Bringing scale advantages to middle-market GPs

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INTRODUCTION

After decades of asset gathering and a recent wave of M&A, the largest investment managers have reached unprecedented scale. That scale has created new advantages in raising capital, managing talent, investing in technology, and managing portfolio companies.

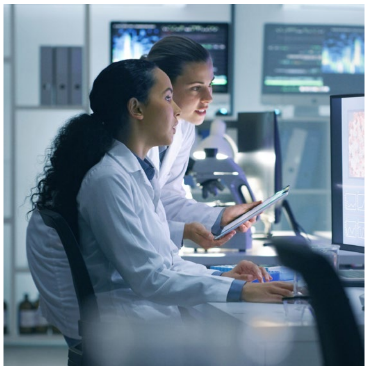
Despite this, middle-market firms continue to outperform their larger counterparts, on average, with the highest performing firms doing so by a wide margin. While middle-market firms cannot afford to ignore the changing competitive landscape, they also should not feel pressure to rapidly gather assets or sell themselves to a consolidator to experience the benefits of scale.

Partnering with a GP stakes firm built to bring scale capabilities to the middle market — to support growth, efficiency, and portfolio performance — can empower entrepreneurial middle-market firms to continue to achieve their business and performance objectives without compromising their focus and independence.

PACT Capital Partners is a GP stakes and seeding platform that was founded to help high-performing middle-market firms and their entrepreneurial owners experience the benefits of scale while remaining focused and independent.

In an era where bigger is often mistaken for better, middle-market firms continue to attract capital and deliver attractive returns for investors.

Much has been made of a perceived concentration of assets among the largest private market players, which have amassed hundreds of billions in assets and manage dozens of products across asset classes and continents. For many firms, scale has become not just a goal but a strategy in itself, albeit one that hasn't necessarily produced stronger investment performance. Scale helps firms run professionalized and efficient organizations, access the largest institutional investors and, increasingly, individual investors, and invest in people, data, and technology.



For many limited partners, middle-market funds remain highly attractive. Middle-market managers with deep expertise, strong relationships, and hands-on capabilities buy at lower multiples and grow revenues more quickly, generating higher returns in a less efficient market. Despite the perceived advantages of scale for bulge bracket firms, middle-market funds have outperformed their larger peers over the long term, with the best doing so by a wide margin, and capital continues to flow to middle-market firms and the funds they manage.

Still, the paradigm is shifting, and middle-market firms need to match the organizational capabilities of larger peers while maintaining the distinct advantages that have made them successful. Rather than opting to become asset gatherers or be acquired by larger platforms, entrepreneurial middle-market firms can realize advantages by partnering with a GP Stakes firm that has the strategic capabilities, networks, and resources to help middle-market firms gain the benefits of scale without altering the unique DNA that has facilitated their outperformance.

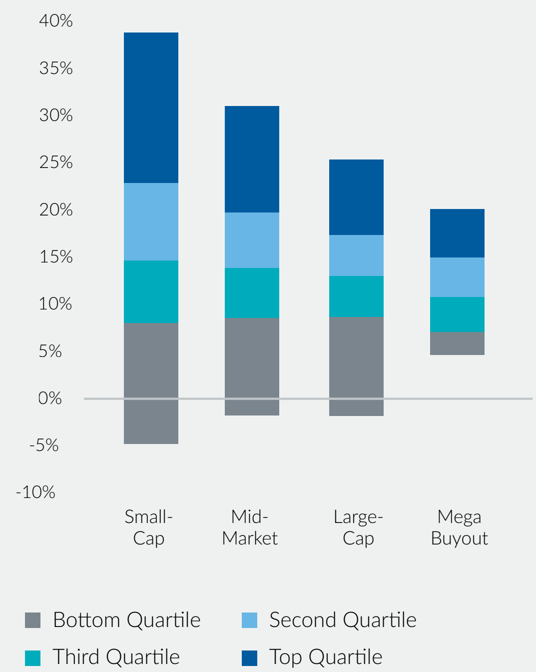
1

The advantages of middle-market funds

Middle-market funds outperform their larger peers. Over the last 20 years, the median mid-market buyout fund has returned 14 percent per annum, outperforming the median mega buyout fund by ~190 basis points.[1] Perhaps even more important for discerning investors, high-performing funds in the middle market have the potential to outperform by a substantial degree. For example, over the long term, the highest-performing 5 percent of middle-market buyout funds have outperformed the top 5 percent of mega buyout funds by nearly 10 percentage points.

