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Fund of Funds Company

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Smarter Realizations, Strategic Entries: Rethinking Secondaries in Private Markets

About
Jada Fund of Funds

Jada Fund of Funds is a Saudi company based in Riyadh. Established in 2018 by the Public Investment Fund through a resolution of the Council of Ministers, Jada plays a key role in advancing Vision 2030 by leading the development of a thriving venture capital, private equity, and private debt ecosystem in the Kingdom.

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Foreword

Jada Fund of Funds

> "Liquidity tools only create value when they are paired with discipline."

At Jada, we view secondaries as part of a mature private market, not a substitute for fundamentals. As portfolios deepen, LP-led and GP-led solutions can provide early liquidity, diversify exposure, and shorten holding periods. But the same principles that govern successful primary investing must apply here: transparency in valuation, strong alignment across stakeholders, and rigorous execution.

As these dynamics take hold in Saudi Arabia, their impact is already visible. We are seeing an evolving market **where managers and institutional partners are already using secondaries to manage risk, recycle capital, and stay focused on building enduring companies.**

This report, "Secondaries: Effective Portfolio Management Tools for PE & VC", sets out the opportunities and the caveats in practical terms to help investors ask the right questions, choose the right structures, and navigate an evolving landscape with confidence.

Guided by these frameworks, **Jada remains committed to elevating market standards by partnering with fund managers who bring institutional rigor to both primary and secondary investing.**

Executive Summary

Secondary markets have evolved from a niche liquidity solution into an increasingly important subsector of private markets, with global transaction volume reaching record levels of over $160 billion in 2024, a 45% year-on-year increase[01]. While secondaries represent just over 1% of private capital market NAV (Net Asset Value)[02], they accounted for 38% of global private equity exits in 2024.[03]

Until about 2010, exits via secondary transactions were used primarily by Limited Partners (LPs, the investors) for distressed or opportunistic sales. Today, they play a larger role in helping investors find liquidity, manage portfolios, and balance risk across private equity, venture capital, infrastructure, credit, and real assets.

> "The PE secondary market is the resale market for investors' interests in funds and direct investments." [04]

LP-led and General Partner (GP)-led[05] transactions, continuation funds, and direct secondaries are all changing how investors deploy capital and manage private assets. Innovations such as semi-liquid and evergreen funds, plus a growing universe of buyers from specialized secondary funds to retail vehicles, are helping the market evolve.

The introduction of retail products with more frequent liquidity windows and smaller ticket sizes is often billed as the democratization of private equity—or more precisely, of secondaries. We view the emergence of a deeper, more liquid global secondaries market as a positive development. But caveats are warranted. To balance the analysis, we conclude with a "Pros and Cons" section that extends more coverage to potential risks.

While secondary markets in MENA remain relatively nascent and emerging, recent investments underscore their growing potential and relevance.

As secondary markets mature, they offer investors a compelling mix of early liquidity, diversification across vintages, sectors, and managers, solid risk-adjusted returns, and the ability to modify their exposures due to regulatory changes. Yet these benefits come with challenges, including more valuation complexities, limited pricing transparency, and the need to manage stakeholder alignment.

Secondary transactions are broadly categorized by whoever initiates them. LP-led secondaries occur when a limited partner, such as a pension fund or endowment, sells its stake in a fund to another investor. The LP initiates the transaction; the fund structure and manager remain unchanged. It's simply a transfer of ownership in an existing commitment.

GP-led secondaries are initiated by the general partner, usually to extend ownership of certain assets beyond the fund's original term via a continuation fund. For example, a GP may have acquired a healthcare software company in 2017 and grown it substantially but believes that it can double in value with a few more years of growth and one strategic acquisition. Rather than sell under time pressure in 2025, the GP transfers the company to a continuation vehicle, raises new funding, and holds it for another 3-4 years with the expectation of maximizing value.

GP-led secondary transactions first surfaced in 2013, and value has almost caught up to that of LP-led secondary transactions.

This paper explores the evolution and segmentation of the secondary market in private equity and venture capital, highlighting opportunities, risks, and trends by drawing on global data, academic insights, and current industry developments.

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[01]**Jefferies Private Capital Advisory. (January 2025).** *Global Secondary Market Review (p. 2).*
[02]**Net Asset Value (NAV).** *Describes the current value of an entity: a company's total assets minus its total liabilities. Transactions or exits often take place above or below calculated NAVs.*
[03]**Preqin. (January 2025).** *Secondaries accounted for 25% of exits in 2022 and 31% of exits in 2023.*
[04]**Zeisberger, C.** *Private Equity, Venture Capital, Corporate Turnaround, and Risk.* **INSEAD.**
[05]**LP- and GP-Led Secondaries.** *Investors, known as Limited Partners, initiate LP-led secondaries, while fund managers, known as General. Partners, initiate GP-led secondaries. LP-led used to dominate, but GP-led $ volumes have almost caught up.*

A Secondary Market First Requires a Healthy Primary Market

Secondary markets cannot thrive in isolation. They depend on the long-term commitment, capital deployment, and accumulated investor experience found in a healthy primary market. Only once portfolios begin to mature, and investors' needs evolve, can a liquid resale market take shape.

Private equity is inherently a long-term asset class. Institutions such as public pensions, university endowments, and sovereign wealth funds commit capital to funds with 10-year horizons. In exchange for this illiquidity, they expect higher returns than those available in the public markets and diversification through access to less correlated and less accessible assets.

The long-duration structure suits investors' strategic objectives while laying the groundwork for a future secondary market once strategies change, liquidity needs arise, or regulatory changes prompt portfolio rebalancing.

Additionally, the value creation skills honed by general partners, especially since the Global Financial Crisis (GFC), have strengthened the case for consistent alpha generation.[06] This approach contrasts with the early days of private equity, which relied heavily on financial leverage and margin expansion as the primary value creation methods.

In Europe and the United States, where private markets have developed for over 50 years, secondaries are just reaching their stride. Deep and diversified primary distribution channels are an essential first act and must be in place before the second act—a liquid secondary market—can fully develop. This maturity enabled North American funds to transact 80% of secondary volume in 2024 (up from 68% in 2023), while European secondaries accounted for 15% of the volume (down from 24% in 2023).[07]

In Asia, secondary markets have evolved beyond end-of-life distressed asset sales to a more stable environment characterized by greater portfolio diversification, increased liquidity, reduced volatility, and greater legal and tax efficiency. However, at a volume of just over $5 billion in 2024, the market remains comparatively small.[08]

In MENA's venture capital ecosystem, primary fundraising continues to grow, yet exits remain scarce due to the market's relative youth. Too few startups have matured into 10-year-old companies. Nonetheless, founders, employees, and early investors seeking liquidity have found some success through secondary sales. At the same time, a new class of investors looking for exposure to more established companies with less volatile returns has been willing to provide that liquidity.

> Industry conversations suggest that secondary transactions constitute a rising share of overall venture capital activity in Saudi Arabia and the UAE.

[06] **Jada Fund of Funds. (August 2025).** *Beyond Capital: The Saudi Value Creation Story.*
[07] **Jefferies Private Capital Advisory. (January 2025).** *Global Secondary Market Review.*
[08] **Jefferies Private Capital Advisory. (January 2025).** *Global Secondary Market Review.*

The Liquidity Drought

In the early days of secondaries, liquidity was scarce and unreliable.

As the 2008 Global Financial Crisis intensified and all assets fell in unison, liquidity, not value, became the operative metric. PE investors, hungry for cash, attempted to offload holdings in the secondary market, while others tried to renegotiate reduced capital commitments.

> “The market can remain illiquid longer than you can remain patient.”[09]

Since secondary markets were niche, only $16 billion of private equity investments were sold globally via this avenue in 2008[10], with transactions trading at an average of 60% of NAV.[11]

Not everyone who wanted to sell could, and the overwhelming supply led to a temporary market freeze in early 2009.[12]

> “Liquidity, like health, is best appreciated in its absence.”[13]

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[09]**Keynes.** *"The market can remain irrational longer than you can remain solvent." [Adapted quote].*
[10]**Hege, U., & Niut, A. (Summer 2011).** *The Private Equity Secondaries Market During the Financial Crisis and the Valuation Gap. Journal of Private Equity.*
[11]**Greenhill Cogent. (2024).** *Global Secondary Market Review.*
[12]**Hege, U., & Niut, A. (Summer 2011).** *The Private Equity Secondaries Market During the Financial Crisis and the Valuation Gap. Journal of Private Equity.*
[13]**A Mélange of Sage Quotes.**

From Stigma to Smart Liquidity

Two decades ago, early secondary sales were often viewed as a signal of distress and carried a reputational stigma. Limited partners risked being perceived as unable to honor long-term commitments or meet follow-on capital calls, which were clearly set out from the outset. General partners, in turn, could interpret premature exits as a lack of confidence in their management, potentially affecting future fundraising. As a result, secondary transactions were regarded as a last-resort option, used only when no other alternatives were available.

