

The Growing Role of High-Net-Worth Individuals in Private Capital Markets

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Abstract

This paper studies the causes and consequences of the growing importance of high-net-worth individuals in private equity and venture capital markets. Using a combination of novel data sources and differences-in-differences techniques, we find that the US business laws introduced after the global financial crisis (to make it easier for especially small businesses to raise capital and expand) played a major role in explaining the increasing participation of HNWI in private capital markets, particularly in venture capital funds. We also document that companies that raised capital from HNWI grew more relative to the rest of companies, but this differential growth came at the cost of higher income inequality. Finally, we show that the increasing importance of high-net-worth individuals in private capital markets since the global financial crisis is most important in the US, but that this phenomenon is widespread across the globe.