GCM GROSVENOR

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The Rise of Co-Investing in Private Credit: **Insights from GCM Grosvenor's SEM Consortium**

Introduction

A popular panel discussion at GCM Grosvenor's annual SEM Consortium in New York City shed light on one of the most exciting developments in the alternative investment world: the emergence of co-investing in private credit. As the private credit asset class continues to mature, experts from GCM Grosvenor highlighted the transformative potential of co-investments for both general partners (GPs) and limited partners (LPs).

A Maturing Asset Class

GCM Grosvenor Managing Director Michael Kirchner opened the panel by framing the evolution of private credit. "We've observed the asset class is on the same path of development as other private asset classes," he said. "Part of this maturation process is an increasingly dynamic interaction between GPs and LPs." He noted that, just as co-investments have become integral to private equity, real estate, and infrastructure, a similar trend is unfolding in private credit.

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This evolution is crucial as LPs increasingly look to move beyond standard credit fund investments and opt to embrace co-investments. As a result, early-stage GPs who recognize and embrace this shift towards co-investing can create an opportunity for themselves to deepen their connection to preeminent LPs. Kirchner explained, "Forward-thinking GPs have engaged in co-investment activity to their benefit. For emerging managers, it's an opportunity. If they can embrace doing individual deals with LPs, it can be a real accelerant to their business over time."

Though still in its early stages, Kirchner believes that co-investing in private credit will become a long-term trend. "The benefits are just too significant for it not to continue to proliferate," he said.

The Benefits for LPs

GCM Grosvenor Managing Director Brandon Cahill detailed the advantages co-investments offer to LPs. First and foremost, LPs can achieve **capital and fee efficiency**. "GPs often do not charge a fee or offer a lower fee compared to traditional fund structures ," Cahill explained. Additionally, co-investments provide **greater certainty around capital deployment**, allowing LPs to deploy capital with more confidence and speed.

Beyond efficiency, co-investing enables LPs to diversify their portfolios. Cahill noted that "primary fund allocations that include co-investments offer access to different asset classes," potentially enhancing portfolio resilience. Furthermore, such an **opportunistic approach** allows LPs to tailor investments to specific areas or sectors, adapting to market conditions.

Perhaps one of the most significant benefits is the deeper **engagement with a broader set of GPs**. By working more closely with GPs through co-investments, LPs gain valuable insights into how firms underwrite deals and operate. Cahill highlighted this as a key advantage, saying, "It allows LPs to build more robust relationships with GPs over time."

The GP Perspective

From the GP side, the panel discussed how co-investing can offer tangible benefits. GCM Grosvenor Managing Director Ravi Mehta pointed to the lack of **netting risk** as a crucial advantage. Unlike traditional commingled funds, where fees are netted across multiple investments, co-investments can offer more straightforward fee structures.

Co-investing can also provide **capital to enable transactions**. By securing the full financing for a deal, GPs can often close transactions more quickly and on better terms for borrowers. Additionally, co-investing enhances **capital-raising efforts**, as LPs increasingly seek co-investment opportunities alongside their primary commitments.

Mehta noted that co-investments are also a powerful tool for **strengthening client relationships**. GPs who offer co-investment activity can provide incremental value to key LPs, many of which are eager to expand their exposure to private credit through co-investments.

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Operational Challenges: A Unique Feature of Private Credit

While many of the benefits of co-investing in private credit are clear, the panel also addressed the unique challenges of this emerging strategy. Kirchner emphasized the additional **operational complexity** of co-investing in private credit compared to private equity. The nature of private credit deals, with **negative convexity**, means that a diversified portfolio often requires 30-40 transactions for proper risk management—significantly more than private equity, where a dozen or so deals typically suffice.

Additionally, the **timing** of private credit transactions adds to their complexity to execute. "For us, a typical transaction has to be completed—soup to nuts—in a week or two," Kirchner remarked, contrasting this with private equity deals, which can take multiple weeks or months to finalize.

Partnering with GCM Grosvenor: The Edge in Private Credit Co-Investing

Despite its operational challenges, panelists agreed that the potential rewards of co-investing in private credit far outweigh any hurdles. As the asset class continues to mature, GCM Grosvenor is positioning itself at the forefront of this new frontier, helping GPs and LPs alike unlock new opportunities in the world of private credit.

As Kirchner emphasized, GCM Grosvenor's infrastructure and expertise enable efficient deal execution, ensuring LPs benefit from streamlined capital deployment and GPs from swift transaction closings. By blending fee efficiency with tailored diversification, GCM Grosvenor's platform delivers a strategic advantage for investors and managers seeking to unlock private credit's full potential.

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About GCM Grosvenor

GCM Grosvenor (Nasdaq: GCMG) is a global alternative asset management solutions provider with approximately $80 billion in assets under management across private equity, infrastructure, real estate, credit, and absolute return investment strategies. The firm has specialized in alternatives for more than 50 years and is dedicated to delivering value for clients by leveraging its cross-asset class and flexible investment platform.

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. For more information, visit: **www.gcmgrosvenor.com**.

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