

THE INSIGHT: STATE OF THE EUROPEAN PRIVATE EQUITY INDUSTRY

Cautious optimism in the
face of unpredictability
6th edition



IN PARTNERSHIP WITH:

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EUROPE

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ARTHUR D. LITTLE

JONAS FAGERLUND

Partner, Stockholm

GUILLAUME PICQ

Partner, France

INVEST EUROPE

JULIEN KRANTZ

Research Director

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INTRODUCTION

Sentiment and activity can sometimes tell contrasting stories, particularly in unpredictable times. This time last year, optimism was returning to the industry as inflation receded, and central banks implemented the first interest-rate cuts since the pandemic. The potential of a Trump administration in the US was expected to be a tailwind for renewed private equity (PE) activity globally.

As the first-half data from Invest Europe shows, the reality was quite different. The threat and subsequent implementation of sweeping tariffs created trade uncertainty that weighed on PE and venture capital (VC) investment — putting transactions on hold from one day to the next. Limited partners' (LPs) fundraising commitments, the essential piece of the virtuous cycle of private capital, also came under pressure.

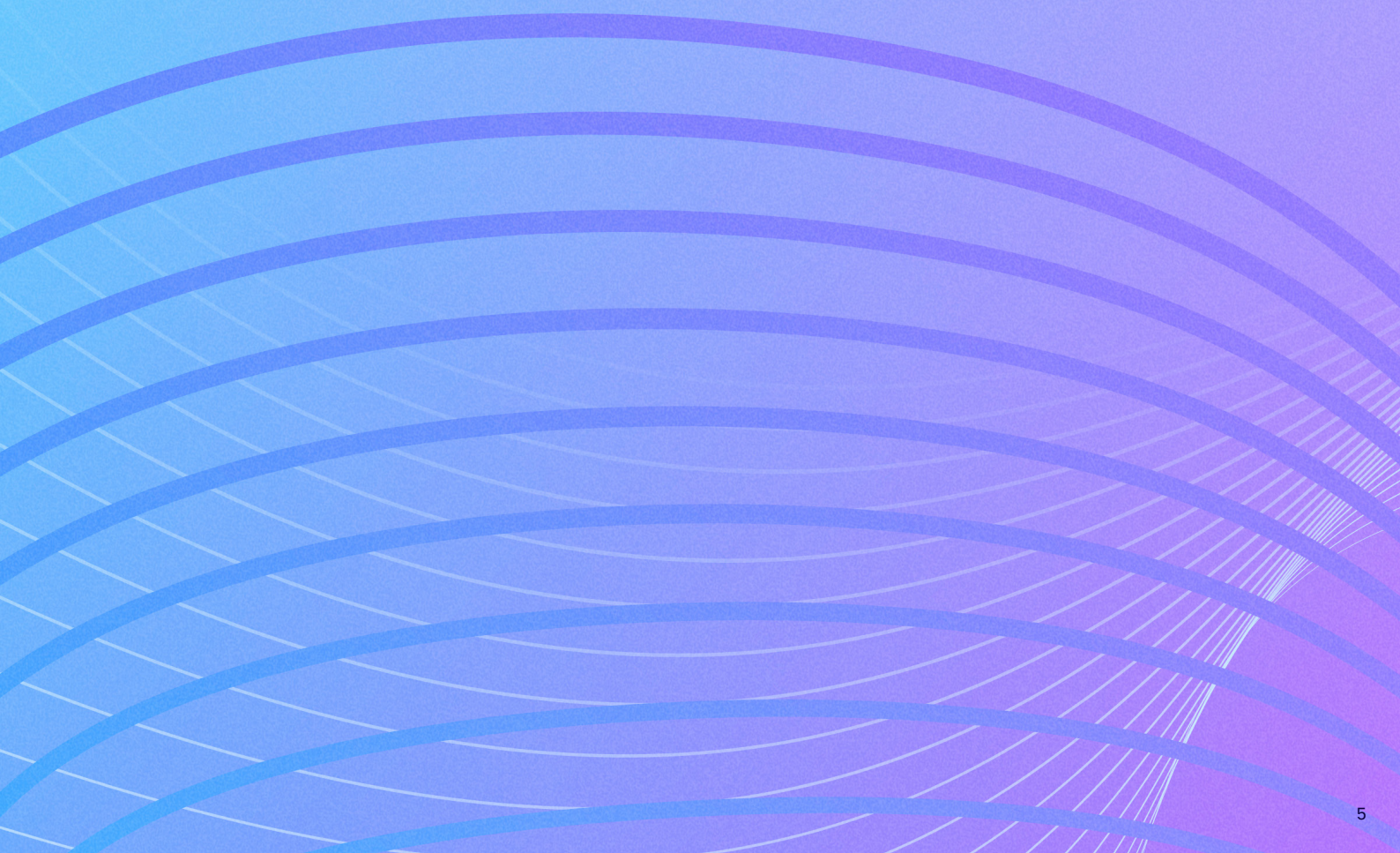
Yet even before the end of the first half, broader sentiment had improved. PE and VC managers had begun refilling potential exit pipelines and seeking new investment opportunities. That activity has not yet showed up in the hard data, but it has filtered into sentiment, leading to rising optimism once more as we look toward 2026. However, that optimism is tinged with a little more caution. General partners (GPs) and LPs acknowledge that things can change quickly, and unpredictability can have immediate consequences for PE and VC markets.

The opportunities that GPs and LPs see today are also different, in part a reaction to shifts in the geopolitical environment. Managers and investors expect European fundraisings to benefit from increased uncertainty around US policy under the current US administration. As a result, a sizeable proportion of LPs have less appetite for US funds, as well as those from Asia-Pacific.

Investment opportunities are changing, as are the views that underpin them. Defense has emerged as the top sector for expected increases in investment activity, with appetite having grown steadily and significantly over recent years. LP willingness to back defense technology with purely military purposes outstrips that of GPs, indicating how not only opinions have changed, but also institutions' stances on what they view as permissible investment.

Some industry changes are a byproduct of the macro conditions, again brought about partly by broader uncertainty and volatility. Continuation funds have taken off as a viable exit route for GPs and a viable path to liquidity for LPs. Arguably, they are a more favored option for GPs, with most LPs still preferring an exit via a more traditional route. How widely continuation funds will be used in the future is open for debate, but they are likely to continue to play a useful role in even a recovered exit market.

As the proverb goes: "Necessity is the mother of invention." What we have seen in the exit market is a reaction to sometimes extreme and unpredictable conditions. It also highlights the adaptability that characterizes the PE and VC industry. There is an agility to pivot toward new opportunities while looking through short-term volatility at the truly secular shifts. That will enable European PE and VC to manage whatever surprises may still be in store as they explore evolving long-term paths for growth.



1. FUNDRAISING WEAKNESS PERSISTS, BUT GPs & LPs EXPECT IMPROVEMENT

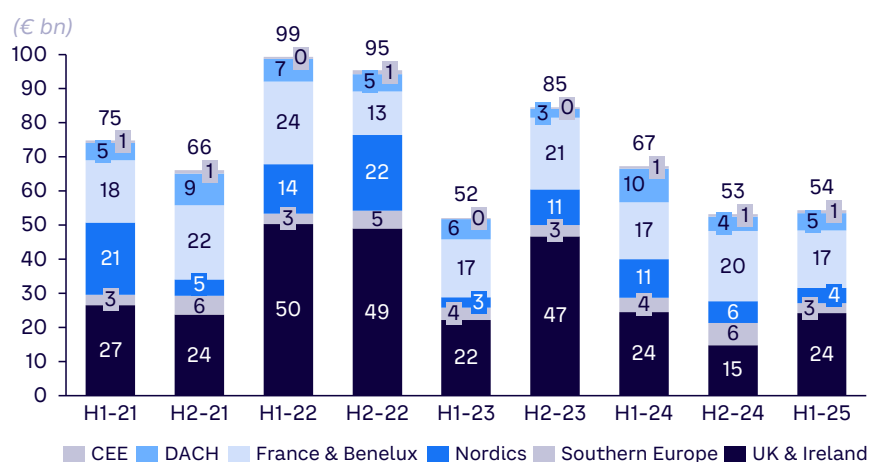
The European fundraising environment remains challenging. Capital raised was €54 billion in the first half of 2025, in line with the prior six months but about 20% down from the same period last year (see Figure 1).

Fundraising is cyclical and, particularly when looking region by region, can show sharp variations from one half to the next depending on the timing of large funds. In that context, UK and Ireland fundraising jumped by 60% compared to the prior half year and accounted for around 45% of total capital raising. However, most other regions witnessed a contraction in fundraising versus the previous six months, as well as the first half of 2024. Indeed, most are tracking at or near their lowest levels of this decade. This is very much in keeping with analysis and anecdotal evidence that indicates funds, including those from the most sought-after managers, are taking longer to raise capital and reach final close, while others are reining in fundraising targets or even delaying capital raisings.

