The Discount Phenomenon in Private Equity Secondary Market Transactions: Causes, Evidence, and Implications

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Executive Summary

Discounts are an inherent and dynamic feature of the private equity (PE) secondary market, representing the difference between the transaction price of a fund interest or underlying asset and its reported Net Asset Value (NAV) or perceived intrinsic value. This report explores the multifaceted nature of this discount phenomenon, examining its causes, presenting empirical evidence of its prevalence and trends, and analyzing its implications for various market participants.
The existence of discounts is driven by a complex interplay of factors. Fundamental among these is the need for liquidity in an otherwise illiquid asset class, where sellers compensate buyers for providing early access to capital. Information asymmetry between buyers and sellers, prevailing macroeconomic conditions and market sentiment, specific characteristics of the fund being transacted (such as age, strategy, and performance), behavioral biases influencing investor decisions, and the structural frictions of an over-the-counter market all contribute to the magnitude of these discounts.

Empirical evidence reveals that discount levels fluctuate significantly over time and across different PE strategies. Transaction volumes in the secondary market have surged, reaching a record $162 billion in 2024 [1], underscoring its growing importance for portfolio management and liquidity generation. Average pricing for LP-led portfolios stood at 89% of NAV in 2024 (an 11% discount), a notable improvement from previous years marked by wider discounts, such as 81% of NAV in 2022 (a 19% discount).[2] This volatility reflects the market's sensitivity to economic cycles, interest rate environments, and overall investor confidence. Discounts also vary considerably by strategy, with buyout funds typically commanding tighter pricing than venture capital, although recent trends show a narrowing in venture capital discounts as well.[2]

The discount phenomenon carries significant implications. For Limited Partners (LPs) acting as sellers, it represents a trade-off between achieving liquidity and realizing full NAV. For secondary buyers, discounts offer the potential for enhanced returns and J-curve mitigation. General Partners (GPs) increasingly utilize the secondary market, particularly through GP-led transactions like continuation vehicles, to manage fund lifecycles and provide liquidity options, a trend that itself influences pricing dynamics.

The PE secondary market continues to evolve towards greater sophistication, volume, and efficiency. While technological advancements and increased participant diversity may contribute to narrowing certain components of the discount, its fundamental drivers suggest that discounts will remain a characteristic feature, offering both challenges and opportunities for stakeholders. The market's growth, projected to exceed $175-$220 billion in 2025 [1], highlights its integral role in the broader private equity landscape.

I. The Evolving Landscape of Private Equity Secondaries

A. Defining the PE Secondary Market: Key Concepts and Participants
The private equity secondary market refers to the ecosystem for buying and selling pre-existing investor commitments to private equity funds or, in some cases, the underlying private equity assets directly.3 This market exists because, unlike publicly traded securities, private equity interests lack an established trading exchange, making transfers inherently more complex and labor-intensive.3
The primary participants in this market include:

- **Limited Partners (LPs):** These are the investors who commit capital to private equity funds. LPs are typically institutional investors such as pension funds, university endowments, sovereign wealth funds, and insurance companies, as well as high-net-worth individuals.[4] In the secondary market, LPs are often the sellers, seeking to divest their fund interests before the natural end of the fund's life.
- **General Partners (GPs):** These are the private equity firms responsible for raising and managing PE funds, making investment decisions, overseeing the growth and operations of portfolio companies, and ultimately distributing returns to LPs.[4] While not always direct parties in traditional LP-to-buyer sales, GPs typically must consent to such transfers. Increasingly, GPs are active initiators of secondary transactions, particularly through GP-led restructurings.
- **Secondary Buyers:** These are investors that specialize in acquiring PE interests in the secondary market. They include dedicated secondary funds, diversified funds-of-funds that allocate a portion of their capital to secondaries, and other institutional investors seeking exposure to mature private equity assets.[3] Academic studies note that funds-of-funds are often buyers in this market.[7]

The fundamental structure of private equity funds contributes significantly to the nature of the secondary market. PE funds are predominantly organized as limited partnerships with a finite lifespan, typically 10 to 12 years, although extensions are common.[4] Capital is committed by LPs at the outset but drawn down by the GP over an investment period of 3 to 5 years as investment opportunities arise.[4] This closed-end structure and long-term commitment horizon render primary PE investments highly illiquid.[5] It is this inherent illiquidity that forms the foundational basis for the secondary market's existence; discounts are, in large part, a direct consequence of this structural characteristic. LPs may require liquidity for various reasons before a fund is fully liquidated [10], and the secondary market provides an avenue for this, albeit often at a price concession necessary to attract buyers for an asset not originally designed for frequent trading.

The increasing diversity of participants in the secondary market, moving beyond a few traditional specialists to include more primary investors and a broader range of institutional players [3], may exert an influence on market pricing and overall efficiency. As competition among buyers intensifies and information becomes more disseminated, there is a potential for a gradual narrowing of discounts for certain types of high-quality and well-understood assets over the long term.

B. Historical Development and Growth Trajectory

The private equity secondary market has undergone a significant transformation, evolving from a relatively obscure, niche segment often viewed as a "last resort" for distressed sellers into a sophisticated and strategically important market for portfolio management.12 Initially, LPs were often reluctant to sell their positions prematurely, partly due to the perception that doing so would mean accepting a substantial discount to NAV and potentially signaling financial distress or a negative view of the underlying assets.12

Several key milestones have marked its development. The Global Financial Crisis (GFC) of 2008-2009 served as a major catalyst for growth.[3] During this period, many financial institutions faced heightened liquidity needs and regulatory pressures, leading to large-scale divestments of their private equity portfolios. Notable examples include ABN AMRO, Lloyds Banking Group, Citigroup, Bank of America, and the California Public Employees' Retirement System (CalPERS), all of which sold substantial private equity interests in the secondary market in the aftermath of the crisis.[3]

Since then, the market has demonstrated consistent and significant growth in transaction volume. From an estimated $5 billion in 2003, volume grew to $20 billion by 2008.[13] This upward trajectory continued, with global secondary transaction volume reaching approximately $88 billion in 2019 [2], a then-record $132 billion in 2021 [10], and, after a slight moderation to $112 billion in 2023 [10], a new peak of $162 billion in 2024.[1] This represents a compound annual growth rate of 19% since 2016.[16] Projections indicate continued robust growth, with industry experts at Jefferies forecasting market volume to surpass $175 billion in 2025, and Lazard estimating a range of $180 billion to $220 billion for the same year.[1]

The growth pattern of the secondary market is not merely linear but exhibits cyclical characteristics, often experiencing accelerated activity during and following periods of broader market stress. This was evident post-GFC [3] and again in the period following 2021, where a challenging exit environment and heightened LP liquidity requirements propelled transaction volumes to new records.[1] Such patterns underscore the secondary market's counter-cyclical utility, providing a crucial liquidity outlet when traditional exit pathways like IPOs and M&A are constrained. Market dislocations create both the necessity for selling, as LPs seek to rebalance or raise cash, and the opportunity for buying, as assets may become available at more attractive (wider) discounts.

Furthermore, the "mainstreaming" and institutionalization of the secondary market [12] suggest a fundamental shift in its perception and use. What was once primarily reactive selling driven by distress is increasingly becoming proactive, strategic portfolio management. In 2024, for instance, 51% of LPs who utilized the secondary market did so for portfolio management reasons, compared to only 33% motivated purely by liquidity needs.[1] This evolution from reactive to proactive engagement implies that sellers may be less constrained by urgency, possess greater negotiating leverage, and transact higher-quality segments of their portfolios. Over the long term, this trend could contribute to a structural narrowing of average discounts for non-distressed, high-quality sales, even as cyclical fluctuations in pricing persist.

C. The Rise of LP-Led and GP-Led Transactions

The secondary market encompasses two primary categories of transactions: LP-led and GP-led.

- **LP-Led Transactions:** These are the traditional form of secondary deals, initiated by LPs seeking to sell their existing interests in one or more private equity funds.[10] Motivations for LP-led sales are diverse, including the need for immediate liquidity, portfolio rebalancing to adjust allocations across asset classes or strategies, divestment from non-core managers, or simply a desire to crystallize returns and exit an investment early.[1] LP-led transaction volume reached a record $87 billion in 2024, according to Jefferies and Commonfund reports.[1]
- **GP-Led Transactions:** These transactions are initiated or actively facilitated by the General Partner of a fund. They have become an increasingly prominent feature of the secondary market. Common structures include continuation vehicles (CVs), where a GP transfers one or more assets from an existing fund into a new vehicle, capitalized by secondary buyers and potentially rolling-over LPs from the original fund. This allows the GP to manage specific assets for a longer period, provide a liquidity option to existing LPs who wish to exit, and potentially raise fresh capital for follow-on investments in those assets. GP-led transaction volume soared to $75 billion in 2024, a 44% year-over-year increase and the largest GP-led market to date.[1] This segment now accounts for a significant portion of overall secondary market activity, with some estimates placing it at over 40% [12], and Jefferies' 2024 data indicating GP-leds comprised 46% of total volume ($75 billion out of $162 billion).[2] Notably, exits via continuation vehicles represented approximately 13% of all sponsor-backed exit volume in 2024.[17]

The growth in GP-led transactions has been fueled by several factors, including a challenging traditional exit environment characterized by muted M&A and IPO activity in certain periods.[16] Additionally, GPs may utilize these structures to continue managing "trophy assets" they believe have further upside potential, rather than being forced into a premature sale.[16] They also offer a way to provide tailored liquidity solutions to LPs with differing needs.

The ascent of GP-led transactions marks a significant evolution in how private equity value is realized and managed. It represents a departure from sole reliance on traditional M&A or IPO exits, offering an alternative pathway that can extend the holding period for high-conviction assets. This may, in turn, alter the nature of discounts observed in these specific transactions. For instance, high-quality single-asset continuation vehicles often price at or near NAV, with reports indicating that approximately 87% of such deals in 2024 were priced at 90% or more of the underlying asset’s NAV.[1] This suggests that discounts in many GP-led scenarios are less about seller distress or broad market illiquidity and more about the negotiated terms of a structured transaction designed to offer continued upside to participating investors.

Consequently, the increasing prominence of GP-led deals introduces a new layer of complexity when assessing overall secondary market discount trends. Aggregated discount figures for the entire market may obscure diverging dynamics between the LP-led segment, where discounts might be wider due to broader portfolio liquidity needs, and the GP-led segment, where highly curated assets in continuation vehicles can command much tighter pricing. This necessitates a more granular analysis of discount data, differentiating by transaction type, to gain a clearer understanding of pricing behavior across the market.

