The Co-Investment Landscape Review:

Breaking down key trends shaping co-investment activity

Data provided by PitchBook

Executive Summary

- Raising pools of capital for investing alongside general partners (GPs) in private markets has rarely been more popular. Co-investment fund count reached a high worldwide in 2020 at 159 closed pools of capital, amassing $15.5 billion in commitments. Although 2021 saw a downturn in volume, more than $20 billion was committed to co-investment vehicles. Key drivers of this growth include limited partners (LPs) seeking higher returns in private markets, the growth in investable opportunities at the late stage of venture, and a broader base of active investment firms that are competing to retain or establish relationships with more LPs.

- Close to a decade ago, Pepper Hamilton (now Troutman Pepper) sponsored a study that foreshadowed much of this trend. It found significant demand by LPs for co-investment opportunities despite their complex fee structures and other hurdles. Now, that demand has crystallized into dedicated co-investment fundraising and subsequent activity.

- In terms of asset class focus for co-investment fundraising, venture capital (VC) funds predominated in volume, with well over 1,500 VC-focused vehicles closed in 2021.

- Co-investment funds focused on private equity (PE) retained the plurality of capital committed, given their specific array of strategies and alignment with some of the larger LPs, amassing $461.4 billion in 2021.

- As co-investment fundraising grew in popularity, so did club PE dealmaking, surging to a record 4,636 transactions completed in 2021, totaling $387.7 billion in deal value. LPs joined in at a record rate, participating in 245 transactions for more than $45 billion in associated deal value.

- Looking ahead, the array of challenges for PE dealmakers may prompt an overall slowdown, potentially even among club PE dealmaking. That said, investment fundraising will likely subside only slightly.

Contents

In 2021, the average co-investment fund size soared to its second-highest level, at $316.1 million.

Market Review

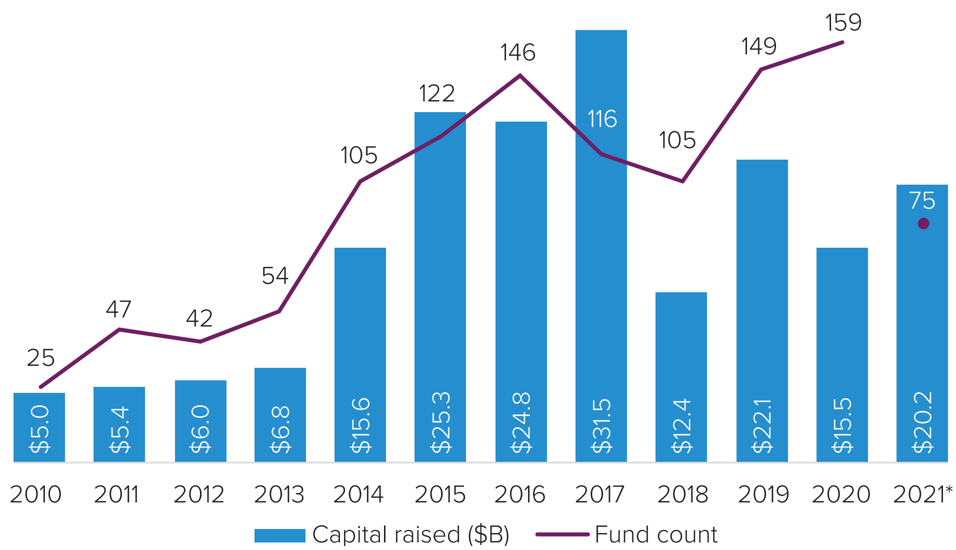
Backdrop: How the flow of capital commitments has set the stage for co-investment dealmaking

Over the past decade, co-investment fundraising mostly trended upward, ending with a record volume of funds closed in 2020 even as aggregate capital committed declined. 2021 saw a steep fall from its high of $31.5 billion in 2017—but still well above levels seen early in the decade. In 2021, aggregate capital committed rose over 2020 levels to exceed $20 billion. The degree of co-investment fundraising activity wherein the GP also acted as an LP was much more variable in the last decade, although some hefty annual tallies occurred in the late 2010s, with 2019 seeing $7.1 billion in capital committed to just six co-investment funds. Given this fluctuation, the volatility in the average co-investment fund size is unsurprising, with 2017 and 2021 notching the highest annual tallies, at $331.2 million and $316.1 million, respectively. Since 2017, the median co-investment fund size has trended down, but it rebounded in 2021 to $73.9 million. Likely reasons for this trend will be discussed in more detail below.