The democratization of private equity is a theme that continues to develop. As in previous years, a large and relatively consistent number of GPs surveyed are interested in marketing funds to (ultra) high-net-worth individuals (see Figure 2). This segment is already being tapped by firms that see it as easier to market to a small number of very wealthy investors, potentially through existing fund structures. In 2024, approximately €10 billion (8% of total fundraising) came from private individuals.

More than half of GPs are interested in targeting “mass-affluent” clients with assets of US \$100,000-\$500,000, a modest increase on prior years. The number interested in smaller retail clients is also rising, reaching more than one in five in 2025. Perhaps just as telling, the number of GPs who claim no interest in retail has more than halved from 22% in 2022 to just 10% in 2025. The relaunch of the ELTIF (European Long-Term Investment Funds) framework and other regulatory products such as UK LTAFs (Long-Term Asset Funds), combined with policy drives to encourage greater investment in private markets, is potentially changing the backdrop for democratization.

Figure 1. Funds raised by European PE and VC funds



Source: Arthur D. Little, Invest Europe

"There is a large untapped potential in raising funds from high-net-worth individuals, but also from retail clients that hitherto have had limited access to investing in private equity."

Louis Godron, Managing Partner, Argos Fund

For all fund types, most LPs intend to maintain or increase their exposure. However, there are increased levels of interest for secondaries funds and continuation funds, with about a third of LPs planning to increase their exposure to such vehicles over the next 12 months (see Figure 3). By way of comparison, in last year's survey, 21% of LPs planned to increase exposure to secondaries funds. It seems that while investors may have mixed feelings about continuation funds and the weak exit environment, many still see opportunities to adjust or increase exposure to private companies via means other than primary investments.

Indeed, the proportion of LPs intending to increase allocations to growth, buyouts, or VCs is between 17% and 19%, roughly half the level targeting secondaries or continuation funds.

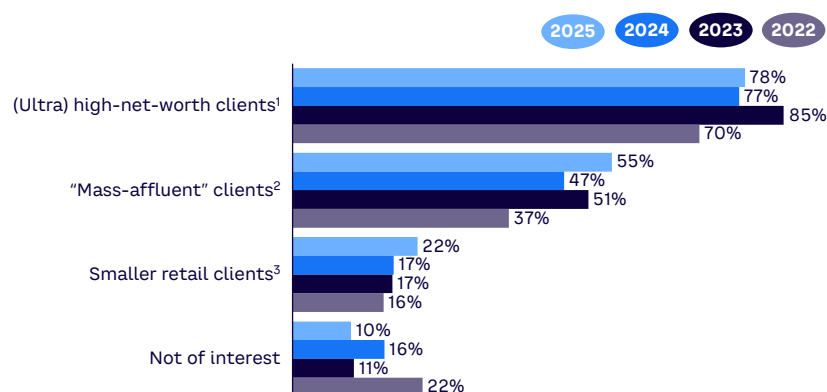
"Secondaries will be an interesting opportunity for us, as some funds will be forced to divest earlier than preferred from a return perspective."

Linford Coates, Associate General Counsel, Europe Private Equity, Bain Capital

"The exit market remains tight, and with LPs needing cash returns to continue funding their programs, interest in secondary solutions is high. Portfolio secondaries and continuation vehicles are now key parts of the cash-back spectrum — well established in PE and gaining ground in VC — and I think will stay in focus over the next year."

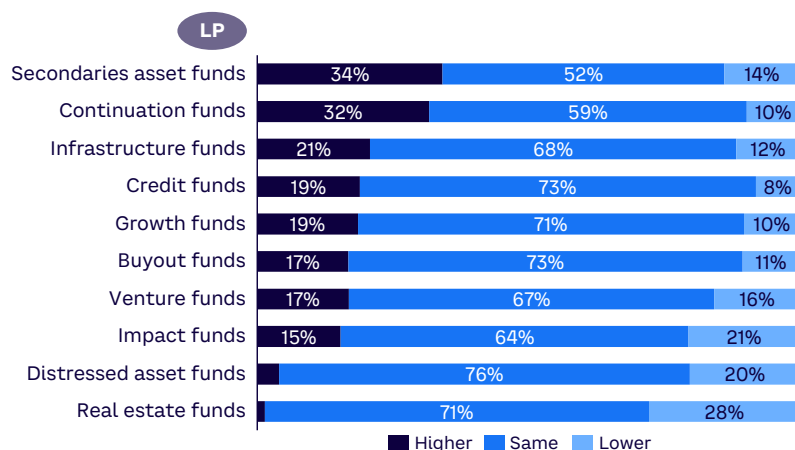
Elias Korosis, Chair, Invest Europe; Global Partner, Federated Hermes Private Equity

Figure 2. Interest level to market future funds, irrespective of regulatory barriers



Note: (1) Investors with typically more than €500K wealth; (2) investors with wealth ranging from €100K-€500K; (3) investors with wealth below €100K
Source: Arthur D. Little, Invest Europe

Figure 3. Expected changes in investment strategy allocations (next 12 months vs. last 12 months)



Source: Arthur D. Little, Invest Europe

There has been a significant shift in many of the factors that GPs see differentiating them from the crowd in the competitive fundraising landscape (see Figure 4). It is notable that past performance was and remains a persistently important factor. However, investment strategy has regained relevance, with almost four out of five GPs believing it will be the most important differentiating factor over the next few years. Usage of AI is now cited by almost half of GPs as some embrace the technology wholeheartedly and others continue to lag.

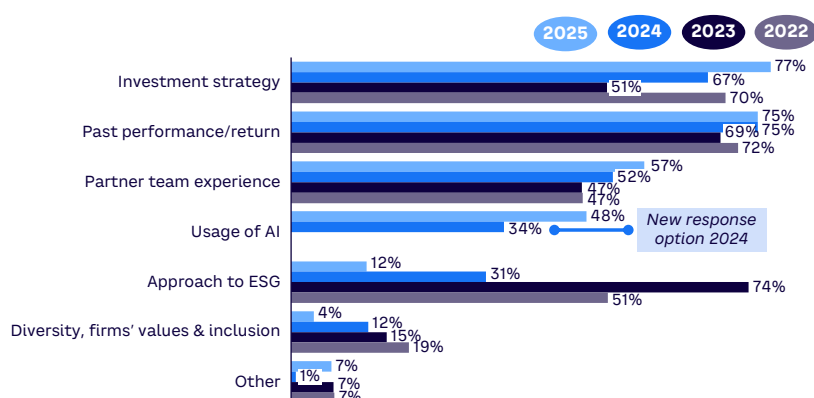
In contrast, approaches to ESG and DEI are rapidly losing importance. This does not necessarily mean these measures are no longer important to GPs and LPs, but rather that adoption has become the norm and therefore no longer a differentiating factor.

"AI is not a hype anymore. It is a crucial part for differentiation in daily operations."

Michel Galeazzi, Co-founder & Partner, Evoco

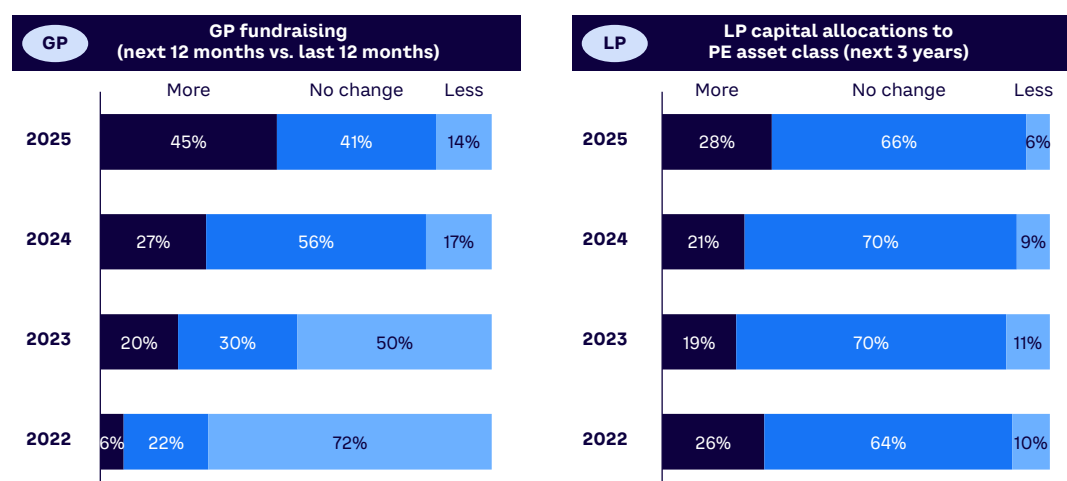
There is a disconnect between GPs and LPs on the pace of fundraising in the future, with fund managers more optimistic (see Figure 5). Nearly half of GPs expect higher allocations to the asset class over the next three years, higher than the number who see no change. In contrast, two-thirds of LPs expect no change in investor allocations, and 28% expect an increase in fundraising levels — a moderate increase on last year's expectations. At the margin, a small proportion of GPs remain pessimistic about allocations, yet more than the number of LPs who foresee lower commitments.

