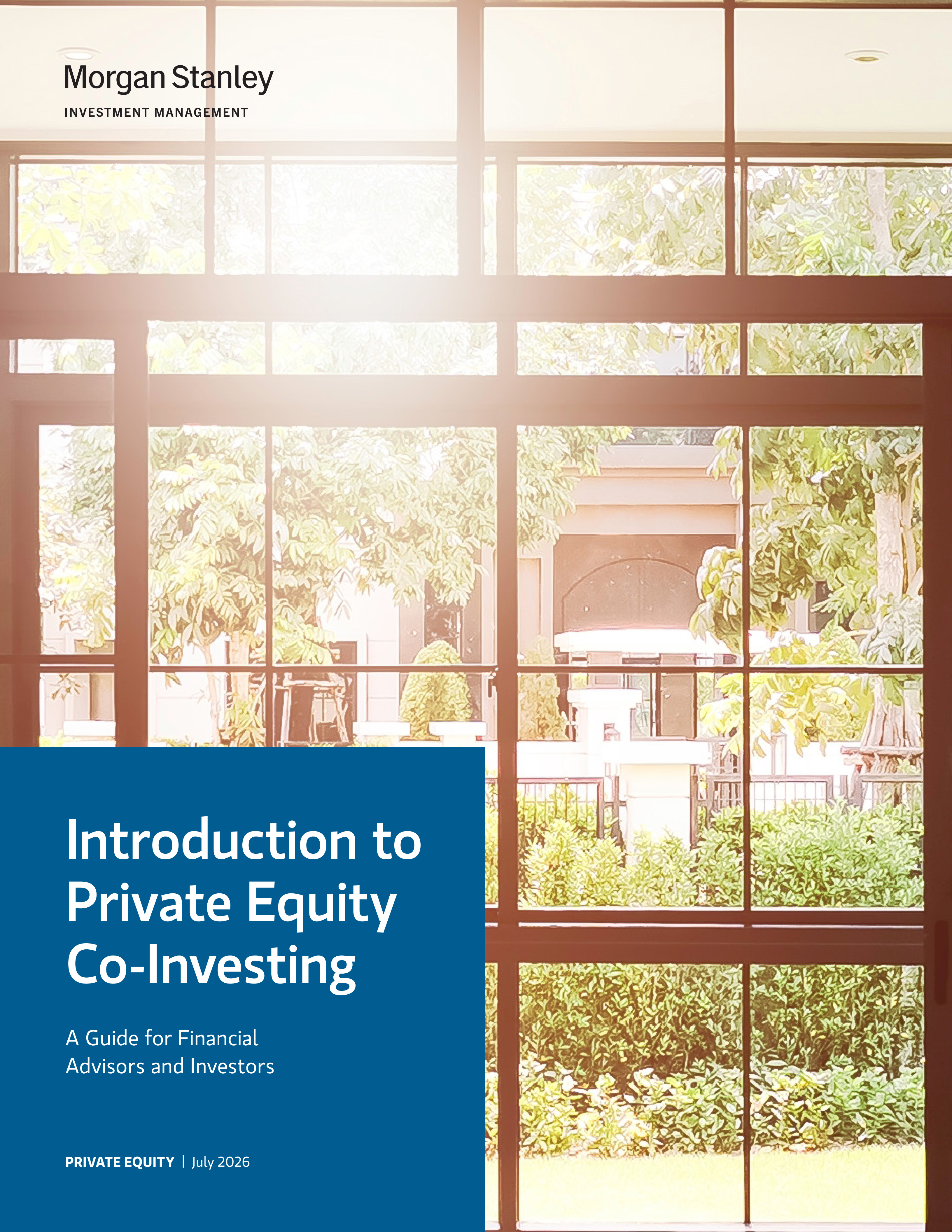


Morgan Stanley

INVESTMENT MANAGEMENT

Introduction to Private Equity Co-Investing

A Guide for Financial Advisors and Investors

PRIVATE EQUITY | July 2026

Introduction

Private equity is becoming an important part of many portfolios. Most investors access private equity through "blind pool" funds: an investor commits capital to a private equity fund manager—often called a General Partner, or GP—and that manager builds a portfolio of companies over several years. Investors essentially place their trust in the manager's judgment, track record and expertise.

Co-investing offers a different path.

With co-investments, investors participate directly alongside GPs in specific, pre-identified companies. Co-investors evaluate soon-to-be-acquired businesses, their industry and the GP's plan for creating value before deciding whether to participate. In many cases, co-investments also come with more favorable economics than those of a traditional private equity fund—sometimes significantly so.

