People and Process: The Keys to Private Equity Exit Excellence

Russell Reynolds ASSOCIATES

Private equity exits mark the pivotal moment when years of value creation translate into realized returns. Despite limited partners (LPs) applying increasing pressure on distributed to paid-in capital (DPI) and liquidity visibility, most funds still treat exits as tactical events rather than strategic processes. While investment committees are highly formalized, exit decisions often lack the same structure and discipline. Most are still managed deal by deal, driven by individual partners and affected by subjective bias and misaligned incentives, rather than complete portfolio-level oversight. A recurring theme emerges around carry structures and the incentivization of partners to hold assets longer.

LPs see the consequences clearly: a disconnect between their interests and those of general partners (GPs), unpredictable distributions, and opaque decision-making around exits. In response, leading firms are rethinking how they govern realizations, from establishing exit committees to hiring in-house sell-side or exit specialists. The aim is to convert value creation into value capture with far greater discipline, timing precision, and enhanced transparency. This approach builds a repeatable model that strengthens investor confidence and reinforces future fundraising narratives.

Methodology

To understand current approaches and emerging best practices in exit governance, Russell Reynolds Associates interviewed 30 GPs, LPs, and sell-side bankers. Our discussions explored how exit decisions are made, the development of formal exit committees, the rise of in-house sell-side roles, and the broader forces shaping exit governance and outcomes. These insights shed light on how leading firms are institutionalizing their exit processes to improve timing, DPI, and investor trust.

Ad hoc exit planning dominates

Our interviews revealed a striking paradox: while exits define fund performance, their governance often lags far behind investment processes. "We are 10% as thoughtful on exits as we are on investments" noted one investment partner. Most firms still rely on an informal model in which originating partners drive exit decisions, with final approval from the investment committee (IC).

While that may suffice for smaller funds, the limitations become pronounced as portfolios grow and holding periods extend, exposing challenges such as:

- **Limited visibility:** Firms miss cross-portfolio valuation trends, buyer appetite, and optimal timing windows. Exit preparation is often reactive, with inadequate buyer mapping.

- **Subjective decisionmaking:** Optimism bias and incentives for GPs can delay exits, eroding the internal rate of return (IRR). Decisions hinge on individual judgments rather than portfolio-level discipline.

> The industry's long-standing focus on acquisitions and buyside capabilities has left many firms ill-equipped for today's environment, where exits are challenging and liquidity scarce."

Institutionalizing the exit process

The solution appears to be a smarter structure. Formal exit committees are emerging as a best practice, bringing portfolio-level discipline and cross-functional expertise to realization decisions. Often overlapping with IC members but enriched with capital markets, fundraising and sell-side professionals, these committees shift exits from reactive, deal-by-deal calls into a strategic lever for fund performance.

Four strategic benefits of exit committees

1. **Timing discipline:** Such committees take advantage of portfolio-wide data, insight into buyer appetite, and market trends to sell into strength and avoid mistimed exits. Early, structured planning ensures that banks get clear strategic direction, allowing them to focus on execution.
2. **Strategic alignment:** Exit decisions are anchored to fund-level objectives and portfolio strategy, not individual partner preferences, thereby ensuring that realization decisions support the broader return profile.
3. **Balanced trade-offs:** Formal exit committees mediate between maximizing the multiple on invested capital (MOIC) and delivering DPI, navigating the tension between incremental upside and investor liquidity desires.
4. **Investor confidence:** Structured exit governance signals maturity, transparency, and accountability, qualities that institutional LPs increasingly expect from the outset.

Figure 1: From ad hoc to institutionalized: The exit committee model

Feature	Status quo	Exit committee model
Decision making	Deal team-led, ad hoc	Structured, cross-portfolio
Timing discipline	Varies by partner	Data-driven, regular reviews
Strategic alignment	May drift from fund goals	Anchored to fund strategy
LP visibility	Limited	Transparent, frequent reporting
DPI outcomes	Inconsistent and lagging	More predictable and optimized

What "good" looks like

It's not enough to simply establish an exit committee. What matters is empowering it with the authority and insight to shape exit timing and strategy across the portfolio, not just ratify decisions made elsewhere.

The most effective exit committees combine technical depth and interpersonal authority in equal measure:

- **Technical depth:** Mastery of exit strategy, valuation, sell-side oversight, readiness milestones, and governance.
- **Interpersonal authority:** Credibility with deal teams, gravitas to challenge entrenched views, collaborative instincts, and low-ego leadership.

> The best people in exit roles aren't just technically sharp, they can hold the room and move decisions forward without creating friction."

When structured and empowered effectively, exit committees elevate realizations from tactical events into core drivers of fund performance, liquidity, and investor confidence.

Overcoming design challenges

Building formal exit governance often runs into three predictable obstacles:

1. **Cultural resistance:** Senior partners may see oversight as a threat to their autonomy.
2. **Limited authority:** Committee members or specialists must command credibility across sectors and geographies.
3. **Execution capacity constraints:** Governance shapes decisions but doesn't replace bankers, legal counsel, and advisers.

> Governance helps you choose the right window, but you still need the right people on the field to get the deal done."

Beyond committees: The case for dedicated sell-side expertise

Our interviews explored whether specialized talent represents the next frontier in exit governance. Just as private equity previously created roles in fundraising, investor relations and capital markets, some large-cap funds are now establishing dedicated sell-side and exit leadership positions.

Why it matters:

- **Execution discipline:** Specialists bring market fluency, valuation insight, and readiness rigor.
- **Objectivity:** Specialists provide a portfolio-wide view, challenging optimism and prompting earlier exits from low-upside assets to free capital for higher-value opportunities.
- **Fundraising credibility:** Institutional investors reward funds that demonstrate repeatable exit processes.

