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# Democratizing Entrepreneurial Finance: The Case for a Secondary Market

## 1 What is a search fund?

A search fund is an investment vehicle formed by an entrepreneur (Solo), or a team of entrepreneurs (Partnered), or a company which helps the entrepreneur/ entrepreneurs (Sponsored) who raise capital from investors to acquire an operating business, typically a small or mid-sized enterprise (SME), with the goal of growing the business and generating very high return for investors. There is no typical entrepreneur's background (from engineering to law and of course business related)

How do Search Funds Work?

1. **Capital Raising:** The search fund operator, the searchers, raises capital from a pool of investors, typically high-net-worth individuals, ex-Searchers and some institutional investors. The capital is used to finance the research of the target company and to provide financial resources to the searcher/searchers to afford due diligence, Travels, Interns etc...
2. **Target Search and Acquisition:** The search fund operator spends up to 24 months searching for a company to acquire. They typically focus on companies with strong fundamentals, a history of profitability, and a good market position. Once a target company is identified, the search fund operator negotiates an acquisition and acquires the company through an LBO.
3. **Active Management:** The search fund operator takes an active role in managing the target company. They implement a strategic plan to grow the business, improve profitability, and increase the company's value. This may involve initiatives such as expanding into new markets, Mergers & Acquisitions, developing new products or services, and improving operational efficiency.
4. **Exit and Return to Investors:** After a period of 4-8 years, the search fund operator sells the target company and returns the proceeds to investors. The goal of the searcher/searchers is to keep the IRR as high as possible in order to be best rewarded.

Advantages of Search Funds

- **Focus on SMEs:** Search funds provide an opportunity to invest in SMEs that may be overlooked by traditional private equity firms, not because they are not interesting enough but simply because of their size, which usually is below 10 M€ of EBITDA.
- **Hands-on Approach:** The searcher takes an active role in managing the business, which can lead to significant improvements in performance, especially because more or less always there are some issues left by a not too much financially/management educated former CEO, usually they are family businesses.

- **Alignment of Interests:** The interests of the searcher and the investors are aligned, as both parties are incentivized to increase the value of the company.

#### Disadvantages of Search Funds

- **Medium - high Risk:** Search funds are quite risky investment, as there is a possibility that the target company may not perform as expected and even end in bankruptcy.
- **Long Investment Horizon:** The investment horizon for search funds is typically 4-8 years, which is longer than many other investment options.
- **Limited Diversification:** Search funds are typically concentrated in a single company, which can lead to a lack of diversification.
- **High capital requirement:** Equity tickets for the average deal typically range from €6 million to €10 million, yet the investor pool is often restricted to 10 to 15 individuals. Consequently, the average investment required per participant exceeds €500,000.

Overall, search funds can be an attractive investment opportunity for investors who are willing to take on an important level of risk in exchange for the potential for very high returns.

## 1.1 When and where were they born?

The concept of search funds is often attributed to H. Irving Grousbeck, a professor at Stanford University's Graduate School of Business in the 1980s. Grousbeck, recognizing the challenges faced by aspiring entrepreneurs in securing funding for their ventures, envisioned a model that would fill the gap between traditional venture capital and individual investors.

Search funds emerged as an innovative approach to investing in small and medium-sized enterprises. The model addressed the limitations of venture capital, which often focused on larger, high-growth companies, while also providing an alternative to individual investors who lacked the expertise and resources to conduct thorough due diligence and manage complex business operations.

Stanford University's Graduate School of Business served as the early incubator for search funds, providing a supportive environment for the development of this unique investment strategy. The concept quickly gained traction, attracting aspiring entrepreneurs and investors drawn to its potential for generating attractive returns while contributing to the growth of promising businesses.

Although search funds have a global presence, they are particularly strong in the US, Europe and Australia. This is mainly due to the relatively low interest rates and, of course, the large number of SMEs available for acquisition in these countries.

### 1.1.1 Who are searchers?

Searchers are the entrepreneurial individuals who establish and operate search funds, investment vehicles created to identify, acquire, and ultimately manage a privately company. Typically, searchers

are recent MBA graduates, aged between their mid-late-20s and late-50s, who leverage prior professional experience in consulting, finance, management or a particular industry to undertake the search process. They span from diverse geographic regions and educational institutions, both U.S. and international, and often launch their search within two years of graduation. Approximately 40 percent of search funds are formed by partnerships, reflecting a preference internationally for collaborative searches.

#### 1.1.1.1 Demographic Profile

Searchers exhibit a broad age spectrum. In the latest IESE study, principals ranged from 24 to 57 years old, indicating that the model attracts both early-career professionals and more seasoned managers.

	Pre-2002	2002-2007	2008-2009	2010-2011	2012-2013	2014-2015	2016-2017	2018-2019	2020-2021
Age at Start of Search									
Minimum	29	29	26	26	27	27	26	26	24
Median	31	30	30	32	28	31	31	31	32
Maximum	35	34	43	42	37	41	39	47	44
Under 30 (%)	33	20	50	20	57	44	30	26	19
30-35 (%)	67	80	33	40	29	31	54	50	53
36-40 (%)	0	0	0	20	14	19	16	20	23
Over 40 (%)	0	0	17	20	0	6	0	4	4

Unfortunately, the gender gap in search funds remains relevant, with significantly fewer women than men involved. More broadly, women continue to be underrepresented in leadership roles, both among SME entrepreneurs and fund managers. In the entrepreneurial landscape, women make up roughly 30–35% of SME founders, with 34.4% among the self-employed and around 30% among startup initiators. In finance, the disparity is even more pronounced: only 12–16% of fund managers, such as General Partners or portfolio managers are women, collectively managing just 9% of total assets. Even when mixed-gender management teams are included, female representation rises only to about 19.5%, which still far exceeds the figures seen in search funds. These statistics underscore a persistent and pervasive gender imbalance in positions of financial and entrepreneurial leadership.

Gender									
Male (%)	83	100	100	100	86	94	100	96	91
Female (%)	17	0	0	0	14	6	0	4	9

#### 1.1.1.2 Educational Background

71 percent of international searchers hold an MBA degree, and 68 percent launched their search fund within two years of graduation. This concentration of MBAs reflects both the network effects of business-school programs and the structured exposure to entrepreneurship through acquisition courses, nearly half of searchers have completed such coursework.

Number of Post-MBA Years before Search Fund									
Minimum	0	0	0	0	0	0	0	0	0
Median	0	1	0	1	1	0	0	1	1
Maximum	0	5	6	6	6	6	8	18	19
No MBA (%)	0	0	0	20	29	13	8	8	23
<1 year post-MBA (%)	100	40	67	40	14	63	59	42	34
1–3 years post-MBA (%)	0	40	17	20	43	0	16	34	25
4–7 years post-MBA (%)	0	20	17	20	14	25	11	10	13
8+ years post-MBA (%)	0	0	0	0	0	0	5	6	5

Notably, 42 percent of these MBA credentials come from U.S. business schools, though this share has declined over time from 50 percent, signaling growing global awareness and adoption of the search-fund model, in particular from IESE and INSEAD.

### 1.1.1.3 Professional Background

Searchers bring varied professional experiences, reinforcing that success in a search fund is not constrained to a single career path:

- **Management consulting: 26%** of new principals have consulting backgrounds, leveraging analytical and problem-solving skills in target evaluation and operational scaling.
- **Financial services and investment banking: 20%** are from banking or financial services, contributing expertise in financial modeling, capital structuring, and investor relations.
- **Line or general management: 14%** possess direct operational management experience, equipping them to assume the CEO role post-acquisition.
- **Entrepreneurial experience:** Approximately 4% have founded or led ventures previously, offering firsthand insight into the challenges of running a business.

Professional Background	Pre-2002	2002-2007	2008-2009	2010-2011	2012-2013	2014-2015	2016-2017	2018-2019	2020-2021
Management Consulting	17	0	0	20	43	25	19	14	18
Investment Banking/Finance	0	60	50	40	43	19	22	10	14
Sales	17	0	0	20	0	13	3	0	1
Venture Capital	0	0	0	0	0	0	5	0	5
General Management	50	0	17	20	0	6	8	18	13
Marketing	0	20	0	0	0	0	3	0	3
Law	0	0	0	0	0	0	3	2	0
Operations	0	20	0	0	0	0	5	2	10
Entrepreneur	0	0	0	0	0	6	8	4	4
Accounting	17	0	0	0	0	0	0	2	0
Engineering	0	0	0	0	0	0	5	6	4
Military	0	0	0	0	0	0	0	2	1
Financial Advisory	0	0	0	0	0	0	0	6	4
Private Equity	0	0	33	0	14	31	19	24	20
Investing (Other than VC or PE)	0	0	0	0	0	0	0	6	1
Other	0	0	0	0	0	0	0	4	2

Source: Prepared by the authors based on IESE search fund surveys.

#### 1.1.1.4 Geographic and Institutional Diversity

The 2022 IESE study covered 211 first-time funds across 34 countries on five continents, highlighting the international breadth of search-fund activity. Searchers originate from Europe, Latin America, Africa, and Asia-Pacific, bringing local market knowledge and networks essential for deal origination in their regions (for example there are many searchers from Latin America who are raising a search fund in Spain/Portugal partnering with a “local”)

#### 1.1.1.5. Partnership Structures

While solo searchers remain prevalent in North America, 40 percent of international search funds are founded by partnerships, compared to 19% in US. Partnerships allow searchers to pool complementary skills and share the operational and fundraising workload.

	Pre-2002	200-2007	2008-2009	2010-2011	2012-2013	2014-2015	2016-2017	2018-2019	2020-2021
Number of Principals (%)									
Single	100	60	33	80	29	63	51	60	58
Partners	0	40	67	20	71	38	49	40	42

The median number of investors per fund stands at 16, reflecting the collaborative investor networks that underpin search-fund capital structures. It’s interesting to note that the number of investors per search fund is increasing year by year. However, it’s clear that due to tax reasons, in particular in some

countries having more than 5% would help, that's why the number of investors would not grow that much and it would also be a signal of not much commitment by investors in your search fund.

Number of Search Fund Investors									
Minimum	8	2	3	10	6	6	5	8	1
Median	10	7	16	13	15	15	17	16	18
Maximum	11	9	20	16	24	25	22	28	30

#### 1.1.1.6. Motivations and Key Skills

Searchers are drawn by the opportunity to:

- **Acquire and lead a company:** Transitioning from employee or consultant to CEO/owner offers autonomy and the potential for significant financial upside.
- **Leverage analytical rigor:** Skills honed in consulting and finance align well with the due diligence, valuation, and strategic planning phases of a search fund.
- **Exit:** It's undeniable that 25% of a ~\$ 30-million company represents a significant value and a life-changer episode.
- **Apply entrepreneurial drive:** Even those without prior founding experience demonstrate resilience, adaptability, and a willingness to navigate the emotional rigors and rejections inherent in sourcing businesses.

Key competencies include strategic analysis, leadership, stakeholder communication, and the capacity to integrate quickly into acquired companies' cultures.

## 1.2 Search fund vs Private Equity vs Venture Capital?

PE and VC are more popular when talking about high finance, putting money into companies and helping them grow. Though both invest in businesses, they do it differently with varying risk levels and favoring companies at different stages. Search funds are a newer way for aspiring entrepreneurs to get into PE by following a unique model.

- **Private Equity:** Private equity firms invest in quite mature, established companies that have a proven track record and generate steady cash flows in order to be able to repay debt. These firms typically acquire majority or controlling stakes in their target companies, aiming to improve operational efficiency, expand market reach, and ultimately increase the company's value for a profitable exit. PE investments often involve significant debt financing, leveraging the target company's assets to fuel growth initiatives (LBOs).
- **Venture Capital:** Venture capital firms focus on investing in early-stage, high-growth companies with the potential for disruptive innovation. These companies often have limited or no revenue but possess promising ideas and technologies. VC firms provide funding, expertise, and mentorship to help these young companies to establish a strong market position. Due to



the inherent high risk involved in early-stage investments, VC firms typically hold minority stakes in their portfolio companies.

Despite their shared focus on investing in businesses, PE, VC, and search funds differ in several key aspects:

- **Investment Stage:** PE targets established, mature companies, while VC focuses on early-stage, high-growth ventures. Search funds typically acquire lower middle-market SMEs with some existing traction but room for significant growth.
- **Risk Profile:** PE investments generally carry lower risk due to the target companies' proven track record. VC investments are inherently riskier due to the early stage and potential for failure of the underlying companies. Search funds fall somewhere in between, with the risk varying depending on the specific target company and market conditions.
- **Investment Structure:** PE firms typically acquire majority or controlling stakes in their portfolio companies, while VC firms hold minority stakes. The search fund model is completely different: the searcher(s) also and thanks to the investors acquires the entire company (there are cases where the seller remains in the capital) and based on his performance, which is evaluated using the IRR, he obtains increasing shares from his investors.
- **Motivation:** PE firms are primarily driven by financial returns, seeking to maximize profits for their investors. VC firms, while also seeking financial returns, often have a stronger focus on supporting innovation and disruptive technologies. Search fund operators are driven by a combination of financial rewards and the desire to build and operate a successful business. Typically, searchers feel the urge to be an entrepreneur, but don't have ideas about how to start a business.

The choice between PE, VC, and search funds depends on an individual's risk tolerance. PE offers experienced investors the opportunity to generate attractive returns in established businesses. VC appeals to those with a passion for innovation and the ability to identify promising early-stage companies. Search funds provide an entrepreneurial path for individuals seeking to build and manage their own businesses with the support of experienced investors.

Ultimately, each investment strategy plays a valuable role in the broader financial ecosystem, contributing to the growth and success of businesses across various stages of development.

Certainly, these asset classes are not suitable for everyone. Investors must possess a high level of financial knowledge to understand the nature of their investments. Additionally, they must have substantial financial resources, and they should not expect to liquidate their assets within a short timeframe, such as a few months.

### 1.2.1 Private Equity inside Search Funds

Private equity funds have increasingly adopted toehold accumulation strategies acquiring small minority stakes in search fund acquired companies to secure early exit optionality and leverage in

subsequent IPO or sale processes. In the search fund ecosystem, often characterized as “mini-private equity” by the press, PE participation is prevalent once target companies reach mid-market scale, reflecting a convergence of entrepreneurial acquisition models and PE investment strategies. There are a lot of evidences of PE Toeholds in Search Funds, for example:

- **PE Backing of Solo-Sponsored Funds:** Many search funds secure capital from family offices and private equity firms even before closing their acquisitions, ensuring PE sponsors hold a toehold position at the outset of the operating phase.
- **PE Expertise Among Search Fund Principals:** According to IESE’s International Search Funds report, 20% of search fund principals in 2020–21 came from private equity backgrounds, underlining PE’s deep integration into the model’s governance and capital structure.
- **Regulatory Advantages of Toehold Purchases:** A toehold purchase, defined as acquiring less than 5% of a company’s equity, allows PE firms to quietly amass influence without triggering mandatory SEC/Consob filings, positioning them for rapid scale-up or exit when conditions align.

These patterns demonstrate that private equity firms frequently secure minority stakes in search fund targets to lock in exit optionality, apply governance best practices, and expedite IPO or sale processes once the company achieves sufficient scale.

## 1.3 How do search funds work?

Search funds has a quite standard model, and every search fund is pretty like the other one! However, thanks to searchers experience and capabilities some differences may arise.

