PREQIN INSIGHT: ALTERNATIVE ASSETS IN AUSTRALIA AND NEW ZEALAND

September 2017

alternative assets. intelligent data.

CONTENTS

DATA PACK

The data behind all of the charts featured in the report is available for free in an easily accessible data pack. The data pack also includes ready-made charts that can be used for presentations, marketing materials and company reports. To download the data pack from Preqin's Research Center Premium, please visit:

www.preqin.com/anzinsight17

CEO's FOREWORD

- Mark O'Hare

Welcome to the 2017 edition of Preqin Insight: Alternative Assets in Australia and New Zealand!

Our objective has been to give asset owners, fund managers and their advisors – both those located in the region itself and also the large and growing number based elsewhere globally that are interested in investing in Australasia – an overview of and reference on the major developments taking place in the region.

Alternative assets in Australasia is a large and rapidly growing ecosystem. Preqin's databases now track no fewer than 481 fund managers and 443 significant institutional investors active in alternative assets in Australia and New Zealand, and we estimate that total assets under management (AUM) in the industry have reached A$118bn. Hedge funds account for A$39bn of AUM, placing the region on a par with Brazil in eighth-equal position globally. Private capital accounts for A$79bn of AUM, placing Australasia in seventh position in world rankings. The private capital industry includes private equity & venture capital, real estate, infrastructure (where Australasia has long played a leading role internationally), natural resources and private debt (although interestingly the latter is still nascent at only A$0.9bn AUM – plenty of scope for growth there).

Blessed with a stable and growing economy, alternative assets have performed well in the region, with solid returns in both the private capital asset classes and in hedge funds. This has driven sustained growth in the industry: private capital AUM has almost doubled from A$41bn in 2012 to the A$79bn industry we see today; meanwhile the number of hedge funds has nearly trebled since 2006. Fundraising has been strong for the past three years, and at this stage 2017 looks likely to maintain that trend.

The attractions of Australia and New Zealand alternative assets – both as regards the attractive returns and the region's significance in the global industry – have not gone unnoticed by international investors, and it is estimated that some 68% of private equity and venture capital raised in 2016 came from offshore. Hence fundraising from a global investor base has become increasingly important for Australasian fund managers. Interestingly, Preqin's investor databases list no fewer than 1,091 institutional investors from offshore that have either already invested in Australasian alternative assets funds, or have expressed an interest in so doing.

Local institutions are active in supporting the local alternative assets industry – and indeed, they are also active investors globally – with nearly two-thirds of them allocating to alternatives. Interestingly, the level of participation varies by asset class – for example, 49% of Australasian institutions have an allocation to infrastructure (compares with 36% of institutions globally), while 40% have an allocation to private equity & venture capital (compares with 57% globally – so plenty of scope for further growth there).

Australia is of course the largest part of the industry in the region, but one should not overlook the vibrant and growing alternative assets industry in New Zealand, with 46 fund management companies and 48 active institutional investors.

Preparing the report has been a significant undertaking, and we are very grateful for the generous support of our many partners and sponsors in the project:

- Michael Cummings, AMP Capital
- Yasser El-Ansary, AVCAL
- James Wall, Commonwealth Bank of Australia
- Jenny Newmarch, First State Super
- Colin McKinnon, NZVCA
- Michelle Deaker, OneVentures
- Mike Stirzaker, Dan Wilton and Matt Fifield, Pacific Road Capital
- Ronald Stephen Barrott, Pro-invest Group
- Bruce Wan, RF Capital
- Yanese Chellapen, Unkapt Capital
- Uwe Fuehrer, Wealth of Nations Advisors

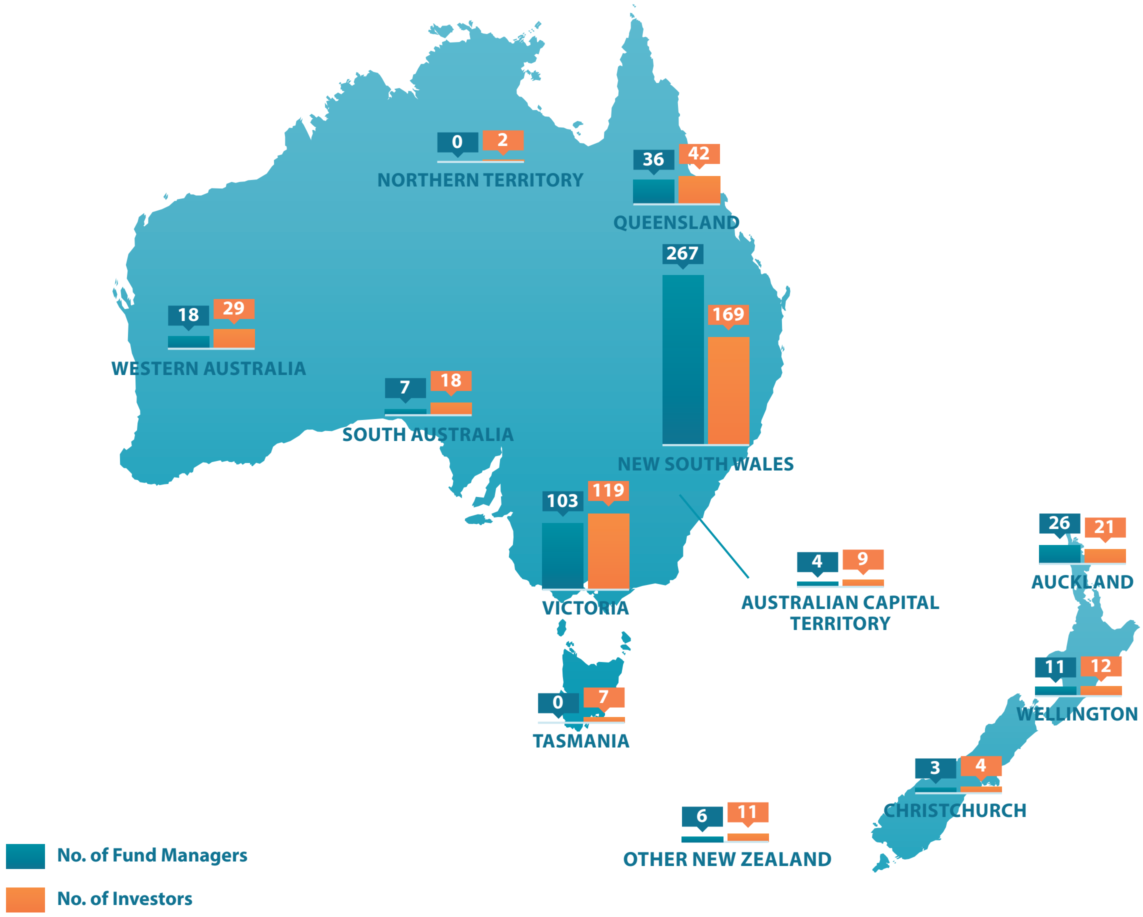
We hope that you find this year's report to be a helpful overview and guide to developments and opportunities in alternative assets in Australia and New Zealand, and wish you all success in the year ahead.

Mark O'Hare

NB: Private Capital includes all private closed-end funds, including Private Equity, Real Estate, Infrastructure, Private Debt and Natural Resources.

KEY FACTS

AUSTRALIA- AND NEW ZEALAND-BASED ALTERNATIVE INVESTMENT MANAGERS AND INSTITUTIONAL INVESTORS



A$118bn
Combined assets under management of the Australia and New Zealand alternative assets industries.

A$68bn
Total capital raised in the past decade by Australia- and New Zealand-based private capital* managers.

135
Number of Australia- and New Zealand-based hedge fund managers, operating over 200 funds.

+5.42%
Performance of Australia- and New Zealand-based hedge funds in 2016, three percentage points higher than the MSCI Asia-Pacific Index.

44%
Superannuation schemes represent the greatest proportion of Australia- and New Zealand-based investors active in alternative assets.

A$252bn
Aggregate value of the 1,400 deals** that have been completed for Australia- and New Zealand-based alternative assets since 2014.

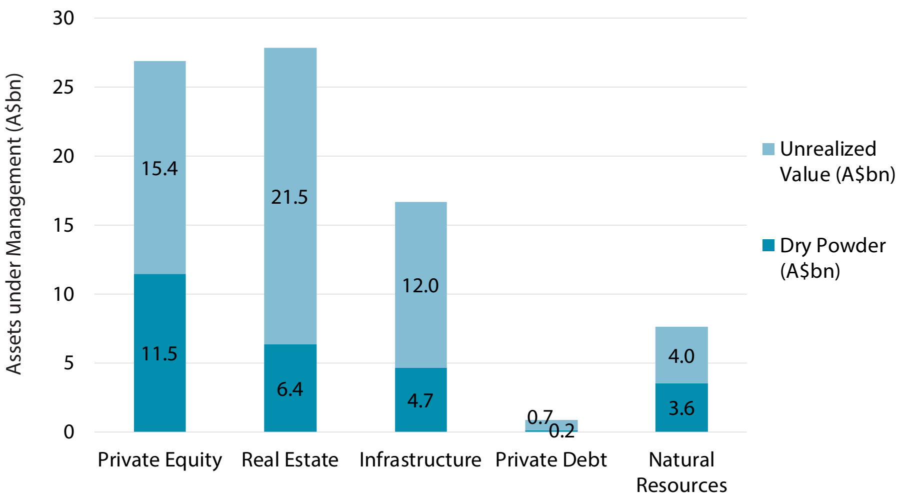
**Private capital here refers to the closed-end alternative asset classes of private equity, private debt, real estate, infrastructure and natural resources.*
***Includes private equity-backed buyout, venture capital, real estate and infrastructure deals.*

THE ALTERNATIVE ASSETS LANDSCAPE IN AUSTRALIA AND NEW ZEALAND

The opportunities for investment in Australia and New Zealand can be attractive and diverse. The hedge fund sector remains one of the most established on a global stage; the world-leading mining industry in Australia provides both infrastructure and natural resources investment opportunities; developed cities such as Sydney and Melbourne have seen strong real estate price growth in recent years; and the private equity & venture capital sector continues to increase in size.

Using Preqin's market-leading alternative assets databases, we provide an in-depth review of recent fundraising, investor activity and key deals completed across six alternative asset classes.

Fig. 1.1: Australia- and New Zealand-Based Private Capital* Assets under Management by Asset Class (As at September 2016)



Source: Preqin

Fig. 1.2: Private Capital* Assets under Management (A$bn) by Fund Manager Location (As at September 2016)

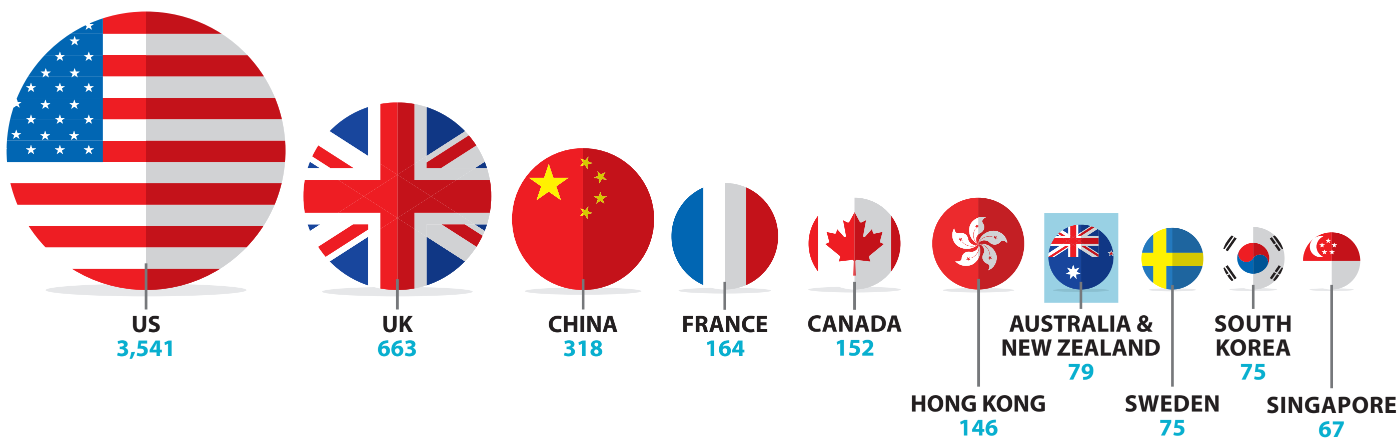
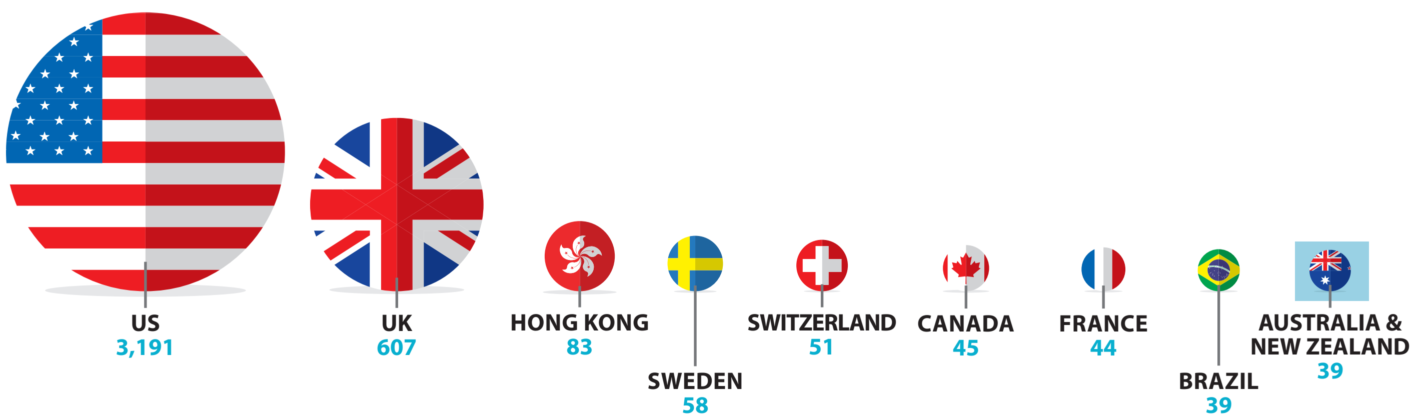


Fig. 1.3: Hedge Fund Assets under Management (A$bn) by Fund Manager Location (As at March 2017)



SECTORS

The alternative assets marketplace in Australia and New Zealand is the third largest industry within the Asia-Pacific region. At A$118bn in size, it stands behind the markets in both Hong Kong and China (A$343bn and A$228bn respectively), and represents 20% and 10% of all Asia-Pacific-based hedge fund and private capital assets respectively. The alternative assets sector is split between private capital and hedge funds and in Australia and New Zealand the former constitutes the majority (67%) of assets, with the real estate sector the largest private capital market (Fig. 1.1). This represents a much more diverse marketplace than that of nearby China, which is dominated by private equity & venture capital assets.

While the hedge fund, real estate and private equity industries of Australia and New Zealand can be considered relatively established, the unlisted natural resources and private debt industries are still in their infancy, similar to the global alternative assets universe.

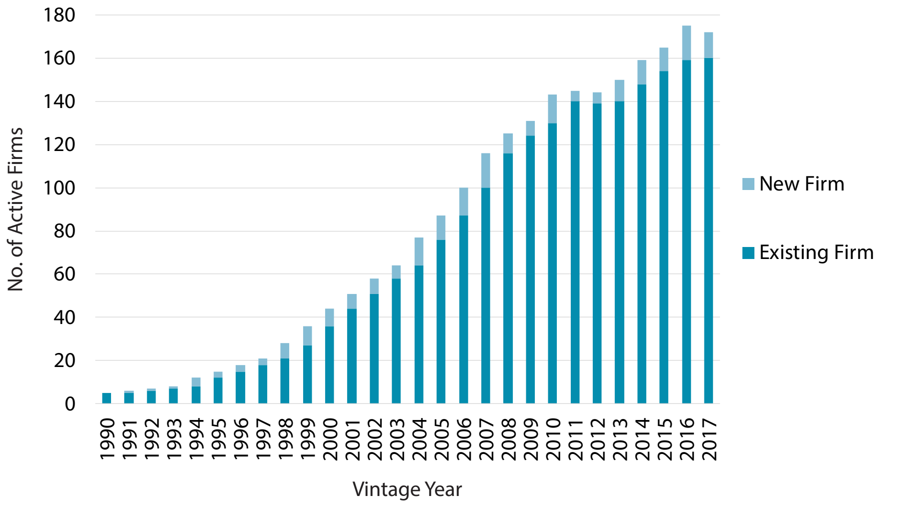
> ***"The alternative assets marketplace in Australia and New Zealand is the third largest industry within the Asia-Pacific region***

FUND MANAGER ACTIVITY

The number of active Australia- and New Zealand-based private capital firms over time (broken down by the number of new firms launched each year versus active existing firms) is displayed in Fig. 1.4. These figures were calculated using the vintage year of the first fund to represent the year in which a firm was established; firms that have not raised a fund in the past 10 years were considered inactive.

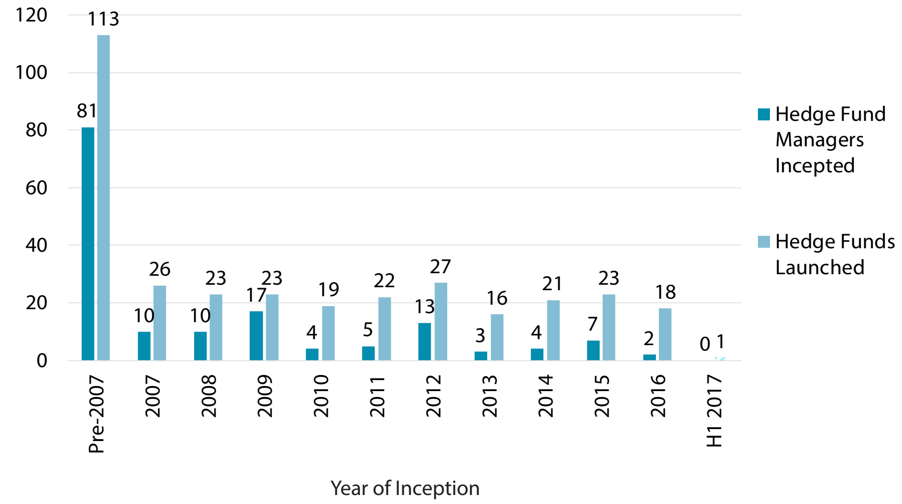
In general, there has been strong growth in the private capital industry in Australia and New Zealand since 1990, a similar trend to that of the global alternative assets market. Preqin's databases currently track 172 Australia- and New Zealand-based private capital firms, three fewer firms than the record-high total in 2016, a year which saw the launch of 16 new firms. This slight

Fig. 1.4: Number of Active Australia- and New Zealand-Based Private Capital* Firms over Time (By Vintage of First Fund Raised)



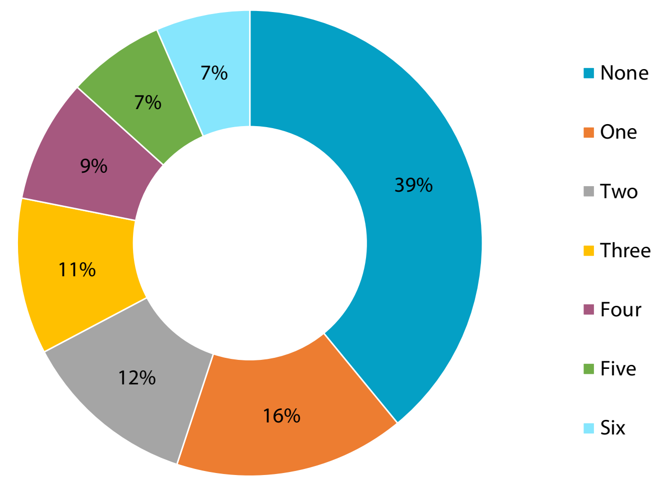
Source: Preqin

Fig. 1.5: Number of Australia- and New Zealand-Based Hedge Fund Managers Incepted and Hedge Fund Launches



Source: Preqin Hedge Fund Online

Fig. 1.6: Australia- and New Zealand-Based Institutional Investors by Number of Alternative Asset Classes Invested In



Source: Preqin

decline follows years of substantial growth after a plateau in launch activity from 2010-2012: in the four years to 2016 the number of Australia- and New Zealand-based private capital firms grew by 22%.

Over the past 10 years hedge fund launch activity has been steady, with an average of eight and 22 hedge fund managers and vehicles entering the market each year from 2007 to 2016 (Fig. 1.5). This being said, activity in 2017 has slowed with just one vehicle launched so far.

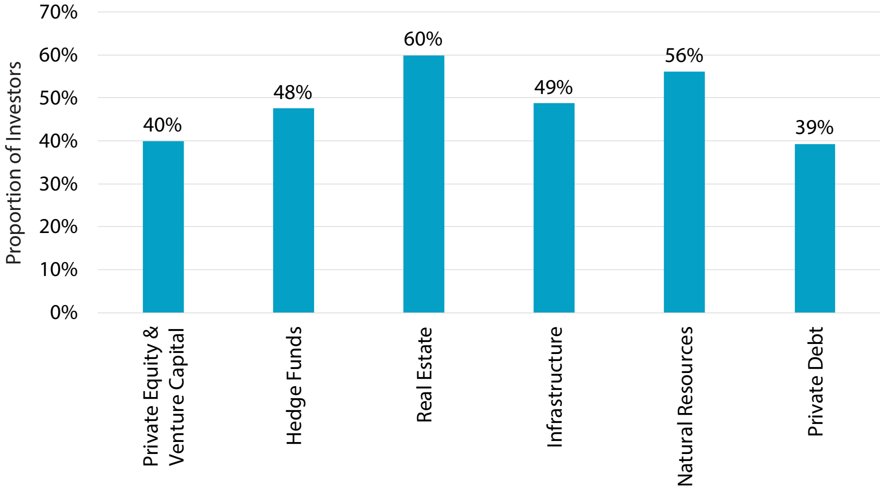
> ***Nearly two-thirds of Australia- and New Zealand-based institutional investors allocate to an alternative asset class***

INVESTORS IN ALTERNATIVES

Nearly two in every three Australia- and New Zealand-based institutional investors allocate to an alternative asset class (Fig. 1.6). Investors in alternatives can vary greatly and seek exposure to asset classes through a variety of routes, as seen throughout this report. Superannuation schemes, typically large in size, constitute the largest proportion of active Australia- and New Zealand-based investors. With such institutions typically active in a variety of asset classes, it is perhaps unsurprising to see that a significant proportion (34%) of Australia- and New Zealand-based investors allocate to three or more alternative asset classes.

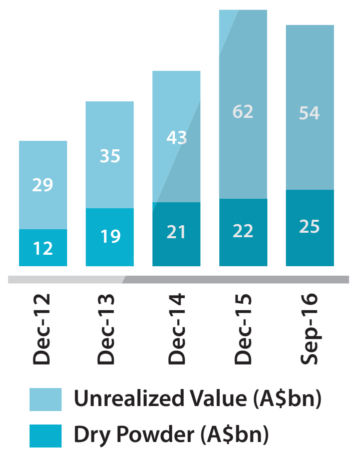
The real estate and natural resources markets in Australia and New Zealand have the greatest rates of investor participation, with the majority of investors allocating to these asset classes (Fig. 1.7). Despite the active infrastructure sector of Australia and the level of government investment seen in the market in recent years, less than half of Australia- and New Zealand-based investors allocate to the infrastructure asset class; however, participation in the industry remains greater than that in both the private equity & venture capital and private debt markets.

Fig. 1.7: Proportion of Australia- and New Zealand-Based Institutional Investors Allocating to Each Alternative Asset Class



Source: Preqin

AUSTRALIA- AND NEW ZEALAND-BASED PRIVATE CAPITAL* ASSETS UNDER MANAGEMENT



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This free service provides access to analysis of the latest trends in alternative assets, as well as benchmarking tools, useful presentation slide decks from recent conferences and much more.

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**Private capital here refers to the closed-end alternative asset classes of private equity, private debt, real estate, infrastructure and natural resources.*

TOP PERFORMING PRIVATE EQUITY & VENTURE CAPITAL AND REAL ESTATE FUNDS

Fig. 1.8: Top Performing Australia- and New Zealand-Based Private Equity & Venture Capital Funds (All Vintages)*

Fund	Firm	Vintage	Fund Size (A$mn)	Geographic Focus	Fund Type	Net IRR (%)	Date Reported
AMWIN Innovation Fund	CHAMP Ventures	1998	42	Australasia	Early Stage	1,015.7	31-Dec-14
Quadrant Capital Fund III	Quadrant Private Equity	2001	125	Australasia	Buyout	64.4	31-Mar-17
Pacific Equity Partners Supplementary Fund II	Pacific Equity Partners	2004	162	Australasia	Buyout	61.9	31-Dec-16
Australian Mezzanine Investment No. 3 Trust	CHAMP Private Equity	1996	82	Australasia	Venture Capital (All Stages)	52.6	31-Mar-17
Archer Capital Fund II	Archer Capital	2001	192	Australasia	Buyout	48.6	31-Mar-17
CHAMP Ventures Investments Trust No. 5	CHAMP Ventures	2002	165	Australasia	Expansion/Late Stage	42.8	31-Mar-17
Anacacia Partnership I	Anacacia Capital	2008	53	Australasia	Buyout	41.4	31-Mar-17
Crescent Capital Partners II	Crescent Capital Partners	2004	100	Australasia	Buyout	37.5	31-Mar-17
Helmsman Capital Fund	Helmsman Funds Management	2003	45	Australasia	Turnaround	37.0	31-Mar-17
Pacific Equity Partners Fund II	Pacific Equity Partners	2004	316	Australasia	Buyout	36.0	31-Dec-16

Compiled from a universe of 68 funds fulfilling the selection criteria.

Source: Preqin Private Equity Online

Fig. 1.9: Top Performing Australia- and New Zealand-Based Private Equity Real Estate Funds (All Vintages)*

Fund	Firm	Vintage	Fund Size (A$mn)	Geographic Focus	Net IRR (%)	Date Reported
Propertylink Australian Industrial Partnership	Propertylink	2013	265	Australasia	27.5	30-Jun-16
Altis Real Estate Equity Partnership Vintage 2	Altis Property Partners	2013	250	Australasia	23.3	31-Dec-16
Pro-invest Australian Hospitality Fund I	Pro-Invest Group	2014	300	Australasia	21.0	30-Sep-16
Property Development Portfolio No.3	Charter Hall Group	2002	223	Australasia	19.2	31-Mar-17
Property Development Portfolio No.2	Charter Hall Group	2000	384	Australasia	19.0	31-Mar-17
Altis Real Estate Equity Partnership Vintage 1	Altis Property Partners	2010	107	Australasia	18.0	31-Mar-17
Centaur Real Estate Debt Fund 1	Centaur Property Funds Management	2013	50	Australasia	15.0	31-Dec-16
Gresham Property Mezzanine Fund No. 1	Gresham Property	2002	33	Australasia	13.9	31-Mar-17
Property Development Portfolio No.1	Charter Hall Group	1997	386	Australasia	13.5	31-Mar-17
Propertylink Australian Logistics Trust	Propertylink	2013	30	Australasia	12.3	30-Sep-16

Compiled from a universe of 21 funds fulfilling the selection criteria.

Source: Preqin Real Estate Online

TOP PERFORMING HEDGE FUNDS

Fig. 1.10: Net Returns of Top Performing Australia- and New Zealand-Based Hedge Funds, July 2016 - June 2017*

Fund	Manager	Headquarters	Core Strategy	Net Return (%)
PM Capital Global Companies Fund	PM Capital	Sydney	Equity Strategies	34.69
Optimal Japan Absolute Long Master Fund	Optimal Fund Management	Sydney	Equity Strategies	30.47
Platinum European Fund	Platinum Asset Management	Sydney	Equity Strategies	28.45
Platinum International Brands Fund	Platinum Asset Management	Sydney	Equity Strategies	27.76
PM Capital Australian Companies Fund	PM Capital	Sydney	Equity Strategies	27.42
Platinum International Technology Fund	Platinum Asset Management	Sydney	Equity Strategies	24.62
Platinum Japan Fund	Platinum Asset Management	Sydney	Equity Strategies	24.01
Platinum International Fund	Platinum Asset Management	Sydney	Equity Strategies	21.35
MGH Investment Fund	MGH Asset Management	Wellington	Macro Strategies	21.21
MLC Platinum Global Fund	Platinum Asset Management	Sydney	Credit Strategies	21.07

Source: Preqin Hedge Fund Online

Fig. 1.11: Net Returns of Top Performing Australia- and New Zealand-Based Hedge Funds, July 2014 - June 2017*

Fund	Manager	Headquarters	Core Strategy	Three-Year Annualized Net Return (%)
Platinum Japan Fund	Platinum Asset Management	Sydney	Long/Short Equity	18.88
Attunga Power & Enviro Fund	Attunga Capital	Sydney	Niche	18.50
Platinum International Health Care Fund	Platinum Asset Management	Sydney	Long/Short Equity	15.99
PM Capital Global Companies Fund	PM Capital	Sydney	Long/Short Equity	15.41
Auscap Long Short Australian Equities Fund	Auscap Asset Management	Sydney	Long/Short Equity	14.85
OC Dynamic Equity Fund	OC Funds Management	Melbourne	Long Bias	14.67
Platinum International Brands Fund	Platinum Asset Management	Sydney	Long/Short Equity	12.60
Platinum International Technology Fund	Platinum Asset Management	Sydney	Long/Short Equity	12.34
Bennelong Long Short Equity Fund	Bennelong Funds Management	Melbourne	Equity Market Neutral	11.87
Platinum Asia Fund	Platinum Asset Management	Sydney	Long/Short Equity	11.69

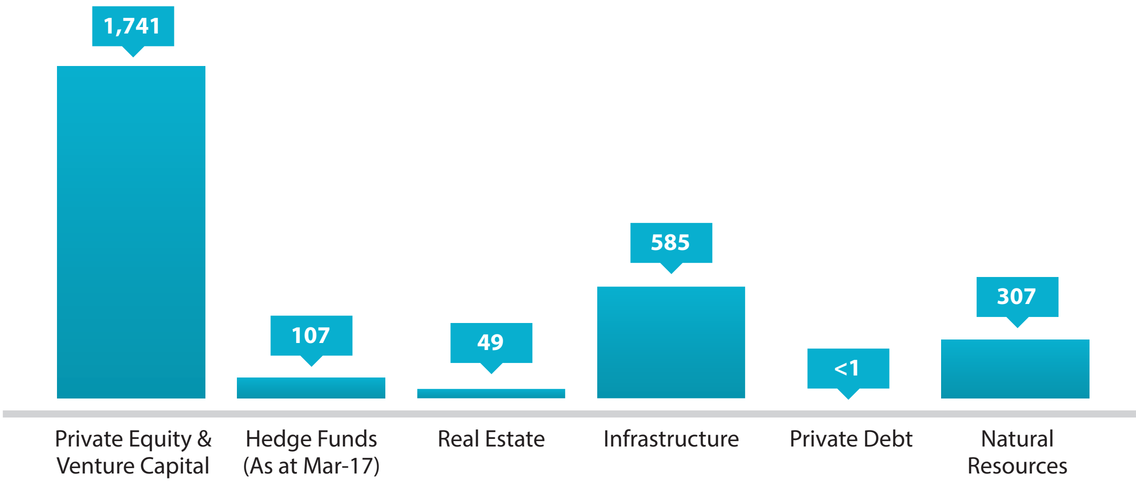
Source: Preqin Hedge Fund Online

**Please note, all performance information includes preliminary data for June 2017 based upon returns reported to Preqin in early July 2017. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.*

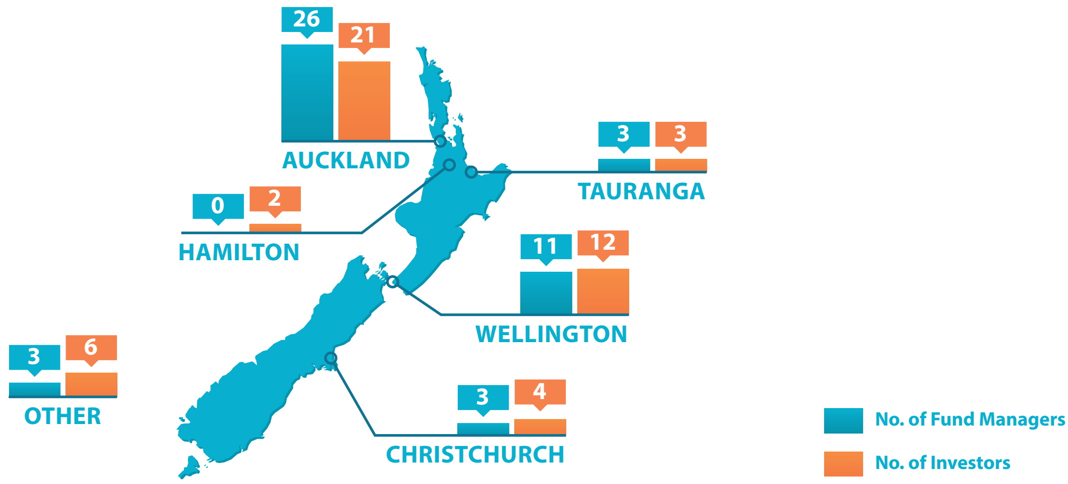
IN FOCUS: NEW ZEALAND

While smaller in comparison to its neighbour Australia, New Zealand is home to a number of investors and fund managers active across various asset classes and industries. Here we provide an overview of the alternative assets marketplace in New Zealand.

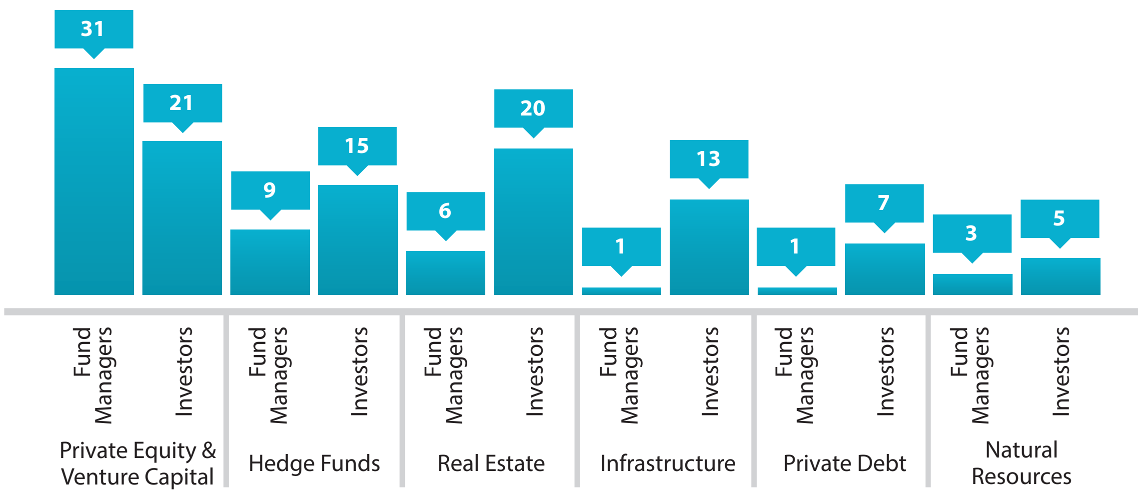
Size of Alternative Assets Industries (A$mn) in New Zealand (As at September 2016):



Number of New Zealand-Based Alternative Investment Fund Managers and Institutional Investors by Location:



Number of New Zealand-Based Fund Managers and Institutional Investors by Asset Class:



WHY AUSTRALIA WILL CONTINUE TO BE A MAGNET FOR OFFSHORE CAPITAL

- James Wall, **Commonwealth Bank of Australia**

Australia has a long tradition of attracting offshore investment to fund its current account deficit. Its relatively stable political backdrop, well-understood legal system, transparent business practices and regulatory settings have facilitated investment from abroad.

While Australia has recently begun recording current account surpluses, capital will likely continue to flow inwards based on trends in the world's population growth and the shifting centre of economic power.

During the 20th century, the world's population grew by 4.5 billion (from 1.6 billion to 6.1 billion). In the 21st century it is projected to increase by a further 5.1 billion to 11.2 billion[1]. The result will be intense competition to secure food, energy, water, resources, space, security and lifestyle.

Australia's proximity to two of the world's fastest growing economies[2] positions it well to benefit from this forecasted escalation in demand. This should ensure Australia remains on the radar of organizations and investors scouring the world for investment opportunities with attractive macroeconomic fundamentals.

