The Co-Investment Edge: Cutting Fees on GCC Private-Market Exposure

How direct co-investment lowers the fee drag on Gulf private-market returns, what it demands in return, and how an allocator should build the capability

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ABSTRACT

Fees are the most certain drag on a private-markets return, and co-investment, investing directly alongside a fund manager in a single deal, usually with little or no management fee and carry, is the most direct way to reduce that drag. This paper sets out how a family-office or institutional allocator should use co-investment to lower the fee burden on its GCC private-market exposure, what co-investment demands in return, and how to build the capability to do it well. Drawing on the literature on private-markets fees and net-of-fee returns, on co-investment performance and adverse selection, and on the construction of private-market programmes, it advances five propositions concerning the co-investment edge. Using a stylised, clearly-labelled framework, it quantifies the fee drag that co-investment removes, examines the selection question that determines whether the edge is real, analyses the diversification and capability requirements of a co-investment sleeve, and compares funds-only, selective and heavy co-investment approaches. The analysis finds that co-investment can materially raise net returns by removing fee layers, but only if the allocator can select deals at least as well as the average fund position rather than worse; that the diversification of a co-investment sleeve requires deliberate sizing across enough deals and vintages; that the capability to evaluate deals quickly is the binding constraint; and that a selective, fee-light co-investment sleeve blended with a funds core is, for most allocators, the most efficient approach. The paper provides a co-investment framework, a capability assessment and a checklist, and discusses the limitations and avenues for further research.

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1. INTRODUCTION

Of all the influences on a private-markets return, fees are the most certain. Markets may rise or fall, managers may outperform or disappoint, but the management fee is charged every year regardless, and the carried interest is taken from every gain, so the gap between the gross return a manager earns and the net return an investor keeps is large, predictable and permanent. The most direct way to narrow that gap is co-investment: investing directly alongside a manager in a single transaction, typically with little or no management fee and no carried interest on the co-invested portion. Co-investment does not change the underlying deal; it changes the share of the deal's return the investor keeps, and because fees compound over a holding period, even a modest reduction in the fee load can produce a material improvement in the net return.

This paper sets out how a family-office or institutional allocator should use co-investment to lower the fee burden on its GCC private-market exposure. It is written for the chief investment officer and the head of alternatives weighing whether and how to add co-investment to a programme built principally through funds. Its purpose is neither to promote co-investment uncritically nor to dismiss it, but to set out honestly what the co-investment edge is, what determines whether it is real, and what an allocator must do, and be able to do, to capture it. The central message is that co-investment offers a genuine fee advantage, but that the advantage is conditional: it is real only for an allocator that can select deals at least as well as the fund positions it would otherwise hold, and that has the capability to evaluate opportunities on the timetable co-investment demands.

The Gulf context makes the question timely. As allocators build GCC exposure across real estate, private credit, digital infrastructure and private equity, they are increasingly offered co-investment alongside the managers they back, both because managers value the additional capital and the deepening of the relationship, and because allocators are increasingly fee-conscious. The companion analyses establish that the Gulf merits an allocation, how to construct it, and how to manage its liquidity; this paper addresses how to lower its fee cost through co-investment without taking on risks the allocator is not equipped to manage.

The paper makes three contributions. First, it quantifies the fee drag that co-investment removes, showing how the same gross deal produces a higher net return when held fee-light. Second, it examines the selection question, the central determinant of whether the edge is real, and the adverse-selection risk that can erode it. Third, it analyses the diversification and capability requirements of a co-investment sleeve and compares funds-only, selective and heavy co-investment approaches, recommending the approach most allocators should take. Throughout, the figures are modelled and clearly labelled; they illustrate the economics of co-investment rather than forecasting outcomes, and they are not forecasts.

It is worth setting out at the start why fees deserve the prominence this paper gives them. In public markets, fee differences are measured in fractions of a percent and the debate over active versus passive turns on them; in private markets, the fee load is an order of magnitude larger, and yet it often receives less scrutiny because it is bundled into the net return an investor sees and is rarely confronted directly. An allocator that would never pay a percent more than necessary for a public-equity mandate may accept a two-and-twenty fee structure on private exposure without asking whether part of that exposure could be held more cheaply. Co-investment is the most direct way to ask, and to act on, that question, which is why it deserves treatment as a strategic choice rather than an opportunistic one. This paper aims to give the choice the structure it warrants.

The remainder of the paper is structured as follows. Section 2 reviews the literature on private-markets fees, on co-investment performance and adverse selection, and on programme construction, and develops five propositions. Section 3 describes the data and the stylised methodology. Section 4 presents and discusses the results, covering the fee drag, the net-return uplift, the sources of deal flow, the selection question, the diversification requirement, the capability requirement and the comparison of approaches. Section 5 reports robustness. Section 6 sets out implementation considerations. Section 7 offers concluding comments, including limitations and directions for further research. A statement of disclosures, the references and appendices follow.

2. LITERATURE REVIEW AND PROPOSITIONS

The analysis draws on three strands of the literature: the measurement of private-markets fees and net-of-fee returns; the performance of co-investments and the adverse-selection problem; and the construction of private-market programmes. This section reviews each and develops the propositions the analysis examines.

2.1 Fees and Net-of-Fee Returns

A substantial literature documents the size and persistence of private-markets fees and their effect on the returns investors actually keep (Phalippou, 2014; Harris, Jenkinson and Kaplan, 2014). The consistent finding is that the management fee and carried interest together absorb a large share of the gross return, so that the net-of-fee return to investors is materially lower than the headline gross figures managers cite, and that this fee drag compounds over a fund's life. The literature establishes that fees are the most reliable predictor of the gap between gross and net performance, and that reducing the fee load is one of the few levers an investor controls with certainty, since it does not depend on forecasting which managers or deals will outperform. This underpins the first proposition: that co-investment, by removing fee layers, raises the net return on a given gross deal.

The fees literature also illuminates why the net-of-fee figure, not the gross, is the only one that should guide an allocator's decisions, and why gross figures can mislead. Managers naturally present gross returns, which flatter their skill and obscure the fee load, but the investor consumes only the net return, and the gap between the two is both large and reliably present. The practical discipline the literature implies is to translate every private-markets opportunity into a net-of-fee expectation before comparing it with alternatives, including the alternative of holding part of the same exposure fee-light through co-investment. An allocator that compares a fund's gross return with a co-investment's net return, or that ignores the fee drag because it is bundled into a single net figure it does not decompose, will misjudge the value of the co-investment edge. The first analytical step in any co-investment decision is therefore to make the fee load explicit.

2.2 Co-Investment Performance and Adverse Selection

A second literature examines whether co-investments actually deliver the higher net returns their lower fees imply, and finds that the answer turns on selection (Fang, Ivashina and Lerner, 2015). The fee saving is real and certain; the question is whether the deals offered as co-investments are as good as the average deal in the fund. The adverse-selection concern is that managers may offer investors co-investment in their less-attractive deals, those too large or too risky for the fund alone, while keeping the best deals for the fund where they earn full carry, so that the co-investor's fee saving is offset by inferior deal quality. The evidence is mixed and depends on the manager, the relationship and the investor's ability to decline weak deals, which means co-investment can deliver a net edge for a discerning investor but can disappoint one that accepts whatever is offered. This underpins the second and third propositions, on the selection question and the capability it requires.

The co-investment performance literature also offers a more hopeful counterpoint to the adverse-selection concern. Where investors are large, sophisticated and valued by managers, the evidence suggests they can access good co-investments and are not confined to the leftovers, because managers compete for their capital and their continued fund commitments depend on being treated well. The adverse-selection problem is most acute for small or undiscerning investors who take what they are given; it is least acute for those with the standing to demand quality and the capability to verify it. This nuance matters for the Gulf allocator, because it implies that the co-investment edge is most available to those who have first established themselves as valued fund investors, which again locates the foundation of a co-investment programme in the quality of the underlying fund relationships rather than in co-investment access pursued for its own sake.

2.3 Constructing a Co-Investment Sleeve

A third strand concerns how co-investment fits within a constructed programme, and the diversification and pacing it requires (Lerner, Leamon and Hardymon, 2012). Because each co-investment is a single, undiversified deal, a co-investment sleeve concentrates risk unless it is built across enough deals and vintages to diversify the idiosyncratic exposure. The literature establishes that a co-investment sleeve needs deliberate construction, sizing each deal modestly, spreading across managers, sectors and years, to avoid the concentration that a handful of large co-investments would create. This underpins the fourth proposition, on the diversification requirement, and informs the fifth, on the blended approach.

2.4 Synthesis and Propositions

Taken together, these literatures imply that co-investment offers a certain fee saving whose net benefit depends on selection and capability, and that a co-investment sleeve must be deliberately diversified. From this the paper develops five propositions:

Proposition 1. Co-investment raises the net return on a given gross deal by removing the management-fee and carry layers, a saving that is certain and compounds over the holding period.

Proposition 2. The net co-investment edge is real only if the allocator can select deals at least as good as the average fund position; adverse selection can erode or reverse the fee saving for an undiscerning investor.

Proposition 3. The binding constraint on capturing the edge is capability, the ability to evaluate deals well and quickly, not access to deal flow.

Proposition 4. A co-investment sleeve must be deliberately diversified across enough deals, managers, sectors and vintages, because each deal is a single, undiversified exposure.

