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INSIGHTS

Secondaries in Private Investment Portfolios

A Framework for Strategic Allocation

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The secondary market has evolved from its origins as a niche solution for liquidity-constrained investors into a cornerstone of private investments (PI). Institutional adoption, innovation in transaction structures, and the expansion of private market assets have increased both its scale and its strategic relevance. Secondaries have provided institutional investors with more than liquidity: they have supported portfolio construction, risk management, capital redeployment, and long-term value creation.

The benefits of an early allocation to secondaries are well established, but their usefulness extends beyond the initial build-out of a PI program. As portfolios mature, secondaries have provided attractive risk-adjusted returns and dynamic tools for proactive portfolio management. Informed by decades of performance data and our own simulated portfolio analysis—which demonstrates that a consistent allocation to secondaries has generated higher distributions and terminal portfolio value relative to strategies that reduce or forgo secondaries exposure over time—institutional investors should consider maintaining a minimum allocation of 10% of their PI commitments to secondaries on an ongoing basis. Secondaries should be treated not as a tactical allocation but as a potentially permanent component of a modern PI portfolio.

Introduction to secondaries

What are secondaries?

Secondaries are transactions involving the purchase and sale of existing investor commitments to private market assets, allowing investors to transfer their interests before a fund's natural conclusion. The market provides liquidity, flexibility, and portfolio management opportunities for both buyers and sellers.

Rohan Dutt
Co-Head of Global Secondaries

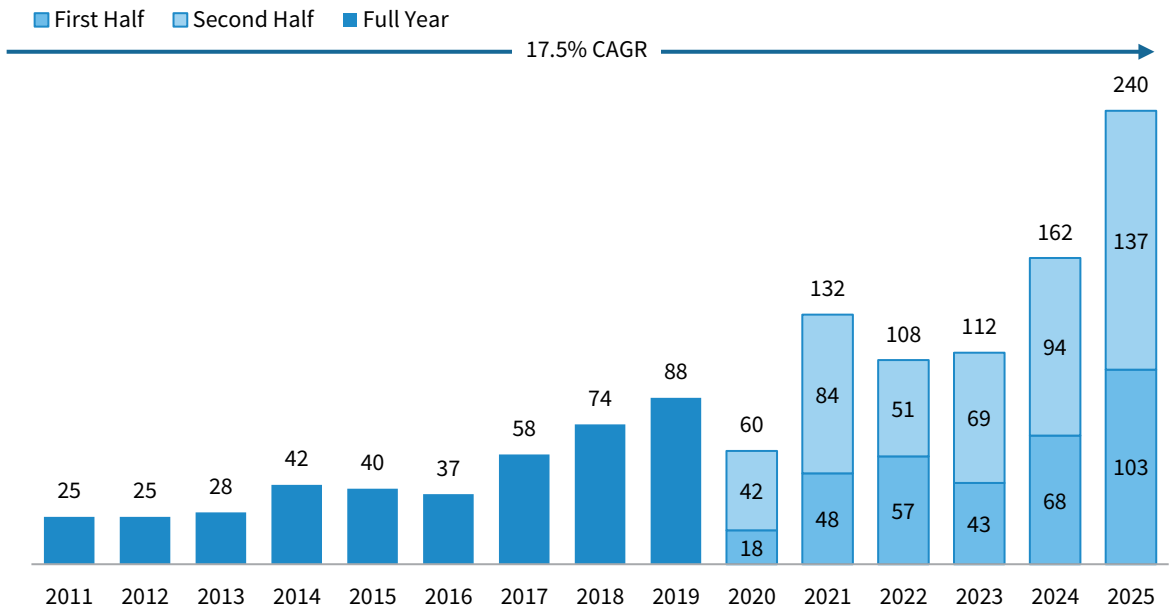
The market spans several transaction types. These include limited partner (LP) sales, in which original LPs sell fund interests to new investors; GP-led liquidity offerings, in which general partners (GPs) restructure existing funds or extend ownership of selected assets through innovative mechanisms such as continuation vehicles (CVs); direct secondaries, which involve the acquisition of interests in individual companies or portfolios of companies outside traditional fund structures; and structured solutions, which offer tailored approaches to address complex portfolio objectives.

Historical context & market momentum

Secondary transactions were initially viewed as a last-resort liquidity solution for distressed or liquidity-constrained investors, often associated with forced sales and underperformance. This stigma extended to both selling LPs and underlying GPs, and for years many institutions avoided secondary sales. The market was also small and fragmented: the first dedicated secondary funds emerged in the 1990s, global transaction volume first exceeded $1.0 billion in 1998, and annual volume did not reach $10 billion until 2006 (Figure 1).

Figure 1 Once a last resort, secondaries have become a mainstream market

Annual secondaries deal volume • Deals closed (US$B)



Sources: Jefferies 2025 Global Secondary Market Review. Compiled by Cambridge Associates LLC.

