Private Equity

Secondaries

The need for liquidity in private assets continues to grow after four years of record-low distributions as a percentage of NAV and a record backlog of unrealised portfolio companies. Combined with extended hold periods and an expansion in private markets AUM, this trend has led many investors to utilise the secondary market not only as a liquidity solution but also as a sophisticated portfolio management tool. As a result, we made it a priority in 2025 to build a dedicated secondaries team in-house to execute on what we have observed to be an increasingly attractive and growing opportunity set within the secondaries market. By offering this capability in-house, we aim to leverage our platform to participate in attractive deals primarily in the middle market and to realise meaningful fee savings for clients on a significant portion of their secondaries exposure. In 2025, our team has been productive on both the sourcing and investment fronts, having committed over $170M of capital into secondaries across 15 unique transactions as of this writing, demonstrating early progress.

Secondaries can play a complementary role in client portfolios by providing attractive risk-adjusted returns with reduced duration and low volatility. Historical data shows that secondaries have delivered strong, consistent returns with less volatility and lower dispersion than other areas of private markets. Between 2000-2019, secondaries delivered a 15% median net IRR compared to private equity at 14%, while being the only private markets asset class to return positive fourth quartile returns.[46] We believe this higher median return and lower dispersion in secondaries is due in part to reduced blind pool risk in underlying portfolios, an ability to cherry pick assets at discounts, and the ability of buyers to price-in the risk of delayed exits from underlying portfolio companies. Relative to other private market segments, secondaries have generated faster DPI and have proven to be a useful tool to shorten the duration of private equity portfolios. Secondaries have returned capital back to investors at 6-7 years on average, compared to 10-11 years for a typical primary programme and 7-8 years for co-investments.[47]

We believe there are compounding benefits to making consistent commitments to secondaries. A single commitment to secondaries can soften an investor's J-curve, provide vintage diversification, and generate short-term distributions. Recurring allocations can raise a programme's time-weighted IRR over the longer term, while a consistent secondaries allocation can provide ongoing cash flows for investors to recycle and re-invest across their primary, secondaries, and co-investment portfolios. Executing on secondaries requires careful evaluation of underlying asset quality, purchase price, and duration risk, which is why we believe a secondaries allocation that is paired alongside a portfolio of well-selected Private Equity managers will be accretive to client portfolios. We believe most client portfolios benefit from a 10-20% allocation to secondaries and are targeting a 12.5% allocation within our flagship Partners Capital Private Equity pooled vehicles.

Our secondaries approach is to be a liquidity provider to both LPs and GPs, with a tilt towards our core focus in lower and middle market buyout. Our secondaries investment strategy takes a balanced and flexible approach to providing both 1) GP liquidity solutions, primarily by investing in single-asset and multi-asset continuation vehicles and 2) LP liquidity solutions, primarily by purchasing diversified portfolios of LP interests from investors in private funds.

GP Liquidity Solutions

Within GP liquidity solutions, we seek to acquire the highest quality, assets that are owned in legacy funds by providing a liquidity solution directly to GPs. We typically invest in these companies through continuation vehicles (CVs), where we aim to partner with high quality sponsors and often see meaningful GP alignment and reinvestment alongside us. Our underwriting in these transactions focuses primarily on company fundamentals and valuation, the viability of the forward looking value-creation plan, and our assessment of the GP's alignment.

