

PRIVATE EQUITY » Advisers are reporting a growing demand for investments in private equity vehicles

Reasons for further optimism

For John Moret, director of marketing at Suffolk Life, interacting with advisers and making sure their changing needs are met is what helps the Sipp provider maintain its competitive advantage.

In the latest round of research, the company found that advisers were reporting a growing demand for investments in private equity vehicles. While this is not an area Suffolk Life has previously covered, it quickly considered whether this would be a suitable extension to its MasterSIPP and, if so, how best it could be incorporated.

"The main advantage is the potential return this type of investment can offer," Mr Moret says.

"However, while the rewards can be high, depending on the company, the risk can be high too.

"When we assessed the risk/reward balance we concluded there is a strong case that private equity may have a place in a properly diversified portfolio, although it wouldn't be appropriate to have 100 per cent of a Sipp in it. We are now considering how to best implement it within our proposition."

Mr Moret distinguishes between two types of investment in this area: private equity where the investment is managed by a third party, and a direct investment in an unquoted company.

"The distinction is primarily around the level of risk and diversification, although there are also tax implications and liquidity issues at play too," Mr Moret says.

"If you ask those investing in small companies about the track record, they will tell you that, typically, if they invest in 10 companies, they are likely to find a couple of stars, a couple of dogs and a raft of returns in the middle."

In terms of tax, investing in so-called "tangible movable assets" is likely to involve potential liability. So, if an individual has a controlling interest in a company, investing in the company via their Sipp can give rise to tax charges. This can include items as diverse as works of art and machinery.

"The key is to avoid investing in companies where that tax is applicable. An investor needs to look through the shares to the underlying assets," Mr Moret explains.

"The problem from a Sipp perspective is the work involved in finding and monitoring assets of this sort – it is extremely onerous."

Liquidity issues

Similarly, liquidity can also be problematic with unquoted shares as it can be difficult to find a buyer for those shares and, moreover, it can be problematic to obtain a clear valuation for the company.

"In pensions, there can be situations – in the event of death or a change in circumstance – that will lead to the need to liquidate some or all of the assets quickly," Mr Moret says. "Also, a lot of clients will be in drawdown and so will be required to get valuations regularly."

For Suffolk Life, then, the decision to consider including investments in private equity through a third-party manager seemed to fit in better with their overall proposition. It means they can continue to "shadow" all investment holdings in a Sipp easily, enabling them to pro-

MasterSIPP

The MasterSIPP allows investment in:

- » Protected and non-protected rights
- » Listed shares, bonds and funds
- » UK authorised unit trusts, Oeics and investment trusts
- » Unregulated Oeics or similar collective investment schemes
- » ETFs and ETCs
- » Warrants, covered warrants, futures, options and derivatives
- » Money market deposits
- » Structured products
- » Hedge funds
- » Commercial property
- » Reits
- » Exempt property unit trusts and other types of property

Source: Suffolk Life

duce a comprehensive balance sheet for each investor in a timely fashion.

However, Mr Moret acknowledges that now is a difficult time for private equity and for those looking to invest in private equity vehicles. With a change in the political landscape adding to uncertainty, along with the effects of prolonged market volatility, it could take some time before investors become fully confident with this area of the market. And yet, he believes, there are reasons to be optimistic.

"It is difficult at the moment with this type of investment in small, entrepreneurial companies," he says. "The new government has stated it is keen to encourage entrepreneurialism and, while there are capital gains tax changes afoot, these are not likely to be applied to business assets.

"Relatively speaking, this type of company may prove to be attractive as the government implements changes."

Mr Moret believes, however, that private equity investment is not going to be suited to all investors, stating it is more likely to suit those with higher than average assets in their Sipp pot.

"If the average Sipp portfolio is £250,000, in portfolios above this the situation may arise where the adviser thinks diversification into smaller companies makes sense," Mr Moret explains when asked about their target audience. "It may not be the norm for the average investor, but in the current economic climate, private equity may make a good case for certain investors."

In total, Mr Moret does not expect to see the private equity component of a Sipp exceed 5-10 per cent for the average client. It is only in cases where a separate, larger, pension pot exists elsewhere that he can envisage a greater weighting being put over to private equity within a Sipp.

"Although we do not give investment advice, if, for example, a particular client has got a substantial pension from another source and a higher appetite for risk, it could be appropriate to give a disproportionately high level of exposure to private equity within the Sipp. This would suit a client looking for a higher reward on the smaller part of their pension savings."

Diversification

Overall, Mr Moret expects to see this type of investment utilised to create greater diversification across a well-balanced portfolio. It will also fit in well with the focus the MasterSIPP has on providing greater control and flexibility for advisers and their clients. Currently the MasterSIPP allows both protected and non-protected rights to invest within the same scheme, in assets such as structured products, equities, commercial property and hedge funds. Private equity is slated to be added to this list later in 2010.

For while the outlook for investments may remain unclear for some time, Suffolk Life remains dedicated to offering the best range of choice to its clients.

Key UK Sipp dates

- » April 6 2001 – The Personal Pension Schemes Regulations 2001 came into force, which permitted a broader range of investment within a pension
- » April 6 2006 – 'A-Day' – The date when the Finance Act 2004 came into force, bringing about simplification of the UK pensions regime
- » October 2007 – Suffolk Life launches MasterSIPP
- » Spring 2010 – Suffolk Life allows both protected and non-protected rights to be invested within the same scheme
- » End of 2010 – Suffolk Life aims to extend MasterSIPP to allow investment in private equity

Source: Suffolk Life

