

KKR Solutions

Private Equity Decoded: An Asset Class Playbook

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The Expanding Universe of Private Equity

As KKR approaches its 50-year anniversary, we have reflected on the private equity industry's evolution and tremendous growth. Over the past five decades, private equity has become a mainstream asset class, with nearly \$10.5 trillion¹ in assets under management (AUM) (Exhibit 1). Alongside the industry's growth, strategies proliferated, each offering its own defining attributes. Attractive risk-adjusted returns, coupled with structural advantages that complement traditional investments, have helped secure private equity's place as a core allocation within investors' portfolios to shape long-term portfolio outcomes.

With the decision already broadly made to include private equity as part of the asset allocation, a CIO's focus has now shifted to evaluating how best to design a holistic private equity program in the context of an increasingly complex capital markets environment. In this article, we define the private equity market opportunity and introduce select best practices for constructing a resilient private equity program.

Understanding the Private Equity Industry

Private Equity Strategies

Private equity (“PE”) is often referred to as a single strategy but, in fact, it spans a range of approaches, each of which can serve a different and relevant role in an investment portfolio.

Buyout strategies target control investments in mature companies, typically using leverage to finance acquisitions, and drive performance through operational improvements, cost rationalization, and strategic repositioning over a 5-7-year horizon. Extended duration or “core” buyout strategies aim to invest over a longer period and generate higher multiples of invested capital, often with intermittent distributions during the holding period.

Venture Capital focuses primarily on minority stake investments in early-stage, high-growth startups. These investments are inherently higher-risk than investing in mature companies but can also offer asymmetric return potential.

Growth Equity is positioned between buyout and venture, providing capital to businesses that are scaling rapidly and have been somewhat derisked with validated product-market fit. These companies often have established business models and revenue but seek capital to expand into new geographies, launch products, or complete strategic acquisitions.

Capital Solutions & Hybrid Capital strategies include flexible capital structure investments, such as structured equity, preferred instruments, or debt-like investments with equity components. These investments are typically structured with contractual returns which typically provide both downside protection and an opportunity for equity upside or convexity. Investments are often privately negotiated, highly structured financings, with managers typically focusing on one of performing or underperforming companies.

Investors can access these PE strategies through investments in primary funds, secondaries, and co-investments. We view secondaries and co-investments as implementation tools within a broader private equity program, rather than as distinct strategies that independently define the opportunity set.

Exhibit 1: Private equity AUM has grown meaningfully to nearly \$10.5 trillion

Private Equity AUM, \$ billions²



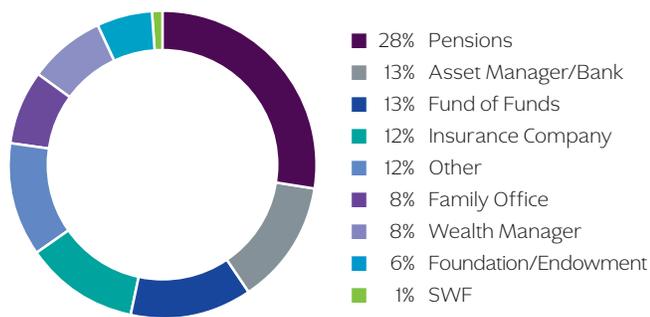
KKR Solutions analysis as of August 2025. Source: Preqin Pro.

The Case for Private Equity in Asset Allocation

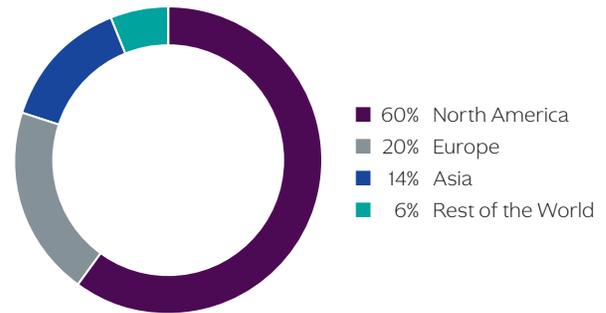
A wide spectrum of investors have embraced private equity for its potential returns, diversification benefits, and structural advantages. Across investor types such as pensions, endowments, insurance companies, and family capital situated around the world, private equity plays a central role (**Exhibit 2**).

