Co-Investment Rights

How Private Wealth Can Improve Net LP Returns

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Abstract

The single largest, and most controllable, drag on the returns a limited partner (LP) actually keeps from private markets is fees. Co-investment, the right to invest directly alongside a fund manager in a specific deal, usually with reduced or no fees and carry, is the most effective lever a family office or private-wealth investor has to reduce that drag and lift its net return. This paper examines co-investment rights as a tool for Gulf Cooperation Council (GCC) family offices and private wealth to improve their net LP returns. It quantifies the net-return uplift co-investment provides, explains the fee mechanics behind it, and sets out how a programme of co-investment is built: securing access, which the best managers offer to their most valued investors; underwriting the opportunities with independent judgement; managing the adverse-selection risk that a manager may share its less attractive deals; and constructing a diversified, paced co-investment portfolio. It treats the capability co-investment demands, the structuring and terms, the considerations specific to the GCC, and the general-partner perspective that determines access. The analysis finds that co-investment can lift the blended net internal rate of return materially, that the uplift rises with the share of the allocation co-invested, but that capturing it depends on access, independent selection, and disciplined management of the adverse-selection and concentration risks. Three investor case studies, a sensitivity analysis, an international comparison and an implementation roadmap support the framework.

Keywords: Adverse selection, co-investment, family office, fees, GCC, limited partner, net returns, private markets

1. Introduction

When a family office measures the return it earns from private markets, the number that matters is not the gross return the underlying investments produce but the net return it actually keeps after fees. Between the two lies the fee drag, the management fees, the performance fees or carry, and the fund expenses that the manager takes, and that drag is substantial: it can consume a quarter or more of the gross return over the life of an investment. Reducing the fee drag is therefore one of the most effective ways a family office can improve its net return, and co-investment is the most powerful tool for doing so.

Co-investment is the right to invest directly alongside a fund manager in a specific deal, usually on terms that reduce or eliminate the fees and carry on the co-invested capital. An investor that commits to a fund and also co-invests captures the manager sourcing and underwriting on the co-invested portion while paying little or no fee on it, blending the diversification and access of fund investing with the low cost of direct investing. The effect on the net return can be material, which is why co-investment has become one of the most sought-after rights in private markets and a central tool for sophisticated LPs.

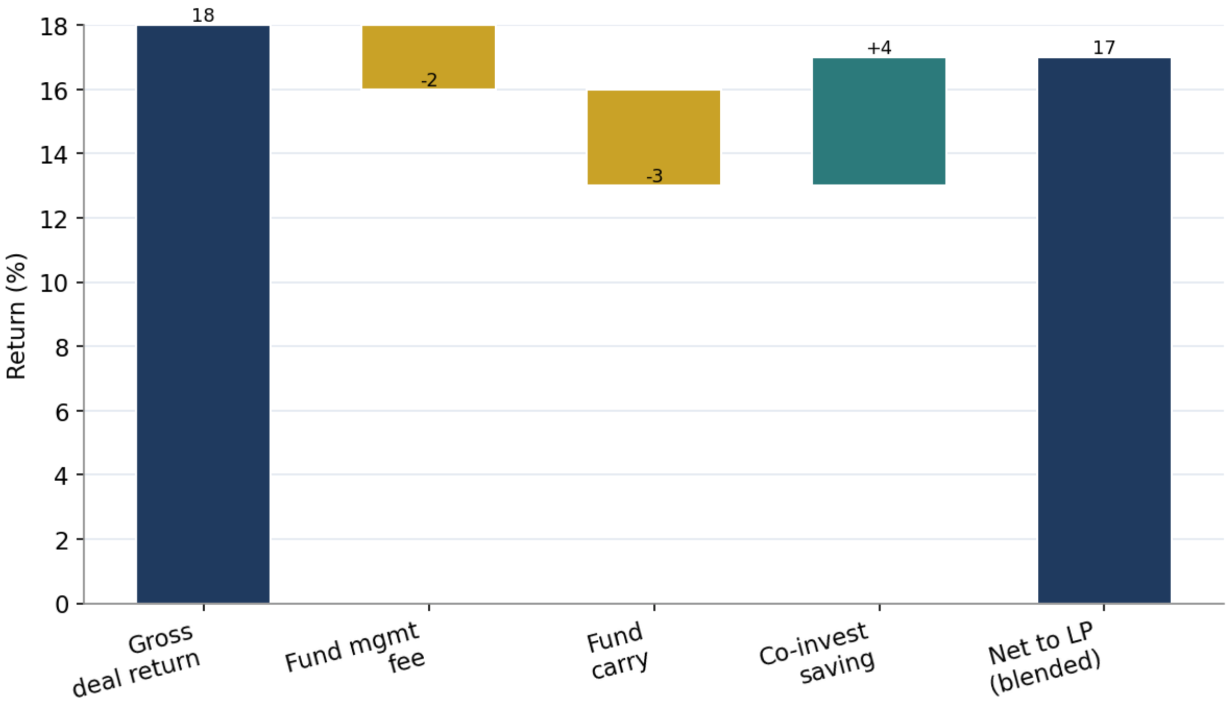
This paper examines co-investment rights as a tool for GCC family offices and private wealth to improve their net LP returns. The central argument is that co-investment can lift the blended net return materially, that the uplift rises with the share of the allocation co-invested, but that capturing it depends on three things: access to co-investment opportunities, which the best managers offer to their most valued investors; the independent judgement to select among the opportunities offered; and the disciplined management of the adverse-selection risk that a manager may share its less attractive deals. Co-investment is not free money; it is a capability that must be built and a risk that must be managed.

The paper complements the companion papers on the allocation shift, on building a private credit allocation, and on direct versus fund investing, in which co-investment featured as the pivotal middle path between fund and direct investing. Here the focus is specifically on co-investment as a lever on net returns, and on how a family office builds a co-investment programme that captures the uplift while managing the risks. The figures are modelled to illustrate the framework and are indicative. The paper proceeds from the fee-drag problem and the co-investment answer (Section 2), through the conceptual foundations (Section 3), the mechanics (Section 4), the net-return uplift (Section 5), fee structures (Section 6), access (Section 7), the adverse-selection risk (Section 8), selection (Section 9), capability (Section 10), pacing and portfolio construction (Section 11), and risk management (Section 12), before turning to structuring, regional considerations, the GP perspective, cases, sensitivity, and implementation.

2. The Fee Drag and the Co-Investment Answer

The fee drag is the gap between the gross return that private market investments produce and the net return the LP keeps after the manager fees. Figure 1 decomposes a representative deal return, showing how the management fee and the carry reduce the gross return to the net the LP keeps, and how co-investment, by reducing or eliminating the fee and carry on the co-invested portion, recovers much of that drag. The bridge makes the co-investment uplift visible: the saved fees flow straight to the LP net return.

