Q1 2025).
- In McKinsey's 2025 global LP survey, fee levels and transparency were cited as top priorities for LPs when selecting GPs, with many indicating a willingness to increase allocations to managers who demonstrate flexibility and alignment on fees.
- Negotiation power: Middle Eastern LPs are increasingly using their scale to negotiate bespoke fee structures, influencing global fund terms.

II. Distribution waterfalls—the European model and regional nuances

Distribution waterfalls are fundamental to private fund economics, shaping how and when profits are shared between GPs and LPs.

The European (whole-of-fund) waterfall model has firmly established itself as the global benchmark—particularly in Europe and, increasingly, across the Middle East. Under this structure, LPs receive a full return of their contributed capital plus a preferred return (typically 7–9%) across the entire fund before GPs are entitled to carried interest. This approach is regarded as more investor-friendly than the American (deal-by-deal) waterfall model, which remains common in the U.S. Nevertheless, each model has its drawbacks: the European model will delay GP rewards, while the American model can increase “clawback” risk if early gains are offset by later losses.

What are we seeing?

Hybrid and tiered waterfall structures are emerging, combining elements of both models to further align interests and incentivize outperformance.

Hybrid waterfalls blend elements of both European and American models, often by:

- allowing GPs to receive some carried interest on a deal-by-deal basis, but only after certain fund-level thresholds are met (e.g., a minimum return of capital or preferred return to LPs)
- introducing interim “catch-up” mechanisms, whereby GPs can accelerate their share of profits once LPs have received a specified return, but before full fund-level profit realization.

Tiered waterfalls introduce multiple carry rates, which escalate as the fund achieves a higher level of performance. For example, the GP may receive 10% carry if the fund achieves an 8% IRR, 15% if it reaches 12%, and 20% if it exceeds 15%. These tiers are typically structured around IRR or multiple-on-invested-capital (MOIC) hurdles.

Key data points:

- According to McKinsey’s *Global Private Markets Report 2025*, LPs are increasingly focused on performance alignment and risk mitigation,

driving the adoption of more sophisticated waterfall structures.

- Middle East investors, as highlighted in Preqin’s *2025 Middle East Investor Survey*, are especially attentive to mechanisms that ensure clear alignment and fair sharing of upside, further accelerating the adoption of hybrid and tiered models.

III. The surge in secondaries and continuation funds—liquidity and flexibility

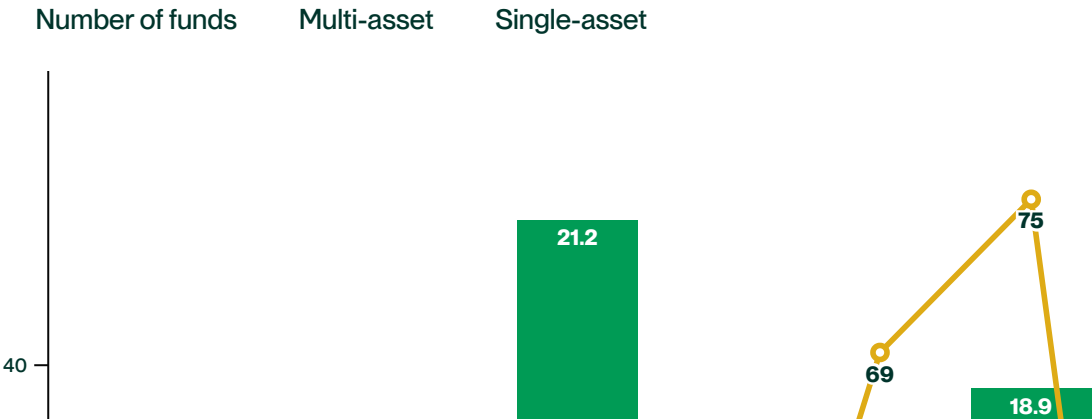
As traditional exit routes remain challenging, the private equity industry is experiencing a remarkable surge in secondary transactions and GP-led continuation funds—reshaping the landscape for both GPs and LPs.

