Challenges For Managers In Navigating Continuation Funds

By **Jason Larkins** (August 6, 2025)

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Continuation vehicles, or CVs, have experienced exponential growth in recent years, becoming an increasingly popular tool for managers, i.e., the sponsor, of closed-ended private equity funds, including real estate or infrastructure funds, looking for an alternative to the traditional exit routes for investments.

In June, PitchBook reported that total capital raised for continuation funds this year was already at 68% of last year's record level.[1]

The increased prominence of CVs has been particularly evident in recent months, with TDR Capital LLP reported to be nearing a £2 billion ($2.7 billion) transaction to extend its ownership of health club chain David Lloyd Leisure,[2] while PAI Partners has launched a continuation fund process valued at substantially larger than $1 billion, with respect to its investment in ice cream maker Froneri International Ltd.[3]

The latter is an example of a so-called CV-on-CV process — itself an emerging phenomenon — with Froneri having previously been moved into a multiasset continuation vehicle in 2019.

This is not only a solution being deployed to protect a so-called trophy asset in single-asset processes. Earlier this year, leading European midmarket private equity firm, Inflexion Private Equity Partners LLP, announced the successful close of the largest multiasset continuation fund raised in Europe to date, at £2.3 billion,[4] and was quickly followed by buyout firm Norvestor Equity AS closing a multiasset continuation fund on approximately €2.5 billion ($2.9 billion).[5]

In this article, we will briefly outline how CVs work and the reasons behind their emergence, before delving into the practical and legal issues to consider, with a particular focus on those issues regarding existing debt facilities secured at the asset level that may affect either the sponsor or any lenders to the investment.

What Is a CV?

Closed-ended funds, by their nature, have a fixed lifespan — typically 10 years — in which to acquire, develop and realize investments. While this provides certainty to the fund's investors, being the limited partners, or LPs, on a timeline for returns, the preordained timeline will not necessarily mirror the optimum market conditions in which to realize an investment while maximizing said returns.

It may also force the sponsor to realize an investment when it recognizes that there is still significant opportunity for further value creation, again, forcibly limiting potential returns.

CVs provide a solution in which the sponsor can preserve its exposure to one or more assets, beyond the agreed lifespan of the fund or funds. In a continuation vehicle structure, the sponsor will transfer an asset, i.e., the CV investment, from its existing fund to a newly established CV, also managed by the sponsor.

The LPs in the existing fund have the option to either reinvest their commitment into the CV, often described as rolling over, or to cash out — a partial sale option may also be offered — on the sale by the existing fund of the CV investment to the CV.

New LPs, often secondary funds, will also usually come into the CV to provide additional capital. Any existing LPs that have reinvested into the CV might also have the opportunity to increase their commitments to the CV. New investors and rollover investors may be subject to different terms, creating multiple investor classes.

Rise of CVs

The number of CVs has increased significantly over the last four years as private equity funds have used CVs as an alternative to realize investments, with a particular influx of single-asset CVs.

Preqin notes that 2024 was the first time that the split between multiasset and single-asset had swung toward single-asset transactions, albeit only by one transaction.[6]

As already alluded to, the CVs in the current market are typically established for either the trophy assets of the existing fund, where the sponsor sees a further upside in holding the assets for longer, or where the current lifespan of the existing fund will not achieve the optimal outcome on exit of the relevant assets.

This effect has become more pronounced in light of the macroeconomic backdrop of recent years, including interest rate increases, a slower merger and acquisition market and near-stagnant capital markets.

Key Considerations — General

As CVs have become more commonplace, increasingly detailed guidance has been published on suggested parameters for a well-run transaction that aligns and benefits the sponsor and the LPs.

Most notable is the Institutional Limited Partners Association's continuation funds article on considerations for LPs and general partners, first published in 2023.[7] This article draws attention to two key principles.

Pricing Conflict and Asset Valuations

As the sponsor is on both sides of the transaction in a CV structure — as both buyer and seller — the sponsor will need to manage that conflict of interest carefully, particularly the inherent pricing conflict between those LPs that want to cash out, and those that want to reinvest into the CV.

Continuation fund transactions should maximize value for existing LPs and rolling LPs should be no worse off than if a transaction had not occurred.

