

# Alternative opportunities

Unlocking access to private  
market investments



**Connection**  
Capital



**Inflation, rising interest rates, recessionary fears and geopolitical risks have returned with a vengeance, bringing a new era of global equity and bond market volatility.**

With global economic and financial market conditions souring, seeking refuge in a traditional 60/40 portfolio mix is no longer the safe diversification play.

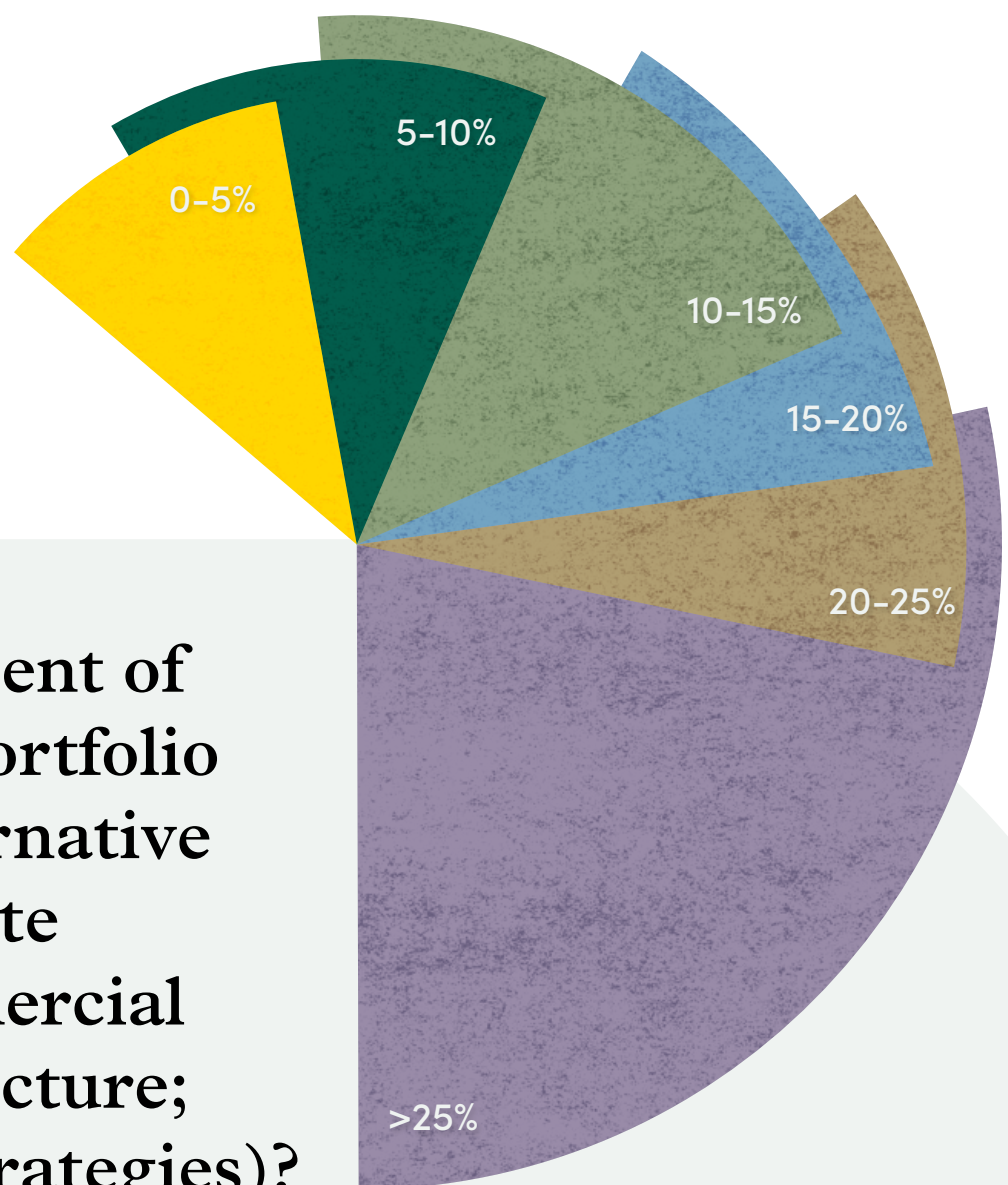
Savvy investors are turning instead to private equity and the **alternatives markets** for the opportunities they offer to target outsize returns and greater diversification.

