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Guide to Continuation Funds

A market that has come of age

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Schroders capital

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Continuation funds: Where now, and what next?

Nils Rode
Chief Investment Officer

GP-led secondaries are a growing part of the private equity landscape, providing a valuable liquidity tool for both fund managers and investors, and offering innovative capital solutions that solve for key limitations of the private fund model.

A headline theme across private markets over the past several years, driven by inflationary and interest rate pressures, has been the slowdown in deal and exit activity.

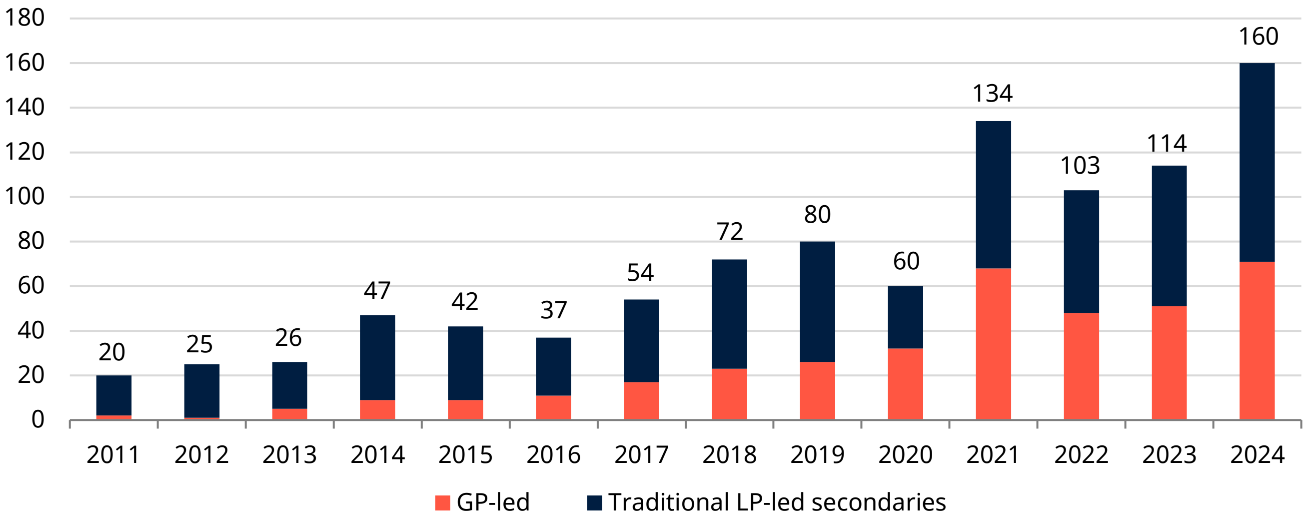
At the same time, there has been significant attention on the rise in secondaries as an investment theme. The secondaries market recorded $160bn in transaction volume globally in 2024, a new annual record, and is positioned strongly as we move through 2025.

This reflects the continuation of a longer-term trend: as the private equity market matures and expands, the secondary market has similarly continued to grow and evolve. Meanwhile the demand for liquidity from private equity investors has only increased of late, driven by the notable decrease in exits and distributions.

Coinciding with the growth of secondaries has been that of continuation fund transactions, otherwise referred to as 'GP-led secondaries'. These deals enable private equity managers to offer liquidity to existing investors, while at the same time extending the hold period of high-quality assets in their portfolio, backed by new capital.

Continuation funds have become a key growth driver within the secondary market, accounting for 45-50% of deal volumes over the past several years – and similarly recording a record total for transaction volume in 2024, of more than $70bn (see chart).

The secondary market over time ($bn)



Past performance is not a guide to future performance and may not be repeated.

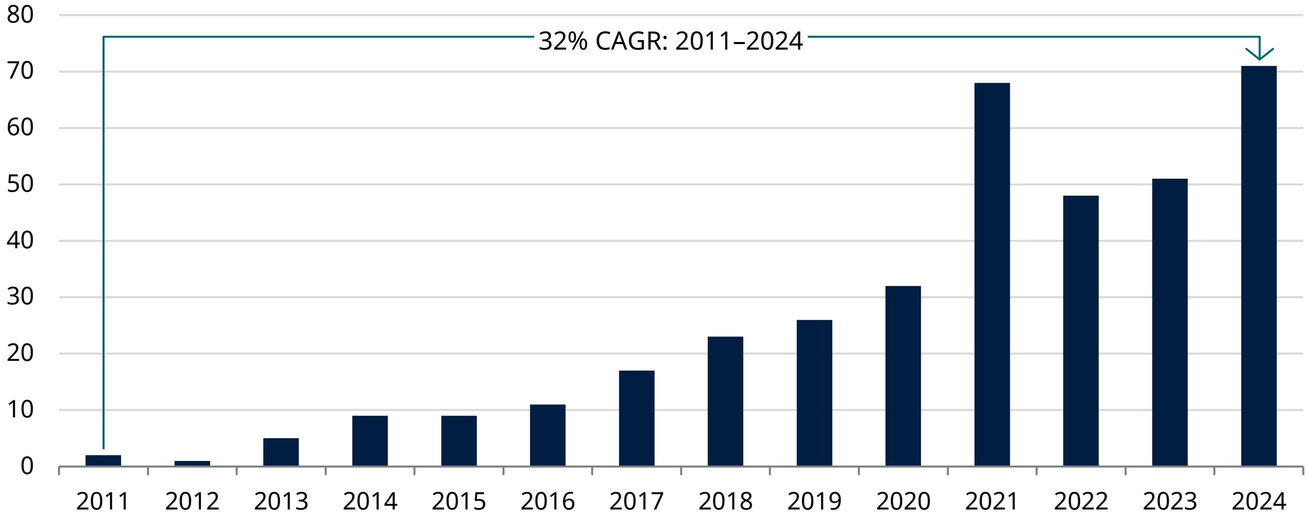
Source: Jefferies, Greenhill, Evercore, Lazard, Schroders Capital, 2024. The views shared may not lead to favourable investment outcomes. Forecasts and estimates may not be realized.

