Perspectives

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Continuation Vehicles: Worth the Wait?

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Over the past decade, continuation vehicles ("CV") have become one of the fastest-growing trends in private equity. Private equity funds typically have a fixed lifespan, often around ten years. During that period, the fund buys companies, works to improve them, and ultimately sells them to generate returns for investors. However, not every company reaches its full potential within that timeframe. In fact, there has been much ado about "Zombie" portfolio companies as aging assets face limited and increasingly challenging exit opportunities.

A CV allows a private equity manager, or general partner ("GP") to continue owning a company beyond the life of the original fund. The GP transfers the company into a newly created investment vehicle and raises new capital from investors to purchase interests from those who opt for liquidity. Existing investors can choose to sell and receive cash or remain invested in the company through the new structure.

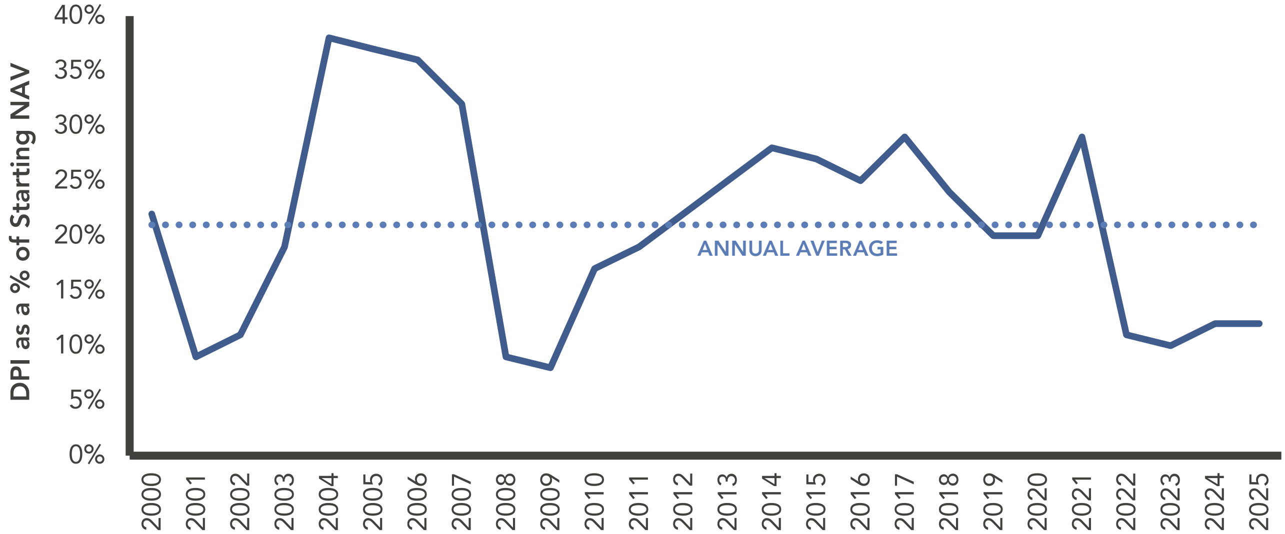
Once considered a niche solution, CVs have become a mainstream feature of the private equity market. Supporters argue that they allow GPs to maximize value by giving strong companies more time to grow. Critics counter that they introduce conflicts of interest and make it harder to assess whether investors are receiving fair value. As use of these structures continues to expand, investors should understand both the benefits and the risks before embracing them as a permanent solution to today's liquidity challenges.

WHY HAVE CONTINUATION VEHICLES BECOME SO POPULAR?

The rise of CVs is largely a response to a difficult environment for selling private companies, as we discussed in "To CV or Not to CV." Historically, private equity firms relied on three primary exit routes: selling a company to a strategic acquirer, selling it to another private equity firm, or taking it public through an initial public offering (IPO). Over the past several years, however, higher interest rates, valuation uncertainty, and weaker IPO activity have made traditional exits more difficult. As a result, many firms have struggled to return capital to investors at the pace they expected.

CVs provide an alternative. Rather than selling a company during an unfavorable market, the GP can maintain ownership while still providing liquidity to investors who want it. This flexibility has become increasingly attractive in a market where distributions to investors have remained below historical norms.

