Michael Venne (00:00)

Imagine two versions of the UK economy. One is in the headlines, slow growth, political whiplash, currency drama. The other is quieter, private. And according to the data, remarkably resilient. UK buyouts have been outperforming Europe, losing less often and doing it with surprisingly low correlation to the macro story everyone argues about at dinner. So what's powering that parallel UK? What happens when scarcity turns into a surge when pension money shows up and competition rises. I'm Michael Venn, and today I'm joined by Akhilan Nessaratnam to talk about three forces shaping UK private equity's edge, scarcity, specialism, and succession.

Michael Venne (00:54)

Welcome to RPM, the StepStone Group podcast that delivers quick takes and sharp insights on the themes and trends shaping private markets. Today's conversation draws on our analysis of UK small and middle buyouts, hundreds of realized investments across more than a hundred UK focused buyout funds, benchmarked against similarly sized deals across Europe. We start with the headline, outperformance, then the mechanism, i.e.

What capital constraints actually did to managers? And finally, the forward looking question. How the mansion house accord could change the game? Akilin, great to have you here. Welcome back, my friend. How are you?

Akhilan Nesaratnam (01:40)

Pleasure, Mike. All good, thanks. How you doing?

Michael Venne (01:41)

Yeah, doing great, thanks. All right, so let's give you a quick warm up. If you had to explain United Kingdom's private equity edge in one sentence, what would you say?

Akhilan Nesaratnam (01:57)

So I would say it's a market where constrained capital, reshuffling of talent have rewarded managers with deep local networks, but particularly sector expertise. And that combination has produced stronger realized outcomes than what you've seen in incomparable European deals.

Michael Venne (02:17)

So let's start with the paradox. The United Kingdom has looked messy in headlines, but UK private equity has held up better than Europe with fewer losses. What do people get wrong when they map public market narratives onto private market results?

Akhilan Nesaratnam (02:41)

Yeah, it's a good question. I would say a couple of things. First, private equity isn't just broad public exposure. It's concentrated selection, it's active ownership. And managers are choosing specific companies and driving change within specific niches. Secondly, I mean, the analysis that we ran for for this white paper, it's looking at pure UK, specialist UK based funds investing in small and middle sized UK headquartered companies. So we're trying to isolate local expertise revenue bases that are really based in UK. Whereas often when you look at the UK public markets, you may be looking at potentially larger companies and global revenue profiles and to some extent beta.

Michael Venne (03:24)

So one of the findings from the paper that, if you've worked at StepZone as long as you and I have, it's come to be a common refrain, i.e. UK private equity performance has little to no relationship with global macro. That's not surprising to us, but it may be surprising to others. So I just wanna like tuck into it a little bit. If GDP growth has been modest, but buyout outcomes are holding up what's really driving returns.

Akhilan Nesaratnam (04:00)

So private equity done well should always be a micro play rather than a macro bet. And idiosyncratic factors across private equity matter. So when you think of entry discipline, underwriting standards, operational execution, choosing resilient business models, I mean, what we have found is that UK private equity has pivoted towards sectors where the local economy in the UK genuinely outperforms on a global scale.

So I would highlight technology and financial services specifically on that point.

Michael Venne (04:34)

Okay, great. You know, I think that some skeptics will say it's leverage, it's a liquidity, it's smoothing, you know, the common factors that people point to when they're trying to cast stones and aspersions on the industry. But the persistence about performance matters. What's the most defensible explanation for the gap?

Akhilan Nesaratnam (04:59)

Yeah, I think active ownership is something that is clear and how those returns have been generated is significant. I mean, with the right local networks and a repeatable operating playbook, managers in the UK can find assets at attractive prices, they can drive operational improvements and they can generate outcomes that lead to strategic premiums at the valuation level can show up as higher realized money multiples and fewer outright losses. That's maybe a bit of a summary as to how we've seen private FD outperform.

Michael Venne (05:37)

So now that we've established the mystery isn't whether UK buyouts outperformed, I want to address the why. And based on your analysis, the answer starts with a counterintuitive idea. That is scarcity can sharpen advantage. Your analysis shows global private equity fundraising grew, but UK and small and middle buyouts stagnated. What did that constraint actually do on the ground?

Akhilan Nesaratnam (06:13)

Absolutely. So as you say, global fundraising grew, but fundraising within the UK's smaller middle space stagnated. I essentially that is a fallout of the post-Brexit environment. Fundraising became a lot more difficult for UK GPs, particularly as European LP participation declined. And what we notice is that when capital is scarce, markets can become Darwinian. The more sort of under...differentiated managers start to fade and those with a more repeatable edge have survived. So the result is a smaller but clearer set of mature institutional GPs and actually a whole host of spin out opportunities as well, which has made the UK dynamic, if anything, one of the most dynamic markets in Europe.

Michael Venne (07:03)

Capital gets scarce, markets get Darwinian. I think we have our hook for this episode. One of the things that jumped out to me from the paper is the market map. And it shows that only about 60%, three in five of the managers that were active a decade ago are still active today. And a meaningful share of today's landscape is comprised of new and emerging firms.

Can you walk us through both the opportunity as well as the trap?

Akhilan Nesaratnam (07:38)

The opportunity is talent concentration and high quality spin outs. The trap is attribution because LPs need to truly understand who led those deals, ~ who built networks and sourced those investment opportunities, who drove operational value in those companies versus who inherited a brand name and maybe coasting at otherwise bloated firms.

Michael Venne (08:05)

You emphasize succession as a real driver here. What's the pattern?

