Chapter 1

Introduction

1.1 Since 2001, there has been an exponential increase in private equity investment in global markets from just under $US200 billion to just over $US800 billion.[1] The strong growth in private equity in Australia is, however, a more recent phenomena having accelerated only during 2006. Two proposed private takeovers of high profile companies — Qantas and Coles — increased public interest in the issue of private equity in Australia and its potential costs and benefits.

1.2 Accordingly, on 29 March 2007 the Senate referred an inquiry into private equity investment and its effects on capital markets and the Australian economy to the Standing Committee on Economics. The terms of reference for the inquiry are as follows:

> That the Senate, noting that private equity may often include investment by funds holding the superannuation savings or investment monies of millions of Australians, and because of the actual and potential scale of private equity market activity, refers the following matters to the Economics Committee for inquiry and report by 20 June 2007:
>
> (a) an assessment of domestic and international trends concerning private equity and its effects on capital markets;
>
> (b) an assessment of whether private equity could become a matter of concern to the Australian economy if ownership, debt/equity and risk profiles of Australian business are significantly altered;
>
> (c) an assessment of long-term government revenue effects, arising from consequences to income tax and capital gains tax, or from any other effects;
>
> (d) an assessment of whether appropriate regulation or laws already apply to private equity acquisitions when the national economic or strategic interest is at stake and, if not, what those should be; and
>
> (e) an assessment of the appropriate regulatory or legislative response required to this market phenomenon, if any.

1.3 Given the high level of public interest in the topic, the Senate granted a time extension and requested that the committee report on 20 August 2007.

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1 Briefing by the Reserve Bank of Australia, 25 July 2007 Chart 1.

Conduct of the inquiry

1.4 In accordance with usual practice, the committee first advertised details of the inquiry in the *Australian* on 4 April 2007. Details of the inquiry were also placed on the committee's website. The committee wrote to a number of organisations and stakeholder groups inviting written submissions and ultimately received 31 submissions. These are listed in Appendix 1. The committee also conducted three hearings: in Sydney on Wednesday 25 July 2007, in Melbourne on Thursday 26 July 2007, and in Canberra on 9 August 2007. The witnesses who appeared at the hearings are listed in Appendix 2.

Acknowledgments

1.5 The committee thanks all those who contributed to its inquiry by preparing written submissions. Their work has been of considerable value to the committee.

Background

1.6 This section provides some background to the private equity industry and the nature of buyouts. It runs through the mechanics of private equity and the types of transactions that are involved. It also refers to two private equity buyouts of Australian businesses in order to illustrate the process. Finally, it considers some of the benefits of private equity.

1.7 Chapter 2 will consider trends in the international and domestic private equity market, as well as the forces that have driven the private equity surge.

Introduction[2]

1.8 Private equity provides a source of capital for enterprises in addition to that available through the public capital markets. The private equity market is highly diverse[3] and every private equity organisation and individual deal contain their own characteristics. The market encompasses everything from funding new company start-ups (venture capital), helping companies grow and develop, through to increasing the operating potential of mature companies, funding mergers and acquisitions and turning failing companies around. It also covers large scale takeovers of mature, listed companies. Private equity firms characterise their funds as venture capital, expansion, buyout or distressed according to the life stage of the companies in which they invest. Individual private equity firms often target deal sizes within a particular range (which naturally correlates to the life cycle stage of their target companies).

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2 This section is compiled from: Reserve Bank of Australia, Financial Stability Review, March 2007; AVCAL *Submission 17*, ABS, Catalogue 5678.0; *and* Financial Services Authority (United Kingdom), *Private equity: a discussion of risk and regulatory engagement*, Discussion paper 06/6, November 2006.

3 Financial Services Authority (United Kingdom), *Private equity: a discussion of risk and regulatory engagement*, Discussion paper 06/6, November 2006, p. 15.

1.9 Private equity often invests in unlisted businesses. These can include private family companies, other unlisted firms as well as public companies that private equity firms purchase and delist from a stock exchange.

1.10 Private equity investments in venture capital and buyouts share some common features but they involve different levels of investment and carry different risks, incentives and potential gains for investors. Historically, venture capital funds were such an important subset of private equity that the term 'venture capital' used to mean 'private equity'.[4] However, today the market environment is quite different. Although the venture capital segment of the private equity market remains essentially unchanged, the top tier of the private equity market (and to a lesser extent the mid-market) has evolved substantially. The increasing scale and complexity of the larger transactions, some of which is filtering down into mid-market deals, is having a growing impact and a greater profile.

1.11 Private equity buyouts of established firms are the principal focus of the committee's inquiry. Unlike venture capital, these do not attract government incentives to encourage investment.

