Secondaries

Democratization and enhancing opportunities in private equity secondaries

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Participation shifts

Flexible allocation structures

Secondary market growth

UBS

Opening the door to broader access

Private equity (PE) has evolved from a niche asset class into a core component of both institutional and private wealth portfolios.

Over the past two decades, global PE assets under management (AuM) have surged from under USD 1 trillion in 2000 to more than USD 10 trillion today, driven by both capital inflows and significant changes in the corporate landscape. As more companies choose to stay private, the number of publicly listed US firms has dropped by half since the late 1990s, while privately held firms have grown. Increased investor scrutiny, regulatory burdens, and higher costs have discouraged many companies from going public. Even highly valued firms like SpaceX, Stripe, OpenAI, and Anthropic are remaining private, opting to focus on long-term value creation with easier access to private capital.

Why secondaries are reshaping capital allocation

Private equity no longer qualifies as an 'alternative' investment

Over the past two decades, private equity has reshaped the global investment landscape, transforming from a niche asset class into a central pillar of institutional and now, private wealth portfolios. Global PE assets under management (AuM) have grown from less than USD 1 trillion in 2000 to over USD 10 trillion today.[1] This growth is not just a function of capital inflows, but also of structural changes in the broader corporate landscape.

Today, more companies are choosing to stay private. The number of listed companies in the US has halved since the late 1990s[2], while the number of privately held companies has grown substantially. Investor scrutiny, increasing complexity, regulatory requirements, and rising related costs have deterred many companies from going public or remaining listed. Even companies valued over USD 100 billion, such as SpaceX, Stripe, OpenAI, Anthropic and others, are choosing to remain private.

With private capital now more accessible than ever, some companies prefer to stay private or leave public markets to focus on long-term value creation, sometimes partnering with a private equity firm. Just over the last two decades, the number of US private equity-backed businesses has risen from 1,900 to 11,200.[2]

This decline in publicly listed names has increased market concentration. In 2023, the Magnificent Seven stocks (Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, and Tesla) contributed over half of the S&P 500's total gain and more than a third in 2024.[3] Private companies now offer a much broader universe for investors seeking diversification: last year, only 14% of US companies with over USD 100 million in revenue were public, compared to 86% that were privately held. In particular, when backed by PE sponsors, the average performance of these companies was stronger and less prone to creating volatility within portfolios.

What and who is driving this growth?

Rising allocations to private markets
Investors have steadily increased their PE allocations, seeking diversification, lower volatility and potentially higher returns. According to Bain & Co[4], private market assets are expected to grow at more than twice the rate of public assets, reaching up to USD 65 trillion by 2032. In 2022, only 16% of retail AuM was invested in the private market, with this figure projected to rise to 22% by 2032.

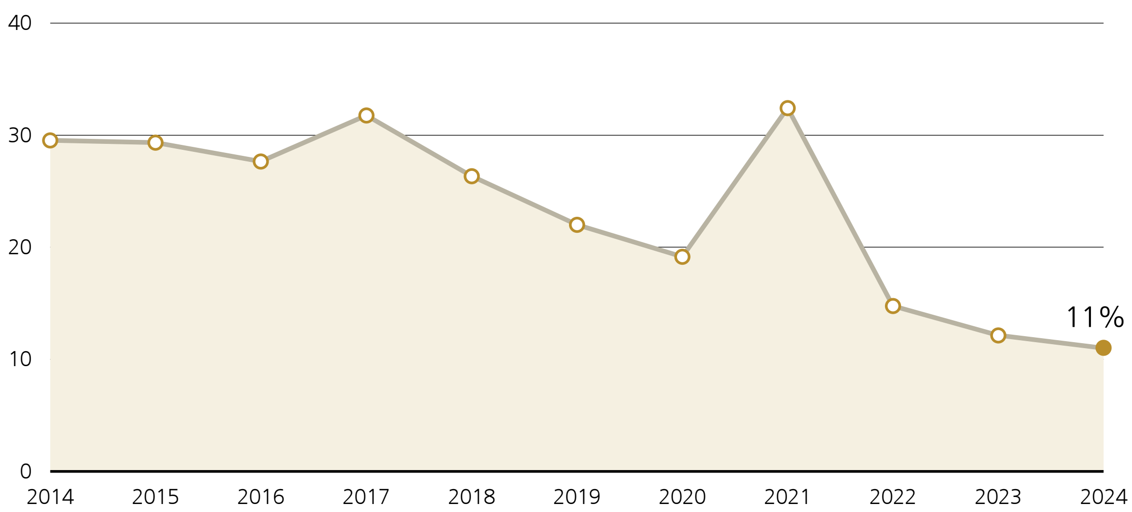
Strong risk adjusted returns
Over the past 25 years, the global PE index has delivered annualized net returns that were over 500 basis points higher than those of the MSCI World Index.[5] Top PE managers, through rigorous diligence and active ownership, have historically managed market crises better while delivering higher returns than public equities.

