
ILPA GUIDANCE

Continuation Vehicles

Advancing Alignment
through Best Practices

October 2026

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ABOUT ILPA

The Institutional Limited Partners Association (ILPA) empowers and connects limited partners to maximize their performance on an individual, institutional and collective basis. With more than 600 member organizations representing more than \$3T USD of private equity assets under management, ILPA is the only global association dedicated exclusively to advancing the interests of LPs and their beneficiaries through best-in-class education, content, advocacy, and events.

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Executive Summary

Continuation vehicles (CVs) have become an increasingly common portfolio management tool and structural feature of the private equity market, representing roughly 14% of sponsor-backed exits globally in 2025, up from 5% in 2021¹. Their use has accelerated as prolonged challenges in the exit environment have led GPs to transfer assets into vehicles they continue to manage, rather than pursue traditional exits such as M&A or IPOs.

CVs can provide a liquidity solution while addressing LPs' differing objectives: existing LPs may sell, roll their exposure, or elect some combination of the two. For selling LPs, CVs can provide liquidity, optionality to redeploy capital, and support portfolio rebalancing. For rolling LPs, they may offer continued exposure to assets with potential for longer-term value creation.

At the same time, CVs are related-party transactions and present inherent conflicts. They should therefore be used deliberately, supported by a clear commercial rationale, early engagement with existing LPs, robust conflict management, defensible pricing, and sufficient time and information for LPs to make an informed sell-or-roll decision.

Building on ILPA's 2023 guidance, this document sets out best-practice principles for CV processes in the current private equity market. It recognizes that CVs are established GP structuring tools that continue to evolve in frequency and complexity, while focusing on the interests of existing fund LPs evaluating a sell-or-roll decision.

The guidance is principles-based, focusing on core expectations rather than providing an exhaustive set of prescriptive requirements. CV transactions are highly fact- and circumstance-specific, and GPs must retain flexibility to exercise judgment in the best interests of existing LPs. The principles are intended to provide practical guideposts and to avoid imposing unnecessary procedural burden where a different approach is justified.

Where followed, these principles can promote fair processes, maximize value for existing LPs, support informed LP decision-making, and reduce strain on GP-LP alignment. Where a GP materially departs from them, the GP should be prepared to explain how LPs' concerns have otherwise been addressed.

Note: The points summarized below are expanded throughout the remainder of the guidance; the Executive Summary should only be considered in the context of the full document.

CVs should be a deliberate GP structuring choice, not a default given the GP is inherently conflicted when acting as both buyer and seller

There is no 'one size fits all' approach to achieving GP-LP alignment; it is fact specific but the burden is on the GP to demonstrate it

¹ Jeffries, [2025 Global Secondary Market Review](#), February 10, 2026.

General Principles:

1. GPs should fully explain the specific rationale for why a CV transaction serves the best interests of existing LPs, despite the conflicts inherent in them.
2. A CV is a deliberate structuring solution, requiring the GP to demonstrate it offers the best outcome for existing LPs compared with other considered alternatives at the relevant time.

Rationale and Conflicts:

1. GPs should engage the LPAC early and clearly demonstrate why a CV transaction is the preferred option compared with other assessed exit and/or liquidity options.
2. GPs should make complete, accurate, and timely disclosure to the LPAC of each CV-specific conflict, including the process to select transacted asset(s), valuation relative to prior fund reporting, details on the auction process and rationale for the preferred bid, details on net proceeds plus transaction costs and their allocation, and any dilution of rolling LPs.
3. GPs should avoid blanket waivers or relying on generic conflict preclearance provisions in the existing fund's limited partnership agreement (LPA). All LPs should be promptly notified of the LPAC's conflicts waiver decision.
4. GPs should provide evidence of a competitive auction process (or other independent third-party price validation) to demonstrate that a fair market transaction price has been negotiated, supported by an independent fairness opinion or similar.
5. All existing LPs should receive, prior to the start of the election period, the fully completed ILPA [Continuation Fund Disclosure Template](#) or equivalent GP-prepared Q&A with supporting materials; GPs should ensure symmetrical information sharing.
6. GPs should follow their internal CV policy (or similar policy relevant to conflicts) regarding identification and management of CV-specific conflicts; available to LPs on request.

Process and Timing:

1. GPs should ensure the transaction conforms with the existing fund LPA. GPs should avoid reliance on any indirect LPA provisions to justify a compressed process and, in parallel, engage affected co-investors early, consistent with the applicable co-investment terms.
2. GPs should engage an experienced adviser, disclose any GP-related conflicts related to the chosen adviser, and provide the LPAC with access to independent advice where appropriate.
3. All LPs, including but not limited to the LPAC, should receive transparent communication from the GP and have access to the CV advisers to explain the transaction and election options.
4. The election period should allow LPs sufficient time to assess the CV transaction, generally at least 20 clear² business days from receipt of the final election package, extendable for more complex transactions.
5. LPs should be given unrestricted access to a data room containing sufficient information to make an informed sell or roll decision throughout the election period.

Terms and Documentation:

1. There should be no overall increase in the management fee liability for rolling LPs (as shown on a like-for-like basis, on the totality of the fund-level economics and inclusive of administrative, upfront and other fees over modeled hold period scenarios applying good-faith reasonable assumptions). Changes to the management fee structure should be fully explained.

² 'Clear' business days means that, in computing the number of days, a day counts only if it is a complete business day and the day on which the period begins is not included.

2. There should be no overall increase in the blended, risk-adjusted carried interest cost to rolling LPs (modeled using comparable return outcomes over hold period scenarios applying good-faith reasonable assumptions). Changes to the carried interest structure should be fully explained.
3. There should be no crystallization of carried interest for rolling LPs; any deviation should be fully explained.
4. A significant and meaningful portion of crystallized carry (net of tax) related to interests from selling LPs and returns on the GP's 'sponsor commitment' should be rolled into the CV (excluding leavers/non-portfolio deal team). Any amount not reinvested should be fully explained.
5. Roll elections should not be conditional on commitments to other GP-managed funds.
6. The CV should be fully funded and not subject to roll funding conditions, unless fully explained, including the dilution mechanism.
7. Rolling LPs should receive substantially equivalent investor rights, protections, and tax attributes, with any material deviations clearly disclosed.
8. Relevant side letter protections of rolling LPs should continue to apply in the CV, subject to necessary updates for legal, tax, regulatory, or policy-related provisions binding on a LP.
9. Co-investors should receive no less than equivalent information to other LPs.

Recommendations for LPs:

1. LPs should consider establishing internal protocols to respond to CV transactions, such as asset- rather than solely manager-level underwritings, to assess whether continued and concentrated exposure in de-risked asset(s) is supported by governance protocols.
2. LPs who sit on LPACs should confirm whether the fund's LPAC terms of reference permit them to raise agenda items on the GP's exit strategy and CV usage intentions.
3. LPAC members should actively use that forum to provide guidance to the GP on timing expectations around reviews, negotiations, and approvals.
4. LPs should ensure the GP has up to date contact details for all investment, business, and legal teams to ensure CV notifications are acted on internally without delay upon receipt.
5. In diligencing new commitments, LPs should seek GP disclosure of prior CV usage and whether the fund's strategy includes recurring use of CVs as a portfolio management tool.
6. LPs should review their standard side letter requests to determine whether future investments should include provisions specific to CVs, such as minimum CV election review periods, mirror reporting, minimum information-sharing, and mirror tax treatment. A similar evaluation should be undertaken for co-investments.
7. LPs should require GPs to complete ILPA's [Continuation Fund Disclosure Template](#), or a substantially similar Q&A, for CV transactions.

Scope and Intent of Guidance

These guidelines do not necessarily follow the order of a continuation vehicle (CV) transaction process. The guidance should be read and considered as a whole by GPs and other CV stakeholders.

The guidance sets out best practices to address the perspective of existing LPs contemplating a sell/roll decision primarily arising in PE strategies. The guidance is not intended to address the position of investors in CV transactions although elements of the guidance may be relevant and applicable.

Although the guidance may be relevant to CV transactions in other asset classes, including private credit and infrastructure, it was developed primarily for closed-end private equity funds, including buyout funds, funds-of-funds, and secondary funds. It is intended as a broad framework for CV transactions across geographies but may not fully address all CV circumstances.

The fact that a CV transaction does not conform to these practices in full is not in itself a sign of a flawed process, though it should signal to GPs there are process elements requiring stronger transparency, engagement, and disclosure with LPs to ensure that the CV remains one that is fundamentally and primarily delivering on the GP's fiduciary duty to maximize value for its existing LPs.

This guidance is not intended to replace full review of any transaction materials nor to act as legal, financial, or other advice.



These best practices are designed to guide, not dictate, CV transactions; however, any deviations should prompt greater transparency, engagement, and disclosure.

Full Guidance

CVs: One Choice Among a Spectrum in the GP Structural Toolkit

CVs represent one option on a spectrum of portfolio management tools available to GPs, varying in terms of complexity, time, and cost to execute, and dependent on the asset-specific need. The most appropriate strategy or tool is at the GP's discretion, as part of its active portfolio management, and specific to the circumstances.

However, if a GP determines the CV is the most effective portfolio tool for a specific asset, it should engage early and transparently with LPs to articulate a clear rationale for the proposed CV transaction and demonstrate that it has been a deliberate decision, rather than a default approach. For details on what GPs should disclose to LPs as part of its explanation for pursuing a CV transaction versus genuinely considered alternative solutions, see Appendix B.

Commercial rationales for a CV that are frequently identified by GPs include:

- **Portfolio Management and Asset Conviction:** To retain high-conviction assets while addressing constraints such as fund term limits or upcoming liquidation, or a mismatch between optimal asset maturity and the existing fund's expiry, or concentration or portfolio construction limits.
- **Providing Optionality to LPs:** To offer liquidity to LPs who want to exit, while allowing others to maintain exposure, accommodating diverse investor preferences.
- **Capital Formation and Alignment:** To raise capital for follow-on investments or capital-intensive assets (as an alternative to third party debt), while aligning existing and new investors and providing liquidity options.
- **Economic Incentives:** To crystallize carry that can be applied toward incentivizing a GP's active deal team and support succession planning. This must be balanced against LP perception of misalignment by a GP continuing its own economic exposure/risk in the CV asset(s).

