CAPCO JOURNAL

The Capco Institute Journal of Financial Transformation

Value dynamics

Disruptive forces reshaping financial services

Secular shifts

The evolving secondary market: An integral part of the private markets ecosystem

Nick Paulussen

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Welcome to the 61st edition of the Journal of Financial Transformation.

I am delighted to announce our new partnership with King's College London, a world-renowned leader in education and research, marking a new chapter in the Journal's long and distinguished history.

In this edition focusing on Value Dynamics, we explore a critical – and ever more pressing – challenge: how institutions across financial services create, distribute and sustain value.

As Professor Crawford Spence, our editor from King's College highlights in his own introduction, the forces shaping value dynamics across financial services are myriad, encompassing technological transformations, secular shifts, political and social structures.

As a firm that has been at the cutting edge of innovation for over 25 years, these value drivers intersect directly with the work Capco does every day, helping our clients around the globe transform their businesses for sustained growth.

The integration of innovative new technologies including generative and agentic AI models, the digitalization of currencies and payments infrastructures, the reimagining of customer experiences, the relentless evolution of market ecosystems, the vital role of culture as a value driver: these imperatives are where we see – first-hand – clear opportunities for our clients' future growth, competitive differentiation and success.

We are excited to share the perspectives and insights of many distinguished contributors drawn from across academia and the financial services industry, in addition to showcasing the practical experiences from Capco's industry, consulting, and technology SMEs.

It is an immense source of pride that Capco continues to champion a creative and entrepreneurial culture, one that draws on the deep domain and capability expertise of thousands of talented individuals around the world.

We do not take our hard-earned status as a trusted advisor lightly, nor our responsibility to make a genuine difference for our clients and customers every single day – placing excellence and integrity at the forefront of everything we do.

I hope the articles in this edition help guide your own organization's journey as you navigate the many complexities and opportunities ahead.

As ever, my greatest thanks and appreciation to our contributors, readers, clients, and teams.

Annie Rowland, Capco CEO

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Editor's note

This 61st edition of the Journal of Financial Transformation is the first with a new editorial team in place, and is the product of a formalized collaboration between Capco and King's College London. This collaboration – a leading financial services consultancy and a prestigious academic institution – embodies the Journal's ethos: a balance between academic rigor and practical accessibility.

Traditional academic journals often deal with more prosaic conceptual matters. Even when they focus on more practical concerns, the timelines and mechanics of double-blind peer review processes can mean that the insights that they offer risk being out of date by the time they are published. Conversely, traditional op-ed articles in the financial press are all too often heavy on opinion and pre-conceived ideas and can lack the heft that comes with thoroughly researched pieces of work.

The Journal we've published strikes a vital balance between these two approaches.

This edition has an overarching focus of Value Dynamics. Specifically, the various articles look at how value is created, distributed and sustained across financial services. In turn, the submissions are grouped into three broad themes.

Technological transformations are explored in terms of how these can bolster or hinder value dynamics if not managed effectively. A number of secular shifts are also discussed – these being long-term changes that are impacting value dynamics in the sector. Finally, structural challenges are highlighted that emphasize the importance of sticky, tricky social and behavioral issues that surround the execution of financial services.

Overall, these themes highlight challenges and opportunities in the sector and encourage us to think differently.

It has been a pleasure working on this issue with such a fantastic and diverse array of different contributors.

Professor Crawford Spence
King's College London

The evolving secondary market:

An integral part of the private markets ecosystem

Author | **Nick Paulussen** | Executive Director, Capco

Abstract

Secondary markets for private assets have evolved from a niche liquidity outlet to a cornerstone of modern private-markets investing. Global secondary transaction volume reached a record $162 billion in 2024 – up 45% year-on-year and now representing roughly one-fifth of all private-equity exits. This expansion has been fueled equally by traditional LP-led portfolio sales and the rapid rise of GP-led continuation funds, which alone accounted for about half of 2024 volume. Alongside these deal structures, fund-level NAV-based lending and a new generation of digital trading platforms are broadening access and compressing execution timelines, while a surge of fresh capital – from large institutions to semi-liquid retail vehicles – has deepened market liquidity.

Regulatory reforms on both sides of the Atlantic aim to standardize processes, enhance valuation transparency, and safeguard investors, even as they introduce new governance requirements. For investors, the maturing secondary ecosystem now offers strategic tools to actively manage portfolio liquidity, recycle capital, and extend ownership of high-performing assets. Yet challenges remain: pricing still hinges on volatile NAV discounts, information asymmetry persists, and deal execution can be complex. Mastery of these dynamics is therefore essential for any institution seeking to optimize risk-adjusted returns in an increasingly interconnected private-markets landscape.

