

## Co-Investment Ever More Important for Energy PE Investors

*By Luis Garcia*

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Investors increasingly are demanding the right to make co-investments as a condition of backing energy-focused private-equity funds, industry executives said.

This push by limited partners is one more example of an overall investor drive to reduce the fees they pay to private-equity fund managers.

“A lot of LPs want co-investments because they want the discount. They want to average down the [management fees] they are paying,” said Kelly DePonte, a managing director at placement advisory firm Probitas Partners LP, during a panel held Monday at the SuperReturn Energy conference in Boston.

Pension funds and other institutional investors are looking for ways to have more control over their investments and to pay less in fees to private-equity fund managers. As part of those efforts, they are seeking to invest a larger portion of their capital alongside private-equity funds, rather than directly backing the funds and paying the accompanying management fees.

“Over the past 10 years, more and more LPs developed co-investment programs that actually work,” Mr. DePonte said.

Other investors are going a step further and making investments by themselves.

Caisse de dépôt et placement du Québec, for example, “has decided to really make a big push for direct investing, and that’s across all the sectors, not just energy,” said David Coppé, the Canadian pension fund’s principal director and head of energy private equity.

He added that, in the energy sector in particular, the lagging returns Caisse was seeing

in its fund investments were an additional motivation to resort to direct investments.

“That put us in a very good position to do joint ventures or to invest at the asset level alongside operators,” he said during the panel.

Investor desire to bolster co-investment programs is driving energy-focused firms to make adjustments to their fundraising efforts.

Quantum Energy Partners decided to raise a smaller fund so that it could have a larger coinvestment pool, said Michael Dalton, a Quantum managing director and its head of investor relations.

“When we think about the larger LPs, [co-investment] is certainly a very critical piece of their program, and we have to factor that in,” he said.

Houston-based Quantum is seeking \$5.25 billion for a new fund, along with \$750 million for coinvestments, WSJ Pro Private Equity previously reported.

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