

Issue 17 – February 16, 2026

Private Equity Beneath the Surface: Capital Circulation and the Economics of Fee Reset

Insights Engine | Private Equity



Table of Contents

01

Secondaries Surge as Exits Stall

Secondaries have shifted from a tactical tool to a structural pillar of private equity, fueled by weak exits and rising liquidity pressure.

02

Layered Conflicts: The New Role of Funds of Funds

FoF participation in GP-led deals intensifies conflicts and strengthens GP control.

03

Continuation Funds: Fees Reset, Incentives Rewired

Continuation funds recycle assets while resetting fees and carry.

04

From Exits to Ecosystem: PE's Structural Evolution

Private equity is shifting from exit-driven returns to internally engineered liquidity.

Executive Summary

Private equity's liquidity engine is under structural strain, with secondaries and continuation vehicles reshaping alignment and incentives. Beneath the surface, it's less innovation more a test of true performance and governance resilience.

“We’re not in a valuation correction we’re in a performance reckoning.”

Sunaina Sinha Haldea

Global Head of Private Capital Advisory

Private equity is undergoing a structural reset. With over USD 2 trillion in dry powder and subdued IPO and M&A exits, liquidity has shifted inward, pushing the secondaries market to a record USD 226 billion in 2025. Secondaries are no longer tactical they are the core liquidity engine of private capital markets.

GP-led continuation funds now replace traditional exits, recycling assets within the same ecosystem while offering LPs optional liquidity. Meanwhile, fund-of-funds participation introduces layered conflicts as investors increasingly act as both sellers and buyers, reinforcing sponsor control in pricing and structuring.

The defining shift is clear: capital circulates internally while fees reset at each transition. As continuation vehicles refresh management fees and carry, private equity is evolving from an exit-driven model to an engineered liquidity framework placing valuation discipline, governance rigor, and alignment at the center of the industry's next phase.



\$226b

Global secondaries volume reached in 2025

18%

Market volume CAGR since 2019

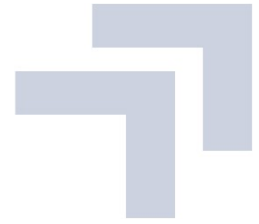
84%

GP-led deals driven by continuation funds

\$92.9b

Capital raised by secondaries funds

Secondaries Surge as Exits Stall



Secondaries have shifted from a tactical tool to a structural pillar of private equity, fueled by weak exits and rising liquidity pressure.

The global secondaries market is now a core component of private capital. With dry powder above USD 2 trillion and exit activity well below its 2021 peak, liquidity pressures across institutional portfolios have intensified. DPI has declined over the past two years amid volatile IPO markets, limiting distributions to LPs.

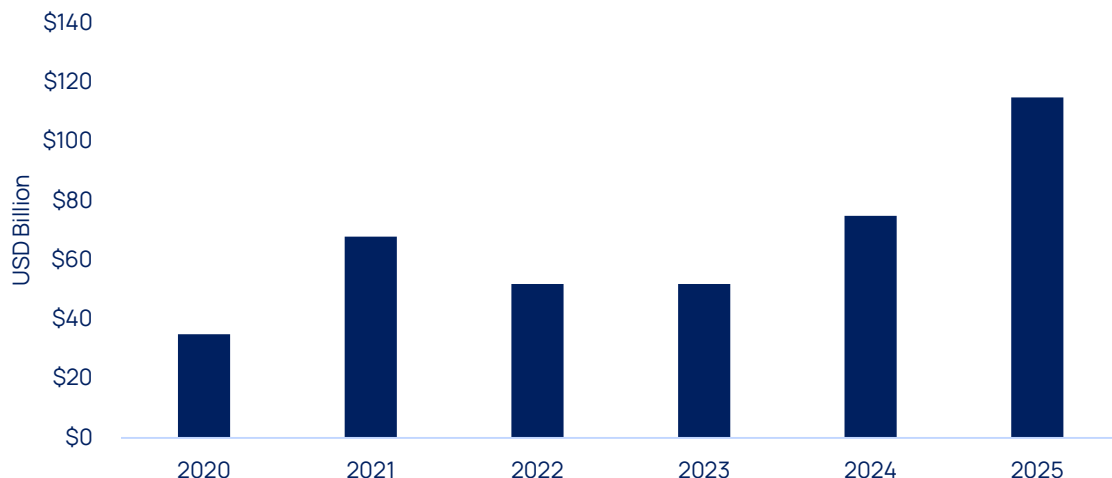
In response, secondary volume reached a record USD 226 billion in 2025, led by GP-led continuation funds. These vehicles shift mature, high-quality assets into new structures providing partial liquidity to existing LPs while allowing GPs to retain control and extend value creation.

LP-led secondaries have also accelerated as institutions rebalance portfolios, manage denominator effects, and address liquidity needs before fund maturity. The result is a structural shift in fund design and capital strategy: rather than exiting to public markets or strategic buyers, capital is increasingly recycled within the private ecosystem.

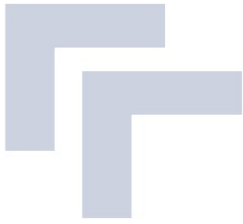
For investment banks, PE advisors, venture strategists, and research professionals, this transformation reshapes liquidity modeling, valuation frameworks, and portfolio construction. The secondary market is no longer counter cyclical it is embedded in the core operating model of modern private equity.