Not long ago, co-investing was a strategy used mainly by large institutional investors—pension funds, sovereign wealth funds and endowments—with the resources and staffing to evaluate and execute individual deals. That has changed. Today, co-investing attracts a wider pool of investors and has become a popular way for private equity deals to get financed.

According to PitchBook, co-investment funds raised a record $47.3 billion in 2025, reflecting the growing interest in this strategy. That is in addition to what investors allocate to co-investments directly, outside of a fund structure. This growth is being driven by bigger deal sizes, longer holding periods, challenging fundraising climates and a desire among GPs to deepen relationships with their most valued partners.

For advisors and investors, this creates an opportunity—but also a responsibility. Co-investing can offer real advantages, but it also involves important trade-offs. This paper aims to explain what co-investing is, why it exists, how it works, and how both co-investments and co-investment funds fit within a broader private equity portfolio.

What Is a Co-Investment?

A private equity co-investment is a direct investment into a specific operating company, made alongside a GP that is leading the transaction. In most buyout situations, the GP is the control owner—responsible for governance, strategy, and executing the plan to grow the business. The co-investor participates as a passive financial partner alongside the GP.

The defining feature of a co-investment is deal specificity. Unlike a traditional fund commitment, where capital is deployed into an unknown portfolio over time, a co-investment is tied to one identified company. The co-investor gets a detailed information package, evaluates the business and its prospects, and then decides whether to participate.

This specificity is one of the primary reasons co-investing is appealing. It allows investors to see exactly what they are investing in—the company, the competitive landscape, the entry valuation, and the GP's specific value-creation plan.

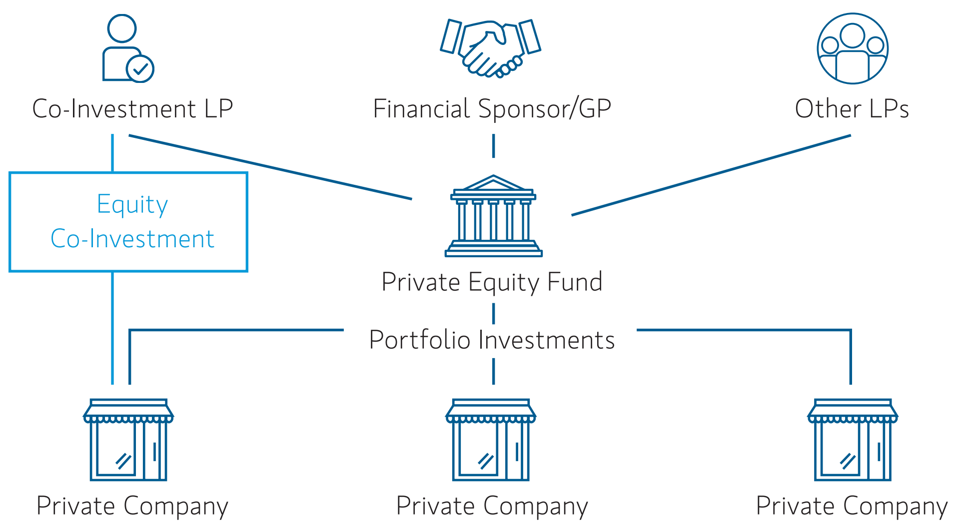
But this transparency comes with a trade-off. By investing in a single company, a co-investor takes on concentration risk. If that company performs well, the impact on results can be meaningfully positive. But if it struggles, the effect can be equally significant in the other direction. In practice, co-investing trades away some of the diversification of a fund for greater visibility into individual holdings.

It's worth mentioning that this experience is slightly different for those who invest through a co-investment fund. In a fund, the manager is acquiring co-investments alongside multiple GPs. The manager is the gatekeeper who does a fund's co-investment sourcing and due diligence on behalf of the fund's investors.

Of course, it is also important to understand what co-investing is not. It is not a substitute for a diversified private equity program. It is not a guarantee of lower risk. And it is not always done on a "no fee, no carry" basis; the economics can differ depending on the GP, the relationship and the situation. Individual co-investors and co-investment fund managers are generally passive: they may receive information rights and certain protections, but they do not direct strategy or decide when to sell a company. The GP controls those decisions.

What is Co-Investing?

Co-Investment: An investment made directly into a pre-identified operating company alongside a private equity sponsor (also known as general partner or "GP") that serves as an active lead investor



KEY ATTRIBUTES

- **Deal-specific:** Tied to one identified
- **Elective:** LP evaluates the business and decides whether to participate
- **Passive:** GP controls governance, value creation, and exit timing

Why Co-Investments Exist

One obvious question: If co-investing is so attractive for investors, why would GPs share the opportunity? Why would GPs not keep deals entirely for themselves?

