

Should we co-invest? The readiness assessment

Chapter 4. Score each dimension low, medium or high, candidly. A single "low" on any of the first three is close to disqualifying until it is fixed.

Programme		Prepared by	
Approved by		Date	

Dimension	What high readiness looks like	Low	Mid	High	Evidence
1. Mandate clarity	A written, board-endorsed mandate that permits single-company stakes, with limits on check size, sector, geography and total exposure, and an agreed reason to co-invest beyond fees				
2. Governance speed	A defensible decision inside the sponsor's window, often two to four weeks: delegated authority, service-level timelines, a process that does not wait for a monthly meeting				
3. Technical capability	People who can underwrite one company independently: build or test a model, form base, bear and bull cases, reach a conviction that is not the sponsor's memo restated				
4. Capital flexibility	Callable capacity to fund on the sponsor's timeline without selling assets or delaying other commitments; pacing headroom across vintages				
5. Temperament	Can the institution take a total loss on one named position without a governance crisis, say no often and gracefully, and resist a hot vintage?				

The decision framework: stop at the first honest no	Yes	No
1. Is there a mandated reason to co-invest beyond fee savings, that policy permits and stakeholders endorse?		
2. Can we govern at deal speed, with a documented answer inside a typical window?		
3. Can we underwrite independently, or only through a manager who can?		
4. Can we fund lumpy calls and spread across enough names that one loss is survivable?		
5. Can we stomach a loss we chose, without distorting later decisions?		

Verdict	When	Ours
Direct programme	All five green	
Hybrid: co-invest fund or managed account	Green on mandate, capital and temperament; amber on speed or skill	
Not yet	Red on mandate, funding or temperament	

The mandate, with numbers in it

Chapters 5 and 12. A mandate without an explicit single-name cap, a pacing target and a defined approval authority is an aspiration. Every limit names its denominator and is measured on a look-through basis.

Programme		Prepared by	
Approved by		Date	

Section	Written	Owner, date
The sections		
Purpose and objectives: why the programme exists, and how success ties to the total portfolio		
Scope: strategies, geographies, stages; the criteria a sponsor must meet; exclusions		
Sizing and pacing: minimum and maximum check, standard check, annual deployment with a band, expected deals a year		
Risk and liquidity: currency policy, leverage, how calls interact with fund pacing		
Conflicts and compliance: related parties, information barriers, sensitive information		
Governance and authority: who approves what, at what speed (next page)		
Reporting and review: the KPIs, and the date the mandate itself is reviewed		

Limit	Denominator	Maximum	Current, look-through	Headroom
Single name (co-invest plus fund look-through)				
Sector				
Geography				
Vintage year				
Sponsor				
Currency				
Standard check / maximum check				
Loss budget: a zero may cost at most N deals' fee savings				
Reserve for follow-ons (set from the pay-to-play answer)				

The limit that matters is tested by the deal that breaks it. An exception goes one rung higher, and answers in writing: what makes it exceptional, and what offsets it elsewhere.

The governance ladder

Chapter 5. Escalating scrutiny matched to escalating stakes, a named decision-maker and a timeline at each rung, agreed before any deal arrives.

Programme		Prepared by	
Approved by		Date	

Rung	Authority	When it applies	Size threshold	Days to decide	Memo
Rung 1: screen and triage	The deal lead	Out of scope: declined at once, reason documented			
Rung 2: fast-track approval	Co-investment committee of two or three, unanimous	Below a set size, core strategy, approved sponsor, no exceptions			
Rung 3: committee, full review	Co-investment committee	Mid-sized checks, or elevated but in-mandate risk			
Rung 4: full investment committee	Full IC, standing quorum, out-of-cycle if needed	Largest checks, limit breaches or near-breaches, new strategies, anything flagged			

Service level promised to sponsors	Business days	Last three deals, actual
Early indication after receipt		
Firm answer after the early read		
Funding after approval		

Exception log: limit broken	Rung approving	What makes it exceptional	Offset elsewhere	Date

The first 48 hours: the early read

Chapter 7. The same format every time, a page or two, ending in one of three verdicts. It does not approve anything; it decides where the next ten working days go.

