BlackRock Global Infrastructure Solutions

Infrastructure Co-Investments: *Powering Up Portfolios*

Q1 2025

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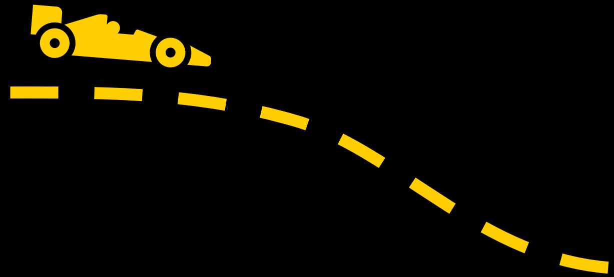

Key takeaways

Powering up portfolios with infrastructure co-investments

Co-investments can provide the extra boost LPs and GPs need to achieve their portfolio objectives.

1. **Pushing the limits.** For LPs, co-investments can provide numerous potential benefits including return enhancement, faster deployment, fee reduction, and more deliberate portfolio construction. For GPs, co-investments can help manage fund diversification, engage likeminded partners to execute transactions, and provide funding for portfolio company growth.

2. **Going the distance.** Partnering on co-investments allows GPs and LPs to work collaboratively and further strengthen existing relationships. LPs can gain greater transparency into GPs' capabilities while GPs can leverage routine touchpoints to expand their LP relationships.

3. **Full throttle.** Underwriting co-investments requires broad sourcing relationships, extensive execution capabilities, deep resources, and specialist expertise. The ability to undertake complex transactions and ramp up diligence quickly and thoroughly is critical.

To achieve portfolio objectives in today's macroeconomic landscape, investors must 'gear up' or otherwise get left behind

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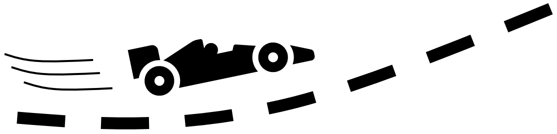


The anatomy of a co-investment

A co-investment is a direct minority investment into a portfolio company made alongside a financial sponsor. The company is typically managed by the controlling / co-controlling owner, often the sponsor, who offers LPs or other counterparties the opportunity to directly invest into underlying portfolio companies on a no fee or fee-advantaged basis.

Co-investing has rapidly become one of the most sought-after strategies in private markets investing. Co-investments help provide LPs with improved transparency into GP dynamics, enhanced portfolio construction, reduced fee load, and the potential for higher risk-adjusted returns through active selection.

Sources: BlackRock, as of January 2025.

How do co-investments power up portfolios?

Enhancing portfolios through active management

LPs power up with

- Alpha generation through active selection
- Deliberate portfolio construction
- Faster deployment and reduced fees

GPs power up with

- Improved portfolio diversification
- Likeminded partners for deal execution
- Funding growth of portfolio companies

Deepening GP-LP partnerships through co-investments

Sources: BlackRock, as of January 2025.

