

A brave new world for private equity

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Whilst Aldous Huxley was mainly concerned with state control over technology, his concerns could apply equally to the macro-economic position which the world finds itself in at the moment.

The threat of recession, interest rates having risen from historic low levels, disrupted supply chains, falling demand from consumers, concerns around bank/financial system stability and a myriad of other issues have resulted in a slowdown in mergers and acquisitions (**M&A**) activity. This has also impacted private equity (**PE**) firms who saw a marked drop in deal activity, especially in Q3 of 2022.

There is however good news and opportunity within the PE sector as a whole. PE firms need to deploy the dry powder which they have held (which according to most sources still sits at record levels) and they will need to be more creative around how they use debt in their structures in order to meet their own and their investors' requirements.

During the turmoil of the Covid pandemic, PE firms were some of the strongest and most agile performers in terms of assessing market risks and opportunity and continued to do deals at this time. They will likely be quick to adapt to the changing conditions we have at the moment. One staple of the PE model is the "buy and build" strategy. Present market conditions could offer considerable deal opportunity to enhance existing portfolio business.

There will also be an increased need to look at the sectors in which PE is involved. Core PE sectors such as healthcare, technology, financial services and infrastructure all require substantial inflows of capital to continue to grow and adapt to the populations they serve.

While we have seen various forms of state intervention with the recent concerns in the bank sector, there is probably little global appetite from governments to become too interventionist in the various sectors where PE performs well. While regulation and compliance will likely increase throughout the world, well run and managed businesses should be able to adopt to new standards and adapt with more ease than some competitors.

Technology and AI in particular are hot topics with concern as well as optimism surrounding them, but investing in good companies with good products that have growth potential is a cornerstone of PE and a leading reason as to why technology investment is so popular. Investors will want responsible investing and not wish to be involved in companies or products that give rise to a reputation risk so there will inevitably be an element of self policing and control around technological investment.

ESG (environmental, social and governance) are three letters that we see often and there is probably a broad consensus that PE does well at the "E" and the "G" but could do more on the "S". The opportunity which is presented to the market now should allow an agenda to be set where PE can be seen to be a force for good in the social arena. An example is ensuring good governance and oversight within the technology space especially if businesses can tread the fine line between allowing free speech but not allowing the "trolls" to be fed. Investing in infrastructure projects which help communities with basic needs is perhaps not the most glamorous area to be in but certainly worthwhile from a social perspective.

In uncertain times it is important to focus on the positives and the opportunities which exist to improve the position for our economies and society. We are not in the dystopian future predicted in a Brave New World – we are in a much better place.

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