

2025

QUARTERLY PUBLIC PENSION ALLOCATION SUMMARY

Q1

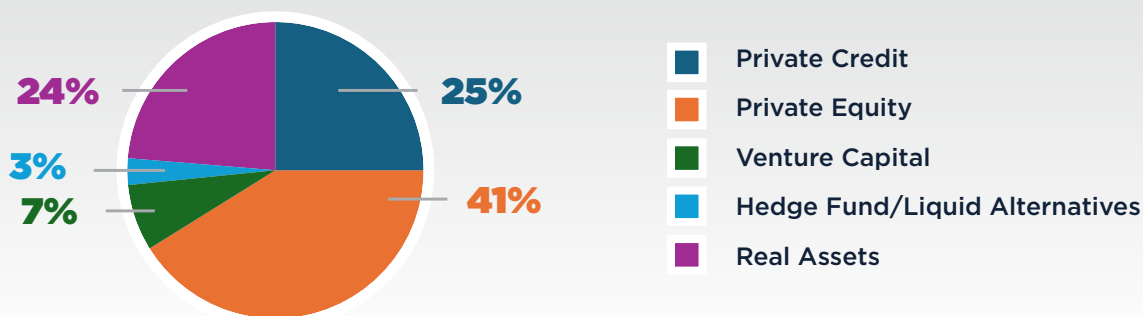


In the Dakota Quarterly Public Pension Allocations Report, the team provides a detailed analysis of pension allocation activity over the quarter. This includes analysis by asset and sub-asset class, as well as insights into how some of the largest allocators are deploying capital. We leverage exclusive Dakota Research data to provide limited partners, general partners, service providers, and other key players in the private markets ecosystem with actionable intelligence on capital commitments, fundraising activity, and strategic shifts in alternative investments.

SUMMARY

Pension investors significantly ramped up capital deployment in the first quarter of 2025, reversing the cautious stance that characterized much of 2023 and early 2024. Total allocations surged to \$52.2 billion, marking a 41% increase over the \$37.1 billion recorded in Q4 2024. This rebound was broad-based, spanning private equity, private credit, venture capital, and real assets—each reflecting a distinct blend of opportunity-seeking and risk management.

Q1 ALLOCATION BY ASSET CLASS



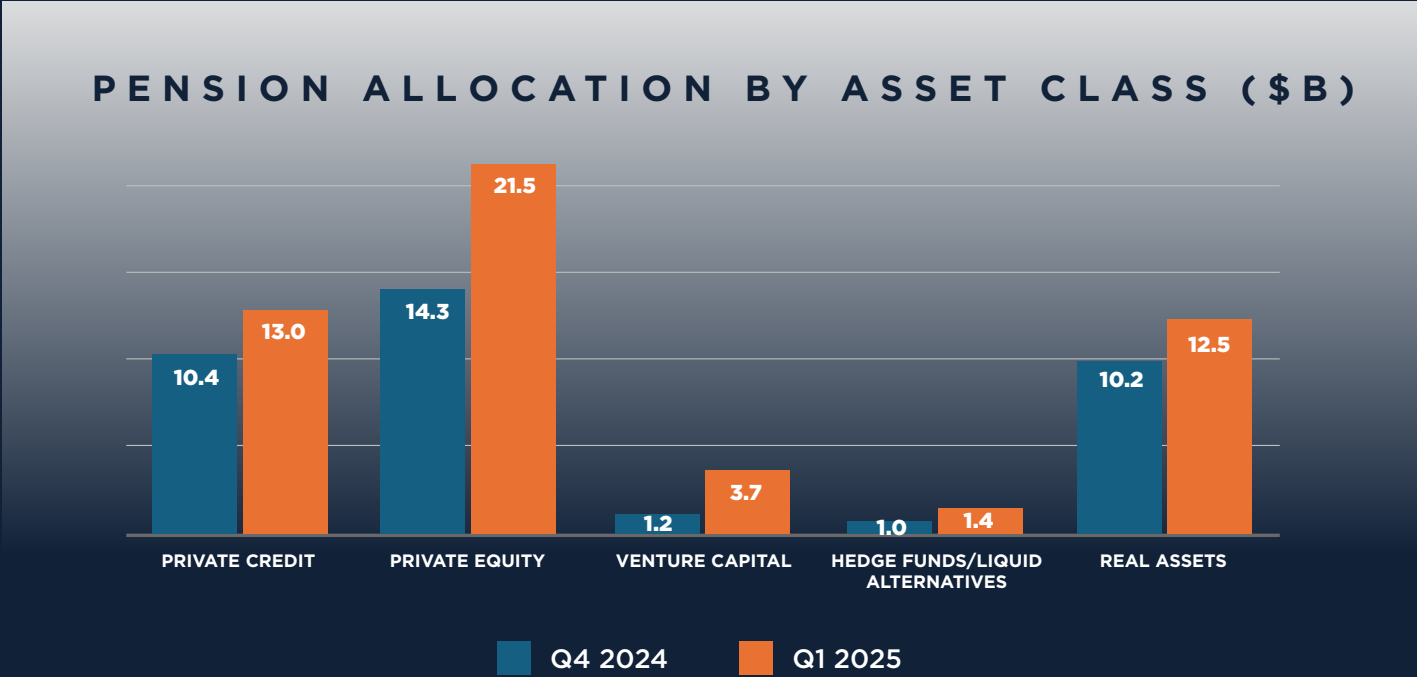
Private equity led the way, with over \$21.5 billion in commitments, driven by renewed GP fundraising activity, increased co-investment appetite, and LPs re-upping into established platforms. Private credit maintained its momentum, fueled by the continued demand for yield and capital preservation in a late-cycle environment. The biggest surprise came from venture capital, where allocations more than tripled, signaling a return to risk-on behavior, especially in sectors like artificial intelligence, software, and biotech.