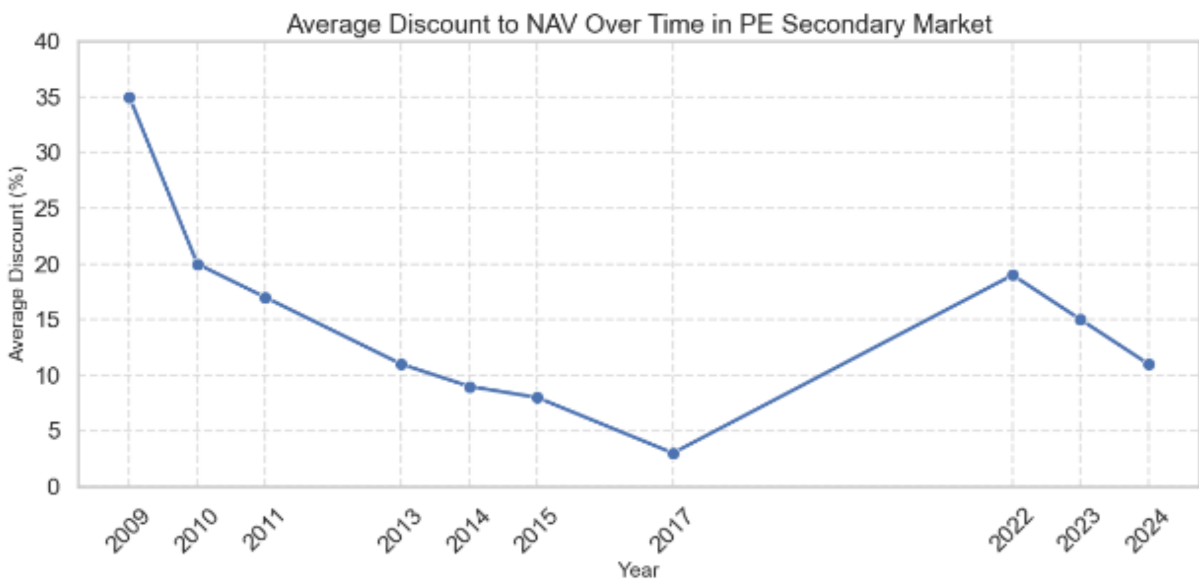
II. Decoding the Discount: Nature and Significance

A. Defining Discounts in PE Secondary Transactions
In the context of private equity secondary market transactions, a "discount" refers to the phenomenon where interests in PE funds or direct holdings in private companies are purchased at a price below their most recently reported Net Asset Value (NAV) or their perceived intrinsic value.10 NAV, typically calculated and reported quarterly by the GP, represents the fund's assets minus its liabilities. When a secondary transaction occurs at, for example, 89% of the reported NAV, it implies an 11% discount.2 For the secondary buyer, acquiring an asset at a discount creates an immediate, albeit unrealized, gain, as the purchase price is lower than the stated carrying value of the investment.10
The "discount" is more than a simple numerical difference; it encapsulates a complex negotiation and pricing process. It reflects the buyer's compensation for assuming various risks, the premium paid for providing liquidity to the seller, the costs associated with information gathering and due diligence in an opaque market, and the relative negotiating leverage of the parties involved.

Crucially, the distinction between NAV and "intrinsic value" is vital.[10] NAV itself is an estimate, not a continuously market-tested price, and its accuracy can be influenced by the valuation methodologies employed by the GP, the frequency of updates, and potential smoothing effects.[7] Therefore, a discount to NAV does not always equate to a discount to the true underlying economic value of the assets. If a NAV is considered stale or optimistically valued, a transaction at a discount to that NAV might actually be closer to the current fair market value. Conversely, a small discount to a conservatively stated NAV could represent a significant bargain. This underscores the importance of thorough due diligence by buyers, extending well beyond the headline NAV figure to assess the fundamental value and prospects of the underlying portfolio companies.

B. The Inherent Role of Discounts in an Illiquid Market
Private equity as an asset class is characterized by its inherent illiquidity. Investments are typically locked up for extended periods, often a decade or longer, within closed-end fund structures that do not offer redemption options.3 The secondary market has emerged as a vital

mechanism to provide liquidity for these otherwise illiquid holdings.12 However, this provision of liquidity typically comes at a cost to the seller, which materializes as a discount to NAV.7 Discounts, therefore, play an inherent role in this market. They serve as compensation for secondary buyers who are willing to commit capital to assets that lack ready marketability and for providing an exit pathway to sellers who value liquidity.[20] The discount effectively represents the price of accessing early liquidity in a market not originally designed for frequent trading. It is not necessarily a sign of market failure but rather a market-clearing mechanism that reflects and prices in the specific characteristics of private equity assets, such as their opacity, complexity, and long-duration nature. Unlike public markets with continuous trading and standardized information, the PE secondary market involves bespoke transactions for unique assets, and the discount acts as an incentive for buyers to engage in this more complex process.



The "efficiency" of the secondary market can, to some extent, be gauged by the prevailing level and volatility of these discounts. A more efficient market, characterized by greater transparency, a larger number of active participants, and lower transaction costs, might be expected to exhibit systematically lower average discounts for comparable assets. This is because the "price of liquidity" itself would decrease as the market becomes better at matching buyers and sellers and disseminating information. The ongoing evolution of the secondary market, with increasing institutional participation and the development of advisory services and data platforms, points towards a gradual enhancement of such efficiency.

III. Unpacking the Causes: Drivers of the Discount Phenomenon

The discount observed in private equity secondary market transactions is not attributable to a single cause but rather a confluence of factors. These drivers can be broadly categorized into liquidity needs, informational challenges, macroeconomic influences, fund-specific attributes, behavioral elements, and market structural characteristics.

A. Liquidity Preference and the Cost of Illiquidity

A primary driver for selling PE fund interests is the seller's need or preference for liquidity.1 LPs may seek to exit their investments prematurely for a variety of reasons, including rebalancing portfolios that have become overweight in private equity (often due to the "denominator effect," where public market declines inflate the relative size of PE allocations 22), managing unexpected cash flow requirements, changes in overarching investment strategy, or responding to regulatory mandates. In 2024, industry surveys indicated that 51% of LPs engaged in secondary sales for portfolio management purposes, while 33% were motivated by pure liquidity needs.1
Buyers in the secondary market, in turn, demand compensation for committing capital to these illiquid assets and for providing this liquidity service to sellers. This compensation takes the form of acquiring the assets at a discount to their reported NAV.[7] Theoretical models of the secondary market explicitly link these discounts to the concept of liquidity risk, where buyers are rewarded for bearing this risk.[20]

The "cost of illiquidity" is not a static figure; it fluctuates based on the seller's urgency, the buyer's opportunity cost of capital, and prevailing liquidity conditions in the broader financial markets. A seller facing acute liquidity pressure is likely to accept a larger discount to ensure a quick sale. Conversely, a buyer with numerous alternative investment opportunities will demand a higher potential return, translating to a wider discount. During periods of systemic market stress, such as the GFC or the initial phases of the COVID-19 pandemic, overall market liquidity tends to diminish, thereby increasing the premium (and thus the discount) for providing liquidity in the less liquid secondary market.[3]

The significant growth of dedicated secondary funds, which collectively hold substantial amounts of "dry powder" (uninvested capital commitments) [17], has created a more stable and substantial demand base for secondary interests. In 2024, Jefferies reported as much as $288 billion in available capital for secondaries.[2] This institutionalized buyer presence could serve to moderate the extremity of discounts during future liquidity crises compared to earlier periods when the buyer landscape was thinner and less capitalized. While a surge in selling pressure can still lead to wider discounts, the existence of a well-capitalized and dedicated buyer universe may prevent "fire sale" discounts from becoming as deep or prolonged as they might have been in a less mature market, although a supply/demand imbalance can still persist if selling pressure is exceptionally high.[19]

B. Information Asymmetry: The Knowledge Gap

Information asymmetry, where one party to a transaction possesses more or better information than the other, is a significant factor contributing to discounts in the PE secondary market.7 Existing LPs (sellers) are generally presumed to have more intimate knowledge of a fund's performance, the quality of its underlying portfolio companies, and the capabilities of the GP than potential external buyers.7

This informational disadvantage leads buyers to incorporate a risk premium into their pricing, demanding a discount to compensate for the possibility of adverse selection – the risk that sellers are more likely to offload their less promising or problematic assets while retaining their best performers. Academic research supports this, finding that observed discounts are correlated with factors typically associated with higher information asymmetry.[7] For instance, discounts tend to be larger for smaller, lesser-known funds, or funds with more opaque reporting, where obtaining reliable information is more challenging and costly for prospective buyers.[7] Sefiloglu's (2023) research further underscores how information asymmetry influences investor behavior in private equity, leading to phenomena such as herding and a reliance on investment consultants to bridge knowledge gaps.[26]

The degree of information asymmetry and its consequent impact on discount levels are not uniform across all transactions. It is likely to be more pronounced for investments in complex or niche strategies, funds managed by emerging GPs, or those with a history of underperformance or opaque communication. Conversely, for well-established, top-tier GPs with a strong track record and transparent reporting practices, the information gap may be narrower, potentially leading to tighter pricing. Buyers can conduct more effective due diligence on these widely followed funds, reducing the uncertainty premium they require.

The ongoing development of the secondary market ecosystem, including the rise of specialized secondary advisory firms and dedicated data providers [1], alongside increasingly sophisticated due diligence practices by buyers, is likely contributing to a gradual reduction in the *average* information asymmetry component of discounts over time. This enhanced market infrastructure improves transparency and empowers buyers to make more informed decisions, potentially diminishing the "ignorance premium" they demand. However, an element of information asymmetry will likely always persist given the private nature of the underlying investments.

C. Macroeconomic Environment and Market Sentiment

The broader macroeconomic landscape, including the performance of public equity markets, prevailing interest rate levels, inflation trends, and overall investor sentiment, exerts a substantial influence on pricing within the PE secondary market.1 Historically, discounts have tended to widen during economic downturns, periods of heightened market volatility, or when interest rates are rising sharply. Examples include the 2008-2009 GFC, the initial uncertainty following the COVID-19 outbreak in early 2020, and the period of aggressive interest rate hikes in 2022.3 During such times, investor risk aversion typically increases, capital may become scarcer or more expensive, and the outlook for PE exits and portfolio company performance becomes more uncertain, leading buyers to demand larger discounts.

Conversely, stable or improving economic conditions, coupled with buoyant public markets and expectations of declining interest rates, can contribute to a narrowing of discounts.[1] For instance, the improvement in secondary market pricing observed in 2023 and 2024 was partly attributed to rising public equity markets, anticipation of interest rate cuts, and a more optimistic outlook for M&A and IPO activity.[1] External factors such as changes in tariff policies or heightened geopolitical uncertainty can also introduce volatility and impact valuations and, consequently, secondary market discounts.[33]

Market sentiment often acts as an amplifier for these discount fluctuations. Widespread fear and uncertainty can trigger a flight to quality and a demand for higher liquidity premiums, thereby widening discounts beyond what purely fundamental factors might suggest. Conversely, periods of optimism and market stability tend to reduce perceived risks, making buyers more willing to pay prices closer to NAV.

The increasing adoption of fair value accounting principles (such as ASC 820 and IFRS 13) in private equity has led to more frequent and market-sensitive valuations by GPs.[26] Furthermore, secondary buyers often use public market comparables in their own valuation models when assessing potential acquisitions.[2] This implies a growing correlation between public market performance and private equity valuations, meaning that volatility in public markets is likely to translate more directly and rapidly into fluctuations in secondary market discounts than may have been the case in earlier periods when private valuations were often perceived as "stickier" or slower to adjust.

D. Fund-Specific Characteristics (Age, Size, Performance, Strategy)

The specific attributes of the private equity fund interest being transacted play a crucial role in determining the level of discount.

