

The background of the entire page is a textured oil painting of a rural landscape. It depicts a field with various colored patches (pink, white, yellow, green, blue) and a dirt path leading through them. In the distance, there are several small, simple houses with thatched roofs and a few bare trees under a cloudy sky. A small figure of a person is visible in the middle ground, walking across the field.

DPI as the New IRR:
Updating the Performance
Evaluation of Private
Equity for Allocators

January 2026

EXECUTIVE SUMMARY:

In the evolving landscape of private equity, traditional performance metrics are undergoing scrutiny. For decades, Internal Rate of Return (IRR) has been the cornerstone for evaluating fund performance, offering a time-weighted measure of returns. However, amid tightening liquidity, prolonged holding periods, and heightened investor demands for tangible returns over unrealized valuations, Distributions to Paid-In Capital (DPI) is emerging as an increasingly emphasized metric.

UNDERSTANDING IRR AND DPI:

DPI and IRR differ materially in how they represent performance:

- Internal Rate of Return (IRR) calculates the annualized rate of growth an investment has generated to date based on NAV marks (realized and unrealized) and accounting for the timing. It is widely used because it allows for straightforward comparisons across funds and vintages. However, IRR relies heavily on unrealized valuations and can be influenced by factors such as interim distributions or valuation methodologies, potentially inflating perceptions of performance.
- In contrast, Distributions to Paid-In Capital (DPI) is a straightforward ratio: total distributions divided by total paid-in capital. A DPI greater than 1.0x indicates that investors have recouped their initial investment plus profit. Unlike IRR, DPI focuses exclusively on realized returns making it immune to valuation subjectivity and more reflective of liquidity events like exits or dividends.

THE LIMITATIONS OF IRR IN TODAY'S MARKET:

The mainstream private equity market has faced significant headwinds since the post-COVID era, including elevated interest rates, and a slowdown in IPOs and M&A activity. These factors have extended fund lifecycles, often beyond the typical 10-year horizon, leading to a backlog of unrealized assets. IRR, while useful for determining the potential returns of unrealized assets, can mislead in such environments. For instance, early-stage funds may report high IRRs based on marked-up valuations during bull markets, but these figures often fail to materialize if exits are delayed or valuations correct downward. Furthermore, IRR is susceptible to manipulation through strategies like subscription lines of credit, which delay capital calls and artificially boost early IRR figures. Limited Partners (LPs) have grown wary of these practices and are prioritizing metrics that demonstrate proven liquidity over optimistic projections.

WHY DPI IS GAINING PROMINENCE:

DPI addresses IRR's shortcomings by emphasizing actual cash flows. As one industry expert notes, "DPI says, 'Show me the money.' It reflects the cash actually returned to investors: not just paper profits or projections." Recent data underscores this trend- sources like Bain & Company, McKinsey, and Preqin indicate DPI remains a priority amid low distributions with US buyout funds (2018-2022 vintages) showing DPI at roughly half historical averages. Recognizing LPs' demand for faster liquidity, General Partners (GPs) are exploring secondary sales, continuation vehicles, ongoing yield distribution structures and one-time dividend recaps to enhance DPI.

For LPs, DPI serves as a litmus test for fund maturity and manager efficacy, particularly in illiquid markets where holding periods are exceeding 6-7 years. As capital becomes scarcer, funds with strong DPI track records are better positioned to raise capital.

IMPLICATIONS FOR INVESTORS AND MANAGERS:

The rising emphasis on DPI signals a shift toward greater discipline within private markets. GPs are compelled to emphasize exit planning, operational enhancements, and innovative structures to facilitate earlier distributions within the fund lifecycle. For LPs, DPI provides a practical way to evaluate portfolios, serving as a complement to IRR rather than a complete substitute. An integrated methodology - leveraging IRR for assessing total return prospects and DPI for confirming realizations - yields a more comprehensive evaluation. Looking to 2026, as private equity contends with economic uncertainty, DPI's orientation toward cash returns establishes it as a necessary validation metric alongside IRR and TVP. Investors pursuing enduring performance will increasingly require validation of liquidity, thereby redefining success metrics across the industry.



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