Real assets (including infrastructure, real estate, and natural resources) continued to serve as a core allocation for liability-aware investors, gathering \$12.5 billion in Q1. Themes such as inflation protection, energy transition, and digital infrastructure remain strong tailwinds.



Hedge fund allocations also grew modestly, with institutions favoring multi-strategy and macro funds to provide portfolio diversification and downside hedging.

Across the board, institutional capital is becoming more focused and intentional. Allocators are concentrating their commitments with high-conviction GPs, leaning into thematic investing, and increasingly deploying capital through co-investments and customized vehicles. The first quarter of 2025 reflects a transitional moment: while macro uncertainty persists, institutions appear to be positioning themselves for a new market regime—one that values active management, alpha generation, and real asset durability.



PRIVATE EQUITY

Q1 Allocations

\$21.5 billion

Quarter-over-Quarter Growth

+50.2%

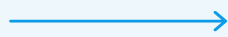
Share of Total Q1 Allocations

~41%

Private Equity maintained its status as the cornerstone of pension portfolios, receiving the largest share of capital deployed in Q1 2025. The \$21.5 billion committed represents a substantial increase from the \$14.3 billion allocated in Q4 2024, reflecting a commitment to long-term growth strategies.

LEADING SUB-ASSET CLASSES

Middle Market Buyout



\$9.1B

Middle Market Buyout dominated allocations, capturing more than 40% of total private equity flows. LPs favored managers with proven value-creation capabilities, operational depth, and access to deal flow in fragmented industries.

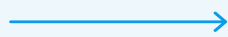
Large Buyout



\$5.0B

Large Buyouts remained a reliable destination for capital, particularly as blue-chip sponsors brought \$5B+ flagship funds to close. Institutions continue to anchor these vehicles, benefiting from scale and historical DPI strength.

Growth Equity



\$4.3B

Growth Equity strategies gained traction, with many LPs allocating to crossover managers or sector specialists in tech, healthcare, and financial infrastructure.



THEMES DRIVING ALLOCATION BEHAVIOR

1. “Back to Buyout” Stability

Buyout strategies, particularly in the middle market, continue to be favored for their consistent performance profile, control orientation, and attractive relative valuations. LPs are allocating more selectively, favoring managers with operational value-add, niche sourcing advantages, and demonstrated exit track records.

2. The Rise of the Sector Specialist

Institutions are allocating more capital to GPs with domain-specific knowledge. Healthcare buyout platforms, for example, received significant attention due to favorable demographic and policy trends. Similarly, GPs targeting digital transformation, energy efficiency, and industrial technology found strong support from mission-aligned LPs.

3. Efficiency via Co-Investments

Many LPs are expanding internal capabilities to participate in co-investments, often alongside their core GP relationships. These deals enable LPs to deploy larger checks without committing to additional fund fees and offer enhanced transparency into individual transactions.

NOTABLE ALLOCATION

Blue Owl GP Stakes VI: \$1,000,000,000

Investor: CAZ Investments

WHY IT MATTERS:

This \$1 billion allocation from CAZ Investments to Blue Owl’s GP Strategic Capital platform was not only one of the largest private equity allocations of the quarter, but also one of the most strategically interesting. Rather than deploying into traditional buyouts or growth equity, CAZ is taking the approach of investing in the private equity firms themselves.