Further growth fueled by wealth investors
The traditional 60% stocks / 40% bonds used for decades as a diversification standard is becoming outdated. In recent market environments, stocks and bonds have become positively correlated, making this formula less effective. Private market assets offer a new source of diversification for wealth investors. Access to these opportunities is also improving and the democratization of PE is accelerating, particularly for high-net-worth-individuals (HNWIs), through more tailored products.

What are potential drawbacks?

What's the 'catch'?
Despite its appeal, PE remains fundamentally illiquid. Investors commit capital for 10-12 years, with no options for an earlier exit (see Figure 1). This lock-up has historically been a barrier, especially for those seeking flexibility or managing shorter-term liabilities, life events or simply a change in objectives.

Figure 1 – Global buyout distributions (as % of net asset value)



Source: Preqin; MSCI; Bain, August 2024.

Secondaries: the missing piece in the PE liquidity puzzle
As the PE market has grown and matured, so has the need for liquidity solutions. Secondaries, the buying and selling of existing PE fund interests or direct investments, have emerged as a key mechanism for unlocking value and flexibility. More than just a liquidity solution, secondaries have become an important management tool, as they allow investors to exit positions early, meet cash needs, and rebalance or optimize portfolios.

LP-led secondaries
Transaction involves limited partners (LPs) selling their stakes in one or more PE funds to other investors. Initially used mainly to address liquidity needs, these transactions have evolved into a strategic tool for LPs wishing to rebalance the focus of their portfolio across underlying strategies, sectors, geographies and more. This provides liquidity to the seller and access to an already existing, sometimes mature, portfolio for the buyer.

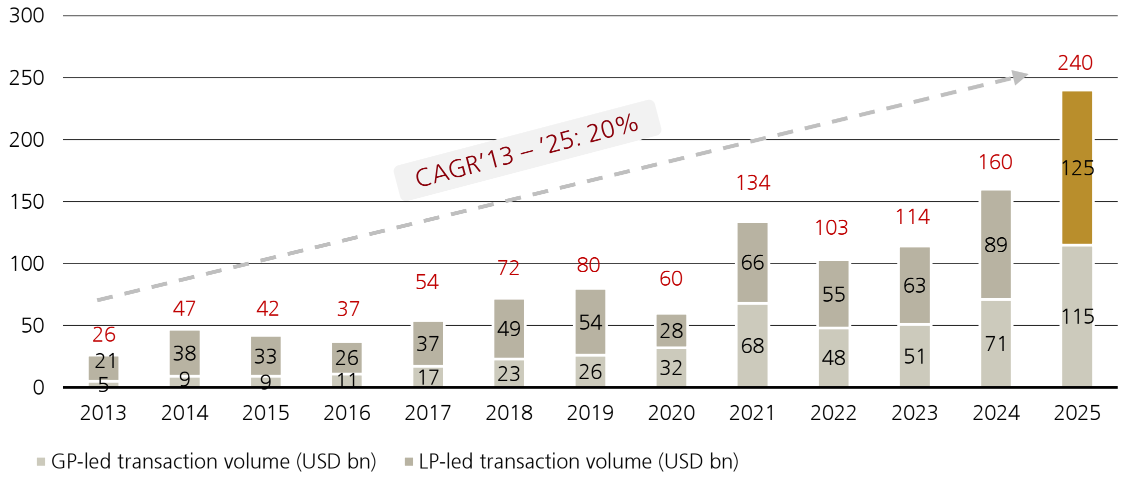
GP-led secondaries
Involve general partners (GPs) initiating transactions to recapitalize or extend ownership of assets, often via continuation vehicles. These can involve either single-asset deals or portfolios, offering liquidity to existing LPs while allowing GPs to maximize value creation. Such deals are generally characterized as being the GP's star assets with proven operational performance, met or exceeded underwritten plan and clear path to liquidity. To ensure alignment with new secondary buyers, the GP typically contributes a portion of the capital needed to fund the transaction.