> "In the beginning, selling your private equity stake early was like leaving a dinner party before dessert—everyone noticed, and they all had opinions about your manners."

The environment today is different. Secondaries are now regarded as legitimate and effective tools for liquidity and portfolio management. Global transaction volumes crossed the $100 billion mark in 2021, and a record $160 billion in secondary exits was recorded in 2024.[14] The momentum has continued in 2025, with Evercore reporting secondary volumes of $102 billion for the first half of the year.[15]

[14]**Zeisberger, C., Prahl, M., & White, B. (2025).** *Mastering Private Equity: Transformation via Venture Capital, Minority Investments and Buyouts (2nd ed.).* **Hoboken, NJ: Wiley.**
[15]**Evercore. (2025).** *H1 2025 Secondary Market Review.*

Maturity and Calmer Waters

Secondaries are no longer considered mere fire sale tools. In addition to providing liquidity before the end of a fund's natural life, they allow buyers to diversify, reduce risk, improve entry prices, and shorten the duration of their private equity exposure.

Innovation has enabled GPs to retain ownership of core investments or portfolios even as the fund approaches maturity, when investments would normally be exited. There were no GP-led secondaries, portfolio finance, or NAV loans in the GFC era.

For high-net-worth individuals and family offices, evergreen funds now offer wider participation through smaller ticket sizes and periodic liquidity.

The unrealized value of private equity investments is estimated to be $6 trillion, a figure Preqin expects to double by 2030.[16] The more opportunities secondary markets create, the more they will be able to help GPs and LPs seeking an exit, and the more they will be able to grow.

[16] **Preqin. (2025).** *Global Report: Private Equity.*

LP-Led Secondaries

When an LP sells a fund stake before the end of the fund's life, it transfers the rights to future distributions and the obligation to meet remaining capital commitments. The buyer, typically a dedicated secondary fund or institutional investor, assumes the economic exposure going forward.

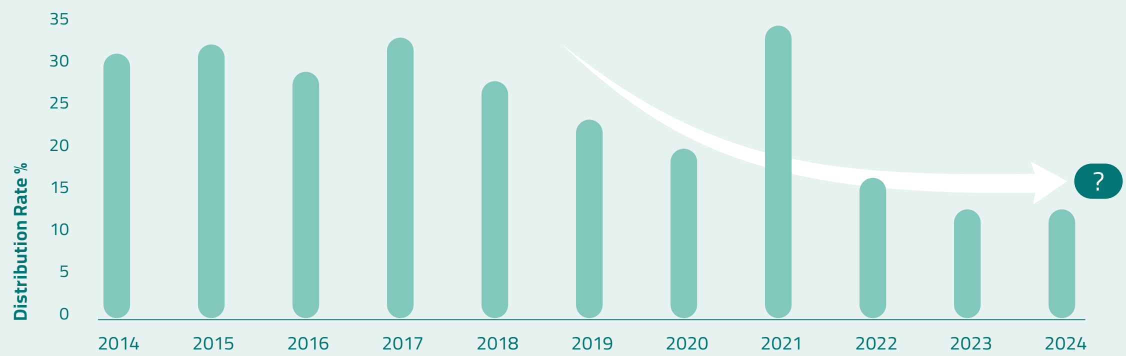
These transactions are not frictionless. LPs are generally free to sell their interests, but KYC and due diligence, important aspects of governance, require funds to first approve the new buyer.

While GPs endeavor to mark assets at what they believe is "fair value,"[17] a negotiated price between the buyer and seller will often result in a secondary sale trading at a 10%-20% discount to the latest quarterly NAV, reflecting the liquidity discount that is typical in private markets. Public market weakness often spills over to private markets and will tend to increase the discount to NAV—that is, reduce the sales price—as many institutional investors discovered in 2008-09.

Regulation and Policy-Induced Secondary Sales

Other than a 2021 exit supernova, private capital distributions have more than halved since 2017. What was once thought to be a temporary exit logjam has instead become an entrenched blockage.

Buyout Distribution as a % of NAV



Data Source: MSCI. Analysis: 5Quadrants

Figure 1. Buyout distributions as a percentage of NAV, 2014-2024.

Regulatory changes often push regulated institutions to reduce their exposure to illiquid assets. For example, global regulatory frameworks such as Basel III, Solvency II, or the Volcker Rule have significantly increased capital charges on PE holdings, prompting banks and insurers to divest, accelerating secondary sales.

Policy uncertainty can also put plans on hold or encourage GPs to diversify geographically in reaction to trade incentives, barriers, or tariffs. Short-term geopolitical dynamics make life interesting for GPs with a 10-year horizon.

[17] **Jada Fund of Funds. (August 2024).** *VC Valuation in MENA: A Reality Check.*

GP-Led Secondaries

In a GP-led secondary, a general partner initiates the sale of one or more portfolio companies from an existing fund to a newly established CV, which the same GP manages. These deals give existing LPs the option to either cash out early or roll over all or part of their interest into the new vehicle, offering flexibility and alignment for investors with differing time horizons and risk profiles.

Once viewed as tools for distressed restructuring or tail-end fund cleanup, GP-led secondaries have become a mainstream exit route for high-quality assets. According to Coller Capital, GP-led secondary deals accounted for $77 billion in 2024—48% of the $160 billion global secondaries market[18]—marking a 51% year-over-year increase. With IPOs and M&A exits either delayed or unattractive, GP-led secondaries have become both a necessity and a strategic choice—in many cases, the preferred option for both value maximization and LP liquidity.

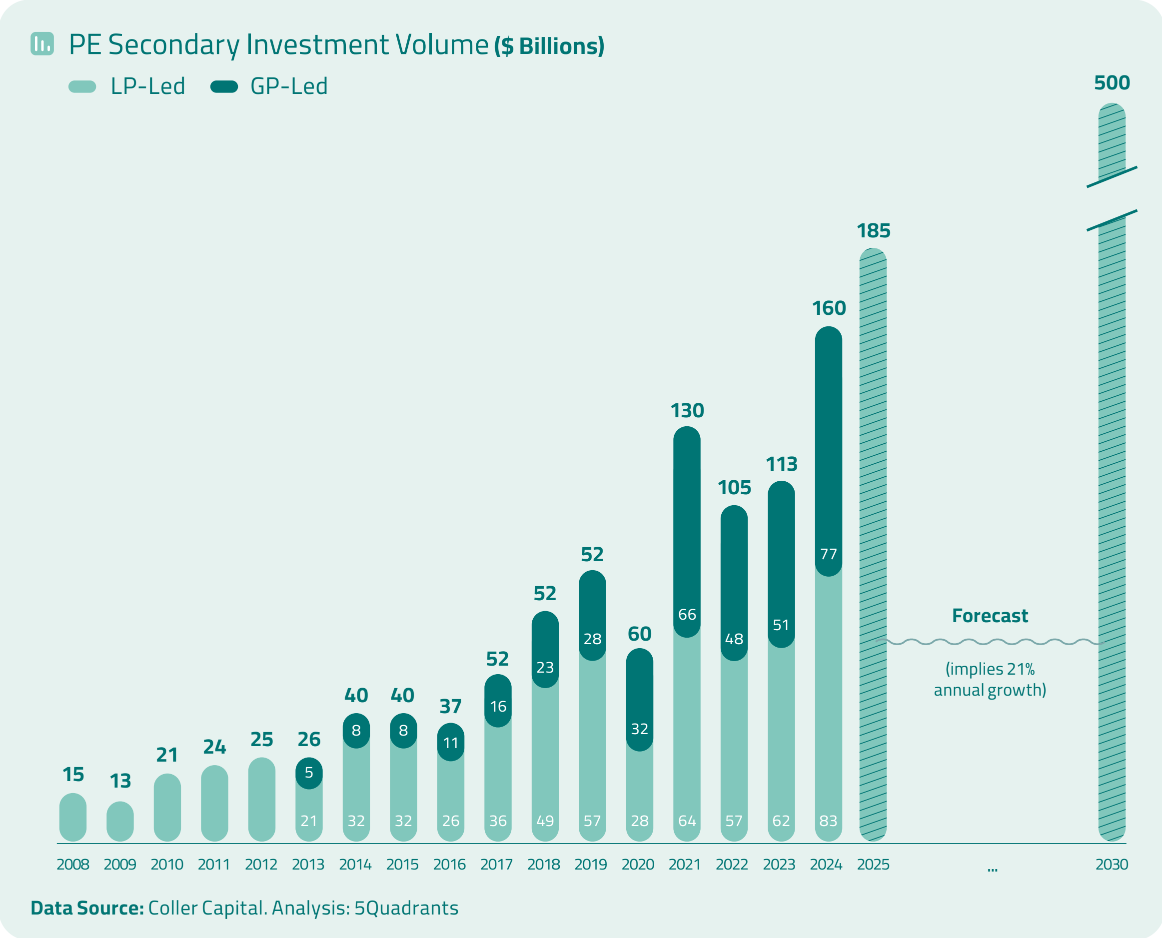


Figure 2. Private equity secondary investment volumes, LP-led and GP-led, 2008-2030 (US$ billions)

GPs may be reluctant to sell "trophy" assets that still have significant upside potential as the primary fund nears the end of its life. Rather than selling prematurely, they can roll prized assets into a CV and continue to help create value via growth, margin improvement, or M&A. This approach avoids a forced sale just because the clock is ticking.

