



2026 GLOBAL CONFERENCE

LEADING IN A NEW ERA



PRIVATE EQUITY: VALUE CREATION UNDER NEW RATE REGIMES

Announcer 00:00

Please welcome the panel on "Private Equity: Value Creation Under New Rate Regimes," moderated by Hugh MacArthur, senior partner and chairman, Global Private Equity Practice, Bain & Company.

Hugh MacArthur 00:19

Hello, everyone. Welcome to the session. That was a very long name for this session. I think we might shorten it and change it to kind of the—given what's going on in the private equity world today—"the Life, the Universe, and Everything" session, because we're going to touch on a lot of topics. Some of them have been around for a few years, some of them a couple of months. I also sometimes call talks like this the Groundhog Day session because it feels like every January, I'm optimistic a lot's going to happen in private equity, and then in February, suddenly people are feeling differently because things have changed. So we have such a great panel today from such a great variety of firms. I'd like to get their wisdom going and straight into the conversation right away. First topic that I know you'll be surprised we're going to address, something no one's talking about, is AI. Now, while every single GP is certainly investing in AI and AI capabilities, I would argue that most are still in experimentation mode. At least if you talk to the folks that we work with or we survey at Bain & Company, they're saying, "We're doing some things. We're making progress, but we're not transformative yet. We don't have the full credit answer." Of course, if you read a lot in the media, you might think the opposite conclusion has happened, that the whole world is transforming before our eyes and everything is really changing. So I'd love to talk to the panel first about where are you seeing AI have a real impact in your organization, either as an investment firm or in the portfolio. Where are things really happening and how? What's working? And Raoul, maybe I'll start with you.

Raoul Hughes 01:56

Okay. Well, I guess there's sort of three areas at it. There's the whole process of the business and the process of investing, and then there is the choice about where you put your capital and where you invest. And I guess if you look at those, the latter one of those is much more difficult in the early stage. But from a sort of the business itself perspective, I think we focus obviously in two ways. There's a lot of efficiencies that we will all get from using AI, and particularly in the sort of investor services functions and the support functions, and hopefully the savings that we can make from that we can reinvest elsewhere in the business. And then within the investment processes, I know, I'm sure everybody here, we're all representing firms that have been around for a long time. And being around for a long time means that we've all got a huge amount of data somewhere within our businesses. And so, I'm not sure you guys, but from our perspective, that data was all over the place and was not particularly well coordinated and what have you. But we own it. And I think AI is giving us and will continue to give us a much more efficient way of accessing this phenomenal data set that we've got across the business. In our case, that's with our debt business and with our equity business. And I think AI is really helping the ability to make decisions and really mine and utilize the data that we've got in the data set. Which, in a sense, it feels like it's going to further enhance the incumbency benefits in our industry and make it harder for people to come into it because you need that data set and you make better decisions. So I think we're—I don't think it's quite fair to say that we haven't really embraced it within the business. I think we have in our investment processes and within the cost savings and efficiency and the support. I think the bit that we're still—it's still really early is what impact it's going to have on our investing activities and where the right places to put capital are going to be. And that I still think is work that we're developing.

Hugh MacArthur 04:03

Yeah. That's a good take, and I especially like the reliance on data. I think that's an often underappreciated part of this, is that the data assets you have as a firm, that proprietary edge, really can be the competitive differentiator in AI. Because the tools, one has to believe a lot of them are going to harmonize over time and do a lot of the same things. But what data do you have and what can you do with it is a really critical question. Pete, are you seeing anything new at KKR that you are excited about?

Pete Stavros 04:28

Yeah. What's really working for us—can you guys hear me okay, by the way? I think I—they tell you not to mess with these things. It was a little bit uncomfortable, and I pulled it, and I thought I heard it snap, but as long as you guys can hear me. So what's working for us on the AI front is leveraging the portfolio to run what we think of as AI experiments. So we've got 225 companies, and we're running right now 130 different live AI experiments, meaning trying to find companies where we've got the right vendor and the right AI application. So when you think about those 130 experiments, think of—imagine a big spreadsheet. Across one axis, we've got all the many, many AI vendors out there pitching their services, and along the other axis, we've got the application. And when we find something that works, we take that vendor application combination, and we try and find other places in the portfolio to spread that knowledge and

spread that application. And in terms of where it's working, some of it is really obvious, you know, internally developed software, sales tools, things you would come to expect. Some of it is really, really bespoke. So we've got an education company that has developed an AI tool that helps teachers identify plagiarism. We've got a sports company that captures footage inside of high school gymnasiums, and we've got an AI tool now that automatically creates highlight reels and player highlights. So some of it is really bespoke and not so easy to spread across the portfolio. But to your point about the hype, I would say across these 130 AI experiments, it's averaging 5 percent of EBITDA. That's kind of what we're finding. We're not finding 50 percent of EBITDA, which I think if you read the headlines, you come to believe there's these just massive transformations happening, and that's not what we've seen so far. But in terms of kind of breaking through the hype, I would say we're going to just keep iterating. We're trying to ground ourselves in real business outcomes and using AI to actually solve real problems and create real efficiencies.

Hugh MacArthur 06:38

So, still early days, but you've got to be in the game in order to get to the transformative stage.

Pete Stavros 06:42

And we should. With the size of the portfolio, we really think we should be able to learn as fast as anyone. We should be able to try so many different vendors, so many different applications.

Hugh MacArthur 06:51

Martín, what are you seeing?

