MEKETA CAPITAL

# Evergreen Funds and the Potential Misuse of Secondaries

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# How LP-Secondary Transactions Can Distort Evergreen Fund Performance

In recent years, and especially during the early stages of fundraising, some private equity evergreen funds have reported strikingly high returns in an environment of relatively muted returns for private equity overall. These results, on the surface, may strike a skeptical observer as too good to be true. Upon closer examination, much of this apparent outperformance stems not from genuine investment success but from accounting practices involving secondary transactions being used to enhance short-term performance numbers.

Advisors and investors should understand how these accounting mechanisms not only inflate short-term performance results but hinder the ability of these funds to produce strong returns in the future.

Conversely, at Meketa Capital, we define investment success the traditional way: generating strong long-term returns in private equity, principally by partnering with trusted General Partners (GPs) who create real value in their underlying portfolio companies by improving revenue, margins, and operating efficiencies.

## Artificial Inflation of Short-Term Returns

Many evergreen funds purchase private assets in the secondary market at discounts to their net asset value (NAV) and then immediately mark those assets up to the previous NAV. This approach, commonly referred to as “NAV squeezing,” creates an instant paper-based return when the asset is marked up to its full NAV following acquisition.

A skeptical investor might inquire whether such a write-up is illusory or reflects real value creation. After all, would the seller of the assets have sold the assets at a discount to NAV if they truly believed they should be valued at that NAV? Further, the value of any asset is determined by what someone is willing to pay for it. Hence, these funds are writing assets up above their market-clearing price.

For example, a fund that acquires a $100 million secondary position for $80 million could mark that asset up to $100 million on closing, reporting an immediate 25% gain on that position. However, no assets have been sold, and no cash has been distributed. The gain exists solely on paper.

When repeated over time as new inflows come into the evergreen fund, this practice can artificially boost reported returns without any actual improvement in the underlying portfolio. These inflated interim results can mislead investors by generating the illusion of impressive performance, even though the underlying assets may not have actually appreciated in value.

## Missing Out on Potential Future Returns

Moreover, because these assets are being carried at a higher price than what they could likely be sold at, it diminishes their future return potential. Even if the assets do eventually get sold at a higher price, investors will likely experience a diminished return. This is especially true for investors who buy in after the secondary transaction.

Returning to our example, if the position that was bought for $80 million and immediately marked up to $100 million, is then sold at $105 million one year later, the fund’s investors who bought in after the secondary transaction would experience only a 5% gain rather than a 31% gain. Hence, anyone who buys into these funds after the mark-up of the secondary purchase does not benefit from that mark up.

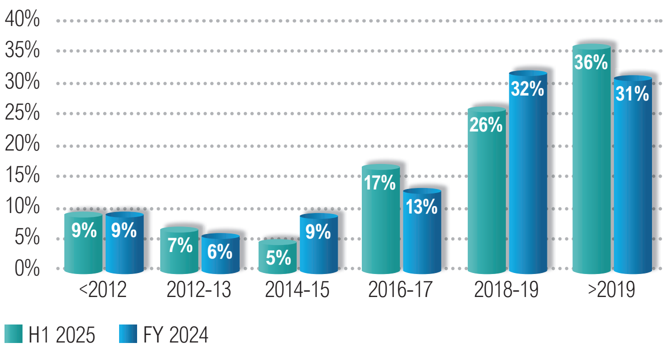
This example brings to light an aspect of any secondary transaction that evergreen funds rarely mention: The discount is based on the current NAV of the target asset, not cost. Therefore, not only do new investors miss out on the NAV squeeze, they do not participate in any of the growth that has already taken place in the underlying portfolio companies.

