MID-HOLD EQUITY: AN ALTERNATIVE TO SINGLE-ASSET CVs

Both can extend investment runways. Where they diverge is in their use case around liquidity or facilitating growth.

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Based on the growth in the market last year, PE sponsors more than ever are utilizing mid-hold equity solutions and GP-led secondaries to maintain exposure to assets they believe have an extended runway for future growth.

While single-asset CVs certainly serve this purpose, GPs are also discovering that the secondaries structure can be something of a blunt instrument — or not always fit for purpose — for situations that don’t necessarily revolve around significant liquidity events.

In circumstances when speed and flexibility are required to capitalize on growth opportunities with a small or closing window, other emerging solutions can provide a more optimal fit. Strategic capital, or more specifically mid-hold equity, aims to solve for many of the same pain points or complexities that have historically made CVs the prevailing option for sponsors looking to invest behind the better performers in their portfolio. However, compared to more traditional continuation funds, strategic capital solutions can also bring unmatched speed and flexibility, often necessary in competitive situations. And when portfolio company growth is the primary objective, mid-hold equity can be tailor made to navigate the nuances of investing behind more seasoned assets.

While adoption is growing rapidly, particularly as sponsors come to appreciate the flexibility strategic capital can engender, mid-hold equity is indeed an established "technology" in the GP toolkit, whose use case has been established over multiple vintages. What's different today is that dedicated solution providers, focused exclusively on strategic capital, are bringing more intent focus and specialization to the segment, and that is helping to further distinguish mid-hold equity from single-asset continuation vehicles.

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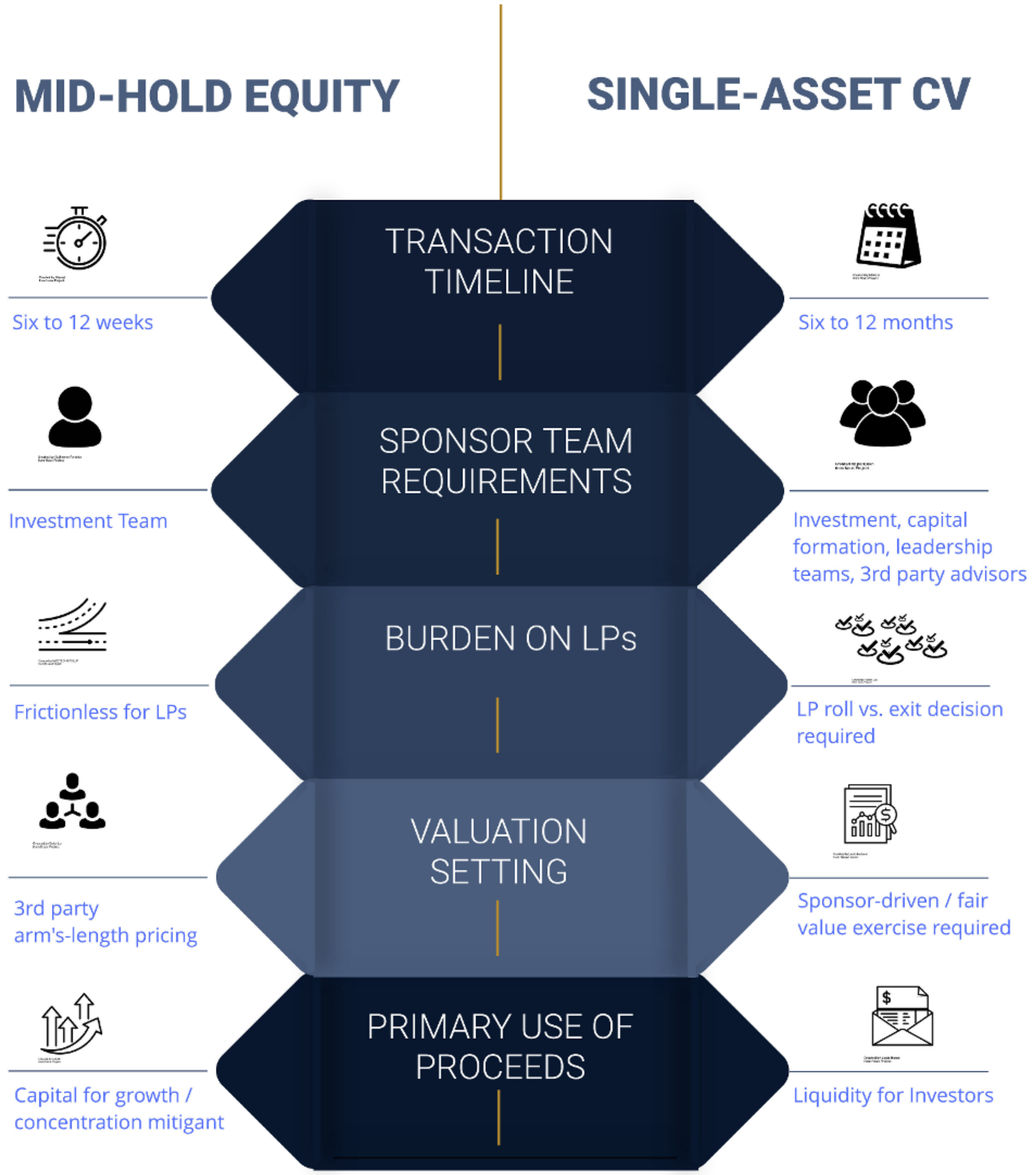
SINGLE-ASSET CV:
LIQUIDITY ABOVE ALL ELSE

