SMP FINANCIAL RESEARCH

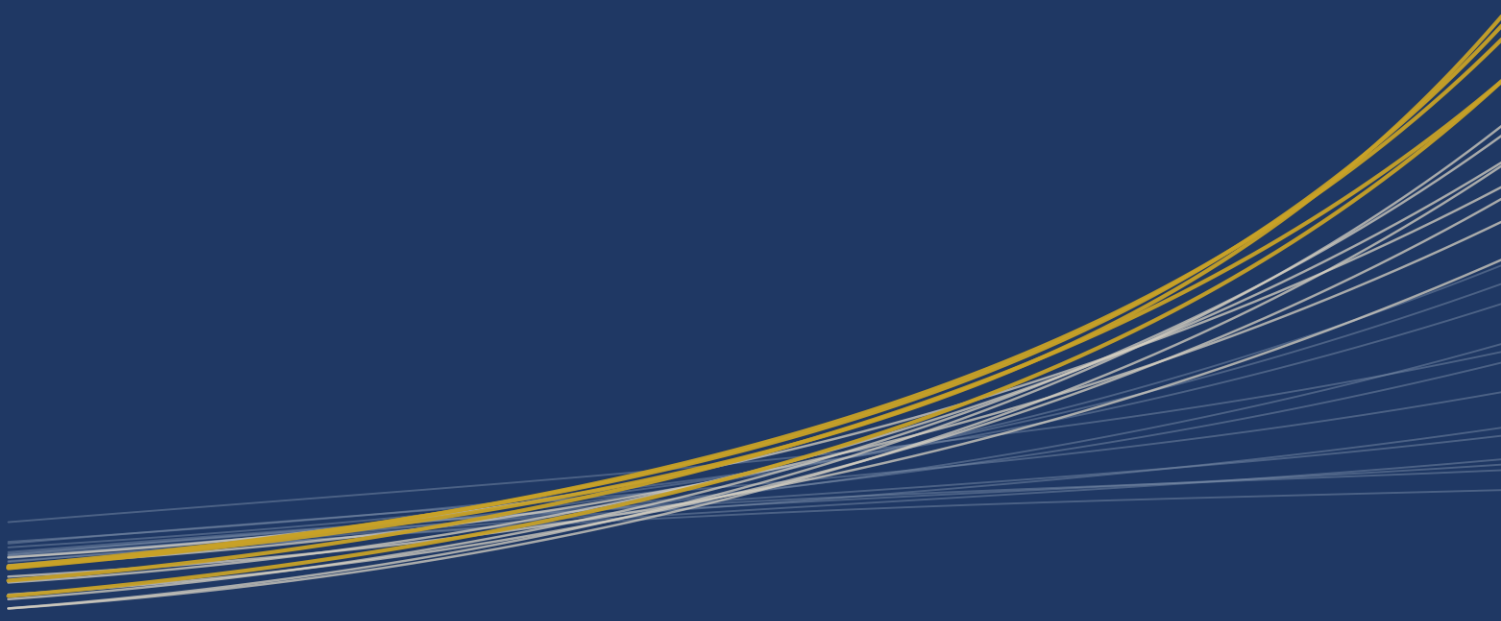
July 2026

Private Equity Markets

A Research Report on the State of Private Markets

PERFORMANCE · DEAL ACTIVITY · RETURNS BY STRATEGY · PUBLIC MARKET COMPARISON

MULTI-FAMILY OFFICE RESEARCH



Contents

This report compiles and synthesises data from primary industry research sources published 2024–2026, including McKinsey & Company, Bain & Company, Cambridge Associates, Preqin, Goldman Sachs, PitchBook/NVCA, and others. All tables and exhibits are author-constructed from paraphrased and cited source data; bracketed references [A]–[J] correspond to the source list in Appendix A. This report is for general information only. It contains no investment advice and does not take account of any reader's individual circumstances. Document version 1.3, July 2026 — supersedes versions 1.0–1.2 (July 2026). v1.2 added author-constructed exhibits; v1.3 (this document) redesigns those exhibits for clarity with no changes to data or text. Corrections from v1.0 remain as recorded in the Erratum.

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Market snapshot

The global private equity industry at a glance, 2025–2026.

01

$2.6tn

Global PE deal value, 2025 — up 19% year on year [A]

02

$1.3tn

Global PE exit value, 2025 — up 41% year on year [A]

03

~$7.5tn

Global PE AUM, 2026 — projected from 2025 base [C]

04

~6%

Average buyout pooled IRR, 2015–2025 [A]

05

16,000+

PE-owned companies held over four years — a record 52% of inventory [A]

06

6.5 yrs

Average GP holding period, up from ~4.5 years pre-2020 [A]

All figures are author-paraphrased from cited sources. [A] McKinsey Global Private Markets Report 2026; [C] Fortune Business Insights, Private Equity Market Report 2026. See Section 2 for full performance data and Appendix A for source detail.

Executive Summary

Private equity in 2026 is a mature, large, and increasingly demanding industry — a dramatic shift from even a decade ago. The conditions that once amplified returns almost automatically — declining interest rates, expanding valuation multiples, and abundant cheap leverage — have structurally changed. The fog that obscured pricing, financing, and exit routes during 2022–2024 has lifted, but the terrain it reveals is steeper and more technical than before.

This report synthesises the most current and authoritative market data available, drawing on McKinsey's Global Private Markets Report 2026 [A], Bain's 17th annual Global Private Equity Report [B], Cambridge Associates' US PE/VC Benchmark Commentary [D], and Preqin's private capital performance data [F]. It provides a picture of the industry across five dimensions: performance, deal activity, fundraising, value creation, and market structure. Where possible, long-run data is used to contextualise current conditions.

What The Data Shows

The headline performance picture is sobering. Buyout funds underperformed US and global public equities for the third consecutive year in 2025, generating pooled IRRs of approximately 6% on a 2015–2025 basis compared with the S&P 500's roughly 15% total shareholder return over the same period [A]. In the immediate short term, the gap is sharper still: top-quartile buyout IRRs of around 8% in 2025 against an 18% return for the S&P 500 and 22% for the MSCI World [A].

The structural cause is clear. Between 2010 and 2022, leverage and multiple expansion accounted for 59% of PE returns [A]. Both tailwinds have materially weakened: interest rates remain elevated relative to the prior decade, and entry multiples have continued rising — the median buyout purchase multiple reached 11.8x EBITDA in 2025, up from 11.3x in 2024 [B]. This leaves operational value creation as the primary remaining source of alpha: a harder, less scalable, and more manager-specific capability.

Deal activity rebounded strongly in 2025. Global PE deal value rose 19% to $2.6 trillion, with buyout deal value reaching its second-highest year on record at nearly $1.8 trillion; exit value surged 41% [A]. Yet these headline numbers mask a K-shaped recovery dominated by megadeals, with overall deal count down 5% and smaller fund managers structurally disadvantaged. The liquidity problem — distributions to paid-in capital (DPI) as a share of total PE AUM was just 6% in the twelve months to June 2025, against a 2015–2019 average of 16% [A] — has not been resolved by improved deal activity.

