Australian Private Capital Market Overview:

A Preqin and Australian Investment Council Yearbook 2023

PREQIN AUSTRALIAN INVESTMENT COUNCIL

Contents

Acknowledgements

Lead Analyst
Valerie Kor

Executive Editor
Lizzie Carroll

External Contributors
Rama Gollakota, Oliver Wyman
Fei-Fei Porter, Oliver Wyman
Nicholas Tonkes, Oliver Wyman
Patrick Kirwan, MUFG Investor Services
Danny Trentacosta, MUFG Investor Services
Navleen Prasad, Australian Investment Council
Robyn Tolhurst, Australian Investment Council
Chester Moynihan, Allegro Funds
Helen Norton, AirTree Ventures
Andrew Major, HESTA

In-House Contributors
Harsha Narayan

Research Coordinator
Ben Russell

Research
Tanzi Awrna
Nicholas Garraway
Felicia Hermawan
Caroline Jung
Lauren Mason
Karel Nguyen
Michael So

Sub-Editors
Thomas Marrs

In-House Designers
James Flanagan
Tim Short

PREQIN AUSTRALIAN INVESTMENT COUNCIL

About this report

Preqin and the Australian Investment Council are proud to present the 2023 edition of our annual Australian Private Capital Market Yearbook. The report tracks activity in the Australian private capital industry using data contained in the Preqin Pro platform, as well as on-the-ground information collected by both Preqin and the Australian Investment Council. The report also shares expert insights from leading practitioners operating in Australia, to whom we are very grateful. Written content has been co-authored by in-house experts at Preqin and the Australian Investment Council.

- Analysis and quotes in this report are correct as of March 2023.
- Any reference to 'private capital' refers to the private equity, venture capital, private debt, real estate, infrastructure, and natural resources asset classes.
- Scope of assets under management (AUM), performance, and fundraising data for this report includes only private closed-end funds.
- We track deals made by private capital fund managers and/or institutional investors.
- Investor allocation figures to the respective asset class are generally a sum of allocations across three routes to market: direct, listed, and private funds.
- All $ currency units refer to Australian dollars unless otherwise stated.
- All annual figures correspond to calendar-year periods unless otherwise stated.
- Scope of data:
  - Australia-focused: funds that predominantly focus on Australia, regardless of manager headquarters.
  - Australia-based: funds managed by domestic fund managers, regardless of fund geographic focus.
- Any reference to 'Australasia' refers to Australia, New Zealand, Federated States of Micronesia, Guam, Kiribati, Northern Mariana Islands, Papua New Guinea, Samoa, Solomon Islands, and Vanuatu.
- For further definitions of asset-class-specific terms, you may refer to the full Preqin Pro: Glossary of Terms.[2]

About Preqin
Preqin is the Home of Alternatives®, the foremost provider of data, analytics, and insights to the alternative assets community. From pioneering rigorous methods of data collection to developing a revolutionary platform, we have committed ourselves to furthering the understanding of alternatives for over 20 years. Through close partnership with our clients, we continuously build innovative tools and mine new intelligence to enable them to make the best decisions every day.

For further information, please contact:
info@preqin.com

About the Australian Investment Council
The Australian Investment Council is the peak body for private capital in Australia and has 200+ members who work to build strong businesses that support our communities, create new employment opportunities, and grow our nation's economy. Members of the Council comprise the leading domestic and international private capital firms operating in Australia, and span private equity, venture capital, private credit, family offices, superannuation, and sovereign wealth funds, as well as leading financial, legal, and operational advisors. Our investment members directly or indirectly employ approximately 500,000 people across the economy, contribute almost 3% to GDP, and support entrepreneurship and local capability by investing in Australian industries and businesses.

For further information, please contact:
research@investmentcouncil.com.au

1 https://docs.preqin.com/pro/Preqin-Glossary.pdf

Foreword

Christoph Knaack
Chief Executive Officer
Preqin

Navleen Prasad
Chief Executive Officer
Australian Investment Council

We are delighted to present our annual Australian Private Capital *Market Overview: A Preqin and Australian Investment Council Yearbook*, 2023 edition

This comprehensive report, jointly produced by the Australian Investment Council and Preqin, provides an in-depth review of private capital asset classes: private equity, venture capital, private debt, real estate, infrastructure and natural resources, backed by Preqin data.

Despite ongoing macroeconomic headwinds in 2022, private capital in Australia is maturing and generating strong assets under management (AUM) growth thanks to high levels of capital raised. Private equity and venture capital (PEVC) fundraising reached record highs, even as LPs around the world grew cautious on the back of rising interest rates, recession fears, and geopolitical tensions.

Industry AUM for closed-end Australia-focused funds achieved a record $118bn as of September 2022, up 21% from $98bn in December 2021. Dry powder further rose by 30% to $37bn in the same period, backed by record PEVC fundraising that far surpassed 2021's figures. Real estate is the largest asset class, with $44.4bn in AUM, closely followed by private equity ($41.7bn) and VC ($17.9bn).

Robust investor appetite has come from increasingly diversified profiles. Superannuation funds, including the largest ones in the industry, have committed more to private capital asset classes. At the same time, we see more high-net-worth individuals, family offices, wealth managers, and corporate investors allocating to private capital, attracted by diversification benefits, inflation-hedging characteristics, and exposure to higher returns offered by Australia's funds.

Fund managers and investors are expected to be more discerning when deploying capital in 2023. High levels of dry powder could lead to more take-private private equity deals as firms look to acquire listed assets at lowered valuations, while VC investors and managers move toward earlier-stage companies. The IT sector accounted for more than half of VC deals in 2022, helping to propel the growth of Australian start-ups in frontier technology verticals, such as blockchain, artificial intelligence, and cryptocurrencies.

Australia's private debt industry is growing steadily on the back of robust private equity-backed buyout activity and tighter lending conditions by the big four traditional banks. It may see more interest coming from investors aiming to hedge against inflation, as well as mid-market borrowers who can no longer rely on low-cost working capital from pandemic stimulus programs.

In real estate, demand is still strong with tight supply. Value-added strategies are gaining momentum, especially as the commercial real estate sector adapts to new hybrid working styles and the need to retrofit buildings for sustainability purposes. Post-pandemic, the return of Chinese international students to Australia's tertiary institutions will boost demand for student housing in this niche sector.

Natural resources and infrastructure were bright spots globally last year due to higher prices of commodities. Agriculture, which accounts for more than half of aggregate capital raised by Australia-focused unlisted closed-end natural resources funds, has benefited from high food prices and continues to be a valuable hedge against inflation.

Australia continues to lead its peers in the Asia-Pacific region in its growing commitment to ESG, with 212 UN PRI signatories. The new Federal Government passed the Climate Change Bill 2022 in September, ensuring that Australia's emissions reduction target of 43% by 2030 and net zero emissions by 2050 are now set in law. Plus, the financial regulator, the Australian Securities and Investments Commission, has continued to scrutinize the practice of greenwashing. These developments should support perceptions of Australia as a desirable destination for responsible investors.

As always, we thank the industry participants who have contributed their data, as well as the contributors to this report. Your support ensures a comprehensive review of Australia's private capital industry, promoting greater transparency and knowledge-sharing across the alternative investment landscape.

Key figures

$118bn

Australia-focused private capital AUM as of September 2022, up 21% from $98bn nine months prior

14.9%

Median net IRR of Australia-focused private capital funds (vintages 2012 – 2020)

$9bn

Aggregate capital raised by Australia-focused private equity fund managers, more than double the $4.3bn in 2021

$2.7bn

Aggregate capital raised by Australia-focused VC fund managers, almost 4x the figure for 2021

338 deals

Number of VC deals in 2022 with an aggregate value of $5.6bn, 40% lower than 2021 but 67% higher than 2020

63%

Percentage of aggregate capital raised as mezzanine debt by Australia-focused private debt funds

$0.6bn

Positive net cash flow of Australia-focused closed-end private real estate

52%

Proportion of aggregate capital raised by Australia-focused unlisted closed-end agriculture funds out of all natural resources funds

PREQIN AUSTRALIAN INVESTMENT COUNCIL

Investing in Australia as the landscape evolves

Australia's maturing alternative assets industry attracts international and domestic investors, but unique challenges remain

How has the Australian investment landscape changed over the years? How is the market evolving as the asset classes mature?
Danny Trentacosta: The Australian investment landscape has undergone significant changes over the years, reflecting the evolution of the Australian economy and investors increasingly seeking diversification across asset classes. Some of the key trends and changes in the Australian investment landscape include:

1. **Diversification of asset classes**
Australian investors have traditionally focused on domestic equities, property, and fixed-income products. However, in recent years, there has been a growing trend toward diversification of asset classes, with investors increasingly looking to international equities, as well as alternative assets such as private equity, real assets, infrastructure, and hedge funds. This is partly due to the explosive growth in superfunds, coupled with limited options to invest locally. As the Australian investment landscape evolves, we also see international investors seeking diversification across the Australian markets. Some of the largest investment managers in the world have operations in Australia or are allocating to Australia.
2. **Emergence of superannuation funds**
The continued growth and consolidation of superannuation funds has become a significant force in the Australian investment landscape. Today, these funds have larger pools of capital, totaling over $3.4tn in assets under management as of December 2022.[1] The continued growth of superannuation funds has led to an increased focus on long-term investing, a growing interest in alternative investments, and a greater emphasis on environmental, social, and governance (ESG) factors. Over the last five years, superfunds have allocated more to private assets, with over 11%[2] with a specific trend of investment in Australian (as well as global) infrastructure.
3. **ESG**
In recent years, ESG has become critical in investment decision making. Investors increasingly consider the impact of their investments on the environment and society.

Danny Trentacosta
Managing Director, Global Head of Private Markets & Change
MUFG Investor Services

Patrick Kirwan
Managing Director, Head of Investor Services APAC
MUFG Investor Services

What makes Australia such an attractive market compared with other countries or regions?
Patrick Kirwan: Overall, Australia's stable political and economic environment, strong financial sector, rich natural resources, proximity to Asia, and diversified economy make it an attractive market for investors looking for stable and long-term investment opportunities. Investing in Australia has become increasingly attractive to both domestic and foreign investors in recent years as it offers a range of investment opportunities across multiple asset classes such as healthcare, mining, finance, property, and infrastructure. Australia has a stable and transparent political and economic environment, with a strong rule of law, an independent judiciary, and a robust regulatory framework. This stability provides investors with a sense of security and reduces the likelihood of sudden changes that could negatively impact their investments. Australia has a well-developed and highly regulated financial sector, considered to be one of the most sophisticated and advanced in the world. The sector is dominated by four major banks, providing investors with a range of investment opportunities. It is also worth noting that although Australia is considered a long way from other countries, Australia's location in the Asia-Pacific region makes it a gateway to one of the fastest-growing regions in the world. The country has strong trade and investment links with the region, and its close ties with

[1] https://www.apra.gov.au/news-and-publications/apra-releases-superannuation-statistics-for-december-2022#:~:text=Superannuation%20assets%20totalled%20around%20%243.4,inflation%2C%20which%20slowed%20economic%20growth.
[2] https://www.apra.gov.au/quarterly-superannuation-statistics

countries such as China and Japan have led to significant investment flows.

What role does Australia play in MUFG Investor Services' global strategy?
Danny Trentacosta: Australia is an important region for MUFG Investor Services for several reasons. Firstly, the country has a well-established financial services industry with a strong regulatory framework, making it an attractive destination for foreign investment. This creates a significant demand for asset servicing and investment management solutions, which MUFG Investor Services is well positioned to provide. Australia is also home to some of the world's largest institutional investors, superannuation funds, and sovereign wealth funds. These investors require sophisticated and customized solutions, which MUFG Investor Services has a proven track record of delivering globally. We can leverage our global capabilities to offer these clients a full range of services across multiple jurisdictions such as fund administration, asset servicing (including debt services), banking, financing, FX services, and corporate and regulatory services.

Which strategy best creates alpha today in Australia amid a challenging global macroeconomic environment?
Patrick Kirwan: Creating alpha or generating returns over market benchmarks is challenging in today's environment. One of the key changes we have noticed is managers want to outsource more middle and back-office functions to service providers to allow their teams to focus on their primary goal of generating alpha. The post-trade operational lift for firms is significant and if their infrastructure and teams are not designed or able to manage increased volume, this becomes a risk as well as an operational burden, taking them away from what they need to focus on: creating returns for their investors. By leveraging a service partner, firms can benefit from cost savings, improved efficiency, flexibility, and access to top talent.

