



Co-investments: the jewel in the private equity crown

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As can be surmised from this paper's title, we are unabashedly pro private equity co-investments. Before digging into why co-investments are the jewel in the private equity (PE) crown, as we claim, a little background on their emergence and trends are in order.

Co-investments really came to light in the wake of the Global Financial Crisis as private equity managers/general partners (GPs) found it difficult to raise capital for PE funds from investors spooked by the events of the time.¹

Their solution was to turn to co-investments by inviting especially trusted clients/limited partners (LPs) to invest alongside them into individual companies, rather than into companies via traditional PE funds.²

The chance to invest directly in high-conviction deals and companies differs from traditional PE funds where investors commit capital on a 'blind-pool' basis. Blind-pool refers to committing capital to a PE fund without knowing, beforehand, the identity of companies that will be acquired. Put simply, co-investors invest selectively alongside a GP when presented opportunities, allowing them to conduct their own due diligence on the target company.

For LPs like MLC, co-investments represent a more targeted allocation of capital, enabling better access to private companies and deeper insight than is typically available through fund investments.

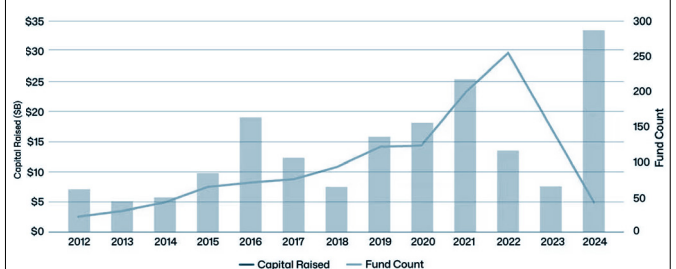
For GPs, co-investing provides a way to invest in attractive businesses that may be too large for a single private equity fund to hold due to concentration limits. It also allows them to work closely with LPs and build relationships ahead of future opportunities.

Recent co-investment trends

Until 2022, capital raised for co-investments was on an upward but uneven trajectory. This trend was interrupted by the lingering effects of COVID-related disruptions, followed by macroeconomic headwinds—most notably the inflation surge over 2022–2023 and subsequent central bank interest rate hikes (See Figure 1).

Figure 1. Until 2022, capital raised for co-investments was on an upward but uneven trajectory

Global capital raised across co-investments (US\$ billions)



Source: PitchBook

The year 2024 saw a big uplift in fund raising, as capital for co-investments hit a record US\$33.2 billion, even as the number of deals fell sharply to just 40, the lowest since 2013.³ This appears to stem from mega-private-equity funds growing so large that, in practice, they have fewer opportunities or less ability to offer co-investments to LPs.⁴

That said, in the mid-market space, which is the focus of MLC’s PE fund and co-investment program, co-investments continued “to be a critical and assumed market norm”.⁵

With expectations of greater pent-up transaction activity expected to hit the market, liquidity strengthening and mergers and acquisitions activity picking up, we think co-investment creation will rise too, creating the opportunity for investors to deploy more capital to this part of the PE realm.⁶

Lower fees, higher potential returns for investors

In our view, fee structures linked to co-investments offer an additional incentive for investors to explore this approach to private equity.

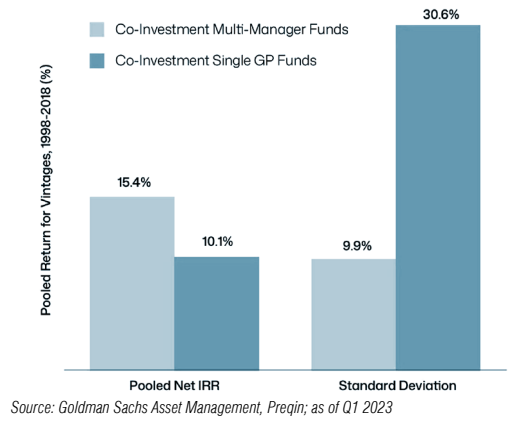
Co-investments often come without management fees or carried interest (fees on profits), which helps minimise overall costs and can improve net returns—provided underlying investments perform as expected.⁷ This cost efficiency can translate into stronger risk-adjusted outcomes for the asset class and gives investors a practical way to enhance the overall performance of their private equity allocations.⁸

Research indicates that multi-manager co-investment funds tend to outperform traditional private equity funds thanks to diversification.⁹

Unlike single-GP co-investment funds, which are concentrated around one manager’s deals, multi-manager funds can select opportunities from a broad range of GPs. We think this approach helps spread exposure across different geographies, sectors, and company sizes, reducing concentration risk and enhancing portfolio resilience.¹⁰

On this basis, multi-manager co-investment funds, in aggregate, have generated superior returns with significantly less variance than single-GP co-investment funds (See Figure 2).

