McKinsey & Company

Private Capital Practice

Global Private Markets Report 2025: 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.

by Alexander Edlich, Christopher Croke, Fredrik Dahlqvist, and Warren Teichner

February 2025

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, private equity 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 limited partners (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 private equity 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 private equity 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 private equity 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 private equity 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, private equity has outpaced the S&P 500—rewarding those investors who can stomach the relatively lower liquidity that typically characterizes private equity investments.

---

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

General partners (GPs), too, are evolving and innovating. In 2024, total global private equity 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 private equity 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 recorded a bigger decline in deal count and lower growth in deal value than other private equity sub-asset 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 private equity 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

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

geopolitical uncertainty—for example, the threat of tariffs—as they underwrite and drive value creation initiatives. All stakeholders must also confront rapid evolutions in artificial intelligence. 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 private equity fared in 2024—and what it might mean for the year ahead. We consider this from the perspective of four groups: dealmakers, fundraisers, limited partners, and the operators tasked with creating value in privately held firms.

Heat map

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

Global private equity (PE), all deal sizes

Negative for PE industry — Positive for PE industry

Macro environment — GPs[1] — LPs

	2019	2020	2021	2022	2023	2024
Interest rate (%)[2, 3]	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)[4, 5]	–8	–11	54	–16	–6	–14
PE-backed exit deal count (% YOY growth)[4, 5]	–20	32	102	–54	–4	8
Median buyout entry multiples (purchase price/EBITDA)[6, 7]	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
Limited partner (LP) PE target allocation (%)[8]	6.1	6.3	6.8	7.5	8.2	8.3
Capital calls in excess of distributions (% of distributions)[5, 7, 9]	25	23	3	20	23	–14
1-year pooled IRR for 2000–21 vintage funds (%)[7]	18	34	40	–8	6	4

Note: Deal size filter only affects deal value, deal count, PE-backed exit deal value, and PE-backed exit deal count metrics.
[1]General partners.
[2]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.
[3]US values displayed under "Global" filter.
[4]Exits of private equity investments. PE investments include those made by PE investors as well as by some additional investor types into mature companies. Excludes venture capital.
[5]Capital calls in excess of distributions and PE-backed exits reported only for all PE.
[6]Median buyout entry multiples data reported only for global buyout. Buyout figures displayed for global all PE as proxy.
[7]Capital calls in excess of distributions, IRR, and median buyout entry multiples data as of Q3 2024.
[8]Limited partner PE target allocation data reported only for all global PE.
[9]A negative value indicates that distributions have exceeded contributions in such year.
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

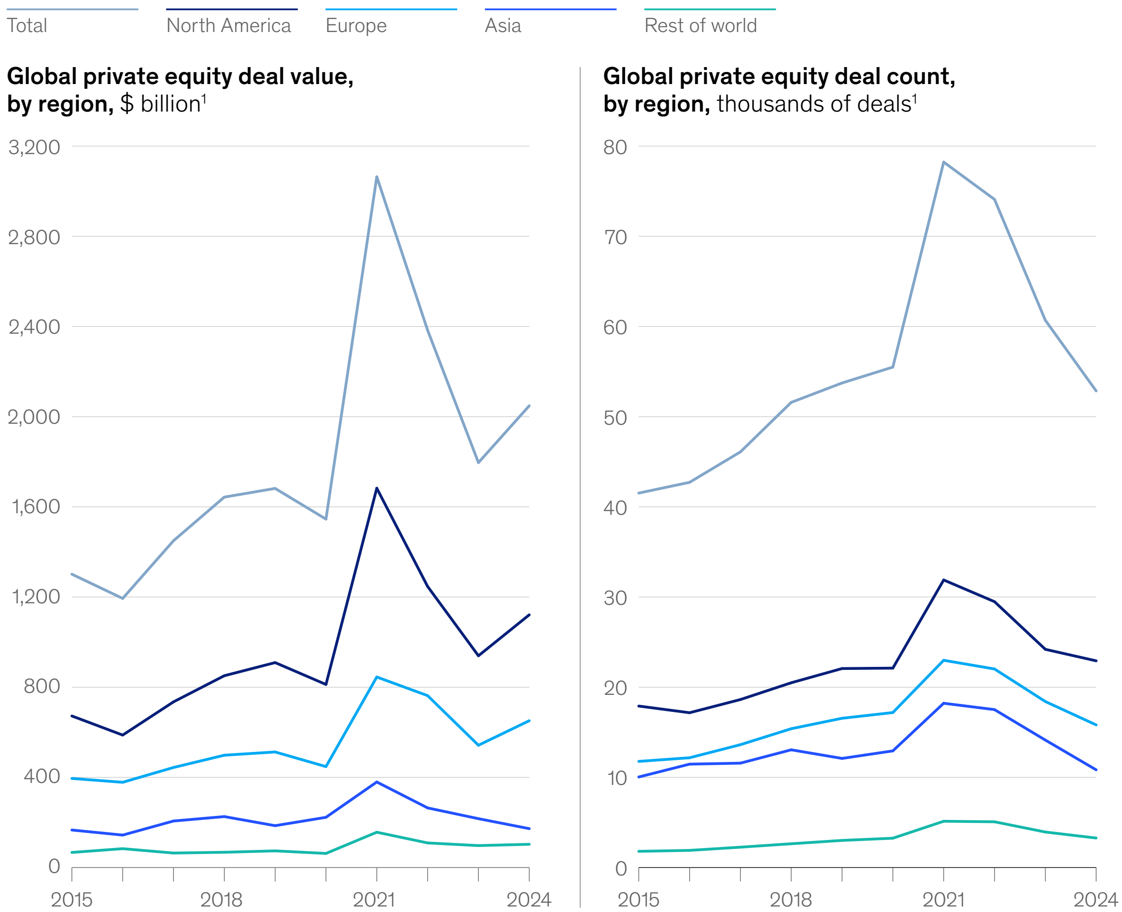
McKinsey & Company

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 sub-asset classes but declined steeply in Asia (see sidebar "Asia's PE slowdown").

