REPORT

CAPITAL MARKETS

CFA Institute Research & Policy Center

Continuation Funds: Ethics in Private Markets, Part I

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Executive Summary

To understand continuation funds is to appreciate key forces and issues shaping private markets. This report provides an unbiased understanding of what continuation funds are, what has driven their dramatic growth, and what they tell us about private markets. It also explains both the heightened conflicts of interest arising in continuation funds and mechanisms to address them.

A continuation fund is a private fund that acquires one or more assets from a preexisting private fund. The manager of the older fund manages the new fund, gaining an expanded investment timeline and the opportunity to reset key economic terms. In addition, the transaction usually brings in fresh capital for the new fund. Investors in the older fund can either gain liquidity by selling their interests or roll them into the new fund. An estimated 80%–90% of legacy investors choose to cash out and are replaced by a new investor base.

Continuation funds have gained significance in private markets by meeting the increasingly pressing need for liquidity. Traditional sources of liquidity—mergers and acquisitions (M&As) and initial public offerings (IPOs)—have been depressed in recent years, and continuation funds have emerged as an important alternative. During the past five years, global continuation funds have nearly tripled in value, rising to an estimated USD63 billion in transaction volume in 2024. (Jefferies 2025, p. 7). Growth is expected to continue, propelled by an exit overhang in private funds of 29,000 unsold portfolio companies with an estimated value of USD3.6 trillion. (Bain & Company 2025, pp. 17–18.)

The trajectory of continuation funds is a story of their remarkable turnaround, from a reputation associated with “zombie funds” to a repository of trophy assets. For all their benefits, however, continuation funds raise fundamental conflicts of interest. The manager sits on both sides of the continuation fund transaction and owes fiduciary duties to both buyers and sellers. Moreover,

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the manager has its own financial incentives, which can potentially become misaligned with the interests of the legacy fund, the continuation fund, and their respective investors. Some skeptical investors dismiss continuation funds as a "transfer of economics" (i.e., financial benefits) from investors to managers.

One key to addressing these conflicts of interest is for the manager to conduct a fair process in creating a continuation fund. This report recounts the competitive bidding process that the private fund manager and its agent set up to select a lead investor and negotiate with that investor to determine the price.

This report is based on insights from interviews with a diverse range of private market investors, managers, and other experts. It is written for an audience of investment professionals—investors and fund managers alike—as well as financial journalists, policymakers, and others interested in understanding how private markets work. The report comes at a particularly pertinent time, as policymakers focus intently on whether and how to expand retail access to private markets. An appendix describes the emergence of evergreen retail funds that invest in private markets and traces their impact on both continuation funds and other components of secondary private markets.

Key Findings

- This report, the first part of a series on ethics in private markets, presents an **unbiased explanation of what continuation funds are and how they work,** based on insights from interviews with senior market practitioners and other experts.
- **The need for liquidity** has been the most important driver of continuation funds, also called continuation vehicles (CVs). With a drought of traditional exits (mergers and acquisitions and initial public offerings), continuation funds have emerged as an important alternative source of liquidity. They grew to an estimated USD63 billion in transaction volume in 2024.
- CVs have accomplished **a remarkable transformation in reputation**, from an association with "zombie funds" to a perceived repository of trophy assets.
- **A fair process** in establishing the CV is critical for its legitimacy. The process involves a competitive bidding process to determine a lead investor and negotiations between the general partner (GP) and the lead investor to determine the price. Limited partners (LPs) in the older fund can choose to cash out or roll their interests into the new fund. Rolling LPs should be, but often are not, given a status quo option to retain the same economic terms of their investment.
- Continuation funds raise **heightened conflicts of interest** for the GP. The GP serves as the fiduciary for both sides of the same transaction—the continuation fund (the buyer) and the legacy fund (the seller). In addition, the GP has strong financial incentives to launch a CV, including the opportunity to prolong management fees, reset economic terms, and raise its equity stakes in what it believes are high-performing assets. Conflicts of interest also can arise among different LPs, illustrating their differences in size, resources, negotiating clout, and investment objectives.
- Governance mechanisms exist to address the conflicts, including requirements for the GP to obtain a conflict-of-interest waiver from the limited partners' advisory committee (LPAC) of the legacy fund. Nonetheless, some of the investment professionals interviewed for this report voiced skepticism about CVs, maintaining that they serve the interests of the GP and not those of the LPs. Other LPs, however, seem happy to take the liquidity that CVs offer.
- Continuation funds illustrate key forces shaping private markets and hold timely lessons for market participants and policymakers. The increasing importance of CVs comes as new evergreen funds become available for retail investors and as policymakers in multiple markets consider further expanding retail access to private markets.

Terminology

The Continuation Fund and Related Terms

Continuation fund: A private fund that acquires one or more assets from a previously existing private fund managed by the same GP. Continuation funds are one of the main types of GP-led secondary offerings.

Continuation vehicle (CV): A continuation fund. This report uses the terms interchangeably.

Legacy fund: A previously existing private fund that supplies the assets to the continuation fund. The legacy fund is called a *primary fund* to distinguish it from the continuation fund.

Secondary fund: Generally, a fund that makes investments in the secondary market. (See the next section for examples of secondary market offerings.) A continuation fund is one type of secondary fund. Another type is a fund-of-fund that is formed for the purpose of making a variety of investments in the secondary market, such as investments in continuation funds and LP-led offerings (i.e., the LP's sale of its interests in a primary fund). To distinguish continuation funds from these funds-of-funds, this report uses the term "secondary fund" exclusively to refer to the latter.

Single-asset continuation vehicle (SACV): A fund that holds just one asset.

Multi-asset continuation vehicle (MACV): A fund that holds multiple assets but typically fewer than a primary fund holds.

Investors and Managers

Fund sponsor: A company that is in the business of establishing private funds, raising capital from eligible investors (mainly institutional investors), and supplying the general partner that manages the private fund.

General partner (GP): The legal entity responsible for making the investment and operational decisions of a private fund. The GP consists of a management team that selects the assets in which the fund invests (often acquiring control), develops the assets to increase their value, and disposes of them to realize a profit for the fund, which is distributed to the LPs and the GP.

Limited partners (LPs): The passive investors in a private fund, who commit capital but do not manage the fund. LPs consist mainly of pension funds, endowments, insurance companies, family offices, and very high-net-worth individuals. Secondary funds that invest in another private fund are LPs of that fund.

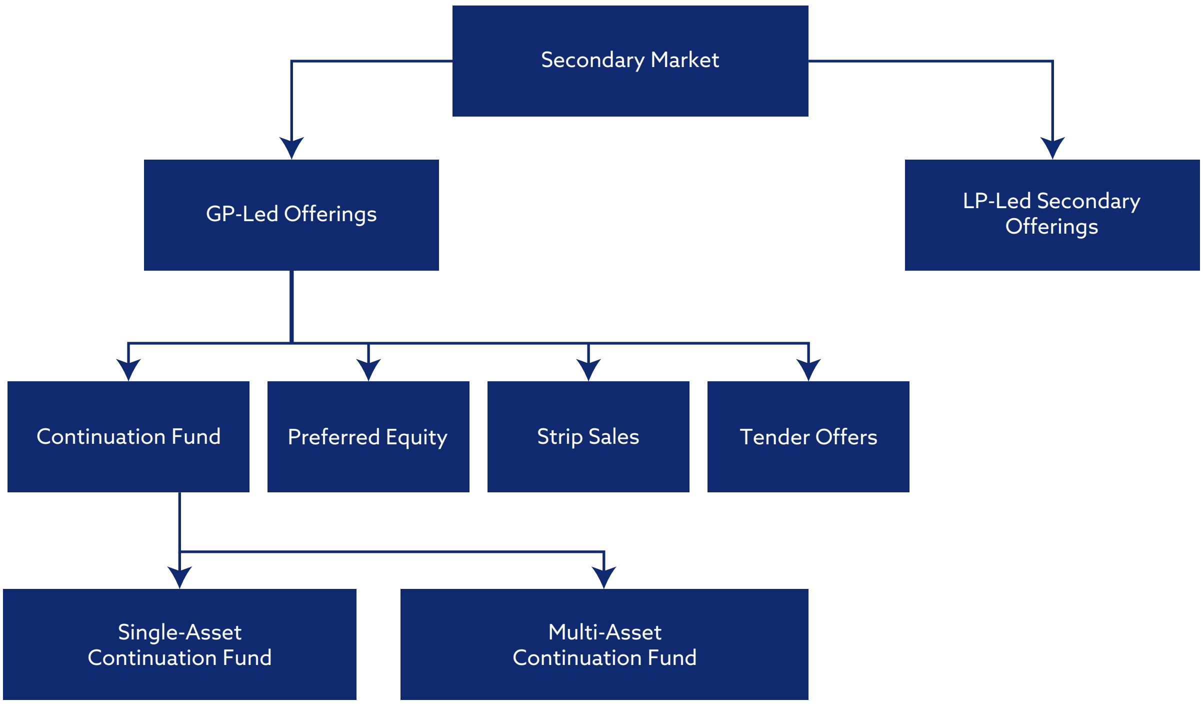
Limited partners' advisory committee (LPAC): An advisory board to a private fund consisting of select LPs, which are typically large and sophisticated investors. Many private funds require the GP to obtain a conflict-of-interest waiver from the LPAC as a precondition to establishing a continuation vehicle.[1]

LP-led secondary offering: The sale by an LP of its interests in a particular private market fund to another investor in the secondary market.

Where Continuation Funds Fit in Private Secondary Markets

Before delving into the fundamentals of continuation funds, it is helpful to have a clear picture of their place in the secondary market as a whole. As **Exhibit 1** shows, the private secondary market can be divided into two basic types of transactions: those led by the GP and those led by an individual LP. GP-led

Exhibit 1. Private Secondary Market Structure



[1]As the US Securities and Exchange Commission (SEC 2023) explains: "A fund's LPAC or board typically acts as the decision-making body with respect to conflicts that may arise between the interests of the third-party investors and the interests of the adviser [the GP]. In certain cases, advisers seek the consent of the LPAC or board for conflicted transactions, such as transactions involving investments in portfolio companies of related funds or where the adviser seeks to cause the fund to engage a service provider that is affiliated with the adviser."

transactions include continuation funds, preferred equity,[2] strip sales,[3] and tender offers.[4] LP-led transactions include the sale by an LP of all or part of its interests in a particular private market fund to a secondary buyer, such as an asset owner or secondary fund.

Continuation Funds: What They Are and What Is Driving Their Growth

A continuation fund is a private fund that acquires one or more assets from a preexisting private fund. The GP of the older fund also manages the new fund.[5] The older fund is called a legacy or primary fund. The new fund is called a continuation fund or a continuation vehicle (CV), and this report uses the terms interchangeably. A continuation fund is established when it purchases assets from the legacy fund in a purchase–sale transaction.

Why does the GP go to the trouble to establish the continuation fund? Why not just keep the asset(s) in the older fund? A CV offers several advantages, including optional liquidity for legacy LPs and an expanded runway of time and money to develop portfolio assets. The GP gains significant benefits, and incoming LPs receive an attractive investment opportunity with a profile that is different from that of a primary fund. Despite these advantages, continuation funds present an array of conflicts of interest, and some LPs are ambivalent or harbor negative perceptions about them. These conflicts are discussed later in this report.

The need for liquidity among LPs has been the single most important driver of the growth of continuation funds (see, e.g., J.P. Morgan 2024). The next section discusses why liquidity needs have become more urgent (hint: think slowdowns in exit markets, distributions to LPs, and sponsor fundraising).