1. Introduction

Secondary markets in private assets – once a niche mechanism for offloading unwanted fund stakes – have matured into a vibrant, global marketplace. Investors in private equity, private credit, and infrastructure funds are increasingly turning to secondary transactions to manage liquidity, adjust portfolios, and unlock value from illiquid holdings. Innovations such as general partner (GP)-led continuation funds, net asset value (NAV) lending facilities, and dedicated secondary trading platforms are reshaping how institutional investors approach liquidity and risk management in these asset classes. This article provides an in-depth analysis of how secondary markets are evolving from the periphery to the core of private market investing. They provide a crucial linkage between the traditionally illiquid world of private assets and the need for flexibility among investors.

2. Global growth of secondary markets

2.1 Rapid expansion

The global secondary market for private assets has experienced explosive growth in recent years, repeatedly shattering volume records. According to BlackRock (2025), in 2024, secondary transaction volume reached an all-time high at $162 billion. This marked a 45% surge from 2023's levels, far outpacing growth in primary private markets. To put the scale in perspective, 2024's volume eclipsed the previous peak of $132 billion set in 2021 and showed a 17% CAGR since 2013. The secondary market's momentum continued into H1 2025, with industry leaders predicting yet another record year on the back of robust supply and demand dynamics, fueled by increased investor demand, rising interest in liquidity solutions, and favorable pricing dynamics.

This burgeoning volume has been driven by growth in both traditional limited partner (LP)-led secondaries and GP-led transactions (such as continuation funds). In 2024, roughly half of secondary activity was GP-led [Lazard (2025)], indicating how mainstream these sponsor-initiated deals have become. GP-led deals have become increasingly prevalent due to their flexibility, allowing sponsors to extend investment periods for high-performing assets, offer liquidity to investors, and maintain strategic control of investments. GP-led deals surged in 2024 to $75 billion, while LP-led portfolio sales grew to $87 billion [BlackRock (2025)]. This represents a structural shift: what began as a liquidity outlet of last resort has evolved into a standard tool for private equity value realization. Indeed, in 2024, secondaries comprised circa 20% of global PE exit volume – up from 10-year average of circa 10% [Lodge et al. (2025)]. In other words, secondary processes are now a significant part of how GPs exit investments, alongside trade sales and IPOs.

2.2 Global participation

The secondary market's growth has been a global phenomenon, although centered in North America and Europe. Data from 2024 surveys show that North America-focused assets accounted for 66% of LP-led deal volume, with Western Europe around 30% [Lazard (2025)]. Asia's share remains modest (on the order of 4%), but Asia-Pacific secondary activity is rising steadily. Emerging hubs such as Hong Kong and Singapore are developing as key venues for secondary transactions in Asia. Notably, infrastructure secondaries have grown in relevance in Asia as institutional portfolios mature. The Middle East's large sovereign wealth funds are also increasingly active as both buyers and sellers in the secondary market, though their share is still relatively small (e.g., SWFs were ~1% of sellers in one recent survey). Overall, the deepening of secondary market activity across regions suggests a more connected global marketplace, with major financial centers – New York, London, Hong Kong – all hosting dedicated secondary investors and advisors.

2.3 New entrants and capital supply

A striking development is the "democratization" of the secondary market's capital base. Whereas a decade ago buyers were mainly a handful of specialized secondary funds, today a much wider array of investors is providing liquidity. Large asset managers, pension funds, insurance companies, and even retail channels have entered the fray. Peter Orszag of Lazard (2023) notes the influx of "new entrants, retail capital flows, and continued fundraising success" creating a deeper pool of secondary buyers. In fact, secondary dry powder (committed capital awaiting deals) hit a record ~$216 billion by end-2024 and more than 80% of secondary firms plan to raise even more capital in 2025 [BlackRock (2025) and Lodge et al. (2025)]. An important portion of this growth comes from semi-liquid vehicles targeting wealth channels – for example, U.S. '40 Act funds (interval and tender-offer funds), European ELTIFs, and U.K. long-term asset funds that allow high-net-worth and retail investors to access secondaries. BlackRock (2025) reports that an "influx of retail capital, primarily through semi-liquid vehicles ('40 Act, ELTIF, LTAF, etc.), has introduced a new and influential source of capital on the buy side, reshaping how transactions are marketed and transacted." In 2024, these semi-liquid funds accounted for nearly one-third of all secondary fundraising – a remarkable sign of broadening investor participation.