Exhibit 1

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



[1]Includes private equity (PE) 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

McKinsey & Company

Asia's PE slowdown

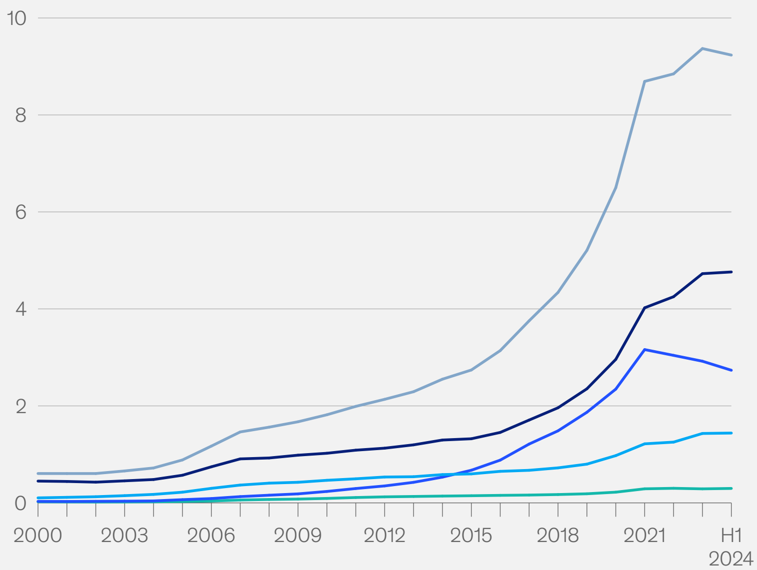
Asia was the only region that saw a decline in assets under management (AUM) last year, dropping by 5.5 percent to $2.7 trillion (exhibit). This was accompanied by a continued drop in fundraising (32 percent lower in 2024), led primarily by declines in China, as well as lackluster performance (less than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

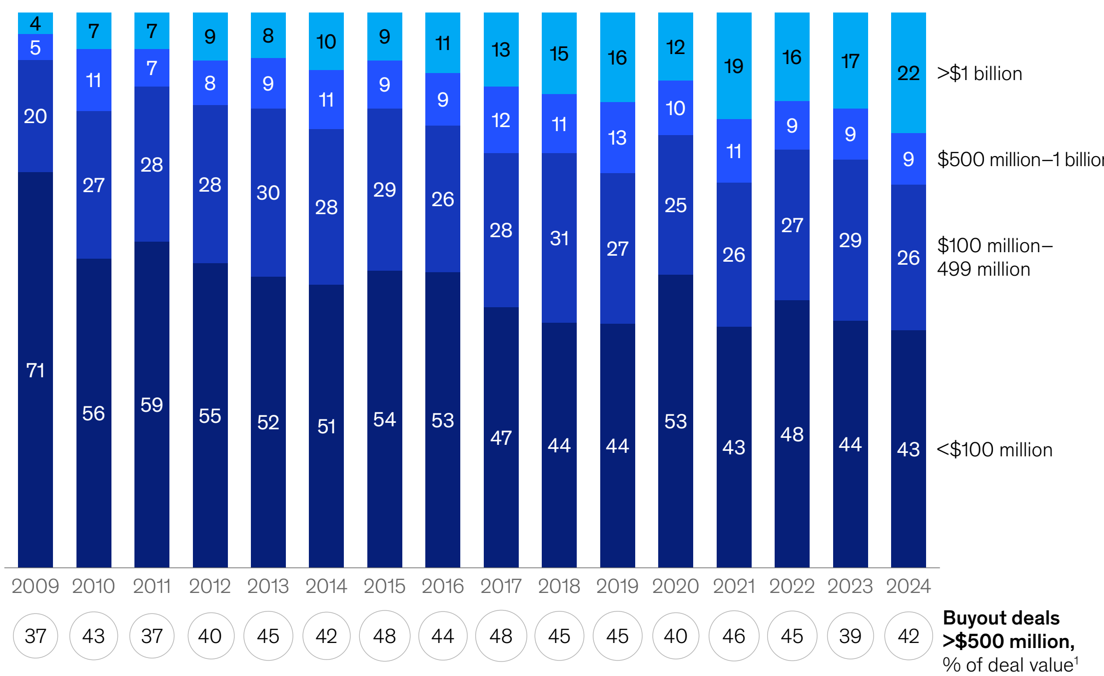
McKinsey & Company

Meanwhile, the number of PE deals across sub-asset 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 (Exhibit 2) as well as in North America.

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.

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



Note: Figures may not sum to 100%, 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 transaction, and secondary buyout) and platform creation.
Source: PitchBook; McKinsey analysis

McKinsey & Company

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

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).

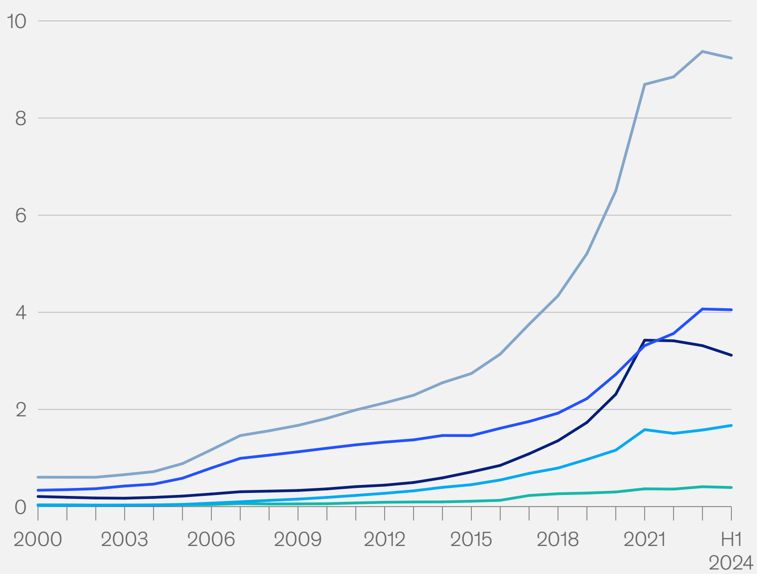
Consider this: Last year's $102 billion fundraising total for venture capital was less than a third of 2022's $314 billion. Deal activity in venture capital has also remained far more challenged than for buyouts across 2023 and 2024. While buyout's deal value rebounded by 15.5 percent in 2024, it was 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

McKinsey & Company

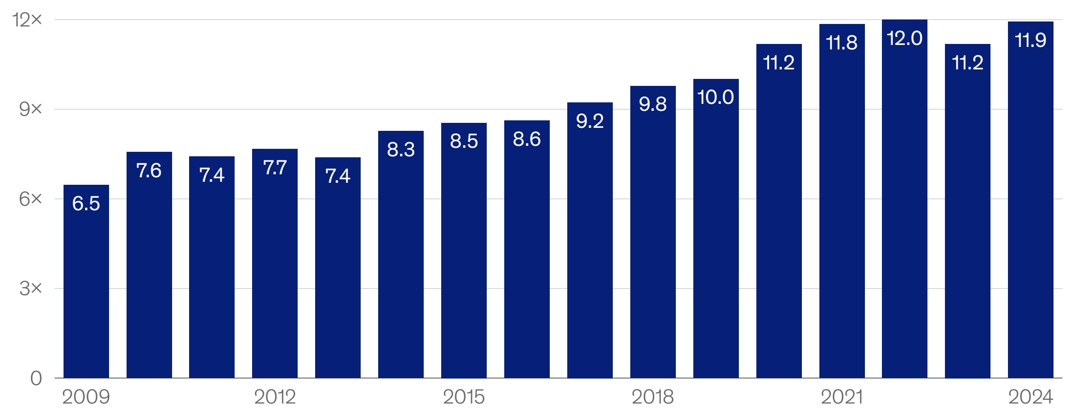
A look at what dealmakers paid and how they financed their deals suggests increased confidence in deployment. Consider the entry EBITDA multiples in the buyout sub-asset class, which reverted to 2021–22 levels, after decreasing in 2023 (Exhibit 3). The overall increase in multiples is a positive sign, 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

