

# MORE OODLES THAN BOODLE'S

**William Cash** meets *David Giampaolo*, head of Britain's most exclusive private investment club



Illustration by Richard Beacham

**P**i Capital might be an exclusive club with an address on St James's Street, and a high proportion of its 260 members are listed in *Who's Who*, but that is where any similarities to a traditional St James's Street gentleman's club hit a cul-de-sac. Run by 48-year-old David Giampaolo, an immaculately dressed and fit looking American with clear blue eyes, who made his own fortune out of health and fitness centres in the 1990s, Pi Capital is

the UK's most exclusive private investor club, whose members – including the likes of M&S CEO Stuart Rose and Sir Martin Sorrell – enjoy looking at private equity investment ideas across all sectors to invest in personally, usually when a company is ripe for expansion and growth.

Joining a private investment club is the hot new trend for the ultra-high-net-worth and high-net-worth entrepreneurial class. In the old days, serial investors,



or those wanting to invest in promising start-up businesses, often styled themselves as Business Angels, and joined a local Business Angel network, most of which are concentrated around London and the South East.

But the amount of time and hands-on effort that



often has to go into managing investments – typically between £50,000 and £250,000 – in such Angel networks have put off many successful HNWs looking to make private investments. Indeed, new figures recently released by the British Business Angel Association found that the average investment in the first half of 2006 was just £70,000, compared with £180,000 in the previous six months. Such money is rarely enough to make a difference to a company's fate and an alarming

amount of Angel investments end in tears, despite the government's enthusiasm for the enterprise economy.

What makes Pi Capital so special is the level of detail and work put in by Giampaolo to make sure his network – which costs members over £4000 a year – operates like a proper club. Weekly or monthly meetings for the 260 members are usually held in private dining rooms of hotels like the Lanesborough, or the Walbrook Club in the City. Meetings are often combined with fine wine tastings, such as the club reception given at 30 Pavilion Road (an upscale Knightsbridge townhouse available for private hire) back in May for Lord Stevenson, chairman of HBOS and Governor of the Bank of Scotland, or the champagne reception given after a knock-out presentation on BRICS by Jim O'Neill, head of global economic research at Goldman Sachs. The events are varied. In October there was a members' reception at Climate Change Capital in Mayfair involving New Philanthropy Capital, a group set up by leading City figures to help would-be philanthropists make informed decisions. The following week there was a fine wine dinner in the private dining room of Drummonds bank. In December, Pi Capital is hosting a Christmas drinks reception with shadow chancellor George Osborne. As an exclusive networking club, Pi has few peers.

Despite now becoming part of the City establishment in London, Giampaolo's US background is certainly not WASP or City old money. 'I grew up in a small home in Florida. I dropped out of high school and just started working. My early career was in health and fitness, though to be honest it wasn't really a career at that point, it was a hobby. It became a career, and a pretty successful one, after 30 or so years of very hard work. I went into the business side of it, owning and operating health clubs and fitness chains in both the US and UK. But remember, when I started, I was sweeping and cleaning health clubs, not owning and managing them!'

Giampaolo came to run Pi Capital after joining as a member in 2001. He liked the business model so much that he and another business partner approached the original founders with a buy-out proposal. 'We said we wanted to grow Pi Capital to a new level and they were very receptive to that,' says Giampaolo. 'We bought 85 per cent of the company because we felt it was important that the founders who had the initial vision stay part of the company and share in the upside, and so they kept 15 per cent of the business. We still have the same chairman today: Simon Oliver.'

Michael Stoddart founded Pi Capital as an investment club in the late 1990s after he retired. One of the best connected City leaders, he realised there was a new opportunity to return to investing at the smaller end of the market, because everyone had abandoned it

for bigger funds. 'Michael invited a few very talented friends to join the board, and I think each member of the board wrote to ten or 20 of their friends, saying: "We're in an initiative to fund exciting growth companies in the UK", and that's how the business got started.'

Back then, the 70 or so members only met a few times a year, and they invested on average £1 million per company versus the current average of £3 million. 'It was more of a deal-doing club and a funding club rather than the private members' club aspect that I've developed.

I think the Pi network was very diligent and professional – but it wasn't the Pi of today.'

Today, prospective members – who

are given the opportunity to invest either directly in private equity deals or to invest in top tier funds in private equity (including hedge funds and property) – all meet Giampaolo or one of his partners but membership is essentially open to anybody who fits the Pi Capital members' criteria.

The investment criteria are equally disciplined. Pi makes private equity investments in UK-centric business opportunities that have a minimum turnover of £1 million, require £2 million - £5 million of equity capital, and the business is in a sector that a Pi member has experience to draw on. On the funds side, Pi invests in proven management teams with blue-chip records using its network and reputation to open doors to funds that are either officially closed, only open by invitation, or have high minimum investment levels for family offices or institutional money.

Giampaolo's enthusiasm shows in his results, as well as the energy he brings to running Pi. 'What gets me excited was that in this country over the last ten years an incredible amount of wealth has been created, and a lot of that wealth is looking for a smart home. Private equity has been one of the biggest recipients. So I am like anyone else in the club. I am looking to invest my money. I want to protect it and grow it, after working so hard to make it.'

And that's just fine. Although Pi member investors want to be involved in the decision-making process, they don't want to be involved in any day-to-day work to do with the investment. 'What they want to do is understand in detail the investment opportunity – what we see in it, in the sector, the business proposition, the management team. And they want to make an informed decision themselves. Clearly they take enormous comfort from the fact of how much work

we do, and the fact that we're investing – myself, the partners, the board – our own money in every deal, on exactly the same terms as they have an opportunity to do. And they have an opportunity, not an obligation, to invest. What we do here is not philanthropic; this is a real business that looks to make serious returns from.'

Pi has been smart to identify that there is an opportunistic gap in the market for private investment between £2 million and £5 million that institutional private equity money is not interested in as it is too small. High-net-worths and entrepreneurs are often

investment addicts but they don't always get to hear of the best opportunities. That is where the lunches and the Pi newsletter

*'High-Net-Worths and entrepreneurs are often investment addicts but they don't always get to hear of the best opportunities'*

comes in. 'Our minimum investment is £2 million,' says Giampaolo. 'If an investment opportunity comes along in something that requires less money, I might send on the details to the Seraphim fund, which is one of the new government backed ECF funds looking to invest on average £750,000 to £1 million – a fund Pi is a major investor in.'

Success stories include Sporting Index – the spread-betting company – which was sold to a private equity house called Duke Street, making a handsome profit to members who invested. Another success was an investment of £1.5 million in an early-stage drug testing company called Cozart which tested drugs on saliva. 'This company had great technology but virtually no customers – it needed capital to prove its testing facilities and to hire a sales and marketing person. They ultimately executed that according to plan, they never raised another penny, then the business was floated three years from the time we invested for £25 million. Our investors got a very good return. What we're not doing is trying to find the next Google, or the next cancer drug.'

Of course there is always risk with private equity. And although drinking Château Lafite with other members while discussing a potential deal might make writing the initial cheque a little easier, Pi has had its challenges. 'One was an early-stage procurement-related company which was pre-revenue,' says Giampaolo. 'It was a great idea, all of the diligence stacked up. But the fundamental problem was that the business proposition was flawed. We were wrong in our diligences, and in our assumptions about the demand. It was difficult – both financially and emotionally. But anybody who invests in private companies and doesn't understand the inherent risk should not be investing.'

Pi Capital:  
www.picapital.  
co.uk