Figure 4. Most important factors for PE firm differentiation within market in next two to three years

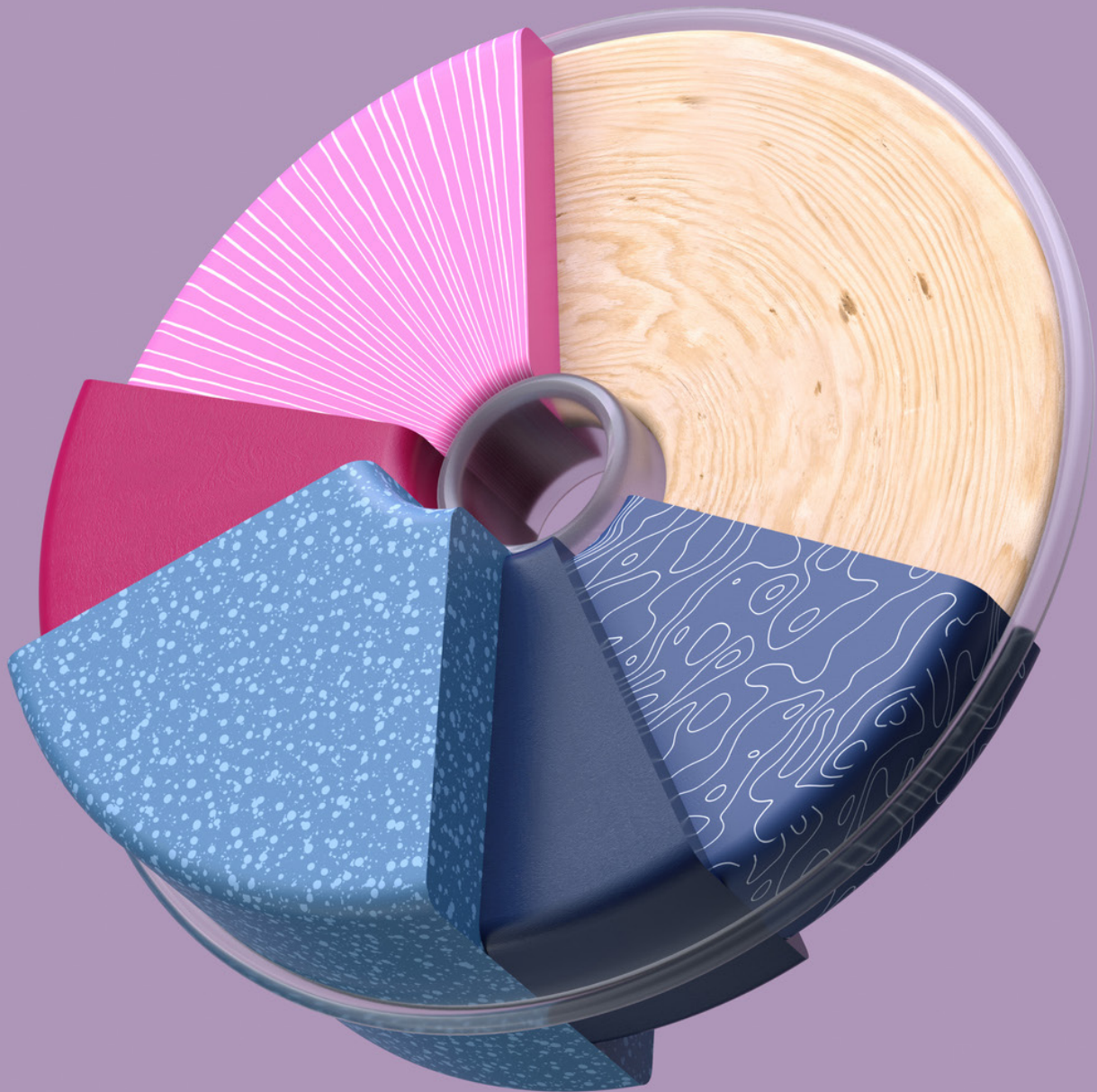


Source: Arthur D. Little, Invest Europe

Figure 5. GPs' and LPs' expectations on forward-looking fundraising over time



Source: Arthur D. Little, Invest Europe



2. EUROPE IN THE SPOTLIGHT: EUROPE FUNDRAISING SEEN BENEFITTING FROM US POLICY

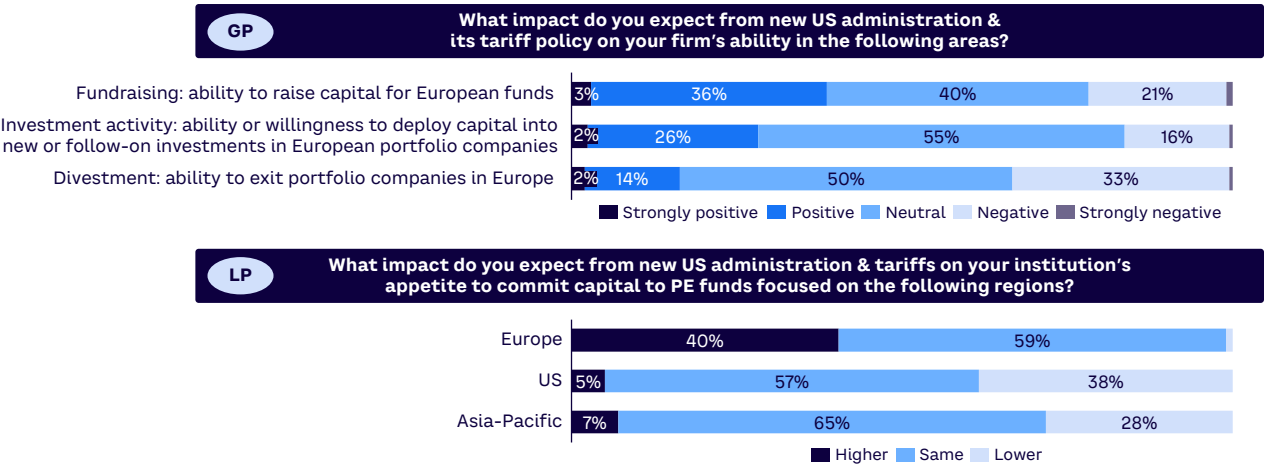
- 40% of LPs see more appetite for European funds
- 39% of GPs positive on ability to raise European funds

Tariffs were anticipated when the new Trump administration took control in January. However, their scope and breadth took investors aback when they were announced in early April. The MSCI ACWI global equities benchmark lost more than 10% in three punishing sessions. Markets have since recovered as trade deals have been struck, but investors are cautious and have been shifting capital from the US into Europe and international markets as they seek greater diversification.

In the challenging fundraising conditions we have already noted, PE and VC movements are unclear. However, the intention is strong, and both GPs and LPs see positive impact for European funds from the unpredictability of the Trump administration and its tariff policy (see Figure 6).

GPs and LPs are in sync on capital-raising benefits, with some 40% of managers seeing positive impact for raising European funds and the same proportion of LPs expecting to commit more capital to European funds. LPs are more negative on the impact on other regions. Almost four in 10 expect their institutions to commit less capital to the US, while almost three in 10 expect to commit less to Asia-Pacific, where countries including India and China have borne the brunt of US tariffs.

Figure 6. LPs and GPs see positive impact of new US administration/tariff policy on fundraising for European funds



Source: Arthur D. Little, Invest Europe

When it comes to expectations among GPs about making or exiting investments in Europe, at least half see no change in their ability to do deals. More than a quarter are positive on the ability or willingness to invest in Europe, potentially driven by a more predictable environment and valuations that on the whole trail those in the US. However, a third of GPs are negative on the ability to exit companies in Europe because of the Trump administration and its tariff policy. The impact on sales and earnings for European businesses is still to be fully seen, and the valuation headwinds that benefit new investment are expected to weigh on divestments.



A THIRD OF GPs ARE NEGATIVE ON THE ABILITY TO EXIT COMPANIES IN EUROPE

"Amid global uncertainties, Europe's relative attractiveness as an investment destination has strengthened, supported by its stability and long-term market fundamentals."

