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The Credit Secondaries Market: Structure, Momentum, and Why Growth Should Persist

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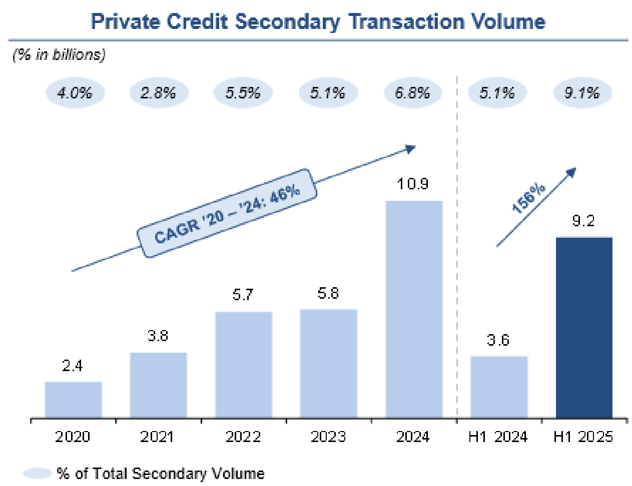
Credit secondaries, the purchase and sale of existing, illiquid private credit funds to provide liquidity and portfolio management options for Limited Partners ("LPs") and General Partners ("GPs"), have hit a growth inflection point. Global credit secondary volume roughly doubled from ~$6 billion in 2023 to ~$11 billion in 2024 and is expected to exceed ~$18 billion in 2025, with GP-led transactions quickly becoming the majority of deal volume. In the last 15 months, Evercore alone has advised on ~$9 billion of credit secondaries transactions. While still a small portion of the ~$200 billion overall secondaries market today, we expect private credit secondary volume to continue its rapid growth and exceed $50+ billion within the next 2-3 years.

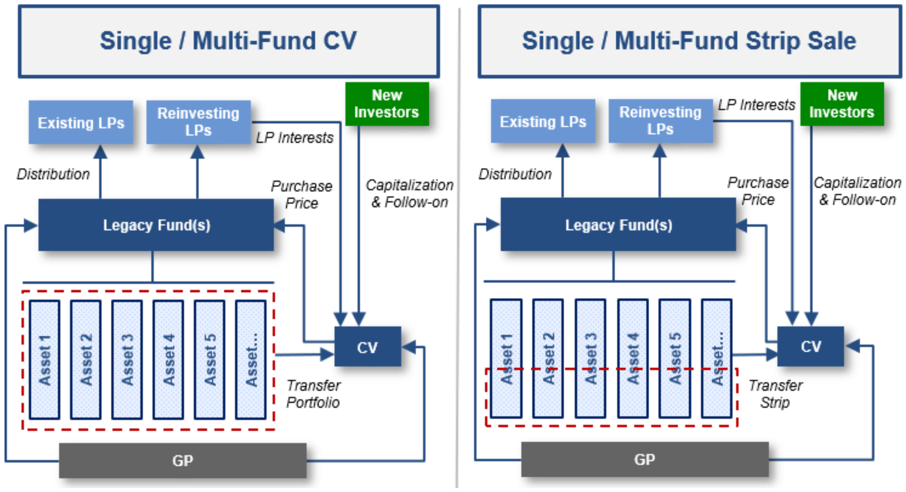


Credit Secondaries Transaction Types and Structures

The corporate private credit spectrum is broad and includes various sub-strategies such as Direct Lending, Special Situations/Distressed, Mezzanine and Opportunistic/Hybrid. While the secondary market for Credit in its broadest sense will include other areas of the credit spectrum such as specialty finance and real asset financing, we will focus this discussion on the various corporate credit sub-segments.

In general, credit secondaries transactions will fall into one of two categories: (1) LP-led or (2) GP-led transactions. An LP-led transaction is initiated by a Limited Partner and involves a direct sale of an LP interest in a private credit fund to another LP. This could be achieved through either a single-fund or multi-fund portfolio sale.

