

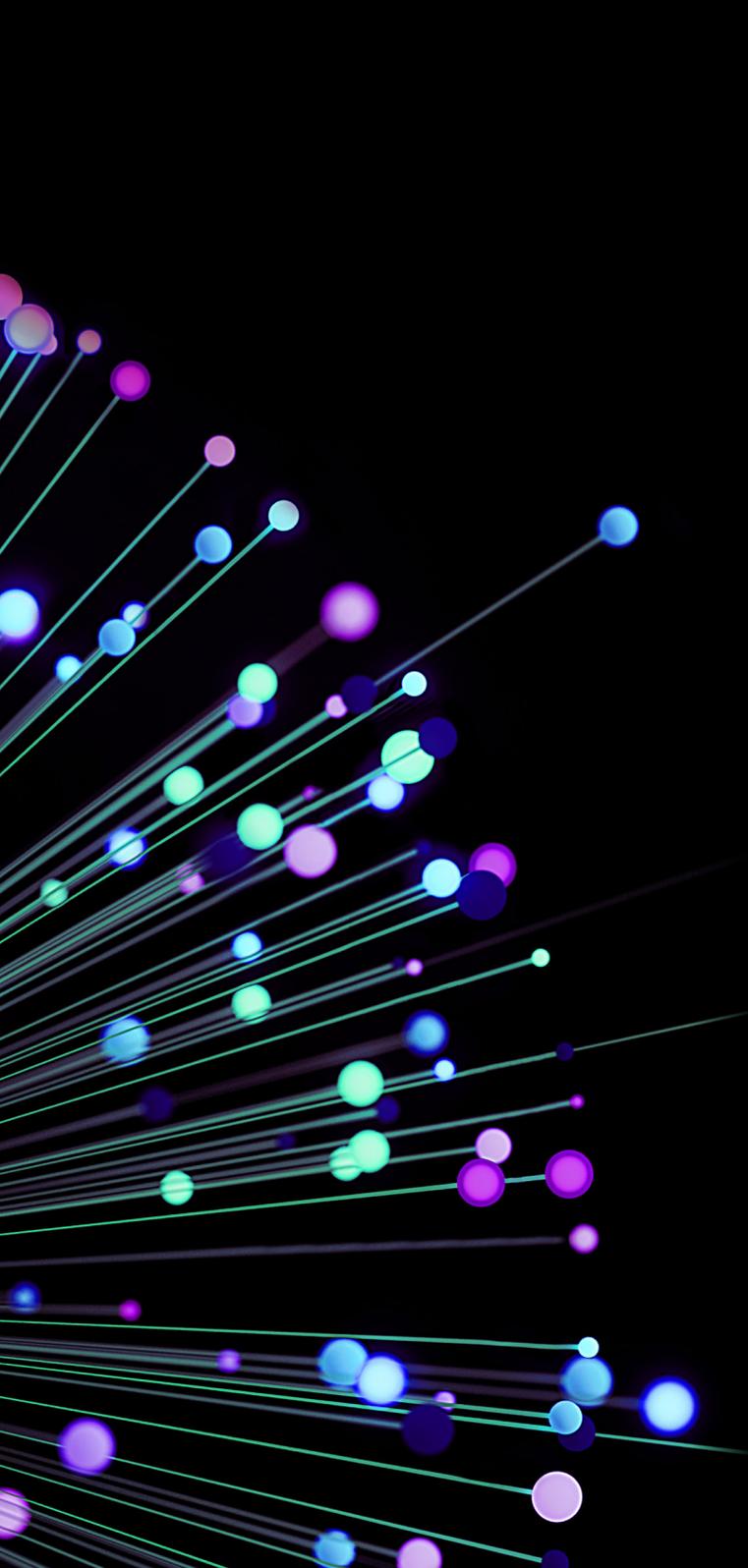
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**Succession and transition of ownership:
Navigating a complicated path**

Deloitte Private Equity | Firm and Fund series



Preface

Welcome to Deloitte's series exploring key strategic drivers and events influencing the evolution of private capital firms and funds.