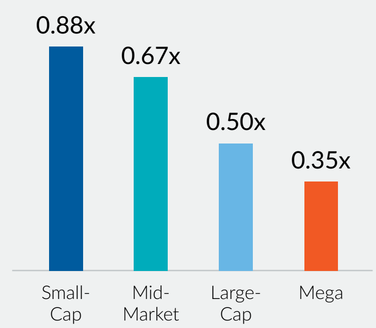
> *"We focus on high-performing middle-market firms because, on average, they outperform for their LPs—and the top performers do so by a wide margin."*
>
> — Christian von Schimmelmann
> Managing Partner, PACT Capital Partners

Long-Term Performance Dispersion by Fund Size (Net Internal Rate of Return, %)[1]



In more recent years, limited partners have focused their attention on distributions, and middle-market funds have likewise outperformed larger peers in this regard. The median net Distributed-to-Paid-In (DPI) for middle-market funds raised between 2012 and 2021 (where sufficient time has elapsed to complete the investment period for most funds) now totals 0.67. In other words, such funds have returned two-thirds of investors' money; meanwhile, mega funds have returned just one-third of invested capital over the same time period. Middle-market funds often have a wider array of exit options relative to the largest funds, and in a challenging market for IPOs, those options have translated to faster return of capital.

Median DPI by Fund Size (Multiple)[2]



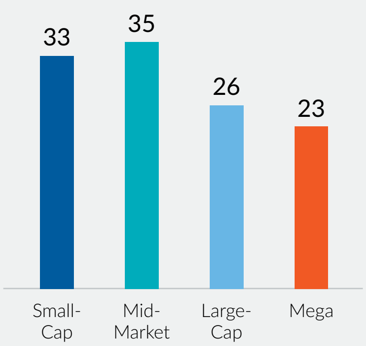
1

The advantages of middle-market funds

Middle-market funds and firms have several advantages relative to their larger peers:

- **Deep, targeted expertise.** Many middle-market firms run targeted investment strategies, focusing on a single sector, investment type, or geography. For example, 35 percent of middle-market funds target a single sector, which is 1.4x the share of large-cap and mega buyout funds that are similarly focused.[3] Such focus can enable deep networks, a highly nuanced understanding of investment opportunities, and efficient and effective execution post-investment, all of which can translate into outsized returns. Indeed, the median sector specialist buyout fund, for example, has outperformed the median generalist buyout fund by more than 278 basis points over the last 10 years.[4]

Share of Buyout Funds Focused on Single Sector (%)[3]

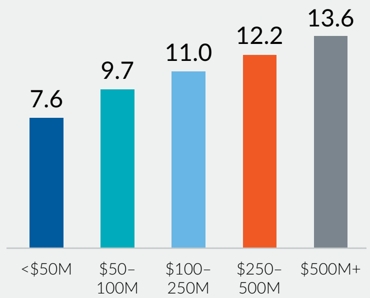


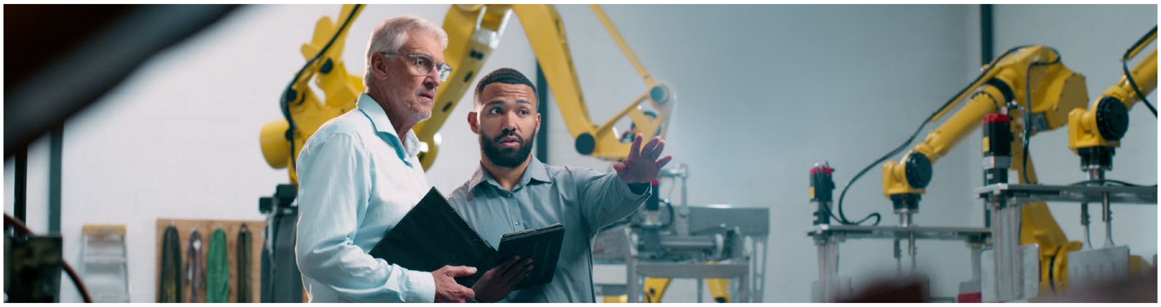
- **Enhanced selectivity.** In the U.S. alone, more than 60,000 companies generate revenue between $50 million and $500 million.[5] That number suggests there are over 250 middle-market target companies for every middle-market North America buyout fund vintage 2020 or later. Conversely, there are only ~95 such companies per fund greater than $4 billion.[6]