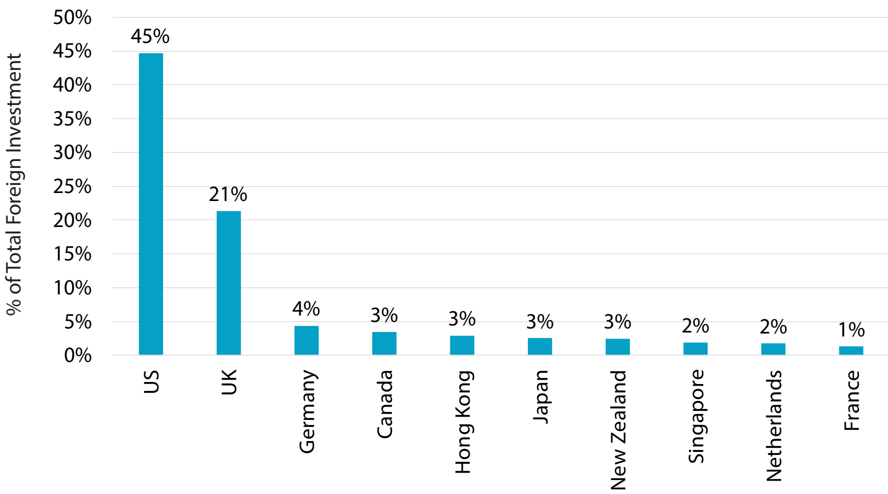
THE GEOGRAPHIC SOURCE OF CAPITAL IS SHIFTING

An obvious change in offshore capital flows into Australian alternative investments is the geographical base of the investors.

As we entered the 21st century, much of Australia's inbound capital into alternative investments came from the US with its huge pool of established private equity firms. Even today the US is home to eight of the world's 10 largest private equity firms[3]. Now, however, much of the capital making its way to Australia's shores comes from China and other emerging economies.

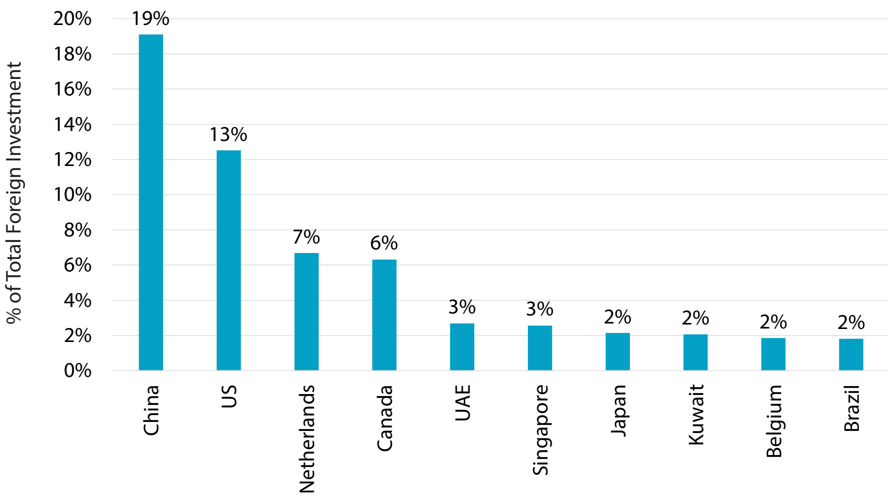
Take real estate for example. Foreign Investment Review Board (FIRB) data shows that investment from North Asia in Australian real estate almost quadrupled from A$12bn in FY2013 to A$46.5bn in FY2016. That represented 38% of all offshore real estate investments, up from 23% in FY2013[4]. In 2016 Chinese investors and developers bought residential sites worth A$2.4bn, representing 38% of total sales[5].

Fig. 1: Top 10 Largest Investing Countries (% of Total Foreign Investment) - 2000/2001



Source: Foreign Investment Review Board Annual Report, page 32

Fig. 2: Top 10 Largest Investing Countries (% of Total Foreign Investment) - 2015/2016



Source: Foreign Investment Review Board Annual Report, page 37

[1]'Outlook Australia: Prospects for Prosperity Over the Next 5 years', B. Salt, Austrapalooza Conference, 15 May 2017
[2]'6 surprising facts about India's exploding middle class', K. Breene, World Economic Forum, 7 November 2016
[3]Preqin, The Private Equity Top 100, February 2017
[4]Foreign Investment Review Board, Bloomberg, Real Capital Analytics 2016
[5]Knight Frank 2016

Why is this happening? Free trade agreements are only part of the explanation. It also reflects a global megatrend that the Commonwealth Scientific and Industrial Research Organisation (CSIRO), the Australian Government's science agency, has identified. The CSIRO's 'Silk Road' megatrend relates to the ascendency of the developing world and the resulting economic power shift from the West to the East[6].

It took 2,000 years for the centre of economic growth to shift from the East to the West, explains Michael Blythe, Commonwealth Bank's Chief Economist. The move back to the East that started with Japan in the 1960s will only take 70 years[7].

This is supported by a paper from the London School of Economics. It describes how the hot spot of global economic GDP output that was in the mid-Atlantic in 1980 is moving east. It is projected to sit between India and China by 2050[8].

The transition of economic power can be seen from the location of the world's largest companies. New York was home to 22 of the world's 500 largest companies in 2005. By 2016, the number had fallen to 17 companies[9]. By then, 56 of the world's top companies were headquartered in Beijing[10], up from 15 in 2005[11].

CHANGING OF THE GUARD IN INVESTORS

It is also apparent that the type of investors acquiring Australian alternative investments continues to evolve. A few years ago, Chinese state-owned enterprises (SOEs) emerged as significant investors alongside the traditional US private equity funds.

This reflected the Chinese Government's new outward focus. The country was attracting unprecedented foreign investment, drawn by the opportunities that China's rapidly expanding and industrializing economy and the urbanization of its large population presented. The government wanted to balance this with Chinese investment in other regions.

Much of that early investment was aimed at securing the resources – commodities and energy – needed to sustain China's industrialization and construction boom. It also sought to secure opportunities for Chinese companies abroad.

Today the SOEs are less active. Their share of fixed asset investment (FAI) has continued a long-term decline from 58% in 2004 to below 35% in 2012[12]. They are consolidating and merging in a bid to become more efficient and productive. They aspire to be thoroughly modern companies, fit for the 21st century.

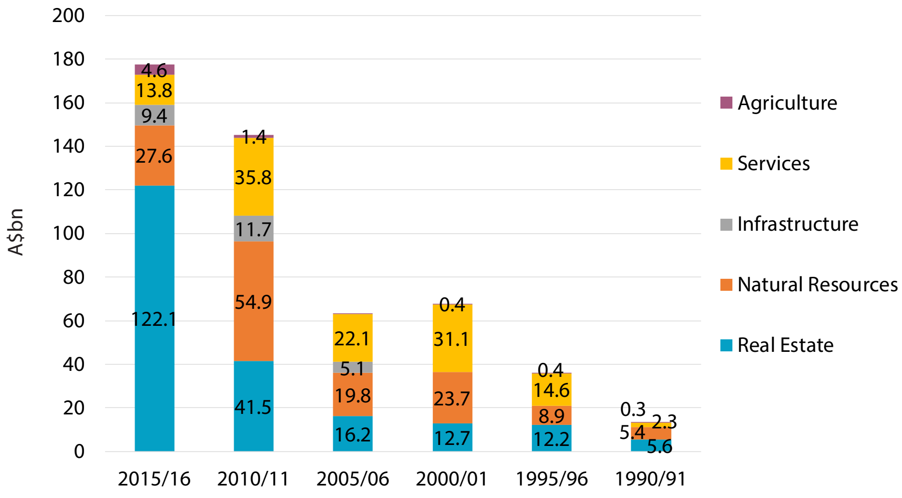
In their place, Chinese privately owned enterprises and investors have emerged. In 2014, Chinese private sector investment in Australia exceeded SOE investment in both number and value of deals for the first time[13]. By number, 76% of Chinese investments in Australia last year were by private enterprises[14]. Examples in natural resources include YanCoal and ENN Ecological Holdings, while Cheung Kong Infrastructure acquired DUET after its unsuccessful bid for Ausgrid[15].

"ALTERNATIVE ALTERNATIVES"

The shift in the source of capital from the US to Asia is well underway. We are now starting to witness an additional shift; the concentration of alternative investment is moving away from a pure focus on natural resources and infrastructure. More recently, areas like real estate and agriculture are now firmly in the sights of investors, along with consumer services such as healthcare and education.

This new development relates back to Asia's growing middle class. "The historical experience is that as incomes rise, consumers want more goods, especially food, housing and consumer durables, and services, especially education, tourism, health and financial services," Michael Blythe says. Tourism and education now rank in Australia's top five exports[16].

Fig. 3: FIRB Approvals by Industry Sector*



Source: FIRB Annual Reports

*FIRB includes transport infrastructure as services. The data is split out in the 2015-16, 2010-11 and 2005-06 reports but not in the earlier reports.
[6]'Our future world – Global megatrends that will change the way we live', CSIRO, 2012, pg. 10
[7]'Australia & NZ – From Tailwinds to Headwinds', M. Blythe, Austrapalooza Conference, 15 May 2017
[8]'The Global Economy's Shifting Centre of Gravity' D. Quah, Global Policy Volume 2. Issue 1. London School of Economics, January 2011
[9]'Global 500', Fortune, 2016, http://fortune.com/global500/
[10]Ibid
[11]Ibid
[12]'China's Unfinished State-Owned Enterprise Reforms', Economic Roundup Issue 2, 2013, The Treasury, Australian Government
[13]'Demystifying Chinese Investment in Australia', KPMG, University of Sydney, May 2015
[14]'Demystifying Chinese Investment in Australia', KPMG, University of Sydney, May 2017, pg. 27
[15]Mergermarket 2017
[16]'Economics: Perspective', Global Markets Research, Commonwealth Bank of Australia, 16 June 2017, pg.3

This reorientation towards services is reflected in China's five-year plan with its focus on food safety and better living standards. China seeks capability and intellectual property (IP) in these areas of 'health and happiness'.

A corollary of the broadening investment is the emergence of cross-industry activity. Sam Bowen, Executive Director, Healthcare at Commonwealth Bank, says clients in North Asia are quite comfortable investing outside of their industry. "Many companies are looking to diversify outside of their traditional industries, with healthcare being a popular sector to move into," explains Bowen. "They are acquiring Australian healthcare businesses which they believe can be expanded or replicated in their home countries. They want to acquire the operational and even clinical IP and take it offshore, so they will let existing management continue to run the business in Australia."

Healthcare:
The macroeconomic backdrop is positive for long-term growth. Demand is increasing for healthcare services amid a backdrop of a growing ageing population. Between FY2005 and FY2015 Australian healthcare expenditure rose at a compound annual growth rate of 4.6% and represents around 10% of GDP[17].

Over the last 18 months, Chinese buyers acquired six Australian healthcare companies in transactions worth more than A$5bn. The interest is two-way. Australian healthcare companies are building a presence in China by forming joint ventures and partnerships to combine Australian expertise with Chinese experience[18].

With its ageing population and the rising incidence of cancer due to pollution and change of diet, China is particularly interested in areas like diagnostics, IVF, aged care and cancer care. These all play to Australia's strengths.

Education:
By 2020 over 40% of the world's university graduates will be living in China and India. The EU and US will account for a little more than 25% of young tertiary-educated people[19].

Real Estate:
Real estate capital values in the Australian market are expected to remain supported by record-low interest rates, the declining Australian dollar and the depth of global capital investing in quality real estate. Australian real estate's relatively higher yield versus other global asset opportunities makes it an attractive investment to domestic and global offshore purchasers alike.

Food, Beverage and Agriculture:
The total value of exports and imports for Australia's food, beverage and grocery sector was A$66.6bn in FY2016[20]. FIRB is generally supportive of foreign investment in these sectors. In 2014, 16 of the 25 largest food and agribusiness companies in Australia were foreign owned[21].

FINAL THOUGHTS

The economic and geopolitical shifts that are bringing the Eastern markets more to the fore, will likely continue and drive the demand for an increasingly diversified set of alternative investments. We foresee that Australia will remain in a strong position to offer attractive opportunities for a range of institutional investors interested in these sectors.

[17] *Australian Bureau of Statistics; Australian Institute of Health and Welfare 2016*
[18] *Mergermarket 2016*
[19] *Assessment of Higher Education Learning Outcomes', Volume 1, OECD, 2012 pg. 18 'China and India to produce 40% of global graduates by 2020', ICEF Monitor, 16 July 2012*
[20] *Australian Bureau of Statistics; Australian Food & Grocery Council 2016*
[21] *'Investment opportunities in Australian agribusiness and food', Australian Trade Commission, 2014, pg. 26*

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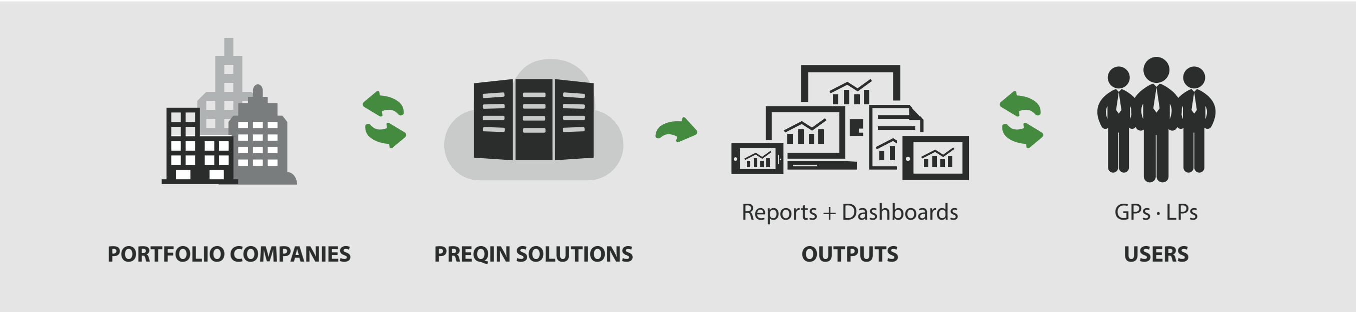

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SECTION TWO: PRIVATE EQUITY & VENTURE CAPITAL

A SNAPSHOT OF THE AUSTRALIAN MARKET TODAY

- Yasser El-Ansary, **AVCAL**

In 2017, the global economic outlook remains patchy, with major parts of the world gripped by uncertainty, and resigned to years of slow or no growth. In Europe, the ongoing debate around the future of the eurozone, combined with the instability caused by the upcoming Brexit will continue to weigh on markets. Meanwhile, over in the US, the political and economic implications of a new administration, including for economic policy, will take time to fully materialize.

Amid this instability, Australia remains a consistent, developed market performer, having recently secured the world record for the longest period (nearly 26 years) without a recession. Real GDP growth is forecast by the government to come in at 3% for the next three financial years, a rate which would be envied by many other nations. Furthermore, unemployment has stayed low and steady over the last 18 months, with the May 2017 figure remaining at 5.7%.

It is these strong economic fundamentals that will help underpin the continued attractiveness of Australian private equity (PE) and venture capital (VC) to investors. Indeed, over recent years, we have continued to see an increasing proportion of Australian PE and VC fundraising coming from offshore. In financial year (FY) 2016, around 68% of capital was raised from overseas investors. Over the past few years in particular, Australia has been seeing renewed appetite from a diverse range of Asian and North American investors. Sovereign wealth funds and foreign public and private pension funds remain key sources of capital, especially for Australian PE funds.

In total, in FY2016, fundraising across the Australian PE and VC sector stood at A$2.7bn, the third highest total since FY2008. Of greatest note was the fact that the local VC sector recorded its highest ever level of fundraising at A$568mn, reflecting renewed confidence and momentum in Australia's innovation ecosystem. Indeed, the total amount of VC fundraising seen in the last two years was larger than the totals raised over the preceding six years, supported by a package of government reforms aimed at kick-starting early stage businesses to compete on the global stage.

Of course, a major driver for investors has been the globally competitive returns that are on offer from Australian PE and VC managers. The latest Australian Private Equity & Venture Capital Index has shown that the asset class has consistently outperformed public markets over three-, five-, 10- and 15-year timeframes. For example, while the S&P ASX 300 Index has returned 4.39% over 10 years, the Australian Private Equity & Venture Capital Index has delivered a 9.39% rate of return, net of fees, expenses and carried interest. Similar outperformance has occurred over other timeframes.

International investors know that these kind of returns are hard to come by, especially in a world of low interest rates and sluggish global growth. Therefore, Australian PE and VC can play an important role in driving returns as part of a balanced global portfolio. Indeed, into FY2017, we are seeing increasing levels of interest in the sector from overseas investors, strongly suggesting that the trend towards a majority of capital being raised offshore – supplementing cornerstone domestic investors – is likely to continue. There is also an international trend towards higher allocations to PE and VC – as well as new programs – as investors look to boost their returns in a challenging investment environment.

So how are these Australian returns being achieved? The short answer is through smart investments of capital and expertise in start-ups, SMEs and larger corporates. In FY2016, PE and VC funds invested A$3.3bn in 150 companies in Australia and overseas, with two-thirds of VC investment, and 82% of PE investment, going to domestic companies. While almost all sectors of the Australian economy attracted PE investment (with the general exception of infrastructure and property), around 50% of the capital was deployed in two areas: consumer products, services and retail; and healthcare and life sciences. While for VC, ICT and healthcare & life sciences companies remain the most popular areas attracting investment.

With succession planning becoming an increasingly pressing issue for the "Baby-Boomer" generation of Australian business owners, PE offers a prime opportunity for many families to successfully partner with a skilled investor in order to support companies' transition to their next stage. Critical to many strategic plans will be strengthening the local business before attempting to tap into export markets, particularly in Asia, where there is a strong appetite for high-quality Australian goods and services. The education, tourism and healthcare services sectors will be a major export focus over the decades ahead. There is clear upside in these areas given the economic transformation of the Asian middle class to Australia's north, and the people-to-people links which are deeply ingrained in Australia's multicultural society.

PE-backed initial public offerings (IPOs, minimum A$100m offer size) have also performed well for investors, with average IPO returns for PE-backed companies outstripping non-IPO companies: 24.3% vs. 16.8% since 2013.

The future also looks bright for the Australian VC sector, with AVCAL's recent Venture Capital Effect research report highlighting that the early stage ecosystem has never been as strong as it is today. While FY2016 was a record year for fundraising, it is expected to be dwarfed by FY2017, where around A$1bn has been raised to date. In particular, the VC industry has received a strong tailwind of institutional support from a number of Australian superannuation (pension) funds, government programs such as the A$500m Biomedical Translation Fund (aimed at commercializing Australia's world-class research) and some highly successful exits, particularly in the life sciences space.

While this growth trajectory is impressive, the Australian VC sector remains small by OECD standards, showing there remains tremendous further potential for the sector, and for those investors willing to back the next wave of innovative Australian companies.

On the public policy front, Australia continues to enjoy a stable and predictable regulatory environment which encourages investment. Further efforts are also being made by the government to optimize Australia's collective investment vehicle framework to bring it in line with international practice, with a new limited partnership structure expected to be in place by 1 July 2018. Recent reforms to the foreign investment framework will also ensure greater clarity for global investors.

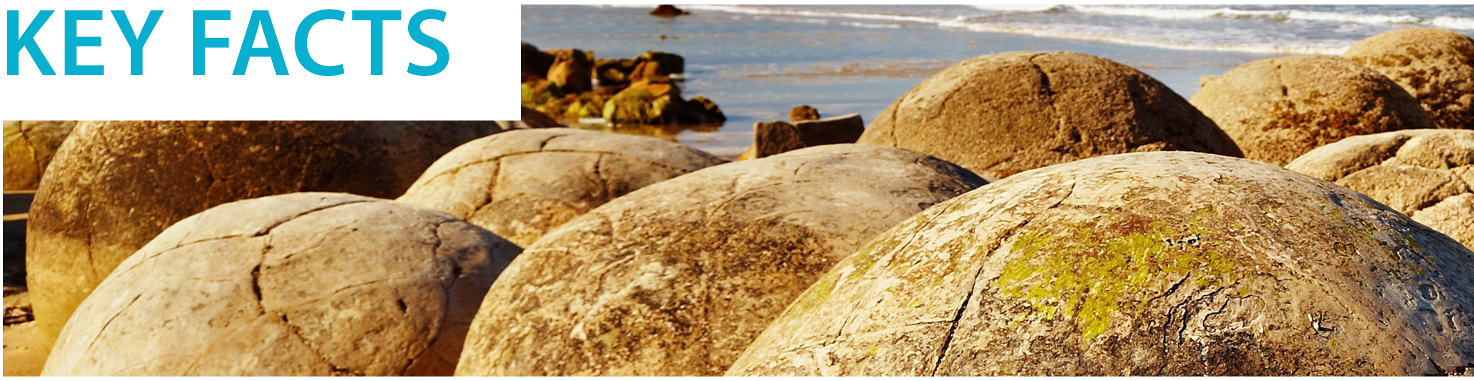
On the innovation front, the government is continuing to devote significant time and resources to successfully transitioning Australia towards a knowledge-driven economy – reforms which will be essential to the early stage ecosystem in which the VC sector operates.

Viewed holistically, there are strong reasons to remain optimistic about the future of the Australian economy, and in particular, the ability for the local PE and VC sector to continue delivering market-leading returns. With the sector remaining relatively young and underpenetrated compared to its global peers, international investors looking for exposure to one of the world's leading economies will continue to reap the rewards on offer from PE and VC down under.

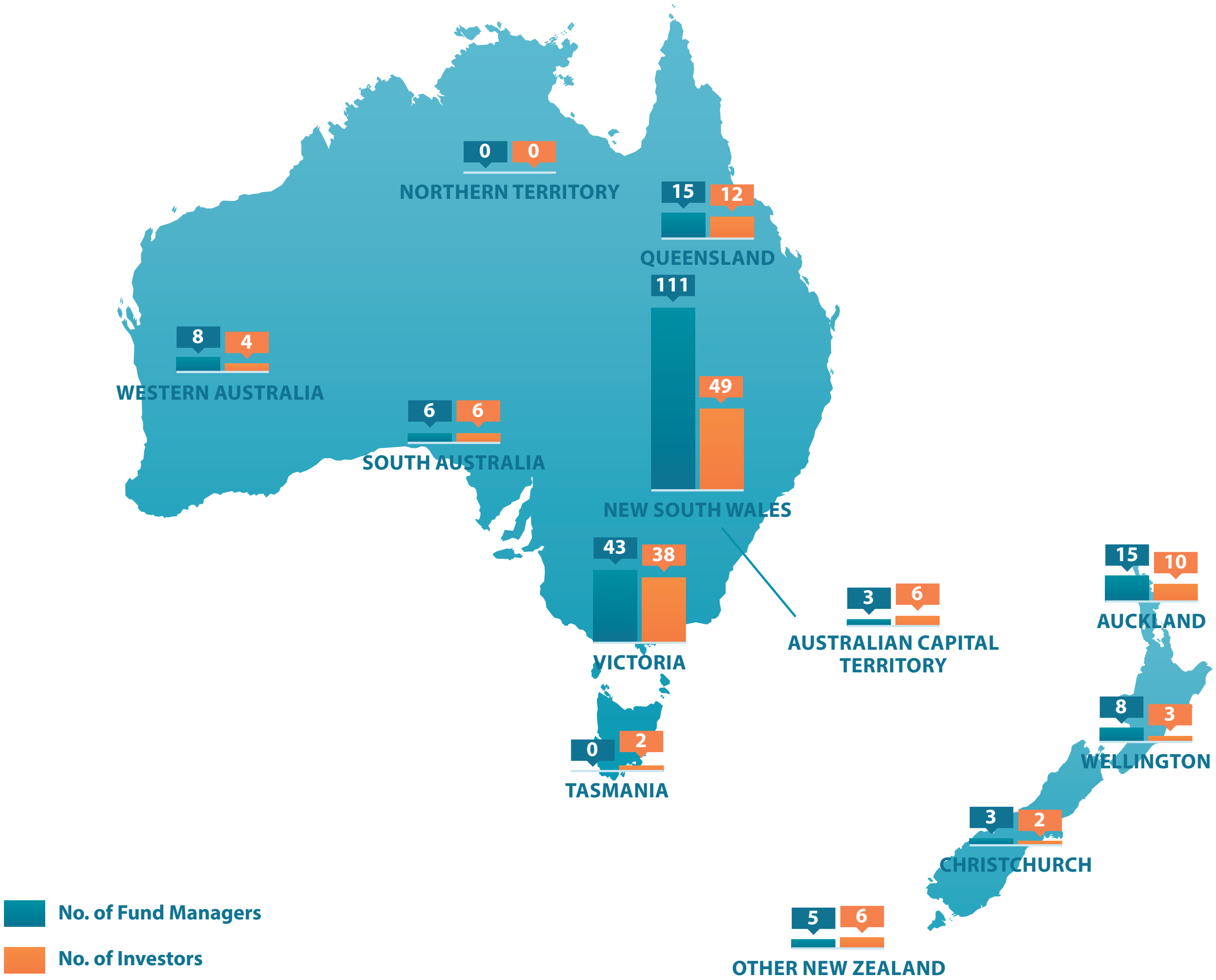
AVCAL
The Australian Private Equity & Venture Capital Association Limited (AVCAL) is the voice of the private equity (PE) and venture capital (VC) in Australia. AVCAL's members provide capital and expertise to start-ups, SMEs, and large organizations by enhancing innovation, productivity and sustainability. In turn, the industry plays an important role in the broader economy by building better businesses. Together, PE and VC firms in Australia manage around $27bn on behalf of Australian and offshore superannuation and pension funds, sovereign wealth funds and family offices.

www.avcal.com.au

KEY FACTS



AUSTRALIA- AND NEW ZEALAND-BASED FUND MANAGERS AND INSTITUTIONAL INVESTORS ACTIVE IN PRIVATE EQUITY & VENTURE CAPITAL



Largest Australia- and New Zealand-Based Private Equity Fund Managers by Aggregate Capital Raised in the Last 10 Years

Firm	Location	Aggregate Capital Raised in Last 10 Years (bn)
Pacific Equity Partners	Sydney	6.2 AUD
Quadrant Private Equity	Sydney	3.1 AUD
Archer Capital	Dawes Point	2.6 AUD
CHAMP Private Equity	Sydney	2.2 AUD
Crescent Capital Partners	Sydney	1.6 AUD

Largest Australia- and New Zealand-Based Investors by Current Allocation to Private Equity & Venture Capital

Investor	Location	Type	Current Allocation to PE & VC (bn)
Future Fund	Melbourne	Sovereign Wealth Fund	13.7 AUD
QIC	Brisbane	Asset Manager	5.1 AUD
MLC	Sydney	Asset Manager	5.0 AUD
QSuper	Brisbane	Superannuation Scheme	4.7 AUD
AustralianSuper	Melbourne	Superannuation Scheme	3.3 AUD

NOTABLE AUSTRALIA- AND NEW ZEALAND-BASED PRIVATE EQUITY-BACKED BUYOUT AND VENTURE CAPITAL DEALS COMPLETED SINCE 2015

GE Capital's Australia and New Zealand Consumer Lending Business

BUYOUT - FINANCIAL SERVICES

GE Capital's Australia and New Zealand Consumer Lending Business specializes in offering a range of services and products including personal loans, credit cards and interest-free retail finance. In March 2015, a consortium consisting of KKR, Varde Partners and Deutsche Bank agreed to acquire GE Capital's Australia and New Zealand Consumer Lending Business for A$8.2bn. The transaction was completed in November 2015.

Quadrant Energy

BUYOUT - OIL & GAS

Quadrant Energy is based in Perth and participates in the acquisition, exploration, field development and production of crude oil, condensates and natural gas. In April 2015, Brookfield Asset Management and Macquarie Capital entered into an agreement to acquire Quadrant Energy, then known as Apache Energy Limited, for US$2.1bn. The deal was completed in June 2015.

Saluda Medical Pty Ltd

VENTURE CAPITAL - INTERNET

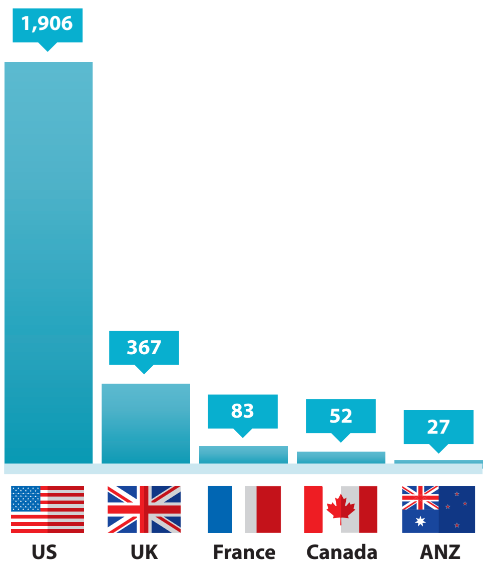
Established in 2011 and based in Sydney, Saluda Medical Pty. Ltd. operates as a medical device company. In May 2017, new investor Action Potential Venture Capital led a A$53mn Series D funding for Saluda Medical Pty Ltd.

8i.com

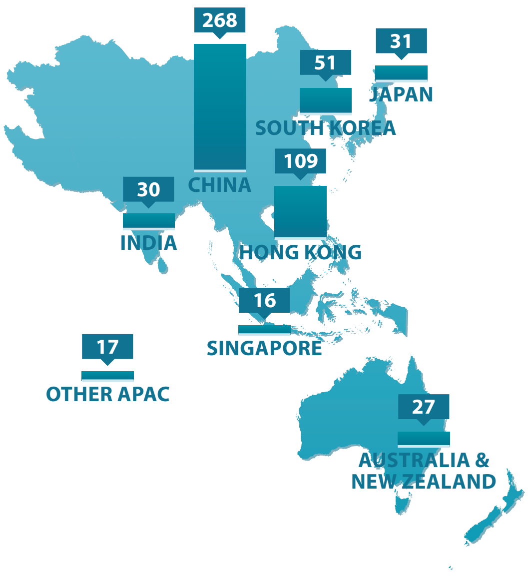
VENTURE CAPITAL - TELECOMS

Founded in 2014 and based in Wellington, 8i.com operates as a consumer media platform that creates and shares 3D video for virtual reality, augmented reality and the web. In November 2016, new investor Time Warner Investments led a US$27mn Series B financing for 8i.com, with participation from other new investors.

PRIVATE EQUITY & VENTURE CAPITAL INDUSTRY ASSETS UNDER MANAGEMENT (A$bn): AUSTRALIA AND NEW ZEALAND vs. MAJOR MARKETS



ASIA-PACIFIC-BASED PRIVATE EQUITY & VENTURE CAPITAL INDUSTRY ASSETS UNDER MANAGEMENT (A$bn)



GENESIS OF A NEW GLOBALLY FOCUSED AUSTRALIAN VENTURE CAPITAL INDUSTRY

- Michelle Deaker, **OneVentures**

How have market conditions in Australia changed over recent years and how has OneVentures adapted to this changing market environment?
OneVentures launched its first fund in 2010. Along with Quadrant Private Equity, we were the only venture capital/private equity firm to raise a fund during the Global Financial Crisis (GFC). At the time, investment in venture capital virtually dried up with investors seeking liquidity and in many cases going to cash. It was a good time to have capital and we had our pick of early-stage investments.

The interesting thing is, though, that out of adversity for a sector, innovation can flourish and with the demise of venture capital over many years, we saw the birth of incubators, accelerators and a push from state and federal governments to encourage investment. Since 2010, we have seen deal flow per annum more than double, a significant increase in more sophisticated opportunities, the advent of cloud (which has enabled young Australian SaaS companies to launch global operations), infrastructure costs have substantially reduced and the government is funding 43c per A$1 of research and development (R&D) spend. For venture capitalists, this is a great form of non-dilutive financing. This increased activity and focus pushed up valuations with late 2014 and 2015 seeing the early-stage market, particularly in software-related businesses, become very frothy. OneVentures consequently decided to move into later-stage venture capital opportunities where valuations were more realistic.

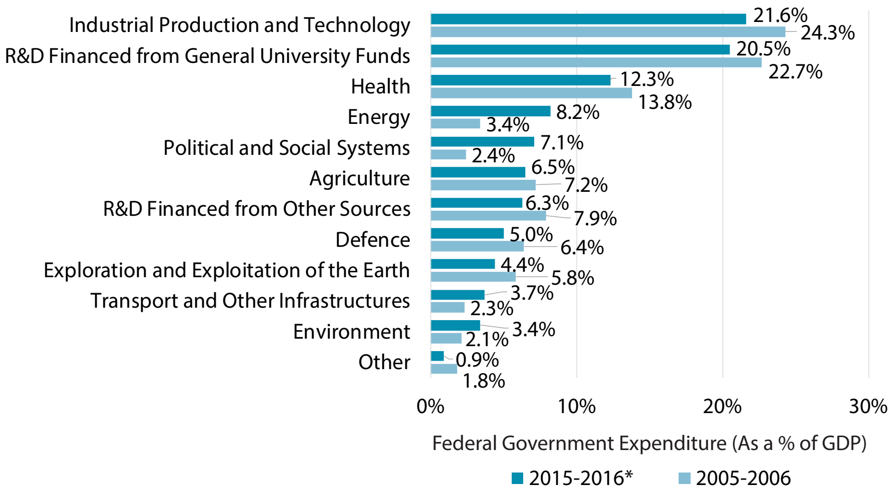
How have you changed/adapted your fundraising efforts for each of your three funds?
All our funds have focused on businesses tackling large global problems through technology. When we launched our first fund, we went early stage using the tax advantage structure of an early-stage venture capital limited partnership. In Australia, distributions from portfolio companies within this fund structure are tax free on income and capital account for investors. There was a dearth of capital in the market and early-stage valuations were highly attractive.

By the stage of our second fund, the early-stage market was a lot more buoyant and valuations at the early stage appeared frothy at best. Several new funds had raised capital and started placing seed and Series A capital; some government-related incentives and investors looking for growth in an otherwise sluggish capital market had moved into early-stage investing, often with an unsophisticated approach, willing to pay high prices with ordinary share classes. This was particularly prevalent in software-related opportunities. Therefore, at the end of 2014, we launched a later-stage Series B- and C-focused fund, which also appealed to investors with low risk appetite or those seeking diversification in their alternative asset allocation.

Our third fund tapped into the strong growth thematic of healthcare and focuses on diagnostics, therapeutics (in clinic) and medical devices. We are probably the most experienced fund manager in this sector for later-stage opportunities. We raised this fund within four months and were oversubscribed.

Do you feel there is more competition among fund managers for investor capital?
I think there is increased competition if you look at standard venture capital tech funds doing your usual Series A, and this is more pronounced in software-related fields than the more specialized areas such as healthcare/life sciences. OneVentures are business builders and our team has strong operational and technical experience, so the way we approach competition in the market is to continuously be innovating ourselves for our investors. What we consider when raising a fund is: (1) where are the opportunities in the market that we see at the time that differentiates us; and (2) what of our skills and experience differentiates us. We have certainly been

Fig. 1: Where the Money is Spent: Federal Government Expenditure (As a % of GDP) by Socioeconomic Objective



Source: www.industry.gov.au – Science, Research and Innovation Budget Tables

**Budget estimate.*

able to differentiate our investment thesis by a broader remit of investments given our wealth of highly technical experience combined with business execution within the firm.

With more competition for transactions, has the focus shifted from deal quality to deal quantity?
Our role is to ensure we see the best deals and invest in those deals for our investors. Maintaining a positive profile is critical for this but we also believe that results count.

Focusing on quality and technically more challenging opportunities where we use our expertise to drive the portfolio company through progressive value inflection points is our competitive advantage and drives high return profiles for our investors. We have focused portfolios and work hard to create value and growth.

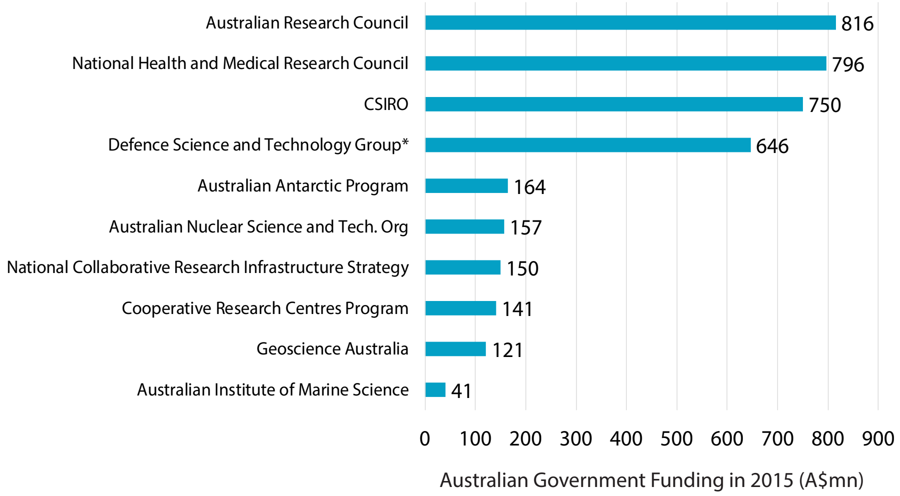
Have recent policy initiatives such as the National Innovation and Science Agenda helped with deal flow? Are any domestic industries particularly exciting?
The policy agenda has certainly helped market sentiment, encouraged researchers to consider commercialization pathways (patent versus publish) and universities to introduce more entrepreneurial frameworks (education and incubators) and industry engagement, and unlocked funding for venture capital managers.