Figure 2. Multi-manager co-investment funds have generated superior performance to single GP co-investment funds



Minimising the J-curve impact

Another potential desirable feature of co-investments is their attractive J-curve characteristics—the J-curve being the tendency of PE funds to post negligible returns in their early years and stronger returns in later years as investments are deployed, mature and value is realised.

By contrast, co-investments generally accelerate capital deployment, and this coupled with typically lower than PE fund fees help to lessen the J-curve effect.¹¹

Although co-investments experience the deepest initial drawdowns among multi-manager private fund strategies, their cumulative net cash flows quickly converge with primary funds and reach breakeven sooner (See Figure 3).

Manager selection is critical

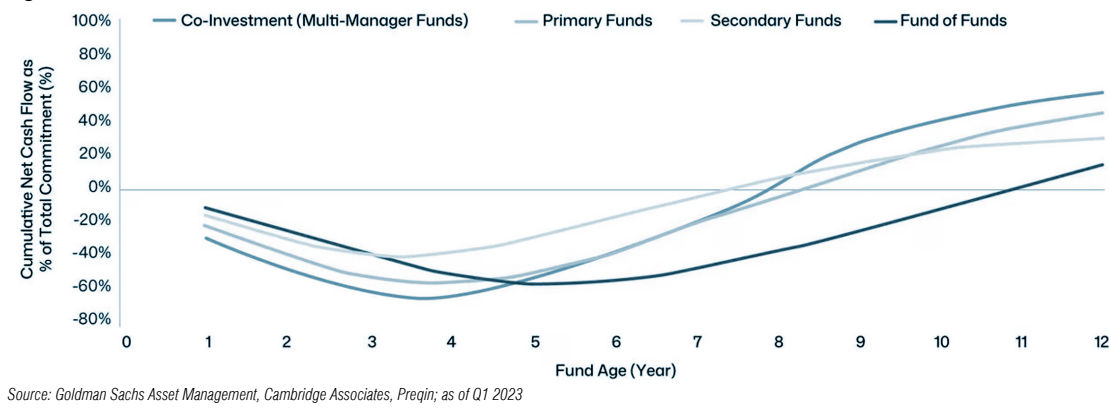
Relationships and access are key to success in private equity investing with large differences between long-term returns delivered by strong-performing PE managers, compared to their lower-performing industry peers. Ultimately, strong performing PE managers have an edge in sourcing deals, creating value and exiting these investments. In other words, manager selection is pivotal in private equity.



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David is a portfolio manager at MLC Private Equity, and joined the company in 2009. His experience spans over 20 years and includes corporate strategy, strategic due diligence, M&A, IT strategy, operational implementation, product design, financial modelling and process improvement. He has led coverage of Asian and EM companies, and worked out of New York and London covering North America and UK investments for MLC.

Figure 3. Co-investment funds have attractive J-curve characteristics





The quote

For GPs, co-investing provides a way to invest in attractive businesses that may be too large for a single private equity fund to hold due to concentration limits.



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Alicia is an assistant portfolio manager at MLC Private Equity, and joined the company in 2021. With a strong background in direct private equity investments and manager assessment, Alicia focuses on researching and supporting execution of private equity investment opportunities in the US and Europe.