LP demand for greater exposure to attractive investment opportunities has helped spur this increase in co-investment fundraising. Several years ago, a study sponsored by Pepper Hamilton (now Troutman Pepper) indicated that multiple private funds offered co-investment opportunities; however, this latest data indicates that now dedicated co-investment funds have become more popular, likely due

Figure 1

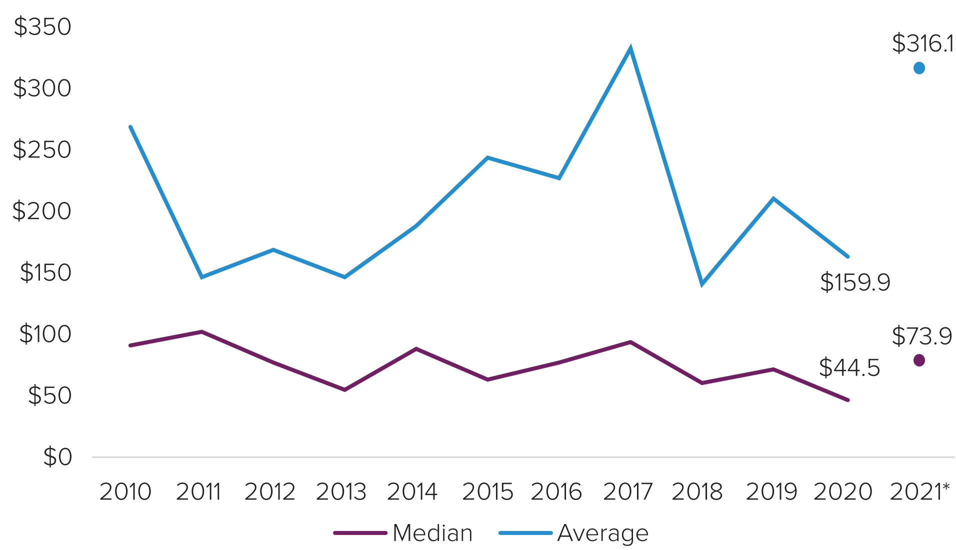
Co-investment fund activity



Source: PitchBook | **Geography:** Global
*As of December 31, 2021

Figure 2

Median & average co-investment fund value ($M)



Source: PitchBook | **Geography:** Global
*As of December 31, 2021

to longer fund time horizons and a middle ground being struck on terms as co-investing evolved. In addition, experienced GPs have been able to target larger deals, encouraging managers to pursue more vehicles that are geared specifically toward these types of co-investments. The inherent risks associated with such separate vehicles necessitate their own agreements and structures and often rely on more developed, mature relationships between LPs and GPs.

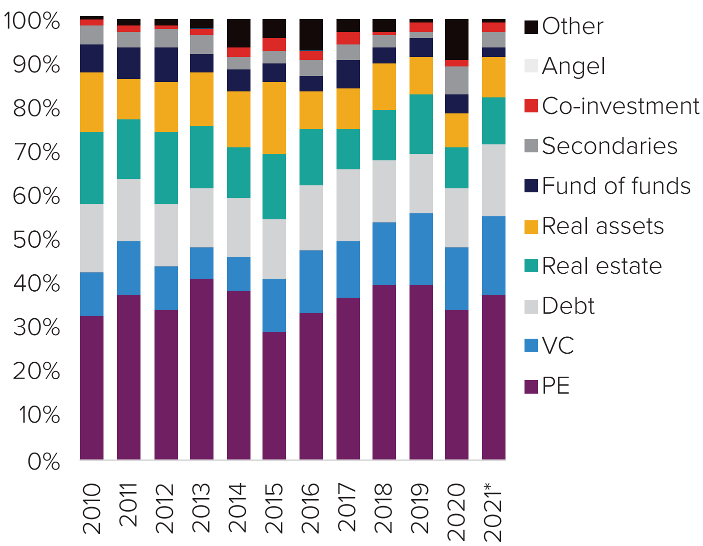
LPs' appetite for PE performance, and desire for exposure to alternatives overall, has helped build and deepen more relationships between the most successful LPs and GPs. In turn, this has helped skew the average size of co-investment funds, as the largest LPs and GPs consistently engaged with each other. The average size still shifts because these large GPs are not persistently raising co-investment vehicles; instead, they raise them only occasionally.

Depending on LP preference, co-investment funds sometimes gain exposure to investment opportunities through a fund of funds. However, that also reduces favorable fee loads, because the funds of funds generally charge additional fees. Pure-play co-investment vehicles have grown in popularity as opposed to funds of funds' strategies, which have held relatively steady in volume throughout the past decade.

