

E X P E R T Q & A

Retail redemptions and software exposure highlight the need for liquidity across private credit, offering potential opportunities for secondaries investors, according to Rakesh (Rick) Jain and Toni Vainio at Pantheon



Primary market noise brings secondary opportunity

Q What is driving the high levels of activity we see in credit secondaries?

Rakesh (Rick) Jain: There are a combination of factors driving the increased level of dealflow and investment opportunities in credit secondaries. Fundamentally, there is a strong desire from LPs for both portfolio and liquidity management to better manage existing or prospective exposures to private credit. There is also a liquidity mismatch between the duration of private credit assets and the tenor of the vehicles in which those assets reside.

These dynamics are creating more opportunities for credit secondary liquidity solutions, for LPs looking to sell their interests in funds, and for GPs

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seeking to be more front-footed in their efforts to deliver liquidity to clients via continuation vehicle transactions.

We have been at the forefront of developing a first-mover platform in credit secondaries since 2018, acquiring LP interests and creating GP solutions transactions in partnership with leading private credit managers. What we are seeing now is a large-scale, broader adoption of these solutions that have been around for almost 10 years.

Toni Vainio: The past few quarters have also been punctuated with

increased concerns around the growth and nature of private credit in general. There are the obvious worries around retail redemptions, which are a structural liquidity problem, and around artificial intelligence and software exposure, which are impacting all asset classes. Finally, overarching concerns around defaults and credit quality continue to be debated.

All these topics provide compelling tailwinds for credit secondaries. Demand for liquidity has increased markedly and the cost of that liquidity goes up too. This all contributes to higher levels of dealflow and activity.

Q What structural tailwinds do you see underpinning

LP appetite on the supply side and demand side?

RJ: On the demand side, we are seeing increased investor appetite for allocations to credit secondaries. Why? LPs have several motivations. Many see these exposures as complementary to their overall private credit allocations, with the value drivers being differentiated to what they already own. LPs are seeking solutions that provide more downside protection, mitigating the risk of potential underperformance and

GP performance dispersion through a highly diversified portfolio of assets (across company, industry, vintage year, GPs, and so on).

In addition, LPs are seeking differentiated credit strategies that can deliver alpha or premium risk-adjusted returns compared with other traditional credit strategies. Acquisitions of scaled, attractively priced, highly diversified, seasoned portfolios of well-diligenced and structured private credit can be a compelling alternative and

risk-mitigating approach to the market backdrop that exists today.

Q We are starting to see greater performance dispersion in the market. What are the key differentiators of successful managers?

RJ: Fundamentally, successful credit managers need to do several things exceedingly well, hopefully on a sustainable basis: they need to generate strong origination to avoid adverse selection; they need to possess an information edge or credit expertise that supports sound underwriting, pricing and structuring of investment opportunities; and finally, they need to be able to portfolio manage assets and vehicles to deliver the outcomes that their investors signed up for.

Portfolio management is particularly topical as we head into a more normalised credit cycle. Many managers and their teams are not cycle-tested, so they need to prove their ability once again to profitably manage through challenges.

Q How important is engagement with LPs and GPs when it comes to building successful credit secondaries programmes?

RJ: Early in the development of our business, we made a concerted effort to develop direct sourcing relationships with LPs and GPs. As mentioned earlier, for any credit manager, differentiated and proprietary origination should be a guiding principle. Otherwise, you are forced to buy what is shown to you, and the potential for adverse selection increases significantly.

In addition, early and constant dialogue with counterparties (that you will undoubtedly do multiple deals with) is also key to developing strong relationships that can drive successful investment outcomes. Treating LPs and GPs with integrity and transparency is a key tenet of how we operate.

TV: We have more than 100 GPs in our portfolio and have spent decades building relationships and an understanding of how those firms and teams operate, their underwriting processes, how they are incentivised, the quality of people they have, how they are managed and what their core value propositions are. As a result, we have been able to source deals on both a proprietary and an intermediated basis, which is why we think it is so important to understand the whole ecosystem.

Q What opportunities and challenges do you see as a result of large and growing dealflow in the US and Europe?

TV: We feel ideally placed to source, filter and capture this large and growing market opportunity. The prospects look compelling for us – we have been doing this a long time. Experience and track record really matter in this market. Transactions are larger, more complex and more time-consuming (both in terms of human capital and data/information).

For example, at the start of the year we led a continuation vehicle transaction for Crescent Capital, sized at \$3.2 billion in assets. This represented the largest private credit CV ever completed in the industry by both assets and total investor LP commitments. This investment was almost a year in the making for us, but the run-up was even longer. In Europe – where we



have more than \$3 billion of capital commitments in credit secondaries – we’ve been on the ground in this strategy for almost 10 years and have strong partnerships with all of the top GPs across the continent.

RJ: With more transaction activity comes a need to demonstrate to counterparties a strong reputation for execution certainty, experience and partnership. When it comes to investing, there are significant advantages in working with a seasoned player that has a large team, proprietary origination networks and strong partnerships across the market. We’re both a GP and an LP, with decades of direct credit experience across a range of strategies. GPs appreciate and acknowledge that, and it has played a strong part in developing our 100-plus GP relationships in private credit.

With scale and increased data, challenges include gaining timely and accurate information to make well-informed decisions. So, those relationships, our experience and our data-gathering capabilities play a significant role in making investments that deliver strong outcomes. In a market like this, demonstrating investment discipline and leveraging the experience of investing through cycles for decades is key – especially given the growth of the market. That is a challenge in any investment business and is always top of mind.

Q What do you make of the credit secondaries outlook and what do you think will be the key trends through 2026 and beyond?

RJ: At the beginning of the year, we expected a continued tailwind of dealflow and attractively priced investment opportunities. For Pantheon in 2025, sourced dealflow increased by more than 40 percent to approximately \$51 billion and closed investments exceeded \$5 billion, also a record for us. As we enter a ‘new normal’ for private credit, with the burden of geopolitical

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risk, heightened and sustained investor redemptions, and concerns over credit quality and valuation marks, we expect an increased demand for liquidity and private credit secondary solution capital as a result.

TV: Along with increased dealflow for 2026 and improved pricing dynamics for buyers, we expect the market will continue to skew towards large-scale GP solutions. LP rebalancing will also be a key theme for 2026 and we expect numerous portfolios of diversified strategies to come to market. In particular, LPs are looking to reduce exposure to direct lending in the short term, especially where they have overlapping exposures, and risk-mitigate against outsized positions to single managers.

While the supply of opportunities continues to exceed available capital, we are continuing to be highly selective and focused on high-quality portfolios with superior credit metrics, positive financial performance and appropriate diversification.

RJ: Interestingly, many of the key issues in private credit today can be addressed through a credit secondary solutions approach. Redemption needs, valuation mark uncertainty, spread compression, GP performance dispersion – they are all topical. While the outlook and overall interest in private credit exposure remains positive, many investors are using credit secondaries as a complement to their private credit exposures.

The ability to acquire diversified and curated portfolios of credit assets at attractive prices, with margins of safety to protect against expected and idiosyncratic credit events, can provide downside protection and upside optionality. That is an attractive value proposition for investors seeking superior risk-adjusted returns and defensiveness in an uncertain economic backdrop. ■

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