Table 1. Return differences between top and bottom quartile PE managers widened over 2022 and 2023

Global PE: IRRs by vintage

Vintage year	Pooled IRRs			IRR quartiles						
	Pooled IRR	Equal-weighted pooled IRR	Number of funds	Top decile	Top quartile	Median IRR	Bottom quartile	Bottom decile	Standard deviation	Number of funds
2000	14.43%	11.95%	57	29.38%	22.55%	12.67%	5.00%	-3.07%	12.44%	122
2001	24.58%	22.97%	26	46.27%	32.61%	20.60%	11.85%	7.46%	19.52%	60
2002	20.72%	16.25%	25	36.35%	24.40%	15.80%	6.01%	-1.83%	19.13%	61
2003	16.03%	14.28%	31	43.30%	29.33%	17.46%	6.01%	2.54%	31.09%	76
2004	9.80%	10.83%	42	35.01%	23.51%	12.05%	3.03%	-3.41%	19.66%	70
2005	9.84%	9.28%	77	22.32%	14.25%	9.21%	2.82%	-4.60%	15.21%	123
2006	8.03%	8.77%	99	21.00%	13.70%	9.55%	4.88%	-1.45%	10.95%	168
2007	9.23%	9.14%	113	23.10%	16.00%	9.20%	4.11%	-4.00%	19.37%	181
2008	13.92%	11.67%	108	24.85%	17.46%	10.60%	5.71%	-2.35%	12.60%	146
2009	12.97%	14.09%	36	26.35%	20.25%	13.43%	6.42%	0.28%	12.39%	66
2010	12.55%	12.50%	51	29.05%	24.98%	14.66%	5.40%	-3.65%	14.11%	76
2011	14.57%	14.18%	78	30.51%	20.65%	14.10%	8.29%	2.90%	13.91%	103
2012	15.52%	15.48%	87	31.37%	23.53%	14.04%	7.88%	1.09%	14.01%	123
2013	14.58%	15.93%	93	31.80%	23.82%	16.02%	9.88%	2.38%	11.08%	118
2014	14.48%	14.84%	80	32.29%	24.73%	16.00%	9.47%	2.43%	15.54%	124
2015	17.96%	17.31%	116	29.45%	21.65%	16.60%	11.95%	6.52%	10.16%	143
2016	16.88%	18.11%	110	34.59%	23.05%	16.78%	11.07%	5.62%	13.15%	134
2017	18.99%	18.68%	111	34.31%	23.48%	17.73%	12.53%	7.23%	12.68%	110
2018	15.25%	17.23%	145	28.38%	22.00%	15.27%	10.76%	6.17%	11.76%	158
2019	15.67%	16.61%	137	29.56%	22.40%	15.60%	10.11%	6.48%	11.74%	149
2020	12.35%	14.39%	140	30.38%	19.54%	13.05%	9.52%	4.42%	12.03%	152
2021	11.37%	12.47%	182	31.00%	17.31%	10.68%	4.44%	-1.30%	14.19%	188
2022	13.08%	17.89%	149	28.05%	16.91%	10.14%	-0.80%	-13.12%	30.99%	152
2023	10.56%	7.01%	98	46.23%	26.73%	8.38%	-8.44%	-27.30%	33.86%	106

Note: All private capital returns are net of fees and accrued carry. Additional vintages are included in the XLS Summary available to PitchBook clients.

Data as of 31 March 2025.

Source: PitchBook, Geography Global

In 2023, there was a greater than 36% net internal rate of return (IRR) difference between the top quartile (26.73% return) and bottom quartile (-8.44% return) PE managers (See Table 1), which we believe underscores the importance of manager selection.

In our view, benign business conditions can mask skill differences between capable and less capable managers. Low-interest-rate environments, for instance, can drive valuation expansion more broadly through leverage, benefiting many assets regardless of underlying 'quality'.

However, in our opinion, the 2022–2023 period exposed these lower-quality managers versus those with skill and specialisation enabling better operational uplift and value creation beyond leverage, which allowed well credentialed managers to significantly outperform less-able counterparts.

We observed more capable GPs navigating the period by leaning on better deal due diligence, tried and tested value creation playbooks, and an ability to add-on acquisitions. By contrast, what we regard as less-capable GPs

