Newsletter (13) - The Rise of Secondaries in Private Equity

(1) Introduction

In this week's edition of our newsletter, we take a closer look at the expanding role of secondary transactions in private equity (PE). As exit markets remain subdued and holding periods extend, both Limited Partners (LPs) and General Partners (GPs) are increasingly turning to the secondary market as a strategic tool for liquidity and portfolio management. We explore LP-led transactions, which enable investors to rebalance portfolios and enhance flexibility, and GP-led continuation funds, which allow managers to retain assets beyond the traditional fund term while offering investors the choice between liquidity and continued exposure.

(2) Limited Partner (LP)-Led Transactions

LP-led transactions involve the sale of fund interests to a secondary buyer, enabling investors to exit their positions in otherwise closed-end vehicles while maintaining stability at the fund level. These deals provide liquidity and flexibility without disrupting the underlying portfolio and are typically executed by institutional investors such as pension funds, asset managers, financial institutions, endowments, and family offices.

Geopolitical and macroeconomic uncertainty have contributed to volatility in public equity valuations, amplifying the denominator effect. As public markets destabilise, the relative weight of PE within institutional portfolios increases, pushing exposure to illiquid assets above regulatory or internal thresholds. For investors such as insurers and pension funds, this has prompted portfolio rebalancing and greater reliance on the secondary market to manage liquidity and compliance. At the same time, Lazard notes that LP-led transactions have evolved into an active portfolio management tool, enabling investors to adjust strategy, refine exposure, and optimize risk-return profiles.

Secondary investments offer distinct advantages for investors. BlackRock data shows that secondary funds have historically achieved higher median IRRs and lower loss rates than primary funds, reflecting the benefits of later entry, reduced blind-pool risk, discounted or fair-value pricing, and shorter investment durations that accelerate yield generation.

A key structural feature of secondary investments is their later entry point. While primary investors commit capital early and assume blind-pool risk with limited visibility into underlying assets or manager performance, secondary buyers invest in more established portfolios with identifiable cash flows. This later entry helps mitigate the return J-curve by providing immediate exposure to income-generating assets, avoiding the initial low-return phase typical of primary commitments.

Favourable market conditions and the structural advantages of LP-led transactions have driven a rise in both transaction size and volume. Ardian recently completed two deals exceeding $3 billion from its $30 billion ASF IX secondaries fund, while Pitchbook notes that Blackstone's Strategic Partners acquired more than $5.5 billion in fund commitments from New York City's pension system in the first quarter of 2025. According to Jefferies, LP-led deals totaled $87 billion in 2024, representing approximately 54% of secondary market volume.

Despite their advantages, LP-led transactions are not without limitations. The market often favours sellers, as LPs retain pricing power by controlling the stakes on offer. Large LP-led portfolios often include a wide range of fund exposures, which makes it difficult for buyers to focus on specific managers or shape their portfolio composition. This broad mix can complicate underwriting and reduce conviction in individual positions. Buyers must conduct thorough due diligence to assess asset quality and avoid unfavourable entry valuations, while GPs facilitate transfers and ensure that fund governance remains intact.

LP-led transactions continue to account for the majority of secondary market activity, providing investors with a practical means of achieving liquidity and portfolio balance while maintaining fund stability.

(3) General Partner (GP)-Led Continuation Funds

GP-led continuation funds have become one of the fastest-growing segments of the secondary market in recent years. These transactions occur when General Partners create a new vehicle to hold one or more existing portfolio companies, offering a structure that extends ownership beyond the traditional fund term.

Existing investors are typically offered the choice to sell their stake for immediate liquidity or reinvest alongside new participants. This approach enables managers to provide liquidity to exiting investors while securing fresh capital for continued value creation, particularly in muted exit environments where IPOs and trade sales remain limited.

The effectiveness of GP-led transactions lies in their ability to align incentives between managers and investors. Most GPs reinvest a portion of capital into the new vehicle to signal conviction and maintain alignment with both new and rolling investors. For participants who choose to remain, these transactions offer continued exposure to established, high-conviction portfolio companies without paying change-of-control premiums typical of traditional trade sales.

Jefferies reported that GP-led transactions totaled $75 billion in 2024, representing approximately 46% of total volume. Within this segment, single-asset continuation vehicles remain most prevalent among mid-market sponsors, while larger managers increasingly pursue multi-asset structures.

GP-led transactions are not without challenges. While they offer flexibility and alignment, they also raise concerns around pricing transparency and potential conflicts of interest, as GPs effectively sit on both sides of the transaction. Investors often highlight issues related to valuation, inflation, and information asymmetry, leading to skepticism about whether these transactions deliver attractive risk-adjusted returns. Some deals are viewed as more GP-driven than market-driven, particularly when continuation vehicles include assets that are not necessarily top-performing holdings but companies that have proven difficult to exit through traditional routes.

In summary, GP-led transactions provide managers with flexibility to extend ownership of select portfolio companies and offer investors the choice between liquidity and continued exposure. They have evolved into a mainstream feature of the secondary market, balancing the interests of GPs and LPs while enabling value creation beyond the traditional fund term.

(4) Conclusion

Secondaries have become a structural part of private equity, offering investors new ways to manage liquidity and extend ownership.

For selling investors, they provide a practical route to rebalance portfolios and meet liquidity needs, while buyers gain discounted access to mature, cash-generating assets that mitigate the J-curve and shorten payback periods. In parallel, GP-leds allow managers to retain ownership of high-performing assets in a subdued exit environment, while offering existing investors the choice between liquidity and continued exposure to proven companies.

The secondaries market continues to expand rapidly, with Jefferies reporting a 45% increase in global volume in 2024 to $162 billion and projecting that activity will surpass $210 billion in 2025. Despite this momentum, the market remains subject to practical limitations. LP-led transactions operate in a sellers' market, where pricing power often rests with exiting investors and alignment with the General Partner remains critical for new entrants. GP-led processes, meanwhile, can raise concerns around valuation and information symmetry given the GP's dual role in the transaction. Even so, secondaries have become an established and enduring feature of private equity, offering liquidity and flexibility while preserving the asset class's long-term investment characteristics.