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Private Equity Secondaries, Simplified

A what-to-know guide for advisors and investors

Individual investors can now access the formerly exclusive club of private equity through registered investment vehicles that focus on secondary investments, allowing for greater flexibility and potentially accelerated cash flow.

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Pomona Investment Fund

VOYA® Investment Management

Private equity is gaining ground in individual investor portfolios, helped by a growing secondary market that has made allocating easier.

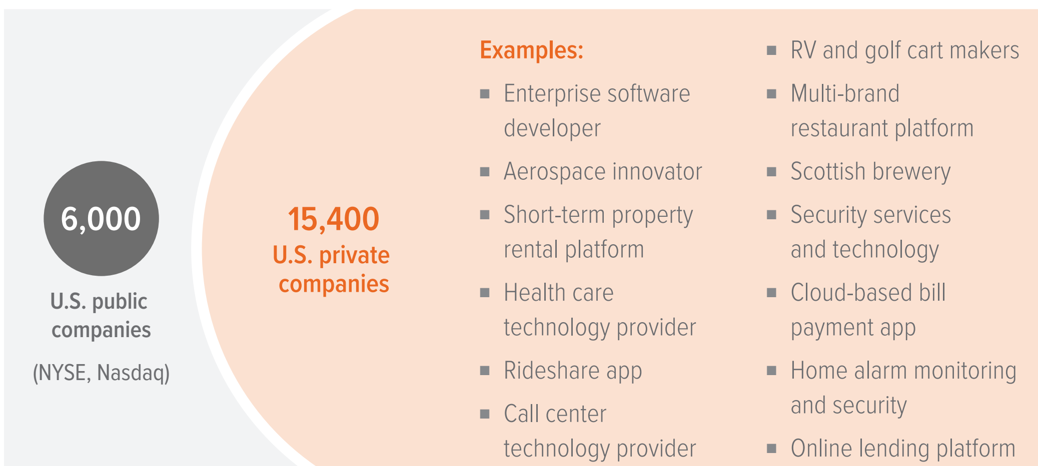
Key takeaways

- Private equity (PE) investing has traditionally been dominated by large institutions, but it has been gaining ground within individual investor portfolios through the secondary market.
- Investing in PE secondaries involves buying interests in a PE fund from an existing investor, typically after the fund's investment period ends.
- Potential benefits of investing in a PE secondaries fund include diversification against traditional stock and fixed income investments, generally faster returns than investing in primary PE, better transparency of fund holdings before buying interests, and discounted buying opportunities.

PE: From exclusive to inclusive

For every Amazon or Apple traded on public stock exchanges, there are a thousand privately held businesses seeking investor capital to grow. In the U.S. there are over twice as many private equity-backed companies as publicly listed ones (Exhibit 1). Private companies represent every major industry, from technology and manufacturing to retail, including some of the fastest-growing and most disruptive startups. Yet many investors avoid this asset class because it seems inaccessible and complicated.

Exhibit 1: Private companies make up 87% of corporate investment opportunities



As of 2025. Sources: MarketCapWatch Global Index, Bain, Cambridge Associates, and Global Visualist. 87% of the roughly 19,00 U.S. companies with revenues of $100+ million are not accessible on public exchanges.

It's true that PE has historically been an exclusive club for large institutional investors, such as pension funds, sovereign wealth funds, and insurance companies (along with family offices and certain ultra-high-net-worth investors).

However, **the newer investment vehicles have opened the market to a wider range of investors.** Some of these investment solutions address hurdles that previously have discouraged broader adoption by reducing investment minimums, simplifying tax filings, and offering regular liquidity opportunities.

What's changed? The answer is in the growing access to PE interests. **For example, PE secondaries may offer an attractive way to enhance a well-diversified portfolio.**

What is PE?

When a privately owned company wants to grow its operations, it may seek funding from a PE management firm in exchange for a stake in future profits. This approach may offer an attractive alternative to conventional forms of financing, such as taking out a loan (which can be expensive) or listing shares on a public stock exchange (which may not be feasible).

