

**Asset class: Private equity**  
**Educational document for clients**

Banque Bordier & Cie SCmA

# Asset class: Private equity

## Educational document for clients

*This educational document provides a simple overview of private equity investments as an unlisted asset class. It is intended for clients without financial expertise and **does not replace any official information or contractual documentation made available to investors.***

*Private equity is a component of the asset class known as "Private Assets", which also includes Private Debt and Unlisted Real Estate.*

### 1. Introduction

*Private equity* is a form of long-term investment involving investment in companies that are not listed on the stock market. This asset class allows investors to participate in the development and growth of companies at different stages of maturity, outside the traditional financial markets.

In return for potentially high returns, *private equity* is characterised by limited liquidity, a long investment horizon and a specific level of risk, making it an investment primarily suited to investors with the appropriate financial capacity and time horizon.

### 2. What is private equity?

*Private equity* refers to capital investment in unlisted companies, either directly or through specialised funds. The capital invested is used in particular to finance the creation, development, transformation or transmission of businesses.

Investors hold units in a *private equity* fund in proportion to their commitment. The value of these units varies according to the performance of the underlying companies and the exit conditions achieved by the fund.

Unlike listed funds, *private equity* is not based on daily market valuations. Investments are made with a long-term vision, until the underlying holdings are sold, and the valuation of assets is generally carried out periodically, most often on a quarterly basis.

#### Concrete example:

A *private equity* fund invests in an industrial company to support its expansion. After several years of development, the stake is sold to a strategic player or introduced to the stock exchange.

### 3. Key features of private equity

*Private equity* funds have specific characteristics that distinguish them from traditional listed investments, both in terms of the nature of the assets financed and the investment horizon, the level of liquidity and the method of value creation.

- **Investment in unlisted companies:** The companies financed are not traded on a stock market, which means that they are valued less frequently and more subjectively.

- **Long investment horizon:** *Private equity* funds generally have a duration of 7 to 12 years, including an investment phase, a development phase and then a disposal phase.
- **Limited liquidity:** In principle, investors cannot redeem their shares at any time. Exits mainly occur when the fund is liquidated or via specific secondary markets.
- **Limited transferability of units:** Typically, *private equity* fund units are not **freely transferable**. Any transfer to a third party is generally prohibited or subject to **significant restrictions**, such as prior approval by the manager or compliance with specific conditions set out in the fund documentation. This lack of transferability reinforces the **illiquid and long-term** nature of this type of investment.
- **Active value creation:** Managers often take an active role in the strategy, governance and organisation of the companies they finance.
- **Restricted access:** *Private equity* is generally reserved for qualified or professional investors due to its risk profile and long-term horizon.

#### 4. Objective of *private equity*

The main objective of private equity is to create long-term value by supporting the development of the companies financed. This value creation can result from business growth, improved profitability, operational optimisation or strategic decisions.

Unlike listed investments, returns do not depend on daily market fluctuations, but mainly on the success of entrepreneurial projects and the exit conditions achieved at the end of the investment period.

#### 5. What are the main types of *private equity* strategies?

*Private equity* investments can take different forms, depending on the **maturity stage of the companies being financed** and the **strategy pursued by the fund**. The main strategies are as follows:

- **Venture capital**

This strategy involves investing in young or innovative companies, often in the start-up or high-growth phase. The potential return on investment can be high, but the risk of capital loss is significant due to the uncertainty associated with the development of these companies.
- **Growth Capital**

Growth capital funds invest in established companies to finance their growth, geographical expansion or the launch of new products. The risk profile is generally intermediate between venture capital and more mature strategies.
- **Buyout**

This strategy aims to acquire majority stakes in mature companies, often in the context of transmission or restructuring transactions. The objective is to improve the company's performance before selling it. Debt may be used in certain transactions.

- **Infrastructure**

This strategy involves investing in essential infrastructure assets, such as transport, energy and telecommunications networks or social infrastructure (hospitals, schools). These investments are generally characterised by stable and predictable cash flows over the long run, often supported by long-term contracts or regulatory frameworks. The risk profile is generally more moderate than that of other *private equity* strategies, with a long investment horizon.
- **Private debt**

Private debt involves financing unlisted companies through debt instruments (senior loans, unitranche, mezzanine, subordinated debt) outside the traditional banking markets. This strategy mainly aims to generate regular income in the form of interest, with a level of risk that is generally lower than that of equity investment. It is often used to support growth or transfer operations and offers increased visibility on cash flows.
- **Real estate (private real estate)**

Real estate funds invest in unlisted real estate assets (offices, residential, logistics, retail, hotels), either for operating purposes or with a view to enhancing and transforming their value. Strategies can range from low-risk "core" assets to riskier "value-add" or "opportunistic" projects. Returns come from both rental income and the resale of assets after value creation.
- **Secondary**

Secondary strategies involve acquiring existing holdings in *private equity* funds or portfolios of assets held by other investors wishing to sell their positions before maturity. This approach allows for investment with greater visibility on the underlying assets and often at attractive valuation terms. The risk profile is generally lower than that of primary investments, with a shorter investment horizon.

