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UK mid-caps are losers in private equity regulation

Sir,

It was encouraging to see a letter from a prominent group of economists and business academics criticising the narrow focus of regulation against private equity and similar funds (Letters, May 17). Prof Ulf Axelson and his colleagues are right to highlight the potential damage that politicians and regulators appear intent on inflicting upon the UK's thousands of mid-cap companies – businesses that are supported in a significant way by the UK's private equity industry.

Lyceum Capital raises some £300 million of equity growth capital every few years to support mid-cap companies headquartered in the UK, with the vast majority (some 85 per cent) coming from predominantly non-UK institutions. In every four-year period, I would estimate that up to £ 7 billion of such capital is provided to mid-cap companies by us and similar firms.

This capital, which has not traditionally been available from the UK public market or institutional investors in the required amounts, creates substantial medium-term development opportunities for these companies, turning their managers into owners and giving them the ability to expand, to export and, critically, to employ.

The trend of the proposed regulation is to: 1) increase the marketing restrictions on private equity funds in raising capital: 2) raise the capital gains tax payable by the private equity industry that brings such capital to the UK: and 3) try to ensure that less debt capital will be made available to private-equity backed companies.

By advocating these measures, UK and European politicians, regulators and civil servants show they are not giving proper consideration to the consequences for the UK's mid-cap companies.

While many in our industry accept the need for measures to control the level of risk-taking by the financial industry at large, if all the current and threatened legislation, regulation and higher taxes were put in place, it is these growth companies – the next generation of FTSE heavyweights - that would become much less appealing to investors and executives.

Less capital will be made available to support their expansion, fewer industry executives will be attracted to come and provide their expertise and fewer quality managers will be attracted to come and work in the private equity industry to implement their growth strategies.

The professors are right: Why single out private equity funds for heavy handed treatment?

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