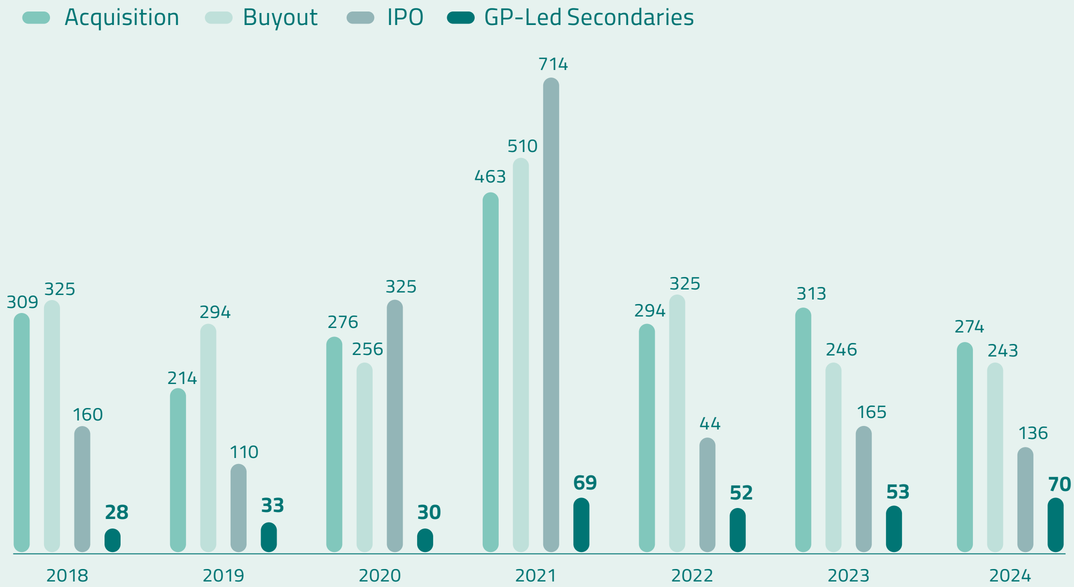
[18] **Secondaries Volume Estimates. (2024).** *Secondaries volume estimates for 2024 range from $156 billion to $162 billion, depending on the source.*

The Shift from IPOs to Secondaries

For investors, a GP-led CV offers the opportunity to gain exposure to mature, high-quality assets with a clear performance track record, often within a relatively short 3- to 4-year investment horizon. These vehicles often attract a mix of participants: new investors supplying fresh capital and legacy investors choosing to roll over their exposure. This blend gives GPs both liquidity solutions and the ability to raise capital for follow-on investments, expansion, or deleveraging.

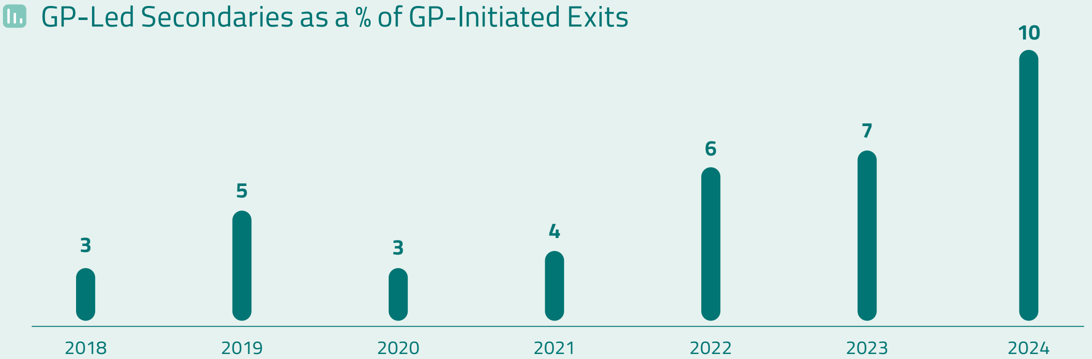
According to UBS, of the four genres of GP-initiated exits, IPOs beat buyouts, acquisitions, and GP-led secondaries in 2021 with $714 billion worth of deals. IPOs have been hit hardest in the subsequent exit desert, falling to third place with transactions of just $136 million in 2024. Meanwhile, GP-led secondaries have grown their share of GP-initiated exits from 4% in 2021 to 10% in 2024, demonstrating their role as an exit strategy of choice.[19]

GP-Initiated Exits **($ Billions)**



Data Source: UBS. Analysis: 5Quadrants

GP-Led Secondaries as a % of GP-Initiated Exits



Data Source: UBS. Analysis: 5Quadrants

Figure 3. GP-initiated exits by type (acquisition, buyout, IPO, GP-led secondaries), 2018-2024 (US$ billions); GP-led secondaries as a percentage of GP-initiated exits, 2018-2024.

[19] **William Blair. (2024).** *William Blair shows GP-led secondary value increasing from $68B in 2021 to $76B in 2024, a larger change than that shown by UBS data, which reports an increase from $69B in 2021 to $70B in 2024. Exact private equity data is difficult to pin down—it is private, after all—though most data sources agree on the general trends.*

Ensuring Fairness in GP-Led Secondaries

To mitigate conflicts of interest (since the GP is effectively on both sides of the transaction, representing both the selling and buying fund), third-party valuations, fairness opinions, and competitive bidding processes are necessary to establish pricing credibility and ensure fiduciary alignment.

Valuations must strike a "Goldilocks" balance: not so aggressive as to deter new buyers, but not so conservative as to shortchange rolling LPs. Fee structures, carried interest waterfalls, management fee step-downs, and occasionally deferrals or earnouts may be adjusted to ensure alignment. These potential term sheet variations for CVs are all subject to negotiation by the parties involved.

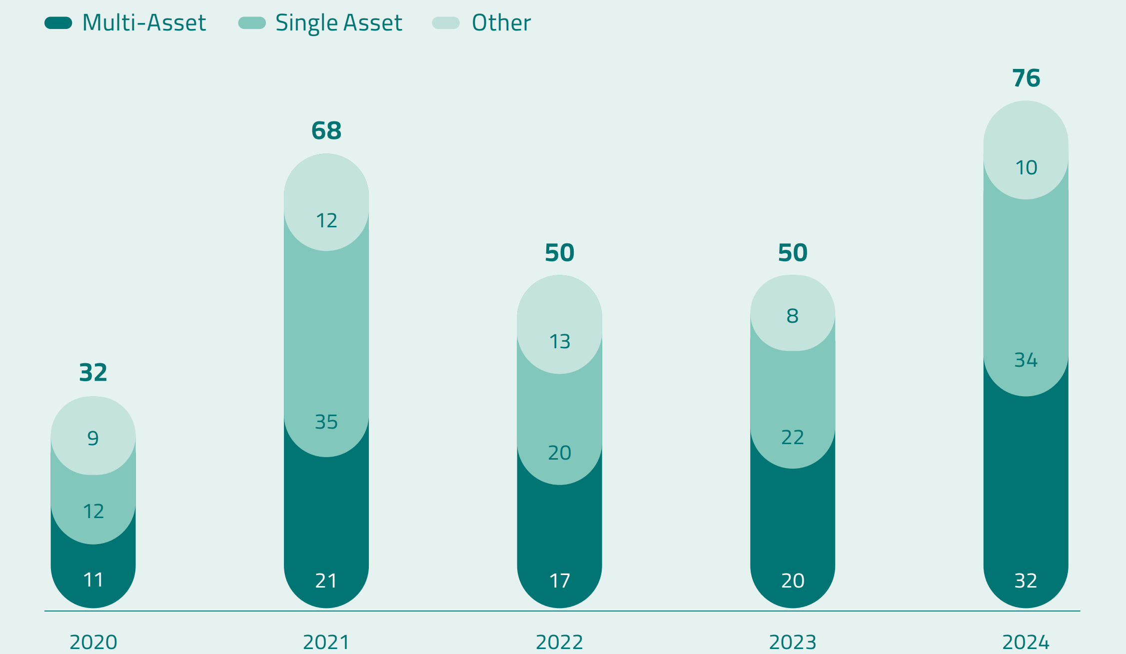
An Evolving Structural Landscape

The structures of GP-led secondaries vary widely and may include single-asset transfers, multi-asset portfolios, strip sales, fund recapitalizations, and tender offers.

