

Marketing material for professional investors and advisers only

# Private Equity Essentials

April 2021



Schroders

# Introduction

**Schroders has been involved in private assets for over 160 years. We have a team of specialist investment professionals around the world with deep knowledge in their specific area of the private assets landscape.**

This brochure has been designed to help explain private equity and how the Schroder Specialist Private Equity Fund can be used by investors. We will introduce and explain the following:

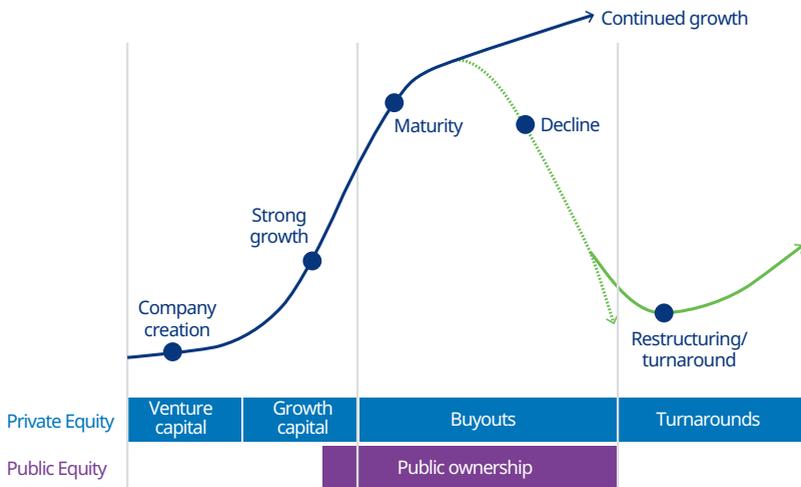
- How private equity creates value
- Private equity strategy selection and investment types
- The benefits of private equity
- The Schroder Specialist Private Equity Fund
- The role private equity can play in portfolios
- A private equity case study



# How private equity creates value

## Access to companies throughout their lifecycle

Private equity investment offers access to companies that are diverse in their stage of maturity and in their size. This access to growth and transformation transactions across the company lifecycle can boost private equity performance when compared to listed market indices as public markets typically only cater for larger company sizes which can afford to deal with the complications of listing on a stock exchange.



Source: Schroder Adveq, 2021.

# Private equity strategy selection

Private equity investment strategies are typically structured around one of four strategies.



## Venture strategies

Focus on providing funding to start-up or early stage companies. These are companies at the beginning of their journey, and the funding provided helps them to commercialise their products and services.



## Growth strategies

Focus on investment in companies that are more advanced in the commercialisation of their products and services but that still require high levels of investment to achieve their full potential.



## Buy-out strategies

Involve implementing a change in the ownership of an established company, usually to facilitate a change in management, a new strategic direction, a change in capital structure or to drive improved operational performance.



## Turnaround strategies

Usually involve investing in companies that have run into operating difficulties, and typically aim to implement significant changes to management and the company's corporate structure to help the operation become profitable.

## Investment types

The current opportunity in the private equity space takes in primary investments, secondary investments and co-investments, and they have differing outlooks in the current environment.

### Primaries

Primary investment is through several funds into portfolio companies.

### Secondaries

Secondary fund investments involve buying and selling pre-existing investor commitments to private equity funds.

### Direct/ Co-investments

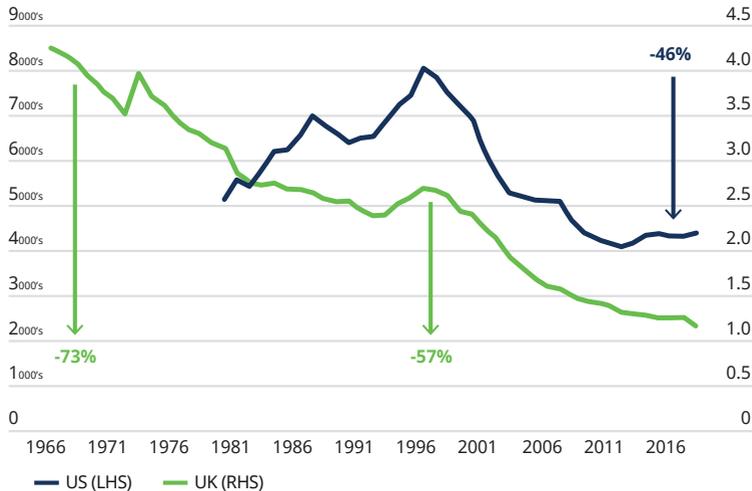
Participants directly invest into portfolio companies alongside other investors.