Why secondaries are here to stay

Annual global secondaries transaction volume has grown from around USD 10 billion in 2005 to over USD 240 billion in 2025 (see Figure 2).[6] The longer duration of PE funds, slower asset exits and a lack of distributions have significantly bolstered the secondary market. Recent macroeconomic factors, such as high interest rates, tariffs and a slowdown in M&A, have further fueled this dynamic.

For LPs and GPs experiencing liquidity needs, the secondary market has become a key tool for portfolio management. Additionally, the growing number of secondary buyers and dedicated funds has created more opportunities for sellers, who increasingly view the secondary market as a viable exit option.

Figure 2 – Secondary market transaction volumes over time[5]



Source: EVR 2024 Full Year Report, Jefferies - Global Secondary Market Review, January 2026 and UBS AM research, February 2026.
Past / expected performance is not a guarantee for future results.

Despite volumes of secondary transactions almost doubling every five years, there is a significant backlog of inventory awaiting full realization: about USD 3 trillion sits in global buyout portfolios, up from around USD 1 trillion a decade ago[7], resulting in an all-time low on PE distributions.

Dedicated secondary funds have increased in size and number, but the market remains undercapitalized in terms of available dry powder, with an average of USD 2 in transactions on the market for every USD 1 of available capital last year and early into this year. This dynamic promotes a favorable buyers' market and quality transactions often emerge due to the still limited availability of secondary capital. As private equity AuM continues to grow and fund lives extend, the demand for secondary capital is expected to rise further.

Not all secondary opportunities are created equal
Low distributions, extended holding periods, and pressure from LPs can lead some managers to pursue secondary transactions simply to provide liquidity for assets they have not yet been able to exit. It is important to focus on secondary deals that are pursued for the right reasons: continued value creation.

When evaluating a portfolio of funds or a single- or multi-asset secondary transaction, our focus is on identifying high-quality assets that demonstrate the potential for additional value generation. Equally important is ensuring strong alignment with the manager of the asset, as well as having a clear path and expected timing to an exit. For this exercise one advantage of secondary transactions is the availability of historical performance data, which supports a more informed evaluation of how the business has developed under the manager's ownership, what strategies have or have not worked, and help assess the potential for further value creation.

This is why having a dedicated team to conduct thorough due diligence, supported by robust market and industry datasets, is critical. It allows us to evaluate whether a secondary deal is being pursued for the right strategic reasons and whether it aligns with our returns objectives.

Secondaries: an upgraded approach to building portfolios and PE exposure

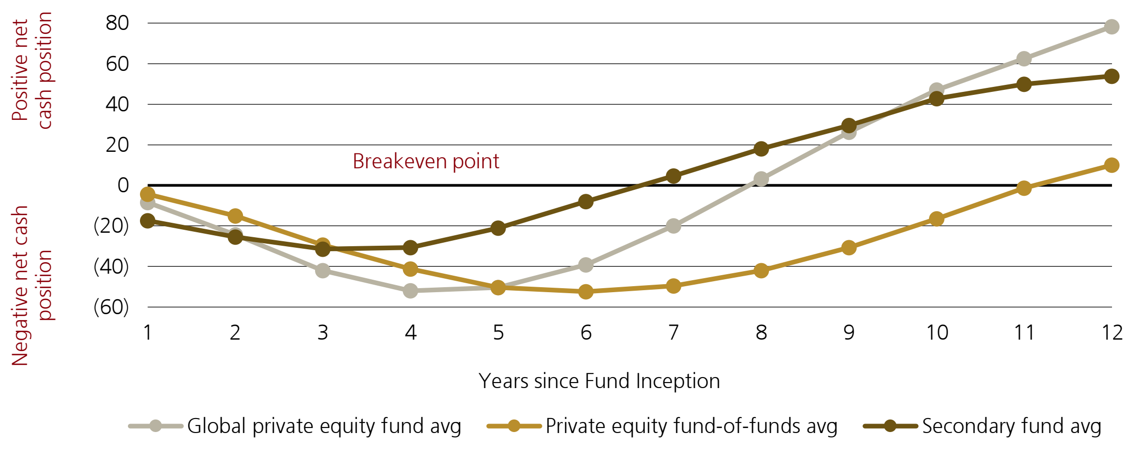
Once considered a niche tool for liquidity, secondaries have evolved into a strategic necessity, empowering a diverse range of investors, from established institutional platforms to newcomers (HNWIs, family offices). This evolution is playing a crucial role in democratizing the asset class, with benefits once reserved only for the largest investors:

Rapid deployment and instant diversification
Secondaries investments provide exposure from day one to a diversified portfolio of companies and sectors. Unlike primary private equity funds, where investors commit capital without knowing the final portfolio ('blind pool risk'), secondaries enable investors to access funds with mostly visible and existing assets. This immediate diversification reduces risk and enhances the overall stability of the investment.

Early liquidity
LP-led deals and diversified GP-led transactions in the secondaries market offer the potential for earlier cash flows compared to primary private equity investments, which often require a holding period of more than a decade. With secondaries, investors may receive distributions sooner, increasing the attractiveness for those favoring liquidity.

J-curve mitigation
Traditional private equity investments typically exhibit a 'J-curve' effect, where returns are negative in the early years due to fees and capital deployment, only potentially turning positive as investments mature and begin to generate distributions. Because secondaries invest in funds and assets that are already mature and closer to generating returns, this effect is smoothed, and investors may experience more stable performance.[7]

Figure 3 – Fund performance over time (%)



Source: Cambridge Associates.[8] August 2017. **Past / expected performance is not a guarantee for future results.**

Access to proven assets at a discounted price
By purchasing stakes in mature funds and companies, secondaries investors can benefit from assets with a demonstrated track record. Frequently, the cost of liquidity for sellers translates into discounted pricing for buyers, particularly during market dislocations, allowing investors to access quality assets at reduced entry prices and improving the overall risk return profile of the investment.

Secondaries have become the new cornerstone for PE portfolio construction

Because of these benefits, appetite for secondary private equity solutions is continuously growing among both traditional and new PE investors, who view them as a complementary tool to build and maintain their PE portfolio exposures and targets.

The strategy has seen some of its fastest growth among newcomers, including growing investment platforms, global family or institutional wealth clients, all using secondaries as a core component of their private market portfolios buildouts. For both new and experienced clients investing in private markets, secondaries can offer a strategic way to enter the PE space, with the potential for fast capital deployment and immediate diversification across vintages, sectors, and regions, while also reducing liquidity lock-up and offering greater overall flexibility.

Secondary vehicles are now also designed to address the needs of those new clients. These funds often feature lower minimum investments and structures such as evergreen formats, which are set up to offer more frequent liquidity windows and allow clients to adjust their allocations as market conditions or objectives evolve.

Asset management and wealth management platforms play a key role in providing access to these secondary solutions. With years of PE investment experience, tailored products and market data, these platforms select some of the most attractive investment opportunities for clients and support them in working towards their goals by providing access to a broad range of options available in the secondary market.

Sources:

1 UBS Private Markets Extended (*link*), May 2025.
2 EQT, Why Is The Stock Market Shrinking? (*link*), February 2025.
3 New York Times, These Seven Tech Stocks Are Driving the Market (*link*), January 2024.
4 Bain & Co. Private market assets to grow at more than twice the rate of public assets, reaching up to USD 65 trillion by 2032, Bain & Company finds (*link*), August 2024.
5 KKR: Can Private Equity Continue to Produce Excess Returns Above What Is Available in the Public Markets? November 2024.
6 EVR 2024 Full Year report, Jefferies and UBS research.
7 Harbourvest - 2025 Midyear Market Outlook (June 2025).
8 When Secondaries Should Come First (August 2017), Cambridge Associates.

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