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Liquidity options proliferate for VCs
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Continuation funds aren't the only strategy firms are using to generate liquidity for LPs. Others include strip sales, preferred equity deals and tender offers.

A growing number of venture funds are pursuing alternative liquidity vehicles to generate returns for their LPs amid increased volatility in public markets and a lack of significant IPOs. Other factors compelling a broader variety of liquidity vehicles include the fact that many VCs have been cashflow negative for a couple of years, as well as mounting pressure from limited partners for distributions from earlier funds.

Venture Capital Journal spoke to a handful of investment advisers, attorneys that advise on secondary deals and secondaries investors about what they are seeing in the market.

Continuation funds, which we explore in this month's cover story, are only an option for VCs that become registered investment advisers. That's one of the key reasons more VCs are now open to becoming RIAs despite the higher level of scrutiny from the SEC and higher operational costs (legal, compliance, administrative), including hiring a chief compliance officer, says Jim Tilson, managing director at Evercore.

Lightspeed Venture Partners and New Enterprise Advisors are among the larger firms that have joined the ranks of RIAs in the past couple of years.

Strip sales

For VCs that aren't willing to register due to concerns over cost and potential impact to their day-to-day operations, "what we're seeing are groups selling direct stakes or strip sales of assets where they're selling, call it, 20 percent of a portfolio to an SPV," Tilson says.

These transactions are unconflicted sales motivated by a GP's desire to accelerate DPI and/or de-risk funds that are often concentrated in a handful of winners. Another difference in these transactions is that the LPs in the earlier fund, a portion of whose assets are being transferred to the SPV, do not make an election on whether to roll their ownership interest forward.

Strip sales provide an opportunity to replicate multiple direct secondaries at the same time by selling a portion of an existing portfolio into a new vehicle, says Tilson. "That structure will continue to be interesting as a way to more efficiently generate liquidity for a fund than pursuing individual secondary trades."

In 2024, GP-led venture secondary transactions reached a record $75 billion, with the second-half volume ($47 billion) accounting for nearly 68 percent more than the $28 billion worth of deals logged in the first half, according to Jefferies' 2024 Global Secondary Market Review.

Evercore estimates that VC and growth equity secondaries represent roughly 10 percent of GP-led transactions in 2024. Tilson says that estimate is for transactions initiated by VC managers on behalf of their LPs, which wouldn't necessarily capture company-led tenders or other direct secondary deals.

Chris Bull, managing director at Kline Hill Partners, sees GP-centric secondaries – including those that entail selling a portion of a company, a fund tender or a strip sale – becoming most prevalent among VCs as alternative liquidity solutions.

"There is a long-term opportunity for the folks who get ahead of the thinking, have good plans, have good programs to generate liquidity at the appropriate valuations," Bull tells *VCJ*. "I think this will be a large driving theme and one we're seeing play out today."

Recognition of the significantly longer time horizon to an acquisition or IPO has created greater incentive to access earlier liquidity opportunities. Kline Hill this year purchased a major stake in the vintage-2016 debut fund of Dynamo Ventures to create liquidity for some of the investors. LPs representing roughly one-third of Fund I's $18 million in commitments tendered their entire position at a 4x multiple, says Santosh Sankar, co-founder and managing partner at Dynamo, which is based in Chattanooga, Tennessee. Although the Kline Hill deal was done at a 30 percent discount to the 6x net multiple at which the fund is currently marked, it was still above the return that those that tendered their positions expected, Sankar notes.

Firms considering following in Dynamo's footsteps need to consider several factors, advises Jared Sorin, a partner at Brown Rudnick and co-leader of the firm's emerging companies and venture capital practice group.

First is valuation sensitivity, as it can be tricky to price secondary sales in a down or flat market. Second is signaling risk. "If it's not framed correctly, these can look like distressed sales, and that obviously is not something the company wants," Sorin says. Third is governance considerations, as a new investor may want more rights or board seats, which can complicate existing governance structures.

LPs of venture funds are generally receptive to secondary deals, especially in a market where distributions are slow. "They want to see their fund manager being proactive about liquidity," Sorin says. "That being said, transparency and fair pricing are very important.

LPs don't want to see money being left on the table by the fund selling its shares prematurely, but they do want to see liquidity."

Preferred equity deals

Founders and their early investors are also getting liquidity in some cases when a new investor agrees to buy secondary shares along with preferred shares as part of a larger financing deal.

Sorin at Brown Rudnick has seen a few recent deals of that kind. In a large Series A financing deal that he recently closed, a fresh class of preferred stock was created for a new investor that previously was not on the company's capitalization table. That investor bought shares of Series A preferred stock and at the same time purchased common stock from the company's founders.

