Market Matters: 2nd Quarter 2026

REBECCA SAUKAITIS, PHD, CFA, CFP®

DIRECTOR & SENIOR INVESTMENT STRATEGIST

"One Man's Ceiling Is Another Man's Floor." – Paul Simon

- *Secondaries transactions — transforming one investor's exit into another's opportunity — are a fast-growing segment of the private markets.*
- *Acquired thoughtfully, secondaries can offer access to mature, de-risked assets at meaningful discounts to net asset value.*
- *Secondaries funds offer a useful tool to diversify within private markets and reduce concentration in public equities.*
- *Investors should be vigilant: secondaries funds are increasingly marketed to non-qualified purchasers who may not fully appreciate their risks, return drivers, or true liquidity profile.*

The Secondaries Market

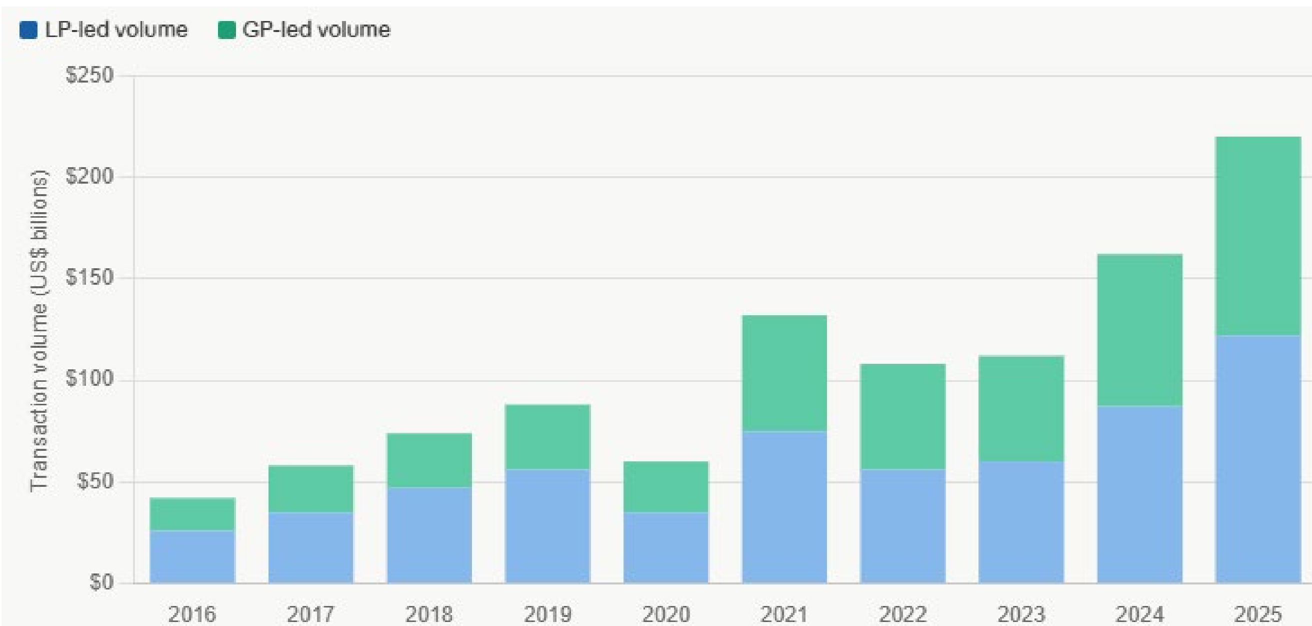
Secondaries are private investments purchased from existing owners rather than through new subscriptions in primary drawdown funds – **one investor's exit becoming another's selected entry point**. In LP-led transactions, a limited partner sells its stake in one or more existing funds, and the buyer acquires that slice of the fund's entire portfolio. GP-led transactions are initiated by the fund manager, often through a continuation vehicle that moves one or more portfolio companies into a new fund structure, giving existing investors the option to cash out while new capital extends the holding period. Co-investments are a related but distinct strategy: a direct minority stake alongside a GP in a single company, essentially a primary investment made on a deal-by-deal basis. [1]

