Content Includes:

Importance of Co-Investments

The majority of GPs believe offering co-investments is important for fundraising success.

Offering Co-Investments

More than two-thirds of GPs surveyed currently offer co-investment rights.

Current Activity

Over half of LPs that currently have open co-investment positions have more than five.

Performance of Co-Investments

Co-investments have largely outperformed fund commitments for LPs.

Co-Investment Discounts

Most GPs offer reduced management fees and carried interest on co-investments.

Future Plans

Both GPs and LPs expect co-investment activity to remain strong.

Preqin Special Report: Private Equity Co-Investment Outlook

November 2015

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Foreword

As private equity continues to grow as an asset class, investment structures and relationships between fund managers and investors have had to evolve and adapt. LPs' approaches to private equity are becoming more sophisticated as their knowledge of the asset class increases, and many now frequently seek out alternative opportunities to fund investing in order to both diversify their portfolios and maximize returns. As a result, growing numbers of LPs consider co-investments an important part of their overall private equity portfolios. Direct investments, whereby LPs are co-investing alongside GPs, have increasingly become part of private equity discourse, with significant interest arising from both sides. In the last year or so, Preqin has noted an increase in appetite for information relating to co-investments with a high number of incoming enquiries requesting greater insight on the subject.

In order to find out more about this growing area of the asset class, we have surveyed 320 active GPs and 222 active LPs about co-investments and have examined the results to better understand the changing levels of co-investment participation among fund managers and investors, and to find out their views on the perceived risks and attractions.

Half of the 222 LPs that we surveyed are either actively or opportunistically co-investing at present. Furthermore, most LPs are looking to either increase or maintain their exposure to co-investments in the future, with a number of LPs aiming to make more co-investments and to commit more capital to these types of opportunities. Similarly, GPs are recognizing how important co-investment rights are becoming to LPs; our GP survey found that most managers feel offering co-investment rights is important during fundraising (page 4). In fact, 30% of GP respondents also stated that 81-100% of LPs in their latest funds have co-investment rights included in their LPAs.

The main motivation for LPs to seek out co-investments is the prospect of greater returns and lower fees. Most LPs actively co-investing reported that their co-investments have delivered superior returns to their private equity fund commitments, with 46% stating that their past co-investments have outperformed fund investments by more than 5%, in contrast to just 3% of LPs witnessing any underperformance. The majority of GPs also reported that they charge lower management fees and carried interest on co-investment arrangements, or charge no fees at all.

Our survey suggests more and more LPs are set to seek out opportunities to make co-investments. With the fundraising environment becoming increasingly competitive and record numbers of funds in market, it is also likely that GPs will be looking to more readily offer benefits such as co-investment rights in order to improve their chance of a successful fundraise.

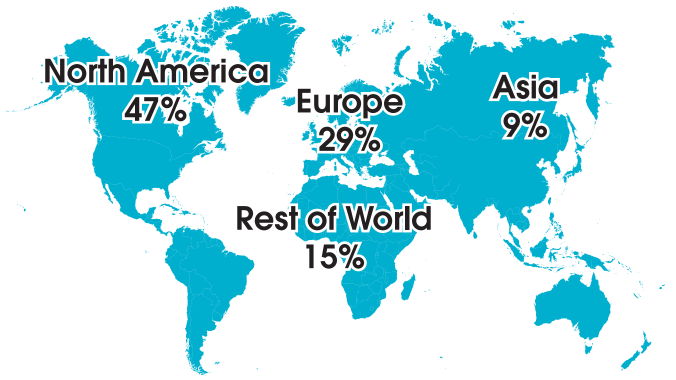
To find out more about Preqin's suite of private equity products, or for more information on co-investments, please do not hesitate to contact us at info@preqin.com or at our New York, London, Singapore, San Francisco or Hong Kong offices.