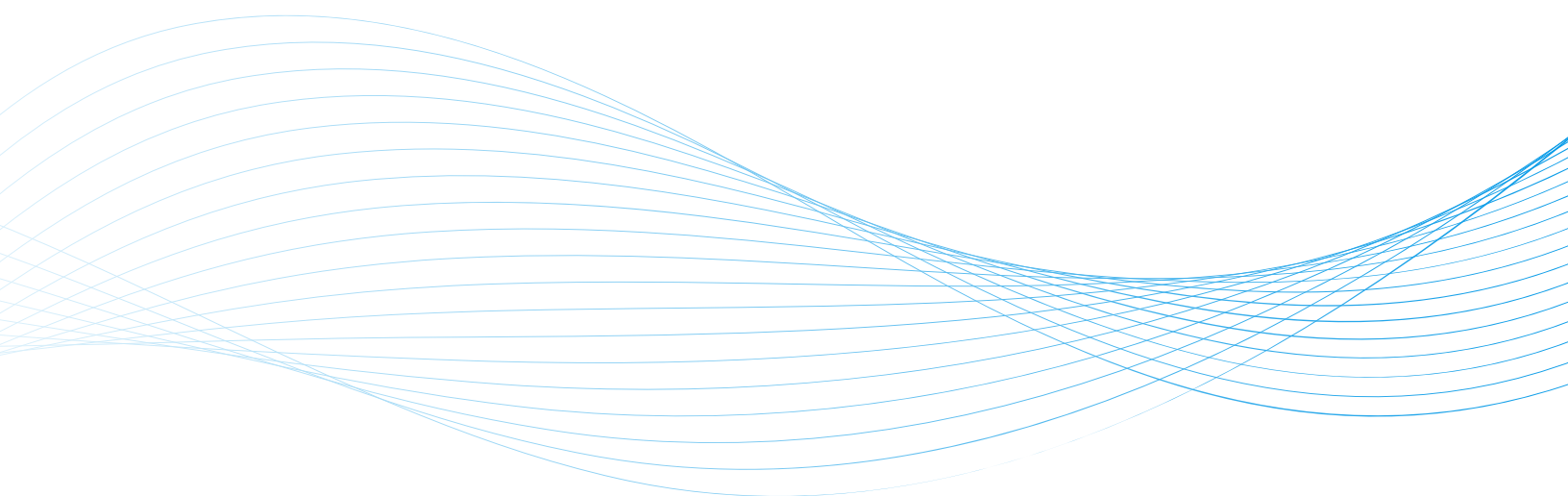
GP stakes strategies allow LPs to participate in the economics of leading private equity managers. This includes:

- Revenue streams from management fees and carried interest.
- Diversified exposure across multiple strategies and vintages.
- Access to long-duration, non-cyclical earnings.

This allocation reflects a sophisticated bet on the institutionalization and scalability of private markets. It also suggests that CAZ sees GP stakes as a powerful tool for yield generation, structural alignment, and platform-level value creation in a private markets portfolio. At this scale, it's a statement allocation—one that cements GP stakes as a core component of the alternatives toolkit for investors seeking high-margin, recurring cash flow exposure.

OUTLOOK

Looking ahead, private equity fundraising is expected to remain competitive. However, GPs with clear sourcing advantages, operational playbooks, and sector specialization are likely to continue attracting institutional dollars. LPs will increasingly prioritize transparency on fund pacing and deployment and meaningful GP co-investment. As the exit environment slowly improves—especially in public markets and strategic M&A—LPs may also become more willing to commit to earlier-stage PE and small-cap buyout strategies where multiples have compressed.



VENTURE CAPITAL

Total Allocations	\$3.74 billion
Quarter-over-Quarter Growth	+216%
Share of Total Q1 Allocations	~7.2%

Venture Capital (VC) experienced a resurgence in Q1 2025, with allocations more than tripling from \$1.18 billion in Q4 2024 to \$3.74 billion. This sharp reversal reflects growing institutional confidence in early-stage investing, a recalibration of valuation expectations, and a renewed appetite for thematic innovation across technology and healthcare sectors. While still a relatively small slice of total allocations, the magnitude of growth suggests that many LPs are re-entering the venture market with a more targeted and selective approach.

LEADING SUB-ASSET CLASSES

Early-Stage



\$2.5B

Early Stage strategies captured the lion's share of capital, reflecting LP interest in backing platforms with long runways and deep technical focus.

Growth-Stage



\$1B

Growth Stage funds also drew meaningful allocations, particularly those with exposure to profitable, capital-efficient software companies.



THEMES DRIVING ALLOCATION BEHAVIOR

1. Return to Innovation

After a period of hesitation in 2023, pensions appear to be re-engaging with venture capital, especially as macro uncertainty abates and valuation multiples reset. LPs showed strong interest in themes such as AI infrastructure and applications, biotech, life sciences, cybersecurity and data infrastructure. These themes align with long-term secular growth and are viewed as relatively insulated from short-term economic cycles.

2. Flight to Quality GPs

Allocations were highly concentrated in top-tier managers with multi-cycle experience and access to differentiated deal flow. LPs are no longer “spraying and praying”—they are channeling capital into a smaller number of high-conviction relationships.