### 1.3.1 fundraising

In the fundraising phase of a search fund, searchers work to secure capital to cover both the search process and the acquisition of a target company. Initially, the entrepreneur requests smaller capital contributions from investors to finance the search, typically around \$40,000 per unit, with 16 to 20 units available, which means 10 to 15 investors. This amount can vary by country, reflecting local investment norms and market conditions. Searchers seek also a “soft-commitment” from investors for the next funding phase, which largely depends on the size of the target company and its level of debt. Local investors bring valuable knowledge of the local market, regulatory landscape, and business networks, providing essential guidance throughout the acquisition process. At the same time, international investors are often selected for their ability to facilitate geographic expansion into their respective countries. In emerging markets, for search funds where they are still very new such as India, Singapore, and Dubai, international investors bring crucial know-how on structuring search funds effectively and managing risks. However, the pool of international investors in Europe specifically is relatively small, meaning many of these investors know each other well and have strong

collaborative relationships with proven track records. This network can be a significant advantage, enhancing the search fund's credibility and access to experienced guidance.

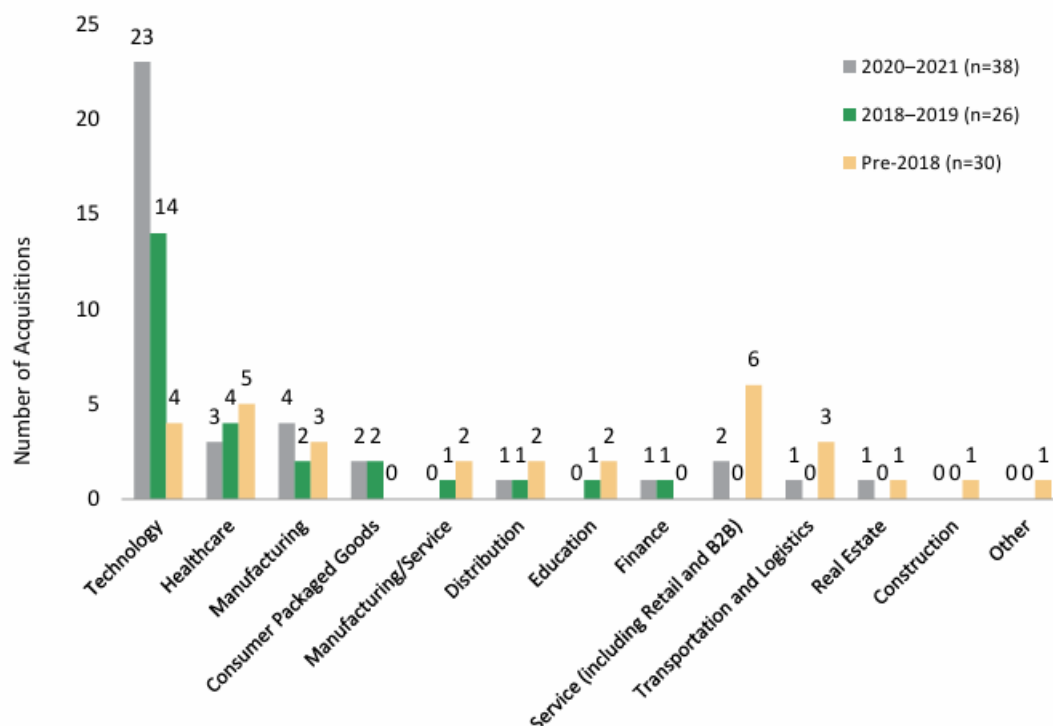
### 1.3.2 Searching for a company

The search phase is a stressful and intense period in a search fund's lifecycle and in general in the searcher's life, typically lasting 12 to 24 months. During this time, the searcher is often backed by a few interns who actively search for a small or medium-sized business to acquire, aligning with the fund's investment thesis (buy&build, organinc growth etc..). The process begins with defining clear acquisition criteria, including industry focus, geographic location, company size, and profitability metrics. Searchers use a combination of proprietary outreach (e.g., directly contacting business owners), brokered deal flow, and networking to identify potential targets.

Total Number of Months from Start of Search to Deal Close	All Acquisitions
Minimum	1
Median	21
Maximum	44
<11 months	13%
11–20 months	37%
21–30 months	34%
31+ months	17%

Searchers are usually industry agnostic. However, it's clear that technology is their favorite sector.

**Figure 5. Industries of Acquired Companies, 2020–2021 vs. 2018–2019 and Pre-2018**



This phase involves building a pipeline of leads, which requires screening hundreds of businesses to find those that meet the desired profile. A key aspect of this stage is relationship-building with potential sellers, as many small business owners are emotionally invested in their companies and prioritize buyers who will preserve their legacy and that's why they prefer to sell to searchers instead of Private Equity funds. Searchers must also manage the operational aspects of the search process, such as leveraging investor networks for introductions, utilizing databases for research, and maintaining financial discipline to ensure search capital is used effectively. This phase requires the searchers to use at its best both hard and soft skills.

### 1.3.3 Due diligence

When acquiring a company, due diligence is the systematic process of rigorously assessing the target's financial health, legal standing, operational capabilities, and market position to ensure that its perceived value aligns with the buyer's strategic objectives and no issue jumps out! In many cases, especially within the search fund model, where entrepreneurs often operate with lean budgets and limited acquisition experience, the process begins long before any financial commitments are made. Typically, search fund entrepreneurs first develop a detailed pitch that encapsulates the target's value proposition, growth potential, and operational fundamentals, and then present this pitch to potential investors. If the pitch resonates and investors express confidence in the opportunity, the entrepreneur proceeds with a comprehensive due diligence process. Sometimes it happens that searchers draw on their own professional expertise, these searchers who have past experiences in Due Diligences personally dive into financial analyses, operational reviews, and legal assessments to uncover hidden risks and verify the seller's representations, often supplementing their efforts with external expert advice from consulting firms. This integrated approach, from initial pitch preparation through self-led and expert-supported scrutiny, ensures that every facet of the business is thoroughly evaluated, ultimately mitigating risks and aligning the acquisition with a long-term investment strategy.

### 1.3.4 Lol and Legal

After investor interest is secured through an initial pitch and the signing of a non-binding Letter of Intent (LOI), searchers move into a critical phase of legal due diligence that solidifies the foundation for the transaction, ensuring that the deal is not only financially attractive but also legally compliant. The LOI typically outlines key terms such as the proposed purchase price, basic deal structure, and confidentiality provisions, setting the stage for a more detailed investigation of the target company's legal framework. At this point, searchers deeply review corporate filings, scrutinize contracts and intellectual property rights, and verify compliance with relevant regulations, all while often leveraging their own experience and supplementing it with the expertise of legal advisors. This comprehensive legal scrutiny is essential to identify any potential liabilities or regulatory issues that could affect the future operations of the acquired business, ultimately protecting both the investor's interests and the searcher's long-term strategic vision.

### 1.3.5 Acquiring a company

Search fund entrepreneurs typically target companies valued between \$5 million and \$50 million, requiring \$2.5 million to \$25 million of equity, in fragmented sectors with sustainable market positions and stable cash flows.

Purchase Price Statistics	All Acquisitions
Minimum	\$0.8 M
Median	\$11.0 M
Maximum	\$56.8 M
<\$4 M	7%
<\$4 M to \$8 M	25%
<\$8 M to \$12 M	24%
>\$12 M	44%

Additional Statistics for All Search Fund Acquisitions	Minimum	Median	Maximum
Company Revenues at Purchase	\$1.0 M	\$7.9 M	\$31.6 M
Company EBITDA at Purchase	\$0.0 M	\$2.0 M	\$11.6 M
Company EBITDA Margin at Purchase	0%	23%	68%
Purchase Price / EBITDA	NM	5.8x	25.0x
Purchase Price / Revenue	0.2x	1.4x	6.9x
EBITDA Growth Rate at Purchase	-80%	10%	94%
Revenue Growth Rate at Purchase	-50%	10%	53%
Company Employees at Purchase	12	58	1,200

Searchers prefer service-oriented and light manufacturing businesses outside rapid tech cycles, where professionalization can unlock growth. Family-owned firms led by retiring founders are particularly attractive, as they often lack an internal successor and offer smoother transition processes. Businesses with recurring revenue models or long-term contracts, such as B2B services and niche distribution, appeal for their predictability. Searchers also seek industries with high fragmentation to benefit from consolidation opportunities and minimal exposure to economic cyclicity. Low customer concentration, transparent operations, and clean balance sheets are critical criteria to reduce risk and facilitate due diligence. Finally, companies that can be scaled through operational improvements, by implementing digital tools, professional management practices, or geographic expansion, offer the upside searchers pursue: They want good companies, but not too good companies.

#### 1.3.5.1 Equity raising

Here is where investors decide if invest or not in the company, before the Due Diligence process, they only gave a green-light/red-light signal. Usually, Searchers have long and exhaustive conference call with each investor to demonstrate to them how they believe in the project, it's not rare to see a

searcher flies to the investor headquarters. By and large, every time an equity gap jumps out because of many reasons:

- The company is too small, and the minimum ticket of the investor would mean more than 30% of the company
- The company is too big, and the maximum ticket of the investor would mean less than 5% and so not a tax-efficient investment.
- Search Fund investors are not a lot and if some of the main investors do not invest in an opportunity others will not invest as well.

That's why it is important that searchers have a broad list of contacts, also investors who didn't commit in the search phase, to contact. It's relevant to mention that investors like to own more than 5% (or even 10% depending on the country) for tax reasons.

#### 1.3.5.2 Leverage

Of course, leverage is one of the most important parts of acquiring a company, modern economics theory has not yet able to give us a "formula" or a "way of doing" to calculate the perfect level of leverage, that's why is very important that:

- Searchers must have deeply understood the sector
- Investors bring their sector expertise
- Banks collaborate with not too strict covenants or too high rate

In order to show how leverage is relevant in search funds, having a D/E ratio of 1 and repaying debt and selling the company at the same multiple in 4 years gives back to investors an IRR of ~20% which the 2 times the average return on the S&P-500. Half of the searcher work is done by debt; that's why search funds investors love companies with steady and recurring revenues.

As obvious leverage depends on the sector and of course on the strategy of searcher, using high leverage for a Buy&Build wouldn't be that smart as well as not using high leverage for a public tender company with historical steady performances. In Europe, in particular in Italy, banks are not prone to lend money when the most common covenant for search fund "Net Debt/EBITDA  $\leq$  3" is not respected

#### 1.3.6 be a CEO

This phase might seem the most difficult. However, if one considers that the searchers are experienced professionals, skilled in both interpersonal finesse and practical skills, running a company becomes much less difficult, provided the business is fundamentally solid and market cycles are favourable. These searchers often have a rich entrepreneurial background, having previously created start-ups, and select opportunities guided by a clear belief that they can solve a specific and urgent problem.

### 1.3.7 exit

The ultimate goal of private equity (PE), venture capital (VC), and search funds, is achieving a successful exit, marking the culmination of their investment strategies and realizing returns for their investors. While PE, VC, and search funds share the common objective of maximizing value for their portfolio companies, their exit strategies exhibit distinct characteristics tailored to their unique investment approaches and risk profiles.

PE firms invest in mature, established companies with a proven track record and the potential for significant growth. Their exit strategies typically focus on maximizing the value of their investments through a variety of methods:

- **Initial Public Offering (IPO):** An IPO involves selling shares of the portfolio company to the public, raising capital and providing liquidity for investors. PE firms often pursue IPOs when the company has reached a stage of maturity and profitability that makes it attractive to public investors.
- **Sale to a Strategic Buyer:** A strategic buyer is another company that can acquire the portfolio company to gain a competitive advantage, expand its market reach, or acquire valuable assets or intellectual property. PE firms may pursue a sale to a strategic buyer when it aligns with the company's growth strategy or presents an opportunity for a high valuation.
- **Sale to a Financial Buyer:** A financial buyer, such as another PE firm or a private equity investor, may purchase the portfolio company with the intention of further improving its performance and generating additional returns. PE firms often consider this option when they believe the company has more value to be created through continued investment and operational enhancements.

VC firms invest in early-stage, high-growth companies with the potential for disruptive innovation and exponential returns. Their exit strategies reflect the higher risk profile of these investments and focus on capturing significant value as the company matures:

- **Acquisition by a Larger Company:** VC firms often seek an acquisition of their portfolio companies by larger, established companies seeking to acquire new technologies, expand into new markets, or gain a competitive edge. This exit strategy provides VC firms with a substantial return on their investment and validates the potential of their early-stage bets.
- **Initial Public Offering (IPO):** Similar to PE firms, VC firms may pursue an IPO for their portfolio companies when they have reached a stage of maturity and profitability that makes them attractive to public investors. An IPO provides liquidity for VC firms and allows them to realize significant returns on their investments.
- **Sale to a Financial Buyer:** A private equity fund may consider adding a startup to its portfolio after the startup has become profitable and stable thanks to the help of a Venture Capital fund.



- **Buyback of shares:** occurs when the company repurchases its own equity from the investors. This transaction is often used as a method of exit for investors, providing them with liquidity. It can be advantageous for the company, as it allows the management to regain a larger ownership stake and control over the business. Buybacks are typically negotiated when the company has sufficient cash flow or access to capital, and they offer a way to consolidate ownership and align the interests of the remaining shareholders. (similar to the MBO of search funds)

Search funds, led by aspiring entrepreneurs, typically acquire lower middle-market companies with the goal of improving their operations and increasing their value. Their exit strategies reflect their focus on hands-on management and value creation:

- **Sale to a Strategic Buyer:** Search funds often seek to sell their portfolio companies to strategic buyers who can provide the necessary resources and expertise to take the company to the next level of growth. This exit strategy aligns with search fund operators' desire to create lasting value for their acquired businesses.
- **Sale to a Financial Buyer:** Search funds may also consider selling their portfolio companies to financial buyers, such as PE fund, who recognize the company's potential and can provide additional capital to support further growth initiatives. This exit strategy provides search fund operators with a significant return on their investment and validates their ability to identify and manage undervalued companies.
- **Management Buy-out:** An MBO occurs when a company's management team acquires the company from its current owners, often with the help of financing from private equity or banks. This can be an attractive option for search funds that have successfully turned around a company and want to realize a return on their investment. Of course, The company must have a strong financial track record and be in a position to generate sufficient cash flow to service the debt required for the MBO and gets a not-too-high interest rate from the bank.
- The IPO is an exit opportunity not to be ruled out even for search funds.

