

Talking. Secondaries.

Demystifying the secondaries market
Part 3: Continuation fund



A vehicle capitalised by a secondary buyer and managed by the existing GP acquires one or more assets from the existing fund.

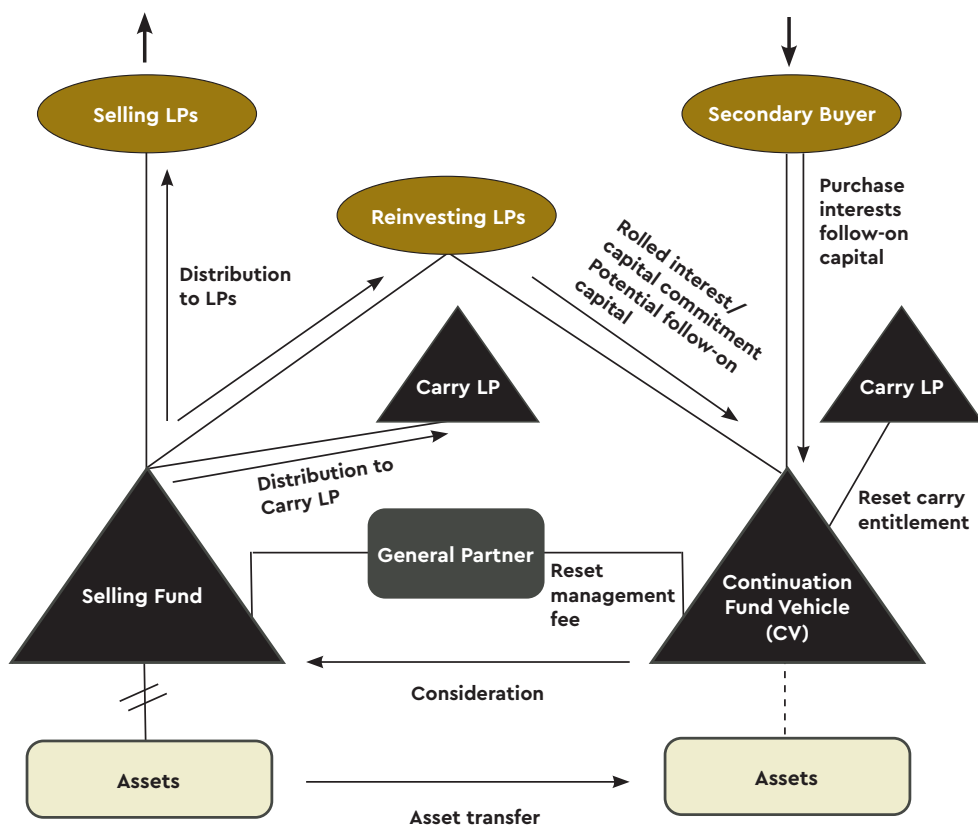
Summary

Why use a Continuation Vehicle?

- Maintain exposure to high-performing assets or maximise returns on under-performing assets.
- Extend the hold period for assets while raising significant further follow-on capital to enhance returns.

What is the process?

- Principal secondary buyer becomes lead investor in continuation vehicle.
- Existing LP base offered the option to sell or to 'roll' into the continuation fund.
- New carry arrangements may be established to align interests of secondary buyer, GP and electing LP.



Key considerations

Conflicts of interest

- Managing actual/potential conflicts of interest is fundamental – this includes articulating the commercial rationale, implementing appropriate structuring, generating arm's length/fair pricing, ensuring transparency via disclosure/communication in selling fund and underpinning future alignment with robust CV economics.
- LP engagement will be needed, the LPAC may need to approve any conflict.

Key documentation

- Buyer LPA.
- Election Memorandum.
- Framework Agreement.
- Equity Commitment Letter (if not included in the Framework Agreement).
- SPA(s).

Election process

- Election to sell or "roll" may also include an option to increase a rolling LP's commitment in the CV.
- Election process timeline varies but ILPA suggests 20 BDs. That said, further ILPA guidance on CV processes is expected imminently and so this recommended timeframe may change in coming months.
- Lead investors may require minimum/maximum participation. Thus, LP participation may be subject to deductions, adjustments, scale ups and/or scale backs.

Conditionality

- Closing conditions may include: LPAC consent, LP election participation, or other third-party consents (e.g., FDI, merger control/anti-trust, national security, financing, underlying portfolio management etc.).

Liability

- Warranties will be given by the selling fund, its GP and the CV. Depending on the deal dynamic, warranties may be given by management of the underlying portfolio.
- Warranty scope varies depending on the underlying portfolio. Historically, CV deals were warranty-lite but the scope of warranties typically extends as the transaction becomes more concentrated (i.e., single asset CVs are more akin to traditional M&A).
- W&I insurance is a standard tool to manage transaction liability.

CV economics

- Key to generating day 1/future alignment.
- Management fees typically lower than on main vintages of fund depending on target asset(s) (ILPA recommends proportionality).
- Carried interest may be layered/ratcheted to drive high returns.
- A high proportion of (and sometimes all) sell-side crystallised carried interest is typically reinvested.
- GP commit/co-invests from flagship vintages are commonly used to improve skin in the game/demonstrate conviction in the business plan.

Our secondaries platform

Travers Smith has extensive experience in complex private markets transactions, with a focus on liquidity solutions across the private markets capital structure with exposure across all asset classes.

70+

We advise over 70 GPs across our firm.

£92bn

In transaction value during the last c.five years.

\$4tn+

Assets managed by our clients in the private capital sector.

150+

Specialists focused on private equity, financial sponsor and M&A transactions. 30 of these dedicated specialists are partners in the business.

\$5bn+

In 2022 we advised on the deployment of \$5.1bn+ in commitments across more than 100 primary, co-investment and fund-of-one transactions.

400+

M&A transactions acted on since 2016.



Emily Clark
Head of Asset Management



Phil Bartram
Partner



Victoria Bramall
Partner



Jeremy Elmore
Partner



Katie McMenamin
Partner



Will Normand
Partner



Aaron Stocks
Partner



James Ravden
Senior Associate

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Team of the Year**
The Drawdown Awards
2020, 2021 & 2022



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Non-contentious
Tier 1

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**Private Equity Team of
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