Martín Escobari 06:54

I hear huge improvement in what AI can do. The technology is ready to automate most of white collar work. The challenges we find in our portfolio is prioritization and diffusion. A little bit to your experience, a lot of people started testing a lot of things. What are the three processes that really drive EBITDA or new revenue? Because science experiments are very fun. Three processes that cut into the muscle and the core, really, really hard. And then diffusion. Where do you get the software developer engineers? And Blackstone and GA and Hellman & Friedman just announced a partnership with Anthropic to help with diffusion. How do you get cutting-edge scientists focused on the three priorities that will change the company? I think that's the next phase of AI.

Hugh MacArthur 07:41

Makes sense. Makes sense. Well, let's talk to a related topic now: software. And we've all heard a lot about software SaaS businesses in the age of AI. In fact, I was at a conference a couple of months ago, and I was talking to a GP of a venture capital firm that invests in AI, and unsurprisingly, they think that all SaaS businesses are dead. They're gone. In fact, if you're a VC investing in SaaS businesses, you're also dead. You're gone. Now, if you're a firm that invests in SaaS businesses, you have a totally different view. You say, "Well, there's an incumbent advantage. We're already disintermediating ourselves. We're finding new adjacencies and ways to add value to our customers, and we're going to win." Now, obviously, in any industry, there are going to be winners and there are going to be losers. But the question on the table is: Is there anything endemically going on here that's impacting the terminal values of software businesses or not? And so, the question is—we're not going to solve that today, by the way, on the panel, so don't get your hopes up if you're out there in the audience. But how has AI impacted, if it has, your playbook for investing in software businesses today? And Joe, maybe we'll start with you.

Joe Baratta 08:51

So, in 2007, I thought it might be a good idea to buy a Yellow Page business. And I wouldn't have been sitting here today had I done that. And about, I don't know, three or four years ago, is we saw our QTS platform, which was originally bought to develop cloud computing centers for Amazon and Microsoft. We saw an explosion in demand for compute on this thing called AI. And then as we saw ChatGPT first sort of really hit, we said, "Geez, let's not be the people buying Yellow Page assets like it's 2007." And so, for the last three or so years, we've been really careful about understanding which profit pools are likely to come under significant pressure, and how to stay out of harm's way. So that's sort of defense. Now, of course, we do own enterprise software companies. For example, we own a company called Ellucian, which 90-X percent—92, 95 percent—of universities in this country uses to manage their student information system. That is digital infrastructure, and I believe that that will endure over time. We didn't price it to grow at 15 percent and sell more services. We priced it like it was a normal GDP-plus growth business, a multiple of cash flow. What's the unlevered returns over a six-year period, assuming a reasonable exit multiple relative to the growth? There's going to be a lot of the industry that's like that, which will be fine. The question is: What did you pay for it? What did you underwrite? What did you assume it could do? And there will be a lot of Yellow Page businesses: point solutions that can easily be replicated by the LLM or by a Salesforce or somebody that's really deeply entrenched in the enterprise.

Hugh MacArthur 10:46

Yeah. And Meredith, what is the LP view of software right now? What are you looking at? How are you changing the way you evaluate these things?

Meredith Jenkins 10:55

So we're giving—we're spending a lot of time with our managers asking that question and sort of a how do you have confidence that the businesses that you're underwriting aren't going to be the Yellow Pages of today? And what's the case? What's the moat that they have? How deeply entrenched are they with their customers? How are they protected and tied up in governance processes and all the decision-making that's happening at the underlying companies that are their customers? And so we're spending a lot of time on that with all of our managers. I would say we've—on the margin, partly because we've been burned a little bit—we can afford to be patient. And I think it creates an opportunity where the baby's being thrown out with the bathwater. But I want to be confident that our managers who are investing in it can also be patient. So we've been pulled out of some of the bets because the managers have panicked. And so, in some ways, arguably, private equity is a more interesting way to play it because you have to kind of be patient but have confidence that you know what you're underwriting.

Hugh MacArthur 11:57

Raoul, any other thoughts?

Raoul Hughes 11:58

Yeah. No, I think Joe hit it right. There are completely different types of software businesses, and some will be here to endure and will survive. And in fact, we had it with you guys. Our largest software investment that we've got is a business called Corevo, which is absolutely embedded in the whole payment systems of enterprises. And you're not going to change that because someone's developed a new—some 18-year-old's developed a new tool for AI. We were so confident about it, we sold it from one fund to another, and you guys came in and partnered with us in it. So I think there's going to be a hypothecation. I always think one of the great things about private equity is if you think of what is the core skill set of our industry, the core skill set of our industry is taking investors' capital—the world's best investors' capital—and triaging it as effectively as possible into the best available investment opportunities within the unlisted space. And if you cut through what we do and the process and the deal process, ultimately, that's what our industry is absolutely brilliant at. It's brilliant at taking that capital and triaging it into the best opportunities. And those of us who can do it better than others survive and build, and off we go. And therefore, I think we've got the skill set, the teams, the processes to find those particular companies that have got the best chances of succeeding in this as everything changes. I've been doing this for 35 years. You go back 15 years ago, whatever it was, our industry were big investors in consumer. You guys still do. We were big investors in consumer. And then people—we weren't, we pivoted. And within the consumer space, you found that there were businesses that became unsellable. The bricks and mortar retailers, completely unsellable. Digital native branded businesses, fantastic. And I think that's what's going to end up happening in software. You're going to find that hypothecation and some businesses you won't be able to give away, and others will be absolutely fine and develop. And I think it comes back to what—and our industry, probably of all the industries there are in the investing landscape, is probably the best at picking the ones and triaging and buying it the right sort of way. And I think the one other thing I would

say, I think it also comes back to this point about scale, and it comes back to the point about incumbency. And ultimately, I think what you want to be as a firm in our space going forward, you need to be a multi-sector specialist. No one wants to be a generalist. I don't think you want to be a very narrow vertical fund. What you want to be is a multi-sector specialist, where you've got really good sector teams, but you're doing it across a few different spaces. And that gives you the ability to think about a particular sector and maybe stand back for a bit.

