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## Open your mind to private equity

21 Jul 2011 | 16:58

Joanna Faith

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### Claire Madden of Connection Capital on the benefits of private equity:

"Given the constant press attention on the private equity mega-deals led by the industry giants like Blackstone and KKR, which can involve billions in a single transaction, it's easy to forget that most private equity deals in the UK are far smaller with investor returns driven not by financial engineering and multiple arbitrage but instead by the oldest of fundamentals: profit growth.

"The essence of this approach is no more complicated than providing a private company with the capital it needs to grow – organically or by acquisition – thereby creating real wealth and, by extension, jobs and tax receipts. Although there is a risk of investment write-off if things go wrong, this is balanced by the potential for substantial returns if the investment performs.

"In UK private equity, the "middle market" is a place where investments can be anything from £2m of growth capital for a small but profitable and rapidly expanding private company to a £50m cheque to finance the buy-out of a substantial subsidiary of a large group. This is also the place where returns are generally higher than those in the mega-deals, but lower than those afforded by the very high risk world of early stage investing. There is always a balance between risk and return and a portfolio approach is key.

"SMEs, the backbone of the UK economy, have been providing middle market private equity investors with

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attractive investment opportunities since the late 1970s. The British Venture Capital Association, the industry's trade body, publishes independently collated figures which clearly show that, as an asset class, private equity consistently outperforms every other asset class in the short, medium and long term.

"Most private investors can gain direct exposure to private equity through, for example, VCTs or quoted investment trusts. However, a smaller but growing number of experienced investors are attracted to investing directly in unquoted businesses sourced and managed by themselves or via regulated syndicates or networks."

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