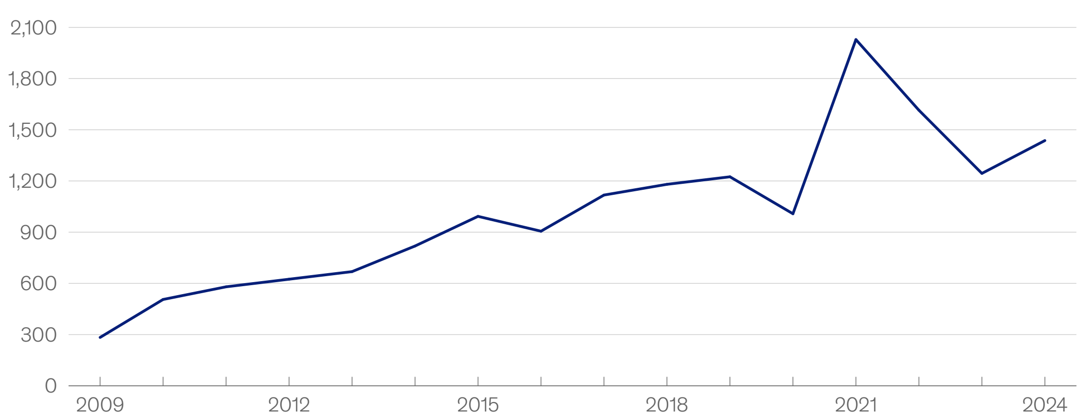
Median global buyout entry multiple in 2024 was the second highest on record, rebounding alongside deal value following a 2023 decrease.

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 transaction, and secondary buyout) and platform creation.
Source: PitchBook; SPI by StepStone

McKinsey & Company

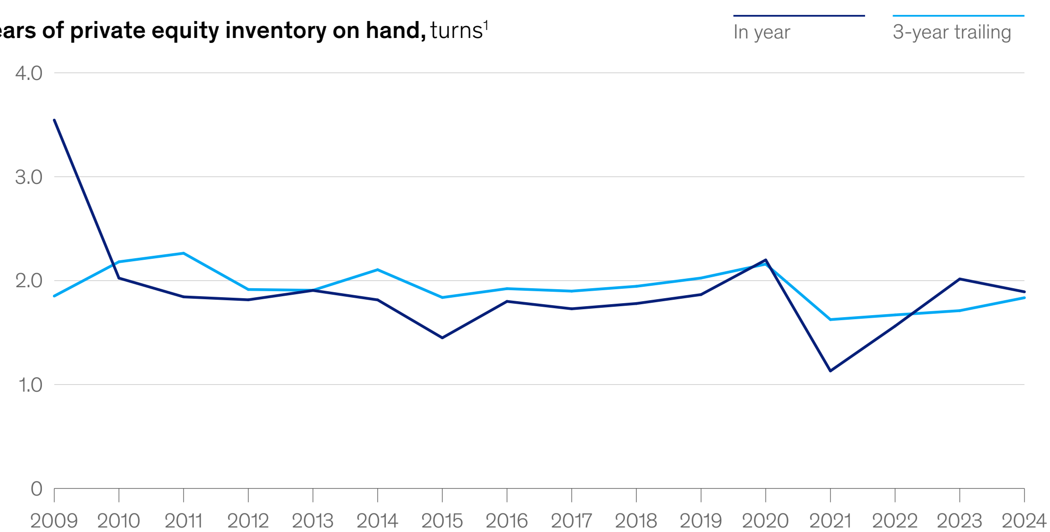
Private equity financing costs eased as lender spreads and Secured Overnight Financing Rates (SOFR) declined in mid-to-late 2024, driven by reduced risk premiums and stabilizing rate expectations. GPs also levered their deals marginally more in 2024, at roughly 4.1 times net debt to EBITDA, versus 4.0 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 private equity 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

McKinsey & Company

Our analysis points to five global trends in dealmaking.

Bigger is back

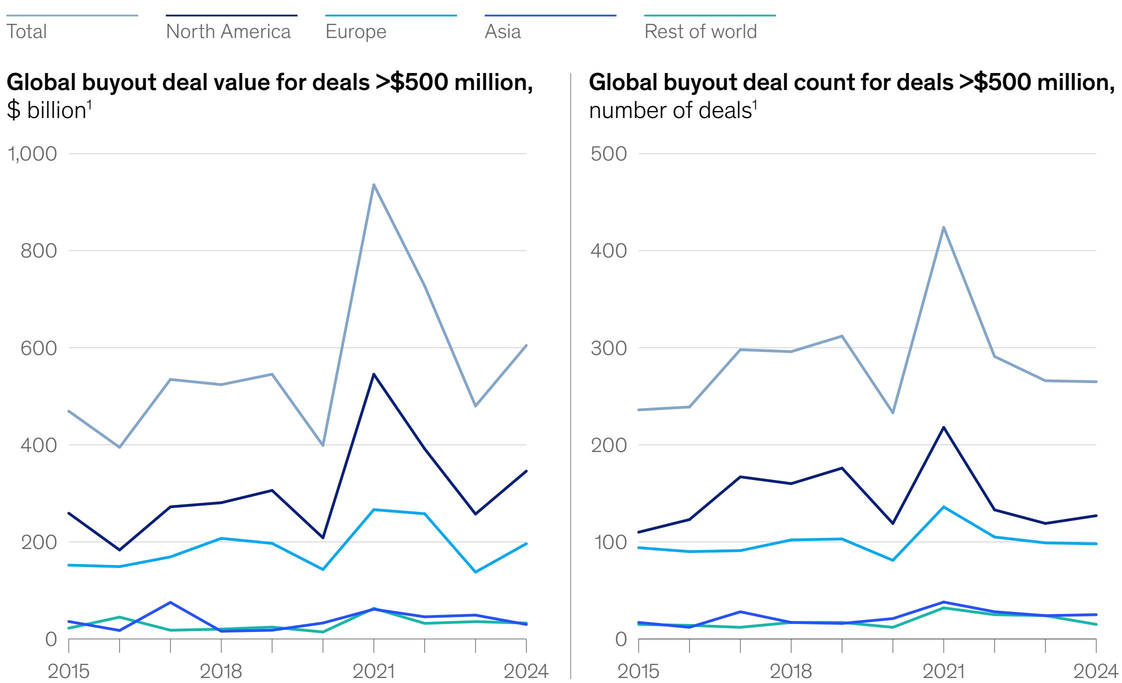
Nowhere was the overall rebound more evident than in large buyout transactions in North America and Europe. Deals above $500 million in enterprise value rose in both value (37 percent) and count (3 percent), reflecting the increase in average deal size (Exhibit 5). This segment is considered a true proxy 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

Private equity 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 who 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.