3. Disciplined Deployment Pacing

Unlike the frenzy of 2021, Q1 2025 VC allocations reflected a more measured approach. Many LPs favored managers with slower pacing, tighter capital calls, and a clear path to markup and exit opportunities. Fund sizes were more moderate, with disciplined reserve strategies.

4. Late-Stage and SPV Interest Resurfaces

A subset of institutional investors participated in SPVs and continuation rounds, where valuation pressure had created attractive entry points into post-product-market-fit companies. These deals were often executed in tandem with existing growth managers and included favorable downside protections.

NOTABLE ALLOCATION

Bessemer Venture Partners India II – \$40,000,000

Investor: New Mexico State Investment Council (NMSIC)

WHY IT'S INTERESTING:

The \$40 million allocation by New Mexico SIC to Bessemer Venture Partners India II is a standout example of a U.S. institutional investor stepping into a highly targeted, geographically focused venture strategy outside of the traditional U.S. and European tech ecosystems.



This commitment reflects several emerging themes in institutional venture portfolios:

1. Strategic Emerging Market Exposure

While most venture allocations remain U.S.-centric, NMSIC's investment signals rising interest in markets like India, where there is a young, tech-native population experiencing rapid digital infrastructure growth. India is now home to a growing number of scaled unicorns, exits through IPO and M&A are increasing, and regulatory and financial infrastructure has evolved to support institutional-grade capital. This allocation allows NMSIC to participate in that growth through a manager with deep local presence and global venture pedigree.

2. Backing an Established Platform in a Localized Strategy

Bessemer Venture Partners, a globally respected venture platform, has built a dedicated India strategy that brings together local sourcing and operational support, as well as the ability to lead rounds and build syndicates. This blend of global resources and on-the-ground execution is critical in emerging market VC, where deal selection, founder diligence, and post-investment support require proximity and experience.

3. Portfolio Diversification Through Non-Correlated Innovation

By allocating to India, NMSIC gains exposure to a different set of sector trends—such as digital payments, healthtech, edtech, logistics, and SaaS tailored to emerging economies—uncorrelated to U.S. venture cycles.

In an environment where many U.S. LPs are reentering VC cautiously, this investment reflects a forward-looking, global approach to innovation. It also shows how even a relatively modest allocation can unlock diversification benefits when paired with a high-quality GP in a high-growth market.

OUTLOOK

The outlook for venture capital remains cautiously optimistic. While exits via IPO remain limited, M&A and private secondaries are picking up—providing liquidity pathways that could unlock more aggressive LP allocations in the second half of the year. Key watchpoints include:

- IPO market recovery: Could significantly boost DPI and re-energize growth-stage funding.
- AI and frontier tech: Likely to continue dominating LP interest.
- Fundraising concentration: More capital will likely be funneled into fewer, proven managers.



PRIVATE CREDIT

Total Allocations	\$13.04 billion
Quarter-over-Quarter Growth	+25.4%
Share of Total Q1 Allocations	~25%

Private Credit continued its ascent in institutional portfolios in Q1 2025, driven by the asset class's ability to deliver consistent income, downside protection, and flexible capital solutions. With over \$13 billion in capital allocated—up from \$10.4 billion in Q4 2024—LPs reaffirmed their conviction in credit strategies that offer enhanced yield amid a plateauing interest rate environment. Allocations spanned traditional direct lending, opportunistic credit, and structured or asset-based strategies, reflecting a diversified approach to credit risk.

LEADING SUB-ASSET CLASSES

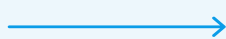
Opportunistic Credit



\$6.9B

Opportunistic Credit strategies led the way, favored for their flexibility to navigate market dislocations, capitalize on refinancing gaps, and structure bespoke capital solutions.

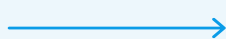
Direct Lending



\$3.7B

Direct Lending remained the institutional anchor—particularly in the upper middle market—offering senior secured exposure with attractive all-in yields.

Structured/Distressed Credit



\$1.4B

Distressed, structured, and special situations strategies saw a modest rise in flows, as LPs prepared for potential stress scenarios in 2025–2026.



THEMES DRIVING ALLOCATION BEHAVIOR

1. Yield in a Plateauing Rate Environment

With interest rates stabilizing and potential rate cuts on the horizon, pension investors are increasingly focused on locking in high spreads before pricing power compresses. Private credit remains one of the few places where LPs can achieve 9-13% unlevered returns without sacrificing quality.

2. Flight to Seniority and Structure

Q1 saw a pivot back to senior secured, floating rate structures. LPs were cautious about taking on excess equity risk, preferring capital preservation and predictable cash flows. Customized covenants and conservative LTVs were key differentiators in GP selection.

