

SecondaryLink

[How Trump's moves are shaking up the secondary market](#)

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Ask any investment professional what the market demands, and the answer is almost always the same: certainty. That's exactly what Wall Street thought it was getting when Trump was reelected for a second term. The market had already priced in expectations of a more business-friendly administration, faster deal-making, reduced red tape, and lower corporate taxes; sentiments that all helped propel the S&P 500 to an all-time high by the time inauguration rolled around.

But what followed was anything but predictable. Drawing from his Art of the Deal, Trump kept the market on its toes, throwing one curveball after the other. Eventually, words like "Liberation Day," "TACO Trade," and a few other colorful acronyms (depending on who you ask) became part of our daily lexicon and, for better or worse, stuck with us.

After six months of uncertainty, tariffs, and rapid-fire deal-making, the dust seems to be settling. The markets seem to have, at least for now, adapted to the "new normal". Whether that's the right decision remains to be seen. But two major policy proposals Trump has been pushing since his first administration are now in play.

The first, the One Big Beautiful Bill (OB BB): an overhaul of the American tax system, was signed into law last month, aiming to reduce corporate tax rates, simplify the tax code, and stimulate economic growth.

The second, an executive order signed just last Thursday, allows alternative assets, such as private equity, cryptocurrency, and real estate, to be included in 401(k) accounts. That's a goldmine for alternatives to the tune of \$12.2 trillion in untapped retirement capital, until now!

Having already examined the potential impact of tariffs on the secondary market, we now shift our focus to these new policy changes. To better understand their effects, we reached out to leading market participants for their insights. And, aside from the fact that pensioners can now proudly proclaim Fartcoin as part of their portfolio (yes, really), we wanted to explore how these changes will reshape the market.

This article includes insights from Wilfred Small, Senior Managing Director and Member of the ASF Management Committee at Ardian; Michael Hutten, Partner and Head of US Private Wealth at Pantheon; Michael Bego, Managing Partner at Kline Hill Partners; and Shourya Wardhan, GP Solutions Specialist at Setter Capital.

This interview was edited for length and clarity.

401(k) Access to PE: When Retirement Savings Go Alternative

Will secondary-focused evergreen vehicles see a surge in demand?

Wilfred Small, Ardian: "The short answer is 'yes'. Secondary-focused evergreen vehicles are highly attractive to individual investors due to their diversification, their ability to enter assets at discounts and the relatively compressed duration of investments.

While the executive order, as we understand it, is just a directive for the SEC and legislators to work on what is necessary to achieve this end, it is clearly a step in the right direction. Alternatives, when structured correctly, make sense for 401(k) plans which traditionally don't require near- to medium-term liquidity, and can therefore benefit from higher yielding asset classes like private equity.

That said, a lot is still to be determined as it relates to the exact implementation of the directive."

Michael Hutten, Pantheon: "There should be more demand for secondaries funds as the 401K market enables investments in private equity. Pantheon views secondaries as an essential component of evergreen strategies because secondaries can provide instant and continued diversification across various general partners (GPs), vintages, sectors, stages, and geographies. They also offer the opportunity for quicker distributions than primary funds or direct investments, which can better align for the cash flow requirements of evergreen vehicles. Secondaries funds also help investors to mitigate the J-curve which can potentially improve performance, while discounts also come with immediate write-ups.

However, it's important to emphasize that successful secondary investing goes beyond simply buying at a discount. The careful selection of assets with strong potential for value creation post-acquisition remains crucial."

Mike Bego, Kline Hill: "If 401k plans are opened up to private equity, it could usher in a massive wave of capital flow into the industry. Moreover, much of this capital would also likely flow into secondary funds because of their ability to deploy capital more quickly and provide access to diverse pools of private

equity assets that are much closer to realization than many investors get from investing in common private equity funds.

While I'm a big proponent of retail investors having equal access to the same investment opportunities as massive institutional allocators, the current crop of evergreen vehicles may not be delivering the same result."

How might this shift influence secondary market pricing?

Wilfred Small, Ardian: "With the entrance of 401(k) plan allocations into private equity, including through both the primary and secondary market, we expect to see further growth of the asset class as a whole. If you have both the primary and secondary market growing, there isn't necessarily a direct correlation between inflows and secondary market pricing. Instead, as the total addressable market expands, the opportunity set for secondaries expands too."

Mike Bego, Kline Hill: "Today's evergreen vehicles are already overpaying in secondary transactions by about 5% relative to more disciplined, traditional secondary funds. While the dollars flowing into evergreen funds have been rapidly increasing, they still represent only a minority of deal volume.

If there was a flood of additional retail capital it could increase prices for transactions, which would benefit sellers, increase volume overall, but ultimately, bring returns down in the industry - or at least for those funds who would find themselves competing against evergreen vehicles in competitive transactions."

What are the real benefits (and risks) of retail participation?

Wilfred Small, Ardian: "At Ardian, we are offering individual investors through evergreen funds access to deal flow that has historically been reserved for institutions. We are not doing anything different than what we have done over many generations of drawdown funds – we're just expanding the access to individuals through a structure that suits them better. Importantly, there is no deviation in strategy. So, if done the right way, evergreen funds can offer less historically represented investors higher returns than traditional asset classes.

Marketing and communication are also really important. Firms have a duty to ensure investors understand exactly what these funds are and what they are not. While they offer partial liquidity, if that is the primary appeal to the investor, then there are probably better asset classes for them. But if they are looking for fully funded, perpetual and diversified exposure through lower investment minimums and less operational complexity than a classical drawdown fund, with the added benefit of partial liquidity, then maybe it's something they should look at."