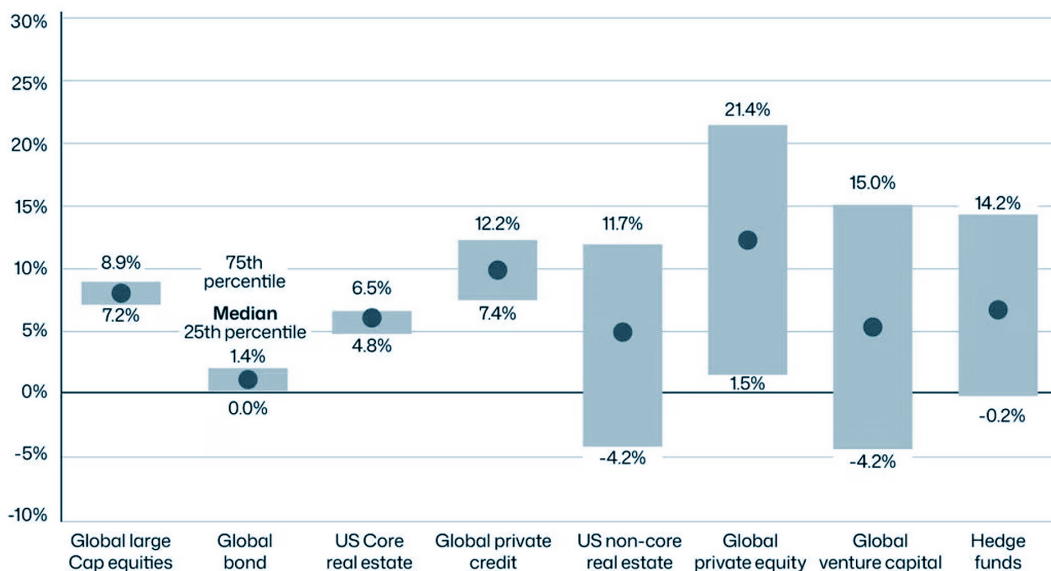
(typically less specialised) lacked these tools and struggled in a challenging cycle.

This gap in capability persists, with JP Morgan data (see Figure 4 on the next page) revealing an almost 20-percentage-point performance differential between top- and bottom-performing private equity managers, showing a dispersion almost 12 times wider than in listed global large cap equities.

We believe this places an usually high onus on the importance of deep relationships with the world's most capable PE managers and being connected within the industry. The PE landscape is relationship-driven, and top performers are often inaccessible to newcomers, preferring established partners.

Relationships built over many years and strengthened through shared experiences across multiple successful programs bind high-performing private equity managers and their preferred investors, underpinning long-term investment success. That has certainly been our experience.

Figure 4: PE managers' dispersion of returns far exceeds public equity managers' performance dispersion
Median, top quartile, bottom quartile performance dispersion of private and public investment managers (based on returns 1Q 2015–1Q 2025)*



Source: Burgiss, Morningstar, NCREIF, PitchBook, PivotalPath, JP Morgan Asset Management. Global large-cap equities and global bond are based on the Morningstar Global Large Stock Blend and Global Bond (not hedged) categories, respectively. US core real estate is based on NCREIF Fund Index—ODCE. Global private credit is represented by PitchBook | LCD fund data. US non-core real estate, global private equity and global venture capital are based on indices from the MSCI Private Capital Universe. Hedge funds are based on the Pivotal Path Index. *Manager dispersion is based on annual returns over the 10-year period indicated for: global large-cap equities, global bond, US core real estate and hedge funds. Manager dispersion is based on the 10-year internal rate of return (IRR) ending Q4 2024 for: global private credit, US non-core real estate, global private equity and global venture capital. Past performance is not a reliable indicator of current and future results. Data as of 31 May 2025.



The quote

Co-investments often come without management fees or carried interest (fees on profits), which helps minimise overall costs and can improve net returns ...

Staying committed and backing the right people

Our co-investments share the same characteristics as PE funds we invest into.

We prefer partnering with mid-market industry sector specialist GPs, for example, in financial technology, healthcare or business-to-business software as, according to analysis by Bain Capital in its *Global private equity report 2022*,¹² specialist PE Managers tend to drive successful outcomes compared to generalist PE managers.

While most of our manager relationships are longstanding, we are prepared to selectively back new managers, particularly those emerging from well-established firms with strong track records and whom we already know or have worked with.

From our perspective, leaving a recognised PE manager to set up a new shop shows drive and ambition. Those qualities coupled with managers who invest their own capital into newly founded PE firms, attract us. Said differently, we like managers with 'skin in the game'.

To be clear, we do not commit our clients' funds simply on managers' drive, ambition and alignment on risks and incentives. As always, we undertake intensive due diligence on any opportunity that comes to market that may be of interest to us, whether from a new or established manager.

We are broadly agnostic about the industries we invest in and screen the opportunity set on a case-by-case basis.

