Continuation Funds: A Strategic Pivot Towards Liquidity in Venture Capital

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Liquidity has always been a significant challenge for early- and growth-stage venture investments. In recent years, this challenge has intensified, with mergers and acquisitions (M&A) and exit opportunities becoming less frequent. To tackle this issue, venture capital firms have increasingly turned to a tool called a “continuation fund.”

A continuation fund involves transferring stakes from one or more portfolio companies—usually held in an existing venture capital fund—into a new investment vehicle. This new fund serves a dual purpose: it provides additional time and capital for portfolio companies that need an extended runway to achieve milestones like a sale or IPO, while also offering liquidity to the original investors. These investors can either exit by selling their stakes or reinvesting them into the continuation fund, depending on their preferences.

How Continuation Funds Work

When a continuation fund is established, the general partner (GP) of the original fund works with limited partners (LPs) to negotiate terms. LPs are often given two options: they can sell their stakes in the companies held by the continuation fund for liquidity or reinvest in the continuation vehicle. New investors may also be brought into the mix, providing fresh capital to support the portfolio companies’ next stage of growth.

However, structuring a continuation fund isn’t simple. Determining a fair valuation of the assets being transferred is a major hurdle. Since portfolio companies in early- and growth-stage funds often have not yet reached profitability or an exit, pricing them accurately involves a deep understanding of both current market conditions and the potential future value of each business. Independent third-party valuations are often sought to maintain transparency and mitigate conflicts of interest.

Why Venture Firms Use Continuation Funds

Venture capital funds typically have a finite lifecycle, often ranging from 7 to 10 years. However, not all companies in a portfolio reach maturity within that timeframe. Continuation funds allow VCs to hold onto promising investments for longer than a traditional fund structure would allow. In cases where companies are expected to have significant upside in the future, GPs may opt for a continuation fund to capture additional value without pressuring companies into making premature exits.

Continuation funds also help address another key issue in venture capital: the need for liquidity. LPs, such as institutional investors, endowments, and family offices, often seek returns within specific time horizons. As exit opportunities like IPOs and acquisitions have become less predictable, continuation funds offer a way to return some capital to LPs while still maintaining exposure to high-potential portfolio companies.

The Future of Continuation Funds

As the venture capital landscape continues to evolve, continuation funds are becoming increasingly prevalent. Recently, [TechCrunch reported that](#) General Catalyst, one of Silicon

Valley’s largest venture firms, is preparing to launch a continuation fund valued between $800 million and $1 billion. Similarly, New Enterprise Associates (NEA) recently sold stakes in 11 portfolio companies to investors for $540 million, including notable companies like Databricks and Plaid.

However, continuation funds don’t always receive the anticipated support from Limited Partners (LPs). For instance, Axios revealed that Shasta Ventures proposed a continuation fund earlier this year, but it was marked down by 35% of its carrying value. As a result, the firm's LPs ultimately voted against the deal.

Looking ahead, the role of continuation funds in the venture ecosystem is likely to continue to grow, particularly as exits remain difficult to predict and many high-growth companies require extended timelines. The increasing adoption of continuation funds by major players such as General Catalyst and NEA suggests that this tool will continue to gain traction, especially in periods of market volatility or downturns.

Nevertheless, for continuation funds to truly thrive, venture firms will need to strike a delicate balance: ensuring transparency in valuations, maintaining alignment between all stakeholders, and fostering confidence among LPs. As with any innovation in venture capital, success will depend on the ability of firms to manage these complexities effectively, offering investors liquidity without sacrificing long-term value creation.

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