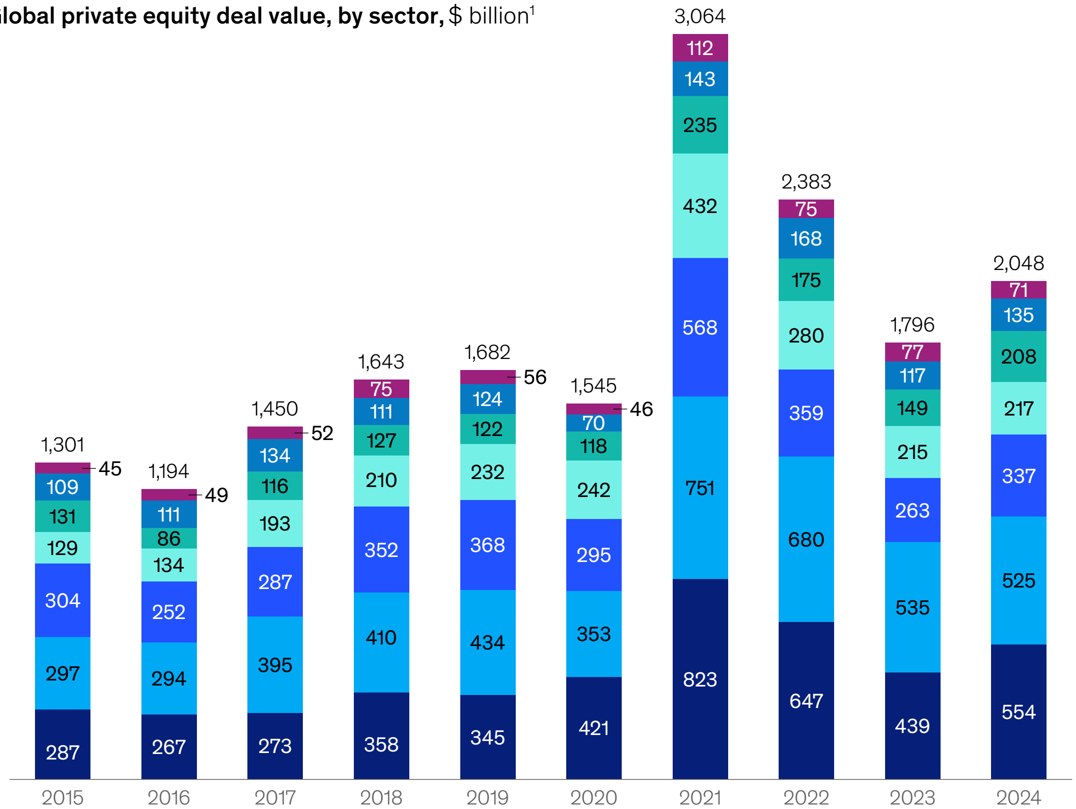
[1]Includes buyout and leveraged buyout (add-on, asset acquisition, carve-out, corporate divestiture, debt conversion, distressed acquisition, management buyout, management buy-in, privatization, recapitalization, public-to-private transaction, and secondary buyout) and platform creation.
Source: PitchBook

McKinsey & Company

Exhibit 6

Technology, consumer, and financial-service 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 (PE) 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

McKinsey & Company

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 private equity 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).

Private equity 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 private equity 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 weighted 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

[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

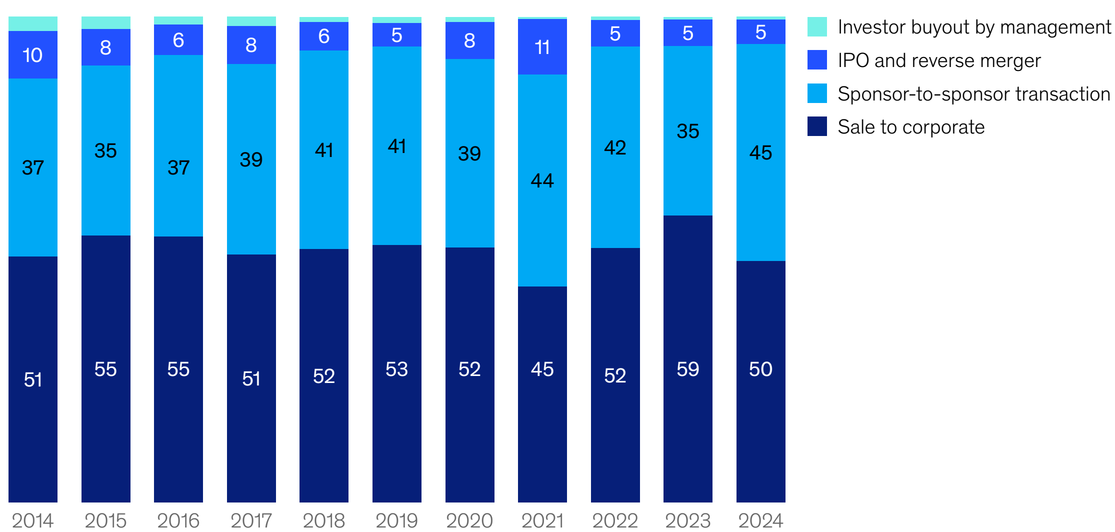
The relative increase in sponsor-to-sponsor exits (up 16 percent by value and 10 percent by share of deal count) could suggest some long-awaited narrowing of bid–ask spreads, as sellers become more realistic about expected valuations (Exhibit 7). But even as equity markets have rebounded, IPOs remain 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

McKinsey & Company

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.

