Lender Considerations in Subscription Lines for Continuation Vehicles

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The rise of continuation vehicles in private markets brings new considerations for subscription line lenders financing these entities. While the core underwriting framework of continuation vehicles remains the same as a traditional fund, subscription line lenders should scrutinize several factors, including investor composition, commitment mechanics, asset concentration and underlying transaction documents.

Background

Fundamentally, a continuation vehicle is a new entity formed by a sponsor to acquire one or more assets from an existing fund the sponsor manages. Sponsors identify one or more portfolio assets they believe would benefit from additional maturation. These assets are then sold from the existing fund to the new continuation vehicle. Investors in the existing fund can cash out at the time of the transfer, roll their equity into the new continuation vehicle or some combination of the two. Frequently, new investors also commit capital to fund the acquisition and provide follow-on support.

Historically, continuation vehicles were often formed to purchase only those assets that had significantly underperformed. Over time however, the market view on these vehicles has shifted. In particular, the more challenging exit environment of the last few years has generated a fresh perspective as sponsors have increasingly turned to these structures as a means of extending asset hold periods and managing liquidity. Jefferies reported in its H1 2025 Global Secondary Market Review that, in the first half of 2025 alone, nearly 20 percent of fund exits were to continuation vehicles. Financing for these vehicles ran on a parallel track, with our 2026 Haynes Boone Fund Finance Annual Report finding that 23 percent of the lenders surveyed participated in a credit facility for a continuation vehicle in 2025.

Lenders' underwriting standards need to reflect the differences between continuation vehicles and traditional fund structures, though much can be done with credit facility structuring and initial due diligence to mitigate associated risks posed by these differences.

Underwriting Considerations

One key distinction that subscription line lenders encounter when underwriting a continuation vehicle is the composition of the investor pool. Because the investor base for continuation vehicles is often much more concentrated, lenders need to consider the most appropriate borrowing base structure and whether that structure fits within their strategy. Some lenders' credit processes may struggle with the lack of diversity, even if the quality of investors is quite high. Compounding that issue can also be the lack of familiarity with the investors actually subscribed to the continuation vehicle. Lenders with historical knowledge of the subscription space often have a depth of exposure to many of private equity's most consistent repeat players. An uptick in secondaries funds as investors in continuation vehicles has presented additional challenges for some lenders when looking at the potential borrowing base. On the other hand, the lenders actively providing

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subscription lines to continuation vehicles are comfortable with the quality of the investors, recognize the attractiveness of cherry-picked assets and have developed mitigation strategies.

Given the smaller number of investors and heightened scrutiny, there has been some resurgence in requiring investor letters. Investor letters, while not always dispositive, give lenders comfort on several fronts. As has always been true, these provide greater assurances on the enforceability of the capital commitments, given the direct contractual relationship between the investor and lender. They can also help address concerns around claims of self-dealing and breaches of fiduciary duty, which are a source of rising angst between sponsors and limited partners.

Another means of mitigating the concentration risk of both investors and the underlying assets is greater diversity in the types of collateral and financial covenants. Some of the facilities for these vehicles are hybrid in nature, with both capital commitments and distributions from the underlying assets being pledged to the lender. Even where distributions are not taken as additional collateral, the loan documents often include financial tests more commonly seen in NAV transactions. That said, lenders should approach NAV-style covenants with care. Employing such covenants without properly working through valuation methodology, reporting frequency, cure mechanics and sponsor sensitivity to asset-level disclosure can often lessen the desired benefit and create sponsor friction. The reality is that the market has not settled on any one formula, and continuation vehicle financing structures reflect a myriad of different lender approaches. While generally falling across the same lines, these credit facilities take different forms, each informed by the applicable lender's underwriting requirements.

Lastly, facility structures are also affected by the relatively shorter lifespans of continuation vehicles compared to other types of funds and the fact that their capital needs are front-loaded around an acquisition rather than spread across a multi-year investment period. A continuation vehicle's compressed lifespan and front-loaded capital needs may justify a shorter facility maturity, more frequent clean-down requirements, and mandatory prepayment triggers tied to asset realizations or distributions.

Due Diligence Considerations

In addition to reviewing partnership agreements, subscription agreements and side letters for continuation vehicles (as one would with a traditional fund), lenders must also carefully analyze the rollover documents and agreements transferring the assets from the existing fund, as there can be unique mechanics at play. For example:

- Investors rolling over from the existing fund may not have an obligation to fund additional amounts, or their commitment may be greatly reduced by an amount equal to the value of the equity rolled over. In addition to impacting the baseline amount for determining the borrowing base, lenders may need to impose investor-specific concentration limits, reduced advance rates or heightened eligible investor thresholds as conditions to borrowing base eligibility.
- In other circumstances, the investors' obligation to fund capital calls is tied to milestones in the underlying transfer documents. For instance, the effectiveness of rolling capital commitments to the continuation vehicle may be subject to satisfaction of all conditions precedent in the purchase and sale agreement transferring the asset from the existing fund. Accordingly, lenders should understand how the asset transfer will occur to ensure that capital call collateral rights pledged as security are, in fact, enforceable.
- Lenders should also diligence whether the investors in the selling fund properly authorized the asset transfer and that proper steps were taken under any rollover agreement for the investor

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rollover to be effective. Defects in the consent or transfer process could create grounds for an investor to challenge its obligations, introducing uncertainty about capital call enforceability.

- It is also important to confirm whether the fund's partnership agreement, purchase agreements or rollover documents contain provisions that impact the continuation vehicle. These could include excuse rights, withdrawal rights, setoff provisions or overcall limitations.

Conclusion

Even though continuation vehicles pose unique challenges for a subscription line lender, the market is evolving to identify and address the associated risks. Preparing in advance for hurdles like those outlined above will help lenders prepare their underwriting teams and sponsor counterparts for the documentation process. While underwriting may require a tailored approach and additional due diligence, continuation vehicles can be strong subscription line borrowers with concentrated but high-quality borrowing bases supported by assets that investors know they want in their portfolio. For those interested, attached for reference is a list of several considerations when providing financing to a continuation vehicle.

Continuation Vehicle Financing Questions

Investor Composition & Borrowing Base Questions

- Are investors rolling over, secondaries, or new money?
- Are there triggers to make investor commitments active?
- Do rollover investors have an obligation to fund cash?

Due Diligence Questions

- Have all necessary steps been taken to effectuate the asset transfer?
- Do the rollover agreements contain any provisions that need to be addressed?
- Do the asset transfer agreements contain any provisions that need to be addressed?

Facility Structure & Financial Covenants Questions

- Do concentration limits or hurdles make sense?
- Does a NAV test or other financial covenant make sense?
- Should the facility be hybrid with NAV collateral?
- What is the expected lifespan of the fund and what does that mean for facility tenor and clean- down requirements?
- Do permitted borrowing purposes align with the vehicle's actual capital needs?
- Should mandatory prepayment triggers tied to asset realizations and distributions be required?
- Would investor letters mitigate concerns?

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