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# Beyond the basics: How secondaries can enhance your investment strategy



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*The private equity secondaries market has evolved over the past two decades from a niche solution into a bona fide asset class. What was once largely reserved for distressed sellers is now a sophisticated, and in our view, essential component of portfolio management for investors and private equity (PE) sponsors alike.*

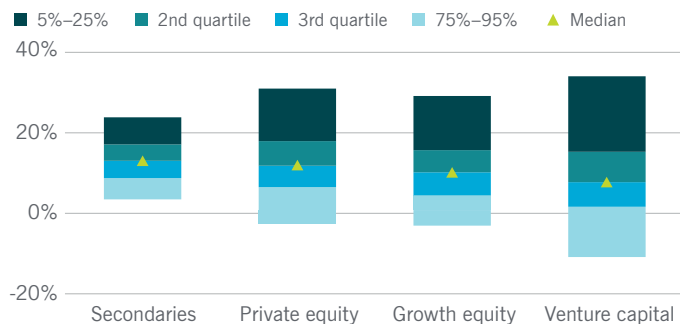
*So, what is behind the current explosion of secondaries activity? In this paper, we examine secondaries' performance over multiple market cycles, its persistent structural advantages, three common misconceptions, and why current market conditions present a particularly compelling entry point.*

## TIME-TESTED BENEFITS

The secondaries asset class has demonstrated remarkably consistent performance across multiple economic cycles. Since the early 2000s, secondaries funds have delivered median returns in line with those of PE, growth equity and venture capital. They have done so while exhibiting significantly lower volatility – secondaries is the only asset class with bottom 5th percentile funds generating positive median IRR (internal rate of return) performance over the past 25 years (see Figure 1) – while preserving the potential to generate meaningful upside.

**Figure 1: Consistent performance over decades**

Net IRR dispersion by asset class (%) since-inception through 31 Mar 2025



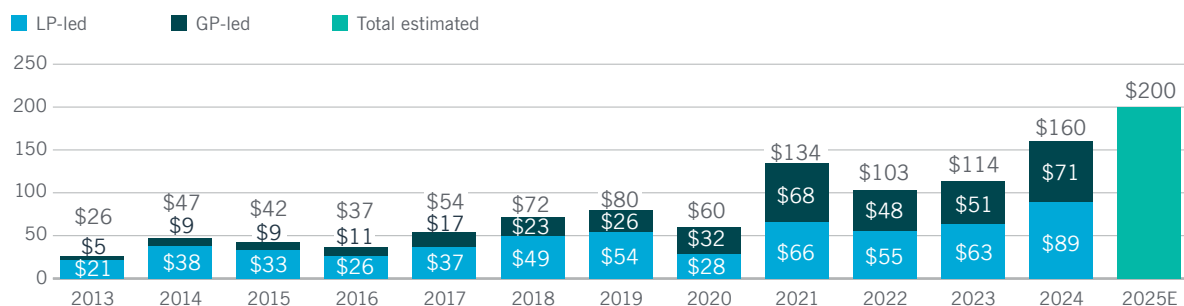
Past performance does not guarantee future results.  
Source: Cambridge Associates

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**Figure 2: The rise of GP-led transactions**

Secondary market transaction volume over time (\$ billions)



Source: Evercore H1 2025 Secondary Market Review published February 2025

Prior to 2019, the asset class was largely dominated by LP-led volumes (see Figure 2). But the growth and evolution of the GP-led side of the market has created an even more compelling case for secondaries investors, as these transactions have exhibited early signs of outperformance against both buyout and traditional LP-led secondaries.

This market has successfully navigated multiple economic environments while growing from approximately \$20 billion in annual volume in 2012 to \$160 billion in 2024 and is on pace to reach \$200 billion+ in 2025.<sup>1</sup> Yet, growth has not diminished returns, but rather expanded the opportunity set for issuers and investors alike as both LP sophistication and GP adoption have increased (see Figure 3).