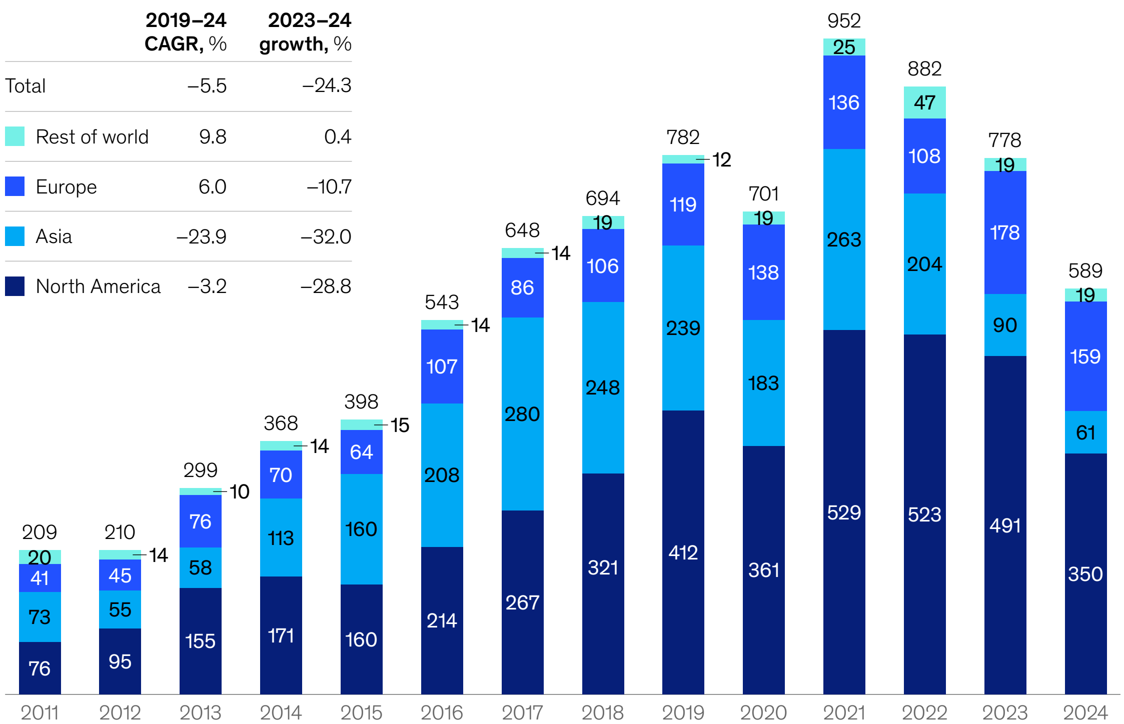
Fundraising declined in North America, Europe, and Asia, although the decline was comparatively smaller in Europe (falling by 11 percent) (Exhibit 8). Fundraising for buyout, growth equity, and venture capital declined between 23 to 25 percent each, in contrast to 2023, when buyout outperformed—although 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

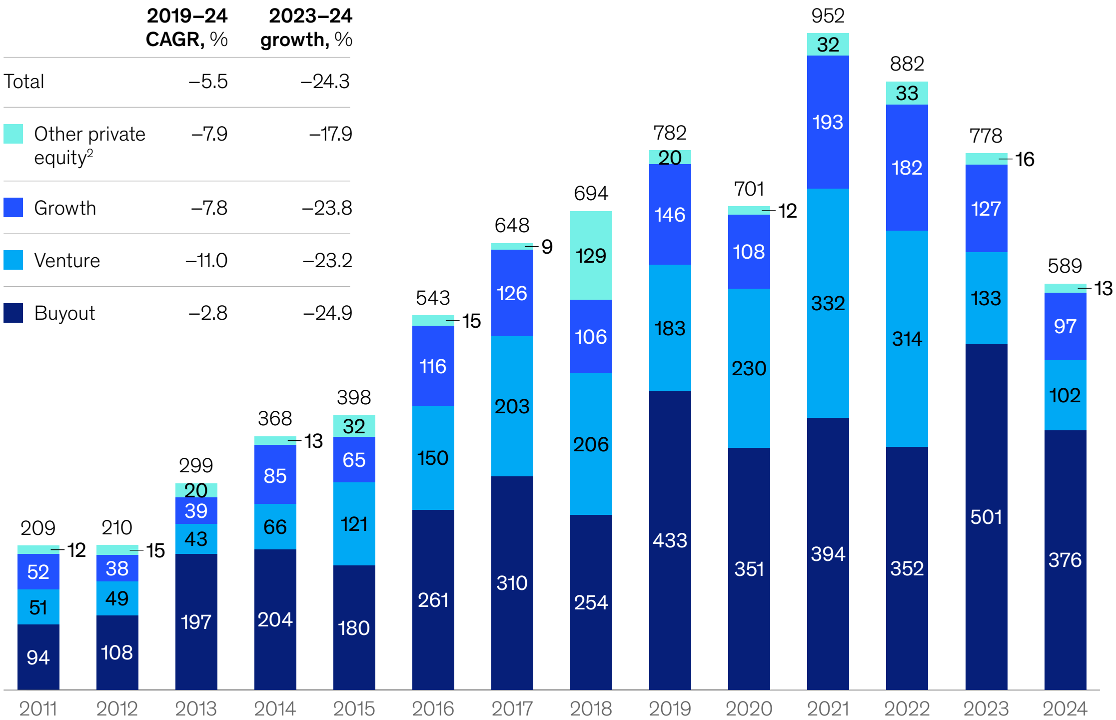
McKinsey & Company

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]

	2019–24 CAGR, %	2023–24 growth, %
Total	–5.5	–24.3
Other private equity[2]	–7.9	–17.9
Growth	–7.8	–23.8
Venture	–11.0	–23.2
Buyout	–2.8	–24.9



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 its 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 private equity fundraising fared in 2024.

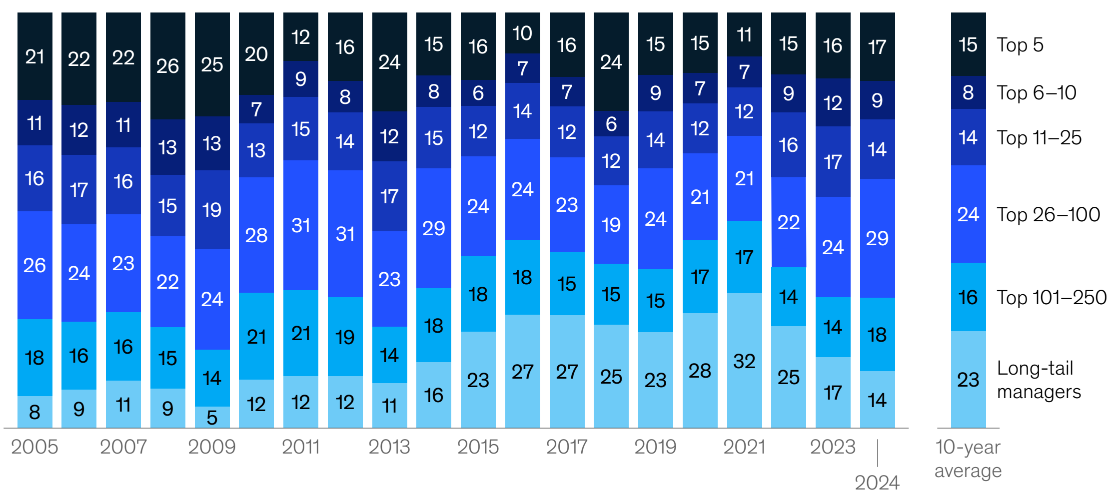
Midmarket fundraising appears more resilient
In an overall down year, midmarket funds (ranging from $1 billion to $5 billion in size) were the only category that bucked the trend (fundraising was approximately flat year over year). This was the first time in three years that the largest PE fundraisers 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 less 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]



