PEPIX — SECONDARIES MARKET COMMENT

Q3 2026 — Summary

KEY TAKEAWAY

Secondary pricing fell for a third consecutive quarter, to 84.0% of Q3 2026 NAV. The average discount to the primary market has widened to 16.0%, driven primarily by weak, illiquid software-heavy and out of favour growth funds.

KEY THINGS — Q3 2026

- **Secondary pricing fell for a** third consecutive quarter, to 84.0% of Q3 2026 NAV. The average discount to the primary market has widened to 16.0%, driven primarily by weak, illiquid software-heavy and out of favour growth funds.
- **Quality assets continue to change hands at** fair value. Most of the transactions we've seen this quarter have been high quality assets, with strong cash flows and resilient businesses. Nevertheless, these assets have also been subject to the same discounts as the rest of the market.
- **Mid-market buyers fuse with Mike** Ashley's investment in secondaries, as he launches a new fund to buy stakes in private companies.
- **Notably, the multibillion-euro fund** expected to be one of the largest impact-focused managers and has already raised €1.5 billion from investors, including Dutch pension fund APG and Canada's Ontario Teachers' Pension Plan.
- **We do not share any peers'** optimism around the recovery in the secondaries market. Pricing has not yet bottomed out, and we expect it to fall further in the coming quarters.
- **Capital is making out of** software into the AI sector, as investors look to capitalise on the boom in artificial intelligence.

Market pricing

- By comparison, mutual funds holding the same companies declined by an average of 6.4% over the same period, underscoring the scale of the discount now being applied in the secondary market.
- Buyout funds remain around the 90 cent mark, a relatively resilient segment of the market.
- Infrastructure and senior private credit funds, on the other hand, are trading at around 95 cents on the dollar.

FUND STRATEGY PRICING — Q3 2026 NAV RANGE

Fund Strategy	Average Q3 2026 NAV	Q/Q Change
Buyout	90.0%	Flat
Growth / Late-Stage Venture	72.0%	-4.0%
Software-Heavy Growth	68.0%	-5.0%
Infrastructure	95.0%	Flat
Senior Private Credit	94.0%	Flat

Market volumes

- Many of our peers are forecasting – or perhaps, wishcasting – a rebound in secondary volumes in the second half of the year. We're not so sure. Q3 2026 volumes were down 18% on the same period last year, and we think the risk-set spread in the market will continue to weigh on transaction activity.
- **Buyers are cautious and will** be looking for assets that can withstand a prolonged period of weak exits. Quality will command a premium, but the bar for what qualifies as quality has risen.
- **Liquidity is concentrated** in a few large transactions. Strip out the top five deals and Q3 2026 volumes look materially weaker.
- **The broader software sector** is where the pain is most acute. Multiples have compressed, growth has slowed, and buyers are demanding significant discounts to reflect the uncertainty around terminal values.
- **For every record sale there has been a** comparable withdrawal. Sellers are not capitulating; many are choosing to wait rather than accept the prices on offer.
- **A key driver of value remains disappointing GPs.** In search of liquidity, many have been selling their most mature assets – often the ones with the strongest cash flows and lowest risk profiles – leaving behind a concentrated portfolio of underperformers.
- **Of our benchmark of 1,200 funds we track, 312 are now in the bottom quartile** by performance, up from 287 in Q2 2026. Many of these funds are approaching the end of their contractual lives, creating forced-seller dynamics that will weigh on pricing for the foreseeable future.
- **We expect volumes to** remain subdued through the end of the year, with no meaningful recovery likely before the first quarter of 2027.

EXPERT COMMENTARY

Matilde Horta

Director at Hartford Partners

- **Of all pricing remains strong,** reflecting continued competition for high-quality assets. Investors are willing to pay premiums for companies that can demonstrate resilient cash flows and defensible market positions, even in a challenging macroeconomic environment.
- **Software remains the sector with the greatest pricing dispersion.** Companies with strong net retention and efficient growth are commanding premium valuations, while those with slowing revenue growth are facing significant discounts.
- **Single-asset continuation vehicles are now firmly part of** the secondary toolkit. Sponsors are using these structures to hold their best companies longer, giving investors the choice to roll or cash out.
- **The second-secondary buyer universe continues to broaden,** supported by a growing number of specialist funds and dedicated capital pools. This is increasing competition for high-quality assets and supporting pricing in the segment.
- **Exit activity remains subdued,** with the IPO window still largely closed. Sponsors are increasingly relying on secondary transactions as a primary source of liquidity, which is reshaping the overall deal flow.

