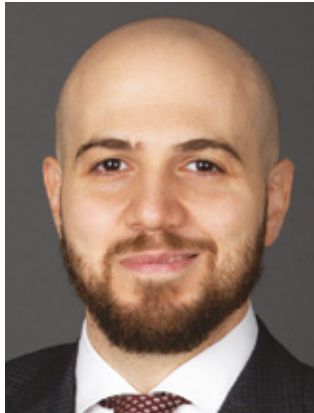


E X P E R T Q & A

*An abundance of capital and opportunity is coming together, say Mark Boyagi, Sean Hill and Ted Cardos, partners in the investment funds practice at Kirkland & Ellis*



## GP-leds transform the credit landscape

**Q** The credit secondaries market experienced exceptional growth through 2025, and accelerated further in the first quarter of 2026. What were the drivers of that expansion, and how much more room for growth does the market have?

**Mark Boyagi:** The market is being driven by a happy harmony that exists between large and growing assets for sale and the capital available to participate in credit secondaries transactions.

A lot of direct lending funds were raised seven or eight years ago and are now coming into the harvest period, with significant net asset value in portfolios that are still performing.

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Behind that, a lot of dedicated capital has been formed to take on the credit secondaries opportunity. Some of the early movers continue to raise asset inventory funds, while there are a lot of new entrants with fresh capital to deploy.

Last year, we saw that intersection between demand and supply result in the market expanding threefold on the GP-led side. LP trades of private credit funds have always been part of the secondaries market, but the acceleration of GP-led portfolio transactions has been fundamentally

driven by capital formation and the fact there are now plenty of funds mature enough to transact in the secondaries market.

The GP-led trend in credit secondaries started at the tail end of 2024 in the US, with a significant amount of deal volume through 2025 and into this year. We now see European activity accelerating in the same way.

**Ted Cardos:** In late 2024, we put together a white paper explaining GP-led secondaries to our credit contacts in Europe and received zero uptake, as the concept of credit secondaries didn't yet make sense to people. Towards the end of last year, activity in the sector started ramping

up, so there was about a 12-month delay versus the US.

We have now done several of these direct lending fund transactions and when we sent out the same white paper recently, we got an immediate response from multiple GPs thinking about deals. The step change in Europe has been marked.

**MB:** One of the real drivers for sponsors is the pursuit of accelerated

distributions. We are talking about a scaled opportunity to return capital to investors between fund cycles, and LPs in private credit funds seem to be receptive to the concept.

Private credit loans typically have a term of four to five years and historically a good chunk of them get refinanced in two to three years. But these refinancings have not occurred as frequently over the past few years, so now sponsors are sitting on diversified

portfolios of largely delevered positions (since asset-based loans will have been paid down).

So, to get money back to investors more quickly, why not relevel it and repeat the playbook in an environment where you can get attractive pricing for quality assets? That has proved an interesting structural fix to those elongated hold periods.

That is the thesis that has underpinned credit secondaries. It remains to be seen whether hold periods will contract, in which case it will be interesting to see whether a different thesis emerges.

**TC:** We have definitely seen a divergence in outcomes, with the releveling of strong portfolios proving much more attractive to the market than the prospect of simply cleaning up old funds left with weaker assets that have not sold. Pricing comes back very differently depending on the type of asset (and, frankly, the strength of the sponsor), and we see bifurcation in how the two markets operate. There may be scale out there to do transactions that solve for both, but some of it does require more specialist treatment.

**Q What are the biggest challenges that arise when structuring credit secondaries transactions, and how can those be addressed?**

**TC:** In addition to the points we have already highlighted, figuring out what to do with existing fund leverage is always a complication. We are starting to see constellations of separately managed accounts not all selling the same amounts of their flagship allocations, which can also be tricky. That means incoming investor portfolios will be subject to change and loan-to-value depends on the assets coming over. Again, that is why a cash deal makes sense in most cases.

There is a stage at which these transactions are no longer ripe, where rump portfolios are no longer sufficiently diversified and outcomes are going to be worse. There, we see GPs looking to sell strips of those portfolios along with strips from other funds to create diversified portfolios. Conceptually that works but it creates interesting conflict of interest issues.

**MB:** On the leverage side, are you going from two lenders down to a single provider, or sticking with the original provider? Those are all things that come into the picture and increase complexity. And then we also see hedging becoming an issue when portfolios are multi-currency, which can create quite a lot of pre-restructuring to get to a clean vehicle fit for sale. Also, if the portfolio is multi-jurisdictional, you need to account for tax structuring for withholding in the relevant jurisdictions.



