LIQUIDITY SOLUTIONS

A Sharpe(r) Buyout?

Why secondary funds may offer an attractive risk-adjusted complement to private equity fund portfolios

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Michael Zeleniuch
Managing Director,
Head of Liquidity Solutions

Anthony Zhu
Director,
Liquidity Solutions

Marcus Chamernik
Vice President,
Liquidity Solutions

Zach Cochran
Assistant Vice President,
Investor Relations

Carina Liu
Associate,
Liquidity Solutions

Abstract

This paper draws on Cambridge Associates benchmark data and HEC Paris continuation-fund research[1] to compare the return performance and dispersion of North American buyout and growth equity ("NABG") funds compared to North American secondary funds ("NAS") across 2011–2023 vintages. The fund-count weighted average median net IRR is broadly comparable between the two strategies (13.9% for NABG and 14.9% for NAS). NABG generated a higher median TVPI of 1.67x, compared with 1.52x for NAS, while NAS produced a higher median DPI of 0.80x, compared with 0.73x for NABG. NABG returns also exhibited greater dispersion, while NAS produced a narrower range of outcomes across most vintages.

The paper then examines whether these fund-level observations are supported by asset-level evidence from continuation vehicles. HEC Paris research suggests that diversified portfolios of continuation vehicles have generated median TVPI broadly comparable to buyout funds, but with materially lower return dispersion. This finding is consistent with the structure of GP-led transactions: investors can underwrite identified assets, incumbent sponsors and management teams, and value-creation plans that are already underway. These characteristics may improve information at entry, reduce underwriting uncertainty, shorten effective investment duration, and provide greater visibility into the timing and sources of future distributions.

[1] "Continuation Funds" Performance and determinants by Oliver Gottschalg (July 2025)

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Overview

Buyout and growth equity funds remain a powerful source of attractive investment return opportunities, with top quartile private equity funds on average exceeding an IRR of 21.3% across 2011-2023 vintages. However, the same benchmark data also shows that returns vary widely by quartile, highlighting the cost that comes with not selecting a top performing fund. The lower quartile buyout and growth equity funds had on average an IRR below 7.7%, with the bottom 5 percent of funds achieving an average IRR of sub-negative 5.0% across the same vintage range.

Our research suggests that on average, secondary funds exhibit higher risk-adjusted returns[2] with a tighter range of return outcomes, supporting our "Sharpe(r) Buyout" thesis: the potential to enhance private equity portfolio construction through attractive risk-adjusted returns, greater consistency of outcomes, and reduced portfolio volatility.

Key takeaways

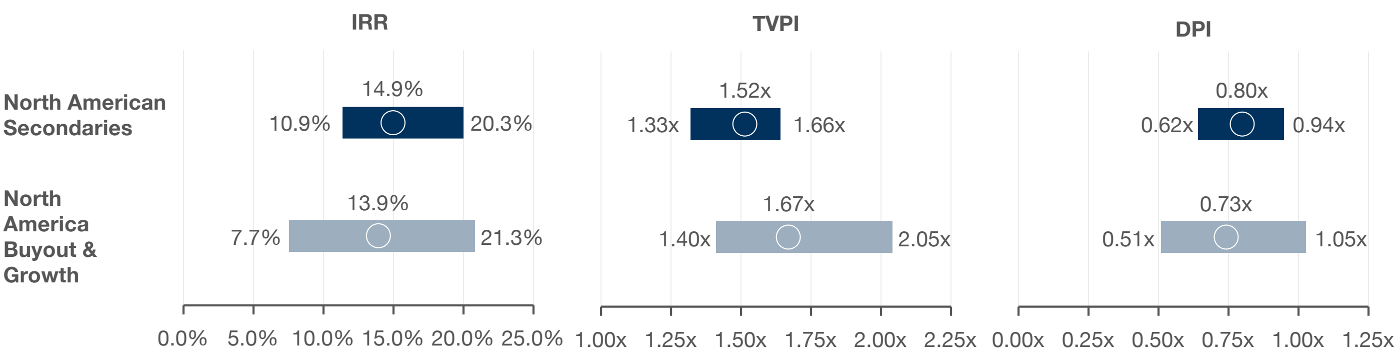
1. **The trade-off is upside versus consistency:** 2011-2023 buyout and growth vintages delivered a 13.9% average median net IRR versus 14.9% for secondaries, but with a 13.6-point IRR interquartile range versus 9.4 points for secondary funds.
2. **The dispersion signal is persistent:** Secondary net IRR standard deviation was lower in 12 of 13 vintage years, and the full-window weighted average was 45% lower.
3. **Diversification matters at the asset level:** Portfolios of continuation vehicles can preserve buyout-like median outcomes while reducing the concentration of results.