Contents

Breakdown of Survey Respondents

Total Number of GPs Surveyed: 320

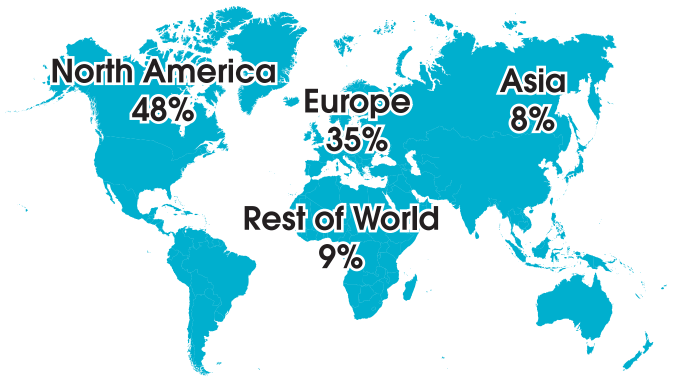
Breakdown of GP Respondents by Location



Source: Preqin

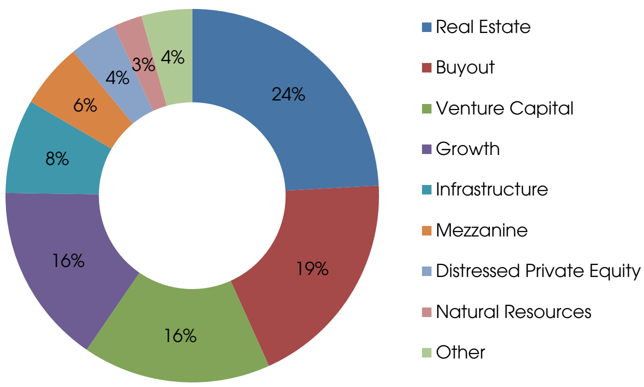
Total Number of LPs Surveyed: 222

Breakdown of LP Respondents by Location



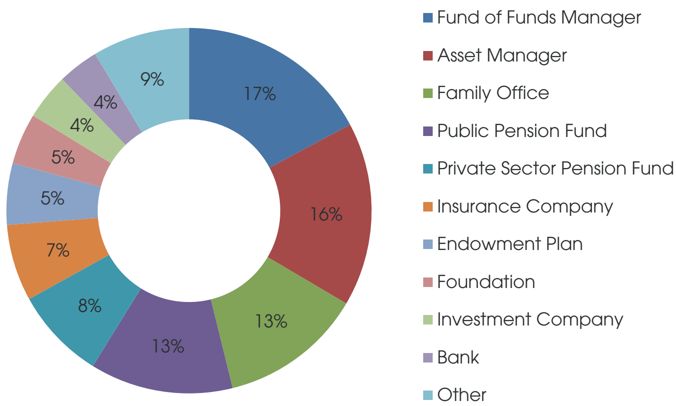
Source: Preqin

GP Respondents by Primary Investment Type



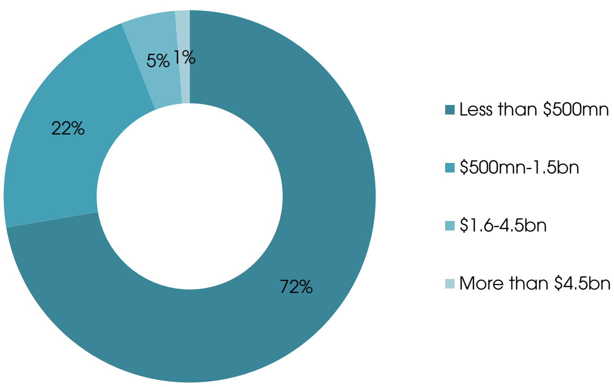
Source: Preqin

Breakdown of LP Respondents by Type



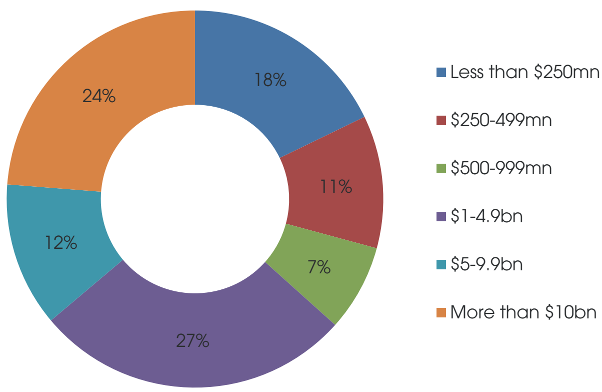
Source: Preqin

GP Respondents by Size of Most Recent Fund



Source: Preqin

LP Respondents by Assets under Management



Source: Preqin

GP Perception of Co-Investments

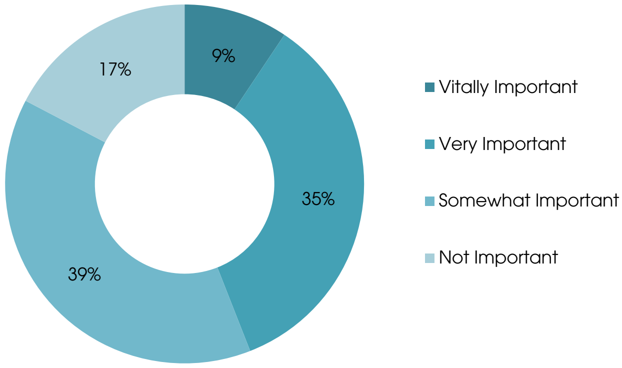
Discussions on the disintermediation of private equity are becoming more common, and increasing numbers of institutional investors are considering making direct private equity investments. It therefore comes as no surprise to hear that the majority of private equity fund managers feel that it is important to offer potential investors co-investment rights when seeking new commitments and that they feel this increases the chances of a successful fundraise, as shown in Fig. 1.

In order to gain more insight into GP opinion on co-investments, we asked private equity fund managers what they perceive to be the pros and cons of offering LPs co-investment rights. Just 2% of GP respondents stated that there are no benefits in offering LPs co-investment rights.

Of those respondents that indicated there are advantages, three benefits in particular were cited by the majority of fund managers: building stronger relationships with LPs (84%), gaining access to additional capital for deals (76%) and improving the chance of a successful fundraise (55%), as shown in Fig. 2.

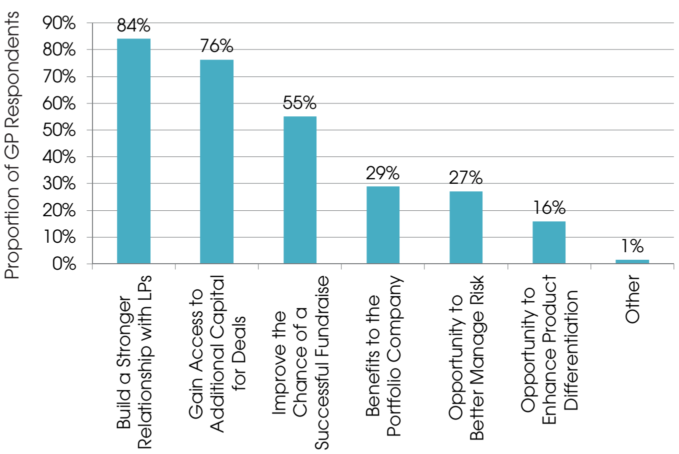
When asked what the downsides of offering LPs co-investment rights are, 9% of fund managers stated that there are none. Of those respondents that indicated there are negatives, the most prominent factor is the impact offering co-investment rights has on the timeline of deals; 69% of fund managers feel offering their investors co-investment rights delays the deals process (Fig. 3). Just over a quarter of respondents (26%) noted the negative impact it has on relationships with LPs that are not offered such opportunities. One North America-based private equity firm manages this issue by offering the transaction to its LPs on a first-come first-served basis.

Fig. 1: Importance of Being Open to Offering Co-Investment Rights for a Successful Fundraise



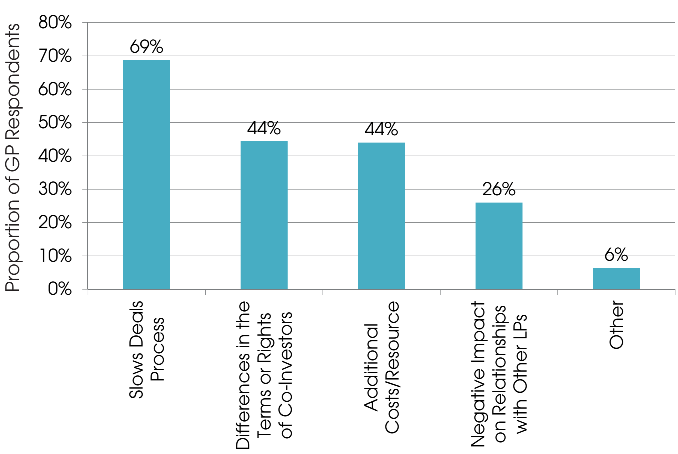
Source: Preqin Fund Manager Survey, August 2015

Fig. 2: Perceived Benefits of Offering LPs Co-Investment Rights



Source: Preqin Fund Manager Survey, August 2015

Fig. 3: Perceived Disadvantages of Offering LPs Co-Investment Rights



Source: Preqin Fund Manager Survey, August 2015

GP Co-Investment Activity

GP Offerings

More than two-thirds (69%) of the GPs surveyed offer co-investment rights to their private equity fund investors, and a further 18% are considering doing so in the future (Fig. 4). Less than 1% of respondents had offered co-investments in the past but do not offer them any longer. This reinforces the prevalence of co-investments, and the sustained, or even increasing, appetite that is apparent in the private equity industry for these direct investment types.

Syndicated co-investments, whereby a GP sells down a portion of equity to select LPs after the deal has been completed, are the most prevalent type of co-investments that fund managers offer their investors, stated by 74% of GP respondents (Fig. 5). Only 16% offer a co-sponsorship model, requiring a significant level of due diligence from LPs at an early stage in the deals process. An even smaller proportion offer the opportunity for LPs to co-lead (13%), where the investor will contribute a similar share to the fund manager and has a leading role in deal origination. It is noteworthy that these latter two options, which allow LPs more active roles alongside GPs, are the least prevalent.

Fig. 6 shows the typical stage in the investment cycle at which fund managers offer co-investment rights to LPs. Thirty-eight percent of GPs offer these opportunities at more than one stage in the process. The most common point at which investors are offered co-investment rights is during the fundraising process or during the bid for deals. It is rarer for GPs to offer them at final close of the fund, with only 7% of respondent fund managers doing so.

