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Braced for shifting weather

McKinsey Global Private Markets Report 2025

May 2025

Welcome to McKinsey's Global Private Markets Report 2025

Conditions for global private markets were decidedly mixed in 2024. Dealmaking remained tepid, for instance, while fundraising across all asset classes fell to its lowest level since 2016, even as the performance of public markets increased. Yet capital deployment increased by double digits across asset classes, as managers adapted to a world of interest rates structurally higher than in previous years. Investor interest and confidence in private markets remained strong. In McKinsey's latest survey of the world's leading LPs, investors say that they will allocate more capital, not less, to private markets over the coming year.

Conditions are likely to remain uneven for private markets. At the time of this report's publication, geopolitical instability and changes in trade policy are emerging as critical challenges for managers and investors. Meanwhile, innovation in technology, particularly the rapid advancement of generative AI, has compelled leaders in private markets to build new capabilities in their quest to find more value.

What struck us most when writing this report, however, is the resilience shown by private market stakeholders as they navigate an industry in transition. Fundraisers are looking beyond closed-end channels to raise capital in new vehicles, such as evergreen funds. Dealmakers and operators are moving from traditional financial engineering to focus on sustained operational transformation. And LPs are moving from being passive allocators to investing in GPs themselves (as thriving secondaries and GP stakes markets reveal).

In the first part of the report, we analyze how private equity, real estate, private debt, and infrastructure asset classes fared in 2024. In the second part, we share our perspectives on three pressing issues that cut across asset classes: the exit backlog in PE, the rise of alternative sources of capital, and the increasingly attractive world of secondaries and GP stakes.

The perspectives shared here are based on our long-running research on private markets, our proprietary data, industry-leading data from external partners, and our experience in the field, working hand in hand with global investors, asset owners, and capital allocators.

We hope you enjoy reading and look forward to hearing from you.

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Asset classes in review

Private equity emerging from the fog

Global uncertainties remained in 2024, but the path forward for private equity became clearer, with a rebound in dealmaking and distributions.

To the casual observer, 2024 may have felt like yet another difficult year for private equity (PE) globally. Fundraising remained tough—down 24 percent year over year for traditional commingled vehicles, marking the third consecutive year of decline. Investment returns were muted, especially compared with buoyant public markets.

Our analysis reveals a more nuanced picture. After two years of murky conditions, PE started to emerge from the fog in 2024.

For one, the long-awaited uptick in distributions finally arrived. For the first time since 2015, sponsors' distributions to LPs exceeded capital contributions (and were the third highest on record).[1] This increase in distributions arrived at an important time for LPs. In our 2025 proprietary survey[2] of the world's leading LPs, 2.5 times as many LPs ranked distributions to paid-in capital (DPI) as a "most critical" performance metric, compared with three years ago. There was also a rebound in dealmaking after two years of decline, with a notable increase in the value and number of large PE deals (above $500 million in enterprise value). Exit activity, in terms of value, started to whir again as well, especially sponsor-to-sponsor exits.

This resurgence was powered by a much more benign financing environment. The cost of financing a buyout declined (even though it remains much higher than the ten-year average), and new-issue loan value for PE-backed borrowers almost doubled. In a sign of sponsors' confidence amid improving financing conditions (spurred by monetary easing), entry multiples increased after declining in 2023, as sponsors could sell more companies at a higher average price per company.

The contrast between the past three years and the prior period could not have been starker. The rapid run-up in global interest rates from 2022 to 2023 (an increase of more than 500 basis points in the United States) shook PE to the core, an industry that had acclimated to cheap leverage for nearly a decade. There was a raft of other macroeconomic challenges too, including persistent inflation and increased geopolitical uncertainty. These and other headwinds prompted a slump in dealmaking while creating unanticipated disruptions in portfolio companies. They also complicated managers' ability to determine the true earnings of target companies, especially those purchased at lofty valuations in the aftermath of the COVID-19 pandemic. Even investors with near-term liquidity requirements—and conviction in the long-term value of potential acquisitions—struggled to execute deals in a cautious lending environment.

But PE is now starting to surface from these challenges—likely more resilient and durable than before. In our LP survey, 30 percent of respondents said they plan to increase their PE allocations in the next 12 months. Beyond offering LPs diversification, the continued appeal of the asset class can also be explained by its long-term performance trajectory. Since the turn of the millennium, PE has outpaced the S&P 500—rewarding those investors who can stomach the relatively lower liquidity that typically characterizes PE investments.

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[1] Data is from the first half of 2024 only.
[2] January 2025, n = 333.

GPs, too, are evolving and innovating. In 2024, total global PE assets under management (AUM) appeared to decline[3] by 1.4 percent by the traditional measure of closed-end commingled funds. Yet this drop does not capture the novel ways in which GPs are unlocking alternative sources of capital, such as from separately managed accounts, co-investments, and partnerships. These alternative forms of capital have provided a multitrillion-dollar boost to global PE AUM. GPs are also increasingly sourcing new funds from noninstitutional investors, such as high-net-worth individuals. They do this through multiple channels (such as aggregators and wealth managers) and with multiple vehicles (such as open-end and semi-open-end funds)—all of which are more accessible than traditional closed-end vehicles to retail and high-net-worth investors.

To address growing liquidity demands from LPs, an increasing number of GPs are creating new fund structures, including setting up continuation vehicles. And they are increasingly expanding their use of deal structures such as public-to-private (P2P) transactions and carve-outs, to accelerate deployment. In Europe, where P2P activity has historically been subdued, the total value of P2Ps was up 65 percent in 2024.

Meanwhile, scale continues to provide a competitive advantage to managers: Over the past five years, the top 100 GPs made approximately three times more acquisitions of competing GPs than they did in the previous five years. This scale could provide GPs with more flexibility and help them diversify income streams; although, its correlation with performance or fundraising is unclear (smaller, midmarket funds proved easier to raise in 2024 than the largest funds).

Of course, the fog hasn't entirely cleared: There were some industry pockets that continued to face rough weather. Venture capital (VC) recorded a bigger decline in deal count and lower growth in deal value than other PE subasset classes globally. Across asset classes, Asia lagged behind North America and Europe year over year in fundraising (driven principally by a retreat from China), performance, and deal activity. As the fog lifts, we can more clearly see those in peril—even within better-performing asset classes like buyouts. Some funds are facing twin pressures of elevated marks and the inability to sell their portfolio companies. Over time, the spread between better-differentiated and better-performing funds and less-differentiated and worse-performing funds may widen.

The PE industry will also need to monitor and address other challenges. It is uncertain, for now, whether or for how long the hangover from the exuberant dealmaking of 2021 and 2022 will last. The exit backlog of sponsor-owned companies is bigger in value, count, and as a share of total portfolio companies than at any point in the past two decades. Selling these assets, especially when the marks are likely to remain elevated on many sponsors' books (given high entry multiples in 2021 and the increasing role of GP-led secondaries, which often bring exits below marks), will require more than just high hopes that the market will turn. Refinancing those portfolio companies in an uncertain, higher-rate, and more discerning lending environment will also be challenging. Meanwhile, investors and operators need to consider increasing geopolitical

[3] From the end of 2023 through the first half of 2024.

uncertainty—for example, the threat of tariffs—as they underwrite and drive value creation initiatives. All stakeholders must also confront rapid evolutions in AI. What is top of mind for the investors and operators we work with is building best-in-class data science teams within fund operations, developing AI-enabled value creation initiatives that can drive portfolio-wide impact, and scaling external AI partnerships.

In this first article from our flagship Global Private Markets Report, we analyze how PE fared in 2024—and what it might mean for the year ahead. We consider this from the perspective of four groups: dealmakers, fundraisers, LPs, and the operators tasked with creating value in privately held firms.

Heat map

The heat map shows key metrics across private equity asset classes.

Global private equity, all deal sizes

Negative for PE industry — Positive for PE industry

Macro environment — GPs — LPs

	2019	2020	2021	2022	2023	2024
Interest rate (%)[1]	2.2	0.4	0.1	1.7	5.0	5.1
Inflation rate (%)	3.5	3.3	4.7	8.6	6.7	5.8
Deal value (% year-over-year [YOY] growth)	2	–8	98	–22	–25	14
Deal count (% YOY growth)	4	3	41	–5	–18	–13
PE-backed exit deal value (% YOY growth)[2]	–8	–11	54	–16	–6	–14
PE-backed exit deal count (% YOY growth)[2]	–20	32	102	–54	–4	8
Median buyout entry multiples (purchase price/EBITDA)[3]	10.0×	11.2×	11.8×	12.0×	11.2x	11.9×
Fundraising of close-end commingled funds (% YOY growth)	13	–10	36	–7	–12	–24
LP PE target allocation (%)[4]	6.1	6.3	6.8	7.5	8.2	8.3
Capital calls in excess of distributions (% of distributions)[5]	25	23	3	20	23	–14
1-year pooled IRR for 2000–21 vintage funds (%)[6]	18	34	40	–8	6	4

Note: Deal size filter only affects deal value, deal count, private equity (PE)–backed exit deal value, and PE-backed exit deal count metrics.
[1]Average annual central bank interest rate: Effective federal funds rate is used as a proxy for North America, China's 1-year medium-term lending facility rate as a proxy for Asia, and European Central Bank's main refinancing operations rate as a proxy for Europe.
[2]Exits of PE investments: PE investments include those made by PE investors as well as by some additional investor types into mature companies. Excludes venture capital. Capital calls in excess of distributions and PE-backed exits reported only for all PE.
[3]Median buyout entry multiples data reported only for global buyout. Buyout figures displayed for all global PE as proxy. Data on capital calls in excess of distributions, IRR, and median buyout entry multiples as of Q3 2024.
[4]LP PE target allocation data reported only for all global PE.
[5]Excludes venture capital. Data on capital calls in excess of distributions, IRR, and median buyout entry multiples as of Q3 2024. A negative value indicates that distributions have exceeded contributions in given year.
[6]Data on capital calls in excess of distributions, IRR, and median buyout entry multiples as of Q3 2024.
Source: CEM Benchmarking; European Central Bank; Federal Reserve Bank of St. Louis; International Monetary Fund; MSCI; People's Bank of China; PitchBook; Preqin; StepStone Group

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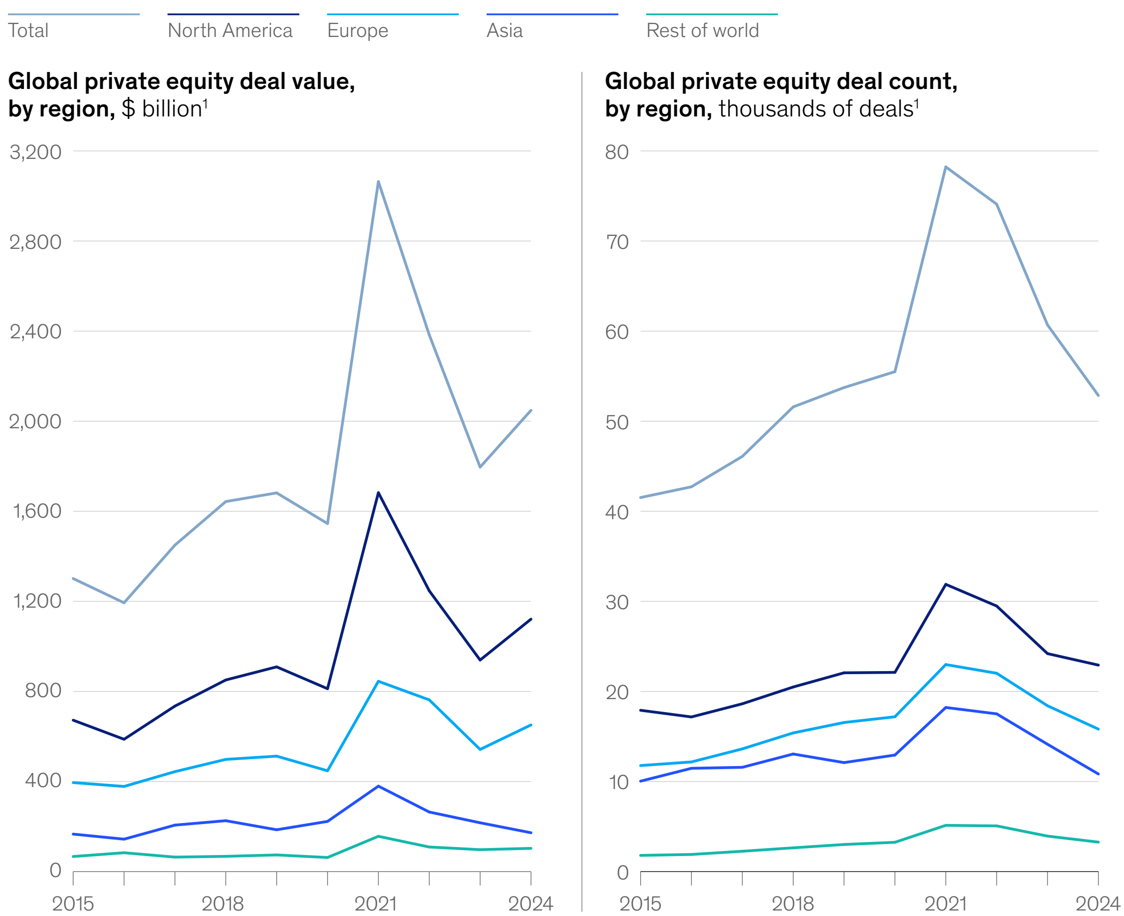
Dealmakers: Bouncing back, especially at the top

Global PE dealmaking rebounded significantly in 2024 after two years of decline, rising by 14 percent to $2 trillion (Exhibit 1). The uptick in activity made 2024 the third-most-active year on record for the asset class by value. Deal value increased across buyout, growth equity, and venture capital subasset classes but declined steeply in Asia (see sidebar "Asia's private equity slowdown").

Exhibit 1

Private equity deal value increased 14 percent after two years of decline.



[1]Includes private equity buyout and leveraged buyout (add-on, asset acquisition, carve-out, corporate divestiture, debt conversion, distressed acquisition, management buyout, management buy-in, privatization, recapitalization, public-to-private transaction, and secondary buyout), PE growth and expansion (recapitalization, dividend recapitalization, and leveraged recapitalization), platform creation, and funding in angel stage, seed round, early-stage venture capital (VC), and later-stage VC, as well as restart of funding stages.
Source: PitchBook

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Sidebar

Asia's private equity slowdown

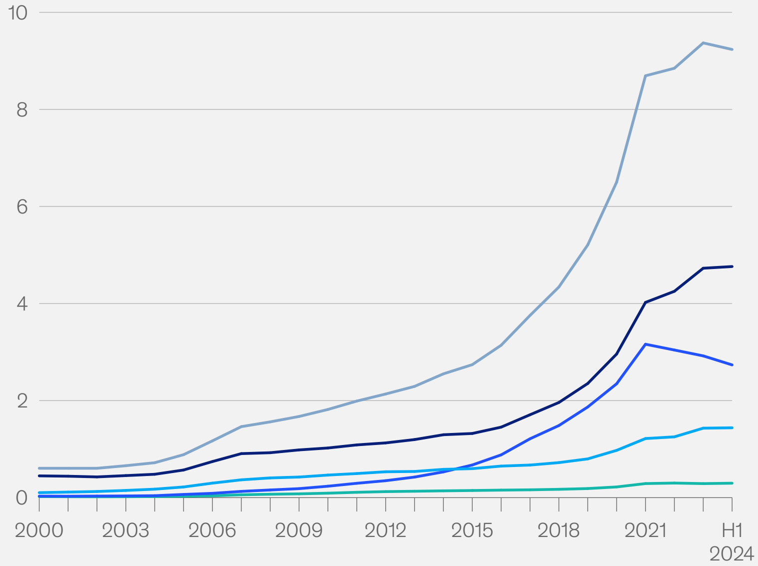
Asia was the only region that saw a decline in assets under management (AUM) last year, dropping by 5.5 percent to $2.7 trillion (exhibit). This was accompanied by a continued drop in fundraising (32 percent lower in 2024), led primarily by declines in China, as well as lackluster performance (less than 0.2 percent IRR through the first three quarters of 2024). As a result, private equity (PE) net asset value (NAV) and dry powder both declined in the region, falling 2.3 percent and 20.0 percent, respectively.

In contrast to Asia, North American and European PE AUM increased at 4.4 percent and 3.0 percent, respectively, from the first half of 2023 to the first half of 2024. The AUM growth in both regions was driven by NAV increases and subdued by dry powder declines (with deal volumes rising and fundraising slowing). North America and Europe's PE NAV rose by 8.8 percent and 9.2 percent, respectively, while dry powder declined by 6.8 percent and 10.2 percent, respectively.

Exhibit

Asia was the only region to record a decline in assets under management for closed-end, commingled private equity funds.

Private equity assets under management in 2000–H1 2024, by region, $ trillion[1]



	4.5-year CAGR, 2019–H1 2024, %	**Growth, H1 2023–H1 2024, %**
Total	13.6	1.0
North America	17.0	4.4
Asia	8.8	–5.5
Europe	14.0	3.0
Rest of world	10.8	3.8

[1]Includes buyout, growth, venture capital, and other private equity. Excludes secondaries, funds of funds, and co-investment vehicles.
Source: Preqin; McKinsey analysis

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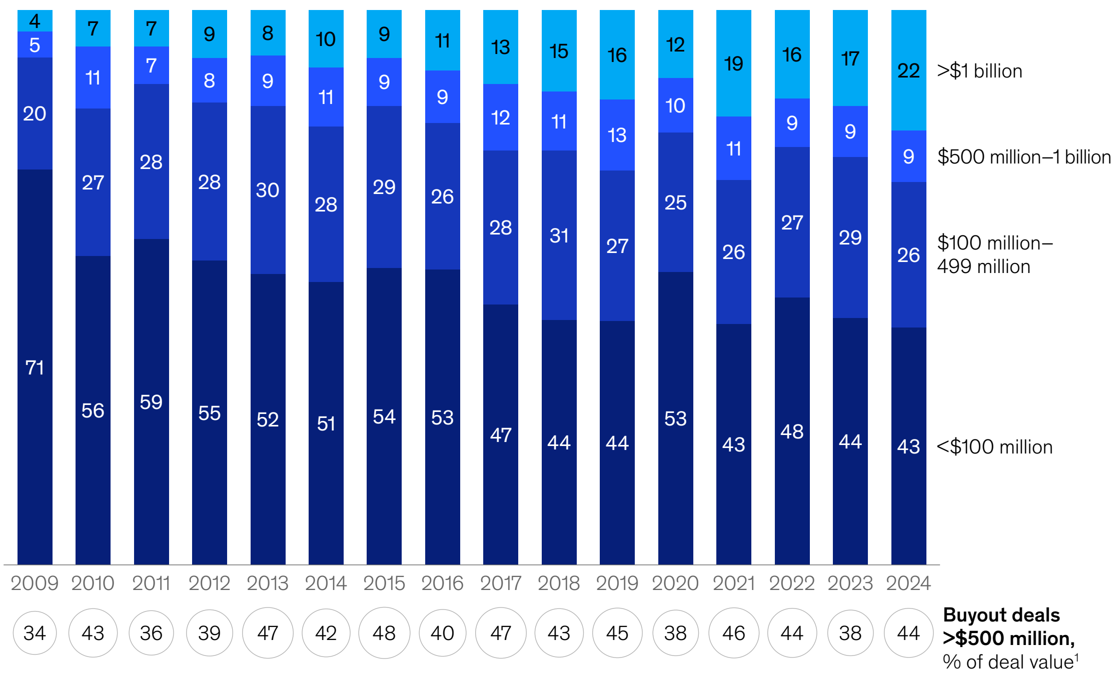
Meanwhile, the number of PE deals across subasset classes[4] dropped for a third consecutive year, largely because of the continued decline in venture capital's dealmaking velocity, which saw a 16.9 percent year-over-year drop in count (see sidebar "Venture capital's continued crunch"). Additionally, the global deal count for buyouts decreased marginally by 1.7 percent, with year-over-year growth among larger deals in North America (Exhibit 2).

Exhibit 2

Buyout deal count as a share of total deal count and buyout deals larger than $500 million as a share of deal value increased in 2024.

North America buyout deal count, by deal size, % of total buyout deal count[1]



Note: Figures may not sum to 100%, because of rounding.
[1]Includes PE buyout/LBO (add-on, asset acquisition, carve-out, corporate divestiture, debt conversion, distressed acquisition, management buyout, management buy-in, privatization, recapitalization, public-to-private, secondary buyout) and platform creation deals in North America.
Source: PitchBook; McKinsey analysis

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[4] Buyout, growth equity, and venture capital.

Sidebar

Venture capital's continued crunch

In 2023, fundraising for venture capital declined by nearly 58 percent year over year. In 2024, the rate of decline was lower (fundraising for buyouts, venture capital, and growth equity each declined by 23 percent to 25 percent), but the strategy continues to struggle across several metrics. This poor performance is indicative of the ongoing challenges of the start-up environment globally, as well as continued declines in Asia, a region that comprises more than half of venture capital's total assets under management (exhibit).

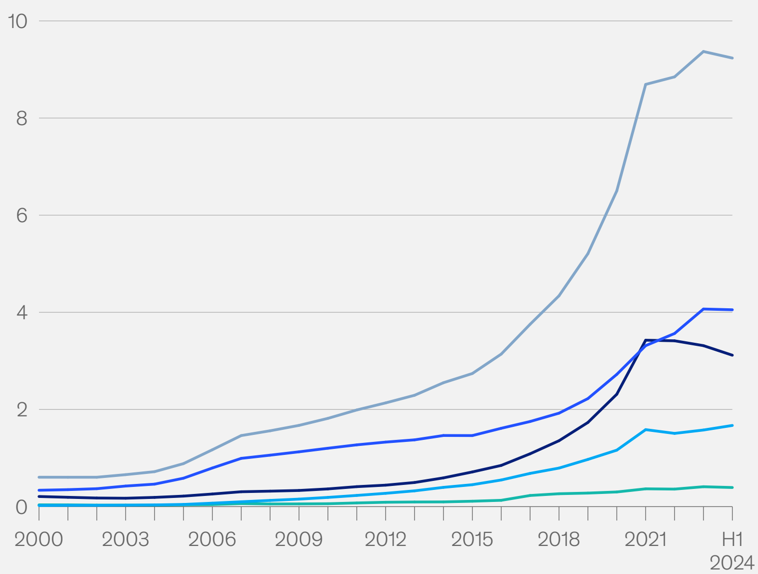
Consider this: Last year's $102 billion fundraising total for venture capital was less than a third of 2022's $314 billion. Deal activity in venture capital has also remained far more challenged than for buyouts across 2023 and 2024. While buyout's deal value rebounded by 15.5 percent in 2024, it was only 6.7 percent higher for venture capital. There was a noticeable gap in deal count as well: Buyout deal count fell by 1.7 percent compared with venture capital's 16.9 percent drop.

There was some silver lining for the strategy last year: A marginal improvement in venture capital's performance (an IRR of 1.9 percent through September 30, 2024, versus a negative IRR of 2.5 percent in the preceding 12 months). Even then, buyout strategy outperformed venture capital, with an IRR of 4.5 percent.

Exhibit

Venture capital led the decline in closed-end, commingled private equity assets under management in 2024.

Private equity assets under management by asset class, 2000–H1 2024, $ trillion[1]



	4.5-year CAGR, 2019–H1 2024, %	Growth, H1 2023–H1 2024, %
Total	13.6	1.0
Buyout	14.3	4.0
Venture capital	13.9	–4.4
Growth	12.8	6.4
Other private equity	7.9	–4.7

[1]Excludes secondaries, funds of funds, and co-investment vehicles.
Source: Preqin; McKinsey analysis

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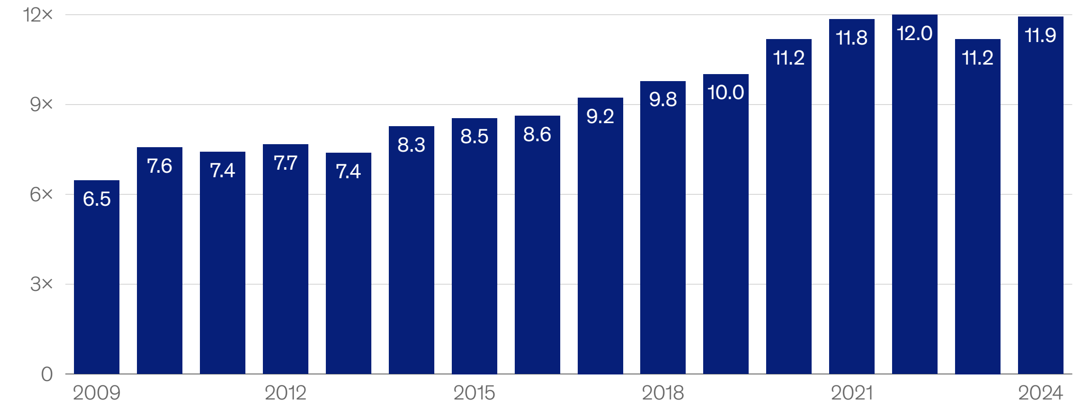
A look at what dealmakers paid and how they financed their deals suggests increased confidence in deployment. Consider the entry EBITDA multiples in the buyout subasset class, which reverted to 2021–22 levels, after decreasing in 2023 (Exhibit 3). The overall increase in multiples is a positive sign, although some of it may also be attributed to a change in the quality mix, where sponsors are exiting higher-quality businesses that are achieving better valuations.

Exhibit 3

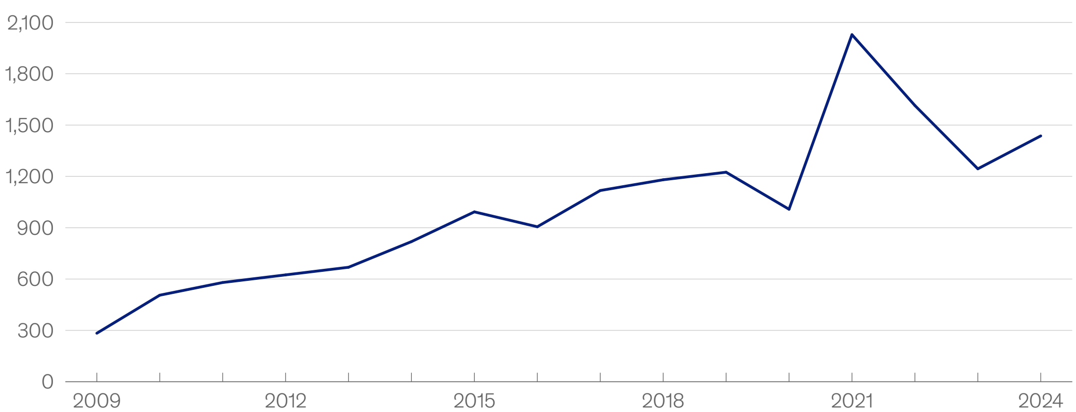
Median global buyout entry multiple in 2024 was the second highest on record, rebounding alongside deal value following a 2023 decrease.