Exhibit 1: Distributions have remained below historic averages for four years in a row



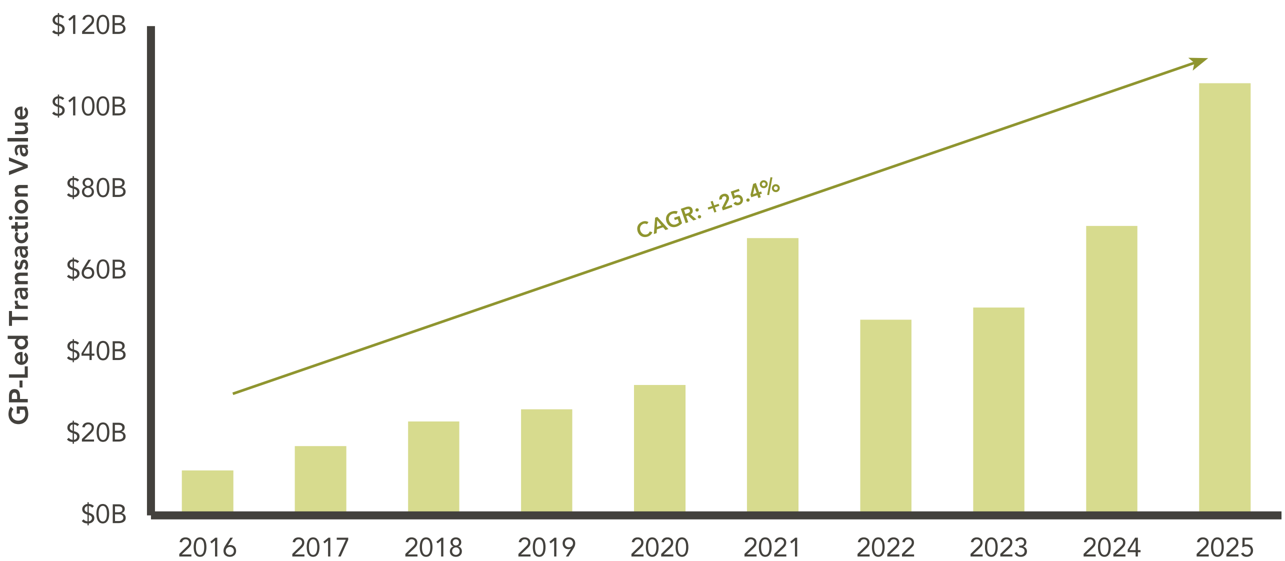
Source: SPI StepStone as of April 2026

A secondary reason for their growth is that many private equity-owned companies are simply taking longer to mature. Technology adoption, international expansion, acquisitions, and operational improvements often require more time than the traditional private equity holding period allows. CVs enable GPs to pursue these opportunities without being forced to sell prematurely.

THE RAPID GROWTH OF THE MARKET

The growth of CVs has been remarkable, more than 25% CAGR over the last 10 years in terms of transaction value, exceeding $100 million in 2025. CVs have become an increasingly important source of liquidity for investors and account for a growing share of private equity liquidity events.

Exhibit 2: CVs exceed $100B, becoming a key source of liquidity



Source: Evercore PCA 2025 Secondary Market Report

The broader secondary market, where investors buy and sell existing private equity interests, also reached record levels. Evercore estimated total market volume at $226 billion in 2025. This growth reflects rising demand for liquidity, increasing acceptance of CVs, and a growing pool of investors willing to finance these transactions.

BENEFITS OF CONTINUATION VEHICLES

The primary benefit of CVs is flexibility. Investors often have different needs. Some may want immediate cash to fund other commitments, rebalance their portfolios, or address liquidity needs. Others may believe the company still has substantial growth potential and prefer to remain invested. CVs allow both groups to achieve their objectives.

These structures can also help maximize value. If a company continues to perform well and the GP sees opportunities for additional growth, extending the holding period may generate better long-term outcomes than forcing a sale simply because the original fund is reaching the end of its life.

For new investors, CVs offer another advantage: they provide exposure to businesses with established operating histories. Unlike a traditional private equity fund, where investors commit capital before knowing which companies will be acquired, otherwise known as "blind pool risk", CV investors can evaluate a specific company with years of financial results and operating data. This can reduce some of the uncertainty associated with private equity investing.