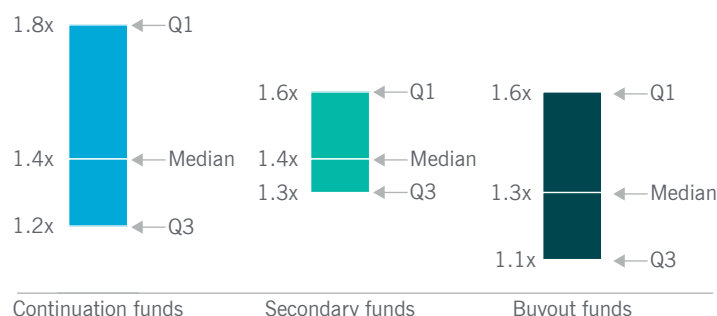
## STRUCTURAL ADVANTAGES

Why then do secondaries investments present such an attractive risk-return profile? These investments possess many advantages inherent to the asset class:

- **Limited blind pool risk:** Secondaries buyers have visibility into the asset-level performance and the effectiveness of a GP's value creation plan (VCP) during diligence. This is unlike a buyer in a traditional leveraged buyout (LBO), who has imperfect information and runs the risk of

**Figure 3: GP-led continuation funds are generating attractive performance**

Net MOIC by fund strategy



Past performance does not guarantee future results.

Source: Morgan Stanley Private Capital Advisory "The Case for Continuations Funds: An Updated Review of Initial Performance" published March 2025. Continuation fund dataset represents 150 continuation funds with vintages between 2018-2024 and does not represent an exhaustive list of every continuation fund completed. 1st quartile boundary ("Q1"), median and 3rd quartile boundary ("Q3") return benchmarks are calculated using performance data from Preqin's database comprised of 121 secondary funds and 809 buyout funds with vintages between 2018-2024.

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*In our opinion, the secondaries market has transformed from a PE beta play into an alpha-generating asset class.*

encountering issues that did not, or perhaps could not, arise during diligence. Similarly, a primary fund investor is relying on managers' historical performance and stated investment objectives, without visibility into tangible asset quality and performance. Rather than relying on theoretical investment theses, secondaries investors have the benefit of the assets' prior performance, momentum and transparency throughout the diligence process.

- **Valuation arbitrage:** Secondaries transactions benefit from multiple embedded structural advantages that create attractive entry points.

- **Record date lags:** Secondaries investments are structured based on a backward-looking valuation date (known as the "Record Date"). This date represents an agreed upon reference valuation (set by the sponsor - typically, the most recently available net asset value from their fund's quarterly reporting) that will be leveraged by secondaries buyers to underwrite the investment. Between the Record Date and the actual investment closing, any value appreciation accrues to the buyer – likewise, any value deterioration over this period cuts against them. However, this dynamic arms secondaries investors with the benefit of hindsight: typically, these investments can take anywhere from three to over six months to close, which presents meaningful opportunity for value accretion. This is particularly prevalent on the GP-led side of the market when targeting trophy assets, in which value creation is already fully underway, driving strong, highly visible asset-level growth. This embedded momentum can drive down effective entry multiples as earnings (as measured by EBITDA) grows between Record Date and closing.
- **Discounted entry points:** Leveraging this Record Date valuation, secondaries investors perform independent due diligence to validate the sponsor's valuation. This allows investors to dynamically price assets, leveraging the benefit of real-time market and asset-level data. These discounted entry points can be established in two ways, by structuring: (i) an actual discount to the Record Date valuation (e.g., paying 90.0% of the Record Date valuation) and / or (ii) an effective discount by paying par or even greater and leveraging the visibility of post-Record Date performance to ensure entry valuation cushion

[For more detail see: "Addressing three common misconceptions" section #1 and Figure 5 for further discussion on this topic]. Both dynamics can provide investors with additional downside protection, frequently leading to early mark-ups for investments.

