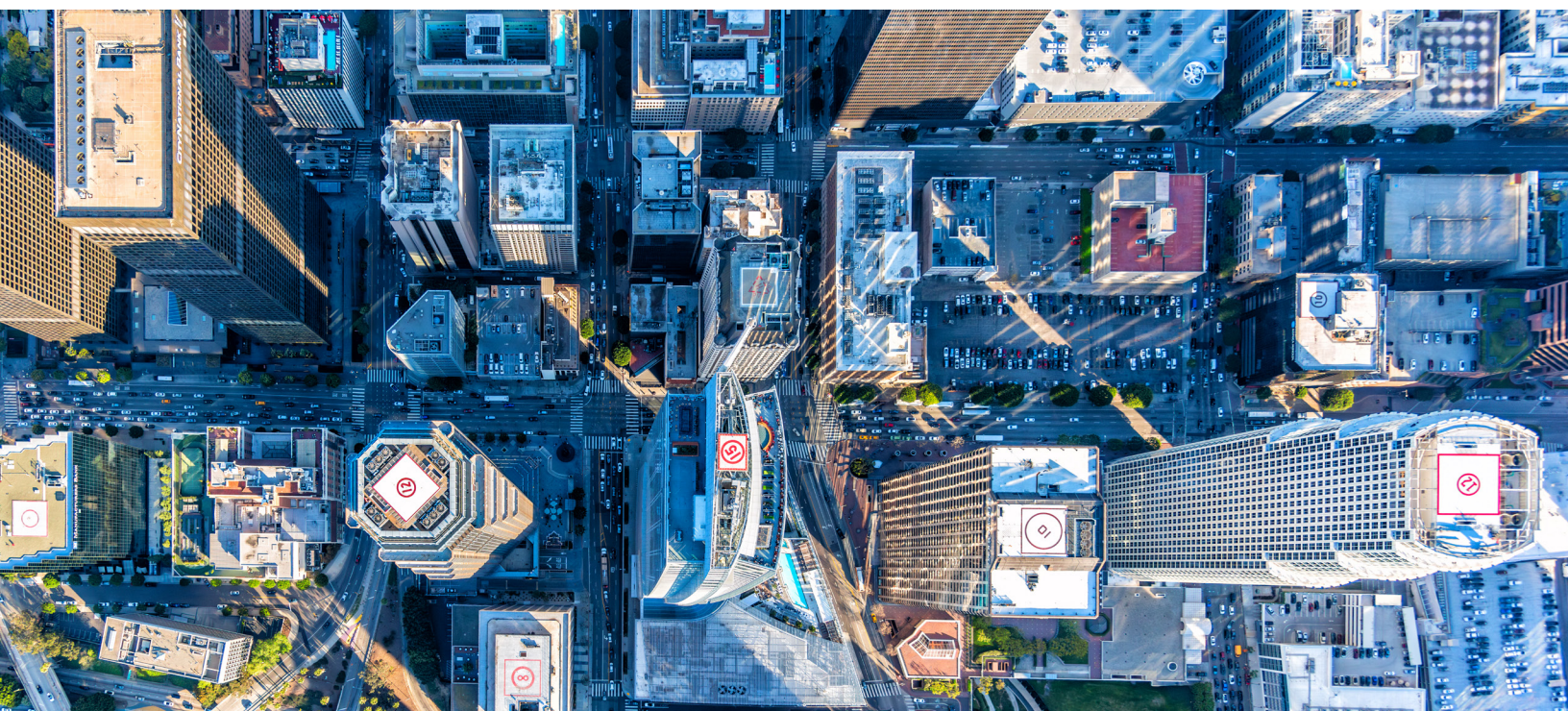


From public to private: How privatization is reshaping capital markets

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By Ana Puric, Vice President, Private Markets



Executive summary

Private equity and venture capital have reached a structural inflection point in global capital markets. Over the past two decades we have seen accelerated capital formation, innovation, and value creation which have increasingly shifted from public markets to private ownership structures.

Private markets assets under management (AUM) have more than doubled from approximately US\$9.7 trillion in 2012 to ~US\$22 trillion in 2024.¹ The private markets AUM has grown nearly 20x since 2000. At the same time, public markets have experienced declining breadth, rising concentration, and a growing dominance of passive investment strategies.

In addition, more recently, we have seen a return of inflation which has increased the correlation between equities and bonds. This has shaken the foundation of the traditional 60/40 allocation and increased the importance of private equity and venture capital as a diversifier in investor portfolios.

These trends, in combination, have materially altered the opportunity set available to investors. An increasing share of economic growth, corporate innovation, and value creation now occurs outside public markets. For long-term investors, this represents a strategic inflection point rather than a tactical allocation decision.

