Connection Capital

The Review

Q4 2021

Welcome

Hello and we hope that you are well. Since our last newsletter in February, it has been an extremely busy time for our teams. We have exited from both Virgin Wines, delivering a gross return of 7.6x capital, and Carter Cabins (4.0x gross return) along with two of our commercial property investments. Plus, we've added three new portfolio companies and four new funds to the Connection Capital platform. Summaries of each can be found in your newsletter.

What has been apparent over the period is a continuation of the heightened investor appetite for alternative investments that began to emerge in Q4 2020, after the initial shock of the pandemic. So far, this year, our clients have invested over £50m in Connection Capital opportunities.

The appetite of private clients reflects that of the wider institutional market – data provider PreQin had recorded €85bn of private capital transactions in the UK by July, which was equal to the total for the whole of 2020.

Alternatives are clearly enjoying a sweetspot. The resilience of the asset class displayed during the pandemic, and which we have seen through our own portfolio, as well as the buying opportunities created and opportunistic fund strategies accessible are all attractive factors.

But not everyone is happy, and in certain areas of the media, private equity has come in for a bit of a beating, particularly earlier on in the year. The coverage (as always) has centred around the biggest deals e.g. leveraged buyouts for supermarkets and (as always) ignores the majority of transactions that occur and support the growth of thousands of UK SMEs. The British Venture Capital and Private Equity Association has done a good job of responding to the noise with research examining the positive impact of private capital on jobs and growth. Our own Managing Partner, Claire Madden, also has something to say about private capital's role in the latent economic recovery, which you can read on page 12.

We firmly believe that private capital can offer a number of advantages to a business over funding raised through public markets. For example, it can often take a more patient approach to strategic growth rather than be a slave to the short-termism of the markets. What is indisputable though is that private capital delivers a source of funding to many UK businesses, that would not be available without it. And even the media would have to agree with that.

Enjoy the read and, as always, if you have any questions please let us know.

Best regards
The Connection Capital team

Exits

February-October 2021

Virgin Wines

Private Equity

On 2 March 2021, online wine retailer, Virgin Wines, was successfully listed on AIM following its initial public offering. The IPO delivered a full exit for Connection Capital clients and a gross investment return of 7.6x capital.

Virgin Wines had been a Connection Capital portfolio company since 2013. Under our tenure, it had grown from £35m of sales to nearly £70m and tripled EBITDA.

The IPO has provided a great platform for Virgin Wines to execute its ambitious growth plans, win more market share and drive shareholder value. We are delighted with the result for the management team and our clients.

Travis Perkins Portfolio

Commercial Property

Over the period, Riverside Capital, our commercial property partner, has sold all properties in its Travis Perkins Portfolio for £38.25 million, significantly higher than the last formal property valuation of £35.48 million. Connection Capital clients invested in the deal in 2015.

The properties, 19 trade park units, were let to Travis Perkins on 15-year leases. The majority were sold to a US long income REIT. The sale of the properties, in excess of valuation, reflects the ongoing popularity of long-income generating property assets. After the final distribution, the investment is expected to return c1.35x.

DPD Portfolio

Commercial Property

In September 2021, Riverside Capital also completed on the sale of both assets within its DPD Portfolio for £20.20 million. Connection Capital clients invested in these strategically-located logistics units back in 2016.

The sale of the portfolio, ahead of schedule, to Aberdeen Standard Investments on behalf of the West Sussex County Council Pension Fund, reflected an 18% uplift on the March valuation. The total net return multiple was 1.45x, an IRR of 9.5%.

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Deal completions

February-October 2021

MatOrtho

Private Equity

Our clients invested £6.75m in MatOrtho in June 2021. MatOrtho is a c£10m revenue, pioneering UK-based designer and manufacturer of specialist orthopaedic devices, with class leading intellectual property protected ceramic technology, which is applied to hip and knee replacements.

This direct private equity investment will enable MatOrtho to accelerate key recruitment and international expansion into existing and new international markets and will support ongoing research and development, as the company continues to develop the next generation of implant technology, with a view to a trade sale.

Target net returns to clients are 3x investment.

Pickford's Pharmacy

Private Equity

In June, we welcomed community pharmacy chain Pickford's Pharmacy to the Connection Capital portfolio. Our clients invested £8m to support the acquisition of two other chains to create a 21-site platform from which to embark on further growth.

The UK pharmacy sector is a highly fragmented marketplace with 3,300+ independent pharmacy groups and unlike dentistry or veterinary services, there has been limited private equity or professionally backed consolidators, giving a significant buy and build opportunity. This is alongside organic growth plans which we believe will follow as the UK government pushes more and more healthcare services through the pharmacy channel, such as the current Covid and flu vaccination programmes.

Target net returns to clients are 3x investment.

Bredbury Hall & Country Club, Stockport

Private Debt

In May 2021, Connection Capital's clients acquired 149-room Bredbury Hall Hotel & Country Club at a significant discount to its pre-pandemic valuation, following its Covid-induced administration in 2020. Prior to the pandemic, the business was performing strongly, consistently generating revenues in excess of £4m per annum and had recently undergone extensive refurbishment.