46 Median Net IRR by asset class as of Q2 2023, vintage years 2000-2019, as shown in Bain & Company, Global Private Equity Report 2024
47 Blackrock, The Case for Secondaries, H1 2024

In most CVs that we evaluate, we believe the GP is pursuing the transaction to retain and grow their highest quality assets, which often have repeatable value creation plans that would benefit from additional time and capital that CVs can provide. Regarding alignment, nearly all CV transactions have active members of the GP rolling 100% of their economics and making an incremental out of pocket commitment, and we often see an investment from their latest flagship fund as well. While all transactions require careful review of these factors (i.e., asset quality, GP alignment, and motivations for pursuing the CV), we believe most CVs have these positive characteristics as evidenced by the strong performance of CVs to date, where we have observed both median and top quartile single- and multi-asset CVs demonstrating stronger MOIC and IRR profiles than their equivalent buyout fund counterparts.[48] Continuation vehicles, though, are not without potential concerns. Existing LPs have concerns about GP-led transactions, given the inherent conflict that arises when sponsors are on both sides of the deal. These LPs worry that such transactions may be driven more by a motivation to enhance GP economics than by an intent to maximise value for existing fund investors. However, we like the exit optionality that CVs can provide when pursued for the right reasons – namely, more time and capital to compound value – and when they provide existing LPs with a fair rollover option to participate. We endeavour to actively screen out situations by identifying deals where we see 1) GPs selecting their highest quality assets, 2) the ability for secondary buyers to price-in the impact of reasonable fees, 3) attractive entry valuations relative to intrinsic value, 4) shorter expected duration than typical buyout investments and 5) meaningful GP alignment alongside sponsors.

We continue to see a robust opportunity set within GP liquidity solutions as transaction volume has grown from $26B in 2019 to $71B in 2024, growing at 22% annually.[49] In 2024, this growth accelerated to 40% year-over-year, a meaningful uptick.[50] We believe this growth has been driven by two key factors, pressure on GPs to provide liquidity to existing LPs in what has been a challenging exit environment, and secondly the ability for GPs to double down on their highest conviction assets, while earning fees on new capital in what has been a challenging fundraising environment. Given these dynamics, we expect the opportunity set to continue its growth trajectory, particularly within the lower and middle market specifically, where GPs managing concentrated portfolios are highly incentivised to retain their top assets. As a result, 80% of sponsors recently surveyed in the lower and middle market expect CV transactions to accelerate.[51] Notably, this trend has resulted in CVs representing 13% of sponsor-backed exits in 2024, compared to only 5% in 2020.[52] We plan to continue investing in our team to expand our sourcing and evaluation capabilities as this opportunity set grows.

LP Liquidity Solutions

Within LP liquidity solutions, we seek to offer investors in private funds early liquidity in exchange for their LP stake. Typically, we target diversified portfolios of LP stakes sized between $50-200M, where we believe there is a lack of broadly approved secondary buyers with unrestricted information and access to GPs. Many secondary buyers do not have a scaled primary platform, which serves as a foundation for achieving broad-based GP approvals. For secondary buyers with a scaled primary programme, broad GP access and approval provide a competitive advantage, enabling deeper underwriting insights and the ability to deliver a single, full-portfolio solution to sellers. We believe that our primary platform, with over 200 GPs and more than c. $2B in committed capital per year, positions us well from both an underwriting and GP approval perspective. We leverage our platform to pursue opportunities where we can provide a full portfolio solution to a seller, targeting both tail-end and mid-range vintage portfolios available at attractive discounts or with structured terms that enhance net returns and give us better control of liquidity and pacing.

The LP liquidity solutions market has grown 11% per year since 2019, from $54B to $89B in 2024.[53] In 2024, the market saw a meaningful uptick in year-over-year growth to 41%. This accelerating growth has been driven by two key market factors including 1) a challenging exit environment for IPOs and M&A and 2) increased programmatic selling from sophisticated LPs who have begun utilising the secondaries market as a regular portfolio management tool. LPs are increasingly using the secondaries market proactively and programmatically, having realised its benefits beyond liquidity-driven events. Many sophisticated LPs are now implementing a regular cadence of portfolio sales, in efforts to rationalise manager relationships, adjust strategy allocations, and focus on core vintages, sectors, and geographies. In 2024, approximately 70% of LP sales in the secondaries market were portfolio management (vs liquidity) driven[54], up from just 30% five years ago.[55] This trend has moved down-market from large corporate and pension schemes to smaller LPs in the last year, specifically Endowments and Foundations (E&Fs), who have been the leading contributor to the growth in the number of sellers in 2025.[56]