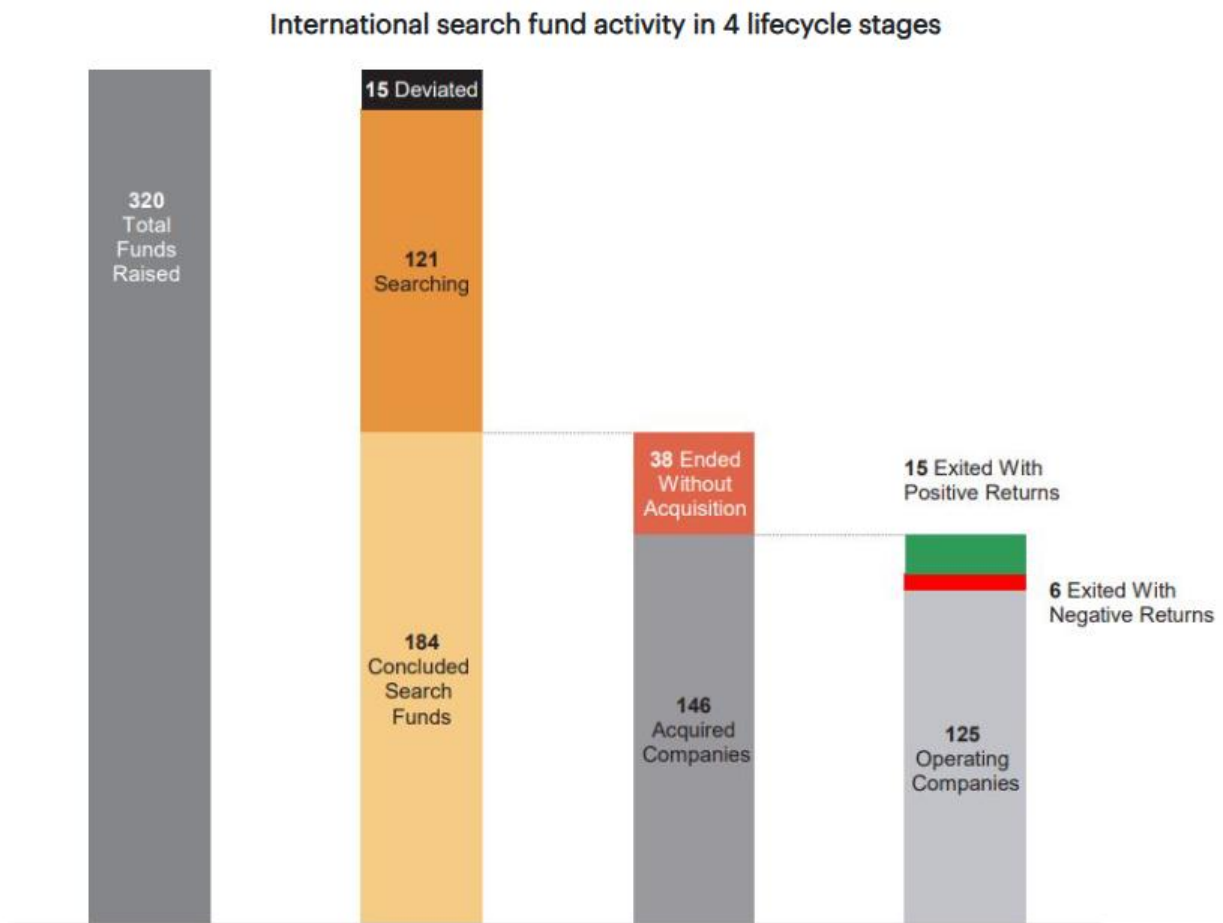
The exit strategies of PE, VC, and search funds often intersect, creating opportunities for collaboration and value creation. PE firms may acquire companies that have been successfully nurtured by VC firms or search funds, recognizing potential for further growth. Often among the investors of search funds and venture capital funds there are one or even more PE players, the reasons are simple: deep knowledge of how the company works, if there is room to grow, if there are some frictions in the company, why so? It's frequent that a Private Equity fund is the exit of search fund or Venture capital backed company.

## 1.4 Why are search funds getting more and more popular?

Alignment with Europe's family-business traditions, Family-owned enterprises constitute over 60% of all European companies, appeal to younger professionals seeking both leadership and equity, the active support of business-school ecosystems in particular IESE, in fact Spain is really the first country



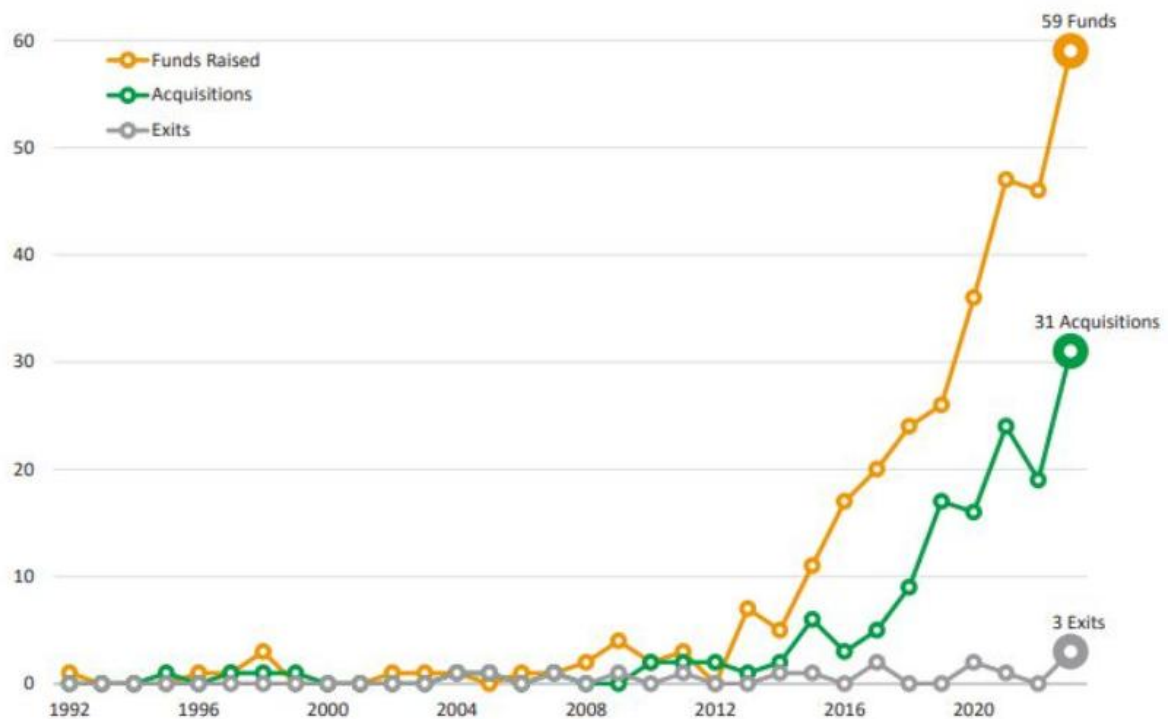
that really started the “trend”, and positive community impacts through job stabilization and legacy preservation. Together, these social factors are coalescing into a self-reinforcing European search-fund ecosystem that continues to expand its reach and deepen its societal roots.



*Source: Prepared by the authors based on IESE search fund surveys. Data as of December 31, 2023.*

International search-fund activity reached new heights in 2023, with 59 new “core” search funds launched outside the U.S. and Canada and 31 acquisitions completed, both all-time highs.

### International search fund activity by year



*Source: Prepared by the authors based on IESE search fund surveys. Data as of December 31, 2023.*

Of these international funds, 79% successfully acquired a business by year-end, outperforming the 63% success rate observed in U.S. and Canadian markets.

Investors in these funds have realized a median return on investment (ROI) of 2.0× and an internal rate of return (IRR) of 18.1%, with top performers delivering up to 31.4× capital, this DATA's are arguable since there too few Exit to have a representative sample.

Search funds cultivate dense mentor–mentee relationships: early-stage investors often double as advisors, sharing deal flow, operational guidance, and moral support throughout the search and acquisition stages.

Online forums such as searchfounder.com and dedicated social-media groups further amplify “bonding” social capital among searchers, enabling rapid sharing of best practices and collective problem-solving.

### International search funds by country



*Source: Prepared by the authors based on IESE search fund surveys. Data as of December 31, 2023.*

By democratizing access to acquisition capital, traditionally the preserve of seasoned executives or large PE firms, search funds expand entrepreneurial opportunity and support upward social mobility across socio-economic backgrounds.

IESE Business School, the first outside North America to offer a dedicated search-fund course, has seen over 60 alumni raise search funds in 20 countries, illustrating academia's catalytic role. Institutions like IESE and INSEAD (and Bocconi) integrate "Entrepreneurship Through Acquisition" or similar modules, case-competitions, and alumni panels, embedding search-fund know-how into MBA curricula and legitimizing it as a career path. Career-services offices increasingly highlight ETA (Entrepreneurship Through Acquisition) in post-MBA placement materials, further entrenching the model's social acceptance among emerging cohorts. By acquiring and sustaining mature SMEs, search funds help stabilize local employment, particularly in regions where small businesses are primary employers, bolstering social cohesion. Europe's Social Market economy ethos, where economic activity is expected to deliver societal as well as shareholder value, aligns naturally with search-fund objectives of legacy preservation and community engagement.

EU initiatives like the Capital Markets Union and social-impact investing trends are lowering financing barriers and enhancing public legitimacy for search-fund structures alongside traditional private equity.

Together, these social drivers, networks of trust and mentorship, cultural alignment with family enterprises, avenues for social mobility, robust academic backing, and positive community outcomes, are forging a vibrant, self-sustaining search fund ecosystem in Europe. As capital-market reforms advance and regional networks deepen, search funds are set to play an even more prominent role in European entrepreneurship and SME succession.

## 2 Secondary market for search funds

One of the most relevant issues is the illiquidity of search funds, but what if search funds were listed on the national stock exchange?

Firstly, we might believe that it is a completely “crazy” asset class, however, if we deeply think about it the typical search fund is a “boring” business with recurring and quite stable revenue which often needs a financially educated CEO to “really” grow. Search Funds might be considered less risky than stocks like TESLA or an ETF based on Nasdaq Biotech, on top: small caps companies are not this larger than Search Funds.

There are no documented cases of search funds exiting through an IPO to date, but it is worth noting that this type of exit is indeed contemplated by many seasoned search fund investors (and of course on their websites). The reason it’s not happened yet is in the complexity of taking a search fund-acquired company public, requiring not only strong financial fundamentals but also a level of governance, structure, and narrative typically beyond the immediate reach of most such acquisitions. That said, if a more accessible and less demanding market, such as Euronext Access or similar, were used, the IPO route could become a far more viable and concrete exit option. It offers meaningful flexibility, including the possibility of selling only a portion of the equity (for instance, 35%), while maintaining operational involvement and upside. Moreover, one of the recurring challenges during the acquisition phase of a search fund is evaluating whether the target company could ultimately attract private equity interest. Broadening the exit horizon to include IPOs would make a wider range of companies more appealing as search fund targets, thereby enriching the entire ecosystem with additional liquidity, optionality, and alignment across stakeholders. It’s not something that we should exclude the fact of not reach enough capital because of “a difficult exit”!

### 2.1 Companies large as search funds that are listed

In Europe, companies raising less than €60 million through IPOs represent a quiet but important segment of the capital markets. These transactions, often carried out on alternative markets like Euronext Growth, Euronext Access, or London's AIM, tend to involve companies similar to search funds, the difference? The CEO/Owner wants to grow further and not to retire. Unlike larger IPOs, which are orchestrated by investment banks to capture institutional interest on a global scale, these listings are usually domestically focused and driven by pragmatic needs: growth capital, increased visibility, and the professionalization of governance.

The companies in this bracket are often founder-led, sometimes profitable, and typically operate in niche sectors. Their motivations for going public range from seeking capital to fund geographic expansion, to legitimizing their brand in the eyes of customers and suppliers, to creating a path for future secondary offerings. While many of these businesses raise just a few million euros, like Execus S.p.A. (€0.9M), or Cube Labs S.p.A. (€4.1M), they frequently list with valuations below €40 million, offering retail and small institutional investors access to earlier-stage growth stories.

A search fund is an entrepreneurial investment vehicle through which an individual or small team raises money from investors to identify, acquire, and operate a single business, usually in the €5–€30 million valuation range. These businesses, like those entering public markets via small IPOs, tend to be owner-managed, under-optimized, and operating in stable sectors. After acquisition, the entrepreneur steps in as CEO and focuses on operational value creation, often with the help of the original investors (Exactly as search funds).

Both models are vehicles for transition. In the case of IPOs, the transition is often one of transparency, capital access, and partial founder liquidity. In the case of search funds, it is often a succession plan, where the outgoing founder sells to the next generation of leadership. Both approaches rely on modest capital injections, are heavy on operational improvement, and depend on aligning long-term incentives. And in both, the entrepreneur is central, not just as a figurehead, but as a steward of execution.

These similarities reflect a shared philosophy: that stable and resilient businesses might grow through discipline, focus, and modest capital, not just leveraged buyouts. They also face many of the same constraints: limited liquidity, concentration risk, reliance on a single operator, and the challenge of professionalizing small teams and systems quickly. Investors in both types of vehicles are betting less on the sector and more on the operator's ability to navigate growth with limited room for error.

In some cases, the lines blur entirely. Publicly listed vehicles have been created to pursue acquisition strategies reminiscent of search funds, with an entrepreneur or manager raising capital through a small IPO to execute a roll-up or build-up strategy in a niche market. Conversely, some search fund entrepreneurs have taken acquired companies public as a natural next step once scale and profitability were achieved.

These crossover patterns suggest a convergence: small IPOs and search funds may serve as complementary pathways toward the same goal, growing overlooked companies into disciplined, valuable enterprises. While they differ in governance, structure, and visibility, they both speak to a broader movement in Europe: entrepreneurs using lean capital strategies to create value from below the radar.

### 2.1.1 Requisites to be listed

First of all, it's relevant to understand if Search Funds adhere to stock exchange listing requirements. For example, listing on the Italian Stock Exchange is subject to a robust regulatory framework, as defined by Borsa Italiana. Companies must meet a series of formal requirements designed to ensure transparency, liquidity, and investor protection. These formal criteria include:

- **Financial Reporting:** Companies must have published and deposited audited (and, when applicable, consolidated) financial statements for the last three fiscal years, with the most recent year fully audited.
- **Share Transferability:** Shares must be freely transferable, meaning any restrictions on the circulation of shares are eliminated.

- **Market Capitalization and Free Float:** A minimum market capitalization is required (for instance, around €20 million for certain segments), and a sufficient free float is necessary—typically, at least 25% of the share capital must be held by public investors.
- **Corporate Governance:** Companies must adhere to stringent corporate governance standards, which include the appointment of independent directors and the implementation of robust internal control systems.
- **Additional Documentation for New or Restructured Companies:** Firms with a short operating history or those that have undergone significant structural changes must provide pro-forma financial statements and interim disclosures to offer a complete picture of their financial health.

There is no requirement which would be prohibitive or not easily obtainable for search funds.

### 2.1.2 Stock Exchange Listing Costs

Based on the Borsa Italiana, the cost to be listed isn't a single fixed amount, but, it's calculated according to your company's market capitalization. For instance, for companies that are not already listed on a foreign market on the Euronext Milan (main) market, the initial admission fee is set at about €250 for every €1 million of market capitalization. This fee is subject to minimum thresholds. additional charges may apply (such as a fee of €5,000 for each new class of shares), and ongoing annual fees are also levied based on similar calculations.

Annual fees for being listed on Borsa Italiana are paid in advance for the entire calendar year (from January 1 to December 31). They are calculated based on the company's average market capitalization, typically determined by multiplying the arithmetic average of the closing prices over the last three months of the previous year by the number of shares in circulation as of December 31.

For example, according to the official Price List:

- For “all companies,” the fee is approximately €51 for every €1,000,000 of market capitalization, with a maximum (cap) of about €430,000.
- For companies listed on the Euronext Milan market where Borsa Italiana is the reference market, a fixed annual fee of around €23,500 is applied.
- In the case of dual or multiple listings where Borsa Italiana is not the reference market, different fee structures apply.

Additional charges may also apply for certain conditions or services (such as fees for new classes of shares).