Which sectors or verticals are the most promising in Australia's private capital? Why?
Danny Trentacosta: Australia offers many investment opportunities in areas such as healthcare, property, infrastructure, technology, education, and consumer goods and services, but it is difficult to say which sectors provide the best prospects. Historically, property and infrastructure have been the go-to asset classes thanks to their stable, long-term risk-return profiles. Having said that, in the post pandemic environment, the healthcare and technology sectors have substantial growth potential, specifically where innovative solutions to address the aging population, as well as demand for technology solutions that can be used to reduce costs and the reliance on human capital. In addition, cybersecurity, ecommerce, and cloud computing are opportunistic investments with investors seeking disruptive offerings.

What challenges are unique to Australia?
Patrick Kirwan: First, the uncertainty regarding future policy setting for superfunds can make it more difficult for them to make long-term illiquid investments. It is imperative that this is addressed to allow allocations to private markets to continue growing. Second, Australia has a limited availability of institutional capital compared with some of the other developed nations which can limit the amount of funding for private market investments. This makes it harder for Australian firms to compete on the international stage. Third, there is also a limited number of players in the market, meaning it can be competitive for deals and thus drive prices up. However, the opportunities in Australia's growing private capital markets still present abundant opportunities.

Year in review

Private capital markets in Australia continue to go from strength to strength despite global macroeconomic headwinds

Australia-focused private capital assets under management (AUM) stand at $118.0bn as of September 2022, growing 21% in the nine months from December 2021 (Fig. 1). The growth rate is higher than the average annual growth rate of 18% between 2016 and 2021. Notably, dry powder grew by 30% between December 2021 and September 2022 on the back of strong fundraising figures, and reached a record $37.0bn in 2022.

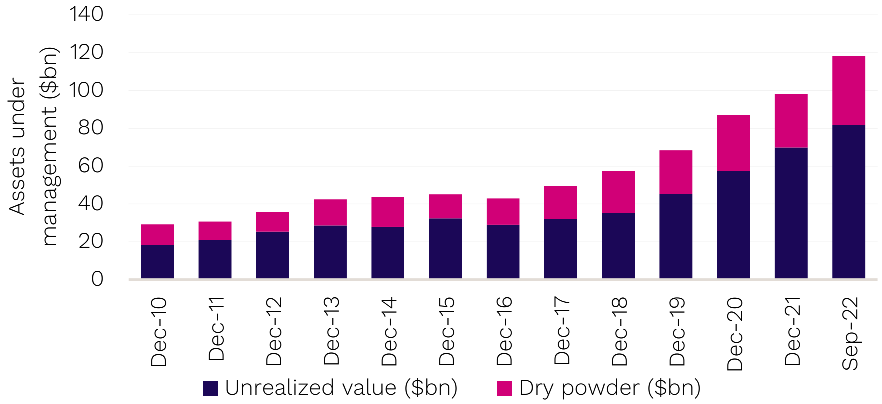
Indeed, Australia-focused private equity and venture capital funds raised record sums in 2022, even as LPs across the world grew cautious due to rising interest rates, recession fears, and geopolitical tensions. In 2022, 13 private equity funds (excluding VC) raised $9.0bn, more than double that of $4.3bn in 2021 (Fig. 9), while 17 VC funds raised $2.7bn (Fig. 15), almost doubling the previous record of $1.4bn in 2020. In comparison, the total raised by Asia-focused PEVC funds fell by nearly 60% year-on-year (to $81.0bn).

With $41.7bn in AUM, private equity (excluding VC) is now only second to real estate ($44.4bn), the largest Australia-focused asset class (Fig. 2). VC is the third-largest asset class, with $17.9bn in AUM.

The Australian Government has specifically called on private equity and VC investors to engage with the $15bn National Reconstruction Fund. The fund aims to diversify and transform Australia's industries. It will provide loans, equity investments, and guarantees in seven priority areas, such as renewables and low emissions technologies, agriculture, medical science, and transport.[2]

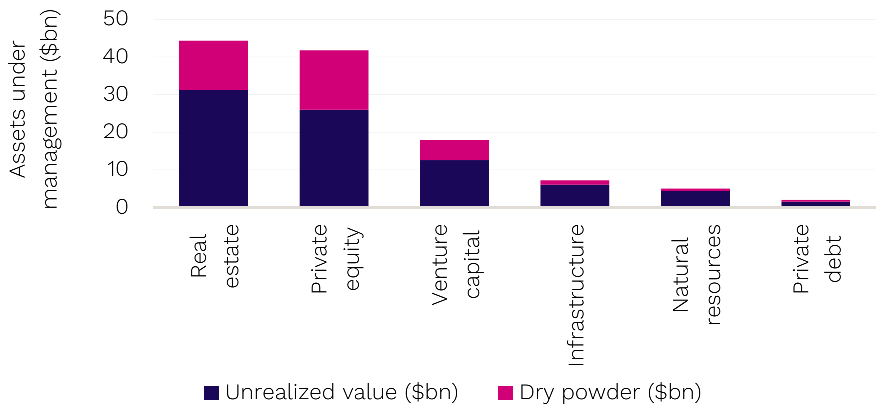
2 https://www.industry.gov.au/news/national-reconstruction-fund-diversifying-and-transforming-australias-industry-and-economy

Fig. 1: Australia-focused private capital assets under management, 2010 – Sep 2022



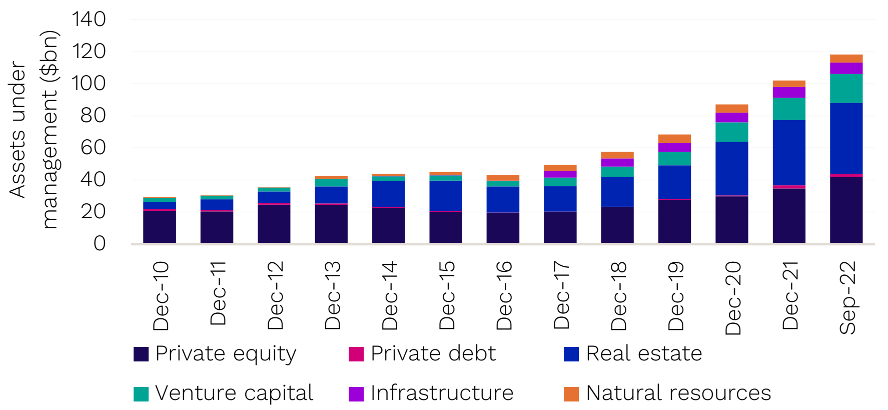
Source: Preqin Pro

Fig. 2: Australia-focused private capital assets under management – breakdown of dry powder and unrealized value by asset class



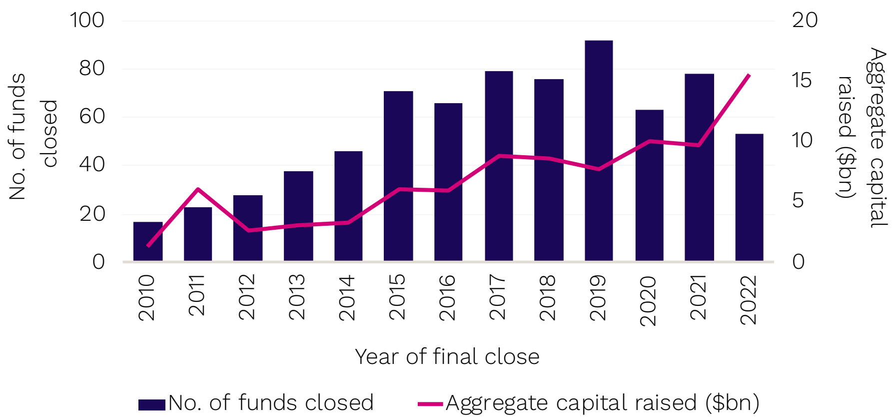
Source: Preqin Pro. Data as of September 2022

Fig. 3: Australia-focused private capital assets under management by asset class, 2010 – Sep 2022



Source: Preqin Pro

Fig. 4: Australia-focused private capital fundraising, 2010 - 2022



Source: Preqin Pro

PREQIN AUSTRALIAN INVESTMENT COUNCIL

Investors and managers

Australia's superannuation funds – which manage assets worth $3.4tn (as of December 2022)[3] – are committing more to alternative assets in search of diversification and higher returns. Preqin data shows that Australia-focused private capital funds with vintages between 2012 and 2020 deliver a median net IRR of 14.9%, comparable with Europe's 15.2%, but lower than Asia (16.4%) and North America (17.7%) (Fig. 5). Private capital's positive returns contrast with negative returns for Australian equities (shares) and fixed income (bonds), building a stronger case for it in an investor's portfolio.[4]

The largest superannuation fund, AustralianSuper, has $271.7bn in total AUM and plans to double its investment in private equity from $13bn to $26bn by 2024, with its target allocation increasing from 5% to 7%.[5] Others, such as Hostplus and Aware Super, have already hit their target allocations to the asset class. With consolidation at play, superannuation funds are larger than before. The largest 15 funds now manage 80% of the industry's assets as of June 2022, according to the latest annual release of fund-level superannuation statistics by the Australian Prudential Regulation Authority (APRA).[6] At the same time, GPs outside of Australia are increasingly seeking investments from superannuation funds.[7]

While superannuation funds comprised a 42% majority of all active private capital investors in 2018, their proportion has fallen to 28% of all investors in 2022 (Fig. 7). This is because of mergers between superannuation funds, as well as higher participation among other investor types, including family offices, wealth managers, and corporate investors. Notably, the proportion of family office investors more than tripled from 27 (7% of total) in 2018 to 97 (23%) in 2022 (Fig. 7). Fund managers are increasingly active in pursuing Australia's high-net-worth individuals. Aside from private equity firms Hamilton Lane and Swiss Partners Group, which have long targeted high-net-worth individuals, KKR has plans to launch a new private equity fund with an evergreen structure, positioned as a one-stop shop for wealthy individuals to achieve exposure to KKR's global private equity portfolio.[8]

Meanwhile, overseas LPs are attracted to Australia's stable governance and strong legal system. There are now more foreign investors in Australia-based private capital funds. The percentage of Australasia-based investors based on number of fund commitments has fallen steadily, from 65% for vintage years 2013–17, to 54% for vintage years 2018–22 (Fig. 6). When comparing the same periods, the percentage of active North America and Asia investors increased from 19% to 25% and from 2% to 8%, respectively.

