



PRIVATE EQUITY

South Africa's private equity market finally has a liquidity market: The growing market for secondaries

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1. Introduction

1.1. For much of the past two decades, the conversation in South Africa's private equity ("PE") market has centred on primary fundraising, deal origination, and exits. The secondary market, involving the trading of existing interests in PE funds and the restructuring of fund portfolios, has largely remained an afterthought, a niche mechanism rarely discussed in public forums and even more rarely executed in practice.

1.2. That is beginning to change. And the global trajectory suggests South Africa would do well to pay close attention.

2. What are Secondaries?

2.1. The private equity secondary market encompasses transactions in which investors (limited partners, or ("LPs")) sell their existing interests in PE funds to third-party buyers before those funds reach their natural end of life or where fund managers (general partners, or ("GPs")) restructure their funds by transferring assets into a new vehicle, offering existing investors a choice between cashing out or rolling into the new structure.

2.2. These two broad categories, LP-led secondaries and GP-led secondaries, have very different origins and serve very different purposes, but both have become increasingly indispensable tools in the modern PE toolkit.

2.3. LP-led transactions are driven by investors seeking liquidity, like a pension fund that needs to rebalance its portfolio, an insurer facing regulatory capital constraints, or a finance institution seeking to recycle capital into new mandates. In these transactions, the LP sells its fund interest (often at a discount to the fund's net asset value (NAV)) to a secondary market buyer, who acquires exposure to a more mature, de-risked portfolio of investments.

2.4. GP-led transactions are initiated by the fund manager itself. The most common structure is the continuation fund (or continuation vehicle) where the GP creates a new fund specifically to acquire one or more assets from an older fund, giving existing LPs the option to either cash out at current fair value or roll their interests into the new vehicle and participate in the asset's further upside. This mechanism has become a vital exit pathway in environments where traditional routes such as stock exchange listings, trade sales, or secondary buyouts are constrained or unavailable, as has often been the case in South Africa.

2.5. A further variant, which we have advised on, and which is gaining traction globally is the locked box structure, where a sub-portfolio of assets within a fund is ring-fenced for a defined group of investors, effectively creating a bespoke investment vehicle within the broader fund architecture.

3. From Niche to Mainstream

3.1. The secondary market was once viewed with stigma, as a mechanism of last resort for funds in distress. That perception has largely been dismantled. What was once a backdoor exit has become one of the most sophisticated and actively growing segments of global private capital markets.

3.2. The numbers tell a compelling story. Global secondary market transaction volumes reached a record \$162 billion in 2024, and volumes exceeded \$200 billion in 2025 which is a trajectory that has confounded even optimistic projections from just a few years ago. By the first half of 2025 alone, global transaction volume had already reached \$103 billion, representing a 51% increase on the same period in 2024.

3.3. On the fundraising side, capital commitments to dedicated secondary funds has seen exponential growth and the world's largest ever private equity secondaries fund, Ardian's Secondary Fund IX, closed on \$30 billion in 2025 alone.

3.4. GP-led transactions have been a particular engine of growth. Continuation vehicles now represent the dominant transaction type within GP-led deal flow, driven by a recognition among GPs and their investors alike that the continuation fund has become, a permanent fixture in the private markets landscape.

3.5. In the United Kingdom, historically the most active and sophisticated PE market in Europe, the secondary market has matured rapidly over the past decade. UK and European GPs have embraced continuation vehicles as a legitimate and increasingly preferred mechanism to retain high-quality assets beyond the life of an original fund, particularly where public market conditions are unfavourable for listing. Regulatory clarity, institutional secondary buyers, and a culture of transparency around fund governance have also made the London secondary market a reference point for global best practice.

4. The Future of South Africa's Secondary Market

4.1. South Africa has one of the most mature and institutionalised PE industries on the African continent yet the infrastructure for secondary market activity remains underdeveloped. Most PE fund agreements have historically been drafted without contemplating the secondary market as an active tool of fund management. Institutional LPs have had limited options when seeking mid-life liquidity and GPs have had few established mechanisms to extend the life of their best assets without forcing a premature exit. However, the structural conditions for a more active South African secondary market are increasingly more favourable.

4.2. Several converging dynamics make South Africa a compelling candidate for secondary market growth in the years ahead. Many South African PE funds raised in the 2013–2018 years are now approaching or have exceeded their natural life cycles. GPs face pressure to return capital to LPs, yet public market conditions and the pace of M&A activity have generally not cooperated. The secondary market, both LP-led disposals and GP-led continuation structures, offers a credible and increasingly accepted solution.