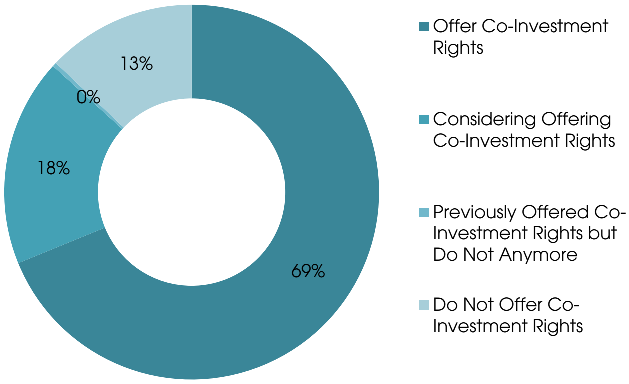
Co-Investment Activity in 2014 and H1 2015

In order to track the changes and developments in the private equity co-investment space, we asked fund managers about their activity in 2014 compared to H1 2015, with the results clearly illustrating the growth in co-investments in a relatively short period of time. Fig. 7 demonstrates that GPs are generally offering an increasing proportion of their LPs co-investment opportunities; between 2014 and H1 2015, the proportion of fund managers offering 0-30% of their LPs co-investment opportunities has dropped, and in turn, the proportion offering these opportunities to more than 80% of their investors has risen considerably. In 2014, 11% of GPs were offering more than four out of five LPs co-investments; this has risen to 26% in H1 2015.

However, there appears to be some disparity in the proportion of LPs approached with co-investment opportunities and those that actually ended up committing to such transactions with the GP. Fig. 8 shows that, surprisingly, the greatest proportion of GPs (40%) stated that none of the LPs they offered co-investment opportunities to in H1 2015 took them up, an increase from 29% in 2014.

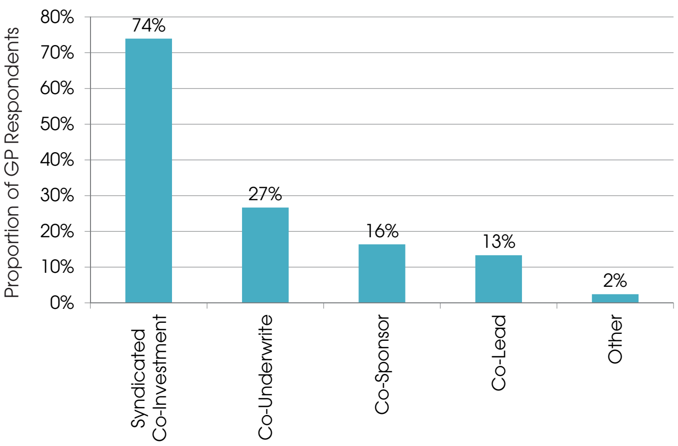
Generally LP co-investors would make up less than 50% of the equity in a deal; however, the proportion of GPs that indicated their LP co-investors contributed over half of the equity in private

Fig. 4: Proportion of GPs Offering Co-Investment Rights to Their LPs



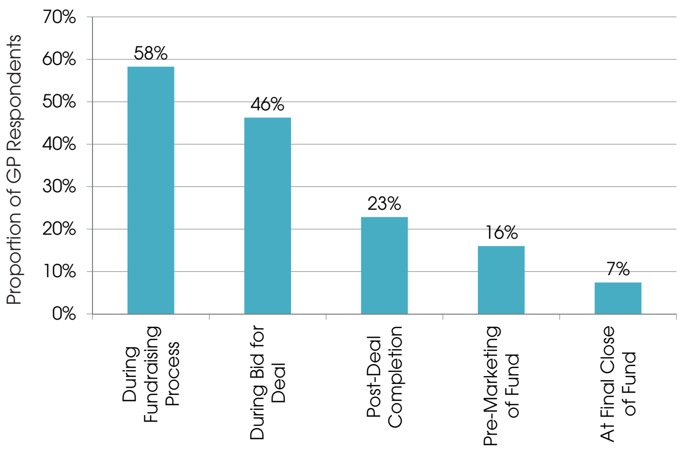
Source: Preqin Fund Manager Survey, August 2015

Fig. 5: Types of Co-Investment Opportunities GPs Offer LPs



Source: Preqin Fund Manager Survey, August 2015

Fig. 6: Typical Stage in Investment Cycle at Which GPs Offer Co-Investment Rights to LPs



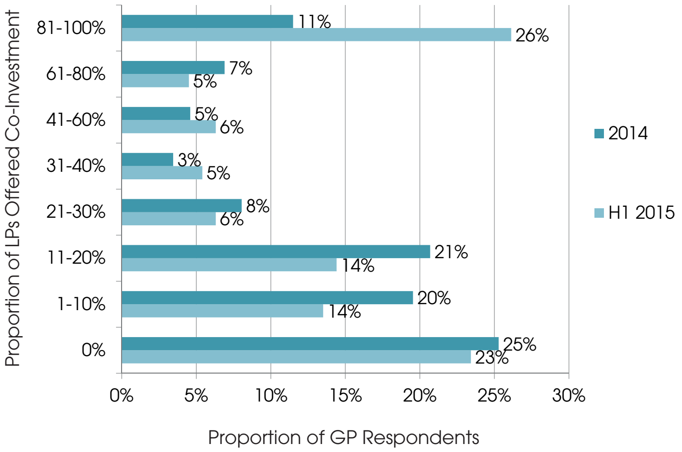
Source: Preqin Fund Manager Survey, August 2015

equity deals rose from 11% in 2014 to 23% in H1 2015 (Fig. 9). Conversely, the proportion of GPs that had their co-investing LPs committing 11-19% of the equity for deals halved from 24% in 2014 to 12% in H1 2015.

Size of Co-Investment Deals

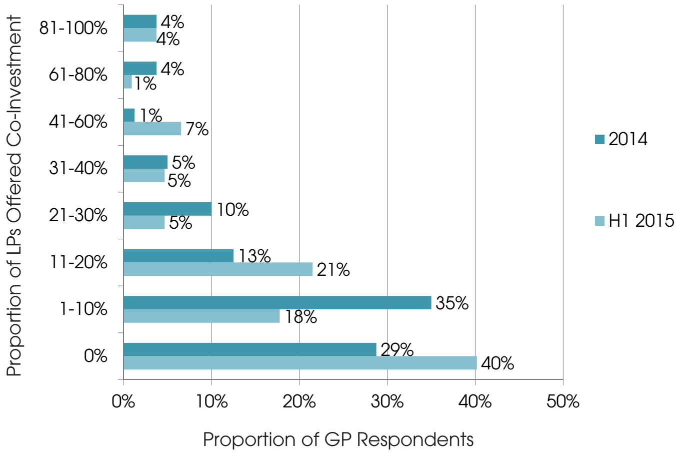
Fig. 10 shows the average proportion of deals completed in 2014 and H1 2015 that included LP co-investors by deal size. The overall trend is that smaller deals (those less than $500mn in size) are more likely to include an LP co-investor. Our survey results show that there have been slight changes within each size bracket moving from 2014 to H1 2015, with the most notable shift in the category of deals worth $1bn and over. Of all $1bn+ private equity deals completed by the GP respondents in 2014, 57% of these included LP co-investors, compared to just 20% in 2015.

