Expectations for 2025 (and Beyond)

Happy New Year!

In my mind, I swore I would not succumb to the clockwork traditions of the investment industry where strong opinions are pedaled with little regard for accountability. Many of these practices are nothing but self-serving marketing schemes. New year predictions are at the epicenter of this phenomenon which involves pundits emerging from all corners of the ecosystem with theories that are either so logical/obvious that they hold little revelatory value or are so illogical that they tingle the contrarian senses of investors. I believe opinions matter, and there is value in hearing what people think. However, sometimes, the chorus of multiple views creates a deafening noise that drowns out the most important truths. My writing has always aimed to share the human side of investing, particularly the delicate relationship between those who provide capital and those who invest it. It is important to remember that at its core, sound investing requires faith in principles and processes that have been honed throughout the years. No one can tell the future, but we all have the ability to ask the right questions and use available information to leap – as I have said many times in the past, there is no escaping the "leap".

With that rant-ish disclaimer done with, below are a few of my expectations for 2025. I struggled with distinguishing between "expectations" and "hopes" - nevertheless, these points fall somewhere between those two poles. Also, I purposely chose not to directly (although they might derivatively make an appearance) write about things such as AI, Trump, Crypto, tariffs, Elon Musk, dry powder, interest rates, etc., because I believe there are better well-informed sources for forecasts about those.

- **Watershed Moment for Climate Tech (beyond EVs)**: There is undoubtedly a sense of antagonism in the atmosphere (no pun intended) when the incoming administration is juxtaposed with global climate goals. I believe, however, that the use of technology as a means of disrupting legacy industries (that have also been shown to be detrimental to the environment) is sufficiently embedded in the psyche of most stakeholders to avoid quick and simplistic derailment. Albeit with a healthy helping of subsidies for manufacturers and consumers, electric vehicles ("EVs') have shown some proof of economic viability in goods that are net-net environmentally positive. That pesky thing called "unit economics", which in essence states that "logical beings/entities will not pay more for alternatives because of stated environmental benefits" will continue to act as an albatross around the neck of those trying to disrupt legacy industries with cleaner substitutes. I expect that 2025 will produce even more evidence (through massive valuations and/or large M&A transactions) of the economic viability of companies disrupting old players in big industries including textile/apparel, construction, farming/agriculture, etc. I truly think climate tech is the AI/ML of tomorrow for the foreseeable future.

- **Serious Discussions Regarding Continuation Funds:** The continuation fund phenomenon was an ongoing topic in 2024, and I don't see that changing in 2025. However, I expect conversations around GPs' ability to create a continuation fund to get more serious in 2025. I expect the "how", "when", "how much", "with whom", "terms", etc. conversations around the prospect of a continuation fund will anticipatorily be had (and negotiated) at the inception of fund vehicles and not in the "sneak attack" fashion LPs are currently used to.

- **Deeper Look at the Democratization of Access to Alternatives:** Democratizing access to alternatives beyond larger institutional investors to the broader masses, through the private wealth and retail channel, has been an ongoing theme that has spawned new revenue streams for established investment banks as well as spurred a whole ecosystem of advisors, brokers, analytic systems, etc. Peeling back the layers of this access, it is hard to miss that the overarching case being made is one of added diversification to portfolios rather than pure alpha. Of course, what is sold is access to amazing and predominantly illiquid asset classes that also generate fantastic, outsized returns. However, when you seriously consider the cost of altering (increased liquidity, open-endedness, reduced minimums, etc.) these alternative investments to make them relatable to nontraditional investors, the net returns tend to be far from “outsized”. As sophistication grows among the nontraditional investor cohort, I suspect that mere access will cease to be the primary draw, and conversations will lean toward the pursuit of strong tangible returns, higher levels of curation, and savvy dissections of the death-by-a-thousand-cuts fees. I expect 2025 will see this directional push.

- **Emerging Manager Uprising**: I spend more time with emerging managers than any other category of GPs. I have heard almost all the grievances of emerging managers throughout the years. Their most common complaint is constantly being confronted with the unsolvable chicken-egg problem of a lack of track records, exits, and proof-of-concepts. Deftly navigating these issues can be viewed as a right of passage because every established manager was once an emerging manager who survived the same newbie scrutiny that emerging GPs are still facing today. As LPs are generally becoming more sophisticated in the ways they negotiate terms, seek out beneficial deals/vehicles, pursue orthogonal risk, define value creation, etc., I have started to witness a higher bar for “hunger” and “alignment”. These are two things that emerging managers possess in spades. Most LPs still view their alternative (private assets) allocation as an opportunistic bucket that has a higher appetite for risk, illiquidity, and non-conformity. With thorough due diligence, this opportunistic bucket can be a perfect home for emerging managers. I expect increased LP sophistication to progressively draw them even more toward emerging managers in 2025.

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