I am really excited to bring this series to you which delves into some of the unprecedented challenges and opportunities facing private capital firms right now. What are we seeing firms focusing on at the moment? There is huge focus on liquidity at both the firm and fund levels, a continued focus on growing assets under management in more challenging markets and of course focus on increasing profitability at the firm level. Many firms are also grappling with succession and transition planning. How are firms addressing these goals? Solutions range from one or a combination of expanding into new strategies and geographies, accessing new investor types, establishing continuation vehicles, undertaking general partner stake sales or full consolidation, implementing new and innovative incentive structures, and firm level optimization. Successfully navigating these events requires careful planning and understanding of market practice as well as a relentless focus on the impact on talent, ownership structures, and organizational frameworks.

This series explores these key events and trends shaping the private capital landscape. Our aim is to bring the breadth of our global expertise and experience to support your firm in understanding the art of the possible, planning out the roadmap to an event and supporting in the design and execution of the chosen solutions.

I hope you find our insights valuable.

Olivia Biggs

Global and UK Private Equity Firm and Fund Services Leader

To the point



Strategic imperative: Succession and transition planning is often one of the most critical strategic imperatives for private capital firms to get ahead of, driven by both internal and external factors.



Distinct phases: Transition focuses on developing future leaders and owners, while succession involves the actual transfer of partial or full ownership, often linked to liquidity events. Both require consideration of what it means to be an “owner” and structuring in such a way that helps ensure the future success, stability and growth of the business.



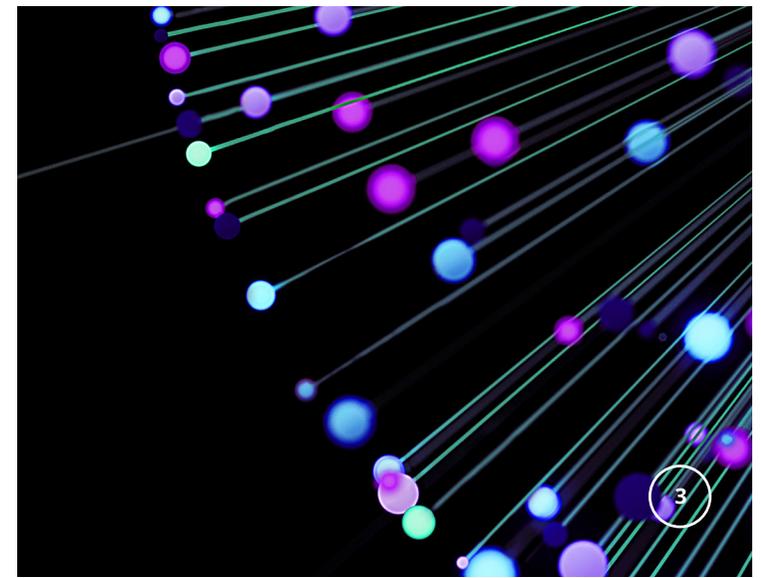
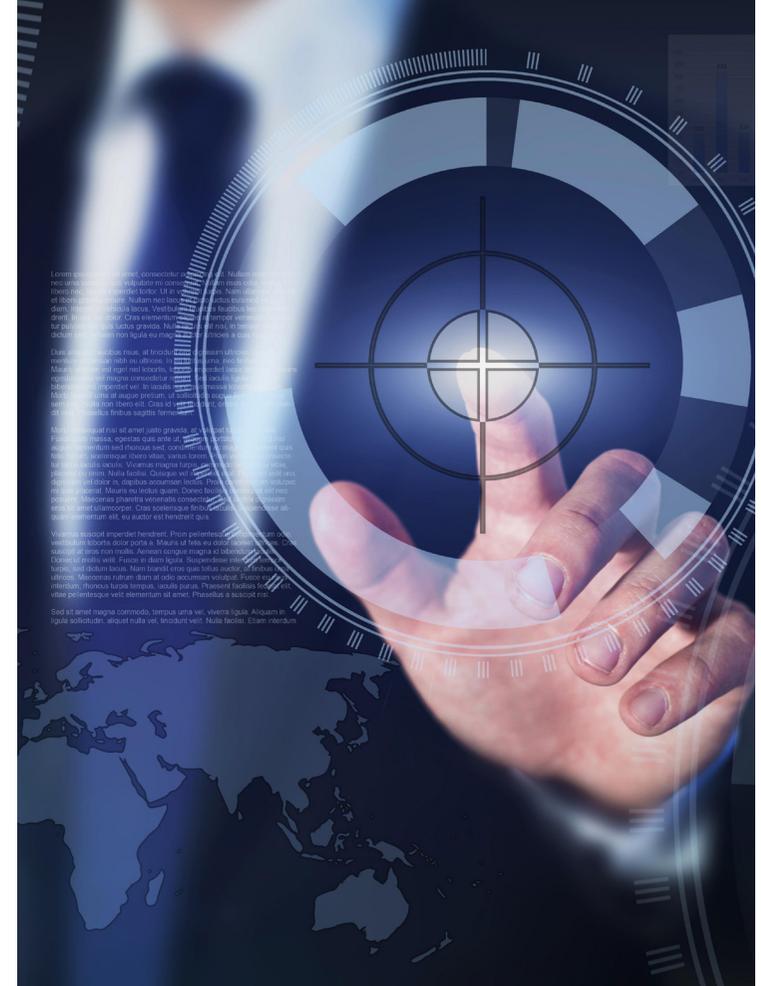
Multi-faceted approach: A successful transition or succession plan requires a holistic nuanced approach, considering not only the economic aspects (profit sharing, value realization, income and capital rights) but also governance, voting rights, and tax implications across all relevant jurisdictions.



