

Credit Secondaries: Opportunity, Dispersion, and Discipline

A Q&A WITH STEVE MCMILLAN

Head of Credit Research, GCM Grosvenor

Select risks include: market risk, macroeconomic risk, liquidity risk, interest rate risk, and operational risk



Introduction

Credit secondaries have emerged as one of the fastest-growing segments of the private markets landscape, driven by a convergence of structural and cyclical forces. Record levels of capital formation, combined with an increasing need for liquidity among both general and limited partners, have expanded the opportunity set significantly. At the same time, the market remains nascent, with meaningful dispersion between highly competitive, well-trafficked transactions and less efficient, more specialized opportunities.

As continuation vehicles, portfolio sales, and other liquidity solutions become more prevalent, investors are navigating a market that is rapidly becoming both deeper and more complex. Outcomes are increasingly influenced by underwriting discipline, access to information, and the ability to identify relative value in areas where capital is less concentrated.

In this Q&A, Steve McMillan, Head of Credit Research at GCM Grosvenor, shares his perspective on how the market is evolving, where opportunities are emerging, and the role credit secondaries can play within institutional portfolios.



Credit secondaries have grown rapidly in recent years. Has that expansion improved market efficiency, or increased the risk of mispricing in more complex portfolios?

It has grown on both sides of the market. Supply has increased meaningfully, with 2025 representing a record year for credit secondaries, and there has also been substantial capital raised to pursue these opportunities.

At a high level, that growth has contributed to improved market depth and efficiency. However, this remains a relatively early-stage market, and inefficiencies persist in specific areas. There is some misalignment between where capital has been raised and where opportunities are emerging, which can create pockets of mispricing.

As a result, while the market is broader and more developed than it was a few years ago, investors generally need to be more selective and do more work to identify attractive opportunities.

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If the landscape is increasingly bifurcated between high-quality and more challenged assets, what is driving that dispersion?

A significant driver of bifurcation is the concentration of capital targeting large direct lending continuation vehicles relative to the rest of the market.

A substantial amount of capital has been raised to pursue large-scale direct lending transactions. At the same time, GPs have strong incentives to bring these deals to market. Continuation vehicles can help address challenges such as extending loans that are difficult to refinance and managing fund life constraints. With a large amount of capital available, these transactions have become an efficient solution.

That segment of the market is highly competitive, with strong intermediary involvement and sophisticated investors deploying capital at scale. As a result, pricing in those transactions is often relatively tight.

In contrast, everything that sits outside of that cohort tends to be less efficient and where we see relative value. Portfolio trades, asset-backed opportunities, restrictive GPs, LP-led transactions with no/low broker involvement, sub- \$100 million deals. This is where we are seeing opportunities.

I don't believe the market is bifurcated between high-quality and low-quality assets; our goal is to acquire high-quality, performing portfolios at average discounts of 10 points or higher, and focusing on originating deal flow described above has allowed us to do that. While outcomes will vary, we believe that approach can support attractive risk-adjusted return profiles without requiring a focus on distressed and underperforming assets. More broadly, once you move away from the largest and most competitive transactions, dispersion and inefficiency tend to increase.

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Given the complexity of these portfolios, how are underwriting approaches evolving, and how important is pricing discipline in this environment?

In credit secondaries, pricing discipline is a primary driver of outcomes. Unlike equity, there are generally fewer opportunities for outsized gains to offset losses, and there is significant negative selection bias in more mature portfolios. It's critical to be able to truly underwrite the risk and have a margin of safety to adverse outcomes. As much as we see many great opportunities, we see just as many deals that are clearly not worth pursuing.

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Underwriting approaches, of course, vary. For highly diversified portfolios with a large number of positions, investors will typically apply portfolio-level default and recovery assumptions similar to a CLO-style analysis. This is usually accompanied by asset level assumptions on the assets that have the greatest potential to drive outcomes, particularly those on watch lists or exhibiting signs of stress. In more concentrated portfolios, deep underwriting expertise and access to information are especially important. Differentiation often comes from combining analytical capability with strong relationships that enable more detailed diligence.

