PKF

December **2025**

Private Equity Perspectives

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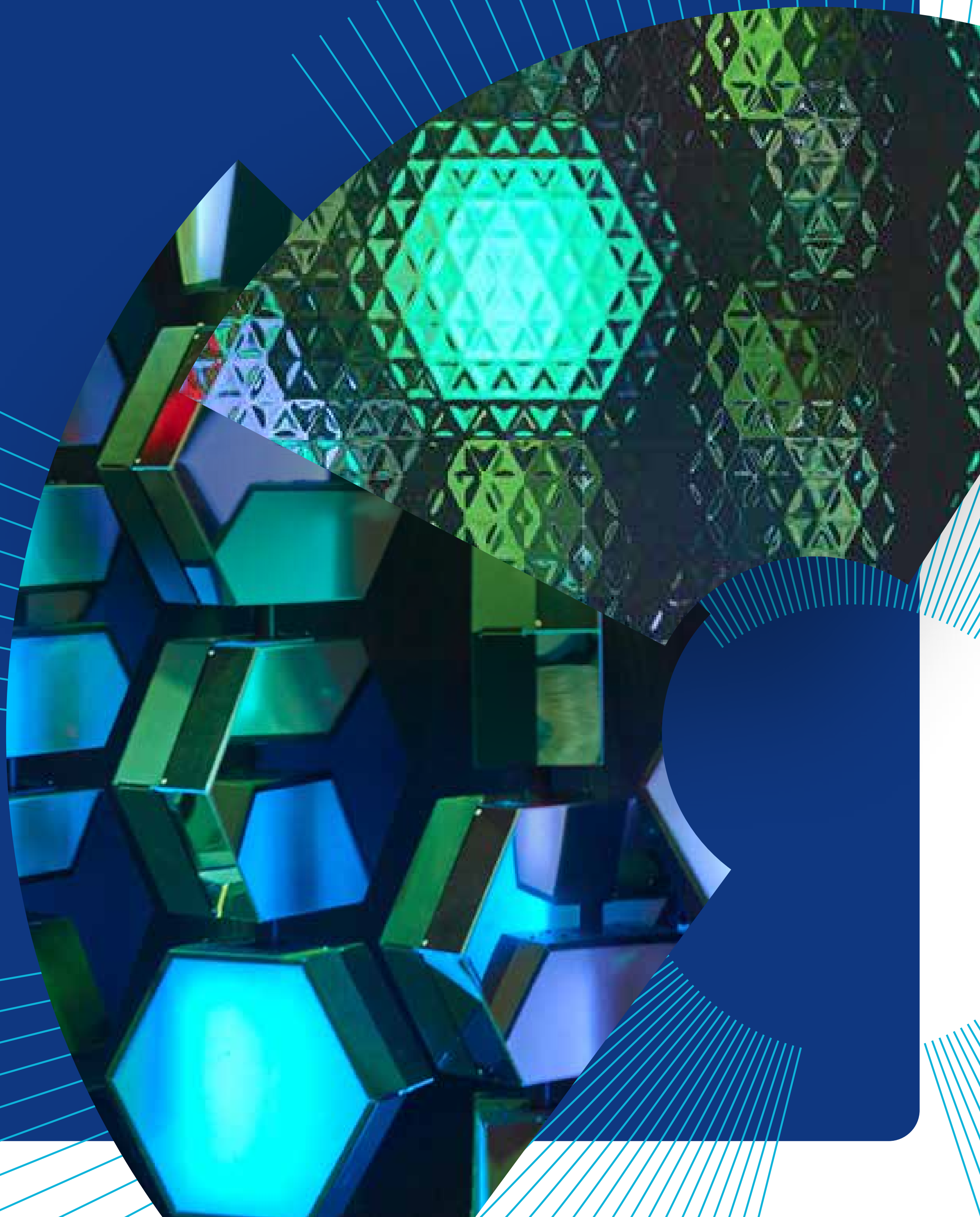