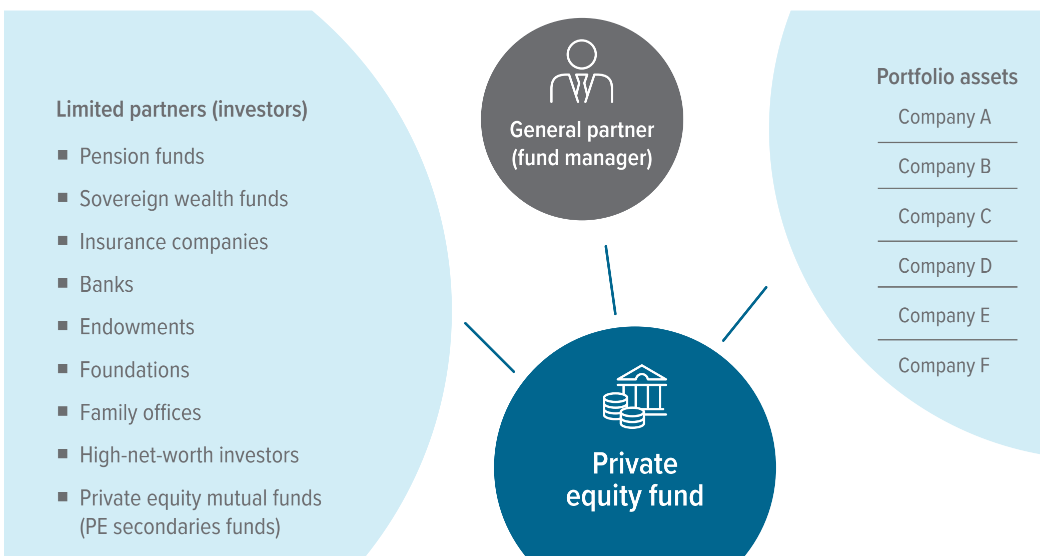
The PE fund manager (also called a general partner, or GP) raises capital from investors—known as limited partners (LPs)—and pools these investments with its own capital into a fund that invests in a diversified portfolio on behalf of the LPs (Exhibit 2). Portfolio assets typically consist of the equity of private companies, but they may also include debt investments; commercial real estate; and infrastructure projects such as solar farms, transportation systems, or water treatment plants.

GPs may bring expertise and resources to the companies in their portfolios. By working with company management teams, the GP may seek to enhance the equity value of its investments in several ways.

- **Accelerating revenue growth.** The GP and management team may drive additional revenues by launching new products, expanding to new markets, increasing sales efforts, and making acquisitions.
- **Enhancing profit margins.** Cost savings may be achieved by focusing on higher-margin products, leveraging economies of scale, and fine-tuning product pricing.
- **Improving the capital structure.** As a company generates cash flow, it may be able to reduce its debt over time, decreasing its financial risk.
- **Upgrading operations.** A GP may help the company improve its management, market strategy, and operating model, potentially increasing the value of the enterprise.

PE managers raise capital to deploy on behalf of investors, lending their expertise in operations, finance, and strategy to increase the value of the companies in their portfolio.

Exhibit 2: A PE fund's GP invests on behalf of its LPs



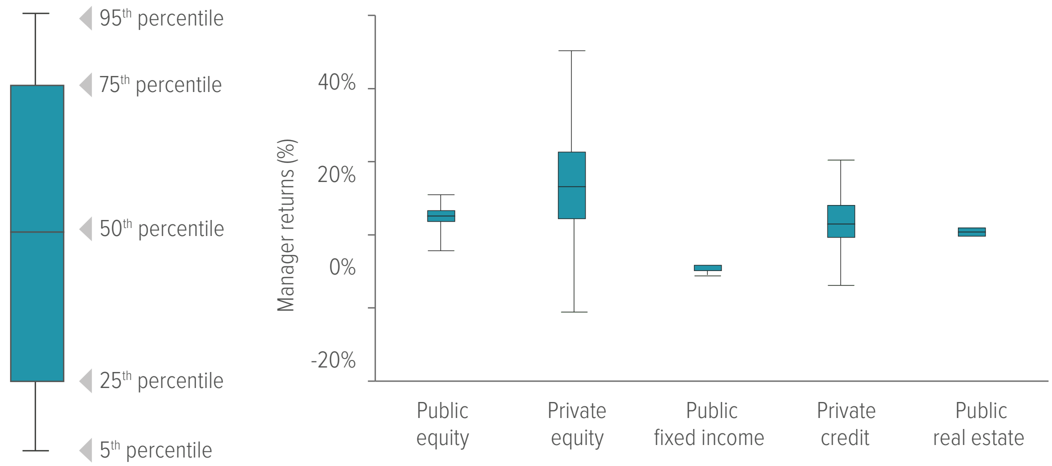
Source: Pomona Capital.

As with any investment, PE involves risk, and success isn't guaranteed. However, top PE fund managers tend to have a strong track record of improving the economic performance of the companies in their portfolios. Historically, differences in manager skill and a fund's investment strategy, geographic concentration, and industry focus have resulted in a wide dispersion of performance among PE funds, relative to public market funds (Exhibit 3). As a result, the ability to research and access the right managers may be critical to an investor's experience in PE.

