KEYNOTE INTERVIEW

The scale advantage

In secondaries, scale doesn't necessarily impact the nature of the companies you buy – but it can provide a powerful competitive advantage when it comes to transacting on large LP portfolios, says Michael Skelly, a partner at Lexington Partners

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Q After a record year for secondaries transaction volumes in 2025, how is the market faring in 2026?
The first half of 2026 was marked by continued macro uncertainty, such as geopolitical tensions in the Middle East, volatility in energy markets, shifting trade policies and disruption in the software space due to the rapid evolution of AI. However, despite these headwinds, the secondaries market continued to gain momentum. Industry estimates put first-half transaction volume at more than $120 billion – a record high, and almost 20 percent above the first half of last year.

Looking ahead to the remainder of the year, market volume is currently on pace to break 2025's record $227 billion. The secondaries market is generally back-ended, with 55-60 percent of transaction volume typically taking place in the second half.

As a firm, we tend to take a long-term view in any case. We are not narrowly concerned with any particular quarter, half or even calendar year. When you consider that the embedded NAV within private equity now sits north of $4 trillion, we believe the secondaries market presents a structural, multi-year opportunity.

Q What changes have you observed in the quality of secondaries opportunities alongside this growth in transaction volume?
The quality of the opportunity set has increased dramatically. In the LP-led market in particular, we have seen a structural shift whereby buyers have had significantly more optionality than in previous years. It is now more common for sellers to bring a $3 billion portfolio to market, for example, with the intention of selling $1.5 billion. That excess supply can give buyers the opportunity to select the assets they like best.

There is still a place for 'everything must go' sales, but in those scenarios, the discounts tend to be larger. Many sellers often prefer to take a smaller discount by allowing secondaries buyers to pick and choose assets instead.

Q How can secondaries firms differentiate themselves?
Scale is a key differentiator. The ability

> *"There are competitive differentiators that go beyond price: price is only a number, and it can mean very little if the buyer that is offering that number is not reliable"*

to provide a single solution to sellers can be incredibly meaningful, as the teams running these sales processes are often small. If you can reduce the bandwidth necessary to execute on a secondaries transaction while also reducing the legal expenses that would be required to negotiate multiple purchase and sale agreements, that can really have an impact. We have seen a growing number of LP-led partnership transactions valued at over $1 billion; if you can't operate at that kind of scale as a secondaries buyer, that can definitely be a limiting factor.

Counterparty reputation is also critical, particularly in periods of macro uncertainty. Sellers may be prepared to take a risk on a mosaic solution involving multiple buyers when the market is robust, but in times of greater volatility, execution certainty becomes paramount. Sellers want to be sure they are transacting with a buyer that does what they say they are going to do and that they have worked with before across economic cycles.

We have acted as both buyer and seller in the secondaries market – something we see as an advantage, because it means we understand what it is like to be on the other side of the table. All of these factors are competitive differentiators that go beyond price: price is only a number, and it can mean very little if the buyer that is offering that number is not reliable.

Q Does scale mean the same thing in the secondaries industry as it does in the primary market?

If you are raising a $10 billion buyout fund and looking to complete around 15 deals, that dictates the scale of the companies you are targeting. If you are raising a $2 billion buyout fund, by contrast, that typically means you will be buying mid-market businesses. In secondaries, however, you can have a very large fund but still be acquiring mid-market or venture capital-backed assets through a given transaction. Rather than the companies themselves being bigger, you may simply be acquiring more or bigger commitments in the underlying funds.

Scale matters in secondaries because it can unlock a significant part of the LP-led market that requires a platform to be comfortable with taking on a large deal alone. It is still relatively rare for a secondaries buyer to be able to make a credible bid on a multibillion-dollar portfolio today, because the need for scaled liquidity solutions is growing at a substantially faster rate than the capital available to service that demand. In short, raising larger secondaries funds does not change the nature of what you are buying, but it can create a competitive moat.

Q To what extent do sellers – LPs or GPs – need to differentiate themselves with secondaries buyers, given competitive dynamics?

Market supply is substantial, so beyond the quality of the assets themselves, credibility as a seller is very important. Sellers that repeatedly pull out of transactions earn a negative reputation, and that can dampen interest in subsequent deals.

Equally, buyers will closely interrogate all aspects of a GP-led deal, including asset quality, the appropriateness of the valuation, the go-forward investment thesis and the track record of the GP. If a sponsor appears to be using the CV market to create a clean-up event for themselves, rather than an offensive tool to continue owning a high-performing asset or set of assets, that can materially impact demand. Buyers want to be clear on rationale, motivation and alignment to help ensure a beneficial scenario for primary fund investors, buyers and the GP.

Q What role will AI play in secondaries underwriting?

The adoption of AI in the secondaries market has proven to be fast paced. In fact, in many ways, having AI capabilities deployed in the underwriting process has already become table stakes. What we are seeing, however, is a dynamic where AI can create clear winners and losers as companies navigate new market realities. AI alone is not a competitive advantage, but it can amplify the embedded competitive advantage that a platform may already have.

Anyone can look in the rear-view mirror, but what can really make a difference is unlocking real-time perspectives on companies, the market and GPs. That insight is unlocked, first and foremost, through relationships. This remains a people-led industry where human perspective is paramount and the professional experience of investing through the cycles is invaluable.

If you ask an AI system to run 1,000 simulations on how to create a rocket ship, a secondaries investor would not be able to tell you which one of those is the most efficient. Equally, if you ask an AI system to run 1,000 simulations regarding the pricing of a private markets portfolio, an individual without deep investment expertise will not be able to pick the right result. AI can provide operational leverage and can act as a constructive thought partner, but it cannot do the job by itself. Indeed, AI can sometimes be a double-edged sword, exacerbating tendencies in certain organisations that have led to mistakes in the past. ■