Fig. 7: Proportion of LPs Offered Co-Investment Opportunities by GPs, 2014 vs. H1 2015



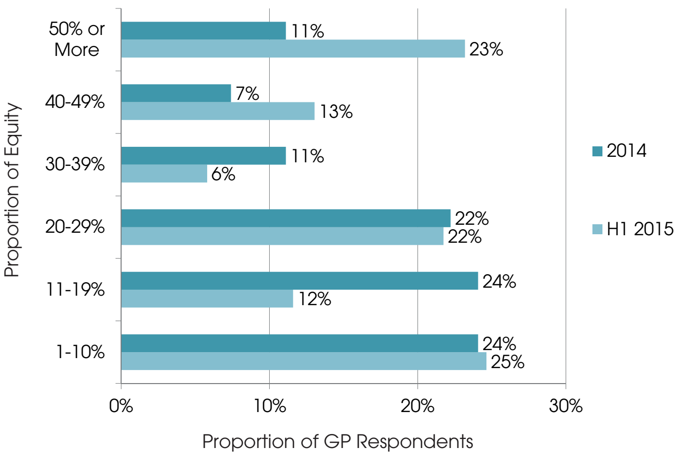
Source: Preqin Fund Manager Survey, August 2015

Fig. 8: Proportion of LPs Offered Co-Investment Opportunities that Actually Ended Up Co-Investing with the GP, 2014 vs. H1 2015



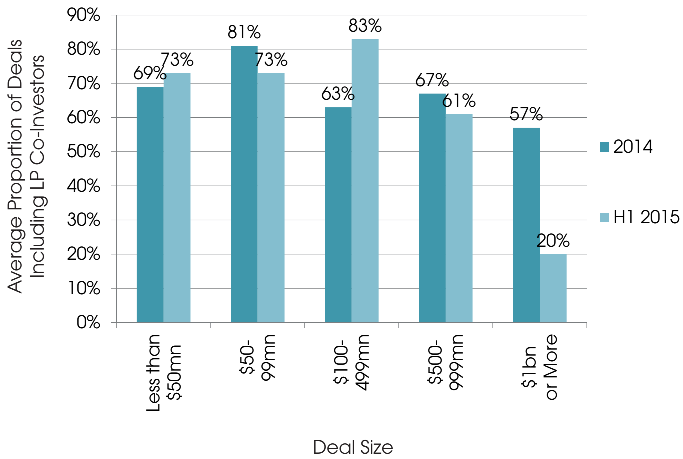
Source: Preqin Fund Manager Survey, August 2015

Fig. 9: Proportion of Equity from LP Co-Investors in Deals, 2014 vs. H1 2015



Source: Preqin Fund Manager Survey, August 2015

Fig. 10: Size of Deals Completed that Included LP Co-Investors, 2014 vs. H1 2015



Source: Preqin Fund Manager Survey, August 2015

Data Source:

Preqin's **Fund Manager Profiles** has extensive information for over 9,300 active private equity firms worldwide. Detailed profiles include total capital raised in the last 10 years, estimated dry powder, number of portfolio companies, investment preferences and much more. Plus, access direct contact information for key decision makers.

For more information, please visit: www.preqin.com/fmp

LP Relationship

Preqin's survey results highlighted the differing experiences GPs have when co-investing with LPs. For example, the largest proportion (45%) of fund managers stated that the additional capital co-invested by their LPs typically equates to 1-20% of the LP's original fund commitment (Fig. 11). However, for 9% of GP respondents, the additional capital equated to 100% or more of their LPs' original fund commitments.

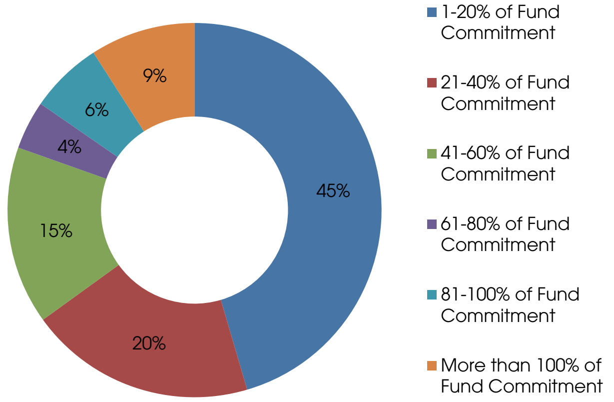
There can be a number of prerequisites for investors when qualifying for co-investment rights. Over half (53%) of fund managers indicated that the speed at which the LP can evaluate and agree to co-investment is of high importance (Fig. 12). The competitive bidding process and the fact that several co-investors may be waiting on one another's decisions means that there is some pressure on timing, with GPs often looking for a verbal commitment from LPs within as little as two to three weeks.

The size of fund commitments is of relative significance, highlighted by two in five GPs, while 35% of fund managers have requirements relating to LP reliability and 33% call for previous expression of interest in order to qualify for co-investment rights. Twenty-six percent of fund managers have no requirements at all and will offer co-investment opportunities to all LPs.

Despite the widely reported appetite for co-investment in today's private equity industry, GPs are finding that only a certain proportion of their LPs are actually requesting rights to invest alongside them. The largest share of respondents (41%) stated that only up to 20% of LPs in their most recent fund requested co-investment rights (Fig. 13). On the other hand, 11% of GPs surveyed had over 80% of their most recent LPs do so.

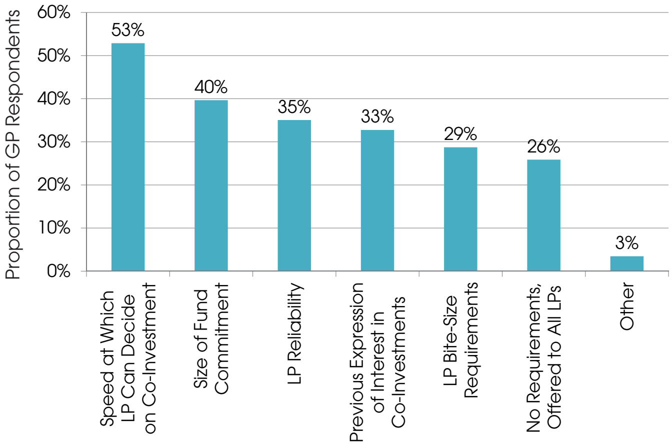
The LPA outlines a number of key provisions in a private equity fund and it is not uncommon for these legal documents to contain clauses on co-investment rights. The largest proportion of fund managers (30%) stated that 81-100% of LPs in their most recent fund had co-investment rights included in their LPA, as shown in Fig. 14.

