Private Equity

Information leaflet

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Content

Summary

Private equity (PE) refers to investments in the equity of unlisted companies, which are typically made through funds. The objective is to enhance the company's value over several years, after which the holdings are sold at a profit to generate returns for investors. The asset class plays a key role in the development and financing of companies, and consequently in the innovation and competitiveness of modern economies. While offering attractive potential returns, private equity is also associated with specific risks and long-term capital commitments.

Private equity differs from traditional asset classes, such as listed shares or bonds, and from other alternative investments in several key respects. The most important characteristics of private equity are:

- **Long-term nature:** PE investments are typically long-term in nature and often have holding periods of five to ten years or more.
- **Illiquidity:** During the term of the fund, the invested capital is largely tied up, meaning investments cannot be sold at any time.
- **Active management and control:** PE firms actively support their portfolio companies, often exerting direct influence over their strategy, management and operational development.
- **Expected returns:** The financial attractiveness stems from the potential for investment value increases and ongoing income. Due to the higher risk and level of active involvement required, the expected returns are generally higher than those of liquid public capital markets.
- **Capital intensity:** High minimum investment thresholds primarily restrict access to institutional investors and high-net-worth individuals.
- **Use of debt:** Debt is specifically utilised, particularly in leveraged buyouts.
- **Exit strategies:** The eventual sale is taken into account as early as the acquisition of a stake. The most common exit channels include company sales, secondary buyouts, recapitalisations and initial public offerings (IPOs).
- **Diverse strategies:** Private equity encompasses a range of strategies, including venture capital, growth capital, buyouts and distressed investments.

Part I – Fundamentals

1. Introduction to private equity

1.1 Definition and distinction from other asset classes

Private equity (PE) refers to investments in the equity of unlisted companies, and is one of the most important asset classes within the alternative investment sector. The term 'private' refers to the non-public nature of the asset class, while 'equity' emphasises its equity nature. Unlike public equity, where capital is provided through public transactions, private equity involves private transactions between investors and companies or their owners. As part of the alternative investment sector, private equity is therefore distinct from traditional asset classes such as shares, bonds, and cash.

Private equity can provide capital to companies at various stages of development. Investments range from venture capital financing for start-ups (2.1 Venture Capital) and growth financing (2.2 Growth Capital) to the acquisition of established companies via leveraged buyouts (2.3 Buyout) and restructuring and special situations (2.4 Distressed Investments). This classification according to the development and maturity stages of the target companies primarily relates to the institutional and fund-based segment of the market, often referred to as 'corporate private equity'. Additionally, numerous private equity investments exist outside of traditional PE fund structures, including those held by entrepreneurial families, family offices, and strategic investors.

In addition to the usual equity investment, there is also mezzanine financing. As it possesses characteristics of both equity and debt, mezzanine financing is referred to as hybrid capital.

Equity investors bear the full business risk associated with their investments. Unlike lenders, they have no fixed claims to interest or repayment; instead, they participate directly in the company's positive and negative performance. Investors typically realise their return as part of a subsequent exit, for example through a sale to a strategic buyer (trade sale), another financial investor (secondary buyout), or an IPO.

As the portfolio companies are not listed on a stock exchange, they have specific characteristics regarding transparency, liquidity and governance. For example, private equity investments are typically long-term and significantly less tradable than listed securities. Investors often tie up their capital for up to ten years (and sometimes longer). This illiquidity is one of the reasons for the so-called illiquidity premium, which can lead to higher long-term returns compared with traditional asset classes.

Another defining feature of this asset class is the active ownership role played by private equity firms. Unlike many shareholders in public capital markets, private equity firms do not merely provide capital; they also actively support the companies in which they invest. They contribute strategic expertise, operational experience, industry knowledge, and networks. Furthermore, they support management in implementing growth, transformation and value-enhancement strategies. This often takes place through advisory or supervisory boards, as well as through close collaboration with the company's management. This can help to improve the organisation and structure of the financed company.

Box 1: Private equity is often confused with the broader term ,private capital'. While private equity exclusively encompasses equity strategies, private capital refers to all investments in the private capital markets outside of public stock exchanges. This includes private debt, infrastructure investments, property investments (real estate) and, increasingly, natural capital, in addition to private equity. Therefore, private equity represents an important, but not the only, component of the private capital markets.

1.2 Historical development of private equity

Although the term sounds modern today, investing in private companies has been established as a form of investment for well over a century. For instance, prominent US industrial families such as the Rockefellers, Vanderbilts and Whitneys built up their substantial private fortunes in the late 19th century through direct investments in private railway and industrial companies. This was an early form of what we would call venture capital today.

The modern era of private equity and venture capital began in the mid-1950s. McLean Industries' takeover of two steamship companies in 1955 is regarded as the first textbook example of a leveraged buyout (LBO). The target companies' assets served as collateral for the acquisition loans. This was followed by the 'bootstrap deals' of the 1960s — an early form of leveraged buyouts in which the purchase debt was transferred to the acquired company itself.[1] The spectacular takeover of RJR Nabisco by KKR in 1989 for the record sum of 31.1 billion US dollars eventually gained international prominence.

In Germany, private equity developed later than in the US or the UK. Owing to the traditional reliance on bank financing and the long-term ownership structures in the SME sector, private equity initially played only a minor role. It was not until the 1980s that specialised private equity firms began to emerge in increasing numbers.

The German private equity market experienced its first major boom in the second half of the 1990s. Improved framework conditions, public support schemes and the launch of the 'Neuer Markt' in 1997 made it easier for technology and growth companies in particular to access equity capital. Annual private equity investments rose from less than one billion euros in 1996 to almost five billion euros in 2000.[2] Following the dot-com bubble burst, a period of consolidation ensued, and the 'Neuer Markt' was closed in 2003.

From the mid-2000s onwards, the buyout sector became more important. International financial investors also increasingly took over German SMEs. The 'locust' debate of 2005 shaped the sector's critical public perception for a long time. After the global financial crisis, the market grew again in the 2010s, driven by low interest rates, institutional capital, and

1 Cooper (2025)
2 KfW Research (2003)

rising demand for succession planning solutions in the SME sector.

This phase of growth came to an end for the time being with global interest rate rises from 2022 onwards. Higher financing costs and economic uncertainty slowed down transactions, company sales and the raising of new funds. Takeovers became more difficult to finance and investments were held for longer in Germany, too.

Nevertheless, the fundamental logic of private equity remains unchanged: acquiring companies, increasing their value through operational, strategic or financial measures, and subsequently selling the stake at a profit. Private equity has become a well-established part of German corporate finance.

1.3 Economic significance and market developments in Germany

Over the past few decades, private equity has evolved into a global asset class. According to data provider Preqin, the global private equity industry was managing assets worth around 12.8 trillion US dollars in September 2025 (see Figure 1). Over the past 25 years, assets under management (AUM) held by private equity funds have grown steadily. While the sector initially managed assets of around US$686 billion, this figure rose to US$1.1 trillion by the end of 2005, US$2.3 trillion by 2010, US$3.5 trillion by 2015 and finally US$8.3 trillion by September 2025. Of this total, 2.9 trillion US dollars was attributable to uninvested capital (dry powder) and 9.9 trillion US dollars to unrealised investments (unrealised value).

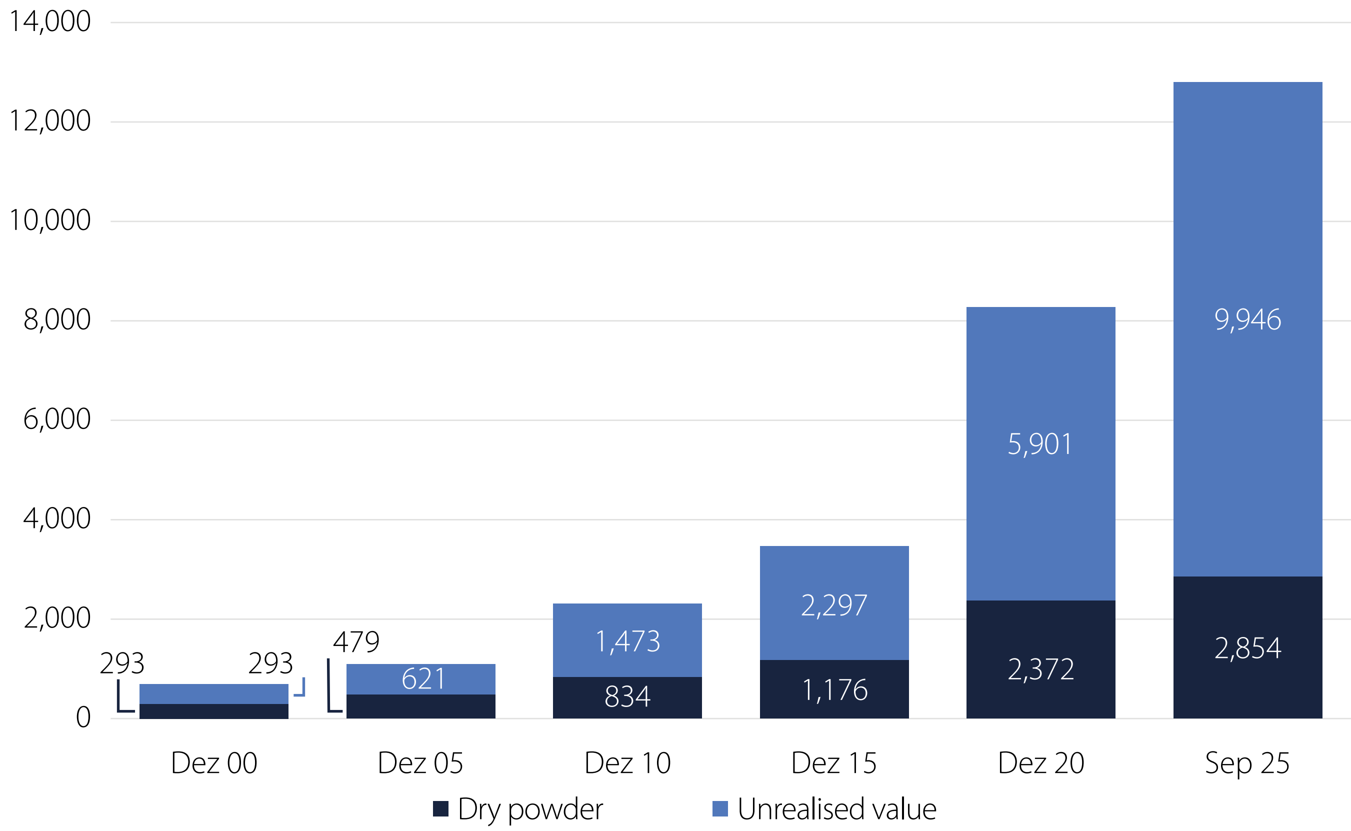

Figure 1: Trend in assets under management of private equity funds by dry powder and unrealised value (in billions of US dollars, 2000–2025; Preqin pro, June 2026)[3]

3 Unlike other sectors, assets under management in private markets comprise both assets already invested (unrealised value) and capital that has not yet been drawn down but has been committed (dry powder).

