StepStone
inside private markets

Co-Investments: Good for Your Portfolio's Health?

Co-investing is the practice of making non-control direct equity investments in individual transactions alongside general partners who source, or sponsor, the deal ("GPs" or "Sponsors"). Co-investing became institutionalized in the mid- to late 1990s as the overall private equity industry began to mature and has become a more prevalent allocation in investors' portfolios. According to StepStone's analysis, co-investment dollars represented 13% of total equity invested in 2012, up from 1% in 2000 and on par with 2007, as shown in **Figure 1.**

Co-investments have clearly become more popular. However, researchers and limited partners ("LPs") alike continue to question whether co-investments are a healthy choice or a guilty pleasure. Skeptics have several concerns, including (i) "adverse selection," or the sense that GPs may not be showing their best deals to prospective co-investors; and (ii) limited evidence that co-investment programs (including funds) have matched the returns of buyout funds.

September 2014

We conducted our own analysis of a dataset of 400 co-investment transactions completed by 97 GPs and found that co-investments have held attractive return potential, as shown in **Figure 2.** Specifically, co-investment deals generally performed in line with the funds that completed the deal ("Parent Funds") on a gross basis, outperformed them on a net basis, and on average had lower risk profiles. However, our analysis also highlights several risks that LPs need to consider when incorporating co-investments into their broader private equity programs. StepStone believes that a broad sourcing network, understanding of GP incentives, and a rigorous due diligence process are critical for success in co-investing. With these caveats, we found that a well-constructed co-investment program has the potential to contribute to a healthy portfolio.

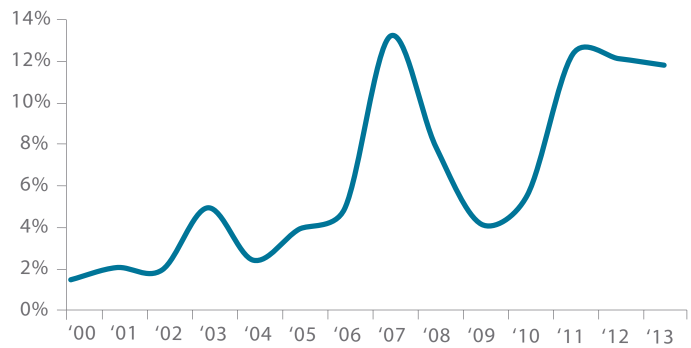
Co-Investment Market Overview

From the mid-1990s until the late 2000s, market participants for co-investing generally included banks, which were investing off their balance sheets, insurance companies, funds-of-funds and high net worth individuals. Today, pension funds, insurance companies, sovereign wealth funds, family offices and consultants are driving growth in the co-investment market. Noticeably absent are banks, due to regulatory concerns, and hedge funds, due to liquidity limitations following the global financial crisis ("GFC").

The growth in demand for co-investments post-GFC has been matched by a number of trends that have supported the supply of co-investment opportunities. In particular, global fundraising activity has declined significantly from the last market peak of 2006-2008, as shown in **Figure 3**. As a consequence, fund sizes have declined, and GPs have less equity to invest in individual transactions.

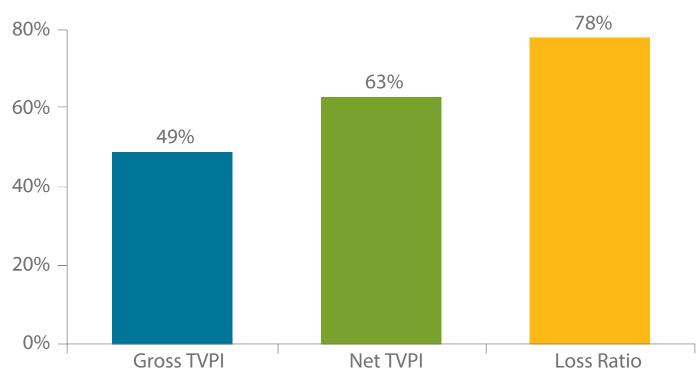
Concurrently, while Sponsors have been unwilling to assume equity syndication risk, traditional sources of capital from banks and hedge funds have declined. In addition, an industry-wide aversion to "club deals" has discouraged partnerships with other private equity firms. In this environment, GPs are increasingly seeking co-investment capital, particularly with valuable LP relationships.

