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Are private markets going mainstream? An overview on listed investment vehicles and club deals in Italy

***Private markets** complete an impressive decade of growth.*

Private market assets under management (AUM) grew by 10% in 2019 and $4 trillion in the past decade, an increase of 170%, while the number of active private equity (PE) firms has more than doubled and the number of US sponsor-backed companies has increased by 60%. Over that same period, global public market AUM have grown by roughly 100%, while the number of US publicly traded companies have stayed roughly flat (but is down nearly 40% since 2000) (Source: McKinsey Global Private Markets Review 2019 and 2020).

As far as Italy is concerned, there is a strong concentric push (thanks also to generous tax incentives), on the one hand, (i) to channel part of Italian savings towards the so called "*real economy*" (in particular, towards innovative SMEs and start-ups) and, on the other hand, (ii) to strengthen the alternative financing sources for SMEs (which are more and more willing to open raise capital by private equity and private debt funds). In a nutshell, **private markets are becoming more relevant also in Italy than ever**.

In this scenario, market participants increasingly have called for the expansion of such investment opportunities for "private" investors (in particular, high net worth individuals and affluent rather than mass retail clients) seeking asset classes with a risk/return profile more suitable to face the predicted uncertain and volatile scenarios of public markets. However, the lack of access to investments in private funds is contributing negatively to this trend. Indeed, existing alternative investment funds can be mostly subscribed by a limited number of Italian (sophisticated) professional investors.

Making private market mainstream requires lawyers to create new investment structures and solutions: the listing on the so-called Market Investment Vehicles - Professional Segment (MIV), organized and managed by the Italian Stock Exchange, represents a possible case study, being one of the most innovative models to enlarge access to private markets to new classes of investors.

The **listing of NB Aurora** - on which our law firm (Gianni, Origoni, Grippo, Cappelli & Partners) provided legal assistance to the underwriters - represented the first pioneer deal in Italy. In particular, NB Aurora is the first permanent capital PE vehicle listed on the MIV in Italy, which was established by US asset manager Neuberger Berman with the aim of acquiring minority stakes in unlisted top-notch Italian SMEs in order to support their growth and internationalization process by (i) investing with a medium-long term horizon and (ii) supporting entrepreneurs, as their partner, in strategic and management choices. In a nutshell, NB Aurora is a public company by means of which investors would have access to a diversified portfolio of unlisted Italian SMEs.

Such transaction – which involved four different jurisdictions (US, Italy, UK and Luxembourg) – showed all the potentials of MIV in Italy, which represents a "meeting place" that brings together alternative asset managers of the most diverse asset classes (including private equity, private debt, infrastructure and venture capital) and "patient" investors, ensuring a continuous price formation together with a new trading system anchored to NAV. We expect that further initiatives would follow the course of NB Aurora, while others pursue different structures.

The listing of PE vehicles is not the only option though. Several asset managers are working (with the support of our firm) at the structuring of new private market funds tailored for non-professional investors (*e.g.,* ELTIF or master-feeder structures). We are also seeing a strong growing interest from private investors in investing in club deals in Italy, that is entrepreneurs look favorably to structures that allow deciding on a “deal-by-deal” basis and, therefore, whether investing in private equity or not. As opposed, a traditional alternative investment fund assumes – unlike club deals – full "trust" and reliance on the manager with which all investment choices are entrusted according to an investment policy and a predefined strategy. Therefore, club deals could then represent a suitable alternative option for private investors with strong experience and ability to make closer assessments on a “deal-by-deal” basis.

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