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Meanwhile, the total value of all unlisted companies worldwide is estimated to be around 70 trillion US dollars, which is on a similar scale to the 60 trillion US dollar global government bond market.[4] This figure encompasses not only companies backed by PE funds, but also millions of family-run businesses, small and medium-sized enterprises (SMEs), and substantial private conglomerates that are not backed by PE funds. These figures demonstrate that a significant portion of global economic value creation occurs outside of public capital markets.

Germany is the second-largest private equity market in Europe after the United Kingdom, having received around 15% of European buyout capital between 2015 and 2023. However, according to a recent StepStone study, returns on German private equity investments lagged behind those of many comparable European markets. With a gross total value multiple (TVM, or the ratio of total value to capital invested) of 1.9, Germany fell behind Benelux (2.2), Italy (2.1) and the Scandinavian countries (2.0), while also recording a comparatively high loss rate of 10.7%. This structural underperformance is attributed to a combination of various factors. These include economic growth that has been weak in international comparison over the past ten years, Germany's high dependence on cyclical industrial sectors, fragile supply chains, increasing competitive pressure from China, US policy of high tariffs, high energy prices, regulatory risks in the healthcare sector and implementation problems stemming from mindset and bureaucracy.[5]

2. Private equity strategies

The primary objective of private equity is to increase the value of invested companies over several years, before selling the holdings at a profit to generate returns for investors. To this end, this asset class encompasses a wide range of strategies that vary in terms of company maturity, risk profile, value creation approach, and expected returns. Key institutional PE strategies include venture capital, growth capital and leveraged buyouts (see Figure 2). These strategies can be categorised according to the company life cycle. Venture capital primarily targets young companies with high growth potential, while growth capital funds invest in established companies with growth potential. Buyout funds typically focus on profitable, well-established companies. Furthermore, distressed investments primarily finance companies in special situations or undergoing restructuring. The choice of strategy is guided by respective return, risk and liquidity objectives.

4 Phalippou (2023)
5 Stepstone (2026)

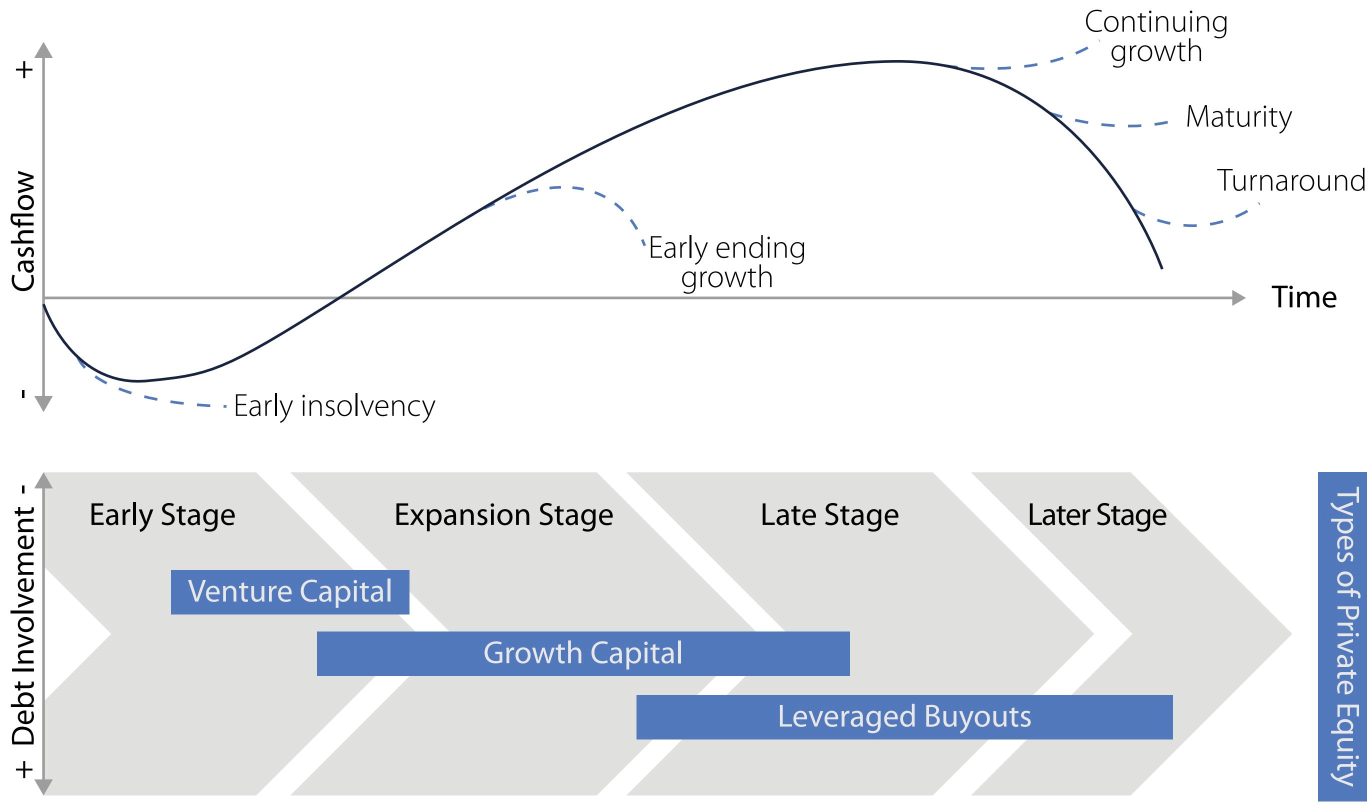

Figure 2: Corporate life cycle and key private equity strategies (Phalippou, 2023)

2.1 Venture Capital

Venture capital (VC) involves financing companies in their early stages of development, particularly start-ups. It is therefore a specialised form of private equity and is sometimes regarded as a separate asset class within private markets. Target companies are usually characterised by high growth potential but typically lack the scale and stable, predictable cash flows required to raise capital through traditional sources such as banks or public capital markets. Venture capital bridges this financing gap by providing young companies with the equity capital needed to develop innovative products, business models and technologies.

Venture capital is primarily driven by the individuals who found, develop and build innovative start-ups. VC investors finance these young companies using their own capital, as well as funds from their own investors. They generally acquire minority stakes and work closely with the founders and management. While the founders retain operational control of the company, the investors provide strategic support, industry expertise, networks and additional growth capital.

A key feature of venture capital is that funding is provided in phases across several rounds. Rather than providing the capital as a one-off sum, it is usually provided in successive rounds, such as seed, Series A, Series B and later rounds. Additional funds are often dependent on the achievement of specific milestones relating to product development, growth or turnover. This enables investors to manage risk more effectively and provide continuous support for the company's development. Value is primarily created through the company's growth and the resulting increase in its valuation.

Venture capital involves both enormous opportunities and high risks. The opportunities lie in the potential to generate substantial returns, primarily through successful exits such as initial public offerings and strategic sales. A notable feature of VC funds is that a significant portion of their returns is often generated by a few particularly successful investments.

The risks associated with VC investments primarily stem from business models that are often not yet established, and from the high level of uncertainty surrounding a company's future development. Consequently, individual investments carry a high probability of default and are among the riskiest segments of the private markets. Furthermore, VC-financed companies often do not generate positive cash flows in their early years and rely on repeated rounds of external financing. A key indicator here is the cash burn rate, which shows how quickly available liquid funds are being used up and when further funding will be needed.

2.2 Growth Capital

Growth capital bridges the gap between traditional buyout strategies and venture capital. Unlike traditional VC investments, the risk is lower because the companies are at a more advanced stage of development. At the same time, there remains significant potential for value appreciation. Growth capital differs from buyout strategies in that it often involves acquiring minority or significant minority stakes, and close collaboration with the existing management. Growth capital typically represents the final round of financing before an IPO or another exit, such as a buyout.

Growth capital involves investing in high-growth companies that are already established and have a proven business model. Although these companies have positive cash flows, they are not yet stable, which is why access to credit through traditional channels is limited. Typical investments amount to US$25 million or more, and are aimed at middle-market companies with a value of US$100 million or more and an annual turnover of US$25 million or more.[6]

This capital is often used to fund international expansion, increase production capacity, make acquisitions, or develop new products and services. Growth capital accounts for the majority of PE capital in emerging markets. As this supports companies during their growth and expansion phases, the strategy is often viewed positively by the public. However, compared to venture capital, it receives significantly less public attention as it does not usually involve the early-stage financing of high-profile start-ups.

2.3 Buyout

Buyouts are the most common form of private equity investment. A buyout involves acquiring a majority or controlling stake in an established company, with the aim of actively shaping its strategic direction, creating value and realising it through a subsequent exit. The proceeds are then distributed to the investors. The key difference from other strategies is that buyouts typically involve the new investor taking full control of the company.

2.3.1 Leveraged buyout (LBO)

In a leveraged buyout (LBO), financing is usually a combination of equity and debt. The debt element is usually provided by banks, investment banks, credit funds or other institutional lenders. The loans taken out are predominantly secured against the target company's assets and its expected future cash flows. Target companies are generally well-established

6 CAIA Association (2020)

businesses with valuable assets and stable cash flows, enabling them to use a high proportion of debt. Following the acquisition, the company's debt ratio is usually significantly higher than before, as a substantial portion of the purchase price is financed by debt. This financing structure aims to increase the return on equity for investors. However, the high level of debt also increases financial risk, as interest and repayment instalments must be met from the acquired company's cash flows.

Investors pursue several objectives with an LBO. As well as leveraging the return on equity, interest payments may be tax-deductible, thereby reducing the company's effective tax burden (the 'tax shield'). However, the main focus is on creating operational value through optimising business processes, implementing growth and 'buy-and-build' strategies[7], and enhancing the company's long-term competitiveness and profitability.

The three key characteristics of LBOs are:

1. The acquisition of a majority or full controlling interest in the target company

2. Financing of the transaction to a significant extent through debt

3. Target companies can be either listed or private companies. If the target company is listed, the takeover is usually followed by a delisting (P2P).[8]

2.3.2 Other forms of buyout

In addition to the traditional LBO, various other forms of buyout have emerged, primarily differing in terms of management's role and the ownership structure.

In a management buy-in (MBI), an external management team takes over the running of the company, usually acquiring it jointly with a private equity firm. Under company law, control then lies with the private equity firm. While the new management team takes over operational management and holds a minority stake, the previous management leaves the company.

By contrast, in a management buyout (MBO), the existing management carries out the takeover and continues to assume operational responsibility.

A combination of an MBI and an MBO is the buy-in management buy-out (BIMBO), where the management team comprises both existing and newly appointed executives.

In a buy-and-build strategy, a company is deliberately expanded through the acquisition of other strategically compatible companies or parts of companies in order to achieve growth, synergies and economies of scale.