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

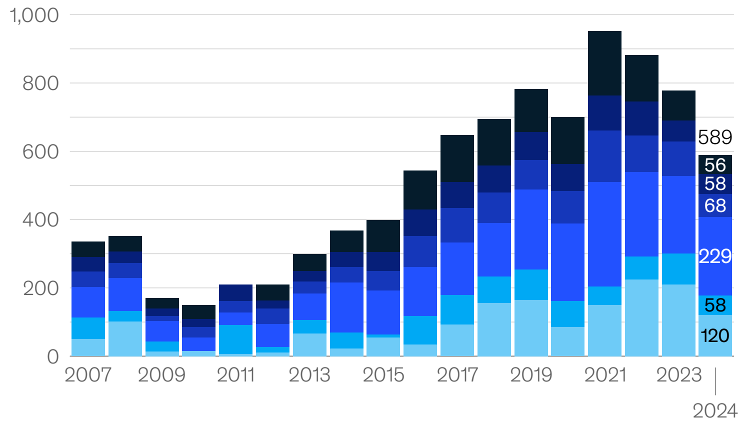
McKinsey & Company

Exhibit 11

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

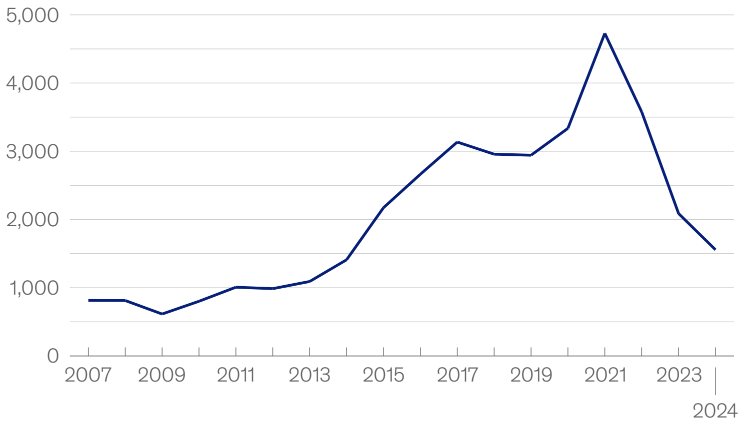
Global private equity fundraising[1]

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

McKinsey & Company

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 private equity even amid uncertainty—rising from 6.3 percent at the beginning of 2020 to 8.3 percent at the start of 2024 (Exhibit 12).

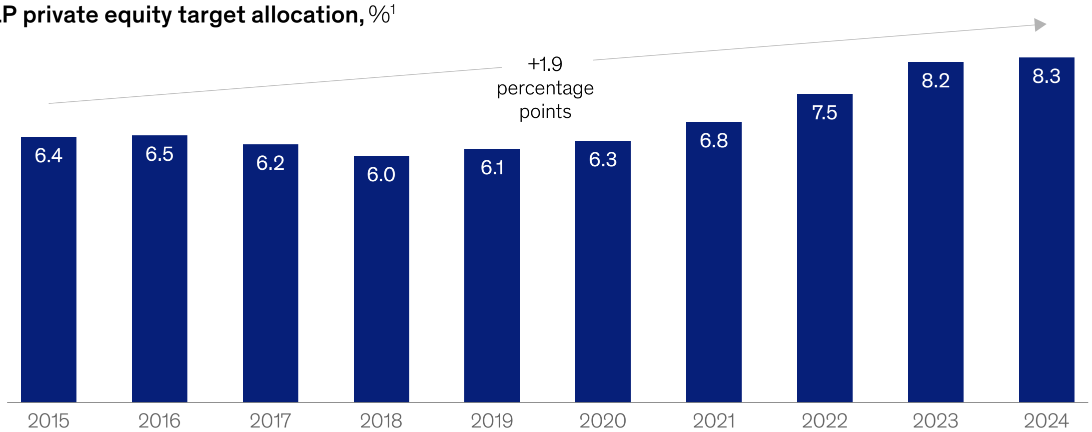
Despite being overallocated by approximately 175 basis points at the beginning of 2024, our survey of leading LPs indicates that a greater proportion of LPs plan to increase their allocations to private equity (30 percent), compared with those that want to reduce it (16 percent) (Exhibit 13), signaling 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

LPs have increased their target allocation to private equity since 2019.

LP private equity target allocation, %[1]



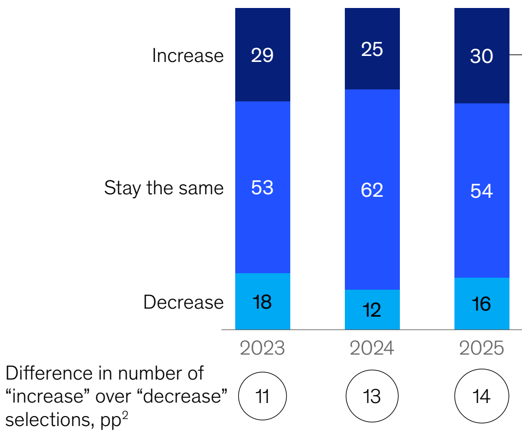
[1]All private equity, including growth and venture capital. Data as of beginning of each year.
Source: CEM Benchmarking

McKinsey & Company

Exhibit 13

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

LPs' outlook on private equity (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

[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)

McKinsey & Company

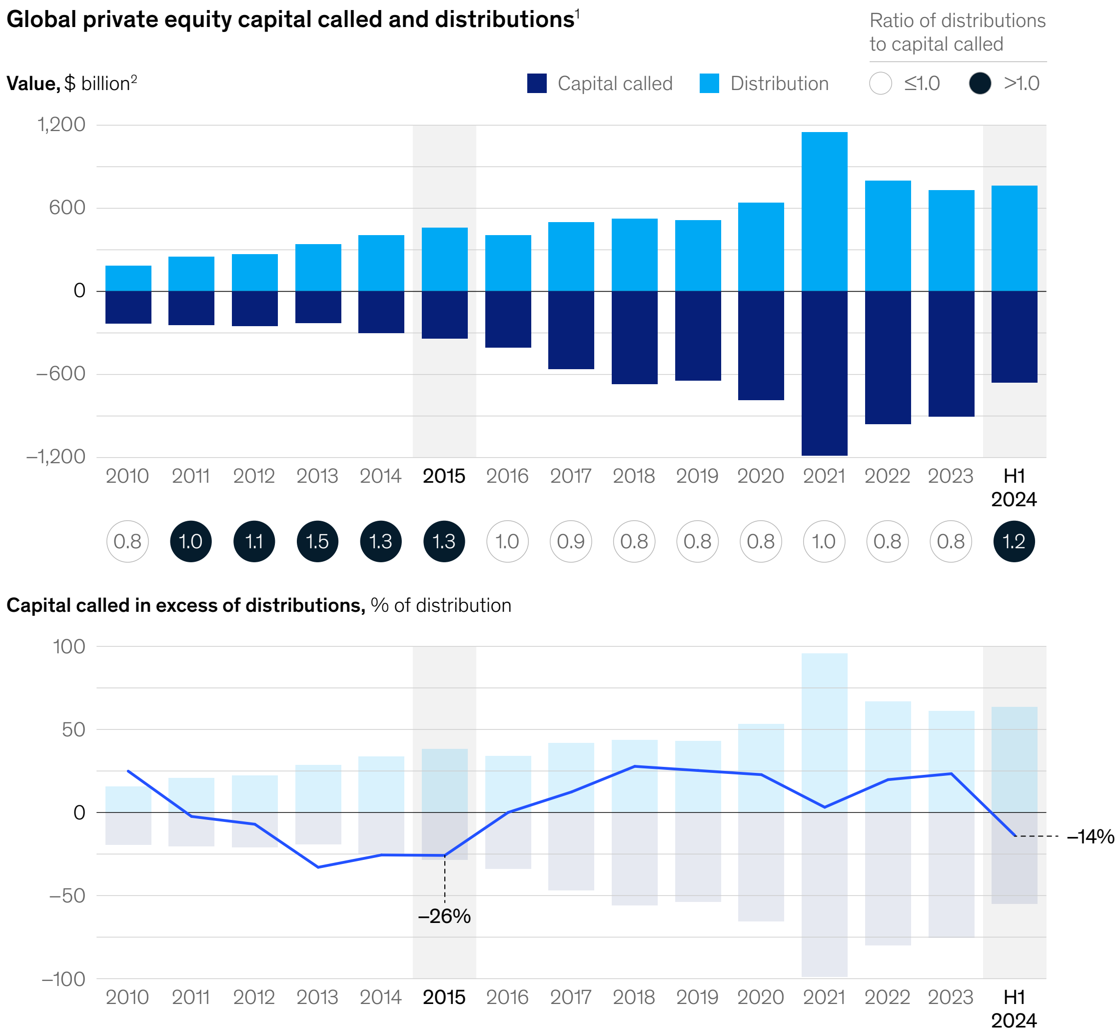
Limited partners: Distribution growth offsetting muted returns