	LP-led secondary	GP-led secondary	Co-investment
What is acquired	Slice of an LP's whole fund stake, many cos.	Stake in a continuation vehicle, 1-few cos.	Direct minority stake in one company
Diversifi-cation	Typically broadest; many names, vintages	Concentrated in select high-conviction assets	Single-name exposure, no built-in spread
Fee structure	Often a full layer, similar to "2 and 20"	Often lower / reduced vs. LP-led	Often lowest; deal-by-deal, no carry
Holdings complexity	More layers to assess: many GPs and assets	Simpler to underwrite: few, known companies	Simplest structure, but concentrated risk
Blind-pool risk	Low; assets in fund already known	Eliminated; assets identified upfront	Eliminated, but full execution risk day one

[1] All graphics herein were composed with the aid of Claude.ai

Why do discounts exist? Unlike public securities, secondary private interests often trade because sellers have portfolio-driven objectives rather than negative views of the underlying assets. Pension funds may rebalance allocations depending on public market performance, endowments may raise liquidity for spending needs, and family offices may simplify legacy holdings. These motivations create opportunities for buyers to acquire seasoned assets at discounts that reflect supply-and-demand dynamics more than unfavorable fundamentals.

The secondaries market has grown dramatically over the past decade, fueled by a recycling loop: LPs increasingly treat secondary sales as a routine portfolio-management tool rather than a sign of distress, using them to rebalance and free up capital. **A growing pool of aging fund interests – the natural byproduct of the private equity fundraising boom of the past fifteen years – has created a steady supply of assets available for new owners**. GPs, meanwhile, have embraced continuation vehicles as a way to retain high-conviction assets beyond a fund's contractual life while delivering liquidity to investors who want it. The result is a secondaries market that has grown into a core component of the asset class.[2]



[3]

A secondaries fund acquires existing private interests rather than committing fresh capital to unseen investments – picking up assets already well along their value-creation journey rather than planting seeds and waiting for growth. Managers can select from assets that are already meaningfully de-risked. Funds often blend these secondary purchases with co-investments and/or primary investments.

The Rise of Secondaries Funds

Secondaries funds come in a range of structures, but most share a common appeal relative to traditional primary commitments. Because underlying assets are already identified at the time of investment, allocators can evaluate the portfolio before committing capital, rather than betting on a manager's future deal sourcing over a ten-year horizon. "J-curve mitigation" is one of the strategy's most cited advantages:

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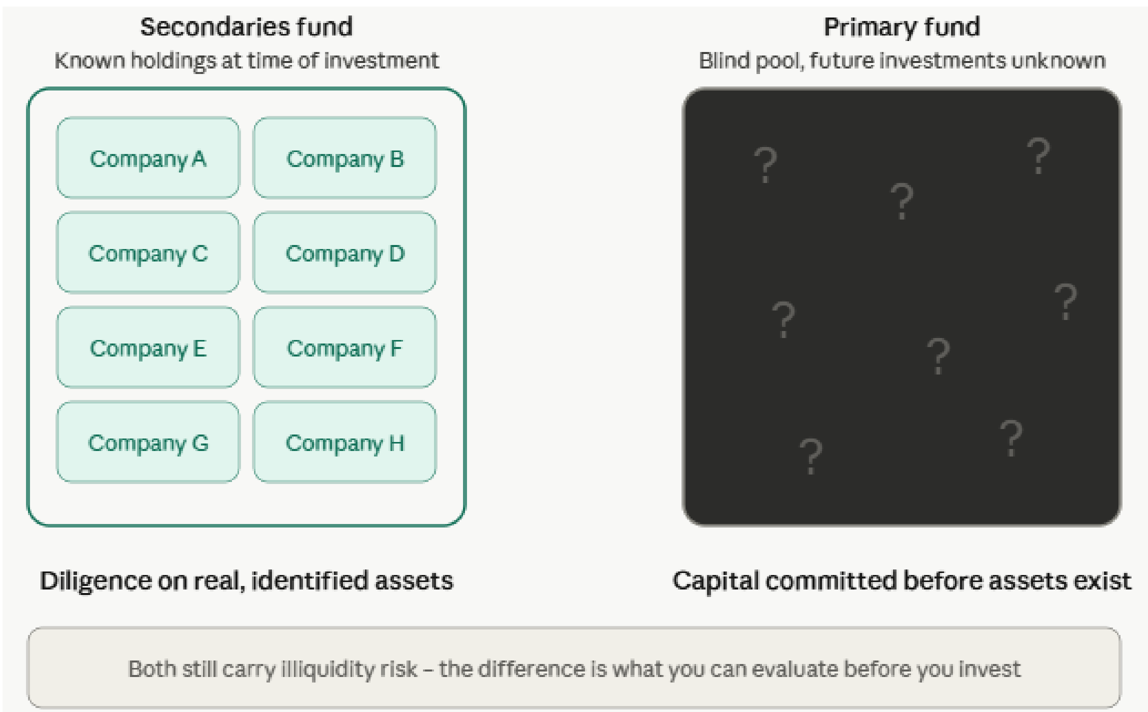
[2] Caisgroup.com, Jefferies "2025 Global Secondary Market Review"
[3] Data c/o Jefferies PCA & William Blair.