Hugh MacArthur 14:55

It's going to be—sure, Martín.

Martín Escobari 14:56

Just to add, I agree with everything that has been said. There's going to be winners and losers. It will take time to see which ones are. But there are a couple of things we know to be true. Exit multiples will be lower. Software companies for the last five years traded like growing perpetuities that were not subject to disruption. Not going to be the case. If your playbook was to be highly levered and focused on cutting R&D and raising prices, that playbook needs refreshing. So those two things we know to be true, but if you're in the software space, embrace AI and be on the right side of history.

Hugh MacArthur 15:33

Makes sense. I want to shift gears now and talk a little bit about exits, which is another topic that's near and dear to the private equity industry. There are about 32,000 companies right now sitting in buyout portfolios around the world, and 40 percent of those companies, or nearly 14,000, have actually been there for over five years. The average holding period at exit for a 2025 buyout was seven years, which I found to be amazing when I first read it. Seven years ago was 2018, and when you think about the average deal being exited in 2025 being a 2018 deal, that was pre-pandemic, pre-inflation, pre-big interest rates, pre-tariffs, pre-shooting wars, pre a lot. There's been a lot of macro upheaval over that period of time. And with 40 percent or so of the businesses still of that vintage—pre all of those things—it's fair to wonder, what is it going to take until we really get back to full exits and start to unlock this cycle in the market? So Martín, maybe I'll bounce it back to you and ask, what do you think it's going to take over the next 12 to 24 months to really get this hamster wheel going again so we see a lot of DPI getting pumped back into LP pockets?

Meredith Jenkins 16:43

Yes, please. [Laughter]

Martín Escobari 16:50

We went through a winter of exits, which was horrible for the LPs. You're over-allocated to everything. You can't plan for your dry powder because you don't know when you're going to replenish the dry powder. We think spring has arrived. 2025 was our second highest liquidity year, and I think for many players around here. We saw IPO volumes went up 50 percent, sponsor sales going up 45 percent. We have viable IPO markets in the US, India, and Hong Kong. So I think we're getting back on track. We've got this long belly of over-deployment in the '18 to '23 period that will take some time. But I think the markets are beginning to work. All we need—all I pray for in the morning is low VIX. No surprises. Give us six months low VIX, we're going to be safe.

Hugh MacArthur 17:39

Pete, what do you think?

Pete Stavros 17:42

I think we've had a similar experience. 2026 for us should be the largest private equity exit year in KKR's history. So for good businesses that are demonstrating earnings growth, the market's still there. It's not what it was in 2021 or 2022, but there still is a bid for really good businesses that are performing. I think what's happened, when you look at the Bain data and the 2025 exit vintage being on average those companies being seven years old, and those investments being seven years old, if you think about the backward—so start from 2025 and look backwards. Well, in 2020 there wasn't a ton of deal activity, so there's not a tremendous amount to exit in 2025. And then in 2021 and 2022, our industry made a big mistake. We, as an industry, way over-deployed, probably into too much software. And those valuation multiples were high. The 10-year was 1 percent. So all of the investments that were in the ground that were maybe possibilities for short-term exits in 2025 didn't happen. So the only thing we're getting, to Hugh's point, are these longer, these more developed businesses pre-2020 that we're selling. And in terms of what it's going to take, putting the really AI-exposed software stuff aside, because I think that's just going to be difficult no matter how long we wait, it's just going to take time. Those '21, '22 vintages are going to have to mature. They're going to take longer. I think those are going to be longer holds than seven years. So I think things are improving, but I still think we got a ways to go.

Hugh MacArthur 19:19

And Joe, what's the view from Blackstone?

Joe Baratta 19:23

This may be my personal view, but there was this premise that you weren't supposed to buy things where the logical exit was the public markets. But I've been doing this for 30 years, and the public markets have comprised roughly 50, 60 percent of liquidity for all private equity strategies, from venture through to large cap buyout. And the notion that nobody's going to take a company public, I always thought was ridiculous. Now, the public market is the ultimate measuring scale of what your business is worth, not four private equity guys sitting in a boardroom competing in an auction. It's the public markets. So for this ultimately to clear, a bunch of this is going to have to find the market clearing price in the public markets. And of course, we want to buy bigger, better companies that are important in their industry that can access the public markets, and Medline shows it's possible. We did a \$7 billion IPO in December. Company's got a \$50-plus billion market cap. We've been able to sell stock. And this was a 2021 vintage deal. So I think people have to just understand that the public markets are going to be an important source of liquidity and capitulate to what the public markets say your business is worth.

Hugh MacArthur 20:45

Okay. I might call all of those, if I could use the term, measured optimism. I'm a glass-half-full kind of guy, so I like that. Recognizing that there are challenges, but—

Joe Baratta 20:56

And as Pete said, we've returned 25 percent of our NAV at the end of 2024 in the last 18 months. So that's kind of on pace for what a normal private equity distribution cycle is.

Hugh MacArthur 21:13

So let's talk a little bit about continuation vehicles again. These have been in the market, in the news an awful lot. They're growing. They're growing. They are certainly part of a liquidity solution. I would argue they're not the liquidity solution. They're certainly not a panacea. They're causing a lot of excitement, and I mean that in every sense of the word. What do we think about continuation funds and their place in the market and the legs they're going to have going forward? And Meredith, I have to go to you for the LP view first.

Meredith Jenkins 21:40

Yeah. Well, I'll be interested to hear what the rest of the panel thinks. We had a very unique experience at Trinity Church. Ten years ago, we were starting from scratch and building out our private equity portfolio.