Median global buyout entry multiples and total buyout deal value

Median global buyout entry multiple, purchase price/EBITDA[1]



Total global buyout deal value, $ billion[2]



[1]As of Sept 30, 2024.
[2]Includes private equity buyout and leveraged buyout (add-on, asset acquisition, carve-out, corporate divestiture, debt conversion, distressed acquisition, management buyout, management buy-in, privatization, recapitalization, public-to-private transactions, and secondary buyout) and platform creation.
Source: PitchBook; SPI by StepStone

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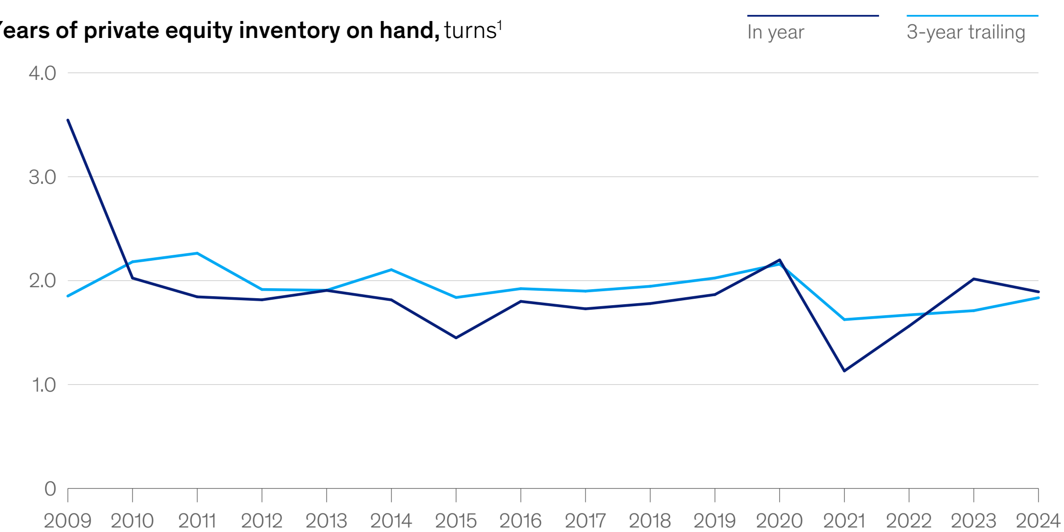
PE financing costs eased as lender spreads and Secured Overnight Financing Rates (SOFR) declined in mid-to-late 2024, driven by reduced risk premiums and stabilizing rate expectations. GPs also levered their deals marginally more in 2024, at roughly 4.1 times net debt to EBITDA, versus 4.0 times in 2023, reflecting improved debt availability and lenders' willingness to underwrite larger capital structures. However, buyout leverage remains below the ten-year average of 4.2 times and well below the 4.7 times high in 2021, indicating that while credit conditions have loosened, underwriting discipline and valuation pressures still constrain leverage expansion.

With active deployment and fewer capital calls, GPs began to draw down on the global stock of dry powder—the amount of capital committed but not yet deployed. Global PE dry powder decreased 11 percent (to $2.1 trillion) between the first half of 2023 and the first half of 2024. Similarly, dry powder inventory—or the amount of capital available to GPs, expressed as a multiple of annual deployment—fell to 1.89 years in 2024, from 2.02 in the prior year, hovering around historical levels (Exhibit 4).

Exhibit 4

Global inventories of private equity dry powder decreased in 2024.

Years of private equity inventory on hand, turns[1]



Note: 1 turn of private equity inventory equivalent to 1 year of deployment based on historical deal value.
[1]Capital committed but not deployed divided by equity deal value. Equity deal value estimated using transaction value and leverage figures for full year. Dry powder for 2024 based on figure as of June 30, 2024.
Source: PitchBook; Preqin

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Our analysis points to five global trends in dealmaking.

Bigger is back

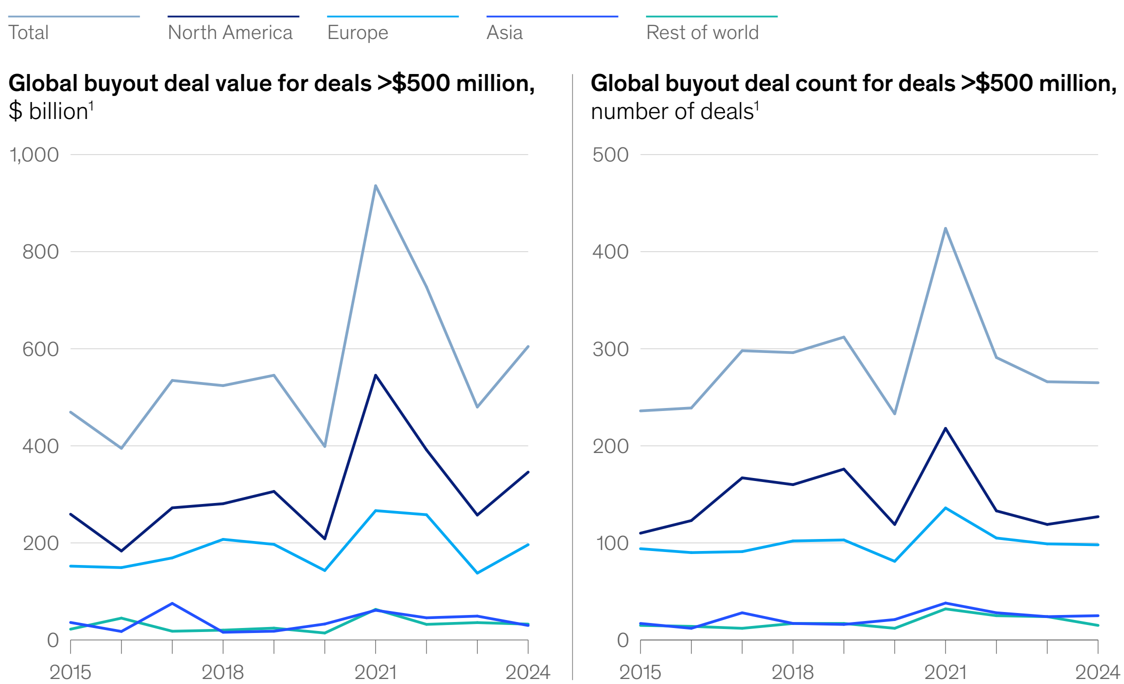
Nowhere was the overall rebound more evident than in large buyout transactions in North America and Europe. Deals above $500 million in enterprise value rose in both value (37 percent) and count (3 percent), reflecting the increase in average deal size (Exhibit 5). This segment is considered a true proxy for industry health, as many of the largest sponsors are often reluctant to invest below this threshold, given the need to deploy at scale. In our work with investors, there is a growing willingness among sponsors to write bigger tickets, led by stronger conviction in their ability to realize higher returns and renewed confidence in the industry's growth outlook.

Long-term trends in sector allocation persist

PE investors' buying preferences continue to evolve. Sectors like technology outperformed (2024 was the third highest on record in terms of deal value), while healthcare continued its post-COVID-19 retreat (Exhibit 6). These trends hold across deal sizes: As often happens, larger sponsors' buying preferences can be mirrored in the investment choices of smaller sponsors that are looking to sell to them.

Exhibit 5

The rebound in private equity dealmaking was led by an increase in buyout transactions over $500 million.



[1]Includes buyout and leveraged buyout (add-on, asset acquisition, carve-out, corporate divestiture, debt conversion, distressed acquisition, management buyout, management buy-in, privatization, recapitalization, public-to-private transactions, and secondary buyout) and platform creation.
Source: PitchBook

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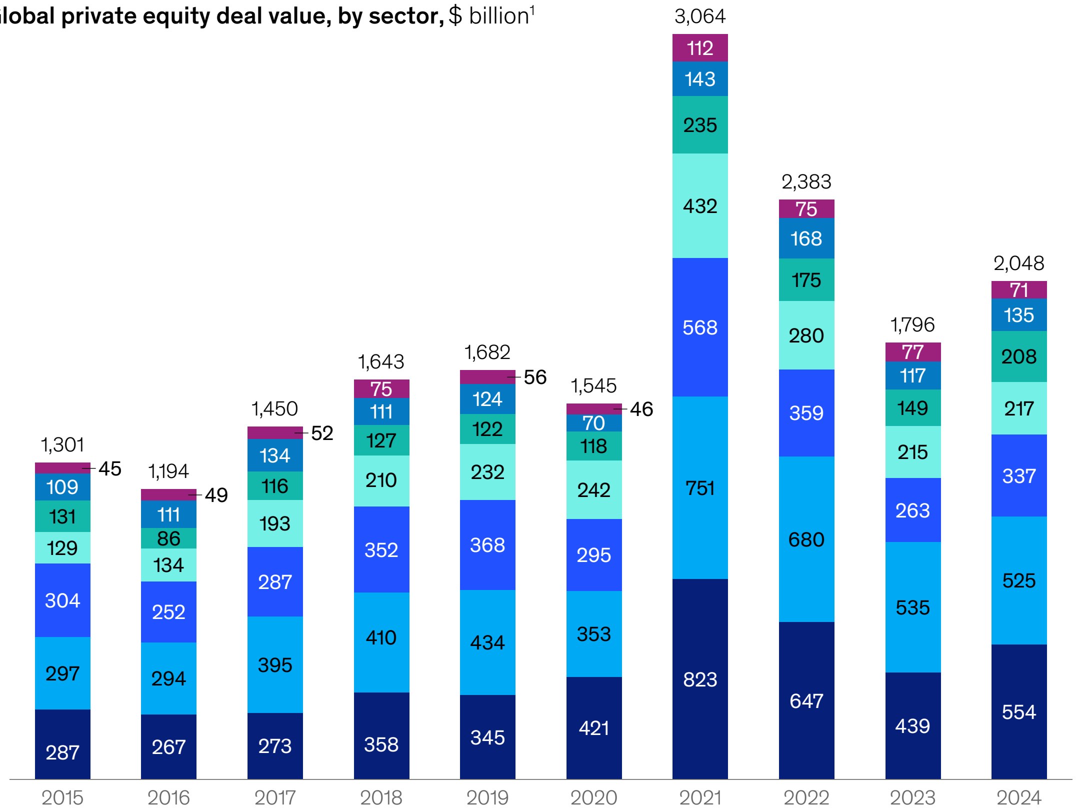
Exhibit 6

Technology, consumer, and financial-services sectors drove the recovery in large private equity deals.

Global private equity deal value, by sector, $ billion[1]



	All private equity deals		*Private equity deals >$500 million*	
	2019–24 CAGR, %	**2023–24 CAGR,** %	**2019–24 CAGR,** %	**2023–24 CAGR,** %
Materials and resources	4.9	–7.8	11.8	0.7
Energy	1.7	15.4	–1.7	51.0
Financial services	11.2	39.7	15.0	110.0
Healthcare	–1.3	1.0	–8.7	–1.3
Consumer products and services (B2C)	–1.8	27.8	–0.4	57.5
Business products and services (B2B)	3.9	–1.9	–0.2	–16.8
Technology	9.9	26.3	17.4	51.0

Note: Figures may not sum to totals, because of rounding.
[1]Includes private equity buyout and leveraged buyout (add-on, asset acquisition, carve-out, corporate divestiture, debt conversion, distressed acquisition, management buyout, management buy-in, privatization, recapitalization, public-to-private transactions, and secondary buyout), PE growth and expansion (recapitalization, dividend recapitalization, and leveraged recapitalization), platform creation, and funding in angel stage, seed round, early-stage venture capital, and later-stage VC, as well as restart of funding stages.
Source: PitchBook

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Public companies are becoming more attractive

P2P transactions, especially in Europe, picked up in 2024. Many sponsors likely see merit in taking undervalued companies private rather than picking over the portfolios of their peers, despite the challenges involved in executing such transactions, including greater deal complexity, the need for large take-private premiums in bids, and greater public relations scrutiny.

Although such transactions currently remain a small part of global PE deal value and volume, they are gaining a growing share. In 2024, P2P deals accounted for 11 percent of total global PE deal value, compared with 9 percent in 2023. Europe recorded a 65 percent year-over-year increase in the value of such deals, with increasing participation among US sponsors (who were represented in nearly 75 percent of P2P deals by value in the past five years, compared with just 50 percent in the prior decade). The year 2024 also became the second highest on record in terms of the number of P2P transactions globally.

Exits are warming up but not sizzling

Buying companies is just the start of a dealmaker's job. Selling them at the right price is what delivers returns for GPs and LPs. On this front, 2024 saw some improvements. PE-backed exit value increased by 7.6 percent to $813 billion in 2024 after two years of decline (reaching the third highest on record), and the average holding period for buyout deals decreased for the first time since 2020. As with purchasing companies, PE-backed exits larger than $500 million increased in both count (10 percent) and value (16 percent).

PE portfolios are getting older

Despite improvement in the pace of exits, the backlog of assets that are in their divestment period is growing globally. Average buyout hold times remain above the long-term average (6.7 years versus the average of 5.7 years over the past 20 years). In fact, the exit backlog is bigger now than at any point since 2005. There are more PE-backed companies (comprising a greater share of total GP portfolios) awaiting exit than ever before. In fact, companies in PE ownership (excluding add-ons) for more than four years comprised 61 percent of all buyout-backed assets, up from 55 percent in 2023 and the ten-year average of 53 percent. Although this reflects the growing influence of private investors in the overall economy[5] (there are more PE-owned companies), crystalizing their value remains tricky.

As exit periods are extended, there are three key considerations for investors. First, they could think about value creation over longer time horizons. Our recent LP survey[6] shows that LPs are receptive to longer holding periods if there is consistent value creation during that time. While IRR is still the top-ranked performance metric, with 35 percent of LPs ranking IRR as critical, 21 percent of LPs now rank multiple of invested capital (MOIC) as critical (up from 15 percent three years ago). Given MOIC is not weighed down by longer holding periods (unlike IRR), its growing importance indicates LP receptiveness to longer hold periods (assuming the distributions still flow). Second, investors could consider exit routes even more thoughtfully. Extended holding periods due to a lack of suitable exit options can still jeopardize returns. As deals increase in size (often beyond the limits of even the largest sponsors), the number of potential exit routes

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[5] For more on the increasing significance of private capital in the UK corporate landscape, see *Aiming higher: Embedding 'systematic ambition' to drive UK corporate growth*, McKinsey, July 15, 2024.
[6] January 2025, n = 333.

narrows—sponsors must plan even further ahead in thinking about the “right exit.” Finally, investors can prepare the ground to ensure sufficient liquidity and reckon with potentially trickier refinancing conditions, especially as the 2021–22 vintage acquisitions manage their borrowing.

IPOs remain tough

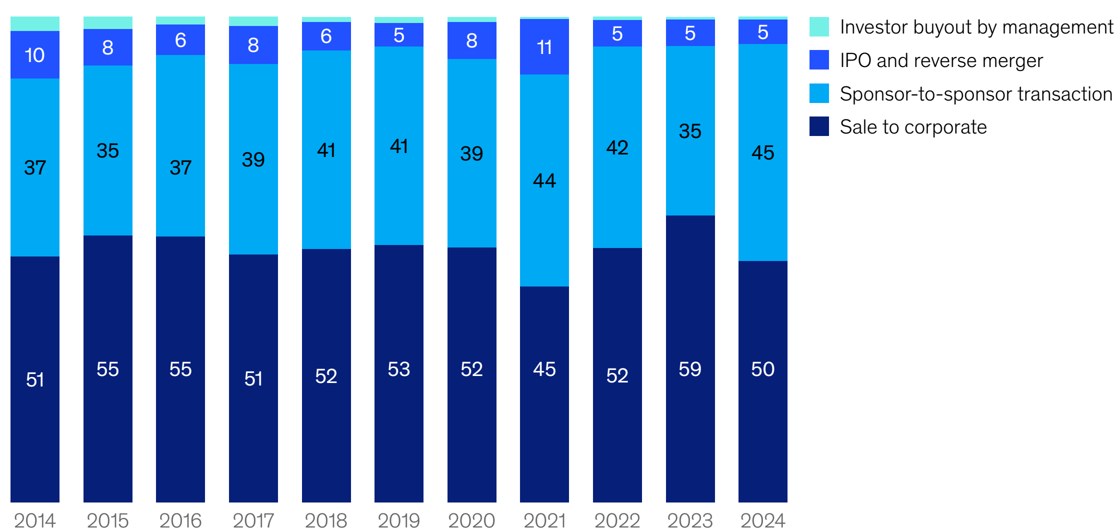
The relative increase in sponsor-to-sponsor exits (up 16 percent by value and 10 percent by share of deal count) could suggest some long-awaited narrowing of bid–ask spreads, as sellers become more realistic about expected valuations (Exhibit 7). But even as equity markets have rebounded, IPOs remain a challenging exit option. PE-backed IPOs (including reverse mergers) fell 7 percent, to $154 billion, in value and 20 percent in count. Anecdotally, the share of equity floated in an IPO also continues to decline, which makes realizing liquidity and distributions through this exit process tougher.

IPOs are especially critical for larger sponsors. IPOs comprised just 5 percent of the total PE-backed exit count in 2024, but nearly 22 percent of PE-backed exits greater than $500 million. As fund sizes have grown, many GPs are buying bigger companies that face more constrained exit options. The bigger the company, the fewer sponsors or corporates that can purchase it, especially if the valuation rises prior to exit. If IPOs continue to decline as a share of exits, sponsors may need to shift their focus more to finding long-term corporate acquirers for their assets (especially the larger ones).

Exhibit 7

Sponsor-to-sponsor transactions as a share of total private-equity-backed exit count reached a ten-year high in 2024.

Private-equity-backed exit count, by type, %[1]



Note: Figures may not sum to 100%, because of rounding.
[1]Exits of private equity investments, including both those made by private equity investors and those made by additional investor types into mature companies and excluding venture capital.
Source: PitchBook

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Fundraisers: Enduring pressure, but the outlook is bright

For the typical PE GP, fundraising did not get any easier in 2024. Fundraising declined for the third consecutive year, decreasing by 24 percent year over year to $589 billion.

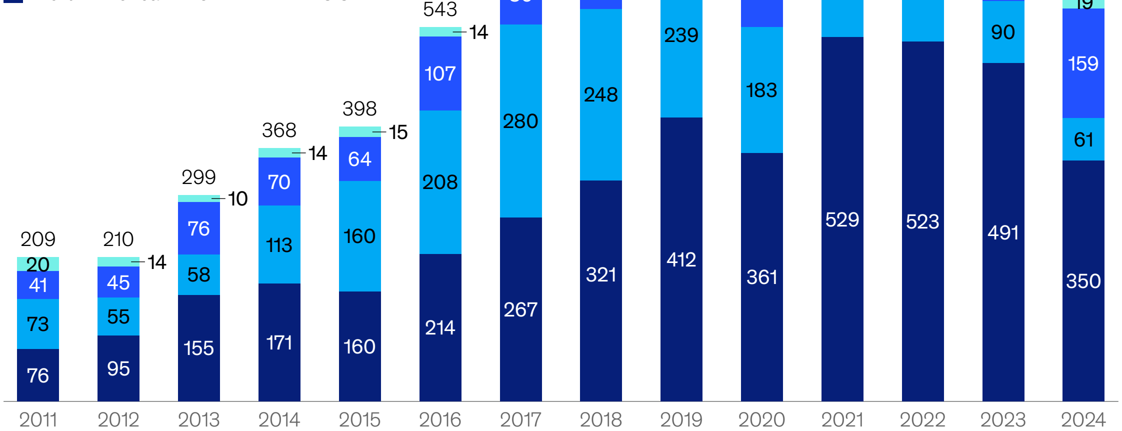
Fundraising declined in North America, Europe, and Asia, although the decline was comparatively smaller in Europe (falling by 11 percent) (Exhibit 8). Fundraising for buyout, growth equity, and venture capital declined between 23 to 25 percent each, in contrast to 2023, when buyout outperformed—although the 42 percent fundraising growth during the year could have been distorted by a few megafund closes (Exhibit 9).

Exhibit 8

Private equity fundraising declined for the third consecutive year in 2024.

Private equity fundraising, by region, $ billion[1]

	2019–24 CAGR, %	**2023–24 growth,** %
Total	–5.5	–24.3
Rest of world	9.8	0.4
Europe	6.0	–10.7
Asia	–23.9	–32.0
North America	–3.2	–28.8



Note: Figures may not sum to totals, because of rounding.
[1]Includes buyout, growth, venture capital, and other private equity. Excludes secondaries, funds of funds, and co-investment vehicles.
Source: Preqin; McKinsey analysis

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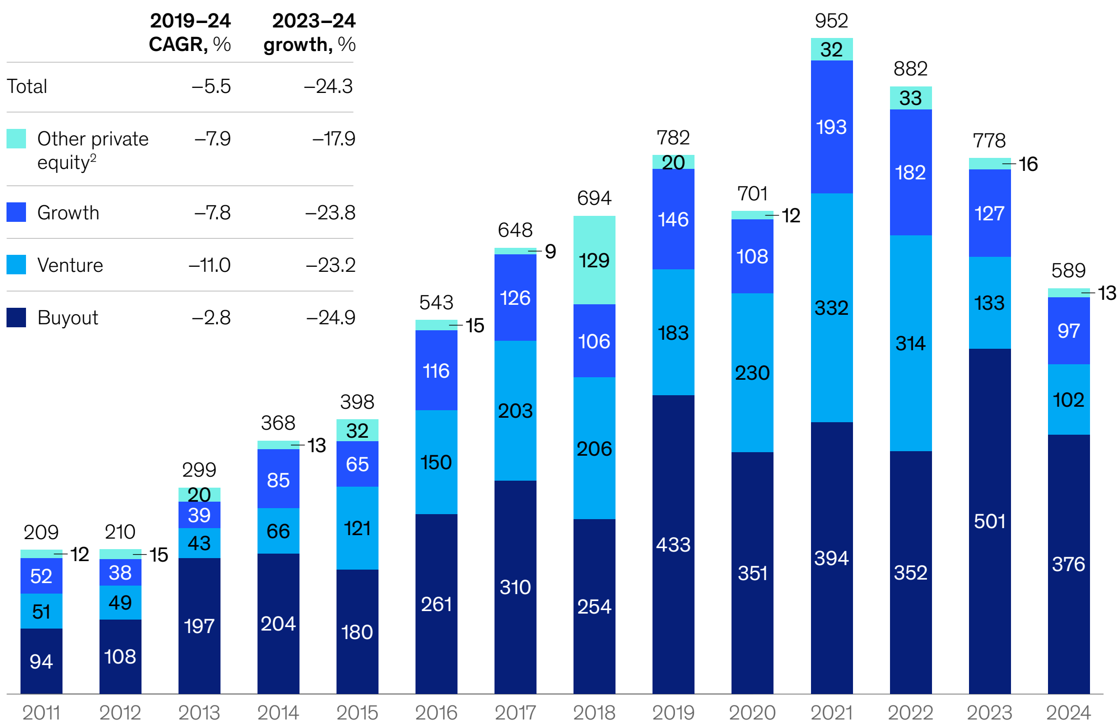
Exhibit 9

Buyout, venture, and growth fundraising fell 24 percent in 2024 after a 12 percent drop in 2023.

Global private equity fundraising, by subasset class, $ billion[1]



Note: Figures may not sum to totals, because of rounding.
[1]Excludes secondaries, funds of funds, and co-investment vehicles.
[2]Includes turnaround equity, private investment in private equity, balanced funds, hybrid funds, and funds with unspecified strategy.
Source: Preqin

McKinsey & Company

GPs are also taking longer to wrap up fundraising: Funds that closed in 2024 were open for a record-high 21.9 months, compared with 19.6 months in 2023 and 14.1 months in 2018. The total number of PE funds closed also fell to the lowest level in a decade. Meanwhile, roughly 420 buyout funds closed in 2024, which is lower than the ten-year average of around 460.

The following two trends stand out in our assessment of how PE fundraising fared in 2024.

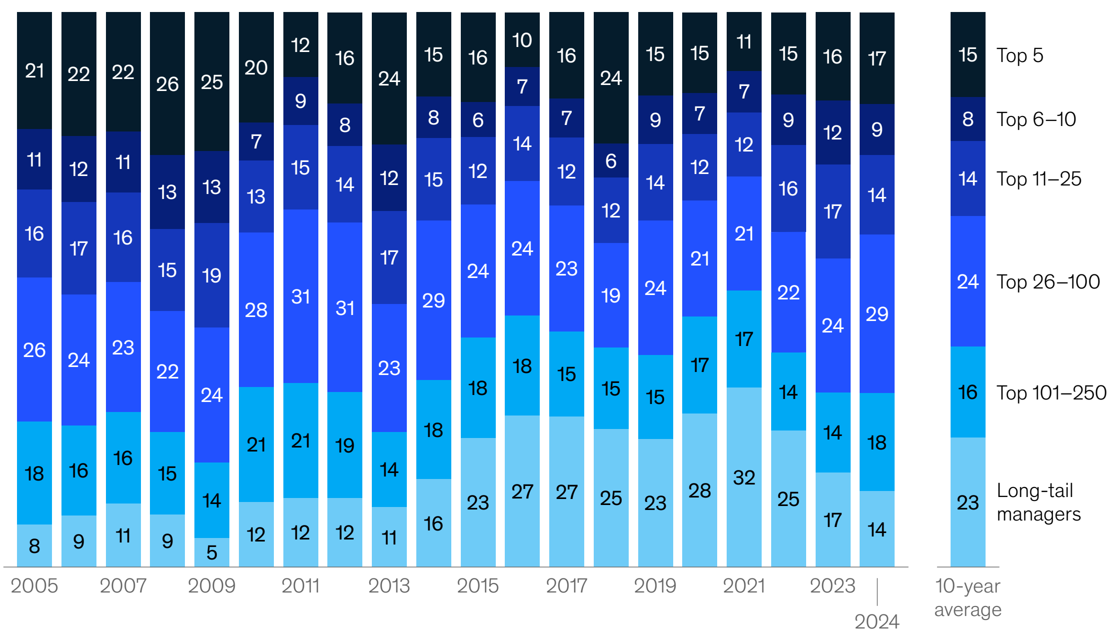
Midmarket fundraising appears more resilient
In an overall down year, midmarket funds (ranging from $1 billion to $5 billion in size) were the only category that bucked the trend (fundraising was approximately flat year over year). This was the first time in three years that the largest PE fundraisers did not record fundraising growth, although this could be a function of fewer mega fund closures of more than $10 billion (Exhibit 10).

Midmarket funds are also increasingly gaining share from smaller players (Exhibit 11). Funds smaller than $1 billion in size were in market for five months longer than in prior years, while first-time funds only managed to raise $34 billion in 2024, the lowest total since 2013.

Exhibit 10

The top 25 private equity fundraisers captured a smaller share of fundraising in 2024 than that category did in 2023.