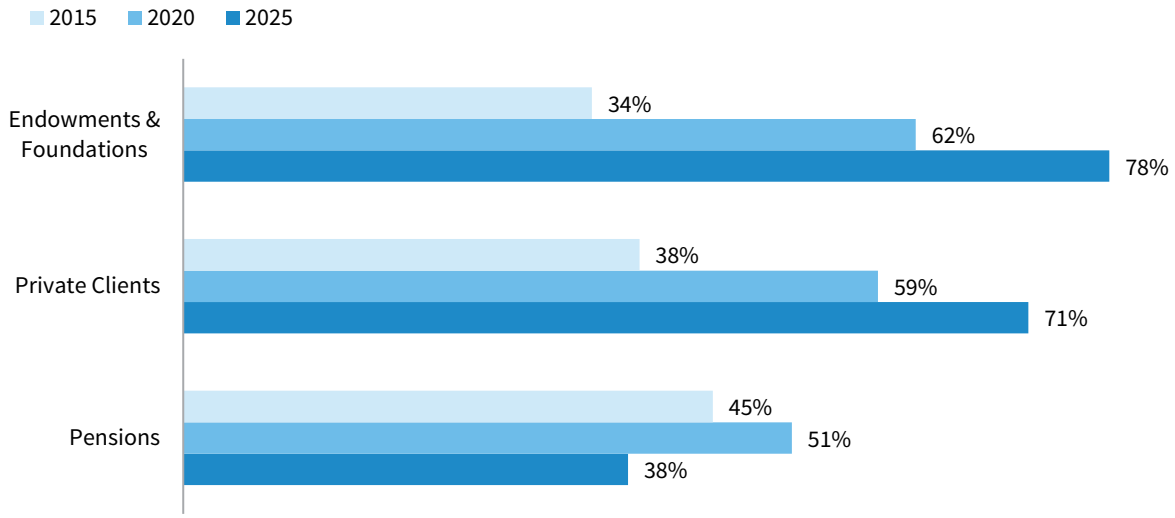
Over the past two decades, however, the secondary market has changed significantly. Annual transaction volume reached $240 billion in 2025, surpassing $200 billion for the first time. As LPs have broadened their use of secondary sales for portfolio management and liquidity, the market has become more dynamic and mainstream. At the same time, the steady increase in private market assets under management (AUM) has expanded the supply of potential transactions.

The rise of GP-led secondaries—including continuation vehicles and fund restructurings—has introduced new sources of liquidity, deal flow, and innovation. Meanwhile, increasing recognition by institutional investors of the strategic benefits of secondaries, coupled with the proliferation of intermediaries, has driven substantial growth in fundraising and market participation. This heightened demand has led to a growing universe of buyers, the formation of larger secondary funds, and the introduction of evergreen capital, further enhancing market capacity and supporting long-term growth.

In tandem with this evolution, institutions of all types and sizes are increasingly adding exposure to secondaries within their PI portfolios. As of December 31, 2015, approximately 34% of endowments and foundations had exposure to secondaries; by December 31, 2025, that figure had risen to 78%. Among private investors, the share rose from 38% to 71% over the same period. However, pension funds saw a more modest reduction from 45% to 38%, likely reflecting the more prescriptive investment guidelines and liability-driven frameworks that govern many pension programs (Figure 2).

Figure 2 Institutions are increasingly adding secondaries to their portfolios

Exposure to secondaries by investor type



Source: Cambridge Associates LLC.

The secondary market's transformation has not only expanded the scale and sophistication of its participants but also enhanced its role in portfolio management. With this context in mind, the following section explores how secondaries can deliver value—both in the early stages of a PI program and as a lasting source of portfolio optimization.

Secondaries: A permanent pillar of portfolio management

Early benefits

For investors launching a PI program, an early allocation to secondaries can accelerate cash flows, mitigate the impact of the J-curve, and provide immediate diversification. Together, these features can help smooth returns and reduce early concentration risk.