Proactive planning: Proactive engagement with all stakeholders (founders, next generation, investors) is crucial for creating a robust, adaptable plan that minimizes disruption and helps ensure buy-in and longevity.



Expert guidance: Seeking expert advice early in the process, and drawing on market experience, provides invaluable support in navigating the complexities of succession and transition, which can be deeply personal events that require care and balance in their design and execution.



Introduction

Succession and transition planning has evolved from an item that often languished on the longlist, to something that has become a strategic imperative prompting new, often innovative, market themes and approaches.

The catalyst for change varies, reflecting each firm's unique stage of development, strategic goals and culture but can be broadly grouped into the following categories:

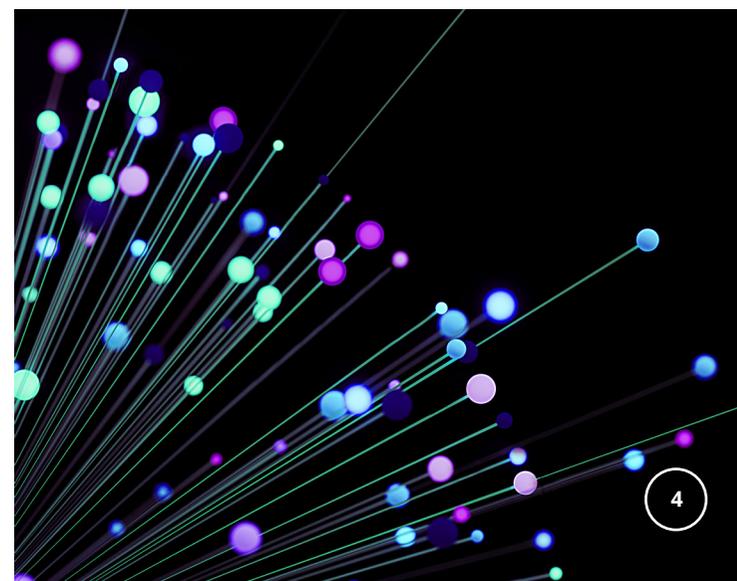
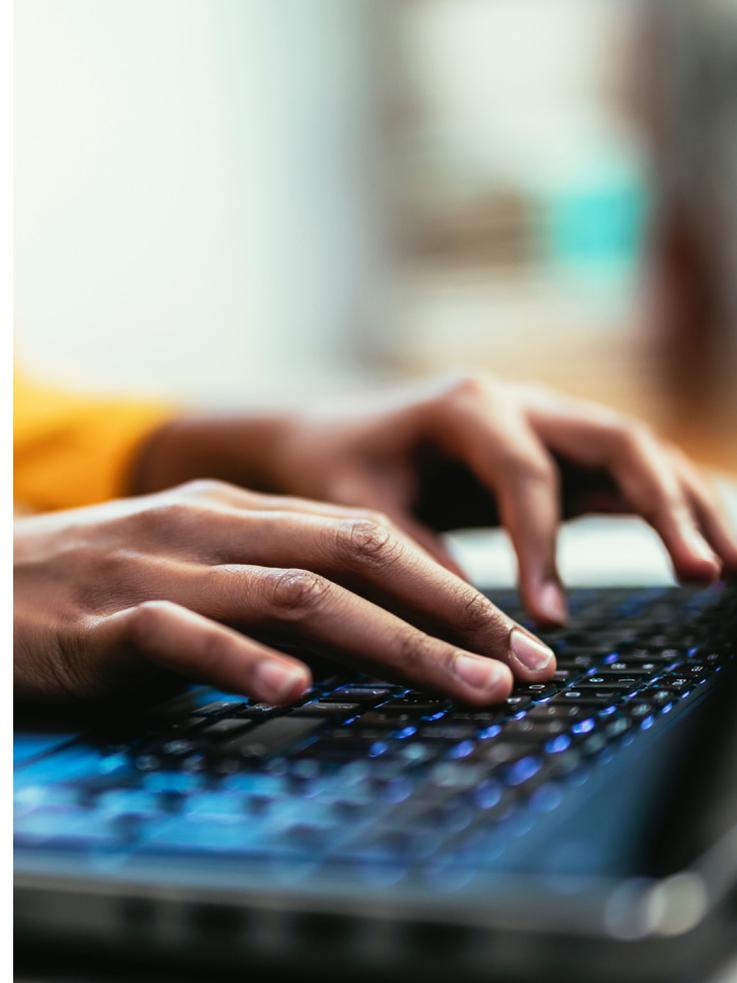
Internal factors:

- Founders or owners looking ahead to retirement.
- Empowering the next generation of leaders to take the reins and increasingly think and behave as an owner.
- A desire from the next generation to participate in the leadership and ownership of the firm in particular as the next generation observes the trend to market consolidation and wealth creation through capital ownership.

External factors:

- Investor expectations and demands, often led by Limited Partners (LPs) at the time of a fundraise.
- General Partner (GP) investors, where there is a cornerstone, asking questions on longer-term planning for the business.
- Market forces, such as industry consolidation explored further in [Private markets Mergers & Acquisitions: A strategic imperative for fund managers](#)

This thought piece sets out a number of the critical factors that firms should consider when determining their short, mid-term and long-term approach.