Alongside our trusted partner, Vine Hotels, Bredbury was an opportunistic purchase of a high-quality asset with a good record of profitability at a historically low cost per room price. This is our third joint venture with the Vine Hotels team, with the two previous investments exiting successfully for clients. Bredbury re-opened in June 2021 and in time, we expect it to create 100 jobs in the local area.

Kestrel Opportunities Fund

KESTREL PARTNERS

Alternative Funds

In March, we offered Connection Capital clients the opportunity to top up on the Kestrel Opportunities Fund, having been invested in the fund since 2015.

The fund is focused on acquiring significant equity stakes in sub £250m market cap, under-researched, UK-based listed companies which sell business critical software and services, have good intellectual property, strong gross margins, high repeat revenues, significant international revenues, strong cash flow conversion and good growth opportunities.

We offered clients the opportunity to invest at an attractive point in the cycle post Brexit and mid Covid recovery, with an anticipated increase in capital flowing to the UK small cap market leading to re-rating and increased M&A activity. The manager has a track record of c16% net annualised return from inception in November 2009, although impacted by the Brexit period from 2015 to 2018, but is now resuming strong growth, with a target net return of c2x over three to five years.

HP Special Opportunities Fund I

HAMBRO PERKS

Alternative Funds

Access to this deep-discounted portfolio of unquoted life science and tech companies, formerly owned by Invesco, was made possible in April 2021 by our relationship with venture manager, Hambro Perks.

This proprietary transaction was a fully visible, diversified portfolio of 16 private stakes in Series A to pre-IPO, US and UK high growth tech and biotech companies, acquired from motivated seller, Invesco. In addition to several of the larger investments, which have potential portfolio out-performers, seven of the portfolio companies were acquired for zero cost.

Clients were attracted by the opportunistic nature and the significant pricing discount. Our allocation from Hambro Perks of £5m was oversubscribed within hours of launch.

Permira Sigma 6

PERMIRA DEBT MANAGERS

Alternative Funds

This is the third Permira Sigma fund we have been able to offer our clients.

This niche private structured debt fund, operated by blue-chip manager Permira Credit, is not easily accessible by private investors (the minimum investment is €10m). Connection Capital clients completed a £3m commitment to the fund's first close in September 2021.

The fund targets a high-income yield by investing in the junior capital of leading European Collateralised Loan Obligation (CLO) funds. The asset class was resilient throughout the market volatility created by the pandemic in 2020. Target net returns to clients are c1.6x.

SCIO ESCF III: European Secured Credit Fund

Alternative Funds

In March, our clients committed £3m to this niche secured private credit fund targeting the underserved sub-€25m European loan market.

The manager, SCIO, operates a nimble approach to decision-making versus larger corporates. Focused on the private credit markets, the fund operates an opportunistic strategy of providing secured smaller tailored loans to UK and European businesses with the objective of a high net income return over a short fund life. This means it is often one of the only viable solutions for a borrower, something that it can reflect in attractive pricing.

SCIO supports the view that public credit is overvalued and with cash at negative yields, private credit continues to be increasingly attractive for investors. With SCIO's opportunistic strategy and the increasing requirement for short term, flexible finance solutions across Europe, this trend will continue to present attractive private credit investment opportunities for the fund.

The firm has had a strong track record of performance, having managed and fully exited three closed-ended secured credit strategies over the past decade. It is considered a highly experienced specialist investor in the European secured private credit sector. The illustrative annualised net return using assumptions provided by SCIO is c10%, with a total net profit of c31% (1.31x capital invested).

DN Capital V

Alternative Funds

In June 2021, Connection Capital clients committed €7.86m in the fifth venture fund from DN Capital, Global Venture Capital V. The fund targets future market-leaders at seed or Series A investment stage in software, fintech, online marketplaces, and consumer internet sites/applications across the UK, Europe and US.

Previous investments include unicorns, Shazam, Purplebricks, and 'decacorn' Auto1 which IPO'd in 2021, reaching a valuation of €11bn. This is the third fund managed by DN Capital that we have accessed for our clients.

Target net returns to clients are c3x capital invested.

Hambro Perks Access Fund II: Venture Capital Secondaries

Alternative Funds

The second fund we offered clients from Hambro Perks over the period operates an innovative venture capital (VC) secondaries strategy. It aims to acquire stakes in privately owned, later stage, fast-growing, technology-enabled businesses in the UK and Europe, at a discount, by purchasing outside of primary funding rounds.

The manager has a strong proprietary network across the European technology VC sector, essential for sourcing these below the radar, small equity stakes.

Connection Capital clients invested £5m. Target net returns are 2.1x plus upside.

Private equity and debt commentary

Bernard Dale
Head of SME Investment Team and Managing Partner

My commentary in the last two Reviews has been dominated by Covid. Amidst the initial outbreak last year, I covered the approach we were bringing to managing your investments and, in February 2021, this moved onto the actions we had taken and how your investments were fairing.

