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# Secondary Spotlight

## The art and discipline of secondary underwriting

As of June 2026

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KEY INSIGHTS

This paper explores the key components of secondary transaction underwriting against a backdrop of record transaction volumes, the rise of continuation vehicles (CVs) and growing specialization across asset classes.

As the secondary market becomes larger and more sophisticated, we expect the likely dispersion of outcomes will widen and structural complexity will increase, raising the need for more disciplined underwriting.

# Overview

As the secondary market continues to expand—by deal volume, number of participants and structural complexity—underwriting has become increasingly nuanced, elevating the importance of experience, relationships and information access, and disciplined asset selection.

Evolving macro conditions, interest rate dynamics and market liquidity will shape underwriting assumptions. In periods of volatility, secondary buyers may benefit from wider bid-ask spreads due to liquidity-driven supply; in more constructive markets, asset appreciation and accelerated exits may help to drive pricing. In both environments, we believe scenario analysis, conservative valuation frameworks and disciplined capital deployment will remain essential.

**Ultimately, as the secondary opportunity set evolves, we believe disciplined underwriting—rooted in experience, data and selectivity—will continue to distinguish Lexington.**



**Featuring**

Interview with **Taylor Robinson**, a Partner at Lexington, regarding the complexities of secondary transaction underwriting and Lexington's approach.

# LP Portfolios vs. GP-Led Deals: Structural Differences

Though technology is adding some efficiencies, we believe secondary transaction underwriting is an art as much as it is a science, informed by experience, information access, relationships and a comprehensive diligence process. While both LP-led and GP-led secondary transactions provide liquidity solutions, their structure, information dynamics and risk profiles differ. As a result, each transaction type requires a distinct underwriting framework and calibration of risk. Importantly, in both transaction types, long-standing relationships—with GPs and LPs—can provide an advantage in terms of information and a deep understanding of motivating factors.

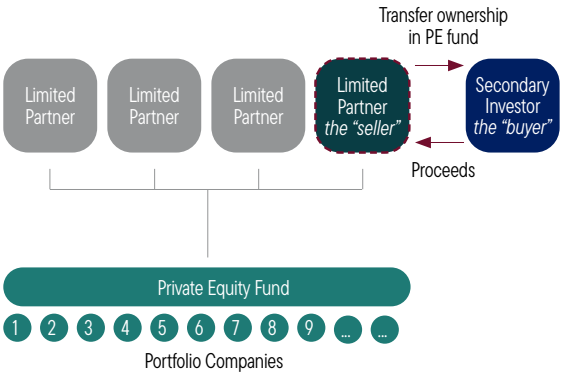
## Illustrative Features of Secondary Transactions

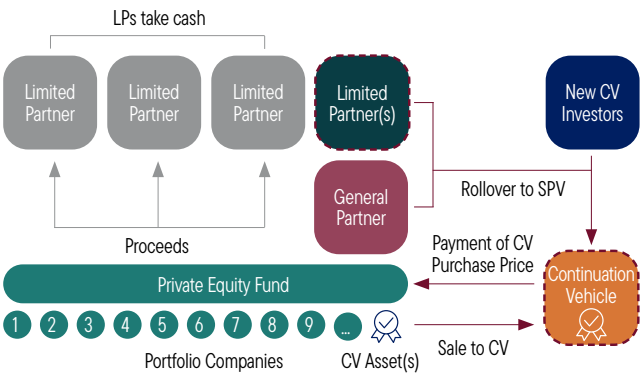
### LP-Led (or "Partnership")

- **Motivation for seller:** Portfolio rebalancing, liquidity need, strategic shift, team change and/or regulatory or allocation change.
- **Diversified fund exposure:** Portfolio could add up to hundreds of interests spanning vintages, strategies, sectors, geographies and sponsors.
- **Look-through company exposure:** Buyer assumes exposure to underlying companies at different stages of value creation, with varied leverage profiles and exit timelines.
- **Embedded unfunded commitments:** Buyer assumes future capital call obligations, liquidity planning requirements and exposure to new investments.
- **NAV-based pricing framework:** Typically based on a percentage of reported NAV. NAV reliability may vary across GP valuation discipline, reporting frequency, sector exposure and market conditions.
- **Portfolio construction considerations:** Buyer must assess exposure within the context of their broader portfolio (e.g., overlap with existing holdings, concentration risk and diversification considerations).
- **Operational and legal complexity:** GP consent process, transfer documentation, side letter, tax and settlement mechanics across jurisdictions can present challenges.