Deal and sponsor		Deal lead	
Received		Sponsor deadline	

Question	What it covers	Answer
1. Does it fit the mandate?	Strategy, geography, sector, check size	
2. Why is this being syndicated, and why to us?	Excess above a concentration limit, or hard to fill? Who else was offered it? What is the sponsor's fund taking?	
3. The one-line thesis	What the company is, how equity makes money, the sponsor's plan	
4. The two or three things that would kill it	Customer concentration, cyclicity, a stretched entry multiple, a fragile capital structure	
5. Can we clear the operational hurdles in time?	Governance timeline, capital, currency, conflicts with existing fund exposure	

Reassuring	Worrying	Which?
Reached us early, as the syndicate was forming	or late, to plug a gap	
Sponsor's own fund taking the bulk, meaningful after syndication	or thin	
Offered quietly to a handful	or visibly shopped widely	
Post-signing syndication	or pre-signing co-underwrite, with broken-deal costs	
Our price equals the fund's price	or a premium, markup or accrued interest	

Write the allowance beside the selection answer: on Chapter 3's terms a no-fee co-investment can gross 0.28x less than the fund's deal and still tie, and at most about 19 per cent of accepted deals can be the ones nobody wanted (case one). Verdict: fast no / proceed / hold pending one answer.

The diligence checklist

Appendix A. A scaffold, not a substitute for judgment. Adapt it to the asset, the sponsor and the size of the check; a checklist followed mechanically is as dangerous as none.

Deal		Reviewer	
Data room version		Date	

Item	Done	Finding
The offer		
Why syndicated, and why to us: above the single-name limit, relationship, or hard to fill?		
The timeline, and what drives it		
Who else is offered it, and how much remains to place		
Pre-signing co-underwrite or post-signing syndication		
Our price equals the fund's, or a premium, markup or accrued interest		
The asset		
What the business does and how it makes money		
Recurring, repeatable or one-time revenue; customer and supplier concentration		
Competitive position and what protects it		
Cyclical, and where we are in the cycle		
Management: capable, aligned, staying		
The value-creation plan: operational or financial		
The two or three things that would most damage it		
The sponsor		
Track record in this sector and strategy, attributed: skill, leverage, multiple, beta		
Its own capital, after syndication, and on what terms		
How it treated co-investors before: information, follow-ons, outcomes		
Incentives after close, especially on exit timing		
The numbers		
The return bridge rebuilt: growth, margin, deleveraging, multiple		
Entry EBITDA normalised; add-backs that survive		
Working capital and capex funded in the model		
Leverage: cost, maturity, covenants		
The bear case, and whether the equity can go to zero		
Structure and terms		
Vehicle, fees and expenses		
Information and governance rights		
Follow-ons and dilution; a pay-to-play?		
Transfer, drag, tag and exit provisions		
Who bears broken-deal costs		
Portfolio fit		
Single-name, sector, vintage and geographic concentration after the deal		
Double-counting with the sponsor's fund		
Mandate and pacing, or an exception being argued for		

The two-to-three-week timeline, and the decision memo

Appendix B and Chapter 7. Launch every workstream with a lead time on day one, in parallel. The memo is organised around the decision, six tight pages, everything else an appendix.

Deal		Deal lead	
Decision date		Funding date	

When	Task	Owner	Planned	Done
Day 0	Log it; the early read within hours; most deals end here			
Days 1 to 2	Confirm timeline; data room, model, memo requested; the decisive questions framed; work assigned			
Days 3 to 7	Asset and sponsor in parallel; bridge rebuilt; QoE, contracts, legal read; sponsor references; verify or rely			
Days 7 to 10	Conviction; memo circulated			
Days 10 to 12	Decision; amount and conditions to the sponsor, or a clean no with honest feedback			
To close	Vehicle and terms reviewed; points that matter negotiated; KYC and AML; wire on schedule			
After close	Thesis and price captured; monitoring file opened			

Decision memo section	Written	Page
The thesis and the recommendation, with the amount		
Why this deal is offered, and to us		
The two or three drivers, with our independent view of each		
What we verified, and what we relied on the sponsor for		
The return bridge, and the share of return from multiple expansion		
The downside: what we lose, and how badly, if the thesis is wrong		
Terms that matter: follow-on and pay-to-play, exit, fees, broken-deal costs		
Portfolio fit: limits, look-through exposure, pacing		

The return bridge and the three cases

Chapter 10 and Appendix E. Attribute every unit of equity gained to a driver, then stress each driver. A deal that needs the exit multiple above the entry multiple to clear the hurdle is underwritten on hope.