250+ Mid-market companies for every middle-market North American buyout fund

- **Aligned transactions.** Many middle-market companies are founder-owned. Founders' considerations in the sale of such businesses can be just as much about non-financial terms as about price. Middle-market investors can often tap into deep sector relationships and/or senior advisor networks to execute bilateral negotiations, which can improve entry price and terms and improve alignment with management teams and sellers, who often roll equity into such transactions. Favorable dynamics can contribute to lower entry multiples — since 2010, the average entry multiple for transactions below $500 million has been 9.4x versus 13.6x for larger transactions.[7]

Entry Multiple by Deal Size, Total Enterprise Value to EBITDA[7]

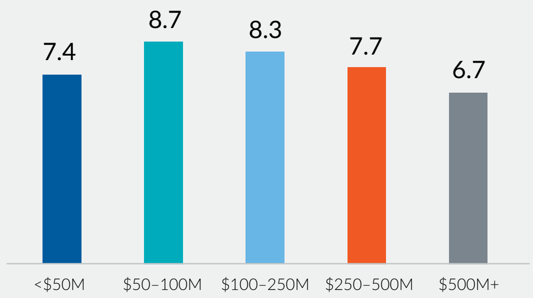




- **Substantial value creation.** The businesses in which middle-market funds invest can often benefit from professionalized management and deeper talent pools, better and broader access to customers and channels, and sufficient capital to acquire adjacent or competitive businesses. This toolkit enables faster revenue growth — the dominant driver of value creation across buyout deals of all sizes.[7]

- **Multiple expansion.** Middle-market managers can be nimble in pulling levers that can increase enterprise value above and beyond earnings growth. Larger, more professionalized, and more strategic businesses trade for higher multiples. Middle-market portfolio companies can transition from niche and/or regional businesses into assets that are highly attractive for strategic acquirers and larger sponsors alike. On average, middle-market deals add ~2.1 turns of multiple (TEV/EBITDA).[8]

Annualized Revenue Growth by Deal Size (%)[7]



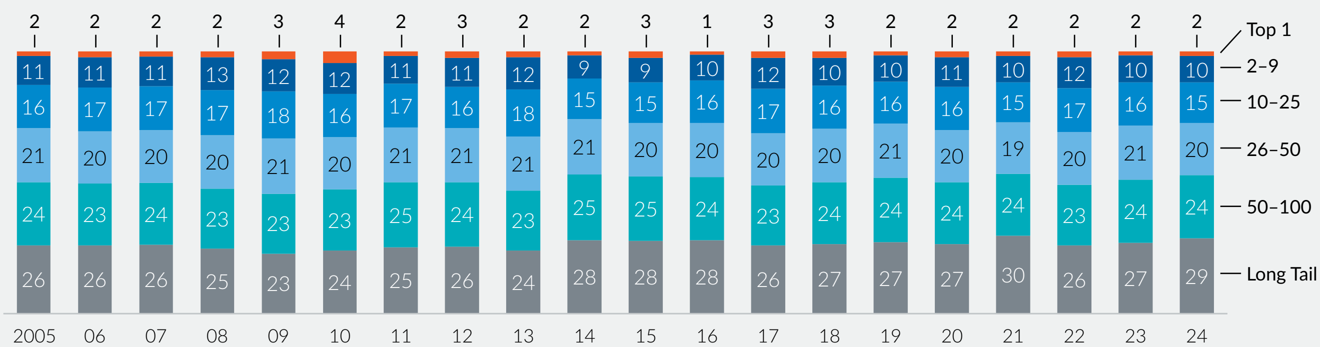
"Middle-market funds have opportunities that are often harder for their larger counterparts to access, including buying companies at more attractive entry multiples and growing those companies at a faster rate."