OneVentures has benefitted from the recent Biomedical Translation Fund where the Australian Federal Government awarded three managers through a global tender A$250mn of capital to be matched by private investors. OneVentures placed a bid for A$100mn and received A$85mn, launching a A$170mn fund. The advantage for our investors is a 10% tax rebate on capital drawn and placed into investments, distributions from investments being tax free on income and capital account and 10% of the government profit in the fund gets paid to private investors (a 40:60 split versus a 50:50 split).

Exciting areas where Australia really does have strong domain knowledge and core competencies include quantum computing (world leader), network security and defence, machine learning and AI (top five globally), fintech, cloud computing, agtech and healthcare/life sciences research. Fig. 1 shows where Australia's R&D spend is directed.

Importantly the National Health and Medical Research Organisation receives the second highest funding of any organization and shows the importance placed on medical research in Australia. The CSIRO is our leading scientific research organization and is home to Data61. Data61 is the result of a merger between National ICT Australia (NICTA) and CSIRO's digital research unit, creating one of the largest digital research teams in the world and, outside the Department of Defence, Australia's leading capability in cyber security research. Data61 is in the top five in the world in machine learning research and development.

Fig. 2: Funding Our Major Scientific Institutions: Australian Government Funding to Key Research and Development Organizations in 2015



Source: www.industry.gov.au – Science, Research and Innovation Budget Tables

**Previously known as Defence Science and Technology Organisation (DSTO).*

Some firms feel that quality deals are few and far between in Asia. Does OneVentures share the same sentiment and can the same be said for the Australian markets?
Australia invests heavily in R&D and has a long history of doing so. Even though several Asian nations are moving strongly up the global innovation index, it can take 15 years of research-intensive activity to generate critical mass and significant core domain expertise around a world-leading sector or innovation. We do see "copycat" deal flow that any venture capital firm would see among 1,000 approaches a year; however, the depth of innovation in Australia generates high-quality opportunities with world-leading researchers in their fields, and importantly, globally relevant technology.

ONEVENTURES
OneVentures is an Australian venture capital firm with $320mn under management. The firm launched its first fund in 2010 and currently has three main funds, two of which are actively investing. The OneVentures Team utilises its strengths in business building to accelerate portfolio company performance. The Team has delivered exit value to investors of $1.5bn including 4 nasdaq companies. A global growth focus drives investment selection with portfolio companies addressing multi-billion dollar problems, from breakthroughs in healthcare (e.g. needle free vaccine delivery) through to the transformation of online education (e.g. next generation courseware and personalised learning) and the connected world (IoT, SaaS and virtual reality).

www.one-ventures.com

ASSETS UNDER MANAGEMENT AND DRY POWDER

The private equity & venture capital market in Australia and New Zealand has been steadily increasing in size in recent years; total industry AUM now stands at A$27bn as at September 2016 (Fig. 2.1). The industry is larger than that of Singapore, but smaller than those of more established markets in the Asia-Pacific region such as China and Japan. Unsurprisingly, within the private equity & venture capital market in Australia and New Zealand, the former dominates, with just 5% of assets held by managers located in New Zealand.

AUSTRALIA AND NEW ZEALAND INDUSTRY ASSETS UNDER MANAGEMENT (A$bn)

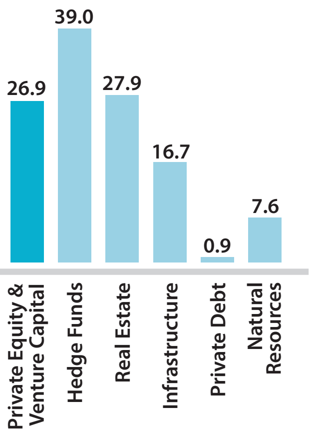
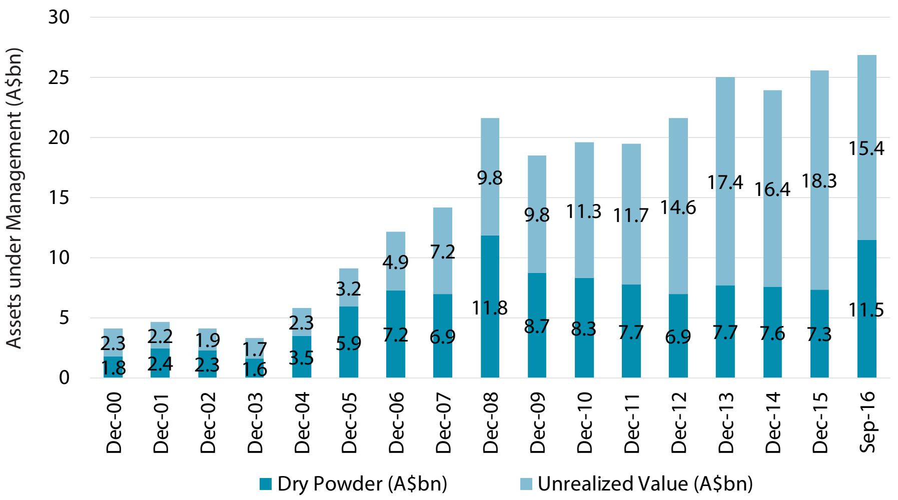


Fig. 2.1: Australia- and New Zealand-Based Private Equity & Venture Capital Assets under Management, 2000 - 2016 (As at September 2016)



Source: Preqin Private Equity Online

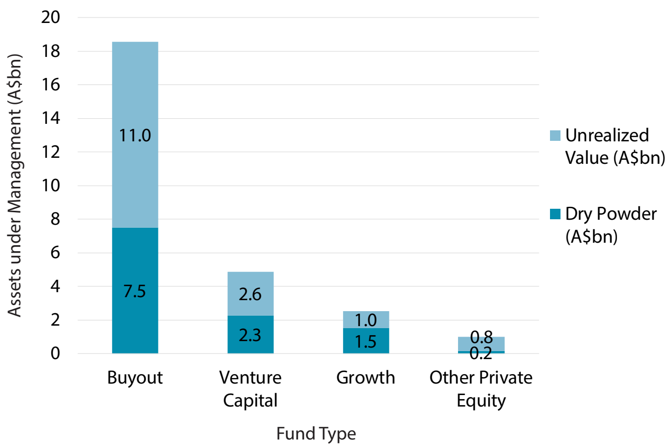
ASSETS UNDER MANAGEMENT

Australia- and New Zealand-based private equity & venture capital AUM, despite witnessing a slight dip in 2014, has increased by 37% since 2010. While the number of investors active in other alternative asset classes has increased in recent years, LPs continue to allocate to the established private equity & venture capital asset class. The A$12bn in dry powder held by Australia- and New Zealand-based fund managers is a post-crisis record, and only 3% behind the 2008 figure.

STRATEGIES

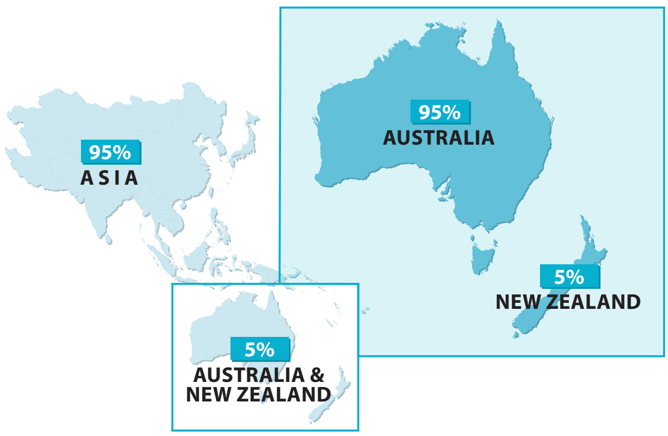
Buyout funds account for the greatest proportion (69%) of industry assets in the private equity & venture capital market in Australia and New Zealand (Fig. 2.2). Venture capital funds account for A$4.9bn in AUM, substantially less than buyout funds (A$19bn), which is perhaps expected given that the industry in Australia and New Zealand is more developed than other regions in Asia-Pacific.

Fig. 2.2: Australia- and New Zealand-Based Private Equity & Venture Capital Assets under Management by Fund Type (As at September 2016)



Source: Preqin Private Equity Online

Fig. 2.3: Asia-Pacific-Based Private Equity & Venture Capital Industry Assets



Source: Preqin Private Equity Online

FINDING GREATER ALPHA: INVESTING IN PRIVATE EQUITY

- Jenny Newmarch, **First State Super**

Sentiment for the private equity industry has been more positive than ever, with 84% of institutional investors surveyed at the end of 2016 reported to have a positive perception of private equity, and the greatest proportion among alternative asset classes. In your opinion, why the attraction?

Returns to private equity have been strong and consistent for the last eight years, so it is not surprising that investors are feeling good about the asset class. From pooled return data that I have seen, a typical globally weighted private equity program with median returns would have comfortably outperformed the public market equivalent by 3-5% over the last five years. However, it is not lost on LPs that we are in a hot market – valuations, leverage and dry powder are at all-time highs for the key US and European buyout markets, and getting up there in Asia.

A number of research houses are sharing analysis which they believe shows private equity's outperformance of public markets over the last decade is not repeatable because the illiquidity premium is no longer available. Personally, I have always believed that investors should not invest in private equity because of how they think the market overall will behave, or because of the elusive 'illiquidity' premium, but because of the ability to find greater alpha through strategy and sponsor selection and thematic investing.

Of course, all LPs believe they are picking the best managers – a friend quoted to me the other day a survey in which "80% of LPs reported top-quartile returns" – and that probably explains the ongoing optimism. First State Super has a reasonably concentrated portfolio of private equity funds and so whatever we believe about the market as whole will be outweighed by the specific manager/execution risk in our program. However, we have reduced allocations to private equity for 2017/2018 as we do not think it will be the strongest vintage, and where we have deployed capital we have tried to be pretty opportunistic.

How does First State Super utilize the private equity asset class to successfully achieve its portfolio objectives?

The private equity program at First State Super is relatively young, having started in 2013. We are building towards a target of 7% of the Fund being allocated to private equity, and we are about two-thirds of the way there. The objective of the program is to outperform the public markets by at least 5% over the medium to long term, which is among the highest return target of all our asset class programs.

While we are not necessarily pinning ourselves to the lower-for-longer camp, we appreciate the increasing importance of alpha that is likely over the next decade. Despite being young, we have been able to capitalize on some unique opportunities that mean we have not seen a J-curve and are already close to achieving the medium-term return objective.

In terms of private equity strategies, regions or industries, where does First State Super see the best opportunities in the next 12 months? How will First State Super look to capitalize on these opportunities?

We see interesting opportunities in all regions so with our opportunistic approach we are not targeting specific markets or strategies. We have committed a fair amount to Australia in recent years so from a primary fund perspective we will be more focused on pockets of the US, Europe and Asia.

An overriding focus is to be a little cautious and to find opportunities that might perform well in a period of dislocation, which is easier said than done. A lot of funds are being raised to capitalize on an expected credit market dislocation, particularly in the US, but in my experience a year too early or too late can produce underwhelming performance and those credit dynamics have been around for a few years now.

How does private equity investing in the Australia/New Zealand market differ from investing in other regions such as Asia, Europe and North America?

The breadth of strategies in Australia/New Zealand is narrower than other markets – the large majority of managers are generalist buyout funds that differentiate more on size or deal origination than on strategy or style. Having said that, the market as a whole has performed well despite reasonable levels of competition, and the more successful managers have done a good job of developing unique deal flow or thematic-led investing.

Over the last five years there has been a reasonable amount of turnover in the Australian GP universe, with some long-established funds pulling up stumps and a number of new managers emerging, so it is an interesting time to be evaluating the market. The venture capital market in Australia has also had a re-emergence in the last few years and I think it is an interesting space to watch.

What would you say will be key challenges facing Australia- and New Zealand-based institutional investors investing in private equity over the next 12 months and over the longer term?

I think high valuations and the ever-increasing share of private-equity-backed companies on the total economy are challenges for all investors globally, at least in the short term. For Australian and New Zealand investors, in particular, I would say we have a couple of unique challenges over the longer term:

a) The regulatory focus on fees, and the competitive nature of Australian superannuation funds, makes it increasingly hard to argue for a meaningful allocation to private equity. These have already caused some investors to pull out of the market. Australian institutions have

a good track record at moving into and out of the asset class at the wrong times for regulatory reasons.
b) Being so far away from the rest of the world also has its challenges for a global program. We probably need to rely a lot more on agents and advisors in the bigger markets and it is harder to build relationships directly. While there is nothing wrong with using advisors (and we have a great one), the closer that investment teams can be to the activity source, the better investors they are likely to be over the long run.

To what extent to you take ESG factors into account with making commitments to private equity? Do you subscribe to any ESG policies? How important are ESG policies to you when making commitments?
Integrating ESG into our investment decision-making process has been a key focus for the Fund. We became a signatory to the UNPRI in 2008 and have developed a proprietary ESG policy and integration framework for all our investments including private equity. ESG risk assessment is an important consideration of everything we do. We are fortunate to have a dedicated ESG team who take a very commercial approach to risk assessment. We are not looking to tick boxes, rather we are looking for insights into how the manager thinks and how they engage with companies and create sustainable long-term value. We are also developing an impact investment platform that is focused on looking for attractive investment opportunities that have a positive social or environmental impact.

FIRST STATE SUPER
Jenny Newmarch is a Portfolio Manager at First State Super, managing the fund's Private Equity program through select funds, co-investments and direct investments. Jenny has worked in the investment industry for 13 years. First State Super is one of Australia's largest profit-for-member superannuation funds, with over $84bn of assets under management. The fund has around 770,000 members, the majority of whom work in education, health and service based vocations, including law enforcement, emergency services and other organisations that care for the community.

www.firststatesuper.com.au

FUNDRAISING

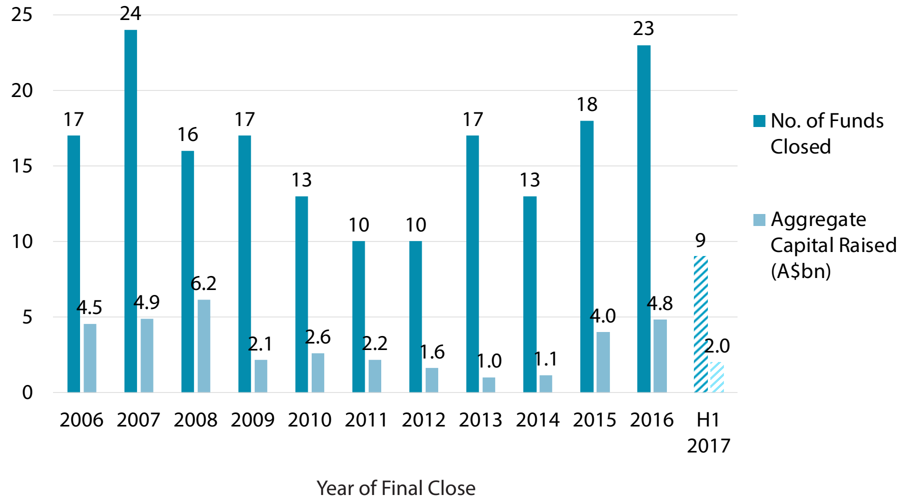
Private equity fundraising activity of Australia- and New Zealand-based managers has risen in recent years. In 2016, A$4.8bn was raised by 23 funds, the largest amount of capital secured since 2008 (Fig. 2.4). With nine funds securing A$2.0bn so far this year (as at June), 2017 could represent the fourth successive annual increase in aggregate capital secured by Australia- and New Zealand-based private equity & venture capital fund managers.

This growth can be partly attributed to greater numbers of larger funds entering the market, with three-quarters of funds closed in 2017 so far securing over A$100mn, compared with 53% of funds closed in 2016 and 35% in 2015.

STRATEGIES

Since 2012, buyout funds have secured more capital (A$8.8bn) than all other fund types combined (A$5.8bn), despite venture capital representing the greatest number (36) of fund closures (Fig. 2.5). The largest fund closed in H1 2017 was Sydney-based CHAMP Buyout IV, which held a final close in May 2017 securing A$735mn to invest in mid-market companies.

Fig. 2.4: Annual Australia- and New Zealand-Based Private Equity & Venture Capital Fundraising, 2006 - H1 2017



Source: Preqin Private Equity Online

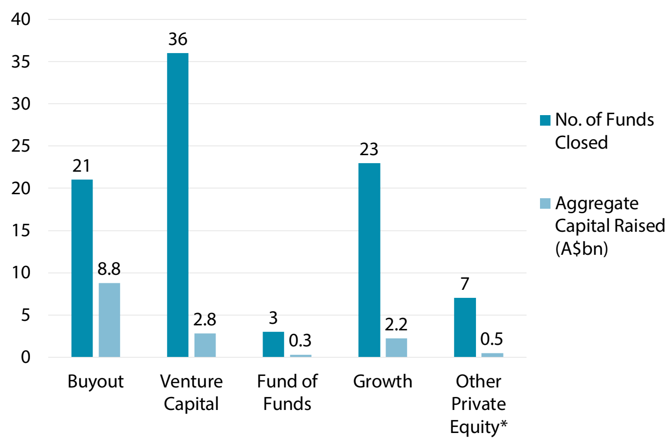
FUNDS IN MARKET

Twenty-six Australia- and New Zealand-based funds are currently in market, the highest number at this point in the year in the period since 2012 (Fig. 2.6). However, these funds are targeting an aggregate A$3.7bn, the lowest amount over the same timeframe, suggesting target sizes have generally decreased.

FUND PROFILE

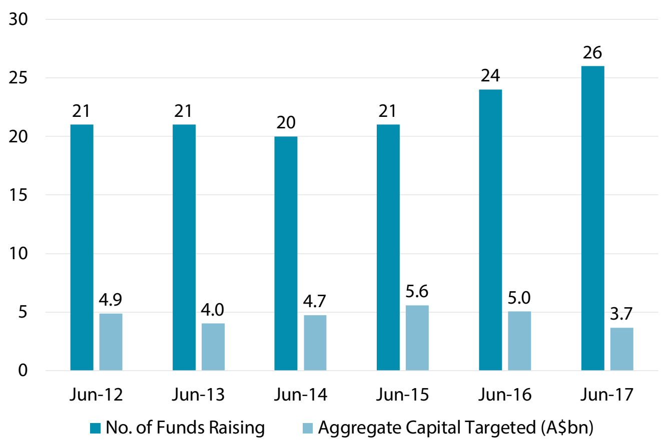
Fund: CHAMP Buyout IV
Manager: CHAMP Private Equity
Final Size: AUD 735mn
Close Date: May-17
Strategy: Targets mid-market companies with enterprise values between A$150mn and A$750mn, mainly in Australia and New Zealand and opportunistically in Malaysia and Singapore.

Fig. 2.5: Australia- and New Zealand-Based Private Equity & Venture Capital Fundraising by Fund Type, 2012 - H1 2017



Source: Preqin Private Equity Online

Fig. 2.6: Australia- and New Zealand-Based Private Equity & Venture Capital Funds in Market over Time, 2012 - 2017



Source: Preqin Private Equity Online

**Other Private Equity includes Balanced, Co-Investment, Direct Secondaries and Turnaround funds.*

NEW ZEALAND MARKET UPDATE
- Colin McKinnon, **NZVCA**

THE NEW ZEALAND ECONOMY

New Zealand is a small, open economy with strong trade relationships across the Asian region. Gross domestic product in 2016 was estimated to be US$248bn (current dollars), diversified across the services sector, manufacturing (in particular, light manufacturing), transport and communication, construction, the primary sector (agriculture, forestry and fishing) and healthcare. Economic activity is concentrated in Auckland (approximately 35% of gross domestic product), Wellington and Canterbury.

Political and legal institutions are well established, open and transparent. The economy is dominated by small and mid-sized private companies and internationally focused, with international trade comprising an important part of gross domestic product. While capital markets are relatively small, there is a robust private capital market.

The economic, legal and social environment in New Zealand provides strong preconditions for private equity investment. New Zealand is ranked the eighth most attractive market for private equity globally (out of 125 countries), comparable to European markets such as Germany, Switzerland, Denmark and Norway[1]. Furthermore, New Zealand's private equity and venture capital market's attractiveness ranking has strengthened over the last 10 years.

The private company sector plays an important role in the economy. Indeed, the business sector is largely comprised of unlisted companies. The New Zealand domestic stock market capitalization is below 50% of gross domestic product, while other developed economies have experienced significant growth in public equity markets since the 1990s.

The New Zealand economy provides attractive investment opportunities for private equity. Small and mid-sized enterprises are important players in many sectors of the economy. Many of these companies were established in the second half of the 20th century and are now facing succession issues, or are positioned for expansion into adjacent markets in Australia and Asia. The most efficient way (typically) for an institutional investor to invest in these private equity opportunities is through local private equity fund managers.

PRIVATE EQUITY AND VENTURE CAPITAL ACTIVITY

Total investment activity in 2016 exceeded NZ$1bn, a benchmark last seen in 2007. Private equity (PE) investment excluding venture capital (VC) reached NZ$1,106.4mn. Total investment and divestment activity by PE of NZ$1,464.7mn matched peaks experienced in 2007 and 2011[2].

The venture and early stage total investment of NZ$92.3mn was notable for some larger investments by domestic and international venture firms. The advent of new funds in recent years has enriched the venture and early stage market with new platforms including public and corporate investors. International investment in technology companies has also been more evident.

Initial public offerings by New Zealand King Salmon (Direct Capital) and Tegel Foods (Affinity Equity Partners) were significant transactions during the 2016 year. Secondary sales have continued as Australian and international funds seek New Zealand growth assets.

Fundraising activity reached a new milestone with New Zealand funds raising in excess of NZ$1bn of new capital as investors returned to support funds across the spectrum from small VC to large mid-market.

FUNDRAISING

Over the last 15 years, the number of funds raised has been relatively evenly distributed between PE and VC firms, although PE funds have been more successful at raising multiple funds[3]. Indeed, the three most active PE firms have raised four PE funds (on average), and have almost 20 years' investment experience. Institutional investment in the VC market has received strong government-private sector support through the New Zealand Venture Investment Fund program.

Most of the capital raising in 2016 was for mid-market funds. There remains a gap in the market for more Series A/B funds managed by teams with the particular skillset to execute in this challenging and high-risk environment. The evidence of recent years is that this gap is being slowly addressed as experienced entrepreneurs return to New Zealand and share their experience and connections.

In addition to institutional VC investment activity, start-up and early stage companies raise finance from an active angel investor market comprising around NZ$69mn in 2016[4].

PE investment activity is predominantly in small and mid-sized companies with enterprise values less than NZ$150mn. Analysis of investment activity by enterprise size (by number and value) shows that small and mid-sized transactions are at least 90% of all deals by number and at least 75% by value (excluding the two years 2006 and 2007).

[1]Groh, A., Liechtenstein, H., Lieser, K. and Biesinger, M. (2016) The Venture Capital and Private Equity Country Attractiveness Index 2016, IESE Business School, University of Navarra.
[2]NZVCA & EY (2017) New Zealand Private Equity and Venture Capital Monitor 2017
[3]NZVCA & Continuity Capital Partners (2017), New Zealand Private Equity Market, an Overview for Institutional Investors
[4]For further details, see Startup. Young Company Finance Report (various issues).

FUND MANAGERS

The New Zealand PE and VC market is serviced by approximately 15 local fund managers. In addition, Australian and larger regional/global firms are opportunistic investors with a focus on larger market capitalization businesses.

Large cap PE transactions are more likely to be completed by non-New Zealand PE fund managers – typically from Australia. However, such transactions are relatively uncommon.

Institutional investors can draw upon several recent studies to assess the performance characteristics of New Zealand PE. These studies show that realized PE returns to New Zealand transactions are attractive. A Cambridge Associates study of 131 PE investments in New Zealand since 2000 found that median (average) returns to New Zealand PE deals were 22.0% per annum (33.7% per annum), with aggregate return on investment of 2.1 times cost[5].

OUTLOOK

The outlook for the New Zealand PE and VC market remains mixed. VCs continue to be concerned about the availability of further growth capital and liquidity for existing investments. PE fund managers are positive but cautious about the impact on pricing of the recent high level of fundraising and growth in demand for a limited pool of assets.

NEW ZEALAND PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION (NZVCA)

The NZVCA is the voice of New Zealand private growth capital. NZVCA fosters the opportunities of growth capital for Owners, Founders and Investors in New Zealand. Our activity nurtures the venture capital and private equity ecosystem through advocacy, networking and professionalism in investment. Members include venture capital and private equity investors, financial organisations, professional advisors, academic organisations and government or quasi-government agencies.

www.nzvca.co.nz

[5] *Cambridge Associates (2016)*

DEALS AND EXITS

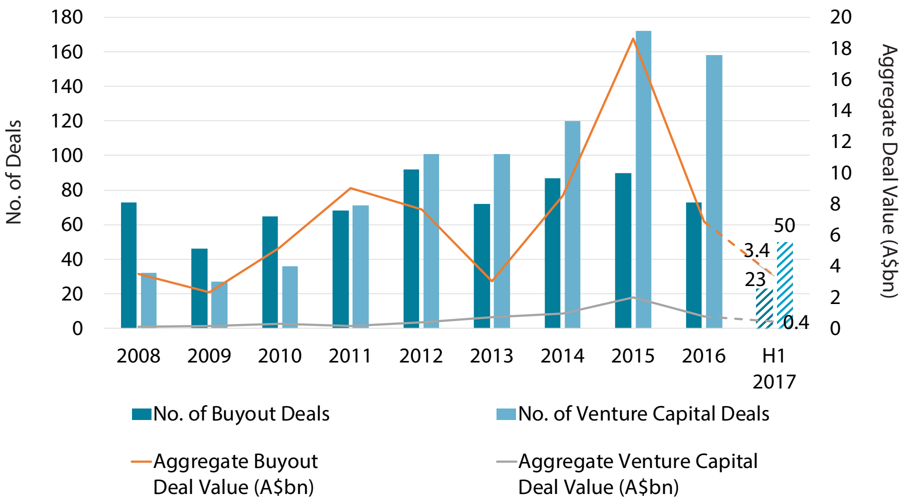
BUYOUT DEALS AND EXITS

Since 2008 there have been 689 private equity-backed buyout deals completed in Australia and New Zealand, worth an aggregate A$68bn (Fig. 2.7). These deals represent 18% of the number and 16% of the aggregate value of all Asia-Pacific-based private equity-backed buyout deals completed over the same time period. Deal activity has generally increased since 2009, reaching a peak in 2015 in which General Electric, Co. divested large portions of its GE Capital business to private equity firms (as seen on page 19).

The largest proportion (22%) of buyout deals completed since 2012 are in the industrials sector; however, the proportion of aggregate deal value this sector represents has decreased, indicating more lower-value deals (Fig. 2.8). Conversely, the IT sector's total share of the number of deals and deal value has increased, indicating a shift in the industries targeted in Australia and New Zealand over the past six years.

Historically, IPOs and trade sales have accounted for the majority of exits in Australia and New Zealand; however, driven by Chow Tai Fook Enterprises' A$4bn acquisition of Alinta Energy in March 2017, the proportion represented by trade sales in 2017 has significantly increased.

Fig. 2.7: Private Equity-Backed Buyout and Venture Capital Deals* in Australia and New Zealand, 2008 - H1 2017



Source: Preqin Private Equity Online

VENTURE CAPITAL FINANCINGS

There have been 868 Australia- and New Zealand-based venture capital financings since 2008 for an aggregate A$6.0bn (Fig. 2.7). Unsurprisingly, the IT industry dominates the venture capital deal landscape. Internet and software sectors account for the vast majority of transactions; both sectors have completed similar numbers of deals over the past six years, though values have greatly fluctuated (Fig. 2.9). Away from IT, the healthcare sector's share of aggregate deal value has grown in recent years to 23% of total H1 2017 deal value.

IPOs AND TRADE SALES AS A PROPORTION OF TOTAL BUYOUT EXITS IN AUSTRALIA AND NEW ZEALAND

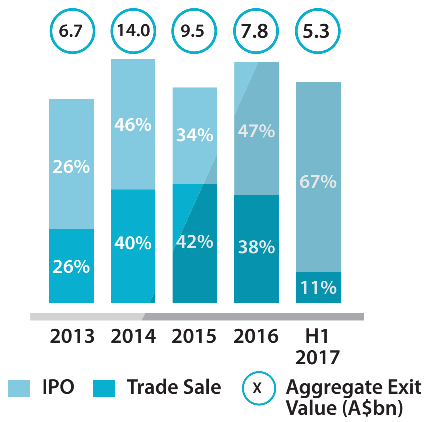
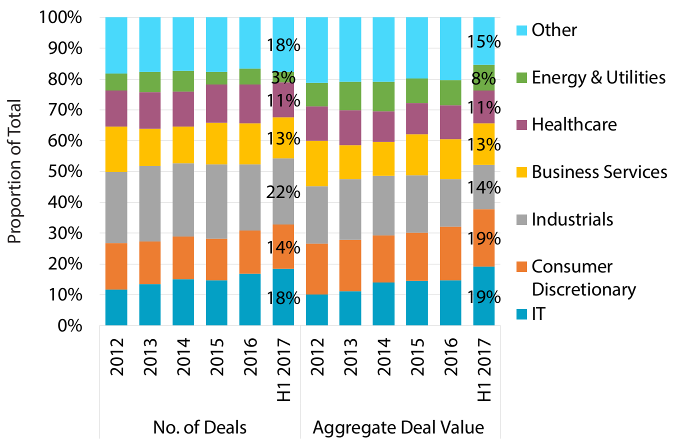
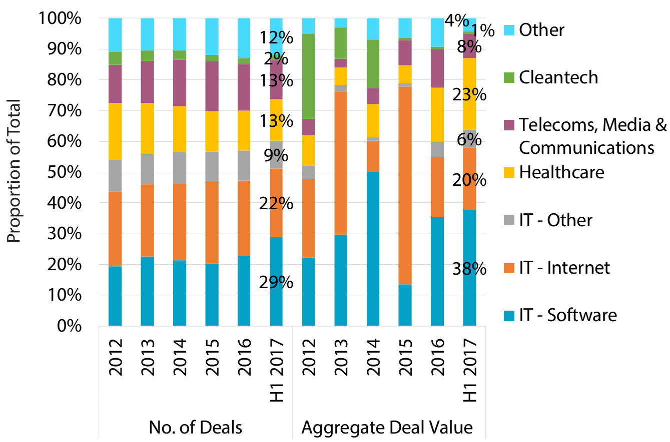


Fig. 2.8: Private Equity-Backed Buyout Deals in Australia and New Zealand by Industry, 2012 - H1 2017



Source: Preqin Private Equity Online

Fig. 2.9: Venture Capital Deals* in Australia and New Zealand by Industry, 2012 - H1 2017



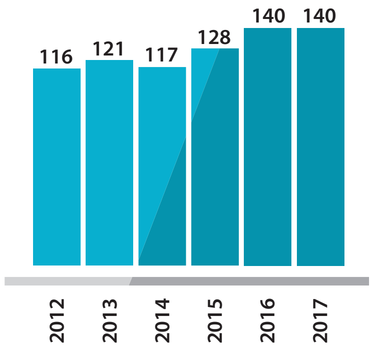
Source: Preqin Private Equity Online

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

INVESTORS

There are 140 active private equity & venture capital investors based in Australia and New Zealand, 20% more than in 2014. Superannuation schemes account for almost half (49%) of the investor base in Australia and New Zealand, while corporate investors form the greatest proportion (27%) of investors located in other Asia-Pacific countries (Fig. 2.11).

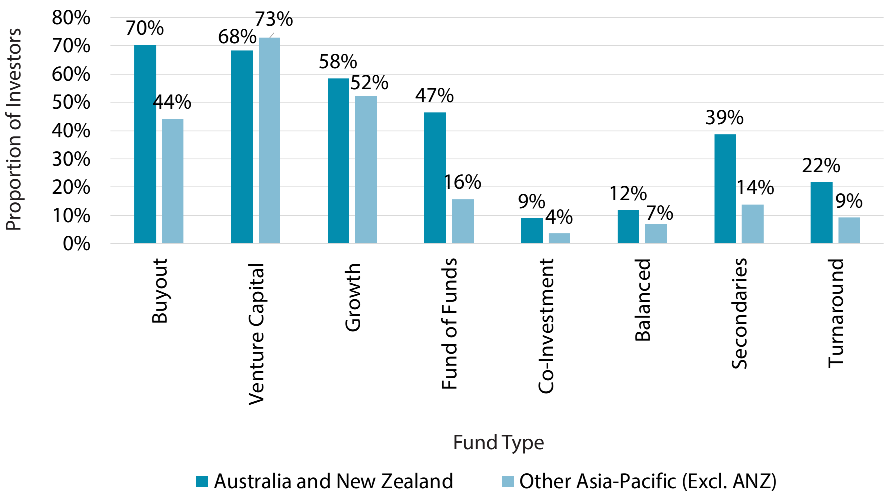
NO. OF ACTIVE AUSTRALIA- AND NEW ZEALAND-BASED PRIVATE EQUITY & VENTURE CAPITAL INVESTORS



STRATEGIES

Buyout and venture capital strategies are the most sought after by Australia- and New Zealand-based investors (Fig. 2.10). A significant proportion (47%) of investors located in Australia and New Zealand have indicated a preference for investing in multi-manager vehicles, considerably greater than the corresponding figure in surrounding countries (16%).

Fig. 2.10: Fund Type Preferences of Private Equity & Venture Capital Investors by Location



Source: Preqin Private Equity Online

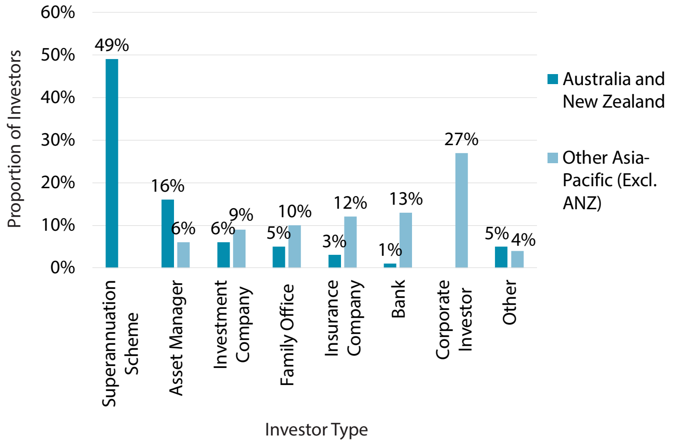
ALTERNATIVE STRUCTURES

The appetite of Australia- and New Zealand-based investors for alternative structures is mixed: exactly half actively invest via co-investments, but just 43% seek separate account opportunities. Elsewhere in Asia-Pacific, separate accounts are targeted by 58% of investors, and co-investments (57%) are also more prominent.

ALLOCATIONS

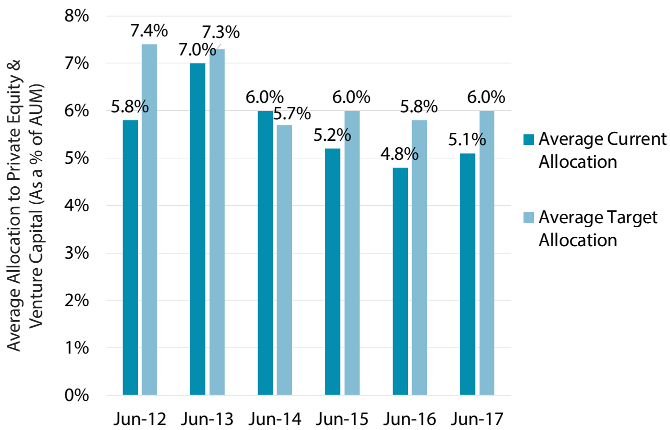
Both current and target allocations to private equity of Australia- and New Zealand-based LPs have fallen since 2013, and stand at 5.1% and 6.0% of total assets respectively (Fig. 2.12); this may be attributed to an increase in newcomers to the asset class, which generally allocate smaller proportions of their total assets. The majority (62%) of Australia- and New Zealand-based investors allocate over A$100mn to the asset class, with one-fifth allocating A$1bn or more.