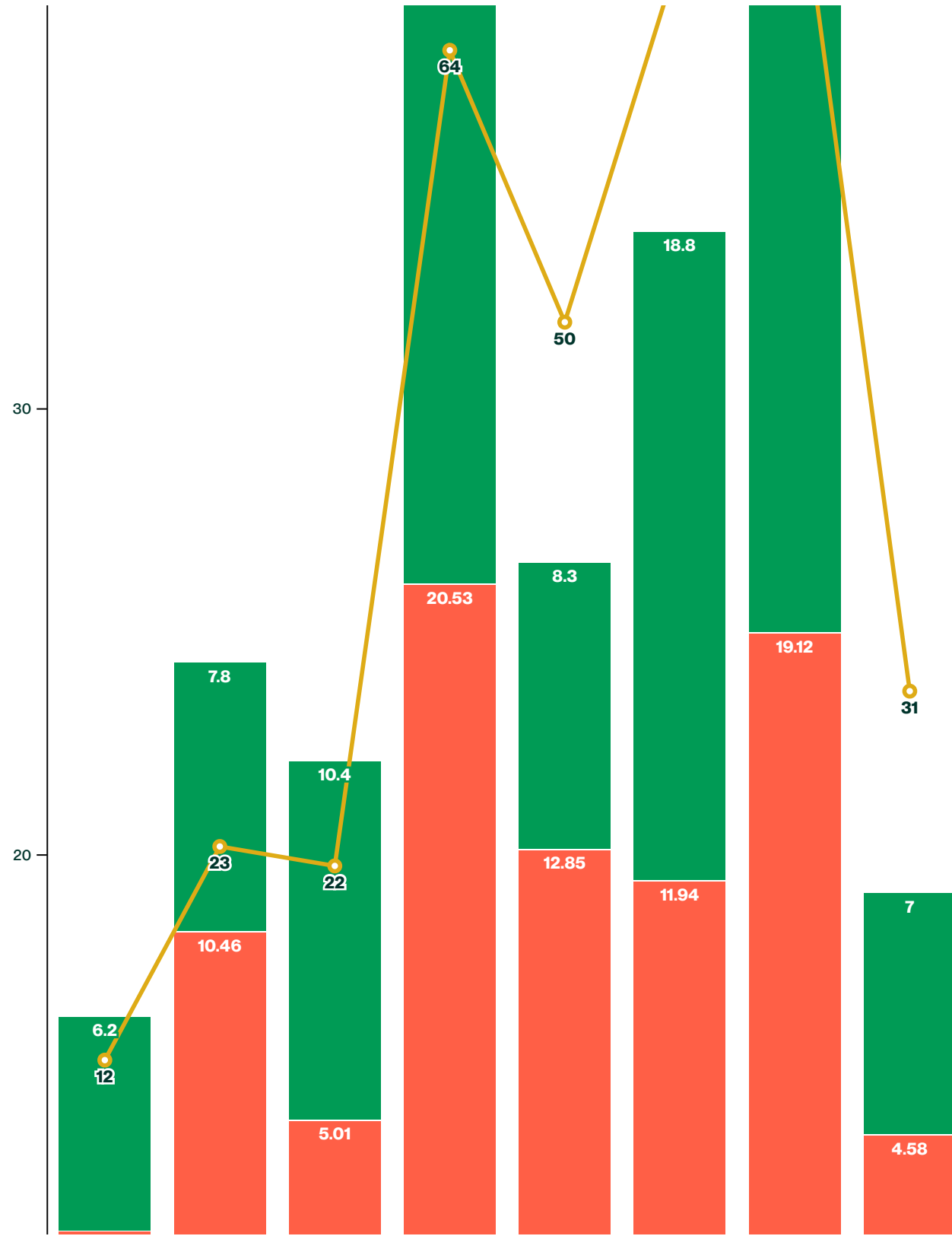
What are we seeing?