Proposition 5. For most allocators, a selective, fee-light co-investment sleeve blended with a funds core captures most of the edge at a manageable capability cost, and is preferable to either a funds-only or a heavy co-investment approach.

3. DATA AND METHODOLOGY

This study is analytical, using a transparent, stylised framework whose assumptions are stated explicitly rather than estimated from a proprietary dataset, which suits a question about the prospective economics of co-investment. The figures are modelled and clearly labelled; they illustrate the economics an allocator can apply to its own programme, and they are not forecasts.

3.1 The Co-Investment Framework

The framework has three components: a fee-economics model contrasting the net return on a deal held through a fund with the same deal held fee-light as a co-investment; a selection analysis examining how deal quality determines whether the fee saving translates into a net edge; and a construction analysis covering the diversification, capability and pacing a co-investment sleeve requires. Together these address whether, when and how an allocator should use co-investment.

3.1a What the Framework Does and Does Not Do

It is important to be clear about the framework's scope. It is a tool for reasoning about the economics of co-investment, the fee saving, the selection condition, the diversification and capability requirements, and about how those economics should shape an allocator's approach; it is not a forecasting model, and it does not predict the returns of any particular deal or programme. The figures should be read as illustrations of the economics, the way fees reduce the net multiple, the way deal quality swings the outcome, the way diversification falls with the number of deals, rather than as numerical predictions. The value of such a framework is that it makes the structure of the co-investment decision visible, so that an allocator can apply the same reasoning to its own circumstances with its own, better-informed inputs.

The framework is deliberately transparent because co-investment is an area where the certain part of the case, the fee saving, is easy to compute and tempting to over-weight, while the conditional part, the selection and capability requirements, is harder to quantify and easy to neglect. By keeping the assumptions explicit and the mechanics simple, the framework keeps the allocator's attention on the questions that actually determine the outcome: can we select well, can we diversify, can we underwrite on the manager's timetable. A complex model that produced a precise net-IRR figure would risk obscuring the truth that the figure depends entirely on selection skill the model cannot supply.

3.2 Assumptions and Their Justification

The stylised inputs, the fund fee terms, the gross deal return, the co-investment fee terms and the deal-quality scenarios, are calibrations informed by the fees and co-investment literature (Phalippou, 2014; Fang, Ivashina and Lerner, 2015); they are indicative rather than precise estimates and are recorded in Appendix A. The deal-quality and fee-terms assumptions are treated as the central uncertain inputs and are tested in Section 5. The base-case assumptions are set out in Table 1.

Table 1. Base-Case Assumptions for the Co-Investment Framework

Parameter	Assumption
Fund fee terms	2% management fee, 20% carried interest
Co-investment fee terms	0% / 0% (fee-light) base case
Illustrative gross deal multiple	2.0x over the holding period
Base-case fund net IRR	~13-14%
Fee-light co-investment net IRR	~18% (neutral selection)
Co-investment sleeve size	Selective: ~20-30% of programme
Diversification target	8-12+ deals across managers/vintages

Indicative, forward-looking assumptions used to illustrate co-investment economics; not forecasts. See Appendix A.

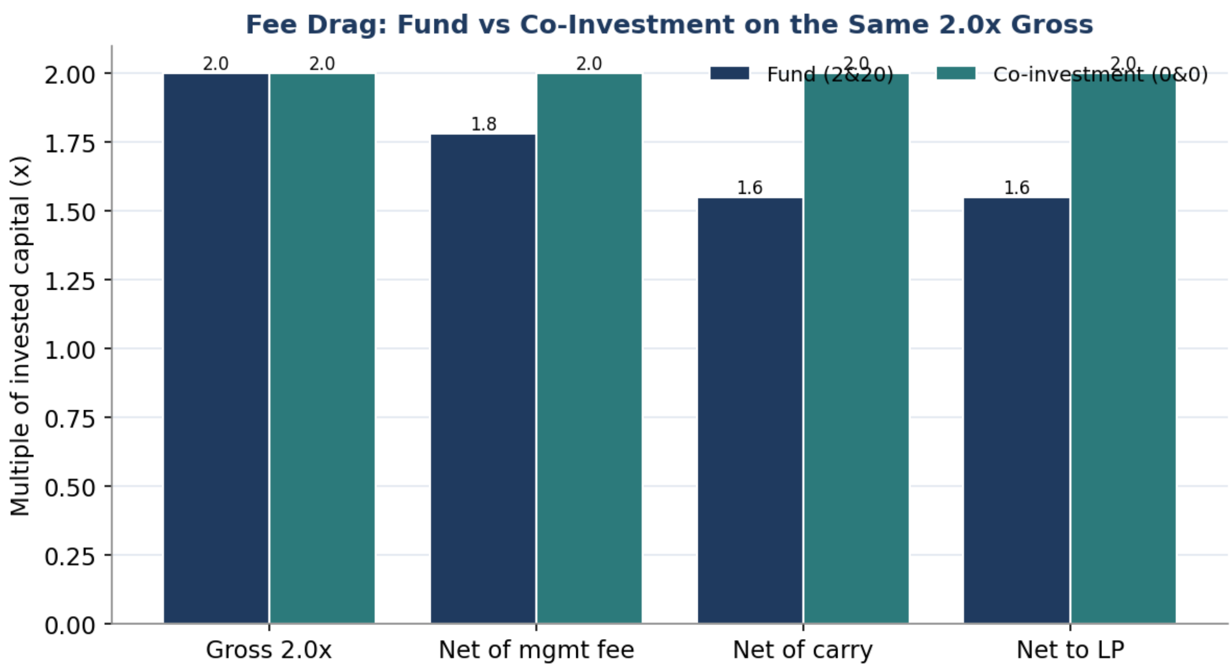
4. RESULTS AND DISCUSSION

This section presents the framework in the order of the propositions: the fee drag and net-return uplift (Proposition 1); the sources of deal flow and the selection question (Propositions 2 and 3); the diversification and capability requirements (Propositions 3 and 4); and the comparison of approaches (Proposition 5).

4.1 The Fee Drag Co-Investment Removes

The starting point is the fee economics. Figure 1 contrasts the net outcome of the same gross deal held through a fund and held fee-light.

Figure 1. Fee Drag: Fund versus Co-Investment on the Same 2.0x Gross



Indicative; the management fee and carry reduce the fund net multiple while the fee-light co-investment retains the full gross.

The figure supports Proposition 1. The same gross deal, a 2.0x multiple, produces a materially lower net multiple when held through a fund, because the management fee reduces the invested base each year and the carried interest takes a fifth of the gain, while the fee-light co-investment retains close to the full gross outcome. The saving is not a forecast or a hope; it is an arithmetic consequence of removing the fee layers, and it is certain in a way that no return assumption can be. Because fees compound, the saving is larger the longer the holding period and the higher the gross return, which is precisely when investors most want to keep what they earn. The first and most reliable part of the co-investment case is therefore this: on any given deal, holding it fee-light keeps more of the return than holding it through a fund.

The net-return uplift also deserves to be set in the context of the whole programme rather than judged on a single deal. A few points of additional net return on the co-invested share, compounded over the long horizon a private-markets programme runs, accumulate into a substantial difference in the capital the allocator ultimately keeps. This is the same compounding that makes the fee drag so costly, working in the allocator's favour. For a long-horizon Gulf allocator building exposure over many years, the cumulative effect of holding a meaningful slice of the programme fee-light is therefore larger than the per-deal figures suggest, which is the strategic case for treating co-investment as a deliberate, standing component of the programme rather than an occasional opportunistic addition. The allocator that institutionalises a disciplined co-investment capability captures this compounding advantage year after year; the one that co-invests only sporadically captures only a fraction of it.