Manuel Hertweck,
Chairman of the Supervisory Board, Capiton

3. FEWER BUYOUTS LEAD TO INVESTMENT DECLINES, ACTIVITY PIVOTS TO NEW THEMES

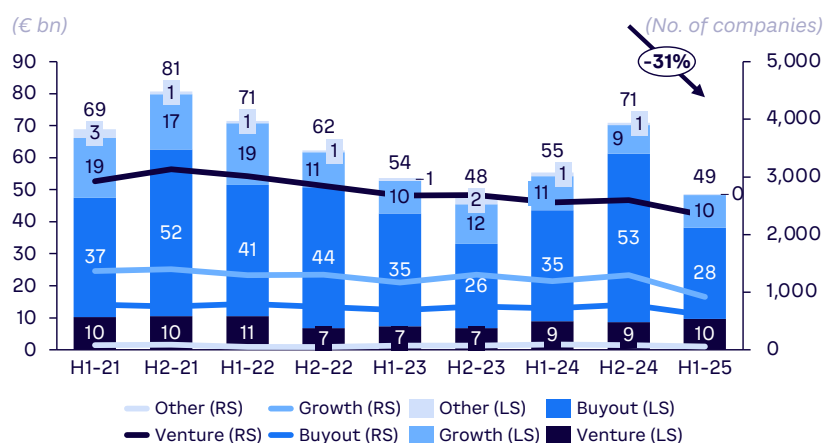
PE investment in Europe lost 31% in value in the first half of 2025 versus the prior six months and was 11% lower than the same period last year (see Figure 7). A sharp decline in buyout investment was the main driver of the fall, indicating the uncertainty around tariffs and the potential impact of economic slowdown on large companies in well-established industries. Growth investment and VC, in particular, were more resilient in terms of equity invested, reflecting focus on themes such as deep tech and AI, which are seen as high-growth plays regardless of the geopolitical and macro backdrop.

By number of investments, all industry segments witnessed declines in the first half, although growth and VC posted some of the sharpest falls. The inference is that there were fewer but larger investments in growth, and VC as managers concentrated on larger and more mature companies as well as later-stage companies. This resonates both with startups choosing to stay private for longer and soaring valuations in industries like AI, where European businesses are reaching unicorn status within months as opposed to years.

Although the volume and value of investments in Europe have declined, PE and VC GPs remain well-placed to capitalize on opportunities. Capital under management grew by 7% to almost €1.25 billion at the end of 2024, while dry powder remained unchanged at €414 billion (see Figure 8). In other words, dry powder represents 33% of total capital under management, demonstrating an ongoing balance between capital raising and investment levels.

The UK is the biggest market for capital under management, accounting for more than half the total, but also has the lowest proportion of dry powder at 30%. The highest levels of dry powder relative to capital under management are in the Nordics, DACH, and Southern Europe, indicating the presence of larger funds than in the past, and — particularly in the case of DACH and Southern Europe — belief in greater investment opportunity, combined with more mature domestic PE and VC industries.

Figure 7. Investments by type in value and volume

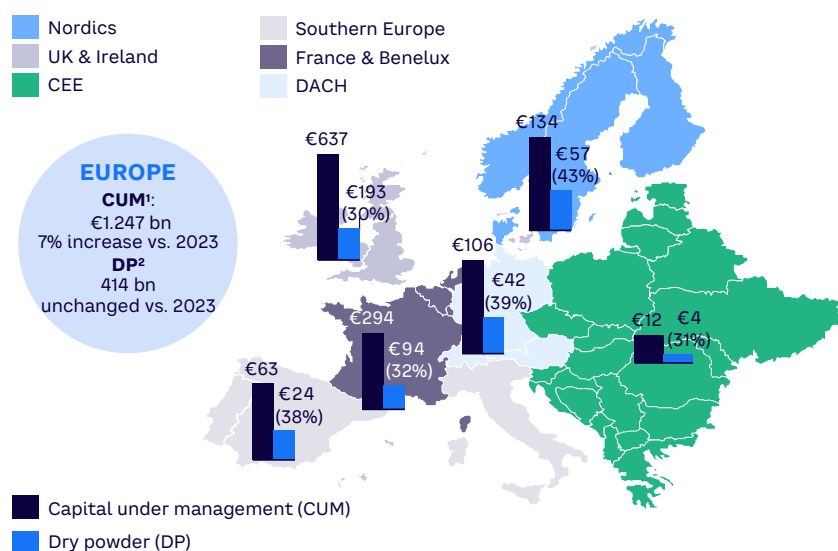


Note: LS = left scale; RS = right scale
Source: Arthur D. Little, Invest Europe

The PE market is expected to see more investment on balance as GPs anticipate that most transaction opportunity areas will see the same level of activity or more over the next 12 months (see Figure 9). The vast majority of increased opportunity is seen via secondary buyouts, as over two-thirds of respondents anticipate more investment. The expectation correlates with increased demand for exits leading to more buyouts by other PE firms, as well as rollovers into new structures sponsored by existing GPs (and potentially new GPs also).

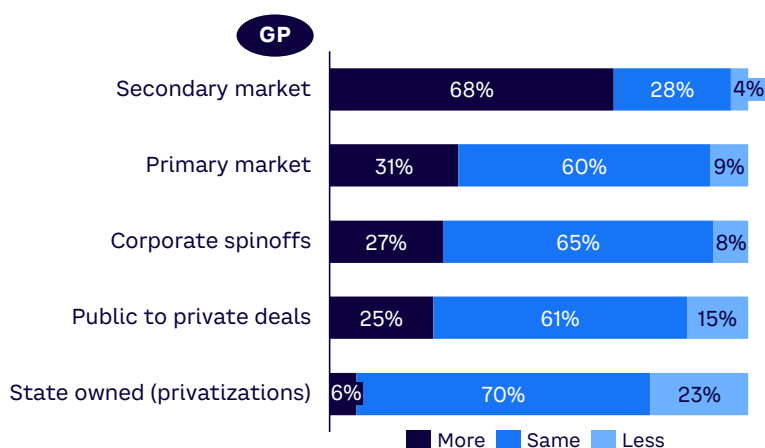
ALTHOUGH THE VOLUME AND VALUE OF INVESTMENTS IN EUROPE HAVE DECLINED, PE AND VC GPs REMAIN WELL-PLACED TO CAPITALIZE ON OPPORTUNITIES

Figure 8. Capital under management and dry powder in Europe, end of 2024



Note: (1) CUM is defined as total amount of funds managed by fund managers valued at cost (as opposed to asset under management [AUM], which refers to total market value of all financial assets managed by PE firm); (2) dry powder is defined as the amount of funds (valued at cost) not yet invested and available for future investments
 Source: Arthur D. Little, Invest Europe

Figure 9. Expected changes in PE transaction market (next 12 months vs. last 12 months)

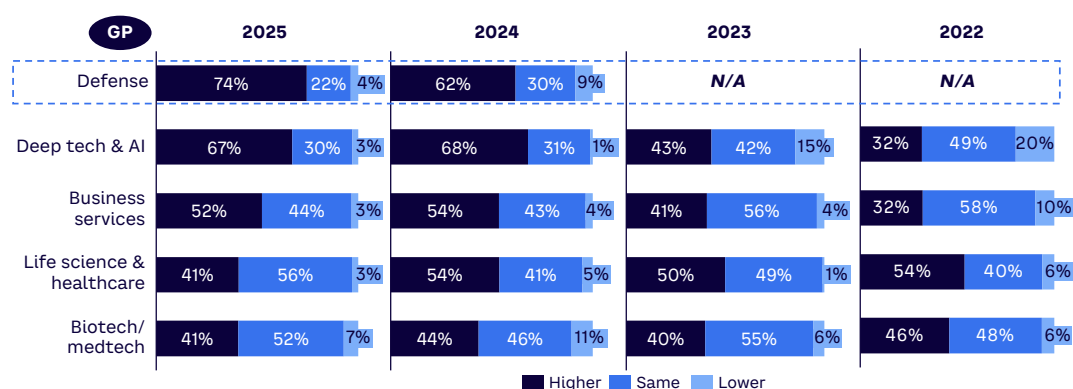


Source: Arthur D. Little, Invest Europe

In just two years, defense has become the leading industry in terms of GPs' attention and expected investment growth, reflecting the ongoing geopolitical uncertainty and policy/spending shifts that are expected to favor the sector (see Figure 10). Deep tech and AI remain firmly in focus, with about two-thirds of GPs expecting more investment in this field. Investment interest in biotech and healthcare remains highly positive but has softened somewhat from prior years as other themes have become relatively more important.