Continuation funds poised to continue strong growth trend

Continuation funds are a compelling exit route for portfolio companies, especially small and mid-market firms with significant transformational growth potential. In the short term, this appeal is amplified by current uncertainties, in particular in the context of the seismic change to US trade policy and subsequent market volatility, which are slowing the recovery of traditional exit routes including public market listings and sales to corporate buyers.

In the long term, considering the ongoing growth of private equity and the trend of companies staying private for longer, we project that the continuation fund market segment could continue the growth of recent years (see chart) in the years ahead. This is a topic to which we will return in an upcoming white paper.

Global GP-led total transactions value ($bn)



Past performance is not a guide to future performance and may not be repeated.

Source: Jefferies, Greenhill, Evercore, Lazard, Schroders Capital, 2025. Includes all strategies globally (Buyout, VC/Growth, Infrastructure/Real Assets, Private Debt, Real Estate).

Understanding the market: What is in this guide

Schroders Capital has an extensive and deep track record in GP-led secondaries, having invested more than $3 billion across more than 115 transitions globally.

In this guide, our team of expert investors will provide a more detailed overview of continuation funds, including how they are different and differentiated from wider private equity exposure and traditional LP-led portfolio secondaries, and why the lower mid-market is a particularly compelling space to target attractive risk-adjusted continuation fund returns.

We will also tackle some of the key investor questions relating to the space, relating among other things to alignment and conflicts of interest, risk management and valuations.

The role of continuation fund strategies in a private equity portfolio

David Guryn
Senior Investment Director Private Equity

> Continuation funds stand as a distinct asset class across private equity.

Private equity investors are constantly seeking innovative ways to maximise performance. Continuation funds, or GP-led secondaries, have evolved over the last 10-15 years to become a permanent pillar across private equity, given their return potential and ability to generate liquidity. This growth has sparked debate among investors regarding how to classify and allocate continuation fund strategies within their private equity portfolios.

Continuation funds stand as a distinct asset class, despite sharing some characteristics with traditional LP secondaries and co-investments. They offer a differentiated value proposition, including alpha potential with a low risk profile and short duration, due to careful portfolio construction and strong alignment of interest between the fund manager (general partner, or GP), and investors (limited partners, or LPs), in addition to specialised teams to underwrite and invest in such opportunities.

Continuation funds vs. LP secondary investments and co-investments

LPs often view continuation funds from a traditional LP secondary investment lens, given their overlapping histories, given that both involve acquiring assets that a GP already owns. However, this perspective overlooks some critical differences.

Continuation funds allow an existing GP to hold onto a high-performing asset, or pool of assets, beyond the life of the original fund. This is achieved by setting up a new fund, the continuation fund, to purchase the assets – and often to raise follow-on capital to drive further growth and M&A activity. Existing LPs in the original fund can choose to roll their investment into the continuation fund or sell their stake, thereby achieving liquidity.

Unlike LP secondary investments, which typically include a wide variety of assets at different stages of maturity, continuation funds focus on a select subset of assets. This can help to reduce risk, as the GP has in-depth knowledge of the asset and can continue to add value. Continuation funds also realign the GP's commitment to the new cost basis, whereas an LP secondary investor steps into the existing carry waterfall as it stands.

Although continuation funds and co-investments both involve concentrated, often single-asset, investments, their dynamics are quite different as well. Co-investments typically involve a new investment in a company alongside a GP, starting the value creation process from day one. In contrast, GP-leds represent a continuation of value creation that has already been taking place under the GP's management.

This prior history with the asset can be a significant advantage. The GP has an established relationship with the company's management and understands which strategies have worked in the past, as well as those that have not. The GP and management are well-positioned to take a company into its next phase of growth.

Risk mitigation and return potential

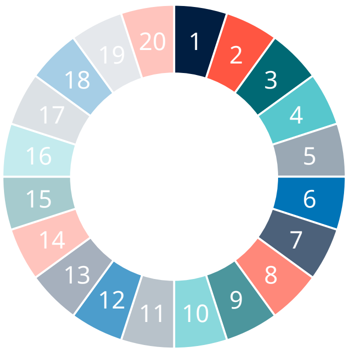
One of the concerns raised about continuation funds is the perceived concentration risk, as they involve a select subset of assets, if not a single asset. However, this perspective is often based on categorising GP-leds alongside traditional LP secondary investments and overlooks how risk can be mitigated through a structured, diversification approach – for example, through a fund that invests across a portfolio of GP-led secondary opportunities.

A continuation fund strategy typically includes interests in 20-30 different companies, for example. According to portfolio theory, a portfolio of around 20-30 well-diversified stocks can significantly reduce risk, achieving what is known as statistical diversification. This principle can be applied to continuation funds, addressing the concern of over-concentration in a single asset.

