

KEYNOTE INTERVIEW

Navigating a changing market

At the midway point of 2025, the secondaries market is experiencing both dynamic shifts and rapid growth. Ropes & Gray partner Isabel Dische asks HarbourVest's Dominic Goh, Edward Holdsworth and Mike Pugatch for their outlook

Q It's been a year of massive macroeconomic change.

How is the secondaries market navigating these issues?

Edward Holdsworth: I think, coming into 2025, we all expected to see a greater amount of liquidity, particularly given expectations that the Trump administration would promote growth and deregulation. 'Liberation Day' changed all that. The underlying trends for growth in both the LP- and the GP-led markets remain exceptionally strong.

Fundamentally, the secondaries market is significantly undercapitalised; market shocks (such as the stock market drop at the end of 2022, or what's happening now with tariffs) further expand the opportunity for secondaries buyers. I predict deal volumes in the \$185 billion-\$200 billion range for 2025 – the only thing that's keeping that number from being greater is the undercapitalisation of the market.

Dominic Goh: We went through a period during the covid-19 pandemic when the LP-led side of the market dried up and GP-leds were strong, because the impact of covid on diversified

portfolios was uncertain and buyers wanted to pick and choose. The LP-led side came back strong and the GP-led side softened; now, we see both sides of the market being quite active because of the general lack of DPI. We are excited – at least in the near term – because it feels like all cylinders are firing.

"In time, you will see open-end funds engage in secondaries transactions as a portfolio management tool"

EDWARD HOLDSWORTH

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It doesn't quite matter what causes the uncertainty. What we've seen through past cycles is that, as long as we don't land in a full-blown crisis, some level of dislocation or uncertainty causes the need for portfolio rebalancing – that's the clarion call for secondaries. If you look at the development of the secondaries market, it doesn't follow a straight line, but you always get these step changes six, 12 or 18 months after some kind of dislocation. With dislocation, more sellers come to market, more GPs use secondaries, and the level of acceptance and penetration increases.

Mike Pugatch: That last point resonates most. We're coming off a year in 2024 with \$160 billion or so of total deal volume. Based on what we're hearing broadly in the market, what we're seeing in our own pipeline, what we know has been done year-to-date, and on expectations for the balance of the year, I certainly think 2025 will see a new record in overall secondaries deal volume. In the early part of this year, in particular, our own pipeline was busier on the GP side, but things have picked



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Q Are there any geographical trends worth flagging as deal volumes continue to grow year-on-year and across asset classes?

Dominic Goh: Geographically speaking, we are on the cusp of real growth in the Asian secondaries market. This part of the market is just getting started: it's in its first innings of executing more thoughtful and bespoke CVs, whether single- or multi-asset.

It's not surprising that we're starting to see more Asian sellers come to market this year, as many such LPs only really started investing in private equity over the past decade. As programmes mature, we expect institutions to sell more programmatically versus opportunistically.

Edward Holdsworth: Buyers with a global platform and scale can look to find opportunities on a global basis. That said, there is an opportunity now in Europe to find exciting businesses that are more insulated from tariffs. Buyers still need to confirm their valuation and risk/opportunity analyses, but given what we are seeing, we'd anticipate a slight uptick this year in terms of European deployment.



up within the LP market. What we're seeing suggests both the LP- and GP-led markets will be very busy for the balance of 2025.

Q With both ample opportunity and notable undercapitalisation at play, how are GPs and secondaries buyers thinking about the market right now?

MP: Given the attractiveness of the market and the value proposition of the deals coming through, the continuation vehicle market is here to stay as a path to liquidity. Motivations include DPI and pushing capital back to LPs in what has been a muted exit environment for the past three years, with

distributions well below average. GPs are finding ways to create realisations without having to sell into that muted exit environment, maintaining some upside potential and often bringing in additional capital to fuel growth.

As these deals have become more accepted within the LP community, we've also seen more market adoption. According to a Morgan Stanley survey from last year, 80 percent of the top 100 GPs have executed a CV transaction, and many have executed more than one. That sort of validation shows that this market opportunity is here to stay.

At the same time, we are seeing more capital coming into the sector, which is opening doors and creating opportunities. Even with the many

secondaries funds being raised, those funds are dwarfed by the opportunity set of potential deals – and even more so if you factor in asset classes such as credit and infrastructure.