## 6. The main players in *private equity*

A *private equity* investment involves several specialised players, each playing a specific role in the operation of the fund and in protecting the interests of investors.

- **Private equity fund manager:** The manager is responsible for selecting the companies in which the fund invests. They structure investment transactions, negotiate the terms of entry into the capital and actively support the development of the companies in the portfolio. Their role may include participation in corporate governance and strategic and operational monitoring aimed at creating long-term value. The quality and experience of the manager are key factors in the success of the investments.
- **Portfolio companies:** These are the unlisted companies in which the *private equity* fund invests. These companies constitute the underlying assets of the fund. Their operational, financial and strategic performance directly influences the value of the investments made and the final return for investors.

- **Fund administrator:** The administrator performs the fund's accounting and administrative functions. In particular, they monitor investors' capital commitments, process capital calls and distributions, and ensure that records and administrative operations are kept properly. Their role contributes to the reliability and transparency of the financial information provided to investors.
- **Custodian bank:** The custodian bank is responsible for safekeeping the fund's assets and monitors certain financial flows in accordance with the applicable regulatory framework. It plays an important role in securing the fund's assets and ensuring compliance with defined procedures.
- **Auditors:** Independent auditors review the *private equity* fund's annual accounts. They verify the compliance of the financial statements and reinforce the credibility and reliability of the information provided to investors.
- **Supervisory authorities:** *Private equity* funds and their service providers are subject to a regulatory framework that depends on the country or territory where the fund is domiciled. The competent supervisory authorities ensure compliance with the applicable rules. However, the level of supervision can vary significantly from one jurisdiction to another.

## 7. The life cycle of a *private equity* fund

*Private equity* funds operate within a structured, long-term life cycle consisting of several successive stages, from the fund's creation to its final liquidation.

The fund is first launched with a clearly defined investment strategy, a fixed term and a specific legal framework. The key service providers for the fund's operation are appointed, including the manager, administrator and auditors. The fund documentation describes the objectives, risks and investment terms and conditions.

The subscription and commitment period for investors then begins. Eligible investors commit to a capital amount that they make available to the fund. This commitment is not usually paid immediately, but is called up gradually according to investment needs as good opportunities arise.

During the investment phase, the manager gradually acquires stakes in unlisted companies in accordance with the fund's strategy. This phase can last several years and aims to build a diversified portfolio of high-quality investments.

**The holding and value creation phase is the core of the fund's activity. The manager actively supports the companies in the portfolio by participating in their governance and supporting their operational, strategic or financial development, with the aim of increasing their value.**

This is followed by the exit phase, during which the fund gradually sells its holdings. Exits can take various forms, such as sale to an industrial buyer, to another fund or, more rarely, an initial public offering. The success of these transactions largely determines the final return for investors.

Finally, once the holdings have been sold, the fund is liquidated. The remaining assets are realised, liabilities are settled and the balance is distributed to investors in accordance with the terms set out in the fund documentation.

## 8. Private equity risk structure

Investing in *private equity* involves specific risks related to the nature of the companies being financed and the long-term investment horizon. It is important for investors to have a clear understanding of these risks before making any decisions.

- **Risk of capital loss:** The companies in which a *private equity* fund invests are not listed on the stock market and may encounter economic, financial or operational difficulties. If a company fails to develop as expected, or even goes bankrupt, investors may suffer a partial or total loss of their invested capital.
- **Liquidity risk:** *Private equity* investments are, by nature, illiquid. Investors generally cannot sell their units at any time or recover their capital in the short term. Exits mainly occur when the fund sells its holdings or is liquidated, which often involves a long-term commitment.
- **Operational risk:** *Private equity* performance depends largely on the ability of the companies financed to implement their development plans. Management errors, execution difficulties and changes in the economic or regulatory environment can negatively affect the value of investments.
- **Valuation risk:** Unlisted companies do not have continuously observable market prices. Their valuation is based on estimation methods, which are founded on assumptions and financial data. These valuations may change significantly over time and differ from the actual price at which the holdings are sold.
- **Manager risk:** The success of a *private equity* investment depends heavily on the quality, experience and discipline of the fund manager. Poor company selection, inappropriate strategic decisions or insufficient monitoring of holdings can adversely affect the overall performance of the fund.