3 https://www.apra.gov.au/news-and-publications/apra-releases-superannuation-statistics-for-december-2022

4 https://www2.asx.com.au/blog/investor-update/2022/outlook-for-2023

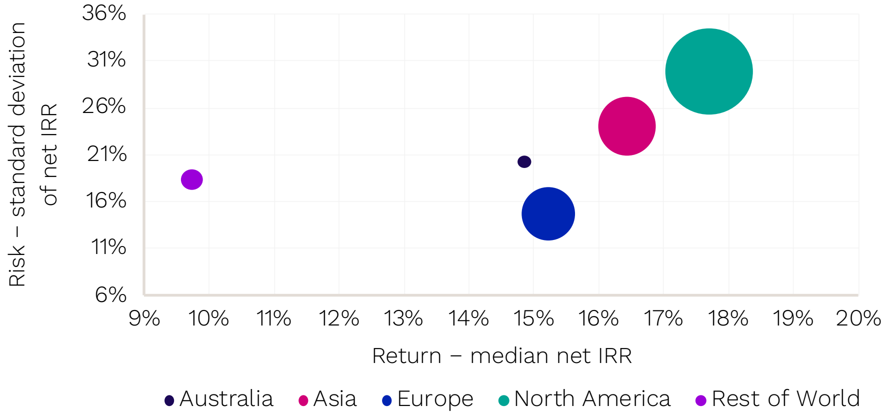
5 https://www.australiansuper.com/-/media/australian-super/files/about-us/media-releases/australiansuper-to-increase-private-equity-investments-by-13-billion.pdf

6 https://www.apra.gov.au/annual-fund-level-superannuation-statistics

7 https://www.preqin.com/insights/research/blogs/private-capital-fundraisers-are-paying-more-attention-to-the-supers

8 https://www.afr.com/street-talk/kkr-debuts-new-pe-fund-to-aussie-high-net-worths-20230206-p5ci4r

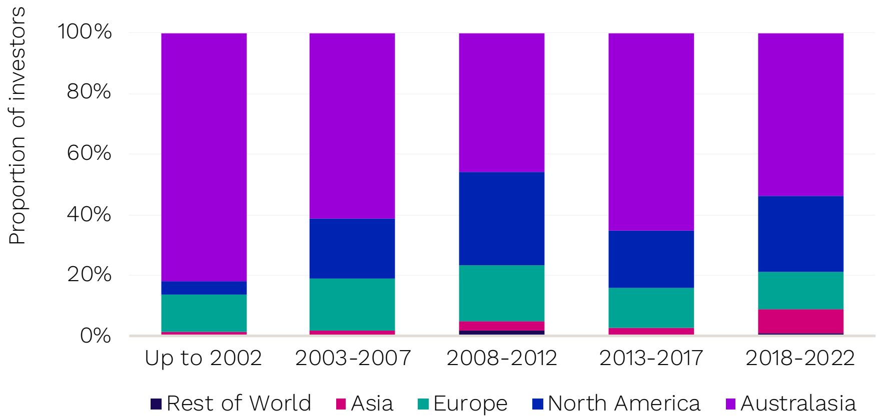
Fig. 5: Private capital: Risk/return by primary geographic focus (vintages 2012 – 2020)*



Source: Preqin Pro. Most up-to-date data

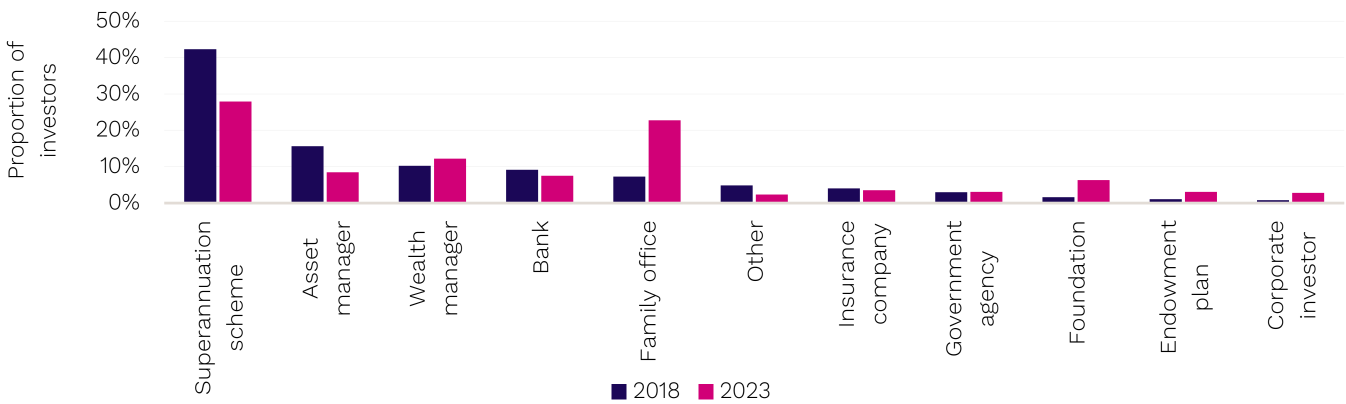
*The size of each circle represents the capitalization of private capital funds used in this analysis. These funds are invested in by Australian and/or global institutional investors.

Fig. 6: Active investors in Australia-based funds by location and vintage year



Source: Preqin Pro

Fig. 7: Active Australia-based investors by type, 2018 vs. 2023



Source: Preqin Pro

Private equity

Australia-focused private equity AUM stood at $41.7bn as of September 2022, a 20% increase from December 2021 and 40% higher than December 2020. Much of the growth was driven by record fundraising figures. Despite a lower number of funds closing in 2022 compared with 2021, aggregate capital raised more than doubled from $4.3bn to $9.0bn (Fig. 9). The average size of private equity funds closed was an unprecedented $693mn.

Several sizable buyout vehicles closed in 2022, including the $3.6bn BGH Capital Fund II. This was also the second-largest fund in Australia's history, after the $4.0bn Pacific Equity Partners Fund IV that closed in 2008. BGH Capital Fund II invests in Australia- and New Zealand-based companies to support their growth and help improve their operations.[9] Other notable Australian private equity firms that actively fundraised during 2022 include: Mercury Capital, which closed its $1.4bn Fund 4; Pacific Equity Partners, which raised $1.5bn for the Smart Metering Fund; and Allegro Funds, which closed its $750mn Fund IV. This year, Crescent Capital closed its seventh buyout fund at $1bn in March. The fund primarily invests in healthcare businesses.

ESG has also become a focus for private equity fundraising activity, with Adamantem Capital raising a new Environmental Opportunities Fund, with a target size of $350mn. The move mirrors global firms such as asset manager Brookfield Asset Management and Sweden-based private equity firm EQT, which have raised impact investing funds that support the transition to net zero.[10]

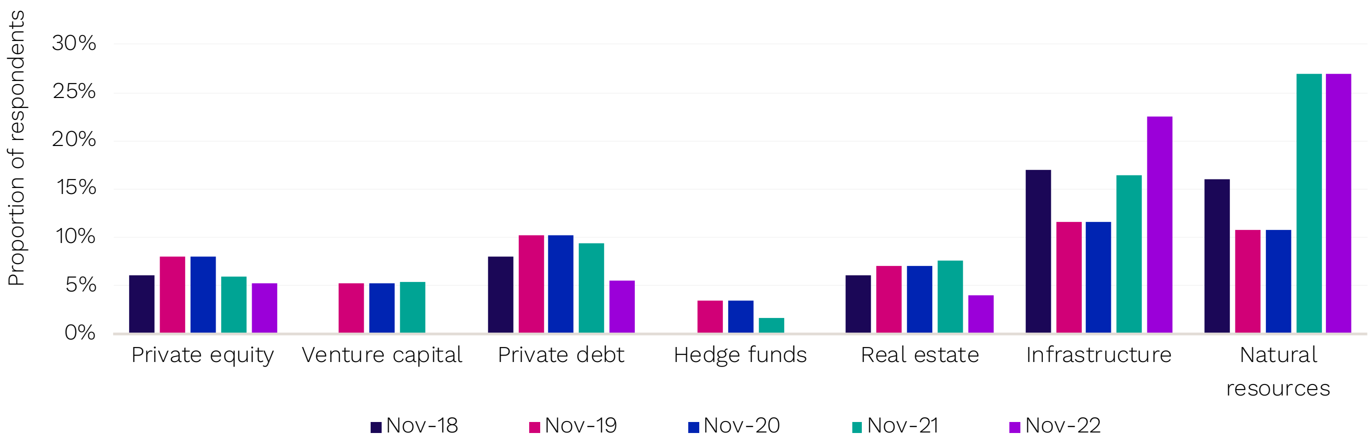
Private equity-backed dealmaking has continued to gain momentum since 2018, with deal value only dropping slightly to $14.1bn in 2020. In 2022, 135 deals were completed, amounting to $18.5bn – up 17% year-on-year (Fig. 11). Take-private deals accounted for over half, or 56%, of the total private equity-backed buyout deal value (Fig. 12). This proportion was boosted by Blackstone's $8.9bn public-to-private deal of Crown Resorts in June 2022, also the largest take-private deal in Australia's history (Fig. 13). Upon the takeover of Crown Resorts, Blackstone said that it would implement higher standards of governance and operations, as well as allow additional auditing,[11] to create value and generate returns for its investors.

9 https://www.afr.com/street-talk/bgh-capital-hits-3-6b-hard-cap-for-fund-ii-20220301-p5a0pv

10 https://www.afr.com/companies/financial-services/adamantem-seeking-to-raise-about-350m-for-esg-fund-20220905-p5bflv

11 https://www.reuters.com/article/crown-resorts-m-a-blackstone-regulator-idTRNIKBN2NR04W

Fig. 8: Investors that believe Australasia presents the best opportunities in private capital by asset class, 2018 – 2022



Source: Preqin Investor Surveys, Nov 2018 – Nov 2022

Fig. 9: Australia-focused private equity (excl. VC) fundraising, 2010 - 2022

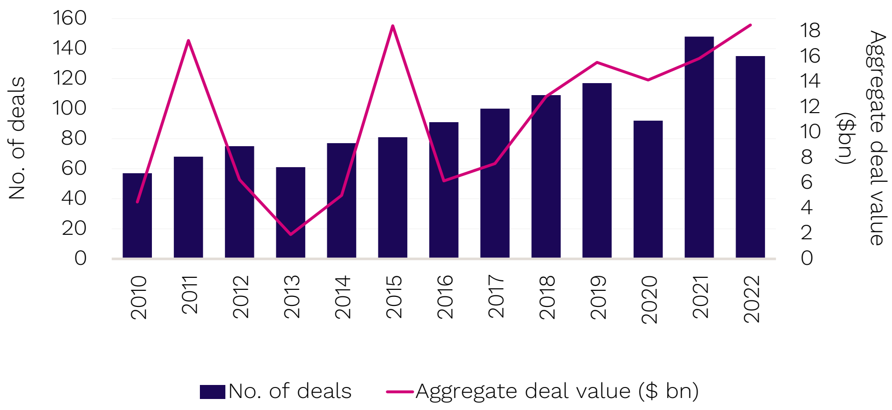
Source: Preqin Pro

Fig. 10: Largest Australia-focused private equity funds closed in 2017 – YTD 2023

Fund	Firm	Fund size ($bn)	Fund type	Final close date
BGH Capital Fund II	BGH Capital	3.6	Buyout	Feb-22
BGH Capital Fund I	BGH Capital	2.6	Buyout	May-18
Pacific Equity Partners Fund VI	Pacific Equity Partners	2.5	Buyout	Jul-20
Pacific Equity Partners Smart Metering Fund	Pacific Equity Partners	1.5	Buyout	Jun-22
Mercury Capital 4	Mercury Capital	1.4	Buyout	Jun-22
Quadrant Private Equity No. 7	Quadrant Private Equity	1.2	Buyout	Dec-22
Quadrant Private Equity No. 6	Quadrant Private Equity	1.2	Buyout	Dec-17
Crescent Capital Partners VII	Crescent Capital Partners	1.0	Buyout	Mar-23
Crescent Capital Partners VI	Crescent Capital Partners	0.8	Buyout	Aug-18
Adamantem Capital II	Adamantem Capital	0.8	Buyout	Jun-21

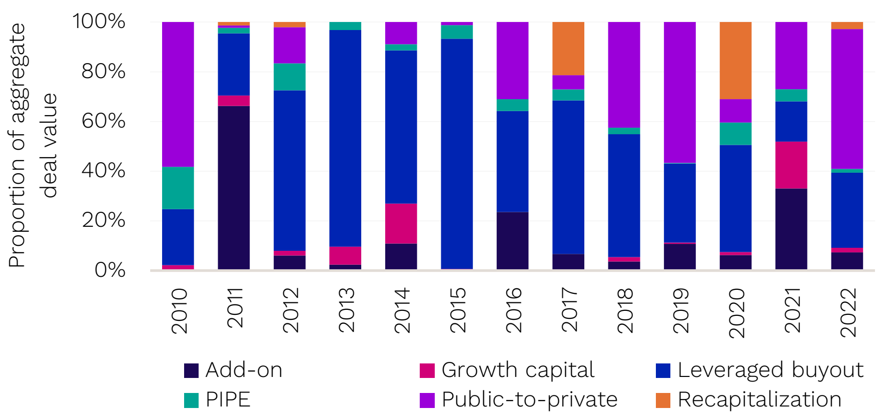
Source: Preqin Pro. Data as of April 2023

Fig. 11: Private equity-backed buyout deals in Australia, 2010 – 2022



Source: Preqin Pro

Fig. 12: Aggregate value of private equity-backed buyout deals in Australia by investment type, 2010 – 2022



Source: Preqin Pro

Fig. 13: Largest private equity-backed buyout deals in Australia in 2021 – 2023 YTD

Portfolio company	Investment type	Investor(s)	Deal size ($bn)	Deal status	Investor location	Industry	Deal date*
Crown Resorts Limited	Public to private	Blackstone Group	8.9	Completed	US	Consumer discretionary	Jun-22
Vocus Group Limited	Public to private	Aware Super, Macquarie Asset Management	4.6	Completed	Australia	Telecoms & media	Feb-21
Uniti Group Limited	LP direct	Commonwealth Superannuation Corporation, Brookfield Property Group, H.R.L Morrison & Co	3.7	Completed	Australia, Canada, New Zealand	Telecoms & media	Apr-22
BAI Communications Pty Ltd.	Growth	Alberta Investment Management Corporation, CPP Investment Board	2.5	Completed	Canada	Telecoms & media	Jun-21
La Trobe Financial Services Pty Limited	Secondary buyout	Brookfield Asset Management	1.6	Announced	Canada	Financial & insurance services	Mar-22
Stanmore SMC	Add-on	Petra Capital Partners, Stanmore Resources Limited	1.4	Completed	US, Australia	Raw materials & natural resources	Nov-21
Probe Group Pty Ltd.	Secondary buyout	KKR	1.2	Completed	US	Business services	Sep-21
PRP Diagnostic Imaging Pty Limited	Secondary buyout	IFM Investors, UniSuper	1.2	Completed	Australia	Healthcare	Nov-22
Nearmap Australia Pty. Ltd.	Public to private	Thoma Bravo	1.1	Completed	US	Information technology	Aug-22
Challenger Limited	PIPE	Apollo Global Management, Athene Group	0.7	Completed	US	Financial & insurance services	Jul-21

Source: Preqin Pro. Data as of April 2023

*Preqin Pro prioritizes the date the deal was agreed and announced (where it is subject to regulatory filings and customary closing conditions before completion) over its completion date. Therefore, as an example, the $1.6bn acquisition of MYOB by KKR is not reflected in this table (as it was announced in December 2018).

