RAYMOND JAMES

Private equity

Alternative investment strategies: A long-term investment option in private companies for investors focused on creating value.

PRIVATE EQUITY IN BRIEF

Private equity is a type of alternative investment where capital is invested directly into private companies that aren't publicly traded. Rather than buying shares in the open market, private equity investors buy a significant ownership stake in a company.

GOALS OF PRIVATE EQUITY INVESTORS

Private equity provides a way for institutional and high-net-worth investors to participate in private markets with hands-on involvement in the management and performance of a company.

Investors seeking to diversify their portfolios; benefit from potential capital appreciation; engage in high-risk, high-reward investments; play an active role in the operational improvement of private companies; and strategically commit capital for long-term growth may consider exploring how private equity investments align with their specific goals.

RISK FACTORS

Investing in private equity can present specific risks. Performance may be influenced by several factors:

- Market fluctuations affecting the valuation or profitability of portfolio companies
- Limited liquidity of long investment horizons
- Operational risks, such as business efficiency and sector-specific challenges
- Management and leadership effectiveness

KEY POINTS

- Capital is invested directly into private companies.
- Investors can actively enhance operational performance to help create value.
- Private equity time horizons often span several years.
- Investment cycles involve fundraising, deal sourcing, due diligence, investment, management and an exit.

HOW PRIVATE EQUITY GENERATES RETURNS

Professional firms oversee private equity funds and are responsible for consolidating capital from various investors to make strategic investments. Investors typically work with firms through a structured partnership.

A private equity firm raises funds from a pool of investors.	The firm explores opportunities and conducts due diligence that examines financials, operations, legal facets and risks.	A significant ownership stake in a selected company is acquired.	Active involvement begins with a focus on implementing change and driving growth to create value.	Ongoing monitoring and strategic adjustments are made to ensure the company remains on track to achieve the investment goals.	The private equity firm executes an exit strategy by selling its ownership stake.

ADDITIONAL CONSIDERATIONS

Transparency and open communication between private equity investors and firms is essential for long-term and ongoing trust. Private equity investments can be multifaceted, and an ever-changing regulatory environment demands compliance, awareness and a stable partnership.

To make informed investment decisions, investors benefit from clarifying that a private equity firm's interests, incentives and performance metrics align with their own. Investors too should ensure they have a clear understanding of the investment horizon and potential exit strategies the private equity firm intends to pursue, whether that involves selling or going public through an IPO.

Fees for private equity funds are based on performance, management and incentive, and are typically higher than traditional funds. Investors should generally expect a 2% and 20% fee structure. A 2% management fee on committed capital early in the fund's life and on invested capital later in the fund's life, and a 20% carried interest on profits (generally above a certain return hurdle). Fees incurred are in addition to operating expenses and financial advisor compensation.

Talk to your financial advisor for personalized investment advice that's based on your individual goals and financial picture.

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