

Blue Sky Private Equity Fund

IN A NUTSHELL

A chance to do what the nation's banking and superannuation oligopoly is unwilling to: that is, invest in talented entrepreneurs and their rapidly-expanding small and medium enterprises.

SUITABLE FOR

Investors who have a substantial chunk of speculative money to set aside for five to seven years.

UP CLOSE

Blue Sky Private Equity Expansion Capital 2010 was established in 2006 to offer SME investment and capital-raising services. BSPE EC2010 began in June this year and it is raising \$50 million to support the expansion of SMEs that have an enterprise value of \$10 million to \$30 million. The fund will typically invest \$3 million to \$10 million in enterprises in return for an equity stake of 30 per cent to 50 per cent. It will concentrate on businesses that are established and profitable (that is, it will not invest in start-up ventures) and for which there is confidence it will be sold within three to five years. The management of the fund also wants board representation and appropriate shareholder protections. The fund will be seeded with two investments: Viking Rentals, a portable toilet hire business, and Lenard's, a chicken retail franchise. "Expansion capital is becoming increasingly attractive to entrepreneurs as access to bank credit becomes more difficult for businesses seeking growth," the fund's managers say.

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The fund is the only private equity investment available to retail investors. It is shooting for an average annual return of 30 per cent (before fees and taxes). The fund's manager say this is a good time to invest in this asset class. "Historically, private equity has proven to be a profitable type of investment following an economic downturn," they contend. "While future performance is subject to many factors, we expect the investment period of the fund will prove to be relatively strong for private equity."

WORST FEATURES

Investors' money will be locked up for at least five years. During that time, it will be exposed to a relatively small number of speculative investments. To reduce this concentration risk, the fund's managers will bet no more than 20 per cent of investor's funds in any single company and remain industry-agnostic. The fund reserves the right to borrow but is constrained by a 20 per cent cap on total borrowing.

FEES AND FINE PRINT

The minimum investment is \$10,000. The annual management fee is 2.05 per cent. Returns above an 8 per cent hurdle will be subject to a performance fee of 20.5 per cent. The first closing date for applications is August 31. The final closing date will be no longer than nine months later.



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