A GP-led transaction is initiated by a fund manager and can be structured as a single or multi-fund Continuation Vehicle ("CV"), a strip sale (standalone or combined with a fund CV), tender offer, or direct portfolio sale in which the lender of record will change. Recently, most of the market's GP-led transactions have been single or multi-fund CVs that recapitalize mature credit portfolios and offer existing LPs cash or an option to roll into the CV. Unlike equity CVs, credit CVs are less likely to be structured as single-asset vehicles given credit GPs don't own the majority of the underlying assets' equity but are lenders with less ability to impact the trajectory of the company going forward.



Over the last 12 months, we have seen a marked shift in the composition of LP and GP-led transactions. Based on Evercore data, two-thirds of 2024 private credit secondary transactions were LP-led, with GP initiated deals accounting for only one-third of market volume. In 1H25, two-thirds of the market's ~$9 billion in deal volume were GP-led structures. We expect this momentum in GP-led deal flow to continue as utilization of the market becomes mainstream and as managers look to (1) provide an option for a return of capital to LPs, (2) extend duration for existing assets, (3) expand primary LP relationships, (4) re-lever fund assets and (5) refresh go-forward economics and follow-on capital for the GP.

Drivers of Credit Secondary Market Growth

The surge in private credit secondaries transactions is being driven by several durable factors which include: (1) a bigger primary asset base (2) slower return of capital to LPs relative to fund duration (3) a desire for liquidity and (4) buyside capital formation dedicated to the credit secondaries asset class.

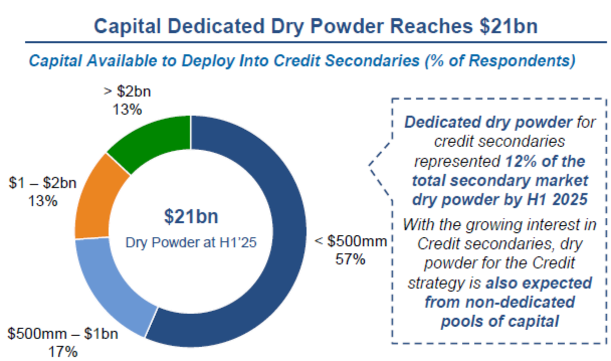
Private credit AUM has crossed the $2 trillion mark, and over the past decade has been one of the fastest growing asset classes, more than doubling in size since 2018. It is widely projected that the private credit market will reach $3 trillion by the end of the decade as investors continue to look for higher returns with less volatility, further expanding the asset base eligible for secondary market transactions.

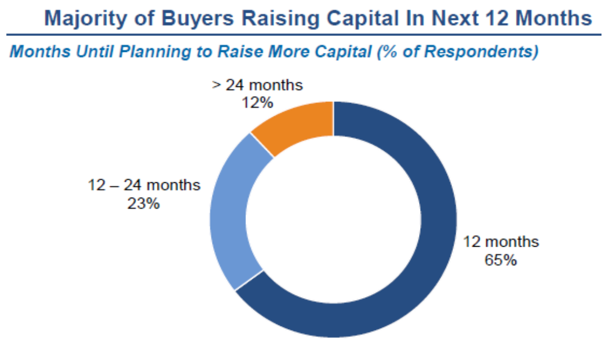
Most of the growth in the private credit market over the last five years has been fueled by M&A activity, and the secular shift of more sponsor-backed LBO transactions getting financed by private credit lenders, as opposed to the traditional syndicated market. This dynamic has led to a ~15% CAGR for the private credit asset class from a sub-trillion-dollar asset class in 2018 to greater than $2 trillion today. A lot of this growth took place before the Fed began raising interest rates in 2022. Since 2022, elevated interest rates have weighed heavily on both M&A and refinancing activity. Higher interest rates have made buyout deals less attractive for private equity ("PE") sponsors and strategic buyers, while simultaneously impacting valuations given higher discount rates. On the refinancing side, companies face a significantly more expensive debt market, limiting early refinancing activity unless necessary.

