PRIVATE EQUITY

Co-Investment Strategies

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What is Private Equity Co-Investment?

Private equity co-investment involves an **investor placing capital into a specific deal alongside a lead private equity firm**. These co-investors typically take minority stakes in businesses, sharing the same terms, conditions, and risks as the lead investor.

What makes co-investment appealing is that investors get to **bypass the traditional private equity fund structure and invest directly into promising companies or assets** without paying the standard management and performance fees typically associated with private equity funds.

Co-investing represents a **middle ground between direct investing and fund investing**, allowing investors to diversify their portfolios and gain exposure to specific private equity deals. It's an opportunity to get involved in **high-quality, vetted investments** that were sourced and managed by a professional fund manager.

Understanding PE Investments

Private equity involves acquiring equity ownership in companies that are not listed on public exchanges. These investments usually **focus on long-term value creation**, where the private equity firm seeks to optimize operations, restructure, or reposition companies for future growth.

The **overarching objective is to increase the enterprise value over a set period**, typically 5 to 10 years, and then exit the investment at a higher valuation through a sale, merger or IPO.

Private equity co-investments function similarly but **offer investors a chance to be more selective**. Instead of committing capital to a broad fund, investors can choose specific deals that align with their goals and risk appetite.

Why Invest in PE Co-Investments?

01 **Cost Efficiency:** Co-investments have lower fees compared to traditional private equity funds, allowing investors to keep more of their profits.

02 **Selective Participation:** Investors can choose specific deals, tailoring their portfolio to fit their goals and risk tolerance.

03 **Increased Exposure:** Access to exclusive deals, often involving later-stage companies poised for growth, with higher return potential.

04 **Deeper Involvement:** Closer involvement with the company, providing insight and influence that can enhance returns if they add value.

Key Features of PE Co-Investing

A few distinct features make private equity co-investing different from traditional private equity:

TRANSPARENCY

Investors have **direct insight into specific deals**, as opposed to investing in a blind pool. They can thus **perform their own due diligence** and have greater transparency into the company's operations and financials.

LOWER FEES

Since co-investments are typically **offered at a reduced or no-fee structure**, investors may reduce costs and increase the overall net return on investment.

CUSTOMIZABILITY

Co-investments give investors the **flexibility to choose deals that align with their investment strategies** and risk profiles. This flexibility makes co-investments particularly appealing to investors looking for targeted exposure.

5 Steps to Invest in PE Co-Investments

01 **Partner with a Private Equity Firm:** Find a reputable firm with a strong track record that offers co-investment opportunities.

02 **Review the Deal Flow:** Evaluate potential investments, including business plans, financial projections and expected returns.

03 **Conduct Due Diligence:** Analyze the target company's financial health, market position and competitive edge before investing.

04 **Negotiate Investment Terms:** Agree on ownership percentages, exit timelines as well as other key investment details.

05 **Monitor the Investment:** Track the company's performance post-investment, with varying levels of involvement depending on the terms.

Benefits of Co-Investing

Co-investing offers several significant benefits, making it an attractive proposition for institutional investors and HNWIs alike.

HIGHER RETURNS

Co-investments can offer higher returns by avoiding traditional fund fees, **boosting profits by 2-3%**. Investors can also cherry-pick high-growth or turnaround deals for greater gains.

DIVERSIFICATION

It diversifies portfolios by adding **private companies with different risk/return profiles**, spanning various industries and locations, helping mitigate risk.

EXCLUSIVE INVESTMENT OPPORTUNITIES

Co-investing provides the opportunity to gain access to exclusive deals. Many of the **best investment opportunities in private equity are not available to the broader public**. Private equity firms tend to have deep networks, and they can source deals that would otherwise be inaccessible to individual investors or institutions without strong industry connections.

Exit Strategies in Co-Investing

01 COMMON EXIT STRATEGIES FOR INVESTORS

- **IPO**: A lucrative exit where the company goes public, allowing investors to sell shares on the open market.
- **Strategic Sale**: Selling the company to a larger corporation, often within the same industry, with buyers paying a premium for complementary businesses.
- **Secondary Buyout**: Selling the investment to another PE firm, offering co-investors an exit opportunity.

02 TIMING YOUR EXIT FROM PRIVATE MARKET

Timing is critical - Exiting too early can mean leaving potential profits on the table, while exiting too late could expose investors to increased risks. Investors should closely monitor the performance of the investment and the broader market to determine the best time to exit.

03 EVALUATING POTENTIAL EXIT OPPORTUNITIES

Exit opportunities depend largely on the company performance and market conditions. Investors should work closely with the PE firm to assess the viability of potential exit strategies and the expected returns from each option.

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To Wrap up...

Private equity co-investments offer a unique opportunity for accredited investors and institutions to gain **direct access to exclusive, high-growth opportunities**.

While the potential for higher returns and lower fees is appealing, investors must conduct **thorough due diligence and carefully evaluate each deal** to ensure it aligns with their goals and risk tolerance.

Co-investing provides a way to **leverage the expertise of private equity firms while retaining more control over investment decisions**. For those with the capital and expertise to navigate the private equity landscape, co-investments can be a valuable addition to a diversified portfolio.

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