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Continuation vehicles in the small and mid-market: What determines the success of a transaction

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Translated from German – originally published in ZfgK, September 2026

The discussion around GP-led secondaries has evolved significantly in recent years. Continuation vehicles were initially often viewed as a response to weaker exit markets. Today, they have established themselves as a distinct solution and an integral component of portfolio management. They enable successful companies to be held through an additional value creation phase, offer existing investors a choice between liquidity and continued participation, and provide fresh capital to support future growth.

As their importance has increased, so too have the demands placed on analysis and structuring. The key considerations now extend far beyond valuation and transaction mechanics: What value creation opportunities remain for the next ownership phase? How should governance and incentive structures be designed? And under what circumstances can a continuation vehicle create sustainable value for all stakeholders involved?

This is particularly evident in the European small and mid-market. While processes, data rooms, and governance structures tend to be more standardized in larger transactions, continuation vehicles in smaller market segments are often tailored to the specific sponsor, company, and transaction situation. The resulting increase in analytical and structuring complexity can create market inefficiencies that provide attractive investment opportunities for specialized investors.

The success of a continuation vehicle is therefore not determined solely by valuation and transaction structure. Investors must understand the company's future development potential, assess whether the sponsor and management team are capable of delivering that growth, and determine whether governance and incentives are aligned accordingly. Independent underwriting is therefore especially important in the small and mid-market.

In practice, seven questions have proven particularly relevant.

1. Is there a compelling transaction rationale behind the continuation vehicle?

Every transaction starts with a fundamental question: Why is a continuation vehicle the best solution in this situation?

There may be several valid reasons. A company may have reached a stage where an additional value creation cycle offers substantial upside, while existing investors seek liquidity. Alternatively, additional capital may be required to execute a clearly defined business plan or fund a strategic growth initiative.

What matters, however, is the existence of a clear strategic and economic rationale. A continuation vehicle should not merely serve to postpone an exit. Rather, investors must understand what additional value can realistically be created during a further ownership period, which specific initiatives will drive this value creation, and why the company remains well positioned under the stewardship of its existing sponsor.

For investors, this rationale forms the foundation of the entire underwriting process. It influences not only valuation but also governance design, alignment of interests, and financing structures. Without a robust transaction rationale, weaknesses in valuation, governance, or incentive alignment are difficult to overcome.

2. Is the sponsor organisationally prepared for the next development phase?

When assessing a continuation vehicle, investors naturally focus first on the portfolio company. Equally important, however, is determining whether the sponsor is prepared for an additional ownership phase.

In the small and mid-market, a continuation vehicle can become highly significant relative to the sponsor's broader fund platform, particularly when a top-performing company is transferred into the new vehicle. This is not necessarily a concern. On the contrary, a high level of focus on the company may support successful execution of the value creation plan. At the same time, however, the demands on the sponsor's organisation, governance framework, and resources increase considerably.

As a result, underwriting should extend beyond the portfolio company to include the sponsor platform itself. Does the sponsor have sufficient personnel resources? Are decision-making and escalation processes robust? Do resource allocation, reporting structures, and incentive systems reflect the importance of the asset?

Ultimately, the same question applies to the sponsor as to the company itself: Is the sponsor organisationally and operationally equipped to support the next phase of growth professionally? A credible business plan requires the necessary resources, decision-making processes, and capabilities to be in place.

3. Would I invest in this company again today?

A company's historical success is both one of the greatest strengths of a continuation vehicle and one of the greatest challenges for investors.

Many GP-led secondaries involve businesses that have already been developed successfully over many years. Yet this very success can obscure the actual investment decision. Professional investors should therefore assess every continuation vehicle as though it were an entirely new investment opportunity. The focus should not be on historical performance but on whether the company would still represent an attractive investment today, based on its business model, market environment, and future business plan.

This requires a comprehensive reassessment of the investment. Beyond commercial and financial due diligence, investors should validate market and growth assumptions, analyse earnings quality, assess cash flow characteristics, and engage with industry experts, customers, and other relevant stakeholders. Historical performance provides valuable insight, but it cannot replace an independent investment decision.

This independent analysis is particularly important in the small and mid-market. Because data rooms and transaction processes are often less standardized, investors must proactively identify and close information gaps. The quality of underwriting therefore determines not only the valuation of the company but also the robustness of the entire investment thesis.