One notable variant is the "stapled" transaction, where secondary buyers commit both to the CV and to a new flagship fund the GP is raising. A prominent example is the 2022 Ardian–Mubadala deal, in which Ardian backed a $2.1 billion CV alongside a stapled commitment to Mubadala Capital's new fund. This illustrates creative ways these deals can extend relationships and align long-term interests.

The chart below shows that single- and multi-asset GP-led deals accounted for 84% of the total GP-led secondary volume in 2023 and 87% in 2024, with activity split almost equally between the structures. Other methods of extending or restructuring fund life include NAV loans, strip sales, spin-outs, and semi-liquid vehicles.

Global GP-Led Secondary Market Volume by Deal Type **($ Billions)**



Data Source: William Blair 2025 Secondary Market Report. Analysis: 5Quadrants

Figure 4. Global GP-led secondary market volume by deal type (multi-asset, single asset, and others), 2021-2024 (US$ billions).

Other Variations of GP-Initiated Vehicles

Strip sales involve carving out a percentage of a fund's interest in a company or a portfolio of companies and selling to a special purpose vehicle (SPV) managed by the same GP. Strip sales can accelerate investor distributions or raise new capital for deployment in the portfolio.

Tail-end secondary transactions occur when a GP looks to liquidate the remaining positions in a fund and wind them down. These deals are often executed at steep discounts to NAV, as the unsold assets in tail-end funds are frequently underperforming.

Semi-Liquid, Open-Ended Secondary Funds

Often called evergreen funds, these vehicles are designed to offer more flexibility than traditional closed-end PE funds and have recently gained traction.[20]

The semi-liquid feature relates to the more frequent redemption terms offered by these funds. Quarterly redemption windows are most common, though some funds may offer monthly redemptions to appeal to retail investors seeking greater liquidity. The open-ended qualification enables periodic subscriptions from both new and existing investors.

Redemptions are often limited to 5% to 10% of NAV per quarter, with flexibility for higher percentages if subscriptions have been strong. A large number of redemption requests could result in pro rata distributions or deferrals to the next redemption window. Some funds will hold a portion of their assets in liquid instruments (such as T-bills or public equities) to facilitate redemptions.

Retail investors benefit from lower minimums of $50,000 or less, while high-net-worth and family office investors like the access these vehicles provide, which is often restricted to incumbent LPs in the more established PE funds. The smaller ticket size makes it easier for investors to select several funds and diversify across asset classes, sectors, and vintages.

The trend of increasing investor access to private assets is often referred to as the "democratization" of private equity since, theoretically, investors of all stripes will be able to participate. Unfortunately, as history shows, wider access does not always yield positive results. The democratization of credit default swaps (CDS) and tranches of CDS synthetics in 2006 and 2007 contributed to systemic instability. The importance of education, due diligence, risk management, and clear communication never fades.

[20] **Interval Funds Definition.** *In the U.S., these vehicles are often referred to as interval funds or '40 Act Funds.*

Continuation Vehicles:
Business Risk vs. Valuation Fairness

The recent bankruptcies of large continuation fund portfolio companies backed by US GPs have prompted criticism from those who conflate fair valuations at the time an asset is transferred with business and macroeconomic risks that emerge after the transfer.

Critics point to these bankruptcies as evidence that CVs are "Ponzi schemes"[21] or vehicles for lemons. They imply that GPs pocket profits while reselling assets to unsuspecting buyers at inflated prices. In practice, the facts mostly contradict these claims:

High Exit Rates Satisfy Investor Goals
In today's scarce exit environment, 80-90% of LPs in primary funds have opted to take their profits and not reinvest in CVs[22]. For LPs seeking liquidity, CVs have delivered exactly what they've been waiting for.

Sophisticated Investors Dominate CV Backing
Continuation vehicles are predominantly funded by seasoned players, including dedicated secondary funds, endowments, sovereign wealth funds, and PE specialists with deep secondary market expertise. These professionals operate under a caveat emptor mindset and often conduct extensive due diligence. They are less likely than most to overpay for lemons.

GP "Skin in the Game" In Common
While not always mandatory, experienced investors—especially secondary funds—often require GPs to reinvest 100% of their realized carry from the exiting fund into the new vehicle.[23] GP carry from the exit becomes GP capital in the continuation vehicle. They rarely take money off the table and, in fact, end up becoming a meaningful share (10%-25%)[24] of the new CV. The GP will realize their carry when the CV sells its assets.

The most likely causes of CV bankruptcies and impairments mirror those of traditional PE investments: poor strategic decisions, failure to adapt to market changes, and unfavorable macroeconomic conditions. In the continuation vehicle portfolio companies mentioned above, problems arose only 3-4 years after the transfer. Exit path realists distinguish between "valuation is fair" and "there is a buyer at that price in 3-4 years."

CVs gained traction after 2018, with a single-asset boom in 2019-2021 under low rates. That first wave is only now reaching the 3–5-year mark, when exits would normally be expected to occur, so data on realized exit prices remains scarce. Most 2020-2021 vintage CVs are on hold. While there have been some high-profile sales of CV-held assets, they are the exceptions rather than the rule.

Interim quarterly NAVs suggest that most CVs are performing as intended in addition to providing liquidity to selling LPs and a longer runway for assets that warrant it. Still, CVs face the same business and macro risks as any private equity investment, no matter how prized an asset looked at transfer. A fair transfer price does not immunize against those risks. Continuation vehicle investors must ensure not only that valuations are fair but also that the underlying business model can withstand real-world pressures. Ultimately, DPI (distributions to paid-in capital, akin to "cash-on-cash") will be the judge.

[21] **Ponzi Scheme Definition.** *A Ponzi scheme is a form of fraud that pays profits to early investors with funds invested from more recent investors. The scheme lasts until a large number of early investors wish to exit simultaneously, or fresh investments from new investors are not forthcoming.*
[22] **Kastiel, K., & Nili, Y. (2024).** *The Rise of Private Equity Continuation Funds [Working Paper].* **Chicago Booth Stigler Center for the Study of the Economy and the State.**
[23] **Private Conversations with Secondary Fund Partners.** *As advised in a couple of private conversations with secondary fund partners.*
[24] **GP Roll Equity Variations.** *With new LP capital and possibly some debt, the GPs' rolled equity percentage will vary by fund; closer to 25% with low LP take-up and nearer 10% in larger, more syndicated CVs.*

The Investment Case for Secondaries—from an LP's Perspective

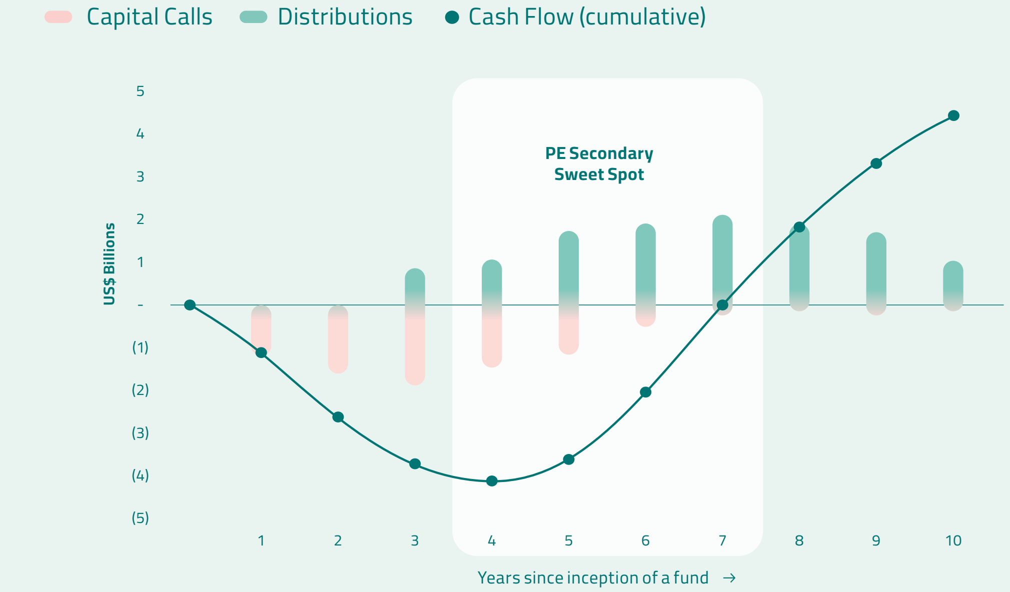
J-Curve: A Shorter Holding Period

Investors in primary PE funds commit capital that is usually drawn down in the first 3-4 years of a fund's life as portfolio companies are identified and invested in. Distributions, which return capital to investors as exits are realized, usually begin around year four.[25] This timeline results in a cash flow through around year four, before turning positive as exits and distributions accelerate and new investments taper off.