The market has also developed stronger governance standards over time. Independent advisors, fairness opinions, competitive auctions, and increased investor oversight have become more common and have begun to improve confidence in the process.

IMPORTANT CONSIDERATIONS

Despite these advantages, the use of CVs also raises significant questions.

One of the key concerns is conflict of interest. As mentioned above, there has been progress toward addressing these, but more work needs to be done. In a CV transaction, the GP is effectively on both sides of the deal. The manager oversees the fund selling the company and the new vehicle purchasing it. This creates an inherent conflict because the GP plays a role in determining the transaction's terms and valuation.

This leads us to consideration number two: Valuation. Because private companies are not traded publicly, determining a fair price can be difficult. Investors must rely on financial models, comparable company analyses, and independent advisors. While these safeguards help, reasonable people can still disagree about what a company is worth.

A third challenge is complexity. Investors are often asked to make a "sell or stay invested" decision within a relatively short period. Doing so requires reviewing financial information, understanding the company's future prospects, and evaluating the terms of the new vehicle. Not all investors have the resources or expertise necessary to conduct this level of analysis quickly.

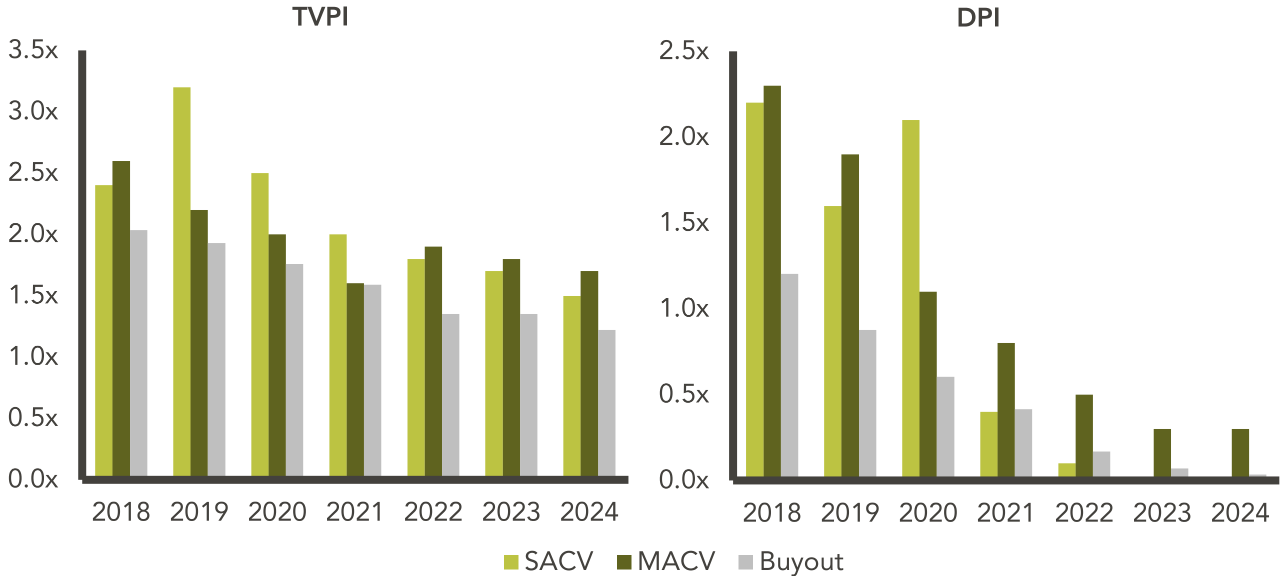
CVs can also extend investment timelines. Investors may enter private equity expecting capital to be returned after a certain number of years. By creating a new vehicle and extending ownership, CVs can delay final liquidity events and alter expected cash flow patterns. Some industry observers have noted that this changes the traditional role of private equity and secondary investments within an overall portfolio.

Finally, investors should carefully assess fees and incentives. Research has shown that CVs often establish new fee arrangements and performance incentives for managers. While these structures may support ongoing value creation, investors need to determine whether the economics remain attractive after accounting for additional costs. While rare, there is a cohort of general partners engaging in the creation and use of CVs that recognize the less than favorable optics a new economic structure may create and have opted to offer a status quo option — existing LPs continue with the current fee structure levied on the asset.