- **Sponsor conservatism and lack of control premium:** Sponsors typically value their assets conservatively relative to what a business would be worth in a competitive market process. This can be attributed to general sponsor conservatism as well as the lack of a control premium (or the premium a buyer is willing to pay for control of the company). Recent analysis by Dawson Partners supports this. It analyzed over 1,000 private equity exits, and valuations for sponsor-backed assets at exit were, on average, 28% higher than the sponsor's mark two quarters prior to exit.<sup>2</sup>
- **Enhanced alignment:** Within the GP-led market, investors benefit from enhanced GP alignment. In most cases, sponsors are rolling at least 100% of their GP commitment and carried interest crystallized from the first investment, and frequently making an incremental out-of-pocket or fund commitment in excess of rolled proceeds.<sup>3</sup> For their strongest performing investments (trophy assets), this typically results in meaningful dollars at risk, that, on average, equates to 5%+ asset ownership (relative to typical primary fund at 2%).<sup>4</sup> Combined with the fact that sponsors are hand-selecting these assets and considering the economic potential of the continuation fund, secondaries investors have superior alignment with the sponsor. Additionally, GP-led economics differ meaningfully from a traditional primary fund 2% and 20% fee and carry structure, with carry often earned only after generating an 8% preferred return. Carried interest incentive structures are typically negotiated to include both multiple of invested capital (MoC) and IRR hurdles, offering secondary investors downside protection and the GP full upside participation only in the event of a successful investment outcome.
- **Diversification:** The asset class also offers significant diversification benefits. On the LP-led side of the market, investors can access immediate diversification via purchasing

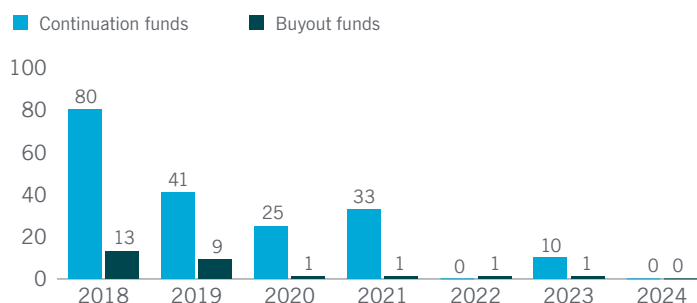
portfolios of fund interests. Contrary to a traditional fund commitment, which employs an approximately 5-year investment period and takes several years to scale, an LP-led investor steps into mature fund position(s) that provide exposure to all underlying assets within a sponsor's fund. For investors with gaps in historical vintage exposure, this creates the potential to fill in those gaps (often known as reverse vintage year diversification), in addition to the benefits of accelerated deployment and return of capital. On the GP-led side of the market, investors can also benefit from attractive diversification within appropriately structured investment strategies – accessing a portfolio of assets sponsors have chosen to double-down on, curated across a diversified base of fund managers and industries.

- **Accelerated distributions:** Secondaries funds typically deploy capital more quickly compared to primary funds. This dramatically reduces cash drag and improves time-weighted returns. LP-led transactions are inherently anticipated to drive accelerated distributions, given the entry point later in a fund's life. GP-led transactions are also expected to drive quicker return of capital relative to a new buyout investment, since the sponsor's value creation plan is already in place to sustain the asset's momentum. The challenges with any new buyout – overhauling management, operations, go-to-market strategy, etc. – have already been completed. Early performance data from the GP-led market is supporting this hypothesis (see Figure 3): Continuation vehicles (CVs) have outpaced buyout funds in achieving distributions to paid-in capital (DPI)  $\text{DPI} > 1.0\times$  in each vintage from 2018 – 2021 (see Figure 4).

The many attractive traits yielded by the secondaries asset class have led to accelerated popularization within the past several years. As more participants are entering the market with these transactions, to market with these transactions, we have observed several misconceptions formed by both investors and observers alike.