4.1a The Gulf Dimension of the Fee Question

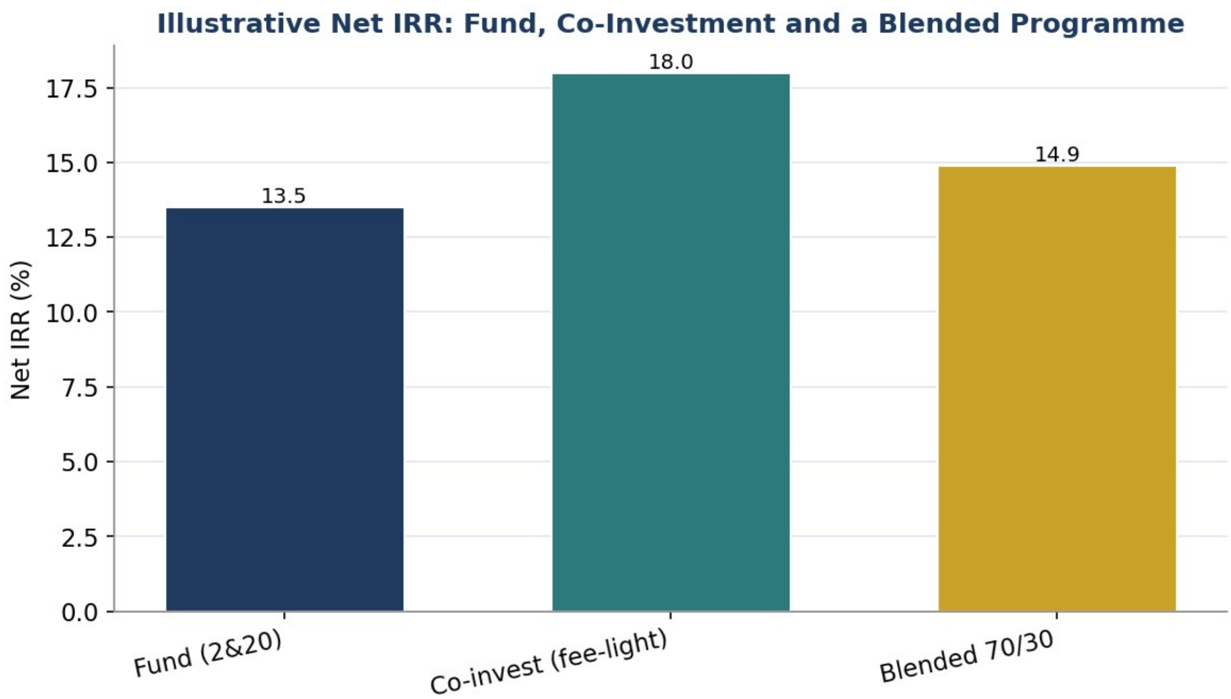
The fee question has a particular shape in the Gulf. As allocators build GCC exposure across real estate, private credit, digital infrastructure and private equity, much of that exposure is naturally deal-oriented: real-estate projects, infrastructure and data-centre developments, and direct credit positions are often structured as discrete transactions in which co-investment alongside a sponsor or manager is a natural and frequently-offered option. This deal-oriented character means co-investment opportunities are relatively abundant for an allocator with the right relationships, and that the fee saving is available across a meaningful part of the Gulf opportunity set rather than confined to a narrow corner of it. At the same time, the relative youth of some Gulf manager relationships means an allocator may have less track record on which to judge a manager’s deal selection, which raises the premium on the allocator’s own underwriting capability and on the discipline to decline deals it cannot assess with confidence.

A second Gulf feature is that the deepening of relationships between international allocators and regional sponsors is itself a strategic objective for both sides, and co-investment is one of the principal ways those relationships deepen. An allocator that co-invests well alongside a strong Gulf sponsor not only captures the fee edge on the deal but strengthens a relationship that can generate further opportunities, while the sponsor gains a capital partner that can move at deal speed. This relational dimension means co-investment in the Gulf is often as much about building a durable partnership as about the economics of a single transaction, which reinforces the analysis’s emphasis on relationships as the foundation of co-investment and on the allocator conducting itself as a valued, capable partner rather than an opportunistic taker of offered deals.

4.2 The Net-Return Uplift

Translated into programme returns, the fee saving produces a net-IRR uplift, shown in Figure 2.

Figure 2. Illustrative Net IRR: Fund, Co-Investment and a Blended Programme



Indicative; the fee-light co-investment lifts net IRR, and a blended programme captures part of the uplift.

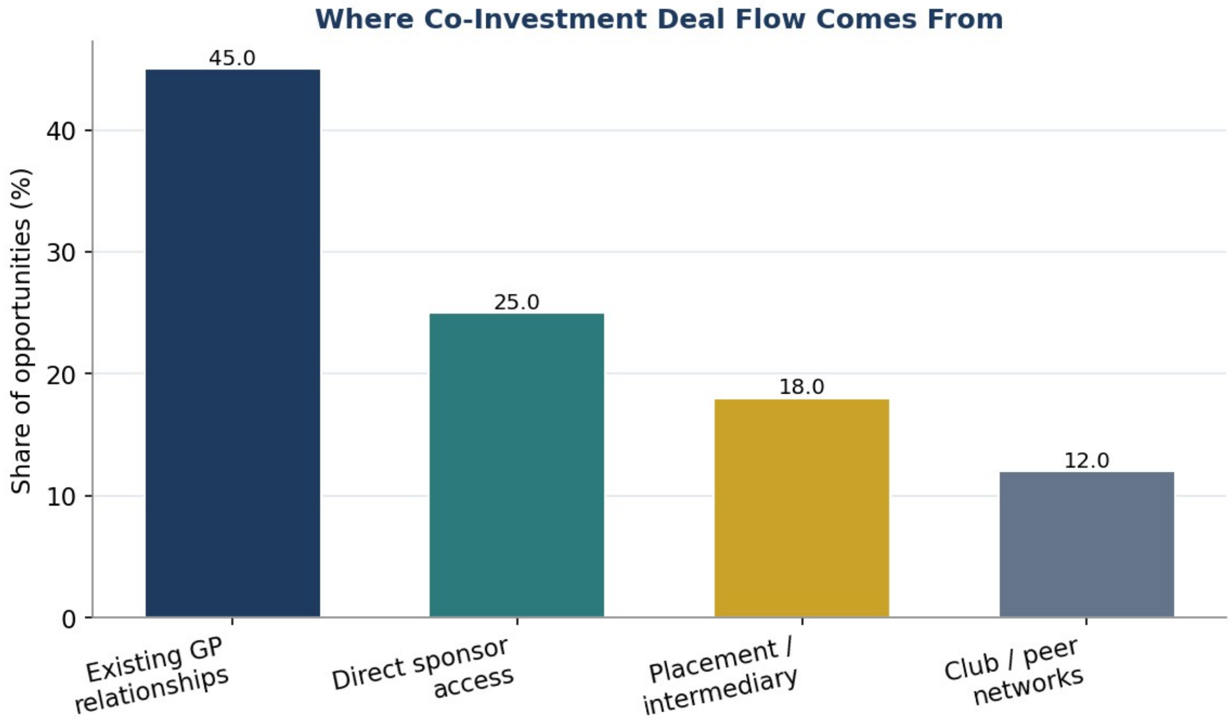
The figure illustrates the magnitude of the edge. A funds-only programme delivers an illustrative net IRR in the low-to-mid teens after fees; a fee-light co-investment, at neutral deal quality, delivers several points more, purely from the fee saving; and a blended programme, combining a funds core with a co-investment sleeve, captures a portion of the uplift proportional to the co-investment share. The practical reading is that even a modest co-investment allocation can lift a programme’s net return measurably, and that the uplift scales with the share of the programme held fee-light, subject to the selection and capability constraints discussed below. The fee saving is the engine of the co-investment case, but, as the next sections show, it is an engine that only drives the programme forward if the deals selected are sound.

It is worth being precise about why the fee saving compounds into a larger gap than its annual size suggests. The management fee is charged each year on the invested or committed capital, so over a multi-year hold it is paid several times, and each payment reduces the capital that could otherwise have compounded. The carried interest then takes a share of the gain that remains. The combined effect is that a fee structure which sounds like a fixed annual cost actually erodes a growing amount as the investment appreciates, which is exactly why removing it on a successful, long-held deal produces such a marked improvement in the net outcome. The co-investment saving is, in this sense, a saving on the most expensive part of the fee load, the part that scales with the success and duration of the investment.

4.3 Where Co-Investment Deal Flow Comes From

Capturing the edge first requires access to deals. Figure 3 shows where co-investment opportunities arise.

Figure 3. Where Co-Investment Deal Flow Comes From



Indicative; existing GP relationships are the principal source, ahead of direct sponsor access and intermediaries.

The figure shows that the principal source of co-investment is the allocator's existing fund relationships: managers offer co-investment to their committed limited partners, both to deepen the relationship and to fund deals larger than the fund alone can carry. Direct sponsor access, intermediated placement and peer networks supply the remainder. The practical implication is that co-investment is largely a by-product of being a good fund investor: an allocator builds its co-investment deal flow by being a reliable, valued limited partner to managers it rates, which is why a co-investment programme is usually built on top of a funds programme rather than instead of one. This also frames the access question correctly, access flows from relationships an allocator can cultivate, and is therefore not the binding constraint; capability, the subject of Proposition 3, is.