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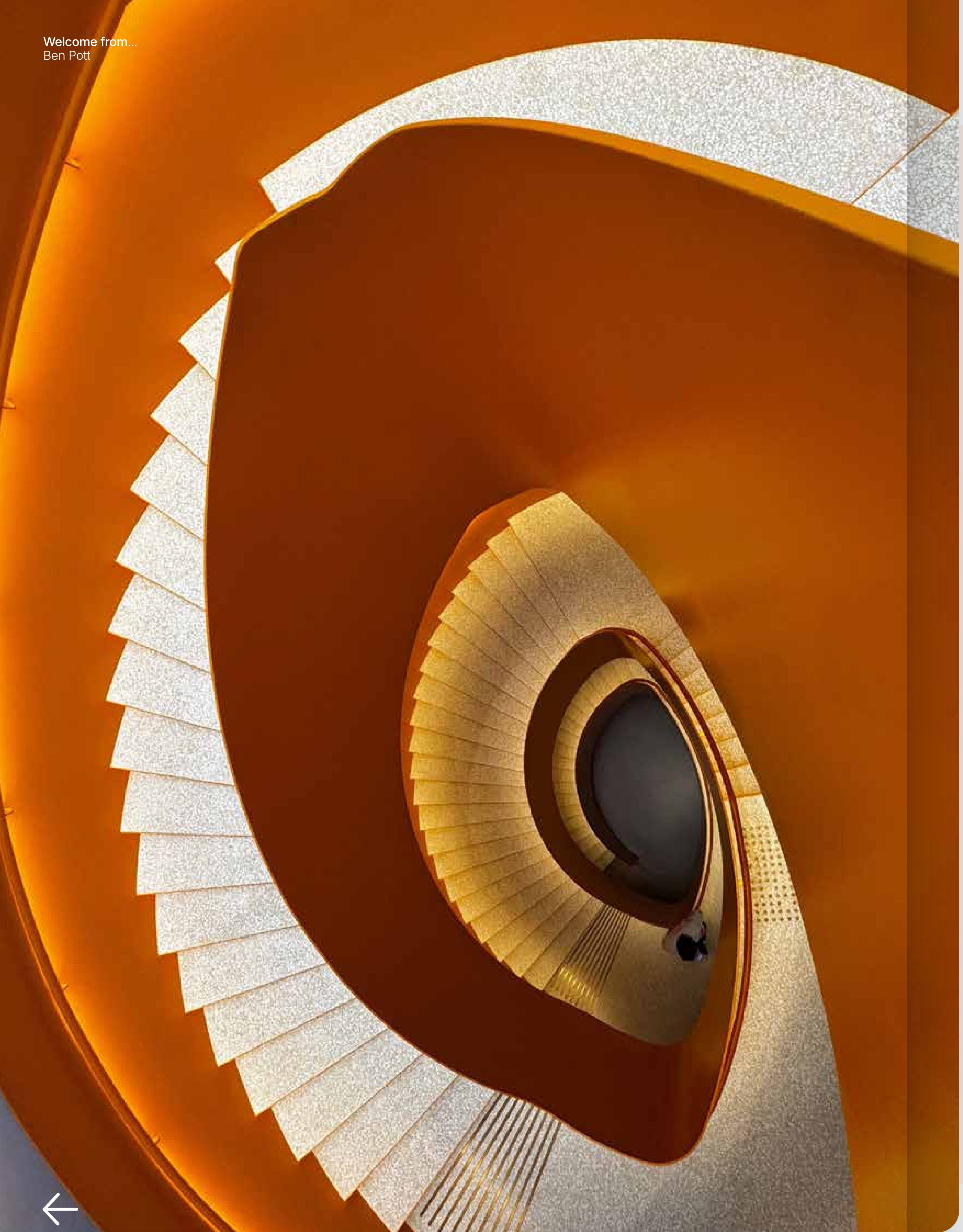

Welcome to the inaugural issue of **Private Equity Perspectives...**

This publication is designed to provide an overview of the Private Equity landscape, bringing together insights from three critical perspectives: market trends, accounting and regulatory developments, and tax considerations. In this first edition, PKF's Private Equity team reflect on the key themes that shaped 2025 while looking ahead to what may define 2026. Whether you're an investor, advisor, or operator, we hope these perspectives offer clarity and context in a market that continues to evolve at speed.

2025 was a year of contrasts for global private equity: deal values surged past $1.5tn despite lower volumes, creative structures unlocked exits, and fundraising remained tough. Continuation funds, secondaries, and earnouts gained traction, while AI and ESG reshaped strategies. As we head into 2026, cautious optimism prevails. IPO markets are rebounding, valuation gaps narrowing, and operational alpha is the new mantra for driving returns. In this edition, we share our perspective on what may lie ahead for PE as we enter a new year.

Whilst globally, 2025 has seen some positive momentum, the UK Private Equity market has remained subdued. Here we look back at how the UK PE market has performed in the past 12 months.

Big changes are coming for PE reporting in 2026. Updated IPEV valuation guidelines land in January, alongside major FRS 102 and IFRS amendments. ILPA is rolling out its most significant reporting overhaul in a decade, introducing new templates for transparency and performance. Plus, AIFMD II takes effect in April, with the UK set to diverge from EU rules. We explain why firms should prepare now for tighter timelines and more complex compliance.

Although some of the widely feared reforms, such as imposing employer National Insurance Contributions on partnership profits, did not materialise, several significant measures were introduced in the 2025 Autumn Budget. While the most dramatic changes were avoided, the Budget still brings important changes for partnerships and the wider PE landscape, our Head of Private Client Tax, Stephen Kenny, explains.

