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Victory in the face of volatility

In spite of shockwaves from Trump's on-again-off-again trade war, the secondaries industry is gearing up for yet another record year, write Amy Carroll and Madeleine Farman

The world may be reeling from the latest in a seemingly unending spate of systemic shocks, but the secondaries industry remains resolutely optimistic. And with good reason: secondaries volumes hit new records last year at $160 billion, according to data from Evercore, leaving the industry's key players feeling confident that 2025 will bring new highs.

"We are predicting that secondaries volumes will reach $200 billion this year. That is being driven by a combination of the maturation of the industry, the innovation within the secondary market over the past decade and the expansion into new asset classes, such as infrastructure, real estate and credit. That has all led to tremendous growth," says Yann Robard, managing partner at Dawson Partners, speaking on *Private Equity International*'s secondaries roundtable.

"Then factor in current macroeconomic dynamics. The past three to four years have been far from easy: in 2022, public markets declined, leaving many LPs overallocated. Then, in 2023, distributions dried up. Returns remained muted in 2024, and while there was some renewed optimism at the back end of last year, 2025 has been marked by tariffs, a new world order and geopolitical uncertainty which has put deals back on pause. LPs have been through a lot.

"Meanwhile, even when distributions do come back in private equity, we also expect capital calls will increase at the same time. Said differently, we believe LPs will be running on a treadmill of sorts when it comes to their allocation issues. Bear in mind that 49 percent of LPs report being overallocated today, compared with 22 percent in 2019. These are not issues that will be resolved overnight, and this all feeds into robust secondaries dealflow."

Nate Walton, partner and head of private equity secondaries at Ares Management, agrees. "There are structural developments that have contributed to record secondaries deal volumes, including innovation around the solutions we as an industry can provide. There now exists this cyclical search for liquidity. We believe the combination of these structural and cyclical features will continue to drive record secondaries volumes."

The numbers certainly tell a good story. "There is currently around $9 trillion of unrealised NAV sitting in private equity portfolios, triple the level seen in 2017," says Adam Johnston, partner at StepStone Group. "Combine that with greater awareness and adoption of secondaries solutions by asset owners, whether LPs or GPs, and it is clear that all the ingredients are in place for continued growth."

GP-led bonanza

Astonishing growth in the GP-led secondaries market has meaningfully contributed to record secondaries volumes. "The explosive growth of the continuation vehicle market over the past five years is not slowing any time soon," Johnston says.

Marie-Victoire Rozé, senior managing director and deputy co-head of

secondaries and primaries at Ardian, says the growth of the secondaries market is something of a virtuous cycle. "Once a GP or an LP has completed one of these deals and experienced the benefits, they are highly likely to come back to the market as a repeat seller," she explains. "This is a trend we are observing first hand, and it gives us confidence that deal volumes will continue to grow."

Indeed, according to Thomas Roche Toussaint, head of secondaries at UBS Asset Management's Unified Global Alternatives unit, over 60 percent of GP-leds that came to market last year involved first-time sponsors. "In our experience, these sponsors are likely to come back to market two to three years after a successful first process. We definitely see GP-leds becoming an accepted fourth exit route: over 13 percent of all private equity exits last year involved continuation vehicles, compared with six or seven percent in 2022. That demonstrates that CVs have gained real traction."

This traction is taking place at all levels of the industry. "Continuation vehicles are being utilised by just about everyone in buyouts, from small-cap to large, although the use cases tend to differ," says Johnston. "Today, we more commonly see single-asset transactions within the small and mid-market space. These deals often involve high-performing, durable companies and are used to reset duration and alignment with management, as well as to provide access to follow-on capital in order to deliver on a second-phase value creation plan.

"Meanwhile, at the larger end of the market, multi-asset CVs are more prevalent, as multibillion-dollar single-asset CVs are still challenged from a capital formation standpoint, and post-CV exit routes remain narrow or uncertain. These multi-asset deals can be used to service a fund clean-up exercise or as a broader liquidity solution, sometimes across multiple funds."

"There are two obvious use cases for continuation vehicles," adds Gavin

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MARIE-VICTOIRE ROZÉ
Ardian

"Both liquidity and diversification are extremely important to investors in '40 Act funds, which means they are ideally suited to this market"

THOMAS ROCHE TOUSSAINT
UBS Asset Management

Adam Johnston

Partner, StepStone Group

Adam Johnston is a member of StepStone's private equity team, focusing on secondary investments. He is also involved in various portfolio management activities. Prior to joining StepStone, he worked at Equifin Alternative Investments, KPS Capital Partners and Lazard Frères & Co.

Yann Robard

Managing partner, Dawson Partners

Yann Robard founded Dawson Partners in 2015. Dawson is a global alternative asset manager focused on providing innovative structured solutions to the private markets.

Nate Walton

Partner, head of private equity secondaries, Ares Management

Nate Walton joined Ares Management in 2006 and has previously served as co-head of the Ares Private Equity Group. He serves as a member of the Ares secondaries group's private equity, credit and infrastructure investment committees.