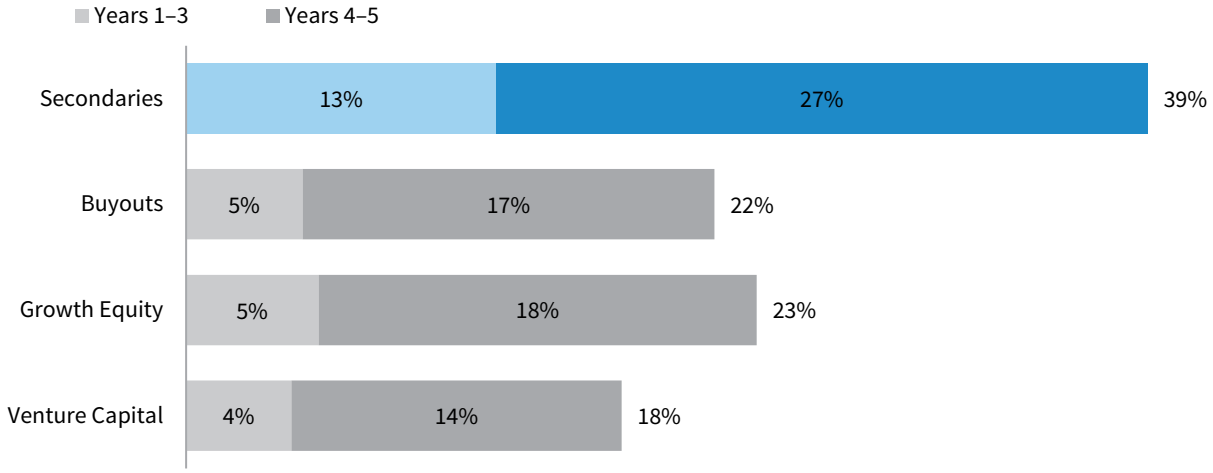
Accelerated cash flow & J-curve mitigation

Unlike primary fund commitments, which are blind-pool investments, secondaries provide LPs with exposure to established assets and the related benefits of a more immediate performance profile. Secondary funds often feature a faster return of capital, as buyers largely acquire interests in funds that are partially or fully invested, allowing LPs to receive earlier distributions rather than waiting through the initial investment period. By entering at a later stage in the fund's life cycle, LPs can avoid much of the early negative return profile known as the J-curve.

Secondary funds have averaged 13% distribution to paid-in capital (DPI) in the first three years of a fund's term and nearly 40% DPI in the first five years, meaningfully higher than direct buyout, growth, and venture funds (Figure 3).

Figure 3 Secondary funds have averaged meaningfully higher DPIs

As of September 30, 2025 • Percentage of LP capital distributed



Source: Cambridge Associates LLC.

Notes: Data represent average LP distributions in the first five years of fund life as a percentage of total distributions. LP distributions are net of recallable returns of capital.

Discounts & "instant" diversification

Secondary buyers often seek to acquire assets at a discount to net asset value (NAV), which can provide a margin of safety and improve the potential for attractive risk-adjusted outcomes as the underlying investments mature and are realized at or above NAV. By aggregating assets acquired from a range of existing portfolios, secondary funds deliver immediate diversification across vintage years, asset classes, geographies, and GPs. These benefits are particularly relevant in the early stages of a PI program, but they do not disappear once the portfolio matures.

Enduring benefits

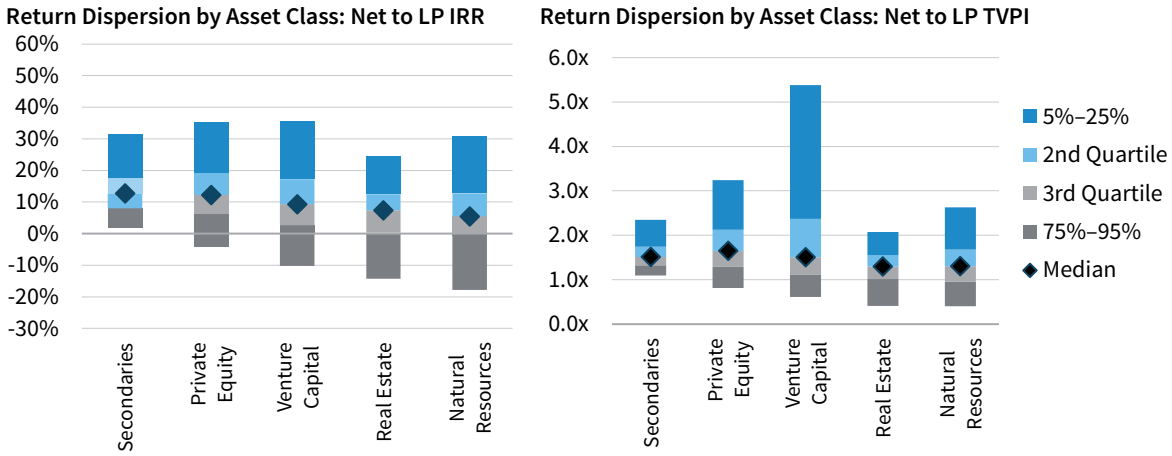
As a PI portfolio grows and matures, the demands of portfolio construction and management can become increasingly nuanced, requiring ongoing flexibility. Investors must manage liquidity, capital deployment, concentration, and performance through changing market conditions. Secondaries can continue to support these objectives well beyond the early years of a program.

Consistent returns & resilience amid volatility

A defining feature of secondary funds is their ability to deliver competitive, risk-adjusted returns across a range of market environments. Secondary funds have delivered median internal rates of return (IRRs) broadly comparable to private equity (PE), while exhibiting significantly tighter return dispersion and more limited downside risk (Figure 4). On a TVPI basis, however, secondaries characteristically offer a lower and narrower range of outcomes than PE or venture capital—reflecting the more mature, de-risked nature of the underlying assets. For investors prioritizing consistency and capital preservation over maximum upside, this trade-off is a feature rather than a limitation—secondaries are designed to compound capital reliably, not to swing for outsized multiples.

