

Private Equity Today and the Sentiment of Liquidity

APRIL 2026

Private equity investing has long thrived on a few key principles: a focus on the long-term, the ability to remain patient, and the maintenance of a steady and consistent commitment pace to the asset class. We believe that when adopted alongside a rigorous manager selection process, an investor has the tools necessary to build an investment program positioned to both yield cash flow, and result in relative (and absolute) outperformance compared to the public markets.

Private equity has grown in popularity and access since its advent in the 1970s. Subsequently, AUM has tripled over the last 10 years - up to roughly \$6.4 trillion in Q2 2025 from \$2.3 trillion in 2016. Generally, investors entering the asset class invest with a long-term mindset; in this long game, investors provide capital to General Partners who then invest in companies and begin to effect change through value creation activities such as add-on investments, management team changes, and product creation/enhancement designed to drive sales and revenue growth. It is generally understood these changes take years to be reflected in the companies' underlying value that may turn these companies into potentially profitable investments.

As the private equity market has opened to investors outside of traditional institutional LPs, higher liquidity products have accounted for 25-30% of year-on-year alternative AUM growth from 2020 to 2025, according to *McKinsey's Global Private Markets Report 2026*. The development of new "semi-liquid" private equity products and a decade of accelerated distribution activity may have created an (un)intentional paradigm shift in some of the core principles of private equity.

We set out to reflect on the trajectory of private equity over the last decade and the potential factors - namely, AUM expansion and fund size growth - framed against the backdrop of a more muted exit environment that may be influencing LPs perspectives and associated expectations of liquidity.

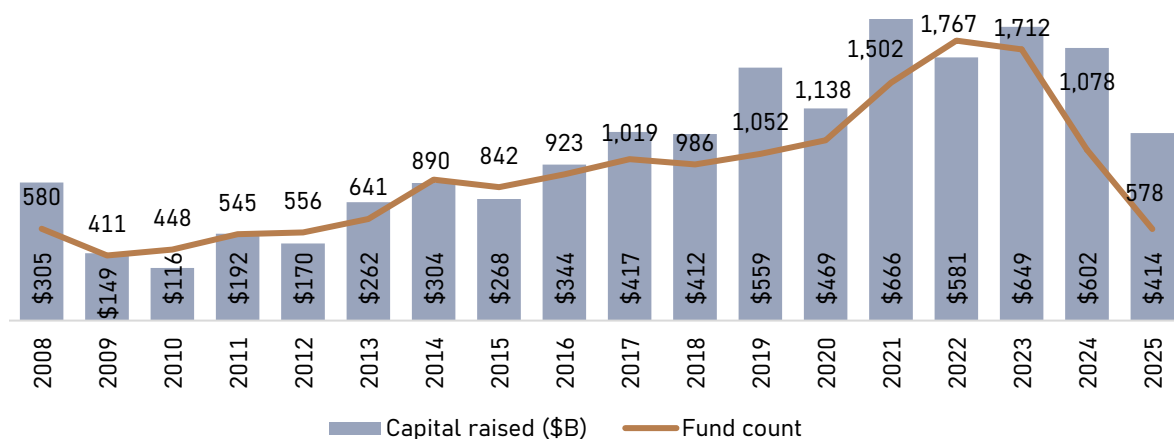
Growth in Private Equity

Over the last six years, private equity fundraising has experienced record-breaking highs, peaking in 2021 at \$666 billion raised across more than 1,500 funds - 2021 was the year of the "post-COVID" economic rebound and the last full year of a low-interest rate environment. After a brief hiatus in 2022, the market rebounded in 2023 (largely on the back of mega funds), with \$649 billion raised across more than 1,700 funds.