- **Fund Age (Vintage Year):** The maturity of a fund significantly influences its pricing in the secondary market. Very young funds (e.g., 0-3 years old), often referred to as being in their "blind pool" stage where much of the capital is yet to be invested and the underlying portfolio is not yet established, typically trade at wider discounts.[7] This reflects the higher uncertainty and longer time horizon to liquidity. Conversely, very old funds (e.g., 10+ years, often in their "tail-end" phase) may also see wider discounts due to factors like asset concentration (many investments having already been exited), limited remaining fund life, and uncertainty regarding the timing and value of the final exits.[7] Mid-life funds (e.g., 4-9 years old) generally represent the "sweet spot" and often trade at tighter discounts, as their portfolios are largely developed, performance is becoming clearer, yet there is still potential for value creation and distributions.[7] Illustrating this, Jefferies data for 2024 showed buyout funds aged 4-6 years and 7-9 years priced at 95% and 96% of NAV respectively, while 13+ year old funds priced at 87% and 0-3 year old funds at 90%.[2] In a strategic move to achieve better pricing, LPs have increasingly been selling interests in younger funds, with the average age of funds sold in LP-led transactions dropping to a record low of 6.6 years in 2024.[28]

- **Fund Size:** Smaller funds may trade at wider discounts compared to larger, more established funds. This can be attributed to potentially higher information asymmetry, as smaller funds may be less widely followed and have less publicly available data, and also to perceived lower liquidity for their interests.[7]
- **Fund Performance:** Unsurprisingly, the historical and anticipated future performance of a fund is a key determinant. Funds that are underperforming or have a troubled portfolio will naturally command significantly wider discounts. Conversely, funds managed by high-performing GPs with strong track records and attractive underlying assets may trade at much tighter discounts, and in some rare instances, even at a premium to NAV.[7]
- **Strategy:** Discounts vary systematically across different private equity strategies, reflecting their distinct risk-return profiles and liquidity characteristics:
  - **Buyout:** This is typically the largest segment of the secondary market and generally experiences the tightest pricing. In 2024, buyout funds traded at an average of 94% of NAV (a 6% discount) according to Jefferies [2], while Campbell Lutyens reported an average discount of 10.9% for buyout funds in LP-led transactions.[35]
  - **Venture Capital (VC) and Growth Equity:** These strategies have historically traded at wider discounts due to their higher inherent risk, greater volatility of returns, and often longer and less certain paths to liquidity.[13] In 2024, average pricing for venture/growth funds improved significantly to 75% of NAV (a 25% discount) per Jefferies [2], a substantial recovery from 65% of NAV (35% discount) in 2023. Data from Zanbato indicated a median VC secondary discount of just 3% in December 2024, a dramatic narrowing from 46% in December 2023.[31]
  - **Credit:** The secondary market for private credit funds has seen a notable tightening of discounts. Average pricing reached an all-time high of 91% of NAV (a 9% discount) in 2024 according to Jefferies, a sharp increase from 77% in 2023.[2] Campbell Lutyens reported an average discount of 10% for private credit funds in 2024, with funds focused on senior secured credit often pricing in the mid-to-low single-digit discount range.[35] This has been attributed to new dedicated capital sources targeting credit secondaries.[2]
  - **Real Estate:** This segment has seen relatively stable pricing, often at wider discounts compared to buyout. Jefferies reported average pricing at 72% of NAV (a 28% discount) for real estate secondaries in 2024.[2]
  - **Infrastructure:** The secondary market for infrastructure is a growing segment, with increasing transaction volumes and more robust pricing as the primary infrastructure market itself matures.[24]

The observed variation in discounts across fund strategies largely reflects a rational risk-return assessment by secondary buyers. Strategies perceived as having higher risk, greater uncertainty, or longer durations to liquidity, such as venture capital, naturally necessitate a demand for greater compensation, which manifests as wider discounts. The trend of LPs selling younger vintage funds to achieve better pricing relative to NAV [28] is a sophisticated tactic. However, for buyers, this means acquiring assets that are earlier in their value creation lifecycle and less de-risked, thereby placing a greater emphasis on the GP's ability to execute their strategy post-acquisition, as opposed to simply harvesting near-term cash flows from a mature portfolio.

E. Behavioral Biases and Investor Psychology

Beyond purely rational economic factors, behavioral biases and investor psychology can also influence decision-making in the secondary market and contribute to discount dynamics.

- **Risk Aversion:** Levels of risk aversion among investors are not constant and can fluctuate, particularly in response to market stress. During periods of heightened uncertainty or negative market sentiment, LPs may become more risk-averse and thus more willing to accept larger discounts to achieve the perceived safety of liquidity.[21] Research by Bollen (2015) suggests that the valuation of private equity is indeed sensitive to the discounts observed in secondary market transactions, with this sensitivity being more pronounced for LPs who are more risk-averse.[21]
- **Herding Behavior:** Investors, including sophisticated LPs, may exhibit herding behavior – the tendency to follow the actions of their peers rather than making decisions based solely on independent analysis. If a number of prominent LPs begin selling in the secondary market, it could trigger further selling pressure from others, potentially exacerbating downward price movements and widening discounts, irrespective of the fundamental value of the underlying assets.[26] Sefiloglu (2023) provides evidence of herding behavior among LPs in their primary fund commitment decisions, a psychological pattern that could plausibly extend to secondary market selling decisions.
- **Market Sentiment:** General market sentiment – whether broadly bullish or bearish – can significantly color perceptions of value and influence the willingness of buyers and sellers to transact at particular price points.[33] Optimistic sentiment may lead to narrower bid-ask spreads and tighter discounts, while pessimistic sentiment can have the opposite effect.
- **Anchoring Bias:** Sellers might anchor their valuation expectations to historical NAV figures or their initial purchase price. If market conditions have deteriorated, this anchoring can lead to a reluctance to accept current market-clearing prices, resulting in wider bid-ask spreads and potentially stalled transactions until expectations adjust.[36]
- **Regret Aversion:** LPs might be hesitant to crystallize a loss by selling an interest below its reported NAV, even if such a sale is strategically optimal from a portfolio perspective. Conversely, regret aversion could lead to selling winning investments too early to lock in gains, potentially forgoing further upside.

These behavioral factors can cause discounts to deviate, sometimes substantially, from levels that would be justified by fundamental risk and liquidity considerations alone. Such deviations can create market inefficiencies, but also potential opportunities for sophisticated secondary buyers who are adept at identifying and capitalizing on behaviorally driven mispricings. For example, fear-driven selling during a market crisis can lead to "fire sale" prices that are below fundamentally justified levels [21], while herding can create price momentum that temporarily pushes valuations away from intrinsic worth.[26]

While the increasing institutionalization and professionalization of LP portfolio management functions [1] may gradually temper the impact of purely emotional or less rational behavioral biases on selling decisions, leading to more strategically determined transaction prices, systemic swings in market sentiment will likely always play a role in influencing the broader pricing environment.

F. Market Structure, Efficiency, and Frictions

The structure of the PE secondary market itself contributes to the existence and variability of discounts. It is predominantly an "over-the-counter" (OTC) market, meaning it lacks a centralized exchange or continuous trading mechanism like public stock markets.3 This OTC nature can lead to price dispersion, as different buyers and sellers may arrive at different valuations for the same interest, and it can also entail search costs for participants seeking to find counterparties.
Transactions in the secondary market are often complex, involving extensive due diligence on the underlying fund and its assets, negotiation of terms, and, crucially, obtaining the consent of the GP for the transfer of the LP interest.[3] These processes can be time-consuming and create transactional frictions, which buyers may factor into the price they are willing to pay, thereby contributing to the discount.

The balance between supply (the volume of LP interests being offered for sale) and demand (the amount of capital available from secondary buyers seeking to invest) is a fundamental determinant of price levels.[14] An oversupply of assets for sale relative to available buyer capital will generally lead to wider discounts, as buyers have more leverage. Conversely, if demand outstrips supply, discounts may narrow.

Over time, the efficiency of the secondary market has improved, partly due to the growth of specialized intermediaries, placement agents, and advisory firms that facilitate transactions, improve price discovery, and connect buyers and sellers.[6] Despite these improvements, inherent structural frictions associated with transacting unique, illiquid assets mean that some level of discount is likely to persist as compensation for navigating these complexities. Each PE fund interest is distinct, requiring bespoke due diligence [14], and the GP consent process adds a layer of conditionality and potential delay to transactions.[8] These elements represent real costs and risks for buyers, which are naturally priced into the transaction.

An important structural consideration is the relative scale of the secondary market compared to the vast size of the primary private equity market. While secondary market transaction volumes are growing rapidly, the total NAV of private equity assets under management is orders of magnitude larger.[15] For example, Preqin data suggests total PE AUM was $15 trillion in 2023, while secondary volume was $112 billion.[2] This "undercapitalization" of the secondary market relative to the potential supply—if even a slightly larger percentage of LPs chose to sell their holdings—suggests a structural supply-demand dynamic that could keep discounts relatively attractive for buyers in the medium term, even as the amount of capital dedicated to secondary strategies increases. The "float," or the portion of total PE NAV that is actively traded in the secondary market, remains a relatively small fraction, implying that buyers may retain a degree of pricing power.

The following tables summarize the key determinants of discounts and the theoretical frameworks that help explain their existence.

Table 1: Key Determinants of Discounts in PE Secondary Markets and Their General Impact

Determinant	General Impact on Discount	Key Supporting Information
LP Liquidity Needs	Widens	Urgent need for cash forces sellers to accept lower prices.[1]
Information Asymmetry	Widens	Buyers demand compensation for risk of adverse selection and cost of due diligence.[7] Larger for smaller/less-known funds.[7]
Economic Downturn/Volatility	Widens	Increased risk aversion, scarcer capital, uncertain outlook lead to higher required returns for buyers.[7]
Economic Stability/Growth	Narrows	Reduced perceived risk, greater capital availability, positive outlook.[1]
Fund Age - Young (0-3 yrs)	Widens	Blind pool risk, less visibility, longer time to liquidity.[2]
Fund Age - Mid-Life (4-9 yrs)	Generally Tighter	Portfolio established, better visibility, still has upside potential.[2]
Fund Age - Old (10+ yrs)	Widens	Asset concentration, exit timing uncertainty, limited remaining life.[2]
Fund Performance - Poor	Widens	Reflects lower expected future returns and higher risk.[7]

Fund Performance - Strong	Narrows/Potential Premium	Higher expected future returns, lower perceived risk.[7]
Fund Strategy - Venture	Wider (Historically)	Higher risk, volatility, longer liquidity path.[2]
Fund Strategy - Buyout	Tighter	More mature market segment, often clearer valuation metrics.[2]
Fund Strategy - Credit	Varies (Recently Tighter)	Senior credit tighter, distressed wider; overall tightening due to new capital.[2]
Market Supply > Demand	Widens	Buyers have more pricing power when many assets are for sale relative to available capital.[19]
Market Demand > Supply	Narrows	More capital chasing fewer deals gives sellers more leverage.[1]
Behavioral - Fear/Panic	Widens	Emotion-driven selling can lead to fire-sale prices.[21]
Behavioral - Herding (Sell)	Widens	Can create selling pressure independent of fundamentals.[26]
Market Frictions (OTC)	Widens	Search costs, transaction complexity, GP consent process add costs/time.[3]
Improved Market Efficiency	Narrows	Better information, more participants, streamlined processes reduce friction.[14]

Table 2: Overview of Theoretical Frameworks Explaining PE Secondary Market Discounts

Theoretical Framework	Core Explanation related to PE Discounts	Key Academic Proponents/Studies (Examples)	Relevant Information
Liquidity Preference Theory	Investors demand a premium (discount on asset price) for holding	Axelson, Sorensen, Strömberg (model referenced in [9]);	Discounts compensate buyers for illiquidity

	illiquid assets. Sellers pay this premium to access early liquidity.	Nadauld et al. (empirical findings referenced in [7])	risk and providing liquidity.[20]
Asymmetric Information Theory	Price discounts arise because buyers have less information than sellers about the true quality of the assets, leading to concerns about adverse selection.	Akerlof's "Market for Lemons" (general theory); Nadauld et al. (empirical link in PE secondaries [7])	Discounts serve as a buffer against buying lower-quality assets or reflect costs of information acquisition.[7]
Behavioral Finance Theories	Psychological biases (e.g., risk aversion during crises, herding, anchoring) influence investor decisions, causing prices to deviate from purely rational valuations.	General behavioral finance literature [36]; Bollen (risk aversion impact [21]); Sefiloglu (herding [26])	Discounts can widen due to panic selling or herding, or narrow due to over-optimism.[21]
Market Microstructure Theory	Frictions inherent in the trading process (e.g., search costs, transaction costs, bargaining, lack of centralization in OTC markets) contribute to bid-ask spreads and discounts.	General OTC market literature; Nadauld et al. (market depth impact [7])	Discounts reflect the costs and risks of transacting in a non-centralized, less transparent market.[3]

IV. Empirical Evidence: Trends and Magnitudes of Discounts

An examination of empirical data provides a clearer picture of the scale and evolution of the discount phenomenon in the PE secondary market. This involves analyzing transaction volumes, pricing levels relative to NAV across different time periods and strategies, and understanding the nuances of NAV as a valuation benchmark.