Over the long run, PE retains a credible performance case. Cambridge Associates data shows US buyout delivering 14–16% pooled net IRR over 25 years, with a 200–400 basis point premium over the S&P 500 on a cash-flow-adjusted Public Market Equivalent (PME) basis, and top-quartile buyout funds averaging 24% IRR over ten years [D]. The case for PE rests on this long-run premium — but it is increasingly concentrated in manager selection, requiring investors to identify and access top-quartile talent rather than simply allocate to the asset class.

> **The central tension**
>
> PE's long-run case remains intact in the data. Its short-run performance against public markets does not. Reconciling these two facts is the defining investment question for any investor currently reviewing or building a private equity allocation.

SECTION 01

The Private Equity Industry: Scale and Structure

1.1 Industry Size

The global private equity market — encompassing buyout, growth equity, venture capital, and private credit — has grown from a niche institutional strategy to a mainstream asset class over the past three decades. The global PE market was valued at approximately $6.75 trillion in 2025 and is projected to grow to approximately $7.5 trillion in 2026, with a compound annual growth rate of approximately 13% forecast through to 2034 according to market size estimates [C]. North America remains the dominant geography, accounting for approximately 48% of global PE market share in 2025 [C].

By assets under management, the six largest publicly listed PE firms — Blackstone, KKR, Apollo, Carlyle, Ares, and TPG — together oversee a combined $635 billion in traditional PE assets, with total AUM across all strategies substantially higher. These six managers collectively raised $65 billion in buyout capital in 2025 and held over $211 billion in dry powder as of Q3 2025 [J].

Deloitte's Global Family Office Report estimates that between 2019 and 2024 the number of family offices globally grew 31%, from approximately 6,130 to 8,030, with the number expected to exceed 9,000 in 2025 [I]. This institutional deepening of the LP base — combined with the rapid growth of wealth-channel distribution via semi-liquid and evergreen structures — is a structural feature reshaping the industry's capital formation.

1.2 Sub-Strategy Taxonomy

Private equity is not a monolithic asset class. The four principal strategies have meaningfully different risk/return profiles, holding periods, and return drivers:

STRATEGY	DESCRIPTION	TYPICAL HOLD	RETURN DRIVER	IRR TARGET (GROSS)
Buyout	Control acquisition of mature companies, often using leverage	4–7 yrs	Leverage + multiple expansion + EBITDA growth	20–25%
Growth equity	Minority stakes in high-growth, cash-generative businesses	3–6 yrs	Revenue and earnings growth	20–30%
Venture capital	Early-stage equity in pre-profit companies	7–12 yrs	Multiple expansion on exit; power-law distribution	25–40%+
Private credit	Debt or credit to private companies; direct lending, mezzanine, distressed	3–5 yrs	Yield + spread; low equity upside	8–15%

Table 1.1. PE sub-strategy summary. IRR targets are gross pre-fee indicative ranges from market convention; net-of-fee returns are typically 300–600bp lower. Author-constructed from industry sources.

SECTION 02

Long-Run Performance: Returns, IRRs, and Public Market Comparison

2.1 The Long-Run Case For Private Equity

The foundational investment case for PE rests on an illiquidity premium — the additional return an investor earns by accepting that capital is locked up for a fund's life, typically ten years with extensions. Over long time horizons, the data supports this claim. Cambridge Associates' US Private Equity Index — drawing on 1,700 US buyout and growth equity funds with a value of $1.6 trillion as of June 2025 — shows the following pooled net returns across horizons [D]:

HORIZON	CA US PE INDEX (NET)	S&P 500 MPME	VALUE ADDED (BP)
1-year (to Jun 2025)	~7–8%*	—	—
3-year	Low single digit	Positive	Mixed
5-year	~10–12%	~14–15%	Negative to flat
10-year	~15%	~13%	+ ~200
15-year	~14–16%	~11–12%	+ ~200–400
25-year	~14–16%	~11–12%	+ ~200–400

*Table 2.1. Cambridge Associates US PE Index net returns vs S&P 500 modified PME (mPME) across time horizons. *H1 2025 annualised. Three- and five-year performance reflects the post-rate-shock environment of 2022–2024. Sources: Cambridge Associates US PE/VC Benchmark Commentary, H1 2025 (January 2026) [D]; Cambridge Associates Q3 2024 Benchmark Book [D].*

The critical observation is horizon-dependence. Over five years, PE has had mixed results against large-cap public indices, particularly given the extraordinary performance of the US equity market driven by mega-cap technology companies. Over ten years and beyond, outperformance is more consistent and the PME premium of 200–400 basis points is well established in the data. This horizon dependency has profound implications for investor assessment — short-term comparisons with public markets during a period of AI-driven equity concentration can be structurally misleading.

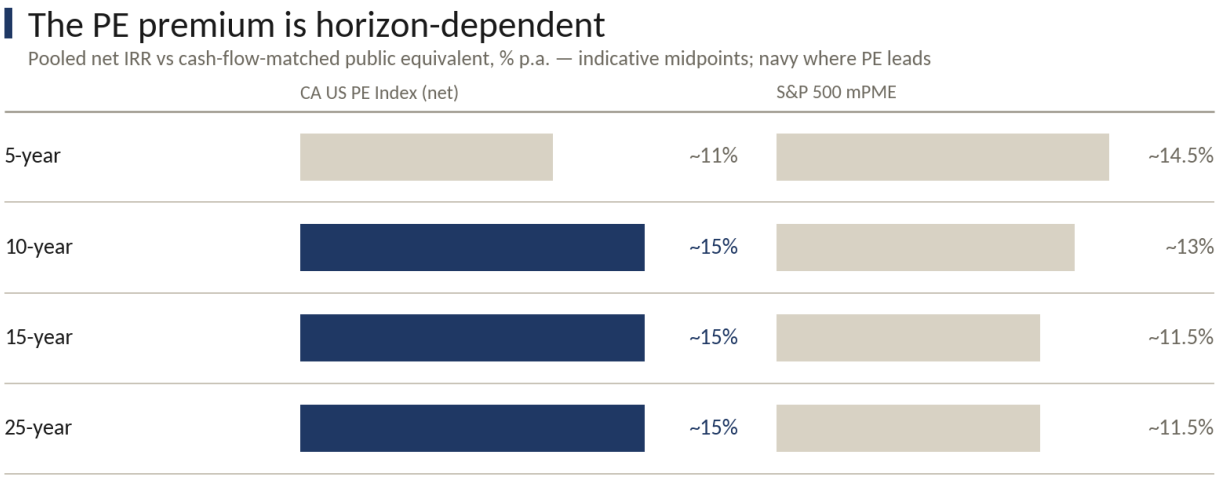

Exhibit 1. CA US PE Index net returns versus S&P 500 mPME across time horizons, indicative midpoints derived from Table 2.1. Author-constructed from Cambridge Associates data [D].

