



Navigating Continuation Vehicles/GP Led Secondaries and Co-Investments

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Continuation Vehicles – GP & LP Benefits

- Continuation Vehicles (CVs) are legal structures or private funds created to hold the assets that a GP has chosen to liquidate from an existing fund.

ABILITY TO MAINTAIN OWNERSHIP

A sponsor can continue to own an asset and create value without being forced to sell, while also providing liquidity to LPs.

OPTIONALITY & LIQUIDITY

CVs typically provide existing LPs with a choice of whether to “cash out” (i.e., receive their share of the net proceeds from the sale) or retain exposure to the asset(s) by rolling or reinvesting in the CV.

POTENTIAL TO BROADEN LP BASE

GPs can foster relationships with secondary buyers who become new LPs.

MITIGATED BLIND POOL RISK

New investors can gain access to known assets, which may be managed by a sponsor with whom they're already familiar or have a relationship.

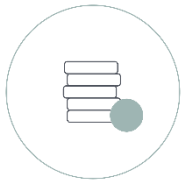
*Since the GP is on both sides of the transaction, there is an **inherent conflict of interest** which needs to be appropriately managed.*

MANAGING POTENTIAL CONFLICT OF INTEREST:

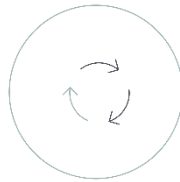
- The approval of the selling fund's advisory committee (LPAC) is typically sought and is often required. GPs are encouraged to engage with the LPAC as early as possible in the process.
- The purchase price is typically determined by third parties (secondary investors), often through an auction process run by a financial advisor.
- A fairness opinion or third-party valuation from an independent financial advisor is typically provided by the sponsor to the existing investors.
- The GP should give enough time to the existing LPs to evaluate its proposal and return their election forms.

CVs Provide Optionality for Investors

Existing LPs have the choice to roll or re-invest into the CV or sell their interests and receive cash. Deal moves very fast – LPs do not have much time to decide to sell or roll into new CV.



Sell and receive cash for the transferred assets at the valuation determined for the transaction



Status quo roll option that would maintain the terms (and sometimes structures) of the existing fund



Roll into the CV on the **new terms**



Re-invest into the CV on the **new terms** with an **additional capital** commitment

***Transactions should be evaluated individually.
Elections are made on a case-by-case basis.***

Continuation Funds/GP Led Secondaries: Conflicts of Interest and Mitigation

Conflicts of Interest

- Fiduciary duties to existing (selling) fund vs. new (buying) fund
- Sponsor incentive to generate additional carried interest and fees with the new fund
- Sponsor negotiation of the purchase and sale (or contribution) agreement
- Does an independent fairness opinion support the price?
- Transparency and disclosure issues
- Are LPs presented with a status quo option? (*SEC concern that LPs are provided two bad options*)
- Selection of intermediary and buyer

Mitigation

- Auction Process
- LPAC Consents
- Representation and Warranty Insurance
- Valuation or Fairness Opinion
- Disclosure in the Confidential Information Memorandum
- Lead Investor Role (Negotiation and Enforcement of Transaction Agreement for Continuation Fund)

Fund Documents, Side Letters & Consent Forms

Fund Documents (PPM, LPA, Sub Booklet & Side Letter)

- GP will form new private fund (after negotiation of material terms with anchor LP)
- Not much time to review fund terms
- Fund terms should track terms of underlying fund (but not always)
- Typically no PPM
- Subscription Agreement & Sub Booklet
- Always ask for side letter:
- Side letter should have at minimum same applicable material terms.
- Request new terms if change in law or plan's policies/practices.

Selling LPs – Sale of Entire Interest for Cash

- Read consent forms carefully
- Include representations and warranties
- Include waivers of rights
- Existing LP will be considered a selling an LP if do not execute new sub booklet
- Whether sign consent form or not, still will be considered selling LP of entire fund interest
- Practice tip: If plan to sell entire interest, do **not** sign consent form if requires waivers. Notify manager via email instead.