Generally, when GPs opt for a single-asset CV, liquidity for existing investors is just one consideration. Often, though, it'll be the most important factor. In many cases, sponsors will have a fully formed investment thesis to continue to grow the business before securing a full realization, and it's not uncommon for these vehicles to include unfunded capital commitments for add-on acquisitions and other growth initiatives. Given the timeline required to stand-up a single asset CV, however, it's not a stretch to say that these vehicles are more geared to be opportunistic, versus intentional, in pursuing M&A once the CV is in place.



For illustrative purposes only. Situations may vary.

Often structured similarly to a traditional limited partnership fund, albeit with shorter fund lives, single-asset CVs generally require a formal fundraising process, involving the broader investor relations and investment teams, firm leadership, fundraising advisors and outside fund counsel. Depending on the size of the syndication, which may involve ten or more new investors, they can also take anywhere from six to 12 months to be completed. It's the uncertainty of a long, drawn-out process that can make single-asset CVs less than ideal as a tool to capitalize on more immediate near-term opportunities.

MID-HOLD EQUITY:
A STRATEGIC LEVER FOR GROWTH

Contrast this with strategic capital solutions, which can provide flexibility to navigate the nuances that sometimes complicate portfolio management, but are premised on driving growth. GPs, of course, are quite familiar with the typical obstacles that surface as existing investments in the fund mature. These can range from concentration limits that may curb the extent to which GPs can invest fund capital in an existing portfolio company to the LPAC approvals required to commit new capital to existing platforms (all factors that were discussed in a previous insight). While CVs can certainly address these challenges, mid-hold equity solutions are designed to solve for them at the speed of M&A – in weeks versus months. This can eliminate a source of uncertainty that turns a portfolio company in a competitive process from a fallback option for the sellers to a preferred bidder ready to transact.

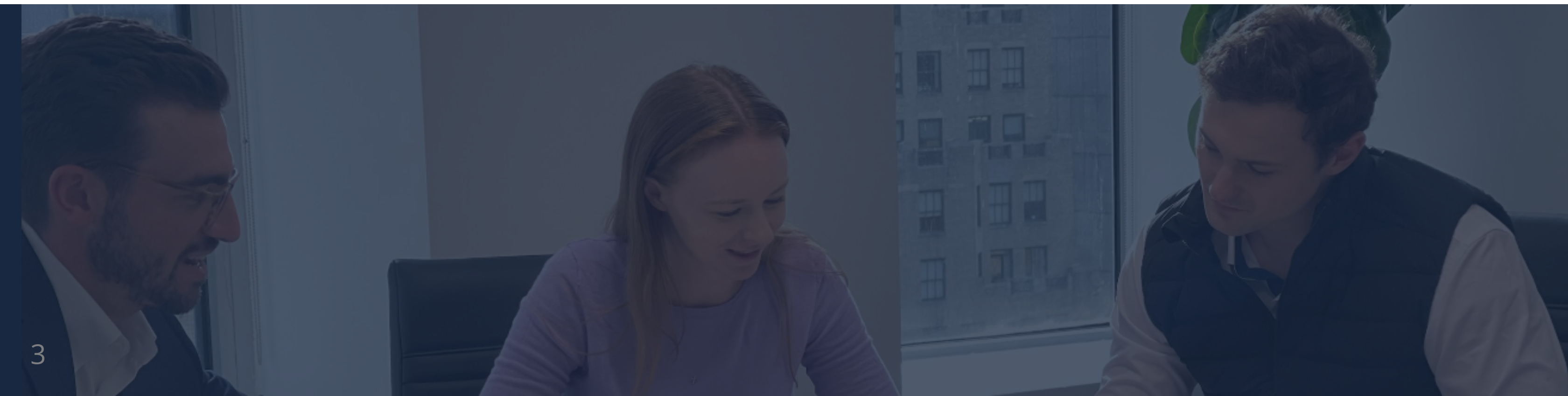
There are other potential benefits too. For instance, fewer moving pieces require less internal coordination on the part of sponsors. The work is usually limited to the deal teams overseeing the investment and the investment committee that signs off. And LP approvals, generally, aren't required except in special circumstances. Moreover, commitments can take the form of common or preferred equity or convertible preferred, which provides another lever to help enable alignment.