The dispersion between the top and bottom private equity manager was 56%, compared with 12% for public equities.

Exhibit 3: Manager selection is a critical component of successful investing in private markets

10yr dispersion of manager performance



Public funds source: Morningstar. Data are for the 10-years ended 09/30/25. Public equity represented by U.S. Global Large Stock Blend OE Funds. Public fixed income represented by U.S. Intermediate Core Bond OE Funds. Public real estate represented by U.S. Real Estate OE Funds. Funds are ranked based on their annualized returns at the maximum, 75th percentile, 50th percentile, 25th percentile, and minimum levels. Private equity and private credit source: Preqin. Data include all listed vintages between 2010 and 2019 (post-2019 vintages omitted due to immaturity) and reported performance as of 12/31/24 or later. Funds are ranked based on their net internal rate of return at the maximum, 75th percentile, 50th percentile, 25th percentile, and minimum levels. **Past performance is no guarantee of future results**, and the possibility of loss does exist. Investments in less liquid private market strategies are by nature risky and typically involve a high degree of leverage. The returns indicated above are long term, and represent well-known asset class indexes, and are not meant to be predictive of the performance of any particular fund, nor are they meant to suggest that all private funds result in positive returns or avoid loss of principal.

PE funds are designed as long-term investment vehicles, deploying capital and then harvesting returns over the span of about 10 years.

PE is a long-term investment

Investments in the private markets have key differences from those in publicly traded equities. Unlike the real-time pricing of public stocks, such as those on the New York Stock Exchange (NYSE) or the Nasdaq, the value of private companies is calculated infrequently, usually on a monthly or quarterly basis. Moreover, the long-term nature of PE investing means that capital is often locked up for the life of the fund.

A typical PE fund is structured with a finite life span of about 10 years, which may be extended if needed.

Marketing	Drawdown/Investment	Realization/Exit	Extension
Up to 2 years	Up to 5 years	5-10 years	2 years
Investors commit capital	Capital is deployed as investments are identified	Potential earnings and proceeds from sales or IPO are distributed to investors	Subject to approval

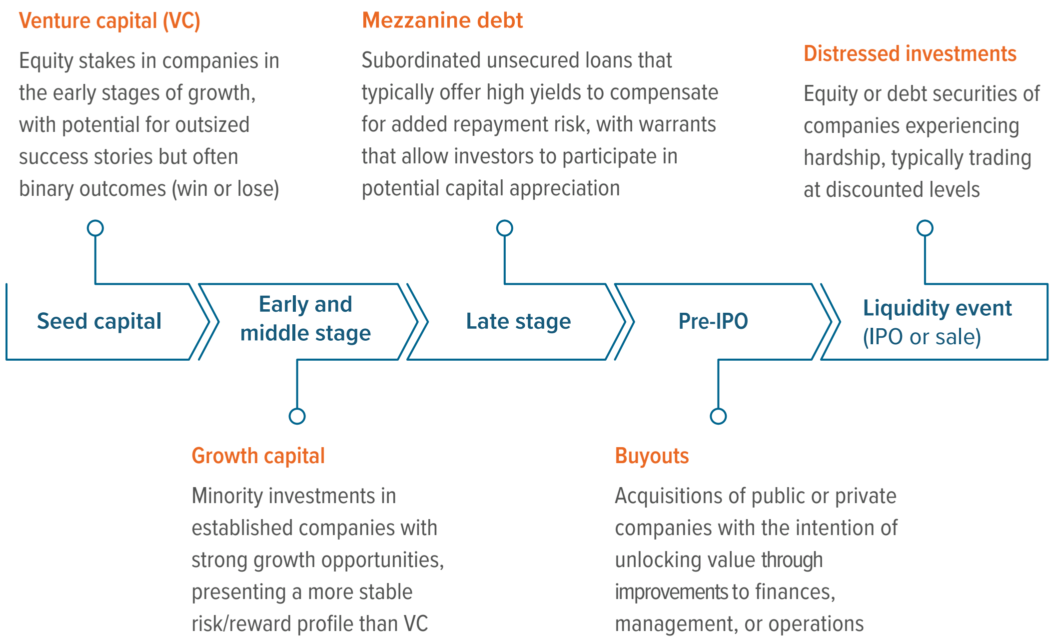
This timeline is not intended to be representative of all private equity funds.