## The Years When Most Value Creation Historically Occurs

It's important to realize that the vast majority of secondary transactions are composed of funds with vintage years at least five years old, which is at or near the end of the investment period of those funds (see Figure 1).[1]

FIGURE 1

LP-Secondary Volume by Vintage Year



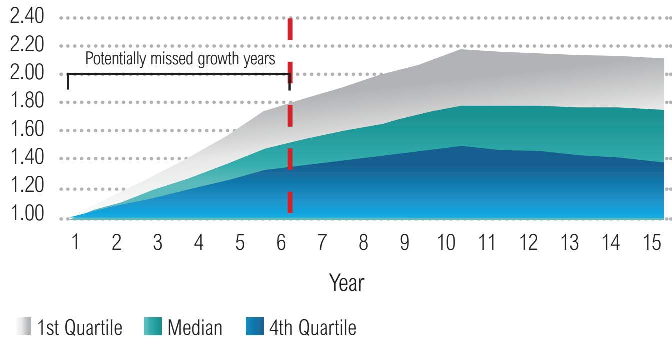

Source: Jefferies H1 2025 Global Secondary Market Review, Private Capital Advisory, July 2025

When considering the underlying portfolio company assets being purchased historically, evergreen fund investors have missed out on at least five years of underlying asset growth. This unfortunate feature of this timing is augmented by the fact that most of the value generation in a traditional drawdown fund investment occurs early in the life of a fund.

According to research performed by Upwelling Capital Group, originally completed in 2019 with updated data added in 2021 and 2025, the sharpest growth in fund value, as measured by TVPI (Total Value to Paid In) occurs in the early years of the fund (Years 1-6), before it starts to flatten out. This is true of the median funds and top quartile funds. In fact, for both of these categories, TVPI growth in the first five years is more than double the rate of growth over the next five years. Examining all US buyout funds from vintage years 1998 through 2024, the max TVPI for the median fund occurred in Year 9 and for the top quartile funds occurred in Year 10 (see Figure 2).[2]

FIGURE 2

Growth in Total Value to Paid In (TVPI)




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

**Past performance is not a reliable indicator of current or future results.**

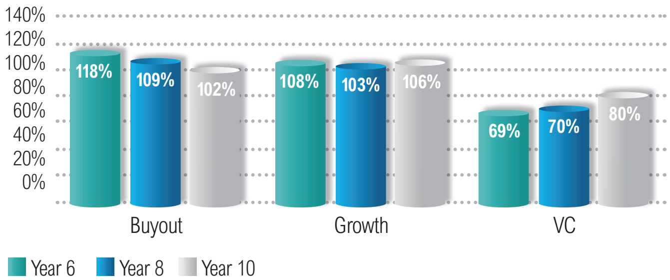
Additional research from Pitchbook backs up the fact that most of a fund's value accretion occurs in the first five years, but the Pitchbook analysis considers it from the perspective of distributions an investor might receive. This analysis is particularly helpful as it uses actual historical cash flows from its database and effectively eliminates any prior performance the funds might have experienced. The "entry NAV" can be thought of as the reported NAV when a secondary buyer completes the transaction and therefore does not include any discount/premium paid relative to that NAV.

Using buyouts as an example, the analysis shows that if a secondary fund bought a portfolio in Year 6 of its life, the median distribution expectation would be 118% of entry NAV over the next five years (see Figure 3). This represents an annualized cash yield of only 3.4%. This is an important nuance as the Upwelling research shows that that the median max TVPI has historically been in

1 Sources: Evercore Private Capital Advisory, H1 2025 Secondary Market Review, July 2025; and Jefferies Private Capital Advisory, H1 2025 Global Secondary Market Review, July 2025.

2 Measurements of TVPI are relative to initial capital invested. This mutes changes to NAV, both up and down, in later year because the remaining assets are typically small relative to the initial capital invested.

FIGURE 3
Median Cumulative Distributions Relative to Entry NAV Over the Next 5 years




Source: Pitchbook, Q3 2025 Allocator Solutions, So you Want to Price a Secondary, September 15, 2025

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Year 9. The takeaway is that most secondary purchases have "missed the boat," as the majority of the valuation accretion happens in Years 1-5, and they cannot depend on a high level of cash distributions either to fund new investments. There will most likely be value left after the five year period, but most of the valuation creation has already happened.

