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The Top 3 Myths About Secondary Funds

Common misconceptions about deployment, distributions and discounts

The Promise of Secondaries

Secondaries have become one of the fastest-growing segments in private equity, now representing some of the largest funds ever raised. Their appeal largely hinges on the belief that secondary funds accelerate capital deployment, expedite distributions and mitigate the J-curve effect—allowing investors to realize returns far sooner.

At their core, secondary funds acquire fully invested, harvest-period private equity portfolios, which should, in theory, enable faster capital deployment and earlier liquidity. Additionally, there is a common assumption that these assets are acquired at material discounts. This paper explores whether secondary funds are truly delivering on these expectations.

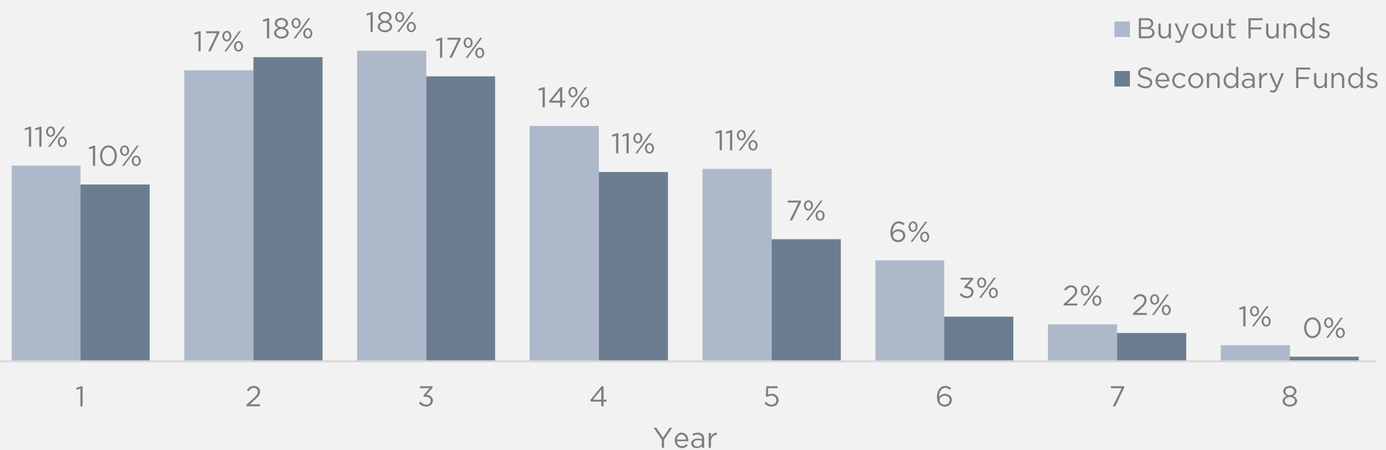
MYTH 1

Secondary Funds Accelerate Deployment

Reality: Secondary Funds Take a Long Time to Deploy

Unlike buyout funds, which take years to build portfolios, secondary funds accelerate deployment by acquiring fully invested fund commitments. In theory, this should shorten investment periods.

However, in practice, secondary funds follow similar timelines, calling capital over five years and deploying only 68% of commitments on average, compared to 80% for buyout funds. As a result, secondary funds are contributing to—rather than solving—the time horizon challenge.



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Source: Pitchbook, Allocator Solutions: Cash Flow Forecasting and Commitment Pacing, 2022.