**Figure 4: Continuation funds' distributions outpace buyout funds**

*% of funds with  $\geq 1.0\times$  DPI by vintage*



Source: Morgan Stanley Private Capital Advisory "The Case for Continuations Funds: An Updated Review of Initial Performance" published March 2025. Continuation fund dataset represents 147 continuation funds with vintages between 2018-2024 and does not represent an exhaustive list of every continuation fund completed. Buyout fund DPI benchmarks are calculated using performance data from Preqin's database comprised of 815 buyout funds with vintages between 2018-2024.

## ADDRESSING THREE COMMON MISCONCEPTIONS

### Discounts are the most attractive feature of secondaries

While discounts are typically considered a main feature of secondaries investing, the structural elements we have observed can be leveraged to add significantly more value than discounts alone. This is particularly true for strategies that are focused on underwriting future asset growth.

To illustrate the power of the effective discount, as discussed in the "Structural advantages" section, we assess the potential impact of the lag between Record Date and closing with an illustrative single-asset CV for a trophy asset (Figure 5). On average, CVs typically take over six months to close after the Record Date. Assuming an EBITDA growth rate of 15% p.a. for a high-quality, performing middle-market asset, the table below summarizes the power of a six-month lag (this lag can frequently extend even longer, up to 12-plus months). Despite paying par for this asset, the value accretion driven by asset performance – EBITDA growing to \$64.3mm – creates an attractive entry point: effective purchase price  $< 90\%$  of Record Date NAV, over  $0.5\times$  of multiple buy-down, and a  $\sim 12\%$  day-one mark-up at closing.

**Figure 5: Record date lag example**

|                                             | Record date<br>(31 Dec 2024) | Secondary bid<br>(31 Mar 2025) | Closing<br>(30 Jun 2025) |
|---------------------------------------------|------------------------------|--------------------------------|--------------------------|
| EBITDA                                      | \$60.0                       | \$62.1                         | \$64.3                   |
| <i>Annual growth rate</i>                   | 15.0%                        | 15.0%                          | 15.0%                    |
| EV/EBITDA - sponsor mark                    | 10.0x                        | 10.0x                          | 10.0x                    |
| Implied enterprise value                    | \$600.0                      | \$621.3                        | \$643.4                  |
| Net debt                                    | \$250.0                      | \$250.0                        | \$250.0                  |
| Implied equity value                        | \$350.0                      | \$371.3                        | \$393.4                  |
| <i>Price set at 100% of record date NAV</i> |                              |                                |                          |
| Purchase price (% of record date NAV)       |                              | 100%                           | 100%                     |
| Equity value - cost                         |                              | \$350.0                        | \$350.0                  |
| Effective EV/EBITDA                         | 10.0x                        | 9.7x                           | 9.3x                     |
| Effective purchase price                    |                              | <b>94.3%</b>                   | <b>89.0%</b>             |
| Implied MOIC                                |                              | <b>1.06x</b>                   | <b>1.12x</b>             |

For illustrative purposes only. All inputs are purely hypothetical and are not reflective of any past or future performance.

Pairing this dynamic with the other structural benefits of secondaries investments – such as limited blind pool risk, lack of control premium, enhanced alignment – high-quality assets can provide extremely attractive entry points, with fundamental asset-level performance outweighing the importance of optimizing for Record Date discount.

### Deal flow will slow down when M&A markets rebound

Conventional wisdom may suggest that secondaries deal flow is countercyclical in nature, with volumes being bolstered during periods of economic distress, where LPs and GPs alike seek to bolster distribution activity via an alternative route to traditional exits, thereby conversely declining during market recoveries.

This may have been true for the first prominent use cases of secondaries. During the global financial crisis, LPs were forced and/or mandated sellers due to extreme liquidity crunches and regulatory shifts. GPs leveraged the first continuation funds as last-ditch restructuring efforts to reset economic alignment on underperforming portfolios.