A softening of technology stock valuations has piqued the interest of private equity firms seeking opportunities to deploy dry powder. Fund managers particularly favor the highly profitable Software-as-a-Service (SaaS) sector. US-based managers also have the advantage of a stronger dollar when acquiring Australian tech firms. American private equity firm Thoma Bravo took aerial map software company Nearmap[12] private for $1bn in August 2022, which also was the ninth-largest private equity-backed deal in Australia over a two-year period (Fig. 13).

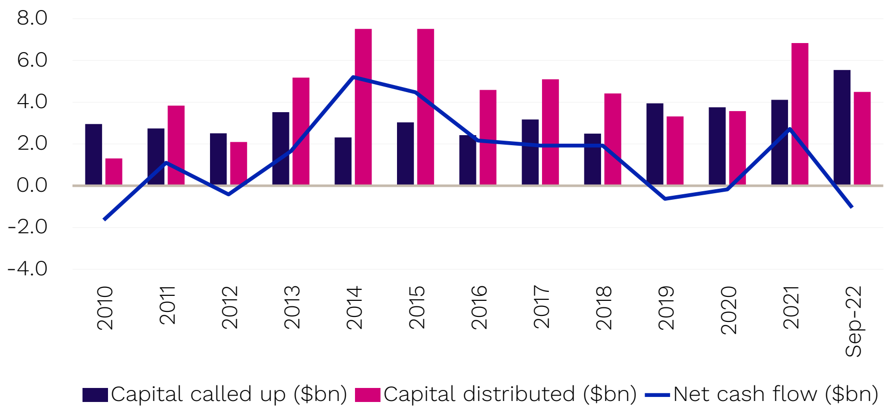
Healthcare remains a key sector as Australia's population ages. Private equity managers are particularly keen on deals that cross over between healthcare and IT verticals. For instance, Australia-based private equity firm Fortitude Investment Partners has invested $30mn in Aged Care Decisions,[13] a platform that allows its users to easily locate and select aged care facilities, with the ability to filter preferences like budget and care needs.

Healthcare is a profitable sector, and one likely to see more secondary buyout exits. US-based private equity firm TPG acquired over-the-counter medicine manufacturer iNova Pharmaceuticals for USD 2bn, with existing shareholder Pacific Equity Partners retaining a minority stake. With the group expecting to achieve more than $150mn in EBITDA by the end of 2022, the purchase price is an estimated 13x multiple of entry EBITDA.

Arguably, the next substantial exit piquing significant market interest is the upcoming IPO of domestic airline Virgin Australia, which was taken private in 2020 for $3.5bn by Bain Capital after seven straight years of annual losses, exacerbated by the pandemic. After being placed in voluntary administration, Virgin Australia took steps to optimize its operations, including closing its loss-making divisions and rebuilding its Boeing 737 fleet.[14]

12 https://pro.preqin.com/asset/496089
13 https://pro.preqin.com/asset/528811
14 https://www.reuters.com/markets/deals/bain-capital-explores-virgin-australia-ipo-2023-01-16/

Fig. 14: Australia-focused private equity: annual capital called up, distributed, and net cash flow, 2010 – Sep 2022



Source: Preqin Pro

Expert Voices

Private equity

Matthew Turner
Head of Australian Senior Loans Equity Credit, Sydney, ICG

“PE and VC deals that will be concluded over the next couple of years will probably replicate the 2010 – 2012 vintages, with a focus on local lift-outs from large global businesses and take-privates of out-of-favor market leaders, rather than in specific sectors.”

Hemal Mirani
Managing Director
Harbourvest

“The market has evolved to include a new cohort of managers with different sector and segment focuses. We are particularly excited about managers targeting the lower and mid-market segment where there is robust deal flow, attractive valuations, and less reliance on leverage. Australian managers have been early adopters of ESG and are increasingly delivering strong returns from these efforts. Similarly on the LP side, we have seen a growing focus on ESG and impact strategies, an area that aligns well with our investment process and new product solutions.”

Venture capital

Australia-focused VC fundraising hit a record $2.7bn in 2022, more than quadrupling the figure for 2021 (Fig. 15). Square Peg Capital Fund 4 was the largest Australia-focused VC fund closed in 2022, at $547mn. The fund focuses on early-stage companies from seed to Series B. Square Peg also raised the Opportunities Fund 2 in the same month (October) at $312mn, which invests in later-stage rounds of existing portfolio start-ups.[15]

AirTree Ventures closed a $675mn fund in November 2021, comprising a $230mn seed fund backing early-stage companies and $445mn opportunities fund to back breakout companies at the growth stage.

Blackbird's $1bn fund is the largest Australia-focused VC fund, which reached third close.[16] It comprises three different vehicles, including a $284mn core fund, $616mn follow-on fund, and a NZD 74mn dedicated New Zealand fund. The three investment vehicles have not reached final close yet.

While Blackbird Ventures, Square Peg Capital, and AirTree Ventures remain Australia's largest VC funds, new players are attracting investor attention. Sydney-based firm OIF Ventures[17] delivered annual IRRs of 45% and 89% for its first and second funds, respectively. Its latest fund reached its target of USD 100mn in only 24 hours, said partner Jerry Stesel in an interview with *Australian Financial Review*, and the fund closed in September 2022 at USD 140mn.[18] The VC firm does not pursue capital from institutional investors, but from the founders of its portfolio companies, CEOs of listed companies, family offices, and high-net-worth individuals.[19]

As private company valuations continue to correct and foreign investors significantly write-down the value of investments in start-ups, firms have taken the opportunity to launch new VC funds. Some of the largest VC funds in market include Main Sequence's CSIRO Innovation Fund 3, targeting $300mn, and Immutable Developer and Venture Fund, the inaugural venture fund of Immutable

15 https://www.squarepegcap.com/blog/fund-4-opportunities-fund-2

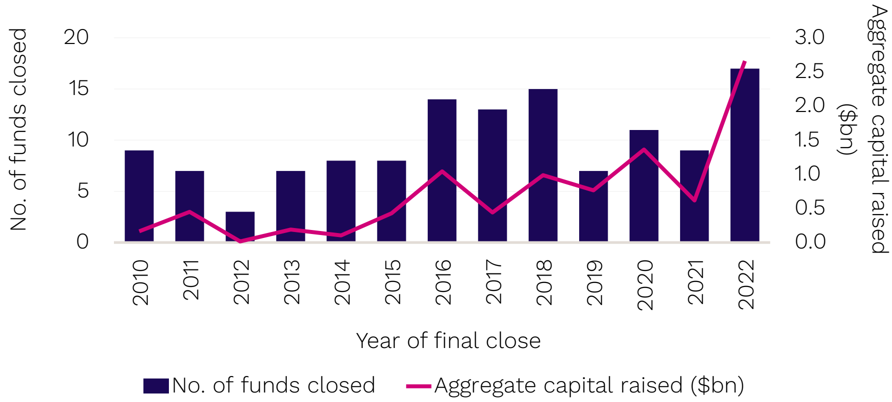
16 https://www.afr.com/technology/blackbird-closes-biggest-ever-aussie-vc-fund-at-1b-20221101-p5buo9

17 https://pro.preqin.com/fundManager/216422

18 https://www.afr.com/technology/vc-fund-defies-the-downturn-raising-100m-in-24-hours-20220830-p5be14

19 https://www.afr.com/technology/vc-fund-defies-the-downturn-raising-100m-in-24-hours-20220830-p5be14

Fig. 15: Australia-focused venture capital fundraising, 2010 – 2022



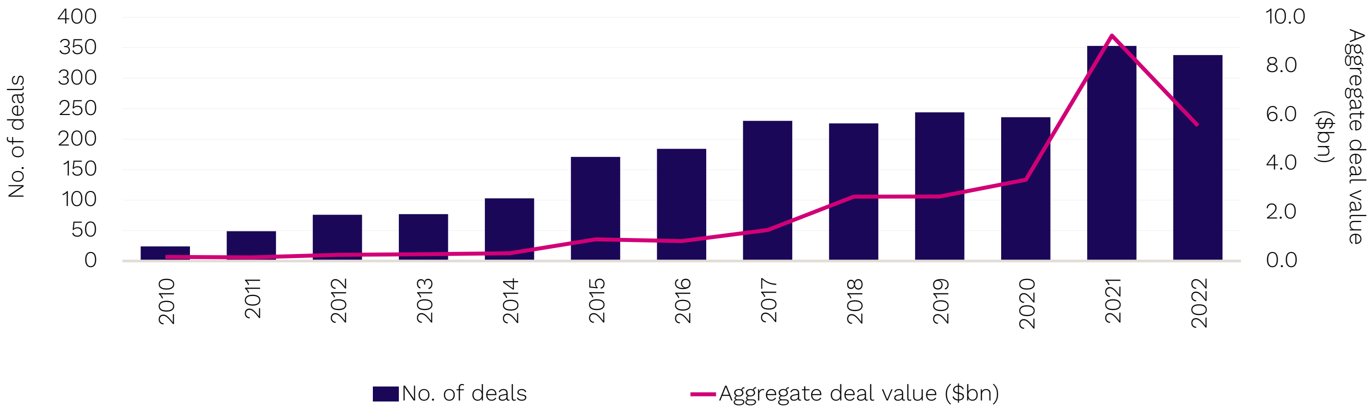
Source: Preqin Pro

Fig. 16: Largest Australia-focused venture capital funds closed in 2017 – 2023 YTD

Fund	Firm	Fund size ($mn)	Fund type	Final close date
Square Peg Capital Fund 4	Square Peg	547	Early stage	Oct-22
Telstra Ventures Fund III	Telstra Ventures	509	Venture (general)	Sep-22
AirTree Growth	AirTree Ventures	450	Expansion/late stage	Feb-22
Blackbird Ventures 2020 Follow-on Fund	Blackbird	417	Expansion/late stage	Dec-20
Square Peg Capital Fund 3	Square Peg	364	Early stage	Dec-20
Square Peg Capital Fund 2	Square Peg	332	Early stage	Dec-18
Square Peg Opportunities Fund 2	Square Peg	312	Expansion/late stage	Oct-22
AirTree Ventures Fund III	AirTree Ventures	275	Early stage	Oct-19
MRCF5	Brandon Capital Partners	250	Early stage	Jul-19
CSIRO Innovation Fund 2	Main Sequence Ventures	250	Early stage: start-up	Apr-21