FIGURE 1 | CO-INVESTMENT OFFERED AS % OF EQUITY INVESTED



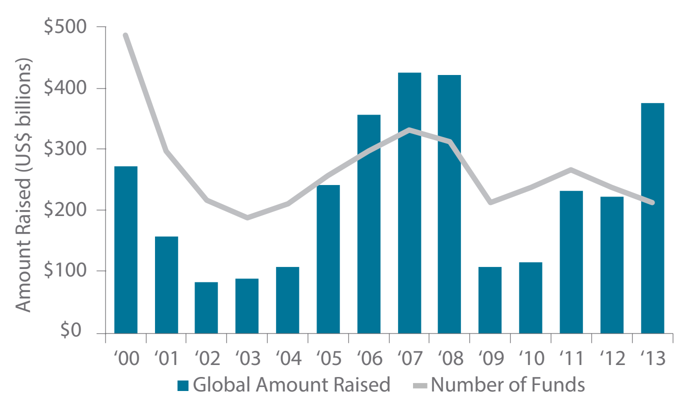
Source: StepStone analysis

FIGURE 2 | PERCENTAGE OF CO-INVESTMENTS OUTPERFORMING PARENT FUNDS



As of 12/31/2013
Source: StepStone analysis

FIGURE 3 | HISTORICAL PRIVATE EQUITY FUNDRAISING



Source: StepStone analysis

Co-Investment Rationale: LP Perspective

As the private equity industry has matured, LPs have grown in sophistication and are increasingly looking for new ways to gain exposure to the sub-asset class. LPs want better economic terms, greater control over portfolio management, including the pace of capital deployment, and deeper relationships with GPs. Ultimately, LPs consider these factors as ways to improve the return profile of their portfolios. Co-investments may help LPs achieve these objectives.

REDUCE FEE BURDEN

Co-investments have provided LPs with a cost-effective way to achieve private equity exposure. The extent to which LPs can experience lower fees can vary depending on what type of co-investor they are. Direct co-investors often invest *pari passu* on a "no fee and no carry" basis alongside Sponsors. While the absence of fees is an attractive feature, direct co-investing requires in-house staff or third-party resources to source and complete co-investment transactions, the cost of which can be prohibitive for all but the largest investors. Co-investment funds charge fees and carry to their investors, albeit they are generally less than half of the typical "2 and 20" fee structure of private equity funds. Separately managed co-investment accounts are a middle ground for investors that cannot rationalize building an in-house program but have sufficient allocation for co-investments.

INCREASE CONTROL OVER PORTFOLIO MANAGEMENT

In addition to being more cost-effective, co-investments have also provided LPs with a more nimble way to manage their portfolios. In particular, LPs have achieved attractive diversification benefits through co-investment programs, including co-investment funds, since they can access deals with managers of different sizes in various geographies and varied sector specializations. LPs have therefore enjoyed the benefit of diversification without sacrificing quality or having to pay two layers of fees, as required in fund-of-funds investing. In addition, co-investing has allowed LPs to deploy capital more rapidly than fund investing and towards geographies or sectors that they favor. As such, a co-investment program can be used to help implement tactical moves in a portfolio, by either scaling up exposure or scaling back exposure as desired by the LP.

DEEPEN GP RELATIONSHIPS

In addition to lower fees and greater control over portfolio management, co-investing has also allowed LPs to deepen their relationships with GPs. By working closely with the Sponsors during the due diligence process as well as during the holding period as the Sponsor implements value-creation initiatives, LPs have had the opportunity to develop insights into the strengths and weaknesses of GPs. As a result, the co-investor has had the ability to make more informed decisions about not only that specific GP, but also others, for future commitments.

Co-Investment Rationale: GP Perspective

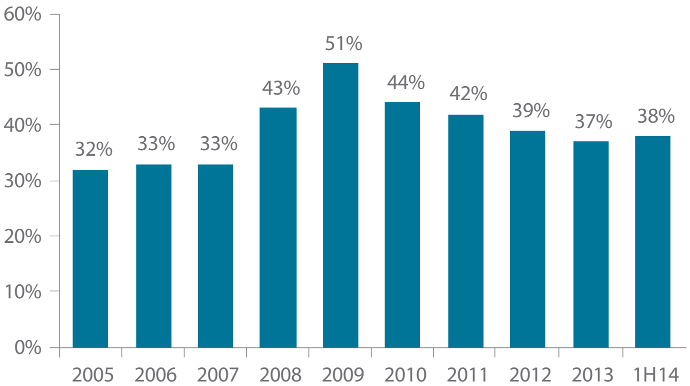
From the GP's perspective, the most obvious advantage to seeking co-investment capital from LPs has been the ability to access additional capital to complete a transaction. Maintaining control of the investment and staying within a fund's diversification parameters are also important factors. Finally, GPs see co-investing as a good way to build stronger relationships with key investors.

ACCESS TO CAPITAL

Co-investing is an efficient way to participate in a deal which would otherwise be too big to undertake within the fund's size parameters for each transaction. Prior to the GFC, GPs often co-invested with other GPs via "club deals," a practice in which participants pool their capital in order to make the deal possible.

Following the GFC, however, co-investment dynamics changed. Club deals became unpopular and traditional sources of capital from banks and hedge funds dried up. At the same time, equity contributions in transactions became significantly larger, as shown in **Figure 4**, and smaller fund sizes forced buyout firms to invest fewer equity dollars per transaction. To bridge this gap, and as a way to reduce equity syndication risk, GPs have turned to co-investors to round out their equity checks.

FIGURE 4 | AVERAGE EQUITY CONTRIBUTIONS TO BUYOUT DEALS



Source: S&P Capital IQ

While co-investment capital can reduce equity syndication risk, this is only a benefit if the Sponsor can still manage the transaction process to get to the closing table on time. Therefore, Sponsors favor those LPs who have a reputation of moving quickly and responding to them in a timely manner.

CONTROL AND GOVERNANCE

Sponsors' experience with club deals was that governance can be challenging when other GPs are involved. Therefore, in the post-GFC era, GPs have preferred to maintain primary control of deals. Partnering with a valuable yet non-control investor allows the GP to retain greater control of an asset.

