

‘Show me the Money’ : The Rise of DPI in Private Markets

Private capital markets are facing an acute LP liquidity crunch as firms hold portfolio companies for longer than in previous cycles. Lengthening holding periods largely reflect a valuation mismatch between buyers and sellers, driven by the dislocation between peak entry valuations during the 2021 bull market and the subsequent repricing of assets following interest rate tightening. This environment has materially influenced how GPs are assessed and how they present fund performance.

IRR and MOIC have long-been the primary performance metrics in private markets. IRR captures the annualised rate of return as the discount rate that sets the net present value of all capital calls, distributions, and residual NAV to zero. MOIC measures the multiple of invested capital by comparing cumulative realised and unrealised value to paid-in capital. Both metrics, however, depend on unrealised valuations. The principal methods used to derive these valuations – precedent transactions, public-market comparables, and discounted cash flow analysis – are inherently judgement-based. This subjectivity can entrench inflated marks when managers are optimistic or reluctant to accept write-downs. While this is a longstanding critique, it is particularly acute today as GPs seek to evidence strong performance to increasingly liquidity-conscious LPs.

As funds that acquired assets at aggressive valuations move into their harvesting phase (typically years 5-10), distributions to paid-in capital (DPI) have become a central lens through which LPs evaluate manager quality. Recent investor surveys indicate that the *slow pace of DPI* is now the single most pressing concern for many allocators. DPI measures only how much cash has been returned to investors relative to the capital they contributed to the fund. Like IRR and MOIC, it enables comparison across funds and vintages, but it is distinguished by its exclusive focus on realised cash outcomes rather than paper gains.

In response, GPs are actively pursuing alternative mechanisms to generate liquidity. Continuation vehicles and secondaries activity are at or near record levels in H1 2025, providing structured routes for partial or full realisations while maintaining exposure to favoured assets. In the United States, private equity firms have also lobbied to expand access for 401(k) and other defined-contribution plans to invest in private equity and other alternatives. This pool of savings is frequently characterised as one of the

last major untapped sources of capital for the asset class. Critics caution, however, that such inflows could be used – directly or indirectly – to support legacy portfolios or satisfy existing LPs, potentially to the detriment of new investors.

At the same time, SPACs are experiencing a renewed presence in primary markets, accounting for over 35% of US IPO activity in 2025 year-to-date. SPACs can, in principle, offer a faster and more flexible route to public markets than a traditional IPO, potentially enabling GPs to crystallise value and return capital more quickly. However, SPAC structures are often more dilutive and do not systematically deliver superior valuation outcomes compared with conventional IPOs, limiting their reliability as a “premium” liquidity solution for LPs.

The heightened emphasis on DPI helps to explain both the slowdown in capital market activity in recent years and the toolkit GPs are deploying to meet investor liquidity expectations. Although deal activity has begun to recover in H1 2025, DPI is likely to remain a critical performance benchmark. The current AI cycle – characterised by premium valuations and, in many cases, unproven cash-flow durability – risks creating another period of pronounced bid-ask spreads, further constraining exit optionality and extending the centrality of DPI in LP-GP discussions.

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