Connection Capital's latest **Alternative Investments Survey** of its private client investors found more than 40% of respondents now allocate at least a fifth of their portfolio to alternatives, while three-quarters have an alts allocation of over 10%. <sup>1</sup>

Back in 2018, when we first began surveying our HNW/UHNW investor base, only half of the respondents allocated 10% or more of their portfolio to alternative investments.

# Q1.

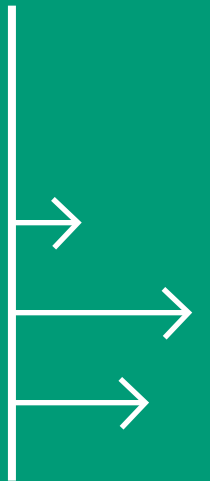
**Roughly what percent of your investment portfolio is allocated to alternative investments (private equity/debt; commercial property; infrastructure; alternative fund strategies)?**



<sup>1</sup> Encompassing private equity, private debt, commercial property, infrastructure and alternative fund strategies.



**And the trend is set to continue, with a third of investors planning to increase their portfolio's weighting to alternatives over the next 12 months. Less than 5% plan to reduce it.**



The findings echo the results of investor polls elsewhere. More than a third (35%) of the limited partners surveyed by Preqin plan to invest more in private capital over the coming year.<sup>2</sup>

Meanwhile, the latest Global Family Office Report from UBS found family offices are hunting for additional sources of return and alternative diversifiers amid continued inflationary pressure and low expected returns.<sup>3</sup> Allocations to alternative asset classes already stand at 43% among this segment, but family offices are venturing further into private markets by ramping up investments in private equity, real estate and private debt, it noted.

Sentiment towards public equity markets by contrast is far more negative. Among the respondents to the Connection Capital survey, 17% plan to reduce their weighting to quoted equities, while only 13% expect to up it.



<sup>2</sup> Preqin Investor Outlook: Alternative Assets, H1 2022, Preqin, 16 March 2022