In 2024, global secondaries transaction value soared to [a record USD162 billion](#), up 45% from the previous year. Notably, continuation funds accounted for a record share of this activity, reflecting the industry’s pivot towards innovative liquidity solutions, the same report found.

[The majority of deals tended to be one-asset continuation fund vehicles](#), followed by multi-asset continuation funds of two or more assets.

Private capital continuation fundraising. Aggregate capital raised USDbn





Source: Preqin, S&P Global, Evercore, *FY 2024 Secondary Market Review*
(February 2025)

The Middle East is rapidly joining this trend: regional LPs and GPs are embracing secondaries and continuation vehicles to unlock early liquidity, rebalance portfolios, and manage longer holding periods. Why?

- For LPs: Secondaries offer a vital liquidity valve, enabling early exits and dynamic portfolio management.
- For GPs: Continuation funds allow managers to retain and further develop high-quality assets, avoiding forced sales in subdued exit markets.

The region's investors are at the forefront of this evolution. According to Preqin's 2025 Middle East Investor Survey, LPs are increasingly seeking flexible structures and clearer exit prospects. The ability to participate in secondaries and continuation funds is seen as a key lever for both liquidity and strategic reallocation—especially as allocations to private equity and alternatives continue to rise.

Key data points:

- Global secondaries volume: [USD162bn in 2024](#), up from USD114bn in 2023.
- Continuation funds: [84% of GP-led secondaries in 2024 were continuation vehicles](#).
- Middle East trend: Growing appetite for liquidity solutions.

IV. Fundraising timelines and performance metrics—navigating a shifting landscape

Fundraising in private equity has become markedly more challenging with timelines extending and performance expectations shifting—both globally and across the Middle East.

What are we seeing?

In 2024, the median time to close a private equity fund globally reached a record 21.9 months, up from 19.6 months in 2023 and just 14.1 months in 2018 (McKinsey, 2025). This protracted cycle is echoed in the Middle East, where investor selectivity and a focus on established relationships are lengthening fundraising cycles. The focus is on robust due diligence, transparent reporting, and a clear track record of distributions. LPs are increasingly concentrating commitments with top-performing, brand-name managers, while emerging managers must differentiate through specialist strategies and regional expertise to attract capital.

Months to close for PE funds



Source: Pitchbook, Geography: global

Performance measurement is also evolving. While internal rate of return (IRR) remains the industry standard for assessing risk-adjusted returns, there is a growing emphasis on distributions to paid-in capital (DPI) as a measure of realized value and liquidity. [Some 21% of global LPs cited DPI as a critical performance metric](#)—up from just 8% three years ago. This reflects a growing demand for evidence of actual cash returns, especially in a subdued exit environment.

However, LPs are also aware that DPI alone does not capture the full risk/return profile. There is increasing emphasis on multiple on invested capital (MOIC) and a push for standardized, transparent reporting to enable more meaningful comparisons across funds. Industry bodies and leading GPs are responding by enhancing disclosure and harmonizing performance metrics.

Key data points:

- Median global fundraising timeline: [21.9 months in 2024](#) (up from 14.1 months in 2018), according to McKinsey.
- Middle East trend: [79% of LPs plan to increase private equity allocations](#), but with greater selectivity and demand for transparency, according to Preqin.
- Performance focus: [21% of LPs now rank DPI as a critical metric](#), up from 8% three years ago, according to McKinsey.

V. Innovation in fund structures and liquidity solutions

Innovation is reshaping the private funds landscape, with new structures and liquidity tools gaining traction, driven by private wealth investor demand for ongoing access and flexibility. Nowhere is this more evident than in the Middle East, where investors and managers are embracing change to meet evolving portfolio needs and unlock new sources of value.

What are we seeing?

Evergreen, semi open-end, and “retailization,” the last of which refers to broadening access to retail investors.

