GCM GROSVENOR

The Blueprint for Co-Investments: Investing Directly in Private Equity

KEY POINTS

01

Access is expanding, but access alone is not enough.
New structures are broadening access to co-investments, but capturing their potential benefits requires disciplined investment selection and thoughtful portfolio construction.

02

Independent underwriting and selectivity are critical.
Co-investments provide visibility into the underlying company and transaction, but each opportunity should be evaluated on its own merits rather than simply relying on the sponsor's underwriting.

03

Portfolio construction can be as important as individual deal selection.
Individual co-investments are inherently concentrated, making diversification across companies, sponsors, sectors, and vintages an important part of building a co-investment program.

Setting the Stage

Co-investments have often proven elusive for smaller investors. Historically, these investments have been reserved for institutions with the necessary assets, research capabilities, and relationships.

However, the PE industry continues to evolve, and now, using co-investment funds, more investors are able to participate.

WHAT IS CO-INVESTMENT?

A direct investment in a specific company made alongside the private equity sponsor leading the transaction.

How Co-investments Develop

Generally, offers of co-investments fall into two main categories: capital needs and relationship needs.

Some GPs may offer co-investments because a particular deal may exceed the size or concentration limits of their fund. For example, if a target investment would create a sizable concentration or risk imbalance in their fund, GPs have two options. They can reduce the size of the investment and therefore its return potential or they can move a portion of the investment outside the fund. In this case, using co-investors allows the deal size to remain intact and, in theory, look to maximize the return.

The relationship also comes into play. GPs may offer an attractive investment to a good client to reward loyalty, or to encourage larger investments in future funds. This is perhaps the reason why, for so long, these investments were only available to the largest investors with the most capital to deploy.

Investor Demand is Shifting

As private markets continue to open to individual investors through new and innovative fund structures, there is a growing demand for access to co-investment opportunities.

1. **Clients want to understand what they own:** Co-investments provide direct exposure to specific companies, allowing investors to more deliberately understand and shape their portfolios.
2. **Co-investment economics are differentiated and can directly benefit end investors:** Co-investments typically carry little or no additional management fee or carried interest, reducing the overall cost of a private equity allocation.
3. **Investors are increasingly wary of overconcentration:** Co-investments can provide another avenue for diversifying exposure across companies, sectors, themes, and private equity sponsors.

57% OF INVESTORS RATE CO-INVESTMENTS AMONG THE PRIVATE MARKET STRUCTURES THEY MOST FREQUENTLY REQUEST.

SOURCE: Cerulli US Private Markets 2026, Exhibit 8.02.

Unless apparent from context, all statements herein represent GCM Grosvenor's opinion.
No assurance can be given that any investment will achieve its objectives or avoid losses.

How Co-investments Can Benefit Investors

Investors access private equity through a variety of strategies, generally in three main ways: through primary funds, secondaries funds, and co-investments. Each implementation comes with its own benefits and challenges.

Primaries provide turn-key diversification.Secondaries can help mitigate J-curves. Co-investments enhance both through targeted exposure to individual opportunities.

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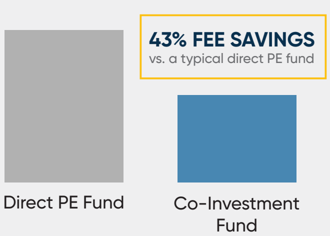
An investor paying 1% on a $1 million investment can lower their fee rate by adding lower-cost co-investments with the same sponsor. Adding an additional $250,000 to a co-investment at no fee could then lower their overall fee from 1% to 80 basis points. By reducing fees, investors can potentially increase their returns. Our illustrative analysis shows that reduced co-investment fees could increase net IRR by approximately 280 basis points. Co-investments can also provide diversification without blind pool risk, since the investments in question are known to the participants.

Co-investments can also strengthen alignment with sponsors by providing exposure to investments in which the sponsor has already committed capital, while also deepening relationships that may provide access to future opportunities.