We hope you find this edition insightful and useful. We welcome your feedback and suggestions for future topics - please do get in touch.

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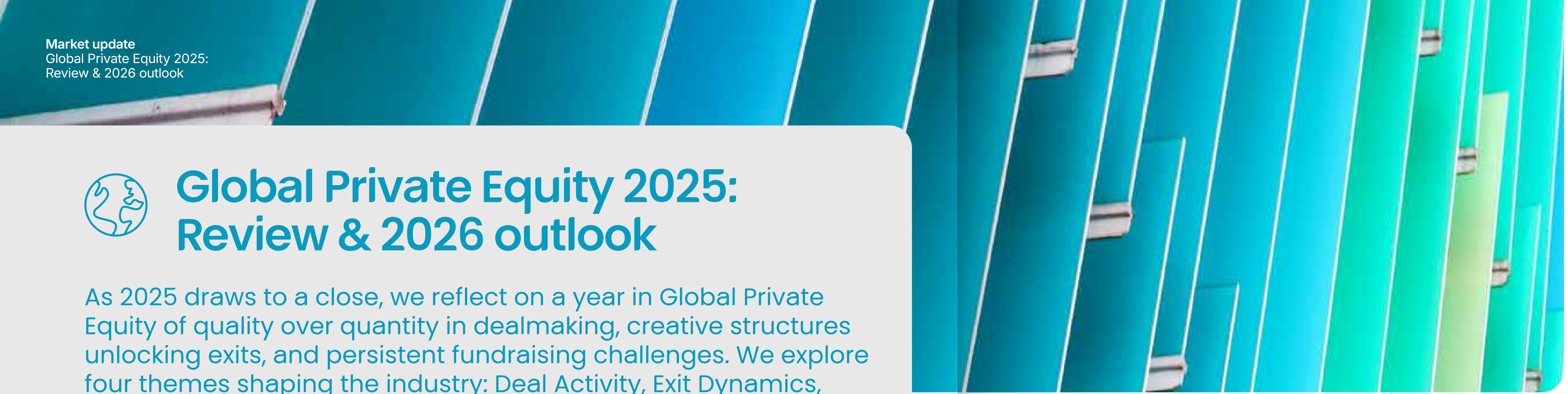


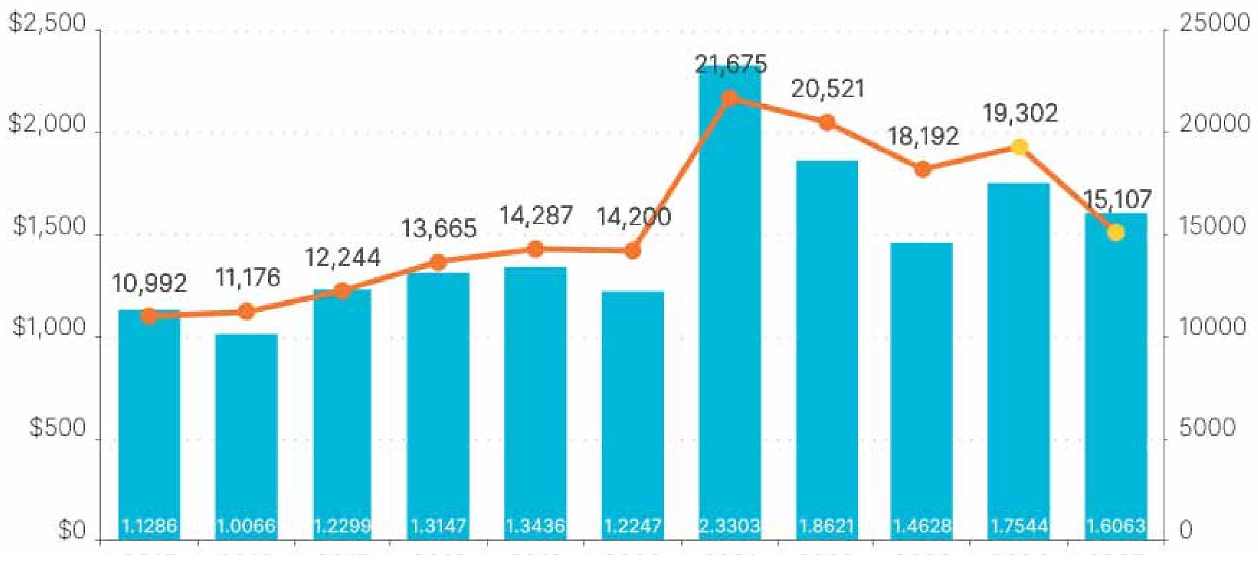
Global Private Equity 2025: Review & 2026 outlook

As 2025 draws to a close, we reflect on a year in Global Private Equity of quality over quantity in dealmaking, creative structures unlocking exits, and persistent fundraising challenges. We explore four themes shaping the industry: Deal Activity, Exit Dynamics, Fundraising Trends, and Strategic Initiatives, and share our outlook for 2026.