### 2.1.3 How Private Equity might speed up the listing process

Private equity sponsors arrive at the IPO starting line with much of the requirements already done, deploying standardized due-diligence fac-simile, secure data rooms and seasoned advisory teams so that financial, legal and operational check can run in parallel rather than in sequence. They pre-package disclosure materials, often based on previous templates and checklists refined by dozens of deals and staff dedicated deal teams who know exactly what regulators and investors want, decreasing by few weeks/months the typical six- to nine-month pre-IPO timeline

1. **Pre-packaged Documentation & Virtual Data Rooms:** Private equity uses comprehensive Confidential Information Memoranda (CIMs) and Due-Diligence Questionnaires (DDQs) that cover every expected audit area: financial, legal, tax, IT, environmental and management, cutting time and jumping straight to the document requests.
2. **Parallelized Workstreams:** Rather than having one audit and the another one after, PE sponsors thanks to separate teams to handle financial, legal, commercial and operational due diligence on parallel. In a dual-track framework, M&A and IPO preparations even run side by side, so board approvals, regulator Q&As and investor roadshows overlap, compressing what normally takes six months into three to four months. Secure virtual data rooms give continuous, permissioned access to these materials, eliminating the back-and-forth that often stalls S-1 drafting.
3. **Specialized In-house & Repeat-deal Advisory Teams:** PE firms maintain rosters of accountants and consultants who have been through many IPO.
4. **Pre-IPO Readiness Program:** By sponsoring pre-IPO readiness programs, often run by Big 4 advisors. PE-backed companies complete mock audits and pre-file disclosure reviews before drafting begins. This proactive remediation of material weaknesses means that by the time the S-1 submission is drafted, most SEC (or European regulator) comments are already anticipated and addressed.
5. **Strong Market Signal & Reduced Scrutiny:** The mere fact of PE sponsorship signals “battle-tested” governance to both exchanges and institutional investors, inviting less probing scrutiny than an unknown issuer. In dual-track scenarios, this confidence allows underwriters to conduct accelerated bookbuilds, sometimes closing in 24–48 hours (with fewer due-diligence hold-ups)

### 2.2 Has anything similar been done before?

Euronext Access is a European junior equity market explicitly structured to help SMEs tap public capital pools with minimal regulatory friction. Launched in Dublin in October 2024, it attracted over 170 issuers with a combined market value of €12 billion, positioning itself as a real alternative for companies not yet ready for Euronext Growth or the main regulated market.

Unlike fully regulated markets, Euronext Access lets issuers raise up to €10 million via an IPO or capital increase through a streamlined admission process, with no preliminary prospectus required for offerings below €8 million under EU rules. Member states may even exempt offers under €1 million



from a prospectus entirely, and the platform supports twice-daily auctions to provide structured liquidity for shareholders and employees.

Free float requirements start at zero for the basic Access segment and begin at just €1 million of publicly held shares, easing the burden on companies with tight early-stage shareholder bases. By contrast, Euronext Growth typically mandates a free float of at least 10 % or €1 million, and the main regulated market demands a 25 % free float or €5 million in market-cap terms.

Admission costs on Euronext Access are a fraction of those on larger markets, often between €100 000 and €300 000 for a full IPO, while listing can be completed in as little as three to four months in Dublin, thanks to the absence of sponsor mandates on the basic platform and lighter ongoing disclosure obligations.

Real-world practice confirms that sub-€5 million capital raises are routine. In Brussels, Choice NV executed a €5 million funding round via Access in October 2020, and French biotech VOGO launched a €5 million open offer on Euronext Access Milan in April 2024, all without triggering full regulated-market requirements. Moreover, Ireland's junior ESM market (a close analogue) has seen a succession of sub-€5 million listings, underlining the appetite for micro-IPO structures across Europe.

Dublin's springboard market is already garnering attention: Euronext Dublin's CEO reported "significant interest" ahead of its mid-2025 launch, and the IPOready leadership programme further primes Irish executives to leverage this venue for funding and growth.

Euronext Access offers a compelling mechanism to fill the typical €2–5 million equity gap post-acquisition without ceding control or engaging in protracted private-placement rounds. Key advantages include:

- **Flexible sizing:** Capital raises from €1 million up to €10 million, accommodating smaller equity needs without overstretching the offering.
- **Cost efficiency:** IPO fees and advisory costs are materially lower than on regulated segments, preserving investor economics.
- **Visibility & liquidity:** Public trading, albeit in a multilateral trading facility, broadens potential investor pools to retail and niche institutions.
- **Up-listing runway:** Access and Access+ serve as steppingstones toward Euronext Growth or the main market as the business scales.

In sum, Euronext Access might work well as public-market outlet for search funds also enhancing credibility, and maintain optionality for future capital markets moves, making it a strategic complement to the traditional private fundraise toolkit.

### 2.2.1. The Growing Viability of IPOs as Search Fund Exit Strategies

The IESE study indicates that a significant proportion of acquired companies are in the technology or software sectors, industries that traditionally attract higher valuation multiples. Moreover, while

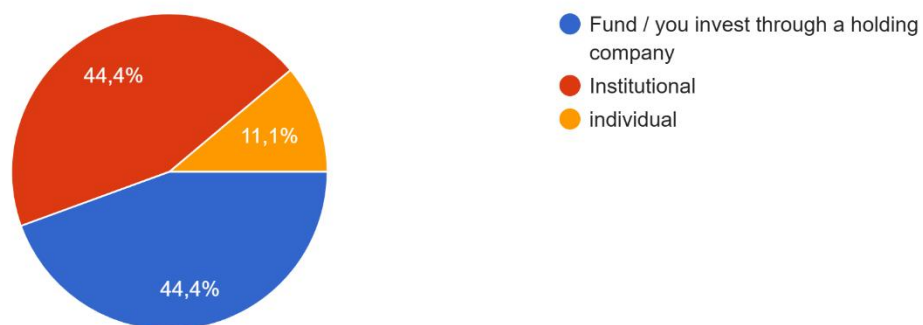


certain costs associated with going public are fixed, recent developments show that several stock exchanges have introduced frameworks that are increasingly supportive of small and medium-sized enterprises (SMEs). Considering these factors, the prospect of initial public offerings (IPOs) emerging as a feasible exit opportunity for search funds appears increasingly plausible.

## 2.3 Who answered this form

What kind of investor are you?

9 risposte



Investors from all around the search fund word (North America, EMEA and Australia) have answered to this form. The sample is well distributed since investors of each kind are present spanning across funds, ex-searchers, entrepreneurs, Private Equity professionals and of course serial investors.

## 2.4 What AI thinks about this?

At the question: *do you think investors who specialize in search funds would be happy to have a secondary market where they could trade the companies' shares?*

Deepseek R1 answered:

Specialized search fund investors would likely view the development of a secondary market for exchanging shares as a mixed opportunity, offering both liquidity advantages and potential challenges to long-term strategic alignment. Below is a structured analysis:

### Benefits of a Secondary Market for Search Fund Investors

1. Enhanced Liquidity: a secondary market would allow investors to exit positions before traditional exit events (e.g., acquisitions or IPOs), addressing a key pain point in search fund investments, which typically have a 7+ year holding period. This aligns with the Seedrs Secondary Market example, where liquidity enables investors to rebalance portfolios or access capital earlier.

2. **Attracting New Investors:** Liquidity could make search funds more appealing to risk-averse investors who are deterred by long lock-in periods. The ability to trade shares might broaden the investor base, similar to how Seedrs' platform expanded access to private equity.

3. **Price Discovery:** A secondary market could improve valuation transparency, helping investors assess fair market value for their stakes a challenge in private markets where valuations are often opaque.

4. **Diversification Opportunities:** Investors could use proceeds from secondary sales to reinvest in other search funds or sectors, aligning with the diversification benefits highlighted in search fund strategies.

### Challenges and Concerns

1. **Impact on Long-Term Strategy:** Search funds thrive on patient capital and close investor-searcher collaboration. Premature exits might disrupt operational focus or reduce investor commitment to long-term value creation, a cornerstone of the model.

2. **Valuation Volatility:** Secondary markets introduce price fluctuations driven by market sentiment rather than fundamentals. This could misalign with search funds' emphasis on stable, high-margin businesses.

3. **Dilution of Influence:** New investors entering via secondary trades may lack the original investors' industry expertise or mentorship commitment, potentially weakening the strategic support network.

4. **Structural Complexity:** Implementing a secondary market requires legal and operational frameworks to handle transfer restrictions, shareholder agreements, and regulatory compliance—challenges evident in platforms like Seedrs.

### Industry-Specific Considerations

- **Tech and Services Dominance:** Search funds heavily target software, healthcare, and tech-enabled services. These sectors' growth trajectories might benefit from liquidity, but their reliance on long-term innovation could clash with short-term trading.
- **Investor Returns:** Search funds historically deliver high returns (e.g., 35.3% IRR). A secondary market might compress returns if early exits reduce participation in later growth stages.

### Conclusion

While a secondary market offers liquidity and flexibility, its success hinges on balancing these advantages with the search fund model's core tenets: long-term stewardship, investor mentorship, and alignment with operational goals. Specialized investors may welcome such a market for select holdings but would likely prefer structured mechanisms (e.g., staggered exit windows) to preserve strategic cohesion. Platforms like Seedrs demonstrate feasibility, but search funds' unique dynamics necessitate tailored solutions.

Chat-GPT o3 answered:

Specialized search fund investors might find the idea of a secondary market for exchanging shares of companies intriguing, but their enthusiasm would depend on several factors related to the unique nature of search fund investing and the characteristics of secondary markets.

### **Potential Benefits of a Secondary Market for Search Fund Investors**

1. **Liquidity:** Search fund investments are typically long-term and illiquid, as they focus on acquiring and operating a single company for an extended period (often 5–10 years). A secondary market could provide investors with an opportunity to liquidate their positions earlier, which might be particularly appealing to those seeking flexibility or facing unforeseen financial needs.
2. **Portfolio Diversification:** By allowing investors to trade their shares, a secondary market could enable them to diversify their holdings across multiple search funds or industries, thereby mitigating risk.
3. **Attracting New Investors:** The existence of a secondary market might make search funds more attractive to a broader range of investors, including those who are hesitant to commit to illiquid investments. This could increase the pool of available capital for search fund entrepreneurs.
4. **Price Discovery and Valuation:** A secondary market could help establish clearer valuations for search fund investments, which are often opaque due to the private nature of these businesses. This transparency might benefit both existing and potential investors.

### **Challenges and Concerns**

1. **Misalignment with Long-Term Focus:** Search fund investing is inherently long-term and hands-on, emphasizing operational control and mentorship. A secondary market might encourage short-term trading behavior that conflicts with the long-term growth strategies central to search funds.
2. **Market Volatility:** Secondary markets are subject to economic and political fluctuations, which could introduce volatility into the valuation of search fund shares. This might deter some investors who prefer the stability associated with private equity-style investments.
3. **Regulatory and Structural Complexity:** Establishing a secondary market for such niche investments would require significant regulatory oversight and infrastructure development. The relatively small scale of the search fund ecosystem might make this economically unfeasible.
4. **Loss of Investor Engagement:** Search fund investors often play an active role in mentoring and guiding entrepreneurs. If shares are traded frequently, it could dilute this close relationship, potentially impacting the performance of the acquired companies.

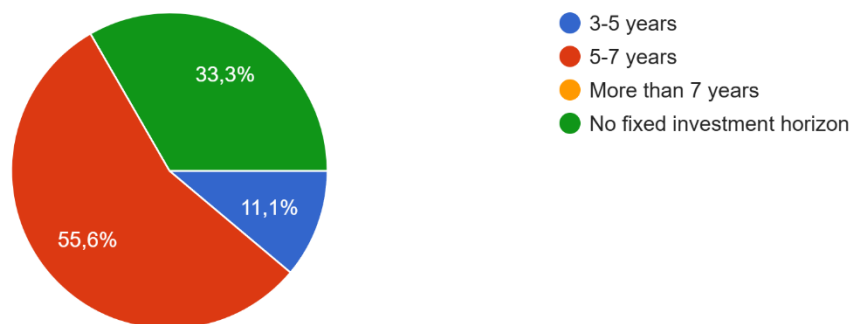
### **Conclusion**

While a secondary market could offer liquidity and diversification benefits, it might also undermine some of the core principles of search fund investing, such as long-term commitment and active involvement. Specialized search fund investors would likely weigh these trade-offs carefully before embracing such a platform. For those who value liquidity and flexibility, the concept could be appealing; however, traditionalists who prioritize operational control and mentorship may view it with skepticism.

## 2.5 Results

What is your preferred investment horizon for a search fund?

9 risposte

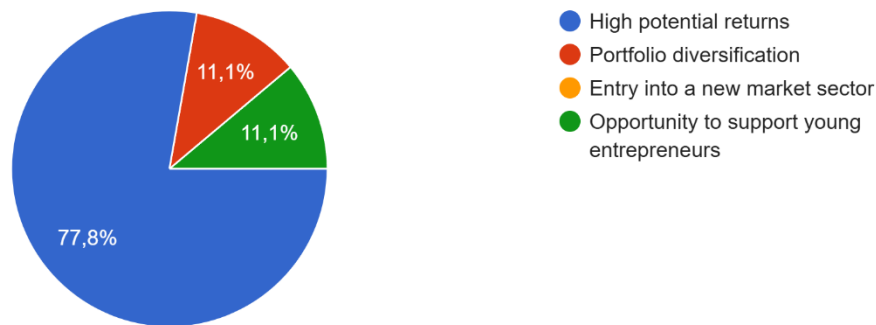


As expected, the majority of investors adopt a medium to long-term perspective, with over 55% favoring a 5–7 year horizon and a third expressing flexibility with no fixed timeline. This aligns well with the typical lifecycle of a search fund investment, which often requires patience to yield meaningful returns.

It's worth noting that a very short investment horizon, such as under three years, may not be suitable for this type of asset, given the intrinsic illiquidity and the need for time to execute a successful acquisition and value creation strategy. If you wouldn't hesitate to recommend a 5-year government bond to a risk-averse investor like your mother, why not consider allocating a small portion (say 5%) of her portfolio to a diversified pool of search funds? With proper mindfulness, this could offer an attractive risk-adjusted return within a longer-term allocation.

What factor most attract you to invest in a search fund?

9 risposte

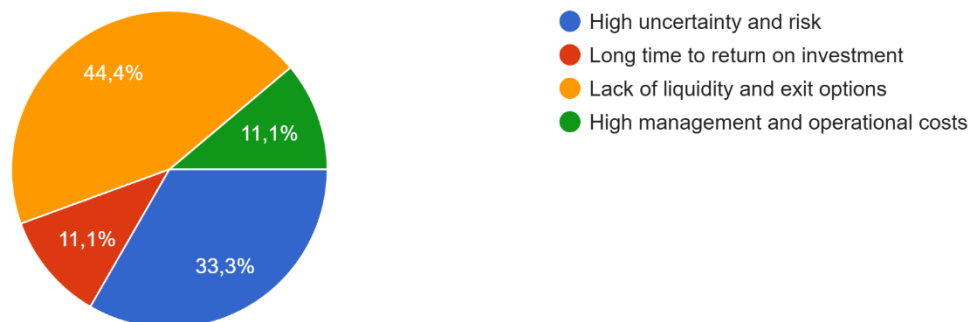


Unsurprisingly, the vast majority of investors (nearly 78%) are primarily drawn to search funds by their high return potential. And with an average IRR of around 35%, the numbers speak for themselves.

While diversification and strategic entry into new sectors hold value, it's clear that performance remains the key driver. This reinforces the idea that search funds, when executed well, can be a compelling alternative asset class capable of delivering strong, risk-adjusted returns over the long term.

What are the main obstacles or costs that might deter you from investing in a search fund?

