



PRIVATE EQUITY: FROM ENTREPRENEUR TO ENTREPRENEUR

The private equity market has long been confidential and the exclusive preserve of professional investors, but is now appearing in a growing number of portfolios that wish to more directly participate in the development of the real economy. These are long-term investments that facilitate diversification and are a means of supporting the growth of unlisted companies. They are also a way of meeting the major challenges that lie ahead of us.

A STATE OF MIND

As a bank run by entrepreneurs for entrepreneurs, Edmond de Rothschild has always maintained the link between finance and the real economy. This can be seen in the family's visionary investments in the 19th century to support the development of railways in France, and in the 60s when Baron Edmond de Rothschild invested in a number of companies, including Club Med, Hachette and Publicis, to support their growth.

AN ENTREPRENEURIAL APPROACH TO FINANCE

By its nature, private equity epitomises an entrepreneurial approach to finance more than any other asset class. It is able to tangibly assist entrepreneurs with the development of their business plans, and also to monitor the implementation of their strategies. This support may be given alongside help with governance, and strategic and operational advice. As highlighted by Johnny El Hachem, CEO of Edmond de Rothschild Private Equity SA: "In our business, entrepreneurs prefer to speak to other entrepreneurs. This creates certain responsibilities, such as actively managing our investments throughout their life cycles, and systematically co-investing in our funds to align the interests of the investors in and managers of the unlisted companies that we finance".

BETWEEN DIVERSIFICATION AND RESILIENCE

Private equity currently remains attractive for several reasons. Firstly, because entering the private market enables a positioning in high potential themes. Secondly, because it is a way of gaining access to diversified sectors, strategies or assets that are not necessarily available elsewhere. A study¹ has also shown that private equity funds launched during periods of crisis have a greater chance of outperforming over the long term. This is the case particularly for products known as crisis vintages, created during certain catastrophe-hit years, such as 2001 to 2002, which saw the bursting of the internet bubble, and 2008 to 2009, when there were the subprime and financial crises. If this temporal parameter is accompanied by careful attention to the sectoral maturity of the region being invested in, there is a strong chance of this improving the investments' resilience and potential yield. Being more agile and having more flexible financing options, unlisted companies also have more time to roll out their action plans and create value. This is another factor that argues in favour of higher returns². This does not make unlisted companies immune to economic ups and downs, however. This is why private equity requires a long-term commitment, as well as constancy and consistency in its investments.

A RESPONSE TO SUSTAINABILITY CHALLENGES

Among the characteristics that make private equity a unique asset class, the time horizon and practical aspect of the solutions that the companies introduce make it a real tool for responsible transformation. Indeed, the long-term approach and continuous dialogue between finance professionals and business owners mean that the vagaries of fashion can be avoided, which fosters activities aimed at dealing with the major social and environmental concerns of our time. "A good business owner must have a direction and a vision, while also staying humble", adds Johnny El Hachem. "Their role is vital, as the stability of the business model depends on them, a stability that is needed to ensure the sustainability of the company's activities and the best terms for its sale".

MEGATRENDS AS A CATALYST OF CHANGE

Private equity is a real laboratory for financial innovation, as it also promotes forward-looking solutions. Its strategies must therefore concentrate on companies exposed to various megatrends that are set to last. Edmond de Rothschild has identified several of these, which are focused on themes such as the climate, energy, food, supply and production chains, the development of human capital, technology and emerging regions.

¹ "Private Equity and Financial Fragility during the Crisis", Shai Bernstein, Josh Lerner and Filippo Mezzanotti, July 2017

² According to the MSCI AC World index. Other source: Cambridge Associates, July 2022.

PARTNERSHIPS AND SYNERGIES

To effectively take up these challenges and find niche companies that have the ability to meet them, the Group's private equity teams have developed a unique partnership model that combines financial expertise with industrial know-how. This type of partnership should be able to cater for extremely varied situations, from selling companies to assisting entrepreneurs with the digitalisation of their business models, or developing the entrepreneurial wealth of a high potential region such as Africa. This is why we need to draw on the highly specific knowledge of experts who share both our convictions and our ambition, which is to invest in new areas while contributing to the sustainable transformation and growth of companies.

Edmond de Rothschild Private Equity SA has been a signatory of the UN Principles for Responsible Investment (UNPRI) since 2016 and was given an A rating in 2020 for 2019 for the modules covered by its reporting (Strategy & Governance, Private Equity and Infrastructure).

Edmond de Rothschild Private Equity (France) is a member of the France Invest association and a signatory of its equality and commitment charter and, since 2020, has been a member of the ESG committee and the Diversity and Talent committee.

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