Marie-Victoire Rozé

Deputy co-head of secondaries and primaries and senior managing director, Ardian

Marie-Victoire Rozé joined Ardian as an analyst in 2005. She is primarily engaged in the origination and evaluation of secondary purchases of secondaries and primaries investments, as well as the origination of co-investments.

Thomas Roche Toussaint

Head of private equity secondaries and co-investments, UBS Asset Management, Unified Global Alternatives

Thomas Roche Toussaint is responsible for leading the selection, execution and portfolio management of PE investments into secondary and co-investment transactions. Prior to joining UBS, he held various roles at HarbourVest, Deutsche Bank, JPMorgan and Bridgepoint.

Gavin Anderson

Partner, Debevoise & Plimpton

Gavin Anderson is a member of Debevoise & Plimpton's private fund transactions groups. He has experience in advising on secondaries, fund formation, co-investment, fund restructurings and carried interest arrangements.

Anderson, partner at Debevoise & Plimpton. "You have these trophy assets that need more runway to reach their full potential, and then you have end-of-life clean-up exercises, which can be more a grab bag, and then everything in between."

Roche Toussaint says there are some managers that are increasingly executing regular clean-up exercises. "We are extremely careful with those transactions, particularly when there is a lot of unfunded or even blind-pool risk," he explains. "This is a trend we are seeing in the growth and venture space, in particular."

It is the stellar single-asset GP-led secondary growth that has garnered the most attention in recent years, however. According to Johnston, the quality of the companies featuring in these deals is exceptional.

"Just looking at the single-asset CVs we have closed, the average crystallised MOIC is north of 5x and the GPs involved are almost always first or second quartile," he says. "We are big believers in the single-asset market opportunity, which represented 25 percent of the overall secondaries market in 2024, having started from a very low base just a few years ago."

"The quality of companies coming to market is very strong," agrees Rozé. "You will not find buyers for average assets. There used to be a perception that GPs would only turn to continuation vehicles if they were unsuccessful selling via a traditional exit route. That is no longer the case. In addition to the quality of assets, we also like the de-risked profile of these investments, as the GP has known these companies for a while.

"We are often asked if we think these deals are going to go away when the IPO market reopens, but I do not believe that will be the case. There are too many benefits for all concerned."

Anderson points out that we are now seeing managers raising funds dedicated to single asset GP-leds. "I think that is a sign that these deals are an accepted part of the furniture."

"I spent the majority of my career in direct private equity, and it was always a bittersweet day when we came to sell our best companies," adds Walton. "Continuation vehicles are a solution to the mismatch of company lives and fund lives. Private companies can deliver attractive compound growth over decades, not just three to five years. This is why I think some of the leading portfolio companies will end up going into the secondaries market for multiple cycles."

What is clear is that there is only one direction of travel when it comes to GP-led secondaries. According to Robard, 39 of the top 50 and 77 of the top 100 GPs have now used at least one continuation vehicle, while 28 of the top 50 have done two or more. "This is a market that is here to stay, so long as the industry focuses on right process, right structure, right mindset," he says. "I believe continuation vehicles will consistently represent between 10 and 20 percent of all exits, perhaps falling back closer to 10 percent when the market reopens and then creeping up to near 20 percent in periods of lower market liquidity."

Undercapitalisation woes

The biggest potential constraint to the growth of the secondaries market is undercapitalisation. According to Roche Toussaint, there are barely 18 months of dry powder remaining.

Robard puts this figure even lower, at 12 months. "There has been $514 billion traded in the secondaries market since 2021 and only $339 billion raised. Dry powder is shrinking, not growing. The reality is that if there was more capital available then there would be more deals, which in our view makes this a buyer's market."

"People see the headlines referencing large secondaries funds that have been raised, but I think that can be misleading," adds Walton. "The dynamics are very different to the direct private equity industry where there are

hundreds of managers. There are only a handful of scaled secondaries firms and, in aggregate, capital formation for those firms is lagging the size of the opportunity."

The growing number of new entrants to the secondaries market – most of which stem from the direct private equity industry – is, broadly speaking, being welcomed as a positive development.

"We are seeing these new entrants in the GP-led space, in particular, because the skill sets are somewhat aligned," says Anderson. He adds, however, that some of these players are now starting to retreat. "There are undoubtedly tensions to consider as well, in terms of a buyout shop potentially going into a competitor's deal. I think the trend will continue, although it remains to be seen to what extent."

Walton, meanwhile, is unconcerned about the impact of competitive

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NATE WALTON
Ares Management

The specialisation trend

As the secondaries market continues to grow in size and complexity, managers are increasingly specialising around particular strategies

While there are still a number of large secondaries players that execute on both LP- and GP-led deals from within the same fund, the market is increasingly seeing funds dedicated to GP-led transactions, including those launched by new entrants from the direct investing space. It is also seeing an additional layer of specialisation, with funds being raised for certain types of opportunity.

"We are starting to see a lot of managers capping single-asset exposure in their flagship funds and raising dedicated vehicles for these more concentrated deals instead," says Thomas Roche Toussaint of UBS Asset Management. "We still see the profiles as complementary. They can work well within a portfolio, but I do think this is a trend that will continue to gather momentum."

