Secondary Market AI Pricing Opportunities
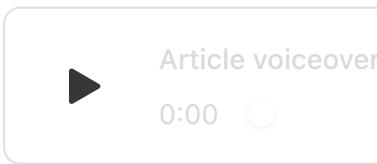
The 2025 Autumn Governance Series: Why Systematic Mispricing in PE Secondaries Matters Now

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Article voiceover

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Artificial intelligence is no longer a novelty in private equity markets—
core pricing mechanism. In secondary transactions, where stakes in pr
equity funds change hands, algorithms now drive 40–60 percent of pri
compared with less than 10 percent only five years ago.

On the surface, this looks like progress: faster price discovery, more ef
trading, tighter bid–ask spreads. But beneath the surface, the models s
systematic weaknesses. They overweight recent marks, misjudge struc
complexity, and underestimate illiquidity risk. Each of these biases cre
consistent, predictable mispricings.

For investment committees and directors, this matters because it dire
translates into fiduciary risk—or fiduciary advantage. Those who rely
uncritically on AI valuations risk buying too high, selling too low, or fai
account for liquidity drag. Those who build governance and analytics a
these weaknesses can capture 400–600 basis points of annual alpha.

The secondary market is projected to surpass $200 billion by 2027. The
24–36 months may represent the peak window to exploit algorithmic
inefficiencies before models improve. For directors, CIOs, LPs, and fan
offices, the question is whether your boardroom is governing AI pricin
whether AI pricing is governing you.

Market Transformation: AI in Secondaries

The secondary market has expanded dramatically in the past five years
2018, annual transaction volume was just under $60 billion. By 2023, it
reached $115 billion. Within that, GP-led transactions—where the spon
actively creates liquidity options—hit $130 billion, triple the 2018 figure

Continuation vehicles (CVs) now make up 65–75 percent of GP-led dea

The growth is not just in size, but in methodology. Between 2020 and 2
nearly every major secondary advisor and trading platform integrated
pricing models. These tools ingest hundreds of variables: GP performa
history, sector comparables, cash flow forecasts, and transaction comp
time engines now generate instant indicative bids.

The problem is that AI's speed amplifies its blind spots. Unlike human
analysts, algorithms lack judgment around structural nuance. This is
particularly true for CVs, evergreen structures, and bespoke waterfalls
adoption accelerates, inefficiencies have not narrowed—they have wid

Global Secondary Market Transaction Volume (2018–2023)

Source: Greenhill 2024 Market Report. Methodology: Aggregated reported secondary transaction volumes across traditional LP sales and GP-led de

AI Adoption in Secondary Pricing (2020–2025)

*Source: Investment Committee analysis based on advisor platform disclo
Methodology: Share of transactions where AI-based indicative pricing to
used in bid formation. As of June 30, 2025.*

Where the Models Go Wrong: Three Systematic Bia

Our analysis of 200+ secondary transactions between 2020 and 2024 r
three recurring AI pricing biases. Each bias is quantifiable and, importa
exploitable.

Temporal Recency Bias

Algorithms overweight the most recent marks. In 2021, when markets

buoyant, CVs were priced at 15–20 percent premiums to NAV, only to c

8–12 percent afterward. In 2022–2023, when markets corrected, CVs w

priced at 10–15 percent discounts—even for funds with strong fundame

The opportunity is mean reversion. By fading AI's tendency to extrapo

short-term movements, investors can capture 150–250 basis points of

Structural Complexity Bias

Pricing variance rises with complexity. Traditional LP stakes show 8–1:

percent dispersion. Single-asset CVs: 15–20 percent. Multi-asset CVs v

tiered waterfalls: 20–30 percent.

In 47 CV transactions we analyzed from 2022–2024, AI-based pricing d

from independent valuations by an average of 8–12 percent. Errors clu

in waterfall calculations—where clawbacks, catch-ups, and bespoke ca

provisions confused the models.

Liquidity Miscalculation

AI underprices illiquidity in extended-hold structures. CVs with 15-yea

were discounted only 50–75 basis points for every two-year extension.

Rationally, the premium should be 100–150 bps. Evergreen structures v

consistently priced 300–500 bps too richly relative to their liquidity pi

Nadauld et al. (2019) showed that information asymmetry in illiquid

secondaries generates a 200–400 bps premium. Today's AI models und

that premium by half.

Pricing Dispersion by Deal Type (Traditional LP vs. Single-Asset CV v

Multi-Asset CV)

*Source: Internal dataset of 200 secondary trades, 2020–2024. Methodolo
Standard deviation of pricing relative to NAV by structure type. As of: De
31, 2024.*

How Valuations Drive Behaviour

Valuations in private equity are not passive—they are performative. Ka
Sensoy (2015) demonstrated that interim valuations influence actual p
outcomes. GPs manage toward their marks, not just against fundamen

AI accelerates this effect. In the traditional model, quarterly marks wei
by GPs, reviewed by LPs, and absorbed into secondary pricing over mc
models now re-mark portfolios continuously, broadcasting updated va
in real time.