48 Evercore Private Capital Advisory, Q2 2025 Continuation Fund Performance Report, October 2025
49 Evercore Private Capital Advisory, FY 2024 Secondary Market Survey Results.
50 Churchill, Middle market private equity firms cautiously optimistic on M&A, exits and returns: Mid-year 2025 private equity survey
51 Ibid
52 Jefferies Private Capital Advisory, Global Secondary Market Review, January 2025
53 Evercore Private Capital Advisory, FY 2024 Secondary Market Survey Results
54 Lazard Private Capital Advisory, Secondary Market Report 2024
55 Lazard Financial Sponsor Secondary 2019 Year-End Review
56 Evercore Private Capital Advisory, H1 2025 Secondary Market Review

Having reviewed the portfolios of several E&F sellers over the past year, our observation is that these sophisticated LPs are increasingly using the secondary market to rotate out of large cap and legacy relationships, freeing up dry powder to commit to more attractive lower middle market and emerging managers during a period of historically low distributions.

This growth in supply has created a large and attractive opportunity set of quality assets and funds available for secondary buyers. However, we have observed challenges in underwriting large scale portfolios that consist of well-known buyout funds with younger vintages (3-5 years old). We believe that competition among buyers for these younger vintages is driving prices higher and eroding the alpha opportunity for these types of transactions. However, we contend that there are two segments of the LP-led market that remain meaningfully inefficient and where we have not yet seen increased pricing competition erode returns. These are 1) smaller portfolios of less than $200M, often comprised of middle market funds, where there are few buyers seeking to offer full portfolio solutions to sellers and 2) tail-end secondary portfolios which have historically been less competitive but provide the potential for attractive returns and near-term distributions.

Additionally, a smaller allocation of our secondaries strategy will continue investing with certain external managers who we believe offer our clients complementary exposure to attractive segments of the secondaries market that we do not cover as well internally. Given our long-term partnerships, size, and scale with certain external managers, we believe we can unlock fee savings for our clients in these investments. In 2025, we made a firmwide commitment of c. $500M to a large tail-end focused secondaries specialist. We have invested with the manager for more than a decade and successfully used our scale and long-standing relationship to secure a 0.5% reduction to the annual management fee (a -33% reduction to the headline management fee).

The expanding opportunity in secondaries is being fuelled by a large and growing primary market, combined with increasingly active portfolio management by GPs and LPs. The secondary market is a derivative of the primary market, which has grown substantially in the last decade as private asset AUM has expanded to $14.3T of assets.[57] We expect this trend to continue as private market AUM is forecasted to reach $30T by 2030, expanding the need for creative liquidity solutions which we aim to provide.[58]

Strategic Priorities

1. **Increase our discretionary capital base.** Secondary transactions are complex and fast-paced, where nimble and flexible capital is required to guarantee transaction certainty to counterparties. In order to be a competitive buyer, Partners Capital is focused on expanding our pool of discretionary capital focused on secondary transactions. We are actively raising our first pooled vehicle dedicated to secondaries, which we believe will increase our competitive edge and enhance our ability to pursue our core transaction types across the asset class in an effort to generate alpha for our clients.
2. **Disciplined execution within targeted smaller and middle-market deals.** Partners Capital is focused on maintaining a high level of deal selectivity and focusing on our “sweet spot” of smaller and middle-market deals where we believe we have an access, information and underwriting advantage due to our platform. We anticipate sourcing a broad funnel of opportunities as our secondaries business scales and as both GPs and LPs bring a growing supply of deal flow to the market. We plan to maintain price discipline in our investments, underwrite to conservative NAV growth and distribution timing assumptions, and focus on deals where we believe we have a platform advantage.

57 Bain & Company, 2025 Global Private Equity Report
58 Preqin, Future of Alternatives 2029 Report

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