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Private equity secondaries: Structural advantages for portfolio construction

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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 offering benefits for limited partners (LPs), private equity sponsors (general partners or GPs) and secondary buyers. With transaction volumes growing from \$26 billion in 2013 to over \$160 billion in 2024, secondaries are a compelling option for consideration within diversified portfolios.[1]

For financial advisors and their clients seeking private equity exposure with potentially enhanced risk-return characteristics, the secondaries market offers compelling structural advantages that merit consideration.

TWO DISTINCT PATHWAYS TO VALUE

Private equity secondaries refer to the buying and selling of existing private equity fund interests and direct company investments, rather than making new primary investments into companies or funds. The secondaries market operates through two primary transaction types, each offering unique benefits:

LP-led transactions involve investors selling their stakes in private equity funds to generate liquidity or rebalance portfolios. These transactions provide buyers with immediate diversification across multiple portfolio companies within established funds, along with visibility into actual performance rather than historical manager track records.

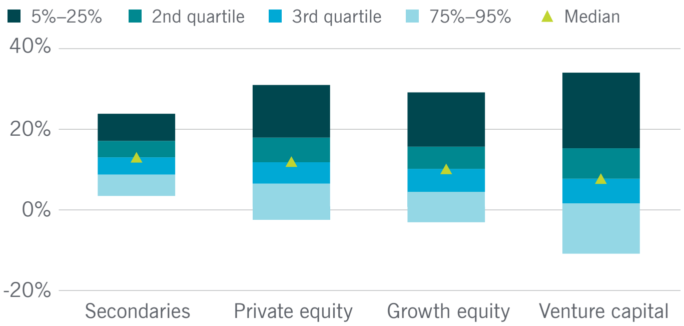
GP-led transactions, primarily structured as continuation vehicles, allow private equity firms to retain control of their highest-performing assets while providing liquidity options to existing investors. These transactions typically focus on trophy assets where sponsors see significant additional growth potential.

Both transaction types have demonstrated attractive performance characteristics, with secondaries showing the narrowest return dispersion of any major private markets asset class over the past 25 years (see Figure 1).

STRUCTURAL ADVANTAGES OF SECONDARIES

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

Several factors contribute to the compelling risk-return profile of secondaries investments:

Reduced blind pool risk: Unlike traditional private equity investments where performance is reliant on managers' historical track records, secondaries buyers can evaluate actual company performance, management effectiveness and value creation progress during due diligence.

Attractive entry points: Secondaries transactions are typically structured at discounts to book value (i.e., the cost of generating liquidity for an illiquid asset). They also often benefit from conservative sponsor valuations and timing advantages between pricing dates (generally the most recently available quarterly mark) and deal closure. This "record date lag" can create even more material effective discounts as portfolio companies continue growing during the transaction process.

Enhanced alignment: In GP-led transactions, sponsors typically invest significant capital alongside secondaries buyers, often representing 5-25% ownership compared to the typical 2-5% in traditional funds.[2]

Accelerated distributions: Secondaries funds generally deploy capital faster and distribute proceeds sooner than traditional private equity funds, reducing cash drag and improving overall returns.[3]

Diversification: The asset class offers significant diversification benefits through LP-led transactions that provide immediate exposure to mature fund positions and can fill gaps in vintage year exposure, while GP-led transactions offer access to curated portfolios across diversified fund managers and industries. This contrasts with traditional fund commitments that invest in new portfolio companies over approximately 5-year investment periods to achieve similar diversification.

Figure 2: Potential benefits by secondary transaction type

	LP-LED TRANSACTIONS	GP-LED TRANSACTIONS
Extensive diligence on underlying assets	✓	✓
J-curve mitigation	✓	✓
Accelerated distributions	✓	✓
Earlier return of capital	✓	✓
Attractive discounts	✓	✓
Lower loss ratio than buyouts[4]	✓	✓
"Trophy" assets		✓
Enhanced returns		✓
Enhanced GP alignment		✓

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

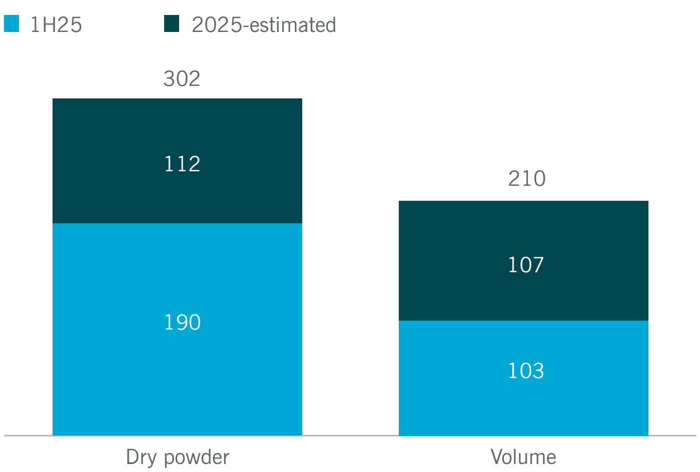
WHY PRIVATE EQUITY SECONDARIES NOW

Undercapitalization, combined with the structural evolution of the market, creates what we view as a compelling entry point.

