Private Equity Secondaries, Simplified: A Cheat Sheet

Imagine buying a concert ticket—but your plans have changed, and now you can't go. Would you just throw away the ticket? Probably not. Instead, you might try to sell it to someone else.

Similarly, when an investor needs to sell their limited partnership interest in a private equity (PE) fund, they can sell it to another buyer. This is called a PE secondary. Typically, the purchaser of this interest is a PE fund manager specializing in secondaries, whose portfolio consists of these secondaries interests.

What is a PE secondary?

The secondary market in private equity refers to the buying and selling of PE fund interests (also called limited partnership interests) after the original investment was made. For example, investors in a primary PE fund commit capital for upwards of a decade. They may want to liquidate their interests in the PE fund before the commitment period is over. So, they sell their stake to secondary investors, sometimes at a discount to the perceived market value.

Are there risks to investing in PE secondaries?

Like all investments, PE secondaries come with risks. When considering an investment in a PE secondaries fund, there are several important factors to evaluate, including the manager's track record, investment strategy, access to underlying fund quality, due diligence program and risk mitigation.

What are the potential benefits of investing in a PE secondaries fund compared with primary PE?

1 **Quicker returns than primary PE:** Secondary transactions usually happen midway through a fund's lifecycle, skipping the early investment period—when a majority of the expenses generally occur and growth may be limited—and potentially offering shorter investment periods and accelerated returns.

2 **Enhanced transparency:** When investing in a new primary private equity fund, investors may not know the future holdings. However, secondary funds consist of existing assets of the underlying fund, generally providing better visibility into holdings and potentially mitigating downside risk. During the seven worst public market drawdowns since 1999, secondary PE declined 3.5% while primary PE fell 10.4% and public equities lost 24.2%, on average.[1]

3 **Discount opportunities:** Secondary sales are often driven by an investor's need for liquidity. Typically, the existing fund owner sells the interest at a discount to net asset value. The average market discount over the last five years was 8%,[2] potentially presenting attractive opportunities for investors.

[1] As of 12/31/25. Source: Voya IM, Cambridge Associates, FactSet. Secondary PE represented by the Cambridge Secondary Index. Primary PE represented by the Cambridge U.S. Private Equity Index. Public equities represented by the MSCI World Index.

[2] Source: Jefferies Global Secondary Market Review (Jan 2025).

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Why should I consider investing in a PE '40 Act fund rather than a traditional PE fund?

Feature	PE '40 Act fund	Traditional PE fund
Investment minimum	Often starts at $25,000	Usually starts at $10 million
Tax filing	Form 1099	Schedule K-1
Liquidity	Quarterly redemptions limited to a percentage of either the fund's NAV (tender offer fund) or the investor's position (interval fund)	Generally available only through secondary markets, fund distributions or at the end of the fund's life
Diversification	May be diversified across sectors, geographies, investment types, vintage years and asset size	Frequently focuses on a defined subset of sectors, with concentrated holdings
Capital deployment	Capital put to work immediately	Capital invested over several years and called as needed
Availability to investors	IRA-friendly; potential for tax-deferred growth	May qualify for IRA investment

For illustrative purposes only. Actual features may vary depending on the specific investment product.

A note about risk

General risks to consider

Secondary investments: The ability of the manager to select and manage successful investment opportunities, underlying fund risks; these are non-controlling investments, no established market for secondaries, identify sufficient investment opportunities, and general economic conditions.

Primary investment: Identify sufficient investment opportunities, blind pool, the manager's ability to select and manage successful investment opportunities, the ability of a private equity fund to liquidate its investments, diversification, and general economic conditions.

General private equity risks: Private equity investments are subject to various risks. These risks are generally related to: (i) the ability of the manager to select and manage successful investment opportunities; (ii) the quality of the management of each company in which a private equity fund invests; (iii) the ability of a private equity fund to liquidate its investments; and (iv) general economic conditions. Private equity funds that focus on buyouts have generally been dependent on the availability of debt or equity financing to fund the acquisitions of their investments. Depending on market conditions, however, the availability of such financing may be reduced dramatically, limiting the ability of such private equity funds to obtain the required financing or reducing their expected rate of return. Securities or private equity funds, as well as the portfolio companies these funds invest in, tend to be more illiquid, and highly speculative.

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