Fig. 11: GPs' Observations of Additional Capital Typically Co-Invested Alongside Fund Commitments by Their LPs



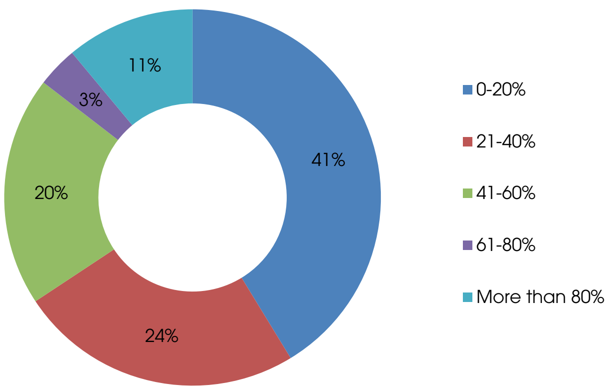
Source: Preqin Fund Manager Survey, August 2015

Fig. 12: Requirements for Investors to Qualify for Co-Investment Rights



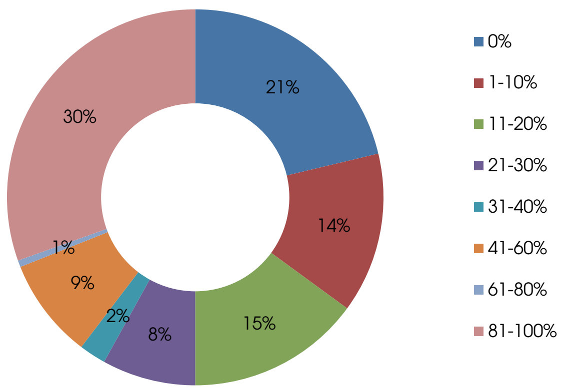
Source: Preqin Fund Manager Survey, August 2015

Fig. 13: Proportion of LPs in Most Recent Fund to Request Co-Investment Rights



Source: Preqin Fund Manager Survey, August 2015

Fig. 14: Proportion of LPs in Most Recent Fund to Have Co-Investment Rights Included in LPAs



Source: Preqin Fund Manager Survey, August 2015

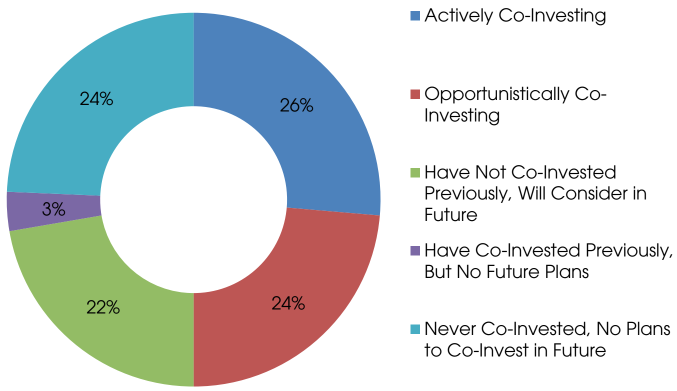
LP Co-Investment Activity

According to Preqin's latest investor survey on co-investments, half of all LPs are actively, or opportunistically, co-investing alongside private equity fund managers at present (Fig. 15). This is in addition to 22% that are considering co-investing, having not done so before. This indicates that the vast majority of LPs have faith in co-investments and see the investment structure as an attractive way to access the asset class, with only 27% of LPs not looking to co-invest at the moment. For those LPs that have never co-invested and with no future plans to co-invest, there seems to be very little pattern in either location or aggregate assets under management (AUM), with these LPs spread globally and with varying sizes of AUM.

Of the investors that have at least one open co-investment position, the largest proportion (25%) currently hold between three and five open co-investment positions, with 68% of LPs holding between one and 10 positions (Fig. 16). Six percent of LPs with open positions currently hold over 50 co-investments alongside their private equity fund commitments. As co-investments increase in prevalence, this number is likely to rise as LPs become more confident and sophisticated in direct investing.

Of the LPs surveyed, the average range for private equity co-investments per position is $2-10mn. Many LPs seem to co-invest in a similar range to this, with the exception of some larger LPs that are willing to commit hundreds of millions of dollars to a single co-investment position, and in one respondent's case, up to $1bn. According to Preqin's investor survey, the majority (63%) of LPs that are co-investing alongside their fund commitments only invest between 1% and 20% of their initial stake in the fund via co-investment positions (Fig. 17). Thirty percent of LPs typically commit between 21% and 100% to co-investment positions, while 7% commit more to co-investments than their entire stake in the original fund. Unsurprisingly, all LPs in this 7% are looking to increase their level of co-investment in the future, and cite superior returns as a major perceived benefit of co-investing.

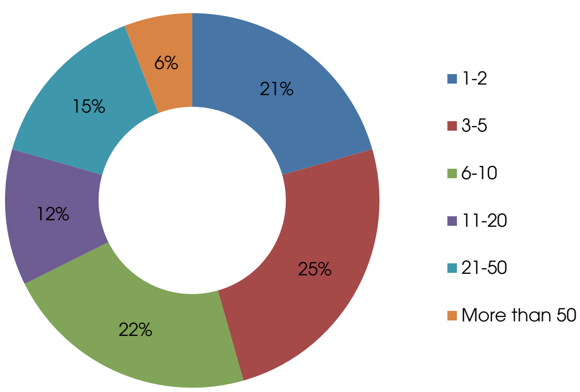
Fig. 15: Breakdown of LPs by Current Co-Investment Activity



Source: Preqin Investor Survey, September 2015

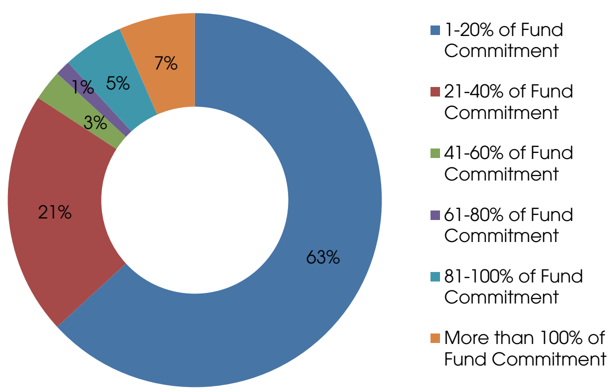
As shown in Fig. 18, over half (59%) of the LPs surveyed by Preqin confirmed that they take a 'selective follower' approach to co-investing, meaning that the LP undertakes significant, independent due diligence on deals, but at a later stage in the process, and decides on a deal-by-deal basis whether or not to invest in each opportunity. This was by far the most common response from co-investing LPs, ahead of 'passive followers' (27%), which sees LPs perform some due diligence, although investors often commit to a co-investment opportunity regardless. Just 10% of LPs opt to 'co-lead' co-investment deals, whereby the LP takes on a leading role in origination and the wider co-investment process. Co-lead opportunities may be few and far between however, with many GPs unwilling to offer

Fig. 16: Current Number of Open Co-Investment Positions Held by LPs



Source: Preqin Investor Survey, September 2015

Fig. 17: Additional Capital Typically Co-Invested Alongside Fund Commitments by LPs

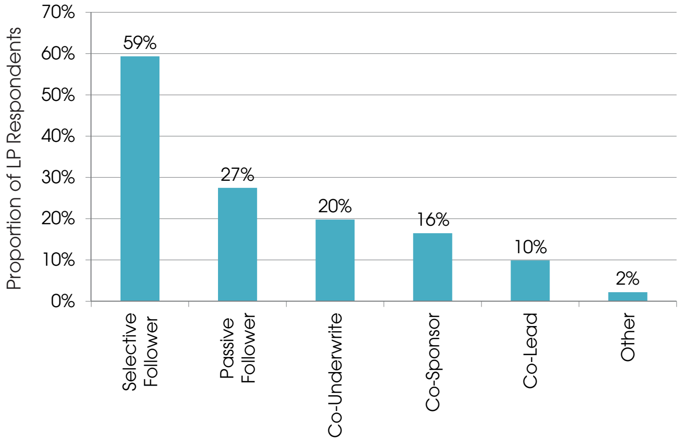


Source: Preqin Investor Survey, September 2015 such a level of control to LPs. Furthermore, such a demanding role may not be a viable option for those investors lacking in experience or resources.

