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Capital Partners

MARKET BRIEFING

July 1, 2026

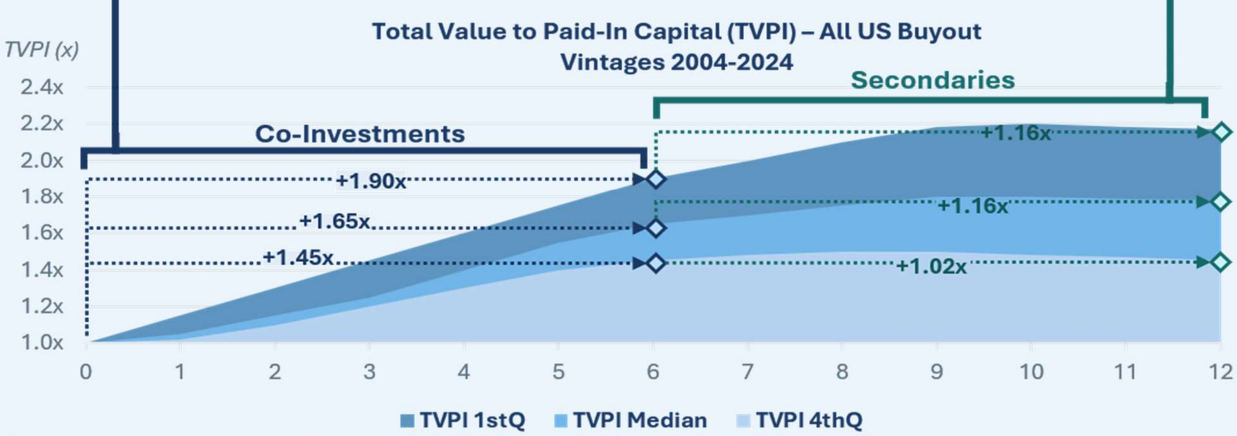
Co-Investments vs. Secondaries: Structural Drivers of Returns in Private Equity

Private equity performance is often discussed as a function of manager selection, vintage year, or market conditions. Less attention is paid to a more fundamental determinant: the structure through which capital is deployed. We believe the choice between entering assets early through co-investments or later through secondary transactions has first-order implications for how returns are generated, how risk is measured, and how incentives are aligned.

The Basics: Co-Investments versus Secondaries

- **Co-investments** place capital at the point in the ownership cycle where private equity generates most of its value. Investors gain exposure during the period when ownership change, operational intervention, and strategic repositioning drive rapid increases in enterprise value.

- **Secondaries** enter the same assets after this phase has largely passed. Their economics depend less on incremental value creation and more on pricing relative to reported net asset value ("NAV"), valuations conventions, and the availability of subsequent buyers. We believe these features do not render secondaries ineffective, but they shift the source of return away from operating performance and toward financial and accounting mechanics.



Source: Upwelling Capital Group, No Country for Old Funds, Summer 2025

The Bottom Line: The contrast highlights a broader point: private equity returns are not interchangeable across entry points. Historically, strategies that participate in early value creation compound differently from those that acquire mature exposures. In this context, co-investments align more naturally with the structural drivers of long-term private equity performance, while secondaries function most effectively as a tactical liquidity instrument rather than as a primary return engine.