From a macro perspective, the secondary market's growth has outpaced other exit routes. During 2022–2023, when IPO and M&A activity slumped, secondary volumes dipped only modestly, then rebounded strongly [Blair (2024)]. Even in healthier exit markets, secondaries are taking a larger share of liquidity. In 2024, secondary transactions represented 20% of global private equity exit volume (by value), double the historical average of ~10% [Lodge et al. (2025)]. These trends underscore that secondaries are no longer an adjunct to private markets – they are becoming integral to the ecosystem, providing a release valve for liquidity and a strategic tool for investors worldwide.

3. Innovations in liquidity: continuation funds, NAV-based lending and dedicated platforms

A defining feature of the secondary market's evolution has been the rise of innovative structures that provide liquidity beyond the simple sale of LP fund stakes. Important innovations are GP-led continuation funds, NAV-based lending facilities and the rise of dedicated secondary market platforms. These tools have expanded the menu of liquidity and financing options available to general partners (GPs) and limited partners (LPs) alike.

3.1 GP-led continuation funds (secondary fund recapitalizations)

Continuation funds – sometimes called GP-led secondaries or fund recapitalizations – have moved to the forefront of private markets. In a GP-led secondary, a fund's GP sponsors a new vehicle to purchase one or more assets from an existing fund, giving existing investors the option to sell for cash or roll their stakes into the new entity. This mechanism effectively "continues" ownership of prized assets under a new timeline and often with fresh capital. It solves a fundamental problem in closed-end private funds: how to extend the holding period of high-performing assets beyond the typical 10-year fund life, while still providing liquidity to investors who need an exit. According to Peter Orszag, Lazard CEO, continuation funds have proven "elegant in their simplicity – new capital replaces old, while expertise remains constant" [Lazard (2025)].

3.1.1 Growth and prevalence

The use of continuation funds has exploded. GP-led secondary volume hit $75 billion in 2024, nearly half of total secondary market volume. Surveys indicate there were dozens of GP-led processes each quarter, ranging from single-company deals to multi-asset fund spinouts. The share of single-asset deals has also grown, now comprising almost half of GP-led transaction count in recent periods. What was once an exotic, conflict-ridden idea is now mainstream – by 2024, 34 North American and 20 European managers completed their first-ever continuation fund transactions, highlighting how GPs across the spectrum are embracing this tool [Dawkins (2025)]. Market observers predict continuation vehicles could account for 20% or more of all GP exit events in coming years.

3.1.2 Strategic rationale

For GPs, continuation funds offer flexibility in exit planning. Rather than selling a stellar asset to a competitor or rushing an IPO, the GP can retain control and drive further growth, often alongside a supportive secondary investor as a partner. This became especially valuable in recent years when traditional exits were challenged. During those periods, continuation funds provided a "liquidity tool" to bridge the gap. They also allow GPs to resolve end-of-fund timing issues: if a fund is nearing term but still holds a winner, a GP-led secondary can deliver liquidity to legacy LPs (who may be at or beyond their expected fund duration) while giving the GP and rollover investors more time to maximize value. An added benefit is that debt financing for the asset often remains in place through the transfer, avoiding the need to refinance in a potentially unfavorable market.

3.1.3 LP considerations

From the selling LP's perspective, a well-structured GP-led deal can be a win-win: they get an option to cash out at a fair price or continue with the asset if they believe in its upside. However, the inherent conflict of interest – the GP is effectively both seller (for existing fund) and buyer/manager (of the new fund) – has drawn regulatory attention. In the U.S., the Securities and Exchange Commission (SEC) has stepped in with new rules. In August 2023, the SEC adopted a requirement that any "adviser-led secondary transaction" (i.e., GP-led deal) by an SEC-registered fund manager must obtain a third-party fairness opinion or valuation opinion and provide it to investors [Mackenzie (2024)]. The intent is to ensure the transaction price and terms are fair to the selling fund's investors, aligning with best practices that many in the industry had already started to implement. This SEC rule, part of a broader private fund transparency initiative, reinforces the need for robust process and disclosure in GP-led secondaries.

3.1.4 Case example

Pollen Street Capital structured a $1 billion single-asset continuation vehicle to purchase its stake in Markerstudy Group (a U.K. insurance company), which was concurrently exploring an M&A exit [Le (2023)]. The novel deal, co-led by three secondary buyers, allowed Pollen Street to secure liquidity for existing investors while still participating in Markerstudy's future growth via the new fund. Such creative uses of continuation funds demonstrate the increasingly sophisticated options GPs have to manage exits [Le (2023)].