The optimal window for a secondary buyer to enter a fund is usually years 4-7. Compared to day-one primary investors, the secondary buyer will have more visibility into the GP's track record, more clarity on the composition of the portfolio (reduced "blind pool" risk[26]), a better cash flow profile, and a shorter holding period. Secondary buyers try to avoid buying interests with a large number of unfunded positions.

While the NAV of a fund usually rises above the initial 100, the increase tends to be modest in the early years. For secondary buyers entering in years 4-7, this gradual appreciation, combined with discounts to NAV (discussed in the next section), means that the effective purchase price may not be materially higher than the original commitment. Secondaries offer an opportunity to buy into a more developed, de-risked portfolio without paying a significant premium over par.

Mitigating the J-curve



Data Source: Zeisberger, C., White, B., Prahl, M.(2025). Mastering private equity (2nd ed.). Wiley. Analysis: 5Quadrants

Figure 5. Capital calls, distributions, and cumulative cash flows over a 10-year fund cycle (US$ millions). Illustrating the J-curve effect and secondary entry window ("sweet spot").

[25]**Investment Window and Distribution.** *The investment window varies with opportunity — usually from years 1–4 — with peak capital calls typically in years 2–3. Distributions often peak in years 7–8 as exits are realized and decline thereafter. In the current environment, where exits are scarce, investors must wait longer for distributions.*
[26]**Blind Pool Definition.** *Since most investee companies are not known when a fund launches, investors don't have full insight — they're "blind" — to the eventual pool of investee companies.*

Discounts to NAV

One of the compelling reasons to invest in secondaries is the persistent discount to NAV. Many new investors consider this the primary appeal, since it is the most visible metric and results in an immediate revaluation profit. However, the J-curve effect, portfolio diversification, and reduced risk are often more important and enduring advantages.

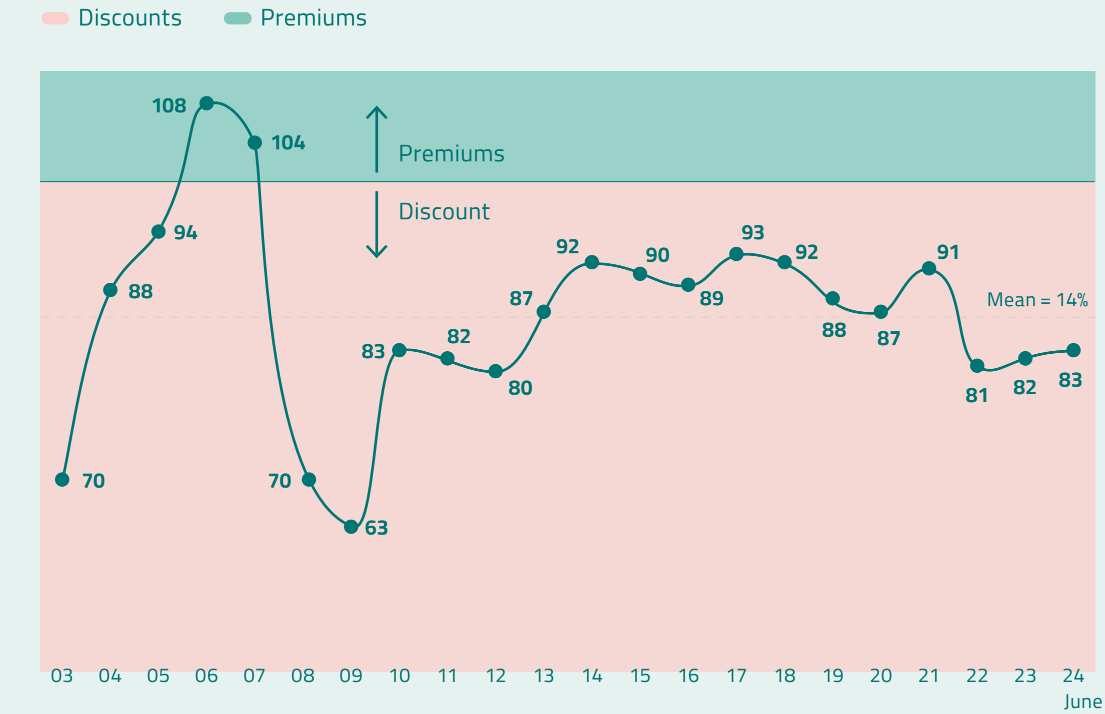
On average, secondary market transactions have traded at a 14% discount to NAV[27] over the past two decades, though this figure masks considerable variation depending on market conditions.

In 2003, when the secondary market was still in its infancy and the effects of the dot-com bust lingered, average discounts hovered around 30%. By 2006-07, as the global real estate bubble peaked, secondaries, which exhibit a high degree of correlation to global asset prices, briefly traded at a premium to NAV. As noted earlier, valuations collapsed following the Global Financial Crisis.

Subsequent disruptions, including the rolling European debt crisis, the COVID-19 pandemic, and the sharp rise of interest rates beginning in early 2022, have all contributed to sustaining secondary market discounts.

Looking ahead, the influx of capital into the secondary market, driven by both new entrants and the growing recognition among traditional investors of secondaries' risk-adjusted returns and diversification benefits, may compress or eliminate discounts. On the other hand, the rising demand for liquidity in today's environment of limited exits could increase supply, potentially offsetting the impact of greater demand.

Secondary Market Pricing (%)



Data Source: Zeisberger, C., White, B., Prahl, M.(2025). Mastering private equity (2nd ed.). Wiley, Greenhill Cognet. Analysis: 5Quadrants

Figure 6. Secondary market pricing and premiums as a percentage of NAV, 2003-2024.

[27]**Arithmetic Yearly Average Data.** *Arithmetic yearly average from 2003 to 2024 H1.*

Portfolio Management & Diversification

As time progresses, portfolio company exits are realized, and distributions return capital to LPs. A natural consequence is that the funds become less diversified. With fewer companies remaining in the portfolio and the financial outcomes of those holdings less of a mystery, both individual portfolio company risk and overall portfolio diversification abate.

One motivation for pursuing a secondary sale is to rebalance the portfolio across geographies, strategies, industry sectors, vintage years, and managers—without the need for new capital commitments. This allows investors to realign their exposure with long-term allocation targets.

Skilled secondary fund managers are excellent partners for LPs who look to build robust private market portfolios, as they can offer in-depth insights into primary market GPs and funds.