Entry Timing and the Distribution of Value Creation

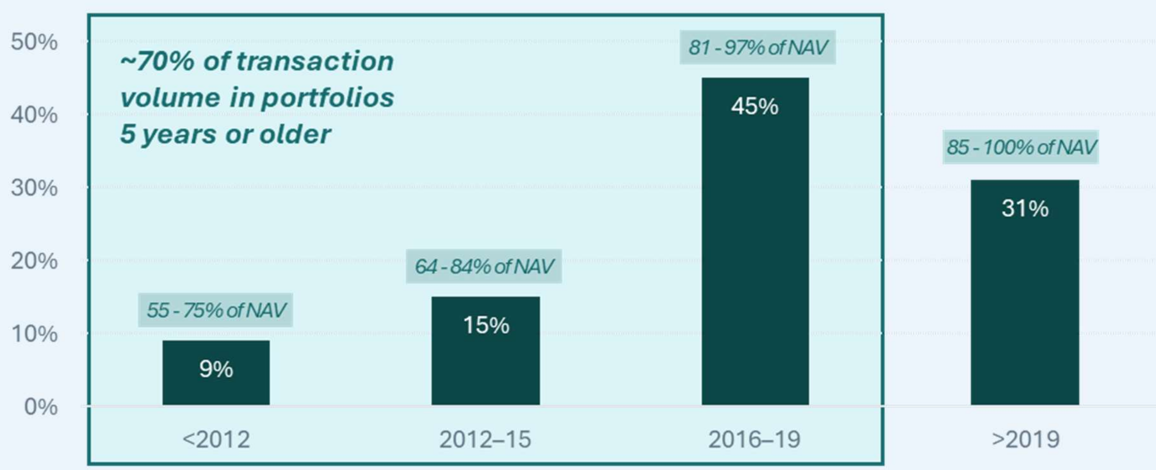
Private equity value creation tends to be front-loaded. TVPI ratios rise most sharply in the early years of a fund's life and flatten as assets mature. By year five, much of the operational transformation has already been implemented, including cost restructuring, growth initiatives, and strategic repositioning.

Co-investments are structurally aligned with this period. Investors typically enter transactions contemporaneously with the lead sponsor and participate in the full ownership period. Returns therefore reflect the full compounding effect of operational execution and multiple expansion.

Secondary transactions, and limited partner-led ("LP-led") deals in particular, occur later by design. While general partner-led ("GP-led") continuation vehicles can yield renewed growth following an initial realization or hold-sell decision, LP-led transactions overwhelmingly involve funds that are well into their lifecycle. In both cases, secondary buyers are positioned to capture residual value rather than the primary phase of value creation.

You Get What You Pay For: Nearly **70% of LP-led secondary transactions in FY 2024 occurred in funds five years or older** where TVPI growth has flattened and forward value creation is limited. As assets move beyond the core value-creation window, pricing adjusts accordingly with older-vintage funds transacting at progressively wider discounts to net asset value. These discounts reflect compensation for diminished growth prospects, extended holding periods and lower expected distributions.

LP-Led Secondary Volume and Pricing by Vintage
FY 2024 Volume



Source: Jefferies H1 2025 Global Secondary Market Review, Private Capital Advisory, July 2025

Return Mechanics: Operations versus Accounting

In co-investments, returns are driven by observable changes in company fundamentals. Revenue growth, margin expansion, leverage optimization, and exit multiples determine outcomes. Performance is validated through cash distributions and realized exits, making interim marks secondary to ultimate results.

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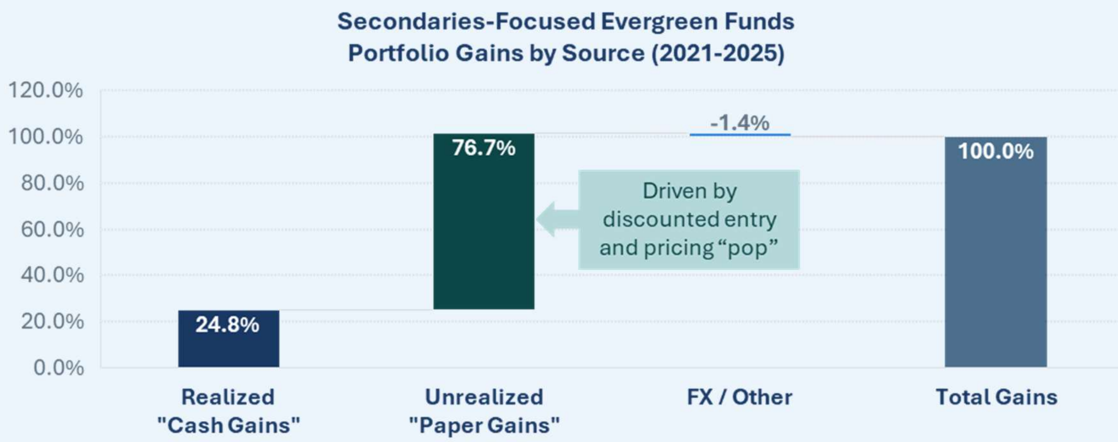
Secondary returns rely more heavily on pricing dynamics. Assets are frequently acquired at discounts to GP-reported net asset value, followed by immediate mark-ups to NAV under prevailing accounting conventions. This mechanism can generate instant uplifts in reported performance without any change in underlying operating performance. While such effects may enhance short-term IRRs, they do not represent new economic value and tend to dissipate as assets approach exit.