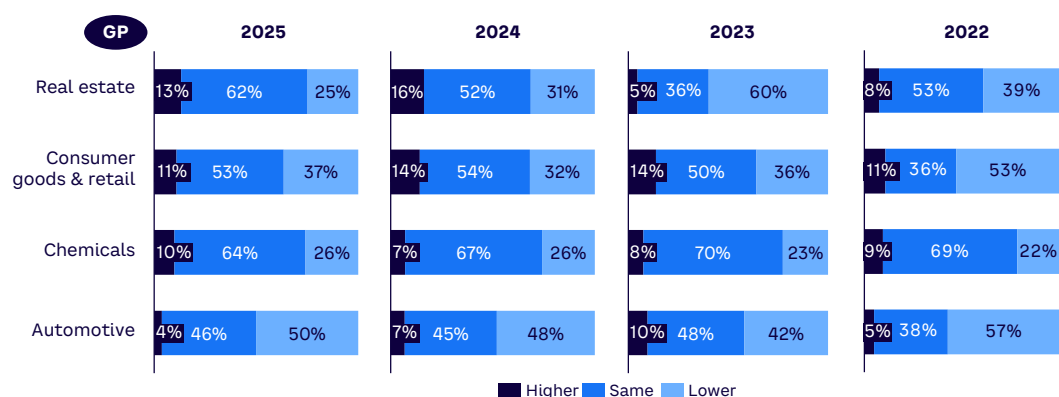
At the other end of the spectrum, legacy and capital-intensive industries remain less in demand. Automotive and chemicals, as well as consumer goods and retail, have seen consistently low levels of interest (see Figure 11). Real estate remains, on balance, an industry in which an important minority of GPs see less investment activity. However, sentiment has shifted from the low levels of focus seen in 2022 and 2023, with rising numbers of respondents targeting more activity in this cyclical space.

Figure 10. Expected investment activity levels in 2025 top five sectors compared to last 12 months



Source: Arthur D. Little, Invest Europe

Figure 11. Expected investment activity in 2025 bottom four sectors compared to last 12 months



Source: Arthur D. Little, Invest Europe



4. DEFENSE: EUROPEAN PRIORITY & PE OPPORTUNITY

- 74% of GPs expect greater spending on defense over the next 12 months
- 49% of GPs more willing to invest in dual-use defense technology
- 30% of GPs more willing to invest in military-only defense

Sentiment toward the defense industry has shifted significantly among both GPs and LPs in Europe, driven in no small part by geopolitical tensions and geostrategic maneuvers. Defense has been rising up the agenda in Europe since the outbreak of the conflict in Ukraine. Moreover, the arrival of the US Trump administration has acted as a catalyst for greater action in Europe. There are firm commitments from (most) NATO nations to lift their domestic spending on defense and associated technology to 5% of GDP, and the EU's Readiness 2030 program aims to mobilize up to €800 billion for the sector.

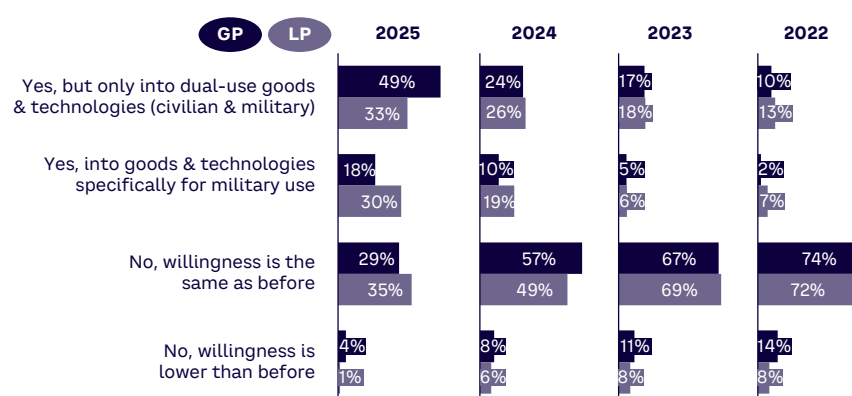
Almost half of GPs are willing to consider investments in dual-use military and civilian good and technologies, double the level of last year and roughly five times the 2022 response (see Figure 12).

The proportion of GPs and LPs willing to back investments for military-only use also continues to increase. It is notable that investor appetite is greater and has grown more than GP appetite, potentially indicating the recalibration of ESG standards among LPs as they increasingly look to defense industries to protect European people and values. Almost a third of LPs are willing to invest in military-only technologies, more than four times the 2022 response. At the same time, the number of GPs and LPs expressing the same willingness as before, or indeed no interest in defense-related investments, continues to shrink.

"Over the last year or so, we have increased our knowledge and capabilities in the defense sector; we have also identified several opportunities that we are now tracking."

Daniel Wagener, Partner, Head of Private Equity Investor Relations, Bridgepoint

Figure 12. Change in willingness to consider investments in military- or defense-related sectors



Source: Arthur D. Little, Invest Europe

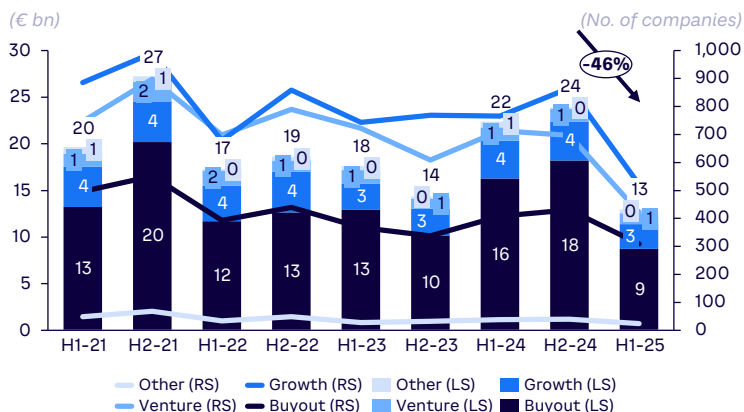


5. DIVESTMENT ACTIVITY WEAKENS, CONTINUATION FUNDS BECOME A SIGNIFICANT EXIT ROUTE

Divestments weakened in the first half of 2025 as geopolitical and macro concerns weighed on company outlooks, and by extension valuations to which activity is closely correlated. The total of €13 billion (at original investment cost) was 46% lower in value terms than the preceding six-month period, and the number of divestments fell by 37% (see Figure 13). As with investments, the decline in exit value stemmed primarily from fewer and smaller buyout divestments, while the number of exits declined across all segments.

Although 2024 did deliver an increase in divestments relative to the previous supply chain-constrained and inflationary years, activity is yet to recover to levels seen in 2021 and continues to be hindered by volatility, stubborn inflation in some markets, and high interest rates. The return of broader market confidence following the tariff-related shocks of earlier this year, combined with a degree of clarity around the outlook, should create conditions that would support more exit activity.

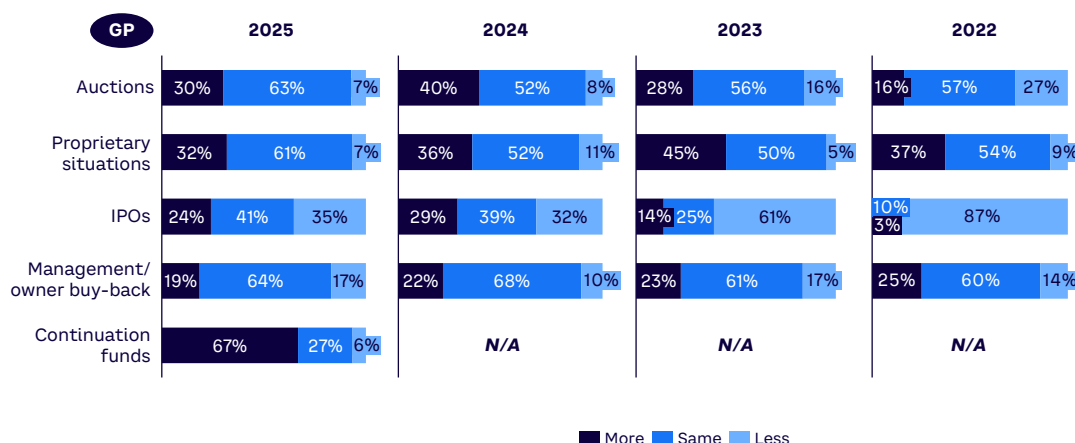
Figure 13. Divestments by type in value (at cost) and volume



Note: LS = Left scale; RS = Right scale
Source: Arthur D. Little, Invest Europe

There remains a degree of caution around GPs exit expectations (see Figure 14). Against the relatively low levels of divestments of the past 12 months, the majority of managers expect a similar level of activity via auctions and proprietary situations in the coming 12 months. Almost a third anticipate more such divestments, driven by ongoing investor demand for distributions. On the back of a small number of relatively successful listings, about two-thirds of GPs foresee the same or more IPO activity, in line with last year.