For now, suffice it to say that CVs serve as an alternative source of liquidity. This liquidity is optional for LPs because they need not accept it. Each LP in the legacy fund can choose either to cash out or roll over its interests into the new fund. Legacy LPs also often have the choice of increasing their investment, thereby avoiding dilution, or decreasing their investment and gaining partial liquidity. In practice, an overwhelming majority of legacy LPs—estimated to be as high as 80%–90%—elect to cash out (Jefferies 2024; McElhaney 2023; Kastiel and Nili 2024, p. 1627, footnote 145 and surrounding text).

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[2] Preferred equity can provide "liquidity in exchange for a preference on future cash flows" (Gauron, Hope, Mollerberg, and Spoto 2023). For a description of how private market funds use preferred equity, see Wang (2024).

[3] "In strip sales, a private equity firm sells a percentage of the holdings (the 'strip') in all or some of the underlying assets in its funds to a special purpose investment vehicle backed by one or more secondary investors, but still managed by the private-equity firm" (Capital Dynamics 2022, p. 17).

[4] A tender offer is a proposed sale of the interests of one or more LPs of a private fund. The private fund's GP coordinates the tender offer, organizing a competitive process to sell the LP's interests to a secondary buyer. The larger scale of a tender offer often obtains a better price for the LPs than they could get by initiating their own individual secondary offerings (see Crossley, Good, French, and Walls 2024, p. 2; Capital Dynamics 2022, p. 4).

[5] The older fund is not necessarily that old. Some are of recent vintage. See Exhibits 2 and 3.

The continuation fund also takes in new investors, which buy out the interests of the selling LPs. In addition, the incoming LPs typically provide the CV with fresh capital, as we explain later in this section. While the need for liquidity drives supply, the appetite for high-quality investments helps drive the demand.

Unlike traditional exits, such as M&A and IPO transactions, CVs allow the GP to continue to manage the assets and determine exit timing. The GP may wish to delay the exit to avoid selling in a depressed exit market or for other reasons. The assets in the legacy fund are transferred to the CV through a purchase–sale transaction between the CV and the legacy fund. Single-asset continuation vehicles (SACVs) hold just one asset, whereas multi-asset continuation vehicles (MACVs) hold multiple assets, although typically fewer than a primary fund holds. The GP crystallizes its carry from the transaction, at least with respect to the sales from LPs that cash out and, in some cases, from rolling investors as well.

In response to LP demands to demonstrate "skin in the game," GPs often invest their carry in the new fund, a process called "equitizing the carry." GPs (excluding inactive partners) invested 100% of their proceeds in nearly 90% of continuation fund transactions in 2024, according to a survey from investment bank and asset manager William Blair (2025, p. 6). Moreover, according to William Blair (2024, p. 5), GPs invested additional capital beyond their carry in about 40% of continuation fund transactions in 2023. Such investments are a major benefit to GPs because they gain equity exposure to what they generally see as high-performing or trophy assets (for more on this topic, see the section titled "Are CV Assets Really Trophy Assets?").

The need for liquidity is not the only reason to establish a continuation fund. Another motivation could be to gain more time to maximize the asset's value. The establishment of the CV resets the clock on the life of the fund. Private funds have a limited lifespan, usually 10 years plus extensions, before the GP must liquidate the fund's assets and shut it down.[6] That deadline, however, may prove suboptimal if the GP needs more time to develop promising assets in the fund, a process sometimes called "executing the value-creation plan."[7] As noted earlier, the GP also may wish to avoid selling into what has been a stagnant exit market, an increasing concern in recent years.

CVs solve the duration mismatch by extending the holding period. CVs typically have a life of three to five years plus two one-year extensions with the approval

[6]Private funds typically have a contractual life of 10 years, with two 1-year extensions (Crossley et al. 2024, p. 4; PitchBook 2023, p. 3). In practice, however, GPs often obtain LP approval to extend the fund's life beyond that. One practitioner told us that about a decade ago, his firm found that the life of buyout funds averaged about 14 years and that of venture capital funds averaged 16.5 years. To reduce conflicts of interest, GPs often waive their management fees past a certain date.

[7]Even before the fund deadline, a GP may also feel pressure from the fund's LPs to make a sale and distribute the proceeds four or five years after the investment in that asset. "Within that 10-year period, there is typically a four- or five-year investment period, and LPs will generally expect to start seeing some liquidity by the time the fund is fully invested and the GP is fundraising again… . GPs may feel a degree of pressure to sell assets four or five years after they make the investment, regardless of whether they have maximized the value" (Gauron et al. 2023).

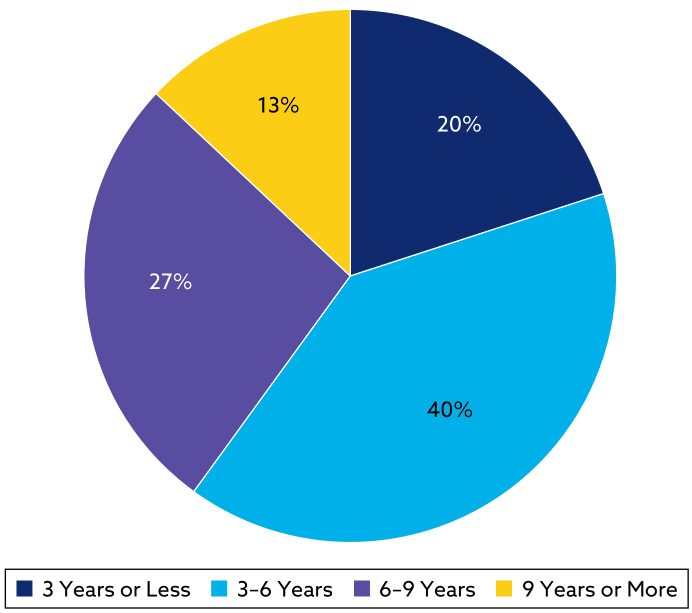
of the limited partners advisory committee (see Practising Law Institute 2023). Although the CV has a shorter lifespan than the primary fund, it gives the GP more time to develop assets before selling them. But what happens if the GP needs more time when the CV itself reaches its maturity deadline? Some GPs have resorted to a second continuation fund—a "CV squared"—that takes over from the first one.

Although the need for more time is perhaps the most intuitive reason to launch a continuation fund, this explanation applies only to a minority of CVs (Kastiel and Nili 2024, p. 1639, note 203). In fact, most legacy funds still have years to go in their life cycle when they establish CVs.

Exhibit 2 shows the average age of private market funds in GP-led transactions in 2022, according to an Evercore Private Capital Advisory (2023) survey. Although Evercore did not break down the percentage specifically attributed to continuation funds, it reported that these funds constituted 81% of all GP-led transactions that year.

Exhibit 3 shows the median ages of legacy funds and portfolio companies involved in SACV transactions in 2024. SACVs constituted 58% of continuation funds in that sample.

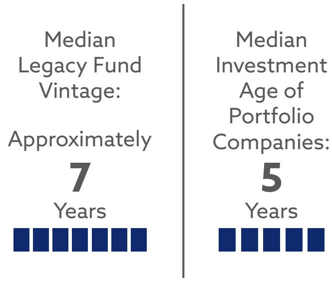
Exhibit 2. Age of Fund in GP-Led Transactions



Note: Based on 2022 transaction volume when reported.

Source: Evercore Private Capital Advisory (2023, p. 8).

Exhibit 3. Median Vintage and Portfolio Company Investment Age of Legacy Funds Involved in SACV Transactions, 2024



Source: Based on a study by Houlihan Lokey (2025, p. 9) of a sample of SACV transactions that launched or closed between 2022 and 2023.

Still another motivation could be to gain more capital to inject into one or more portfolio assets. Even legacy funds of younger vintage may have no more capital at their disposal to invest in a portfolio asset that requires further development to reach its full potential. For example, the GP may wish to make roll-up M&A transactions to bolster the portfolio company. The GP may be unable to do so, however, if it already has invested all the fund's capital commitments or if a concentration limit precludes further investment. Launching a CV can solve these issues by raising new capital and resetting or removing a concentration limit.[8] Nonetheless, in an interview for Buyouts (2025, p. 9), Todd Miller, a partner at W Capital Partners, noted increasing concerns from LPs "about CVs being used in mid-life situations where duration isn't the true constraint."

In sum, the investment continues in a continuation fund, as its name implies. The GP continues to manage the assets transferred from the legacy fund. The legacy LPs that roll their interests into the new fund retain exposure to the assets.

Despite those commonalities, other aspects of continuation funds represent a discontinuous break. Whereas primary funds typically hold a diversified portfolio, the CV portfolio is much more concentrated, consisting of only a few assets at most and often only a single asset (PitchBook 2023, p. 10). The ownership base fundamentally changes, with most legacy LPs cashing out and a new set of investors replacing them. The continuation fund is governed by a new limited partnership agreement, and the GP gains the opportunity to reset the key terms, including the management fees, carry,[9] and hurdle rates.[10]

[8]Merely extending the life of the legacy fund, in contrast, would fail to bring in any new capital. There are, however, other means besides continuation funds to raise additional capital. For example, the GP can issue preference shares, which attract new capital in return for preferred cash flows. Alternatively, the GP can invite co-investments in specific assets.

[9]As one law firm has noted, "Carry allocations will reset, giving sponsors the opportunity to restructure awards to favour those they deem to be adding real value… . This 'reset' provides the sponsor with flexibility to reward those team members who are driving performance of the asset(s) but may entail a reduction in carry for others, engendering friction within deal teams" (Crossley et al. 2024, pp. 2–3).

[10]A hurdle rate is a percentage of profit, often 8%, that LPs must earn before the GP can receive its carried interest.

The Need for Liquidity

The need for liquidity stems from a shortage of traditional exits, such as M&A and IPO transactions.[11] Anemic exit markets have produced a chain reaction of a drought in distributions to LPs, a slowdown in sponsor fundraising, and growth in continuation funds.[12]

The number of traditional exits has failed to keep up with the explosive growth in private fund assets. Specifically, the value of traditional exits in global private equity (PE) was about the same as five years earlier, even as assets nearly doubled, according to Bain & Company (2025, p. 14). As a result, Bain & Company (2025, pp. 17–18) reported an exit overhang of "towering" proportions: Global buyout funds hold 29,000 unsold portfolio companies with an unrealized value of USD3.6 trillion.[13] It would take nearly 20 years to dispose of all 29,000 companies at the exit pace of 2024, as measured by the number of transactions. If measured instead by exit dollar volume, it would take a less staggering but still imposing seven-plus years.[14]

GPs use the proceeds of asset sales to distribute cash to LPs on a pro rata basis. The slowdown in exits, however, has deprived private funds of the cash needed for distributions. "Funds that once reached a 1× DPI [distributions to paid-in capital] in seven years are now sitting at just 0.1× DPI by year five," observed David Wachter, founding partner and CEO of W Capital Partners, in an interview for Buyouts (2025, p. 9). Distributions in global private equity in 2024 fell to just 11% of net asset value (NAV), the lowest level in more than a decade (Bain & Company 2025, p. 2), which amounts to only a little more than a third of the average distribution level from 2014 to 2017.[15] As a result, LP contributions have equaled or exceeded fund distributions in five of the last six years (Bain & Company 2025, p. 7).

Yet LPs rely on those distributions to make new investments, to adjust to new allocation targets, or to rebalance portfolios to existing targets. The need to rebalance becomes even more urgent during down cycles, when public equity

[11]In M&A transactions, portfolio assets are sold outright either to a strategic buyer, such as an operating company in the same industry, or a financial buyer, such as another private fund. In IPOs, the shares are floated on public markets. Either way, the GP relinquishes control over the asset to the new owner(s).

[12]Does this combination of factors—the slowdown in exits, growing liquidity needs, and the rise of secondary markets—suggest that private markets are ailing? Are these symptoms of deeper problems? Perhaps, but there is a contrarian way of looking at it: A clever spin is to speak of secondary markets as a market innovation that responds to evolving needs. The need for new liquidity structures arises from the tremendous growth in private markets, which is a mark of their success. Continuation funds and secondary markets give GPs the tools not only to invest capital but also to manage exit timing and liquidity. For an articulation of this viewpoint, see the comments made in an interview with Todd Miller and David Wachter in Buyouts (2025, pp. 8–9).

