TM ALPHA · INTELLIGENCE · CAPITAL

Frontier Markets Don't Have a Capital Problem

They Have a Liquidity Problem

TM Alpha's defining thesis on why the constraint in many growth markets is not simply the availability of capital, but the institutional architecture that allows capital to enter, remain, recycle and exit.

12 MIN READ

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EXECUTIVE SUMMARY

— Frontier markets do not primarily suffer from insufficient capital. In many markets, the deeper constraint is the architecture required to convert capital availability into sustained institutional participation.

— Predictable liquidity is central to that architecture — the ability to realise, recycle and redeploy capital efficiently and repeatedly.

— Liquidity is infrastructure, not a market outcome. It must be deliberately built at the level of capital markets, institutions, and individual transactions.

— Investors should underwrite exit with the same rigour applied to entry — evaluating buyer ecosystems, structural mechanisms, and capital mobility before commitment.

THE CENTRAL QUESTION

Who Consistently Absorbs Capital at Scale?

The debate on frontier markets begins with the wrong question. Governments ask how to attract capital. Investors ask where to deploy it. Both assume that capital inflows are the principal constraint. They are not.

A critical constraint — and one that materially influences the cost of capital, the depth of institutional participation and the long-run development of frontier markets — is not simply entry. It is **exit.** More precisely, it is the architecture of liquidity that determines whether investors can recover and recycle capital predictably, at scale and repeatedly.

Investment is a cycle, not a transaction. Capital enters, creates value, and must exit. Where that cycle completes cleanly and repeatedly, institutional confidence builds and capital becomes cheaper. Where it does not — where exit is episodic, uncertain, or structurally impossible — capital becomes expensive regardless of underlying opportunity quality.

> *"Frontier markets don't struggle to attract capital. They struggle to clear it."*
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> TEMI MARCELLA OLATUNDE · OXFORD, APRIL 2026

The question frontier markets should be asking is not "how do we attract investment?" It is: **who consistently absorbs capital at scale when investors need to exit?** That reframe changes everything — from policy design to investor due diligence to transaction structure.

FRAMEWORK

The Liquidity Architecture Framework™

In capital markets theory, liquidity is formally defined as market *depth*, *breadth*, and *resilience* — the capacity to transact at scale without materially moving price. By this definition, liquidity is not a property of individual assets. It is a property of the *market ecosystem* in which those assets exist.

TM Alpha identifies five structural layers that, when they coexist and operate with depth, constitute a functioning liquidity architecture. Where all five are present, exits become repeatable and systematic. Where they are absent or thin, exits remain episodic — achieved case by case through relationship and contractual mechanism rather than through market structure.

LIQUIDITY ARCHITECTURE FRAMEWORK™	FIVE STRUCTURAL LAYERS
I	**Strategic Buyers** Corporates and multinationals with the capital and commercial mandate to acquire. The most common exit route in frontier markets — but pools are narrow and price tension is limited. ● THIN IN MOST FRONTIER MARKETS
II	**Secondary Private Equity** Fund-to-fund transfer capacity and active secondary market participants. Underdeveloped in most frontier jurisdictions, limiting portfolio recycling and extending holding periods involuntarily. ● VERY THIN TO ABSENT
III	**Deep Public Markets** IPO and follow-on equity capacity accessible to international investors. Public-market exits remain comparatively limited across many frontier jurisdictions, constrained by market depth, listing conditions and investor participation. ● LIMITED DEPTH; SELECTIVE ACCESS
IV	**Domestic Institutional Capital** Pension funds, insurance companies and sovereign vehicles with mandates to deploy domestically. The layer most amenable to policy intervention — constrained primarily by regulation, not capital. ● MODERATE; IMPROVING SELECTIVELY
V	**Cross-Border Capital Mobility** Repatriation frameworks, convertibility protections and bilateral investment treaties enabling international acquisition activity. Most exposed to sovereign policy risk. ● VARIABLE; SUBJECT TO POLITICAL RISK

Illustrative TM Alpha assessment. Conditions vary materially by market and jurisdiction.

Trade sales remain the dominant private-equity exit route across many frontier markets, reflecting the limited depth and reliability of alternative liquidity channels. This is not a temporary condition. It is a structural feature of markets at an early stage of financial development — and it has direct implications for how capital should be priced, structured and deployed.

THE ARGUMENT

Liquidity Is Infrastructure — Not an Outcome

In developed markets, liquidity infrastructure has been constructed over decades and now operates invisibly — strategic buyers are numerous, secondary private equity markets are deep, public markets are globally connected, and domestic institutional investors are active. Investors assume these mechanisms exist. In frontier markets, the assumption fails.

The consequence is structural, not cyclical: across many frontier markets, **exits remain more episodic than systematic.** Achieved deal by deal, through relationship and contractual mechanism rather than through market structure. And where exits are episodic, returns are uncertain — which is precisely how structural illiquidity raises the cost of capital even in markets with strong underlying fundamentals.

This is the mechanism through which the absence of liquidity infrastructure raises the cost of capital: not through single-deal failure, but through the systematic signal it sends to the global institutional community — that exits are unpredictable, that confidence cannot be built, and that a structural premium for uncertainty is always warranted.

