Thirdpath

The State of Private Equity, Part 2A:

Challenges and Opportunities for GPs

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The Dawn of the New Era: "12 Is the New 5"

There is a particular kind of quiet that can be a little unsettling.

Credit spreads are that quiet right now. They compressed back to where they sat in 2021, back when money was still nearly free and every buyout looked like a good idea in hindsight before it had even closed. Walk onto a Credit trading floor today and you'd be forgiven for thinking the good times are back.

But are they? Perhaps not. The cost of debt itself did not come down; only the premium for risk did. And underneath that premium sits a base rate that has quietly rewritten the rules of the entire industry.

A decade ago, a GP could buy a company, grow its earnings by a modest 5% a year, layer on cheap leverage, and walk away five years later with two and a half times their money. It was, in the best sense, an easy trade.

That trade is gone. The same outcome today requires something closer to 12% annual growth, more than double what it was, because the leverage that used to do the heavy lifting has shrunk, and the money that remains costs more.

It's now a common phrase in the industry: 12 is the new 5. It is the kind of line that sounds clever until you realize it is describing the ground shifting under an entire asset class.

This is a story about GPs adapting and relearning how money gets made. It is about portfolios quietly aging into what the industry now calls zombie funds: companies bought years ago, still unsold, still waiting for a market that isn't coming back the way it left. It is about fundraising consolidating into fewer, larger hands, and about GPs having to reach further into their own pockets to prove conviction.

But it is also a story about where the money still gets made: in operating companies rather than financial engineering, in the return of platform deals as credit reopens, in the superior return specialists deliver, in the complexity of take-privates and carve-outs that most buyers won't touch, and in a private wealth channel just beginning to notice this industry exists.

The old playbook stopped working. But there's a new one replacing it.

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SECTION I: CHALLENGES FOR GPs

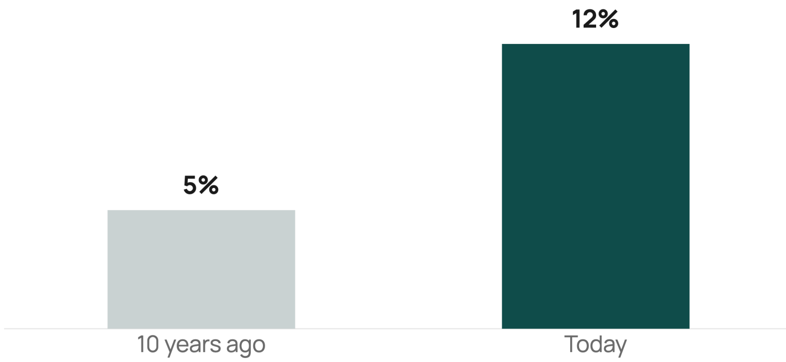
1. Return Math Gets Harder: "12 Is the New 5"

A decade ago, the math behind a typical buyout was forgiving.

In 2015, a deal needed only about 5% annual EBITDA growth to generate a 2.5x MOIC over a five-year hold, thanks to cheap leverage. Back then, ~50% of purchase price was financed at 6–7% interest rates, and deal multiples climbed steadily on their own.

That math has changed dramatically: borrowing costs are now in the 8%–9% range and leverage closer to 30%–40%. Generating the same target return requires roughly 12% annual EBITDA growth, more than double what was needed a decade ago, or as Bain puts it, "12 is the new 5."[1]

Annual EBITDA growth required for a target 20% IRR / 2.5x MOIC over a 5-year hold



Source: Bain[1]

The purchase-price environment isn't giving GPs any relief, either. The median PE entry multiple rose from 11.3x EBITDA in 2024 to 11.8x in 2025,[2] and almost 80% of GPs expect multiples to hold roughly flat in 2026.[1] With neither cheap debt nor multiple expansion available to carry a deal, GPs are left with a narrower path to their target returns, one that runs almost entirely through the operating performance of the businesses they buy. That shift is evident in how deals get approved, not only in how they are priced: investment committees increasingly demand a defensible view of the downside before a growth story is even entertained. Deal teams need to segment financial performance into distinct pre-pandemic, 2021–22 surge, and 2023–25 normalized periods to establish a credible earnings baseline, rather than taking recent results at face value.

[1] Bain & Company, Global Private Equity Report 2026.
[2] McKinsey & Company, Global Private Markets Report 2026.

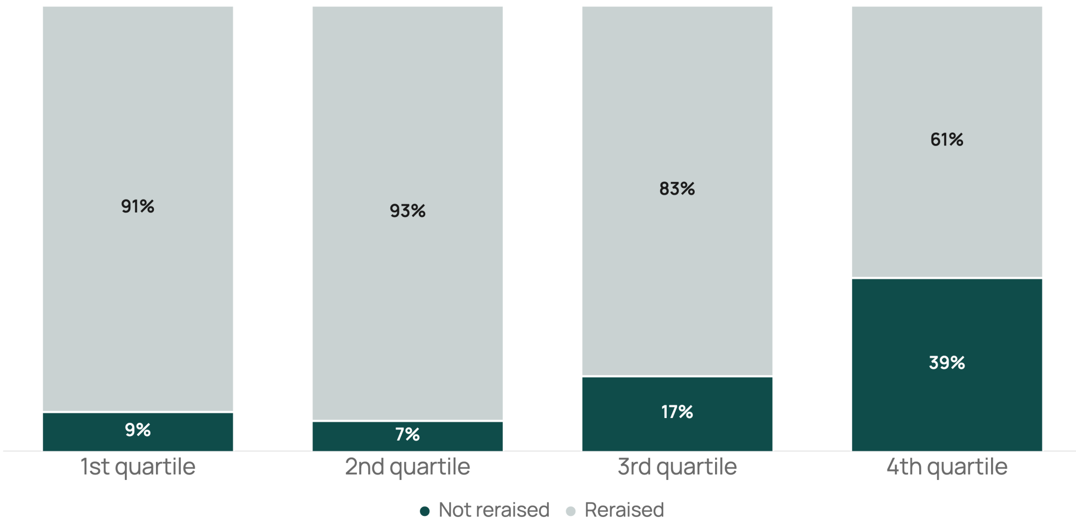
2. Portfolios are Stuck: The Rise of Zombie Funds

Persistently low distributions are starting to reshape the competitive landscape among GPs.

In normal periods, roughly 15% of fund series fail to raise a successor fund; that rate rose to about 20% during the 2008–09 financial crisis, when failure was concentrated among third- and fourth-quartile DPI performers.[3]

Today, distributions as a share of NAV have held below 15% for four consecutive years, a new record, and only about 70% of the fund series expected to re-raise in the current cycle have done so, leaving a meaningful tail exposed if liquidity doesn't improve soon.[3]

Share of 2003–08 closed fund series, by DPI performance quartile

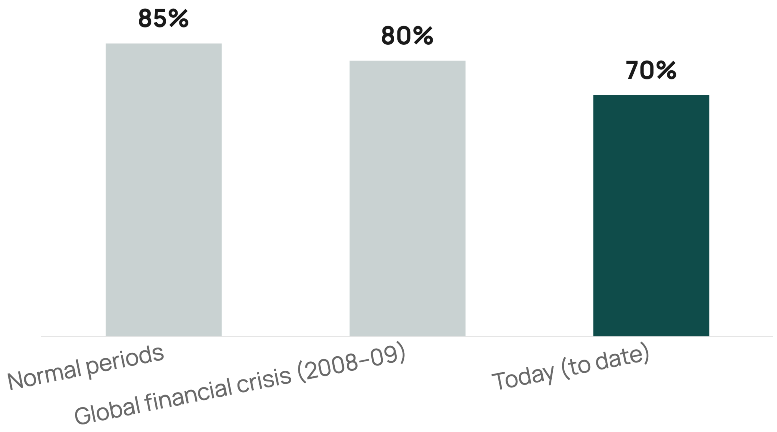


Source: Bain[3]

The strain is concentrated among GPs sitting on the oldest, least liquid portfolios. More than 16,000 companies globally have now been held for more than four years, ~52% of total buyout-backed inventory, not only the highest share on record, but also ten percentage points above the five-year average.[4] For funds carrying an aging book, raising a successor fund on the old playbook is becoming far harder.