## The Illusion of Performance: Inflows and Markups

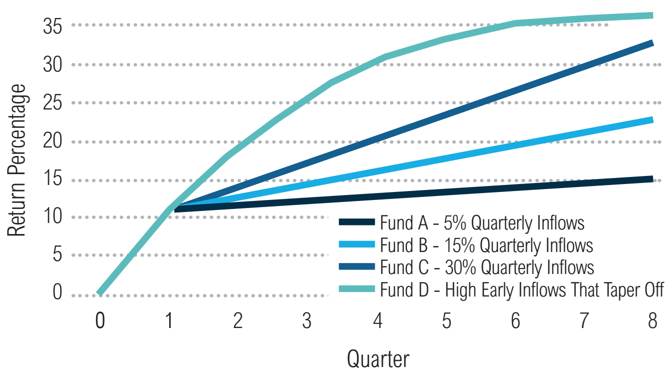
High fund inflows can amplify this performance distortion. Because new capital represents a large share of total assets in a fund's early stages, immediate markups on newly acquired secondaries can have an outsized impact on reported performance. The combination of significant inflows paired with immediate markups can materially distort a fund's return profile. The larger the portion of the portfolio that is marked up, the stronger the reported return for that period (and the larger the potentially negative impact on future returns). This dynamic often leads to strong early returns that taper off as inflows stabilize and the fund matures.

The combination of robust inflows and NAV markups can make short-term performance appear exceptional, even though no true economic gains have occurred. Over time, as inflows slow, these funds lose their ability to generate performance through accounting markups, while building a portfolio that is primarily comprised of assets that are priced above what other investors would be willing to pay for them.

*Morningstar* recently published an article exposing the practice of what they term "flow-driven returns" for secondary investors. In the article, they illustrated an example showing four hypothetical situations of evergreen funds with high early inflows that invest in secondaries and then taper off at various levels. In each of the scenarios, there is strong initial performance that eventually wanes.

Figure 4 illustrates how earlier and larger inflows alone can generate meaningfully better short-term performance, even when comparing funds with identical strategies, identical underlying investments, and identical purchase discounts.

FIGURE 4
Fund Flows Over Time




Source: Morningstar, On Second Thought: The Alternate Reality of Secondary Funds' Returns, September 9, 2025

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In *Morningstar's* hypothetical example, four secondary funds begin with the same initial investments, allocated identically across private funds purchased at a 10% discount. Each realizes an initial 11% gain after marking those interests up to the previous NAV. Beyond that point, Fund A receives 5% quarterly inflows for its first two years, Fund B receives 15%, and Fund C receives 30%. Fund D receives a single large 200% inflow in the first period, followed by inflows that decline by half each quarter. All funds deploy new capital immediately into the same holdings at the same 10% discount, then mark those purchases back to NAV. To isolate the effect of flows and accounting, the example assumes no subsequent valuation changes and no distributions.

Although simplified, the example demonstrates clearly that immediate markups allow flows alone to drive substantial performance differences, even among funds using the same strategy and holding the same assets.

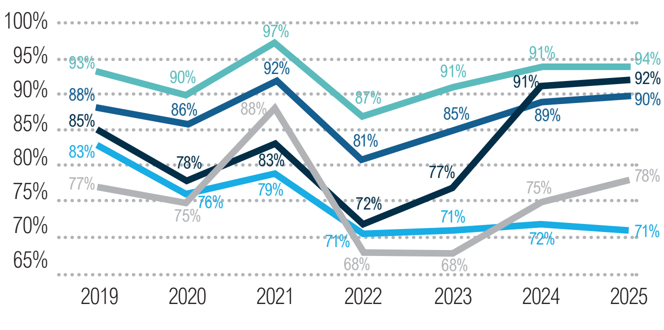
As the level of quarterly inflows increase from Fund A to B to C, performance increases despite buying into the identical asset, with the identical markup. Compare this to a simple stock purchase. It doesn't matter if an investor buys into a stock with $100, $1,000, or $10,000, there is no effect on performance at the time of purchase. Because of the NAV squeeze however and the instantaneous mark up of the secondary purchase, the size of the inflow (investment) does matter. This is most evident for Fund D in which the performance starts to flatten out over time as the inflows decrease.

