

Decoding the Secondary Middle-Market: What It Means and Why It Matters



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The private equity secondary market is experiencing unprecedented growth, surpassing a record \$160 billion in transaction volume in 2024¹. This expansion has fueled the rise of larger secondary funds, attracted new market participants, and introduced a new lexicon of industry jargon – terms like “40 Act fund” and “strip sale” have become part of common dialogue.

Amid the activity, one term is gaining quiet but meaningful traction: **Middle-Market Secondaries**. While the term may not make headlines, it merits closer examination.

For sophisticated investors seeking differentiated opportunities, understanding the nuances of the secondary market, and this segment in particular, is becoming increasingly important. Many secondary managers—large and small—claim to focus on “middle-market secondaries.” The term is increasingly used in marketing materials as a catch-all for broad appeal, but its meaning has become diluted and inconsistently applied.

THE QUESTIONS FACING LPS

This piece aims to shed light on what “middle-market secondary investing” means—and why, when applied thoughtfully, it can present a compelling and differentiated approach. To begin, we explore a few key questions that not only define this growing segment but also illustrate why investors should care about how it’s being defined, marketed, and executed.

01

What Defines the “Middle Market” and Why Is It Attractive to Private Equity Investors?

Before exploring how the middle market applies in a secondaries context, it’s worth briefly revisiting what defines the traditional private equity middle market—and why it has long been such a rewarding source of value for managers with operational capability and expertise.

02

Why Is “Middle Market” Often Misunderstood in Secondary Investing, and How Is It Defined or Applied?

While the definition of “middle market” is fairly standardized in traditional buyouts, it becomes more fluid in the secondary market. The term is used widely—but inconsistently—by secondary fund managers, making it important to understand how different groups apply the label.

03

Why Should LPs Care How a Secondary Manager Defines a “Middle Market Strategy”?

For LPs evaluating secondary fund commitments, understanding how a manager defines and executes a “middle market strategy” provides insight into *where* and *how* that manager competes for deals, sources opportunities, and ultimately differentiates itself in an increasingly competitive market.

1. SOURCE: Jefferies and Evercore FY2024 Report

A CLOSER LOOK:

What Defines the “Middle Market” and Why Is It Attractive to Private Equity Investors?

Traditionally defined by company size— often businesses with enterprise values between \$25 million and \$1 billion – the private equity middle market includes companies that are established, yet still present significant opportunities for growth, operational improvement, or strategic repositioning.

Private equity funds focused on this segment typically range from \$100 million to \$5 billion in size, with further segmentation into lower (\$100 million – \$1.5 billion), core (\$1.5 billion to \$3 billion) and upper (\$3 billion – \$5 billion) middle market categories.

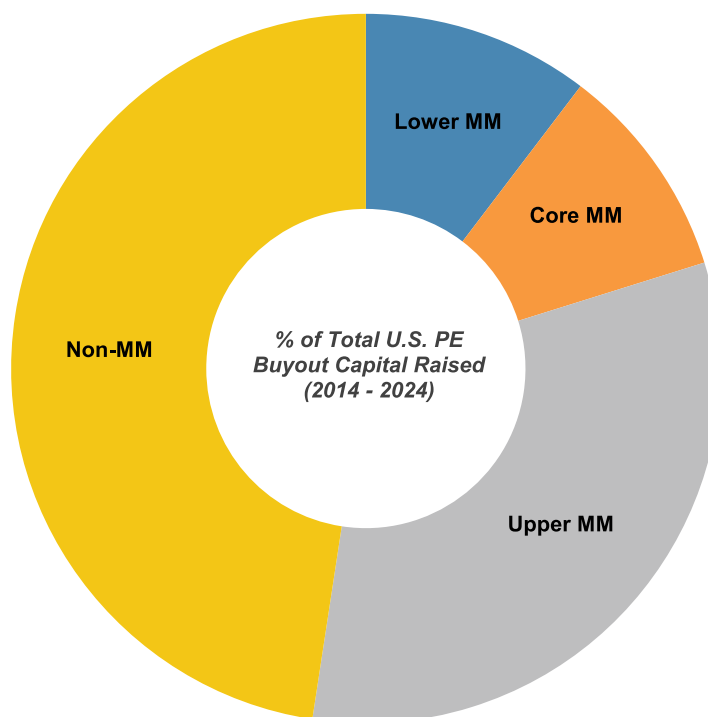
The private equity middle market represents a compelling investment opportunity for direct sponsors, evidenced by the market’s strong representation amidst the larger private equity buyout market.