3. Flexibility via Opportunistic Mandates

Allocations to opportunistic credit funds reflected demand for flexible drawdown structures, broad mandate coverage (performing, near-distressed, rescue financing), and cross-cycle utility. These vehicles often overlap with special situations and offer exposure to complex capital stack opportunities.

NOTABLE ALLOCATION

Oaktree Strategic Credit Fund – \$390,000,000

Investor: Illinois Police Officers' Pension Investment Fund (IPOPIF)

WHY IT'S INTERESTING:

The \$390 million allocation from IPOPIF to the Oaktree Strategic Credit Fund (OSCF) reflects the growing institutional appetite for BDC-style private credit platforms that offer recurring income, capital flexibility, and structural simplicity. Unlike traditional closed-end credit funds with fixed vintages and limited liquidity, these evergreen vehicles are a format increasingly favored by pensions, insurance platforms, and consolidated retirement systems like IPOPIF.

OSCF primarily lends to middle-market companies with EBITDA between \$25 million and \$150 million, ensuring that borrowers have the financial scale to support leverage and consistent



debt servicing. The fund prioritizes loans with first-lien security, floating-rate interest structures, and conservative loan-to-value (LTV) ratios between 25% and 65%. Borrowers must exhibit strong recurring revenue, high cash flow visibility, and limited cyclicity, ensuring resilience across economic cycles. The firm selectively targets companies in stable industries with high barriers to entry, ensuring that portfolio companies maintain strong credit profiles and predictable repayment structures.

This allocation also signals a broader trend: as pensions consolidate and scale, they are embracing evergreen private credit vehicles that allow them to deploy at size, manage pacing more predictably, and generate income that matches benefit obligations—all while avoiding the capital call unpredictability of drawdown funds.

OUTLOOK

Private Credit is expected to remain a top priority allocation for LPs in 2025, particularly as traditional fixed income yields begin to normalize and bank lending remains constrained. The second quarter may see:

- More bespoke capital structures as sponsors face tighter refinancing windows.
- Rising interest in NAV lending and continuation vehicle credit.
- Continued inflows into evergreen vehicles, particularly those with monthly or quarterly liquidity.

With LPs increasingly valuing yield, stability, and customization, Private Credit is no longer viewed as an opportunistic allocation—it is foundational.



REAL ASSETS

Total Allocations (Combined)	\$12.48 billion
Quarter-over-Quarter Growth	+22.5%
Share of Total Q1 Allocations	~24%

Real Assets—encompassing real estate, infrastructure, and natural resources—remained a key component of institutional portfolios in Q1 2025. With \$12.5 billion in total allocations (up from \$10.2 billion in Q4 2024), this category demonstrated its staying power as a provider of income, inflation protection, and portfolio durability. Investors continued to favor cash-flowing assets, sector-specific strategies (like data centers and logistics), and managers positioned to benefit from structural economic shifts such as energy transition, supply chain localization, and demographic trends.

LEADING SUB-ASSET CLASSES

→ Value-Add Real Estate

Value-Add Real Estate remained the leading sub-category, as institutions sought out transitional assets with potential for NOI growth through repositioning, ESG retrofits, or lease-up strategies.

→ Core/Core+ Real Estate

Core/Core+ Real Estate showed stable demand, especially for high-occupancy industrial, multifamily, and grocery-anchored retail—indicating a defensive posture among more risk-sensitive LPs.

→ Global Infrastructure

Infrastructure allocations were largely focused on global diversified funds with exposure to transportation, energy, and digital infrastructure.



THEMES DRIVING ALLOCATION BEHAVIOR

1. Inflation Protection + Yield Stability

Institutions continued to allocate heavily to real assets for their ability to hedge inflation risk while generating predictable cash flows. In an environment of sticky core inflation and fiscal expansion, LPs leaned into asset classes with embedded rent escalators or regulated revenue models.

2. Secular Tailwinds in Infrastructure

Allocations to infrastructure funds reflected strong interest in sectors benefiting from multi-decade megatrends:

- Digital infrastructure (data centers, fiber, towers)
- Energy transition (renewables, battery storage, grid upgrades)
- Logistics and freight (ports, cold storage, intermodal)

These themes are increasingly viewed as core allocation areas—not niche plays—especially by sovereign wealth funds and large pensions.

3. Real Estate Diversification

Within real estate, capital shifted toward multifamily and industrial as safe-haven sectors, as well as select retail and office where pricing has corrected enough to justify opportunistic entries. Additionally, there has been more geographic diversification, with LPs selectively targeting non-U.S. gateway markets in Europe and Asia-Pacific.

