

Private credit's problem isn't illiquidity – it's the illusion of liquidity

Apostolos Thomadakis

Recent redemption pressure in private credit has been treated as a warning that something in the system is breaking. [BlackRock](#) restricted withdrawals from one private credit fund; [Blackstone](#) faced elevated redemption requests at its private credit fund (BCRED); [Blue Owl](#) capped withdrawals after investors sought to redeem billions from two vehicles; and [Apollo](#) and [Ares](#) limited quarterly redemptions after requests exceeded 11% of assets.

The instinctive reading is that gates – contractual limits on how much investors can withdraw during a set period – equal distress. But that's too simple. In funds built around assets that cannot be sold quickly without costs, withdrawal limits aren't necessarily evidence of failure. They're often the mechanism through which the fund manages the very trade-off investors were supposed to understand: access to illiquid assets in exchange for conditional, not guaranteed, liquidity.

Access isn't liquidity

The real issue isn't illiquidity itself. Illiquidity is a normal feature of many productive assets. The real issue is the [illusion of liquidity](#) – the belief that an investment exposed to long-term, hard-to-trade assets can always behave like cash simply because the wrapper offers periodic exits.



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That illusion has become more common as private markets have expanded beyond traditional institutional investors. For decades, private equity, private credit and infrastructure funds were mainly the domain of pension funds, insurers, endowments and sophisticated investors who broadly understood the bargain they were entering into. Capital would be committed for years, valuations would be periodic rather than continuous, and exits would depend on asset sales, refinancing or maturity. Investors accepted lower liquidity in exchange for access to opportunities not easily available in public markets.

Today, many managers are trying to widen access through semi-liquid or evergreen structures. These products typically allow ongoing subscriptions and offer monthly or quarterly redemption windows, often subject to caps, notice periods or manager discretion. Such innovation can be useful. It can broaden participation, diversify portfolios and connect more savings with productive investment. But it doesn't abolish the basic economics of private assets. It modifies the terms on how investors access them.

This is where confusion begins.

Too often, the presence of a redemption window is mistaken for guaranteed liquidity. A quarterly exit feature is interpreted as if it were equivalent to holding a listed ETF. A private credit vehicle is discussed as if it should always be able to meet withdrawals in the same way as a money market fund. Investors hear 'accessible' and infer 'liquid'. Marketing materials emphasise convenience and diversification, while the conditional nature of liquidity receives less attention.

Yet liquidity and access aren't the same thing. Access means an investor can enter or request to exit under a set of rules. Liquidity means assets can be converted into cash quickly, predictably and without losing significant value. Those concepts often overlap in public markets, but they diverge sharply in private ones. A fund can offer regular redemption opportunities while investing in assets that take months to sell, refinance or realise. In such cases, gates aren't anomalies. They are the mechanism through which the mismatch is managed.

This is also the logic behind the Financial Stability Board's work on open-ended funds, which stresses that redemption terms should be [aligned](#) with the liquidity of the underlying assets, particularly where funds hold less liquid or illiquid assets. The International Organization of Securities Commissions' revised liquidity risk management [recommendations](#) point in the same direction, emphasising that collective investment schemes need effective liquidity risk management throughout the product lifecycle.

The issue is coherence, not gates

That doesn't mean all is well whenever gates are used. Some funds may be poorly structured. Some may over-promise accessibility. Some may rely on optimistic valuations or assume inflows will continue indefinitely. Some may be distributed to investors who don't understand the risks or cannot tolerate a restricted exit. In these cases, gates can reveal a deeper problem.

But that's precisely the point: the problem isn't the mere existence of gates. It's whether the product, the disclosures and the investor base were coherent in the first place.

This distinction matters because public debate often swings between two equally unhelpful extremes. One is complacency: the claim that because gates are contractually permitted, there is nothing to discuss. The other is panic: the assumption that any restriction on withdrawals proves private markets are fundamentally unstable or unsuitable for broader investors.

In short, neither view is adequate.

