

Review of Private Equity Co-Investments

April 15, 2019

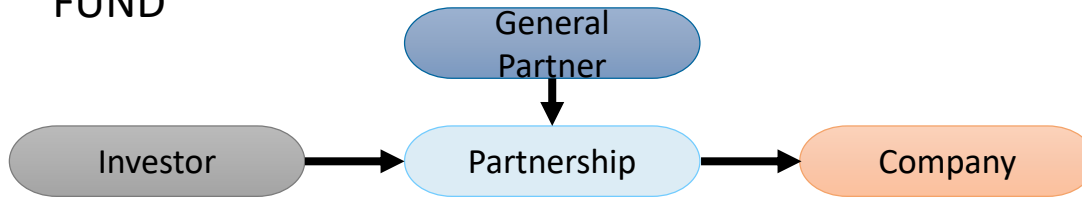
Agenda

Review of Private Equity Co-Investments

- Review of Investment Structures
- Co-Investment Execution Framework
- Benefits & Risks
- Current Co-Investment Market Conditions

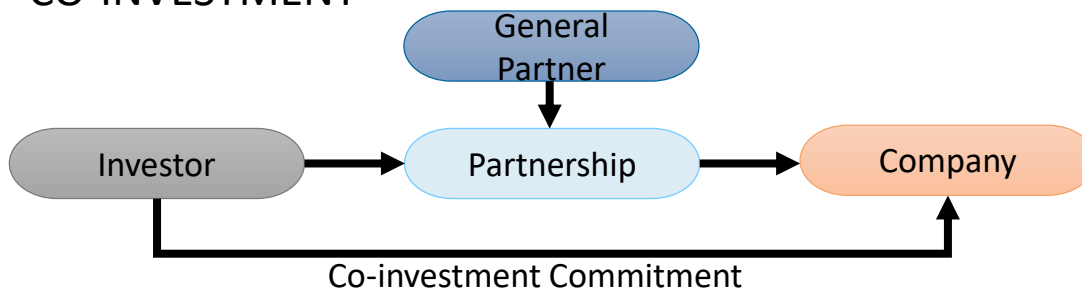
Investment Structures

FUND



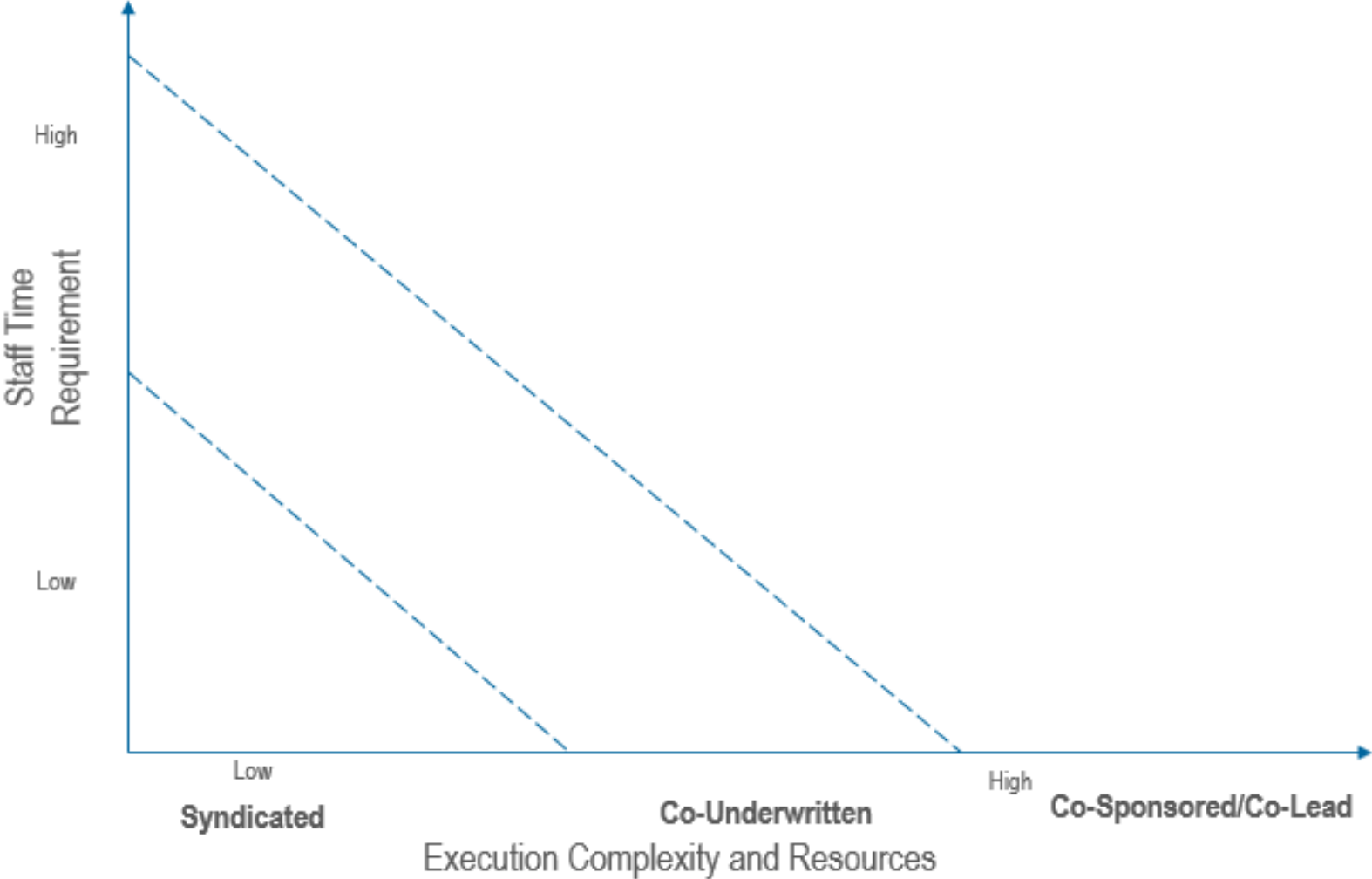
Investor commits capital alongside other institutional investors and acts as a limited partner in a limited partnership.

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 billion¹
- According to a 2018 survey, 72% of Large Investors² 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