As shown in Figure 1, from 2014 to 2024, 52.4% of all capital raised by U.S. private equity buyout funds was attributed to middle-market funds (defined as funds between \$100 million and \$5 billion in size).

Middle-market investing is often characterized by active management. Experienced sponsors who can identify and address inefficiencies are well positioned to drive meaningful value.

At the larger end of the market, sourcing can be more competitive, and value creation tends to rely on scale or deal structuring, as larger companies typically offer fewer inefficiencies to correct. At the smaller end (i.e., EV below \$25 million), while there may be potential for outsized returns, risk profiles are generally higher. The middle market strikes a balance.

FIGURE 1²



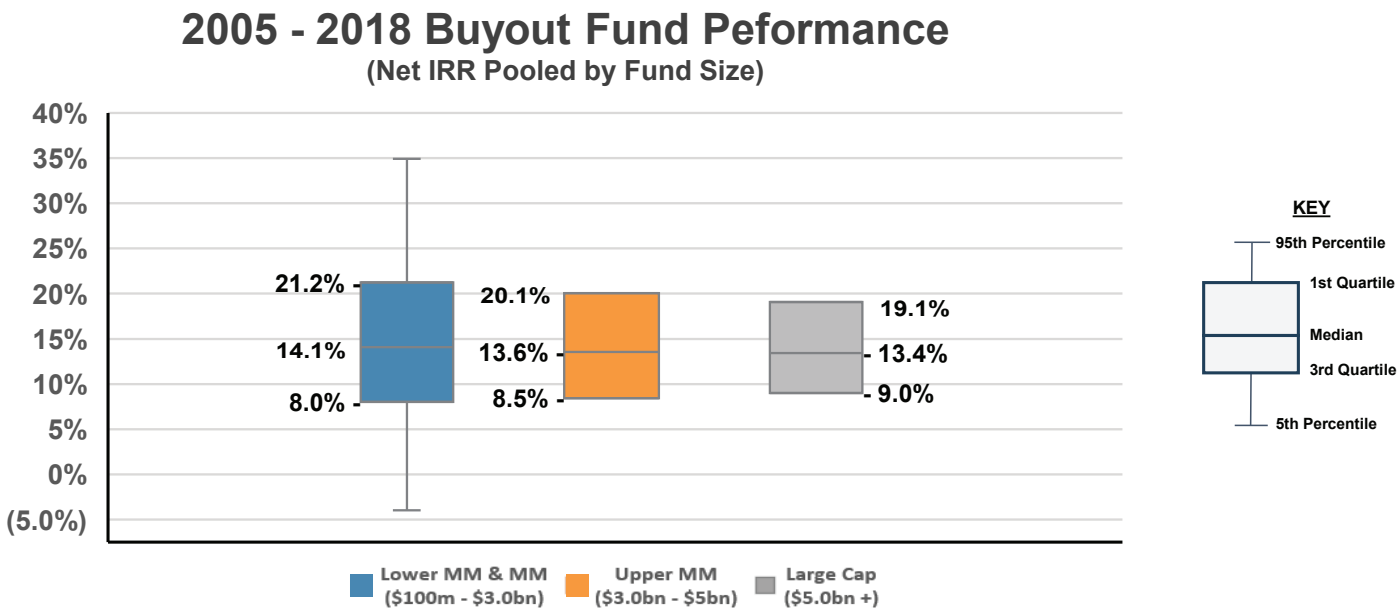
In the middle market, companies are often large enough to create meaningful outcomes for competent investor-operators, yet small enough to benefit from hands-on management.