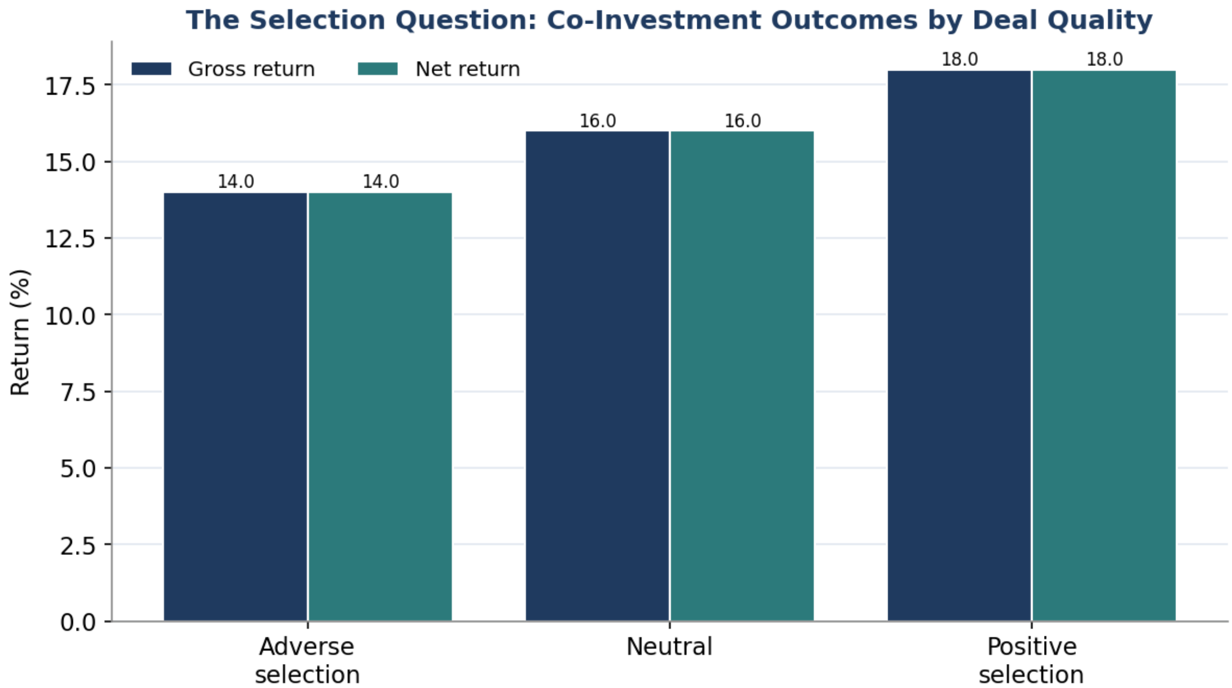
A practical corollary of co-investment flowing from fund relationships is that an allocator cannot build a co-investment programme overnight or in isolation. The deal flow accumulates as the allocator commits to funds, demonstrates that it is a good partner, and signals its appetite, a process that takes years and rests on a base of fund commitments. This has two implications. First, an allocator new to a market or to private markets generally should expect to build its co-investment capability gradually, alongside its funds programme, rather than attempting to start with a co-investment-heavy strategy it has neither the relationships nor the capability to support. Second, the co-investment sleeve and the funds core are complementary rather than competing: the core generates the relationships and deal flow that feed the sleeve, while the sleeve enhances the net return of the whole. An allocator that sees them as alternatives, and tries to replace funds with co-investments, undermines the very relationships that supply the co-investments.

It is worth noting that selection skill in co-investment is partly transferable from and partly distinct from the skill of selecting funds. Choosing good managers requires judging people, process and track record over time; underwriting a single co-investment requires judging a specific asset, its price, its risks and its prospects, on a deal timetable. An allocator strong at manager selection is not automatically strong at deal underwriting, and should not assume that its fund-selection success qualifies it to co-invest. The two capabilities overlap, both require analytical rigour and disciplined judgement, but co-investment adds the demands of asset-level diligence and speed that fund selection does not. Recognising this distinction helps an allocator assess honestly whether it has the specific capability co-investment requires, rather than inferring it from its broader investment competence, and points to where it may need to build or buy the additional skill.

4.4 The Selection Question

The decisive question is whether the deals offered are good. Figure 4 illustrates how outcomes depend on deal quality.

Figure 4. The Selection Question: Co-Investment Outcomes by Deal Quality



Indicative; fee-light economics help in every case, but adverse selection can leave a co-investor worse than the fund.

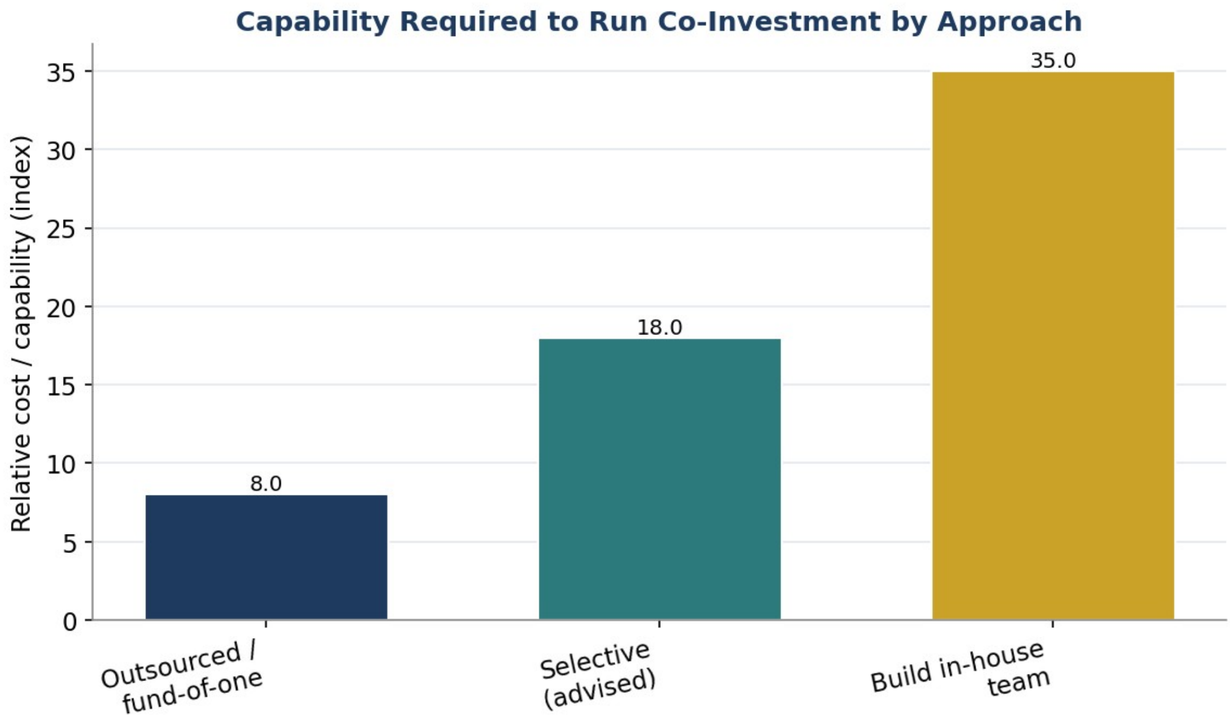
The figure supports Proposition 2. The fee saving lifts the net return at every level of deal quality, but the level of deal quality itself swings the outcome far more than the fee saving does. Under positive selection, deals as good as or better than the fund average, the co-investor enjoys both the fee saving and good deals, and does well. Under neutral selection the fee saving is a clear gain. But under adverse selection, deals worse than the fund average, the inferior deal quality can offset or exceed the fee saving, leaving the co-investor worse off than if it had simply held the fund. The lesson is that the co-investment edge is conditional on selection: it is real for an allocator that can tell a good deal from a poor one and decline the poor ones, and it is illusory or negative for one that accepts whatever is offered. This is why co-investment is not a free lunch; the fee saving is free, but only to an investor that does not pay it back in bad deals.

The selection question also reframes how an allocator should read a manager's enthusiasm for syndicating a deal. A manager offering co-investment is doing two things at once: deepening a valued relationship, and solving a capacity or risk problem for the fund. Most of the time these motives are benign and aligned with the co-investor's interest. But the allocator must hold in mind that the manager keeps full carry on what the fund holds and earns little or nothing on what it syndicates, so at the margin the manager has a weak incentive to syndicate its very best deals and a stronger one to syndicate those it cannot or would rather not hold alone. This does not mean syndicated deals are bad, many are excellent, but it means the allocator cannot take the manager's involvement as sufficient assurance of quality, and must underwrite the deal on its own merits. The fee saving is the reward for doing that underwriting work; an allocator unwilling or unable to do it is not positioned to earn the reward.

4.5 The Capability Requirement

Selecting well requires capability. Figure 5 shows the capability different approaches demand.

Figure 5. Capability Required to Run Co-Investment by Approach



Indicative; running co-investment well requires more capability than committing to funds, rising with the intensity of the approach.

The figure supports Proposition 3. Committing to a fund delegates deal selection to the manager and requires relatively modest in-house capability; co-investing requires the allocator to evaluate individual deals itself, on the manager's timetable, which is far more demanding. A selective, advised approach, evaluating a modest number of co-investments with external help where needed, requires moderate capability; building an in-house team to source and underwrite many co-investments requires substantial capability and cost. The binding constraint on capturing the co-investment edge is therefore the allocator's ability to underwrite deals well and quickly, not its access to them. An allocator that lacks this capability should either build it, buy it through advisers or a fund-of-one structure, or stay with funds; what it should not do is co-invest without the ability to decline the weak deals, because that is precisely how adverse selection turns the edge negative. Table 2 summarises the capability each approach requires.

Table 2. Capability Required by Co-Investment Approach

Approach	Deal evaluation	Capability / cost	Suited to
Funds only	Delegated to GP	Low	Allocators without deal

			capability
Selective (advised)	Allocator + adviser	Moderate	Most family offices
Heavy / in-house	Full in-house underwriting	High	Large, resourced institutions
Outsourced / fund-of-one	Delegated to specialist	Low-moderate	Fee-conscious but unresourced

Indicative. Capability, not access, is the binding constraint.

