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# PE SECONDARIES: IS IT ALL ABOUT THE DISCOUNT?

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# **PE SECONDARIES:** IS IT ALL ABOUT THE DISCOUNT?

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

> *"The size of the discount can change a lot depending on the market environments and the availability of liquidity.*

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

It is worth noting, that, for the most part, the secondary private equity market is increasingly efficient.[1] The market has evolved over the last three decades with most deals offered through an intermediated process, where multiple bidders bid on the inventory available and the winning bidder usually submitting the highest price.

But the size of the discount can change a lot depending on the market environments and the availability of liquidity.

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

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

[1]Pantheon opinion

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

Finally, in a market environment that is plagued by low distributions and a lack of M&A, more private equity funds become available on the secondary market, and sellers need more liquidity since they are not receiving distributions back from sponsors. This landscape allows for more deal flow and greater optionality, and so discounts may grow as supply outstrips demand. This represents the current market environment for secondaries heading into the fourth quarter of 2025.[2]

## Effective versus nominal discounts:

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

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

Insight can be utilized to increase the effective discount. If we suspect that a company may be planning a large sale, or to list, then we may estimate a higher effective discount to take into account the upcoming distribution or appreciation.

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

[2]Pantheon opinion

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