This creates a wide range of value-creation levers—revenue acceleration, margin expansion, multiple arbitrage, operational upgrades, disciplined cash flow management—that allow managers to adapt across market cycles and unlock value through multiple complementary strategies.

2. SOURCE: Pitchbook, As of December 31, 2024. Middle-market segment bounds are based on Pitchbook’s definitions: Lower MM (\$100 - \$500m), Core MM (\$500m - \$1bn), Upper MM (\$1bn - \$5bn).

Figure 2 underscores the middle market’s strong return potential. Across 2005–2018 vintages, lower and core middle-market funds delivered top quartile net IRRs more than 200 basis points above those of large-cap funds. The 95th percentile performance also outpaced large-cap peers. While dispersion is greater, the middle market offers a higher ceiling for returns—rewarding capable, high-caliber investors with the tools to capitalize on its complexity.

FIGURE 2³ⁱ



3. SOURCE: BURGISS quartiled performance figures for 2005 – 2018 vintage Buyout Funds. Data accessed 5/6/2025

i. Past performance is not necessarily indicative of future results.

Why Is “Middle Market” Often Misunderstood in Secondary Investing, and How Is It Defined or Applied?

Unlike traditional private equity buyouts where the middle market is usually defined by the revenue or enterprise value of a company, in secondaries there's no universal definition of a middle-market. Instead, it reflects a range of approaches shaped by each manager's platform, relationships, and strategy.

If an institutional investor hears “middle-market buyout fund”, they have a sense for the size and scope of that fund and the underlying investments. Pitch yourself as a “middle-market secondary fund” and people will, or should, have more questions. When a manager uses “middle-market” in the context of secondary investing, they could be referring to different definitions, and by extension, different strategies.

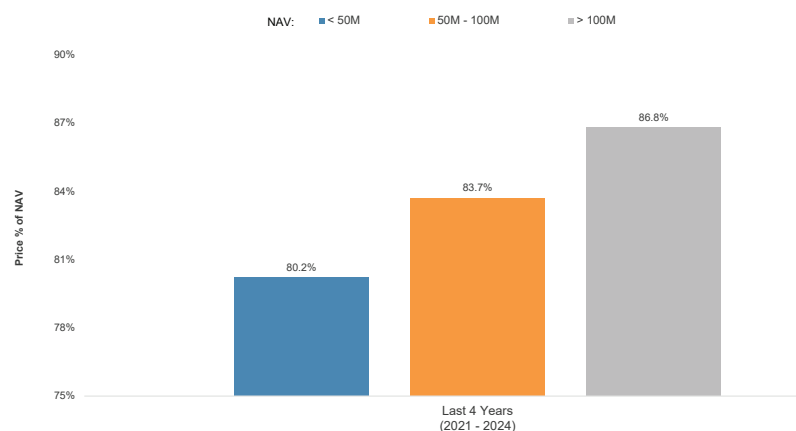
- **Secondary Fund Size:** Secondary managers may refer to their strategy as middle market if their commingled secondary fund is mid-sized relative to competitive funds. With many secondary fund sizes growing more than 50% between consecutive vintages this can be a dynamic range, but we'd think of it as including secondary funds less than \$6bn in size.
- **Underlying Sponsor Focused Strategies:** Some secondary managers define the middle market by their access to mid-market sponsors—typically funds with smaller fund sizes—where underlying company information is less transparent. This approach applies to both LP and GP-led deals and is often favored by secondary buyers with a primary platform, who can leverage those relationships for enhanced access and informational advantages. Mid-market funds tend to be less well covered than large-cap, flow-name funds, making them attractive targets for secondary buyers with primary platforms that cover these sponsors. Investments in these funds can also benefit from the value-creation levers outlined earlier.
- **Deal Size Focus:** Some managers define the middle market by transaction size, targeting mid-sized secondary deals that often receive less attention and price at deeper discounts than larger transactions. For LP deals, this typically refers to transactions between \$25 million and \$250 million; for GP-leds, continuation vehicles in the \$100 million to \$1 billion range.

