GCM GROSVENOR

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The Blueprint for Private Equity: Building with the Middle Market

KEY POINTS

01

Vast Market with Supply & Demand Imbalance
The middle market dominates private equity deal flow but remains structurally inefficient, potentially creating outsized opportunities for investors with sourcing depth and relationship-driven access.

02

Historic Performance Advantages
The middle-market offers higher potential returns due to lower entry valuations, reduced competition, and less efficient pricing—attributes that can reward disciplined investors.

03

Value Creation in a Liquidity-Constrained Market
Middle-market companies offer multiple paths to value creation, from revenue growth and margin improvement to market expansion—often at lower entry multiples and with more exit optionality.

Understanding Middle-Market Private Equity

In an era marked by tighter capital, shifting valuations, and greater scrutiny on portfolio construction, the middle market has emerged as one of private equity's most resilient and rewarding segments. Unlike mega-cap deals, which are often fully priced and fiercely competitive, the middle market offers structural inefficiencies that can enable investors to buy well, build smartly, and exit opportunistically.

The middle market represents one of the most compelling arbitrage opportunities today, especially for investors equipped with the tools and relationships to navigate it effectively.

Vast Market with Supply & Demand Imbalance

Though it draws less attention than large-cap strategies, the middle market quietly drives the bulk of private equity activity—and offers a deep, dynamic investment landscape. For example, 92% of private companies have between $10 million and $250 million in revenue[1], while 26% of capital raised in recent years came from funds under $1.5 billion[2].

IN OTHER WORDS,

74% OF CAPITAL IS RAISED BY MEGA-CAP BUYOUT FUNDS TARGETING

JUST 8% OF PRIVATE COMPANIES.

The middle market, defined as companies with $10 million to $250 million in revenue, is less competitive and offers a much broader universe of opportunities, making supply-demand dynamics more attractive than in the large-cap space.

These numbers are more than statistics—they reflect a broad and dynamic ecosystem where sellers seek liquidity, founders seek partnership, and buyers can often act with more speed and creativity.

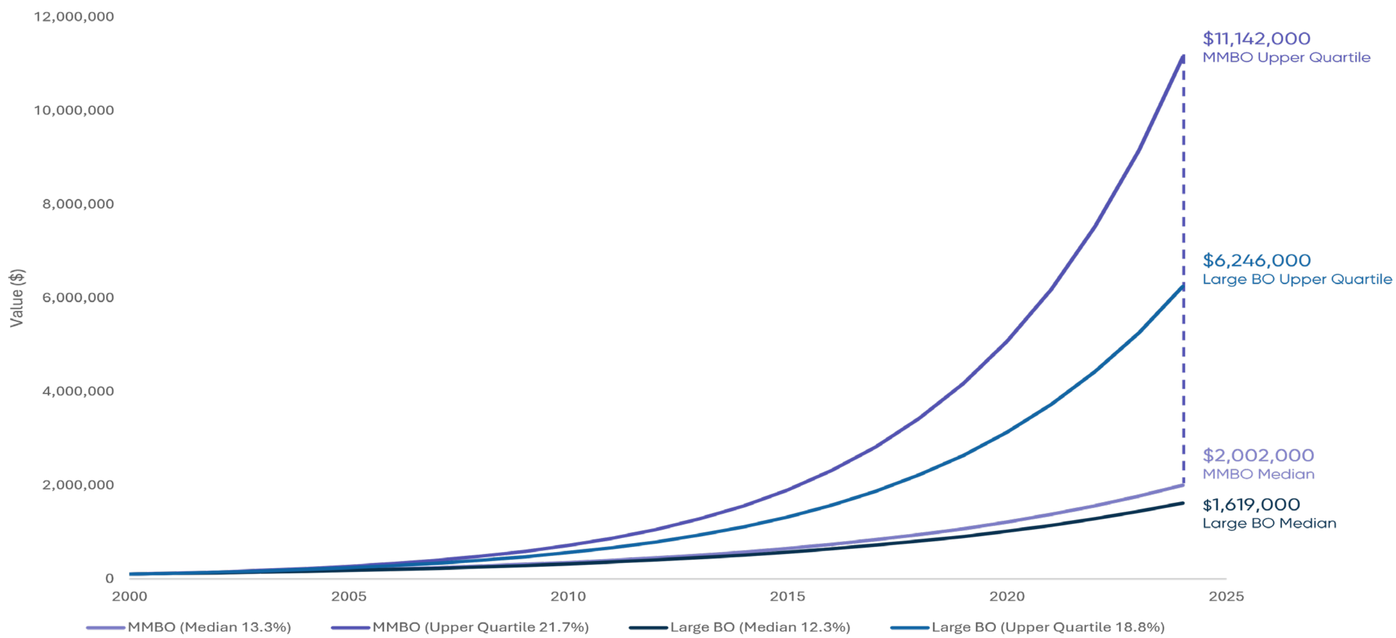
Historic Performance Advantages

As shown in the chart on the following page, middle-market private equity has historically delivered higher returns compared to large-cap private strategies, offering a compelling case for investors. Since 2000, middle-market buyout (MMBO) funds have consistently outperformed their large-cap buyout (Large BO) peers, both at the median and upper quartile levels.