Although CVs have traditionally been used as end-of-life solutions, GPs increasingly view them as a strategic tool that can be used throughout a fund's lifecycle. A CV may allow a GP to retain high-performing assets for longer, on reset terms, where the existing fund is constrained from doing so. However, the earlier in a fund's lifecycle a GP considers a CV, the more closely LPs are likely to scrutinize the rationale.

A "remain-in-place" option (see Appendix D for further details) may be included in a CV structure where the GP determines, based on specific facts, that the option is in the best interests of existing LPs as a whole and is supported by the exit thesis and the GP's reasonable portfolio management assessment. This option would generally be appropriate only where it is:

- Structurally and technically feasible, including the ability to establish and manage separate split LP pools with appropriate LP consent;
- Capable of being offered without impairing the value, pricing, execution, or governance of the CV transaction and/or the existing fund; and,
- Avoids introducing new, material GP conflicts of interest with its LP base, or, if such conflicts arise, capable of being adequately mitigated.

While the GP decides which solution best addresses a portfolio issue, early, transparent engagement is essential to explain to LPs the rationale for a CV and how it is to be structured and assessed relative to alternative solutions genuinely considered, including a more traditional third-party exit.

For further details on a typical process for a CV transaction, including the key stages for GP engagement with LPs, see Appendix A.

Types of Continuation Vehicles

If a GP has identified a CV transaction as best serving a specific portfolio need, the CV will take one of the following forms, which should be informed by the intended purpose of the CV:

- Single Asset CV (SACV): transfers a single asset from one or more funds to a new GP-managed vehicle.
- Multi-Asset CV (MACV): transfers multiple assets from one or more funds into a new GP-managed vehicle.

SACVs typically involve one or more selling funds (reflecting different vintages/strategies co-invested, or where co-investors are present) disposing of 100% of the target CV asset. References in this guidance to fair treatment among all existing LPs applies equally across all selling funds.

MACVs tend to be more complex in nature. They involve multiple assets from the same fund, or multiple funds managed by the same GP. CVs already expose LPs to new structures and concentration risks, but MACVs often introduce assets unfamiliar to existing LPs if transferring from other funds managed by the same GP, increasing complexity and the time-intensity of diligence required by LPs, resulting in many LPs being forced to default to a sell election, regardless of asset conviction.

This guidance has been developed with PE buyout funds primarily in mind for which MACVs are less common than for other asset classes where, by the nature of the underlying assets (e.g., a private debt portfolio), they are being utilized much more frequently.

GPs should clearly disclose any material regulatory, structural, or jurisdiction-specific features of the CV, including changes from the existing fund structure and their implications for LPs, such as a shift from an unregulated vehicle, overseen only indirectly through its GP, to a regulated CV fund product, subject to direct authorization and supervision.

While GPs should retain flexibility in structuring CV transactions, they should provide a clear commercial rationale, appropriate transparency, and sufficient time for LPs to evaluate the transaction, particularly where the CV structure is more complex.



Conflicts of Interest and Process Management

A CV is the result of a “related-party transaction.” While the existence of an actual, perceived, or potential conflict of interest does not necessarily imply wrongdoing on the GP’s part, the GP does sit on both sides of a CV transaction, so those conflicts do need to be actively addressed.

A GP should only be able to rely on LPA conflict pre-clearance provisions if they are CV specific and if LPs reviewed before making their original investment. If LPs considered the issue material when committing to the fund, it should have been addressed through the LPA or negotiated side letter provisions.

GPs’ existing allocation and conflicts of interest policies ought to address issues arising in a CV transaction—namely, how GPs evaluate opportunities across managed funds, how to allocate opportunities fairly, and how to avoid and/or manage and mitigate conflicts, and these policies should be adhered to and made available to LPs on request.

In addition to existing LPs, lead investors may be concerned by poor conflicts management, i.e., perceived execution risk if there is a likelihood the LPAC will condition or withhold its conflicts waiver. The cost and scope of Representations and Warranties Insurance (RWI) may also be adversely impacted if a GP’s perceived poor conflicts management results in the insurer imposing numerous exclusions and/or a higher cost to insure.

CV conflicts need to be **actively addressed**. The burden is on the GP to:

- **Disclose each CV conflict** completely, accurately, in a timely fashion
- Ensure **full, fair and transparent disclosure** to all LPs
- Demonstrate how each identified conflict is being properly managed and mitigated
- Avoid generic conflict disclosure and blanket, non-specific conflict clearance

LPAC’s Role in Overseeing GP Conflicts in CV Transactions

The LPAC’s primary function in a CV process is to assess whether the GP has adequately identified, disclosed, and managed any GP conflicts associated with the transaction in a manner that is fair to existing LPs. In doing so, the LPAC will consider: the sufficiency of disclosure and information sharing; robustness of price validation to demonstrate the transaction price is maximizing value to LPs; and fairness of the election process design.

If appropriate, the LPAC should consider whether to condition its conflicts clearance on remediation of any identified deficiencies in the management of conflicts associated with the CV transaction.

The LPAC is not, however, an active negotiating party in a CV transaction and the GP should not seek to ‘pass off’ CV process construction and management to the LPAC. LPAC members owe no duty of care or loyalty to other LPs and are indemnified; the LPAC’s role is limited to evaluating the adequacy of the GP’s conflict management. Responsibility for CV design and delivery of a fair and transparent process remains solely with the GP, including ensuring that the GP does not put its own interests—or those of its affiliates—ahead of the fund and existing LPs.

The LPAC's role in overseeing the GP's CV conflicts depends on its members being able to act without fear of retaliation from the broader LP base. Accordingly, while LPAC members evaluate and advise on the GP's conflict management, they may act in their own interests.

Where justified by the transaction's complexity, the GP should permit the LPAC to obtain independent legal or other expert advice at the fund's expense to support its review of the GP's conflict management approach.

- The LPAC's role is **limited** to evaluating the adequacy of the GP's conflict management
- Responsibility for a **fair and transparent** process remains **solely with the GP**
- The **GP owes a duty of care** to the fund and its LPs, not individual LPAC members

Types of Transaction Conflicts

Conflicts are inherent in CV transactions because the GP sits on both sides of the deal; accordingly, the conflicts cannot be eliminated. A successful CV transaction depends on a GP's clear demonstration to LPs that these conflicts are being actively and transparently managed.

The following are a non-exhaustive set of examples of conflicts arising in CV transactions that a GP should be ensuring it actively manages:

Early to Mid-Life CVs: The earlier in the fund's lifecycle that a GP presents a CV proposal, the stronger the rationale should be for a GP to pursue a CV transaction rather than solve for it within the existing fund's legal and commercial framework.

Preferred Bid: The GP should, as part of its demonstration of a genuinely competitive auction process, clearly articulate the rationale for selecting the preferred bid. Any conflicts associated with the bid should be fully disclosed, especially if they are perceived to benefit the GP independently of the existing LPs, such as a commitment to the GP's current flagship fundraising or a higher bid price in return for a zero management fee for the successful bidder. The GP's objective should be to demonstrate a clear, strong rationale for the preferred bid selection notwithstanding any such identified conflicts.

Conflicts of LPAC Members: LPAC members may also sit on both sides of a CV transaction and have a financial interest in the CV acquiring the asset(s) at a low price. For example, a LPAC member may be rolling its interests into the CV but it may also be invested in a secondary fund that is investing in the CV, another part of its firm might be acting as lead investor, and/or a LPAC member may intend to make a co-investment in the CV assets.

Other GP-LP Conflicts: Existing LPs may have investments, such as minority stakes in the GP's sponsor commitment or indirect interests in the structured debt for the target asset(s), that introduce a GP conflict.

GP Counsel: GPs typically use existing fund counsel to advise on CV transactions. However, it is increasingly common for election agreements to include a "fund counsel" waiver requiring LPs to acknowledge the firm represents only the GP in the CV transaction and owes no duty to existing LPs.

Multiple CV Transactions in One Portfolio: CV suitability is fact-specific. Multiple CV transactions in one fund may warrant heightened scrutiny; accordingly, the GP should be prepared to articulate a clear commercial rationale for each transaction independently. That said, repeat CV usage relating to a different strategy, vehicle, or investor group may have little bearing on the appropriateness of a subsequent CV transaction, as CVs are a flexible GP tool that can address many portfolio asset circumstances.

MACVs: By their nature, MACVs involve LPs evaluating both known asset(s) and unknown asset(s) from other managed funds of the same GP.

Process Management as a Risk Mitigant

In a CV transaction, **strong process management is the best mitigant for the GP's transaction conflicts**. GPs should execute processes that include the following best practices:

- Early engagement with the LP base
- Clear articulation of the CV transaction rationale to all LPs
- Transparent LPAC discussion of all CV related conflicts and GP's mitigation measures
- Clear explanation of election mechanics backed by comparative cost and return modeling
- Equivalence of information provided to existing LPs and new CV investors

Conflicts of Interest: The Role of the LPAC

LPAC Effectiveness

The primary role of the LPAC regarding CVs is to encourage strong fund governance, not to direct outcomes or to engage in active portfolio management of the fund. The LPAC is most effective as a forum for evaluating the GP's management and mitigation of its conflicts inherent in a CV transaction when:

- The LPAC works together and proactively engages the GP, and does not simply 'rubber stamp' the CV conflict disclosures
- Individual LPAC members are fully prepared for meetings with the requisite experience to engage, and where appropriate, challenge the GP
- LPAC members are prepared to condition or withhold their conflicts waiver unless and until satisfied that the GP conflicts have been clearly identified and adequately managed and mitigated
- LPAC members have familiarized themselves with any escalation framework in the existing fund's LPA, in the event a GP fails to remediate any identified conflict deficiencies

LPAC Engagement Best Practices

To facilitate open and meaningful LPAC consideration of a CV transaction, GPs should:

- Engage the LPAC early and continuously; LPAC meeting frequency as set by the GP should reflect the complexity of the CV transaction and the LPAC's informational needs
- Provide accurate, timely, complete disclosure of all CV-related conflicts, including those regarding related parties, advisors, or any LPs in connection with the CV transaction; for any GP conflicts with LPAC members, indicate whether recusal is being considered or encouraged
- Provide the LPAC with sufficient time, at least 10 business days' prior notice (unless mutually waived) before the formal CV conflicts waiver meeting, with sufficient transaction details, including the completed ILPA Continuation Fund Disclosure Template (or the GP's substantially similar one)
- Schedule in-camera sessions without the GP present, when explicitly requested by a LPAC member
- Seek explicit LPAC approval for each conflict associated with the CV transaction (no blanket conflict waiver of any actual or potential GP-LP conflict)
- Promptly notify all LPs of any LPAC decisions

Just as CVs are highly situational, so are LPAC dynamics. The GP and the LPAC should remain free to agree on a longer (or shorter) notice period for meetings where circumstances warrant, such as where a fund has a small LP base, largely represented on the LPAC. In any case, GPs should ensure that LPAC voting timelines are no less favorable than those set out in the relevant fund's LPA.