Co-Investments: Conflicts & Other Considerations

- Fiduciary duties to competing clients and investors
- Impact on time and attention paid to main fund
- Allocation of co-investment opportunities
- Allocation of diligence, exit and broken-deal expenses
- Differing fee structures
- Access to information
- Rushed Closings
- Fund Documents
- Side Letters

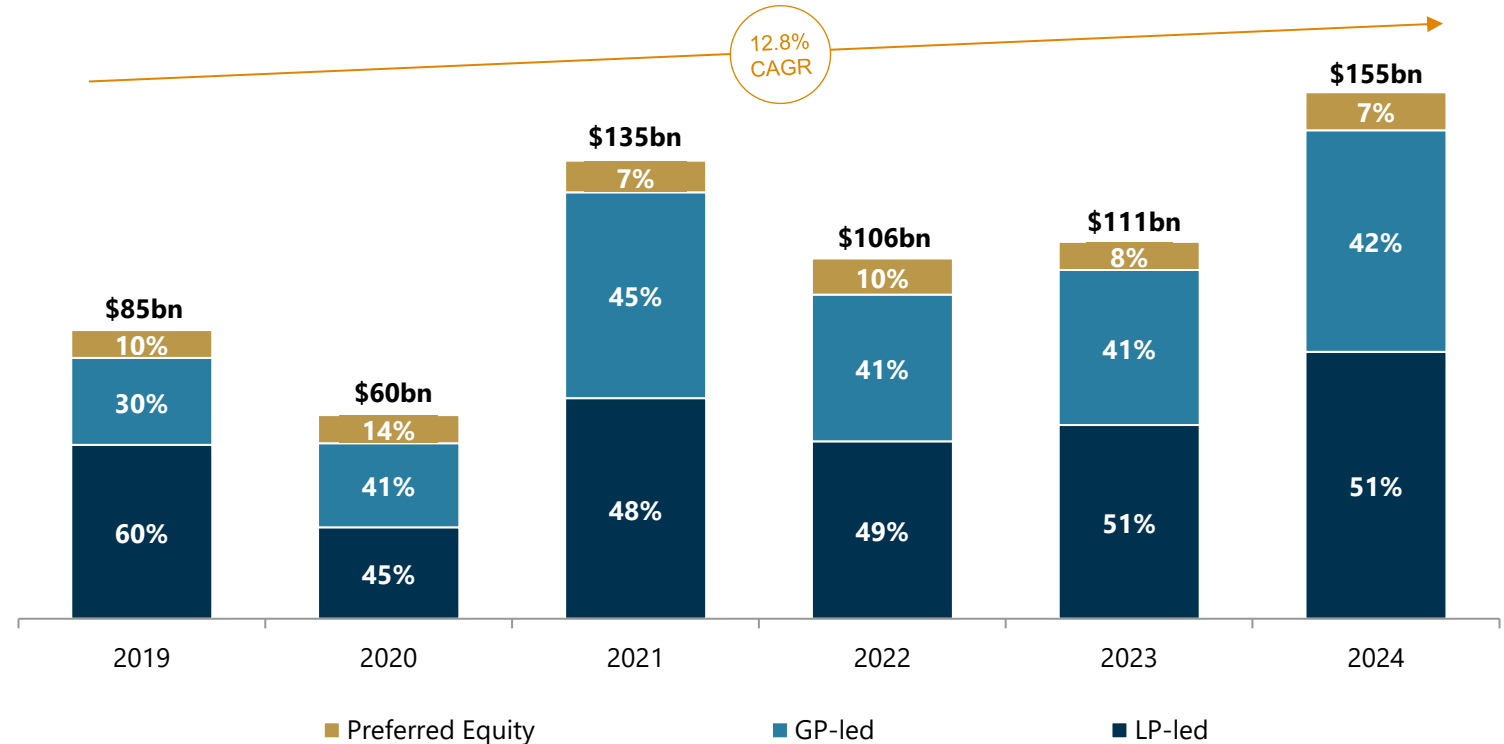
MARKET DATA

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Historical and Forecast Secondary Market Volume

- Record year for secondary market volumes, reaching an all time high of \$155bn in 2024, 15% above the prior high in 2021

Annual secondary market volume by transaction type (\$bn)