A public-to-private transaction (P2P) refers to the complete takeover of a listed company, followed by its delisting from the stock exchange.

Another significant form is the secondary buyout (SBO), in which a private equity firm sells a portfolio company to another private equity firm. While the SBO represents an exit for the selling fund, the acquiring fund takes over the company in order to initiate a further phase of value creation. In recent years, SBOs have become one of the most important exit channels in the buyout market.

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2.4 Distressed investments

Distressed investments focus on companies that are in financial difficulties or facing major operational challenges. Causes may include, for example, economic crises, high levels of debt, management errors, structural changes within the sector or temporary liquidity shortages.

In such situations, investors often acquire shares in companies or receivables at significantly reduced valuations. The aim is to stabilise the company sustainably through restructuring, operational improvements or financial reorganisation, and increase its value once again.

Within this segment, a distinction is often made between traditional distressed investments and so-called special situations. The latter also encompass complex corporate situations such as spin-offs, turnarounds, recapitalisations, succession planning or transactions driven by regulatory requirements.

Distressed strategies generally require a high degree of financial, legal and operational expertise; however, if successfully implemented, they can generate attractive returns.

2.5 Comparison and summary of private equity strategies

With assets under management of US$4,489.6 billion, buyout funds represent by far the largest segment of the private equity market, followed by VC funds (US$2,265.8 billion) and growth capital funds (US$1,805.6 billion). As shown in Figure 3, buyout funds dominate in terms of both capital invested (unrealised value) and capital yet to be invested (dry powder), while venture capital and growth funds account for significantly lower volumes.

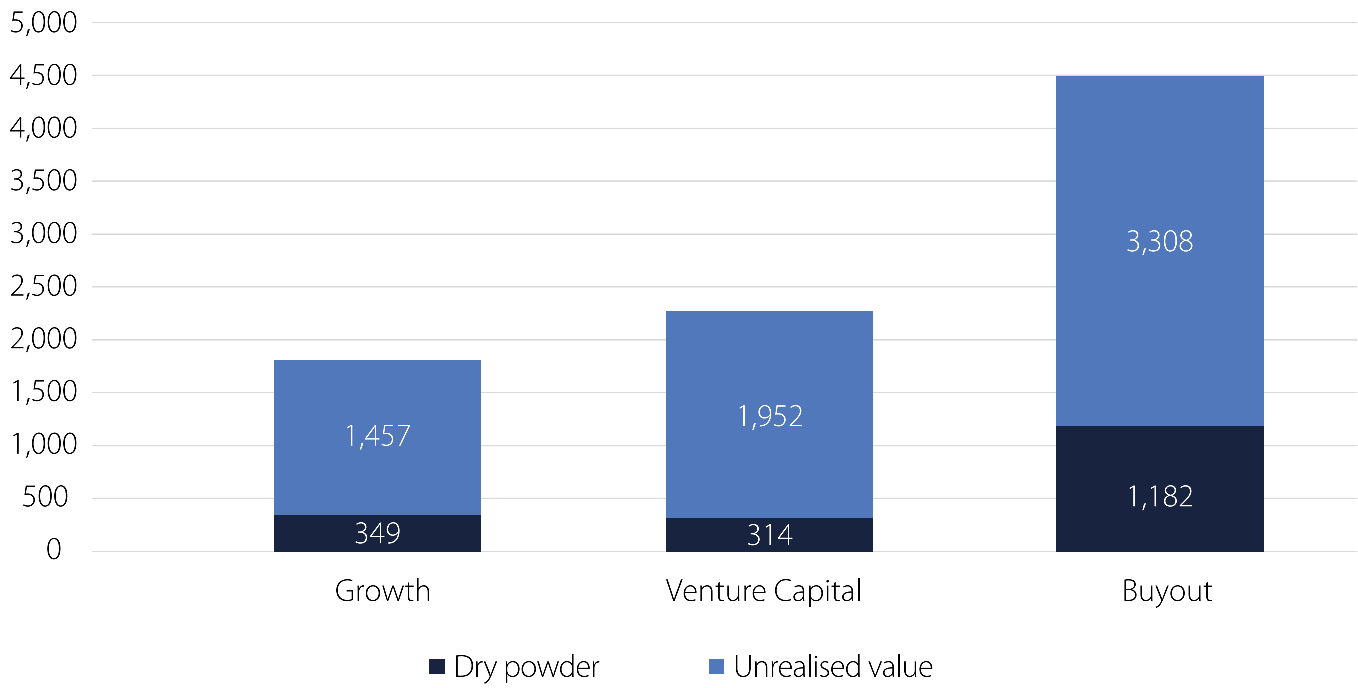

Figure 3: Overview of assets under management across different PE strategies (in billions of US dollars, Prequin Pro, September 2025)

Table 1 provides an overview of the key characteristics of venture capital, growth capital and buyouts based on selected investment criteria.

Table 1: Key differences between venture capital, growth capital and buyouts (Adapted from CAIA Association, 2020; CalPERS, 2026)

Characteristic	Venture capital	Growth capital	Buyout
Company size	from USD 10 million	from USD 100 million	from USD 100 million
Annual turnover	USD 0–10 million	from 25 million USD	from 25 million USD
Control by the investor	Partnership-based approach with the founders	Usually a minority stake; existing owners retain their control	Majority or controlling stake
Intended use of the capital	Product development and market entry	Financing of growth and expansion	Increasing profitability and enterprise value
Investment horizon	5–10 years	3–7 years	3–5 years
Potential capital appreciation	3 to 10 times	2 to 3 times	2 to 3 times
Target IRR (gross)	25–35%	20–25%	20–25%
Investment risk	Very high	High	Medium

Note: *In practice, the distinction between venture capital, growth equity and traditional buyout strategies is not always clear-cut. With the increasing professionalisation of the private markets, many VC firms now also invest in later growth stages, whilst traditional PE firms have launched specialised venture or growth funds. This results in increasingly fluid transitions between the individual strategies throughout the company's life cycle.*

3. Market participants and fund structures

3.1 The GP-LP relationship in private equity funds

The private equity sector is predominantly organised according to the limited partnership principle, which is a common form of partnership in the Anglo-American legal system and frequently serves as a fund vehicle. It consists of general partners (GPs) and limited partners (LPs). In practice, it is similar to the limited partnership (KG) set out in German company law, despite the two legal forms differing in certain respects. Put simply, the LPs act as investors and have limited liability, while the GPs are responsible for fund management, investment decisions, and day-to-day operations as general partners. The limited partnership model is the international benchmark for private equity funds. Fund vehicles common in Europe, such as Luxembourg SCSp structures or German investment KGs, largely follow the same governance and incentive logic: a GP manages the fund and the LPs provide the capital.

In a limited partnership, the LPs predominantly assume the role of passive investors. They provide capital and share in the fund's returns, but have only limited influence over day-to-day investment decisions and operational management. The LPs undertake to make a specific amount of capital (known as 'capital commitment') available to the fund over its term. This is not paid in full immediately, however, but drawn down by the GP in stages via 'capital calls' as soon as suitable investment opportunities arise or funds are required for fund management.

Their rights are typically limited to rights of control, information and participation, which are set out in the fund agreement. Typical LPs include institutional investors such as pension funds, insurance companies, foundations, sovereign wealth funds and public sector pension schemes, as well as high-net-worth individuals and family offices.

The GPs are the active and managing party in a limited partnership. Typically, the GP acts as fund manager and is responsible for the overall management of a private equity fund. Their responsibilities include raising capital from the LPs, identifying and selecting suitable portfolio companies, conducting due diligence, structuring and executing transactions, and actively supporting and developing the portfolio companies. The GP is also responsible for the day-to-day management of the fund, ensuring compliance with regulatory requirements, reporting to investors and planning and executing exits. The GP typically receives a management fee and a performance-related carried interest for these activities. As well as allocating capital, the GP also plays an active ownership role, providing strategic advice, operational support, and access to their network with the aim of creating long-term value. The GP is therefore the central authority for value creation and management of a private equity fund.

The relationship between GPs and LPs is often described in the context of principal–agent theory. In this context, LPs (the principals) usually have limited information and influence over day-to-day investment decisions. GPs (the agents), as fund managers, make investment decisions and have access to more comprehensive information about the portfolio companies and the fund's performance. The resulting information asymmetries and potential conflicts of interest are among the key governance challenges facing private equity funds. As the two parties do not always have identical interests, designing the fund structure is particularly important (see section 3.2).

In addition to GPs and LPs, the private equity ecosystem comprises a wide range of other market participants with various areas of expertise who now influence the entire market. These include investment banks, M&A advisers, auditors, solicitors, tax advisers, placement agents and custodians, as well as ESG, data and research providers. They support the investment process and are involved throughout the entire fund lifecycle.

3.2 Legal and institutional structure of private equity funds

The relationship between GPs and LPs is governed by the legal and institutional structure of a private equity fund. Three key contractual documents are used when establishing and managing a private equity fund in Germany.

1. The Private Placement Memorandum (PPM) contains a formal description of the key information regarding the nature, purpose and risks of a fund investment within the framework of a private placement. This includes, in particular, a description of the investment strategy, the fund manager, risk management and the legal and tax risks.

2. The Limited Partnership Agreement (LPA) refers to the partnership agreement or fund agreement of a fund, which is usually structured as a limited partnership.

3. Through the Subscription Agreement, an investor declares their intention to join the fund and undertakes to provide the agreed subscription capital.

The Limited Partnership Agreement (LPA) is the most important document in a private equity fund. It establishes the legal framework of the fund and the key contractual terms between the GP and the LP. These include, among other things:

- the purpose and strategy of the fund, including any restrictions or exclusions
- the fund's term is usually ten years, but can often be extended by one to three years
- the rights and obligations of the contracting parties, including the amount of the LPs' capital commitments
- the duration of the lock-up period, i.e. the period during which the GP may require the LPs to pay in capital by issuing capital calls
- the amount of the management fee and the distribution waterfall, i.e. the order in which the fund's profits are distributed to the LPs and GPs
- the conditions governing the sale and transfer of LP interests in the fund
- the composition and powers of the Limited Partner Advisory Committee (LPAC)

The LPA aims to align the interests of fund managers and investors as closely as possible while limiting information asymmetries and potential opportunistic behaviour. However, misalignment of incentives and conflicts of interest between GPs and LPs remain key problems in private fund structures. Various governance mechanisms defined in the LPA come into play in the event of such conflicts of interest, deviations from investment guidelines, valuation issues or other matters requiring approval.

The Limited Partner Advisory Committee (LPAC) plays a central role here, acting as a link between investors and the fund management team. The LPAC advises the GP, but does not take over day-to-day investment decisions. In principle, these remain with the GP, as direct influence by the LPs could both dilute the responsibilities of the fund management and entail liability consequences.