For further details on recommendations for GPs to apply to LPAC meeting processes, see Appendix C.

GP Engagement with Existing LPs

Quality of Information Provided

Existing LPs who are not on the LPAC primarily gain their understanding of the CV transaction through investor communications and the election pack materials.

Following the initial LPAC discussions on an identified CV transaction, the GP should disclose to all LPs any non-auction-sensitive information. A completed version of the ILPA Continuation Fund Disclosure Template (or the GP's substantially similar one) should be delivered with the final election materials, in concise, clear, plain English.

LPs' Experience of the Process

GPs should carefully consider the experience of LPs who do not sit on the LPAC, even though they do not typically directly participate in the CV conflicts waiver decision. The quality of an LP's experience in a CV process can influence whether they are willing to reinvest with the same GP in successor funds, based on how they perceive alignment, communication, and management of conflicts. To reduce potential friction, the GP and its adviser and/or counsel should be available to answer LP questions on request throughout the process.

Election Materials

Clear, accurate, and consistent election materials are critical to informed LP election decisions. As prevalence of CV transactions continues to grow, greater standardization in election packs prepared by GPs is essential to LPs' ability to develop their own CV evaluation frameworks that enable informed sell/roll decisions. GPs may use ILPA's [Continuation Fund Disclosure Template](#) as a guide. A complete election pack, scaled to the size and complexity of the CV transaction, ought to include, at minimum, the following items:

- Q&A with relevant supporting materials that provides substantially the same information contemplated by ILPA's Continuation Fund Disclosure Template, as appropriate and relevant to the facts and circumstances of the CV transaction
- Confidential Information Memorandum (CIM) prepared by the GP, to include:
 - Key terms summary of the CV transaction and the transaction agreement
 - Transaction and related advisor cost estimates and allocations among CV stakeholders
 - Estimated returns generated by the CV transaction (MOIC/IRR) comparing to original underwriting and CV underwriting modeled applying CV discount and against par.
 - Asset-specific information required to diligence material risks
 - Detailed information on the basis for the assumed price and multiple of the assets, including details on valuations (at least compared to most recent four quarterly reported valuations or similar) and modeling assumptions used, and fully justified explanations for deviations from existing valuation(s)
 - Other price validation evidence, such as fairness opinion from independent valuer, including details of valuer's scope, compensation basis, and other engagement terms, and/or other market comparables
 - All other models and forward-looking projections provided to prospective buyers and potential CV syndicate investors, subject to confidentiality/other restrictions
 - Summary GP track record performance, including for CVs, such as aggregated rolling LP rates and CV aborts
 - Tax summary of sell/roll options
- Transaction pricing model, including disclosure of transaction costs and their allocation among CV parties and CV financing arrangements, such as use of an acquisition facility
- Subscription agreement(s) for the CV, election Agreement. Transaction Agreement (or key terms summary, unless included in the CIM), CV structure diagram, and CV's LPA(s)

GP should grant existing LPs access to the same data room as lead/syndicate CV investors, subject to privileged, competitively sensitive, or material non-public information. However, data rooms are typically extensive and not suitable for time-compressed consumption of information; therefore, access alone is not a substitute for a compact, plain language summary memorandum with sufficient information to inform an LP's sell/roll decision. This memorandum should reference where to access further information in the data room. If additional confidentiality applies to certain materials (i.e., proprietary models), GPs should arrange for access terms to be agreed with LPs in advance of the election period.

Valuation Disclosures

Throughout the lifecycle of a fund, GPs report portfolio valuations in line with the terms set out in the existing fund's LPA. This regular reporting supports LPs to assess the GP's rationale for any portfolio liquidity and/or exit solution, regardless of whether it is a CV.

As part of regular valuation reporting, GPs should disclose material valuation inputs, assumptions, and adjustments, such as discount rates, growth rates, EBITDA adjustments, and future or unrealized cash flows, and explain any material changes to the LPAC. Once a GP determines to pursue a CV as the optimal portfolio management solution, the rationale for the CV transaction is likely to be better understood if the GP has kept LPs regularly and transparently apprised of asset holding values.

In the context of a CV transaction, material deviations from the existing fund's valuation policy (or that are inconsistent with an independent valuation or third-party pricing) should be explained to the LPAC as early as possible, and to existing LPs no later than the time of their sell/roll decision.

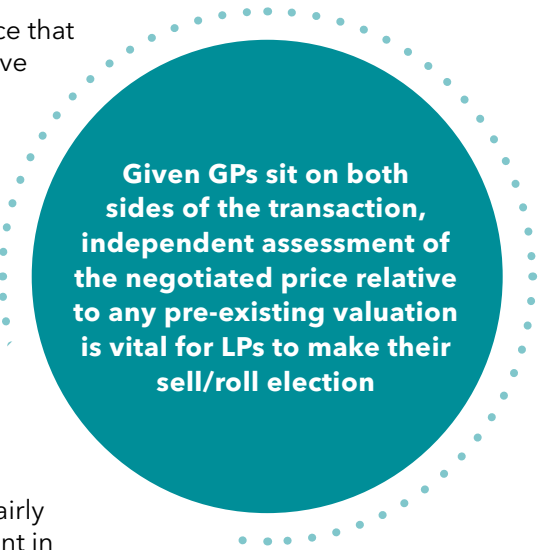
Price Discovery Process

Price Validation

LPs should understand the negotiated price, how it compares with any relevant valuation, and how the allocation of post-closing risks and liabilities impacts the negotiated price relative to the relevant valuation.

In CV transactions (as with all exits), the GP should negotiate an exit price that is fair balancing sellers' desire for value and buyers' need for an attractive price and deal protection. Where a valuation discount is agreed, the GP should clearly explain the rationale to LPs, including any trade-offs between price, liquidity, transaction certainty, and the allocation of risk.

Given the GP sits on both sides of the same transaction and leads the price discovery process and negotiates economic terms with the lead investor(s), independent assessment of the negotiated price relative to any pre-existing holding value(s) is vital.



Given GPs sit on both sides of the transaction, independent assessment of the negotiated price relative to any pre-existing valuation is vital for LPs to make their sell/roll election

Role of a Fairness Opinion / Valuation

While LPs do not set CV pricing, they do need evidence that the price fairly reflects asset value and is fair to existing LPs despite GP conflicts inherent in the CV transaction.

In this context, a fairness opinion prepared by an independent valuer can help support the price. A strong competitive process may be sufficient—and may avoid the need for a costly fairness opinion—depending on the CV-specific circumstances the GP explains to its LPs.

Any fairness opinion should be independent, transparent, and broad enough to be useful.

Assessing a Fairness Opinion's Credibility

Key details relating to the valuer's engagement scope, any pre-existing GP (or affiliate) relationships with the GP, any assumptions and/or limitations imposed by the GP as part of the valuation scope, and fee incentives such as success fee-based compensation should be disclosed to the LPAC and the GP should make the valuer available to the LPAC where possible.

The opinion should value the totality of the CV asset(s), not simply the lead investor's (often non-controlling) stake.

Key considerations for LPs when reviewing a fairness opinion and comparing it to the purchase price negotiated by the GP on behalf of the existing fund include:

- Methodologies applied and assumptions used in determining valuation
- Asset(s) valued, i.e., assess whether the GP has sought a valuation of the full CV interest being transferred and not a partial stake, i.e., the lead investor interest
- Reference date and any mechanism to 'bring down' to account for changes in valuation and cashflows between the reference date and CV closing
- Assessment of whether the valuation reflects recent performance (based on most recent four quarterly reported valuations or similar) and forward risks
- Comparison with any pricing/valuations identified through alternative liquidity options (i.e., third-party sale, IPO), where available
- Analysis of purchase price relative to the valuation of the asset(s) and market conditions
- Details of post-reference date cash flows or other adjustments
- Purchase price payment structure (cash, non-cash, timing and deferral(s), earn-out)

LPs should be able to challenge valuations that seem opportunistic or inconsistent with performance, market conditions, or past reporting.

Other Considerations to Inform LP Assessment of Price Discovery

Auction Process

The GP should seek to run a genuinely competitive process to secure the best possible outcome in the prevailing market, independent of its own self interests.

The GP should explain how bids were sought and why any targeted, shortened, or single-buyer process was appropriate.

LPs should receive a clear summary of buyers approached, including any criteria applied to the buyer universe, such as financing capacity, expertise, prior co-investment relationship, or regulatory eligibility but without identifying specific parties. The summary should also include bids received, pricing, bidder profiles, and the GP's rationale for selecting the preferred bidder, subject to binding confidentiality limitations and reasonable commercial sensitivities.

The GP should disclose adviser incentives, including placement fees, success fees and any other GP engagements, and demonstrate that notwithstanding any such conflicts, the GP and its adviser were able to run a competitive process.

LPAC Access to Advice

Some LPAs expressly allow the LPAC to appoint its own legal advisor. However, even where the LPA is silent, a GP should—as a matter of best practice—offer the LPAC the option to select and appoint its own legal advisor as a fund expense where proportionate and appropriate regarding any material conflicts disclosed and the CV's complexity.

Other Sale Processes

The GP should explain whether, before pursuing the CV transaction, it assessed the viability of a third-party sale or IPO, including any independent advice obtained or market testing conducted. The GP should also explain why prevailing market conditions made a CV transaction the most appropriate exit option for the transferring asset(s).

In some cases, an experienced M&A adviser may provide sufficient market insight without a formal sale process.

Comparable fund-interest or asset sales may support valuation, but only where the underlying facts are sufficiently similar.

Representations and Warranty Insurance (“RWI” or “W&I”) in CV Transactions

In many CV transactions, RWI helps give the selling fund a cleaner exit, by reducing buy-side recourse to the existing fund and its LPs and allowing for faster distribution of sale proceeds. It is not, however, a substitute for conflicts management, fair pricing, full disclosure, or a fair election process.