3.2 NAV-based lending (fund-level credit facilities against portfolio NAV)

Another major innovation is the rise of NAV-based lending, also known as asset-backed fund financing. Unlike traditional subscription credit lines (secured by LP capital commitments), NAV facilities are loans secured by the net asset value of a fund's portfolio – essentially, borrowing against the equity value of the underlying private investments. These loans provide GPs with liquidity for their funds without immediately selling assets. NAV loans and preferred equity deals have emerged as flexible tools for GPs to generate liquidity for LPs, fund follow-on investments, or bridge the timing of exits. The increased liquidity through NAV lending has significant implications for market dynamics, including enhancing transparency, enabling more efficient pricing, and altering investor expectations by creating conditions akin to those found in public markets.

3.2.1 Growth trajectory

The NAV financing market has grown remarkably fast alongside the boom in GP-led secondaries. One fund administrator [Citco (2025)] reported a 30% compound annual growth rate in NAV facilities from 2019 to 2023 among its clients [With Intelligence (2025)]. By mid-2024, the estimated volume of outstanding NAV loans had reached around $150 billion, and S&P Global forecasts this could double to $300 billion by mid-2026 [With Intelligence (2025)]. These figures underscore that NAV lending – once a fringe strategy – is now becoming a major adjunct to the secondary market, effectively increasing the pool of capital available to manage liquidity in private funds. The growth in NAV lending stems in part from the sheer growth in private equity NAVs (over $3 trillion of unrealized value in PE funds globally), and the desire to avoid selling in a challenging market. During the recent dealmaking slowdown, many GPs preferred to borrow against assets rather than sell at a steep discount, especially if they had confidence in the assets' long-term value.

3.2.2 Strategic rationale

NAV loans are typically employed for several strategic purposes: (1) LP liquidity – a fund can take a NAV loan and use proceeds to finance LP distributions (thus providing liquidity without an asset sale), essentially pulling forward some exit value. (2) Offensive capital – GPs use NAV credit to fund follow-on investments or add-on acquisitions for portfolio companies, aiming to drive growth and higher eventual exit proceeds. (3) Bridge to exit – if an exit is anticipated in a year or two, a NAV facility can provide interim cash that is then repaid once the sale closes. In private credit funds, NAV facilities might finance new loan origination when fresh capital is scarce or facilitate a fund restructuring/roll-up akin to a continuation vehicle. The flexibility is a key attraction.

Crucially, NAV financing has enabled some GP-led secondary deals to be structured in creative ways. For example, a continuation fund deal may combine equity from secondary buyers with a NAV loan or preferred equity injection, thereby requiring less new equity capital and aligning incentives (debt can be serviced by portfolio cashflows, while equity holders retain upside). This was seen in various 2023 continuation funds where rather than selling a large stake outright, GPs raised a smaller amount of equity and some debt against the assets to provide the desired liquidity.

3.2.3 Challenges and risks

While useful, NAV loans introduce leverage at the fund level, which elevates risk if not managed properly. Some in the industry have cautioned against using NAV borrowing simply to return capital to LPs, as it could magnify losses in downturns. Regulators have noticed as well. Under the new AIFMD II in Europe, for instance, leverage limits are being imposed on funds (notably private credit funds) to mitigate systemic risk. AIFMD II will cap leverage for open-end alternative investment funds (AIFs) and restrict lending by funds to prevent daisy-chains of fund-level debt. These rules indirectly affect NAV loans by constraining how much leverage a manager can introduce. Nonetheless, when used prudently, NAV facilities are seen as a permanent addition to the toolbox. Industry experts now view NAV loans structures as mainstream fund finance solutions, not signs of distress. In fact, one survey of institutional investors found a growing acceptance: by 2025, many LPs "view options like NAV loans as both GPs and LPs seek liquidity" in an evolving market [Diehl et al. (2025)].

3.2.4 NAV financing versus secondaries

It is important to note the interplay between NAV-based lending and outright secondary sales. They are sometimes alternative options to achieve similar goals. For example, if an LP wants liquidity, the GP might either facilitate a secondary sale of that LP's stake or borrow against the fund and distribute cash to all LPs. Which route is chosen depends on pricing, urgency, and fund strategy. We often see in practice a combination: a GP could use a NAV loan to offer a partial payout to all investors, and simultaneously run a secondary process to replace investors who want a full exit (the loan reducing the amount of new equity required). Both avenues ultimately enhance liquidity in private markets, blurring the lines between traditional secondaries and private credit solutions. The bottom line is that innovation in secondary markets is not limited to trading fund interests – it encompasses financial engineering at the fund level to unlock liquidity while managing risk.

