WHY THE MIDDLE IS NOT MUNDANE

Q2 2025

Overview

Easing trade tensions and a decline in the US Dollar led to a rebound in global equity markets during the second quarter, propelled largely by mega cap growth stocks and the 'Magnificent Seven'. On the other hand, activity in private equity markets was subdued as LPs exercised greater caution in the face of continued uncertainties over global trade and supply chains, as well as heightened tensions in the Middle East.

Inflation concerns also remained with interest rates staying on an even keel, with the Fed keeping US rates steady throughout the quarter while the ECB and Bank of England (BofE) both made quarter point cuts during the period, with the BofE making a further cut early in Q3.

Deal making declined compared with the first quarter, with those deals undertaken showing a shift away from a global approach to more regionally-focused companies that are less exposed to tariff uncertainties. Exits rose slightly over the period but remain subdued compared with the highs of 2021.

Despite the obvious caution among private equity investors, excellent opportunities remain. In this newsletter we focus on why the mid-market continues to quietly deliver for investors. We also take a look at the increased demand for co-investment funds among LPs..

Paul Newsome

Head of Investment Solutions, Private Equity

Key Points

1. Deal making declined compared with the first quarter, with those deals undertaken showing a shift away from a global approach to more regionally-focused companies
2. While large and mega-caps get all the big headlines, the mid-market quietly and consistently delivers a wide range of benefits to investors
3. Outsourcing co-investments to professional managers through co-investment funds results in faster deployment and better performance outcomes with a lower risk profile

Market commentary

Deal making slowed during the second quarter of 2025 as investors took a cautious stance in the face of the uncertain economic backdrop. Globally, private equity investment activity[1] in the second quarter of 2025 totalled USD 162bn in aggregate, down 23% on the revised figure of USD 211bn achieved in Q1 2025 and the USD 209bn recorded in the same period last year.

The US suffered the greatest declines with aggregate deal value falling 46.0% over the quarter to USD 77bn, while in Europe the value of deals actually rose 33.0% despite the number of deals remaining flat. Aggregate deal value in Asia Pacific rose 18.6% to USD 48bn – the highest level since Q4 2023.

Research[2] shows that private equity investors are shifting their attention from global operators to companies focused on domestic or regional markets in order to better control and manage trade risks. Industries such as autos and manufacturing saw less interest from investors given their cross-border dependencies and exposure to tariffs.

Exit values rose slightly over the period, with exit deal value[3] totalling USD 94bn. This is 6.4% higher than the USD 88bn recorded in Q1 2025 but 8.0% down from the USD 102bn achieved in Q2 2024. Trade sales and secondary buyouts remained the most

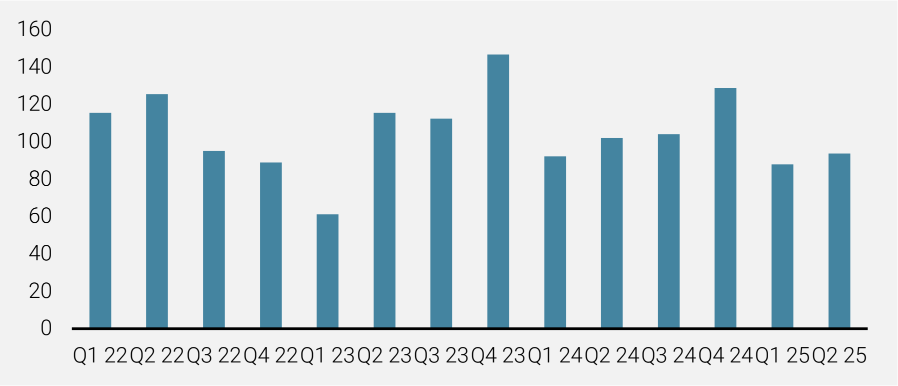
[1] Preqin
[2] KPMG Pulse of Private Equity
[3] Preqin

popular exit routes. Nevertheless, the continued dearth of exits as shown in the chart below continues to pile ever more LP pressure on GPs to improve liquidity.

Exit activity was highest in North America, where aggregate exit values were 36.5% higher than the previous quarter - totalling USD 68bn. However, the number of deals fell by 18.8% over the quarter.

Exits in Asia Pacific dropped sharply during the period from USD 13bn to just USD 5bn – the lowest level since Q1 2020. Europe saw a 19% decline in aggregate exit values from USD 25bn to USD 20bn.