<sup>3</sup> Global Family Office Report 2022, UBS, 8 June 2022

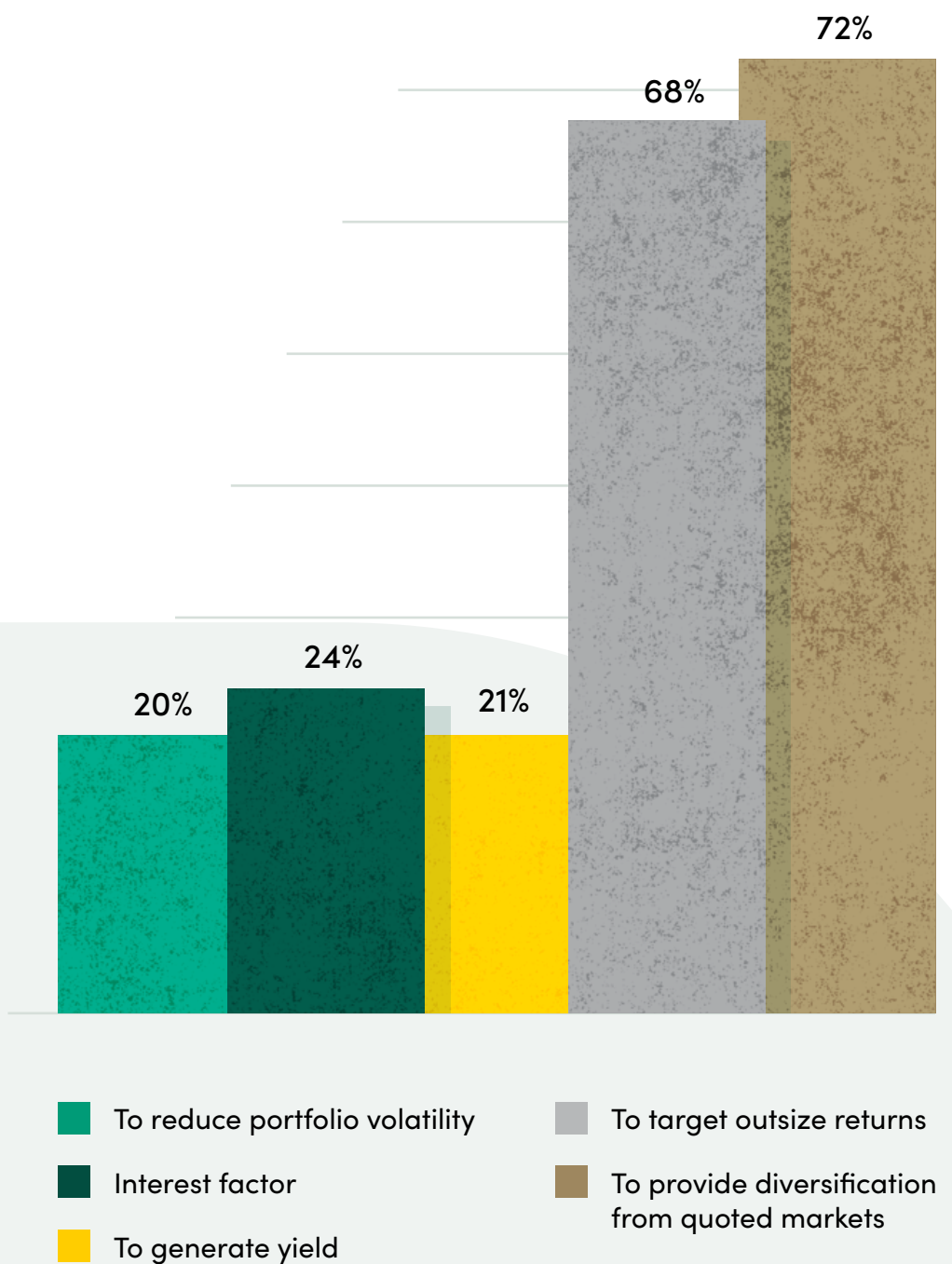
# Alternative prospects

## So why the shift towards alternatives?

The primary motives are to provide diversification from quoted markets (72%) and target outsize returns (68%).

## Q2.

Why do you invest in alternative investments?



# Why?

Private equity is a particular focus for investors. Global assets under management in private equity have swelled from \$1.72 trillion at the end of 2010 to \$6.03 trillion by September 2021.<sup>4</sup>

Preqin expects that figure to hit \$11.12 trillion by 2026.

The reason is simple: performance. Over the past decade, notes McKinsey, private equity has been the highest performing private market asset class.<sup>5</sup> Top quartile PE funds have returned 30.5% net IRR since inception, while PE's median net IRR of 19.5% outstrips the top quartile performance of all the other private market asset classes (real estate, the second best performing, achieved 16%).

PE also continues to outperform its public market equivalents. According to the McKinsey report, median funds in every PE vintage since 2009 have returned more than their public market equivalent to date.



