Spotlight on Secondaries: The rise of continuation vehicles

Continuation vehicles provide managers with a flexible option to retain valuable assets while navigating volatile markets, an attractive option in current market conditions. As the use of continuation funds continues to rise, it's important to understand the operational, regulatory and compliance aspects which need to be observed to ensure continuation funds are set up and run smoothly, as Matt Horton, Peter Blackburn and Ore Adegbotolu explain.

Commentators had predicted an uptick in private markets fundraising as we entered 2026. While some metrics do point to slight increases, geopolitical risks have elevated uncertainty, with the resulting market volatility leading many GPs and LPs alike to adopt a 'wait-and-see' approach. This is likely to serve as a stimulant to further demand for the already buoyant secondaries market, which is an increasingly popular method of providing investment and liquidity options for fund managers and investors. We're seeing this surge in the use of continuation vehicles across our client base.

Global deal volume in secondaries reached $240 billion in 2025, more than a 48% increase on 2024 numbers.According to Lazard's Secondary Market Report 2025, of the secondaries deal volume completed last year, GP-led secondaries reached $116 billion, with the most common strategy by a large margin still buyouts. Making up 77% of GP-led deals, single and multi-asset continuation funds dominated in 2025, far out-pacing preferred equity and strip sale transactions. This is to be expected in a volatile market where secondaries investors are keen to buy – or maintain – stakes in mature assets with tried and test business models.

GPs use continuation vehicles to keep hold of either a trophy asset or a basket of portfolio companies that still have value creation potential through a separate structure. This allows them to avoid having to sell in a hostile market, while also providing liquidity options for LPs. Continuation vehicles also offer flexibility for GPs as the private markets landscape diversifies.

While continuation vehicles have traditionally been a tool for private equity managers, they are increasingly used in other asset classes, like private credit and infrastructure. As an example, increasingly, fund managers holding onto high-performing assets is driving up GP-led secondaries activity, with Infrastructure Investor's LP Perspectives Study 2025 reporting that 84% of respondents said they have seen an increase in infrastructure continuation vehicles coming to market, and that they didn't expect this trend to slow, even as market conditions changed.

The evolution of continuation funds

Continuation vehicles are not new. In the past GP-led secondaries, known at the time as 'GP-led restructurings', were used by managers to transfer struggling assets out of funds and give them more time to improve their performance. This resulted in these structures gaining a stigma in the market and being seen as an indication of an underperforming GP.

Several pioneering managers then realized that these structures offered something that has been lacking in traditional limited partnership funds; options. In difficult dealmaking conditions, GPs have the option to keep hold of high-performing and/or high-potential assets led by management teams they know well. This approach also ensures that the GP is not forced to exit an attractive investment at an undesirable price but can instead extend the holding period to maximize returns. The conviction that GPs have in these deals is reflected by the fact that they often roll a significant portion of their carried interest into the continuation vehicle, aligning themselves with the continued success of the assets.

As well as extending holding periods, continuation vehicles also solve another problem that GPs face towards the end of a fund's life; liquidity. At this stage, with the majority of capital drawn, options for portfolio companies that need additional capital are limited. A continuation vehicle specifically addresses this issue, as they can raise additional capital earmarked for that business. This is because traditionally in the latter stages of a fund, GPs have only one option to create liquidity for LPs, through distributions following the sale of assets.

In addition to the positives that these deals can provide for GPs, they also offer LP benefits. LPs in the existing fund are given the choice of either taking liquidity by crystalizing gains from the asset to date, or rolling into the continuation fund. By rolling, LPs gain continued exposure to assets they know well and reinforce their relationship with the GP. For these LPs there is often a status quo option, through the ability to maintain their existing economics in the new fund.

The third type of LP in this process are incoming LPs investing in the continuation vehicle for the first time, who get full visibility of the asset. Beginning a new GP relationship that has a shorter-term return time might fit their strategy. We have found among our clients, that for GPs this can be an effective way to attract new capital from an investor base it hasn't necessarily accessed before and can create long-lasting relationships with those new investors.

Challenges for GPs to consider

With a single GP being both the buyer and seller in these transactions, there is the potential for conflicts of interest to arise and GPs must be diligent about resolving these.

In launching a continuation vehicle a GP will typically need approval from the LP Advisory Committee of the existing fund. Engagement at an early stage is key, showing transparency and alignment with the interests of their LP base. Clearly communicating the financial and commercial logic for a transaction will greatly increase the chances of a deal succeeding.

Possibly the most contentious area to consider is pricing. Since GPs are on both sides of the transaction, they need to show their current LPs – whether exiting or rolling – and incoming LPs, that the price discovery process has been fair and transparent. This can be done through a range of strategies, from running an auction process to soliciting competing offers, to appointing a panel of independent experts to provide a fair valuation.

A checklist for GPs:

1. **Conflict of interest:**

Acting as both buyer and seller – GPs face a natural conflict as they are both selling assets from an existing fund and buying them back through the continuation fund, so they need to be transparent throughout the process.

Economic incentives – how bids are made, whether the GP receives economic incentives, and the treatment of carried interest can all create conflicts.

LP Advisory Committee (LPAC) – GPs need approval from the LPAC if there are amendments to the existing Limited Partnership Agreement (LPA).

2. **Structure and terms:**

Complex structure – different vehicles and capital deployment strategies require specialized skills.

Fees and carry – fees and carry structures need to reflect ongoing work required and incentivise eventual exits.

Pricing – determining a fair price for assets can be challenging and potentially contentious, especially in a volatile market where the bid-ask gap is wider.

Exit or reinvestment options – provide clear exit or reinvestment options for existing investors, and incentives for new investors to join.

Legal and tax Implications – understanding and communicating all legal and tax implications to investors makes for a smooth and successful transaction.

3. **Managerial duties:**

Fiduciary duties – GPs are subject to general fiduciary duties, as well as duties under the fund's governing documents (e.g., LPA, management agreement).

Ongoing management – the continuation fund will require ongoing management, and GPs need to ensure they have the expertise and resources to manage the fund effectively.

Experience – establishing a continuation fund is a complex process requiring a high level of expertise.

Administrative considerations:

Continuation vehicles require operational support to form the new structure, while there will be some degree of rotation with some LPs needing to exit, there will be new LP's to be onboarded. In addition to the due diligence and AML/KYC considerations this brings, perceived or potential conflicts of interest must be resolved, as well as agreeing carried interest calculations and fee structures. While GPs need to focus on sourcing new LPs for these vehicles, the attendant administration, reporting and compliance can be squared away by their current partner.

Continuation vehicles are now firmly established as a legitimate exit route for managers and LPs, as well as providing more options in a diversifying private markets landscape, not only for GPs but for different classifications of investors looking for access to private markets returns. They provide an attractive option for GPs to retain investments and still deliver liquidity to LPs amid volatile market conditions such as these.