Our process incorporates each of these elements. We develop base, downside, and upside cases using both portfolio-level assumptions and position-level analysis.

Given the inherent uncertainty and information asymmetry in this market, maintaining a margin of safety is critical. Precision is difficult, so disciplined pricing and conservative assumptions are key.



As investors look to diversify beyond traditional direct lending, where do credit secondaries fit within a broader credit allocation?

Investors are using credit secondaries in several ways.

For some, it is a way to build exposure to credit more quickly, gaining diversification across vintages and managers while being more fully deployed and cash flowing earlier in the investment period. That can be a useful complement in an asset class that may otherwise take time to deploy.

Others use secondaries to diversify from more traditional middle market direct lending, particularly when working with managers that invest across a broader range of credit strategies.

From our perspective, we appreciate the utility of secondaries as it relates to those portfolio construction considerations, but our primary objective is to buy high-quality credit at a discount to fair value. Credit secondaries typically involve two layers of fees, at the underlying manager and the secondary fund level, so entry discount is a key component of providing value to investors.

More broadly, credit portfolios are increasingly incorporating a mix of primaries, co-investments, and secondaries, similar to the evolution seen in private equity, although the shift is occurring more quickly in credit.



With continuation vehicles and other liquidity solutions gaining traction, how should investors distinguish between transactions that are creating value versus those driven by portfolio constraints?

We think it is helpful to take a broad view of the opportunity set. Whether it is a continuation vehicle, an LP sale, asset-level disposals, or NAV financing, these are all mechanisms to provide liquidity. From a secondary investor's perspective, they represent different pathways to access assets.

Understanding deal dynamics and seller motivation is important. Of course, more motivated sellers and less competitive situations are typically associated with more attractive pricing, and our goal is to put ourselves in as many of those spots as we can.

In our process, we assess both the underlying assets and the transaction context. We are considering what the assets may be worth under a range of scenarios, as well as the price at which they may be acquired. The latter depends on factors such as the seller's objectives, the competitiveness of the process, and any complexities in the transaction. Our bid price is calibrated to the lower of those two workstreams, the price we are willing to pay, and the price required to win.



Where does GCM Grosvenor see its competitive advantage in credit secondaries?

I think there are a few things which in aggregate make us competitive and have resulted in compelling deployment to date.

Firstly, we take a broad approach and cover the full breadth of the private credit ecosystem. Direct lending is part of our opportunity set, but we are not limited to that segment of the market. That allows us to evaluate a wider range of opportunities, including those typically less efficient.

Leveraging our relationships is a key part of our approach. We have deployed over \$50 billion to credit GPs across our platform and are typically either large investors or key prospects with managers. That can support a high level of deal origination, underwriting access, transparency, and engagement. Put bluntly, managers are typically incentivized to grow their relationships with us.

Of course there are many sophisticated investors in the credit secondary market, and many others that will enter over the coming years, but the relationships built over 30 years, deploying \$50 billion, investing with hundreds of GPs, is very hard for others to replicate.

Our goal is not to 'out analyze' sharp competitors, or win auctions based on being the lowest cost of capital, but to leverage our relationships for differentiated deal flow and underwriting advantages, and to complement that with our deep experience in underwriting funds and single name credits.



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GCM Grosvenor (Nasdaq: GCMG) is a global alternative asset management solutions provider with approximately \$91 billion in assets under management across private equity, infrastructure, real estate, credit, and absolute return investment strategies. The firm has specialized in alternatives for more than 50 years and is dedicated to delivering value for clients by leveraging its cross-asset class and flexible investment platform.

The firm is headquartered in Chicago, with offices in New York, Toronto, London, Frankfurt, Tokyo, Hong Kong, Seoul and Sydney.

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