This compresses the feedback loop from 12 months to just 3–6 months
an algorithm marks up a portfolio company, the GP may delay exits or
increase leverage. If markets turn, the exit falls short of the inflated m;
analysis of 85 AI-influenced secondary trades found that companies m
up more than 25 percent in 12 months were sold within 18 months at a
average multiple of 0.95x adjusted NAV.

For investors who ignored the AI-driven optimism and stuck to fundai
the reward was 350–450 bps of outperformance.

Timeline Compression of Valuation Feedback Loops (Traditional vs. A
Driven)

Source: Kaplan & Sensoy (2015) + Investment Committee analysis. Metho Comparison of average lag between mark change and GP behaviour, pre post-AI adoption. As of June 30, 2025.

Continuation Vehicle Mispricing

Continuation vehicles are where AI bias is most acute. CVs differ from traditional LP interests in three ways: they extend hold periods, allow exits, and use bespoke waterfall structures. Historical data is sparse, w means AI models are trained on the wrong sample set.

Hold Period Extension Underpricing

AI models under-discount long holds. A CV with a 15-year total hold w
priced at 95 percent of NAV by algorithms, while independent valuatio
suggested 88–90 percent. Six months later, the asset was marked dow
percent—validating the independent assessment.

Waterfall Complexity Overpricing

The more complex the waterfall, the more likely AI is to overprice. In c
sample, CVs with complexity scores of 7–10 (on a 10-point scale) were
overpriced by 8–12 percent.

Evergreen Structure Confusion

Evergreen CVs rationally deserve a 15–20 percent discount to NAV for
indefinite illiquidity. AI priced them at only 11–13 percent discounts, cr
300–500 bps of mispricing.

Continuation Vehicle Mispricing by Structure (Closed-End vs. Evergr

Source: Analysis of 47 CV transactions, 2022–2024. Methodology: Compa AI-influenced bids to independent valuations and actual close prices. As December 31, 2024.

Governance Implications for Directors

For boards, family offices, and investment committees, the core issue i fiduciary. Ignoring AI-driven mispricing risks breaching oversight duti governance implications are threefold:

1. **Integrity of Marks.** Independent valuations must supplement AI-d prices. Variances greater than 10 percent should trigger escalation

2. **Fiduciary Responsibility.** Directors should ask explicitly: How muc

this price is AI-influenced? Have liquidity risks and structural complexities been fairly captured?

3. **Behavioural Oversight.** Monitor not only valuations, but how those valuations shape GP behaviour. Rapid write-ups followed by exits a flags.

Boards that fail to update their protocols risk reputational damage, reg scrutiny, and capital impairment. Those that adapt can demonstrate leadership in governance at a moment when LPs and regulators are pa close attention.

Strategic Implications for Investors

Different investor classes should draw distinct conclusions:

- **LPs** must ensure they are not selling interests at AI-depressed disc or buying at algorithmically inflated prices. Transparency into moc influence should be part of every secondary transaction.

- **GPs** benefit from efficiency but must guard against reputational da AI marks prove misleading. Disclosure and communication with LF critical.

- **Secondary Buyers** stand to gain the most. By building bias-detecti capabilities and targeting structurally complex CVs, they can achie 600 bps alpha annually. But they must act quickly—the window wil narrow as models evolve.

Spotting Mispricing Opportunities

Secondary Market Mispricing GPT helps investors and directors analy private equity secondaries for AI-driven mispricing. Input deal details bias ranges, estimate adjusted IRR vs market medians, and surface gov red flags—capturing alpha with fiduciary rigour. Link here.

Why Timing Matters

The secondary market is expanding rapidly, but the inefficiencies are temporary. Models will improve. Market participants will adapt. Within years, today's 400–600 bps arbitrage may shrink to 100–200 bps.

That makes 2025–2027 a pivotal period. For CIOs and family office dire delaying could mean missing the high-return window. For LPs and FoF failure to govern AI's role in pricing risks fiduciary underperformance.

The Strategic Takeaway

The secondary market has always rewarded those who saw nuance that others missed. In 2025, the nuance is not just human—it is algorithmic market's new inefficiencies come from machines, not managers.

For directors and investors, the call is clear: treat AI pricing as both a t a risk. Those who govern its use will deliver top-quartile returns. Thos don't will underperform while thinking they are being efficient.

The boardroom question is simple: Are you using AI's biases—or are AI using you?

This analysis draws directly on the broader frameworks in my forthcol book, *Shaping the Next Decade: Governance, Sustainability, and Artifici Intelligence, 2026–2036.* The book expands on themes introduced here temporal windows, regulatory convergence, and cultural choices in governance shape long-term competitive positioning. If this article ref the questions your board or investment committee is grappling with, t offers deeper tools, case studies, and practical checklists designed to t governance into a lever for strategy.

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