Figure 4 Secondaries have offered PE-like IRRs with tighter return dispersion but lower multiples

As of December 31, 2025 • Vintage Years 2003–22



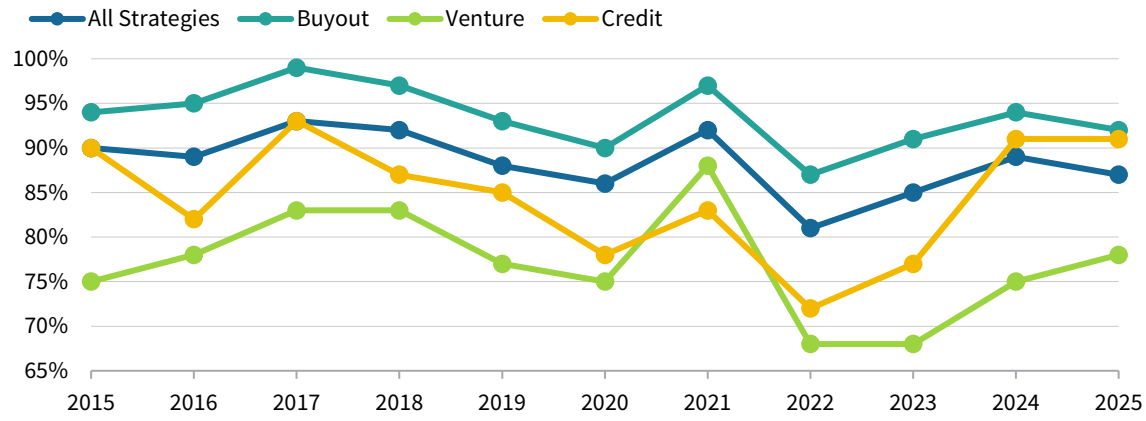
Source: Cambridge Associates LLC.

Notes: **Past performance is not a reliable indicator of future results. All financial investments involve risk. Depending on the type of investment, losses can be unlimited**. Pooled returns are net of fees, expenses, and carried interest. Private equity includes buyout and growth equity funds. Natural resources includes private equity energy, energy upstream & royalties, and timber funds. All asset classes listed are global. Funds less than three years old are considered too young to have produced meaningful returns; those vintages have been excluded.

By focusing on portfolios with greater transparency, less blind-pool risk, and entry prices that may be below NAV (Figure 5), secondaries may be less exposed to some of the risks inherent in primary investing. While discounted pricing can support returns, it is only one driver alongside underlying asset quality, portfolio maturity, and the pricing discipline of experienced secondary managers—who may also be positioned to capitalize on dislocations or stale valuations driven by reporting lags. We believerisk-return dynamic positions secondaries as a reliable means of compounding capital with a more predictable risk profile (Figure 6).

Figure 5 Secondaries may be less exposed to some inherent risks in primary investing

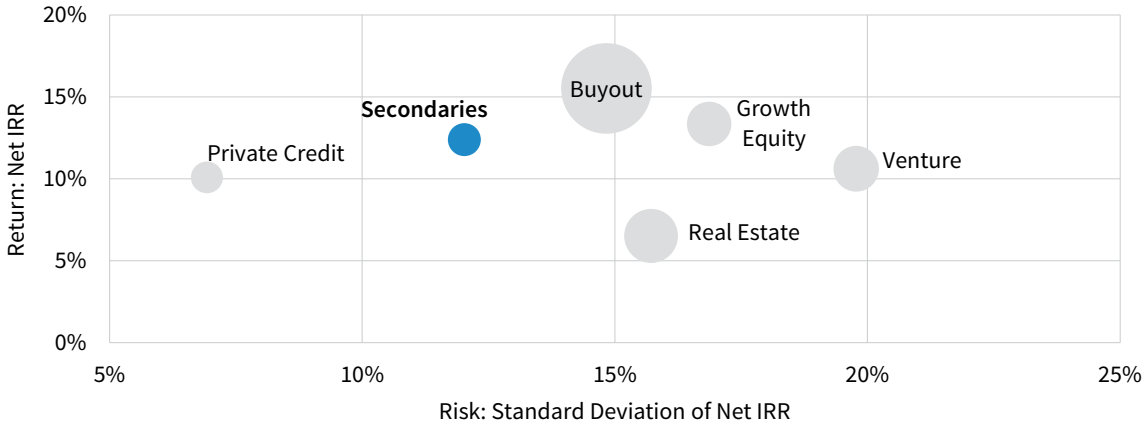
2015–25 • Secondary purchase price as a percent of NAV



Source: Jefferies 2025 Global Secondary Market Review.

