In Focus

Private Equity Outlook Q3 2025: Three key levers to navigate uncertainty

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> Focus on local champions, transformative growth and multi-polar innovation can help unlock the return and resilience potential of private equity.

Uncertainty and volatility continue to be the key themes across the macroeconomy and global markets. At the same time, following a more than three-year slowdown in terms of fundraising, new deal activity and exits, private equity valuations are generally attractive in both absolute and relative terms, providing opportunities that could help investors navigate the current environment.

We believe that, in the current market environment, there will be some strategies that exhibit notably better risk/return profiles than others. In particular, we believe a focus on transformative growth, local companies and multi-polar innovation – that is, innovation happening in multiple locations around the world – is critical to unlocking the return and resilience potential of private equity.

Selectivity is key

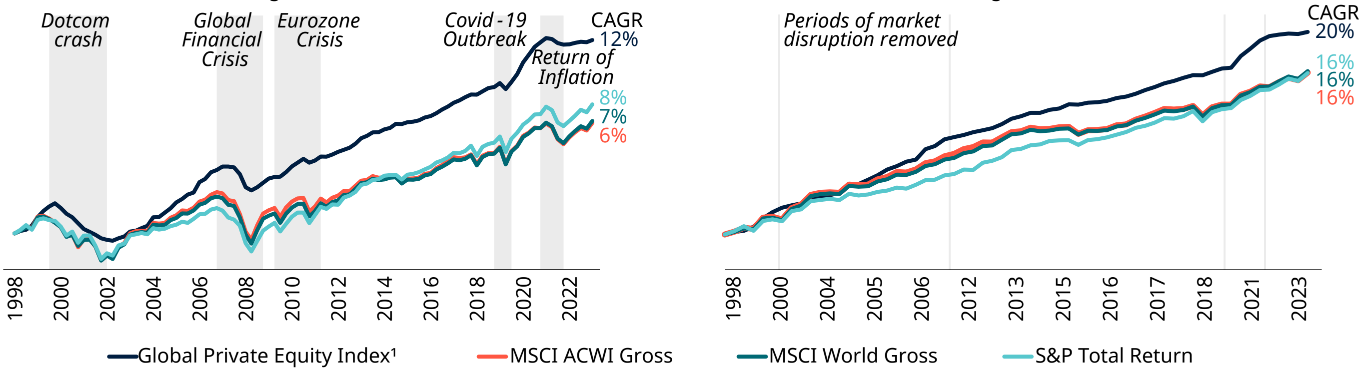
Significant US policy changes since the start of the year, coupled with concerns over government debt sustainability and the escalation or continuation of hostilities in the Middle East and Eastern Europe, have led to whipsawing on public equity and fixed income markets globally.

In the face of these headwinds, the potential of private equity to help investors to navigate prevailing global uncertainty has arguably never been more important for investors. Indeed, the asset class has historically offered some protection against public market volatility and thrived during down market cycles, as we have [shown in our previous study](#) (see chart).

Private equity has outperformed public markets over the past 25 years...

Actual performance with market disruptions
Cumulative Performance (Log Scale) Q4 1998=100

Simulated performance without market disruptions[2]
Cumulative Performance (Log Scale) Q4 1998=100



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... and that outperformance was twice as high during market disruptions

Performance	Dotcom Crash	Global Financial Crisis	Eurozone Crisis	Covid-19 Outbreak	Return of Inflation	Average
Global Private Equity Index[1]	-16%	-6%	+16%	+18%	-8%	*1%*
MSCI ACWI Gross Index	-18%	-9%	+7%	+2%	-18%	*-7%*
Outperformance	*+2%*	*+3%*	*+9%*	*+16%*	*+10%*	*+8%*

Past performance is not a guide to future performance.
Source: MSCI (Burgiss), LSEG, Schroders Capital, 2024. [1]MSCI's Burgiss Global Private Equity Funds Index is a capitalisation-weighted index consisting of Buyout, Venture Capital, and Growth funds. The performance figures are based on pooled quarterly time-weighted returns in $, net of all fees to Limited Partners. [2]Simulated performance without crises assumes periods with market disruptions are excluded. The CAGR is calculated over a shorter effective period to reflect the removal of these periods. Market disruption periods: Dotcom Crash from June 2000 to March 2003; Global Financial Crisis from December 2007 to March 2010; Eurozone Crisis from March 2010 to March 2012; Covid-19 Outbreak from December 2019 to September 2020; Return of Inflation from December 2021 to December 2022

However, given our view that some strategies will perform better than others in the current market, we believe investors should continue to be particularly discerning in selecting strategies and investments – and that diversification across investment strategies remains important.