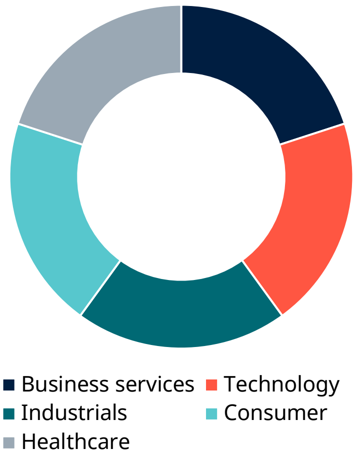
Moreover, the continuation fund portfolios are further diversified across GPs, sectors, and vintages, introducing additional layers of non-correlation and further reducing risk.

Continuation Fund – Diversification benefits (Illustrative Portfolio)

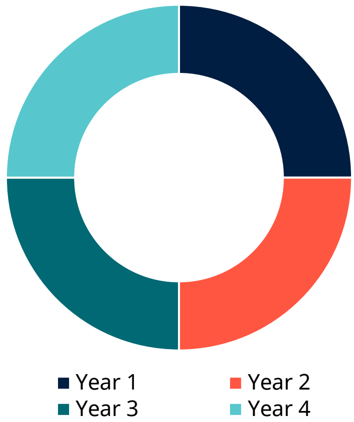
Diversification by asset and GP



Diversification by sector



Diversification by investment year



Source: Schroders Capital, 2024. For illustrative purposes only.

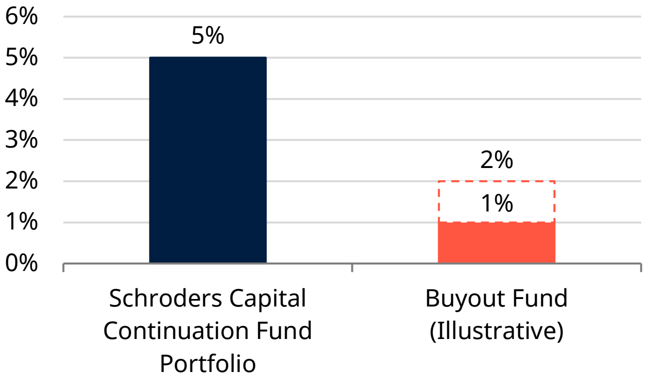
The careful selection of assets in a continuation fund contributes to risk mitigation as well. Continuation fund investors can hand-pick their exposures at a company level from a market of high-quality opportunities, and are able to position portfolios tactically in response to changing macroeconomic dynamics.

Another important aspect of risk mitigation in continuation funds is the strong alignment of interest between GPs and investors. A common critique of continuation funds is that they create an inherent conflict of interest, as a sponsor is effectively selling an asset to themselves and crystallising carry. A well-structured continuation fund has strong GP alignment that actually enhances its risk-adjusted return profile.

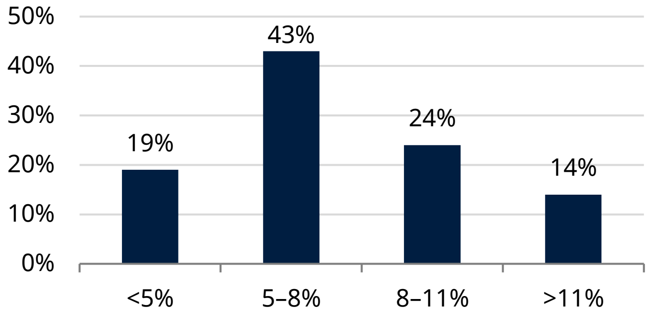
As the continuation fund market has matured, it has become standard practice for GPs to roll 100% of crystallised proceeds into the newly formed continuation fund. GPs demonstrate their conviction even further by making incremental commitments with out-of-pocket capital, as well as investing in the same asset from their most recent fund. This serves to validate pricing, alignment and upside potential.

GP commitment for continuation funds vs. direct buyouts

GP commitment % of fund size
(continuation funds vs. traditional private equity)



Target GP commitment for continuation funds
(PJT Partners Market Survey)



Source: (LHS)Schroders Capital, 2024. Schroders Capital Continuation Fund Portfolio GP commitment % represents the sum of total GP commitments divided by the sum of total continuation fund commitments for closed GP-led investments from 2020 to Q3 2023. Private equity fund GP commitment % range provided for illustrative purposes only. (RHS) PJT Park Hill Secondary Investor Roadmap Series 2023.

A well-aligned continuation fund sponsor subjects their rolled proceeds to double-jeopardy: they stand to make multiples of their money alongside their LPs if the deal performs, but can also end up with less if it falters. Given that the alternative is a traditional exit where GPs can lock in their unrealised economics immediately, GPs are incentivised to only effectuate continuation funds where they have the highest conviction on generating strong returns.

The market underwrites such performance. Our experience, and broader market data, shows that the average underwritten return for a continuation fund is 2–3x net MOIC (multiple on invested capital) and 20–25% IRR.

Short duration profile and J-curve mitigation

One of the defining characteristics of continuation funds is their shorter investment duration. Most continuation funds are underwritten to a hold period of three to four years – shorter than the typical hold period for traditional buyout investments, which serve as a proxy for co-investments.

The precise portfolio construction of continuation funds further contributes to this shorter duration. In today's macro environment, continuation fund investors can strategically position their portfolios to help ensure the underlying assets are not overly dependent on long economic cycles, contributing to a shorter overall investment duration.

