GCM GROSVENOR

April 2025

Private Credit Secondaries: The Next Frontier

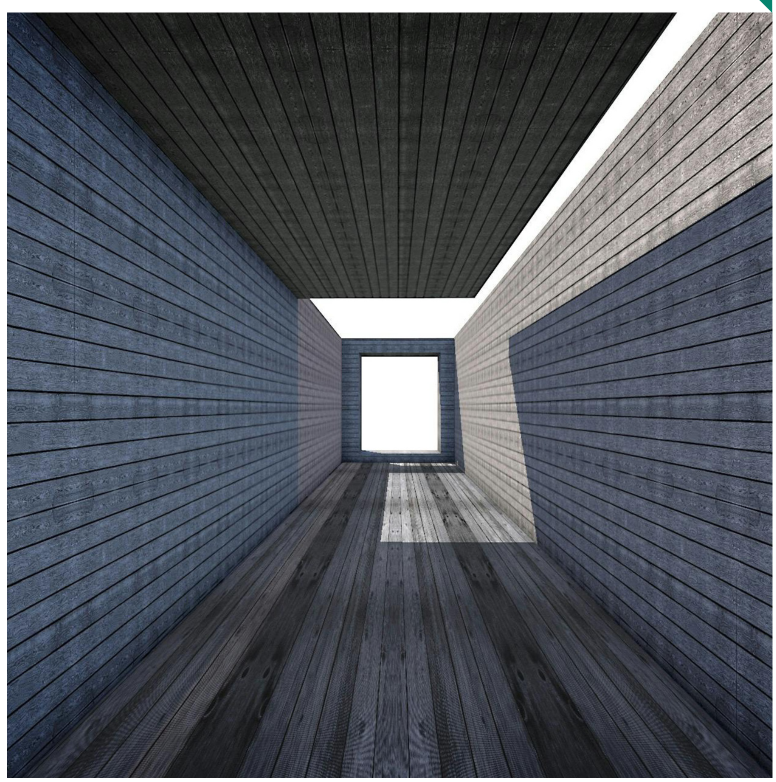
Introduction

Private credit secondaries are at an inflection point, transitioning from a niche consideration to an increasingly core component of institutional portfolios. At GCM Grosvenor's Annual Forum, our investment experts gathered to discuss the next phase of evolution in private credit, with a particular focus on the emergence of secondaries as a critical tool for investors navigating today's market. Steve McMillan, Head of Credit Research at GCM Grosvenor, shared his perspective on where the market stands, the drivers of growth, and why private credit secondaries are poised for substantial expansion.

A Market Ready for Growth

"We are still in the earlier innings of private credit," McMillan stated. **"Nearly every large primary market eventually has a vibrant and functioning secondary market, and there is no reason private credit would be any different."**

Over the last decade, private credit has evolved rapidly, growing from a sector focused on core direct lending strategies to one that includes asset-based lending and specialty finance. Implementation methods have likewise evolved, with credit co-investments sitting alongside primary fund commitments. Now, the natural next step in this evolution is the development of an efficient and scalable secondary market.



Select risks include market risk, macroeconomic risk, liquidity risk, interest rate risk, and operational risk. No assurance can be given that any investment will achieve its objectives or avoid losses. Past performance is not necessarily indicative of future results. Unless apparent from context, all statements herein represent GCM Grosvenor's opinion.

PRIVATE CREDIT MARKET EVOLUTION

PRE-2012

"Niche Sector"
- Historically viewed as niche sector due to **bank dominance in lending markets**
- Global Financial Crisis (2008) and European Debt Crisis (2012) spark wide ranging banking reforms

2012-2018

Institutionalization
- Banking regulation leads to private capital being natural lender in many cicrumstances
- Entry of early **institutional capital**
- Capital focused on **corporate direct lending**

2019-2022

Consolidation
- **Rapid consolidation** leading to rapid rise of dominant players
- Positive experience and low losses attract new capital

2022+

Post Consolidation
- Fee compression
- **Asset based** lending
- **Secondaries** and **co-investments**

Unless apparent from context, all statements herein represent GCM Grosvenor's opinion. No assurance can be given that any investment will achieve its objectives or avoid losses. ***Past performance is not necessarily indicative of future results.***

According to McMillan, the private credit secondaries market today represents just a fraction of its potential. **"The ratio of credit secondaries to the primary market is around a quarter of a percentage point. In contrast, other asset classes have ratios closer to two points. This - combined with the wider growth in private credit - leads us to believe the credit secondary space has huge room to grow."**

GCM GROSVENOR

What's Driving the Private Credit Secondaries Market?

McMillan identified **three major factors** fueling the current market opportunity:

1. Liquidity Needs of Institutional Investors
"There's no doubt that the lack of realizations in private markets is meaning investors are having to think more creatively as it relates to raising liquidity for various needs, and secondaries is clearly a tool in that toolbox."

2. Regulatory and Pension Fund Pressures
"Pension funds and insurance companies continue to seek liquidity solutions as they solve for capital requirements and de-risking goals."

3. Shifts in Manager Strategies and Leadership
"When leadership changes or firms shift their strategic focus, they often look to execute changes quickly. Some people don't want to wait 4-5 years to organically evolve portfolios, they want it done next quarter."