The market is also witnessing funds being raised in order to target different asset classes. "There are funds being raised for vanilla buyout continuation vehicles, but we are also seeing firms start to push into other niches, with funds being raised for venture capital or credit continuation vehicles, for example, as teams get more comfortable with those areas," says Debevoise & Plimpton's Gavin Anderson.

Meanwhile, more nuanced specialisation is taking place as players seek to carve out their niche in an expanding market.

"Firms are all trying to tap into whatever their particular competitive advantage is," explains Adam Johnston of StepStone Group. "Within the small and mid-market areas, there's a strong emphasis on having a good understanding of the sponsors, underlying assets and risk-return dynamics. The same is true in the large end of the market; firms with significant pools of capital are using scale to their advantage, whether in pursuit of LP stakes, multi-asset portfolios or single asset CVs.

"There are also firms that are positioning themselves by sector, perhaps with a tilt towards growth-orientated sectors such as tech or out-of-favour sectors such as oil and gas. This may be an undercapitalised market, but everyone needs to have a reason to exist."

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>
> **YANN ROBARD**
> **Dawson Partners**

dynamics from new entrants to the market. "When you look at the scale of capital being raised by these firms relative to the overall size of the market, it is incremental. This is not a paradigm shift," he says. "New entrants coming into an undercapitalised space is healthy."

"As buyers, we have seen no impact whatsoever on competitive tensions or pricing. This is an oversupplied market, so more capital in the hands of professional actors can only be a good thing," adds Johnston.

Robard agrees. "This is a positive development. The more capital that exists, the more opportunities there will be. Having said that, I do think these new entrants need to be mindful that single-asset GP-led deals are not the same as a typical direct private equity deal – there are nuances. My hope is that these firms will bring the right process, structure and mindset to ensure these deals are positive for all parties."

Capital formation

In addition to new entrants on the buyside, secondaries houses are also looking to access new sources of investor capital, including private wealth. "Secondaries offer [private wealth] clients great diversification and J-curve mitigation, which is why secondaries fundraising has performed relatively well over the past couple of years compared with other areas within private markets," says Rozé.

"The fact that secondaries offer instant diversification is particularly appealing to wealth investors," adds Roche Toussaint. "Both liquidity and diversification are extremely important to investors in '40 Act funds, which means they are ideally suited to this market."

Meanwhile, institutional investors are becoming more sophisticated in their approach to secondaries allocations, according to Johnston. "There is a growing recognition that the risk-return characteristics of sub-asset classes within secondaries are very different, whereas a few years ago there was just one broad bucket. Sophisticated investors are maintaining allocations for highly diversified, cashflowing LP interests and have created additional allocations to access crown jewel continuation vehicle exposure as that market has matured."

Walton says: "The fact that investors can now access higher returning secondaries strategies is great for the asset class overall. Investors in this market can now get 20 percent IRRs and 2x or more on their money while maintaining a more attractive risk profile than a primary or direct blind-pool fund. That is something that should bring more capital formation to the secondaries market over time."

He adds that as the risk profile of secondaries strategies becomes increasingly diversified, investors are able to utilise different pockets of capital to match the opportunity. "This is a capital-constrained asset class, so it's important for investors to better understand how they can pull dollars from other pots, whether opportunistic or credit allocations," he says. "It isn't so much about taking market share from other secondaries firms, but rather growing the pie for us all."

Anderson, meanwhile, says structural developments are also providing new points of entry for certain participants, including collateralised fund obligations. "The dollars ultimately end up in a secondaries transaction, but the instrument used is somewhat different."

"Distribution used to only involve institutional investors. Now, it spans institutions, private wealth and structured products," agrees Robard.

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StepStone Group

For all seasons

Of course, the secondaries industry is not entirely immune to the macroeconomic shocks that continue to rock public and private markets alike – namely, the introduction of tariff regimes that were announced the day after this roundtable took place, and then put on a 90-day pause a week later. However, secondaries investors ultimately believe this is a strategy that thrives in periods of volatility.

"Secondaries is one of the only areas of private markets where repricing can happen immediately, which means that when there is volatility, there is potential to purchase assets and/or portfolios at bigger discounts, while it may take a few quarters or years for private markets NAVs to meaningfully change," says Walton.

"Uncertainty can drive the decision to sell, which is a positive for secondaries dealflow," says Rozé.

"Our mantra is 'keep calm and carry on'," adds Robard. "After all, in the last few years we have already been through a pandemic, two wars, an inflation crisis, a banking crisis, elevated interest rates and supply chain shocks. Now, we face tariffs. That is a great deal of uncertainty, but the secondaries industry has continued to grow throughout."

Most importantly, Robard is keen to emphasise that while he believes the secondaries industry is well placed to flourish in periods of volatility, it is not exclusively a countercyclical strategy. "Secondaries have a role to play in good times and in bad. The last record year prior to 2024 was 2021, which was among the highest periods of liquidity for private equity," he explains.

"The growth of the secondaries industry is not a cyclical phenomenon: it is a structural phenomenon that is further benefiting from cyclical tailwinds," agrees Walton. "I'm confident this is an asset class that is going to continue to grow, and I believe this is regardless of what is going on in the wider economy." ■