Global Exits Aggregate Deal Value (USD bn)



Source: Preqin

Focusing on quality

Despite the subdued backdrop in the private equity market overall, our thematic approach and emphasis on high-quality businesses with more local supply chains or service-based business models continues to result in attractive opportunities for our portfolios.

During Q2 we made investments in a range of companies and funds spanning multiple geographies and market sectors. In April, we completed an investment for our Climate Impact Fund in Spanish organic waste management platform Gestcompost through a single-asset continuation vehicle. Gestcompost operates three facilities with a combined processing capacity of 1.8m tons per year. The company not only treats organic waste but also produces compost, fertilisers, and energy through biogas - contributing to the decarbonisation of the energy sector by replacing natural gas.

We also closed a direct secondary transaction in IDnow during April, alongside Corsair Capital. IDnow is a German provider of AI-enabled digital identity proofing solutions across the financial services, gaming, travel, telco, and mobility sectors. With anti-money laundering and fraud prevention regulation making identity proofing a required step, IDnow provides a mission-critical service, resulting in resilient demand.

We also completed a direct secondary transaction in PROEDUCA alongside Portobello Capital. PROEDUCA is the leading Spanish-language private online Higher Education platform with a dominant position in Spain and and a growing business in Latin America, offering 100%-online degrees.

During June we also closed a direct investment into BioVendor alongside Archimed. BioVendor, headquartered in Brno, Czech Republic, is a global integrated diagnostics player. Through acquisitions and investments in new technology, the company is transitioning to developing and producing its own products.

We also completed a direct investment in Centaris alongside Longshore Capital Partners in June. Centaris, headquartered in Michigan, USA, is a provider of managed IT-services and has grown quickly via add-on acquisitions in the last 10 years. The business focuses on small and medium-sized business customers, mostly local in

Michigan, across sectors such as manufacturing, business services, health services, construction and finance.

You can read more about our recent investments in the activity report at the end of this document.

Private equity's sweet spot

We constantly test our thesis on where the best opportunities lie in private equity and continue to believe that place is in the mid-market.

While large and mega-caps get all the big headlines, the mid-market - typically companies with an enterprise value of between $50m and $1bn – quietly and consistently delivers a wide range of benefits to investors and as such, has been our area of focus for more than 30 years.

Why? Firstly, the mid-market has historically provided more attractive entry valuations for investors, with companies often trading on lower EBITDA multiples than large or mega-caps. This leaves more room for multiple expansion at exit.

There is also greater potential for operational value creation in this segment. Mid-market companies often lack operational sophistication, giving greater ability to add value by, for example, improving supply chains and organisational structures and professionalising management. Operational improvements like these can be the primary way of generating value rather than financial engineering.

Bolt-on acquisitions that can boost geographical reach, improve margins and enhance revenues are also more prevalent in the mid-market. Furthermore, mid-market companies can often be less exposed to global macro shocks than larger firms and, more flexible in downturns, demonstrating stronger recovery profiles after economic downturns.

The deal environment is quite different in the mid-market - it is more fragmented and relationship-driven than the top end where megafunds bid against each other for the best deals, compressing returns. The options on exit are also greater, with investments sold to larger funds, strategic acquirers or, occasionaly, taken public.

Deployment periods are often shorter and exits are more frequent, supporting faster distributions. This has been particularly evident over the past four years when we have been able to deliver regular distributions to our investors despite the paucity of exits across the broader market.

The proof is in the results. Upper quartile mid-market buyout funds have not only historically outperformed large caps on a net IRR basis by some 3%[4] but have also achieved lower loss ratios.

We believe the attractions of the mid-market are even greater in the current environment. For example, funding for young tech companies has been much harder to come by in the current cycle as venture capital funding has dried up. As a result, these companies have typically grown using their own financing until they reach profitability. Once they do, they often migrate into the small- and mid-cap space, creating a strong pipeline of high-quality, compelling investment opportunities.

Moreover, in the post-COVID period, higher interest rates, rising financing costs, supply-chain disruptions, and a weaker economic environment have weighed more heavily on large-cap companies whose valuations were already high. Consequently, liquidity from the large and mega-cap space has remained subdued over the past two or three years.