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, private equity returns across sub-asset 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 sub-asset 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.



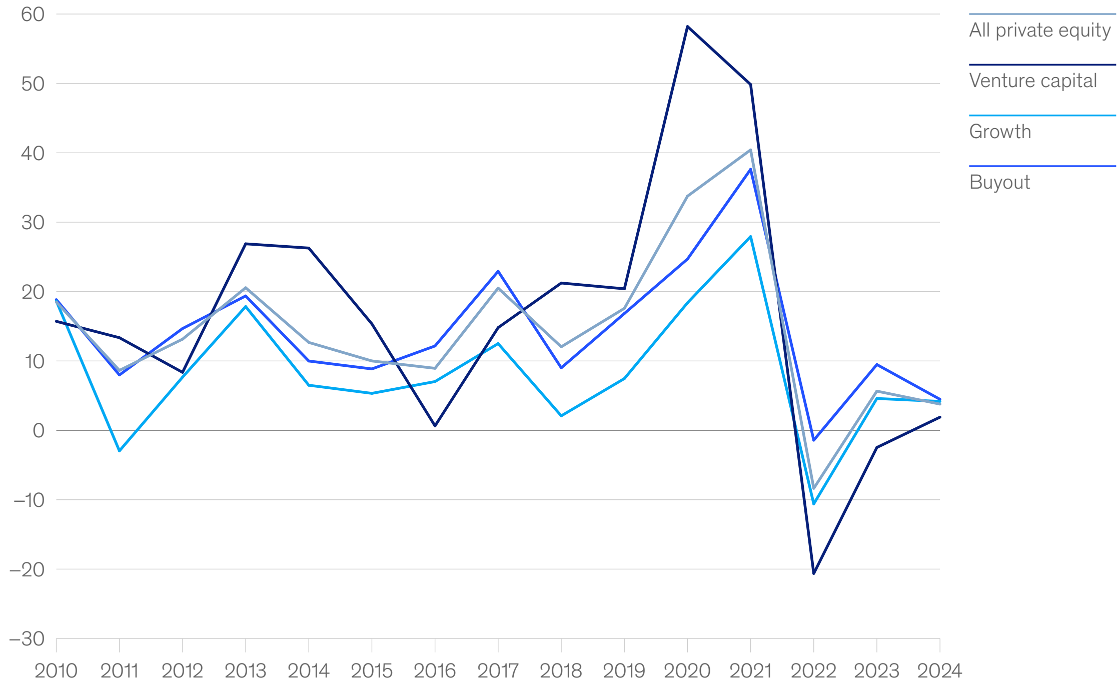
[1]Includes buyout, growth, venture capital, and other private equity.
[2]By year of final close.
Source: Preqin; McKinsey analysis

McKinsey & Company

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 YTD as of September 30, 2024.
Source: MSCI

McKinsey & Company

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 sub-asset classes. When analyzed over a longer period of 10 or 25 years, however, the buyout sub-asset class has historically outperformed public equities, which likely explains LPs' continued support for the asset class (in addition to it providing LPs diversification opportunities) (Exhibit 16).

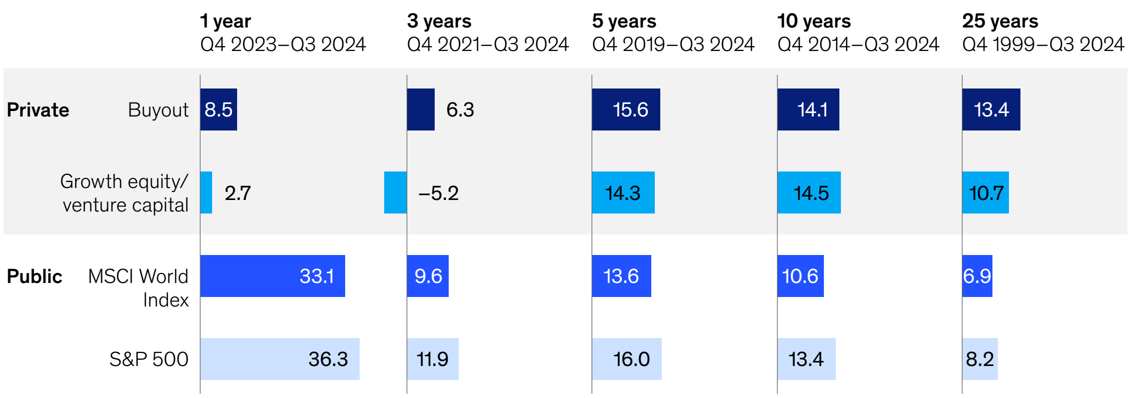
Moreover, buyout multiples have continued to remain lower than public multiples, partly reflecting the so-called illiquidity penalty of investing in longer-life, more illiquid private markets (Exhibit 17). In 2024, the delta between public and buyout multiples grew further, with buyout purchases remaining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