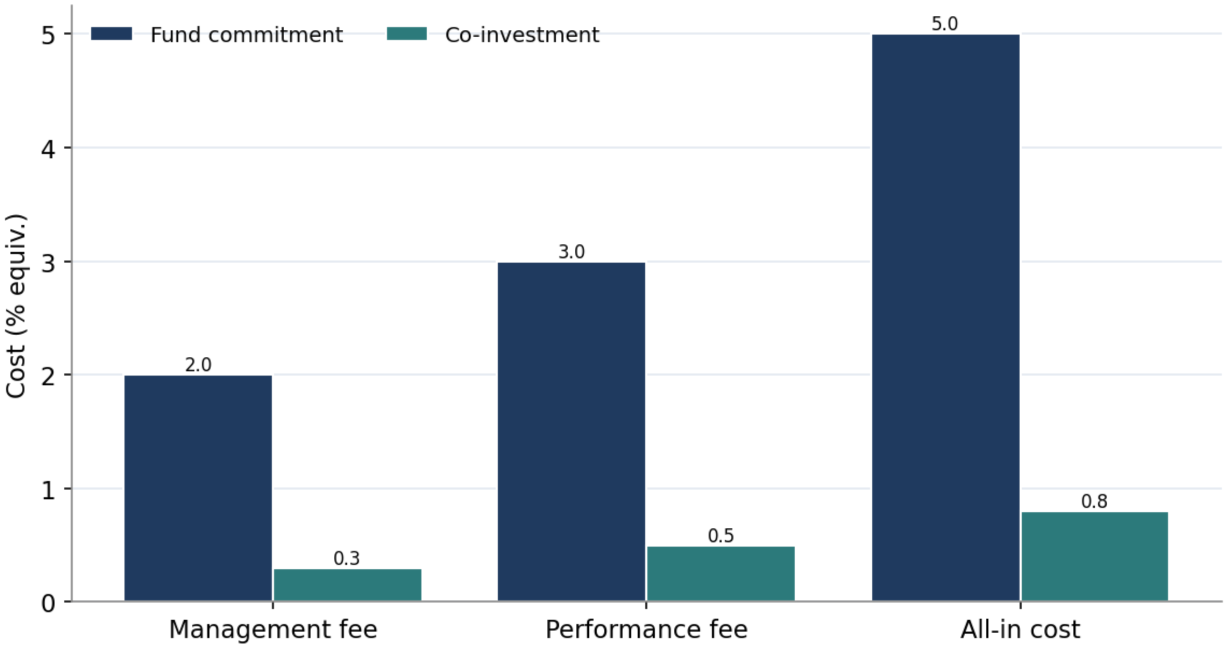
Figure 1. From Gross to Net: How Co-Investment Recovers the Fee Drag



The fee drag is large because private market fees are high and compound over the life of an investment. A typical fund charges a management fee on committed or invested capital each year, plus a carry on the profits above a hurdle, and these together can consume a substantial share of the gross return, more in percentage terms when the gross return is modest. The fee drag is also the most controllable part of the net-return equation: an LP cannot control the gross return its managers produce, but it can control, through co-investment and negotiation, the fees it pays, which makes the fee drag the natural focus for an LP seeking to improve its net return.

Co-investment is the most effective lever on the fee drag because it eliminates or sharply reduces the fees on the co-invested capital, capturing the gross deal return almost in full. Figure 2 compares the fees on a fund commitment with those on a co-investment, and the difference is stark: where the fund charges a management fee and a carry, the co-investment typically charges little or none, so the LP keeps almost the full gross return on the co-invested portion. By co-investing alongside its fund commitments, an LP lowers its blended fee and lifts its blended net return, capturing more of the gross return its managers produce.

Figure 2. Fees on a Fund Commitment versus a Co-Investment



The co-investment answer to the fee drag is powerful but conditional, which is the theme of this paper. To capture the uplift, an LP must have access to co-investment opportunities, the judgement to select among them, and the discipline to manage the adverse-selection and concentration risks they carry. Co-investment is not a free reduction in fees but a capability that must be built and a set of risks that must be managed, and an LP that co-invests without the access, judgement and discipline may not capture the uplift, or may capture it on poorly-selected deals that erode rather than enhance its return. The remainder of the paper is concerned with capturing the uplift well.

3. Conceptual Foundations

The co-investment opportunity rests on several conceptual foundations. The first is the distinction between gross and net returns, and the centrality of the net return to the LP. The LP keeps the net return, not the gross, and the fee drag between them is large and controllable, so reducing it is the most direct way for the LP to improve what it keeps. Co-investment reduces the drag by lowering the fees on the co-invested capital, which is why it is so effective: it works directly on the most controllable part of the net-return equation.

The second foundation is the fee mathematics that makes co-investment effective. Because the management fee is charged on capital and the carry on profits, eliminating them on the co-invested portion saves both, and the saving compounds over the life of the investment. The blended net return rises as the co-invested share rises, because more of the allocation captures the low co-investment fees, as Figure 3 in the next section shows. The fee mathematics therefore makes co-investment a powerful lever, and the more an LP can co-invest, within the limits of access and prudence, the more it lifts its blended net return.

The third foundation is the alignment and the agency relationship. Co-investment is offered by managers to their valued LPs partly to reward and retain them and partly because it helps the manager fund larger deals, so the manager has an interest in offering co-investment, but the manager also has an interest in what it offers, which creates the adverse-selection risk. The LP must understand the manager motivation in offering each co-investment, because a manager may offer its less attractive deals as co-investments while retaining the best for the fund, which is the central risk the LP must manage.

The fourth foundation is adverse selection, the risk that the co-investments an LP is offered are not a random sample of the manager deals but are skewed toward the less attractive ones. If a manager retains its best deals for the fund, where it earns full fees and carry, and offers its more difficult or larger deals as co-investments, the LP that takes the offered co-investments without independent selection may end up with a portfolio of the manager weaker deals. Managing adverse selection through independent underwriting and a screen for why the manager is sharing each deal is therefore central to capturing the co-investment uplift on genuinely attractive deals rather than on the manager rejects.

4. The Mechanics of Co-Investment

A co-investment works as follows. A manager identifies a deal that is larger than its fund can or wishes to fund alone, or for which it wishes to bring in its valued LPs, and offers a portion of the deal to one or more LPs to invest directly alongside the fund. The LP invests its co-investment capital directly in the deal, typically through a special-purpose vehicle, on terms that reduce or eliminate the management fee and carry, and it holds its co-investment alongside its fund commitment, with the fund and the co-investors together funding the deal.

The LP co-investment is sourced and underwritten by the manager, which the LP relies on, but the LP makes its own decision whether to take the co-investment, exercising its own judgement on the opportunity. This is the key distinction from fund investing: in a fund, the LP delegates the deal decisions to the manager, while in a co-investment, the LP makes the deal decision itself, on the manager sourcing and underwriting but with its own judgement. The co-investment therefore requires the LP to exercise a deal-level judgement that fund investing does not, which is part of the capability co-investment demands.

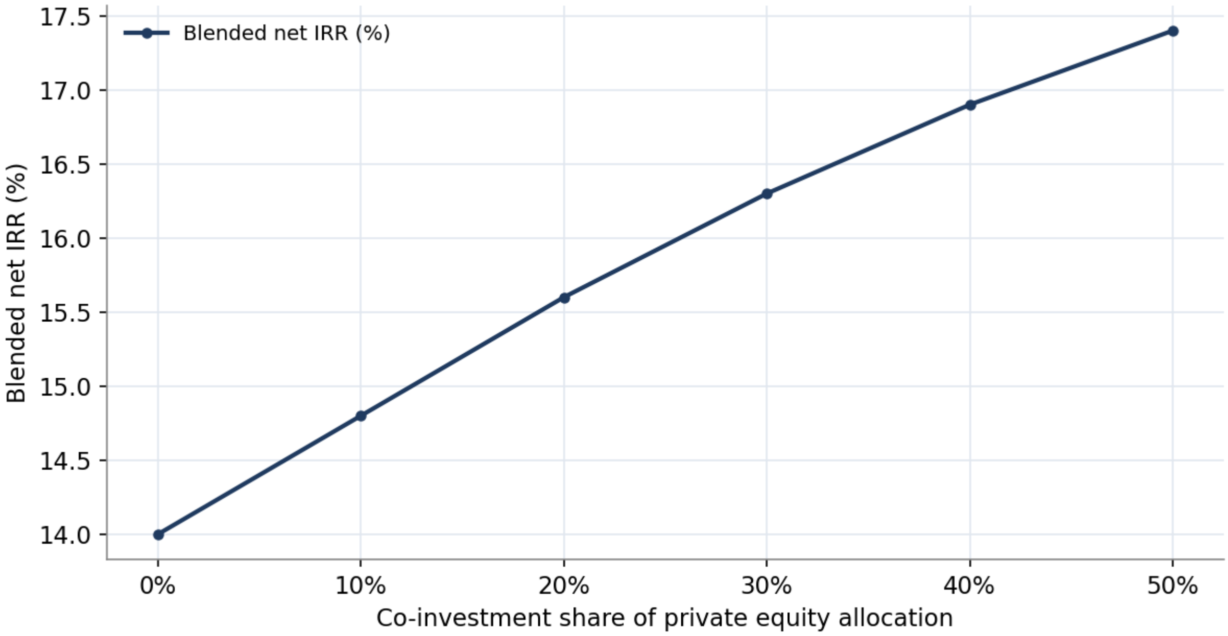
The terms of the co-investment, the fees, the rights, the structure, are negotiated between the manager and the LP, and they vary with the LP standing and the deal. A valued LP may secure a no-fee, no-carry co-investment with good rights, while a less valued LP may secure less favourable terms or no co-investment at all. The terms determine the fee saving and the LP rights in the deal, and an LP that can negotiate favourable terms, by virtue of its standing, captures more of the co-investment benefit. The negotiation of terms is part of the co-investment mechanics, and it rewards the LP that has established itself as valued.

