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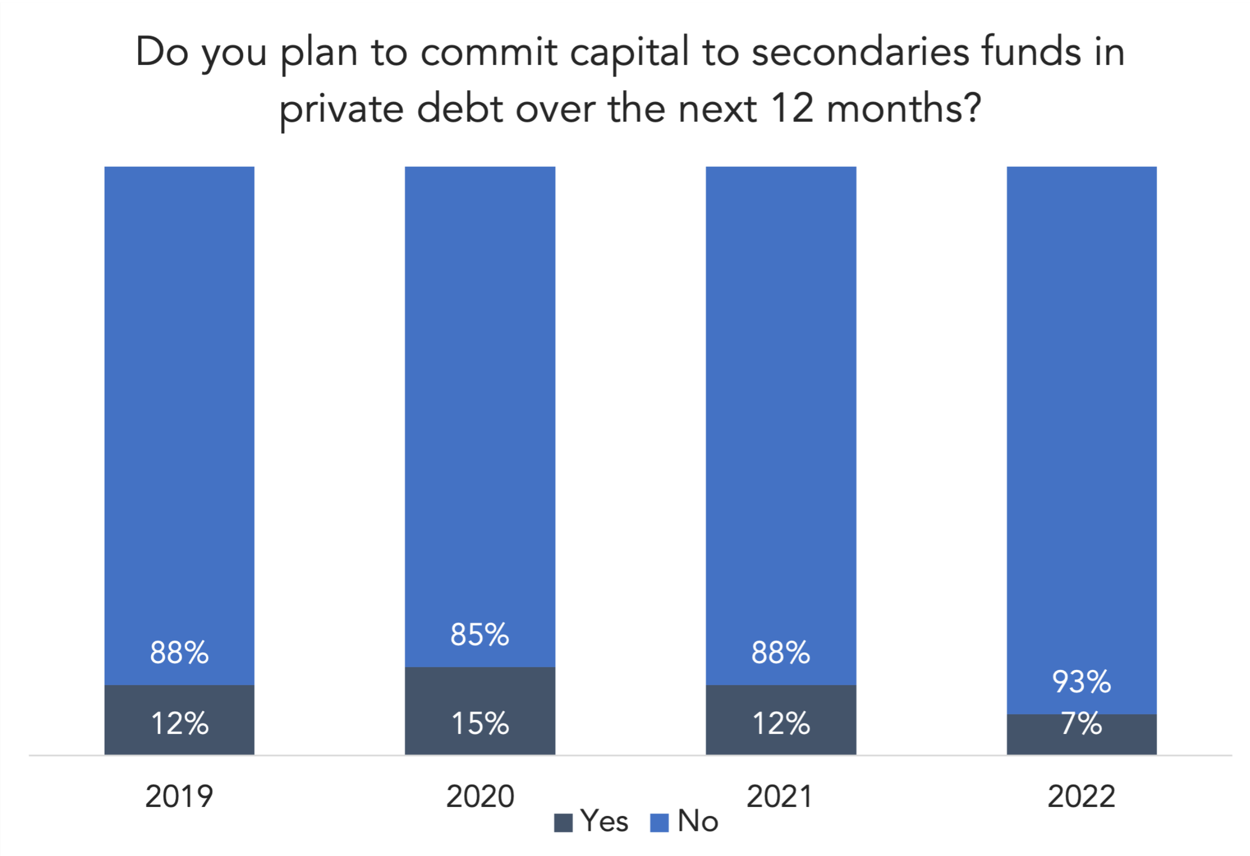
Secondaries take off in wake of covid crisis

PEI Private Credit | April 20, 2022



Credit secondaries are a small but rapidly growing part of the asset class and recent events bode well for this niche market.

In private markets, the development of healthy secondary transactions is perhaps one of the clearest indicators that an asset class has truly matured and become a staple part of investor portfolios.

While more established parts of the private sphere, such as private equity, have seen the development of a reliable and stable secondary market, credit secondaries remain a small part of the overall debt market and limited partner interest in secondaries funds appears to be subdued (see chart). However, as the primary market continues to mature and grow, credit secondaries could start to catch up in the coming years.

Ebou Jallow, vice president at private equity advisor Setter Capital, told *Private Debt Investor* growth is being driven by both credit GPs expanding into secondaries and experienced private equity secondaries investors seeking credit products to offer to their investors.

“Volume is increasing because more buyers are coming into this strategy,” he explains. “Traditional secondary managers are expanding their product shelf and we are seeing them go out and hire people with expertise in credit.”

The covid-19 crisis may also have acted as a catalyst for secondary transactions as LPs sought out new ways to help them manage a very challenging period, according to Tikehau Capital director Pierpaolo Casamento.

“The covid crisis acted to jumpstart the debt secondary market as LPs needed liquidity to be able to manage their portfolios, it also helped in spreading awareness about the possibility that LPs can look at the secondaries market to monetize their private credit exposures if needed. In the past six months we’ve seen new entrants to the market and all around growth in transactions’ volume and investors’ appetite for the asset class as well.”

As well as driving a greater need for secondary transactions, the covid crisis has also seen the primary market bounce back in 2021 with record deal numbers according to research by Deloitte. As primary market activity increases, we can expect that this will eventually translate into greater secondary opportunities, much as the broader growth of the asset class since the GFC has helped to foster a larger and more healthy secondary market.

(Past performance is no guarantee of future results.)