Analyzing overall private fundraising by access point (defined as the asset class that the fund will primarily target), co-investment remained one of the lesser-utilized entry deals in private markets. Therefore, it stands to reason that co-investment is dwarfed by other primary categories, such as venture or PE. That said, 2020 saw a record 159 co-investment vehicles close, compared with only 75 in 2021. The drop last year in count of funds closed is likely due to cyclicality and overall market conditions, after a healthy fundraising cycle implied that most allocators interested in co-investment funds were able to gain their desired exposure. It is also possible market jitters arose due to how pricey the market has been.

Figure 3

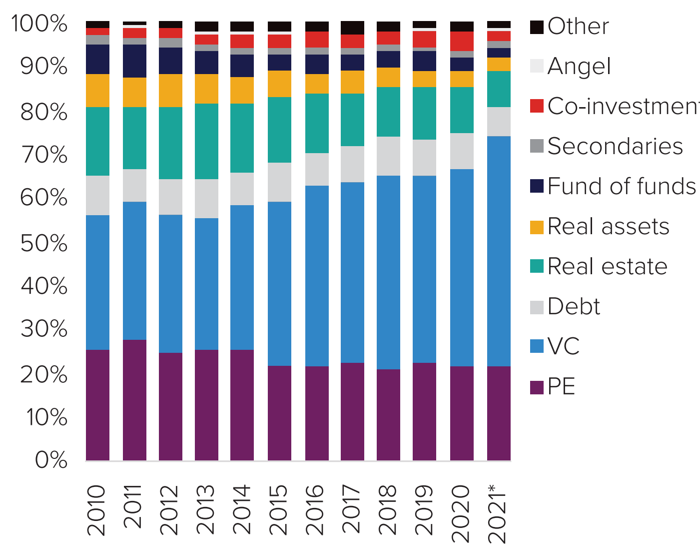
Share of private fund value by access point[1]



Source: PitchBook | **Geography:** Global
*As of December 31, 2021

Figure 4

Share of private fund count by access point

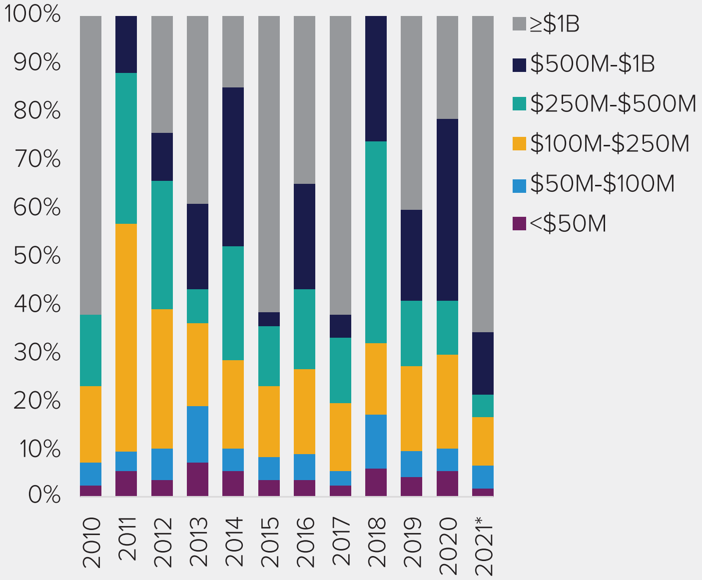


Source: PitchBook | **Geography:** Global
*As of December 31, 2021

1: Access point refers to the market focused upon by the fund, in addition to its primary type (for example, a co-investment fund focused on venture).

Figure 5

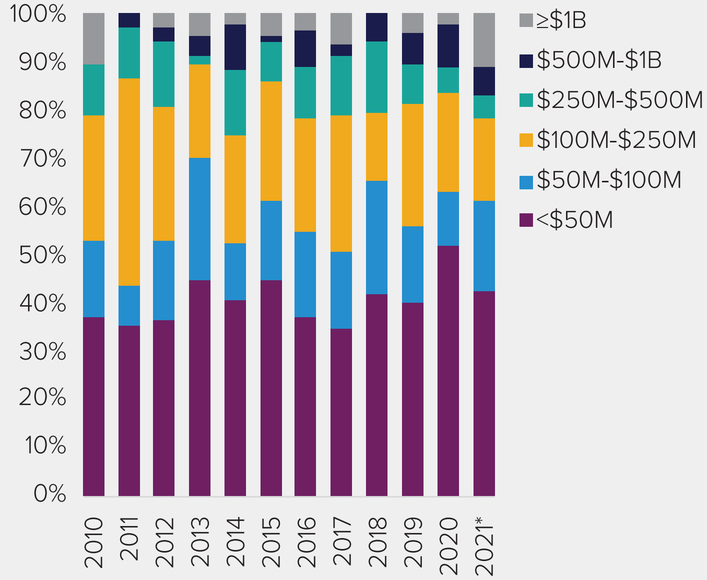
Share of co-investment capital raised by size bucket