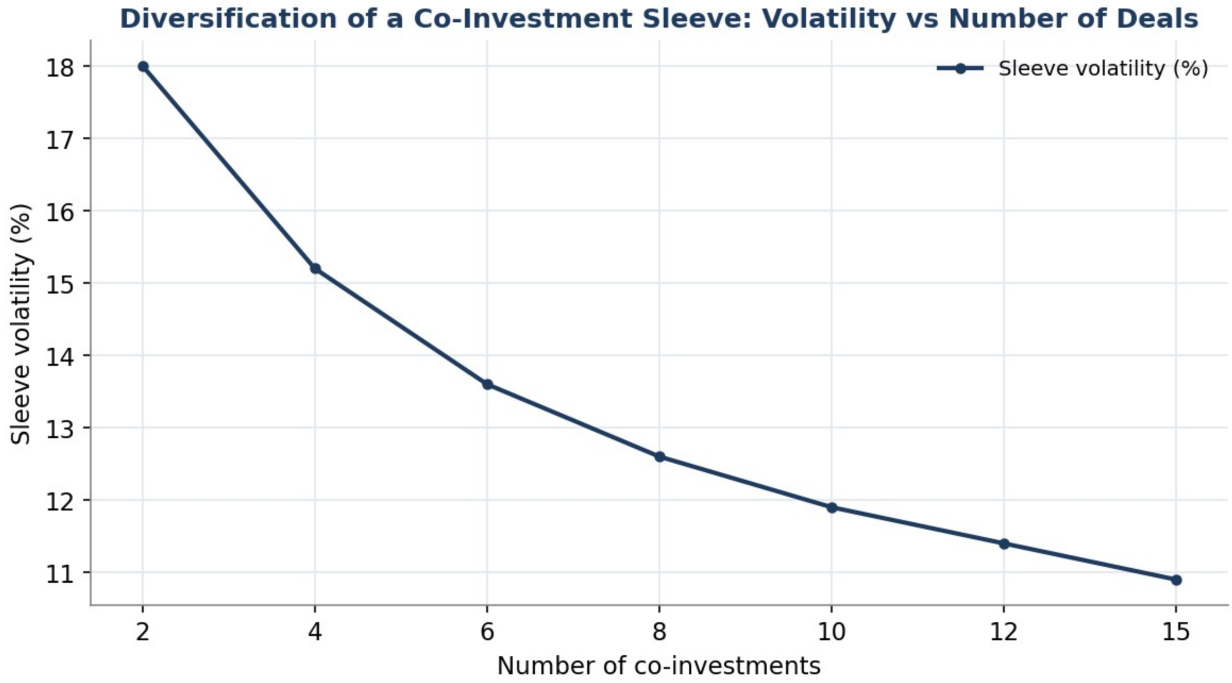
The speed dimension of capability deserves emphasis, because it distinguishes co-investment from fund selection. A fund commitment can be evaluated over weeks or months; a co-investment often must be evaluated in days, because the manager is executing a live transaction on a deal timetable that will not wait. This means the allocator needs not only the analytical skill to underwrite a deal but the organisation and decision-making process to do so quickly, with the right people available and an approval route that can move at the pace of the deal. An allocator with deep analytical capability but a slow committee will miss good co-investments or, worse, rush poor ones; an allocator that has streamlined its process for co-investment can act decisively on the deals it judges sound. Building this responsiveness is as much a part of the capability requirement as the analytical skill itself, and it is one reason many allocators use advisers or specialist vehicles that are structured to move at deal speed.

The sizing of individual co-investments deserves a specific word, because it is where the diversification discipline is most often breached. A particularly compelling co-investment, in a sector the allocator knows well or alongside a manager it trusts deeply, tempts the allocator to write a larger cheque than its sizing policy allows. Each such exception seems reasonable in isolation, but a sleeve assembled from a few large exceptions is a concentrated portfolio wearing the label of a diversified one. The discipline is to hold to a per-deal sizing limit even for the most attractive opportunities, accepting that the allocator will sometimes wish it had put more into a deal that succeeded, because the same limit protects it from the deal that fails. Sizing discipline, like selection discipline, is tested precisely by the deals that feel exceptional, and it is the deals that feel exceptional that most often breach it.

4.6 The Diversification Requirement

A co-investment sleeve must also be diversified. Figure 6 shows how sleeve volatility falls as the number of deals rises.

Figure 6. Diversification of a Co-Investment Sleeve: Volatility versus Number of Deals



Indicative; each co-investment is a single deal, so a sleeve needs enough deals to diversify idiosyncratic risk.

The figure supports Proposition 4. Because each co-investment is a single, undiversified deal, a sleeve of only a few co-investments carries high idiosyncratic risk, the failure of one deal can dominate the sleeve's outcome. As the number of deals rises, spread across managers, sectors and vintages, the idiosyncratic risk diversifies and the sleeve's volatility falls toward a more stable level. The practical implication is that a co-investment sleeve must be built deliberately to a meaningful number of modestly-sized deals, not assembled from a handful of large ones, however attractive each may seem. An allocator that puts too much into too few co-investments converts the fee edge into a concentration bet, which is a different and less favourable proposition. The diversification requirement also interacts with capability and pacing: building enough deals across enough vintages takes time and underwriting capacity, which is a further reason most allocators should run a selective sleeve alongside a funds core rather than attempting to replace the core with co-investments.

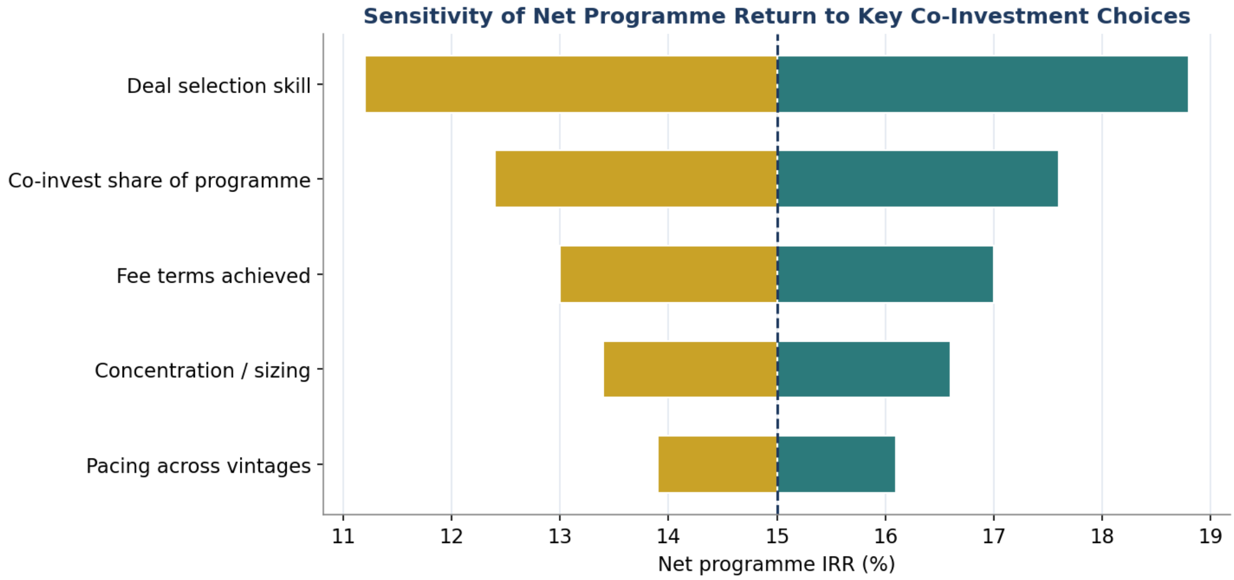
The diversification requirement interacts with the selection discipline in a way worth drawing out. A disciplined allocator declines weak deals, which is correct for selection but slows the accumulation of the sleeve, because fewer deals pass the bar. This tension, between selecting only good deals and building enough of them to diversify, is real, and it is resolved not by lowering the bar but by patience and by sourcing widely enough that enough good deals appear over time. An allocator that lowers its selection bar to build the sleeve faster sacrifices the very edge it is trying to capture; one that holds the bar and builds patiently across vintages achieves both quality and, eventually, diversification. The implication for sizing is to grow the sleeve at the pace good deals genuinely arrive, rather than to a target the allocator forces by accepting marginal deals, which is another reason the selective approach, growing a quality sleeve patiently, dominates a rushed heavy approach for most allocators.

It is worth pausing on why the diversification curve flattens rather than continuing to fall indefinitely. Adding deals diversifies the idiosyncratic risk specific to each, but it cannot diversify away the systematic risk common to all private-market exposure, the broad market and economic forces that move all deals together. Beyond a certain number of well-spread deals, therefore, the marginal benefit of one more co-investment to the sleeve's volatility becomes small, and the allocator gains little risk reduction from pushing the deal count higher. This has a practical implication: the diversification target should be set at the level where the curve has substantially flattened, enough deals to remove most idiosyncratic risk, rather than at an ever-rising number that adds underwriting burden without commensurate risk benefit. For most sleeves this points to a target in the range of roughly eight to a dozen or more well-spread deals, beyond which the allocator's effort is better spent on the quality of each deal than on the count.

4.7 Comparing the Approaches

Figure 7 places the sensitivity of the net programme return to the key co-investment choices in a single view.

