Co-investment…and the key to a happy marriage

I was recently asked what makes for a successful co-investment relationship. My response, delivered with more than a hint of sarcasm, was – "I'm a fund administrator, not a marriage counsellor".

Yet, the more I thought about it, the more I realised that I was probably as well-placed as anyone to answer this question. As a director of a major fund services provider, my team and I administer a number of co-investment and joint venture (JV) structures across all stages of their life cycle. We've been there to see the relationship blossom (establishment of the investment structure), observed the day-to-day dynamic between the two parties (through our role as administrator) and witnessed the eventual parting of ways (sale or disposal).

Surprising even myself, I was now thinking of a JV as more of a marriage than a relationship. Drawing on my team's experience of administering these structures, seeing both of the 'happily ever after' and somewhat more strained (note the euphemism) varieties, we decided to explore the parallels a little further.

More than just friends?

How compatible are you? Not to dwell too much on the obvious – e.g. aligned investment goals, risk appetite and time horizon etc. (the foundations of any JV), in our experience one critical "compatibility" factor that's often overlooked is culture and values. Often dismissed as buzz words, they can make or break a relationship.

Large corporations have a tendency to be more structured, bureaucratic and process-driven in their approach compared to their small to medium-sized counterparts. For example, we have clients who demand that everything runs like clockwork. All meetings are required to be scheduled months in advance and with clear, and strictly adhered to, agendas. Conversely, some of our more entrepreneurial clients can be less structured and more "impromptu".

There's no right or wrong style, just a different approach. Opposites do attract and contrasting operating models can bring out the best in both parties. The question is whether one or, ideally, both of them are prepared to adapt. Compromises will need to be made on a range of matters from how meetings are conducted to the way in which administrative tasks such as financial reporting are to be carried out.

In short, it's better to determine whether common ground can be found before getting in too deep – i.e. before the lawyers and advisors have clocked up the hours and a large amount of company time and resources have been invested.

Down on one knee – the proposal

The relationship has moved forward – both parties can see a future together. Having decided on the investment strategy, you're thinking about what measures can be taken to ensure the marriage is a long and happy one.

Now is the time to establish a few ground rules or, as far as the JV is concerned, agree the terms of engagement. The documentation of this should be comprehensive and leave no stone unturned, covering a range of areas including capital contributions, payment of fees, distribution of profits, asset acquisitions, dispute resolution and arbitration. In essence, both parties need to agree on exactly what they're getting themselves into and be able to foresee what the future may hold!

This is starting to sound more like a marriage of convenience than a love story. Slightly cynical perhaps, but in reality our experience shows joint ventures work best when there is at least some chemistry between the parties. The "human" side is just as important – committees and working groups comprising individuals with complementary skills and personalities are a must for a balanced decision making process.

Saying "I do"

The marriage register has been signed (or JV agreement) and we're hopefully in honeymoon mode, but we can't have it all our own way – there's someone else we need to think about now.

The day-to-day operation of the investment structure is now on the agenda, which will mean the creation of a new administration platform. For both parties, this will involve working with new people, new technology, new processes and new procedures – and it's a set-up they both need to be comfortable with.

This is hopefully where a specialist administrator can really add value – an independent party that has the best interests of both partners in mind and can draw on past experiences to find and implement an approach that works for everyone.

As administrators, we'll often play an important role in helping both JV parties find the right balance between retaining sufficient control and oversight while ensuring that the structure operates with maximum efficiency. Overly restrictive board quorums, for example, can make the decision making process slow and cumbersome.

Amongst other things, a specialist administrator will also work alongside lawyers to implement the JV documents into practical day-to-day activity – again, ensuring that the needs of both parties are taken into account. Perhaps not a million miles away from marriage guidance after all!

The end

Hopefully, any parting of ways is done in an amicable fashion; we want a Paltrow-styled conscious uncoupling after the investment goals have been achieved! Things don't always go to plan, however, and the JV agreement (the co-investment "pre-nup") should help avoid a messy and expensive breakup. Well-defined sale and buy-out provisions will ensure an orderly exit for one or both of the parties.

So, what is the key to a happy "co-investment" marriage?

Compatibility, compromise, common purpose and clear ground rules – stick to these principles and just maybe there will be a happily ever after story (or at least a successful investment one!).