NOTABLE ALLOCATION

IPI Partners Fund III – \$400,000,000

Investor: New York State Common Retirement Fund (NYS Common)

WHY IT'S INTERESTING:

The \$400 million commitment from NYS Common to IPI Partners Fund III is a bold, forward-looking allocation into one of the most transformative segments of the real assets universe: digital infrastructure. IPI is a leading investor and developer of data centers and cloud connectivity platforms, with a global footprint and a strong track record of partnering with hyperscale tenants and enterprise users.



IPI Partners, founded in 2016, is a leading digital infrastructure investment firm focused on acquiring, developing, owning, and operating high-quality technology infrastructure assets that support the rapid expansion of the cloud economy and technology-enabled services. Since inception, the firm has assembled a globally scaled portfolio of data center assets spanning 29 markets across four continents, with over 63 million square feet of potential capacity and more than 4,770 megawatts of power.

With a \$400 million check, NYS Common is making a significant commitment in one of the most dynamic corners of the real asset market. This allocation underscores the growing institutional consensus that digital infrastructure is now a core real asset class, not a niche or thematic side bet.

OUTLOOK

Real Assets are expected to remain in high demand as macro conditions evolve. Several key drivers will likely shape Q2 and beyond:

- Public market volatility will continue to reinforce the appeal of private real assets.
- Decarbonization and climate-aligned investing will remain central themes in infrastructure and real estate capital raising.
- Repricing opportunities in office and urban retail may attract opportunistic capital as distress materializes in select submarkets.



HEDGE FUNDS/LIQUID ALTS

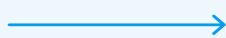
Total Allocations	\$1.41 billion
Quarter-over-Quarter Growth	+45.4%
Share of Total Q1 Allocations	~2.7%

While Hedge Funds and Liquid Alternatives remain a smaller slice of pension portfolios relative to private markets, Q1 2025 showed signs of a reawakening in demand. With allocations increasing to \$1.41 billion, up from \$972 million in Q4 2024, institutions are revisiting hedge funds as a tool for diversification, downside protection, and tactical alpha, especially in the face of lingering macro uncertainty.

Much of this renewed capital was allocated to multi-strategy, macro, and low-beta relative value managers. These strategies offered non-correlated return potential, dynamic risk allocation, and liquidity flexibility that appealed to LPs seeking to complement their illiquid private markets exposure.

LEADING SUB-ASSET CLASSES

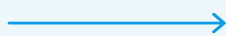
Multi-Strat



~60%

Multi-strategy platforms (e.g., Citadel-style models) absorbed the bulk of capital. These firms attracted capital for their ability to dynamically allocate across asset classes and rapidly rotate exposure.

Global Macro



~20%

Macro funds saw strong support due to elevated geopolitical risk, diverging global monetary policy, and persistent cross-asset volatility.



THEMES DRIVING ALLOCATION BEHAVIOR

1. Rebalancing for Liquidity & Flexibility

After multiple quarters of heavy allocations to illiquid private assets, Q1 2025 marked a shift toward reintroducing liquid strategies into the portfolio mix. LPs viewed hedge funds not as standalone alpha generators, but as tools to smooth volatility, respond tactically to shifting markets, and generate liquidity buffers.

2. Interest in Volatility and Macro Complexity

With interest rates no longer a one-way trade and geopolitical risk elevated (Middle East, Taiwan Strait, U.S. elections), global macro strategies have returned to institutional focus. These managers are viewed as potential beneficiaries of dislocations in FX, commodities, and rates.

3. Alignment and Fee Compression

Allocators emphasized fee discipline, pushing for pass-through expense caps, hurdle rates, and greater transparency. Institutional mandates were often paired with tailored SMAs or capacity-constrained share classes offering better economics.

NOTABLE ALLOCATION

Qube Fund - \$100,000,000

Investor: Virginia Retirement System (VRS)

WHY IT'S INTERESTING:

The \$100 million allocation from Virginia Retirement System (VRS) to the Qube Fund—managed by Qube Research & Technologies—demonstrates the increasing institutional appetite for quantitative, multi-asset trading strategies that can deliver uncorrelated returns and systematic alpha in highly dynamic markets.

Qube Research & Technologies (QRT) is a global quantitative hedge fund headquartered in London, known for its systematic, data-driven approach to trading across equities, fixed income, currencies, and futures markets. Originally launched in 2016 as a spinout from Credit Suisse's quant trading unit, the firm has since grown into one of the largest independent quant platforms worldwide. QRT employs advanced statistical modeling, machine learning,