So we had to be a little bit creative, willing to look at secondaries. We also looked at what essentially was a venture capital continuation vehicle for some holdings that had been in a 12-year-old fund. And it was a lot of work. We underwrote the businesses. The team spent a ton of time on it. It was hugely value-creating. We ultimately ended up going into '21 having what looked like a mature portfolio, which was way ahead of what we ever would've forecast in terms of getting to a mature-looking portfolio. So I think you can't just say, "Oh, continuation vehicles aren't interesting," or, "They're amazing." I think you very much have to be willing to look at the underlying company and do the work on that. Now, the challenge, a lot of LPs are not set up to do that. And so, anecdotally, my understanding is a lot of the continuation vehicle things that go out to existing LPs don't even get opened. So in my mind, that signifies that maybe there's a really interesting opportunity in continuation vehicles for people who can navigate that particular place. From an LP perspective, it says to me that we should be willing to look, and we shouldn't just assume, oh, we want to exit and take whatever they're going to give us so that we can get that liquidity. We should be managing the liquidity piece up front so that we can stay in the things we want to stay in.

Hugh MacArthur 23:14

I think your point about a lot of LPs aren't set up to properly deal with the volume of continuation vehicles is an interesting one. I've heard some LPs get as many as one CV a week that they have to—and they don't have the extra resources to underwrite, understand what to do. And so it's very, very challenging when the flows are that high to even process it or do anything except cash.

Meredith Jenkins 23:34

Yeah. No, and that's a real thing. We're all pretty thinly staffed. That suggests, I don't know, an opportunity to me for someone to come along and say, "Hey, I can help you." We've tried, as a very thinly staffed team, to work very closely with a couple of secondaries firms, work closely with people who we feel give us access to understanding things like that a little bit faster than we're able to do it on our own.

Hugh MacArthur 23:59

Right. Joe, what's your view?

Joe Baratta 24:03

The CV market's small. There's, whatever, \$3 trillion of assets. I think last year there was—

Martín Escobar 24:11

That's small for you. For me, it's big.

Joe Baratta 24:15

There's \$60 or \$70 billion of CVs done last year against \$3 trillion of NAV. And so it's a tool. It doesn't solve the bigger problem that you mentioned in the last question. And I think each firm gets to do one or two of them and then you lose your license. And then the question is, what happens at the end of the CV? And then we're now getting into CV two. And there's been some exits, and that's great. I think Leonard Green did an amazing thing with something they had in a CV. But then there's going to be a whole ocean of these things that ultimately need an exit. Who's going to buy those? Probably not going to be Blackstone. Maybe it has to be the public markets, back to my point earlier. It all comes back to where is the liquidity source outside of the traditional institutional LP community, and the answer is millions of individual investors and the people who manage their money. And so, I think the CV thing is interesting, but it's not the solution.

Hugh MacArthur 25:13

Any other thoughts on CVs?

Pete Stavros 25:17

To Joe's point, you can do this a couple times. I think we've done one in 50 years. The CV, it was a good idea. So the original idea, as people may know, was you've got a fund that is late in its life and there's an investment that it's just not a great time to sell for whatever reason. Maybe you went through a cyclical trough, and you worked so hard to get your head back above water, and the fund's life is coming up and you say, "We don't want to sell it now." And so you take that asset and you move it into a special vehicle. That was a great idea. The problem with our industry is we can't restrain ourselves. And so, then people start saying, "Well, I'll take an early winner and I'll move that out of a fund and put it into a CV because now I can charge 2 and 20 on a marked-up valuation." So I think what Joe said is really important. There are unique circumstances where they make sense. I think when it starts to become a way to make more money, that's when our industry gets in trouble.

Meredith Jenkins 26:18

And that's why at our level, we've got to do the homework on it.

Hugh MacArthur 26:21

Right.

Raoul Hughes 26:22

But it's also, there aren't that many of them, are there? Where it becomes a problem is if people do too many of them. And if it ever gets to the point where, when you're actually trying to sell something through the normal auction process, the first question you get is, "Well, why on earth aren't you—what's wrong with this business? Why aren't you putting it into a CV?" And if it gets to that stage, then I think it's definitely gone too far. We've done it within our infra business a couple of times. We've not done a CV with our equity business, but we have done a number of situations where we've sold a portfolio company to a subsequent fund. So we've either sold something from our SMID cap fund to our larger fund or from different vintages of the same fund. And I think that in a sense, you can understand why you would do it. You know the asset very well. It's got more growth potential, but you want to keep developing. But I think that's—and you're not doing it for the sake of a new source of fees, a new source of carry, because it goes into your next flagship fund. And they're slightly different ways of playing the same sort of thing. We've done more of that than straight continuation funds.

Martín Escobari 27:34

Listen, in the defense of CVs, it's in some ways better than sponsor-to-sponsor because you're not crystallizing capital gains and you're giving LPs some choice. I think you have to be careful, though. I agree with, it's not the panacea. You still need the public market. You need strategic buyers. Ultimately, that's the end of the line. You have to be careful what kinds of companies you put in CVs. Are these durable compounders? You have to be careful about the conflict. You have to be conscious about the two layers of fees. But if you do all those three things, there is a role for them that can be good for the ecosystem.