Globally, the rise of evergreen (with a record USD350bn in evergreen funds reported) and semi-open-end funds are reshaping the investor landscape. These vehicles—offering continuous capital inflows and periodic liquidity—are particularly attractive to Middle Eastern family offices and high-net-worth individuals seeking flexibility and ongoing access. According to McKinsey, higher-liquidity products such as open-end funds, interval funds, and perpetual-life business development companies now represent over USD1trn in AUM, growing at 16% per year since 2020.

The retailization of alternatives is expected to triple allocations from private wealth over the next decade, with Middle Eastern investors at the forefront—leveraging these structures to diversify portfolios and access private markets previously reserved for large institutions.

Investor preference for open-ended funds by asset class (%)

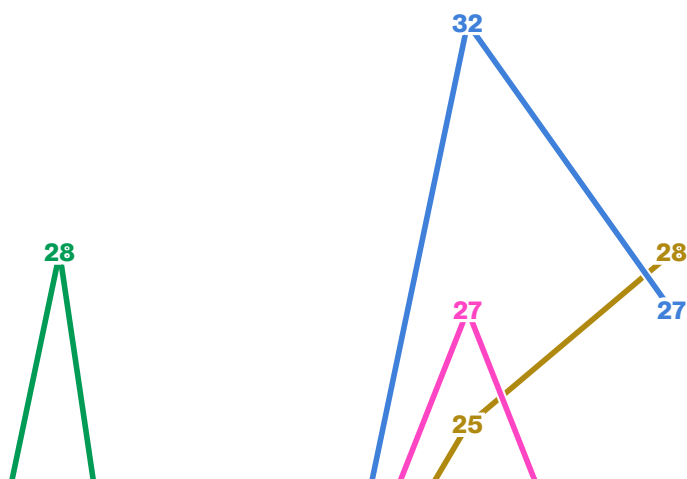
Private equity

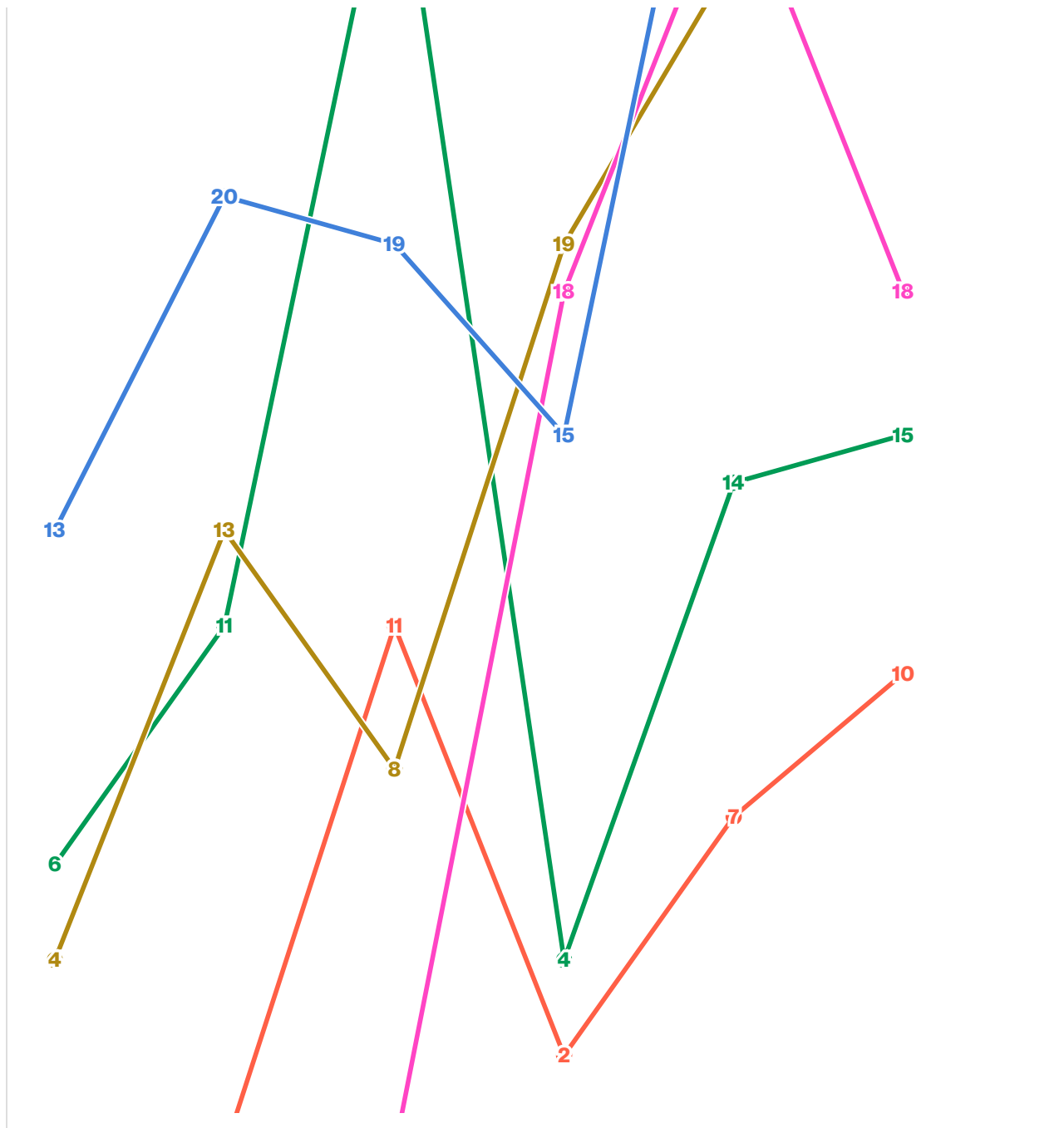
Venture capital

Private debt

Real estate

Infrastructure





Source: Preqin *A Guide to open-ended funds* (January 2025)

NAV-based lending: unlocking portfolio liquidity

Another major innovation is the adoption of NAV-based lending facilities. These allow GPs to borrow against the net asset value of fund portfolios, providing liquidity to support distributions, finance new deals, or stabilize portfolio companies. As highlighted by McKinsey, such facilities are increasingly used to address the industry's exit backlog and meet LPs'

growing demand for interim liquidity. However, they require robust governance, enhanced transparency, and regular reporting to ensure alignment with LP interests and to manage the associated risks.

