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# Emerging managers in private equity: an overlooked source of alpha in the U.S. middle market


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## *Key takeaways:*

- **Emerging managers represent a large but overlooked opportunity:** The share of total U.S. private equity capital raised by managers' first, second or third fund, typically with a fund size below $1 billion, declined from 18.6% in 2016 to 11.6% in 2025,[1] even as emerging managers account for more than 70% of new fund launches in 2025.[2]
- **Emerging managers can deliver a consistent performance premium:** Limited track records and leaner teams make manager selection more difficult, underscoring the need for a dedicated platform with the sourcing and underwriting discipline to identify top performers. Emerging managers have generated a median net IRR of 18.9%, compared to 15.8% and 15.1% for established managers below and above $1 billion, respectively.[3]
- **Structural and alignment advantages have historically driven outperformance:** Smaller, more focused funds can provide access to less efficient parts of the market, while direct partner involvement and higher personal stakes can help sharpen investor alignment.
- **Manager selection and access matter even more in today's environment:** Slower distributions and growing concentration among large platforms make early access to managers increasingly valuable, a dynamic that has the potential to reward allocators who identify strong managers before they garner attention from a larger subset of allocators.

Private equity has long appealed to institutional investors for its return premium over public markets, while offering diversification benefits through access to companies that otherwise can't be accessed through public markets. As the industry has matured, capital is increasingly concentrated among a handful of the largest and most established managers. These firms now capture a disproportionate share of institutional commitments, crowding out one of the most compelling opportunities in the market: emerging managers.

The case for emerging managers is not new. These funds are often led by seasoned investment professionals who honed their craft early in their careers at established firms. Often, their funds are smaller, their teams more focused, and their incentives more closely aligned with investor outcomes. The data consistently shows that this combination produces results, with emerging managers outperforming their established peers by a meaningful margin.[3]

## What are emerging managers?

We define emerging managers as GPs raising their first, second, or third fund, with a fund size below $1 billion. Because these funds are smaller, GPs construct portfolios of meaningful ownership stakes without overcommitting to any single deal, naturally directing capital toward businesses with $10 million to $100 million in EBITDA – the heart of the core middle market. While the fund family roman numeral may suggest they are inexperienced investors, these are often seasoned professionals with many years of industry experience, having spent their careers at some of the most respected private equity platforms, honing and improving best practices.

The motivations behind starting a firm vary. Some are driven by an entrepreneurial desire to build something from the ground up and maximize their impact. Others are motivated by a desire for greater autonomy, whether to pursue a differentiated investment thesis, build a leaner and more focused organization or shape a firm culture that reflects their own values and management philosophy.

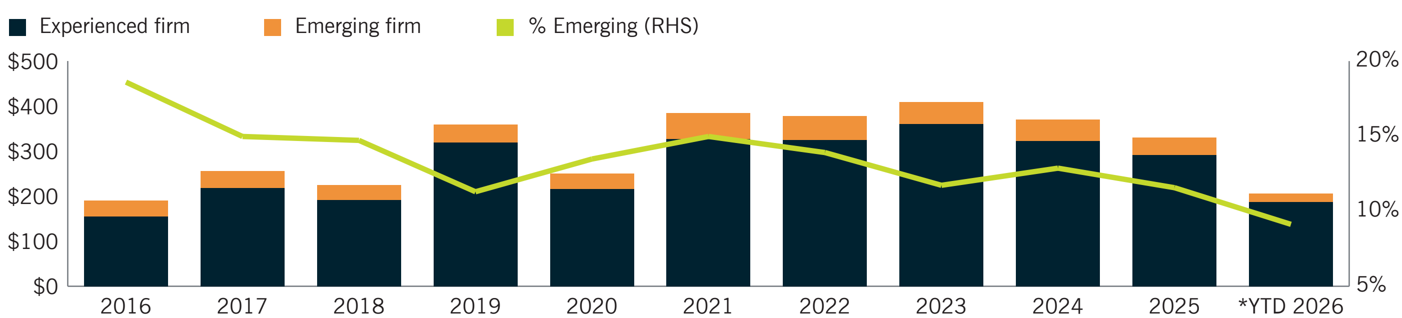
As a result, this class of managers, who are typically new in name only, often bring institutional-caliber experience to firms built with a greater emphasis on focus, flexibility, and alignment. These desirable qualities can often diminish as a firm scales into an established manager.

