October
2025

Investment Review

04 About us

06 Preface by Sir Brian Souter: Partnerships have allowed me to embrace risk

12 Investment review: Same roots, different leaves

22 Q&A: Operating through volatility

28 Our investment approach

32 Longstanding and recent, independent sponsor partnerships are some of our greatest investments

36 Case study: A Winning formula

42 Case study: A partnership etched in Stone

46 Souter Charitable Trust

Table of contents

About us

Souter Investments is the Edinburgh-based family office of Scottish entrepreneur Sir Brian Souter.

With strong relationships at the core of the work we do, our team specialises in making private equity investments in unquoted companies, managing our capital in a supportive way that aligns the interests of investors, founders and management teams behind an agreed set of clear objectives.

Since the firm's founding in 2006, we have invested over £750m in more than 100 unquoted companies, with a typical equity cheque of between £2m and £30m.

We are sector agnostic and opportunistic, with an interest in a wide variety of sectors including, but not limited to, business services, healthcare, energy, financial services, technology and industrials.

A major beneficiary of our work is the Souter Charitable Trust, which supports projects engaged in the relief of human suffering in the UK and overseas.

Stuart Dunlop,
Investment Manager

Preface

Partnerships have allowed me to embrace risk

By Sir Brian Souter

My preface to the previous edition of our Investment Review in 2022 reflected on the almost constant volatility and uncertainty we had experienced since I founded Souter Investments with Andy Macfie in 2006.

I won't repeat that line of thought again here (the 2022 review is still available in all good bookshops, after all) but providing a brief reminder of the main themes is perhaps useful. In summary, I concluded that the most productive and profitable strategy to deal with change and turbulence is to acknowledge the difficulties each event brings but, ultimately, to stay invested and keep moving forwards.

In hindsight, that maxim has served us well over the last three years. If you were so minded, this period has thrown up ever more reasons to sit on your hands. Had we decided that the environment was too risky and we wanted to pause on our investment activities, we would have missed out on numerous exciting opportunities, some of which we will cover later in this review.

As I reflect on the above, there are two themes I'd like to expand upon.

First, is my personal appetite for risk. This is the starting point from which we have shaped our approach and arrived at the "through-the-cycle" investment thesis we adopt at Souter Investments.

It seems self-evident to me that it is impossible to achieve anything – in investing or in life – without taking some risk. My kids would probably tell you I have an all too healthy appetite for risk, as I regularly throw myself off bridges with bits of elastic tied round my ankles. It is certainly true that the team at Souter Investments' more measured and structured way of thinking has sometimes saved me from myself.

I believe we find a happy medium at Souter Investments. We see the potential upsides as well as the possible pitfalls in a range of opportunities and, most importantly, proactively make decisions to invest if appropriate.

However, I can't help thinking that in wider society the risk/reward pendulum has swung too far towards avoiding mistakes, rather than seeking opportunities to back your convictions and take calculated risks in the pursuit of progress and wealth generation.

This is not a rant about the nanny state or health and safety gone mad – albeit I have been known to give that speech – but a conclusion I have formed based on the evidence I see of a risk-averse attitude all around us. There are many examples I could give, ranging from bloated overheads in most large organisations where first instincts often prevent business rather than enable it, through to a distinct lack of support for new business creation from all levels of government, particularly in the taxation system.

One of the most egregious examples is the lack of investment by UK pension funds into so called "risk assets", which essentially means anything outside UK government bonds. Whilst this strategy is badged as being safer for pensioners, in my view it is bad for everyone concerned. It penalises pensioners and the companies that fund those pensions, as they all miss out on higher returns and therefore have to contribute more to pension pots to achieve the same income. It punishes the UK more widely by hampering the development of a healthy stock market that can support our companies, enabling them to flourish.

Moreover, this triple whammy doesn't necessarily make those pensions any safer, Exhibit A being the pensions bailout the Bank of England was forced into after the Truss/Kwarteng mini-budget of September 2022. My frustration with the current policy goes back much further and I have been making this point ever since I was president of the Institute of Chartered Accountants in Scotland in 2017. I am heartened that the UK government is currently consulting on whether to change the rules for pension funds to encourage a healthier risk appetite.

My second theme is partnerships. As I look back on my life and career, it is apparent how three key partnerships have been central to all that I have achieved. Moreover, it occurs to me that each of them has allowed me to remain "risk-on", knowing that the stability of these partnerships underpins everything I do. They provide me with the confidence and additional skillsets to deliver on opportunities and to help pick up the pieces if things go wrong.

The first was my partnership with my sister, Ann, in setting up Stagecoach back in 1980. This was undoubtedly the most significant business decision of my life, as without it none of my future partnerships would have been possible.

Ann and I sold all our shares in Stagecoach in 2022 when it was taken private by an infrastructure fund owned by the German asset manager DWS. I have many fond memories from my 41-year Stagecoach project, particularly the incredible people that helped build the company from a single bus to a multinational transport business. But none of it would have been possible without the risk Ann and I took by investing our life savings to make things happen.

My second-best business decision – founded upon another enduring partnership – was forming Souter Investments with Andy Macfie in 2006. Prior to this, I felt real guilt about my ability to steward the capital I was accumulating from Stagecoach.

I worried that I was squandering the hard-earned money that our passengers paid us in fares on poor investments in funds that returned eye-watering fees to slick London advisors but too often left investors feeling underwhelmed, to say the least.

Co-managing directors John Berthinussen and Calum Cusiter outline our current strategy later in this review, but under their leadership we remain true to my initial desire to invest directly in exciting companies, partner with entrepreneurial management teams and founders, and build a resilient, diversified portfolio capable of funding the final partnership I'd like to note.

