

Two-speed VC secondaries market emerges as capital crowds top names

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Proprietary

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- Interest heavily concentrated on a few late-stage tech companies
 - Investors buy into SPV chains, not direct shares, to get exposure
 - Concerns rising about lack of transparency, intermediary misbehavior
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The venture capital secondaries market is becoming increasingly bifurcated as investors compete aggressively for access to a handful of late-stage technology names while much of the wider asset class continues to trade through negotiated processes, often at discounted valuations.

For all the talk of rich deal flow, it is one-sided. Institutional investors have intensified their focus on perceived outperformers over the past year, industry participants noted, and this split in the market is becoming ever starker. “If you're one of the top 10 or 20 companies, it's a full-blown marketplace. There are buyers and sellers, and information flows reasonably efficiently in near real time,” said Chris Bull, a managing director at secondaries investor Kline Hill.

Outside of frontier tech and artificial intelligence (AI) infrastructure, the picture is different. “Everything else is much more of a dialogue and conversation,” Bull added. In these situations, pricing is largely negotiated between a limited number of counterparties rather than discovered through an active market.

These dynamics are confirmed by EquityZen, a Morgan Stanley-owned marketplace for trading pre-IPO shares. Transactions in 2Q26 closed at an average 38% discount to the company's last funding round – a significant widening from the 8% average discount observed in the prior quarter.

Brianne Lynch, head of market insight at EquityZen, observed that more than 60% of companies involved in AI, machine learning, and natural language processing companies are trading at premiums. Those in software and financial technology are generally trading at discounts.

A discount alone doesn't necessarily imply poor prospects, Lynch cautioned, but deep discounts suggest investors no longer believe the company deserves its last funding-round valuation. Software businesses manage to reposition themselves around AI continue to attract an investor following. For those that do not, the discounts are becoming ever deeper.

A secondaries banker noted that a clearer picture of underlying pricing should emerge once those marquee names complete their liquidity events and capital is recycled into other opportunities.

The growth equity and venture capital share of global GP-led secondaries volume remained flat at 8% in 2025, according to Lazard. However, with overall deal flow expanding by nearly two-thirds, the growth and VC contribution rose from USD 5.7bn to USD 9.3bn. Fewer than 15% of transactions – compared to 87% for buyouts – priced above 90% of net asset value (NAV).

Weak distributions have made fundraising increasingly challenging across private markets, encouraging sponsors to embrace secondaries as an alternative source of liquidity. They also enable sponsors to retain ownership of prized assets.

Meanwhile, ever more capital is available for deployment. Secondaries fundraising reached a record USD 107bn in 2025 and Campbell Lutyens is projecting USD 130bn-USD 145bn for 2026. Evergreen vehicles are also becoming more prominent, intensifying competition for favored assets.

Access via SPV

Headline secondaries fundraising and investment numbers are deceptive guidelines in a VC context because many assets – especially the most popular ones – are not transacted via those traditional negotiated processes. Rather than getting rolled into a multi-asset continuation vehicle and bid on by secondaries investors, they attract interest from primary capital willing to pay a premium.

Direct secondary transactions tend to see significant overlap between different investor types, especially when they involve high-profile founders and leading AI start-ups.

“Venture funds are participating,” said Kline Hill’s Bull. “Crossover funds are participating and traditional mutual fund investors are also participating alongside specialist secondary investors.”

Meanwhile, retail participation remains concentrated around a relatively small number of household names, according to market participants. Amid this heightened demand, scarcity has encouraged buyers to accept ownership structures that would have been far less common only a few years ago.

In situations where direct allocations are limited, intermediaries are aggregating demand into special purpose vehicles (SPVs), said David Koch, founder of Koch Capital Advisory. Investors are willing to accept indirect ownership – and pay additional fees for the privilege – to get exposure to high-profile companies.

Some companies run structured secondary programs that offer employees with vested share options and longstanding existing investors a pathway to monetize their holdings. Koch is an advocate of such schemes, arguing that they create more liquidity for private assets and reduce the need for the market to construct increasingly elaborate ownership chains.

Kline Hill deliberately avoids many of these complex structures, preferring direct ownership wherever possible. “As a firm, we prefer to be direct to capital and have a relationship with the company,” Bull explained. An LP active in venture secondaries observed that SPV-on-SPV structures have become increasingly common around the largest pre-IPO companies.

Multi-layered ownership structures that convey the economics of ownership without capital table representation prompt different questions from incoming investors. Rather than focusing solely on valuation, they want to understand contractual minutiae: what claim the SPV has over shares in the target company and what rights accompany these arrangements.