Secondaries-Focused *Evergreen Funds*

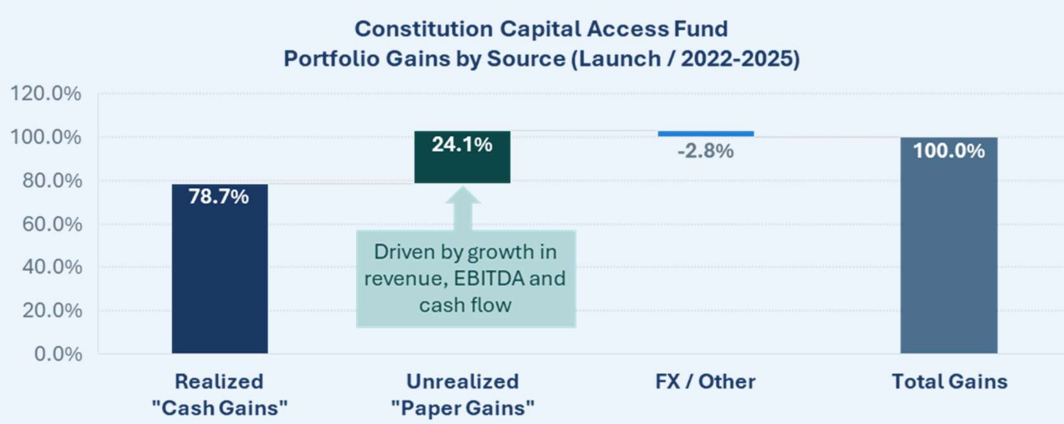
Marked Up, Not Monetized: Not all returns are created equal in private equity. Since 2021, secondaries-focused evergreen funds have generated **77% of their gains through accounting-driven mark ups** rather than exits and cash realizations. This has not only had implications on the durability and repeatability of returns, but also alignment of interests and how incentive fees are sourced. Liquidity-starved funds with limited realizations must rely on new subscriptions to fund new investments.



Source: EDHEC Infrastructure & Private Assets Research Institute, Evergreens: The Tree That Never Sheds, October 2025

Co-Investment-Focused *Evergreen Funds*

Focus on the Fundamentals: Alternatively, co-investment-focused evergreen funds like the **Constitution Capital Access Fund** ("CCAF" or the "Fund") have generated **79% of gains through the basics: investing in, growing, and selling companies.** This emphasizes the benefits of a systematic co-investment program where compounded growth and consistent exits create organic opportunities for reinvestment. For the unrealized gains generated, these largely reflect fundamental growth in underlying companies rather than structural "pops" or pricing changes.



Past performance does not guarantee future results. Source: Constitution Capital Access Fund, LLC, SEC Filings for fiscal years ending March 31st 2023, 2024 and 2025.

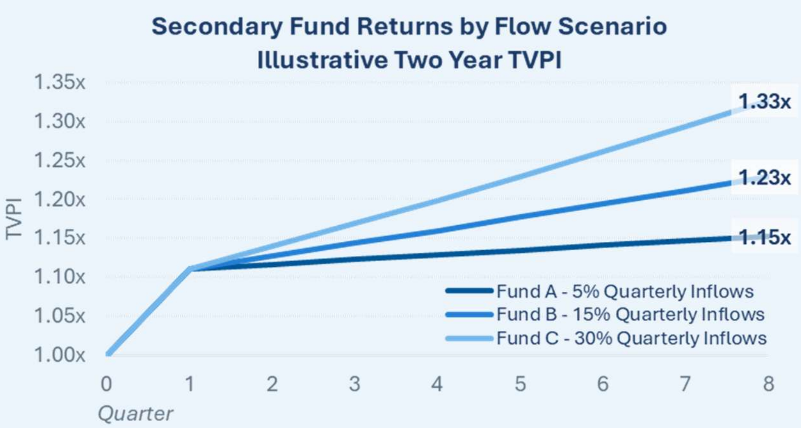
Liquidity and Structural Mismatch: When Returns Depend on Inflows

Secondaries are often associated with improved liquidity, especially within evergreen structures offering periodic redemptions. In practice, liquidity and reported performance is heavily dependent on continuous capital inflows and availability of discounted secondary transactions rather than on asset realizations.