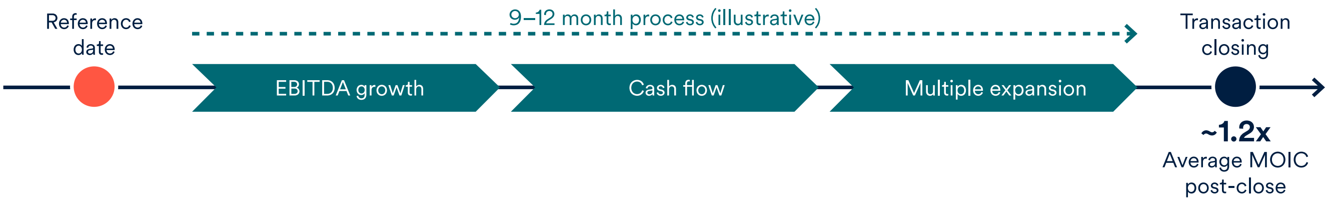
The ability to "hit the ground running" in GP-leds does not only benefit investors at the end of the holding period, but it can also result in strong J-curve mitigation as soon as the investment is made.

Continuation funds can generate value creation through various levers from the transaction launch through closing, including EBITDA growth, cashflows, multiple expansion and, in certain cases, purchase price as a discount to NAV.

GP-leds are marketed off a reference date, and the interim between such a date and closing can last up to 9-12 months. Over this period, a strongly performing asset is growing EBITDA and generating cashflow, which when combined with any M&A may warrant multiple expansion.

Some continuation funds also transact at discounts to NAV, depending on the market environment, given that they are providing a certain and accelerated liquidity option vs. other exit alternatives. As a result, the implied equity value of an asset can often exceed the purchase price, resulting in a near-term valuation uplift after the initial investment.

J-Curve mitigation in continuation funds



Source: Schroders Capital, 2024. Average gross TVPI at closing based on closed GP-led investments from 2020 to Q3 2023, calculated as the average of the NAV for the first quarter-end valuation after closing divided by the purchase price. Process timeline provided for illustrative purposes only.

The importance of a dedicated, GP-led investment team

A team specialising in GP-led investments brings a wealth of experience and expertise to the table. Their deep understanding of the nuances and complexities of these transactions can be invaluable in identifying promising opportunities and avoiding potential pitfalls.

A dedicated team will have built strong relationships with GPs and other key players in the private equity industry, which provide access to high-quality deal flow and valuable market insights.

GP-led focused teams apply a direct investment mindset to underwriting continuation funds, devoting significant resources and attention to such opportunities. Having a focused approach on assessing transactions on a company-by-company basis, both bottom up and top down, enhances the quality of due diligence and decision-making, rather than splitting a team's focus across multiple strategies.

Additionally, continuation fund teams can develop and utilise specialised tools and systems tailored to the unique requirements of these transactions. This could include proprietary valuation models, risk assessment frameworks, or portfolio management systems.

A dedicated team will have a track record that can be evaluated by potential investors. This track record can provide evidence of the team's ability to generate strong returns and manage risk effectively in the context of GP-led transactions.

Looking forward

While continuation funds share certain characteristics with LP secondary investments and co-investments, they represent a unique asset class with distinct advantages. By understanding these differences, LPs can make more informed decisions about how to incorporate continuation funds into their private equity strategies.

With more than $70 billion of transaction volume in 2024, the continuation fund market is positioned for robust growth in the coming years. As more and more dedicated capital is raised for continuation funds, we believe experienced GP-led investors will continue to have attractive opportunities to construct high-quality, well-aligned continuation fund portfolios.

Why the lower mid-market offers compelling continuation fund opportunities

Petr Poldauf
Senior Investment Director Private Equity

Continuation funds, otherwise known as GP-led secondaries, are a growing trend that is here to stay – and the highly-active segment for small and mid-sized companies offers particularly attractive opportunities.

As we have discussed earlier in this paper, GP-led secondaries involve a fund manager (GP) structuring a new fund vehicle to buy a portfolio company, or small selection of companies, from an existing fund. They enable GPs to offer liquidity to investors (LPs) in the existing fund, while also providing the opportunity to extend the hold period and realise the full growth potential of their most-prized companies.

Key to the thesis for these transactions is bringing in new capital to fuel the next stage of growth for the underlying company, which might not otherwise be possible within the constraints of the existing fund structure.