Figure 14. Expected changes of exit route for companies under ownership (next 12 months vs. last 12 months)



Source: Arthur D. Little, Invest Europe

BOTH GPs AND LPs EXPECT MORE DIVESTMENTS IN THE COMING 12 MONTHS

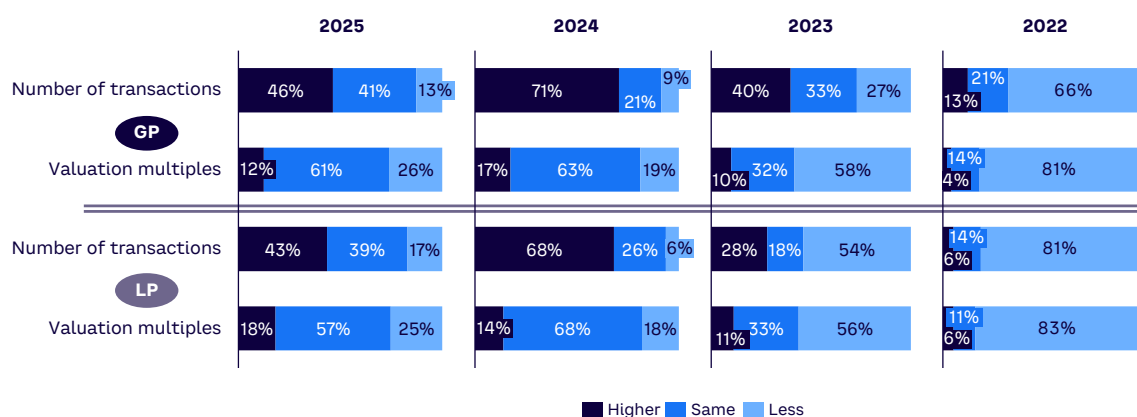
The most active potential exit route, however, is likely to be via continuation funds, with more than two-thirds of respondents expecting more such divestments. Such vehicles have been around for a long time, but they have seen a significant increase in adoption in the last year and are viewed as a viable and acceptable exit route for performing companies.

Both GPs and LPs expect more divestments in the coming 12 months (see Figure 15). However, levels of optimism have been reined in since last year, reflecting a higher degree of unpredictability around tariffs and US policy measures. The majority of managers and investors expect valuations to remain in line with the levels of the past year, and only a minority see an improvement. The longer-term trend indicates that negative valuation sentiment has declined from the levels seen in 2022. This may mean that managers and investors see current asset values for most companies in their portfolios below the levels seen during the optimism of 2021.

"Compared to last year, sentiment around divestment is less optimistic."

**Valentina Franceschini, Senior Partner,
Wise Equity SGR**

Figure 15. Evolution of PE transaction market by activity (next 12 months vs. last 12 months)



Source: Arthur D. Little, Invest Europe

6. CONTINUATION FUNDS: A NEW ROUTE TO LIQUIDITY

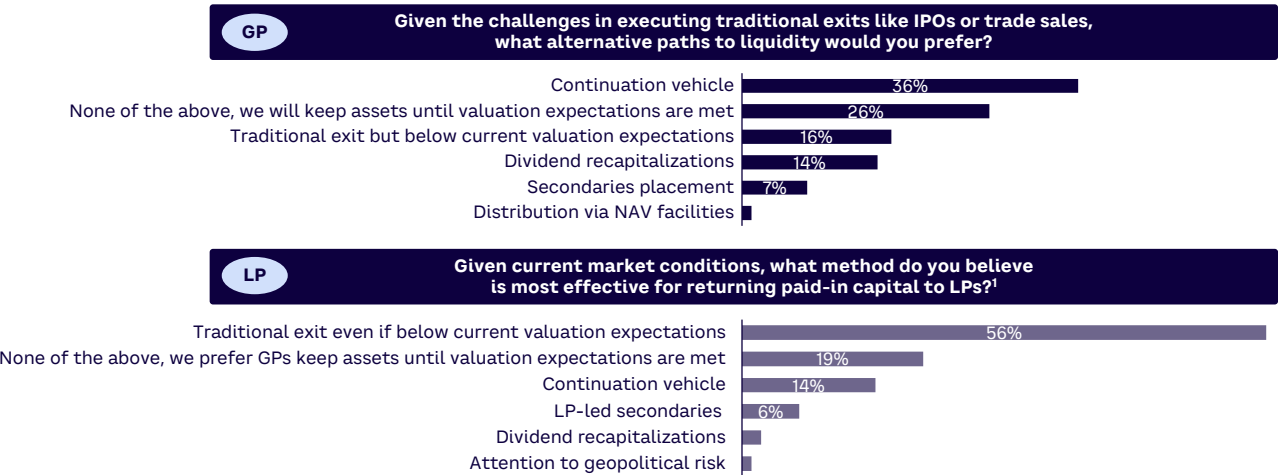
- 67% of GPs see greater levels of continuation fund activity in next 12 months
- 32% of LPs expect to allocate more to continuation funds in next 12 months
- 36% of GPs vs. 14% of LPs view continuation funds as leading non-traditional liquidity option

Among the sea changes sweeping through private markets, the emergence of continuation funds is one of the most significant. Just like the wider secondaries segment — of which continuation funds or vehicles are a part — there has been a marked shift in their purpose. From being a tool primarily to manage more challenging companies that need more work away from the main fund, continuation funds

are increasingly being used as a tool to continue to hold performing companies for longer and to see greater recovery in valuations, or to drive another phase of growth. As such, they can provide a more efficient alternative to the traditional fund-to-fund transactions.

The mismatch in buyer and seller expectations is a driver of continuation-fund activity, as GPs find themselves nearing the end of fund lifecycles, but with asset values below where they had projected. Although 32% of LPs (as noted earlier in this report) expect to allocate more to continuation funds in the coming year (making it the second-largest growth strategy after secondaries), there is still a divergence between LPs and GPs priorities when it comes to divesting assets (see Figure 16). Given the ongoing challenges around traditional exits, more than a third of GPs favor continuation funds over the alternatives, most notably selling below valuation expectations.

Figure 16. GPs prefer continuation vehicles as alternative liquidity paths, while LPs prefer traditional exits



Note: (1) No LP respondents saw LP-led portfolio solutions (i.e., leverage own portfolio) or distribution via net asset value (NAV) facilities led by GPs to be effective methods
Source: Arthur D. Little, Invest Europe

A MINORITY OF BOTH LPs AND GPs BELIEVE THAT HOLDING ASSETS FOR A RECOVERY IN VALUATIONS IS A VIABLE STRATEGY

The inverse is true — and even more marked — among investors. Well over half of LPs would prefer a traditional exit, even if it were achieved below valuation expectations, and only 14% favor continuation funds. The vast majority of investors do not believe that selling LP stakes on the secondary market is an effective way of recovering paid-in capital, and even fewer favor dividend recapitalizations.

However, it is notable that a minority of both LPs and GPs believe that holding assets for a recovery in valuations is a viable strategy.

A more active exit environment at higher valuations may limit — although not eliminate — the need for continuation funds in the future. A large enough proportion of LPs and GPs see these vehicles as a useful part of their strategies to ensure they should continue to have a place in the PE and VC market.

“While traditional exits remain our focus, the market trend shows that continuation funds will be more common. This is a result of there being too large a gap between sellers’ and buyers’ price expectations, as well as the push from some LPs to get their investment funds back.”

**Dariusz Pietrzak, Partner,
Enterprise Investors**

7. AI CLIMBS THE PRIORITY LIST, GEOPOLITICAL & TRADE CONCERNS EMERGE

The opportunities and risks presented by AI have become the dominant factor for GP work practices in just a couple of years. Almost all GPs intend to focus more on AI in the near term, illustrating that GPs see potentially transformative benefits of the technology on their operations and do not want to be left behind their peers (see Figure 17). More than four-fifths of managers also intend to focus more on geopolitical risk, acknowledging the unpredictable political climate and how that is impacting not only trade, but also wider policies that impact businesses.

The majority envisage no change to their focuses on ESG and DEI, but far fewer GPs are putting more emphasis on these areas. Best practices are already entrenched after many years of attention, and these areas are seen as less of a differentiator (and, frankly, less of a priority in the face of fast-moving technology and volatile global relations).

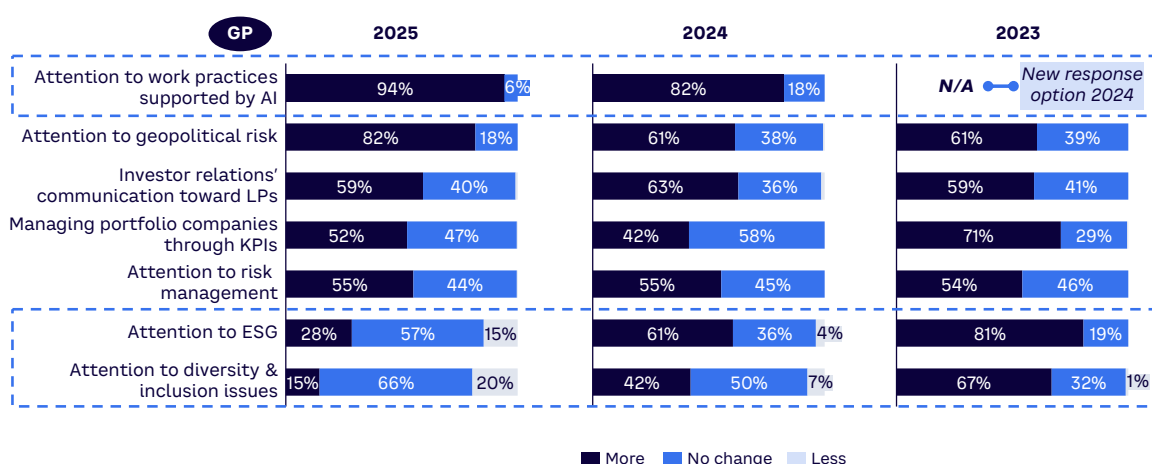
ALMOST ALL GPs INTEND TO FOCUS MORE ON AI IN THE NEAR TERM

"We are normally quick to react. Today, we spend a lot of time making sure that we benefit as much as possible from AI in all our operations."

