

FROM NICHE TO MAINSTREAM CONTINUATION VEHICLES REDEFINE PRIVATE MARKETS

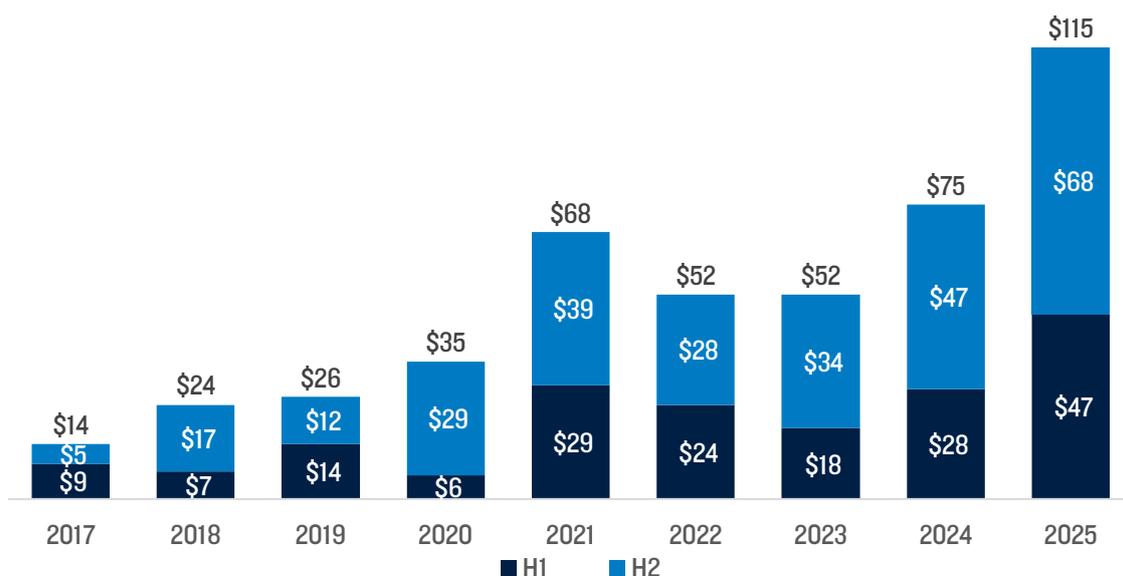
KEY TAKEAWAYS:

- Equity CVs are established; credit CVs continue to grow at rapid pace.
- CVs present challenges arising from GPs' dual fiduciary duties, necessitating competitive pricing and strong underwriting expertise.
- Success requires rigorous GP diligence, clear alignment of interest, and strong commercial understanding of the assets.

Continuation vehicles, once considered a niche strategy within the broader private markets landscape, have rapidly evolved into one of the sector's most dynamic and closely scrutinised developments. CVs are the predominant structure in General Partner-led secondaries, where a GP transfers one or more portfolio assets from an existing fund into a new vehicle. An increasing number of private market managers are recognising the strategic value of these transactions to extend ownership and drive further value creation in high-performing portfolio companies - without triggering a disruptive change in control. By partnering with new limited partners (LPs), GPs can remain invested in these businesses and seek to pursue additional value creation, while simultaneously offering existing investors an efficient liquidity solution.

In less than a decade, global CVs have quintupled in value, rising to \$75 billion in transaction volume in 2024.¹ In addition, CVs have expanded into other asset classes, such as private credit, where the private equity playbook is replicated, although with some nuances.

TABLE 1: GP-LED ANNUAL TRANSACTION VOLUME (\$BN)



Source: *Jefferies, 2025 Global Secondary Market Review: Another Record-Breaking Year*

¹ Jefferies, H1 2025 Global Secondary Market Review, July 2025

GPs increasingly use CVs to flexibly add capital to top-performing assets and align interests with LPs. In 2025, GP-led transaction volumes reached \$115 billion, a 53% increase from the year-ago, according to Jefferies.

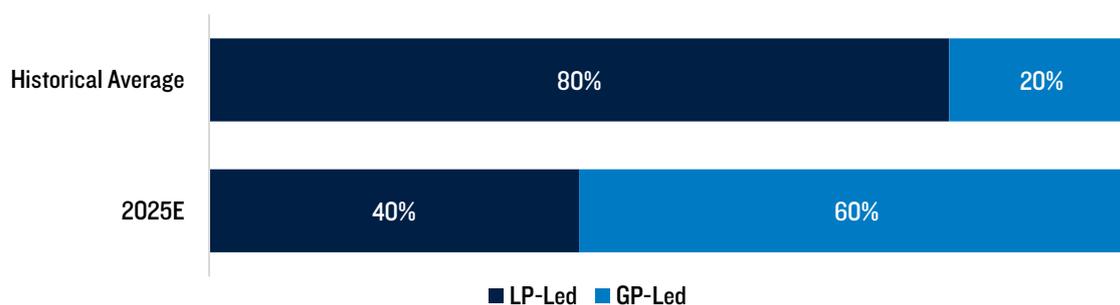
TURBULENT BEGINNINGS

CVs have had a rocky start. Following the global financial crisis, some underperforming private equity managers, unable to raise new capital, turned to CVs as a means of sustaining their businesses. These early vehicles were often associated with so-called “zombie funds,” where legacy assets were transferred to new structures, allowing managers to maintain fee streams. A turning point came in 2015, when reputable sponsors began launching their own CVs, with the focus on retaining high performing “trophy assets”. Single-asset continuation vehicles (“SACVs”) gained prominence in the subsequent years. By 2018/19, market sentiment had shifted decisively, with CVs increasingly recognised as vehicles for managing quality assets rather than distressed holdings.

