Private Debt Secondary Market Survey 2024

Ely Place Partners

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Introduction

A huge growth in volume, improved pricing, and motivated sellers looking to take advantage of the growing pool of capital – our 2024 survey suggests the private debt secondary market will make its mark this year.

Back in May 2023, we published an article arguing that the private debt secondary market had grown up. By now, it has graduated to the mainstream. We spoke to most of the specialist credit secondary investors to hear what they think the market has in store for 2024.

"Private debt will grow to $2 to 2.5 trillion, and 1 to 1.5% of that will change hands in the secondary market."

1.

50 to 100% increase in volume in 2024

Due to the number of deals that are completed on a bilateral basis and that close unreported and under the radar, it is difficult to estimate the true size of the current private debt secondary market. Reported numbers suggest a market of **$5 to 6 billion** of closed transactions in both 2022 and 2023. However, the consensus among our respondents was that this likely underestimates the true size. They told us they each saw **$17 to 25 billion** of deal flow over the last 12 months, with estimates of **$6 to 10 billion** closed during this period.

Looking ahead, according to our survey, upwards of **$30 billion** of deal flow is expected for 2024, resulting in closed transactions of **$10 to 15 billion**. One investor told us they forecast the volume to be **$50 billion** by 2026.

"Market sizing is imponderable – the problem is the GP-leds which are done off market."

2.

Lower discounts and competition for high-quality senior loans

In our May 2023 report, we noted that credit secondaries were priced at mid 80s on average, but this reflected a huge range of pricing. Today, while average pricing remains in this ballpark, some of the high-quality senior loan portfolios have been hotly contested, pushing pricing **close to par**.

This has been driven by fewer concerns about losses compared to 12 months ago, an improvement in liquidity from private debt funds, and less uncertainty about the macro environment, combined with an increase in buy-side capital. Respondents told us that pricing in this segment has picked up **2 to 5%** as a percentage of NAV from a year ago.

"Mid 90s is probably right [for a high quality senior unlevered portfolio] with a reference date of six months, depending on GP quality, how much is unfunded, and how much cash is coming out. This is up a couple of hundred bips from a year ago."

"Pricing has tightened quite a bit. A good portfolio, unlevered, no unfunded maybe 96-97."

Other portfolios continue to trade at larger discounts depending on a range of factors including the stage in the fund term, expected refinancings, the underlying strategy, the quality of loans, leverage, and the GP.

“Middle of the range is mid to high 80s but it’s a really wide range. On the low end, we might bid 50-55c - almost VC type discounts. These are typically tail end, binary outcomes, often with concentration risk.”

“Discounts in opportunistic credit are much higher. We are encouraging LPs to look at that space for less competition and more upside.”

While there has undoubtedly been an uptick in pricing, the headline price is, however, dependent on timing between reference date and closing. Two quarters or more of interest payments between the reference date and closing in favour of the buyer can make a big difference to the effective net price paid.

“Currently, the market is pricing closer to NAV (sub 5% discount) with possibly some give around post-reference date interest. A deal that prices at 3% discount can, in reality, be positioned as a 7 to 8% discount.”

“You see headline above 95 these days easily with 2 Q netting.”

3.

Both LP- and GP-led deals to increase, but dominated by pension fund sellers

The establishment of a dedicated buyer universe providing a fair price for credit assets has given LPs confidence to bring large portfolios to market. For that reason, our respondents expect the flow to be by far more weighted towards the LP side accounting for as much as **80%**, versus **20%** on GP-led transactions.

Various types of LPs are expected to sell, but pressure will be on those with more short-term cash needs. **Pension funds** was the category of buyer most cited by our survey participants, in particular in the UK. They also expect to see **family offices** and **endowments** putting portfolios on the market.

GP-led transactions are also expected to grow in absolute number. As with private markets more generally, GPs will be looking for creative solutions to accelerate liquidity for their LPs and wrap up older funds.

"Pension funds have been, and I think will continue to be, the main types of sellers in the near future."

"We expect a large number of insurance companies to be net sellers of private credit funds as they are increasingly building capabilities directly."

"For us, the GP-led is larger and more captive with less transaction risk."

4.

Other themes expected for 2024

Among the other themes that respondents predicted for 2024 were:

An increase in **quality** and **size** of credit secondary deals

Sellers will be **more open to structured solutions** in order to reach price expectations. In particular we should expect to see more deferrals than last year

We may see an **increased use of back leverage by buyers on unlevered senior portfolios** in order to push up expected returns

As **evergreen** funds grow in number, they may need to **rely on the secondary market to manage redemptions** due to the illiquidity of underlying assets

Increased competition within the direct lending space will lead to **manager consolidation,** which will act as a tailwind for credit secondary transactions coming to market

About Ely Place Partners

Ely Place Partners is a specialist adviser in alternative assets with a particular focus on private debt. It assists GPs raise capital from institutional investors, and acts as an expert intermediary having previously advised on credit secondary transactions in both the US and Europe.

We welcome any comments to this summary. Please get in touch via info@ely.place if you would like to discuss any trends in the private debt secondary market!