## Size of the private equity universe

Over the past two decades, the number of listed companies in certain markets has fallen significantly. Consequently, more private companies are available for investment. For example, across the stock exchanges of the US, Europe, Canada and Asia, the healthcare sector has an investment universe of less than 3,000 listed companies. In contrast, in the same markets, there are around 146,000 privately held healthcare companies.

One factor that keeps companies private for longer is the cost of meeting the increasing oversight and disclosure requirements imposed upon them by regulators.

## Number of listed companies in the US and UK over time



Source: London Stock Exchange, Schroders. World Bank World Development Indicators (WDI) and World Federation of Exchanges. Note: Data to end 2018. UK figures are for main market only.

The chart above shows the decline in listed companies on the US and UK stock exchanges over time. Note: the data also includes the delisting of companies due to underperformance.

# The benefits of private equity

Private equity offers the potential for enhanced overall returns and diversification, as summarised below.

	Private Equity	Public Equity
<b>Access to information</b>	Information is confidential and is usually only disclosed to investors under confidentiality agreements.	All material, price-sensitive information is publicly disclosed.
<b>Investor involvement</b>	Investors often have direct control over key decisions and strategic direction.	Passive shareholders.
<b>Ownership structure</b>	Private, often concentrated ownership.	Broad public ownership which can change from day to day.
<b>Management focus</b>	Multi-year strategic planning.	Typically, a quarterly earnings reporting cycle.
<b>Employee retention</b>	Ability to retain and attract talent by offering employees shares in the company, enabling a strong alignment between employee and company performance.	Traditional staff incentive structures (options, share schemes etc.)
<b>Liquidity</b>	Less liquid than public equity as there is no active listed secondary market for the assets, meaning that in the event that a private equity investor wishes to exit the investment, a buyer may not be readily available. Additionally, there are often restrictions on the sale of shares by investors other than in specific exit scenarios.	Shares are publicly tradeable on a stock market.
<b>Company purchase price</b>	Typically trade at lower purchase multiples.	Often trade a high multiples.
<b>Volatility</b>	Typically far lower than listed counterparts due to less frequent valuations and different valuation methodologies.	Daily valuations and trading can mean high volatility.

# The Schroder Specialist Private Equity Fund

The Schroder Specialist Private Equity Fund offers access to the expertise of Schroders' dedicated private equity team, Schroder Adveq.

## Key features



### Specialist Private Equity strategy

- Building on Schroder Adveq's 20 years relationships
- 100% private equity with a global focus
- Differentiated to other semi-liquid PE funds with a focus on SME and growth companies



### Semi-liquid

- Focus on buyouts using secondaries and co-investments
- Liquidity tools incorporated in fund design: monthly subscriptions, quarterly redemptions with a cap of 5% NAV
- Structured to provide fund liquidity without compromising returns



### Increased access and flexibility

- Available on multiple wrap platforms
- Australian feeder fund into Luxembourg domicile Schroder GAIA II Specialist Private Equity Fund

## The investment team

Schroder Adveq have over 47 investment and risk management professionals. The fund is managed by Benjamin Alt who joined Schroders in 2008. He also covers Schroder Adveq's investment activity in Europe.

### Schroders at a glance\*

We manage  
AUD **\$1,017** billion  
on behalf of our clients

AUD **\$85** billion  
in Private Assets

including  
AUD **\$15** billion  
In private equity managed  
by Schroder Adveq.