Alpha generation through active selection

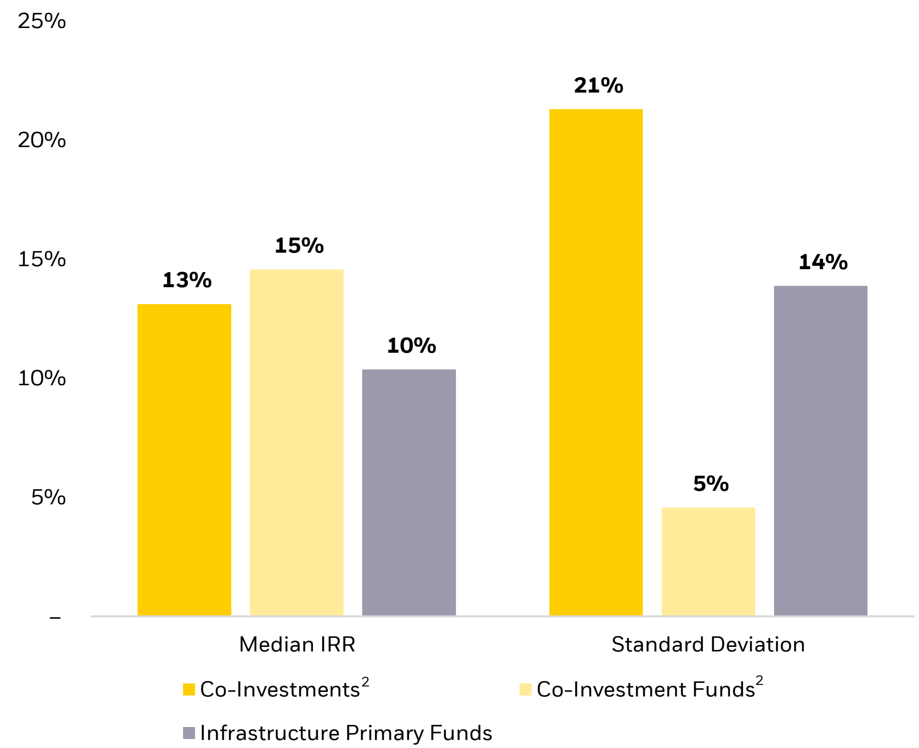
Speed bumps ahead.
Data suggests that the **historical average performance of co-investments is on par** with traditional primary funds, but with potentially **greater dispersion**.

Slow down at the turn.
Return dispersion implies more investment risk, requiring a more diligent and strategic approach to investment selection. Assets offered for co-investment can span from the GP's highest conviction investments (e.g. those that require additional capital to get executed) to investments that may present higher risks (e.g. those that require syndication to reduce fund exposure to certain risk factors). **In all cases, extensive diligence, expertise and resources are needed** to identify the prized assets and avoid higher-risk investments.

Actively picking the right gear.
When executed well, co-investors can potentially select **high-conviction assets to generate incremental alpha** over their primary fund investments.

Active selection of co-investments could lead to greater potential for alpha generation

Net IRR (2004 – 2021)[1]



Sources: BlackRock, Preqin, as of January 2025. 1) Performance as of June 30, 2024. Includes average net returns by vintage year and excludes vintage years 2022-2024 as performance is not yet meaningful. 2) Includes both Private Equity and Infrastructure Co-Investments and Co-Investment Funds. **Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.**

Deliberate portfolio construction

Co-investments can allow investors to further tailor their portfolios by identifying growing sectors & geographies, increasing exposure to high-quality assets, backing strong partners in their areas of expertise, and finding deals at attractive valuations.

Right Market

Co-investments can enable LPs to more actively manage sector, geographic, and risk allocations in their portfolios, allowing them to strategically allocate capital to higher-conviction areas. LPs can tailor their portfolios to capture opportunities in mega forces such as the energy transition, the acceleration of AI, and shifting demographic factors.

Right Asset

Every fund typically includes a few standout, over-performing assets. Co-investments can give LPs the opportunity to increase exposure to these high-performing assets, potentially unlocking additional returns that go beyond the fund's overall performance.

Right Sponsor

Co-investments can empower LPs to gain more exposure to high-potential deals based on GP's track record. LPs also have the opportunity to pick the right deals from a sponsor, taking into consideration their areas of expertise, capabilities, and resources.

Right Price

LPs, particularly those invested across a number of managers and funds, can often have a unique view on the relative value of transactions across sectors and geographies. Co-investments can enable LPs to identify and grow exposure to high quality assets at attractive valuations.

For illustrative purposes only. Forward looking estimates may not come to pass.

Source: BlackRock, as of January 2025. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any funds, strategy, or security in particular.