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

Share of expected fund series that successfully reraised



Source: McKinsey[5]

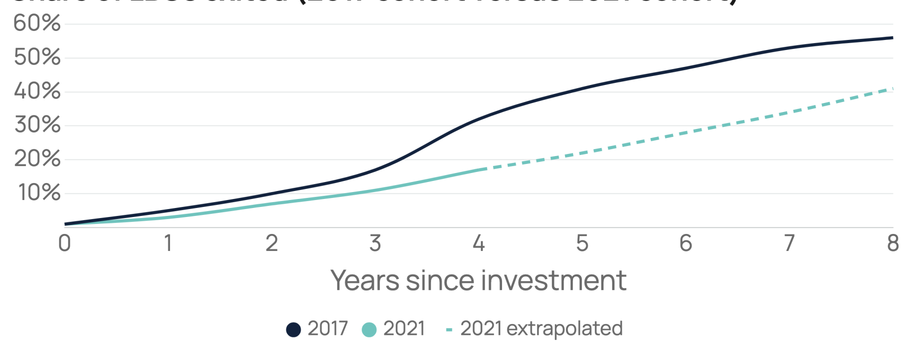
Deals in the 2021–22 vintage in particular were underwritten with peak multiples, unusually low base rates, and generous documentation. These deals were "structured for a world that no longer exists," and are now facing extra scrutiny as refinancing markets grow more selective.[6]

Simply put, the market is working through its 2021–22-vintage excesses.

PitchBook's cohort analysis puts numbers to this pattern. Just 16.6% of the 2021 vintage had exited after four years, compared with 32.3% of the 2017 vintage after four years. Extrapolating the current pace, only about 50% of the 2021 vintage would be wound down by year ten.[7]

The timing compounds another problem: fund IRRs tend to decline after year seven of ownership and TVPI tends to flatten after year eight. That means the longer these vintages sit unexited, the more of their return potential is likely already behind them, not ahead.[8]

Share of LBOs exited (2017 cohort versus 2021 cohort)



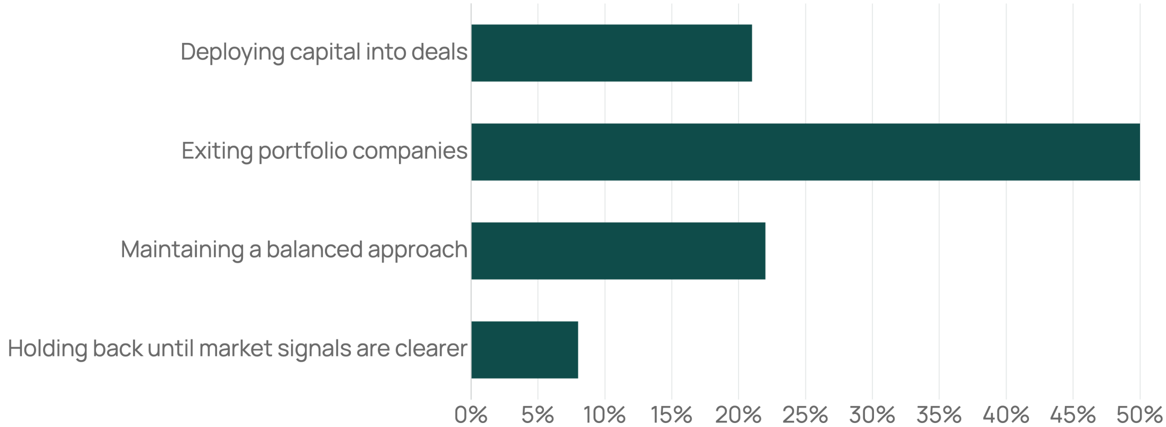
Source: PitchBook[7]

GPs themselves confirm where the pressure is concentrated. In PitchBook's inaugural US Private Equity Survey, half of respondents named exiting portfolio companies as their top priority for the next

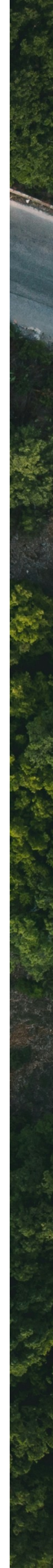
[5] McKinsey & Company, Global Private Markets Report 2026.
[6] KKR, Insights Vol. 16.3, "The Divergence Conundrum: Mid-Year Outlook for 2026," June 2026.
[7] PitchBook, 2026 US Private Equity Outlook.
[8] SEB Manager Selection, 2026 Private Markets Report, April 27, 2026 (Bain & Company, Global Private Equity Report).

six months, a priority that ranks far ahead of deploying capital, which shows just how much of the industry's attention is now consumed by clearing the backlog rather than adding to it.[9]

Looking ahead six months, which activity will PE investors emphasize most?



Source: PitchBook[9]



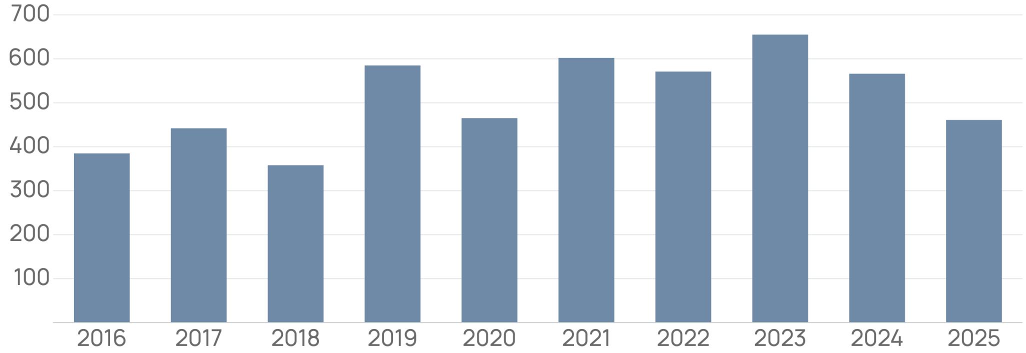
[9] PitchBook, 2026 US Private Equity Outlook.