Deal activity

2025 marked a year of divergence between deal value and volume. Total deal value reached $1.5tn across buyouts, add-ons, and expansion deals, with Q3 contributing over $500bn, the strongest quarter in three years. Yet volumes softened year-on-year and remain well below 2021 peaks, signalling a preference for fewer, higher-quality deals. This trend was characterised by three major U.S. public-to-private buyouts contributing $95bn of Q3's value; Electronic Arts ($55bn), Air Lease ($28.2bn), Dayforce ($12.3bn).

The valuation gaps which have impeded recent dealmaking began to narrow, with two-thirds of GPs reporting improved alignment. Creativity in deal structures grew, with club deals and co-investments rising for risk-sharing and value creation. Cross-border activity gained traction, particularly in Asia-Pacific and Europe, as firms sought geographic diversification in sourcing quality assets.

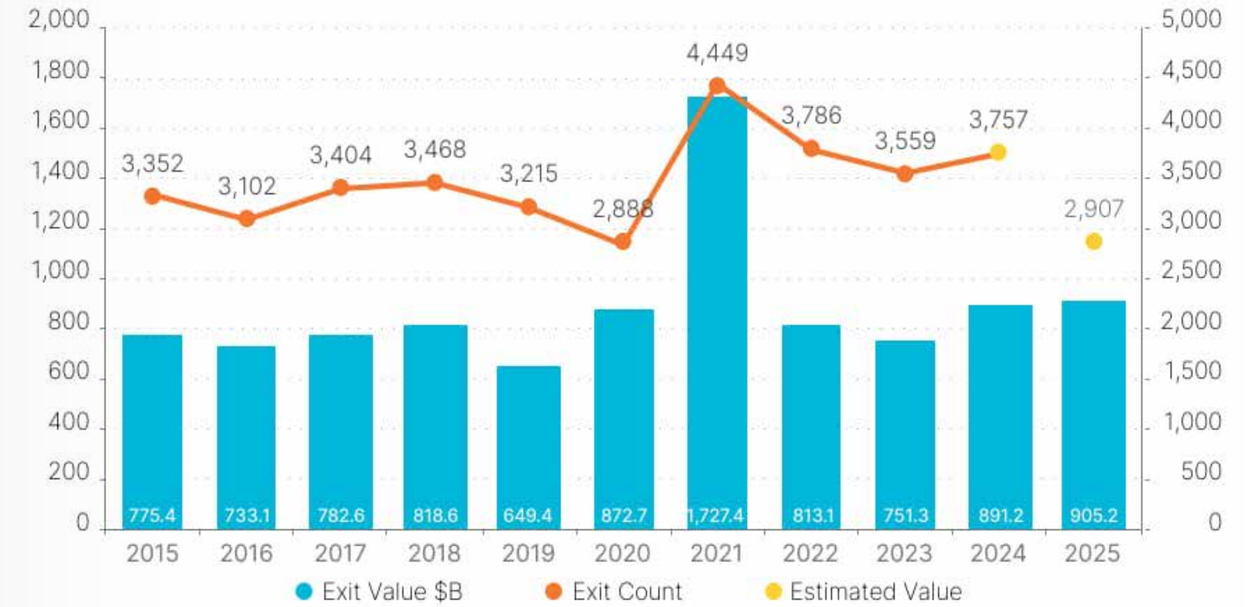


Global PE deal activity (buyout, add-on & PE growth)
Source: PitchBook Data, Inc.

Exit dynamics

The paradox of abundant capital versus exit scarcity, a defining trend in recent years, persisted. Dry powder hit $1.2tn, with nearly a quarter held for over four years, yet Q1 exits were the lowest in two years. However, a rebound in Q3 suggests this imbalance may be easing.