J-curve mitigation through accelerated deployment and favorable economics

Reduced fees

The fee advantages of co-investments can be a key benefit to LPs as co-investments can **often be negotiated on a fee-free or fee-reduced basis**. As illustrated below, the reduction of fee burdens can **increase net returns by an upwards of 0.2x on money multiples.**

A diversified portfolio of co-investments and fund investments can help **LPs blend down their overall fee burden, increasing net returns.**

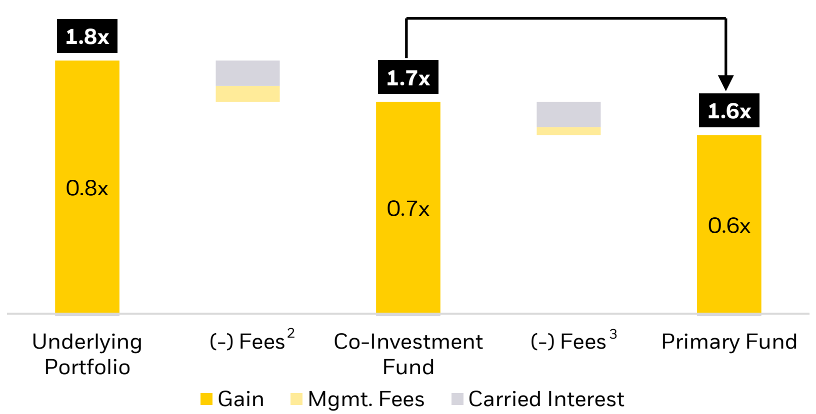
Faster deployment & return of capital

Co-investments can offer portfolio benefits by allowing investors to draw commitments faster. Additionally, LPs can invest at later stages of the investment, providing earlier visibility on the performance of the portfolio company, **reducing exposure to early-stage value erosion,** and enabling a faster return of capital. Primary capital, on the other hand, is more exposed to early J-curve effects.

BlackRock's internal simulations, as seen below, indicate that a **co-investment allocation can reduce the J-curve by 12-18 months**, allowing investors to see results sooner.

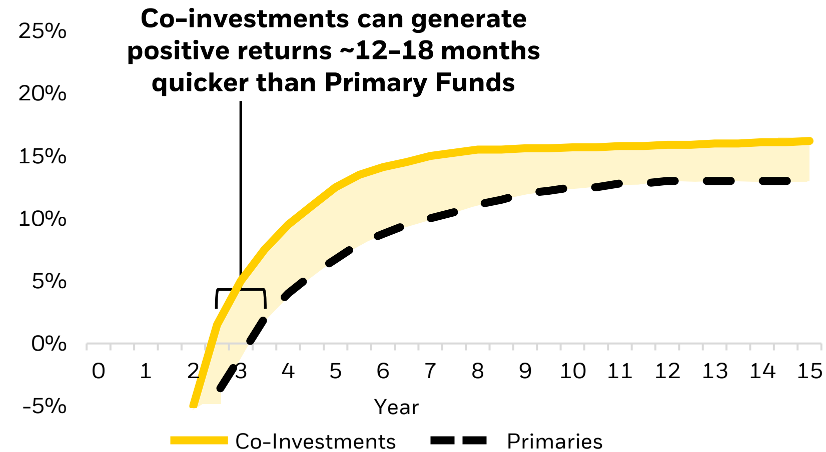
Return impact of fees

Illustrative return: TVPI[1]