The trade-off is upside versus consistency

Across 2011-2023 vintages, the fund-count-weighted average of vintage median net IRRs was 13.9% for North American buyout and growth and 14.9% for secondary funds. The median trade-off was therefore about 1.0 percentage point. However, when comparing upper quartile net IRRs, buyout and growth exceeded secondary funds by an equivalent 1.0 percentage point. The comparison is therefore not a simple story of one strategy consistently outperforming the other. Rather, it illustrates a trade-off: buyout and growth equity retained greater upside among the strongest-performing managers, while secondary funds generated a competitive and modestly higher median return outcome.

The more pronounced distinction was the range of outcomes. The fund-count-weighted average of vintage-level net IRR standard deviation was 8.1% for secondary funds, compared with 14.9% for North American buyout and growth equity. This narrower distribution suggests that secondary-fund outcomes were less dependent on selecting an eventual top-performing manager and clustered more closely around the benchmark median. Lower dispersion does not eliminate investment risk or guarantee outperformance, but it may reduce the potential performance penalty associated with imperfect manager selection.

Exhibit 1: Comparison of North American buyout & growth equity vs. North American secondary fund returns



Source: Cambridge Associates Q4 2025 benchmark reports; Apogem calculations. Fund-count-weighted average of vintage-level lower-quartile, median and upper-quartile breakpoints for 2011-2023. All performance net to LPs. Please refer to the disclosures herein for additional information.

[2] For purposes of this paper, "risk" refers specifically to the dispersion, or variance, of potential fund-level return outcomes, including the likelihood and severity of downside-tail outcomes. Other dimensions of investment risk – including liquidity, leverage, valuation, concentration and operational risk – remain relevant but are not the primary focus of this analysis.

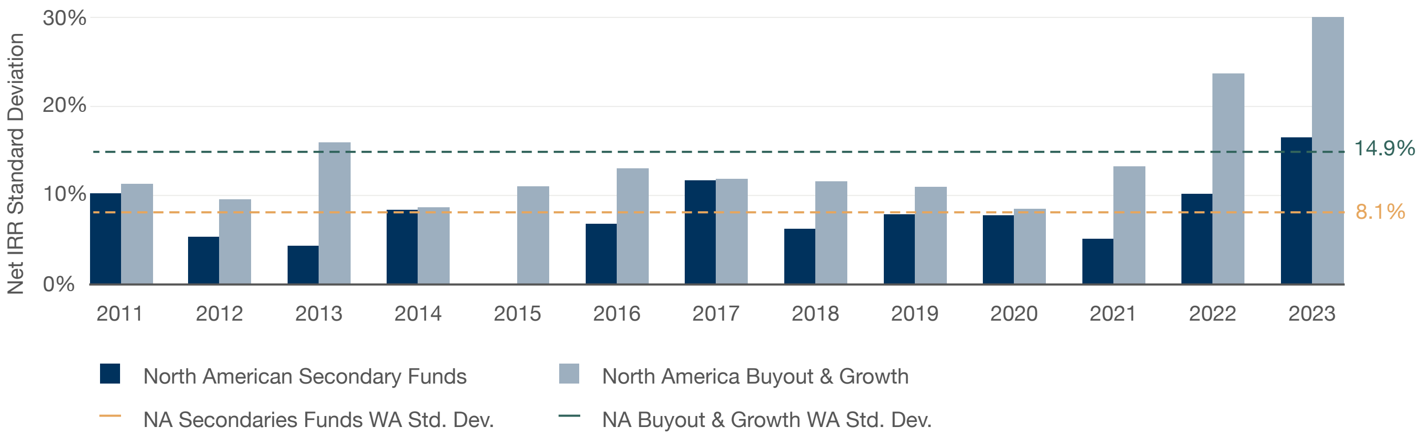
The liquidity profile also favored secondary funds. Median DPI was 0.80x, compared with 0.73x for North American buyout and growth equity, indicating that a greater proportion of reported value had already been returned to investors in cash at the measurement date.