**Q GP-led credit transactions are quite different to typical single asset equity continuation vehicles. How are they different - is it just structure or are the terms different too?**

**Sean Hill:** One big difference is that credit fund sponsors tend to be used to transferring assets among vehicles, and the whole concept of raising a fund to do a deal is more foreign to equity sponsors. Credit sponsors are accustomed to leveraging portfolios and to more regular fundraising, so the cadence of these deals is more familiar.

Another difference is terms, which in credit CVs generally tend to mirror terms of the current flagship fund, rather than a traditional equity continuation fund's tiered waterfall. Most

## Secondaries

continuation vehicles in credit still use European waterfalls like regular funds, sometimes with ‘current pay’ mechanics for interest income, but there is less variation between the CV fund terms and regular fund terms.

A structural variation is that these are largely all cash deals, where the CV is buying all the loans for cash, as opposed to equity CVs, where assets are contributed in kind to avoid a taxable event (at least in the US). These are yield products so you are not losing upside as you would in an equity CV, where there is often room for growth and you are looking for a higher multiple.

The selling fund complexes in these deals can be much more diverse, with onshore, offshore, levered and unlevered sleeves, so it makes sense to do a cash deal with a new waterfall and put everyone in the same place from the outset.

Both equity and credit secondaries generally have a post-record date cash-flow concept, which means the purchase price is adjusted to account for all capital contributions and distributions from the record date to closing. But in equity deals, this is more of a protective mechanism because cashflows in/out are generally not anticipated.

Credit portfolios, on the other hand, are yielding assets, so there is always cashflow generated between the record date and closing, which makes these potential adjustments meaningful. For regular way trades, by convention, the seller keeps the interest through the settlement date, and this is what credit sponsors are used to. Because of this mismatch in expectations, this has become a big negotiating point.

Another nuance is that these deals can be closed much more quickly than single-asset continuation vehicles on the equity side – maybe three or four months rather than seven or eight.

Finally, almost every GP-led on the credit side involves a continuation vehicle that has been levered, where few single-asset equity deals utilise

traditional leverage to fund the purchase price. Certain investors find it difficult to invest in levered structures for regulatory reasons, which impacts the ‘reinvest’ option given to existing LPs – this is something we are thinking through in real time.

### Q What are new buyers bringing to the market?

**TC:** The significant influx of capital has been positive. A lot of new buyers have sophisticated primary lending arms, so are extremely familiar with the underlying companies and loan portfolios generally, which means they can price and move very quickly to take views on underlying value.

On the other hand, those buyers that do not have access to existing credit teams on their platform are now requesting much more detailed due diligence information to understand the health of targets. So, there is a bifurcation of approach and a focus on bottom-up underwriting.

Diligence materials also depend on who the incoming buyer is and the extent to which the GP is comfortable sharing portfolio information. A lot of new buyers can be viewed as competitors (or affiliates of competitors) on the direct lending side. However, most GPs are pragmatic and appreciate that those buyers can better price assets and get a more successful result for their investors.

**MB:** The other element is the presence of retail capital, quite a lot of which is now allocating to secondary buyers. While that obviously helps from an availability of capital standpoint, the question is the impact on pricing. It is no secret that the presence of retail capital in the LP portfolio space has materially impacted price, so that is something to watch in credit secondaries.

It does look likely that we will see retail funds as lead buyers at some point – right now they tend to participate

alongside private credit secondaries funds.

### Q What trends do you expect to shape the credit secondaries market over the next 12 to 24 months?

**SH:** Between the US and Europe, we’ve already closed a few this year and probably have about 15 of these deals active or in our pipeline right now, and that number is only increasing. The market chatter driven by public vehicle sales has not slowed any deals, though sponsors are having more and earlier discussions with LPs.

We expect to see more capital raised, more new entrants and more specialisation. The market will no longer just be about private credit, but specialists in real estate credit, infrastructure credit, special situations and so on. Some buyers will be looking for those stubs that regular buyers are less keen on and so we likely will see pairing up and more differentiation across the landscape.

**MB:** The trend lines are familiar to us all at this point – there are lots of calls coming in from credit sponsors about other strategies within credit secondaries, so you could soon end up in a world where flexible capital is formed to take on a variety of opportunities.

The question is whether we can match the right cost of capital and risk profile with the underlying opportunities. We think that is possible, and, as people differentiate and raise capital around specialisation, the market generally matures.

**TC:** Some 95 percent of the market is regular-way corporate direct lending portfolios of senior secured credit. We expect that to decrease over time as demand grows for more junior positions. Further, there is still market growth to be enjoyed just by educating people around this playbook, so we are certainly still in the early innings. ■