



PAUL
HASTINGS

Continuation Vehicles Report

March 2023

Table of Contents

Continuation Vehicles: Key Terms Report – Second Edition Q1 2022–Q1 2023	3
Sponsor Commitment	4
Management Fee	5
Carry Waterfall	7
Cost and Expenses	8
Follow-on Investments	9
CV Term	10
Key Person Event	11
Other Key Provisions	12

Continuation Vehicles: Key Terms Report – Second Edition Q1 2022–Q1 2023

From Q1 2022 to Q1 2023, we have advised on a significant number of GP-led continuation vehicles (“CVs”) and have summarised the key terms in this report. Of these CVs:

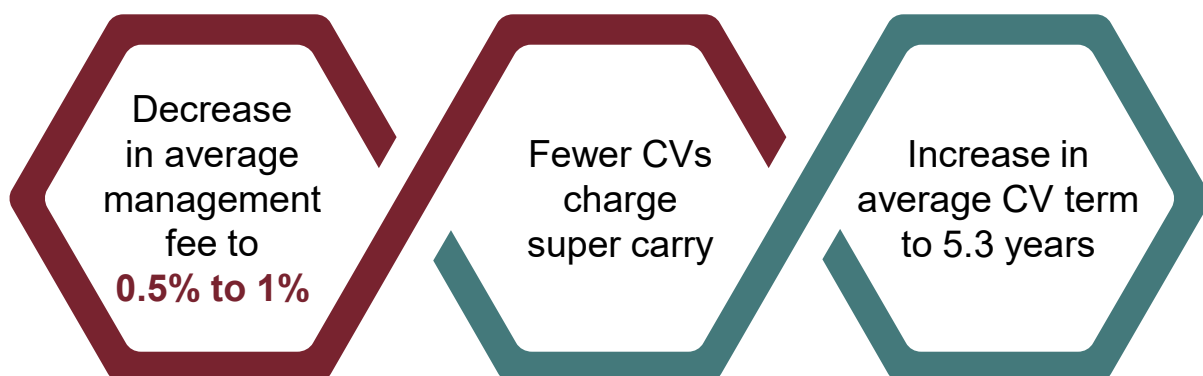
~55%
of the CVs were
single-asset deals

CV size ranging
from circa
\$115M–\$3.2BN

average CV size
\$736M

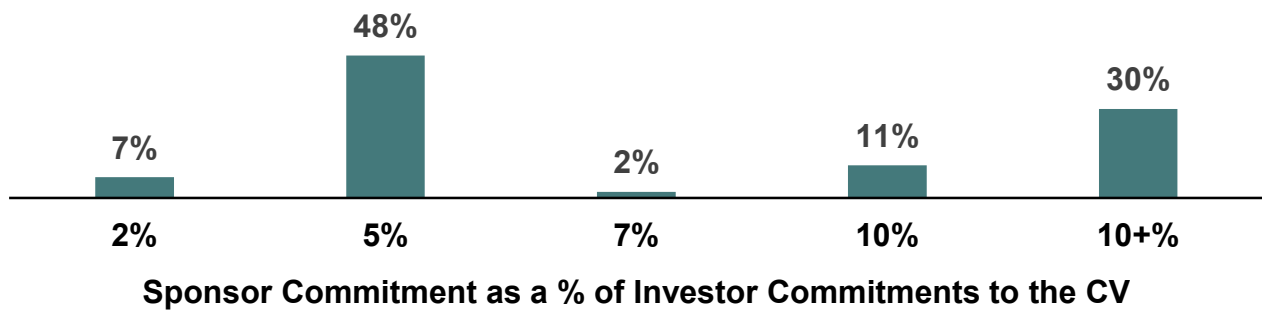
total commitments
in excess of
\$10BN

We have also compared the key terms of the CVs reviewed and analysed for this report with the CVs reviewed and analysed in the first edition of this report covering 2021–2022. Three key takeaways from this comparison are:

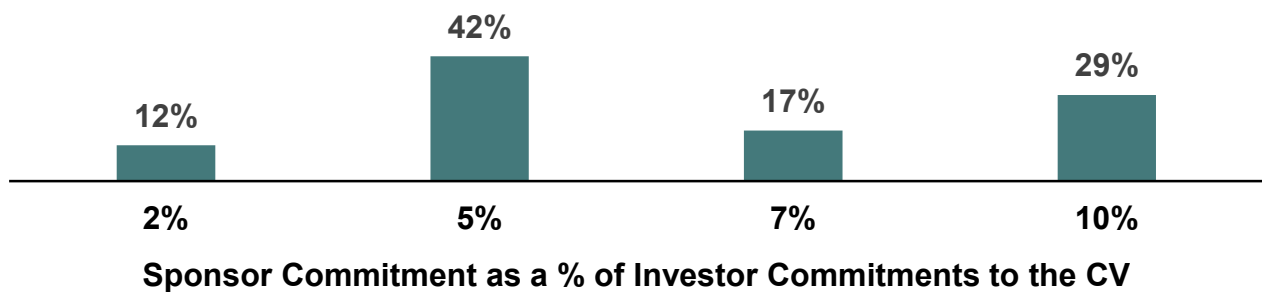


Sponsor Commitment

2022–2023



2021–2022



Points to note:

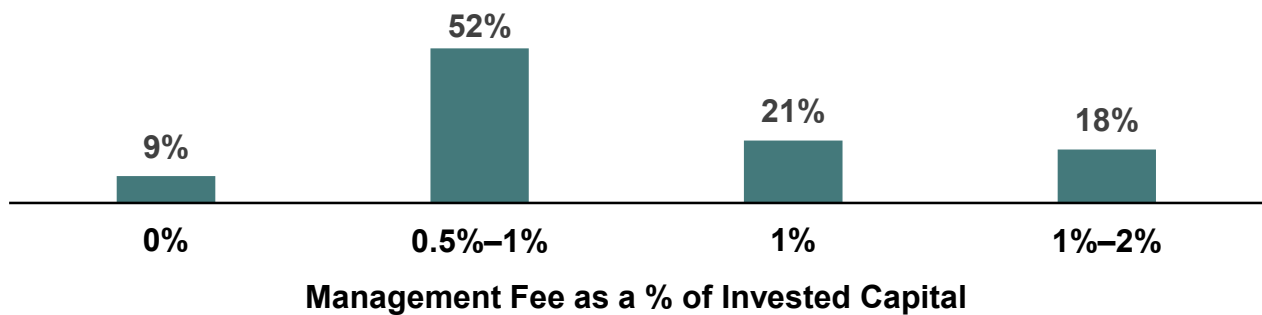
The mechanism for sponsor commitments includes the following:

- **Direct sponsor commitment;** e.g., % of total commitments in CV.
- **Rollover of sponsor commitment from existing fund;** e.g., between **80% to 100%** of proceeds from sponsor commitment from existing fund invested in CV.
- **Rollover of crystallized carry from existing fund;** e.g., between **80% to 100%** of crystallised carry from existing fund invested in CV.
- **Combination of a rollover of sponsor commitment and crystallized carry.**

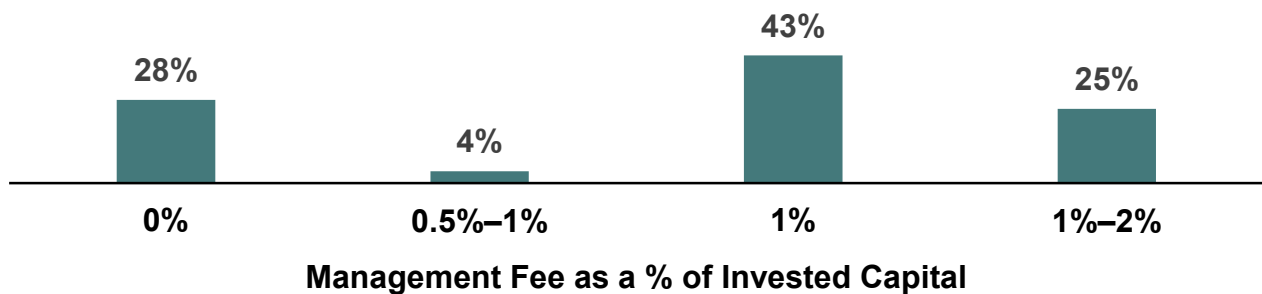
Notably, 41% of deals involved sponsors providing a commitment of at least 10% of aggregate commitments to the CV.

