Review of Private Equity Co-Investments

April 15, 2019
Agenda

Review of Private Equity Co-Investments
  • Review of Investment Structures
  • Co-Investment Execution Framework
  • Benefits & Risks
  • Current Co-Investment Market Conditions
Investment Structures

FUND

Investor commits capital alongside other institutional investors and acts as a limited partner in a limited partnership.

CO-INVESTMENT

Investor makes an additional investment into a company alongside the partnership as a co-investment. Usually with no fee and no carry.
Co-investment Execution Framework
Co-Investments Benefits to LPs

• Lower overall fees
• Increase capital deployment
• Greater control over capital deployment and portfolio construction
• Strengthen relationships with core managers
Co-Investments Risks to LPs

• Resource intensive
• Quick turn-around for approval
• Uneven/inconsistent investment approach can lead to suboptimal portfolio construction
• Concentrated portfolio
• Concerns of possible adverse selection
  – Recent studies dispute this – see later slides
• Headline risk
Co-Investments: What GPs are Looking For

• Existing LP relationship
• Significant co-investment capabilities
• Speed of decision making
• Value Add
Current Co-Investment Market

• Demand from LPs outstrips supply
• Increased demand has reduced the number of club deals
• Estimated 2017 market size of $60 billion$^1$
• According to a 2018 survey, 72% of Large Investors$^2$
  have an active co-investment program
  – Up from 60% in the previous survey

$^1$ Source: Cambridge Associates
$^2$ Defined as investors planning to commit over $500 million in survey by Probitas Partners
Current Co-Investment Market (Continued)

• Approximately 60% of GPs surveyed by Preqin offer co-investments
• Estimated to be offered on 6% of completed transactions¹
• Syndicated co-investments are the most common

¹ Cambridge Associates
Co-Investment Adverse Selection Potential

• Do investments that are offered for co-investment underperform relative to those that are not?
• Two well known scholarly articles with opposing views (Fang 2015 and Braun 2018)
• Key differences between the articles are source, data, sample size and methodology
• Industry experts support the Braun conclusion; there are no significant differences