[13]Similarly, J.P. Morgan (2024, p. 5) cited an estimate that buyout funds held a record 28,000 unsold assets worth USD3.2 trillion.

[14]In 2024, exit volume equaled USD468 billion or 1,470 companies (Bain & Company 2025, p. 14).

[15]From 2014 to 2017, distributions averaged 29% of NAV (Bain & Company 2025, p. 18). The 15-year DPI averaged 26% (Buyouts 2025, p. 21, citing MSCI Private Capital Universe).

markets decline sharply and the denominator effect[16] takes hold, as it did in 2022 and again in Q1 2025.[17] At the end of 2024, almost 50% of LPs reported overallocations to PE (Buyouts 2025, p. 21).

The lack of liquidity also affects fund sponsors, who have suffered from a slowdown in fundraising. Specifically, private market fundraising in 2024 fell for the third straight year (to USD1.1 trillion), down 24% compared with the previous year and 40% below the peak (USD1.8 trillion) in 2021 (Bain & Company 2025, p. 25). Similarly, global PE buyout fundraising fell 23% in 2024 compared with the previous year (Bain & Company 2025, p. 4).

The slowdown has forced fund sponsors to take longer to raise new funds, with the PE fundraising timeline in 2024 ballooning to 19 months. A new record in North America, that timeline stands in contrast to an average of about 10 months before the slowdown (Falconer 2025).

Simply put, it is difficult for GPs to ask for new money when they have not returned the capital that LPs already have entrusted to them. Thus, both LPs and GPs have strong motivations to seek an alternative solution to their liquidity needs.

Continuation funds provide one such solution, although not the only one. Other alternative sources of liquidity include, for example, the sale of minority interests,[18] dividend recapitalizations,[19] and NAV loans[20] if the loan proceeds are distributed to LPs. These solutions offer what can be called alternative liquidity events—an alternative to the traditional or "clean" exits of IPOs and M&A transactions. Private funds have made surprisingly widespread use of these alternative liquidity sources: 30% of buyout portfolio companies have had at least one such alternative liquidity event, raising a total of USD410 billion (Bain & Company 2025, p. 6). NAV loans alone are projected to double in value, to USD150 billion, within two years (Bain & Company 2025, p. 22, citing S&P Global). Most NAV loans, however, are used for purposes other than distributions to LPs.[21]

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[16]Reported private market returns are far smoother than the more volatile public markets. So, when public markets fall, the relative proportion of a portfolio allocated to private markets rises, and the asset owner (such as a pension fund) can suddenly find its private market allocation overweighted relative to its target. That dynamic is called the *denominator effect*. For more on volatility smoothing, see Deane (2024).

[17]The Vanguard Russell 3000 Index I (VRTTX) fell 19% in 2022 and nearly 5% in Q1 2025, according to Yahoo Finance (https://finance.yahoo.com/quote/VRTTX/performance/).

[18]For example, a fund could sell a minority stake to a new investor.

[19]In a dividend recapitalization, a company borrows money to fund a special dividend to shareholders. For example, if a PE firm is unable to sell a portfolio company, the company could take out a loan and use the loan proceeds to pay a dividend to the PE firm. That way, the PE firm could recover at least part of its investment even without disposing of the asset.

[20]In an NAV loan, a private equity fund takes out a loan based on the fund's NAV (see Panossian and de Selancy 2024).

[21]Whiteaker (2024) found that 28% of NAV loans were used for dividend recapitalization/liquidity to investors in 2023, although Citco (2024) put the share at less than 15%. One expert told us that media headlines had exaggerated the size of the NAV loan market in general and, in particular, the practice of distributing loan proceeds to LPs. That practice, he said, took place only infrequently—and became rarer still after LPs objected to it.

Prospects for improvement in traditional exits appear far dimmer than they did only a year ago. The pace of traditional exits picked up in 2024,[22] nourishing hopes that 2025 might finally break the logjam in unsold portfolio assets. Those hopes, however, were predicated on macroeconomic stability, with tamer inflation and lower interest rates. The first half of 2025 was anything but stable, roiled by tariff chaos, heightened geopolitical tensions, high market volatility, economic uncertainty, and a renewal of recession fears in the United States. In 2024, encouraging market developments prompted Bain & Company (2025) to label it "the year of partial exhale." In 2025, however, we appear to be living through "the year of holding our collective breath."

Yet this same concatenation of factors can serve as the very ingredients to constrain traditional exit markets and further propel the growth of continuation funds. That dynamic appeared to be unfolding in Q1 2025 for US PE, which saw a combination of (1) a slowdown in the pace of traditional exits and fundraising and, in contrast, (2) an acceleration in the growth of continuation funds.[23] The pace of secondary transactions slowed in the second quarter, however, as investors paused in the face of uncertainty (see, e.g., Buyouts 2025, pp. 12, 17).

Private markets also face the threat posed by a maturity wall of expiring funds. Globally, slightly more than half of active PE funds, in both number and value, have reached middle age.[24] PitchBook (2024) predicts that unless the pace of exits quickens, the number of funds hitting a maturity wall will increase during the next four years. That shift could induce GPs "increasingly [to] turn to continuation funds to push out the maturity wall for their highest-quality assets while winding down the rest of the fund" (PitchBook 2024, p. 9).

The Shift from "Zombie Funds" to "Trophy Assets"

Continuation funds have undergone a profound transformation, from an association with "zombie funds" to a showcase of "trophy assets." The turnaround was captured in the title of a 2021 article from S&P Global: "PE Zombie Funds Reinvented for 'Crown Jewel' Strategy" (Farman 2021). Observers have described the shift as an evolution (Gauron, Hope, Mollerberg, and Spoto 2023), a rebranding (PitchBook 2023, p. 8), and a reinvention (Farman 2021).

Exhibit 4 illustrates the phases of the transformation.

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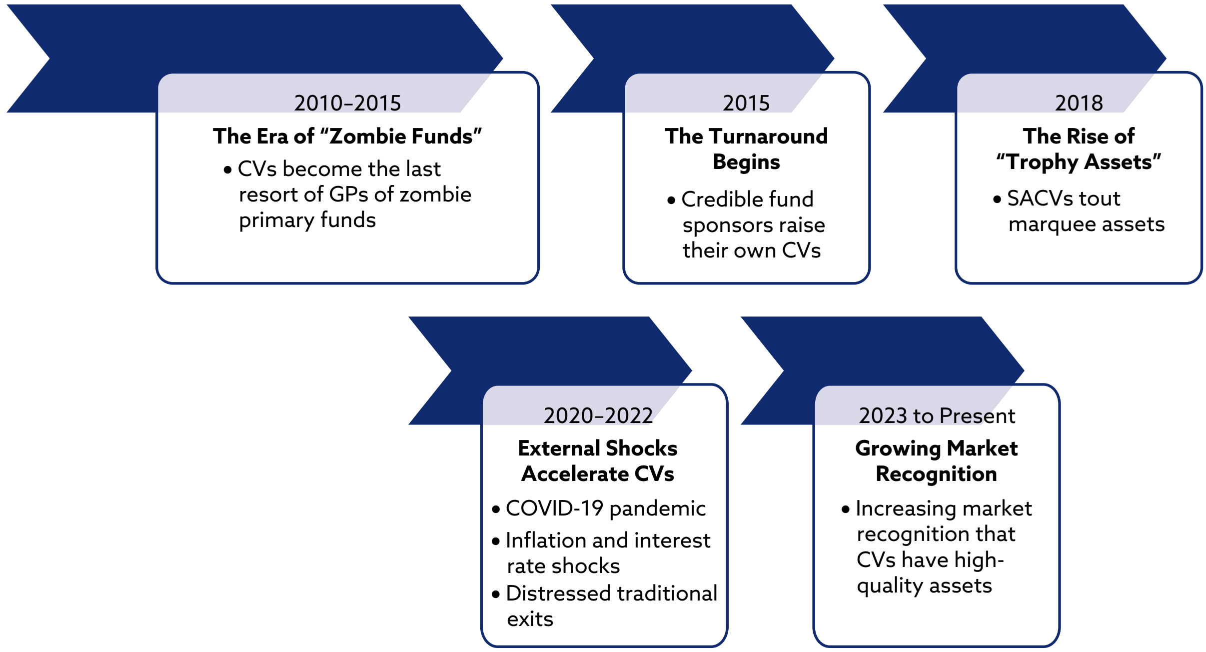
[22]Although the exit market remained tight in 2024, global exit value rose by one-third from the previous year, to USD468 billion, and exit count rose 22%, to 1,470 (Bain & Company 2025, p. 14).

[23]According to *Pensions & Investments* (Rothman 2025, p. 5), 236 traditional exits (corporate acquisitions, PE sponsor acquisitions, and IPOs) in US private equity took place in Q1 2025. That number contrasts with an annual total of 1,207 exits in 2024 and more than 1,900 exits in the peak year of 2021. Q1 2025 fundraising in US PE also slowed to 79 funds that raised USD56.7 billion, compared with annual totals of 374 funds raising more than USD400 billion in each of the previous two years. According to Ropes & Gray (2025, p. 5), the pickup in global continuation funds in Q1 2025 outpaced the comparable quarter of each of the past five years.

[24]Specifically, PitchBook (2024, p. 8) reports that approximately 52% of all active PE funds are six years old or older. Likewise, if measured in dollar terms, the population of funds aged six years or older stands at approximately 51% of total committed capital. Six years would represent the midpoint of a fund with a total 12-year time horizon (i.e., a standard 10-year holding period plus two 1-year extensions).

Exhibit 4. Timeline of a Reputational Transformation

The Shift from "Zombie Funds" to "Trophy Assets"



Sources: Capital Dynamics (2022, p. 7); Kastiel and Nili (2024, p. 1619).

- **The beginning—the era of zombie funds:** The story begins in the aftermath of the global financial crisis, when weak managers of poorly performing primary funds were unable to raise new funds (Farman 2021). Nonetheless, the struggling GPs found a way to stay in business by launching continuation funds and transferring legacy assets into them. The tarnished reputations of the GPs notwithstanding, LPs were willing to invest in the continuation funds for two reasons: They could see the assets they were buying, and they believed the price was right. Through this stratagem, struggling managers were able to maintain a steady stream of management fees (Kastiel and Nili 2024, pp. 1619–1620).

  Some published reports suggest that the continuation funds themselves were "zombie funds."[25] Experienced market practitioners tell us, however, that the legacy funds, not the continuation funds, were the real zombies.

- **The turnaround begins:** In 2015, major fund sponsors began to raise their own CVs. Unlike the zombie fund managers, the new sponsors had valuable reputations and brand names to preserve.
- **The rise of "trophy assets":** The trend accelerated in 2018, as sponsors increasingly touted a strategy of forming continuation funds to hold on

[25]See, for instance, Capital Dynamics (2022, p. 17): "Once referred to as 'zombie' funds involving underperforming or tainted assets, perspectives have shifted since the beginning of the pandemic."