The benchmark problem

PE performance is typically measured using IRR, which is sensitive to the timing and sequencing of cash flows. A PME (Public Market Equivalent) methodology corrects for this by replicating private fund cash flows in a public index — asking what return would have been earned had the same capital been invested in public markets on the same schedule. Cambridge Associates' mPME is the most widely used institutional-grade PME methodology. All long-run comparisons in this report use mPME where available.

2.2 The Recent Performance Gap

The long-run case, however, coexists with an acute short-run challenge. McKinsey's analysis is unambiguous: buyout funds underperformed US and global public equities for the third consecutive year in 2025. Pooled buyout IRRs over the 2022–2025 period averaged 5.7% — a post-2002 trough and the second-lowest period on a median basis since records began [A]. Even the best performers were affected:

METRIC	2025 FIGURE	BENCHMARK / CONTEXT
Top-quartile buyout IRR (2025)	~8%	S&P 500: 18%; MSCI World: 22%
Avg buyout pooled IRR (2015–2025)	~6%	S&P 500 TSR: ~15%; MSCI World: ~13%
2015–17 vintage buyout IRR	~2%	Pulling down the 10-year average materially
Buyout pooled IRR (2022–2025)	5.7%	Post-2002 trough; 2nd-lowest median on record
10-yr top-quartile buyout IRR	24%	S&P 500: 15%; MSCI World: 13% (TSR basis)

Table 2.2. PE return summary, recent vs long run. Sources: McKinsey Global Private Markets Report 2026 [A]; Cambridge Associates US PE/VC Benchmark Commentary H1 2025 [D].

The structural cause is the decomposition of returns. StepStone Group analysis cited in McKinsey shows that for deals done between 2010 and 2022, leverage and multiple expansion together accounted for 59% of total PE returns [A]. Both have become significantly less reliable: the rapid rise in interest rates from 2022 to 2023 (over 500 basis points in the United States) compressed leverage's contribution, while entry multiples have continued rising — reaching a median of 11.8x EBITDA in 2025 — leaving less room for multiple expansion [B]. What remains is operational value creation: an inherently harder, less scalable, and more manager-specific source of return.

2.3 Vintage Year Dispersion

Vintage year matters enormously in PE, because funds commit capital over a three-to-five-year investment period and return it over a five-to-twelve-year hold. The 2015–2017 vintage is the single largest drag on current industry averages, generating approximately 2% IRRs [A]. These funds purchased companies at pre-rate-shock multiples, held them through the 2022–2023 rate environment, and are now struggling to exit at attractive valuations.

Newer vintages (2021–2024) show substantially higher unrealised IRRs — approximately 15% according to McKinsey [A] — but these remain largely unrealised, meaning they depend on mark-to-model valuations rather than cash returns to LPs. The divergence between IRR (which includes unrealised NAV) and DPI (distributions actually paid) is the defining tension facing LPs in 2026.

VINTAGE	APPROX. REALISED IRR	STATUS	KEY DYNAMIC
2007–2008	Low single digit	Mostly realised	GFC entry multiples; slow recovery
2009–2012	Strong, 20%+	Mostly realised	Excellent entry valuations post-GFC
2013–2015	Good, ~15–20%	Largely realised	QE tailwind; multiple expansion
2015–2017	~2%	Largely held	Peak-cycle entry; rate shock; exit delay
2018–2020	Moderate, 8–12%	Partially realised	Mixed; COVID disruption
2021–2023	~15% (unrealised)	Largely unrealised	High entry multiples; strong paper marks

Table 2.3. Approximate PE buyout performance by vintage cohort. Figures are indicative ranges derived from McKinsey [A], Bain [B], and Cambridge Associates [D] sources and rounded. Individual fund performance will differ materially.

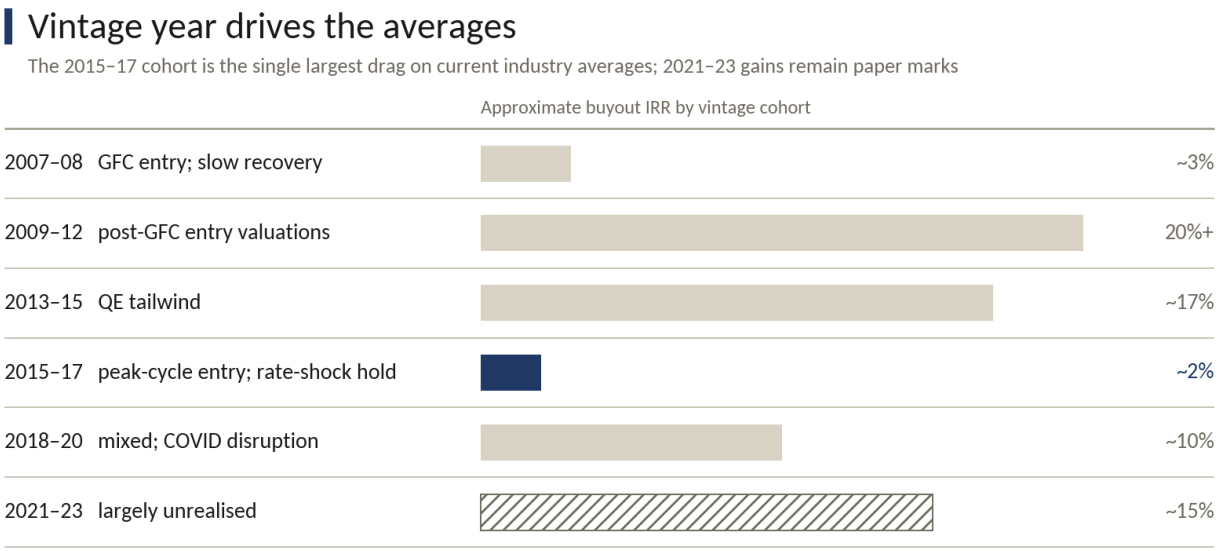

Exhibit 2. Approximate buyout IRR by vintage cohort, corresponding to Table 2.3; 2021–23 cohort largely unrealised. Author-constructed from McKinsey [A], Bain [B], and Cambridge Associates [D] data; indicative ranges.

SECTION 03

Returns by Strategy

3.1 Buyout

Buyout is the largest and most widely studied PE strategy, representing the majority of institutional LP allocations and the bulk of industry-level performance data. The strategy involves acquiring control of established companies, frequently using leverage to amplify equity returns, improving the business operationally over a four-to-seven-year holding period, and exiting via sale or IPO.

