Thirdpath

The State of Private Equity, Part 1:

Concentration Driving a Narrow Recovery

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1. Key Takeaways

Activity has rebounded, but remains concentrated. Deal and exit activity recovered meaningfully in 2025, though growth was driven disproportionately by North America and a narrow set of large transactions.

Liquidity remains the core constraint. Despite improved exit volumes, distributions remain historically low and holding periods continue to extend, limiting capital recycling.

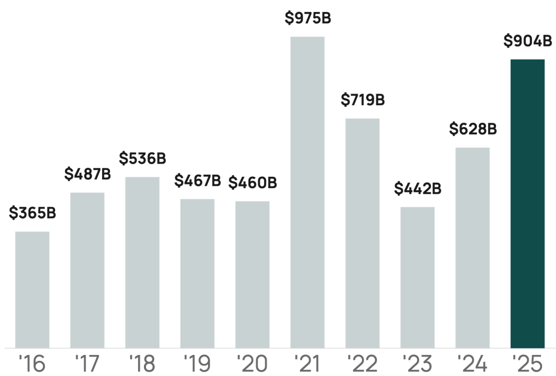
Capital is abundant, but increasingly concentrated. Elevated dry powder and fundraising concentration among top managers are creating a more competitive environment.

Value creation is shifting toward operations. Returns are increasingly dependent on operational improvement rather than leverage or multiple expansion.

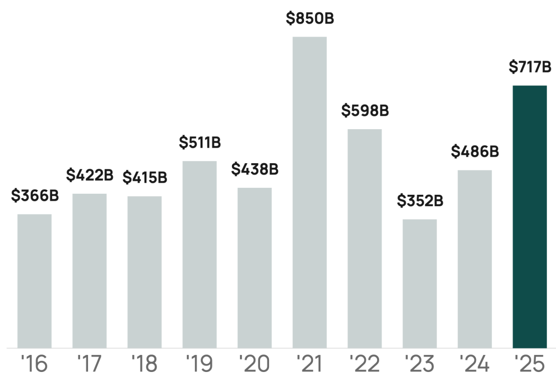
2. Deal Environment: Recovery in Deal Making

Private equity concluded 2025 with a decisive rebound after three years of subdued activity, posting its second-strongest year on record for both deal value and exits. Global buyout deal value reached $904 billion, up 44% year-over-year, while exit value climbed to $717 billion, up 47% year-over-year.

Global buyout deal value



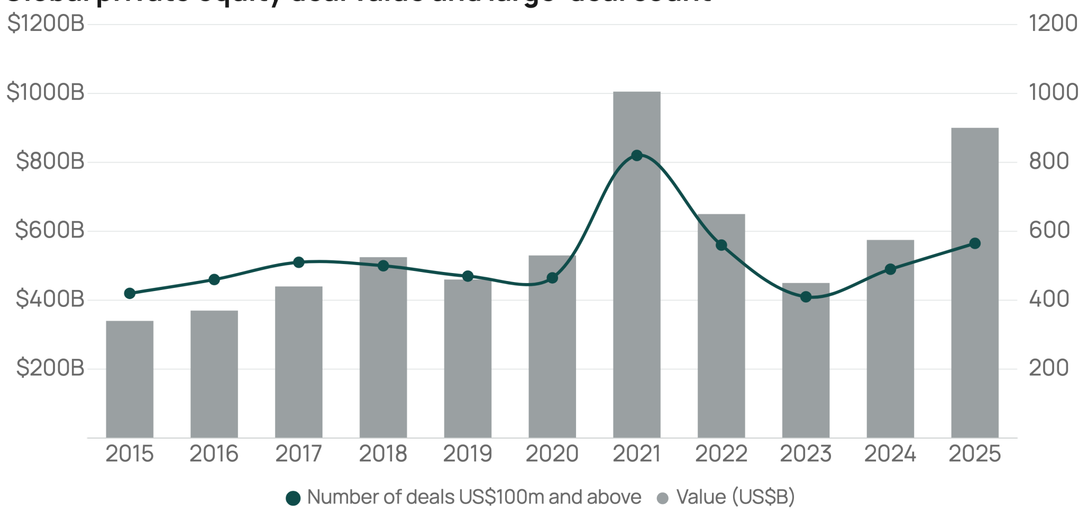
Global buyout-backed exit value



Source: Bain / Dealogic[1]

We believe the recovery was powered by interest-rate easing, with Fed funds cuts lowering middle-market term loan costs by approximately three percentage points from peak levels, a corporate M&A boom, and a narrow wave of megadeals. Notably, 13 large transactions (each $10 billion or more) accounted for a significant portion of total deal value growth.

