CFA Institute Research & Policy Center

Continuation Funds: Ethics in Private Markets—Part 2

Understanding the Ethical Framework for Continuation Funds

Policy in Brief

April 2026

Continuation funds are private market structures in which a manager transfers assets from an existing fund into a new one it also manages, placing the general partner (GP) on both sides of the transaction. These deals raise important ethical questions, which form the subject of the forthcoming CFA Institute report *Continuation Funds: Ethics in Private Markets, Part 2*.

This is the second in a series of reports on ethics in private markets. The first report, *Continuation Funds: Ethics in Private Markets | Part 1*, explains what continuation funds are, how they work, what has driven their growth, and what they tell us about private markets. The second report emphasizes the importance of process in shaping outcomes. Strong price discovery, full disclosure, and informed investor choice can support fair and ethical outcomes, whereas weak governance or misleading information can make transactions ethically questionable or, in some cases, unethical.

A Framework for Distinguishing Ethical Outcomes

This report contributes to the understanding of ethical issues in private markets by introducing a framework that distinguishes among structural conflicts of interest, procedural failures, and intentional misconduct in continuation fund transactions. It aims to offer an even-handed and balanced explanation of conflicts, ethical issues, and best practices. The goal is to raise awareness among practitioners and help them navigate conflicts and act ethically, while also informing regulators, the media, and other interested audiences about the issues and best practices.

The report emphasizes that conflicts themselves are neither ethical nor unethical. Rather, ethical outcomes are shaped by how those conflicts are addressed.

Linking Theory to Practice

The research included candid, in-depth, not-for-attribution interviews with more than 30 senior-level industry professionals, including GPs, limited partners (LPs), and service providers. The report combines practical insights with ethical principles and concepts from agency theory, fiduciary duty, and related fields to provide an integrated analytical framework. By linking practical considerations with broader conceptual foundations, it offers guidance for market participants as well as a framework to analyze the ethical dimensions of private-market issues and act on them ethically.

Why This Research Matters Now

Continuation funds have grown rapidly as traditional exit routes, such as IPOs and M&As, have slowed, making continuation funds an increasingly important source of liquidity in private markets (see chart below). As their use expands, so do concerns about fairness, transparency, and potential abuse, given the GP's dual role in these transactions. This report offers timely guidance as interest from investors, regulators, and the media increases.

Who Should Read This Report?

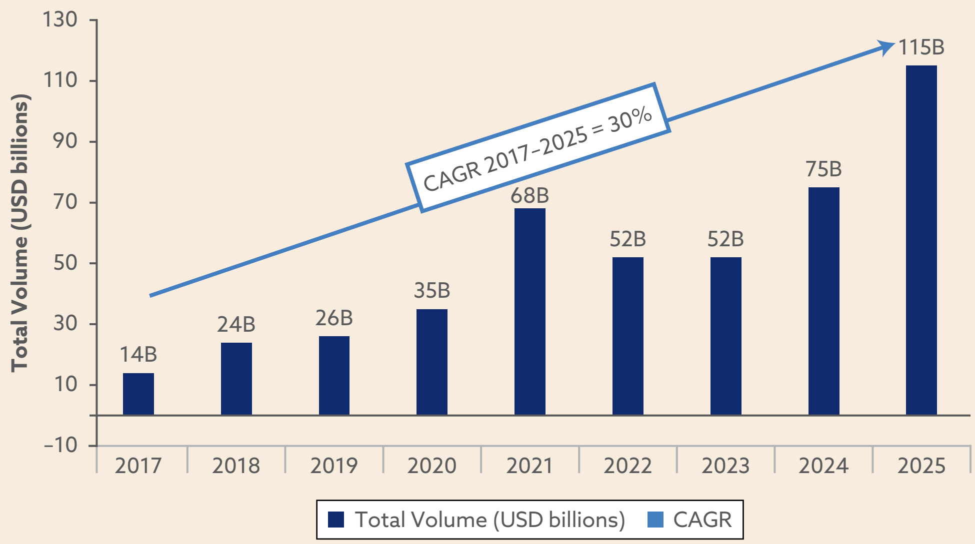
This is essential reading for both participants and observers in private markets—particularly GPs, LPs, regulators, and financial journalists. It provides a practical framework for evaluating ethical risks in continuation fund transactions. It aims to help GPs structure transactions consistent with fair and ethical practices, LPs assess whether they are being treated fairly, and regulators and media distinguish sound practices from potential misconduct.

How to Understand Incentives, Conflicts, and Ethical Issues in Continuation Funds

The report frames continuation fund ethics through a three-part lens: structural conflicts, procedural failures, and intentional misconduct. Structural conflicts are inherent to continuation funds because GPs sit on both sides of the transaction. A strong, transparent process, featuring fair pricing, full disclosure, and adequate decision time, can manage these tensions ethically, whereas weak or rushed processes are signs of procedural failures. The line is clearly crossed with intentional misconduct, when GPs exploit conflicts through actions such as misleading disclosures or valuation manipulation. The presented framework provides a practical way to distinguish among ethical practice, poor execution or procedural flaws, and outright unethical behavior.

