

Continuation vehicles in private equity: structuring, governance and execution

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Key Takeaways

- Continuation vehicles (CVs) offer sponsors a liquidity/hold solution for portfolio assets in older, legacy funds. They are often used when traditional exits are unavailable or premature.
- CVs have also increasingly become a mainstream mechanism for sponsors to retain high-performing “trophy assets” beyond a fund’s lifespan.
- Outcomes turn on early planning, LPAC engagement, fairness of pricing, and carefully negotiated terms for rolling vs. exiting LPs.

Private equity (PE) sponsors have been turning to CVs both to provide liquidity to investors and to extend the ownership of high-conviction assets where traditional exit paths are unavailable, premature, or suboptimal. For sponsors or general partners (also referred to as GPs), CVs preserve the upside of high-performing assets that require additional time, capital, or strategic execution before a clean exit. For existing limited partners (LPs), CVs offer a liquidity option when distribution may otherwise be delayed. Finally, for new investors, CVs provide access to an identified asset with an established operating history and a sponsor that is already familiar with the business.

CVs require careful planning, a disciplined process, and an awareness of the associated risks, including conflict management, alignment amongst the sponsor, selling fund investors, rolling investors, new investors and management.

In this Update, we explore key dynamics and considerations for CVs that may be relevant to sponsors considering a CV as an alternative to a traditional exit, for LPs evaluating whether they should cash out or roll over and for new investors seeking exposure to seasoned PE assets through the GP-led secondary market.

Overview of continuation vehicles

In a CV transaction, a GP transfers one or more (including possibly all) portfolio companies from an existing fund into a newly-formed investment vehicle, which is typically capitalized by a mix of LPs rolling over and new secondary investors. Existing investors are typically

offered a chance to sell their interest for cash, or roll their investment into the new vehicle. This allows investors with different liquidity needs, portfolio constraints, and views on an asset's future performance to make their own decisions. GPs use CVs to extend their hold period on high-conviction or "trophy" assets that have not reached their full potential.

Sponsors can maximize the value of these high-conviction assets by including additional capital for growth initiatives, revising governance arrangements, refreshing their investment theses, and realigning carried interest, management fees, hurdles and other economics between the sponsor, rolling investors and new investors.

CVs may be structured as either

- single-asset vehicles that hold a marquee portfolio company where the sponsor has strong conviction in the future upside
- multi-asset vehicles that extend the ownership of a group of assets that share similar strategic, timing or other considerations

CVs sit within the broader GP-led secondary market, but are unique in that the GP initiates a transfer of one or more assets from an existing fund into a new vehicle they continue to manage.

The process and associated risks

A successful CV process begins with early planning which involves assessment of the asset, the fund's remaining term, investor liquidity needs, and the sponsor's value-creation plan going forward. Sponsors engage advisors or intermediaries to assist with transaction structuring, investor outreach, price discovery and coordination among the selling fund, the new vehicle, existing LPs, and incoming secondary investors. Depending on the sponsor's assessment, the transaction could involve a competitive auction, a negotiated process with one or more lead investors, or a hybrid approach. The credibility of this process influences how existing LPs, LPAC members, and new investors determine whether the transaction has been conducted on arm's-length terms.

CV transactions are typically completed in a shortened but coordinated timeline that includes — but is not limited to — asset selection, advisor engagement, preparation of marketing materials, identification of lead investors, pricing negotiations, LPAC consultations, investor elections, documentation and closing. The process requires coordination across multiple constituencies, meaning that delays in valuation, approvals and disclosure can materially affect the timing and execution of the transaction.

Conflicts of interest are the greatest risk for CVs. Sponsors are effectively on both sides of the transaction as they act as the seller on behalf of the existing fund, and as the manager of the new vehicle acquiring the asset. This dynamic fuels the need for process integrity, robust disclosure, independent advice and strict adherence to governing fund documents. Sponsors should review applicable fund document requirements, market practice, investor expectations, and guidance from industry bodies like the Institutional Limited Partners Association (ILPA) when presenting the transaction to investors.

Pricing and economics

Valuation is a sensitive component of a CV transaction, as existing LPs electing to sell will want confidence that they are receiving fair value, and rolling LPs and new investors will want assurance that the entry price is not overstating the asset's prospects. Therefore, sponsors must manage information asymmetry carefully and provide sufficient support for the transaction valuation. Election mechanics should be designed to treat existing LPs fairly

and to minimize the risk that investors feel forced into an outcome.