The pandemic, subsequent inflationary spikes, and disrupted exit markets accelerated adoption, with 2021 proving to be the breakout year for the market with industry participants also using the infrastructure to include credit secondaries. As a result, credit secondaries, including both LP-led and GP-led transactions, represented only about \$2-3 billion of volume in 2020, but are expected to swell to a record \$14-20 billion in 2025. Credit-focused GPs have adopted the existing private equity framework at a faster rate, leading to a surge in credit CV volumes in 2025, expected to represent about 60% of total flow.²

CVs present attractive opportunities for private credit GPs, enabling continued support for high-quality borrowers they have known and followed for a number of years. This can offer a lower-risk alternative to new buyout transactions and is preferable to dividend recapitalisations, which can add leverage without enhancing business fundamentals, in some cases.

TABLE 2: PRIVATE CREDIT SPLIT BETWEEN LP-LED AND GP-LED TRANSACTIONS



Source: Campbell Lutyens, Secondary Market Overview Report, 1H 2025

SAME, SAME BUT DIFFERENT

Equity:

In LP-led transactions, investors sell stakes in private equity funds to generate liquidity or reallocate capital, often at a discount to NAV. GP-led deals, by contrast, allow existing investors to either cash out or roll into a new vehicle, with pricing typically closer to NAV, reflecting asset quality and long-term performance. From an asset perspective, a recent study by Evercore and HEC highlighted that SACVs usually show higher returns than multi-asset ones (“MACVs”) due to their higher risk profile.³ However, MACVs tend to return cash to LPs earlier, thanks to diversification.

Despite rapid growth, the secondaries market remains undercapitalised; the capital overhang ratio – the ratio of dry powder to the trailing 12-months secondary volume, was at a record-low 1.5 times in the first

² Campbell Lutyens, Secondary Market Overview Report, 1H 2025

³ November 2025, Secondaries Investor, Top-quartile CVs continue to prove their outperformance over buyout funds – Evercore, <https://www.secondariesinvestor.com/top-quartile-cvs-continue-to-prove-their-outperformance-over-buyout-funds-evercore/>

half of 2025.⁴ Several funds are expected to be raised next year, supported by strong investor appetite for secondaries strategies. One of the key attractions of the strategy is that investing in secondaries helps mitigate the so-called “J-curve effect” by acquiring established portfolios, avoiding the early-stage period when capital is raised before value is realised.

Credit:

The credit secondaries market has grown at a compounded annual growth rate of 46% since 2020, faster than the growth of the overall secondaries market.⁵

Private credit CVs enable investors to step into seasoned portfolios, often at a discount, which can shorten the time to income and reducing blind pool risk. While maturity profiles may appear straightforward, the lending structures behind them are often complex- spanning the gamut of SMAs, CLOs, BDCs, levered and unlevered funds, heaping pressure on GPs to generate cash flows.

To avoid borrower relationships being dictated by back-end liquidity pressures, GPs increasingly use CVs after the investment period or before the end of a fund’s term, offering flexibility during the harvesting phase. While buyouts of LPs are often targeted at or near NAV, most transactions occur at a discount, depending on market dynamics.

TABLE 3: SECONDARIES MARKET GROWTH (\$BN)



Sources: Evercore Private Capital Advisory, “FY 2024 Secondary Market Review” (February 2025) and Evercore Private Capital Advisory, “H1 2025 Secondary Market Review” (July 2025).

In private credit, GP-led transactions are dominated by direct lending, while mezzanine and special situations funds make up a comparatively small share. More broadly, large-cap direct lending CVs constitute a majority of the direct lending GP-led transactions. However, mid-market and lower mid-market managers are gradually gaining market share with analysts expecting a wave of mid-market GP-led deals starting in 2026.⁶

A key difference between CVs in the equity and credit markets is portfolio composition: equity CVs typically hold one or a handful of assets while credit CVs include multiple loans, sometimes numbering

⁴ Jefferies, H1 2025 Global Secondary Market Review, July 2025

⁵ Jefferies, H1 2025 Global Secondary Market Review, July 2025

⁶ Evercore Private Capital Advisory, “FY 2024 Secondary Market Review” (February 2025) and Evercore Private Capital Advisory, “H1 2025 Secondary Market Review” (July 2025), Evercore Private Capital Advisory, “H1 2025 Secondary Market Review” (July 2025). Dry powder as of June 30, 2025.

into hundreds. Geographically, North America is the dominant hub for GP-led secondary transactions followed by Europe.

