Exploring liquidity strategies – from constraint to capability

Liquidity has long been a structural challenge in private funds. But as the industry matures and market conditions evolve, liquidity strategies are no longer mere contingency plans – they're becoming an essential component of fund design and investor relations. ***Matt Horton*** *and* ***Scott Kraemer*** *explore the broad spectrum of liquidity strategies available to private fund managers, how they work, and why they're of growing importance in today's market.*

Fund managers need to be flexible and innovative when managing liquidity in tough economic conditions, especially as vintage funds approach the end of their life cycles. And while the retailization of private markets offers promise to solve these challenges, this trend hasn't fully materialized yet.

Liquidity strategies are the mechanisms that enable investors or fund managers to access capital or exit positions in otherwise illiquid vehicles, and leveraging the most effective strategy is a key consideration for private fund managers and their investors.

Liquidity strategies are critical for:

- Managing investor redemption or rebalancing needs
- Facilitating fund wind-downs or restructuring
- Enhancing flexibility in volatile or uncertain markets
- Supporting fundraising by providing options to LPs

Common liquidity strategies

There are a range of strategies available to fund managers and investors to source liquidity from. These include:

1. Secondaries market sales

Secondaries sales are the most established route to liquidity. They allow LPs to sell their fund interests to other investors on the commonly referred to 'secondaries' market.

- **How it works:** LPs engage with secondary buyers (often via intermediaries) to sell their stakes, typically at a negotiated discount to NAV.
- **Use cases:** LPs seeking early exits or GPs facilitating liquidity for legacy investors.
- **Execution tips:** Requires accurate and timely NAVs, GP cooperation, and often a formal sales process. There are also various marketing approvals sellers must have, depending on where they source buyers.

2. NAV-based lending

NAV lending enables funds to borrow against the value of their underlying assets.

- **How it works:** A lender provides a loan secured by the fund's NAV, often with covenants tied to asset performance.
- **Use cases:** For GPs to bridge liquidity for distributions, support follow-on investments, or manage cash flow.
- **Execution tips:** Requires robust asset valuation to ensure lender confidence. Also adds leverage and complexity.

3. Continuation funds

A GP-led secondary transaction involves transferring assets from an existing fund into a new vehicle, which is often backed by new capital. This new vehicle is known as a continuation fund.

- **How it works:** Existing LPs can cash out or roll into the new vehicle while new investors can invest, contributing fresh capital into the fund.
- **Use cases:** Allows GPs to extend holding periods for high-performing assets, while providing liquidity to legacy LPs.
- **Execution tips:** Requires the establishment of a new vehicle, third-party valuation of assets, fairness opinions, and strong governance to avoid conflicts of interest.

4. Tender offers

GPs may offer to repurchase LP interests directly, often funded by a secondary buyer or fund reserves.

- **How it works:** LPs are invited to sell their interests at a set price, typically at or near NAV.
- **Use cases:** Provides partial liquidity to LPs without a full fund restructuring.
- **Execution tips:** GPs must follow a carefully governed process which defines the offer structure, ensures accurate valuation and secure governance approvals while keeping LPs informed.

5. Structured liquidity solutions

These include bespoke arrangements such as preferred equity, strip sales (selling a portion of future cash flows), or hybrid debt-equity instruments.

- **How it works:** Tailored to the fund's needs, often involving complex structuring and negotiation.
- **Use cases:** Provides liquidity for investors and GPs without triggering asset sales or full exits.
- **Execution tips:** Requires legal, tax, technical accounting and financial structuring expertise.

Market trends:

Winding down vintage funds

As many funds from the 2010–2015 vintages approach or exceed their planned life spans and their contractually allowed or enabled extensions, GPs are turning to liquidity strategies to manage wind-downs. Several trends are emerging:

- **Delayed exits:** Some funds have struggled to exit assets, prompting GPs to explore continuation vehicles or structured exits.
- **Continuation funds surge:** There's been a marked increase in GP-led secondaries, especially for high-quality assets that GPs want to hold for longer, but which LPs are ready to exit. These deals often involve secondary buyers and require robust governance.
- **Legacy fund clean-up:** Some managers are using tender offers or partial secondary sales to provide liquidity to LPs in older funds, especially where asset sales are not immediately feasible.
- **Regulatory and LP pressure:** LPs are increasingly demanding exit clarity and optionality, especially in funds that have exceeded their

original term. This is pushing GPs to formalize wind-down plans and explore structured liquidity solutions.

Listed PE funds

Another liquidity option is through listed private equity funds. Listed PE is playing a growing role in enhancing liquidity within private markets, by offering investors access to traditionally illiquid assets through publicly traded vehicles. These structures, such as listed PE firms or funds of funds, allow investors to buy and sell shares on an exchange, introducing flexibility and price transparency. For managers, listed PE can serve as a liquidity outlet, particularly for mature funds nearing the end of their lifecycle. It enables capital recycling and provides an alternative to traditional exit routes like IPOs or trade sales, which may be constrained during volatile market conditions.

Moreover, listed PE helps narrow the valuation gap between private and public markets by improving visibility and performance benchmarking. It supports innovation in fund structures, including semi-liquid formats like ELTIFs and LTAFs, which blend long-term investment strategies with periodic liquidity windows. These developments not only attract a broader investor base but also align with evolving regulatory frameworks and investor expectations. As a result, listed PE is becoming a vital tool for both fund managers and investors seeking greater flexibility and access in private markets.

Why liquidity strategies matter in today's market

In today's environment marked by unstable interest rates, slower exit markets, and increased LP scrutiny, liquidity strategies are no longer optional. They are:

- **A fundraising differentiator:** GPs that offer credible liquidity options are more attractive to LPs.
- **A governance imperative:** LPs expect transparency and fairness in liquidity events.
- **A strategic tool:** Used wisely, liquidity strategies can enhance returns, manage risk, and extend asset value.

Liquidity in private markets is evolving from a constraint to a capability. For fund managers, understanding and deploying the right strategy at the right time is critical not just for investor satisfaction, but for long-term success. As vintage funds reach maturity and market conditions remain uncertain, the ability to engineer liquidity – rather than wait for it – will define the next generation of private market leaders.

With more than two decades of experience across strategies in private markets, Aztec supports clients as they deploy their chosen liquidity strategy. If you'd like to discuss anything raised in this article, or anything else related to your fund operations, please contact us.