PORTFOLIO MANAGEMENT

Another motivation for GPs to offer co-investment opportunities is the need to address portfolio management issues. In many cases this will arise because the GP is buying a company where the total equity check will push them close to, or beyond, their fund's diversification limits. However, GPs may also offer co-investment in average-sized deals when they are still fundraising and therefore unsure of the ultimate size of the fund. In addition, GPs may offer co-investment opportunities toward the end of the life of their funds when they have reduced capital availability but have yet to close on a new fund. As such, there are a number of portfolio and risk management considerations that can prompt GPs to offer co-investment opportunities in a range of deal sizes.

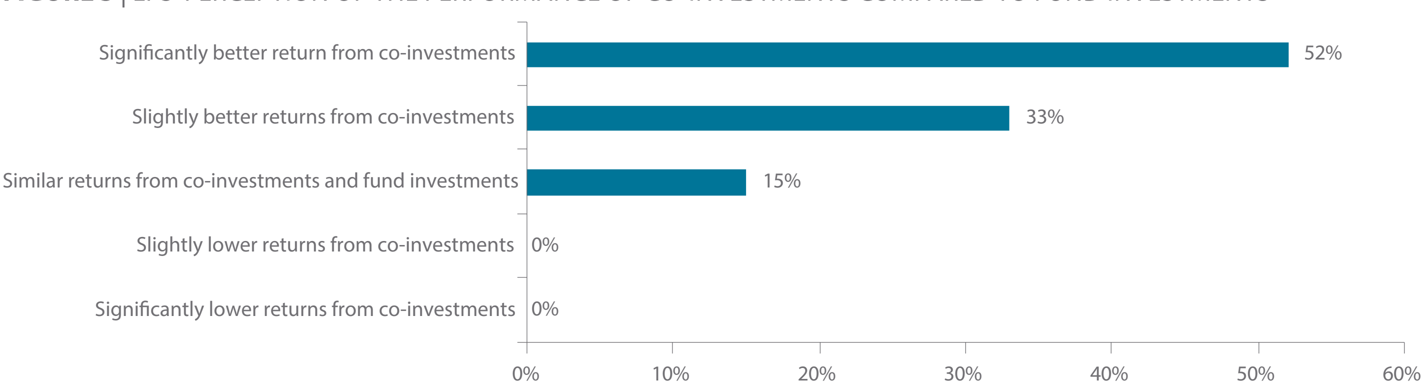
STRATEGIC PARTNERSHIP

Co-investment arrangements have allowed Sponsors to deepen relationships with existing LPs and to build relationships with potential investors. Co-investing provides Sponsors the opportunity to differentiate their capabilities first hand vis-à-vis their competitors. Sponsors also benefit from having more sophisticated LPs as co-investors as they may bring a unique viewpoint, skill, network, or resource to the opportunity.

Co-Investment Performance

While the intangible benefits of co-investments to both LPs and GPs are clear, debate over the actual results continues. Surveys of LPs with exposure to co-investments suggest a strong perception of co-investment outperformance relative to fund investments, as shown in **Figure 5**.

FIGURE 5 | LPS' PERCEPTION OF THE PERFORMANCE OF CO-INVESTMENTS COMPARED TO FUND INVESTMENTS



Source: Preqin LP Co-Investment Survey, February 2014

However, academic research, including a study by Fang, Ivashina and Lerner (2014), raises significant questions about the performance of co-investments. While our results show strong performance from co-investments, we agree with certain central reservations raised by our peers:

» It is difficult to access robust, transparent and comprehensive data on co-investments, and the source and scope of the dataset may skew the results of any analytics.

» A portfolio of randomly-selected co-investments would not be attractive. Portfolio construction is a key element to any co-investment program.

Despite these concerns, StepStone's experience has been that compelling returns are achievable in co-investing, as long as the co-investment program incorporates processes and structures to mitigate the risks associated with co-investing.

To test whether the numbers would support our favorable view of co-investments, we completed our own analysis of co-investment deals and co-investment funds. The analysis focused on comparing co-investment performance relative to three benchmarks:

» Co-investment deals relative to Parent Funds;

» Co-investment *deals* relative to global buyout benchmarks; and

» Co-investment *funds* relative to global buyout benchmarks.

To assess co-investment deals, StepStone assembled a sample portfolio of co-investments (the "Sample Portfolio") collected from 97 GPs. The Sample Portfolio includes 400 small, middle, and large market co-investment deals across all major regions, completed between 2000 and 2012. To assess co-investment funds, StepStone used data from Preqin.

StepStone's Sample Portfolio represents a broad cross-section of co-investors since the data were derived from GPs. This should minimize the selection bias represented by any subset of co-investors. However, there is potential for some bias towards higher quality GPs, as they represent Sponsors with whom StepStone has a working relationship.

