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In This Issue

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FEATURE ARTICLE

ILPA's New Continuation Vehicle Guidance: Process Is the New Price Protection

EXECUTIVE SUMMARY

ILPA's June 2026 draft Continuation Vehicle Guidance shifts the focus in GP-led secondary transactions from simply validating price to ensuring a transparent, well-governed sale process.

Recognizing the rapid growth of continuation vehicles and the inherent conflicts created when GPs effectively act as both buyer and seller, the guidance emphasizes competitive bidding, early LPAC involvement, enhanced disclosures, longer election periods, and protections for rolling investors rather than relying solely on NAV or fairness opinions, though third-party valuations and fairness opinions remain an integral corporate governance practice to be followed.

While the recommendations are not expected to fundamentally change how continuation vehicle transactions are structured, they raise the standard for governance and process integrity, giving LPs greater confidence that transaction pricing reflects a credible market outcome and that conflicts have been appropriately managed.

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ILPA's New Continuation Vehicle Guidance: Process Is the New Price Protection

By: Jeff K. Davis, CFA

During Hamilton Lane's (NASDAQ:HLNE) earnings conference call on May 21, 2026, CEO Erik Hirsch opined that secondaries offered one of the most compelling risk/reward assets in the private markets. In terms of LP-led secondaries, buyers get an interest in a seasoned, diversified portfolio whereas selling LPs obtain liquidity for an illiquid investment.

Hirsch offered a full throated defense of marking LP interests at NAV when the interest is purchased at a discount to the GP's NAV mark, noting that what was sold was an interest in the fund and not the underlying assets. The LP interest is then marked consistent with all other LPs' interest.

The logic is perfectly sensible. When LPs sell their interest via a secondary transaction, the delta with NAV presumably will reflect a discount for lack of marketability ("DLOM"), though the DLOM may be overstated to the extent the NAV mark is overstated. The reverse would be true, too. During 2015 to 2025, the discount (i.e., DLOM) ranged between 7% and 19% and averaged 12% according to Hirsch. Discounts also vary based on the fund assets (e.g., 23% for venture vs 7% for buyout in 2025).

Secondary Pricing vs NAV

GP-Led	< 80	81-90	91-95	96-100	> 100
Single Asset CV					
2025	4%	9%	20%	59%	8%
2024	6%	6%	16%	60%	12%
2023	6%	16%	12%	56%	10%
Multi Asset CV					
2025	5%	11%	15%	68%	1%
2024	6%	6%	16%	60%	12%
2023	10%	30%	23%	36%	0%

LP-Led	Buyout	VC	Credit	Infra	RE
2025	93%	77%	94%	94%	72%
2024	92%	75%	91%	95%	65%
2023	88%	64%	84%	93%	67%

Source: Lazard and Evercore Secondary Market Reports, 1H26 data not available but little change is expected

However, what about a discount to NAV when fund assets transact via a continuation vehicle ("CV") in a GP-led secondary transaction? NAV is a reference point, but the GP's valuation of the assets is not necessarily synonymous with a third party's view of fair value for the assets. At a most basic level, the lead investor who capitalizes the CV may have a higher IRR requirement that Ben Graham and his acolytes would call "margin of safety" pricing. The discount, if one exists, becomes murkier when assets represent non-control equity and/or indirect ownership via assets that are held by another fund.

Transaction data indicates that on average discounts to NAV for GP-led CV deals have narrowed over the last few years, though the actual economics are less clear if earnouts, deferred payments and the like are marked-to-market rather than treated as nominal dollars that eventually will be realized. Given that a GP is a seller and a buyer for the same asset in a CV transaction, process followed is fundamental to evaluating pricing and fairness to LPs.

ILPA Doubles Down

The Institutional Limited Partners Association's ("ILPA") June 2026 draft Continuation Vehicle Guidance builds on ILPA's May 2023 framework but adds expectations around LPAC engagement, competitive price discovery, disclosure parity, election timing, GP alignment, and documentation.

ILPA notes that CVs represented approximately 14% of sponsor-backed exits globally in 2025, up from 5% in 2021. That growth reflects a growing backlog of aging investments whereby M&A activity has been uneven with arguably insufficient capacity among strategic buyers to absorb the inventory when combined with a valuation gap between what buyers would be willing to pay and what GPs think the asset is worth.