Private equity fundraising for annual top fundraisers, %[1]



	Top 5	Top 6–10	Top 11–25	Top 26–100	Top 101–250	Long-tail managers
2005	21	11	16	26	18	8
2006	22	12	17	24	16	9
2007	22	11	16	23	16	11
2008	26	13	15	22	15	9
2009	25	13	19	24	14	5
2010	20	7	13	28	21	12
2011	12	9	15	31	21	12
2012	16	8	14	31	19	12
2013	24	12	17	23	14	11
2014	15	8	15	29	18	16
2015	16	6	12	24	18	23
2016	10	7	14	24	18	27
2017	16	7	12	23	15	27
2018	24	6	12	19	15	25
2019	15	9	14	24	15	23
2020	15	7	12	21	17	28
2021	11	7	12	21	17	32
2022	15	9	16	22	14	25
2023	16	12	17	24	14	17
2024	17	9	14	29	18	14
10-year average	15	8	14	24	16	23

Note: Figures may not sum to 100%, because of rounding.
[1]Includes buyout, growth, venture capital, and other private equity. Excludes secondaries, funds of funds, and co-investment vehicles.
Source: Preqin

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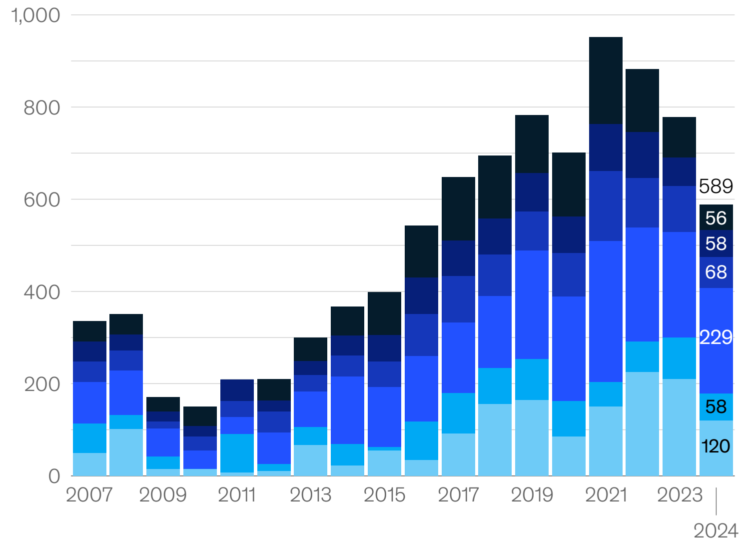
Exhibit 11

Midmarket funds between $1 billion and $5 billion bucked the overall trend of decline in private equity fundraising.

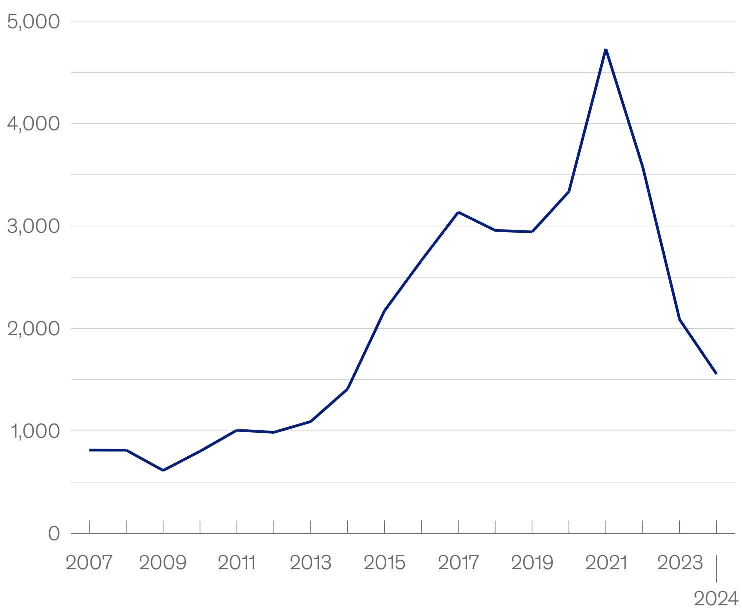
Global private equity fundraising[1]

Fundraising, by fund size and close year, $ billion



	2019–24 CAGR, %	2023–24 growth, %
<$250 million	–14.9	–35.9
$250 million–499 million	–7.0	–6.7
$500 million–999 million	–4.5	–32.5
$1 billion–5 billion	**–0.5**	**0.5**
$5 billion–10 billion	–8.3	–35.8
>$10 billion	–6.0	–42.8

Global fund count, number of funds



[1]Includes buyout, growth, venture capital, and other private equity. Excludes secondaries, funds of funds, and co-investment vehicles.
Source: Preqin; McKinsey analysis

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Traditional fundraising is getting harder, even as LPs are increasing allocations
Based on proprietary benchmarking of LP target allocations from CEM Benchmarking, we see that LPs have consistently increased their target allocation to PE even amid uncertainty—rising from 6.3 percent at the beginning of 2020 to 8.3 percent at the start of 2024 (Exhibit 12).

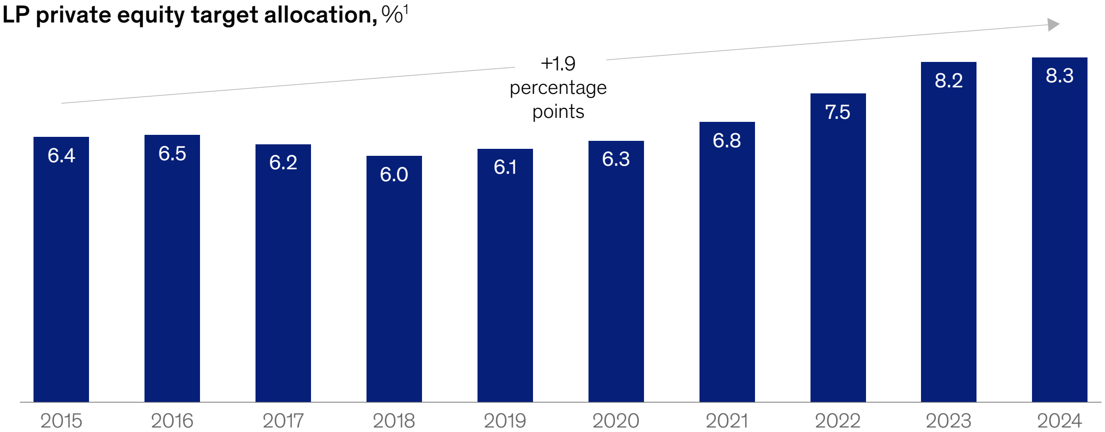
Our survey of leading LPs indicates that, despite being overallocated by approximately 175 basis points at the beginning of 2024, a greater proportion of LPs plan to increase their allocations to PE (30 percent), compared with those that want to reduce them (16 percent) (Exhibit 13). This signals investors' fundamental conviction in the ability of the asset class to generate superior returns over the long run, despite any near-term challenges

How do we explain why fundraising might be getting harder even as LPs are increasing allocations? For one, although distributions are up, they remain lumpy—many LPs prefer to wait for some distributions before recommitting or subscribing to a new fund. This is especially true in the context of the significant exit backlog we see today. Second, more vehicles are competing for LPs' funds. Third, most GPs look for multiyear commitments, which can complicate annual fundraising.

Exhibit 12

Limited partners have increased their target allocation to private equity since 2019.

LP private equity target allocation, %[1]



[1]All private equity, including growth and venture capital. Data as of beginning of each year.
Source: CEM Benchmarking

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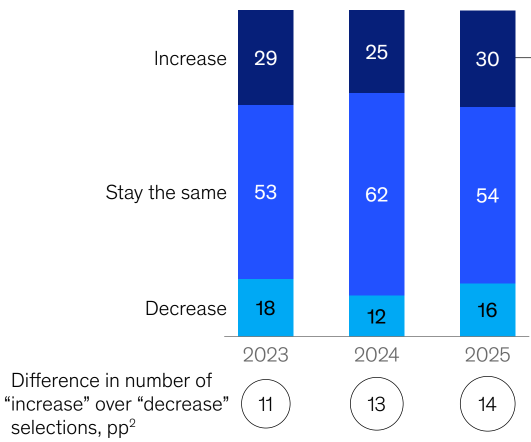
Exhibit 13

Limited partners are increasing their private equity allocations, driven by its higher relative performance compared with other asset classes.

LPs' outlook on PE allocation over next 12 months, % of respondents[1]



Top 3 reasons for expecting increased PE allocation over next 12 months[3]

	2025, %	**Increase from 2024,** %
PE performing better than other asset classes in risk-adjusted returns	63	10
Expected increases in rate of return	62	9
Diversity of portfolio	54	7

Note: Figures may not sum to 100%, because of rounding.
[1]Only includes buyout.
[2]Percentage points.
[3]Share of respondents selecting "increase" when asked about their outlook on PE allocation over next 12 months.
Source: McKinsey LP and GP Survey, January 2025 (n = 333)

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LPs: Distribution growth offsetting muted returns

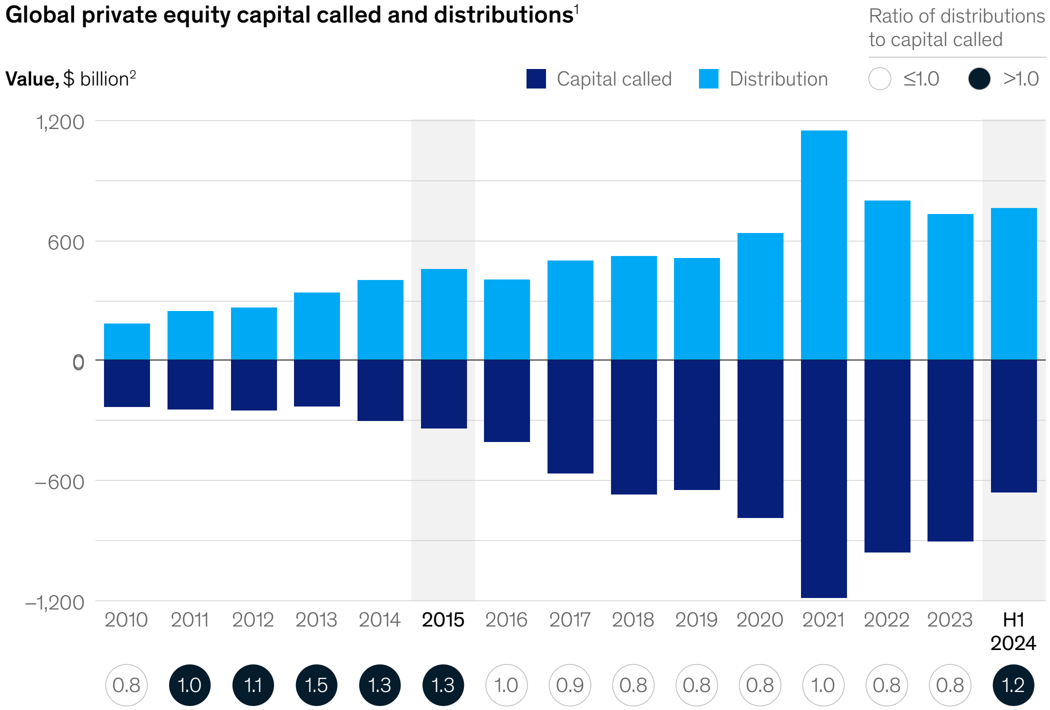
For LPs, cash started to become king again in 2024. Distributions exceeded capital calls for the first half of the year, putting 2024 on track to be the first full year since 2015 where PE LPs saw net positive cash flows. This suggests that persistent demands from investors for liquidity were proactively addressed by GPs (Exhibit 14).

However, PE returns across subasset classes continued to decline, with the industry-wide IRR for the nine months ending September 30, 2024 decreasing to roughly 3.8 percent from 5.7 percent in the prior year, well below the historical average of roughly 14.5 percent since 2010 (Exhibit 15). Among subasset classes, buyouts were the strongest performer through the first three quarters of 2024 (4.5 percent IRR), in line with historical trends, followed by growth equity (4.2 percent IRR) and venture capital (1.9 percent IRR).

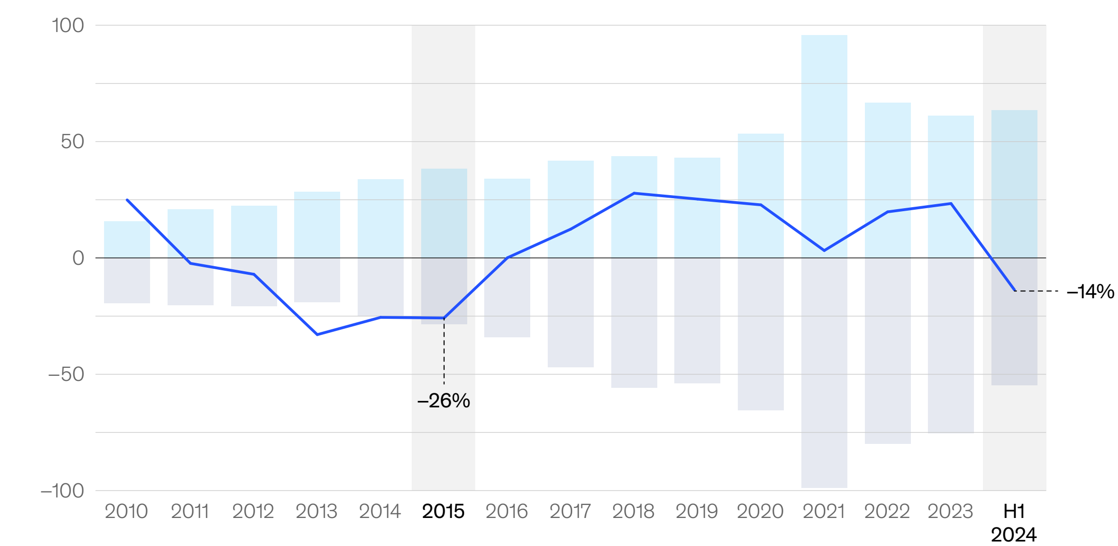
Exhibit 14

Private equity distributions exceeded contributions in the first half of 2024 for the first time since 2015.

Global private equity capital called and distributions[1]



Capital called in excess of distributions, % of distribution



[1]Includes buyout, growth, venture capital, and other private equity.
[2]By year of final close.
Source: Preqin; McKinsey analysis

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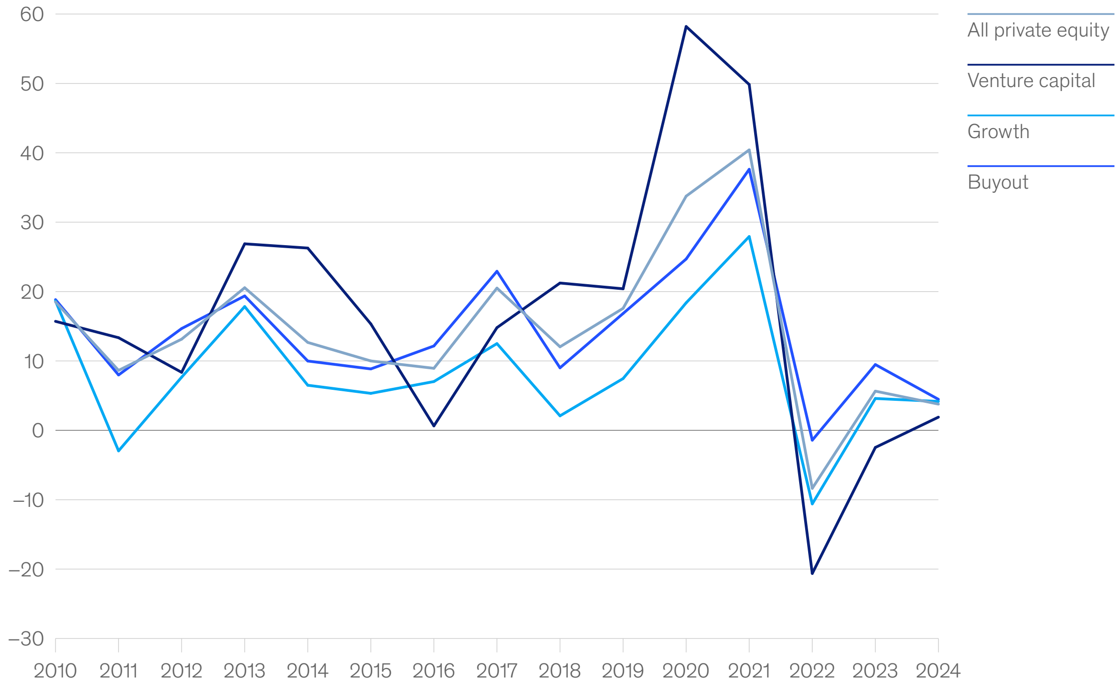
Exhibit 15

Private equity returns declined to roughly 3.8 percent in 2024.

Private equity performance, by subasset class, 1-year pooled IRR for 2000–21 vintage funds, %[1]



[1]Assessed using IRR; calculated by grouping performance of 2000–21 funds during 2000–24. Some data not available for certain periods. IRR for 2024 is year to date as of September 30, 2024.
Source: MSCI

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2024 marked the third time in the past four years that public markets outperformed overall private equity, a stark contrast to the previous decade, during which the latter consistently outperformed public equities. In fact, even after excluding the so-called Magnificent Seven,[7] the benchmark S&P 500 returned over 17 percent through the first and third quarters of 2024, outperforming all private equity subasset classes. When analyzed over a longer period of ten or 25 years, however, the buyout subasset class has historically outperformed public equities, which likely explains LPs' continued support for the asset class (in addition to it providing LPs with diversification opportunities) (Exhibit 16).

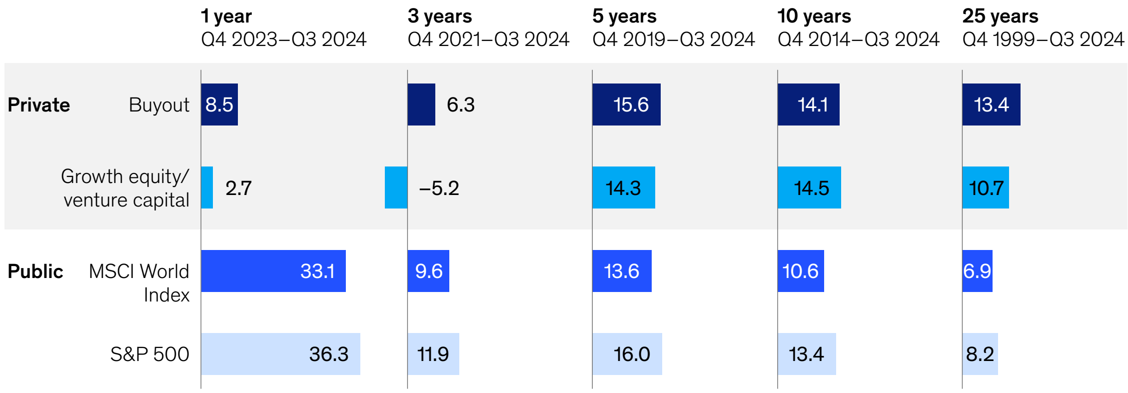
Moreover, buyout multiples have continued to remain lower than public multiples, partly reflecting the so-called illiquidity penalty of investing in longer-life, more illiquid private markets (Exhibit 17). In 2024, the delta between public and buyout multiples grew further, with buyout purchases remaining cheaper than public stock purchases (as they have for more than 15 years).

[7] Magnificent Seven refers to a select set of the seven highest-performing companies in the US stock market—in 2024, these were Apple, Alphabet, Amazon, Meta, Microsoft, Nvidia, and Tesla.

Exhibit 16

Private equity investment has outperformed public equity investment since the turn of the millennium.

Horizon investment returns, by asset class, %[1]



[1]Assessed using IRR; calculated by grouping performance of 2000–21 funds during 2000–24. Some data not available for certain periods.
Source: Bloomberg; MSCI

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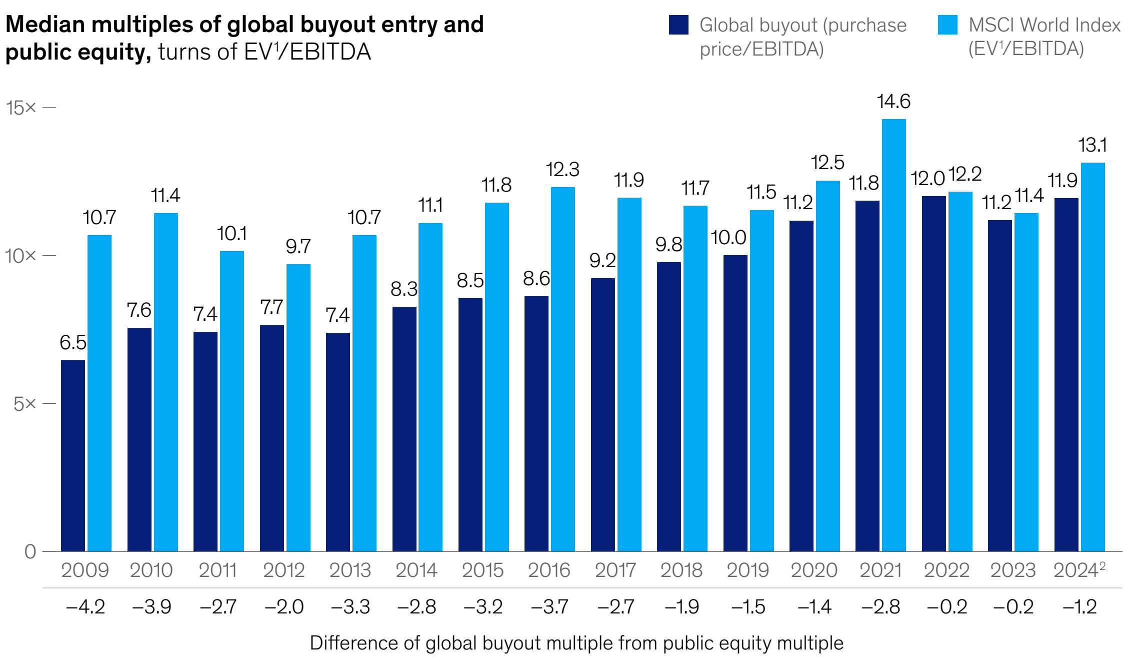
Exhibit 17

The gap between global buyout and public equity multiples widened in 2024.

Median multiples of global buyout entry and public equity, turns of EV[1]/EBITDA



Note: Figures may not sum to totals, because of rounding.
[1]Enterprise value.
[2]As of Sept 30, 2024.
Source: Bloomberg; SPI by StepStone

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Our analysis of 2024 activity points toward a maturing industry structure and the rise of an ecosystem that delivers solutions around it. There are two trends that we believe are particularly pertinent to LPs.

LPs have become part of the liquidity solution

With liquidity remaining a pressing issue for LPs, and exits still backlogged, the secondary market has increasingly become a critical source of liquidity for LPs. Secondaries' transaction value rose 45 percent to an all-time high of $162 billion last year, according to Jefferies' market review.[8] More than half of this total comprised LP-led deals (reflecting how LPs found a way to monetize their investments). The pricing LPs could expect when trading their fund stakes rose from 85 percent of NAV in 2023 to 89 percent in 2024. LPs have also embraced GP-led secondaries, rising to an all-time high of $75 billion, 84 percent of which came from continuation vehicle transactions.

Asset class conviction and asset manager conviction are now in sync

If the liquidity needs of LPs have propelled the secondaries market to greater heights, their growing interest in directly investing in GPs is indicative of their fundamental belief in the long-term value of GPs as well as the private equity industry. According to our LP survey, roughly 43 percent of LPs invest in GP stakes funds today. Of those, around 56 percent (led by sovereign wealth funds) are considering buying direct GP stakes.

For PE operators, there has never been a greater need to focus on value creation to drive returns, given increasing purchase prices and lengthening holding periods.

[8] *Global secondary market review*, Jefferies, January 2025.

Operators: The value creation imperative endures

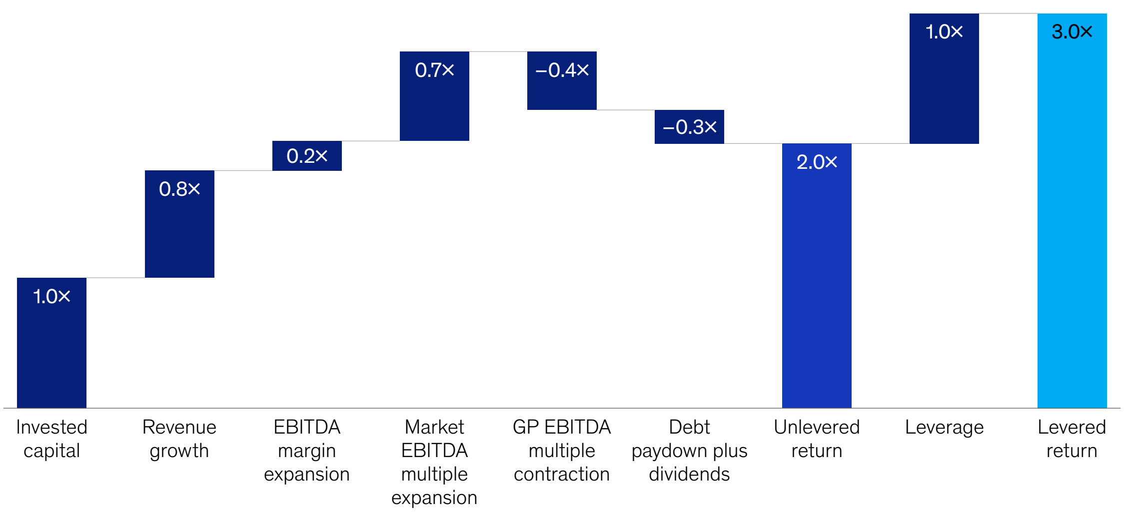
For PE operators, there has never been a greater need to focus on value creation to drive returns, given increasing purchase prices (as a multiple of EBITDA) and lengthening holding periods. While multiple expansion has driven private equity returns for a decade, steeper entry multiples and the heightened cost of leverage mean this lever is unlikely to persist for the next decade.

Analysis by StepStone Group indicates that, for deals done 2010–22, leverage and multiple expansion comprised 61 percent of returns. The remaining 39 percent came from revenue growth and EBITDA margin expansion (Exhibit 18). Over the past decade, however, the expansion in leverage and multiples has forced managers to focus on operational improvements to maintain their target returns. As a result, operators' ability to increase top-line revenue and improve margins is increasingly under scrutiny from GPs and LPs.

Exhibit 18

Leverage and market multiple expansion drove 61 percent of investment returns for buyout deals from 2010 to 2022.

Drivers of investment returns for realized buyout deals in 2010–22, multiple of invested capital[1]



[1]Sample of 3,056 buyout deals entered on or after Jan 1, 2010, and exited on or before Dec 31, 2022.
Source: SPI by StepStone

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We see four trends shaping how operators are creating value within their portfolios.

Companies are not doing it alone

Investors are increasingly involving themselves, through portfolio operations teams, in value creation. In our proprietary survey of private equity operating groups conducted in 2024,[9] we found that the average operating group size across funds of all sizes has more than doubled in the past three years alone. GPs are realizing that achieving returns will require dedicated specialist help, regardless of their AUM size.