In addition to contractual and institutional governance arrangements, economic incentive mechanisms help align the interests of fund managers and investors. These instruments include management fees, carried interest, hurdle rates, clawback provisions, and the GP's own investments (GP commitment). These instruments are explained in more detail in Chapter 5.2.

The legal and institutional structure of a private equity fund is supplemented by regular reporting and disclosure obligations, for which international best practice standards have been established within the industry.

As fund structures and cross-fund transactions become more complex, the quality of these governance mechanisms becomes increasingly important. Effective corporate governance is essential for successful long-term collaboration and has a significant impact on investors' long-term investment performance.

3.3 Fund lifecycle

PE funds are traditionally structured as closed-end funds with a term of around ten years. There are often one- to three-year extension options to enable the orderly disposal of any remaining investments. Ideally, the fund life cycle is divided into three successive phases: the investment phase, the value creation or holding phase, and the exit phase.

During the investment phase, which usually lasts three to five years, the GP identifies and acquires suitable portfolio companies. To finance these transactions, the capital commitments made by investors are drawn down in stages via capital calls.

As the capital is not fully invested from the outset, investors initially face a liquidity requirement without having received any significant returns.

This is followed by the holding or value-creation phase. During this phase, the GP focuses on the further development of the portfolio companies. Typical measures include operational improvements, internationalisation, digitalisation, cost optimisation, add-on acquisitions as part of buy-and-build strategies, or changes to management. The aim is to increase the enterprise value sustainably and to lay the foundations for a successful exit.

In the subsequent exit phase, the investments are sold off in stages. The proceeds are then distributed to the investors after deduction of fees and profit shares. In practice, the phases may overlap to some extent.

The typical pattern of returns for a private equity fund at each stage of its life is referred to as a 'J-curve' due to its characteristic pattern of capital inflows and outflows. As shown in Figure 4, the cumulative net cash flows are initially negative for investors in the first few years of a fund's life. However, as the fund matures and the first successful exits take place, this trend reverses and the cumulative cash flows become positive for the remainder of the fund's life cycle, giving the curve its characteristic 'J' shape.

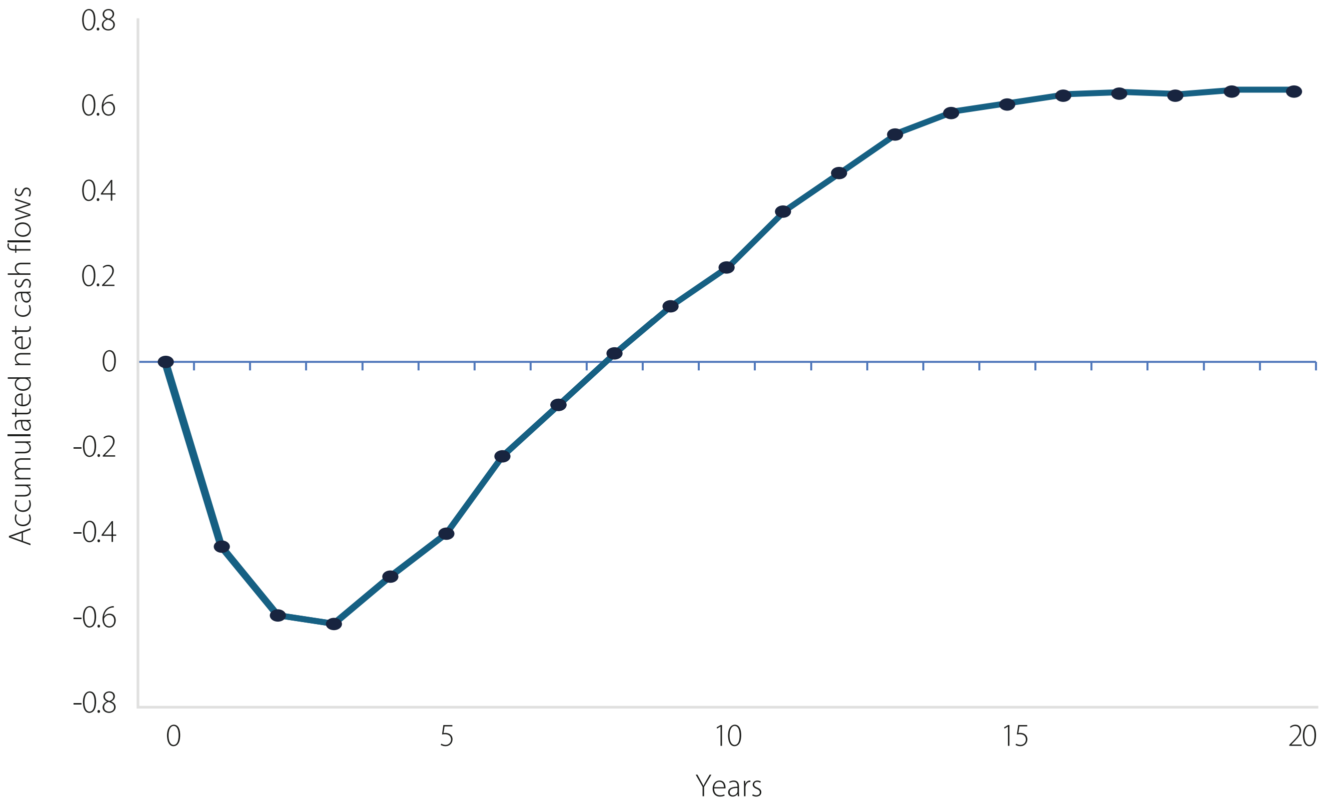

Figure 4: Modelling the cash flows of private equity funds (Adapted from Buchner et al., 2009; data approximated, not exact)

Closely linked to the fund life cycle is the concept of the vintage year. This refers to the year in which a fund commences its investment activities. The fund's subsequent performance can be significantly impacted by the prevailing market conditions, company valuations at the time of investment, and economic developments during the investment phase. For this reason, many institutional investors seek to diversify across several vintage years to reduce the impact of cyclical fluctuations and limit the risk associated with the timing of individual fund investments.

Part II – Value creation and returns

4. The GP perspective: How private equity creates value

This chapter examines private equity from the perspective of asset managers (GPs). It focuses on the key tasks of GPs throughout the investment cycle. Specifically, it considers value creation within portfolio companies, the incorporation of sustainability considerations, and exit planning and execution.

4.1 Value creation

Private equity justifies its value creation by arguing that it improves the operational performance of portfolio companies, thereby generating positive effects on employment, wages and economic growth. This creates value for investors and society. Critics, on the other hand, point to the burden of debt placed on companies, as well as to short-term profit maximisation at the expense of other stakeholders, such as employees. However, when LPs are assessing a private equity fund, and when a GP is positioning itself in fundraising, the crucial question is whether the reported returns are actually based on independent value creation or predominantly on factors over which the fund itself had no influence.

In practice, value creation is often measured on the basis of the change in the enterprise value between the acquisition and disposal of a portfolio company, taking into account changes in debt. The so-called 'value bridge' breaks this change in value down into three key value drivers: (1) the operational increase in value through EBITDA growth resulting from revenue growth and margin improvements ('margin expansion'), (2) the change in the valuation multiple between acquisition and disposal ('multiple expansion'); and (3) the increase in value through the reduction of net financial debt ('deleveraging'). However, this absolute approach has a significant weakness when assessing a GP: Profitability and multiples can also rise for reasons entirely unrelated to the PE firm's involvement. Such reasons may include, for example, a recovery in the broader economy or a general upturn in the equity markets. A high increase in value in the value bridge therefore, in itself, says little about whether a GP actually possesses above-average capabilities.

For LPs, therefore, a relative assessment is crucial: what proportion of the increase in value would not have occurred without the private equity fund's involvement? This question is central to manager selection, as it distinguishes between two very different sources of return:

- Selection effect: The GP invests in companies whose improvement would have occurred anyway. Essentially, the fund is then a skilful 'stock picker' or a good timekeeper of the market cycle. Unlike genuine operational value creation, this effect is hardly reliably repeatable. From an LP's perspective, it hardly justifies the fee structure of an actively managed fund, as it is closer to a market return ('beta') than to genuine 'alpha'.

- Management effect: The GP actively and causally brings about improvement through operational, strategic or governance measures, for example. This is the effect that LPs seek to identify during manager due diligence, as it is based on the GP's repeatable capabilities and is therefore the best indicator of future fund performance.

For GPs, on the other hand, demonstrating a genuine management effect is a key differentiating factor in fundraising: track records that are predominantly based on multiple expansion or leverage effects are harder to sell as a standalone competence than those based on documented operational improvements.

Against this backdrop, practical value creation in private equity can typically be divided into three or four categories. The first three – financial, governance, and operational engineering – form the traditional classification, while 'strategic value creation' is often added to this in practice.

Table 2: Overview of key value creation strategies (Adapted from Ljungqvist, 2024)

Strategy	Description	Examples
Operational value creation (Operational Engineering)	Improving the company's operational performance.	Efficiency improvements, digitalisation, cost optimisation, pricing, internationalisation, professionalisation of management
Strategic value creation	Further development of the business model and growth.	Buy-and-build, market expansion, new products, M&A, ESG integration
Governance engineering	Improvement of corporate governance and incentive structures.	New advisory board, management incentives, KPIs, improved governance, active monitoring
Financial engineering	Optimisation of capital structure and financing.	Leverage (LBO), refinancing, working capital management, tax optimisation

For LPs, when assessing these four levers, the decisive factor is the extent to which a fund benefits from the first two (operational and strategic value creation) compared with the latter two (governance and, above all, financial engineering). Financial engineering, in particular, is the least suitable for demonstrating above-average GP capabilities and is most heavily dependent on general market conditions such as interest rate levels and the availability of credit. However, even with a granular analysis, drawing a robust distinction between selection and management effects remains methodologically challenging, as the company's performance without a private equity owner can never be directly observed.

4.2 Sustainability

Environmental, social and corporate governance (ESG) factors are now an integral part of the investment process, relating to environmental, social and corporate governance issues. The growing importance of these factors is due, in part, to their ability to significantly impact the risks and returns of investments. Climate change, resource scarcity, regulatory requirements, supply chain risks and governance structures are all issues that are increasingly affecting companies' long-term performance and are therefore also becoming more important for investors. The Coller Research Institute's Global Private Capital Barometer (2025) reveals that the majority of the 110 LPs surveyed (with US$1.9 trillion in assets under management now view ESG and sustainability as a proactive lever for value creation rather than solely as a compliance issue. At the same time, risk mitigation and the protection of financial assets are highlighted as key benefits of consistent ESG integration. Large institutional investors, such as pension funds, sovereign wealth funds, insurance companies, foundations and university endowments, have also increasingly incorporated sustainability criteria into their investment decisions, setting out corresponding requirements for fund managers. Around 86% of private equity firms now have sustainability reporting in place.[9] The European Union has enshrined sustainability as a key financial and economic policy objective since at least the 2018 Action Plan on Sustainable Finance and the 2019 European Green Deal. This is due to the enormous capital requirements for the green transformation of the economy.