The Middle East is at the forefront of adopting these innovations, with regional investors embracing new structures and liquidity solutions to meet evolving portfolio objectives. As the market matures, expect further experimentation with hybrid models, co-investment platforms, and technology-driven reporting tools—all aimed at enhancing flexibility, transparency, and investor alignment.

VI. The rise of co-investments—greater control and lower fees for LPs

Co-investments are transforming the private equity landscape, offering limited partners (LPs) a powerful route to gain more direct influence over their portfolios, reduce costs, and increase transparency. This shift is especially pronounced in the Middle East, where institutional investors and family offices are embracing co-investment strategies to drive value and align interests more closely with GPs.

What are we seeing?

In today's fee-sensitive environment, LPs are increasingly seeking ways to bypass the traditional fund structure. By investing directly alongside GPs in specific deals, LPs can often avoid or significantly reduce management fees and carried interest, maximizing net returns. Co-investment and separately managed account (SMA) assets have surged, with [co-investment AUM growing at 20–25% per year since 2020](#) and now exceeding USD2.5trn globally. This growth is fueled by LPs' desire for greater control, transparency, and the ability to double down on high-conviction opportunities.

GPs, in turn, are leveraging co-investment access to secure larger, more committed capital from their investors. The relationship is evolving from a transactional model to a more collaborative partnership, with LPs and GPs working together to source, underwrite, and manage investments.

