Jon Moulton's Diary

How the private equity world is reacting to Trump's new rules

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

I hardly dare write on the subject of the Trump Presidency. Before the ink on my printer is dry, good can become bad and possibly back again, shortly thereafter.

There is a rapid move in the private equity world to retreat from an emphasis on ESG and DEI as doing business with the US government now depends on abandoning these objectives. US corporates have hastened to comply, and the effects are percolating across the economy. CEOs are now making statements that would have caused them their jobs even a few weeks back.

It really makes you believe that many businesses, including private equity entities, subordinate ethical aims to the pursuit of profits.

This can already be seen in very recent fund pitch books where the ESG stuff has been de-emphasised — often to a page at the back!

Bribes and corruption

President Trump has pulled the plug on the 1977 Foreign Corrupt Practices Act. This Act broadly made it very illegal to give backhanders to foreign government officials. It is no longer operative but much of the western world has over the years adopted similar legislation as the US complained that it was competitively disadvantaged by other countries not having similar rules in place. However, Trump decided that the USA was still being disadvantaged and now a UK defence contractor will be at a great disadvantage in pitching against a US competitor for a corrupt regime's contracts.

Will the UK and other western countries change their law? (Yes.)

The quality of life for private equity workers could well change as a result of the extensions of this. After shovelling money into the outstretched hands of a foreign president why should the USA worry about letting the money be managed in the US. Who needs money laundering?

It seems that all the tedious, detailed and largely ineffective money laundering nonsense should rationally follow DEI into history.

And it will apparently now be legal in the US for private equity firms to bribe foreign officials over contracts to buy state assets at an undervalue or to bribe officials at sovereign wealth funds to pile into their fund (even if it does have unusually rich fees). I confidently predict an increase in highly enjoyable overseas junkets.

We are clearly in one form of trade war over the threatened tariffs and another in the descent of ethical standards into a financial wild west.

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The non-American business world is trying to digest and work around Trump's policies, actions and executive orders

Focus on defence

Meanwhile, most else of what is happening is comparatively trivial. Global macro events mean that defence focused funds have jumped in popularity – pile in!

On a relatively very minor point, I have been looking at the growth in (barely) liquid private equity/credit/secondary/direct vehicles.

These vehicles vary a lot in nature – they can be assembled by asset managers in which case they buy the assets of multiple sponsors' funds or they can be assembled by sponsors in which case they generally limit their activities to secondary instruments of the sponsor's funds.

Sponsor firms get more control in their existing investments, more fees and potentially quite sticky AuM. Attractive.

Terms vary a lot – some have very low fees (particularly on sponsor's own funds). Some happily double up with a hefty fee at the vehicle level. While the vehicles offer liquidity at net asset value (NAV), early redemptions carry a hefty fee and the amount available to service redemption requests is considerably constrained – like many a hedge fund.

Similar vehicles in property often were unable to handle redemptions when markets turned nasty. Some of these vehicles have considerable debt facilities.

One trick I thought was long gone is to buy a fund or single company investment secondary at a discount to NAV and immediately write up to the full NAV generating "performance" in the vehicle and a useful fee boost.

But it's back again!

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