Frank Becker, Managing Partner, INVISON AG

LP focuses diverge slightly from those of GPs (see Figure 18). Attention to geopolitical risk is the clearest priority, cited by seven out of 10 respondents, while attention to AI is marginally less important. This is a clear reflection of the underlying priority of LPs to protect their capital. Although AI is potentially a value-creation lever, the impetus is on GPs to adopt the technology for their own long-term survival and growth, rather than on LPs.

Figure 17. Expected changes in near future, GP daily operations



Source: Arthur D. Little, Invest Europe

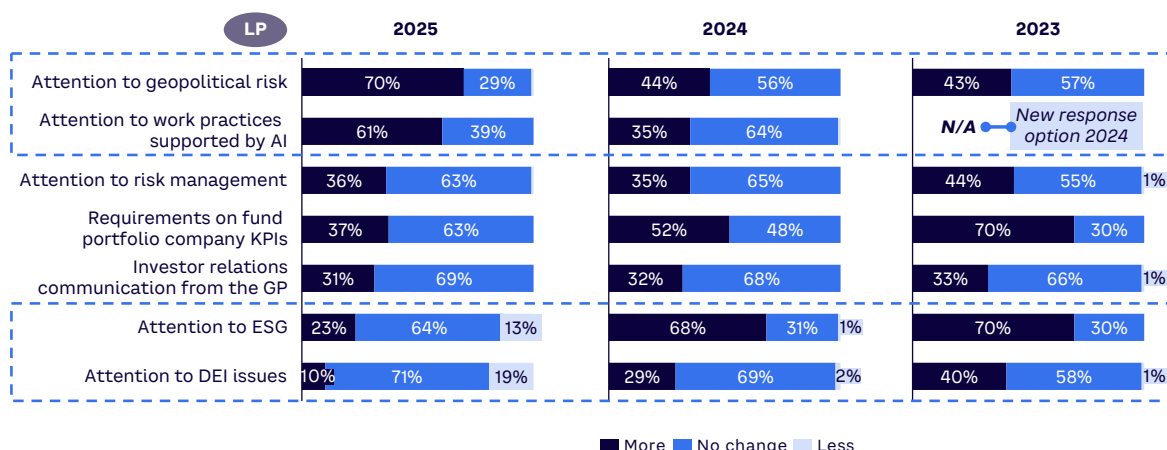
ESG ASSESSMENT HAS GONE FROM BEING A FOCUS FOR THE LARGEST MAJORITY IN 2023 TO A MORE MINOR CONSIDERATION IN 2025

Views on ESG and DEI echo those of GPs, moving to the bottom of LP priorities. A small minority even see less focus on such areas in the future — perhaps reflecting the impact of the US regulatory rollback and skepticism toward ESG in investment decisions and processes.

AI also dominates GP due diligence practices as firms seek to understand AI's impact on target companies and the technology's potential for both value destruction and value creation (see Figure 19). Cybersecurity assessments remain as firm a priority as prior years, while assessment of tariffs and other trade barriers has become a new focus area for almost two-thirds of GPs.

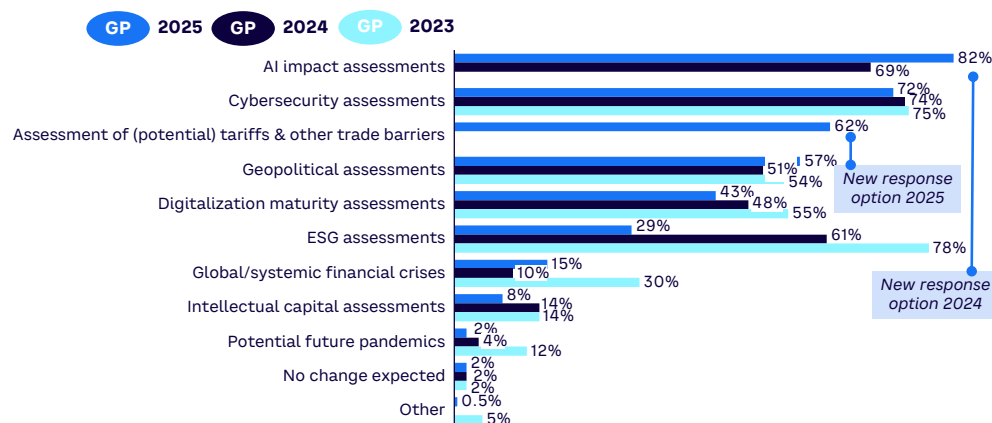
ESG assessment has gone from being a focus for the largest majority in 2023 to a more minor consideration in 2025. In a more normalized inflation environment, focus on financial crises has also diminished. However, it is also clear that due diligence assessments are reactive to the environment, with only 2% of respondents expecting no change to their processes.

Figure 18. Expected changes in near future, LP daily operations



Source: Arthur D. Little, Invest Europe

Figure 19. Areas receiving increased attention in future due diligence processes



Source: Arthur D. Little, Invest Europe

The prevalence of AI as a GP focus returns when looking at priority activities for the funds they manage (see Figure 20). Last year, AI vied with exits for most important activity. This year, it is the most important activity for funds, cited by almost four out of five GPs. Exits, which have risen up the agenda over the last couple of years, have not diminished in importance, with two-thirds of GPs indicating exit will be a main focus for their teams.

The majority of GPs also intend to put more focus on proprietary origination and operational development of portfolio companies, in line with opinions of the last few years.

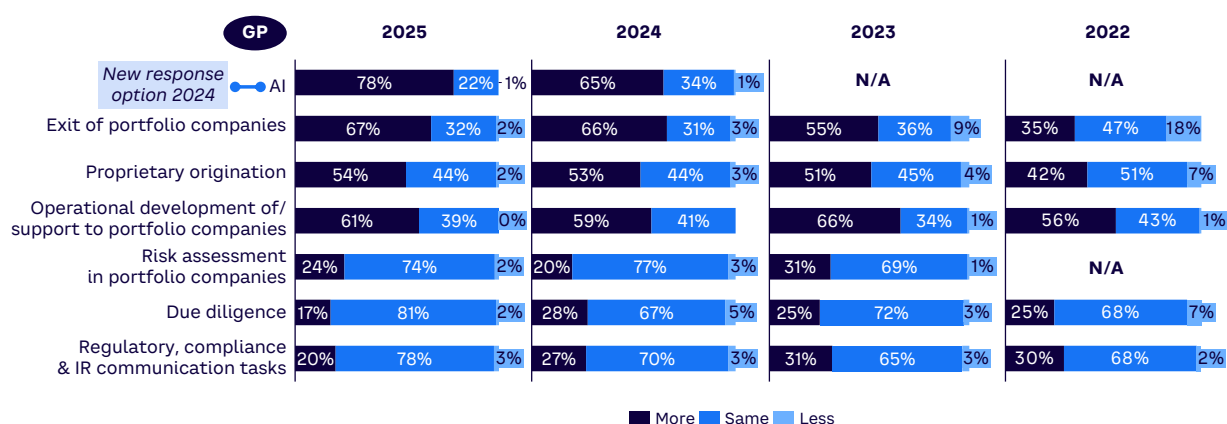
When looking at initiatives at the portfolio company level, acquisition-led growth remains the top priority, followed by organic growth (see Figure 21).

These views reflect the ongoing evolution of the PE industry: consolidation is a key value-creation play in most acquisitions, and pursuing organic sales growth is also a non-negotiable factor for portfolio companies.

Digitalization remains important but is dropping down the list of priorities as it is implemented at more companies, and AI has overtaken it as an implementable technology move.