The sponsor will also need to manage any potential conflict between its own interests and those of the LPs. For that reason, and to ensure sufficient interest among new and existing LPs for the CV, it is critical that the sponsor sets the right economic terms to ensure alignment of interests.

Economics and Key Terms

The sponsor will need to demonstrate alignment and retain exposure to the CV investment — this is usually achieved by rolling any crystallized carried interest the sponsor has earned in the existing fund into the CV.

Typically, 100% of crystallized carry will be rolled into the CV, but in scenarios where the sponsor does not roll all the accrued carried interest, it should provide a detailed explanation as to why not and outline any other incentives for the CV.

The sponsor may also be required to put in new money. The size of the sponsor's commitment to the CV will be a particular focus for LPs — and asset-level lenders who are lending to the CV investment — where the existing fund is not yet in carry and the sponsor does not therefore have carried interest to roll into the CV.

The current average term of single-asset CVs is 4-5 years with two one-year extension periods.

Key Considerations — Asset-Level Debt

Given the prevalence of leveraged financing, it is highly likely that any CV investment will have existing debt facilities in place. With CV processes often run at speed, the sponsor and any asset-level lender to the CV investment will need to consider the following in connection with the transfer of that CV investment from the existing fund to the CV.

Change-Of-Control Implications

Provided sponsors have their change-of-control parameters linked to affiliates or related funds, change-of-control triggers are less relevant given that the sponsor manages the CV. Asset-level lenders will be more concerned with ensuring the sponsor remains invested in the CV and the CV investment, and that the sponsor retains control of the CV, through the general partner and/or limited partner agreement controls.

Skin in the Game

Asset-level lenders will want to ensure the sponsor remains invested in the CV and the relevant CV investment, and so will be focused on rolled carried interest and the level of sponsor reinvestment, particularly where the sponsor does not yet have carried interest to roll into the CV.

Cash Leakage

Given the so-called sale of the CV investment to the CV, lenders will be focused on identifying and minimizing cash leakage — particularly understanding whether any group cash is used to fund exit fees, transaction costs, and any leaver payouts or management bonuses.

Equity Arrangements

Existing shareholder agreements will need to be terminated, and new equity documents will need to be entered into.

Where relevant, lenders may need comfort that key sponsor controls are retained over the CV investment. Sponsors will also need to ensure they have permissions to pay any increased monitoring or similar fees, and/or holding company expenses on an ongoing basis.

Tax Implications

All parties will need to take comfort that the tax and value-added tax implications of the CV transaction are thoroughly considered, generally through a detailed steps paper or structural memorandum shared with lenders.

Group Structuring or Reporting

To avoid any wholesale changes to the so-called banking group, sponsors should take care to make as few changes to the banking group structure as possible and ensure consolidated reporting remains at the level existing prior to the CV transaction.

Futureproofing

Given the extended lifespan of a CV, parties may need to consider whether the fund requires extension of debt facilities, refinancing or ensuring the debt is portable on any future sale. Any post-completion reorganization steps will also need to be discussed between parties and ideally prebaked into lender consents provided at the time of the CV transaction.

Conclusion

CVs have clearly become an important tool for sponsors and with the increased capital now available in the secondaries market, it is likely that they will remain so for some time to come. These highly bespoke transactions present unique challenges and need to be approached on a deal-by-deal basis.

Sponsors and lenders alike should be confident that they understand the structure and drivers of the CV transaction in hand, as well as their existing debt arrangements and how the two interact.

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[1] https://pitchbook.com/news/articles/europes-continuation-funds-surge-faces-growing-scrutiny-over-asset-quality.

[2] https://news.sky.com/story/david-lloyd-leisure-owner-tdr-capital-close-to-finalising-2bn-sale-13394012.

[3] https://www.secondariesinvestor.com/pai-partners-seeks-cherry-on-top-with-second-cv-for-ice-cream-maker/.

[4] https://www.inflexion.com/news-and-insights/news/2025/inflexion-closes-23-billion-continuation-fund/.

[5] https://www.norvestor.com/news/norvestor-viii-norvestor-spv-ii-divest-phm-group-sperre-air-power-to-funds-managed-by-norvestor.

[6] https://www.preqin.com/insights/research/blogs/the-rise-of-continuation-funds-gps-seek-solutions-to-lp-liquidity-issues.

[7] https://ilpa.org/resource/continuation-funds-considerations-for-limited-partners-and-general-partners/.