AN ACTIVE OWNERSHIP MODEL DRIVING RETURNS WELL IN EXCESS OF PUBLIC MARKETS

Private equity-backed companies are all around us, touching our everyday lives from food and consumer goods, to healthcare services, software, travel and leisure. Most sectors in almost every developed economy have companies owned and funded through private equity investment.

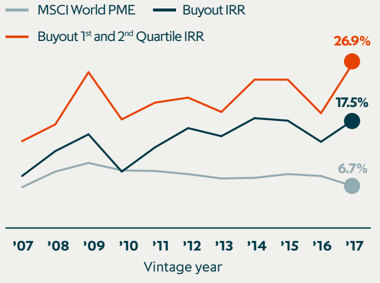
With many of the world's largest and most sophisticated institutional investors and pension funds increasingly allocating capital to private equity, the asset class has gone from alternative to mainstream, with an estimated $4.0 trillion of assets globally. Investors are attracted by both the higher returns on offer and the wider opportunity set available, as the number of companies in private markets far outweighs those on public markets.

OUTPERFORMANCE OF PRIVATE EQUITY VS PUBLIC EQUITIES

Private equity's active ownership model has outperformed public markets equivalents ('PME') in 19 out of the last 20 years.

This outperformance is even more pronounced for top quartile funds, highlighting the importance of manager selection.

RELATIVE PERFORMANCE OF BUYOUT FUNDS VS MSCI WORLD INDEX (%)



Source: Hamilton Lane Market Overview 2019.

A RAPIDLY EXPANDING ASSET CLASS

>8x

GROWTH IN THE NET ASSET VALUE OF PRIVATE EQUITY SINCE 2000

Source: McKinsey Global Private Markets Review 2020.

3.5x

NET ASSET VALUE FOR GLOBAL BUYOUTS HAS GROWN 3.5X FASTER THAN THE PUBLIC MARKETS

Source: Bain & Company Global Private Equity Report 2020.

$4TN

VALUE OF PRIVATE EQUITY ASSETS GLOBALLY

Source: 2020 Preqin Global Private Equity & Venture Capital Report.

ACCESSING COMPANIES AND SECTORS NOT AVAILABLE ON PUBLIC MARKETS

The number of public companies has been shrinking over the last 20 years across all major markets, reducing choice for investors and concentrating value in sectors such as natural resources, financials and, in the US, large technology companies.

In contrast, the number of companies in private markets has been growing over the same period. In the UK alone there are over 4,300 private equity-backed businesses, more than double the number of listed companies.

Without exposure to private equity, investors are not able to access the complete equity market.

40%

REDUCTION IN THE NUMBER OF PUBLIC COMPANIES IN THE US IN THE LAST 20 YEARS

Source: McKinsey, BVCA.

HOW DOES PRIVATE EQUITY CREATE VALUE?

Private equity is an active ownership model, with managers typically acquiring controlling stakes in companies and creating value by growing and improving them.

Active and hands-on engagement

Private equity managers drive value by actively working with company management teams to deliver strategic change, operational improvements and financial discipline.

A long-term investment horizon

With a typical investment holding period of between four and seven years, private equity is able to prioritise fundamental value creation over short-term profit targets which can sometimes deter quoted companies from making sensible long-term investment decisions.

Focused stakeholder group and strong alignment of interest

The smaller number of stakeholders, compared with public companies, enables more nimble decision making. Remuneration prioritises equity incentivisation, aligning management teams with the private equity managers and their investors.

Extensive due diligence

Private equity managers invest after a long period of deep investigation, in most cases alongside the company's management team. Private equity managers are typically sector focused and have detailed knowledge of the company's competitive landscape. This informs the investment decision as well as the strategy for the business, should it be acquired.

Governance and responsible investing

Strong governance is a core tenet of the private equity model. With increasing evidence that companies with sound Environmental, Social and Governance ('ESG') principles will outperform, private equity managers are increasingly considering ESG issues at all stages of the investment cycle.

Exit planning

Ultimately, all private equity-backed companies are for sale. Positioning a business to attract interest from a range of potential purchasers is fundamental to the investment process.

WHAT DOES AN ACTIVE AND HANDS-ON APPROACH INVOLVE?