### GP-Led (Single or Multi-Asset)

- **Motivation for GP:** Liquidity for existing LPs, potential for continuing value creation beyond original fund term constraints and/or facilitating recapitalization.
- **Concentrated asset exposure:** Typically involves a single or small group of assets, with underwriting focus on asset fundamentals, growth trajectory, capital structure and exit timing.
- **Rollover and alignment dynamics:** Existing LPs generally offered option to take liquidity or roll exposure into a new CV.
- **Structured terms and governance:** Negotiated elements may include governance rights, advisory roles, reporting enhancements, waterfalls and preferred return mechanics.
- **Valuation and fairness:** Typically based on negotiated valuation ranges, independent fairness opinions and competitive auction processes. Diligence and transparency are key given information asymmetry.
- **Extended duration:** With a reset investment horizon, underwriting must assess the remaining value creation runway, exit timing assumptions, capital markets receptivity and leverage sustainability over the hold period.
- **Conflict and process complexity:** The GP's dual role as both a seller (on behalf of the fund) and continuing operator introduces structural nuances that must be carefully evaluated.




**Secondary underwriting is not one-size-fits-all. Each transaction demands a distinct framework to navigate unique structural dynamics.**

# Secondary Transaction Underwriting 101

Lexington believes that rigorous, bottoms-up underwriting must be the starting point for secondary investing. Evaluating NAV reliability, assessing sponsor alignment, modeling exit scenarios and stress-testing assumptions across macro environments often requires analytical depth, accumulated experience, strong sponsor relationships and access to decision-useful historical and current information.

## Sourcing

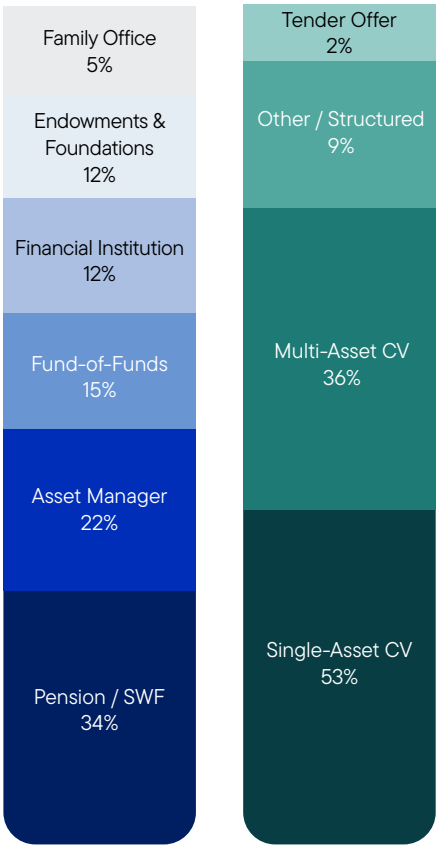
Lexington believes that an investor having a broad sourcing funnel is the key starting point for consistent portfolio construction. Secondary transactions can be sourced through various channels, including directly from LPs or GPs, or via a specialist intermediary. Transactions in the secondary market may have long lead times with initial conversations often dating back several years, which is why developing relationships with potential sellers before they pursue a formal sale process is important. In fact, in 2025, approximately 60% of LPs who sold were repeat sellers, and Lexington has observed a meaningful increase in sellers accessing the secondary market systematically as part of their active portfolio management plan.[1]

## Role of Intermediaries

Intermediaries have become central to secondary market execution, particularly for large, complex LPled transactions. Their role varies by transaction type, but broadly encompasses price discovery, process management and daily coordination between seller and buyer, none of which many selling organizations are staffed to handle on their own.

- **Price discovery:** As secondary transactions primarily involve private assets, intermediaries help aggregate bids and align buyer/seller expectations—facilitating market formation amid pricing dispersion and variable NAV reliability.
- **Process design and execution:** The involvement of intermediaries in complex secondary transactions can help reduce execution risk and compress timelines. For LP-led transactions, which can often be operationally intensive at scale, intermediaries help coordinate diligence materials, bid timelines, legal documentation and fund transfer mechanics. In GP-led deals, intermediaries help navigate conflicts, rollover elections, new vehicle structuring and align sponsor, existing LP and new capital interests.
- **Buyer access:** Intermediaries may be able to identify a broad buyer universe and narrow it based on the seller's priorities; for example, to help with price maximization, certainty of execution or ability to provide a total portfolio solution.