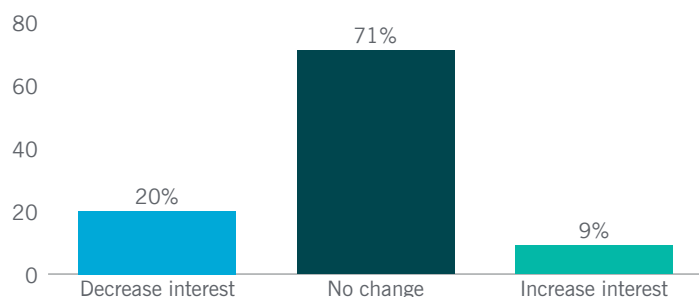
However, this perspective fails to recognize the secondaries market's structural evolution. These distressed use cases today represent the minority of the total volumes relative to those witnessed in the industry's infancy.

Institutional investors are actively leveraging the LP-led market to optimize their private market portfolios on an ongoing basis. In 2024, 51% of sellers reported portfolio management to be their primary rationale for tapping the secondaries market, with liquidity only representing around 33%.<sup>5</sup>

Sponsors are just beginning to actively embrace the power of the GP-led market for trophy assets. It allows them to hold onto and continue compounding their best performing assets, while prudently providing their fund investors with optional liquidity along the way. This is particularly true for the middle market. According to Churchill's Mid-Year 2025 Private Equity Survey (see Figure 6), only 40% of 164 senior leaders across Churchill sponsors surveyed have used continuation funds over the past two years, with 80% of firms indicating they plan to maintain or increase use

### Figure 6: Likelihood of private equity sponsors using continuation vehicles

**Q:** If the M&A environment **improves** and interest rates **decline**, how would that impact your likelihood of pursuing a continuation vehicle?



Source: Churchill mid-year 2025 private equity survey of 165 sponsor relationships published June 2025.

during an improving merger and acquisition (M&A) landscape and lower interest rate environment.<sup>6</sup>

We believe the growth in private markets (private market AUM forecasted to exceed \$60 trillion by 2032)<sup>7</sup> is naturally expected to provide a growing supply of secondaries opportunities, regardless of market conditions.<sup>7</sup> Our analysis, which applied a conservatively forecasted churn rate (historically averaging around 1%), concluded that the sector will continue to experience dramatic growth

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*Tapping the secondaries market has evolved from a distressed liquidity solution into a sophisticated portfolio management tool.*

(\$600 billion+ or 3x+ expansion over the next seven years).<sup>8</sup>

Strong data supports this hypothesis. Until 2024's record volume of +\$160 billion, the highest year on record for secondaries volumes was also the all-time record for M&A – during the post-COVID market euphoria of 2021 (see Figure 7). Moreover, as PE exits pick up and GPs return capital back to LPs, capital calls are also anticipated to increase as sponsors simultaneously seek to deploy dry powder. In other words, it is unlikely that LPs that are currently overallocated to private equity will find resolution with any short-term recovery in exit activity. This trend is expected to drive continued volume in the secondaries market, as both LPs and GPs remain focused on generating liquidity.

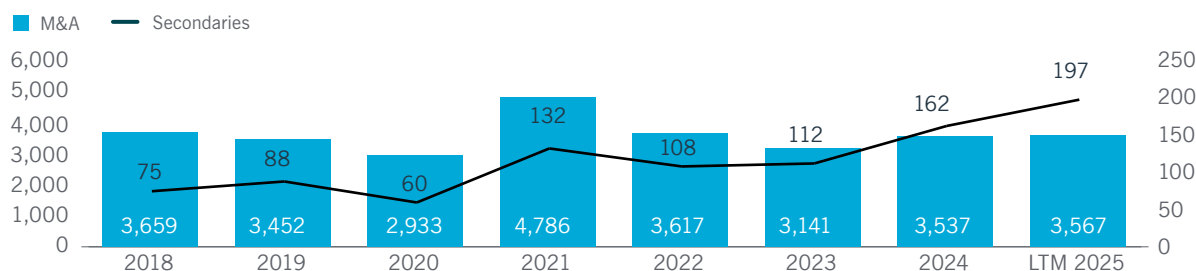
This is evident via the increased institutionalization and adoption across the asset class, with perhaps the most revealing factor being the launch of GP-led strategies by many prominent buyout managers.<sup>9</sup> In our view, these managers are recognizing that the new use case for CVs is here to stay, which results in a new reality: the trophy assets that historically traded up market in their buyout portfolios are no longer for sale on traditional four-to-six year timeframes.<sup>7</sup>

### Secondaries are only important when establishing private equity portfolios

Secondaries can be a powerful tool to establish a new private markets portfolio, but the market has evolved to offer much more value than accelerated deployment and reverse vintage year diversification.