1.12 Takeovers of mature companies are typically financed partly with debt from third party lenders and increased gearing[5] levels are a prominent feature of the private equity model. This feature particularly distinguishes leveraged buyouts (LBOs).[6]

1.13 Typically when buying an investee company, LBOs use approximately 30 per cent equity, supplemented by around 70–75 per cent debt for the acquisitions.[7] In the larger and more complex deals, the debt component is usually structured into various tranches, depending on its creditworthiness. The more senior debt, which has a claim over assets, is typically about half the overall funding; lower ranking debt such as subordinated debt and mezzanine debt makes up the rest. The gearing ratio is typically over 200 per cent which is a higher level of gearing than is typical for a listed company but it is not so high as to trigger thin capitalisation concerns. This is shown in the following table:[8]

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4 Financial Services Authority (United Kingdom), *Private equity: a discussion of risk and regulatory engagement*, Discussion paper 06/6, November 2006, p. 15.

5 Gearing is the relationship between a company's shareholders' funds (issued capital plus retained profits) and some form of outside borrowing. Gearing is generally expressed as a ratio of debt to equity. For example, a ratio of 3:1 means that for every $3 of debt, the company is funded by $1 of equity. An entity that is highly geared funds assets with proportionately more debt than equity.

6 Leverage is using given resources in such a way as to magnify the potential positive or negative outcome. It generally refers to using borrowed funds, or debt, so as to increase the returns to equity.

7 Mr Ric Battellino, Deputy Governor, Reserve Bank of Australia, *Proof Committee Hansard*, 25 July 2007, p. 3.

8 Briefing by the Reserve Bank of Australia, 25 July 2007, Chart 3.

Typical Capital Structure for Leveraged Buyouts

	Leveraged Buyouts Per cent of total capitalisation	Listed Company Per cent of total capitalisation
Equity	**30**	**60**
Debt	**70**	**40**
- Senior debt	50	
- Subordinated debt	10	
- Mezzanine debt	10	

1.14 The investment by private equity is usually medium to longer term, an average of 4.5 years, and unlike hedge fund investments, normally involves taking control of the company concerned.

1.15 In the past, private equity targets included poorly managed companies that provided the private equity firms with opportunities to turn them around by introducing efficiencies through improved management and cost cutting. More recently, mature companies with good cashflows that are undervalued by the market have increasingly become the focus of private equity bids and the proposed purchase of large, well-known companies (sometimes referred to as 'icons') has raised the public awareness of the private equity industry.

1.16 Private equity pools the funds of investors and substantially augments the funds with borrowings from financial institutions. Through leverage therefore, it can accumulate significant amounts of capital. Investors in private equity vehicles are wealthy individuals or institutions, including insurance companies, university endowment funds, banks and superannuation/pension funds. Institutional investors currently account for around 80 per cent of the investor funds under management.[9]

1.17 There are two broad types of private equity vehicles: those that generally invest directly in investee companies, and those which pool funds and generally invest through the direct investment vehicles.[10]

1.18 *Direct* investment is made by private equity firms in other firms that are seeking expansion capital or have been identified as a buy-out target. The controllers of the private equity firm decide which investments to make and how the investment

9 Reserve Bank of Australia, Financial Stability Review, March 2007, p. 61.

10 Investment and Financial Services Association Limited (IFSA), *Submission 13*, p. 4.

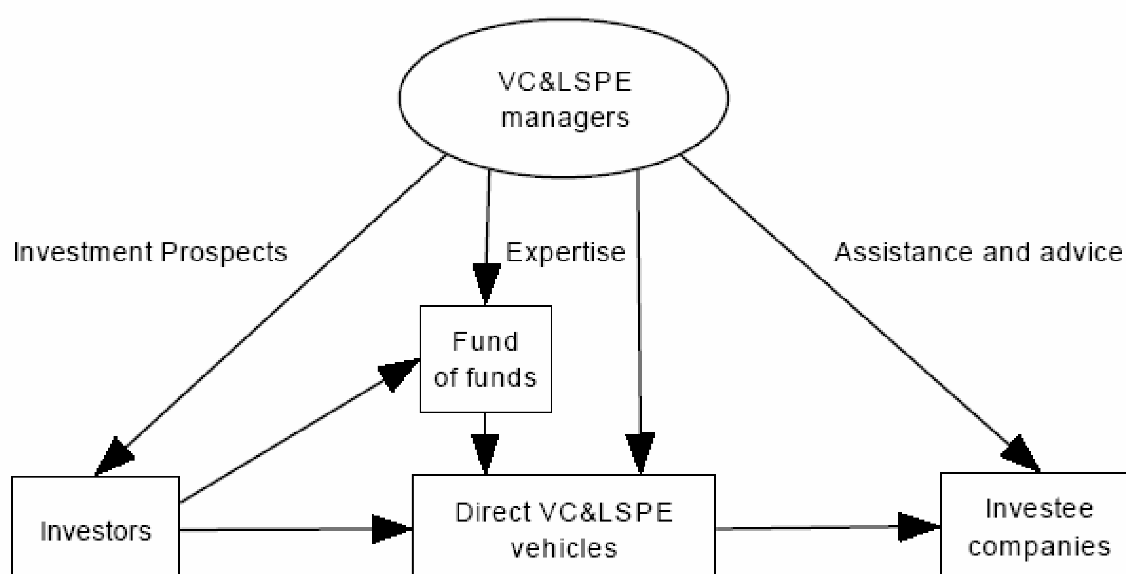
will be financed. Occasionally, several private equity firms combine to form consortia for the particular purpose of acquiring larger companies.