The timing of co-investment is often compressed, because the manager needs to fund the deal on a timetable, and the LP must decide quickly whether to take the co-investment. This compressed timing is a feature of co-investment that distinguishes it from the more measured pace of fund commitment, and it requires the LP to have the capability to underwrite and decide quickly, which is part of the capability co-investment demands. An LP that cannot decide quickly may miss co-investment opportunities or be excluded by managers who need decisive co-investors, which is why speed is part of the co-investment capability.

5. The Net-Return Uplift

The net-return uplift from co-investment is the central benefit, and Figure 3 quantifies how it rises with the share of the allocation co-invested. As the co-invested share rises from zero, the blended net internal rate of return rises, because more of the allocation captures the low co-investment fees rather than the full fund fees. The uplift is material: a substantial co-investment share can lift the blended net return by a meaningful margin, which over a large allocation and across years is a significant enhancement to the family office wealth.

Figure 3. Blended Net IRR Against Co-Investment Share



The uplift rises with the co-invested share because the fee saving applies to more of the allocation, but it is bounded by the access an LP can secure and by prudence. An LP cannot co-invest its whole allocation, both because it cannot secure that much co-investment access and because doing so would concentrate its capital in the specific co-invested deals, sacrificing the diversification of the fund. The optimal co-investment share therefore balances the fee-saving uplift against the access available and the diversification and concentration considerations, and it is typically a substantial but not total share of the private markets allocation.

The uplift is also conditional on the co-investments being well-selected, because a poorly-selected co-investment captures the fee saving on a poor deal, which may produce a poor net return despite the low fee. The uplift in Figure 3 assumes co-investments of comparable quality to the fund deals, which holds only if the LP selects well and avoids adverse selection. An LP that selects poorly, or that suffers adverse selection, may find its co-investments underperform, eroding rather than enhancing its net return, which is why the selection and adverse-selection management examined later are essential to capturing the uplift.

The net-return uplift, well captured, is one of the most valuable enhancements available to a private markets LP, because it works directly on the controllable fee drag and compounds over the life of the allocation. A family office that builds a co-investment programme that captures the uplift on well-selected deals lifts its blended net return materially, enhancing its wealth across the private markets allocation. The uplift is the prize that justifies building the co-investment capability and managing the risks, and capturing it well is the objective the framework pursues.

6. Fee Structures on Co-Investment

The fee structures on co-investment vary, and understanding them is part of capturing the uplift. The most favourable structure, offered to valued LPs, is no fee and no carry on the co-invested capital, so the LP keeps the full gross return on its co-investment. This is the structure that delivers the maximum uplift, and a valued LP should seek it. Less favourable structures charge a reduced fee or carry, still below the full fund fees but capturing less of the saving, and an LP should understand which structure it is being offered and negotiate toward the most favourable it can secure.

The fee structure reflects the LP standing and the manager motivation. A manager offers no-fee, no-carry co-investment to its most valued LPs, to reward and retain them, while it may charge a reduced fee to less valued LPs or on deals where it has more leverage. An LP that has established itself as valued, through reliable commitment and constructive engagement, can secure the most favourable fee structures, capturing more of the co-investment benefit, which is part of why establishing oneself as a valued LP is central to the co-investment programme. The fee structure is a function of the relationship as much as the deal.

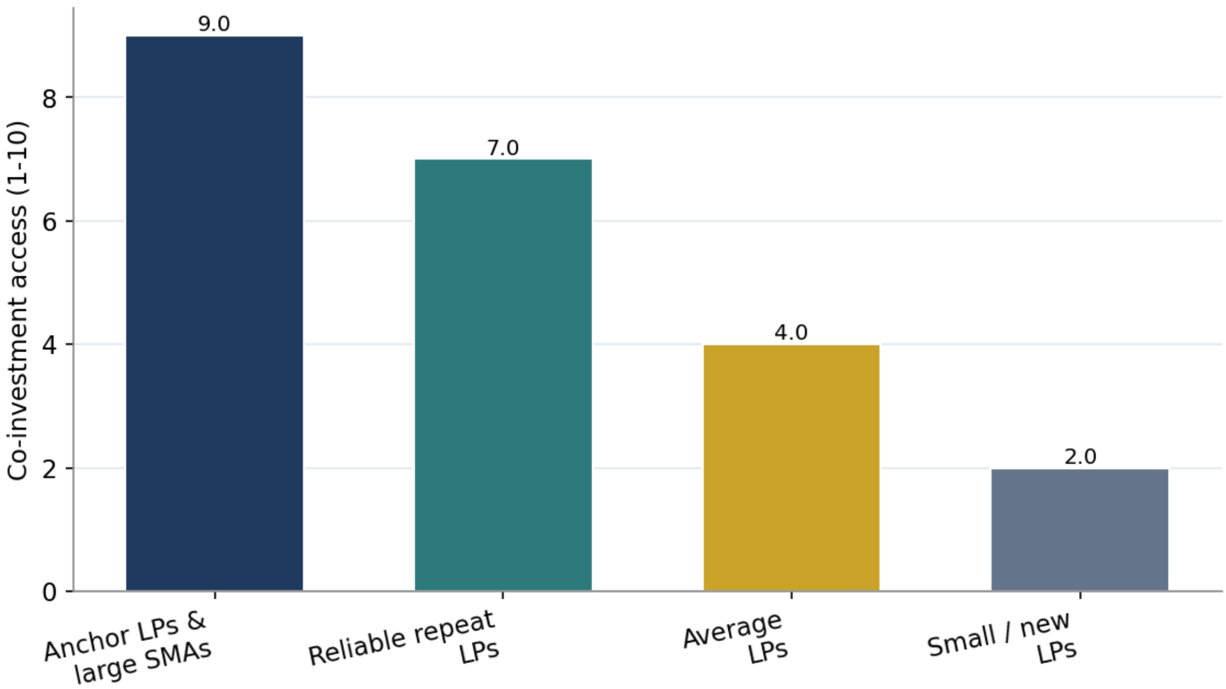
The fee structure also affects the comparison between co-investment and the fund. A no-fee, no-carry co-investment captures the full gross return, materially above the fund net return, while a reduced-fee co-investment captures less of the saving. The LP should assess the net return it would earn on the co-investment, after whatever fees apply, against the fund net return, to gauge the uplift, and should weight its co-investment toward the most favourable fee structures. The fee structure determines the size of the uplift, and an LP focused on its net return will seek and weight toward the structures that deliver the most.

A subtlety is that some managers charge fees on co-investment to compensate for the sourcing and underwriting they provide, arguing that the co-investment benefits from their capability and should bear some cost. An LP should weigh this argument against the alternative of a no-fee structure, recognising that the manager capability does add value but that the co-investment market norm for valued LPs is low or no fees. The LP should negotiate from the norm of low or no fees, while recognising the manager contribution, and should be wary of co-investment fee structures that erode the uplift to the point where the co-investment is not materially cheaper than the fund. The fee negotiation is part of capturing the uplift.