Fig. 2.11: Private Equity & Venture Capital Investors by Type and Location



Source: Preqin Private Equity Online

Fig. 2.12: Australia- and New Zealand-Based Investors' Average Current and Target Allocations to Private Equity & Venture Capital, 2012 - 2017



Source: Preqin Private Equity Online

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SECTION THREE: HEDGE FUNDS

Q&A - RAISING ASSETS IN ALTERNATIVES

- Uwe Fuehrer, **Wealth of Nations Advisors**

Which strategies are gaining popularity in Australia right now, and how has the demand in different strategies differed over time? For example, cryptocurrency/ Artificial Intelligence (AI) has been making waves recently; is there a market for such strategies across Australia?

We are not seeing any interest from institutional investors in cryptocurrencies or AI specifically, although both are gaining a lot of hype. At this stage, the risk profile is just too large and any strategy potentially too niche. With major cybersecurity scares just about every week, and Bitcoin being associated with money laundering on a huge scale, it is hard to convince investors that cryptocurrencies are safe. Perception is everything, but we would expect that to change over the next few years.

In terms of AI, it is a broad term and there are many quant funds already utilizing elements of what could be termed as artificial intelligence to drive investment decisions and generate potential trade ideas. Quite often, however, it is the portfolio manager that is still setting risk and return targets and potential time horizons, so human behaviour is still driving key elements. A lot of the inputs into AI that we have come across in the hedge fund universe also still build upon structured data – namely numeric data – which only constitutes around 15% of what we consider the big data universe. Eighty-five percent of big data is unstructured data, an area that really needs to be explored further as to its potential application within investment-orientated AI models. There are few managers as yet, if any, that have all trading decisions being driven by machines. There is no doubt that technology and AI will play a large part in driving efficiencies in asset management and provide differentiation among hedge funds strategies in the future.

How do your investors manage risk in such a volatile sector?

Most struggle to understand the risk, so to ask them how to manage it is putting the cart before the horse. If appetite for something like agriculture (a real asset and something that they have on their plate every day) is low among Australian institutional investors, cryptocurrencies are unlikely to be in demand in the short term.

What are the main challenges you foresee in the next 12 months?

That investors continue to remain underweight in alternatives, and hedge funds specifically, as they fail to embrace that global geopolitics have changed fundamentally and not just hit a bump in the road. The world is moving away from the old paradigm of 'globalization' to one of 'multi-polarization', where we have large blocks focused on personal agendas. The US, Russia (Eurasia – Russia and former Soviet Union states), China (with a tilt towards Southeast Asia) and Europe (Germany holding it together), where the 'it's-all-about-me' theme drives foreign policy and economics.

This splitting into defined blocks is unlikely to have a positive economic outcome as tariffs, taxes and currencies are likely to be used as tools to leverage growth at the margin. In this environment, hedge funds will capitalize, as they have done traditionally. Australian managers in particular have a good opportunity to raise assets as for one thing, they are being seen as a diversifier away from managers in regions more affected by geopolitics.

WoNA was formed in 2014; how have you seen the hedge fund sector in Australia evolve since this time?

There has been some growth in both macro and quant, two areas where we believe Australian managers have the potential to be able to compete against international players and where we expect to see further growth. Australia certainly has talent in the hedge fund space, which is being further supported by well-regarded, homegrown managers returning to Australia from overseas in recent years. In fact, we have seen numerous cases where domestic hedge funds find it easier to raise funds overseas, than they have been able to do so locally. As a firm for example, we are collaborating with Data61 CSIRO, the Australian Government's research and analytics powerhouse, where we are utilizing real option methodology along with machine learning to develop a dynamic asset allocation model for hedge funds and liquid alternatives.

What is your stand on investors putting pressure on fund managers regarding performance fees?

There are pricing pressures everywhere, not just in the fund industry, therefore it is understandable that there will be pressure on fees, especially if the manager has not been delivering results. The basic fundamentals of any business are to maximize return and minimise cost. In hedge funds, there has to be a balance and by and large that has been happening over the last few years as returns across asset classes have continued to drop. Managers are leveraging their talents and skills to develop strategies in formats and wrappers that are providing flexibility in pricing structure, which satisfies or gets close to what the larger Australian institutional investors require. At the end of the day, if you deliver the returns and as a manager have limited capacity in your strategy, it is about supply and demand and you still have the ability to charge what you want.

Hedge funds are not the only side of the equation when looking at fees. Some thought should be given to institutional portfolio managers. Given that 75 cents out of every super fund dollar in Australia is going to a default balanced fund, a massive cost level within super funds could be eradicated overnight through the use of robo-based platforms. Increasingly allocating to hedge funds and other alternative strategies requires a skillset that is not easily replicated with a robo platform.

What is your opinion about performance fees that are slowly shifting from the usual 2/20 management and performance fee structure?

Wholesale institutional investors are driven by relative performance against their peers. In my opinion, I would go so far as to say it is an obsession, and it is the Australian Government's efforts with My Super that have helped solidify that obsession. Unfortunately, this is already having unintended consequences where the focus is more on how much a strategy costs rather than what it has the potential to deliver in terms of returns on a risk-adjusted basis. We have seen, for example, an Australian asset consultant looking for a 'cheap macro' manager, which makes for an interesting conversation at times. There is a balance between the costs a manager can charge versus the returns he can deliver, but there is such a thing as a talent premium which will always be there. Institutions do also pay higher fees, but not to everyone and consideration is given to how that higher fee influences the overall management expense ratio. We are certainly getting closer to 1/15 as the norm among hedge funds rather than the historical 2/20.

When investing in hedge funds based out of Australia, are there any particular nuances investors offshore should be aware of?

There are no nuances I would say, but a great number of local strategies are focused on local equity markets. Investors are certainly well placed to exploit that expertise, but among large institutional managers there still exists the preference for large, globally focused managers rather than regional or local specialists. So it is good to see global macro managers for example starting to spring up.

Has the investor base changed in Australia in the last few years?

It keeps growing and will continue to grow. With Australia having the fourth largest superannuation market in the world it is appealing. One trend that is becoming apparent is that with the self-managed super market in excess of A$650bn and growing, a great number of former brokerage houses are trying to redefine themselves as wealth managers and with that comes a greater need for both education in alternatives and diversification in investment products for them to remain relevant to their clients. We are starting to see alternative platforms like DarcMatter, the US platform wanting to democratize alternative investing enter Australia, providing access for accredited investors and small institutions to hedge funds, private equity and venture capital managers that they would ordinarily find difficult to access. This is a trend we expect to see increasingly play out over the next few years.

How do you gauge expectations of future performance in a marketplace where strategies can be opaque and in some cases the only information you have is past performance?

Our experience is that while the market may appear opaque when taking a helicopter view on the sector, when you get to the granular level of directly engaging and reviewing managers you are provided with an incredible level of insight and transparency. At least that is what I can say from the hedge funds we represent. Investors tend to have a view or forecast of expected returns under certain market scenarios. They will identify which hedge fund strategies they expect will perform under those circumstances and then conduct a search – either through companies like ourselves, their asset consultants, or through the likes of Preqin. Returns are just the first level of screening before they get more granular, where future performance of the hedge fund strategy will be measured by reviewing past performance filtered by investor return forecasts and expectations.

WEALTH OF NATIONS ADVISORS

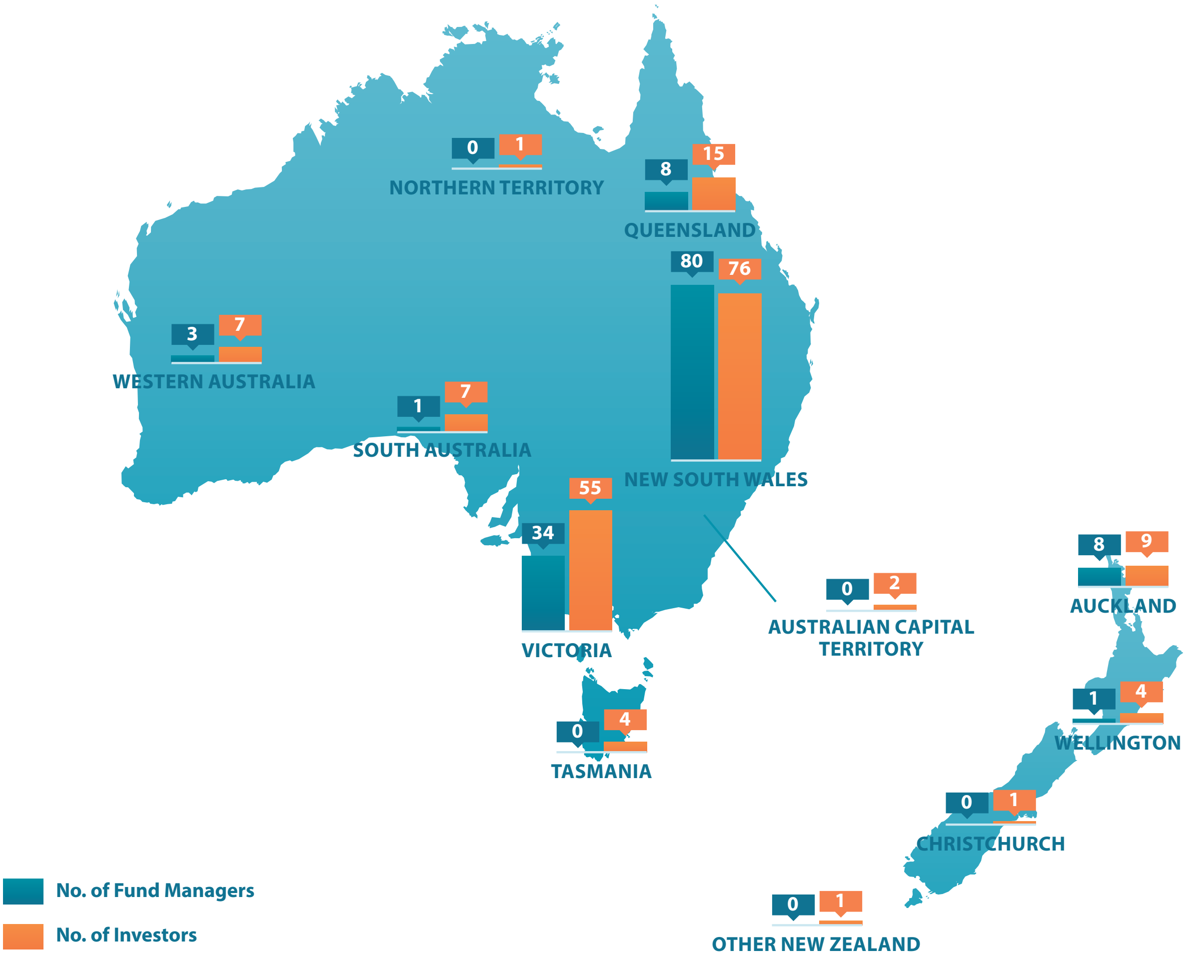
Wealth of Nations Advisors (WoNA) is a regulated financial services company based in Sydney. We specialize in raising assets for alternative investment management firms from wholesale institutional investors based in Australia and New Zealand as well as from sovereign wealth funds, reserve managers and select government agencies globally. WoNA's portfolio of clients collectively manage in excess of $260bn of assets across a range of alternative strategies and geographies.

Before establishing Wealth of Nations Advisors in 2014, Uwe Fuehrer has had a career that spans 30 years within the financial markets of New Zealand, the UK and Australia, having started his career in 1984 with the Reserve Bank of New Zealand, and subsequently working for Merrill Lynch, Calyon, Commerzbank, Citibank and State Street.

www.wealthofnations.com.au

KEY FACTS

AUSTRALIA- AND NEW ZEALAND-BASED FUND MANAGERS AND INSTITUTIONAL INVESTORS ACTIVE IN HEDGE FUNDS

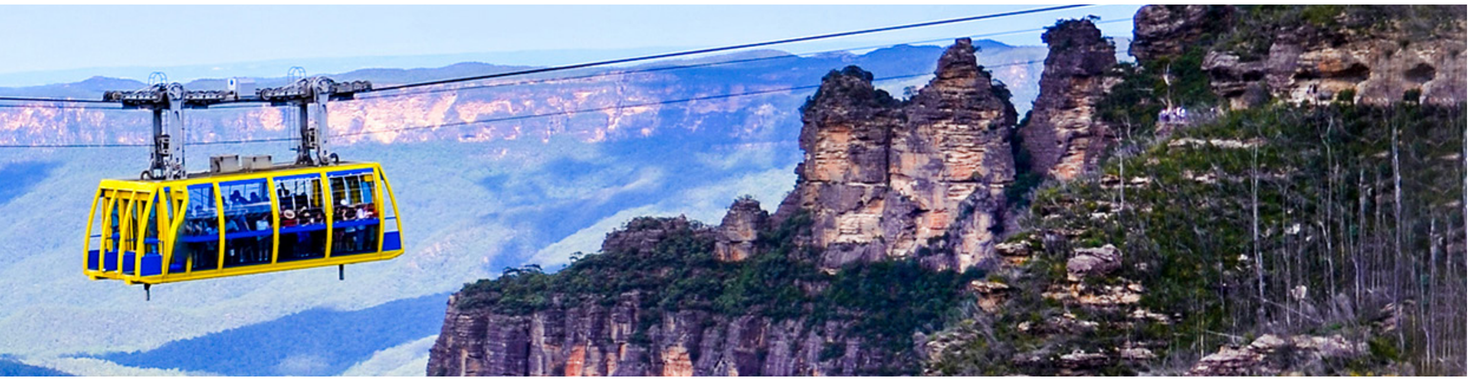


Largest Australia- and New Zealand-Based Hedge Fund Managers by Assets under Management

Firm	Location	Assets under Management (bn)
Platinum Asset Management	Sydney	22.9 AUD (As at 31-Mar-17)
Ellerston Capital	Sydney	5.2 AUD (As at 31-Mar-17)
Caledonia Investments	Sydney	3.0 AUD (As at 31-Oct-16)
Tribeca Investment Partners	Sydney	3.2 AUD (As at 31-Jul-16)
BlackRock Australia	Melbourne	2.1 AUD (As at 31-Mar-17)

Largest Australia- and New Zealand-Based Investors by Current Allocation to Hedge Funds

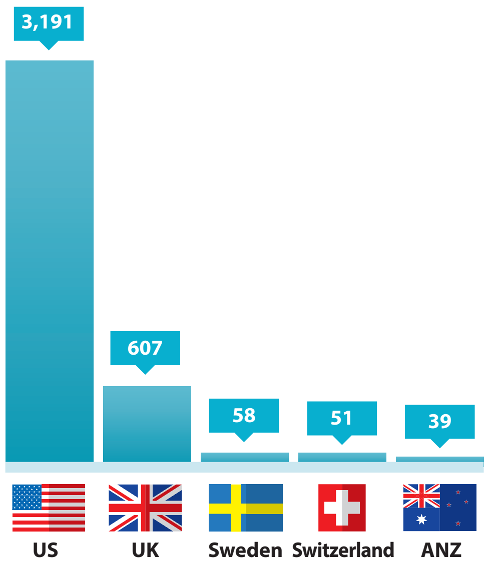
Investor	Location	Type	Current Allocation to HF (bn)
Future Fund	Melbourne	Sovereign Wealth Fund	14.6 AUD
Victorian Funds Management Corporation	Melbourne	Asset Manager	1.9 AUD
MLC	Sydney	Asset Manager	1.8 AUD
SunSuper	Sydney	Superannuation Scheme	1.5 AUD
Emergency Services & State Super	Melbourne	Superannuation Scheme	0.7 AUD



Sample Recent Australia-Based Hedge Fund Launches

Fund	Manager	Manager Location	Inception Date	Core Strategy
Antipodes Global Fund	Antipodes Partners	Sydney	Jul-15	Long/Short Equity
Karara Market Neutral Fund	Karara Capital	Melbourne	Aug-16	Equity Market Neutral
Lucerne Composite Fund	Lucerne Investment Partners	Melbourne	Jul-16	Multi-Strategy
Nivin Global Futures Program - Edge3	Nivin Investments	Sydney	Feb-16	Managed Futures/CTA
Warburton Global Fund	Warburton Investment Management	Perth	Apr-16	Macro

HEDGE FUND INDUSTRY ASSETS UNDER MANAGEMENT (A$bn): AUSTRALIA AND NEW ZEALAND vs. MAJOR MARKETS



ASIA-PACIFIC-BASED HEDGE FUND INDUSTRY ASSETS UNDER MANAGEMENT (A$bn)

HEDGE FUND ONLINE

Hedge Fund Online is Preqin's flagship hedge fund information resource, incorporating all of our hedge fund data, intelligence and functionality, providing you with the most comprehensive coverage of the asset class available.

Hedge Fund Online is updated on a daily basis by teams of skilled research analysts based around the globe, making it a vital source of data and information for fund managers, investors, service providers and other professionals seeking to keep up to date with the latest developments in the industry.

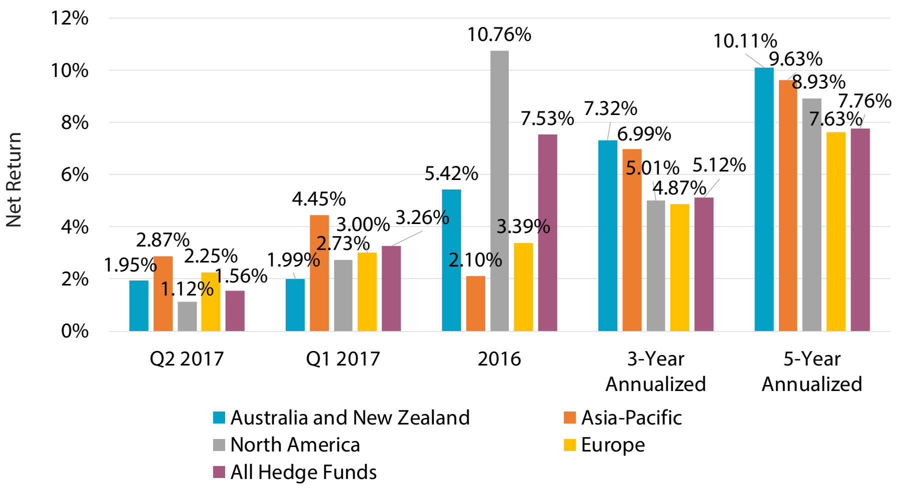
Get in touch today to arrange a demo of **Hedge Fund Online:** ✉: info@preqin.com | 🌐: www.preqin.com/hedge

PERFORMANCE

Hedge funds based in Australia and New Zealand have outperformed all Preqin's top-level regional benchmarks over three- and five-year periods to Q2 2017 (Fig. 3.1). More recently, in 2016 Australia- and New Zealand-based hedge funds (+5.42%) underperformed funds managed by North America-based firms (+10.76%); however, they outperformed the public market over the course of the year, with the MSCI Asia-Pacific Index adding 2.33% (Fig. 3.2).

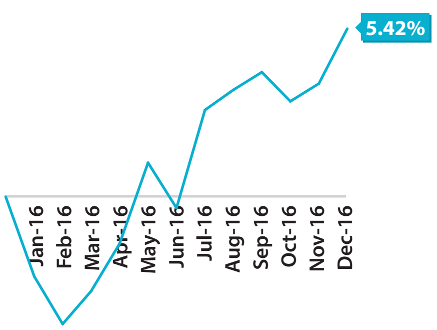
H1 2017 has been mixed for Australia- and New Zealand-based funds, underperforming the Preqin All-Strategies Hedge Fund benchmark. With the Preqin Asia-Pacific Hedge Fund benchmark gaining 7.45% in the first six months of 2017, it seems Australia- and New Zealand-based funds were perhaps less exposed to the stock market gains in Asia over Q1 2017. Australia- and New Zealand-based funds outperformed their North American peers by 83bps in Q2 2017, posting +1.95%, a return also higher than the wider industry average (+1.56%).

Fig. 3.1: Performance of Hedge Funds by Manager Location*



Source: Preqin Hedge Fund Online

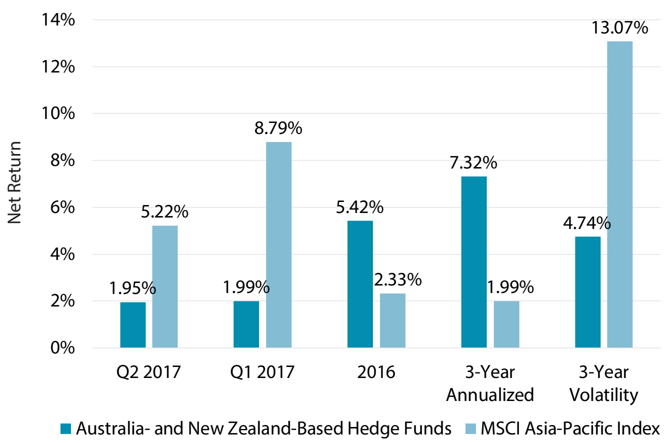
CUMULATIVE NET RETURNS OF AUSTRALIA- AND NEW ZEALAND-BASED HEDGE FUNDS IN 2016*



TOP PERFORMERS

As seen on page 9, equity strategies dominate the top performing Australia- and New Zealand-based hedge funds in the period July 2016 to June 2017. Sydney-based PM Capital's PM Capital Global Companies Fund is the top performing fund over the period, returning +34.69%, while MGH Investment Fund, managed by Wellington-based MGH Asset Management, is the top performing New Zealand-based fund with a return of +21.21%.

Fig. 3.2: Performance of Australia- and New Zealand-Based Hedge Funds vs. MSCI Asia-Pacific Index*



Source: Preqin Hedge Fund Online

Fig. 3.3: Hedge Fund Performance by Fund Manager Location*

Q1 2017	Q2 2017	Cumulative 2016	3-Year Annualized	3-Year Volatility
China 10.60%	Hong Kong 3.11%	Australia & NZ 5.42%	China 14.10%	Australia & NZ 4.74%
Hong Kong 6.35%	China 2.47%	Japan 3.98%	Australia & NZ 7.32%	Japan 4.82%
Singapore 5.59%	Singapore 2.17%	Singapore 1.59%	Hong Kong 6.47%	Singapore 5.25%
Australia & NZ 1.99%	Australia & NZ 1.95%	Hong Kong 0.02%	Japan 6.40%	Hong Kong 9.62%
Japan 1.51%	Japan 1.32%	China -6.23%	Singapore 5.48%	China 17.31%

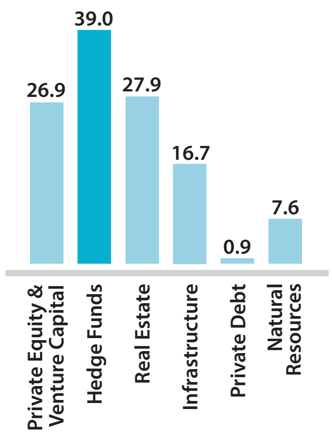
Source: Preqin Hedge Fund Online

**Please note, all performance information includes preliminary data for June 2017 based upon returns reported to Preqin in early July 2017. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.*

FUND MANAGERS

Australia and New Zealand are home to 135 active hedge fund managers operating over 200 funds between them. These managers represent 15% of all Asia-Pacific-based hedge fund managers and 20% of all regional assets. Within Australia and New Zealand, Sydney is the hub for hedge fund activity, home to 52% and 58% of all hedge fund managers and vehicles respectively that are based in Australia and New Zealand, with Auckland the industry hub within New Zealand.

AUSTRALIA AND NEW ZEALAND INDUSTRY ASSETS UNDER MANAGEMENT (A$bn)

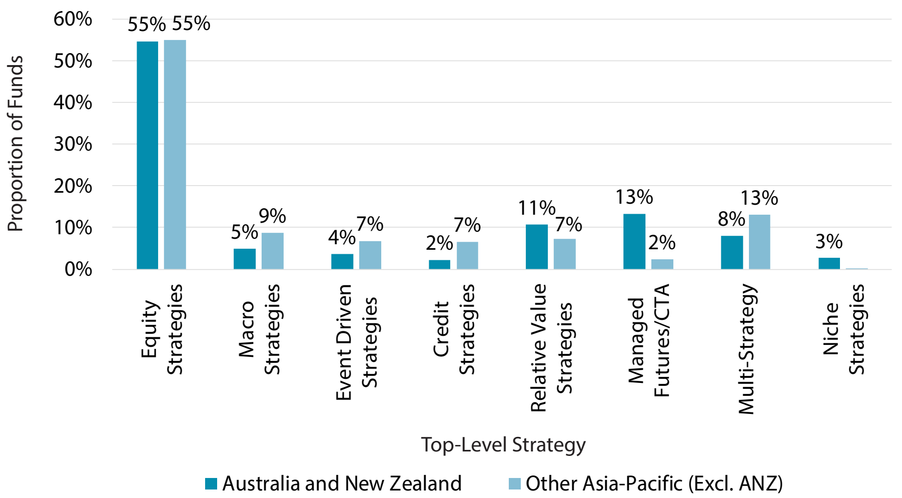


STRATEGIES

Equity strategies represent the majority of active Australia- and New Zealand-based hedge funds, a trend seen in the wider Asia-Pacific region as well as the global industry (Fig. 3.4). Managed futures/CTAs, however, are much more prevalent in Australia and New Zealand, accounting for 13% of all active vehicles.

On average, Australia- and New Zealand-based fund managers provide a slightly more diverse product offering than managers based elsewhere in Asia-Pacific (Fig. 3.5). While the greatest proportion of managers based in Australia and New Zealand offer one core strategy to investors, 34% of managers offer three or more core strategies, compared to 27% of other Asia-Pacific-based fund managers.

Fig. 3.4: Asia-Pacific-Based Hedge Funds by Top-Level Strategy and Manager Location

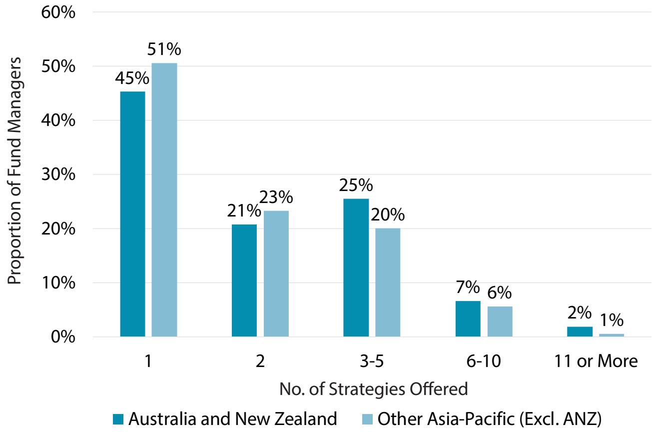


Source: Preqin Hedge Fund Online

ASSETS

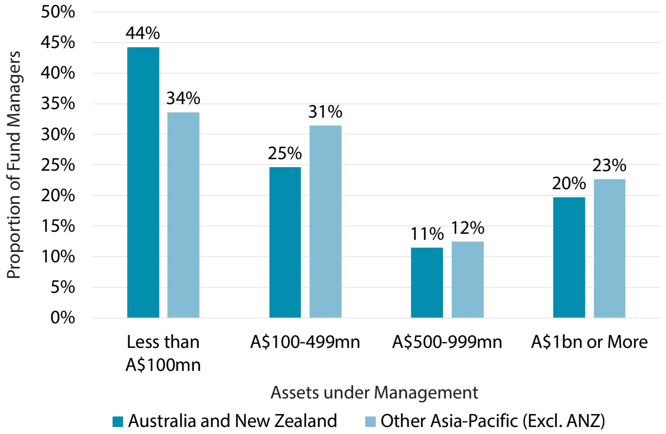
The hedge fund industry is the largest alternative assets industry in Australia and New Zealand, with managers based in these countries operating an aggregate A$39bn, A$11bn more than that of the private equity real estate market (A$28bn). While a significant proportion (44%) of Australia- and New Zealand-based managers operate less than A$100mn in assets, one-fifth manage at least A$1bn (Fig. 3.6).

Fig. 3.5: Number of Hedge Fund Strategies Offered by Manager Location



Source: Preqin Hedge Fund Online

Fig. 3.6: Hedge Fund Manager Assets under Management by Manager Location

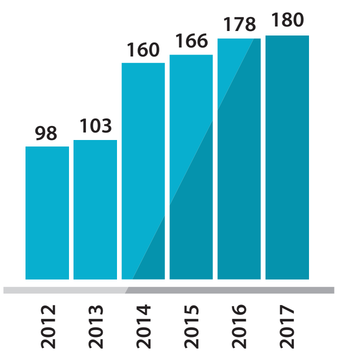


Source: Preqin Hedge Fund Online

INVESTORS

Despite hedge funds experiencing a difficult year in 2016, the number of active Australia- and New Zealand-based investors in the sector has increased to stand at 180 institutions. The majority of these are superannuation schemes, with private wealth managers less prominent than in other Asia-Pacific countries (Fig. 3.8).

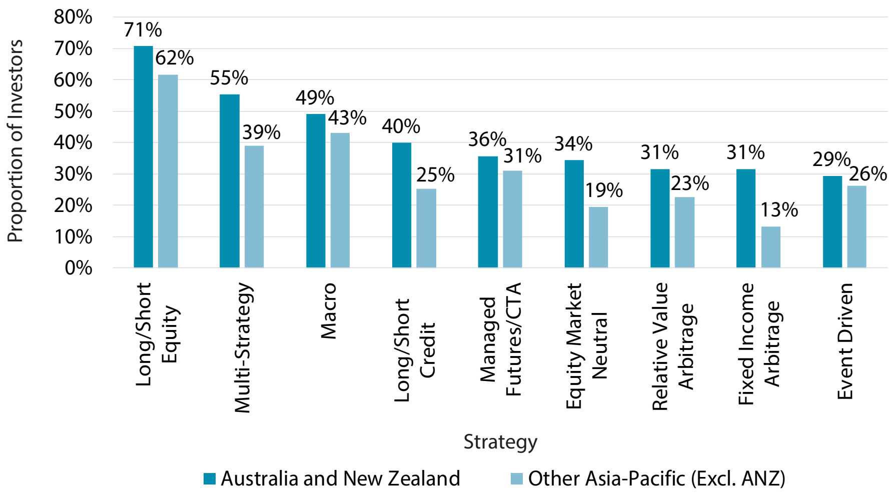
NO. OF ACTIVE AUSTRALIA- AND NEW ZEALAND-BASED HEDGE FUND INVESTORS



STRATEGIES

Long/short equity is the most sought-after strategy across Asia-Pacific, with nearly three-quarters of Australia- and New Zealand-based investors indicating a preference for the strategy (Fig. 3.7). Furthermore, the majority (55%) of these investors look to allocate to multi-strategy funds, a much greater proportion than investors based elsewhere in Asia-Pacific.

Fig. 3.7: Strategy Preferences of Hedge Fund Investors by Location



Source: Preqin Hedge Fund Online

ROUTE TO MARKET

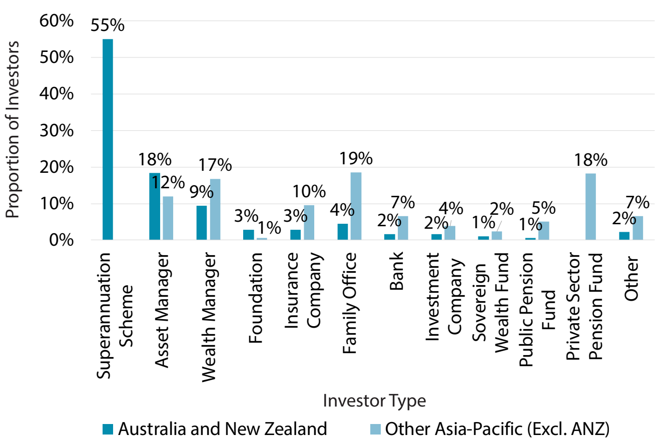
Australia- and New Zealand-based investors active in hedge funds seek similar routes to market as the wider investor universe in Asia-Pacific, with approximately half of each investor pool targeting direct investments, and 13% vs. 16% respectively seeking funds of hedge funds.

Roughly one in every 10 investors located in Australia and New Zealand looks to access the hedge fund market solely via multi-manager vehicles; however, the vast majority prefer direct investment.

ALLOCATIONS

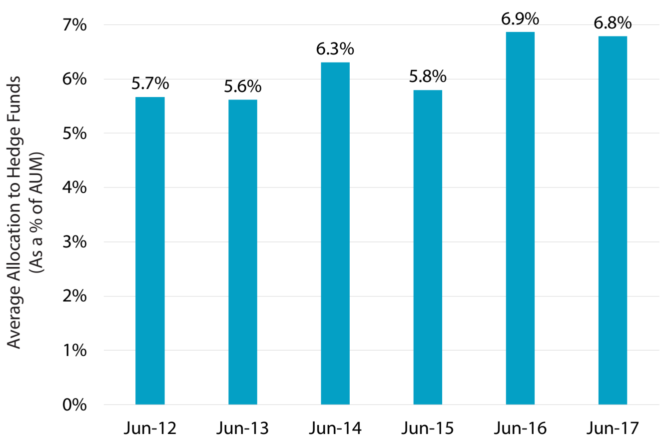
Over the course of the past five years the average hedge fund allocation of Australia- and New Zealand-based investors has grown, with the majority of these investors allocating A$100mn or more to the sector (Fig. 3.9). Recent years have seen not only the total number of Australia- and New Zealand-based investors active in hedge funds grow, but also these institutions increasing their exposure to the class.

Fig. 3.8: Hedge Fund Investors by Type and Location



Source: Preqin Hedge Fund Online

Fig. 3.9: Australia- and New Zealand-Based Investors' Average Current Allocation to Hedge Funds, 2012 - 2017



Source: Preqin Hedge Fund Online

SECTION FOUR: REAL ESTATE

UNLOCKING HIDDEN POTENTIAL IN ANZ REAL ESTATE

- Ronald Stephen Barrott, **Pro-invest Group**

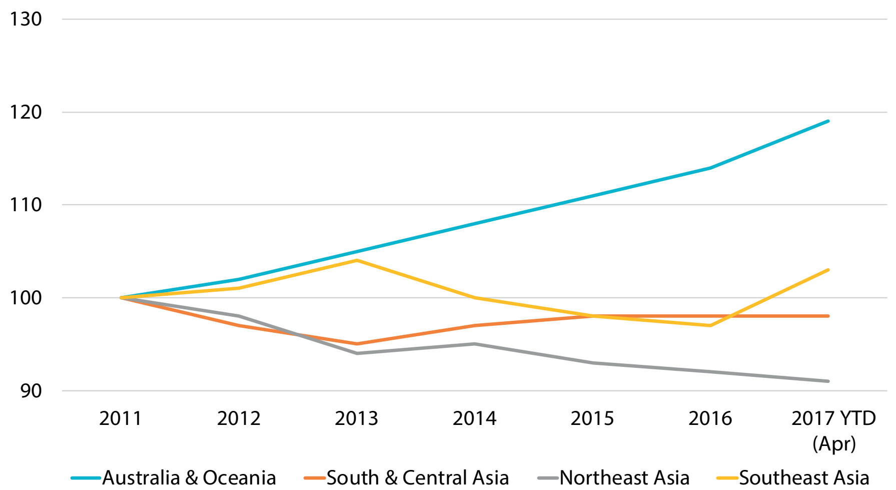
In recent years, hotels have become an established asset class trending in line with core sectors. Provided hotels are skilfully acquired and actively managed, hotel investments can generate attractive yields. Hotels within the Select Service segment in particular have proven to be an attractive investment, demonstrating double-digit, cash-on-cash returns to investors. In recent years, hotels have attracted stronger investor attention globally, with prominent US and Asian REITS becoming increasingly active in the sector.

HOTEL MARKET IN ANZ: DEMAND IS OUTSTRIPPING SUPPLY

The strength of the Australian and New Zealand hotel markets has been underpinned by robust demand growth over recent years which has resulted in a net demand-supply gap in both markets. This has led to strong occupancy, Average Daily Rate (ADR) and Revenue Per Available Room (RevPAR) growth. As a result, ANZ hotel markets are among the top performing in the APAC region, behind only Japan and Singapore on an occupancy basis.

The markets have shown resilience to economic downward pressure with RevPAR growth in ANZ growing consistently year-on-year since 2011. This is comparatively attractive as in the other Asian regions RevPAR growth was volatile or negative over the same period, as illustrated in Fig. 1. STR Global research indicates that Australia has experienced one of the most consistent hotel demand growth rates of all global markets, with 85 months of demand growth. Sydney and Melbourne are the strongest performing markets and continue to attract a growing number of international visitors and international hotel investment. Despite substantial supply pipelines outweighing demand in certain markets – namely Brisbane, Perth and Darwin – it is anticipated that demand will catch up with supply in the medium-long term.