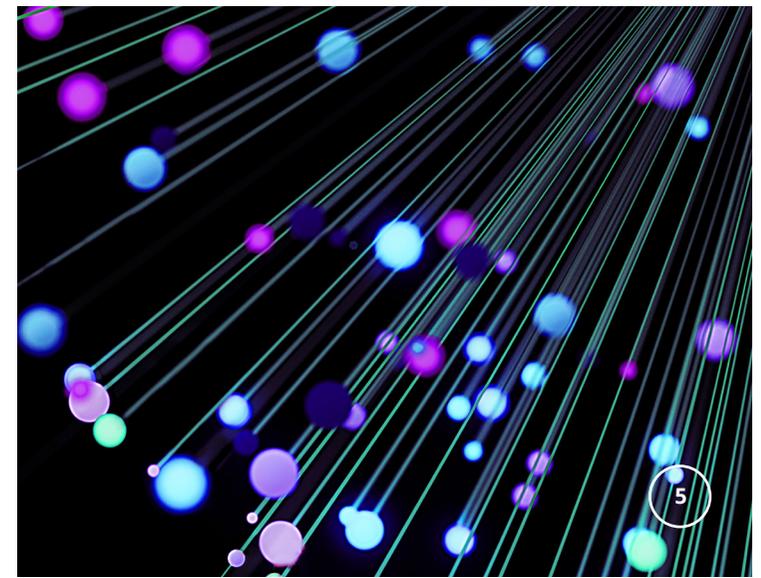
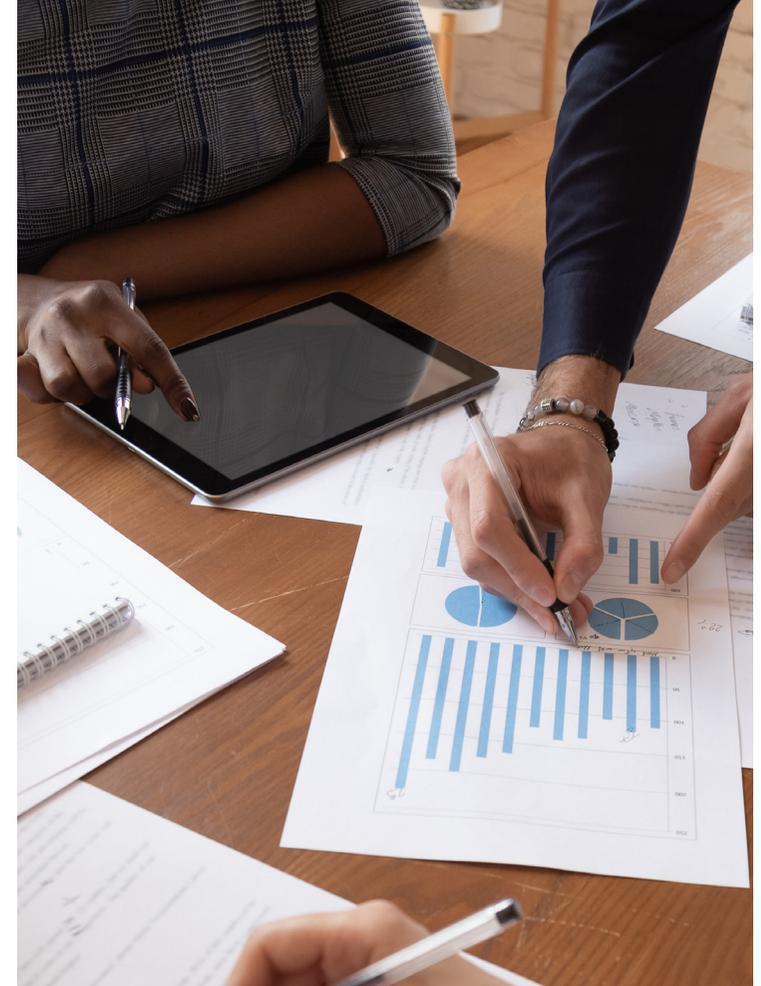


Transition versus succession: Two sides of the same coin?

While often conflated, transition and succession represent distinct phases in the leadership lifecycle:

- **Transition - Forging the next generation of leaders:** A deliberate process of identifying, nurturing, and incentivizing future leaders, considering all dimensions of ownership: financial participation, governance, and decisive voting power. This can include strategic lateral hires as well as promotes from within.
- **Succession - Passing the torch:** Orchestrating the exit of one or more founders or the current generation of owners and the transfer of ownership to the next generation (internal, external, or a blended approach). Where succession is on the agenda, there is often an inherent connection with wider liquidity events such as GP stake sales, buyouts, or public listings, to facilitate the transition of ownership.

In practice, the next step in the life cycle will vary from firm to firm. Some will progress through the “traditional course” from 100% founder owned to bringing in a cornerstone investor to broadening participation in ownership through to passing on to a new owner (internally or through an exit). Others will skip some of the stages straight to an event which facilitates the current owner(s) exit from the firm and deliver them value albeit sometimes in a phased approach.



Navigating the complexities of ownership: Why is it important to get it right?