Global private equity deal value and large-deal count

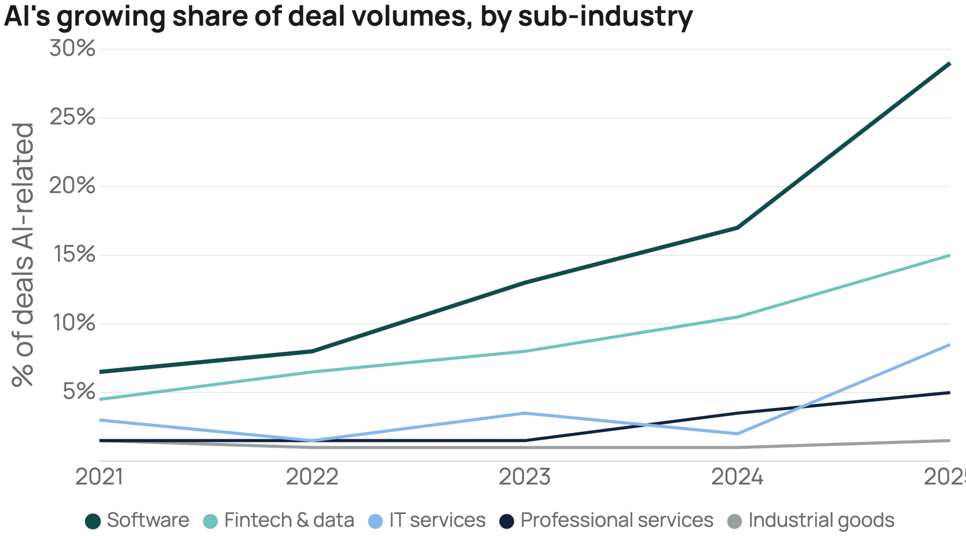


Source: Bain / Dealogic[1]

This momentum was distinctly K-shaped and regionally concentrated. North America drove 80% of global deal value growth, with the U.S. alone seeing PE-related activity totaling $536 billion, up 54%,

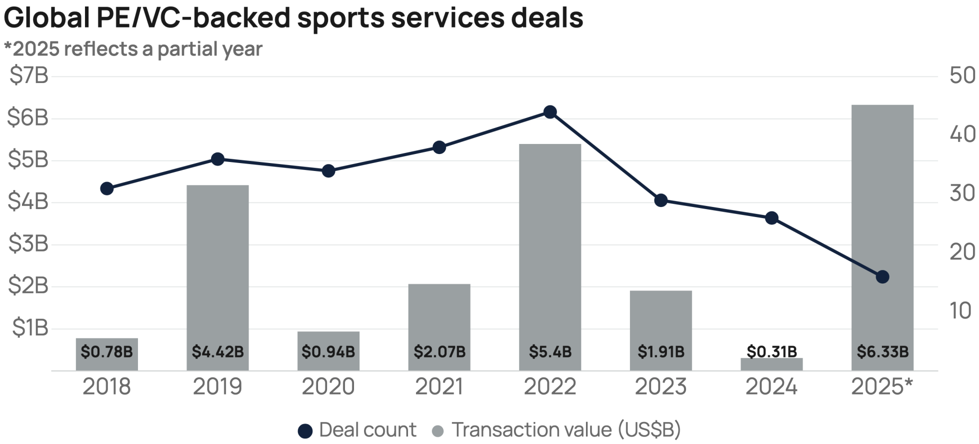
[1] Bain & Company, Global Private Equity Report 2026 (Dealogic data).

across 1,484 transactions. Within that, medtech reached a decade-high of $92.8 billion in deal value, while AI-linked transactions represented over 20% of U.S. megadeals and nearly one in three software deals, at 29%.