The June 2026 guidance moves beyond broad principles by prescribing what a well-run continuation vehicle process should look like. Among other actions, ILPA expects GPs to:

- Demonstrate why a continuation vehicle is preferable to alternatives such as a traditional sale, fund extension, NAV facility, preferred equity solution, strip sale, tender offer, cross-fund transaction, or mid-life co-investment.
- Engage the LPAC early in the process and fully disclose all conflicts of interest, even where the LPAC arguably pre-clears them.
- Conduct a targeted competitive bidding process supported by independent third-party price validation.
- Provide LPs with an anonymized summary of final-round bids, including price terms, non-cash consideration, deferred payments, earn-outs, and other key commercial and legal terms.
- Explain how the transaction price was determined and how it compares to the fund's most recent reported NAV.

The practical implication is that LPs should not be asked to rely solely on NAV, a single lead bid, or a fairness opinion without additional context. Instead, LPs should have sufficient information to assess whether the process generated an executable market-clearing price.

The LPAC as Gatekeeper

ILPA also recommends that the LPAC process include:

- Live LPAC meetings rather than written consents.
- In-camera sessions without the GP present.
- At least ten business days to review conflicts materials before voting.
- Equal treatment of all LPAC members.
- The option to retain independent legal and financial advisors.

These recommendations recognize that continuation vehicle conflicts are structural. Those conflicts cannot be eliminated, but they can be disclosed, evaluated, and managed through a robust governance process.

Election Timing Gets Longer

ILPA's 2023 guidance recommended at least 30 calendar days, or 20 business days, for LP elections. The 2026 draft increases that minimum to 30 business days following delivery of the complete election package, with unrestricted access to the centralized data room throughout the election period.

Rolling LPs Should Be No Worse Off

ILPA continues to emphasize that rolling LPs should be no worse off economically than if the continuation vehicle transaction had not occurred. To that end, the guidance recommends that GPs:

- Demonstrate that there is no overall increase in management fees or carried interest for rolling LPs, supported by modeling in actual dollars rather than headline percentages.
- Extend existing side-letter protections where applicable and provide sufficient time to update those provisions to reflect current minimum requirements.
- Avoid conditioning roll elections on minimum commitment sizes or stapled financing.
- Avoid scaling back the elections of LPs choosing to roll.

These recommendations are intended to ensure that LPs who continue their investment are not disadvantaged economically or procedurally compared to selling investors or new capital providers.

The Valuation and Fairness Takeaway

ILPA's June 2026 guidance, which is ultimately about process integrity, is not going to radically change how GP-led transactions are conducted; rather, assuming the guidance is adopted, corporate governance for such transactions will be strengthened to the extent GPs follow it. Mercer Capital can be an important partner in a GP-led transaction. We have over 40 years of experience in valuing illiquid securities and providing fairness opinions to boards of directors, special committees, LPACs, GPs and others involved in significant transactions such as GP-led secondaries.

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Private Credit, Equity, and Secondaries

Private equity exit activity has remained consistently below investment activity since at least 2017, causing the inventory of U.S. private equity-backed portfolio companies to steadily expand from approximately 8,500 companies in 2017 to more than 13,500 by mid-2026 (~29,000 globally). Over this period, annual investments have exceeded exits by roughly 20% to 40%, with the investment-to-exit ratio rising to approximately 1.4x in 2025 and the first half of 2026.

As a result, sponsors are holding larger portfolios for longer periods. While the median time to exit has improved from a peak of 7.0 years in 2023 to 5.5 years in the first half of 2026, the average age of existing portfolio investments has continued to rise, reaching 4.5 years (4.2 years on average), suggesting that many older assets acquired during the 2020-2022 vintage years remain unrealized.

Against this backdrop, the secondary market has grown into an increasingly important liquidity mechanism. Total secondary transaction volume has nearly quintupled over the past decade, increasing from $48 billion in 2017 to $228 billion in 2025. Although LP-led transactions continue to represent a slight majority of activity (54% in 2025), GP-led transactions have expanded much more rapidly, growing from $16 billion in 2017 to $105 billion in 2025 and now accounting for approximately 46% of all secondary volume.