— Brian Vickery
Partner, PACT Capital Partners

Capital flows to the middle market

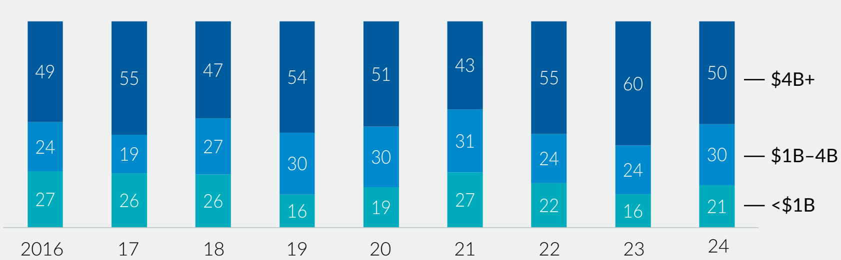
Fundraising challenges over the last few years have re-ignited rumors of industry consolidation, but the middle market remains a highly attractive destination for capital. And while some have predicted a restructured industry with fewer and larger managers, historical patterns suggest that commitments tend to concentrate during more challenging fundraising periods. Fundraising grew less concentrated in 2024, despite the continued slowdown.

Annual Dispersion of Buyout Fundraising (% to Each Firm, Firm Ranking Reconstituted Annually)[9]



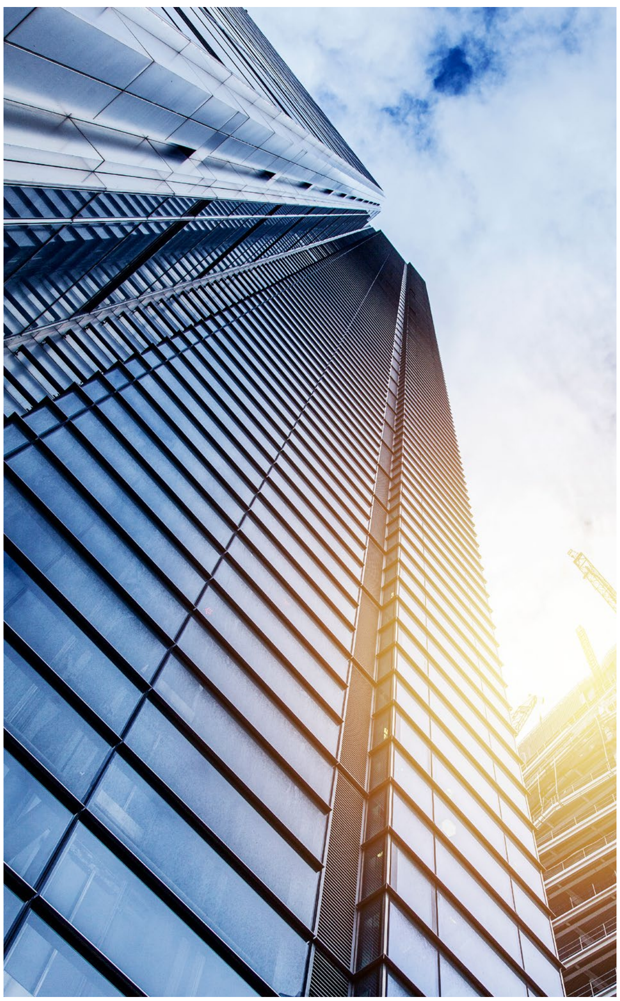
Limited partners have demonstrated growing interest in middle-market funds, as evidenced by increasing capital allocations and consistent responses in market surveys. While single-year allocations vary based largely on supply-side idiosyncrasies (i.e., which funds happen to be raising), commitments to funds between $1–4 billion typically total ~25–30 percent of all buyout fundraising in any given year.

Share of Buyout Fundraising Annual Concentration by Fund Size (%)[9]



The benefits of scale

Limited partners' interest in the middle market has been sustained due to their belief in continued outperformance. At the same time, the largest firms are only getting larger, driven by not only flagship fund growth but also organic or inorganic product expansion (e.g., growth equity, real assets, credit, secondaries). This aggregation of capital, while not necessarily leading to improved investment performance, is strategic and has created several advantages for larger managers:

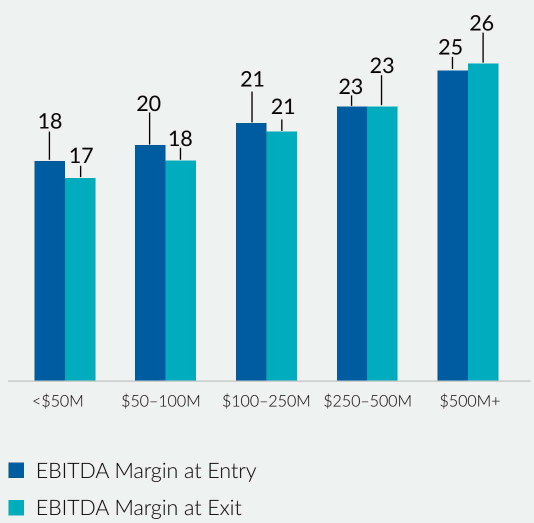


- **Broad capital access.** The largest firms have invested in outsized capital formation and investor relations teams with deep investor relationships that span asset classes and geographies. These firms have prioritized access to non-institutional capital (e.g., retail, insurance), building products (e.g., semi-liquid funds) and large sales teams to capture this massive and quickly growing investor base. While institutional dollars committed to traditional closed-end structures have not consolidated, the largest players have taken an outsized share of non-institutional capital.

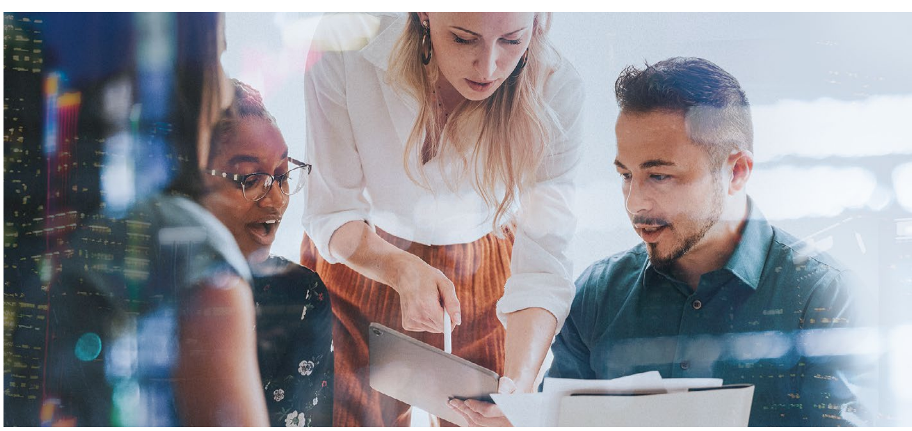
- **Targeted product development.** Particularly among publicly traded firms, seeding new products with balance sheet assets has enabled scaled managers to pursue new investment opportunities, diversify income streams, and serve their limited partners across a broader set of needs.

- **Robust talent attraction infrastructure.** Large firms have invested substantially in talent attraction, leveraging their brands and sourcing from target schools, investment banks, and consulting firms to recruit and retain top performers.
- **Extensive technology.** Larger firms are leading the industry in embedding artificial intelligence across their portfolios. Increased investments in technology, systems, and analytical capabilities have enhanced operating efficiency for the largest firms and created insights for their investment teams and portfolio companies.

EBITDA Margin by Deal Size (%)[10]



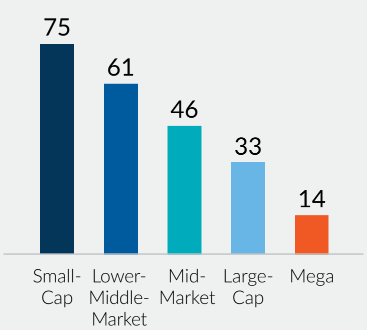
- **Top-tier service providers.** Large firms have the capacity to access not just premier service providers but also the right individuals at those firms, including consulting firms to support highly informed investment decisions and value creation in the portfolio, law firms to protect their interests, executive search firms to find the next great hire, and investment banks to bring their assets to market.
- **Systematic portfolio company management.** Nearly every large manager has invested in a full-scale value creation team with functional resources to support portfolio companies' talent attraction, finance depth, operating efficiency, commercial effectiveness, ESG efforts, and legal and compliance activities. Those teams are growing ever larger; McKinsey found that the average value creation team size has doubled in the past three years.[11] The impact of such teams shows up in EBITDA expansion. While revenue tends to grow more quickly in smaller deals, larger companies and the private equity firms that manage them are able to grow margins by a greater degree.



Accessing the advantages of scale in the middle market

While a small number of middle-market managers have joined large platforms in recent years, hundreds of middle-market firms remain independent, and most wish to remain so. There's good reason for that — independence allows firms to maintain the culture that firm leaders have carefully crafted, stay focused on investments and processes that have made them successful, and retain sufficient economics to attract and retain top talent.