Figure 6 Secondaries can be a reliable means of compounding capital with a more predictable risk profile

As of December 31, 2025 • Risk vs return by asset class



Source: Cambridge Associates LLC.

Notes: Pooled returns are net of fees, expenses, and carried interest. Data reflect asset class benchmark performance for 2000–23 vintages.

Notably, recent transaction activity has been driven more by seller liquidity needs and portfolio management objectives than by the broad distressed selling seen during the Global Financial Crisis. Taken together, these characteristics may offer investors a reliable means of compounding capital and support the case for maintaining a consistent allocation to experienced secondary managers across market environments.

Efficient capital redeployment

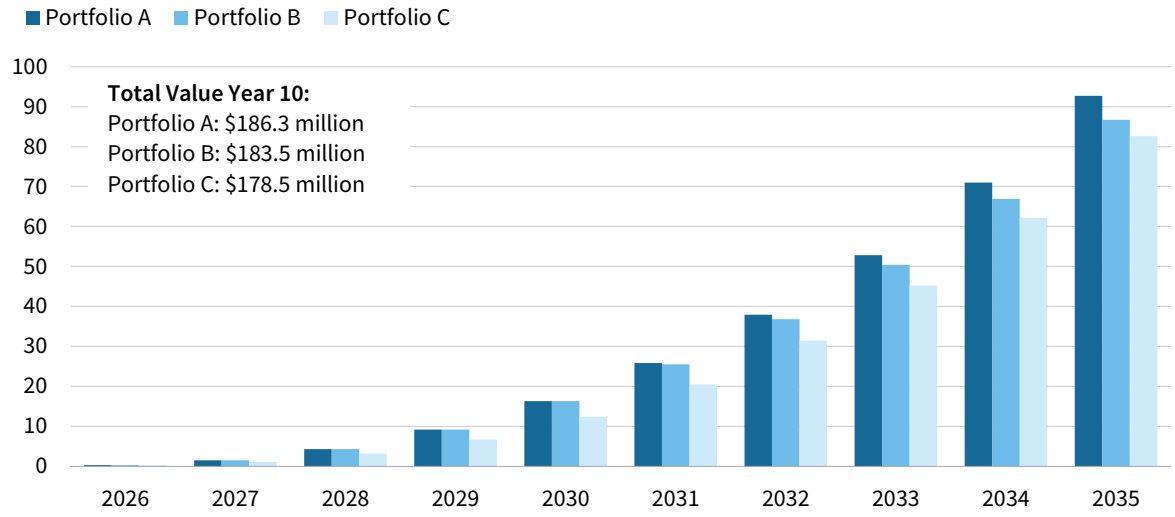
Secondaries can also facilitate efficient capital redeployment for LPs as portfolios evolve. Because secondary funds acquire seasoned assets that are often closer to realization, distributions may be returned more quickly than with primary commitments—giving LPs the flexibility to recycle that capital into new PI opportunities, meet capital calls, and maintain target allocations without requiring additional capital infusions.

Figure 7 presents a secondaries allocation scenario analysis comparing three hypothetical PI portfolios over a ten-year period, each assuming annual commitments of $10 million with full reinvestment of all distributions. Portfolio A maintains a consistent allocation to secondaries throughout the period; Portfolio B includes an early allocation to secondaries but phases it out over time in favor of primary funds; and Portfolio C allocates exclusively to primary funds.

The results are instructive. Portfolio A's projected distributions exceed those of Portfolio B by nearly 7% and those of Portfolio C by more than 12%.—incremental capital that can be redeployed into whatever strategies are most attractive at the time, enhancing both liquidity and portfolio optionality. This distribution advantage is most evident in the early years, when accelerated distributions help mitigate the J-curve and provide capital for reinvestment. While the compounding effect of reinvested distributions also results in a higher projected terminal portfolio value for Portfolio A by year ten, the more immediate and durable benefit is the enhanced liquidity and capital availability that a consistent secondaries allocation provides throughout the life of the program. These results support treating secondaries as a permanent component of a PI portfolio rather than a tactical or transitional allocation.

Figure 7 Maintaining a secondaries allocation can generate higher projected distributions and portfolio value

Secondaries allocation scenarios analysis



Assumptions

- 100% reinvestment of distributions for duration of analysis
- **Portfolio A:** maintains significant exposure to secondaries for entire time series
  Years 1–2: 30% buyout, 20% growth, 20% venture, 30% secondaries
  Years 3–4: 35% buyout, 20% growth, 20% venture, 25% secondaries
  Years 5–10: 40% buyout, 20% growth, 20% venture, 20% secondaries
- **Portfolio B:** significant exposure to secondaries early in time series, subsequently declining to 0%
  Years 1-2: 30% buyout, 20% growth, 20% venture, 30% secondaries
  Years 3-4: 35% buyout, 20% growth, 20% venture, 25% secondaries
  Years 5-10: 50% buyout, 25% growth, 25% venture, 0% secondaries
- **Portfolio C:** 100% allocation to primaries for entire time series
  Years 1-10: 50% buyout, 25% growth, 25% venture

Source: Cambridge Associates LLC.