Source: Preqin Pro. Data as of April 2023

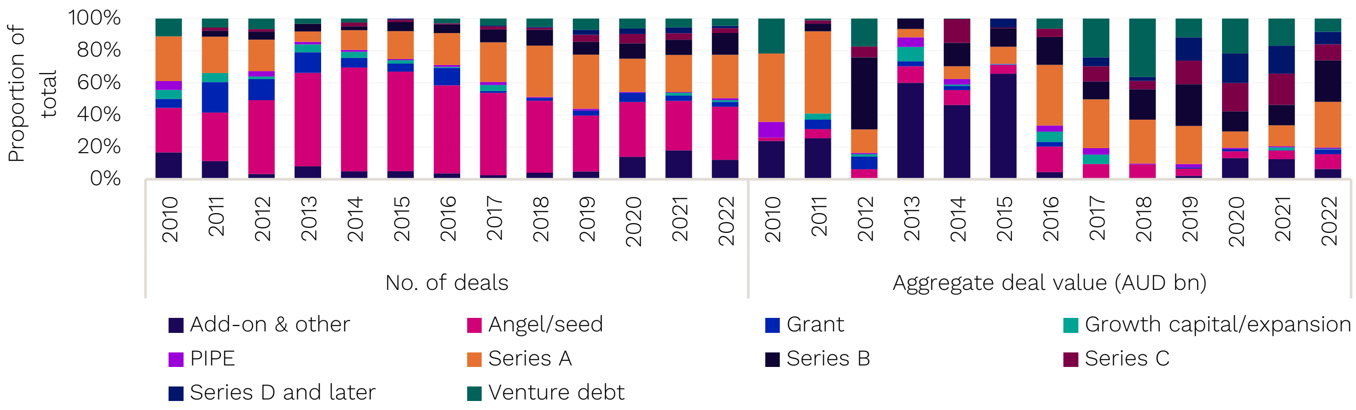
Fig. 17: Venture capital deals* in Australia, 2010 – 2022



Source: Preqin Pro

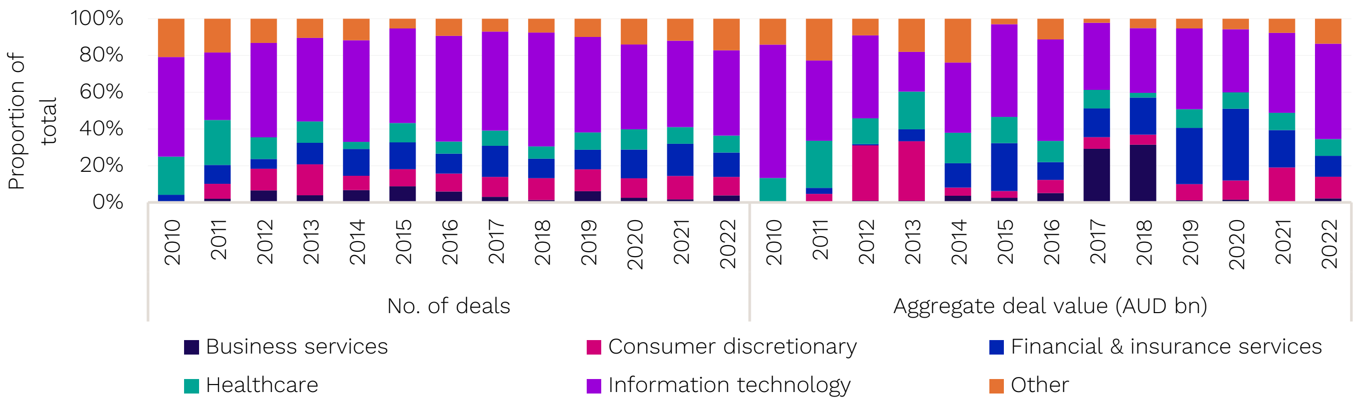
*Figures exclude add-ons, grants, mergers, secondary stock purchases, and venture debt.

Fig. 18: Venture capital deals* in Australia by stage, 2010 – 2022



Source: Preqin Pro

Fig. 19: Venture capital deals* in Australia by verticals, 2010 – 2022



*Figures exclude add-ons, grants, mergers, secondary stock purchases, and venture debt.

Source: Preqin Pro

Fig. 20: Largest venture capital deals* in Australia, 2022 – 2023 YTD

Portfolio company	Investment type	Investor(s)	Deal size (USD mn)	Deal size (AUD mn)	Deal status	Investor location	Industry	Deal date*
Immutable Pty Ltd	Series C	Temasek Holdings, Mirae Asset Global Investments, Tencent Investment, Liberty Global Ventures, AirTree Ventures etc	200	270	Completed	Singapore, South Korea, China, US, Australia, South Africa, UK, Hong Kong SAR - China, France	Software	Mar-2022
Employment Hero Holdings Pty Ltd	Series F	OneVentures, SEEK, AirTree Ventures	130	181	Completed	Australia, Singapore	Software	Feb-2022
Saluda Medical Pty Ltd	Unspecified round	Fidelity Investments, Redmile Group	125	172	Completed	US	Medical devices & equipment	Mar-2022
Linktree Pty Ltd	Unspecified round	Index Ventures, Insight Partners, Greenoaks Capital, Coatue Management, AirTree Ventures	110	153	Completed	UK, US, Australia	Software	Mar-2022
Airwallex Pty Ltd	Series E	Sequoia Capital, Hostplus, Tencent Investment, Lone Pine Capital, Square Peg etc	100	146	Completed	US, Australia, China, Hong Kong SAR - China	Financial services	Jul-2022
GO1 Pty Limited	Unspecified Round	Madrona Venture Group, SEEK, Y Combinator, M12, Blue Cloud Ventures etc	100	139	Completed	US, Singapore, Australia, UK	Consumer discretionary	Jun-2022
Morse Micro Pty. Ltd.	Series B	Uniseed, Blackbird, MegaChips Corporation, CEFC, Main Sequence Ventures etc	94	140	Completed	Australia, Japan	Information technology	Sep-2022
Zeller Australia Pty Ltd	Series B	Headline, Spark Capital, Square Peg, Addition	74	100	Completed	US, Australia	Financial & insurance services	Mar-2022
Loam Bio Pty Ltd	Series B	Horizon Ventures, Clean Energy Finance Corporation, Acre Venture Partners, Grok Ventures, Main Sequence Ventures etc	73	105	Completed	US, Australia	Biotech	Feb-2023
Advanced Navigation Pty. Ltd.	Series B	KKR, In-Q-Tel, OIF Ventures, AI Capital, Main Sequence Ventures	72	108	Completed	US, Australia	Information technology	Nov-2022

Source: Preqin Pro. Data as of April 2023

*Preqin Pro prioritizes the date the deal was agreed and announced (where it is subject to regulatory filings and customary closing conditions before completion) over its completion date. Therefore, as an example, the $1.6bn acquisition of MYOB by KKR is not reflected in this table (as it was announced in December 2018).

Ventures that backs Web3 and NFT companies, targeting $500mn. These new funds, as well as those that have accumulated high levels of dry powder, should be able to secure equity in start-ups more affordably.

However, even though the fundraising picture was relatively buoyant for VC firms in Australia in 2022, the industry is unlikely to be immune from cooling sentiment toward VC globally. LP confidence has been further eroded since the series of bank collapses in March. Australia-based fund managers deploying raised capital have become more discerning in their approach to investments and their due diligence processes. In 2022, 338 deals with an aggregate deal value of $5.6bn were concluded. This was 40% lower than 2021 in value, but still 67% higher than 2020's $3.3bn (Fig. 17). Blackbird Ventures, AirTree Ventures, and Square Peg Capital all invested in fewer deals in 2022 than in 2021, and have focused more on seed or pre-seed deals, reflecting intense competition for investment opportunities in a higher inflationary environment.[20]

On the bright side, government support for VC is bearing fruit in Australia. Successive Australian governments have supported the private capital ecosystem in Australia via the early-stage venture capital limited partnership (ESVCLP) and venture capital limited partnership (VCLP) programs. Specifically, the ESVCLP helps fund managers attract pooled capital so they can raise new VC funds of between $10mn and $200mn. It encourages funds to invest in innovative Australian early-stage businesses, offers tax benefits to fund managers and investors, and connects investors with early-stage and growth businesses.[21]

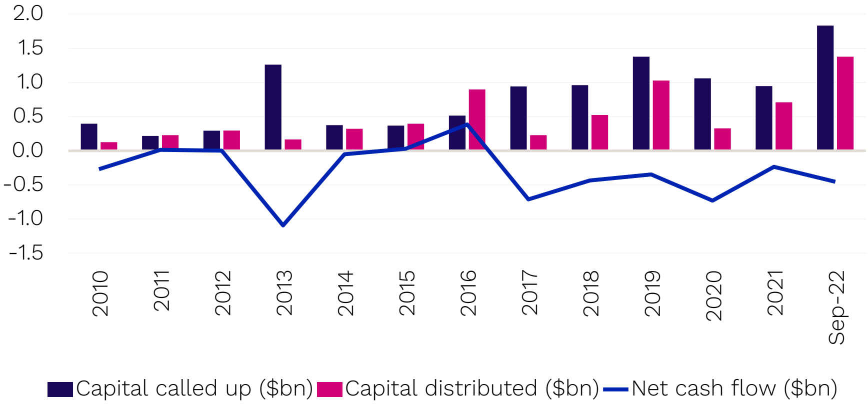
Information technology made up almost half of all deals in 2022, accounting for slightly over half of aggregate deal value. Australian VC firms are particularly focused on cybersecurity, sustainability, and frontier technology, which includes blockchain, artificial intelligence, Web3 applications, and NFTs.[22] The largest VC deal in 2022 was the $290mn Series C funding round for Immutable Pty Ltd completed in March, led by Temasek Holdings, Mirae Asset Global Investments, Tencent Investment, and Liberty Global. The Sydney-based company develops NFT-enabled games.

20 https://www.afr.com/technology/australian-vcs-went-earlier-and-smaller-with-deals-in-2022-20221209-p5c544

21 https://business.gov.au/grants-and-programs/early-stage-venture-capital-limited-

22 https://www.smartcompany.com.au/startupsmart/venture-capital/blackbird-airtree-vc-funding-insights/

Fig. 21: Australia-focused venture capital: Annual capital called up, distributed, and net cash flow, 2010 – Sep 2022



Source: Preqin Pro. Most up-to-date data

Expert Voices

Venture capital

Stuart Wardman-Browne
Global Head of Private Equity
IFM Investors

“We believe the healthcare sector remains attractive for PEVC funds in Australia as the country has an aging population with a growing prevalence of chronic health issues. Also, Australia has a strong track record in building global software companies, and we see SaaS as a high-growth vertical that delivers predictable revenue and presents abundant opportunities since COVID-19, as digitalization is crucial for businesses to stay competitive.”

Private debt

Despite being the smallest asset class among Australia-focused private capital, Australia-focused private debt AUM more than tripled to $1.9bn between 2020 and 2021, and continued to grow by 10% between December 2021 and September 2022 to stand at $2.1bn. Tighter bank lending conditions have been driving the growth of Australia's private debt industry since the Global Financial Crisis, as smaller and mid-sized companies find it harder to borrow working capital from traditional banks.

With pandemic stimulus programs by the Reserve Bank Australia (RBA) and Australia's Federal Government ending, banks will no longer have access to lower-cost capital and guarantees for small and medium-sized enterprise (SME) loans will cease in the post-pandemic environment. This will once again prompt banks to scale back on SME lending, giving non-bank lenders more opportunities to finance the mid-market.

Importantly, private debt offers investors diversification benefits and protection from inflation. The first rate rise since 2010 was from 0.25% to 0.35% in May 2022, which was followed by regular cash rate increases before RBA raised the cash rate to 3.60% in March 2023, the highest in over a decade.[23] Private debt instruments will gain favor as they operate floating rate facilities and shorter loan periods.

Australian super funds have almost doubled their exposure to private debt, with the average allocation increasing from 2.0% in April 2018 to 3.9% in April 2023, according to Preqin Pro. There's a preference for asset-backed strategies, such as those lending to commercial real estate.[24] However, Australia-based private credit funds will be in competition with global firms for this pool of capital, as super funds are especially keen on global private credit markets. Last year, super fund AustralianSuper partnered with Churchill Asset Management, focusing on traditional senior and unitranche loans to private equity-backed US mid-market companies.[25] Another super fund, Hostplus, partnered with New York-listed alternative asset manager Apollo to launch a $1.25bn Asia Pacific Credit Strategy, which focuses on the wider region, including Australia, India, Singapore, South Korea, and Hong Kong.[26]

At the same time, stronger merger and acquisition (M&A) activity is also leading to higher demand for credit facilities to back leveraged buyouts. For instance, Sydney-based private equity firm Adamantem Capital sought $225mn to support its acquisition of a majority stake in retail and food and beverage group Retail Zoo in February 2023, which will be financed by senior debt and a smaller mezzanine facility.[27]

Direct lending accounts for 15% of all aggregate capital raised and 20% of the total number of deals. Of the five largest private credit funds closed between 2017 and 2022, four were direct lending funds: IFM Special Situations Credit Fund ($235mn), Revolution Private Debt Fund I ($205mn), Australian Private Debt Fund ($131mn), and MA Private Credit Fund ($80mn) (Fig. 23). Still, 63% of all aggregate capital ever raised by Australia-focused private debt funds has been from mezzanine funds (Fig. 22).