Fig. 1: RevPAR Indexed to 2011, Local Currency



Source: STR 2017

Similarly, the New Zealand hotel market continues to experience record strength which can be attributed to robust growth of international arrivals, increasing 10% in the year ending May 2017. Auckland and Queenstown maintained their position as the top performing markets attracting strong RevPAR growth in the year ending March 2017 at 16.2% and 17.6% respectively. Colliers International notes that the lack in supply is limiting the sector's growth.

ANZ markets have historically lacked high-quality, consistent and competitively priced accommodation facilitates that corporate clients demand; and despite hotel supply growing strongly over recent years compared to historical levels, demand continues to outstrip supply. Indeed, hotel products that satisfy the corporate and millennial markets' expectations can help ensure occupancy exceeds its fair share against its competitors. Further, these hotel products will reduce the likelihood of guests using alternative accommodation such as Airbnb, as corporate travellers are not as willing to accept staying at somebody's home given the lack of service consistency and grey areas around insurance policies and potential tax avoidance (which corporates cannot expose themselves to).

WHY INVEST IN ANZ HOTELS NOW

MSCI analysis has indicated that Australian hotel assets offer a more attractive risk-adjusted return than the premium CBD core asset class – that is, office and retail assets. The income returns of Australian institutional-grade hotels have demonstrated low volatility over past years, with running yields around 7-8% per annum before leverage. Hotels that target a range of segments, including both corporate and leisure, and have efficient cost structures such as Select Service hotels, are significantly more resilient to market downturns.

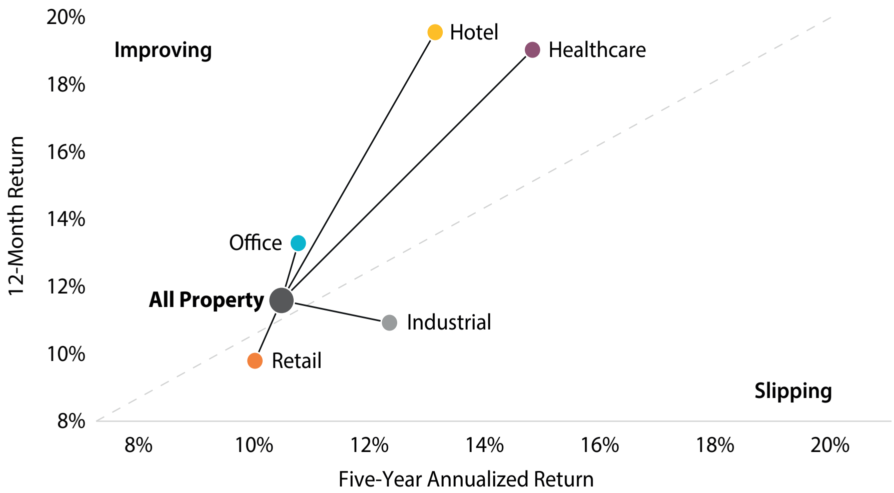
The relatively stable income returns and running cash-on-cash yields in the early teens are of particular interest to institutions such as pension funds, superannuation funds, insurance companies and, indeed, the majority of investors looking for a higher yield in our current low interest rate environment.

As the supply of Select Service accommodation falls significantly short of demand in Australia, there is presently the opportunity for investors to create a secure, growing income stream through the development of new, purpose-built, efficient hotel assets in areas where under-supply is particularly acute.

Pro-invest Group is in the position of having established an integrated hotel investment platform, including asset management, development and operational management. The Group is developing a portfolio in excess of A$1bn of Select Service hotels in major cities throughout Australia and New Zealand with a focus initially on a geographically diversified portfolio in CBD locations and hence following a "Build-to-Core" strategy. By developing new, efficient, A Grade buildings, Pro-invest ensures that assets meet the latest guest expectations, with a portfolio of modern, future-proof properties that are well positioned to generate long-term, stable cash flows. Furthermore, the Group's exclusive arrangements with hotel brands assist with deploying funds in a sensible manner over a short period of time, thereby providing the level of scalability institutional investors demand and satisfying the pressure to put funds to work.

The complexity of hotel assets/operations requires specific active management to maximize returns, with expertise in areas ranging from distribution, yield management, marketing and payroll to energy, maintenance and capital expenditure. While it is difficult to measure the impact an asset manager may have, research suggests that it may enhance departmental profits by 3-5% and 5-15% of Gross Operating Profit margins and hence every hotel asset is being managed by Pro-invest's in-house team holding decades of experience and track record in those areas.

Fig. 2: Hotels Outperforming Other Property Classes in Australia



Source: MSCI

In an environment where development finance remains constrained, investors that are willing and able to fund hotel developments can access attractive returns, compensating them for the associated development and letting risk. Our track record proves that we can mitigate most of these risks by a) acquiring sites that have undergone an assessment of the local environment, market and planning authority constraints and b) partnering with the largest international hotel management companies to leverage room nights from their corporate accounts and large reservation system, which drive high occupancy rates.

OUTLOOK

The low interest rate and inflationary environment is anticipated to continue encouraging institutional investment for hotel assets in the medium term. As a result, initial yields are forecast to continue compressing over the next 12 months.

When looking at the 'classical' geographies institutional investors like to 'tap into', there is a growing level of concern and uncertainty owing to Brexit, the EU's political disengagement, the US election and the fact that most Asian markets – despite their fundamentally strong economies – are perceived to be on the higher spectrum of country risk. However, Australia and New Zealand are appealing given their diversified economic fundamentals which have proven to be more resilient to soft market conditions than expected, for example the commodity bust.

To maximize risk-adjusted returns, investors should consider looking beyond traditional core strategies and standing office buildings in Sydney or Melbourne and team up with managers that can secure/develop the right assets in the right locations and implement an active management approach in which investor and fund manager interests are aligned.

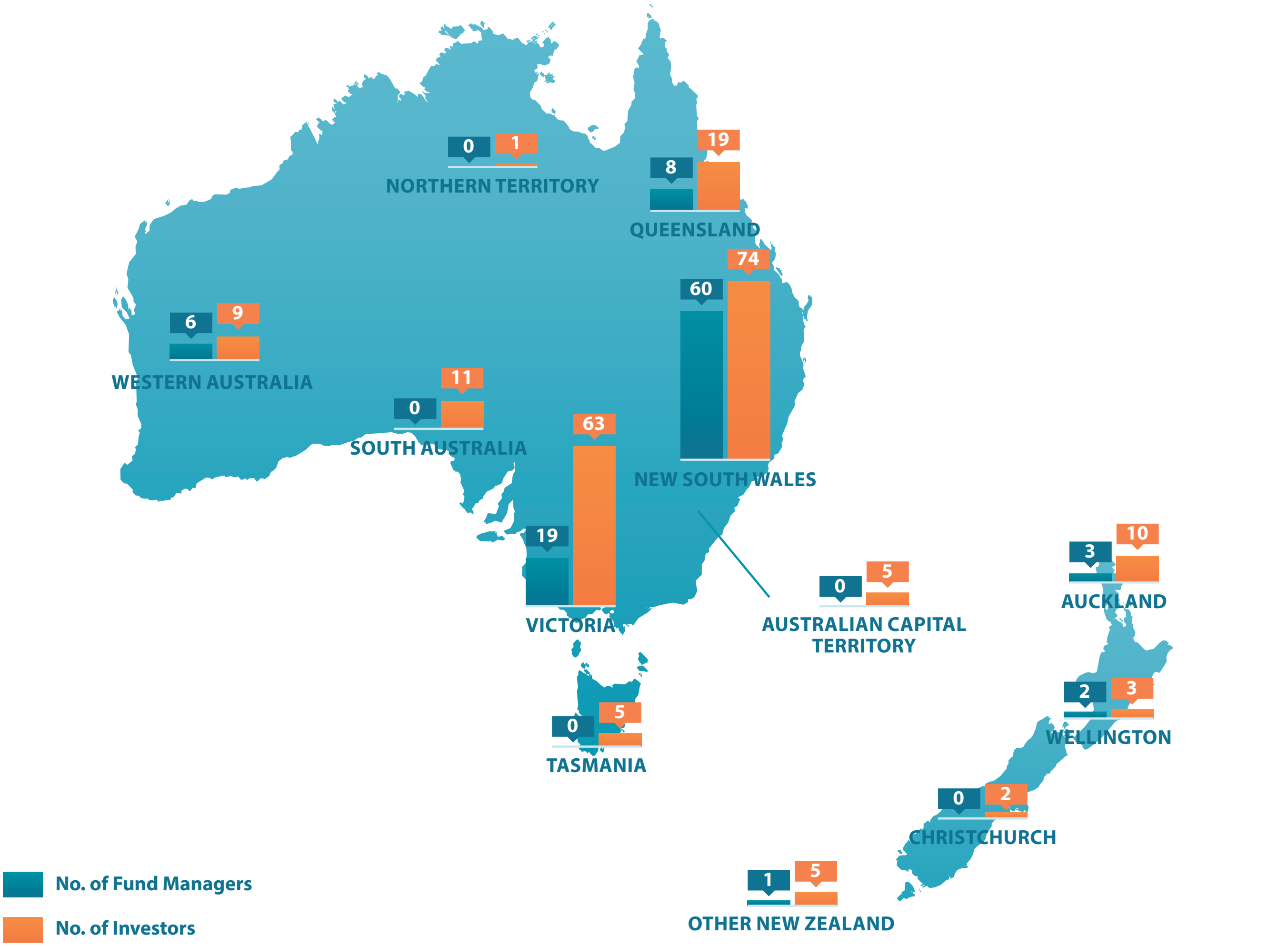
Pro-invest follows a 'value-add' philosophy. Pro-invest caters to investors' individual risk and return preferences by offering several investment options, including funds with a tailored investment strategy, separate accounts that are customized to an individual's investment preferences and select joint venture arrangements. Considering the uncertainty in the global markets, now seems a good time to take advantage of the opportunities that exist in the ANZ real estate markets for attractive, long-term income returns.

PRO-INVEST GROUP
Pro-invest Group is a leading international private equity real estate firm specialised in investing into hospitality, retail and office assets with an active management approach. The Group has a long track record in developing as well as operating hotels in Europe, Middle East and Asia and is managing the Pro-invest Australian Hospitality Opportunity I, which owns, develops and operates a portfolio of select service hotels across Australia and New Zealand, and has a development portfolio of over A$1bn.

www.proinvestgroup.com

KEY FACTS

AUSTRALIA- AND NEW ZEALAND-BASED FUND MANAGERS AND INSTITUTIONAL INVESTORS ACTIVE IN REAL ESTATE

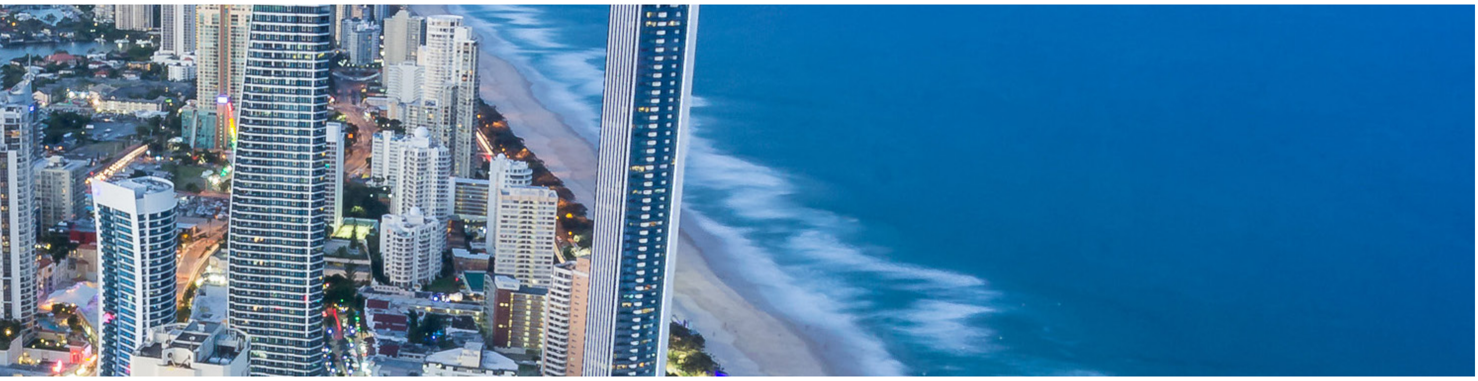


Largest Australia- and New Zealand-Based Closed-End Private Real Estate Fund Managers by Aggregate Capital Raised in the Last 10 Years

Firm	Location	Aggregate Capital Raised in Last 10 Years (bn)
Charter Hall Group	Sydney	4.2 AUD
Goodman	Sydney	3.0 AUD
Cromwell Property Group	Brisbane	2.3 AUD
Gresham Property	Sydney	1.1 AUD
EG Funds Management	Sydney	1.0 AUD

Largest Australia- and New Zealand-Based Investors by Current Allocation to Real Estate

Investor	Location	Type	Current Allocation to RE (bn)
QIC	Brisbane	Asset Manager	16.5 AUD
AustralianSuper	Melbourne	Superannuation Scheme	10.0 AUD
Future Fund	Melbourne	Sovereign Wealth Fund	7.8 AUD
AIMS Funds Management Group	Sydney	Asset Manager	7.6 AUD
UniSuper	Melbourne	Superannuation Scheme	6.9 AUD



NOTABLE AUSTRALIA- AND NEW ZEALAND-BASED PRIVATE EQUITY REAL ESTATE DEALS COMPLETED SINCE 2015

MLC Centre
OFFICE

MLC Centre is a 62-storey office building located in Sydney. In June 2017, Dexus acquired a 25% stake in MLC Centre for A$361.3mn while a fund it manages, Dexus Wholesale Property Fund, acquired a further 25% stake at the same price from QIC Global Real Estate.

Adelaide's Rundle Place
RETAIL

Adelaide's Rundle Place is a shopping centre located in South Australia. The retail asset was acquired by Blackstone Group for A$400mn in January 2016.

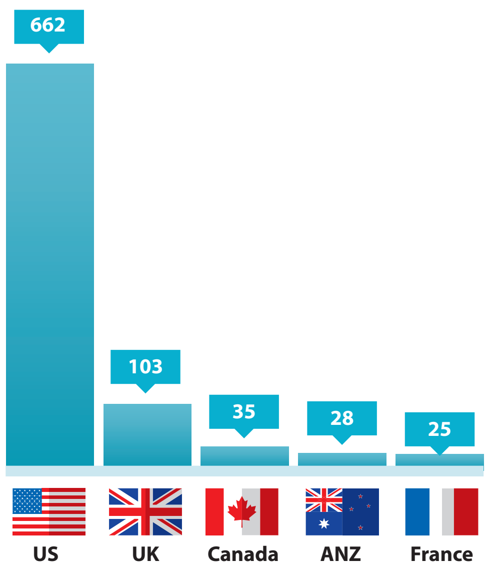
Millennium Centre Business Park
OFFICE

Millennium Centre Business Park is an office property located in Auckland, New Zealand. In February 2017, Oyster Group acquired the office park, which features seven standalone office buildings, for NZ$210mn.

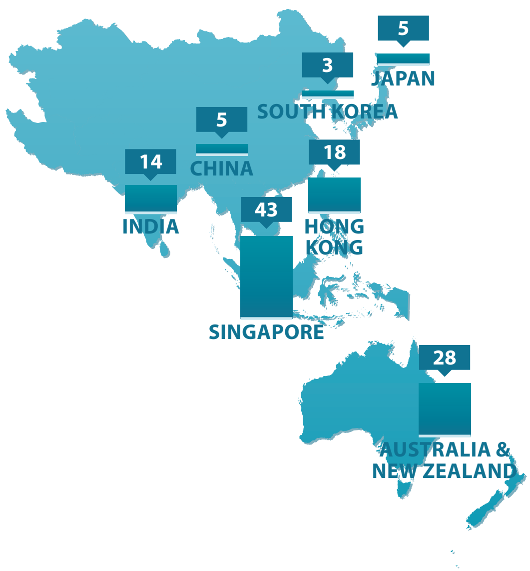
220-260 Orchard Road
OFFICE - INDUSTRIAL

220-260 Orchard Road is an industrial complex with office space located in Richlands, Queensland. In June 2017, Charter Hall Group, on behalf of its fund Charter Hall Prime Industrial Fund, acquired 220-260 Orchard Road from Coca-Cola Company for A$156mn.

CLOSED-END PRIVATE REAL ESTATE INDUSTRY ASSETS UNDER MANAGEMENT (A$bn): AUSTRALIA AND NEW ZEALAND vs. MAJOR MARKETS



ASIA-PACIFIC-BASED CLOSED-END PRIVATE REAL ESTATE INDUSTRY ASSETS UNDER MANAGEMENT (A$bn)



AUSTRALIAN OPPORTUNITIES IN THE REAL ESTATE MARKET

- Bruce Wan, RF Capital

REAL ESTATE CAPABILITIES

RF Capital's real estate capabilities include property funds management, development and asset management, with investments spanning the risk spectrum of core, core-plus, value-add and opportunistic properties. Investment opportunities are offered in Australia, the Middle East and Europe directly and via real estate funds management company CorVal. In many cases, these investments will be structured as a co-investment with the Roberts Family Office (RF Capital is the asset management capability of the Roberts Family Office).

RF has a demonstrated ability to research global property cycles, discover and purchase assets, and then hold or rebuild to manage or sell for excellent returns. Choosing the right time to acquire and dispose of assets is a combination of deep research, business acumen and a network of strong relationships developed over decades of operating in the sector.

RF REAL ESTATE RESEARCH

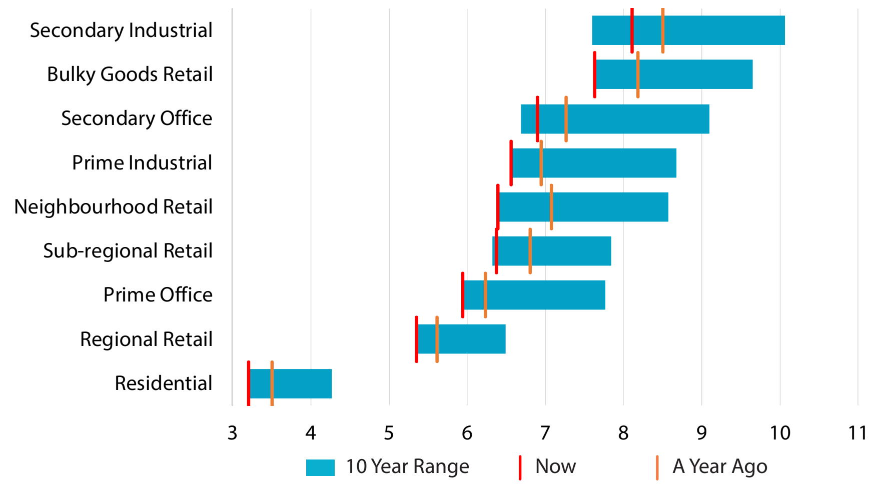
RF's real estate capabilities include global research and deal expertise.

The in-house research team is led by Bruce Wan, who brings more than 20 years' experience in real estate, financial market and economic analysis to the team. Bruce is responsible for driving real estate market research and strategic advice for the global real estate business.

According to Bruce Wan, this is a uniquely challenging set of market conditions for real estate investors, which requires an informed, thoughtful and disciplined approach, both in Australia and other markets.

Across the world, both economic growth and inflation are getting harder to find. Interest rates are seemingly entrenched at low levels, with limited stimulatory effect. Cheap cost of debt means capital is super-abundant, but investment-grade opportunities are still constrained by the pace of construction and development debt. Consequently, pricing is tight and cap rates are reaching new cyclical lows.

Fig. 1: Real Estate Cap Rates Are Setting New Cyclical Lows



Source: RF Capital, Corelogic, JLL Research

In Australia, these global trends are very much reflected in local market conditions. Real GDP growth (1.7% p.a.), consumer price inflation (2.1% p.a.) and cash interest rates (1.5%) are all tracking well below historical norms. Abundant capital – both domestic and inbound – is generally pushing Australian cap rates to new cyclical lows as well (Fig. 1). While Australian real estate cap rates often trail offshore markets each cycle, the cap rate premium to comparable peers is narrowing swiftly, as cross-border investors bring offshore pricing to local markets.

At the regional level, there are seismic shifts to the Australian economic landscape as well.

Indeed, the larger, more diversified economies of New South Wales and Victoria are benefitting from robust population gains, firm activity growth and housing construction booms. After a long period of subdued growth, Queensland is starting to see more convincing signs of a cyclical recovery. Meanwhile, Western Australia continues to struggle with the ongoing correction in mining investment and construction. Not surprisingly, these economic trends are aligning with the realized outcomes in both commercial and residential real estate prices.

In this context, what does this market environment mean for real estate investors? Is this market sustainable? What are the key investment themes and where are the most attractive opportunities?

Contending with slower growth.
Certainly, the structural decline in growth and inflation presents an ongoing challenge to finding investment market returns. Across nearly all markets, medium-term growth forecasts have been progressively marked down since the end of the Global Financial Crisis. In turn, landlords and investors will all have to work a little bit harder to generate net tenancy absorption and income growth.

Taking advantage of structural change.
Notwithstanding a subdued growth environment, some sectors in Australia are achieving better gains on the back of structural changes to the economy. Indeed, the ongoing shift to online retailing, the

robust inflow of foreign tertiary students, the rapidly ageing profile of the Australian population and the increasing pressure on housing affordability will all create considerable and durable demand for real estate in specific segments.

Catching the ABBA revival. While aggressive trophy hunters are setting record-low cap rate in prime markets, the cap rate compression elsewhere – particularly in secondary office and industrial – is still lagging somewhat, typical of the adjustment process seen in each market cycle. In other words, there is still some relative value outside of A-grade assets in class A locations, more so in A-grade assets in B locations (fringe or suburban) or B-grade assets in A locations (CBD secondary).

Searching for better yields. Certainly, tight market pricing for real estate is lowering yields, more so in the institutionally popular core sectors of office, retail and industrial. However, there are relatively higher yields still on offer in less traditional sectors, including student accommodation, aged care, healthcare, data centres, manufactured housing and others, where institutional appetite is thinner, competition for stock is relatively less fierce, there is more operational management and the structural cap rate compression (seen in the more established US market) is yet to take hold in markets like Australia.

Building a portfolio smartly. Without a doubt, going through an open competitive acquisition of prime real estate is a sure way of buying expensively. More savvy investors are looking at alternatives of building a portfolio without the ultra-competitive pricing, including refurbishment, re-positioning and conversion. With the broader group also operating a construction company, the build-to-own opportunities are particularly attractive to us, as a way of accessing prime quality real estate, without the open market pricing, given our in-house expertise to manage the development process.

Fig. 2: Total Returns: Australian All Property

Entry

Exit	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15
1991	-8																									
1992	-6	-4																								
1993	-3	-1	2																							
1994	0	3	6	11																						
1995	1	4	7	9	7																					
1996	2	5	7	9	7	8																				
1997	3	5	7	9	8	9	9																			
1998	4	6	8	9	8	9	9	9																		
1999	5	6	8	9	8	9	9	9	8																	
2000	5	7	8	9	9	9	9	9	9	10																
2001	5	7	8	9	9	9	9	9	9	9	9															
2002	6	7	8	9	9	9	9	9	9	9	9	9														
2003	6	7	8	9	9	9	9	9	9	9	9	9	10													
2004	6	8	9	9	9	9	10	10	10	10	10	10	10	11												
2005	7	8	9	10	10	10	10	10	10	11	11	11	12	13	14											
2006	8	9	10	10	10	11	11	11	11	12	12	13	13	15	16	19										
2007	8	9	10	11	11	11	11	12	12	12	13	13	14	15	17	18	17									
2008	8	9	10	10	10	10	10	11	11	11	11	11	12	12	12	12	8	0								
2009	7	8	9	9	9	9	9	9	9	10	9	10	10	10	9	8	8	-1	-2							
2010	7	8	9	9	9	9	9	9	9	9	9	10	10	10	9	8	6	2	3	9						
2011	7	8	9	9	9	9	9	9	9	10	10	10	10	10	9	9	7	4	6	10	10					
2012	7	8	9	9	9	9	9	9	9	10	10	10	10	10	9	9	7	5	7	10	10	9				
2013	8	8	9	9	9	9	9	9	9	10	10	10	10	10	9	9	7	6	7	10	10	9	9			
2014	8	8	9	9	9	9	9	9	10	10	10	10	10	10	9	9	8	6	8	10	10	10	10	10		
2015	8	9	9	10	9	10	10	10	10	10	10	10	10	10	10	9	8	7	8	10	11	11	11	12	14	
2016	8	9	9	10	10	10	10	10	10	10	10	10	10	10	10	10	9	8	9	11	11	11	11	12	13	12

Compound Annual Return

1 year ann. return

5 year ann. return

10 year ann. return

Source: RF Capital, MSCI IPD

Keeping a sharp eye on the economic cycle. Amid a record-setting economic expansion in Australia, investors like us are keenly vigilant on the economic cycle and its potential impact on real estate returns. To date, leading signals that precede global and Australian economic downturns remain in check, consistent with a sustained (albeit sub-trend) expansion in 2017 and early 2018. That said, a concerted turning point in these signals – when they emerge – would likely provide 6-12 months of warning for investors to take a more defensive posture.

Patience is a virtue. For investors that approach real estate as a means of market beta, with a risk-and-return trade-off that is somewhere between equities and bonds, it is important to draw out the impact of holding period and market timing. Rolling returns for any medium-term holds are remarkably consistent in Australia (Fig. 2), except where the entry point is at the peak of the cycle or the exit point is at the trough of the cycle. In terms of entry, leading signals are still consistent with a further pricing upswing. In terms of exit, retaining some flexibility on disposal will go a long way to mitigating losses from end-of-fund forced sales at the bottom of the cycle.

Taking Australian capital abroad. Australia remains a perennially popular destination for inbound investors, but with the fourth largest pension pool chasing assets in the 13th largest economy, it is inevitable that Australian capital will have to head abroad again to reduce concentration risk. For family offices and even established institutions new to cross-border investment, this is a daunting prospect, especially when traditional destinations like New York and London are reporting even tighter cap rates. Finding the right investment partner, real estate platform or assets will be a key part in that journey.

RF CAPITAL

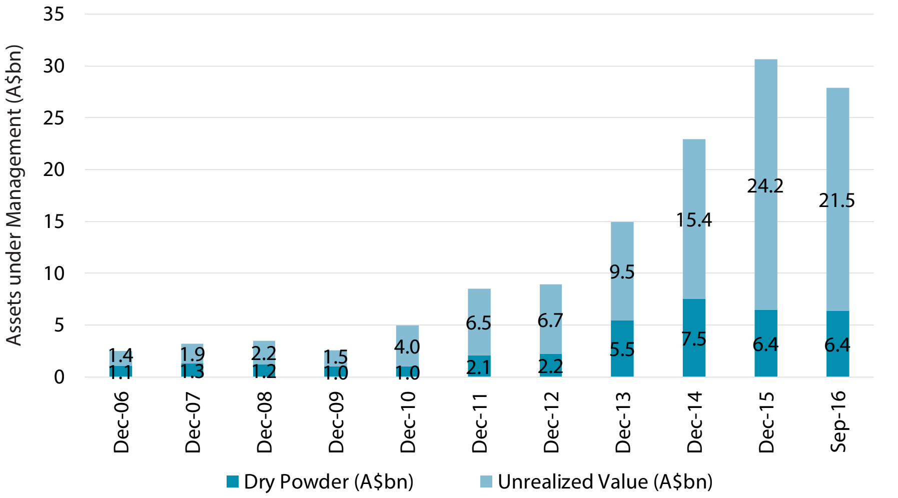
With offices in Sydney, Dubai and London, RF is a funds management company focused on alternative asset classes including real estate, credit and financial markets. Created as the asset management capability of the Roberts Family Office, RF leverages more than 50 years of experience in property investment, development, construction, funds and asset management to create opportunities for sophisticated investors and institutional clients.

www.rfcapital.com

ASSETS UNDER MANAGEMENT AND DRY POWDER

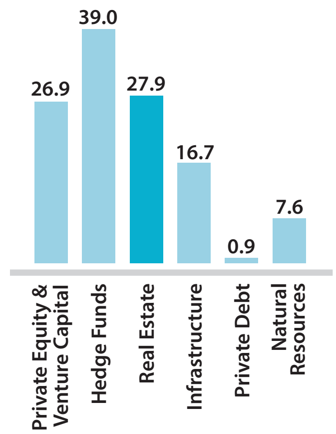
The private equity real estate (PERE) market in Australia and New Zealand is one of the largest in the Asia-Pacific region, standing at A$28bn; only Singapore-based fund managers (A$43bn) hold more AUM than Australia- and New Zealand-based. Indeed, Australia and New Zealand account for 24% of total private equity real estate assets in the Asia-Pacific region, a larger proportion than for any other alternative asset class. Within Australia and New Zealand, the former dominates PERE activity – just $50mn in assets are located in New Zealand.

Fig. 4.1: Australia- and New Zealand-Based Closed-End Private Real Estate Assets under Management, 2006 - 2016 (As at September 2016)



Source: Preqin Real Estate Online

AUSTRALIA AND NEW ZEALAND INDUSTRY ASSETS UNDER MANAGEMENT (A$bn)



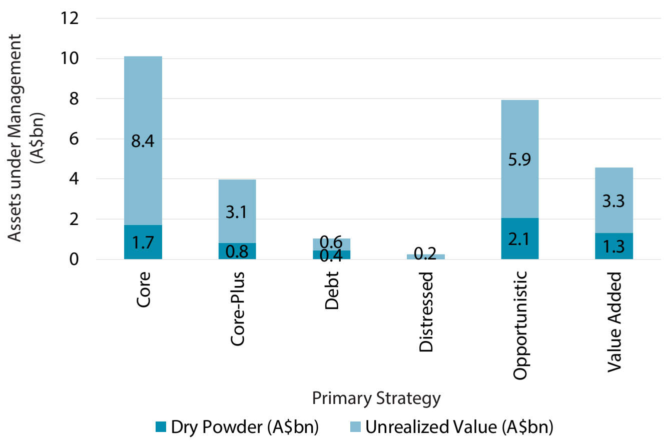
ASSET GROWTH

Australia and New Zealand have witnessed significant growth in the real estate market in recent years (Fig. 4.1). Developed real estate sectors in Sydney and Melbourne have seen strong price increases providing investors around the world with opportunities for returns. Despite witnessing a slight dip in the level of industry assets over 2016 to September, the industry has nearly trebled in size since December 2011 – and at a much faster rate of growth than in the Australia and New Zealand private equity market (38%).

STRATEGIES

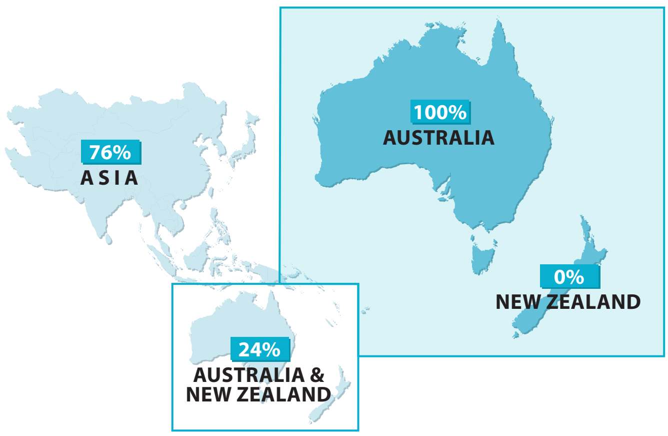
Core strategies represent the greatest proportion (36%) of industry assets in the Australia and New Zealand PERE market and account for A$10bn in AUM (Fig. 4.2). Opportunistic and value added strategies also represent significant proportions of the market, while debt strategies account for just 4% of assets – 11 percentage points below the global average – which illustrates the immaturity of the market in Australia and New Zealand for this strategy.

Fig. 4.2: Australia- and New Zealand-Based Closed-End Private Real Estate Assets under Management by Primary Strategy (As at September 2016)



Source: Preqin Real Estate Online

Fig. 4.3: Location of Asia-Pacific-Based Private Real Estate Industry Assets



Source: Preqin Real Estate Online

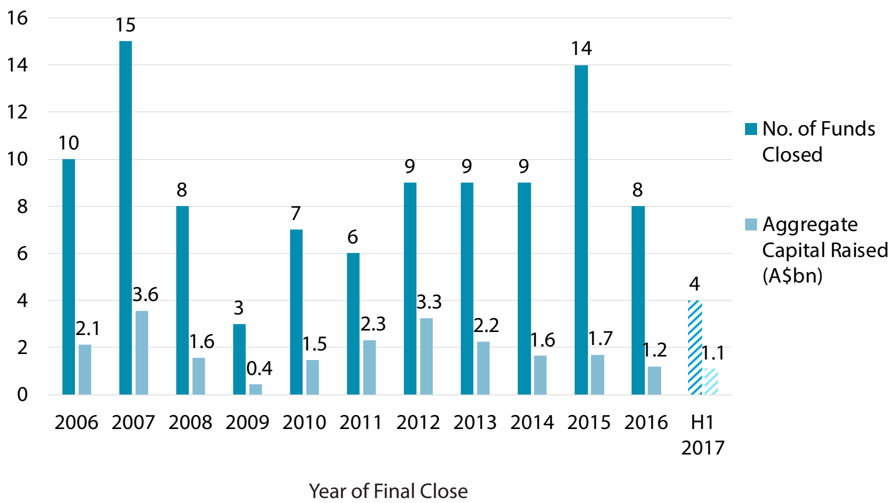
FUNDRAISING

The number of Australia- and New Zealand-based private equity real estate funds closed since 2006 has fluctuated year on year, with 2012 and 2015 representing post-crisis highs for aggregate capital secured and number of funds closed respectively (Fig. 4.4). While aggregate capital raised has generally declined over the past five years, A$1.1bn has been raised in H1 2017, nearly equalling the total raised in the previous year, driven by larger funds entering the market.

STRATEGIES

Since 2012, lower-risk core and core-plus funds have collectively accounted for the majority of Australia- and New Zealand-based funds closed (53%) and aggregate capital raised (57%, Fig. 4.5). Recent property lending restrictions put in place by the banking regulator Australian Prudential Regulation Authority may be a driving force behind the emergence of Australia- and New Zealand-based debt strategies. A total of A$533mn was secured by these four debt-focused funds closed in 2012-2015, compared with A$1.1bn raised by the same number of funds closed so far in 2017. Qualitas Construction Debt Fund greatly contributed to the recent rise in average fund size, securing A$500mn to invest in property construction projects in Australia.

Fig. 4.4: Annual Australia- and New Zealand-Based Closed-End Private Real Estate Fundraising, 2006 - H1 2017



Source: Preqin Real Estate Online

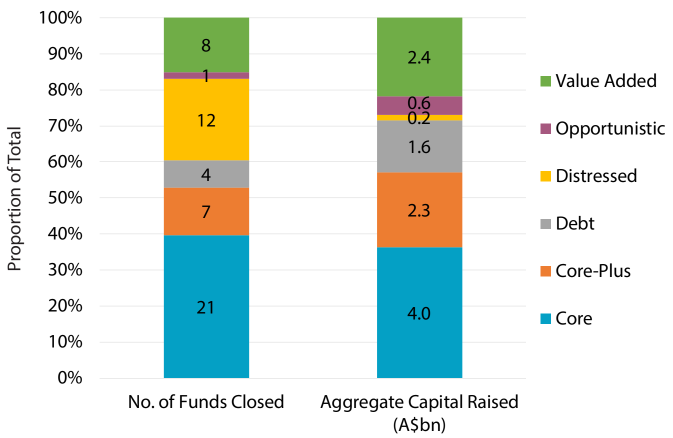
FUNDS IN MARKET

As at June 2017, the number of Australia- and New Zealand-based private equity real estate funds in market stood at a record high, with 14 vehicles seeking A$3.7bn in aggregate capital commitments. This is significantly more than the A$2.5bn sought 12 months prior (Fig. 4.6).