Exhibit 2: Private equity has been used to play an important role by a diverse base of investor types

Private Equity Investors by Type



Private Equity Investors by Geography



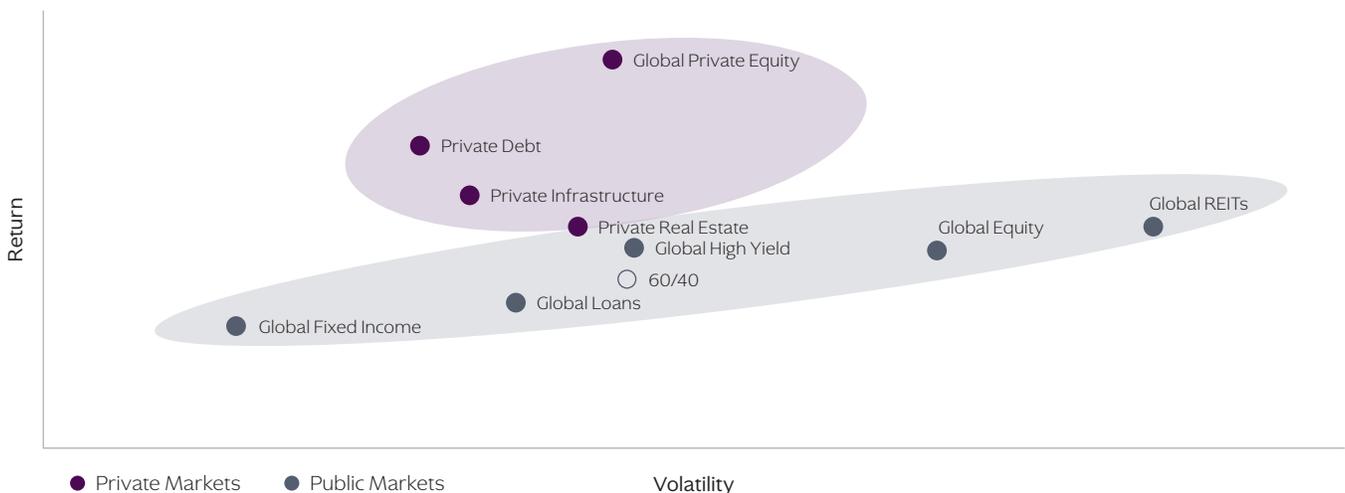
KKR Solutions analysis. Source: Preqin, Private Equity International 2025.

Private Equity Can Enhance a Portfolio's Expected Returns

Within a diversified portfolio, private equity has the potential to enhance total returns. A historical analysis shows that private equity offers an attractive risk-adjusted return profile, outperforming both public equities and private market alternatives (**Exhibit 3**).

Exhibit 3: Private equity has delivered an attractive relationship between return and risk, including relative to other asset classes

Public and Private Indices Annual Returns and Volatility (%)³



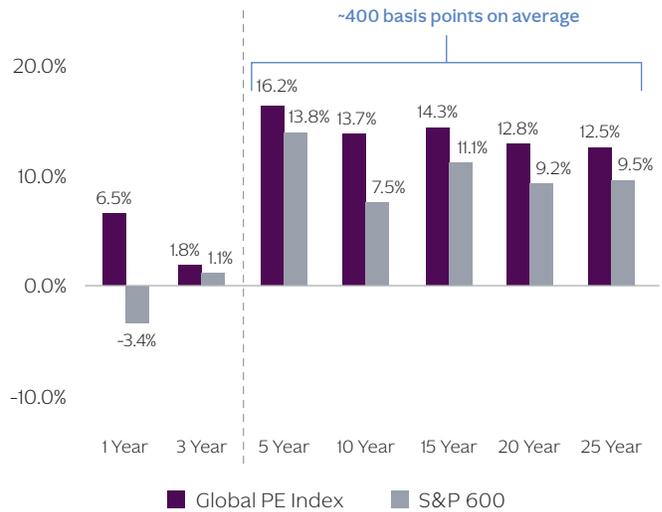
Return represents realized annualized compounded returns from 2000-2024, and risk represents realized annualized volatility from 2000-2024. KKR Global Macro & Asset Allocation analysis. Source: Bloomberg, Cambridge, Burgiss, S&P, MSCI., KKR Global Macro & Asset Allocation.