As a result, performance becomes increasingly sensitive to fundraising momentum. Larger inflows allow more capital to be deployed into transactions that generate immediate mark-ups, boosting reported NAV and internal rate of return ("IRR"), a measure of an investment's annualized return. However, this effect diminishes as portfolios grow, competition for secondary assets intensifies, and discounts compress. Sustaining headline returns therefore requires incrementally larger capital raises and a continuous supply of discounted transactions, creating a cycle in which fundraising becomes a prerequisite for performance.

Structural Paradox of Evergreen Secondaries: For a $100 million secondary fund to generate an **annual return of 10.9%**, the fund must raise and deploy roughly **15% of its NAV per quarter**, equivalent to **$243 million over a two-year period**, while consistently sourcing secondary transactions that produce a 10% day-one valuation uplift.

Achieving a **15.2% annual return** requires a far more aggressive profile: raising **30% of its NAV per quarter**, or nearly **$900 million over two years** and 9.0x the fund's initial size. In both cases, returns are mechanically amplified by the scale and cadence of inflows rather than by improvements in underlying asset performance.



Beginning NAV	Total Inflows	Ending NAV	Annual Return
$100MM	**$899MM**	*$1.1B*	**15.2%**
$100MM	**$243MM**	*$381MM*	**10.9%**
$100MM	**$54MM**	*$171MM*	**7.4%**

Methodology Note: Morningstar's calculation. Data as of Aug. 31, 2025. Assumes inflows are invested immediately in funds purchased at a 10 percent discount to NAV and immediately marked back up to NAV. Valuations are assumed unchanged following the initial markup, and no distributions are assumed to be made.

Source: Morningstar, On Second Thought: The Alternate Reality of Secondary Funds' Returns, September 2025

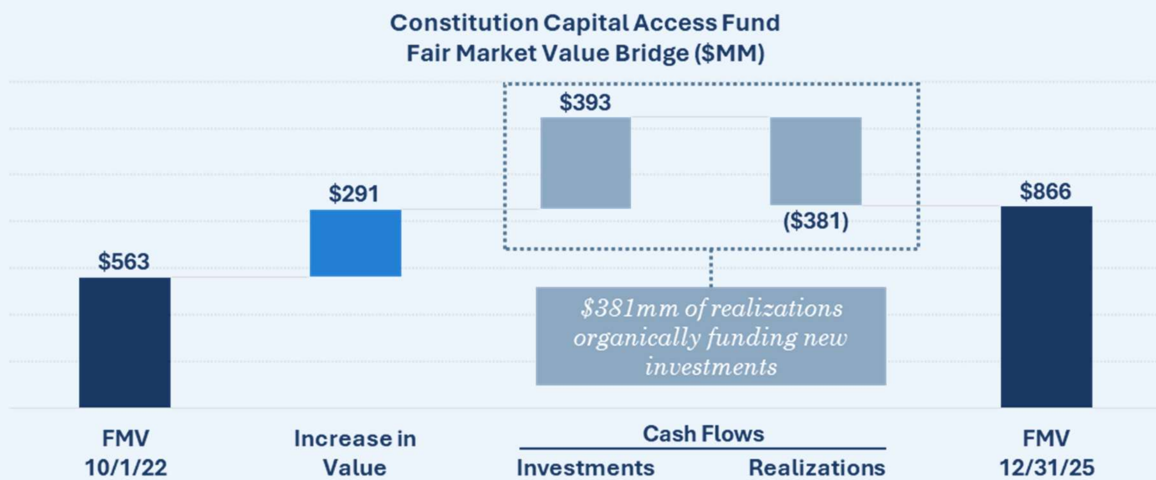
While illustrative, this highlights the structural paradox of evergreen secondaries whereby rapid scale enhances early performance through inflows, while simultaneously raising the performance hurdle and reducing the sustainability of those returns.