FUND PROFILE

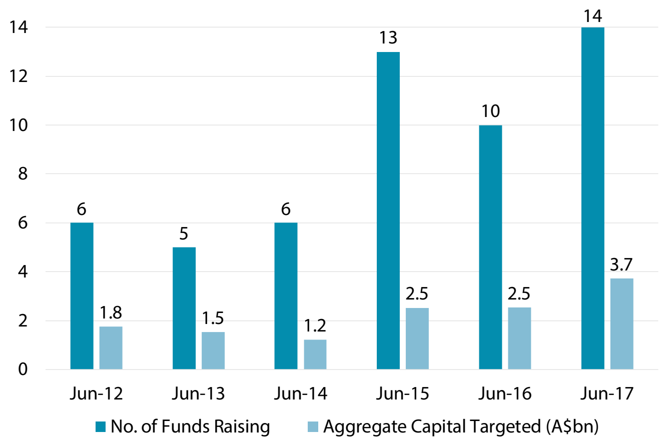
Fund: Qualitas Construction Debt Fund
Manager: Qualitas Property Partners
Final Size: AUD 500mn
Close Date: May-17
Strategy: Provides debt to property construction projects in Australia and offers co-investment opportunities on a case-by-case basis.

Fig. 4.5: Australia- and New Zealand-Based Closed-End Private Real Estate Fundraising by Primary Strategy, 2012 - H1 2017



Source: Preqin Real Estate Online

Fig. 4.6: Australia- and New Zealand-Based Closed-End Private Real Estate Funds in Market over Time, 2012 - 2017



Source: Preqin Real Estate Online

DEALS

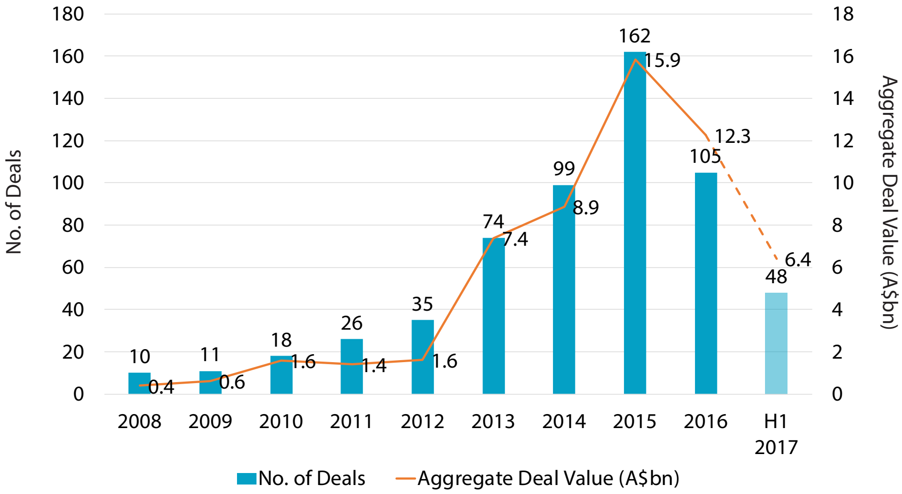
In the last 10 years, 588 private equity real estate (PERE) deals have been completed in Australia and New Zealand for an aggregate A$56bn. This number peaked in 2015, when 162 deals were completed for nearly A$16bn (Fig. 4.7). Despite the number and aggregate value of deals falling to lower levels in 2016, 2017 may match the level of financings achieved in 2016 by the end of the year.

PERE exits in Australia and New Zealand have experienced a similar trend: the total number and aggregate value of exits has declined since the record high in 2015 when 81 exits were completed for an aggregate A$16bn, and activity has slowed to 37 exits for A$5.7bn in 2017 so far.

INDUSTRY

In line with global trends, office assets account for the largest proportion (30%) of PERE deals in Australia and New Zealand in the last six years – with the exception of 2015 when industrial assets grew in prominence (32%, Fig. 4.8). One such office deal is the recent sale of the Sydney-based MLC Centre, where both Dexus and Dexus Wholesale Property Fund acquired 25% from QIC Global Real Estate for an aggregate A$723mn (see page 43).

Fig. 4.7: Completed PERE Deals in Australia and New Zealand, 2008 - H1 2017



Source: Preqin Real Estate Online

DEAL SIZE

The average size of deals in Australia and New Zealand have remained consistent over the last three years, whereas the figure has grown significantly for deals completed in the wider Asia-Pacific region, rising from A$214mn in 2015 to A$343mn in 2017 (as at June). As can be seen in Fig. 4.9, the majority (59%) of PERE deals across Australia and New Zealand since 2014 were valued at less than A$100mn – a significantly larger proportion than deals completed in Asia-Pacific overall.

AVERAGE SIZE OF COMPLETED PERE DEALS IN AUSTRALIA AND NEW ZEALAND vs. ASIA-PACIFIC

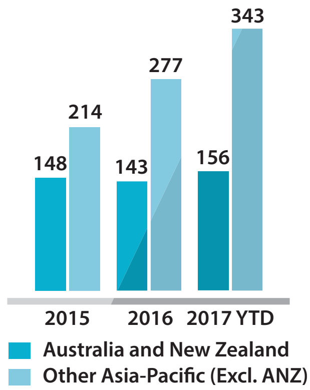
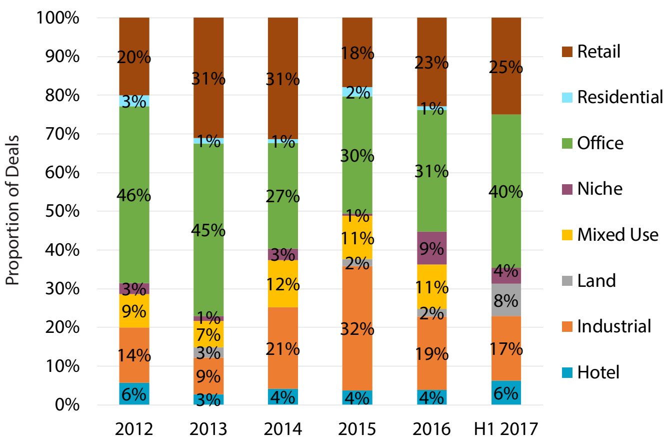
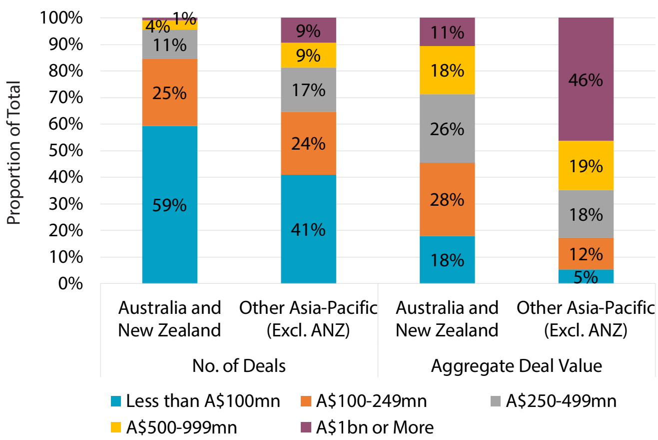


Fig. 4.8: Completed PERE Deals in Australia and New Zealand by Asset Type, 2012 - H1 2017



Source: Preqin Real Estate Online

Fig. 4.9: Proportion of Number and Aggregate Value of Completed PERE Deals by Transaction Size and Location, 2014 - H1 2017



Source: Preqin Real Estate Online

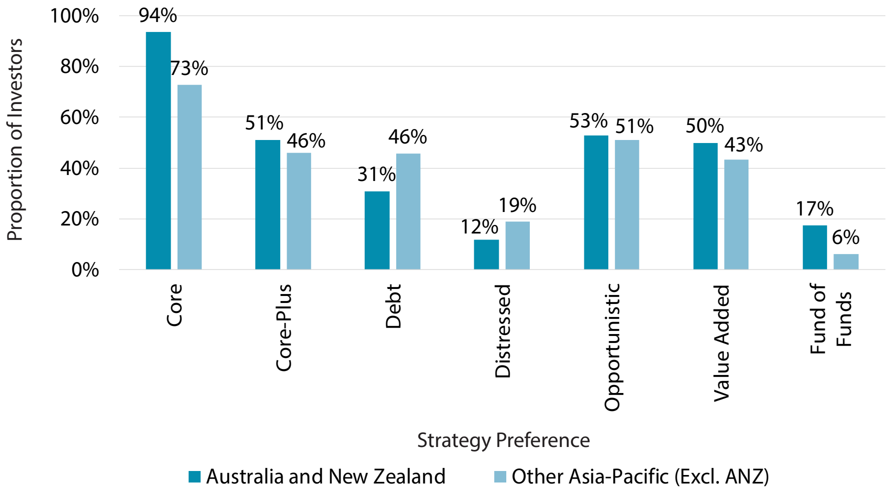
INVESTORS

Over 200 Australia- and New Zealand-based institutional investors actively allocate to the real estate asset class, marking a 50% increase since 2012 (134).

STRATEGIES

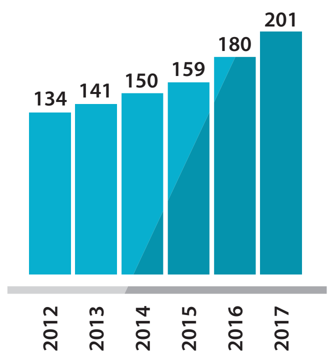
While the majority (73%) of investors in Asia-Pacific have a preference for investing in core strategies, a greater proportion (94%) of those located in Australia and New Zealand have a preference for this lower-risk strategy (Fig. 4.10). A contrasting trend is seen in investor preferences for real estate debt and distressed funds.

Fig. 4.10: Strategy Preferences of Real Estate Investors by Location



Source: Preqin Real Estate Online

NO. OF AUSTRALIA- AND NEW ZEALAND-BASED REAL ESTATE INVESTORS



INVESTOR TYPE

Exactly half of all Australia- and New Zealand-based investors are superannuation schemes, while asset managers represent 15% (Fig. 4.11).

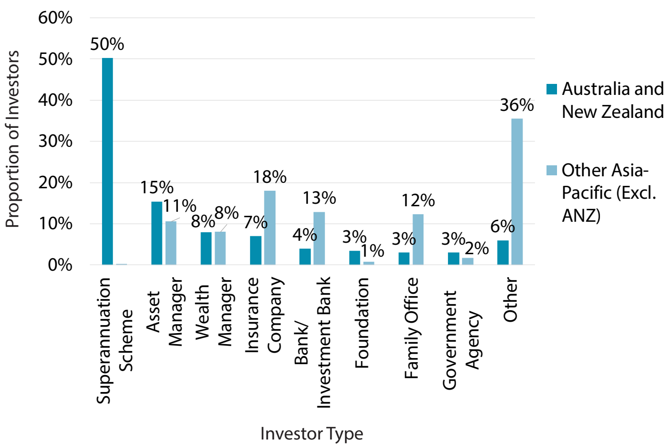
ROUTE TO MARKET

Australia- and New Zealand-based investors continue to operate differently to other Asia-Pacific-based investors, generally preferring listed investment (73%) over direct allocations (39%). This could be attributed to the varying levels of investor allocations to real estate due to the increased investment size required to gain direct access to an asset: a significant 41% of Asia-Pacific-based investors located outside Australia and New Zealand allocate over $1bn to the asset class, compared with 23% of Australia- and New Zealand-based investors.

ALLOCATIONS

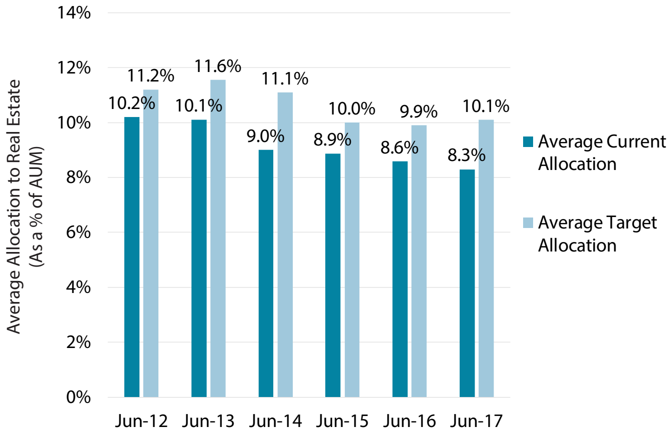
On average, Australia- and New Zealand-based investors currently allocate 8.3% of total assets to real estate, greater than Japan-based investors (3.3%) but smaller than investors in China (10.7%). Investors in Australia and New Zealand are currently, on average, nearly two percentage points below their target allocation – a sign of potential capital to come in the real estate space (Fig. 4.12).

Fig. 4.11: Real Estate Investors by Type and Location



Source: Preqin Real Estate Online

Fig. 4.12: Australia- and New Zealand-Based Investors' Average Current and Target Allocations to Real Estate, 2012 - 2017

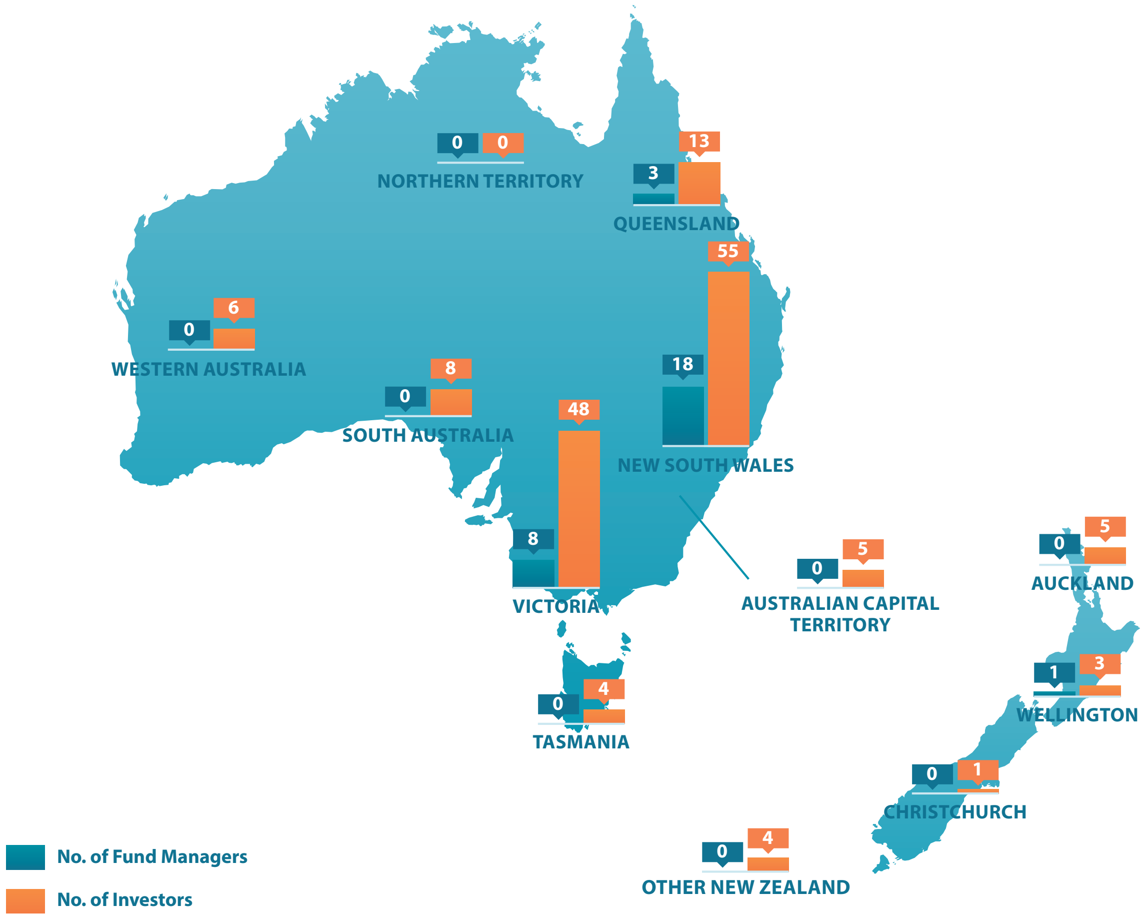


Source: Preqin Real Estate Online

SECTION FIVE: INFRASTRUCTURE

KEY FACTS

AUSTRALIA- AND NEW ZEALAND-BASED FUND MANAGERS AND INSTITUTIONAL INVESTORS ACTIVE IN INFRASTRUCTURE



Largest Australia- and New Zealand-Based Unlisted Infrastructure Fund Managers by Aggregate Capital Raised in the Last 10 Years

Firm	Location	Aggregate Capital Raised in Last 10 Years (bn)
AMP Capital Investors	Sydney	5.2 USD
Colonial First State Global Asset Management/First State Investments	Sydney	5.5 AUD
Westbourne Capital	Melbourne	5.3 AUD
Transurban Group	Docklands	2.9 USD
QIC Global Infrastructure	Brisbane	2.4 AUD

Largest Australia- and New Zealand-Based Investors by Current Allocation to Infrastructure

Investor	Location	Type	Current Allocation to INF (bn)
Future Fund	Melbourne	Sovereign Wealth Fund	9.9 AUD
AustralianSuper	Melbourne	Superannuation Scheme	9.1 AUD
First State Super	Sydney	Superannuation Scheme	5.8 AUD
QSuper	Brisbane	Superannuation Scheme	5.5 AUD
Construction and Building Industries Superannuation Fund	Melbourne	Superannuation Scheme	4.3 AUD

NOTABLE AUSTRALIA- AND NEW ZEALAND-BASED INFRASTRUCTURE DEALS COMPLETED SINCE 2015

Ausgrid
POWER DISTRIBUTION

Ausgrid is a power supply infrastructure company in Sydney. In October 2016, IFM Investors and AustralianSuper acquired a 50.4% stake in Ausgrid for A$16.2bn.

Asciano
TRANSPORT

Asciano is made up of three divisions: Pacific National Coal, Pacific National Rail and Patrick, which fall within the transport industry. In March 2016, a consortium led by Brookfield Infrastructure and Qube Holdings acquired Asciano Limited for A$12bn.

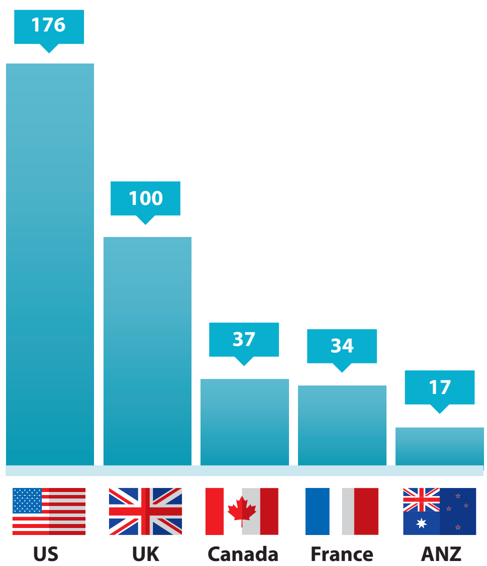
Pūhoi to Warkworth Motorway PPP
TRANSPORT

The Pūhoi to Warkworth Motorway project is an 18.5km stretch of a new four-lane highway in North New Zealand. In November 2016, the Northern Express Group was awarded the contract to finance, design, construct and maintain the new Pūhoi to Warkworth Motorway. The 25-year concession has an expected six-year building period. Full ownership of the highway will remain with the public sector.

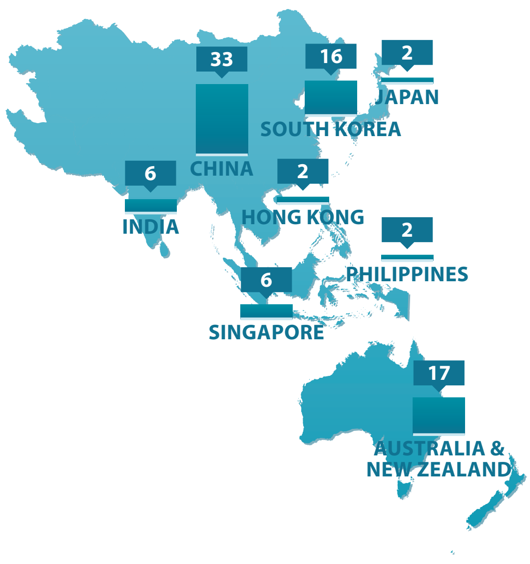
Murra Warra Wind Farm
WIND POWER

Murra Warra Wind Farm is a 420 MW wind power project designed to generate clean electricity required to power 248,000 households in Victoria. In December 2016, Renewable Energy Systems agreed to construct the wind farm for US$662mn.

UNLISTED INFRASTRUCTURE INDUSTRY ASSETS UNDER MANAGEMENT (A$bn): AUSTRALIA AND NEW ZEALAND vs. MAJOR MARKETS



ASIA-PACIFIC-BASED UNLISTED INFRASTRUCTURE INDUSTRY ASSETS UNDER MANAGEMENT (A$bn)



THE BIG SHIFT FROM BROWNFIELD INFRASTRUCTURE RECYCLING TO GREENFIELD DEVELOPMENT

- Michael Cummings, **AMP Capital**

Australia led the world in privatizing state-owned brownfield assets. With the pipeline running dry, the next phase will be the true test. State governments are looking to develop a next generation of greenfield assets, with the intention of selling to the private sector on completion. With potential investors scouring the globe for opportunities with plenty of 'dry powder' up their sleeves, this may well be another win for the lucky country.

Since our last review, we are at last seeing some "green shoots" in developed economies which hint at stronger future economic growth. The winding back of quantitative easing is an essential prerequisite for normalizing investment conditions. However, the road to recovery will be long and the generally low return environment is likely to persist for at least the medium term.

While all governments recognize the essential role that infrastructure plays in ensuring economic growth, the policies adopted by advanced economies to ensure adequate investment differ markedly both in concept and effectiveness.

Post GFC, Australia has almost been alone in championing the cause of the large-scale recycling of government assets and services. The past few years have seen a raft of large brownfield asset sales across roads, ports, electricity transmission & distribution and social infrastructure.

Strong demand for infrastructure assets from Australia's large superannuation funds is undoubtedly a factor in government thinking. The funds provide an acceptable face for the private sector, making "social privatization" generally more acceptable to voters.

As an example, Hostplus, an Australian not-for-profit superannuation fund which oversees A$23bn of assets on behalf of one million members, recently stated that it expects to raise the proportion of its balanced fund invested in infrastructure assets from 10% to 12%. The size of this allocation is not out of keeping with the broader trend among Australian industry funds.

The next stage of the "Australian experience" will be to see how well the proceeds of these transactions are re-invested into greenfield, growth-orientated infrastructure.

This raises the question: what opportunities and developments will lie ahead for private sector investors?

DE FACTO INFRASTRUCTURE BANK

Asset recycling involves state governments developing greenfield assets with the express intention of the future 'sale' (via long-term concessions) to the private sector. In this model, private investors are not exposed to greenfield patronage risk which has proved so problematic in many first-generation transport Public Private Partnership (PPP) concessions.

It is a pragmatic approach to unlocking private sector investment; if successful it will create a de facto infrastructure bank, continually re-investing sale proceeds in new infrastructure. The risk, however, is a feast-or-famine cycle developing in investment opportunities.

In Australia, New South Wales has by far the largest recycling pipeline. It has also proven to be flexible and is currently considering a pre-completion 'sale' of the large West Connex project after approaches from interested investors.

Other state governments are committed to asset recycling to greater or lesser extent. However, asset selection is strongly influenced by political acceptability.

GREATER EFFICIENCY AND GOVERNANCE

A second innovation in infrastructure funding may also have significant long-term impacts. In the latest Federal budget, infrastructure funding arrangements with the states have been radically reformed. Federal grants are now tied to funding specific projects, removing the discretion in spending federal grants previously allowed to states.

The rationale is to improve project governance as every project is subject to a comprehensive standardized benefit cost analysis. Overall, we believe that the policy reform could lead to an improvement in the efficiency of overall government infrastructure investment, although to maintain investor confidence and momentum, it is essential that politicians resist the temptations to bypass good policy development in exchange of short-term populist decisions.

PRIVATIZATION WINNERS AND LOSERS

While a number of state governments sought an electoral mandate to commence large asset 'sales' programs, New South Wales has been the most notable success story. It pushed through its program of full or partial long-term concession transactions of electricity transmission and distribution networks and other state-run services. The sale of the Port of Melbourne in Victoria was also a notable success.

State governments have enjoyed strong returns off the back of these 'sales' well above initial expectations due to strong international and local investor interest. And given its early mover advantage, New South Wales came out particularly well.

However, since these sales, there has been a tightening of foreign investment guidelines, which has seen some heat come out of the market. In addition, the electricity distribution operating model is entering a period of heightened operating and regulatory risk. The states that failed to push through asset sales may find it more challenging to achieve commensurate results in future sales.

PRIVATIZATION PIPELINE RUNNING OUT OF STEAM

The asset recycling pipeline of large cap assets that fuelled the privatization boom is running out of steam[1].

Political opposition has seen most of the prospective sales involving electricity transmission and distribution assets in Queensland, Western Australia and Tasmania previously withdrawn from 'sale'. These 'sales' will not happen under the incumbent state governments.

The most reliable indicator of the future pipeline of assets are the already announced and credible proposed transactions, currently totalling less than A$10bn.

GREENFIELD BOOM THANKS TO PUBLIC FUNDING

In contrast to the hiatus in large cap privatizations, the development of greenfield economic infrastructure, particularly road and rail, is entering a boom driven by increased public sector investment[2]. Total active prospective projects (announced, under procurement and preferred bidder stage) total almost A$70bn, in addition to the A$35bn currently under development.

Not included in this prospective list is the A$5bn project to develop Sydney's second airport at Badgery's Creek. Construction of the project will begin in 2019 using a traditional design and construction approach and federal funding. Initially intended to be operated by a government-owned corporation, it is an obvious candidate for future sale, given the great success of airport privatizations in Australia.

This project will also act as a catalyst for the development of supporting infrastructure projects, including road and rail connections.

Bulging state coffers in New South Wales are now funding the development of a flurry of transport and social infrastructure projects, with more than A$20bn in projects announced and under procurement. Alongside mega transport projects, there are several hospitals and an innovative low-cost housing project. These are potentially suitable for development as PPPs with the private sector.

Victoria has also had a strong infrastructure investment pipeline investing mainly in road and rail upgrades. Announced and under procurement projects total approximately A$12bn. They feature an unusual A$1bn social housing PPP which is currently under procurement. This may mark a new model of social housing provision in Australia.

Queensland announced and under procurement projects total approximately A$5bn. These are focussed mainly on transport infrastructure and are reliant to a significant degree on federal government grants. There appears to be little opportunity for private sector investors.

New Zealand announced and under procurement projects total approximately NZ$8bn, including a mix of social, transport and water treatment and distribution projects, with some potential private sector involvement through PPPs.

AUSTRALIAN ENERGY SECTOR DEVELOPMENTS

In contrast to the largely bi-partisan support for private sector investment in infrastructure, Australian energy policy has seen bitter political infighting. Generating plant closures and extreme weather events have revealed supply vulnerabilities in the eastern states. A recent review by Australia's Chief Scientist concluded[3] that the greatest threat to energy security is policy uncertainty which is stifling investment in the generating sector. More specifically:

- A lack of long-term national policy on carbon pricing has slowed new utility scale generation projects;
- A lack of base load investments has resulted in increased reliance on gas-fuelled intermediate generation;
- Renewable targets subsidies have resulted in increased penetration of intermittent renewable generation giving rise to concerns about network stability;
- While Australia is now the world's largest exporter of LNG, East Coast gas prices have soared as a result of inadequate reservations for domestic customers; restrictions on on-shore CSG development; and lack of capacity trading liquidity in the gas transportation market.

This comes at a time when technological change permits marked improvements in network utilization which should be producing lower costs for consumers. Australia's regulatory framework is an impediment to the effective utilization of the new technology. Assuming legacy technology, it mandates a strict separation of roles for distribution system operators and electricity retailers. The effective integration of small-scale distributed generators and batteries into networks will require a more flexible regulatory framework.

The result of these uncertainties has been a ~20% increase in retail electricity prices in recent months. Consequently, energy cost and reliability of supply has become a top political issue in Australia. Government intervention in the National Energy market has been swift as summarized below:

- The South Australian state government has called for the immediate construction of new gas-powered generation station and a high-profile 129 MWh battery storage facility, designed for network support;
- A federal requirement to reserve gas for domestic use. Gas pipelines will be needed to divert export volumes into the domestic transmission system;
- A requirement that new utility scale renewable generators are coupled with either new energy storage or fast response generators.

To date, there has been little clarity on a longer-term clean energy policy, which is likely to lead to continuing disruption in the sector. In contrast, New Zealand energy

[1]*Infrastructure Pipeline: Brownfield by Transaction Status, Infrastructure Partnerships Australia.*
[2]*Infrastructure Pipeline: Greenfield by Project Status, Infrastructure Partnerships Australia.*
[3]*Independent Review into the Future Security of the National Electricity Market - Blueprint for the Future June 2017*

policy is much more settled and its energy regulatory system seems more capable of adapting to technological change.

OPPORTUNITIES - COMPETITION WILL BE FIERCE

According to a 2015 McKinsey Global Institute paper, we are on the cusp of seeing a much-needed global build-out in greenfield infrastructure, to the tune of US$57tn worth of assets required over the next 15 years.

Overall, while medium- and longer-term prospects look good, the opportunities for investors in large projects are few in the shorter term. We expect short-term investment activity to be dominated by small and medium opportunities.

In the absence of immediate mega deals and tightening foreign investment guidelines, we expect that large foreign investors will show less interest in Australia. However, local superannuation funds have ample "dry powder" and competition for quality core infrastructure assets will be fierce.

Falling foreign interest and the prospect of rising long-term bond rates off the back of winding back of quantitative easing in the US has led to asset prices finally appearing to stabilize.

Australia's social PPP market is continuing to attract investors, due to high yields and bond proxy characteristics. The greenfield and brownfield pipelines are strong, and include opportunities in social housing in NSW, Queensland and Victoria, school portfolios across Western Australia Queensland and Victoria, hospitals in NSW and South Australia and light rail projects in Queensland, NSW, the ACT and Victoria.

Fig. 1: Risk Profiles of the Opportunities Expected to Emerge in the Next 12 Months

Sector	Opportunity	Risk Profile
Transport	Rail rolling stock	Availability contract
	Newly built toll roads	Availability contract
	Light Rail	Availability contract
Energy	Gas transmission	Capacity contracts
	Fast response gas generation	Availability and performance contracts
	Electricity storage	Availability and performance contracts
	Rooftop PV/battery	P/E play
Social	Health	PPP concessions
	Public housing	PPP concessions
	Aged care	Occupancy, operational and regulatory
	Schools	PPP concessions

Source: AMP Capital

WHERE TO NEXT? ENERGY SECTOR REFORM OPPORTUNITIES

For investors seeking higher returns, opportunities emerging from the reform of the energy sector look promising. Emerging opportunities include:

1. reducing costs are seeing increasing penetration of residential photovoltaic generation, more recently combined with batteries;
2. in gas processing, transmission and storage;
3. new gas-fired peaking generation and large-scale energy storage for network support.

Risk profiles of the opportunities expected to emerge in the next 12 months are summarized in Fig. 1.

CONSISTENCY AND CONFIDENCE CONTINUES

Both policy makers and investors are queuing up to explore new methods of efficiently deploying private capital to develop and operate Australia's next generation of infrastructure. With a long track record of successful delivery of high-quality assets behind us, both Australia and New Zealand are in the box seat in terms of operating to high standards, supported by contracts forms and regulation.

For investors, this consistency has been the key in creating the confidence necessary for investors to continue to commit to the sector.

In this context, the forecast slowdown in the value of short-term investment versus the recent levels of large transactions is a timing issue and in no way signals a lessening in confidence in the partnership between government and private capital that has emerged in recent years. Medium-term prospects continue to look strong and attractive, although to maintain investor confidence and momentum, it is essential that politicians resist the temptation to bypass good policy development in exchange of short-term populist decisions.

AMP CAPITAL

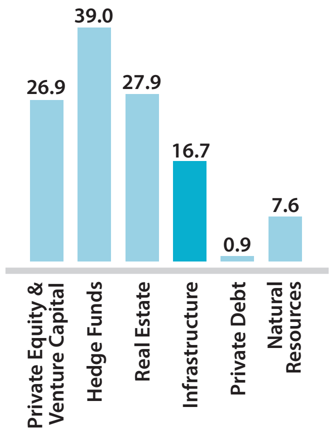
AMP Capital is one of the largest investment managers in the Asia Pacific region. As part of the AMP Group, AMP Capital shares a heritage that spans over 160 years. AMP Capital's home strength in Australia and New Zealand has enabled the firm to grow internationally, and today has operations established in the Middle East, China, Hong Kong, India, Ireland, Japan, Luxembourg, the United Kingdom and the United States. The firm also collaborates with a network of global investment partners, leveraging shared capabilities to provide greater access to new investment opportunities.

www.ampcapital.com

ASSETS UNDER MANAGEMENT AND DRY POWDER

Australia and New Zealand is the second largest infrastructure market in the Asia-Pacific region; the Chinese market constitutes 40% of the $64bn in Asia-Pacific infrastructure assets under management, while Australia- and New Zealand-based fund managers hold one-fifth of total assets.

AUSTRALIA AND NEW ZEALAND INDUSTRY ASSETS UNDER MANAGEMENT (A$bn)



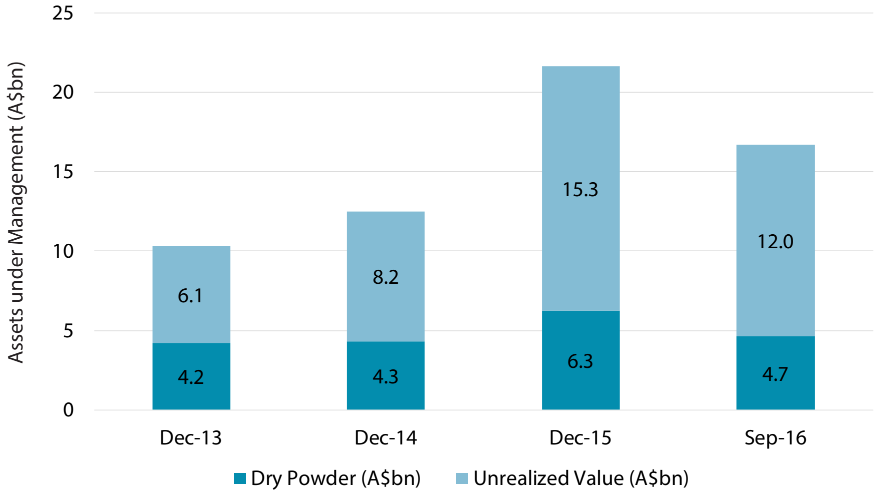
ASSET GROWTH

Since December 2013, the unlisted infrastructure market in Australia and New Zealand has grown by 62% from A$10bn to A$17bn, as at September 2016 (Fig. 5.1). Part of this growth can be attributed to the increased levels of private sector investment in the Australian infrastructure industry as Infrastructure Australia looks to complete its mandate of progressing nationally significant infrastructure. Australia was home to the fifth highest number of public private partnership (PPP) deals completed globally over the course of 2015 and 2016, illustrating how government activity has helped drive the growth of the unlisted infrastructure industry in the region.

TARGETED REGIONS

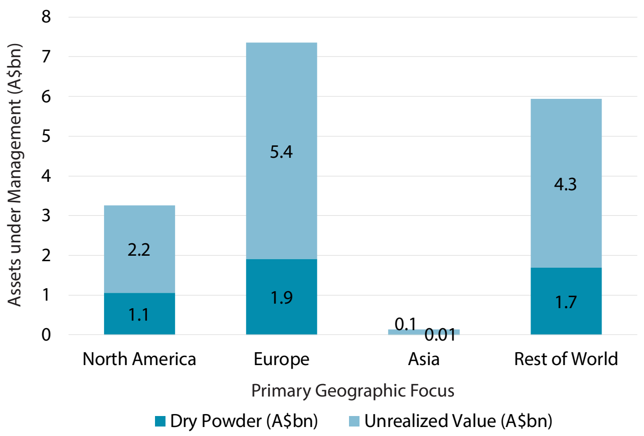
Fig. 5.2 shows that while Europe is the ultimate destination for the greatest proportion of Australia- and New Zealand-based capital, a significant proportion of fund managers look to target domestic investments. Despite Asian infrastructure markets being geographically close to Australia and New Zealand, the region is not targeted heavily by these firms, which typically look instead towards the more developed industries of North America and Europe when allocating internationally.

