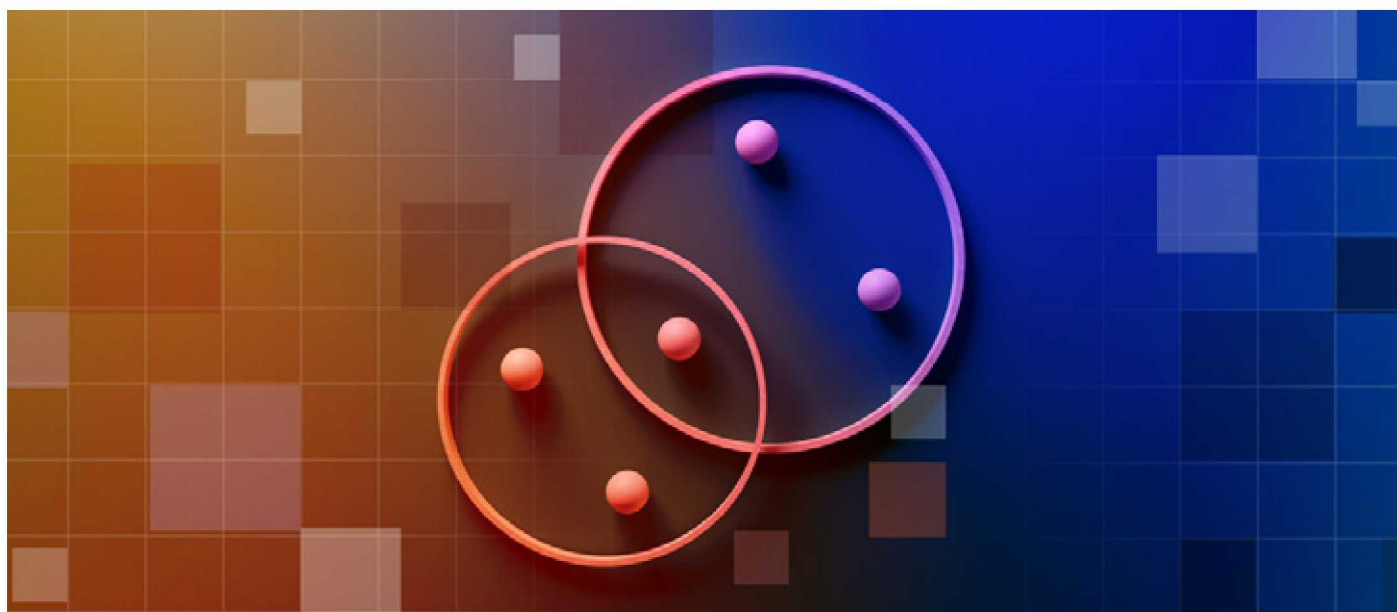


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PRIVATE EQUITY NEWS & ANALYSIS

Private markets' burgeoning capital concentration challenge

By appealing to retail and large institutional investors, mega-managers may end up with the lion's share of capital, with implications for themselves and their investors, writes Cambridge Associates' Andrea Auerbach.



With momentum building in recent years, several private equity industry players have been steadily acquiring their way to a complete roster of investment options representing the basic building blocks of a diversified private investment portfolio – private equity, private credit, venture capital, secondaries, infrastructure and sector-focused strategies, to name a few – essentially making them mega-managers. Some have been acquiring related strategies on a global scale as well, adding a

geographical dimension to their expansion.

It's not just private market managers either: other asset managers have also been busy acquiring private market managers to add to their rosters. While private equity loves a transaction, there is purpose behind this activity.

By building a full suite of private market options, these mega-managers are essentially providing a one-stop-shop to investors that may be seeking efficiency in capital deployment. What is interesting is that the two primary types of investors

that might be the most interested in this development could not be farther apart in terms of size: the XXL LP and the individual/retail investor, which in some cases can invest as little as \$500.

Both investor cohorts represent trillions of potential investment dollars over time, and both may be looking for simplicity. Institutional LPs watching these developments are also noting individual/retail investors are likely to invest via different fund structures with different management fees, performance fees and



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liquidity options and yet potentially share in the same underlying investment.

As these acquisitions likely enable the era of the individual investor to begin in earnest, institutional LPs need to take stock of what it means for their portfolios. If these mega-managers are successful in attracting most of the individual investor-related AUM, they could end up with the lion's share of the industry's

capital, creating additional challenges for themselves.

While the public markets have a company concentration challenge – by which a material portion of the market value of an index such as the S&P 500 is represented by a handful of stocks – the consolidation described above implies the private markets have a burgeoning capital concentration challenge, by which

a material portion of the capital in the industry may ultimately be managed by a small cadre of mega-managers.

With the acquisition spree continuing, many pieces are falling into place, but it is hard to estimate how long it will take for this scenario to play out and the capital to truly collect on these platforms. The implications of such a development are also actually quite varied, depending on where you sit in the equation.

For that handful of mega-managers, there will be the increased challenge of delivering on the return expectations of these two (for simplicity's sake) investor types, while executing the same strategy across two (again, for simplicity's sake) vehicle types. For their institutional investors, there are new versions of the old questions of alignment, understanding the replicability of returns given the increased AUM, and new efforts to understand the additional dynamics presented by another rising class of investors.

Andrea Auerbach is global head of private investments at Cambridge Associates

This guest comment forms part of Private Markets 2030 – a deep dive into the trends shaping the alternatives industry over the next five years