Taken together, the data underscore the trade-off between upside and consistency: North American buyout and growth equity offered greater upper-tail potential and higher TVPI, while secondary funds delivered a slightly higher median return, materially tighter outcomes and earlier cash realization.

The dispersion signal is persistent across vintages

When assessing returns at a more granular vintage level, the prior observed dispersion trends remain consistent – across the 12 vintages with sufficient observations from 2011 through 2023, secondary funds exhibited lower net IRR dispersion than North American buyout and growth equity in every vintage. The 2015 vintage was excluded because the secondary fund sample was too limited[3] to support a reliable estimate of dispersion. Importantly, the result was not confined to a single market cycle: it remained evident across mature pre-2017 funds and the less seasoned, more volatile post-2020 vintages.

Exhibit 2: Secondary net IRR dispersion was lower in nearly every common vintage



Source: Cambridge Associates Q4 2025 benchmark reports; Apogem calculations. Dashed lines show fund-count-weighted averages across 2011-2023. Please refer to the disclosures herein for additional information.

Across the full period, the fund-count-weighted average vintage level standard deviation was 8.1% for secondary funds and 14.9% for North American buyout and growth equity – a reduction of approximately 45%, or nearly half. The weighted average interquartile range was 9.4 percentage points for secondaries, compared with 13.6 percentage points for buyout and growth equity, making the middle 50% of secondary fund outcomes 31% narrower. Stated differently, the buyout and growth benchmark exhibited almost twice the vintage level return dispersion of secondary funds. This is more than a statistical distinction. Secondary funds do not eliminate dispersion, but the evidence indicates that they can meaningfully dampen its impact to investment returns across market environments.

Top-quartile buyout is an outcome, not a strategy

The attraction of North American buyout and growth is easy to understand: its best funds have produced exceptional returns. But a quartile label is assigned after the outcome is known. By construction, roughly one quarter of a benchmark universe will be upper quartile. The relevant investment question is whether a portfolio manager can identify those sponsors prospectively, gain access to them, and repeat that selection across vintages.

The supplied Cambridge data does not answer the persistence or access question. It does, however, show the cost of missing the eventual winner. Across 2011-2023, the weighted average gap between the upper-quartile and median net IRR was 7.4 percentage points for North American buyout and growth versus 5.4 points for North American secondary funds.

[3] 2015 vintage included fewer than 6 funds with only 1 median return datapoint reported

Secondary funds do not make top-quartile manager selection easy. They may make imperfect selection less expensive.

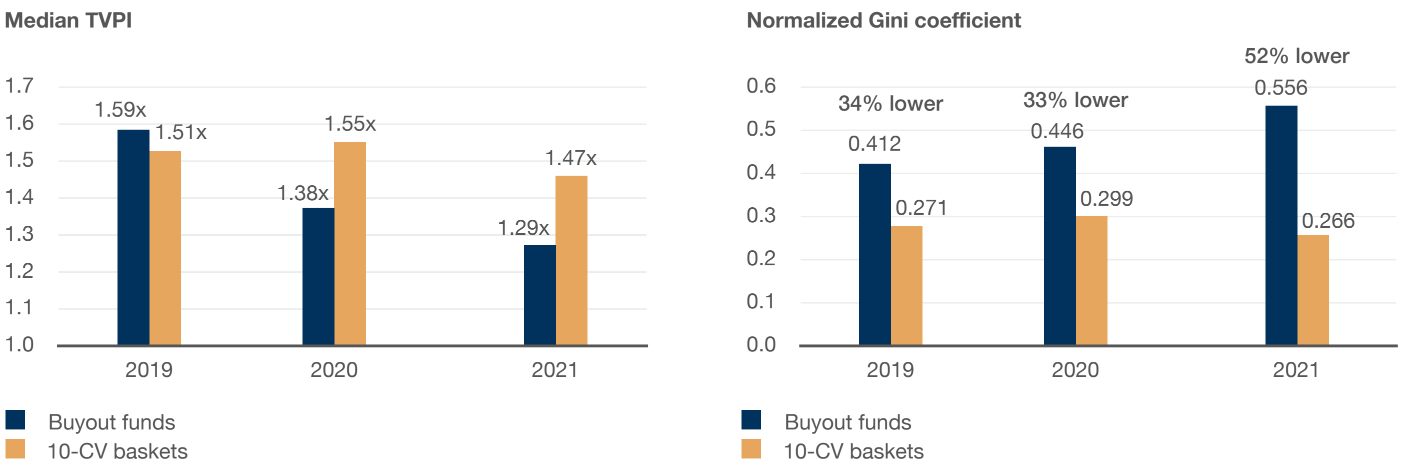
A broad primary buyout program creates a familiar tension. Concentrating commitments can preserve the possibility of a differentiated outcome, but it increases manager and access risk. Diversifying across many funds reduces idiosyncratic risk but naturally pulls the portfolio toward a benchmark-like result. This convergence is an inference from portfolio diversification, not a finding that can be directly measured in the reference Cambridge data.

