

WEALTH & INVESTING



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Private credit needs a secondary market

Such markets address illiquidity fears known to plague investors in Singapore and the Asia-Pacific

PRIVATE credit has been growing exponentially across the Asia-Pacific (Apac) over the past five years, and is estimated to reach close to US\$100 billion in assets under management (AUM) by 2027, up 46 per cent from 2024, said the Alternative Investment Management Association (Aima).

In Singapore, where investors gravitate toward income-generating assets and have a deep cultural preference for stability, private loans with floating-rate yields have been particularly attractive.

As interest rates settle at structurally higher levels and global banks continue their retreat from middle-market lending, private credit has positioned itself as a major alternative to traditional fixed income.

It offers typically higher yields, potentially better structural protections (if the manager is capable) and exposure to the real economy at a time when public markets feel increasingly distanced from fundamentals.

Retail participation, however, has lagged, limited by regulatory restrictions – some of which the Monetary Authority of Singapore has been recently looking into – and high minimum investments.

Despite that, the appetite is there. Aima's new report, *Private Credit in Asia*, notes that "wealth investors' share of AUM is expected to rise to 28 per cent by 2027, from 23 per cent in 2020, driven by new product innovation and enhanced digital access.

The real constraint for retail investors is psychological – namely illiquidity fear. Even accredited investors who can participate today consistently worry about being unable to exit their positions during periods of stress or personal need.

The idea of committing capital for five to seven years without an exit option feels uncomfortable to many. And while some advisers point out that illiquidity can help investors stay disciplined – by preventing panic selling during volatility, for instance – that behavioural benefit does little to soothe the anxiety of those who simply value the option too much.

And if illiquidity is one of the biggest friction points preventing private credit from becoming a mainstream allocation for Singapore's wealth segment, the solution can only be more liquidity pathways, particularly through functional secondary markets.

What are secondary markets?

A secondary market allows investors to buy and



The idea of committing capital for five to seven years without an exit option feels uncomfortable to many. PHOTO: PIXABAY

sell fund interests in private funds before maturity. In public markets, that happens typically either on an exchange (for equities) or over the counter for fixed income – with instant liquidity for largely traded securities.

Unlike public equities and bonds, limited partner (LP) and general partner (GP) interests are bespoke instruments: each fund has unique terms, covenants and cash-flow patterns.

Private markets are opaque, as underlying companies are not required to publish disclosures. For this reason, only specialised investors have traditionally been able to operate comfortably in secondaries.

Yet retailisation is changing the equation. Many private-credit funds marketed through wealth channels now promise periodic liquidity, yet that liquidity is only as robust as the mechanisms behind it.

Without a genuine secondary market, liquidity has to be "manufactured" internally – when redemption requests exceed available cash, managers may impose queues or gates. If markets become stressed, redemptions can be sus-

pending, net asset values (NAVs) may be adjusted.

All these tools might be legitimate in isolation, but they can undermine investor confidence – especially that of accredited investors who are carefully stepping into a less known, more technical asset class – when used frequently or unpredictably. The result is a structural fragility that can undermine trust.

A credible secondary market addresses this directly. By enabling investors to exit before maturity – or enter seasoned portfolios at negotiated prices – secondaries impose discipline and transparency on an asset class that, until now, has relied on internal marks and long lock-ups. For wealth investors, the ability to rebalance, reduce exposure or capitalise on opportunities without waiting years can be essential to risk management.

In private equity and venture capital, secondaries are well-established. In private credit, they are emerging only now, but growing quickly;

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