From "status quo" to "remain in place": IL.PA finds its voice

- For several years, IL.PA have been poorly rated by the market, with the fund trading at a persistent discount to NAV. Investors have long criticised the fund's opaque fee structure and its reluctance to engage with shareholders on governance issues.
- The public framework was first introduced in 2023, but it was largely ignored by the fund's management. Only in the past 12 months has there been any meaningful progress.
- The draft guidance published this year attempts to close the gap between IL.PA and its peers. It requires annual disclosure of all fees and carried interest, and mandates a shareholder vote on any proposed change to the fund's investment strategy.
- The timeline for adoption is now public, and the fund has committed to a first vote by the end of 2027. That is a long runway, but it is the first concrete commitment investors have received.
- **The infrastructure play is hardly risk-free,** however. Builds is exposed to the cyclical construction sector, and its balance sheet is already stretched. Any slowdown in new housing starts would hit both its revenue and its ability to service its debt.
- **It's a timely** judgment. We have to see whether the fund can actually deliver on what it has promised.
- **That has obvious implications for secondary** investors. Until now, it hasn't been a trading asset. Buyers and sellers have had very different views on what it was worth, and bid-ask spreads have been wide.
- **Look beyond the average** and the dispersion is even more striking. The trade of book value to date is the 10th-largest.

Renewed focus on real assets

- Buyers are increasingly cautious about acquiring traditional software companies, as concerns grow that artificial intelligence could disrupt established business models. Many investors are now looking for businesses with physical assets and predictable cash flows, which are seen as more resilient to technological change.
- **Real assets are also benefiting from a** broader shift in investor sentiment. After years of chasing growth, many allocators are now prioritising stability and income, and are willing to pay a premium for businesses that can demonstrate both.
- **Infrastructure is the clear winner.** Assets such as data centres, energy networks and transport infrastructure have seen the strongest demand, with some deals attracting more than 20 bidders.
- **Even traditional industrials are getting a look-in.** Companies with long-term contracts and limited exposure to the digital economy are being bought at valuations that would have been unthinkable two years ago.
- **The contrast with software is stark.** Many software businesses are trading at a fraction of their peak valuations, with buyers struggling to underwrite the terminal value of companies whose products may be obsolete within a decade.
- **The shift is not without risks.** Some of the assets being bought are highly leveraged, and a sharp rise in interest rates could quickly turn a stable business into a distressed one. Buyers are also paying up for quality, which means returns will depend on getting the entry price right.
- **Still, the direction is clear.** Capital is moving from the digital to the physical, and from the speculative to the proven. For investors who have been underweight real assets, the opportunity is now.

AI & private markets

- Everyone has a view on AI, but few have a framework for thinking about how it will reshape private markets. We've been working on one, and we're sharing it here.
- Those who remember the dot-com transparency bubble will recall that valuations were driven by narratives about future potential rather than current fundamentals. The parallels to today are obvious, but the differences are more instructive. Back then, most companies had no revenue at all. Today, many of the companies receiving the highest valuations are generating substantial cash flows. The risk is not that AI is a fantasy; it's that the economics of "useful AI" may look very different from the economics of "transformative AI" that are currently being priced in.
- Our thesis is that AI will be a net positive for the private markets ecosystem, but not uniformly so. The winners will be those who can deploy capital into businesses that are using AI to improve their existing economics, rather than those trying to build AI from scratch. The latter category is where we see the most risk, and where we have the least conviction.
- **Couple that** with the fact that many of these companies are already profitable, and you have a recipe for a sustained boom.
- **It is not a 20-time** argument that 20 companies will be worth $1 trillion each. It is a 1-time argument that one company will be worth $20 trillion.
- **Even funds focused on senior** secured loan structures are not immune. Borrowers in sectors facing AI disruption are showing signs of stress, and we have begun to see amendment requests that we would not have seen two years ago.
- **Also of note is the growing** divergence between AI "winners" and "losers" within portfolios that were assembled during the zero-rate era. Many GPs are sitting on companies that no longer fit their investment theses, and the secondary market is beginning to price that reality in.
- **Yet, meanwhile, we look forward to** analytical platforms that monitor the portfolio companies we own. Those that can flag AI-driven risks early will be invaluable, and we expect to see a new category of software emerge around this need.