A. Transaction Volume Dynamics in the Secondary Market

The PE secondary market has exhibited remarkable growth in transaction activity over the past two decades.

- In **2010**, as the market was recovering from the GFC, Preqin noted improving prices, with discounts just below 20% of NAV.[39]
- By **2013**, annual transaction volume was estimated by Evercore to be around $26 billion [6], with advisory firm Triago reporting an average discount of 7% to NAV.[40]
- Volume reached $42 billion in **2014**.[41] For the period 2006-2014, Nadauld et al. found that the most common transactions (funds aged 4-9 years) occurred at an average discount of around 9%.[42]
- In the first half of **2015**, volume was $15 billion, with average pricing at 92% of NAV (an 8% discount).[41]
- Transaction volume stood at $37 billion in **2016**.[10]
- **2017** saw robust activity, with volumes around $40 billion and a narrowing of discounts for buyout and venture funds by 3 to 5 percentage points.[43] This year is often cited as a period of peak pricing (i.e., narrowest discounts).[17]
- Campbell Lutyens reported $73 billion in volume for **2018** [44], while Jefferies' figures show $64 billion ($39 billion LP-led, $25 billion GP-led).[2]
- In **2019**, Jefferies recorded $88 billion in total volume ($60 billion LP-led, $28 billion GP-led) [2], with Evercore also reporting over $88 billion.[15]
- The onset of the COVID-19 pandemic led to a dip in **2020**, with total volume falling to $60 billion ($56 billion LP-led, a sharp drop to $4 billion GP-led).[2] The market experienced a temporary freeze in Q2, followed by a rebound in Q3.[45]
- **2021** marked a strong recovery and a new record, with $132 billion in transactions ($74 billion LP-led, $52 billion GP-led).[1] Pricing also reached peak levels again during this year.[17]
- Volume moderated to $108 billion in **2022** ($87 billion LP-led, $21 billion GP-led) as macroeconomic headwinds led to wider discounts.[2]
- **2023** saw volume at $112 billion ($64 billion LP-led, $52 billion GP-led).[2] Campbell Lutyens reported an average LP-led discount of 15.7% for this year.[35]
- A new record was set in **2024**, with global secondary transaction volume reaching $162 billion ($87 billion LP-led, $75 billion GP-led).[1] The average LP-led discount narrowed to 13.3% according to Campbell Lutyens.[35]

This consistent growth in transaction volume, despite periodic fluctuations, underscores the increasing strategic importance of the secondary market. Surges in volume often coincide with periods of market stress (driving LP liquidity needs) or periods of market strength (facilitating strategic rebalancing and GP-led initiatives). The dip in 2020 due to COVID-19, followed by a swift and strong rebound, highlighted the market's sensitivity to acute crises but also its resilience and essential function. The increasing absolute dollar value of both LP-led and GP-led segments, even as their relative shares may fluctuate, points to a deepening and broadening of the entire secondary market ecosystem. This suggests that a higher baseline level of activity is becoming the "new normal," indicating the market's maturation and integral role within private equity.

Table 3: Historical PE Secondary Market Transaction Volume (Global, 2018-2024)

Year	Total Global Volume ($B)	LP-Led Volume ($B)	GP-Led Volume ($B)	GP-Led as % of Total
2018	64	39	25	39.1%
2019	88	60	28	31.8%
2020	60	56	4	6.7%
2021	132	74	52	39.4%
2022	108	87	21	19.4%
2023	112	64	52	46.4%
2024	162	87	75	46.3%

Source: Primarily Jefferies Global Secondary Market Reviews [2], supplemented by.[1] Percentages calculated.

B. Pricing Trends: Discounts to Net Asset Value (NAV)

1. Overall Market Pricing and Historical Discount Levels

Pricing in the PE secondary market, typically expressed as a percentage of NAV, has shown considerable dynamism. Average pricing for LP portfolios reached 89% of NAV in 2024 (implying an 11% discount). This marked a continued improvement from 85% of NAV in 2023 (a 15% discount) and a significant tightening from 81% of NAV in 2022 (a 19% discount) when rising interest rates and market uncertainty led to wider discounts.2
Looking further back:

- In the aftermath of the GFC (**2009**), average discounts were as wide as 35%.[40]
- By mid-**2010**, as markets stabilized, discounts had narrowed to just below 20%.[39]
- Throughout **2011**, typical pricing hovered in the 15-20% discount range.[41]
- By **2013**, the average discount had tightened further to 7% according to Triago [40], with overall secondary market pricing reported at 89% of NAV (an 11% discount).[41]
- In **2014**, Nadauld et al.'s research indicated an average discount of around 9% for funds aged 4-9 years.[42]
- The first half of **2015** saw average pricing at 92% of NAV (an 8% discount).[41]
- **2017** represented a period of peak pricing, with the narrowest discounts observed in the market cycle.[17]

- The widening of discounts in **2022** (average LP pricing at 81% NAV) was a response to significant macroeconomic shifts, including aggressive interest rate hikes and falling public markets.[2]

The subsequent narrowing of discounts in 2023 and 2024 has been attributed to several factors: a rebound in public equity markets, expectations of interest rate cuts, an improved outlook for M&A and IPO activity (which influences exit prospects for underlying PE assets), the robust fundamental performance of many PE-backed companies, and ample capital available from secondary buyers.[1]

Discount levels act as a barometer of risk appetite and are highly sensitive to macroeconomic conditions and capital market performance. The "V-shaped" trajectory of pricing (wider discounts followed by recovery) observed around the 2022 downturn mirrors public market behavior and shifting expectations regarding interest rates and economic growth. This underscores a strong linkage between public market sentiment and valuation cues, and private secondary market pricing.

However, while average discount figures provide a useful macroeconomic overview, they can mask significant underlying heterogeneity. The secondary market comprises a diverse array of assets (buyout, venture, credit, infrastructure), fund vintages, and quality tiers, each with distinct risk-return profiles and pricing dynamics.[2] Furthermore, GP-led transactions, particularly those involving high-quality single assets in continuation vehicles, often price much tighter than broad LP portfolio sales.[1] For instance, in 2017, despite narrow average discounts, many individual assets still traded at discounts well above 20%.[43] Therefore, a single average discount figure can be misleading, and a more granular, segment-specific analysis is crucial for sophisticated market participants.

2. Discounts by Strategy (Buyout, Venture Capital, Credit, etc.)

Pricing and discount levels vary significantly depending on the underlying strategy of the private equity fund interest being traded.

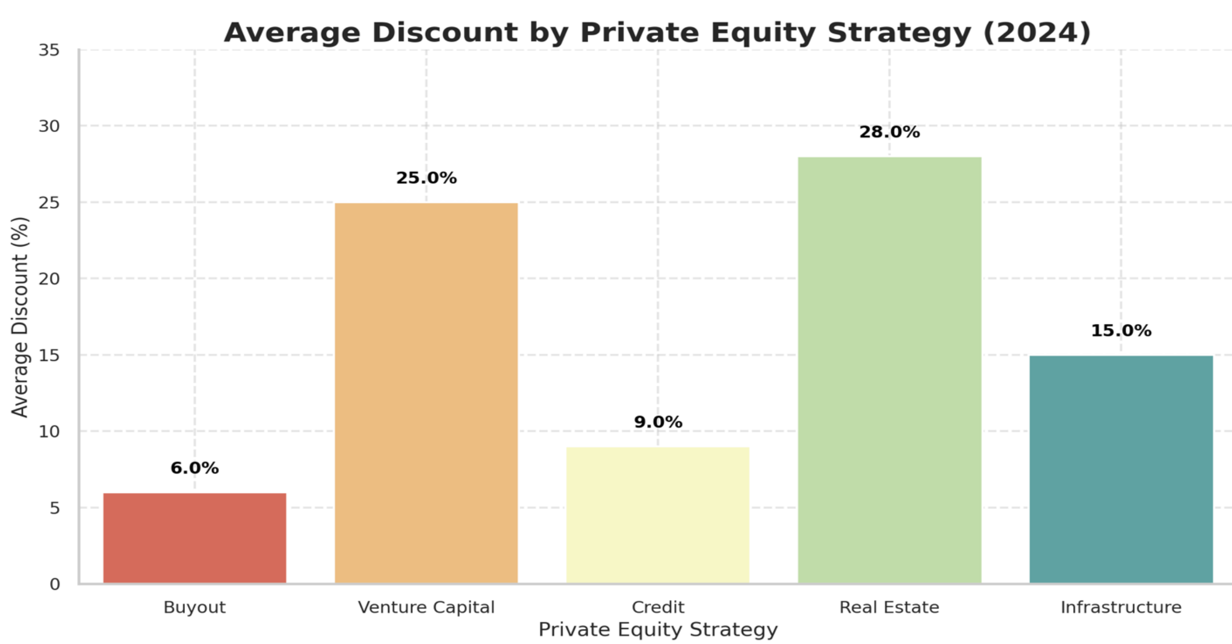
- **Buyout:** As the most mature and largest segment of the secondary market, buyout funds typically command the tightest pricing. In 2024, Jefferies reported average pricing for buyout secondaries at 94% of NAV (a 6% discount).[2] Campbell Lutyens found an average discount of 10.9% for buyout funds in LP-led transactions during the same year.[35] Historically, Greenhill Cogent reported buyout funds trading at 95% of NAV in 2012.[46]
- **Venture Capital (VC) / Growth Equity:** This segment has traditionally seen wider discounts due to higher perceived risk, greater return volatility, and often longer, less certain paths to liquidity.[13] However, there has been a notable recovery in VC secondary pricing. In 2024, Jefferies reported average pricing at 75% of NAV (a 25% discount), a significant improvement from 65% of NAV (a 35% discount) in 2023.[2] Zanbato data, published by PitchBook, showed a dramatic narrowing in the median VC secondary discount from 46%

in December 2023 to just 3% in December 2024.[31] For comparison, PitchBook reported an average VC fund pricing at 68% of NAV in 2023 [30], and Greenhill Cogent noted VC funds trading at 82% of NAV back in 2012.[46]

- **Credit:** The secondary market for private credit has experienced a dramatic tightening of discounts. Jefferies reported average pricing for credit secondaries at an all-time high of 91% of NAV (a 9% discount) in 2024, up sharply from 77% of NAV in 2023.[2] Campbell Lutyens reported an average discount of 10% for private credit funds in LP-led deals in 2024, with a further distinction that senior credit strategies consistently priced in the mid-to-low single-digit discount range.[35] This surge in pricing for credit secondaries is attributed to an influx of new, dedicated capital sources with a lower required rate of return for these assets.[2]
- **Real Estate:** Pricing in this segment has been relatively stable but often at wider discounts compared to buyout. Jefferies reported average pricing for real estate secondaries at 72% of NAV (a 28% discount) in 2024.[2]
- **Infrastructure:** This is a rapidly growing secondary market segment. While historically smaller, both primary AUM in infrastructure and secondary transaction activity are expanding, leading to more robust pricing and attracting specialist buyers.[24] Campbell Lutyens noted that growth in infrastructure secondaries has been outpacing the wider secondary market.[35]

The variation in discounts across these strategies reflects differing investor perceptions of risk, expected future returns, liquidity profiles, and the depth of the market for each specific strategy.

Figure 2 Average Discount by Private Equity Strategy (2024)



This figure illustrates the average discount rates across major private equity strategies in 2024. Venture Capital and Real Estate showed the highest discounts, reflecting higher risk and liquidity concerns. In contrast, Buyout and Credit secondaries traded at tighter discounts due to more mature market dynamics and asset visibility.
Data Source: Jefferies Global Secondary Market Review 2024; Campbell Lutyens Secondary Market Report 2024

The significant tightening in credit secondary discounts, for example, signals a structural shift in investor appetite and capital allocation towards that particular niche. The convergence or divergence of discount trends across these strategies over time can provide valuable insights into evolving investor preferences and perceived risk premia within the broader alternative asset landscape. For instance, a sustained wide discount in VC relative to buyout might indicate ongoing concerns about late-stage growth valuations or exit pathways for venture-backed companies.