I am pleased to report that as at today's date, thanks to the efforts of the management teams we have backed, support from our bank partners, and sensible funding structures, we have not made any calls on our clients to invest further into our direct private equity or private debt portfolio.

Trade with Europe has a long way to go to be frictionless.

Clearly, it has not all been plain sailing and some client interest payments have needed to be deferred in order to assist with liquidity, but these have been few and far between. In most cases companies have been able to trade through with either no change to debt, or with some supplementary debt facilities, some of which the banks have elected to designate as CBILS assisted.

From our perspective, this government backed programme and the banks who have managed it have done a sterling job supporting UK companies.I fully expect all the loans made to our investees and the majority of the loans advanced elsewhere in the UK via this scheme, to be repaid.

At this point, I would like to acknowledge the assistance of an unsung hero of the Covid crisis, namely the 'tax man'. HMRC and its staff, reacted quickly and I would say generously, in providing much needed liquidity in the early days of Covid, giving employers the confidence to continue business as usual as they could. In all but one case, PAYE and VAT in the portfolio are now back on 'normal' terms.

Pickford's Pharmacies joined the portfolio in June

So where are we now? In summary, we have a number of businesses which have sailed through Covid unaffected or with improved trading. There is a second cohort where trading has been affected and we have probably lost around a year from the business plan. Then there is a third group which have been closed, some with nil revenue through no fault of their own, which have now re-opened and are re-building revenue, on the whole with good success – James Bond is helping us get back to the cinema, staycations have boosted UK leisure hotel revenue and eating out and visiting drive thru's for a coffee are also firmly back 'on the menu'. A portion of the latter two groups have had to dig into cash reserves or take on more debt and all companies now have their own version of 'Building back better' (to borrow a phrase from Boris) to manage.

Of course, Covid is just one of the two big 'one off' events for business to manage. The aftershocks of Brexit's seismic shift on the UK are now in play – amplified by Covid. A recent survey of our CEOs indicated that trade with Europe has a long way to go to be frictionless and we really are missing a swathe of skilled and unskilled overseas workforce.

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I am sure it will all be alright in the end as we find our way through, but 'Building back better' will not be straight-forward and there is no longer furlough or CBILS to help ease the pain.

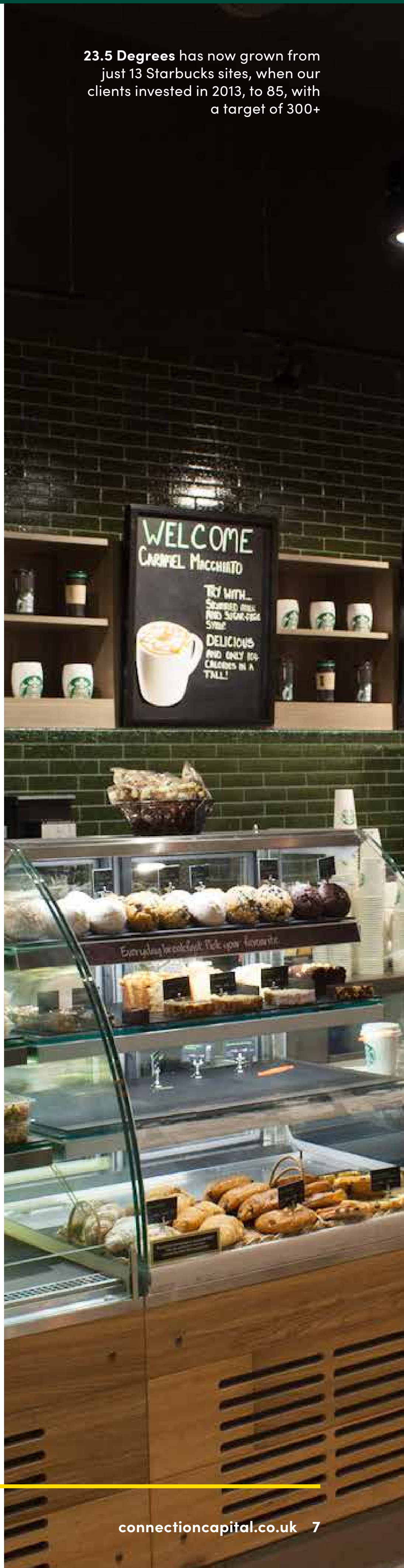
We continue to prioritise liquidity and management quality in the portfolio as our prime defensive tools.

The same survey showed a good level of confidence in growth and a positive frame of mind amongst our management teams, with target profitability a good step on from current levels. We have worked hard with CEOs and NXCs over the past few years and there have been management changes amongst the portfolio. It's not always been easy, but CEOs report their teams to be committed to implementing their equity value creation plans, which by and large have remained consistent throughout the Covid/Brexit period.

