Committed Capital

A GLOBAL PRIVATE EQUITY PODCAST

COMMITTED CAPITAL PODCAST SERIES

Trends in Equity Co-Investments

Listen on Apple Podcasts | LISTEN ON Spotify | Listen on Google Podcasts

SEPTEMBER 16, 2021

Dechert's Global Private Equity group presented "Trends in Equity Co-Investments," an episode of the firm's Committed Capital Podcast Series. The episode was hosted by Jonathan Kim (moderator), a New York-based partner in the firm's Corporate practice, and featured Brent Humphries, President and Founding Member at AB Private Credit Investors, Patrick Kocsi, Head of U.S. Co-Investment at Ardian, and Demetrius Sidberry, Managing Director at Hamilton Lane.

A critical feature of any co-investment is to ensure alignment with the lead sponsor. How do co-investors protect themselves from potential misalignment, and what are some other key considerations for co-investors in making their investments? This podcast summarized some of the challenges, trends and developments related to equity co-investments.

HIGHLIGHTS FROM THE EPISODE

Co-Investment Overview – Broadly, equity co-investments are arrangements whereby third parties invest in assets alongside controlling main sponsors. Co-investments can be made at different levels in a transaction structure, and at different attachment points, but are typically made in the same class of security as the equity owned by the sponsor. Co-investments can be used to serve a range of functions, including: (i) as a method of raising additional capital without having to share governance or control; and (ii) to help align the interests of the critical constituents in an investment, including management and lenders.

Timing – Co-investors may choose to join a transaction at any given point along a deal timeline, from the pre-signing and ideation to post-deal signing and even post-closing stages. The key for co-investors when deciding when to join a deal timeline is to be flexible and to remember that both pre- and post- signing co-investments present different considerations but offer valuable opportunities. Other considerations include the following:

- **Sponsors Providing Services to Portfolio Companies** – For co-investors, being economically aligned with the sponsor is often more important than negotiating the typical contractual protections. However, many sponsors have different touchpoints with their portfolio companies, including providing back-office support and other services, for which fees may be paid. This introduces a risk of economic misalignment.
- **Continuation Funds** – Continuation funds, whereby a sponsor will transfer their investment between their own affiliated entities, are becoming increasingly prevalent. This structure may be utilized in order to extend an investment timeline for assets which pose an opportunity for future value creation. There are many pros for co-investors, including sponsor familiarity with the asset. However, several risks need to be managed include the potential for misalignment in returns, investment duration and sponsor re-investment levels.

To hear the episode in full, click here. For all episodes in our series, click here.