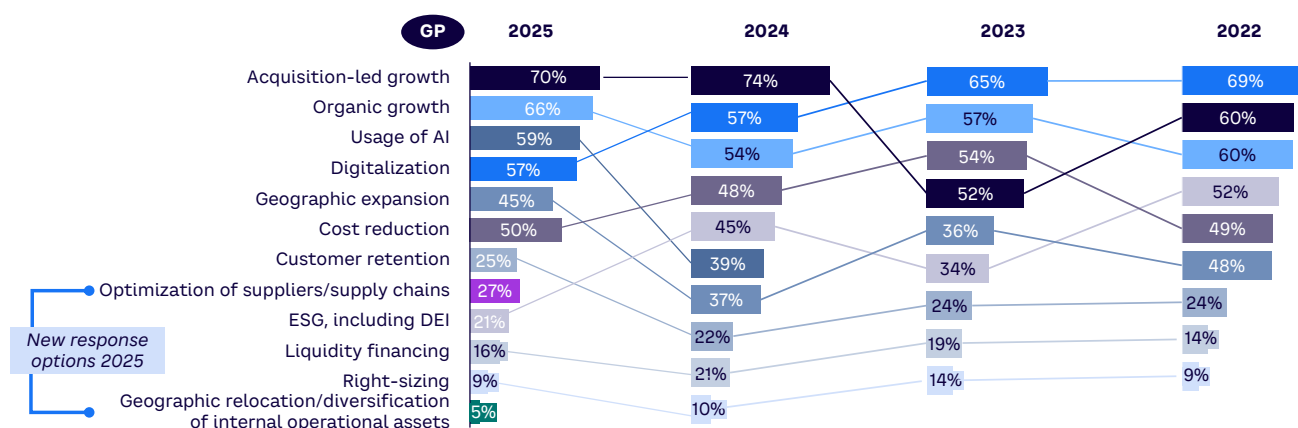
Although relatively small, optimization of supply chains and geographic relocation or diversification of internal operational assets are new entries on the list, highlighting again the impact of unpredictable trade policies, as well as emerging considerations around deglobalization and reindustrialization of European economies.

Figure 20. Focus of teams (next 12 months vs. last 12 months)



Source: Arthur D. Little, Invest Europe

Figure 21. Most important improvement initiatives



Source: Arthur D. Little, Invest Europe



8. FUND CATEGORIZATIONS & REGULATIONS

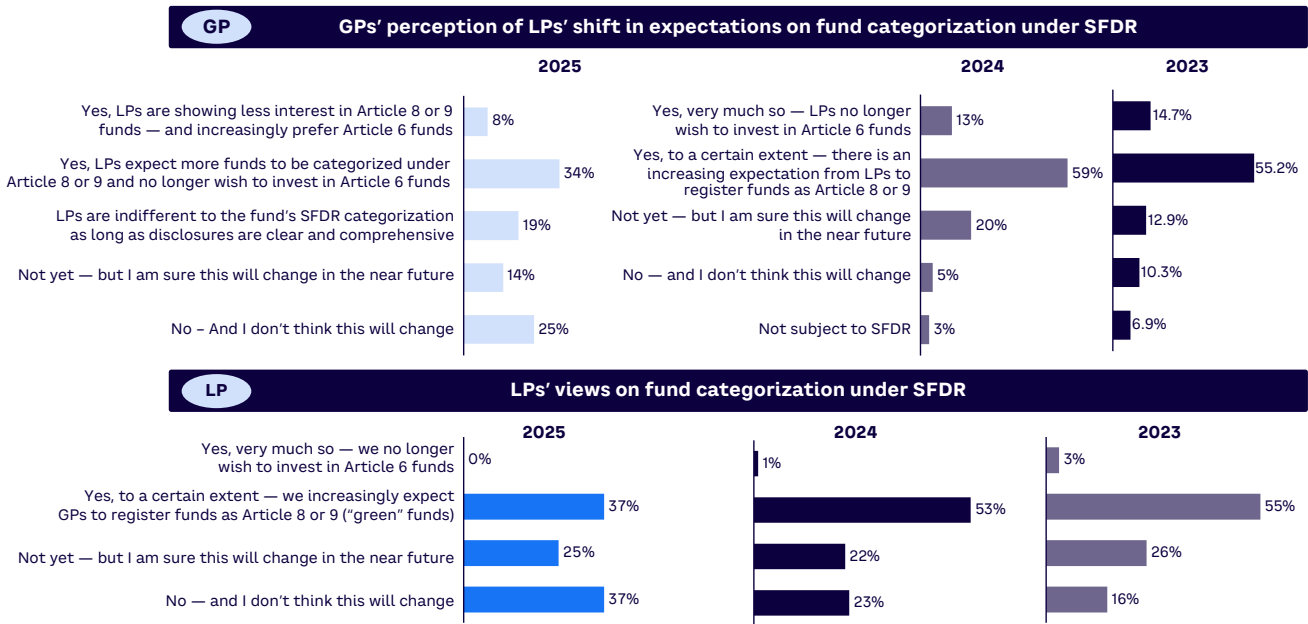
AROUND A THIRD OF GPs BELIEVE THAT INVESTORS EXPECT MORE FUNDS TO BE CLASSIFIED AS ARTICLE 8 OR 9

The de-emphasis of ESG among GPs and LPs is also evident in opinions around fund categorization under the SFDR (Sustainable Finance Disclosure Regulation) — see Figure 22. Around a third of GPs believe that investors expect more funds to be classified as Article 8 or 9 and will no longer invest in Article 6 funds.

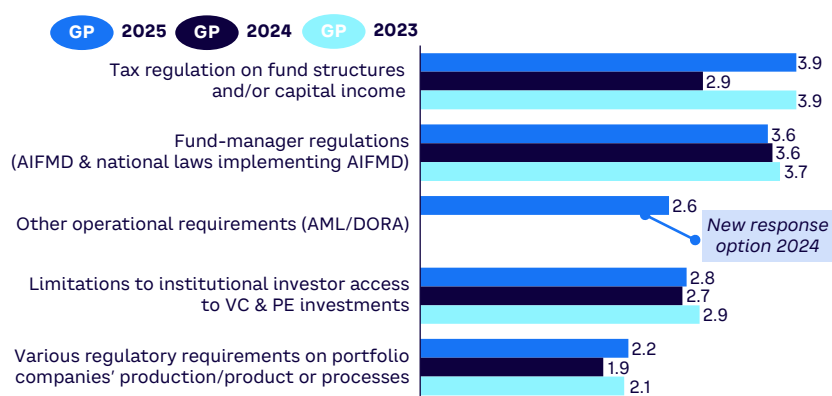
A similar proportion of LPs say they expect GPs to register funds as “green” funds. This is a marked decline from prior years.

Tax regulations reclaimed the top spot among GPs’ other regulatory concerns, with 40% of managers listing it as their most negative issue (see Figure 23). Perceptions around other regulatory standards, such as AIFMD, remain largely unchanged as GPs continue to view the industry regulation as a negative issue. Other requirements around the prevention of money laundering and DORA (Digital Operational Resilience Act), which became effective at the start of 2025, are new issues with a degree of negativity for managers.

Figure 22. Regulations keep driving ESG trend



Source: Arthur D. Little, Invest Europe

Figure 23. Regulatory issues ranked in terms of negative impact on business operations

Note: Weighted average from 1 to 5, where 5 is the most negative factor, and 1 is the least negative
 Source: Arthur D. Little, Invest Europe

CONCLUSION

From one perspective, the European PE market is essentially where it was 12 months ago. Activity is under pressure, and while there is optimism for the future, there is also a degree of uncertainty. But looked at another way, Europe and its PE industry are in a very different place. There is a new appreciation of Europe's relative stability and predictability, and the drive for a stronger and more secure Europe, which is less reliant on the US, is creating opportunities in industries like defense that will persist far into the future.

At the same time, the way the industry operates is changing — rapidly. Almost all GPs expect AI to have an impact on their day-to-day work practices. This is an opportunity and a risk. Many in the industry see implementing AI as a potential differentiator for LPs, but the vast majority expect AI assessments to be at the heart of due diligence as they seek to understand how companies can benefit from, or be negatively impacted by, the fast-moving technology.

Other actions are moving just as rapidly down the list of priorities. Most notable is that far fewer GPs and LPs intend to increase their focus on ESG and DEI. They are not unimportant, but best practices are now well embedded and thus an area to be maintained rather than expanded.

Some industry activities remain reassuringly front and center. Focus on acquisition-led and organic growth continue to be among the most important initiatives run by GPs at their portfolio companies. Building better businesses is at the heart of private equity and venture capital, and tried and tested routes to increase revenues and earnings are still among the best ways to add long-term value. This will stand the industry in good stead by ensuring that companies are well-placed to grow through any trade-related or macro disruption and can achieve profitable exits when volatility and uncertainty recede.

About ADL's survey

- The survey includes answers from 362 respondents:
 - 246 answers are from representatives of European GPs covering several investment strategies, including mid-buyout, growth, large buyout, infrastructure, VC, and real estate.
 - 116 answers are from representatives of LPs covering several types of investors, including fund of funds, sovereign wealth funds, insurance companies, pension funds, family offices, academic institutions, corporate investors, and banks.
- The survey focused on Europe.





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Our consultants have strong practical industry experience combined with excellent knowledge of key trends and dynamics. ADL is present in the most important business centers around the world. We are proud to serve most of the Fortune 1000 companies, in addition to other leading firms and public sector organizations.

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