Source: PitchBook | **Geography:** Global
*As of December 31, 2021

Figure 6

Share of co-investment fund count by size bucket

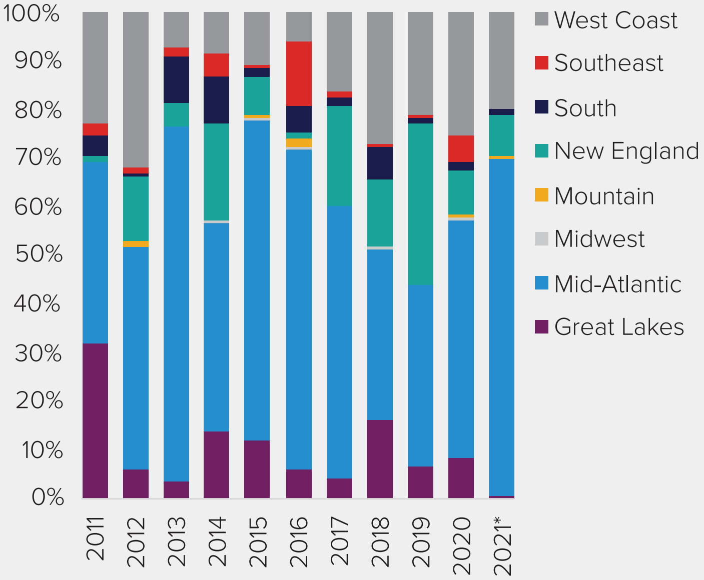


Source: PitchBook | **Geography:** Global
*As of December 31, 2021

Fundraising has tilted toward larger sizes in the past few years, indicating that LPs are increasingly willing to gain exposure to GPs targeting bigger companies. In addition, this trend is due to inflation in buyout multiples across the past few years.

Figure 7

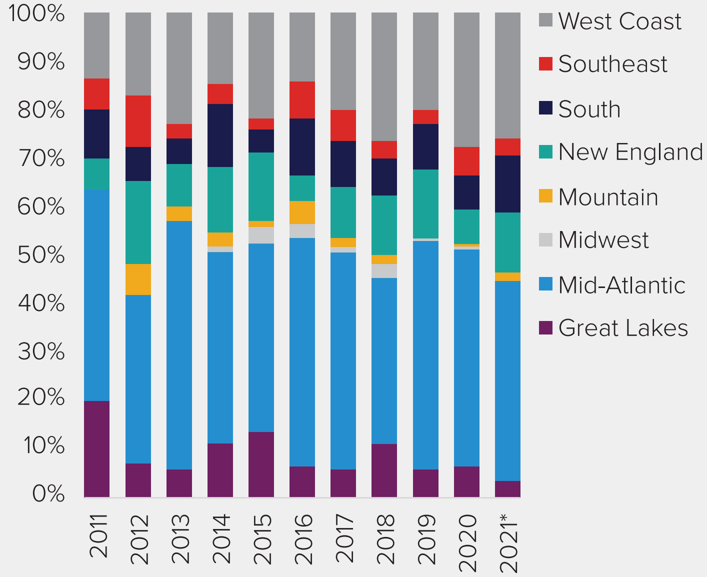
Share of co-investment capital raised by region



Source: PitchBook | **Geography:** US
*As of December 31, 2021

Figure 8

Share of co-investment fund count by region



Source: PitchBook | **Geography:** US
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The current co-investment dealmaking environment

Thanks to the growth in dedicated co-investment vehicles, plus ongoing utilization of co-investment capacity in other existing funds, co-investment activity surged to an all-time high in 2021 in terms of both deal value and volume. (In this report, a club PE deal is defined as a PE transaction with two or more investors; a club PE deal with LP participation had an additional LP participate.) Moreover, LPs joined in more deals than ever before, participating in 245 completed PE transactions. The median PE club deal size notched a new record of $74.5 million in 2021 (see Figure 11), while the average size stayed on the higher end due to some massive outlier buyouts. Mirroring the global PE market, club buyout multiples remained elevated as well, although the use of debt declined. This makes sense given trends in the broader PE market, wherein multiples typically remain on the higher end, but firms are increasingly willing to pay up for equity after a frenzy of successful fundraising. Debt usage has plateaued in the past three years, hovering just between the 40% to 45% range (see Figure 15). Massive club buyouts hit an all-time high of 38 in the $2.5 billion+ range. In addition, club deal activity between $25 million and $500 million also hit a record high.