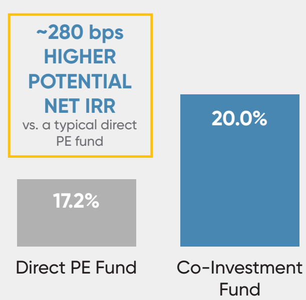
THE CO-INVESTMENT ADVANTAGE

Reduced fee drag keeps more performance with investors.



FEES AND CARRY
TYPICAL PRIVATE EQUITY FUND

- ☒ Fees: ~1.5-2% +20% carry
- ☒ Limited deal visibility
- ☒ You can't choose



NET IRR
TYPICAL CO-INVESTMENT

- ☑ Zero or reduced fees at the deal level
- ☑ **Enhanced deal transparency**
- ☑ GP vets it. You choose it.
- ☑ **Single asset** with one underwriting decision

The analysis presented assumes a gross rate of return of 2.28x gross MOIC for both the Direct PE Fund and the Co-Investment Fund. At a 1.0x gross MOIC, the fee savings of the Co-Investment Fund compared to the Direct PE Fund is approximately 59%, and The net IRR for the Direct PE Fund is (4.3%) compared to (1.6%) for the Co-Investment Fund.

The analysis assumes certain gross return rates for investments and is presented for illustrative purposes only; it is not intended to imply that any investment will achieve a specific return or "fee savings" over any period. Assumptions for the Direct PE Fund include: (i) 2.0% per annum management fee during the commitment period on committed capital and 2.0% per annum management fee after the commitment period on remaining invested capital, (ii) 20% carried interest over an 8.0% preferred return with a 100% GP catch-up using a single aggregate distribution waterfall. Assumptions for the Co-Investment Fund include GCM costs: (i) 1.0% per annum management fee on invested capital, and (ii) 10% carried interest over an 8.0% preferred return with a 100% GP catch-up using a single aggregate distribution waterfall. Underlying Co-investment sponsors are assumed to charge management fees of 0.05% and carried interest of 1.68% over an 8.0% preferred return. Fee savings and net IRR reflect estimated expenses for both the Direct PE Fund and the Co-Investment Fund. **Additional information on this analysis is available upon request.**

Select risks include: macroeconomic risk, sourcing risk, investment selection, portfolio diversification, management risk, execution of value creation plan, risks related to reliance on third parties, and risks related to the sale of investments