Management Fee

2022–2023



2021–2022

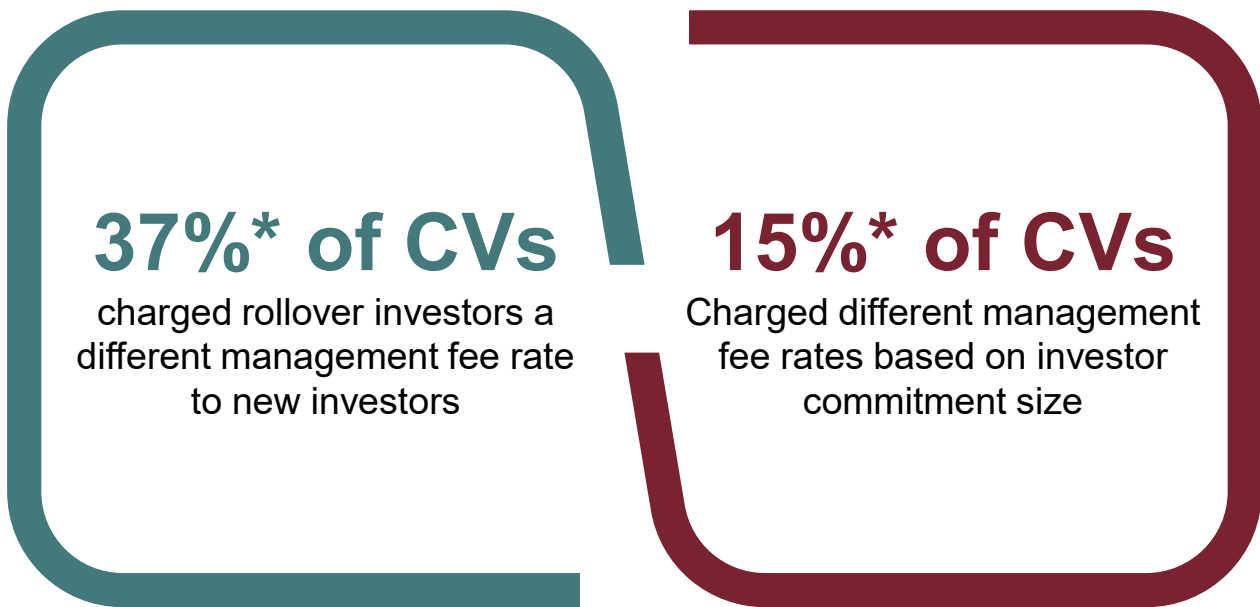


Points to note:

Management vs. 'Other' fees

- **9%** of CVs did not charge fees at the CV level but instead charged either: (i) an on-going monitoring fee and/or (ii) a one-off transaction fee at the portfolio company level.
- Where a management fee is charged, **100%** of CVs charged a fee on invested capital and not on committed capital.

Management Fee (Cont'd)



***Management Fee as a % of Invested Capital**

Points to note:

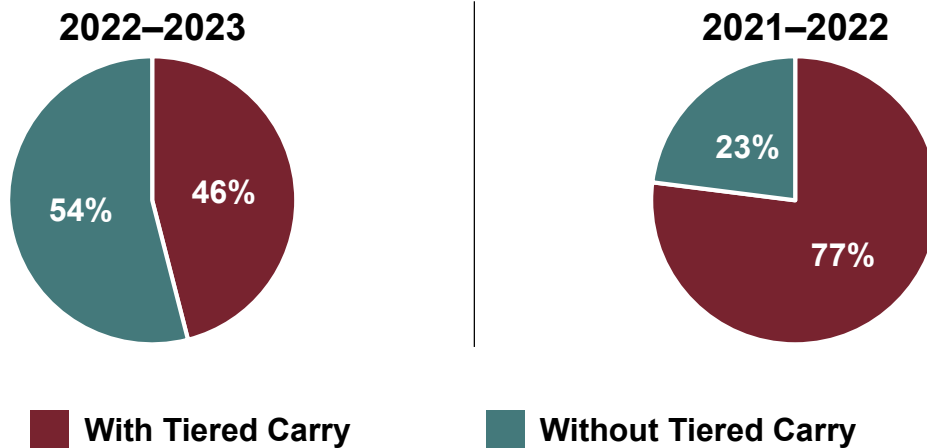
- **26%** of CVs as % of invested capital had a stepdown mechanic in the event of extensions to the term.
- In **2022–2023**, **52%** of CVs charged a management fee between 0.5%–1% whereas in **2021–2022** only **4%** of CVs charged a management fee at this level.

Rollover vs. New money investor fees

- In **37%** of CVs, different management fees were charged to rollover investors as opposed to new investors. In some instances, rollover investors were charged a higher management fee and were not required to pay carried interest. In other instances, rollover investors were charged a lower management fee than new money investors.
- In **15%** of CVs, a lower percentage of management fees were payable to investors who had a higher commitment to the CV.

Carry Waterfall

Percentage of CV Carry Waterfalls with Tiered Carry



Percentage of CV Carry Waterfalls with IRR and MoIC



Points to note:

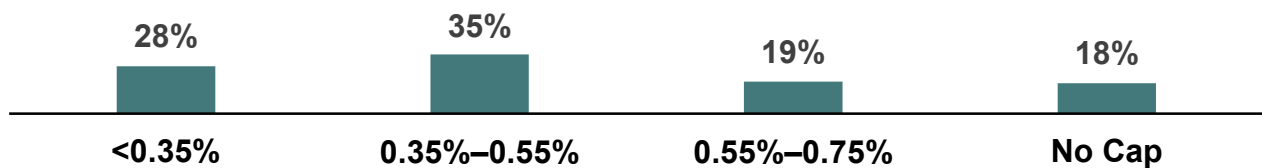
- In general, the median carry is lower when comparing the second edition vs the first edition of this report. For **2022-2023**, the range of carry entitlement is between **10%** and **25%** whereas in **2021-2022**, the range of carry entitlement is between **10%** and **30%**.
- Majority of CVs have **100%** GP catch-up at each level.
- We have seen several examples in which sponsors charge rollover investors a higher management fee over the term of the CV and no carried interest.