7. Access to Co-Investment

Access is the first condition for capturing the co-investment uplift, and Figure 4 illustrates how it is distributed. Managers offer co-investment to their most valued LPs, those who commit capital reliably and at scale, engage constructively, and can decide quickly, and they offer little or none to small, new or unreliable LPs. Access is therefore earned by establishing oneself as a valued LP, and an LP seeking co-investment must build the standing that secures access, which is the first step in building a co-investment programme.

Figure 4. Co-Investment Access by LP Standing



The LPs with the best access are the anchor investors and large separately managed account holders, who commit at scale and are most valued by managers, followed by reliable repeat LPs who have built relationships over multiple funds. Average LPs receive less access, and small or new LPs little. An LP seeking to improve its access should commit reliably, build relationships over multiple funds, engage constructively, and where possible commit at scale or as an anchor, building the standing that secures co-investment access. The access is the gateway to the co-investment uplift, and building it is the foundation of the programme.

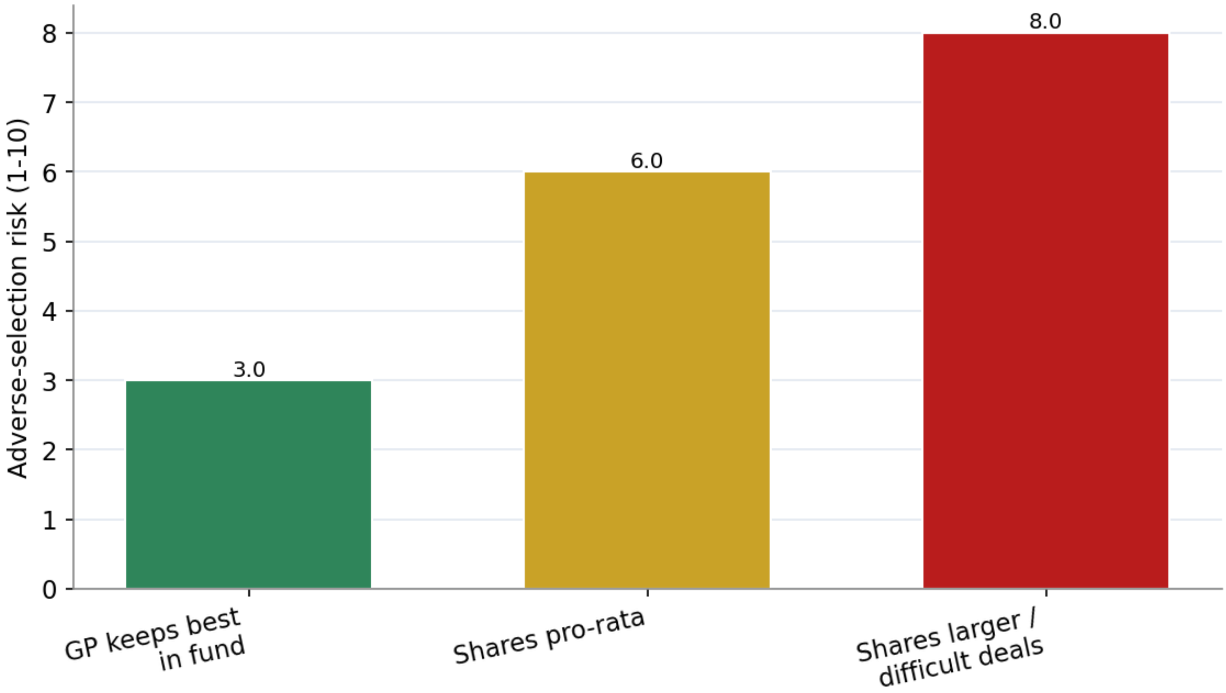
Access can also be built through the structures an LP uses. Committing to a fund as an anchor investor, or through a large separately managed account, or building a relationship as a repeat investor across a manager funds, all build the standing that secures co-investment access. An LP that approaches co-investment strategically, building its standing with a set of managers it values, can build a flow of co-investment opportunities from those managers, which is the basis of a co-investment programme. The access is built deliberately, through the LP commitment and engagement, rather than appearing unbidden.

The access an LP secures determines the co-investment share it can achieve and therefore the uplift it can capture. An LP with strong access from several managers can co-invest a substantial share of its allocation, capturing a large uplift, while one with limited access can co-invest little, capturing a small uplift. Building the access is therefore the binding step in capturing the uplift, and an LP serious about co-investment should invest in building the standing and relationships that secure access, recognising that the access determines how much of the co-investment uplift it can capture.

8. The Adverse-Selection Risk

The central risk in co-investment is adverse selection, illustrated in Figure 5: the risk that the co-investments an LP is offered are skewed toward the manager less attractive deals, because the manager retains its best deals for the fund where it earns full fees and carry. If a manager behaves this way, the LP that takes the offered co-investments without independent selection ends up with a portfolio of the manager weaker deals, capturing the fee saving but on inferior deals, which may underperform the fund despite the lower fees.

Figure 5. Adverse-Selection Risk by Manager Behaviour



Not all managers behave this way; some share co-investment pro-rata across their deals, or even share their best deals to reward valued LPs, and the adverse-selection risk depends on the manager behaviour. An LP must assess, for each manager and each co-investment, why the manager is sharing the deal: is it sharing pro-rata, sharing a deal too large for the fund, or offloading a difficult deal it would rather not hold in full? The answer determines the adverse-selection risk, and an LP should probe the manager motivation, favouring managers that share fairly and being wary of those that appear to offload their weaker deals.

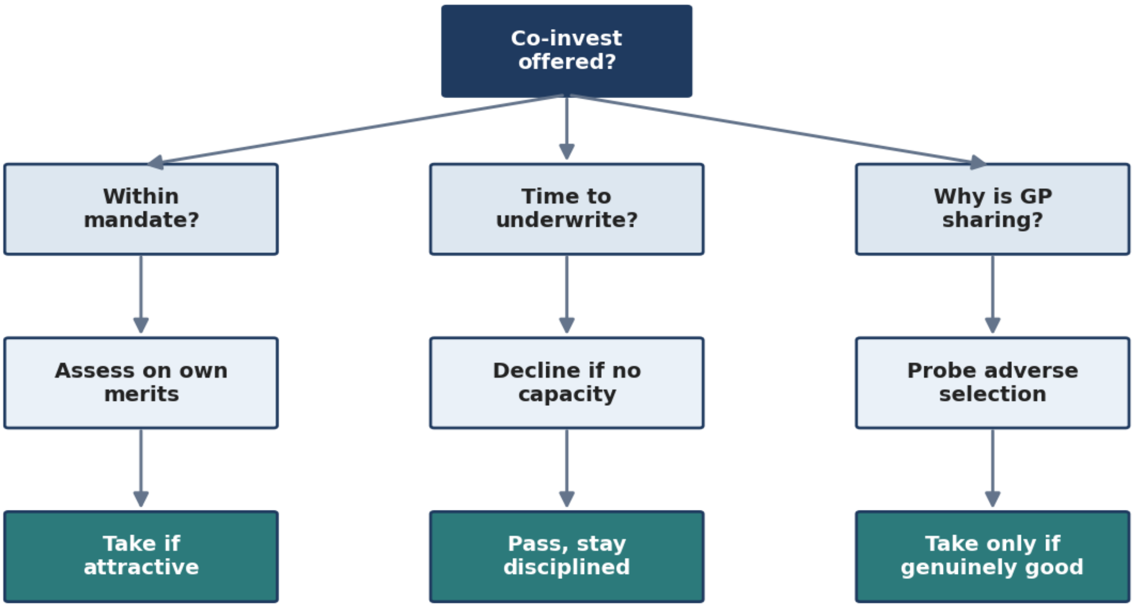
Managing adverse selection requires independent underwriting: the LP must assess each co-investment on its own merits, with its own judgement, rather than assuming the manager offering it is acting in the LP interest. An LP that underwrites each co-investment independently can distinguish the genuinely attractive opportunities from the manager rejects, taking the former and declining the latter, capturing the uplift on good deals while avoiding the adverse-selection trap. The independent underwriting is the LP defence against adverse selection, and it is why the selection capability examined next is central to co-investment.