2025 Secondary Volume by Type[1]



## Evaluation and Underwriting

Once identified, sophisticated secondary buyers will often conduct both tops-down and detailed bottoms-up underwriting of potential transactions. The length of the due diligence process may vary from one to three months depending on the number of interests and companies. Due diligence for larger, more complex or highly concentrated transactions can take considerably longer.

### Key Factors in Secondary Transaction Evaluation and Underwriting

## Information Advantage

Having access to historical data to inform underwriting has become increasingly important in the context of rising secondary volume, deal complexity and competition. Secondary opportunities are evaluated in the context of prior transactions, historical exposure, and existing portfolio data. Ultimately, Lexington believes access to meaningful data can provide investors with several underwriting advantages:

**Lexington believes that a robust, proprietary database can enhance underwriting by grounding decisions in historical insight and pattern recognition, improving price discipline, asset selection and risk assessment.**



**Historical pricing**
Data across interests, vintages, managers and market cycles enables calibration of underwriting assumptions against historical outcomes.



**Repeat sellers**
Repeat transaction experience can improve underwriting efficiency and risk identification.



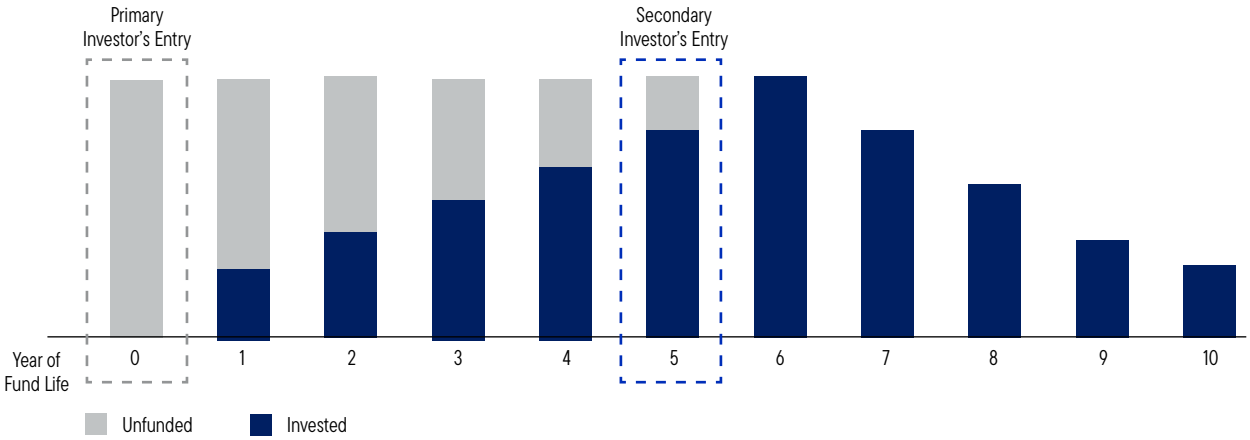
**Long-standing GP relationships**
Can provide enhanced diligence access, direct dialogue on portfolio company expectations, and insight into exit planning and capital.



**Multi-fund exposures**
Exposure across multiple funds managed by the same GP can enable pattern recognition regarding historical valuation discipline, operational execution consistency and realized return dispersion.

## Minimized Blind Pool Risk

One of the significant benefits of a secondary acquisition strategy is that it has the potential to minimize certain blind pool or unknown risks associated with primary fund investing by purchasing identified assets at a point closer to their realization. *(Illustrative)*




**Secondary investors acquire known assets. Potential for minimized blind pool risk means more informed underwriting—driven by visibility and fewer assumptions.**

Therefore, when conducting due diligence on potential secondary acquisitions, secondary buyers can often:

- review the early performance of the investment under the ownership of the sponsor;
- identify the stage of the investment within its lifecycle and generally seek to avoid what is typically the highest risk period of ownership by the underlying sponsor; and
- evaluate portfolio companies at a point closer to their ultimate realization and assess factors that may influence exit timing and value.

## Purchase Price Deferrals

Deferred pricing structures have become a common pricing mechanism in the secondary market, with an estimated 23% of secondary transactions completed in 2025 having a deferred pricing structure.[1] Deferred purchase price arrangements often allow secondary buyers to pay a portion of the purchase price up front and a portion at a later date. For example, "one year deferral, 50% purchase price" indicates 50% of the purchase price is paid upon close and the other 50% is paid one year after close.