The Denominator Effect: Private/Public

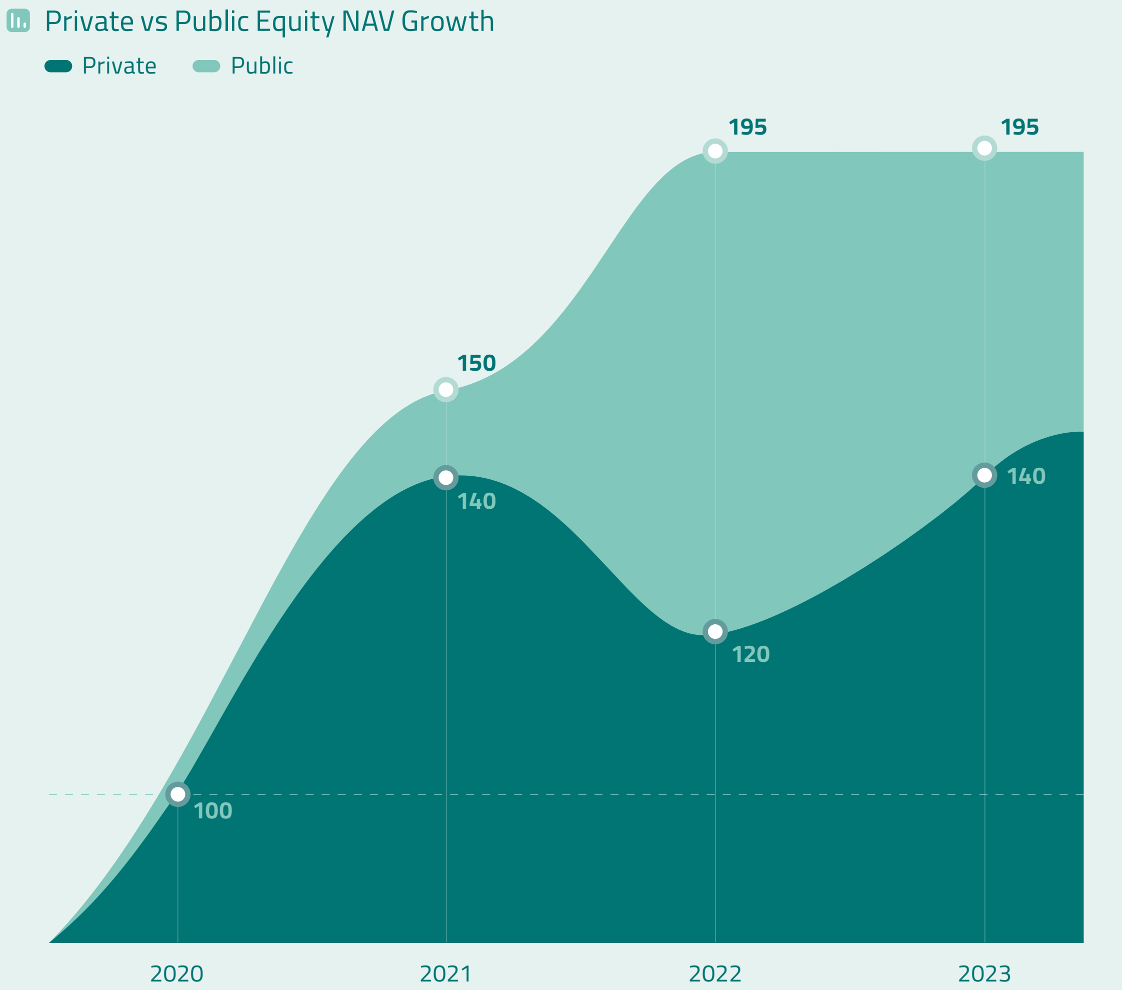
Institutional investors typically operate under allocation policies that cap the proportion of private assets in their portfolios. These caps vary widely, from 10% to 40%, depending on the type of institution.

When public equities fall sharply without a corresponding decline in PE valuations, the denominator effect takes hold: the overall portfolio shrinks, the share of private assets rises, and investors may be forced to sell a portion of their private holdings in the secondary markets to stay within policy limits.

Following exceptional returns in 2021 for both private and public equity, 2022 was an uncharacteristic year: private equity returned 21%, while listed equities fell by 15%.[28] The matrix below shows annual returns for both asset classes from 2021 through 2023. A public pension with a 30% private capital cap and a 25% allocation at year-end 2020 would have exceeded its limit by 2022. At that point, the institution would have faced a choice: sell some private holdings or wait for public markets to mean-revert.[29] By 2023, had they taken no action, public prices would have recovered, and the private allocation ratio would have normalized.

Denominator Effect in Private Capital Allocations

Year	Total NAV	Composition (Private vs. Public)	
2020	100	Private	25%
		Public	75%
2021	145	Private	27%
		Public	73%
2022	137	Private	34%
		Public	66%
2023	153	Private	30%
		Public	70%



Data Source: Cliffwater Research. PE returns: US Public PE Portfolios with a 30 June FYE. Public equity returns also yearly as of 30 june

Figure 7. Private versus public equity NAV growth, 2020-2023 (index 2020=100)

Ironically, in some cases, applying prevailing secondary market discounts to private equity NAVs can reduce the numerator and bring the ratio back in line without selling any assets.

[28] **Saccone, M. (March 4, 2024).** *Times Change: The Era of the Private Equity Denominator Effect.* **CFA Institute.**
[29] **Mean Reversion Definition.** *Mean reversion is just one of many possible paths market prices may follow.*

Returns, Mitigating Risks

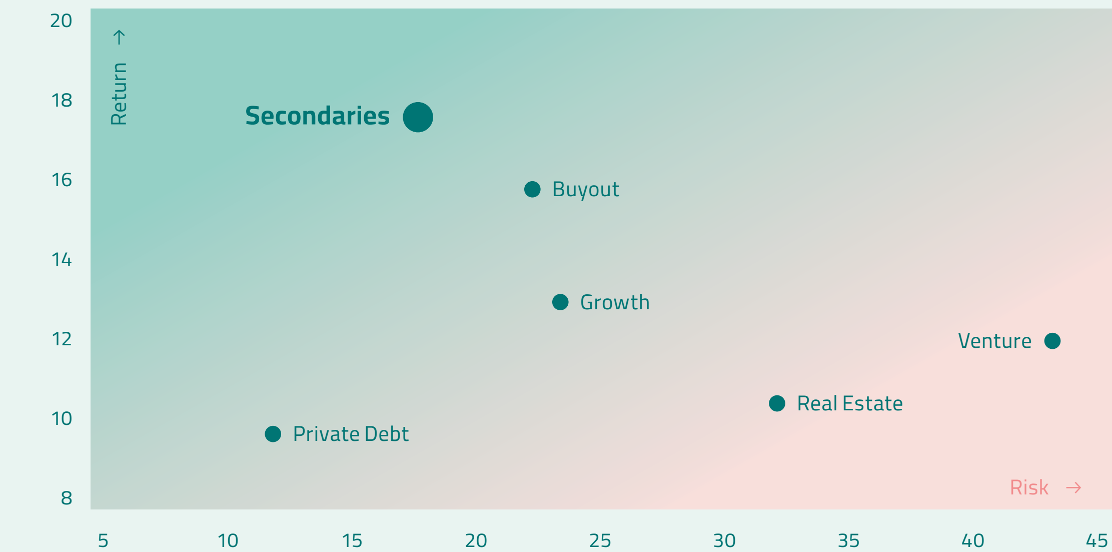
The most compelling reason to consider secondaries is their superior risk-return profile.

The following chart, based on data from Coller Capital, is particularly striking. It indicates that secondaries have historically delivered the highest returns with the second-lowest level of risk, trailing only private debt in terms of low volatility.

In other words, secondaries exhibit the highest return-to-risk ratio across private capital strategies, including buyouts, growth equity, venture capital, real estate, and private debt.

By entering the primary fund 4-7 years after launch, secondary investors benefit from multiple risk mitigants. Blind pool risk is reduced, portfolios have been repriced at least a dozen times, a likely discount on entry offers an immediate cushion, the investment horizon is shorter (which improves IRR mechanics) and, importantly, fund cash flows are about to turn positive, reducing J-curve drag.

Return vs. Risk (%)



Data Source: Coller Capital. Analysis: 5Quadrants

Figure 8. Return versus risk across private capital strategies, including secondaries, buyout, growth, venture, real estate, and private debt.

↗ If primary investing is leaping into the fog, secondaries are stepping in just after the wind has cleared the air, and at a discount.

An interesting lens on risk, using Preqin data, is the percentage of funds that fail to return invested capital (i.e., TVPI < 1.0).[30]

26% of venture capital funds fall into this category, a failure rate that aligns with the high-risk, high-variance nature of early-stage investing.[31]

Private debt, supported by collateral and relatively predictable cash flows, shows a failure rate of just 7%.

[30]**Total Value to Paid-In (TVPI) Definition.** *TVPI = "Total Value to Paid-In" capital and is a measure of fund performance. A TVPI > 1.0 means the fund has gained value, and a TVPI < 1.0 means the fund has lost value.*
[31]**Industry Experts Commentary.** *Industry experts have noted that a 26% rate "feels low" for venture capital.*

By contrast, almost all secondary funds return at least invested capital. The few that fall short tend to be venture capital secondaries, which naturally inherit some of the higher risk characteristics of the underlying asset class.

