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Beyond Traditional Exits: How CVs Are Reshaping Liquidity

In our previous *Private Market Pulse*, we described the market as uncertain, and that hasn't changed much. This persistent uncertainty continues to slow down mergers and acquisitions (M&A), making initial public offerings (IPOs) increasingly rare. For private equity, which relies heavily on these two exit strategies to generate liquidity for investors. Fund managers are now being pressured to find alternative paths to liquidity. That's where continuation vehicles (CVs) come in. Considered a niche solution a decade ago, CVs are now a hot topic. Some investors embrace them, while others remain skeptical. However, we believe the reality is more nuanced.

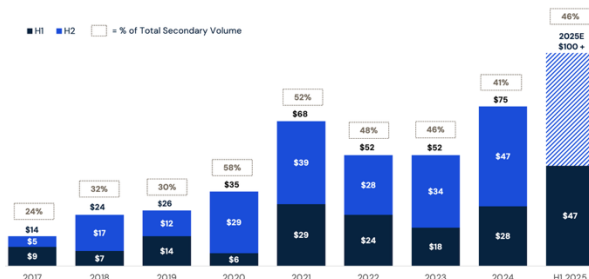
At its core, a CV is a simple concept: it's a new vehicle created to hold one or more assets from an existing fund. As a closed-end fund matures, investors' need for liquidity increases. However, a manager may still see growth potential in a company held the past five years that has already delivered strong performance. Sometimes, the value creation plan takes longer than expected, or a new market is unlocked through a transformative acquisition. A CV offers a solution: investors seeking liquidity can exit, while others can remain invested. Since CVs typically involve new investors, the manager can continue supporting the business with fresh capital.

Despite being a liquidity tool, CVs raise concerns around pricing and alignment of interests. Unlike a traditional sale to an external buyer, a CV involves the manager acting as both seller and buyer. This dual role has led to headlines suggesting that private equity firms are "selling to themselves." We believe it's important to explain this process and highlight the nuances that must be considered.

Private equity has evolved significantly over the past decade. Today, these complex and sophisticated transactions are often led by third-party managers. Their involvement brings independent pricing and helps align the interests of stakeholders. In other words, while the original manager retains control over the new investment, a third party, such as a specialized GP-led or secondary manager, sets the transfer price. These managers don't just set the price; they also invest significantly in the new vehicle, ensuring alignment on valuation.

Various terms and conditions can apply to these transactions. For example, does the manager roll over their carried interest into the new vehicle, or do they use the transaction to crystallize it? This factor has a major impact on alignment. Ideally, the manager should roll their carry and only earn profits when the business is sold at the end of the CV's term, fully aligning their incentives with those of new investors.

Annual Volume of Continuation Vehicles
(In Billions of USD)



Source : Jefferies Global Secondary Market Review, June 30th, 2025

Did you know?

GP-led or CV represents one half of the traditional secondary market we see in the private market. The other half resides on the investor side. An LP-led transaction occurs when an investor initiates the sale of their fund interests, creating liquidity for themselves. It's an increasingly common tool for actively managing and rebalancing portfolios. However, buyers will often agree to purchase at a discount. Historically, an LP-led transaction was the only form of secondary transaction. However, the market is expanding to include a multitude of strategies to generate liquidity.

Situations around CVs may be complex and require co-investment or direct investment expertise, as well as deep knowledge across sectors and geographies to fully assess their subtleties. These capabilities are not always available to traditional fund investors, who may decline such opportunities not because they dislike them, but because they lack the time or internal resources to evaluate them properly. As a result, many LPs opt out of CVs, even when the deals could be attractive.

Finally, we agree that not all CVs are created equal, and investors must remain vigilant. At iA, we treat CVs as co-investments: we take the time to understand the business, its tailwinds and headwinds, and, just as importantly, the story behind the CV. What was the original exit plan? Did the first sale process fail? Who is leading the transaction? Has the carried interest been fully rolled over? These and more are all questions we address during our due diligence.

Ultimately, we view CVs as a flexible tool. When governance and alignment questions are answered positively, CVs allow us to invest in proven companies that continue to be managed by the same GPs and management teams, reducing

execution risk. While headlines such as “selling to themselves” may grab attention, the reality is far more complex. There are good and bad deals out there — and it takes work to find the diamonds.

Glossary

Dry powder : Committed capital in a fund that is not yet invested. In other words, capital that is ready to be deployed.

Closed-end funds: An investment fund with a limited lifecycle during which capital is committed and invested. At the end of the fund's term, all investments are sold and the proceeds are distributed to investors before the fund is closed

Fundraising: First phase in the lifecycle of a private equity fund; the process by which a private company launches a private equity fund and raises capital from investors..

Market Highlights

- Liquidity continues to be the number one issue among private investors; we are seeing a surge in secondary sales from investors. LP-led transaction volume rose by more than 40% in the first half of 2025 compared to the same period in 2024. This trend highlights a growing willingness among limited partners to accept discount in exchange for liquidity.
- Fundraising continues to be difficult on the back of poor liquidity in the market, and investors are holding off on commitment. For the first time in 10 years, none of the buyout funds that closed in Q1 25 exceeded 5B\$. As for Q2 2025, private equity fundraising declined to half the quarterly average value raised since Q3 23, while the number of funds raised is at a decade low. There is a clear trend of LPs favouring larger and established managers at

the cost of avoiding emerging GPs, where most of the raised capital went to funds over 1 B\$ in size.

- In contrast to private equity, infrastructure fundraising is thriving. In just six months, commitments have nearly matched the total raised for all of 2024. Two themes are driving this momentum: digital infrastructure and energy. As demand for data centres, connectivity, and cloud services continues to grow, we see demand in energy growing as well. Especially in renewables, where investors see strong yield and long-term growth potential.

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