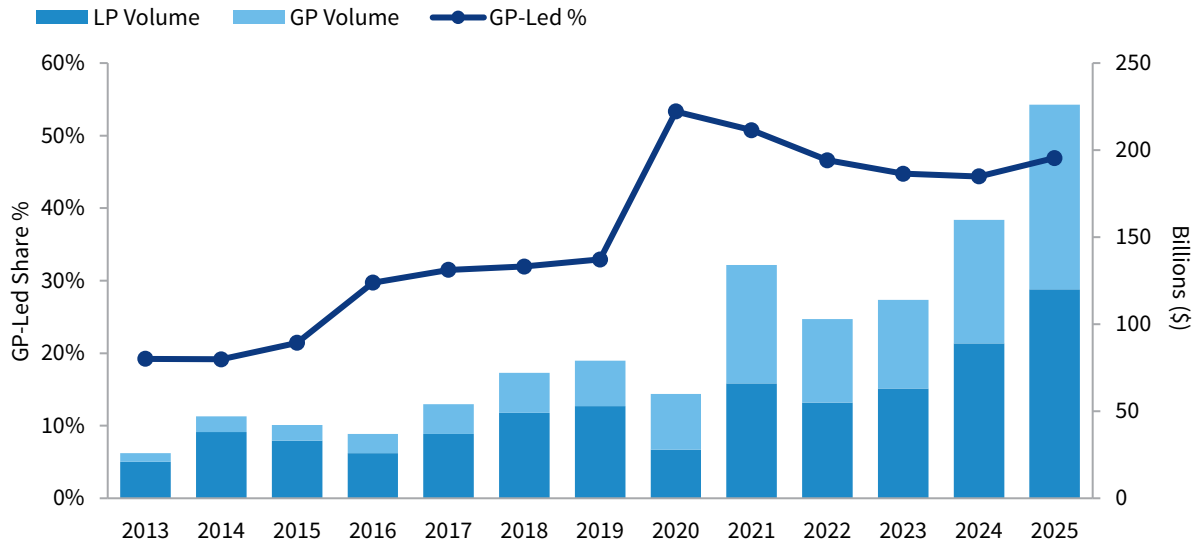
Notes: **Hypothetical performance is not a reliable indicator of future results. All financial investments involve risk. Depending on the type of investment, losses can be unlimited. Hypothetical performance results have many inherent limitations.** No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular investment program. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical results do not involve financial risk, and no hypothetical record can completely account for the impact of financial risk in actual investing. For example, the ability to withstand losses or to adhere to a particular investment program in spite of losses are material points which can also adversely affect actual performance results. There are numerous other factors related to the markets in general or to the implementation of any specific investment program which cannot be fully accounted for in the preparation of hypothetical performance results and all of which can adversely affect actual results. The analysis compares three simulated portfolios over a 10-year period, each modeled using a consistent set of asset-class-specific assumptions for contributions, distributions, and NAV growth. Each portfolio assumes annual commitments of $10 million and full reinvestment of all distributions throughout the period. The assumptions for each asset class are held constant across all three portfolios; the variable being tested is the allocation mix. Differences in projected distributions, NAV, and terminal value therefore reflect the differing allocation mixes and the resulting timing and recycling of cash flows under a common modeling framework, rather than differences in underlying assumptions. Results are hypothetical, do not reflect actual investment outcomes, and are intended for illustrative purposes only. Actual results may differ materially. Asset-class assumptions for contributions, distributions, and NAV growth are informed by Cambridge Associates' proprietary historical performance data across private investment strategies and incorporate forward-looking adjustments reflecting market conditions, including the evolution of return expectations across strategies as capital formation, market participation, and the composition of deal activity have matured.

GP-led secondaries: Offense and defense for the modern PI portfolio

The growth of GP-led secondaries—which have represented an increasing share of market volume this decade and between 13% and 15% of annual sponsor-backed exit value from 2022 to 2025—has broadened the strategic toolkit available to LPs (Figure 8). These structures, especially continuation vehicles, allow investors to tailor exposures in response to changing market conditions and specific investment objectives.

Figure 8 Growth of GP-led secondaries has broadened the strategic toolkit available to LPs

As of December 31, 2025



Source: Evercore 2025 Secondary Market Report.

By electing to roll into a continuation vehicle, LPs can maintain or increase exposure to high-quality, mature assets and potentially capture further upside with more asset-level underwriting visibility. Early data suggest that single-asset continuation vehicles can perform broadly in line with buyout funds, with tighter dispersion of returns. At the same time, the available performance dataset remains nascent and realized distributions for more recent vintages are limited. As the market continues to mature and more transactions season through their full lifecycle, a clearer and more comprehensive performance picture is expected to emerge.