Like private equity, the private credit market is experiencing a structural demand for liquidity. With ~80% of private credit market exposure in closed-end fund structures, GPs and LPs alike are focused on fund deployment and return of capital over a finite period. In the face of economic cycles, and volatility in M&A activity, investment exits and fund winddowns generally extend beyond traditional harvest period timelines. Moreover, given the exponential growth in private credit AUM, and a more than doubling of the asset class since 2018, a significant amount of private credit assets are in harvest periods and ripe for secondary market transactions to accelerate a return of capital.

A record amount of capital raised for dedicated private credit secondaries vehicles has contributed meaningfully to the rapid growth in transaction volume. Prior to this wave of capital formation, the buyer-base for LP and GP-led credit secondary deals was primarily private equity secondary buyers. Given the higher return hurdles sought by PE secondary funds, the discounts implied on even high-quality credit portfolios to hit those return targets made transacting much less attractive for LP and GP sellers alike.

Now, with dedicated credit pools of capital targeting low double-digit or mid-teens returns depending on the risk-profile of the portfolio, buyers and sellers are more aligned. Based on EVR's 1H25 survey results, there is now ~$21 billion of dry powder available to deploy into credit secondary transactions that will drive increased interest from both LP and GP sellers, with return targets for these pools of capital now matching the return profile of the private credit asset class.





Trends and Pricing

Dedicated capital pursuing the credit secondaries asset class has facilitated an increase in deals brought to market and better pricing outcomes for these deals. The improved price dynamics, coupled with big name credit managers tapping the credit CV market, have certainly contributed to the flood of GP-led deals. CVs for senior secured direct lending portfolios have consistently priced in the mid-90s to par range of fair market value ("FMV"). We would expect nearly all large, complex transactions to lean on intermediated processes to maximize competitive tension and enhance pricing for sellers.

According to EVR's 1H25 market survey, 61% of the $21 billion of dry powder available is focused on senior secured funds, with the remaining 23% and 17% targeting Opportunistic/Distressed and Junior Lending/Mezz portfolios, respectively. Additionally, 76% of survey respondents are aiming to achieve net IRRs of 10-14%, with the remaining 24% falling within the 15-19% bucket.

Several pricing and IRR enhancement mechanisms that have been commonly used in PE secondaries have made their way into the credit market. For example, payment deferral structures are utilized to enhance headline price and buyer IRRs. Another mechanism for value transfer to either buyers or sellers is the allocation and timing of post-reference date cash flows.

Practical Uses and Benefits to LPs/GPs

There are several practical implications for the development of a mature credit secondaries market which are beneficial to both LPs and GPs. As the market develops, we expect LPs will treat secondaries as a regular tool for rebalancing portfolio asset allocations within credit, managing their mix of exposure to GPs, and implementing portfolio management decisions such as a changing strategy, matching assets and liabilities and navigating market events.

Liquidity solutions via the credit secondary market are equally as valuable to fund managers. GPs will continue to use credit CVs to offer LPs a liquidity option, extend duration of assets with further upside, realign incentives and fund terms, crystallize performance/DPI, and recapitalize fund vehicles. As a result, alongside a growing credit secondary buyer universe, GPs will increasingly, and likely more regularly, utilize the credit secondary market to manage funds and return of capital.

Credit Secondary Market Poised for Continued Rapid Growth

All signs point to continued growth in primary private credit AUM and credit secondary capital formation. EVR's 1H25 market survey revealed that 65% of respondents expect to raise more dedicated credit secondary capital in the next 12 months, with another 23% indicating the same within 12-24 months. If the market exceeds $18 billion in 2025 as we expect, this still translates into a less than 1% turnover rate on the ~$2 trillion of private credit assets outstanding. This compares to an average PE secondary market turnover rate of nearly 3%, signaling significant growth to the upside as private credit grows as an asset class. With the investable universe expanding, more fund managers adopting CV transaction structures and capital raising momentum continuing, we expect strong growth in the private credit secondaries market going forward.