Private equity has often outperformed public equities over long horizons, with average net excess returns of approximately 400 basis points (bps) (Exhibit 4). We have seen that relative performance varies over periods. For instance, the S&P 500 performed well relative to private equity during the mega-cap run of the last decade while utilizing much less leverage. On the other hand, private equity’s edge has been even more pronounced in more challenged public-market environments (Exhibit 5).

When evaluating relative performance, it is also important to choose the appropriate benchmark. The Magnificent 7 stocks account for one-third of the S&P 500’s market capitalization⁴ and have driven much of the index’s strong recent performance. Relative to strategies that either account for the influence of these companies (the equal-weighted Global Large Cap Index⁵) or do not include them at all (the Russell 2000 and S&P 600 indices), private equity has performed favorably, with lower mark-to-market volatility. Global Buyout has performed well relative to Global Large Cap (as measured by the S&P Equal Weighted Index, which underperformed the S&P 500 by approximately 50%), as well as those smaller-cap companies represented by Russell 2000 or the S&P 600 indices, all of which are arguably more comparable to the types and size of companies targeted by private equity. As such, we believe a well-rounded portfolio benefits from investing in private equity for more diversified and derisked returns relative to solely public market alternatives.

Exhibit 4: Private equity investors are compensated for illiquidity, as demonstrated by long-term outperformance of ~400 bps on average

PE Performance Relative to S&P 600 Index Across Time Horizons



KKR Solutions analysis as of March 31, 2025. Source: Cambridge Associates. Global PE Data includes Buyout, Venture Capital, and Growth Equity.

Exhibit 5: Private equity has historically outperformed public equities in most return environments

Avg. 3yr Annualized Excess Total Return of U.S. Private Equity Relative to S&P 500 Across Public Market Return Regimes



KKR Global Macro & Asset Allocation analysis as of March 31, 2025. Source: Cambridge Associates.

Private equity has also exhibited consistent performance across vintages. In **Exhibit 6**, we see again particularly strong returns during periods of market dislocation. Why? Unlike passive exposures, private equity is a highly skills-based asset class. Value creation in private equity depends on a manager’s ability to source proprietary

opportunities, execute complex transactions, and drive operational improvements. Top-performing managers have consistently delivered outsized results relative to peers, underscoring the importance of manager selection in private equity, including relative to other asset classes (**Exhibit 7**).

Exhibit 6: Private equity performance has been consistently compelling across market cycles with particular outperformance during periods of dislocation

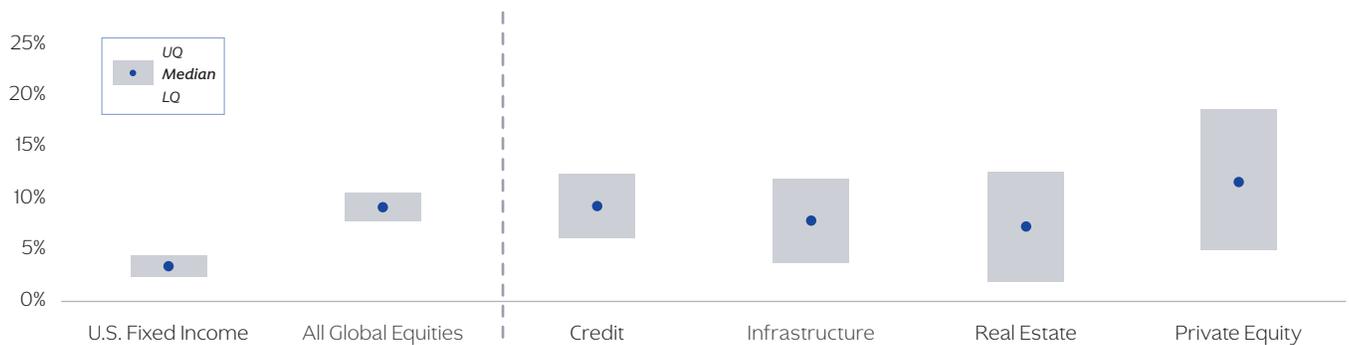
Private Equity Net IRR by Vintage⁶



KKR Solutions analysis as of March 31, 2025. Source: Cambridge Associates LLC Benchmark Statistics.