At the same time, dedicated secondary capital has increased to nearly $300 billion, while the ratio of available capital to transaction volume has declined from more than 2.5x earlier in the cycle to just 1.3x in 2025. Collectively, these data suggest that continuation vehicles and other GP-led transactions have evolved from opportunistic liquidity solutions into a structural component of the private equity exit market as sponsors seek alternatives to traditional M&A and IPO exits.

US PE Activity	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**1H26**
Investments (x-Add Ons)	1,628	1,828	1,732	1,651	2,451	1,844	1,668	1,798	1,860	712
Exits	1,366	1,462	1,355	1,255	1,943	1,436	1,312	1,370	1,375	506
Investments / Exits	*1.2x*	*1.3x*	*1.3x*	*1.3x*	*1.3x*	*1.3x*	*1.3x*	*1.3x*	*1.4x*	*1.4x*
PE Inventory										
US PE Inventory	8,505	9,017	9,531	10,118	10,999	11,606	12,098	12,647	13,303	13,509
Median Yrs to Exit	5.5	5.4	5.4	5.5	5.1	5.9	7.0	6.6	6.4	5.5
Avg Yrs to Exit	6.3	6.3	6.2	6.3	6.1	6.8	7.3	7.1	7.1	6.3
Median Age Existing Inv	3.8	3.7	3.7	3.8	3.6	3.7	3.9	4.1	4.3	4.5
Avg Age Existing Inv	3.0	3.0	2.9	3.0	3.0	3.0	3.1	3.5	4.0	4.2

Source: Pitchbook

Global Secondary Transaction Activity										
GP-Led ($Bil)	$16	$20	$30	$32	$63	$45	$48	$73	$105	na
% of Secondaries	*33%*	*28%*	*36%*	*53%*	*51%*	*45%*	*44%*	*46%*	*46%*	*na*
Single Asset CV > 90%	*na*	*na*	*na*	*na*	*na*	*81%*	*78%*	*87%*	*88%*	*na*
Multi Asset CV > 90%	*na*	*na*	*na*	*na*	*na*	*70%*	*59%*	*88%*	*84%*	*na*
LP-Led ($Bil)	$32	$51	$54	$28	$60	$55	$62	$85	$124	na
% of Secondaries	*67%*	*72%*	*64%*	*47%*	*49%*	*55%*	*56%*	*54%*	*54%*	*na*
Buyout % of NAV	*99%*	*97%*	*93%*	*90%*	*97%*	*86%*	*92%*	*94%*	*93%*	*na*
VC % of NAV	*83%*	*83%*	*82%*	*76%*	*88%*	*67%*	*68%*	*75%*	*77%*	*na*
Overall % of NAV	*93%*	*92%*	*88%*	*86%*	*92%*	*80%*	*85%*	*89%*	*88%*	*na*
Total Secondaries	$48	$71	$84	$60	$123	$100	$110	$158	$229	na
Dedicated Capital	$125	$192	$155	$188	$236	$225	$255	$288	$299	na
Capital / Volume	*2.6x*	*2.7x*	*1.8x*	*3.1x*	*1.9x*	*2.3x*	*2.3x*	*1.8x*	*1.3x*	*na*

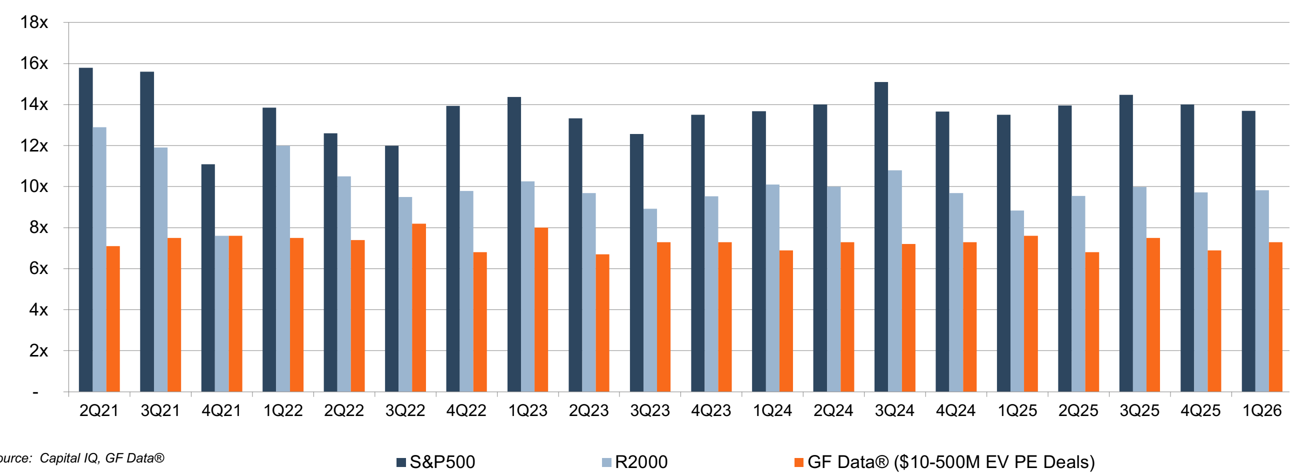
Source: Pitchbook, Eaton-Partners, Lazard, Evercore