3.2.5 Case example

A mid-market European private equity fund in 2024 sought to provide liquidity for its LPs amid a stalled M&A environment and tightening financing conditions. The GP orchestrated a dual-track strategy: it arranged a €75 million NAV loan from a private credit provider to fund a partial distribution to all LPs, while concurrently launching a structured secondary sale process to replace LPs seeking a full exit. The fund bundled three core assets – each with robust performance history but uncertain short-term exit paths – into a continuation vehicle, which was capitalized with €200 million from two secondary buyers. The NAV loan covered 40% of the vehicle's value, reducing the equity ask and accelerating deal closure. This blended approach enabled the GP to deliver immediate cash, retain growth potential, and optimize pricing while giving investors choice in participation. It also showcased how NAV financing and secondary sales can be combined creatively to solve liquidity challenges without compromising strategic control.

3.3 Dedicated secondary market platforms

The rise of dedicated secondary platforms is transforming the way private market assets are traded. These platforms are blurring the lines between public and private markets by offering increased visibility, access, and ease of transaction. This includes innovations such as blockchain-enabled marketplaces, digitalized fund units, and real-time pricing tools, which collectively enhance transparency and reduce friction in secondary deal-making. These developments not only improve operational efficiency but also shift investor expectations closer to those associated with public equities, thereby reshaping liquidity dynamics in private markets.

As secondary transaction volume has grown, so too has the infrastructure supporting these markets. Historically, secondary trades were arranged bilaterally or via brokers in a relatively opaque manner. Today, dedicated secondary market platforms and digital innovations (including blockchain-based solutions) are improving market access, efficiency, and transparency.

A number of fintech platforms and exchanges have arisen to connect buyers and sellers of private market interests. These range from online marketplaces for LP fund stakes to exchanges for private company equities. For example, platforms like Palico, SecondMarket/Forge, and Nasdaq Private Market have provided venues for LPs to list fund positions or for shareholders of pre-IPO companies to sell equity. Within fund secondaries, some sponsors have also created internal secondary windows for their investors. For instance, several leading private equity platforms allow their feeder-fund investors to trade units on a periodic basis (e.g., Moonfare, a fintech platform, offers quarterly liquidity events where members can sell their fund stakes to others on the platform). These initiatives bring a measure of marketplace functionality to an otherwise illiquid asset class.

Even incumbents are leveraging technology; major secondary advisors and investment banks host auction processes via secure online data rooms, where dozens of bidders can evaluate portfolios simultaneously. This digitalization has accelerated deal timelines – what once took many months can sometimes price in weeks if there is enough data transparency for buyers. Furthermore, new software tools are helping match buyers to specific assets; for example, AI-driven analytics can parse portfolio compositions and recommend potential buyers based on their preferences and past behavior (though adoption of AI in secondaries is still nascent).

3.3.1 Transparency

A persistent challenge has been the lack of real-time pricing data for private assets. However, as more transactions flow through platforms, a pricing database is slowly being built. Some firms publish secondary market indices indicating average discount levels for recent trades. For instance, secondary market pricing for diversified buyout fund stakes averaged around 85% of NAV in 2023, rising to the high-80s by late 2024 – data that was once closely guarded is now often shared in quarterly reports and even media commentary [BlackRock (2025)]. This enhanced transparency is attracting new participants who previously might have been wary of secondaries. In 2024, 40% of secondary sellers were first timers, a sign that more investors now trust they can get a fair price in the market [Lodge et al. (2025)]. Dedicated platforms contribute to that trust by providing standardized processes and broader reach for finding the highest bidder.

That said, secondary market pricing still requires expertise to navigate. Valuations are based on last reported NAV (often lagged by a quarter) plus analysis of the underlying companies. Information asymmetry remains; buyers with superior insight or modeling capabilities can identify mispriced opportunities, and sellers with limited market knowledge might accept a deeper discount than necessary. As one white paper notes, the secondary market (especially in private credit) is characterized by "information asymmetry and limited liquidity," creating opportunities for skilled investors to capitalize on mispricing. Technology is gradually chipping away at these asymmetries – for example, some platforms use blockchain to verify fund performance data and share it securely with vetted buyers, instilling confidence.

3.3.2 Case example

Apollo Global Management announced plans to build a full-fledged private credit marketplace in partnership with banks, exchanges, and fintechs [Bloomberg (2025a)]. This open-architecture platform aims to provide real-time information, indicative pricing, and syndication capabilities for private credit deals, marking a major step toward liquidity and standardization in an otherwise bespoke asset class. While still in development, the initiative demonstrates Apollo's commitment to making private markets more accessible, efficient, and transparent [Armstrong et al. (2025)].