Fig. 5.1: Australia- and New Zealand-Based Unlisted Infrastructure Assets under Management, 2013 - 2016 (As at September 2016)



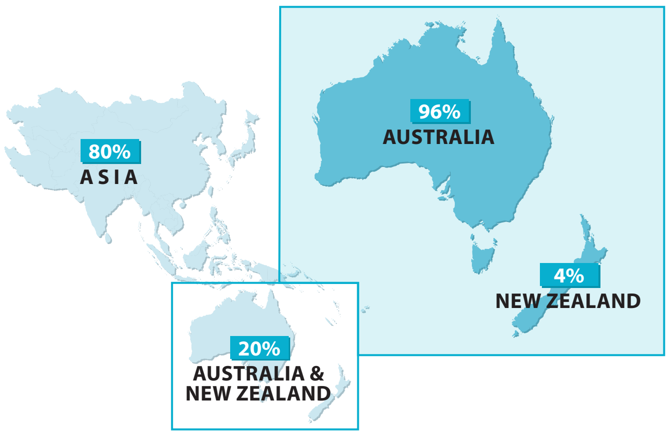
Source: Preqin Infrastructure Online

Fig. 5.2: Australia- and New Zealand-Based Unlisted Infrastructure Assets under Management by Primary Geographic Focus (As at September 2016)



Source: Preqin Infrastructure Online

Fig. 5.3: Location of Asia-Pacific-Based Unlisted Infrastructure Industry Assets



Source: Preqin Infrastructure Online

FUNDRAISING

The unlisted infrastructure fundraising activity of Australia- and New Zealand-based managers has increased in recent years, with at least A$3bn raised annually since 2015 (Fig. 5.4). The average fund size has also grown as managers look to secure more capital, perhaps in response to increasing asset valuations in the market.

STRATEGIES

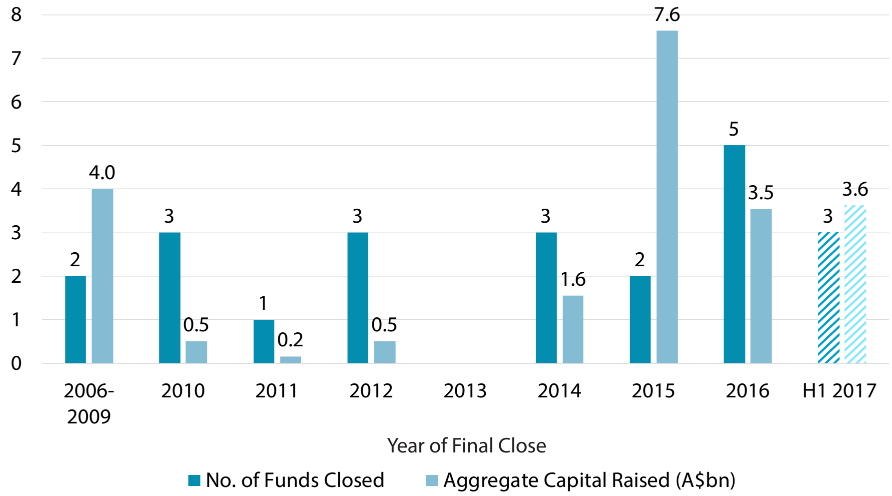
Australia- and New Zealand-based funds target a mix of strategies, with brownfield investments targeted by the greatest proportion (82%) of funds (Fig. 5.5). Relatively large proportions of funds also seek greenfield (59%) and secondary stage assets (45%), highlighting the diverse offering from Australia- and New Zealand-based managers.

One such fund targeting brownfield and greenfield investment is QIC Global Infrastructure Fund, which accounts for the majority of capital secured by Australia- and New Zealand-based unlisted infrastructure funds closed in 2017 so far.

FUNDS IN MARKET

Of the Australia- and New Zealand-based funds currently seeking capital, debt strategies dominate: four of the five funds in market operate a debt strategy, accounting for 72% of the A$11bn targeted. Unlisted infrastructure debt financing is a relatively youthful sector of the industry, and its emergence and gathering momentum has driven the capital targeted by Australia- and New Zealand-based funds to its highest level in six years.

Fig. 5.4: Annual Australia- and New Zealand-Based Unlisted Infrastructure Fundraising, 2006 - H1 2017

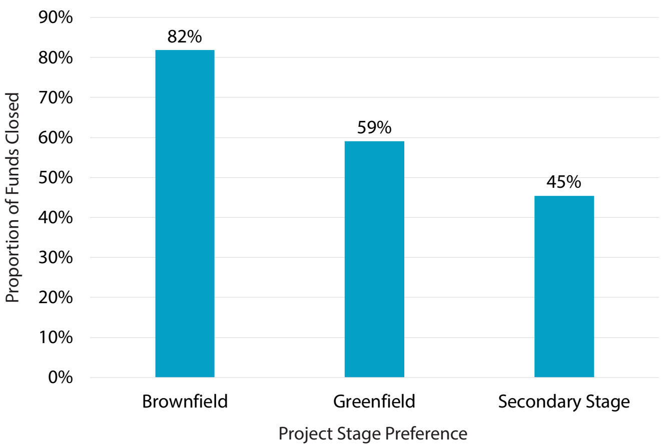


Source: Preqin Infrastructure Online

FUND PROFILE

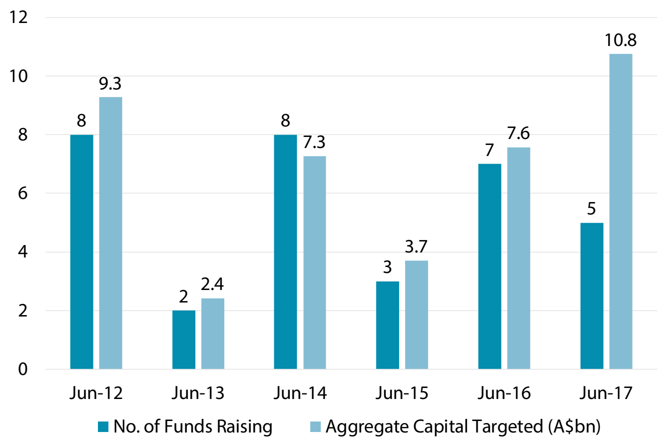
Fund:	QIC Global Infrastructure Fund
Manager:	QIC Global Infrastructure
Final Size:	AUD 2bn
Close Date:	May-17
Strategy:	Targets greenfield and brownfield assets in OECD markets in industries including transportation, energy, utilities and other social infrastructure sectors.

Fig. 5.5: Australia- and New Zealand-Based Unlisted Infrastructure Fundraising by Project Stage Preference, 2006 - H1 2017



Source: Preqin Infrastructure Online

Fig. 5.6: Australia- and New Zealand-Based Unlisted Infrastructure Funds in Market over Time, 2012 - 2017



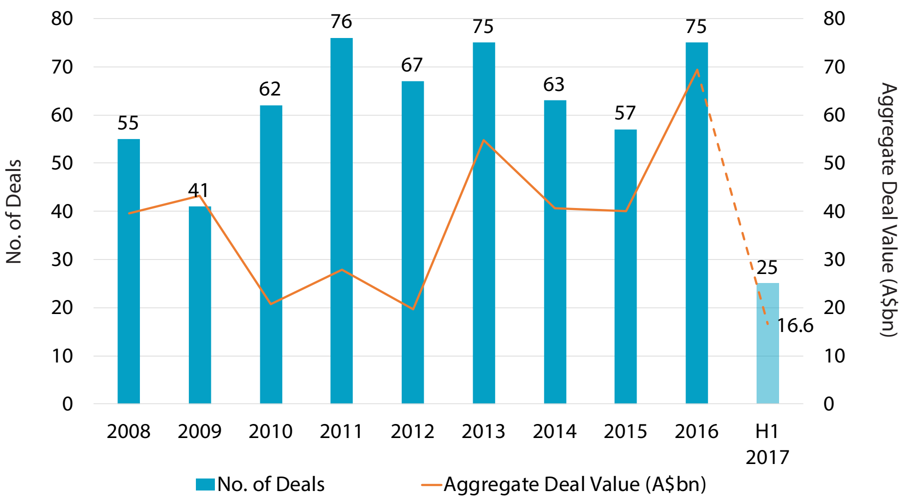
Source: Preqin Infrastructure Online

DEALS

Australia and New Zealand have seen 596 infrastructure deals completed since 2008 for an aggregate A$373bn. In 2016, there were 75 deals completed for a record A$69bn (Fig. 5.7) yet, despite this, the average size of deals completed in 2016 decreased to A$713mn – less than that of both 2015 (A$900mn) and 2014 (A$788mn).

In general, the value of deals in Australia and New Zealand is significantly higher than in the private equity real estate market, with several notable deals completed for over A$5bn in recent years (see page 53).

Fig. 5.7: Completed Infrastructure Deals in Australia and New Zealand, 2008 - H1 2017



Source: Preqin Infrastructure Online

INDUSTRY

The majority (52%) of deals completed in Australia and New Zealand in 2017 so far involve renewable energy assets, which have continued to rise in prominence in recent years (Fig. 5.8). One such high-profile deal was Renewable Energy System's agreement to construct the Murra Warra Wind Farm for US$662mn in December 2016. Conversely, utilities assets were more prominent between 2006 and 2012, but account for just 4% of deals completed in 2017 so far (as at June).

In addition, transport assets account for 31% of all deals completed in Australia and New Zealand since 2012. Recently, unlisted infrastructure funds have purchased leases of high-profile assets such as the Port of Melbourne and Sunshine Coast Airport, which were completed for A$9.7bn and A$605mn in September 2016 and February 2017 respectively.

PROJECT STAGE

In 2015 and 2016, brownfield asset represented larger proportions of completed infrastructure deals than in previous years, perhaps driven by the Australian Government's plans to improve the country's infrastructure. This being said, as at July 2017 greenfield assets represent the majority (60%) of completed deals (Fig. 5.9).

AVERAGE SIZE OF COMPLETED INFRASTRUCTURE DEALS IN AUSTRALIA AND NEW ZEALAND (A$mn)

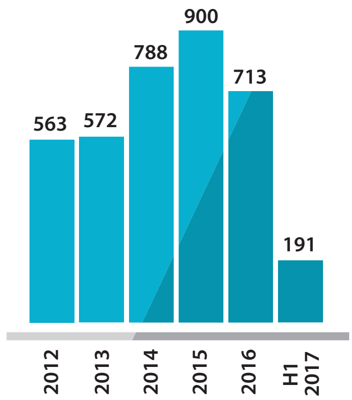
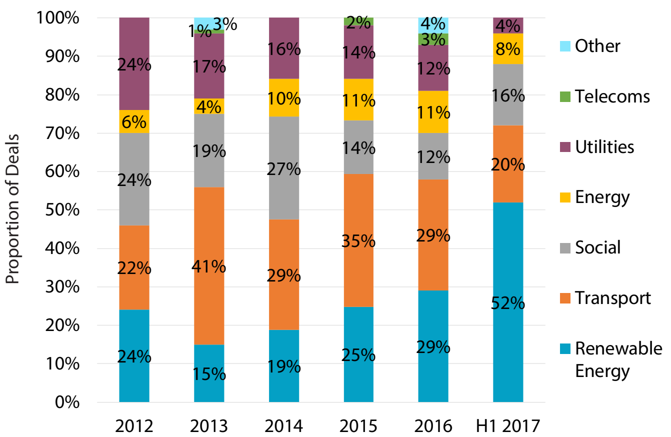
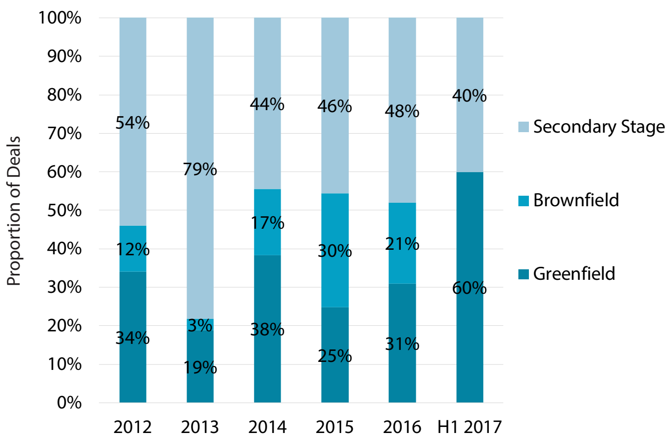


Fig. 5.8: Infrastructure Deals Completed in Australia and New Zealand by Industry, 2012 - H1 2017



Source: Preqin Infrastructure Online

Fig. 5.9: Infrastructure Deals Completed in Australia and New Zealand by Project Stage, 2012 - H1 2017



Source: Preqin Infrastructure Online

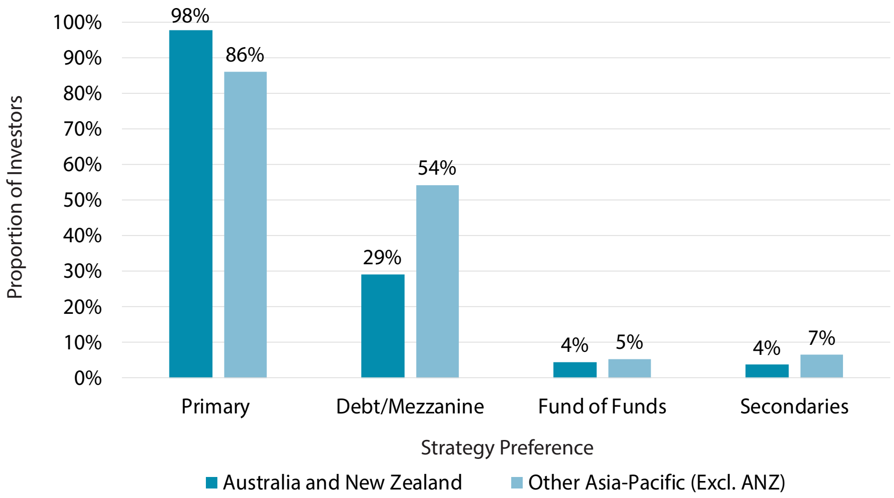
INVESTORS

Preqin's **Infrastructure Online** currently tracks 148 Australia- and New Zealand-based active investors in infrastructure, a 35% increase from 2013.

STRATEGIES

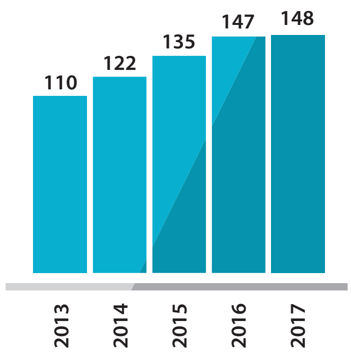
Nearly every investor located in Australia and New Zealand looks to access the infrastructure market via primary vehicles (Fig. 5.10). While this is similar for investors based elsewhere in Asia-Pacific, a greater proportion of these investors also look to allocate via debt/mezzanine strategies, a trend similar to that seen in the real estate market globally.

Fig. 5.10: Strategy Preferences of Infrastructure Investors by Location



Source: Preqin Infrastructure Online

NO. OF AUSTRALIA- AND NEW ZEALAND-BASED INFRASTRUCTURE INVESTORS



INVESTOR TYPE

As seen in Fig. 5.11, more than half (51%) of infrastructure investors based in Australia and New Zealand are superannuation schemes, while banks and insurance companies account for the majority of infrastructure investors based elsewhere in Asia-Pacific.

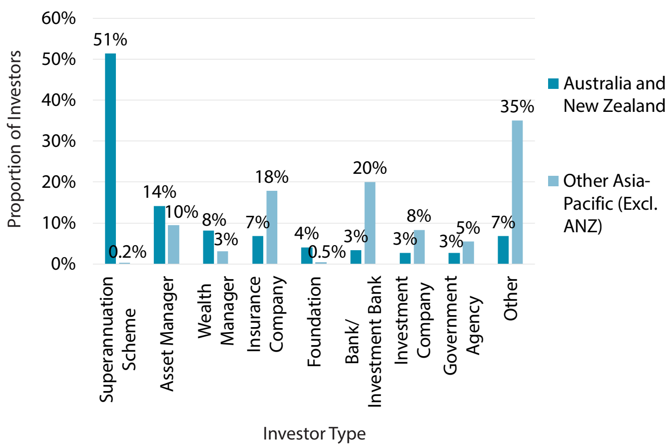
ROUTE TO MARKET

Unlisted vehicles are the preferred route to market for the majority (85%) of Australia- and New Zealand-based investors, and a greater proportion of other Asia-Pacific-based investors allocate directly (58% vs. 35%). Despite this, investors in Australia and New Zealand have been involved in notable infrastructure deals, such as the deal for Ausgrid (see page 53).

ALLOCATIONS

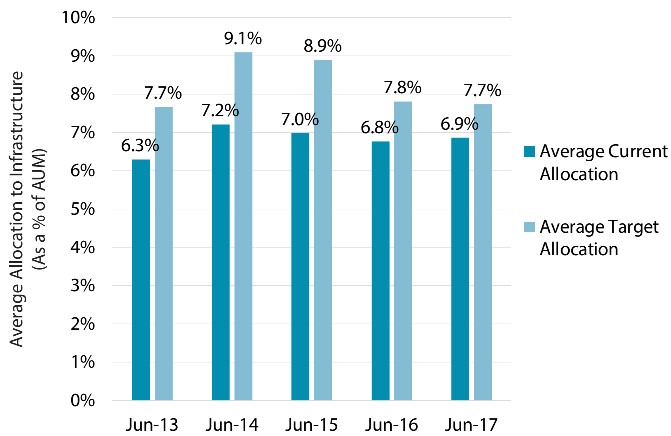
Historically, Australia- and New Zealand-based investors have been below their strategic target allocations to infrastructure, at an average current allocation of 6.8% (Fig. 5.12). However, the gap between their current and target allocations has narrowed in recent years.

Fig. 5.11: Infrastructure Investors by Type and Location



Source: Preqin Infrastructure Online

Fig. 5.12: Australia- and New Zealand-Based Investors' Average Current and Target Allocation to Infrastructure, 2013 - 2017



Source: Preqin Infrastructure Online

SECTION SIX: PRIVATE DEBT

AUSTRALIAN PRIVATE DEBT: AN ASSET CLASS IN THE MAKING

- Yanese Chellapen, **Unkapt Capital**

How have market conditions in Australia changed over recent years and how have you adapted to this changing market environment?
The headlines for an emerging private debt industry have not changed from post Global Financial Crisis (GFC) and Australia is no different to its peers in that respect. Portfolio re-allocation towards private debt is driven by the ongoing low interest rate environment and the hunt for yield by investors has helped to provide the initial boost to the private debt industry.

The tightening in banking regulation has led Australian banks to recast their lending risk profile, reduce risky lending and shore up their balance sheet to meet the enhanced regulatory requirements. Considering Australian financial institutions account for approximately 90% of the Australian credit market, the withdrawal of banks from risky lending is leaving a non-negligible gap for non-traditional lenders to fill. As a result, the marketplace lending (MPL) business model has emerged in the alternative asset class in Australia (including property and SME direct lending [mainly short-term loans]). MPL is now a solid contributor to private debt deal flow (albeit predominantly at the consumer and small business end of the market with opportunity to participate in wholesale funding for bigger players).

However, the private debt industry is still embryonic in Australia and there is an acute supply and demand imbalance. There are too many deals chasing too little dry powder in the SME direct lending space. For Pennam Partners, this represented an opportunity to develop an intermediary product to plug into the medium- to long-term SME debt issuance. We have recently launched Unkapt, an online and cross-border platform for small- to lower-middle-market enterprises to raise non-equity capital using innovative financing instruments. Conversely, Unkapt provides institutional and sophisticated investors with access to vetted private debt asset deal flows using the platform's technological capabilities to accelerate their screening process.

What opportunities do you see for Australian private debt managers in 2017 and beyond?
We cannot obviously look past the SME direct lending space for the reasons we have alluded to before. It is more a matter of how quickly this private debt segment can grow and get the fund flow to address the current supply and demand imbalance.

From a global perspective, there is a gradual shift from sponsored to non-sponsored deals for private debt managers. However, in an Australian context, we still see sponsored deals providing equally good opportunities for local debt managers and growing concurrently with non-sponsored deals. There has been an increase in the local sponsor pool which was mainly driven by personnel spin-off from existing local private equity (PE) outfits, and these new PE funds are now live in the market. The attractiveness of the Australian M&A market for local and foreign PE firms is largely due to the buoyancy of the local market and its resilience amid headline economic uncertainties.

From a medium-term perspective, Australian private debt managers should consider venture capital debt and how this can fit within their investment strategies. Venture debt offering (and local providers) is virtually inexistent in Australia but for biotech where it is a natural fit to have venture debt incorporated into the financing structure. The start-up ecosystem is a fairly new ecosystem, which has developed over the last 5-6 years at a tremendous rate, and there are early signs the ecosystem is reaching maturity. There has been a material influx of local venture capital providers (including corporate VCs) in the past two years and we are now seeing later series venture capital funds being established with collaboration from superannuation funds. Equally, there is an increase in demand for later series venture capital investment by Australian scaled-up start-ups. Bigger investments by the local venture capital industry are going to drive penetration for venture debt providers and we are likely to see the emergence of venture debt on the local scene.

What are the biggest challenges facing the Australian debt market in the next 12 months?
The key challenge for the private debt market in Australia is to maintain the development of the private debt ecosystem and to increase the buy-in from institutional investors. While the market conditions have been favourable to the emergence of private debt in the Australian financing landscape, the Australian private debt market is miles behind those of the US and EU. It is imperative for the private debt industry to constantly push the private debt agenda locally and sell the merits of private debt to local institutional investors to ensure there is consistent uptake. Private debt strategy is not necessarily a strategy that is widely considered by the institutional investors (excluding the four biggest Australian asset managers) due to internal and regulatory regulations, and understanding the asset fit of private debt within the alternative asset portfolio allocation as it is currently competing against fixed income or private equity. Private debt has generated good traction with non-institutional investors (including self-managed superannuation funds), and we are seeing private debt participants tapping into non-institutional investors to pursue their private debt strategy. This includes, inter-alia, a private debt manager coming to the market with a $500mn public offer for a listed debt fund targeted at both institutional and non-institutional investors.

Undoubtedly, and from a sell-side perspective, private debt is here to stay.

However, the private debt industry has yet to be tested since its emergence has benefitted from tailwinds generated by the GFC and the resulting enhanced banking regulations. It will be interesting to see how the Australian private debt industry fares with an expected slowdown of the Australian economy, which is likely to, inter-alia, occur as a result of a downturn in the housing sector, a slowdown in the Chinese economy and enforced restriction on capital outflow from China for foreign investments. It will be interesting to see the impact on real estate alternative credit providers and whether this will produce something akin to post GFC when the bulk of the Australian mortgage fund industry was wiped out.

Why should global investors consider private debt managers based in Australia?

The Australian domain expertise in funds management (and its financial services sector) is very highly rated with highly developed financial markets, skilled workforce and strong leadership in the region. Political and economic stability together with a transparent legal and regulatory regime provide investors with the necessary certainty and confidence to leverage off the expertise of private debt managers. The Australian Government is actively supporting the export agenda of Australian fund managers and has been implementing measures such as the Investment Manager Regime and the Managed Investment Trust regime to increase the appeal of Australian fund managers.

However, Australian fund managers need to address the deal flow bandwidth in seeking local and international mandates. This has been a sticky point for local fund managers where historically even superannuation LPs had a preference for foreign fund management outfits but requiring them to maintain an Australian allocation in their investment portfolio rather than using locally based fund managers doing Australia-centric investments.

Do you see alternative funds trying to pick up distressed and special situations assets that the banks were selling? Why do you think this is the case?

While the GFC gave rise to debt book forced sale for banks, there is definitely a continuing pattern with Australian banks now adopting an overly cautious approach in relation to their distressed corporate assets. This is largely explained by the need to increase their capital adequacy ratio. This requires the banks to have a balancing act. Banks have to manage risk within their corporate lending segment, and also stress test how the poor performance of other lending segments (such as household mortgages) can permeate across and negatively impact on their corporate lending strategy.

Australian banks are not only reluctant to keep the 'life support' on for distressed companies but they are also moving quickly in retiring their exposure in relation to those assets by transferring them to alternative funds, which are likely to push for control via a debt-to-equity swap. Notable examples of late of secondary transactions include Slater & Gordon, BIS Industries, McAleese and Arrium with pricing from 20 cents to north of 65 cents in the dollar. Banks' exit from these distressed assets has been easily facilitated by the increasing demand of alternative funds for these types of secondary transactions.

We expect Australian banks to maintain the same pace in relation to selling distressed assets and our prediction is the property and retail sectors will directly and indirectly fuel distressed transactions.

UNKAPT CAPITAL

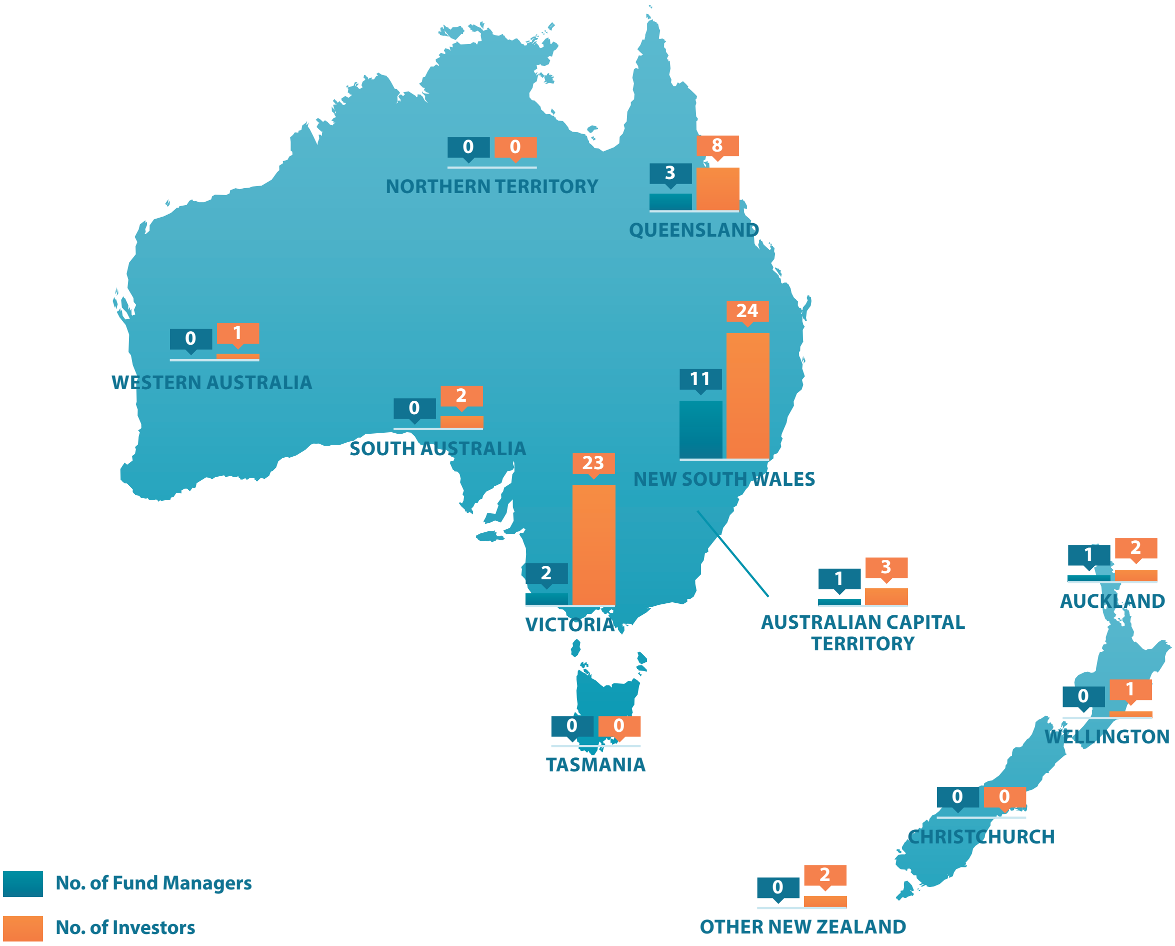
Unkapt, www.unkapt.capital, is a new private debt placement platform targeted at the small- to lower-middle-market. Its aim is to increase visibility for SMEs and mobilise investors seeking exposure to private debt investments by using Unkapt digital assets to facilitate and accelerate the capital raising and investment processes for issuers and investors respectively.

Unkapt is a spin-off of Pennam Partners, a Melbourne-based corporate advisory boutique firm. Pennam Partners provides, inter-alia, the following services: funding and business structuring, capital management strategies, corporate re-organisation, capital raising, fund incubation and bespoke financing strategies.

www.unkapt.capital

KEY FACTS

AUSTRALIA- AND NEW ZEALAND-BASED FUND MANAGERS AND INSTITUTIONAL INVESTORS ACTIVE IN PRIVATE DEBT



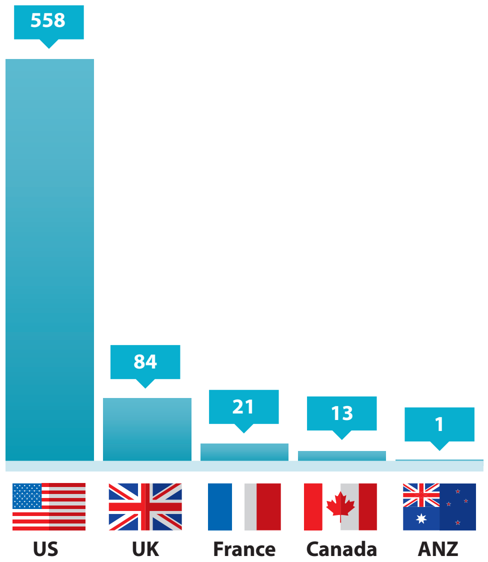
Largest Australia- and New Zealand-Based Private Debt Fund Managers by Aggregate Capital Raised in the Last 10 Years

Firm	Location	Aggregate Capital Raised in Last 10 Years (mn)
Goldman Sachs Australia	Sydney	467 USD
Anchorage Capital Partners	Sydney	447 USD

Largest Australia- and New Zealand-Based Investors by Current Allocation to Private Debt

Investor	Location	Type	Current Allocation to PD (bn)
Future Fund	Melbourne	Sovereign Wealth Fund	4.4 AUD
QIC	Brisbane	Asset Manager	3.8 AUD
Victorian Funds Management Corporation	Melbourne	Asset Manager	3.3 AUD
Pinnacle Investment Management	Sydney	Asset Manager	1.5 AUD
SunSuper	Sydney	Superannuation Scheme	0.6 AUD

PRIVATE DEBT INDUSTRY ASSETS UNDER MANAGEMENT (A$bn): AUSTRALIA AND NEW ZEALAND vs. MAJOR MARKETS



ASIA-PACIFIC-BASED PRIVATE DEBT INDUSTRY ASSETS UNDER MANAGEMENT (A$bn)

PRIVATE DEBT ONLINE

Private Debt Online is the leading source of data and intelligence on the growing private debt industry and tracks all aspects of the asset class, including fund managers, fund performance, fundraising, institutional investors and more.

Constantly updated by our team of dedicated researchers, **Private Debt Online** represents the most complete source of industry intelligence available today, with global coverage and all fund managers and investors profiled.

Get in touch today to arrange a demo of **Private Debt Online:** ✉: info@preqin.com | 🌐: www.preqin.com/privatedebt

ASSETS UNDER MANAGEMENT AND DRY POWDER

The private debt market in Australia and New Zealand is relatively underdeveloped and one of the smaller industries within the Asia-Pacific region. Accounting for just 3% of all Asia-Pacific private debt assets, the market in Australia and New Zealand at A$888mn is dwarfed by that of Hong Kong (A$12bn) and China (A$9.7bn).

AUSTRALIA AND NEW ZEALAND INDUSTRY ASSETS UNDER MANAGEMENT (A$bn)

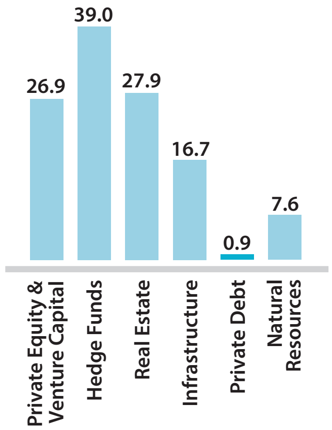
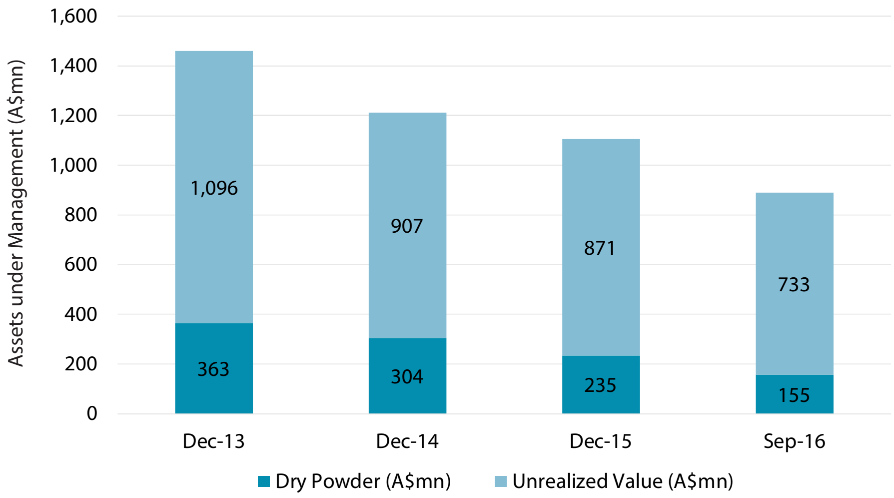


Fig. 6.1: Australia- and New Zealand- Based Private Debt Assets under Management, 2013 - 2016 (As at September 2016)



Source: Preqin Private Debt Online

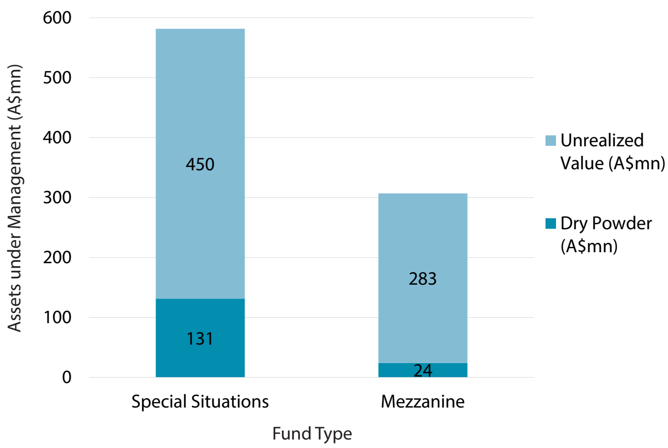
ASSETS

The level of Australia- and New Zealand-based private debt assets has substantially declined in recent years to stand at A$888mn as at September 2016, down 39% since the end of 2013 (Fig. 6.1). Part of this decrease can be attributed to the highly geared private sector of Australia; the low interest and cash rates in recent years have created cheap debt options, fuelling higher housing prices and saturating corporate credit markets. With the Reserve Bank of Australia holding the official interest rate at a record low, the demand for private debt capital in the country has waned.

STRATEGIES

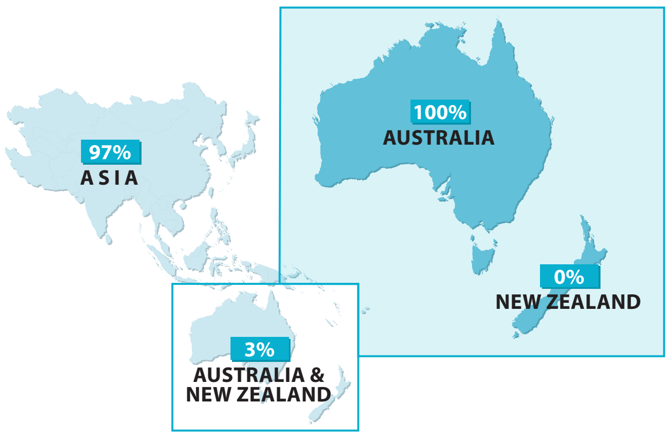
Despite this, managers are seeing opportunities for private debt investments in Australia, notably within special situations strategies: these strategies represent the greatest proportion (65%) of industry assets in the Australian private debt market (Fig. 6.2). Mezzanine vehicles also operate in the Australian market, managing an aggregate A$307mn in AUM, despite being substantially fewer in number than special situations funds.

