

# ENTREPRENEUR

## Banks launch £2.5bn fund

### Private equity

Financing market is already overcrowded, say rivals, writes **Jonathan Moules**

The banking industry's new £2.5bn fund to help fast-growing small businesses will struggle to reach its target of up to 40 deals a year in what is already a crowded market, according to private equity experts.

The warning comes ahead of the official launch of the Business Growth Fund this Thursday, when it will start processing funds for businesses in its target turnover range of £10m to £100m.

The fund, dubbed a "modern day 3i", will put between £2m and £10m into each investment, taking an equity stake of not less than 10 per cent and no more than 50.

Its chairman, Sir Nigel Rudd, a leading figure in business, has said the fund would be a highly engaged investor and would want a seat on the board of any



**Nigel Rudd: BGF chairman**

Daniel Jones

company it put money into.

The fund plans to differentiate itself from existing players in this market by committing to a longer-term relationship with the companies it invests in, agreeing to back them for five to seven years rather than the three to five years for which most private equity firms look to be involved.

Views among those in the private equity industry are

mixed. Luke Johnson, chairman of Risk Capital Partners, a private equity firm with a £75m fund, said the problem the Business Growth Fund was claiming to address did not exist – and it was "doomed" to failure. "It is a PR stunt by the clearing banks, which are obviously under a lot of political pressure to support British industry," he said.

"Instead of solving the problem [of access to debt

finance], they have invented a non-problem and are crowding out experienced sensibly priced money."

Claire Madden of Connection Capital, a private client investment business, said the problem for most small businesses was a lack of debt finance available at reasonable terms, not equity funding.

"At this level, companies want bank not equity funding," she said.

Others were very supportive of the new fund. David Giampaolo, chief executive of Pi Capital, an investor network, said there was a need for such funding, which falls between early-stage financing and the kind of angel investing provided by wealthy individuals.

Deal flow would not be the problem, according to Giampaolo, although he questioned whether the Business Growth Fund could attract the amount of talented staff needed to complete its target number of deals each year.

"Maybe they won't produce as many winners as they hope, but there is certainly not a downside for the UK entrepreneurial community," he said.

A spokesman for the Business Growth Fund said: "This is not a typical private equity fund, far from it. A private equity firm would be looking to do a buy out and leverage that investment as quickly as possible. We would be quite happy to work with other investors."