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Opportunity in volatility: private equity rides the waves

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Fidelity Investments' private equity experts say public market volatility and tariff uncertainty are creating timely opportunities in secondaries and long-term private equity exposure

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HEADING INTO 2025, private equity deal-buying activity was expected to increase. The economic environment was set to improve, financing markets were supportive, and government policy was favourable. Confidence was also boosted because private equity firms had raised significant funds in the past few years that had not been deployed, improving buying capacity. The market also expected sellers to come to market in 2025 and increase the volume of exits. Due to the sluggish deal-making environment that had started in late 2022 and the delayed exit activity in earlier investments, private equity funds felt pressure to improve liquidity from their older funds. However, the optimism and confidence were misplaced as tariffs rocked the world and shook the markets.

Since the first quarter of 2025, the buyout markets have been adjusting to a new, uncertain environment due not just to tariffs and volatile equity markets but government policy and spending as well. The uncertain environment put a hold on new deal activity and has been reversing the upward trend in volumes seen in the first quarter; this could lengthen hold periods, slowing down liquidity coming back from legacy private equity investments. Despite these potentially unfavourable outcomes, there are reasons to be positive.

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> MICHAEL BAILEY, FIDELITY INVESTMENTS

"Periods like this don't stall private equity," says Michael Bailey, head of private equity multi-strategy at Fidelity Investments in Boston. "The buyout markets are adjusting to a new, more unpredictable backdrop, but that creates opportunity. You're seeing portfolio companies navigate through the disruption and lean into situations like carve-outs or take-privates."

Private equity firms are looking for opportunities in this market, including investments that may be favourable during times of volatility. Bailey expects new investment activity to be steady in the small buyout and growth equity segments, where individual company attributes tend to outweigh macro factors.

Private equity's investment model stands apart from public markets, especially in the face of macroeconomic uncertainty. Rising tariffs and unstable equity markets have complicated matters. Yet, these same pressures have helped spotlight the strengths of the asset class.

Unlike public equities, which are subject to near-constant price discovery and market sentiment, private equity can take a longer-term view. Managers aren't forced to transact in real time. They can hold through uncertainty, work with management to improve fundamentals, and exit when conditions are more favourable.

"The private equity model has historically helped the asset class outperform public equities," says Bailey, who previously managed private equity for Massachusetts Pension Reserves Investment Management Board and now leads Fidelity Investments' multi-strategy private equity platform alongside Melissa Mendenhall, portfolio manager. Mendenhall, before joining Fidelity, led private equity and private credit research at NEPC, advising pensions, foundations, and private wealth clients.

Bailey and Mendenhall bring extensive experience and multifaceted perspectives to a private market environment where liquidity considerations and thoughtful diversification are important aspects of investment decision-making.

Liquidity as a lens: secondaries and GP stakes

Private capital is, by its nature, illiquid. Investors typically commit to a fund with the understanding that capital will be locked up for years, with limited ability to exit before distributions begin. Staying the course with illiquid private equity allows for long-term wealth creation and reduced portfolio volatility. To provide more flexibility, two liquidity-focused strategies have gained traction: LP-led secondaries and GP-led secondaries.

In secondary private equity, Bailey and Mendenhall see many of the risks as opportunities for buyers. As institutional investors like pension funds and university endowments are under growing pressure to raise liquidity to rebalance portfolios away from illiquid assets, or to fund other financial needs, secondaries create benefits for providers of liquidity. Secondary transaction volumes hit a record $160 billion in 2024. Given the amount of capital available in secondary funds, Bailey and Mendenhall anticipate high-activity levels to continue in 2025 given the dynamic environment we're in today; the space is no longer niche.

Secondaries have become essential in a market where exits are slow and portfolios are aging, especially for LPs that may wish to rebalance a portfolio or liquidate altogether. These transactions help give investors a way to take advantage of shorter timelines and LPs a means to generate liquidity.

"Secondaries are helping investors solve for both diversification and liquidity," Mendenhall says. "Especially in today's environment, they can provide well-priced exposure to portfolios that are already partially built, with shorter duration to exit and better visibility into the underlying assets."

This is especially true for GP-led secondaries, where managers retain ownership of high-performing companies through continuation vehicles. In this type of secondary transaction, a GP sells a portfolio company or assets to a new fund with new LPs to continue reaping the benefits of a profitable investment. The existing LPs in GP-led secondaries benefit from the liquidity management, and both investors and the company gain from the value created during the period the investment is held by the new LPs.