The Cambridge Associates US Private Equity Index — primarily buyout and growth equity — earned 3.9% in the first half of 2025 (annualised approximately 7–8%), with buyouts specifically returning 3.6% and growth equity 4.9% in the same period [D]. Over longer horizons the picture is more favourable: the 10-year net pooled return is approximately 15%, with a PME premium of approximately 200 basis points over the Russell 3000 and 480 basis points over the MSCI World on a cash-flow-adjusted basis [D]. Sector composition of the index as of mid-2025 shows information technology as the largest exposure (approximately 36% of index market value), followed by industrials, healthcare, consumer discretionary, and financials [D].

3.2 Growth Equity

Growth equity targets established, cash-generative businesses seeking capital to accelerate expansion, without requiring full control acquisition or significant leverage. Returns are primarily driven by revenue and earnings growth rather than financial engineering. Growth equity outperformed buyouts in H1 2025 (4.9% vs 3.6% on the Cambridge Associates benchmark [D]), reflecting the strategy's lower interest-rate sensitivity and its exposure to technology and healthcare growth trends.

3.3 Venture Capital

The US Venture Capital Index earned 6.4% in H1 2025, continuing its recovery after seven consecutive quarters of negative or flat performance from January 2022 to September 2023 [D]. Returns across key vintage years were highly dispersed, ranging from −2.5% (2015 vintage) to +8.6% (2022 vintage) in the period [D].

VC's defining characteristic is the power-law distribution of returns: a small number of investments — typically fewer than 10% of a portfolio — generate the majority of fund returns, making performance exceptionally sensitive to manager selection and access to top-tier deals. AI and machine learning deals accounted for 65.6% of all US VC deal value in 2025 ($222 billion of $339 billion), up from 47.2% in 2024 and approximately 10% in 2015; half of all venture dollars in 2025 went to just 0.05% of deals [G]. Fundraising remained challenging, with 2025 on track for the lowest annual total in a decade [G].

3.4 Private Credit

Private credit — encompassing direct lending, mezzanine, asset-based finance, and distressed debt — has been the fastest-growing component of private markets over the past decade. Unlike equity strategies, private credit generates yield-driven returns with lower equity upside but greater capital protection. The asset class delivered approximately 8–12% returns through the recent rate cycle, with consistent quarterly returns of approximately 2–3% according to Cambridge Associates private credit benchmarks [D].

The structural driver of private credit's growth is the retreat of regulated banks from leveraged lending since the global financial crisis, creating a financing gap filled by non-bank lenders. In 2024 and 2025, bank syndicated lending partially returned to the market — reducing the direct lending opportunity relative to peak 2020–2023 conditions — but the asset

class remains structurally embedded in private markets portfolios. Family office survey data shows zero exposure to private credit falling from 36% to 26% of respondents in two years, with 26% of family offices planning to increase allocations [E].

STRATEGY	2025 RETURN (APPROX.)	10-YR IRR (APPROX.)	KEY RISK	KEY OPPORTUNITY
Buyout	6–8% (pooled)	15–16% (US)	Entry multiple; leverage cost	Operational value creation; take-privates
Growth equity	8–12%	18–22%	Revenue execution; valuation	AI/tech sector; lower rate sensitivity
Venture capital	6–8% (index)	Variable; power law	Liquidity; funding environment	AI dominance; secondaries liquidity
Private credit	8–12%	8–12%	Credit quality in downturn	Structural bank retreat; yield premium

Table 3.1. Returns by PE sub-strategy, indicative summary. Sources: Cambridge Associates H1 2025 [D]; McKinsey Global Private Markets Report 2026 [A]; Goldman Sachs Family Office Report 2025 [E].

SECTION 04

Deal Activity: Entries, Exits, and the Liquidity Gap

4.1 Entry Markets: A Narrow Recovery

Global PE deal value increased 19% in 2025 to approximately $2.6 trillion, with buyout specifically reaching its second-highest year on record at nearly $1.8 trillion — a 20% increase over 2024 [A]. The recovery was real but narrow. Buyout and growth deals larger than $500 million increased 44% in value to $1.1 trillion, eclipsing 2021's previous record for that size band; buyout deals larger than $500 million rose 51% to more than $900 billion, and megadeals over $2.5 billion surged 72% to over $600 billion, including the announced $55 billion take-private of Electronic Arts, the largest PE deal in history [A].

The critical counterpoint is that deal count fell 5% globally despite the surge in deal value. Average deal size rose to approximately $910 million per buyout in 2025, up from approximately $610 million in 2024 — reflecting the dominance of large-fund managers in the current dealmaking landscape. Smaller GPs face a structurally disadvantaged environment [A].

REGION	BUYOUT DEAL VALUE CHANGE (2025)	BUYOUT COUNT CHANGE	KEY DYNAMIC
North America	+29%	−7%	Megadeal-dominated; take-privates +72%
Europe	+8%	−4%	Modest recovery; large funds drove value
Asia-Pacific	−3%	−3%	Continued struggle; fundraising −49%
Global total	+20%	−5%	K-shaped: value up, count down

Table 4.1. Buyout deal activity by region, 2025. Source: McKinsey Global Private Markets Report 2026 [A].

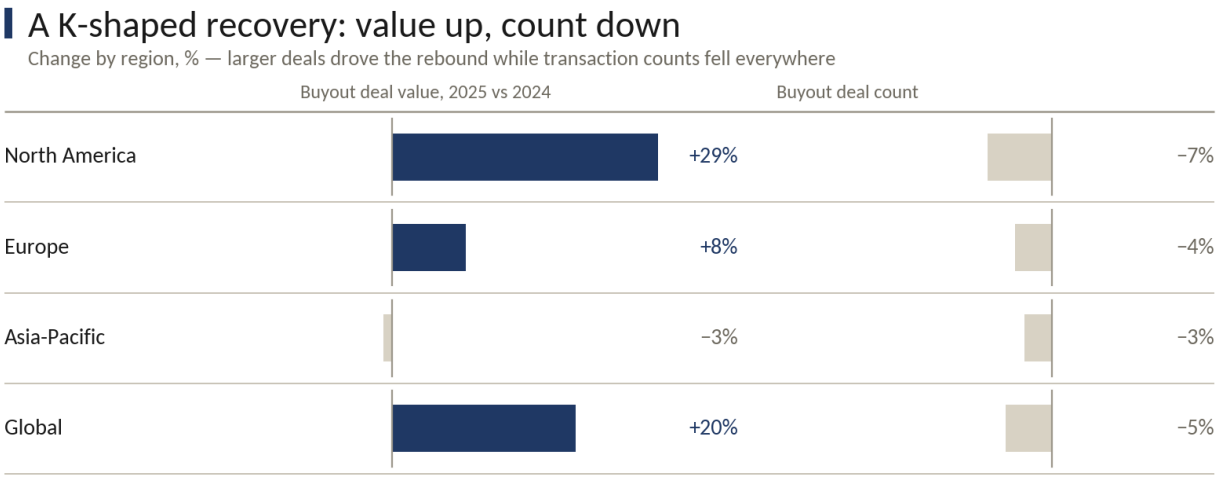

Exhibit 3. Buyout deal value and count change by region, 2025 versus 2024, corresponding to Table 4.1. Author-constructed from McKinsey Global Private Markets Report 2026 data [A].