Figure 7. Sensitivity of Net Programme Return to Key Co-Investment Choices

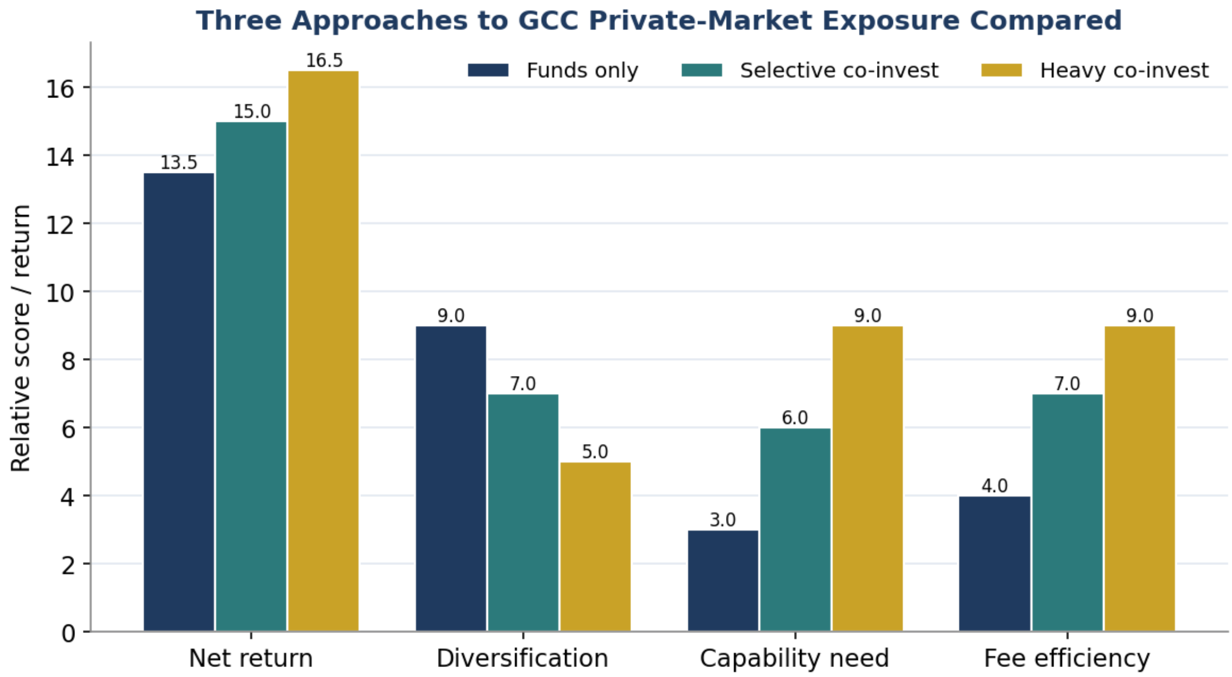


Indicative; deal selection skill dominates, ahead of the co-investment share and the fee terms achieved.

The sensitivity analysis confirms the hierarchy of what matters. Deal selection skill has the largest effect on the net programme return, ahead of the co-investment share and the fee terms achieved, with concentration and pacing mattering less. This ordering is the central practical message: the fee saving and the co-investment share set the size of the prize, but selection skill determines whether the prize is captured or paid back in poor deals, which is why capability is the binding constraint and selection the decisive variable.

Figure 8 compares three approaches on a common set of measures.

Figure 8. Three Approaches to GCC Private-Market Exposure Compared



Indicative; a selective co-investment sleeve balances net return, diversification and capability better than the extremes.

The comparison supports Proposition 5. The funds-only approach is the simplest and least demanding but leaves the fee edge on the table. The heavy co-investment approach captures the most fee saving but demands the most capability and, unless very well resourced, risks concentration and adverse selection. The selective approach, a fee-light co-investment sleeve of perhaps a fifth to a third of the programme, built on top of a funds core, captures much of the fee edge at a capability cost most allocators can meet, while keeping the diversification and manager access that the funds core provides. For most family offices and institutional allocators, this blended, selective approach is the one the analysis recommends, because it captures the co-investment edge without overreaching the allocator's capability or concentrating its risk.

4.8 A Worked Illustration of the Blended Programme

To make the blended approach concrete, consider an allocator running a GCC private-markets programme principally through funds and reasoning about adding a co-investment sleeve. Its funds core delivers a net return in the low-to-mid teens after the usual fee load. The allocator judges that it can underwrite a modest number of co-investments a year with the help of an adviser, and that it can decline the weak ones. It therefore sets a selective sleeve of, say, a quarter of new commitments, to be built across several deals a year, sized modestly, spread over managers and vintages, and underwritten to a clear bar. Over time the sleeve accumulates to a diversified set of fee-light positions whose net return, at neutral-to-positive selection, runs several points above the funds core. The blended programme's net return is then a weighted average of the two, lifted above the funds-only outcome by the sleeve's contribution, with the lift proportional to the sleeve's share and to the selection quality achieved.

The illustration also shows the discipline the approach requires. The allocator does not chase a sleeve target by accepting marginal deals; it grows the sleeve at the pace good deals arrive and pass the bar, accepting that in a thin year the sleeve grows slowly. It sizes each deal so that no single co-investment can dominate the sleeve, preserving diversification. And it reviews the sleeve's performance against the funds core, ready to slow or pause co-investing if its selection is not delivering at least neutral deal quality. Run this way, the blended approach captures most of the fee edge available to the allocator's capability while keeping the risk controlled, which is exactly the balance Proposition 5 recommends. Run without the discipline, accepting any offered deal to hit a target, the same structure would import the adverse selection the discipline is designed to exclude.

5. ROBUSTNESS AND SCENARIO ANALYSIS

Because the framework is stylised, its value lies in whether its conclusions hold under different assumptions. This section varies the central inputs.

A robustness question that sits across all the scenarios is how sensitive the conclusions are to the assumed gross deal return. The base case uses a successful 2.0x deal to illustrate the fee saving at its most visible. On a less successful deal the absolute fee saving is smaller, because there is less gain for the carry to take, but the relative advantage of holding fee-light remains, and on a losing deal the fee-light structure at least avoids paying a management fee on capital that is being lost. The qualitative conclusion, that holding a deal fee-light keeps more of whatever return it produces, holds across the range of outcomes; what varies is the size of the saving, which is largest on the successful, long-held deals where it matters most. This is a benign sensitivity: the co-investment edge is most valuable exactly where value is being created, and least costly to forgo where little is.

Underlying all the scenarios is a single robustness theme: the certain part of the co-investment case, the fee saving, is robust to almost every variation, while the conditional part, the net edge, depends on selection and capability that the allocator must supply. No change in fee terms, deal quality, share or cycle alters the basic fact that holding a deal fee-light keeps more of its return than holding it through a fund. What the scenarios vary is whether that saving is preserved into the net result or paid back through inferior deals, slow decisions or concentration. The conclusions are therefore robust in their structure, the fee saving is always real, the selection condition always decisive, even as the magnitudes shift with the assumptions. This is why the analysis rests its recommendation on the selective, disciplined, blended approach: it is the approach that secures the robust fee saving while managing the conditional risks, and it is robust across the range of scenarios precisely because it does not depend on the allocator being exceptional, only on its being disciplined.

5.1 Less Favourable Fee Terms

The base case assumes fee-light co-investment at no management fee and no carry. In practice some co-investments carry reduced but non-zero fees. If the co-investment fee terms are less favourable, the fee saving shrinks but does not vanish, and the net edge narrows proportionately. The qualitative conclusion holds: any reduction in the fee load relative to the fund improves the net return, and the edge is larger the lighter the terms. The robustness point is that the allocator should negotiate and value the fee terms explicitly, because they set the size of the certain part of the edge, while recognising that even partial fee relief is worth capturing.

5.2 Weaker Deal Quality

The decisive sensitivity is deal quality. If the deals offered are systematically weaker than the fund average, adverse selection, the fee saving can be offset or reversed, as Figure 4 showed.

Under this scenario the co-investment edge disappears, and an undiscerning co-investor would be better off in funds. The conclusion is reinforced rather than overturned: the edge is conditional on selection, and an allocator that cannot ensure at least neutral deal quality should not co-invest. This is why the analysis treats capability as the binding constraint and recommends the selective approach, which co-invests only where the allocator can underwrite the deal with confidence.

A further robustness consideration is the market cycle. Co-investment opportunities tend to be more abundant when managers are deploying actively, often later in a cycle when prices are higher, and scarcer when deployment slows. An allocator building a co-investment sleeve should be conscious that the flow of deals is not constant and that an abundance of offered deals may coincide with fuller valuations, when the selection discipline matters most. The robustness implication is to maintain the selection bar through the cycle rather than relaxing it when deals are plentiful, and to use the pacing of the sleeve across vintages to avoid concentrating co-investments in a single, possibly richly-priced, period. An allocator that co-invests heavily in a single hot year, accepting deals it would reject in a quieter one, concentrates both its vintage and its valuation risk, which the disciplined, paced, selective approach is designed to avoid. The cycle does not change the conclusions; it reinforces the case for discipline and pacing.

5.2a When Co-Investment Is the Wrong Choice

A candid analysis should identify when an allocator should not co-invest at all. An allocator that cannot underwrite individual deals, cannot act on a deal timetable, or cannot bring itself to decline a valued manager's weak deal should stay with funds, because for such an allocator co-investment is more likely to import adverse selection than to capture the fee edge. Similarly, an allocator too small to diversify a co-investment sleeve across enough deals should either access co-investment through a diversified specialist vehicle or forgo it, rather than concentrate its programme in a few deals. Recognising these cases honestly is part of using the framework well: the co-investment edge is real but conditional, and an allocator that does not meet the conditions is better served by the simplicity and diversification of funds than by reaching for an edge it is not equipped to capture. The framework's value is as much in telling an allocator when to refrain as in telling it how to proceed.