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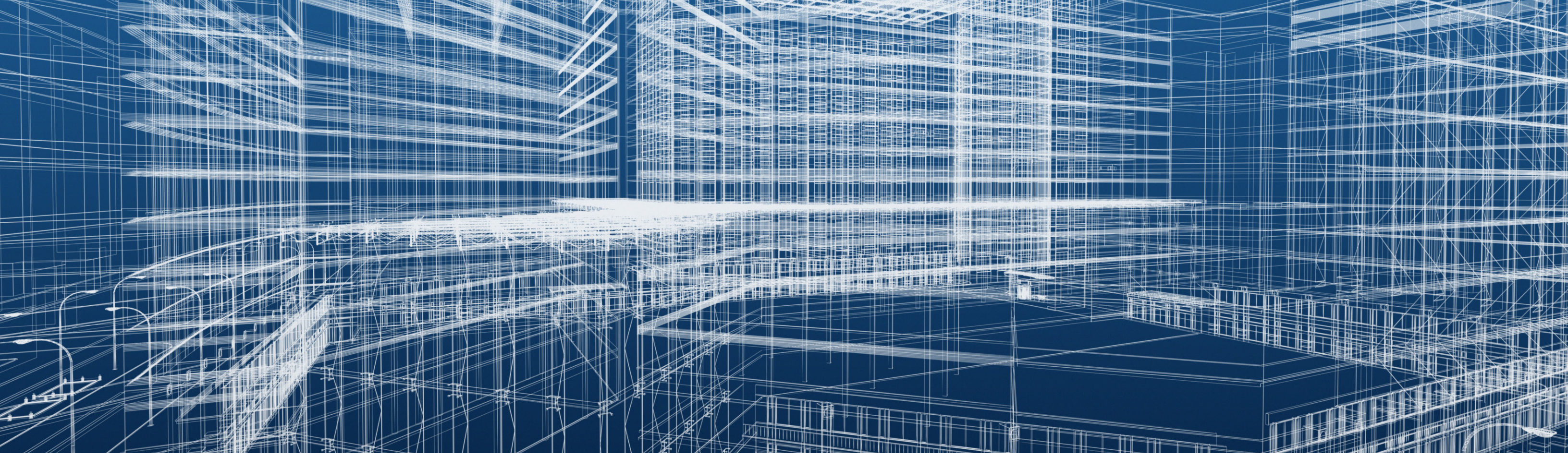
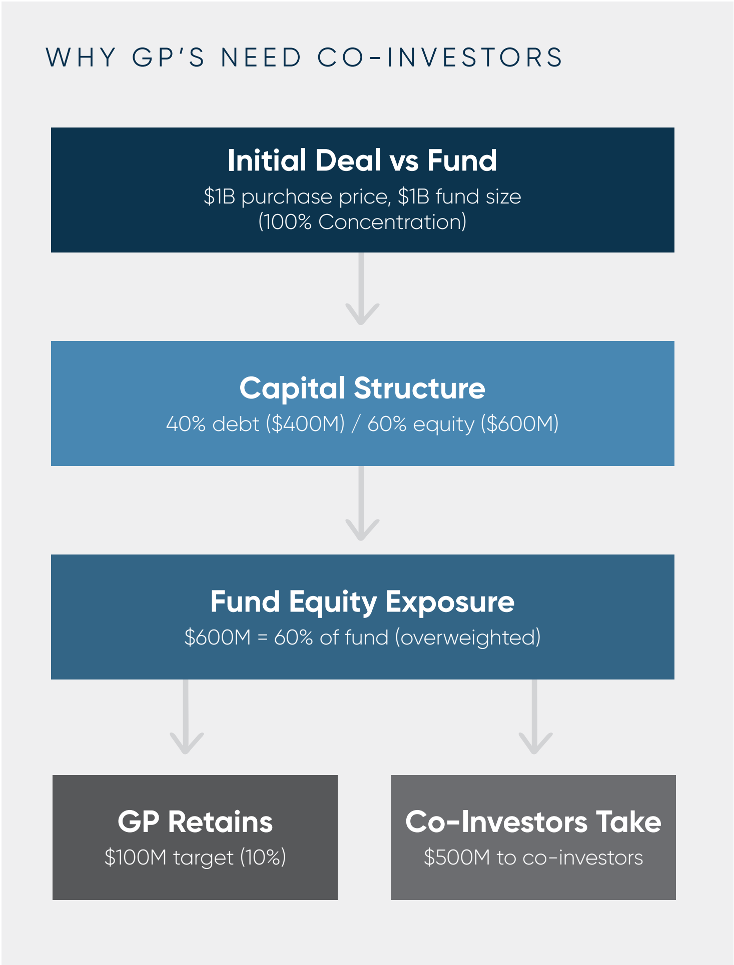


Understanding the Risks

Investors need to understand why the GP is offering the co-investment in the first place. Just because a GP feels the investment warrants more capital does not mean the investment is sound.

Some GPs may use them to take on deals that are outside the fund's objectives, maybe even outside their business expertise, which could meaningfully increase risk. Furthermore, participation in only one or a few co-investments can create significant concentration risk, potentially impacting other parts of an asset allocation. Co-investments can unintentionally increase sector concentration, making the portfolio more vulnerable to unanticipated market impacts.



Not all co-investments offer an equal chance of success. While that may seem obvious, it is important to learn as much as possible before investing since private investments are illiquid. GPs in need of capital may not provide full access to their research, company management or even share their own deal terms with prospective investors. Some may be relying on over-eager investors to rubber-stamp their work just to ensure access to future opportunities. In these situations, having the right tools to analyze co-investments can be the difference between success and failure.