Where GCM Grosvenor Sees the Most Opportunity

Not all credit secondaries are created equal. While large, broker-led transactions and distressed tail-end portfolios both exist in the market, GCM Grosvenor is most focused on what McMillan calls 'opportunistic performing' transactions.

"We look for high-quality portfolios that are yielding, diversified, and backed by strong managers but may be priced inefficiently due to structural reasons - smaller deal sizes, off-market processes, asset-based lending strategies, restrictive GPs," he explained.

"That inefficiency creates opportunities for investors with strong existing relationships, market knowledge across the full private credit space, and resources dedicated to underwriting opportunities.

As you can imagine, there are some bad deals out there as well as many good ones. You have to be willing and able to do the underwriting work, get honest views from GPs, and be very disciplined on pricing."

GCM GROSVENOR FOCUS

LARGE DIRECT LENDING	OPPORTUNISTIC PERFORMING	TAIL END ASSETS
• Typically $100m+ • Largest GPs • Well-run broker process • Diversified and yielding • Pricing high 90s-par • Estimated return above primary fund returns	• Diversifying and yielding • Smaller transactions • Shorter timeframes • Restrictive GPs • Pricing mid-80s • Seeking superior risk-adjusted returns	• 10 assets remaining • Usually underperforming • Little/no cash yield • Pricing <50c • Goal of generating high MOIC by back-bidding

Select risks include market risk, macroeconomic risk, liquidity risk, interest rate risk, and operational risk. For illustrative purposes. No assurance can be given that any investment will achieve its objectives or avoid losses. *Past performance is not necessarily indicative of future results. Unless apparent from context, all statements herein represent GCM Grosvenor's opinion*

The GCM Grosvenor Edge in Credit Secondaries

As one of the largest allocators to private credit managers, GCM Grosvenor benefits from deep GP relationships, a strong deal pipeline, and robust underwriting capabilities.

"We've invested more than $50 billion of credit capital. We have active relationships with 750 GPs across every subset of private credit and have a 20+ person dedicated credit team investing in funds, co-investments, directs and secondaries. The power of the platform is where we believe our edge is," McMillan said. "We are an extremely strategic investor in the private credit ecosystem. To not put too fine a point on it, we're either a very big client of these GPs, or we're a very big prospect. They're extremely motivated for us to have a good experience."

Looking Ahead: Private Credit Secondaries as a Portfolio Staple

As investors continue to seek yield, liquidity, and diversification, private credit secondaries are expected to grow in both scale and sophistication.

"This is one of the most compelling opportunities I've seen in private credit. You get deployed quickly, are diversified across vintages, asset classes and GPs, and are buying high quality assets cheap. There's a lot to like." McMillan concluded. "As ever, the investors who engage early will be positioned to benefit most significantly."

With private credit secondaries offering potentially both attractive returns and structural advantages, the conversation is no longer about whether they may become a permanent part of institutional portfolios—but how quickly they may get there.

About GCM Grosvenor

GCM Grosvenor (Nasdaq: GCMG) is a global alternative asset management solutions provider with approximately $80 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.

GCM Grosvenor's experienced team of approximately 550 professionals serves a global client base of institutional and individual investors. The firm is headquartered in Chicago, with offices in New York, Toronto, London, Frankfurt, Tokyo, Hong Kong, Seoul and Sydney. For more information, visit: **www.gcmgrosvenor.com**.

Our Locations

Headquarters
Chicago
+1-312-506-6500

900 North Michigan Avenue, Suite 1100, Chicago, IL 60611

New York
+1-646-362-3700

Toronto
+1-647-417-7361

London
+44-0-20-3727-4450

Frankfurt
+49-69-5899-6526

Tokyo
+81-3-5573-8110

Hong Kong
+852-2452-9400

Seoul
+82-2-2158-8500

Sydney
+61-499-298-820

Important Risk Information:
For illustrative and discussion purposes only. The information and opinions expressed are as of the date set forth therein and may not be updated to reflect new information.

GCM Grosvenor (NASDAQ: GCMG) is a global alternative asset management solutions provider across private equity, infrastructure, real estate, credit, and absolute return investment strategies. **Investments in alternatives are speculative and involve substantial risk, including market risks, credit risks, macroeconomic risks, liquidity risks, manager risks, counterparty risks, interest rate risks, and operational risks, and may result in the possible loss of your entire investment. No assurance can be given that any investment will achieve its objectives or avoid losses. Past performance is not necessarily indicative of future results.** The views expressed are for informational purposes only and are not intended to serve as a forecast, a guarantee of future results, investment recommendations or an offer to buy or sell securities by GCM Grosvenor. All expressions of opinion are subject to change without notice in reaction to shifting market, economic, or political conditions. The investment strategies mentioned are not personalized to your financial circumstances or investment objectives, and differences in account size, the timing of transactions and market conditions prevailing at the time of investment may lead to different results. Certain information included herein may have been provided parties not affiliated with GCM Grosvenor. GCM Grosvenor has not independently verified such information and makes no representation or warranty as to its accuracy or completeness.