### Figure 7: Changing relationship between M&A activity and secondaries

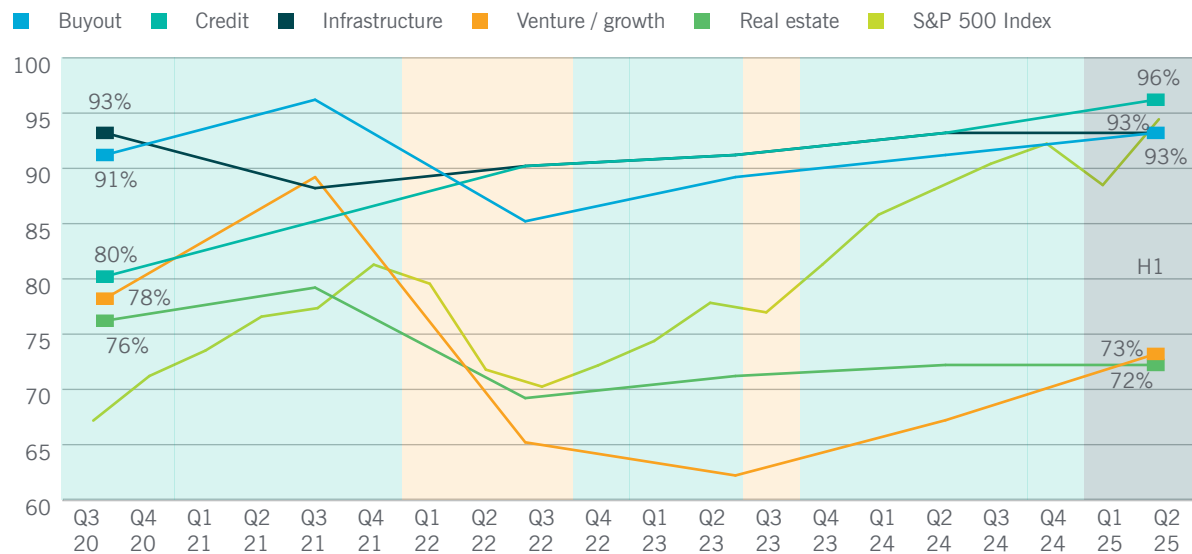
Global volume (right axis: M&A deal values; left axis: secondaries annual transactions; \$ billions)



Source: Jefferies Private Capital Advisory "H1 2025 Global Secondary Market Review" published July 2025 and Pitchbook "Q2 2025 Global M&A Report" published June 2025.

**Figure 8: Buyout prices during rising rates and increased geopolitical uncertainty**

Percent of par



Source: PJT Park Hill, Capital IQ through 30 Jun 2025.

As discussed, LPs and GPs have evolved their use of the secondaries market, which presents new, highly compelling investment opportunities. It now seems that those without exposure to the GP-led market run the risk of missing out on the highest quality trophy assets that no longer trade from sponsor-to-sponsor on traditional buyout timelines. Private equity managers are increasingly holding on to their best companies for longer, and these may only be accessed through the secondaries market.

It is important, however, to maintain access to both sides of the market as evolving economic environments may present attractive buying windows in different pockets. For example:

- During times of economic disruption, dislocation in pricing can allow investors to take advantage of discounted valuations as motivated sellers accept lower prices (see Figure 8 - Buyout price reaction to rising interest rates and heightened geopolitical uncertainty in 2022).

- Conversely, fundamental asset performance can enable attractive effective entry prices during periods of strong economic growth in spite of strong optical pricing.