For the first time in many a long year we can see significant inflationary trends with metal prices on the rise. There is also the well-publicised shortage of semiconductors which are ubiquitous in use from photocopiers through to motor vehicles, alongside wage inflation in many sectors. How significant and long term these trends will be is unclear, so we continue to prioritise liquidity and management quality in the portfolio as our prime defensive tools.

Hot on the heels of the 4x gross return made by our Carter Accommodation investment, which was sold in January 2021, was the AIM listing of Virgin Wines, which grew from a £12m MBO in 2013 to a £110m capitalisation on listing, generating a 7.6x gross return on investment. We may well have a few more high return investments already on the books and performing well to follow in their footsteps.

We remain committed to hunting out the best investments we can and managing them through thick and thin on your behalf and we thank you for your patience and your messages of support for us and the management teams we have backed together.



23.5 Degrees has now grown from just 13 Starbucks sites, when our clients invested in 2013, to 85, with a target of 300+

SME investment portfolio highlights

23.5 Degrees

The UK's first Starbucks franchisee, 23.5 Degrees, has now grown from just 13 sites, when our clients invested in 2013, to 85, with a target of 300+. It now employs 1,600 people and expects to enter 2022 with a record new site pipeline of 53. The overwhelming majority will be Drive Thrus, which have performed strongly since re-opening in July 2021 and have pushed the company on to record levels of EBITDA performance.

With this scale of new site pipeline, the outlook remains very positive, with consumers returning to the High Street a further boost. Starbuck's products also feature on all the main takeaway delivery services, Deliveroo, Uber Eats and Just Eat, which provide a significant and highly profitable new route to market.

The company has recently been shortlisted as Entrepreneurial Business of the Year at The Business Magazine's awards.

It also has a very healthy balance sheet which means it can plan for ambitious growth with firm foundations and we remain very positive about future prospects.

Tempcover

Tempcover is a disruptive Insurtech MBO we backed in 2017. Its 'app' and web-based service enables users to insure a car, van, motor bike, or even a motorhome for a flexible period from one hour to 28 days within 90 seconds, by providing simple data on their phone. The product and process has delivered an Excellent rating on TrustPilot. It ended its financial year ahead of plan following strong performance throughout 2020 and the first half of 2021. A number of new initiatives and partnerships launched over the summer and are on track to deliver further material steps forward in performance.

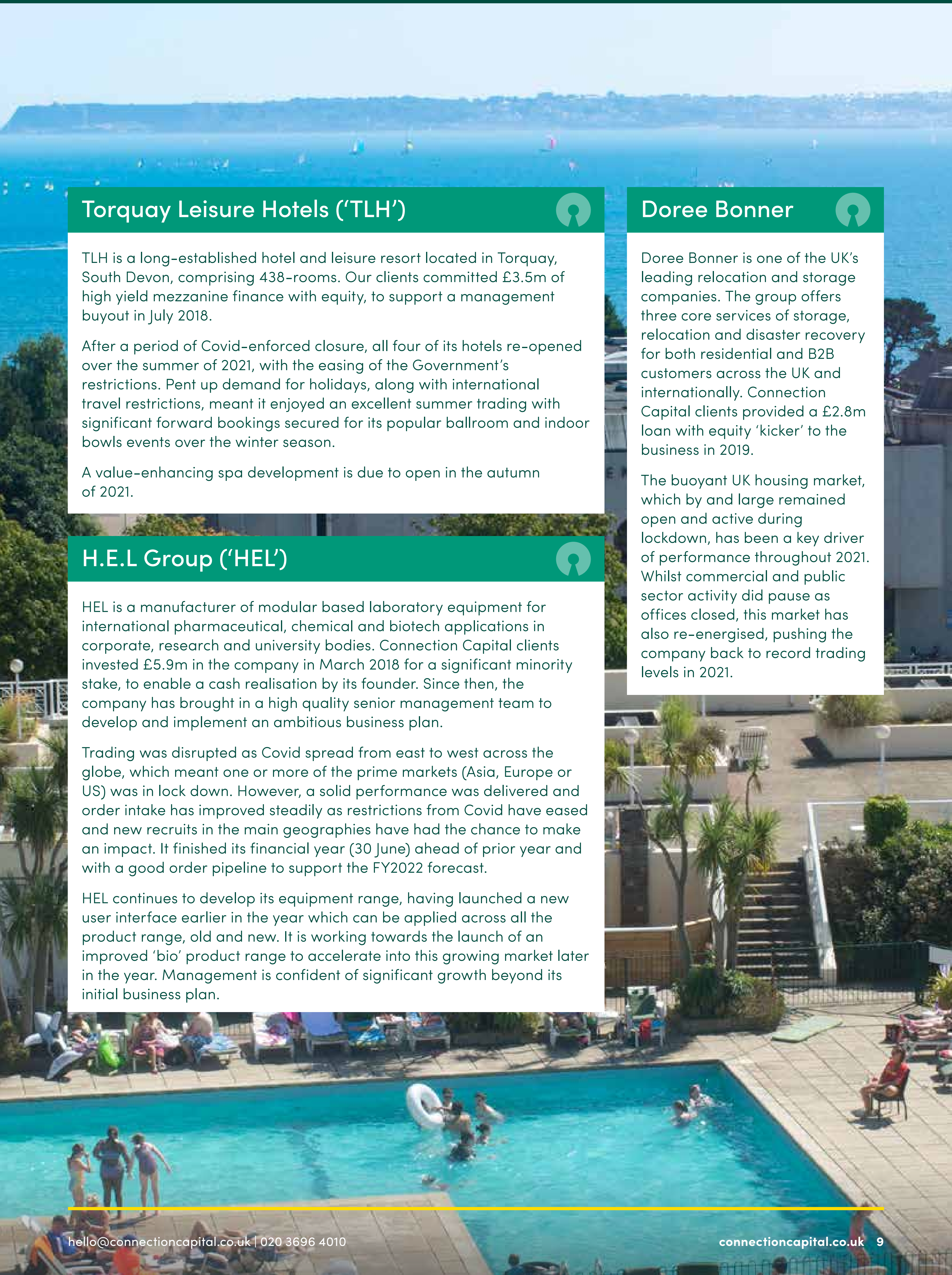
The company also recently announced a partnership with the AA to offer breakdown cover on all of its short-term policies and also partners with Cinch, Cazoo and Car Giant. Its innovative product and high growth has seen it acclaimed with a clutch of recent awards including Global SEO Campaign winner at the Global Marketing Awards and best CRM Campaign at both the UK Content awards and the Global Digital Excellence Awards.