Entry multiples continued to rise. The median PE purchase multiple increased from 11.3x EBITDA in 2024 to 11.8x in 2025; for many assets, prices have never been higher [B]. The combination of high entry multiples, elevated (though declining) interest rates, and compressed leverage contributions creates what Bain describes as a '12 is the new 5' dynamic: where funds historically needed approximately 5% EBITDA growth per year to meet return targets, the same targets now require approximately 10–12% annual EBITDA growth [B].

4.2 Exit Markets: Improved But Structurally Constrained

Exit value surged 41% in 2025 to approximately $1.3 trillion — the second-highest year on record — driven by a near-doubling of IPO exit value — to over $320 billion — and a strong increase in corporate M&A activity [A]. High-profile exits included the Medline IPO (December 2025, at $7.2 billion in gross proceeds the largest PE-backed IPO on record) and Verisure's $4.2 billion offering [A].

Despite the improvement, the structural overhang remains severe. McKinsey estimates that over 16,000 companies globally have been held by PE sponsors for more than four years — equivalent to 52% of total buyout-backed inventory, the highest share on record and ten percentage points above the five-year average. Average holding periods now exceed six and a half years [A].

4.3 The Liquidity Gap: Dpi At Historic Lows

The most consequential structural development in private equity is the collapse of distributions relative to the size of the asset class. Distributions to paid-in capital (DPI) as a share of total PE AUM was just 6% in the twelve months ended June 2025, against a 2015–2019 average of 16%; five-year rolling DPI as a share of AUM reached its lowest recorded level, approximately 10%, in June 2025 [A].

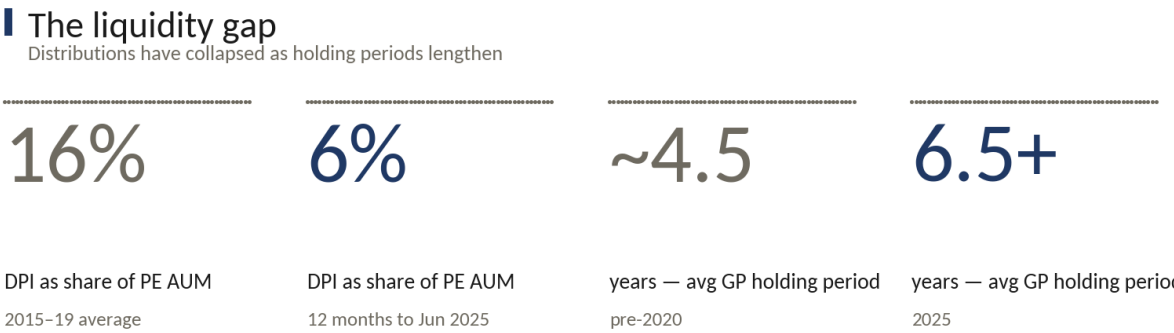

Exhibit 4. DPI as a share of total PE AUM and average GP holding periods. Author-constructed from McKinsey Global Private Markets Report 2026 data [A].

This distribution drought has reshaped LP behaviour and spawned alternative liquidity mechanisms. Secondary market traded value increased 48% in 2025. GP-led secondary transactions — primarily continuation vehicles — reached $115 billion, more than triple their 2020 level of $35 billion, and now account for approximately 14% of all sponsor-backed exits, with LPs expecting 20% of deals reaching the end of their term to pass through continuation vehicles today, rising to 29% within five years [A]. NAV lending has also grown rapidly, though LPs have expressed concern that continuation vehicles may be used to defer the realisation of underperforming assets.

> **DPI: the metric that now matters most**
>
> In McKinsey's January 2026 survey of 300 global LPs, distributions to paid-in capital (DPI) was tied with MOIC for second place as the most important metric shaping allocation decisions (IRR remains first) [A]. LPs' increasing focus on DPI reflects a fundamental impatience with the gap between paper returns and cash in hand. For LPs evaluating new commitments, DPI track record is becoming as important as IRR history.

SECTION 05

Fundraising: Capital Formation and LP Sentiment

5.1 Aggregate Fundraising Trends

Global private capital fundraising — across PE, private credit, real estate, infrastructure, and VC — held roughly flat at approximately $1.3 trillion in 2025, supported by strong infrastructure fund growth. Within that total, buyout fundraising declined 16% to $395 billion, the fourth consecutive year of decline for traditional commingled closed-end vehicles [A, B]. The dynamic is structural rather than cyclical: LPs are constrained by the denominator effect and by the lack of distributions returning capital from existing commitments.

The fundraising environment is sharply bifurcated. GPs attracting capital are those with demonstrated performance and consistent distributions across fund series — Thoma Bravo closed a $24.3 billion flagship fund in 2025 and Bain Capital closed a $14 billion fund, both having consistently delivered top-quartile IRR and DPI [B]. For the majority of GPs, fundraising has been protracted, selective, and increasingly expensive in time and resources. There are now fewer first-time funds than at any point in the past decade [A].

5.2 Lp Sentiment

Despite the challenging recent performance environment, LP conviction in the asset class over the long run remains intact. In McKinsey's January 2026 survey of 300 global LPs, approximately 70% reported plans to maintain or increase PE allocations in 2026 [A]; Goldman Sachs' family office survey shows 39% planning to increase PE specifically [E]. The demands LPs place on GPs have, however, risen substantially: LPs increasingly require top-quartile returns from recent funds — often more than 20% net IRR for buyout — as well as consistent, top-quartile DPI across fund series.

5.3 The Rise Of Alternative Structures

Semi-liquid and evergreen private equity fund structures have grown dramatically. US semi-liquid PE vehicle fundraising more than doubled from $92 billion in 2023 to $204 billion in 2025 [H]. These structures — designed to provide periodic redemption windows rather than full ten-year lockups — are being used to distribute PE to the wealth management channel, including high-net-worth and ultra-high-net-worth investors via regulated platforms.

The growth of wealth-channel distribution represents a structural expansion of the LP universe, but it comes with real challenges: semi-liquid structures require heightened liquidity management, risk controls, and compliance infrastructure from GPs, and they expose retail-adjacent investors to an asset class with historically modest short-run performance, significant mark-to-model risk, and limited redemption rights in stressed conditions.