Deal		Analyst	
Model version		Date	

Driver	Sponsor case	Our base	Our bear	Test line: Appendix E
Starting equity				400
EBITDA growth, at the entry multiple				+600 (60 × 10.0x)
Multiple change				0 (10.0x to 10.0x)
Debt paydown				+250 (600 to 350)
Ending equity				1,250 (1,600 – 350)
MOIC, and IRR over the hold				3.1x, about 26%
Share of the gain from multiple expansion				0%

The eight modelling traps	Present?	Effect on the equity
Hockey-stick growth off a flat history		
Heroic multiple expansion		
Working capital and capex ignored		
A mis-timed or costless exit		
Margins that drift upward with no named initiative		
Refinancing on faith		
Synergies counted in the plan and paid for in the price		
Floating-rate debt held at today's rate		

Bear case, built honestly: growth at half the plan, the exit a turn or two below entry, a year longer to exit, debt dearer. If the answer is a wipeout, size it or decline it. Appendix E: the same deal at an 8.0x exit returns 2.3x, most of a turn lost to two turns of multiple.

The terms that move the return

Chapter 11. Read the structure before the price. Push on the few terms that decide value leakage and alignment; let the operational ones go.

Deal		Counsel	
Document draft		Date	

Term	Push or let go	What the draft says
Structure		
Direct, or through a feeder: where we sit in the stack, who controls the vehicle		
Fees and carry at the SPV or feeder level, and on what base		
Formation, administration, audit, tax and legal expenses, and a cap		
Governance and information		
Reporting: cadence, depth, enough to mark and audit the position		
Consent rights on class economics, related-party transactions, the vehicle's purpose		
Follow-on, dilution, pay-to-play		
Pre-emption: our pro rata in every new issue		
If we decline: plain dilution, or a penalty (conversion, lost preference)? Answer this first: it sizes the reserve		
Who prices follow-on rounds, and against whom		
Exit		
Tag-along: robust, so we are never orphaned		
Drag-along: only on the same price, form of consideration and terms as the sponsor		
Co-underwrites and side letters		
Broken-deal costs: share, proportion and cap		
MFN: what it covers, by size tier, and its carve-outs		
Conflicts: disclosure, consent and a procedure, not just a policy		

Pay-to-play in the documents?	Reserve, on Appendix F's figures	Ours
No: plain pro-rata dilution	About 9 per cent of the programme, enough for four raisers; a 20 per cent reserve loses money	
Yes: penalty on non-participants	About 13 per cent, enough for six raisers; worth some fifteen times more	

The position file

Chapter 13. Monitor the thesis, not the company. The baseline is written at close and not revised; every quarter is read against it.

Company		Sponsor	
Our cost and date		Analyst	

Baseline thesis, as written at close						

Quarter	Organic revenue growth	EBITDA margin	Net leverage	Covenant headroom	Sponsor mark	Our view

Stress signals	Seen, date	Question asked
Payment-in-kind replacing cash interest		
A covenant amendment or waiver requested		
A revolver or line drawn, explained a little too smoothly		
A delay in the audited financials, or a change of auditor		
Plan initiatives no longer mentioned in updates		

Follow-on request: fresh underwriting on new money	Answer
Is the thesis we underwrote still alive?	
This check, at this price, on its own merits	
If we decline: what the documents do to us	
Reported to our committee, and our mark if different	

The pipeline log and the deal journal

Chapters 6, 13 and 14. Log every deal, pursued or passed. Judge decisions on the process and the information available at the time, not on the outcome.

Programme		Owner	
Period		Date	

Date	Sponsor and asset	Source	Check offered	Why to us	Decision and reason	Days to answer

Post-mortem, at exit and at milestones	Entry
What we expected, and why	
What happened	
Skill, leverage, multiple or beta: what drove it	
What it says about the sponsor	
What it says about our own judgment	
What we change in sourcing, underwriting or sizing	