According to the European Central Bank, additional annual investment amounting to between 2.7% and 3.7% of European gross domestic product must be mobilised by 2030 in order to achieve climate neutrality by 2050.[10] Private equity plays an important role in this regard, as the asset class frequently facilitates the financing of companies in areas such as renewable energy, energy efficiency, the circular economy and sustainable technologies, while actively supporting these companies in their further development. The most important regulatory frameworks include the Sustainable Finance Disclosure Regulation (SFDR and SFDR 2.0), the EU Taxonomy and other disclosure and reporting requirements. The integration of sustainability considerations essentially takes place along two dimensions. The first dimension concerns the relationship between GPs and LPs. Here, formalised sustainability commitments, the definition of specific sustainability targets, standardised key performance indicators and transparent sustainability reporting are of great importance. The second dimension encompasses the actual investment process. Today, sustainability aspects are typically analysed as part of due diligence, taken into account in investment decisions and actively monitored throughout the entire holding period. This encompasses both risk management and the operational development of portfolio companies. Many fund managers aim to systematically integrate sustainability aspects into value creation strategies, thereby unlocking long-term competitive advantages and additional value-enhancement potential.[11] However, as sustainability considerations become more widespread, new challenges are also emerging.

More and more, the focus shifts towards addressing these challenges. In particular, preventing greenwashing, ensuring the availability of reliable and comparable data, and measuring actual sustainability

9 Bain & Company (2026)
10 Nerlich et al. (2025)
11 CAIA Association (2021)

impacts are becoming increasingly important[12, 13]. The ability to credibly integrate sustainability considerations into investment decisions and value creation strategies is thus increasingly becoming a competitive factor within private equity.

4.3 Exits

The return on a PE investment is typically only realised upon exit. The aim is to convert the value growth generated during the holding period into an attractive return for the fund by achieving the highest possible sale proceeds. At the same time, the distribution of the proceeds enables LPs to recover their invested capital as well as the income generated, thereby regaining liquidity.

For GPs, successful exits are also of central importance, as they form the basis for performance-related remuneration (carried interest).

Accordingly, the exit strategy is usually defined before an investment is made and forms an essential part of the investment process. Most LPs also stipulate that the proceeds from the sale are to be distributed in accordance with the contractually agreed distribution waterfall and not reinvested in the fund.

Broadly speaking, there are four main ways to exit a portfolio company. Traditional exit channels include selling a portfolio company to a strategic buyer (a trade sale) or launching an IPO. Since the mid-2000s, a third significant exit route has emerged: selling to another financial investor (secondary buyout). More recently still, GP-led secondaries have also become more important. In this case, a portfolio company is transferred to a continuation vehicle, which is a newly launched fund managed by the same GP.

12 Ljungqvist (2024)
13 ESMA (2026)

Table 3: The four exit channels in private equity (Adapted from CAIA Association (2020); Ljungqvist (2024))

Exit strategy	Description	Advantages	Challenges
Trade sale	Sale of the portfolio company to a strategic buyer, e.g. a competitor or a company in the same or a comparable field.	Strategic buyers may be able to offer higher purchase prices due to expected synergies, economies of scale or access to new technologies and markets.	Dependence on suitable strategic buyers; competition law and regulatory hurdles.
Initial public offering (IPO)	Initial public offering (IPO) of the portfolio company, followed by the gradual disposal of the stake via the capital market. The fund initially remains the majority or major shareholder.	Access to a broad investor base; high valuations are possible under favourable market conditions.	High costs and a long preparation period; lock-up periods and heavy dependence on the capital market environment.
Secondary buyouts (SBO)	Sale of the portfolio company to another financial investor, usually another PE fund. The existing investor may retain a minority stake (roll-over equity).	A broad range of potential financial investors; frequently competitive bidding processes and the opportunity for the existing investor to continue to participate in the company's performance through roll-over equity.	Sufficient further potential for value appreciation is required for the new investor; transaction value and financeability depend on the financing environment.
Continuation Vehicle (CV)	Transfer of the portfolio company into a newly established fund managed by the same GP. Existing LPs can sell their stake or transfer it to the new vehicle.	Liquidity for existing LPs whilst allowing the investment to continue and enabling them to capitalise on further potential for value appreciation.	Conflicts of interest arising from the GP's dual role; ensuring an appropriate valuation and fair terms of the transaction.

Exit conditions have deteriorated significantly in recent years. While the exit volume as a proportion of the invested volume averaged 22.9% between 2011 and 2021, it fell to just 13.6% between 2022 and 2025 – a relative decline of around 40.7% (Figure 5). At the same time, holding periods lengthened: for buyouts, the median holding period between 2014 and 2022 was around 5.2 years, but has recently been around 5.9 to 6.3 years. Key reasons for this include the rise in interest rates since 2022, higher financing costs, valuation uncertainties as well as a weaker IPO and M&A environment. Added to this is a valuation gap between sellers and potential buyers, as GPs often still hold their portfolio companies at higher valuation levels, while buyers are demanding lower prices in view of higher cost of capital. As a result, exits are being postponed and portfolio companies are being held for longer. The resulting liquidity and exit bottleneck increases the need for alternative ways of providing existing LPs with liquidity without having to sell portfolio companies via traditional exit channels.

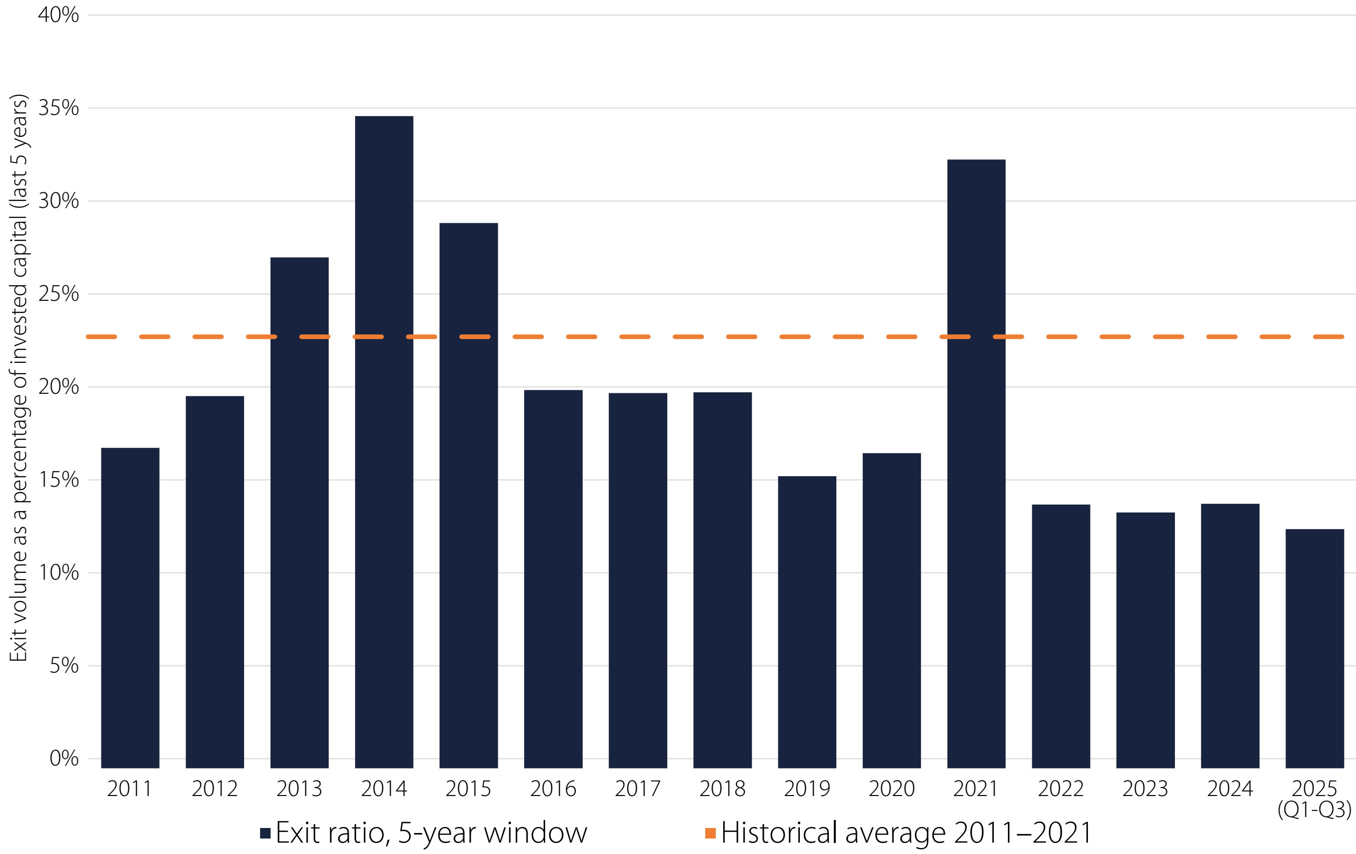

Figure 5: Global PE exits measured by the cumulative transaction volume over the preceding five years (own illustration based on Preqin, 2026).

GP-led secondaries and continuation vehicles (CVs) are becoming an increasingly important solution to this. They enable existing investments to be transferred to a new vehicle that continues to be managed by the same GP. This gives the LPs of the original fund the opportunity to sell their stake and realise liquidity or to continue their investment via the CV. This growing importance is clearly reflected in global exit activity: the share of continuation vehicles in the transaction volume of sponsor-backed PE exits rose from around 5% in 2020 and 2021 to approximately 14% in 2025 (Figure 6).