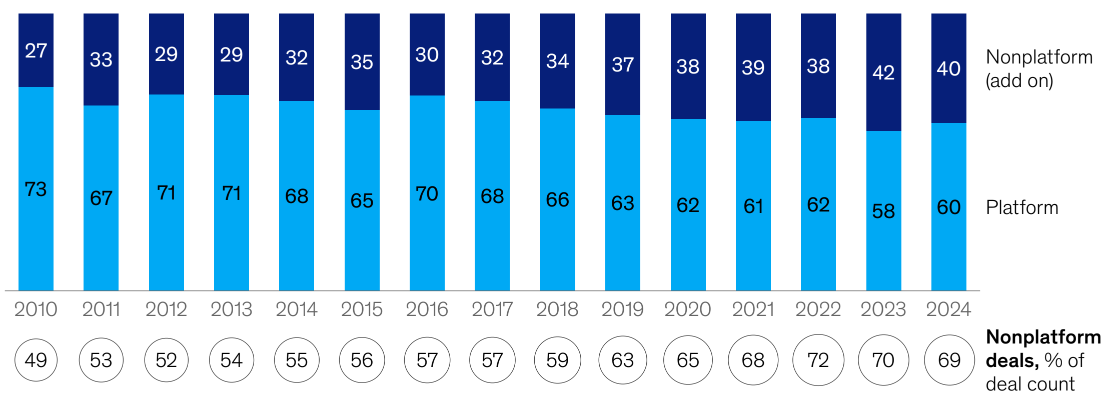
M&A remains a key enabler of returns

Even as some of the more traditional M&A roll-up plays for sponsors have slowed, add-on M&A (for example, acquisitions undertaken by a PE-backed company) only appears to be accelerating. Add-on acquisitions (especially when the synergy case is clear) are gaining popularity: Roughly 40 percent of total PE deal value in 2024 was from add-ons rather than platform deals—the second-highest ratio in a decade after 2023 (Exhibit 19).

Exhibit 19

Nonplatform deals for private equity buyout accounted for 40 percent of buyout deal value in 2024.

Nonplatform and platform deals for private equity, % of total deal value[1]



[1]Includes private equity buyout and leveraged buyout (add-on, asset acquisition, carve-out, corporate divestiture, debt conversion, distressed acquisition, management buyout, management buy-in, privatization, recapitalization, public-to-private transaction, and secondary buyout).
Source: PitchBook

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[9] January 2025, n = 333.

Organic cash generation is key to managing leverage

Given higher financing costs, companies have less headroom for mistakes than before. As McKinsey's research notes, rising interest rates and profitability challenges can be a toxic mix for companies, leading to triggered covenants and (in some cases) loss of sponsor control. Even as trading conditions improve, the discipline of improved cash management in the near term (and accelerating cash generation) are vital to achieving long-term returns.

Portfolio companies are taking the lead on exits

We are seeing portfolio companies investing more in exit preparation, given the need to achieve attractive returns in an environment with increased buyside scrutiny on valuations and elevated interest rates. Most commonly, this preparation includes investing in growth and operational improvement initiatives ahead of the sale process to demonstrate progress against select value creation theses for potential next owners. Additionally, market studies are becoming increasingly common to boost buyers' conviction on growth and value creation potential, and to tackle nuanced questions (such as AI-related risks and energy-transition-related opportunities and risks).

Low visibility conditions in fog can make navigation difficult. Planes can't take off. Ships linger in the port longer. Cars drive slower. As the fog dissipates, what lies ahead gets clearer (and brighter) and things move freely again. In the private equity industry, throughout the rough weather conditions of recent years, dealmakers, fundraisers, LPs, and operators strived to regain and maintain momentum. As the weather clears up, it reveals an industry more resilient, innovative, and stronger than before.

Real estate reaches for daylight

Real estate inched closer to a full recovery in 2024.

The real estate industry charted an uneven path to recovery in 2024. Some strategies and sectors found stability, while others continued to face substantial headwinds.

On the plus side, global real estate deal value grew in 2024 for the first time in three years, rising 11 percent to $707 billion, from $634 billion in 2023. The partial rebound was driven by rate cuts that created a less unfavorable financing environment, compression in capitalization (cap) rates, and reduced supply in sectors such as multifamily and industrial. Additionally, asset values may now be stabilizing as investors improve their risk assessment of the asset class.

However, fundraising woes continued throughout the year. Global closed-end fundraising declined by 28 percent to $104 billion, the lowest annual total since 2012. The decline in fundraising varied across Asia–Pacific, Europe, and the United States. Debt fundraising declined the most, by 44 percent year over year—though much of the capital raised for debt strategy is being channeled through broader special-situation and opportunistic vehicles instead of dedicated debt funds. According to our analysis, opportunistic fundraising declined by 31.5 percent to $37 billion, though the data may be skewed by fund timing—fundraising in 2023 included the largest fund ever raised, an opportunistic vehicle four times the size of 2024's largest fund. And while net flows from open-end core funds continued to be negative, they grew marginally to –$12.0 billion in 2024, up from –$12.6 billion in 2023, as investors rotated into higher-return strategies.

LPs maneuvered through mixed real estate performance. Returns for closed-end real estate funds remained negative, with a pooled IRR of –1.1 percent through the third quarter of 2024. Open-end funds were also under pressure: NFI-OE[1] funds recorded a gross return of –1.6 percent in 2024, registering their second annual decline since the 2008 global financial crisis.

In other areas, performance improved. The NCREIF Property Index, which measures property-level returns, saw positive property-level unlevered total returns in 2024, driven by a rebound in appreciation and stronger income returns. Alternative sectors also posted robust returns, with manufactured housing and senior housing generating total returns of 11.7 percent and 5.6 percent, respectively, in 2024. Meanwhile, data centers, which have become real estate's most sought-after sector, delivered 11.2 percent returns. GPs that have the operational expertise/partnerships to manage access to power, tenant relationships with hyperscalers, and zoning constraints were able to raise capital for data centers at scale.

As GPs look for ways to increase net operating income in the current environment, those investors with operational capabilities and expertise are taking market share from capital allocators. GPs with operational capabilities accounted for 37 percent of real estate assets under management in 2023, up about 11 percentage points over the past decade. For their part, some leading capital allocators are starting to harness the power of analytics and actively managing their operator partners to enhance their service delivery and ensure consistent alpha generation.

Here's a deep dive into these trends and implications for dealmakers, fundraisers, and LPs.

[1] The National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index–Open End Equity.

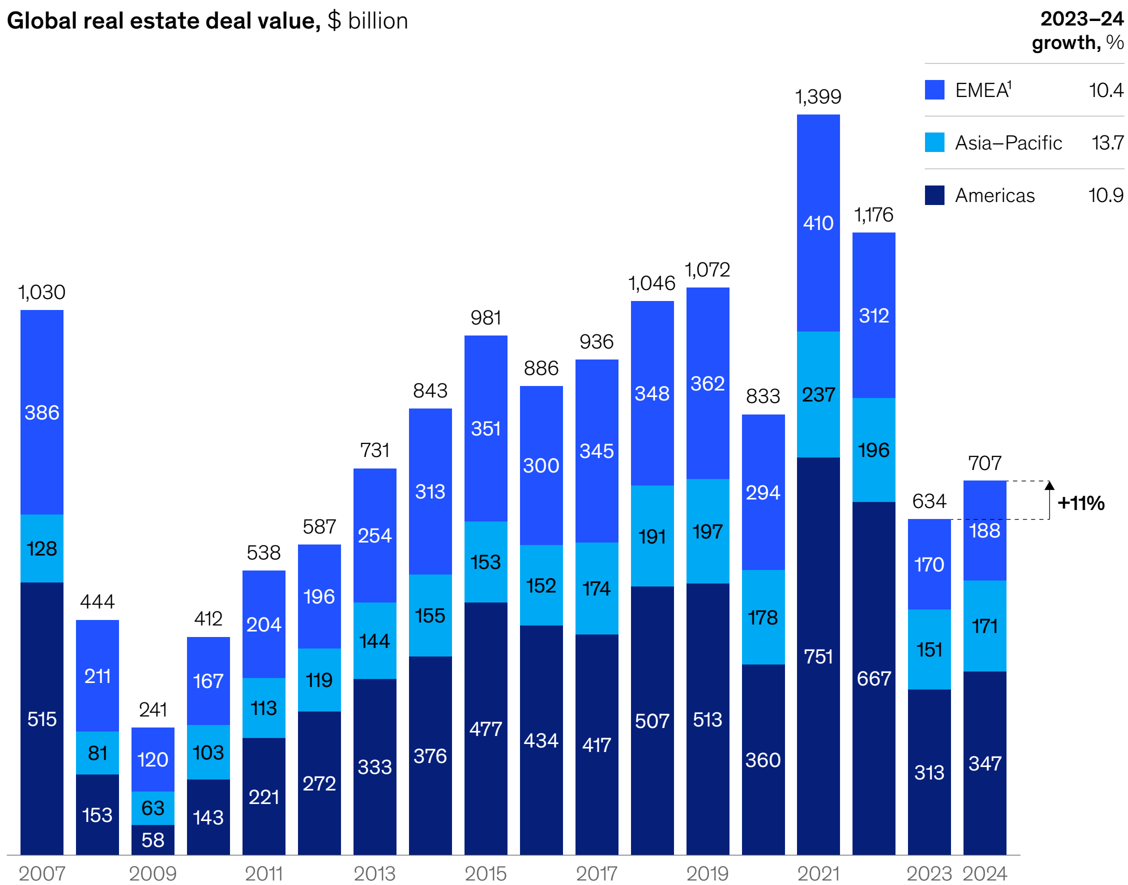
Dealmakers: Capitalizing on renewed growth

In 2024, global real estate deal value grew for the first time since 2021, reversing a multiyear decline[2] (Exhibit 1). The strongest rebound occurred in sectors underpinned by durable secular fundamentals such as multifamily and industrial, where deal value increased by 20 percent and 16 percent, respectively.

Real estate dealmakers in Asia–Pacific recorded the highest year-over-year growth in transaction value: 14 percent. Meanwhile, deal value grew by 11 percent and 10 percent in the Americas and in the EMEA (Europe, the Middle East, and Africa) region, respectively.

Exhibit 1

Global real estate deal value grew for the first time since 2021.



Note: Figures may not sum to totals, because of rounding.
[1]Europe, the Middle East, and Africa.
Source: MSCI Real Capital Analytics

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[2] Real Capital Analytics, MSCI, accessed April 2025.

Within regions, deal value varied significantly by sector. In Asia–Pacific, for instance, industrial real estate's deal value grew by 60 percent, fueled by supply chain reconfiguration and nearshoring strategies amid geopolitical shifts. In the EMEA hotel sector, deal value increased by 58 percent, driven by a perceived undersupply caused by rising travel demand following the COVID-19 pandemic. And in the Americas, multifamily deal value grew by 27 percent, supported by sustained long-term demand for rental housing amid persistent housing affordability challenges.

The partial recovery in global deal value was driven by a few factors. Interest rate cuts created a less unfavorable financing environment, prompting an increase in the issuance of commercial mortgage-backed securities and reducing borrowing costs. As a result, some deals that weren't projected to meet return thresholds at this time last year suddenly became viable. Supply also fell throughout 2024: Construction starts in the United States' industrial sector, for instance, declined by 32 percent year over year, while new multifamily construction dropped by 41 percent. Cap rates also compressed across multiple sectors, signaling a more competitive pricing environment. For example, cap rates declined by approximately 40 basis points in the multifamily sector (to 5.2 percent) and by 25 basis points in the retail sector (to 7.0 percent).[3] This compression suggests that asset values may now be stabilizing, as the market starts to factor in lower perceived risk of investing in commercial real estate.

Nevertheless, a few challenges are impeding real estate's full recovery. First, the net asset value (NAV) of open-end funds in the United States continues to decline. It decreased by 14 percent in 2024, more than double last year's 6 percent decline, but is still hovering around 2021 levels.[4] Our research shows that NAV began to stabilize in the fourth quarter of 2024, though it remains to be seen whether this marks a true inflection point or a temporary bump amid ongoing valuation challenges. When analyzing cap rate and NAV data, it's important to remember that cap rate compression reflects real-time market demand based on transaction data. Changes in NAV can lag, as they rely on periodic appraisals that aren't in real time.

The partial recovery in global deal value was driven by a few factors, including an increase in the issuance of commercial mortgage-backed securities and reduction in borrowing costs.

[3] Based on Green Street data.
[4] Based on NCREIF Property Index data.

Another challenge has been a moderation in the rate of rent growth across many traditional sectors—even across decade-long investor favorites—after reaching record highs. For example, the growth in rent for multifamily properties has been less strong since the first quarter of 2022, from 9.7 percent to just 1.1 percent by the close of the fourth quarter of 2024. Industrial-rent growth has also slowed considerably over the past 12 months, settling at 2.1 percent, which is less than half of the average growth rate recorded during the five years leading up to the COVID-19 pandemic. Only a few sectors continue to see strong gains. Data centers in the United States are one example where rents grew by 12.7 percent in 2024, fueled by strong tenant demand and constrained supply.[5]

Our analysis points to three global trends in dealmaking.

Surging demand for data centers

In 2024, data centers emerged as one of the strongest-performing commercial real estate sectors. Investor interest in the sector was driven by sustained tenant demand, constrained supply of power-ready sites, long-term leases with hyperscaler tenants, and attractive development economics (see sidebar, "The race to build data centers"). Data center occupancy levels have reached record highs of more than 95 percent in major markets, by most estimates. By contrast, most other sectors are hovering around their historical averages, except for office spaces, where occupancy declined to 86 percent (below the ten-year average of 90 percent).[6] Moreover, the stabilized yield-on-cost for data center development exceeds 10 percent, while value creation margins are about 50 percent.[7]

In terms of the tenant mix, hyperscalers drove more than 4,000 megawatts of new leasing in 2024—the highest annual volume in history—by securing large preleases with data center operators across major global markets.[8] These forward commitments accounted for most of the data center demand and triggered an increase in new development, as most data center supply is built to suit rather than speculative. With an estimated 75 percent of the data center construction pipeline already preleased, hyperscalers remain a key force behind capacity expansion to meet accelerating digital-infrastructure needs.[9]

Value creation through operational capabilities

Investors with operational capabilities and expertise, and capital allocators, have historically represented two distinct GP approaches to investing in commercial real estate, but the former has gained more prominence in recent times.

Investors with operational capabilities create value by directing property-level operations. They combine hands-on asset management, property operations, and development capabilities to improve value at the property level. By contrast, capital allocators focus on portfolio management and operating-partner selection. They harness investment acumen and capital structuring initiatives to create value in the asset without guiding detailed value creation plans at the property level. Both models consist of generalist GPs that invest across sectors, as well as specialist managers that concentrate on select sectors.

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[5] Reflects Green Street's M-RevPAF (market revenue per available foot) metric, which combines changes in occupancy and asking rents into a single measure. The metric is reflective of a portfolio marked-to-market annually (excluding power costs). The percent changes can be used interchangeably with the data center sector's conventional rent calculated per kilowatt of power capacity.
[6] Based on CoStar data.
[7] Based on Green Street data.
[8] Ibid.
[9] Ibid.

Sidebar

The race to build data centers

Digital and cloud revolutions have exponentially increased the demand for data centers. According to McKinsey's proprietary data center demand model projections, total data-center-critical IT demand was 60 gigawatts in 2024. By the end of the decade, the annual demand could nearly triple and reach around 171 to 219 gigawatts.[1]

McKinsey's analysis suggests that data center demand that's unconstrained by supply could be well north of 250 gigawatts—a challenging feat given power constraints globally and in the United States, as well as other supply chain issues.[2]

To capitalize on this demand for data centers, GPs will need to secure sites with reliable and cost-effective access to power while addressing challenges such as power shortages, grid limitations, and transmission constraints that can restrict new development. They will need to manage these factors alongside traditional issues such as zoning restrictions and land availability. Equally critical is the ability to attract and retain a small number of hyperscaler tenants that now wield significant buying power in the market. GPs can achieve competitive differentiation by building deep, trusted relationships with these tenants, as they are increasingly dictating lease terms and preleasing decisions in major markets. GPs that have done these things and built operationally intensive platforms have succeeded in raising significant capital and doubling down on their data center investments.

[1] "AI power: Expanding data center capacity to meet growing demand," McKinsey, October 29, 2024.
[2] "What the real estate industry needs to know about data centers," McKinsey, October 15, 2024.

At a time when GPs can no longer rely on just cap rate compression to create returns, they're increasingly prioritizing strategies to grow net operating income. As a result, investors with operational capabilities are gaining market share. Consider these data points: Although generalist allocators still make up the majority of real estate's assets under management (54 percent), the share of investors with operational capabilities has grown by around 11 percentage points over the past ten years.[10]

Particularly in the current environment, investors with operational capabilities can create value through improved end-user experiences, access to and use of data, and efficient delivery models. This is all underpinned by investors having greater control over operations, which enables more robust risk management, and ultimately leads to stronger property performance, including higher retention of clients, ancillary-services revenue, better ROI on customer/client acquisition, and lower-cost property operations. Digital and data are core to driving these tangible outcomes in the portfolio. Such operational expertise can be built in-house or accessed through strategic partnerships.

[10] McKinsey Operating Model Matrix.

The allocator can now also join the party. GPs have traditionally needed labor-intensive capabilities (such as property management) to create value through operations. That's no longer the case. Sophisticated capital allocators can now use data and technology to embed their expertise more efficiently in the day-to-day management of a property—for example, using data and tooling to track maintenance needs across properties; deploying intelligent ticketing and routing systems to improve response times; building tools that infuse "hospitality" into the tenant journey at every step; and using AI to drive capital expenditure, acquisition, and disposition decisions. As operational expertise becomes more central to value creation, tech enablement will become an even greater source of competitive advantage for both types of players, driving strategic distance.

The looming wall of maturities

Nearly $2.1 trillion of $4.8 trillion in commercial real estate loans in the United States are set to mature within the next three years, particularly in the office and multifamily sectors.[11] Many owners who delayed refinancing their loans now face valuation gaps, tighter lending conditions, as well as the risk of write-downs, distressed sales, or surrendering their properties. This environment also presents opportunities for debt fund managers to meet owners' capital needs, acquire distressed assets at discounts, and offer creative financing solutions. For strategics, this disruption could also be a chance to reposition their portfolios and capitalize on market dislocations.

Investors with operational capabilities can create value through improved end-user experiences, access to and use of data, and efficient delivery models, all underpinned by strong risk management.

[11] *2024 commercial/multifamily loan maturity volumes*, Mortgage Bankers Association.

Fundraisers: Navigating uncertain terrain

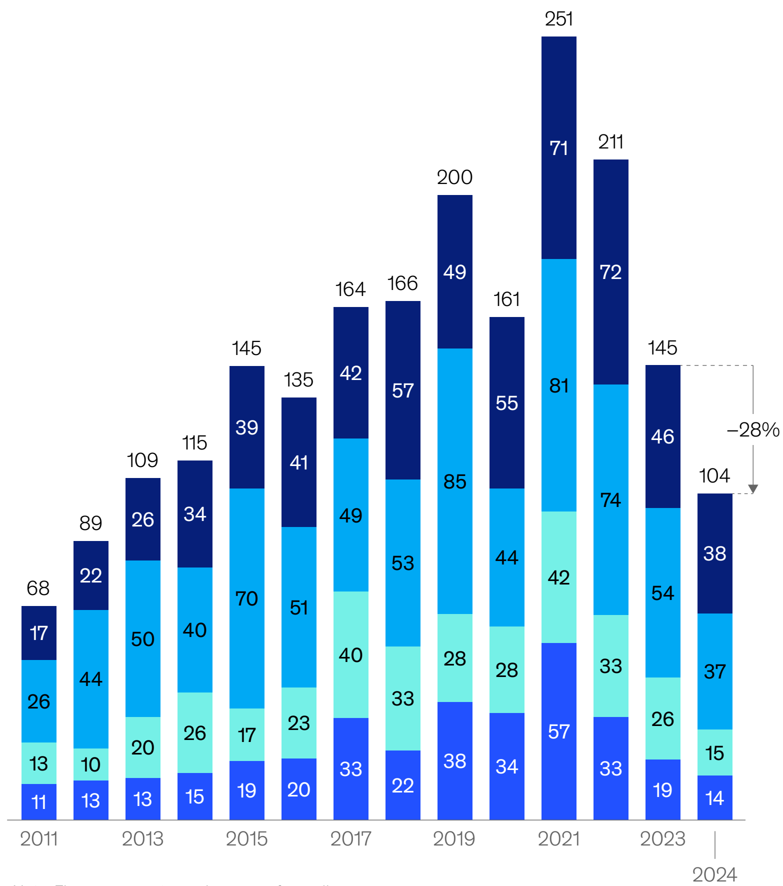
Global closed-end fundraising declined by 28 percent to $104 billion, the lowest annual total since 2012 (Exhibit 2). Closed-end fundraising in the United States declined by 22 percent year over year, while fundraising in Europe and Asia both declined approximately 50 percent.

Opportunistic fundraising declined by 31.5 percent to $37 billion, although the decrease was partially driven by the timing of funds coming to market, which is likely to have skewed the overall total and disproportionately distorted this segment. For instance, an opportunistic vehicle that closed in 2023 and became the largest-ever fund to have been raised was more than four times the size of 2024's largest vehicle.

Exhibit 2

Closed-end real estate fundraising fell across strategies to $104 billion.

Global closed-end real estate fundraising, by strategy, $ billion[1]



	2019–24 CAGR, %	**2023–24 growth,** %
Total	–12.2	–28.2
Value added	–4.8	–15.9
Opportunistic[2]	–15.2	–31.5
Debt	–12.1	–43.9
Core and core plus	–17.9	–26.8

Note: Figures may not sum, because of rounding.
[1]Excludes secondaries, funds of funds, and coinvestment vehicles.
[2]Includes distressed real estate.
Source: Preqin

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In fact, our conversations with leaders suggest that even though fundraising remains fragile, investors are increasingly willing to underwrite complexity and dislocation, with the goal of capturing outsize returns in a recovering market.

Real estate debt fundraising declined by 44 percent, even amid growing investor interest in the strategy. Meanwhile, closed-end core and core plus continued their descent to decade lows, declining by an aggregate of 27 percent year over year.

Two trends stand out in our assessment of how real estate fundraising fared in 2024: rising interest in real estate debt and continued pressures faced by open-end funds.

Rising interest in real estate debt

The decline in fundraising for dedicated real estate debt vehicles in 2024 masks the broader rise of real assets credit strategies—many of which are being deployed at scale through special-situation, opportunistic, or multiasset platforms.

In our 2025 McKinsey LP Survey, 63 percent of the respondents expressed an interest in investing in real estate debt in 2025, up from 56 percent in the prior year. The appeal of real estate debt is multifold. Credit strategies have historically offered more stable returns and lower risk compared with equity investments, which may be appealing to investors in a volatile market. In addition, the recent surge in loan maturities and the tightening of traditional bank lending have amplified demand for alternative financing structures such as mezzanine debt and preferred equity. This positions real estate credit as a vital solution for refinancing gaps and distressed-asset repositioning.

Although several large real estate debt funds have closed in recent months, overall fund formation in the segment hasn't yet occurred. This is potentially because many credit-oriented deals are being executed through broader special-situation or opportunistic vehicles rather than within real-estate-only strategies.

There's also structural complexity in how LPs approach the asset class. Responsibility for real estate credit allocations varies across LP organizations, sometimes sitting within a credit team and other times within the real estate team, which can create ambiguity for GPs seeking to engage appropriate capital allocators. While investors' interest in the space continues to grow, a lack of standardized ownership of real estate credit within LP organizations may slow capital formation. At the same time, these challenges provide an opportunity for platforms (for example, a dedicated investment and operating group within an organization, often with in-house management and specialized expertise in a specific sector, strategy, or geography) to offer tailored real estate credit solutions to these investors.

In addition to organizational factors, several market dynamics may help explain the slower pace of dedicated fund formation. Some institutional investors (for example, life insurers and pension funds) may be allocating to real estate debt through direct investments rather than pooled vehicles. At the same time, spreads between mortgage rates and corporate credit yields have compressed, potentially reducing the relative attractiveness of the substrategy for some investors. With overall transaction activity still modest, despite growth from last year, the volume of equity deals requiring debt financing remains limited, dampening near-term demand for large-scale deployment.

Open-end funds continue to face pressures

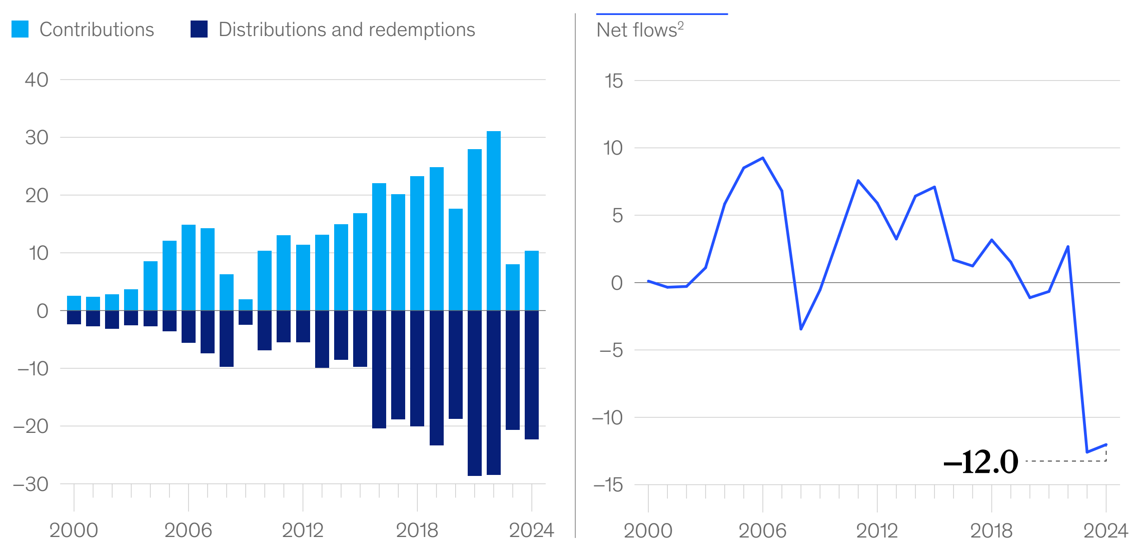
In the United States, open-end core funds, as tracked by the NFI-OE Index, represent an important segment of institutional real estate exposure. These vehicles typically offer more stable income, quarterly liquidity, and lower leverage to investors, compared with closed-end funds and other vehicles. In 2024, net investor cash flows (calculated as distributions minus contributions and redemptions) improved only marginally and remained significantly negative, totaling –$12.0 billion compared with the all-time low of –$12.6 billion in 2023 (Exhibit 3).

While redemptions and distributions in the NFI-OE rose modestly, the slightly larger increase in contributions drove the marginal improvement in net flows. This improvement is a sign that, although investor sentiment remains cautious, confidence in real estate investing is beginning to improve relative to the prior year. Some of the capital flowing out of open-end funds may also be making its way to other commercial real estate strategies. Investors continue to rotate out of core and core-plus vehicles into opportunistic and value-add vehicles, as they increasingly opt for capital appreciation over income generation in a market where alternative sources of yield have grown more attractive.

Exhibit 3

Net outflows for US open-end funds remained near record lows in 2024, totaling –$12 billion.

Open-end real estate investor cash flows,[1] $ billion



[1]NCREIF Fund Index – Open-End Equity (NFI-OE) includes real estate open-end vehicles across all strategies.
[2]Contributions, less distributions and redemptions.
Source: NCREIF

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Although investor sentiment remains cautious, confidence in real estate investing is beginning to improve.

Fundraising strategies continue to expand

Beyond operations, GPs are expanding their real estate fundraising strategies out past traditional channels to tap high-net-worth investors and insurance capital—segments that have become increasingly central to capital formation. In this way, they have been able to diversify their LP base, unlock new sources of scale, and extend their fundraising runway. Similarly, they're expanding their product offerings to include more real estate credit and special-situation strategies, often structured as soft-launch or multiasset vehicles. GPs are taking these actions to try to meet investors' demand for flexibility, capitalize on bank retrenchment, and respond to growing investor appetite for dislocation-driven returns.