The result is that the average holding period in the overall buyout space has increased to 6.7 years and it is even higher in venture capital funds. Unsurprisingly, given our

[4] Pinebridge, using Preqin data 2013 - 2021

focus on liquidity across the cycle and focus on the mid-market, our average is substantially below this, at 4.2 years.

This situation is unlikely to change in the short term given the heightened levels of geopolitical and macro-economic uncertainty. Investors are increasingly aware of this trend, resulting in higher flows for small and mid-market funds.

Co-investments come of age

Co-investments have become increasingly popular amongst institutional investors with around 50% of LPs now actively allocating to this part of the market[5].

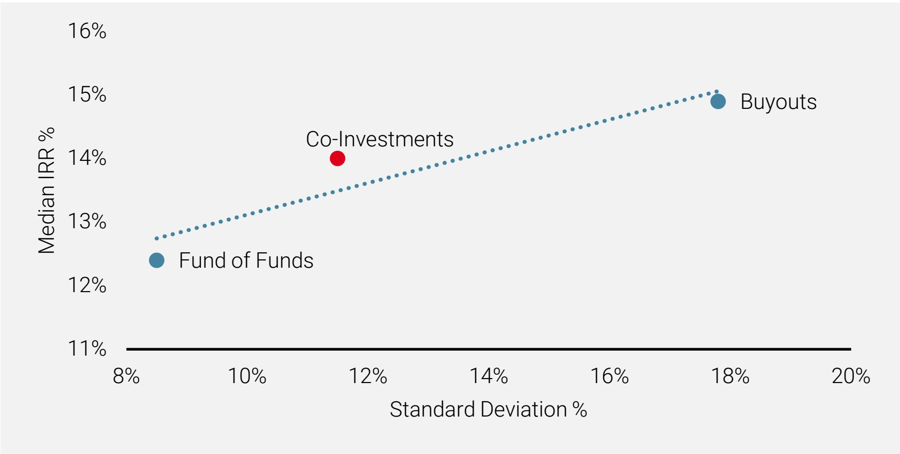
Co-investment strategies are widely regarded as having a superior risk-return profile compared to buyout funds and fund-of-funds. This is largely due to their lower total expense ratios, more concentrated portfolios than fund-of-funds, and an added layer of diligence and diversification not typically present in traditional buyout funds.

We believe that the pool of interesting co-investment opportunities will continue to grow. Fundraising cycles, lower availability of affordable debt and a soft M&A market have led GPs to increasingly appreciate LPs as genuine capital solutions partners across the lifecycle of a deal.

The professionalisation of the co-investment space brings benefits to LPs too. It is not easy to find attractive co-investments in a market where the best deals are offered to a select group of investors, or to have the necessary expertise to undertake the necessary due diligence before investing.

Outsourcing co-investments to professional managers through co-investment funds results in faster deployment and better performance outcomes with a lower risk profile.

Co-investment strategies have a superior risk return profile[6]



Gone are the days that GPs only called LPs to syndicate a piece of the equity of new investment post completion. GPs and co-investing LPs now start working on new deals well before signing and GPs increasingly turn to co-investing LPs to finance add-ons or minority recaps post initial investment.

We have been undertaking co-investments for almost three decades, and today they are a core part of our directs funds. We focus on theme-driven resilient growth, investing in mid-market companies that are leading assets in their sectors with mission-critical

[5] Goldman Sachs 2024 Private Markets Diagnostic Survey

[6] Preqin data: Buyout data for mid-market funds from 2005-2022; Fund of Funds data for all funds from 2005-2022; Co-Investment Multi-Manager Funds from 2005-2022

offerings, together with high margins and cash conversion. We actively manage our investments and use very limited leverage.

Our direct funds, which typically invest in 20-30 companies, have a differentiated strategy leading to a unique portfolio that sets us apart from our peers. In our third direct fund (UD III), for example, Unigestion Private Equity is either the only investor, or one of two institutional investors in more than 60% of the investments. In addition, more than 60% of the investments in the Fund are partnered with sector specialists.

The rigour with which our portfolios are constructed has resulted in a track record of consistent top quartile performance, a predictable liquidity profile and a low loss ratio. Our most recent direct fund, UD III, for example, has a net TVPI of 1.63x, placing it at the very top of the first quartile in a peer group of 44 direct co-investment funds.

In summary, co-investment funds represent one of the most attractive and cost-efficient ways in which institutional investors can gain access to private equity. We expect this segment to continue experiencing strong growth in the years ahead.

