

The Evolving Continuation Vehicle

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This article originally appeared in the September 2025 [Private Equity International Secondaries](#) report and is reposted with permission.

Continuation vehicles are constantly developing as key tools for GPs and LPs alike, say Stephanie Pindyck-Costantino and P. Thao Le at Troutman Pepper Locke.

How would you describe the current state of secondaries market dealflow, and what are the principal drivers of activity?

Stephanie Pindyck-Costantino: Overall, the current state of the secondaries market remains strong. Last year was a very active 12 months, and we are seeing a very robust market in 2025 as sponsors continue to look for viable exit opportunities.

Secondaries – and continuation vehicles, in particular – is proving to be a useful tool for both sponsors and investors. Depending on the value remaining in a particular asset or portfolio of assets, many investors in the original investment structure may find a continuation vehicle appealing.

Thao Le: There are a lot of private equity funds coming to the end of their terms at the moment. Even funds formed only a few years ago have assets that really need to be liquidated to meet LP demands for liquidity, so there are many sponsors open to doing those deals.

At the same time, while private equity fundraising has been relatively strong over the last few years, M&A activity has been choppy during the last 12 months, all of which means there is a lot of dry powder available for deployment. We have buy-side sponsors looking for appealing assets they can buy at a discount compared with what they could achieve in full-blown auction processes or via typical M&A transactions.

Overall, the secondaries market is being viewed as a vital tool for portfolio management and liquidity management – for investors as well as sponsors.

What trends are you observing in the market?

SPC: Broadly speaking, many asset classes are experiencing longer hold periods as sponsors continue to seek avenues to provide value. We are seeing numerous assets come to market that are a subset of a larger multi-asset portfolio where the sponsor believes there is value to be derived.

There are some geographies that are not attracting as much investor interest right now, but sector-wise, the appetite is pretty broad. Industries like healthcare and industrials, alongside key sectors of energy and real estate, continue to be of interest.

TL: More broadly, we are all going to have to consider how certain asset classes will react to the US administration's tariff policies, as well as the response of other countries to those policies. If sponsors have portfolio companies that are susceptible to tariffs, we will probably see sponsors critically reviewing those portfolio companies and mapping out a holding or exit strategy for them.

In certain circumstances, the question will come down to whether the sponsor can hold the portfolio company for a successful long run if tariffs will have an adverse impact on its supply chain and profitability. Industrials and manufacturing, as well as companies that rely on cross-border supply chains, could increase their appetite for secondaries as a result. We will likely start to see more of those assets coming to market as sponsors look for creative ways to address current market challenges.

SPC: We also see a lot of discussion around various tax regimes, both domestic and abroad, and what they mean for various asset classes and entities that hold different types of assets. The impact of those regimes will vary depending on the location of the assets, the location of buyers and sellers, the holding period for the assets, and how investment in those assets was structured. We are seeing robust discussions about restructuring as sponsors try to anticipate what might be coming down the line from a policy perspective. Lastly, from an asset class point of view, we are seeing a lot of interest in private credit secondaries.

What do these trends mean for terms and structuring in the market today?

SPC: There is a lot of uncertainty in the market at the moment; on these deals, you have a lot of different players navigating different considerations, whether on the buy-side or the sponsor side. Whether a fund is closed-end or open-end, there is always a lot to think about.

Right now, we see a lot of participants who are no longer able to apply a wait-and-see mentality; and as a result are running up against deadline pressures. Many managers took a wait-and-see approach during the covid-19 pandemic, as well as through the many macroeconomic and geopolitical challenges that we have seen since. Now, they are trying to navigate and structure deals in a way that both allows flexibility and addresses what needs to be done.

As an industry, we like to deeply understand situations and know exactly what is going on. However, today, sponsors are having to ask LPs to trust them and allow some flexibility. Valuations are adding further uncertainty on top of that, so there are various challenges to navigate. All of this means there is some tension in negotiations – this is driven by the uncertainty of outside issues, both in the market and in terms of the way these frameworks are going to be governed.

TL: There are a variety of challenges and potential conflicts of interests to secondaries, particularly if it is a sponsor-led secondaries deal involving a continuation vehicle. For example, consideration must be given to the economics that are charged to new investors in a continuation vehicle, as well as the existing LPs rolling their interests in an asset to the CV.

We see sponsors following guidelines published by the Institutional Limited Partners Association on issues surrounding continuation vehicles – for example, the fact that existing LPs should have the same economics as they had in the original fund. However, those economics may be contrary to what new investors are charged: the sponsor may be charging a management fee and carry, but not at the same rate it is charging to the rolling LPs. The different economics charged to new investors could, however, be justified as part of the cost of access to a secondaries transaction.

When structuring secondaries transactions, it is incredibly important to provide existing LPs with transparent information and ensure they are not disadvantaged. Each transaction is very bespoke and has to be structured according to the specific requirements of the various stakeholders.

How are appetites for continuation vehicles evolving on the buy-side?

TL: On this side of the market, if you have an existing fund that may sell a particular asset to a continuation vehicle, a sponsor may approach key LPs to discuss their appetite. Sometimes, one of those institutional LPs will take the lead on a secondaries transaction if they believe in the asset and its growth story. From a fundraising perspective, that can help the sponsor move forward with the continuation fund.

On the buy-side, you could have an investor that sees a great asset – mature, but still with the potential for further growth – and is able to buy at a very competitive price without having to participate in a process. They will be able to make the investment with a smaller equity cheque and not need any additional financing.

As a result, we see increased appetite for continuation funds from buyers, with funds being formed purely for the purposes of doing secondaries.

SPC: We do see a lot of LPs specifically looking for secondaries opportunities, particularly where they have identified what tend to be called ‘sweetheart assets.’ We see investors spotting an opportunity to focus on one or two investments that really fit a niche for them – that is an increasingly attractive way of investing.

Where do you expect to see the most activity in the second half of the year and going into 2026?

TL: We have a positive outlook on the secondaries market. It is a very active market right now, and that isn’t going to slow down any time soon.

Whether next year’s activity is driven by sponsors or not, we expect there will be a lot going on in sectors like industrials and healthcare – in part because of how many changes in policy are coming from the current US administration. Hopefully, we will soon have a better indication of what credit markets are going to look like moving into 2026 and whether or not there will be more stability in the credit markets, which should drive more M&A activity.

There also appears to be increasing appetite for multi-asset continuation funds. It will be interesting to see what this appetite really looks like compared with a traditional private equity fund – we haven't seen a lot of multi-asset continuation funds to date, but there is certainly a lot more talk about them.

SC: We are also expecting to see real, ongoing growth in the use of continuation funds and GP-led secondaries, in part because of the lack of predictable debt markets, which is requiring GPs to self-fund. As we see the market and teams maturing, and as teams look to streamline what they do and maybe spin off lines of business, we could see that driving more multi-asset deals. That streamlining may be further fuelled if we enter a more challenging time in the economy.

In short, however the market develops, these tools look set to stay. We can expect plenty of further evolution in how they are applied to address the changing nature of both GP and LP challenges.

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