## Why emerging managers are an overlooked strategy

Despite their historical track record, emerging managers remain underallocated relative to established peers. For an institutional investor without dedicated diligence capabilities focused on these types of managers, the hesitation is understandable: Backing an unfamiliar manager carries a distinct career risk. If an established, brand-name manager underperforms relative to expectations, the decision to hire them is rarely questioned — at least not right away. If an emerging manager underperforms, however, the allocator backing them tends to face far greater scrutiny. This asymmetry helps explain why emerging managers' share of total U.S. private equity capital raised declined from 18.6% in 2016 to 11.6% in 2025[1] (Figure 1), even as the number of emerging managers continues to grow. **In fact, emerging managers accounted for more than 70% of new private equity fund launches in 2025,[2] underscoring a robust and expanding opportunity set for investors willing to**

**Figure 1: Emerging managers' share of capital raising has declined**

*Capital raised ($B); Right axis: Emerging managers (%)*




Source: PitchBook | LCD, as of 31 Jul 2026. Note: We defined emerging managers as funds I, II, III, that are less than $1B in size. *31 Jul 2026.

**accept that reputational asymmetry in pursuit of identifying top talent early.**

Yet despite this expanding opportunity set, almost half of all institutional investors choose not to invest in first-time funds and continue to face high hurdles to invest in their subsequent funds as well.[4] The common concerns are that emerging managers lack a track record, have a less developed investment process, or operate with fewer resources. **These concerns are not without merit, as limited operating history and leaner teams can make these managers genuinely harder to diligence, which is precisely why disciplined manager selection is such an important differentiator in this segment.** When these managers are properly sourced and vetted, that added diligence can translate into stronger outcomes than those of established peers. Data from Preqin show that emerging managers generated a median net IRR of 18.9%, compared to 15.8% for established managers below $1 billion and 15.1% for established managers above $1 billion (Figure 2).[3]

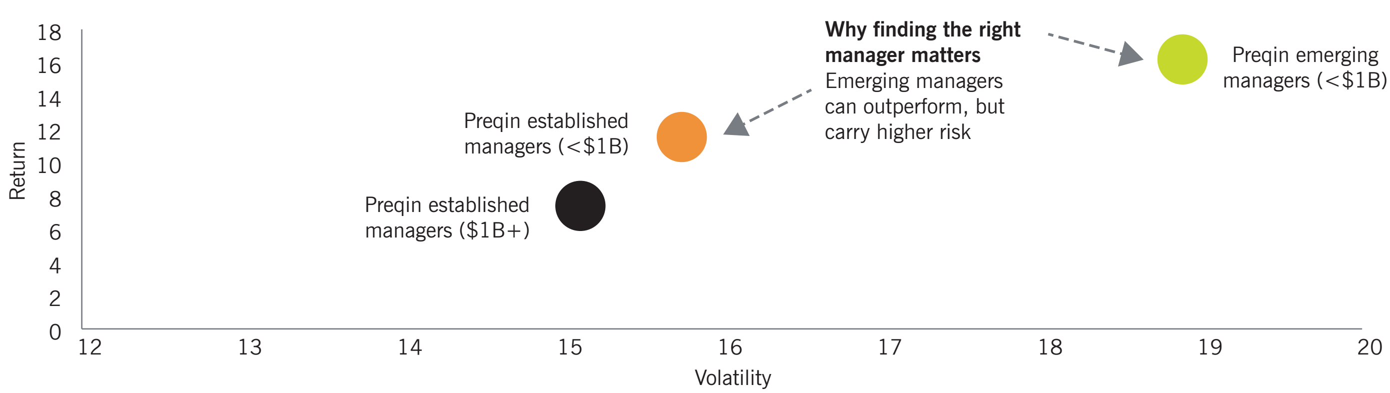
Structural factors drive much of this outperformance. Emerging managers operate smaller, more focused funds, allowing them to target less efficient corners of the market that larger funds simply cannot access. The core middle market, which these small funds tend to target, can offer more attractive entry valuations, a broader universe of potential acquisitions, and a wider set of value creation levers, all factors that increase the odds of generating better outcomes for investors.