3. Fundraising Concentration: Bigger Funds, Fewer Winners

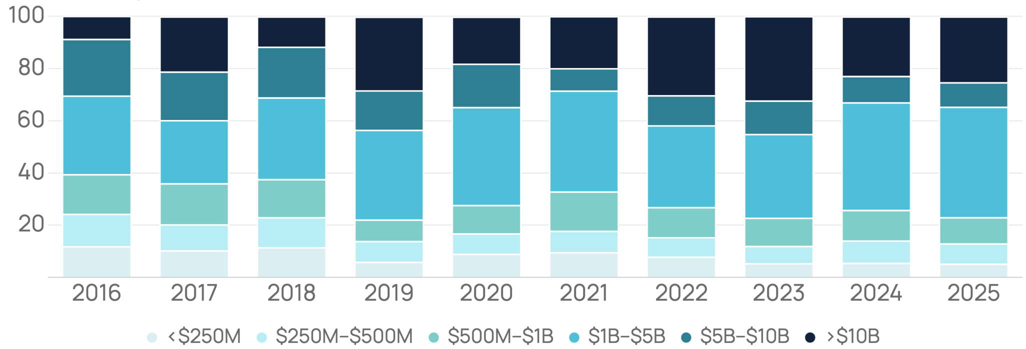
Scale is compounding on itself in fundraising.

Funds smaller than $500 million raised just 13% of global buyout and growth fundraising in 2025 ($60 billion), down from 17% in 2020 ($79 billion), while funds larger than $5 billion grew their share from 28% in 2021 to 35% in 2025.[10] Over the same period, the number of new PE firms has declined roughly 18% per year globally, first-time buyout fundraisers have fallen 15% annually, and the number of effectively inactive PE firms reached a record 304 in 2025.[10]

Global Buyout and Growth Fundraising
Total value, $ billion



Global Buyout and Growth Fundraising
Value share, by fund size, % of total

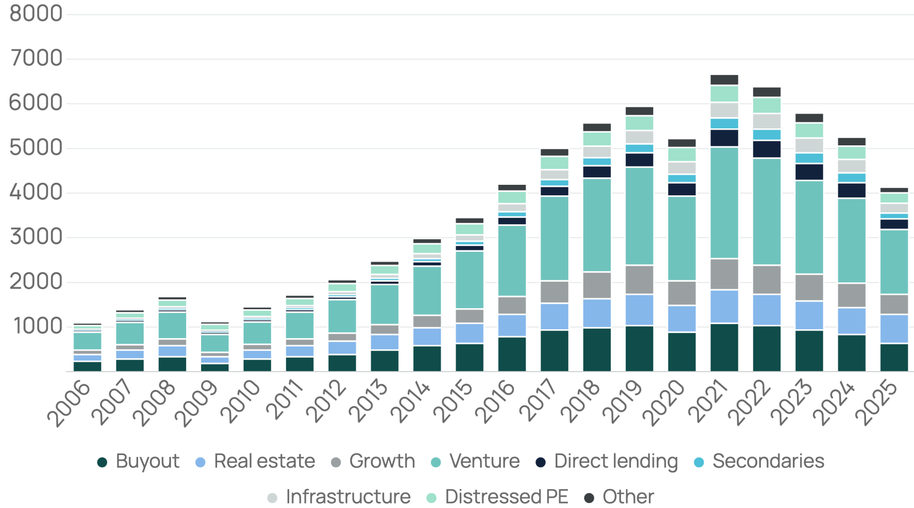


Source: McKinsey[10]

Bain's data tells a consistent story from a different angle: global buyout fundraising fell 16% in 2025, and the number of funds closed dropped for a fourth consecutive year across almost every strategy.[11] The funds that still closed quickly, however, tended to be established managers with a track record of both strong returns and consistent distributions, reinforcing the industry's concentration toward its most proven names.

[10] McKinsey & Company, Global Private Markets Report 2026.
[11] Bain & Company, Global Private Equity Report 2026.

Number of funds closed globally, by fund type



2025 vs. 2024	
Other	-34%
Distressed PE	-23%
Infrastructure	-27%
Secondaries	-41%
Direct lending	-31%
Venture	-23%
Growth	-25%
Real estate	+11%
Buyout	-23%
Total	**-18%**

Average buyout fund size ($M)

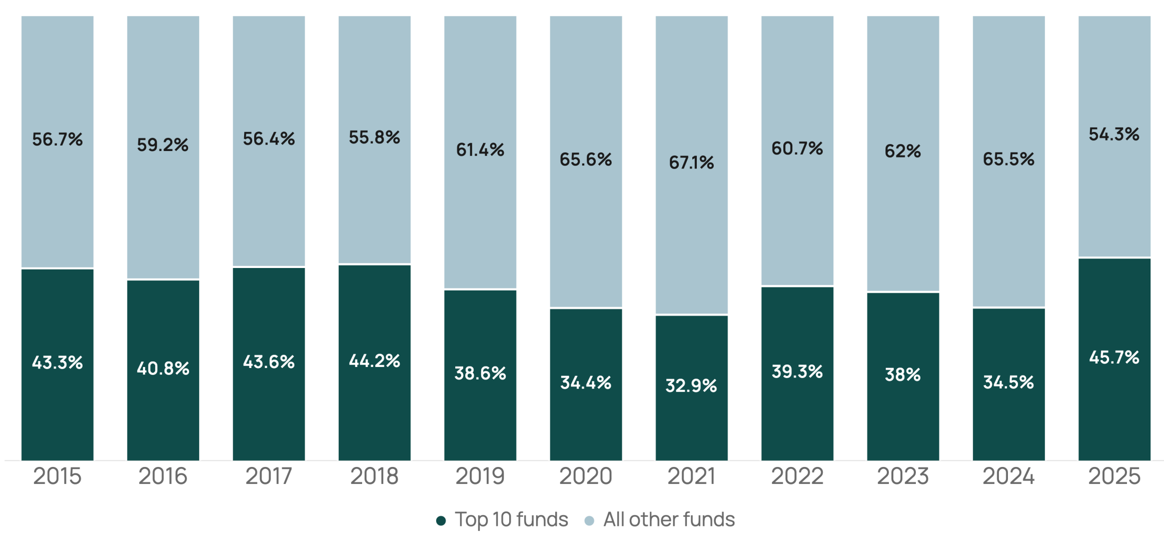
2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
$825	$862	$951	$672	$475	$467	$519	$777	$651	$571

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
$654	$672	$711	$744	$595	$469	$601	$883	$704	$733

Source: Bain[12]

PitchBook's fund-level data shows just how concentrated 2025 became. The 10 largest US funds captured 45.7% of all capital raised in 2025, a record high, versus a ten-year average of 39% and 34.5% in 2024.[13]

Share of capital concentration by top 10 and all other funds



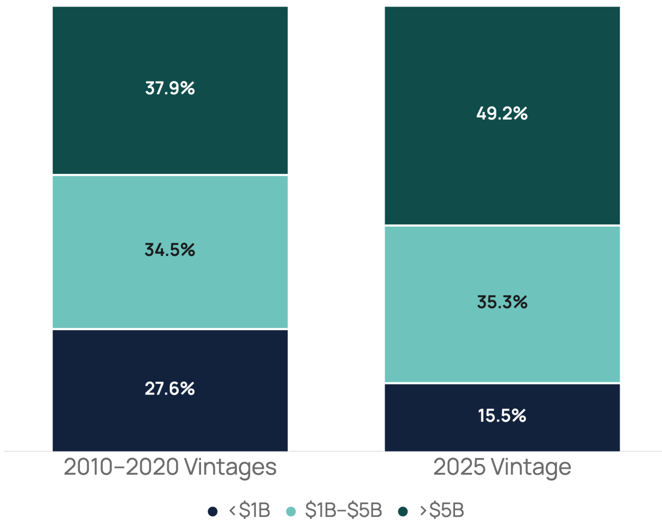
Source: PitchBook[13]

[12] Bain & Company, Global Private Equity Report 2026.
[13] PitchBook, 2026 US Private Equity Outlook.

