

DECODING PRIVATE MARKETS

# BEYOND IRR: WHERE TO LOOK FOR REAL PERFORMANCE IN PRIVATE MARKETS

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# BEYOND IRR: WHERE TO LOOK FOR REAL PERFORMANCE IN PRIVATE MARKETS

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Headline internal rate of return (IRR) figures on secondary strategies may look attractive on paper, but they rarely tell the whole story. There are other metrics to track that can also reveal more about the potential of any prospective investment – and the possible risk involved.

Over years of meeting investors across the globe, I've heard the same refrain: "The IRR looks strong." But while secondaries strategies can often show a high IRR figure, especially if it's presented as 'since inception', these figures can sometimes be overly flattering.

Because secondaries investors are acquiring de-risked assets at a discount, often with near-term distributions available, the potential IRR on offer can seem particularly attractive. But those distributions may be gated, or redemption windows may be limited, offering quarterly liquidity of up to 5% of a fund's NAV. This can leave investors unable to realize those returns on demand, leaving that suggested IRR figure far out of reach.

Additionally, fund managers can manipulate IRR by timing the inflows, outflows, or large distributions from a fund. This can distort IRR, while in some cases leverage facilities can even be utilized to inflate it further.

All this is to say that while IRR is not irrelevant, it's far from sufficient. As more investors engage with secondaries and evergreen structures, it's time to reframe the narrative, and consider what pieces of data investors should be considering alongside IRR.

## The metrics that matter

A more complete understanding of fund performance – especially in evergreen and secondary strategies – comes from a combination of total value to paid-in (TVPI), distributions to paid-in (DPI), and multiple on invested capital (MOIC) alongside an honest appraisal of liquidity, duration, and capital recycling.

Metric	What it measures	Why it matters in evergreen funds
<b>MOIC: Multiple on Invested Capital</b>	Total value returned vs. total value invested	Clear, intuitive. Useful and applied at the deal level (not fund level) across closed- and open-ended vehicles. \$1 invested becomes \$2, delivers 2x MOIC.
<b>PIC: Paid-In Capital</b>	Total capital paid by the investor vs. total capital paid by the fund	Indicates how much capital is put to work. In a fund of \$1bn in size, and a first deal of \$200m, the investor has paid in 20%. An evergreen fund with 100% PIC on day one means the fund is potentially sitting on 80% of "idle" cash.
<b>TVPI: Total Value to Paid-In</b>	Realized + Unrealized value vs. Paid-in capital	Shows the full picture of value creation as it combines both distributed and remaining value. Highly useful for evergreen funds where capital is continuously cycling. For example, if "Deal X" generates 2x, but only 20% of the capital is called, the effective delivery is only 2x20%, or 40% of the total commitment. Factoring in the 80% cash reserve, the time-weighted return (TWR) of the evergreen fund would be 8%.
<b>DPI: Distributions to Paid-In</b>	Cash returned to investors (Realized returns only) vs. capital paid-in	The ultimate "cash-on-cash" return measures actual cash returned to investors. For example, generating 2x MOIC on 20% of capital means DPI is 0.4x. Again, with 80% cash, the actual return experienced will be 8% for investors in the evergreen fund.

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## Beyond IRR: where to look for real performance in private markets

TVPI is a core indicator of whether value is being created, not just returned. For secondary strategies, which buy closer to exit points, an **early high TVPI** signals successful acquisition at discount, portfolio de-risking, and manager execution.

But a mature asset bought at discount can only appreciate so far. Portfolio managers must carefully balance duration and what we might call 'remaining value potential', both critical dimensions of any deal, to protect liquidity without compromising compounding. TVPI serves as a north star, indicating whether value is being created, not just returned.

DPI, on the other hand, is where **real returns** are felt, and important when assessing secondaries. Why? Because secondaries focus on acquiring interests in existing private market funds, or in assets that often have shorter holding periods in comparison to traditional primary investments, which in turn produce quicker liquidity events.

As a realized return metric, DPI becomes particularly important in secondaries, as it offers a clearer picture of actual value creation and cash returns, making it more reliable than unrealized IRR, especially in volatile markets or when exit timing is uncertain.

While TVPI reflects both realized and unrealized gains, DPI can be king when it comes to measuring realized performance, showing how much capital has actually been returned to investors and enabling effective capital recycling.

Additionally, strong DPI in a secondaries portfolio enables **capital recycling**. Managers can reinvest distributed capital within the fund's lifecycle, potentially boosting total returns and multiples. Funds that generate early DPI and efficiently redeploy that capital tend to outperform over time, as recycling beats dilution. The ideal scenario? Early DPI leads to more recycling, which in turn drives better compounding and stronger overall returns.

This recycling effect can be a key driver of enhanced total returns and higher fund multiples, allowing secondaries managers to compound value more efficiently than in strategies dependent solely on long-duration exits.

These metrics matter because they describe how capital is returned to investors or, in the case of evergreen funds, how capital is returned to the fund as these are accumulating vehicles. The critical pillar to the strength of evergreen funds is their ability to compound returns by recycling capital into new deals.

## Some potential warning signs

### High IRR, low TVPI?

May be driven by early distributions, with limited value creation. That could suggest optical performance, not economic value. This can only form a small part (if any) of an evergreen's fund development, as it will inevitably generate underwhelming returns over time.

### Low DPI in late-stage secondaries?

Could signal overpaying for assets or portfolio underperformance. In an evergreen structure, this may be a red flag as a highly mature private equity portfolio with limited distributions is unlikely to start generating performance.

### High discounts vs. high quality

Bigger discounts aren't always better. If a deal is widely discounted, it can drive short-term IRR but may come with a low DPI if assets are distressed or overvalued. Most importantly, secondary discounts remain an efficient mechanism in a highly intermediated market. As such, most high discounts are priced that way for a reason: there is less competition to buy the assets, which can be directly linked to the quality of NAV.

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## Secondaries vs. primary funds: what the metrics tell us

Against primary funds, secondaries should deliver:

- Higher IRRs before they erode
- Faster DPI and recycling
- Earlier TVPI uplift supported by longer-term recycling-induced TVPI

Metric	Primary funds	Secondary funds
<b>IRR</b>	Typically lower in early years, ramps up as value is realized.	Often higher due to shorter duration and earlier cash flows. But can be misleading if driven by front-loaded distributions.
<b>TVPI</b>	Builds gradually, peaks later in fund life.	Should reach higher levels earlier. A strong early TVPI indicates good asset selection and discount capture.
<b>DPI</b>	Slow to develop, distributions typically back-loaded.	Much higher earlier. Essential to assess cash-on-cash returns and ability to recycle capital into new deals.
<b>MOIC</b>	Long-term MOIC depends on portfolio company exits.	Typically >1.3x–1.5x in strong deals but the time frame must be considered.
<b>J-Curve</b>	Steep J-curve; negative early returns due to fees and capital calls.	Flat or inverse J-curve: secondaries often mitigate J-curve impact.

### The bottom line

Relying solely on IRR can be misleading, as it may overstate returns in funds with early distributions but limited long-term upside. It should be used as a signpost, not as a final destination. Investors should always ask: is the IRR figure backed by strong, early DPI? Is there evidence of active capital recycling? Does TVPI reflect thoughtful underwriting and value creation?

Any IRR figure should be triangulated with MOIC, DPI, TVPI, liquidity constraints, and drawdowns to get a full picture of risk and return. IRR can look great on paper, but if the liquidity profile is poor or returns are back-loaded, a client's investments could be headed in the wrong direction.



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