diversification achieved for investors. In addition, a number of US private equity funds have begun to target the Australian market, with some forming strategic alliances to gain access to the local market. This trend effectively reduces the opportunities for private equity funds to analyse and select for their own investors.

More recently, a small number of overseas managers have begun raising funds from Australian investors for fund-of-fund vehicles. These managers have the advantage of operating in the more developed private equity markets of the Northern Hemisphere, especially the United States. In addition, they have a longer history in this market and records of success in the US and UK. Choosing to invest with these managers raises issues such as currency risk, future income flow, reporting and client servicing.

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Nothing ventured, 165% not gained

Risk is what provides the thrills in venture-capital investing. Whether the thrill leaves you rich or sleepless, however, can depend on which side of the investment you inhabit.

In the United States, the heartland of venture capital, gung-ho investors in 1999 reaped an average return of 165% on initial public offerings (IPOs) of Internet-based companies. The euphoria persisted into 2000, when venture-capital funds sucked in $US70 billion of investment money, a ten-fold increase since the mid-1990s. High-tech glamour seems to have passed its peak, of course, but those golden years explain the allure of taking a chance on e-commerce entrants: high risk, high return.

The stumbling of the “new economy” showed up the fact that unpredictability is a characteristic of risk; otherwise it would not be risk at all. This year, investors have pulled in their horns. A PricewaterhouseCoopers report showed that financing of US start-ups in the first quarter fell by 40% compared with the previous three months.

And while venture capitalists are grimacing at the disappearance of three-digit percentage profits, they are not going to let the leakage go unchecked. In the not-so-cheerful environment of 2001, they are backing away from the least successful of their protégés and reserving their support for those who are — wait for it — lower risk.

That is the other side of venture-capital risk: these days a start-up or early-stage company needing financial support does not have much glamour at all — if it does not have a convincing business plan and real prospects of success, it can quickly become the victim of a violently pulled plug.

Some venture capitalists, putting on a brave face, say that a bit of pain is good for the industry. Entrepreneurs who have to work harder for their funding may finish up building stronger companies in which quick profits take a back seat to long-term health. That may seem to take the excitement out of venture capital investment but the sector has a robust tendency to cling to its beliefs, especially the one about the next roll of the dice.

Not everyone believes the Internet frenzy of 1999 will be repeated, but cycles are hard to resist and a new flurry of IPOs is always possible. Venture capitalists will be waiting with money to burn. It’s the nature of risk-takers.