Private companies often require additional capital throughout their lifecycle, offering investors multiple opportunities for investment. During this time, PE managers may employ a range of strategies to realize value (Exhibit 4). The most established are buyouts of private companies or divisions of larger companies for development and eventual sale. By contrast, venture capital (VC) tends to involve higher risk, targeting startups and early-stage growth companies.

Managers of private market funds employ different investment strategies at various stages of a company's lifecycle–from high-risk venture capital to buyouts of mature companies.

Exhibit 4: Risk/reward characteristics vary for each private market strategy

Private company lifecycle



Source: Pomona Capital. The descriptions above represent the views and opinions of Pomona Capital. See definitions on page 8.

Secondary market investing: Accelerating the curve

Secondaries involve buying interests in a PE fund from an existing LP, typically after a fund's investment period.

PE secondaries provide access to institutional PE with flexibility and potentially accelerated cash flow for the end investor. When an LP wants or needs to make an early exit, they can sell their interests in a fund to other investors through the secondary market. This transaction provides liquidity to the primary investor while typically allowing the secondary fund manager to purchase the fund interests at a discount to NAV.

Limiting the J-curve drag

A secondary investment transaction typically takes place after a PE fund has invested a significant portion of its capital (generally three to seven years into its lifecycle). One potential benefit of this approach is that a secondary investment may limit the impact of the J-curve, named for the shape of the intended pathway of returns (Exhibit 5). Early in the fund's lifecycle, the GP makes investments that often see little or no growth for several years, while the fund continues to incur expenses. As portfolio companies grow, the sale or refinancing of these companies may generate cash distributions on top of any unrealized gains reflected in the fund's net asset value.

Faster distributions and exits

A related benefit to J-curve mitigation is that secondary investors are entering closer to the period when distributions may begin to LPs as fund investments generate positive cash flow. Investors are also closer to the end of a fund's life, when remaining assets are liquidated and any gains (or losses) are realized.

Transparency

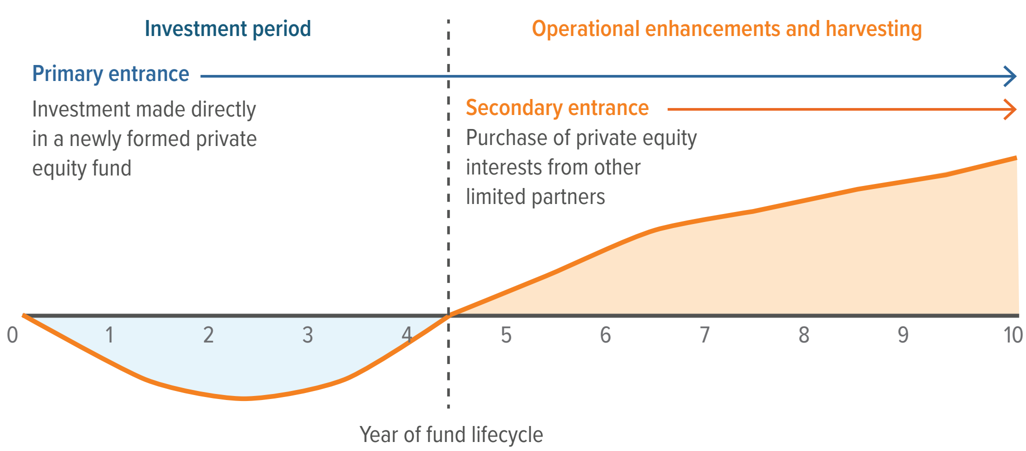
After a few years, most PE funds will have already invested a large portion of the capital committed by investors. Whereas primary investors commit capital to a blind pool, in which investments have yet to be made, secondary investors can assess each asset in the portfolio and make their own determination of value.

Discounted pricing

To entice secondary buyers to acquire their fund interests primary investors may sell their ownership interest at a discount to the present value of the underlying assets, recognizing that the buyer takes on the risk of waiting for potential realizations from the fund's investment in the future. Well-resourced fund managers may leverage market inefficiencies to identify and take advantage of value opportunities.

Registered investment vehicles can help simplify the process of allocating to PE.

Exhibit 5: Investing later in a fund's lifecycle may mitigate the J-curve effect



Source: Pomona Capital. This chart is for illustrative purposes and a secondary investment may occur at any time during the life of a fund. Investments in private equity involve risk, and an investor may lose some or all their investment.