Founded with my wife, Betty, and motivated by our Christian faith, we established the Souter Charitable Trust in 1992 to support projects seeking to relieve human suffering in the UK and overseas.

Over the years, the trust has supported tens of thousands of projects across the globe, ranging from combating the world's biggest killer, malaria, to supplying daily meals to school children in Africa, and from combatting modern slavery and human trafficking, to tackling addiction, homelessness and poverty here on our doorstep in Scotland.

>£150m

donated to charity since 2006

Betty and the team of trustees, including some of my children who have recently joined the Board, have overseen the donation of more than £150m to some 22,000 charities that share our passion for people – working together to uplift communities, to provide essential support, and to create positive change for those in need.

Whilst these partnerships are all unique in what they aimed to achieve – and indeed how they went about it – what is common to all three is the level of trust and integrity that is shared between people striving to do the best for a common cause. The team here at Souter Investments aims to apply those same principles to building successful partnerships with our network of management teams, independent sponsors and portfolio companies. They, after all, are really the people who generate our returns.

So, if you have an opportunity that you think may be suitable for us, then please do not hesitate to contact the team. We'd be delighted to consider partnering with you in your venture.

Same roots, different leaves

Investment review by John Berthinussen and Calum Cusiter

As we reflect on the three years since we published our last Investment Review in 2022, and indeed the 13 years since the first one in 2012, it is apparent both how much has changed within Souter Investments but also that much remains constant.

We both joined Souter Investments on the same day back in late 2008 and at that point, Brian was still CEO of Stagecoach, the global FTSE250 plc. Souter Investments ran out of temporary offices with a handful of direct investments, and the journey of building a professional but entrepreneurial family investment office had only just begun.

Much has changed since then, including the size of the team (we now have seven full-time investment professionals as well as finance and admin support), the scale of our portfolio (more of which later), the world itself and – having looked at photos in previous Investment Reviews while preparing this edition – our hairlines.

However, the constants that have remained from day one reflect the values that continue to guide us, including:

- **Independence:** whether this is in thought (we are not afraid to swim against the tide or take contrarian views) or from any third-party investors (meaning we do not have a strict investment policy imposed on us).
- **Flexibility:** whilst there is certainly a healthy admiration for a good spreadsheet, we don't demand our portfolio companies are ruled by them. We understand that business plans change; that there is no one structure that suits all investments; and that our approach must adapt to changing times and circumstances.
- **Rigorous:** one of our pet hates is the common but lazy misconception that family offices provide "soft" money, whether that means having lower return expectations or being less exacting when it comes to reviewing new opportunities. We certainly don't think in that way. We have the same standards as other institutional investors, if not higher, even if we do have the ability to look through our family office lens (see values one and two above!).

So, when we're asked, as happens when you approach two decades in-situ, "what's the future for Souter?", the answer is pretty simple: the same, but different. Different geopolitics, different macro-economics, different financial markets, new technological disruption, but the same approach, the same enjoyment in working with great partners, management teams and companies, and the same pursuit of resilient returns.

Investment activity

The increased capability of our long-serving investment team, both in terms of capacity as well as its growing experience and expertise, alongside our expanding independent sponsor network, means our portfolio has grown substantially since our previous report.

As of 31 March 2025, we managed more than 45 significant unquoted investments, accounting an invested cost of nearing £500m. Since 2006, we have completed more than 100 unquoted investments (including selected investments into transport and property assets) with combined receipts and current fair value in excess of £1bn. We believe this makes us one of Scotland's, if not the UK's, most active private equity-focused family offices.

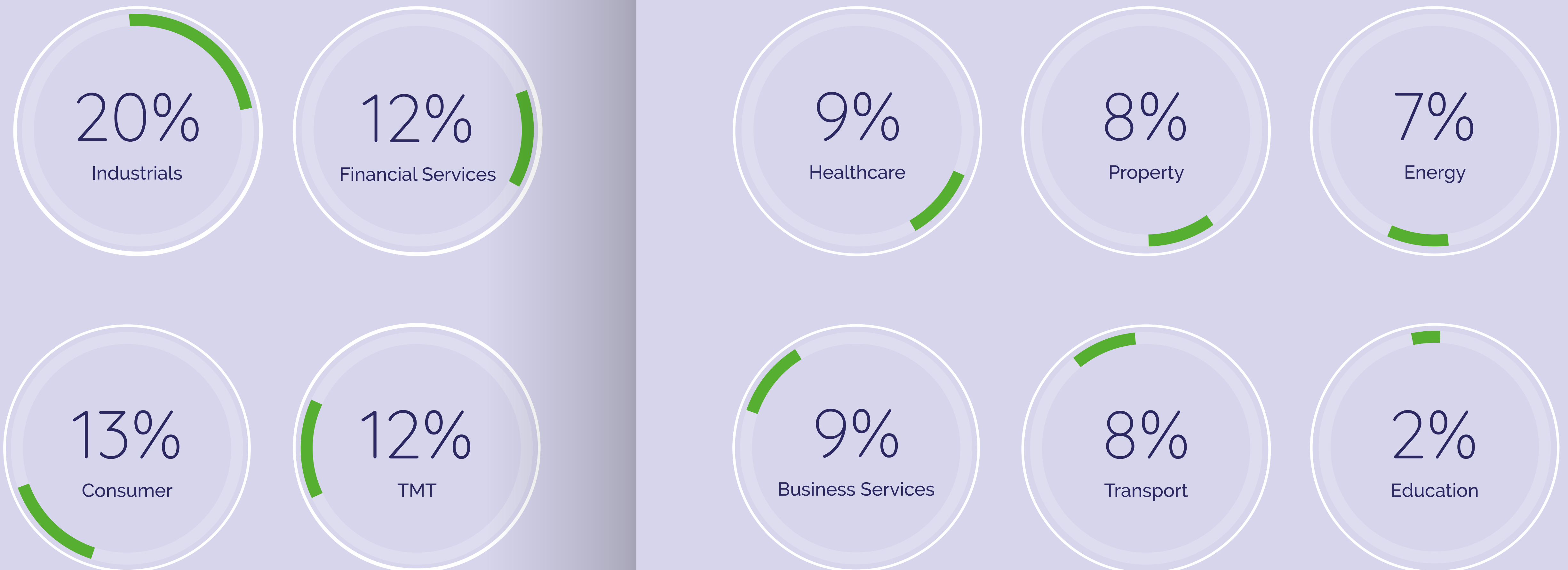
The increased size of the portfolio is the net effect of two factors:

1. Continuing strong new investment activity, with 18 new deals added over the three years to 31 March 2025 (and a few more since that date). These deals span sectors as diverse as infrastructure services, professional services, technology, energy and healthcare. See below for the spread of industries we have invested in across the portfolio, since inception.

This diversification by industry is a conscious choice, both because we are generalist investors so don't profess to have any particular specialism, but also because, as a family office with a permanent capital base, looking for diversification helps to deliver resilient, attractive, risk-adjusted returns over the long term, regardless of when specific sectors inevitably go through individual up and down cycles.

Diversification by sector

(Number of deals)



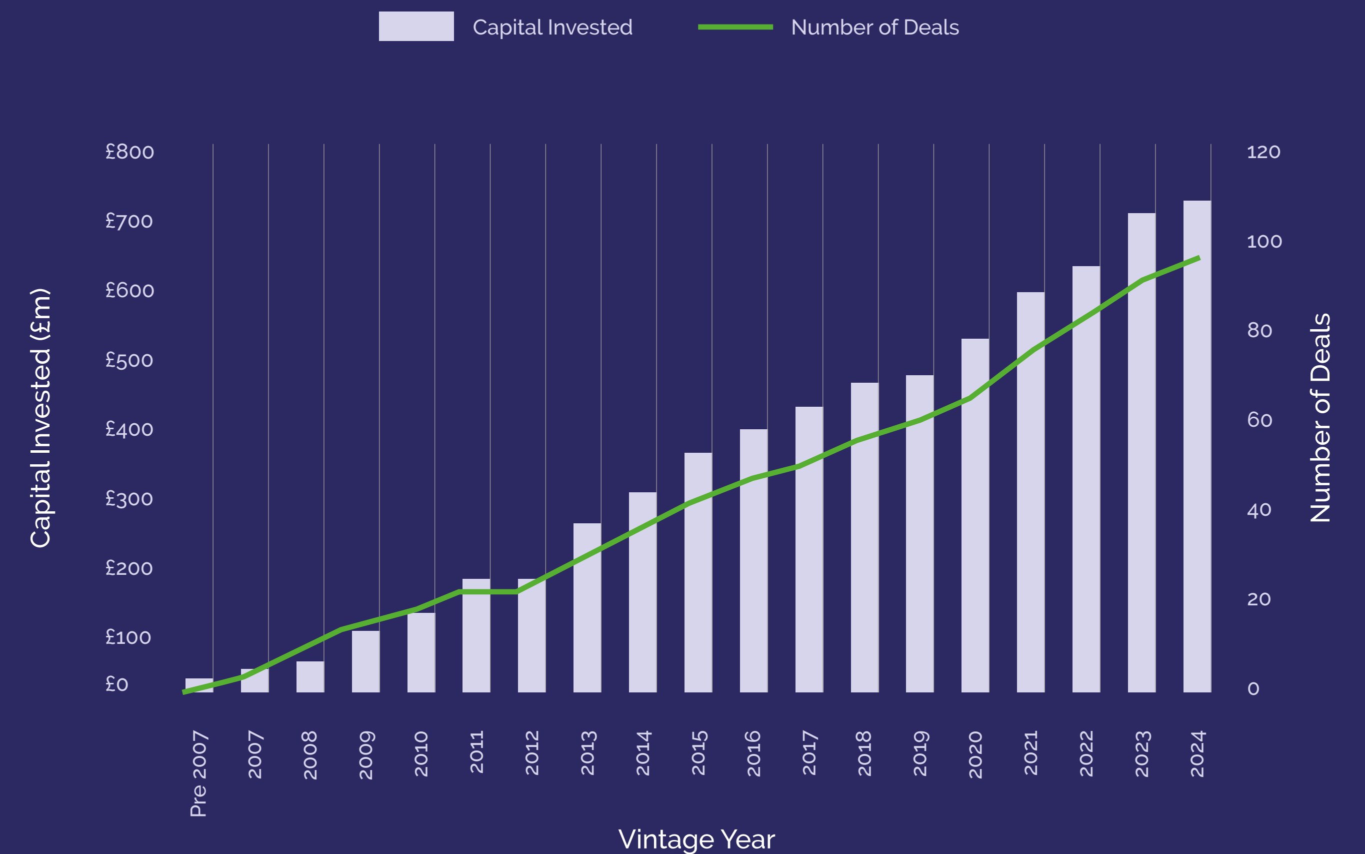
2. It has been well documented that the last few years have seen a slow market for sales of private equity-backed companies by both number and value. Statistics suggest that 2023 was the worst exit market in over a decade and 2024, whilst marginally better, still showed less than half the usual rate of exit activity. Whilst we think we have more than held our own regarding distributions and sales, our portfolio has not been immune to these wider trends.