Fairness opinions, valuation reports, and other independent price validation are useful tools in supporting the integrity of the deal process, especially when the transaction involves a single asset, a non-competitive process, or a material valuation judgment. While these tools do not eliminate existing conflicts, they provide support for the sponsor's decision-making process and help address investor concerns regarding deal process and pricing.

The ILPA's "no worse off" principle is an important reference point, especially if rolling investors are expected to maintain economic exposure on terms that are not materially less favourable than their existing position. The economics of the CV should be closely aligned with the sponsor's stated rationale for the transaction. If the purpose is to hold an asset for additional upside, investors will expect the sponsor to demonstrate confidence through a meaningful GP commitment, appropriate rollover of carried interest, or other mechanisms that align the sponsor with rolling LPs and new investors. Carry crystallization, management fees, reset hurdles, waterfalls, and sponsor commitments are often heavily negotiated aspects of deal price. Existing LPs may focus on whether the sponsor is receiving economic benefits before value has been fully realized, and new investors will seek protections that ensure future performance is rewarded only when an appropriate return threshold is met.

Fund documentation, side letters and related considerations

As part of the early planning process, fund documents must be reviewed to determine whether they permit the proposed CV transaction, and any approvals, consents, waivers, or amendments must be documented and ultimately obtained. Relevant provisions include transfer restrictions, conflict-of-interest provisions, related-party transaction restrictions, cross-fund investment rules, valuation provisions, investment period, fund term limits, and LPAC approval requirements. Sponsors must also consider whether the transaction requires any amendments to the existing fund documents or bespoke consents from investors. In some scenarios, existing documentation may not clearly contemplate a CV structure, so the sponsor will have to navigate both technical requirements and investor expectations regarding process and disclosure. Side letters and investor-specific rights can materially affect transaction execution. Most-favoured nation (MFN) rights, regulatory accommodations, tax-driven provisions, reporting obligations, and excuse rights will need to be reviewed and harmonized across the selling fund, rolling investors and the new vehicle.

Regulatory and cross-border tax considerations

Rolling LPs and new investors may negotiate different terms based on their regulatory status, tax profile, investment mandate, or relationship with the sponsor. During the initial planning phase, sponsors should evaluate tax structuring and regulatory and disclosure considerations, particularly where the transaction involves cross-border investors, Canadian considerations, blockers, withholding, rollover treatment, or asset-level structuring issues to avoid creating inconsistencies that undermine the fairness or management of the CV. Involving tax advisors early can help address these issues, preserve optionality and reduce the risk of unintended tax consequences through investor elections or closing mechanics. Depending on the sponsor, investor base, jurisdictions involved and transaction structure, some relevant issues may include advisor fiduciary duties, conflicts disclosure, marketing rules, valuation practices, investor reporting, and any required filings or notices.

Competition law considerations

Sponsors must assess regulatory implications early in the process to avoid delays in the execution of the CV transaction. Fund sponsors completing a CV transaction must consider whether the transfer is subject to mandatory notification under the *Competition Act*, including

reviewing whether financial thresholds for notification are exceeded. If notification is required, the filing must be made to the Canadian Competition Bureau before closing, and the transaction cannot close until its review is concluded, or until the statutory waiting period has expired or been terminated or waived. It is important to note that if the existing fund and CV are legal affiliates within the meaning of the *Competition Act*, they are exempt from notification. The potential application of the *Investment Canada Act* should also be considered. For more information on competition law considerations when completing a CV transaction, please review the October 2025 Update: "[Key competition law considerations when transferring portfolio businesses to continuation vehicles.](#)"

Conclusion and outlook

The GP-led secondary market continues to develop, and CVs are becoming an increasingly standard feature of the PE toolkit. The advancement of robust market standards surrounding pricing, disclosure and governance all contribute to a growing acceptance of the structure. Simultaneously, heightened regulatory supervision, evolving guidance from bodies like the ILPA, including their 2026 CV guidance materials, and investor expectations around conflict management will raise the bar for execution. Sponsors who have fund documents clearly contemplating various CV transactions and who engage transparently and invest in disciplined processes will be best positioned to utilize CVs as part of their portfolio management strategy.