



**INSIGHTS FROM
CFA SOCIETY SINGAPORE**

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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-

pended, 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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they trebled in size in the past two years globally, though they remain relatively small in absolute terms. Liquidity remains thin, but it is increasing fast, especially as managers gradually see value in acting as market makers for their own ecosystems.

Singapore's opportunity

Singapore combines a sophisticated, yield-oriented investor base with a regulatory framework that is pragmatic and innovation-friendly. Public markets are relatively small and have not performed well in the past decade – despite considerable government effort to prop them up – while investors have long been open to alternative assets, from Reits to private equity feeders and structured products.

In addition, fintech platforms – among others, Alta Exchange and ADDX – have been attempting to use technology to standardise documentation, streamline due-diligence processes,

and match buyers and sellers more efficiently in order to create functioning secondaries.

They are building the rails for secondary trading in private-market assets, from fractionalised private equity funds to tokenised real estate – though private credit remains a laggard for now.

While these platforms are still encountering stumbling blocks, especially when it comes to cross-border regulations, the direction is clear: private-market transactions are likely to become standardised, digitised and far more accessible.

In this setting, private credit in Singapore is likely to continue to grow as long

as yields remain compelling and banks remain cautious lenders. The government has already recognised the importance of non-bank financing for small and medium-sized enterprises (SMEs) by creating its own private credit fund.

As more origination flows into the ecosystem, and as more funds launch to serve both institutional and wealth investors, an additional liquidity layer becomes unavoidable.

A robust secondary market also benefits the broader economy. By making private-credit products more accessible and more flexible, it deepens the pool of capital available to SMEs, which are often underserved by banks and are the backbone of the Singaporean economy.

From an investor perspective, it allows accredited allocators to participate in economic growth through instruments that offer potentially attractive risk-adjusted returns. And it supports Singapore's broader ambition of becoming a leading hub for private credit in Asia, complementing its already strong positions in wealth management, private equity and venture capital.

Ultimately, private credit will likely keep growing, as long as yields stay compelling and banks remain cautious lenders – and so will secondary markets in the US and, in time, Europe.

But it is in Apac – where risk-aversion is higher – that robust secondaries are even more essential for private credit to reach true “mainstream” adoption among affluent investors.

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