3. Variation by Transaction Type (LP-led vs. GP-led)

The nature of the transaction—whether initiated by an LP or a GP—also influences pricing and discount levels.

- **LP-Led Transactions:** In 2024, average pricing for LP-led portfolios was 89% of NAV (an 11% discount) according to Jefferies.[2] Campbell Lutyens reported a slightly wider average discount of 13.3% for LP-led deals in the same year.[35] These transactions are typically driven by LPs' portfolio management objectives (cited by 51% of sellers in 2024) or their need for liquidity (33% of sellers).[1]
- **GP-Led Transactions:** Pricing in GP-led deals, particularly for high-quality single-asset continuation vehicles, can often be tighter than in LP-led portfolio sales. For instance, in 2024, approximately 87% of single-asset CVs were priced at 90% of NAV or higher.[1] Technology was reported as the most active sector for these single-asset GP-led deals.[1]

The differing motivations and, crucially, the asset selection process distinguish these two transaction types. LP-led sales often involve a broader, more diversified portfolio that the LP has chosen to divest. In contrast, GP-led transactions, especially CVs, involve assets specifically selected and curated by the GP, often their highest-conviction holdings that they wish to continue managing.[16] This curated nature, combined with the GP's active role in structuring and marketing the deal to a new investor group [18], often results in a more focused valuation exercise on specific assets. If these assets are perceived as high quality with strong future prospects, the resulting discount to NAV may be minimal, or the transaction might even occur at par or a premium.

Discounts in GP-led deals, therefore, are less a reflection of general market illiquidity or broad seller distress, and more a function of the specific asset valuation and the terms of the structured transaction, which often aims to align interests for continued value creation. The increasing prevalence of GP-leds may necessitate a bifurcation in the analytical skills required for secondary investing. Evaluating diversified LP portfolios demands strong top-down asset allocation insights and manager selection capabilities, while assessing concentrated GP-led deals, especially single-asset CVs, requires deep, deal-specific underwriting skills more akin to direct co-investing or primary buy-side analysis.[10]

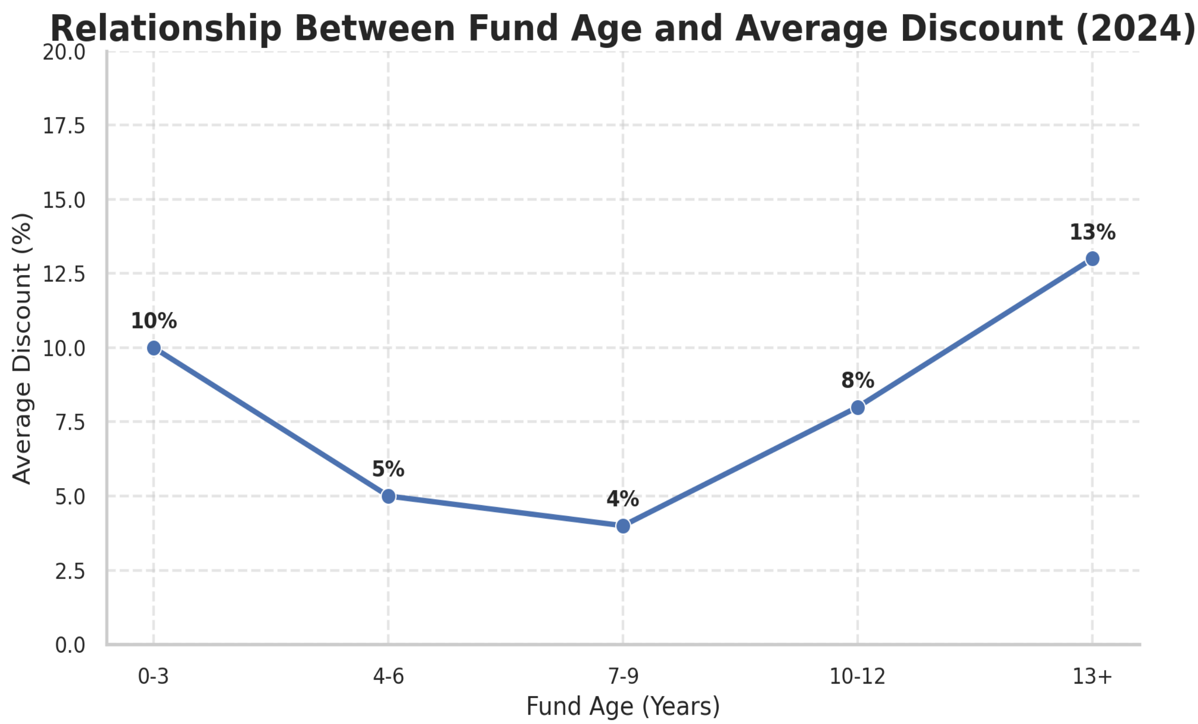
4. Impact of Fund Vintage and Age on Discounts

The age or vintage year of a fund interest is a significant determinant of its pricing in the secondary market.

- **Younger Funds (e.g., 0-3 years):** These typically trade at wider discounts. This is due to greater "blind pool" risk (as the portfolio may not be fully constructed), less visibility on the quality of underlying assets, and the fact that these funds are earlier in their J-curve, meaning distributions are further in the future.[7] In 2024, Jefferies data indicated that buyout funds aged 0-3 years priced at an average of 90% of NAV.[2]
- **Mid-Life Funds (e.g., 4-9 years):** This segment often represents a "sweet spot" and tends to trade at tighter discounts.[7] By this stage, the portfolio is largely invested, there is greater visibility into the underlying assets and their performance, and the fund is typically moving closer to or into its harvesting period. Jefferies' 2024 data showed buyout funds aged 4-6 years pricing at 95% of NAV, and those aged 7-9 years at 96% of NAV.[2]
- **Older/Tail-End Funds (e.g., 10+ years):** Discounts may widen again for these more mature funds. This can be due to factors such as increased concentration in a smaller number of remaining assets (making the investment less diversified), uncertainty regarding the timing and value of the final exits, and the limited remaining life of the fund.[7] Buyout funds aged 13+ years priced at an average of 87% of NAV in 2024.[2]

Interestingly, there has been a trend of LPs strategically selling interests in younger funds to achieve better pricing relative to NAV. In 2024, the average age of funds sold in LP-led transactions fell to a record low of 6.6 years.[28] This reflects a sophisticated approach by sellers to maximize value by divesting assets that, while less mature, may be perceived by buyers as having more remaining upside and are priced against less "stale" NAVs. For buyers, this shift means taking on assets earlier in the value creation cycle. While the discount to reported NAV might be smaller, the NAV itself is less "seasoned." This places a greater emphasis on the buyer's assessment of the GP's ability to execute the value creation plan for the remaining life of the investment, rather than primarily focusing on harvesting near-term distributions from a de-risked, mature portfolio.

Figure 3 Relationship Between Fund Age and Average Discount (2024)



This figure shows how the average discount in secondary transactions varies with fund age. Mid-life funds (4-9 years) tend to trade at tighter discounts due to established portfolios and better performance visibility, whereas very young and tail-end funds face higher discounts due to blind pool risk and exit uncertainties.
Data Source: Jefferies Global Secondary Market Review 2024; Campbell Lutyens 2024

Table 4: Average Pricing as % of NAV in PE Secondary Transactions (Overall LP Portfolio and by Key Strategy, 2019-2024)

Year	Overall LP Portfolio Avg. Pricing (% NAV)	Buyout Avg. Pricing (% NAV)	Venture/Growth Avg. Pricing (% NAV)	Credit Avg. Pricing (% NAV)	Real Estate Avg. Pricing (% NAV)
2019	85%	88%	68%	77%	71%
2020	82%	86%	68%	75%	71%
2021	91%	92%	75%	85%	72%
2022	81%	81%	75%	78%	72%
2023	85%	91%	65%	77%	71%

2024	89%	94%	75%	91%	72%

Source: Jefferies Global Secondary Market Review, January 2025.[2] Overall LP Portfolio Average Pricing for 2019-2021 inferred from consecutive 400bps improvements leading to 89% in 2024, 85% in 2023, 81% in 2022.

C. NAV as a Benchmark: Strengths and Limitations in Discount Analysis
Net Asset Value (NAV) serves as the standard reference point for pricing in the vast majority of private equity secondary transactions.3 It provides a common, albeit imperfect, language for buyers and sellers to negotiate terms. However, reliance on NAV as the sole measure of value comes with significant limitations that are critical to understanding the true nature of discounts. NAVs are typically calculated and reported by GPs on a quarterly basis. This infrequency means that reported NAVs can be stale and may not reflect intra-quarter market movements or developments within portfolio companies. Furthermore, valuation methodologies can vary between GPs, and NAVs can be subject to a degree of subjectivity or "NAV smoothing," where GPs might manage reported valuations to present a less volatile performance profile.[7] Research by Boyer, Nadauld, Vorkink, and Weisbach (2021/2023) has compellingly argued that NAVs are often "too smooth" and fail to capture the true volatility and variation in market discount rates applicable to private equity assets.[47]

While the adoption of fair value accounting standards like ASC 820 (in the U.S.) and IFRS 13 (internationally) has generally improved the accuracy and market-sensitivity of NAV reporting [26], some level of GP discretion and potential for valuation lags or biases can persist. Sefiloglu (2023) notes that even with fair value accounting, IRR calculations (often derived from NAVs and cash flows) can suffer from inherent biases such as convexity bias and "quit-whilst-ahead" bias, which can inflate reported returns.[26]

Consequently, the "true" discount in a secondary transaction might be more accurately conceptualized as the difference between the transaction price and the underlying intrinsic value of the assets, which may diverge from the reported NAV.[23] A transaction at a significant discount to a stale or inflated NAV might still be a poor investment if the intrinsic value is even lower. Conversely, a transaction at a narrow discount to a conservatively stated NAV could represent excellent value.

Pioneering academic research, notably by Boyer et al., has utilized actual secondary market transaction prices to construct market-based private equity indices.[47] Their findings suggest that these transaction-based measures provide a more accurate reflection of the discount rate risk and true market valuation of PE assets than traditional NAV-based indices. For example, their transaction-based buyout index exhibits a market beta of around 1.75-1.79, significantly higher than the betas typically derived from NAV-based indices (often below 1.0).[48] This implies that the secondary market itself is an active price discovery mechanism, with transaction prices incorporating risk assessments and market-clearing rates of return that are not always fully or timely reflected in reported NAVs. The secondary market, therefore, is not merely a derivative of NAVs but can be a source of genuine market valuation signals for private equity.

This highlights that while the discount to NAV is a practical and widely used starting point for negotiation, sophisticated secondary market participants engage in deep, fundamental due diligence on the underlying assets and the GP to form their own independent assessment of intrinsic value and future prospects, rather than relying solely on the headline discount figure.

D. Case Studies: Discount Dynamics During Market Stress (e.g., COVID-19, 2022-2023 Liquidity Squeeze)

Periods of significant market stress vividly illustrate the dynamics of discounts in the PE secondary market.