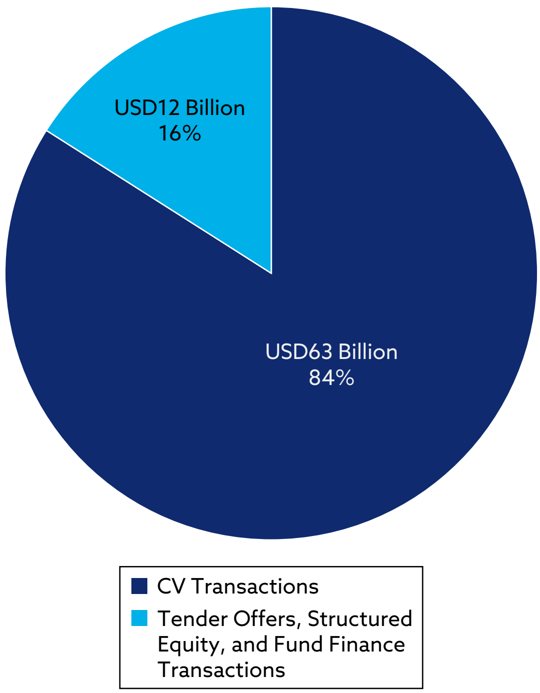
to so-called trophy assets. The year also marked a concomitant rise in SACVs, which were often portrayed as holding a single marque asset.

- **External shocks:** Continuation vehicles gained further momentum with a series of external shocks, including the COVID-19 pandemic, inflation, higher interest rates, and resulting stress on exit markets (Kastiel and Nili 2024, p. 1620; Capital Dynamics 2022). In 2023, one investment advisory firm observed circumspectly that GP-led secondaries were "no longer solely the domain of troubled managers and poorly performing assets" and that "the stigma associated with such deals has diminished" (Meketa Investment Group 2023, p. 1).[26]

Attributes and Growth of Continuation Funds

Exhibit 5 highlights the dominant share of continuation funds in GP-led secondary markets. As the chart illustrates, CVs outnumber other types of secondaries about five to one.

Exhibit 5. CVs Dominate GP-Led Secondary Market



Source: Jefferies (2025, p. 7).

[26]The paper discusses GP-led secondaries, but the context suggests that it is referring mainly to continuation funds.

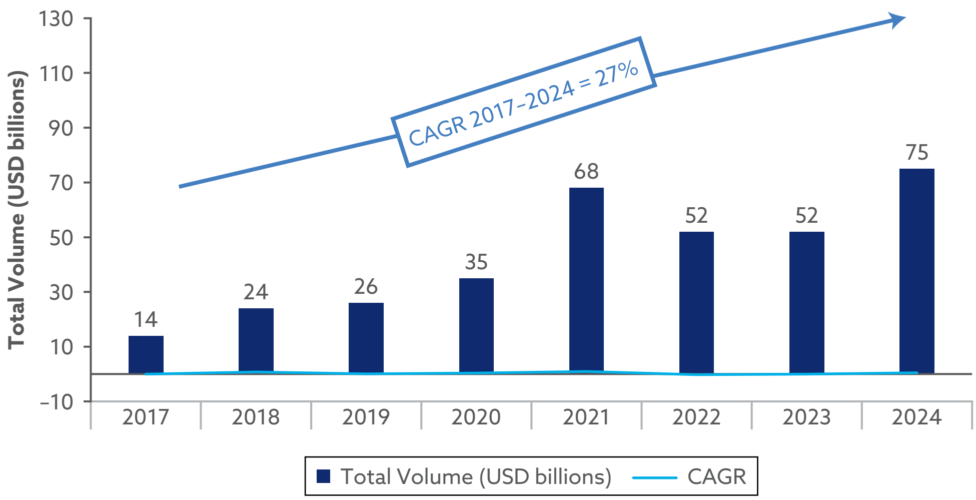
Some published reports present statistics for the GP-led secondary market as a whole, without offering a breakdown for continuation funds in particular (as shown in Exhibits 6 and 7). Nonetheless, statistics on the GP-led secondary market as a whole can serve as a proxy for continuation funds because the latter form the largest component of the overall market.

As their reputation has improved, continuation funds have grown sharply during the past decade, reaching an estimated global volume of USD63 billion in 2024 (Jefferies 2025, p. 7). During the past five years, global PE CVs have increased nearly three times in value and four times in number (Bain & Company 2025, p. 21). Growth has been particularly strong in North America (the geographic distribution is presented later).

The GP-led secondary market has shown a strong compound annual growth rate (CAGR) since 2017, if not earlier, and jumped to a record volume in 2024. **Exhibit 6** illustrates this volume growth.

The growth of SACVs rose sharply in 2024 to approximately 57% of total CV volume, compared with a minority of 46% the previous year. One leading valuation firm attributes the rise in SACVs to a GP priority of placing the highest-quality assets into continuation funds.[27] Furthermore, GPs may be more willing to share data for a single-asset CV than for a multi-asset one, for fear that the latter might reveal more clues about proprietary investment strategies.

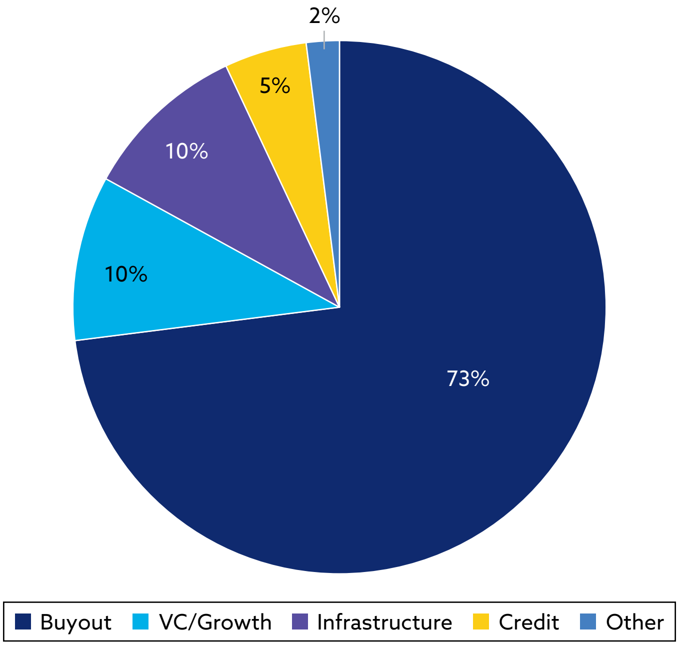
Exhibit 6. Year-over-Year Transaction Volume Growth of the GP-Led Global Secondary Market, 2017–2024



Source: Jefferies (2025, p. 3) and Jefferies (2023, p. 7).

[27]Houlihan Lokey (2025, p. 5) explains that GPs have been "prioritizing deals for their highest-quality assets in a strong pricing environment."

Exhibit 7. GP-Led Secondary Market in Terms of Strategy, Based on 2024 Transaction Volume



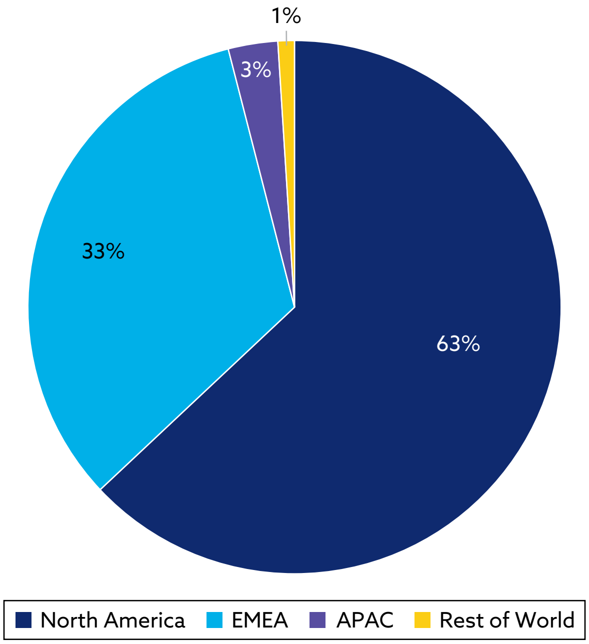
Source: Evercore Private Capital Advisory (2025, p. 13).

Continuation funds are found most often in PE buyout funds, where they began, but have expanded more recently into private credit, infrastructure, and real estate funds. **Exhibit 7** illustrates the strategy distribution.[28] The prevalence among PE buyout funds makes sense given that asset class's business model: acquire controlling shares in portfolio companies; make some combination of operational, capital structure, and cost-cutting improvements to increase value; and then sell the assets, often within five years. Depressed exit markets can disrupt this strategy, but continuation funds provide an alternative while allowing GPs to retain any further upside that they would lose in a true exit. PE middle-market buyout funds, for example, traditionally sold high-quality assets to larger fund sponsors. By launching a CV, the middle-market GP is now retaining that upside for itself (Lazard 2025, p. 14).

Continuation funds also surged among private credit funds over the 18 months ending mid-2025. Several CVs raised or sought to raise more than USD1 billion during this period (James 2025). This trend might seem surprising considering the business model of private credit funds—that is, to make floating-rate loans of fixed duration and hold them to maturity, rather than relying on exit markets for liquidity. That model would seem to obviate the liquidity pressures facing PE funds. So what caused the spike in private credit CVs?

[28]Lazard (2025, p. 9) offered similar estimates of the GP-led secondary market in 2024: 82% for buyout funds, 8% for growth capital and venture capital, 4% for credit, and 6% for real assets.

Exhibit 8. Geographic Distribution of Underlying Companies in GP-Led Secondaries as a Percentage of Transaction Volume



The explanation lies in the connection between private credit funds and their borrowers, many of whom are private companies backed by PE funds. As we have seen, the PE funds have been holding on to their portfolio companies for longer rather than selling them. In some cases, GPs of the PE funds also have been asking their private credit lenders to extend the terms of the loans to their portfolio companies, and a number of lenders have agreed to do so. Extending the loans, however, may bump up against the lifespan of private credit funds. Continuation funds are providing the solution, allowing the GPs to continue to manage the extended loans.

North America dominates the GP-led secondary market in terms of geographic distribution. **Exhibit 8** illustrates this distribution as a percentage of transaction volume.[29]

Establishing a Continuation Fund

Like the secondary market as a whole, a continuation fund has no centralized exchange to match buyers and sellers (J.P. Morgan 2024, p. 6). Instead, the GP embarks on a confidential process to seek out potential investors, select a lead investor, negotiate the price and other key terms, and conclude the deal. The GP typically uses a secondary market specialist as its agent, although GPs

[29]Lazard (2025, p. 9) offered similar estimates of GP-led transactions in 2024: about 66% completed in North America, about 30% in Europe, and about 4% for Asia and the rest of the world.

with experience in establishing continuation funds sometimes elect to conduct the process themselves.

In many respects, the process resembles the underwriting process for an M&A or IPO transaction. Where an M&A or IPO typically involves investment banker intermediaries, bidding or book building, anchor investors, and third-party fairness or valuation opinions, forming a continuation fund typically involves an agent who coordinates the process on behalf of the GP, a competitive bidding process, one or more lead investors, and often third-party fairness or valuation opinions.

A Wide Cast of Participants

If an M&A or IPO process resembles a complicated chess game, launching a continuation fund more closely resembles 3D chess. The GP must deal with a range of participants, including the following:

- Potential buyers:
  - Potential bidders who view the data room
  - Actual bidders
- Incoming investors:
  - The lead investor or lead co-investors (according to Lazard 2025, p. 13, the market has come to accept co-lead investors in a large number of CVs)
  - The syndicate of other incoming investors
- The legacy LPs:
  - Cashing LPs
  - Rolling LPs
  - The legacy fund's LPAC
- Affiliated funds of the GP (in some cases): A flagship fund or other affiliated fund of the GP might invest in the continuation fund, or else might invest alongside the CV in one or more of its assets.
- Service providers:
  - A specialist firm to conduct the competitive bidding process and advise on negotiations
  - A third-party expert providing a fairness or valuation opinion
  - Law firms providing legal advice for the transaction

Price Discovery—with or without an M&A Comparison

In some cases, the GP embarks on the CV process after an aborted first attempt to sell the asset(s) in a traditional M&A. If the M&A bids are too low, the GP may decide to switch to a CV. An attempted M&A sale, when it precedes the formation of a CV, provides the most direct comparison of these two alternatives. It will show clearly whether the CV deal obtains a higher price than an M&A transaction would have.