MYTH 2

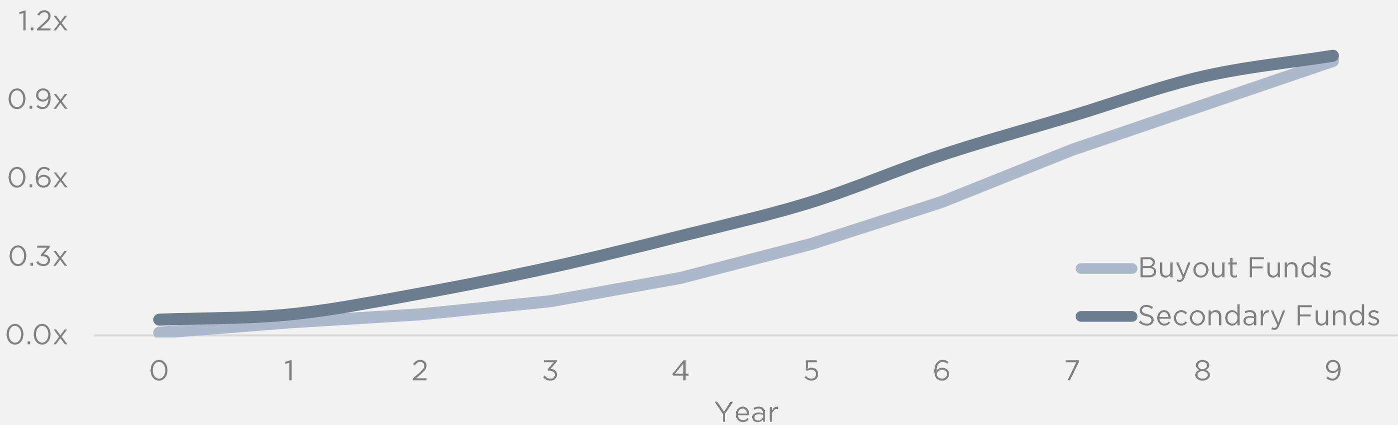
Secondary Funds Accelerate Distributions

The increasing prevalence of GP-led transactions may also contribute to reduced distributions. While GP-leds can offer exciting upside potential, they **lack the near-term cash flow profile of traditional LP-led secondary transactions.**

Reality: Distributions Take Just as Long as Traditional PE

Secondary funds were originally designed to deploy capital quickly, allowing investors to reap the benefits of private equity much sooner. The premise was simple: by acquiring mature funds in their 'harvest phase,' secondary funds could accelerate distributions.

However, prolonged deployment periods have significantly hindered this advantage, further exacerbated by factors such as leverage and recycling. As a result, the time required for secondary funds to achieve a 1.0x DPI (distribution to paid-in capital) now closely mirrors that of buyout funds, typically ranging from 8 to 10 years.



Source: Pitchbook, The Evolution of Private Market Secondaries, 2022.

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MYTH 3

Secondary Funds Buy Private Equity at a Discount

Reality: Most Secondary Funds Buy PE at Essentially No Discount

Contrary to popular belief, discounts in secondary transactions are typically small due to rising prices and the nature of the discount itself. In 2024, the average price for LBO funds was 94%[4]. However, since the discount applies only to the equity portion of the enterprise value, its impact is further reduced. Accounting for these factors, secondary funds acquire exposure to companies at an average EBITDA multiple of ~12.3x[3,4], compared to 12.7x[1] for typical PE-backed companies. As a result, secondary returns now depend less on discounts and more on future growth.

Average US PE Company[1]	Average GP-Led[2]	Average LP Secondary[3,4]
12.7x	13.5x	12.3x

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[1]Pitchbook Annual US PE Breakdown, 2024. [2]Campbell Lutyens Secondary Market Overview, 2024. [3]Effective Multiple: PE EV/EBITDA adjusted for average Net Debt/EBITDA (Apollo Research, 2024) and average secondary buyout pricing [(12.7x-6x)*94%]+6x. [4]Average secondary buyout pricing based on Jefferies Global Secondary Market Review, 2025.

In conclusion, while secondary funds can provide attractive long-term returns, many fall short of their promised benefits—namely, quick deployment, rapid distributions and deep discounts.

Investors looking to leverage secondary funds to jumpstart or complement their private equity portfolios should conduct thorough due diligence to ensure these investments align with their strategic objectives.

Discover Overbay's unique approach to secondaries. Our goal is to deliver the strongest distributions and the best risk-adjusted returns in private equity.

Speak with our team

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