The adverse-selection risk means that access alone is not enough; the LP must also select well among the co-investments it is offered. An LP with strong access but weak selection may take the manager weaker deals and underperform, while an LP with strong access and strong selection takes the genuinely attractive deals and captures the uplift. The combination of access and selection is therefore what captures the uplift, and the adverse-selection risk is the reason selection matters as much as access. The LP must build both the access to be offered co-investments and the selection to choose well among them.

9. Selecting Co-Investments

Selecting co-investments well is the LP defence against adverse selection and the key to capturing the uplift on genuinely attractive deals. Figure 6 sets out a decision framework for a co-investment opportunity. The LP should assess whether the deal is within its mandate and capability to underwrite, whether it has the time and capacity to underwrite it on the manager timetable, and why the manager is sharing it, probing for adverse selection. Only if the deal is attractive on its own merits, within the LP capability, and free of adverse-selection concerns should the LP take it.

Figure 6. Co-Investment Selection Decision Framework



The selection requires the LP to underwrite the deal independently, assessing the asset or company, the price, the structure, the risks, and the return, with its own judgement on the manager underwriting rather than merely accepting it. The LP need not replicate the manager full diligence, but it must form its own view of the opportunity, sufficient to decide whether it is genuinely attractive. This independent underwriting is the core of co-investment selection, and it is what distinguishes a disciplined co-investor that captures the uplift on good deals from an undisciplined one that takes whatever is offered.

The selection should also consider the fit of the co-investment within the LP portfolio: its diversification, its concentration, and its contribution to the portfolio risk and return. A co-investment that is attractive on its own merits but that concentrates the LP portfolio in a sector or risk it is already heavily exposed to may not be a good addition, while one that diversifies the portfolio adds more. The selection therefore considers both the deal merits and the portfolio fit, ensuring that the co-investments build a diversified, balanced portfolio rather than a concentrated one, which the portfolio construction examined later addresses.

Disciplined selection means declining co-investments that are not genuinely attractive, even when offered by a valued manager, to avoid the adverse-selection trap and the concentration risk. An LP that takes every co-investment offered, to maintain the relationship or to deploy capital, abandons the selection that protects it, and may accumulate the manager weaker deals. A disciplined LP declines the co-investments that do not meet its criteria, accepting that it will take only a fraction of those offered, and captures the uplift on the genuinely attractive ones it does take. The discipline to decline is therefore central to co-investment selection, and it is what separates the successful co-investor from the unsuccessful.

10. Building Co-Investment Capability

Capturing the co-investment uplift requires the LP to build a co-investment capability, illustrated in Figure 7, spanning access, speed, judgement and portfolio management. The access, examined earlier, is the standing and relationships that secure co-investment offers. The speed is the capability to underwrite and decide quickly on the manager timetable. The judgement is the independent underwriting and selection that captures good deals and avoids adverse selection. The portfolio management is the diversification, pacing and concentration discipline that builds a balanced co-investment portfolio.

Figure 7. Capabilities for a Co-Investment Programme

The capability is more than fund investing requires but less than wholly direct investing, which is why co-investment is the middle path examined in the companion paper. The LP relies on the manager for the sourcing and the primary underwriting, so it need not build the full origination and underwriting capability of a direct investor, but it must build the capability to assess the opportunities, decide quickly, and manage the portfolio, which is more than passive fund investing requires. Building this middle level of capability is the price of capturing the co-investment uplift, and it is a buildable capability that an LP can develop over time.

Building the capability begins with the access and the relationships, then the team and processes to underwrite and decide quickly, and the portfolio framework to manage the co-investments. An LP building the capability should start by securing access with a few valued managers, build the underwriting and decision capability to act on the co-investments offered, and develop the portfolio framework to manage them, growing the programme as the capability matures. The progressive build, like the build of direct investing capability in the companion paper, is the prudent path, growing the co-investment programme as the capability to manage it grows.

The co-investment capability, once built, is a durable asset that captures the uplift across the LP private markets programme and builds toward the direct investing capability examined in the companion paper. An LP that builds the co-investment capability captures the fee-saving uplift, builds the relationships and judgement that direct investing requires, and advances its broader private markets capability, as the companion papers discussed. The co-investment capability is therefore valuable both for the uplift it captures and for the broader capability it builds, and investing in it advances the LP development as a private markets investor.

11. Pacing and Portfolio Construction of Co-Investments

A co-investment programme must be paced and constructed as a portfolio, not taken deal by deal without regard to the whole. The pacing matters because co-investments arrive irregularly, when managers have deals to share, and the LP must pace its co-investment commitments to build a diversified portfolio across vintages and deals rather than concentrating in a burst of opportunities. The LP should manage its co-investment pace, taking opportunities as they arise but within an overall plan that builds a diversified, paced portfolio, as the companion paper on private credit discussed for the broader programme.

The portfolio construction matters because co-investments, being individual deals, concentrate the LP capital in specific assets, and a co-investment programme must be diversified across deals, sectors, geographies and managers to manage the concentration risk. An LP that co-invests across many deals, diversified across these dimensions, builds a co-investment portfolio that is diversified despite being made of individual deals, while one that co-invests in a few concentrated deals bears concentration risk. The portfolio construction, diversifying the co-investments, is therefore essential to managing the concentration risk that individual co-investments carry.

The co-investment portfolio must also be constructed within the broader private markets allocation, complementing the fund commitments rather than duplicating or concentrating them. The co-investments, sourced from the LP managers, may overlap with the fund exposures, and the LP should construct the co-investment portfolio to complement and diversify the overall private markets allocation, not to concentrate it in the same sectors or risks as the funds. The co-investment portfolio is part of the broader portfolio construction examined in a companion paper, and it should be built as a complement to the fund allocation, enhancing its diversification and its net return.

The pacing and construction discipline ensures the co-investment programme captures the uplift while managing the concentration and diversification, building a balanced portfolio that complements the funds. An LP that paces and constructs its co-investments well captures the fee-saving uplift on a diversified portfolio that enhances its overall allocation, while one that takes co-investments opportunistically without pacing or construction may concentrate its capital and undermine the diversification. The pacing and construction are therefore part of capturing the uplift well, building a balanced co-investment portfolio rather than a concentrated set of opportunistic deals.

12. Risk Management

Co-investment carries risks the LP must manage beyond adverse selection. The principal additional risk is concentration: co-investments concentrate the LP capital in specific deals, and a co-investment programme must be diversified, as the portfolio construction discussed, to manage the concentration. An LP that co-invests heavily in a few deals bears the idiosyncratic risk of each, and a poor outcome on a concentrated co-investment can materially harm the LP return, which is why diversification across co-investments is essential to managing the concentration risk.

The second risk is the selection risk, that the LP selects poorly among the co-investments it is offered, taking deals that underperform. This risk is managed by the independent underwriting and disciplined selection examined earlier, which capture the genuinely attractive deals and decline the others. An LP with weak selection bears the selection risk, taking deals that underperform, while one with strong selection manages it, and the selection capability is therefore both the key to capturing the uplift and the management of the selection risk, which are two sides of the same capability.

The third risk is the speed risk, that the compressed co-investment timetable forces the LP to decide quickly with insufficient diligence, leading to poor decisions. This risk is managed by building the capability to underwrite and decide quickly but well, with processes that allow a sound decision on the manager timetable, and by declining co-investments the LP cannot underwrite adequately in the time available. An LP that decides quickly but poorly bears the speed risk, while one that can decide quickly and well, or that declines what it cannot assess in time, manages it. The speed capability is therefore part of the risk management as well as the access.

The risk management, across adverse selection, concentration, selection and speed, is what allows the LP to capture the co-investment uplift without taking on the risks that co-investment carries. An LP that manages these risks, through independent underwriting, diversification, disciplined selection, and the capability to decide quickly but well, captures the uplift on a well-managed portfolio, while one that does not may capture the fee saving but on a concentrated, poorly-selected portfolio that underperforms. The risk management is therefore integral to capturing the uplift well, and it is part of the co-investment capability the LP must build.

