KEYNOTE INTERVIEW

Natural problem solvers

The rapid growth of structured solutions is evidence of a secondaries industry that continues to evolve and innovate, say John Kelley and Rob Emerson, co-heads of the secondaries group at Latham & Watkins

Q How are structured solutions being employed in the secondaries market, and what benefits do they bring?

John Kelley: Structured solutions are increasingly being used up and down the private markets ecosystem. They can be used to create liquidity at the GP level, for example, by using preferred equity to provide secondaries proceeds to founders, repurchase a minority stake, address succession planning, fund GP commitments or provide capital for expansion into other product lines.

The emphasis of the collateral in that scenario may be more heavily weighted to carried interest and management fee revenues, in which case it presents more like an alternative to a GP stakes transaction. In other cases, however, the deal looks more like a risk-adjusted secondaries solution, with the buyer seeking to access existing assets often on more favourable economic terms by virtue of participating through the GP.

Structured solutions can also be used at or below the fund level. In this instance, preferred equity financing will usually be provided – in part, at least – to generate liquidity for existing LPs. Structured solutions may also be used to acquire a portfolio of LP interests; here, the preferred equity provider will typically make an upfront payment for a portion of the purchase price and/or assume the seller's remaining unfunded obligations in return for priority distributions. The seller, meanwhile, may benefit from some immediate liquidity while also retaining a majority of economics in future proceeds.

We have also seen preferred equity being used by secondaries buyers in continuation vehicle transactions, particularly in cases where the buyer did not get the allocation they were hoping for. By funding a portion of the GP commit in the CV, albeit on a capped return basis, the secondaries firm is able to increase its exposure to the underlying assets.

One of the advantages of structured solutions is they are a form of financing rather than a change of ownership transaction. That means sellers do not need to strike a specific sale price with a counterparty. This can be particularly attractive in volatile markets or in situations where assets may be hard to value.

Because the seller is retaining most or all of the future upside, the focus is on the collateral being worth at least a certain amount, rather than agreeing on a specific price. There is, therefore, less friction and more flexibility when it comes to portfolio management.

Q Where is the capital coming from to fund these structured solutions?

Rob Emerson: It's a bit of a combination of traditional secondaries firms, fund financiers and new entrants. We are seeing a convergence of secondaries buyers and NAV finance providers, as well as other private markets firms that are bringing in teams that specialise in these types of deals.

JK: In some cases, there are secondaries firms that have been doing these deals for many years and are now launching dedicated products. We also see secondaries firms looking to do structured solutions for the first time, as well as some that are looking to offer structured solutions as an alternative to GP stakes.

The nature of the buyer influences the approach to underwriting and the collateral being sought: those with a GP stakes mindset tend to prioritise management fee revenue streams, while those with a secondaries mindset are more flexible about the mix of collateral on offer.

Q As the range of transaction types under the secondaries umbrella broadens, will specialisation increase further as well?

RE: Specialisation within the broader secondaries market is already evolving. Different products and transaction types have different cashflow profiles: structured solutions have more of a financing return yield; CVs typically involve a large cash outlay at the outset and then an extended period before realisation, particularly if it is a single-asset CV; and an LP secondaries trade will usually take place during the harvest period of underlying funds, so those deals are typically net cashflow-positive early on.

"Being nimble and adept at problem solving has always been a hallmark of the secondaries industry"

ROB EMERSON

From an allocation perspective, investors looking to commit to secondaries funds benefit from knowing the likely cashflow profile they are going to be getting exposure to. A traditional flagship product that does everything may be more variable, which is why we are seeing dedicated pools of capital being formed for different strategies.

Q How far can the specialisation trend go?

JK: We are already seeing funds being set up to invest specifically in credit, infrastructure, real estate and energy secondaries. If there is sufficient dealflow within particular sectors, we may start to see subsector specialisation in the not-too-distant future. I think it would be a natural evolution to see private credit secondaries funds mirror the different sub-strategies of the primary private credit market, for example, or to see more focused infrastructure secondaries funds given the wild divergence in risk and return profiles that exists in different infrastructure sub-categories.

RE: Venture secondaries is another really interesting area. A number of large venture firms have been acquiring secondaries talent of late, and venture capital sponsors are exploring creative and novel transactions. Direct venture secondaries, where you are buying shares directly from another venture manager, continue to be very active alongside sales of LP interests in venture funds.

With regards to the overall specialisation trend, however, I would add that most secondaries funds have always maintained some flexibility to invest a portion of capital outside their primary area of focus when an enticing opportunity presents itself. We expect that to continue: being nimble and adept at problem solving has always been a hallmark of the secondaries industry.

Q To what extent will this willingness to innovate, and push the boundaries of what constitutes a secondaries deal, continue to drive sustainable growth?

RE: We have seen tremendous growth in the secondaries industry in recent years. Market volume has doubled in the last two years alone, and H1 2026 volume was strong. I see absolutely no reason why exponential growth will not continue. You only need to look at the huge increases in capital going into private markets more generally to see that commensurate growth in the secondaries market is absolutely necessary.

If anything, the secondaries industry is playing catch up when it comes to meeting private markets' liquidity needs. The industry's proven ability to problem solve, adapt and expand means all signs point up and to the right when it comes to the market's continued growth.

A huge amount of innovation has taken place on both the LP- and GP-led sides of the market, including the rapid acceleration in the use of structured solutions that we are seeing today. Furthermore, the range of transaction types only continues to broaden. As all market participants – from LPs to GPs, and from counsel to financial intermediaries – become more and more familiar with these market adaptations, best practices become established, friction eases and volume inevitably increases. ■