HSBC Global Private Banking
Video Transcript

What is Private Equity? Finance Explained.

Companies that are not listed on the stock market are referred to as the 'private market' and investing in their stock is referred to as investing in 'private equity'.

Some of the largest and most successful companies in the world are actually privately owned.

"In the past, companies would receive funding by being publicly listed on the stock market. But a growing number of companies are choosing to stay private, so they receive funding from private shareholders such as pension funds, wealthy individuals, insurance companies and investment firms.

Private equity funds tend to be specialised usually this is by stage, it can be by sector, perhaps also by country.

Private equity investors tend to invest through private equity funds. This means you make one investment into a fund which then makes multiple investments into numerous underlying companies.

You may have heard for example of buyout and venture funds. A buyout fund is where you seek to acquire a controlling interest in a large, mature, and profitable company with the aim to grow and improve them over the long term.

A venture fund tends to allocate to earlier stage companies which may for example be revenue generating but not yet profitable with the aim to grow them over time to be large profitable companies."

So, what are some of the considerations when thinking about investing in Private Equity?
A private equity investment could provide attractive long term investment gains whilst providing lower volatility and portfolio diversification. However, it's important to note that Private Equity investments are long term investments so your capital could be locked in for multiple years, with limited liquidity and no capital protection. Additionally, there is exposure to active management risk and strategies may involve the use of leverage.

HSBC has been investing in alternatives since 1989 and is one of the largest discretionary investors globally.