Hugh MacArthur 28:06

I think that makes a lot of sense. Useful tool, has to be used correctly. Not that many companies have an 8- to 10-year value compounding duration, and so lots of room for challenge in there. Let's talk a little bit about private wealth or retail capital, another minor little issue that's popped up in the industry over the last few years. And Meredith, I'm actually going to let you ask this question since you're the LP. I'm just going to set the stage. I think it'll come better coming from you. About half the world's wealth is with individuals versus institutions. Over the last few years, the private equity world has noticed this, and the unique thing about half the world's wealth being with individuals is that very little of that wealth has any exposure to private equity or indeed private assets at all. And it's clear that people would like exposure. They're going to get exposure. Investment advisors want to sell it. Traditional asset managers want to sell it. Other people want to sell it. Providers of product want to sell it. And so therefore, in my experience, typically, when everybody wants something to happen, it's going to happen. What would you like to ask our GP colleagues about private wealth?

Meredith Jenkins 29:11

As private equity investors—not marketers or business growers necessarily, but as private equity investors—what do you guys—is it purely positive for the industry to have all this retail capital come into private equity? Should I be thinking, is the risk-return profile the same, or should I be looking forward and thinking that I should be underwriting something different because there's going to be so much more capital, and it perhaps becomes more efficient or less efficient and the risk is much higher, and we're just—private credit is just the iteration of what real estate was, and we can expect it to come for private equity in terms of what we're setting up today? How should I think about it as an LP?

Martín Escobari 29:52

Do you want to cold-call someone?

Raoul Hughes 29:54

Who do you want to answer the—

Meredith Jenkins 29:56

Go ahead, Raoul. I know you have opinions about this.

Raoul Hughes 29:59

I do. I mean I'm talking from a firm who—we have a small real estate—sorry, a small retail product. But we are unashamedly a shop focused on driving added value alpha returns for institutional investors. And we do have a wealth platform. We have a small bit. It's a useful thing for me as the chief executive of a listed business to say we're doing because it keeps the shareholders happy. But the real focus of our business is on institutions. I don't feel that our industry has yet found the right product to use for the retail channel. And the way it's been presented, the way the market's been presented, this notion within sort of Blue Owl about, oh, it's really awful they've had a draw stop. Well, that's just part of the terms. That's what it is. It's not liquid. Our product set is not liquid, and I don't think at the moment we've yet—you guys might disagree—we've yet come across the right product for it. We have, as an industry, the right product for people like you. We have the right product for the institutional investors. The sort of closed-end drawdown fund, cash-on-cash returns for us. We get paid when we've made the investments and we've returned the cash back. And then when you layer on top of the fact the secondary market gives you the liquidity rather than having to wait the full life of the liquidity, it is a fantastic product. It's one of the reasons why the alignment between us as the GPs and you as the investors has worked. And I think as yet,

that hasn't landed within the retail. I think someone will work out how to do it because I agree, there's a huge weight of capital that wants to come into alternatives, and should have the opportunity of investing in alternatives, because I'm a big believer there are great returns to be had by doing it. But I just don't think it's quite hit the right product yet, personally.

Meredith Jenkins 32:05

Joe or Martín? Joe.

Joe Baratta 32:07

Yeah. There's a few angles to consider, and this is an important question. We don't have a private equity business without large drawdown funds, which are supplied by our institutional investors. So I am the—and my partners and colleagues are the custodians of our institutional capital business because we can't buy businesses unless we have large undrawn pools of capital where we can make multi-billion dollar commitments to buy companies. Retail vehicles are fully invested by design. Money comes in. In bull markets, more comes in. In bear markets, none comes in. That is not a sustainable model for operating a private equity business, period, full stop. So, everybody can get on their high horse and say Blackstone's got retail capital and they don't care about their institutional LPs. Untrue. We do not have a private equity business without institutional LPs. That being said, we have a capacity-constrained model in our private equity business. We want to operate at the largest end, buying sector-important companies like Medline, like Hologic, like Jersey Mike's, like Copeland, which is the largest manufacturer of HVAC compressors in this country. This building will have many hundred Copeland compressors. Each of you with a home will have a Copeland compressor. Each of these deals requires \$5 billion-plus of equity. I manage a \$20 billion private equity fund, which means the biggest investment I can put in that fund is \$2 billion, and we tend not to do 10 percent positions, call it a billion, five or six. So when we have a \$7 billion equity account, we can serve all of our institutional LPs with co-invest, our very important institutional clients, and still have money left over. So the retail product that we have supports our core private equity strategy, which is to buy bigger, better, more sector-important companies. From the vantage point of the individual investor, the teachers of California have been investing in private equity for 45 years. My brother, who is a sheriff in the state of Oregon, was investing in private equity with KKR and us, well, maybe for 50 years. But individual investors, somehow this is like, "Oh, it's scary. You can't invest in private equity." I don't subscribe to that view. If you have a responsible manager where it's supporting their institutional strategy, which is what ours is doing, that should be open to individual investors who know the risks they're taking. They're not under any illusion that this is a bank deposit that they can get back on demand. They want the exposure to good businesses managed by a responsible manager who can be a good long-term custodian of their capital. It's diversifying from them because if you invest in the S&P 500, you own seven, soon to be 10 companies, and we provide something different. 65 percent of companies in America with over \$200 million of revenue are in private hands, and that is what we can access for our institutional clients and for retail investors. I rest my case.

Martín Escobari 35:34

No, but since you were very critical of continuation vehicles, let me be critical of—

Joe Baratta 35:39

I wasn't.

Martín Escobari 35:41

Just joking.

Joe Baratta 35:42

Okay.

Martín Escobari 35:43

Listen, obviously, we should enable retail investors to access premium returns. I think what, as an industry, we have to be careful about is making sure they understand that semi-liquid is not liquid. We're seeing that with private credit, so there's a lot of education being done. We have to make sure how we build those portfolios. It shouldn't be the leftovers of our funds. It should be with the same care and attention we do in portfolio construction for our institutionals, we have to do for privates. And we have to make sure our valuation metrics are fair because you're crystallizing carry based on your self-appraisal. But provided we do all that, I think it's going to be okay.