- **COVID-19 Pandemic (2020):** The onset of the pandemic triggered immediate uncertainty. The second quarter of 2020 saw a general freeze in secondary market activity as participants paused to assess the impact on valuations and portfolio company operations.[45] Transaction volume for 2020 dipped to $60 billion from $88 billion in 2019, with GP-led activity particularly affected.[2] While specific aggregate data on discount widening in early 2020 is limited in the provided materials, it is broadly understood that initial uncertainty would have led to wider bid-ask spreads and increased discounts for sellers needing immediate liquidity.[52] However, the market showed resilience, with a notable rebound in activity in the third quarter of 2020 [45], and a very strong recovery in volume and pricing in 2021.[2]
- **2022-2023 Liquidity Squeeze / Market Correction:** This period was characterized by rapidly rising interest rates, high inflation, slowing economic growth, and declining public market valuations, all of which impacted the PE landscape. Discounts in the secondary market widened significantly during 2022.[13] Average pricing for LP portfolios dropped to 81% of NAV in 2022, from 91% in 2021.[2] The first half of 2023 saw continued pressure, with transaction volume down 25% year-over-year as wide bid-ask spreads hindered deal closures.[23] Venture capital secondaries were particularly affected, with median discounts reaching 46% in December 2023 according to Zanbato/Pitchbook data.[31] LPs faced a challenging environment with declining distributions from their primary PE investments, leading many to turn to the secondary market for liquidity. A Q1 2023 survey by Coller Capital found that 77% of LPs anticipated using the secondary market over the following two years.[23] Towards the end of 2023 and into 2024, pricing began to recover as NAVs were adjusted downwards (reflecting the new market realities) and buyer confidence slowly returned.[2] However, new uncertainties, such as concerns around tariffs in late 2024/early 2025, were reported to cause some buyers to pause, potentially leading to renewed widening of discounts in certain segments like VC after a period of compression.[33]

These episodes demonstrate the secondary market's crucial role as a liquidity provider during times of stress. They also highlight how rapidly pricing (and thus discounts) can adjust to reflect heightened risk, increased uncertainty, and shifts in the supply-demand balance. The "denominator effect"—where falling public market values cause LPs' private equity allocations to exceed their targets—becomes a significant driver of sales activity during such periods.[22]

The behavior of discounts during these crises reveals an interplay between sellers who may be "forced" or highly motivated to transact and opportunistic buyers with available capital. While discounts invariably widen in such environments, the presence of a substantial pool of dedicated secondary capital can prevent a complete market seizure. This capital, seeking attractive entry points, eventually helps to recalibrate pricing once the initial wave of uncertainty subsides. The recovery in pricing seen in 2023-2024, despite ongoing LP liquidity needs, suggests that buyers actively deployed capital at the wider discounts available in 2022 and early 2023, contributing to the establishment of a new, albeit still dynamic, market equilibrium.[2] This ability to absorb selling pressure and facilitate price discovery, even in turbulent times, underscores the secondary market's maturation and systemic importance.

V. Implications of Discounts for Market Stakeholders

The discount phenomenon in private equity secondary markets carries distinct implications for the various participants involved, shaping their strategies, risks, and potential rewards.

A. For Limited Partners (Sellers): Balancing Liquidity Needs and Value Realization

For LPs, the secondary market offers a valuable mechanism to manage their private equity portfolios actively. The primary benefit is access to early liquidity in an asset class that is otherwise characterized by long lock-up periods.10 This liquidity enables LPs to rebalance their portfolios, manage over-allocations (particularly relevant during the "denominator effect"), exit investments in non-core or underperforming funds, or free up capital to make new commitments to promising primary funds.1
However, this flexibility comes at a cost, which is principally the discount to NAV that sellers often have to accept.[12] This discount represents a potential realization of value below the fund's reported carrying value and means forgoing any future upside potential from the divested interest. While the stigma once associated with selling in the secondary market has significantly diminished as the market has matured and become a more accepted portfolio management tool [12], the economic trade-off remains. Academic studies, such as those by Nadauld et al., have indicated that, on average, sellers in secondary transactions tend to underperform the buyers on a go-forward basis, suggesting that they effectively exchange potential future returns for the benefit of immediate liquidity.[7]

Strategic considerations for LPs contemplating a secondary sale include the timing of the sale (to align with favorable market conditions if possible), the careful selection of assets to offer (LPs often find it easier to sell, and achieve better pricing for, higher-quality assets, even if it means parting with potential winners [11]), and an understanding of current discount benchmarks for the specific strategies and vintages they hold.

The decision for an LP to sell in the secondary market is thus an optimization problem, weighing the immediate value of liquidity and portfolio flexibility against the economic cost of the discount and the potential opportunity cost of forgone future appreciation. This calculation is highly specific to each LP's individual circumstances, including their overall financial position, investment objectives, and tolerance for illiquidity. The increasing sophistication of LPs, often supported by specialized advisory firms, allows for more strategic approaches to secondary sales. This can involve curating specific portfolios of assets for sale to attract optimal pricing or timing transactions to coincide with windows of stronger buyer demand, thereby potentially mitigating the discount incurred. The trend of selling younger, high-quality fund interests is one such strategic choice aimed at achieving better pricing relative to NAV [11], even if it means divesting assets with considerable remaining growth potential.

B. For Secondary Buyers: Opportunities for Value Creation and Risk Mitigation

For secondary buyers, discounts are a cornerstone of their investment thesis, offering several potential advantages:

- **Discounted Asset Acquisition:** The most direct benefit is the ability to acquire private equity assets at a price below their reported NAV, creating an immediate unrealized gain and a potential valuation cushion against future market downturns.[3]
- **J-Curve Mitigation:** Secondary investments typically involve acquiring interests in funds that are more mature and further along their investment lifecycle. This means the assets are often closer to generating cash distributions, thereby shortening the J-curve effect (the initial period of negative returns common in primary PE fund investments).[10]
- **Enhanced Diversification:** Secondary buyers can gain immediate exposure to a diversified portfolio of companies across various GPs, vintage years, industry sectors, and geographical regions, often more rapidly and efficiently than building such diversification through primary commitments alone.[3]
- **Reduced Blind Pool Risk:** Unlike investing in a primary fund where the future investments are unknown ("blind pool"), secondary transactions typically involve acquiring interests in funds where a significant portion of the portfolio is already established and can be analyzed. This provides greater visibility into the underlying assets and their quality.[10]
- **Potentially Attractive Risk-Adjusted Returns:** The combination of acquiring assets at a discount, J-curve mitigation, and diversification has historically allowed secondary funds to deliver strong risk-adjusted returns. Preqin data for fund vintages 2013-2022 showed that secondary funds delivered a median net IRR of 16.0%, outperforming buyout (15.3%) and growth equity (13.0%) strategies over the same period, and with a significantly lower standard deviation of returns.[29] Academic evidence also suggests that secondary buyers have historically outperformed the sellers of those same assets on a forward-looking basis.[7]

However, the "discount capture" is only one component of a successful secondary investment strategy. The subsequent performance of the acquired underlying assets and effective portfolio management post-acquisition are equally, if not more, critical to achieving targeted returns.[23] An initial discount provides a margin of safety, but if the underlying portfolio companies underperform or exit values are disappointing, that initial benefit can be quickly eroded.

As the secondary market becomes more competitive and efficient, average discounts for high-quality, straightforward assets may narrow over time. This implies that secondary buyers will increasingly need to rely on superior asset selection, sophisticated due diligence, innovative structuring capabilities (particularly in complex GP-led transactions), and potentially more active engagement with the acquired portfolios to generate alpha. Simply relying on broad market discounts may become a less viable strategy for outperformance. The future performance of secondary investments might look different from the past, especially with the rise of GP-led deals which can introduce greater dispersion in returns.[29]

C. For General Partners: Strategic Uses of the Secondary Market

General Partners are increasingly viewing the secondary market not just as a mechanism for their LPs to manage liquidity, but as a strategic tool for their own fund and portfolio management activities.

- **Facilitating LP Liquidity:** By consenting to LP-led secondary sales or, more proactively, by initiating GP-led transactions, GPs can help their LPs achieve liquidity. This can enhance relationships with existing investors and be a positive factor in future fundraising efforts, as LPs value managers who provide solutions for liquidity in an illiquid asset class.[10]
- **Proactive Fund Lifecycle Management:** GP-led restructurings, most notably through continuation vehicles (CVs), allow GPs to actively manage the lifecycle of their funds and underlying assets.[1] This is particularly useful for high-performing assets that may require more time or additional capital to reach their full potential than the original fund structure allows, or when traditional exit markets (M&A, IPO) are unfavorable.[16]
- **Optimizing Asset Holdings:** CVs enable GPs to retain ownership of their "trophy assets" or high-conviction investments for a longer period, allowing them to drive further value creation. Simultaneously, these structures can crystallize value and provide an exit for LPs in the original fund who wish to liquidate, while offering other LPs the option to roll their interests into the new vehicle and continue participating in the asset's future growth.[16]
- **Addressing Conflicts of Interest:** A key challenge in GP-led transactions is the potential for conflicts of interest, as the GP is effectively on both sides of the deal – selling assets from an existing fund and often managing (and potentially investing in) the CV that is acquiring them.[18] This necessitates robust governance mechanisms, including thorough due diligence by new investors, independent third-party valuations of the assets being transferred, and active oversight and approval from the Limited Partner Advisory Committee (LPAC) of the selling fund, to ensure fairness and transparency.[18]

GP-led secondaries represent a powerful innovation, offering GPs a flexible means to optimize outcomes for both their investors (by providing tailored liquidity and continued exposure options) and themselves (by allowing for the continued management of successful assets and the potential for realizing carried interest). The success and continued growth of this market segment will depend significantly on establishing and maintaining strong governance practices and ensuring clear alignment of interests between the GP and all LPs involved. The pricing of assets in these deals, and thus any implicit discount or premium, is subject to intense scrutiny and negotiation, reflecting the bespoke nature of these transactions.

D. Impact on Primary Market Dynamics and Overall PE Ecosystem

The development and increasing sophistication of the secondary market have broader implications for the primary private equity market and the overall PE ecosystem.

- **Enhanced Attractiveness of Primary PE:** The existence of a more liquid secondary market can make primary PE investments inherently more attractive to LPs. By offering a potential, albeit not guaranteed, pathway to earlier liquidity, it can reduce the perceived illiquidity risk associated with long-term primary fund commitments. This, in turn, could potentially lower the illiquidity premium that LPs demand for investing in primary funds.[9] Theoretical models, such as that proposed by Axelson, Sorensen, and Strömberg, suggest a "liquidity effect" whereby the option to sell in the secondary market lowers the required return for certain LPs committing to primary funds.[9]
- **Opportunity Cost Considerations:** Conversely, the same models also highlight a potential "opportunity cost effect." LPs who are active in or aware of the secondary market might choose to hold back some capital from primary fund commitments, anticipating the possibility of acquiring attractive assets at a discount in the secondary market later on.[9]
- **Influence on GP Fundraising Cycles:** The secondary market can influence primary fundraising dynamics. LPs who are overallocated to private equity or are awaiting distributions from older funds to free up capital for new commitments may use the secondary market to sell existing interests, thereby facilitating their participation in new primary funds. This is particularly relevant in periods where traditional exit activity and distributions from primary funds are slow.
- **Improved Price Discovery and Market Efficiency:** As a market where actual transactions occur for interests in private funds, the secondary market contributes to overall price discovery and efficiency in the opaque private equity asset class. Transaction prices, even if at a discount to NAV, provide valuable data points on how market participants are valuing PE assets under current conditions.

