

# PRIVATE EQUITY FOR THE INDIVIDUAL INVESTOR: UNLOCKING A GROWING OPPORTUNITY



**Private Equity (PE) as an asset class has (re)entered a Golden Age**, having weathered the 2008-2009 crisis successfully, with Assets under Management (AuM), now standing over \$4 trillion globally, thus surpassing the size of AuM in the Hedge Fund industry\*.

This positive trend is supported by:

- The PE industry's long term outperformance of public markets (annual IRR\*\* of 10%+ net of fees), combined with lower relative volatility and de-correlation from the stock markets.
- The low-interest rate environment that forces investors in traditional asset classes to look further afield and helps LBO managers leverage their investments.

As an illustration, PALICO, the online platform dedicated to PE practitioners, recently published data showing that net distributions by PE funds topped \$500bn in 2015.

**Looking more closely at the PE industry the rise and rise of Family Offices as a new breed of investors is a trend that cannot go unnoticed:** In July 2015 a Forbes article titled "Individual Investors and Family offices are The Rising Power in Private Equity" illustrated this fact.

This is particularly true of Single Family Offices (SFOs): In the US 70% of them maintain allocations between 10% and 20% to PE, while another 20% of SFOs are putting 20% or more of their portfolios into PE (according to a survey mentioned by Alan Rus Prince (<http://www.forbes.com/sites/russalanprince/2016/03/30/why-single-family-offices-invest-in-private-equity-funds/#6b6d3bca1c09>). Closely related to this, is the trend of growing investment outside traditional fund structures, namely co-investment, direct investment and separate accounts.

Especially for the wealthiest among investors, investing directly in companies or via Club Deals is increasingly important, but this remains a very exclusive privilege of those with the ability to put several (tens of) millions of dollars in a single investment.

**More generally, the advent of the individual investor in PE is a reality that is here to stay with 77% of PE managers saying they had solicited capital from high net worth individuals** according to another recent survey by PALICO.

**But accessing PE can still seem a challenge for the less wealthy investor** given the:

- Relatively high minimum entry ticket
- Proprietary nature of PE that remains a cottage industry with a multitude of investing stages, investment types that are not widely available to the public
- Lack of liquidity with long lock up periods (up to 10 years typically) and the lack of yield
- High cost structure with a traditional "2-20" fee model, which can be seen as a deterrent.

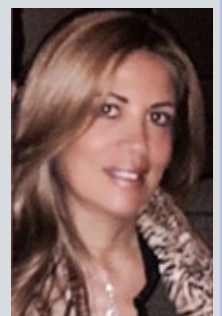
**Yet there are increasingly numerous solutions available to the High Net Worth Investor keen to diversify into PE:**

- These range from the long established funds of funds that offer vehicles now accessible to less wealthy investors, to Multi Family Offices putting together dedicated structures with low entry tickets and prepackaged diversification (so called Feeder Funds).

Express bio -

**Rajaa Mekouar** joined Fuchs in December 2015 to set up the PE division  
20 years of professional experience including 14 years in PE:

- GP roles at: Draper Fisher Jurvetson ePlanet Ventures, Lazard European Private Equity Partners, Change Capital Partners, Serendipity
- PE advisor/LP at: Massena Partners, Terra Magna Capital, Maera Capital
- Across diverse PE strategies (VC, LBO, Real Assets, Emerging Markets)
- Started her career at Procter & Gamble and Dresdner Kleinwort (M&A)
- HEC Grande Ecole and MBA INSEAD Graduate.



- The offering includes allocations to secondary funds as an alternative way to get into PE with shorter lock up periods and real asset-based specialists vehicles (e.g. pharmaceutical royalties) that can generate recurring yield to the investor.
- Some PE managers are also increasingly creative to ensure faster distributions and strive to break away from the traditional fee models for their investors.
- The latter also innovate in terms of cash drawdowns to minimise its effect on IRR.

**The attractiveness of PE is further facilitated by the fact that specific segments are showing unprecedented growth opportunities**, including:

- Secondaries are increasingly attractive for investors seeking liquidity and discounts in this segment are now at “fair” levels.
- Emerging Markets, recently battered on the stock markets, allow attractive entry valuations and therefore higher relative returns in PE as consumption of the middle classes remains unabated
- European Venture Capital, where competition is less stiff than in the US but Tech entrepreneurs are of top quality across a number of hotspots from Berlin to London. Even in Luxembourg, FinTech for example, is a very dynamic area with considerable opportunities for the investor.

**What remains critical for the individual investor to have a successful experience in PE is to have the right access and canvas of analysis to:**

- Rightly evaluate his/her appetite for diversification and potentially higher returns in exchange for longer term commitment
- Detail his allocation preferences in terms of investment stages and geographies
- Analyse the PE fee structure and its long term impact on the return.

**Last but not least having a trust-based relationship with the PE manager is paramount to facilitate a successful investment experience**, as PE remains an industry of people for people. This means that for the profane investor, seeking professional advice is a great starting point.

*PE is a new area of expertise at Fuchs Group:*

*We are now in the process of developing a range of solutions for clients, asset managers and individual investors interested in diversifying their allocation into the PE. To this effect we emphasise our ability to access qualified and proprietary deal flow, whether it is to invest in funds, direct opportunities or diversified vehicles. This was built on years of experience as trusted PE investors and advisers.*

*Fuchs Group is a full member of the Luxembourg Private Equity Association (LPEA) and is represented on its board by Rajaa Mekouar.*

\* Deloitte analysis – 2016 – includes all private strategies

\*\* IRR = Internal Rate of Return, the discount rate that makes the net present value of all cashflows equal to zero