23 https://www.rba.gov.au/statistics/cash-rate/

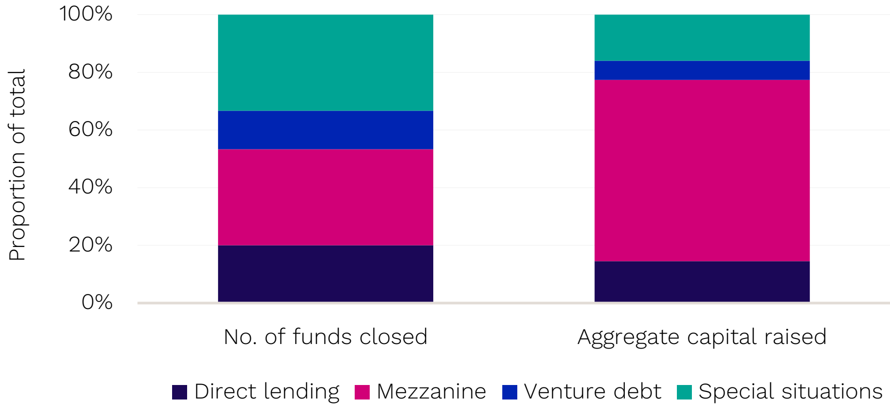
24 https://aic.co/common/Uploaded%20files/Special%20Reports/EY%202021%20Private%20Debt%20Update%20-%20March%202022%20Final.pdf

25 https://www.churchillam.com/press-release/australiansuper-and-churchill-asset-management-announce-new-lending-partnership/

26 https://www.apollo.com/media/press-releases/2022/06-22-2022-222510842

27 https://www.afr.com/street-talk/cba-seeks-buyers-for-225m-retail-zoo-debt-bank-meeting-weds-20230227-p5cnyh

Fig. 22: Australia-focused private debt fundraising by fund type, all time



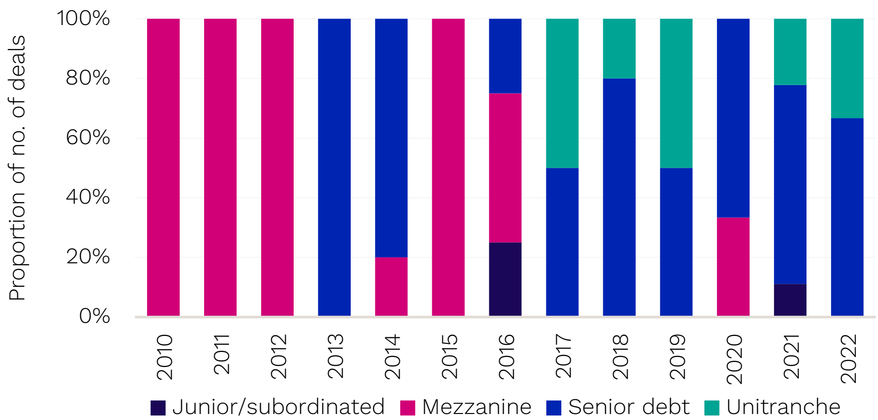
Source: Preqin Pro

Fig. 23: Largest Australia-focused private debt funds closed, 2017 – 2023 YTD

Fund	Firm	Fund size ($mn)	Fund type	Final close date
IFM Special Situations Credit Fund	IFM Investors	235	Direct lending – blended/ opportunistic debt	Apr-22
Revolution Private Debt Fund I	Revolution Asset Management	205	Direct lending - Senior debt	Jun-19
Australian Private Debt Fund	DCF Asset Management	131	Direct lending	Dec-22
MA Private Credit Fund	MA Asset Management	80	Direct lending	Dec-19
OneVentures Credit Fund IV	OneVentures	80	Venture debt	Jun-20

Source: Preqin Pro. Data as of April 2023

Fig. 24: Private debt-backed deals in Australia by debt type, 2010 – 2023 YTD



Source: Preqin Pro

Expert Voices

Private debt

David Ross
Managing Director &
Head of Private Credit
Northleaf Capital Partners

“The most attractive opportunities in private debt are coming from add-on investments supporting our existing PE-backed mid-market borrowers; PE portfolio NAV lending; and low-correlation, asset-based specialty finance investments. As a private debt investor that invests in mid-market companies across North America, Europe, and Australia, we are seeing robust deal flow and attractive pricing. However, the quality of companies is highly variable. We remain selective and focused on borrowers with conservative capital structures in less cyclical industries.”

Andrew Lockhart
Managing Partner
Metrics Credit Partners

“When private debt was first introduced a decade ago, investors tended to prefer more conservative strategies with a focus on senior secured or investment grade exposure. Now we see investors increasingly looking to access strategies that provide exposure to not only senior secured or investment-grade borrowers but also other parts of the capital structure, including mezzanine or subordinated debt. When investing in subordinated debt, private debt becomes an attractive alternative to listed equities.”

Real estate

Real estate is the largest asset class for Australia-focused private capital, with $44.4bn in AUM. In terms of fundraising, aggregate capital raised for Australia-focused closed-end private real estate stayed relatively buoyant at $3.4bn in 2022, 20% lower than 2021's $4.2bn but 17% higher than 2020's $2.9bn (Fig. 25). However, the number of fund closes in 2022 dropped to just 15, significantly fewer than the average of 46 fund closes between 2017 and 2021. There were no funds closed last year that surpassed $1bn, unlike in 2020 and 2021 (Fig. 26).

The largest fund close in 2022 was $515mn from Lendlease Real Estate Partners 4,[28] which pursues value-added strategies in the office sector. Value-added strategies have attracted more interest in recent years, as working styles evolve in the office sector and demand increases for buildings with higher sustainability ratings.

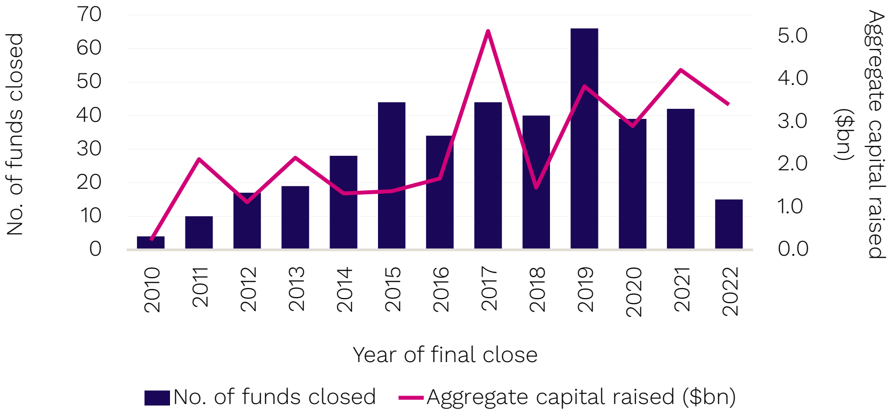
Australia's real estate deal activity was relatively sluggish in 2022, with just over 100 deals concluded, amounting to $11.5bn, compared to $28.1bn in 2021 and $15.8bn in 2020. Deal value has fallen the most in the industrial and land sectors, by around 90%. In the office sector, 30 office deals were transacted last year, amounting to $6.5bn. This contrasts with the annual average of 92 office deals between 2016 and 2021 (Fig. 28).

The drop was partially due to lower business confidence, although four of the six tracked central business district (CBD) markets in Australia still recorded positive demand, according to JLL.[29] Overall, CBD office net absorption totaled 32,100 sq m over the fourth quarter of 2022. However, the CBD vacancy rate increased slightly by 0.1 percentage point quarter-on-quarter, to 14.2% during the same period. Nevertheless, the office sector accounts for a third of private equity real estate deals, and a disproportionate 57% of total real estate deal value.

28 https://pro.preqin.com/funds/143462

29 https://www.jll.com.au/en/trends-and-insights/research/australian-office-market-overview-4q22

Fig. 25: Australia-focused closed-end private real estate fundraising, 2010 – 2022



Source: Preqin Pro

In the niche sector, purpose-built student accommodation assets are expected to experience a rebound, especially in the wake of China's reopening. The number of international students enrolled in Australian courses was almost 620,000 in 2022, 8% higher year on year. Of these, a quarter originate from China.[30] With the Chinese government banning online studies, around 40,000 Chinese students are expected to return to Australia's tertiary institutions.[31] Meanwhile, built-to-rent residential assets, or multifamily assets, should also see higher demand due to the low supply of residential units for sale and for rent, rising property prices, and high demand for accommodation because of migration.[32]

Driven by high demand for warehousing and logistics, $8.6bn worth of real estate deals were completed in the industrial sector in 2021. However, only 15 deals with an aggregate deal size of $0.9bn were completed in 2022. Yet vacancy rates remain below the long-term average across mature markets. The tight supply of industrial assets in Australia will keep rental growth resilient.[33]

Australia's property funds have recently received extra scrutiny from APRA when it comes to valuations. While listed real estate investment trust (REIT) valuations fell by nearly 20%, unlisted property funds gained nearly 19% in the nine months to the end of September.[34]

30 https://www.education.gov.au/international-education-data-and-research/international-student-monthly-summary-and-data-tables

31 https://www.reuters.com/world/asia-pacific/australia-prepares-thousands-chinese-students-return-relations-improve-2023-01-30/

32 https://www.cbre.com.au/insights/articles/why-is-build-to-rent-on-a-high-growth-trajectory

33 https://www.us.jll.com/en/trends-and-insights/investor/4-bright-spots-for-investors-in-2023

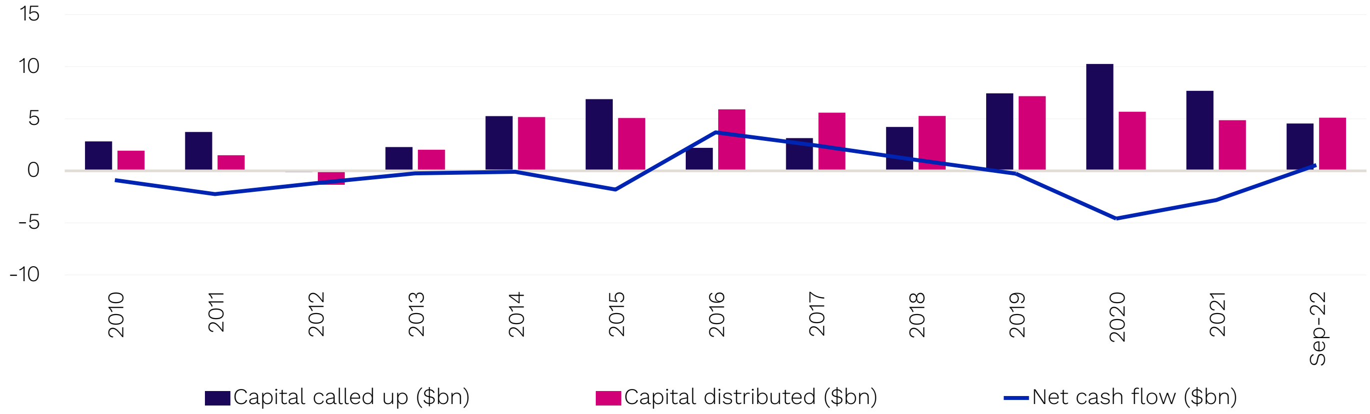
34 https://www.afr.com/wealth/personal-finance/apra-cracks-down-on-property-funds-20230105-p5camm

Fig. 26: Largest Australia-focused closed-end private real estate funds closed, 2017 – 2023 YTD

