PE LEADS LISTED MARKETS OVER 10 YEARS

DIFFERENCES IN INVESTMENT PROCESSES MAKE COMPARISONS CHALLENGING BUT COMPARITIVE ANALYSIS SHOWS PRIVATE EQUITY TO BE LEADING PUBLIC MARKETS IN AUSTRALIA OVER A TEN YEAR PERIOD.

Verified industry data shows that private equity outperformed listed equities in Australia in the ten years to the end of September and proved less volatile, according to Cambridge Associates.

The global investment and research firm has been working with industry association AVCAL since 2010 to provide industry benchmark data.

Cambridge Associates' Private Equity and Venture Capital Industry Index uses data from AVCAL members' audited accounts to track the performance of 61 private equity and 22 venture capital funds formed between 1997 and 2012.

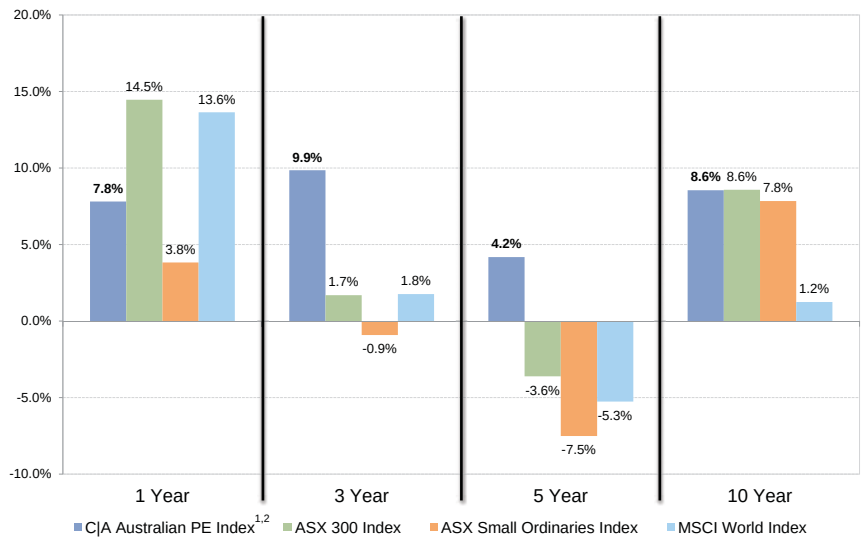
For the ten year period to the end of September 2012, the Private Equity Index recorded a dollar weighted net return of 8.6 per cent, the same as the time weighted return of the ASX 300 Accumulation Index, and outperforming the ASX Small Ordinaries time weighted Index which returned 7.8 per cent.

In a recent presentation, Cambridge Associates Australia managing director Eugene Snyman pointed out that as the Private Equity Index tracks a broad swathe of private equity funds, successful fund managers, which attract the largest share of investment, clearly outperformed listed investments over ten years.

This is most evident when using a public market equivalent (PME) analysis which allows for a more accurate comparison between any private data set and public market indices, providing context on what performance would have been

Private vs. Public Index Performance

As of 30 September 2012 (in AUD) – Australian PE pooled end-to-end return net of fees, expenses and carried interest



had the actual private equity cash flows been subject to public market returns. Specifically the PME assumes the purchase of an index at the same time and amount as private equity capital calls and the sale of an index at the same time and amount as private equity distributions. Net asset value (NAV) is grown at the rate of return of the public market index.

Snyman noted that for the ten year period to the end of September 2012 the Australian Private Equity Index recorded a dollar weighted return net of fees, expenses and carried interest of 8.6 per cent outperforming the ASX 300 Accumulation Index which returned 3.1 per cent. The performance differential is more pronounced when the PME analysis is applied to the top two quartiles of Australian private equity managers which recorded a net dollar weighted return of 11.8 per cent handsomely outperforming the ASX 300 Accumulation Index which returned 1.6 per cent.

Over five years, the Private Equity Index as measured on a PME basis, was also well ahead of listed equities returning 4.2 per cent compared with minus 1.4 per cent for the ASX 300 Accumulation Index.

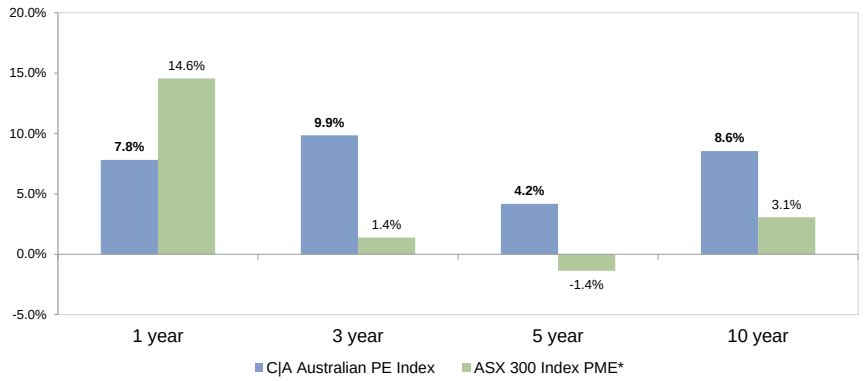
Over three years, private equity returned 9.9 per cent compared to 1.4 per cent for the ASX 300 Index but over one year the ASX 300 Index outperformed with 14.5 per cent compared to private equity's 7.8 per cent return.

According to Cambridge Associates, 83 Australian private equity and venture capital funds were raised between 1997 and 2012 attracting $21.7 billion in committed capital.

By far the largest proportion of this funding had been allocated to private equity with $20.1 billion being raised by 61 funds since 1997. A total of $1.6 billion had been raised by 22 venture capital funds since 1998.

Public Market Equivalent

As of 30 September 2012 (in AUD) – Australian PE pooled end-to-end return net of fees, expenses and carried interest



Index	1 year	3 year	5 year	10 year
C|A Australian PE Index[1,2]	7.81	9.85	4.18	8.55
ASX 300 Index PME*[3]	14.56	1.39	-1.37	3.06
Annual Premium/Discount to ASX 300 Index PME*	**-669 bps**	**828 bps**	**554 bps**	**488 bps**

As at September 30, Australian private equity and venture capital funds held 346 investments in companies in Australia and New Zealand (259 from private equity funds and 89 from venture capital funds) representing $10 billion of invested capital, $8.5 billion of which had been realised. The remaining market value (net asset value) of the investments was $7.2 billion.

A further $16.1 billion of investment in Australian and New Zealand companies came from overseas funds (210 investments from private equity funds and 31 from venture capital funds). Of this funding, $10.6 billion had been realised. The remaining market value (net asset value) of these investments was $9 billion.

Analysis of business sectors showed significant differences in investing patterns between private and public market investment in Australia. In sectors in which Australian private equity and venture capital funds had made investments, they were 13 per cent more heavily invested in industrials than the ASX 300 Index, 29 per cent more in consumer goods, 5 per cent more in energy, and 5 per cent more in health care. In sectors in which Australian private equity and venture capital funds were underweight, private equity was 29 per cent more underweight in financials than the ASX 300 Index and 20 per cent more underweight in materials and mining.

A numerical breakdown of types of deals in which local and overseas funds invested showed the biggest divergence to be in public to private deals with 10 per cent more such deals being carried out by overseas funds than local funds.