KEYNOTE INTERVIEW

Assessing mid-market secondaries

Sellers are prioritizing price optimization over volume optimization, which means buyers can select the GPs and assets that they know and like best, says Northleaf Capital Partners' Shane Feeney

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Q How has GP-led dealflow evolved over the past year and what are your expectations for the year ahead?
Dealflow continues to be extremely robust. We have seen a very active Q1, with several transactions involving single-asset continuation vehicles. What I will say, however, is that quality is more mixed than we have seen in the past, as smaller and lesser-known GPs increasingly look to move assets into continuation vehicles.

That said, the ability to retain ownership of trophy assets continues to be the main driver of GP-led secondaries, even as adoption becomes more widespread. What matters, therefore, is that buyers remain highly selective in the opportunities they choose to pursue.

In terms of outlook, we expect volume to remain strong. Our firm belief is that continuation vehicles are here to stay. The liquidity challenges of the past few years have certainly helped fuel their popularity, but more than anything, GPs see these deals as a great way to hang onto their winners and to compound capital.

In fact, many sponsors point to an expectation that there will be one or two CVs in every fund, which should give confidence that dealflow will remain strong regardless of the wider exit environment.

Q Why do you believe the mid-market is a particularly attractive space in the context of the GP-led market?
That's an interesting question because the definition of mid-market can look slightly different in the GP-led secondaries space compared to other parts of our business. When we talk about the

mid-market, we are typically talking about the size and strategy of the sponsor involved. With GP-led secondaries, that sponsor may already have owned the company for four to five years, so the underlying asset may be a bit larger than the underlying assets a buyer is gaining exposure to in LP-led secondaries, primary or credit activities. After all, these are assets that the GP would otherwise be selling to a larger sponsor or strategic buyer.

Nonetheless, all the reasons why we love the mid-market still hold true in this space. I always say that private equity is all about ensuring that what you sell looks different to what you buy, and typically, that has been more easily achieved in the mid-market. There are traditionally more ways in which to add value and to make a good business even better.

In particular, there is more runway to create value through M&A when you are starting with a smaller platform. Last but not least, there is, of course, the ability for greater exit optionality in the mid-market where you are not wedded to going public.

Q How can buyers balance the different types of secondaries transactions in their portfolio?

It is all about looking through to what it is that you are actually buying, and understanding what that means for your overall portfolio construction. For example, you can have a multi-asset CV where one of the assets represents 80 percent of the overall NAV. In many respects, the dynamics of that transaction will be the same as for a single-asset CV.

We are active across all aspects of the secondaries ecosystem in terms of both LP-leds and GP-leds. We are slightly more weighted to the LP-led market, but we see GP-led secondaries as a returns enhancer for investors, given that they typically provide access to companies offering an ability for a compelling combination of growth and stability. Within the GP-led space, we look at both single- and multi-asset opportunities.

What I will add, however, is that we are big believers in diversification. We think it is one of the most effective risk mitigants that an investor can adopt, so we spend a lot of time dissecting the underlying exposures.

Q How are competitive dynamics evolving on the buyside of the GP-led market, particularly with the arrival of new entrants from the direct buyout space?

I think it's fair to say that competition for very high-quality, single-asset CVs has probably increased in the past couple of years. There have certainly been new entrants targeting that space, although they are still relatively small in number. Nonetheless, I do think there is enough quality dealflow to serve addressable demand, particularly as different buyers have different preferences with regard to the deals and the assets that they are targeting.

Some of the new entrants from the direct investment ecosystem tend to lean in a little harder to lesser-known assets or assets where there may be more complexity in terms of the level of underwriting required, for example. The sector focus that some of these firms have within their core buyout program can certainly be helpful in that regard.

However, I still firmly believe that traditional secondaries firms have a right to win in the market. A lot of high-quality GPs that own high-quality assets with a relatively clean investment story continue to favor that category of buyer, particularly when they have a primary platform and where there is an existing fund relationship.

I would also add that the GP-led secondaries market today is still largely a mid-market phenomenon. If we start to see more large-cap and even mega-cap GPs launching continuation vehicles, then the equity requirements are going to be significant. That is another reason why I am less concerned about competitive dynamics in the CV market.

Q What impact is geopolitical and economic volatility having on the market, and on pricing in particular?

The situation is similar to what we

Q How would you describe the LP-led secondaries opportunity currently? Who are the main sellers and what are the key drivers?

Dealflow continues to be highly robust. LP-led activity in the first quarter was very strong and I think it is reasonable to assume that we are in for another record year in 2026.

What I would note is that there has been a good mix of large multibillion dollar portfolios coming to market, as well as smaller portfolios in the $100 million to $300 million range. I don't think any one type of seller is dominating, but I am seeing a theme of price optimization as opposed to volume optimization. Sellers that are coming out with larger portfolios are really allowing secondaries buyers to pick and choose what they want to acquire in order to achieve the highest overall price.

From our perspective, that is a favorable dynamic for mid-market buyers, because even though they are not of a size where they are going to be taking down those multibillion dollar portfolios single handedly, mid-market buyers are usually able to selectively choose those mid-market funds and GPs that they know and like best.

saw in 2022 in that you need to be careful about reading too much into the narrow discounts that appear to be characterizing the market right now. There is always a real flight to quality whenever there is significant macro uncertainty, and high-quality assets owned by high-quality GPs typically trade at narrower discounts. That can be distortive.

Nonetheless, there is no doubt that the secondaries industry continues to act as an important relief valve. It remains to be seen what will happen to underlying exit activity in the buyout space over the next few quarters given everything that is going on in the world today, but secondaries can certainly be an effective countercyclical play to some of the procyclicality that we see in the underlying private equity market.

Q What impact is AI and the subsequent devaluation of software companies in the public markets having on pricing and dealflow?

I do think it is having an impact. Many secondaries buyers are sitting on the sidelines when it comes to software today. I would say that standalone software funds are mostly not trading. The bid-ask spread is significant. There is a lot of skepticism in the market and we ourselves are certainly being cautious.

It could be, of course, that some of this concern will ultimately prove to be overblown, but on the LP-led side, in particular, where it isn't typically possible to do the same level of underwriting that you would on a single-asset deal, I think buyers are generally pretty shy of software exposure, at least for now.

Q What trends are you seeing with respect to secondaries fundraising and how do you see that evolving over the next 12 months?

The secondaries market continues to be a relative bright spot with respect to fundraising. We are seeing continued appetite from investors, with institutions recognizing the role that secondaries has to play in their overall portfolio construction. In particular, they appear to recognize that secondaries is an all-weather strategy, providing interesting opportunities even in periods of dislocation.

Indeed, there are a lot of large groups currently in the market, or planning to come to market, with flagship secondaries funds, and so I expect to see continued growth on the supply side.

At the same time, dealflow across both the GP-led and LP-led secondaries markets is strong and growing. This is an industry that is going from strength to strength. ■

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Shane Feeney is managing director and global head of secondaries at Northleaf Capital Partners