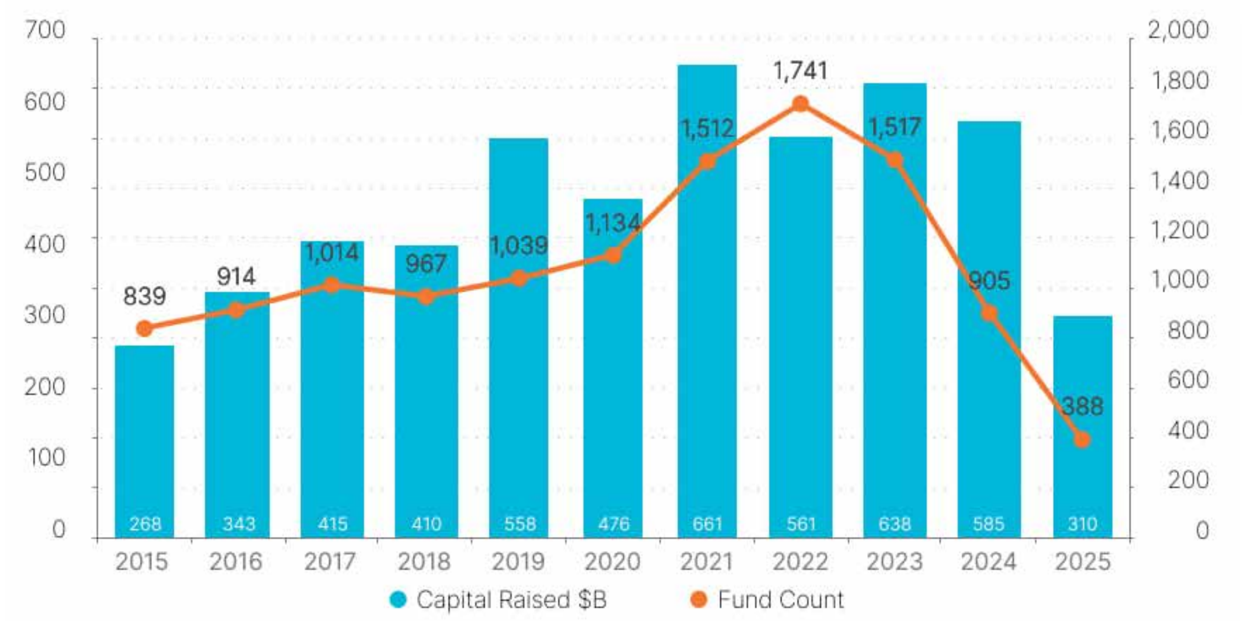
Liquidity pressures from LPs fuelled growth in continuation funds and secondaries, enabling GPs to extend trophy asset ownership and improve DPI. For more traditional exits, a rise in earnouts and contingent clauses were utilised to mitigate macro uncertainty. Encouragingly, PE-backed IPOs re-emerged after years of hibernation, raising $18bn in Q3, led by healthcare and financial infrastructure listings.



Global PE exit activity
Source: PitchBook Data, Inc.

Fundraising trends

Fundraising remained subdued at $340bn raised YTD, down 25% year-on-year. Buyouts continued to dominate, while secondaries gained momentum. Timelines stretched to 17–25 months as LPs exercised caution navigating liquidity constraints and rebalancing efforts. Retail channels and U.S. 401(k) access emerged as long-term tailwinds, with estimates citing that a modest allocation could increase incremental capital flows by over $500bn. Demand for semi-liquid evergreen structures grew; historically offered by larger firms they look poised to become more mainstream as GPs aim to provide flexibility in a competitive environment.



Global PE fundraising activity
Source: PitchBook Data, Inc.

Strategic initiatives

AI continued to transform PE strategies, from deal sourcing to portfolio optimisation. Firms embedded AI in pricing, GTM strategies, and operational planning, enhancing due diligence and performance tracking.

ESG priorities diverged geographically: while the U.S. scaled back, Europe and Asia maintained ESG as a core value driver. ESG-focused deals surged in renewables, healthcare, and clean tech, supported by regulatory and stakeholder pressures for robust frameworks.

Operational value creation shifted toward "operational alpha", leveraging data-driven approaches, predictive analytics, and lean models to drive EBITDA growth. Relying on financial engineering alone, through leverage and multiple arbitrage, is no longer sufficient. Current value creation hinges on innovation, disciplined execution and measurable operational impact.

Outlook for 2026

As we race towards 2026, market sentiment leans toward cautious optimism. Deal-making momentum should continue, supported by IPO resurgence, easing financing conditions, and narrowing valuation gaps. AI adoption will move from experimentation to full-scale deployment, reshaping strategy and portfolio operations.

Challenges will remain, particularly for those raising capital. The trend for funds flowing to the largest, most experienced funds is not expected to reverse. Mid-market players will need to be innovative in their product offering to stand out in an increasingly competitive, investor-led fundraising landscape.

Whilst pre-2022 levels of deal activity are not yet predicted to return, Private Equity is showing signs of weathering the storm of the last three years. Macro volatility remains a threat to PE's positive momentum but Vanguard's recent long-term analysis, suggesting a diversified PE portfolio can outperform global public equities by 3.5% annually, reinforces the asset class's resilience and appeal to investors.

