PANTHEON

SEPTEMBER 2025

PE SECONDARIES: IS IT ALL ABOUT THE DISCOUNT

September 2025

PE SECONDARIES: IS IT ALL ABOUT THE DISCOUNT

By Michael Hutten

The discount on a private equity secondaries transaction can tell us a lot about a deal, but it is not the only metric to rely on. Discounts can shift dramatically based on market conditions, and investors need to partner with secondaries managers with experience and an edge to source the best transactions and see the value beyond a simple number.

> *"Pantheon has been allocating to the PE secondaries market for more than 37 years, and so we have a very specific approach to extracting value no matter what the market environment.*

One of the most common questions I hear from investors is "what level of discounts are you seeing in the secondary market?". Many believe that this should be a straightforward query – after all, surely the deeper the discount, the better the deal? But the reality is far more nuanced than this.

It is worth noting that for the most part, the secondary private equity market is incredibly efficient. The market has evolved over the last three decades with most deals offered through an intermediated process, where multiple bidders bid on the inventory available and the winning bidder usually bidding the highest price. But the size of the discount can change a lot in different market environments and depending on the availability of liquidity.

In a steady market environment, a very large discount may indicate that the quality of an asset or fund is very low, or that there is a potential impairment to the deal. Conversely low to no discount on a deal may suggest high-quality assets. The size of the discount though can also give us information about the time of entry of a fund: tail-end funds that are offered later in their life may offer a higher discount because the potential return available after the investment date may be lower. The size of the secondary discount in venture capital might also be higher since the variability of outcome is typically higher and the ability to analyze business fundamentals and past performance might be lower. Since there is more risk post-transaction, buyers might receive higher discounts to compensate.

The size of the deal can also impact the discount available. Given the larger end of the market is typically more competitive and intermediated, a bidding process for assets where the spoils go to the highest bid can result in tighter discounts.

In times of prolonged public market stress though, the size of the discounts on assets often increases as more inventory becomes available and as the need for liquidity becomes more urgent. At these times, we can also see the denominator effect come into play. As public positions lose more value than those in private equity, the proportion of private equity within a client's portfolio can increase. Given many institutional investors have investment policies that restrict overallocation to private equity, this can force some institutions to sell positions to get back within their targeted proportions.

Finally in a market environment that is plagued by low distributions and a lack of M&A, more private equity funds become available on the secondary market, and buyers need more liquidity since they are not receiving distributions back from sponsors. This landscape allows for more deal flow and greater optionality, and so discounts may grow as supply outstrips demand. This represents the current market environment for secondaries heading into the fourth quarter of 2025.

The Pantheon edge

Pantheon has been allocating to the PE secondaries market for more than 37 years, and so we have a very specific approach to extracting value no matter what the market environment.

- **Our informational advantage:** Our long experience in the private equity markets means we have a deep understanding of the assets offered and the funds that are selling them. As an allocator to primary funds, committing to funds at inception, we also have access to information on assets when they were originally offered to the market, and our teams will often have been monitoring the underlying portfolios over time. We also sit on many Advisory Boards for funds, allowing us to glean extra insights into portfolios. We can use this information to set a secondary price that we believe will work for us in the current market, and to source opportunities where we think funds or companies are at an inflection point with potential write ups or exits on the horizon. This informational advantage means that instead of submitting blind bids, we have a transparent view across the market to price an opportunity effectively.
- **Our focus on the mid-market and growth:** Although demand in the large- or mega-cap market is great, with more parties looking to buy into transactions leading to tighter spreads and lower discounts, the mid-market and growth sectors are typical less competitive. Given there are fewer buyers for these deals, there is the potential for more advantageous pricing. We also believe the opportunity for value creation post-close is higher, since middle market and growth managers have more levers for operational approvement and exit optionality.
- **Our access to restricted sales:** A notable percentage of private equity funds include language in their documentation that allows them to restrict who can buy their funds in the secondary market, allowing a shortlist of managers that they know and approve. Secondary managers that have a primary fund business are more likely to be chosen for these lists. Given restricted sales reduce the number of possible buyers, it can be easier to successfully bid for a transaction, and to potentially get a deal done at more attractive pricing.

Effective versus nominal discounts:

There are two different discount rates you may see quoted on deals, and the differences between them are worth noting. The nominal discount is the actual discount you pay based on a prior account statement. This is typically the figure that is quoted when discounts are discussed. The effective discount is the nominal discount plus an extra discount that accounts for the embedded value in a transaction.

For example, if you were to pay par for a deal based on an older account statement, when you know the value of the fund has risen 10% since that statement was issued, then the nominal discount is 0% but the effective discount is 10%.

Any informational advantage can be utilised to increase the effective discount. If we know that a company is planning a large sale, or to list, then we may calculate a higher effective discount to take into account the upcoming distribution or appreciation.

While the size of a discount can provide a lot of information about the asset on offer, and about the state of the market in general, a larger or smaller discount does not always automatically mean that an opportunity is good or bad. Ultimately, no matter what the number on the discount reads, the quality of the underlying assets and the strength of the general partner on the transaction is typically the most important facet of a deal's attractiveness. For private wealth investors looking to find the best deals that are really worth committing to, a skilled and knowledgeable manager will be able to provide you with the insight that goes beyond that simple number.

www.pantheon.com