

ALTERNATIVE INVESTMENT UPDATE

Private equity that levels the playing field

One private equity firm has found success by stepping in for disadvantaged business owners



Toronto-based Argosy Partners recently announced it will be launching Shotgun Fund IV, a niche fund that will seek up to \$50 million in limited partnership commitments. The fund's strategy revolves around the shotgun clause, a conflict-resolution provision often included in private companies' partnership or shareholder agreements. It essentially allows one shareholder to issue an ultimatum to their partner or co-owners to either buy out the shareholder or sell their own shares.

"Unfortunately, a lot of people invoke it

when their partner is in a desperate situation," explains Richard Reid, founder and partner of the Shotgun Fund. "They pull the trigger and name a bargain-bin price, which they know the other party can't evaluate or afford at the time."

Through an extensive referral network, the Shotgun Fund receives calls from people in danger of being bought out of a business they spent their lives building. The fund focuses on the small and medium-sized business market. "A lot of private equity firms move upmarket

after raising their first fund, but we've stayed faithful to this space," says Larry Klar, partner of the Shotgun Fund.

The Argosy Partners team analyzes whether the company is profitable and whether they're dealing with an owner-manager who can work within their partnership model. After ticking off those and other boxes, they can offer to fund a buyout. "We stress three things at the outset,"

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Reid says. "We want to build a team, we want to grow the business, and we want to sell the company at some point in the future."

By focusing on shotgun-clause situations, Argosy Partners cuts out a significant amount of uncertainty from the deal-making process. "The bane of most private equity professionals' existence is negotiating with a business owner for months or years, only for them to change their mind about selling," Reid says. "With a shotgun situation, you know the price and you have a timeline."

Argosy Partners has successfully closed 15 transactions; its most recent Shotgun Fund produced a 13% IRR over an 18-year period. "That's why we really like investing in small and medium-sized businesses," Reid says. "We believe that's where opportunities for outsized gains are more available."

NEWS BRIEFS



Dynamic Funds joins liquid alternative space

Dynamic Funds has launched two new liquid alternative fund offerings. The Dynamic Alpha Performance II Fund aims to protect capital over a wide range of economic and market environments by identifying investment opportunities on both the long and short side of the portfolio. Meanwhile, the Dynamic Premium Yield PLUS Fund seeks long-term capital appreciation from US equity securities, writing call and/or put options to generate premium yield and gaining leverage through the use of derivatives.



Co-working, seniors driving real estate trends

According to PwC's 2019 forecast for the commercial real estate sector, co-working or flex office spaces should continue to exhibit strong momentum; the subsector is forecast to make up 30% of corporate real estate portfolios by 2030. PwC also expects senior lifestyle housing to show strong growth in 2019, as Canadians over the age of 65 have now surpassed those under the age of 15. "In 2017, 31% of Canadians aged 85 and older lived in collective dwellings, which will only grow in upcoming years," the report said.