Nevertheless, both our PE fund program and co-

investments show an overweight exposure to three attractive structural themes supported by secular market tailwinds, namely:

- healthcare
- consumer-related industries
- technology, especially fintech, and business-to-business software.

We believe these thematic will benefit from long-term structural trends which will play out over time, aligning well with the multi-year investment horizons typical of private equity, whether through funds or co-investments.

In these industries, we generally back co-investments provided by specialist healthcare, consumer or technology private equity managers who 'know what good looks like', given their deep industry expertise, sector knowledge and ability to create value within it.

Diversification is a feature of our program too as our clients' capital is spread across high-conviction managers, multiple vintages, companies, industries, sectors, and regions (see Figure 5 on the next page).

In listed equity terms, we are 'benchmark agnostic'. We do not feel compelled to invest in any industries, companies, countries, or regions just because doing so may be in step with an industry benchmark.

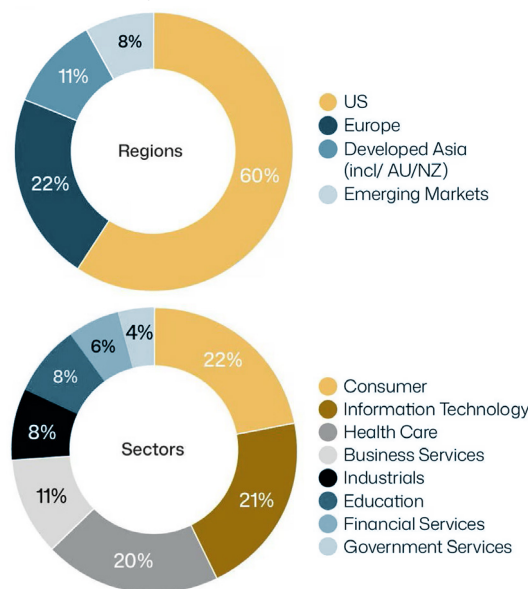
The upshot is that our co-investments have offered clients access to scarce opportunities that arise from longstanding relationships with some of the world's most capable PE managers who have chosen to partner with us to selectively invest in individual companies.



The quote

Research indicates that multi-manager co-investment funds tend to outperform traditional private equity funds thanks to diversification.

Figure 5: Regional and sector diversification is apparent
MLC Private Equity Co-Investment Fund III portfolio composition*



*Region and sector based on original cost of investment
*Figures shown are subject to rounding

Source: MLC Private Equity

The mid-size company opportunity

Our one area of preference is company size. The co-investments we prefer are mid-size companies. In our view, there are more opportunities to create value in the mid-size company arena over a three-to-seven-year holding period than among larger companies where transformation can take longer to realise, or where operations are already highly efficient and growth prospects may be limited.

Because of these inefficiencies, it is possible to have a greater impact on companies towards the smaller end of the spectrum through transformation and growth initiatives.

From our experience, transformed mid-size compa-

nies often become attractive acquisition targets to bigger companies (trade sale) or other PE managers (looking to invest), resulting in attractive valuations and providing a clear pathway to returning funds to investors.

In the US, for instance, mid-sized companies' valuation advantage can be found in their purchase multiples with middle-market companies' purchase multiples being lower at 10.4 times versus 12.4–12.9 times for large-market companies.¹³

Lower purchase multiples mean lower entry points for PE investment and imply middle-market buyouts typically require less leverage to achieve their target returns. In fact, the average middle market transaction typically uses 32% less leverage compared to large company related transactions.¹⁴

This suggests, to us, middle-market companies provide better value and lower risk.

Middle-market companies grow faster than large ones. On average, US middle-market companies under private equity ownership have achieved 9.3% annual earnings before interest, taxes, depreciation, and amortisation (EBITDA) growth compared to 7.1% for large companies owned by private equity managers.¹⁵