Akhilan Nesaratnam (08:12)

So what we're seeing is that founders at very sort of often large or even mid-size institutional firms retain economics and in some cases retain influence perhaps longer than the next generation expects. So when rising leaders at those firms see more limited runway, they tend to leave to build independent platforms. And often there are LPs that want to back that same expertise but with better alignment and perhaps more nimble platforms.

Michael Venne (08:50)

When the LPs that you're working with are evaluating a spin out, what do you tell them to really hone home in on as their as part of their diligence?

Akhilan Nesaratnam (09:03)

I think to reiterate, deal attribution is absolutely crucial. The durability of local networks, which can be diligence through extensive referencing, portfolio companies, CEOs, advisors, and so on. But I think also just evidence of driving value operationally without the reliance of a broader platform, which clearly wouldn't be there in a sort of spin out or emerging manager setting. Understanding the true value add from the individuals that have chosen to spin out that that's absolutely crucial to a to a new manager.

Michael Venne (09:40)

So to quickly recap, found that scarcity clarified the market, but that regime may be changing. And to set the table for what will come next is the mansion house accord. It signals a meaningful influx of domestic capital. And as we know, new money often changes incentives. Akilin, for those who might not be as familiar, could you briefly explain what is the mansion house accord? and then discuss how material that new capital could be.

Akhilan Nesaratnam (10:15)

Absolutely. So the Mansion House Accord was announced in May 2025. Essentially 17 major UK pension providers agreed to invest at least 10 % of their defined contribution funds into private markets by 2030 with at least half dedicated to UK investment. that's up to £50 billion of local investments in UK businesses and infrastructure. Of course, private equity will be a portion of that.

Michael Venne (10:49)

And who do you think is going to or who could benefit and who could potentially get squeezed?

Akhilan Nesaratnam (10:57)

Yeah, I think to reiterate, the impact could be significant. I mentioned 50 billion of local investment. Again, private equity will be a portion of that. But we estimate total market capitalization within the UK smaller mid-market segment to be around 30 billion. So even if a modest share of that capital ends up in private equity, that could materially ease fundraising, especially for the more established managers that we expect but also potentially for first-time funds if LPs are the right at that risk. I said, speaking with GPs with LPs is that it will most likely be those managers in the, call it 500 million fund size and above that may see increased fundraising momentum. They will certainly benefit from a fundraising perspective, but at the same time, we think the upside from a performance point of view is probably stronger for the smaller managers that have then the opportunity to sell into that slightly larger segment because that will mean greater competition in that larger segment that will increase entry valuations and that should lead to stronger returns for those smaller managers looking to sell into that segment.

Michael Venne (12:10)

Thanks for that. That takes us to the third leg in the stool, and that is specialism. Why have technology and financial services become the center of gravity?

Akhilan Nesaratnam (12:26)

very general comment, and of course it will depend on the sub-sectors within technology and financial services, but generally these are sectors that have offered greater revenue visibility, scalability and growth. And UK assets in these sectors have perhaps attracted international buyers to a greater degree than maybe other assets. I think one of the key areas of diligence here is that as competition rises in these segments, sector depth domain expertise become even more crucial to unlock the levers for value creation and ultimately find a way to credibly underwrite deals.

Michael Venne (13:05)

Particularly when markets get disrupted, like as we've seen in software and AI, right? I think that's specialism that you pointed to is going to be critical to underwriting deals in those sectors if they're going to continue to offer the historic outperformance that they have.

Akhilan Nesaratnam (13:27)

Absolutely.

Michael Venne (13:29)

Many successful UK managers expand into Europe as funds grow, but your analysis suggests caution. Why is that edge hard to replicate?

Akhilan Nesaratnam (13:43)

Well, in the European small market in particular, and again, not necessarily just related to the UK, being local gives you a significant advantage. It gives you a greater opportunity set and it can give you the opportunity to buy assets at more attractive entry multiples. And those relationships, that sort of pattern recognition, they don't necessarily automatically travel across borders. And I would say especially so from the UK into mainland Europe, given language barriers, regulatory challenges, and so on. I mean, what we found is that very few country specialists can replicate their domestic performance to the same degree abroad, unless, of course, they are true sector or thematic specialists exporting some sort of proven playbook.

Michael Venne (14:35)

interesting.

Okay, Kaelin, we're getting close on time, so I'm going to attempt to land this. UK private equities recent edge looks less like a macro miracle and more like a market structure story. Scarcity forced the shakeout. Succession moved talent into new vehicles and specialism sustained returns, even as conditions tightened. And now the open question is whether a wave of domestic capital from the Mansion House Accord is going to make the opportunity bigger or simply more expensive. Anything to add to that?

Akhilan Nesaratnam (15:11)

No, I think you added it, Mike. That's a great summary. I would just reiterate the UK small and middle private equity market is one of the most dynamic markets in Europe. It's one that's faced a number of challenges over the last few years and will likely face a number of challenges as a result of the mansion house accord. It's a market that I think requires a certain level of sophistication. It requires a certain level of data. I think we're fairly fortunate that we have the local networks, but also the data which allows us to truly understand which of the more established managers are well positioned to perform. But just as importantly, which of the most sort of interesting spin out opportunities are worth analyzing in greater detail and ultimately worth committing to.

Michael Venne (15:56)

That's great context. Akilin, thanks again for joining and hope to see you soon.

Akhilan Nesaratnam (16:02)

Thanks Mike, a pleasure.

Michael Venne (16:05)

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