Continuation funds have become an increasingly important source of liquidity in private markets. GP-led secondary market global volume (primarily continuation funds) has grown at a CAGR of 30% since 2017, reaching USD115 billion in 2025.

Year-over-Year Transaction Volume Growth of the GP-Led Global Secondary Market, 2017–2025



Sources: Jefferies. 2023. "Global Secondary Market Review" (January). www.jefferies.com/wp-content/uploads/files/IBBlast/Jefferies-Global_Secondary_Market_Review-January_2023.pdf.

Jefferies. 2026. "Global Secondary Market Review" (January). https://go.jefferies.com/l/399542/2026-01-23/5v1tf1/399542/1769183474J7SWeVCW/Jefferies___Global_Secondary_Market_Review___January_2026.pdf.

Potential Red Flags

Following are red flags for potential misconduct in continuation funds, also called continuation vehicles (CVs). The presence of one or more red flags does not establish misconduct, but it should prompt closer scrutiny of pricing, process, and disclosures.

Category	Red Flag	Why It Matters
Value capture	CV launched despite credible third-party exit opportunities	May indicate a potential suppression of value to capture future upside
	CV initiated ahead of a foreseeable liquidity event (e.g., IPO or sale) without disclosure	Potential timing manipulation
	Significantly below-market transaction price	Possible underpricing to benefit GP/CV investors
LP squeeze-out risk	Compressed timelines for limited partners' advisory committee (LPAC) approval or LP elections	Limits informed decision-making
	Late, incomplete, or unclear disclosure of key terms or risks	Undermines informed consent
	No true status quo option for rolling LPs	Forces exit or acceptance of inferior terms
	Process complexity disproportionately disadvantages certain LPs	May indirectly pressure LPs to exit
Disclosure concerns	Selective disclosure to certain investors	Unequal access to material information
	Contradictory messaging to different investor groups (e.g., buyers vs. legacy LPs)	Suggests information manipulation
	Limited or uneven access to data room or underlying information	Prevents independent evaluation
Valuation concerns	Inconsistent valuation methodologies across audiences	Indicates possible bias in pricing
	Selective or biased use of comparables or assumptions	Suggests manipulation of inputs
	Incomplete information provided to valuation providers	Undermines fairness opinions
General indicators	GP incentives strongly favor CV formation regardless of impact on the legacy fund	May reflect misaligned motivations
	Stated rationale inconsistent with key characteristics of the transaction	Suggests potential hidden motives

Best Practices for a Fair Process

The report analyzes conflicts that arise among both GPs and LPs. LPs differ in strategy, liquidity, and other investment characteristics, and their heterogeneity may produce conflicts of interest among themselves. The recommendations for GPs include the following best practices:

- **Ensure robust, market-based price discovery.** Use competitive bidding with credible third-party investors to establish fair pricing and reduce bias.
- **Provide full, fair, and timely disclosures.** Share all material information with LPACs and LPs clearly and with sufficient time for informed decisions.
- **Offer a true "status quo" option.** Allow LPs to roll into the CV on the same economic terms, avoiding coercive trade-offs.
- **Strengthen governance and LPAC oversight.** Support informed approvals with transparent data on bids, pricing, and process.
- **Align GP incentives with LP interests.** Structure fees, carry, and commitments to minimize misalignment and discourage opportunism.
- **Adhere to fiduciary and professional standards.** Uphold duties of loyalty, care, and fair dealing, and avoid misleading disclosures or valuation manipulation.

Bottom Line

- **Process plays a central role in ethical outcomes.** Continuation funds are not inherently unethical, but their structure creates important considerations.
- **Conflicts are inherent but not inherently unethical.** How they are managed is critical.
- **Fair processes are important to achieving equitable outcomes.** Transparent pricing, clear disclosures, and meaningful investor choice are key.

Related Content

CFA Institute. 2025. "Webinar: Continuation Funds: Ethics in Private Markets" (4 December). www.cfainstitute.org/insights/events/2025/ethics-in-private-markets.

Deane, Stephen. 2024. "Private Markets: Governance Issues Rise to the Fore." CFA Institute (12 June). https://doi.org/10.56227/24.2.7.

Deane, Stephen, and Ken Robinson. 2025. "Continuation Funds: Ethics in Private Markets, Part I." CFA Institute Research and Policy Center (15 December). https://doi.org/10.56227/25.1.29.

Ljungqvist, Alexander. 2024. *The Economics of Private Equity: A Critical Review*. CFA Institute Research Foundation (14 May). https://doi.org/10.56227/24.1.10.

Ricciardelli, Alfonso, and Philip Clements. 2024. *An Introduction to Alternative Credit*. CFA Institute Research Foundation (20 March). https://doi.org/10.56227/24.1.4.

CFA Institute
Research & Policy Center

https://rpc.cfainstitute.org/

Authors:

Stephen Deane, CFA: stephen.deane@cfainstitute.org

Ken Robinson, CFA, CIPM: kenneth.robinson@cfainstitute.org

Explore RPC Private Markets Content