Circular N°: UNI 024
Date: 09.03.2011

To all UNI affiliates
To members of the UNI World Executive Board (titular and substitute members)

Private equity revving up for increased acquisition activity

Dear Colleagues,

I attended the March 2011 SuperReturn Conference, the largest gathering of private equity wheeler dealers in the world, which meets annually in Berlin. David and Goliath come to mind, with the 1,500 private equity grandees in attendance and just me on the union side.

I addressed the conference on how UNI Global Union, the global and European trade union movement, NGOs and our political allies had changed the rules of the game forever, with the regulation of private equity.

In the USA, private equity now have to register at the SEC and will be subject to new oversight.

In Europe the EU now have a new law of Alternative Investment Funds, which covers hedge funds and private equity and which has to be transposed into national law in the period 2011-2013.

In 2010, the SuperReturn attendees vowed to fight the EU law “tooth and nail”. They failed.

I was able to report that the new law, even if we are not entirely satisfied, has introduced new measures on European supervision, transparency, information and consultation of workers and, controversially, new rules to prevent asset stripping. A new European supervisory authority, the ESMO, will be established, where UNI Europa Finance will have a seat at the table.

I admit I did rather enjoy demonstrating how their world had changed, even if we were disappointed that in both the USA and Europa they have dodged the tax dimension of the financial engineering that makes the target of 20% rate of return so lucrative.

It could just be SuperReturn buzz but the reactions were that the worst of the financial crisis was behind them. David Bonderman, founder of TPG, forsees a return of substantial deal making in 2011-2012. It was reported that private equity houses are sitting on over $450 billion dollars of “dry powder”, i.e. funds that could be called upon to be invested.

There was some recognition that private equity had been spared the worst of the financial crisis. Guy Hands, controversial Chair of Terra Firma Capital, said that private equity had survived the crisis because of three “Get out of jail” cards, the three cards being the USA’s Troubled Asset Relief Programme, bailout of European banks and liquidity made available by central banks. He warned that next time “the industry may not be as lucky.”

I also made the point that the LPs (Limited Partners), the private equity investors, which are in the main pension funds and institutional funds, needed to be more exacting in demanding responsible investment practices. I also stated that the basis of their success depended more on leverage and financial engineering than on their managerial ability to exact operational turnarounds. Indeed, 73.6% of 300 people polled at SuperReturn said that they only added value “some of the time.”

The absence of a broader sense of responsibility was evidenced by David Bonderman, who in a comment on the sovereign debt crisis, such as in Greece, said:
“When governments are selling, you should be buying. And when governments are defaulting, we should look at that as an opportunity. Prices are always lower when the troops are in the street. A good default, like Portugal or Greece, would be very good for the private equity business. Might not be so good for the republic, but it would be good for us.”

In a session where I participated, I met the new Chair and Secretary General of EVCA, the European organisation for private equity, who proposed talks with UNI and our union partners on a range of issues. I will follow this up with the ETUC and UNI Europa in the weeks to come.

With our awareness that private equity is on the march, we will look into organising a briefing for World Executive members on Monday, 7 November on private equity and acquisition activity. We have done this in the past and the initiative has been welcomed.

Some stats: approaching 20,000 companies worldwide are owned by private equity houses. In the year 2000, it was 5,000. One in nine of the deals last for two years or less; 42% last less than five years. Pension funds provide 70% of all the capital invested in the top 100 private equity houses in the USA. The Boston Consulting Group claim that 50% of the deals will default in three years if financing terms/interest rate increases occur. The peak year of acquisition activity was 2007, with $917 billion. In the USA in 2010 it was $221 billion.

Yours sincerely,

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General Secretary
UNI Global Union