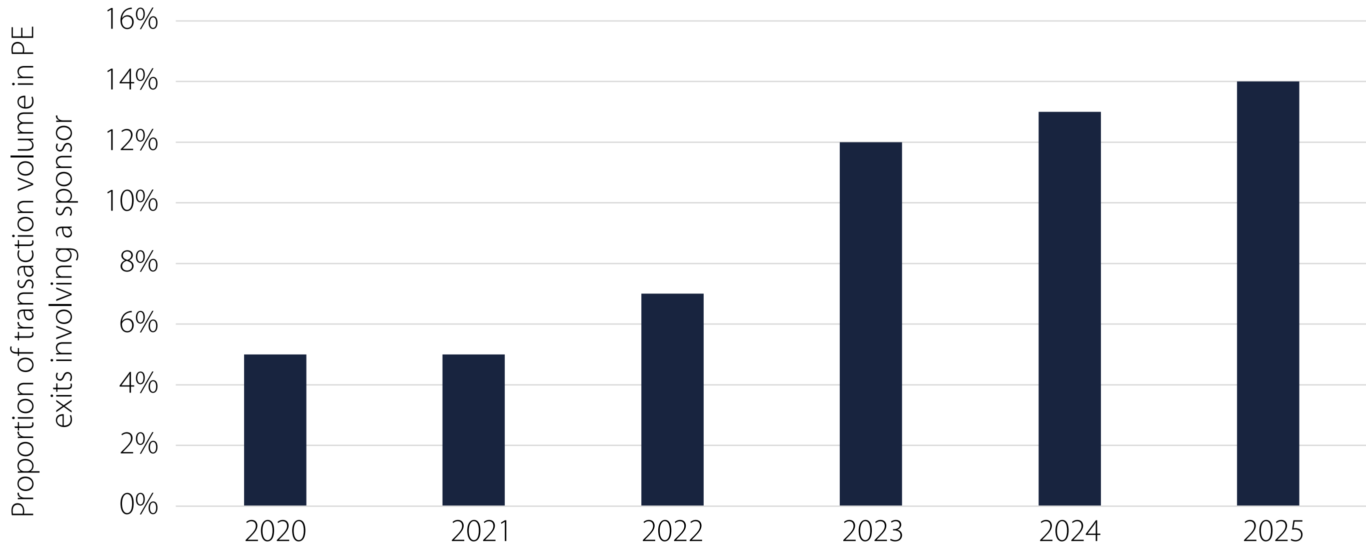

Figure 6: Global exit activity via continuation vehicles (Adapted from Kelly et al., 2026)

At the same time, the global transaction volume of GP-led secondaries increased from US$32 billion in 2020 to US$76 billion in 2024. CVs have thus increasingly evolved from a supplementary liquidity solution into an established fourth exit channel alongside trade sales, secondary buyouts and IPOs. Further information on the specific challenges of GP-led secondaries, particularly with regard to conflicts of interest, valuation and governance, can be found in Chapter 5.1.7 Secondaries.

In addition to the four main exit strategies set out in Table 3, there are other ways of realising an investment, either fully on partially. For example, GPs can return capital to investors via recapitalisations or dividend recapitalisations at the portfolio company level, or via net asset value (NAV) financing at the fund level, without having to sell the portfolio company in question in its entirety. Finally, in the event of a failed investment, the liquidation or write-off of the portfolio company may represent the final exit, which is usually associated with losses.

The choice of exit timing depends on numerous factors, including the company's operational performance, the valuation levels of comparable companies, financing conditions and general market sentiment. As it is often impossible to determine in advance which exit strategy will yield the highest return, private equity firms sometimes pursue a dual-track process, in which, for example, preparations for both an initial public offering and a sale of the company are carried out in parallel. In principle, investments can be divested via any of the exit strategies mentioned, or through a combination of them.

Of all exit channels, trade sales have been by far the most important for many years (Figure 7). Since peaking at 1,638 transactions in 2021, the number has fallen significantly due to the more challenging market environment. Nevertheless, trade sales continued to dominate exit activity in the first three quarters of 2025 as well, accounting for around 57% of all exits with 851 transactions. Secondary buyouts are the second most important exit channel. Although their number fell from a record high of 1,227 transactions in 2021, it remained at a high level, with 840 transactions in 2024 and 553 transactions in the first three quarters of 2025. By contrast, IPOs have lost considerable significance as an exit option. While between 2013 and 2021, between 250 and over 400 private equity-backed IPOs were recorded annually, their number fell significantly following the rise in interest rates to just 147 transactions in 2022 and 2023, and 131 in 2024. In the first three quarters of 2025, only 57 IPOs were recorded, causing their share of all exits to fall from around 6% in 2024 to just 4%.

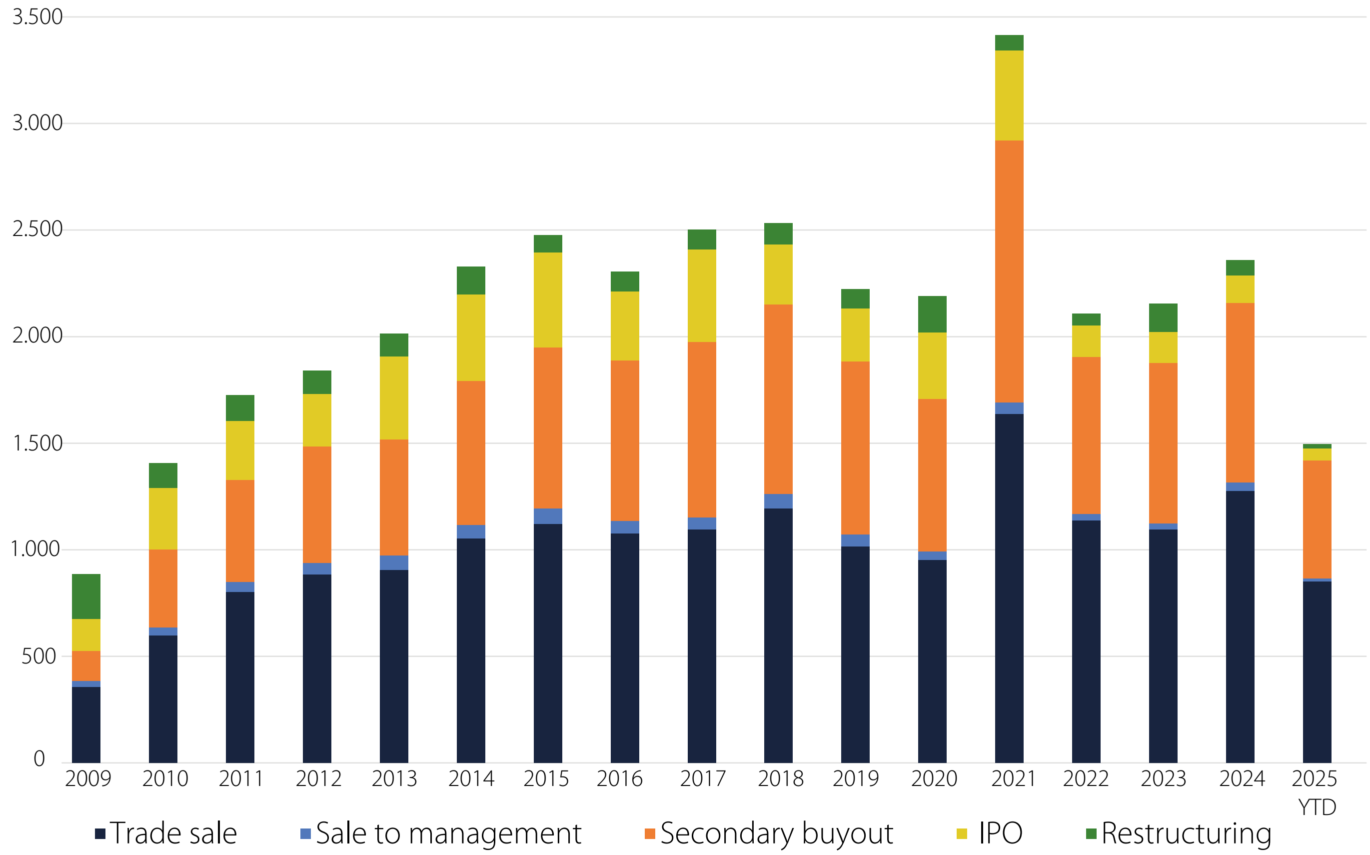

Figure 7: Number of exit channels financed by private equity funds (Preqin, 2026)

5. The LP perspective: access routes, fees and fund valuation

This chapter examines private equity from the perspective of investors (LPs). LPs are generally institutional investors, although a distinction can be made between regulated institutional investors and less regulated investors such as family offices. This distinction also gives rise to different capital allocations within the private markets. This chapter aims to provide an insight into the structure of a typical LP portfolio in the DACH region. In addition to the characteristic capital allocations, the chapter also covers common access routes and investment vehicles, fee and remuneration models, and approaches to performance measurement.

Private equity is one of the established asset classes for institutional investors in the DACH region. According to the Preqin DACH Investor Survey 2024, more than 80% of institutional investors in Germany, Austria and Switzerland hold private equity exposure, which is significantly above the global average of 69%.[14] At the same time, the global Preqin Private Equity in 2026 report shows that 88% of investors wish to maintain or further increase their private equity allocation in the long term.[15]

According to the BAI Investor Survey 2025, the average allocation to Alternative Investments stands at 30.31%. Institutional portfolios in the DACH region are therefore comparatively 'alternative-heavy'. The remaining 69.69% is allocated to equities, bonds and other traditional asset classes. Figure 8 shows that corporate private equity, at 6.13%, represents a significant component of an average LP portfolio, second only to real estate equity at 9.29%. Venture capital currently accounts for a significantly smaller share, at 0.92%.

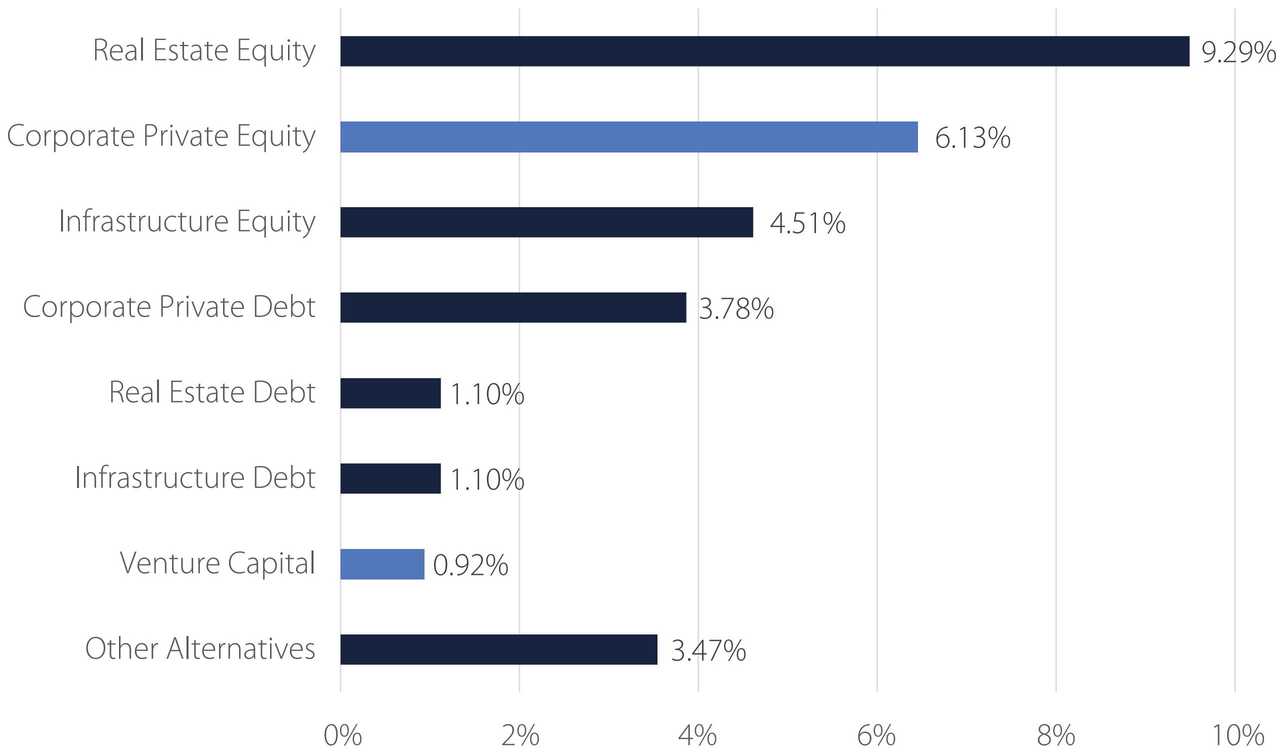

Figure 8: Average allocation of institutional investors' Alternative Investments by asset class (BAI, 2025)

14 Preqin (2024)
15 Preqin (2026)

5.1 Investment vehicles and access routes

For private equity investments, LPs have a variety of investment vehicles and access channels at their disposal. The most common option is to invest through private equity funds. These funds pool the capital of several investors and invest it in a diversified portfolio of companies.