Fund	Firm	Headquarters	Fund size ($bn)	Fund type	Property type	Final close date
Gresham Property Fund No. 8	Gresham Property	Sydney, Australia	1.6	Debt	Diversified	Dec-21
Greystar Australia Multifamily Fund I	Greystar Real Estate Partners	Charleston, US	1.3	Core	Residential	Feb-21
Gresham Property Fund No. 6	Gresham Property	Sydney, Australia	1.0	Debt	Diversified	May-17
Qualitas Construction Debt Fund	Qualitas	Melbourne, Australia	1.0	Debt	Diversified	May-17
ESR Australia Development Partnership	ESR	Hong Kong	1.0	Opportunistic	Industrial	Jun-20

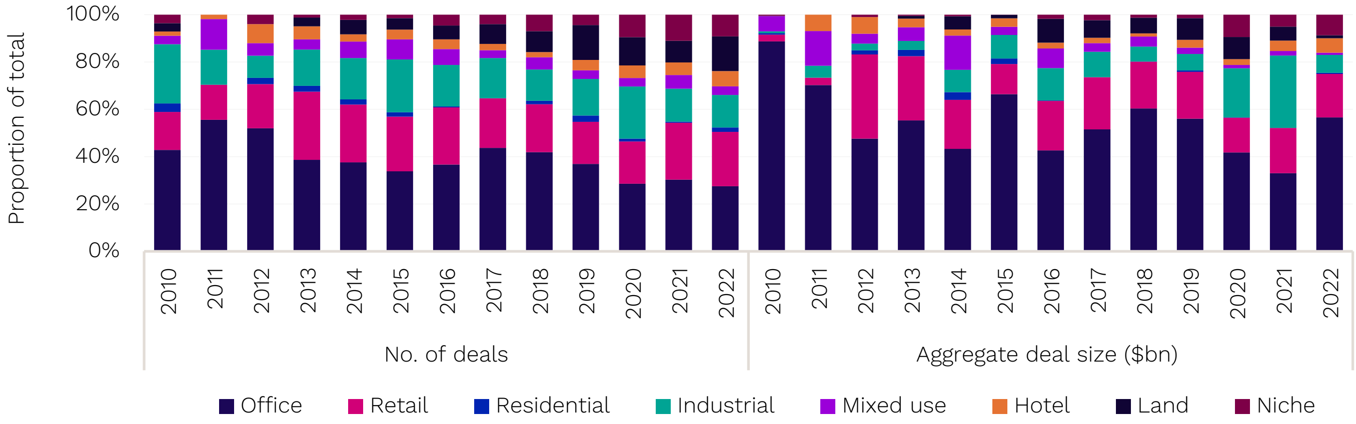
Source: Preqin Pro. Data as of April 2023

Fig. 27: Australia-focused closed-end private real estate: annual capital called up, distributed, and net cash flow, 2010 – Sep 2022



Source: Preqin Pro

Fig. 28: PERE deals in Australia by primary asset type, 2010 – 2022



Source: Preqin Pro

Expert Voices

Real estate

Vanessa Orth
Managing Director
Investment Management
Lendlease

“ We have set our sights on achieving net zero by 2025 and absolute zero emissions by 2040. To that end, we are taking measures to reduce our fossil fuel use and electricity consumption ahead of purchasing accredited offsets for residual emissions in 2025. Specifically, we set high energy efficiency NABERS targets for our assets under management and are progressively switching to renewable electricity. Lendlease now has more than 50% of its electricity from renewable sources. Property trust Australian Prime Property Fund Commercial and our Barangaroo assets have been certified net zero for several years. The Australian government's emissions-reducing targets will drive more investment into sustainable real estate classes and ESG-committed investment managers will be well positioned to capitalize on this. ”

Infrastructure

Infrastructure has fared well globally and global investors particularly look upon Australia favorably. Of our surveyed investors, 22% believe that Australasia's infrastructure presents the best opportunities in private capital in 2022, up from 16% in November 2021 (Fig. 8).

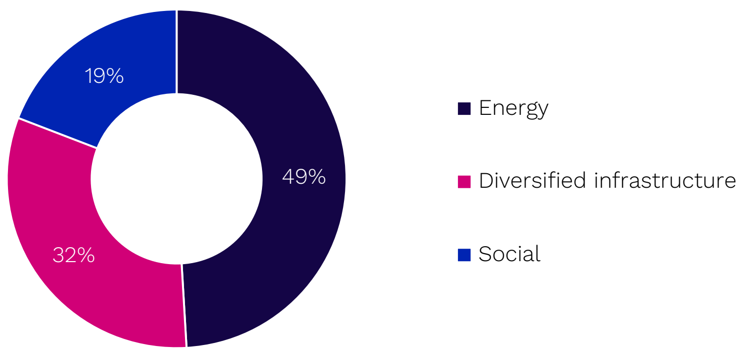
Currently, a few Australia-focused infrastructure funds in market are raising capital to commit to renewable energy assets, impact investing, and the transition to net zero. For instance, Sydney-based AGL Energy is targeting to raise a USD 2bn ($3bn) Energy Transition Investment Partnership fund,[35] which aims to develop, own, and manage renewables and low carbon assets.

Over 100 deals with an aggregate deal value of $13.0bn were completed in 2022. The value has fallen 81% from 2021's record figure of $71.8bn, but is 60% higher than 2020's $8.1bn (Fig. 31). The large size of deals in 2021 made the year an outlier. Deals during this year included the $32bn acquisition of Sydney Airport, led by AustralianSuper and Australian Retirement Trust; the $18bn purchase of energy delivery business AusNet, led by Brookfield Asset Management; and the $11bn purchase of Northeast Link Tunnel, led by Australia-headquartered construction company CPB Contractors.

In comparison, the largest deal in 2022 was Squadron Energy's $4bn acquisition of CWP Renewables, which develops, operates, and owns renewable energy assets in Australia. The deal will provide Squadron scale to meet increasing demand for reliable green energy in Australia, and demonstrates the opportunities available in the energy sector as Australia commits to transitioning to a net-zero carbon economy.

35 https://pro.preqin.com/funds/146510

Fig. 29: Aggregate capital raised by Australia-focused unlisted infrastructure funds closed in 2010-2022 by primary industry



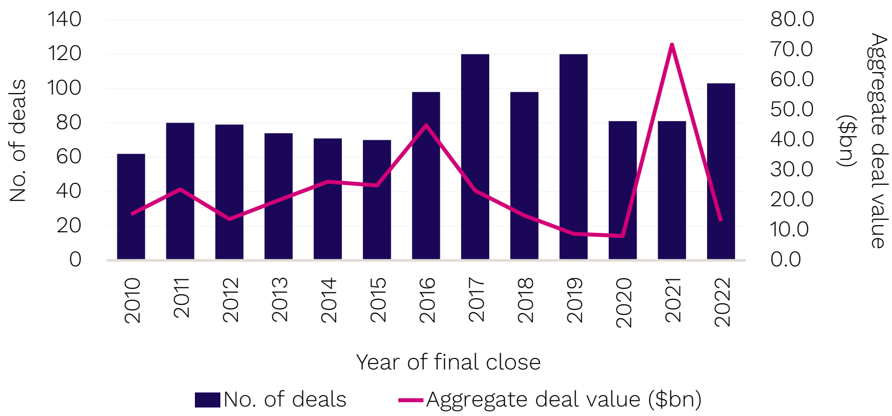
Source: Preqin Pro

Fig. 30: 5 notable Australia-focused closed-end unlisted Infrastructure funds closed in 2017 – 2023 YTD

Fund	Firm	Headquarters	Fund size ($mn)	Primary strategy	Final close date
Morrison & Co Growth Infrastructure Fund	H.R.L Morrison & Co	Wellington, New Zealand	580	Diversified	Aug-20
Pacific Equity Partners Secure Assets Fund	Pacific Equity Partners	Sydney, Australia	366	Energy	Jun-20
Lighthouse Solar Fund	Lighthouse Infrastructure	Melbourne, Australia	160	Energy & Utilities	Sep-17
Samchully Renewable Energy Private Placement Fund 2	Samchully Asset Management	Seoul, South Korea	140	Energy & Utilities	Jul-20
Public Infrastructure Partners III	H.R.L Morrison & Co	Brisbane, Australia	96	Industrials	Jan-18

Source: Preqin Pro. Data as of April 2023

Fig 31: No. and aggregate deal value of private infrastructure deals, 2010 – 2022



Source: Preqin Pro

Natural resources

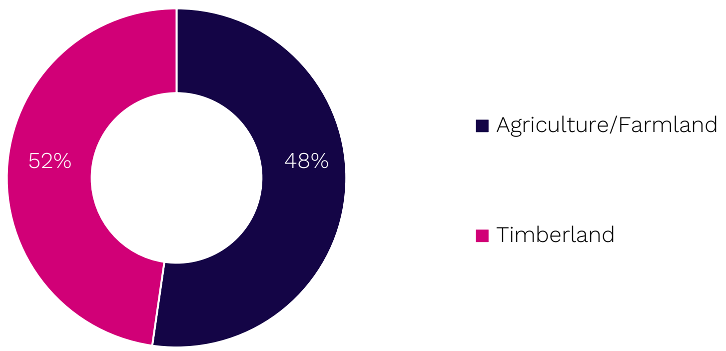
Agriculture accounts for 52% of total capital raised by Australia-focused unlisted closed-end natural resources funds between 2010 and 2022 (Fig. 32). The sector has benefited from high food prices, with the highest increases in wheat (33%) and canola (105%).[36] Agricultural production is forecast to be almost $85bn in 2022–23, just shy of the record set the previous year. However, Australia's agricultural sector faces significant climate risks brought on by extreme weather events. Between 2017 and 2019, there was severe drought, followed by bushfires between 2019 and 2022, before years of flooding because of the La Niña weather pattern.

A spokesperson for an Australia-based family office says it now focuses more on timberland and forests, agriculture, fintech, and renewable energy. He said: "The reason behind such a market view is the belief that geopolitical conflicts may cause constant high inflation. Timberland is an inflation-hedged asset, and the agriculture industry will also see more demand due to a shortage of food. The family is also devoting to ESG and socially responsible investments, particularly in the renewable energy sector."

Overall, as a strong exporter of agricultural goods, minerals such as iron ore, natural gas, and fuel, Australia's natural resources industry will continue to attract investor attention for its ability to hedge against inflation.

36 https://www.abs.gov.au/statistics/industry/agriculture/value-agricultural-commodities-produced-australia/latest-release

Fig. 32: Aggregate capital raised by Australia-focused unlisted natural resources funds* closed in 2010 – 2022, by primary industry



Source: Preqin Pro

*Only natural resources funds are included in this section (excluding private equity funds focused on natural resources). No metals & mining-focused funds closed between 2010 and 2022.

Fig. 33: 5 notable unlisted natural resources funds closed in 2017 – 2023 YTD

Fund	Firm	Headquarters	Fund size ($mn)	Primary strategy	Final close date
MIRA Agriculture Fund	Macquarie Asset Management	Sydney	1,000	Agriculture/ Farmland	Oct-19
Australia New Zealand Forest Fund 3	New Forests	Sydney	873	Timberland	Nov-17
Laguna Bay Fund 1	Laguna Bay	Brisbane	313	Agriculture/ Farmland	Jan-18
Gunn Agri Cattle Fund	Gunn Agri Partners	Sydney	141	Agriculture/ Farmland	Apr-18
Australian Farmlands Fund	Kilter Rural	Bendigo	65	Agriculture/ Farmland	Feb-22

Source: Preqin Pro. Data as of April 2023

ESG investing: the imperative to act

The investment gap needed to achieve net zero by 2050 requires private investor action now, explains global consulting firm Oliver Wyman

Nicholas Tonkes
Partner
Oliver Wyman

Rama Gollakota
Partner
Oliver Wyman

Fei-Fei Porter
Principal
Oliver Wyman

Why is it important to act now when it comes to strategic investments in the energy transition?
Nicholas Tonkes: Investors are becoming more ESG-conscious and discerning when it comes to asset selection. Long-term asset attractiveness and viability are considered with reference to emissions and environmental impact, as well as alignment with future requirements of stakeholders, such as investors, lenders, customers, and regulators.

Acting now is important as access to the necessary resources and funding will become increasingly competitive. The availability of specialist capabilities, equipment, and raw materials needed for decarbonization will become scarce. Funding will become challenging for assets that lag requirements, as banks and investors actively evolve their portfolios to reflect ESG expectations and emissions reduction pathways. Finally, investor exits and returns will be dependent on future investor acceptance, which is already playing a role in asset sale participation decisions. As a result, investor appetite to decarbonize assets will play an increasingly key role in generating returns.