Private Credit, Equity, and Secondaries

Middle-market valuation multiples appear relatively stable in recent quarters, especially when compared to the volatility seen in public markets. As shown in the chart, multiples have settled into a narrower range following the reset from 2021 highs, suggesting a market that has found a more consistent footing, at least on paper.

That stability, however, sits somewhat at odds with the more dynamic signals coming from public markets. While transaction-based data reflects where deals are getting done, it does not capture the same real-time repricing seen elsewhere. The result is a market that looks steady in reported valuations, even as broader market indicators suggest a more cautious tone. In other words, the numbers may not be moving much but the conversation around them certainly is.

Equity Valuation: EBITDA Multiples Over Time

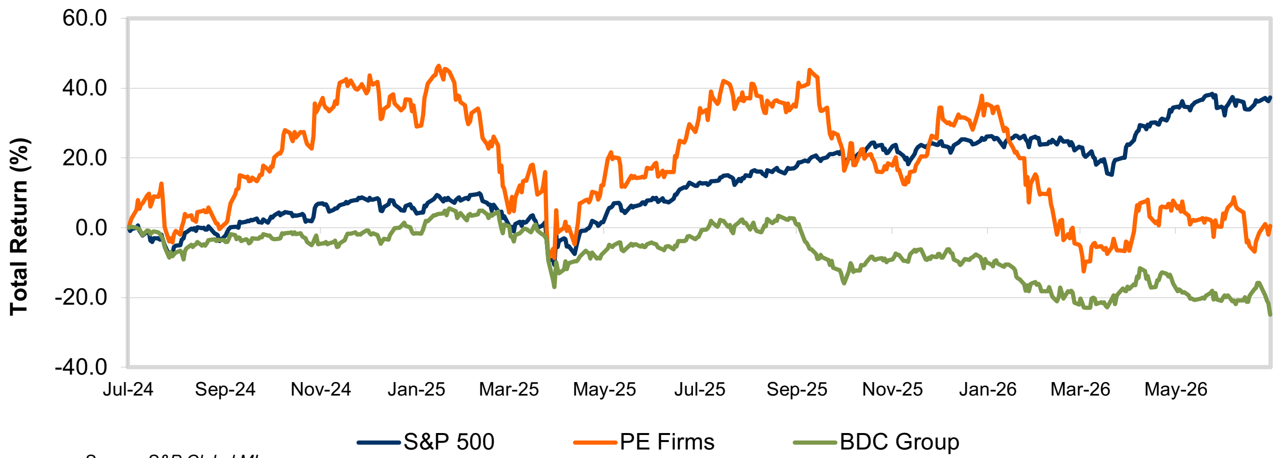


Source: Capital IQ, GF Data®

Publicly traded private equity firms and BDCs have underperformed the broader equity market during the period of early-2026 volatility, reflecting investor caution around credit exposure, financing conditions, and liquidity-sensitive business models. While the S&P 500 has continued to advance, the PE firm and BDC groups have been more uneven and have experienced sharper drawdowns, suggesting that public markets are discounting higher risk in the private capital ecosystem.

The chart below is best viewed as an indicator of sentiment rather than a direct mark of private portfolio value. Publicly traded securities tend to reprice quickly when risk appetite changes, often well before quarterly valuation marks are updated. As a result, relative performance in the public markets can provide an early signal of shifting expectations for private market conditions, even if underlying portfolio values have not yet been fully revised.