3.4 Opening to retail investors

Regulators on both sides of the Atlantic are cautiously supporting the opening of private markets to non-institutional investors, but with guardrails. In the U.S., while there is no broad retail access to private equity yet, there have been moves to let certain retirement plans have limited allocations and to expand the definition of accredited investor. The Department of Labor in 2020 clarified that 401(k) plans could include PE exposure via diversified funds, which implicitly could involve secondary funds for liquidity management. The SEC has also approved interval funds and tender-offer funds that are registered under the '40 Act but invest in illiquid assets – many of these (e.g., certain non-traded BDCs or closed-end funds) invest in credit and could utilize secondary sales for liquidity.

The key regulatory consideration here is liquidity mismatch and investor protection: any vehicle sold to retail must either provide periodic liquidity (hence the interval fund structure) or clearly disclose that shares are illiquid. The recent issues in products like Blackstone's BREIT (a real estate interval fund that hit withdrawal limits) highlight why regulators are attentive.

In Europe, the ELTIF regime was specifically designed to allow semi-retail investors to access long-term illiquid funds under certain conditions. The ELTIF 2.0 reforms (effective 2024) loosened some rules (e.g., allowing funds-of-funds and facilitating secondary trading of ELTIF units). This means an ELTIF could be used to create a feeder into secondary deals, with retail investors able to buy/sell ELTIF units under lighter constraints than before.

The U.K.'s new Long-Term Asset Fund (LTAF) similarly targets mass affluent investors with controlled liquidity windows. Regulators require such vehicles to have robust liquidity management, so we see features like quarterly redemption limits, notice periods, and importantly, the option for managers to tap secondaries to meet redemptions. Indeed, many interval funds investing in private credit or PE plan for secondary sales or NAV loans as a liquidity source if investor withdrawals exceed new subscriptions.

As private markets open to retail, regulation will continue to require clear communication of risks – including that secondary market liquidity, while improved, is not equivalent to public market liquidity. Both SEC and European regulators have increased oversight of valuations – critical since secondaries ultimately hinge on believable NAVs. We should expect ongoing guidance on best practices (e.g., recent industry standards on portfolio valuations for secondaries by groups like IPEV), and possibly more standardized reporting around secondary transactions (for instance, reporting secondary volumes or prices in fund annual reports someday). Thus far, regulators have not impeded secondary market development; instead, by formalizing some processes, they may well legitimize secondaries further in the eyes of more conservative investors [Levine (2025)].

3.4.1 Case example

Apollo Global Management's collaboration with State Street in 2025 illustrates how leading firms are aiming to bring private credit closer to retail investors. Together, they launched a private credit ETF that incorporates elements of secondary market liquidity by publishing real-time pricing inputs and firm bids on credit assets.

The ETF aims to increase accessibility and bring price discovery to traditionally opaque markets, while managing liquidity through structural caps and scheduled redemptions. Although the SEC raised concerns about valuation reliability and transparency, highlighting the inherent risks of extending mark-to-market frameworks into illiquid markets, the initiative reflects the potential for digital platforms and institutional-grade infrastructure to reshape investor expectations [Bloomberg (2025b)].

4. Challenges: pricing, transparency, and liquidity constraints

Despite its growth, the secondary market still faces important challenges. Key among them are pricing efficiency, transparency, and residual liquidity risk. Understanding these challenges is crucial for investors looking to utilize secondaries effectively.

4.1 Pricing discounts and volatility

Secondary buyers typically demand a discount to NAV to compensate for uncertainty in the underlying assets and the illiquidity. The level of discount fluctuates with market conditions. In benign environments (strong public markets, easy credit, active exits), secondary pricing can approach NAV or even premiums for very sought-after funds. In stressed times, discounts widen significantly. For instance, amid the market turbulence of 2022, average secondary bids fell to around 80–85% of NAV for diversified portfolios [BlackRock (2025)]. By H1 2024, as sentiment improved, average high bids had rebounded to about 88% of NAV across strategies [Jefferies (2025)]. A Commonfund survey noted pricing climbed ~4 percentage points from 85% to 89% of NAV between 2023 and late 2024 [Lodge et al. (2025)]. Still, pricing remains below prior peaks – in the mid-2010s secondary stakes often traded at or above 100% of NAV for top-tier buyout funds (when distributions were booming).

This pricing volatility reflects both market cycles and supply-demand balance. In 2024, record capital supply (dry powder) and improving exit outlook helped shrink the bid-ask gap, enabling more deals to close. However, if a wave of selling hits the market (e.g., due to denominator effect or a downturn forcing liquidity-raising), discounts could widen again. Many LPs have learned to be patient and time their sales – selling into strength when pricing improves. That said, one challenge is the NAV lag: NAVs are reported quarterly and may not fully reflect current valuations, especially after public market swings.