Ultimately, purchase price deferrals allow the seller to obtain better optical pricing, while the buyer is afforded greater flexibility in capital deployment. Purchase price deferrals may also minimize the need for third-party leverage with restrictive covenants or required amortization schedules, and allow secondary buyers to fund a portion of the transaction's purchase price from distributions received from the portfolio.

**Purchase price deferrals can benefit both parties—supporting stronger seller pricing while providing buyers flexibility in capital deployment and risk management.**

## Role of Discount

Purchase discount to NAV is typical in secondary transactions, and can serve as an important mitigant to downside risk. In our experience, this is particularly true for LP-led transactions, where discounts are highly deal-specific (i.e., portfolios composed of older or tail-end funds typically command higher discounts, while portfolios of newer funds generally warrant lower discounts). GP-led transactions in high-quality assets are generally priced at or near par (sometimes at a premium); CVs that price at a significant discount may reflect a riskier value creation profile or a lower-quality asset.

Secondary pricing is often reduced to a single metric: "average discount to NAV." However, Lexington believes this can be misleading in some cases. A uniform "discount" assumes NAVs are equally reliable, valuation timing and conservatism are consistent, growth prospects are comparable, and liquidity horizons are aligned. In reality, these conditions rarely hold. As a result, headline discounts can obscure underlying value—for example, paying 90% of NAV for a conservatively marked, high-growth portfolio may offer more upside potential than paying 80% for a fully valued or structurally challenged one.

While purchase discount remains an important element of downside risk mitigation, we believe durable value creation in secondaries is ultimately driven by underlying asset performance and appreciation, and that converting discount into realized return depends on understanding intrinsic value, liquidity timing and sponsor execution.

**Price must be considered in the context of asset quality and forward return potential—a higher discount does not necessarily mean better value.**

### Generally, secondary pricing reflects a composite of:

- Asset underwriting
- GP quality
- Portfolio company growth outlook
- Leverage levels
- Exit optionality
- Vintage year dynamics
- Sector cyclicality
- Unfunded commitments
- Transaction structure
- Capital availability

# Spotlight on Secondary Transaction Underwriting

Views from Lexington's Secondary Team

## How has secondary underwriting evolved as the market has grown to record volumes?

For Lexington, the process hasn't really changed or evolved, so much as it has been improved and refined. Our work begins with the assets in a deal, or the actual companies held within funds in a portfolio. In a majority of situations, we are existing investors and have existing models, information and underwriting for most of the assets. The alternatives markets—PE, growth, VC, etc.—are still opaque when it comes to reporting and information access despite industry efforts over decades to standardize. Technology—and AI specifically—will help firms with a "tops-down" approach to underwriting, but are not a substitute for "bottoms-up" work that relies on critical information made available primarily through relationships and dialogue with the PE firms that hold the assets. I like to say that we've gotten "better, faster, stronger and more efficient" as we've grown the firm over three and a half decades. It takes time to build this robust of an information base through hundreds of transactions and the ownership of thousands of underlying fund interests—and it is this information base that we use to continuously underwrite private assets within our market. All of the data we've collected on private companies, funds and firms for over 30 years lives in our database and, equally important, much of the senior team that sourced the information and built the relationships hasn't changed. **With our long tenure and high senior-level retention, we believe we have built up muscle memory and pattern recognition (and some scar tissue), which means that we—individually and collectively—know what questions to ask on every deal. In short, we've simply gotten more experienced and have had more reps as the market has grown.**

## How does scale influence your underwriting capabilities?

We believe Lexington has scaled by all the metrics that matter in our business: by geography, fund size, breadth of relationships, ability to buy a wide range of underlying strategies and asset classes, and by the number of investment professionals, including partners whose average tenure at the firm is nearly two decades. Our goal is to be helpful, thoughtful capital partners to both sellers and PE managers so that we can provide both targeted and large, holistic liquidity solutions. We are typically existing investors in most of the assets we see in a transaction, and we have transaction histories with most of the world's GPs and scaled sellers. **In a market where information flows asymmetrically and transactions involve many parties, being able to show up, offer a liquidity solution that we can stand behind and then deliver, can often be more important to a seller than achieving the highest price.** In terms of GP-led deals, being a lead or sole, counterparty can secure access to high-quality and sought-after deals in the market, and on what we believe to be better economic terms than smaller counterparties could negotiate.



