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80% of Private Equity Investors See Their Co-Investments Outperform Commingled Funds

46% of investors report that their co-investments outperform their private equity fund commitments by more than 5%, while only 3% say they underperform

Preqin's latest survey of fund managers and investors* examines the increasing appetite for co-investments among both parties. It finds that 80% of limited partners (LPs) have seen their co-investments outperforming private equity funds, with 46% seeing their co-investments outperform by a margin of over 5%. This level of performance is the biggest draw for investors, with two-thirds of LPs citing better returns as the biggest benefit of co-investing alongside GPs.

Co-investment opportunities from fund managers (GPs) are also becoming more common, with 87% of them either currently offering, or considering offering, co-investment rights to their investors. Furthermore, 30% of managers included co-investment rights in 81-100% of limited partnership agreements in their most recent fund. For fund managers, Co-investments are seen as a way to improve relationships with LPs, gain access to more capital for deals, and improve the chance of a successful fundraise.

Other Key Co-Investment Facts:

- Capital Commitments: Almost two-thirds (63%) of investors surveyed have allocated additional co-investment capital equating to **1-20% of their original commingled fund commitment**. LPs typically commit $2-10mn in each co-investment. Seventy-seven percent of investors favour a small to mid-market buyout strategy.
- Equity Stake: The average **proportion of equity in a deal that comes from LP co-investors rose** from 2014 to H1 2015. In 2014, only 18% of managers reported their deals had 40% or more of their equity from co-investments. In H1 2015, that proportion doubled to 36%.
- Limited Uptake: Forty percent of fund managers reported that in H1 2015, **none of the LPs they offered co-investment opportunities to actually co-invested with them**. This represents a sharp increase of 11 percentage points from 2014.
- Lower Fees: **Almost half (49%) of GPs charge no management fee on co-investments**, and 48% charge no carried interest. A quarter of managers maintain the same carried interest rate for co-investments as in their commingled funds, and only 16% charge the same level of management fees.
- Co-Investment Types: The majority (59%) of investors take a 'selective follower' approach to co-investment, often being offered syndicated opportunities by managers. Investors co-leading deals is not widespread, with only 13% of managers offering LP co-lead opportunities on deals, and 10% of LPs participating in such deals.

To access further information and analysis, please see the report below:
https://www.preqin.com/docs/reports/Preqin-Special-Report-Private-Equity-Co-Investment-Outlook-November-2015.pdf

Comment:

"The most common motivation among LPs for co-investing beyond their typical fund commitments is the prospect of better returns, with many anticipating notably higher returns compared to their traditional private equity fund commitments. The majority of LPs surveyed have seen significant outperformance from their co-investments, although many say that it is too early to tell how their stakes will ultimately perform.

Direct investments, including co-investments, have increasingly become part of private equity discourse. Significant interest arising from LPs has been matched by increased co-investment opportunities provided by GPs. Provided LPs have sufficient resources available, co-investment opportunities should remain attractive due to their lower fees and greater potential returns."

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*** Survey was held in September 2015. The respondents consisted of 320 private equity fund managers, and 222 institutional investors. For full respondent makeup, please see the full report.**

Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q', the company name being an amalgamation of the former name, Private Equity Intelligence.
- Preqin considers private equity, hedge funds, private debt, real estate and infrastructure as the five core alternative asset classes.

About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.

Preqin has built a reputation in the alternative assets industry for providing the most comprehensive and extensive information possible. Leading alternative assets professionals from around the world rely on Preqin's services daily, and its data and statistics are regularly quoted by the financial press. For more information, please visit: www.preqin.com

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