

Press Release

Private equity investment returns more than double

Private equity in New Zealand returned \$1.72 billion on investments of \$675 million between 1994 and 2010, according to new research undertaken by the New Zealand Venture Investment Fund.

The research analysed investments made by New Zealand and Australian private equity funds into New Zealand companies over the last 16 years. Eleven funds invested \$675 million was invested into 74 companies. The research measured the value of the returns following the realisation of those investments.

The key findings include:

- For every dollar invested in New Zealand companies, \$2.54 was returned those investments. The \$675 million invested between 1994 and 2010 earned \$1.72 billion, before management fees and costs are accounted for.
- The IRR (annual rate of return) on these private equity investments in New Zealand over the period was 33.5%.
- 40 percent of investments earned more than double what was invested, and 8 percent earned over five times what was invested.
- Returns on investments were positive across the full period, although, as expected, were highest during the period from 2000 through to 2008.

NZVIF chief executive Franceska Banga says this analysis, the most comprehensive review of New Zealand private equity investment, confirms that over the last 16 years, investment in privately owned New Zealand companies has been a rich source of growth and investment returns.

“The research looks at returns over a 16 year period, which provides a significant sample taking account of business cycles. These returns clearly show that investing with professional private equity fund managers delivers excellent returns on investment on a consistent basis.

“Of the 74 investments, 30 earned more than double what was invested, with six investments earning over five times what was invested. With 20 investments earning less than what was invested, it demonstrates how important it is to have a wide portfolio of investments where, on average, the good returns will more than compensate for poor performing investments.

“Even accounting for ‘survivor bias’ – managers holding onto poorer investments - and taking account of fees, it is clear that private equity investment has been a consistently high performance asset class across a wide range of professional fund managers who have been actively selecting and investing into New Zealand companies

“These returns provide compelling reasons why New Zealand private equity is a good investment class.

New Zealand institutional investors have, traditionally, been reluctant to invest into New Zealand private equity. These results show that there is considerable opportunity to achieve high quality returns.

“The returns confirm a strongly held article of faith for the private equity industry: investment discipline - taking a strict portfolio approach across sectors and consistently over time - together with an active approach to managing investments, pays off.

“Investing in private equity enables investors to gain access to a large number of very well performing companies which are private owned.”

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