



Small steps

Times are not easy in the UK's smaller deal world, says **Jon Moulton**

AIM continues to contract. From its peak number of participants in 2007 at 1,694 it has dropped steadily every year, to 753 at the end of last year. There were 10 listing cancellations in the month of December 2023 alone.

The market raised less than the cost of an outer London home (£2m) for new issues in the last quarter. There was much more end-of-year cheer in the £383m that was raised for existing AIM stocks in the same quarter. But this was still well down on previous times.

You do not have to be a financial genius to see why AIM brokers are merging. In September last year, finnCap and Cenkos completed a £43m all-share merger to create Cavendish Financial. (I should disclose that I was chairman of the former between 2018 and 2020.) Liberum and Panmure Gordon, meanwhile, completed their merger in January this year. What was a very good business 20 or 30 years ago is now barely viable, at best. It seems very hard to see the long-term decline as a cyclical thing – it looks unpleasantly like a terminal decline. Is it time up for AIM?

Simpler, less regulated markets are appearing – to date these are very small – but perhaps they will fill a gap. I'll leave that hanging there.

On a tangent, I was recently asked if patient capital generally generated better returns than venture capital. Not an easy question to answer. A quick Google search fails to give anything like a clear answer. The UK government's 2017 Patient Capital Review (chaired by Sir Damon Buffini, one of my former partners at Permira), was more a collection of opinions than a data-driven review.

Of course, we all know that far and away the best view is hindsight.

It is clearly plausible that businesses can exist that take a dozen years or so to blossom, and funding them for a shorter period through to exit would not be very economic.

Then we have the complications – and this list starts with some definitions. Generally, patient capital seems to mean holding periods of 10 years versus seven years for venture capital, and between four and six years for private equity – or some similar criterion. That, in itself, probably means that getting comparative return data of a meaningful nature will

take more than a decade. As the asset class really only got going a few years ago, logically it would be a surprise if there was a clear answer at this stage.

The case against patient capital is easy to make. Who knows what will happen in technology, or what competitive and macroeconomic change there will be, over a period of more than 10 years? A good business should surely be generating lots of cash before it is 10 years old? Patience is not always a virtue – pushing up to a deadline can be good. Some may say perhaps it is just a clever way for asset managers to collect management fees for a lot longer. Who knows how competent or interested the asset manager will remain in a decade's time? Doesn't patient capital protect poor managers?

In any case, it often doesn't much matter if owners change. Businesses can be developed under multiple owners. The generally good returns from secondary buy-outs clearly demonstrate this.

The case for patient capital is a business's investors needing long holding periods. It's not so easy to find clear examples in the world of secondary private equity investors in which we now live. Forestry is a reasonable example industry, and utilities another. But in both these cases, nowadays liquidity is obtainable. Optimum returns for the original investors may make it sensible to hang on longer rather than cede return to an incoming new owner.

Stability of ownership and strategy can be good, maybe very good. But that is not a given.

In short, the jury is out – I don't know whether patient capital is better than impatient capital. Maybe I should launch an impatient capital fund and we can wait 10 years to compare notes with my patient friends. Hopefully we can all agree to wait that long.

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