According to the *Morningstar* article, "Accounting professors can debate the theoretical appropriateness of the NAV markup practice as a fair value technique, but ultimately it creates a highly distortive flow-based return effect that doesn't exist in any other kind of investment strategy. Identical public equity funds will deliver the same returns (to each other) regardless of flows. The same does not hold true for secondary funds and that alone should give investors pause when evaluating secondary fund performance."

Moreover, the size of secondary market discounts tends to reflect not just sellers' liquidity needs but also the quality of the assets. Hence, if the seller believes the asset are of lower quality, the apparent "discount" is less a source of value and more an indicator of underlying weakness. The short-term performance boost, therefore, is not only unsustainable but potentially misleading.

In fact, pricing for LP-secondary stakes was tight in 2024 and the first half of 2025, indicating lower levels of discounts overall and especially for high-quality portfolios in the buyout sector (see Figure 5).

FIGURE 5
LP Portfolio Pricing (% of NAV)




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

The tight pricing indicates that despite the increase in secondary volume overall, LPs retain significant pricing power, especially for better assets. Therefore, evergreen funds making heavy use of secondaries are either buying fully valued assets or lower quality/riskier portfolios in order to get a higher discount and therefore higher NAV pop when they mark to market.

## The Unsustainability of the NAV Uplift

The NAV uplift strategy becomes increasingly ineffective as a fund grows. For a $500 million fund, a $200 million secondary purchase can meaningfully move the needle. But once a fund reaches several billion dollars in size, this same transaction will have much less of an impact on total NAV.

Investors also run the risk that, in the absence of larger deals but under pressure to maintain high performance numbers for asset gathering, evergreen funds will invest in lower and lower quality transactions to generate additional NAV pops.

As funds scale, they face challenges sourcing sufficiently large secondary transactions and will start to compete with experienced, institutional secondary managers. This competition can erode pricing advantages or force funds into lower-quality deals, ultimately weighing on long-term returns. The vast majority of secondary transactions are held via competitive auctions.

Indeed, the presence of an incentive fee for many tender funds adds a powerful inducement to purchase stakes with a larger discount from which to generate fees. Simple math indicates that buying at a 30% discount would yield a whopping 42% mark-to-market pop in performance; a 40% discount would yield a 67% gain. It also means these funds are earning short-term fees on the NAV squeeze even while positioning themselves as long-term vehicles and encouraging investors to be long-term oriented.

Eventually, evergreen funds must rely on the organic performance of their underlying assets rather than accounting adjustments to sustain returns. This is a much more demanding proposition.

## The Cost of "Expensive Beta"

Investors are often drawn to private equity for its potential to deliver alpha; in particular, the potentially outsized returns that may be generated by top-quartile managers. Yet many evergreen funds that rely heavily on secondaries end up holding overly diversified portfolios encompassing hundreds of general partners and thousands of underlying portfolio companies.

For instance, according to their September 30, 2025, fact sheets, the Cliffwater Cascade fund holds more than 1,200 portfolio companies and the StepStone Private Markets fund owns over 3,000 – a level of diversification that effectively mirrors the market, offering beta exposure rather than alpha potential.

By contrast, the Primark Meketa Private Equity Investments Fund (PMPEX) seeks to deliver superior long-term results through a selective portfolio. As of Q3 2025, PMPEX held 31 co-investments across 24 high-conviction General Partners, a structure designed to capture alpha rather than dilute it through over-diversification, while offering a high level of transparency for investors.

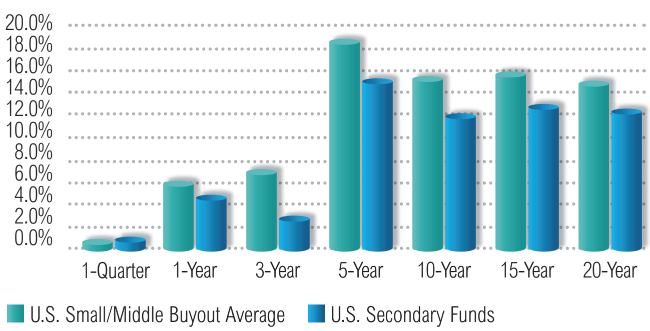
## The Role of Secondary Investments in Institutional Portfolios

Meketa believes that the secondary market is an important component for a healthy private markets industry by facilitating liquidity options and providing another price point for valuations. In certain market environments, such as during the Global Financial Crisis, secondary investments made during those vintage years may outperform traditional private market investments

FIGURE 6

Traditional Funds vs. Secondaries

as of June 30, 2025




Source: Cambridge Associates. The performance reflected is net of fees and net of any discount the secondaries funds have paid. By utilizing co-investments, investors would have outperformed secondaries by an additional 400-600 basis points of performance. The figures shown relate to past performance.