4.3. South Africa's institutional LP base, anchored by large pension funds, insurance companies and development finance institutions, is growing in sophistication. As these LPs mature in their private markets allocations, portfolio management tools such as secondary sales will become increasingly relevant. Regulatory requirements around capital allocation and liquidity management will only accelerate this trend.

4.4. For GPs managing high-quality assets who simply need more time, the continuation fund offers a compelling alternative to a forced or premature exit. Internationally, continuation vehicles have proven that GPs can retain their best assets, provide liquidity optionality to existing LPs, and attract new capital, all within a single, well-structured transaction. South African GPs with strong track records and quality portfolios are well placed to explore this structure.

4.5. Global secondary funds are increasingly looking beyond North America and Western Europe for deal flow. African markets, particularly South Africa, are on the radar of sophisticated secondary buyers who recognise the quality of assets and the opportunity for differentiated returns. A mature secondary market in South Africa would not only recycle capital more efficiently but would meaningfully improve the overall attractiveness of the asset class to both domestic and international investors.

5. Structuring Secondaries Transactions

5.1. The growth of secondary activity, in particular GP-led continuation funds, raises important legal and governance questions for South African legal practitioners.

5.2. We recently advised a major South African private equity fund on a complex GP-led follow-on transaction, in which a general partner sought to restructure assets across two encommodate partnership funds, effectively transitioning the investment portfolio from a first-generation fund into a continuation vehicle, while preserving the economic interests of existing limited partners and ensuring governance integrity throughout.

5.3. The transaction raised a range of issues that are likely to arise in any South African secondary or continuation fund context:

5.4. Where the same management team oversees both the transferring fund and the continuation vehicle, the transfer of assets is, in substance, a related-party transaction. This requires careful management, including independent valuation, full and specific disclosure to all affected limited partners, and the obtaining of informed consent. Disclosure alone is insufficient; affected investors must be placed in a position to give fully informed approval to both the terms of the transaction and the conflicts inherent in it.

5.5. In a related-party context, valuations conducted by the GP itself are unlikely to be regarded as sufficiently independent, regardless of the broad discretion typically afforded to GPs under partnership agreements. Best practice, and, we would argue, the applicable standard in any South African secondary transaction, requires an independent third-party valuation or fairness opinion confirming that the transfer price reflects fair market value and that the terms of the transaction are fair to existing limited partners.

5.6. Where fund structures incorporate locked box arrangements, the protections afforded to locked box limited partners are significant. No step which adversely affects their rights may be taken without their vote and, typically, a 75% supermajority approval. Any continuation fund or secondary transaction touching locked box assets must be structured to comply with these requirements as well.

5.7. Existing investors must be offered a meaningful choice between the option to roll over into the new vehicle and participate in future upside, or to exit at fair value and receive their cash proceeds. The information package provided to investors in connection with this election must be comprehensive, covering the rationale for the restructuring, the terms of the new fund, changes in economic terms (including fees, carry, and duration), the independent valuation and the valuation methodology, and include a full conflicts memorandum.

5.8. Where a fund's governing documents do not contemplate an advisory committee (as is the case with a number of South African partnership agreements), consideration should be given to constituting an independent transaction committee of respected industry professionals, retired auditors, or former LP representatives to oversee the process, review the valuation, and confirm the fairness of the transaction. The committee's report should accompany the election materials sent to investors.

5.9. These are not merely technical considerations and, in our experience, getting this right is what distinguishes a well-executed continuation fund from a contentious and reputationally damaging one.

6. Conclusion

- 6.1. South Africa is a market to watch. It has a sophisticated PE industry, a growing institutional investor base, a developed legal framework for limited partnership structures, and an increasing awareness, among both GPs and LPs, of the importance of the secondary market.
- 6.2. The global experience is unambiguous: secondary markets deepen, mature and ultimately strengthen primary PE ecosystems. They improve capital efficiency, enhance LP liquidity, provide GPs with greater flexibility to maximise value, and attract new investors. They are not a sign of market stress but a sign of market maturity.
- 6.3. South Africa's PE market is ready. What is needed now is the confidence to execute, the legal and governance rigour to do so properly, and the institutional knowledge to guide the market forward.



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