“There are a lot of question marks,” Koch said. “What am I actually buying? How much do I have of the underlying asset?”

Unclear on liquidity

The more complex the architecture, the harder it is to get answers. A large growth-stage round often comprises primary funding and a tranche of secondary shares held by employees and early investors. Brokers establish SPVs to aggregate external demand from investors too small for a direct cap table slot, and this creates downstream opportunities to trade in and out of the SPVs – or SPVs of those SPVs.

One secondaries banker described how a Middle Eastern investor secured exposure to a sought-after private company through a chain of five separate contractual relationships. There was no direct ownership of shares; the entire structure hinged on successive agreements between intermediaries. The timing of any eventual liquidity is equally uncertain, because release schedules on the largest names are staggered rather than single events.

SpaceX's shares unlock across at least nine separate triggers tied to earnings dates, a share-price hurdle and fixed intervals running to day 180, with all remaining stock released on day 366, according to its S-1 filing. The amount of stock subject to the early-release schedule is not specified. The filing merely said it is likely to be 50% or more of total economic shares.

An investor several layers removed from the register has less visibility than the issuer itself into both how much stock it is entitled to and when it will arrive, the secondaries banker said.

Some companies have sought to limit the proliferation of complex structures. This typically involves taking explicit steps to prevent SPV chains from forming around their shares, for example by enforcing transfer provisions that feature in shareholder agreements, Kine Hill's Bull explained.

Companies with sufficient leverage can insist on knowing the identities of the beneficial owners of investment vehicles that appear on their shareholder registers. Others may tolerate SPVs because the capital they bring outweighs the additional complexity, particularly where demand remains exceptionally strong, one private capital advisory banker observed.

Ultimately, improvement rests on ensuring the proper flow of information. Private companies are not subject to the same disclosure standards as listed businesses, which means investors are far more reliant on secondary and tertiary data sources to assess valuation, ownership and governance, according to Koch.

This amounts to an obstacle to wider participation in private markets. “The issue with democratizing private markets is information,” he said. “A private company must be able to provide more transparency to the market in order to increase the breadth of distribution.”

The situation is particular to direct investors, especially those that lack the influence or resources to facilitate disclosure by companies. Participating via an investment fund is a different matter. The fund manager has fiduciary obligations to LPs, which cover areas like due diligence and reporting.

Litigation corner

Concerns are also surfacing in litigation – and inevitably the initial wave of actions is concentrated on the same marquee names that have absorbed the most capital. A securities fraud complaint filed in the Southern District of Florida accuses West Coast Equity Partners II of marketing pre-IPO SpaceX exposure with a fee structure pitched in 2021 as “0/0,” implying no upfront or management fee. The entity allegedly charged 17.5% carried interest, having failed to disclose markups on shares it had acquired below the price presented to investors.

The complaint, brought by fund manager Megacap Capital, ties the alleged conduct to a pending US Securities and Exchange Commission (SEC) enforcement action involving a near-identical pitch by another intermediary vehicle, according to the filing. The allegations have not been tested in court, and no responsive pleading has been filed. A separate breach of contract action filed in Delaware's Court of Chancery in early February centers on a fund that invested USD 10m in a vehicle formed in 2022 for the sole purpose of holding SpaceX shares, according to a lawyer active in secondaries litigation.

The fund sued after repeated requests for financial reports were met with documents stamped “draft,” leaving it unable to confirm whether the vehicle held valid, marketable shares, the lawyer said. A Delaware judge has since moved a related SpaceX private-share dispute into arbitration, which is seen as early indication of how these cases may be routed.

More disputes are likely as buyers seek to verify ownership, as well as transfer rights and fee arrangements, after liquidity events expose how these structures operate in practice, the lawyer said.

Those seeking a reference point might consider the special purpose acquisition company (SPAC) boom. The structures are different, but it featured a similar protracted fallout as questions about ownership and economic interests only became fully visible once investors expected to realize their holdings.

It remains to be seen whether the bifurcation dynamic in VC secondaries remains. One argument is that as positions in the likes of SpaceX are eventually liquidated, capital will be redeployed across the market more broadly. This will enable more deal flow, from GP-led opportunities to direct share sales.

The private capital advisory banker is less certain, citing concerns about transaction quality. Either secondaries represent a structural evolution of the market or they are merely a response to an unusually prolonged period of weak distributions and difficult fundraising. How the current crop fares will help decide which of these paths is taken.

“Once you start to see a few bad secondary deals, bad credit, bad underwriting, everybody’s cashing out, and then your incentives start to break down a little bit,” the banker said. “For now, everyone’s having a great time. But it’s quite early. A lot of the performance is still on the come.”

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