Marketing material

Schroders capital

Focus on Private Equity

WHAT'S A **CO-INVESTMENT** AND HOW DOES IT WORK?

Private equity (PE) can access parts of the economic ecosystem that listed equity cannot, often with the potential for robust growth. Co-investments are one of several key private equity strategies available to investors. We explain how it works.

WHAT IS A CO-INVESTMENT?

Co-investments provide Limited Partners (***LPs***), such as pension funds or asset managers with the opportunity to invest directly in unlisted companies alongside General Partners (***GPs***), like a specialised private equity company.

HOW DOES A CO-INVESTMENT WORK?

1. A GP/PE firm wants to buy a private company/companies but needs further capital.
2. They will invite a selected number of interested LPs/co-investors to join them in the transaction.
3. The investment is done directly into the company or through an SPV (Special Purpose Vehicle).
4. The LPs have early visibility of the deal, can participate in due diligence, influence decision making.

TERMS TO KNOW

General Partners (GPs)
GPs are the investment professionals that set up and run PE funds, typically committing smaller amounts of capital at the outset. They can also invest directly in private companies either on their own or in partnership with trusted LPs.

Limited Partners (LPs)
External investors that provide the capital for private investments. Their liability is limited to the amount they have invested.

5 KEY BENEFITS

- ***Diversification:*** Working with multiple specialised fund managers diversifies risk and offers wider investment choice.
- ***Low Fees:*** Co-investments are available to the LP on preferred terms due to deeper relationship with the GP.
- ***Sustainability:*** Actively engaging with companies can promote more sustainable business practices and behaviours.
- ***Faster*** deployment of capital.
- ***Improved relationships*** with investors and the sharing of investment risk.

5 KEY RISKS

- ***Concentration:*** Co-investing into just one company is much riskier than investing into multiple companies/ sectors/geographies.
- ***Complexity:*** Co-investments involve many processes like voting rights, responsibilities of management, expenses, fees, etc.
- ***Liquidity:*** Non-liquid options can maximize returns over an eight to ten-year period, but require giving up liquidity.
- Private equity ***strategies can differ*** at different points in the cycle.
- Some transactions might involve some borrowing as part of the strategy for value creation.

KEY CONSIDERATIONS

1. Investors should rely on an asset manager with strong expertise, track record and well established partnership with key GPs.
2. Co-investments should not be done as a one off, but should be part of a diversified portfolio.

Source: Schroders, August 2023.

Capital at risk.