The syndicate space, meanwhile, tends to be more reactive, and the perceived quality of a sponsor can have a big impact. There's an advantage for secondaries buyers who can speak with size and scale, helping to de-risk deals for a sponsor looking to execute a CV without relying too heavily on the syndication market.

DG: Those dynamics are amplified in Asia, as there are very few players of scale on the buy-side in the region. Larger institutions need to rebalance

periodically, and as their investment programmes have grown, the sizes of the portfolios they need to sell in such rebalancings have grown in tandem. Being able to speak for scale and provide a solution is important. People talk about how the lower end of the market lacks sufficient buy-side capital, but at the larger end of the LP market, there are fewer buyers who can speak for these levels of volume.

Q What about secondaries buyers already invested in continuation vehicles? Do you think we're entering a period where there's going to be a rush of recaps on CVs – so-called 'CV 2.0s'?

MP: It's starting to be talked about. We've seen a couple of CVs on CVs get done, but this is going to be a much more common conversation across the industry as 2020-vintage CVs approach their five-year terms, with a year or two of extension. The best companies – the ones that have proven themselves winners and have multiple paths to exit – are logical candidates.

One big question is how many of the CV 2.0s the market has seen to date have been driven by a lack of other exit options, as opposed to the thesis of sponsors holding onto their best-performing assets for longer. If an LP wants to remain exposed to some of the best assets in private markets, it may be that the only way to do that is to roll.

Q One thing I've noticed is the addition of a fourth party to these deals. How are GPs using this strategy to incentivise management?

MP: We are seeing sponsors be more thoughtful about what these transactions mean for underlying management teams. There's an opportunity to reset management incentive packages and for management teams to take some cash out, similar to a traditional sponsor-to-sponsor trade. That has evolved as the market has matured. Whereas

in the past these deals would happen without the involvement of the management team, who often had limited understanding of the strategy, now it's a more comprehensive process and both sponsors and buyers are focused on ensuring management teams are treated fairly and appropriately incentivised for go-forward growth opportunities.

Q We've been hearing a lot about AI's ability to transform industries. What do you think AI can offer the secondaries market?

DG: I'd break it down into two parts: AI can offer internal productivity tools, like helping due diligence or modelling; and the next generation of big, audacious ideas in secondaries. The latter is where the real value will be.

EH: We're just scratching the surface in terms of what AI can offer the secondaries market. From a due diligence perspective, using natural language processing with static data and available tools can aid due diligence. Then there's pricing, modelling and risk assessment. Machine learning and big data analysis can be used to work through this, as well as adding sensitivities, such as what happens to portfolios in periods of inflationary or high-interest periods.

For pricing, you must have a strong data set, as well as a platform that enables communication with GPs about their assets – a model can produce results, but you still need to understand why a company in a portfolio may be facing headwinds. Today, that still requires strong relationships and discussions with the underlying sponsors.

MP: There's also a tremendous opportunity to employ AI tools to help with portfolio monitoring. But, like Edward said, it all starts with the data – having the appropriate clean and reliable dataset. The AI tools will continue to evolve, but most important are the inputs and access to information.

"The opportunity within private wealth is making PE and secondaries strategies available to a much broader set of investors"

MIKE PUGATCH

Q Crystal ball time – do you have any predictions for the (far-off) future?

EH: I predict we'll see a continued trend towards greater specialisation within the secondaries market, and therefore strong growth in venture-, credit- and infrastructure-specific secondaries strategies.

MP: I'm very excited about the opportunity within private wealth: it's making private equity and secondaries strategies available to a much broader set of investors. Secondaries offers a compelling way to do that, given its diversified nature, shorter duration and arguably lower risk, since you're coming in mid-way through the life of an asset.

Evergreens or open-end funds are an interesting way for newer investors to access the asset class for the first time. In an undercapitalised market, there's plenty of opportunity for that capital to generate attractive risk-adjusted returns and support the continued growth of the secondaries market. It may still be pretty small in the whole ecosystem, but there's huge growth potential within the wealth channel.

DG: I think the largest private equity fund across this next cycle will be a secondaries fund. ■