Mode Solutions

Mode's core activity is the provision of contracted Managed Print Services into SMEs based in the London and South East. Connection Capital clients invested £8.1m in a £21m MBO in 2018. Mode acquired Nix Communications, a supplier of unified communications services in 2019. This broadened its range of services and increased its scale in a market which has seen consolidation across Print, Comms and IT services.

The company is performing well as customers have returned to the office through 2021. Further progress is expected as the numbers increase throughout autumn.

New CEO, Alex Tupman, and new COO, Clinton Groome, have hit the ground running in their roles and have been instrumental in driving cross-selling between the Mode and Nix customer bases, alongside a series of value enhancing integration projects, both internally and externally focused. The company is looking to continue to grow, both organically and through acquisitions, in its goal to become a substantial UK provider of business support services across the Print, Comms and IT spectrum.



Torquay Leisure Hotels ('TLH')

TLH is a long-established hotel and leisure resort located in Torquay, South Devon, comprising 438-rooms. Our clients committed £3.5m of high yield mezzanine finance with equity, to support a management buyout in July 2018.

After a period of Covid-enforced closure, all four of its hotels re-opened over the summer of 2021, with the easing of the Government's restrictions. Pent up demand for holidays, along with international travel restrictions, meant it enjoyed an excellent summer trading with significant forward bookings secured for its popular ballroom and indoor bowls events over the winter season.

A value-enhancing spa development is due to open in the autumn of 2021.

H.E.L Group ('HEL')

HEL is a manufacturer of modular based laboratory equipment for international pharmaceutical, chemical and biotech applications in corporate, research and university bodies. Connection Capital clients invested £5.9m in the company in March 2018 for a significant minority stake, to enable a cash realisation by its founder. Since then, the company has brought in a high quality senior management team to develop and implement an ambitious business plan.

Trading was disrupted as Covid spread from east to west across the globe, which meant one or more of the prime markets (Asia, Europe or US) was in lock down. However, a solid performance was delivered and order intake has improved steadily as restrictions from Covid have eased and new recruits in the main geographies have had the chance to make an impact. It finished its financial year (30 June) ahead of prior year and with a good order pipeline to support the FY2022 forecast.

HEL continues to develop its equipment range, having launched a new user interface earlier in the year which can be applied across all the product range, old and new. It is working towards the launch of an improved 'bio' product range to accelerate into this growing market later in the year. Management is confident of significant growth beyond its initial business plan.

Doree Bonner

Doree Bonner is one of the UK's leading relocation and storage companies. The group offers three core services of storage, relocation and disaster recovery for both residential and B2B customers across the UK and internationally. Connection Capital clients provided a £2.8m loan with equity 'kicker' to the business in 2019.

The buoyant UK housing market, which by and large remained open and active during lockdown, has been a key driver of performance throughout 2021. Whilst commercial and public sector activity did pause as offices closed, this market has also re-energised, pushing the company back to record trading levels in 2021.

Funds commentary

At the beginning of 2021, I highlighted several fund strategies that I felt were capable of performing strongly, due to the stage of their respective market cycles, and which we thought would be attractive, diversified, additions to the portfolios of our private clients.

Lorna Robertson
Head of Funds

These strategies included short dated opportunistic credit, structured credit, secondaries and private equity funds focused on turnaround investing and venture/growth. I'm delighted to say that over the past eight (busy) months we've been able to offer a substantial number of diversified opportunities across all, raising over £30m from our clients (and over-subscribed on several of our allocations) across seven different managers.