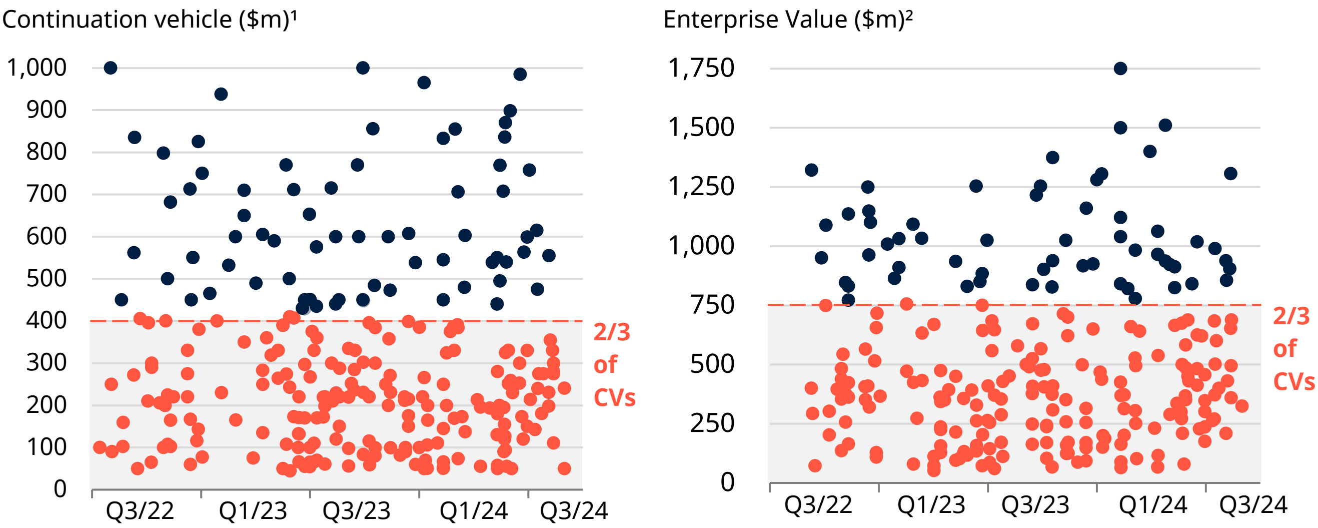
In this chapter we will focus on the compelling GP-led secondaries opportunities in the lower mid-market, covering continuation transactions for companies in small and mid-sized buyout funds. We believe this space is particularly attractive due to its combination of a very broad investment universe, comparatively favourable entry valuations, and strong potential for transformational growth supported by a wide array of future exit options.

Large and diverse investment universe

The bulk of GP-led secondary opportunities are concentrated in the lower mid-market. This reflects the reality of the wider private equity universe; according to figures from Preqin, there are 10x more GPs and funds with either less than $500 million (small cap) or $500 million to $2 billion (mid-market) in capital to invest, compared to those with more than $2 billion (large cap).

The larger quantum of funds, and underlying portfolio companies, in the lower-mid-market corresponds to the proportion of continuation fund opportunities arising from them. To illustrate this, more than two-thirds of potential transactions evaluated by Schroders Capital over the past two years have related to underlying companies with enterprise values of less than $750 million (see chart).

Continuation fund deal flow is concentrated in the lower end of the market



Past performance is not a guide to future performance and may not be repeated. Source: Schroders Capital, 2024. [1]Represents total CV size (funded + unfunded) for single asset and multi-asset GP-led opportunities evaluated by Schroders Capital over the past two years. [2]Represents the enterprise value of single asset GP-led opportunities evaluated by Schroders Capital over the past two years.

Of course, this larger deal funnel, coupled with the less well-known nature of the underlying companies, makes sourcing transactions in this space more challenging. Notably, continuation fund opportunities for these companies often do not reach the broader market and are marketed selectively to secondary investors with whom the fund manager already has a relationship.

As a result, secondary investors that specialise in the lower mid-market and that also have broader platforms with primary or co-investment capabilities to invest alongside lower mid-market buyout managers, have a significant advantage in sourcing transactions. As such, they can be much more selective.

Attractive transaction economics

Beyond this there are several fundamental attributes of lower mid-market continuation fund deals that make them particularly attractive. These include that investments are typically executed at lower valuation multiples and with lower levels of leverage, theoretically providing more headroom to grow and reduced financing risk.

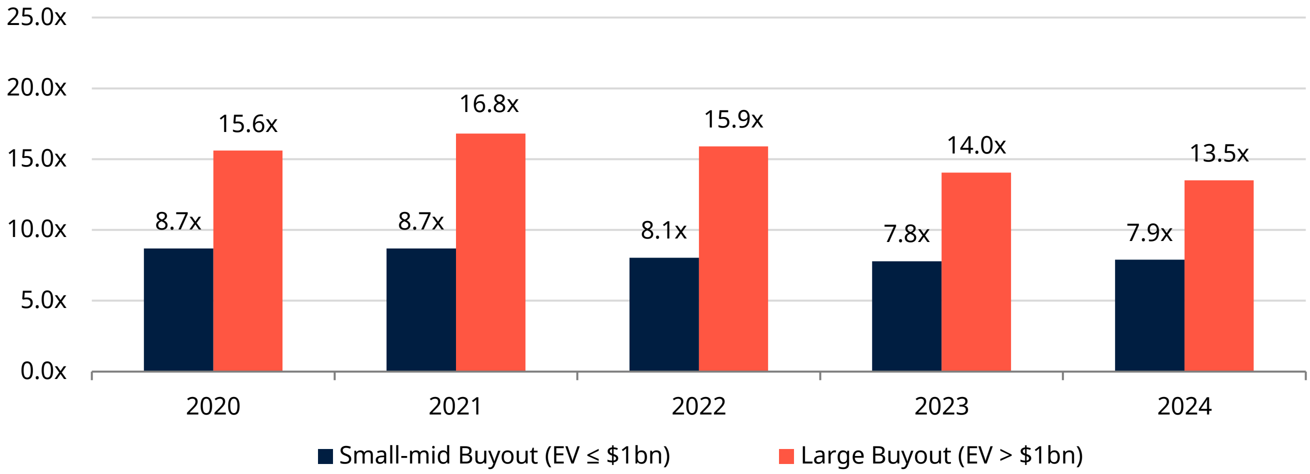
Secondary market intermediary data up to the end of 2023 indicates that approximately 60% of continuation fund deals completed by small or mid-sized secondaries funds (defined as those with less than $5 billion in capital raised) were completed at entry valuations of less than 13x EBITDA, with up to 30% completed at less than 11x EBITDA.