The answer is that private equity deals often require more equity capital than a GP can—or wants to—deploy from its fund alone.

FUND DIVERSIFICATION rules are one common reason for this. Most private equity funds have guidelines built into their governing documents that limit how much capital can be invested in any single company. Even if a GP finds an exceptional opportunity, the fund's rules may prevent it from writing a check large enough to finance the entire deal. Co-investment capital helps to bridge that gap.

TIMING MISMATCHES are another factor. A GP may discover a compelling opportunity before a new fund reaches its fundraising target, or when a fund is early in its investment period. Co-investment capital can help a GP act on an opportunity without waiting.

INTEREST RATE DYNAMICS can also play a role. In higher-rate environments, a GP may choose to reduce the amount of debt in a transaction and increase the equity portion, bringing in co-investors to fill the larger equity need.

BUY-AND-BUILD STRATEGIES can require additional capital to fund add-on acquisitions over time, and right-sizing considerations may lead a GP to limit a fund's exposure to any single company to manage the fund's overall portfolio risk.

For GPs, co-investments can also serve an important **relationship function**. Co-investment capacity is valuable and limited, and GPs tend to offer these opportunities to their most trusted and consistent partners. It often functions as a targeted economic concession: Instead of lowering fees across an entire fund, a GP can offer especially attractive terms on select co-investments to a smaller group of investors. Over time, this deepens partnerships and can be an important factor when investors decide whether to re-commit to a manager's next fund.

Why Co-Investing Matters for Investors

From an investor's perspective, co-investing offers several potential advantages.

GREATER VISIBILITY. Instead of committing into a blind pool, co-investors can evaluate a specific company, industry, and value-creation plan. This reduces "blind pool risk" and lets direct co-investors make more informed decisions about where their capital is deployed.

MORE CONTROL OVER EXPOSURE. Because co-investments are deal-specific and elective, they give investors more control over their timing and sector exposure. Co-investors who already have significant exposure to healthcare, for example, can pass on a healthcare co-investment and wait for an opportunity in a different sector.

POTENTIALLY BETTER ECONOMICS. This is often the headline benefit. Many co-investments are offered on a "no fee, no carry" basis, meaning there are no ongoing management fees and no performance fees. When compared to the typical "two and twenty" fee structure of traditional private equity funds (2% annual management fee plus 20% of profits), the savings can be substantial over a multi-year holding period.

According to a 2024 survey by *Private Funds* CFO, over two-thirds of GPs do not charge any management fee on co-investments, and more than half charge no carried interest—although practices vary meaningfully across the industry.

Why Co-Investing Is Important to Limited Partners

Visibility, Control and Economics

GREATER VISIBILITY

- See and decide where capital is deployed
- Evaluate specific company, industry and plan
- Underwrite entry valuations, leverage, exit paths
- Reduces "blind pool risk"

CONTROL OVER EXPOSURE

- Deal-specific and elective
- Tactical sector/timing flexibility
- Control investment pacing
- Capital deployed around deal close

ECONOMICS

- Often "no fee, no carry"
- Blends down overall portfolio fees
- Potential fee alpha driver

How Co-Investments Come Together

There are two primary pathways through which individual co-investment opportunities are sourced and executed.

Syndication

SYNDICATION is the more common and structured process. In a syndicated co-investment, the GP signs or closes a deal first and then reaches out to potential co-investors, providing a polished information package—including a co-investment memorandum, a financial model and access to diligence calls. Co-investors typically have four to six weeks to evaluate the opportunity and make a decision. Because the deal is already signed or closed, there is less uncertainty about whether the transaction will happen.

Co-Underwriting

CO-UNDERWRITING is a more intensive process. Here, the investor evaluates an opportunity in parallel with the GP, often under compressed timelines of two to four weeks. Information may arrive in stages, and there is a real possibility the deal does not close. However, co-underwriting can come with meaningful advantages: larger allocation sizes, deeper engagement with the GP during diligence, and potentially better economic terms.

It is also important to distinguish between **conventional co-investments** and **mid-life co-investments**. Conventional co-investments occur when a company is first acquired. Mid-life co-investments happen later—sometimes years into the holding period—when a GP needs additional capital to make add-on acquisitions, invest in growth or restructure ownership through a continuation vehicle (where assets are transferred from an older fund into a new vehicle). Mid-life co-investments offer the advantage of actual operating data under the GP's ownership, but they may come with different fee structures and alignment considerations than conventional deals.