Planning for a successful succession or transition of the business can be critically important for the owners. These events can raise questions that go to the very heart of the firm, including:

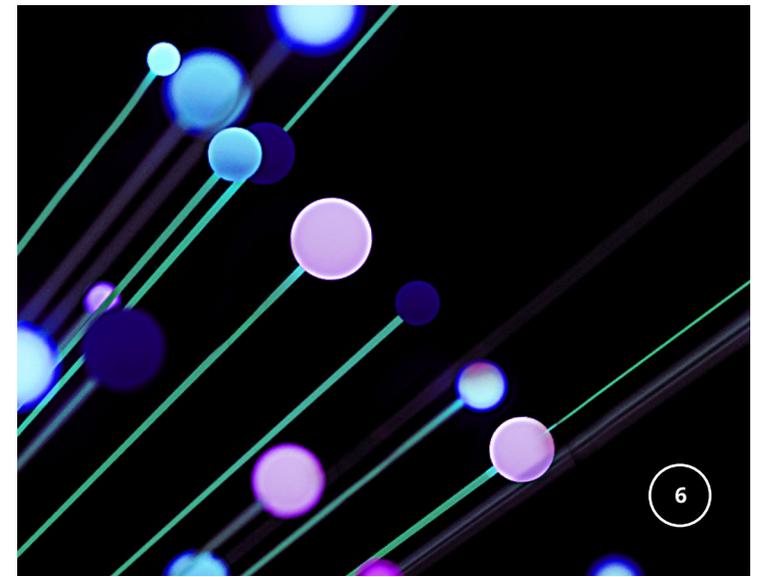
- What does “ownership” truly mean within your firm’s culture?
- What qualities define the ideal future owner?
- How can you structure the transition to ensure sustained success and growth?

These deeply personal considerations for current owners are often linked to a drive to create legacy and longevity as well as the desire for the next generation to continue to drive performance thereby maximizing the departing owners’ returns over the long tail of carried interest and co-investment returns. The timeline for enacting change is equally personal and requires careful consideration.

The power of proactivity: Shaping a seamless transition

In our experience, proactivity is a key driver of successful succession and transition planning. Early engagement can allow key stakeholders (founders and owners, future leaders, investors) to actively shape the plan, leading to:

- A robust and dynamic plan design that reflects the collective vision.
- Flawless execution and minimal disruption.
- Relentless focus on the terms of any ownership focused incentive.
- Strong stakeholder alignment and support.



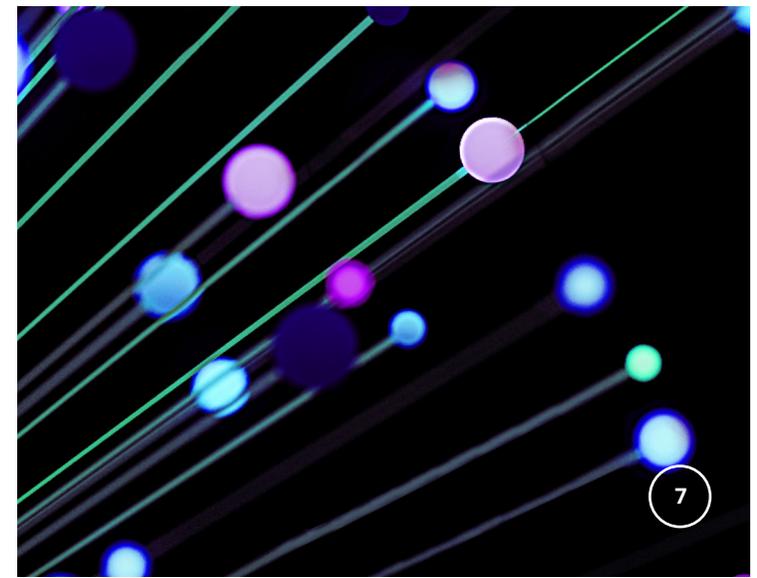
A holistic perspective: Integrating key considerations

A more comprehensive strategy for designing and planning for transition and/or succession is imperative. There are a number of factors to consider (as illustrated below), which are heavily interconnected.