This definition emphasizes deal size over the underlying manager or company size and is commonly used by secondary buyers without a primary platform. For example,

acquiring a \$75 million portfolio of mega-cap fund interests may be considered a mid-market deal under this framework, even if the assets acquired are anything but. In LP transactions specifically, smaller deals tend to be overlooked by large buyers (e.g., those with funds over \$6 billion), creating potential for more favorable pricing (see Figure 3).

In fact, as secondary fund sizes have grown, there are fewer secondary buyers with meaningful primary capabilities targeting LP deals smaller than \$100m. However, defining a middle market strategy entirely on deal size can have limitations. Considering investments solely based on size is only one part of the picture. Equally important is access to the quantitative and qualitative information about those funds that is critical to the secondary underwriting process. The information required to underwrite larger funds is going to be ubiquitous, so a buyer's “edge” will be somewhat limited.

FIGURE 3: AVERAGE GROSS PURCHASE PRICE % BY LP DEAL SIZE ⁴



■ **Company-Centric Strategies:** In the GP-led continuation fund market, some secondary managers define the middle market by the size of the underlying company—typically based on EBITDA—regardless of sponsor strategy, selling fund size, or investment ticket. This company-focused definition is widely used, and not mutually exclusive from other approaches.

According to Morgan Stanley, roughly 77% of continuation fund transactions in 2024 involved companies generating between \$20 million and \$250 million of EBITDA⁵. Due to buyer company concentration limits and a constrained pool of buy-side capital, most GP-led activity naturally centers on mid-market companies, as larger deals are more difficult to raise the necessary amount of capital for the continuation fund.

While company size is the most common marker of “mid-market” in GP-leds, the term can also refer to continuation fund size or individual investor check size. In 2024, 58% of single-asset continuation vehicles were between \$250 million and \$1 billion, while 71% of investors committed less than \$200 million on average as a lead / co-lead investor to those continuation vehicles⁶.

While these “middle-market” definitions often overlap, each approach prioritizes a different focus—be it sponsor access, deal size, or company scale. These distinctions are not just semantic; they shape a manager’s sourcing channels, underwriting edge, and ability to compete. For LPs and other investors, understanding how a secondary buyer defines their middle-market strategy and their “right to win” is essential. It reveals the breadth of their opportunity set, the nature of their relationships, and, ultimately, their potential to consistently access and execute differentiated deals.

Why Should LPs Care How a Secondary Manager Defines “Middle Market Strategy”?

Clarifying the various definitions of a middle-market strategy isn’t about determining which is right or wrong—it’s about recognizing that when a secondary buyer claims to focus on the “middle market,” they may be referring to very different approaches. For prospective investors, it’s critical to understand what that terminology actually means in practice. Specifically, they should seek clarity on where and how their capital will be deployed, and what source of competitive advantage the manager brings to the strategy.

Focusing on mid-market funds or sponsors can be particularly effective for secondary managers operating within an ecosystem anchored by a robust primary platform—such as GCM Grosvenor. These groups can leverage existing primary relationships and data to access valuable fund- and sponsor-level insights, providing an information advantage that is difficult to replicate. This access can also open the door to highly competitive GP-led opportunities. Groups that can apply this strategy well are often rewarded: in 2024, the average LP-led discount on middle-market buyout funds was approximately 12.2%—a 300 basis point advantage over the average discount on mega-buyout funds, which stood at 9.2%⁷.

Other groups that emphasize deal size are drawn to smaller transactions, which often receive less attention and as noted earlier, tend to price at deeper discounts than larger deals. In 2024, two-thirds of all LP transactions were under \$250 million⁸, underscoring both the accessibility and breadth of this segment of the secondary market—and the potential opportunities available to managers targeting mid-market-sized deals.

