Jon Moulton's Diary

What trends will 2025 bring for the private equity industry?

Veteran financier Jon Moulton has been involved in buyouts, turnarounds and venture capital since 1979 with firms such as CVC, Permira, Apax, Alchemy and, most recently, Better Capital, where he has been the chair since 2009

The big trends of 2024 in the private equity world were easily spotted.

First of all, the public markets (especially in the UK) were in retreat. The AIM market has horribly declined for several years. This, increasingly, is also true of the lower market capitalisations on the Main Market where in 2024 around 90 companies came off market and only about 20 joined. The only really buoyant activity was lots of take-privates and a few migrations of ambitious companies to better listing geographies.

So private equity owns more and more. Good for our readers.

The public markets have responded too slowly to effectively counter this. Change has been grudging and hedged with rules of unnecessary complexity.

Dubious regulation

PISCES is the latest idea for private companies to have a "market" in their shares. It will not allow raising fresh equity and individual retail investors are banned from buying in this market because investors "must understand the higher risks compared to the current protections on public markets" — so says the FCA. This is supposed to be a pro-enterprise measure! And I wonder if the FCA intends to extend its world of dubious regulatory "protection" to all off-market share deals – it would seem a natural extension of this argument.

Oddly, there is opposition to manifestly sensible changes, such as allowing dual capital structures on the UK stock market. It seems that investors such as Railpen believe that offering choice in share structures would make the UK market less attractive. The idea that large investors cannot make intelligent decisions on whether they choose to invest in a given share structure is painful to consider. No one forces investors to invest in dual class companies.

The superior returns in the USA that come from (mostly tech) companies with multiple class capital structures pass by our institutions – they seem to want an easy life where thinking about (or even perhaps understanding) share structures is not part of their activity. Some 12% of the Russell 1,000 US companies have multiple classes and in France it's the majority structure, but it is viewed as poison here by some institutional investors.

The decline of the London markets offers great opportunities for private equity firms

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As long as we have a protectionist regulatory regime for the public markets then the future is bright for private equity – let's hope the regulators do not turn their attention onto us.

Turn away from woke

A trend which affects both public and private markets is the growth of the ESG, DEI and similar stuff, which generates many pages of little-read material in current annual reports. While mostly well-meaning (although also a substantial, and much appreciated, fee generator) there is increasing opposition to this activity.

The US already seems to be turning away from this "stuff" with the incoming US government largely opposed to it. The US courts have just stopped NASDAQ from introducing diversity disclosures and the new US vice-president is very "anti-woke" (a coming verb) with his proposed Dismantle DEI Act. Given the power of the USA, the UK will reluctantly, and doubtlessly belatedly, follow but while the UK lags it will lose still more market share.

Of course, many PE firms, particularly the larger ones, have seen the fundraising benefits of a conversion to woke/ESG and staffed up to show their social credentials. Perhaps this too may change. In the US public markets, you can already invest in vehicles which exclude holdings in companies that promote diversity. Change coming to PE?

Finally, as the PE market grows, investors increasingly are investing in the class rather than the manager. This favours the continuing concentration of investment into bigger and bigger funds allowing easier investment for large institutions.

This looks set to last into 2025 – at some point unexceptional smaller firms will struggle in fundraising.

So, for 2025 I see struggling UK stock markets, less emphasis on ESG and thriving megafunds. It will be interesting.

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