In many other cases, however, the GP decides to establish a CV without first attempting an M&A sale. It would be unethical for the GP to solicit bids in a mock M&A sale, knowing that it has no intention of completing the deal. The pretense would require unsuspecting potential buyers to spend valuable resources conducting due diligence and then deciding whether to make a bid and at what price. If the ruse came to light, it would seriously harm the GP's reputation.

Instead, the GP conducts a competitive bidding process for the CV transaction. The following subsection provides a stylized description of how this process typically unfolds.

The Bidding Process and the Lead Investor

An agent markets a deal to potential investors, including a shortlist of major secondary funds that are repeat players in the market, and attracts expressions of interest from 25 investors. All but two of them agree to sign a nondisclosure agreement, which allows them to access an electronic data room with information on the deal. After reviewing the data, however, only three investors remain interested. Most of the others ask to be contacted again at a later syndication round, if one takes place.[30]

In this first stage, each investor bids a specific price it is willing to pay for a specific total amount in the continuation fund. None of the finalists knows which or how many other parties are bidding to become the lead investor. The price is typically expressed as a percentage discount or premium to the NAV. According to Lazard (2025, p. 13), a majority of lead investors commit to USD100 million or less, and 35% commit to larger amounts. Among the syndicate of other incoming investors, 84% commit to less than USD50 million.

In the second stage of the process, the GP's agent seeks to align all the terms of the deal beyond the price, including the management fee, the carry and hurdle rates, and the GP's own financial commitment to the transaction. To ensure a level playing field, it is essential to agree to the extent possible on clear and consistent terms with all bidders. The goal is to arrive at a single standard set of terms for all bids, although slight deviations may remain.

[30]The sharp drop-off in lead investor candidates is unsurprising to one adviser, who characterized most investors as "information junkies" always eager to get a peek at market data.

This process requires the GP to negotiate with all the bidders at the same time. That requirement, however, is not a burden; rather, it provides an opportunity for the GP and its agent to play the bidders off each other.

The bidding process is completed when the GP selects the lead investor or, in some cases, two or more co-lead investors. The lead investor sets the price for all investors. At this point, the GP typically seeks LPAC approval and may also obtain a fairness opinion or valuation opinion.[31] For more detail on this process, see the subsection titled "LPAC Waiver of Conflicts of Interest."

Pricing Close to NAV

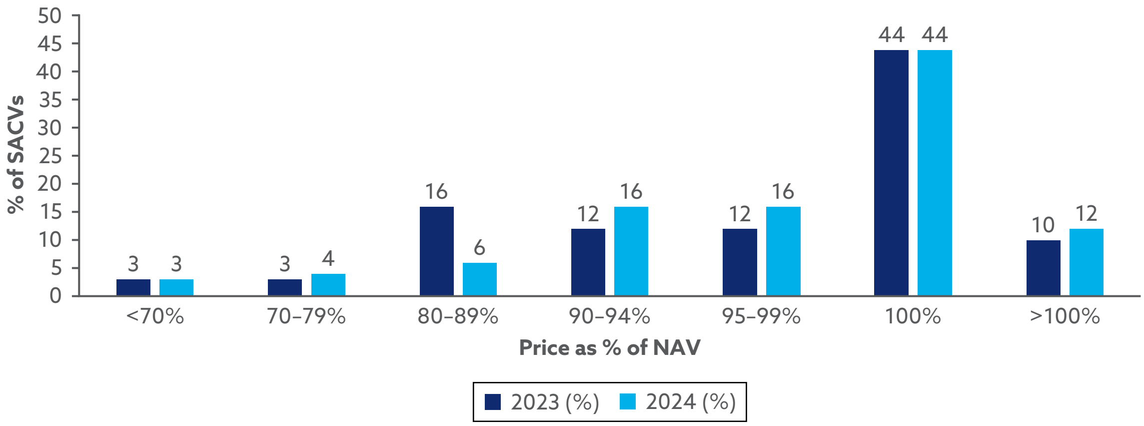
GPs often select assets that can price close to NAV, one GP reported, to help reassure legacy LPs that the price is fair. According to Lazard (2025), in 2024, 56% of SACVs priced at or above NAV. **Exhibit 9** further illustrates SACV pricing.

Average prices of MACVs in 2024 were more dispersed, with most pricing between 80% and 100% of NAV. **Exhibit 10** illustrates the distribution.

Flexible Purchase Options

PE markets have spawned structured deal terms to bridge gaps between bids and asks. Deferred payments, for example, allow buyers to pay sellers over time but at a higher price than otherwise (Norman, Jaugey, and Hanesworth 2024, p. 2; Jefferies 2025, p. 6; Gauron et al. 2023). According to one interview with a market expert, typically the buyer pays 50% up front and the

Exhibit 9. SACV Prices as a Percentage of NAV

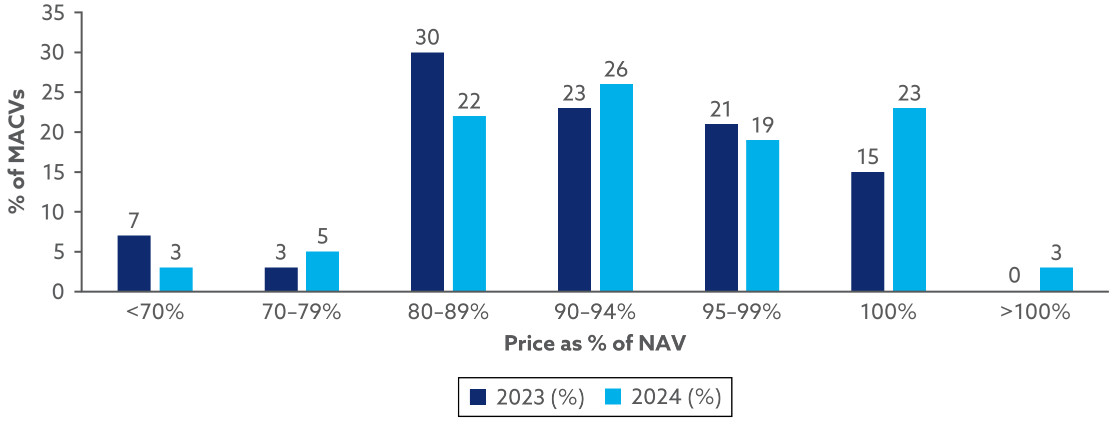


Note: Weighted average by volume.

Source: Lazard (2025, p. 10).

[31] A valuation opinion offers an opinion on the valuation of the assets to be transferred to the CV. A fairness opinion renders an opinion on the deal price negotiated with the lead investor. The legacy fund's limited partner agreement may require a fairness or valuation opinion, or the LPAC may ask for one.

Exhibit 10. MACV Prices as a Percentage of NAV



Note: Weighted average by volume.

Source: Lazard (2025, p. 10).

other 50% one year later. Estimates of the frequency of deferred payments in continuation fund transactions range from 19% to 50% (Norman et al. 2024, p. 2; Houlihan Lokey 2025, p. 9).

Contingent payments occur more frequently among LP-led secondaries but sometimes may also appear in GP-led continuation funds. The contingency provides that the LPs of the legacy fund, not the CV, will receive the proceeds from any sales that occur in the short term, such as the next 12 months. This provision reassures selling LPs that they will not lose out if an asset suddenly "pops," or is sold for a profit, shortly after its transfer to the CV.

When buyers and sellers cannot agree on the price or other terms, the deal collapses. Some LPs and other observers suspect that deals fail, among other reasons, because the assets are overvalued on the books of the legacy funds and the GP has resisted marking them down to more realistic prices.

The Other Investors: The Syndicate

The lead investor's stake represents only a portion of the CV, such as 50% of total interest. The GP must find other investors to purchase the remaining 50%. These other investors, called syndicate investors, are price takers, not makers. Although the price remains uniform for all investors, the GP may adjust other terms for syndicate investors. The lead investor can expect to obtain better terms because, through its negotiations, it did the work to price the asset and typically makes the largest investment in the CV. For example, the lead investor may pay 60 bps in management fees while syndicate investors pay 75 bps. Nonetheless, overall fees for CVs can be significantly less than those for primary funds, resulting in enhanced returns for LPs. (Rode, Poldauf, and Fuentes Perez 2025, p. 5).

The GP may impose other requirements as a condition to invest in the deal, such as a "stapled commitment." This requires the investor to commit to invest in both the continuation fund and a second fund of the same GP, such as its next flagship fund.[32]

Some professionals reported that stapled transactions have become an acceptable market practice. They believe the practice will not harm the other investors or breach the GP's fiduciary duty to the continuation fund, because it does not affect the price of the continuation fund, which already has been set. Conversely, they agreed that it would be an unethical conflict of interest for the GP to accept a lower bid from the lead investor in return for a stapled commitment from the lead investor.

The Rolling LPs

Most legacy LPs typically elect to cash out rather than roll their interests into the CV, as noted earlier. For any one deal, however, the GP faces the challenge of finding an optimal balance between the supply of interests (from selling LPs) and the demand (from investors in the CV).

The Challenge of Balancing Supply and Demand

The GP typically seeks not only to attract sufficient demand to pay off the selling LPs, but also to bring new capital into the CV. It requires calibration, however, to avoid either extreme of excess oversubscription (i.e., more demand than supply) or undersubscription (less demand than supply).

Excessive oversubscription may require some LPs to scale back their investment in the CV. The lead investor is usually unaffected, for three reasons:

- The lead investor typically enjoys first rights to the available supply, which is usually adequate to cover its investment.
- The lead investor's investment, though often the single largest of any LP, is nonetheless just a fraction of the entire transaction amount (perhaps 50%).
- Lead investors typically protect themselves against the risk of oversubscription by negotiating (1) a minimum deal size and (2) a contingent requirement to scale back the allotment to other investors, including the rolling LPs, if necessary.

Conversely, when deals are undersubscribed, the GP will solicit new investors or additional investments from existing buyers (Dische, Dobson, Kolb, and Laybourn 2022). Alternatively, the legacy LPs may be forced to sell only a portion of their interests and retain the rest. One private market practitioner argued that this was better than the alternative of no deal at all.

[32]William Blair (2025) reports that stapled commitments are uncommon but that a majority of LPs invested in the GP's next flagship fund, even if they had no contractual obligation to do so. Specifically, William Blair found that in 2024, 60% of surveyed investors committed to a private equity firm's new flagship fund following a continuation fund, according to a survey of major secondary market investors. The commitment to the flagship fund averaged about USD15 million (William Blair 2025, p. 6).

Reinvestment and Status Quo Options

Although legacy fund LPs previously agreed to all the terms governing their investment, they are often required to accept new—and perhaps worse—terms as a condition of rolling their interests into the continuation fund. Many in the industry agree that this practice is unfair. LPs should not be forced to accept worse terms merely to continue their investment in the same assets. For this reason, the Institutional Limited Partners Association (ILPA) has established a best practice for a status quo option, in which rolling LPs receive the same economics as in the legacy fund (ILPA 2023, p. 11). We support this best practice.