Over the period our clients have gained access to opportunities that other private investors would be extremely hard pushed to match.

Due to the extensive relationships and networks our team have nurtured in the alternative funds and investment industry, our clients have gained proprietary access to opportunities that other private investors would be extremely hard pushed to match. For example, the deep-discounted portfolio of tech and life sciences stocks acquired by Hambro Perks from motivated seller, Invesco. Or DN Capital's Global Venture Capital Fund V, from the stellar performing DN Capital camp.

Opportunistic strategies such as these were complemented over the period by credit strategies from managers with an interesting angle on the asset class. For example, SCIO, which focuses on the underserved sub £25m European corporate loan market, or Permira Credit's Sigma 6, which focuses on CLOs, an asset class that has been resilient since the pandemic struck.

Of course, these themes remain relevant and, if you missed out first time round, don't worry we'll be re-opening many of the opportunities over the next few months. But what else are we looking to add?

Looking forward to Q4 and into 2022, the pipeline of attractive fund opportunities continues to be strong and I am focused on looking for the differentiators and out-performers in their field. The demand for bespoke, hybrid capital solutions in Europe continues to grow and we will be looking to bring a strategy for a widely experienced manager that partners with entrepreneurial businesses to provide flexible growth capital.

Playing to current themes, the continued expansion in deep tech continues to accelerate and our partnership with the specialist in the sector, IQ Capital, will mean we can offer clients access to its fourth venture fund over the coming months. I also expect to explore a participation in the growing fund secondaries asset class as well as a more opportunistic turnaround fund of fund specialist. Both strategies will be shared with you before the end of Q1 2022.

We expect to offer exclusive co-investment opportunities in direct private equity transactions.

Co-investments on the rise

Our relationships and reputation as a funding partner also mean we're seeing an increasing number of co-investment opportunities. These often arise where a fund is selling down part of an investment already completed, in order to avoid concentration risk. In addition to the fund strategies listed above, we therefore, expect to be able to offer some exclusive co-investment opportunities in direct private equity transactions, which are expected to be for companies at a higher enterprise value than our own SME team focus on.

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Fund portfolio highlights

Here we look at some of the most interesting updates from our fund portfolio over the period.

DN Capital Global Venture Capital Funds

DN Capital is a global early-stage venture firm, founded in 2000 and based in London, Berlin and San Francisco. It focuses on Seed, Series A and select Series B opportunities in Europe and North America. Connection Capital clients have been able to access DN's last three growth funds, most recently DN Capital V.

The manager has seen four IPOs for its portfolio companies this year, beginning with the IPO of auto1 in February, which was worth 3.5x the entire of Fund III. The most recent was mobile payments service provider, Remitly, which made its Nasdaq debut on 5 October, 23% ahead of its IPO price, valuing the company at c$8.5bn.

Life Sciences Partners 6

Europe's largest investor in late-stage medical technology, Life Sciences Partners (LSP), has made a number of investments from its sixth vehicle since February. During the second quarter, the Fund made new investments in T-Knife €14.7m (cancer therapeutics), Binx Health €13.1m (FDA approved treatment for STDs), Xilis €10.5m (cancer diagnostics platform) and Innovative Molecules €3.3m (clinical herpes drug treatment), and follow-on investments in DNA Script €2.5m, Vico Therapeutics €2.0m and FoRx Therapeutics €1.1m.

LSP expects to complete the portfolio by the end of Q4 2021, the life sciences sector remains fundamentally robust with large pharmaceutical companies continuing to acquire smaller companies and in-licensing of products.

Capital Dynamics Clean Energy Infrastructure Fund VIII

The Fund held its final close in September 2021 and has now been officially classified as a "Green" Fund under Sustainable Finance Disclosure Regulation – 'SFDR' Article 9. The clean energy infrastructure team have also been recognised for the third year in a row as "Sector Leader" and received a #1 ranking in Renewable Power, Renewable Power Europe, Renewable Power Americas, and Renewable Power Private Equity from GRESB, a leading ESG benchmark for real estate and infrastructure investments globally. Over the period they also won "Renewable Investment Company of the Year" award at the Better Society Energy Awards 2021.

With COP26 and the recent release of the world's largest ever report by the UN on the effects of climate change, CEI VIII has always had sustainability as a core objective and the Capital Dynamics global clean energy infrastructure team remain wholly committed to investing in carbon-reducing, renewable energy power generation.

Private equity is not the bad guy: it's SMEs' lifeline to recovery

Claire Madden
Founder and
Managing Partner

Private equity has been hitting the headlines for all the wrong reasons again recently, with the industry being branded as the bad guy for snapping up pandemic-hit businesses, and causing controversy over its handling of the takeover of major household names, like Asda (at the time of writing this we may be about to add Morrison's too). But private equity's role as pantomime villain is overdone. At this economic crunch time, it could actually turn out to be the hero – for UK SMEs at any rate.