Source: With Intelligence / S&P[2]

From a sector perspective, strong deal volumes were seen in both technology and consumer, supported by asset-light business models, recurring revenues, and relative resilience to macro pressures. We also saw a notable trend within private equity: sports emerged as a new segment, with transaction value reaching an eight-year high.



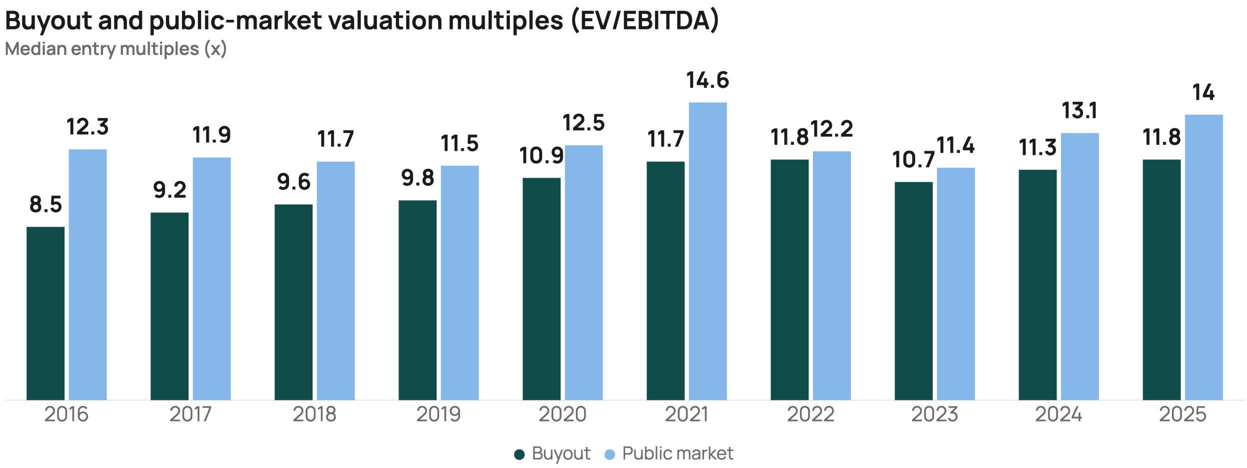
Source: With Intelligence / S&P[2]

Public-to-private activity surged 43% globally and 72% in North America, reflecting discounted public-market valuations, with large take-privates such as Electronic Arts and Walgreens Boots Alliance exemplifying the trend. More broadly, we believe private equity may play a larger role in take-private activity, with companies remaining private for longer.

[2] With Intelligence / S&P Global.

3. Industry Dynamics: Dry Powder and Rising Valuations

Industry dynamics continue to be defined by elevated levels of dry powder and rising entry valuations. Over 50% of global dry powder is more than two years old, increasing deployment pressure; U.S. dry powder exceeds $1 trillion; and the "Big Six" managers hold approximately $211 billion of that capital. In 2025, median purchase multiples climbed to 11.8x EV/EBITDA, up from 11.3x, signaling a more expensive entry environment in which managers need to drive value through operations rather than leverage or multiple expansion. This increasingly shifts value creation toward operational improvement, EBITDA growth, and manager execution.