Best Practice: The Status Quo Option

ILPA calls for the following conditions to apply to rolling LPs:

- No change in the management fee base, and no increase in its rate
- No increase in carried interest, no decrease to the preferred return hurdle, and no other changes to the distribution waterfall favorable to the GP
- No crystallization of carried interest for rolling investors

In practice, however, only a minority of continuation funds appear to offer a true status quo option to rolling LPs. One professional with a wide view of the market reported that in his experience, although market acceptance of this option is growing, only a minority of LPs receive a status quo option. Instead, most CVs provide a reinvestment option, which gives rolling LPs the same economic terms as the other syndicate investors. Survey data confirm that the reinvestment option is at least as frequent, if not more frequent, than the status quo option.[33] Indeed, William Blair surveys found that the reinvestment option became more common, and status quo options less common, in 2024 than in the previous year.[34]

Even with the status quo option, some changes may be inevitable. For example, an influx of net new capital from incoming investors may dilute the interests of rolling LPs, unless they are allowed to increase their investment and choose to do so. In addition, according to one professional, it is difficult (if not impossible)

[33]Jefferies (2024, p. 9) found that an estimated 40% of continuation fund transactions in 2023 provided a status quo option. For William Blair surveys, see next footnote.

[34]William Blair reported these survey findings: the frequency of the reinvestment option (giving rolling LPs the same terms as secondary buyers) rose to 59% of CVs in 2024 compared with 54% the previous year; the frequency of a modified status quo option (crystallizing the carry but otherwise keeping similar economic terms for rolling LPs) fell to 19% of CVs in 2024 vs. 29% the previous year; and the frequency of a true status quo option (no change in economic terms for rolling LPs and no crystallized carry) remained almost unchanged, at 22% of CVs in 2024 vs. 21% the previous year. (William Blair 2025, p. 6, and William Blair 2024, p. 5).

to offer a genuine status quo option in legacy funds with a European waterfall,[35] for two reasons:

- The timing sequence of the distributions
- Disparate treatment of taxes for managers in the GP team working in different jurisdictions

Nonetheless, we understand that GPs can construct commercial terms to mimic a status quo option.

LPAC Waiver of Conflicts of Interest

Throughout the negotiations, the GP is not simply a disinterested referee guiding the process. It plays an inherently conflicted role, with strong financial interests of its own (see the "Conflicts of Interest" section for more detail). To address these conflicts, the GP typically is required to obtain a conflict-of-interest waiver from the legacy fund's LPAC or, depending on the limited partnership agreement, from the LP base (Dische et al. 2022). The GP may initiate conversations with the LPAC on a potential continuation fund beforehand, but it typically requests the LPAC waiver only after reaching an agreement with the lead investor (and before the GP has brought in the syndicate investors).

In addition, the GP may obtain a fairness opinion or valuation opinion, which, if favorable, can provide independent confirmation that the proposed transaction price is reasonable and thereby bolsters the legitimacy of the deal.[36] Some fund agreements require a fairness or valuation opinion in such circumstances; in other cases, the LPAC may ask for one. In the United States, the SEC adopted a rule in 2023 that would have required fund advisers to obtain a fairness or valuation opinion when establishing a continuation fund, but an appeals court struck down the rule the following year.[37] Nonetheless, many sponsors already had adopted this practice even before the SEC rule (Norman et al. 2024, pp. 1–2).

When seeking a conflict-of-interest waiver from the LPAC, the GP typically presents the following information:

- The rationale for the continuation fund, with an explanation of the alternative options, such as the GP's expectations of the results of a traditional M&A or IPO exit

[35]A European waterfall is a total return waterfall in which distributions generally are made exclusively to LPs until their investment is returned and the hurdle rate has been achieved. Only then does the GP begin to earn its carried interest (sometimes starting with a catch-up phase). In an American waterfall, in contrast, the GP earns carried interest on a deal-by-deal basis.

[36]A valuation opinion offers an opinion on the valuation of the assets to be transferred to the CV. A fairness opinion renders an opinion on the deal price negotiated with the lead investor.

[37]The rule was part of a package of Private Fund Advisers Rules. The Fifth Circuit Court of Appeals struck down the rule on 5 June 2024.

- A description of the bidding process, including the following:
  - How many parties the GP or its agent marketed the deal to in seeking lead investor bids
  - How many engaged with the GP
  - How many gained access to the data room
  - How many submitted bids
  - The spread of the bid prices
  - The price and other terms agreed to with the lead investor

Much is riding on the LPAC waiver. Without it, all the GP's work to establish the continuation fund will be for nought.

Reputational considerations loom large for the GP, giving it a strong incentive to demonstrate a fair process resulting in a fair price. Perceptions of unfairness could taint the sponsor's credibility and tarnish its reputation over the long term. Private market funds are in the relationship business, and their business model is predicated on periodic fundraising to launch new funds.

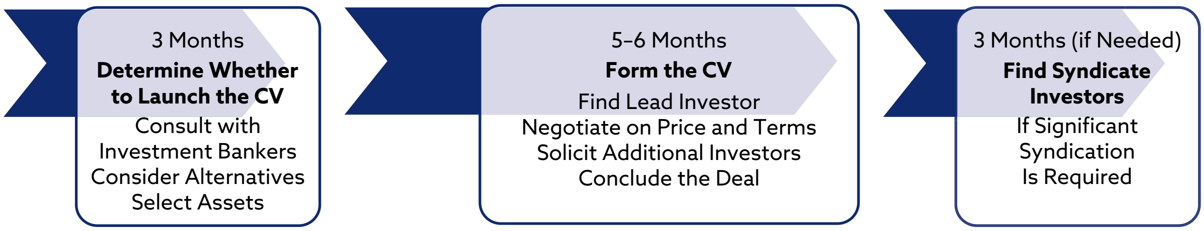
Reputational considerations, combined with the inherent complexity of establishing continuation funds, make sound communication with the legacy LPs paramount. That communication should be thorough, consistent, and timely.

One prominent US law firm, Ropes & Gray, recommends that the GP communicate with its legacy LPs at each stage of the bidding process (Dische et al. 2022). Seeking LP feedback on deal structures and pricing can secure support from the LPAC and enhance deal certainty. In the interviews conducted for this study, LPs said they wanted the GP to present the rationale for launching a continuation fund and to explain how it would advance their interests, not only those of the GP.[38]

The GP should ensure that its disclosures are consistent for both buyers and sellers, including the lead investor, legacy LPs, and their LPAC. Providing materially different disclosures would be unethical, could violate securities laws, and would tarnish the reputation of the sponsor. Although these are private markets and negotiations are conducted in secret, a nontrivial possibility exists that legacy LPs could discover any materially divergent disclosures. Many LPs participate in secondary funds and have their own sources of information. Sometimes they even find themselves on both sides of the same deal. For example, one investment professional described a CV transaction in which his pension fund employer was an LP both in the legacy fund and in a dedicated secondary market fund-of-funds investing in the deal.

[38]One LP professional recommended that the GP negotiate with LPs on acceptable terms for the CV. He said this would enable LPs to understand the GP's perspective, provide a forum for LPs to express their concerns, and lead to alignment—something, he asserted, that does not exist today.

Exhibit 11. Timeline to Establish a Continuation Fund



The timing of communications can be as important as their content. The GP should give legacy LPs adequate time to make informed decisions on whether to cash out or roll their interests. ILPA (2023) has proposed a minimum of 20 business days as an industry standard. LPs emphasized in interviews their resentment in cases where they believed that the GP informed them of its efforts to form a CV only toward the end of a lengthy process.

Concluding the Deal

The deal culminates in two new documents:

- A limited partnership agreement, which sets out the key terms for the continuation fund, including those governing management fees and the carry
- A purchase and sale agreement between the legacy fund and the continuation fund, pursuant to which the assets are transferred from the former to the latter (Dische et al. 2022)

With these documents in place, the GP can establish the continuation fund. The entire process can take up to one year, as **Exhibit 11** illustrates.

Are CV Assets Really Trophy Assets?

Do GPs really select their best assets for CVs? GPs appear to select what they *believe* are among their highest-quality assets, based on performance and operating metrics to date.[39] Published reports frequently suggest widespread market recognition of CV assets as high quality. The conversations for this study confirmed that many practitioners, including large and sophisticated LPs, hold such views. Nonetheless, we also encountered pockets of skepticism from certain LPs and other market experts. One of them pointed to the burgeoning number of CVs and asked, “How can all of these assets be trophy assets?” (For more on the views of skeptical LPs, see the subsection “Legacy Fund LPs” within the section titled “Institutional Investor Perspectives”).

[39]We do not assert that this is invariably true. Some LPs voiced a suspicion, for example, that the GP may mix in a poorly performing asset along with several high-performing assets in the CV portfolio.

Nonetheless, continuation funds may hold a predominance of high-quality assets for several reasons. The GP has strong financial incentives to pick high-quality assets:

- **Crystallized carry:** Higher-quality assets are likely to fetch a higher CV price, which will mean more crystallized carry for the GP.
- **Equitized carry:** GPs often invest their crystallized carry into the new CV, receiving equity in return. The greater the crystallized carry, the more money will be available for the GP to equitize. By this logic, higher-quality assets translate indirectly into more equitized carry.
- **Higher CV profits:** The greater the equitized carry, the greater the GP's eventual stake in the future profits of the CV—provided, that is, that the assets perform up to the GP's expectations.

In addition, a kind of natural selection tends to produce CV portfolios of high-quality assets. These factors shape the process:

- **Pricing close to NAV:** GPs tend to select assets with strong operating performance because they are more likely to price close to NAV.
- **Momentum expectations:** GPs may believe that high-quality assets will generate performance momentum.
- **Survival bias:** If the proposed deal fails to clear a satisfactory price, the GP likely will quietly abandon its attempt to form the CV.[40] As a result, CV deals with mediocre assets are more likely to be winnowed out, while deals with higher-performing assets are more likely to come to fruition.

Of course, none of these factors guarantees that the GP's expectations will be realized. The standard warning label, "Past performance does not guarantee future results" can apply to GPs as well as any other investors. Therefore, it might be more apt to describe the assets not as *high performing* but as *high conviction*.

We are unaware of published rigorous studies comparing GP expectations to the actual performance of CVs. Although some firms may have data on their own investments in continuation funds, we were unable to obtain comprehensive data beyond a media report of a Morgan Stanley study. That study reportedly found that continuation funds as a whole and SACVs performed slightly better than buyout funds and MACVs performed slightly better still.[41]

[40]Although this research lacks the data to prove this statement, astute market practitioners with deep experience reported that they are convinced it is true.

[41]Specifically, Buyouts (2025, p. 6) cited data by Morgan Stanley Private Capital Advisory comparing the performance of continuation funds with that of buyout funds between 2018 and 2024. The data also broke down performance by single-asset and multi-asset continuation funds. Performance was measured by median multiple on invested capital (MOIC). Morgan Stanley found continuation funds as a whole had a median MOIC of 1.4×, MACVs had a median MOIC of 1.5×, SACVs had a median MOIC of 1.4×, and buyout funds had a median MOIC of 1.3×.

Published articles and reports typically offer data not on actual performance but, rather, on investment targets. Lazard (2025, p. 10) reported, for instance, that targeted returns for SACVs stayed constant at a target of 2.2× average MOIC in 2024 and 2023, while the net internal rate of return (IRR) target increased slightly to 21.3% in 2024, up from 21.1% the previous year. The target returns were net of GP economics.

Institutional Investor Perspectives

This section explores the perspectives of institutional investors on both sides of the CV transaction: legacy LPs that cash out and new LPs coming into the continuation fund.

Core demand for continuation funds comes from such asset owners as pension funds, endowments, foundations, sovereign wealth funds, as well as secondary funds.

Demand for continuation funds has been growing. Since 2023, an increasing number of PE buyout fund sponsors and large alternative asset managers have entered the secondary market with their own dedicated secondary funds. In addition, established secondary fund sponsors have been raising greater pools of capital. The fundraising record was shattered in January 2025, when French fund sponsor Ardian closed its secondary fund Ardian Secondary Fund IX with a haul of USD30 billion. Ardian had been fundraising for the secondary fund since 2022 (Heal, Agnew, and Gara 2025; Buyouts 2025, p. 4).