Additionally, regulatory changes may further influence pricing volatility. Enhanced valuation oversight, mandated disclosure requirements, and leverage limits imposed by frameworks such as AIFMD II and SEC reforms can increase both pricing transparency and scrutiny. While these developments aim to instill investor confidence, they may also introduce heightened mark-to-market volatility, especially if managers are required to update NAVs more frequently or apply more rigorous valuation methodologies. As such, pricing in the secondary market may become more reactive to macroeconomic and portfolio-specific shifts, reinforcing the need for sophisticated pricing frameworks and governance practices. Buyers adjust for this, but it adds uncertainty.

4.2 Transparency and information

Unlike public markets, there is no consolidated tape or exchange reporting for secondaries. Details of transactions are often private. This lack of transparency can disadvantage less experienced participants. However, it is gradually improving via the avenues discussed. Another aspect is asymmetric information – the seller typically knows their fund's assets well (through reports from the GP), whereas buyers rely on whatever disclosures the seller and GP provide. If a GP is uncooperative or the portfolio has complex risks (e.g., pending litigation, highly illiquid assets), buyers will price conservatively or avoid the deal. Secondary processes today usually involve detailed due diligence and often GP engagement (most GPs now cooperate with secondary sales to facilitate a smooth process, realizing that doing so benefits their LPs and reputation). Nonetheless, especially in less mature areas like venture capital or emerging markets funds, information quality can be poor. This creates pricing dispersion – one buyer might bid significantly differently from another based on their analysis or if they already hold a stake in the fund (inside position). Skilled secondary investors thrive on this, leveraging their informational advantages.

Forthcoming regulatory frameworks are likely to push for more consistent and detailed disclosure practices across the secondary market. For example, AIFMD II and updated SEC rules encourage transparency by requiring periodic investor reports, valuation disclosures, and formal conflict-of-interest policies. These initiatives aim to level the informational playing field and reduce pricing disparities. However, there is a balance to be struck: increasing transparency may enhance fairness and confidence but also risks exposing secondary markets to public-market-like volatility and short-termism, potentially undermining the long-term orientation of private capital.

4.3 Liquidity and deal execution

While secondaries provide liquidity relative to an otherwise locked-up fund, they are not as liquid as public markets. Deals can take several months from start to finish, especially larger portfolio sales which require buyer underwriting and often regulatory or GP approvals. There's also execution risk – the price agreed at the start (based on last NAV) might be renegotiated if new NAV numbers come out significantly lower (so-called "NAV creep" risk in declining markets). For LPs selling, another challenge is that partial sales may not solve a liquidity crunch – finding buyers for less popular funds in a portfolio can be hard, leaving the seller with residual holdings. This is why many LP sales are packaged portfolios of diverse funds, to ensure the entire bundle is marketable. Even then, a buyer might put "tombstones" on a few line items (refuse to take certain funds), forcing the seller to find alternate buyers or drop those positions. Such complexities mean that transacting in the secondary market requires careful planning, sometimes involving advisors to run structured processes.

Furthermore, regulatory developments are likely to influence liquidity constraints and execution timelines. New rules around enhanced investor disclosures, fund leverage caps, and fund manager responsibilities may extend due diligence and approval stages, particularly in jurisdictions implementing AIFMD II or SEC private fund reforms. These frameworks could require more robust documentation, extended review periods, or limit the pace at which liquidity can be generated. For example, liquidity management tools like redemption gates or suspensions – mandated for semi-liquid funds – could delay exit processes even when counterparties are available. While such regulations aim to protect investors and enhance market stability, they can also introduce friction that must be navigated by both sellers and buyers in an already complex secondary transaction environment.

For smaller investors or those with only one or two fund interests to sell, finding a counterparty at a fair price can be difficult. The rise of secondary platforms catering to smaller lot sizes is addressing this to some extent by pooling many small sellers together or by funneling them to feeder funds that offer periodic liquidity. Regulatory restrictions can also pose a challenge – e.g., some fund partnership agreements have strict consent rights or outright prohibitions on transfer, or they may allow the GP to admit a secondary buyer only at certain times. This non-uniformity means each secondary sale must clear legal hurdles, adding friction.

4.4 Valuation uncertainty

Another nuanced challenge is valuing hard-to-sell assets. For example, tail-end funds (nearing end of life) might hold a few remaining assets that are hard to value (say a single private company with uncertain exit timing). Secondary buyers will heavily haircut such assets or use structured offers (like earn-outs or payment deferrals contingent on the asset's eventual sale). Pricing these requires not just financial analysis but sometimes special-situations expertise. Similarly, in private credit secondaries or infrastructure secondaries, if the assets lack frequent marks, buyers must assess credit quality or appraisals, which can lead to a wider bid-ask spread compared to mainstream buyout fund secondaries.