Alignment also reinforces this performance advantage. Emerging managers tend to run lean organizations, and founding partners, as well as their investment teams, are intimately involved in every deal. With smaller fund sizes and fewer portfolio companies to oversee, partners can dedicate more time to each investment, sitting on boards, working closely with management teams and engaging directly in operational and strategic decisions rather than delegating to junior staff. This dynamic leaves less room for a deal to go unnoticed or underperformance to go unaddressed, raising the stakes on every decision the team makes.

While these professionals often earned carry at prior firms, their current fund represents an outsized, disproportionate opportunity, one where they now control their own destiny. Strong performance is critical not only for its own sake, but because it can generate the positive reference calls and repeat or expanded allocations from existing LPs that determine whether they can raise a follow-on fund at all – a powerful incentive that sharpens alignment with LP outcomes.

**Figure 2: Emerging managers historically outperform established funds**

*Risk/return analysis from 2011-2021 (% North America PE buyout)**




Source: Preqin, as of 31 Dec 2025.

* Based on Preqin benchmarking data for North American Private Equity (Buyout) for 2011 to 2021. This timeframe was selected to reflect "seasoned private equity performance". Different timeframes may show materially different relative performance, including periods of underperformance. The selection of specific measurement periods can significantly impact comparative results. See "Index Disclosure" endnotes for important information.

## Why emerging managers can make sense in a portfolio today

The outperformance of emerging managers has long made the case for allocation on its own. But the current environment adds several compelling reasons why the timing is particularly attractive right now.

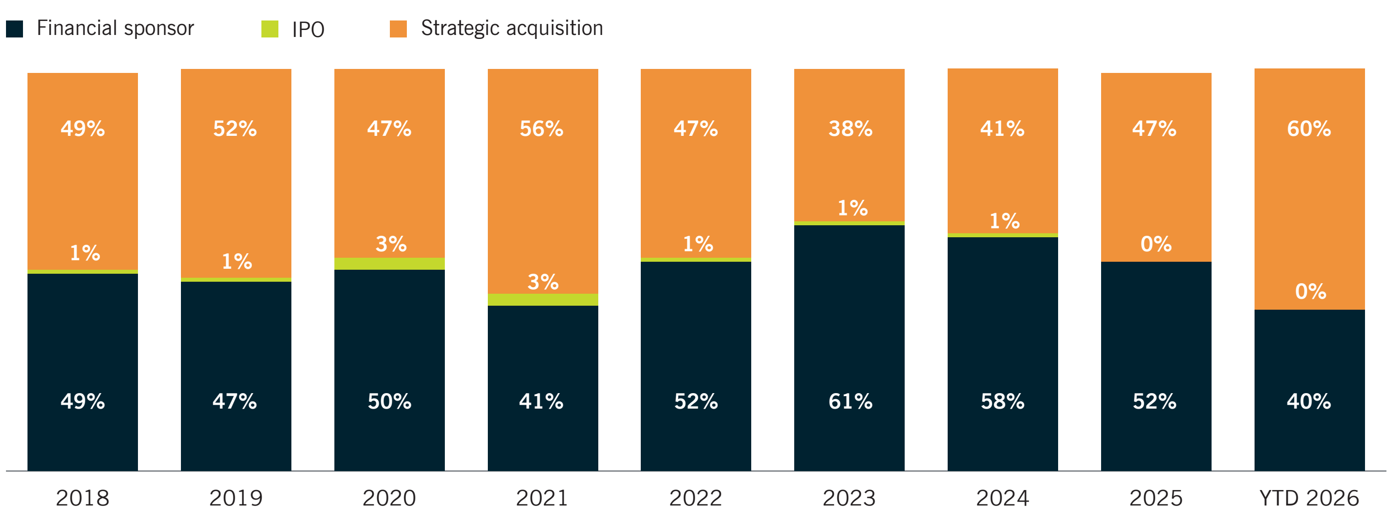
1. **We are in the midst of a significant wave of high-quality spinouts.** A maturing private equity industry has produced a generation of seasoned professionals who have risen to the top of their organizations only to find limited room to lead or share more fully in their firm's economics, a dynamic that is driving new firm and fund formation. Approximately 36% of limited partners reported seeing an increased number of spinouts in their portfolios over the last two to three years, and 38% expect new manager formation to outpace any industry consolidation over the next three to five years.[5]