Club PE deal activity has trended similarly to overall PE deal activity, experiencing a surge of investment to record highs in 2021. In an expensive environment, LPs and GPs are banding together more frequently to combat high multiples, focusing on larger targets (often carveouts of troubled publicly traded companies) and even high-growth, pricey software businesses. Add-ons have been a key strategy for dealmakers for years—acquiring large platforms might be expensive, but they can later be merged to create significant regional and/or category competitors.

Figure 9

Club PE deal activity

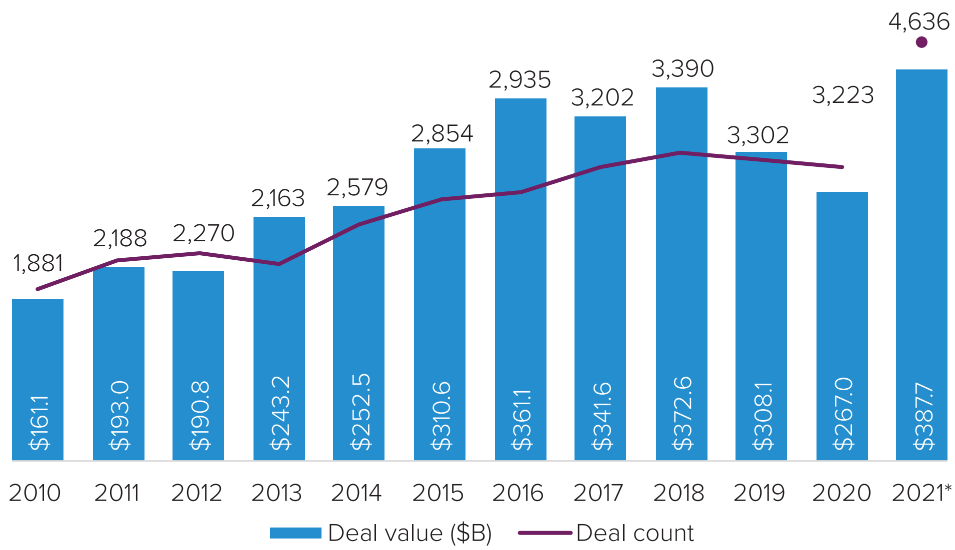

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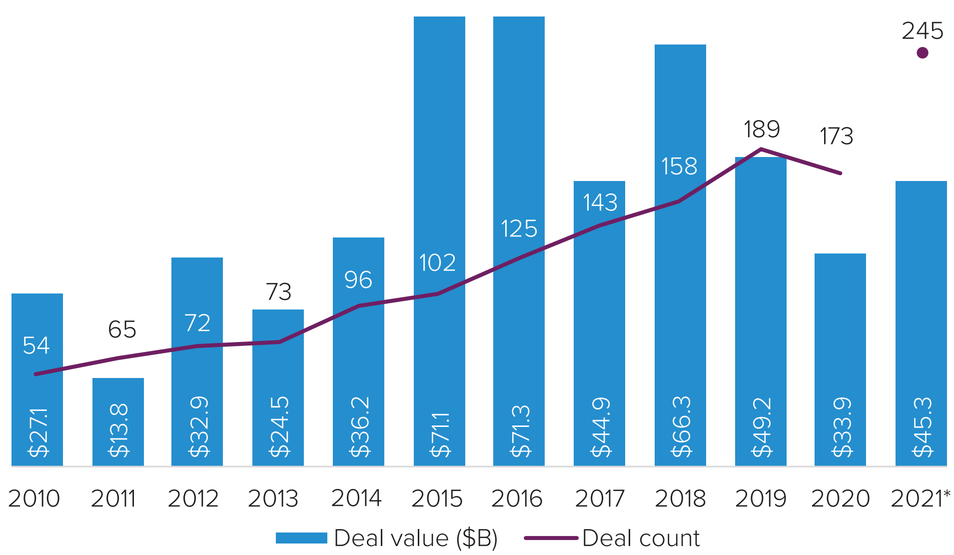
Figure 10

Club PE deal activity with LP participation



Source: PitchBook | **Geography:** Global
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Figure 11