Much of the financial commentary tends to focus on the activity of the mega-cap buyout funds, which is not a part of the market we operate in directly. However, that activity can have wider ramifications as a lack of exits firstly influences valuations throughout the market but also impacts the capacity and appetite for these funds and their investors to recycle proceeds from sales into lower/mid-market companies that have grown under the ownership of smaller private equity houses.

Whilst full exits have been slower than we would have liked, on the whole our companies are not heavily levered and our exposure to cash-consuming, early-stage, growth capital companies is relatively modest. That means we have benefited from a number of so-called "dividend recapitalisation" events, where companies with strong cashflows can either borrow on the back of those cashflows or use surplus cash to pay dividends to their shareholders.

Those returns of capital, alongside the fact that we do not have to fundraise from third parties and so do not experience the pressures some do to return capital before new commitments are made, means that we remain very much in the market, evidenced by our participation in six new deals in the first half of 2025 alone.

This has meant we continue to enjoy strong liquidity and an ability to invest through the cycle, as can be seen by the chart below that shows us investing in a consistent manner over time. This is despite the slightly lengthened hold period of the portfolio, with our realised assets taking over five-and-a-half years to exit.



Overall Performance Since Inception[1]

Our total portfolio, excluding Stagecoach Group plc and marking our current unquoted portfolio at fair value, increased in value by 8% per annum over the 18 years ended 31 March 2025. As for previous reviews, we report this performance net of Souter Investments' running costs, tax, and adjusting for charitable donations.

We have already noted that we aim to diversify our investment activity across a variety of sectors but another key risk mitigant is investing across time. Using private equity terminology, we aim to measure our exposure across different vintages. There have been long periods when we have held significant liquidity in cash or lower returning quoted investments, whilst we keep our quality bar high and take our time to invest as we find new opportunities.

Over time, we can enact our core strategy of investing in unquoted trading businesses, more of which below, but this timing point is part of the reason for the difference between our unquoted performance and the total portfolio internal rate of return (IRR) noted above.

Over the long term, we remain convinced that diligent stewardship of our capital and maintaining diversification by vintage, sector and deal will stand us in good stead. We are confident that our strategy gives us the opportunity to continue delivering strong, risk-adjusted returns.

[1]We continue to report Souter Investments' performance in isolation, excluding the contribution of Stagecoach Group plc, as this better reflects the performance of the family investment office. Given the sale of Stagecoach Group plc and Souter Investments no longer holding any shares, this distinction will become less important in future reviews.

Private Equity Returns

We are perhaps unusual when compared to most family offices, as our focus is so strongly on direct private equity investing.

In theory, this is a higher-risk strategy which needs to generate higher returns given the relative illiquidity and concentration risks inherent in the asset class. That said, we've been doing it for almost 20 years and believe the potential returns outweigh those challenges. The strategy has paid off to date with total returns – including realised assets and holding unrealised investments at fair value – showing an IRR of 22% per annum, with a multiple of invested capital (MOIC) return of 1.8x.

We have a strong belief in the potential of the portfolio to deliver strong value growth in the coming years, particularly as when performance is broken down further, realised investments show an IRR of 24% and MOIC of 2.4x whilst, despite the majority being less than three years old, our unrealised assets show returns of 11% IRR and 1.4x MOIC.

Reporting on a relatively large portfolio across an extended period of time means the above statistics will, by definition, mask the underlying complexity. For instance, we have the occasional casualty as well as the star performers. This is somewhat inevitable; sometimes markets change and you get caught on the wrong side, a black swan hits (anyone remember Covid-19?), or we just make the wrong call.

It is also the case that performance statistics like IRR and MOIC give an important but only partial view of performance. What is more important for us is making the right decisions for each portfolio asset as we go through the journey, rather than forcing matters in order to hit external reporting targets. Ultimately, with a relatively young portfolio, we are positive that there is plenty of latent value within our unrealised portfolio that will prove itself in the coming years.

Partnerships

To continue the thread that ran through Brian's preface, the team at Souter Investments is acutely aware that much of the work done to generate the returns we seek is done by our partners, whether that be the founders and management teams we back or the independent sponsors we support. They are the ones responsible for driving forward our portfolio companies and generating the value that we benefit from. Hopefully, our gratitude is apparent in our regular interactions with them all but it never hurts to reiterate how much we appreciate their tireless efforts on our behalf. So, in conclusion, much has been achieved but there is much more to do. We look forward in a spirit of balanced optimism, derived from the confidence we have in the partners we work with, the high-quality portfolio we have invested in and the mindset to take the plunge and invest when the right opportunities present themselves.

John Berthinussen and Calum Cusiter
Co-Managing Directors, Souter Investments
October 2025

24%

IRR and 2.4x MOIC from realised assets.

Operating through volatility

Q&A with Andy Macfie,
John Berthinussen and Calum Cusiter

Andy:
When we compiled our last Investment Review in late 2022, we were just emerging from the pandemic. Since then, we've experienced more macroeconomic and geopolitical uncertainty, wars in Ukraine, Gaza and elsewhere, major trade disputes, a shifting world economic order, artificial intelligence, the impact of climate change and the energy transition. How would you characterise this period in terms of its impact on Souter Investments?

Calum:
We have been fortunate so far that none of these issues have had a major direct impact on the portfolio in the way the Covid pandemic did, for example. That's not to say we are immune, as there are so many knock-on effects in terms of inflation, interest rates, impacts on economic growth, broader supply chains and so on.
Each pressure affects our individual portfolio companies slightly differently, and so we and our partners are constantly working our way through things. However, because we invest through the cycle and seek to maintain a broad and diversified set of holdings, we are less concerned than if we were trying to time entry and exit to the market or over-index to a particular theme, which may mean a specific event could be a major influence on several deals at once.

