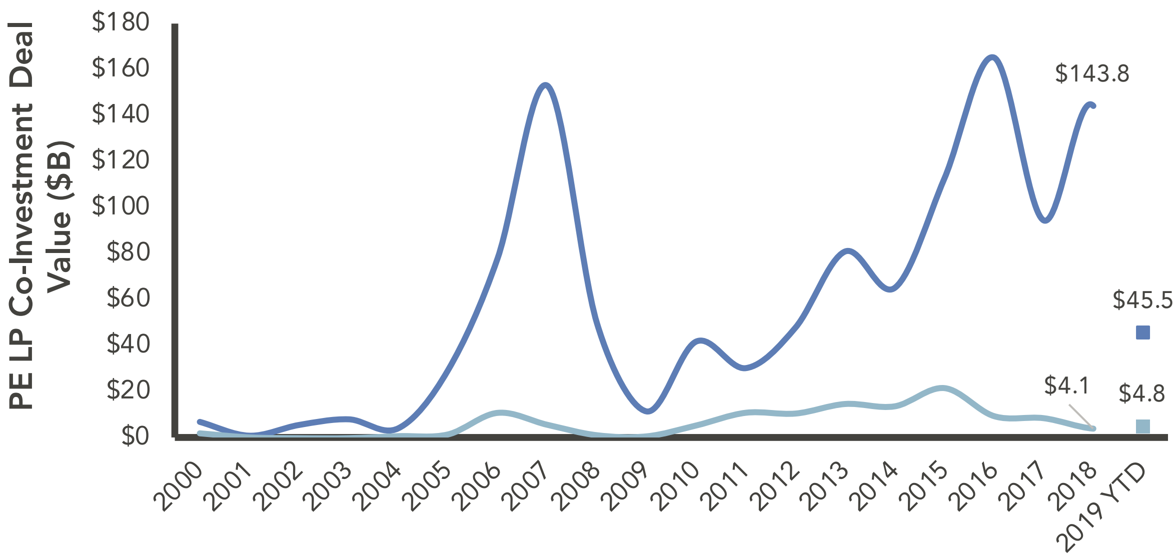
Chart of the Week

September 19, 2019

The Rise of Co-Investments

MEGAN KLASSA, RESEARCH ASSOCIATE

Favorable growth of co-investment deals following increasing investor demand



Source: Pitchbook as of September 17, 2019

Much like the overall private equity ecosystem, the private equity co-investment landscape is undeniably growing and has yet to show any signs of slowing down. Historically, co-investing was implemented for one-off decisions to fill the gap in financing that GPs were unable to obtain. Now, GPs have come to embrace co-investment capital with a more recent phenomenon pushing its way to the forefront. We are now seeing GPs form dedicated co-investment vehicles, which eliminate the need for GPs and LPs to negotiate terms for each transaction. This structure gives co-investors access to a stream of co-investment opportunities with preferential economics.

Co-investing is beneficial to not only the GP, but also to the co-investors (LPs) who benefit from high-quality investment opportunities at favorable economics. Co-investing allows LPs to commit capital alongside preferred GPs and create tactical allocations to a pool of high-quality investments for their portfolios. Additionally, the more appealing fee structure of co-investments, which often have no management fee or carried interest, is fueling demand from institutional investors.

The value of co-investment deals has more than doubled since 2012 (totaling $104 billion in 2017) with the number of LPs making co-investments in PE rising from 42% to 55% over the past five years. In 2017, roughly 20% of the private equity market accounted for this volume. The volume of co-investment deal value in recent years has increased rapidly, illustrating the growing appetite investors have for this space.

CONTINUED >

Given the competitiveness of the co-investment market, having the right GP relationship is of utmost importance and a major determinant in the success of a program; however, given the size of the maturing private equity co-investment marketplace, we encourage investors to — at the very least — retain the option to pursue co-investments as even a modest allocation to the space can improve the return profile of a private investment program.

PREPARED BY MARQUETTE ASSOCIATES

180 North LaSalle St, Ste 3500, Chicago, Illinois 60601
CHICAGO BALTIMORE MILWAUKEE PHILADELPHIA ST. LOUIS

PHONE 312-527-5500
WEB marquetteassociates.com

About Marquette Associates

Marquette Associates is an independent investment consulting firm that guides institutional investment programs with a focused client service approach and careful research. Marquette has served a single mission since 1986 – enable institutions to become more effective investment stewards. Marquette is a completely independent and 100% employee-owned consultancy founded with the sole purpose of advising institutions.

For more information, please visit www.marquetteassociates.com.