



## Secondaries, and Market Complexity, on the Rise

*Limited partner-led private equity secondaries are driving the market to record highs, a trend likely to continue and to expand to private credit.*

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Traditional private equity secondaries have been a mature market for a while, with limited partners and general partners both turning to them as a way to manage portfolio exposures and liquidity. But another development—the growing class of so-called evergreen funds in the market looking for secondary stakes—is increasing demand and drawing in supply.

The uptick in transaction volume this year can partly be attributed to this trend. Private equity as an asset class is also becoming more correlated to macroeconomic conditions and the slowdown in merger-and-acquisition activity is pushing some investors to sell stakes. That trend is bleeding into private credit, where loans that already have been extended and amended are creating timing issues for both sponsors and investors.

The first half of 2025 has been very active for LP-led secondaries, putting the year on pace to break more records. [As CIO previously reported](#), secondary transaction volume for the first half amounted to \$102 billion—the highest on record for any half-year period and exceeding most full-year totals over the past decade—with 53% of that transaction volume in LP-led deals. On August 14, the California Public Employees’ Retirement System started shopping a \$3 billion portfolio of stakes in legacy funds to secondaries buyers. The transaction is expected to close in the fall. That deal, along with New York City’s sale in May, have put the spotlight on secondaries activity.

Secondaries are also heating up in private credit: The volume of credit secondaries transactions rose to \$10 billion in 2024 from \$6 billion in 2023, according to data from Jefferies. The investment bank expects the volume of credit secondaries transactions to increase to more than \$17 billion in 2025, representing a compounded annual growth rate of more than 70% since 2023.

### **Sellers' Market**

“What we’re seeing right now is just really high pricing, which is a net positive if you are an LP that has been in a low-liquidity environment for several years now,” says Michael Bego, the managing partner in Kline Hill Partners. “We’re also seeing more LPs choose to add a structuring element to their transactions, whether that is accepting payment deferrals to get a higher price or to take loans against their portfolios to help them retain more upside. Buyers in this market are willing to do that and increase the value, which speaks to how competitive the market is right now.”

Data from Jefferies show that average pricing for LP portfolios is hovering around 90% of net asset value. That figure dipped slightly immediately after President Donald Trump’s April tariffs announcement on Liberation Day, but rebounded almost immediately. The average fund is in Year 5 or Year 6 of its life cycle. Fund vintages from 2019 and 2020 are popular. Older vintages from, say, 2017 are also prevalent, if they still have performing assets.

The vintage year makes a significant impact on secondary price. New York City’s \$294.6 billion group of five pension funds held a record-breaking \$5 billion secondary sale in May as part of a broader effort to manage the pension systems’ exposure to the asset class. However, New York City Comptroller Brad Lander noted in a press briefing that the sale included vintages from 2014 and earlier, which trade at a steeper discount to NAV. As a result, the pension system reported a 4% drop in its overall private equity performance. That drop could have been higher still if the system was selling into a weaker secondaries market.

Certain strategies, like deferring manager compensation or using leverage, can limit the impact of some of the value erosion if the portfolio is mixed. But, Bego adds, it often comes down to the goals of the seller. A straightforward sale is often still the preferred choice. Bego expects that strong pricing and higher transaction volume will continue.

“We’re still only in the second or third inning of this market,” he says. “If you look at the percentage of secondaries sales relative to the amount of capital raised in private equity that is being deployed and still needs to be deployed, there is a lot of room for growth.”

lyobosa Adeghe, a partner at Collier Capital, agrees, adding that many LPs are finding themselves overallocated to private equity and are having to make adjustments to exposures.

Denominator effect issues have been an ongoing challenge for investors since the COVID-19 pandemic, and the current slowdown in M&A activity is not helping. New York City, for example, had commitments to 450 individual managers prior to its secondaries sale.

“Investors are finding themselves in a unique situation because they are in funds that have been performing well, but the lack of cash distributions means that they might be outside of their target ranges,” Adeghe says. “If you’re already dealing with that as an investor, selling into a market where pricing is good is advantageous.”

Adeghe adds that many LPs are thinking through recent policy shifts and how that might impact their existing portfolios.

“The question that is on everyone’s mind right now is what is the ultimate impact of some of these things, like tariffs,” he says. “The secondaries market can be a way of getting liquidity back in a more deliberate manner, and we do see people turn to it in that way during times of uncertainty.”

Evergreen funds are also having an impact. GPs are turning to evergreen fund structures as part of a broader effort to bring the wealth management and defined contribution markets into private equity and private credit investing. These funds are constantly investing and generally allow fund investors faster liquidity. Core parts of evergreen fund portfolios include co-investments and secondary stakes. The shorter duration of secondary stakes can make it easier for GPs of evergreen funds to generate regular distributions to investors.