<sup>4</sup> Alternatives in 2022, Preqin, 12 January 2022

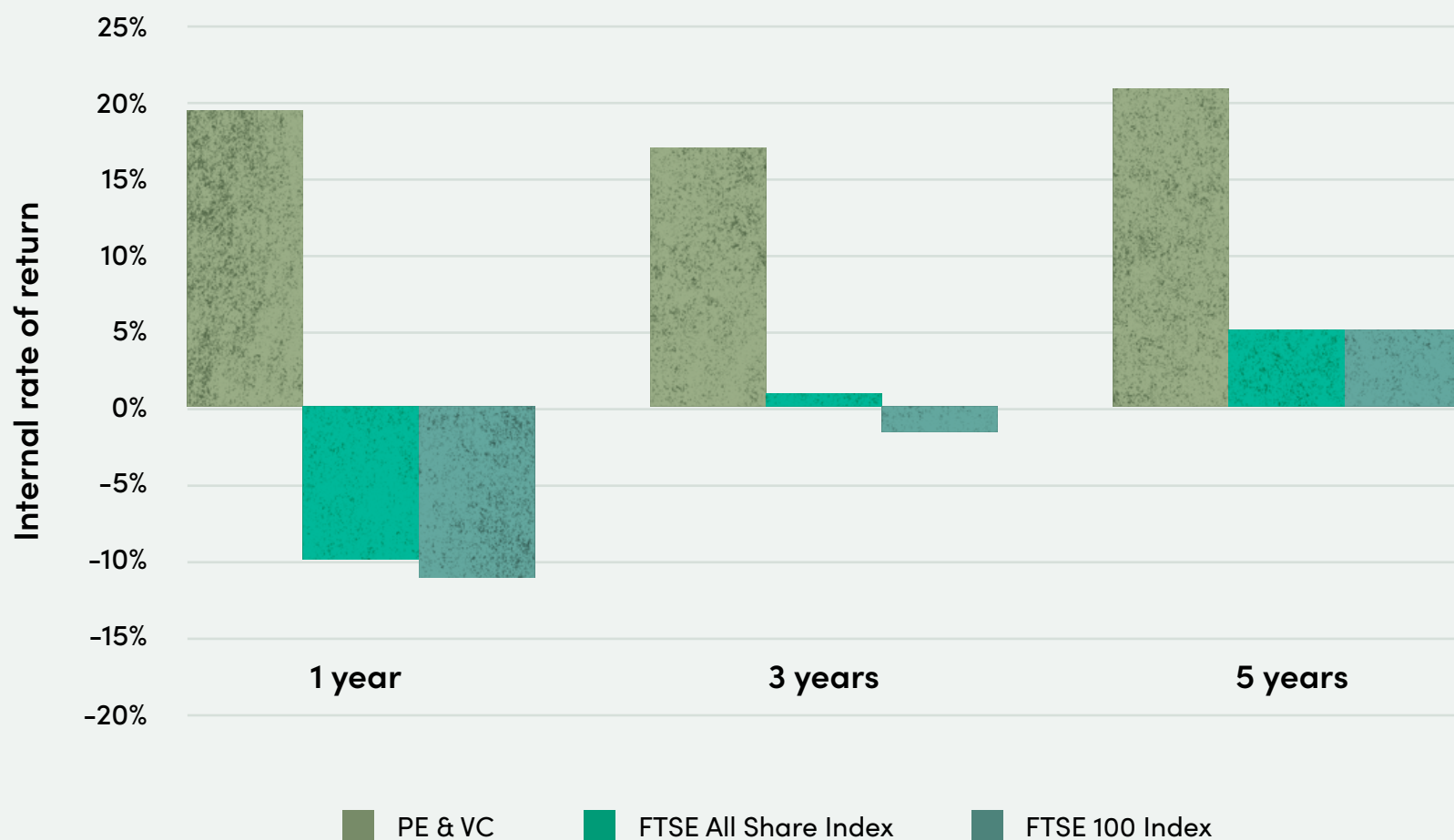
<sup>5</sup> McKinsey Global Private Markets Review 2022: Private markets rally to new heights, McKinsey, 24 March 2022



# Private Equity in the UK

The picture is even more pronounced in the UK. Research from the British Private Equity & Venture Capital Association (BVCA) has shown that UK private equity and venture capital funds have outperformed the FTSE All-Share every year for the last three decades.

**UK PE and VC funds IRR performance  
compared to FTSE indices (1, 3 & 5 years)**



<sup>6</sup> Horizon performance – IRR (%) for BVCA members and FTSE indices taken from BVCA Performance Measurement Survey 2020, published September 2021





# Areas of interest for our clients

Direct single company investments, followed by private equity growth and buyout funds are the areas of most interest to Connection Capital survey respondents over the next 12 months. Family offices demonstrate a similar pattern, noted UBS, investing directly where they have an edge, and using funds to complement their direct investments by spreading risk.

Other attractive strategies for Connection Capital investors include special situations and distressed debt, later/growth stage venture capital, private equity secondaries and direct private debt.

This interest reflects respondents' sentiment attitudes, which are buoyed by their wealth and long-term hold horizons, making them well-placed to take advantage of any opportunistic pricing scenarios and to ride out whatever volatility is to come.

According to the survey, half the respondents are optimistic about the performance prospects for private equity over the coming year, with only 6% pessimistic. A third are optimistic about the performance of alternative asset funds, and a quarter are upbeat about private debt. Sentiment is most pessimistic about quoted equities. While the opportunities the alternatives sector offers for growth and income have long been evident, the benefits have been out of reach for most private investors.

## **Connecting private investors with alternative opportunities**

As the McKinsey report noted, retail investors, representing a pool of over \$50 trillion, are exhibiting growing interest in private markets. Yet allocations today remain in the low single digits, "principally due to historical access constraints."