LPs: Repositioning in a shifting market

2024 was a mixed year for real estate returns, prompting many LPs to reassess their capital allocation strategy.

Overall, real estate returns remained negative with a pooled IRR of –1.1 percent for the nine months ending September 30, 2024. Although 2024's returns improved by five points from last year's –6.4 percent, they remained well below the ten-year average of 6.9 percent, as measured by Burgiss, which calculates fund-level returns in closed-end vehicles.[12]

In the United States, the NCREIF Property Index posted positive total returns of 0.6 percent, compared with –7.6 percent in 2023. The improvement in performance was driven by a rebound in appreciation (–4.0 percent, compared with –11.5 percent in the prior year) and higher income returns (4.8 percent, compared with 4.3 percent in the prior year).

The performance of open-end funds in the United States continued to suffer in 2024. NCREIF's NFI-OE funds posted a gross return of –1.6 percent, only the second negative annual return for the sector since the global financial crisis.

[12] Based on Burgiss data.

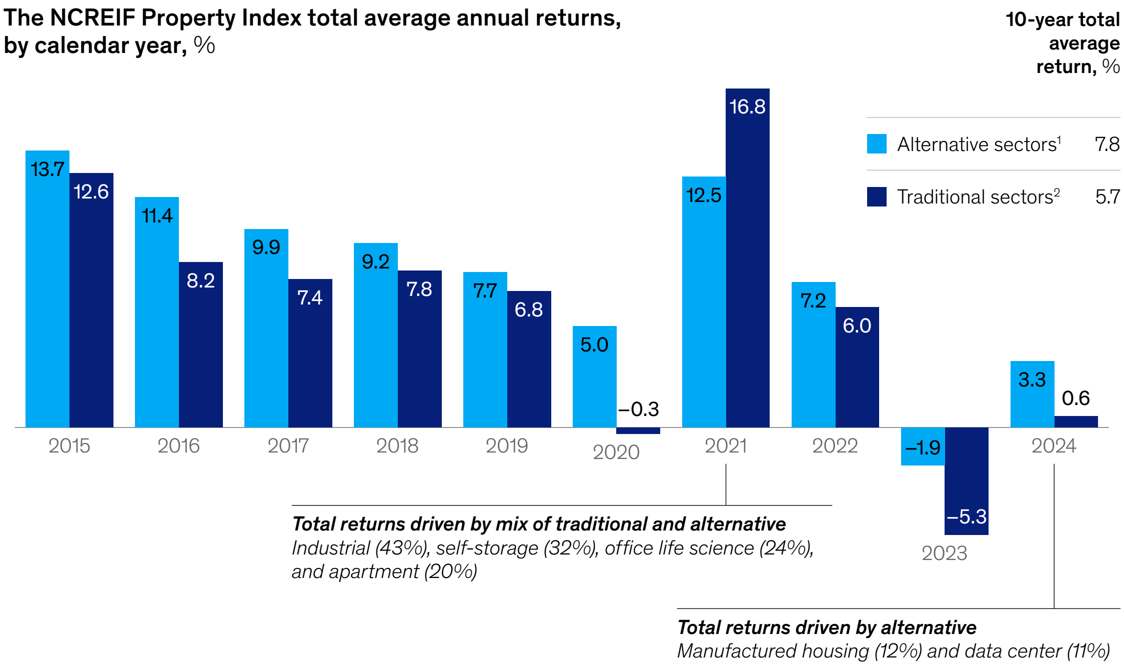
Alternative sectors are getting more mainstream
By contrast, alternative sectors like data centers, manufactured housing, and senior housing continued to outperform traditional sectors for the third consecutive year, extending a decade-long trend (with the exception of 2021) (Exhibit 4). In 2024, data centers posted an 11.2 percent return, whereas manufactured housing and senior housing achieved 11.7 percent and 5.6 percent returns, respectively.

Traditional sectors have delivered strong and stable performance over time—but today, the most compelling opportunities are emerging in alternative sectors where few institutional managers currently operate. Aside from data centers, cold storage, medical-office buildings, and senior housing are among the sectors gaining traction with industry players. Despite historical outperformance, these and other alternative sectors remain underrepresented in most institutional real estate portfolios. Managers that have succeeded in such alternative sectors have done so by building dedicated platforms, recognizing that the operational complexity of these assets demands specialized capabilities.

Exhibit 4

Alternative sectors have outperformed traditional sectors in total returns in nine of the past ten years.

The NCREIF Property Index total average annual returns, by calendar year, %



[1]Alternative includes office life science, medical, data center, other, self-storage, senior housing, parking, manufactured housing, single-family residential, student housing, assisted living, independent living.
[2]Traditional includes hotel, industrial (manufacturing, specialized, and warehouse), office (central business district, secondary, suburban, and urban), residential (apartment), and retail (mall, street, and strip).
Source: NCREIF Property Index (NPI) total returns, by calendar year

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LPs continue to raise the bar

In our work with global LPs, we've observed a sharp pivot toward more focused and strategic deployment of capital. Rather than pursuing broad diversification, many LPs are putting capital behind bold, conviction-driven thematic ideas such as decarbonization of the built environment, digital infrastructure, and demographic shifts—areas that represent targeted and impact-oriented opportunities. Additionally, LPs are increasingly favoring managers that can bridge the full breadth of their platforms, integrating capabilities across real estate, infrastructure, and credit, so allowing them to respond to complex, cross-sector investment theses with agility.

LPs also continue to consolidate their relationships and work with fewer, more strategic partners. Skin in the game continues to matter deeply: LPs increasingly expect GPs to co-invest meaningful capital from their balance sheet to assess manager conviction and long-term commitment.

Headwinds persisted through 2024 for commercial real estate and impeded a full recovery. However, these pressures also highlighted areas of resilience across the asset class. Deal activity picked up modestly, cap rates began to stabilize in some sectors, and alternative sectors continued to deliver stronger relative performance. Especially amid evolving macroeconomic conditions, real estate's bright spots point to early signs of recalibration—although the path to recovery is likely to remain uneven across sectors and geographies.

Private debt remains steady in the crosswinds

Private debt, once again, proved to be a resilient asset class in 2024.

Private new-issue financing for leveraged buyouts (LBOs) increased in the United States and Europe in 2024, fueled by robust transaction activity in private equity buyouts amid a more benign borrowing environment compared with prior years. And although global private debt fundraising decreased by 22 percent to $166 billion, the rate of decline was lower compared with other private market asset classes—and was largely driven by the mezzanine substrategy.

Private debt is going through a period of evolution. For many years, growth in the asset class, particularly in the direct lending strategy, was driven by banks' retreat from leveraged lending. In 2024, banks' and syndicated lenders' share of total financing increased—with more willingness from banks to take on risk. Average spreads in direct lending, the largest private debt substrategy, compressed by approximately 150 basis points to settle at about 550 basis points over base rates. While direct lending continued to lead new-issue LBO financing in terms of deal value and count, its share of global private debt deal value declined year over year.

Amid these shifts, investor interest in private debt remains strong. In uncertain market conditions, the security derived from debt's privileged position in the capital structure has appealed to institutional investors, as well as retail and insurance capital pools that continued to flow into private debt strategies in 2024. Further, investors expect the private credit ecosystem to continue expanding as more asset classes transition to nonbank lenders.

New opportunities are also emerging for managers. Over $620 billion in high-yield bonds and leveraged loans, for example, are set to approach maturity in 2026 to 2027, which could create refinancing opportunities and spur greater demand for private credit solutions.[1] To position themselves well for the future, managers should remain disciplined in their underwriting, build capabilities in new asset classes, tap alternative capital sources, and translate geopolitical risks into credit opportunities.

In this report, we focus on direct lending and adjacent strategies (for example, special situations and mezzanine, distressed, and venture debt), excluding segments such as public or quasi-public credit, structured credit products, balance sheet lending by regulated institutions, and fund-level or sponsor financing.

Dealmakers: Growth in private debt issuance

Comprehensive data on private debt deal volumes across strategies and geographies is often limited by the opaque nature of activity in this space. In sponsored direct lending (private loans made to PE-backed companies), available data suggests that new private debt issuance for LBOs increased by 30 percent year over year in the United States and Europe combined. The uptick was mostly a result of an increase in LBO transactions (global buyout deal value was up 16 percent in 2024) due to lower borrowing costs and improvement in the global economic outlook.

[1] "2025 credit outlook: Defying gravity," Apollo Global Management, January 14, 2025.

Our analysis points to four global trends in dealmaking: declining financing spreads, a shift in LBO financing toward syndicated lenders, private debt GPs increasingly tapping insurers and other forms of permanent capital, and the expansion of the private debt's footprint amid regulatory changes.

Financing spreads decline

Overall spreads declined across financing channels in 2024. In direct lending, spreads reached their lowest level since 2021, as banks and syndicated lenders returned to the market amid more favorable macroeconomic conditions.

Direct lending spreads compressed by 120 basis points, to 550 basis points. Meanwhile, spreads in broadly syndicated loans (BSLs) fell 100 basis points, to 370 basis points (Exhibit 1).

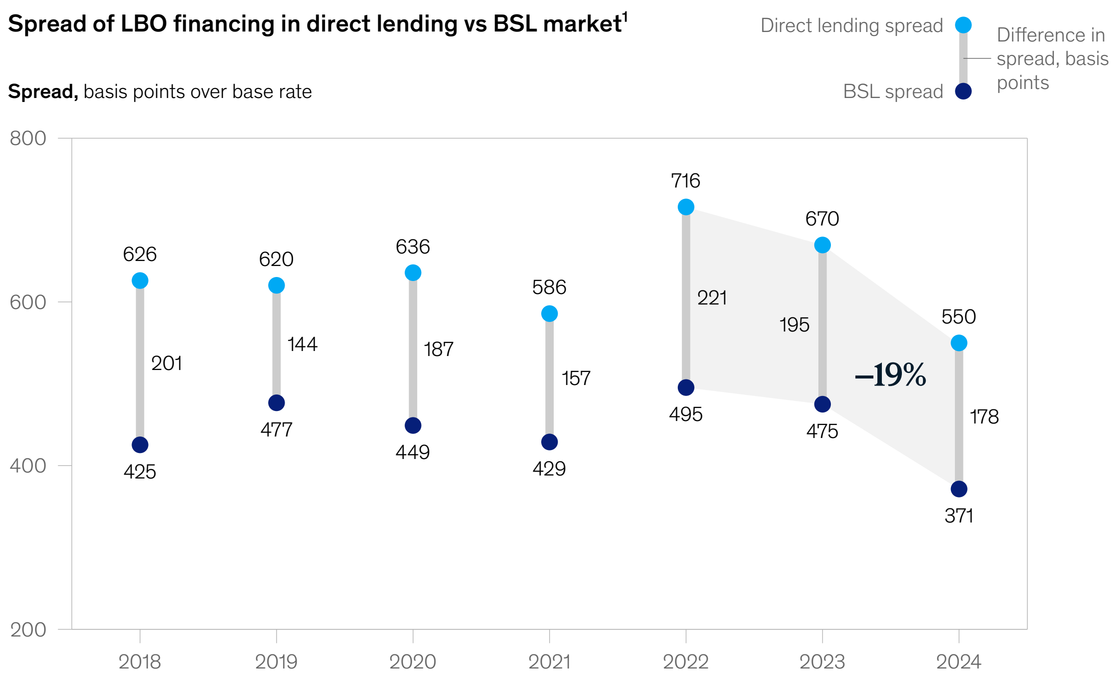
The difference between syndicated and direct lending spreads narrowed to around 180 basis points, down 19 percent from its 2022 peak of 221 basis points. The narrowing gap between the two strategies suggests that a more competitive financing market may be reducing private debt's premium.

Exhibit 1

Spreads in direct and syndicated lending compressed amid a pickup in broadly syndicated loan activity.

Spread of LBO financing in direct lending vs BSL market[1]

Spread, basis points over base rate



Note: Direct-lending-spread data reflects senior secured first-lien loans and unitranche facilities. BSL data reflects loans issued to borrowers rated B-minus. Figures may not sum, because of rounding.
[1]LBO is leveraged buyout and BSL is broadly syndicated loan.
Source: LSEG LPC

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Leveraged-buyout financing shifts toward syndicated lenders

Direct lenders lost some market share to syndicated lenders in 2024. Direct lending's share of new-issue LBO financings decreased from 88 percent to 84 percent in deal count and from 64 percent to 54 percent in deal value. The decline was partially due to the type of deals transacted: Larger LBO deals (greater than $500 million) grew in value faster than smaller LBO deals. Since syndicated lenders typically have a greater capacity to make large investments given their ability to syndicate risk across multiple parties, they provided 46 percent of financing but just 16 percent of deals (Exhibit 2).

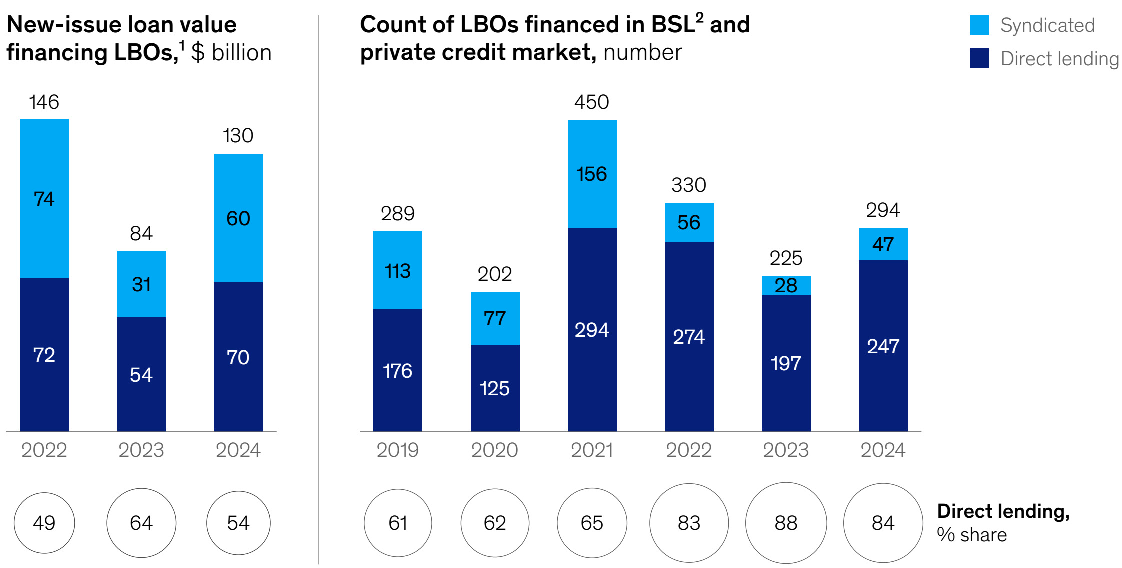
Private debt managers tap more insurance and other permanent capital sources

Insurance capital and other permanent capital vehicles (for example, business development companies [BDCs], and interval funds) remain increasingly prominent sources of capital for private debt GPs.

Private debt is particularly well suited to insurers due to its predictable cash flows, long duration, and risk-adjusted returns, all while allowing insurers to remain within regulatory guidelines. BDCs and interval funds, on the other hand, provide retail investors with access to private debt, but the

Exhibit 2

Financing for leveraged buyouts tilted toward syndicated lenders in 2024.



Note: Figures may not sum to total, because of rounding.
[1]Leveraged buyouts.
[2]Broadly syndicated loan.
Source: PitchBook LCD

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GPs raising such vehicles must meet investors' liquidity needs while remaining compliant with regulations. These vehicles are an increasingly popular source of financing: For BDCs tracked by Fitch, for example, unsecured debt issuances nearly tripled from 2023 to 2024, reaching an all-time high.[2]

Private debt expands its footprint amid regulatory reform

Over the past decade, regulatory changes have increasingly constrained banks' lending practices, leading more middle-market companies to seek nonbank financing. For example, Basel IV—the finalized reforms of the Basel III framework—will require banks to increase capital reserves in a range of lending areas and may include new rules focused on liquidity (which could reduce banks' appetite for longer-duration loans). The reforms could also constrain banks' use of internal models and raise capital floors, limiting flexibility in the higher risk-weighted-asset segments such as commercial real estate and specialized credit.

Banks are also increasingly partnering with private debt GPs to gain exposure to economic activities that they hope to finance by becoming originators and distributors rather than end owners of risk. We also observe GPs proactively seeking out such partnerships with banks. As regulations continue to evolve, they will shape the future landscape of nonbank lending, including in middle-market financing, where borrowers rely on flexible, long-duration capital.

In 2024, private debt managers deployed capital beyond midsize and highly leveraged businesses into a broader range of asset types in search of downside protection and diversification. In particular, four asset classes could increasingly shift to nonbank lenders. These include asset-backed finance segments with higher-risk-adjusted yields (for example, aircraft loans), long-duration infrastructure and project finance assets, residential mortgages classified as "nonconforming" under bank regulations, and high-risk commercial real estate.[3] Each of these asset types ranks highly on at least one of three criteria that contribute to banks' propensity to transition them off their balance sheets (Exhibit 3).

Banks are increasingly partnering with private debt GPs to gain exposure to economic activities that they hope to finance by becoming originators and distributors rather than end owners of risk.

[2] "Fitch Ratings completes peer review of 12 US BDCs," Fitch Ratings, April 14, 2025.
[3] "The next era of private credit," McKinsey, September 24, 2024.

To remain competitive in this new ecosystem of private credit, GPs can establish or acquire origination and underwriting capabilities specific to these new asset classes, including asset-backed finance, project finance, and real estate debt. They can also diversify capital bases to include longer-duration or lower-return-threshold capital pools, driving broader participation across the risk/return spectrum.

Exhibit 3

Infrastructure, asset-backed finance, and higher-risk commercial real estate are among the asset types most likely to transition to nonbanks.

Assessment of factors affecting nonbank penetration of US asset classes

Propensity to transition to nonbanks

High   Medium   Low

		Duration mismatch with banking deposits	Ease of origination for nonbanks	Impact to bank ROE after "Basel III endgame"	Total
Corporate and commercial finance	Standard loans[1]	Medium	Low	Medium	Medium
	Structured loans[1]	Medium	High	Medium	High
	Equipment leasing	Low	High	Low	Medium
	Aircraft and railcar leasing	High	High	Low	High
	Receivables financing	Low	Low	Low	Low
	Trade finance	Low	Low	Low	Low
Commercial real estate	Regulatory <80% LTV[2] ratio	High	High	Medium	Medium
	Construction loans and bridge financing	Low	Low	Medium	Low
	Regulatory >80% LTV ratio	High	High	High	High
	Nonregulatory	High	High	High	High
Infrastructure	Project finance	High	High	Medium	High
Customer finance	Auto loans and leases	Medium	High	Low	Medium
	Student loans	High	Medium	Low	Medium
	Unsecured personal loans	Low	Medium	Low	Low
	Credit card receivables	Low	Low	Medium	Medium
	Residential mortgages	High	Medium	Medium	High

[1]Impact on corporate loans will vary based on the type of borrowers. Examples of structured loans include acquisition finance and leverage finance.
[2]Loan to value.
Source: Global Banking Pools by McKinsey; McKinsey analysis

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Fundraisers: Direct lending remains strong amid a cooling market

Global private debt fundraising decreased by 22 percent to $166 billion (Exhibit 4). Despite this decline, 2024 was the fifth-largest fundraising year ever for the asset class. In contrast, fundraising for direct lending—the largest private credit strategy—grew by 2 percent year over year to $122 billion, the third-highest annual total on record. Growth in direct lending has been underway for more than a decade. Investors have committed capital for direct lending strategies in search of high floating-rate yields, with downside protection offered by a senior position in the capital stack.

On the other hand, mezzanine fundraising fell by more than 80 percent, accounting for $33 billion of the $47 billion aggregate decline in private debt fundraising in 2024. Fund timing is likely to have affected annual fundraising value for the substrategy, in which high manager concentration makes fundraising intrinsically more volatile. Just one of the ten largest mezzanine fundraisers of the last decade raised mezzanine capital in 2024 (compared with five in 2023 and three each in 2022 and 2021). However, some LPs are increasingly questioning whether mezzanine funds continue to offer compelling risk-adjusted returns, given narrowing spreads and more attractive opportunities elsewhere in private credit.

Fundraising declined across geographies as well. In North America, which accounts for over half of the global private debt fundraising total, fundraising fell by 18 percent in 2024, although it still grew at a 9 percent CAGR over the past five years. In contrast, Europe and Asia saw sharper one-year declines of 30 percent and 43 percent, respectively. Both regions also posted negative five-year CAGRs of –6 percent and –18 percent.

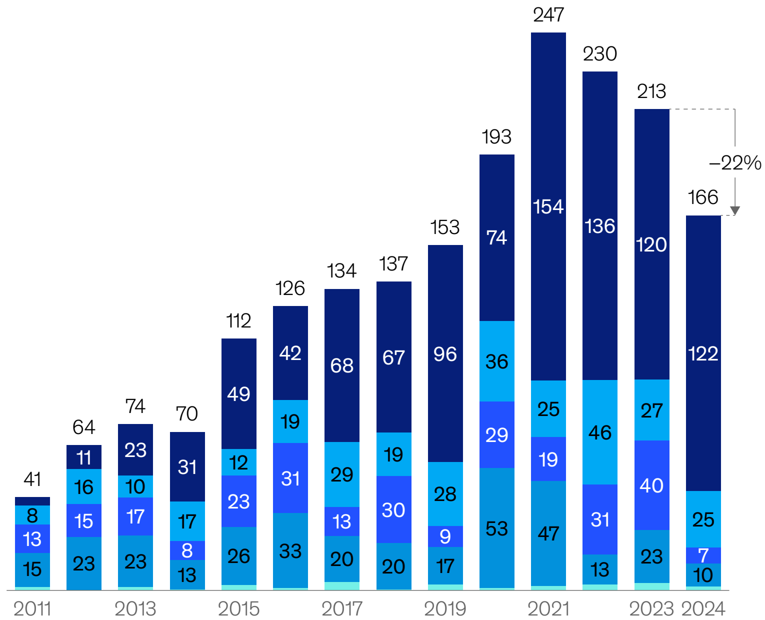
Two notable themes emerged in our analysis of 2024's private debt fundraising numbers: increased manager concentration and a steady investor appetite.

Global private debt fundraising decreased by 22 percent to $166 billion. Despite this decline, 2024 was the fifth-largest fundraising year ever for the asset class.

Exhibit 4

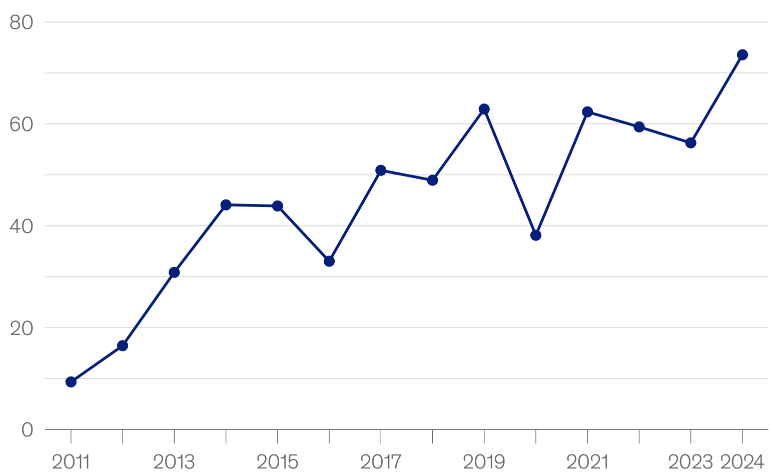
Private debt fundraising declined 22 percent in 2024.

Global private debt fundraising, by substrategy,[1] $ billion



	2019–24 CAGR, %	2023–24 growth, %
Total	1.7	–22.1
Direct lending	4.9	1.9
Special situations	–2.3	–6.7
Mezzanine	–6.0	–82.6
Distressed debt	–9.2	–56.2
Venture debt	–7.5	–48.7

Direct lending, as % of total



[1]Excludes secondaries, funds of funds, and coinvestment vehicles.
Source: Preqin

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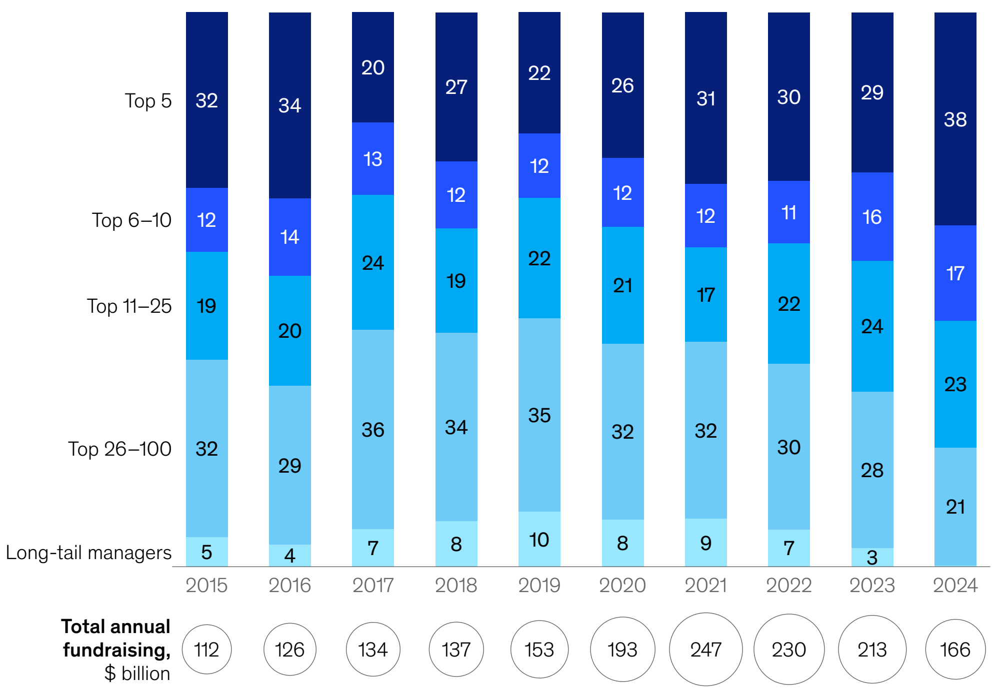
Private-debt fundraising is growing more concentrated
Fundraising concentration in private debt is gradually increasing. In 2024, the top five managers raised 38 percent of private debt funds, a notable increase from 29 percent in 2023 and the ten-year average of 29 percent (Exhibit 5).

Scale can often be a source of competitive advantage in the private debt industry. Lenders with greater financial resources can offer borrowers a range of financing solutions, provide timely liquidity, and maintain larger positions across different capital segments without incurring excessive concentration risk. The ability of larger lenders to lead a facility through scaled commitments can also be advantageous in deal access and deal terms. Moreover, GPs that have scale are better able to invest in building the incremental capabilities (for example, in operations or technology) required to attract alternative capital sources, such as retail and insurance capital.

Exhibit 5

Concentration of private debt fundraising reached a ten-year high.