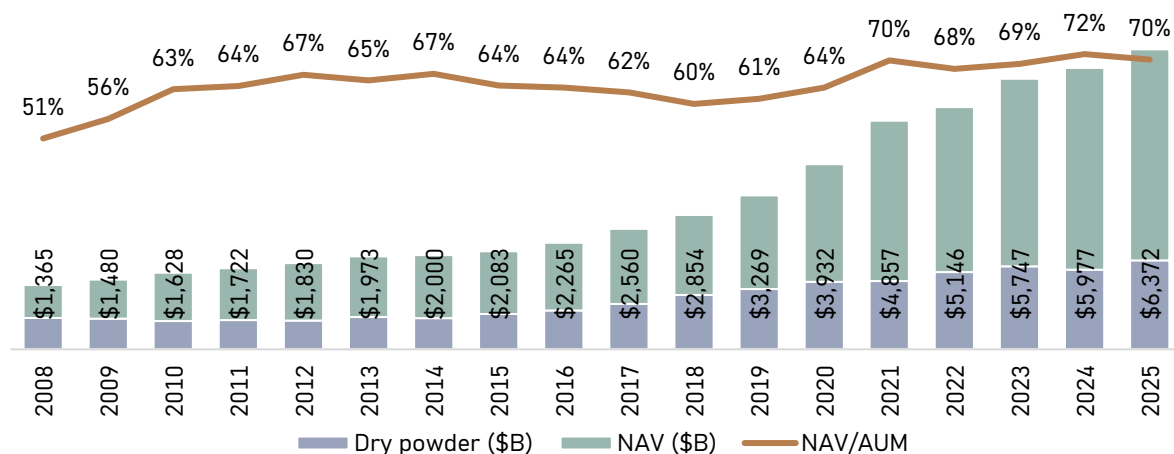
In the last decade, the market has experienced a spike in fundraising, which started to trend downwards at the end of 2023. Between the 5-year period ending 2015 and 2020, total private equity capital raised jumped from \$1.2 to \$2.2 trillion, experiencing a 58% increase. For the 5-year period ending 2025, private equity raised \$2.9 trillion, a 32% increase over the prior 5-year period ending in 2020; however 2025 experienced a 46% decrease compared to the previous year.

PE FUNDRAISING ACTIVITY
AS OF DEC 31 2025



The increase in fundraising from the prior decade has had a causal effect on private equity AUM - defined as dry powder plus NAV - as AUM in Q2 2025 reached nearly \$6.4 trillion. What's curious to note is the shift in composition of AUM: NAV expressed as a percentage of AUM¹ increased from 64% in 2020 to 70% in 2021 (9% YoY increase) and set a record by reaching the 70% mark for the first time. In the 5-year period ending in 2025, NAV has averaged roughly 70% of AUM. In 2019, NAV was just 61% of AUM, nearly the lowest it had been during the decade prior, when it held steady in the mid-60s. A higher composition of NAV within the AUM can suggest that while there was a lot of new capital that entered into private equity, distribution activity has not kept pace with the recent past's surge in fundraising, which could impact LP allocation into the asset class.

PE AUM
AS OF JUN 30 2025



LP Challenges: Operating with Imperfect Models

Since mid-2022 through the end of 2025, GPs have contended with rising interest rates alongside geopolitical and macroeconomic instability that appear to have dampened the exit environment. Meanwhile, LPs dealt with the *denominator effect*. In 2022, public markets fell sharply causing the denominator (total portfolio value) to become significantly reduced and leading many institutional investors to become overallocated to private equity.