Costs and Expenses

2022–2023

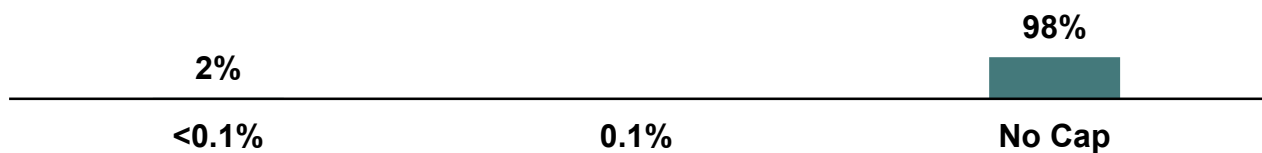


2021–2022

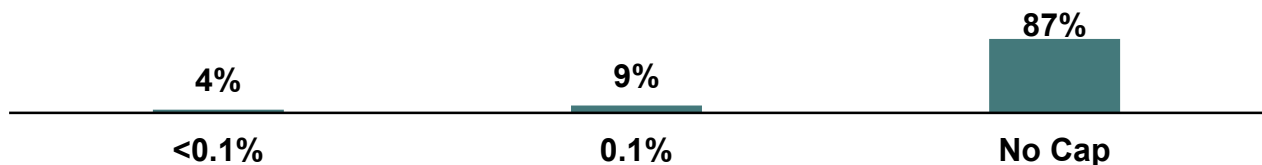


Establishment Cost and Expenses Cap
as a % of Aggregate Commitments to the CV

2022–2023



2021–2022



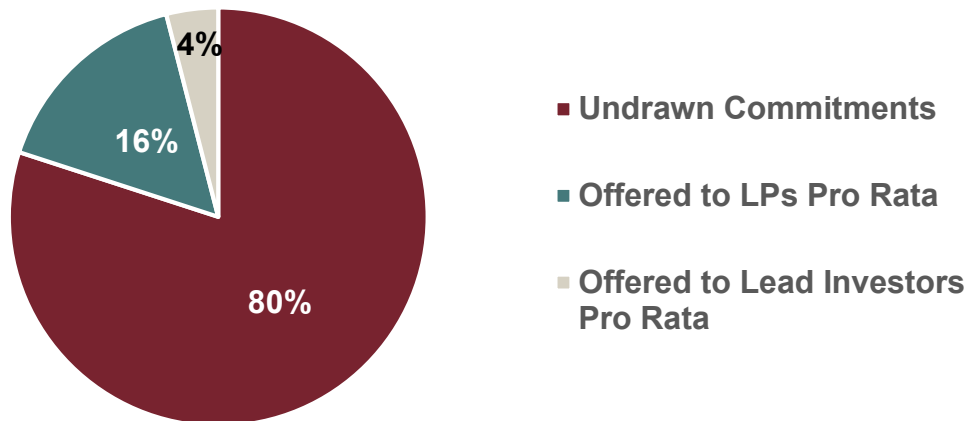
Annual On-going Cost and Expenses Cap
as a % of Aggregate Commitments to the CV

Points to Note:

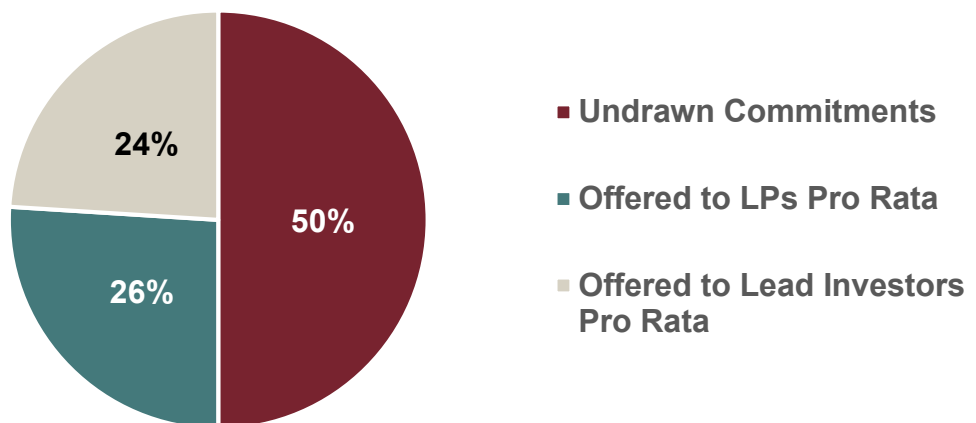
- Amounts incurred above any establishment costs or ongoing costs and expenses cap are payable by the sponsor.
- **50%** of CVs contained a cap on lead investor expenses, ranging between **USD 150,000** and **USD 1,250,000**.

