

New Zealand Private Equity

An opportunity too good to leave to others

Asset Allocation Summit New Zealand

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a cornerstone investor in a vibrant early stage venture capital market



Private equity in New Zealand

- ❑ Is Private Equity an attractive or unattractive proposition in New Zealand?
- ❑ The argument has been made and the answer is clear.
- ❑ Australian institutions have been, are and remain significant investors into the asset class.

Australian Committed PE Invested in New Zealand

	2005	2006	2007
% of deals	16%	11%	9%
% of funds invested	14%	32%	10%
% invested	\$240m	\$736.1m	\$302.75m
Position vs. Aus states	4	1	3

Private equity in New Zealand

- A market made up of several distinct segments
 - Angel Investing – non institutional investment
 - Venture capital
 - Mid market private equity
 - Top end private equity / LBOs
- } The focus for today

Private equity in New Zealand



Private equity in New Zealand

New Zealand Deloitte 200 – By Revenue

	Listed	Unlisted	% Unlisted
Top 10	3	7	70%
Top 50	17	33	66%
Top 100	31	69	69%
Top 200	40	160	80%

200th company revenue = \$120m

Source: Management Magazine Dec 2007

Private equity in New Zealand

- New Zealand private equity a growing market

NZ PE Market Activity

	2007		2006		2005		2004		2003	
	\$m	Deals	\$m	Deals	\$m	Deals	\$m	Deals	\$m	Deals
Angel capital investments	12	45	5	28						
Venture capital investments	82	60	76	77	63	51	50	44	44	43
Mid market PE investments	205	23	85	17	186	25	157	18	44	8
Large PE investments	938	2	1049	17	137	4	0	0	0	0
Total	1237	130	1215	139	386	80	207	62	88	51

[Source: NZVCA Monitor, NZVCA, NZVIF]

Private equity in New Zealand cont.

□ Opportunities abound

- PE activity in NZ as % of M&A is low
 - 6% compared with 21% in AU/US and 30-50% in the UK
 - PE will play an increasing role in NZ M&A
- M&A is expected to grow - especially in the mid-market
 - Driven by consolidation, baby boomers; availability of capital



The crucial question

Private Equity

Does it Perform?

Private equity performance

Aggregate Performance Data

NZ HORIZON IRR to 30/6/07	3 Year	5 Year	
NZ PE (Net IRR, pooled)	24.8%	22.1%	
NZX 50 (Gross)	16.9%	16.7%	
OFFSHORE RETURNS IRR	3 Year	5 Year	10 Year
Australia PE	33.5%	17.7%	14.9%
S&P/ASX3000 (Accumulation)	23.9%	12.3%	12.8%
US Private Equity	13.4%	3.6%	11.4%
S&P 500	9.2%	0.7%	6.6%

[Sources: Direct Capital, Thompson Financial, NZVIF]

The Australian experience

- A survey of major Australian superannuation funds found:
 - **94%** of respondents invest in private equities.
 - Of those that invest in PE, **20%** have over **5%** of total assets invested.
 - Average investment was **3.7%**.
 - Average commitment was **6%**.
 - Fund-of-Fund investment is the most popular type of PE investment with an average allocation of **71%** of current PE allocations.
 - Direct investment is currently the least favoured route to PE investing.
 - Return expectation is **11.6%**.

[Source: Study of Australian Superannuation Fund Attitudes to Private Investing, John Evans, Australian School of Business Research Paper No.2008ACTL02, April 2008]

If the story is so strong

**Why are New Zealand
institutions not engaged in
the market place?**

Lack of scale

- ❑ NZ investment market small.
- ❑ PE investment is more expensive because of effort required.
- ❑ Of the 576 registered superannuation schemes in New Zealand, only 77 have assets in excess of \$50 million with an average size of \$225 million.

Retail nature of managed funds

- ❑ Redemption options tying managers' choices.
- ❑ Managers forced into more liquid assets.
- ❑ Hard to maintain strategic asset allocations.
- ❑ KiwiSaver may provide for a longer term solution.
- ❑ Private equity tends to be relatively illiquid because it is a long-term investment and has long holding periods (three-plus years). This is a real issue for institutional investors.