Regulatory guidance and developments may also play an increasingly vital role in addressing this challenge. For instance, AIFMD II emphasizes stronger governance around valuation methodologies and requires asset managers to adopt consistent and well-documented approaches to assessing hard-to-value assets. Similarly, SEC reforms are likely to mandate enhanced investor reporting and independent valuation opinions, especially for transactions involving potential conflicts of interest. These measures aim to increase accountability and comparability across the secondary market. However, they may also lengthen the valuation timeline and introduce greater conservatism into price setting, particularly for niche or esoteric assets. Consequently, market participants will need to balance regulatory compliance with the need for timely and actionable valuations.

In summary, while secondary markets have vastly improved liquidity in private markets, they have not eliminated liquidity risk. They have transformed it – an LP can often find liquidity if truly needed, but at a significant discount or after a wait. Investors should not assume that private assets can be sold overnight at full value; instead, they should view secondary market use as a strategic tool, one that works best with foresight and in favorable conditions. Transparency and pricing continue to get better as the market matures, but information gaps and execution complexities remain part of the secondary investing craft.

5. Conclusion

The secondary market within private equity, private credit, and infrastructure has undergone a profound transformation. Once a relatively obscure backwater used sparingly by LPs in distress, it has evolved into a high-volume, globally integrated market that is central to liquidity provision in private assets. This evolution is characterized by record growth in transaction volumes, a broadening base of participants (including institutional heavyweights, insurance firms, and increasingly retail channels through semi-liquid fund vehicles), and a wave of financial innovation in deal structures (e.g., continuation funds), financing mechanisms (e.g., NAV-based lending), and platform technologies (e.g., online exchanges). These innovations are accompanied by significant regulatory developments (such as AIFMD II and SEC reforms) that aim to balance transparency, fairness, and market resilience.

We see that continuation funds have become a mainstream feature, enabling GPs and LPs alike to solve the tension between holding onto high-quality assets longer and providing interim liquidity. Techniques like NAV-based lending have further expanded the toolkit, offering leverage as a liquidity bridge, and oftentimes working in tandem with secondary sales. The rise of dedicated platforms suggests that the market infrastructure will continue to modernize, potentially bringing greater transparency and efficiency. This modernization comes with new responsibilities and oversight, particularly around valuation practices and information disclosure. While these tools can make private markets feel closer to public markets in terms of access and transactional ease, they also demand a more sophisticated governance approach.

For institutional investors, the implications are significant. Secondary markets allow for active portfolio management in private assets in a manner that was not feasible years ago. Investors can now treat their private fund portfolio with a degree of flexibility – trimming, adding, and rebalancing exposures – which enhances overall risk management and liquidity control. The data shows that secondaries have also been instrumental in delivering liquidity during periods of market stress, effectively acting as a relief valve for the system (witness the substantial uptick in secondary sales when traditional exits slowed). However, this evolving marketplace also brings new challenges: pricing remains volatile and deal execution timelines can be extended by regulatory and operational requirements. Success increasingly depends on timing, structuring sophistication, and information advantage.

Regulators are watching these changes closely and generally view them as positive for market stability – after all, giving investors more options to manage liquidity can reduce the chance of defaults or crises. The new rules from the SEC and the adjustments in AIFMD II are attempts to codify best practices, increase fairness, and extend the benefits of private markets to a wider investor base without compromising on protection.

Looking ahead, the secondary market is poised to further expand across geographies and asset classes. Areas like venture capital secondaries, real estate secondaries, and infrastructure are expected to gain momentum as those segments catch up in terms of secondary volume share.

The involvement of semi-liquid funds and retail money could also meaningfully increase liquidity – for instance, if a '40 Act secondary fund for mass affluent investors reaches scale, it could become a major taker of secondary supply, thereby deepening the market. However, this democratization will require carefully managed guardrails to protect less sophisticated investors from valuation opacity or liquidity mismatches. Additionally, data and technology are likely to reduce information gaps; one can envision standardized secondary pricing indices and AI-driven analytics for secondary portfolio valuation becoming commonplace for practitioners.

Secondary markets have moved from the periphery to the core of private market investing. They provide a crucial linkage between the traditionally illiquid world of private assets and the need for flexibility among investors. By fostering liquidity, secondaries reduce the risk of investing in private markets and thus, paradoxically, might encourage more allocation to illiquid assets (knowing that an exit route exists). For any institutional or even qualified individual investor in 2025, understanding and leveraging the secondary market is now a key component of managing a private markets portfolio. The developments in continuation funds, NAV financing, platforms, and regulation all point toward a more accessible and resilient private investment landscape – one where investors can be confident, even in committing to long-term illiquidity, that they have tools at hand to manage the unexpected.

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