PRACTICAL IMPLICATIONS

CVs have generated some controversy in recent years due to ethical considerations, not least from the perspective of the GPs, who often function as fiduciaries for both the selling legacy fund and the buying continuation vehicle.⁷ This dual role can create tension between the GP’s duty to maximise value for existing LPs and their own incentives to reset carried interest, extend management fees, retain control and maximise future value of high-performing assets - factors that may also enhance fund performance metrics (i.e., Distribution-to-Paid-In ratio) - before future fundraising efforts.

To mitigate risks, several guardrails have been established in the private markets. Competitive bidding processes involving third-party lead investors can help establish fair market pricing.

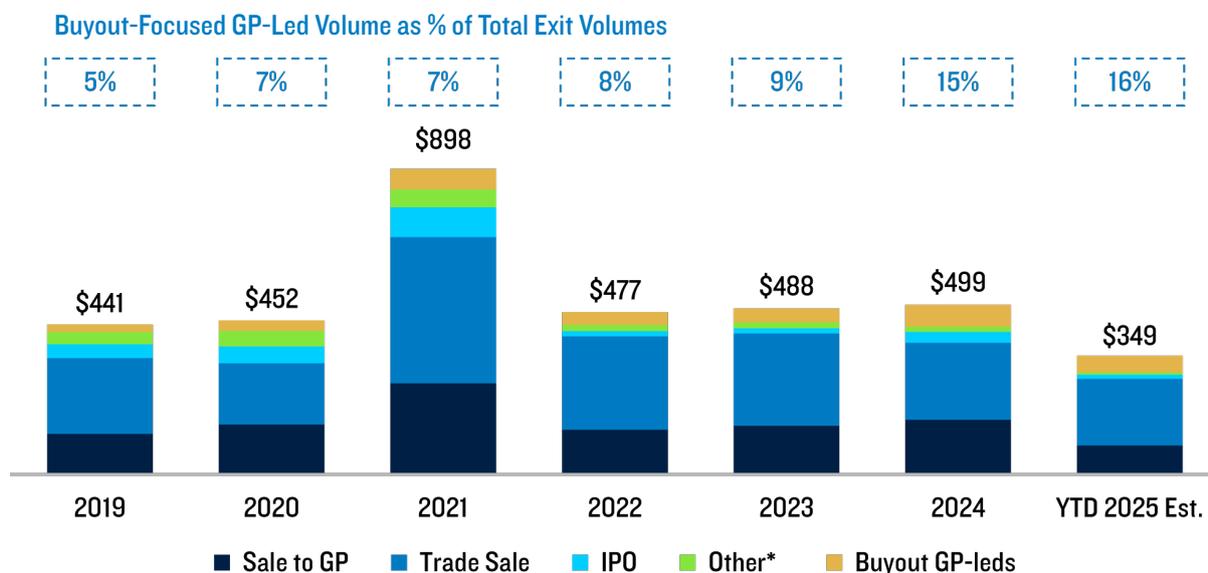
From an investment perspective, being able to successfully navigate conflicts of interest and partner with GPs that have their LPs best interests at heart requires strong CV underwriting expertise and robust knowledge of transaction dynamics. This includes but is not limited to thorough GP due diligence, clear rationale for the CV transaction and alignment of interests.

A significant GP commitment to the CV can be beneficial. For example, GPs can invest the crystallised proceeds earned from a previous fund and channel them into the CV in exchange for equity.

POISED FOR GROWTH

The growth of CVs has broader implications for the private market ecosystem. Fund-to-fund transactions – long a staple of buyout exits - have accounted for a significant share of deal activity over the past two decades. However, the rise of continuation vehicles is beginning to displace this deal flow, particularly in large and mid-sized deals, where such transactions have historically represented a primary source of new investments. This evolution is prompting larger buyout and secondary firms to launch dedicated continuation strategies.

TABLE 4: GLOBAL BUYOUT EXIT VOLUME (\$BN)



Source: Preqin data and PJT Market Intelligence.

*Other includes Bankruptcy / Write-off, Private Placement / Follow-on, Sale to Management, Unspecified Exits, etc.

⁷ CFA Institute, September 2025, Continuation Funds: Ethics in Private Markets

Credit secondaries transactions often involve sponsors with deep familiarity with the assets, optimised management teams, and clear performance metrics - factors that significantly de-risk the credit underwriting process. Moreover, investors typically gain exposure to seasoned, cash-flowing loans, which may reduce early default risks and allowing performance to be assessed in the current market environment.

The deals executed in recent months offered favourable terms and pricing, with access to robust data and well-run companies against the backdrop of a sustained rise in global private credit AUM. For example, less than 1% of private credit AUM is transacted on a secondary basis, compared to 2-3% in private equity, highlighting significant potential.

Experienced asset managers in direct lending and secondaries may possess advantages in mid-market transactions, where competition is limited and pricing power is stronger. In conclusion, there are many nuances to a secondaries transaction, and being able to grasp them fully and structure a deal that works for both buyer and seller is of paramount importance.

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