While there is no sign of abatement in terms of those macro risks, we're going to stick to our existing strategy and try and navigate our way through it as best we can.

Andy:
That answers how the portfolio has been affected but what about new deals? Lots of investors claim they take the same "through the cycle" approach you describe, so what does it really mean for Souter Investments?

John:
Put simply, we look to invest relatively consistently over time and seek to avoid periods when we are either "out of the market" or, on the other hand, committing funds into the market too quickly.

You can't become overly influenced by macro trends, newspaper headlines, or prevailing commentary. But equally, you've got to be cognisant of what's going on in the world and how that may affect the existing portfolio or the new deals you are reviewing at the time.

It's a pretty fine balance to maintain but having a diversity of views across a team in which constructive challenge is encouraged helps us achieve it. Tapping into our network is essential too and we will generally get a good cross section of strongly held and well-evidenced views to help inform our decisions.

That we have no third-party investors and a very flexible, opportunistic investment mandate is a benefit for us. We can be somewhat contrarian if we think we need to be, and we don't need to follow any particular themes as we are not

governed by externally imposed rules. For instance, around the Covid period, lots of firms were focusing on really "hot" areas, like tech and healthcare, in particular. However, many of these businesses were heavily loss-making or were attracting huge valuations. We resisted the temptation to dive straight into what was a busy pool and were able to find attractive deals in other sectors instead.

As Calum says, if we look over the last 18 years there has been constant volatility and, if you chose to, you could always have found a reason not to invest. The last few years haven't been a boom time for deal doing from an industry perspective, but they have been some of the busiest we've ever had in terms of new deals.

It's about having confidence in your own decision making, about trying to see through all of the noise or hype to judge each opportunity on its individual merits rather than having to chase after a particular sector.

Andy:
We've also learned that some of our best deals are done during times of turmoil and, conversely, that doing nothing will almost certainly dimish our asset base. We seek to manage risk rather than avoid it.

Calum:
Agreed. I think the net effect of that means that whilst I could sit here and make us sound wiser than we are by using hindsight to apply a grand strategy to what we've done, that wouldn't really be a fair reflection of how we operate.
While we haven't targeted specific sectors or investment themes, when you look back at the investments we've made in the last few years it does show that we have favoured certain themes, notwithstanding that we expressly aim to avoid sector concentration. It might be because that's what the market was showing us at the time, or it could be because the sort of deals that we like to do are naturally finding their way to us while others are looking elsewhere. Or it could be that once you've done one deal in a sector you have more confidence to look at others.

Andy:
So, what are those themes that have emerged over the last few years?

Calum:
Whether by design or opportunism, there has been a recent theme of what we call "infrastructure services". There's a lot of investment needed across the UK in terms of construction, repair and maintenance, and redevelopment of our ageing built environment and critical infrastructure. That's everything from transport infrastructure like rail and roads, through to our waterways and harbours, as well as our power grid and electrical infrastructure, where we need to enable new economy businesses like data centres for AI and renewable energy projects to drive climate action.

All of that needs engineering, consultancy, design and then construction. Traditionally, a lot of that work was not thought of as being particularly private equity friendly. The firms involved had very competitive tender processes to overcome and the industry worked in a way that encouraged bidding for and winning those tenders at low margins and then trying to achieve an acceptable return through contract variations negotiated over time.

But I think the public sector has realised that approach doesn't necessarily yield best value, in part due to the terrible experiences when companies like Carillion have gone bust, leaving the state on the hook and projects in turmoil and at risk of failure.

Recently, these contracts have become much more about achieving the best value and outcomes for the public purse over the long-term rather than necessarily fixating on the lowest day-one price. We have a number of businesses in the portfolio that play to that theme, like Suir Engineering, Amey, Cardo, Octavius Infrastructure and Ancora Group.

John:
Another example would be healthcare. We've had investments in healthcare over the years but didn't invest in the sector during Covid. Alongside our partners Duke Street, though, we've recently completed a deal in diagnostic imaging, with Agito Medical, and another in the management of long-term conditions, with ForLife.

Aerospace is not a sector we'd previously invested in, but again, we have been involved in two transactions in the last six months in MEL Aviation, with Averna Capital, and the carve out of the aerostructures business of Senior plc with Sullivan Street. Very different situations and businesses, but both in the same broad sector.

So, again, sometimes these themes emerge after the event, with individual investment decisions arrived at by trusting our instincts, our process, and the networks that introduce the opportunities, as opposed to investing according to a top-down thesis.

.

Andy:
You mentioned a few of our partners there, John. Can you talk a little bit more about our work with independent sponsors, how that space has changed in recent years, and what makes it such an attractive proposition for us?

John:
These relationships have been part of how we've invested, really, from the very early days of Souter Investments. If you go back 20 years, you were much less likely to see investment firms raising capital on a deal-by-deal basis, however supporting deals like that has been part of our model from day one. We've worked with more than 25 partners over the years, which tells its own story.

I think it's a segment of the market that has gathered momentum in recent years, partly because it's much harder to raise first-time funds – especially in the lower-mid market – but mostly because our independent sponsors are actively choosing to go down this route because it gives them more flexibility, the ability to be opportunistic and access off-market or more complex deals that don't fit fund criteria and, frankly, the attraction of deal-by-deal economics. It can also ease pressures in terms of fund life cycles, realisation horizons, and often, investor relations too.