**Past performance is not a reliable indicator of current or future results.**

as LPs are highly motivated, perhaps even needing, to sell. Over longer time periods though, traditional private equity buyout funds, for example, have meaningfully outperformed secondary investments (see Figure 6).

Across Meketa Investment Group's large institutional client base, allocations to secondary funds and investments make up a small portion of the allocation, well under 10% in most cases. Indeed, an examination of any well-developed private equity portfolio would reveal that secondaries play a small role.

Yet some of the largest evergreen private equity strategies are allocated heavily to secondaries and, despite large AUM, still have meaningful allocations. For example, the Hamilton Lane Private Assets Fund with $4.9 billion of AUM as of 9/30/25 has a 51% allocation to secondaries according to its most recent fact sheet. StepStone just launched their new Private Equity Strategies Fund (STPEX) and, according to its investor presentation, the fund will allocate 50% to 80% of the portfolio to secondaries. These exposures are well north of what the average institutional investor has allocated.

## Beware: Evergreen Funds Misusing Secondaries

This leads Meketa to the conclusion that most evergreen funds are making secondary investments primarily for expediency reasons: asset gathering and generating unusually high short-term returns; giving higher priority to fees and marketing, rather than designing the best portfolios for clients. In the long run, these investments may pay off handsomely for the asset managers, but not necessarily for the investors, especially in cases where investors have come into the fund after periods of high performance and where the evergreen fund is charging an incentive fee on performance.

Perhaps the clearest example is this: if an evergreen fund completes a secondary transaction at 80 cents on the dollar, existing investors immediately see a 25% paper gain reflected in their NAV. But an investor who buys in the very next day gets none of that uplift, even though both investors own the exact same underlying portfolio.

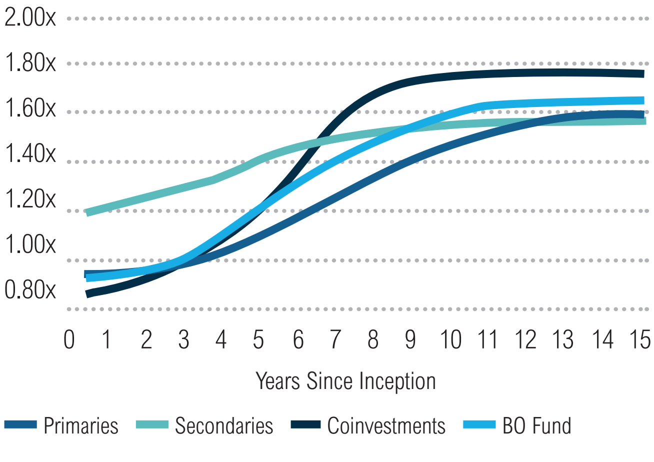
As noted, we believe by investing heavily in secondaries, these evergreen funds have become glorified fund of funds investments, creating beta, not alpha, exposure for their clients. We believe it is stretching credulity for these funds to say they are not beta while having thousands of portfolio companies and hundreds of GP relationships in their funds. In addition, the evergreen fund will pay traditional 2 and 20 fees on the underlying LP-secondary fund purchases versus the fee free, carry free benefit of the co-investments in PMPEX.

