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ADVISORY



The Road Ahead: Next Steps for Late-Life Funds

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Restructuring, Realising and Dissolving Private Investment Funds

Key takeaways

- Many private equity funds are exhausting their term extensions and liquidity tools, with an estimated $1.2 trillion held in funds beyond their expected lifespans, so managers should move proactively to a clear end-of-life strategy.
- A coordinated, cross-border plan mapped against the entire fund structure, combined with the right mix of sales, in-kind distributions and liquidating vehicles, can realise remaining value while delivering finality to investors.
- Because valuations drive management fees, carried interest and the distribution waterfall during wind-down, an objective valuation process and transparent investor communications are essential to preserving trust and supporting future fundraising.

Creative liquidity solutions have helped many private equity (PE) funds bridge the gap between exits and distributions, and a growing number of funds are now reaching the end of their available term extensions. For fund managers, this is less an end point than a transition: a well-planned restructuring or wind-down can realise remaining value, deliver finality to limited partners (LPs) and protect the sponsor's franchise across complex, multi-jurisdictional fund structures. This advisory sets out the practical next steps available once extensions and liquidity tools have run their course.

Where liquidity solutions have taken funds so far

The private equity industry has responded to a prolonged period of subdued exits with an expanding toolkit of fund finance solutions. Subscription credit facilities, net asset value (NAV)-based lending, general partner (GP)-led secondaries, preferred equity and continuation vehicles have all been used to provide liquidity while M&A activity has remained muted and the initial public offering (IPO) window narrow. Elevated portfolio valuations have driven a persistent valuation gap between seller expectations and buyer pricing, and traditional exits have taken longer to achieve.

These tools have served an important bridging role, but each has natural limits. NAV facilities and preferred equity add leverage and defer, rather than complete, the realisation of value for investors. Continuation vehicles require careful management of GP and LP conflicts, fairness opinions and Limited Partner Advisory Committee (LPAC) engagement, and are not suitable for every asset or portfolio. Strip sales and secondary transactions remain available, although pricing for tail-end assets can be challenging. As LPs increasingly distinguish between liquidity solutions and true exits, managers who move proactively to a clear end-of-life strategy will best position themselves to retain investor confidence.

When the term runs out

A typical closed-ended PE fund has a stated term of 10 years, with one or two additional years available at the GP's election (often with LPAC approval), and further extensions requiring broader LP consent. Once managers exhaust those options, or where LPs prefer not to extend further and continuation vehicles or other options are not suitable or available, the limited partnership agreement (LPA) wind-down provisions come into play. This is an increasingly common stage in a fund's life: average holding periods are close to seven years according to estimates by Bain Capital[1], stronger holdings will often already have been realised, and the remaining “tail” investments may be better served by a dedicated realisation strategy than continued fund operations. According to June 2026 data by PEI Group[2], at least 644 private equity funds hold net asset value (NAV) beyond their expected lifespans, which commentators sometimes describe as “zombie funds”. *Institutional Investor*[3] reported that Treo Asset Management estimates the value held in such funds at around $1.2 trillion, roughly 12 percent of the total market. That is a significant pool of value, and a well-structured process can unlock it for investors.

Step one: Plan an orderly process across jurisdictions

We expect to see an increase in fund restructurings in the near term. The starting point is a clear plan. International private equity fund complexes often include entities in Delaware, the Cayman Islands, the Channel Islands, Luxembourg, Ireland and other jurisdictions, so cross-border coordination is key. The LPA will govern the distribution waterfall, the appointment of a liquidator or liquidating trustee, carried interest clawback and GP giveback, and the treatment of in-kind distributions, while each jurisdiction adds its own requirements. For master-feeder structures, parallel funds, blockers and holding vehicles, a coordinated plan mapped against the entire fund structure ensures that the plan addresses every entity, asset and regulatory obligation in the right order.

Step two: Choose the right route for the remaining assets

Managers have several routes for the remaining portfolio, each balancing speed against value. A sale or other disposal can deliver prompt finality, although managers may need to price harder-to-exit companies to the current market. Alternatively, GPs can distribute securities in kind to LPs; this works

best where holdings are not overly illiquid or minority positions and transfer restrictions, drag or tag rights, rights of first refusal or similar provisions do not constrain them, and where LPs are able to hold the assets directly.

Where an immediate sale would not achieve fair value, managers can transfer residual assets to a liquidating trust or a dedicated wind-down or liquidation vehicle, allowing value to be realised over a longer horizon and accommodating asset-specific exit strategies. This route involves longer administration, additional costs and later final distributions, so the right answer will often be a combination of approaches tailored to each asset. GPs should document how they have balanced maximising value for LPs against delivering finality, particularly where portfolio assets, blockers and holding vehicles sit in different jurisdictions with different transfer, tax, regulatory and dissolution requirements.

Step three: Build confidence through robust valuation

Valuation deserves particular attention at this stage. Management fees typically step down and, during wind-down, managers often charge them on net invested capital or the lower of cost and NAV rather than on commitments, so the fee base depends directly on the carrying values assigned to tail assets. The same valuations drive carried interest, any clawback or GP giveback and the distribution waterfall, which means GPs benefit from a process that is demonstrably objective. Independent third-party valuations, consistent application of the valuation policy, LPAC oversight or approval of the methodology and enhanced transparency to LPs all help to support marks as realisations occur and to preserve confidence and trust.

Practical checklist for managers

The following key legal and practical points will help managers of late-stage funds with remaining assets plan a smooth restructuring or wind-down:

- Waterfall and carry clawback: applying the distribution waterfall correctly, with reserves and escrows for GP giveback obligations.
- Asset realisation strategy: whether managers sell remaining assets, distributed them in specie, or transfer them to a liquidating trust or wind-down vehicle.
- Fee step-down and wind-down costs: management fees reducing to a cost basis; allocation of residual expenses and GP economics.
- Reserves and contingent liabilities: indemnities, contingent obligations, potential litigation; tail directors and officers (D&O) and runoff insurance.
- Regulatory de-registration: local regulator de-registration; ongoing reporting until de-authorisation.

- Tax: entity-level and investor-level tax on liquidating distributions; blocker unwinds; withholding and treaty considerations across an international investor base; final tax filings.
- Investor communications: transparent LPAC engagement on timelines, distributions and consents; fiduciary duties and conflicts.
- Contractual tail: surviving obligations under side letters, most favoured nation (MFN) provisions, portfolio company agreements and post-dissolution indemnities.
- Team retention and data: retaining key personnel through wind-down; data retention and record-keeping post-dissolution.
- Reputation and future fundraising: a well-managed, timely wind-down strengthens LP relationships and supports the sponsor's next fundraise.

1 https://www.bain.com/insights/private-equity-midyear-report-2026/

2 https://www.privateequityinternational.com/the-so-called-zombie-fund-problem-persists-and-lps-are-concerned/

3 https://www.institutionalinvestor.com/article/more-1-trillion-stuck-zombie-private-equity-funds

CONTACTS

Our cross-border investment funds and restructuring practice advises sponsors, GPs, LPs and their advisers on all aspects of fund restructuring, realisation, wind-down and dissolution, from early-stage strategic planning to final regulatory de-registration in each relevant jurisdiction. For more information, please contact your Katten lawyer or a member of our team to discuss any issues this advisory raises.



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