Karen Rode, the private investments and infrastructure group lead at and a senior partner in Aon Investments, says she expects evergreen funds to become a permanent part of the buyer landscape within the secondary market.

“Increased demand from evergreen funds does drive up prices,” Rode says. “Long term, I think the pricing is going to be higher. Both GPs and LPs see the secondary market as a tool in the toolbox. Evergreen funds are a new channel for growth.”

### **Curves Ahead**

Secondaries activity is also picking up in private credit. According to Jefferies, 62% of secondaries activity in private credit last year was led by LPs, with investors selling stakes in private credit funds from their portfolios. That trend is continuing this year. Many of the same dynamics driving sales of stakes in buyout funds are driving sales of stakes in private credit funds. Investors are managing their liquidity needs and portfolio exposures—

activities that will likely continue to grow, given the rapid expansion of private credit and ever-increasing sizes of private credit funds.

There are also some indicators of risk. Private credit managers have been willing to extend and amend the terms of financing solutions for the borrowing companies, in part because of recent abrupt macroeconomic changes, including higher interest rates, inflation and tariffs. Private credit loans are typically floating-rate, so the abrupt shift in interest rates and inflation did put acute financial pressure on even high-performing companies. The slowdown in private equity market exit activity has also had an impact. Companies that were planning to use the cash infusion from an IPO to cover loan payments, for example, have had to extend their repayment timelines or change course.

The managers that sponsor credit funds have, broadly, been willing to work with companies on these issues, but they are now finding themselves in the same boat as private equity GPs: They have extended loan terms that are rubbing up against the end of a fund life cycle. That has resulted in a rise in continuation funds. On August 13, Collier Capital and TPG Twin Brook Capital Partners announced a \$3 billion continuation vehicle, marking the biggest private credit secondaries vehicle launched to date. The fund contains a portfolio of performing loans that were in other funds that were close to the end of their life spans, typically seven to 10 years.

Corey Dietrich, a partner in the private funds group at the Proskauer Rose law firm, says he expects LP activity will continue at a higher pace, as will the growth of private credit continuation funds.

“LPs are in a moment where they are trying to think through their liquidity needs and that’s driving a lot of the activity in LP trade market,” he says. “Then, for credit secondary continuation funds, I think there are less barriers to entry for private credit managers because credit secondary asset valuations are less volatile compared to their counterparts in a traditional private equity continuation fund. So I think we’re going to see those vehicles grow as a longer term solution to current trends in M&A which have caused DPI issues for private credit managers and forced them to find new ways to navigate the amend and extend cycle we’ve seen as a result of the slow down in capital markets activity.”

Questions remain about the growth of private credit secondaries. Private credit, as an asset class, has not been around long enough to be tested in a real crisis, so there is a measure of risk within private credit itself, including in secondaries sales. On August 12, Fitch Ratings reported that its private credit default rate rose to 5.5% in the second quarter of 2025, up from 4.5% in Q1. Data in the report show that smaller issuers are being hit

harder than larger private-credit borrowers by ongoing economic uncertainty. If that trend spreads to larger issuers, that could increase the risk of private credit transactions overall.

Dietrich says it has been relatively easy to manage defaults on private credit loans in a workout process, as such financing often converts to equity in the underlying company in a workout. At that point, parties can decide what to do with the equity accordingly. He adds that investors are often comfortable with this, and the transactions, in some ways, are easier to manage than in private equity secondaries.

“The options for these transactions are fairly straightforward,” he says. “But manager selection remains core. Investors need to be comfortable with the underwriting process and the documentation. The bespoke nature of private credit financing can help limit risk if you have an experienced team working on the deals.”

Dietrich adds that the vast majority of private credit secondaries pricing has come out fairly close to par, which separates them from private equity transactions, in which investors are expecting significant upside. That might shift if there is a significant softening of loan performance or if things like payment-in-kind loans continue to increase. PIK loans permit borrower companies to preserve cash, while making loan repayments with goods or services. The loans are considered riskier for the lender than other traditional debts and carry higher interest rates for the borrower.

“What everyone is trying to figure out right now are plans for purchase price adjustments. This is an active discussion that I think is going to play out over the next 12 to 18 months, because it’s not entirely clear yet what the market expects,” Dietrich says. “If you’re including structures like a PIK loan or something else that affects the loan principal, that’s going to have an impact. Extending terms is going to have an impact. Default rates have an impact. In my mind, that conversation is going to be key to the growth of private credit secondaries going forward.”