> *Mid-hold equity can address nuanced challenges at the speed of M&A.*

Mid-hold equity, as a result, is also generally more flexible than other traditional alternatives and can allow GPs to convert minority stakes into control positions, provide liquidity to non-control shareholders, facilitate cross-fund transactions with true third-party validations, or solve for other subtle challenges not always evident to sellers. A larger quantum of capital is also generally available to invest in portfolio company growth than what would normally be set aside for add-ons in a traditional CV.

This flexibility underscores the speed at which portfolio companies are positioned to transact. It also eliminates the time sink required across the organization to assess if a CV is even possible and then manage the vetting process for existing LPs, new LPs, and all othe counterparties involved over a multi-quarter timeline.

The growth of dedicated mid-hold equity strategies can provide investor benefits as well, such as the ability to receive strong minority protective rights and a higher visibility to an exit. This category of strategic capital also does not require a new special purpose vehicle (SPV) with a reset clock. This facilitates an alignment of interests that accelerates for sponsors how quickly dedicated mid-hold strategies can transact.



FLEXIBILITY THAT TRANSLATES INTO *SPEED*

To help contextualize mid-hold equity at work, strategic capital can help fund add-on acquisitions at times when speed is paramount, either to pre-empt a broader process or when exclusivity with a target is set to lapse. Moreover, in cases where the sponsor may have designs on a near term exit, traditional financing arrangements are not always available if lenders perceive there to be duration risk stemming from the likelihood of prepayment. The mid-hold equity investment can deliver a level of speed and certainty to close that allows portfolio companies to complete strategic acquisitions, potentially opening new end markets and new revenue streams to build out over the sponsor's hold.

As an aside, one overlooked consideration is that CVs don't merely impact the timing at entry. If a continuation fund moves too quickly in securing its ultimate exit, fund investors who opted to sell their interests into the CV will generally pay careful attention to any meaningful delta between the marks at close and the ultimate valuation at exit.

Strategic capital, generally, can also help align interests. In some cases, it may be mid-hold equity being deployed to buy out the interests of minority co-investors seeking liquidity. But it can also take the form of commitments designed to facilitate co-control stakes when existing investors welcome new equity partners into an investment. Beyond facilitating shared governance, strategic capital can provide unfunded commitments to invest behind potential future M&A or de novo growth initiatives. Again, the overriding objective, generally, is the pursuit of future growth.

Make no mistake, CVs and other forms of continuation funds play an invaluable role across the broader PE ecosystem, particularly as the asset class continues to evolve and as GPs and LPs become more sophisticated in how they manage their portfolios. Mid-hold equity solutions, likewise, have their own role to play.

And while both options often overlap and can sometimes be conflated, the role of each is quite distinct. When portfolio company growth is the goal and speed is paramount, strategic capital solutions can solve for the complexities that otherwise stand in the way.

About Audax Strategic Capital:

Based Based in New York and London, Audax Strategic Capital is a flexible partner to private equity sponsors seeking customized equity solutions to drive the continued growth of their portfolio companies. ASC is part of the Audax Private Equity platform, a capital partner to middle market companies with $19 billion of assets under management as of March 31, 2025, over 290 employees, and 100-plus investment professionals. For more information, visit www.audaxstrategiccapital.com

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