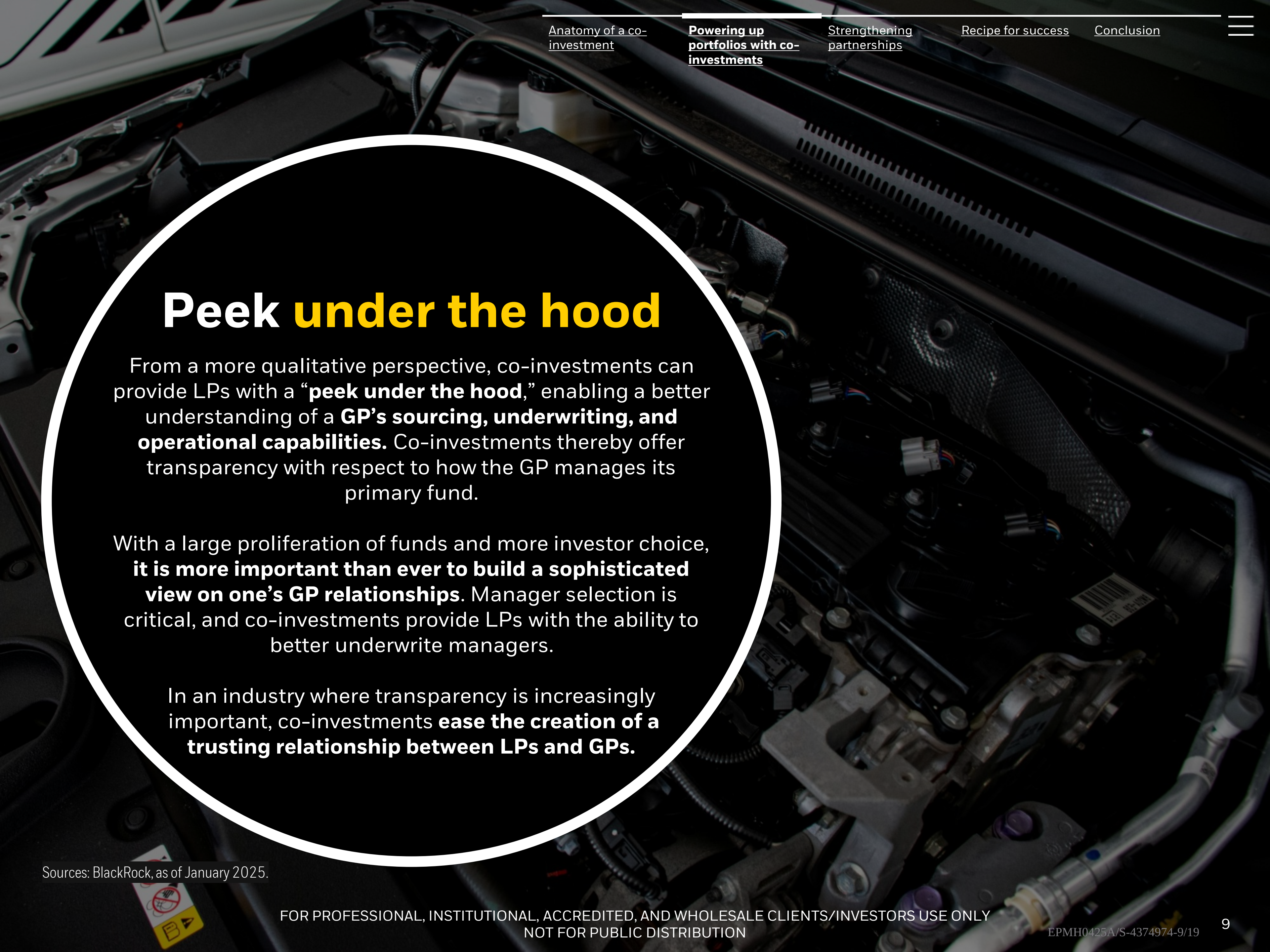
J-Curve across investment types

IRR over time[4]



Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Sources: BlackRock, as of January 2025. For illustrative purposes only. 1) Assumes gross deal level returns of 1.8x. 2) Fund terms: 1.0% mgmt. fee, 10% European carry waterfall, 8% hurdle. 3) Fund terms: 1.5% mgmt. fee, 20% European carry waterfall, 8% hurdle. 4) Analysis based on BlackRock's internal historical performance data. Estimates assume an even and equal investment during a four-year period. All simulations are net of management fees and carried interest for both underlying managers and the primary/co-investment manager. Manager tools that often enhance IRR such as credit facility, asset leverage, and recycling are excluded from this analysis.