Can you describe the magnitude of the challenge?
Rama Gollakota: Experts are estimating that 6% of Australia's GDP is required to get to net zero by 2050, which is about $130bn per year. The new energy market alone requires five to 13 times more renewable capacity, nine to 40 times more electricity capacity, and 10 times more jobs. There's clearly a huge investment gap, and this is compounded by issues related to labor and supply chain bottlenecks.

What are the opportunities for Australian and global pension funds, private capital funds, and investors?
Fei-Fei Porter: Renewable energy assets will remain a focus for investment capital due to the uplift needed to reach transition targets, through the development of solar, onshore and offshore wind, storage, and integrated grid technology. Further, investment will be needed in areas such as green supply chains, transport electrification, and digital infrastructure. We expect support through green finance as non-ESG assets become increasingly challenging to finance. Credit enhancements or preferential terms correlated with reduced carbon intensity will also be introduced.

Oliver Wyman's recent work in wind assets with a key Australian energy provider has seen higher returns, supported by increased power purchase agreement (PPA) pricing. There is also a robust offtake pipeline from commercial and industrial customers eager to support the bankability of the projects.

Having teams with the right capabilities to develop assets, allocate funds, and drive efficiency will support efficient investment. Capability-based partnerships are important to access the pipeline of opportunities Australia has to offer.

Rama Gollakota: Infrastructure funds remain crucial to deploy capital into attractive assets and projects. Private equity's relatively shorter investment horizon is suited to opportunities associated with rapid technology and innovative operational enhancements that drive enhanced productivity – where there is a clear path to value creation. Biodiesel, generation and workforce technological innovation, transport, and supply chain logistics are some of the sectors that private equity funds may be interested to consider from an ESG angle. Investors can realize superior returns, but they need to move early with the right information and insight.

ESG in Australia

212

UN PRI signatories in Australia

The Australian private capital industry continues to be a leader among its Asia-Pacific peers in terms of its environmental, social and governance (ESG) commitments. There are currently 212 UN PRI signatories in Australia (Fig. 34). For context, Japan is in second place with 107 signatories – just over half that of Australia.

This success can be largely attributed to the superannuation funds, which have great scale and influence in the adoption of ESG among private capital investment firms in Australia. Superannuation funds currently account for almost half of the ESG fund commitments by Australia-focused investors (Fig. 35). They are driven by the demands of the general Australian population. According to the 2022 MFS Global Defined Contribution Survey,[37] more than 80% of Australians want to see ESG investments in their retirement plans, up from 74% the prior year. There is therefore potential reputational risk for superannuation funds that choose not to have an active ESG policy. In fact, of the 10 largest superannuation funds investing in private capital by AUM, only one does not have an active ESG policy (Fig. 36).

There were also landmark occasions that served to drive aspects of the ESG agenda forward in Australia last year. The Australian Government passed the Climate Change Bill 2022 in September, ensuring that Australia's emissions reduction target of 43% by 2030 and net-zero emissions by 2050 target are now set in law.[38]

This is a significant development that has encouraged many private capital firms to set policies that can help reduce exposure to climate risk, as well as advocate for efficient investment in climate solutions. They are also backing innovative ESG solutions that allow companies to better track and manage their ESG-related risks. For instance, AirTree Ventures and Minderoo Foundation have invested in a locally founded ESG platform, FairSupply, which allows companies to track their carbon emissions, as well as other risks like human rights and biodiversity.[39] This trickle-down effect of ESG integration is likely to have a long-lasting impact on Australian firms and investors alike.

Over the past year, the financial regulator, the Australian Securities & Investments Commission (ASIC), has continued to clamp down on the practice of greenwashing.[40] ASIC investigated a number of firms, including superannuation funds, to ensure there is no misrepresentation of their ESG claims. These regulations help in the continued implementation, as well as credibility, of ESG policies by the private capital industry.

In 2023, there are plans for the Australian government to include a framework to quantify climate risk within the country's investment market, which will allow them access to granular data on how the super funds and other

37 https://esgnews.com/80-of-australians-want-esg-in-their-super-funds/

38 https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bId=r6885

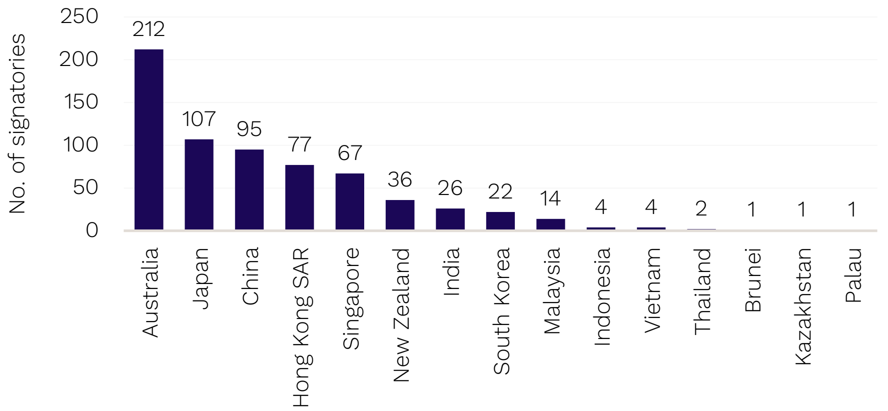
39 https://www.afr.com/technology/forrest-s-minderoo-airtree-back-esg-tech-platform-20221214-p5c67a

40 https://www.investmentmagazine.com.au/2022/06/asics-crackdown-on-greenwashing-welcomed-by-specialists-in-responsible-investing/

investors are committing to ESG policies.[41] This could potentially change the course of the Australian investment and environmental landscape, and is worth watching out for.

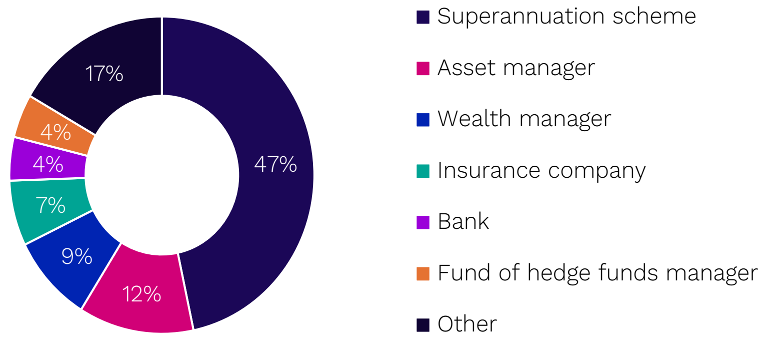
41 https://www.moneymanagement.com.au/news/funds-management/govt-launches-consultation-climate-reporting-framework

Fig. 34: APAC-based signatories to the UN PRI by location



Source: Preqin Pro

Fig. 35: Australia-focused fund commitments by ESG-affiliated investors by type



Source: Preqin Pro

Fig. 36: Largest superannuation funds investing in private capital by assets under management

Investor	Assets under management ($bn)	Type	Allocation to private capital (as a % of AUM)	Active ESG policy?
AustralianSuper	260.0	Industry	26.5%	Yes
Australian Retirement Trust	209.2	Public sector	30.5%	Yes
Aware Super	150.7	Industry	21.8%	Yes
UniSuper	103.2	Industry	4.1%	Yes
Hostplus	92.2	Industry	27.9%	Yes
Retirement Wrap	82.5	Retail	7.6%	No
CBUS Super	70.8	Industry	31.1%	Yes
HESTA	66.6	Industry	19.8%	Yes
Retail Employees Superannuation Trust	66.5	Industry	15.5%	Yes
AMP Super Fund	54.8	Retail	8.7%	Yes

Source: Preqin Pro

Fig. 37: Transparency metrics by firm/portfolio/asset disclosure type for Australia-based firms

Goverance type	Average transparency
Firm	21.2%
Portfolio	11.0%
Asset	6.5%

Source: Preqin Pro

Foreign investment in Australia

46%

Proportion of foreign investors in Australian private funds

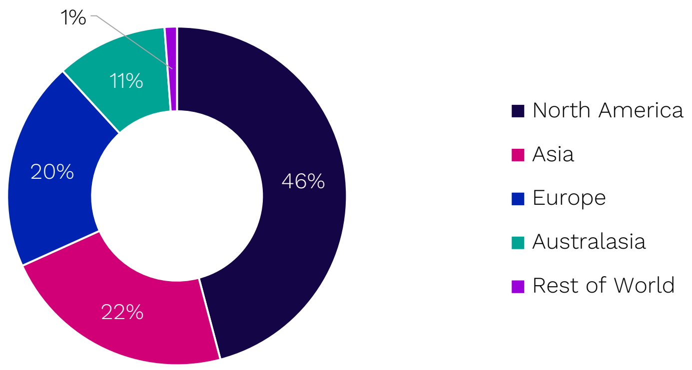
Australian private capital funds continued to attract more foreign funding over the past few years. Two decades ago, foreign investors accounted for just 18% of investors in Australian-based private funds. This has steadily risen to nearly half of investors (46%) in the past five years (Fig. 6). Australia serves as an effective new source of alpha for many international investors, particularly in asset classes such as real estate, infrastructure, and natural resources, given the inflationary environment. With a stable political environment and robust market conditions, Australia stands out as a desirable investment hub.

North American investors remain the largest contingent of foreign investors in Australia, accounting for almost half (46%) of fund commitments with foreign funding over the past five years (Fig. 38). Many of these investors, particularly pension funds, have been significant long-term investors into the region. The Washington State Investment Board, State Teachers' Retirement System of Ohio, CPP Investment Board, and New York State Common Retirement Fund feature as some of the most prominent overseas investors into the region in the past five years (Fig. 40). Closer to home, Singapore's GIC and Temasek drive funding from Asia, with a strong focus on Australian real estate. Nearly a quarter (22%) of Australian funds that receive foreign funding raise capital from Asia.

Private equity is the most attractive asset class to foreign investors, making up over half (55%) of known commitments to Australian private capital funds in the past five years (Fig. 39). In 2022, Australian private equity funds were able to defy the global slump in fundraising and raise a record $9.0bn, more than double that of 2021 (Fig. 9). The increased interest from offshore investors is likely due to the growing size and sophistication of Australian private equity managers.

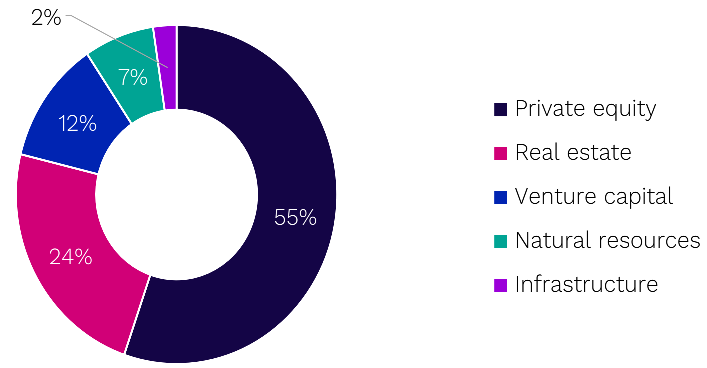
Investors are drawn to Australia's infrastructure and natural resources funds. Of investors surveyed in November 2022, 22% and 27% stated that infrastructure and natural resources respectively presented the best opportunities, in contrast to 12% and 11% of investors just two years before (Fig. 8). This renewed interest is likely driven by the inflation-hedging properties of the asset classes, which are critical in today's market conditions, and the region's mature infrastructure network, which creates abundant growth opportunities for investors.

Fig. 38: Proportion of foreign funding in Australia-focused funds by region, 2017 to 2022



Source: Preqin Pro

Fig. 39: Proportion of foreign funding in Australia-focused funds by asset class, 2017 – 2022



Source: Preqin Pro

Fig. 40: Prominent overseas investors in Australia, 2017 – 2022

Rank	Investors
1	GIC
2	Accident Compensation Corporation
3	State Teachers' Retirement System of Ohio
4	Temasek Holdings
5	Washington State Investment Board
6	New York State Common Retirement Fund
7	AP-Fonden 3
8	Pavilion Capital
9	British Columbia Investment Management Corporation
10	Texas Permanent School Fund State Board of Education

Source: Preqin Pro

PREQIN