Stock Performance for Publicly Traded PE Sponsors: Total Returns (Trailing Twelve Months)

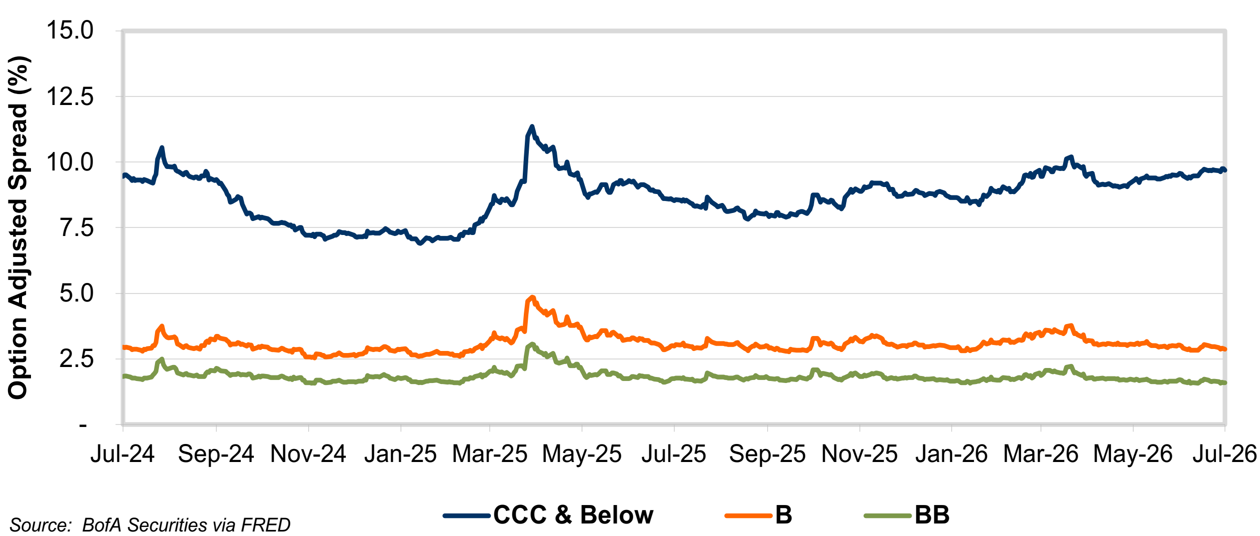


Source: S&P Global MI

After a relatively stable 2025, credit spreads began to widen in early 2026, with the most pronounced move occurring among lower-rated issuers. While broader macro uncertainty has contributed to the move, investors also appear to be reassessing the durability of cash flows and the degree of pressure that changing competitive dynamics may place on weaker business models. As a result, the market has become somewhat less willing to extend capital on the same terms it was willing to accept a year earlier.

That said, spread levels remain well below those typically associated with broad-based credit stress. The market is not signaling acute distress so much as a more cautious stance toward risk, particularly at the lower end of the credit spectrum. In that sense, the chart suggests a modest repricing of uncertainty rather than a deterioration into stressed market conditions.