The practical implication for institutional investors is demanding: **in markets where you cannot assume liquidity, you must engineer it.** Successful investors in frontier markets do not treat exit as something to be solved at the end of the investment period. They build exit architecture into the transaction from day one.

FROM PRACTICE

In Practice

The following illustrations demonstrate how liquidity architecture shapes investment outcomes in practice — and how institutional investors can respond when market liquidity cannot be assumed.

IN PRACTICE

INDUSTRIAL MANUFACTURING PLATFORM · EMERGING MARKET

Liquidity by Design

An institutional investor acquired a significant minority stake in a large industrial manufacturing platform in an emerging market. Recognising from the outset that the pool of credible strategic acquirers was limited, exit planning became a core element of the investment thesis rather than a consideration deferred until divestment.

To address this, the transaction incorporated contractual liquidity protections and predefined exit rights within the investment documentation. Rather than relying solely on future market conditions or a competitive sale process, the investment was structured with an alternative mechanism capable of providing liquidity under multiple scenarios.

When the investment reached maturity, the embedded contractual provisions provided a clear and efficient pathway to exit, demonstrating that liquidity had been deliberately designed years before the investment was realised.

KEY INSIGHT

The strongest exits are rarely the product of favourable market conditions alone. They are often the result of transaction architecture established at the point of investment. Liquidity should be designed at entry — not negotiated at exit.

IN PRACTICE

CONSUMER PLATFORM · WEST AFRICA

Designing the Buyer Before the Exit

A growth investment into a regional consumer platform was structured alongside a strategic industry participant whose long-term commercial interests were aligned with increasing ownership over time.

Rather than treating the eventual exit as a future fundraising exercise, the investment established a predefined framework governing ownership transitions, valuation methodology and transfer rights. By aligning strategic incentives from the outset, the transaction significantly reduced execution risk and created a credible pathway to liquidity independent of prevailing market conditions.

Instead of searching for a buyer at the end of the investment lifecycle, the investment was structured with a natural successor already embedded within the ownership structure.

KEY INSIGHT

In markets where buyer universes are limited, the most effective exit strategy is often to identify — and align with — the future buyer before the investment is made.

IN PRACTICE — MULTI-COUNTRY HEALTHCARE PLATFORM · EMERGING MARKETS

Liquidity Depends on Ecosystems, Not Assets

An institutional investor developed a multi-country healthcare platform spanning hospitals, outpatient facilities and diagnostic networks across several emerging markets. Through disciplined governance, capital investment and operational execution, the platform achieved significant scale and institutional quality.

However, exit outcomes varied materially across jurisdictions. In markets with mature private capital ecosystems, active strategic acquirers and well-developed capital markets, multiple liquidity pathways were available. In other markets, despite comparable operational performance, limited institutional buyer depth, regulatory constraints and less developed capital markets reduced exit flexibility.

The experience demonstrated that investment outcomes are shaped not only by the quality of the underlying business but also by the strength of the surrounding capital ecosystem.

KEY INSIGHT *Building a successful business is only one part of value creation. Realising that value depends equally on the maturity of capital markets, the depth of strategic buyer ecosystems and the architecture of the investment environment.*

STRATEGIC IMPLICATIONS

Five Implications for Capital Leaders

FOR GOVERNMENTS

FOR INVESTORS

Build buyer ecosystems, not only investment promotion agencies

Investment promotion addresses only half the equation. Policy should extend to developing public market infrastructure, pension equity mandates, and cross-border transaction frameworks that enable capital to exit efficiently.

Underwrite exit with the same rigour as entry

No frontier-market investment should close without a credible view of the pathways through which liquidity could ultimately be realised. Structural liquidity risk should be priced explicitly — not absorbed into a generalised risk premium.

FOR DFIS

Catalyse the buyer side, not only the seller side

Development finance institutions have focused on mobilising capital into frontier markets. The next priority is also mobilising the buyer side — supporting domestic institutional investors, deepening secondary markets, and strengthening the conditions under which capital can be recycled.

FOR FAMILY OFFICES

Permanent or long-duration capital can be a structural advantage

Longer holding horizons can reduce the pressure to exit into weak liquidity conditions and create greater flexibility over timing. In markets where exit windows are episodic, the ability to hold through liquidity cycles can be a meaningful structural advantage.

FOR FOUNDERS & OPERATORS

The quality of your capital ecosystem shapes what your company is worth

Even a company with strong governance, reporting and institutional quality may face a valuation discount where surrounding exit infrastructure is thin, because potential investors must price the difficulty of ultimately realising value. Capital-market development is therefore not peripheral to enterprise value. It is part of the environment through which that value can ultimately be realised.

> *"Capital entering a market is optimism. Capital exiting at scale is proof."*
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> TM ALPHA · 2026

Many frontier markets do not suffer from a shortage of opportunity so much as a shortage of confidence infrastructure. Markets that strengthen that infrastructure — including credible pathways to liquidity — can deepen institutional participation and reduce the structural premium investors attach to uncertainty.

TM ALPHA THESIS

Capital is mobile.
Confidence is earned.
Liquidity is engineered.

Opportunity attracts attention.
Predictable liquidity attracts institutional capital.

TM

ABOUT TM ALPHA

TM Alpha

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