CO-INVESTMENT DEAL PERFORMANCE VERSUS PARENT FUNDS

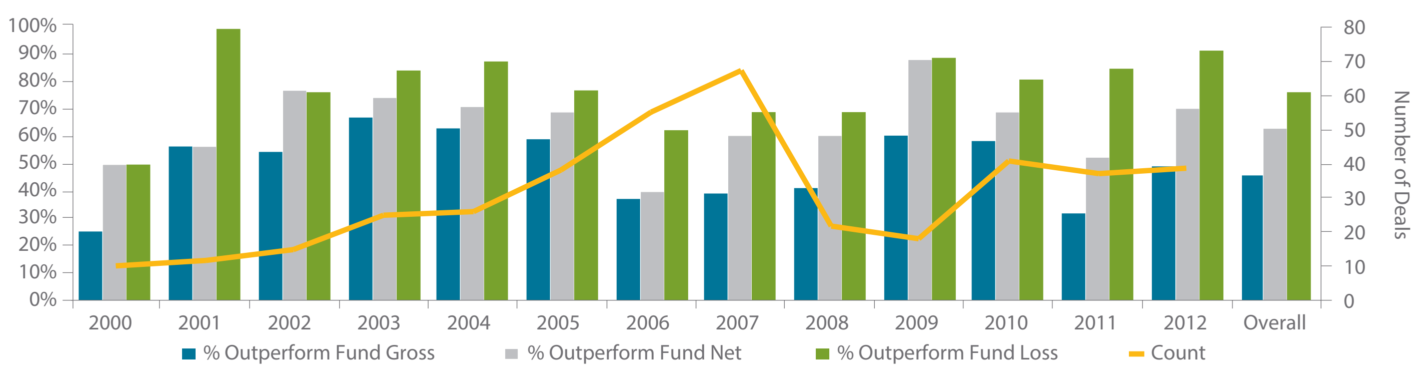
StepStone compared the performance of co-investment deals in the Sample Portfolio to the overall performance of their Parent Funds to address the adverse selection concern in co-investing. **Figure 6** shows the percentage of co-investment deals that outperformed the gross and net TVPI as well as loss ratios of their Parent Funds from 2000 to 2012. The analysis provided the following results:

» Nearly 50% of co-investment deals outperformed the gross TVPI of their Parent Funds;

» Over 60% of co-investment deals outperformed the net TVPI of their Parent Funds; and

» Nearly 80% of co-investment deals outperformed the loss ratio of their Parent Funds.

FIGURE 6 | PERCENTAGE OF CO-INVESTMENT DEALS THAT OUTPERFORMED THEIR PARENT FUND RETURNS



As of 12/31/2013
Source: StepStone analysis

This analysis demonstrates that co-investment deals generally performed in line with their Parent Funds on a gross basis, outperformed on a net basis, and on average had lower risk profiles than their Parent Funds. Moreover, 71% of the investments in the Sample Portfolio were *larger* than the average size of the investments completed by their Parent Funds. This analysis suggests that GPs actually had *higher* conviction in the co-investment deals and that they were not simply "selling down risk." Therefore, the performance comparison and the size comparison both demonstrate that the adverse selection concern in co-investing may be overstated.

StepStone further analyzed the data to address the fact that the overall performance of Parent Funds may have been less impacted by market cycles than the performance of individual co-investment deals. Specifically, funds inherently have vintage year diversification, whereas individual co-investment deals do not. This difference is particularly relevant for deals completed during the economic bubble years of 2006-2008, the period when co-investment transaction volume was highest. Since these were also the vintages that generally underperformed, it is not surprising that a lower percentage of co-investment deals outperformed their Parent Funds during this time period. We therefore compared the performance of co-investment deals completed by Parent Funds from 2006-2008 with other deals completed during those same years by the same funds and found that co-investment deals outperformed in 55% of the sample. The sample consisted of 60% of the relevant funds represented in Figure 6. In the overall statistics, therefore, the outperformance of deals completed outside 2006-2008 was muted by the underperformance of the deals completed during that period.

CO-INVESTMENT DEAL PERFORMANCE VERSUS BUYOUT BENCHMARK

To assess the performance of co-investment deals against a broader benchmark while also addressing the mismatch in vintage years between co-investment deals and Parent Funds, we compared the performance of the Sample Portfolio with Thomson ONE's global buyout benchmark. To simulate a fund investment period, we grouped together the co-investment deals in a way that would mirror a buyout fund. Since a typical buyout fund is invested over approximately four years (i.e., GPs complete deals over four consecutive years), we grouped the co-investment deals from the Sample Portfolio in four consecutive years to represent each vintage. Therefore, the 2000 vintage includes co-investment deals completed in 2000, 2001, 2002, and 2003; the 2001 vintage includes co-investments from vintages 2001, 2002, 2003 and 2004, and so forth.

We then computed the mean gross TVPI and estimated mean net TVPI of deals within each vintage year on an equal-weighted basis, as the dataset includes a range of small- to large-market transactions. We compared the TVPIs to the first and second quartile buyout benchmarks. We estimated the net TVPI by assuming a fee structure of 1% management fee and 10% carry, to simulate the typical economics for co-investments completed via funds or separately managed accounts. This expense structure also served as a proxy for costs associated with a dedicated co-investment team.

Figure 7 shows that co-investments have been capable of delivering highly attractive returns. In the net-net comparison, co-investments outperformed the top quartile benchmark for nine of the ten vintage years. This comparison is representative of the relative performance of co-investments completed via funds or separately managed accounts.