Liquidity has a cost

The sensible middle ground starts by recognising that liquidity has a cost. If investors want immediate and unconditional exit, managers need cash buffers, liquid asset sleeves, committed credit lines or the ability to quickly sell holdings. Those protections may reduce returns, dilute exposure to the target strategy or create [vulnerabilities](#) of their own. If investors want fuller exposure to genuinely illiquid opportunities, then redemption flexibility must be more limited. There is no financial engineering that permanently eliminates this trade-off – it can only redistribute it.

This is why liquidity management tools exist. Redemption pressure can create conflicts between investors who leave and investors who remain. If assets must be sold quickly to meet withdrawals, the costs of those sales may be borne by the fund, giving early redeemers an advantage. This is the classic [first-mover](#) problem in open-ended funds.

[Evidence](#) from the stress caused to the market by Covid-19 also showed that liquidity management tools can help absorb shocks by slowing redemption pressure, reducing the need for forced asset sales and giving managers time to treat investors more evenly. The point is not that gates are always benign. It's that they're designed to manage a real structural problem: how to honour redemption rights without destroying value or transferring costs unfairly across investors.

Markets have become so accustomed to continuous pricing and instant execution that many participants now treat liquidity as the natural state of finance. It is not. Liquidity is produced by market structure, balance-sheet capacity, investor confidence and the willingness of others to take the other side of a trade. It can be abundant, but it's never free and it's never guaranteed. Private markets simply make that truth harder to ignore.

Disclosure should explain the bargain

That's why better disclosure matters more than dramatic headlines. Investors should know not only what a fund invests in and what return it targets, but also how liquidity works in practice. What percentage of assets can be redeemed each quarter? Under what circumstances can gates be activated? Historically, how often have they been used? What notice periods apply? How are assets valued when secondary markets are thin? Who bears the transaction costs if outflows rise?

These aren't peripheral details. In semi-liquid private market products, they are central product characteristics.

Suitability also matters. Not every investor needs daily liquidity, but every investor needs a realistic understanding of their own liquidity needs. Someone allocating a modest share of a diversified long-term portfolio may be perfectly suited to a semi-liquid product. Someone using short-term savings or emergency funds isn't. The right test isn't whether a product carries a 'retail' or 'professional' label, but whether the investor's circumstances match the product's constraints.

Managers, too, have responsibilities beyond legal disclosure. If the commercial pitch stresses convenience, access and yield while treating redemption limits as obscure fine print, trust will erode when liquidity tools are used for the first time. The same applies to distributors who frame private market products as simple upgrades from public funds. Where the core trade-off is reduced liquidity, that trade-off should be explained clearly, repeatedly and upfront.

The policy test is whether the bargain is honest

The policy question, then, is not whether semi-liquid private credit funds should be treated as inherently suspect. Nor is it whether gates should be celebrated as proof that all is well. The question is whether the product's promise, structure and investor base are aligned before stress appears.

For the EU, this means focusing less on reopening the basic permissibility of semi-liquid structures and more on whether their design, disclosure and distribution are fit for purpose. Disclosure should be redesigned around liquidity and not only performance. Investors should be told plainly that redemption is conditional, what caps apply, when gates can be activated, how valuation is performed when markets are thin, and what happens when requests exceed the available liquidity window. The objective shouldn't be more disclosure, but better disclosure of the actual bargain.

It also means taking investor segmentation seriously. The relevant distinction isn't simply professional versus retail. It's whether the investor has the wealth, advice, time horizon, diversification and loss-bearing capacity to tolerate a restricted exit. A mass-affluent investor allocating a small share of a diversified portfolio to a semi-liquid fund isn't the same as a small saver placing emergency cash into a complex product.

Finally, supervisors should focus on coherence: whether redemption terms match the liquidity of the underlying assets, whether valuations are robust and well governed, whether stress testing is credible and whether marketing makes the liquidity trade-off clear. Not every gate should trigger a presumption of failure. But every semi-liquid structure should be able to show that restricted exit was part of the bargain investors understood.

The next time a fund activates gates or limits withdrawals, the first question shouldn't be whether something scandalous has happened. It should be whether investors were ever given a clear understanding of the bargain they accepted.

The problem is not that some investments are illiquid. The problem is pretending they are not.