There is also a developing investor community that's willing to look at those opportunities. Not only family offices like ours, but increasingly institutional investors who are coming to see it as an asset class of its own.

It's still a relatively small market though, and the sponsors all seem to speak to each other, so hopefully we're doing something right as we seem to meet an increasing number of independent sponsors looking at first-time deals. If you look at the US, this way of investing is a well-established part of the market, and I can see the UK following this trajectory.

Calum:
For Souter, it's particularly advantageous because it allows us to run with a relatively small investment team of seven people but still oversee almost 50 private equity investments whilst also closing maybe five to ten new deals each year. There's no way we could achieve that if they were all direct investments. So, it's an efficient way of us diversifying our portfolio and gaining access to high-quality companies and management teams, working with partners who we can trust.

Andy:
We started with some of the macro challenges that have characterised the first half of this decade. Could you talk about some of the emergent opportunities that are whetting the appetite of the team today?

Calum:
While we deliberately try to be sector-agnostic, there are nonetheless plenty of trends that we are keeping an eye on.

AI is a good, if obvious, example. It is something that is going to have an impact on the portfolio to a greater or lesser extent, depending on what each company does and who you listen to. Our strategy is to utilise developments as they become useful to the portfolio but not necessarily look to push any specific technology or strategy on to each business as a rule. We take each case on its own merits.

In terms of investing, our general style is to back later-stage businesses, rather than venture capital or early-stage opportunities. So, we won't be clamouring to try and get into the foundational AI, large language model, multi-billion-dollar valuation companies. In our view, there is typically more heat than light there, and it is difficult for us to get the access and the information to be able to understand precisely what the business plans are, how they would monetise their IP and how we as an investor can map our way to a good return. There are others who are better resourced and have more sector experience than we do, who can access those returns.

Andy:
So, is the hype on AI overblown in your opinion?

Calum:
We're not saying the investors I've just mentioned are wrong by any stretch, nor that AI isn't going to be transformational – it absolutely is. It's just not what we're set up to do and we won't be chasing those returns. What we can do is to catch some of the tailwinds those larger companies and cutting-edge developments will generate and invest in the facilitating or adjacent opportunities which are often easier deals for us to access, assess, and close on.

John:
If we develop out the AI theme further, it touches so many parts of the portfolio.

Suir Engineering, which is a specialist firm in high-voltage engineering, is helping to build the new data centres needed to provide computing power for the big data, AI and machine learning revolution.

Then a lot of the data centre owners are concerned about their security and cost of energy plus their own carbon footprint, so they often look to make agreements with renewable energy generators, such as onshore or offshore wind farms. Not only do those windfarms need electrical installation and grid connections, which Suir can deliver, but we have investments in the windfarms themselves through the likes of Asper.

Another of our portfolio companies, Climate Impact Partners, works with the same big US tech companies who build the data centres and buy the renewable energy, to develop and support voluntary carbon projects, while the diagnostic imaging supplied by Agito is analysed by AI and machine learning tools to assist radiologists. Elsewhere, Likezero provides its curated data solutions, powered by AI, to the world's largest financial institutions.

So, there's a chance to get access to the same AI tailwind five different ways, across very different businesses and sectors, without taking leading-edge technology and commercialisation risk. For us, that is a much better risk-adjusted proposition.

Andy:
In conclusion then, how do you view the next three years and beyond?

Calum:
We feel extremely positive about the portfolio right now. There are some great businesses growing and maturing nicely. So, there is every chance of some strong liquidity events over the next 12 months. If that happens, maybe our strategy will need to adapt slightly over time as we will have more capital to deploy. Regardless, our core focus will continue to be on resilient, diversified private equity opportunities.

Our investment approach

Holly Wilkie
Investment Analyst

At Souter Investments, we are both sector-agnostic and opportunistic in our approach, with a primary focus on acquiring private equity stakes in unquoted companies, investing either on our own or alongside partners. Our aim is to build a resilient and diverse portfolio of successful, valuable, and sustainable businesses that are leaders in their chosen fields.

>£450m
invested in our current portfolio

£2-30m
typical equity cheque

We have the flexibility to do what is right for the firms we invest in, unconstrained by the rules typical PE firms must abide by due to the restrictions placed on them by their investors. As long as it aligns with our principles and delivers an appropriate return, we are able to invest in what we like, how we like, and when we like.

Generally, our approach to investing means:

- We are interested in a wide range of sectors
- We will take both majority or minority positions and can be active or passive partners as required
- We can lead a transaction as a sole investor, invest alongside other investors in a club deal, or support other financial sponsors on a deal-by-deal basis as part of a syndicate
- We do not consider investments involving alcohol, tobacco, armaments, gambling, or predatory short-term loan companies
- UK-headquartered deals are strongly preferred, albeit many of our companies have significant international activity

We can support a variety of deal types, including:

- Management buy-outs and buy-ins
- Acquisitions or cash-out deals
- Growth capital
- Corporate carve-outs or disposal of non-core assets
- Buy-and-build or platform deals
- Shareholder or fund succession
- Balance sheet recapitalisations

Our success depends on more than just investing capital wisely. We also place huge value on:

- Developing deep relationships with our partners, whether that's management teams or co-investors who share our attitude to value creation and risk
- Being straightforward and consistent to deal with
- Applying rigour to our analysis. We pay close attention to the detail and try to ask value-add questions, both from an investor and management team mindset

>£750m
invested in more than 100 unquoted companies since 2006

Longstanding and recent, independent sponsor partnerships are some of our greatest investments

Maurice Shamash
Investment Director

Strategic partnerships with independent sponsors

We have always sought to back talented entrepreneurs to execute on dynamic value creation strategies to deliver a diversified portfolio of private equity assets.