The potential for better returns and the attraction of lower fees seem to be the driving forces behind the majority of surveyed LPs deciding to opt for co-investments. As seen in Fig. 19, 67% of LPs believe that co-investing can lead to greater returns than those delivered by standard private equity fund arrangements. Additionally, 61% of investors are attracted to the prospect of lower fees charged on co-investment commitments, as detailed further on page 14. Interestingly, a third of LPs believe that co-investing provides them with more control over investments and 31% of LPs stated a desire to invest in a particular portfolio company, highlighting that institutional investors increasingly want to become more involved at a portfolio company level.

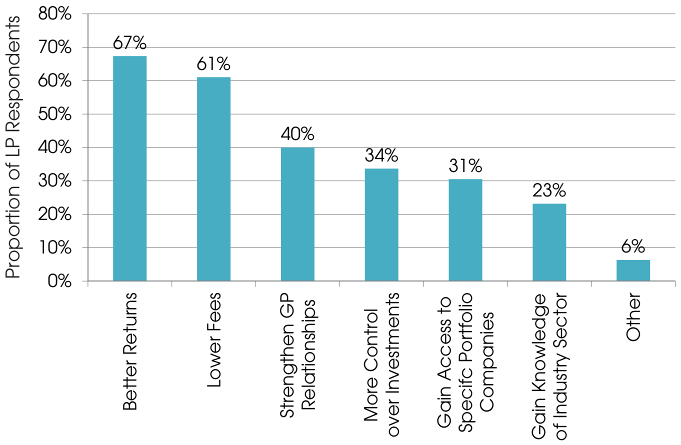
In contrast, LPs that do not co-invest, and have no plans to co-invest, seem to suggest that a lack of resources available to them is the prime reason for not committing to co-investment opportunities (Fig. 20). Surprisingly, these responses are not solely from smaller sized LPs, with a number of such respondents managing assets in excess of $10bn. Furthermore, almost a fifth of respondents stated that they do not look to co-invest as it would reduce their level of diversification, leaving them overexposed to certain deals by committing additional capital to the same portfolio company. A very small 3% of LPs actually cited returns being too low as a reason for not currently co-investing, which is in contrast to the results shown in Fig. 19 and Fig. 22 that LPs at large reap the benefits of outperforming co-investments.

Fig. 18: LP Approaches to Co-Investments



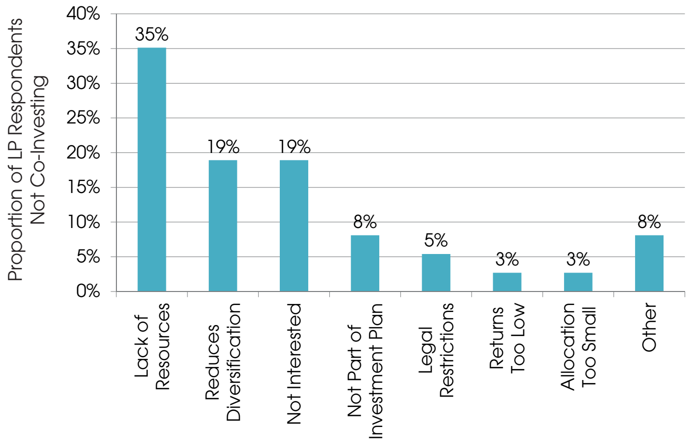
Source: Preqin Investor Survey, September 2015

Fig. 19: LPs' Perceived Benefits of Co-Investing



Source: Preqin Investor Survey, September 2015

Fig. 20: LPs' Reasons for Not Co-Investing



Source: Preqin Investor Survey, September 2015

Data Source:

Preqin's **Investor Intelligence** is the leading source of information on institutional investors in private equity funds worldwide, with more than 6,000 limited partners of all types profiled and regularly updated following direct communication with our dedicated team of multilingual analysts.

Our online database of private equity investors lists all institutions actively investing in the asset class and includes detailed and up-to-date information about their plans for future investments.

For more information, please visit:

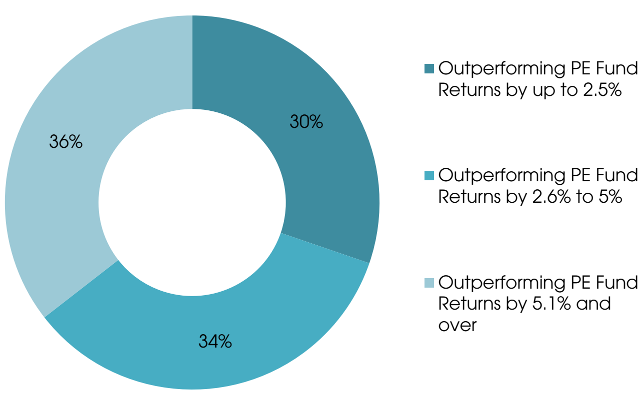
www.preqin.com/ii

Performance of Co-Investments

The most common response for perceived benefits of co-investing from an LP perspective was the prospect of better returns, so naturally investors will be anticipating a notable outperformance from co-investments compared with their traditional private equity fund commitments. As shown in Fig. 21, of those LPs surveyed, 36% expect co-investments to outperform private equity fund returns by more than 5%. This seems like a realistic target too, with Fig. 22 showing that LPs have been seeing greater returns in their past co-investment positions when compared with their private equity fund commitments.

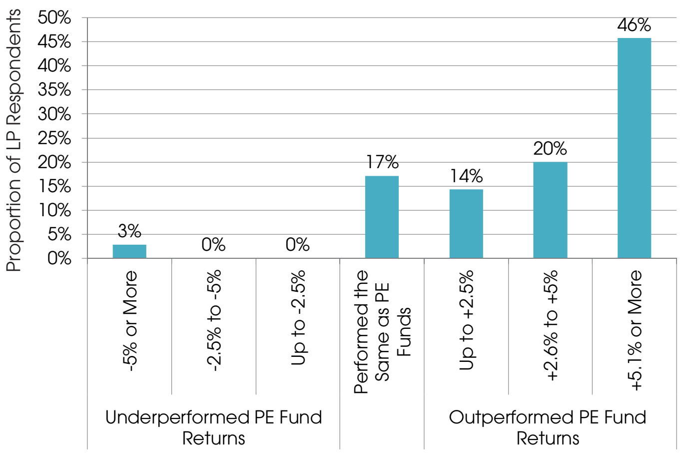
For the majority of LPs that have seen co-investment positions produce positive returns, there has been a notable level of outperformance when compared to private equity fund returns. Eighty percent of LPs have acknowledged an outperformance, with 46% witnessing returns that are over 5% greater than those in the standard private equity fund arrangements. In contrast, only 3% of LPs have witnessed an underperformance. It is worth mentioning that many LPs responded stating that it was too early to tell in regards to co-investment returns, showing that the co-investment structure remains a relatively new, albeit growing, way of committing to the private equity asset class.

