Co-investment market comes to maturity as mid-market niche strengthens

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The private equity co-investment market has grown rapidly over the last decade, with more investors swelling the asset class and the pace of transactions staying strong despite wider macroeconomic uncertainty. In the last ten years, the volume of co-investment assets under management globally increased more than five times from around $69bn in 2014 to $353 billion in the first quarter of 2024[1]

This is unsurprising in many ways – the co-investment asset class can offer investors a way to get closer to the portfolio firms, to flatten the J-curve of their investments, and to cut the cost of access in their private equity programs.

Anecdotally speaking, the valuations we have seen in recent months have also been increasingly investor-friendly, especially compared to the highs seen over 2021 to 2022[2]. These attractive entry valuations, combined with the fact that the assets on offer in co-investment deals are already battle tested[3] – with investors being able to analyze the track record of how a sponsor and management team have been able to grow the business – have brought a wave of investment into the asset class.

The growing demand from investors has been matched by a strong supply of new available assets. Even against the wider macroeconomic uncertainty of the first half of 2025, there has been a good flow of co-investment deals available, in particular from the financial services, healthcare, and IT sectors.

For experienced co-investors with funding capacity and a persistent, ongoing deployment program, sponsors are also likely to share a larger set of deal flows, and even provide larger allocations, meaning there can be more attractive opportunities on offer.

The mid-market opportunity

As the co-investment market grows, we see a particularly exciting opportunity in the mid-market niche, which has many different elements relative to the large-cap portion of the market.

In general, the mid-market can be of interest to private equity investors given the potential for more attractive valuations, the potential for lower leverage figures, and the exit optionality available – sponsors are not reliant on the IPO market to divest of assets, but can potentially sell on to other funds in secondary buyouts. But access to the mid-market segment for LPs has traditionally been more constrained, given the size of the GP funds, and given how fragmented they are across specific geographies and sectors.

Investing via co-investments funds can widen the opportunity by offering access to a larger number of GPs. The same $50 million ticket that may once have been invested in one or two mid-market GPs in a limited number of countries via a traditional private equity strategy could instead give you access to around 30 to 35 GPs globally across different sectors via a co-investment fund, with a far more diversified purview.

Given these deal sponsors of co-investments are specialists in their region and their sectors, as an investor you know that any deals they offer have been vetted by the GPs with expertise across their domain. These are GPs that can source the strongest deals through their networks, and that can create value through their operating partners in their spheres of sector specialism.

The benefits available in the mid-market underscore the attractive aspects of the co-investment asset class as a whole, and it's where we see the most exciting opportunities in terms of the assets on offer. We expect to see continuous growth in this asset class, and as the market reaches maturity more opportunities are likely to emerge.

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[1]Data according to Preqin to Q1 2024,reported as of November 2024. Includes both co-investment and co-investment multi-manager strategies.
[2]Pantheon opinion.
[3]Pantheon opinion.