Meanwhile, new types of investors have entered the secondary market, creating important new sources of demand. Ranging from family offices to retail evergreen funds, these new market participants constitute no less than "a sea change … in the secondary buyer profile" (J.P. Morgan 2024, p. 6). Evergreen funds are targeted at retail investors, usually high-net-worth individuals. These semiliquid vehicles represent a new type of investment product that is growing fast. They have had a major impact on LP-led secondaries, while institutional investors predominate in GP-led secondaries, such as continuation funds. Although this report focuses on continuation funds and institutional investors, the appendix discusses the emergence of evergreen funds.

Incoming LPs

Incoming LPs are attracted to CVs by such features as visibility into the portfolio and mitigated J-curve risk.[42] The GP typically has already had at least a few years to develop the assets while managing the legacy fund. By the time the assets are transferred into the CV, they are a known commodity to the

[42] J-curve risk refers to the progression of cash flows, which start out negative as cash is deployed to acquire assets, before reversing and eventually turning positive as assets are sold, returns are distributed to LPs, and carry is paid to the GP. For a chart of J-curves for primary and secondary funds, see PitchBook (2023, p. 5).

GP and the LPs.[43] The visibility offered by CVs contrasts with the blind pool risk inherent in primary funds, which require LPs to commit capital before the fund begins to build a portfolio.

Likewise, the investment already has had time to progress along the J-curve. In this way, CVs mitigate the J-curve risks inherent in primary funds, which generally translates into a shorter investment time horizon and a faster path to distributions (PitchBook 2023, p. 4; J.P. Morgan Asset Management 2023). This structure may also translate into reduced risk because the GP already has begun to execute its plan to improve fundamentals, such as revenue base, profit margins, or operating efficiency (Meketa Investment Group 2023, p. 3). However, the prior development and shorter investment horizon may also reduce the upside in continuation funds.

CVs also typically offer price advantages that some investors consider to be alternative sources of alpha. The most obvious advantage is the transaction price itself, which typically is set at a discount to NAV[44] (Exhibits 9 and 10 showed SACV and MACV prices as a discount to NAV).

LPs are not monolithic, and they may have a variety of additional motives to invest in a CV. Some LPs value the opportunity to invest in marque assets that they otherwise would have difficulty accessing. Others like the opportunity to begin a relationship with the GP and determine whether to develop a long-term partnership extending beyond the continuation vehicle. Finally, some LPs may make the investment in hopes of future lucrative co-investment opportunities with the GP.

Legacy Fund LPs

Are continuation funds a good deal not only for the incoming LPs but also for the legacy LPs who cash out? Are they a win–win for both sides, with the selling LPs gaining needed liquidity in return for their interests? Or are they a zero-sum game, in which the CV's success comes at the expense of the legacy fund? These questions are hard to answer, in part because of the scarcity of data, as is often the case in private markets. Some LPs also believe that more time is needed to see the investment results, especially for newer SACVs.

And what are we to make of the fact that the overwhelming majority of legacy LPs cash out? That fact by itself does not necessarily mean that continuation funds have failed. On the contrary, one of the primary purposes of continuation funds is to provide liquidity to LPs who want it, so in that sense, the substantial number of LPs that cash out can be read as a sign of the

[43]Tariff uncertainties illustrate how this could benefit potential investors considering an investment in a CV. Investors could select a continuation fund whose portfolio is relatively immune to trade wars and avoid CVs that are vulnerable to them. For discussions of how the trade wars are impacting the secondary market, see Buyouts (2025, pp. 5, 9).

[44]For a graph showing a breakdown of discounts according to asset class, see J.P. Morgan Asset Management (2025, p. 61).

success of continuation funds. Moreover, CVs typically rely on substantial selling by legacy LPs to supply the stakes for incoming investors to purchase.

But neither does the disproportionate number of selling LPs necessarily mean that they go away happy. Many do not. Although the industry argues that continuation funds have become accepted in the market, a significant number of LPs have formed mixed or negative views of them.

Continuation funds are premised on the notion of giving each legacy LP a choice of cashing out or rolling over its interests. But some LPs object that their "choice" is a forced one. They feel compelled to sell their interests because they lack the resources to reach any other decision in time to meet the deadline, which is typically 20 business days.[45]

Most LPs consider the continuation fund to represent a whole new investment requiring a full underwriting process. LPs cannot abridge that process merely because they already know the GP and have invested in the legacy fund. The process involves due diligence, an asset-level investment analysis, a legal review, and approval from an internal investment committee and possibly a governing body. All that takes time—possibly more time than the decision deadline affords, which leaves many LPs with no choice but to cash out. Some GPs acknowledge the shortcoming but say that they have moved to ameliorate it by informing LPs much earlier in the process. One pension fund professional reported that the board of trustees had delegated authority to senior staff to ensure adequate time to make the sell-or-roll decision.

Time, however, is not the only constraint facing LPs. They also need adequate in-house capabilities to conduct an asset-level investment analysis, which requires a different skill set from their basic responsibilities of allocating assets and selecting fund managers. Indeed, LPs pay significant sums to GPs precisely so that they, the GPs, will make the investment-level decisions of managing a portfolio. In making the sell-or-roll decision, however, the underwriting responsibility is forced back onto the LPs (Kastiel and Nili 2024, pp. 1637–1638.) Some LPs found it still more frustrating when the CV was being formed years before the end of the legacy fund.

Even when an LP has the appropriate in-house resources, it may be reluctant to redeploy them to analyze the CV investment. These are generally large and sophisticated LPs, which may consider the continuation fund decision too small to justify resources better applied to investments with far larger ticket sizes.

To invest in secondary vehicles, however, LPs need not have asset-level underwriting capabilities and need not roll their interests into CVs. Instead, LPs can invest in a secondary fund. Just as they rely on the GP of a primary fund to select and manage a portfolio of assets, so too they can rely on the GP of a secondary fund to invest in CVs and other secondary market vehicles.

[45]ILPA (2023, p. 4) recommends affording LPs no fewer than 30 calendar days or 20 business days to make sell-or-roll decisions.

Investing in both primary and secondary funds, however, leaves some LPs feeling conflicted. One investment professional at a pension fund described mixed feelings upon hearing a glowing report from a secondary fund about a "sweetheart deal" (an acquisition at a steep discount) meant to convey enthusiasm. The message had the opposite effect on the LP, however, because it sometimes sat on both sides of the transaction. Another investment professional at a different institution voiced similar misgivings: He stated that his institution occasionally participated as a buyer in continuation fund transactions, but did so "usually holding our nose."[46]

Some LPs question the fundamental rationale of CVs providing liquidity. As one investment professional at an LP observed, the GP owes a fiduciary duty to the fund as a whole and not only to individual LPs in need of liquidity. This investment professional maintained that the GP should not establish a CV merely to accommodate those LPs, and he blamed them for what he saw as poor cash management and overallocations to private markets. ("They got out over their skis," as he put it).[47] The proper solution, in his view, was for LPs in need of liquidity to obtain it by selling their fund interests on the LP-led secondary market.[48]

The counterargument, however, is that LPs are not homogeneous, and continuation funds are designed to accommodate their varied interests and needs. Those needing liquidity can cash out, and those that want to continue with their investment can roll it over to the CV. The fairness of this arrangement, however, hinges on the availability of a status quo option. In practice, as we have seen, that option is not always available to LPs. Besides changing the terms, some GPs crystallize their carry for both cashing and rolling LPs, thus taking a profit simply for transferring assets.

According to some industry descriptions, CVs benefit selling LPs by allowing them to lock in profits. Some LPs, however, find that portrayal unconvincing, for these reasons:

- **Discounts to attract buyers:** Some investment professionals believe that CVs routinely offer a discount to intrinsic value to attract buyers. These investors see the discount as a structural flaw of most CVs.

[46]This investment professional added that his institution occasionally chooses to roll over its interests into a CV for one of two main reasons: either the LP believes in the GP and the CV assets, or the LP refuses to sell at what it regards as an unacceptably steep discount.

[47]In a somewhat similar vein, the chief investment officer at Cornell University (not interviewed by us) told an investor publication that the endowment's cash management and disciplined rebalancing gave it "plenty of liquidity." Without criticizing his peers directly, CIO Ken Miranda called the number of secondary sales "surprising." (Comtois 2025.)

[48]Yet, in a subsequent conversation, he also acknowledged that GPs would have a legitimate business reason to establish a CV under these conditions:

- Frozen exit markets had led to a lack of distributions to LPs
- As a result, the GP was struggling to raise capital for a new fund
- The CV offered legacy LPs a status quo option, including no crystallized carry for rolling LPs.

- **Discount for lack of control (DLOC):** Whereas traditional M&A sales command a control premium, CV transaction prices reflect a discount for lack of control (DLOC). This discount is another structural flaw of CV pricing, one investment professional commented.
- **Questioning the rationale of avoiding bad markets:** Some LPs also express skepticism of a key rationale in CV transactions: allowing the GP to avoid selling high-performing assets into a weak exit market. A bad market might hamper sales of mediocre assets, they say, but truly high-performing assets will sell in any market.
- **Loss of upside.** Even when LPs profit from the sale of their interests in a CV transaction, some of them resent the loss of further potential upside. As some noted in interviews, it was the legacy LPs who took on the blind-pool risk when they first committed to invest in the legacy fund and who provided the capital for the assets' initial development. One investment professional in a prominent LP reported that the institution had earned a healthy 10× MOIC by cashing out in one CV transaction—but would have earned 20× if it had rolled over into the new fund. These LPs expressed a pervasive sense of unfairness, a feeling that some GPs stoked further by a combination of actions: touting the portfolio companies as trophy assets; setting compressed deadlines for LPs to make the sell-or-roll decision; and depriving them of a status quo option.

Nonetheless, one adherent of these views, an investment professional at a pension fund, acknowledged making no headway when voicing these concerns to fellow LPs. The peers dismissed talk of DLOCs and the loss of potential upside as merely theoretical; they declared themselves happy simply to take the cash.

Finally, some LPs characterized continuation funds as "a transfer of economics from the LPs to the GP." That was a strikingly common refrain in the interviews with LPs conducted for this study,[49] and it highlights the significant conflicts of interest that GPs face in establishing a CV.

Conflicts of Interest

Continuation funds produce heightened conflicts of interest for both GPs and LPs. For GPs, the conflicts include the following:

- **Dual fiduciary duties:** Extraordinarily, the GP serves as the fiduciary for both sides of the same transaction—the continuation fund (the buyer) and the legacy fund (the seller). It thus has obligations to act in the best interests of the LPs for both funds (Kastiel and Nili 2024, pp. 1626–1627).

[49]That view also matches the reported results of at least one survey of LPs. Specifically, a Goldman Sachs survey reportedly found that 38% of LPs believe that CVs interfere with LP–GP alignment (Witkowsky 2023).

- **Pressure to complete the deal:** The GP has strong incentives to complete the deal, which will unlock opportunities to reset the carry, prolong management fees, and, often, raise its equity stake in trophy assets. If the deal collapses, the GP receives no benefits (SEC 2023, p. 63258). A conflict of interest would arise if the GP faced pressure to complete a deal on terms that were not in the best interests of the legacy fund and its LPs.
- **Performance record:** Transferring assets into a CV could enhance key components of the legacy fund's track record, such as DPI (Capital Dynamics 2022, pp. 6, 18) and IRR.[50] The GP has a significant incentive to demonstrate a strong track record, which will be essential for any future fundraising.
- **Relationship building:** When a fund sponsor assesses the commercial importance of a given LP, it generally considers the entire relationship: current investments, which could span multiple funds, any co-investments, anticipated future investments, and so on. But in managing a private fund, the GP has a fiduciary duty to act in the best interests of the fund and its LPs, regardless of the sponsor's wider commercial interests. Potential tensions between the GP's self-interest and fiduciary obligations can be fertile soil for conflicts of interest to arise.

