Buyouts

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NEWS & ANALYSIS

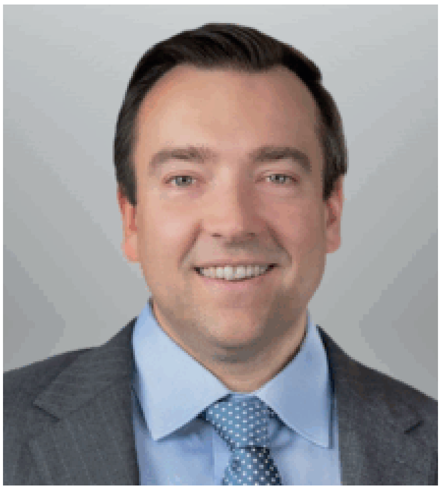
Leading the charge: key alignment considerations for investors in continuation funds

Apogem Capital, an investor in more than 60 GP-led secondaries, and law firm Willkie Farr & Gallagher team up to explain how lead investors and legal counsel can help investors in continuation funds feel comfortable that the sponsor is aligned with their interests.

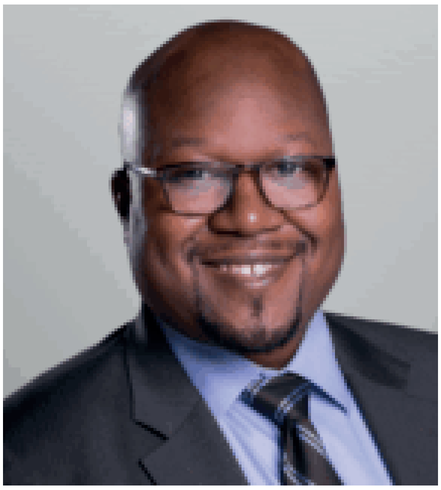
The GP-led continuation fund market, a segment of the broader private equity secondaries market, has seen significant growth in recent years, reaching a record $76 billion in transaction volume in 2024 and more than $47 billion in the first half of 2025, according to studies from Houlihan Lokey and Campbell Lutyens. From a sponsor's perspective, single-asset continuation funds offer opportunities to extend the life and hold period of successful investments. From an investor's perspective, they offer exposure to well-established trophy assets.

Alignment of interests among the sponsor and limited partners is essential to the success of these transactions, not only to get the deal done, but to support sustained performance over the life of a continuation fund. For limited partners, alignment ensures that the sponsor remains economically and strategically committed to the asset's future performance, while helping to mitigate conflicts of interest and enhancing transparency. For sponsors, maintaining alignment reinforces credibility and facilitates the pursuit of long-term value creation strategies.

Lead investors play a pivotal role in creating and fostering this alignment, as Apogem Capital has learned in its experience as sole lead investor in more than a dozen GP-led deals. Their involvement goes beyond the negotiation of economic terms: effective lead investors build trust with sponsors, develop a deep understanding of the underlying asset and its management, and structure transactions that reinforce alignment across all parties. As the market continues to expand, the need for more experienced lead or "anchor" investors to provide liquidity and execute on these opportunities – while maintaining a strong convergence of interests among stakeholders – will continue to grow. In this article, we discuss some key considerations for lead investors aiming to establish and sustain such convergence.



Michael Zeleniuch, Apogem



S André Warner, Apogem

Financial alignment

Financial alignment starts with ensuring that the sponsor retains a meaningful economic interest in the future performance of the asset. Sponsors are generally required to "roll over" carried interest and capital generated by the continuation fund transaction. The overall sponsor commitment also can include new committed capital for a sponsor's share of any unfunded commitment being raised. While there is no magic number for overall sponsor commitment in relation to deal size, any liquidity a sponsor seeks to take off the table at closing – rather than recommit into the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asset – should be supported by a legitimate rationale, such as the desire to cash out former professionals who are no longer employed by the sponsor or involved with the asset. Sponsors can bolster alignment by considering whether an investment in the asset from their latest flagship fund is appropriate, or implementing a fee waiver program whereby a portion of management fees is reinvested in the continuation fund by the investors on the sponsor's behalf.

Successful lead investors strengthen financial alignment by negotiating economic terms that reward performance while encouraging a typically shorter hold period compared with a new investment. Management fees are often in the range of 0.50 percent to 1 percent of invested capital (as opposed to committed capital) to ensure sponsors are compensated for putting capital to work right away, with an elimination or reduction of the management fee after the initial term to disincentivize holding the asset for too long. European ("all capital back") waterfalls with tiered carried interest payments to the sponsor upon achieving certain net MOIC and net IRR thresholds are often sought by investors to ensure downside protection early on. In some instances, carry arrangements above 20 percent are agreed to if that arrangement is consistent with the desired economic goals.

Strategic alignment

Strategic alignment between the lead investor and the sponsor is achieved through shared understanding of the asset's future and value creation plan. An important component of strategic alignment is ensuring clarity around the intended time horizon and potential paths to exit. Seasoned lead investor partners know where minority protections can matter in ensuring alignment on strategy.


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Minority rights covering portfolio company reporting, customary pre-emptive rights (particularly where growth funding is anticipated) and even board observer seats can all provide lead investors with additional insight into the growth trajectory and exit strategy while still respecting the sponsor's role managing the asset.

In addition, it can sometimes be appropriate to provide for consent rights over particular types of exits, or over exits within the first year or two from closing the continuation fund absent achieving certain performance thresholds, to ensure unanticipated exit opportunities can be assessed, while also providing protection to CV investors from a "quick flip" scenario inconsistent with the parties' collective underwriting expectations.

Where unfunded capital is contemplated, another critical point of alignment is the sizing of such commitment. Lead investors will typically assess whether the capital to support the growth strategy is appropriately calibrated, balancing the need to provide the sponsor with operational flexibility while preserving their expected returns, and will expect to see the sponsor being responsible for its pro rata share of any unfunded capital (including for expenses, other than management fees).

Finally, strategic alignment can be supported through creative pricing mechanisms. For example, earnouts can be used to balance attractive headline pricing with business goals. Earnouts can also be used to incentivize sponsors to achieve particular goals important to a lead investor in the short term.

Talent alignment

Ensuring alignment for portfolio company management is equally as important to ensuring alignment between the sponsor and investors. In the same way that a sponsor makes investments backing a management team, so too does a lead investor partnering with a sponsor to invest in a known asset. Unlike many sponsors, management teams often have significant concentration of their personal net worth in a single company, driving its growth for years. This makes the availability of management liquidity in continuation fund transactions particularly sensitive not only as an alignment matter, but a human and personal one.

Ensuring that the transaction contemplates the right balance of liquidity and, if needed, refreshing of incentive arrangements is critical to the success of a continuation fund transaction. Sponsors need lead investor partners who understand this dynamic.

Conclusion

Lead investors continue to play a critical role in the evolving continuation fund market. With many new entrants to the space, the most successful lead investor partners are those who build long-lasting partnerships with a sponsor through thoughtful alignment. What differentiates a strong lead investor is not only reliable execution, transparent processes, and deep market insights, but also the ability to balance perspectives. Achieving alignment that supports durable performance will continue to be key in approaching these complex investment opportunities for sponsors and investors alike.

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