In contrast, more than half (56%) of all transactions completed by large-cap secondaries funds with more than $5 billion in capital were valued at more than 13x EBITDA, with none valued less than 11x EBITDA.

These findings align with data related to direct small-mid buyouts, which as of the end of 2024 benefitted from a 6x EV/EBITDA valuation discount compared to large-cap buyouts. It is notable that the nature of GP-led transactions, with the focus on existing high-quality assets and delivering ongoing growth strategies, means they generally command higher valuations than standard buyouts across all segments, but the same dynamic of lower mid-market deals representing a more attractive entry point is consistent.

Lower buyout multiples in 2024 as fundraising slows

Average Entry EV/EBITDA multiples



Past performance is not a guide to future performance and may not be repeated. Source: Capital IQ, Bloomberg, Global M&A Outlook 2025, Robert W. Baird & Co., Schroders Capital, 2025. North America and Europe M&A. Completed deals.

Potential for transformative growth

Moderate pricing and leverage in smaller and mid-sized deals sharpen the focus on operational value creation – again, in line with wider buyout dynamics. We believe this is where the key attraction of investing in the lower mid-market comes to the fore; businesses in this space have greater potential for transformative growth.

Put simply, there are inevitably more value-creation levers for companies that are smaller in size compared to larger companies that have already scaled, or that are already well diversified across segments. These levers range from governance enhancements, to expanding into new geographies, product areas or sectors, or even consolidation via strategic add-on M&A deals.

Moreover, companies sold to continuation funds have already been under private equity ownership with the same GP and so will invariably have benefitted from some of these improvements and have established growth plans in place.

The rationale for a well-positioned continuation fund deal often involves new follow-on capital to enable the next phase of growth for the business. This may not be possible in the existing fund either because individual asset investment thresholds have been reached, the fund has run out of capital to deploy, or the fund is at the end of its lifespan.

Wider range of exit routes

Small and mid-market buyout companies also have a wider array of exit options, including sponsor-to-sponsor sales to large-cap private equity funds, which currently have a substantial war chest of capital to deploy, or sales to strategic corporate buyers. This means there are multiple avenues for GPs to realise the value of the growth achieved during the life of the investment, irrespective of wider market conditions.

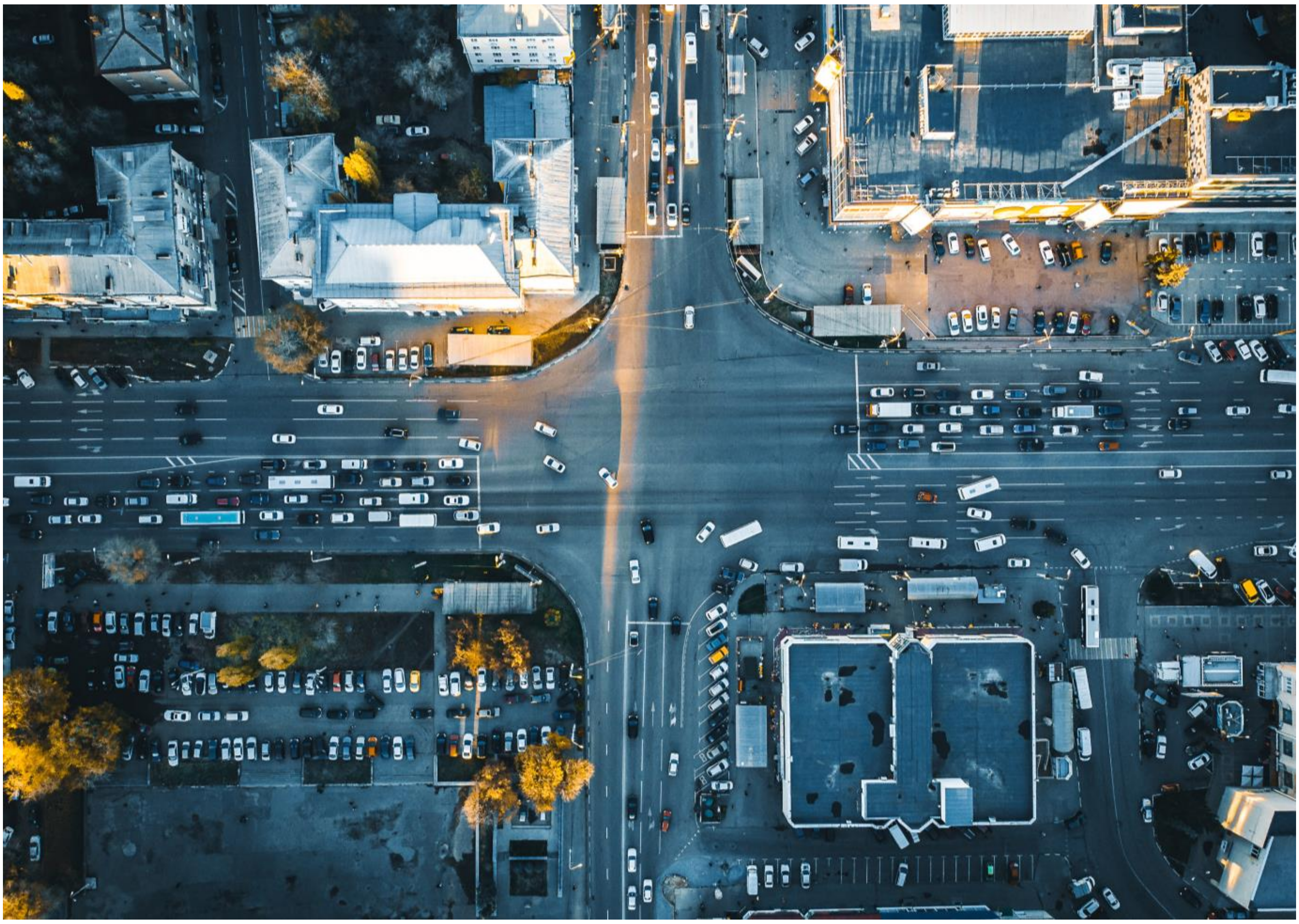
In the case of large-cap deals, by contrast, there are more limited options to sell upstream to other private equity funds or corporates, meaning GPs may need to be more reliant on public markets to exit their companies.