Secondaries have proven resiliency throughout different economic environments, present compelling buying opportunities in both bull and bear markets, and may be the only way to access managers' most attractive assets during their period of maximum growth.

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*The trophy assets that historically traded up market into their buyout portfolios are no longer for sale on traditional four-to-six-year timeframes*

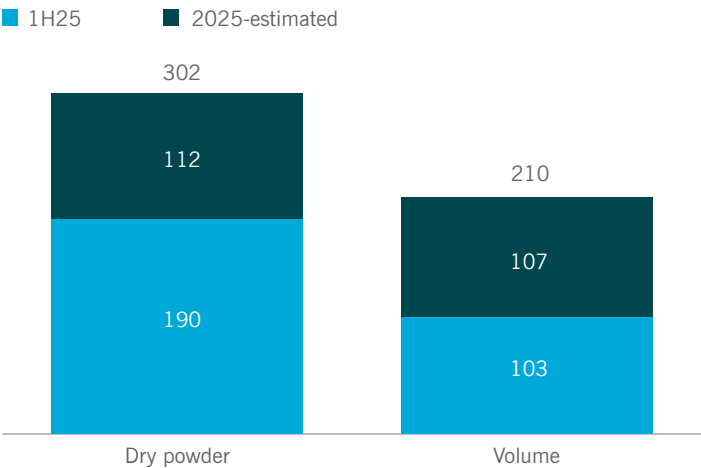
COMPELLING ENTRY POINT

Despite the dramatic growth of secondaries volumes and headlines reporting record fundraising totals, the market remains uniquely undercapitalized relative to other private markets asset classes. Fundraising totals are barely keeping up with annual volumes. Dry power sits at around 1.5x annual market volume (see Figure 9). This compares to a capital overhang in excess of 2.0x for private equity.<sup>9</sup>

With an increasing quantum of deals chasing a limited supply of dollars, this persistent undercapitalization presents an incredibly compelling entry point to the asset class today. Regardless of market or fundraising environment, secondaries offer investors structural advantages which fundamentally bolster the attractive performance observed to date and anticipate potential to drive further alpha via the rise of the GP-led market into the future.

Figure 9: An undercapitalized market

Secondaries dry powder to annual volume (\$ billions)



Source: Jefferies Private Capital Advisory “H1 2025 Global Secondary Market Review” published July 2025.

### What sets secondaries managers apart

We believe not all secondaries managers are equal and those who foster a network of trusted GP relationships can provide crucial advantages, including:

- Early awareness of upcoming opportunities before they reach the broader market
- Preferred access to highly competitive transactions
- Enhanced information flow beyond the process alone, leveraging the breadth and expertise of a broader primary and direct investment portfolio

## About the author

**Nick Lawler** serves as a Managing Director and Head of Secondaries on the Private Equity and Junior Capital team at Churchill Asset Management, based in Chicago. His responsibilities include oversight of origination, underwriting and portfolio management activities for secondary investments. **Andrew Topping**, Principal, and **Connor Gay**, Vice President, of the Churchill Secondaries team contributed to the writing and research of this piece.

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### Endnotes

#### Sources

- 1 Jefferies Private Capital Advisory "H1 2025 Global Secondary Market Review" published July 2025
- 2 Dawson Partners "Coming to the Defense of Private Markets Valuations" published in Institutional Investor February 2024
- 3 PJT Partners "1H 2025 Secondary Market Insight Investor Roadmap" published July 2025
- 4 PJT Partners "FY 2024 Secondary Market Update Investor Roadmap" published January 2025
- 5 Lazard Private Capital Advisory "Secondary Market Report 2024" published January 2025
- 6 Churchill Asset Management "Mid-Year 2025 Private Equity Survey" published June 2025
- 7 Bain Global Private Equity Report Published June 2025
- 8 Churchill Asset Management "The love-hate relationship in private equity secondaries" published August 2024
- 9 Schroders "Redefining private equity: How continuation investments are disrupting the buyout market" published August 2025.

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