However, deal size as a defining metric can introduce complexity. For example, when an LP portfolio is sold through a mosaic solution involving multiple buyers for different fund interests, it raises an important question: does “mid-market” refer to the size of the overall transaction, or to the individual allocations made by each buyer, or to the specific assets acquired?

5. SOURCE: Morgan Stanley 2024 Report

6. SOURCE: Morgan Stanley 2024 Report

7. SOURCE: Campbell Lutyens FY2024 Report

8. SOURCE: Jefferies FY 2024 Report

i. Past performance is not necessarily indicative of future results.



In the GP-led market, most buyers place primary emphasis on company size at the time of the continuation fund transaction—regardless of the size of the selling fund or the company's valuation at the time of the sponsor's original investment. This distinction is important: a company that qualified as mid-market at entry may have scaled into a large-cap business by the time it is brought to market through a continuation fund process. Because continuation vehicles typically house a sponsor's most successful investments, this evolution from mid-market to large-cap is common.

Still, mid-market companies remain a focal point. In a 2024 Morgan Stanley survey of secondary market participants, investor interest in continuation funds was highest in the mid-cap segment—defined as companies generating \$100 million to \$250 million of EBITDA—heading into 2025⁹. Buyers continue to recognize the value of targeting mid-market businesses, and many expect this segment to remain a rich source of opportunity.

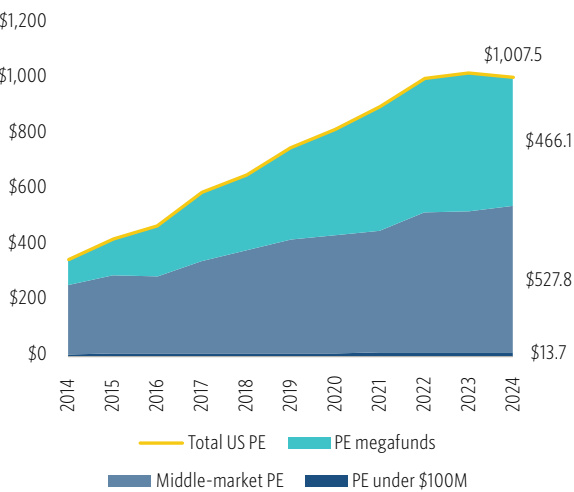
Importantly, the growing interest from secondary buyers in the private equity middle market is closely linked to the expansion of the primary market. According to Pitchbook, as of Q2 2024, middle-market private equity funds held a record \$527.8 billion in dry powder—accounting for 52.4% of total U.S. private equity dry powder and marking the segment's largest share since 2019 (see Figure 4).

By comparison, mega funds held approximately 46% of the total, underscoring the middle market's increasing prominence as both a source of capital and a target for secondary investment strategies.

Notably, the dry powder held by private equity mega funds is concentrated in a relatively small number of underlying funds, many of which share overlapping LP bases and offer limited opportunity for secondary buyers to gain informational or competitive advantages. The middle market, by contrast, is far more fragmented.

According to Preqin, more than 6,000 middle-market private equity funds were raised globally between 2010 and 2024¹¹. McKinsey's 2024 private equity report further highlights this segment's resilience: mid-market funds between \$1 billion and \$5 billion were the only category that did not experience a decline in fundraising in 2024 and demonstrated the most consistent fundraising performance from 2019 through 2024¹². This means that you could have multiple secondary funds targeting the middle market with a strategy built around their primary platform activities, without directly competing with each other if their primary activities didn't materially overlap.

FIGURE 4¹⁰
PE dry powder (\$B) by fund size



9. SOURCE: Morgan Stanley FY2024 Report

10. SOURCE: Pitchbook 2024 Annual US PE Middle Market Report

11. SOURCE: Preqin; includes non-liquidated buyout and growth funds between \$100m and \$5bn in size

12. SOURCE: McKinsey "Global Private Markets Report 2025: Braced for shifting weather", May 2025.

The Takeaways for LPs

This large and expanding hunting ground for mid-market secondary investing is likely to generate a wide range of attractive opportunities. The most compelling buyer strategies may be those that combine multiple approaches. When a secondary manager with a middle-market sized fund has the mandate and flexibility to access the middle market from different angles—such as targeting both small and mid-sized deals, pursuing transactions involving lower and core middle-market funds, or leveraging relationships with fund sponsors for differentiated information access—the advantages can compound, particularly when those criteria overlap.