Insurers assess the quality of the CV process. A clear rationale, balanced disclosure, LPAC engagement, valuation support, and fair election process make a transaction more insurable than a compressed or opaque process where there would be a perceived risk of the GP's good faith fiduciary representations being undermined.

RWI matters to LPs because it gives an independent view of the CV transaction's propriety. It can also influence LPs' sell/roll decisions because its use can affect whether sale proceeds can be distributed without a holdback and the policy may include rolling LPs as named beneficiaries. This is however highly fact-dependent, and which is why the election materials should include a clear RWI summary covering the policy's purpose, insured parties, beneficiaries, whether RWI was required by a lead investor, limit, retention, premium, cost allocation, key exclusions, known excluded matters and any residual recourse.

Timing and Legal Consideration

Election Period

The election period must give LPs sufficient time to fairly and fully review the election pack, diligence the CV opportunity, and obtain necessary internal approvals.

Many LPs must treat a CV as a new investment because a roll election creates exposure to a new fund structure and because it often extends the holding period for the specific CV asset(s) beyond the original fund term, inclusive of term extensions. Internal governance, legal, regulatory, or ERISA requirements may require full underwriting, legal review and investment committee approval.

A GP should set a **fair** election period based on **deal complexity** of at least **20 clear business days** (extendable for complex or multi-asset transactions) from receipt of the election pack with **full access** to the CV data room

LPs and GPs are generally aligned in seeking to minimize the gap between the reference date and closing. Longer election periods can make the reference date valuation stale, which may cause lead investor(s) to seek stronger transaction protections, such as material adverse change (MAC) clauses during the pre-closing period, as well as price adjustments and/or holdback mechanisms, each of which can undermine delivering existing LPs with a 'clean' exit.

The GP should set a fair election period based on deal complexity of at least 20 clear business days (extendable for complex or multi-asset transactions) from receipt of the election pack and with full access to the CV data room.

GPs can support LPs to make informed sell/roll decisions in the compressed CV timetable through:

- Clear, accurate, consistent election materials, including disclosure at least equivalent to the ILPA Continuation Fund Disclosure Template, accompanied by concise, accurate, relevant supporting materials and plain-English summaries.
- Early LP-wide engagement and preliminary information provided before the formal election period commences.

There is no one-size-fits-all period. While an election period of 20 clear business days may be sufficient for a less complex SACV where LPs have knowledge (and reporting) on the asset, it may be inadequate for a complex MACV involving new, unknown assets in the CV structure on which electing LPs have no prior knowledge.

Compliance with Existing Fund LPA

CVs commonly arise in funds whose governing documents did not explicitly contemplate portfolio asset exits through CV transactions. Indirect LPA mechanisms (such as "alternative investment vehicle" or warehousing cross-trade provisions) should not be relied on to justify compressed CV timetables and limited election materials.

Some LPAs may include high-level anticipatory language around the process, such as notice periods, disclosures, conflict approval protocols, voting processes, and expense allocations, including broken deal expenses and procedures for third-party valuation of interests.

LPA provisions addressing conflicts of interest should guide a CV process, however, regardless of whether a presumptive waiver of conflicts exists, GPs should always seek to actively mitigate its conflicts and clear them via the LPAC. LPs and GPs should consider, as a means of providing enhanced transparency, whether new LPAs should identify conflicts associated with a CV transaction as a specific category of GP conflict requiring disclosure to, and prior approval of, the LPAC.

In limited cases, the existing fund's LPA may need amendment to facilitate the CV transaction, requiring investor consent—typically a super-majority of eligible participating existing LPs. In these circumstances, LPs have the power to withhold their consent to the LPA amendments as a signal of their dissatisfaction with the quality and fairness of the CV process.

Compliance with Side Letters

To the extent that any LPs have protections built into their side letter that touch on the CV transaction, then the GP has a duty to comply with those relevant terms. GPs, not LPs, are responsible for evaluating the relevance of any existing LPs' side letter terms as part of their CV preparatory work.

GPs should explain the extent to which side letters of rolling LPs will carry over to the CV. A GP's objective during a CV transaction should be to preserve applicable existing rights while permitting updates necessary to address legal, tax, regulatory or policy requirements binding on any such LPs. A GP should provide time during the election period for such discussions. This should ensure a balance between fairness to LPs and preserving overall cost and transaction efficiency.

Going forward, LPs should consider supplementing their standard side letter requests for new fund commitments with protections regarding exits via CV transactions. For example, requiring a minimum timeframe to review CV election pack materials and, in any CV process, requiring a GP to disclose information no less than equivalent to the ILPA [Continuation Fund Disclosure Template](#).

LP Failure to Elect: No Forced Rolling into the CV

In cases where the LP does not respond to the election in the prescribed period, they should be treated as selling LPs. LPs should never be forced to roll their existing interests into a new vehicle without their explicit prior written consent.



Election Options and Their Economics

Election options will vary by transaction, reflecting the GP's stated commercial rationale for retaining ownership through the CV structure, market conditions, negotiations with lead investors and any legal, tax, regulatory and/or jurisdictional specific sensitivities.

Where a CV is the GP's preferred exit for specific portfolio assets, it typically assumes a 100% transfer of those assets to the CV.

The GP sets the election options as part of its construction of the exit via a CV transaction for the target asset(s), consistent with its duty to act in the best interests of LPs as a whole. Options usually include sell, roll, or a combination:

- **Sell:** LPs receive their pro rata share of net proceeds. The GP should disclose any non-cash consideration and how selling LPs benefit. Non-responding LPs should be treated as selling their full pro rata share.
- **Roll Without Top-Up:** LPs roll their pro rata net proceeds into the CV without adding new capital. Any dilution should be addressed through disclosed, pre-agreed dilution mechanics. Where the CV requires additional capital to support the go-forward plan for the CV asset(s), the GP should consider offering electing LPs a partial sell/roll option.
- **Roll with Fresh Commitment:** LPs roll their proceeds and commit additional follow-on capital (typically on CV terms including economics) to fund further investments, fees, and expenses. The GP should disclose minimum commitments, economics, and dilution mechanics.
- **Sell/Roll Combination:** LPs split between sell and roll options. The GP should disclose the available options and explain the rationale for any pre-set split, such as operational efficiency for capital allocations to align with the allocations agreed with the lead investor(s).

The presence or absence of any variation of a sell/roll election option is not in itself an indicator of an unfair CV process, however the GP should explain why any CV specific range of options are proportionate, cost-effective, asset-appropriate, and operationally reasonably feasible without creating excessive fee and/or cost drag for existing LPs.

Sell/roll options are also sensitive to whether the existing fund operates a 'whole-of-fund' (European) distributing waterfall or a 'deal-by-deal' (U.S.) one.

The **presence or absence** of any sell/roll option does not, by itself, indicate an **unfair CV process**, however, a GP should explain why options are **proportionate**, cost-effective, asset appropriate, and operationally feasible

Valuation and Purchase Price

LP election economics depend on the purchase price negotiated by the GP. The election materials should clearly explain the pricing mechanism, including the reference date used, any adjustments for post-reference date contributions, distributions, and/or other cash flows, and the expected timing for payment of proceeds to selling LPs.

Where a "locked box" or similar mechanism is used to avoid working capital adjustments and complex post-close purchase price adjustments, the GP should explain why that approach is appropriate for the transaction and how it affects LP economics.

The GP should clearly disclose any planned ancillary actions affecting the target asset(s), particularly where they arise in the period between the reference date and final CV closing that could extract value, increase CV liability, or delay closing, e.g., due to required regulatory approvals.

Sell/Roll Optionality, Follow-on Capital, and Dilution of LP Interests

While offering full optionality to LPs on their sell/roll election split can be administratively complex, the GP's objective should be to maximize LP choice while preserving legal and deal certainty.

Full optionality can potentially introduce transaction jeopardy because it increases legal and execution uncertainty and exposes the GP to a scenario where there is a risk of unfunded committed capital, and a lead investor may be unwilling to upsize its own commitment to cover the gap, especially if it has agreed a capped maximum allocation as part of the transaction terms. In addition, the GP will want to avoid the CV transaction effectively becoming a strip sale because there is insufficient capital to fund selling LPs for their full interests in the underlying transferring asset(s).

GPs often use fixed percentage options to give LPs choice while ensuring deal certainty of terms with lead investor(s), process efficiency, and a deliverable and cost-effective exit. If LPs do not receive full optionality, the GP should explain why and how the fixed splits were set.

Where a roll election requires or contemplates additional capital, the GP should ensure that the follow-on funding mechanics do not undermine the practical availability of the roll option.

Avoid Forced Sales. LPs should not be forced to sell solely because they cannot commit fresh capital. Where follow-on funding is central to the CV thesis (such as capital needs for value creation), the GP may require it as a condition to roll and to avoid CV misalignment or CV investor conflicts. Common solutions include allowing LPs to roll their proceeds as a total commitment inclusive of unfunded capital (with dilution consequences) or to roll the purchase price and separately elect whether to top up for unfunded amounts, which means no LP is forced to sell because of the unfunded component. Where the circumstances exist, a GP may allow LPs the option to reallocate unfunded commitments from the existing fund to the CV.

Dilution Consequences Should be Transparently Disclosed. Dilution consequences should be clearly explained in the election materials alongside the roll options and any CV follow-on funding requirements. Indirect barriers, such as high minimum reinvestment commitments, should be avoided unless justified by the asset and structure.

- Rolling LPs should understand any direct or indirect dilution risk as part of making their sell/roll election.
- If some rolling LPs provide follow-on capital and others do not, dilution should follow a disclosed, pre-agreed election mechanism applied consistently to avoid the GP perception it is forcing LPs to sell.

Follow-On Rights Should Be Allocated Fairly. Rolling LPs should generally be able to participate pro rata in CV follow-on funding with new investors, subject to reasonable timing mechanics. Any departure should be disclosed and explained. The GP should disclose in the election materials any capped rolling LP allocation and the over-subscription allocation method, such as pro rata by existing fund commitments, subject to any agreed confidentiality limitation.

Election Structure - Legal and Practical Issues

If selling LPs must first receive an interest in a temporary cash-out vehicle before being paid in cash at closing, this can create additional challenges for LPs.