1. Source: Pitchbook: Data as of October 9, 2024; represents North American and European Markets private companies with and without financial backing across all sectors.
Revenue based on latest FY.

2. Source: Preqin: Dry powder available data as of October 14, 2024; Global buyout private equity funds with vintage years of 2010 through 2024.

INDEXED GROWTH OF $100K INVESTMENT (2000 – 2024)
USING MEDIAN AND UPPER QUARTILE NET IRRS[3]



These performance differentials are driven by structural advantages that persist in the middle market.

- **More Liquidity & Activity:** Frequent entry and exit points.
- **Lower Entry Valuations:** Enhancing potential returns on invested capital.
- **Fragmentation & Reduced Competition:** Creating differentiated sourcing opportunities.
- **Pricing Inefficiencies & Transparency Gaps:** Allowing value creation through underwriting and engagement.

These dynamics allow investors a chance to access assets at more attractive valuations with greater upside potential—conditions that are increasingly rare in today's efficiency-driven institutional markets.

Value Creation in a Liquidity-Constrained Market

Finding great companies isn't enough. To produce returns, entry points matter.

As companies grow, having operational partners who can support areas like technology, finance, data analytics, talent management, and procurement helps build stronger, more resilient businesses.

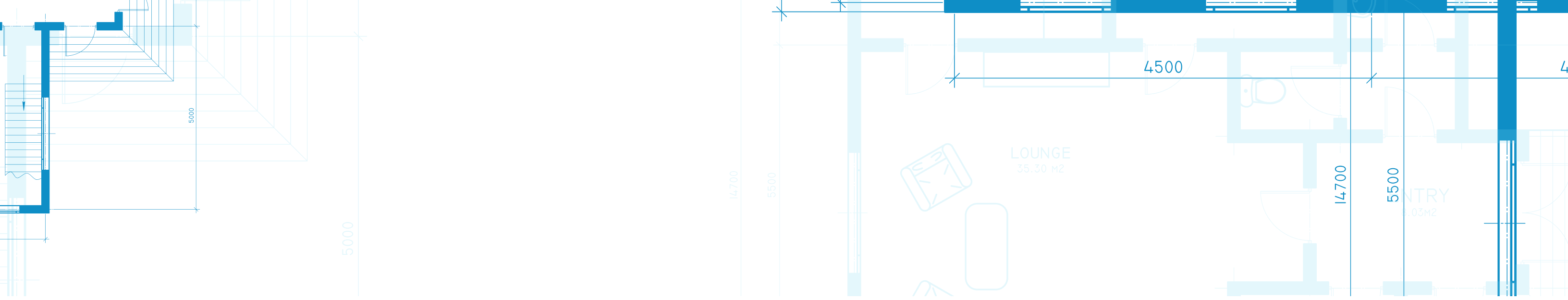
When it's time to exit, companies with $10 million to $250 million in revenue typically have more options than larger organizations that often rely on IPOs. Middle-market companies can acquire another business, be acquired by one with strong synergies, be sold to another strategic sponsor seeking to unlock further value or pursue a public offering.

WHEN IT'S TIME TO EXIT, COMPANIES WITH

$10 MILLION – $250 MILLION

IN REVENUE TYPICALLY HAVE MORE OPTIONS THAN LARGER ORGANIZATIONS THAT OFTEN RELY ON IPOS.

3. Source: Burgiss: Data as of September 30, 2024. U.S. MMBO: Funds less than $3 billion; U.S. Large BO: Funds over $3 billion. Consists of 2000 - 2013 vintage funds



Manager Selection: A Key Driver of Value Creation

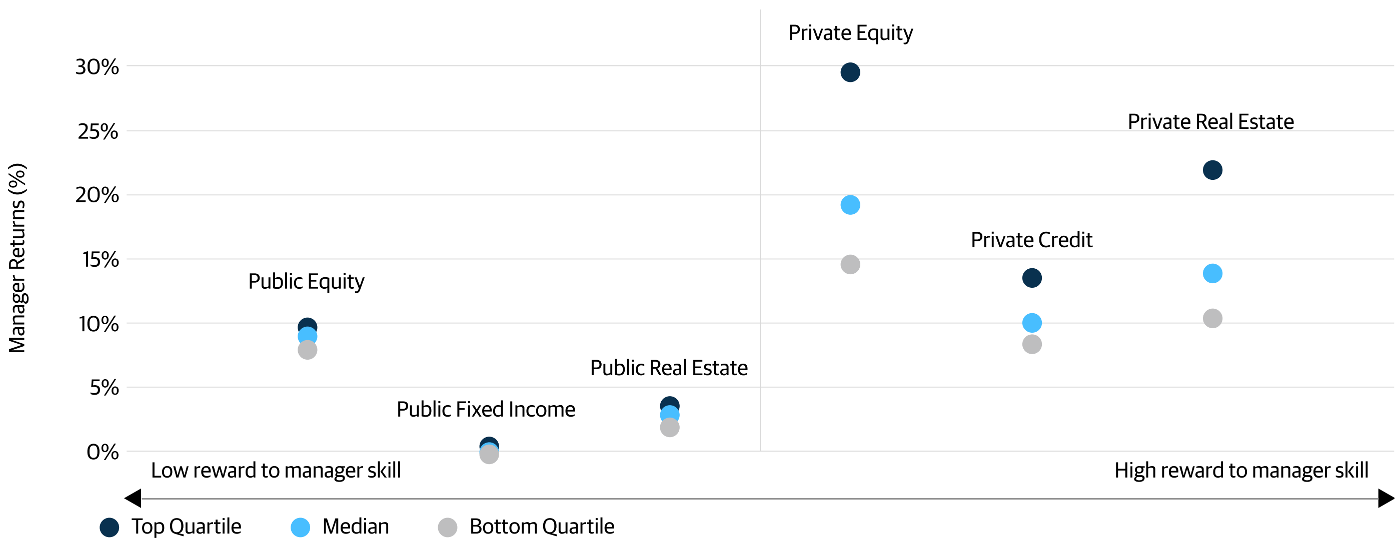
Perhaps the most overlooked edge in the middle market lies in manager selection.

