

Co-investment in Europe's Lower Mid-Market

Capturing the Structural Opportunity in a Market that
is Hard to Find, Hard to Access and Hard to Select

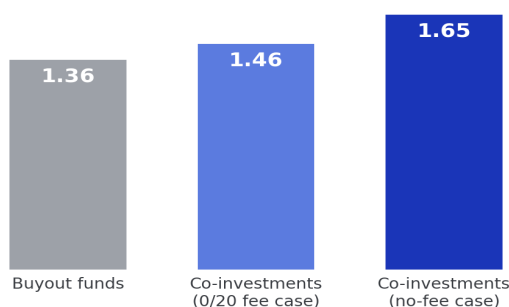
October 2026

PATRIA

Institutional investors once treated co-investment mainly as an ancillary benefit: a way for large LPs to reduce blended fees. They now use it far more deliberately, to select individual assets and build targeted exposure to the sectors, geographies and value-creation strategies in which they have conviction.

The academic evidence supports the shift. The most comprehensive study of buyout co-investment found no systematic adverse selection in the deals GPs offer to their investors, and a meaningful net return advantage over fund investing once fee savings are taken into account.¹

Net-of-fees performance of buyout co-investments (public market equivalent)



Source: Braun, Jenkinson & Schemmerl, Journal of Financial Economics, 2020

Europe's lower mid-market presents a particularly compelling place to apply that approach. Its diverse economies, industries and ownership structures support a deep pool of founder and family-owned businesses, corporate carve-outs and companies operating in fragmented sectors. Many of these businesses have significant scope to grow through traditional value-creation strategies rather than relying on leverage or financial engineering to generate returns.

This return potential is evidenced in manager performance targeting this segment: of the 30 best-performing European small and mid-market managers of the 2012–2022 period, ranked by gross returns, 25 ran funds below €1 billion and only one ran a fund above €2 billion.²

Yet the characteristics that make the market attractive also make it difficult to navigate. Identifying opportunities requires local knowledge and networks whilst co-investment access is determined by GP relationships and allocation decisions. Even once investors secure access, the quality and return potential of individual assets vary considerably. This dispersion is particularly clear when looking at mid-market funds below \$5 billion in size, as they have outperformed larger funds by 266 basis points at the median and by as much as 975 basis points at the top quartile.³

That gap between median and top quartile is the point. In this market, what you select matters more than what you can access. Capturing the opportunity requires more than capital: it depends on the ability to find the right investments, earn access to them and select those with the strongest potential.

For most institutional investors those constraints make co-investment alongside established GP relationships an effective route to scaled exposure in the segment, and a faster one than primary fund investing alone. The attractiveness of co-investment in the European middle market centres on five characteristics:

- **A deep company universe:** Europe has the world's highest proportion of large private companies, creating exceptional depth below the large-cap market
- **Multiple value-creation levers:** primary opportunities in fragmented industries reward consolidation, professionalisation and operational improvement, independent of the market cycle
- **Broader exit optionality:** smaller companies can be sold to larger sponsors, strategics or continuation vehicles, with less reliance on IPO windows

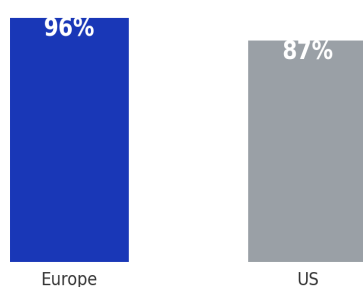
- **Growing GP demand:** slower fundraising and constrained leverage are increasing sponsors' need for dependable co-investment capital
- **A premium on capability:** wide dispersion in outcomes means sourcing, access and selection determine whether the opportunity converts into return

I. Why the Lower Mid-Market, and Why Europe

Patria defines the European lower mid-market as funds below €2 billion, targeting companies with enterprise values below €500 million at entry.⁴ The segment combines a large addressable universe with less capital competition and greater scope for hands-on value creation.

Europe offers exceptional depth of opportunities: 96% of European companies with more than \$100 million in annual revenue are privately held, ahead of the 87% recorded in both the US and Asia.⁵ This creates a broad pool of established businesses that can benefit from institutional ownership, with returns driven by traditional value-creation levers such as professionalisation, geographic expansion, digital investment and buy-and-build.