While such accounting practices are permissible and often auditor-approved, investors should recognize that these markups don't represent any true investment success or valuation gains based on improved performance of the underlying portfolio companies. Long-time, institutional-secondary funds, which have raised assets for drawdown vehicles also mark-to-market their secondary investments, but have always been clear that this is not a "true IRR" and the investment should ultimately be judged on the IRR and investment multiple *at exit.*

Indeed, Figure 7 illustrates the initial IRR pop from a secondary purchase in the form of an instant increase on the investment multiple (TVPI) versus primary or co-investments, which begin at cost. However, the subsequent growth in value is much higher after the initial purchase for primaries and co-investments and eventually eclipses the secondary fund. The outperformance of co-investments is significant given the fee savings. Actual

FIGURE 7

TVPI




Source: Blackrock, The Case for Secondaries, 1H 2024. Historical performance of primaries and co-investments based on internal historical performance data. For illustrative purposes only. Historical performance of secondaries was simulated using actual market pricing as reported by sell-side advisor Greenhill. Derived in June 2021; data from Q1 2002 – Q2 2021. The figures shown relate to past performance.

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return data matches this visual, as provided in Figure 6 and supports our contention, as well as the data, that in the long run co-investments should produce higher, more consistent returns for financial advisors and their clients versus the initial sugar rush from the NAV pop of secondaries.

## Focusing on Real Value Creation

Advisors and investors should look beyond early, artificially inflated IRRs and focus on managers with a proven ability to generate realized, long-term value through clear operational improvements in the underlying portfolio companies. Sustainable performance comes from disciplined investment selection, operational improvement, and thoughtful investment strategies and not from short-term accounting maneuvers.

At Meketa, we focused on developing a fund built for generating strong, long-term net returns for our clients, specifically targeting top-quartile private equity GPs.[3]

Meketa believes that co-investing directly alongside leading private equity managers offers investors the best opportunity for durable, long-term returns. This approach provides exposure to high-quality companies and top-quartile GPs without the layers of fees and complexity associated with fund-of-funds structures. Our approach focuses on developing a concentrated portfolio of co-investments with vintage year diversification and diversification of GPs.

We start with a small, high-conviction list based on Meketa Investment Group's decades of due diligence experience in private equity. Unlike the beta exposure of our peers, our private equity fund has developed a well curated portfolio of co-investments in which our clients are invested directly into portfolio companies alongside our key GP partners, all with no fee, no carried interest. We believe this structure offers investors a higher probability of tapping into the alpha available in private equity. Performance in our private equity fund can only come from our co-investments performing well, not from an accounting technique or inflows.

For more information on Meketa Capital's private market solutions, please call 720-697-1010 or email info@meketacapital.com.

3 Quartiles are used to calculate the interquartile range, which is a measure of variability around the median. Quartiles are organized into lower quartiles, median quartiles, and upper quartiles. Along with the minimum and maximum values of the data set, the quartiles divide a set of observations into four sections, each representing 25% of the observations.

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### General Risks

**Investors should carefully consider the Primark Meketa Private Equity Investments Fund (the Fund) investment objectives, risks, charges, and expenses before investing. This information is included in the fund prospectus and may be reviewed through the Prospectus link on the Primark Capital website www.primarkcapital.com or by calling the Fund toll free at 877-792-0924.**

An investment in the Fund is subject to, among others, the following risks:

- The Fund is not intended as a complete investment program but rather the Fund is designed to help investors diversify into private equity investments.
- The Fund is a "non-diversified" management investment company registered under the Investment Company Act of 1940.
- An investment in the Fund involves risk. The Fund is new with no significant operating history by which to evaluate its potential performance.
- There can be no assurance that the Fund's strategy will be successful.
- Shares of the Fund are not listed on any securities exchange, and it is not anticipated that a secondary market for shares will develop.
- Shares are appropriate only for those investors who can tolerate a high degree of risk, and do not require a liquid investment.
- There is no assurance that you will be able to tender your shares when or in the amount that you desire. Although the Fund will offer quarterly liquidity through a quarterly repurchase process, an investor may not be able to sell or otherwise liquidate all their shares tendered during a quarterly repurchase offer.
- The Fund's investment in private equity companies is speculative and involves a high degree of risk, including the risk associated with leverage.

### Fees and Expenses:

- The maximum fee before fee waivers and expense reimbursements is 2.57%. Total annual fund operating expenses after fee waivers and expense reimbursements is 2.36%. Please refer to the prospectus for more details on the Fund's expenses.

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