FUNDRAISING METRIC	2023	2024	2025
Global alternatives total	~$1.4tn	~$1.3tn	~$1.3tn
Buyout (traditional closed-end)	~$510bn	~$470bn	~$395bn (−16%)
US semi-liquid PE vehicles	~$92bn	~$145bn	~$204bn (+41%)
PE secondaries fundraising	Moderate	Elevated	+5%
First-time funds	Declining	Declining	Lowest in decade

Table 5.1. Fundraising trends, 2023–2025. Sources: Bain Global PE Report 2026 [B]; McKinsey Global Private Markets Report 2026 [A]; Robert A. Stanger & Company as cited in McKinsey [H].

Capital formation is migrating to new structures

Global buyout closed-end vs US semi-liquid PE fundraising, $bn

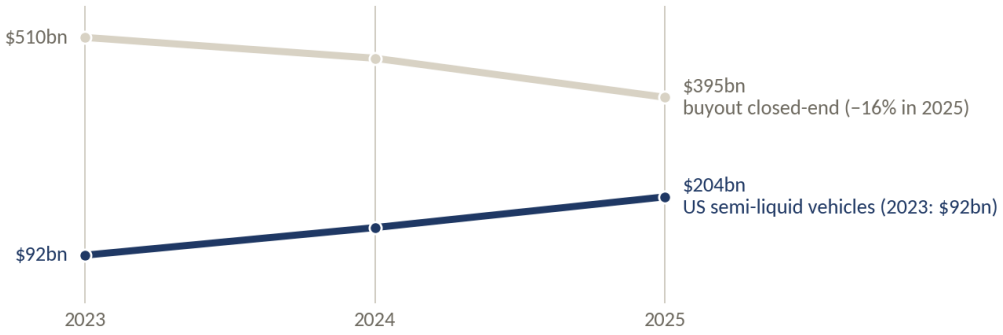

Exhibit 5. Global buyout closed-end fundraising versus US semi-liquid PE vehicle fundraising, 2023–2025, corresponding to Table 5.1. Author-constructed from Bain [B], McKinsey [A], and Robert A. Stanger & Co. [H] data.

SECTION 06

Value Creation: The Shifting Sources of Alpha

6.1 The Decomposition Of Pe Returns

Understanding where PE returns come from is essential to assessing their likely persistence. StepStone Group analysis, cited in McKinsey's 2026 report, provides the definitive decomposition: for deals completed between 2010 and 2022, leverage and multiple expansion together accounted for 59% of total PE returns; revenue growth and margin improvement — true operational value creation — accounted for the remaining 41% [A].

This decomposition matters because leverage and multiple expansion are macro-driven and largely outside GP control. In the decade after the global financial crisis, declining interest rates mechanically increased the value of leveraged assets while reducing the cost of the debt used to purchase them. Both tailwinds are now materially weaker. GPs who relied on financial engineering must now genuinely improve the businesses they own — a fundamentally harder task requiring different capabilities.

RETURN DRIVER	CONTRIBUTION 2010–2022	OUTLOOK 2023 ONWARDS
Multiple expansion	Significant (part of 59%)	Constrained: entry multiples at record highs
Leverage contribution	Significant (part of 59%)	Constrained: rates elevated vs the 2010s
Revenue growth	Part of 41%	Primary driver — must be underwritten explicitly
Margin improvement	Part of 41%	Primary driver — requires operational capability

Table 6.1. PE return decomposition. Source: StepStone Group analysis as cited in McKinsey Global Private Markets Report 2026 [A].

6.2 The New Operational Imperative

Bain's '12 is the new 5' rule captures the implication precisely. In the prior era, a fund buying at typical multiples with available leverage needed to generate approximately 5% annual EBITDA growth to hit target returns; at today's entry multiples of 11–12x EBITDA with elevated financing costs, the same targets require approximately 10–12% annual EBITDA growth from the first day of the holding period [B]. This demands more rigorous pre-deal operational underwriting, faster post-deal value creation programmes, and an institutional capability to drive commercial and cost improvements consistently across a portfolio.

Exhibit 6. Buyout return decomposition, 2010–2022 (StepStone Group analysis as cited in McKinsey [A]) and indicative annual EBITDA growth required to meet target returns (Bain [B]).

McKinsey notes that only 6% of GPs believe AI is currently delivering high impact on their internal operations and investment processes, but 70% expect high impact within three to five years [A]. AI is emerging as an operational force multiplier for the strongest firms: accelerating commercial due diligence, improving management decision-making at portfolio companies, and enabling more systematic identification of improvement opportunities.

6.3 Manager Dispersion: The Alpha Is Concentrated

The critical implication of the shift from financial engineering to operational alpha is that return dispersion between managers widens. In an era of multiple expansion and cheap leverage, the asset class itself generated returns — beta, not alpha. In the current environment, alpha must be genuinely made. The data reflects this: the spread between top-quartile and bottom-quartile VC returns exceeds 30 percentage points in most vintage years [D], and top-quartile buyout managers over ten years average 24% IRR against a significantly lower median [A]. Access to top-quartile managers is a prerequisite for achieving the long-run PE premium.

The practical consequence for LPs is that a passive 'allocate to PE' strategy is insufficient. Manager selection, access to capacity-constrained top-tier funds, and rigorous due diligence on operational capability are the determinants of whether a PE allocation delivers the promised premium.

SECTION 07

Market Structure: Concentration, Fees, and Emerging Formats

7.1 Industry Consolidation

The PE industry is consolidating around large, scaled, and diversified asset managers. Funds raising less than $500 million accounted for 13% of total fundraising in 2025, down from 17% five years earlier, while funds larger than $5 billion account for a significantly larger share. Announced strategic M&A activity among the 100 largest GPs nearly doubled from approximately $18 billion in 2024 to over $34 billion in 2025, reflecting PE firms' own acquisition of other managers to achieve scale in distribution, credit, and real assets [A].

The six largest publicly listed managers — Blackstone, KKR, Apollo, Carlyle, Ares, and TPG — oversee a combined $635 billion in traditional PE assets and held over $211 billion in dry powder as of Q3 2025, collectively realising $64 billion from PE portfolios in 2025 [J]. Their scale confers advantages: access to the largest deals, broader distribution networks, and diversified revenue streams.

7.2 Fee Structures

The standard PE fee structure — a 2% management fee on committed capital and 20% carried interest above an 8% hurdle rate (the '2 and 20' model) — remains the norm for institutional closed-end funds, though it is under growing pressure. LPs' increasing focus on net returns and DPI has heightened scrutiny of fee drag. For large flagship funds, management fees have drifted toward 1.5–1.75% on invested (rather than committed) capital in some cases, reflecting the negotiating leverage of large LPs.

Semi-liquid and evergreen structures carry similar management fees but often lower carried interest (15–18% rather than 20%), reflecting their broader distribution mandate and the regulatory constraints of selling to non-institutional investors. The total expense ratio of these vehicles, including fund-of-funds layers where applicable, can be materially higher than direct institutional fund access — a point of substance for any investor comparing access routes.