Once viewed as a fallback strategy, these deals are now a core part of how GPs manage portfolios and how investors can gain access to mature, de-risked assets.

"What's changed is the intent," Mendenhall explains. "It's no longer just about extending timelines. It's about doubling down on companies that still have room to grow but need a bit more time and capital. That can be a very attractive entry point."

Bailey adds that the trade-off between secondaries and primaries is also strategic. "Secondaries tend to deliver earlier performance and shorter duration," he says. "Primaries, on the other hand, offer a longer compounding runway and potentially higher upside."

Building efficient diversification at scale

"By investing in private equity, you're not just diversifying what you own," says Mendenhall. "You're helping to diversify how value is created in your portfolio. That distinction matters, especially in markets like this."

Funds raise money every 3 to 5 years and private equity fund investing comes with significant challenges, including portfolio management, assessing manager performance, and managing risk. Therefore, to effectively gain access to high-performing private equity funds, institutional investors need an asset manager with an investment process designed to add value through careful manager selection and portfolio construction.

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Top-down portfolio construction targets diversification across investment type (primary/secondary/co-investments), asset class (small buyout/large buyout/growth equity), and vintage years. Bottom-up manager selection seeks to add value by investing capital with fund managers expected to outperform their peers in each target asset class. Combining the two helps build a risk-controlled portfolio targeting several funds that align with diversification targets by investment type, asset class, and vintage year.

It has been challenging in the past for investors to access and diversify such exposure given high minimums and other barriers, so the emergence of multi-manager solutions and registered vehicles may open the door to wider adoption.

“The way you access the asset class is very different from public markets,” says Mendenhall. “It takes scale, expertise, and relationships.”

> “Each of those elements plays a role. Primary funds give you that long runway of potential return, secondaries offer earlier performance and liquidity, and co-investments allow you to be more targeted”

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Private equity funds often own relatively concentrated portfolios of private companies, which can increase the risk that underperformance of a single company would significantly impact the fund’s overall returns. Building a well-diversified portfolio using multiple private equity funds can help to mitigate this company-specific risk.

The broader appeal of private equity is often its outperformance potential, but Bailey states that how investors gain exposure matters just as much as where they allocate.

While a large institution might allocate $1 billion to secure ten private equity fund commitments, each with a $100 million minimum, most smaller institutional investors can’t access such diversification on their own. Bailey and Mendenhall believe it benefits investors to think about an approach to getting diversified exposure to the private equity asset class through a single investment.

By assembling a portfolio across dozens of funds and hundreds of underlying companies, it can reduce idiosyncratic risk in a way that’s very hard for [small institutional investors] to do on their own,” Mendenhall notes.

“In a multi-strategy fund, each investor can get exposure to several high-quality funds that invest in hundreds of portfolio companies,” Bailey adds. “It’s diversification that would otherwise be out of reach, achieved on a fraction of the capital.”

The multi-strategy design is built around deliberate diversification across primary funds, secondaries, and co-investments – spanning small and large buyouts, growth equity, and different vintage years.

“Each of those elements plays a role,” Bailey explains. “Primary funds give you that long runway of potential return, secondaries offer earlier performance and liquidity, and co-investments allow you to be more targeted.”

And diversification isn’t just about allocating across different asset classes. It’s also about navigating cycles. Because capital in primary funds is invested over time, investors can be exposed to different parts of the economic cycle.

As private equity AUM has grown more than fivefold since 2005, so has the complexity of managing it. Multi-manager strategies can provide access at a more capital-efficient scale, helping institutional investors avoid overexposure to any single company, manager, or moment in the cycle.

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A way to address the challenges of accessing and diversifying exposure in private equity, historically hindered by high minimum-investment requirements, is through multi-manager solutions. This not only makes private equity more accessible, especially to smaller institutional investors, but it also allows for diversified exposure that mitigates idiosyncratic risk. The multi-strategy design, encompassing primary funds, secondaries, and co-investments, offers a comprehensive approach to private equity diversification that ultimately generates exposures across multiple industry sectors, portfolio companies, and vintage years.

Private equity has remained resilient, even during times of macroeconomic uncertainty. It benefits from its focus on long-term goals and the ability to support portfolio companies through market cycles. The insights from Fidelity Investments’ experts, Bailey and Mendenhall, underscore the importance of liquidity considerations and diversification in investment decisions, and identifying dislocations in secondary private equity as potential opportunities for institutional investors.

With secondary transaction volumes reaching record levels, the future of private equity appears robust, poised for sustained high activity and broader adoption.

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