9 risposte

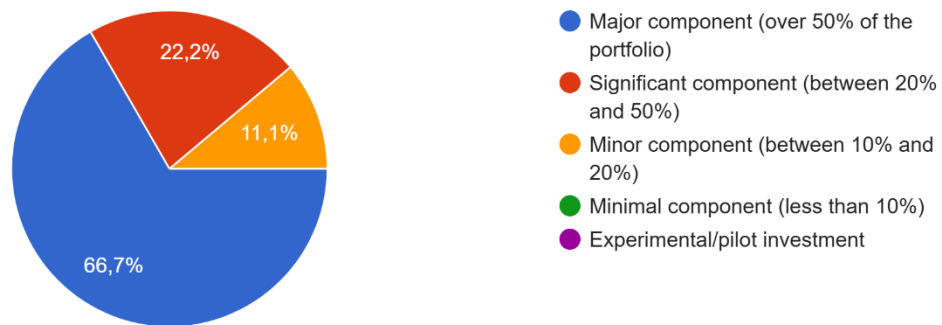


As expected, illiquidity and a long time to return on investment are top concerns, with nearly 45% of respondents highlighting the lack of exit options as the main deterrent. This reflects the inherent nature of the asset class, search funds are, by design, long-term and relatively illiquid investments.

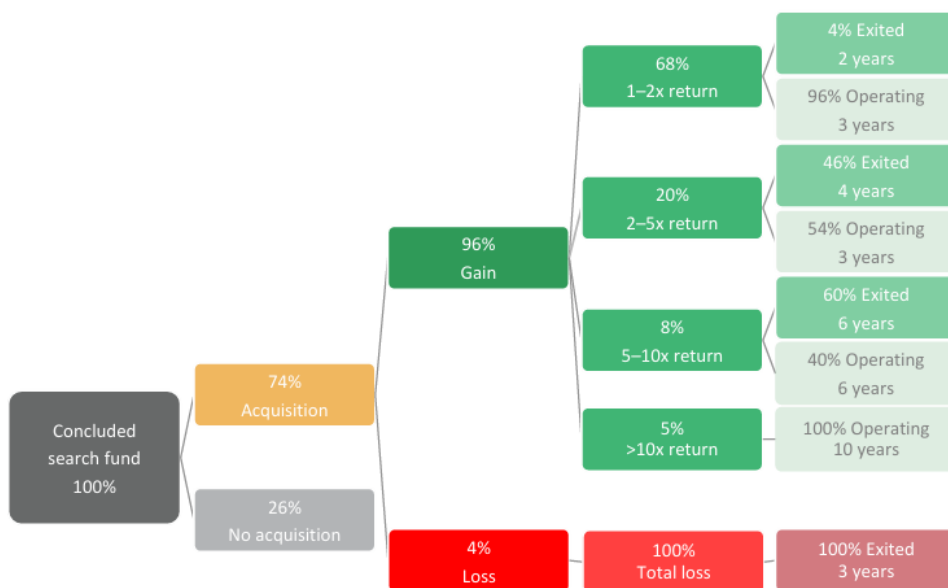
And while the high expected IRR is certainly attractive, it naturally comes with a corresponding level of risk and uncertainty. In this context, investors must weigh the trade-off between liquidity and potential upside. Like in any alternative investment, alignment of time horizon and risk appetite is key.

## What role does investment in search funds play in your overall portfolio?

9 risposte



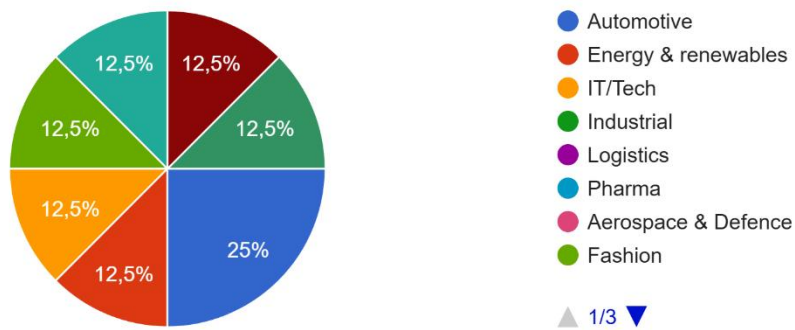
Even if professional search fund investors before said that this asset class is (very) risk, it's clear how much they like it and how they are all-in. Following what we can see below (IESE SF-study 2024)



Considering the Average here above and considering as well the worst-case scenario, where in the range 1-2x we get a return of 1x and in the range 2-5x we get a return of 2. We are still getting an IRR on average ~30% above the S&P500 (probably having lower risk, since search funds as said before are less sensible to politics). You will get an IRR of 11,3% considering 6 years of life (you will invest only in the company non in the search phase)

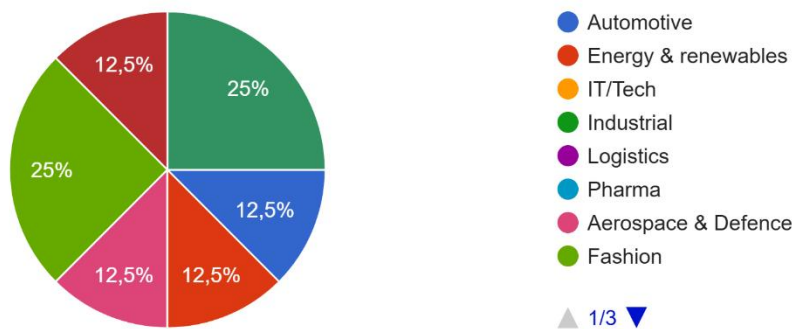
What are the industries in which you will not invest? (first choice)

8 risposte



What are the industries in which you will not invest? (second choice)

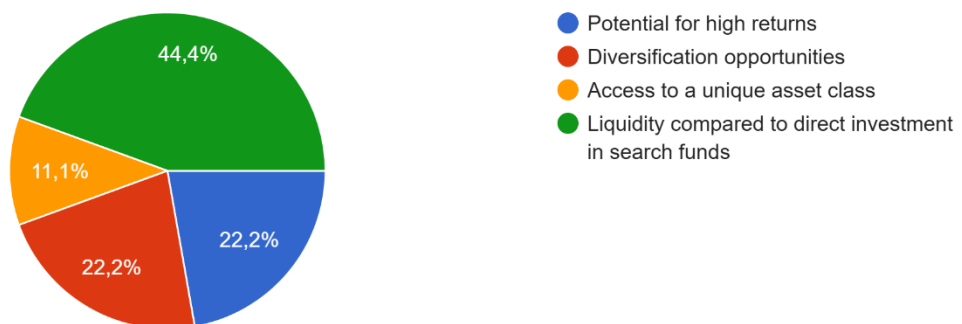
8 risposte



Professional search fund investors are not avoiding any industry, only automotive has been selected more than 1, probably because in 2025 this industry is on a downward trend.

Which aspects of the secondary market for search funds do you find most appealing?

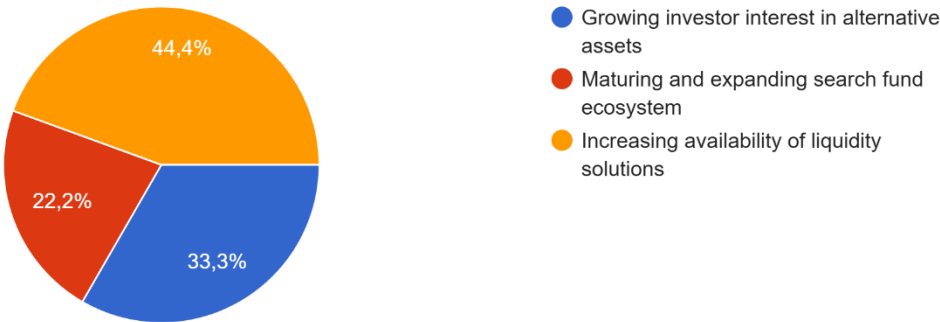
9 risposte



The survey highlights key advantages of the secondary market for search funds, high returns (44.4%), diversification (22.2%), access to a unique asset class (22.2%), and liquidity (11.1%). These benefits address a critical pain point for search fund investors: exits. A robust secondary market could provide much-needed liquidity, reduce holding periods, and create flexible exit opportunities, ultimately making search funds more attractive to a broader range of investors.

In your opinion, what is the biggest opportunity for the secondary market in search funds over the next 5 years?

9 risposte

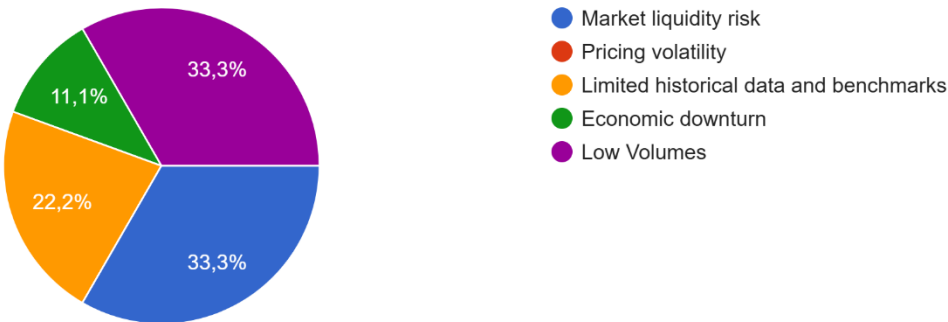


The survey results highlight the most promising opportunities for the secondary market in search funds: growing investor interest in alternative assets (44.4%), increasing availability of liquidity solutions (33.3%), and a maturing search fund ecosystem (22.2%).

This aligns perfectly with the core challenge: illiquidity. A robust secondary market directly addresses this issue by providing much-needed exit options and flexibility. It's also interesting that 33.33% of investors selected: growing investor interest in alternative assets, in particular because this has always been an Asset class for the Elites

What are the primary risks associated with investing in the secondary market for search funds?

9 risposte

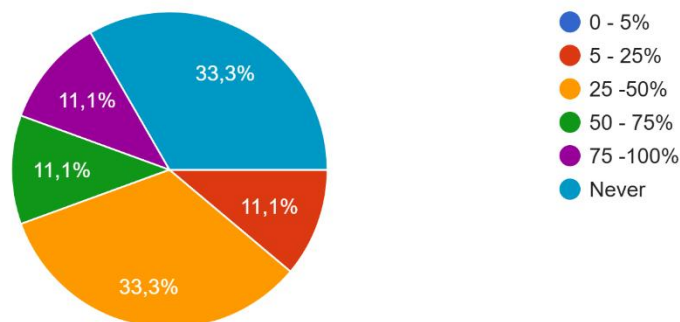




The survey identifies as key risk in the secondary market for search funds the illiquidity and consequently the low volume. However, these challenges aren't unique to search funds; they mirror risks seen in other small or thinly traded asset classes. The difference? Search funds offer higher growth potential, very expert Board of Directors and a Top-Tier well-paid, well motivated CEO in exchange for these trade-off.

Have you ever thought about selling shares of companies before the EXIT?

9 risposte



Search funds typically generate impressive IRRs, so it may seem counterintuitive for them to sell. However, there are situations where exits become challenging—either due to structural constraints or illiquidity—making it difficult to realize gains within a reasonable timeframe. In such cases, even if the company generates sufficient cash to pay dividends, the fund may lack the time or flexibility to wait for a more opportune exit.

When did you consider selling share of companies?

9 risposte



## Can you explain why you thought of selling and when?

6 risposte

When in need of liquidity

Dipende dalla singola partecipata e performance e management \*

In a few situations I was not in agreement with the plan of the searchers and, given that no damage was done, would have preferred to get the money back.

When there is a window of partial exit and the searcher and other investors seek a long term holding not compatible with a fund investment.

we are first-in and first-out; we do not choose our exit windows; we take them as they come

Timing, a good fit/deal doesn't always come by at the planned moments. Hence, no real logic here, other than we would like to see growth in Topline, Multiple and Bottomline

The survey shows varied timing preferences for selling search fund shares: 55.6% each time is different, while 11.1% wait until closer to the exit. The remaining 33.3% are distributed across Years 3-4 or cite case-by-case circumstances.

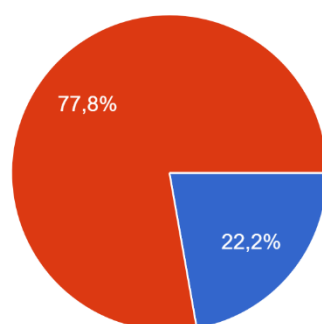
While the diversity of responses makes definitive conclusions challenging, the data reveals two dominant approaches:

1. Early liquidity seekers
2. Exit-aligned holders

This suggests the secondary market must accommodate both short-term liquidity needs and longer-term value realization strategies. The 'each case is different' as most common response further emphasizes the need for flexible transaction structures.

## would you buy shares of companies from someone else?

9 risposte



- Yes, I trust the search fund community (of course I'd like a "discount")
- Yes if the price is heavily discounted from the actual price
- I'm not sure that I can trust seller
- No

Please explain the choice of previous answer

4 risposte

I would expect to see a 20% discount over theoretical valuation

Opportunità

Yes, but it is not a matter of trust. Appropriate due diligence and reps and warranties are needed in any cases... the advantage would be that I may be a co investor or know the company already

all depends on price; we do not trade "trust"; we trade assets

The survey reveals strong interest in secondary market transactions, with 77.8% of respondents open to buying shares primarily if priced at a discount. This makes sense: as insiders, search fund participants have asymmetric information advantages. External buyers naturally require compensation for this imbalance, typically through discounted pricing.

The remaining 22.2% express hesitation, highlighting that trust and transparency remain key hurdles. For the secondary market to thrive, standardized valuation frameworks and seller credibility mechanisms will be essential to bridge this gap.

## 2.6 Why Search Funds have yet to embrace a secondary market

In theory, a liquid secondary market or an IPO could help search fund operators cover the equity shortfall ("equity gap") when acquiring an SME and provide eventual liquidity. In practice, both routes seem to remain a bit impractical for the search funds, in particular the smaller ones.

When searchers identify an acquisition target, they often discover that initial investor commitments fall short of the required equity, creating an "equity gap". While a secondary market might seem a way to tap additional capital, it fails for several reasons:

- **Lack of tradable float.** At the fundraising stage there are no existing shares in circulation, only new equity commitments. A secondary market only functions once stakes are issued, so it cannot provide upfront capital to close an acquisition. Banks should bridge the money left, buying equity, wait for the IPO and then sell the shares, which would be exposing the bank to an high level of risk or force the entrepreneur to sell his share in the market but this solution is risky as well because the selling price is not fixed and it might not be happy of it!
- **Complex transfer mechanics.** Shareholder agreements typically require sponsor consent, right of first refusal, and bespoke legal approvals for any transfer. Structuring a "platform" to navigate these approvals would be costly and slow negating the speed advantage searchers need to close deals.

- **Valuation uncertainty.** Without public pricing, secondary buyers demand steep discounts. Accepting such discounts would hurt remaining investors' economics and might jeopardize seller confidence in the search fund's valuation.

For these reasons, searchers still mainly rely on co-investment from interested parties during the formal equity raise, rather than attempting intra-investor trades that only become possible post-closing.

Searchers and their investors generally avoid IPOs as exit-opportunities because of:

- **Timing mismatch.** An IPO can only occur after several years of operational improvements; it cannot provide immediate capital at the point of acquisition. However, some particular market are “faster and simpler”
- **Scale and free-float requirements.** Some search-funds having €5–15 M EBITDA, which coupled with being in sector characterized by low EBITDA Multiple are simply too small to get listed
- **Cost and complexity.** The IPO process demands extensive governance upgrades, audited histories, regulatory filings, analyst coverage, and roadshow expenses and many months of lead time. This overhead distracts from the core search-fund mandate of rapid deal execution and focused operational improvement.
- **Investor fit.** Public-market investors seek high-growth narratives or disruptive technologies. Search-fund targets, usually steady, service-oriented SMEs, struggle to attract sufficient IPO demand at reasonable valuations.

