

Abstract

Individual investor has a wide range of potential assets, which can be included in investment portfolio. At the same time, when one considers investments in equity, he would be bound by the choice between shares of different public companies. The possibility to invest in private companies is usually available only through investments in private equity funds.

In the meantime, investments in private companies can be more profitable than investments in public companies. The demonstrative example in this respect is that private equity funds, while investing in private sector, usually consider projects with internal rate of return not lower than 30%. For comparison purposes, the average annual return of S&P500 index was about 5.8% between 2003 and 2013.

Investments in private equity funds have a number of significant drawbacks for an ordinary investor, including existence of substantial minimal investment amount, commission for management company services, low liquidity of the investments – funds are usually invested for the period of at least 3-5 years, difficulty with calculation of the fund's return on investments.

This article describes a possibility for creation of an alternative instrument for investments in private companies, which will help investors to overcome mentioned difficulties associated with private equity funds. The proposed alternative instrument is a new business model of public holding company, which owns minority stakes in a large number of private companies. In the process of the holding creation those minority stakes of private companies will be placed in the chartered capital of the holding, thus, majority shareholders of the private companies will become minority shareholders of the holding.

Creation of such a holding can be compared with emergence of the publicly traded index of private companies, which could possibly allow investors exceeding the bounds of the current capital market line.

JEL: G11, G24, G34

Key words: investment, private companies, public companies, private equity funds, stock indices, business-model.

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