The reason some LPs cannot elect to roll is because they are required to treat the CV as a new investment and cannot diligence and secure internal approval for an investment in a new vehicle on a compressed timetable and/or their internal governance restricts concentrated direct holdings (even temporarily). Requiring sellers to diligence even a temporary vehicle can create the same internal problem. If approvals cannot be obtained, those LPs may have no practical choice between selling and rolling.

GPs should engage LPs early, understand timing and approval constraints, and allow a reasonable election period considering those identified issues, and provide clear summaries of key documents to support LPs making informed decisions in a compressed transaction timetable. LPs, in turn, should proactively reevaluate internal governance and seek to adapt, where possible, approvals, and governance processes to facilitate being able to actively respond during a CV's election period.

Election Agreement

The election agreement should explain how to make a valid election and not add material commercial or economic terms beyond those clearly and fully disclosed in the election materials. Any customary transfer, tax, regulatory, or administrative provisions should be identified and explained in concise, plain English.

The agreement should not include broad GP conflict waivers in lieu of LPAC engagement on management of the GP's conflicts. CV specific conflicts should be disclosed, managed and, where needed, approved by the LPAC case by case.

GPs should not use waivers or indemnities to shift responsibility for the CV process to LPs.

Any extra representations, waivers or indemnities should be disclosed, explained, and limited to what is necessary for the election. Waivers of known claims may be appropriate; waivers of unknown claims generally are not. Any 'no reliance' acknowledgment sought by a GP should be challenged by LPs and clearly justified by the GP.

If the existing fund pays for RWI, the GP should justify any additional indemnities or waivers that may duplicate that protection.

If an LP cannot accept the agreement, it should understand the consequences of not responding, including whether it will be deemed to sell and whether deemed to have accepted the terms of the election agreement (which LPs should challenge as an indirect LPA amendment). LPs seeking liquidity should review the agreement with legal and commercial teams before signing.



What Is 'Remain in Place' and Is It Compatible with a Specific CV Transaction?

GPs should structure LP election options to fit the CV's commercial rationale and what they judge to be in existing LPs' best interests, including whether a "remain in place" option is appropriate.

A "remain in place" option lets LPs keep exposure to the CV assets through the existing fund on current (including economic) terms. But it may not make sense in every circumstance including where the GP is using the CV to fully exit those assets. In that case, the existing fund would be left holding a minority stake only for the LPs who choose to remain, which could require the GP to either keep managing the existing fund solely for the 'remain in place' held minority stake until the CV exits (for the benefit of a minority group of "remain in place" electing LPs only to the detriment of other LPs) or to restructure the fund for two different LP groups (those that took liquidity on those CV asset(s), and those that elected to "remain in place"). Both outcomes can introduce new conflict issues in the exiting fund to manage plus add cost and complexity. If that minority stake later needs to be sold when the existing fund winds down, securing a third-party buyer at a competitive price may be challenging. The alternative would be a sale to another GP-managed vehicle but this could introduce new conflicts. For these (or other asset specific) reasons, a GP may decide not to offer a "remain in place" option because it can add execution risk, extra cost, structural complexity in the existing fund and/or introduce new GP-LP conflicts.

This option may be appropriate only where it supports the CV thesis and its benefits outweigh the impact on pricing, administration and the GP's duty to maximize value for the fund as a whole (and not simply one minority group of LPs).

As an alternative, the GP may offer a roll election that preserves economics overall no worse than the existing fund. Election materials should identify whether this option is available and explain its terms. Whether "remain in place" is suitable depends on the transaction. It should be considered as part of the CV design, but may not be appropriate for every CV. If offered, dilution mechanics and other economic consequences should be clearly disclosed.

See Appendix D for more details on the pros and cons of this structural option.

A 'remain in place' option

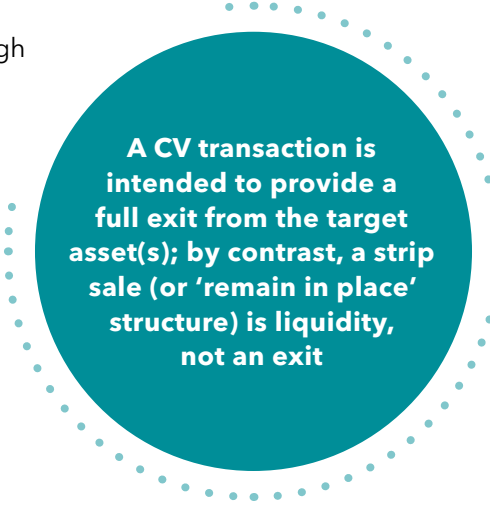
may be appropriate only where it supports the CV thesis and its benefits outweigh the impact on pricing, administration and the GP's duty to maximize value for the fund as a whole (and not simply one minority group of LPs)

A CV Transaction is a Full Exit, Not a Strip Sale

A CV transaction is intended to provide a full exit from the target asset(s). By contrast, a strip sale is liquidity, not an exit—it gives LPs partial liquidity (their pro rata share of net proceeds of a partial asset sell-down), continuity in the existing fund on existing terms but with no optionality and it results in the existing fund reducing its interest in the asset(s) sold.

By contrast, in the context of a CV transaction, if the CV cannot raise enough capital to buy the selling fund's full interest, the GP should not simply reduce the CV purchase size to match available funding. Doing so would turn the CV into a partial sale rather than a true exit.

Election materials should clearly show how the CV will fund the full purchase price, including through equity, acquisition facilities, or other financing. If the GP cannot demonstrate that the CV can fully fund the purchase price, the GP should explain why the transaction still serves existing LPs' best interests.



A CV transaction is intended to provide a full exit from the target asset(s); by contrast, a strip sale (or 'remain in place' structure) is liquidity, not an exit

Limitations on an LP's Roll Election

Dependencies that may impact an LP's ability to roll include:

- Existing internal governance, such as whether an LP's investment policy considers the CV to be a new investment in a new vehicle, subject to explicit investment authority supported by underwriting requirements and a new investment committee review, with stipulated timelines for diligence and approvals.
- Concentrated exposure in conflict with an LP's portfolio allocation limits, or constraints related to vintage exposure or investment-horizon.

LPs should consider whether their processes should be amended to respond efficiently and effectively to more frequent CV transactions.

See Appendix E for more details on practical suggestions for LPs.

Allocation of CV Transaction Fees and Expenses

Election materials should clearly summarize all CV-related costs, who pays, who benefits, and why the allocation is fair. This should include legal (sell-side, buy-side, CV formation), advisory, valuation, financing, insurance (RWI), tax, regulatory, transfer, formation, and broken-deal costs, as well as any GP- or adviser-affiliated fees.

Cost Relevant to Both Selling and Rolling LPs. All LPs should understand the total transaction cost burden because these costs reduce net proceeds, whether for sellers or rolling LPs in respect of the reinvestment economics, and may influence the perception of whether the CV is value-maximizing compared with other exit options. The GP should disclose the allocation methodology among the existing fund, the CV, rolling LPs, selling LPs, lead investor(s), other CV investors and the GP. Cost disclosures should be consistent with the guidance in the ILPA Continuation Fund Disclosure Template and accompanied by a GP explanation for how the allocation matches who benefits from the cost.

Transaction costs, including legal, regulatory and transfer tax costs, are often shared between the selling fund and the CV, but any different allocation should be clearly explained. The GP should also disclose indirect fund-level costs ultimately borne by the existing fund and its LPs, such as fairness opinion fees, corporate adviser fees, refinancing costs and costs of replacing or amending fund-level debt facilities.

Costs Selling LPs Should Scrutinize. Selling LPs should understand which costs are deducted from sale proceeds (rather than charged back to LPs as a 'partnership expense' of the existing fund) before distribution, including sell-side advisory, legal, tax, regulatory, transfer, RWI premium or holdback-related costs. These costs matter because they directly reduce cash proceeds and may affect the timing and certainty of payment. If RWI is used to reduce holdbacks or post-closing recourse, the GP should explain whether selling LPs are paying for that benefit and whether the insurance is more cost-effective than other contractual protections.

Costs Rolling LPs Should Scrutinize. Rolling LPs should understand how costs affect the amount reinvested in the CV and the ongoing economics of their rolled interest. This includes CV formation costs, lead investor legal costs paid by the CV, RWI costs (and whether the rolling LPs are included as named beneficiaries), financing costs, acquisition facility fees, and, going forward, management fee base calculations, including which costs are included or excluded from the capital base on which fees and carry are calculated. These costs matter because they can reduce the rolled amount, create fee drag, dilute exposure, or make rolling less attractive than it appears based on headline terms alone.

GPs should construct roll options that **maximize LP choice** and meet CV objectives; follow-on capital should preserve choice, **not force sales**

Costs the GP Should Bear or Disclose Carefully. GP financial incentives connected to the CV—such as exit fees, affiliate advisory fees, success fees, placement fees, or adviser compensation tied to completion—should be disclosed to the LPAC for conflicts review and to all LPs in the election materials.

Initial corporate advisory fees relating to advice on portfolio structuring solutions should generally not be success-based, because the GP should be receiving impartial advice on the best option for the existing fund, not advice incentivized towards completing a CV.

CV formation costs, including legal costs incurred by the lead investor(s), are typically capped and paid by the CV, with the GP paying its pro rata share for any reinvested sponsor commitment. RWI costs should be disclosed separately and allocated based on who benefits from the policy and what risk it is intended to cover. Broken-deal or failed-process costs should also be disclosed in advance, including who pays them if the CV does not close.

CV Economics - Rolling LPs

CV roll terms are generally negotiated by the GP with the lead investor(s). Terms should, where possible, leave rolling LPs, on the whole, no worse off economically than if the CV had not occurred.

While headline terms for rolling LPs may differ from those of the existing fund - fee resets for a larger capital base or carry structures that reward value creation in de-risked assets - a GP should provide comparative modeling based on the standard terms, fees, and carried interest of both the existing fund and the CV. This modeling should demonstrate that the overall economic burden of fees and carry for rolling LPs is generally no worse than if they had remained invested in the CV asset(s) in the existing fund,

applying good-faith, reasonable assumptions in like-for-like hold-period scenarios. Individual outcomes may vary based on pre-existing arrangements, including side letter provisions such as early-bird fee discounts.