That deal also featured "a founder top-up" where immediately after the Series A financing, key members of the founding team received stock options out of the company's equity incentive plan that entitled them to buy additional common shares in the future. The top-up was done "to incentivize these key employees and justify the go-forward effort," says Sorin. The new common shares that can be bought in the future are set at the current fair market price, as determined by an independent third-party evaluator.

The common stockholders benefited from the opportunity to sell a portion of their common shares to the new investor at a much smaller discount to the preferred stock price than the common shares would normally be sold at, Sorin says.

"The new investor's happy to do it because they're expecting the common stock to eventually be worth a whole lot or that this company will have a liquidity event where all shares are going to convert to common anyway," Sorin notes. "And the common stock [holders] do really well because they get some cash. They've been at this for some significant number of years at this point, probably taking under-market salaries for much of that time, and they get to derisk a little bit."

In other deals that Brown Rudnick is advising, in addition to founders it might be other existing stockholders such as early employees of the company, consultants, individual angel investors or early-stage venture firms that are selling a portion of their shares.

At the portfolio level, it is rare for VC managers to buy or sell preferred equity financing structures, based on what Evercore has seen, says Tilson. Occasionally, preferred structures can solve for a bid-ask spread between what a buyer is willing to pay for a portfolio of LP interests in multiple VC funds and what the seller is willing to accept.

For example, if a buyer offers to pay 75 percent of the portfolio's net asset value and the seller is only willing to sell for 85 percent NAV, all of the seller's interests might be placed in a special purpose vehicle, with the parties agreeing that the buyer pay 50 percent of the NAV in cash up front and the remainder through a cashflow-sharing arrangement as future exits of portfolio companies provide distributions.

"If you want to accelerate liquidity but you don't want to forgo all the upside, the pref structure solves for that," Tilson continues.

Tender offers

Tender offers for secondary shares of both fund portfolios and single companies have also become more prevalent pathways for liquidity.

On the company side, more demand has been coming from large private equity shops and late-stage venture firms buying large stakes in relatively mature companies that don't need additional capital, says Steve Ryan, global leader of Pillsbury's emerging companies and venture capital practice.

Ryan is advising a late-stage software investor that targets large companies with more than $100 million in revenue and growing at 20-40 percent year-on-year. While good businesses with strong "software" margins, in the absence of an IPO, these companies "need liquidity for early stakeholders and would only sell the entire company at much higher multiples," which currently aren't available.

Ryan sees Carta's recent rollout of a tool that makes the tender offer process easier as a key market signal that augurs more activity in this space. Carta, where most venture-backed companies maintain their cap tables, facilitates document distribution and e-signatures efficiently.

Although demand for tenders, which become more popular when other paths to total liquidity become scarce, fluctuates from year to year, Ryan sees them on an upswing. He recently handled two in one month after not having any in the prior two years.

"I can tell secondaries generally and tenders specifically are a current trend because even the versions of the form documents from Carta have been continuously refreshed in the last 30 days," he says. "You can tell it's an active space because a firm like Carta is investing significant resources to help its clients complete these transactions."

The first quarter of 2025 was Carta's busiest first quarter in the past five years, with Q2 on pace to build on that momentum, says Peter Walker, head of insights at Carta. In the last four years, more than 350 tender offers have been transacted on the company's platform. Carta declined to say what portion of those have been done this year.

Of the two kinds of company tenders – company share buybacks from early employees and investors and third-party tenders from new investors – the first kind has increased from 12 percent of volume in 2021 to 38 percent so far in 2025. "That suggests that mature, cash-rich start-ups are increasingly using buybacks to offer employees liquidity and support retention while staying private," says Walker.

Special purpose acquisition companies are another alternative liquidity option for companies that aren't among those positioned for an IPO this year or early next year.

"I'm hearing a lot of chatter that SPACS are reappearing again," says Michael Podolny, a partner in Sidley Austin's Emerging Companies and Venture Capital practice. "[They are] fighting in that same space where they're telling companies, 'Why are you taking money from these growth funds? We'll just take you public and you'll beat the other companies that are all waiting in the pipeline.' If this turns into a trend, I expect banks to take notice soon."

While Tilson at Evercore expects "a steady increase in the number of VCs that are considering secondary transactions, which includes strip sales and continuation funds," how much volume increases will be a function of the buyside, he says.

"I don't think we're going to see a doubling or tripling in volume overnight because the capital hasn't formed on the buyside yet," he notes. Compared to dedicated secondary funds targeting the buyout market that have been raised by the likes of Ardian, Blackstone Strategic Partners and others that have scaled to up to $25 billion to $30 billion, dedicated funds raised for venture secondaries are relatively small.

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