A final scenario worth considering is one in which the allocator's selection proves better than neutral over time, positive selection sustained across the sleeve. This is the favourable case in which the allocator both saves the fees and picks deals that outperform the fund average, and it produces the largest net edge of all. But the analysis counsels modesty about assuming it in advance: an allocator should plan its co-investment programme to be worthwhile at neutral selection, treating any positive selection it achieves as upside rather than as a premise. Planning to neutral selection ensures the programme makes sense on the certain fee saving alone, while leaving room to be pleasantly surprised; planning to positive selection risks building a programme that only works if the allocator is better than average, which not every allocator can be. The conservative premise, worthwhile at neutral selection, is the robust foundation, and it is consistent with the analysis's general preference for resting the case on the certain part of the edge rather than the hoped-for part.

5.3 Smaller or Larger Co-Investment Share

Varying the co-investment share scales the edge and the capability requirement together. A smaller share captures less of the fee saving but is easier to underwrite and diversify; a larger share captures more but demands more capability and risks concentration. The robustness conclusion is that the right share is the largest one the allocator can underwrite well and diversify adequately, which for most allocators is a selective sleeve rather than a dominant one. The scenarios confirm that the blended, selective approach is robust across a range of shares, while the heavy approach is robust only for allocators with the capability to support it.

6. IMPLEMENTATION CONSIDERATIONS

Translating the framework into practice involves building the deal flow, establishing the selection discipline, sizing and diversifying the sleeve, and governing the whole over time.

Before the mechanics, it is worth stating the sequence in which an allocator should approach co-investment, because attempting the steps out of order is a common cause of disappointment. The allocator should first establish itself as a valued fund investor and build the relationships from which co-investment flows; then assess honestly whether it has, or can acquire, the underwriting capability and decision speed co-investment requires; then decide whether to build, buy or forgo that capability; and only then begin co-investing, at a selective pace, into deals it can underwrite and decline with confidence. An allocator that reverses this sequence, deciding to co-invest heavily before it has the relationships or the capability, finds itself either without deal flow or accepting deals it cannot properly assess, which is how the edge turns negative. The implementation that follows assumes this sequence has been respected.

6.1 Building Deal Flow Through Fund Relationships

Because co-investment flows mainly from fund relationships, the foundation is to be a valued limited partner to managers the allocator rates: committing reliably, engaging constructively, and signalling a genuine appetite and capacity for co-investment. Managers offer their best co-investments to the partners they trust to evaluate quickly and to behave well, so the relationship is itself the access mechanism. An allocator that wants co-investment flow should make its appetite known to its managers and demonstrate that it can act on a deal within the manager's timetable, which is what turns a fund relationship into a co-investment pipeline.

A practical aid to the selection discipline is to define, in advance and in writing, the bar a co-investment must clear: the return threshold, the risk characteristics, the sectors and geographies within the allocator's competence, and the maximum size. A written bar does two things. It speeds decisions, because each deal can be tested against known criteria rather than debated from scratch under time pressure, and it depersonalises the decision to decline, because a deal that fails the bar is declined on policy rather than as a judgement on the manager offering it. Both effects matter under the time pressure co-investment imposes, when the temptation to accept a marginal deal from a valued manager is strongest. The written bar is the allocator's precommitment to its own discipline, set in calm conditions to govern decisions made in haste.

6.2 Establishing the Selection Discipline

The heart of a co-investment programme is the discipline to evaluate each deal on its merits and to decline the weak ones. This requires a clear underwriting process, the analytical capability to apply it, and the institutional willingness to say no, even to a valued manager, when a deal does not meet the bar. The allocator should be especially alert to the adverse-selection signal: a deal the manager is unusually keen to syndicate may be one the fund cannot or will not hold alone, which warrants extra scrutiny rather than the comfort of the manager's involvement. The selection discipline is what converts the certain fee saving into a real net edge, and it is where the allocator should concentrate its effort.

The sleeve should also be considered alongside the allocator's existing exposures to avoid hidden concentration. A co-investment in a sector or asset to which the allocator is already heavily exposed through its funds, or through its operating wealth, adds to a concentration that the deal-level analysis alone would miss. The allocator should therefore assess each co-investment not only on its own merits but for its contribution to the concentration of the whole portfolio, declining or sizing down deals that pile onto an existing exposure however attractive they appear in isolation. This whole-portfolio view is especially relevant for Gulf family offices whose operating wealth, real-estate holdings and private-market sleeves may all lean toward the same regional and sectoral exposures, so that a co-investment that looks diversifying within the sleeve may in fact deepen a concentration at the level of the family's total wealth.

6.3 Sizing and Diversifying the Sleeve

The sleeve should be sized to a share the allocator can underwrite well and diversify adequately, typically a selective fraction of the programme, and built to a meaningful number of modestly-sized deals across managers, sectors and vintages. The allocator should resist the temptation to over-size an individual co-investment because it looks attractive, since concentration is the principal risk a co-investment sleeve runs. Pacing the sleeve across years, like the funds programme, spreads vintage risk and builds the diversification the sleeve requires over time.

6.3a Buying Capability: Advisers and Specialist Vehicles

An allocator that wants the co-investment edge but lacks the in-house capability to underwrite deals at speed has a middle path between building a team and forgoing co-investment: buying the capability through advisers or specialist vehicles. A co-investment adviser can supplement the allocator's underwriting on a deal-by-deal basis, bringing specialist diligence and speed; a fund-of-one or a dedicated co-investment vehicle managed by a specialist can deliver a diversified, professionally-underwritten co-investment sleeve without the allocator building the function itself. Each path carries a cost that reduces the fee saving, an advisory fee or a vehicle fee, so the allocator must weigh the residual net edge against the saving it would capture by underwriting in-house. For many family offices the advised or outsourced path captures a meaningful part of the edge at a capability cost they can actually meet, which is preferable to either over-reaching with an under-resourced in-house effort or leaving the edge entirely on the table. The choice among building, buying and forgoing should follow honestly from the allocator's scale, resources and ambition, and should be revisited as these evolve.

A related point is that buying capability does not remove the need for the allocator to understand what it is buying. An allocator using an adviser or a specialist vehicle should still grasp the selection discipline being applied on its behalf, satisfy itself that the diversification and sizing are sound, and monitor the results, because delegating the underwriting does not delegate the responsibility for the outcome. The outsourced path changes who does the work, not whether the allocator must understand and govern it, and an allocator that hands over co-investment entirely without oversight has simply moved the adverse-selection risk rather than removed it.

A specific implementation discipline is to value and, where possible, negotiate the fee terms of each co-investment explicitly, because those terms set the certain part of the edge. Not all co-investments are offered fully fee-light; some carry reduced fees or a share of carry, and the allocator should understand exactly what it is being charged and how that affects the net outcome before committing. Where the allocator brings scale, speed or a valued relationship, it may be able to negotiate lighter terms, and even a partial reduction is worth securing because it falls straight to the net return. The discipline is to treat the fee terms as a negotiable, quantifiable component of every co-investment rather than as a given, and to fold the actual terms into the underwriting so that the deal is judged on its true net economics. An allocator that underwrites a co-investment as though it were fully fee-light when it is not will overstate the edge it is capturing.

6.3b Aligning Incentives and Conduct with Managers

A subtle but important implementation point is the conduct that sustains co-investment access over time. Managers offer co-investment to partners who behave well: who evaluate deals seriously and quickly, who decline gracefully when a deal is not for them, who keep confidences, and who honour their commitments once made. An allocator that strings managers along, that uses co-investment information to compete with them, or that reneges on soft commitments, will find its deal flow drying up regardless of its capital. Good conduct is therefore not merely courteous but commercially essential, because it preserves the relationships on which the whole co-investment programme depends. The allocator should treat each co-investment interaction, including the deals it declines, as an investment in the relationship, conducting itself so that the manager wants to offer it the next deal too. Over a long programme, this reputation for being a good co-investment partner is as valuable an asset as the capital itself, and it is built deal by deal through how the allocator behaves.

6.4 Governance and Review

Co-investment should be governed explicitly: a defined underwriting process and approval bar, clear sizing and diversification limits, and a regular review of the sleeve's composition and performance against the funds core. The governance should ensure that the selection discipline is applied consistently and that the sleeve does not drift into concentration or into deals the allocator cannot properly underwrite. Proportionate but real governance is what keeps the co-investment edge from being eroded by the very deal-by-deal enthusiasm that makes co-investment attractive.

6.5 Measuring Whether the Edge Is Being Captured

A programme should be able to tell whether its co-investment effort is actually delivering the edge it promises, which requires measurement. The allocator should track the net return of its co-investment sleeve against the net return of its funds core over comparable periods and vintages, so that it can see whether the sleeve is in fact outperforming, as the fee saving and at least neutral selection should produce. It should also monitor the deal quality of its co-investments, the proportion that meet or exceed expectations versus those that disappoint, as a check on whether adverse selection is creeping in. And it should review its own conduct of the programme: the speed of its decisions, the discipline of its declines, the diversification of the sleeve. Measurement of this kind turns co-investment from an act of faith into a managed activity that can be improved, and it provides the evidence on which to decide whether to expand, hold or pare back the co-investment effort. An allocator that cannot say whether its co-investments are beating its funds is not in a position to judge whether the capability is worth its cost.

