

Goldman Sachs Exchanges

The Rise of Secondaries: Unlocking Liquidity in Private Markets

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Allison Nathan: A lot of investors are now taking a second look at the secondaries. Once a niche corner of the financial world, private equity secondary funds, which buy existing stakes from other PE funds, have experienced substantial growth over the past few years. So, what does the growth tell us about private markets as a whole? And what role can secondaries play in portfolios today?

I'm Allison Nathan and this is Goldman Sachs Exchanges.

Today I'm joined by my colleagues Harold Hope and Alex Blostein. Alex covers US asset managers and other financial companies for Goldman Sachs Research. And Harold sits in our Asset & Wealth Management division

where he's the global head of vintage strategies, one of the world's largest secondary fund managers.

Harold, Alex, welcome to the program.

Harold Hope: Thank you.

Alex Blostein: Thanks for having us.

Allison Nathan: So, Harold, let's start at a very basic level here. What is secondaries investing? And tell us a little bit about the history of the space.

Harold Hope: We really love the private equity model. But one of the big drawbacks is that it's very illiquid. And private equity investments can often last ten, 15 years or longer. What we're doing in the secondaries is really providing liquidity to folks who have invested in these long dated, illiquid assets before their natural termination.

So, if you're in a private equity investment that's going to last 15 years and you want to get out in year five or six or seven or eight, we'll come in and buy your interest out early and we'll ultimately hold it to maturity.

So, the market started really as a handful of small, specialist firms who were doing a couple of transactions a year from people who really needed liquidity. And it's developed into a much larger market. Many more players. Much higher volumes. Helping to not only solve liquidity, but also help investors with active management or other solutions to their interim liquidity needs.

There are probably two big parts of the market. One is buying limited partnership interests or LP secondaries from investors and funds. And the other is helping managers of private equity funds hold onto some of their best assets for longer than their funds would naturally allow. And oftentimes, those are called continuation vehicles or sometimes GP-led secondaries.

Allison Nathan: So, Alex, give us some numbers here. How fast is the secondary space growing? And what's driven that growth? Harold touched on that. But maybe you can give us a bit more detail.

Alex Blostein: Yeah, of course, we'll touch on the sizing and the growth maybe first and then we'll hit on a couple of

drivers. So, to Harold's points, the growth has been phenomenal. The market today sits at about 650 billion dollars in assets under management. And it's predominantly an institutional marketplace. It's probably closer to 90 percent still institutional. But we are starting to see retail participate in that market as well. And we'll probably get into that in a little bit later in the conversation.

The space has compounded at about a 15 percent growth rate over the last ten years. And while most of the asset classes is still centered around private equity, we're starting to see evolution in private credit, private infrastructure, and to some extent real estate, although that's still quite small.

When you think about the volumes and that's really the exciting part of what's happening today, the volumes in the market are on track to be at about \$200 billion just this year. So, it's accelerating really nicely. And it's coming from both places, both the LP-led secondaries, which is roughly running about about half the market today. To Harold's point, a rising number of manager or GP-led secondaries, that's comprising a really large size of the market also.

Now look, in terms of the drivers and how we got here, just like any market, a secondary market is going to be a function of the primary market. So, private markets, illiquid strategies, have grown massively over the last decade plus. That space is compounding at a 10 to 15 percent a year as well. So, it makes sense that secondaries would follow that.

And then there are some cyclical factors like over the last couple of years clearly there's been very limited liquidity, limited returns from private equity in particular back to LPs, back to their investors. So, that's one of the ways to give some clients some liquidity back, but also participate in growth of this new asset class.

Allison Nathan: And as we've seen this growth continue, are we seeing the fund structures actually change?

Alex Blostein: So, one of the biggest changes that we're seeing is likely the rise of retail. That's probably been one of the more powerful trends. And it's not really occurring only in secondaries. That's pretty consistent across other private markets asset classes. And it's one of the biggest growth

themes that we've been following.

But if you look at the retail space, it's about \$40 billion in NAV today. But it's growing almost at a 50 percent organic growth. There's a handful of managers that are fairly sizable that have launched retail strategies targeting this type of product. So, the secondaries product. Again, predominantly in private equity. But we're starting to see that in credit as well. And the flows in that business have been, obviously, material.

Now, what does that do? And back to your kind of structural change. It provides a lot more liquidity to the market. So, we do think that this could help enable more transactions. And just like with any market liquidity, starts to beget liquidity. And that's probably one of the biggest structural changes we've seen recently.

Allison Nathan: And Harold, from your seat we talked about this pretty astounding growth that Alex just mentioned, and you mentioned as well, but from your seat, has that changed the market at all? And do you think with that mostly as providing more opportunities? Or are there also some challenges that's come with that growth?

Harold Hope: Well, I mean, look, like any market that's growing that quickly, there are going to be both opportunities and challenges. I do think as a buyer, I think it's a pretty interesting investment environment right now. We've got record demand for liquidity driven in large part I think by the muted distributions in private equity the last couple of years and the need for people to find other sources of liquidity. So, the opportunity set is pretty big.