We see the most attractive allocation options in the current market as being characterised by some or all of the following:

- **Balanced capital supply and demand dynamics,** leading to favorable entry valuations and yields.
- Domestic companies offering some **insulation from geopolitical risks and trade conflicts.**
- Opportunities to earn **risk premiums** arising from complexity, innovation, transformation, or market inefficiencies.
- Robust **downside protection** through limited leverage.
- **Reduced correlation** with listed markets, owing to distinct risk exposures.

Small is beautiful

As highlighted above, for more than three years reduced investment activity, slower exits and tighter fundraising have coincided with heightened macro volatility, geopolitical tension and policy shifts.

Rather than retreat, we believe investors can navigate this by focusing on three complementary levers that mitigate today's challenges:

- **Local champions:** Backing companies whose revenues are overwhelmingly domestic, limiting exposure to tariff, supply-chain and geopolitical uncertainties.
- **Transformative growth:** Investing in businesses where operational complexity or innovation agendas create controllable value-creation paths and extra return premia, offsetting broader market turbulence.
- **Multi-polar innovation:** Allocating to the widening set of regional technology hubs so portfolios capture breakthrough growth wherever it emerges, diversifying away single-market concentration risk.

Below we highlight strategies that utilise these levers – namely small- and mid-sized buyouts, continuation investments and early-stage venture.

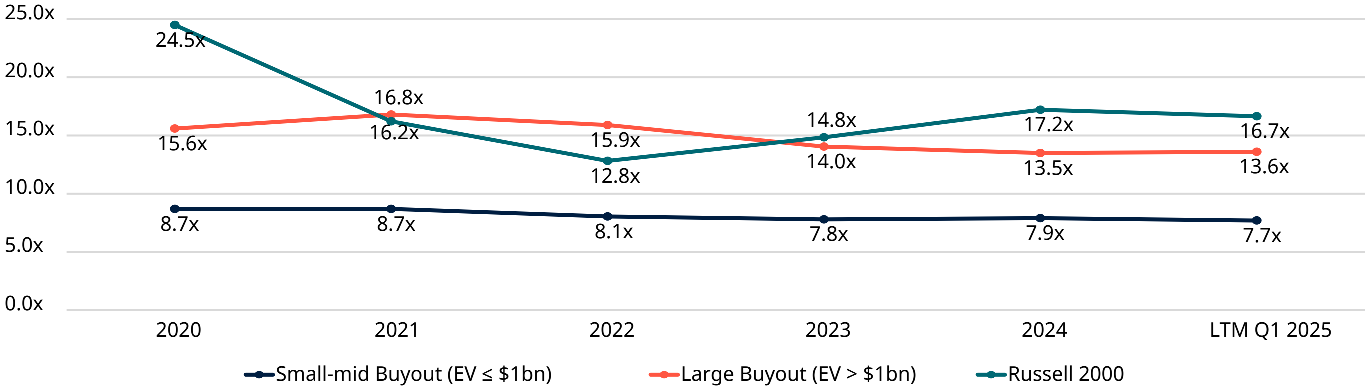
Small- and mid- buyouts: private equity's 'resilience engine'

Small- and mid-sized buyouts remain a private equity portfolio's primary source of resilience, pairing attractive entry valuations with operational flexibility, a defensive earnings profile and less cyclical exit routes.

Average purchase price multiples for these deals are roughly 7.7x EV/EBITDA, more than 40% below the level commanded by large-cap counterparts and even more below that of comparable listed companies, creating meaningful headroom for value creation. Relatedly, smaller buyouts typically employ modest leverage.

Small-mid buyouts trade well below large-cap and public peers

Consistent pricing in small-mid buyouts offers compelling entry points
Average entry EV/EBITDA multiples