Follow-on Investments

2022–2023



2021–2022



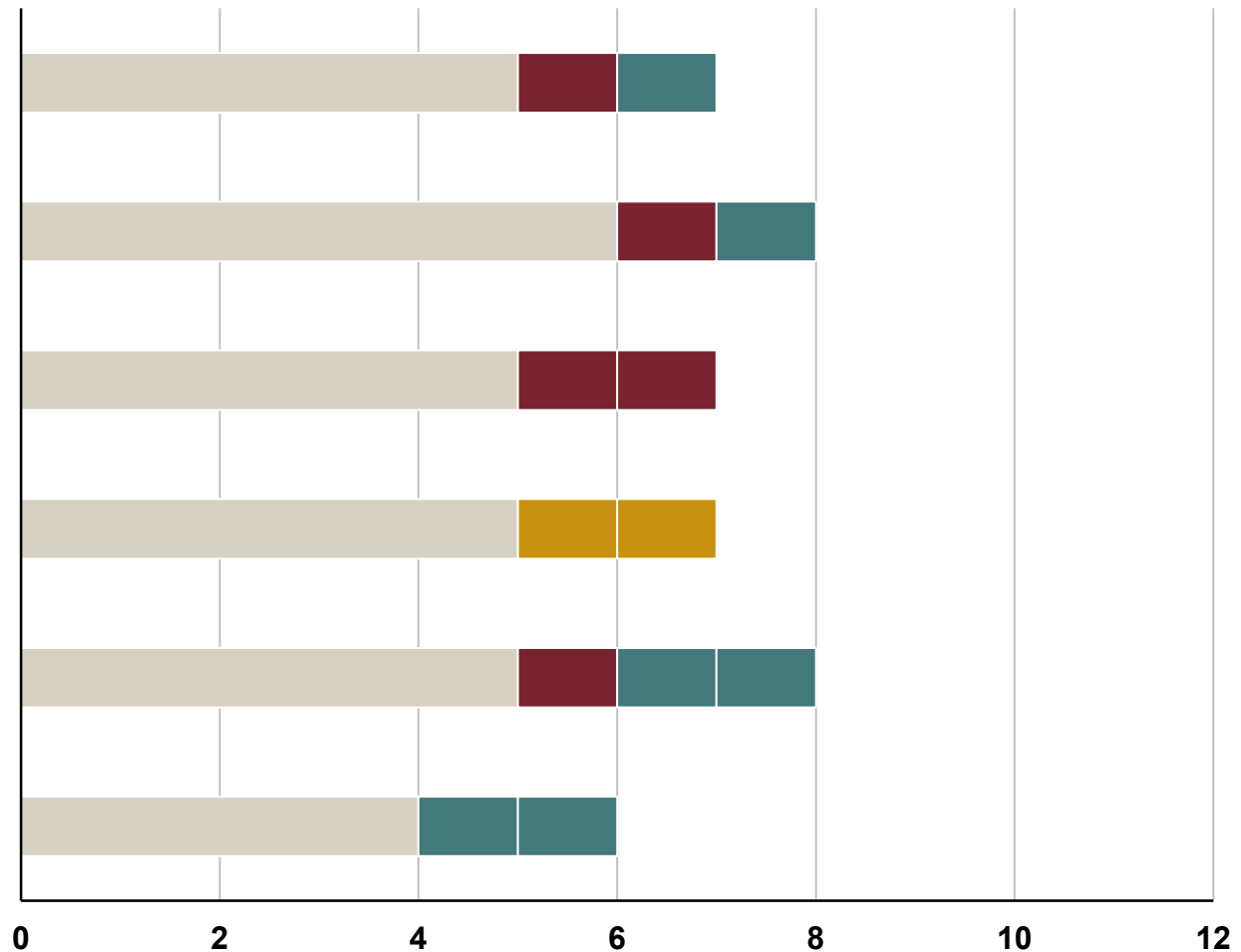
Points to Note:

Where follow-on investments were addressed, funding requirements have either:

1. been contemplated when determining the size of the CV—in such instances follow-ons are to be funded by undrawn commitments; or
2. not been included in the CV size—in such instances follow-ons are either to be offered to all LPs pro rata or to lead investors only, again pro rata.