4. Are the interests of all stakeholders truly realigned after the reset?

A continuation vehicle deliberately resets the ownership structure, capital base, and incentive framework. This inevitably raises the question of whether interests remain aligned among the sponsor, management team, existing investors, and new investors throughout the next ownership period.

Effective alignment extends well beyond the size of a capital rollover. The critical factor is that both the sponsor and management retain meaningful economic exposure and that their incentives are aligned with the objectives of the new business plan.

Investors should also understand the economic impact of the transaction at the level of the existing fund. The realization of value appreciation or carried interest at the existing fund level is not inherently problematic. What matters is transparency and the continuation of a substantial economic commitment to the new vehicle.

This careful alignment of interests is particularly important in the small and mid-market, where individual portfolio companies often play a more significant role for the fund manager. Strong alignment builds trust and creates the foundation for successful execution of the value creation plan during the next ownership phase.

5. Are responsibilities and decision-making structures clearly defined?

Continuation vehicles often bring together different investor groups and ownership structures. Additional complexity arises when multiple owners with different roles are involved, such as a new controlling shareholder alongside a reinvesting incumbent sponsor. While such structures can create valuable opportunities, they also place greater demands on governance and decision-making frameworks.

The key consideration is therefore not the ownership structure itself but the clarity of responsibilities and authority. Who is accountable for implementing the value creation strategy? Who approves acquisitions, follow-on investments, and additional capital commitments? What rights apply if performance deviates from plan or if stakeholders disagree on holding periods and exit timing? Particularly in the small and mid-market, such questions cannot always be addressed through standardized contractual arrangements alone. Company-specific circumstances often require tailored governance solutions that both support the value creation strategy and establish clear decision-making processes.

From an investor's perspective, one principle applies: good governance does not eliminate complexity, it makes complexity manageable.

6. Is the management team properly positioned for the next phase of growth?

A central investment case for GP-led secondaries is the opportunity to continue developing high-quality companies alongside proven management teams. Continuity is an important success factor, but it should not be confused with permanence.

The demands placed on a company often evolve significantly as it grows. Expansion into new international markets, additional acquisitions, or further professionalization of organisational structures all change the requirements for management. Consequently, past success alone is not sufficient evidence of future capability. Investors should therefore assess whether capabilities, leadership structures, and organisational resources are appropriate for the next phase of development. In many cases, the objective is not to replace the existing team but to strengthen it selectively through additional leadership capacity, functional expertise, or experience in international expansion and integration.

In the small and mid-market, a significant portion of value creation often stems from precisely this type of organisational development. Successful continuation vehicles build on proven management teams while continuously evolving them to meet the demands of the company's next growth phase.

7. Does the transaction structure support execution of the business plan?

Structural decisions should ultimately be evaluated according to whether they provide sufficient financial and operational flexibility to support the company's planned development. This includes adequate reserves for follow-on investments, clear decision-making processes, appropriate information and control rights, and a level of leverage that remains sustainable even if performance deviates from plan.

In the small and mid-market, acquisitions, international expansion, investment in new products, or organisational build-out may all require additional capital. As a result, the continuation vehicle should be designed from the outset with a clear understanding of how such initiatives will be financed and approved, as well as what options are available if growth is delayed or additional funding becomes necessary.

A structure optimized primarily for maximum capital efficiency or attractive short-term return metrics may unnecessarily constrain the company's strategic flexibility. The same applies to excessive leverage, insufficient capital reserves, or governance arrangements that hinder timely decision-making.

The structure of a continuation vehicle is therefore not an end in itself. A good structure is one that enables execution of the value creation plan, appropriately aligns stakeholder interests, and provides sufficient protection and flexibility when actual developments diverge from the original plan.

What makes the difference

In the European small and mid-market, continuation vehicles can only be assessed to a limited extent through standardized frameworks. Companies, sponsors, and ownership structures vary too significantly for valuation and transaction mechanics alone to provide a sound basis for investment decisions.

What ultimately matters is the combination of independent underwriting, strong governance, and a credible transaction rationale. Investors must determine whether the next phase of development offers meaningful upside, whether the sponsor and management team can successfully deliver on that opportunity, and whether the structure and incentives remain effective even when plans do not unfold exactly as expected.

The lower degree of standardization in the European small and mid-market is therefore not merely a source of additional risk. For specialized investors capable of analysing and actively structuring this complexity, it can also create a sustainable competitive advantage.

This article is based on the white paper GP-led Secondaries by Thomas Hallinger, Dr. Ralf Stenger and Anja Bagung (Golding Capital Partners), published in June 2026.