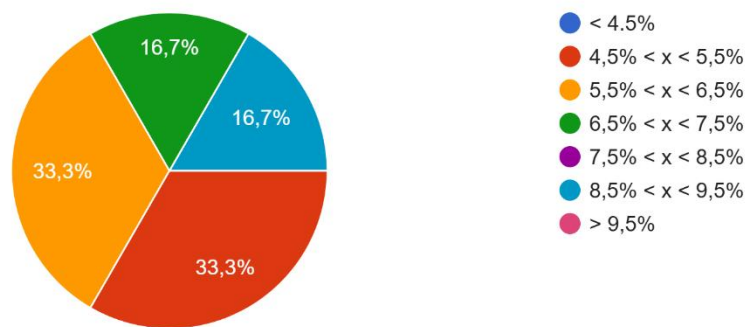
Instead, searchers plan to exit via strategic sales to private equity or industry buyers once value has been created. These routes allow full-price realizations, faster execution, and alignment with the search-fund model's hands-on, medium-term investment horizon.

### 3 European private debt funds for Search Funds

Are many the search funds that must reduce the leverage because of banks that ask for too high interest rates or even worse don't want to finance the acquisition because of its "riskiness".

What interest did the bank charge to finance your search fund debt?

6 risposte



Here above we can see that the average interest rate charged is ~6,5% against an average of 4,36% given to European companies

However, if we think about it, we are talking about companies that often have demonstrated resilience even in the Covid-19 Period that are now led by talented professionals who are backed by a Board of Directors of International investors who have experiences in the sector and/or wherever the searcher might need help. Often the riskiness of search funds is compared to the start-up's one, which is completely wrong because as said above, the business model is solid and probably is working well for many years. Companies acquired through search funds often find themselves in a uniquely advantageous position: they are led by CEOs with strong financial backgrounds, who have spent years studying the industry in depth, and are supported by seasoned investors with impressive track records and perfectly aligned incentives. While it's difficult to quantify how "good" these CEOs truly are, since leadership relies heavily on soft skills, which are inherently hard to measure, the fact that accomplished professionals choose to back them suggests they recognize the right qualities in these entrepreneurs. It's a bit like having top engineers, a generous budget, and a skilled driver: perhaps the car won't finish first, but it's very unlikely to finish last.

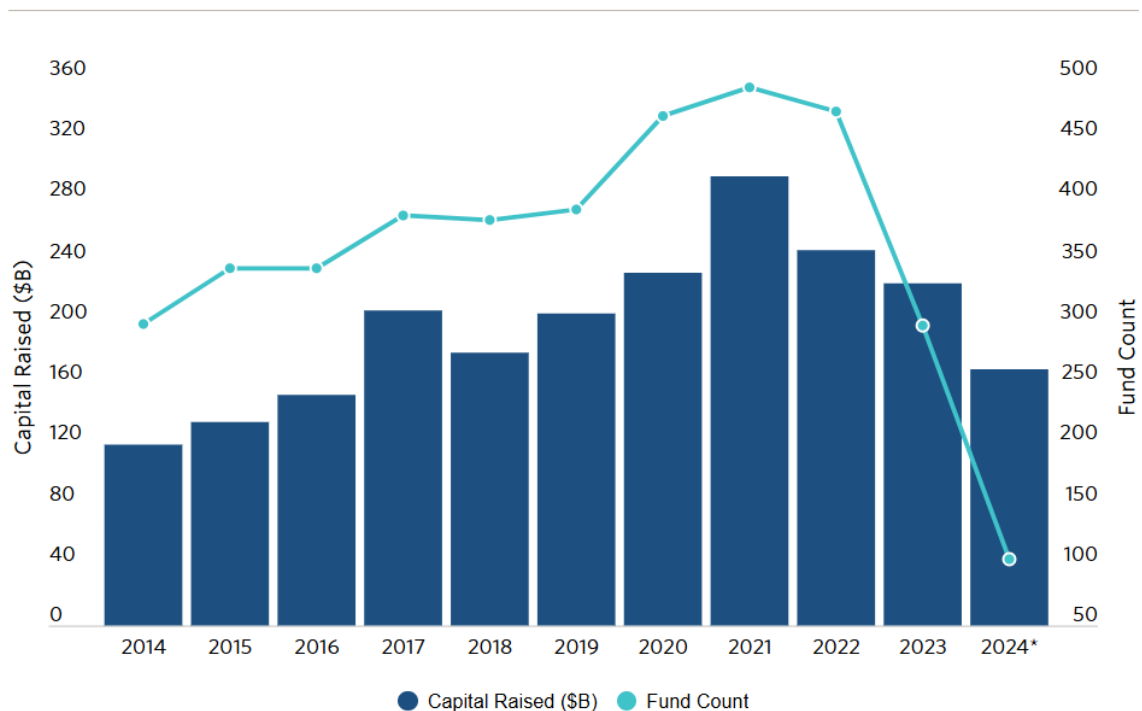
#### 3.1 What is a private Debt fund?

Private debt (also termed private credit) refers to debt financing arranged outside public bond markets and traditional bank syndicates, provided by non-bank lenders such as private credit funds, business development companies, and alternative asset managers. These instruments are typically privately negotiated loans featuring customizable covenants, floating interest rates, and structures tailored to borrower needs. Sub-categories include direct lending (senior and unitranche debt), mezzanine

financing (junior subordinated debt), asset-based finance (secured by receivables, inventory, or equipment), second-lien loans, and special-situations or distressed debt.

In the early 2010s, direct lending funds emerged to fill a €100 billion annual gap in European mid-market financing alone. Over the past decade, private debt AuM has grown nearly fourfold globally, with annual fundraising reaching new highs every year until market volatility in 2023 paused the ascent briefly.

## Private debt fundraising activity, 2014-2024



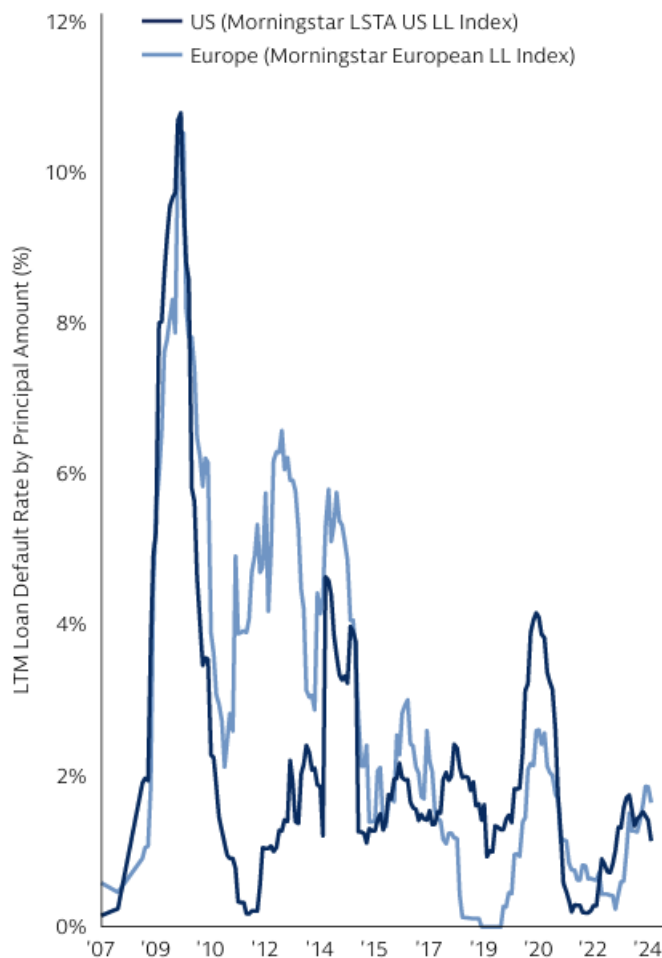
Institutional investors allocate to private debt to capture an illiquidity premium, diversify fixed income portfolios, and hedge against rising rates via floating-rate coupons. Pension funds and insurers seek long-dated cash flows to match liabilities, while family offices and wealth managers prize the higher yields (often 7–12 %) and lower public-market correlation. Retail exposure has begun via evergreen retail structures and private-credit ETFs, though liquidity mismatches pose redemption risk in stress scenarios.

Private debt typically targets senior secured positions near the top of the capital structure, offering downside protection versus equity. However, risks include credit default, limited market liquidity, valuation opacity, and covenant-lite deal terms that may amplify losses in downturns. Prudent managers employ strict underwriting, collateral monitoring, and portfolio diversification to mitigate these risks

### 3.1.1. Private Debt funds in Europe

European private debt AuM reached approximately €460 billion by mid-2024, representing 27 % of global private credit assets and reflecting a decade of compound annual growth surpassing other regions. According to KPMG's 2024 survey, European private debt funds saw AuM rise to €510 billion, up 9 % year-on-year, with Luxembourg domiciled vehicle: RAIFs, SIFs, SCSp accounting for over 80 % of new launches.

**European Default Rates Have Come In-line with the US**



Source: LCD, as of March 29, 2024.

As we can see here Above the Default rate is strictly correlated to 2008 mortgage crisis but also the interest rates play a relevant role.

Europe's diversified legal regimes necessitate bespoke fund structures. Luxembourg's Reserved Alternative Investment Fund (RAIF) and Specialised Investment Fund (SIF) vehicles are popular due to rapid authorization and flexible eligibility, comprising 62 % and 21 % of domiciled debt funds, respectively.

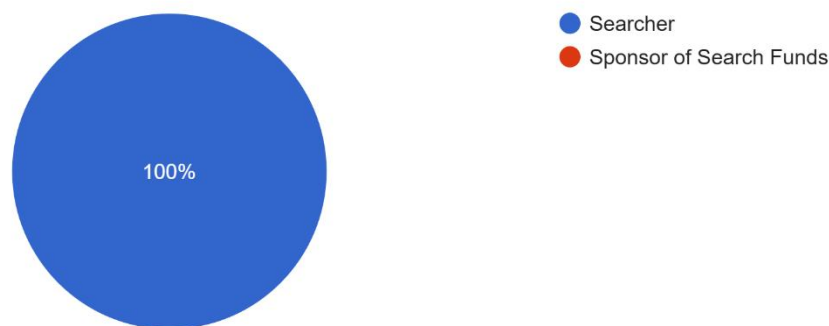
Global managers: Blackstone, Apollo, Ares, Oaktree, Carlyle have deepened European platforms, attracted by higher margins and less saturated markets. Local mid-market specialists, such as Eurazeo and intermediate-capital partners, focus on ticket sizes of €10–50 million, emphasizing senior secured loans to SMEs with EBITDA of €5–50 million.

Northern Europe boasts large-cap direct lending, while Southern Europe: Italy, Spain, Portugal offers under-served mid-market opportunities amid regulatory reform and family-owned business transitions. Sector focus ranges from acquisitive buyouts in technology and healthcare to asset-backed finance for real estate, infrastructure, and receivables lending.

Headwinds include rising ECB rates, covenant inflation, and liquidity management in evergreen vehicles—capped redemptions mitigate but do not eliminate risks. Nonetheless, structural bank retreat, growing SME financing needs, and regulatory enhancements under ELTIF 2 and SFDR create a robust pipeline for private debt growth in Europe. Market participants expect continued AuM expansion toward €700 billion by 2027, driven by diversified strategies and increased retail participation

### 3.2 Who answered this form

What kind of professional are you?  
12 risposte



The individuals who completed the form are the searchers, whether operating in Solo, Partnered, or Sponsored modes and, given the context of a European Private Debt fund, they come from all over Europe (including Italy, France, Germany, etc.) and are already engaged in running a company.

### 3.3 Why would it be good for European countries

After the initial phase (or during if there is an equity GAP) in which professional search fund investors commit capital to a company, the potential for that company to go public, in particular on the EURONEXT Access (in Ireland) that allows to “particularly small” companies to get listed while only making public a more than 10% of the company opens up significant opportunities for “normal people”. This transition not only provides a clear exit strategy for seasoned investors but also creates an avenue for everyday investors to participate in a venture managed by a highly qualified and experienced team who is also experiencing an interesting growth. In Europe, where saving rates are typically more than 10% compared to roughly 5% in the United States, this opportunity is especially attractive as it offers a productive way to deploy idle capital which would avoid the weight of inflation. The simplicity of the underlying business, characterized by straightforward, and as experts define it



“boring, operations that are easy to understand, further enhances its appeal, enabling investors to commit funds with a sense of self-assurance and knowing where they are investing.

Moreover, the historically high internal rates of return, averaging around 35% in the U.S., imply that even if ordinary investors capture a fraction of these returns, the potential rewards remain considerably attractive compared to traditional indices such as the S&P 500 or EUROSTOXX 600. In many instances, the searcher who leads the company continues as CEO after the public offering, ensuring continuity in leadership and preserving the strategic vision that contributed to the company’s success. The searcher will find himself in a position where he owns a relevant stake of the company which will give even more safety to the “normal” investors since their interest would be aligned.

Additionally, the operational model of these companies, which typically requires limited capital expenditure, can result in high-dividend yields (Usually search funds use extra cash to repay debt, but this repaying phase does not last for usually more than 4/5 years), a feature that resonates strongly with European investors who often prefer income-generating investments over high-growth but low or no-dividend alternatives. Such dividend potential, coupled with the inherent stability of these well-run companies, supports both individual wealth creation and broader economic stability. By offering a reliable exit for professional investors and providing a clear, comprehensible investment opportunity for the general public, the public listing of these companies could stimulate market dynamism and encourage a more diversified investment landscape across European countries also because “normal” people would invest in something Within human reach and not a corporation with a crazy ownership structure where the “normal” investor is not able to completely understand the business.

Summarizing everything:

- Searchers would be happy to fill the Equity GAP
- Normal people would have access to this amazing asset class with not much liquidities problems
- Serial investors would be happy or indifferent to have the company listed
- More succession issues would be solved

### 3.3.1. May/June 2025 cost of debt for search funds LBO

In the past 2–3 years, interest rates for search fund acquisitions in Europe and the UK rose sharply: starting in 2022, inflation led the ECB and BoE to hike base rates, pushing senior debt costs to 6–9% and mezzanine financing up to 15–20%. This made LBO financing significantly more expensive, particularly during 2023. However, by 2024–2025, the environment began to stabilize as central banks started cutting rates, improving credit conditions and bringing senior debt back to a more manageable 6–7% range. For search funds solving succession situations, often involving stable companies, low competition, and strong seller alignment, lenders (and ECB) should offer more favorable terms. Many banks and private credit funds recognize the lower risk profile of these transactions and may provide interest rates below those typical of standard LBOs.

### 3.3.2. What would happen without intervention

In the absence of a structured succession solution, many SMEs risk closure, liquidation, or prolonged underperformance. The European Commission has repeatedly warned that failed or delayed business transfers result in thousands of viable companies disappearing every year. According to them, around one-third of failed business transfers lead to business closure, not due to market failure or lack of competitiveness, but due to lack of planning and financing.

Without a successor, a family firm may:

- Be liquidated outright if no buyer is found.
- Be passed informally to family or staff, with (or without) proper management skills or resources, leading to stagnation or failure.
- Be sold at a discount, resulting in fire-sale outcomes that often reduce employment or economic activity.

A 2011 European Commission study estimated that up to 150,000 firms with 600,000 jobs are lost each year in the EU due to inefficient or failed succession.