**Taylor Robinson**
Partner, New York
18 years at Lexington
Secondary IC Member
FLEX / FLEX-I PM

## When evaluating a secondary opportunity, what factors into your initial screen?

We often have the ability to purchase the same exposure from different sellers at the same time, and we maintain an active pipeline of opportunities, so we are looking for a few key transaction attributes:

**a.** asymmetric information and/or relationships in our favor;

**b.** assets we know well, managed by GPs we trust; and

**c.** a seller or counterparty that is focused on transaction certainty, transaction scale and/or transaction breadth more than simply achieving highest price.

Beyond those characteristics, we focus on how each opportunity adds to the portfolio we're constructing. We are maniacally focused on consistent portfolio construction, and that means we need to add the right exposures (by many metrics) and cash flow profiles at the right time. Keeping those transaction attributes in mind, while focusing on what we need or want to add to the portfolio, is the key to working through the pipeline on a daily and weekly basis. This is a process that begins at the local office level and is then coordinated across the firm.

## How do you incorporate macro uncertainty into underwriting assumptions?

It's worth stating that we invest through cycles and deploy capital in a fairly linear fashion. Nobody is smart enough to time markets, including us, and especially in a strategy like ours where deals take months or quarters to negotiate and close. We have to be in the business of understanding and taking investment risk because we're buying equity. We tend, in our view, to be conservative underwriters of assets, which means that we look to make reasonable, defensible assumptions in our company-level models when projecting future value. The asset-level work rolls up to fund and transaction-level models that allow us to sensitize a range of outcomes based on market standard metrics, such as valuation changes, interest rate changes and liquidity timing.

All of these sensitivities are considered throughout the transaction process and ultimately with our investment committee so that we have stress tested the range of outcomes, with special focus on the downside cases, and we collectively agree on the price we're paying for a given set of assets. We work hard to calibrate and justify that the price we're paying, and thus the projected return profile of a given transaction, matches the transaction's risk profile. If we don't agree collectively that we're being compensated for the risks, we don't do the deal. It's that simple. But we have a lot of levers to play with, the most important of which are asset selection and price, both of which are highly negotiated through an iterative process as we dial in our underwriting of a transaction. **As a result of our experience, relationships and execution certainty, we believe we see nearly all deals in our market, which gives us a robust pipeline and facilitates our ability to find and acquire attractive, well-positioned assets in different macro environments.**

## What role will AI play in underwriting secondary transactions?

AI is becoming a meaningful unlock in how we underwrite secondaries, and we view it as a positive. The technology allows us to more efficiently aggregate, synthesize and standardize information, scenario model, sensitize and draft memos at speeds beyond human capacity. The result is real efficiency in our existing, tested investment process. That, in turn, frees up team time for the equally important "EQ" aspects of our business—the constant dialogue with PE, growth and VC sponsors—that drives our information access and "last mile" insight, and the final decision-making where we believe that experience and relationships remain irreplaceable.

## If you had to summarize the most misunderstood aspect of secondary transaction underwriting, what would it be?

I think investors and secondary firms often spend too much time discussing discount. The misunderstanding is that "more discount is better." Generally speaking, the inverse of discount is price, and price is a reflection of projected returns and asset quality. When I see a very high discount, it can often mean that there's little or no upside in the assets and probably lower asset quality. As the initial price is driving most of the return, these types of transactions inherently have fewer ways to win.

We have focused, for all of our firm's history, on making money by paying reasonable prices for assets we know and like. The vast majority of the value we've generated in secondary deals over our history come from asset appreciation. **We view discount as an "insurance policy" against value erosion and a nice way to potentially mitigate the initial J-curve of private equity, but we don't think it's what investors should focus most on.**

I would orient investors to ask secondary managers what returns they are presenting at IC to make investment decisions and asking if those returns are generated without the use of leverage. In other words, what price are you paying for the assets and what do you think you're earning during the life of an investment? In the end, I sleep easier at night buying what we believe to be high-quality assets at reasonable prices with appreciation potential rather than melting ice cubes at big discounts.

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### Experienced Team

**92**
Investment professionals averaging 10 years of PE experience

**28**
Partners averaging 19 years together at Lexington

### Deep Sponsor Relationships

**35+**
Years of sponsor relationship building

**950+**
Sponsor relationships

### Information Advantage

**50,000+**
Database of underlying PE portfolio companies

**3,000+**
Private investment funds invested

### Global Footprint

**9**
Global offices across four continents

**200+**
Global employees

### Transaction Experience

**750+**
Secondary transactions completed

**600+**
Co-investment transactions completed



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Footnotes:

1. Jefferies Global Secondary Market Review, January 2026.

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