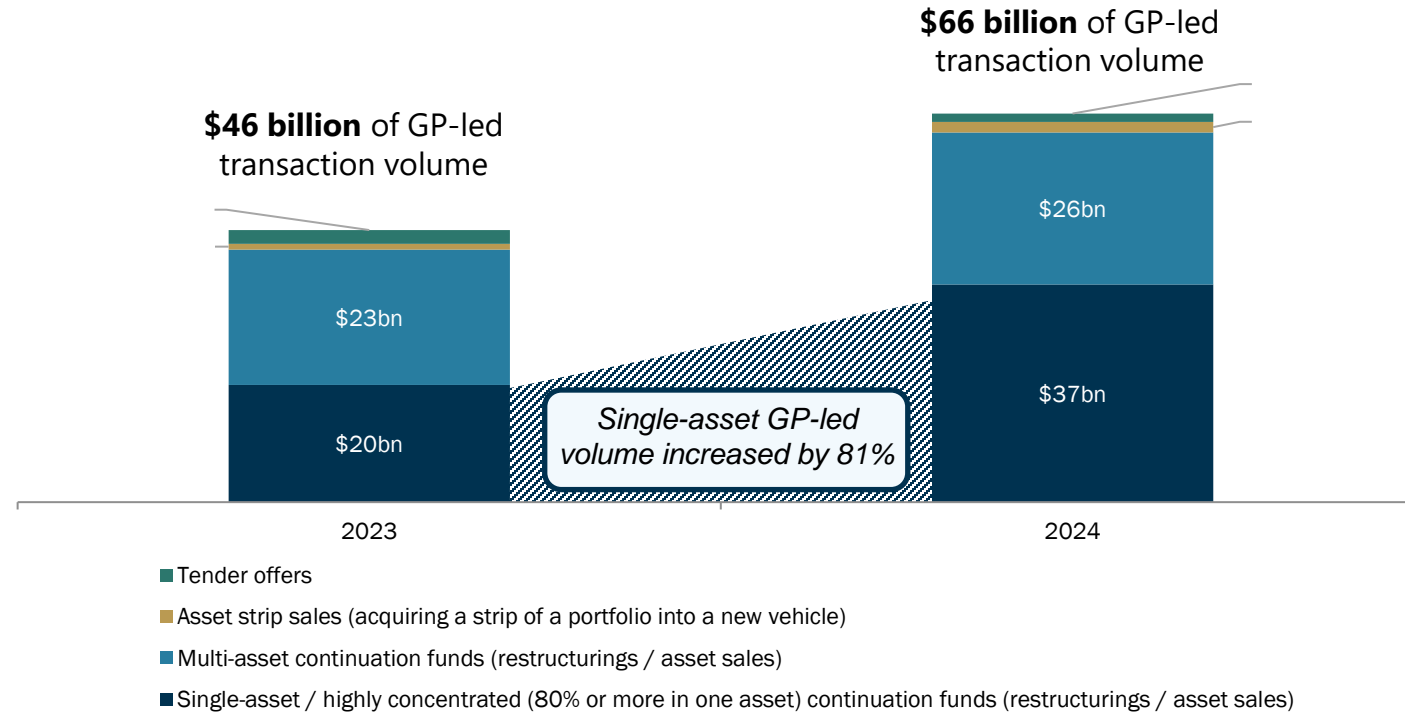


- Secondary transaction volume has been one of the bright spots for private markets as it has grown since 2021, in contrast to IPO, M&A and PE acquisition volume which have all declined¹
- Muted M&A and capital markets activity resulted in persistently low levels of distributions driving both LPs and GPs to increasingly use the secondary markets as a way to accelerate liquidity on private assets

Accelerating Growth in Single-Asset Continuation Funds

Type of GP-led transactions in full year 2024¹

Single-asset continuation fund dollar volumes nearly doubled compared to the prior year, reaching ~\$37 billion in FY 2024



- We observe continued growth in continuation fund investors, including new entrants, increased LP participation and strong fundraising
- Increased demand, strong company performance, and macro-economic stability has increased confidence and pricing
- These factors have driven a surge in GP-led activity and broad adoption, especially in the middle market

Source: CL Full Year 2024 Secondary Market Overview; Note(s): 1. Split by transaction value (purchase price plus unfunded) per respondent

Pricing on Closed GP-led Transactions Continues to Improve

75% of GP-led transactions priced at or above 90% of manager NAV, as pricing continues to improve due to strong alignment and asset quality

Average GP-led transaction pricing reported by respondents, by period¹



- Secondary investor focus on high-quality assets continues, as strong pricing has led to increased GP adoption and LP acceptance
- GPs are increasingly using the secondary market as an additional exit option for strong assets with upside