At GCM Grosvenor, we focus on emerging manager investing and maintain longstanding relationships with a broad network of middle market sponsors. We've been backing early-stage managers for over 20 years and believe it can lead to sustained outperformance and differentiated deal access. Over the last three years, 29% of our private equity commitments have been to small and emerging managers[4]. Many of those firms have since grown substantially in AUM and reputation.

Why does this matter? Because working with capacity-constrained and rising-star managers provides exposure to investment opportunities that are often unavailable through larger, more crowded platforms. It's a form of access arbitrage - one that rewards conviction, relationships, and long-term alignment.

As shown in the chart below, private equity has historically delivered higher and more variable returns compared to public market asset classes—particularly in the middle market, where buyout funds (MMBO) have outperformed their large-cap peers (LBO) at the median and upper quartile levels. Because dispersion is greater in this sector, experienced partners like GCM Grosvenor are critical to ensuring this part of a portfolio is managed expertly and positioned to capture the potential upside while avoiding possible underperformers.

DISPERSION OF OUTCOMES, MANAGER RETURNS OVER A 5 YEAR PERIOD[5]



4.Source: GCM Grosvenor. Data as of September 30, 2024.

5. Source: Morningstar, returns are over a five-year period from 1/1/2017-12/31/2021 (Open-end funds): Public Equities (US Large Blend); Public Fixed Income (US Intermediate Core Bonds); Public Real Estate (US Real Estate). Preqin, returns are for 2016 vintages that have last reported between 12/31/2020-9/30/2021. (North America, Closed funds): Private Equity (Buyout), Private Credit (all Private Debt strategies); Private Real Estate (Co-invest, Core, Core+, Debt, Value Added, FoF). Investments in less liquid private market strategies are by nature risky and typically involve a high degree of leverage. The returns indicated above are long- term and represent well-known asset class indices and are not meant to be predictive of the performance of any particular fund, nor are they meant to suggest that all private funds result in positive returns or would avoid loss of principal.

Middle Market: Foundational, Timely, and Differentiated

The case for middle-market investing is both structural and timely. Today's environment is amplifying long-standing advantages like flexibility, creativity, and informational asymmetry. Founders and family-owned businesses are seeking liquidity and trusted partners. Lenders remain constructive for high-quality borrowers. Larger sponsors are pursuing bolt-on acquisitions. Meanwhile, the secondaries market continues to unlock value from mature portfolios.

This convergence has created what we believe to be an especially opportune moment to lean into the middle market, particularly for investors who prioritize underwriting rigor, sourcing depth, and disciplined capital deployment.

In our view, the middle market is the foundation of the private equity ecosystem. In a world where dispersion is rising and capital must work harder, it's where many of the best risk-adjusted opportunities take shape. For those willing to look beyond size and brand name, the middle market offers more than access—it can offer an edge.

About GCM Grosvenor

GCM Grosvenor (Nasdaq: GCMG) is a global alternative asset management solutions provider with approximately $82 billion in assets under management across private equity, infrastructure, real estate, credit, and absolute return investment strategies. The firm has specialized in alternatives for more than 50 years and is dedicated to delivering value for clients by leveraging its cross-asset class and flexible investment platform.

GCM Grosvenor's experienced team of approximately 550 professionals serves a global client base of institutional and high net worth investors. The firm is headquartered in Chicago, with offices in New York, Toronto, London, Frankfurt, Tokyo, Hong Kong, Seoul, and Sydney.

For more information, visit: gcmgrosvenor.com. **www.gcmgrosvenor.com**.

Our Locations

Headquarters
Chicago
+1-312-506-6500

900 North Michigan Avenue, Suite 1100, Chicago, IL 60611

New York
+1-646-362-3700

Toronto
+1-647-417-7361

London
+44-0-20-3727-4450

Frankfurt
+49-69-5899-6526

Tokyo
+81-3-5573-8110

Hong Kong
+852-2452-9400

Seoul
+82-2-2158-8500

Sydney
+ 61-499-298-820