GPs may offer CV participation that achieves this outcome as follows: (1) on the same terms as new CV investors, or (2) a "status quo" basis that closely replicates existing fund economics, or a mix of both. GPs may also structure CVs so rolling LPs participate in the same vehicle as new investors or a separate vehicle, often depending on whether terms align.

For existing LPs considering a rollover election, understanding the impact of CV economics is critical. The GP should ensure that the election materials fully explain in clear, plain language the following:

- Management fee levels and fee base; whether different rates apply to different categories of CV investors, i.e., lead investor(s), syndicate investors, rolling LPs; whether the base is net or gross of CV formation costs
- Carried interest structure and return thresholds for new CV including the tiers, and whether using an IRR and/or MOIC threshold, % GP catchup
- Duration of CV and extension mechanics (i.e., determines extended fee liability period), including details of extension consent requirements and if/when there is any fee step-down
- Leverage profile and capital expenditure requirements, including material changes (and costs) in the CV's leverage profile relative to the existing fund's leverage policy, as well as the asset's leverage immediately before the CV transaction
- A comparison of standard fee and carry terms relative to the existing fund; election pack materials should model the impact of any differences over comparative hold periods using good faith assumptions and sensitive to whether the existing fund operates a U.S. 'deal-by-deal' or European 'whole fund' distribution waterfall and disregarding any LP specific agreed economic arrangements
- Unfunded commitment requirements (if any), i.e., condition to rolling
- Blended sell/roll optionality, i.e., none, pre-set, e.g., 50/50, free choice subject to minimum
- Impact on carry to be generated from the existing fund including clawback liability



Sponsor Alignment Post-Transaction

Post-transaction, GP alignment is a key concern for rolling investors. Existing LPs should assess:

- The scale, source, and structure of the GP's reinvestment in the CV, i.e., whether by firm founders or actual named 'key persons', or debt and/or third-party funding sources.
- Whether carry is crystallized for only selling LPs or both selling and rolling LPs.
- Whether crystallized carry and sponsor returns (net of tax) in respect of the CV asset(s) are reinvested or cashed out.
- The GP's economic incentives over the CV's life, including the reset carry model (such as a tiered structure), and any changes to the preferred return and/or catch-up.
- The base and rate on which the CV's management fee is charged and how the capital comprising the base is to be determined.

The source and structure of the GP's reinvestment in the CV should be disclosed to allow the LPAC and LPs to assess alignment. For example, if the GP maintains (or increases) its CV sponsor commitment amount but funds it via third party sources, it effectively 'banks' its carry and reduces its true "skin in the game," and de-risks its exposure to the CV assets. Asking LPs to extend exposure while the GP de-risks may be seen as misalignment.

Misalignment arises when the GP's economic risk, incentives, or flexibility **differ materially from LPs**, particularly if the GP is able to **de-risk** while LPs are asked to increase or maintain exposure

Treatment of Carried Interest - Evidence of True GP-LP Alignment

Alignment Through Reinvestment

There is no 'one size fits all' approach to achieving GP-LP alignment, but the GP can demonstrate conviction through meaningful reinvestment by the sponsor, deal team, or by the members who remain involved in the asset(s), such as through an employee co-investment vehicle.

Waterfall Determines What Can Fairly Be Reinvested

The existing fund's distribution model, whether a 'whole fund' European waterfall or a 'deal-by-deal' U.S. waterfall, can affect whether carried interest is crystallized in respect of the selling LPs and therefore available for the GP to reinvest in the CV.

For example, for an existing fund with a European whole-fund waterfall, requiring all crystallized carry to be reinvested may unfairly force non-CV asset crystallized carry into the CV and give the GP a disproportionate stake. This would be an unintended (adverse) consequence for LPs. It is generally more appropriate to reinvest only carry attributable to the CV assets.

For existing funds with a European or whole-of-fund style distribution waterfall, **only crystallized carry attributable to the CV assets** should be reinvested.

At the same time, in a whole-of-fund structure where the transferring assets have material value creation potential in a portfolio that includes underperforming assets dragging overall performance, re-setting the carry for those CV asset(s) can be attractive to the GP.

Carry Reset and GP Incentive Risk

In certain asset classes (such as credit and real estate) and in non-U.S. jurisdictions, longstanding market practice is to reset the waterfall in the CV for reinvesting (or rolling) LPs to the transaction value; although this is a recognized market practice, the GP should still explain the mechanics in full in the election pack materials. In some cases, carry can be reset at tiered rates, e.g., premium carry of 30%.

Disclosure and Modeling

The GP should provide comparative modelling—applying good faith reasonable assumptions modelled over like-for-like hold period scenarios—that demonstrates, notwithstanding any changes to the carry structure, rolling LPs' liability for carry is, overall, no worse than if they had retained their investment to the CV asset(s) under the existing fund's standard carry structure (disregarding LP specific arrangements).

GP Alignment with and Without a CV

The key test is whether the GP is better off with the CV than without it. The GP should fairly and accurately disclose a comparison in the election pack of the GP's economics for both "with-CV" and "without-CV" scenarios.

While there is no uniform approach, GPs should disclose through the election pack materials:

- The proportion of crystallized carry being reinvested (net-of-tax);
- The reasons for any crystallized portion not reinvested;
- The identity of the individuals or entities providing the reinvestment (including any third-party sources);
- How the CV incentive arrangements align the investment team with rolling LPs over the life of the CV;
- The potential impact on the existing fund's GP clawback; and
- The rationale for any partial cash-out such as to meet jurisdiction-specific tax liability payable at the time of crystallization of carried interest



The key test of alignment is whether the GP is better off with the CV than without it, and if so, why, and how it aligns with LPs

Key Terms of the New CV

Continuation Vehicle's Key Terms

Existing LPs who elect to roll over will typically hold interests in the CV structure under a new governance framework, and which will likely vary materially from the position in the existing fund's LPA. Key considerations include:

- LPAC composition and authority
- Lead investor authority, conflicts, and alignment (including through fee terms)
- Impact of a concentrated investor base in approving certain transactions
- Information and reporting rights (including any differences with the existing fund)
- Valuation principles and frequency (including any differences with the existing fund)
- Follow-on capital requirements and pre-emptive funding rights
- Transfer restrictions, such as any lock-ins, drag/tag provisions, and affiliate transfer permissions
- GP removal and key person protections
- Fee and carry structure for the GP, including carry protections such as clawback
- Status of existing side letters and their application to the CV
- Legal, regulatory, or tax issues associated with the new structure
- Duration and approvals for term extensions, exit terms/consents

The GP should provide existing LPs with a concise comparison of key terms between the existing fund and the new CV though existing LPs should generally expect that the lead investors will have veto (or similar controls) in respect of key CV decisions. The GP should seek to ensure rolling LPs have substantially comparable investor protections in the aggregate, with material differences identified in the election pack materials.

However, deviations may be appropriate where fair and reasonable, such as aligning key person provisions to the relevant CV deal team.

Tax Considerations

Existing LPs need to carefully assess how their tax position is impacted by a CV transaction, regardless of whether they elect to sell or roll. The deal may be structured to ensure that no tax loss or gain is crystallized, and the original cost basis is retained. This is known as a "tax-free roll." An "after-tax roll" is an alternative structure, where the rollover amount is net of any tax withheld or payable.

Complexity increases with "blocker" entities: existing LPs may prefer transferring blockers (tax-free) instead of sales of the underlying assets because asset sales are typically taxable, which makes delivering a tax-efficient roll harder for those LPs. New CV investors may favor direct asset ownership via new blockers for a

step-up in basis in the acquired assets (assuming the existing blockers have unrealized built-in gain in the assets).

A GP will generally be managing investors with differing tax profiles but its primary objective when structuring a CV transaction should be to structure an exit in the best interests of existing LPs. Electing LPs with specific tax sensitivities should address concerns early with the GP so that the GP can consider any reasonable options within the overall CV structuring however creating bespoke structures for every tax profile is generally impractical due to the additional costs that would likely reduce net distributable proceeds available to LPs on the CV sale.

GPs should provide a clear explanation of the CV structure's tax and regulatory features and high-level guidance on the tax treatment of the sell and roll options. Where existing LPs benefit from side letter tax protections that may be relevant to the asset disposal, the GP should have regard to them when structuring the CV transaction.

Although this guidance focuses on PE buyout funds, tax considerations can be even more significant in other asset classes. Credit funds, for example, often involve leveraged and unleveraged structures, blocked and unblocked vehicles, and multiple currency sleeves, requiring LPs to pay particular attention when assessing the roll option.

Co-Investments - Impact of a CV Transaction

When assessing whether a CV is viable for a specific asset, the GP should consider any existing co-investment structure and engage affected co-investors early and consistently with other LPs.

Co-investments are typically made alongside, but outside, the main fund and governed by separate agreements. They often provide investors with additional exposure on favorable economic terms, such as no fees/no carried interest, while giving the GP access to capital to support the underlying asset.

Many co-investment agreements do not expressly address CV transactions. In most cases, co-investors are entitled to their pro rata share of exit proceeds, but do not have a negotiated right to roll into the CV on existing co-investment economics. If a co-investor wants continued exposure, it may need to reinvest its realized proceeds on CV (including economic) terms, absent specific pre-agreed rights.

Even where there is no legal obligation to preserve co-investment economics, the GP should treat co-investors fairly and run a transparent process that is consistent with the process for main fund existing LPs. Poor outcomes for co-investors can damage GP-LP relationships, particularly where co-investment access is an important feature of that relationship.

Where appropriate, bespoke roll terms may be considered on a fact-specific basis. For example, a co-investor may be permitted to retain existing co-investment economics on its original capital base, with any additional reinvested amount subject to CV terms.

Going forward, LPs with co-investment programs should consider seeking clarity in co-investment documentation on how exits will be handled, including through CV transactions, and whether co-investors may preserve equivalent economics on reinvested amounts.

LPs with co-investment programs should consider seeking **clarity** in co-investment documentation on **how CV exits** will be handled, including **economics**

Existing Fund - Impact of the CV Transaction

When assessing a CV transaction, the GP should evaluate its impact on the existing fund, including a cost-benefit analysis of the CV transaction costs to deliver an exit, performance effects, and fund-level financing implications. The GP should demonstrate that the CV transaction remains in the best interests of the fund and its LPs notwithstanding any identified impacts on the existing fund.