A key enabler of that strategy has been to partner with independent sponsors tapping into their proprietary deal flow, value creation and execution capabilities to target asymmetric returns – quite simply, delivering excess return per unit of risk.

Over the last 17 years, we have partnered with 26 different independent sponsors and we have gone on to complete two or more deals with over half of those sponsors and five or more transactions with five of them.

That recurrence rate doesn't betray any lack of appetite for new partners, and backing fresh talent to unlock new deals is always on our agenda.

In the three years since our last Investment Review, we have worked with three managers for the first time, allocating more than £20m of capital to those debut partnerships.

What do we look for?

What really makes a co-investment opportunity resonate is the combination of:

- People: Entrepreneurial teams with a solid investment track record, strong values and dynamic skill sets.
- Target: A quality, cash-generative target company monetising its sustainable competitive advantage and a growth strategy.
- Attractive deal fundamentals: For example, a transaction where there is a special angle or situation, perhaps a discounted entry valuation because there is a due diligence topic that needs to be understood, a corporate carve-out unlocking a reinvigorated business and growth opportunities, or a buy-and-build benefitting from underlying like-for-like organic growth and proven integration playbook generating synergies.
- Value creation strategy: An investment plan that plays to the strengths of the lead manager with a healthy base case underpin and multiple routes to break out returns if things click. We look for typical private equity hold periods of three to five years, albeit we can hold for longer if the situation requires it.
- Co-investment alignment: Typically comprising fees to cover costs (a fact of life) and striking the right balance of lead investor cheque into the deal (so they have skin in the game) and carried interest reward for crystallising upsides.

What can our partners expect?

As a highly experienced and active family office team, we offer a high degree of execution certainty.

We have a short decision-making process and understand the importance of deliverability to our co-investment partners as they perform the balancing act of deal doing and capital raising simultaneously. While thorough review of new investment opportunities takes time, when we identify an investment that fits our criteria, we can act decisively and move quickly to do our work upfront to be deliverable in weeks, rather than months.

We pride ourselves on being an informed, engaged, and supportive co-investor. We can take a passive role or join the board and be more active where it makes sense but always seek to be a value-additive partner including sharing expertise, insights and network introductions.

What does the crystal ball show?

Looking ahead, we see the independent sponsor market playing a more important role to unlock deals in the vibrant lower-mid market where off-market or bi-lateral deals can still be struck and where deal craft and value add execution can combine to deliver attractive risk-adjusted returns.

Suffice to say that we continue to like this model and so our appetite both for deepening our existing partnerships and for backing emerging managers remains strong.

12 Years in partnership

Case study: A Winning formula

As an independent family office, Souter Investments isn't beholden to external investors, and that flexibility allows the team to adapt quickly to changing circumstances, seize opportunities as they arise, and build relationships over the long term. Our partnership with Winn Group – formed over 12 years ago and forged by our shared experiences since then – is a case in point.

Jeff Winn
Winn Group Founder

We were first drawn to Winn in 2013, by which time the business had achieved more than a decade of encouraging returns as a leading road traffic accident claims management service, with founder Jeff Winn at the helm," says managing director Calum Cusiter.

The company, which specialises in end-to-end claims processing including a market leading 24/7 "First Notification of Loss" service, had grown organically but quickly, reaching around £40m in turnover and £13.5m EBITDA. Along with London-based private equity house JZ International (JZI) as the lead investor, we acquired a 60% stake in the business, with Jeff remaining invested and highly motivated by the growth objectives we agreed.

"I remember Sir Brian coming to see me at our office in Byker," Jeff recalls. "We talked for about half an hour and his enthusiasm for our business – and entrepreneurial businesses in general – was palpable. At the end of the conversation, he said 'ok, we're in' and that was that. It was obvious he trusted his team and his instincts."

The strength of our relationship with Winn management was tested during a period of regulatory headwinds in the mid-2010s, which saw EBITDA fall below £10m.

"It's fair to say that wasn't reflective of the growth and shareholder value we had hoped to achieve at the time of our acquisition," says Scott Mackenzie, investment director. "But we understood the circumstances and the team never faltered. Despite the challenges, Winn returned around 60% of our and JZI's original investment between March 2016 and December 2018, as the business remained highly cash generative."

Soon after, the Covid-19 pandemic sent vehicle traffic plummeting as travel came to an effective standstill. However, Winn's agile and asset-light model allowed it to navigate the knock-on effects of lockdown and generate sufficient cash to continue making distributions to shareholders, something that very few companies were able to do at the time. Ultimately, the resilience and breadth it had built in the previous decade meant Winn was well positioned to increase its market share as smaller and more narrowly focused firms folded under the pressure.

As the world returned to a more familiar state, there was a delayed market impact of regulatory changes affecting whiplash claims, but again Winn was better prepared than its competitors and reaped the rewards in revenue growth, edging close to £100m turnover for the first time at the end of financial year 2022.

In March 2023, changes at JZI presented Souter Investments with the opportunity to acquire its stake, creating an equal equity partnership between Souter and Jeff Winn, with management and other investors retaining the balance.

Calum says: "What began as a relatively hands-off co-investment for us has now – more through circumstances than design – become a direct investment extending this partnership with Jeff and his management team. To my mind, it's a good example of how our independence gives us the flexibility to pivot quickly in response to changing conditions."

More than two years on, Souter's backing has facilitated Winn's ambitious pursuit of winning new business, boosting EBITDA to over £40m on revenues of £200m. Chris Birkett, who has occupied senior roles within the company for nearly 20 years, succeeded Jeff as chief executive in April 2022, with the founder transitioning to chairman.