13. Structuring and Terms

Co-investments are structured through vehicles and terms that the LP should understand and negotiate. The co-investment is typically held through a special-purpose vehicle that holds the LP interest in the deal alongside the fund, isolating the co-investment and defining the LP rights. The LP should understand the vehicle, its governance, its costs, and the rights it confers, and should ensure the structure gives it the protections appropriate to a direct investment in the deal, not merely a passive interest.

The terms cover the fees, examined earlier, and the LP rights in the deal: its information rights, its rights on major decisions, its rights on exit, and its rights relative to the fund. A valued LP can negotiate favourable terms, including good information and governance rights, while a less valued LP may take standard terms. The LP should negotiate the terms to secure the rights it needs to monitor and protect its co-investment, recognising that the co-investment is a direct interest in the deal that warrants appropriate rights, not merely a fee-reduced fund interest.

The structuring should also address the alignment between the co-investors and the fund, and the treatment of the co-investment relative to the fund on key decisions and exit. The co-investment and the fund invest in the same deal but through different vehicles, and the structuring should ensure they are aligned on the key decisions and the exit, so that the co-investors are not disadvantaged relative to the fund. An LP should understand how its co-investment ranks and aligns with the fund, and should ensure the structuring treats it fairly, particularly on exit timing and proceeds.

The compliant dimension applies to co-investment structuring as to other private markets, and a GCC LP requiring Shariah compliance must ensure its co-investments and their vehicles are compliant. Because the LP structures its co-investment directly, it has more control over the compliance than in a fund, where it relies on the fund compliance, which can be an advantage for an LP requiring compliance. The LP should ensure its co-investment vehicles and the underlying deals are compliant where it requires, structuring them appropriately, which is more within its control in co-investment than in fund investing.

14. Considerations Specific to the GCC

GCC family offices have characteristics that shape their co-investment programmes. The first is scale: many regional family offices command substantial capital, which makes them attractive co-investment partners and gives them the standing to secure access, as the access section discussed. A large regional family office can be an anchor investor and a valued co-investment partner, securing strong access, which positions it well to build a co-investment programme. The scale of regional family offices is therefore an advantage in securing co-investment access.

The second consideration is the operating and sector heritage of many regional family offices, which can give them genuine judgement on co-investments in their areas of heritage, particularly real estate and sectors they have operated. A family office with operating heritage in a sector can underwrite co-investments in that sector with genuine judgement, distinguishing the attractive deals from the adverse-selection rejects, which is the selection capability that captures the uplift. The heritage therefore gives regional family offices a selection advantage in co-investments in their areas of expertise, which they should leverage.

The third consideration is the compliant requirement, examined in the structuring section, which a portion of regional capital requires and which the LP can address directly in structuring its co-investments. A regional family office requiring compliance can structure its co-investments to be compliant, and can favour managers and deals that accommodate compliant co-investment, building a compliant co-investment programme. The compliant requirement shapes the manager relationships and deal selection for family offices that require it, favouring managers that can accommodate compliant co-investment.

The fourth consideration is the regional family office development as private markets investors, examined in the companion papers. A regional family office building its private markets capability can use co-investment as the path to building direct capability, as the companion paper on direct versus fund investing discussed, while capturing the fee-saving uplift. The co-investment programme therefore advances the regional family office broader development as a private markets investor, building the capability and relationships that direct investing requires, while capturing the uplift. Co-investment is part of the regional family office maturation as a private markets investor.

15. The General Partner Perspective

Understanding the GP perspective is essential to accessing and managing co-investment well. The GP offers co-investment for several reasons: to fund deals larger than its fund can hold, to reward and retain its valued LPs, to build relationships that support its future fundraising, and sometimes to share deals it would rather not hold in full, which is the source of the adverse-selection risk. The LP should understand the GP motivation in offering each co-investment, because it reveals both the opportunity and the adverse-selection risk.

The GP values co-investors who are reliable, decisive, and easy to work with, who can underwrite and decide quickly, commit dependably, and engage constructively, and it offers more and better co-investment to such LPs. An LP that establishes itself as a reliable, decisive, constructive co-investor secures more and better co-investment access, while one that is slow, unreliable or difficult is offered less. The LP should therefore position itself as the kind of co-investor GPs value, which secures the access that captures the uplift, as the access section discussed.

The GP perspective also reveals the tension the LP must manage: the GP has an interest in what it offers as co-investment, and it may offer its less attractive deals while retaining the best, which is the adverse-selection risk. The LP must therefore engage with the GP as a valued partner to secure access while exercising independent judgement on what it is offered, not assuming the GP is acting in the LP interest on each deal. The LP relationship with the GP is therefore both cooperative, to secure access, and independent, to manage adverse selection, a balance the LP must hold.

Understanding the GP perspective therefore tells the LP how to manage its co-investment relationships: be the reliable, decisive, constructive co-investor GPs value, to secure access, while exercising independent judgement on each opportunity, to manage adverse selection. An LP that holds this balance secures strong access and selects well, capturing the uplift on genuinely attractive deals, while one that is either a poor co-investor or an uncritical one fails to secure access or fails to manage adverse selection. The GP relationship, well managed, is central to a successful co-investment programme.

16. Case Studies

Three investor cases illustrate the framework applied at different scales of co-investment. The figures are modelled for analytical clarity and are not drawn from any specific investor.

16.1 Case A: the anchor-LP programme

Case A is a large family office that commits to funds as an anchor investor and secures strong co-investment access, building a substantial co-investment programme that co-invests a large share of its private equity allocation. It captures a material net-return uplift from the fee saving on the large co-invested share, while managing the adverse-selection and concentration risks through independent underwriting and diversification across many co-investments. The case illustrates the anchor-LP programme, securing strong access through scale and capturing a large uplift on a well-managed co-investment portfolio.

16.2 Case B: the selective co-investor

Case B is a family office of moderate scale that commits to funds and co-invests selectively alongside a few valued managers, co-investing a moderate share of its allocation on carefully selected deals. It captures a moderate uplift from the fee saving, focusing its co-investment on the genuinely attractive deals it can underwrite well, and managing the risks through disciplined selection and diversification. The case illustrates the selective co-investor, capturing a moderate uplift through disciplined selection of co-investments from a few valued managers.

16.3 Case C: the opportunistic co-investor

Case C is a smaller family office, building its co-investment capability, that co-invests opportunistically on the occasional deals it is offered, co-investing a small share of its allocation. It captures a smaller uplift, limited by its access and capability, but builds its co-investment capability and relationships through the opportunities it takes, laying the foundation for a larger programme as its access and capability grow. The case illustrates the opportunistic co-investor, capturing a smaller uplift while building toward a larger programme.