Exhibit 7: Private equity represents one of the areas in which manager selection can have the most significant impact, across both public and private alternatives

Dispersion of Returns by Asset Class⁷



KKR Solutions analysis as of March 31, 2025. Source: eVestment Alliance database, Cambridge Associates.

Building an Optimized Private Equity Portfolio

Just as private equity plays a distinct role within a broader investment portfolio, each sub-segment can satisfy different investment objectives. Notably, each private equity segment generally offers varying risk, return, and liquidity profiles.

Exhibit 8 maps these strategies along a risk-return chart, emphasizing the gradation from Capital Solutions & Hybrid Capital, which can be derisked by contractual returns with potential for equity upside, to Venture Capital, which has the potential to offer higher returns albeit with higher risk and dispersion by manager - with Buyout and Growth strategies in between. An effective private equity program incorporates different segments based on their expected return contribution, capital deployment profile, and distribution timing.

Exhibit 8: When constructing a private equity portfolio, each strategy offers a distinct risk/return profile and can play a different role in a portfolio to accommodate varied investor objectives

Qualitative Risk-Return Characteristics Across Private Equity Strategies¹⁰



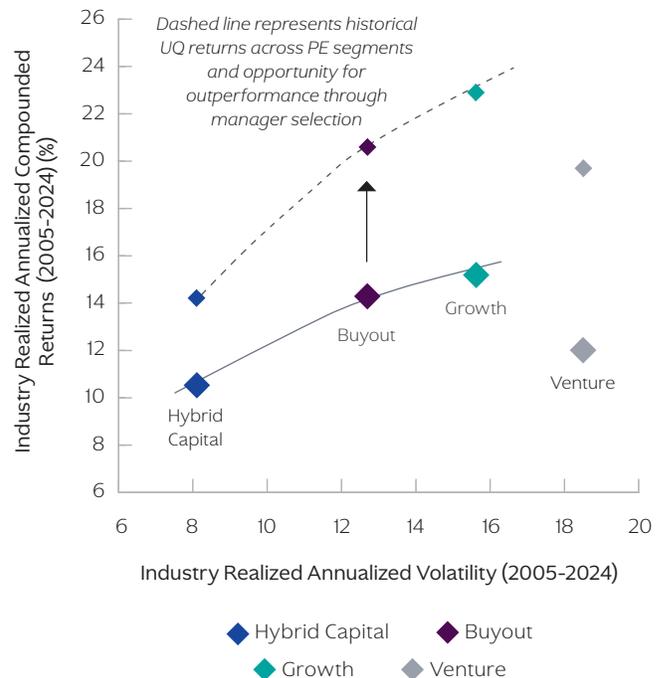
KKR Solutions analysis for illustrative purposes only. Not to scale.

An efficient frontier analysis can help construct a diversified portfolio allocated across Buyout, Growth, Venture Capital, and Capital Solutions to deliver optimized returns for a given level of risk (**Exhibit 9**). Notably, upper quartile (UQ) managers perform significantly better, further underscoring the impact of manager selection. That said, Venture Capital returns can remain muted, even among upper quartile managers, thus, we suggest that manager selection is even more critical due to volatility and loss ratios within the segment, and exceptional returns might lie with top decile managers.

Thoughtful private equity portfolio construction incorporates diversification across several dimensions, and vintage year consistency may be one of the most important in this long-dated asset class. Investors who maintain steady pacing are better positioned to access top-performing funds and avoid market timing pitfalls such as over-deployment in higher-valuation environments. Additionally, thoughtful exposure across

Exhibit 9: A diversified private equity portfolio can produce optimized outcomes based on a return/volatility efficient frontier analysis

Efficient Frontier (With Historical Annualized Compounded Returns)⁹



KKR Solutions analysis for illustrative purposes only, may be subject to change.

geographies and types of strategies (e.g., mid-market vs. large-cap, traditional vs. long-duration) can introduce further diversification and resilience across cycles. Each offers unique exposure to company size, sector dynamics, and value creation levers.