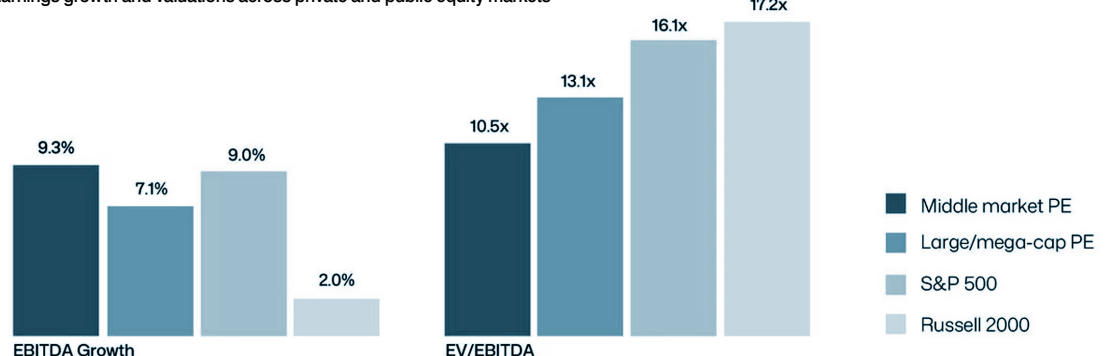
Figure 6 shows that private middle-market firms' earnings growth beats both earnings growth delivered by large-cap listed US companies (as measured by the S&P 500 index) and small cap firms (as measured by Russell 2000 index).¹⁶

Moreover, mid-size companies' strong earnings profile is coupled with attractive valuations—PE-owned US mid-size firms' valuations being at discount to large US PE-owned companies' valuations, as well as the valuations of companies making up the S&P 500 Index and Russell 2000 index (see Figure 6).

What drives these differences?

As advocates of mid-market investing, we believe mid-sized firms provide more room for growth more value creation opportunities. Lower mid-market companies also tend to have

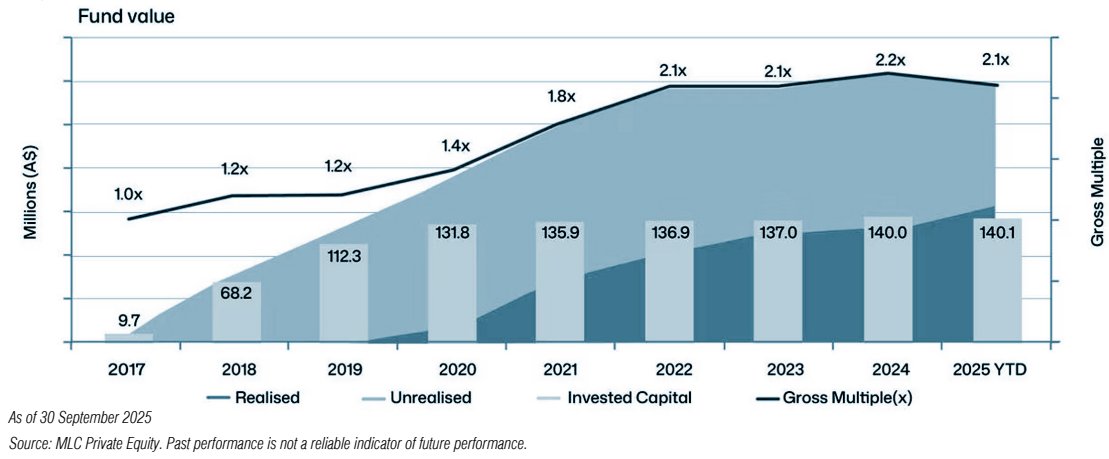
Figure 6. PE-owned mid-size US companies have exhibited higher earnings growth and lower valuations than their larger counterparts
Earnings growth and valuations across private and public equity markets



Source: Source: Bloomberg Finance, L.P., Golub Capital, and PitchBook. Y/Y EBITDA growth sourcing: Middle Market PE: Golub Altman Middle Market, as of 30 November 2024. Large/mega-cap PE: Median EBITDA growth of the Russell 1000 (excluding certain industries to match the methodology of the Golub Altman Index) as of Q3 2024. S&P 500: Cap-weighted index as of Q3 2024. Russell 2000: Cap-weighted index excluding energy sector due to earnings volatility. EV/EBITDA sourcing: Middle market PE: PitchBook, M&A deals US\$500 million to US\$1 billion EV, as of 31 December 2024. Large/mega-cap PE: PitchBook, M&A deals US\$1 billion to US\$5 billion, as of 31 December 2024. S&P 500 and Russell 2000: Bloomberg Finance, L.P., as of 31 December 2024.