  In particular, potential conflicts can arise if the GP uses a new CV as a prize to entice prospective investors, build new relationships, or bolster current ones. Some relationship-building actions would be benign, provided they posed no harm to other investors. For example, the GP could simply offer a favored LP access to invest in the CV at the same price and on the same terms as other investors. Other potential actions, however, could benefit the GP at the expense of the continuation fund and its LPs. For example, the GP would violate its fiduciary duties if it accepted a lower bid from a lead investor in return for considerations extraneous to the fund, such as securing a stapled commitment or winning the opportunity to cultivate a relationship.

Several mechanisms have evolved in the market to address these conflicts, including the following:

- **Competitive bidding process and negotiations with a third party:** A competitive bidding process culminating in negotiations with a third-party lead investor lends credence to the fairness of the process of establishing a continuation fund.
- **Fiduciary duty:** As noted earlier, the GP has legal obligations to act in the legacy fund's best interests. Any violations of fiduciary duty could leave the GP vulnerable to lawsuits from aggrieved LPs.
- **LPAC approval:** As discussed previously, the GP typically relies on a combination of disclosures and an LPAC waiver to mitigate potential

[50]If the legacy fund continued to hold the assets, the longer time horizon in itself would lower the IRR.

conflicts of interest. This combination acts as a strong incentive for the GP to conduct the competitive bidding process in a fair manner—and to be able to demonstrate that fairness to the LPAC.

- **Reputation:** As already discussed, private market funds are in the relationship business. Their business model hinges on successful fundraising to launch new funds. This dynamic serves as an important guide rail on GP behavior—all the more so given the negative perceptions and dismal reputations that continuation funds have managed to overcome.

None of these mechanisms are perfect. For example, an individual LPAC member may have its own incentives to maintain access to future deals or co-investment opportunities with the GP. That motivation could lead the LP to refrain from voicing objections to a CV deal out of concern for its overall relationship with the GP. This example exposes a truth about LPs: They are far from homogeneous, and their differences can lead to conflicting interests with other LPs.

Conflicts of interest in continuation funds, along with mechanisms to address them, merit further study. The next report in the CFA Institute Research and Policy Center series on ethics in private markets will explore these questions.

Conclusion: Dynamic Evolution, Timely Example

Continuation funds represent a dynamic evolution that seeks to meet private market needs in at least three ways:

- Addressing the pressing liquidity needs of LPs
- Expanding the tools available to GPs to manage private funds, including the timing of exits
- Offering potentially attractive investment opportunities for incoming LPs

Whether continuation funds will ultimately prove to be successful investments remains to be seen. Their performance warrants further study, as do the conflicts of interest and the governance mechanisms that seek to address them.

The rising importance of continuation funds comes at a particularly apt time for policymakers, as many of them deliberate on whether and how to expand retail access to private markets. Continuation funds serve as an especially salient example for policymakers, for three key reasons:

- **Liquidity:** The rise of continuation funds illustrates the depth of the liquidity challenges facing institutional investors and fund sponsors in private markets. Yet retail investors arguably have far greater liquidity needs than institutional investors. Designing ways to meet those needs will become paramount if regulators continue to expand retail access to private markets. At the same time, expanded retail participation could make private secondary markets broader and deeper, perhaps helping alleviate current liquidity pressures.

- **Conflicts of interest:** Some professional investors at large and sophisticated institutions have expressed serious misgivings over what they see as misalignments in continuation funds. Potential conflicts of interest likely will pose even greater challenges for retail investors—and for regulators seeking to fulfill their investor protection missions.
- **A moving target:** Continuation funds have come a long way since the 2008 global financial crisis, as shown vividly by their reputational transformation from an association with zombie funds to a showcase of trophy assets. Further expansion of retail access to private markets—through evergreen funds, '40 Act Funds, new hybrid retail funds, and, potentially, through defined contribution retirement plans—no doubt will drive further change in private markets. Evergreen funds already have had an impact on demand and prices in LP-led secondary offerings. As private markets and continuation funds continue to evolve, they present moving targets. And moving targets present special challenges to regulators, who must craft rules that will last into the future.

Methodology

We engaged in research for this report from May 2024 to August 2025. The primary research method involved a series of interviews with more than 30 senior-level industry professionals in hour-long, one-on-one video calls. About two-thirds of the interviewees serve the North American marketplace, and the rest serve Europe, the Middle East, or the global marketplace.

To encourage candor, we conducted all interviews on background (see the Acknowledgements section for those interviewees who gave permission to list their names; others wished to remain anonymous). We followed up with additional interviews and email exchanges with several individuals. In a few cases, we also conducted one-on-one interviews with more than one professional at the same organization.

The following is a breakdown of the types of individuals interviewed and the types of organizations where they worked. The views they expressed were their own and not necessarily those of their employers.

Seven GPs:

- Strategies: private equity, private credit, and other investment strategies
- AUM from approximately USD10 billion to more than USD1.7 trillion

Nine LPs:

- Types: public sector pension plans, endowment funds, and sovereign wealth funds
- Strategies: public and private equity, public and private real estate, infrastructure, forestland, private debt and loans, fixed income, and money market
- AUM: from approximately USD3 billion to close to USD1 trillion

Three outsourced chief investment officer (OCIO) organizations and one OCIO consultant:

- AUM of OCIOs: USD6 billion to more than USD540 billion

Seven service providers, including the following:

- Advisers to GPs and agents representing them
- Independent valuation experts
- Secondary fund consultants and placement agents
- Recordkeepers
- Data providers
- Industry analysts

The interviewees included professionals with the following titles:

- President and CEO
- Executive director
- Private fund partner
- Managing director
- Deputy chief investment officer
- Principal
- Senior strategist
- Law school professor and associate dean
- Securities lawyer

In addition to individual interviews, we conducted group discussions with more than 50 professionals belonging to trade associations or investor organizations in North America. One of the study authors also discussed continuation funds and private markets at a PE conference.

We held additional discussions with securities regulators. One of the authors spoke at a security regulators' conference; gave a presentation to the Investment Funds Technical Advisory Committee of the Ontario Securities Commission; and engaged in conversation with a special projects group on public and private markets of the Australian Securities and Investments Commission.

We supplemented interviews and conversations with copious background reading, including articles and reports published by the financial media, investment banks, market data providers, and private market experts.

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Appendix: The Emergence of Evergreen Retail Funds

Retail evergreen funds have emerged as a major new participant in private markets during the past few years. Evergreen structures in the United States and Europe hold an estimated USD320 billion (Murphy and Hadas 2024). In a report released at the beginning of 2025, Jefferies (2025) predicted that evergreen retail funds would raise USD24 billion in 2025. A State Street survey of 500 institutional investors and asset managers revealed strong expectations for continuing inflows into retail private market products. Specifically, a majority (55%) of the survey's respondents believed that within two years, at least half of private market fundraising would come through semiliquid retail products marketed to individual investors (Carpenter, Cole, and Redgrave 2025, p. 2).

Evergreen retail funds can be understood as a kind of alternative mutual fund that offers retail access to private markets. As their name implies, evergreen funds have no fixed term after which they must close down but instead have a perpetual time horizon.

Evergreen funds vary considerably in their structures, their strategies, the extent of retail access allowed, and minimum investment sizes.[51] These funds initially were marketed to high-net-worth individuals, but some have become open to the mass affluent or the general public, with minimum investment thresholds as low as USD1,000. In the United States, some but not all evergreen funds are '40 Act Funds, so named because they are registered with and regulated by the US SEC under the Investment Company Act of 1940. These '40 Act funds are open to the general public and not restricted to accredited investors.

New hybrid vehicles are also being formed under partnerships between established private market fund sponsors and major mutual fund or investment management companies. These vehicles, some not yet established, are or will be open to retail investors and will invest in a combination of public and private markets.

Evergreen vehicles, although diverse in structure, are generally designed to meet the needs of individual investors (Houlihan Lokey 2025, p. 2; Murphy and Hadas 2024). They differ from traditional closed-end private market funds in the following ways:

- **Immediate capital deployment:** Evergreen funds tout their ability to put investors' money to work immediately. That feature presents a challenge for evergreen managers to find productive investments immediately, and it has had an impact on secondary markets, as discussed further at the end of this appendix.

[51]Evergreen vehicles include the following: interval funds; tender offer funds; nontraded real estate investment trusts; business development companies; long-term asset funds in the United Kingdom, accessible to institutional investors, defined contribution pensions, and professional investors; and European long-term investment funds in the EU, targeted toward institutional and professional investors (Prequin 2024).

- **No capital calls:** Evergreen funds allow investors to contribute 100% of their investment immediately. Traditional private funds, in contrast, draw down investor capital over time and sometimes on little notice. Eliminating capital calls obviates the need for retail investors to manage their cash while waiting for capital calls.
- **Limited liquidity:** Evergreen funds generally allow investors to redeem their investments periodically, such as once a quarter. Redemptions, however, are allowed only in limited amounts, often capped at 5% of the fund's outstanding shares, and may be subject to suspensions in adverse market conditions.[52] For this reason, the funds are called *semiliquid*, and one particular type is called an *interval fund*.[53]

Notice how nicely these features match the characteristics of secondary market offerings. That is particularly true in an LP-led secondary offering, in which an individual LP sells a portion or all of its interests in a private fund. The purchaser obtains an immediate ownership interest in a portfolio that is typically more diversified than an MACV (let alone an SACV). That feature is particularly attractive for evergreen funds seeking to deploy their investors' capital immediately. Continuation funds, in contrast, offer much less diversification. SACVs are clearly the least diversified (holding just a single asset), but the portfolios of MACVs also typically hold fewer assets than primary funds hold.

LP-led secondary offerings and GP-led continuation funds share certain other features that make them attractive investments for evergreen funds. Both offer features—a potentially shorter investment horizon, earlier cash flows, and accelerated distributions compared to primary funds—that appeal to evergreen funds, given their need for liquidity. The shorter investment horizon also likely will enhance the IRR. However, there may be less upside in assets that have higher valuations and are farther along the J-curve than when initially purchased in the legacy fund.

Given these points of alignment, it should be no surprise that evergreen funds have become major purchasers of LP-led secondaries and are beginning to participate in the GP-led secondary market as well (Jefferies 2025, p. 4). Evergreen funds have become a dominant buyer in the LP-led secondary market, bidding up prices beyond what some traditional investors are willing to pay. Their dominance is driven by the need for evergreen funds to deploy cash, in combination with their willingness to accept lower return expectations than traditional buyers would tolerate. It is worth watching how this dynamic continues to play out, with a proliferation of funds being formed for an increasingly broader swath of retail investors.

According to one pension fund investment professional, traditional buyers have been forced to leave the LP-led secondary market in the face of what he called

[52]For a comparison of drawdown and evergreen funds, see Murphy and Hadas (2024).

[53]For a brief explanation of interval funds, see the SEC's webpage on the topic: www.investor.gov/introduction-investing/investing-basics/glossary/interval-fund.

insatiable demand from evergreens and their willingness to bid up prices to unacceptable levels. These traditional investors have gone instead to the market for GP-led MACVs.

This investor is not alone in his perceptions of the impact of evergreen funds:

> Increasing competition in the market, driven by premium pricing offered by '40 Act funds with lower return thresholds, is narrowing bid–ask spreads and driving several traditional investors out of the LP market. (Lazard 2025, p. 20)

Lazard (2025) reported that according to its survey of secondary investors on the outlook for secondary markets in 2025, the number one challenge was "proliferation of '40 Act funds driving deployment pressure, increasing competition and inflating pricing across the board" (Lazard 2025, p. 23).

On the positive side, this investment professional credited surging demand from evergreen funds with expanded opportunities to sell assets in the LP-led secondary market. LPs use such opportunities to trim old legacy relationships, close out investments with only a few remaining assets, and rebalance portfolios.

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