The Middle East is at the forefront of this trend. Preqin's 2025 Middle East Investor Survey highlights that regional LPs—especially SWFs and large family offices—are actively seeking co-investment and direct investment opportunities. Nearly 80% of Middle Eastern investors plan to increase allocations to private equity and alternatives, with a strong preference for structures that offer flexibility, lower fees, and greater influence over deal selection.

As the private equity market matures, expect further innovation in co-investment platforms—especially in the Middle East, where investors are setting new standards for partnership and alignment. The rise of co-investments is not just a trend; it's a fundamental shift towards a collaborative private markets ecosystem.

VII. GP stakes—a new avenue for diversification and revenue

GP stakes funds are attracting a growing number of LPs seeking alternative sources of return and diversification.

What are we seeing?

The GP stakes strategy has gained significant traction, with [fundraising reaching USD4.4bn in 2024](#)—up sharply from the previous year. The number of GP stakes funds closed also hit a record high, reflecting growing demand from a broader range of investors, including SWFs and family offices.

By acquiring minority, non-controlling stakes in private equity management companies, LPs gain access to a share of management fees, carried interest, and balance sheet income—creating a new revenue stream that is less correlated with traditional fund performance. The appeal is clear: GP stakes offer exposure to the long-term growth of the private markets industry and the economics of the asset management business itself. For GPs, selling a minority stake is a strategic move—unlocking capital for growth initiatives, succession planning or platform expansion.

Spotlight on the Middle East:

The Middle East is increasingly active in the GP stakes space. Regional SWFs and large institutional investors are leveraging GP stakes to deepen their exposure to private markets, diversify revenue, and build long-term partnerships with leading global managers. McKinsey's research highlights that 43% of LPs invest in GP stake funds today. Of those, around 56% (led by SWFs) are considering buying direct GP stakes. The Middle East is at the forefront of this trend.

The momentum is driven by:

- **desire for strategic partnerships:** Middle Eastern LPs are seeking to move beyond passive allocations, gaining board-level insights and influence over platform strategy.
- **Alignment with regional growth ambitions:** GP stakes provide a mechanism for local investors to participate in the global expansion of private markets, while also attracting international expertise to the region.
- **Resilience and risk mitigation:** The recurring nature of fee income from GP stakes helps smooth returns across market cycles, supporting long-term capital preservation and growth.

As the private markets industry matures, expect to see further innovation in GP stake structures—particularly as Middle Eastern investors continue to set the pace for strategic, long-term capital deployment. The GP stakes model is not just a diversification tool; it is a platform for building enduring, mutually beneficial relationships between global managers and regional capital.

VIII. Regulatory developments—transparency, NAV loans, and governance

The private equity industry is undergoing a profound transformation as regulatory scrutiny intensifies and industry standards evolve—placing transparency, risk management, and governance at the heart of the agenda.

For GPs, LPs, and institutional investors across the Middle East, these developments are not just compliance matters, but strategic imperatives shaping the future of capital deployment and partnership.

What are we seeing?

Transparency and standardization

Global industry bodies, notably the Institutional Limited Partners Association (ILPA), are driving efforts to standardize performance metrics and reporting. The ILPA Quarterly Reporting Standards Initiative is a landmark move, aiming to bring greater consistency and clarity to fund disclosures. This is particularly relevant for Middle Eastern LPs, who are increasingly active in global private markets and demand robust, comparable data to inform allocation decisions. Standardized reporting enables LPs to benchmark performance, assess risk, and negotiate terms with greater confidence—supporting the region's ambition to be a global hub for sophisticated, institutional capital.

NAV loans

Net Asset Value (NAV)-based lending facilities are gaining traction as a flexible tool for GPs. In 2024, NAV loans have become more widespread, reflecting the industry's search for creative solutions amid a challenging exit environment and extended holding periods. However, these loans require consideration of the need for liquidity management, the potential impact on fund returns if market conditions shift or asset values fluctuate and governance and disclosure to ensure oversight and alignment of interests. Middle East investors are actively engaging with GPs to set expectations on disclosure, NAV loan usage, and governance frameworks.