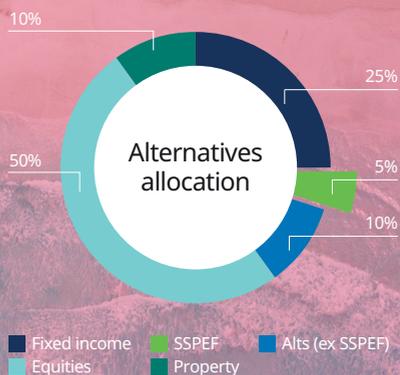
# The role private equity can play in portfolios

## How private equity can be used in a portfolio

### A component of a growth allocation



### A component of an alternatives allocation



## Case Study – European direct/co-investment

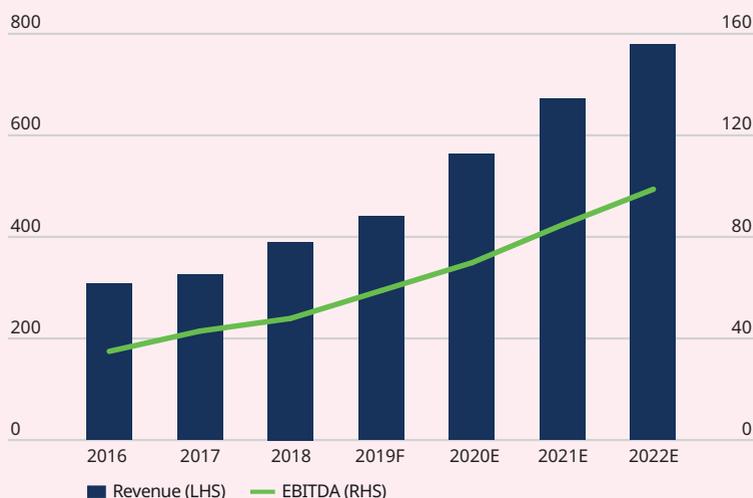
# Citri&Co

Citri&co is the largest European vertically integrated producer of citric fruits with ~450m in revenues and ~60m earnings before interest, taxes, depreciation, and amortisation (EBITDA). The business comprises four brands with market leading positions in the sales of oranges, lemons, and stone fruits in Europe.

As an integrated supplier, Citri&co is a preferred supplier for large retailers due to their product range, supply and quality, full traceability and expertise in organic farming. Schroder Adveq invest alongside Miura, a Spanish small buyout specialist focusing on investments in the Mediterranean region with deep previous knowledge of Citri&Co.

Investment thesis is based on the continuation of a well-structured growth plan: steady market share gain from cooperatives and traders, accretive buy and build and cross-selling synergies.

### Revenue and EBITDA (in € million)<sup>1</sup>



**Past performance is not a guide to future performance.**

Source: Citri&Co, Schroder Adveq, 2020.

<sup>1</sup>Entry in June 2019, data is based on the business case at entry. The companies shown are for illustrative purposes only. A full list of all investments can be provided upon request.