Peek under the hood

From a more qualitative perspective, co-investments can provide LPs with a "**peek under the hood**," enabling a better understanding of a **GP's sourcing, underwriting, and operational capabilities.** Co-investments thereby offer transparency with respect to how the GP manages its primary fund.

With a large proliferation of funds and more investor choice, **it is more important than ever to build a sophisticated view on one's GP relationships**. Manager selection is critical, and co-investments provide LPs with the ability to better underwrite managers.

In an industry where transparency is increasingly important, co-investments **ease the creation of a trusting relationship between LPs and GPs.**

Sources: BlackRock, as of January 2025.

Unlocking access to capital

For GPs, co-investments can provide them with likeminded partners to navigate deal execution, access different pools of capital, manage fund diversification, and raise capital to fund portfolio company growth.

1

Optimize fund diversification

Co-investment capital can serve a critical role in allowing GPs to chase the best deals without having to worry about portfolio concentration risks.

GPs often leverage co-investments as a means of reducing their overall exposure to given investments, sectors, geographies, and risk factors. This allows them to create more downside mitigated and resilient fund portfolios.

2

Enhance deal execution

Today, infrastructure fundraising is hovering near five-year lows and debt markets continue to remain tight. GPs are increasingly looking to their LP base in order to stretch remaining fund capital and navigate funding requirements for deal execution.

As a result, co-investments are often used as a go-to tactic that enables GPs to get deals done.

3

Accelerate company growth

GPs commonly look to execute various value creation initiatives during their investment hold periods.

Co-investments enable GPs to access necessary capital to fund portfolio company growth (e.g. accretive capex, M&A, etc.) while maintaining control and preserving governance (e.g. not bringing in potentially competitive or misaligned external capital).

Sources: BlackRock, as of January 2025.

Strengthening partnerships

Co-investments provide both GPs and LPs the opportunity to work collaboratively on deals – strengthening relationships, building trust, and leveraging insights.

GPs can leverage routine touchpoints to foster and expand LP relationships and even seek guidance from experienced co-investor LPs. LPs gain trust and benefit through greater transparency into GPs' capabilities.

The pace of capital formation has declined, and units of trust are more important than ever, further emphasizing the need to build stronger and deeper partnerships.

Sources: BlackRock, as of January 2025.

Co-investments come in different forms and present a multi-faceted opportunity set

LPs can influence or participate in co-investments in various ways

Passive Strategies

Skills required[1] ◑ **Capital Required** ◔

Co-investors are rarely able to set the price or valuation of a transaction, or receive allocations beyond their pro-rata share

Syndication

Post-close investments as part of a structured process managed by the sponsor to allocate a percentage of a transaction to co-investors

Active Strategies

Skills required[1] ● **Capital Required** ◕

Co-investors provide necessary capital to GPs and are commonly able to influence co-investment terms and sizing

Warehouse financing

Providing bridge financing to (newer) sponsors amidst capital shortfalls

Co-underwriting & bidding consortium

Partnering with the GP and co-underwriting on a pre-bid basis to secure and execute transactions

Follow-ons & growth capital

Providing capital for further growth, allowing the GP to maximize the asset's potential and maintain control

High ● — ○ *Low*

Sources: BlackRock, as of January 2025. Note: 1) Skills required refers to resources needed to appropriately source, diligence, and execute on the aforementioned strategy. Complex strategies require extensive investment, legal, and tax engagement.