In the gross-net comparison, co-investments outperformed the top quartile benchmark for all ten vintage years. This comparison is representative of the relative performance of co-investments completed on a direct basis, which are typically conducted on a no-fee and no-carry basis.

Co-investments demonstrated compelling overall performance on an absolute basis as well, with a mean gross TVPI of 2.0x and a mean net TVPI of 1.8x over the 2000-2012 time period. As discussed before, this outperformance may be due in part to a bias towards higher quality managers within the dataset. Nonetheless, StepStone believes the results are relevant because these are the GPs with whom LPs would want to be investing.

FIGURE 7 | RELATIVE PERFORMANCE OF CO-INVESTMENT DEALS AND GLOBAL BUYOUT BENCHMARKS

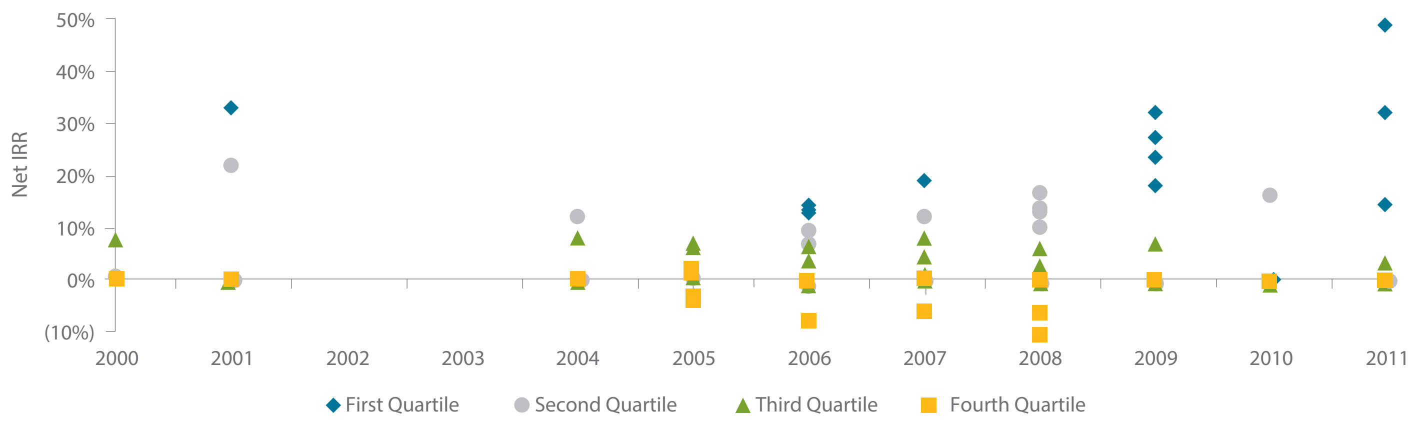
Vintage	# of Deals	Mean Gross TVPI	Estimated Gross TVPI	Quartile	Thomson Benchmark – Net TVPI	
					First Quartile	Second Quartile
2000	57	2.97x	2.64x	First	2.20x	1.65x
2001	76	3.09x	2.74x	First	2.06x	1.65x
2002	106	2.93x	2.61x	First	2.15x	1.71x
2003	146	2.47x	2.21x	First	1.93x	1.55x
2004	188	2.08x	1.88x	Second	1.97x	1.45x
2005	184	1.91x	1.73x	First	1.56x	1.27x
2006	163	1.80x	1.64x	First	1.47x	1.33x
2007	151	1.95x	1.77x	First	1.58x	1.34x
2008	118	1.96x	1.77x	First	1.61x	1.23x
2009	132	1.92x	1.74x	First	1.41x	1.26x

As of 12/31/2013
Source: Thomson ONE,StepStone analysis

CO-INVESTMENT FUND PERFORMANCE VERSUS BUYOUT BENCHMARK

In addition to evaluating individual co-investment transactions, StepStone also analyzed the performance of co-investment funds. This analysis tests the argument put forward by recent literature that commingled co-investment funds have tended to underperform. In order to test that theory, StepStone analyzed the performance of a broad cross-section of co-investment funds based on data sourced from Preqin. This dataset included 45 co-investment funds with vintages ranging from 2000-2011, covering all major geographies. StepStone found that, similar to buyout funds, the performance of co-investment funds has varied widely.

FIGURE 8 | COMPARABLE CO-INVESTMENT FUNDS AND QUARTILE RANKINGS RELATIVE TO BUYOUT FUNDS (2000-2011)



As of 12/31/2013
Source: Preqin, Thomsone ONE, StepStone analysis

The analysis presented in **Figure 8** shows the quartile ranking for each of the 45 co-investment funds compared to the Thomson ONE buyout benchmark, and demonstrates a wide range of performance. There were some strong performers, with over 50% of the sample in the first and second quartile. Less than a fifth of the sample was in the fourth quartile. Net IRRs ranged from a maximum of 46% to a minimum of -10%, with an average of 10%. Co-investment funds from the 2006-2008 vintage years performed meaningfully worse on an absolute basis than other vintages. Since deals were more expensive during those years, overall fund returns were weaker during that time. Relative to the benchmarks, however, the distribution of these co-investment funds by quartile mimicked that of the full sample.

