

How LPs are participating in value creation through co-investments

Investors are taking a more active role in how their capital is deployed and one of the ways they are doing it effectively is through co-investments and direct investments. For GPs it is a potential boon as it builds stronger bonds with LPs and offers other avenues to raise capital. [Matt Horton](#) and [Neil Dexter Tuyan](#) explore this trend's benefits and challenges.

As fundraising remains constrained, private markets continue to evolve to unlock capital. Among the trends is a growing appetite for co-investments and direct investments. This is largely being driven by Limited Partners' (LPs) desire for more control, transparency and cost efficiency in a tough investment market. It is a valuable tool for LPs to manage exit pacing and express market views, especially during market slowdowns.

Goldman Sachs' 2024 Private Market Diagnostic Survey found that 50% of LPs now actively allocate to co-investments, an increase from previous years. Furthermore, an Adams Street Partners 2025 survey noted that 88% of LPs plan to increase their co-investment allocations.

[Research](#) shows that many co-investment deals have historically outperformed their parent funds, and some large institutional investors, like the California State Teachers' Retirement System (CalSTRS) for example, have reported significantly higher IRRs on co-investments compared to their private equity fund commitments. For GPs too there are benefits as they can secure additional funding, which allows them to pursue larger deals without exceeding concentration limits, and co-investing allows GPs to build stronger bonds with LPs.

Though these co-investment or direct investment opportunities offer many benefits for LPs, they can also introduce operational complexities for GPs.

Why are LPs increasing their interest in co-

investments and direct deals?

This shift reflects a broader private markets trend among LPs toward active portfolio management and closer alignment with GPs. Some of the benefits investors are looking for include fee reduction as co-investments often come with reduced or no management fees and carried interest, improving returns overall. These deals also give LPs a greater influence over investment decisions, timing and exit strategies, especially important in a sluggish market where GPs are competing for capital and so are more likely to offer compelling co-investment deals. There's also the enhanced transparency that comes with these deals, giving LPs access to deal-level data so they can more directly assess performance and risk.

What are the benefits and challenges of these investments?

The benefits are:

- *Lower fee structure:* Co-investments typically come with reduced management fees and carried interest compared to traditional fund commitments, sometimes waiving traditional fees entirely. This improves net returns for investors, making the deal more attractive and aligning interests toward performance rather than fee generation
- *Enhanced investor alignment:* Investors gain greater transparency into the underlying asset, deal terms, and strategy. They share direct exposure to the same risks and rewards as the GP, fostering trust and partnership. Alignment is strengthened because both parties are invested in the success of the same asset
- *Portfolio customization:* LPs can select specific deals that match their risk appetite, sector preferences, or ESG goals. This flexibility allows investors to tilt their portfolio toward desired outcomes without committing to an entire blind pool
- *Accelerated deployment and diversification:* Co-investments help LPs deploy capital faster and diversify across sectors or geographies without waiting for fund cycles. This can improve risk-adjusted returns and reduce concentration risk
- *Stronger GP-LP relationships:* Offering co-investments signals

collaboration and trust from the GP. LPs often view this as a sign of access to high-quality deals, strengthening long-term partnerships

- *Potential for higher returns:* Because co-investments often involve top-performing assets and lower fees, they can boost overall portfolio performance. LPs also gain insight into GP’s deal-making capabilities, which informs future commitments.

Potential challenges are:

- *Adverse selection:* LPs need to be wary of adverse selection, as the best deals may not always be available to them. A high-quality co-investment evaluation process is critical
- *Risk of misalignment:* There is a risk that LPs making large co-investments could undermine the traditional GP-LP relationship, especially if they are primarily using the fund commitment to access direct deals
- *Operational burden:* While some LPs rely on their own teams, others use specialized third-party advisors to manage the complexity and the constant need for market intelligence and GP relationships associated with co-investing.

What are co-investments and direct investments?

There are different types of investments LPs can make alongside GPs, and in essence all of them deliver the same outcome for the LPs, more control and deal transparency. A GP stake is a specific type of direct investment strategy used by institutional and high-net-worth investors to gain exposure to the economics of running an asset management firm.

Feature	GP stake investment	General direct investment	Co-investment
Target	The management company of an alternative asset manager (the GP).	Can be a private company, real estate, infrastructure, etc., in exchange for an equity interest.	A portfolio company or asset alongside a fund’s main investment, typically in the same deal.

Feature	GP stake investment	General direct investment	Co-investment
Exposure	Exposure to the overall performance and growth of the fund manager's platform, across multiple funds and vintages.	Exposure is to a single company or asset, with returns tied to that specific asset's performance.	Exposure to a specific deal, often with the same risk/return profile as the lead fund investment.
Control	Typically a minority, non-controlling, and non-voting interest in the GP's firm.	May involve a controlling interest or significant influence, depending on the terms.	Usually no control; terms mirror the lead fund, with limited governance rights.

What are the operational complexities these deals create?

Co-investments and direct deals introduce challenges that can strain traditional fund operations, among them are ensuring equitable access to co-investment opportunities across LPs, which requires clear policies and transparent processes. There is also the need for granular reporting which includes performance data and demands sophisticated reporting systems and real-time data access. Added to this is the need for valuation consistency so that methodologies used across bespoke structures are audit-ready and build investor trust.

How can fund administrators help reduce complexity?

Fund administrators play a pivotal role in enabling scalable co-investment platforms. By leveraging their technology and expertise, administrators can help GPs and LPs focus on value creation rather than operational burden.

Support areas include:

- *SPV setup and management*: Rapid formation and administration of

Special Purpose Vehicles (SPVs) tailored to each deal

- *Data transparency*: Centralized dashboards and investor portals that provide real-time access to deal metrics, capital flows, and performance
- *Audit readiness*: Standardised processes for valuation, reporting, and compliance that reduce friction during audits and investor reviews.

Third-party service providers can also advise firms on best practice governance models that balance flexibility with control to ensure all LPs get fair treatment, mitigating risk and fostering deeper GP-LP partnerships.

Among these models are:

- *Pre-approved co-investment pools*: LPs commit capital upfront, streamlining execution and reducing allocation delays
- *Tiered access models*: LPs are segmented based on strategic alignment, ticket size, or relationship depth, ensuring fair and transparent access
- *Dedicated co-investment committees*: These bodies oversee deal selection, allocation, and conflicts of interest, enhancing credibility and trust.

LPs are asking more detailed questions of their investment managers, and they want to take a more active role in the investment decisions as well as keep a closer eye on performance, efficiencies and costs, so the uptick in co-investment and direct investment will continue.

Many institutional investors plan to allocate a significant portion of their portfolios to co-investments in the coming years, with some projecting up to 20% over the next five years. For GPs too to compete in a market where capital is becoming scarcer and distributions are slowing, co-investment opportunities can incentivise LPs to invest and it helps them build goodwill and long-term partnerships with existing and prospective LPs.

You can listen to a podcast on this topic [here](#), featuring Ben Cocoracchio, Partner at Addleshaw Goddard, and Christiaan de Lint, Managing Partner at Headway Capital Partners.

If you'd like to discuss any of the points raised here, please contact us directly.



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