PE Insights

Mastering Co-Investing: SwanCap's Strategy for Maximizing Returns and Managing Risk

Co-investing is gaining momentum as LPs seek direct exposure to private equity deals while enhancing diversification and insights. Volker Wende, Partner at SwanCap, talks about it!

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Co-investing has emerged as a powerful tool for **limited partners (LPs)** seeking **direct exposure to private equity deals** while enhancing portfolio diversification and investment insights. **Volker Wende, Partner at SwanCap**, reveals how the firm has honed a **structured and disciplined approach** to co-investments, backed by a **proven track record of 150+ successful deals alongside 70+ GPs**.

In this discussion, Volker shares **SwanCap's key investment criteria**, the **shifting dynamics of co-investments**, and the **increasing role of ESG in decision-making**. He also highlights how co-investments offer LPs not just **financial upside**, but also **deeper insights into GP strategies and value creation mechanisms**—a critical edge when making future commitments.

What are SwanCap's key criteria when screening co-investment opportunities?

Over the past 20+ years, SwanCap has developed a comprehensive set of due diligence criteria, grouped into three dimensions. The first dimension is the Company Perimeter, which includes factors such as market dynamics and market position, operational KPIs, management and levers for future growth. The second dimension is the Transaction Setting, which evaluates pricing, leverage, the GP's edge to a transaction, experience, and alignment of interest when co-investing. Lastly, SwanCap examines the Portfolio Dimension, assessing opportunities based on strict ESG criteria and targeted portfolio diversification.

What are the primary risks and benefits for limited partners seeking direct exposure to portfolio companies?

Presumably, the risks are similar to those faced by a GP: You can lose your money if you invest in just one transaction. That is part of the business. However, at SwanCap, we construct portfolios that provide a certain hedge against the impact of any single investment. In our view, the benefits of co-investing clearly outweigh the associated risks, not only financially. Investing alongside great sponsors and without economics is certainly appealing, but even more important in the long run is the due diligence element. **Co-investments are the best due diligence tool of all.** You can monitor the performance of a GP over a ~5-year holding period. You can review the sponsor's IC and due diligence reports, speak with the deal teams and management about investment hypotheses, and experience first-hand the value creation and the steering mechanisms applied by the GP. In simple terms, it provides invaluable insights that are always discussed when it comes to the next primary commitment discussion.

With a track record of over 150 co-investments, how does SwanCap structure its co-investment opportunities to optimize returns and manage risks?

In my view there are two key pillars: Diversification and Team. Well-balanced diversification is a must if you want to invest on a recurring basis over the longer term. However, it is of equal importance to have an experienced in-house co-investment team. At SwanCap, we have dedicated investment professionals, as well as colleagues in the legal and compliance departments, who ensure professional and swift execution. Over the course of 150+ co-investments, we have collaborated with over 70 GPs, with varying approaches and timelines. Having an efficient process allows us to conduct thorough due diligence while maximizing the effectiveness of our interactions with GPs. Ultimately, the respective GP deal teams are managing a live process, and the worst thing we can do is waste their time. Therefore, transparency and the ability to deliver are crucial.

Are there specific markets or sectors where SwanCap has a particularly strong network of sponsors and expertise?

It might sound a bit counter-intuitive, but at SwanCap we don't need to be sector specialists. Our goal is to create downside-protected portfolios by leveraging the sector expertise of our world-class GPs. We focus on investing in businesses with a sustainable edge and in markets that have demonstrated growth. Geographically, we adhere to a clear mantra: Only Europe and North America – two markets where we have had a physical presence for over two decades. This approach helps us assemble a "Sleep Well At Night" portfolio, a principle that is even reflected in our name.

How does SwanCap integrate ESG considerations into its decision-making process before co-investing?

ESG has always been an integral part of SwanCap's decision-making process. Alongside our commercial deal assessments, the ESG and sustainability review has been evolving and became significantly more formalized over the past 5-10 years. Our inhouse experts review all due diligence reports and challenge their counterparts on the GP side before supporting a commitment, and we continue to monitor ESG developments throughout the holding period by sending out dedicated questionnaires and regularly liaising with our GPs.

As one of the most experienced co-investors in Europe, how has the co-investment landscape evolved in recent years, and what trends do you foresee shaping the market in the near future?

We continue to enjoy a very active deal flow and a consistently high number of co-investment opportunities from both our core GPs and prospective GPs. Overall, we are tracking around 150 deals per year, which is remarkable given that markets have only just started to rebound. Allow me to highlight, that we always aim to maximise our deal flow, because we believe that only deep due diligence and a highly selective decision approach can create ALPHA. And in order to be selective, one needs a certain pool of high-quality opportunities.

But to your question: If I were to highlight one trend, it would be that co-investments are being offered at earlier stages, with pre-deal opportunities clearly on the rise. Whether this is because a GP wants to secure funding early or test the attractiveness of a transaction with the LP, I am not certain. However, it demonstrates that GPs and LPs are deeply engaged in the relationship aspect of co-investments. To me, this is a very positive development.

In co-investing, having a strong network is essential. You need to stay well-informed about market developments and have access to top deals. How valuable are industry events like ours in building and maintaining these connections?

To be completely honest, they're incredibly important. It's not just about making new connections—it's about staying visible and reminding people of your capabilities. Even if they're already aware of what you bring to the table, a quick interaction can reinforce your presence and keep you top of mind.

Events like these serve as touchpoints rather than deep-dive meetings. A five-minute chat over coffee, a casual catch-up, or even just running into someone can be just enough to reconnect and exchange insights. It's also a great way to stay on top of market trends, get a sense of the latest industry movements, and, let's be honest, pick up some valuable market gossip.