As the market matures, expect continued regulatory focus on transparency, risk management, and alignment of interests between GPs and LPs, with technology and standardization playing a central role in this evolution. This will pave the way for real-time reporting, enhanced oversight, and more sophisticated risk analytics.

IX. Powering the future: private markets and the new energy infrastructure boom in the Middle East

The Middle East is rapidly emerging as a global epicenter for new energy infrastructure investment, with private markets playing a pivotal role in driving the region's transformation. As governments across the GCC—most notably Saudi Arabia and the UAE—accelerate their economic diversification agendas, the focus on renewable energy, digital infrastructure, and sustainable development has never been stronger.

What are we seeing?

Global private equity and infrastructure managers are taking note. We are witnessing a surge in international firms establishing dedicated funds and regional platforms, often in partnership with local SWFs and institutional investors, to capitalize on the Middle East's ambitious energy transition.

These managers are not only deploying capital into large-scale renewables, hydrogen, and grid modernization projects, but also facilitating the build-out of digital infrastructure such as data centers—critical for supporting the region's burgeoning digital economy and AI ambitions. In 2024, data center deal value and occupancy rates reached record highs, fueled by surging demand from hyperscalers and the rapid adoption of AI and cloud technologies. The intersection of energy and digital—such as green-powered data centers—exemplifies the region's integrated approach to sustainable development.

The appeal is clear: the GCC's commitment to net-zero targets, coupled with government-backed initiatives like Saudi Arabia's Vision 2030, is creating a robust pipeline of investable projects. The region's strategic location, abundant capital, and supportive regulatory reforms—such as 100% foreign ownership in the UAE—are further enhancing its attractiveness for global investors.

Middle Eastern SWFs and institutional investors are not just passive allocators—they are shaping the future of infrastructure. By partnering with

leading global managers, they are bringing international expertise to local markets, fostering cross-border collaboration, and ensuring that the region remains at the forefront of the global energy transition.

Key data points:

- Infrastructure deal value in EMEA grew by 10% in 2024, with the Middle East as a key driver (McKinsey, 2025).
- Data center returns in the region exceeded 11% in 2024, outpacing traditional real estate sectors.

As the Middle East continues to position itself as a hub for sustainable energy and digital transformation, private markets will remain at the forefront —powering growth, fostering cross-border collaboration, and delivering long-term value for investors and communities alike.



1 of 2



Source: Pitchbook *Infrastructure Investors Capitalize on the Digital Revolution* (July 2024)

X. Shaping the global AI landscape: The Middle East's private markets and SWFs lead the charge

The Middle East is rapidly establishing itself as a global force in AI, with private markets and SWFs at the forefront of this transformation. As governments across the region—particularly in Saudi Arabia and the UAE—

drive ambitious economic diversification agendas, SWFs are not only investing in the world's leading AI companies, but also catalyzing the development of a vibrant local AI ecosystem.

What are we seeing?

The Middle East's approach is not just about outbound investment. SWFs and private market leaders are actively building the region's own AI capabilities:

- Dedicated AI and technology funds are attracting global partnerships and fostering homegrown innovation.
- These efforts are translating into new research centers, talent development programs, and a surge in AI-driven start-ups across sectors including healthcare, energy, logistics, and smart cities.
- The region's focus on digital infrastructure—such as data centers, which saw record deal value and double-digit returns in 2024—is providing the backbone for AI adoption and commercialization.

By partnering with leading global venture capital firms and technology giants, Middle Eastern SWFs are accelerating the transfer of AI expertise, talent, and intellectual property to local markets. This top-down, government-backed approach is creating a robust pipeline of opportunities for private equity, venture capital, and institutional investors—both within the region and globally.