While news reports tend to focus on the big leveraged buyouts, what's often overlooked is the vital, constructive role that private equity plays in funding the growth of small and medium-sized enterprises (SMEs) which make up the vast majority (98%*) of UK plc. Latest figures from the British Venture Capital Association (BVCA)** show that in 2019, more than £10billion was invested by the private equity community in UK venture capital, growth capital and buyouts, with over 1,500 businesses benefitting.

In a prosperous economic climate, that investment enables entrepreneurial ambition to take flight, expansion plans to be put into action, new jobs to be created and tax receipts to swell. In tougher times like these, it can help sustain sound businesses through temporary challenges, underpin future growth potential, protect jobs, maintain the tax base and keep entrepreneurship alive, so that those businesses can both drive – and take advantage of – recovery when it comes. And private equity firms currently have significant "dry powder" ready to deploy.

That matters because bank lending may not be the funding solution to save the day for much longer. Once banks' commitments to fund government loan schemes are over, will they be willing or able to lend more or restructure existing debt on favourable terms? Many small businesses were dismayed to find that bank lending was in short supply in the years after the financial crisis, and they will be understandably concerned that this time round, the answer could again be: no.

> Private equity plays a vital role in funding the growth of small and medium-sized enterprises.

Availability of finance is not the only issue, however. The way in which it is provided is also important. Bank lending is often constrained by rigid rules dictating who can borrow and on what terms. Loans are invariably amortising, so that companies are focussed on paying down debt, leaving limited headroom to use the cash to drive growth. Moreover, banking covenants can be very restrictive and obtaining further funding, if the need arises, is often challenging.

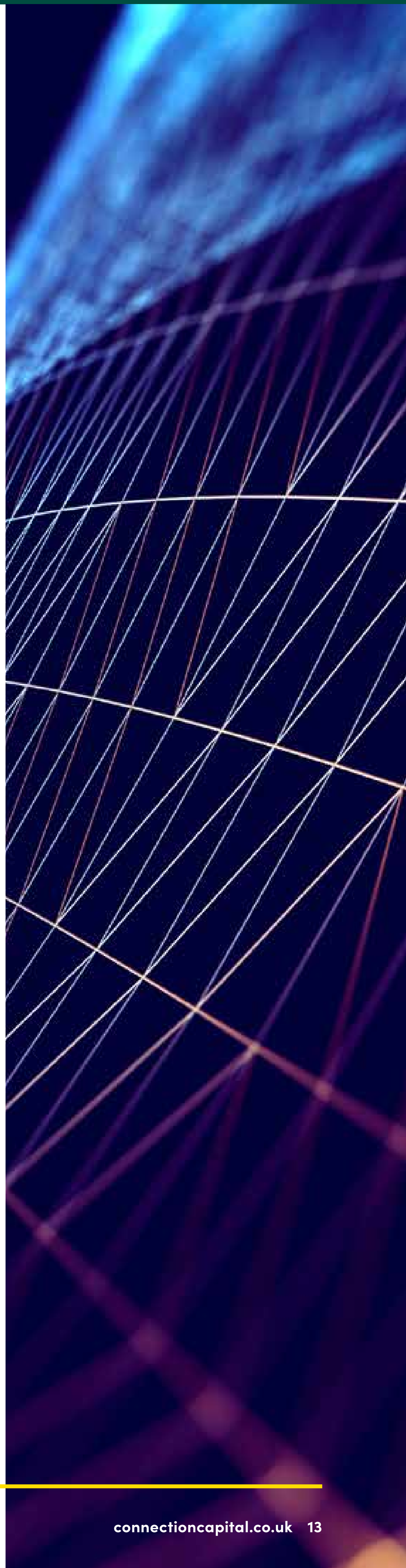
By contrast, private equity has the flexibility to structure transactions on their own merits, in whatever way best suits the business' needs and promotes value creation.

What's needed now is not a debt fuelled recovery, but an equity supported one.

Another positive feature of private equity is that it is focussed on long-term gain rather than short-term targets. As a result, privately-owned businesses often are in a better position than publicly-owned ones to implement investment and growth strategies with longer time horizons or to pivot into new markets. This is not about making a quick buck. In fact, private equity investors are often prepared to take a short term hit to profitability to help create sustainable business models that perform better over time.

Put bluntly, without private equity investment, many previously successful businesses may not make it in a post-Covid world. Private equity players are stepping in to save viable SMEs that are otherwise at risk of going bust or becoming 'zombies', providing them with capital that is structured in a way that gives them room to breathe, re-position and come back fighting. Yes, private equity is having to take an opportunistic approach, but at a time when agility is widely seen as a sensible – even essential – business strategy, surely that's a good thing?

What's needed now is not a debt-fuelled recovery, but an equity-supported one. SMEs played a central role in powering the rebound from the last recession and they will do so again this time, but they will require permanent equity capital as a solid, sustainable way to fund growth. From some of the recent news articles, business owners and entrepreneurs – and the public at large (who are often beneficiaries of private equity through their pensions) – could be forgiven for viewing private equity with some suspicion. They shouldn't. It could turn out to be the lifeline SMEs need.