Important considerations for co-investors

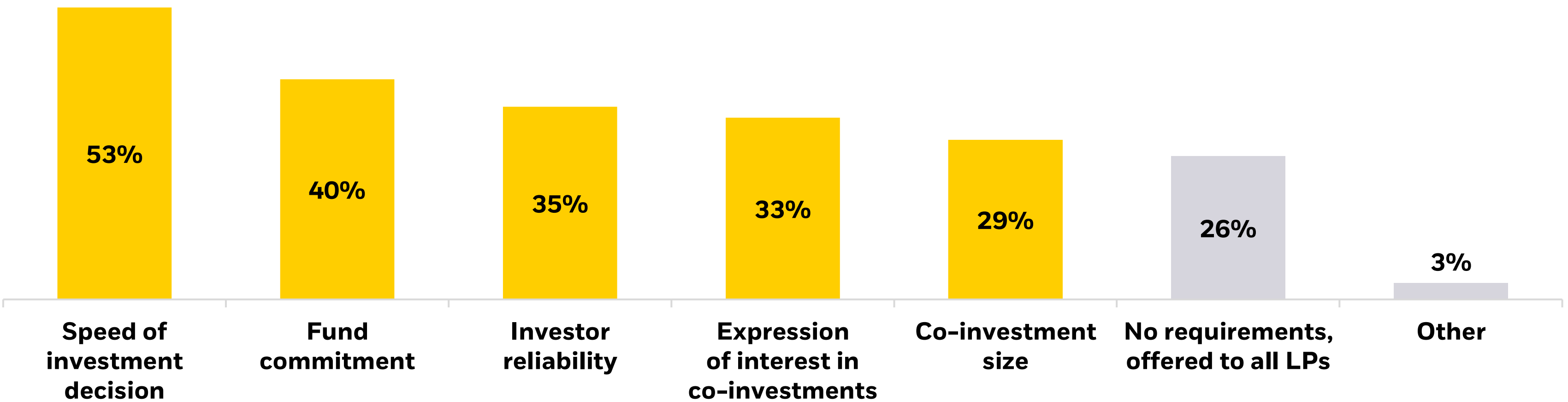
Co-investments require differentiated capabilities, expertise and resources

Co-investing requires close GP relationships, a broad skillset, and deep resources. The key considerations for GPs when allocating co-investments to LPs are depicted below. As shown, an LP's ability to make fast investment decisions is the most important requirement for GPs, followed by an LPs commitment to the fund, investor reliability, and the co-investment bite-size.

Investment opportunities are often presented with tight timeframes, sometimes with just weeks before a final decision is required. As such, the ability to **ramp up diligence quickly and thoroughly is critical.** Once a decision is made to invest, **experienced legal and tax teams are essential** for reviewing and negotiating the terms of the transaction. LPs must ensure that **appropriate minority protections are in place** to ensure alignment with GPs, requiring extensive legal review.

After closing, **active management of the co-investment requires time** to regularly engage with the lead GP, as well as the underlying company, on an as-needed basis.

Key requirements for co-investors



Source: BlackRock, as of January 2025; Preqin, Preqin Special Report: Private Equity Co-Investment Outlook, 2015. For illustrative purposes only.

Recipe for success

Co-investments often carry meaningful return dispersion, so it is critical that investors have a **broad skillset and robust expertise** to underwrite properly and select the right co-investments.

Short timelines and complex situations require **strong execution capabilities and deep resources**. Extensive relationships across the industry drive sourcing advantages, while scale provides leverage to negotiate the best terms.

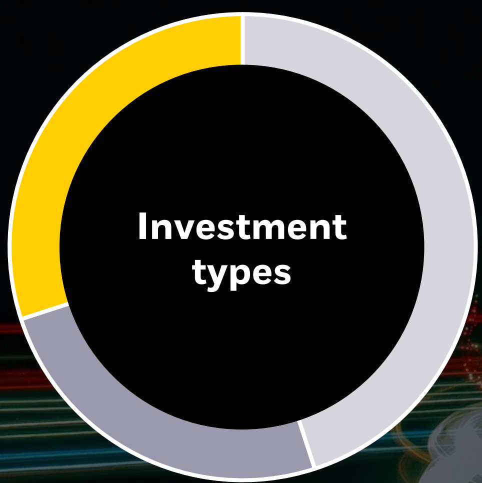
The increasing value proposition of co-investments make investing more attractive than ever, but investors may not always be well equipped to take on the heavy burden of participating in a deal. **It is critically important to consider and balance the various ways one can access co-investments.**

Sources: BlackRock, as of January 2025.