The strategic case for secondaries is therefore not that they can reproduce returns comparable to the single best buyout fund. It is that they can serve as a complement to buyout exposure for investors who place greater value on consistency, downside mitigation, and risk-adjusted return potential than on the possibility of an extreme fund-level outcome.

Continuation vehicles bring the argument closer to the asset

The latest HEC Paris continuation fund study by Oliver Gottschalg assembled Q4 2025 performance data for 396 continuation vehicles formed between 2018 and 2024. To compare single-asset continuation vehicles with diversified buyout funds, the research team created randomized portfolios of 10 single-asset continuation vehicles and measured both median TVPI and the normalized Gini coefficient, a dispersion statistic in which a lower value indicates a more even distribution of returns.

Exhibit 3: Diversified ten-CV portfolios produced comparable median TVPI with materially lower dispersion



Source: Independent continuation fund performance study by Professor Oliver Gottschalg's team at HEC Paris. Please refer to the disclosures herein for additional information.

The median TVPI result was not uniformly superior: the ten-CV portfolios trailed buyout by 0.08x in 2019, then exceeded it by about 0.18x in both 2020 and 2021. The dispersion result was more consistent. Normalized Gini coefficients were 34% lower in 2019, 33% lower in 2020 and 52% lower in 2021.

This is unusually direct support for a diversified GP-led thesis. The analysis compares diversified portfolios on both sides, rather than a single continuation vehicle against a diversified buyout fund. It therefore controls more effectively for concentration effects and suggests that the return advantages associated with continuation vehicles are not solely a function of concentrated single-asset exposure.

Why the result is plausible

The return profile of continuation vehicles is consistent with the way these transactions are structured. Unlike a new primary fund commitment, a GP-led transaction allows investors to underwrite a named company or defined portfolio that the incumbent sponsor has already owned through an initial value creation period. The GP and management team enter the next phase with an established operating record, direct knowledge of the business, and a growth plan that is already underway. This does not eliminate underwriting risk, but it can reduce the information gap associated with a blind pool and the uncertainty inherent in acquiring a new business at the outset of an ownership period. Continuation funds are also typically designed for a further four to five years of ownership, giving incoming investors a potentially shorter and more visible realization horizon than a new primary commitment.

The assets selected for continuation vehicles also tend to be businesses that sponsors believe retain meaningful value creation potential. This may create a positive selection effect: the decision to pursue a continuation vehicle may be driven by an investment having achieved the original fund's return objectives, or by a mismatch between the company's remaining value creation opportunity and the time, capital or stakeholder alignment available within the existing fund. In either case, the sponsor elects to retain exposure and support the business through another investment cycle. The benefit should not be assumed, however. A sponsor's conviction is not a substitute for independent underwriting of the company's quality, valuation, capital structure, and exit path. The most compelling opportunities remain for businesses with proven value creation plans, aligned management teams, reasonable capital structures, and credible routes to realization.

Alignment can further strengthen the structure. Sponsors generally roll a meaningful portion, or all of the carried interest and invested capital generated by the transaction into the continuation vehicle, while management teams may reinvest and refresh their incentive arrangements. Lead investors can reinforce this alignment through performance-based carry, fee step-downs, governance protections, and clearly defined time horizons and exit expectations. Properly structured, these provisions keep the GP, management team, and new investors economically exposed and incentivized to the next phase of performance while providing greater visibility into how value is expected to be created and realized.

Continuation vehicles also preserve operational continuity and momentum. By keeping the incumbent GP and management team in place, the business can continue executing its value creation plan without the disruption of a new sponsor, governance structure, or strategic agenda. This reduces management distraction and transition costs while allowing capital to be deployed immediately against proven initiatives rather than requiring a new owner to spend the early part of its investment period developing familiarity with the business.