*Source: https://www.gov.uk/government/publications/small-and-medium-enterprise-action-plan#:~:text=Small%20businesses%20make%20up%2098,the%20supply%20chain%2C%20by%202022.&text=As%20SMEs%20make%20up%20a,ensuring%20the%20economy%20grows%20sustainably

**Source: https://www.bvca.co.uk/Portals/0/Documents/Research/Industry%20Activity/BVCA-RIA-2019.pdf

This article first appeared in CITY A.M. on 15 September 2021.

Commercial property commentary

Dominic Wright from our property partner, Riverside Capital, provides an update on the UK commercial property market.

In stark contrast to H1 2021, there is, all of a sudden, an upbeat mood across most commercial property markets. As we move in to winter the metaphorical sun is once again shining after five difficult years.

Overall investment volumes for the year stand at £42 billion and look likely to exceed the £50 billion mark. Investor sentiment remains high for the industrial sector with the £12 billion of deals already transacted this year surpassing previous annual records. Retail warehousing has also seen an uptick in investor demand with yields moving in. The average prime yield sits at 5.04% according to Savills, which is the lowest since the Covid 19 pandemic began. Problems remain with high street retail, leisure parks and shopping centres, but these are the only sectors where there is negative sentiment.

Property performance is loosely linked to inflation and has a much stronger link to economic performance. Property yields did not track 10-year gilts down to record lows, meaning that a tightening in monetary policy is unlikely to reverse the inward yield movements we have seen. With 2022 likely to see continued growth in GDP, the overall prospects for commercial property values remain strong.

London offices now provide a particularly attractive opportunity for investors and there is a clear arbitrage opportunity for those able to take advantage of this situation. A two-tier market is materialising, with the best space achieving record rents, and the worst being almost unlettable at any price.

Investment markets are experiencing something very similar, with the best buildings being sold at record pricing and older properties that are unable to offer the modern tenant exactly what they want, seeing value falls.

Investment transactions in The City were over £1 billion in September representing the busiest September ever, and this demand has caused prime yields in the City to have moved from 4% to 3.75%. European buyers were the most active acquirers, accounting for 29% of total volumes. It is a similar story in London's West End with high demand for assets and stable yields at 3.25%. Again, European buyers make up for a large proportion of buyers.

Sherborne House

Riverside Capital has launched its Cannon Street property, "Yarnwicke", to the tenant market. Formerly known as Sherborne House, the building, currently undergoing extensive refurbishment, has been launched alongside a brand new website. On completion of works in Q1 2022, Yarnwicke will provide five newly refurbished floors totalling 37,000 sq. ft., generous terraces with City views and luxury amenities. You can take a look at **www.yarnwicke.com**

Introducing new members of our investment team

As private investor appetite for alternative investments grows, so must our investment teams to keep up. We are delighted to welcome Lucy Merson, Laura Scott and Anas Afzal to Connection Capital.

Lucy Merson, Investment Manager

Lucy has joined our SME Investment team from BDO LLP where she qualified as a chartered accountant and earned her stripes in audit, before moving into Corporate Finance in 2018 advising high growth businesses seeking funding.

As an Investment Manager she will cover the complete lifecycle of a business' interaction with Connection Capital, from sourcing prospective portfolio companies and transacting with those companies, through to working alongside management teams to achieve a successful exit.

Lucy graduated from the University of Exeter with a degree in Spanish and Mathematics.

Laura Scott, Investment Executive

Laura is the second addition to our SME Investment team over the period and joins from Grant Thornton where she qualified as a chartered accountant, before moving into the corporate finance team in 2019, specialising in providing transaction advisory services in respect of SMEs on both the buy-side and sell-side.

As an investment executive, she will support the investment team in sourcing, executing, and managing prospective portfolio companies.

Laura graduated from Imperial College London with a degree in Biomedical Engineering.

A new addition to the Funds team: Anas Afzal

We are delighted that Anas Afzal has joined our Funds team as a Fund Associate to work alongside Lorna Robertson. He joins from Aberdeen Standard where he was a Portfolio Analyst on the Fixed Income team.

Anas will work alongside Lorna to source and identify new fund managers and strategies that we believe will be attractive to our clients and complementary to our existing fund portfolio.

He holds an MA in Accounting and Finance from the University of Aberdeen and an MSc in Financial Technology from the University of Strathcylde.

Our new office: we are moving

Due to 'one thing or another', it's been a while since we have been able to host clients at our office but we are hoping that will be able to change from January when we expect to be in our brand new long-term home.

Our new office is just around the corner from our old office. It is located just north of Oxford Street, between Oxford Circus and Tottenham Court Road tube stations.

The address is:

Connection Capital
85 Newman Street
London
W1T 3EU

If you would like to pop in and see us for a chat about your portfolio, our pipeline, or just to say hello, please let us know.

Connection Capital
020 3696 4010
www.connectioncapital.co.uk

Don’t miss out

Register at:

www.connectioncapital.co.uk/client-registration-form

to view our investment opportunities

Important information

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