Figure 8. Co-Investment Share and Net IRR Uplift by Programme

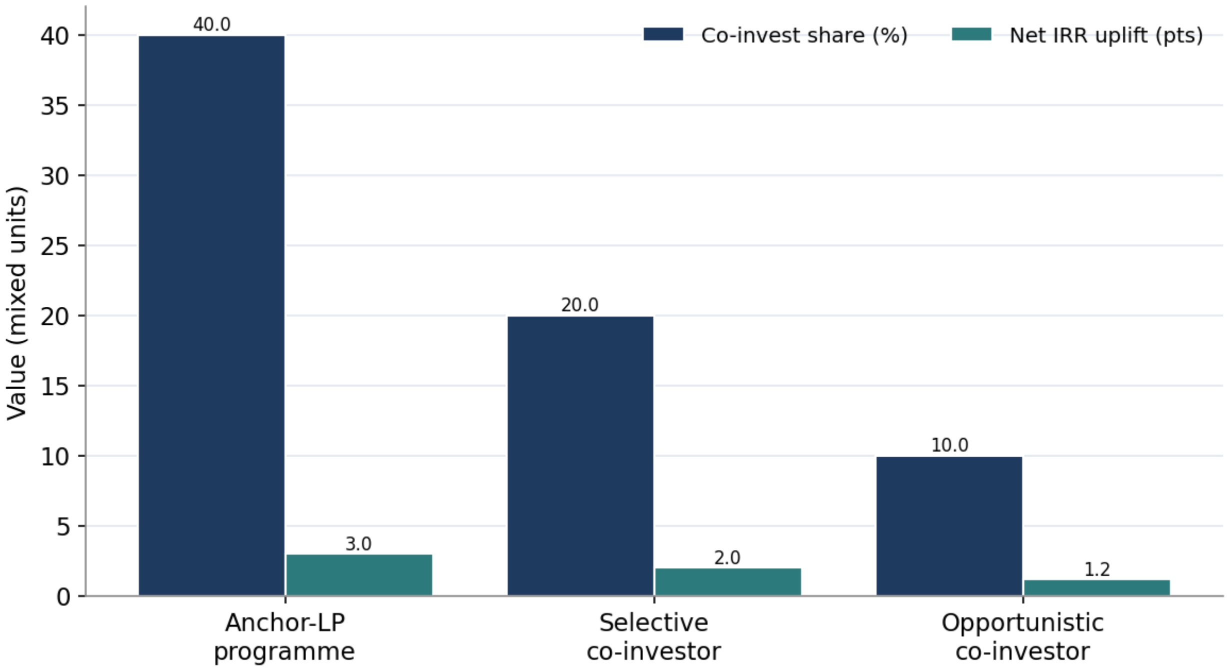
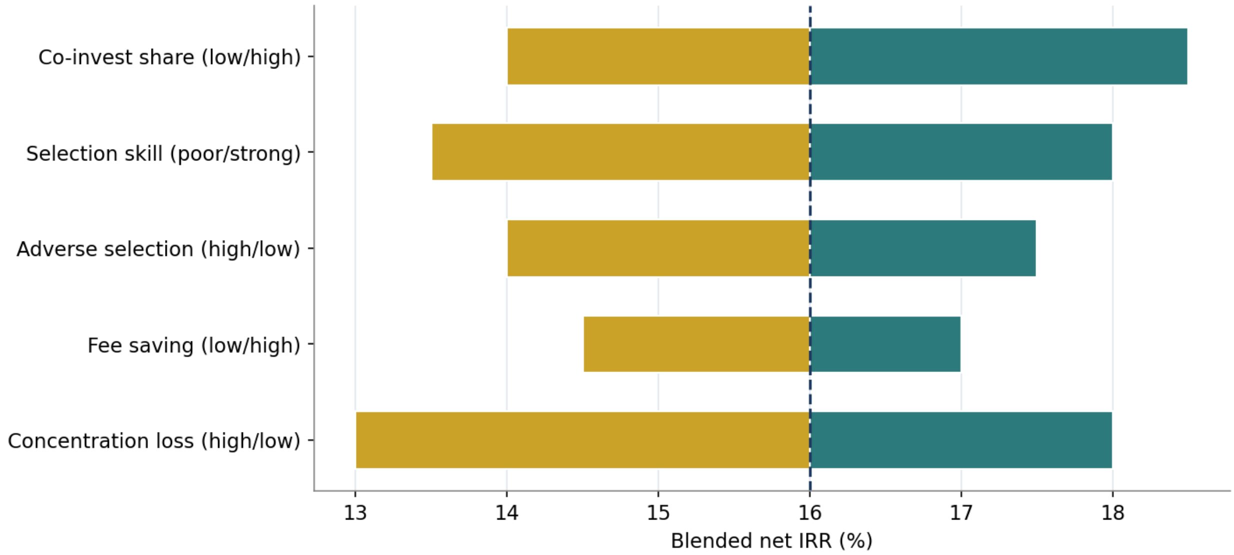


Figure 8 compares the three cases on the co-investment share and the net IRR uplift. The anchor-LP programme co-invests the largest share and captures the largest uplift, the selective co-investor a moderate share and uplift, and the opportunistic co-investor a small share and uplift, reflecting their differing access and capability. The comparison illustrates that the uplift rises with the co-investment share, which rises with the access and capability the LP builds, and that an LP capturing the largest uplift is one that has built the access and capability to co-invest at scale while managing the risks. The cases show the framework producing different programmes for different scales, each capturing an uplift appropriate to its access and capability.

17. Sensitivity and Scenario Analysis

A tornado analysis identifies the variables that most influence the blended net IRR from a co-investment programme. Figure 9 presents the result.

Figure 9. Sensitivity of Blended Net IRR to Key Variables



The analysis shows that the co-investment share and the selection skill most influence the blended net IRR, with the adverse-selection, the fee saving and the concentration loss also significant. The co-investment share matters because the uplift rises with it, and the selection skill matters because it determines whether the co-investments are genuinely attractive or the adverse-selection rejects. The two interact: a large co-investment share with strong selection captures a large uplift, while a large share with weak selection may concentrate the LP in poorly-selected deals, eroding the uplift. The sensitivity confirms that capturing the uplift depends on both the share and the selection.

Table 3. Scenario Matrix for Blended Net IRR from a Co-Investment Programme

Scenario	Co-invest share	Selection	Blended net IRR
Strong programme	High	Strong	~18%
Selective	Moderate	Strong	~16%
Limited	Low	Moderate	~15%
Adverse	High	Weak	~13% or below fund

Modelled scenarios. The adverse case shows a high co-invest share with weak selection underperforming.

The scenario matrix shows the danger the framework warns against: the adverse scenario, a high co-investment share with weak selection, can underperform even the fund, because the LP has concentrated its capital in poorly-selected or adverse-selected deals despite the fee saving. This confirms that co-investment is not free money; it captures the uplift only with strong selection, and a large co-investment programme with weak selection can underperform. The matrix reinforces the framework prescription to build both the access for a substantial co-investment share and the selection to choose well, because the uplift depends on both, and a large programme with weak selection destroys rather than creates value.

18. International Comparison

Co-investment is a well-established practice among sophisticated LPs internationally, and the largest institutions and family offices have built substantial co-investment programmes that materially enhance their net returns. The international experience confirms the framework key lessons: that co-investment lifts net returns through the fee saving, that access depends on LP standing, that adverse selection is a genuine risk to be managed through independent underwriting, and that the LPs capturing the most are those that have built both the access and the selection capability. The international practice validates co-investment as a core lever on net returns for sophisticated LPs.

The international experience also documents the dispersion in co-investment outcomes, with some LPs capturing strong uplifts through disciplined programmes and others underperforming through weak selection or adverse selection, which confirms that capturing the uplift requires the capability the framework describes. The cautionary international cases, of LPs that co-invested heavily without the selection to manage adverse selection and underperformed, reinforce that co-investment rewards capability and discipline, not mere access. The GCC family offices building co-investment programmes can learn from both the successes and the cautionary cases, building the access and selection capability that captures the uplift.

19. Co-Investment within the Broader Programme

Co-investment should be understood within the broader private markets programme examined in the companion papers, as a lever on the net return of the fund allocation and a path to building direct capability. The co-investment complements the fund commitments, capturing the fee-saving uplift on a share of the allocation while the funds provide the diversification and the access to the managers deals. The co-investment programme is therefore part of the broader allocation, enhancing its net return, and it should be constructed to complement the funds, as the portfolio construction section discussed.

Co-investment is also the bridge to direct investing, as the companion paper on direct versus fund investing discussed, building the access, relationships and judgement that direct investing requires. An LP that builds a co-investment programme builds toward the capability to invest directly, capturing the fee-saving uplift while developing the capability, which is part of the LP maturation as a private markets investor. The co-investment programme therefore advances the LP broader development, building toward direct investing while capturing the uplift, and it is part of the hybrid model the companion paper recommended.

Within the broader programme, the co-investment share should be sized to the LP access, capability and prudence, capturing a substantial uplift while managing the concentration and maintaining the diversification of the funds. The LP should not co-invest its whole allocation, both because it cannot secure that much access and because doing so would sacrifice the fund diversification, but it should co-invest a substantial share where it has the access and selection capability, capturing the uplift while retaining the funds for diversification. The co-investment share is therefore a balance within the broader programme, sized to capture the uplift while maintaining the diversification and managing the concentration.