In that context, LPs increasingly prefer experienced managers. According to SEB, the share of capital going to experienced managers has risen from around 75% a decade ago to ~90% today, while the share of capital raised by funds of $1 billion or more has grown from 62% in 2015 to 77% currently.[14]

ORIX's fundraising data shows the same divide for smaller managers. Funds under $1 billion captured just 15.5% of all private equity capital raised in 2025, down from 27.6% across the 2010–2020 vintages, while funds over $5 billion grew their share from 37.9% to 49.2% over the same period.[15]

Private Equity Capital Raised by Fund Size (%)



Source: ORIX[15]

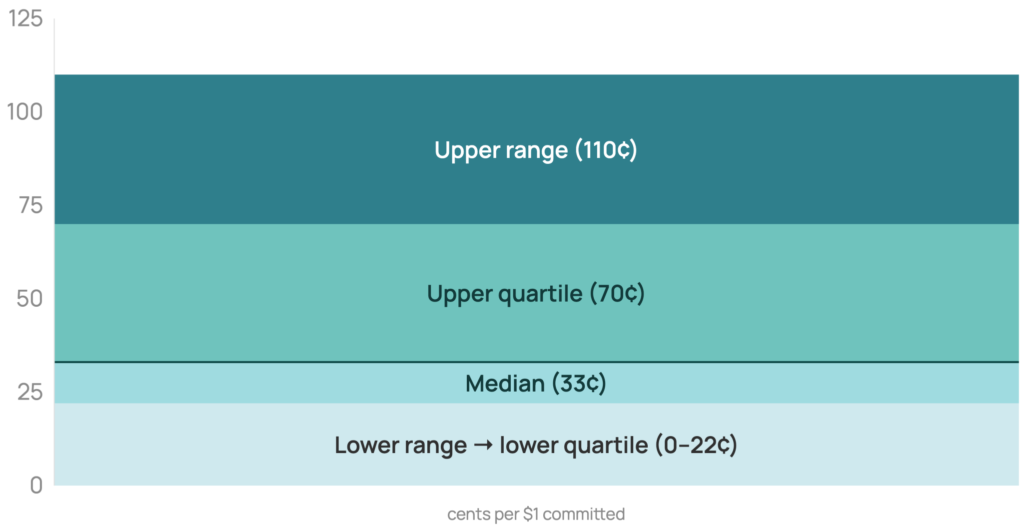
[14] SEB Manager Selection, 2026 Private Markets Report, April 27, 2026.
[15] ORIX, "NAV and GP Financing in a Shifting Private Equity Landscape: 2025 Recap I 2026 Outlook," April 2026.

4. The Squeeze on GP Economics: Fees, GP Commitments, and the Capital to Fund Them

Competition for capital has steadily eroded the economics of running a buyout fund.

The average buyout management fee fell to 1.6% in 2025, down 20% from the industry's traditional 2.0% level, as larger funds routinely concede on headline fees to win commitments.[16] Layered on top of declining fees is a second, less visible drag: growing LP demand for no-fee co-investment. The 2026 StepStone/Bain Private Equity GP Survey reported GPs offering a median of 33 cents of co-investment per dollar of fee-bearing capital, a discount that translates into a roughly 25% reduction in effective revenue.[16]

Distribution of offered co-investment capital per $1 of pooled fund commitment



Source: StepStone/Bain[16]

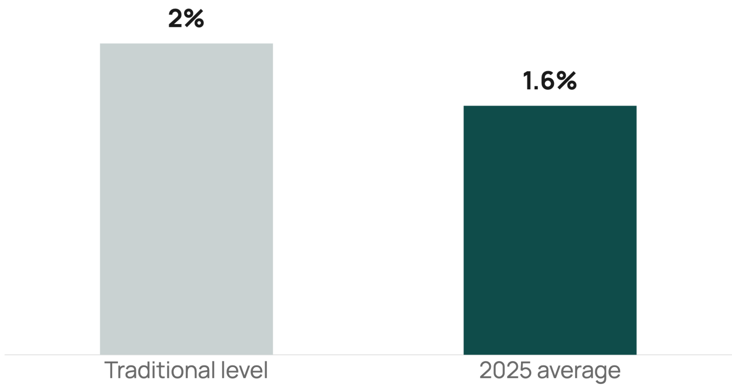
The mechanics of that squeeze play out concretely at the fund level.

ORIX GP Solutions offered a case study: a middle-market GP closed its fourth fund at $400 million on traditional 2.0% fee economics, only for anchor LPs backing Fund V to condition their participation on $132 million of no-fee co-investment, in line with the 33-cents-per-dollar norm cited above. The result was a negotiated fee rate of 1.61% and annual fee income of $4.3 million, down from an illustrative $7.2 million under the old terms, even as the firm's fixed costs stayed the same.[17] Management-company financing, structured against contracted fee revenue and unrealized carry, allowed the GP to maintain its investment team and add its first dedicated operating partner through the Fund V raise, the kind of capability LPs increasingly treat as a prerequisite for the next fund, but one the compressed fee base could not have funded on its own.[17]

[16] Bain & Company, Global Private Equity Report 2026 (Preqin; 2026 StepStone/Bain Private Equity GP Survey; ILPA LP Sentiment Survey 2025–26 Edition).
[17] ORIX, "NAV and GP Financing in a Shifting Private Equity Landscape: 2025 Recap I 2026 Outlook," April 2026.

The pressure shows no sign of easing. More than half of LPs now say they hold more negotiating leverage over GPs than they did twelve months earlier.[18] That shift is evident in a second, equally consequential place: how much of their own capital GPs are being asked to commit.

Average buyout fund management fee

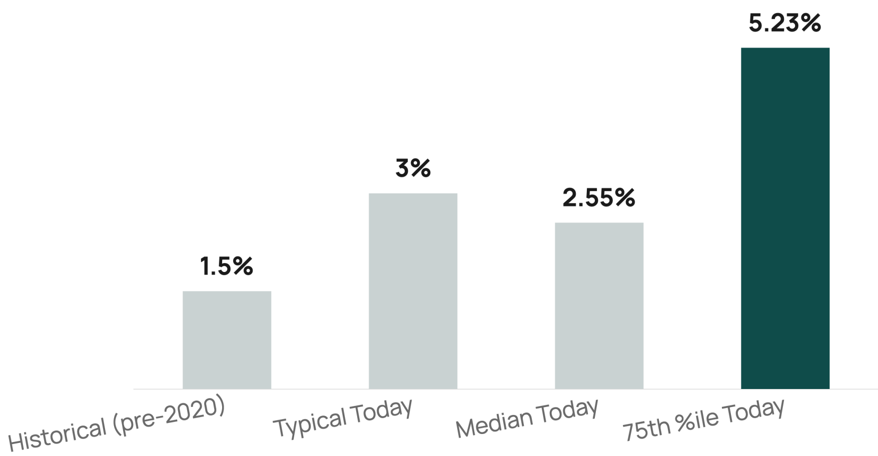


Source: Bain[18]

LP expectations around GP commitments have risen structurally, not just cyclically. Historically, GP commitments hovered around 1–2% of fund size; today, 2–4% is typical, with the median PE fund manager GP commitment now standing at 2.55% and the 75th percentile reaching 5.23%.[19]

Continuation vehicles, though popular as a liquidity tool, have added a further, largely unanticipated layer: GPs rolling positions into a CV typically forgo the liquidity event a traditional sale would provide, forcing them to fund a growing GP commitment without the distribution that would normally have paid for it.[19] With carried interest from prior vintages still largely unrealized and management fee income under pressure, roughly a third of GPs surveyed say they don't know where the capital for their next commitment is coming from.[19]

GP Commitment Expectations Have Risen Structurally



Source: ORIX[19]

[18] Bain & Company, Global Private Equity Report 2026 (Preqin; 2026 StepStone/Bain Private Equity GP Survey; ILPA LP Sentiment Survey 2025–26 Edition).

