

Outlook 2025: The sustained rise of continuation vehicles

Last year was estimated to deliver \$140bn+ in global secondaries volume, the largest year on record and definitively surpassing the prior high threshold of ~\$130bn in 2021, according to an early 2024 report by Evercore. The segment's growth results from a confluence of factors, including new pools of capital and entrants, proliferation of active portfolio management and a global LP base searching for liquidity. In our view, while each of these have added fuel to the fire, we believe the primary catalyst of this accelerated growth is yet another factor: the broad adoption of GP-led continuation vehicles (CVs).

The rise of GP-led transactions, which today represent nearly 50% of the market, as of early 2024 according to Evercore, is fundamentally reshaping the risk-return profile of the asset class. CVs, often centred on high-quality assets with proven performance, have the potential to deliver materially higher multiples of invested capital when compared to traditional LP-led secondaries.

Historically, the secondary market consisted primarily of LP-led transactions, where investors benefited from j-curve mitigation, reverse vintage year exposure, portfolio diversification, and accelerating cash flows. However, Cambridge performance data for the past 20 years shows top quartile funds have taken around seven years on average to return more than one multiple on

distributions to paid in capital (DPI). Additionally, average DPI in year-10 for top quartile funds was 1.4 times with an additional 40% of total gain remaining unrealised. We expect CV-focused strategies, given higher return potential and shorter hold periods, to materially outperform historical secondaries DPI benchmarks in the latter half of the fund's life.

As the embrace of GP-led continuation vehicles has broadened, we are seeing GPs utilise these structures in new and specialised ways. CV technology was originally developed on the heels of the Global Financial Crisis (GFC) to address restructuring needs. The CVs that we recognise today (associated with quality assets) took form in the 2018-2020 era as large cap sponsors leveraged them as a tool to extend the hold period of marquee assets. Since then, the market has both proliferated downstream to the middle-market and further developed into sub-categories including multi-asset transactions, end-of-fund-life cleanups, and complex mid-life situations.

Some investors have pointed to a slower exit environment and lack of distributions as a key driver of CV growth, insinuating that a material slowdown will occur when M&A returns to historical levels. However, in our view, not all CVs are created equal, and the clear benefits of the technology – allowing a GP to continue owning and compounding its best

asset(s) for longer – will continue to flourish in all market environments.

We are optimistic that the market is poised for sustained growth and innovation. Total transaction volume implies a nominal turnover rate of less than 1.5% of global private asset NAV according to the Bain & Company 2024 report, implying significant white space remains when compared to other private asset classes. Additionally, the market remains undercapitalised relative to historical dry powder-to-deal volume ratios, and we expect growing investor appetite and introduction of evergreen and semi-liquid products to fill this void over time.

Looking to 2025, we expect the market to eclipse \$175bn in transaction volumes, with GP-led transactions driving a significant amount of volume, buoyed by GPs and LPs alike increasingly embracing CVs as powerful tools to generate both liquidity and attractive risk-adjusted returns. ■



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