Assessing Co-investments: Managing Key Risks and Due Diligence

Key Risks and How to Manage Them

All investments carry risk, and co-investments are no exception. The good news is that most of these risks are predictable and manageable with proper planning.

CONCENTRATION RISK. A single-company exposure can have an outsized impact on results. The mitigant is to diversify across multiple deals and vintage years and ensure that the core private equity allocation remains anchored in diversified fund investments.

COMPRESSED TIMELINES. Especially in co-underwriting, decisions may need to be made before all information is available. Building a repeatable diligence workflow and being willing to say "no" when timelines are too tight is essential.

INFORMATION ASYMMETRY. The GP always knows the company better than any incoming co-investor. Prioritize GPs with track records of transparency and consistent allocation of quality opportunities.

FEE COMPLEXITY. While many co-investments are "no fee, no carry," they can include less obvious costs such as transaction fees, monitoring fees or organizational expenses. Reading the fine print and understanding all-in economics are important.

ILLIQUIDITY. Like all private equity investments, co-investments are illiquid. Capital is typically needed on short notice, and the GP controls exit timing. Investors should ensure they can fund commitments without jeopardizing near-term spending needs.

A Due Diligence Framework

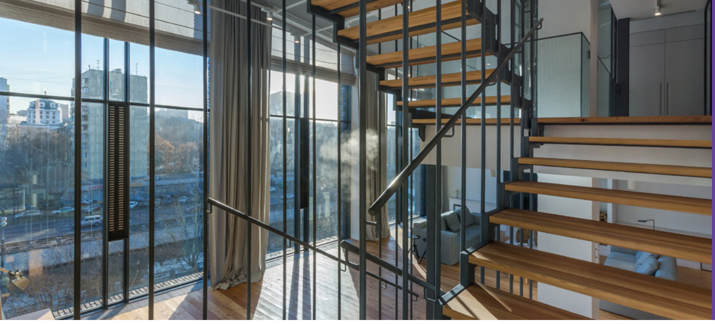
When evaluating a co-investment, it helps to focus on three core areas.

ENTRY VALUATIONS AND LEVERAGE. These are set at the outset and cannot be changed. A useful exercise is to ask: What has to go right for the investment to work if leverage stays the same and the exit multiple does not expand? If the answer requires many things to break favorably, caution is warranted.

SPONSOR QUALITY AND ALIGNMENT. Because co-investors are passive, they are relying on the GP to manage the company and create value. Evaluating the GP's track record, sector expertise, team stability, and degree of alignment—including whether the GP is investing its own capital alongside co-investors—is essential.

ASSET QUALITY AND VALUE CREATION. This is about the company itself. Does the business have pricing power? How concentrated is the customer base? How resilient are cash flows? What is the GP's specific plan for creating value—operational improvement, strategic expansion, or some combination?

One additional question every investor should ask: *"Am I getting a first look at a great deal, or am I seeing something that others have already passed on?"* This is not about assuming bad faith. It is about disciplined skepticism. Strong GP relationships can improve access to high-quality opportunities, and rigorous processes can help distinguish between deals that are being widely offered because it is genuinely large and deals that are being shopped around because they are hard to fill.



Potential Benefits of Co-Investment Funds

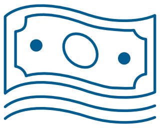
For most investors and advisors, the best way to participate in co-investing is through a dedicated co-investment fund. Funds enable access to co-investments in a managed format—without the need for investors to become an expert in sourcing and executing individual co-investment deals. A dedicated co-investment fund pools capital in a single vehicle whose main purpose is to build a diversified portfolio of co-investments.

Investing through a dedicated co-investment fund has three main advantages.

- **FEE EFFICIENCY:** co-investments funds have historically had lower management fees and carried interest than traditional private equity funds, an advantage that can meaningfully improve net returns over time.
- **ADDITIONAL DILIGENCE:** because each investment represents a stake in an identified company, fund investors gain a second layer of diligence and underwriting into what they own, how value is created and what risks are present.
- **SCALABILITY:** a specialist manager handles sourcing, diligence and execution across a pipeline of opportunities, giving investors diversified co-investment exposure through a single commitment.

The Case for Dedicated Co-Investment Funds

Potential Advantages

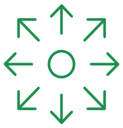


FEE EFFICIENCY

Lower management fees and carried interest than traditional PE funds. Can meaningfully improve net returns over time.

ADDITIONAL DILIGENCE

Investors gain a second layer of diligence into what they own, how value is created, and what risks are present.



SCALABILITY

Specialist manager handles sourcing, diligence & execution. Diversified co-investment exposure through a single commitment.