A robust secondary market can function as a "shock absorber" for the primary market, helping to smooth out liquidity imbalances across the ecosystem. By providing an outlet for LPs needing to reallocate capital, it can support more stable capital flows into new PE funds over the long term, preventing a complete halt in fundraising even when primary market distributions are constrained. The growth and increasing efficiency of the secondary market may also subtly influence the traditional 10-year closed-end fund model over time. If liquidity becomes more readily and predictably available at reasonable (though still present) discounts, the perceived illiquidity of private equity could lessen. This might attract a wider range of investors to the asset class or lead to innovations in fund structures and terms that acknowledge the enhanced potential for interim liquidity. The emergence of evergreen retail-focused vehicles participating in the secondary market is one such innovation pointing in this direction.[1]

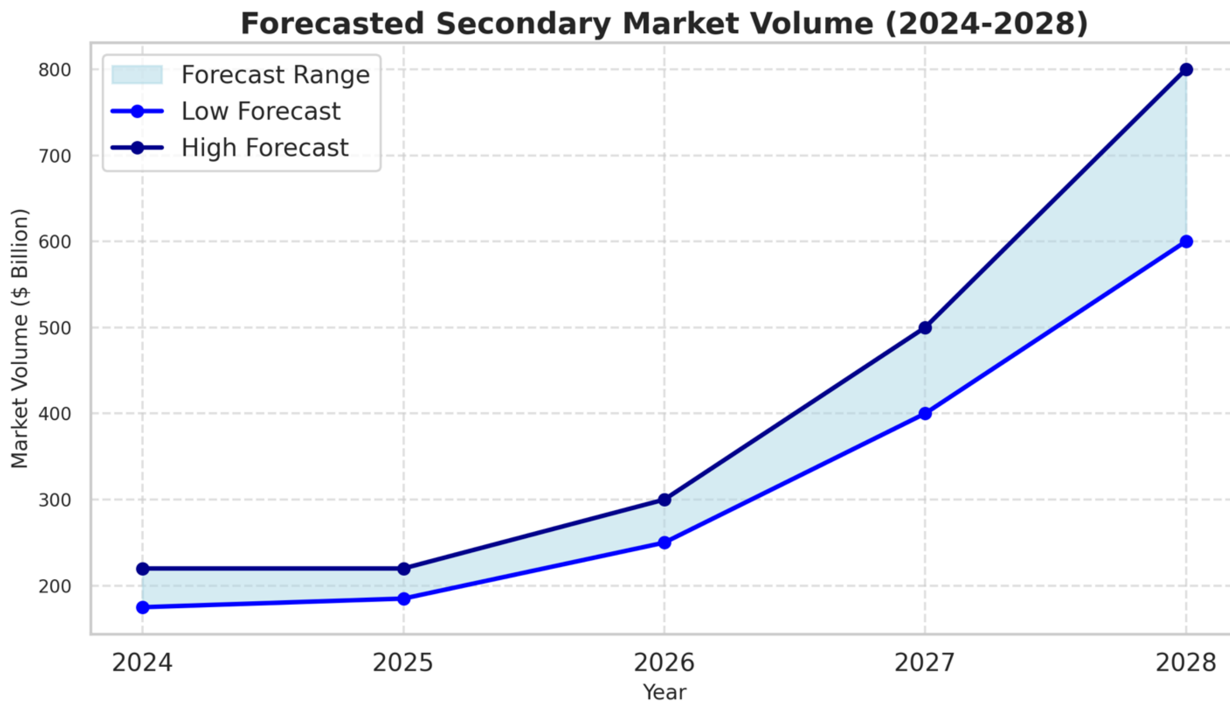
VI. The Future Trajectory: Evolving Discount Dynamics and Market Innovations

The private equity secondary market is on a path of continued evolution, with several key trends expected to shape its future growth, pricing dynamics, and overall structure.

A. Anticipated Trends in Secondary Market Growth and Pricing

The consensus among industry observers points to sustained and significant growth in secondary market transaction volumes. Projections for 2025 are robust: Jefferies anticipates volume to exceed $185 billion 2, while Lazard forecasts a range of $180 billion to $220 billion.1 A survey by Campbell Lutyens revealed that 73% of secondary buyers expect volumes to surpass $150 billion in 2025, with no buyers anticipating sub-$100 billion volumes, reinforcing strong confidence in the market's continued advance.1 Some market participants note that the secondary market is still relatively small compared to the scale of primary PE fundraising, suggesting substantial runway for further expansion.24 Pitchbook has estimated that the market could reach $800 billion by 2028.14

Figure 4 Forecasted Global Private Equity Secondary Market Volume (2024-2028)



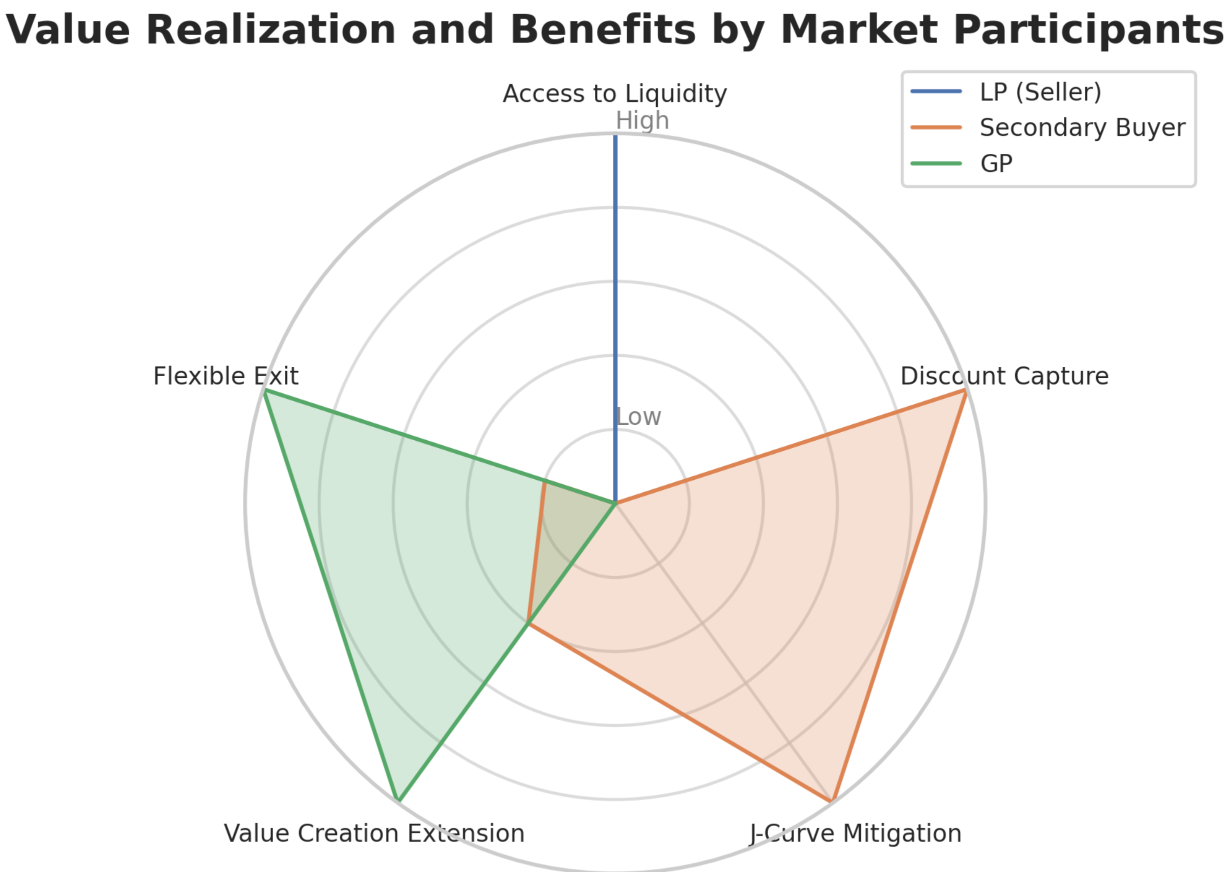
This chart illustrates projected transaction volume ranges for the global private equity secondary market from 2024 to 2028. The upper bound assumes accelerated adoption and market maturity, while the lower bound reflects more conservative scenarios.
Data Source: Jefferies Global Secondary Market Review 2024; Pitchbook Secondary Market Outlook 2025

Regarding pricing, Jefferies expects the strong LP portfolio pricing seen in 2024 (averaging 89% of NAV) to be largely maintained in 2025, supported by a stabilizing macroeconomic environment, an anticipated uptick in M&A and IPO activity, and a well-capitalized buyer universe.[2] However, pricing is likely to remain sensitive to external factors. For instance, concerns about the impact of tariffs on global supply chains and company earnings could introduce volatility and potentially lead to a widening of discounts again in certain market segments.[33]

A notable trend is the increasing scale of transactions, with more multi-billion dollar deals coming to market, particularly in the LP-led segment.[2] In 2024, there were 27 LP-led transactions exceeding $1 billion in size, a significant increase from 19 such deals in 2023.[17] This reflects the growing size of institutional LPs' private equity portfolios and their need to transact larger blocks of assets to achieve meaningful rebalancing.

This anticipated structural growth is underpinned by the enormous and expanding AUM of the underlying primary private equity market (projected by Preqin to grow from $15 trillion in 2023 to nearly $30 trillion by 2033 [37]) and the increasing acceptance and programmatic use of the secondary market by both LPs and GPs as an essential tool for portfolio and liquidity management.[1] This implies a continued and growing need for capital on both the buy-side and sell-side of the market.

Figure 5 Value Realization and Benefits by Market Participants in Secondary Transactions (2024)



This radar chart illustrates the distinct value propositions realized by key market participants in the private equity secondary market. While LPs gain liquidity, secondary buyers benefit from discounts and J-curve mitigation, and GPs leverage continuation vehicles for value extension and exit flexibility.
Data Source: Summarized from Jefferies 2024, Campbell Lutyens 2024 and synthesis of transaction structures.

While overall growth appears set to continue, discount levels will likely remain cyclical and highly dependent on the specific segment of the market. The concept of an "average" discount may become less meaningful as the market further stratifies by strategy (buyout, venture, credit, infrastructure), asset quality, transaction type (LP-led vs. various GP-led structures), and fund vintage. This increasing complexity and differentiation will require secondary market participants, particularly buyers, to be more nimble, specialized, and sophisticated in their approach to sourcing, underwriting, and pricing transactions.

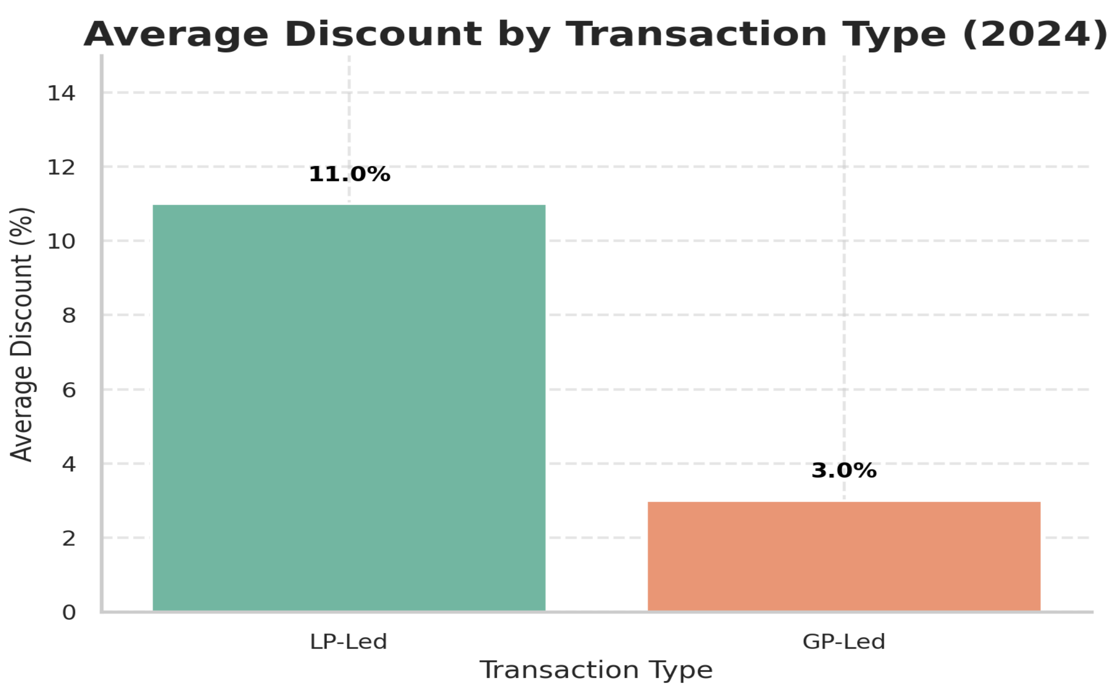
B. The Expanding Role of GP-Led Secondaries and Continuation Vehicles

GP-led secondary transactions, especially those structured as continuation vehicles (CVs), are expected to maintain their strong growth trajectory and become an even more integral part of the private equity landscape.1 Jefferies projects GP-led volume to reach $85 billion or more in 2025.2 These transactions are increasingly viewed by GPs not just as an alternative exit route in challenging M&A or IPO markets, but as a proactive tool for portfolio management, allowing them to extend their hold over high-performing assets and drive further value creation. Innovation in GP-led structures is ongoing, with variations such as single-asset CVs (focusing on one key company) and multi-asset CVs (bundling several portfolio companies) being tailored to meet specific objectives of the GP and the LPs involved.[14] This flexibility is a key attraction of GP-led solutions.