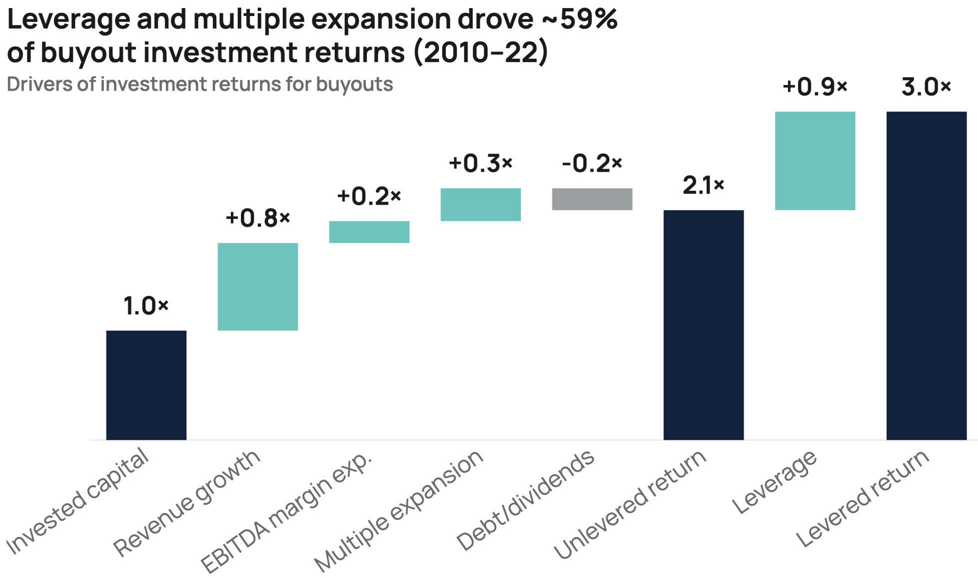
[19] ORIX, "NAV and GP Financing in a Shifting Private Equity Landscape: 2025 Recap I 2026 Outlook," April 2026.

SECTION II: OPPORTUNITIES FOR GPs

1. Leverage's Retreat: Operational Value Creation Takes Over

The traditional drivers of private equity returns (low purchase prices, multiple expansion, and cheap leverage) are largely spent.

McKinsey/StepStone analysis showed that leverage and multiple expansion together accounted for 59% of buyout investment returns for deals done between 2010 and 2022, with the remaining 41% coming from revenue growth and EBITDA margin expansion.[20]

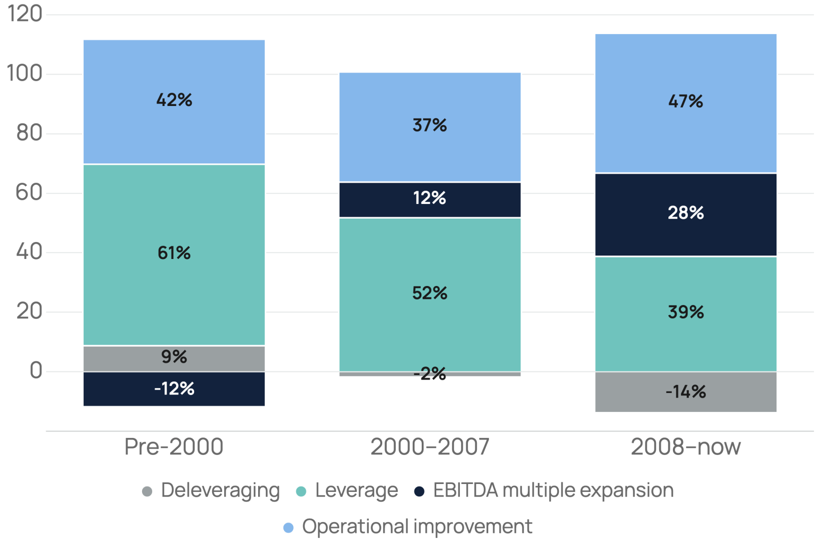


Source: McKinsey[20]

KKR's analysis of value creation in global buyout investments tells a similar story. The analysis shows that leverage's contribution to buyout returns has fallen from 61% in deals done before 2000 to just 39% in deals done since 2008, while operational improvement (revenue growth and margin expansion) has remained a persistently strong driver of returns throughout.[21]

[20] McKinsey & Company, Global Private Markets Report 2026.
[21] KKR, Insights Vol. 16.3, "The Divergence Conundrum: Mid-Year Outlook for 2026," June 2026.

Drivers of buyout returns by era (% of total)



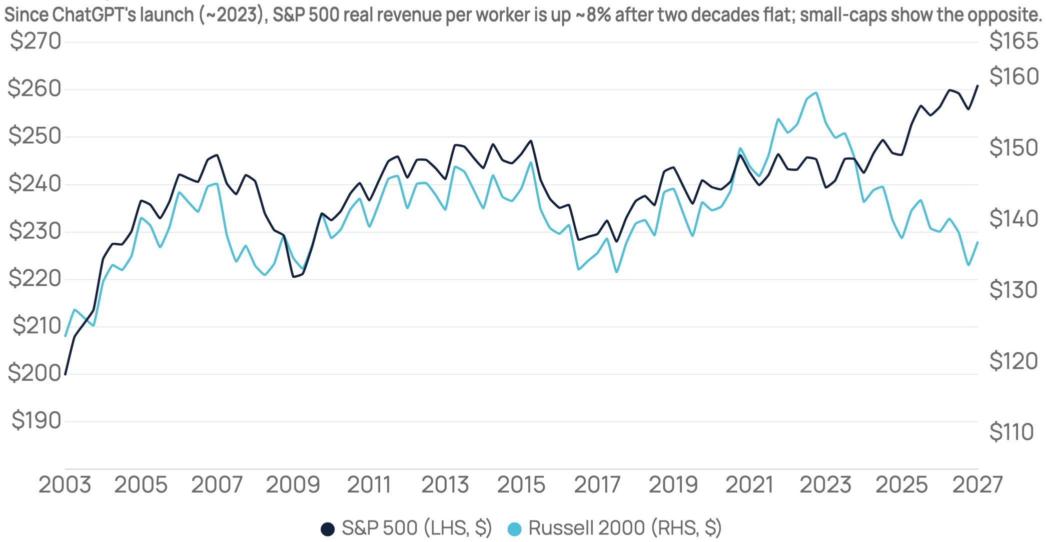
Source: KKR[22]

PE firms are not alone in focusing on operations. We've seen productivity gains at the aggregate level in the public market as well.