The measurement should be read with appropriate humility about sample size and time. Private-market returns mature slowly, and a co-investment sleeve will take years to produce a meaningful track record, so early results, good or bad, should not be over-interpreted. The allocator should look for patterns over a reasonable number of deals and vintages rather than reacting to the outcome of any single co-investment, while remaining alert to clear signals such as a persistent tendency to be offered and to accept weak deals. Patience in measurement mirrors the patience the programme itself requires, and it guards against both the complacency of a lucky start and the over-correction of an unlucky one. Judged over a full cycle and a diversified set of deals, the measurement will reveal whether the allocator has genuinely captured the co-investment edge, which is the question the whole programme is built to answer.

7. CONCLUDING COMMENTS

Fees are the most certain drag on a private-markets return, and co-investment is the most direct way to reduce that drag. This paper has set out what the co-investment edge is, what determines whether it is real, and how an allocator should capture it: by building deal flow through fund relationships, selecting deals with discipline, diversifying the sleeve, and matching the approach to the allocator’s capability.

The evidence and analysis support five conclusions. First, co-investment raises the net return on a given gross deal by removing fee layers, a certain saving that compounds. Second, the net edge is real only if the allocator can select deals at least as good as the average fund position; adverse selection can erode or reverse it. Third, the binding constraint is capability, not access. Fourth, a co-investment sleeve must be deliberately diversified across enough deals and vintages. Fifth, for most allocators a selective, fee-light sleeve blended with a funds core captures most of the edge at a manageable capability cost.

Before turning to the limitations, it is worth drawing out the disposition the analysis recommends. Co-investment rewards a particular combination of qualities: strong manager relationships, genuine underwriting capability, the organisational speed to act on a deal timetable, the discipline to decline weak deals, and the patience to build a diversified sleeve over time. An allocator that has these qualities, or can acquire them, can lower the fee cost of its private-market exposure materially and durably. An allocator that lacks them should not pretend otherwise, because co-investment punishes the gap between ambition and capability more sharply than fund investing does. The honest course is to assess one’s own qualities candidly and to match the co-investment ambition to them, building the capability where it is worth building, buying it where that is more efficient, and forgoing the edge where the conditions cannot be met. This self-assessment is itself part of good practice, and it is where the allocator should begin.

A final reflection concerns how co-investment fits the broader purpose of a Gulf allocation. The companion analyses make the case that the Gulf merits an allocation, show how to construct it across the principal private-market sleeves, and set out how to manage its liquidity. Co-investment is the discipline that lowers the cost of that exposure, ensuring the allocator keeps more of the return the Gulf opportunity generates. Seen this way, the four disciplines, allocating, constructing, funding and lowering the fee cost, form a coherent whole: each addresses a distinct question, and together they describe how a serious allocator builds and runs a Gulf private-markets programme well. Co-investment is not a separate strategy bolted onto the programme but the part of the programme that determines how much of its gross return survives to become the allocator’s net result, which is why it deserves the deliberate, disciplined treatment this paper has set out.

These conclusions are subject to limitations that also mark out the avenues for further work. The framework is stylised and illustrative, and an allocator's actual fee terms, deal quality and capability will differ; the value is in the structure, not the specific numbers. The analysis treats co-investment economics in general terms, whereas the Gulf market has its own characteristics, the mix of real estate, private credit and digital infrastructure, the depth of manager relationships, the availability of co-investment, that further work could examine in detail. The selection question, which the analysis identifies as decisive, depends on manager behaviour and on the allocator's underwriting skill, neither of which a framework can supply; the framework can only show why they matter. And the analysis does not model the interaction between the co-investment sleeve and the wider programme's liquidity and concentration, which a complete treatment would integrate with the companion analyses. These are extensions rather than corrections: the central message, that co-investment offers a genuine but conditional fee edge that rewards capability and discipline, is robust. An allocator that builds its deal flow through good fund relationships, selects with discipline, diversifies its sleeve and sizes its ambition to its capability can lower the fee cost of its GCC private-market exposure materially, and so keep more of the return the Gulf opportunity offers.

DISCLOSURES

This paper is provided for general information and educational purposes only. It does not constitute investment, financial, legal, tax or other professional advice, nor an offer or solicitation to buy or sell any security or to pursue any investment strategy. The figures and scenarios are stylised, forward-looking illustrations used to convey co-investment economics; they are not forecasts, do not represent the past or expected performance of any actual programme or deal, and should not be relied upon as such. Co-investments are concentrated, illiquid investments that can lose value, and the fee saving they offer does not guarantee a higher net return. The author is an independent researcher; the views are his own and do not represent those of any institution. Readers should obtain professional advice tailored to their circumstances before making any decision.

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APPENDIX A. BASE-CASE ASSUMPTIONS

The table below records the stylised assumptions used in the framework. They are indicative, forward-looking calibrations chosen to illustrate co-investment economics, informed by the fees and co-investment literature; they are not forecasts and not estimates from a proprietary dataset.

Table A1. Full Base-Case Assumptions

Parameter	Base case	Rationale
Fund management fee	2% per annum	Typical fund term
Fund carried interest	20% of gains	Typical fund term
Co-investment fee terms	0% / 0%	Fee-light base case
Gross deal multiple	2.0x	Illustrative successful deal
Fund net IRR	~13-14%	After fee drag
Co-investment net IRR	~18%	Neutral selection, fee-light
Selective sleeve share	~20-30%	Underwritable by most allocators
Diversification target	8-12+ deals	Across managers and vintages

Indicative assumptions; see Section 3.

APPENDIX B. CO-INVESTMENT READINESS CHECKLIST

The following checklist distils the framework into the questions an allocator should answer before and while running a co-investment programme.

1. Do we have strong relationships with managers we rate, the principal source of co-investment deal flow?Have we signalled our co-investment appetite and our ability to act on the manager’s timetable?Do we have a clear underwriting process and the analytical capability to apply it to individual deals?Are we willing and able to decline weak deals, even from valued managers?Are we alert to the adverse-selection signal in deals a manager is unusually keen to syndicate?Have we sized the co-investment sleeve to a share we can underwrite well and diversify adequately?Are we building the sleeve across enough deals, managers, sectors and vintages to diversify idiosyncratic risk?Are we sizing individual co-investments modestly to avoid concentration?Have we valued the fee terms of each co-investment explicitly, since

they set the certain part of the edge?Do we govern co-investment with a defined approval bar and sizing and diversification limits?Do we review the sleeve’s composition and performance against the funds core regularly?Is our co-investment ambition matched to our capability, building, buying or forgoing it accordingly?

APPENDIX C. GLOSSARY OF KEY TERMS

The following glossary defines the principal technical terms used in this paper for readers who may be less familiar with co-investment.

Co-investment. A direct investment by a limited partner alongside a fund manager in a single deal, usually with reduced or no management fee and carried interest on the co-invested portion.

Management fee. An annual fee, typically around 2% of committed or invested capital, charged by a fund manager regardless of performance.

Carried interest. The share of a fund’s profits, typically around 20%, paid to the manager as performance compensation.

Fee-light. Describing a co-investment that carries little or no management fee and no carried interest, so the investor keeps more of the gross return.

Net-of-fee return. The return an investor actually keeps after the management fee and carried interest have been deducted from the gross return.

Gross return. The return on an investment before fees, expressed as a multiple of invested capital or an internal rate of return.

Adverse selection. The risk that a manager offers investors co-investment in its less-attractive deals while keeping the best for the fund, eroding the co-investor’s fee saving.

Positive selection. The favourable case in which the deals offered as co-investments are as good as or better than the fund average.

Deal flow. The stream of investment opportunities available to an allocator; for co-investment, sourced mainly from fund relationships.

Limited partner (LP). An investor that commits capital to a fund managed by a general partner; the typical recipient of co-investment offers.

General partner (GP). The manager of a private-markets fund, which sources deals, charges fees and may offer co-investment to its LPs.

Idiosyncratic risk. The risk specific to a single deal, diversifiable by holding many deals, as a co-investment sleeve must.

Co-investment sleeve. The portion of a programme held as direct co-investments, distinct from the funds core.

Funds core. The portion of a programme held through pooled funds, providing manager access and diversification.

Blended approach. A programme combining a funds core with a selective co-investment sleeve, capturing part of the fee edge at manageable capability cost.

Underwriting. The process of evaluating an individual deal’s risk and return to decide whether to invest.

Vintage year. The year in which a fund or deal begins investing; diversifying across vintages spreads timing and market risk.

Pacing. The deliberate spreading of commitments and co-investments across years to diversify vintage risk and build the sleeve over time.

Fund-of-one. A bespoke vehicle managed by a specialist on behalf of a single investor, a way to access co-investment without building an in-house team.

Net IRR. The internal rate of return an investor earns after all fees, the measure that should guide private-market decisions.

Gross multiple. The total value an investment returns expressed as a multiple of capital invested, before fees.

J-curve. The early-life dip in a private programme's reported return as fees and early costs precede gains; relevant to comparing fund and co-investment timing.

Selection bar. A predefined set of return, risk, sector and size criteria a co-investment must meet to be accepted; the allocator's precommitment to discipline.

Whole-portfolio view. Assessing a co-investment for its contribution to the concentration of the allocator's total wealth, not just the sleeve.

Syndication. The offering by a manager of part of a deal to co-investors, used to fund deals larger than the fund alone can carry.

Concentration risk. The risk that arises when too much capital is placed in too few deals, which a co-investment sleeve must guard against.

Capability. The allocator's ability to source, evaluate and decline deals well and quickly; the binding constraint on capturing the co-investment edge.