

## Morgan Stanley's Markle Sees Co-Investment Silver Lining in Slower Market

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Neha Champaneria Markle, head of private-markets fund-of-funds investing, says slowing deal making and rising debt costs can benefit co-investors like Morgan Stanley.

The alternative investment partners' private-markets team at Morgan Stanley Investment Management has deployed nearly \$4 billion directly into co-investment deals in private markets since the unit's inception in 1999, according to the firm. The unit is armed with a fresh pool of capital for such transactions, after announcing last week that it raised \$1.25 billion for its second multimanager co-investment fund, handily exceeding the bank's \$750 million goal.

Neha Champaneria Markle, head of AIP private-markets solutions at the firm, which deploys on average several billion dollars annually across fund commitments, co-investments and secondary transactions, spoke to WSJ Pro Private Equity's Laura Kreutzer about the outlook for co-investments in the coming year. Responses have been edited for clarity.

### How do you see the opportunities for co-investors evolving in the face of a slowing deal market?

**NEHA CHAMPANERIA MARKLE (NM):** "A couple of dynamics have influenced our deal flow in the last several months, the most significant of which has been the 'denominator effect' [when public stock market declines threaten to overexpose institutional investors to private equity]. What that has led to is other [institutional investors] that were previously seeking co-investment deals have gone quiet. The other dynamic is that [general partners] that were planning on a fundraise or amid a fundraise are now revising their expectations about the amount of capital they are going to have to deploy, and they are turning to co-investors to help bridge that gap. I think that will continue into 2023.

There's a bit of a countercyclical dynamic going on. When things get a bit challenging for everyone else, our phone rings a bit



**NEHA CHAMPANERIA MARKLE**

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BY LAURA KREUTZER

more frequently. The effect of GPs needing more co-investment capital and other [investors] really slowing down their co-investment programs has resulted in a net pickup in the number of deals we see.”

### How are rising interest rates affecting your diligence?

**NM:** “We have been expecting a higher-rate environment now for years, so the questions we have been asking in recent years are the same. We look very closely at leverage levels and pricing packages and how managers are structuring their deals. We are also looking hard at the [expected exit multiples used for underwriting]. I don’t think that’s new for us, but now we’re not the only ones asking those questions.”

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### What about deals that you have already backed during more ebullient times? How are you viewing those portfolio companies?

**NM:** “When we anticipate a downturn, one of the things that we think about for our portfolios is ensuring that we have adequate reserves to support our companies. If your experience is only committing to funds, it’s not something that is obvious. But for us, just like a [general partner], if we are expecting prolonged market challenges, we have to make sure we have reserves to support those underlying companies, to protect our position or to help those companies take advantage of a strong competitive position when others are challenged. Reserves are going to be important for single-asset investments no matter the structure.”

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