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Evaluating the Opportunity

How opportunities are researched makes all the difference. Co-investment opportunities, like secondaries, necessitate significant added research on the part of the investor. While access is the first step, co-investments must be evaluated by analysts experienced in private markets, with the necessary sector, industry expertise. The GP sponsors themselves must also be scrutinized, and all this analysis must be done on the GP's timetable. Successful industry participants understand the risks. They know what to look for, when to say no, and are comfortable doing so because they have the market size and scale to ensure that the flow of opportunities remains strong.

A FRAMEWORK FOR EVALUATING A CO-INVESTMENT

01 **Industry**
Is this an attractive, resilient market - growing for a durable reason?

02 **Company**
Is this a high-quality business, with a durable model and management that can execute?

03 **Sponsor**
Is this the right partner for this specific company - relevant sector experience, properly aligned incentives?

04 **Transaction**
Is the price right for the risk, with a capital structure that can absorb a downturn?

05 **Downside Protection**
What happens to this investment if the base case doesn't show up?

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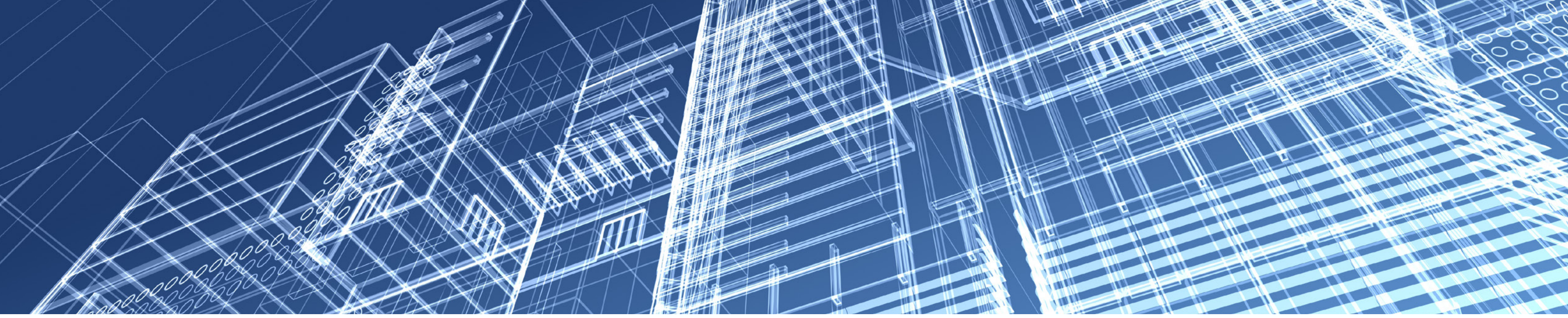
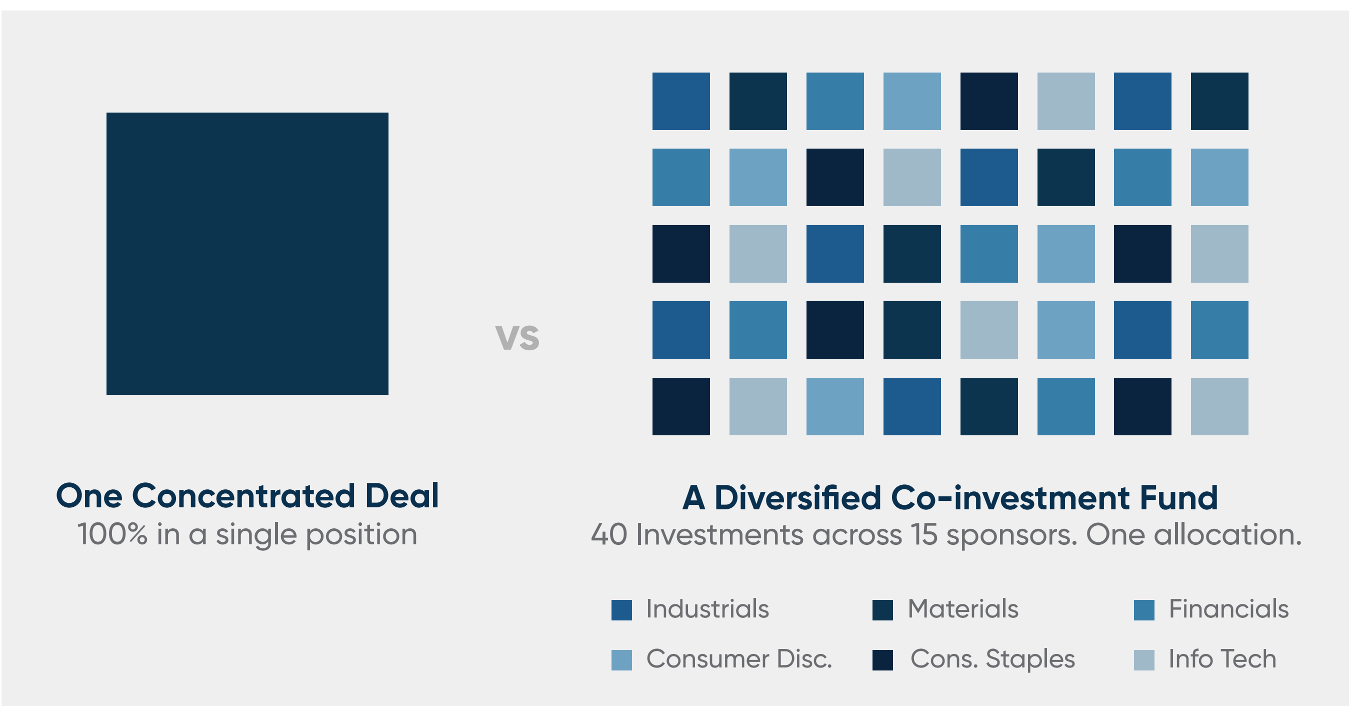