When you invest in private equity, you are investing in the skills and expertise of the manager to identify and work with companies to unlock growth. Managers are actively involved in the running of the businesses they invest in, directing them through board representation and governance rights as well as, typically, through majority shareholdings.

Strategic change

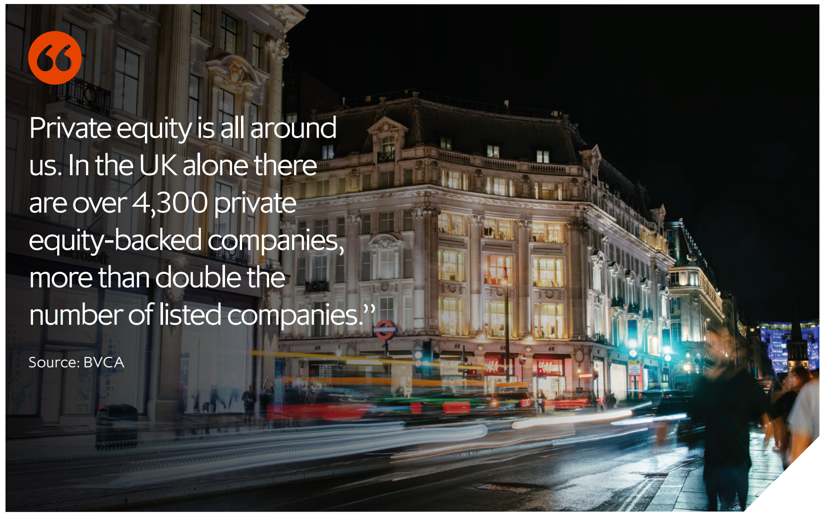
Strategic repositioning can include expansion into new markets or business lines, rolling out sites or growing companies through acquisition. Private equity managers use their commercial acumen to direct management to prioritise strategies that maximise long-term value.

Operational improvement

Most leading private equity managers have in-house specialist teams whose sole focus is to work with company management teams to maximise efficiencies and drive sustainable growth. Examples include improving procurement, sales force effectiveness and optimising operating models. Close lines of communication mean that any issues can be identified early and action taken to preserve value.

Financial discipline

Private equity managers bring significant financial and capital markets expertise, ensuring companies have access to competitive financing solutions and the right capital structure to withstand economic uncertainty. They also encourage discipline with respect to capital expenditure decisions and working capital management.



HOW DOES LISTED PRIVATE EQUITY FACILITATE ACCESS TO THIS ASSET CLASS?

TRADITIONAL PRIVATE EQUITY		LISTED PRIVATE EQUITY
► High minimum commitments (typically £5m+)	VS.	► Low minimum investment
► 10-year commitment to a fund with limited to no liquidity		► Closed-end structure provides liquidity, shares traded daily
► Diversification requires allocation to multiple managers		► Access to experienced investment teams, with access to high-quality managers and/or deal flow
► Leading managers are often closed to new investors		► Benefit from a diversified underlying portfolio
► Significant administrative and tax reporting burden		► Investment trust structure allows for re-investment of capital proceeds, tax free – compounding returns
► Ongoing cash management requirement		

Private equity is not a simple asset class to navigate, barriers to entry are high and manager selection is key as the dispersion of returns is far wider than other asset classes. To safeguard against mediocre returns, extensive due diligence on the private equity manager, its track record, investment strategy and competitive differentiators is essential, as are strong relationships with those top performing firms, as the funds they manage are often hard to access due to huge investor demand. It is also an illiquid asset class and traditional private equity funds are difficult for most private investors to access. Minimum commitment sizes are typically at least £5m, and investors commit to a long-term obligation to fund investment programmes, typically through a 10-year fund.

Listed private equity companies are 'evergreen', reinvesting proceeds from the sale of investments, free of capital gains tax, into new investments, compounding returns and providing shareholders with long-term capital appreciation. In addition, recognising the importance of a reliable source of income for shareholders, some listed private equity companies pay dividends from realised capital profits, allowing shareholders to participate, to some degree, directly in the proceeds of the realisations from the underlying portfolios. The long-term horizon of private equity means that listed private equity is best suited to long-term holding, rather than frequent trading.