As this segment of the market matures, there will be an intensified focus on robust governance, transparency, and the alignment of interests between GPs, existing LPs (both those selling and those rolling over), and new investors in the CV. Managing potential conflicts of interest inherent in these transactions remains a critical area of attention for the industry.

GP-leds are fundamentally reshaping the traditional definition of an "exit" in private equity. They offer a hybrid solution that can provide liquidity to LPs who need it, while allowing others (and new investors) to participate in the continued growth of proven assets under the same GP's management. This can effectively extend the duration of PE ownership for specific assets, which has profound implications for how value is measured and realized over longer time horizons.

Figure 6 Average Discount by Transaction Type (2024)



This figure compares the average discounts observed in LP-led and GP-led private equity secondary transactions during 2024. GP-led deals, particularly single-asset continuation vehicles, typically traded at near-NAV levels reflecting curated asset quality and lower liquidity needs.
Data Source: Jefferies Global Secondary Market Review 2024; Campbell Lutyens 2024

The long-term success and acceptance of GP-led strategies will be heavily influenced by the performance track record of the CVs being created. As more of these vehicles mature and begin to generate exits and distribute capital to their investors, the market will gain more substantial performance data.[24] Early indications are reportedly validating the strategy.[24] If these vehicles consistently deliver strong returns, it will further solidify their position in the market, likely leading to increased adoption by GPs and potentially contributing to even tighter pricing (i.e., narrower discounts or even premiums) for well-structured deals involving high-quality assets. Conversely, any widespread underperformance could temper enthusiasm and lead to greater scrutiny of terms and valuations.

C. Technological Advancements (Digital Platforms, Blockchain) and Market Efficiency

Technological innovation is poised to play an increasingly important role in enhancing the efficiency of the PE secondary market. Digital platforms are emerging that aim to streamline transaction processes, increase transparency by centralizing information, and reduce the costs associated with buying and selling PE interests.14 These platforms can make it easier for LPs and GPs to connect with potential buyers, facilitate faster price discovery, and improve the overall efficiency of deal execution.14
Artificial intelligence (AI) and advanced data analytics are also beginning to be integrated into secondary investment strategies. These tools can assist in identifying market trends, evaluating the historical performance of funds and managers, forecasting potential future returns, and assessing the risks associated with complex transactions, such as multi-asset GP-led deals.[38]

Blockchain and Distributed Ledger Technology (DLT) hold longer-term potential to transform aspects of the secondary market:

- **Enhanced Transparency and Security:** Blockchain could potentially make transactions more transparent and reduce the risk of fraud, thereby improving investor confidence.[38]
- **Tokenization of Assets:** There is discussion around the tokenization of private equity assets, which could, in theory, create more divisible, easily transferable digital representations of PE fund interests. This might increase liquidity and broaden access to a wider range of investors, including smaller ones.[38]
- **Streamlined Processes:** DLT could streamline the relationship between funds and their LPs by improving automation in areas like capital call management, distribution processing, and record-keeping, potentially reducing minimum investment thresholds.[57] However, the adoption of blockchain/DLT in private markets faces challenges, including the need for

robust legal and regulatory frameworks, standardization, and addressing governance complexities in distributed systems.[58]

These technological advancements have the potential to significantly reduce frictional costs (such as search and due diligence expenses) and information asymmetry in the secondary market. This could, in turn, contribute to a narrowing of average discounts, particularly for more standardized or smaller transactions where the benefits of automation and broader market access are most pronounced.

Nevertheless, while technology can undoubtedly improve the *efficiency of transacting*, the fundamental drivers of discounts related to underlying asset risk, GP quality, macroeconomic conditions, and the inherent illiquidity of private assets will likely persist. Technology might compress the liquidity premium and information asymmetry components of the discount, but it is unlikely to eliminate discounts entirely. The impact may be more pronounced on the "ease of trade" and the cost of intermediation rather than on the fundamental valuation of the assets themselves. Core economic reasons for discounts—such as compensation for risk, the time value of money, and variations in asset quality—will remain, albeit potentially priced more accurately and efficiently in a technologically enabled marketplace.

D. Emerging Strategies and Capital Sources

The secondary market is also characterized by an expansion into new strategies and the influx of different types of capital.

- **Expansion into New Asset Classes:** While buyout funds have traditionally dominated secondary market activity, there is growing volume and interest in secondaries for other private market asset classes, including private credit, infrastructure, and real estate.[1] This diversification of the secondary market reflects the growth of these underlying primary asset classes and the increasing desire of investors to manage their exposures across the full spectrum of private capital.
- **Rise of Retail and High-Net-Worth Capital:** A significant trend is the increasing participation of retail investors and high-net-worth individuals (HNWIs) in the secondary market, often through specialized evergreen or perpetual fund structures.[1] These vehicles, which offer more liquidity and easier access than traditional closed-end funds, reportedly accounted for up to a third of total secondary fundraising in 2024 and may be willing to pay premium prices for certain assets, particularly diversified buyout portfolios.[1] This influx of new capital can significantly impact demand dynamics.
- **Innovative Deal Structures:** The market continues to see innovation in transaction structures beyond traditional LP stake sales and standard CVs. These are often tailored to meet specific investor needs or address particular market conditions.[14] This includes the use of preferred equity and NAV-based lending solutions, which can provide LPs or funds with liquidity without requiring an outright sale of assets, offering an alternative to traditional secondary sales.

The influx of new capital sources, particularly from retail-focused evergreen funds, could have a notable impact on market dynamics. These investors may have different return expectations, liquidity preferences, and investment horizons compared to traditional institutional LPs. Their increased presence, especially if they are indeed willing to pay tighter prices for certain types of assets [1], could contribute to a compression of discounts in those segments of the market they target.

Simultaneously, the expansion of secondary market activity into less mature areas, such as infrastructure and certain niches of private credit, creates new opportunities for specialized secondary buyers. These segments may offer the potential for wider discounts and "alpha" generation for those buyers who possess deep expertise in these specific underlying asset classes and can accurately price these less-trafficked assets. However, investing in these emerging secondary segments also introduces new types of risks and valuation challenges, as historical data and established valuation methodologies may be less developed than in the more mature PE buyout secondary market.

VII. Conclusion and Strategic Considerations

A. Synthesizing the Multifaceted Nature of PE Secondary Market Discounts

Discounts in the private equity secondary market are not a simple anomaly but an intrinsic and multifaceted characteristic of this evolving marketplace. They are the outcome of a dynamic interplay between the fundamental illiquidity of private equity investments, information asymmetries between buyers and sellers, prevailing macroeconomic conditions and investor sentiment, the specific attributes of the funds being transacted, and the behavioral psychology of market participants. The discount, typically measured against a fund's Net Asset Value, serves as a critical pricing mechanism that allows for the transfer of these complex, illiquid assets.

It is crucial to recognize that discounts are not monolithic; they vary significantly across different strategies, fund vintages, transaction types, and market cycles. The secondary market has matured from a niche solution for distressed sellers into a vital component of the private equity ecosystem, facilitating strategic portfolio management for LPs and offering innovative liquidity solutions for GPs. Discounts are a key element in the functioning of this market, enabling price discovery and balancing the diverse needs and expectations of sellers seeking liquidity or strategic repositioning with those of buyers seeking attractive risk-adjusted returns. The existence and fluctuation of these discounts demonstrate the market's capacity to price complexity and facilitate transactions even in the absence of continuous trading and perfect information, a testament to its adaptability and importance for the overall health and dynamism of the private equity asset class.

Ultimately, a deeper understanding of the *drivers* behind a specific discount is more critical than the headline discount figure itself. A wide discount may reflect genuine underlying risks or asset quality issues, or it could present a temporary mispricing opportunity. Conversely, a narrow discount might still offer compelling value if the quality and prospects of the underlying assets are exceptional. Strategic decisions in this market must therefore be predicated on this nuanced understanding rather than on superficial price comparisons.

B. Strategic Insights for Navigating the Discount Environment

Successfully navigating the PE secondary market requires a strategic and informed approach from all participants.

- **For Limited Partners (Sellers):**
  - **Strategic Timing and Asset Selection:** LPs should consider market conditions, their specific liquidity needs, and portfolio objectives when timing sales. The choice of which assets to sell involves a trade-off between achieving a better price (often for higher-quality assets) and divesting less desirable holdings (which may require a wider discount).
  - **Benchmark Awareness:** Understanding current discount benchmarks for relevant fund strategies, vintages, and geographies is crucial for setting realistic price expectations.
  - **Optimizing Execution:** Leveraging the expertise of specialist secondary advisors can help LPs structure sales effectively, reach a broad universe of potential buyers, and optimize transaction terms to maximize value.
- **For Secondary Buyers:**
  - **Rigorous Due Diligence:** The cornerstone of successful secondary investing is thorough due diligence that goes beyond reported NAVs to assess the true intrinsic value, risks, and future prospects of the underlying assets and the capabilities of the GP.
  - **Identifying Value Opportunities:** Buyers should seek to identify segments or specific situations where discounts may be wider than fundamentally justified. This could arise from behavioral biases influencing sellers, temporary market dislocations, information inefficiencies, or complex situations that deter less sophisticated buyers.
  - **Specialization and Expertise:** Developing specialized expertise in particular strategies (e.g., venture, credit, infrastructure), transaction types (e.g., GP-led restructurings), or niche markets can provide a competitive edge.
  - **Disciplined Pricing:** Investment decisions must be based on a disciplined assessment of expected risk-adjusted returns, factoring in the purchase discount, anticipated future cash flows, and exit assumptions.
- **For General Partners:**
  - **Strategic Utilization:** GPs should view the secondary market as a strategic tool to provide liquidity options for their LPs (which can foster goodwill and support future fundraising) and to proactively manage fund lifecycles and asset holding periods, particularly through well-structured continuation vehicles.
  - **Transparency and Governance in GP-Leds:** When initiating GP-led transactions, ensuring utmost transparency, robust governance processes, independent valuations, and strong LPAC involvement is paramount to maintaining LP trust and mitigating conflicts of interest.

  - **Market Awareness:** Understanding how secondary market conditions (e.g., LP appetite for liquidity, pricing levels) can impact their LPs' ability and willingness to commit to new primary funds is important for fundraising strategy.
- **For All Market Participants:**
  - **Continuous Learning:** The secondary market is constantly evolving. Staying abreast of new market structures, emerging capital sources, technological impacts, and shifting regulatory landscapes is essential.
  - **Acknowledge Persistent Dynamics:** While the market is maturing and becoming more efficient, discount volatility and the opportunity for skilled participants to find value are likely to persist due to the inherent nature of private equity.

VIII. Conclusion

In conclusion, the discount phenomenon is central to the functioning and appeal of the private equity secondary market. While the market's increasing efficiency and sophistication may temper some of the more extreme discount variations over time, the fundamental drivers of these discounts suggest they will remain an enduring feature. The future of generating superior returns in this dynamic environment will increasingly depend on specialized expertise, proprietary sourcing networks, advanced analytical capabilities, and the ability to add value through structuring or active management, rather than solely relying on capturing broad market discounts. Proactive, informed, and strategic participation will be key to success for all stakeholders in this growing and vital segment of the private capital universe.

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