UK Private Equity 2025: Performance & outlook

Overview

Whilst globally, 2025 has seen some positive momentum, the UK Private Equity market has struggled to shake off the shackles of inertia of recent years. Deal activity has remained supressed, with deal volumes falling to 890 in the first three quarters down from 1,097 for the same period last year. Unlike the global landscape, transaction value has also declined, dropping 45.6% to $29.82bn for the year to Q4. Digging a little deeper into the data, we can see that the reduction in M&A activity is the key driver here – a 62.5% drop to only $15.91bn. The value of funding rounds has fared more favourably, climbing 12% to $13.9bn. Unsurprisingly, fundraising in the UK continues to be muted with capital raised falling by over half year-on-year from $86.51bn to $41.6bn. With funds holding assets for longer, meaningful performance data becomes more limited at a time where investors are already being very particular with where they deploy their capital.

Driving Factors

The relatively weaker performance of dealmaking in the UK is likely due to a combination of factors:

- The valuation gap is taking longer to narrow, leading to delays in deal progress.
- Nervousness around global macro uncertainty, particularly the impact of tariffs
- UK specific economic factors, the impact of 2024's budget and the uncertainty of what was to be announced in November's budget has impeded dealmaker confidence
- A mindset shift to a more patient approach to exits. Whilst LP calls for liquidity are growing, GPs have shown a willingness to bide time, extending hold periods to achieve more optimal results on exits.

Outlook

It is important not to paint too gloomy a picture. Bucking the global trend, UK Private Equity exits have risen in both value and volumes reaching $30.4bn across 214 deals, an increase of 42.5% and 10.3% respectively. There is clearly still strong interest for high quality assets, with the TMT, financial, industrials and healthcare sectors being the most sought after during 2025.

2026 looks set to be an important year for the UK private equity market. There is ground to make up in terms of breaking the deal deadlock but a period of macro stability, innovative deployment of AI and continued democratisation of the market all present strategic opportunities to capitalise on the record levels of dry powder.

Private Equity reporting 2026: Key accounting & regulatory updates

As we approach the 31 December 2025 reporting cycle and look ahead to 2026, this section highlights key accounting, regulatory, and industry developments both recently implemented and on the horizon, that are expected to shape reporting for private equity management entities and fund vehicles.

1. December 2025: Updated IPEV Valuation guidelines

- Final release expected in December 2025, effective for periods beginning on or after 1 January 2026
- Evolution not revolution: Core principles remain unchanged, additional commentary and explanatory material added alongside worked examples
- Key updated areas: the Board statement implies. Key areas that have received welcome expansion include Known and Knowable Information, Complex Capital structures, Liquidation preferences, use of AI, and Calibration
- Whilst the principles remain consistent, firms will need to time to understand the additional notes and assimilate updates into their valuation approach. For those reporting monthly NAVs, the window from release to implementation will be tight.

2. January 2026: Accounting updates

- FRS 102 amendments effective 1 January 2026: Lease accounting and revenue recognition accounting updated to better align with IFRS 16 and 15 respectively. See our article, **How FRS 102 amendments affect Private Equity**, for further detail
- IFRS amendments effective 1 January 2026: IFRS 9 & IFRS 7 amended including classification and measurement clarifications of contractually linked instruments & ESG linked features, updates to derecognition rules and enhanced disclosures for instruments with contingent features & equity instruments at FVOCI
- Whilst effective 1 January 2027, amendments to IFRS 18 include an overhaul of income statement preparation requiring 2026 comparatives.

3. Q1 2026: Updated ILPA Reporting and Performance template

- The 2026 reporting changes will be the most significant update to ILPA reporting in 10 years
- The updated Reporting template (replacing the 2016 version) for funds in investment phase, to be implemented in Q2 2026. Key enhancements include increased granularity for internal chargebacks and external partnership expenses and expanded detail on cash/non-cash flows
- The newly introduced Performance template aims to standardise performance methodology and is to be implemented Q1 2027. It will be applicable to funds launched from 1 January 2026 and is designed to complement not replace the Reporting template.

4. April 2026: AIFMD II

- In April 2024, the EU passed updates to AIFMD, these amendments known as AIFMD II are to be transposed by Member States by 16 April 2026 applicable to all EU AIFMs
- For UK AIFMs, expect to see some divergence in 2026. With an eye on supporting innovation and growth, the UK government and FCA have proposed a move away from the more rigid thresholds in the EU legislation to a more proportionate, activity-based approach. The FCA plans to publish detailed rules in H1 2026, with implementation later in the year.

How FRS 102 amendments affect Private Equity

Significant amendments to FRS 102 take effect for accounting periods beginning on or after 1 January 2026, aligning UK GAAP more closely with IFRS. Key changes include new models for revenue recognition and lease accounting, alongside other clarifications. Head of Financial Accounting Advisory Services, Satya Beekarry explains how these changes will impact private equity managers and their portfolio companies.

Revenue recognition (Section 23 of FRS 102)

FRS 102 introduces a five-step model, broadly aligned with IFRS 15. The aim is for greater consistency and reliability in reporting revenue and cash flows arising from customer contracts. The changes will make revenue recognition more prescriptive, aiding comparability between FRS 102 and other standards.