Share of annual private debt fundraising, %



Source: Preqin

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Investor appetite holds steady

Although fundraising fell in 2024, McKinsey's 2025 LP Survey reveals that investor appetite for private debt remains strong. Forty-three percent of the surveyed LPs say they expect to increase private debt target allocations over the next 12 months—more than the share that expressed a desire to invest more in private equity or real estate. Investors' interest in the asset class is largely driven by private debt's perceived superior risk-adjusted returns and investors' desire for portfolio diversification.

LPs: Subdued but consistent performance

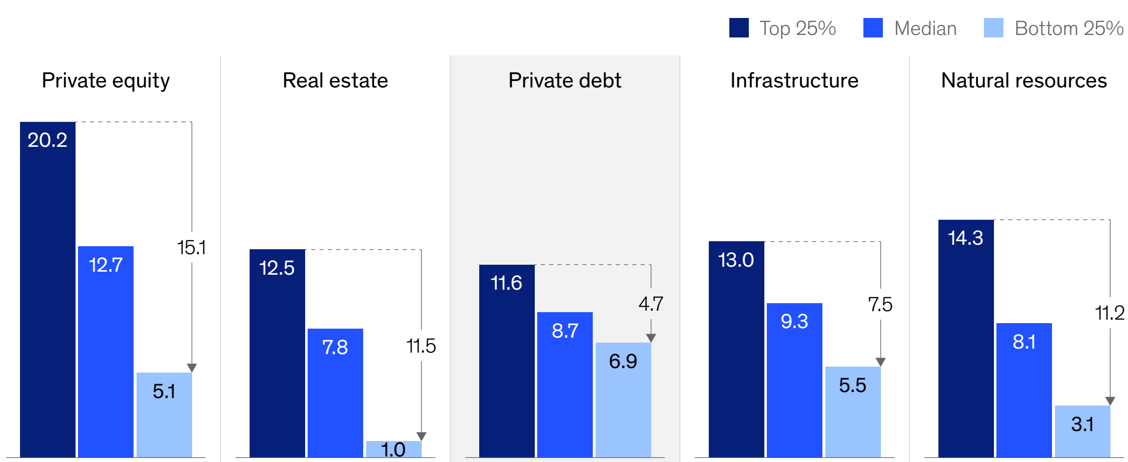
The pooled net IRR for private debt in 2024 was 6.6 percent (this figure is annualized based on an IRR of 4.9 percent in the first three quarters of the year). Despite subdued returns, private debt outperformed private equity and real estate in 2024 and continues to attract LPs with its low return dispersion and absolute returns comparable to real estate, infrastructure, and natural resources.

Dispersion of returns remained low among private debt managers. The median IRR and percentile spreads for 2012 to 2021 vintage funds, as of September 2024, reveal that private debt managers continued to provide investors with a narrower spread of returns relative to other asset classes. There was a 4.7 percent difference between top- and bottom-quartile private debt performance, compared with the 15 percent spread in private equity and 8 percent spread in infrastructure (Exhibit 6).

Exhibit 6

The performance gap between top- and bottom-quartile private debt funds is narrower than for the other asset classes.

Performance by asset class, median IRR and percentile spreads for 2012–21 vintage funds,[1] %



[1]IRR spreads calculated for separate vintage years for 2012–21, and then averaged out. Median IRR was calculated by taking the average of the median IRR for funds within each vintage year. Net IRR to date through Sept 30, 2024.
Source: MSCI Private Capital Solutions

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Default rates remain low—for now

According to available data on private debt defaults, which is often not comprehensive, the default rate in the asset class has historically been low (leading to lower losses), but it increased marginally in 2024.

In 2024, Proskauer's Private Credit Default Index rose to approximately 2.7 percent in the fourth quarter, compared with 1.8 percent in the first quarter.[4] In comparison, broadly syndicated loans posted a 4.7 percent default rate as of year-end 2024, up from 4 percent at the beginning of the year.[5]

The difference between the default rates for the two strategies may be the result of private debt managers adopting superior risk management strategies, demonstrating an ability to better manage total returns compared with their counterparts in both syndicated and public markets. But default-driven losses could begin to rise, especially if the global economy enters a recessionary environment. Meanwhile, a higher-for-longer interest rate outlook and intensifying competition for deal flow could lead to riskier underwriting and more defaults.

In the coming years, private debt could play an increasingly prominent role in lending against distressed and opportunistic hard assets, as well as asset-backed lending in nontraditional sectors. This strategic diversification will likely highlight the ability of private debt GPs to prioritize yield generation while retaining downside protection—key strengths of the asset class—and further solidify private debt as not only a resilient but also an adaptable asset class.

[4] "Proskauer announces Q4 private credit default rate of 2.67 percent," Proskauer, January 21, 2025.

[5] "BSL posts strong returns in 2024 amid robust investor demand," LSTA, January 9, 2025. Default rate reflects defaults by count, inclusive of liability management transactions, as reported by LSTA. Definitions and inclusion criteria for defaults may vary across sources.

Infrastructure poised for clearer conditions

The infrastructure asset class had a mixed year, with robust deal activity and stronger relative performance on the one hand and slower fundraising on the other.

From one perspective, 2024 may have seemed like a tougher year than 2023 was for infrastructure leaders. Fundraising was down again, falling 15 percent year over year to become the lowest in a decade. GPs spent more time on the fundraising trail compared with the prior year. And the capital-raising environment appeared less welcoming to newcomers than ever before.

However, there are several reasons to believe that the asset class is inching closer to a full recovery. Capital deployment accelerated in 2024. Deal value increased by 18 percent over the prior year, making 2024 the second-highest year on record (behind 2022). Our analysis suggests that dealmakers also executed bigger deals, since deal count increased only 7 percent over 2023. This active deployment resulted in dry powder decreasing to $418 billion as of the first half of 2024, which was 10 percent lower than that at the end of 2023.

Infrastructure also appears to be the asset class in which the greatest number of investors want to increase allocations in the next 12 months (selected by 46 percent of the total respondents), according to the McKinsey LP Survey.[1] There are several reasons for this bullish view. Global trade, which grew to nearly $33 trillion in 2024,[2] has spurred major public and private investments in ports, rail, and logistic infrastructure. The global energy transition continues to require trillions of dollars' worth of investment into infrastructure: McKinsey's research shows that the total of new physical assets for clean energy and enabling infrastructure could reach approximately $6.5 trillion per year by 2050.[3]

Then there are demographic shifts: growth in population (expected to increase by nearly two billion in the next 30 years) and wealth ($160 trillion in wealth created in the past two decades),[4] which will likely boost demand for infrastructure, especially critical sectors like roads and energy. At the same time, the demand for power is also rising. In the United States, for instance, retail sale of electricity increased by 2 percent in 2024 from a year prior, after 15 years of near-flat growth, due in large part to growing electricity needs of data centers (with the power demand being accelerated by the use of AI and cloud computing).[5]

To capitalize on these opportunities in the current market environment, infrastructure managers are also changing how they invest—and generate returns. In previous years, infrastructure GPs tended to invest in distinct infrastructure verticals. Now we observe heightened investment at the intersection of different themes (energy and digital for data centers being a notable example). At the same time, greater competition for assets and the end of an extended period of "cheap money" is making active ownership increasingly important—if not essential—to drive returns. Value-oriented infrastructure GPs that are willing to focus on and underwrite value creation initiatives could gain strong competitive differentiation, given the sustained LP interest in committing to the strategy.

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[1] January 2025, n = 333.
[2] "Global trade hits record $33 trillion in 2024, driven by services and developing economies," UN Trade and Development, March 14, 2025.
[3] Detlev Mohr, Ishaan Nangia, and Christoph Schmitz, "Introduction: February 2024," McKinsey, February 26, 2024.
[4] "Global issues: Population," United Nations, accessed on March 19, 2025; "The future of wealth and growth hangs in the balance," McKinsey Global Institute, May 24, 2023.
[5] "Electricity data browser," US Energy Information Administration, accessed March 2025.

Dealmakers and operators: Regaining their stride

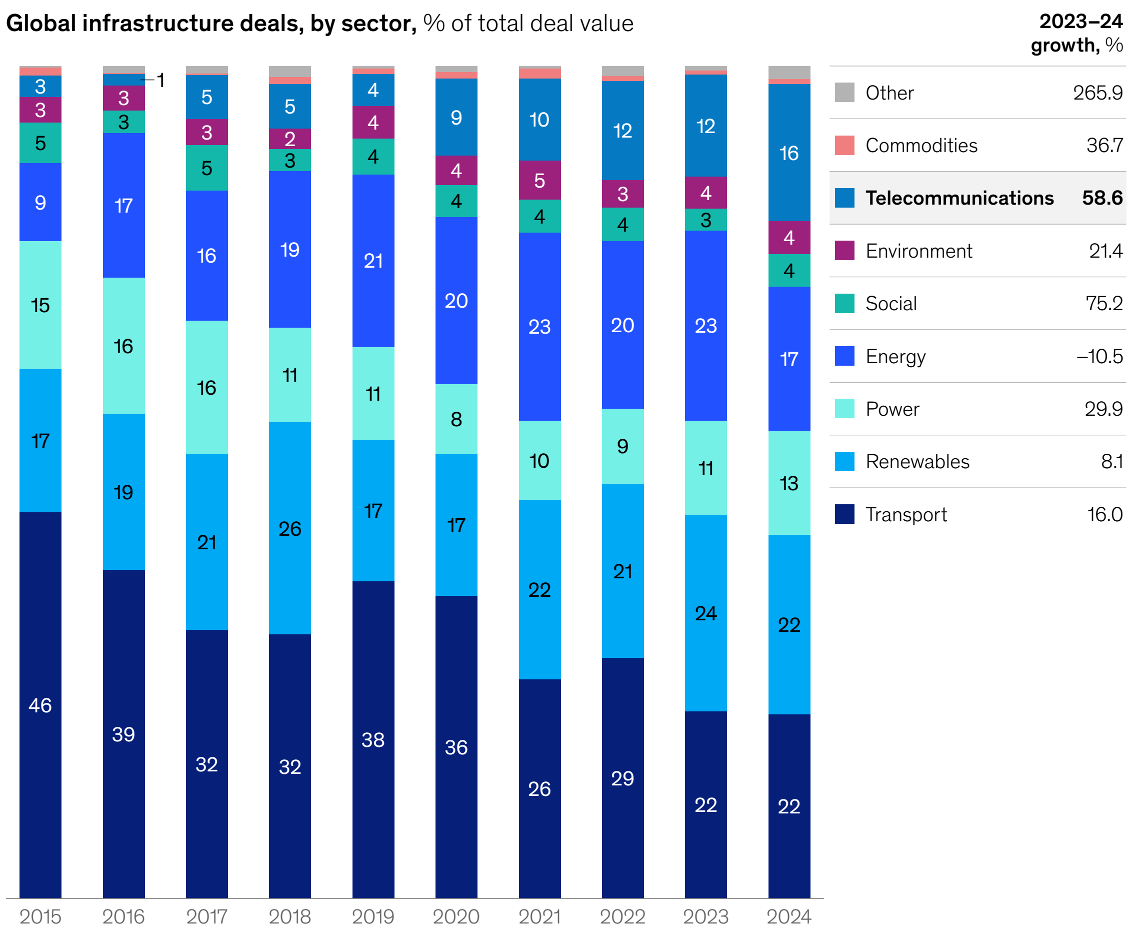
Infrastructure dealmaking rebounded in 2024 as GPs accelerated their pace of capital deployment. Globally, more deals were done, and they were made at higher prices. Deal value increased by 18 percent, while deal count increased by 7 percent during the year.

Several infrastructure subsectors recorded robust deal activity. Deals in the telecom sector accounted for 16 percent of aggregate infrastructure deals by value in 2024, up from 3 percent in 2015 (Exhibit 1). This growth was primarily driven by rising demand for fiber networks and data centers. In fact, data centers composed 58 percent of telecom deals, compared with only 2 percent in 2015.

Exhibit 1

Telecommunication deals accounted for a larger share of total infrastructure deal value in 2024 than they did in previous years.

Global infrastructure deals, by sector, % of total deal value



Note: Figures may not sum to 100%, because of rounding.
Source: Infralogic database, ION, accessed March 2025

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Renewable energy (from sources including wind, solar, biomethane, and biomass) also continued to be a core investment theme, representing 22 percent of infrastructure deal value in 2024, slightly above the sector's ten-year average of 21 percent. Although transport continued to hold the largest share of deal value (roughly 22 percent), the sector's margin has considerably decreased over the past decade (in 2015, it accounted for 46 percent of deal value).

Our analysis highlights three main trends for infrastructure dealmakers and operators to consider: convergence of energy and digital, emphasis on value creation, and increase in investment in services.

Convergence of energy and digital

In the infrastructure sector, the clearest example of the so-called hybridization of assets is between energy and digital (such as with data centers).[6] The proliferation of AI and cloud computing has increased the demand for power substantially. In 2024, the demand for data center power was 66 gigawatts. A proprietary McKinsey demand model projects it to reach 219 gigawatts by 2030, reflecting a 22 percent annual growth rate. Data center owners and operators will likely need to upgrade their existing transmission and distribution infrastructure to meet this growing power demand.

Many GPs are also looking at building or acquiring data centers in new markets where power is more abundant (for example, Indiana in the United States and Brazil). At the same time, infrastructure managers are paying more attention than ever to renewable generation, small modular reactors, behind-the-meter energy storage, and (for now) natural gas to power these centers. Consider the example of Cumulus Data Assets in the United States, a 960-megawatt data center campus that is powered by a nuclear power plant adjacent to the facility and was sold to a cloud service provider.[7]

Emphasis on value creation

Our work with infrastructure investors reveals that dealmakers are increasingly focusing on active ownership of assets to generate value and deliver desired returns to investors. Successful GPs are pursuing several priorities beyond traditional value creation planning with their portfolio companies. Notably, GPs can manage project timelines through careful strategic planning to optimize capital deployment, prevent costly delays, and maximize asset value, especially in an environment where project delays are increasingly penalized with fees.

The issue of labor management is an important aspect of strategic planning. Dealmakers and operators could tackle the challenge of a lack of skilled labor—particularly in the United States—by boosting productivity (for example, through automation), focusing on retaining and upskilling talent, and creating flexibility across geographies (for example, by using digital twins and remote controls) so that skilled labor can participate in projects remotely.

Increase in investment in services

Infrastructure GPs and LPs are increasingly recognizing that service businesses can often have infrastructure-like attributes. For example, service businesses can be critical to various value chains (such as maintenance services to the water utility value chain) and often resemble

[6] "Hybridization of assets" refers to bringing together two key investment themes or subsectors, allowing investors to have exposure to multiple themes through a single asset.
[7] "Talen Energy announces sale of zero-carbon data center campus," Talen Energy press release, March 24, 2024.

traditional infrastructure investments. They often have predictable revenue characteristics, are driven by mission-critical spending (for example, supporting the energy transition by shifting to more cold storage), and exhibit high barriers to entry due to the need for scale. As a result, the definition of an "infrastructure asset" is fast expanding to include not just hard assets but also maintenance of data centers and telecom assets, pipeline inspections, and more.

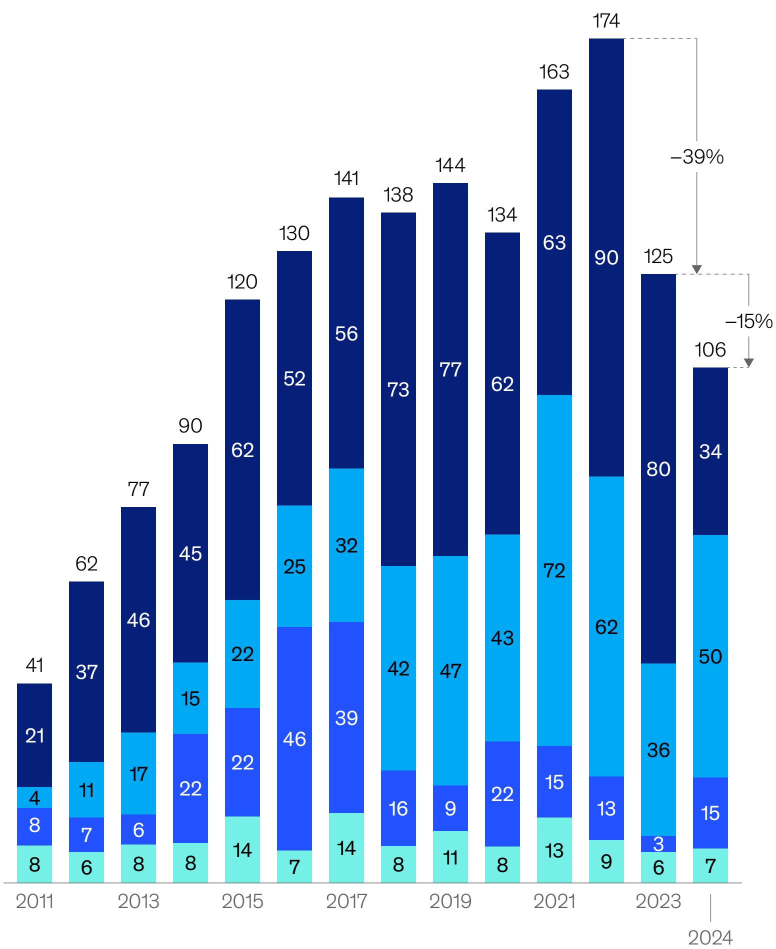
Fundraisers: Facing ongoing hurdles

2024 was undeniably a tough year to be fundraising for infrastructure and natural resources. An aggregate $106 billion was globally raised for the asset class, down by 15 percent from 2023, becoming the lowest amount raised in the past decade (Exhibit 2). The number of infrastructure

Exhibit 2

Infrastructure fundraising fell for the second consecutive year.

Global infrastructure and natural resource fundraising, by region, $ billion[1]



	2019–24 CAGR, %	2023–24 growth, %
Total	–5.9	–15.3
North America	–14.8	–57.0
Europe	1.1	40.6
Asia	9.3	344.4
Rest of world	–7.9	11.0

Note: Figures may not sum to totals, because of rounding.
[1]Excludes co-investment vehicles, funds of funds, and secondaries.
Source: Preqin database, accessed March 2025

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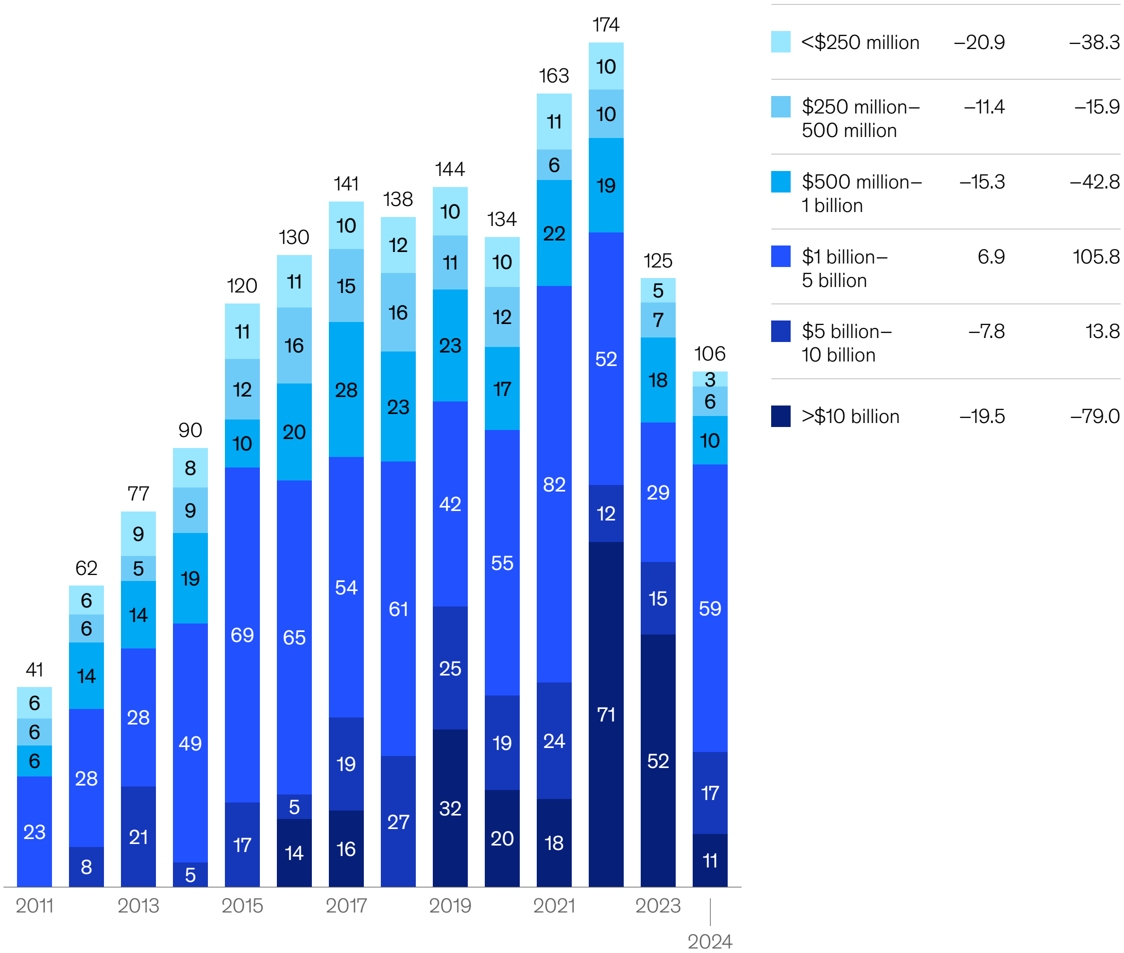
and natural resources funds raised declined to 115, from 147 in the prior year. Funds were also in the market for longer, reaching a record high of 26 months, nine months longer than it took just five years ago. The proportion of dollars raised by first-time funds also declined to its lowest ever, making up only 1 percent of all fundraising in 2024.

Some of these declines could likely be due to scale. Larger funds tend to influence fundraising to a great extent in infrastructure (Exhibit 3). And in 2024, two of the largest historical fundraisers in the asset class did not close a fund. Both GPs, in addition to around ten other funds, are now in the market targeting funds of over $10 billion or similar size.

Exhibit 3

The largest funds heavily influence infrastructure fundraising.

Global infrastructure and natural resource fundraising, by fund size, $ billion[1]



Note: Figures may not sum to totals, because of rounding.
[1]Excludes fund of funds and secondaries.
Source: Preqin database, accessed March 2025; McKinsey analysis

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In 2024, Europe experienced a 40 percent year-over-year increase in fundraising. Meanwhile in North America, fundraising declined by 57 percent year over year. Both of these large swings in fundraising may be attributed to the timing of funds coming to market.

Two key trends stand out as we look at the infrastructure fundraising landscape: the sector increasing its demand for value-added strategies and limited partners embracing more risk for superior returns.

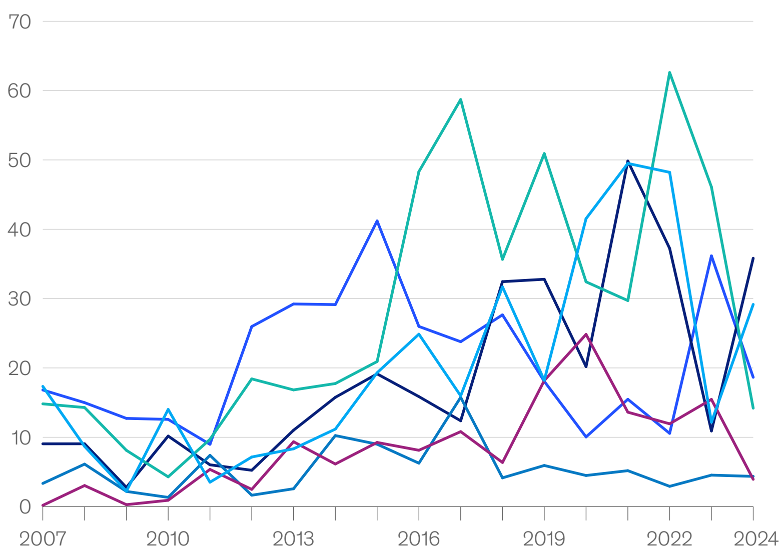
Increasing demand for value-added strategies

Value-added vehicles accounted for 34 percent of total infrastructure fundraising in 2024 (the ten-year trailing average is 19 percent), buoyed by increasing LP interest in the strategy (Exhibit 4). On the other hand, debt and core-plus strategies lost momentum. Fundraising for core-plus vehicles accounted for 13 percent of the total, lower than the ten-year average of 29 percent. Meanwhile, infrastructure debt fundraising fell to 4 percent against a ten-year average of 9 percent. These patterns are indicative of LPs increasingly moving further along the risk-reward spectrum to meet their return expectations. Given the shift toward value-added investing, GPs may do well to focus on greater active management of assets.

Exhibit 4

In 2024, the growth of fundraising that used the value-added strategy for infrastructure was higher than the growth of other strategies.

Global infrastructure and natural resource fundraising, by strategy, $ billion[1]



	2019–24 CAGR, %	**2023–24 growth, %**
Infrastructure, value added	1.8	228.4
Infrastructure, core	9.9	139.7
Natural resources	0.6	–48.4
Infrastructure, core plus	–22.5	–69.2
Infrastructure, opportunistic	–6.0	–4.0
Infrastructure, debt	–26.4	–74.6

[1]Excludes co-investment vehicles, funds of funds, funds with an undefined strategy (~1 % of fundraising), and secondaries.
Source: Preqin database, accessed March 2025

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LPs: Embracing more risk for superior returns

Infrastructure was the top-performing private asset class in 2024, with a one-year pooled net IRR of 6.1 percent, compared with 8.5 percent in 2023. Even so, 2024 marked the asset class's weakest performance since 2011 (infrastructure has generated an approximately 9 percent annual average since 2000).

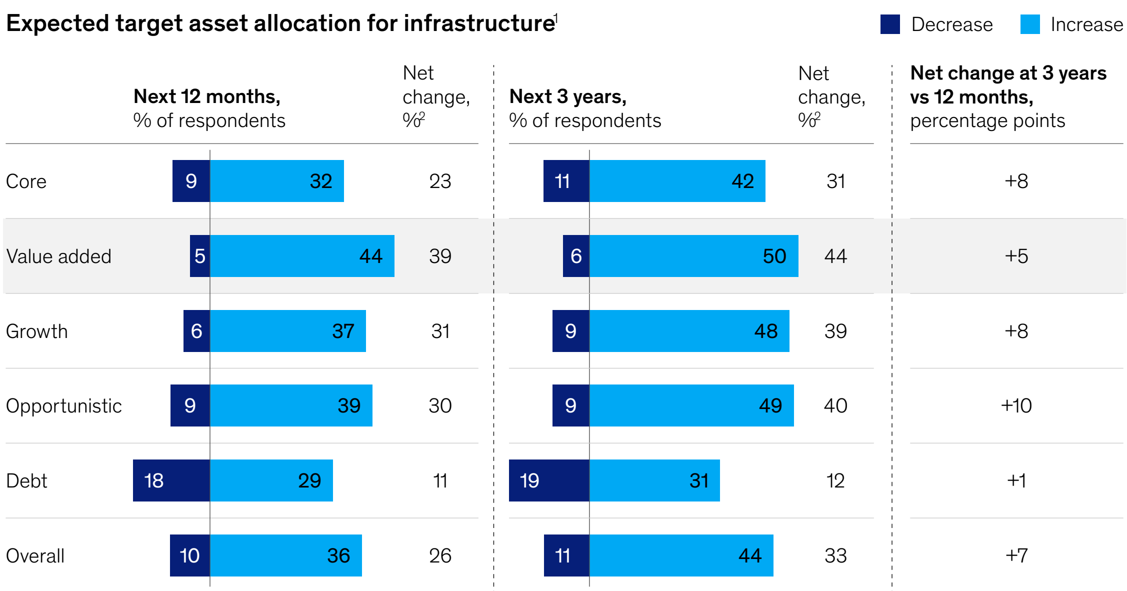
As LPs search for superior returns, they are increasingly seeking higher-risk opportunities. Brownfield and greenfield infrastructure projects, for example, accounted for 52 percent of infrastructure deals—the highest proportion on record—and a 20 percent gain against secondary-stage projects over the past seven years. This may suggest that GPs are increasingly buying based on the underlying asset value and potential appreciation as opposed to consistent cash flows.