1.19 *Indirect* investment often represents the equity component in the *direct* investment. It represents the capital contributed by those that invest in the funds controlled by the private equity firm/s. These investors do not generally control the underlying investment. Instead, they are typically seeking passive exposure to private equity as an asset class.

1.20 Finally, there is at least a further layer of private equity investment which is more passive than *indirect* investment. This involves investors, institutional or retail, investing in a diversified fund of private equity funds (fund of funds). That is, the fund places its investments with a variety of other private equity funds which invest in unlisted companies. These investors are seeking to minimise and spread the risk of investing indirectly by relying on the skill and vetting of the manager of the fund of funds in selecting the best possible private equity funds in which to invest. This type of investment provides greater diversification of risk than investing in one fund alone.

1.21 The investment decisions of the vehicles are made by a manager, who is often a skilled business person and financial analyst. The manager spends considerable time gathering commitments from investors, as well as evaluating potential targets in which to invest. The manager further provides assistance and advice to the investee company.

1.22 The usual relationship between the investors, managers, vehicles and investee companies is illustrated below (reproduced from the Australian Bureau of Statistics):[11]



11 VC&LSPE refers to Venture Capital and Later Stage Private Equity. This diagram is taken from ABS, Catalogue 5678.0, p. 4.

The mechanics of private equity

1.23 Almost all private equity investment is conducted via investment funds formed by private equity firms specifically for this type of investment. Private equity fund structures can take various forms, but the most common is a limited partnership structure. The limited partnership consists of a 'general' partner who has unlimited liability for the debts and obligations of the partnership and one or more 'limited' partners, whose liability is restricted to the amount of their investment. The general partner is the private equity fund manager and the limited partners are other investors in the fund. Limited partners do not generally take part in the management of the business, though, if they do so, they become liable for debts and obligations incurred during the period of their involvement.

1.24 Investors undertake detailed evaluation of the fund manager, including assessing and monitoring the manager's prior investment performance.[12] The investors also review the fund documentation and have sufficient bargaining power to negotiate terms with the managers. Additionally, they make use of independent expert advisors who are expected to exercise high levels of scrutiny and due diligence.

1.25 Typically, the funds have the following features:[13]

- they are mostly 'closed-end' structures. That is, all investments of the funds will be realised and the money returned to investors within a particular timeframe, usually 5 to 10 years. Investors pledge a certain amount (committed capital) which represents the maximum amount that the fund may drawdown. A drawdown from investors is the amount of capital committed by investors that has actually transferred to a private equity fund in aggregate for the life of the fund;
- the 'J-curve effect'. In most funds' early years, investors can expect low or negative returns, due to the small amount of capital actually invested at the outset combined with the customary establishment costs, management fees and running expenses. As portfolio companies mature and exits occur, the fund will begin to distribute proceeds;
- each fund has a specific investment mandate which details matters such as the stage of the targeted investments, industries and countries that can be invested in, and the proportion of fund assets that can be allocated to any particular investment. As previously mentioned, private equity funds tend to specialise in certain market segments. For example, some focus on purchasing at a discount the debt of companies that are in, or close to, bankruptcy (distressed debt). They then exert influence in the restructure and recovery of the enterprise and are able to sell the debt at more favourable prices. Others

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12 Australian Private Equity and Venture Capital Association Limited (AVCAL), *Submission 17*, p. 8.

13 Australian Private Equity and Venture Capital Association Limited (AVCAL), *Submission 17*, pp 8–9 *and* UniSuper Limited, *Submission 1*, p. 2.

restrict their investments to management buyouts, or to particular stages of venture capital (eg early stage, development, expansion etc);

- ‘blind pool’ investing. While private equity managers must follow general investment guidelines and restrictions set out in the fund documentation, they still have very wide discretion in selecting particular companies in which to invest; and
- wide divergence of returns. The dispersion of returns between upper quartile and lower quartile managers is significantly wider for private equity managers than for listed equity managers.