Nine reasons private markets are structurally advantageous exposures:

1. Companies are staying private for longer

One of the clearest indicators of the inflection point is the changing lifecycle of companies:

- The median age of US IPOs has increased from 6 years in 1980 to 14-16 years today
- The number of US listed companies has declined by nearly 50% since the mid-1990s¹

As a result, a substantial portion of value creation that historically accrued to public market investors now occurs privately.

2. The public market opportunity set is shrinking

Public markets are becoming less representative of economic activity:

- In the US and Asia, only 13%¹ of companies with revenues above US\$100 million are publicly listed
- In Europe, the figure is even lower, at approximately 4%¹
- Globally, nearly 90%¹ of companies with revenues above US\$100 million are private

Investors who are only invested in the public markets, are missing out on the broader economy.

3. Concentration at an all-time high

Public equity indices are increasingly dominated by a narrow group of companies:

- The top 10 companies now represent ~40%¹ of the S&P 500
- The top 250 stocks account for more than 90%¹ of index market capitalization

This concentration has reduced diversification benefits and increased dependence on a small number of mega-cap companies.

4. Passive investing distorts public equity valuation

The rise of passive and momentum-driven strategies has altered public market dynamics:

- Capital flows are increasingly index-driven rather than fundamentals-driven
- CEO turnover among S&P 500 companies has increased materially over the past decade, reflecting intensified short-term scrutiny

These dynamics create incentives for companies to avoid or exit public markets, escape the quarterly reporting cycle and truly focus on the long term success of the businesses.

5. Long-term outperformance

Over the long term, private equity has demonstrated superior return characteristics:

- Over 10, 15, and 20 year horizons, private equity has outperformed the S&P 500¹ and Russell 2000 on an IRR (internal rate of return) basis

This outperformance reflects active ownership, operational intervention, and long-term capital alignment rather than market timing.

6. Public companies being acquired by private equity as a valuation arbitrage

Public takeout/take-private transactions have increased meaningfully:

- Takeout/take-private transactions accounted for approximately 25%¹ of acquisitions during the period between 2008-2015 and 2020-2022
- This figure has risen to approximately 40%¹ as real interest rates increased

Valuation dispersion, public market short term focus, and the availability of private capital have positioned private equity as the marginal buyer of public assets.

7. Innovation is predominantly private

Frontier innovation increasingly occurs in private markets:

- Artificial intelligence (AI) companies represent approximately 40%¹ of the top 50 most valuable private companies
- The US and China account for approximately 86%¹ of the most valuable private companies globally
- Major public technology firms (e.g., Nvidia, Microsoft, Google, Amazon) have invested in nearly 50%¹ of AI unicorns launched since 2022

Public markets increasingly capture innovation outcomes after scale has been achieved, rather than during formative growth stages.

8. Venture capital drives asymmetric returns

Venture capital outcomes are highly skewed:

- Only 0.07%¹ of startups achieve unicorn status (approximately 1 in 1,538)
- Yet a small number of companies account for a disproportionate share of total returns

This asymmetry underpins the strategic rationale for VC as a source of optionality and return enhancement within diversified portfolios.

9. Diversification beyond public market beta

Private market exposure reduces reliance on:

- Index concentration
- Momentum-driven flows
- Daily mark-to-market volatility

While private assets are not lower risk, their return drivers are more closely tied to operational performance and long-term outcomes. This is increasingly important in a market environment where the correlation between public equities and bonds is elevated.

The inflection point: Why allocation matters now

The case for private equity and venture capital allocation is strengthened by the convergence of several structural forces:

1. **Scale:** Private markets now operate at sufficient depth to absorb institutional capital at scale.
2. **Access:** The growth of evergreen structures are broadening access beyond traditional institutional investors.
3. **Public market constraints:** Concentration, rise of passive, and increased focus on the short term limit opportunity sets.
4. **Access to the broader economy:** Growth increasingly originates in private markets.
5. **Capital availability:** Companies are able to access large pools of capital, privately. This delays/reduces the need to IPO.

Together, these forces mark a durable inflection point in capital markets.

Investor suitability

Investor suitability is important to consider when allocating to private equity or venture capital.

Private equity offers potential for higher long-term returns and diversification, but it comes with long lockups, limited liquidity, and high entry thresholds, making suitability and allocation discipline critical. The ideal investor should have a longer time horizon, lower liquidity needs, and higher risk tolerance.

Private equity and venture capital are no longer peripheral alternatives. They represent structurally advantageous exposures for investors seeking access to the full spectrum of global economic growth.

Investors who remain under-allocated to private markets risk systematic exposure gaps as value creation continues to migrate outside public markets.



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¹ Source for data and claims: Unicorns, Decacorns and Hectocorns: The Private Companies Primer, BofA Securities, October 21, 2025.

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