Debt Investments: High Yield Spreads by Credit Rating



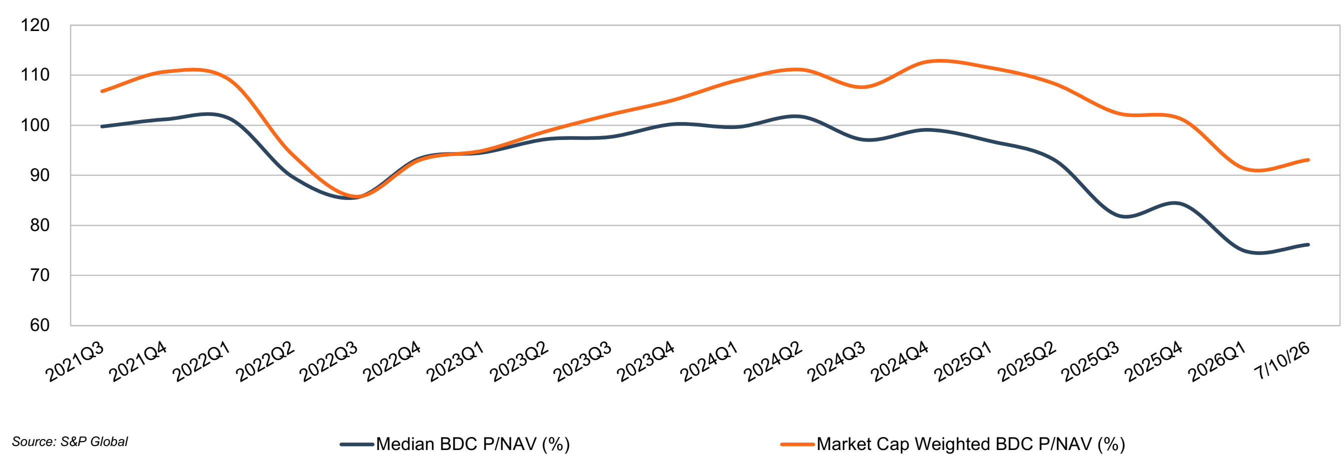
Source: BofA Securities via FRED

Publicly Traded Private Credit

BDC public market discounts to NAV have remained a useful barometer of market sentiment toward the asset class. After moving to somewhat richer levels in 2024 and early 2025, both median and market cap-weighted BDC P/NAV multiples have declined meaningfully into mid-2026, indicating that public investors are discounting reported NAVs given concerns about credit quality due to a myraid of factors (e.g., high levels of PIK income in multiple BDC portfolios and concerns about the impact of AI adoption on software companies whose loans populate many portfolios). Further, the reduction in P/NAV multiples is consistent with widening credit spreads for B- and CCC rated companies. While market sentiment will ebb and flow, the sharp reduction in P/NAV multiples this year implies BDC managers may have to be more aggressive in marking down more loans in the coming quarters.

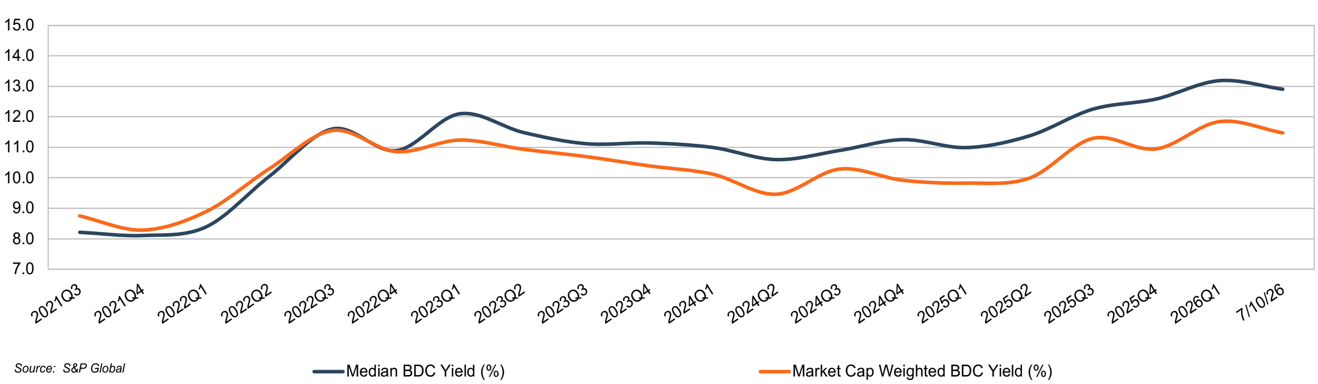
The corollary to declining P/NAV multiples is rising dividend yields to the extent dividends are not cut. Investors are questioning sustainability of distributions for many BDCs. With the release of first quarter earnings, FSK, TCPC, MFIC, MSDL, PSEC, GLAD, OSCL and GSBD all announced dividend cuts. More may be forthcoming given the notable amount of PIK income that some BDCs recognize--i.e., it is tough to pay a cash dividend with accrual income over an extended time frame.