7.3 Take-Privates And Market Structure Shift

Take-private transactions — buying publicly listed companies and delisting them — increased 43% in value in 2025, with North American take-privates alone rising 72%. 2025 was the third-highest year on record for take-private activity by both deal count and value; the largest PE deal in history — the announced $55 billion Electronic Arts transaction — was a take-private, as was Sycamore Partners' acquisition of Walgreens Boots Alliance, valued at up to $23.7 billion including debt and contingent payments (approximately $10 billion in equity value) [A, B]. This trend reflects a structural recognition by PE sponsors that there may be more alpha available in discounted public companies than in heavily contested private assets.

Specialist funds — those focused on specific sectors such as healthcare, technology, or industrials — appear to be outperforming their generalist peers in the current environment according to McKinsey's return data [A]. Sector depth enables more rigorous due diligence, more credible operational improvement theses, and better access to relevant management talent.

SECTION 08

The European Dimension

8.1 European Pe Market Activity

European buyout deal value increased 8% in 2025, underperforming North America (+29%) but outperforming Asia-Pacific (−3%). European fundraising declined 41% to $118 billion, though McKinsey notes this occurred largely because several major European funds had closed fundraising in 2023–2024 — a matter of timing rather than appetite. European buyout deal count declined 4% [A].

Two findings stand out for European investors. First, Bain's analysis shows that when public market equivalents are calculated, the ten-year return gap favouring PE over public markets is much more consistent in Europe than in the United States [H]. This reflects the more balanced sectoral composition of European public indices — less dominated by mega-cap technology companies — making PE's active ownership model more genuinely differentiated from passive public exposure in a European context. Second, Preqin data shows Europe's 2021 buyout vintage delivering a median net IRR of 14.5%, exceeding North America's 11.6% for the same vintage — an outperformance reflecting both valuation discipline and the more fragmented, operationally improvable nature of many mid-market European businesses [F].

8.2 Eltif 2.0 And The Democratisation Of Pe In Europe

The revised European Long-Term Investment Fund regulation (ELTIF 2.0), which came into force in 2024, has materially expanded the accessibility of private markets to European retail and high-net-worth investors. ELTIF 2.0 allows semi-liquid structures with periodic redemption windows, removes the previous €10,000 minimum investment requirement, and opens distribution to non-professional investors through regulated platforms.

The ELTIF structure is directly relevant to the family office context: it provides the primary vehicle through which European wealth channels can access institutional-quality private equity and private credit without the full ten-year illiquidity commitment of traditional closed-end funds. Fundraising into ELTIF-compliant vehicles is growing rapidly, though absolute volumes remain modest relative to institutional closed-end fundraising.

8.3 Regulatory And Macro Context

European PE operates against a specific regulatory and macroeconomic backdrop. The ECB raised its deposit rate to 2.25% at its meeting of 11 June 2026 (effective 17 June), its first increase since September 2023, citing persistent energy-price-driven inflation stemming from the conflict in the Middle East; ECB staff projections put euro area real GDP growth at 0.8% for 2026, creating a more challenging operating environment for portfolio companies with European revenue exposure.

The rearmament cycle — driven by the conflict in Eastern Europe and NATO defence spending targets — has created a new investment theme in defence-sector PE. This sits in tension with established ESG exclusion frameworks, particularly for funds marketed under SFDR Article 8 or 9 classifications, creating a regulatory and strategic challenge for European PE managers.

SECTION 09

Implications for Private Investors

The evidence assembled in this report supports several conclusions relevant to any private investor or family office evaluating a private markets allocation. These are analytical observations drawn from the data, not recommendations; individual circumstances differ, and professional advice should be sought before any investment decision.

First, the horizon question dominates. PE's documented premium over public markets — 200–400 basis points on a cash-flow-adjusted basis — appears only at ten-year horizons and beyond [D]. Shorter-horizon comparisons have been unfavourable for three consecutive years [A]. An allocation is therefore only coherent for capital that can genuinely remain invested through a full cycle, and evaluation frameworks that judge the allocation on three-to-five-year windows will mismeasure it in both directions.

Second, manager dispersion has become the central variable. With leverage and multiple expansion no longer carrying returns, the gap between top-quartile and median managers is now the largest determinant of outcomes — larger, on the evidence of Sections 2 and 6, than the decision to allocate at all. This elevates access and due diligence from secondary considerations to the core of the allocation problem.

Third, realised cash matters as much as reported returns. The divergence between IRR (which incorporates unrealised, mark-to-model valuations) and DPI (cash actually distributed) is at historic extremes [A]. A manager's distribution record across fund series is now among the most informative data points available to a prospective investor, and recent-vintage paper gains should be treated as unproven until realised.

Fourth, the cost of access varies materially by route. Gross-to-net differences of 300–600 basis points are typical, and semi-liquid or platform-intermediated access can carry total expense ratios above direct institutional fund access (Section 7.2). Since the entire long-run PE premium falls within this range, cost analysis is not peripheral — it can determine whether the premium survives at all for a given investor.

Fifth, liquidity terms deserve scrutiny equal to return expectations. Semi-liquid and ELTIF structures have widened access for European private investors, but their redemption mechanisms are designed to narrow in stressed conditions — precisely when liquidity is most valued. The structural liquidity gap documented in Section 4.3 suggests these mechanisms will be tested.

Finally, the European evidence merits specific attention from European investors. The PE-over-public premium is more consistent in Europe than in the United States [H], recent European vintages have outperformed their North American counterparts [F], and ELTIF 2.0 has made institutional-quality access practically available to European wealth channels for the first time. For European family offices, the case for examining private markets is at least as strong as the global data suggests — with the same caveats on horizon, manager selection, cost, and liquidity applying in full.

SECTION 10

Research Gaps and Forward Agenda

Serious analysis requires acknowledging the limits of the available evidence. The following represent the most significant analytical gaps in the publicly available PE market literature:

GAP	WHY IT MATTERS
Net-of-fee, net-of-cost return data	Most published IRR data is gross; fee drag of 300–600bp is material and not uniformly disclosed
European PE performance benchmarks	Cambridge Associates benchmarks are primarily US; European PME data is sparse and inconsistently constructed
DPI by vintage and strategy	Published performance data typically focuses on IRR; DPI disaggregated by vintage, strategy, and geography is not publicly available
Mid-market vs large-cap performance split	Aggregated buyout benchmarks blend small, mid, and mega-cap deals with very different return drivers
Operational value creation attribution	The 41% of returns attributed to revenue and margin improvement is not further disaggregated by sector, holding period, or GP characteristic
Continuation vehicle performance	GP-led secondaries are growing rapidly; their long-run return profile for incoming LPs is not yet established

Table 10.1. Author-identified research gaps, from analysis of the primary source literature.

These gaps frame the questions this research series will pursue in subsequent papers:

What is the net-of-all-costs return to PE across strategies, and how does this compare to public market equivalents on a consistent basis?