How to access co-investments

Depending on the desired level of involvement, efficiency, or diversification, LPs can participate in co-investments through various avenues

Illustrative portfolio



- Primaries **40-50%**
- Secondaries **20-30%**
- Co-investments **20-40%**

Three ways to access co-investments

Direct co-investing

A direct co-investment strategy enables LPs to invest directly alongside a lead investor into a specific deal or portfolio company.

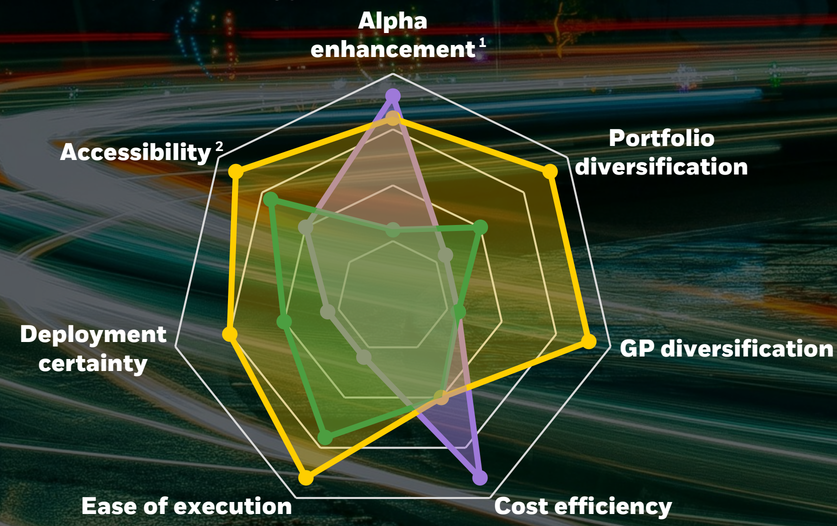
Co-invest sidecar

In a co-investment sidecar strategy, investors participate alongside specific GP funds with a separate vehicle (the "sidecar") dedicated to co-investments.

Co-invest fund

A third-party managed, commingled co-investment strategy pools capital from multiple investors to co-invest alongside various GPs, creating diversified portfolios.

Illustrative benefits by strategy



Source: BlackRock, as of January 2025. For illustrative purposes only. This material is not intended to be relied upon as a forecast, research, or investment advice. 1) Alpha enhancement includes ability to actively select and participate in portfolio construction, play thematics, and generate above-market returns. 2) Accessibility refers to the minimum check size required and access to deal flow. Smaller check sizes score higher on the scale.

Conclusion

1 Pushing the limits.

Co-investing is a valuable tool in active portfolio management. As a result of reduced costs, faster deployment, earlier return of capital, and active selection, co-investments allow investors **to potentially reduce the J-curve and enhance portfolio performance.**

It also allows investors to further tailor their portfolios by targeting specific sectors and geographies.

2 Going the distance.

It's now more important than ever for LPs and GPs to maintain strong, deep relationships.

Today, LPs are increasingly seeking to invest in larger co-investment programs and GPs continue to roll out new funds and products. As a result, the relationships between LPs and GPs require continued transparency and partnership to **ensure both parties can achieve their independent and shared goals.**

3 Full throttle.

Effective co-investment strategies require **broad expertise and, if executed well, deep resources**.

An investor's ability to handle tight timeframes and complex demands is critical. **Third-party managed co-investment funds can provide the deep investment expertise and resources needed** while maintaining the cost savings and performance benefits of other co-investment strategies.

Sources: BlackRock, as of January 2025.

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