S&P 500 companies' inflation-adjusted revenue per worker, a proxy for operational efficiency, is up roughly 8% since late 2022, following two decades of essentially zero growth, as automation and AI tools begin to take hold. Small-cap companies, which typically lack the same access to capital and technology, are seeing no such gain.[22]

U.S. large-cap vs. small-cap real revenue per worker

Since ChatGPT's launch (~2023), S&P 500 real revenue per worker is up ~8% after two decades flat; small-caps show the opposite.



Source: KKR[22]

That shift is translating into a capability build-out for GPs. GPs have more than doubled the size of their operating teams on average since 2021, independent of fund size, and increased specialization along with it.

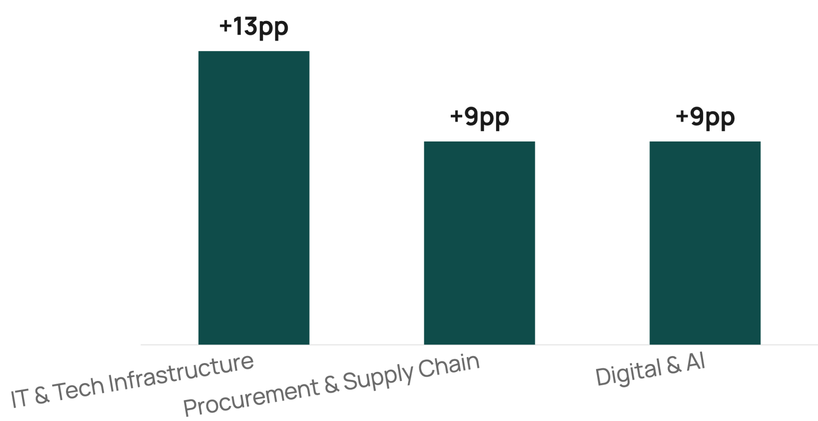
[22] KKR, Insights Vol. 16.3, "The Divergence Conundrum: Mid-Year Outlook for 2026," June 2026.

GPs are also leaning more on external consultants: engagements with portfolio companies have climbed, most sharply in IT and technology infrastructure, procurement and supply chain, and digital and AI.[23]

The build-out is paying off in fundraising terms too: 53% of LPs now rank a GP's value creation strategy among their top-five manager-selection criteria. It's now the third most important factor behind performance and team quality, which makes operational capability a genuine differentiator, not just a return driver.[23]

Still, market conditions matter. When asked what would most drive fund performance over the next 12 months, market participants cite an improved exit environment far more often than manager-driven operational improvement, a reminder that operational skill is necessary, but many are still counting on the market cycle to help too.[24]

Increase in GP operating-group engagement with portfolio companies since 2021 (pp)



Source: McKinsey[23]

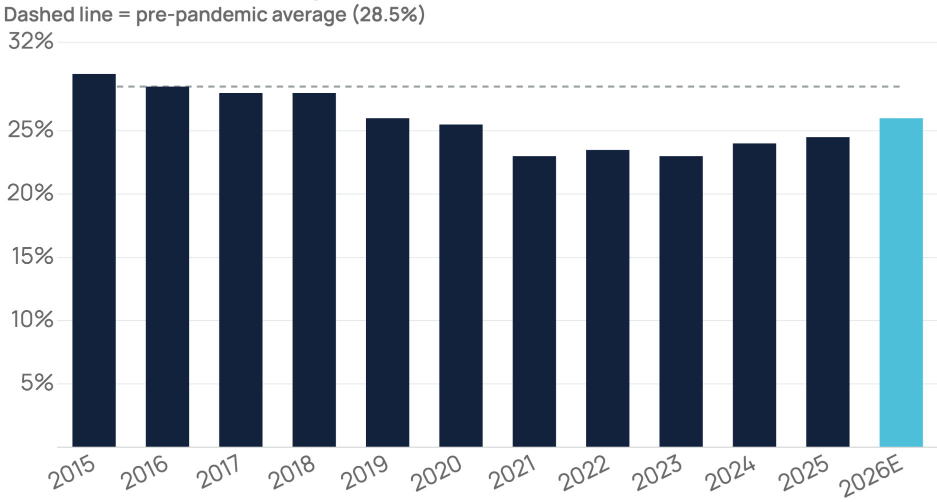
[23] McKinsey & Company, Global Private Markets Report 2026.
[24] PitchBook, 2026 US Private Equity Outlook (US Private Equity Survey, October 2025).

2. Credit Market Opens Up: Tailwind for Platform LBOs and GP Financing

Credit conditions are proving to be a tailwind. On the deal side, new-issue spreads on LBO loans have fallen to their tightest levels since the Global Financial Crisis, and new-issue loan yields to their lowest since 2022, as the Fed's rate cuts and a resurgent BSL market give sponsors materially cheaper financing than they have had in years.[25] According to PitchBook, platform LBOs, the higher-leverage deals sponsors pull back from when credit is expensive, are projected to climb to 25%+ of total US PE deals in 2026, with platform-LBO deal value at its highest since the 2021 peak.[25] With more than $1 trillion of US PE dry powder still on the sidelines, cheaper financing favors platform buyers.

Platform LBO share targeted to rebound to 25%+ in 2026

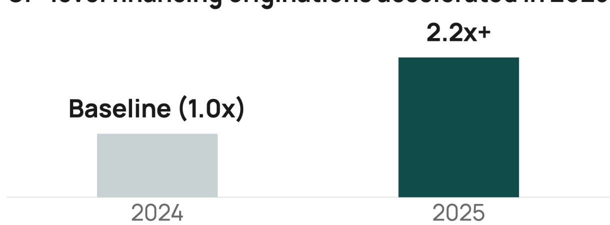
Dashed line = pre-pandemic average (28.5%)



Source: PitchBook[25]

The same easing is evident on the other side of the GP's balance sheet. As fee income compresses and GP commitment requirements rise (see Section I), more sponsors are turning to non-dilutive financing secured against contracted management fees and unrealized carry to bridge the gap. As a result, GP and management-company financing originations more than doubled YoY in 2025 as rates fell and demand surged.[26]

GP-level financing originations accelerated in 2025



Source: ORIX[26]

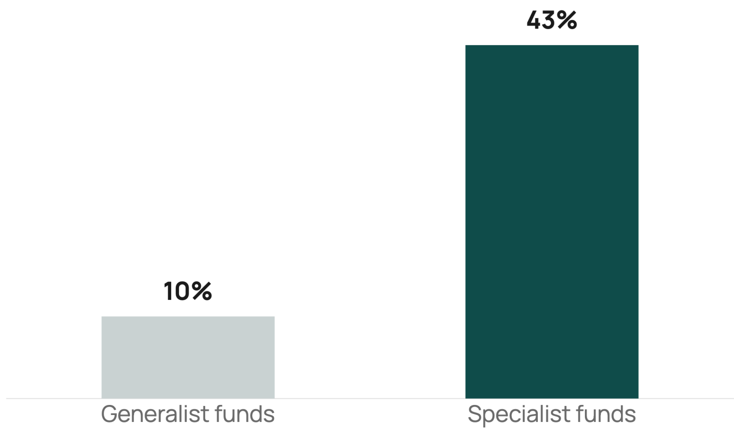
[25] PitchBook, 2026 US Private Equity Outlook.

[26] ORIX, "NAV and GP Financing in a Shifting Private Equity Landscape: 2025 Recap I 2026 Outlook," April 2026.