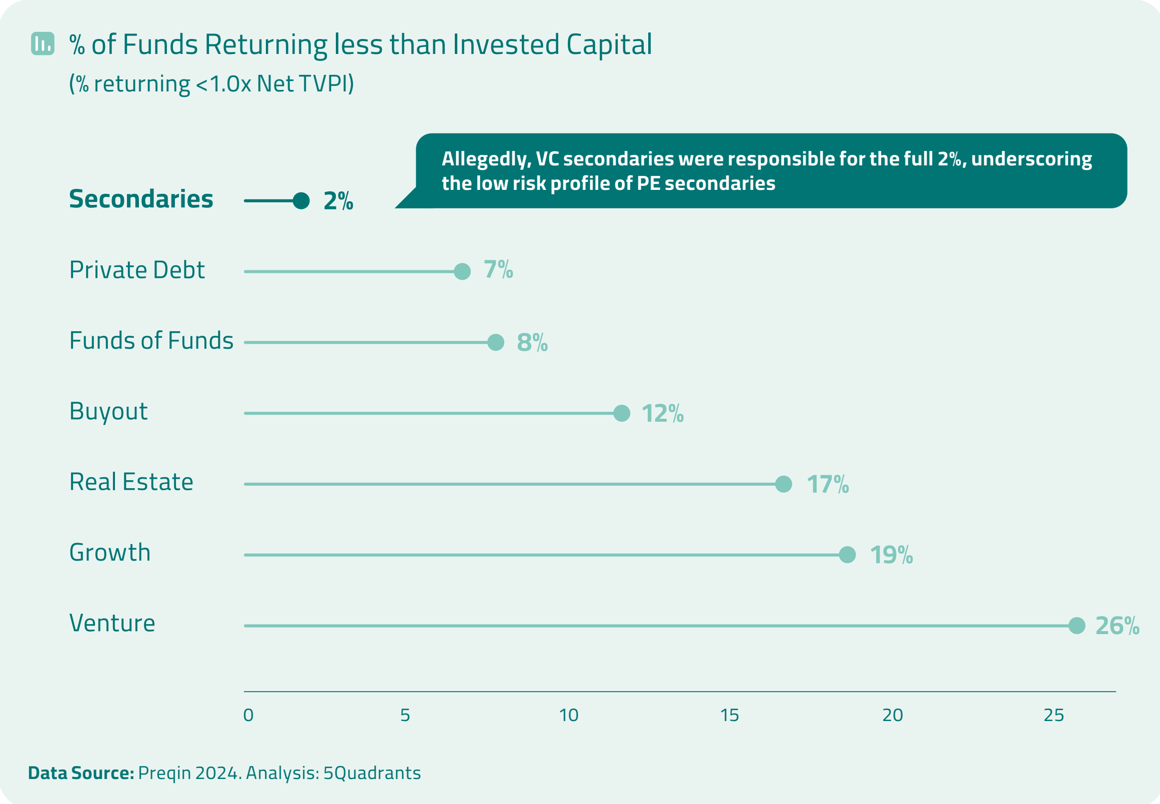


Figure 9. Percentage of funds returning less than invested capital (TVPI < 1.0x) by strategy, including venture, growth, real estate, buyout, fund of funds, private debt, and secondaries.

Finally, risk creates opportunity. For opportunistic secondary buyers with idle cash, the aftermath of market downturns often presents ideal conditions. Valuation gaps and impairments, limited exit routes, and the denominator effect can distort pricing. At the same time, unbalanced portfolios, concentration risks, capital shortfalls, and liquidity traps pressure sellers to act. Forced disposals, misaligned interests, evaporated carried interest, and downside scenarios already exceeded all combine to tilt the risk-reward balance in favor of well-positioned buyers. However, the situation is likely to be the opposite during market upturns, with increased investor confidence, as was the case in 2006 and 2007 (before the GFC), resulting in the risk-reward balance tilting in favor of sellers.

Secondary Progress in MENA

While the volume of secondary opportunities in MENA may not yet be large enough to accommodate sovereign-sized allocations, several major investors in the region have embraced the strategy through global PE funds.

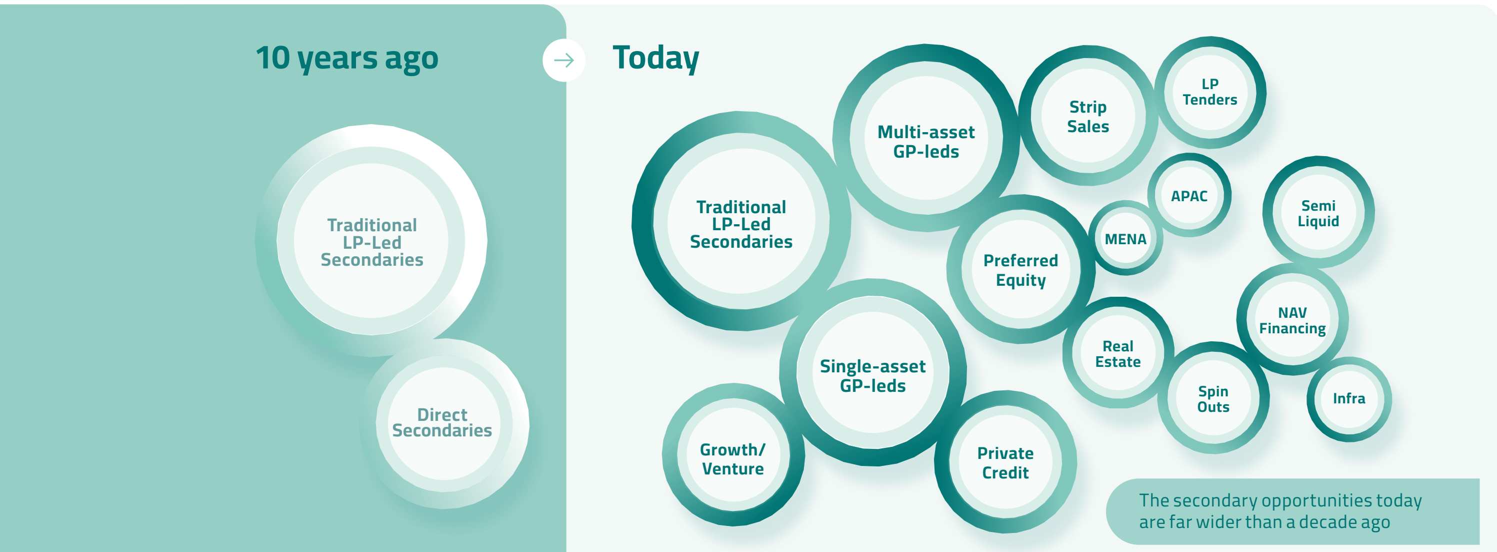
Apollo, whose investors include the Abu Dhabi Investment Authority (ADIA), has raised nearly $10 billion since 2022 for its "S3 Sponsor and Secondary Solutions" platform—more than half of that in the past year.[32]

Taking advantage of the global exit backlog and secondary market discounts, Ardian, a Paris-based PE firm, closed a record-setting $30 billion secondaries fund (ASF IX) in June 2025, backed by institutional, sovereign, and high-net-worth investors.[33] Saudi Arabia's Public Investment Fund (PIF), an LP in Ardian's 2020 secondaries fund, also committed to the latest vehicle,[34] signaling sustained interest in the strategy. ADIA has likewise been active, investing $6 billion in Ardian's 2022 fund and an additional $4 billion in 2025.[35]

In another notable transaction, Ardian and PIF acquired stakes of 22.6% and 15%, respectively, in Heathrow Airport in late 2024—a single-asset direct infrastructure secondary[36] (which some observers might be tempted to call a "fire sale" given recent events).

On a much smaller but pioneering scale, Dubai-based Zest Equity raised over $8 million from 2023 and 2025 seed rounds[37] for its secondaries platform. The firm reports processing more than 120 transactions totaling $150 million in value.[38] Its stated mission is to provide liquidity for founders, early employees, and seed investors, while creating entry opportunities for new LPs.

Secondary markets continue to evolve



Data Source: Coller Capital and Private Capital Secondaries, June 2025. Analysis: 5Quadrants

Figure 10. Evolution of secondary markets: structures and strategies 10+ years ago compared to today.