by purchasing assets partway through a holding period – often at a discount to NAV – capital tends to be returned faster and the early years of negative or flat returns common to primary funds are reduced or avoided. Investors in a primary fund commit capital largely on faith – betting on a manager's skill with little visibility into what companies will ultimately be purchased. **Secondaries investors buy into assets with operating histories and performance data already on record**, reducing (but not eliminating) the blind-pool risk inherent to primary commitments.

The shorter effective duration of secondaries assets stands in contrast to primary funds, which typically run ten to twelve years or longer. Secondaries can return capital sooner and give owners greater flexibility to redeploy proceeds. LP-led secondaries often carry the typical "2 and 20" private equity fee burden associated with the original investment that is passed on by the seller, but GP-led continuation vehicles and co-investments may carry significantly lower fees.



Structurally, secondaries funds are offered both as traditional closed-end drawdown vehicles – which call capital over time and return it as underlying positions are realized, much like a conventional private equity fund – and increasingly as evergreen vehicles, which have no fixed end date and reinvest proceeds on an ongoing basis. Evergreen structures have grown popular with individual investors for their simplicity: capital is typically called in full at subscription, and the investor receives periodic valuations and the option to request liquidity through the tender process.

Risk & Return Context

Illiquidity Risk: Secondaries are no more liquid than primary private investments – there is no short-term market for these assets. Evergreen funds often include periodic tender offer provisions, which can create the impression of liquidity. Tender offers are typically capped at 5% of NAV per quarter and are subject to manager discretion; in periods of stress, tenders can be prorated, scaled back, or suspended.

Redemption limits are structural features of the funds, not just temporary restrictions. They should be viewed as part of investment design rather than an emergency measure. Investors should treat evergreen vehicles as semi-liquid *at best* and size allocations accordingly.

Return Representation: early returns are often amplified by the mechanics of launching a fund. Funds acquire a basket of secondary assets at a discount and mark them up quickly, generating eye-catching performance. As a fund matures and fresh capital deployment slows, this markup-driven tailwind fades and returns begin to converge with the underlying economics of portfolio holdings instead of a high volume of acquisition discounts. This is more sustainable but also may be more modest. The full picture rarely emerges until several years into a fund's life.

Opacity: The details of the underlying holdings of the fund are often not transparent to investors. It may be difficult if not impossible to independently verify the valuations attributed to the assets held in a fund.

Fund management fees are layered on top of fees already paid on the underlying investments. Though this second layer is typically lower than primary funds. A major concern would be incentive fees without investor-protective terms. Traditional private equity carry is assessed at asset realization, when valuation is proven by a transaction. **Evergreen secondaries fund incentive fees, however, may be based on NAV – which, as noted above, necessarily relies on manager estimates** – and assessed as frequently as quarterly. If marks subsequently drop, investors may have little recourse to recoup those fees.