Fig. 6.2: Australia- and New Zealand-Based Private Debt Assets under Management by Fund Type (As at September 2016)



Source: Preqin Private Debt Online

Fig. 6.3: Location of Asia-Pacific-Based Private Debt Industry Assets



Source: Preqin Private Debt Online

FUNDRAISING

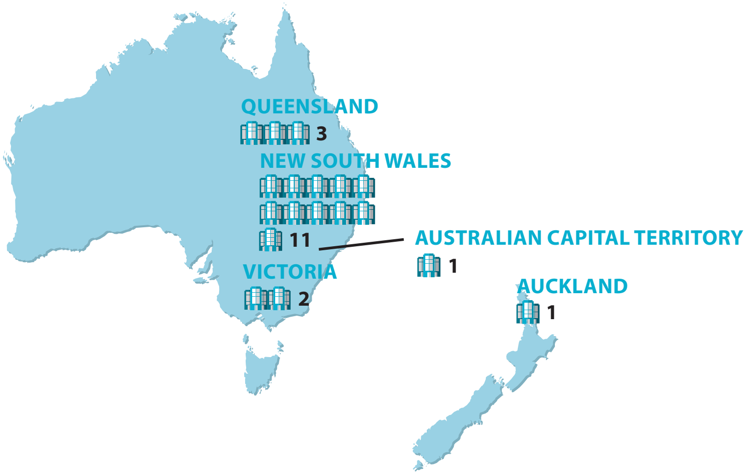
The private debt market of Australia and New Zealand remains in its infancy. It is therefore unsurprising to find that two-thirds of all Australia- and New Zealand-based private debt funds represent the managers' first private debt offering (Fig. 6.5).

Special situations-focused funds account for the largest proportion (44%) of all historical Australia- and New Zealand-based private debt funds to have reached a final close, although distressed debt funds have secured the majority (68%) of institutional capital (Fig. 6.6).

This increased proportion of capital secured is driven by large Australia- and New Zealand-based distressed debt funds entering the market: three of the five largest Australia- and New Zealand-based funds closed to date operate a distressed debt strategy, the largest being GS Special Opportunities Asia, which secured US$2.5bn in January 2000.

As at June 2017, there are two Australia- and New Zealand-based private debt funds in market, both of which have reached a first close: Arowana Australasian Special Situations Fund and Continuity Capital Private Credit Fund No.2, targeting A$100mn and US$50mn respectively.

Fig. 6.4: Private Debt Fund Managers in Australia and New Zealand

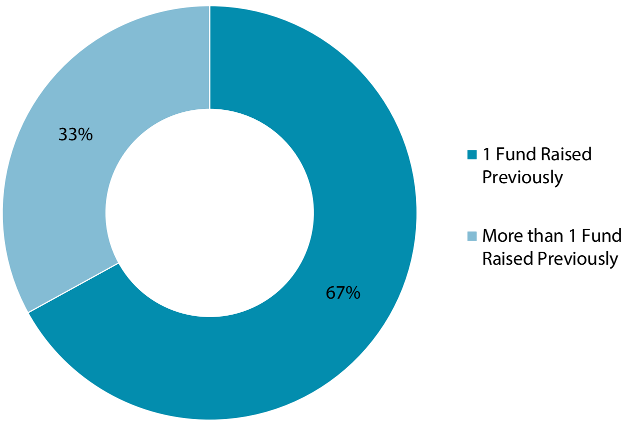


Source: Preqin Private Debt Online

FUND PROFILE

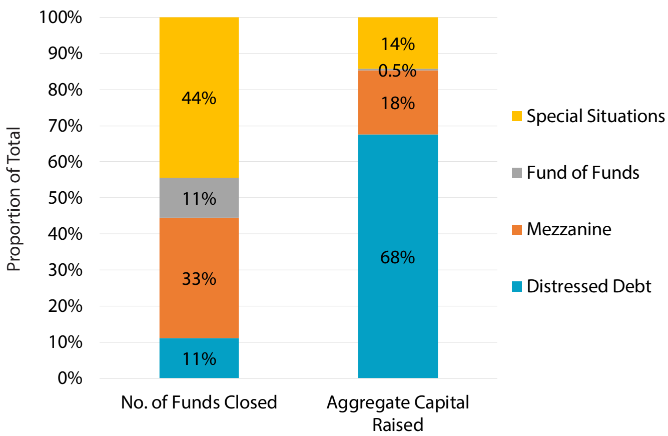
Fund: Continuity Capital Private Credit Fund No.2
Manager: Continuity Capital Partners
Status: First Close
Strategy: The Asia-focused fund of funds vehicle is targeting US$50mn in institutional capital to invest in secured loans through and alongside Asia-based private credit funds. It reached a first close in May 2017, securing US$40mn.

Fig. 6.5: Australia- and New Zealand-Based Private Debt Fund Managers by Experience, All Time



Source: Preqin Private Debt Online

Fig. 6.6: Australia- and New Zealand-Based Private Debt Fundraising by Fund Type, All Time



Source: Preqin Private Debt Online

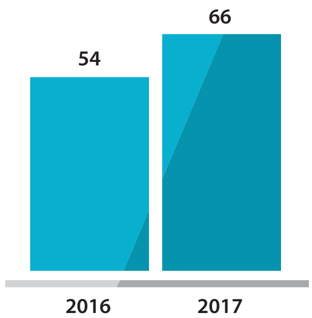
INVESTORS

Preqin's **Private Debt Online** tracks 66 Australia- and New Zealand-based investors active in the private debt asset class in 2017, marking a 22% increase from 2016.

STRATEGIES

As seen in Fig. 6.7, the majority (66%) of Australia- and New Zealand-based investors target distressed debt strategies, while nearly half (49%) focus on direct lending. Contrastingly, mezzanine strategies are targeted by the majority (61%) of investors based elsewhere in Asia-Pacific.

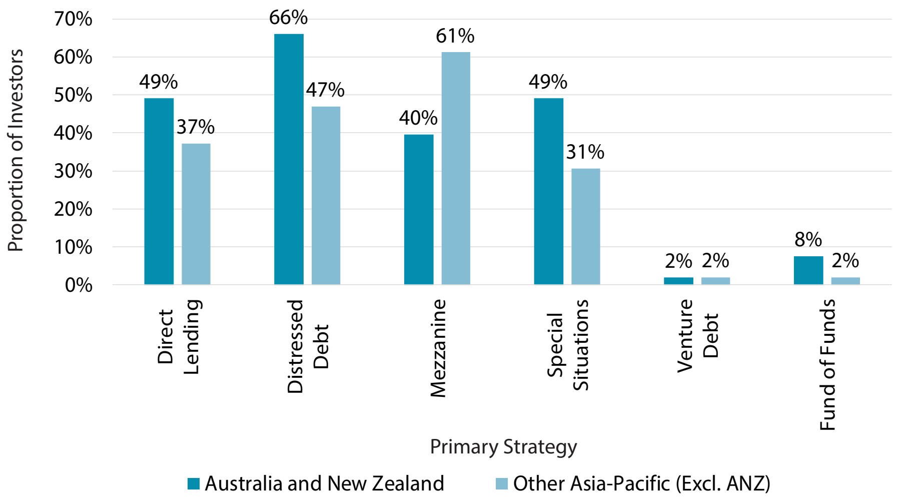
NO. OF ACTIVE AUSTRALIA- AND NEW ZEALAND-BASED PRIVATE DEBT INVESTORS



INVESTOR TYPE

As seen in Fig. 6.8, the majority (56%) of these investors are superannuation schemes, while 21% are asset managers.

Fig. 6.7: Strategy Preferences of Private Debt Investors by Location



Source: Preqin Private Debt Online

With such institutions typically larger in size, almost half (46%) of Australia- and New Zealand-based investors hold A$10bn or more in AUM.

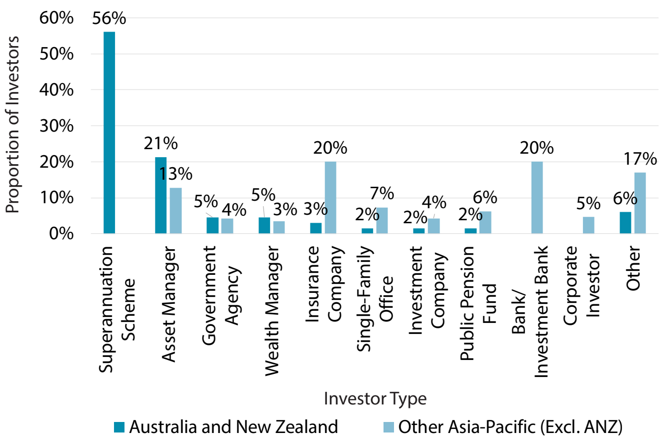
LOCATION PREFERENCES

Significant proportions of investors located in Australia and New Zealand look to foreign markets to invest in private debt: North America, Asia and Europe are targeted by 64%, 51% and 47% of these investors respectively, while 43% target Australasia, perhaps due to the more developed private credit markets in foreign countries.

ALLOCATIONS

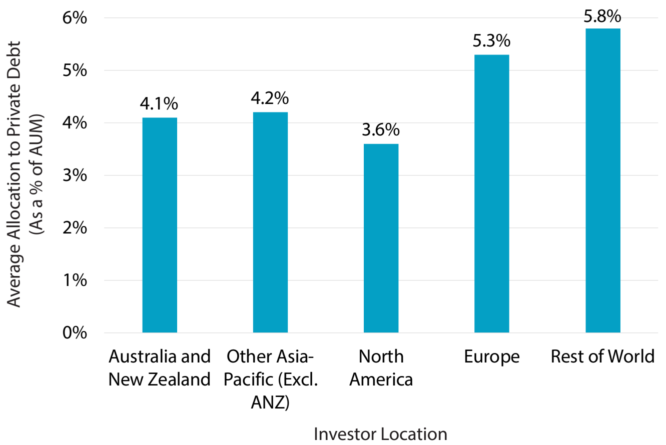
On average, Australia- and New Zealand-based investors currently allocate 4.1% of their total assets to private debt, a greater level than those based in North America (3.6%), but a broadly similar allocation to investors based elsewhere in Asia-Pacific (Fig. 6.9).

Fig. 6.8: Private Debt Investors by Type and Location



Source: Preqin Private Debt Online

Fig. 6.9: Investors' Average Current Allocation to Private Debt by Location

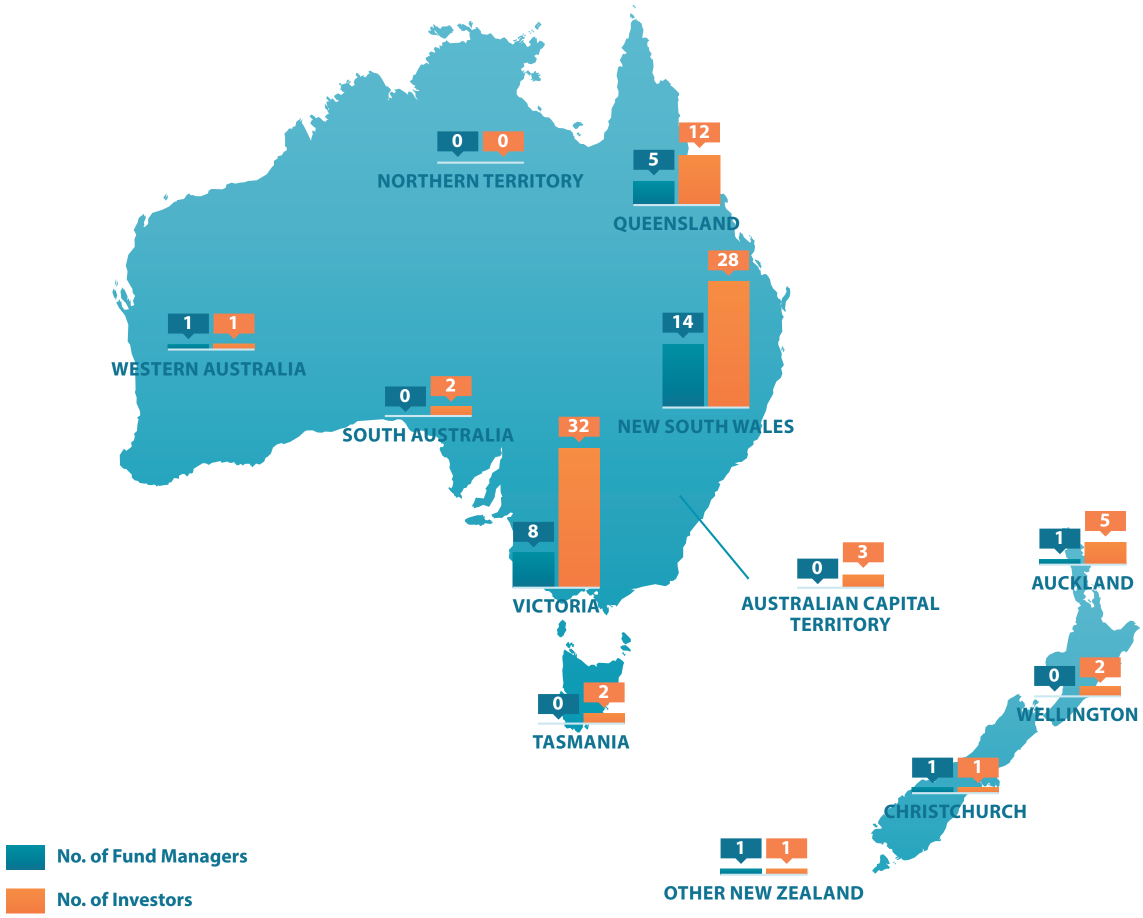


Source: Preqin Private Debt Online

SECTION SEVEN: NATURAL RESOURCES

KEY FACTS

AUSTRALIA- AND NEW ZEALAND-BASED FUND MANAGERS AND INSTITUTIONAL INVESTORS ACTIVE IN NATURAL RESOURCES



Largest Australia- and New Zealand-Based Unlisted Natural Resources Fund Managers by Aggregate Capital Raised in the Last 10 Years

Firm	Location	Aggregate Capital Raised in Last 10 Years (bn)
AMP Capital Investors	Sydney	3.4 USD
New Forests	Sydney	1.8 USD
QIC Global Infrastructure	Brisbane	1.8 USD
EMR Capital	Melbourne	1.5 USD
Taurus Fund Management	Sydney	1.2 USD

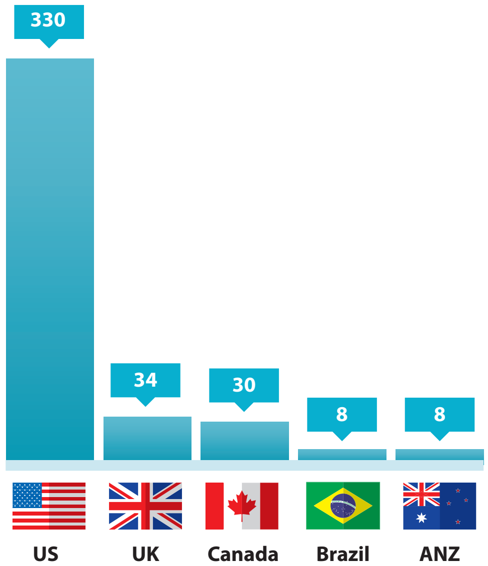
Largest Australia- and New Zealand-Based Investors by Current Allocation to Natural Resources

Investor	Location	Type	Current Allocation to NR (bn)
QIC	Brisbane	Asset Manager	1.9 AUD
New Zealand Superannuation Fund	Auckland	Sovereign Wealth Fund	2.1 NZD
SunSuper	Sydney	Superannuation Scheme	0.7 AUD

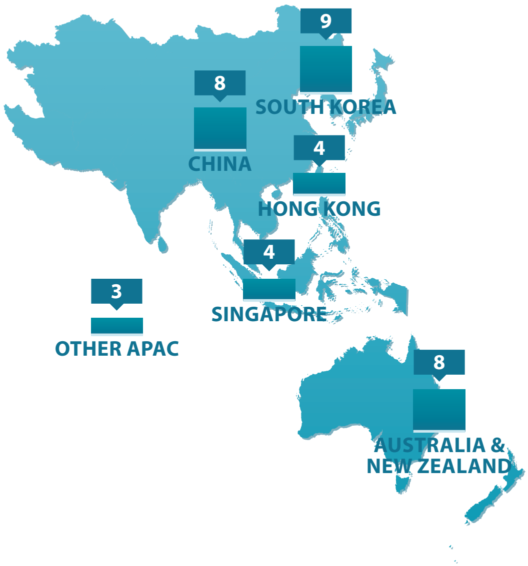
Sample Australia- and New Zealand-Based Unlisted Natural Resources Funds in Market (As at June 2017)

Fund	Firm	Location	Target Size (mn)	Primary Strategy
Powering Australian Renewables Fund	AGL Energy	Sydney	3,000 AUD	Energy
AMP Capital Infrastructure Debt Fund III	AMP Capital Investors	Sydney	2,000 AUD	Energy
Australia New Zealand Forest Fund 3	New Forests	Sydney	800 AUD	Timberland
Agro-Ecological NZ Farmland Fund	Agro-Ecological Investment Management	Hastings	300 NZD	Agriculture/Farmland

UNLISTED NATURAL RESOURCES INDUSTRY ASSETS UNDER MANAGEMENT (A$bn): AUSTRALIA AND NEW ZEALAND vs. MAJOR MARKETS



ASIA-PACIFIC-BASED UNLISTED NATURAL RESOURCES INDUSTRY ASSETS UNDER MANAGEMENT (A$bn)



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INVESTING THROUGH THE MINING CYCLE

- Mike Stirzaker, Dan Wilton and Matt Fifield, Pacific Road Capital

Where are we now in the mining cycle, and what does that mean for mining private equity (PE) opportunities?
We are in an extraordinary place to generate returns. The mining sector is just shaking off the effects of a bruising five-year bear market that has weakened the industry's ability to bring on supply. Through this downturn, mid-tier and major mining companies entered a period of focused cost rationalization where they have largely remained up to today. Early on, corporate discretionary spending slowed or halted. Exploration and development budgets were decimated, and exploration and development staff were terminated. The end of the downcycle saw corporates selling non-core assets, and in certain cases deferring essential production processes like pre-stripping. Despite commodity prices stabilizing and rising over the past two years, corporates have not yet returned to a growth agenda, favouring balance sheet repair and shareholder returns.

The steps that the mining industry took to ensure survival through this last downturn planted the seeds of the next strong cyclical upswing. The relentless opposing forces of higher global consumption of mined materials and mine depletion drives demand for new mines or mine expansions. In the medium term, when mid-tier corporates return to a growth agenda they will need to buy projects and production. At Pacific Road, we are positioning for this cyclical upturn.

How are valuations in your sector at the moment?
We see plenty of opportunity at compelling valuations. Junior mining companies are now finding more support from equity markets, but most need to raise multiples of their market capitalization to advance and construct their projects. This is our investment sweet spot. Looking more upmarket, we continue to see that the lending market is exceedingly choosy, and the gulf between "haves" and "have-nots" has widened significantly. We are currently looking at a number of high returning mezzanine and mine finance opportunities that stem from this change in risk appetite.

Are there any elements of mining private equity that make it different from other private equity?
Yes. Mining is a specialist technical field. Resource assessment, or understanding geologic risk and upside, is a core required in-house skill. We believe that our team's varied and long experience is a critical element for our success.

Mining is also facing real people constraints. The pool of talented mining executives is small, especially at that key risk-taking and decision-making stage of life between 35 and 55. Projects also require different leaders at different stages of their life: the people that find a mine are rarely the ones that permit it, or build it, or operate it. These two factors compound the importance of having access to good managers. At Pacific Road, we work hard to maintain a strong network of capable mining executives who we can bring to our investments at the right time.

Finally, unlike middle-market PE, the great majority of mining opportunities that we see are publicly listed. The Australian, Canadian and London public markets support a range of project developers in achieving a public listing, but access to continued funding can be fickle, with low liquidity and window-driven demand. This creates opportunity for patient private equity. The public nature of our target market requires strong practical knowledge of how to manage the entry, follow-on and exit of concentrated investments in public companies, and a good view into institutional investors' demands. A decade of private equity investing has created a valuable experience base from which we often draw.

Tell us about ESG and responsible investing in the mining sector.
You cannot invest in the mining industry without a strong ESG focus – it underpins the social licence to operate. Our portfolio companies have reached significant milestones and received awards for their safety, shared value and environmental stewardship. We pay close attention to risks and alignment around stakeholder management. Pacific Road is also a recent signatory to the UN Principles of Responsible Investment, and will start making public disclosures in 2018.

PACIFIC ROAD CAPITAL
Pacific Road Capital is a dedicated mining private equity investor. Founded in 2007, Pacific Road has made 21 investments in mining companies across two funds that total US$800mn. PRRF 2, our current fund, has six principal investments in development and operating stage mines that produce coking coal, mineral sands, base metals, gold and diamonds. Our investment team, based in Sydney and Vancouver, is comprised of lifelong participants in the mining sector that cover each of the main technical and financial disciplines.

www.pacroad.com

ASSETS UNDER MANAGEMENT AND DRY POWDER

Australia and New Zealand's natural resources market is the third largest in Asia-Pacific: Australia- and New Zealand-based managers operate A$7.6bn as at September 2016 (Fig. 7.1) – behind only South Korea- (A$8.6bn) and China-based (A$8.2bn) managers. Unsurprisingly then, within Asia-Pacific, unlisted natural resources is one of the alternative asset classes most dominated by Australia and New Zealand: together these countries represent 22% of total assets in the region.

AUSTRALIA AND NEW ZEALAND INDUSTRY ASSETS UNDER MANAGEMENT (A$bn)

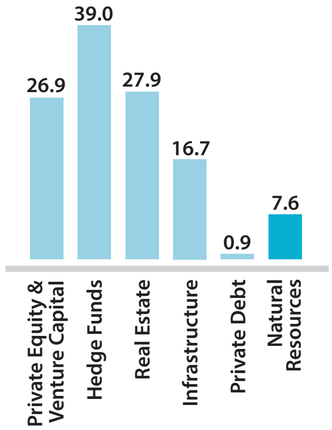
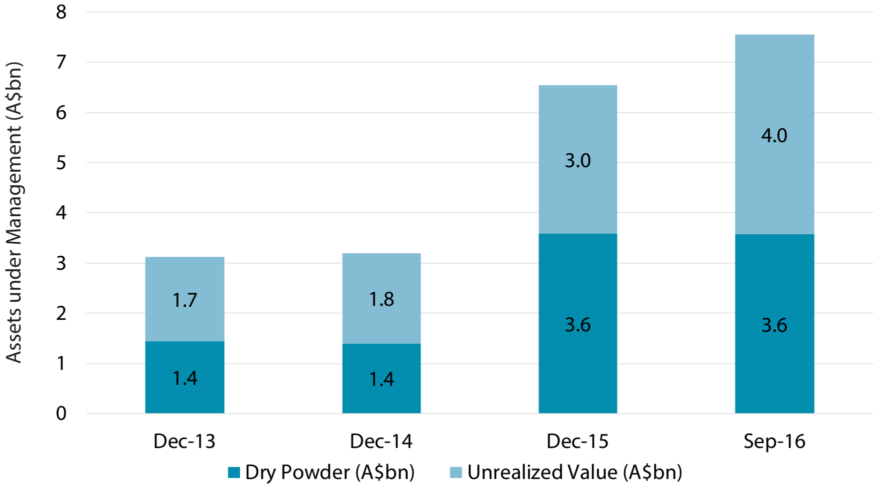


Fig. 7.1: Australia- and New Zealand- Based Natural Resources Assets under Management, 2013 - 2016 (As at September 2016)



Source: Preqin Natural Resources Online

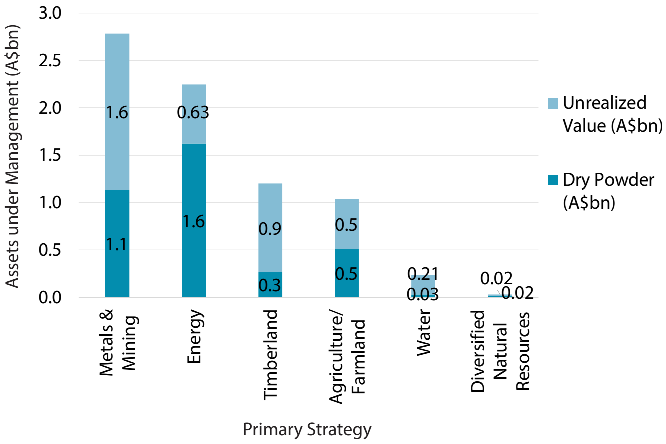
ASSET GROWTH

In a similar trend to that seen in the unlisted infrastructure market, the natural resources industry has grown significantly in recent years, more than doubling in size since 2013. However, over the course of the first three quarters of 2016, the rate of growth in the Australia and New Zealand market has slowed, with the industry increasing in size by 15%, the same growth rate as the global unlisted natural resources industry over the same period.

STRATEGIES

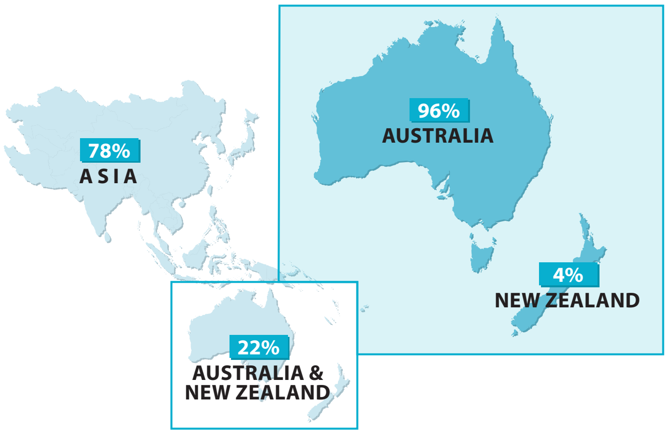
Metals & mining strategies account for the greatest proportion of Australia- and New Zealand-based natural resources AUM (Fig. 7.2). This is a different trend to that seen in the global market, where energy strategies dominate the industry's assets. This contrast can be largely attributed to Australia's presence as a world-leading producer of minerals, with nearly 400 operational mines located in the country providing ample opportunity for investment. The timberland and agriculture sectors of Australia and New Zealand also attract capital, with the former holding 24% of the region's unrealized value.

Fig. 7.2: Australia- and New Zealand-Based Natural Resources Assets under Management by Primary Strategy (As at September 2016)



Source: Preqin Natural Resources Online

Fig. 7.3: Location of Asia-Pacific-Based Unlisted Natural Resources Industry Assets



Source: Preqin Natural Resources Online

FUNDRAISING

Fundraising activity in the unlisted natural resources market in Australia and New Zealand has increased significantly in recent years, with the amount of capital secured at least doubling on an annual basis since 2013 (Fig. 7.4). The record-high level of institutional capital secured in 2016 was driven by the A$2.4bn closure of AMP Capital Global Infrastructure Fund, while 2017 has seen QIC Global Infrastructure Fund hold a final close securing A$2.35bn – both funds primarily target energy opportunities.

STRATEGIES

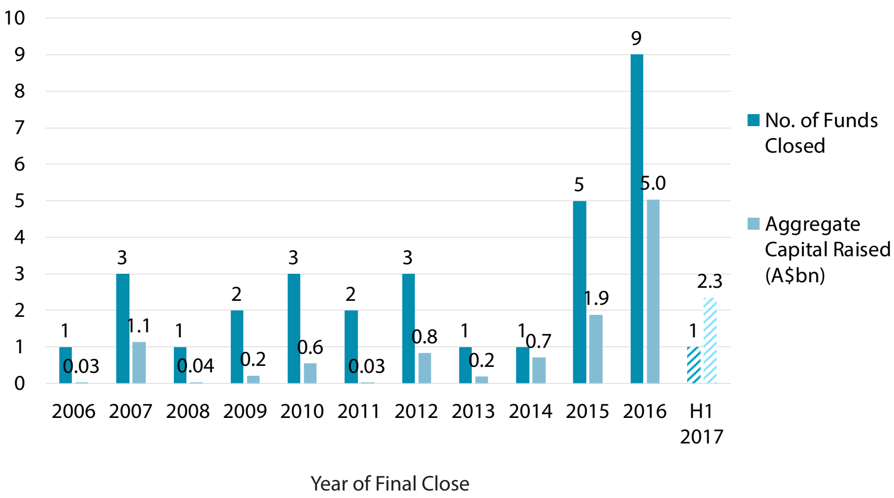
The largest proportion of Australia- and New Zealand-based unlisted natural resources vehicles closed since 2006 focus on metals & mining investments (Fig. 7.5), which is perhaps unsurprising given the size of the Australian mining industry. Just five energy-focused funds have reached a final close since 2006, yet these vehicles represent nearly half (46%) of all capital raised in the period, driven by large fund closures.

FUNDS IN MARKET

In line with the heightened activity seen in the fundraising environment, the number of Australia- and New Zealand-based funds seeking capital as at June 2017 has increased over the past 12 months: nine funds are currently seeking an aggregate A$9.3bn in institutional capital (Fig. 7.6). The majority of these funds will target agriculture/farmland and energy investments, with energy-focused funds representing 68% of the aggregate capital targeted.

If Powering Australian Renewables Fund meets its target, it will be the largest unlisted natural resources fund ever raised in Australia and New Zealand.

Fig. 7.4: Annual Australia- and New Zealand-Based Unlisted Natural Resources Fundraising, 2006 - H1 2017

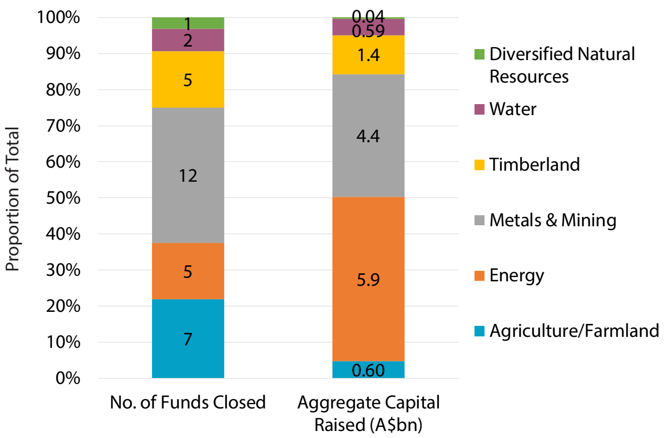


Source: Preqin Natural Resources Online

FUND PROFILE

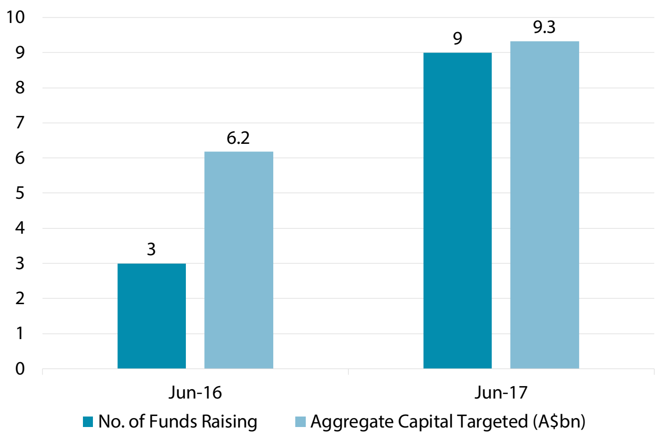
Fund: Powering Australian Renewables Fund
Manager: AGL Energy
Target Size: AUD 3bn
Vintage: 2017
Strategy: This vehicle looks to provide opportunities for Australia-based investors to finance their renewable assets portfolios, focusing on large-scale wind farms.

Fig. 7.5: Australia- and New Zealand-Based Unlisted Natural Resources Fundraising by Primary Strategy, 2006 - H1 2017



Source: Preqin Natural Resources Online

Fig. 7.6: Australia- and New Zealand-Based Unlisted Natural Resources Funds in Market, 2016 vs. 2017



Source: Preqin Natural Resources Online

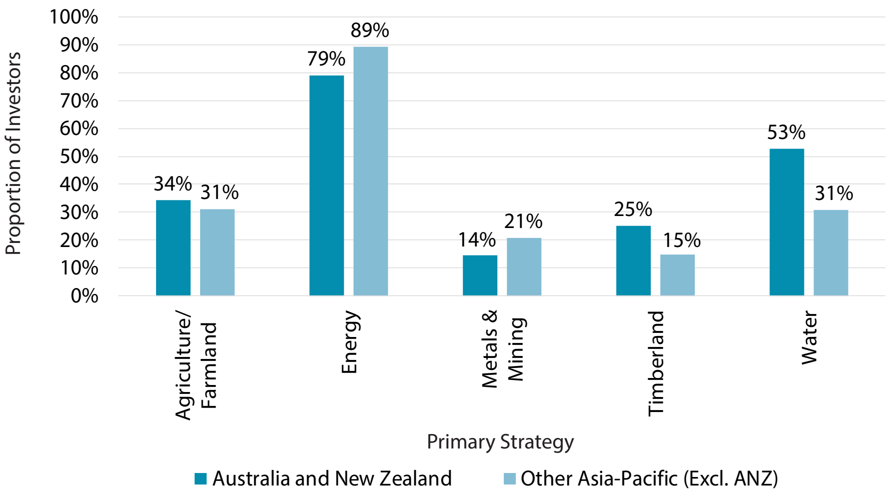
INVESTORS

Preqin's **Natural Resources Online** tracks 83 Australia- and New Zealand-based investors active in natural resources, marking a 19% increase from the previous year.

STRATEGIES

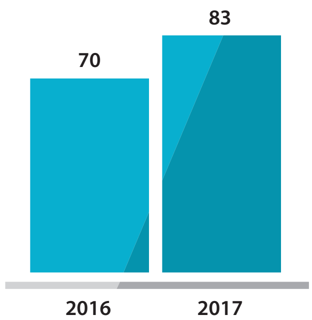
The majority (79%) of Australia- and New Zealand-based investors target energy assets (Fig. 7.7), with 84% of this group specifically focusing on renewables. This is reflective of the strong commitment to responsible investing in the region, with Australia- and New Zealand-based organizations accounting for the greatest proportion of the United Nations' Principles for Responsible Investment signatories in Asia-Pacific.

Fig. 7.7: Strategy Preferences of Natural Resources Investors by Location



Source: Preqin Natural Resources Online

NO. OF ACTIVE AUSTRALIA- AND NEW ZEALAND-BASED NATURAL RESOURCES INVESTORS



INVESTOR TYPE

As seen in Fig. 7.8, superannuation schemes constitute the majority (55%) of natural resources investors in Australia and New Zealand, while the largest proportion (25%) of other Asia-Pacific-based investors are banks or investment banks.

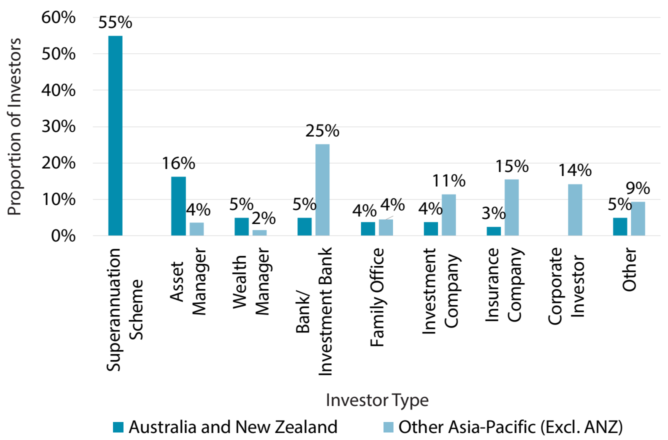
ROUTE TO MARKET

Over three-quarters (76%) of Australia- and New Zealand-based investors prefer to access the natural resources market via unlisted vehicles, while a smaller proportion (28%) of these investors allocate directly. In contrast, more investors (47%) based elsewhere in Asia-Pacific target direct investment.

ALLOCATIONS

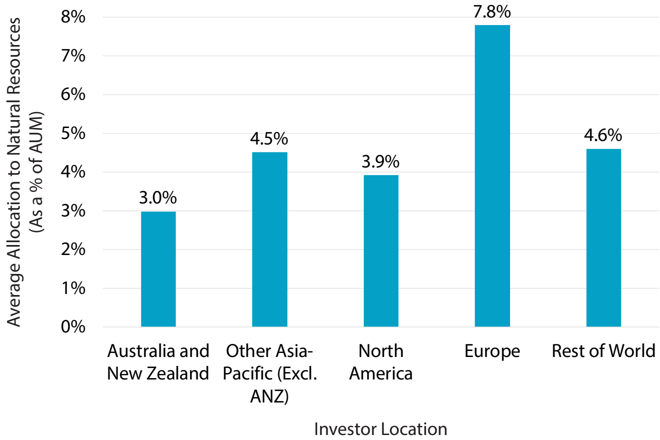
On average, Australia- and New Zealand-based investors allocate 3.0% of their total assets to natural resources (Fig. 7.9). The typically higher allocations from investors located outside Australia and New Zealand could indicate that there is a high level of foreign investment in natural resources within Australia and New Zealand.

Fig. 7.8: Natural Resources Investors by Type and Location



Source: Preqin Natural Resources Online

Fig. 7.9: Investors' Average Current Allocation to Natural Resources by Location



Source: Preqin Natural Resources Online

PREQIN INSIGHT:
ALTERNATIVE ASSETS IN AUSTRALIA AND NEW ZEALAND

SEPTEMBER 2017

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