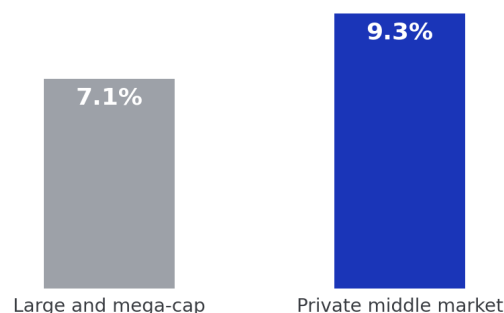
Companies with \$100m+ revenue that are privately held



Source: S&P Capital IQ / Apollo, July 2025

Growth favours the segment too. Middle-market companies have delivered faster EBITDA growth than large caps: 9.3% a year for private middle-market companies against 7.1% for large and mega-cap businesses.⁶

EBITDA growth by company size (YoY)



Source: Future Standard, Golub Altman Middle Market Index and Bloomberg data, January 2025

Europe's fragmentation is central to the opportunity. Local networks remain important sources of proprietary deal flow, particularly outside the largest markets, and country-focused managers can compete effectively when they combine local access with clear sector expertise. The same fragmentation creates room for consolidation: buy-and-build strategies can add products, customers and geographic reach, while operational initiatives strengthen management and commercial processes. These levers are company-specific and can be pursued even when the wider market is uncertain.

Smaller companies also offer broader exit optionality. A lower mid-market business can be sold to a larger sponsor, a strategic acquirer or a continuation vehicle, without depending on the IPO windows that can constrain large-cap exits. In 2025, sponsor-to-strategic exits were the fastest-growing route in Europe.⁷

European mid-market transactions priced at an average of 8.6x EV/EBITDA in the first quarter of 2026, close to the lowest level in over a decade.⁸ The discount for smaller deals is persistent rather than cyclical: Preqin data illustrates that in a data set that spans transactions from 2019-2024, deals below €1bn of enterprise value are available at an average of three to four turns of EBITDA than deals above €1bn in enterprise value.⁹

Capital competition is also structurally lower: European buyout dry powder stood at €307 billion at the end of 2025, roughly a third of total US private equity dry powder.¹⁰ In addition

European private equity has delivered a stronger public market return premium than the US over the longer term with more than 600 bps outperformance at the end of 2025,¹¹ reflecting deeper market inefficiencies and greater scope for active ownership.

II. Why Now

The window is defined by three forces. A more supportive macro backdrop, a turn in European liquidity, and sponsors that need co-investment capital more than at any point in the past decade.

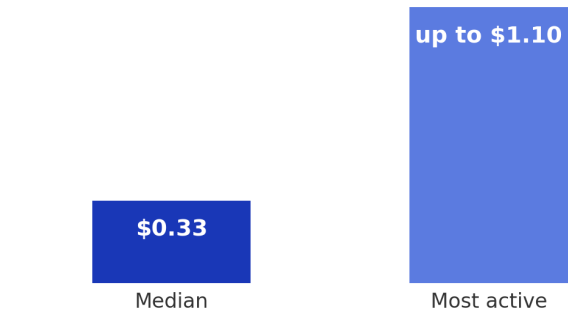
European policy rates sit roughly 140 basis points below US rates,¹² easing financing conditions for leveraged transactions, and euro-area growth of 1.4% in 2025 marked a clear improvement on the 0.4% and 0.9% recorded in 2023 and 2024, even if the recovery remains uneven. Investor sentiment has followed: in 2026, Europe overtook North America as the region LPs cite as most attractive for private markets investment.¹³

Liquidity is showing green shoots rather than a full recovery. European exit value grew 59% year on year in the first half of 2026 while US exit value declined, but the pick-up has so far been concentrated in larger transactions and distributions to LPs remain subdued.¹⁴

At the same time, sponsors need co-investment capital more than at any point in the past decade. Global fundraising for closed-end commingled buyout funds fell 16% in 2025 to \$395 billion, the second successive annual decline, and distributions as a share of net asset value were below 15% for the fourth consecutive year.¹⁵

GPs have responded by opening more of their deals to co-investors: in Bain and StepStone’s global GP survey, the median fund that offers co-investment now attaches 33 cents of co-investment for every \$1 of fund commitment, and the most active offer as much as \$1.10.¹⁶

Co-investment offered per \$1 of fund commitment, among funds offering co-investment, 2026



Source: Bain & Company / StepStone Group, 2026 Private Equity GP Outlook

The combination of slower exits and a more challenging fundraising environment is widening the co-investment funnel. There is greater demand from GPs for co-investment at the point of new deal completion coupled with opportunities on midstream transactions driven by GPs seeking to continue value creation rather than selling assets. Greater supply improves investor choice. It also makes disciplined selection more valuable, not less.