Figure 9 shows a typical allocation of capital by investors in the DACH region, broken down by investment vehicle and access channel. According to the BAI Investor Survey 2024, the majority of investors allocate capital to fund of funds (56%), followed by single funds (54%) and secondaries (36%).

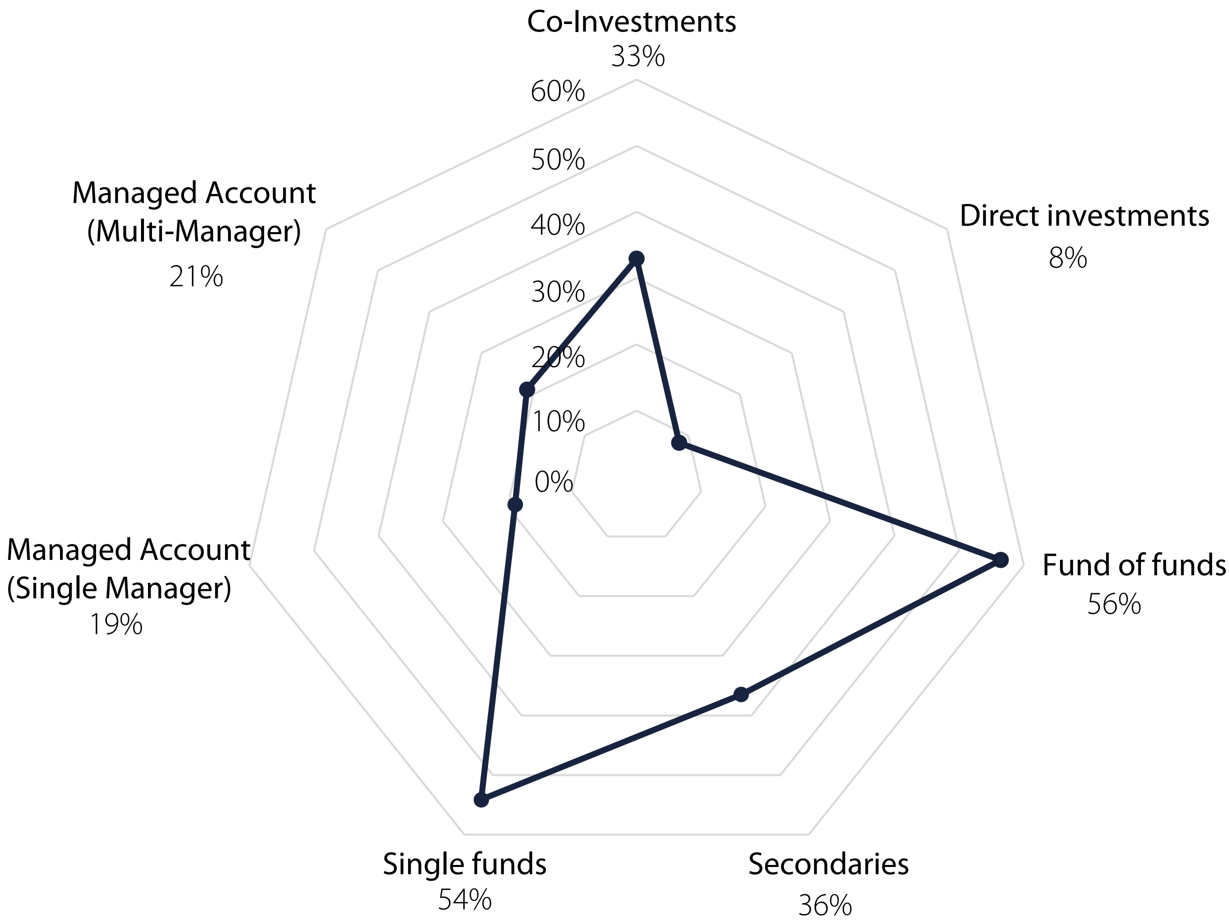

Figure 9: Investors' capital allocation by investment vehicle and access channel in the DACH region (BAI, 2024)[16]

5.1.1 Direct investment

In direct investment, an investor takes a direct stake in a company. However, this form of investment requires extensive resources, specialised expertise and a significant amount of due diligence and management effort. Furthermore, due to the low level of diversification, it carries a higher level of risk, as the investment's success is concentrated on a few or even just a single company.

5.1.2 Single funds (closed-end funds)

Single funds represent the traditional route into private equity. In this arrangement, investors invest in a single fund managed by a GP, which invests the capital in a portfolio of unlisted companies in accordance with a defined investment strategy. Single funds generally offer a more concentrated exposure to a specific strategy, region or sector.

16 The figures add up to over 100%, as investors generally use several investment vehicles in parallel (multiple selections were possible).

Traditional single funds are predominantly structured as closed-end funds. When the fund launches, investors make a capital commitment, which is drawn down in stages via capital calls during the investment phase. Unlike open-ended funds, no new units are usually issued and no existing units are redeemed during the fund's standard term. This term usually lasts around ten years and can be extended if necessary, for example, to sell off remaining holdings in an orderly manner.

As PE funds are predominantly unlisted, investors are generally unable to redeem their fund units from the fund or trade them freely during the fund's term. Early exit is usually only possible via the secondary market (see Chapter 5.1.7).

Listed closed-end funds typically raise capital through an IPO. Following the issue, the fund units are traded on the stock exchange. Although a NAV[17] is calculated on a regular basis, the market price of the units may be above or below this value. A market price below the NAV is referred to as a discount, while a price above the NAV is referred to as a premium.

5.1.3 Evergreen funds

Evergreen funds are investment vehicles with no fixed term. Unlike traditional closed-end funds, proceeds from the sale of equity holdings are generally reinvested, so that the fund's assets are continuously maintained and grown. Historically, evergreen structures were particularly widespread in continental Europe, both in the form of listed investment companies as well as investment vehicles operated by individual financial institutions.

Due to their unlimited duration, evergreen funds are occasionally equated with open-ended funds. However, this classification is incorrect. While open-ended funds generally issue and redeem units on an ongoing basis at NAV, evergreen funds usually have restricted subscription and redemption options, as well as defined liquidity windows. They thus represent a distinct fund structure that combines the long-term capital commitment of traditional private equity funds with greater flexibility for investors.

5.1.4 Funds of funds

Funds of funds invest in multiple private equity funds, thereby enabling further diversification across different fund managers, strategies, regions and vintages. This can help to reduce the risk of loss associated with individual investments. However, this is generally offset by higher fees due to an additional layer of management.

5.1.5 SMAs/Custom Mandates

Separately Managed Accounts (SMAs) are individually managed mandates in which an institutional investor instructs an asset manager or GP to manage a private equity portfolio specifically tailored to its investment objectives. Unlike traditional funds, the investor does not invest alongside other investors in a standardised vehicle, but instead receives a bespoke portfolio in terms of strategy, regions, sectors, ESG criteria and risk profile.

5.1.6 Co-investments

Co-investments often offer LPs the opportunity to invest directly in a portfolio company alongside a GP, thereby increasing their exposure to a single transaction. While the usual management fees apply to investments in the private equity fund, co-investments are generally offered with no management fees or only significantly reduced management fees

17 The NAV is calculated by adding up the value of all a fund's investments and dividing this by the number of fund units in circulation.

and carried interest. This makes them a cost-effective way for investors to expand their allocation to attractive transactions.

5.1.7 Secondaries

Secondaries refer to the trading of existing private equity investments on the secondary market. In contrast to primary investments (primaries), where investors commit capital to newly launched funds, buyers in secondary transactions acquire existing fund units or investments with capital that has already been invested. A basic distinction is made between LP-led and GP-led secondaries:

- LP-led secondaries are initiated by existing fund investors (the LPs) who wish to sell all or part of their fund units to other investors. Such transactions are often aimed at raising short-term liquidity, adjusting strategic portfolio allocations or reducing over-allocations.

- In GP-led secondaries, the fund manager (GP) initiates the transaction themselves in order to transfer selected portfolio companies into a newly established vehicle. The best-known form of this is the so-called continuation vehicle. Existing investors are given the choice of selling their stake and realising liquidity, or continuing their investment within the new structure.

At the same time, new investors provide fresh capital and participate in the companies' future performance.

As the GP acts as both seller and buyer in GP-led secondaries, potential conflicts of interest may arise when determining the transaction price. For example, higher valuations may increase management fees and boost the likelihood that the GP will generate carried interest in the future. These transactions therefore require a balance of interests between exiting, reinvesting and new investors. This necessitates independent valuations, fairness opinions and effective oversight by the LP Advisory Committee. Despite the criticism, GP-led secondaries offer LPs additional liquidity, particularly when traditional exits via IPOs or company sales are difficult to achieve.

5.2 Fee and remuneration models

The remuneration model in private equity typically follows the so-called '2-and-20' structure, although the specific terms may vary in practice depending on the size of the fund, the strategy and the investors' bargaining power. The aim of the remuneration structure is to align the interests of fund managers and investors as closely as possible, while covering the day-to-day costs of fund management.

The first component of remuneration is the management fee. This serves to finance the fund manager's day-to-day operations and covers, amongst other things, staff, administrative, travel, consultancy and reporting costs. The management fee is usually between 1.5% and 2.0% of the committed capital per annum. At the end of the investment period, the basis for calculation is often switched from the committed capital to the capital actually invested, thereby reducing the effective fee burden on investors.

The second component of remuneration is what is known as carried interest (carry). This is a performance-related profit share for the fund manager, which typically amounts to 20% of the profits generated. However, the carry is only payable once the investors have recovered their original capital and a pre-defined minimum return has been achieved.

This minimum return is known as the hurdle rate and, in many fund structures, stands at around 8% per annum. Only once this threshold has been exceeded does the GP share in the profits above that level. Many funds also provide for a so-called GP catch-up clause. Under this arrangement, profits accruing after the hurdle rate has been reached are initially allocated disproportionately to the GP until the contractually agreed ratio between LPs and the GP (80:20) is established. Thereafter, all further profits are distributed between the LPs and the GP in accordance with this allocation.