Median & average club PE deal value ($M)

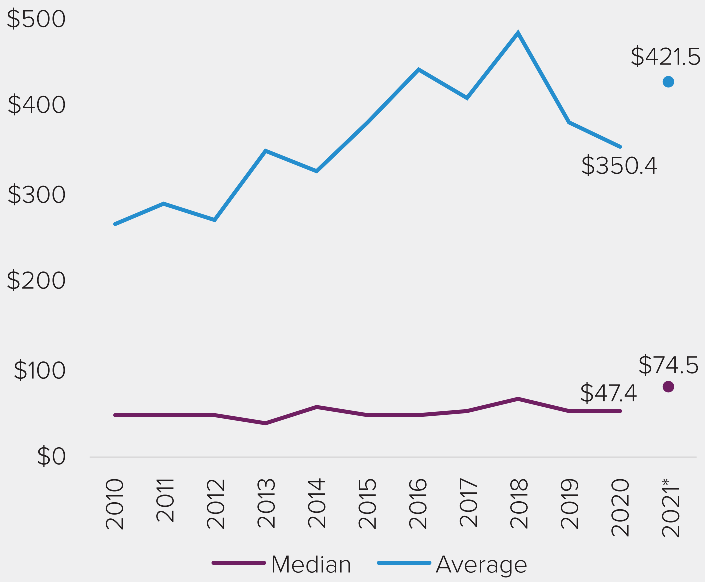

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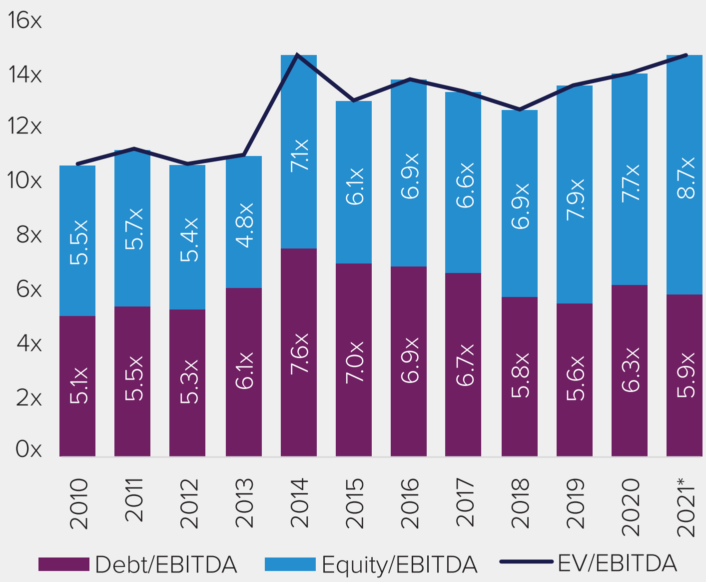
Figure 12

Club PE buyout multiples

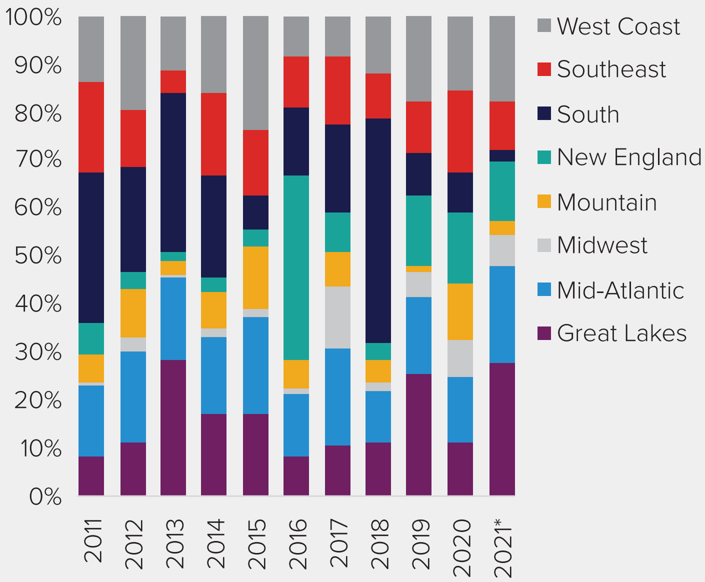


Source: PitchBook | **Geography:** Global
*As of December 31, 2021

Club PE deal sizes jumped in 2021 as bidding for the best targets intensified; elevated dry powder levels also contributed to the increase.