Meredith Jenkins 36:25

You look skeptical.

Raoul Hughes 36:26

Well, I think it's democratization—the opportunity for people to invest in our space is great. The beauty of the carry and the incentive structure has been tied to cash on cash. I think it's pretty fundamental to the way we all operate, the way we invest, because we make the carried interest by not only buying the

business, making the business better, increasing its value, but then realizing that value and handing the money back. And I think moving to a model where incentive returns are paid on NAV and movements in NAV, the sort of hedge fund model—I think they might be great for the people in the industry, but I don't think it's great for investors. I think one of the beauties of our products is that you're not short-termism, as you might be in a listed business. You're not multi-generational in the way you might be in a family business. You're not just looking after job preservation, as you might be if you're running as chief executive of a subsidiary of a conglomerate. You've got businesses where the management teams and the private equity professionals are absolutely aligned to make real change in a three- to five-year period and then sell it. And that we get rewarded by delivering the full story of buying the business, making it better, and selling it. And moving to a different model, I think the incentive doesn't work as well.

Hugh MacArthur 37:54

Anything else on private wealth? The next topic is Ancient Greek.

Pete Stavros 38:00

Yeah, I think you guys covered it. The only thing I would add is if I'm a closed-end fund LP, I would be looking out for conflicts, making sure that my closed-end fund is not ever going to be in conflict with that evergreen vehicle. The way we've structured ours, it's a pure co-invest vehicle, so every deal we do in private equity, a small slice of it goes into the evergreen vehicle, so that evergreen vehicle gets into the same deals at the same time, at the same price, and then gets out together with the closed-end fund. And then I would also be asking questions about co-invest. A lot of LPs rely on that. If you raise this evergreen vehicle, what's that going to mean? So I'd be having honest conversations with my GP and make sure my expectations are clear on what I'm anticipating coming my way in terms of co-invest.

Hugh MacArthur 38:51

Okay. So let's continue to unpack this a little bit. I want to talk about alpha and beta. You thought I was kidding about Ancient Greek. Beta is a very strange concept in an actively managed asset class like private equity, because you're supposed to generate alpha if you're actively managing the portfolio. And yet, we're beginning to see traditional asset managers and other players come into the market, and their mantra or their business model is to sell an acceptable return at the lowest imaginable price. That's kind of what's gone on in the traditional asset management industry over time. Now, in private equity, you're selling a very high attractive net return for a price. Those are two fundamentally very different things, and if you're not going to be playing the game of beta or beta plus or whatever they're calling it nowadays, you need to be generating alpha to be worth your fees. And so the question I'd like to pose is: What is your specific model in your organization to generate alpha in private equity, and what are you doing to reinforce and invest in that to make sure it's sustainable into the future? And Martín, maybe I'll start with you.

Martín Escobari 40:02

So we think we generate alpha three ways. One is sourcing. We meet 7,000 companies to invest in 30 in growth equity. And this is becoming much more important in the age you go from zero to \$100 million in revenue in months, not years. The second one is sort of operational improvement with KKR and Blackstone, and you are very versed in impacting the portfolio. Updating that in two ways, infusing AI, and I think updating the talent playbook with two new thoughts that we've done some work on is talent, always important. In the age of AI and the age of disruption, three times more important. Talent density, incredibly important. It's not enough to have two great team members. If you have 80 percent or 90 percent of the C-levels at that higher level, you get three times the outcome. And what is that higher level? Is the type of leader for the age of AI different than the type of leader we had 10 years ago? And we think it is. I think the leader that today is needed is range intelligent, knows what the right questions is, and is courageous to implement change. And those are slightly different tweaks. And then finally is portfolio construction, and we think international global diversification has never been more important. Those are the three.

Hugh MacArthur 41:26

And Raoul, what do you think?

Raoul Hughes 41:28

Yeah. Similar. I think you need to have real authority in the space that you want to invest in, and be unashamedly focused on delivering within it. Our equity business is a mid-market European business. And within that, we've got—and your sourcing point—so we have 150 deal professionals wandering around Europe trying to find the best opportunities and the best funnel. And you need the widest possible funnel to see as many opportunities to get them down to the five or six or seven that you can transact each year. And I think that origination, that sourcing network—and in the case of our business, our skill set is having local nationals on the ground embedded in their own business. So you need to have really good sourcing. I think you then need to have the scale, the longevity, the dataset that we were talking about earlier to be able to do the best possible analysis and diligence of it, and then you need to have the resources to add value and manage it out, and be able to invest in the specialist skill sets you need. And then the final bit, I think you're right about your diversification. I think you also need to have absolute focus on the sectors that you want to play in and be really good at staying in the strike zone. I'm British, but I'm using an American expression there, you might have noticed. But the strike zone of knowing exactly what constitutes the right sort of deal for you and making sure that you don't allow yourself to fall away from it and do things that you don't have the authority to do.

Hugh MacArthur 43:08

And Pete, what about for KKR?

Pete Stavros 43:11

Well, first I'd say I'm thrilled to hear our industry finally talking about alpha and beta. It's about time we acknowledge that if a fund is in one sector, that is, of course, higher risk. If a fund's being invested in 18 to 24 months, you're taking on a lot of risk. If you've got eight positions in a fund, that's a higher beta fund. So I think this is a really important conversation that GPs and LPs need to be having. Just my two cents, I think the most sustainable way to create alpha is through operational change. I think it's awfully difficult to always be a little smarter than the market on overweighting the right industry at the right time or chasing an industry trend and finding an industry trend that's not already priced into the market and into the price of that asset. I think it's hard. Operational improvement, on the other hand, it takes an army to do it. It takes really experienced investors to do it. It's a ton of work. It takes years of hard work, and so I think it's defensible as an advantage for a firm, and I think it is the most true way in my mind. I think that's just why private equity exists, is to drive operational change. So that'd be my strong vote.