The co-investment programme, well integrated into the broader allocation, enhances the net return, builds toward direct investing, and advances the LP development as a private markets investor, which is its full value. An LP that builds a co-investment programme integrated into its broader allocation captures the net-return uplift, builds its capability, and advances its maturation, while one that treats co-investment as a series of opportunistic deals divorced from the broader programme captures less and builds less. The integration of co-investment into the broader programme is therefore part of capturing its full value, which the framework intends.

20. Common Errors and How to Avoid Them

A recognisable set of errors recurs in co-investment programmes.

- **Uncritical co-investment.** Taking every co-investment offered, without independent selection, exposes the LP to adverse selection and concentration. The remedy is disciplined, independent selection of each co-investment.
- **Ignoring adverse selection.** Assuming the GP is acting in the LP interest on each deal ignores the adverse-selection risk. The remedy is to probe why the GP is sharing each deal and underwrite independently.
- **Concentrated co-investment.** Co-investing heavily without diversification concentrates the LP capital in specific deals. The remedy is to diversify the co-investment portfolio across deals, sectors and managers.
- **Neglecting access.** Failing to build the access and standing that secure co-investment offers limits the uplift. The remedy is to establish oneself as a valued, reliable, decisive LP.
- **Mismanaging the speed.** Deciding on co-investments too quickly with insufficient diligence, or too slowly to meet the GP timetable, leads to poor decisions or missed opportunities. The remedy is the capability to decide quickly but well.

Each of these errors is avoidable through the disciplined approach the framework encourages: select independently, manage adverse selection, diversify, build access, and decide quickly but well. The LP that does so captures the co-investment uplift on a well-managed, diversified portfolio of genuinely attractive deals, while the one that does not takes the adverse-selection rejects, concentrates its capital, fails to secure access, or mismanages the speed. The discipline is what turns co-investment from a risk into the powerful net-return lever it can be.

21. Implementation Roadmap

1. Establish the LP standing that secures co-investment access, through reliable, scaled, constructive fund commitments and relationships with valued managers.
2. Build the capability to underwrite and decide on co-investments quickly but well, with the team, processes and governance to act on the GP timetable.
3. Select co-investments independently, assessing each on its own merits, probing the GP motivation, and managing the adverse-selection risk.
4. Negotiate favourable terms, seeking no-fee, no-carry structures and appropriate rights, from the LP standing as a valued investor.
5. Pace and construct the co-investment portfolio, diversifying across deals, sectors, geographies and managers, and complementing the fund allocation.

6. Manage the concentration, selection, adverse-selection and speed risks through diversification, independent underwriting, and disciplined decision-making.
7. Integrate the co-investment programme into the broader private markets allocation, sizing the co-investment share to capture the uplift while maintaining diversification, and using it to build toward direct investing.

22. Strategic Perspective: Co-Investment as a Net-Return Engine

The strategic value of co-investment is that it is the most effective controllable lever on the net return a family office keeps from private markets, working directly on the fee drag that is the largest and most controllable cost. A family office that builds a co-investment programme builds a net-return engine that enhances its returns across its private markets allocation, capturing a material uplift that compounds over time. The co-investment capability is therefore a strategic asset, enhancing the family office net returns durably across its private markets programme.

The co-investment capability also builds toward the direct investing capability and advances the family office broader maturation as a private markets investor, as the companion papers discussed. A family office that builds a co-investment programme builds the access, relationships and judgement that direct investing requires, advancing toward the hybrid model that combines funds, co-investment and direct investing. The co-investment capability is therefore valuable both for the net-return uplift it captures and for the broader capability it builds, and investing in it advances the family office strategic development as a private markets investor.

The strategic prize is a family office that captures more of the gross return its managers produce, builds toward direct investing, and matures as a private markets investor, through a co-investment programme integrated into its broader allocation. A family office that builds this captures a durable net-return advantage, builds its capability, and advances its maturation, distinguishing itself from family offices that pay full fund fees and capture less of the gross return. The co-investment programme is therefore a strategic investment that enhances the net return and advances the broader development, and building it well is part of becoming a sophisticated private markets investor.

23. Conclusion

Co-investment is the most effective controllable lever a family office has on the net return it keeps from private markets, working directly on the fee drag that is the largest and most controllable cost. This paper has shown that co-investment can lift the blended net return materially, that the uplift rises with the co-invested share, and that capturing it depends on three things: the access that the best managers offer their most valued investors, the independent judgement to select among the opportunities offered, and the disciplined management of the adverse-selection and concentration risks that co-investment carries.

The central conclusions are that co-investment is not free money but a capability to be built and a set of risks to be managed; that access depends on the LP standing, selection on its judgement, and the uplift on both; that the adverse-selection risk requires independent underwriting and a screen for why the manager is sharing each deal; and that the co-investment programme, integrated into the broader allocation, enhances the net return and builds toward direct investing. The family office that builds the access and the selection capability, manages the risks, and integrates co-investment into its broader programme will capture a material, durable net-return uplift, and the frameworks in this paper are intended to help it do so.

24. Limitations and Directions for Further Research

This paper is framework-oriented and relies on modelled figures, and its conclusions are directional rather than precise. The fee savings, return uplifts and risk figures are calibrated to observable conditions but are not empirical estimates, and they vary across managers, deals and programmes. The adverse-selection risk, central to the framework, is difficult to observe directly and varies across managers.

Several extensions would strengthen the analysis. An empirical study of the net-return uplift achieved by co-investment programmes, by LP scale and selection capability, would test the framework central claims. An analysis of adverse selection in co-investment, comparing the performance of co-invested deals with the fund deals, would quantify the risk the framework emphasises. And a study of how co-investment programmes have performed through a downturn, when concentration and adverse selection bite, would illuminate the risks. Each is a natural subject for a later paper in this series.

Appendix A. Base Case Assumptions

Table 4. Base Case Assumptions

Parameter	Value	Parameter	Value
Fund management fee	~2%	Fund carry	~20% over hurdle
Co-investment fees	Reduced / nil	Net IRR uplift (strong programme)	~3-4 pts
Co-invest share (anchor)	~40%	Co-invest share (opportunistic)	~10%
Adverse-selection screen	Why is GP sharing?	Binding factors	Access + selection
Diversification	Across deals/sectors/GPs	Compliant option	Available
Decision speed	Days, not weeks	Vehicle	SPV

Modelled parameters used to generate the figures and cases. Not transaction-specific.

Appendix B. Co-Investment Evaluation Checklist

Table 5. Co-Investment Evaluation Checklist

Area	What to assess
Why offered	Why is the GP sharing this deal? Adverse-selection screen
Deal merits	The asset/company, price, structure, return on its own merits
Independent view	Own underwriting and judgement, not just the GP view
Capability fit	Within the LP mandate and capability to assess

Time	Can the LP underwrite adequately on the GP timetable?
Terms	Fees, carry, information and governance rights
Portfolio fit	Diversification and concentration within the portfolio
Structure	Vehicle, alignment with the fund, exit treatment
Compliance	Shariah compliance where required
Decision	Take only if attractive, within capability, and well-selected

A practical checklist for evaluating a co-investment opportunity.

Appendix C. Glossary of Terms

Table 6. Glossary of Key Terms

Term	Definition
Co-investment	Investing directly alongside a fund manager in a deal.
Limited partner (LP)	An investor in a fund.
General partner (GP)	The manager of a fund.
Fee drag	The reduction in return caused by fees and carry.
Carry	The performance fee, a share of profits above a hurdle.
Net return	The return the LP keeps after fees and carry.
Adverse selection	The risk that offered deals are skewed to weaker ones.
Anchor LP	A large, early investor with strong standing and access.
Special-purpose vehicle	An entity holding the co-investment interest.
Blended net IRR	The net IRR across fund and co-investment capital.

Definitions provided for reference.

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