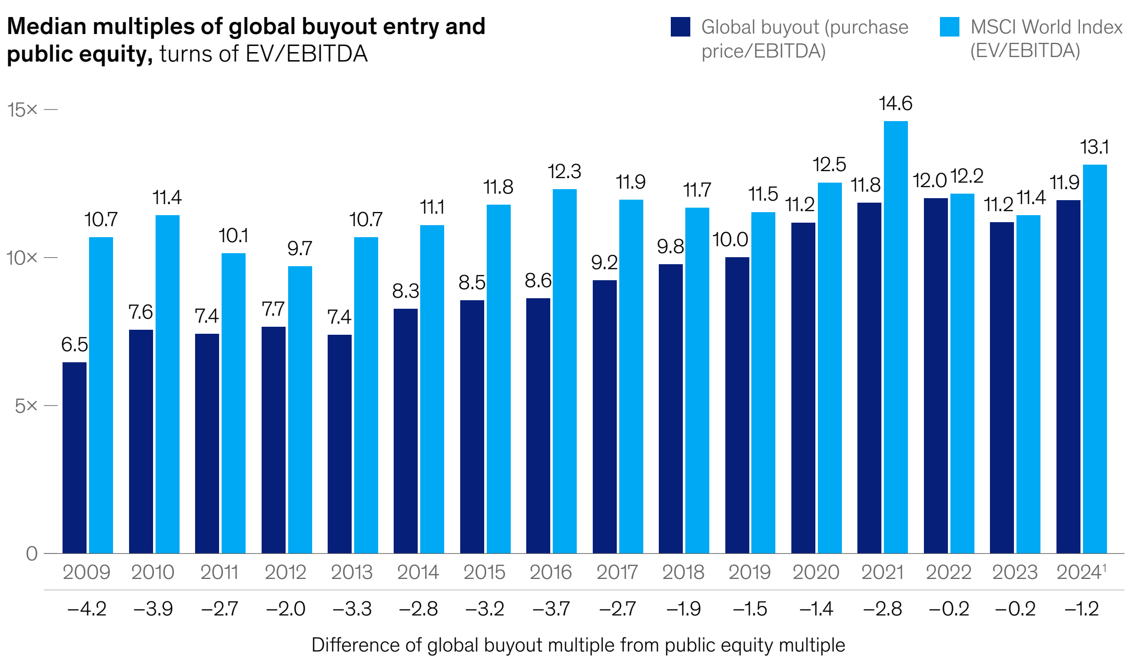
[1]Assessed using IRR; calculated by grouping performance of 2000–21 funds during 2000–24. Some data not available for certain periods.
Source: Bloomberg; MSCI

McKinsey & Company

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/EBITDA



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

McKinsey & Company

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 private equity 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

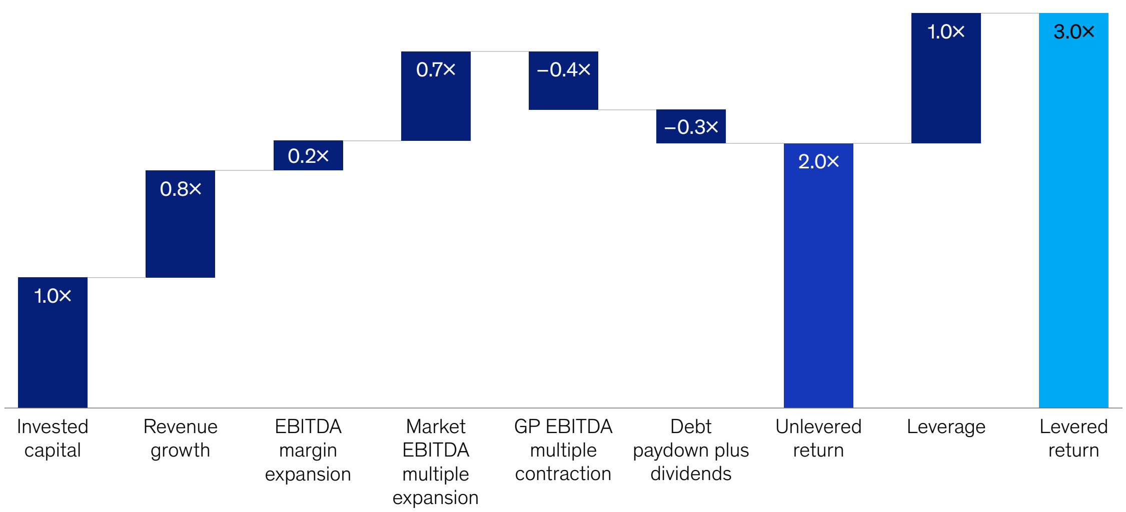
For private equity operators, there has never been a greater need to focus on value creation to drive returns, given increasing purchase prices (as a multiple of EBITDA) and lengthening holding periods. While multiple expansion has driven private equity returns for a decade, steeper entry multiples and 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 between 2010 and 2022, 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 2010–2022, 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

McKinsey & Company

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.

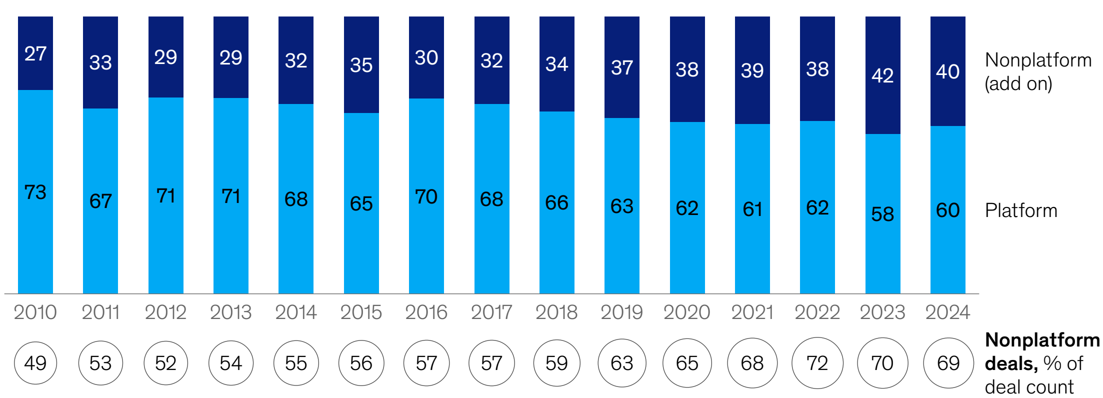
M&A remains a key enabler of returns

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

McKinsey & Company

[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.

Alexander Edlich and **Warren Teichner** are senior partners in McKinsey's New York office, **Christopher Croke** is a partner in the London office, and **Fredrik Dahlqvist** is a senior partner in the Stockholm office.

The authors wish to thank Paul Maia and Rahel Schneider for their partnership and Charlie Regan, Francisca Sanhudo, Gonzalo de Cárdenas, Samuel Musmanno, Surya Tahliani, and Yash Kejriwal (project lead) for their contributions to this article.

This article is based on analysis created in collaboration with CEM Benchmarking and StepStone Group, and data drawn from the following sources: Bloomberg, MSCI Private Capital Solutions, PitchBook Data, and Preqin. Please refer to the upcoming full report for complete citations.

This article was edited by Arshiya Khullar, an editor in the Gurugram office.

Designed by McKinsey Global Publishing