Figure 13

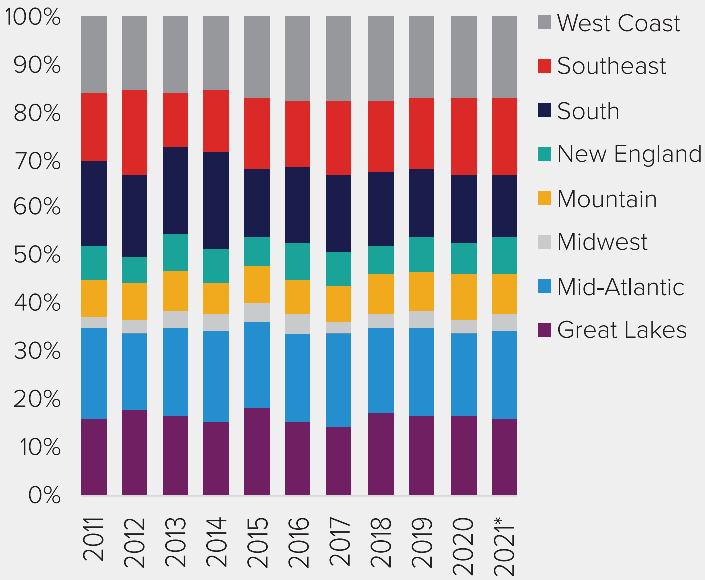
Share of club PE deal value by region



Source: PitchBook | **Geography:** US
*As of December 31, 2021

Figure 14

Share of club PE deal count by region



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Looking forward

Players in the co-investment landscape face an increasingly complex future. On the macro side, surging inflation, increasingly fraught geopolitical tensions, and the invasion of Ukraine are creating an uncertain future for overall business conditions. However, PE dealmakers are still sitting atop a mountain of capital commitments to deploy in this complicated environment, while LPs remain focused on maintaining returns as public equities dip further into unceasing volatility. Going forward, club deals will likely continue as prices may remain stubbornly high given supply-and-demand effects, but fundraising may enter a subdued period as both LPs and GPs look to deploy extant dry powder as effectively as possible. Co-investment advantages remain: lower fees lead to higher net returns, and the efficacy of blended expertise, together with the abundance of capital, allows managers to re-up down the line. But as the dealmaking environment grows potentially more difficult to navigate, LPs will likely pay greater heed to fee structures, portfolio company selection, and broader investor bases in the interest of diversification and flexibility in an increasingly uncertain world.

