

KEYNOTE INTERVIEW

The charm of smaller CVs



*As the universe of sponsors considering a continuation vehicle transaction expands, so too does the depth of opportunities in the small and mid-cap market, say Pantheon's **Aryn Hassanally** and **Charlotte Morris***

Q As the GP-led secondaries market continues to expand, how is the profile of GPs engaging in the market changing?

Charlotte Morris: The GP-led market originated with the big, well-known GPs but almost any GP is going to have at least one company in their portfolio that they really love and want to hold onto.

The concept is now well established and the profile of GP engaging in these transactions therefore continues to broaden.

Aryn Hassanally: Over the past few years, we have seen increased penetration of large-cap sponsors in continuation vehicle transactions, most of which have now completed at

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least one continuation vehicle, but this is masking the fact that the majority of continuation vehicle transactions involve small and medium-sized buyout GPs.

The most successful mid-market investments often result in outsized concentrations in relatively small funds, and this is often catalysing the desire to spin the company out into a continuation vehicle. In fact, the average size of a mid-market continuation vehicle is almost 50 percent of the GP's associated flagship fund. We therefore continue to expect the mid-market to dominate the continuation vehicle space.

Q What is the appeal of the mid-market from your perspective as secondaries buyers?

CM: At Pantheon, we are focused on the mid-market across all our business lines. We like the fact that there are lots of different ways that GPs can drive top-line growth and margin expansion. Valuations and debt levels also tend to be more modest at that end of the market. Furthermore, there is typically greater optionality when it comes to exit.

From a process point of view, meanwhile, a smaller transaction means we are often able to take the entire deal – in other words, we can fulfil the whole capital requirement. We have strong, long-term relationships with these GPs through our primary and

co-investment activities, which means we will often already have insight into the businesses being considered for a continuation vehicle, even before a process is launched. That depth of relationship means we get good access to information and management teams and, as lead investor, we can also help shape the transaction. It is important to be able to determine what a continuation vehicle deal looks like, rather than simply identifying that the asset itself is attractive.

Q As GP-led secondaries continue to proliferate, how can secondaries buyers be sure they are maintaining discipline on quality?

CM: The GP-led space has already grown significantly over the past five or six years and there have long been deals of differing types and quality coming to market. That means we are already in the business of screening assets.

Of course, different secondaries buyers have different approaches. There are firms that deliberately go after multi-asset deals of mixed quality, because they think there is something they can do around price. Our focus, however, has always been on identifying single assets that stand on their own merits.

We know from our existing relationships with GPs as a primary and co-investor, which companies genuinely are star performers and what is motivating any given transaction. That is crucial because we sometimes see deals where the company is outstanding, but the pricing or alignment is off. Understanding the deal rationale and being able to see through the materials that are presented to you to get to the full picture is critical to being able to identify the highest quality opportunities.

AH: I would add that going after smaller companies enables us to maintain discipline around quality, pricing and terms. We only lean in when we



Q As new entrants stake out a place in this market, how can players differentiate themselves?

CM: In my view, it is inevitable that we will see increased specialisation. Already, there are firms such as Pantheon that are focusing on smaller deals. Some of the new entrants from the buyout industry, meanwhile, are focusing on particular sectors. Then there are firms like ours that are focused on single-asset continuation vehicles and others that are focusing more on multi-asset transactions. As the market continues to grow, there will be more than enough opportunity out there for everyone to pursue their particular strategy.

I think players will also differentiate themselves based on the relationships they have across the GP universe. Pantheon never competes with any of these GPs by investing in our own deals, for example. That can often give us an edge over new entrants from the buyout side given that many GPs don't want to see a competitor coming into one of their companies, even if only in a passive role.

AH: I think that is a very important point. Between 75 and 80 percent of the continuation vehicles we back involve assets managed by GPs that we have already invested in through a primary or co-investment relationship. If a sponsor already knows the secondaries buyer, has experience of working with them and views them as a trusted partner, that can provide additional comfort and be an important differentiator.

find the right opportunity. Many of the large secondaries players have raised such large funds that they are inevitably focusing on larger deployment opportunities, which can be a more limited pool of deals.

Q Now that the GP-led market is starting to build

a track record of realised exits, how is performance stacking up against the mainstream buyout market?

AH: The data is encouraging in terms of validating the thesis underpinning this strategy. We now have a greater data set around realised returns from continuation vehicles demonstrating

that they are comparable to buyouts, with less risk, lower loss rates and better alignment. The positive selection bias that everyone talks about is demonstrably there.

There was a lot of scepticism in the early days of the GP-led secondaries industry. There were those that believed that the companies in continuation vehicle transactions were just assets that the GP couldn't sell. The inference was that sponsors were looking to get risk off their books. The data, however, is telling a different story. These companies really are GPs' highest performers. It is not a riskless market, of course. There will always be underperformers and we have seen a few of those emerge over the past couple of years, but they do seem to be the exceptions that prove the rule.

Q What will this success mean for future capital formation in this space?

CM: Transaction volumes continue to grow, resulting in yet another record-setting year in 2025. The biggest constraint on that growth, however, has been insufficient capital to meet the scale of the opportunity that exists. We do expect to see new entrants, therefore. In fact, we have already seen a number of buyout houses raising capital dedicated to continuation vehicles. I think that endorses the attractiveness of this strategy. Certainly, capital raising is going to be crucial to underpinning the growth of this market going forward.

AH: There is another component to capitalisation dynamics to consider and that is the LP community. We are seeing increased interest among LPs when it comes to finding ways to roll and stay attached to these assets. There was initially some scepticism around continuation vehicles within parts of the investor community and some LPs, in particular, were vocally opposed to these transactions. With the advent of the Institutional Limited Partners Association guidelines and

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improvements in market practices, however, more LPs seem to be pursuing structural changes that will enable them to roll their interests, thereby avoiding having to sell early and forgo that future upside.

Q Do you envisage a continued upward trajectory for the GP-led market, or might the return of M&A and IPOs slow the curve?

CM: I think the make-up of the exit market will continue to ebb and flow. Last year, secondary buyouts, including continuation vehicles, made up a larger proportion of exit volumes than M&A and IPOs, but there are other times when the IPO window is open, or corporate buyers are particularly flush with cash.

What I don't think, however, is that a recovery in the IPO or M&A markets will meaningfully detract from the growth trajectory of continuation vehicles, particularly those focused on trophy assets. This is now an established technology that enables sponsors to hold on to their best performing companies and that will remain a compelling proposition, irrespective of what is going on in the wider market.

AH: There is data to support this view as well. After all, 2021 was a record year for private equity exits. It was also a record year for GP-led secondaries. Meanwhile, GP-led transaction volumes have continued to increase over the past couple of years, even as M&A and IPO volumes have also edged upwards. In fact, continuation vehicles accounted for around 14 percent of all private equity exits in 2025, according to a recent report from Jefferies. These deals are now widely recognised as a viable alternative to other forms of exit and so I don't think we are going to see a slowdown any time soon. ■

Amy Hassanally is a partner and global head of private equity secondaries at Pantheon, and Charlotte Morris is a partner in Pantheon's global secondaries team