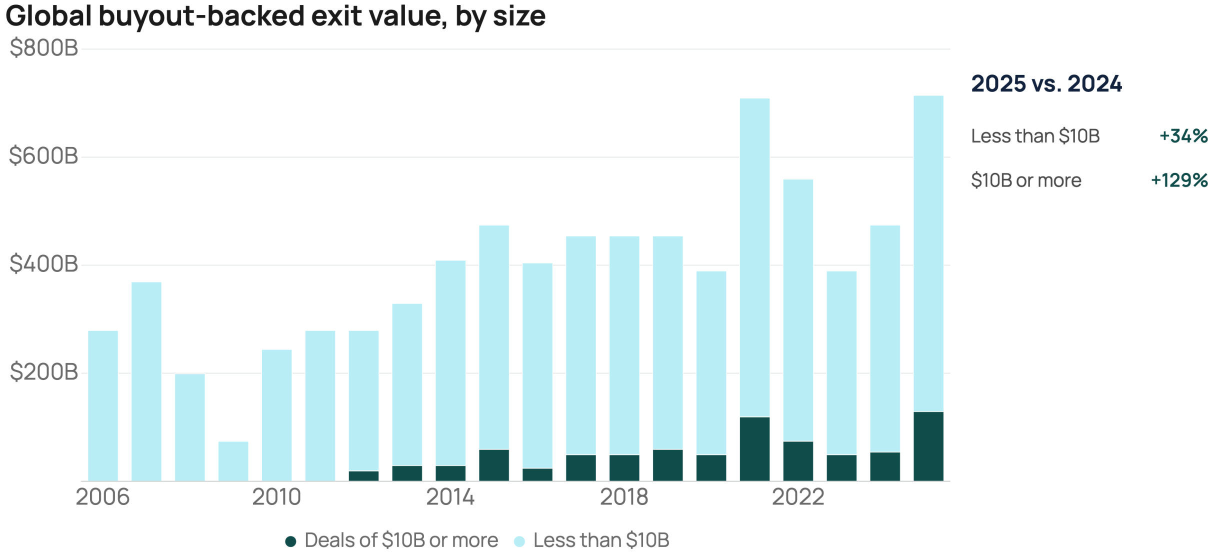


Source: McKinsey[3]

[3] McKinsey & Company, Global Private Markets Report 2026.

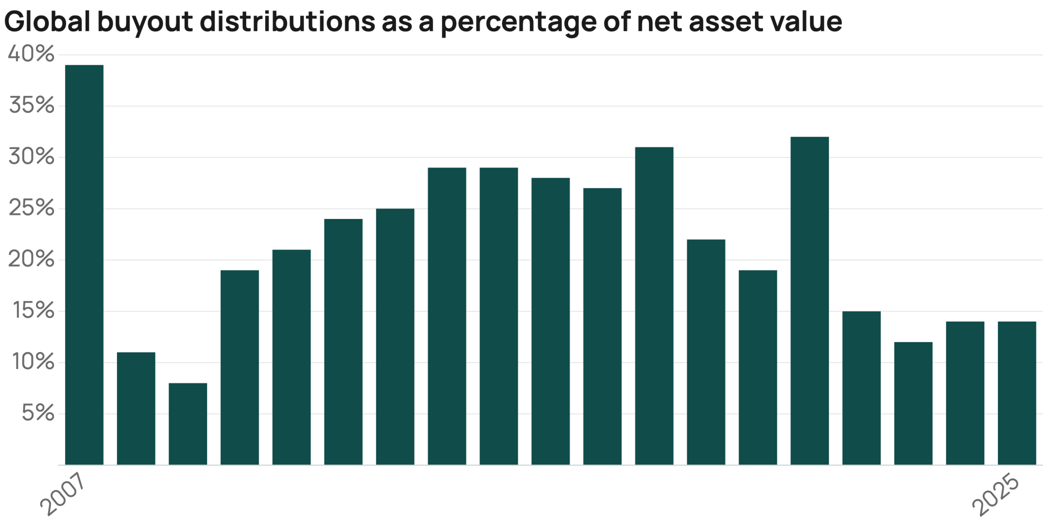
4. Exit Activity: Total Exits Increased, but Distribution Still Limited

Exits mirrored the rebound in deal volume, with global exit value reaching $717 billion, up 47%, and U.S. exits totaling $358 billion. Trade sales remained the primary exit channel at $481 billion, followed by secondaries at $217 billion, a notable increase from prior years.



Source: Bain / Dealogic[4]

Yet liquidity remains constrained. Distributions have remained below 15% of NAV for the fourth consecutive year, over 50% of global buyout inventory has been held for four or more years, and continuation vehicles and NAV lending have helped support DPI but do not fully offset the slowdown in exits.