This dynamic also introduces a fundamental liquidity mismatch. While reported returns are driven by unrealized gains and inflows, redemption features assume that liquidity will ultimately be provided through asset realizations. When inflows slow or market conditions tighten, the mechanism that has supported reported performance weakens while the obligation to provide liquidity remains. In such environments, the divergence between valuation-based performance and realizable cash becomes increasingly visible.

By contrast, co-investment evergreen structures operate under a fundamentally different liquidity model. Because co-investments typically enter assets earlier in the value-creation cycle and incur minimal incremental fees, asset growth and realized exits play a central role in both performance and capital recycling. Rather than relying on subscription momentum to fund new deals, these vehicles can reinvest proceeds generated through monetized outcomes.

Funding Growth Through Realizations: As shown below, the **Constitution Capital Access Fund** has funded nearly all of its new investment activity since launch through realized exits rather than external capital inflows.

Over the past three years, the Fund **generated approximately $381 million of realizations**, which **organically financed $393 million of new investments**. A properly seasoned portfolio, combined with a programmatic cadence of co-investments, provides a durable asset base that supports steady reinvestment and compounding over time.



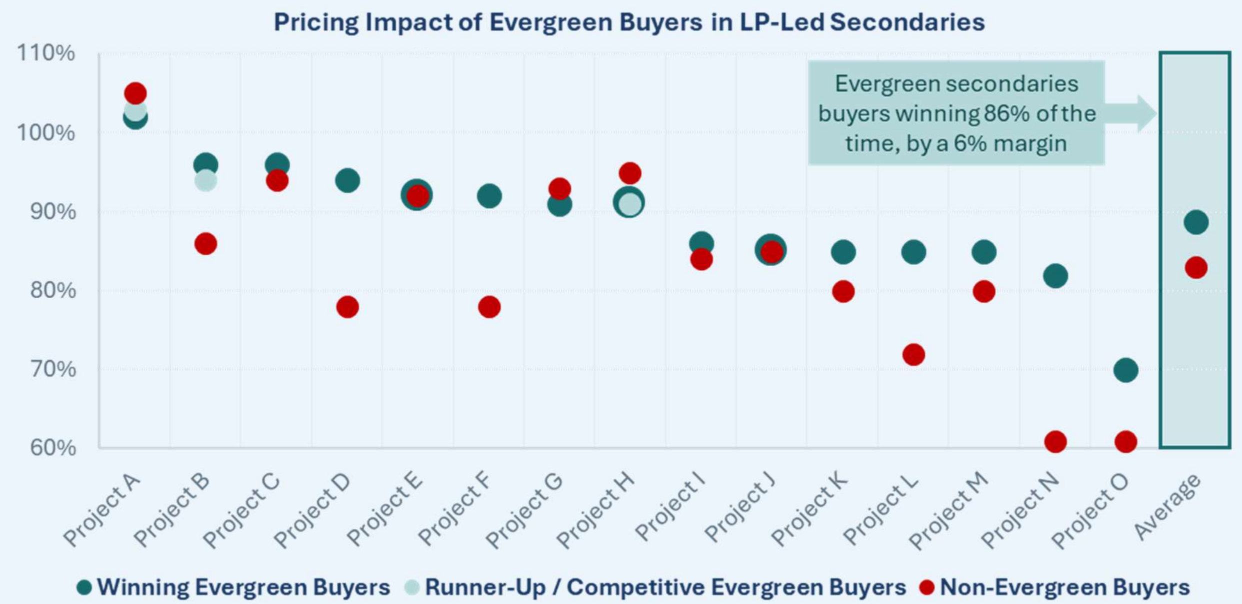
Source: Constitution Capital Access Fund, LLC, SEC Filings for fiscal years ending March 31st 2023, 2024 and 2025.