III. Hard to Find: Europe Rewards Local Reach

Against this backdrop, European mid-market private equity offers some of the most attractive return potential in the asset class. But the conditions that make the opportunity compelling are the same conditions that make it hard to capture. The best deals are hard to find in a fragmented, relationship-led market spanning more than 40 countries.

~35,000	funds below \$5bn worldwide, run by ~13,000 GPs – 99% of all funds in the market
~300	funds above \$5bn, run by ~120 GPs
\$3trn	AUM spread across the global sub-\$5bn universe, where knowledge and access are critical

Source: Preqin, analysis performed October 2024

The numbers explain why breadth of coverage alone fails. Worldwide, the investable universe below \$5 billion is more than a hundred times larger by fund count than the large-cap market,¹⁷ yet mid-market deal flow is less intermediated than large-cap activity with more limited international exposure. Broad market coverage therefore offers only a partial view: attractive opportunities are usually uncovered through sustained engagement with local managers and a detailed understanding of how they source, underwrite and create value.

Fragmentation is the moat. Alongside its 40-plus countries, Europe spans more than 20 official languages, over 30 legal jurisdictions, upwards of 25 tax systems and more than 50 accounting codes. These differences create genuine local information advantages for managers with the networks, sector knowledge and cultural fluency to originate beyond widely marketed processes. For investors with the right platform, fragmentation becomes a source of opportunity rather than a barrier.

IV. Hard to Access: The Importance of GP Relationships

The natural response to a market that rewards local reach is to access through local funds. At scale, that route is narrower than it looks. From 2021 to 2025 on an average annual basis, funds below €1bn accounted for roughly 30% of total European private equity fundraising.¹⁸ Also, if you take into account both the US and Europe, 87% of commitments between 2020 and 2025 went to companies above €1bn in enterprise value, providing exposure to less than 10% of available private companies.¹⁹ The funds that do target the segment are deliberately small, and many LPs limit commitments to a small proportion of a fund's total. For large allocators, it would therefore take time and resource to build meaningful exposure to the segment through direct primary commitments alone.

The remaining alternatives lead back to the same place. Multi-manager programmes, whether commingled or run as separately managed accounts, can reduce the manager

selection burden and provide a sound foundation of diversified fund exposure. On their own, however, they do not deliver asset-level selection, and the strongest of them increasingly draw on the co-investment access this paper describes to accelerate deployment and improve economics. For smaller investors the binding constraint is different but the conclusion is the same: selecting and diligencing managers across the mid market universe described above demands sourcing and diligence resources that few maintain in-house.

Both of these routes also are impacted by the J-curve effect in primary fund investing. Capital is called over several years and net returns take time to emerge due to the impact of fees charged on commitments during the investment period of a fund. Co-investments deploy more quickly into identified assets, on reduced or no fees on the underlying assets, which shortens the path to exposure and moderates the J-curve of a broader private equity investment programme.

The practical route in. For most institutional investors, co-investment alongside established GP relationships is an effective way to build scaled, direct exposure to Europe's lower mid-market, and to build it in a shorter time frame than primary fund investing allows.

Co-investment itself, however, is not an open market. GPs decide which LPs see an opportunity, when they are brought into the process and how much allocation they receive. The quality of an investor's GP relationships therefore shapes the opportunity set before any asset-level underwriting begins.

In practice, the large majority of co-investment flow goes to LPs that have already committed primary capital to the manager's funds. A primary relationship provides familiarity with the GP's strategy, deal teams and areas of strength, and typically results in reduced or no fees and carry on the co-investment.

What GPs Value in a Co-Investor

Primary capital matters, but it is not sufficient to guarantee co-investment allocation. GPs value partners that meet agreed timelines, follow through on commitments and conduct focused diligence without creating avoidable friction for deal teams. Once conviction is established, flexibility and certainty of execution can matter as much as, and often more than, absolute cheque size.