From an investor's perspective, these features may produce a shorter effective duration and a less pronounced J-curve. At the transaction level, capital is deployed immediately into seasoned assets rather than into new assets that are subject to a learning curve for the financial sponsor. Because the businesses are further along their ownership and development cycles, realizations may also occur earlier. This does not necessarily mean that every continuation vehicle will have a short holding period – particularly in a single-asset transaction, where cash flows may remain dependent on one eventual exit – but it can create greater visibility into the timing and sources of future distributions.

Taken together, known assets, sponsor and management continuity, stronger alignment, and a shorter effective path to liquidity provide a plausible explanation for why diversified GP-led portfolios may produce more consistent outcomes and earlier cash conversion than traditional primary buyout exposure.

A complement, not a shortcut

The data supports a portfolio construction conclusion rather than a winner-take-all verdict. North American buyout and growth equity remains an important source of upper-tail return potential and long-term value creation. Secondary funds, however, have historically produced a narrower range of outcomes, a less severe bottom tail, and earlier cash realization. Diversified continuation vehicle portfolios have, in the available study, produced buyout-like median TVPI with materially lower return concentration. Secondary funds should therefore be viewed not as a replacement for traditional buyout and growth equity funds, but as complementary exposure that can enhance diversification and dampen the volatility of the overall private equity portfolio.

The most important potential benefit is at the portfolio level. Although the available analysis does not directly model a blended primary and secondary allocation, the materially lower dispersion observed among secondary funds suggests that adding it may reduce manager-selection risk and the variability of outcomes across a private equity program. A portfolio that combines primary buyout and growth funds with diversified secondary exposure may be less dependent on repeatedly identifying and accessing future top-quartile managers. In practical terms, primary funds can preserve exposure to exceptional upside, while secondaries may help dampen volatility and improve the consistency of portfolio-level returns.

Secondary funds may also improve liquidity management and capital efficiency. In the benchmark period examined, secondary funds reported higher median DPI, indicating that more value had already been returned to investors in cash. Because secondary capital is typically invested in seasoned funds or assets that are further along their ownership cycle, the strategy may produce earlier distributions, a shorter effective duration and a less pronounced J-curve. Continuation vehicles can provide similar benefits: incoming investors underwrite identified assets, incumbent sponsors and management teams, and value creation plans that are already underway. They are commonly structured around an additional four to five-year ownership period, which may provide a shorter and more visible realization horizon than a new blind-pool commitment. These characteristics do not guarantee an early exit or a shorter ultimate fund life in every transaction, but they can increase visibility into the timing and sources of future cash flows.

The potential benefits extend beyond lower dispersion and earlier distributions. Secondary funds have generated competitive – and in certain benchmark periods, higher – median historical returns. The continued development of the GP-led market may also create meaningful co-investment opportunities for LPs, giving investors access to concentrated asset-level economics alongside a diversified fund portfolio.

The question is not whether secondaries can reproduce the very best buyout fund. It is whether their addition to an existing private equity portfolio reduces portfolio volatility due to its higher Sharpe ratio.

For investors who have already concentrated commitments with a select group of high-conviction managers, secondaries can help round out the remainder of the private equity portfolio. By combining competitive median returns with lower observed dispersion, earlier distributions, and greater visibility into underlying assets, secondary funds may reduce reliance on repeated top-quartile manager selection while improving portfolio consistency and liquidity management.

