

# KEYNOTE INTERVIEW

## Secondaries now core to PE portfolio management



*Secondaries have become a central tenet of private equity, as sponsors increasingly turn to bespoke solutions to manage liquidity across the portfolio lifecycle, say W Capital Partners' David Wachter and Todd Miller*

**Q Exits were up in 2025 but remain below historical averages. What does this mean for secondaries?**

**David Wachter:** Exits improved in 2025 on a dollar basis but transaction count declined. Activity was driven by a small number of large-cap IPOs and sponsor-to-sponsor deals, rather than a broad-based recovery. At a deeper level, muted exits reflect both cyclical and structural forces. Cyclically, macro volatility and valuation gaps continue to delay traditional M&A and IPO activity.

Structurally, the industry is dealing with a significant build-up of

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assets. Twenty years ago, there were roughly 5,000 PE-backed companies and today there are more than 32,000. Exit capacity, however, has only grown about 50 percent to 1,500 exits per year, pushing the asset-to-exit overhang from roughly five years to nearly 20 years today. Those cyclical and structural tailwinds are driving secondaries activity.

The lack of exits is also materially impacting net IRRs. Over the past few years, the rolling net IRR for private

equity has been much lower than in the past. Without a sustained pickup in distributions, net returns in the mid-to-high teens will become increasingly difficult for GPs without boosting DPI.

**Q What secular shifts are driving secondaries growth?**

**Todd Miller:** Three forces are converging. First is the liquidity gap. The scale of private markets has grown far beyond what traditional IPO and M&A channels can absorb. Demand for liquidity has increased as sponsors contend with longer hold periods,

constrained exits and rising mid-life capital needs.

Second is the breakdown of the traditional “five-plus-five model,” where five years were spent on deployment and five on harvesting. Exits are no longer a single endpoint event. Leading sponsors are increasingly focused on generating liquidity throughout the holding period rather than all at once.

Third, the secondaries market has become more established and institutionalized. What was once viewed as opportunistic is now a core portfolio management tool for GPs, delivering a meaningful share of overall market liquidity. Leveraging secondaries for interim DPI has effectively become table stakes for leading sponsors.

Put simply, secondaries have evolved from a niche solution to a core component of the private equity infrastructure.

### **Q How is portfolio construction changing as assets are held for longer?**

**DW:** We are seeing a growing dispersion within portfolios as assets are held for longer. In addition, we have a volatile macro environment along with geopolitical shifts and AI-driven disruptions, all creating clear winners and losers within private equity.

With more capital tied up in longer held and sometimes challenged assets, sponsors need to protect and compound their strongest performers. This is a key driver of direct secondaries, which allow GPs to hold their best assets for longer while generating partial liquidity.

Sponsors are also using minority recapitalizations to deliver distributions without exiting or losing control of high-conviction companies prematurely. We expect minority recaps to become an increasingly important strategic tool.

**TM:** At the same time, GP sophistication is increasing. Many firms are building internal capital markets teams and formal liquidity committees to actively manage DPI. Liquidity is no

longer treated as a fixed endpoint, but rather as a variable actively managed across the portfolio lifecycle.

### **Q Are secondaries becoming a primary solution to DPI pressure?**

**TM:** Yes, they already are. But it is important to broaden the definition of GP-led beyond continuation vehicles. CVs are a strong solution for long-duration situations, but they are complex, time-intensive and not always the right fit, particularly for mid-life assets. LP scrutiny has increased accordingly.

The market is increasingly shifting toward direct secondaries and minority recaps for mid-life assets. These solutions are faster, more flexible and allow sponsors to maintain control and return capital while keeping the asset in the existing fund. These solutions also provide real-time price discovery without the friction of a full fund restructuring.

By utilizing a broader and more flexible toolkit, sponsors can create liquidity along the way while continuing to own and compound their best assets.

### **Q What secondaries challenges do GPs face, and how can their needs be addressed?**

**DW:** The secondaries market remains structurally undercapitalized relative to demand, which creates opportunities for platforms with breadth. Many firms focus narrowly on CVs, but GPs increasingly want a broader liquidity toolkit. In our experience, most sponsors believe one to two CVs per fund is appropriate, but not more than that. As a result, they are seeking partners who can help deliver a range of tailored solutions across the balance of their portfolio and provide multiple forms of capital across the fund lifecycle.

### **Q What will differentiate successful secondaries platforms going forward?**

**TM:** Breadth, creativity and flexibility.

GPs are looking for holistic partners – scale, a broad solution set and structuring expertise across flexible liquidity options will drive differentiation.

**DW:** This is why we believe our partnership with AXA and BNP is so strategic. Being part of a larger global platform allows us to deliver integrated solutions, from primaries and co-investments to GP stakes, NAV financing, credit and sophisticated GP-led secondaries.

### **Q Will secondaries volumes slow if M&A and IPO markets recover?**

**TM:** No, not at all. Even in strong markets, traditional exit channels cannot keep pace with the scale of private equity.

As the private equity industry moves away from the traditional five-plus-five model, liquidity becomes a multi-stage process, with secondaries playing a central role. Sophisticated sponsors will continue to use secondaries proactively to shape portfolios and manage DPI, regardless of market conditions.

### **Q What trends will shape the secondaries market through 2026 and beyond?**

**TM:** The defining trend will be the continued rise of what we call ‘Secondaries 3.0.’ This includes greater use of bespoke structures such as direct secondaries and minority recaps, along with more proactive internal liquidity management by GPs.

**DW:** Secondaries are now a key component of the private equity industry and will continue to grow. Private equity firms that succeed will not just be strong investors, but experts in managing their own cashflow, liquidity and duration, supported by secondaries platforms that have the scale and flexibility to work in partnership with them. ■

CEO David Wachter and partner Todd Miller are part of the senior leadership team at W Capital Partners

An aerial view of a cityscape, likely New York City, with the Empire State Building prominently featured. In the foreground, there are traditional European-style buildings with mansard roofs and dormer windows, suggesting a view from a high vantage point in Paris. The Eiffel Tower is visible in the distance on the right side. The sky is a clear, light blue.

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