# Breaking down barriers

Connection Capital is breaking down those barriers. We provide experienced private investors with affordable access to high quality private equity and private debt deals plus alternative asset funds usually only available to institutional capital. Investors can build a bespoke alternative investment portfolio of their own choosing, helping create a more balanced portfolio targeting enhanced risk-adjusted returns uncorrelated with traditional public markets. Through the Connection Capital platform, investors can take advantage of handpicked opportunities across:

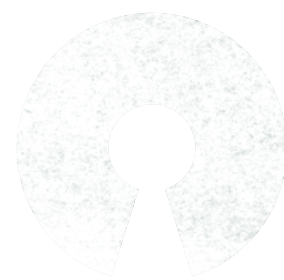
**Private equity** Invest directly in established, profitable, private UK companies generating at least £1 million EBITDA, with high-quality management teams and significant growth potential. Most have a value of £10 million to £30 million, a segment often overlooked by larger private equity investors and that therefore offers better value. The target return on investment is 3x plus within three to six years.

**Private debt** Enjoy high yields and a share in capital growth by lending to profitable private companies with good management, strong cashflows, robust growth plans and a combination of low gearing and/or asset security. Investments are in the form of debt instruments with a combination of paid and rolled interest, along with warrants or other mechanisms to secure value upon redemption or a company's ultimate sale. Investment opportunities span the debt risk/return spectrum, from senior debt to mezzanine finance.

**Alternative funds** Diversify with a select collection of top-performing, specialist alternative asset funds that are uncorrelated with conventional equity and bond markets. Strategies range from nascent asset classes such as litigation funding, to private equity, venture capital, mezzanine and structured debt, distressed and special situations, real estate, infrastructure and specialist hedge funds. Offering strong and consistent track records, and sustainable, repeatable investment strategies, these hard-to-access funds usually have minimum ticket sizes of over £1 million. Through Connection Capital, clients can invest from as little as £25,000.

**Commercial property** Target income returns and capital growth with institutional-grade, asset-backed property investments. Properties include hotels, logistics hubs, commercial premises in up-and-coming areas and offices in prime urban locations across the UK. Assets generally have strong tenant covenants and long leases for secure long-term income. We also focus on the potential for capital growth – for example by upgrading or expanding the premises to add value, acquiring and turning around distressed assets, or forward funding developments.

# The Connection Capital Difference:



## Unlocking attractive alternatives.

**Free to join** – There is no fee to join our investment syndicate. Simply register online and verify you are an Elective Professional Client for regulatory purposes. Once validated, you can access details of live deals via our secure client portal.

**Low minimum investment** – All our investments are available in units of £25,000, providing low-cost access to institutional-grade alternative opportunities.

**Unparalleled range of investments** – Through our extensive investment network, syndicate members gain access to a wide range of quality opportunities. You can then choose the investments that best meet your individual requirements.

**Rigorous due diligence** – Our team of experts perform thorough due diligence on the financial, commercial, legal and management aspects of every investment, so you don't have to. The results of all due diligence and checks are detailed in each investment proposal.

**No obligation to invest** – The decision to invest is always down to you. Do your own research on the individual opportunities and pick only those investments that have the most appeal.

**Performance reporting** – Get full access to the latest investment valuations on your holdings and insights on performance through our secure online portal.

**Client support** – Your needs are our top priority. If you have any questions about an investment, our team is always available by phone, email, video conference or in person. Members can also attend the free workshops and presentations we run throughout the year on the different types of alternative investments we offer.

**Experienced professional team** – We put our decades of private equity and alternatives sector expertise, insights and networks at members' disposal.

**Track record** – Since inception in 2010, we have raised over £400 million across 95 investments. To date, we have returned £216 million to clients from 25 exits.

## Interested in viewing private market investment opportunities for yourself?

**REGISTER FOR FREE AT [CONNECTIONCAPITAL.CO.UK/REGISTRATION](https://connectioncapital.co.uk/registration)**



#### **IMPORTANT INFORMATION:**

Connection Capital LLP is authorised and regulated by the Financial Conduct Authority (FCA) reference number 705640. Connection Capital LLP does not provide investment or tax advice to clients and this document is for information purposes only.

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The type of investments offered by Connection Capital LLP for self-selection by professional clients are high risk and speculative. Investing places your capital at risk and you may not get back the full amount invested. Investments may fall as well as rise in value, there is no guarantee of investment return or distributions and past performance is not a reliable indicator of future results. The investments are illiquid and are not readily realisable or easily transferable until the exit point. You should only invest if you can afford to do so and as part of a diversified investment strategy.

Survey carried out among Connection Capital clients between June 8 and 23 June 2022. 230 out of around 1,500 clients took part.

Connection Capital LLP is a limited liability partnership registered in England and Wales under registered number OC349617 whose registered office address is at One Eleven, Edmund Street, Birmingham, B3 2HJ.