To avoid misalignment of incentives, fund agreements often contain so-called clawback clauses. These oblige the GP to repay part of the profit shares already received if, later in the fund's term, it transpires that investors have realised fewer profits overall than originally anticipated.

The combination of management fees and carried interest forms the core incentive structure of the private equity sector. While the management fee covers the day-to-day costs of fund management, the carried interest is intended to ensure that the fund manager is focused, in the long term, on the sustainable growth in value of the portfolio companies. This creates a key mechanism for reducing potential conflicts of interest between investors and the fund management.

5.3 Performance measurement

Performance is typically reported to LPs using three key performance indicators (KPIs): IRR, TVPI and DPI.

The IRR (Internal Rate of Return) measures a fund's annualised return, taking into account the timing and amount of the fund's cash flows, i.e. its inflows and outflows after deduction of fees. Strictly speaking, the final IRR can only be calculated once a fund has been fully liquidated. In practice, however, IRRs are reported on an ongoing basis throughout the fund's term, based on current fund valuations. A key advantage of the IRR is that it takes into account the time value of money as well as the timing and amount of cash flows, thereby representing a cash-weighted return metric. At the same time, the IRR has certain limitations. For investments that have not yet been realised, it is based on valuation assumptions, meaning that subsequent value adjustments can have a direct impact on the metric. Furthermore, the IRR can be distorted by early distributions or implicit reinvestment assumptions, and, due to its high sensitivity to the timing of cash flows, it is only comparable to a limited extent between different funds.

The IRR can be used to highlight the difference in performance between fund managers. As can be seen in Figure 10, the median returns for the 2004 to 2006 vintages fell significantly following the very high returns of the early 2000s, before recovering again from 2009 onwards. The 2014 to 2017 vintages once again reached a high level, with median returns of around 15 to 17%. For the more recent vintages from 2020 onwards, however, there has been a decline in median returns while

a widening gap between the top and bottom quartiles can be observed. For instance, funds in the top quartile of the 2022 vintage achieved higher IRRs than those from the 2020 and 2021 vintages, while returns in the bottom quartile fell to around 1%. This performance gap underscores the growing importance of careful manager selection and due diligence by LPs, as well as the intensifying competition within the private equity sector.

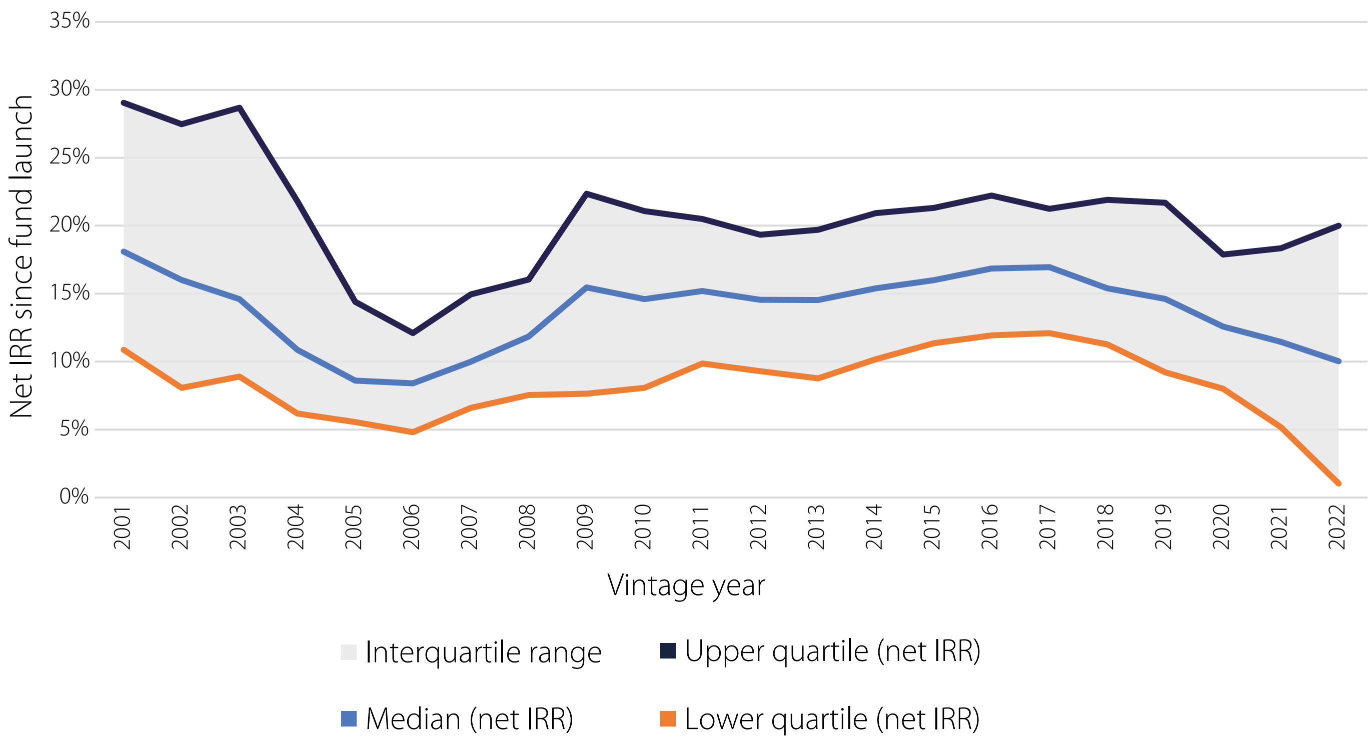

Figure 10: Performance of PE funds by median net IRR, by vintage (Preqin, 2026)[18]

The TVPI (Total Value to Paid-In) measures the ratio of realised distributions and the current residual value of the remaining holdings to the paid-in capital. A TVPI of over 1.0 indicates that the fund has achieved a positive increase in value. The TVPI reflects the total increase in value of a fund (realised and unrealised), but does not take into account the time value of money and depends on the valuation of unrealised holdings.

The DPI (Distributed to Paid-In) measures the ratio of funds already distributed to investors to the paid-in capital. The DPI reflects only actual realised returns and is therefore not dependent on valuation assumptions. However, it takes into account neither unrealised capital gains nor the time value of money and is therefore particularly meaningful for funds that are already at an advanced stage or have been fully liquidated.

Preqin Benchmark, which comprises the following strategies: Balanced, Buyout, Co-Investment Multi-Manager, Co-Investment, Direct Secondaries, Growth, Turnaround, Fund of Funds and Secondaries.

18 Preqin Benchmark, which comprises the following strategies: Balanced, Buyout, Co-Investment Multi-Manager, Co-Investment, Direct Secondaries, Growth, Turnaround, Fund of Funds and Secondaries.

As each metric reflects different aspects of a fund's performance, IRR, TVPI and DPI are generally used in conjunction in practice to assess the performance of a private equity fund. Nevertheless, measuring private equity performance remains somewhat challenging due to a number of key challenges and specific characteristics. Ljungqvist (2024) and Preece & Wilson (2026) identify these as follows:

- Low transparency due to the limited availability of performance and fund data, as well as opaque fee structures.
- Valuation uncertainties regarding unlisted companies due to infrequent valuations and a lack of market prices.
- Illiquidity of the investments, as they cannot be sold at short notice and exit opportunities depend on market conditions.
- Complex performance measurement due to asynchronous capital commitments, capital calls, distributions and the long-term tie-up of capital.
- Limited comparability of performance, as metrics such as IRR, TVPI or DPI have methodological weaknesses and are only comparable to traditional asset classes to a limited extent.
- A long-term investment horizon, meaning that returns are typically only realised in the later years of the fund (J-curve).
- Difficulties with portfolio integration, as the aforementioned characteristics complicate portfolio optimisation, rebalancing, benchmarking and asset-liability management.

Despite the challenges mentioned, empirical studies suggest that, over certain time periods and after fees have been deducted, private equity funds can generate returns that exceed those of public equity markets such as the S&P 500.[19] However, the results depend significantly on the data used, the time period under consideration, the fund strategy and the benchmark employed.

19 Ain Tommar et al. (2024); Brown et al. (2023); Phalippou (2014)

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Glossary

Term	Definition
Buyout	The acquisition of a company, often in its entirety, by a private equity firm.
Carried interest	A share of the profits for fund managers, which serves as a performance-related incentive.
Distressed investments	Investments in companies in financial difficulties with the aim of restructuring and increasing value.
Due Diligence	A comprehensive assessment of a company prior to an investment, to evaluate opportunities and risks.
Exit strategy	The sale of the stake by the private equity firm to realise profits.
Fund lifecycle	The period during which a private equity fund invests, develops its portfolio companies and subsequently divests them; typically around ten years.
Growth capital	Capital provided to established companies to finance further growth, without taking full control.
Initial Public Offering (IPO)	A company's initial public offering (IPO); a common exit strategy for private equity investors.
Institutional investors	Large organisations such as pension funds, insurance companies or foundations that invest capital in private equity funds.
Capital call	A request by a fund to its investors to pay in the capital they have committed.
Leveraged buyout (LBO)	A company takeover financed using a high proportion of borrowed capital.
Management buy-out (MBO)	A takeover of a company by its existing management, often with the support of a private equity investor.
Portfolio companies	A company in which a private equity firm holds a stake.
Private equity	Investments in unlisted companies with the aim of increasing their value and subsequently selling them at a profit.
Separately Managed Accounts (SMAs)	SMAs are investment mandates managed individually for a single investor, which offer a high degree of transparency and bespoke investment strategies, though this is often at the expense of diversification.
Venture Capital	Equity capital for start-ups and young companies with high growth and innovation potential.

About us

The Bundesverband Alternative Investments e.V. (BAI) is the asset class- and product-spanning representation of interest for Alternative Investments in Germany.

- We are improving the level of public awareness for alternative strategies and asset classes
- We are creating internationally competitive and attractive (regulatory) conditions for the investment in Alternative Investments
- We are representing the interests of the industry to politics and regulators
- We are serving as a catalyst between professional German investors and recognized worldwide providers of Alternative Investments products and services
- We are supporting scientific research in the field of Alternative Investments
- Founded 1997 in Bonn, the association's members are resident in any field of the professional Alternative Investments Business. 309 national and international companies are members of the BAI. The members directory can be found **here**.

Upcoming Conference:

- BAI InnovationsDay 2026, 23. September 2026, Radisson Blu Frankfurt
- BAI Real Assets Symposium 2026, 19.11.2026, Westin Grand Hotel, Frankfurt am Main
- Workshop Sustainable Finance & ESG 2026, 02.12.2026, Audimax des Frankfurt School Forum, Frankfurt am Main
- Private Debt Symposium 2027, 18. - 19.01.2027, Scandic Frankfurt Hafenpark

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Conferences and Events

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