# About Schroders

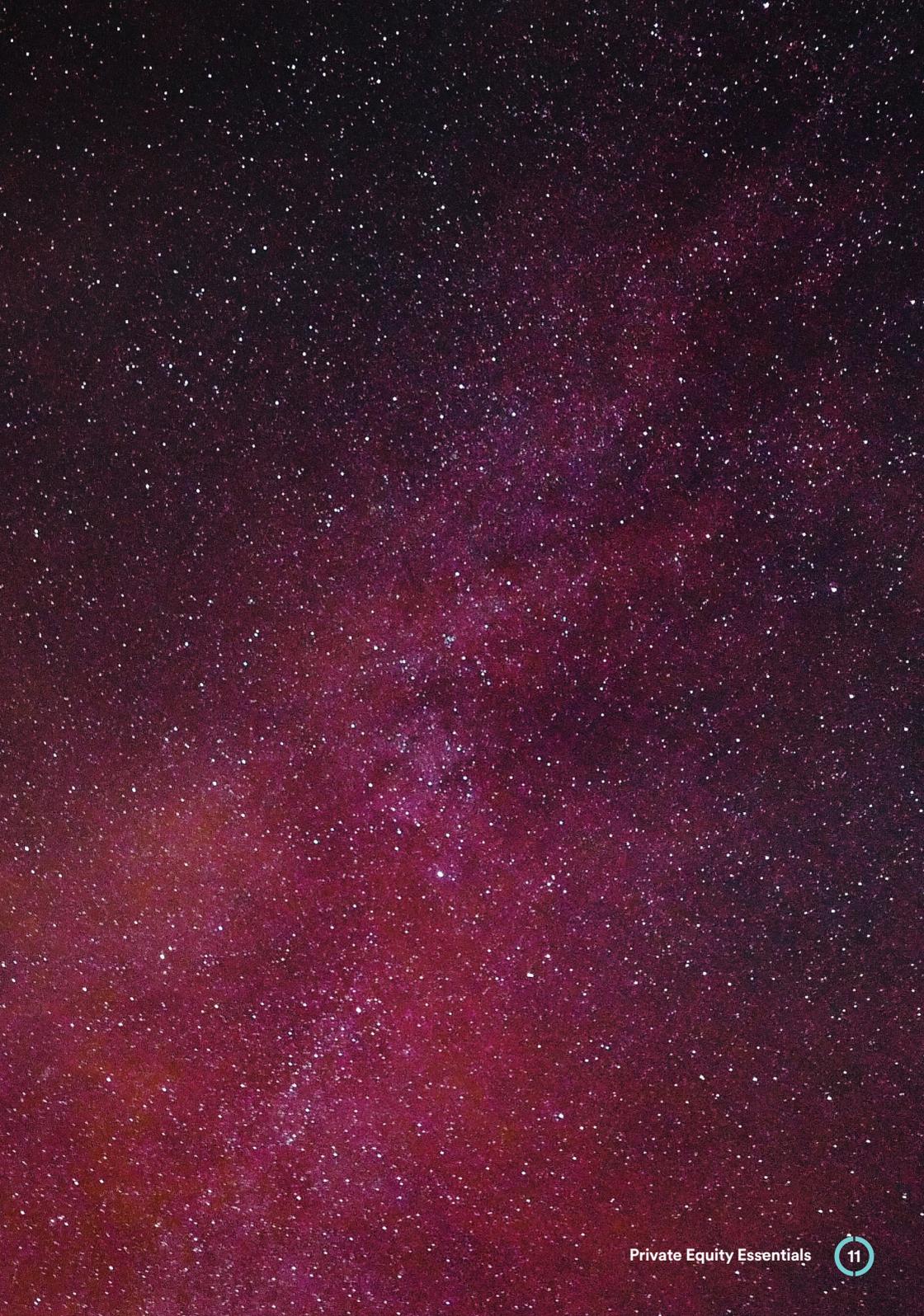
**For over 200 years and more than seven generations Schroders has grown and developed our expertise in tandem with that of our clients' needs. Today we manage AUD\$1,017 billion\* on behalf of our clients, who trust us to deliver sustainable returns.**

Schroders manages AUD\$85 billion in Private Assets, including AUD\$15 billion in private equity managed by Schroder Adveq<sup>†</sup>. The team has a solid track record of absolute and relative performance across investments strategies and vintages. It has global market coverage with the local, on-the-ground presence of an experienced and stable investment team, who work to find opportunities, long-term trends and themes to complement traditional equity and bond portfolios. In addition, sustainability is an integrated part of our investment process and Schroder Adveq is rated A+ by the UNPRI.

Schroders was established in Australia 1961 and has a broad offering for clients across Australian equities, fixed income, multi-asset and global equities. The Schroder Specialist Private Equity Fund is our first private equity fund in this market and is designed to help clients build more diversified and robust portfolios.

For more information about the Schroder Specialist Private Equity Fund, visit [schroders.com.au/privateequity](https://schroders.com.au/privateequity)

\* As at 31 December 2020



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