Private credit secondaries

- Private credit's rise at the intersection of two secondary trends has created a unique opportunity.
- Upper middle-market and large-cap loans (EBITDA above $50m) have become the workhorse of direct lending, with deep liquidity and active trading. Lower middle-market loans ($5m–$25m EBITDA) are the opposite: illiquid, bespoke, and held to maturity by buy-and-hold investors.
- **Do** providers has tightened as the cost of capital has risen. Banks are pulling back from leveraged lending, and direct lenders are facing pressure from their own investors to deploy capital. This has created a gap that secondary buyers are starting to fill.
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The market is under-pricing risk

- There is a widening gap between how much risk the market is willing to take and how much risk it is actually taking. Credit spreads have compressed to near-historic lows, while the underlying fundamentals of the companies we own have deteriorated.
- The market's obsession with the pace of rate cuts has distracted from the more important question: what is the terminal rate? We think it will be higher than the consensus expects, and that the repricing of risk has only just begun.
- **Leverage remains elevated** in the mid-market, with many businesses carrying debt loads that would have been unthinkable two years ago.
- **In November 2025,** the pay fund $300 million in dividends to itself and its other owners, funded entirely by new debt. The company's interest coverage ratio now sits below 1.5x, leaving it with little room for error if earnings disappoint.
- **Deals** of this kind are becoming increasingly common, as sponsors look to extract value before the refinancing window shifts for the worse.
- **The risk** we take: [illegible] Ultimately, we believe the market is underestimating the probability of a credit event in the next 12 to 18 months.

THE PEPIX LIBRARY

- PEPIX's proprietary research system has accumulated pricing data on almost 4,000 private equity funds over the past decade.
- **The PEPIX Library** is the first time this data has been made available to the public in a searchable format.
- There is no subscription fee and no registration required. Investors can look up any fund by name and see its pricing history, peer comparisons, and our proprietary risk score.
- **Do use the PEPIX Library** to check the pricing of your own fund before you go to market. It will tell you whether your expectations are realistic — and whether your buyer has done their homework.
- **PEPIX covers the following** 100 most-traded secondary fund interests in the PEPIX Library:

PEPIX LIBRARY

PEPIX CORE 100

FUND	FUND	FUND
Advent Global Private Equity IX	Harbourvest Partners XII	Nordic Capital Fund IX
Advent Global Private Equity VIII	Hg Capital 9	Nordic Capital Fund X
Advent Global Private Equity X	Hellenstone Venture Fund IV	Oak Hill Advisors Fund V
Affirmative Fund III	Hg Saturn 3	Oaktree Opportunities Fund XI
Affinity Asia Pacific Fund II	Hg Saturn 4	Oaktree Opportunities Fund XII
Apax Europe VII	Hillhouse Capital Fund II	Partners Group Secondary 2018
Apax Europe X	Hillhouse Capital Fund III	Partners Group Secondary 2020
Apollo Investment Fund X	Hillhouse Capital Fund IV	Permira Europe V
Ares Capital Europe III	Insight Venture Partners X	Permira Europe VI
Ares Corporate Opportunities Fund II	Insight Venture Partners XI	Permira Growth Opportunities Fund II
Ardian VII	Kinderhook Industrial Fund II	Pine Island Infrastructure II
Bain Capital Fund XII	Kohlberg Kravis Roberts XIII	Roche Bobois Fund IV
Bain Capital Fund XIII	Lexington Partners IX	Roche Bobois Fund V
Bjerking Fund III	Lexington Partners X	RRE Ventures Fund IV
BC European Capital X	Lexington Partners XI	RRE Ventures Fund V
Berkshire Fund IX	Lexington Partners XII	RRE Ventures Fund VI
Berkshire Fund X	Lone Star Fund XII	Sequoia Capital China Fund VII
Blackstone BX	Lone Star Fund XIII	Sequoia European Infrastructure Fund II
Blackstone Energy Partners Fund VI	Lone Star Fund XIV	Silver Lake Partners VI
Blackstone TE	Madison Dearborn VIII	Silver Lake Partners VII
Blackstone TE2	Mbk Partners IV	Silver Lake Partners VIII
Bridgepoint Europe Private Equity VI	New Enterprise Associates XVI	Silver Lake Partners VIII
Bridgepoint Europe Private Equity VII	New Enterprise Associates XVII	Silver Lake Partners IX
Brookfield Infrastructure Fund IV	New Mountain Partners V	Silver Lake Partners X
Carlyle Asia Partners V	New Mountain Partners VI	Silver Lake Partners XI
Carlyle Partners VII	Nordic Capital Fund VI	Silver Lake Partners XII
Carlyle Partners VIII	Nordic Capital Fund VII	Silver Lake Partners XIII
Charlesbank X	Nordic Capital Fund VIII	Silver Lake Partners XIV
Cinven VII	Nordic Capital Fund IX	Spectrum Energy Partners IV
Cinven VIII	Nordic Capital Fund X	Stone Point Capital XII
Clayton Dubilier & Rice IX	Oak Hill Advisors Fund V	Stone Point Capital XIII
Clayton Dubilier & Rice X	Oaktree Opportunities Fund XI	Stonepeace Infrastructure Partners III
Clearlake 9	Oaktree Opportunities Fund XII	Tcv IX
Cvc Capital Partners Asia Pacific IV	Partners Group Secondary 2018	Tcv X
Cvc Capital Partners Asia Pacific V	Partners Group Secondary 2020	Tdr Capital 5
Cvc Capital Partners Fund VII	Permira Europe V	Thoma Bravo Fund XIII
Cvc Capital Partners Fund VIII	Permira Europe VI	Thoma Bravo Fund XIV
Dover Street IX	Permira Growth Opportunities Fund II	Thoma Bravo Fund XV
Eclipse Ventures Fund V	Pine Island Infrastructure II	Thoma Bravo Fund XVI
Eqt Asia Fund III	Roche Bobois Fund IV	Thomas H. Lee Xii
Eqt Asia Fund IV	Roche Bobois Fund V	Thomas H. Lee Xiii
Eqt Asia Fund V	RRE Ventures Fund IV	Tiger Fund V
Eqt Fund	RRE Ventures Fund V	Tiger Fund VI
Eqt Fund Vi	RRE Ventures Fund VI	Vista Equity Partners Fund VI
Eqt Fund Vii	Sequoia Capital China Fund VII	Vista Equity Partners Fund VII
Eqt Fund Viii	Sequoia European Infrastructure Fund II	Vista Equity Partners Fund VIII
Eqt Infrastructure Iii	Silver Lake Partners VI	Warburg Pincus Private Equity XI
Eqt Infrastructure Iv	Silver Lake Partners VII	Warburg Pincus Private Equity XII
Eqt Infrastructure Ii	Silver Lake Partners VIII	Warburg Pincus Private Equity XIII
Eqt Infrastructure Iii	Silver Lake Partners IX	Wcp Fund Xiv
Eqt Infrastructure Iv	Silver Lake Partners X	Wcp Fund Xv
Eqt Ix	Silver Lake Partners XI	Wcp Fund Xvi
Eqt Vii	Silver Lake Partners XII	Wellington Private Equity Partners Fund V
Eqt Viii	Silver Lake Partners XIII	Wellington Private Equity Partners Fund VI
Eqt X	Silver Lake Partners XIV	Wellington Private Equity Partners Fund VII
Euroknights Vi	Spectrum Energy Partners IV	Wellington Private Equity Partners Fund VIII
Francisco Partners Ix	Stone Point Capital XII	Wcp Fund Xiv
Francisco Partners X	Stone Point Capital XIII	Wcp Fund Xv
Gtcr Fund Xiii	Stonepeace Infrastructure Partners III	Wcp Fund Xvi
Gtcr Fund Xiv	Tcv IX	Wellington Private Equity Partners Fund V
Gtcr Fund Xv	Tcv X	Wellington Private Equity Partners Fund VI
Hellman & Friedman IX	Tdr Capital 5	Wellington Private Equity Partners Fund VII
Hellman & Friedman X	Thoma Bravo Fund XIII	Wellington Private Equity Partners Fund VIII

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CURRENT SECONDARIES

- **PEPIX is a** data-driven secondary marketplace connecting buyers and sellers of private equity fund interests. We use proprietary pricing models to match investors with opportunities that fit their risk and return profiles.
- **We have seen a** significant increase in the number of secondary transactions over the past 12 months, driven by a combination of denominator effects and GP-led restructurings.
- **For more information** on [illegible] please contact us at the details below, or visit us in the marketplace for a demo of our platform.

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