PRIVATE EQUITY CONTINUATION VEHICLES

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MOTIVATION

Continuation vehicles (CVs) are rapidly growing in private equity

    Allow GPs to transfer assets from an old fund to a new fund

    Same GP remains in control

    Existing LPs can exit/roll over

But these transactions raise concerns that GP has conflicts of interest

    Lawsuits claim GPs undervalued assets to benefit new fund

QUESTIONS

1. Which assets does the GP move to CVs?

2. How do existing LP claims affect the transfer decision?

3. Who gains and who loses from the transaction?

THIS PAPER

Documents institutional structure of CVs

Builds model of strategic asset transfers to fit it

Derives predictions about asset selection, role of legacy contracts & welfare

RESULTS AND THEIR DRIVERS

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Model generates two distortions in continuation decisions

Inverse selection

Adverse selection

Key determinant: The hurdle rate in the legacy fund

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   NB: Only one asset can be continued, otherwise always continue L

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Suggestion: Explain facts with fewer assumptions

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<u>Suggestion</u>: Be precise in naming, not just analysis

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<u>Suggestion</u>: Analyze optimal ex post contract; show what results persist

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Suggestion: Consider other arrangements; show CVs arise endogenously

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<u>Question</u>: CVs specific to PE? Could be entrepreneur starting new firm?

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<u>Suggestion</u>: Show how CVs rely on PE specific frictions

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<u>Suggestion</u>: Frame results in terms of new forces and new predictions

   Not hardwired facts

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Be non-trivial	[Uniqueness (Comm. 6)]
Be distinct from lit.	[Names & newness (Comm. 2)]