Private Equity Fund Lets Ordinary Investors Go After Assets Previously Off-Limits

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed Michael Bell, founder of Primark Capital, which runs the Primark Private Equity Investments Fund, a closed-end interval fund. Read the Q & A below as Michael discusses how changing market conditions have reduced the number of public companies and dramatically increased the number of available private equity investments, which he says are best handled in the limited-liquidity structure of an interval fund. It creates an opportunity to buy brand-name middle-market companies that investors can't access in traditional funds.

Michael Bell

The podcast can be found on AICA's website by clicking here: https://aicalliance.org/alliance-content/pod-cast/

CHUCK JAFFE: Michael Bell, founder of Primark Capital is here and we're talking about investing in private equity now on The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization that represents all facets of the closed-end fund industry from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator's going to point you in the right direction. And today, we're heading in the direction of private equity investments with Michael Bell, founder of Primark Capital, which runs the Primark Private Equity Investments Fund. That's ticker symbol PMPEX and it's a continuously-offered closed-end interval fund that you can learn more about by going to PrimarkCapital.com. Before we jump in, a reminder that if you want to learn more about closed-end funds, interval funds, business-development companies, go to AICAlliance.org, the website for the Active Investment Company Alliance. Michael Bell, thanks for joining me on The NAVigator.

MICHAEL BELL: Hey Chuck, thanks for having me here today.

CHUCK JAFFE: Michael, private equity investments are the kind of thing that, well, the typical investor is not necessarily doing, they're worrying about other asset classes. And this falls into the realm of it's still businesses but it's a very different structure. Explain both why we, as investors, want the businesses, but why we want the structure as part of a portfolio.

MICHAEL BELL: Happy to do that, Chuck. So the case for private equity, why do retail investors, why does every investor want to look to private equity to incorporate that into their financial planning? The basic reason for that is it's been an asset class that has delivered superior risk-adjusted returns over the last three decades. It is generally off limits to retail investors. It's only positioned up in the institutional marketplace, the ultra-high-net worth marketplace, the family office marketplace. For your traditional investor it's out of reach. So what is the case? Why invest in private equity? Right now there's more growth, more value creation, and more opportunity that has occurred in the private markets when you compare that to the public markets over the last 25 years. Let me give you a couple of examples of that. When you look at the public equity markets over the last 25 years, in 1995 we started with about 8,000 publicly listed companies in the US, today there's about 4,000 companies. Complete degradation of that space from 8,000 to 4,000, a 50% reduction in the public companies that are available to invest in. Over that same period of time last 25 years, the average size of those companies in the public realm has grown from about an average about a billion dollars in total market cap to about eight billion dollars today. Eight billion dollars is pushing the bottom limits of large cap companies. So what you're left with, where you used to have 8,000 billion dollar companies on average, now you have 4,000 eight billion dollar companies on average. So what's happened to all of those small and middle-market companies? They haven't disappeared. They haven't gone anywhere. They're just not going public. What's happening is the private sector, the private capital sector is funding the growth in those companies, and those are some of your highest grossing companies that are in the market. They're just not going public because of some of the hurdles of going public; the quarter-to-quarter review from analysts, Sarbanes–Oxley regulations that you have to undertake, the additional costs that a small company has to undertake. Twenty-five years ago a company would get $20-25 million of earnings, they would go public, they would fill that funnel, right? And that's how you had a collection of 8,000 public companies. Today that is now degraded to about half that size, and all of those companies, they're still being funded, they're still out there but they're being funded by private equity. Now for the first time, through additional vehicles and structures and innovation, those same companies that are being funded by private equity are now being made available to retail investors. That's what we've done at Primark, we've developed a new structure that allows investing to a much broader audience. It's not reserved for just the ultra-high-net worth, now it's available to every investor.

CHUCK JAFFE: And let's talk about the structure just a little bit, because as I described the fund I noted it was a continuously-offered interval fund. Continuously offered means you can buy it anytime you want, but interval fund means you can't sell it anytime you want, there's certain times when you're allowed to be able to get out. And that helps in a private equity market where you're dealing with things that are not as liquid to get some of the volatility out. However, it is still a pretty volatile asset class. This fund has only been open since September of 2020 and it's done great but it's experienced the volatility along with the rest of the market this year. So as much as interval funds are supposed to help smooth out the ride, how much does that structure help and how much does it mitigate volatility in a market that has been this volatile?

MICHAEL BELL: Interval funds were developed for long-dated assets. The assets that we are buying in an interval fund, private equity assets, you typically hold those for three, four, five, six years. However, your traditional investor wants to have liquidity more often than three, four, five or six years. So an interval fund is the structure that allow you to do that. You can invest in most interval fund, our interval fund, on a daily basis. However, there's limited liquidity on a quarterly basis. That's the design. We offer up to 5% liquidity of the fund every quarter, which works out to be about 20% of the fund a year, and so we give the opportunity at certain intervals to exit the fund. But since we're holding long-dated assets, that's why we only have quarterly liquidity rather than daily liquidity. When you look at that, what it does for the overall makeup of the portfolio by design, because you have long-dated assets, all those assets in the fund do not have daily market exposure. Meaning the daily investing behavior is not impacting each one of the holdings, each one of those private companies. So you don't see, and you shouldn't see the same level of volatility in a private equity fund that you see in middle-market public equity for example. Because middle-market public equity, there's volatility infused into that security based on what's happening today or what's happening this afternoon or what's happening with the Ukraine-Russian conflict, for example, tomorrow, and you will see that volatility. Whereas in a private company, you won't see that level of adjustment in the valuation of a company on a daily basis. You will see those valuations change in private companies more often on a more periodic monthly or quarterly or semi-annual basis. So that reduced volatility generally gives you a better risk-adjusted return, and it gives you a smoother ride as an investor in private companies. And interesting to note, the private companies that are in private equity portfolios, many investors believe some of those big private companies are in fact public, but they're not. For example, we hold for example PetSmart, Chewie's, Häagen-Dazs ice cream, Visma, Culligan Water, some very well-known names, Cole Haan shoes for example, Dr. Martens shoes. We hold those names, those are actually private companies. The typical investor can't get access in any way, any form to those companies because you just can't go on the market and say you like Cole Haan or Häagen-Dazs, you can't buy it.

CHUCK JAFFE: But if you're buying those companies, although they are obviously different from the public companies you're buying, they are familiar brands in familiar industries. So how much correlation is there between the kinds of private equity that you buy and the broad market?

MICHAEL BELL: There is some correlation to the private market and the public market, especially when you look at specific sectors. However, that correlation is delayed and it's because you don't have the day-to-day volatility and change in price. Now, just to give you an example, if you had a similar company to any one of the companies that I just mentioned that's in the public arena, again it may see fluctuations in that price day to day because of geopolitical issues or supply chain issues or whatever may be affecting that company. Now you're not having that same behavior happen in the private company, they have a longer term runway to execute their plan and they're not adjusting their plan quarter to quarter to satisfy public company analysts for example. So you don't see the volatility in the overall pricing of that private company the way you see it in a public company.

CHUCK JAFFE: Michael, really interesting. I have more questions, I just don't have more time, so hopefully we'll get a chance to chat with you again on The NAVigator down the line.

MICHAEL BELL: Chuck, love to continue the conversation. Hopefully this was helpful to your audience.

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