From Individual Investments to a Portfolio

Co-investment opportunities vary widely in potential and are not distributed evenly to investors. Real value emerges when experience, selectivity and diversification work together. That potential is realized when an experienced portfolio management team, with a depth of GP relationships and expertise in evaluating private investments, uses their expertise to build a portfolio of co-investments.

Institutional investors have had access to co-investment funds for years and only recently have individual investors been able to participate by using evergreen funds. Funds prevent investors from concentrating exposure within a single transaction or sponsor. They can provide broad diversification and access to GP deal flow that has in many cases been developed over years by working with a variety of private equity sponsors.

While a typical primary private equity fund may hold 8–20 companies, a co-investment fund may hold twice that number and be shepherded by a team of professionals working to identify the best opportunities. They will adjust portfolio weightings to reduce concentration risk and use their resources to gain access to a steady flow of opportunities. By providing visibility into target sector and geographic exposures, co-investment funds can help advisors evaluate how these funds can fit into their client's broader allocation.



Risk management, diversification, and due diligence processes seek to mitigate, but cannot eliminate risk, nor do they imply low risk.

How to Work with Your Advisor to Evaluate a Manager

A co-investment is only as strong as the disciplined analysis behind it.

Lower fees and greater visibility can create an advantage but only when paired with a sound investment process willing to decline opportunities deemed unsatisfactory. Below are some questions you can use to evaluate a co-investment fund:

- ☑ How long has the manager been investing in this space and how many deals have been done?
- ☑ What percentage of potential deals are invested in? (Are they comfortable saying no?)
- ☑ How are deals sourced and allocated?
- ☑ How are sponsors evaluated?
- ☑ How is the portfolio constructed and how is risk managed?
- ☑ How are fee savings passed on to fund investors?

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GCM Grosvenor's experienced team of approximately 550 professionals serves a global client base of institutional and individual investors. The firm is headquartered in Chicago, with offices in New York, Toronto, London, Frankfurt, Tokyo, Hong Kong, Seoul and Sydney.

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