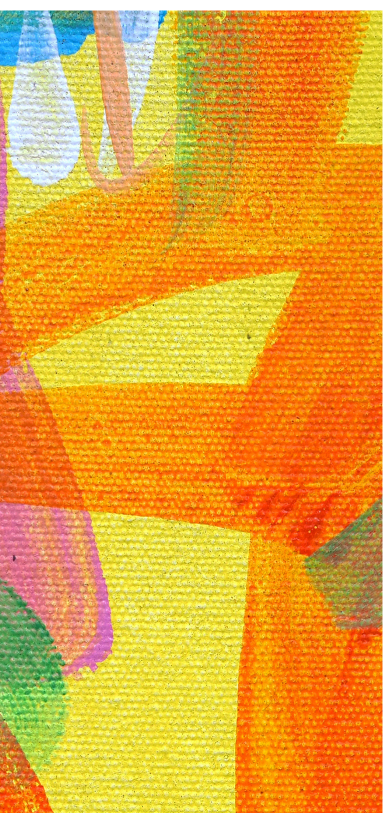
Institutional PE wrapped in a mutual fund

Many investors associate PE with obstacles that may have discouraged participation in the past. An attractive alternative to a traditional PE fund is a registered investment vehicle that targets PE assets, including secondary and primary investments as well as direct and co-investment opportunities. These registered '40 Act funds may be better suited to individual investors when compared to a traditional PE fund.

Feature	PE '40 Act fund	Traditional PE fund
Investment minimum	$25,000	$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)	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
Retirement accounts	IRA-friendly; potential for tax-deferred growth	May qualify for IRA investment

Investing in PE doesn't have to be complicated. Talk to your financial advisor to see if a registered PE secondaries fund may be a suitable addition to your portfolio.

Investing with Voya and Pomona Capital



Founded in 1994, Pomona Capital and Voya Investments have been affiliated entities since 2000.

Our secondaries-focused strategy—complemented by primary funds and co-investments—seeks to identify assets with high-quality, near-term liquidity, and below-market prices. It provides investors access to many of the same funds and opportunities typically reserved for the world's largest institutional investors.

Our global team of 50+ PE professionals conducts granular analysis of potential investments, led by a senior investment team with average individual experience of more than 20 years. Relationships with more than 600 PE managers/GPs provide a large pool for identifying potential opportunities.

Definitions

Subordinated unsecured loan: A loan that is not backed by collateral such as property or cash. If the borrower defaults, these loans are repaid only after all higher-priority ("senior") debts have been satisfied.

Warrant: A financial instrument that gives the holder the right to buy (call warrant) or sell (put warrant) a company's stock at a predetermined price on a specific date. Warrants are issued by the company but do not represent ownership until exercised.

Present value: The current worth of money you expect to receive in the future. It is calculated using a discount rate, which is influenced by prevailing interest rates—higher rates reduce present value.

Schedule K-1: A tax document that reports an individual's share of income, deductions, and credits from entities such as partnerships or other pass-through businesses.

Form 1099: A tax form used to report income earned outside of traditional employment, including freelance work, interest, dividends, and other non-wage sources.

Tender offer fund: A non-publicly traded closed-end fund that provides investors with occasional opportunities to redeem shares. These redemption periods are not fixed and occur at the discretion of the fund's board of directors.

Interval fund: A non-publicly traded closed-end fund that allows investors to redeem shares at scheduled intervals, subject to limits on the percentage of outstanding shares that can be redeemed.

1940 Act registered fund ('40 Act fund): Refers to investment companies, including mutual funds, exchange-traded funds, and closed-end funds, registered under the Investment Company Act of 1940. This Act requires SEC registration, strict disclosures, anti-fraud rules, and governance to protect public investors from conflicts of interest.

A note about risk

There are no guarantees a diversified portfolio will outperform a non-diversified portfolio. **Diversification does not guarantee a profit or ensure against a loss. Past performance is no guarantee of future results.**

Private equity may not be suitable for every investor, may involve a high degree of risk, and may be appropriate investments only for sophisticated investors who are capable of understanding and assuming the risks involved.

All equity investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. Foreign investing does pose special risks including currency fluctuation, economic and political risks not found in investments that are solely domestic. Emerging market stocks may be especially volatile. Stock of an issuer in the Fund's portfolio may decline in price if the issuer fails to make anticipated dividend payments because, among other reasons, the issuer of the security experiences a decline in its financial condition. Securities of small- and mid-sized companies may entail greater price volatility and less liquidity than investing in stocks of larger companies. 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.

Private equity funds as well as securities that invest in such funds and companies in which such funds or securities may invest tend to lack the liquidity associated with the securities of publicly traded companies and as a result are inherently more speculative.

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