And while evergreens and new competitors are coming in, we're at a point in the market where it's still, you know, pretty much a relatively small number of scaled, experienced buyers. So, I think that sets up for an interesting time to be a buyer in secondaries.

Now, as the market evolves and as distributions normalize, and some of these new entrants and competitors achieve scale, and as we watch what happens in the retail part of the market, I think we'll end up on the other side of all this with a much larger, but probably more competitive market. And an environment that might be a little bit friendlier for sellers.

I think if you're a seller today, my guess is you're feeling like you're getting pretty good value on parts of your portfolio. But there are other parts of your portfolio that are very difficult to sell. Maybe names that are less well-known. Maybe some of the strategies that are a little bit esoteric. I think as a seller you need to be pretty thoughtful about where you seek liquidity in order to get the best value.

And a lot of sellers now in the market are first time sellers into the secondaries. And there's a lot of education that's happening for them as well. These are not easy to do transactions. Especially if you want to sell a big portfolio. Something like that may take multiple quarters to ultimately close. And so, I think it's going to be as Alex alludes to, I think it's going to be good for the market long term as the market grows and sellers become more accustomed to how deals work. But for some, it's an education process right now.

Allison Nathan: But Harold, I have to tell you, I have been seeing headlines about, quote, "manic" activity in the space. So, should we be concerned at all about that? What's your take on that?

Harold Hope: I don't really see any manic behavior out there in the market. I think that it might be manic in the sense that people are super busy. Alex mentioned this year we think it's going to be a \$200 billion plus year for secondaries. Ten years ago, it was 40 to 45 billion. So, we've just seen dramatic growth in the market. And that's causing a lot of the experienced buyers to be quite busy.

But in terms of in the investing environment, I think there's always parts of the market that are going to feel fully valued. And there are other parts of the market that feel like, you know, you're getting really attractive value. And that's what makes a market.

Allison Nathan: And Alex, when you think about your conversations with investors right now, how are they thinking about using secondaries within their portfolios? What purpose is it serving? You mentioned some diversification. Talk to us a little bit more about that.

Alex Blostein: Yeah, so portfolio construction is a big theme because LPs, institutional investors, have gotten a lot more sophisticated, of course, over the years. And if you say, hey, US pension plans have been participating in these

asset classes for a long period of time. When you go down to sovereign wealth funds and all sovereign and other parts of the ecosystem, that space is still maturing and now becoming to a point where they're using private equity, using private credit, they're using it for structured in real estate. So, part of the portfolio construction tool, that's been pretty important.

Mitigating vintage risks, so to speak, and concentration has also been a pretty big theme. So, there's a number of these structural tools that the secondaries product brings forth.

Now cyclically, a lot of LPs are obviously using this today to get liquidity. And importantly, a lot of the managers are using some of their trophy assets to kind of hold onto them a bit longer via continuation vehicle and that fund structure to say, "Hey, I'm not ready to sell it entirely. But I would like to get some capital back to LPs." And that's another big use case for this.

Allison Nathan: And Harold, are you hearing the same?

Harold Hope: The way investors are using secondaries has changed a lot. When I started, most investors were

using secondaries to start a new private equity program. It was a way for them to get a lot of diversification, deploy capital a little bit faster while they built a traditional program. Today, I think many investors are actually having a core allocation to secondaries. They're viewing it as a strategy that has a very good balance between risk and return. They can get in with a little bit faster duration. It allows them to control their cash flows a little bit better. And it's proven to be a strategy that can deploy capital, both when times are good, as well as in periods of dislocation. So, because of that I think that investors are allocating to this sector in a different way than they used to.

And then as Alex has alluded to, I think managers of private equity funds are approaching the secondary market in a very different way than they did historically. I would say historically, if you were a manager of a private equity fund and one of your investors wanted to get out, it was a bit of a nuisance for you, really. You had to deal with transferring interest to another buyer and making sure that buyer was credit worthy. Suddenly you had a new LP in your fund that you had to deal with. And really, they didn't get anything out of those transactions.

I think today, for smart managers, they're approaching the market very differently. They're really trying to develop some relationships with secondary buyers. They want to be proactive. If one of their investors has a liquidity issue or wants early liquidity, they want to figure out a way to be helpful there. They view it as a good thing to do for their reputation in the market. And the rise of these continuation vehicles whereas mentioned you can take great assets and hold them for longer than your fund otherwise might allow, that's a transaction where I think the managers can really benefit from that.

They've really embraced that today. And if you look at the top 200 private equity managers, at this point most of them have either completed a continuation vehicle transaction or brought one to market. And so, I think market acceptance in that part of the transaction type is really high today.

Allison Nathan: And just take us a little bit into your investment process a bit. What drives your investment decisions? Are you looking for certain vintages? Are you looking for certain geographies? Certain sectors?

Harold Hope: Well, I mean, I think in our investment process there's a micro and a macro element to it. On the micro level, what we're really doing day to day is we're valuing companies. We're looking at private equity portfolios. We're valuing the underlying assets. And we're trying to buy those portfolios at reasonable values.