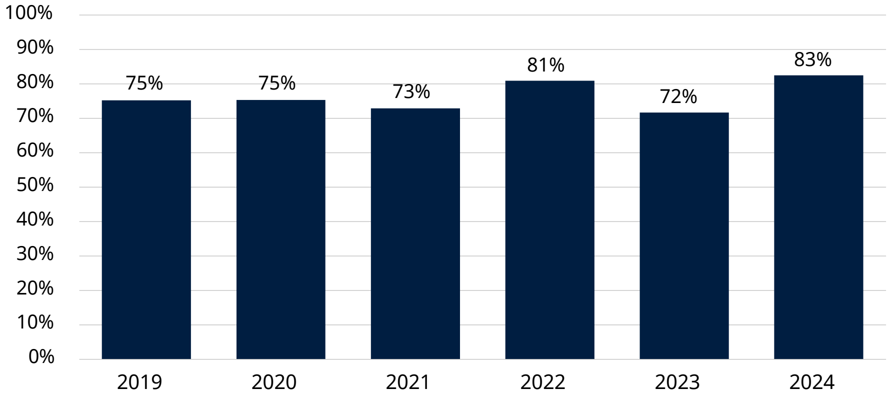


Past performance is not a guide to future performance and may not be repeated.
Source: Capital IQ, Bloomberg, Global M&A Outlook 2025, Robert W. Baird & Co., Schroders Capital, 2025. North America and Europe M&A. Completed deals. Russell 2000 EV/EBITDA is calculated using EBITDA from the latest trailing twelve months. The views shared are those of Schroders capital and may not be verified or might be subject to change.

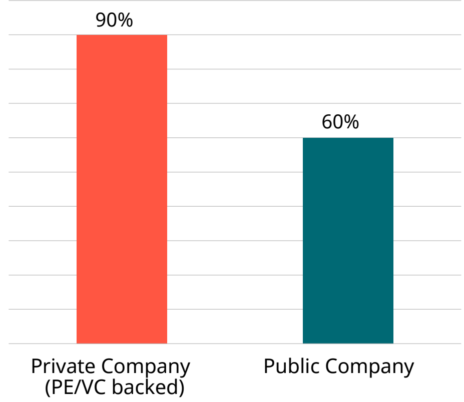
The geographic and sector mix of these deals further strengthens defensiveness: more than four-fifths of new transaction value is now service-oriented, while private equity-backed companies also have a predominantly local revenue base, cushioning supply-chain disruptions and tariff changes.

Service and local revenue-orientated portfolios buffer against trade shocks

Service exposure rises to 80%+ of deal value in 2024
% services of Private Equity deal value



High local revenue share in Private Equity
% local revenue share



Past performance is not a guide to future performance and may not be repeated.
Source: Pitchbook, data as of 27 May 2025, S&P Capital IQ 21 May 2025, Schroders Capital, 2025. For Private Equity, the percentage of services is based on capital invested in buyout and venture capital deals. 41 sectors have been split into goods and services. Local revenue share is based on Capital IQ's 'Segment 1' revenue field, which is mostly country specific though some entries reflect broader regions. The views shared are those of Schroders Capital and may not be verified. Forecasts and estimates may not be realised

Exit markets also prove less volatile in this segment; small- and mid-cap managers rely mainly on trade sales and secondary buyouts rather than IPOs on listed markets, reducing dependence on equity-market windows and smoothing realisation timing.

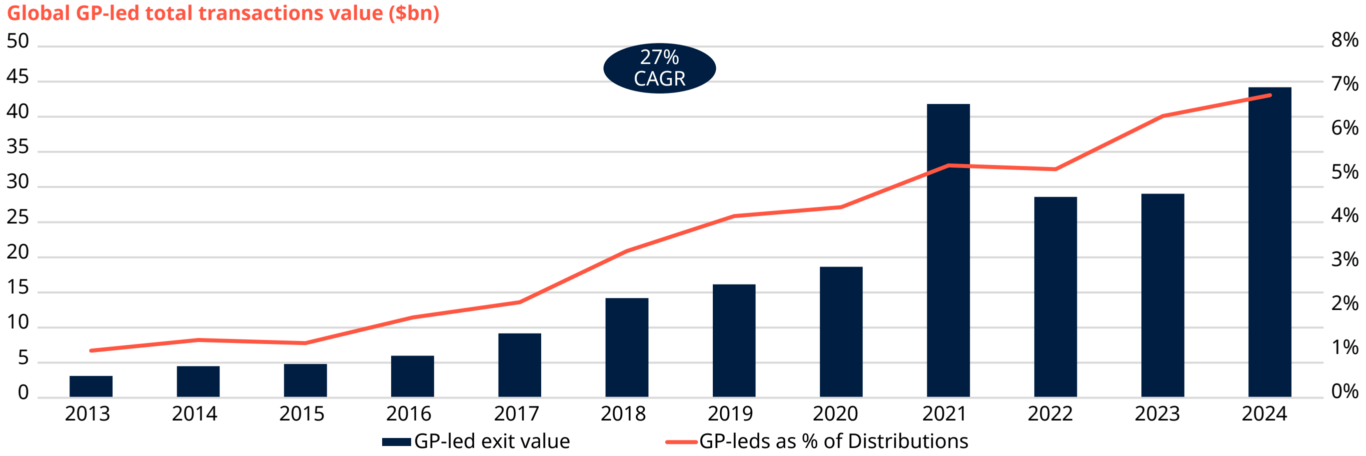
Continuation investments: extending the value-creation runway

Complex corporate transformations often extend beyond the conventional four-to-five-year holding period, and continuation vehicles have emerged as an effective – and cost-effective – way for investors to remain exposed to the same manager and the same asset.