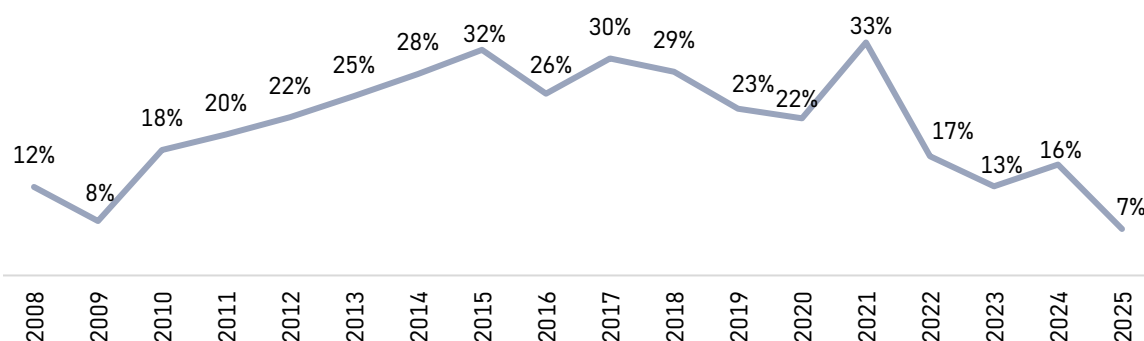
KEY TERM

Denominator Effect

When the asset value of one part of an investment portfolio falls sharply, the percentage allocation of other assets, such as private equity, can rise even if those assets have not increased in value.

LP pacing models are typically adjusted periodically to reflect recent market conditions, which may call for increasing or decreasing commitments to keep pace with distribution activity. In the decade ending 2021, the distribution yield from LP portfolios averaged 27%. This encouraged a robust fundraising environment, largely bolstered by increases in LP capital commitments, measured by both number of funds raised and dollars committed. As these capital commitments were called down and distributions slowed post-2021, the natural result was an increase in LP cash outflows (when calls outpace distributions).

PE DISTRIBUTIONS AS A PERCENTAGE OF NAV
AS OF JUN 30 2025



A distribution yield consistently in the 25-30% range means that LPs, perhaps unrealistically, might be able to model a full return of contributed capital in as short as four or five years – which is faster than the typical seven to eight years to reach 1.0x DPI². Distribution yields began to trend downward in 2018 and save for a brief spike in 2021, LPs pacing models began to feel the effects. 2022 saw the distribution yield collapse to 17% (a 49% YoY decline), the lowest year since 2009. Things did not improve as distributions compressed further into 2023 through 2025 and LPs who may have modeled a return of capital within a half-decade were suddenly faced with the prospect of not receiving their contributed capital back for much longer. This is likely to have caused a bottleneck in new commitments by LPs and a fundraising slowdown for GPs.

LP and GP fundraising dynamics are inextricably linked: LPs increased commitment pacing and planned for portfolio distributions to remain at 25-30% levels to fund current or future capital calls. GPs' circular model of fundraising, investing, and distributing only works when money is also returned to investors at the pace they've modeled. The ensuing result? 2025 saw the lowest amount of capital raised since 2018.