The five steps are:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognise revenue when (or as) performance obligations are satisfied.

For private equity managers, this has the potential to have a significant impact given the range of services offered. Investment management fees, fund admin fees, deal fees, monitoring fees, and performance fees (carried interest) can all be captured. While the total revenue recognised may not change, timing could accelerate or decelerate, particularly during transition. Judgment will be critical in identifying distinct performance obligations and determining the period over which benefits are delivered.

Lease accounting (Section 20 of FRS 102)

The FRC has overhauled lease accounting aligning FRS 102 more closely with IFRS 16. This change marks a significant shift for UK entities, as it eliminates the traditional distinction between operating and finance leases for lessees. Whilst the requirements for lessors have also been rewritten, these will not differ significantly from current practice.

The key changes for lessees are:

- No longer a distinction between operating and finance leases
- Lessees are required to recognise a right-of-use asset and a corresponding lease liability (similar to the existing finance lease accounting) on the balance sheet
- Recognition exemptions allow short-term leases and leases of low-value assets to remain off balance sheet
- Judgement may be required to be applied regarding determination of low value assets and lease term
- Introduces additional complexity and judgements, as lease terms such as extension and termination clauses need to be understood
- Additional disclosure requirements.

In practice, most material leases will move on balance sheet, front-loading lease expenses compared to today's straight-line approach. Both assets and liabilities will increase initially, but mismatches over time will reduce net assets. Current ratios may be adversely impacted on transition due to balance sheet gross-up. The IFRS 16 definition of a lease may capture contracts previously excluded, such as intra-group arrangements, creating new leases and sub-leases and adding complexity.

Impact on performance and valuation of portfolio companies

These changes affect profit margins, reward schemes and dividend capacity for houses and portfolio companies. EBITDA will rise as rent costs shift from operating expenses to depreciation and finance charges, impacting performance metrics and comparability across periods. Debt covenant compliance should be revisited, as metrics may change under the new standards. Major client agreements should be reviewed to identify performance obligations and assess timing impacts. In the transition stage, continued monitoring and engagement with portfolio company management to assess implications on financial position will be essential, particularly for businesses preparing for investment or exit.

From a valuation perspective, changes to accounting treatment are unlikely to alter the overall value of a portfolio asset. However, they will affect the underlying valuation mechanics. For those applying a multiples-based methodology, adjustments to revenue and EBITDA are expected to drive a step change in the multiples used. On a positive note, greater alignment with IFRS should enhance comparability within peer groups and improve the consistency of comparable baskets.

	Profit/loss	Balance sheet	Ratios
↑	EBITDA	Total assets/liabilities	Gearing
↓	EPS (in early years)	Net assets	Interest cover ROCE

How can we help?

Our accounting advisory team can support impact assessment, implementation, and transition to the amended FRS 102 standards. With experience in IFRS 15 and IFRS 16 transitions, we understand the challenges these changes pose. Please contact us to discuss this or any other upcoming standard amendments further.

Now the dust has settled: the Autumn Budget's impact

Now the Budget is over and we know that much of the speculation in the lead up didn't come to pass, many can breathe a cautious sigh of relief.

The headline-grabbing reforms that were feared, particularly a new National Insurance charge on partnership profits, did not materialise. But while the most dramatic changes were avoided, the Budget still brings important changes for partnerships and the wider PE landscape, as Head of Private Client, Stephen Kenny, explains.

What didn't happen – National Insurance of partnership profits

In the run-up to the Budget, there were rumours that the Chancellor might extend employer National Insurance Contributions (NICs) to partnership profits, including those of LLPs. Such a move would have fundamentally altered the economics of partnership structures, raising costs for fund managers and potentially undermining the UK's competitive edge as a global hub for private capital.

The British Private Equity & Venture Capital Association led a strong campaign against the proposal, warning it would risk driving investment and talent offshore. As such, this move was largely ruled out before the actual Budget. The Budget, as expected, was silent on new tax charges on partnerships or LLPs. For now, partners remain subject to self-employed NICs, and the LLP model continues to offer its familiar advantages.

How the Budget will affect partnership

While the feared NIC reform was shelved, the Chancellor announced a number of smaller measure that will affect all businesses and some that might hit harder on partnerships.

a. Freeze in Income Tax and NIC thresholds

The freeze on personal Income Tax and NIC thresholds has been extended until April 2031. This means the personal allowance (£12,570), higher rate (£50,270), and additional rate (£125,140) thresholds remain unchanged. By the end of the freeze there will be nearly a decade without an increase in the threshold. As partnerships are transparent for tax purposes the effect of this fiscal drag will be felt directly by the partners. There is also likely to be higher wage inflation on staff salaries in those years to compensate for the higher tax burden.

b. Cap on National Insurance relief for salary sacrifice

From April 2029, NIC relief on salary-sacrificed pension contributions will be capped at £2,000 per year. Contributions above this threshold will no longer be exempt from NICs, increasing marginal employment costs for partnerships that use salary sacrifice arrangements.

c. Dividend and savings tax increases

From April 2026, the basic and higher rates of dividend tax will rise by two percentage points, to 10.75% and 35.75% respectively. The additional rate remains at 39.35%. From April 2027, savings and property Income Tax rates will also increase by two percentage points. These changes are likely to hit on any investment returns, including co-investment returns from portfolio companies.