While the market has grown substantially, it remains undercapitalized relative to private markets broadly. Current dry powder sits at approximately 1.5 times annual volume, compared to over 2.0 times for traditional private equity, creating favorable supply-demand dynamics for buyers (see Figure 3).[5]

Figure 3: An undercapitalized market

Secondaries dry powder to annual volume ($ billions)



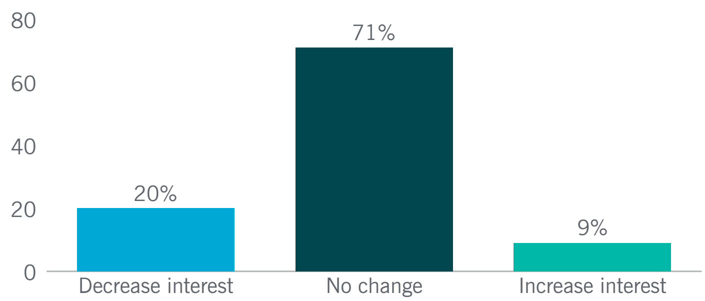
Source: Jefferies Private Capital Advisory "H1 2025 Global Secondary Market Review" published July 2025.

Reduced exit activity is driving strong volume. Deal flow is not expected to slow when M&A markets rebound

The modern secondaries market has evolved beyond distressed selling. Today, sophisticated portfolio management and strategic asset optimization drive most activity. On the GP-led side of the market, a recent Churchill survey shows that 80% of private equity sponsors plan to maintain or increase their use of continuation vehicles even as market conditions improve (see Figure 4).

Figure 4: 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.

A STRATEGIC ALLOCATION CONSIDERATION

We believe the growth in private markets assets under management (forecasted to exceed $60 trillion by 2032)[6] naturally provides an expanding supply of private equity secondaries opportunities, regardless of broader economic conditions. The combination of reduced blind pool risk, attractive entry points, enhanced alignment and accelerated distributions creates what we believe is a compelling case for including secondaries as a strategic component of private markets allocations.

To further help you evaluate if incorporating secondaries is appropriate for clients' portfolios, explore our research paper Beyond the Basics: How Secondaries Can Enhance Client Investment Outcomes.

Differentiated access to the U.S. middle market

With over $56 billion in committed capital and as one of the most active U.S. middle market lenders, Churchill provides customized financing solutions to private equity firms and their portfolio companies across the capital structure.[7,8] The firm has established relationships with more than 300 private equity firms and has over $20 billion committed to U.S. middle market private equity funds, equity co-investments and secondaries since 2011, with $2 billion or more in new commitments annually.[9,10]

About the author

Nick Lawler serves as a Managing Director and Head of Secondaries on the Private Equity Solutions 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.

For more information, please visit nuveen.com.

Endnotes

Sources

1 Evercore H1 2025 Secondary Market Review published February 2025

2 PJT Partners "FY 2024 Secondary Market Update Investor Roadmap" published January 2025

3 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.

4 Morgan Stanley. As of March 2025. Principal loss as referenced herein is defined as funds with <1.0x reported net MOIC

5 Jefferies Private Capital Advisory "H1 2025 Global Secondary Market Review" published July 2025.; Schroders "Redefining private equity: How continuation investments are disrupting the buyout market" published August 2025

6 Bain Global Private Equity Report Published June 2025

7 As of 30 Jun 2025. The term "committed capital" refers to the capital committed to client accounts in the form of equity capital commitments from investors, as well as committed, actual or expected financing from leverage providers (including asset-based leveraged facilities, notes sold in the capital markets or any capital otherwise committed and available to fund investments that comprise assets under management). For purposes of this calculation, both drawn and undrawn equity and financing commitments are included. In determining committed capital in respect of funds and accounts that utilize internal asset-based leverage (e.g., levered funds and CLO warehouses), committed capital calculations utilize a leverage factor that assumes full utilization of such asset-based leverage in accordance with the account's target leverage ratio as disclosed to investors. In determining committed capital in respect of Churchill's management of an institutional separate account for its parent company, TIAA (as defined below), (i) committed capital in respect of private equity fund interests includes commitments made by TIAA to such strategy over the most recent 10 years, and the net asset value of all such investments aged more than 10 years, and (ii) committed capital in respect of equity co-investments, junior capital investments, structured capital investments, and senior loans includes the commitment made by TIAA for the most recent year, and the outstanding principal balance of investments made in all preceding years, and (iii) committed capital in respect of secondaries includes commitments made by TIAA, which includes the aggregate commitment made by TIAA since the inception of the strategy in 2022 and inclusive of the current year's allocation. In determining committed capital in respect of Churchill's management of institutional separate accounts for third party institutional clients, committed capital includes the aggregate commitments made by such third party clients, so long as such commitments remain subject to recycling. Thereafter, outstanding principal balance is used in respect of any applicable commitment (or portion thereof) that has expired. Due to the foregoing, committed capital figures may be adjusted over the course of a financial period, based on accounts transitioning the calculation methodology from capital commitment to invested capital

8 Pitchbook Data's FY 2024 US PE Middle Market Lending League Tables with select titles

9 Includes private equity fund commitments made under the Private Equity fund strategy since 2011. Excludes venture capital and secondaries commitments. TIAA and client capital commitments to Churchill that are not yet committed to specific underlying funds are excluded

10 Average deployment from 2021 - 2024

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