A dedicated European fund providing debt capital to Search Funds that acquire and professionally manage SMEs facing generational handover would unlock substantial economic and fiscal benefits. Today, over half of European businesses lack any formal succession plan, and by 2026 some 500.000 firms, especially “Mittelstand” SMEs in Germany, will need successors; yet actual transfers are falling far short of this need. Since family firms account for roughly 70–80 % of all European enterprises and contribute 40–50 % of employment. A recent Robert Half survey finds that 51 % of European firms have no formal leadership-succession plan in place. Without clear handover mechanisms, many SMEs face ownership vacuums when founders retire or pass away. For example: Germany alone expects roughly 224 000 SMEs (6 % of its 3.81 million SMEs) to seek successors by end-2024; by 2026, over half a million German businesses will be looking for a new owner, yet takeover rates lag far behind, creating a widening “succession gap”.

Search Funds are small, entrepreneur-led investment vehicles that raise capital to identify, acquire, and operate a single SME. By matching motivated operators with retiring owners, Search Funds can professionalize management while preserving firms’ legacies. How?

- **Instrument:** Concessional senior debt facility (e.g., interest = EURIBOR + <3%) provided by the European Investment Bank or a dedicated EU agency.
- **Target:** Search Funds acquiring SMEs with clear succession needs.
- **Goals:**
  - Reduce financing costs for acquisitions that solve succession blockages.
  - Leverage private co-investment to amplify impact.
  - Preserve employment and stabilize tax bases in regional economies.

Why should Eu invest there? European businesses remit approximately 87% of all collected taxes; ensuring SMEs continue operating under new management secures that vital revenue stream. Moreover, successful transfers foster growth: the European Commission notes that streamlined business transfers maintain economic activity and investment, preserving jobs and social cohesion.

By lowering the cost of capital for succession-driven acquisitions, more search entrepreneurs will pursue viable deals. Each successful acquisition can:

1. **Stabilize Employment:** Retain skilled staff and prevent job losses.
2. **Boost Investment:** New operators often implement growth initiatives—R&D, digitalization, and market expansion.
3. **Enhance Fiscal Flows:** Continued profitability sustains corporate and payroll taxes.

Indeed, regions where Search Funds are active report higher SME survival rates and injection of fresh managerial talent.

Let's focus on the tax impact: consider an SME with:

- **Earnings Before Tax (EBT):** €1.6 million (avg. search fund company)
- **Statutory Tax Rate:** 25 %
- **Discount Rate:** Inflation (2 %)

If succession failure leads to business closure or underperformance, governments lose an annual tax flow of:

Considering as perpetuity discounted by inflation the tax paid by these companies we reach ~20M for each company who doesn't fail, and what if the fund would invest in 20 companies? The EU would not (potentially) lose 400M in taxes

A dedicated European fund backing Search Funds in SME succession deals offers a high-leverage mechanism to preserve jobs, secure tax receipts, and stimulate investment. By mitigating financing barriers for acquisitions that resolve succession blockages, Europe can turn a looming crisis into a growth opportunity—safeguarding the backbone of its economy and ensuring generational continuity for family firms.

### 3.4 What AI thinks about this?

At the question: *Do you think that European union should create a private debt fund to better finance search funds? If so, why?*

Deepseek R1 answered:

The European Union could benefit from creating a private debt fund tailored to search funds, as this would address critical financing gaps, enhance SME sustainability, and align with existing EU economic goals. Below is the rationale:

## 1. Addressing Search Funds' Financing Challenges

Search funds rely on a combination of equity from investors and debt to acquire businesses. While traditional lenders are gradually supporting these transactions in Europe, dedicated private debt financing could:

- **Improve deal viability:** Provide customized loan structures (e.g., unitranche or mezzanine debt) with longer tenors (7–12 years), better suited for search funds' long-term ownership models.
- **Reduce reliance on fragmented capital sources:** Search funds currently depend on a patchwork of investors and lenders. A centralized EU-backed debt fund could streamline access, mirroring the success of Invest EU's SME-focused instruments.
- **Lower borrowing costs:** EU guarantees (like those in InvestEU) could reduce interest rates, making acquisitions more affordable for searchers.

## 2. Supporting SME Succession and Economic Continuity

Europe's aging SME owners face succession challenges, with 30% of EU businesses at risk of closure due to ownership transitions. Search funds excel at preserving these enterprises by maintaining existing management and operations. A private debt fund could:

- **Accelerate acquisitions:** Provide faster, more reliable debt financing to close deals before SMEs shut down.
- **Enhance credibility:** EU-backed debt would reassure sellers about the searcher's financial capacity, addressing a key barrier noted in search fund transactions.

## 3. Synergy with EU Policy Objectives

The InvestEU Programme already prioritizes SME financing and innovation. A private debt fund for search funds would complement these efforts by:

- **Leveraging existing infrastructure:** Utilize InvestEU's network of financial intermediaries to deploy capital efficiently.
- **Crowding in private investment:** EU guarantees could attract institutional investors to private debt, similar to how InnovFin mobilized €26.6B for R&D projects.
- **Promoting regional equity:** Ensure smaller EU markets gain access to search fund financing, reducing disparities in entrepreneurial opportunities.

## 4. Risk Mitigation and Investor Appeal

Private debt funds typically offer secured loans with asset-backed collateral, aligning with the EU's risk-aware approach. By structuring the fund to prioritize:

- **Credit diversification:** Spread investments across multiple search funds and industries.

- **Advisory support:** Pair financing with mentorship from experienced investors (as seen in search fund models), the EU could minimize defaults while fostering a new generation of entrepreneurs.

## **Conclusion**

A dedicated EU private debt fund for search funds would strengthen SME succession, unlock entrepreneurial potential, and amplify the impact of existing EU financial instruments like InvestEU. By addressing financing bottlenecks and aligning with strategic goals, such a fund could become a cornerstone of Europe's sustainable economic growth.

could become a cornerstone of Europe's sustainable economic growth.

Chat-GPT o3 answered:

The European Union (EU) should consider creating a private debt fund to better finance search funds, as this could address several challenges and unlock significant economic potential. Here are the key reasons supporting this idea:

### **1. Addressing Market Gaps**

Search funds, which involve entrepreneurs raising capital to acquire and grow small and medium-sized enterprises (SMEs), often face difficulties accessing financing due to their niche nature and perceived risks. Private debt funds could fill this gap by providing tailored financing solutions for searchers, particularly in Europe where such funding is less developed compared to the United States. This would help overcome market inefficiencies and ensure that promising SMEs receive the capital they need for growth.

### **2. Supporting SMEs and Generational Transitions**

SMEs are the backbone of the European economy, but many face challenges related to generational transitions, as aging owners seek to retire without clear succession plans. Search funds are uniquely positioned to address this issue by acquiring and professionally managing these businesses. A dedicated private debt fund could provide the financial resources necessary for these acquisitions, ensuring continuity and growth in the SME sector.

### **3. Boosting Economic Growth**

Investing in search funds aligns with broader EU objectives of fostering innovation, entrepreneurship, and economic competitiveness. By facilitating SME acquisitions and professional management through search funds, a private debt fund could stimulate job creation, innovation, and regional economic development across Europe.

### **4. Leveraging EU Financial Instruments**

The EU has experience with financial instruments like InvestEU, which mobilize private and public capital to address market failures. A private debt fund for search funds could build on this model, leveraging EU guarantees or co-investments to attract private capital while mitigating risks for investors. This approach would align with EU policy goals of supporting SMEs and fostering innovation.

## 5. Enhancing Diversification for Investors

Private debt funds offer diversification benefits by investing across multiple industries and geographies. For example, initiatives like Search Fund Club already demonstrate the potential of diversified portfolios targeting SMEs in Europe. An EU-backed private debt fund could expand this model, providing investors with access to a broader range of opportunities while spreading risk.

## 6. Encouraging Sustainable Growth

Private debt funds could incorporate sustainability criteria into their investment strategies, aligning with the EU's green transition goals. By supporting search funds that prioritize environmentally and socially responsible business practices, such a fund could contribute to sustainable economic growth in Europe.

### Challenges to Consider

While the benefits are clear, implementing such a fund would require careful planning:

- Ensuring alignment between public and private sector interests.
- Designing risk-sharing mechanisms to attract private investors.
- Addressing regulatory hurdles across EU member states.

In conclusion, creating a private debt fund specifically for financing search funds would be a strategic move for the EU. It would address market inefficiencies, support SME growth and generational transitions, and align with broader economic and sustainability goals. By leveraging its experience with financial instruments like InvestEU, the EU could play a pivotal role in fostering a robust ecosystem for search funds in Europe.

## 3.5 The Silent Cost of Inaction

Search funds were born in the United States, a product of Stanford innovation and American entrepreneurial culture. Over the past few decades, they've matured into a well-understood model for buying and operating small businesses.

Europe is scattered with what can only be described as economic gems: highly specialized small and medium enterprises (SMEs) with stable cash flows, strong customer relationships, and deep roots in their communities (exactly what a searcher would look for). Many of them are facing succession challenges or generational transitions. In other words, they're ripe for exactly the kind of entrepreneurial acquisition that search funds are designed for.

And yet, if Europe doesn't push or support this model, what happens?

Not much, at least not immediately. To be honest: search funds aren't a mass-market phenomenon. We're not talking about hundreds of billions of euros. So, in the short term, the absence of support won't cause a crisis even because they would continue to grow on their own without any problem. The gears of the European economy will keep turning.

But something subtler, and more dangerous, will occur: Europe will continue to hemorrhage capital. Investors looking for yield, innovation, and opportunity will keep deploying funds in the U.S. and emerging markets, where the ecosystems are more mature and scalable. Meanwhile, European capital remains underutilized at home.

If Europe embraced the search fund model, it could reverse some of this trend. It would attract more local and international capital, funnel it into high-quality SMEs, and preserve economic value within the continent.

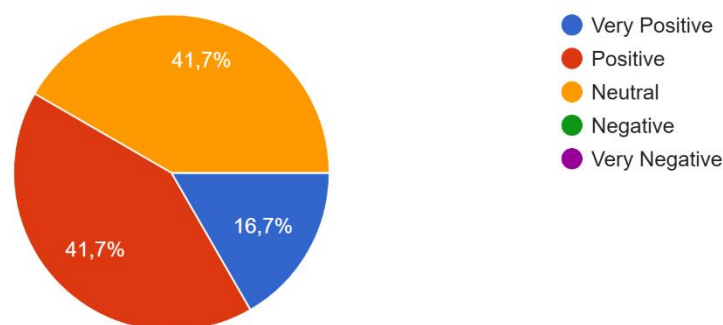
Failing to act, though, leaves the door wide open for others. When these SMEs eventually hit distress, because no one stepped in to take the reins, their value will collapse. That's when the opportunists arrive. Someone smarter, faster, and better capitalized will scoop up these companies for pennies on the euro. It might be hedge funds, distressed buyers, or foreign investors with little regard for local legacy or employment.

Europe won't just lose companies. It will lose ownership, know-how, and long-term economic leverage. That's the true cost of inaction: not a bang, but a silent transfer of value, from Europe to somewhere else.

### 3.6 Results

What is your general perception of private debt funds as an investment vehicle?

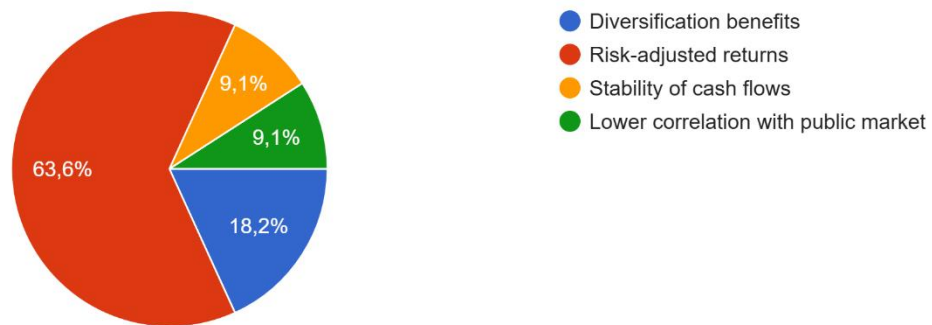
12 response



As the chart above illustrates, no searcher expresses a negative perception of Private Debt funds, highlighting a clear interest in access to lower-cost capital. While this reflects an idealized perspective rather than current market realities, it suggests that searchers recognize the potential value and attractiveness of such funding sources, reinforcing the perceived strength of the overall project.

Which aspect of a private debt fund do you find most appealing?

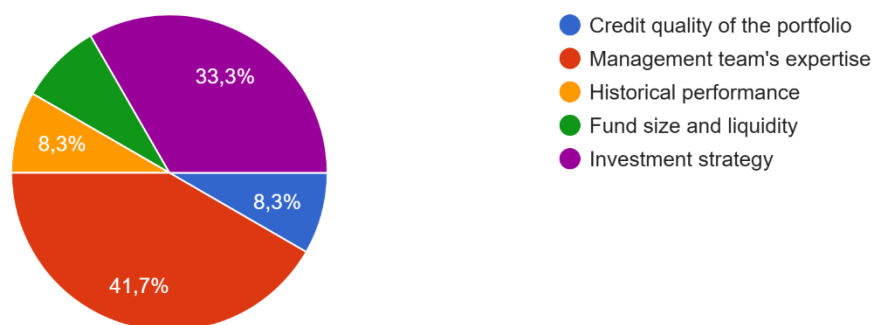
11 risposte



Naturally, searchers tend to perceive this asset class as less risky. However, a deeper understanding of the model supports this view. Data shows that the percentage of search funds resulting in a total capital loss is just under 4%, a figure that includes regions such as South America, which typically present higher risk profiles than Europe. For European search funds, the expected loss rate is likely below 3.5%, making the risk profile comparable to that of a high-yield bond ETF where the default rate is ~3.25%.

Which factor is most critical when evaluating a private debt fund?

12 risposte

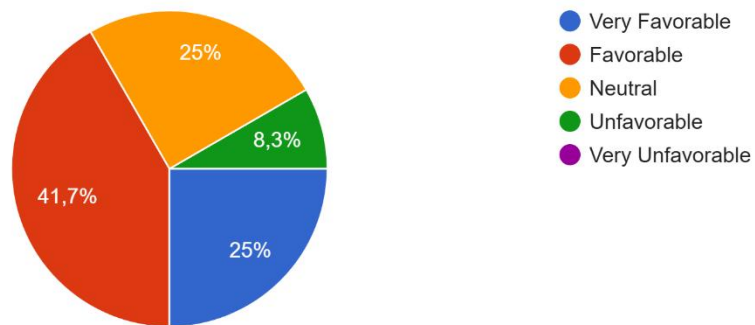


These are challenges common to all investment funds. In this context, a committee composed of former searchers would be ideally positioned to assess the true risk profile of each project, given their firsthand experience and deep understanding of the model.



How do you view the current market environment for private debt?

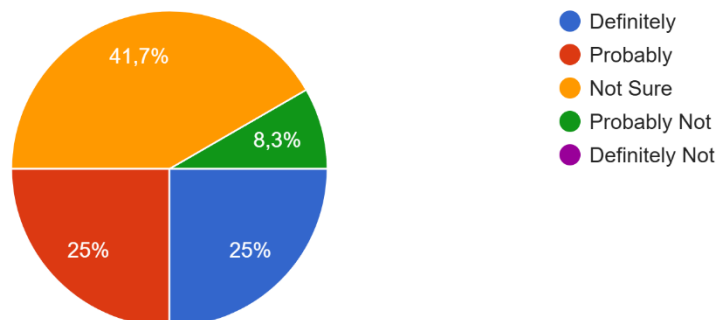
12 risposte



As mentioned above, this would be clearly beneficial for searchers, that's why their confidence in the option. That said, it's important to acknowledge that lower interest rates also translate into lower returns for lenders, as recent years have clearly demonstrated. In particular, in Italy it's clear how major banks core business is not anymore always lending.