3. The Specialist Premium

Specialization is emerging as one of the clearest sources of differentiated returns. According to McKinsey, specialist buyout funds outperformed generalist peers across 2010–2022 vintages, generating higher pooled IRRs (17% vs. 13%) and higher total value multiples (2.2x vs. 2.1x), with lower loss ratios (9% vs. 12%).[27]

Share of equity value from EBITDA margin expansion (2010-22 vintages)



Source: McKinsey[27]

The outperformance is rooted in sector knowledge and operational skill, not just market timing. Specialists derived nearly 4x as much equity value from EBITDA growth as generalists (43% vs. 10%) and were far less dependent on multiple expansion (5% vs. 35% for generalists), a more resilient return profile that should hold up better as the industry's tailwinds fade further.[27] For GPs willing to sharpen their sector focus, that's a durable edge rather than a cyclical one.

Size cuts in the same direction as sector focus. According to UBP, mid-market buyout funds have outperformed large-cap peers by an estimated 5–7% per year over the past decade, a gap it attributes to lower entry valuations, less competitive tension, and more room for operational improvement.[28] SEB research showed that smaller buyouts offer lower entry valuation and a more natural path to the double-digit EBITDA growth today's return math requires.[29]

We believe specialist firms outperform because of their in-depth knowledge of the sectors they operate in. At the same time, a highly concentrated portfolio also carries concentrated risks. Any unanticipated industry shift could affect multiple portfolio companies simultaneously, a risk to weigh when selecting sector-specific managers.

[27] McKinsey & Company, Global Private Markets Report 2026.
[28] UBP, Private Markets Outlook 2026.
[29] SEB Manager Selection, 2026 Private Markets Report, April 27, 2026.

4. The Complexity Premium: Take-Privates and Carve-Outs

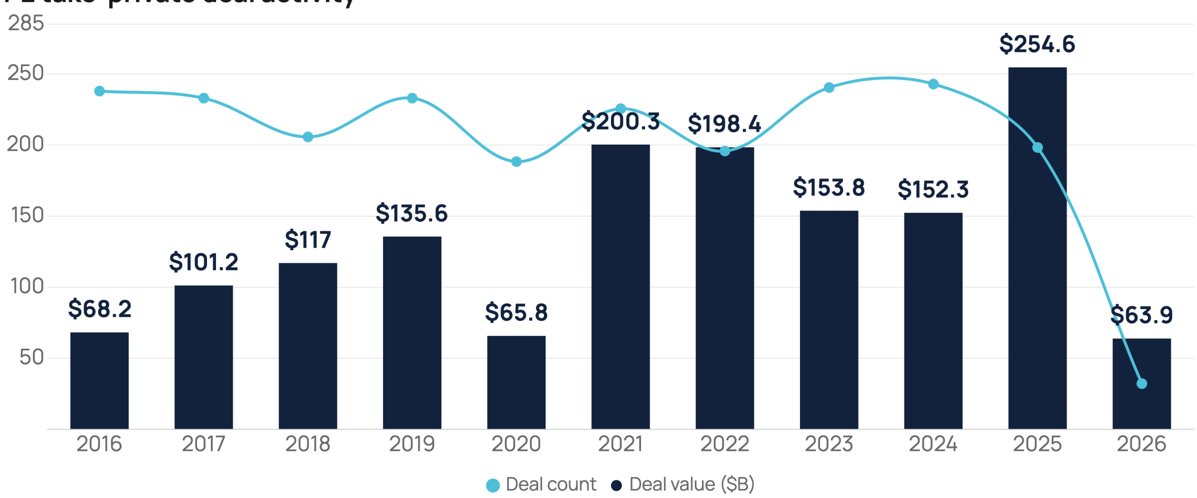
Complexity is emerging as another source of premium returns, alongside specialization.

Sponsors are increasingly finding more alpha in discounted public assets than in private ones. As a result, global take-private deal value rose 43% in 2025, with North American take-privates up 72%, as GPs embraced complexity that used to be avoided.[30]

PitchBook data tells the same story: take-private deal value across North America and Europe reached $254.6 billion in 2025, the highest annual total in its decade-long series, even as deal count (80) stayed below its 2021 peak of 98.[31] More broadly, PE-led dealmaking grew 54% to $1.2 trillion in 2025, outpacing the broader M&A market's own 43% growth, as sponsors pursued fewer but larger transactions and average PE deal size reached a record $890 million.[32]

Complexity comes with scale, as evidenced by the $57 billion take-private of Electronic Arts, the largest LBO ever. In 2025, 13 megadeals above $10 billion accounted for 69% of the year's entire increase in global buyout value, with 11 of them concentrated in North America.[33]

PE take-private deal activity



Source: PitchBook[31]

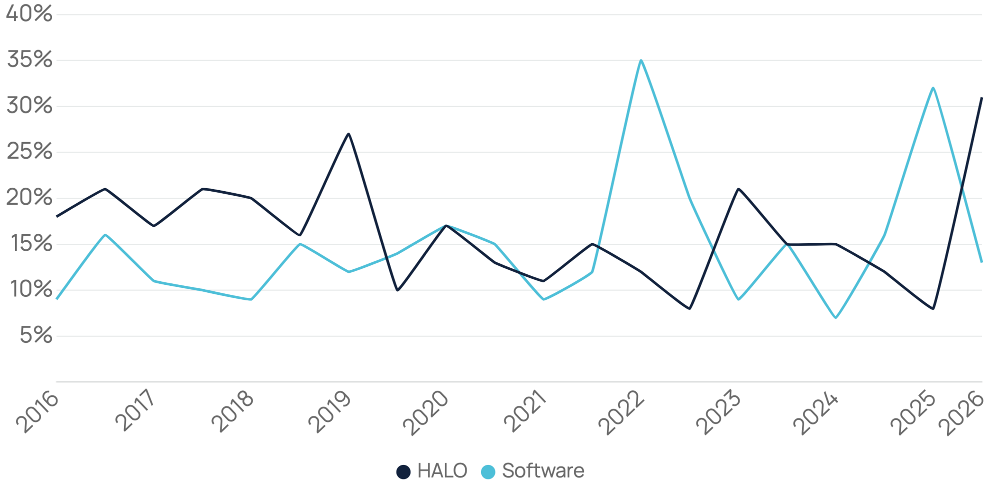
Meanwhile, a rotation called the HALO trade is emerging within that broader take-private market.

The "HALO" trade (Heavy Assets, Low Obsolescence, a term popularized in early 2026) held a steady 10%–15% share of PE deal count over the past decade. It then surged to 31.2% of all PE capital deployed in the first quarter of 2026 alone.

The quarter's largest transaction (the $33.4 billion take-private of AES Corporation, a global power utility with more than 32 gigawatts of generation capacity across 15 countries) is a clear example of HALO: asset-heavy and not exposed to AI-disruption risk. It was led by EQT and Global Infrastructure Partners, with the Qatar Investment Authority and CalPERS co-investing alongside them.[31]

[30] McKinsey & Company, Global Private Markets Report 2026.
[31] PitchBook, US PE Breakdown, Q1 2026.
[32] McKinsey & Company, "2026 M&A Trends: Navigating a Rapidly Rebounding Market," February 2026.
[33] SEB Manager Selection, 2026 Private Markets Report, April 27, 2026.