Figure 7. MLC Private Equity Co-investment Fund II

Long-term track record

**The quote**

Unlike single-GP co-investment funds, which are concentrated around one manager's deals, multi-manager funds can select opportunities from a broad range of GPs.

less debt on their balance sheets and, as a result, are nimbler and better positioned to adapt to market disruptions.¹⁷

We believe there are often more value-creation levers available to private equity investors in smaller companies. There is high potential to drive margin improvement through operational management, supply chain management, IT implementation, data insights, better enterprise reporting and acquisitions integration.¹⁸

The mid-market also benefits from an abundance of potential private companies compared to listed markets. In the United States, around 200,000 privately owned mid-size companies with revenues between US \$10 million and \$US1 billion have been a driving force in the domestic economy for decades.¹⁹ This group represents around one-third of US private sector gross domestic product (GDP) and employs around 48 million people.²⁰

By the time firms have reached large-company status, they are closer to the ceiling in all dimensions, and in our view reached levels of maturity where revenue growth is slower.

This means there is greater reliance on the final value-creation lever available to private equity firms—capital markets. Mega firms tend to rely more heavily on financial engineering and higher levels of leverage, which have become more challenging in today's macroeconomic environment²¹ with elevated interest rates. All up, we believe the mid-market segment represents a source of potentially strong long-term returns.

Intensive focus on risk-management

Investment success comes not just from owning good assets. Risk-management is equally important. Without intensive focus on downside management, a co-investment program could be undone by failures overwhelming positive returns elsewhere.

As part of our investment process, we focus our analysis of prospective opportunities on profitability and the durability of cash flows. Cash flow is particularly important. Without it companies cannot survive, let alone fulfil basic obligations like paying lenders, suppliers, and employees on time.

We do not co-invest in venture-style businesses which are typically pre-revenue or pre-profit. Instead, we co-invest in private equity opportunities generating positive and sustainable profits (another trait of mid-sized companies). We look for multiple value creation levers and exit paths, but importantly we model opportunities against 'what if' downside scenarios.

What if high interest rates return or go even higher? What if inflation persists? What if there is a recession? What if the company's most material contract isn't renewed? What if the worst-case scenario the private equity manager contemplates occurs? What if even worse eventuates?

We make sure all our investments have a margin of safety so they can be resilient should the operating environment deteriorate.

A note on illiquidity

As investors, we have highlighted the many benefits of PE. However, PE and PE co-investments have distinctive risks investors should bear in mind, including illiquidity. Ultimately, private means they are not easily tradeable like a publicly listed equity.

Private equity co-investments can lock in investors' capital for 5–10 years, and over this period investors are unable to access their capital. In the absence of a large and liquid secondary market for underlying private investments, unlike public sharemarkets, it can be difficult to determine the timing and valuations at which investments may ultimately be realised.

Given this illiquidity and uncertainty, investors typically seek higher long-term returns (liquidity premium) from the asset class than those generally associated with listed shares, by way of comparison.

However, as discussed earlier, not all PE investments meet higher performance expectations, and it is important to partner with credible PE managers. Private equity is a sophisticated asset class, and we believe outcomes are more likely to be attractive when investing alongside managers with long operating histories and a proven record of long-term, sustainable value creation.



The quote

Without intensive focus on downside management, a co-investment program could be undone by failures overwhelming positive returns elsewhere.

Co-investment in practice

MLC Private Equity Co-investment Fund I (Fund I), commenced on 15 November 2013, concluded on 20 May 2025. Over its life, Fund I delivered a net IRR of 18.4%, coupled with a gross multiple of invested capital (MOIC) of 2.7x over the same period.²²

MLC Private Equity Co-investment Fund II (Fund II), launched on 16 May 2017, has a since inception to 30 September 2025 IRR of 13.3%, with a gross multiple of invested capital (MOIC) of 2.1x over the same period (see Figure 7 on the preceding page).

MLC Private Equity Co-investment Fund III (Fund III), launched in November 2020, is just entering the harvesting phase with one realised investment so far. MLC Private Equity Co-investment Fund IV, launched in December 2024, has only just commenced its investment phase.

As of 30 September 2025, Fund II was invested in 13 companies and realised investments in eight other companies while being diversified across regions and sectors.²³

We believe all of this helps to place us in a desirable position to continue sourcing more quality co-investments. **FS**

Notes

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