Alternatively, choosing to "sell" provides immediate liquidity and the opportunity to redeploy capital. This dual capability—playing offense by pursuing upside, or defense by managing risk and rebalancing—underscores the strategic flexibility that GP-led secondaries bring to modern portfolio management.

These decisions are rarely straightforward and as such, LPs must carefully evaluate the terms of the continuation vehicle—including carried interest structures, management fees, and governance rights—to ensure alignment of interests and assess whether the transaction represents fair value. Compounding this complexity, LPs are also often required to make these decisions within a limited timeframe, typically 20–30 business days, with significant implications for their portfolio. A disciplined framework for evaluating GP-led opportunities is therefore essential for LPs seeking to navigate these transactions effectively and maximize long-term portfolio value.

Secondaries as a liquidity generator

In addition to supporting long-term portfolio management, secondaries can also serve as a powerful tool for generating liquidity and making tactical portfolio adjustments. In modern PI portfolios, both the sale of LP interests and LP election decisions in GP-led transactions have become increasingly important mechanisms for meeting portfolio objectives.

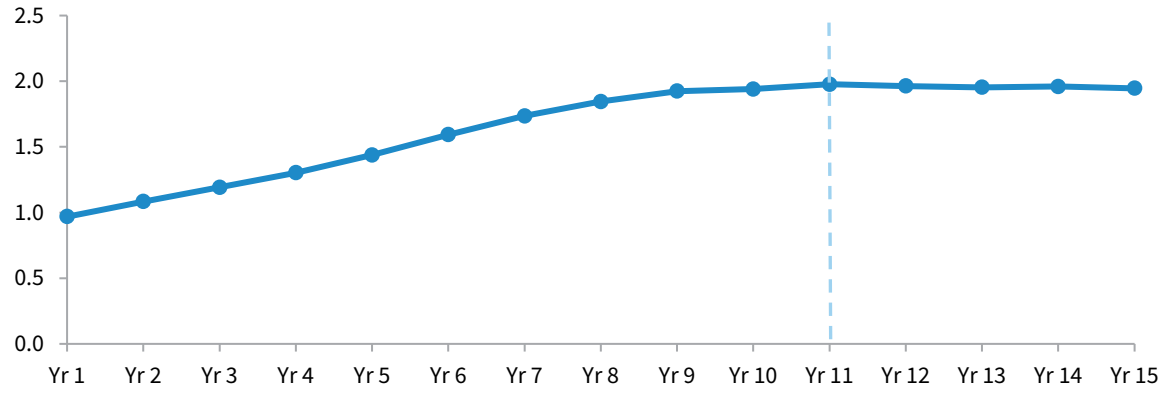
Secondary liquidity: A strategic portfolio lever

Secondary liquidity events are no longer limited to forced sellers. LPs increasingly use them to generate liquidity from historically illiquid assets, rebalance PI allocations, rotate out of legacy or deprioritized managers and strategies, respond to regulatory or policy changes, and simplify administration burdens by selling tail-end positions.

Secondary sales can also help potentially optimize outcomes by selling at favorable points in a fund's performance cycle. Cambridge Associates data show that the median US buyout fund reaches its maximum TVPI in year 11 before plateauing or declining, which may make later-life sales worth considering in some circumstances (Figure 9). This underscores the normalization of secondary sales as a strategic portfolio management tool rather than a sign of distress.

Figure 9 Later-life US buyout sales are worth considering in some circumstances

As of December 31, 2025 • Performance lifecycle of a US buyout fund (TVPI)



Source: Cambridge Associates LLC.

Note: Data represent TVPI across US buyout funds raised in vintage years 2004–25 at each year in their respective lifecycle.

LP interest sales: No longer niche, still nuanced

While LP interest sales have become more common, they remain complex transactions that require careful consideration of cost, timing, and relationship dynamics. A sale may not always be the optimal solution for every portfolio; the decision should consider the LP's objectives, constraints, prevailing market dynamics, and overall portfolio positioning at the time of the contemplated transaction.

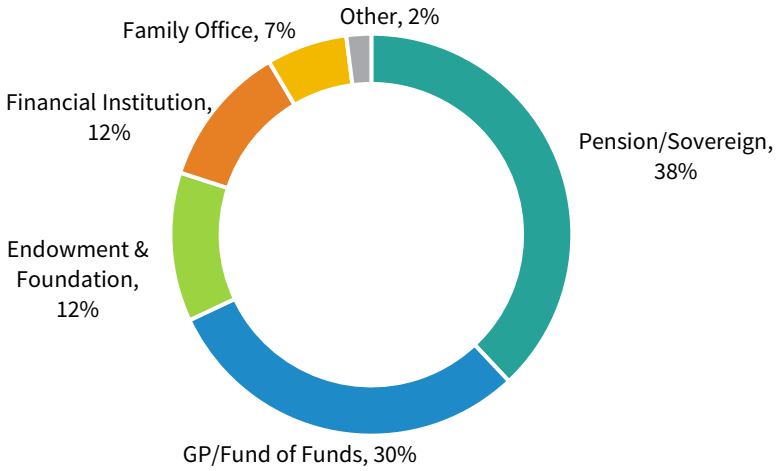
The choice of intermediary can materially affect pricing, transaction costs, and execution quality. Success in this specialized market often hinges on nuanced market knowledge, experience, and deep industry relationships. LPs should also recognize that a sale process can require meaningful internal time and resources, making advisor selection a critical factor to success.