Price / NAV for Publicly Traded Business Development Companies



Source: S&P Global

Long-Term Dividend Yield Trend



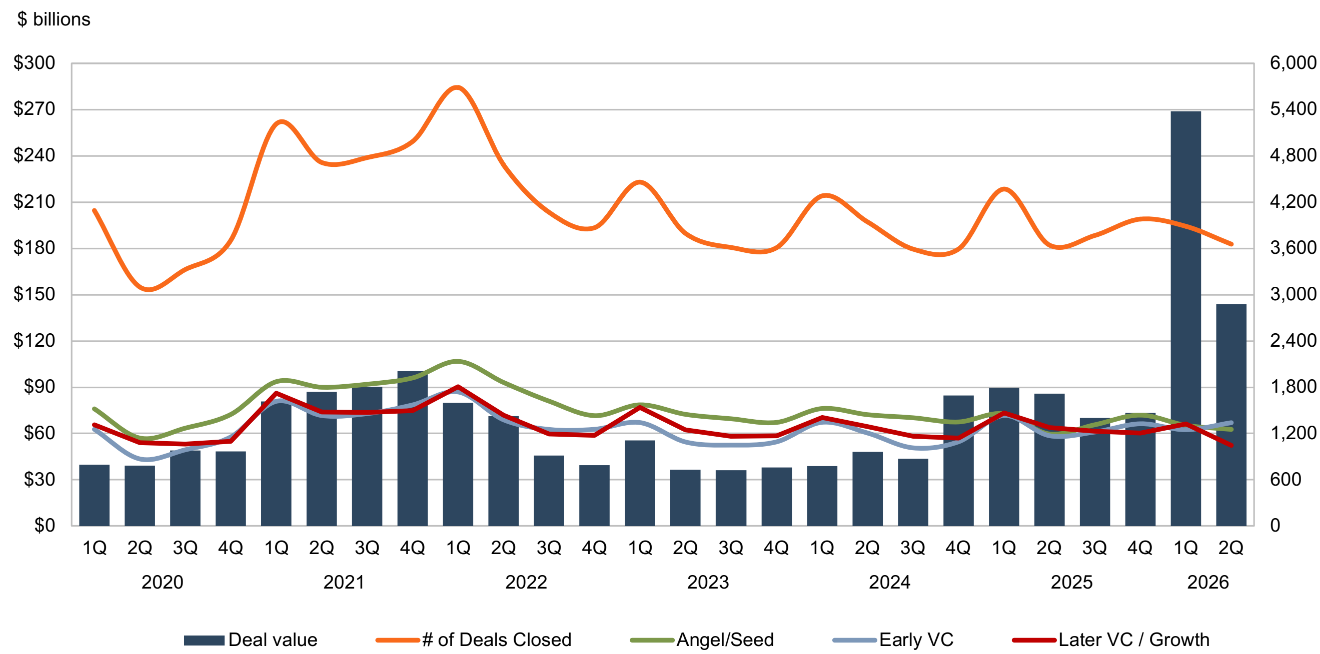
Source: S&P Global

Venture Capital

Venture deal activity presents a mixed picture. Total deal value has moved higher, particularly into 2025 and the most recent period shown, but the number of deals has not increased at the same pace. In other words, capital is coming back into the market, but it is being deployed into fewer, larger transactions rather than a broad-based expansion in financing activity.

That pattern suggests a selective market rather than a full return to prior-cycle exuberance. Larger rounds are still getting done, but investors appear to be concentrating capital in companies with stronger growth profiles, clearer strategic relevance, or more durable unit economics. The result is a market that is open, but still disciplined.