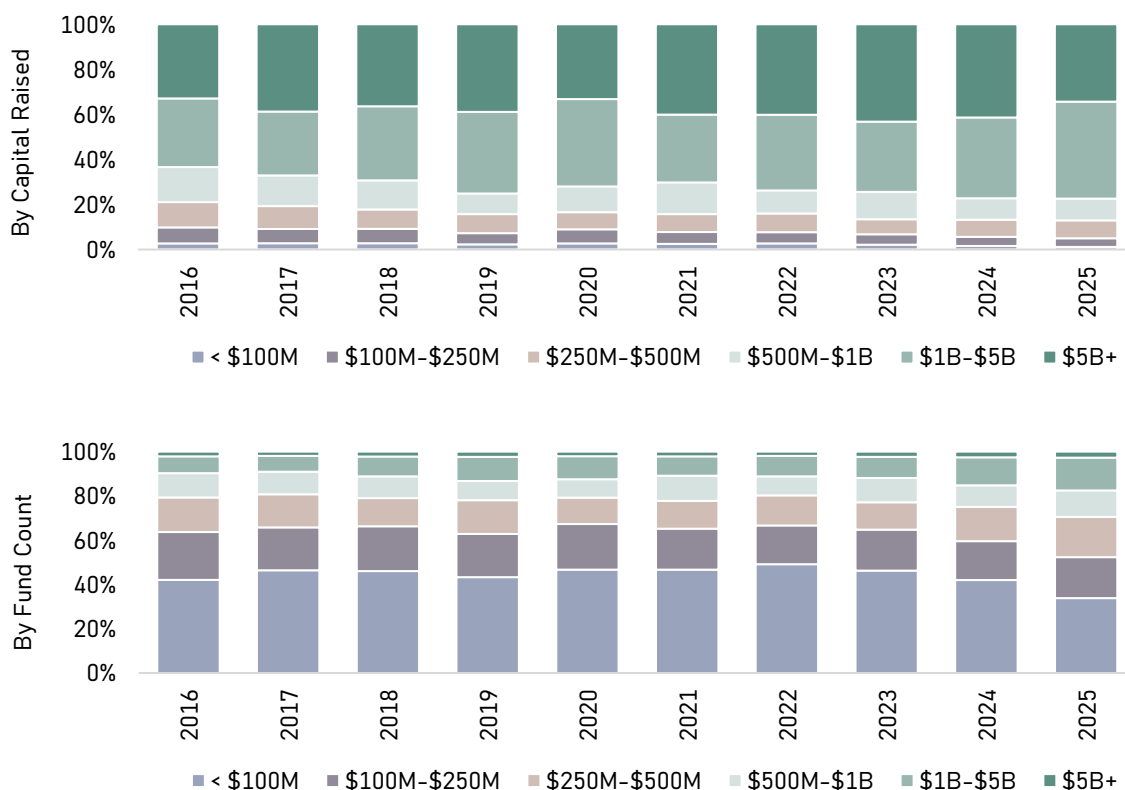
Notably, not all LPs got caught in the private equity fundraising frenzy. Long-term, experienced private equity investors who kept true to their pacing plans and commitment sizes without overexposing themselves to a liquidity cycle may be better positioned to weather the distribution drought, depending on their pacing discipline, liquidity needs, and portfolio construction. These investors have continued to back GPs, historically deploying capital over the last three years while preserving their ability to potentially benefit from favorable vintage years when we look back in a decade’s time. Conversely, there are LPs who started PE programs within the last decade who don’t have older commitments to fall back on to fill the distribution gap in their portfolios and have had to pause or cut back their private equity programs due to the liquidity shortfall.

GP Behavior and the Changing Tide of Investor Sentiment

For their part, since amassing \$666 billion in capital in 2021, GPs seemed encouraged to bring more funds and products to market (and quicker), reaching over 1,700 private equity funds closed during 2022. In 2021, US PE exits increased 56% from the year prior³, indicating robust exit activity that boosted investor confidence. A steady influx of LP capital allowed GPs to launch and close larger funds. For the 5-year period ending in 2025, the PE fundraising market experienced a dynamic whereby fewer than 3% of the funds in market (those >\$5B) accounted for roughly 40% of the total capital raised on an annual basis. If we change our parameters to include funds >\$1B, on average, we end up with roughly 13% of funds capturing 76% of all assets flowing to private equity in any given year.

