Understanding and Investing in Private Equity Secondaries

Amid volatility in stocks and bonds, institutional and individual investors might seek diversification in the growing private equity secondaries market.

Many institutional and individual investors are weighing how inflation and hawkish central bank policy will affect corporate earnings, economic growth and the returns from their stock and bond holdings. In this environment, investors need to consider how alternative investments, such as private equity assets, can help diversify their portfolios and offer potential income generation with low correlation to public markets. Although private equity investments often demand significant capital, there are still ways for individual investors to get exposure to the market through registered offerings.

Secondary funds, commonly referred to as secondaries or continuation transactions, purchase existing interests or assets from primary private equity fund investors. For example, a primary private equity fund may purchase a stake in a private company, and then sell that interest to a secondary buyer. Sellers gain liquidity, while buyers may find the portfolio claim or asset(s) attractive for a number of reasons.

Private equity secondaries are transactions in which an investor is buying an existing interest or asset from primary private equity fund investors, known as limited partners (LPs). These transactions can be structured in a number of different ways based on the needs of the stakeholders involved. Secondaries have become an increasingly appealing segment of the private equity market, as they allow flexibility for LPs who may want to liquidate or rebalance a portfolio. Buyers of secondaries, meanwhile, may benefit from shorter duration and faster return of capital, potentially discounted access and enhanced transparency into the underlying portfolio or assets.

For more information on how Private Equity Secondaries may benefit your portfolio, please reach out to our team using the contact information below.