Fund Growth by Predecessor Funds Size (%)[12]



Despite the potential for significant fund-over-fund growth, for middle-market firm owners seeking to remain independent, accessing scale advantages expediently and organically can prove challenging. Growing an investor base to include institutions large enough to support fund growth takes time and substantial resources. Building a balance sheet to enable product expansion is difficult in any environment, but particularly in a challenging exit environment, where cash proceeds are minimal. Competing with top brands to attract and retain talent and staying at the forefront of a rapidly changing technological landscape are perpetual hurdles to overcome. The cost of full-scale operating teams serving a middle-market portfolio can weigh down returns. And access to premier service firms is often reserved for larger managers engaging in larger transactions.

Partnering with a dedicated middle-market GP stakes firm with distinctive capabilities can help entrepreneurial firms address these challenges and more while remaining focused and independent. PACT Capital Partners ("PACT") was established as an independent GP stakes and seeding platform specifically for this purpose — to help the middle-market firm owners of today and tomorrow pursue their goals by bringing the advantages of scale.

4

Accessing the advantages of scale in the middle market

Our imPACT Platform brings scale advantages to our middle-market Partner Firms through access to high-quality services and sophisticated capabilities typically available only to the largest private capital firms. PACT delivers these capabilities through our deeply experienced in-house consulting team, in combination with our imPACT Partners, imPACT Advisors and imPACT Vendors. In partnership with PACT, middle-market Partner Firms have privileged access to leading experts, thousands of practitioners, proprietary data and benchmarks, and tailored playbooks to address their own and their portfolio companies' most pressing and evolving needs.

The imPACT Platform

The imPACT Platform is designed to assist Partner Firms across three verticals:

1

Business development: capabilities designed to support and de-risk the business development initiatives of Partner Firms

2

Firm excellence: capabilities designed to help Partner Firms run efficient and effective businesses

3

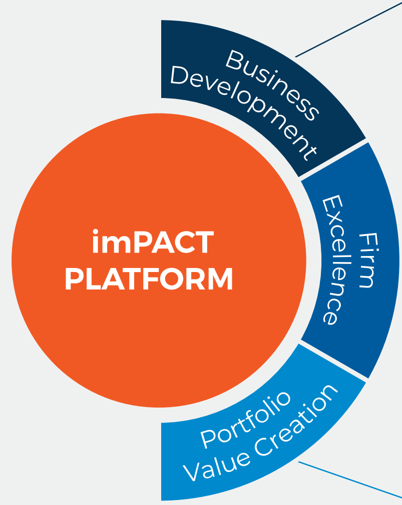
Portfolio value creation: capabilities designed to create value for Partner Firms' underlying portfolio companies

imPACT Team
Deeply experienced team led by former Partner of a top-tier consulting firm

imPACT Advisors
Curated network of seasoned professionals across critical functions

imPACT Partners
Highly pedigreed firms aligned with delivering distinctive service for our Partner Firms

Preferred Vendors
Curated set of vendors to surface opportunities for our Partner firms



- Corporate strategy
- Capital formation
- Product development

- People & organizational design
- Leading-edge technology
- Processes & operations
- ESG & DEI

- Operating & engagement model
- Value creation levers
- Add-on M&A
- Exit preparation support

CONCLUSION: THE POWER OF PARTNERSHIP

Middle-market private equity firms continue to generate attractive returns for, and attract capital from, investors. However, as competition in the market continues to evolve, the largest players are leveraging their size to the benefit of their own firms and their portfolio companies.

Entrepreneurial middle-market firms seeking to remain independent can embrace the power of partnership to scale their capabilities without compromising the values that drive their outperformance.

About PACT

PACT is an independent GP stakes firm that provides strategic capital solutions to middle-market alternative asset management firms. Our team combines deep investment experience with a passion for helping high-performing asset management firms achieve their goals. We believe that sustainable performance in today's market requires ever more sophisticated capabilities and that high-performing middle-market managers can benefit from more than just capital to take their businesses to the next level. We seek to unlock opportunities for our middle-market Partner Firms with strategic capital and our proprietary imPACT platform, providing them with resources typically available only to the largest investment firms. To learn more, visit us at **https://pactcapitalpartners.com/**.