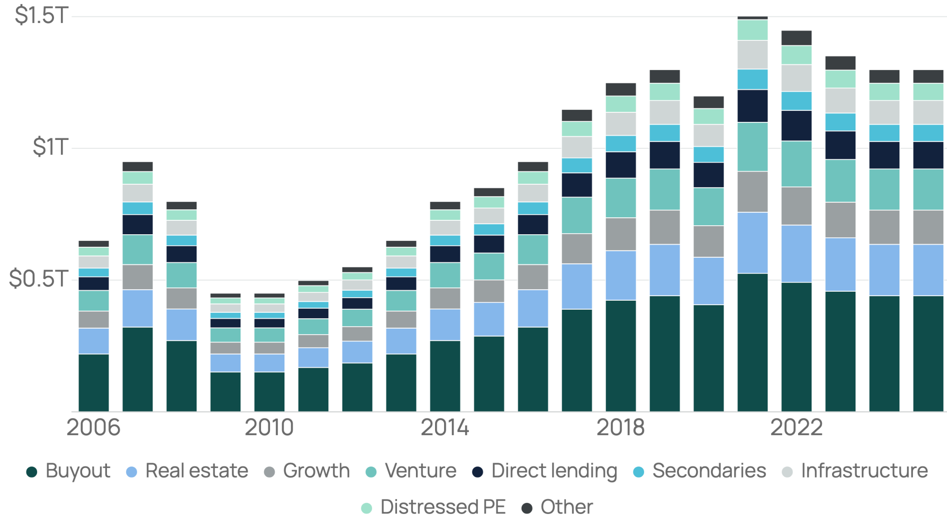
Source: Bain / MSCI[5]

[4] Bain & Company, Global Private Equity Report 2026 (Dealogic data).
[5] Bain & Company, Global Private Equity Report 2026 (MSCI data).

5. Fundraising: Flat at $1.3tn, with Growth in Infrastructure and Secondaries

Fundraising leveled off at approximately $1.3 trillion for private capital overall, remaining flat year-over-year. Growth in infrastructure, up 58%, and secondaries, up 11%, offset a decline in buyout fundraising, down 16% to $395 billion. On a regional basis, North America fundraising rose 8% to $432 billion, while Europe declined 41% to $118 billion.

Global private capital raised, by fund type



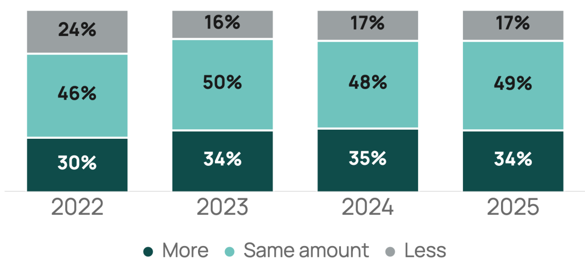
2025 vs. 2024	
Infrastructure	+58%
Distressed PE	+40%
Other	+19%
Real estate	+19%
Secondaries	+11%
Growth	0%
Buyout	-16%
Venture	-21%
Direct lending	-28%
Total	0%

Source: Bain / Preqin[6]

Similar to hedge funds, private equity commitments remain highly concentrated, with approximately 46% of total capital raised going to the top 10 managers. Fundraising overall remains below 2022-2023 peaks and continues to be challenging for first-time funds and mid-sized managers without strong track records, which we believe is likely contributing to further industry consolidation. LPs, however, remain committed, with most intending to maintain or increase allocations to private equity.

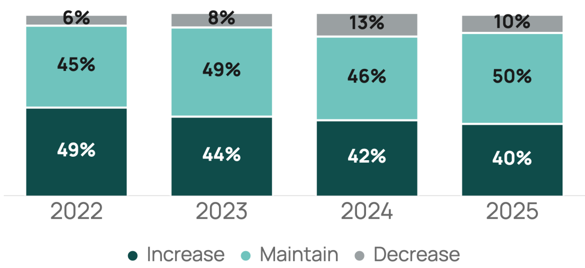
Short-term investor intentions

How much capital will you commit in the next 12 months?



Long-term investor intentions

How will you allocate to private equity over the longer term?