Unigestion Private Equity activity

Here are the highlights of some of the investments that we completed in Q2:

GESTCOMPOST
BIOMETANIZACIÓN Y COMPOSTAJE

In April, we completed an investment in Gestcompost through a single-asset continuation vehicle. Gestcompost is a leading Spanish organic waste management platform with biogas and biomethane capabilities. With over 20 years of experience, Gestcompost operates three facilities with a combined processing capacity of 1.8m tons per year. The company not only treats organic waste but also produces compost, fertilisers, and energy through biogas - contributing to the decarbonisation of the energy sector by replacing natural gas. Gestcompost not only plays a crucial role in addressing the EU's objectives to reduce organic waste sent to landfills (thereby contributing positively to climate change mitigation), but is also well-positioned to expand into biogas and biomethane production through its recent acquisition of Ecobiogas and a strategic partnership with Nippon Gases.

LAUXERA
CAPITAL PARTNERS

In the same month, we committed to Lauxera Growth II. Lauxera, a French private equity firm specialising in healthcare technology, was founded in 2020 by a team of experienced professionals from the healthcare sector. The firm focuses on structurally profitable businesses headquartered in Europe that demonstrate proven commercial traction and generate recurring revenue. These companies typically seek capital to fund investments aligned with a clear exit strategy. Lauxera drives value creation primarily through operational initiatives, such as geographic expansion, adjustments to go-to-market strategies, and the development of new products.

IDnow.

In addition, we closed a direct secondary transaction in IDnow during April, alongside Corsair Capital. IDnow is a provider of AI-enabled digital identity proofing solutions across the financial services, gaming, travel, telco, and mobility sectors. The company is headquartered in Munich, Germany, with additional offices across Europe and a particularly strong presence in the German and French markets. The company employs 370 FTEs serving over 750 clients globally. With anti-money laundering and fraud prevention regulation making identity proofing a required step - especially for direct and online banks without own physical presence - IDnow provides a mission-critical service, resulting in resilient demand.

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PROEDUCA

In April we also completed a direct secondary transaction in PROEDUCA alongside Portobello Capital. PROEDUCA is the leading Spanish-language private online Higher Education platform with a dominant position in Spain and and a growing business in Latin America, offering 100%-online undergraduate and postgraduate degrees. The company provides around 430 degrees to over 100,000 students from 70 nationalities, with Spain accounting for around 60% of the student base. Their academic offering is delivered through multiple brands leveraging UNIR (Universidad Internactional de la Rioja) flagship brand recognition and reputation. This is complemented by local value-oriented brands tailored to each country.

CENTARIS

In June, we completed a direct investment into Centaris alongside Longshore Capital Partners. Centaris, headquartered in Michigan, USA, is a provider of managed IT-services, operating across three business segments: managed services (60%), professional services (16%), and hardware/software reselling business (25%). Core products include 24/7 help desk support, cybersecurity solutions, cloud solutions, and IT projects. The business was founded in 1981 but has grown quickly via add-on acquisitions in the last 10 years. The business focuses on small and medium-sized business customers, mostly local in Michigan, across sectors such as manufacturing, business services, health services, construction and finance.

BioVendor Group®

In June, we also closed a direct investment into BioVendor alongside Archimed. BioVendor, headquartered in Brno, Czech Republic, is a global integrated diagnostics player. The company was created as a distributor of immunoassays and molecular diagnostic solutions to diagnostic original equipment manufacturers in the Central and Eastern European region. These diagnostic solutions focus on areas such as metabolic disease (e.g. diabetes), oncology, DNA sequencing, autoimmune diseases, and cardiovascular disease. Through acquisitions and investments in new technology, the company is transitioning to developing and producing its own products.

gcp

In addition, we committed to Growth Capital Partners VI during June. Growth Capital Partners VI will invest in the UK lower mid-market "knowledge economy" - high-margin, asset-light B2B businesses powered by intellectual capital and specialist human expertise. The fund pursues both majority and significant minority situations through structured investments in a combination of equity and structured loan notes for downside protection. Value creation is driven by an institutionalised approach and supported by a growing bench of professionals with specialist expertise.

CONTACT US

| unigestion.com

General Information info@unigestion.com
Clients clients@unigestion.com
Press pressrelations@unigestion.com

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