AUTHORS

Christian von Schimmelmann
Managing Partner

Prior to founding PACT, Christian was the global co-head and co-chair of the investment committee of Petershill, the GP Stakes and seeding business at Goldman Sachs. Under Christian's leadership, Petershill successfully raised several successive GP Stakes funds, launched a seeding strategy, invested over $7.5 billion of capital across more than 30 private market transactions, publicly listed part of its legacy portfolio, sold multiple individual investments, and raised investment-grade debt for one of its funds.

Earlier in his career, Christian was a senior member of Goldman Sachs's secondary private equity team and led the creation of the Goldman Sachs Senior Loan Program, a direct lending program specifically designed for insurance companies. Prior to his 24-year career at Goldman Sachs, Christian worked at Salomon Brothers and McKinsey. Christian earned a B.S. in Finance from the Wharton School of the University of Pennsylvania and an MBA from the University of Chicago.

Brian Vickery
Partner, Head of imPACT Platform

Prior to founding PACT, Brian was a partner in McKinsey & Company's Private Capital Practice, where he served GPs, LPs, and portfolio companies throughout his 10-year tenure. Brian also led McKinsey's research and communications efforts in private markets, and in that capacity, he was the chair of the Private Markets Editorial Board, a frequent author and speaker on industry trends, and the host of McKinsey's private markets podcast, Deal Volume.

Prior to joining McKinsey, Brian began his career as an LP, first advising endowments and foundations as a consultant at Cambridge Associates and later helping to found the investment office at Boston University. Brian earned a B.A. in economics from Middlebury College and an MBA from Harvard Business School, where he was a Baker Scholar.

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Reference to the Burgiss benchmark is made for comparison purposes only. The Burgiss benchmark is selected because it is well known and widely-used in the private equity sector. An investment in the Fund is subject to management fees, carried interest and expenses, which are expected to differ from the benchmark. There will not necessarily be a correlation between the benchmark and the Fund's return. Past performance is not indicative of future results.

Endnotes

[1] Burgiss, as of June 30, 2025. Pooled net internal rate of return (IRR). Size categories: small-cap (<$1B), mid-market ($1B–$3.99B), large buyout ($4B–$9.99B), and mega buyout ($10B+). Includes vintage years 2002–2021. Top 5% and bottom 5% of funds have been removed to reduce outliers. Data retrieved October 21, 2025.

[2] Burgiss, as of June 30, 2025. Size categories: small-cap (<$1B), mid-market ($1B–$3.99B), large buyout ($4B–$9.99B), and mega buyout ($10B+). Includes vintage years 2012–2021. Data retrieved October 21, 2025.

[3] Preqin, as of October 21, 2025. Trailing 10-year data; includes only funds for which Preqin reports a final close amount.

[4] Burgiss, as of June 30, 2025. Net IRR. Excludes funds with "unknown" industry focus. Data retrieved October 21, 2025.

[5] U.S. Census Bureau.

[6] U.S. Census Bureau; Preqin. 2022 U.S. Census accessed December 1, 2025; includes 60,555 companies with enterprise receipts $50M–$499.99M and 8,003 companies with enterprise receipts $500M+. Fund count includes all buyout funds with a North America or global focus that held a final close from 2020 through October 2025 (230 buyout funds $1B–$3.999B; 95 buyout funds $4B+). Preqin data retrieved October 21, 2025.

[7] SPI by StepStone, as of March 31, 2025. Includes buyout transactions from 2010 through 2015.

[8] SPI by StepStone, as of March 31, 2025. Includes buyout transactions between $50M and $500M with entry years 2010–2019.

[9] PACT analysis of Preqin data, as of October 15, 2025.

[10] SPI by StepStone, as of March 31, 2025. Includes buyout transactions from 2010 through 2025, incorporating current EBITDA margins for unrealized investments.

[11] McKinsey & Company Private Capital Practice, Operating Group Benchmarking Survey, 2024.

[12] Preqin. Analysis of average growth in flagship fund size from vintage to vintage. Includes fund series with at least five vintages and at least one fund exceeding $1B. For the purpose of this exhibit, small cap = $500M–$999M, lower mid-market = $1B–$2.49B, mid-market = $2.5B–$3.99B, large cap = $4B–$9.99B, and mega cap = $10B+. Data retrieved December 12, 2024.

PACT CAPITAL PARTNERS

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