Key consequences the GP should consider and disclose include:

- **Transaction Costs Liability:** Although the CV bears its own organizational expenses, transaction costs are typically shared between the existing fund and the CV, which may be material, even if capped.
- **Liability For Breaches Under Purchase Agreement - Use of RWI or Warranty and Indemnity Insurance:** Many CV transactions use RWI insurance, which helps manage conflicts from the GP's dual role and allows the selling fund to cap liability under the purchase agreement and efficiently distribute proceeds at closing. Allocation of the premium cost is typically negotiated with the lead investor(s), and the GP should fully explain the existing fund's allocation (alongside disclosing who benefits from the policy) and provide a cost-benefit analysis for RWI cost liability versus a contractual holdback.
- **Refinancing of Portfolio Debt:** Lender consent will be required if any CV asset(s) form part of the collateral base for any existing fund financing, which may trigger refinancing fees and costs, and add material time and cost.
- **LP Clawback:** It is unlikely the existing fund's LPA will specifically address whether a CV transaction is included or expressly carved out of any LP clawback requirement. The GP should explain whether the CV transaction addresses this risk (for example, through use of RWI insurance) or whether it remains a risk for existing LPs (regardless of their CV election).
- **Delay In Receipt of Cash for Selling LPs:** Any deferred payment mechanics under the CV purchase agreement will delay proceeds distributions to LPs. This is more likely if there is no RWI insurance on the CV transaction.
- **Exit Plan for Remaining Assets:** If assets remain in the existing fund after the CV disposal, the GP must detail its strategy to manage and exit them. To ensure continued alignment and prevent the existing fund from becoming a neglected "stub fund"—where LP fees persist on a shrinking asset base while GP focus shifts to the CV—the GP must demonstrate a commitment of sufficient time and attention from the active deal team.
- **Impact On Existing Fund Performance:** Modeling of the CV's impact on the existing fund's performance, including whether the CV transaction would push the existing fund into carry.
- **Existing Fund's GP Clawback:** An explanation of how the GP's clawback liability under the existing fund's terms will be satisfied if substantially all crystallized carry is instead reinvested in the CV and therefore unavailable to fund any triggered clawback.
- **Going Forward Performance:** Performance for the existing fund should only include the transferred asset(s) up to the time the CV transaction completes. Thereafter, it should not include any future performance of the asset(s) transferred to the CV.

When CVs Go Wrong: Considerations for LPs

The guidance focuses on how to achieve a successful CV transaction that demonstrates true GP-LP alignment. However, failed CV processes are not uncommon, often due to pricing or disclosure issues.

LPs should bear in mind the following in the context of a CV transaction:

- **Escalation Mechanism:** If the LPAC needs to address inadequate GP management of CV conflicts, it may seek independent legal advice. For example, where the LPAC conditions approval on remediation of conflict-management deficiencies and those deficiencies are not resolved to its satisfaction, the GP should explain a fair remediation framework consistent with the existing fund's LPA.
- **Failed Process - Costs Liability:** The GP's disclosed transaction costs summary should identify who bears the cost of any remediation process and how abort costs are allocated for any failed process.
- **Use of RWI as a Mitigant:** While RWI can be a useful transaction tool to 'insure away' recourse, it is often done so at the existing LPs' cost. It is not a replacement for fair, robust process management by a GP. The GP should fully disclose the limits of cover (including matters for which recourse remains) and how the cost of RWI fairly reflects who benefits from it.
- **Dispute-Resolution Mechanism:** LPs should familiarize themselves with the existing fund's dispute resolution framework, such as for independent expert determination. LPACs should assess this and, if the existing fund lacks clarity on this, they should condition their LPAC waiver approval on an escalation framework for unresolved conflict concerns, such as relating to price, process, or disclosure.

LPs: Recommendations For Engaging Effectively on CVs

Given that CVs have become a structural feature in private markets, LPs should reassess existing internal process to be better able to evaluate CV transactions as they occur. Appendix E sets out a practical set of recommendations for LPs to consider implementing to anticipate CV transactions.

Once a CV is proposed, LPs should communicate clear expectations around timing, access to information, their need for advisor access and any other investor-specific legal, regulatory, reporting or commercial requests. Going forward, this may be better managed by LPs through negotiating specific side letter provisions addressing these points.

LPs should consider developing an adapted disclosure checklist appropriate for diligence on a CV transaction and asset(s) managed by an existing manager, and which may incorporate elements (as appropriate) of the ILPA [Continuation Fund Disclosure Template](#).

Whenever a CV transaction arises, LPs should review their existing side letter relating to the relevant fund to assess if it has any rights applicable to the CV transaction and subsequently ensure election documents are carefully reviewed with legal oversight.

For future fund commitments, existing LPs should consider incorporating CV-related questions into their manager due diligence. The [ILPA Due Diligence Questionnaire 2.0](#) has targeted questions on CV usage and GP's future CV intentions as part of the exit strategy for a specific fund. LPs should review future LPAs for any CV-specific permissions and negotiate side letters that include stronger protections around CV processes, disclosures, timing, and conflicts; reference ILPA's resource for guidance on this.

Conclusion

CVs are likely to remain an important structural tool in GP portfolio management and capital formation. Critical to their success are processes focused on transparency, informed by clear comprehensible data, and sensitive to the conflicts inherent in them. GPs should recognize the fiduciary duty owed to existing LPs and prioritize process integrity and fairness, early and continuous LP engagement, defensible pricing and transparency throughout. LPs should anticipate how to successfully engage in the process and consistently request adequate disclosures to ensure they can transact in a manner that serves the best interest of their beneficiaries.

Transaction Process Timeline - GP Engagement with LPs

GP Portfolio Oversight	Transaction Initiation	Bidding Process	Negotiate / LPAC Consent	LP Elections / Closing
1. Ongoing GP evaluation of exit options for all portfolio assets; aim of optimizing outcomes for LPs; regular reporting to LPs 2. For relevant CV asset(s), engage advisor; assess all exit and liquidity options, including M&A, sponsor sale, IPO, CV 3. Assess exit vs asset value creation options: • Consider go-forward plan • Identify incremental capital needs, if any • Determine any asset exit opportunities to maximize value for the fund • Consider impact on remaining portfolio 4. Soft test CV rationale with LPs/LPAC	1. Informal LPAC meeting: present CV rationale • Provide cost benefit analysis of CV vs. other liquidity solutions considered • Disclose details of any parallel or prior third-party sale process(es) (solicited/unsolicited) • Disclose all GP CV conflicts (no generic disclosures) 2. Engage independent valuer to deliver fairness opinion; run as parallel process 3. Consider RWI strategy; engage broker; parallel process to allow for transaction diligence and disclosure 4. Formulate CV structure including LP election options: sell, roll and, if appropriate 'remain-in-place'	1. Continue to be available on request for LP queries 2. Open data room for bidders; grant access* to LPAC 3. Conduct diligence meetings with prospective CV investors 4. Review initial bids from prospective CV investors; invite subset to conduct DD 5. Prepare LPAC materials 6. Receive binding proposals and select lead investor(s) 7. Assess RWI transaction underwriting bids; negotiate allocation	1. Deliver fairness opinion to LPs (+ details of scope / terms) 2. Negotiate with lead investor(s) on deal terms 3. LPAC Meeting: clear CV conflicts through vote • Provide LPAC with notice and materials • Hold meeting immediately pre-signing with lead investor(s) (once terms finalized) • Disclose details of auction process i.e. bid funnel, rationale for preferred bid • Offer LPAC in camera LP-only time • LPAC reconvened if conditioned LPAC waiver on GP conflict remediation 4. Notify LPs of LPAC vote result outcome	1. Sign terms with lead investor(s) 2. Election period begins**/ election materials to all LPs including: • CIM (confidential information memorandum) • Transaction proceeds model • Details equivalent to ILPA Continuation Fund Disclosure Template (with data room referencing) • Key data room summary; concise, in plain English • CV LPA (+ comparative summary to existing fund) + election agreement • Auction process memo (marketing scope, format, participants and bids) 3. Arrange LP briefing, Q&A sessions 4. Election period ends: assess rollover appetite / negotiate side letters for rolling LPs 5. Funding and close

*Single source data room

**20 clear business day minimum, subject to CV complexity, with unrestricted data room, from receipt of election pack materials

APPENDIX B

Assessing CVs Versus Other Exit and GP-Led Solutions: Key Considerations

The following factors should form part of the commercial rationale disclosed by the GP to existing LPs for pursuing a CV transaction. They should be assessed when evaluating the appropriateness of a CV relative to other exit or portfolio management tools.

Fund Lifecycle Stage	Is the fund in early, mid, or late life?
Commercial Rationale	What specific problem is being solved: liquidity, value creation, follow-on funding, fund expiry pressure, concentration limits, full exit, retention of upside for high-conviction assets?
Best Interests of Existing LPs	Is value for existing LPs being maximized, and how does the CV primarily serve those LPs despite the GP's objectives for the new CV?
Alternatives Considered	What alternatives were considered, i.e., third party M&A/IPO exits, term extensions, preferred equity, NAV facilities, strip sales, tender offers, cross-fund transactions, co-investment vehicles, annex funds?
Residual Portfolio Impact	What was the asset-selection rationale, both for assets included and excluded? What is the exit plan and go-forward economics for residual fund assets?
Liquidity Needs and LP Optionality	How does the CV address LP needs for full liquidity, partial liquidity, or the ability to retain exposure?
Pricing and Market Validation	Can the GP demonstrate the CV price's competitiveness, i.e., third-party price validation, market comparables, independent fairness opinion, or a market-tested control sale?
LPAC Engagement and LP Approvals	Is LPAC conflict clearance required (or being sought) and does the LPAC have sufficient information and time to assess the CV's conflicts?
Disclosure and Transparency	Have LPs received clear, timely, accurate, symmetrical information, including asset selection rationale, valuation, auction process information, bid selection, costs and dilution impact?