Since co-investment opportunities typically originate from relationships with private equity fund managers, the best co-investment fund managers cultivate a broad, diversified network of sponsors so that deal flow does not depend on just a handful of GPs. This allows co-investment fund managers to be highly selective.

Because opportunities often move quickly, a co-investment fund manager's underwriting process needs to be built for speed. This usually involves diligence on a sponsor's thesis and negotiating for information rights and governance provisions. Advisors and investors should look for managers with experienced teams that can run parallel workstreams under compressed timelines.

Naturally, the quality of outcomes depends heavily on the co-investment fund manager. When evaluating co-investment fund managers, investors and advisors should focus on the durability of a manager's deal flow, their historical track record, the rigor of their underwriting processes and whether they have a disciplined approach to diversification and GP alignment. The best managers can turn access and GP relationships into a well-constructed co-investment portfolio.

How Co-Investments Fit Within a Portfolio

For advisors and investors building a private equity allocation, it helps to understand the three main ways to access this asset class—and how they work together.

Where Co-Investing Fits in a PE Allocation

KEY DIMENSION	PRIMARY FUNDS	SECONDARIES	CO-INVESTMENTS
What it is	Commit capital to a GP's blind pool fund. The GP builds a diversified portfolio over time	Invest in existing portfolios from current or past private equity funds	Invest directly in a specific company alongside a GP in a new or existing transaction
Visibility	Low at the start. Limited visibility until investments are made	Higher visibility into existing assets, valuations and performance	High visibility into the company, industry and value-creation plan
Typical Economics	Full fee package: typically 2% annual management fee and 20% carried interest	Often purchased at a discount to Net Asset Value ("NAV"); lower fees than primary funds	Often reduced or no management fees and no carried interest (varies by deal)
Diversification/ Concentration	Broad diversification across many companies, sectors and vintages	Diversified across multiple companies and funds	Single-asset exposure. Higher concentration risk than fund or secondaries investments
Time Profile	3-5 year investment period; total fund life typically 10+ years	Typically shorter duration; often 2-5 years remaining	Typically 4-7 year holding period, depending on the deal
Primary Benefit	Core building block of a private equity program. Broad diversification and GP relationship access	Liquidity advantage and ability to invest at a discount	Better fee efficiency and targeted exposure to a GP's highest-conviction opportunities

PRIMARY FUND COMMITMENTS provide broad diversification and exposure to a manager's full portfolio over time. They are the foundation of most private equity programs.

SECONDARIES allow investors to buy into existing portfolios, often at a discount, with greater visibility into what has already been acquired and a potentially shorter duration.

CO-INVESTMENTS provide targeted exposure to individual deals, often with better economics, but with less diversification than a primary fund or secondaries fund.

For most individual investors, allocating to co-investments through a dedicated fund can be more practical and scalable. Rather than sourcing, evaluating and executing individual deals under compressed timelines, investors in a fund can access a curated, diversified pipeline of co-investments through a specialized manager. Fund structures also introduce portfolio-level discipline: position limits, sponsor diversification and pacing management that are difficult to achieve when co-investing deal by deal. Dedicated co-investment funds historically have lower management fees and carried interest than traditional PE funds, making them a cost-effective complement within a broader allocation.

When positioned correctly, co-investments—whether accessed directly or through a dedicated fund—can meaningfully enhance a private equity portfolio's return profile and transparency, without taking on excess concentration risk.

Conclusion

Co-investing has evolved from a niche feature of private equity into a core part of how private markets work. For GPs, co-investing expands the opportunity set, solves fund-sizing constraints, bridges timing gaps and strengthens relationships with key investors. For investors, co-investing offers ways to access private equity with greater visibility, more control over exposure and potentially better economics.

These benefits come with trade-offs: concentration risk, compressed diligence timelines, rapid capital deployment and complex fee structures.

Investors who succeed at co-investing tend to share a few traits: disciplined sizing frameworks, repeatable diligence processes, careful attention to documents and terms, and a willingness to pass on deals when the timeline, information or math do not work.

For most individual investors, allocating to a dedicated co-investment fund is often more practical and scalable. Fund investors are often able to access a curated, diversified pipeline of co-investments through a specialized manager who can also introduce portfolio-level discipline, as well as GP diversification and pacing management, which are difficult to achieve when co-investing one deal at a time.

Whether co-investing through a fund or one deal at a time, co-investing is a powerful complement to a private equity program—improving transparency, enhancing economics and providing more precision in how capital is deployed.

Co-investing is not a shortcut. It is a tool. And like any tool, its value depends on how thoughtfully it is used.

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