CV Term

Example Extension Mechanics



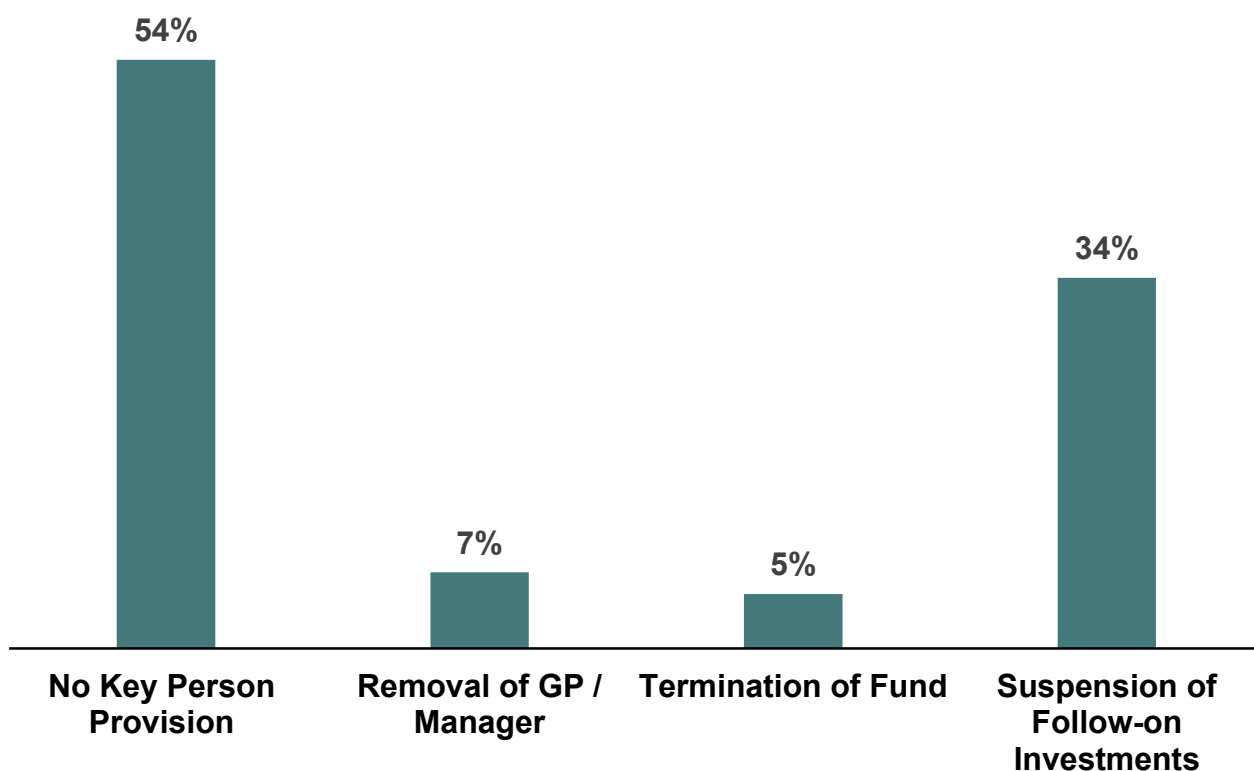
CV Term Plus Extensions (Years)

■ GP Discretion ■ LPAC Consent ■ LP Majority Approval

Points to Note:

- Average CV term: **2022–2023 5.3** years vs. **2021–2022 5.2** years.
- Average CV term plus extensions: **2022–2023 7.9** years vs. **2021–2022 7.2** years.

Key Person Event



Key Person Consequences as a % of Aggregate Commitments to CV

Points to note:

- In **34%** of CVs, a key person event restricts the ability to make follow-on investments. In some instances, follow-on investments are permitted if there is an investment in process; this determination is subject to LPAC consent or GP discretion.
- In **7%** of CVs, a key person event results in the ability to remove the GP. In these instances, the GP will be given a grace period in which to find a replacement key person, where a replacement is not found, a general meeting can take place to remove the GP.
- In **5%** of CVs, a key person event results in the ability to terminate the fund; if a replacement key person is not found, the LPs can vote to terminate the fund with two-thirds majority.

Other Key Provisions

Points to Note:

Provisions included	2022–2023	2021–2022
LPAC	100%	100%
Key Person	46%	37.5%
No-Fault Removal	0%	12.5%
Removal for Cause	100%	100%
Borrowing	92%	96%
GP-Clawback	100%	96%