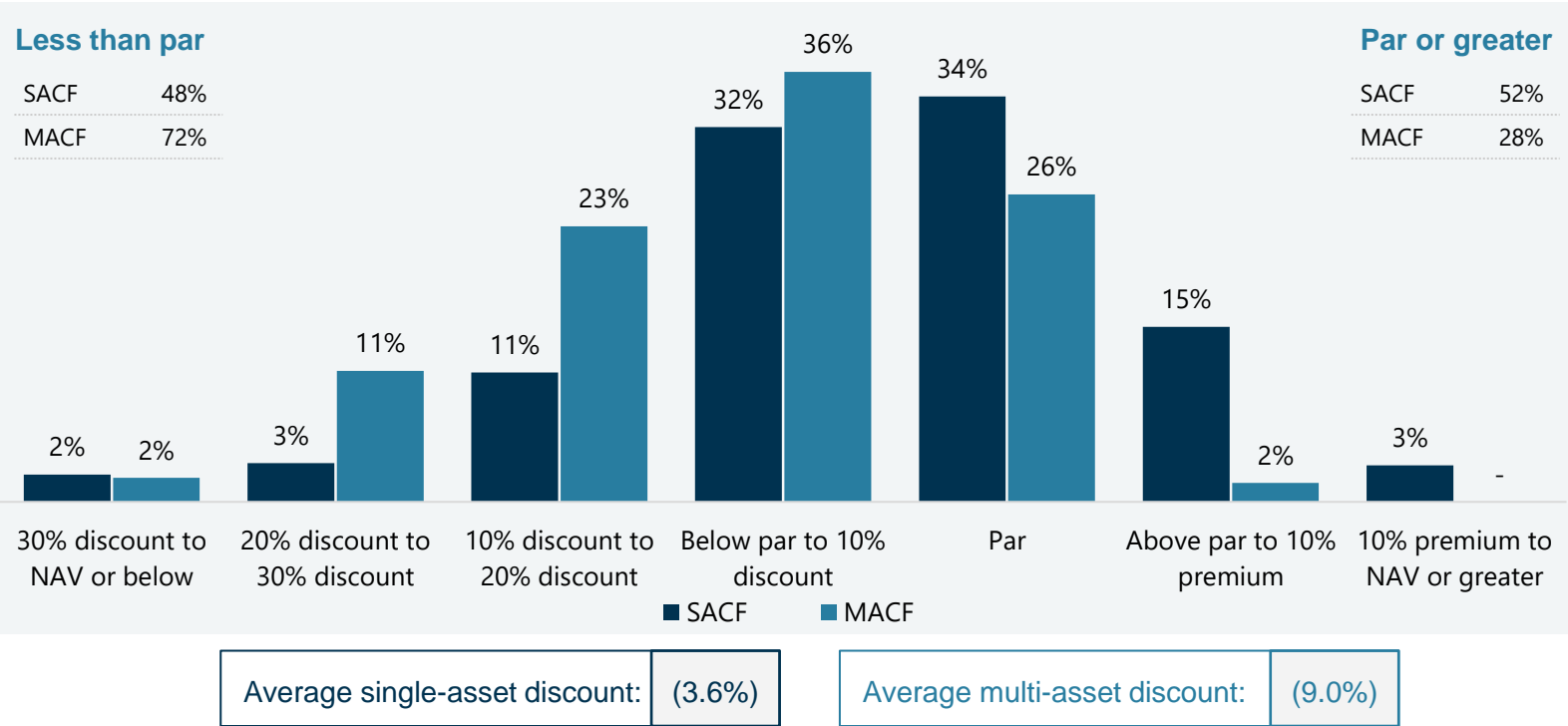
- GP-led pricing saw a significant rise in 2024, with 41% of transaction volume priced at or above par, compared to only 29% in 2023

Source: CL Full Year 2024 Secondary Market Overview; Note(s): 1. Weighted by transaction value (purchase price plus unfunded) per respondent.

Stronger Relative Pricing for SACFs Continues

Single asset versus multi-asset continuation fund pricing in FY 2024

Single-asset continuation funds exhibited strong pricing relative to multi-asset deals, continuing the same trend observed over recent years



- Approximately 52% of single asset transactions priced at par or better compared to 28% of multi-asset continuation funds
- We believe that this highlights that investors are willing to “pay up” for the highest quality assets, but are more cautious on broader portfolios of assets

Source: CL Full Year 2024 Secondary Market Overview

Thank you!



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