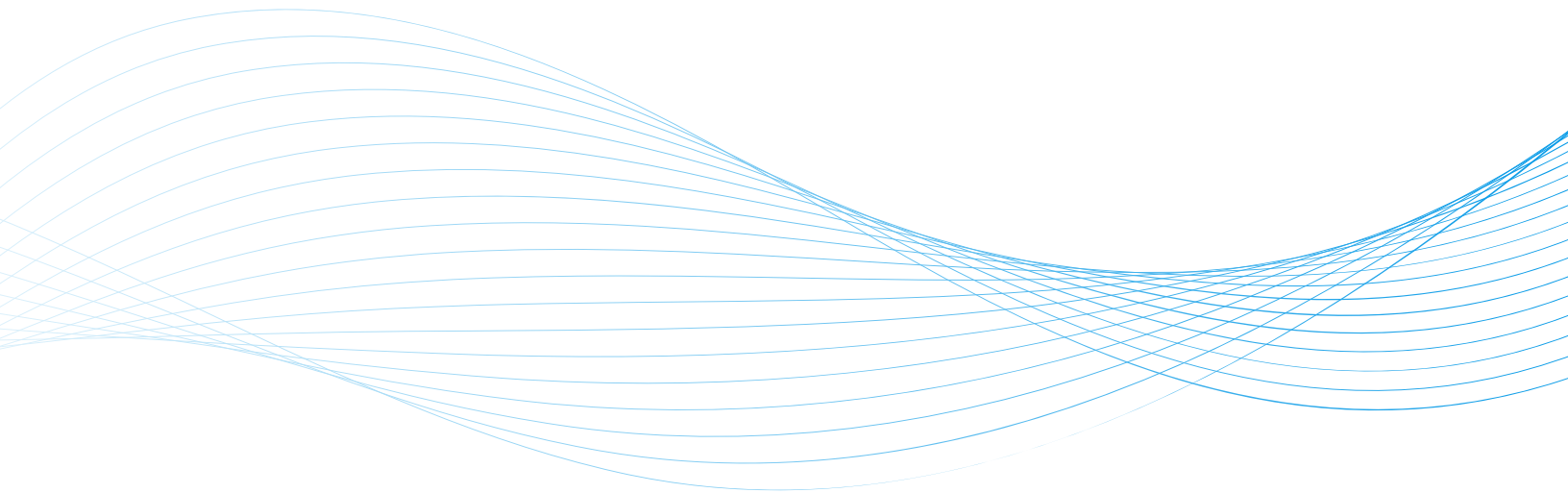
and high-frequency execution to identify and exploit market inefficiencies. As of early 2025, the firm manages over \$28 billion in assets and employs more than 1,000 professionals across a network of global offices.

With this investment, VRS adds another layer of non-correlated, rules-based alpha to its hedge fund book—complementing its discretionary macro and opportunistic allocations. In today’s environment of regime shifts and structural dispersion, the Qube Fund offers a tech-enabled hedge fund solution that aligns with VRS’s long-term objective of building a resilient, multi-strategy alternatives portfolio.

OUTLOOK

Hedge funds and liquid alternatives are likely to play a growing supporting role in institutional portfolios in the quarters ahead. While they are unlikely to command the headline flows of private equity or credit, their appeal as tactical complements and volatility dampeners is on the rise. Expectations for Q2 include:

- Increased macro hedge allocations tied to U.S. election hedging.
- More co-mingled credit hedge fund launches, blurring lines between liquid and private credit.
- Demand for custom overlays that can plug into broader portfolio construction models.



LP SPOTLIGHT: NEW YORK CITY FIRE DEPARTMENT PENSION FUND

OVERVIEW

In Q1 2025, the New York City Fire Department Pension Fund committed over \$435 million across 18 private equity strategies, displaying a well-diversified, active approach across buyouts, growth equity, secondaries, and co-investments. NYC Fire's allocations reveal a nuanced portfolio strategy that blends large-platform exposure with tactical, GP-specific bets—designed to balance long-term growth with liquidity optimization and vintage diversification.

NOTABLE ALLOCATIONS

Clearlake Capital Partners VIII + Co-Invest



\$74.4 million

A flagship large buyout commitment to one of the most active private equity firms in technology, industrials, and business services. This allocation reinforces NYC Fire's confidence in scaled GPs with operational intensity and event-driven investment approaches.

Insight Venture Partners XIII + Co-Invest



\$50 million

This growth equity allocation to a leading global technology investor gives NYC Fire access to enterprise software, cybersecurity, and data platforms with strong fundamentals. Paired with a \$12.5M co-investment in the same vintage, it reflects an intentional strategy of pairing fund commitments with direct access to underlying assets.

Platinum Equity Small Cap Fund II + Co-Invest



\$50 million

A combined GP and co-invest strategy in the lower middle-market buyout space. This play suggests NYC Fire is emphasizing control, value creation, and fee efficiency by scaling into known managers via direct participation.



KEY INVESTMENT THEMES

1. Strong Tilt Toward Secondaries

Nearly 30% of total capital allocated (\$128M) went to secondary private equity strategies via HarbourVest, ICG, and Leonard Green. This provides faster liquidity profiles, mitigates blind pool risk, and offers pricing advantages in a dislocated fundraising environment.

