

Better Capital?

Fundraising the fast way

I left Alchemy in early September and was determined to exploit the turnaround opportunities that represent the fastest-growing, if small, segment of UK private equity.

How to do it?

I have been raising traditional private equity limited partnership funds

since 1985 so that seemed the obvious route to go. However, this conventionally meant first getting a Financial Services Authority-authorized vehicle in place, which means generating a two to three-inch file of forms and then submitting it to the UK regulator. That is tedious but then the FSA tells you it will be two months-plus before they allocate a case officer and “months” thereafter. Raising capital to help troubled companies in the current economic mess is clearly not an FSA priority.

Having realised that my advancing years meant the odds of my living long enough to see the FSA approval were worsening rapidly, it became obvious a route not involving FSA approval was required. It was also obvious that raising funds for new teams from traditional private equity sources was a difficult and lengthy process involving perhaps a year, after FSA approval, to raise money in the current climate.

Innovation was required. Better Capital was set up as a Guernsey company which would be the sole limited partner in a fairly conventional limited partnership. Given the FSA issue, the activity has to be rooted firmly in Guernsey with limited onshore activity. Better Capital would then raise funds through an Alternative Investment Market flotation by selling shares in the company.

This was fast – eight weeks from first (and only) all-parties meeting to funding, with £142m before Christmas. A strong team was assembled, attracted by the pace of the process as much as by the

Guest comment

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investment opportunity.

The biggest difference is that the institutions assess public deals totally differently from private partnerships. Typically, a single demanding meeting with very sensible questions and a decision within a day or two rather than a month or three. No

futile assessment of the returns generated on the other planet of leveraged masterpieces of 2006 or other detailed diligence but actually perceptive questioning. I quite enjoyed it.

Investors were wary of public-private equity vehicles given their recent experience in SVG Capital and Candover Investments. The Better Capital vehicle was saleable because it has the characteristic of generally distributing the proceeds of its deals rather than a perpetual capital structure and it used no leverage. Investor protection is probably better in Better Capital than in a traditional fund.

The input from the team exceeded 10% of total funding. Much skin in the game to encourage investors. The independent board is just that – it has the power to enforce an effective no-fault divorce clause. The investors have liquidity (trading has been useful so far) and the protections afforded from an AIM listing. Costs and fees are similar to the private alternative. Generally the terms are investor friendly.

The biggest hurdle in marketing was the perception that the shares would inevitably trade at a discount – the distributing nature counts against this, as does the attraction of the turnaround investment focus. In the event, trading has been at around a 10% premium to the issue price. Vindication.

So far so good – now some good investments need to be made.