PE FUNDRAISING ACTIVITY BY SIZE

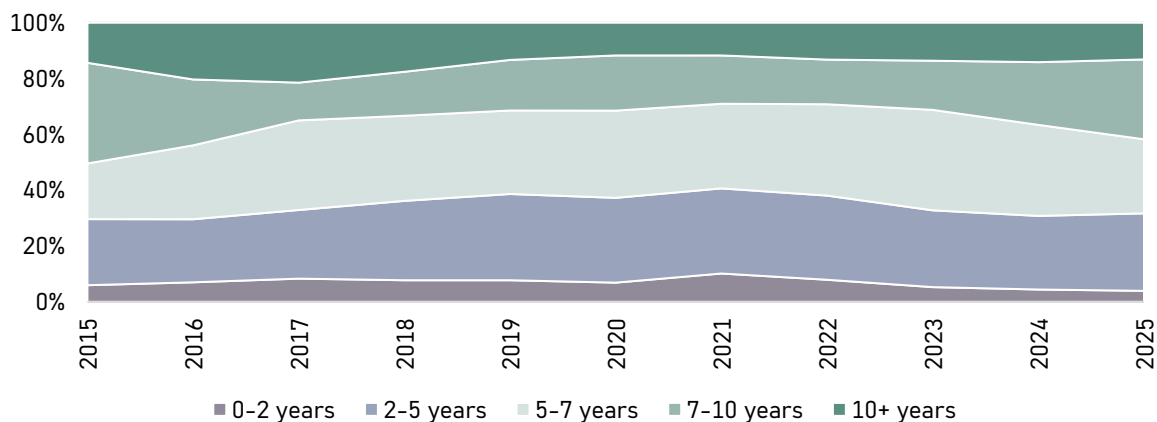
AS OF DEC 31 2025



As LPs experienced slowed distribution activity and commitment budget shortfalls, they curbed new commitments, became more selective with re-ups, and consolidated GP relationships in a perceived ‘flock to safety’ (GPs with brand awareness that tend to raise the largest funds). These allocation trends have been born out in the composition of NAV – as LPs allocated the largest dollars to the largest funds, we saw a surge in NAV in funds younger than 5 years old, which reached 40% by the start of 2022.

PE NAV (%) BY AGE (YEARS)

AS OF JUN 30 2025



Using the \$4.5 trillion in NAV reported as of Q2 2025 we observe that:

- 32% of NAV is less than 5 years old (typically considered immature);
- 26% of NAV is 5-7 years old (typically the harvest period), and;
- 42% of NAV is 7 years or older (time to sell?).


2019-2022 saw an average of roughly 61% of NAV in funds >5 years old. With that figure increasing to the high 60s in 2023 through Q2 2025, we can extrapolate that funds >5 years old hold a majority of the NAV that has increased the AUM. As companies mature and enter their harvest periods, GPs will seek to tap into the unrealized value and exit, macro considerations notwithstanding.

In terms of changing investor sentiment, it’s worth noting some well-established private equity fund managers with broad investment platforms have begun to offer “semi-liquid” funds, which may appeal to newer types of LPs, including retail investors seeking more flexible access to the asset class. These products aim to provide investors with exposure to private markets (including private equity) while offering more flexibility than traditional closed-end funds and allowing periodic redemptions. The growing popularity of these products could signal that some LPs are shifting away from some of the core principles of private equity and seeking more liquid solutions.

Conclusion

Private equity has moved from a period of rapid AUM expansion and strong distribution activity into a more constrained liquidity environment, prompting both LPs and GPs to recalibrate expectations.

Fundraising, distribution, and AUM data support the conclusion that the private equity market has experienced very real and dramatic changes over the past decade that have impacted both LP and GP behavior from a commitment, fundraising, and distribution perspective. The decade prior to 2021 was favorable for private equity from a macroeconomic standpoint, providing consistent levels of distribution activity. GPs were seen favorably, which increased fundraising efforts and new entrants into the market. Starting with the impact of COVID, market disruption began to occur, driving up valuations, slowing exit activity, and leading to slowing distributions. A flood of capital raising fueled by a decade of accommodative monetary policy and macroeconomic conditions finally butted up against a constrained liquidity environment. These effects continued to be felt at the end of 2025. Market participants are still experiencing short-term biases or frustrations regarding expectations of liquidity, desiring solutions for the lack of distributions private equity has produced in recent years.



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IMPORTANT INFORMATION

All data and graphs are sourced from Pitchbook 2025 Annual Global Private Market Fundraising report unless otherwise stated.

¹ NAV/AUM is the ratio of Net Assets Value divided by Assets Under Management, representing how much of the AUM is held in unrealized value

² Source: Global Private Equity Fund Average from Cambridge Associates LLC "When Secondaries Should Come First" August 15, 2017

³ Pitchbook 2025 Annual US PE Breakdown

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