Failure to consider portfolio construction best practices, including manager selection and appropriate diversification, can impede performance. And, achieving a healthy level of diversification without overdiversifying is a delicate balance. Some other common pitfalls include applying a short-term mindset to a long-dated asset class, relying too heavily on select implementation tools, investing in less cost-effective structures (e.g., layered fee vehicles), and applying incorrect benchmarking.

Measuring the success of a private equity program is also an important part of the process and not a trivial exercise. Private equity returns take time to develop, so we believe it is important to measure performance with multiple metrics and consider both long-term and short-term results. Quantitative metrics such as internal rate of return, multiple of invested capital, and realized returns should be complemented by qualitative factors such as investment pacing and adherence to strategy.

Reflections and the Road Ahead

Private equity's continued growth and integration into investment portfolios reflect its strategic relevance in an evolving landscape. Yet, its attractive long-term return potential and diversification from public markets can only be realized through careful implementation. Effective portfolio construction requires calibration across segment exposures, manager selection, vintage pacing, and capital duration. Building a durable private equity program depends less on market timing than on discipline, structure, and a steady hand on the wheel.

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Endnotes:

1. As of December 2024.
2. Includes all Private Equity (excluding Co-Investment, Direct Secondaries, FoF), Mezzanine, and Special Situations.
3. The 60/40 portfolio is composed of 60% MSCI World and 40% Global Fixed Income. Realized annualized volatility calculated using quarterly returns. Realized annualized compounded returns and realized annualized volatilities are calculated using the following proxies from 2000 to 2024: Global Buyout: Cambridge Buyout Index; Private Infrastructure: Burgiss Infrastructure Index/Generalist, Value-Add, Opportunistic; Private Real Estate: Burgiss Real Estate Index/Value-Add, Opportunistic; Private Debt: Burgiss Private Debt Index; MSCI World: MSCI World Index; Global Fixed Income: Bloomberg Global-Aggregate Total Return Index Hedged USD; Global High Yield: ICE BofA Global High Yield Index; Global Loans: Morningstar Global Leveraged Loan TR USD; Global REITs: 45% S&P USA REIT Index, 45% S&P Europe REIT Index, 10% S&P APAC REIT Index.
4. As of August 2025.
5. As measured by the S&P Equal Weighted Index, which underperformed the S&P 500 by approximately 50%.
6. Reflects cumulative vintage year equal-weighted pooled mean net performance to LPs. Returns are net of all management and performance-related fees. Vintages later than 2021 do not yet have meaningful returns information.
7. Public market data for 15-year period through March 31, 2025. Private market data includes vintages for the 15 years to 2021. Performance for later vintage funds not available / meaningful. Cambridge Associate's database is continually updated and subject to change. Private Equity includes Buyout, Growth Equity, and Venture Capital.
8. The data presented herein is based upon the assumptions detailed in strategies in scope and illustrative metrics in this presentation. Certain of the assumptions have been made for modeling purposes and are unlikely to be realized. No representation or warranty is made as to the reasonableness of the assumptions or that all assumptions used have been stated or fully considered. Actual performance may differ substantially from the model performance presented. Changes in the assumptions may have a material impact on the model returns presented. The data presented on this slide is based on information obtained from sources believed by KKR to be reliable; however, KKR does not guarantee or give any warranty as to the accuracy, adequacy, timeliness or completeness of such information. Please see Important Information for further information regarding Target or Modeled Returns. Target allocations are subject to change, and there is no assurance that the target allocations will be achieved. Actual allocations may be significantly different than those shown here.
9. Statistics are calculated with quarterly returns between Q1 2005 and Q4 2024. Each asset class is modeled as follows: Buyout (Cambridge Buyout); Growth (Cambridge Growth Equity); Venture (Cambridge Venture); Capital Solutions & Hybrid Capital (70% Burgiss Mezz + 30% Cambridge Buyout, 2005-2024); Illustrative PE Portfolio (70% Buyout + 10% Growth + 10% Venture + 10% Capital Solutions & Hybrid Capital).

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