The long-term appeal of infrastructure continues to remain robust as well. In the McKinsey LP Survey, 46 percent of respondents indicate a desire to increase allocation to infrastructure over the next 12 months (versus 43 percent a year ago)—the highest for all private capital asset classes (Exhibit 5). This is despite LPs being overallocated to infrastructure by approximately half a percentage point, according to CEM Benchmarking.

Exhibit 5

The value-added strategy was the infrastructure strategy most favored by survey respondents.

Expected target asset allocation for infrastructure[1]



Note: Figures may not sum to totals, because of rounding.
[1]Question: Over next 12 months and 3 years, do you anticipate your target allocation in each infrastructure class to increase, stay the same, or decrease?
[2]Calculated as share of respondents who responded "increase" minus share of those who responded "decrease."
Source: McKinsey LP Survey, January 2025 (n = 333)

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In the McKinsey LP Survey, 44 percent of the respondents say that they plan to increase their allocations to the infrastructure value-added strategy, more than they report for any other infrastructure strategy. Within LP groups, pension funds have the highest targeted allocation to infrastructure, as they are attracted to the more predictable returns of the asset class. Meanwhile, respondents from family offices (a relatively smaller contributor to overall infrastructure assets under management compared with other LP groups) show the greatest desire to increase target allocations over the next 12 months. Their heightened appetite is likely driven by a willingness to accept longer hold periods and lower need for short-term liquidity, compared with other investors.

Infrastructure endured some challenges along its path to recovery in 2024. Yet stakeholders' conviction in the asset class remains undeniably strong, as evidenced by increasing deployment from GPs and LPs' desire to allocate more capital. This may well be because the secular drivers of infrastructure investment opportunities (more people, more activity, and limited government balance sheets) are strengthening, not diminishing. With expanding definitions of "infrastructure" and "hybridization of assets," an elevated need to increase performance and return capital to LPs, and continued challenges in the deal environment, value creation through active ownership has emerged as a key tenet of success for infrastructure investors, a theme that will likely persist into the future.

Industry deep dives

Alternative assets get more alternative: The rise of novel AUM forms

Nontraditional sources of capital are accounting for a growing share of private markets' assets under management (AUM). Here's why.

For many years, asset managers and investors have generally used a single metric to track the inexorable rise and health of private markets: assets under management. As the thinking goes, if investors are giving private managers access to more and more capital, they probably trust that their investment decisions are valid and that private markets are stable. That view of AUM may require some rethinking, however.

Between 2000 and 2023, total AUM across private market asset classes increased almost 20-fold, reflecting CAGR of 13 percent—even factoring in leaner times for private markets in 2022 and 2023.[1]

However, AUM for private markets grew by just 1 percent between year-end 2023 and the first three-quarters of 2024. This slowed growth, however, accounts for only those assets managed within closed-end commingled investment vehicles. It fails to take into account an alternative segment in private markets comprising a range of nontraditional forms of capital that reflects potentially more than half the scale of the AUM of closed-end funds.

The real measure of AUM needs to account for this alternative segment. For the purposes of this article, we consider three types of nontraditional capital that have become popular in recent years: higher-liquidity products, such as open-end funds; LP demand-driven products, such as separately managed accounts (SMAs) and co-investments; and permanent capital, such as insurance capital.

According to our analysis, these three sources of capital contributed approximately $7 trillion to $8 trillion in AUM in 2024, nearly 20 percent higher than in the prior year. And when this figure is incorporated in the overall AUM for private markets in 2024, that number increases by 5 or 6 percent. Consequently, the size of the private market industry in 2024 is also increased by nearly 50 percent to approximately $22 trillion.

In this article, we explore the growing shift to alternative forms of private capital—and what GPs can do to tap into this trend.

Why are alternative sources of capital proliferating?

Although traditional AUM remains the bread and butter of the typical GP (and core to GP economics), alternative capital pools are increasingly gaining traction for three main reasons. GPs and regulators are democratizing access to private markets for retail investors, and they are developing more customized investment solutions for institutional investors beyond the commingled fund model. At the same time, the private market universe is also expanding, with a greater number of new managers and active firms.

Retail capital pools

Historically, many capital pools, particularly retail investors, couldn't access private capital opportunities due to regulatory restrictions, minimum requirements for check size, and liquidity constraints when it came to investing using commingled fund structures. Over the past few

[1] Figures are for traditional AUM, which includes closed-end commingled vehicles. Private market asset classes include infrastructure and natural resources, private debt, private equity, and real estate.

Although traditional AUM remains the bread and butter of the typical GP, alternative capital pools are increasingly gaining traction.

years, GPs have addressed these challenges by setting up nontraditional vehicles and innovative fund structures that retail investors can access more easily—a growing and largely untapped pool of nearly $60 trillion.[2]

Governments around the world have also democratized access to private markets by easing regulations in recent years. Regulatory changes allowing 401(k) plans to invest in alternative investment funds were introduced in the United States in 2020, giving a broader group of investors access to opportunities for private capital investment. Countries in Europe introduced similar regulatory changes, including an update to the European Long-Term Investment Fund regulation that took effect in 2024. These primarily long-term investment funds allow for greater retail access than typical closed-end funds do.

Still, many retail investors have found it challenging to overcome regulatory and logistical obstacles, such as minimum qualifications to invest in alternative investments and large minimum commitments to invest in funds. Supply-side innovation has helped some retail investors overcome these barriers. For example, there are aggregators that connect a network of wealth managers with private-capital-fund products. They help wealth managers access private capital products for their clients and assist private capital firms with the operational challenges of having a large, segmented LP base. There has also been an increase in the number of fund administration services available, with capabilities specifically suited to managing the financial and accounting needs of funds with a large number of investors—particularly retail investors.

Customized investment solutions for LPs

Many GPs are also developing new offerings for large institutional investors, giving them greater customization, exposure, influence, and liquidity than closed-end commingled vehicles provide. Some institutional investors are tailoring their private market exposures so that they have greater choice and direction over their investments. For example, some LPs are creating multibillion-dollar joint ventures with trusted GPs to deploy capital toward achieving their strategic goals (such as energy transition efforts and regional development) and gain benefits of scale.

Expanding the private market universe

Alternative sources of capital are also proliferating alongside growth in new managers and investment theses. Consider these statistics: Although the number of first-time buyout funds declined in 2024, there are now more than 17,000 private market firms active globally,

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[2] Performance Lens Global Growth Cube, McKinsey, accessed March 2025.

which is 2.4 times more than a decade ago. Moreover, the number of active firms has increased every year for the past ten years across all asset classes and geographies. This increase in the private market universe is pushing GPs to widen their capital pools to maintain a strong footing.

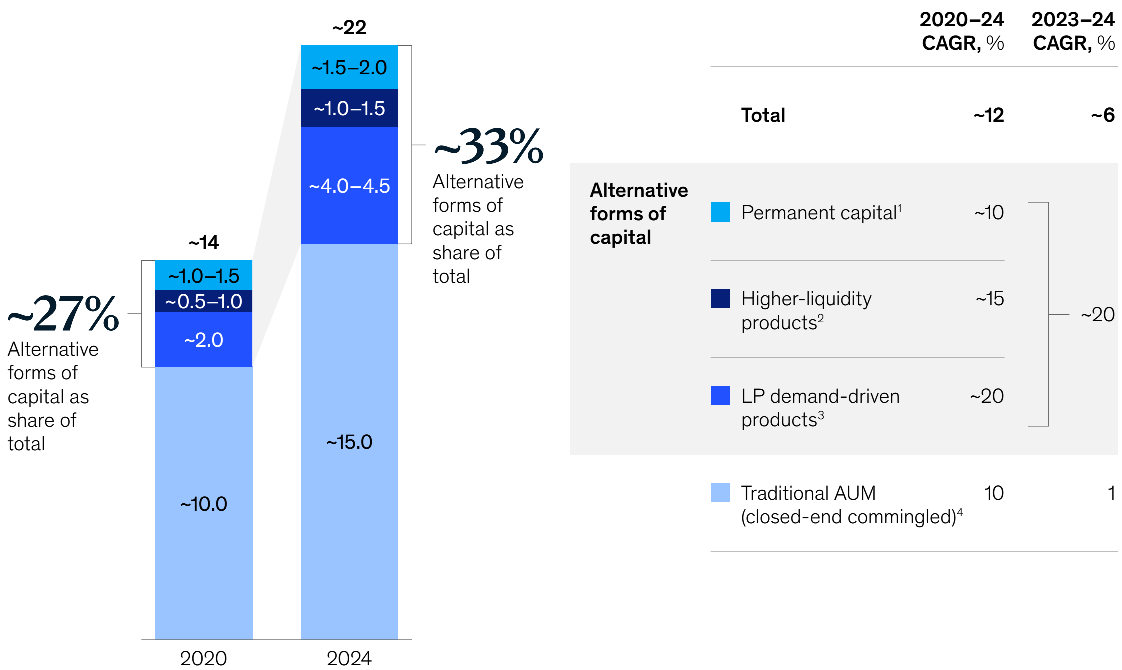
What value is at stake?

Alternative sources of capital can take many forms, but the three highlighted in our analysis—higher liquidity products, LP demand-driven products, and permanent capital—show the greatest popularity and promise. Despite the lack of transparent data on alternative sources of capital, our analysis reveals that these three are estimated to have added $7 trillion to $8 trillion to the overall global private capital AUM in 2024, bringing the aggregate AUM to approximately $22 trillion (Exhibit 1).

Exhibit 1

Alternative forms of capital represented nearly 33 percent of total private market assets under management in 2024.

Estimated private capital assets under management (AUM) in 2020–24, $ trillion



Note: Figures may not sum, because of rounding.
[1]Insurance capital held on balance sheets.
[2]Includes evergreen products, intermittent-liquidity products, and private and perpetual-life business development companies.
[3]Includes separately managed accounts and co-investments.
[4]As of June 30, 2024.
Source: CEM Benchmarking; Cerulli; Henry H. McVay et al., *No turning back: KKR 2024 Insurance Survey*, Kohlberg Kravis Roberts, April 2024; Preqin; StepStone; Sovereign Wealth Fund Institute; McKinsey analysis

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Growth in nontraditional capital has also outpaced traditional AUM growth in recent years, increasing an estimated 16 to 18 percent annually since 2020, compared with 10 percent growth in traditional AUM. The gap widened in 2024, when alternative capital sources grew between 18 and 20 percent, while traditional capital registered tepid growth of just 1 percent.

In reviewing various forms of alternative capital for our analysis, we carefully considered a range of factors. To avoid the double counting of capital, our private capital AUM figures don't include primary or secondary funds of funds. These vehicles represent an estimated additional $2 trillion in AUM that has grown by nearly 8 percent per year since 2020—driven partly by the surging interest in secondaries, which hit an all-time high in 2024.

Additionally, liquid-alternative funds (which include select mutual funds and ETFs, as well as some closed-end funds) are highly liquid products by alternative investment standards. They aren't truly private, and many of the strategies that they encompass (such as long-short equity strategies, derivative strategies, and many commodities strategies) fall outside our definition of "private capital." These represent approximately $1 trillion in additional AUM and have grown at approximately 10 percent annually since 2020. Similarly, we don't include public business development companies and public real estate investment trusts (given that they are public vehicles). However, they are worth noting, as they invest in private assets, similar to their private counterparts. Additionally, we haven't included AUM contribution from hedge funds in our analysis.

Higher-liquidity products

Higher-liquidity products are vehicles that are open-ended or provide intermittent liquidity to investors. Retail investors that need higher (and more frequent) liquidity ideally want private market returns with public-market liquidity. For more traditional LPs, such as pension funds and family offices, the increased liquidity provided can play a vital role in overall portfolio construction.

Higher-liquidity vehicles include the following:

— evergreen funds that are open-ended limited-partnership fund structures

— real estate investment trusts that aren't traded on an exchange

— interval funds, which are intermittent-liquidity strategies that must provide monthly or quarterly liquidity

— tender offer funds, which are similar to interval funds but leave the liquidity to manager discretion

— BDCs that aren't traded on any exchange, which are less liquid than public BDCs are and typically operate similarly to other intermittent-liquidity vehicles but still lend funds to small and mid-size businesses like public BDCs do

Across these fund structures, we estimate that there's $1 trillion to $1.5 trillion in AUM, which has grown at approximately 16 percent per year since 2020. Additionally, these products contribute an estimated $250 billion to $600 billion in fund investments and co-investment, indicating an even broader impact of higher-liquidity vehicles than by direct AUM alone.

Products driven by LP demand

LP demand-driven offerings, including SMAs and co-investments, give LPs greater (or more direct) control over, exposure to, and influence on the investment of funds. GPs often use them to deepen their relationships with investors.

An SMA is a customized vehicle through which a single LP typically commits capital. By offering multiple SMAs, GPs often garner larger commitments than they would otherwise receive. Based on our analysis, the AUM dedicated to SMAs was between $1.5 trillion and $2 trillion in 2024 and up by 16 to 18 percent per year since 2020.

LPs are also interested in co-investment opportunities because they can double down on their exposure to particular investments and reduce their fee payments in the process. Through these co-investments, GPs can also make bigger investments than the fund size alone would allow. The AUM driven by co-investment has increased by 20 to 25 percent per year since 2020 and totaled more than $2.5 trillion in 2024.

Permanent capital

Permanent capital is largely sourced from insurance companies. Historically, insurance companies have allocated a portion of their assets to alternative investments, most typically those assets that were expected to be held for a long period of time. More recently, however, leading GPs have started acquiring insurance business units with the intention of using the insurer's long-held assets on the balance sheet as a pool of permanent capital that could be allocated for private capital investments.

In addition, insurers not backed by private capital firms are also increasingly investing in funds, permanent-capital entities, private placements, and "sidecars," among other modes of entry. On top of investments into fund structures previously discussed (such as open-ended funds), the size of private capital AUM from these insurance capital pools is estimated to be $1.5 trillion to $2 trillion, up by nearly 10 percent annually since 2020. This estimate doesn't include an additional $2 trillion of insurance assets invested in fund structures and managed private market products—primarily traditional, closed-end vehicles.

What's the path forward for GPs?

Given the shifts in the composition of private capital fundraising and AUM, GPs must begin to adapt their fundraising and investor relations efforts. There are two ways by which GPs can set themselves up for success: by restructuring and growing their fundraising team and by switching to a solution mindset.

Restructure and grow the fundraising team

GPs can increase the size of their fundraising team and ensure it sources capital from both mainstream and alternative sources (for example, traditional versus SMAs and pension funds versus retail investors). The team must also actively seek out LPs that have had less exposure to private capital. Indeed, early movers are already building out armies of fundraisers to educate potential investors on the options now available to them, ensuring that their products are seen and understood. These new fundraising activities can include a mix of insourced and outsourced capabilities.

Switch from a fundraising to a solution mindset

For more tailored products, such as SMAs and co-investments, GPs can curate a team dedicated to the specializations. The team would understand its target LPs' distinct goals and problems and offer appropriate solutions. Since extra resourcing is likely to compress GPs' margins, they would do well to become more efficient in their back office and benefit from economies of scale.

The story of the rise in alternative investments is one of how managers are excelling at supply side innovation to sustain—and boost—demand from a range of investors. In this shifting landscape, using only traditional AUM as a proxy for total private market AUM is akin to using manufacturing alone as a proxy for GDP: *What about everything else?* It will be critical for private market leaders to take these trends into account and expand their views on both traditional and nontraditional sources of capital.

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Private equity's path to clearing the historic exit backlog

Exiting assets has become harder than ever before—but GPs can take some actionable steps to execute a sale in a timely and profitable manner.

Private equity (PE) sponsors are grappling with a ballooning exit problem.

Although 2024 saw a modest rise in the sales of private-equity-backed companies—up 8 percent by value after two consecutive years of decline—the global backlog of sponsor-owned assets in their divestment period, awaiting an exit,[1] is bigger than at any point in the past two decades—in terms of value, count, and as a share of total portfolio companies.

Consider these statistics. In 2024, more than 18,000 companies had been under PE ownership for more than four years—more than six times the number in 2005.[2] This means that 61 percent of buyout-backed portfolio companies have been held beyond the four-year mark by sponsors. The average hold time for buyout assets was 6.7 years in 2024, a full year more than the 20-year average of 5.7 years.

In 2024, we saw a mismatch in valuation expectations between buyers and sellers that led to several sales processes being halted. Many sponsors informally communicated to the market about the potential sale of several long-in-the-tooth assets, avoiding formal auction processes for fear that they would fail.

In this article, we explore the steps GPs can take to increase the chances of their assets exiting in a timely and profitable manner. After all, while GPs are generally viewed as buyers of companies, it is the sale of these assets that delivers returns.

In 2024, more than 18,000 companies had been under PE ownership for more than four years—more than six times the number in 2005.

[1] Longer than four years of ownership.
[2] Excluding add-ons.

Private equity's exit challenge

In 2024, the average PE sponsor owned more companies, valued higher, and held for longer relative to historical averages. The sponsors are anxious to sell these assets—both in good time and at attractive prices—for several reasons. For one, delays in selling companies have made fundraising challenging for GPs, as demonstrated in McKinsey's Global Private Markets Report 2025. Many LPs are withholding new commitments until they receive distributions, which exits enable. In our 2025 McKinsey LP Survey, 21 percent of respondents cited distributed to paid-in capital (DPI)[3] as a critical performance metric when evaluating GPs, up from 8 percent three years ago (Exhibit 1). In fact, DPI is now tied with multiple on invested capital (MOIC)[4] as the second-most-important performance metric after IRR.

In addition, extended holding periods due to a lack of suitable exits can jeopardize returns. This could be because returning the same IRR over a longer hold period requires GPs to generate a higher MOIC, placing a greater value creation burden on operators. This issue becomes more critical given that buyout entry multiples have nearly doubled in the past 15 years—investors are paying more to buy assets, which means they need to sell them at higher prices to deliver the same returns.

Exhibit 1

Distributed to paid-in capital has become a key performance metric for limited partners.

Most critical performance metric for LPs when evaluating a manager's performance[1]

	Three years ago, % as most critical	**Today,** % as most critical	**Change in 'most critical' metric, 3 years ago vs today,** percentage points
IRR	42	35	–7
DPI[2]	8	21	+13
TVPI/MOIC[3]	15	21	+6
PME[4]	5	8	+3
TVM[5]	5	7	+2

[1]Percentage of respondents that marked each performance metric as a 5 out of 5 (or most critical).
[2]Distributed to paid-in capital.
[3]Total value to paid-in capital/multiple on invested capital.
[4]Public-market equivalent.
[5]Time value of money.
Source: McKinsey LP Survey, January 2025 (n = 333)

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[3] Distributed to paid-in capital is a measure of the total capital returned by a private equity fund to its investors up to a certain time—using the ratio of cumulative distributions to the total capital paid into the fund.
[4] Multiple on invested capital is a measure of the total value of the investment relative to the initial capital invested.

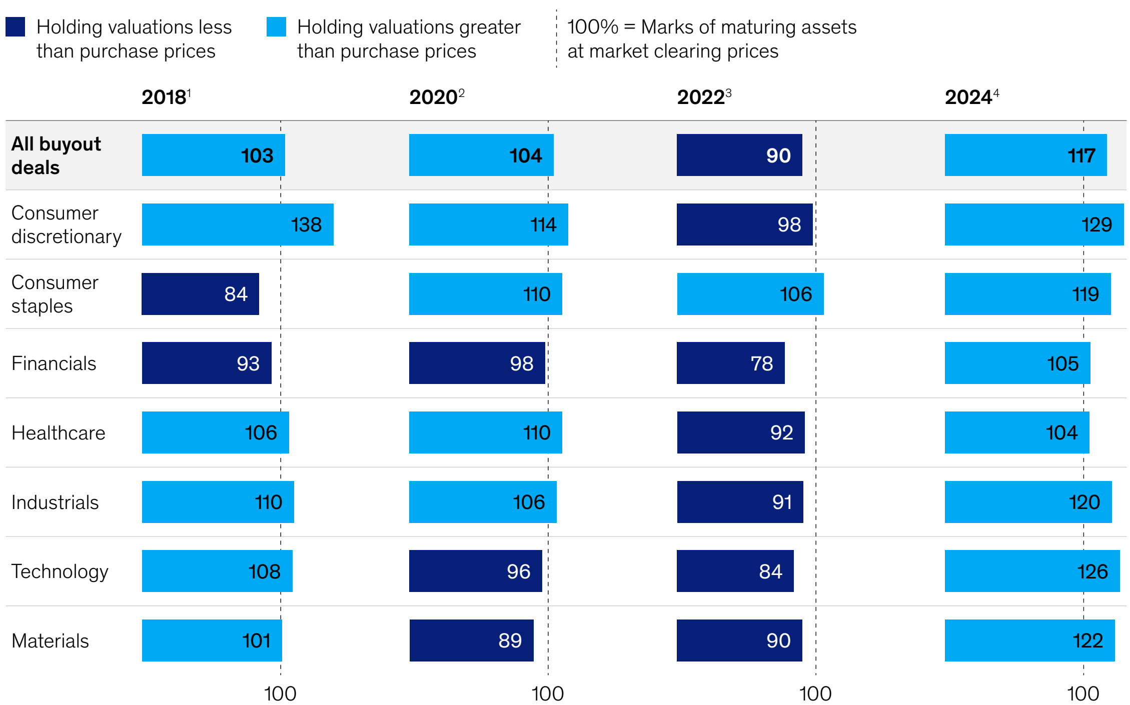
However, getting an exit right in the current market environment is no easy feat. A number of stalled exits in 2024 have added to growing pressure on GPs. This trend is not specific to PE; some corporate spin-offs also experienced stalled processes.

One factor looms large in explaining these exit challenges: a mismatch between buyer and seller price expectations. We can analyze this mismatch by evaluating how the valuations of maturing assets (for example, those held for more than four years) on sponsors' books—typically termed as "marks"—compare with market-clearing prices as multiples of EBITDA for sponsor-owned companies in the same sector. In 2024, the marks of maturing assets were 17 percent above market-clearing prices, according to Hamilton Lane (Exhibit 2). In comparison, the marks of maturing assets were only 4 percent and 3 percent above clearing prices in 2020 and 2018, respectively. Moreover, all PE subsectors tracked by Hamilton Lane showed uniform consistency in elevated marks in 2024, unlike in 2020 or 2018, when marks were elevated in select sectors.

Exhibit 2

Near-maturity assets are increasingly held at valuations higher than the prevailing market price.

Maturing assets (held for 4+ years) holding valuations as a percentage of prevailing market purchase prices, %



[1]Unrealized buyout deals (holding valuation of assets from 2013 and 2014 vintages; purchase price multiples at acquisition for assets in 2017 and 2018 vintages). Data as of Dec 31, 2018.
[2]Unrealized buyout deals (holding valuation of assets from 2015 and 2016 vintages; purchase price multiples at acquisition for assets in 2019 and 2020 vintages). Data as of Dec 31, 2020.
[3]Unrealized buyout deals (holding valuation of assets from 2017 and 2018 vintages; purchase price multiples at acquisition for assets in 2021 and 2022 vintages). Data as of Dec 31, 2022.
[4]Unrealized buyout deals (holding valuation of assets from 2019 and 2020 vintages; purchase price multiples at acquisition for assets in 2023 and 2024 vintages). Data as of June 30, 2024.
Source: Hamilton Lane

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Within PE subsectors, consumer discretionary and technology assets showed the highest pricing mismatches, with average holding valuations as a percentage of market purchase prices at 129 percent and 126 percent, respectively. Even sectors with the lowest dislocations, such as healthcare and financials, were above the prevailing market prices in 2024, at 104 percent and 105, respectively.

We have also observed that many PE assets traded in recent years are typically the highest-quality assets that satisfy most of a prospective buyer's ideal investment criteria. It is against this baseline that the elevated marks are measured. Put another way, the quality bar for marketable assets has gone up, and relatively few assets meet this bar.

Selling assets appears to be especially difficult for large sponsors, as they tend to buy bigger companies with more constrained exit options. Indeed, the bigger the company, the fewer sponsors or corporates that can purchase it (though IPOs are also an exit option for larger assets).

Preparing for an exit

A tough environment for selling companies has made exit preparation even more vital. Drawing on our work with investors and previous McKinsey research, we have developed a playbook that GPs can use to optimize their exit preparations. The approaches vary principally based on the stage of the asset life cycle and the likely exit pathways.

Stage of the asset life cycle

Leading GPs start thinking about the exit even before acquiring an asset. In our view, the best exit preparation is built into every stage of the investment life cycle, including the diligence process, the holding period, and the divestment stage.

Diligence process. When assessing an asset's quality during the diligence process, GPs could include evaluating the quality and feasibility of the exit. As such, GPs need to consider the exit potential for a target asset, including the likely market for the asset after a typical holding period and the most appropriate exit channel. Depending on the anticipated exit route, GPs can tailor their value creation efforts to tell a story that best suits that exit route.

Holding period. As owners turn their focus to value creation, the likely exit pathways can play a role in determining what gets prioritized. For example, some value creation initiatives may need to begin earlier than others to give the next owner confidence in underwriting these initiatives. Market expansion levers, for instance, may take longer to realize compared with cost-cutting levers. Early in the holding period, dealmakers and operators may need to think about the sequencing of value creation initiatives to prepare for the best exit.

There are two distinct value creation plan (VCP) opportunities for an asset. First is the postclose VCP, which focuses on translating the investment thesis into a practical plan. This involves building a rigorous momentum case for the business, comprehensively assessing the full potential, and then developing a robust execution plan to close the gap between momentum and full potential.

The second is the midcycle VCP, which is emerging as best practice in PE. A midcycle VCP can unlock a second S-curve of performance improvement after the impact of the postclose VCP has plateaued and the focus of dealmakers and operators has shifted to new assets. This midcycle plan could focus on improving performance across two to three actionable, high-impact levers. The choice of levers is critical; there needs to be enough time to show at least the green shoots of impact, and they should be chosen to align with what the next owner values, be that a strategic buyer, another sponsor, or the public markets. These midcycle VCPs are most often successful when run alongside a midcycle re-underwrite. In a midcycle re-underwrite, the sponsor can refresh its view on market evolution and incorporate fresh perspectives into the VCP.

At exit. GPs can prepare an equity story that reflects all the value creation efforts done to improve the asset's performance. For example, they can not only highlight the asset's performance and any changes it has undergone during the holding period but also show the groundwork laid for the next one to two horizons of value creation. This may boost the confidence of potential owners, who are likely considering their own potential exit paths, that the *next* exit can also be successful.