Why Invest

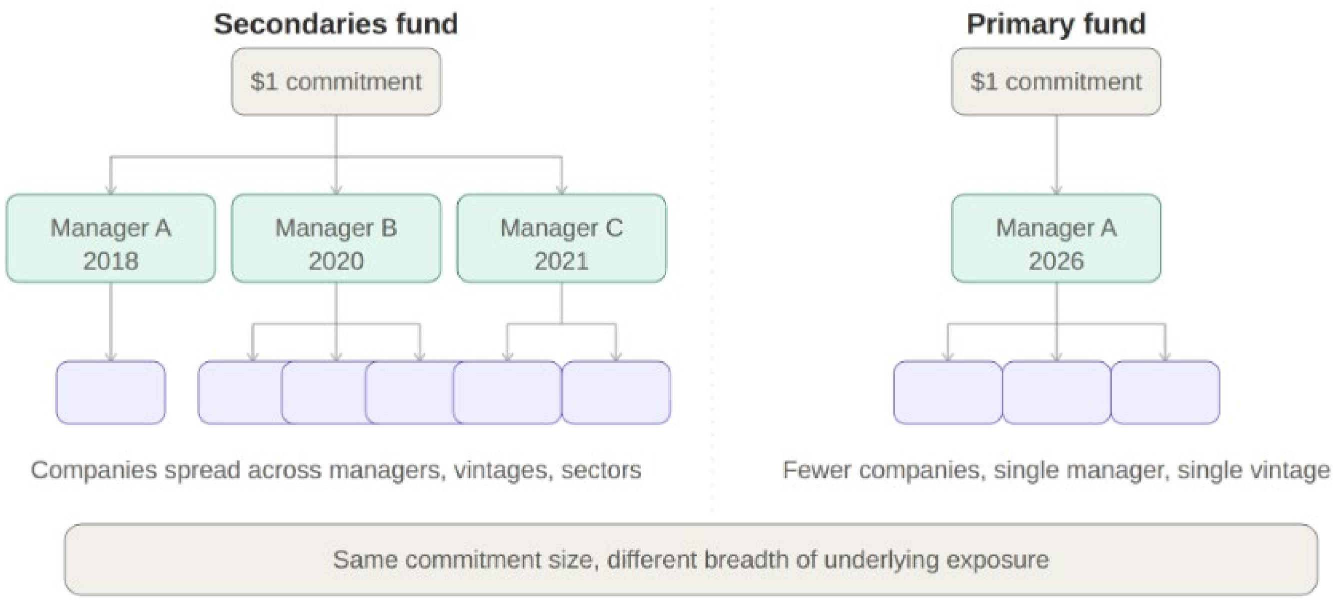
Secondaries are a compelling tool for core private allocations when selected carefully. The combination of j-curve mitigation, visibility into underlying holdings, and shorter durations than primary funds can make them an attractive entry point into private equity or a complementary allocation alongside primary funds.

Secondaries can deliver broad diversification – exposure to dozens or even hundreds of underlying companies across multiple managers, vintages, sectors, and geographies in a single commitment. This would be difficult and expensive to replicate through primary commitments alone. That diversification extends to international exposures that an investor's portfolio might otherwise lack.[4]

Secondaries can also help mitigate concentration in public equity markets, which have grown increasingly top-heavy as a small number of mega-cap names dominate major indices – a dynamic that now bleeds into investment-grade fixed income as the same hyperscalers issue bonds. **Allocating to diversified secondaries portfolios gives investors a source of return less tied to the fortunes of a handful of large public companies**.[5]

For investors who find the minimum check sizes of primary lower-middle-market funds prohibitive, secondaries can provide access to that same segment – smaller companies with significant operational improvement runway – at a fraction of the ticket size.

[4] Hamilton Lane, Schroders Capital
[5] Apollo, "Private Market Secondaries: The $225 Billion Market Many Wealth Investors Overlook"



Screening

Manager selection in secondaries is no less rigorous than in any other private strategy –**the ability to identify and price for-sale assets accurately is still the effective edge**. We look for managers with long track records across market conditions and pay close attention to how a manager has historically marked and realized positions relative to initial underwriting.

Fee evaluation includes scrutinizing headline management fees, hurdles, high-water marks, clawback provisions, and the basis on which fees are calculated, along with negotiating fees whenever possible. Funds have distinct fee structures. Notably, one of IAA's currently favored funds in this space charges no incentive fee – an important data point in a market where fees can materially affect net returns.

Finally, we evaluate **cash drag** – the extent to which uninvested capital sits idle, diluting returns on deployed capital. This is especially relevant for evergreen vehicles, which often have a material allocation to cash or low-risk liquid asset because they must continually balance new subscriptions, redemption requests, and deployment opportunities. Disciplined capital recycling can meaningfully improve results.

Conclusions regarding portfolio construction

We view secondaries as a strategic – rather than opportunistic – component of a well-constructed private equity allocation for qualified investors. **What the secondaries market does, at its best, is transform aging or unwanted fund positions into well-priced, diversified building blocks that can improve both portfolio construction and capital deployment.** They are well suited to investors building a private markets program or diversifying one that is concentrated by vintage, manager, or geography.

The risks discussed above are real and often underappreciated by investors drawn to strong early returns. Not every fund that recycles capital into this market does so sustainably, on investor-friendly terms. We continue to favor managers with long track records, transparent fee structures, and disciplined deployment – and we are happy to discuss how secondaries might fit within your portfolio.

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