For most firms, the natural starting point will be **what is the economic deal** both for the owners and the next generation including cost of entry, the approach to profit sharing whilst in role, sharing in capital appreciation on any transaction, value sharing for both departing owners and next generation leavers, and ongoing “tail” economics.

Whilst arguably this is a natural starting point, the “ownership” of a firm extends far beyond participation in economics only. In our experience, other factors fundamental to ownership, often overlooked, should be considered from the outset. These include:

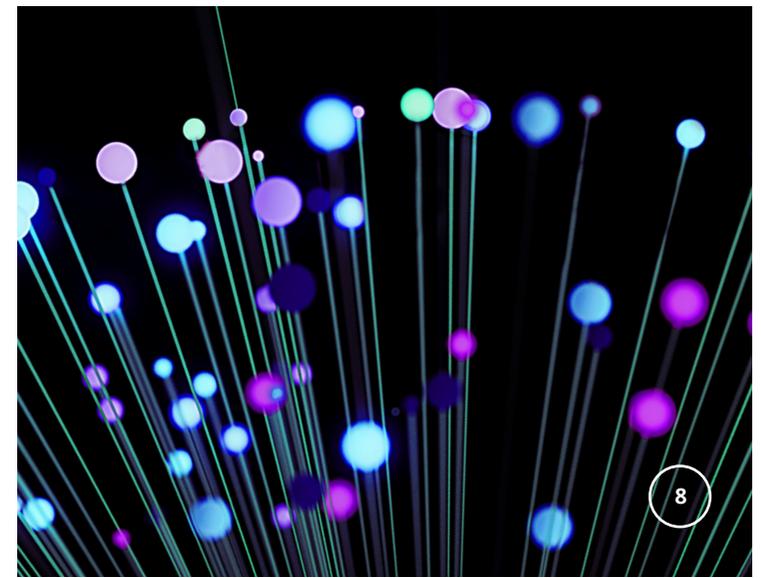
- **What is the approach to the governance structure?** Including who will participate in day-to-day management and operations.
- **How will voting work?** Which extends to both voting at the ownership level, but also to how committee-level voting will function (e.g., will certain members, such as founders, have the right of veto on certain matters?).
- **How will the structure work from a tax perspective?** Given that the desired economics can typically only be achieved through careful structuring, these factors should be considered in parallel with the desired economic outcome early in the design phase of both transition and succession plans. This is particularly the case where there are a number of jurisdictions to consider and where the capital or group structure may need to be changed.



Conclusion: Securing a legacy of growth and stability

By understanding the intricate interplay of these elements, leveraging market insights, and embracing a proactive mindset, stakeholders can confidently navigate the complexities of succession and transition. Early engagement with specialist advisors can provide invaluable guidance and support throughout this transformative journey.

Our Deloitte global contacts and authors listed on the next page have worked with many private capital firms to support them through their approach to succession and transition and are always more than happy to discuss these areas in more detail informed by their detailed market practice knowledge.



Get in touch

Contacts:

Olivia Biggs

Global and UK Firm and Fund Services leader
Deloitte UK
Email: obiggs@deloitte.co.uk

Dwight Hooper

Asia Pacific Private Equity Services co-leader
Deloitte Hong Kong
Email: dwhooper@deloitte.com.hk

Authors:

Iqbal Singh Jit

Partner
Tax
Deloitte UK
Email: ijit@deloitte.co.uk

Frank Fumai

US Firm and Fund Services leader
Deloitte & Touche LLP
Email: ffumai@deloitte.com

Satoshi Sekine

Asia Pacific Private Equity Services co-leader
Deloitte Tohmatsu Financial Advisory LLC, Japan
Email: satoshi1.sekine@tohmatsu.co.jp

Danielle Jassal

Partner
Tax
Deloitte UK
Email: djassal@deloitte.co.uk

Nick Tabone

EMEA Firm and Fund Services leader
Deloitte Luxembourg
Email: ntabone@deloitte.lu



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