2. High Conviction in Co-Investments

Over \$100 million was deployed into co-investments, suggesting NYC Fire is seeking fee-efficient exposure and targeted access to high-conviction deals outside commingled blind pools. This approach reflects the pension fund's evolution toward a more sophisticated and active private markets program, with staff or advisors capable of vetting single-asset risk.

3. Manager Re-Ups + Relationship Depth

Repeat allocations to managers like Platinum Equity, Leonard Green, HarbourVest, and Insight Partners suggest a concentrated effort to deepen existing GP relationships and benefit from scale-driven economics, co-investment rights, and consistent access to top-tier vintages.

STRATEGIC TAKEAWAYS

The first quarter of 2025 revealed a significant shift in how institutions are deploying capital across private markets. While the increase in overall flows is notable, the real story lies in how—and where—capital is being allocated. Across asset classes, institutional investors are demonstrating a more intentional, nuanced, and future-oriented approach to portfolio construction. Here are the key strategic takeaways shaping this quarter's deployment activity:

1. From Passive Capital Deployment to High-Conviction Positioning

Institutions are moving beyond broad diversification to build focused exposure in strategies they understand deeply and believe in strongly. Across private equity, credit, venture capital, and real assets, limited partners are concentrating capital with a smaller set of trusted GPs, negotiating for co-investment rights, fee reductions, and greater visibility into deal pipelines. At the same time, they are rotating out of lower-conviction relationships. This signals a clear shift away from access-based investing toward a conviction-led partnership model that emphasizes alignment, efficiency, and strategic depth.



2. Customization, Control & Cost Efficiency Are in Demand

Across nearly every asset class, LPs are finding ways to gain greater influence over their portfolios. Co-investments are being used not only to lower fees, but to gain direct exposure to deals that fit specific themes or risk profiles. Additionally, secondary funds are allowing LPs to access mature portfolios at discounts, mitigate blind pool risk, and optimize liquidity. The theme here is clear: institutions want to be capital partners, not passive LPs.

3. Macro Themes Are Driving Allocations, Not Just Performance History

Allocation decisions in Q1 were not solely based on historical returns—they were driven by forward-looking macro positioning. Limited partners are actively aligning capital with long-term structural themes such as energy transition and sustainability mandates through infrastructure and real assets, the growth of artificial intelligence and digital infrastructure via venture and growth equity, and supply chain resilience and nearshoring strategies supported by real estate and credit. Additionally, many allocations are being made with an eye toward inflation resilience and interest rate hedging, particularly within private credit, infrastructure, and core real estate strategies. Rather than simply “diversifying,” LPs are building purposeful exposure to long-term secular shifts.

4. J-Curve Mitigation and Cash Flow Timing Are Top of Mind

Distributions remain uneven across private markets, and many LPs are managing portfolios where capital calls are accelerating while exits have slowed. In response, investors are increasingly turning to secondaries as a means to improve DPI and gain exposure to more mature portfolios. Allocations to credit and core/core-plus real estate are also being used to generate near-term cash flow and reduce liquidity pressure. At the same time, LPs are more actively negotiating NAV-based lending facilities and recycling provisions to improve capital efficiency and better manage fund pacing.

5. The Rise of Portfolio Engineering Over Benchmarking

Q1's allocation behavior suggests that institutions are stepping away from rigid benchmark thinking and moving toward portfolio engineering—blending return streams across both illiquid and liquid assets to meet broader strategic objectives. Hedge funds and macro overlays are being used to hedge volatility in equity and credit allocations, while evergreen private credit strategies are increasingly paired with drawdown-style private equity to create more consistent capital pacing. Institutions are also allocating thematically across asset classes—combining exposure to AI, digital infrastructure, and logistics real estate—rather than operating within traditional asset class silos. This approach reflects a more adaptive, integrated, and outcome-oriented framework for portfolio construction.



FINAL THOUGHTS

Across asset classes, the trend is clear: institutions are rebalancing toward strategies that offer control, flexibility, and resilience. Whether it's anchoring buyout funds with co-investments, deploying to evergreen private credit vehicles for income, or targeting innovation through highly curated VC and infrastructure themes, LPs are demanding more from their capital and the partners who manage it.

Additionally, portfolio construction is becoming more holistic—driven less by peer benchmarking and more by organizational mission, funding objectives, and forward-looking macro views. Investors are weaving together cash flow-generative strategies (like credit and real estate), inflation-hedging exposures (like infrastructure and secondaries), and long-duration growth engines (like venture and growth equity) into highly adaptive, all-weather portfolios.

This evolution signals a more mature, agile, and mission-aligned institutional investor class—one that's not just allocating capital, but actively shaping the future of private markets.

For further insights, visit dakota.com