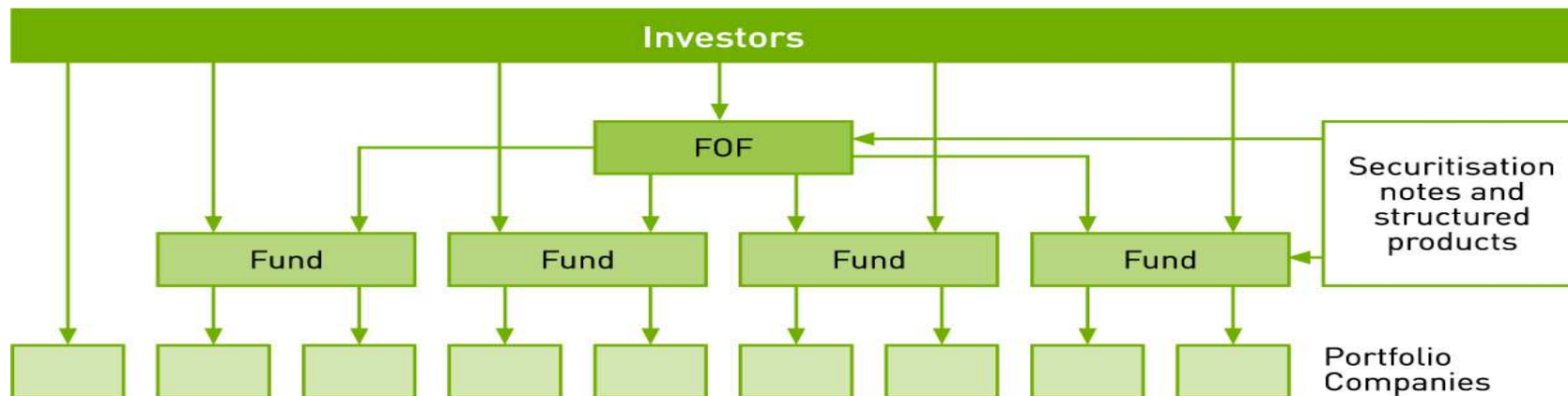
Resources

- ❑ Investing in private equity is much more resource intensive than investing in public markets.
- ❑ Information is difficult to access and making comparisons between different managers is more complex.
- ❑ Post-investment monitoring of funds is more resource intensive.
- ❑ The costs of running an in-house alternative investment programme may prove to be prohibitive.
- ❑ The majority of New Zealand institutions do not currently have the resources to employ in-house private equity expertise.

Some solutions

Accessing private equity

- ❑ We recommend a structured approach that builds a portfolio of assets across stage, vintage, managers, industries and geographies
- ❑ Execution requires a long term commitment of capital and a commitment to build capability internally or build relationships with fund of funds.



Funds of Funds investing

- ❑ Investing via a fund of funds address many of the challenges that are faced by New Zealand institutions
 - ❑ Scale gain be gained
 - ❑ Risk return profile can be managed through portfolio diversification
 - ❑ Whilst an illiquid asset class the liquidity profile for the investor can be improved
 - ❑ Access to expert resources that will address Manager selection risk and manage the on-going monitoring of the portfolio

NZ Venture Investment Fund

- ❑ NZVIF is a fund of funds Manager formed in 2001 that manages \$200m behalf of the Crown in two funds.
- ❑ We are one of the largest investors in the Private Equity in New Zealand and have exposure to the full gambit of opportunities across Australasia.
- ❑ NZVIF is raising a third fund at present:
 - The New Zealand Private Equity Fund of Funds is a diversified private equity investment product that provides exposure to New Zealand unlisted companies by investing into private equity funds.
 - The product is designed to provide qualified access to between 3-5 private equity fund opportunities over the next 12–18 months.

There is an elephant in the room

- ❑ Offshore investors are reaping the rewards from:
 - Quality unlisted NZ companies
 - Quality PE managers

- ❑ New Zealand investors are not:
 - New Zealand institutions are sitting on the sidelines with many objections
 - Objections can be overcome it will however take a leap of faith