U.S. VC-Backed Funding Activity

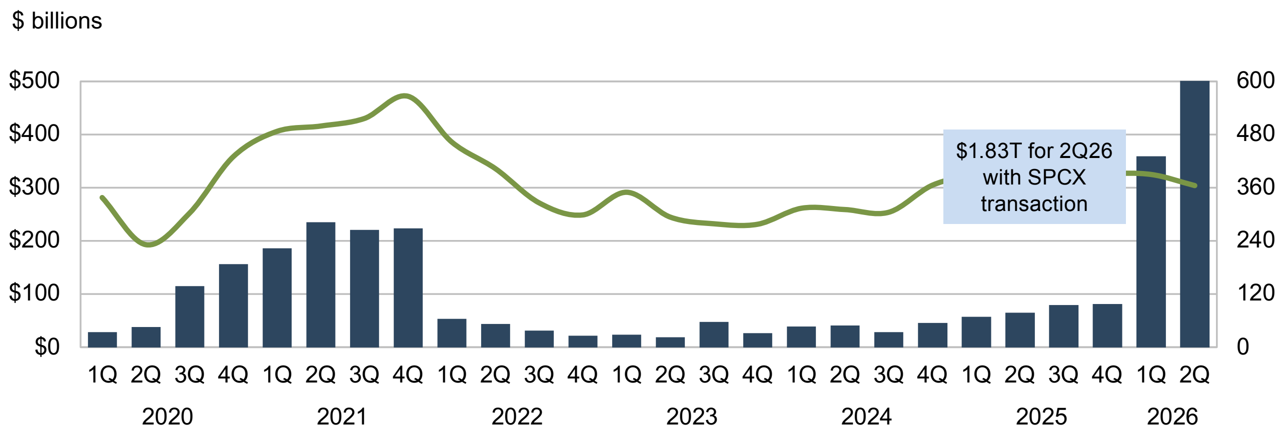


Source: Pitchbook/NVCA Venture Monitor

Exit activity improved in 2025, with IPOs becoming a more meaningful part of the mix than they were over the prior several years. That is an important development because IPOs offer one of the clearest forms of price discovery in private markets and can help validate valuation expectations. While acquisitions remained the largest component of exit activity, the rebound in public-market exits suggests that sponsors had more opportunities to monetize investments as market conditions became more favorable.

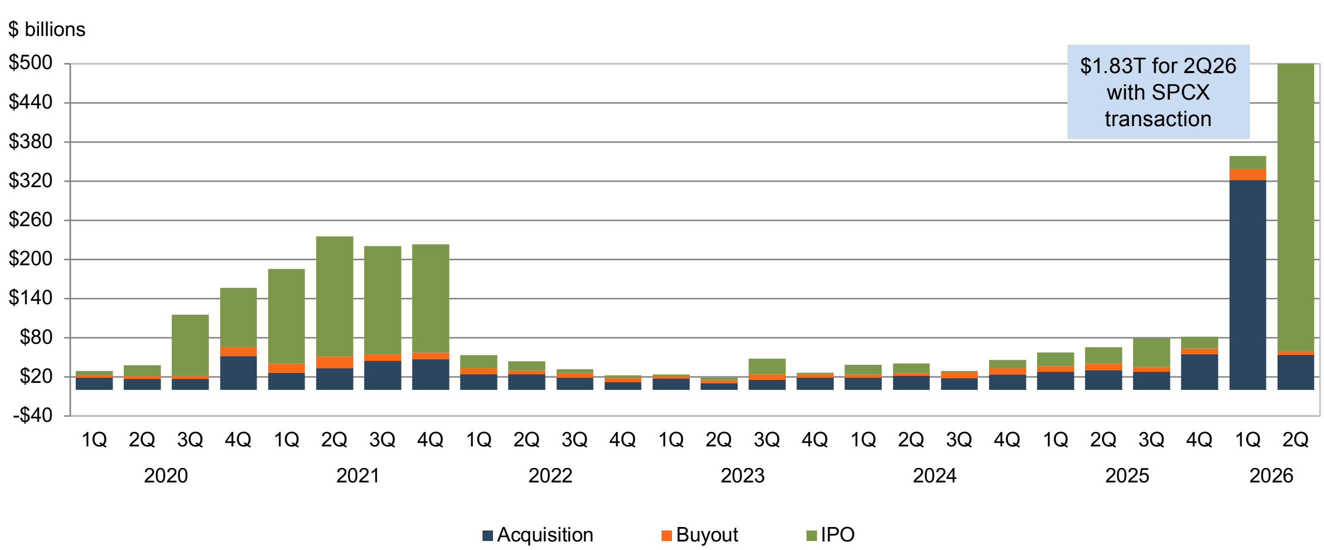
Even so, the recovery has been uneven rather than broad-based. The chart shows that 2026 activity has been heavily influenced by a few large acquisition and IPO transactions rather than a sustained, across-the-board increase in exit volume. In that sense, public markets appear to have reopened somewhat, but not yet enough to fully clear the inventory of older investments that remain unrealized.

U.S. VC-Backed Exit Activity



Source: Pitchbook/NVCA Venture Monitor

U.S. VC Backed Exit Activity by Exit Type ($ billions exited)



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Contact a Mercer Capital professional to discuss your needs in confidence.

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