2. **The current fundraising environment, while challenging, has created a dynamic that could benefit discerning allocators.** Fundraising for first-time funds in North America has declined from a peak of approximately $54 billion in 2022 to just $7 billion across 48 funds in 2025[6] — the fewest since 2010, creating a meaningful dislocation. Managers who might otherwise raise large funds quickly are instead facing extended fundraising timelines, often with two to four deals already in the ground before the fund is fully raised. This gives allocators the ability to underwrite to actual portfolio investments rather than a blind pool, adding a further layer of diligence to an already compelling opportunity. This is now a common feature of the segment rather than an exception: roughly one-third of emerging managers report using a seeded portfolio to attract commitments, and the average interval between first and final close has stretched to 16 months, giving disciplined allocators an unusually long window to observe a manager deploying capital before committing.[7] For platforms with strong sourcing capabilities and an expansive relationship network, this creates an opportunity to identify these managers early and access top talent at more favorable entry points.

3. **The middle market itself is well-positioned for the current environment.** With 56% of U.S. private equity buyout activity involving founder-owned businesses,[8] and mega funds increasingly competing for a narrow set of large, high-profile assets, the middle market may offer a less crowded and more value-oriented opportunity set. Exit dynamics remain healthy, with companies commanding multiple options, including strategic acquisitions, sponsor-to-sponsor sales, and occasional public listings. Between 2018 and 2026, strategic acquisitions and financial sponsor exits together accounted for most of the middle market exits in any given year, demonstrating consistent liquidity across varying market conditions (Figure 3).

**Figure 3: Multiple exit opportunities**

*Middle market exits by type (%)*




Source: PitchBook | LCD Q1 2026 PE middle market, As of 2018 to 2026.

4. **Manager selection matters more than ever.** In an environment of slower distributions and increasing concentration of capital among a handful of large platforms, we believe the allocators who identify the next generation of strong managers early – before their funds become oversubscribed and access becomes constrained – will be the ones best positioned to benefit as these managers grow. Allocating to private equity is not enough on its own. Manager selection ultimately determines a portfolio's performance. This has the potential to be an advantage of emerging managers.

The return dispersion between the best and worst managers is far larger than that for public markets and is more than twice as wide among smaller funds as large ones, so the emerging-manager segment is exactly where selection skill can be most rewarded (Figure 4).[9] As distributions slow and capital concentrates into a shorter list of mega-platforms, investors are increasingly buying the beta of the asset class rather than alpha. That alpha is concentrated further down-market, where inefficiencies and return dispersion are greatest – precisely where emerging managers compete. The point is not that new is always better. Rather, where inefficiency and return dispersion are both greatest, we believe rigorous manager selection is one of the most powerful levers an allocator can pull.