This underlines why, based on a sample of 100 historical GP-led transactions assessed by Schroders Capital, small and mid-market continuation fund transactions are generally underwritten to higher target returns by their sponsoring GP. The target return multiple (TVPI) for continuation deals relating to companies with an enterprise value of less than $800 million (~€750 million) was 2.9x, compared to 2.4x for larger-cap deals.

A market that will continue to grow

We anticipate GP-led transactions will continue to represent a particularly compelling opportunity in the current exit-stressed market. Furthermore, these transactions solve key limitations of private funds concerning investment thresholds or lifespan, thus the GP-led market is expected to continue to grow, even as deal and exit activity fully recovers.

With market growth and evolution will inevitably come continued innovation. However, what remains unchanged, much like the dynamics within the wider private equity market, are the fundamental drivers of value and performance. This in turn drives our conviction that continuation funds in the lower mid-market, characterised by attractive competitive dynamics, transaction economics, and greater focus on operational value creation, will continue to provide particularly compelling opportunities.



Continuation funds Q&A: Alignment, conflicts, risks and valuations

Christiaan van der Kam
Head of Secondary Investments
Private Equity

Ankita Baheti
Investment Director
Private Equity

Christiaan van der Kam and Ankita Baheti tackle some of the common misconceptions around GP-led secondaries, which have become a mainstay of the global secondaries landscape.

The growth of GP-led secondaries, which have become a mainstream feature of the private equity market, has in turn made them a topic of keen debate – and there are a number of common misconceptions that we hear regularly when we discuss the opportunities in this fast-growing segment. Here we tackle some of the key questions.

Q: Some have queried whether the growth in continuation funds just reflects private equity managers being unable to generate exits in the current market, particularly if they're fundraising for a new vehicle and seeking to appeal to clients who might be focused on distributions from the prior fund?

Undoubtedly, the exit stressed environment of recent years has increased the appeal of GP-led secondaries. That's because these deals allow fund managers (GPs) to provide a liquidity mechanism to their existing investors (LPs), while at the same time holding onto key assets for longer to maximise value.

However, continuation funds are also part of the structural evolution of the market as it has matured – evidenced by the steady growth in this segment dating back to long before the recent exit squeeze that began in 2022. In short, as the private equity market has continued to mature and grow, so has the secondaries market by providing innovative liquidity solutions for investors.

Of course, for the market to grow as it has there must be increasing buy-side demand as well. Here is where we see some of the key positive attributes of continuation funds come to the fore.

The key reason GP-leds have grown in popularity among investors is that they provide the opportunity to generate above-market returns compared to plain vanilla LP-led secondaries. Our experience, and broader market data, shows that the average underwritten return for a continuation fund is 2-3x net MOIC (multiple on invested capital) and 20–25% IRR.

From our perspective as a secondary investor, to seek that level of return within a broader continuation fund strategy consistently requires meticulous portfolio construction of the highest-quality assets. This brings back to the original question; we don't want to be inheriting companies that don't have a straightforward growth path, or that are unable to be exited.

As such, in addition to our standard, detailed due diligence, when offered a GP-led opportunity we independently check with advisers if they have seen this asset as part of previous exit processes – and we discount assets that exhibit 'stress' behaviours.

In addition, we also evaluate why it might make sense for the manager to hold the assets for longer – that is to say, what is the upside for the company from here? There needs to be a clear value creation plan that can be realised in the next few years.

Finally, we require the manager to put their money where their mouth is by rolling over their entire carry and exit proceeds to secure alignment. Typical GP commitment for a buyout fund investment might be 1-3%, whereas for a continuation fund it is typically at least 5%, and can be as much as 10%+, with usually higher hurdle rates to capture any performance fees.

These stringent alignment terms are met because the manager is keen to retain a well understood, high-growth asset for longer, which happens only when they can clearly see the upside the asset can generate in the next three to five years.

Q: In the structure of a GP-led, a private equity fund is essentially selling a company or companies to itself. Does this not raise questions around valuations?

Firstly, and importantly, a continuation fund typically has a new investor setting the price at arm's length. Secondly, existing LPs generally have the opportunity to either sell their interest in the asset being acquired, or to continue the journey by rolling their proceeds and staying invested.