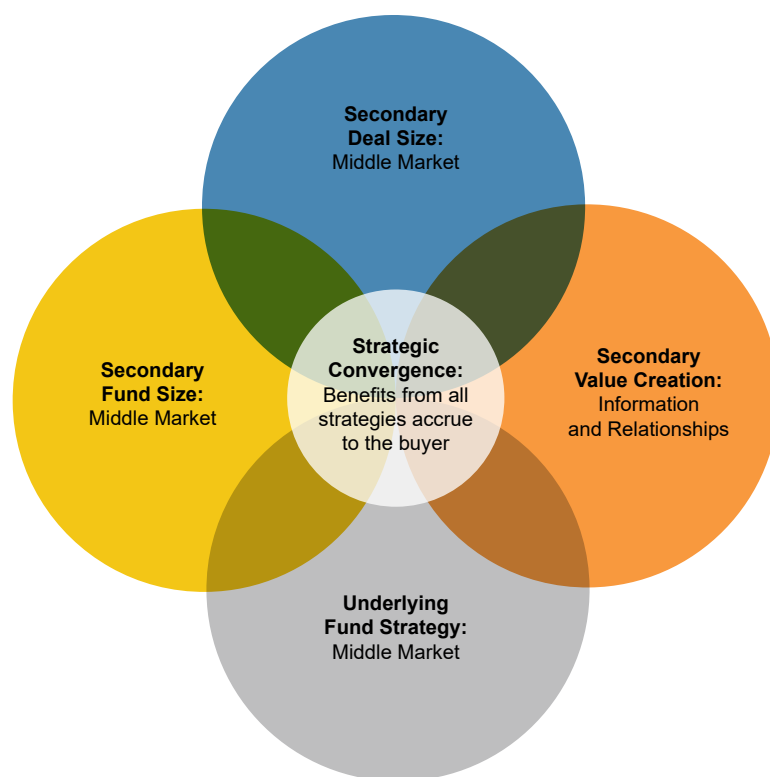
Crucially, the middle market is broad and diverse enough to support multiple secondary buyers pursuing similar—though not necessarily competing—strategies, such as targeting sponsors they know through primary relationships.

Even firms with substantial primary platforms, like GCM Grosvenor—which has made nearly 450 primary commitments since 2010¹³—cover only a fraction of the overall mid-market. Our own analysis shows that many direct competitors do not overlap with the same group of funds we engage with.

GCM Grosvenor's platform is particularly concentrated in the lower and core middle market, where funds tend to be smaller and have a more limited LP base. The secondary market is large enough to accommodate multiple secondary funds groups with their own differentiated universe of primary relationships.

In this environment, a secondary strategy that targets smaller transactions and leverages differentiated sponsor relationships can be particularly effective. However, given the size and continued growth of the market, there is ample room for multiple secondary buyers to pursue similar strategies without directly competing.

Investors like GCM Grosvenor—focused on the lower end of the secondary market and backed by a platform with a long-standing emphasis on middle-market sponsor investing—are especially well positioned to capitalize on the opportunities emerging in this expanding segment of the industry.ⁱⁱ



13. SOURCE: Internal data. Includes GCM commitments to Buyout, Special Situations and Growth Equity Funds

ii. No assurance can be given that any investment will achieve its objectives or avoid losses.

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GCM Grosvenor's experienced team of approximately 550 professionals serves a global client base of institutional and high net worth investors. The firm is headquartered in Chicago, with offices in New York, Toronto, London, Frankfurt, Tokyo, Hong Kong, Seoul, and Sydney.

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