Would you consider recommending a private debt fund to an investor with a moderate risk tolerance?

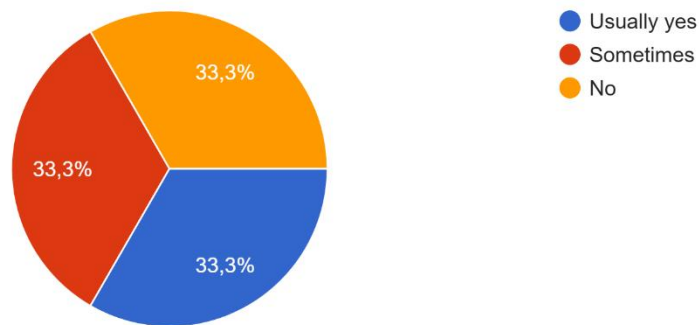
12 risposte



Given that the default rate is comparable to that of a high-yield bond ETF, searchers appear to be notably risk-averse in their assessments, in contrast with what they are doing.

Do you think that banks charges too high interest to search funds?

12 risposte



Can you detail the previous answer?

6 risposte

Specifically in Italy, my direct experience with acquisition financing shows relatively attractive terms / interest rates (as opposed to the ones typically offered in other European countries such as Spain and UK)

Based on my discussions with banks which offer structured finance - their offer should be pretty much similar to what typically private equity funds can get

It really depends on the business, sector and country.

n/a

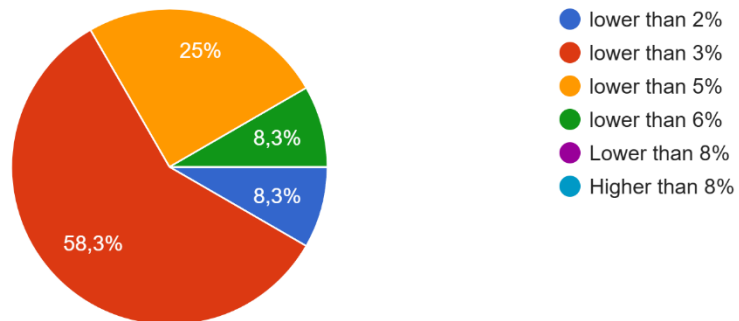
At least Not in Germany. Should be cheap in general if u solve a succession issue

It is what it is

*“Should be cheap if you solve a succession issue”* that’s what matters, considering also the “social part”, search funds usually have boring businesses that give stable cash flows and so are able to pay regularly wages to usually people who don’t have an incredible skill-set and it would not that easy for them to find another job

What should be the spread between the risk free (EURIBOR 6M) and the interest rate assigned to an average search fund?

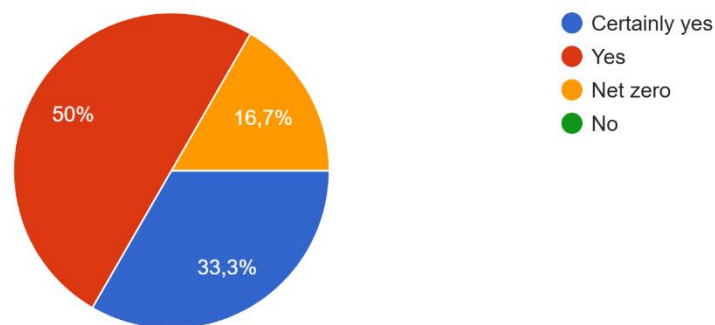
12 risposte



Currently (June 2025) around 5%

do you think a private debt fund mainly focused on lending to search funds could be profitable?

12 risposte



Can you detail the previous answer?

4 risposte

The risk of failure is probably higher than on traditional PE markets, how would this fund find a distinctive value proposition vs traditional banks operating into the LBO space ?

I believe search fund are looking for cheaper financing options than private debt. Despite private debt can be currently 1-2 p.p. higher than structured finance. So it depends on the deal size and margins.

Search funds acquire stable businesses and use reasonable leverage

investing in real economy will certainly lead to good returns but in a longer timeframe

As the HIGH YIELD Bonds ETFs are profitable, this fund would be profitable as well and it would have very low SG&A.

### 3.7 Why the EU Hasn't Yet Created a Private Debt Fund for Search Funds

Despite growing evidence that search funds offer a powerful solution to Europe's SME succession crisis, the European Union has not yet established a dedicated private debt fund to support them. This gap is not due to a lack of need or potential, but from a complex mix of structural, cultural, and financial barriers.

First, the EU's fragmented political and regulatory landscape makes cross-border financial initiatives slow and complicated. Each member state has its own legal and fiscal frameworks for debt, succession, and private equity, making it difficult to implement a unified debt instrument that spans the entire region. Unlike the U.S., where federal programs can quickly scale across all states, the EU must coordinate 27 jurisdictions.

Second, European business culture remains conservative regarding succession. Many SME owners still prefer family handovers (even when unprepared) over selling to an outside operator. This mindset limits the pipeline of “search fund-ready” companies and creates skepticism among policymakers and lenders about whether the model is broadly scalable.

Third, private debt itself is still evolving in Europe. Most capital flows to larger deals or real estate, not small leveraged buyouts of €5–€20 million family businesses. In the underserved lower mid-market where search funds operate, banks are often risk-averse, and private debt players see the space as niche. Searchers, often young professionals without prior CEO experience, are still perceived by some lenders as too risky, despite backing from sophisticated investors!

Fourth, EU innovation funding has historically favored startups and R&D, not acquisitions of “boring but solid” companies. The misunderstanding is clear: search funds are wrongly grouped with high-risk ventures, when in reality they acquire stable, profitable firms with recurring cash flows. This disconnect has delayed the creation of targeted financial instruments.

Finally, there has been little coordinated lobbying to push this agenda forward. While academic institutions like IESE and INSEAD support search funds, and investors understand their value, there is no unified industry voice demanding action from EU institutions like the European Investment Bank or InvestEU.

In summary, the EU has not acted not because search funds lack merit, but because the regulatory, cultural, and financial ecosystem has not yet adapted to their unique profile. However, with succession needs accelerating and search funds gaining traction, the case for a dedicated European debt vehicle is becoming increasingly urgent.

## 4 Search funds as Asset class

### 4.1 What is the average ROI/IRR of a search fund?

Currently it's impossible to have enough DATA about European search funds, it's too early for this asset class in the European market. There aren't enough “EXITs” to measure IRR or ROI. However, it's relevant to mention the Tikedo Deal, which has been Managed by an Italian entrepreneur and has delivered a stellar IRR/ROI to his investor. However, mentioning the Harvard study which reports about the financial returns and key characteristics of 526 search funds formed in the U.S. and Canada since 1984 to 2022, is emerged that this asset class has an average pre-tax IRR of 35.1% (Gross IRR potentially should be even higher than 45%) and an ROI of 4.5x, just to have a comparison, the most common investment: the S&P 500 (an index on the largest 500 US companies) delivers an IRR of ~8%.

Considering as said above an ROI of 4.5x: the S&P500 to achieve the same ROI needs ~20 years. Of course, the risk level is different, and an investor can sell whenever he/she wants the S&P500 stake.

## 4.2 Is Search Funds an asset class which should be available for every person?

Of course not! Search Funds are not for everyone:

- Illiquid investments: meaning they cannot easily be converted into cash, until an exit is achieved. However, it is possible to sell one's stake by finding a buyer and finalizing the transaction through the commercial registry, though this option may still require time and negotiation due to the private nature of these investments.
- The time horizon is long, requiring at least 4 to 5 years
- Investing in a search fund often requires significant capital. Typical contributions can be substantial, as investors fund both the search phase and the acquisition of a company. This commitment level means search funds are generally suited for those with a higher risk tolerance and financial availability.
- A single search fund investment carries high risk, as success depends on one entrepreneur and acquisition. Diversifying across multiple search funds can reduce this risk, but it also requires significantly more capital, making it an option only for investors prepared to commit larger sums.

However, there are some companies such as Search Fund Club here in Turin that allow investors to invest in search funds using a diversified approach making this asset class accessible to more kind of investors. I would also add that having pockets deep enough to invest in Search Funds does not make you a good investor. Searchers always look for professional investors who have experience in some related industries or Private Equity and Merger & Acquisition professionals to be maybe part of the board of directors.

### 4.2.1. *'Never invest in a business you cannot understand'*

Search funds epitomize the kind of "unsexy," straightforward businesses that Warren Buffett favors, companies with stable cash flows, predictable operations, and minimal complexity, making them easy for any investor to understand and evaluate. When structured as publicly listed vehicles or backed by active secondary-market trading, search funds can offer significantly greater liquidity than traditional private-equity stakes. These vehicles typically employ moderate leverage, often in the range of 1 to 2, mirroring the not high debt levels Buffett has historically used to enhance returns while keeping risk in check. Governance is driven by highly motivated search-fund entrepreneurs who step in as full-time CEOs with significant equity skin in the game, backed by a very financially educated and expert Board of Directors, ensuring disciplined, owner-operator management that reflects Berkshire Hathaway's decentralized yet accountable culture. For a retail investor willing to take the time to understand the fundamentals of the acquired business, search funds present a reasonably priced, transparent, and governance-focused investment opportunity that neatly within the Warren Buffett playbook.

### 4.3. Would AI suggest having a percentage of search funds in your portfolio?

At the question: Based on risk from 1 to 10, considering 3 investors (risk: 4, risk: 7, risk: 10). How would you structure their portfolio? Would you include search funds?

Chat-GPT o3 answered:

#### Risk Level 4 – Conservative

- **Equities 20 %** – Large-cap U.S. & international index funds to protect against inflation with limited volatility
- **Fixed Income 50 %** – High-quality government and investment-grade corporate bonds for income and stability
- **Search Funds 0 %** – Illiquid, concentrated vehicles are unsuitable for very low-risk profiles
- **Other Alternatives 0 %** – Avoid non-core alts to preserve liquidity
- **Cash & Equivalents 30 %** – Money-market funds or T-bills for maximum capital preservation

#### Risk Level 7 – Moderate-Growth

- **Equities 55 %** – Broad U.S. & international equity funds for core growth [Investopedia](#)
- **Fixed Income 30 %** – Intermediate-term government and corporate bonds to dampen volatility
- **Search Funds 5 %** – Entrepreneur-through-acquisition stakes; illiquid but with historical IRRs in the 20–35 % range
- **Other Alternatives 10 %** – REITs, commodities or liquid alts for diversification
- **Cash & Equivalents 0 %** – No dedicated cash given sufficient bond holdings

#### Risk Level 10 – Aggressive

- **Equities 80 %** – Broad, thematic, small-cap & emerging-market equities to maximize long-term growth
- **Fixed Income 5 %** – High-yield or floating-rate bonds for minimal drawdown protection
- **Search Funds 10 %** – Larger ETA commitment to pursue outsized IRRs (20–35 %+), acknowledging 5–10 year lock-up
- **Other Alternatives 5 %** – Hedge-fund strategies or private-equity secondaries for additional diversification
- **Cash & Equivalents 0 %** – Cash omitted to maximize deployment into higher-return assets

## 5 Conclusions

Investors play a pivotal role in the Search Fund model by providing not only the capital necessary for the search and acquisition phases but also critical industry expertise, governance frameworks and performance benchmarks. Their involvement from the outset establishes clear incentives, ensuring that searchers remain disciplined in target selection and execution. Moreover, the mentorship and network access afforded by experienced backers accelerate due diligence, facilitate introductions to potential sellers and support the development of robust post-acquisition value-creation plans. However, it's clear that if they don't see a clear exit opportunity, No deal will be concluded that's why a secondary market for Search Fund might pave the way to some deals. Listing acquired companies on exchange such as the Euronext could unlock new exit routes: although initial listing costs and regulatory requirements may be higher than traditional private-sale processes, the liquidity and visibility of a public listing can provide much-needed "oxygen" to businesses that might otherwise struggle to attract strategic buyers. As exit opportunities through direct acquisitions become scarcer, the potential for an IPO to sustain growth and enable partial divestment should not be underestimated.

It is essential to simplify and harmonize stock-market listing requirements across Europe to foster deeper capital markets and broaden access for high-growth companies, including but not limited to Search Funds. Simplified prospectus rules, reduced administrative burdens and a unified regulatory framework would lower the cost and complexity of going public, enabling more small and medium-sized enterprises, such as search funds and even start-ups to tap equity financing for expansion, innovation and cross-border growth. By enhancing market liquidity and investor confidence, easier listings would strengthen the entire European economy, encouraging entrepreneurship, facilitating efficient capital allocation and ultimately increasing resilience in the face of global competition.

In order to avoid losing a possible deal due to meaningless reasons, introducing a dedicated private debt fund for Search Funds would yield considerable social benefits. By offering tailored financing solutions to small and medium-sized enterprises, often underserved by conventional banks, such a fund could rescue viable companies, preserve local employment and stabilize regional economies. The scale of required commitments in Europe would be modest relative to broader fiscal budgets, yet the multiplier effects in terms of jobs saved, tax revenues and community resilience would far exceed any initial outlay.

To highlight again the similarity with private equity deals, search Funds may encounter many of the same challenges that characterize private-equity vehicles. Intense competition for high-quality targets, but, even if the number of searchers is increasing year by year the quality of deals is not decreasing. in US where search funds are quite popular since 1980s and there are many more searchers the quality of deal is not decreasing, to demonstrate so after 40 years the average IRR is still 35%. Valuation pressure is a shared issue as well it can erode future returns, governance and principal-agent conflicts in the owner-operator relationship, and the



ever-present need to engineer credible exit paths. In addition, high-interest-rate environment, which luckily, we shouldn't face in Europe for a while, poses financing headwinds: although Search Funds typically employ lighter leverage than larger buy-out funds, elevated borrowing costs still compress deal economics, increase refinancing risks and heighten the importance of conservative debt-service coverage ratios. Careful deal structuring, judicious use of covenants and close alignment with debt providers are therefore crucial to mitigate these interest-rate exposures while preserving the upside potential inherent in hands-on operational value creation.

Finally, as highlighted in Chapter 4, the Search Fund approach has matured into a compelling alternative asset class. Its hybrid combination of rigorous financial discipline, hands-on management and diversified exposure to privately held businesses delivers attractive risk-adjusted returns, reinforcing its value proposition for both investors and entrepreneurial talent.

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|--|-----------------------------|-------------|--------------------|--|
|  |                             |             |                    |  |
|  | <b>Portafoglio</b>          | 20.000,00 € |                    |  |
|  | <b>Avg. SF Duration (Y)</b> | 6           |                    |  |
|  |                             |             |                    |  |
|  | Total Fail                  | 4% 0x       | - €                |  |
|  | Small-no Gain               | 65% 1x      | 13.056,00 €        |  |
|  | Little Gain                 | 19% 2x      | 7.680,00 €         |  |
|  | Gain                        | 8% 5x       | 7.680,00 €         |  |
|  | Huge Gain                   | 5% 10x      | 9.600,00 €         |  |
|  | <b>Total</b>                |             | <b>38.016,00 €</b> |  |
|  | IRR                         |             | 11,30%             |  |

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