> It's not about second-guessing deal teams. It is about bringing more data, more perspective, and more discipline into the decision."

> Exit execution requires a distinct, sophisticated skill set. On the sell side, you're not just responding, you're crafting the narrative and driving buyer demand."

There's debate about bringing in such expertise. Critics warn of potential credibility gaps and cultural friction if senior partners view external hires as intrusive.

> To tell a senior deal partner what to do, you need to earn respect and that takes years to build."

> Selling an asset is core to the job. If investors can't sell, they shouldn't be deal partners."

The value of such roles hinges on seniority, credibility, and influence, not just technical skill. The most effective exit leaders combine execution depth with market reputation, sector fluency, and interpersonal authority to challenge entrenched views without creating friction.

Enhancing exits without a dedicated committee or sell-side specialist

Not every firm will need a committee or a dedicated hire to strengthen outcomes. Many can materially enhance results by embedding exit discipline into existing processes, including:

- **Portfolio-wide exit reviews** to track timing, valuation, and buyer appetite.
- **Defined readiness milestones** to ensure assets are market-ready well before process launch.
- **Regular, clear communication with LPs** to manage expectations and strengthen trust.

These practices not only elevate exit performance but also enhance decision-making around continuation vehicles, follow-on investments, and capital deployment.

As one leading LP observed, the industry can further distinguish itself through the deliberate cultivation of exit expertise within deal teams. A disciplined approach to talent development ensures that critical exit capabilities-often less intuitive than buy-side skills-are systematically and consistently built across the firm.

> Best-in-class firms will be those that establish Centers of Excellence and invest in rigorous training and real-world case studies to embed these capabilities from every level."

Looking forward: Turning realizations into a competitive advantage

Exit decisions remain one of private equity's most consequential yet least formalized processes. As LP priorities move from notional returns to tangible distributions, firms that bring discipline and expertise to exit governance will stand out for stronger liquidity delivery, greater investor trust, and enhanced capital commitments in future funds. Importantly, LPs care about overall fund performance, not individual deal outcomes, highlighting the need for rigorous, portfolio-level decision-making.

The question is no longer whether to institutionalize exits, but how quickly firms can evolve from ad hoc decision-making to a repeatable mechanism for strategic value capture. For those that do, disciplined realization will become far more than an operational upgrade—it will be a durable competitive advantage.

In a period when funds have more portfolio companies and partners, the thinking needs to be more centralized. The industry needs good fund managers, not simply great deal doers.

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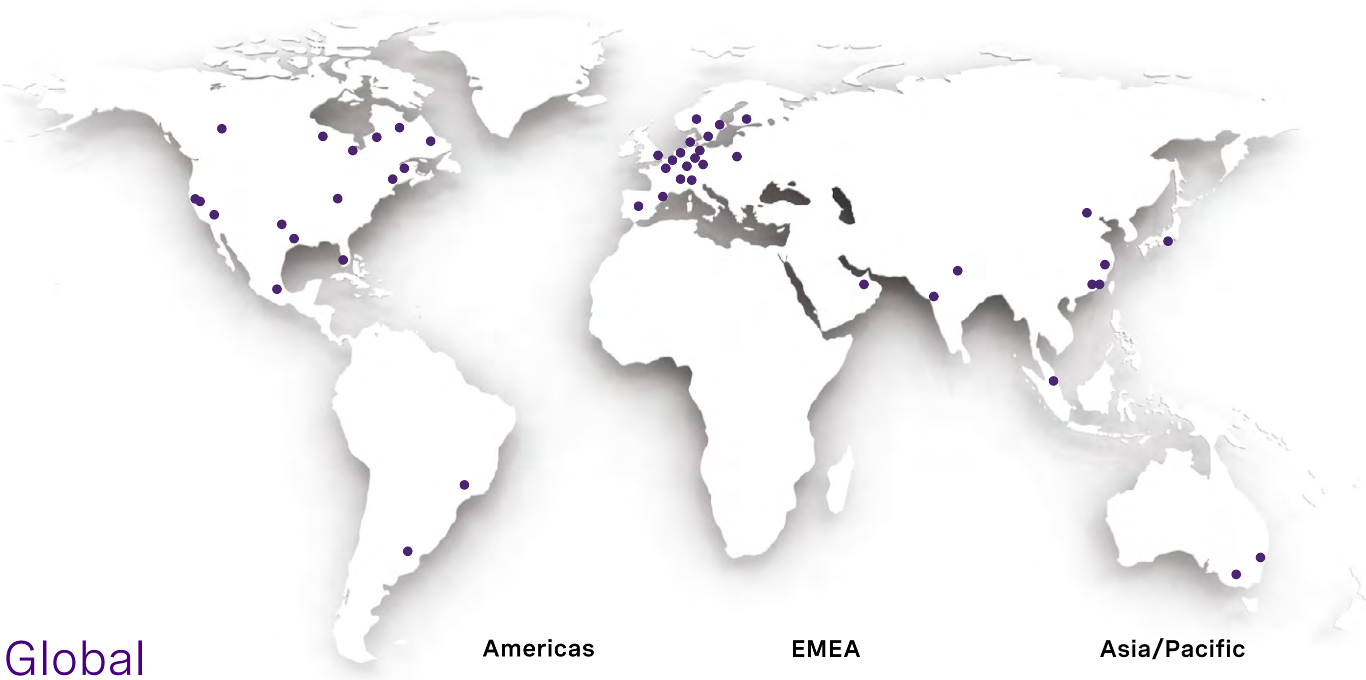

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