Co-investment funds typically have had the advantage of having lower fees relative to buyout funds. However, data on fee structures for the funds were not available. In addition, there was insufficient data to determine the performance of individual deals and loss ratios in the co-investment funds. Nonetheless, our analysis highlights that there was neither a systemic underperformance nor outperformance evident in co-investment funds.

Co-Investment Success Drivers

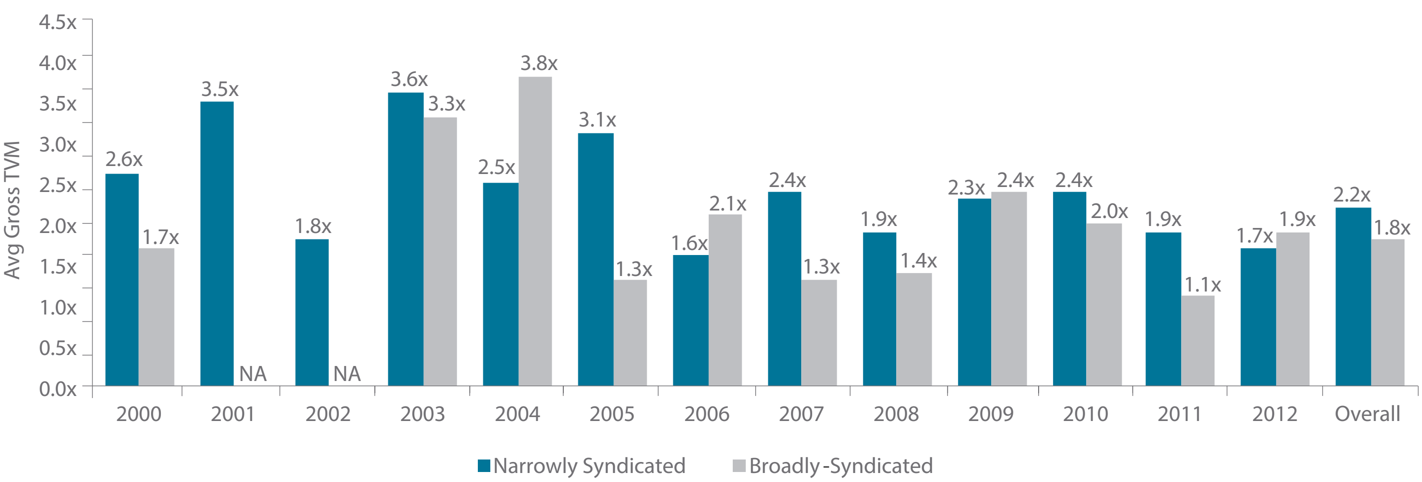
The preceding analysis of co-investment performance demonstrates that compelling returns have been achievable in co-investing. However, StepStone believes that deploying capital in co-investments will not automatically deliver more attractive returns. As with any investment class, there are pitfalls in co-investing. Investors that are aware of those pitfalls and can maneuver through the dynamics within this sub-asset class have a higher probability of success with co-investing. StepStone believes that the following are the key success factors when deploying co-investment capital:

» Sourcing: A broad-ranging and active primary investment program is at the core of any successful co-investment platform, as it provides the relationships that generate quality deal flow, as well as the information advantage to assess the quality of Sponsors involved in any co-investment transaction;

» GP Incentives: Superior deal selection relies on more than just company fundamentals. Evaluating GP incentives during the diligence process may be essential to reducing potential risks; and

» Due Diligence: Active due diligence talent and execution ability are prerequisites. Without the proper execution capabilities, both sourcing and deal selection may be compromised.

FIGURE 9 | MEAN TVPI OF CO-INVESTMENT DEALS BY VINTAGE YEAR



As of 12/31/2013
Source: StepStone analysis; based on 240 deals for which number of co-investors was available

SOURCING

Strong sourcing capabilities are central to a successful co-investment program. Those investors with a large and active network of GP relationships will have a distinct advantage. A broad network allows for diversification by size, strategy, geography, industry and vintage year. A higher volume of deal flow should also enable more selective decision-making. In StepStone's experience, top-performing buyout managers, on average, have invested in approximately five deals a year and no more than 3-5% of all deals shown to them. This translates into reviewing approximately 100-150 deals per year, or around 10 deals a month. For a sizeable co-investment program, the same level of selectivity could be difficult to achieve absent a broad set of GP relationships and a strong presence in the primary investment market.

In addition, StepStone's data suggest that various types of deals and transaction dynamics have had a tendency to underperform. In particular, broadly-syndicated deals and "bigger" deals have generally underperformed. These deals also happen to have been the most likely to be offered to passive co-investors. Deals conducted in a "hot" M&A market do not always underperform; however, as mentioned earlier, the transactions completed during the 2006-2008 economic bubble have, in fact, underperformed relative to other vintages. Therefore, having a sourcing capability that generates enough deal flow outside of these scenarios can be critical to success.