Transaction Complexity	Is the transaction a single or multi-asset CV, involving unknown assets to existing LPs or assets from multiple funds? Are there other considerations adding to the complexity of the transaction, i.e., co-investors, regulatory issues, tax structuring, multiple stakeholders and/or new investor rights?
Execution Timing and Certainty	Do market conditions, current timing, buyer appetite, process duration, and deal risk support a CV as chosen option?
Cost Burden	Are legal, advisory, financing, valuation, insurance, regulatory, tax and structuring costs proportionate to the expected benefit resulting from executing the GP-led solution for the identified portfolio asset(s)?
LPA Constraints	Do existing fund documents permit the proposed CV? Are amendments, consents or term extensions needed from LPs?
GP Alignment	Is the GP economically better off because of the transaction? Will existing LPs share the economic benefits? If not, how has the GP demonstrated continued alignment?
Co-Investor Treatment	Are impacted co-investors treated consistent with other LPs? Have they received information consistent with their agreements?
Regulatory and Tax Implications	Does the CV structure have a different regulatory status, jurisdictional profile or tax treatment?
Perception and LP Trust	Is the CV a default choice, a liquidity workaround, or overly favorable to the GP or new investors, or is it a deliberate, LP-aligned choice?

APPENDIX C

LPAC Meeting Process: Recommendations

When convening the LPAC to formally seek approval of the GP conflicts associated with a CV transaction, the following steps are encouraged:

- LPAC materials should accompany the notice to call an LPAC meeting; materials should include CV information no less than equivalent to ILPA [Continuation Fund Disclosure Template](#).
- LPAC members should be provided at least ten (10) business days prior written notice (unless mutually waived) to allow sufficient time to assess the LPAC resolutions and supporting materials.
- A virtual attendance option should be provided, i.e., not restricted to in-person only.
- The GP should open the LPAC meeting with a request for disclosure of any conflicts, both its own (or those of its affiliates and/or advisors) and those with any LPAC member.
- The GP should explain its CV conflicts mitigation management, including associated with LPAC members, and, if appropriate as regards any LPAC member (including recusal).
- The GP's presentation of the commercial rationale for the CV for the specific portfolio asset(s) should include comprehensive details of alternatives first considered.
- LPAC members should have in-camera time without the GP present (as proportionate and appropriate).
- The meeting should allow time for Q&A with the GP present to address concerns, i.e., no 'cherry picking' of LPAC members permitted to raise queries.
- LPAC meetings should feature a vote on whether to clear each conflict associated with the CV transaction; each member should have one (1) vote unless LPAC governance expressly stipulates otherwise.
- The LPAC should consider conditioning conflicts approval on remediation of any CV transaction conflict weaknesses.
- The GP should explain to LPAC members how it intends to share transaction information among all LPs during the election period.
- GP should provide existing LPs, on a timely basis, with a summary of the LPAC's determination (subject to confidentiality or other commercial sensitivities).
- The LPAC should assess its fallback position, such as an escalation mechanism if the GP conflicts associated with the CV transaction have not been addressed to the LPAC's satisfaction.

APPENDIX D

“Remain in Place” Option: Key Considerations

A typical “remain in place” option involves:

- Establishment of a new (often parallel) vehicle (CV) to raise capital from “new money” investors.
- An option for existing LPs to either cash out their pro rata interest in the proceeds of the CV sale (the “sell” option) or retain exposure through maintaining their pro rata interest in the existing fund (the “remain in place” option).
- For “remain in place” electing LPs, there is no change in the legal or economic terms on which they hold exposure to the target CV asset(s).
- If any “remain in place” electing LP wishes to top up their exposure to the CV asset(s), it is typically funded through a separate new commitment directly into the CV structure on the CV’s terms, i.e., not through the ‘remain in place’ structure.
- New investors fund the CV to buy out selling LPs at the acquisition price, and the CV acquires a pro rata interest in the underlying CV asset(s) equivalent to the selling investors’ aggregate interest.
- On closing, “remain in place” LPs retain exposure to the CV asset(s) through the existing fund, which now retains only a partial interest in those assets, which is typically majority owned/controlled by the CV fund structure.

While this structure may introduce operational simplicity for existing LPs regarding their election decision, it also adds material considerations— costs, execution risk, and new legal and fiduciary complexity— that may impact on the appropriateness of a remain-in-place option in delivering on the best interests of existing LPs. Specific considerations include:

Impact on Pricing/Execution: Splitting ownership between the existing fund and CV can weaken target asset bid pricing—notably, lead investor(s) tend to be less willing to compete for asset(s) where their CV ownership is less than 100% and likely results in more protracted negotiations on acquisition terms (such as on drag/tag rights and other minority protection rights).

Subsequent Exit Required for Existing Fund: The existing fund will retain a minority stake (representing the “remain in place” electing LPs), which the GP, in its continuing management of the existing fund, still needs to sell. A second subsequent sale process results in further, duplicative transaction costs for the existing fund. Minority stakes are typically less attractive/valuable in the open market, which may result in limited third-party buyer interest and/or weak pricing reflecting the minority stake. This can undermine the GP’s ability to fulfill its mandate to its LPs to maximize value in executing portfolio asset exits. The most likely exit solution of the existing fund’s retained minority interest is through a GP cross-fund trade, but this creates a new related-party transaction (i.e., existing fund selling to CV), raising fresh governance concerns.

Conflicts Managing Two LP Pools in Same Structure: The GP is forced to effectively manage two distinct LP groups in the existing fund: (i) selling LPs, whose portfolio exposure excludes the sold CV asset(s), and (ii) the “remain in place” LPs whose portfolio exposure still includes the CV asset(s)). This complicates the GP’s future exit strategy for the existing fund as future exit options for one group may not align with the other unless the GP can structure the existing LPs into separate classes, but that restructuring would require LP approval and introduce new costs that burden all LPs (and detract from returns).

Need for Term Extension/Maturity Tensions: An existing fund would most likely need a term extension to hold the minority stake to the maturity of the CV's term, which may drag out the existing fund's life during which time there will be fee and cost drag for all existing LPs but which is supporting a residual asset interest held only by a minority group of "remain in place" investors. This could be regarded as unfair to other LPs who elected not to "remain in place" but bear this new time and cost burden unless the GP can structure the existing LPs into separate classes (as noted above).

Clawback Considerations: Where the fund retaining the asset is at risk of GP clawback, the GP may face pressure to monetize the CV asset on the legacy fund's timeline rather than in the CV investors' interest even though it may be premature for the CV to exit as against the original CV thesis – this is a conflict the "remain in place" structure itself specifically creates.

"Whole-of-Fund" Waterfalls and Carry Conflicts: If the existing fund operates a "whole-of-fund" model and is in catchup and the retained interest in the CV assets (belonging to only "remain in place" LPs) pushes the existing fund into carry, then, there is an inherent conflict created between those LPs with no retained interest in the CV asset(s) and those "remain in place" LPs who have an interest. This splits the existing fund LPs and undermines the GP's ability to act in the best interest of LPs as a whole. The GP's alternative option is to operate two distinct waterfalls where the GP is differently incentivized, but which would add administrative and operational costs to the existing fund.

Dilution Considerations: In addition, a single pool of follow-on capital cannot fairly serve two investor groups holding exposure to the CV asset(s) through different portfolios. To the extent the GP draws on the follow-on capacity for the CV asset(s) then LPs in the existing fund, who have exited the CV asset(s) do not participate in that funding, so they are consequently unfairly diluted. The alternative is to avoid follow-on funding for the CV asset(s), but this might undermine the CV thesis.

Jeopardy to CV Thesis: If the GP determines the target asset(s) require follow-on capital, this core objective is undermined because, by its nature, LPs who "remain in place" typically provide no new unfunded commitment when they indirectly recommit to the CV asset(s) through the existing fund structure.

Portfolio management (including exit and liquidity) is part of the GP's discretionary management. The preferred structure (and election options) selected and pursued by the GP depends on factors such as fund life, asset capital needs, concentration limits, and distribution requirements. The suitability of a "remain in place" option should be assessed in this context and having regard to what serves the existing LPs, as a whole, to maximize value on exit of portfolio asset(s).

APPENDIX E

Anticipating a CV Process: Recommendations for LPs

1. To prepare, LPs should seek to establish a new underwriting framework for evaluating CV transactions, to include an adapted underwriting process, an expedited approval framework, red-flag legal review, and necessary statutorily defined steps. Manager DDQ should incorporate CV-specific questions, such as those in the ILPA [Due Diligence Questionnaire 2.0](#).
2. LPs should ensure GPs have accurate contact information for them to ensure uninterrupted receipt of key fund updates, notifications, and delivery of legal documents; this should be kept under review regularly.
3. LPs should, as part of diligence on future potential investments, ask the GP to disclose whether it intends to use CVs as a (recurring) portfolio management tool as part of the fund's divestment strategy.
4. LPs should use investor forums, such as scheduled LPAC meetings, investor presentations, one-to-one meetings to understand the GP's exit strategy for the portfolio assets and set clear expectations if pursuing CVs.
5. Once a GP notifies its intention to LPs to pursue a CV transaction, LPs should engage the GP to communicate minimum expectations on timing, data room access, quality and type of information, access to advisors, and any investor specific requirements, such as timing to secure internal approval and sign-off, and provide their own disclosure request list (leveraging the ILPA [Continuation Fund Disclosure Template](#) and other guidance, supplemented by their own necessary legal, financial, and commercial needs).
6. LPs should ensure a legal review of election terms, including its acknowledgments, representations and the scope of indemnities and waivers. Election documents should not be signed without legal signoff, even if seeking liquidity. Consequences for failing to sign the election agreement (for example whether treated as a deemed selling LP) should be fully evaluated.
7. LPs should review existing fund documents, including side letters; LPs seeking to roll should identify to the GP any current legal, regulatory, tax or similar policy reasons currently binding on them necessary to reinvest in the CV.
8. LPs should familiarize themselves with the LPA's dispute resolution framework and GP replacement terms in the event of any failed CV process including as a result of the LPAC withholding its conflicts waiver as a result of GP conflict management material deficiencies.
9. LPs should incorporate questions relating to CVs into their standard due diligence with new managers/funds and re-ups with existing managers. LPs should ask GPs about past use of CVs and their intentions going forward on using CVs as a portfolio tool.
10. LPs should consider the likelihood of future CV transactions when reviewing and negotiating fund documents for new investments. LPs should resist CV specific conflict preclearance terms and challenge warehousing / cross-trade provisions that may be used to facilitate CV transactions.
11. LPs should consider updating their own side letter provisions to address CV transactions (such as requiring a GP to always deliver information substantially similar to the requirements in the ILPA [Continuation Fund Disclosure Template](#), ensuring a minimum election period, minimum assurances on tax status if elect to roll, economics, etc.).



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