For co-investment-focused evergreen funds, realizations provide an internal and repeatable source of capital that, together with steady fundraising, support a predictable deployment model. More importantly, a portfolio of co-investments entered early in the value-creation cycle and laddered through time is positioned to generate higher TVPI through the primary growth phase. As a result, growth and ongoing liquidity can be sustained largely through compounding value creation and monetization, even in the absence of incremental inflows.

Fundraising and Deployment Discipline

Secondaries-focused evergreen structures operate under a distinct set of incentives shaped by continuous capital raising, NAV-based fee structures, and periodic liquidity expectations. Together, these features create a strong imperative to deploy capital consistently and at scale, even as competition for assets intensifies and forward return potential compresses.

The Deployment Imperative: As shown below, **evergreen secondary buyers won approximately 86% of LP-led transactions** in which they participated, **paying on average 6% more than competing non-evergreen buyers**. This pricing premium is not incidental; it reflects both the availability of evergreen capital and the urgency to deploy it. In competitive processes, evergreen buyers are structurally advantaged by speed, certainty of close, and capital flexibility—but that advantage may reveal a winner's curse exercised through higher pricing.



Source: Evercore, Pricing Impact of '40-Act Buyers in Evercore LP-Led Processes, 2024

Over time, this behavior has important implications. Winning the majority of deals by paying materially higher prices raises the embedded cost basis of portfolios, compressing forward returns and increasing reliance on valuation stability to support reported performance. When combined with NAV-based management fees and incentive fees assessed on unrealized gains, the incentive structure favors capital deployment and pricing competitiveness over return selectivity.

This helps explain why secondary evergreen strategies increasingly rely on pricing effects, valuation mark-ups, and inflows to sustain headline returns. As portfolios scale, the pressure to keep capital invested intensifies, while the universe of attractively priced secondary opportunities does not expand commensurately. The result is a structural tension between asset gathering and return durability.

By contrast, co-investment evergreen structures operate under a different incentive regime. With no incremental management fees or carried interest at the co-investment level, and with deployment paced by deal flow rather than fundraising velocity, the primary constraint is investment quality, not capital absorption. Capital is allocated selectively, pricing discipline is preserved, and performance is driven by operating value creation rather than competitive bidding.

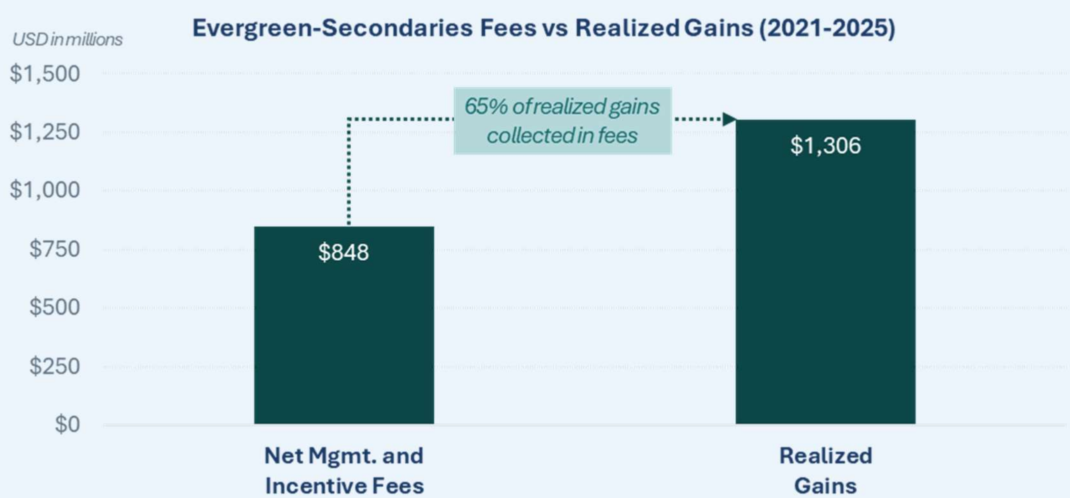
Taken together, the evidence suggests that the challenge for evergreen secondary strategies is not access to capital, but the incentives created by having too much of it. When the need to deploy dominates the need to underwrite, pricing behavior shifts accordingly. In that environment, higher win rates and higher prices may signal structural pressure rather than structural advantage.