The best co-investors also bring more than capital. A partner that sees a large volume of comparable businesses across their platform can contribute diligence insight, sector and geographic perspective and reference points on value-creation plans that a single GP may not have. That input is valued during underwriting and, increasingly, through the ownership period, and it is one of the reasons GPs return to the same co-investors deal after deal.

Co-underwriting strengthens these relationships further. An LP that works alongside the GP during diligence and commits capital at signing to help a GP execute a transaction is more valuable than a syndicate party coming in when the transaction is derisked. That support tends to be rewarded with better allocation to the current transaction and earlier engagement on future deals.

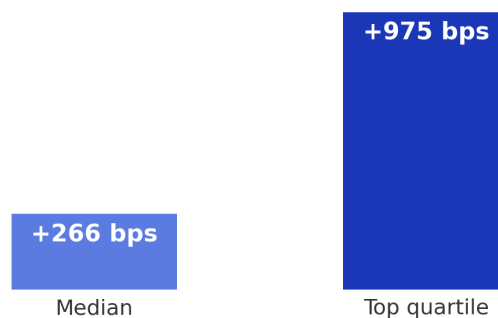
V. Hard to Select: More Opportunity Does Not Mean Lower Risk

Seeing a large share of co-investment deal flow is only useful if an investor can distinguish the strongest assets. There has been some historical debate about the potential for adverse selection in co-investments, with concern GPs might offer co-investment on transactions they considered less attractive for their funds. The academic record is reassuringly clear on this point: across more than a thousand co-investments, researchers found no evidence that GPs systematically offer weaker deals to their LPs.²¹ But the same research confirms wide dispersion in individual outcomes, which places the burden squarely on the co-investor's own selection discipline.

A direct-investment-style process is required to assess the company, the sector and the value-creation plan on their own merits. It should also test why co-investment capital is required, whether the transaction fits the GP's established strategy and how incentives are aligned across the ownership period.

The dispersion data presented earlier cut both ways. The outperformance of smaller funds, the faster EBITDA growth of smaller companies and the attractive entry multiples all strengthen the case for the segment; the spread between median and top-quartile outcomes underlines why manager discipline and asset selection remain critical to ensure those structural advantages convert into returns in practice.

Net IRR outperformance of funds below \$5bn versus larger funds, 2000-2021 vintages



Source: Patria analysis of Preqin data. Vintages after 2021 considered too immature for the analysis

VI. Conclusion: A Relationship-Driven Opportunity

The European lower mid-market offers a deep and varied co-investment universe. Its local deal network, founder-owned businesses and fragmented markets create opportunities for attractive entry pricing, operational improvement, consolidation and growth across economic cycles. Current market conditions are widening that universe: slower fundraising and a constrained exit environment have increased GPs' need for flexible capital, creating opportunities across co-underwrites, syndications and midstream investments.

But the opportunity cannot be measured by deal volume alone. Europe remains difficult to navigate at scale, the strongest allocations favour LPs that have earned GPs' trust, and the quality of available investments varies considerably.

Success depends on three connected capabilities. Primary fund selection capabilities to filter a broad universe based on quality. A value-add approach to co-investing, reinforced by genuine co-underwriting capability, turns those relationships into preferred access. Disciplined asset selection then converts access into performance.

Patria's own European co-investment programme illustrates how the three capabilities compound in practice:²²

100+

co-investments seen annually
across the platform

70%

of completed deals co-
underwritten at signing

0.3x

higher TVPI on selected deals
versus the broader set reviewed

Together, these capabilities can turn Europe's structural depth into a focused portfolio of lower mid-market co-investments. The investors best placed to capture the opportunity are those that combine reach, relationships and judgement consistently over time.

None of this is as simple as it can appear from the outside. Co-investing requires a dedicated team with specific expertise, the capacity to underwrite to a GP's timetable and the discipline to decline far more opportunities than it accepts. That resource is difficult for many investors to build and maintain in-house, which is why the opportunity in Europe's lower mid-market, wide as it is, will continue to be captured by relatively few.