Hugh MacArthur 44:25

So given all of this, Meredith, the next question I need to get you to answer for me. We've had low DPI as an industry for quite a while. We've had, as we discussed, an awful lot of things that have happened in the interim as some of these assets are aging in portfolios. We have alpha, we have beta as a discussion. As an LP, how are you changing the way you evaluate GPs to understand who really has the capability to generate the kind of returns you want over the next five or 10 years? How are your processes and views of how to do that developing?

Meredith Jenkins 45:00

In fairness, it hasn't really changed. We've always been extremely fundamentally oriented and trying to understand, do the private equity firms who say that they're doing operational change, are they really doing it? So we'll spend a lot of time talking to the companies that they've worked with in the past, and who was your first call when you were going through something that was really challenging? Why did you partner with this firm instead of this firm? And so that has not changed. I think that what has changed is maybe perhaps some of the questions that we are asking in the current environment, and that's inevitable. How are they thinking about the broader world and the impact that geopolitics, that what's going on with interest rates or AI and technological change, how are they thinking about that when they look at their underlying companies? And to what extent do they have a coherent view of the risks that that brings and the opportunities it brings, and how are they supporting their companies to pursue all of that and to protect against the risks? We're very much that model in terms of—two points, actually. I don't think the

sustainability of financial engineering—that's not attractive to me. I think that's not sustainable, and it's hard to think that you can go all in on a bet. I think there are certain industries where we have managers who we think actually do bring real skill, experience, knowledge, networks in an industry. That's a handful. For the most part, managers will spend a lot of time trying to understand, okay, how do they pivot between this industry or that industry, and how are they able to cover a number of industries? And then the other—back to the alpha/beta—in my seat, I don't want private equity beta. It's not particularly attractive. So we need to feel confident that there's going to be an opportunity to produce alpha.

Hugh MacArthur 46:56

So hear the alpha story and then test the heck out of the fundamentals to see if you really believe it.

Meredith Jenkins 46:59

Yeah.

Hugh MacArthur 47:00

Let's talk about scale in private equity, because that's a really interesting topic. If we were talking about private credit, scale's a simpler conversation to have in many respects, certainly direct lending. But in private equity, scale is kind of an interesting issue because you all represent firms of very different scale positions. You write different checks, you have different sized checks, you have different strategies. Where does scale really matter in the private equity industry, and why are you well-positioned in what you do to compete at the scale that you're currently at? Martín, maybe we'll start with you.

Martín Escobari 47:33

Scale is important in sourcing. Scale is important in operational impact, which was just mentioned. Scale is important in distribution. GPs can't handle 20,000 LPs. No, the other way: LPs can't handle 20,000 GPs. The challenge, I think, is too much scale dilutes alpha. Scale too fast takes on unknown risk. Getting to critical scale, then managing that at a measured pace is the challenge of all of us to different degrees.

Hugh MacArthur 48:07

Joe.

Joe Baratta 48:09

I think you raise a good point. Scaling too fast is very dangerous, as we've seen across many sector-specific strategies. For us, we've operated as among the largest scale managers of private capital for a very long time, and of course, we believe that the signals that that gives us, the talent network that we're able to invest in, in our operating capabilities, in our senior advisor and CEO network, gives us sector insights, allows us to evolve our strategies. I mean, we've been doing this for 40 years, and we're doing something very different today than we were doing 10 years ago and 10 years before that. And I think scale and signals from what's going on in the economy and more globally allows us to do that successfully and to be—to generate alpha over long periods of time, not just in a short three-to-five-year window, in what seems to be working in that moment, the sector that's working. Also, it has, I believe, delivered us sustainable competitive advantage in where we've chosen to play in our flagship private equity business, which—and I've said this a few times—at the large end of the market, it is far less competitive to buy a \$15 or \$20 billion company than it is to buy a \$2 or \$3 billion company. It's almost definitional. Now, we can debate how do you take a \$15 billion company and really drive operating improvement and really extract multiple expansion. We have many examples of where we have done that. Our largest deals actually, over the last two or three funds, have performed the best. So I think the scale has given us a market position that itself has led to sustainable competitive advantage in our flagship buyout business.

Hugh MacArthur 50:06

Raoul, where do you sit with Bridgepoint?

Raoul Hughes 50:08

I think scale's really important. And I think it's really important, as is depth of resource and longevity. And I think the more you've been—our firms have all been doing this for a very long time. The institutional knowledge is really important. So I think it's a function of you need the scale, and you need the sort of history and the experience. By scale, I think you want to be the most scaled player within the space that you are investing. Joe's business is fantastic where it is. If you look at our business, we are within the theater that we're operating in, within the European upper mid-market private equity space, we are the scale player. Therefore, we've got more resources, we've got more people. Relative to the direct competition, we can invest more in our operating partners and our partnerships and everything else. And that puts us in a tremendous competitive advantage. So I think it's really important, but I think it's the having the category killer scale within the specific parts of the market that you operate that's the important bit, rather than the absolute quantity of scale.

Hugh MacArthur 51:25

Right. So the right scale—the right market definition.

Raoul Hughes 51:27

It's a relative scale. Right.

Hugh MacArthur 51:30

So let's talk about deal making for a bit because we were supposed to talk about rates, but I kind of put that on the back burner at the beginning of the hour. If you put an index together of the current cost of debt and what you can put on an asset and the average entry multiple across sectors, the sum of those two things are about as high as it's ever been in the industry's history. We've had higher cost of debt before, but lower multiples. But if you put together what the debt costs now, plus what I need to pay for that asset, it really sets the bar. It sets the bar very high to generate this alpha that we've been talking about. So I'd love each of the GPs to comment for me, given that environment—which suggests expensive, harder, need to do better—where are you most bullish in looking for investment opportunities right now in 2026? And maybe Martín, we'll start with you.

