
Integrated Platforms Can Provide Valuable Insights For Co-Investments



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KEY TAKEAWAYS

- A wide network of high-quality GP relationships generated through an experienced and robust primary investment effort, and complimented by strategies including secondaries and private credit, can give co-investment managers on an integrated platform an advantage when it comes to accessing the best deal opportunities
- Data and analysis drawn from a multi-strategy platform can significantly enhance due diligence and provide important qualitative insights and quantitative metrics about the potential attractiveness of transactions
- Significant advantages can be accrued by platforms that integrate portfolio construction perspectives gained from investing across various strategies and multiple cycles

As has been the case historically, managed effectively, co-investments can provide exposure to high-quality private equity opportunities typically with favorable economic terms.

One key element that can significantly contribute to successful co-investment outcomes is access to a comprehensive, well-integrated platform through which investments are executed.

Co-investments is a strategy where an investor takes a minority position directly in a company alongside a lead private equity manager, who ordinarily assumes majority control of the asset. It is a strategy that can provide incremental exposure to deals executed by some of a manager's highest conviction general partners (GP), often at a lower all-in cost, since lead sponsors tend to not charge co-investment partners fees or carry on capital committed to a transaction. In addition, co-investments can provide diversification benefits, while allowing a co-invest manager to be a generalist, since they can partner with a lead manager who specializes in a particular sector, be it industrials, technology, or healthcare, as examples.



At its core, a private markets investment platform with shared goals and perspectives is fundamentally constructive. In essence, strategies such as secondaries, co-investments, growth equity and private credit can all benefit from the deal flow, data and investment insights generated through long-standing GP relationships established from a strong primaries business. These benefits also serve to support consistency across a manager's investment process and broader investment strategy.

Enhanced Sourcing

In our experience, access to a large, high-quality and diversified pool of investment opportunities is a key ingredient for success in co-investments, where opportunities are typically generated from lead private equity managers. These are deal sponsors who need equity capital to close a transaction beyond what their fund will commit, or are aware of the importance of offering such opportunities to their essential capital base of limited partners (LP). A lead sponsor will often look first to their existing base of fund investors, or to those who have the potential to become a future LP in their fund.

Lead sponsors value both the size of capital commitments and consistency of allocation to their funds. Therefore established investment platforms with a solid capital base and dedicated primary businesses are typically better positioned to be viewed favorably as potential co-investment partners.



Integrating the collective interactions of a firm's investment teams with the sponsor community can support a sound marketing effort that, in turn, can bolster deal flow generation

But maintaining an established network of GP relationships through primary commitments is not necessarily sufficient to drive deal flow for a co-investment program. We believe effective marketing of a co-investment platform's capabilities to the GP base is also required, especially as co-investment usage by GPs continues to increase to meet growing LP demand.

To set themselves apart, platforms have to show proven co-investment execution capabilities and effective interactions with the GP community to generate deal flow. Seamlessly integrating the collective interactions of a firm's investment teams with the sponsor community can support a sound marketing effort that, in turn, can bolster deal flow generation.

Deeper Due Diligence

In addition to deal sourcing benefits, an integrated investment platform can provide powerful diligence support for co-investments.

Significant insights can be garnered from individual investment teams' experience with GPs. Primary fund managers can determine which sectors or value creation levers a GP excels at, or the track record of specific partners, among other key criteria. Lending to a sponsor-owned company through a private credit channel can provide guidance into how a lead sponsor works with its financing partners, and how a GP preserves cash in a downturn. A secondary team's ongoing oversight of a GP's portfolio can provide timely data on investment valuations, how the lead sponsor is executing on its strategic plan and creating value, and so on.



A truly integrated platform can take advantage of longstanding relationships with the GP community to support a robust diligence effort

More generally, the depth of fund- and company-specific data that can be captured through an established platform can aid diligence efforts by, for example, identifying similar businesses grouped by factors such as sector, geography, value creation lever, and size, and tracking those metrics over time. This can help provide insights into the risk/return profile of a deal under review, and where to focus diligence efforts.

A truly integrated platform can take advantage of longstanding relationships with the GP community to support a robust diligence effort. In addition to analyzing data that can aid sourcing and diligence efforts, co-investment teams can have discussions with GPs in the firm's network about their experience owning similar businesses, or draw insights on the opportunity by tapping into the platform's network more broadly.

Portfolio Insights

Beyond sourcing and deal diligence, broader portfolio construction benefits can be accrued by platforms that integrate qualitative and quantitative perspectives gained from investments made across its various strategies over multiple cycles. Co-investment teams that can tap into resources that independently establish internal deal allocations and monitor adherence to strategy parameters such as investment pacing, sector, geography, or company size concentration, also hold potential advantages.

Internal legal resources are another example of support functions that can be helpful to a broader platform and to a co-investment strategy specifically, especially as the private equity marketplace becomes more complex. A deep understanding of broad industry fund/deal terms and structures, informed largely through the execution of hundreds – if not thousands – of transactions, can help to establish specific vehicle terms and deal structures with a sophisticated investor base.

Back office and IT systems are other important pillars of an integrated platform, since the aggregation, analysis, and distribution of accurate and timely data play an important role in supporting a co-investment program.

Integration Takes Commitment

Successfully integrating investment and non-investment functions in a private markets platform is important but not always easy to execute. While sharing common goals and economic alignment are two ways to support internal team integration, firm growth and ever-increasing industry complexity present challenges. The firms and co-investment teams that are constructed to efficiently share information and insights are often among those that are best positioned for success. ■

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