HALO versus software as a share of PE deal value

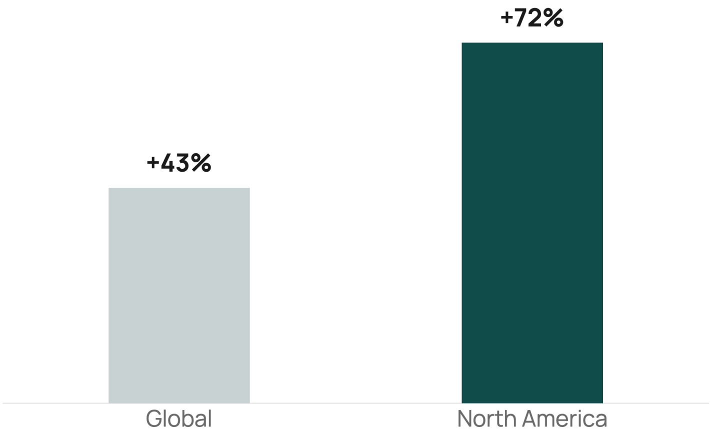


Source: PitchBook[34]

The same logic is drawing GPs toward carve-outs, where operational complexity often creates more room for value creation than a straightforward buyout.

The trend isn't confined to the US. European corporate carve-outs exceeded €85 billion in 2025, as multinationals streamline portfolios and reduce complexity, reinforcing carve-outs as a genuinely global source of GP opportunity.[35]

Take-private deal value growth, 2025 vs. 2024

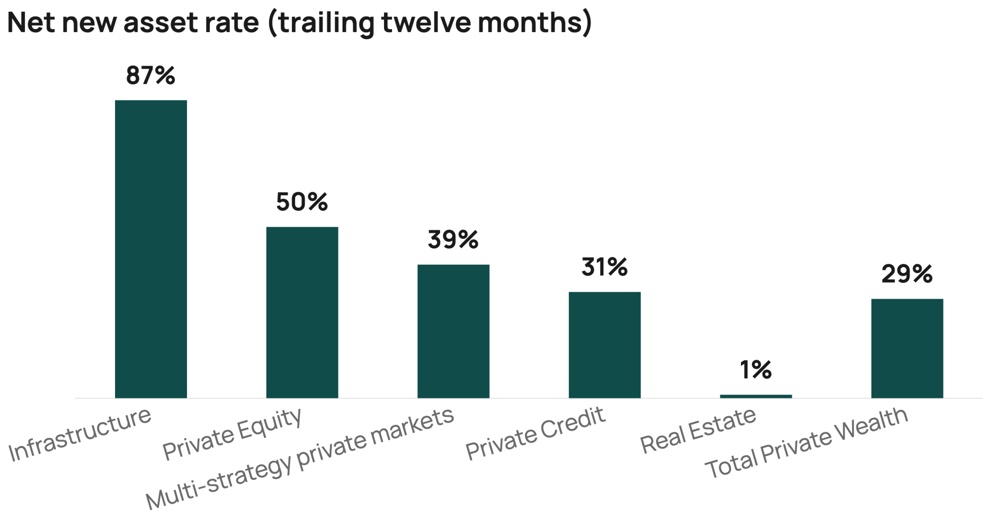


Source: McKinsey[36]

[34] PitchBook, US PE Breakdown, Q1 2026.
[35] KKR, Insights Vol. 16.3, "The Divergence Conundrum: Mid-Year Outlook for 2026," June 2026.
[36] McKinsey & Company, Global Private Markets Report 2026.

5. The Private Wealth Channel: A New Frontier

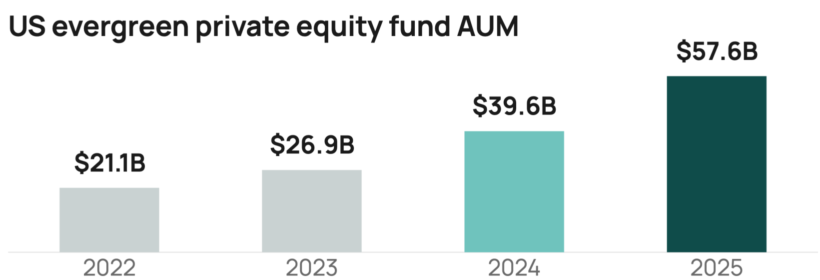
The democratization of private markets is opening an entirely new capital-raising channel for GPs. Within private wealth management (PWM), infrastructure led all strategies with 86% LTM net-new-asset growth, followed by Private Equity at ~50%, both outpacing the 29% rate for total private wealth overall.[37] According to PitchBook, US evergreen private equity fund AUM has nearly tripled since 2022, climbing from $21.1 billion to $57.6 billion in 2025, a sign of how quickly GPs that build semi-liquid products are being rewarded with asset growth.[38]



Source: UBP[37]

For GPs, the opportunity is as much about product design as distribution. UBP estimates that the PE-and-infrastructure slice of the private wealth channel alone reached roughly $125 billion in NAV, up 80% YoY, as new evergreen product pipelines shift away from pure direct-lending vehicles and toward core and transition infrastructure, creating room for GPs willing to build evergreen or semi-liquid structures to capture a new fee base.[37]

However, the channel remains unproven under stress, as recent experience in private credit evergreen funds has shown. We believe these vehicles have not yet been tested in a market stress scenario, meaning GPs that move early will need strong liquidity management.



Source: PitchBook[38]

[37] UBP, Private Markets Outlook 2026.
[38] PitchBook, US PE Breakdown, Q1 2026.

Key Takeaways

Challenges for GPs: The return equation has fundamentally worsened.

Opportunities for GPs: Operational skill, specialization, and complexity are the new sources of alpha.

Conclusion

The story opened with a quiet but uncomfortable scenario: spreads compressed to 2021 levels but the return math underneath looked completely different.

That return math is not going to change in the near term. Cheap leverage and steady multiple expansion, the twin engines that powered a decade of buyout returns, have both run out of steam, replaced by an equation that now demands roughly twice the operating improvement it once did. That pressure is compounding with structurally lower fees, growing co-investment give-backs, and rising GP commitment requirements, arriving at a moment when fundraising itself is consolidating around an ever-smaller set of the largest, most differentiated platforms.

Yet the same shift that broke the old playbook is writing a new one, and the GPs already reading it are pulling ahead.

Operational value creation, backed by larger and more specialized teams, is no longer optional; it is the primary lever left. The data show firms that invest in it outperforming those that do not. Very accommodating credit markets are handing GPs fresh tools on both sides of the balance sheet: cheaper financing to revive platform LBOs, and non-dilutive capital to fund GP commitment.

Meanwhile, specialists are outperforming generalists. Complexity, once avoided, is becoming a genuine source of return through take-privates and carve-outs on both sides of the Atlantic. And the private wealth channel is opening an entirely new capital-raising avenue for GPs willing to build the right products.

"12 is the new 5" is not a line to lament; it is the reality and new price of admission. The GPs who lead the next cycle will not be the ones waiting for lower rates or richer multiples. They will be the ones who treated 12% as the baseline from the start, and built the operational, financing, and product capabilities to clear it anyway.

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We provide investors with access to differentiated private markets opportunities across primaries, secondaries, direct investments, co-investments, independent sponsors, and GP seeding & stakes, underpinned by alignment, disciplined execution, and data-driven insight.

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