Sources:

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2. Europe: StepStone, "Outperformance in the European Small to Middle Market", March 2025 (top 30 European small and mid-market managers, defined as fund sizes below €7 billion, ranked by gross TVM using SPI by StepStone data, 2012–2022 investments; 16 ran funds below €500 million, nine between €500 million and €1 billion, four between €1 billion and €2 billion and one between €2 billion and €3 billion).
3. Patria analysis of Preqin data (global fund universe). Net IRR of private equity funds, 2000–2021 vintages; vintages after 2021 considered too immature for the analysis.
4. Much of the available market data is cut at €1 billion or \$1 billion, and where this paper draws on it the threshold is stated; the dynamics it describes apply with greater force at the smaller end of that range.
5. S&P Capital IQ, cited in Apollo Academy, 29 July 2025 (Europe: 96%), April 2024 (US: 87%) and August 2025 (Asia: 87%).
6. Future Standard, Chart of the Week, "Middle market GARP", 24 January 2025. Year-on-year EBITDA growth: private middle-market companies per the Golub Altman Middle Market Index (as of 30 November 2024); large and mega-cap companies per median EBITDA growth of Russell 1000 constituents, excluding certain industries (Q3 2024, Bloomberg). US data.
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8. Argos Wityu / Epsilon Research, Argos Index mid-market, Q1 2026 (published May 2026). Eurozone transactions of €15m–500m equity value; 8.6x EV/EBITDA in Q1 2026, a slight rebound from the Q4 2025 reading of 8.3x, the index's lowest level in over a decade.
9. Patria's analysis of Preqin's global deal data base – pricing based on average EV/EBITDA multiple on deals from 2019–2024 vintage.
10. Invest Europe, Capital Under Management & Dry Powder 2025 (published 2026); US private equity dry powder of approximately \$1.1 trillion in 2026 (PitchBook / S&P Global data).
11. Burgiss and LSEG. Private equity performance for Europe and North America based on Time Weighted Rate of Return on a quarterly basis then annualised for rolling 10 year periods. Public market data reflects the performance of the MSCI Europe and MSCI North America total return indices.
12. European Central Bank (deposit facility rate of 2.50%, effective September 2026); US Federal Reserve (federal funds target range of 3.75–4.00%, September 2026). As of September 2026.
13. International Monetary Fund, World Economic Outlook Update, July 2026 (euro-area real GDP growth of 1.4% in 2025, up from 0.4% in 2023 and 0.9% in 2024). LP sentiment: Adams Street Partners, 2026 Global Investor Survey, March 2026.
14. PitchBook data as of 30 June 2026.
15. Bain & Company, Global Private Equity Report 2026: fundraising for closed-end commingled buyout funds fell 16% in

2025 to \$395 billion, the second successive annual decline (2022: \$431 billion; 2023: \$544 billion; 2024: \$469 billion); distributions as a share of net asset value held at 14%, below 15% for the fourth consecutive year and a level last seen in 2008–09.

16. Bain & Company, 2026 Private Equity GP Outlook (global survey of 103 GP investment and investor-relations professionals, predominantly North America and Europe, conducted December 2025 – January 2026). Among funds offering co-investment, the median is 33 cents of co-investment per \$1 of commingled fund commitment; the most active offer 70 cents to \$1.10.

17. Preqin, analysis performed October 2024 (global fund universe). Approximately 300 funds above \$5 billion managed by around 120 GPs (c.\$8 trillion AUM), versus approximately 35,000 funds below \$5 billion managed by around 13,000 GPs (c.\$3 trillion AUM).

18. Calculation based on PitchBook, 2025 Annual European PE Breakdown, pp. 15–16; fund-size shares estimated from the chart.

19. PitchBook 2025 annual European and US PE Breakdown reports. Across the US and Europe, 87% of 2020–2025 commitments went to companies at the larger end of the market (enterprise value above \$500 million), providing exposure to less than 10% of available private companies.

20. Some limited partners have investment policies that limit their commitment to a fund so that it cannot exceed a certain percentage of the fund's total commitments, generally 10–20% (Morgan Lewis, Venture Capital & Private Equity Funds Deskbook, "Fund Size"). Applied to a fund below €500 million, this implies a maximum ticket of €50–100 million for such investors. Inference by the authors.

21. Braun, Jenkinson and Schemmerl, op. cit.

22. Patria data as of 31 December 2025. Considers all co-investments alongside European fund managers since 2013 where Patria has a primary relationship; co-underwrite share based on all deals since 2020 below €1 billion of enterprise value. Past performance is not indicative of future returns.

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