These risks can be partially mitigated through adequate diversification, rigorous selection of funds and managers, and a thorough understanding of the investment strategy and terms. However, they cannot be completely eliminated.

## 9. Main advantages and disadvantages

| Advantages  | Disadvantages   |
|---|---|
| <ul style="list-style-type: none"> <li>▪ High return potential</li> <li>▪ Access to the real economy</li> <li>▪ Partial decorrelation from listed markets</li> <li>▪ Diversification: access to unlisted companies, offering complementary exposure to listed markets.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Long time horizon</li> <li>▪ Limited liquidity</li> <li>▪ Risk of capital loss</li> <li>▪ Generally high entry ticket</li> </ul> |

*The above is a summary and non-exhaustive presentation of the main advantages and disadvantages of private equity.*

## 10. How to invest in private equity

Investing in *private equity* funds is done by subscribing to units in a specialised fund, provided that the investor meets the eligibility requirements set out in the regulations and fund documentation.

Unlike traditional funds, investors do not generally pay the full amount committed at the time of subscription. They make a capital commitment, which will be called up gradually by the fund manager as investment opportunities are identified. These calls for funds may be spread over several years.

Before subscribing, investors are invited to read the fund's information documents, which describe the investment strategy, the fund's duration, the risks, the valuation methods, the fees and the exit conditions. An analysis of the investor's profile is also carried out to ensure that this type of investment is compatible with their knowledge, experience, financial situation and investment horizon.

Due to their **long horizon, limited liquidity** and risk profile, *private equity* funds are **in principle reserved for qualified or professional investors**. It is recommended that this type of investment be integrated into a diversified overall asset allocation and **that professional advice be sought to assess its suitability**.

## 11. How to liquidate a *private equity* position

The liquidation of a *private equity* investment generally takes place over the long term, depending on the fund's life cycle and the conditions set out in its documentation.

In most cases, investors recover their capital when the fund sells its holdings in the companies it has financed. These sales can take various forms, such as a sale to an industrial player, to another investment fund or, in some cases, the introduction of a company to the stock exchange. The proceeds from these disposals are then distributed to investors, after deduction of fees and any reserves provided for.

The final liquidation of the fund marks the closure of the investment vehicle. At this point, all remaining assets are realised, and the balance is distributed among investors in accordance with their rights.

Early exits may sometimes be possible through the sale of units on specialised secondary markets. However, these transactions are neither systematic nor guaranteed. The price obtained may be lower than the estimated value of the units and liquidity may be limited, depending on market conditions and existing demand.

It is therefore essential for investors to view *private equity* as an illiquid investment requiring a long-term horizon and the ability to tie up capital until the fund matures.

## 12. Bordier's private equity offering

The Bank offers its eligible clients a carefully selected range of *private equity* funds covering different strategies and geographical areas. The aim is to integrate these investments into a coherent asset allocation, focusing on the quality of managers, diversification and risk control.

## 13. Important information

This document is provided for informational and educational purposes only and does not constitute personalised financial advice. Nor should it be interpreted as an advertisement or an offer of financial instruments. The content presented is neither exhaustive nor intended to cover all the characteristics and risks associated with the relevant category of financial instruments.

This information is intended to provide a factual overview and should not be used as the sole basis for investment decisions. Past performance is not indicative of future results, and the value of investments may fall as well as rise.

For general information on financial instruments, please refer to the Swiss Bankers Association's brochure entitled 'Risks inherent in trading in financial instruments', available on our website under the heading Legal & Compliance, Switzerland, FINSA, Guidelines Risks Involved in Trading Financial Instruments (published by SBA): <https://www.bordier.com/legal-and-compliance/switzerland/finsa/>.

If, for the relevant type of financial instrument, a key information document (KID) or a prospectus has been drawn up in accordance with the applicable legal provisions, these documents can be viewed and downloaded from our website under the heading Legal & Compliance, Switzerland, FINSA, Key Information Document (KID), at the following address: <https://www.bordier.com/legal-and-compliance/key-information-documents-kids/>

Before making any investment decision, investors are advised to carry out their own checks and carefully assess the potential risks. It is strongly recommended that they seek the assistance of a qualified financial adviser. The relationship manager is available to provide, upon request, any further information and to supply the relevant documentation. The Bank accepts no liability for decisions made on the basis of the information provided in this document.

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