

We are pleased to republish the below article, “*Private Equity Tertiaries and Liquidity Recursion*,” written by Shahrukh Khan and originally published on his [Cash and Carried Substack](#). The piece offers a thoughtful examination of liquidity dynamics in private markets and the emerging role of tertiary transactions. We are grateful to Shahrukh for his kind permission to share his work with Netley readers.

Private Equity Tertiaries and Liquidity Recursion

What happens when an investor in a secondary fund wants to sell out early? What does this phenomenon tell us about the nature of liquidity in the private markets?

By Shahrukh Khan, [Cash and Carried](#)

For decades, private fund managers were able to corral institutional investors around the virtue of patience.

We have discussed at great length in these pages how the desire for the return of capital has turned into something of its own asset class, challenging the very trait that once set private fund managers apart from their publicly-traded counterparts: the illiquidity premium.

Beneath these tactical concerns lies a more enduring theme that helps explain the problem, that of liquidity as “recursion.”

Consider this: if a secondary fund offers liquidity to the limited partners (LPs) of a primary fund, then who, in turn, offers liquidity to the LPs of the secondary fund?

For its greatest skeptics, the private markets seem to keep minting new forms of liquidity simply through tactics inspired by a generally unchanged script: secondary sales of partnership interests, NAV loans, continuation vehicles—and now secondaries for the secondaries.

The flourishes give way to a genuinely difficult technical bind. Secondary funds—whose greatest promise rests on obtaining liquidity—are themselves structured as ten-to-twelve-year limited partnerships. They are governed by the same partnership terms, the same capital commitment rules, and, above all, the same transfer restrictions.

When a secondary fund acquires interests in a continuation vehicle or in existing private equity funds, it deploys capital raised from investors under substantially similar terms as a primary fund. Both the secondary fund and the target investment funds (such as continuation vehicles) are typically structured as closed-end limited partnerships with fixed durations, committed capital, and distribution waterfalls.

Aside from differences in investment mandate, the underlying mechanics of these pools of capital are largely identical.

This equivalence limits the extent to which secondary transactions create genuine liquidity.

Consider a pension plan that has committed \$10 million to a secondary fund and seeks to exit the position midway through the fund’s term, for example, at year five.

Its options are limited. The fund’s partnership structure generally prohibits redemption, and any transfer of interest requires secondary sale to another investor, subject to manager consent. As the number of secondary funds and the volume of capital they manage continue to expand, the persistence of this illiquidity becomes more pronounced and systemically relevant.

So what, then, is the LP of a secondary fund left with? And what constraints, conversely, does the secondary fund GP operate within?



The Conflicts Problem

Let's run it back.

A secondary fund exists to buy illiquid stakes from LPs who need to exit primary funds. That is the whole business. The secondary manager raises capital, deploys it into these stakes, charges fees to manage the capital, and takes a cut of the eventual profits generated. The secondary fund's own LPs (pension funds, endowments, etc.) are very similar to those of primary funds.

Except the secondary market, for all its impressive growth, is still a fairly small, concentrated ecosystem with a limited pool of capital.

When a secondary fund's LPs requires an early exit, practical options are limited to selling the position to another investor, arranging fund-level financing, or maintaining the position until maturity.

The available market for such transactions is narrow, costly, and highly discretionary.

Although another secondary fund would be the most logical buyer—given its familiarity with asset class pricing and diligence processes—regulatory, fiduciary, and conflict considerations ordinarily prohibit the same sponsor from transacting between its own funds.

The limited liquidity permitted by most secondary fund managers reflects a deliberate posture: an active secondary market in their fund interests does not necessarily align with their own economic or strategic incentives.

Allowing unrestricted transfers poses not only investor-relations risks but also exposure to competitive intelligence. A large secondary fund's portfolio represents a cross section of fund-level positions across the private equity industry, including its investor base. During a period of heightened regulatory scrutiny—especially regarding conflicts in continuation vehicles—control over this information becomes critical.

For managers who have built secondary platforms in defiance of the long-standing view that illiquid, long-duration fund stakes were structurally disadvantaged, the prospect of competitors acquiring access within their own capital structure remains fundamentally problematic, heretical even.

A Curated Cosmos

Enter the tertiary buyer.

A more genteel, conceptually familiar solution to the prevailing selection of liquidity solutions, tailored to address the constrained of secondary fund managers.

"The size and growth of the secondary market means that tertiary solutions are becoming a necessary and well accepted feature of the market," remarked [Robert Perry](#), Partner at Netley Capital, a tertiary fund manager, in an interview with Cash and Carried.

The universe is visibly small and exists primarily to solve for the competitive intelligence problem. Other secondary-of-secondary firms include [Montauk TriGuard](#), [Bex](#) (most recently acquired by Canadian fund manager Sagard), and [Sturbridge](#).

These managers are involved in a variety of related fund-level transactions: fund-of-fund purchases, tail-end interests, "niche" secondary funds, etc. The ability of these managers to transact largely depends on what is perhaps the oldest adage in finance: relationships.

All but Netley, based out of London, operate from locales far from the cores of the private markets: Nice, France; Newport Beach, CA; and Cleveland, OH.



In Cash and Carried's estimate, these funds account for approximately \$5-10 billion in deployable assets.

But the market is far bigger, and the belief is that appetite is only going to increase. "We see secondary GPs accepting and welcoming tertiaries, because they recognize that bringing liquidity to a market supports further growth," Perry noted.

Transfer Mechanics

Tertiary transactions resemble secondary transactions in structure, and the operational mechanics of a transfer generally mirror them too.

Approval from the general partner remains the central requirement.

Historically, informal verbal clearance for a tertiary transfer from senior management at established secondary firms was common, but industry standardization has moved the process toward more formal documentation, occasionally with limited involvement from intermediaries or bankers.

Under typical limited partnership agreement (LPA) provisions, transfers are subject to the fund manager's consent, though consent cannot be unreasonably withheld for transfers among affiliated entities. This framework typically accommodates internal restructuring by status quo LPs while maintaining their economic position in the fund.

Non-affiliate transfers generally require general partner approval. "Usually, the GP has a ROFO [right of first offer] to give other LPs the right to buy a limited partnership interest up for sale," said Parik Dasgupta, partner at Hogan Lovells, in an interview with Cash and Carried.

Large institutional LPs may exercise the ROFO if the interest size is significant. Based on Cash and Carried's discussions with several GPs, the typical "ROFO range" can exceed \$300 million and is observed primarily within vehicles run by the largest secondary managers. If no existing LP elects to purchase, an external buyer—referred to as a "Substitute Limited Partner"—may complete the acquisition.

The process is generally routine. "GP consent dynamics are well established in the secondary market and the same applies to tertiaries," Perry noted.

From an economic perspective, tertiary funds face a double-layer fee friction similar to that encountered by secondary managers. The standard mitigation involves applying reduced management fees and substantially lower carried interest. Fees associated with existing fund interests within a tertiary portfolio are commonly either already satisfied by the selling limited partner or prepaid through a discount to the purchase price.

The Upshot

The tertiary pitch has the satisfying elegance of a proof by analogy. Secondary GPs sell liquidity to primary fund LPs. Tertiary funds sell liquidity to secondary fund LPs. But the analogy misses the presence of the gatekeeper. It is a dynamic well-understood by the earliest secondary managers, who experienced an uphill battle with skeptical primary fund GPs as recently as a half-decade ago.

The emergence tertiaries unfolds another iteration: the further you get from the underlying asset, the more the relationship is the asset.

The recursion, in the end, is not just financial but institutional: liquidity may evolve, but trust does not scale.