So, if the price is too high the new investor won't be incentivised to enter, but if the price is too low existing LPs will not agree to exit. As such there are clear incentives for the new investor to set a fair price, to ensure both that they are not overpaying and that the price is attractive enough for existing investors to take the liquidity on offer and exit.

It is also worth noting that selling at a price below fair value directly affects the performance of the existing fund for the GP. At the same time, selling at a very high price means the GP would have to lock in (and roll over) their proceeds and carry at a non-accretive valuation. Accordingly, GPs will also typically only agree to a transaction if the price is within the fair value of the asset.

Finally, continuation fund transactions often involve independent third-party input, either through an adviser running a competitive bidding process with multiple prospective investors, or by the manager providing investors with a valuation opinion produced by an independent agent.

Q: GP-led secondaries are, in effect, a new market being built out where investors are chasing higher returns. Does that mean higher risk?

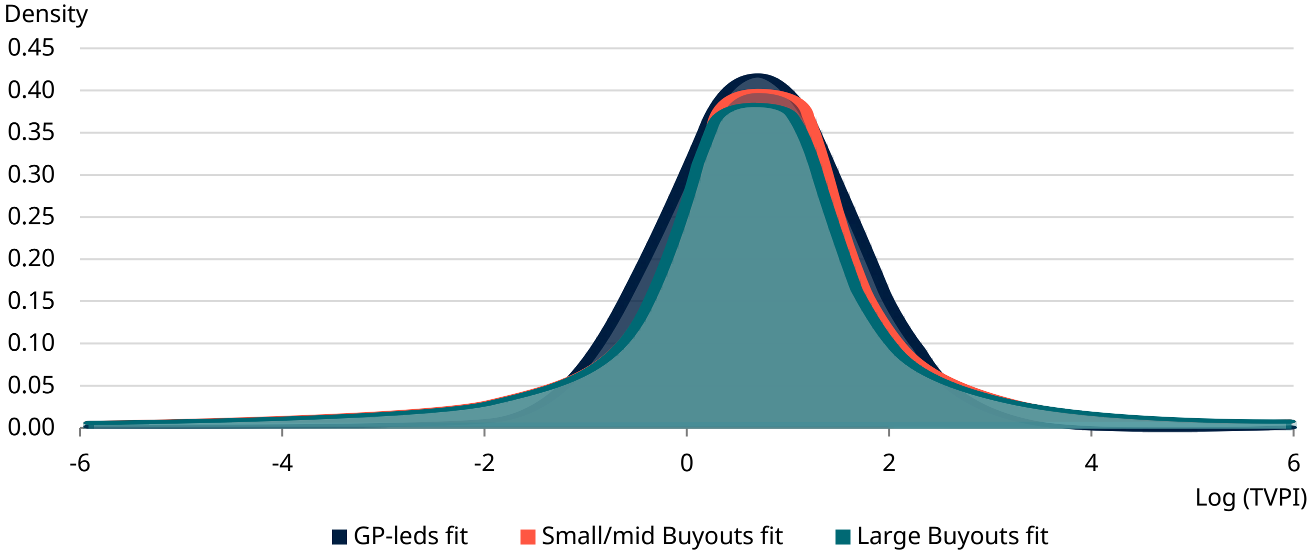
We find these vehicles may be suitable for investors that are more conscious about target returns, with mitigated risks.

In a continuation fund, 'blind pool' and execution risks are much lower than in the case of a traditional buyout, since the company, management team and growth story are all known to the investors. With the removal of so many unknowns, but the same benefits of making concentrated, alpha-driven investments in select assets, continuation funds are able to offer the potential to generate compelling risk-adjusted returns.

It is true to say that you won't often see the outsized returns that you might see from select 'home run' assets in the co-investment or direct parts of a portfolio. But that cuts both ways, as you would also see minimal write-downs due to the removal of the unknowns and more predictable value creation strategies.

Evidence from realised investments demonstrates that small and mid-cap GP-led transactions have achieved attractive returns while maintaining a favourable risk profile, compared to traditional buyouts. Both the median and mean return for these deals exceeds that of direct buyouts, while there is also a tighter return dispersion and so lower risk of underperformance.

Probability distribution of return multiples (TVPI)



Past performance is not a guide to future performance and may not be repeated. Note: Schroders Capital Data, 2003–2023 (analysis as of December 2024), includes realised transactions only (sample size: 1,855 small/mid buyout, 330 large buyout, 106 small/mid GP-leds). Total value to paid-in capital (TVPI) was calculated on a deal-by-deal basis (gross of underlying fund fees, expenses and carried interest and gross of Schroders Capital fund fees, expenses and carried interest), log transformed and modelled using a smooth double Pareto distribution. The views shared are those of Schroders Capital and may not be verified.

Q: How can the underlying companies continue to grow? Are they not tapped out from a cash perspective and are they just relying on organic growth from that point onwards?

There are many reasons why companies continue to grow in continuation funds. Typically, these deals are initiated by the GP to ensure that cash is not left on the table, for example due to certain value creation endeavours that were initiated during the investment period, but which have not been fully realised. These could be new customer wins, new product launches, entry into new geographies, or M&A acquisitions that have not fully synergised.

In other cases, the company may be slightly shy of becoming large enough for an IPO or a target for M&A that could offer better valuations. And finally, some companies will get additional cash in the form of follow-on capital from the creation of the continuation fund, which can be used to kickstart and accelerate the next growth chapter.

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