And so, the micro work of going in and valuing each underlying company, like isn't that hard in theory. What makes it hard is the ability to do it among private companies where there's oftentimes not a lot of information. And to do it in scale. You know, if you want to buy someone's portfolio of 50 fund interests, that might have 500 underlying portfolio companies in it. And so, to be able to value that portfolio in a couple of weeks takes a lot of existing knowledge and also a lot of people and technology and all these types of things.

Fundamentally, it's a micro-driven business. But I think from our perspective, the macro is also very important. We have targets around how much we want to buy in certain geographies or in certain strategies or the mix between traditional secondaries and continuation vehicles because each of them we think has different kind of risk/return

characteristics. So, we are ultimately trying to construct a portfolio for investors that balances the risk and return across all those different parts of the market.

Allison Nathan: But Alex, if we look a little bit more broadly, what does the growth of secondaries tell us about the alternative asset space as a whole? Is it a healthy sign? Or does it point to problems in other parts of the private markets?

Alex Blostein: Yeah, so it's interesting because in the press you might see headlines back to your original question, like they may perceive this to be a negative thing, right? Perceive it to be, hey, there's not a lot of liquidity and therefore LPs are forced to sell their stakes because they need to get out. And that's really not what we're seeing as a reality on the ground.

We do think ultimately that's a net positive for the space because it's going to create more liquidity. And if you took private equity as a proxy of what could happen in other asset classes, that probably will fuel further growth, right? So, turnover in private equity is still quite low. It's like maybe 2 percent. Maybe 2.5 percent or so relative to the

size of the market. In private credit it's even lower. In infrastructure it's even lower. Right? So, as those classes, asset classes mature, you could see how this becomes another sort of liquidity wrap around them. And that should enable investors to maneuver between the asset classes slightly easier.

The other point here and perhaps that's not a very positive point for the public markets, but it probably enables companies to stay private longer because you do have other vehicles and more comfort level from LPs to participate in a longer sort of ownership of these assets. The stat that I find fascinating also is the total dry power in the secondary space right now I think is about 200 billion. And we just earlier talked about the turnover and the volumes annually just this year will be about 200 billion. Right? So, there's actually not that much capital in the system today to meet potential volume of activity. And therefore, this should create a pretty positive risk/reward for new LPs.

Allison Nathan: But let me go back to a point that you made earlier which was that the fate of secondaries, of the secondaries market, really is tied to in some ways the fate of the private markets more generally.

Alex Blostein: Yep.

Allison Nathan: And I think we've had a lot of discussion about private equity running into some obstacles. Will that have any bearing on how you think about the secondaries space?

Alex Blostein: Yeah. I mean, look, you can't solve a bad investment with a different wrapper, right? So, of course it's going to come down to the point, is it a good company? Is it a good business? Can the underlying deliver on the returns that it was supposed to deliver on at the original inception of that deal?

We are generally still pretty favorably predisposed to growth in private markets. Different asset classes will face different growth rates. So, we've been really bullish in private credit. Continue to see that as to be the case. Infrastructure's another good one. And in private equity, we do think it's going to be the world of relative winners and losers. And we're seeing that today.

If I look at returns for some of the GPs, so some of the

asset managers, a number of them have actually returned quite substantial amount of capital back to their LPs. And those are the ones that are in the market today raising very sizable funds. And there's going to be tell of private equity firms that are really unlikely to do that. Will secondaries solve their issue? Maybe to better portfolios who could be a helpful tool. But that's certainly not going to solve a bad investment problem.

Allison Nathan: So, if we put this all together, you talked a little bit about the recent growth, the run rate, over the next five, ten years, what are we looking at in terms of the size of this market?

Alex Blostein: We're pretty bullish. Look, we think the growth, that 15 percent growth that I said earlier. We actually think it accelerates from here. Part of that is turnover in private equity is picking up. So, even if the size of the market doesn't change dramatically, there's that supply/demand imbalance where there's not enough dry powder to meet the likely supply volume. And when you look at credit infrastructure and down the road real estate, those turnover rates are running at almost half the rate that private equity did. And those are fairly fast growing

asset classes.

So, if I still think private market grows ten to 15 and then turnover accelerates, and there's not enough dry powder, it tells you the size of the market is probably going to see an accelerating growth.

Allison Nathan: And that seems pretty consistent with everything you're observing Harold.

Harold Hope: I think that's right. I think this is a market, as Alex mentioned, fundamentally it's driven by the big denominator of private market capital that's been raised and the need for liquidity. And especially in a market as discounts narrow a little bit, as the NAVs become more reasonable, that brings more sellers in. And if we can get some more capital on the buy side, I think there's definitely opportunity for the market to grow pretty substantially.

Allison Nathan: Harold, Alex, thanks so much for your time and educating us a bit on this really fast, evolving market.

Alex Blostein: Yeah, thanks for having us.

Harold Hope: Thanks for having us.

Allison Nathan: And thank you all for listening to this episode of Exchanges, which was recorded on Monday, September 29th, 2025. I'm Allison Nathan.

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