Figure 15

Median club PE buyout debt percentage

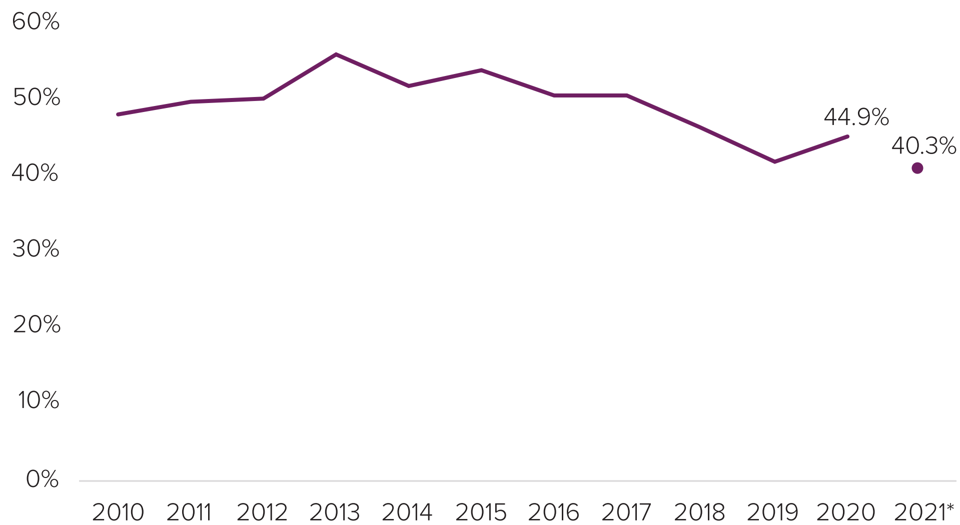

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Figure 16

Share of club PE deal value with LP participation by region

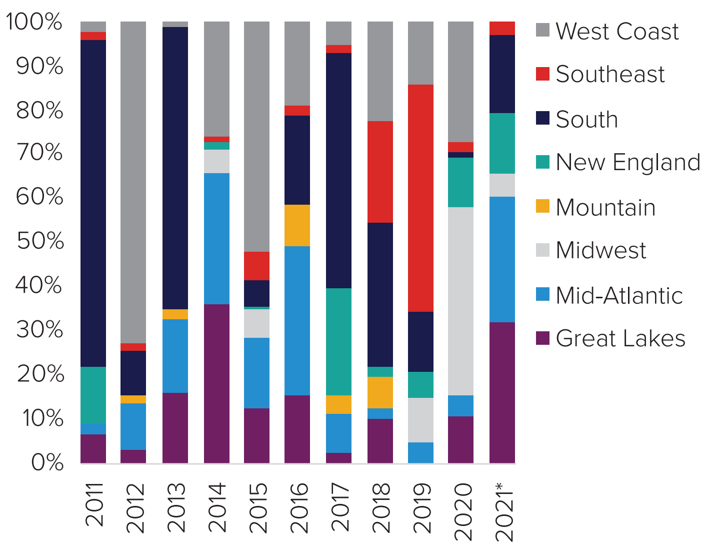

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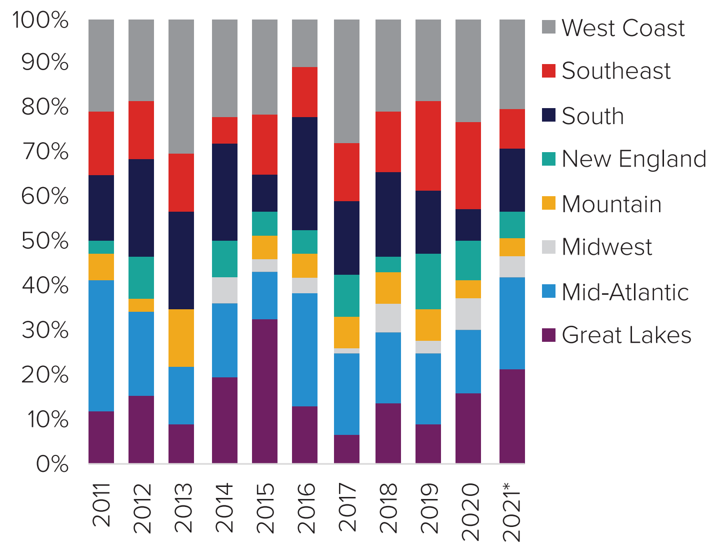
Figure 17

Share of club PE deal count with LP participation by region



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About & Methodology

Troutman Pepper is a national law firm with more than 1,200 attorneys strategically located in 23 U.S. cities. The firm's transactional, litigation, and regulatory practices advise a diverse client base, from start-ups to multinational enterprises. Our private equity practice—more than 100 attorneys strong—represents fund and portfolio company clients in all issues encountered in the life cycle of an investment fund, including structured equity and leveraged buyouts, PIPEs, roll-ups, and exits such as refinancings, recapitalizations, mergers, public offerings, and stock or asset sales.

Innovation as a Service

Putting clients first—and empowering our attorneys and staff to innovate toward that end—has led to exciting advances, like our proprietary e-discovery service, bespoke technology solutions, and market-leading client feedback program. We are proud to be among the top 50 law firms for our client service excellence, according to the 2022 BTI Client Service A-Team survey, and to have earned a national Legal Services Innovation Award from The American Lawyer.

Client-Driven Growth

Serving our clients at the highest level means offering the right resources to meet business objectives. The 2020 merger of our predecessor firms expanded our geographic reach and deepened our bench in critical practice areas. We also have strengthened our focus on key sectors including private equity, energy, financial services, health sciences, and real estate. We meet our clients where they are—and where they want us to be.

An Inclusive Culture

Our culture is central to our client care promise. From partners and associates to professionals and administrative staff, mutual respect, inclusiveness, and teamwork define our workplace. The best ideas arise when everyone has a seat at the table.

Redefining Community

We are committed to improving our communities and serving their legal needs. Individuals and groups firmwide contribute time and talent to a wide range of civic, cultural, charitable, educational, and professional organizations, and provide pro bono legal services in support of important cases and causes.

Methodology

All of the data in this report represents closed funds and completed transactions. All PE deals data was defined using PitchBook's dedicated report methodology for private equity, which can be found here in the section for the U.S. PE Breakdown. For co-investment fundraising, the dedicated PitchBook fund type of co-investment was used. Co-investment fundraising was broken out by other PitchBook primary fund type classes. Co-investing or club activity includes buyouts and other investments that involved two or more general partners. All sample sizes that were non-normative—that is, the underlying population of data counts was under 30—are noted as such.