Broadly-Syndicated Deals

Broadly-syndicated deals, defined here as co-investment transactions with 10 or more co-investors, had an average TVPI of 1.7x compared to 2.1x for narrowly-syndicated deals in StepStone's Sample Portfolio, as shown in **Figure 9.**

Not only have broadly-syndicated deals in our Sample Portfolio performed worse than narrowly-syndicated deals, participating in broadly-syndicated transactions generally has meant investors have had less time to complete thorough due diligence and likely less access to primary sources of diligence. Therefore, critical due diligence components, such as completing reference checks or conducting meetings with management teams and consultants, may have remained incomplete. These dynamics can lead to suboptimal decision making.

Bigger Deals

Our data also suggest caution around bigger deals in a relative sense. Specifically, regardless of where the Sponsor sits in the spectrum of small to large market buyout managers, the larger transactions in a fund have tended to underperform the smaller ones.

We used our proprietary SPI database, which includes 366 small to large buyout funds with vintage years 2000-2012 ("SPI Sample"), to analyze the relative performance of bigger deals. We compared the three biggest deals completed by each of the buyout funds in the SPI Sample to all deals completed by those funds. The findings, as shown in **Figure 10**, indicate that bigger deals had an average TVPI of 1.8x compared to 2.1x for all deals, albeit the average loss ratio of bigger deals was lower, 11% compared to 15% for the full sample. In addition, approximately two-thirds of the biggest three deals underperformed their Parent Funds, underscoring the importance of deal sourcing and selectivity.

Hot M&A Markets

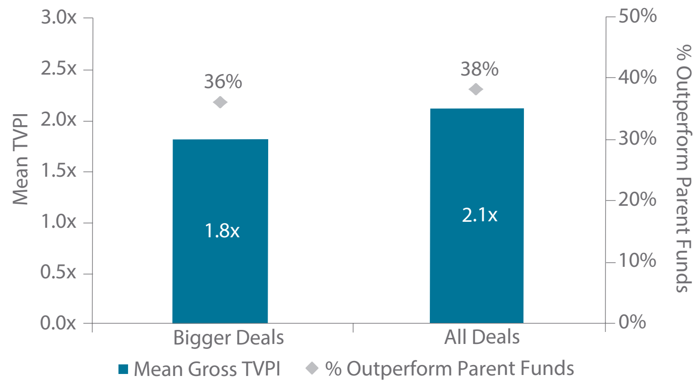
Another potential source of risk could arise from the pro-cyclicality of co-investments resulting from capital markets activity. Deals completed during the pre-GFC period, when M&A markets were hot, have tended to underperform. Figure 6 alluded to this point in the context of the Sample Portfolio. **Figure 11** illustrates the same concept in the context of the overall private equity market. However, performance of deals was not inferior in all hot M&A periods. For example, deals completed during the 1999-2001 dot-com bubble years did quite well by historical standards. This suggests that a purely anti-cyclical approach to co-investment hasn't necessarily been a recipe for success. The increased deal volume in a strong market places a premium on diligence and selection capability in order to process the larger quantity of transactions.

GP INCENTIVES

Another important consideration in the success of a co-investment program is to understand why a GP is offering a particular deal to co-investors. Ideally, GPs should offer co-investments when a deal is too big, but otherwise fits with the strategy and return profile for the fund. However, other incentives may often be at play that need to be considered.

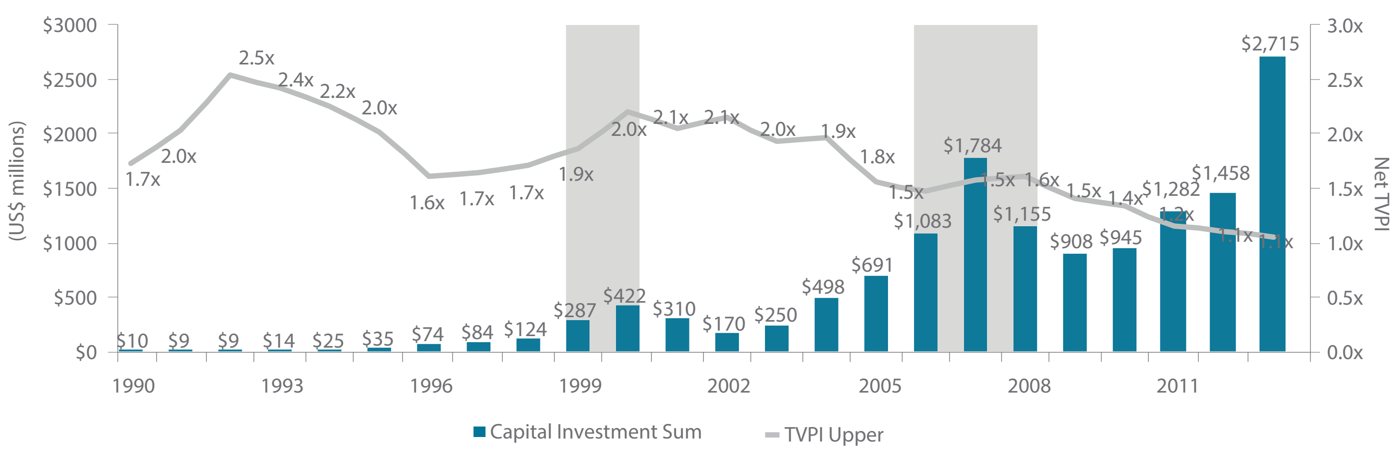
First, fund life cycle timing may influence returns. A looming investment period termination can add pressure on GPs leading them to deploy capital in mediocre deals. Conversely, GPs are likely to be more selective and risk averse in early deals. Preferably, GPs should pace themselves during their investment period to achieve vintage year diversification. In reality, early deals, on average, have outperformed their Parent Funds whereas later deals have underperformed.