Martín Escobari 52:23

So listen, we don't really use leverage. 80 percent of our companies have almost zero or almost no debt. I think the case for global diversification has never been better, and we've gone from being 60 percent US five years ago to 60 percent non-US, and I'm very bullish on our global footprint.

Hugh MacArthur 52:42

Okay. So find the right geography. Joe?

Joe Baratta 52:49

The cost of debt isn't a real driver of returns in private equity over long periods of time. Entry multiples are. Gone are the days of 80 percent debt at low cost. I can't even remember a time in my 30 years where that really existed. That's not the issue. The issue is, as we talked about earlier, it's a very competitive industry. There are many thousands—I think, Pete, you said it—there are more GPs than McDonald's in America?

Pete Stavros 53:19

That's true.

Joe Baratta 53:21

Is that the estimate?

Hugh MacArthur 53:24

And the burgers are not as good.

Joe Baratta 53:26

So what do you do? What is finding your sustainable competitive advantage? And I think there has to be a catalyst for why you're buying something. Why is it being sold? Not just because a private equity firm decided we've had a good run, it's time for us to go. We want to buy things that there's been a dislocation for whatever reason, either in the sector or in the company itself, or it's a family-owned business that just can't get the company to the next level, or is a non-core corporate asset that a company needs to sell for whatever series of reasons, where we can buy a reasonable business at a reasonable price and bring to bear better management, some operating intervention to sort of bend the curve on margin structure, growth rate, or capital allocation or M&A policy. So it gets back to what private equity should be. There's a reason you're buying the company, and there's something you're going to do to it to significantly lower that basis multiple. It's an opportunistic business. It actually isn't just like we're going to spread it like margarine across every industry and buy whatever is best available at any moment in time across five sectors. That is not how you generate sustainable outperformance of public markets.

Hugh MacArthur 54:50

Pete, what do you think?

Pete Stavros 54:54

I think Joe covered it well in terms of where—our answers are always so boring. I'm trying to think of something interesting to say because it's always operational improvement. There's always got to be a reason why a business is worth more in KKR's hands. That's what we wrestle with for hours at investing committee, is what can we really do that someone hasn't done before? And the situations we're most proud of—about 80 percent of what we've done in the last handful of years have been carve-outs and take-privates. So we haven't done a lot of sponsor-to-sponsor trades, I think in part because that's where we find most of the operating improvement, is those are just really rich environments. But the ones we're most proud of are, we buy a business, it's been owned—and Meredith loves these deals—it's been owned by one private equity firm who bought it from another private equity firm who bought it from a private

equity firm, and then we come in and buy it, and our LPs are like, "What are you doing?" But we take the margins up 1,000 basis points. And to your point, those LPs say, "Well, what the heck were these other firms doing?" And we think we just are really good at this, and it's what we jump out of bed to do in the morning, is to try and make these businesses better. Geographically, I would say we continue to love the US. In Asia, we were very early into Japan. I'm sure everyone is well aware of the economic revival that's going on, how the government is encouraging the divestiture of non-core assets. The Tokyo Stock Exchange is pushing people to get rid of excess cash. There is a lot going on in Japan. We've got just a tremendous franchise there. And then in Europe, I would highlight Germany. There are thousands of mid-market companies in the *Mittelstand* where they're family-owned. There's not a successor in the business. They want growth capital. They want an operating partner who can really bring value, and we've had a lot of success there. So I'd highlight overall ops improvement opportunities, but in particular, there's a lot of interesting stuff in Japan and Germany.

Hugh MacArthur 56:46

Doesn't sound like barren hunting grounds. Raoul?

Raoul Hughes 56:50

Maybe a couple of—sort of—most looking at sectors. I think we have a US infrastructure business that's energy transition, and I think there's a real opportunity for energy transition services businesses that aren't the hard asset infrastructure stuff that fits in. And I think there's a real opportunity for private equity within that, particularly in the United States, because there's a huge amount of capital going into it. And then, I guess with the changing attitude of the American administration towards supporting Europe's defense, I think European defense is a really interesting area for us to think about investing in, in a way that it hasn't been that successful for our industry in the past. So those are two interesting areas that perhaps you wouldn't have thought about a few years ago.

Hugh MacArthur 57:40

So just a real-time synthesis of those reactions. I see that as glass half full. There are ideas being generated. People are feeling a little bit positive about putting even more money to work in 2026, and that there are attractive places. And maybe Meredith, I'll get you to react. Would you agree with that?

Meredith Jenkins 57:57

Yeah. No, I would agree with that. And this is not any of your remits, but we're relatively small. We have a slightly less than \$4 billion endowment that we're trying to invest, and private equity is a small piece of that. I also think there's a really interesting opportunity to do a lot of the operational stuff at the much lower size, middle market, lower to middle market, or pre-middle market, as some of my peers call it. These

companies that they've been run well enough, but to get to the next stage, they could be run a lot better. And then to the extent there's more capital coming into the market at the higher end of the market, there's an opportunity to sell and have these businesses that still have a lot of juice in them but have also made a lot of progress.

Hugh MacArthur 58:47

And I'm going to let that be the last word. Please join me in thanking our wonderful, energetic panel today. Thank you very much for your time and your insight.

Announcer 59:00

We hope you enjoyed the discussion. Be sure to utilize the mobile app to stay up to date on the latest programming changes. As you exit the room, please remember to bring your belongings with you.

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