[32]**Benitez, L. (May 1, 2025).** *Apollo Raises $5.4 Billion Fund for Secondhand PE Deals.* **Bloomberg LP.**
[33]**Ardian.** *Ardian Sets Record with Largest-Ever Platform. Ardian.com.*
[34]**Secondaries Investor. (May 30, 2024).** *Saudi PIF Commits to Ardian's Latest Flagship and Co-Invest Vehicle.*
[35]**Bennett-Lynch, W. (January 16, 2025).** *Ardian Breaks Record with $30 Billion Haul for Secondaries.* **Preqin.**
[36]**Toledo, M. (December 16, 2024).** *Ardian, Saudi PIF Complete $4.2 Billion Acquisition of Stake in Heathrow Airport. Chief Investment Officer. Retrieved from https://www.ai-cio.com/news*
[37]**Crunchbase.** *Retrieved from https://www.crunchbase.com*
[38]**Zestequity.** *Retrieved from https://www.zestequity.com*

Pros and Cons of Secondaries

Let's balance the positive tone of this paper by objectively critiquing secondaries. We list the positives first, followed by the risks.

Discount on Entry for Secondary Buyers

Assets sold in an LP-led secondary are not usually distressed, but sellers are sometimes under pressure to create liquidity. That urgency creates opportunities. Over the last two decades, LP secondaries have traded at an average 14% discount to NAV.

> **Potential Risk:** Discounts could narrow or even flip to a premium if IPO markets reopen or if an increasing number of secondary buyers enter the market and lend a bid to prices. Established GPs have recently raised multi-billion-dollar funds to purchase secondaries, making demand a tangible risk. Before new demand erodes discounts, more buyers are likely to help create a deeper two-way market as a new wave of secondary sellers are drawn into the game.

Superior Risk/Return Profile

The small community of professional secondary buyers has historically enjoyed strong returns, helped by limited competition, opaque pricing, and non-public valuation discovery and debate.

> **Potential Risk:** As deal volumes and values grow and as more participants enter, competition and transparency could tighten valuations. It is difficult to suggest current valuations are off or that they could improve through greater participation because current pricing is shaped by secondary professionals, the ones least likely to misprice assets. But as markets evolve, so do the risk/reward dynamics.

Reduced Blind Pool Risk

By definition, secondaries will have less blind pool risk than primary commitments. Increased transparency into both the underlying portfolio companies and the GP is a feature of investing in years 4-7 of a primary fund. In theory, transparency should reduce discounts, but that's already priced in.

> **Potential Risk:** Transparency should not lead to complacency. Buyers may place too much emphasis on track records and overlook macroeconomic or business risks that could impair a portfolio company (as seen in some continuation funds). This is less a secondary-specific risk issue than a risk of complacency or overconfidence on the part of the secondary buyers or the GPs.

Shrinking Listed Markets

The number of publicly listed companies in major Western stock markets—including the US, Germany, France, and the UK—has dropped by 40%-60% over the last two decades.[39] Private markets have grown both as a cause and a consequence of this trend.

Potential Risk: Regulators could attempt to reverse the decline by easing public listing requirements, reducing fees, and lightening compliance burdens. A more favorable IPO market could reduce the demand for LP-led secondaries. While such reforms seem unlikely today, they cannot be ruled out.

LP Liquidity

Continuation vehicles have worked well so far: 80-90% of LPs generally choose the exit option, suggesting they value the liquidity.

Potential Risk: One could argue that valuations—despite the subjectivity, particularly in the VC market—may be compressed to favor professional secondary buyers at the expense of exiting LPs. To date, however, LPs appear broadly satisfied with outcomes, treating prices as fair within a functioning market.

Democratization of PE and Unsophisticated Buyers

Broader access is a clear positive: Smaller investors, including family offices and HNWIs, can now invest in markets once closed to them. Smaller ticket sizes, greater liquidity via periodic exit windows, and ongoing subscriptions enable more diversification and the promise of PE-like returns.

Potential Risk #1: Valuation integrity. Evergreen funds rely on reported NAVs, which may diverge from true market values (since private valuations are inherently subjective to begin with). Professional investors have the tools to judge fair value, whereas retail or inexperienced investors may overpay. GPs could also set generous valuations when transferring legacy assets into evergreen funds, disadvantaging retail participants. We wouldn't want to see the assets of tail-end funds (heavily discounted leftover companies) transferred into evergreen funds at strong valuations.

Potential Risk #2: Liquidity in downturns. Few want to sell when prices are rising, especially retail investors. Uptrends will almost always offer sufficient liquidity when investors wish to exit.

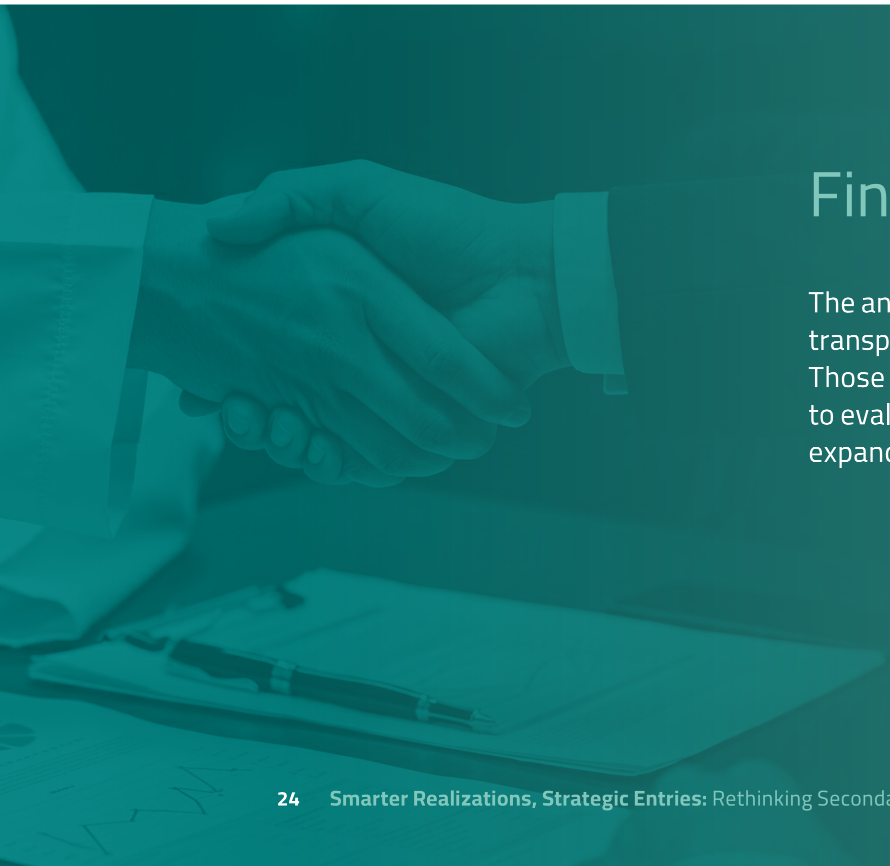
When the tide turns and market prices head south, liquidity can evaporate. If too many investors try to redeem simultaneously, the fund may be forced into fire sales or impose gates on withdrawals. There hasn't been a strong global market downturn for quite a few years, and many retail investors may underestimate how quickly liquidity conditions can change. The last major bout of asset democratization, when retail gained access to credit default swaps[40] in 2006-07, ended in steep losses during the GFC.

[39] **World Bank.** *World Development Indicators.*
[40] **Credit Default Swap (CDS) Definition.** *A credit default swap (CDS) is a financial derivative that functions like an insurance policy against the default of a debt instrument.*

Potential Risk #3: Increased regulatory oversight. If retail investors suffer losses from any of the above risks, regulators may impose stricter valuation rules, more frequent audits, and greater transparency requirements.

The GP Wears Two Hats

GPs sit on both sides of a transaction when assets are transferred into a continuation vehicle. They determine the value of assets exiting the old fund and entering the new one. The solutions to this potential conflict of interest are independent third-party opinions and competitive bidding.



Final Note

The antidote to many of these risks is greater transparency paired with better-educated investors. Those who know what questions to ask and which risks to evaluate will be better positioned to navigate the expanding secondary market.

Summary

Secondary markets have evolved from distressed fire sales into practical liquidity solutions that now account for a rising portion of private equity exit activity.

The progression from LP-led transactions to innovative GP-led continuation vehicles reflects the market's maturation, enabling general partners to retain prized assets beyond traditional fund lifecycles while offering limited partners flexible exit options.

Regulatory pressures and policy shifts have accelerated institutional adoption, with major endowments and sovereign wealth funds increasingly utilizing secondaries for portfolio rebalancing.

The investment case centers on superior risk-adjusted returns driven by reduced blind pool risk, shorter holding periods that eliminate J-curve drag, persistent NAV discounts, and enhanced diversification across vintages and strategies, making secondaries an attractive alternative in today's constrained exit environment.

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