Likely exit pathway

PE GPs can determine the likely buyer type based on the characteristics of the asset. For example, larger assets could be better suited for public flotation than smaller ones, as the bigger the company, the fewer the sponsors or companies able to purchase it. Indeed, IPOs accounted for 22 percent of global PE-backed exits for assets valued at or above $500 million in 2024, compared with 10 percent for smaller exits (below $500 million).

Next, we explain potential approaches for the three most common exit channels in PE.

Strategic or corporate buyer. Early on, GPs can determine potential strategic buyers for an asset—a short list of companies in a specific industry that are capable of transacting within a given deal size range and where synergies are clear. By doing so, GPs can focus their value creation efforts and investment on the products or business units within a portfolio company that would be the best strategic fit for potential strategic buyers. For example, they could invest in business units with the highest expected synergies or those in the most complementary geographies.

Sponsor-to-sponsor exits. GPs should consider how they communicate the uncaptured value creation potential of an asset. This is especially important because GP buyers, in particular, need to confidently underwrite profitable growth in the asset during a typical holding period.

The universe of potential GP buyers, as well as the playbook for achieving growth, is likely to be different at each stage of an asset's growth journey. For example, a lower-middle-market asset may be better placed to grow via a buy-and-build strategy than a large-cap asset. Thus, many PE GPs anticipating a sale to another sponsor typically frame the asset's story in a way that is relevant to the growth playbook for an asset of a given size.

IPO exits. This exit pathway requires GPs to demonstrate a consistent track record of organic growth for the asset. Additionally, given the greater coverage of an IPO, GPs would do well to have a clear and simple equity story. To this end, some GPs might make strategic decisions such as limiting expansion, focusing on a relatively short list of high-value priorities, or divesting business units within the asset. They may also begin upskilling the senior team and finance function so that the executives are fully equipped to meet the obligations of trading as a public company.

GPs also need to be flexible in how they plan their exit strategy. They should not make decisions that may preclude assets from unanticipated exit avenues that could provide greater value.

Exits are top of mind for many PE stakeholders, as the exit backlog has never been larger. While LPs increasingly care about distributions, exits are hard to get right, especially with today's elevated marks. GPs that can master the exit playbook through all stages of the asset life cycle, and position the asset for exit from the beginning, stand to reap the highest rewards.

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Secondaries and GP stakes: The next wave of private market innovation

Strategies for secondaries and GP stakes have become increasingly popular liquidity channels for both managers and investors.

In the private market industry, investors have historically allocated capital alongside GPs either through commingled funds or co-invest structures. Such allocation approaches have delivered healthy returns, surpassing public markets' performance over the long term.[1] However, the traditional commingled-fund approach has limitations. For one, investors may find it difficult to gain exposure to the trends that private market firms often capitalize on to generate economic gains (unless they are a part of, or own, a private capital manager or invest in a publicly listed manager). Second, private capital investments are almost always considered to be illiquid in nature: LPs allocate capital to a fund, then potentially wait five years or longer for distributions, with limited ability to obtain liquidity in the interim. It is also challenging for investors to remain allocated to an investment beyond the fund's maturity limit.

To resolve these challenges, two investment strategies have emerged in recent years: secondaries and GP stakes.

Both GPs and LPs have embraced secondaries as a liquidity channel at a time when many managers are sitting on a vast number of unsold assets due to a challenging exit environment. The second strategy—wherein GPs can sell a stake in their entity to other investors—can also help GPs source capital for strategic purposes. It also provides LPs with exposure to the long-term economics of the private market industry (for example, management fees, fund performance, and growing assets under management). Indeed, the performance of the GP stakes strategy, particularly in 2012–21 vintage funds, outmatched even that of private equity (PE) (historically the best-performing private market asset class), with more limited variability on average.

While interest in the two strategies has been flourishing, they remain niche approaches within the private market universe. In our view, they both have significant potential for deployment as well as for sourcing additional capital.

Secondaries sustain upward momentum

Liquidity has been top of mind for private market stakeholders over the past few years, given slowing exits and capital called by GPs exceeding distributions for most of this period, as we highlight in our Global Private Markets Report 2025.[2]

Secondaries allow investors to access older vintage investments across strategies and managers by typically purchasing at a discount to the net asset value (NAV) of the stake purchased.

LPs can fulfill their liquidity requirements by selling their stakes in the funds on the secondary market before those funds have matured. Moreover, secondaries empower LPs to rebalance their portfolios. For example, LPs can invest in diversified sets of private capital funds without needing to allocate to each fund individually, which could expose them to a wider range of vintages. LPs can also adjust their allocations when an investment is not performing well or there is a change in their overall investment strategy.

[1] For example, the ten-year period between the fourth quarter of 2014 and the third quarter of 2024, or the 25-year period between the fourth quarter of 1999 and the third quarter of 2024, as mentioned in the article: "Global Private Markets Report 2025: Private equity emerging from the fog," McKinsey, February 13, 2025.
[2] As of the first half of 2024.

The secondaries market is beneficial for GPs too. It helps them retain control over a business that they may not be ready to exit (for example, because they believe they are best positioned to continue to drive value for that business). At the same time, it allows them to sell assets from their funds through a GP-led secondaries transaction. They can do so by setting up a continuation vehicle to hold an asset longer, especially if they believe there is significant value that can be created from the asset with an extended holding period.

The growing appeal of the strategy is reflected in strong deal activity, fundraising, pricing, and performance data, as we analyze in the following sections.

Deal activity

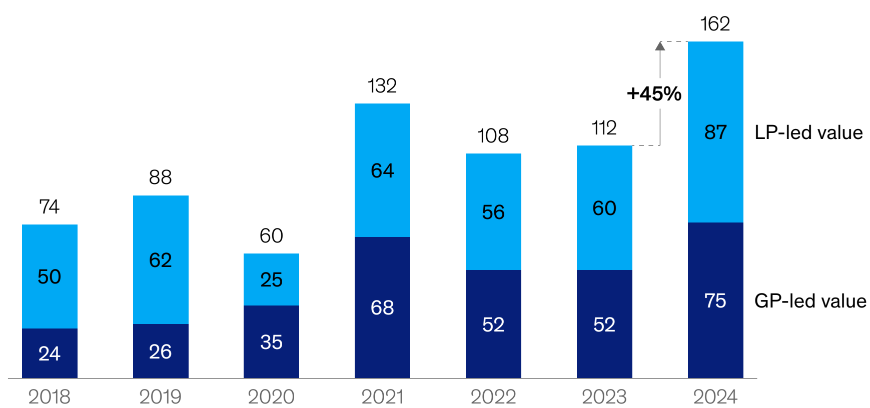
Total secondaries deal volume increased 45 percent year over year to $162 billion, making 2024 the highest year on record.

The uptick in deal activity was driven by LP-led secondaries, which rose 45 percent to $87 billion[3] (Exhibit 1). Additionally, GP-led secondaries rose 44 percent to $75 billion. Nearly 84 percent of GP-led deals were continuation vehicles.

Exhibit 1

Global secondaries transaction value increased by 45 percent in 2024.

Global secondaries transaction value, $ billion



Source: *Global secondary market review*, Jefferies, Jan 2025

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[3] *Global secondary market review*, Jefferies, January 2025.

Fundraising
In addition to using the secondaries market to exit investments, GPs have increased their fundraising efforts to buy more secondary stakes. Fundraising for secondaries totaled $65 billion, making 2024 the third-highest year on record (Exhibit 2). In comparison, total secondaries fundraising has averaged $71 billion annually over the past three years versus $52 billion on average over the past ten years.

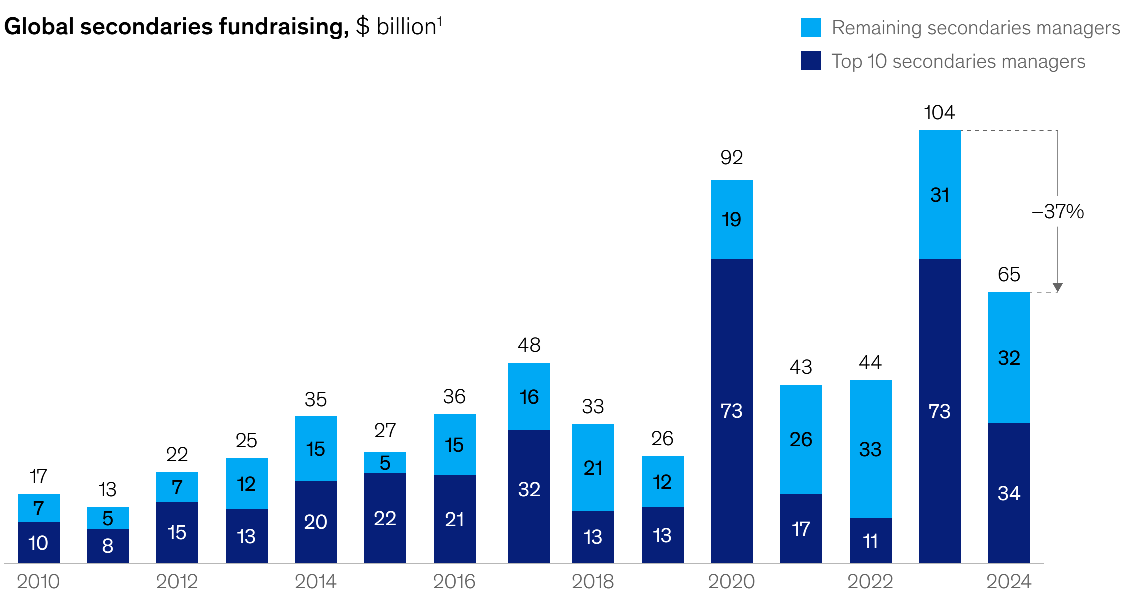
Fundraising for secondaries remains concentrated—the top ten GPs have accounted for an average of 60 percent of aggregate fundraising over the past decade. Yet, we see a gradual increase in fundraising by managers outside the top ten; such managers raised around $32 billion on average in the past three years, which accounted for 45 percent of total secondaries capital raised during the period. This is significantly higher than the $21 billion they raised on average annually over the past decade.

Pricing
Secondary transactions typically trade at a discount to the NAV of the assets or the stake being sold to obtain liquidity faster. However, shopping for bargains is not all that matters. In the McKinsey LP survey, respondents ranked the discount to NAV, the track record and reputation of the GP, and the potential value creation in the remaining portfolio companies as the top three assessment criteria for potential secondaries investments.

Exhibit 2

Secondaries fundraising reached its third-highest fundraising peak in 2024.

Global secondaries fundraising, $ billion[1]



Note: Figures may not sum to total, because of rounding.
[1]Top managers are defined by highest aggregate fundraising in secondaries since 2010. Includes private equity, real estate, and infrastructure secondaries.
Source: Preqin

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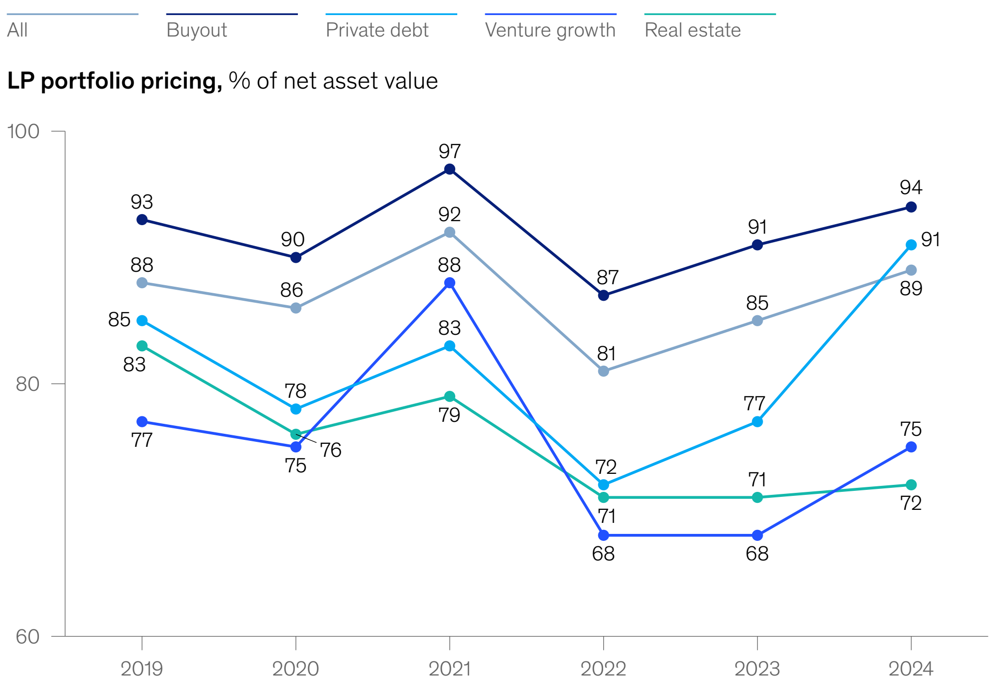
Secondaries pricing as a percentage of NAV across all private market asset classes rose in 2024 to 89 percent, up from 85 percent in 2023 (Exhibit 3).[4] Buyout secondaries traded at the highest percentage of NAV at 94 percent. Private debt secondaries pricing rose the most, from 77 percent of NAV in 2023 to 91 percent of NAV in 2024. Meanwhile, real estate secondaries traded at the lowest percentage of NAV in 2024 at 72 percent, nearly in line with its trading value of 71 percent of NAV in 2022 and 2023.

This general upward movement in pricing (reflected in the narrowing spread) will likely catalyze further transactions, as LPs recognize that they can exit positions in the secondaries market while keeping a greater share of book value.

Exhibit 3

Secondaries pricing increased across asset classes in 2024.



Source: *Global secondary market review*, Jefferies, Jan 2025

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[4] *Global secondary market review*, Jefferies, January 2025.

Performance

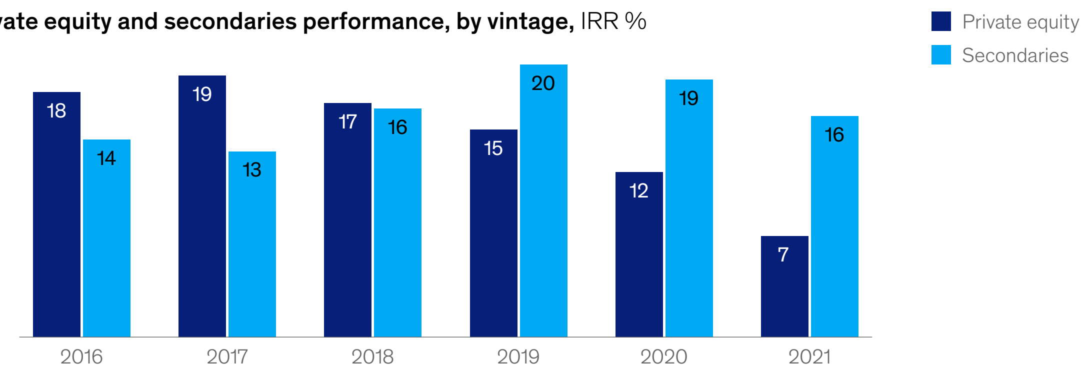
While secondaries provide a liquidity alternative for GPs and LPs, they also function as an attractive risk-adjusted investment strategy. Secondaries funds are popular investments, partly because they provide diversification across vintages, strategies, and managers. And as the strategy matures, its performance is also improving. Returns of secondaries funds have been higher than those of PE on average over the past three vintages (Exhibit 4).

It helps that secondaries funds offer a hedge to the industry: During bear years, the discount at which you can make secondaries trades rises, which drives up returns; during stronger years, the discount reduces, leading to fewer opportunities for multiple expansion.

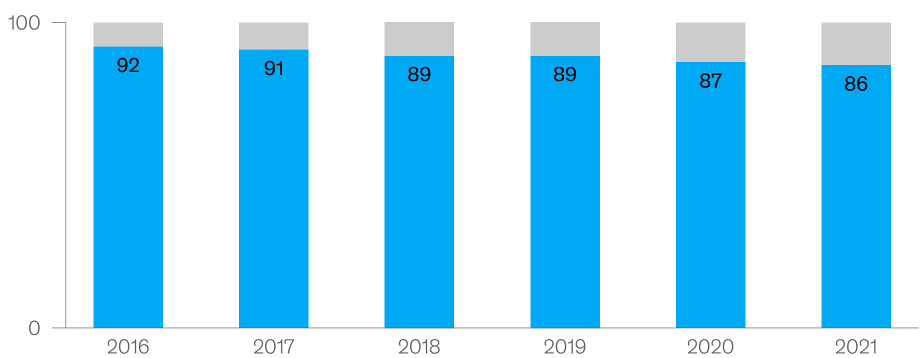
Exhibit 4

Secondaries have outperformed private equity in recent vintages, showing a correlation between the pricing of secondary stakes and the fund's performance.

Private equity and secondaries performance, by vintage, IRR %



Estimated pricing of secondary stakes during investment period, % of net asset value[1]



[1]Calculated as the weighted average discount to net asset value during the average investment period for a given vintage.
Source: *Global secondary market review*, Jefferies, Jan 2025; MSCI Private Capital Solutions

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When compared with other private capital asset classes, secondaries funds also posted the highest median return, while having the third-lowest return dispersion (Exhibit 5). Additionally, the median return for secondaries is more than five percentage points higher than for the two asset classes (private debt and infrastructure) that have lower return dispersions, indicating a strong relative risk/return profile for secondaries funds.

Secondaries funds also offer a stronger liquidity profile than most other private capital funds. For vintages from 2000 through 2021, for example, net cash flow for the median secondaries fund turns positive in year eight, matched only by private debt. In comparison, median funds for other private capital asset classes do not reach positive net cash flow until year ten.

GP stakes: A nascent but growing strategy

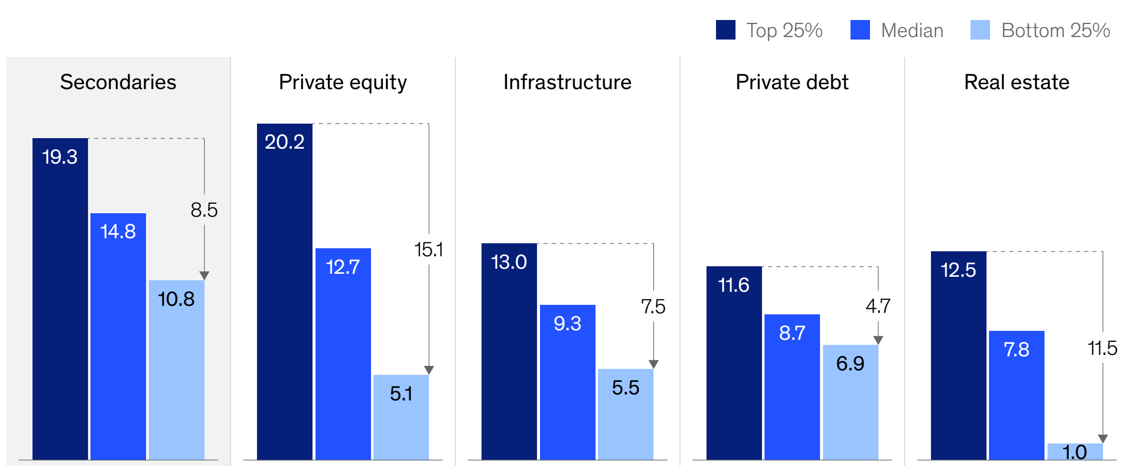
GP stakes funds allow investors to access the business of private markets, as opposed to merely investing with private market firms.

In fact, many LPs are increasingly looking to buy GPs through a GP stakes investment. Such investments typically involve acquiring minority equity stakes, but in rare cases, buyers can acquire controlling stakes in GPs as well.

Exhibit 5

Secondaries funds exhibit a higher median return than all other private-capital asset classes.

Performance, by asset class, median IRR and percentile spreads for 2012–21 vintage funds, %[1]



[1]IRR spreads calculated for separate vintage years for 2012–21 and then averaged out. Median IRR calculated by taking the average of the median IRR for funds within each vintage year. Net IRR to date through Sept 30, 2024.
Source: MSCI Private Capital Solutions

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By selling stakes in their entity, a GP can secure capital for strategic uses, such as investing in infrastructure for scaling the business or building new products. The entity investing in GP stakes can also serve as a strategic partner that provides the staked firm with distinct perspectives and capabilities. In some cases, it can even assist with succession planning at the GP.

For LPs, investing in GP stakes can open new investment opportunities, particularly given the significant tailwinds that are powering growth in the private capital industry (such as the continually increasing allocation targets of LPs, increased retail investor access to the industry, and proven long-term performance). In the McKinsey LP survey, 43 percent of the respondents said they invest in GP stakes funds, with more than half of this group expressing interest in directly investing in GPs. In particular, 70 percent of the sovereign wealth funds that participated in the survey expressed interest in directly acquiring stakes in a GP.

LPs have cited many reasons for their increasing interest in this strategy. Investing in GP stakes could offer an attractive risk/return profile, with the downside risk limited by the resilient nature of GPs *(see section on GP stakes performance)*. LPs also express confidence in the overall organic growth of private markets and want to capture this growth via direct exposure to GP economics. And, last but not least, they see a proven track record from existing GP stakes funds. This interest is manifested in the strategy's robust fundraising volumes in 2024, driven largely by its consistent performance over the years.

For LPs, investing in GP stakes can open new investment opportunities, particularly given the significant tailwinds that are powering growth in the private capital industry.

Fundraising

GP stakes remain a nascent part of overall private market fundraising. In 2024, fundraising for the strategy reached $4.4 billion, a significant increase compared with the prior year's $600 million raised but well below the $31 billion raised in 2022 (Exhibit 6). Notably, the vast majority of 2022's fundraising total had come from three flagship GP stakes funds.

At the same time, the number of GP stakes funds being raised reached its highest number ever in 2024, with 11 fund closings. As with secondaries, the market for GP stakes funds is still shallow, and fundraising is dependent on the timing of the largest fundraisers. But the pace of fundraising has accelerated. In the past three years, for example, an average of $12 billion per year was raised across an average of nearly seven funds annually. In comparison, $6.7 billion across an average of 4.6 funds per year was raised over the prior five-year period.

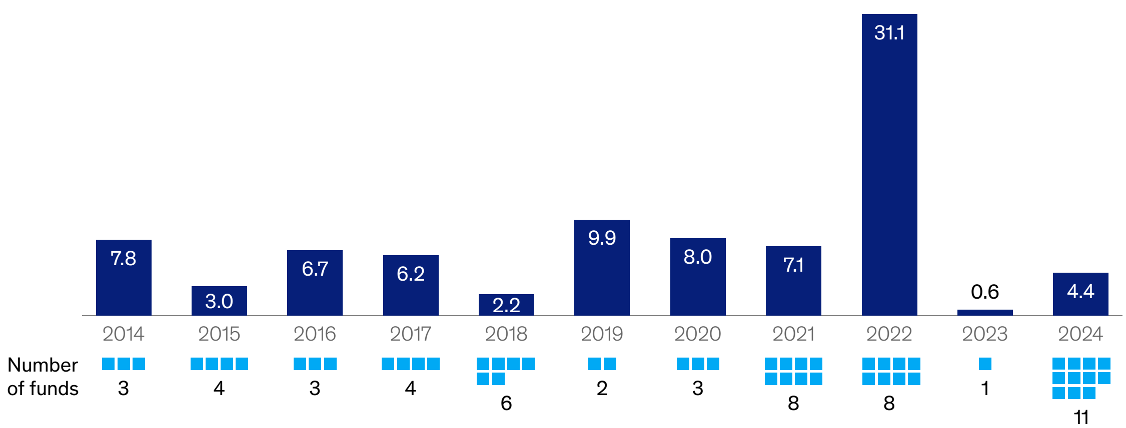
Performance

The performance of GP stakes funds—in terms of both absolute returns and the relatively low level of dispersion between funds—is a key factor driving the growing interest.[5] For the 2012–21 vintage funds, the median performance of GP stakes funds is consistent with buyouts (historically, the highest-returning PE strategy). But the difference between the top and bottom quartiles is far more modest (IRR of 7.9 for GP stakes funds, compared with 13.1 for buyout funds) (Exhibit 7).

Exhibit 6

Fund timing plays an important role in fundraising for general partner stakes.

Global GP stakes fundraising, $ billion



Source: Preqin

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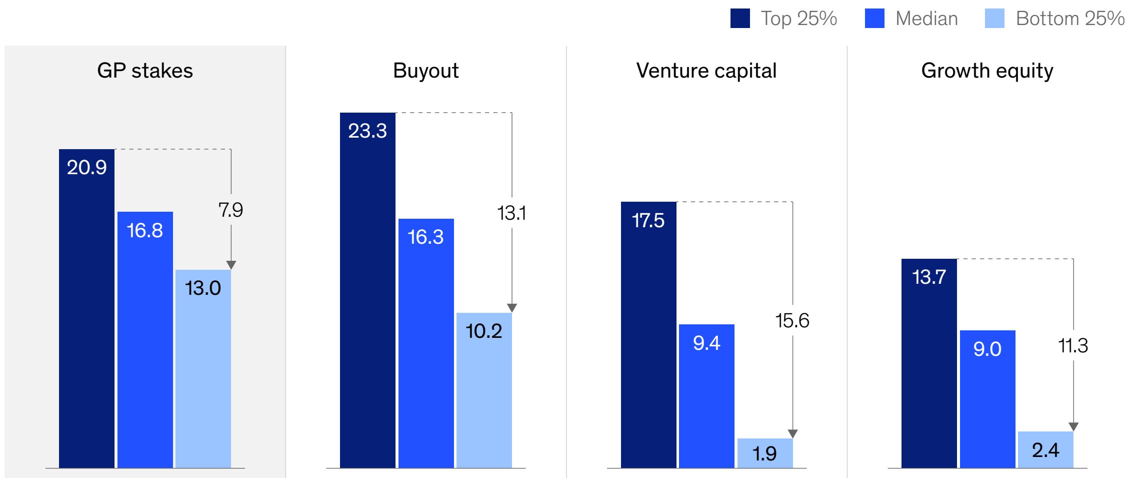
[5] Based on a sample of 26 GP stakes funds from Preqin.

Exhibit 7

General partner stakes funds exhibit a lower return dispersion and similar median returns compared with buyout funds.

Performance, by private equity strategy, median IRR and percentile spreads for 2012–21 vintage funds,[1] %



[1]IRR spreads calculated for funds for separate vintage years from 2012-21 and then averaged out. Median IRR calculated by taking the average of the median IRR for funds within each vintage year. Net IRR to date through Sept 30, 2024.
Source: MSCI Private Capital Solutions; Preqin

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Investing in secondaries and GP stakes presents new opportunities for LPs and GPs to engage in dynamic portfolio construction, while also expanding their private market exposure. To do this well, these investors may need to build new capabilities. For example, they would need to engage in effective due diligence of the manager, including appropriate valuation, and estimate the long-term strategic positioning of managers. GPs would need to build a data strategy to rapidly benchmark manager performance, measure attribution and repeatability of performance-driving mechanisms, and create sourcing strategies to identify and approach emerging GPs. Additionally, many GPs may need to embrace the idea of partnership with other managers through GP stakes transactions to gain knowledge and capabilities from new investment partners.

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