Broader set of LP interest sellers

Pension funds have historically dominated the LP-interest seller universe, but the seller base has broadened to include a more diverse set of institutional LPs. In recent years, roughly half of selling LPs have been first-time sellers, while repeat programmatic sellers have also increased. Together, these patterns suggest that secondary selling is becoming a more accepted and proactive portfolio management tool (Figure 10).

Figure 10 Secondary selling is becoming a more proactive portfolio management tool

Proliferation of sellers by transaction volume in dollars



Sources: Jefferies 2025 Global Secondary Market Review and Evercore 2025 Secondary Market Report.

CV elections: Balancing liquidity, value & alignment

As discussed, GP-led continuation vehicles require LPs to make consequential roll-or-sell decisions within a limited timeframe. Selling can crystallize gains and support rebalancing, while rolling can preserve exposure to a high-conviction GP and the potential for future value creation.

LPs should also consider the possibility of misalignment. GPs may pursue continuation vehicles to crystallize carried interest, extend management fees, or retain control over prized assets—potentially creating misalignment with LP interests. To mitigate these risks, ILPA guidance on GP-led secondary transactions provides a valuable framework, recommending that LPs prioritize transparent disclosures, seek independent validation (such as fairness opinions), and ensure robust LPAC engagement. By applying a disciplined and conflict-aware approach, LPs can leverage continuation vehicles both for liquidity management and for longer-term portfolio optimization.

Given the complexity and strategic importance of secondaries—whether used for liquidity generation or portfolio optimization—LPs should approach the market with informed judgment. The following section outlines guiding principles to help investors navigate the evolving secondary landscape and maximize long-term portfolio value.

Navigating the secondary market: Guiding principles

To navigate this evolving market successfully, LPs should keep several principles in mind.

STRATEGIC FLEXIBILITY THROUGH CONSISTENT ALLOCATIONS. Exposure to secondaries—including both LP- and GP-led transactions—can give LPs flexibility to respond to dislocations, capitalize on opportunities, and manage risk. The key is consistency. Although investors may be tempted to raise or reduce exposure in response to market conditions, attempting to time the market can result in missed opportunities and reduce the compounding benefits of sustained exposure. As our portfolio analysis suggests, a disciplined, ongoing allocation can support more efficient capital deployment, higher distributions, and stronger long-term portfolio outcomes across market cycles.

"DON'T TRY THIS AT HOME". A sustainable buy-side approach to secondaries generally requires dedicated pools of capital, specialized investment professionals, and the ability to consistently deploy capital across a range of transactions. Most investors are not structured to pursue LP- or GP-led transactions independently at scale. Attempting to do so without the necessary infrastructure can lead to weaker pricing, poorer execution, suboptimal portfolio outcomes, and potential strain on GP relationships. For most institutional investors, committing to experienced secondary fund managers is not only the most practical path, but also the most effective means of capturing the full range of benefits that secondaries have to offer.

CHOOSE YOUR PARTNERS WISELY. The secondary market includes a broad and increasingly diverse set of buyers pursuing different strategies. LPs should understand the risks embedded in the approach of a specific manager and assess whether historical returns have appropriately compensated for those risks. Beyond performance, LPs should carefully assess a secondary buyer's ability to originate, underwrite, and execute target transactions, as well as the stability and depth of their organization and investment team. Considering how various secondary strategies align with broader portfolio objectives and risk tolerance—and how different strategies may complement one another—can further enhance diversification and long-term resilience.

Conclusion: Secondaries can help navigate complexity while capturing opportunity

The evolution of the secondary market has expanded what institutional investors can do within private investment portfolios. Secondaries can support portfolio resilience, improve liquidity, accelerate capital redeployment, and help investors adapt to changing market conditions.

The broader implication is that LPs should look beyond individual transactions and treat secondaries as a permanent element of portfolio construction and management. Doing so requires consistent allocations, informed decision making, strong partner selection, and a willingness to refine the approach as the market evolves.

In a private markets environment defined by complexity and change, secondaries offer institutional investors a distinctive combination of flexibility, stability, and long-term value. With disciplined allocations, careful manager selection, and a long-term perspective, LPs can use secondaries as an enduring component of their PI portfolios. ■

Geoffrey Biron also contributed to this publication.

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