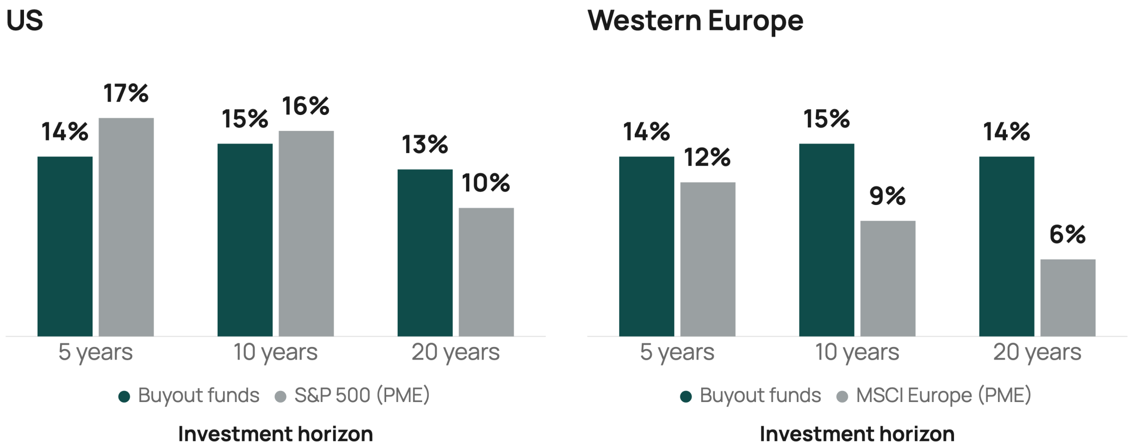
Source: Bain / Preqin[7]

[6] Bain & Company, Global Private Equity Report 2026 (Preqin data).
[7] Bain & Company, Global Private Equity Report 2026 (Preqin Investor Outlook Surveys 2022–2025).

6. Returns: Divergence of Performance

Performance continues to tell a more nuanced story. Strong public-market returns have narrowed the historical 10-year outperformance of private equity relative to the S&P, though top-quartile funds still deliver IRRs above 20%.

End-to-end pooled net IRR as of Q3 2025



Source: Bain / MSCI[8]

Historically, multiple expansion and cheap debt accounted for a significant portion of returns. Without those tailwinds, managers must increasingly rely on EBITDA growth and operational improvement to drive performance. Forward-looking estimates suggest median private equity returns of approximately 14% net of fees, supported by dispersion, control positions, and operational value creation.

KKR GMAA expected returns, %

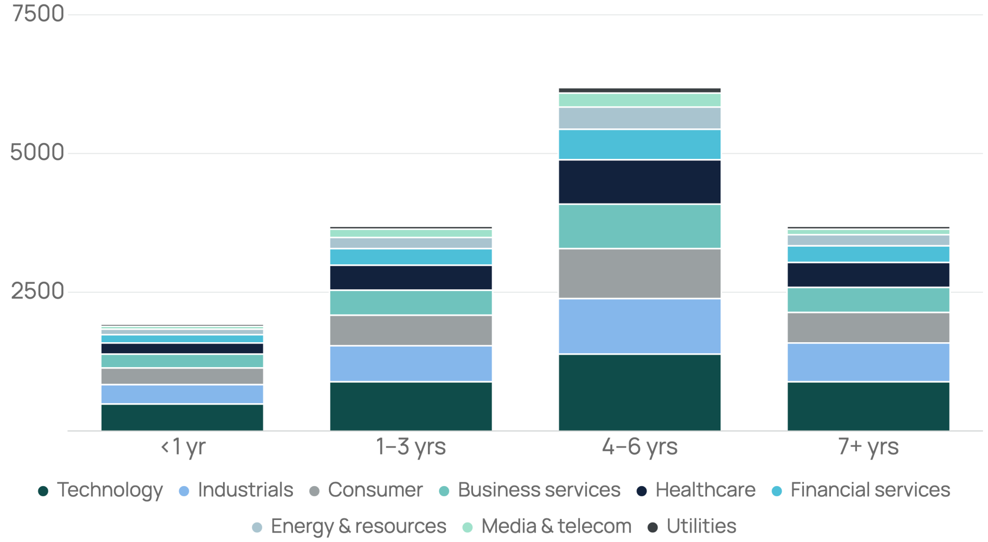
Source: KKR[9]

[8] Bain & Company, Global Private Equity Report 2026 (MSCI data).
[9] KKR, Insights Vol. 16.3, "The Divergence Conundrum: Mid-Year Outlook for 2026," June 2026.

