

Are you a Sophisticated or Wholesale Investor?

By Len McDowall, Integral Capital Group Pty Ltd

With the increase in personal wealth in Australia in recent times, many individuals who are classified as 'wholesale' or sophisticated' investors, don't even know it. More importantly they could be missing out on some investment opportunities simply because of their investor status.

Firstly, what exactly is a sophisticated or wholesale investor? Well, in the eyes of the Corporations Act 2001, a wholesale/sophisticated investor is someone who meets at least one of the following tests:

- Has net assets of more than A\$2.5m and supplies an Accountants Certificate confirming this
- Has income of at least A\$250k over the last two financial years and supplies an Accountants Certificate confirming this
- Is investing \$500k or more into the opportunity

If you don't meet at least one of the above, you are deemed as a retail investor (unless you can meet one or more much more stringent tests which most investors would not qualify for).

So what is the advantage of being a wholesale investor? How does this help with your investing?

The answer is simply that in the eyes of the Corporations Act, someone who has met one of the above criteria, is more knowledgeable when it comes to investing. Therefore they can invest into pretty much anything.

There are quite a number of investment products that are only available to wholesale or sophisticated investors. The reason being that they are more complex than the average IPO or managed fund.

The other reason why these opportunities are only available to wholesale investors, is because wholesale investors are exempt from the 20/12 rule. The 20/12 rule limits the number of retail investors who can invest into a particular opportunity to 20 within a 12 month period.

Usually there is no limit to the number of wholesale investors who can invest, which is why they are preferred by certain promoters of opportunities.

Also, the fact that wholesale investors can usually invest a larger amount of money makes them all the more attractive to promoters.

Some of the opportunities available to wholesale investors are:-

Pre-IPO offers

This is where a company does a capital raising usually within about the last 12 to 18 months prior to going public. Shares are usually offered at a discount to the IPO price. These opportunities are available through certain brokers, investment banks and corporate advisory firms.

Private Placements

This is where a publicly listed company wants to raise more funds, usually for expansion or for an acquisition. Say they are raising \$4m, rather than going to lots of small investors, they go to 8 wholesale investors who invest \$500k each. This is a much easier and faster way of raising the capital. The benefit to the investor is that, in most cases, they receive their shares at a discount rate to the current trading price. Say the stock is trading at \$1.00 on market. The private placement may be priced at \$0.80. Meaning you make 20% return on day one.

Funds

There are certain funds that are only available to wholesale investors. Private Equity funds are one such example. They are specifically set up to accept money from high net worth individuals and institutional investors. These funds have a target IRR (Internal Rate of Return) of around 25% pa.

To learn more about wholesale or sophisticated investor opportunities, contact your stockbroker or private wealth manager. Alternatively you can establish a relationship with a investment banking or corporate advisory firm who specialises in wholesale opportunities.

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About Len McDowall - Managing Director, Integral Capital Group Pty Ltd

Len McDowall was previously inaugural Chairman and Managing Partner of Bird Cameron Chartered Accountants (now known as RMS Bird Cameron), which employed 1000 people in 50 offices in Australia and Hong Kong. Len McDowall, who established Bird Cameron's mergers and acquisitions division, has extensive experience in all facets of financial management with a particular emphasis on structuring and negotiating joint ventures and capital raisings. Following his retirement from the accounting profession Len and his partners established the Integral Capital Group which specialises in mergers and acquisitions, public floatation's and capital raisings.