Fig. 21: LPs' Level of Desired Outperformance of Co-Investment



Source: Preqin Investor Survey, September 2015

Fig. 22: Performance of Past Co-Investments Compared to Private Equity Fund Returns



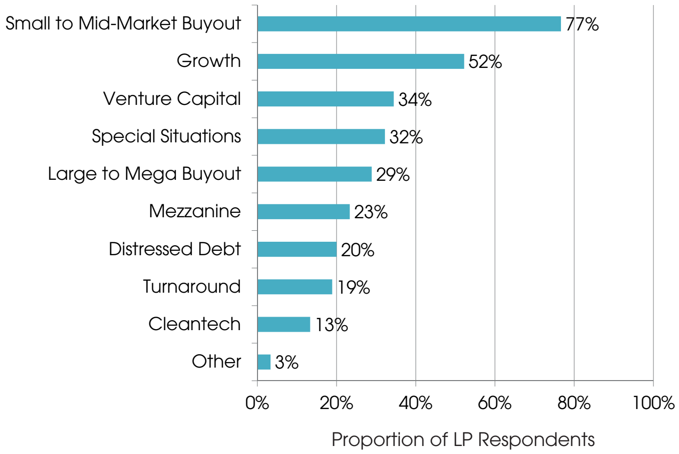
Source: Preqin Investor Survey, September 2015

LP Co-Investment Preferences

When examining areas of the market LPs consider investing in, LPs' co-investment preferences are relatively similar to traditional investment preferences. The majority of surveyed LPs aim to focus on small to mid-market buyouts when considering investing alongside fund managers in a co-investment, which was the most commonly cited fund type (Fig. 23). Interestingly though, **Preqin Investor Outlook: Private Equity, H2 2015** shows that only 11% of LPs were looking to commit to growth funds over the next 12 months; this is compared with over half (52%) of LPs surveyed that would consider investing alongside growth funds, the second largest proportion for any fund type. Over a third (36%) of respondents indicated that they would take an opportunistic approach to choosing which fund types to invest alongside, indicating that co-investing is often done on a deal-by-deal basis, with the majority of LPs acting as selective followers, as seen previously (Fig. 18).

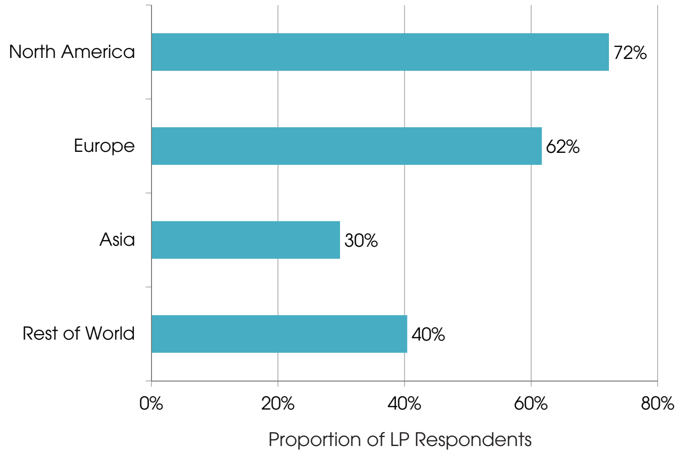
Generally, LPs are targeting co-investment opportunities in the regions that they would target with standard private equity commitments, as shown in Fig. 24. Seventy-two percent of LPs surveyed will target North America for co-investment opportunities, followed by Europe at 62%. Interestingly, only 30% of LPs surveyed are looking to target Asia for co-investment opportunities, lower than Rest of World (40%).

Fig. 23: LP Preferences for Co-Investments by Fund Type



Source: Preqin Investor Survey, September 2015

Fig. 24: LP Preferences for Co-Investments by Region



Source: Preqin Investor Survey, September 2015

Fig. 25: Notable Institutional Investors that Co-Invest

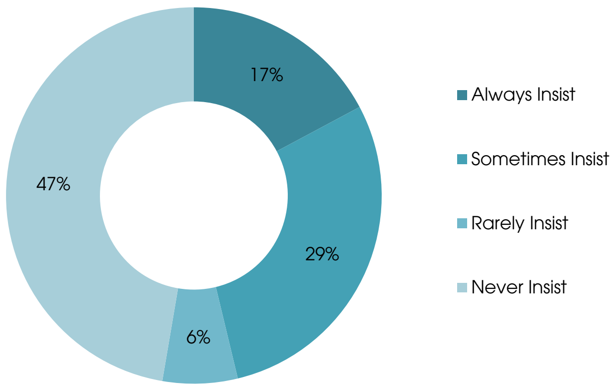
Saudi Economic & Development Company			**Investment Company**
Location: Saudi Arabia	Total Assets: $3bn	Target PE Allocation: 22% of Total Assets	Current PE Allocation: 22% of Total Assets
Saudi Economic & Development Company (SEDCO) actively targets co-investment opportunities and it allocates 5% of its total assets (25% of its private equity portfolio) to direct and co-investment opportunities. It does not take a stake in a company larger than 20% and looks to make four or five co-investments annually. The investment company typically commits between $10mn and $50mn to a fund in order to receive co-investment opportunities. SEDCO co-invests globally and it will consider all industry sectors and investment types, excluding venture capital. It co-invests predominantly with existing managers in its portfolio and also some GPs it has not previously worked with.			
Netherlands Development Finance Company (FMO)			**Government Agency**
Location: Netherlands	Total Assets: €7.1bn	Target PE Allocation: 25% of Total Assets	Current PE Allocation: 25% of Total Assets
Netherlands Development Finance Company (FMO) made its first co-investment alongside a GP in 1998 and dedicates approximately 33% of its private equity investments to direct and co-investments. It typically makes between 10 and 15 co-investments annually, committing €5-25mn to each opportunity. As with its other private equity commitments, FMO's co-investments must be focused on emerging markets. It has a strong preference for financial services, renewable energy, affordable housing and agribusiness services.			
Employees' Retirement System of Texas			**Public Pension Fund**
Location: US	Total Assets: $26.2bn	Target PE Allocation: 10% of Total Assets	Current PE Allocation: 10% of Total Assets
Employees' Retirement System of Texas (ERS) launched a co-investment program in September 2011. It typically commits between $10mn and $20mn per co-investment and seeks such opportunities alongside existing GPs in its portfolio. ERS will consider all geographical regions and industry sectors, and is particularly keen on co-investing in buyout and growth opportunities. From August 2015, Employees' Retirement System of Texas was looking to commit between $900mn and $1bn to between six and 10 new private equity funds and co-investment opportunities over the next 12 months.			
California Public Employees' Retirement System (CalPERS)			**Public Pension Fund**
Location: US	Total Assets: $286.4bn	Target PE Allocation: 10.27% of Total Assets	Current PE Allocation: 10% of Total Assets
California Public Employees' Retirement System (CalPERS) is an active co-investor, regularly seeking co-investment opportunities alongside the GPs it invests with. It is known to have previously co-invested alongside several of its fund managers, gaining exposure to buyout, distressed debt and natural resources deals. During 2015, CalPERS committed to TCP II Co-Invest B, a co-investment fund set up solely for the retirement system to co-invest alongside Tailwind Capital Partners II. The fund is focused on making control-oriented investments in the lower end of the middle market in the US. CalPERS also allocated capital to co-invest alongside Blackstone Group and Wigmore Capital.			

GP Relationship

As seen previously, GPs have stated that a key advantage of offering co-investment opportunities to LPs is the opportunity to build stronger relationships with investors. With increasing LP appetite for co-investments, such a structure may continue to become more prevalent as GPs look to maintain a rapport with their investors. Seventeen percent of LPs surveyed insist on being offered co-investment rights, as shown in Fig. 26, with 29% sometimes insisting on such privileges. Many LPs do not press for co-investment rights but GPs should be aware that this may change in the future as co-investments continue to grow in prominence.