FIGURE 10 | PERFORMANCE OF BIGGER DEALS



As of 12/31/2013
Source: StepStone SPI database

FIGURE 11 | TRENDS IN M&A DEAL VOLUME AND TVPI



Source: Pitchbook, Thomson ONE

StepStone compared the first three deals completed by each of the funds in the SPI Sample to the last three deals as well as all deals completed by those funds. Our findings, as shown in **Figure 12**, indicate that the last three deals in buyout funds have performed worse, with a mean TVPI of 1.7x, compared to 2.5x for the first three deals and 2.1x for all deals in those funds.

Second, GPs can achieve better economics through bigger deals, which typically bring higher transaction and monitoring fees. When netted against the transaction price, fees can reduce the Sponsor's cost basis for the transaction, but not the co-investors' cost basis, resulting in a misalignment of interest.

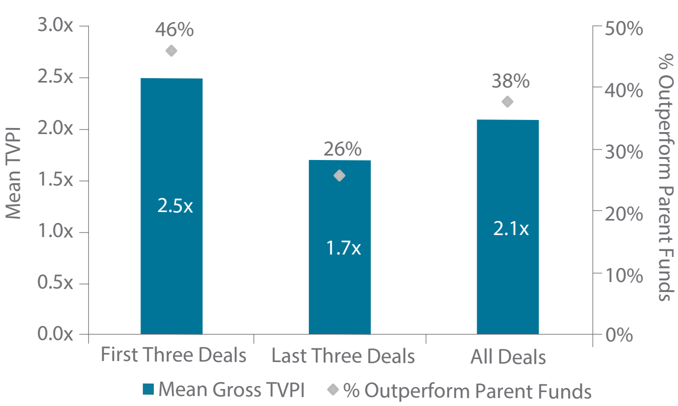
Finally, strategy shifts can cause GPs to invest in companies outside their areas of expertise. For example, small- to mid-sized GPs that want to increase their next fund size may feel tempted to demonstrate their ability to conduct a larger deal. Alternatively, GPs looking to add a new vertical to their strategy may try to build credibility in that vertical by completing a deal in a space outside their core area of expertise.

These examples emphasize the importance of understanding a GP's motivations, which can only be done through in-depth knowledge of GPs and interaction with the organization and its people.

DUE DILIGENCE

A strong co-investment program is also predicated on the transactional experience, GP knowledge, and strategic insight of the team running the co-investment program. Sophisticated, value-added co-investment teams will be able to complete detailed due diligence without sacrificing the ability to respond quickly to the Sponsor.

FIGURE 12 | PERFORMANCE OF EARLY VS. LATER DEALS



As of 12/31/2013
Source: StepStone SPI database

In addition, high quality teams will be able to bring their own analysis to bear on the transaction, augmenting the work that the Sponsor has already done. In particular, integrating company-level analysis with primary analysis on the Sponsor to determine alignment of incentives and fit within the Sponsor's core areas of expertise is a critical area of diligence. Finally, having the ability to reference a deal from one's own network to evaluate risks and base case assumptions further enhances decision making in a way that is additive to the Sponsor's own diligence.

Conclusion

The post-GFC environment has seen a re-kindled demand for co-investments from investors. At the same time, some academic research has questioned whether co-investments should actually be included as part of a well-balanced portfolio.

Structural changes to the private equity market suggest that both LPs and GPs will continue to have an appetite for co-investment capital. Our experience and data suggest that a carefully-planned diet of co-investments can serve to improve the risk-return profile of an LP's private equity portfolio. Co-investing can allow for greater control over capital deployment, create opportunities to deepen relationships with GPs, and enhance the probability of generating excess returns. However, our analysis also highlights a number of risk factors. Specifically, the lack of a broad sourcing network, limited insight into GP practices and absence of a dedicated and experienced diligence team can restrict the potential for outperformance in a co-investment portfolio.

Generally, a broader sourcing network should yield a bigger opportunity set, which, in turn, should enable a co-investor to be highly selective in their investment decisions. Integrating co-investments with a strong primary platform can allow co-investors to better gauge GP styles and motives when evaluating a co-investment partner. Finally, having a dedicated team with the capacity to perform its own due diligence in addition to the Sponsor's can contribute to generating a higher alpha in the co-investment portfolio. An experienced team that can move quickly can also result in greater deal sourcing since GPs would likely have greater confidence in the co-investor's ability to get deals approved within strict deadlines. Ultimately, these characteristics can prove to be the recipe for a healthier private equity portfolio.

StepStone is a global private markets firm overseeing approximately US$60 billion of private capital allocations, including over US$10 billion of assets under management.

The Firm creates customized portfolios for the world's most sophisticated investors using a highly disciplined research-focused approach that prudently integrates primaries, secondaries, and co-investments.

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