By offering an alternative to traditional secondary buyouts – historically a major source of deal flow, particularly for larger funds – continuation vehicles allow the existing fund manager to carry a business through its next phase of growth, without disrupting the value-creation plan.

Interest has accelerated in today's muted exit environment, though the segment has compounded at roughly 27 per cent a year since 2013, reflecting structural drivers in an evolving buyout market. Investors are also attracted by the potential for more predictable outcomes and faster return of capital: average time to liquidity is about 18 months shorter than conventional buyouts.

Continuation fund market has experienced significant growth



Past performance is not a guide to future performance and may not be repeated.
Source: Jefferies, Greenhill, Evercore, Lazard, PJT, Schroders Capital, 2025.Includes buyout and growth strategies globally, excludes structured transactions and unfunded commitments in continuation vehicles. Distributions refer to all PE Distributions globally.

Early-stage venture: accessing multi-polar innovation

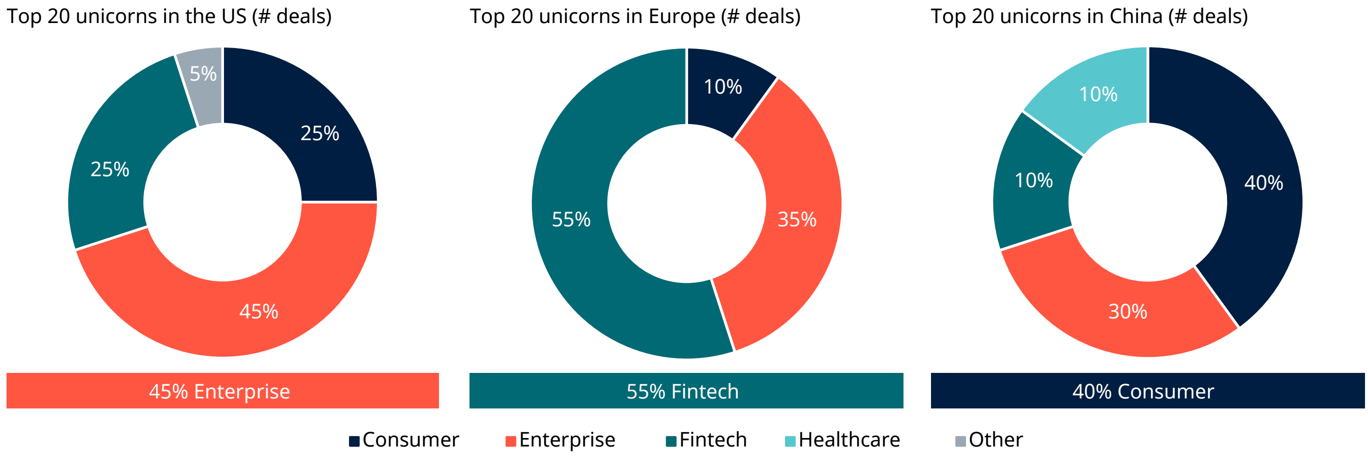
Early-stage venture capital offers exposure to an increasingly multi-polar innovation landscape, while having less correlation to public markets than later-stage growth investments.

Breakthrough research and new-company formation now cluster in at least five technology hubs: the US, Europe, China, India and a broader Asia-Pacific group of countries. While the US is still dominant for venture capital activity, nearly half (45%) of all unicorns now come from outside of the US.

Each innovation hub is driven by distinct themes and produces region-specific champions, contributing to diversification within a portfolio. In the US, enterprise software dominates, representing nine of the top 20 US unicorns in the region. For Europe, fintech is the key sector (11 of top 20 European unicorns) and in China it is consumer (eight out of top 20 Chinese unicorns).

Artificial intelligence absorbed about 15% of global venture funding in 2024, but disruptive progress reaches far beyond this into biotechnology, fintech, climate technology and deep tech. We see notable opportunities in biotechnology, a segment that has endured several years of risk aversion and now appears attractively priced, as well as selective potential in LP-led venture secondaries.

Multi-polar innovation driven by different strengths in different regions



Source: CBInsights, Pitchbook, Schroders Capital, 2025.

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