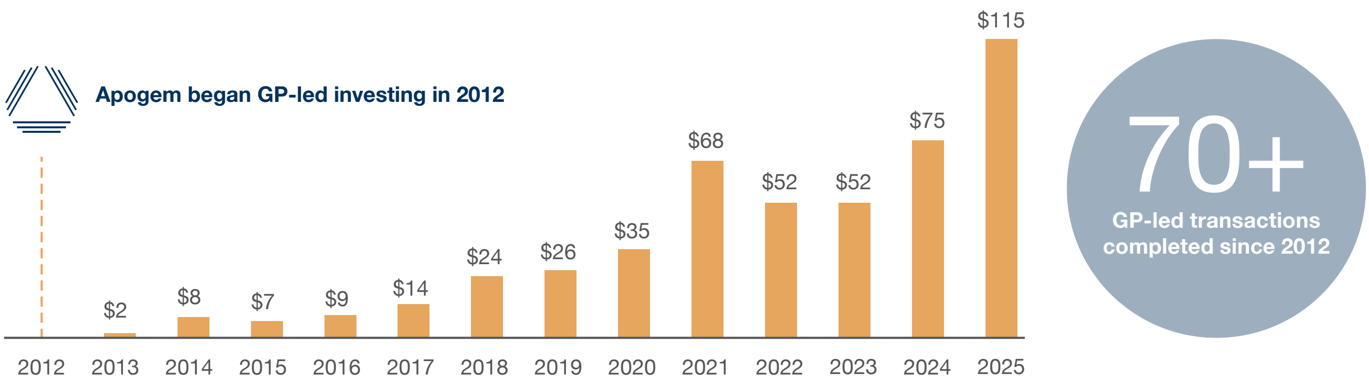
In that sense, "Sharpe(r) Buyout" is a portfolio-construction thesis, not a claim that one strategy is superior to another. Primary buyout and growth equity funds preserve access to differentiated upside potential, while secondaries can complement that exposure by narrowing the range of outcomes and improving cashflow timing. Used together, the strategies may create a more balanced portfolio with a more efficient trade-off among return potential, liquidity, and risk.

Insights through experience; Apogem's expertise at a glance

Apogem Capital is a leading private markets investor with 35 years of experience and expertise across private credit and private equity in North America. The firm manages approximately $45 billion in assets. Apogem provides a comprehensive suite of solutions, including direct lending, private equity funds and co-investments, GP-led transactions and LP secondaries, GP stakes, and private real assets.

Apogem's Liquidity Solutions team is comprised of 15 investment professionals fully dedicated to its core GP-led and LP-led investment strategy, inclusive of a senior team with 125+ years of combined investing experience spanning multiple market cycles together. Apogem is believed to be one of the earliest GP-led entrants, the strategy being an integral component of our secondaries platform for nearly two decades, including periods prior to the strategy being widely recognized as a distinct category of private markets investing.

Exhibit 4: Global GP-led Transaction Volume by Year ($ in billions)



Sources: Combination of Jeffries 2026 Secondaries Report & William Blair 2025 Secondary Market Report. Industry data prior to 2013 not available given early nature of GP-led investments.

Through the years, Apogem has contributed to the evolution of Middle and Lower Middle Market GP-led transactions, guiding many sponsors through their first ever GP-led transactions and completing over 70 transactions to date. Any questions or requests for additional information regarding this white paper can be directed to Apogem Investor Relations at ApogemIR@apogemcapital.com, where a member of the team will respond as quickly as possible.

Disclosures

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Index Definitions

Cambridge Associates Buyout & Growth Benchmark – Cambridge Associates U.S. Buyout & Growth Benchmark Statistics represents a robust collection of institutional quality private fund performance and are based on data compiled from institutional-quality global buyout and growth equity funds formed since 1986. The benchmark aggregates portfolio-level performance information. Fund and investment-level performance information is drawn from the quarterly and audited annual financial statements of the fund managers and each manager’s reported performance numbers are independently recreated from the financial statements and verified by Cambridge Associates. For informational purposes, the benchmark data included herein includes more than 950 buyout and growth equity funds, the data as of March 31, 2026.

Cambridge Associates Secondaries Benchmark – Cambridge Associates Secondaries Benchmark Statistics represents a robust collection of institutional quality private fund performance and are based on data compiled from institutional-quality secondaries funds. The benchmark aggregates portfolio-level performance information. Fund and investment-level performance information is drawn from the quarterly and audited annual financial statements of the fund managers and each manager’s reported performance numbers are independently recreated from the financial statements and verified by Cambridge Associates. For informational purposes, the benchmark data included herein includes more than 150 secondary funds, the data as of March 31, 2026.

Note: Comparisons to alternative investment indices/benchmarks are subject to material inherent limitations. Data included in alternative investment indices or benchmarks generally do not represent the returns of all funds but rather only those to which the index/benchmark provider has access. The number of funds included in the index/benchmark data for a specific vintage year will likely vary. Moreover, performance information for all funds within a specific category may differ from those reported by the index/benchmark provider. Additionally, the universe from which the components of an alternative investment index/benchmark are selected include a significant element of “survivor bias” into the reported levels of an index/benchmark, as generally only successful funds will continue to report for the required period. Accordingly, indexation of alternative investment strategies tends to overstate the beneficial aspects of these strategies while obscuring certain risks, including the “risk of ruin.”

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