As the AI revolution accelerates, private markets and Middle East investors such as SWFs are set to play a defining role in shaping the future of technology—both on the world stage and at home.

XI. Private credit: accelerating momentum globally and in the Middle East

The private credit market is entering a new era of growth and innovation, rapidly cementing its status as a core pillar of the global alternatives landscape. As public markets remain volatile and traditional bank lending

continues to tighten, private credit has become a vital source of flexible, tailored capital for businesses worldwide. In 2024 alone, [global private debt fundraising reached USD166bn](#)—making it the fifth-largest year on record—despite a challenging macro environment. Notably, direct lending strategies bucked the trend, [growing by 2% year-on-year to USD122bn](#), and now account for the lion's share of new capital flows.

What are we seeing?

Product range and investor preferences

- **United States:** The U.S. market leads with a broad spectrum of private credit products, including direct lending, unitranche, NAV financing, and SRTs. U.S. investors are increasingly drawn to larger, syndicated deals and opportunistic credit, reflecting a higher risk appetite and a mature ecosystem for complex, asset-backed strategies.
- **Europe:** European investors are prioritizing mid-market direct lending and senior secured loans, seeking downside protection and stable cash yields. Regulatory changes and bank retrenchment have accelerated the shift towards private credit, especially in the mid-market and asset-backed segments.
- **Middle East:** Investors in the Middle East are showing a marked preference for mid-market direct lending, asset-backed lending, and bespoke financing solutions. Appetite for NAV financing, leasing, and SRTs is rising as investors seek enhanced security, diversification, and access to differentiated deal flow.

Mid-market focus: sweet spot for yield and diversification

The mid-market segment is a particular area of emphasis, both globally and in the Middle East. Mid-market direct lending offers compelling opportunities for yield and portfolio diversification, with many institutional investors and

SWFs favoring this space due to its relative resilience and the ability to negotiate bespoke terms.

In the GCC, the rise of technology, localized manufacturing, and R&D initiatives are fueling demand for mid-market financing. Regional SWFs and institutions are playing a pivotal role, not only as capital providers but as active partners in structuring innovative, asset-backed solutions.

Middle East spotlight: catalyzing growth and innovation

Private credit is now expanding into the Middle East, with [opportunities to deploy capital within the region](#). In the GCC, the rise of technology, localized manufacturing, and R&D initiatives are fueling demand for mid-market financing. Regional SWFs and institutions are serving as both capital providers and active partners in structuring innovative, asset-backed solutions.

- Regulatory reforms: Abu Dhabi Global Market (ADGM) and Dubai International Finance Centre (DIFC) have introduced regulatory frameworks that encourage the establishment of private credit funds (e.g., private credit fund rules as well as changes to bankruptcy laws), attracting both regional and global managers.
- SWF leadership: SWFs are not only allocating significant capital to global private credit strategies, but are also catalyzing the development of a robust local market. Their involvement is setting new standards for governance, innovation, and cross-border collaboration.
- Market growth: PwC estimates the combined private credit market in the GCC and Egypt could reach USD20bn by 2030, fueled by the region's economic diversification and the rise of new sectors.

As a result of these developments, market players are forging new partnerships to tap into Middle Eastern growth, with collaborations among international financial institutions and investment management firms and others signaling a convergence of traditional and private credit markets. [Local players such as Rasmala, Ruya Partners, and Shorooq Partners have also been active in this asset class](#). This is creating a dynamic ecosystem

where local expertise and global capital combine to deliver innovative financing solutions.

Key data points:

- Global private debt fundraising reached USD166bn in 2024, with direct lending accounting for USD122bn (McKinsey, 2025)
- 43% of global LPs expect to increase private debt allocations in the next 12 months, outpacing other private asset classes (McKinsey, 2025)

As private credit continues to evolve, Middle Eastern investors are leveraging their scale and long-term outlook to shape the future of the asset class—both globally and regionally.

Related capabilities

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