PERFORMANCE

CVs have generated attractive returns since the market began scaling in 2018, according to an independent study by Professor Oliver Gottschalg's team at HEC Paris covering 396 continuation funds formed between 2018 and 2024. The study found that CVs have generally performed as well as, and in some cases better than, traditional private equity buyout funds, while exhibiting less variation in outcomes across funds. Median total value multiples (a measure of investment growth) ranged from approximately 1.4x to 2.1x across vintages, with older funds naturally showing higher realized returns as underlying companies had more time to mature and be sold. Importantly, the data suggests that CVs have delivered consistent performance across different geographies, sectors, fund sizes, and portfolio structures.

Exhibit 3: CVs have matched or exceeded buyout performance with less volatility



Source: Q4 2025 Continuation Fund Performance Report; data derived from the independent continuation fund performance study by Professor Oliver Gottschalg's team at HEC Paris
Buyout Benchmark as of December 31, 2025: MSCI NA+European Buyout
DPI (Distributed to Paid-In): The proportion of the called capital that has been distributed or returned to LPs. This will include cash and stock distributions, with the latter being valued as at the date of distribution and treated in the same way as a cash distribution.
TVPI (Total Value to Paid-In): The multiple of total value received and remaining value held by an LP, relative to its total capital invested. TVPI includes distributed cash and securities plus the value of the LP's unrealized interest. Because it does not account for the time value of money, it cannot be used to compare how quickly different partnerships generate returns.

The primary driver of performance appears to be asset selection. Unlike traditional buyout funds that invest in a portfolio of new companies, CVs are typically created to retain ownership of businesses that private equity managers already know well and believe have further upside potential. The Gottschalg study highlights a positive selection bias, as managers tend to place their strongest-performing portfolio companies into CVs rather than selling them outright. This ability to "buy again" high-quality assets has contributed to strong returns, particularly among top-performing single-asset CVs ("SACV").

Diversification also plays an important role. Multi-asset continuation funds ("MACV"), which own several companies rather than a single business, tended to return cash to investors earlier because realizations were spread across multiple assets. SACVs, while sometimes taking longer to monetize, demonstrated greater upside potential when the underlying company continued to grow and compound value over an extended holding period. As a result, investors can often choose between a more diversified, cash-yielding profile and a more concentrated, higher-upside profile depending on their objectives.

When compared with traditional buyout funds, CVs produced similar overall value creation but with lower return dispersion, meaning outcomes were somewhat more predictable across funds. The study suggests this is partly due to the mature nature of the underlying companies and the extensive knowledge that managers possess about assets they have already owned and operated for years. As the CV market has expanded from a niche solution into a mainstream source of private equity liquidity and capital formation, the evidence from 2018–2024 indicates that the combination of careful asset selection, operational familiarity, and extended holding periods has been the key contributor to performance.

While early performance data is encouraging, the CV market remains relatively young, and many funds are still unrealized. As a result, evaluating CVs requires not only an assessment of quantitative outcomes but also careful qualitative judgment regarding asset quality, GP alignment, transaction structuring, governance, and value creation potential.

WHY WE RECOMMEND CONTINUED CAUTION

CVs have clearly addressed a real need in private markets. They provide flexibility, offer liquidity during difficult exit markets, and allow private equity firms to continue developing attractive businesses. Their rapid adoption suggests they are likely to remain an important part of the industry for years to come.

However, continued growth should not be confused with universal success. Every CV is different, and transaction quality can vary significantly. Investors should carefully evaluate the rationale for the transaction, the quality of the underlying company, the fairness of the valuation, and the alignment of interests among all parties involved.

In our view, CVs should be viewed as a useful tool rather than a default solution. The best transactions can create value for both exiting and continuing investors. The weakest transactions may simply postpone difficult decisions or introduce unnecessary complexity and conflicts. As a result, independent valuation, transparency, robust governance, and thorough due diligence remain essential.

CONCLUSION

CVs have emerged as a key tool in private equity, providing liquidity and portfolio management flexibility when traditional exits are challenging. As their use continues to grow, successful outcomes will depend on greater transparency, strong GP-LP alignment, and disciplined underwriting, with investors evaluating each transaction on its individual merits rather than viewing CVs as a uniformly attractive opportunity.

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