GP-led secondary volume reached \$115 billion in 2025

Representing a 53 percent increase year over year and accounting for 48 percent of total secondary market activity.



Source: Jefferies Private Capital Advisory



Layered Conflicts: The New Role of Funds of Funds

FoF participation in GP-led deals intensifies conflicts and strengthens GP control.

The growing involvement of funds of funds (FoFs) in GP-led secondaries introduces complex governance dynamics within private equity. Historically positioned as diversified LP allocators across buyout, growth equity, and venture capital funds, FoFs are now active participants in continuation vehicles while often holding LP positions in the originating funds.

This dual exposure creates structural conflicts of interest. When a FoF acts as both an LP deciding whether to sell or roll and as a secondary buyer evaluating entry pricing, its incentives diverge. As an LP in the existing fund, it should advocate for maximum valuation to protect capital; as a secondary investor, it benefits from disciplined or discounted pricing to enhance forward returns. Industry governance mechanisms require LP Advisory Committee (LPAC) approval for continuation transactions, yet LPAC

members frequently include large institutional investors and repeat backers of the same GPs across multiple vintages, potentially concentrating influence. GP-led secondaries now represent a majority share of secondary volume, underscoring the increasing sponsor-driven nature of liquidity events. In a subdued exit environment where traditional realizations are constrained, GPs possess greater leverage in structuring transactions.

For investment banking, valuation advisory, and institutional investment research professionals, this raises critical questions around fiduciary standards, fairness opinions, independent price discovery, and transparency in private markets. Beneath headline record volumes lies a governance recalibration in which control dynamics increasingly favor sponsors over fragmented LP bases.

Continuation Funds: Fees Reset, Incentives Rewired

Continuation funds recycle assets while resetting fees and carry.

At the heart of the secondaries expansion lies an economic mechanism that reshapes private equity incentive structures: the reset of fees within a capital recycling framework. When a GP transfers assets from a mature fund into a continuation vehicle, the underlying portfolio companies often remain under the same operational leadership and strategic oversight.

However, the financial architecture changes significantly. The continuation vehicle typically establishes a new management fee base and a refreshed carried interest structure, effectively extending the economic life of the asset under revised compensation terms. In an environment where DPI remains compressed and exit multiples face pressure, continuation funds offer sponsors flexibility to defer realizations while maintaining upside participation. For LPs, the decision becomes binary: cash out at the negotiated secondary price or roll exposure into the new vehicle under new economics.



Pricing integrity therefore becomes central, especially when secondary buyers include sophisticated institutional capital and potentially affiliated funds of funds. Continuation vehicles accounted for a record share of secondaries activity in 2025 at USD 226 billion, highlighting how internal transactions have replaced traditional external exits.

For private equity research, investment banking advisory, and capital markets strategy teams, analysis must extend beyond headline IRR metrics to examine fee layering, valuation methodologies, incentive alignment, and duration risk. The distinction between durable value creation and economic redistribution becomes increasingly blurred when capital remains within the same sponsor ecosystem while fee streams are structurally renewed.

From Exits to Ecosystem: PE's Structural Evolution

Private equity is shifting from exit-driven returns to internally engineered liquidity.

The acceleration of GP-led secondaries and FoF participation signals a broader evolution of private equity from a transaction-driven asset class to a capital management ecosystem. As exit markets remain unpredictable and institutional liquidity pressures persist, sponsors have developed internal mechanisms to manage duration, optimize portfolio exposure. Secondary markets now function as an embedded liquidity valve rather than a distressed solution. However, this transformation intensifies scrutiny across governance, regulatory oversight, valuation discipline, and fiduciary accountability. Regulators and institutional allocators are increasingly focused on transparency in private markets, particularly regarding conflicts of interest, pricing methodologies, and disclosure standards in continuation transactions.

For firms operating in investment banking, private equity advisory, venture capital strategy, and institutional investment research, the opportunity lies in providing independent valuation, fairness analysis, capital structure advisory, and liquidity modeling expertise. The strategic question shaping the next phase of private equity is not whether secondaries will continue to grow but whether the industry can balance sponsor economics with investor alignment in a system where capital circulates internally and fee structures reset at each structural transition. Beneath the surface, private equity is not contracting; it is reorganizing the architecture of liquidity, governance, and incentive design within private capital markets.

Private equity is at a structural inflection point, with secondaries, liquidity innovation, and blurred buyer-seller roles reshaping market incentives. What were once tactical tools are now core pillars intensifying scrutiny around alignment, valuation, and governance.

Going forward, outperformance will hinge less on financial engineering and more on transparency, disciplined execution, and true operational value creation in a more mature, liquidity-constrained private markets landscape.

Work With Us

RCK Analytics is a global provider of high-quality investment research, investment banking support, PE/VC insights, data science and engineering solutions, market research, analytics, and assurance services. We serve a diverse client base including investment firms, PE/VC funds, asset managers, hedge funds, investment banks, consulting firms, and corporates across sectors. Backed by a skilled team, we deliver data-driven insights and strategic support to help clients make informed decisions and drive financial outcomes.



Website: www.rckanalytics.com



Phone: +91 72194 74999



M-109, City Avenue Corporate Park, Wakad,
Mumbai-Bangalore Highway, Pune, India - 411 057