## The case for emerging managers

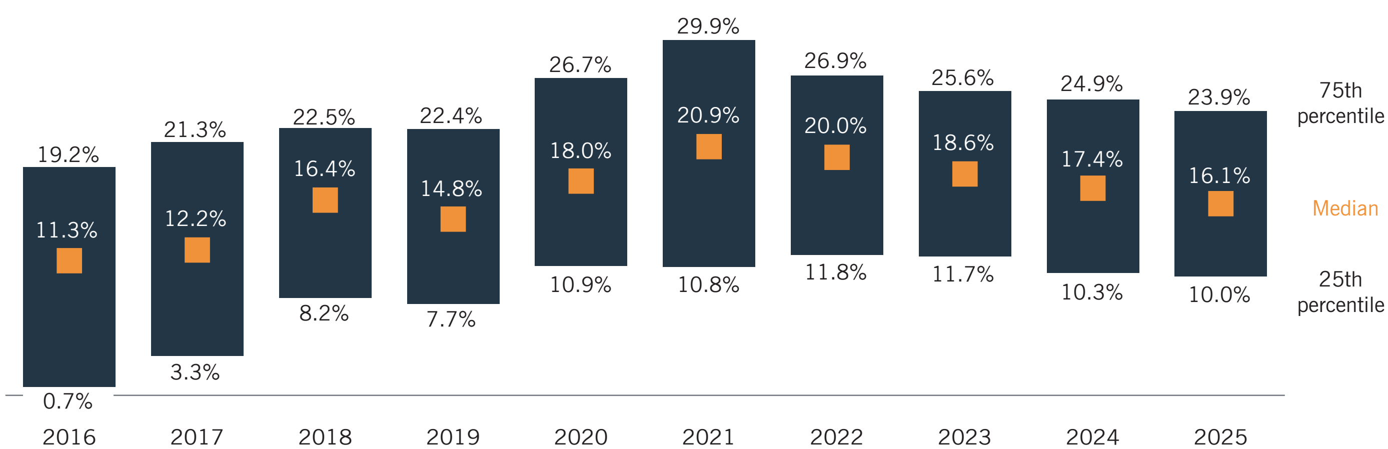
We believe emerging managers remain one of private equity's most overlooked strategies and underutilized sources of alpha. Some of the most experienced and distinctive talent in the industry are launching their own funds in search of greater autonomy. This shift naturally sharpens alignment with investors. As competition intensifies and the market becomes more institutionalized, the preference for large, established managers can come at a cost to performance.

A maturing industry, capital scarcity and attractive middle-market fundamentals have underpinned emerging managers' track record of outperformance — a dynamic we expect to persist. Capturing this opportunity requires the experience, judgment, and infrastructure to identify the right managers early and support them through their first funds. **Done well, this is a disciplined approach with the potential for differentiated returns in a market where manager selection matters more than ever.**

The most obvious choices attract the most capital and crowd out alpha generation. We believe the most compelling opportunities lie elsewhere – and emerging managers are one of them.

**Figure 4: Performance can vary widely, highlighting the importance of finding the right platform**

*Manager performance dispersion (%)*




Source: Preqin, as of Mar 2026.

## For more information, please visit nuveen.com.

### Endnotes

1 Source: PitchBook | LCD, as of Jun 2026. Note: We defined emerging managers as funds I, II, III, that are less than $1B in size.

2 WithIntelligence "Private equity funds in development" report as of Aug 2025.

3 Performance as of December 31, 2025. Presented for funds launched between 2011 and 2021 based on Preqin benchmark data for North American Private Equity (Buyout). This timeframe was selected to reflect "seasoned private equity performance". Different timeframes may show materially different relative performance, including periods of underperformance. The selection of specific measurement periods can significantly impact comparative results. See "Index Disclosure" endnotes for important information. Based on Preqin benchmarking data for North American Private Equity (Buyout) for 2011 to 2021.

4 WithIntelligence "Private Equity Outlook" report as of Feb 2026.

5 Coller Capital Global Private Capital Barometer 42nd Edition, Summer 2025.

6 PitchBook, Buyouts, Emerging Managers Report, as of Dec 2025.

7 Buyouts and Gen II Fund Services, Emerging Manager Report 2026 (ninth annual survey, 101 first-, second- and third-time fund managers), Mar 2026.

8 Pitchbook 2024 US Private Equity Outlook. Representing percentage of total number of buyouts of companies that have yet to accept institutional capital over the last 10 years.

9 Preqin, as of Mar 2026.

### Index Disclosure

**"Preqin Private Equity Index"** custom benchmark designed to be representative of North American private equity performance (buyout and fund of funds) for emerging versus established managers based on fund size. Preqin Private Equity Index returns represent average net IRRs that capture returns of 261 Preqin Emerging Managers (<$1bn), 494 Preqin Established Managers (<$1bn), and 344 Preqin Established Managers ($1bn+).

**"Preqin Emerging Managers (<$1bn)"** representative of fund vintages I-III and total fund sizes of less than or equal to $1 billion.

**"Preqin Established Managers (<$1bn)"** representative of fund vintages IV+ and total fund sizes of less than or equal to $1 billion.

**"Preqin Established Managers ($1bn+)"** representative of fund vintages IV+ and total fund sizes of greater than $1 billion.

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