7. Summary & Outlook

Overall, 2025 private equity activity showed strong headline momentum, supported by increased deal and exit activity. However, this was offset by extended holding periods, concentration in megadeals and top managers, and continued liquidity constraints.

Active portfolio companies by holding period and industry group



Source: With Intelligence / S&P[10]

As private equity portfolios become more mature, sellers will have to generate liquidity through exits, albeit likely at lower-than-expected exit multiples and valuations. With potentially lower exit valuations, we are optimistic that 2025 vintages may outperform the 2021-2024 vintages in gross IRR, aided by potentially favorable entry pricing (as buyers) and declining rates.

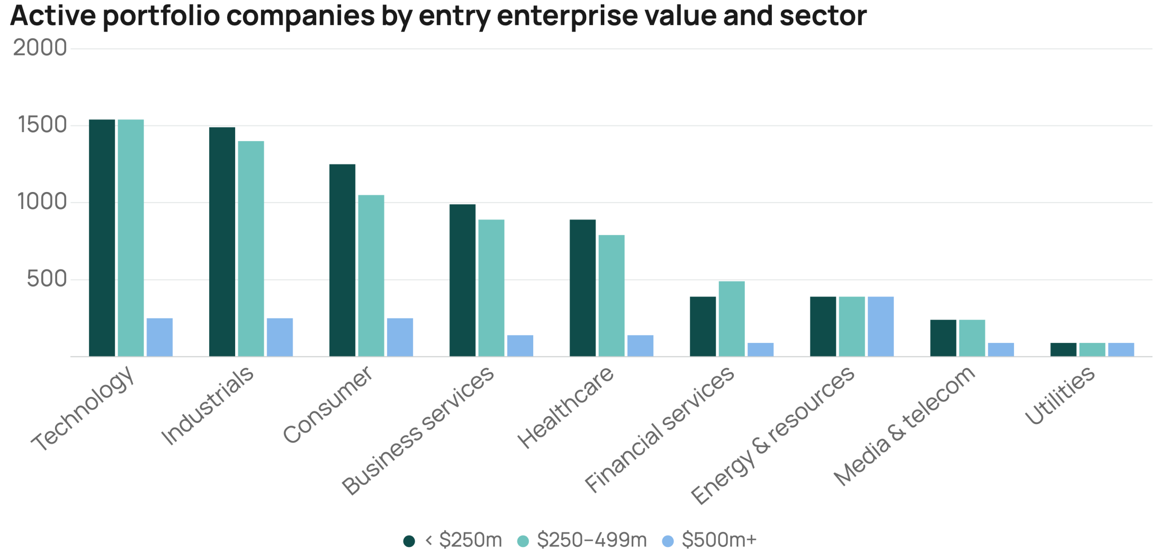
We believe 2026 may mark the beginning of a more durable recovery. GPs entered the year with optimism, which may have been tempered by exit backlog, AI fears, and geopolitical uncertainty. On the positive side, we believe lower rates and booming corporate M&A, as evidenced by the recent Netflix / Paramount bidding war for Warner, should facilitate deal making and exits.

Overall, we believe private equity managers with differentiated and patient investment strategies, experience and knowledge across macroeconomic cycles, and the ability to drive operational improvement would have an edge in this maturing industry.

[10] With Intelligence / S&P Global.

Appendix

The chart below details active buyout-backed portfolio companies by entry enterprise value and sector, underscoring the concentration of aging inventory in technology, industrials, and consumer.



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Sources

1. Bain & Company, Global Private Equity Report 2026.

2. McKinsey & Company, Global Private Markets Report 2026.

3. KKR, Insights Vol. 16.3, "The Divergence Conundrum: Mid-Year Outlook for 2026," June 2026.

4. Preqin, Investor Outlook Survey (2022–2025).

5. PitchBook, US PE Breakdown, Q1 2026.

6. With Intelligence / S&P Global.

7. EY, Private Equity Pulse Survey.

8. PwC.

9. S&P Global.

10. Dealogic.

11. MSCI.

12. Apollo.

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