Fees, Incentives and the Realization Gap

Fee structures materially influence net outcomes in private equity and shape manager behavior over the investment lifecycle. Secondary exposure accessed through evergreen vehicles typically involves management fees assessed on net asset value and incentive fees calculated on changes in reported NAV, including unrealized gains. When combined with fees embedded in underlying funds or continuation vehicles, the total cost borne by investors can be substantial.

Recent industry data reported by the *EDHEC Infrastructure & Private Assets Research Institute* shows that secondary-focused evergreen funds carry fee loads that are meaningfully higher than other private market strategies. On average, management and incentive fees in secondaries-oriented evergreen vehicles are 160–200 basis points higher than those charged by non-secondary evergreen funds. When layered on top of underlying fund fees, transaction expenses, and structural costs, all-in fee burdens can exceed 500 basis points annually, materially reducing net returns before value is realized.

Net Fees and Realized Outcomes: Compensation in secondary-focused evergreen funds is often earned on valuation-based appreciation well in advance of monetization. Fees crystallize as NAV increases, even when gains remain unrealized and cash distributions are limited. Since 2021, secondaries-focused evergreen funds have collected **$848 million in management and incentive fees, representing nearly two-thirds of all realized gains**.



Source: EDHEC Infrastructure & Private Assets Research Institute, Evergreens: The Tree That Never Sheds, October 2025. Net Management and Incentive Fees are net of waivers as reported in each fund's form N-CSR.

Co-investments operate under a fundamentally different economic structure. Co-investments are typically executed on a no-fee, no-carry basis, with investors participating directly alongside the lead sponsor. As a result, there is no incremental management fee layer or additional carried interest applied to the co-investment deal itself.

Equally important is the composition of gains supporting NAV growth. Co-investment-focused evergreen portfolios have historically generated a greater proportion of realized gains relative to unrealized marks, reflecting earlier entry into the value-creation cycle and monetization through exits. While incentive fees in evergreen structures may still be calculated on NAV increases, a higher share of realized gains provides a stronger economic foundation for those fees and reduces reliance on mark-to-market adjustments. The result is not the elimination of NAV-based fee mechanics, but a return profile more closely tied to monetized outcomes and operating value creation.

Over long horizons, these differences in fees and realizations compound meaningfully. In secondary evergreen strategies, layered fee loads combined with higher proportions of unrealized gains increase sensitivity to valuation mechanics and flow-driven performance. In co-investments, structural fee efficiency and a greater contribution from realized gains support a net return profile that is simpler, more transparent, and more closely linked to durable value creation.

Conclusion

Private equity outcomes are shaped as much by structure and timing as by manager skill. While co-investments and secondaries are often presented as interchangeable solutions for access and liquidity, their return engines and incentive frameworks differ meaningfully.

- **Co-investments** embed capital early in the value-creation cycle, when operational improvement and strategic repositioning drive the majority of enterprise value growth. When executed on a no-fee, no-carry basis, they preserve gross value creation for investors and align compensation with realized outcomes.
- **Secondaries** enter assets later by design. As a result, performance is more sensitive to pricing dynamics, valuation conventions, and capital flows. While secondary markets play an important role in providing liquidity and portfolio flexibility, sustaining reported returns may require continued deployment and valuation stability, especially as portfolios scale.

The distinction is most visible in how growth is funded. Co-investment-focused structures can recycle capital through realizations, supporting programmatic and self-funded deployment models. By contrast, evergreen secondary strategies may rely more heavily on capital inflows and pricing effects to support growth, increasing sensitivity to fundraising momentum and market conditions.

These structural differences have practical implications for investors. Strategies grounded in early entry, operating value creation, and realized exits may offer a more durable path to compounding over long horizons. Strategies more dependent on valuation marks, flow dynamics, and scale require careful modeling and evaluation around liquidity and sustainability.

In this context, co-investments should not be viewed solely as a complementary allocation to secondaries; they may represent a structurally advantaged approach to private equity exposure. When paired with disciplined underwriting and long-term GP partnerships, co-investments can provide investors with greater transparency, stronger alignment, lower frictional costs, and a more resilient path to long-term value creation.

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