In addition, LPs may ask for special requirements when offering further capital for co-investments alongside fund managers. While the majority (55%) of LPs do not require any special provisions, a third of investors surveyed noted that they insist on special fees, as well as a fifth insisting on board representation at portfolio company level (Fig. 27). The fee structure of co-investments seems to be a key consideration for LPs, not only as a motivation for making co-investments but also as a definite requirement before agreeing to commit to co-investments.

Fig. 26: Proportion of LPs Insisting on Co-Investment Rights when Committing to a New Fund

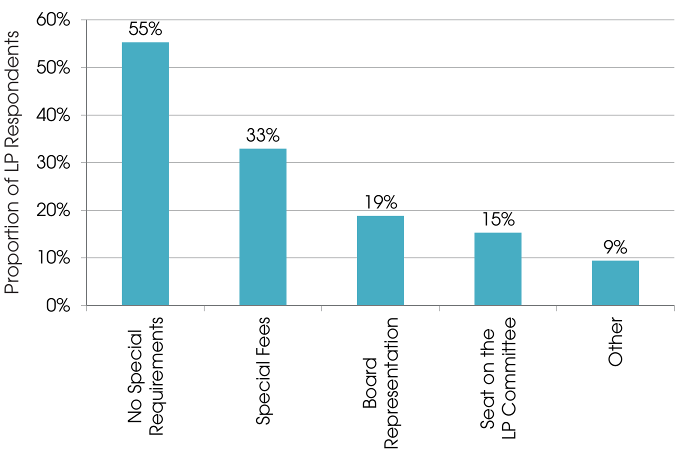


Source: Preqin Investor Survey, September 2015

The results of our survey indicate that co-investments do tend to come with lower fees than those seen in the usual private equity fund arrangements, as shown in Fig. 28. Almost half (49%) of GPs offer co-investment opportunities with no management fee, with an additional 36% providing a reduced level of management fee to LPs. A similar trend is seen for carried interest rates too. Forty-eight percent of co-investments charge no carried interest, whereas just a quarter of such arrangements have the same level of carried interest charged as on a standard private equity fund commitment. More often than not, LPs are seeing reduced and more favourable fee arrangements on their co-investment commitments when compared to their fund commitments.

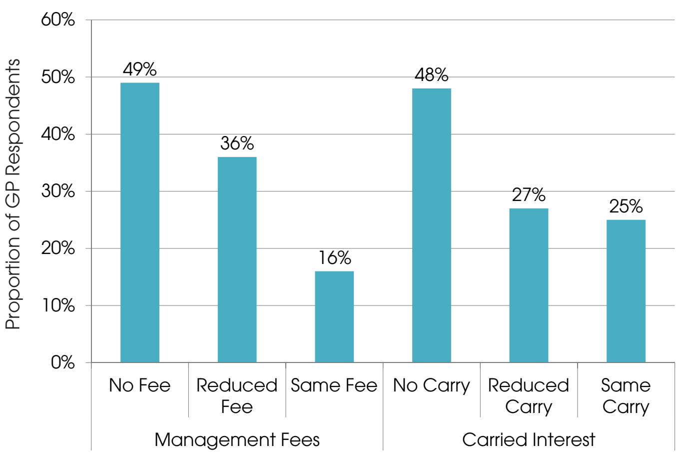
These lower fees are only beneficial if LPs are granted access to co-investments, but LPs are often not given these co-investment rights; only 21% of LPs stated that they gained access to the co-investments they requested every time. Most LPs get access some of the time (54%), but a quarter of LPs confirmed that they rarely, or never, get offered the opportunity to co-invest after requesting them. Somewhat surprisingly, these LPs that fail to secure rights to co-investment opportunities do not tend to be smaller in size or of a particular type.

Fig. 27: LPs' Co-Investment Requirements



Source: Preqin Investor Survey, September 2015

Fig. 28: Discounts Offered to Co-Investing LPs Compared to Usual LP Fund Commitment



Source: Preqin Fund Manager Survey, August 2015

GP and LP Future Co-Investment Plans

GP Future Plans

Our GP survey results confirm that the private equity industry is likely to see an increased flow of co-investment activity, with 34% indicating that they intend to offer more direct investment opportunities to their LPs in the year ahead compared with 2014, as shown in Fig. 29. Only 3% are looking to reduce the number and 44% will offer the same amount.

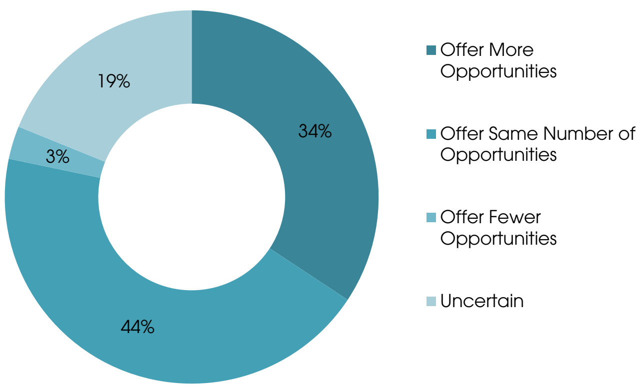
LP Future Plans

As shown in Fig. 30, LPs' involvement in co-investing is likely to rise further, with almost half (49%) of the LPs surveyed anticipating an increase in their co-investment activity in the future. This is in contrast to just 2% of LPs that are looking to decrease their co-investment activity, with almost a quarter (23%) aiming to maintain current levels. With record levels of dry powder and increasing concerns over valuations and returns, co-investments offer LPs a way to take more control of their portfolios.

The average range in the number of new co-investments LPs aim to make in the coming 12 months stands at between two and five. That said, the most common response was for LPs to opt to make one to three new co-investment commitments in the next year. LPs seem to be steadily increasing their exposure to private equity co-investments as they become more comfortable with the structure, investing in a few opportunities to complement their private equity fund commitments.

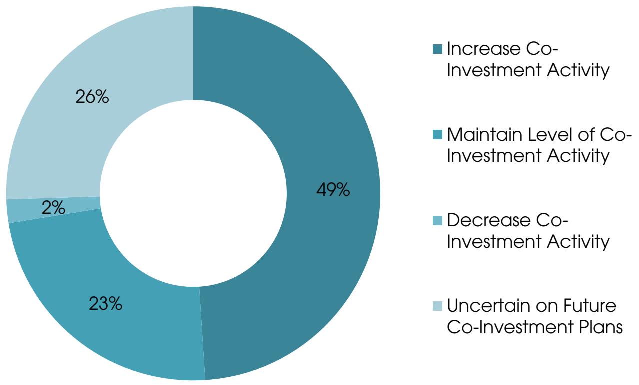
Over the next 12 months, on average, LPs are looking to commit between a minimum of $8mn and a maximum of $27mn to co-investment opportunities. The most common response from LPs was to commit between $10mn and $20mn to co-investments over the coming year, with the exception of some larger LPs that are looking to allocate between $200mn and $500mn to co-investment opportunities in the next year.

Fig. 29: GPs' Future Co-Investment Plans



Source: Preqin Fund Manager Survey, August 2015

Fig. 30: LPs' Future Co-Investment Plans



Source: Preqin Investor Survey, September 2015

Preqin Special Report: Private Equity Co-Investment Outlook

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