How does the PE illiquidity premium vary across market cycles, and which investor characteristics — size, access, vintage diversification — most reliably capture it?

To what extent is European PE alpha genuinely distinct from US PE alpha, and what structural features of European markets drive the difference?

What is the long-run return profile of continuation vehicles for incoming secondary LPs, and how does this compare with primary fund commitments of the same vintage?

How does AI-assisted operational value creation translate into realised fund returns, and which GP capabilities most reliably predict outperformance in the new era?

APPENDIX A

Sources and Methodology

A.1 Primary Sources

REF	PUBLISHER AND REPORT	YEAR / SAMPLE	KEY DATA DRAWN
[A]	McKinsey & Company — Global Private Markets Report 2026: Private Equity	Feb 2026; 300-LP survey	Deal value, IRRs, return decomposition, DPI, fundraising
[B]	Bain & Company — Global Private Equity Report 2026 (17th edition)	Feb 2026	Deal and exit activity, value creation, LP sentiment, '12 is the new 5' thesis
[C]	Fortune Business Insights — Private Equity Market Report	2026	AUM, market size, CAGR projections
[D]	Cambridge Associates — US PE/VC Benchmark Commentary, H1 2025	Jan 2026; 1,700 funds, $1.6tn	Net IRR benchmarks, mPME, vintage year, sector returns
[E]	Goldman Sachs — Family Office Investment Insights 2025	Sep 2025; n = 245	LP allocation intentions; PE allocation trends
[F]	Preqin — Private Markets Performance Data, Q4 2025	Mar 2026	Net IRR, TVPI, DPI benchmarks; quarterly performance data
[G]	PitchBook/NVCA — Venture Monitor, Q4 2025	Jan 2026	VC deal activity, AI concentration, IPO data, dry powder
[H]	Bain & Company — Global Private Equity Report 2025; Robert A. Stanger & Co. (as cited in [A])	Feb 2025	Long-run PME data; European vs US comparison; semi-liquid fundraising
[I]	Deloitte — Global Family Office Report	2024	Family office population growth
[J]	With Intelligence — Private Equity Outlook 2026	Jun 2026	Largest listed managers: PE AUM, fundraising, dry powder, realisations

Table A.1. Primary source summary. All sources are publicly available from the publishers' websites; Preqin [F] requires a free account for full access.

A.2 Methodological Notes

Attribution. All performance statistics cited in this report are author-paraphrased from the sources listed above. No tables, charts, or figures from any source publication are reproduced; all tables and exhibits are author-constructed. Exhibits visualise the same author-paraphrased data presented in the adjacent tables and text, using indicative midpoints where sources provide ranges.

IRR figures. Unless stated otherwise, IRR figures are net of management fees and carried interest where the source specifies this. McKinsey pooled IRR figures are gross unless labelled otherwise; Cambridge Associates benchmark figures are net of fund-level fees. Gross-to-net differences of 300–600 basis points are typical for buyout, and readers should apply appropriate fee adjustments when comparing gross and net figures.

PME methodology. Cambridge Associates' modified PME (mPME) replicates private fund cash flows in a public index, purchasing and selling the index according to the fund's cash flow schedule, allowing a like-for-like comparison of PE returns against public markets. All long-run public market comparisons in Sections 2 and 3 use mPME where available.

Currency. All figures are in US dollars unless otherwise noted. European figures are converted at prevailing exchange rates at the time of publication in the source documents.

APPENDIX B

Glossary

TERM	DEFINITION
Buyout	PE strategy involving acquisition of a controlling stake in an established company, typically using leverage. The most common institutional PE strategy.
Carried interest	The share of fund profits (typically 20%) paid to the GP after returning invested capital and clearing a hurdle rate (typically 8%). The primary GP incentive.
Continuation vehicle (CV)	A GP-led secondary transaction in which a fund moves an asset from an existing fund into a new vehicle, allowing some LPs to exit while others (and new LPs) roll in.
DPI	Distributions to Paid-In capital: the ratio of cash returned to LPs versus capital invested. A realised return metric; DPI of 1.0x means LPs have received back their invested capital.
Dry powder	Capital committed by LPs to a PE fund but not yet invested; available for deployment.
EBITDA	Earnings Before Interest, Tax, Depreciation, and Amortisation. The standard PE measure of operating profitability, used as the denominator in entry and exit multiples.
ELTIF 2.0	European Long-Term Investment Fund (revised regulation, in force 2024). A European fund structure enabling retail and professional investors to access private markets via semi-liquid structures.
GP	General Partner: the PE fund manager, responsible for investment decisions, operations, and fund management.
IRR	Internal Rate of Return: the annualised return that makes the net present value of all cash flows zero. The standard PE performance metric; sensitive to cash flow timing.
LP	Limited Partner: an investor in a PE fund, committing capital with limited liability and no role in fund management.
mPME	Modified Public Market Equivalent: Cambridge Associates' methodology for comparing PE performance to public markets by replicating fund cash flows in a public index.
MOIC	Multiple on Invested Capital: total value (realised plus unrealised) divided by invested capital. Less sensitive to holding period than IRR.
NAV lending	Borrowing against a fund's net asset value to provide liquidity to LPs or fund new investments without requiring asset sales.
PME	Public Market Equivalent: a family of methodologies comparing PE fund performance to a public market benchmark on a cash-flow-adjusted basis.
RVPI	Residual Value to Paid-In: unrealised value as a ratio of capital invested. Together with DPI, sums to TVPI.
Secondary	A transaction in which an LP sells its interest in a PE fund to a third party before the fund's end of life. Growing rapidly as an asset class in its own right.
Semi-liquid / evergreen	Fund structures offering periodic redemption windows rather than a fixed term. Enable broader distribution to wealth channels; require active liquidity management.
Take-private	A PE transaction acquiring a publicly listed company and delisting it. A growing trend as sponsors target discounted public assets.
TVPI	Total Value to Paid-In: the sum of DPI and RVPI; total fund value as a multiple of invested capital.
Vintage year	The year in which a PE fund makes its first investment. Used to group funds for performance comparison; critical because entry valuation and exit conditions vary by year.

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This report compiles and synthesises data from primary industry research sources published 2024–2026, including McKinsey & Company, Bain & Company, Cambridge Associates, Preqin, Goldman Sachs, PitchBook/NVCA, and others. All tables and exhibits are author-constructed from paraphrased and cited source data; bracketed references [A]–[J] correspond to the source list in Appendix A. This report is for general information only. It contains no investment advice and does not take account of any reader's individual circumstances. Document version 1.3, July 2026 — supersedes versions 1.0–1.2 (July 2026). v1.2 added author-constructed exhibits; v1.3 (this document) redesigns those exhibits for clarity with no changes to data or text. Corrections from v1.0 remain as recorded in the Erratum.