Chris says: "Quite often we'll see opportunities that require cash up front and for us to move quickly. The Souter team understand the need for us to do things at pace and are supportive of our decisions, which helps us stay nimble and ahead of the game. I don't think we've ever come to the table and asked for something and been declined. That's not to say they're a soft touch, and those requests are often adjusted through discussion – it's just that if we can demonstrate the rationale for something, they'll back us."

His chairman agrees. "From day one, they've been transparent, fair and supportive in all our dealings," says Jeff.

"The team are also highly flexible, which has certainly served our business well but also them as investors, as it's enabled them to take a longer view and benefit from staying invested when other PE firms' operating models might have forced them to cash-out early."

Case study: A partnership etched in stone

Any number of things can make a round of golf live long in the memory. A stunning view. A fiendishly difficult course. Horrendous rain or glorious sunshine. A hole-in-one, or a quadruple bogey. In Scotland, all the above are possible in one day.

Scott Mackenzie
Investment Director

75%
increase in revenues by end of year 3

For David MacLellan, a 2019 round at Luffness in East Lothian was made memorable by a conversation with his playing partner.

“I'd been paired with Andy Macfie of Souter Investments, and I distinctly remember walking down the fairway on the third hole and telling him I'd recently become chairman of a business that had been in our RJD portfolio for 10 years by then,” he said.

That business was Staffordshire-based Stone Technologies – a manufacturer and reseller of IT equipment, mainly for the education sector. MacLellan, who founded the private equity fund RJD Partners, had been one of its earliest backers.

“Before long, Andy had introduced me to John Berthinussen and Scott Mackenzie, who conducted very thorough diligence – the type you definitely don't do on a golf course – and asked a series of pretty challenging questions of me and the management team. Those inquiries were always intelligent and constructive. We couldn't have asked for better partners from the outset,” says MacLellan.

Stone was performing well enough but experiencing huge seasonal swings in activity, raw material requirements, and revenues. Demand for its products typically peaked in the summer holiday period, as education sector clients readied themselves for new academic years.

Souter recapitalised the firm's balance sheet and led a refinancing with a new banking partner, Shawbrook. The team brought fresh perspective and engaged management around a clear growth strategy, investing in the firm's core platform to maximise return from its existing strengths and developing quality of earnings by enhancing new business lines in services and solutions spanning the whole IT asset lifecycle.

Simon Harbridge, chief executive of Stone Technologies at the time, said: “There was an immediate meeting of minds. Souter's team quickly became part of ours and part of the solutions we were pursuing. Their pragmatism, plain talking and attention to detail proved a stabilising and energising influence.”

That work involved reinvesting significant amounts of operating cash back into Stone's platform, to create infrastructure capable of supporting a £200m turnover business. A recruitment drive bolstered an already high-performing sales team, which expanded from 130 to 180 employees, fuelling growth across existing markets and new sales from small to medium-sized businesses.

Investing in the firm's core manufacturing facility enhanced operational capability and capacity, enabling increased throughput of Stone's own devices, as well as improving its recovery rate from recycling collections of old equipment, thereby raising the average selling price of higher-quality remanufactured units.

Strategic investment in supply chain relationships and building inventory – including critical semi-conductor and processor chips during Covid-19 and the ensuing global supply chain disruption – was a brave step during unprecedented times but ensured Stone could deliver for its customers when competitors were hamstrung.

That investment and sharpened focus was rewarded by successive years of annual revenue, gross profit and EBITDA growth, underpinned by a broader income mix that brought new surety to overall earnings.

Revenue was up 35% in the first two years of Souter's involvement and by almost 75% by the end of year three, with EBITDA improving by a third over the same period, despite substantial investment in Stone's operating expenditure.

In September 2022, Stone was acquired by Converge Technologies Solutions Corporation, a Toronto-listed IT and cloud solutions provider pursuing a European growth strategy with Stone's UK business – and its award-winning IT asset lifecycle app “Stone360” – central to those plans.

Working with global investment bank Lincoln International, the sale delivered a 65% IRR for Souter over a three-year period that Simon Harbridge remembers as fondly as his chairman does the golfing conversation that started the ball rolling.

“With Souter, you deal directly with the investment directors, so communication is clear and the level of maturity in those interactions is assured. We faced every challenge together and the relationship was really strong throughout.

“Sir Brian took a keen personal interest in our progress and even hosted us for dinner at his home, with his wife, Betty, choosing the menu. Allied to their great professionalism, there's a personal touch to what they do that I've rarely found elsewhere.”

£150m

in funding awarded through more than 22,000 grants

Souter Charitable Trust

A key part of the wider Souter Investments family is The Souter Charitable Trust (SCT), which supports projects engaged in the relief of human suffering in the UK and more than 80 countries around the world – especially, but not exclusively, projects with a Christian emphasis and ethos.

While SCT is run independently from Souter Investments, the returns generated by Souter Investments provide the funding that the trustees – including Sir Brian, his wife Lady Elizabeth, some of their children and two independent trustees – allocate to worthy causes. SCT is also a significant shareholder in Souter Investments, further strengthening the bond.

We see this close relationship between the two organisations as a feature of our structure, not an optional add on, and it is a core aspect of what we bring to the table as an investor and partner.

In the last 20 years, SCT has awarded more than 22,000 grants providing £150m in funding. More recently, annual grant awards have averaged £11m-£12m and, by number, most grants awarded are one-off payments of £5,000 or less. These are often given to smaller, local charities working in the communities in which they are based.

Further details can be found at **soutercharitabletrust.org.uk.**

souterinvestments.com