Carried Interest: new rules and their impact

Announced in the 2024 Budget, the most significant ongoing reform for private equity managers is the overhaul of carried interest taxation. Whilst no changes were announced in the 2025 Autumn Budget we have summarised these changes below.

Due to the fundamental shift in the taxation of carried interest caused by these changes, they have been introduced in stages.

Transitional year (2025/26)

From April 2025, carried interest is subject to a new, higher Capital Gains Tax (CGT) rate of 32% (up from 28%). This applies for one tax year only.

From April 2026: Income Tax and NICs

From April 2026, carried interest will be taxed as trading income, subject to Income Tax and Class 4 NICs. However, qualifying carried interest will benefit from a 72.5% multiplier. At current rates, this results in an effective tax rate of just over 34% - higher than the old CGT rate of 28%, but lower than the top income tax rate of 45%.

The qualifying rules require a 40-month holding period and may include further conditions after consultation. Non-qualifying carry will be taxed as income-based carried interest (IBCI), at standard Income tax and NIC rates.

Internationally mobile managers

The new rules mean that non-UK residents may be subject to UK tax on carried interest relating to services performed while resident in the UK, even if they have left the country when the carry is realised. There are some important concessions in the rules:

- Profits attributable to all duties performed in the UK prior to 30 October 2024 (effectively grandfathering any UK duties prior to last year's Budget) will not be taxable;
- Profits attributable to any services performed in a tax year where the individual is non-UK tax resident and spends less than 60 workdays in the UK in the relevant tax year will not be taxable; and
- Profits attributable to any UK duties will be treated as being attributable to non-UK duties if (i) the individual has been non-UK tax resident for at least 3 tax years before the carried interest arises, and (ii) in each such tax year they worked in the UK for fewer than 60 workdays.

About PKF

Simplifying complexity for our clients

PKF is one of the largest accountancy brands in the UK. With over 140 partners and more than 1,900 staff working from 20 locations, PKF supports clients across the UK and, through our international network, the globe.

We provide a full range of audit, accountancy, tax and advisory services and are experts at simplifying complexity – we're particularly well-known for working with large, high-profile businesses with challenging issues in fast-moving and highly technical areas.

We are also an active member of PKF Global, an international network of legally independent accounting firms that gives us an on the ground presence in 150 countries around the world.

PKF UK in numbers

12th
Largest audit practice in the UK in the latest Accountancy Daily rankings

20
Offices across the UK

2,050+
Employees and 140 partners

£202m
Fee income and growing rapidly

Financial Services in numbers

140
Financial Services clients

200+
Financial Services specialist staff

50+
Private Equity backed clients

10+
Private Equity clients

PKF Global in numbers

Part of the **16th**
Largest global accounting network

480
Offices in 150 countries

$1.7bn+
In aggregate fee income

21,000
Employees

Experts in the Private Equity market

We offer a wide range of Private Equity services to funds and portfolio companies, supporting our clients through every stage of the PE lifecycle. Our specialist Wealth and Asset Management team provides a full range of assurance and advisory services, ranging from external statutory audits and CASS audits, through to internal audits, structuring advice and tax services, as well as expert advice on the complex issues faced by firms.

Our experts can support individuals and businesses ranging from start-ups to larger well-established groups, both listed and privately owned. Our clients include wealth managers, asset managers, private equity firms, venture capital, broker/dealers and alternatives, such as FX/CFD businesses.

Our London team works closely with our international colleagues – particularly in Dublin, Luxembourg, New York and Switzerland – to offer an integrated international approach that delivers real value.

Our services

Services for Private Equity

PKF experts can provide a broad range of services to your Private Equity business.

We can provide ongoing reporting to support your business, preparing valuations, providing tax advice and carrying out statutory audits for the funds, partners and managers alike.

We also help our clients make decisions around their investments through due diligence and transaction services.

Services for portfolio companies

We provide a wide spectrum of services to Private Equity portfolio companies, including statutory audits, CASS audits, tax and transaction services for acquisitive groups.

Our governance, risk and control assurance team can also support across a range of linked services, for both Private Equity-backed groups and Private Equity firms looking for assurance over their portfolio.

Get in touch today
to see how we can help...

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