Michael Hutten, Pantheon: "We believe the benefits of increased 401(k) participation in private equity significantly outweigh the risks. Target date 401(k) funds, for example, will offer access to private equity as part of a diversified portfolio that includes public equities, fixed income, and alternative investments. A key advantage is that investment allocation decisions will be made by the target date fund manager, rather than relying on the individual retail investor to make allocation choices."

Mike Bego, Kline Hill: "The biggest risk in the short term is for the retail investors themselves. There are a number of structural problems with most of the evergreen vehicles, each of which could harm returns

relative to closed-end funds. For example, the value of discounts in secondary deals is immediately accrued to existing investors, leaving investors who join right after a transaction with assets where much of the upside is already gone. About half of evergreen funds charge carry on these gains right away, unlike closed-end funds that wait years and only after hitting an 8% IRR. Evergreen funds also face cash windfalls that must be invested quickly, often leading them to overpay by around 5% to secure deals, whereas closed-end funds raise cash only when needed. Liquidity is limited, with 40 Act Funds offering just 5% quarterly — far less flexible than public stocks — and this can leave retail investors tied up longer than expected. Moreover, unlike closed-end funds, evergreen ones must manage cash liabilities, which could force them to be less invested. Finally, retail investors may be more susceptible to layers of fees that closed-end funds do not have.”

Who’s best positioned to capitalize on this shift, and who could be left behind?

Wilfred Small, Ardian: “Not everyone has the resources or firm infrastructure to manage evergreen funds. You need scale, a diversified investment offering with a longstanding and performing track record, and ideally some brand awareness. Evergreen funds also require an enormous amount of fund finance, tax, legal, and compliance infrastructure, making it a very people-intensive operation. For that reason, larger firms that leverage a diversified platform model will be best positioned to take advantage of this shift.”

Michael Hutten, Pantheon: “Evergreen managers with scaled AUM and a longer track record of investing in this structure should be best positioned to take advantage of this shift, while newer managers to the space could be left behind. There is an additional skill set needed to run these strategies since managers have to model out cash flows and liabilities of these perpetual vehicles. This is a big difference compared to managing the traditional private equity partnership.”

Mike Bego, Kline Hill: “It takes a large infrastructure to design, create, distribute, invest, and support evergreen funds. Currently, the largest secondary funds that play in that space are the most active. These are groups that raise closed-end funds of \$10 billion or more in size. As such, these are the groups that are poised to scale the most significantly into the much larger pools of capital that could flow into the secondary industry.

These larger secondary players are typically deploying capital on the limited partnership side in deals that range from \$100 million to \$1 billion. Others who invest in this deal size may be disadvantaged as they come up against the lower cost of capital currently found from retail sources. The “lower cost of capital” implies that the investors in these vehicles will accept (or at least will get) part of the lower return that may come from these funds, which are paying higher than normal prices to buy assets.”

Why is this push happening now?

Wilfred Small, Ardian: “Investors are increasingly attracted to private equity because of the scale of the addressable market. 90% of companies that generate more than \$100 million in revenue are privately held, but those companies are largely financed by institutional investors as opposed to individual ones. Individuals want to benefit from the growth of private companies and the historically higher returns generated.

Investors also want diversification. The public indices are increasingly weighted towards a handful of companies, and private markets offer access to a much larger universe of opportunities. Diversification is an important risk management tool.

This is a great time for private equity to perform on both an absolute and relative basis compared to public equity, and individual investors are rightly curious.”

Michael Hutten, Pantheon: “There has been a lot of talk/headlines about private equity entering the DC/401K market over the last decade. Pantheon was early in identifying this opportunity set with a dedicated DC focus for more than a decade. It is less about the current market dynamics and more about the current administration paving the way for this change and meeting the pent-up demand.”

OBBB and Endowments: How Higher Excise Taxes Could Shake Up Portfolios

How could this tax change affect secondary sales?

Mike Bego, Kline Hill: “We are in talks with endowments who are thinking about exactly this issue. We do anticipate a number engaging in sales in the remainder of 2025 and 2026.

The 8% endowment tax will impact schools with over \$2 million per domestic student, like Harvard, Yale, Princeton, MIT, and Stanford, who collectively have over \$190 billion in AUM. Other qualifying schools at lower rates have \$150-180 billion in AUM. Larger endowments often have 20–30% of AUM in private equity.

Sales before the tax increase in late 2025 of funds that have had large gains in value would serve two purposes. It could remove highly valued assets at near-zero tax and generate cash when PE cash flow is low, and in a way, offset any discounts sellers have to accept. We expect the fourth quarter of 2025 to be a buyers’ market, so it may be more difficult to execute upon.

Conversely, endowments can sell funds that have unrealized losses in 2026 and beyond to generate tax losses that can offset gains from profitable realizations endowments have in other parts of their portfolio. However, public securities can be used much more easily to generate losses.

While endowments now make up only ~15% of LP-led volume, the largest five hold \$200 billion+ of NAV in PE.”

Shourya Wardhan, Setter: “In the short term, we could see endowments conduct more secondary sales to accommodate the excess cash outflow. In the long term, if net income is taxed more heavily, and the after-tax value of long dated, illiquid private investments fall, we could expect to see some endowments rebalance their portfolios away from private equity.”

Which assets and vintages are most likely to hit the market?

Mike Bego, Kline Hill: “To realize gains in 2025, these would be successful funds – perhaps in high quality and seasoned fund managers that are at least several years old.”

Shourya Wardhan, Setter: “One would expect older vintages, and non-core portfolios to be the first to be exited. Increased supply could potentially drive down pricing.”

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