1.26 After a fund is closed (ie after it has raised the funds to be managed) the manager invests the fund's capital across a set of investments that fit the fund's investment mandate or focus. The fund is said to be 'fully invested' once this process is complete — typically after three to five years.

1.27 Over the life of a fund, the managers will assess hundreds of potential investments, conduct detailed due diligence on perhaps 10 per cent of these, but only invest in a small number. AVCAL suggests around 10 to 15 investments. Competition for investments is fierce and a fund manager's bid will not always succeed, in which case the time and money expended on assessing an investment and preparing an offer is lost, although in some circumstances break fees may be paid.

1.28 In order to illustrate how private equity operates, two examples of private equity success stories are outlined below.

Pacific Brands

In November 2001, a private equity consortium, including CVC Asia Pacific and Catalyst Investment Managers, bought the Pacific Brands division of Pacific Dunlop for around $730 million. This division held the biggest collection of consumer brands which included Bonds, Grosby, Holeproof, Hang Ten, Candy and 32 other clothing, hosiery, sporting and footwear brands. At the time, the deal was the second largest Australian leveraged buyout (LBO) ever.

The deal was financed by $235 million in equity provided by CVC and Catalyst, and around $500 million in debt facilities.[14]

The new owners increased spending on advertising – from an initial advertising budget of $30 million to about $70 million; increased expenditure on staff training by 163 per cent, strongly focused on working capital, and changed the outlook and

14 Tony Berg, Address to Financial Executives International of Australia, *Can you compete with private equity?*, 15 November 2005, p. 2, (accessed 10 August 2007): http://www.fei.org.au/pdf/051115tonyberg.doc.

strategy of the company.[15] For example, rather than making branded commodities as cheaply as it could and delivering them to retailers to sell, Pacific Brands focused on building brands that consumers would seek out. It shed $90 million of low-margin sales to concentrate on its core brands.

The speed of decision-making was increased under private equity. The initial board meeting to agree on a strategy for the company reportedly took only 90 minutes.[16] Within a fortnight of the buyout, the Chief Executive of Pacific Brands received $20 million for capital expenditure.[17] He says that approval for the funds took less than two hours and his request was contained in a two-page summary outlining the purpose of the funds. This was in contrast to his usual 60 pages to request funds for which he was still waiting a year after submitting the request under the previous ownership structure.

In April 2004 private equity exited the investment. Pacific Brands was listed on the stock exchange at an enterprise value of $1.7 billion and with a market capitalisation of $1.25 billion. The private equity investors made more than five times their initial investment for an internal rate of return (IRR) of 105 per cent.[18]

Pacific Brands listed at a share price of around $2.50.

Bradken

In December 2001, the Smorgon Steel Group sold its heavy engineering division, Bradken, to a consortium of CHAMP Private Equity, US-based ESCO Corporation and Bradken management.[19] At the time of the $185.5 million management buyout (MBO) the company had a turnover of $300 million and staff of 1400.[20] The consortium funded the company with a total of about $200 million, 30 per cent of which came from equity held by management and CHAMP, and 70 per cent from bank borrowings.[21]

15 AVCAL website, Private equity successes, (accessed August 2007): http://www.avcal.com.au/html/success/equity.aspx

16 Stephen Bartholomeusz, 'Private equity has breathed life into fading PacBrands', *The Age*, 28 February 2004, p. 3 (Business).

17 Lucinda Schmidt, 'Surviving private equity', *The Australian Financial Review Boss Magazine*, May 2007, Volume 8, p. 46.

18 Tony Berg, Address to Financial Executives International of Australia, *Can you compete with private equity?*, 15 November 2005, p. 2, (accessed 10 August 2007): http://www.fei.org.au/pdf/051115tonyberg.doc.

19 Bradken, *Corporate Profile: History*, p. 2 of 2, (accessed 10 August 2007): http://www.bradken.com.au/profile.aspx?page=history.

20 Florence Chong, 'When it's time to buy your job', *The Australian*, 31 October 2001.

21 Mr Brian Hodges, Managing Director, Bradken, *Committee Hansard*, 26 July 2007, p. 39.

Bradken remained under private ownership for just under three years. During this period, approximately $25 million of new capital expenditure was invested for capturing growth opportunities and cost reductions. Bradken's EBITDA[22] grew over 60 per cent from approximately $30 million per annum to $50 million per annum at the time of its successful[23] public listing in August 2004. The investment achieved an internal rate of return of 49 per cent[24] and CHAMP retained a 10.1 per cent stake in the company.[25]

Bradken's Managing Director said that the advantages of private equity ownership included the capital injection into the company that the previous owners could not make.[26] Other less obvious advantages included the reduction in non-value adding work for senior managers. People became more focussed and there was a reduction in reporting. 'You do not do as much filling out of monthly reports to send up through the levels of an organisation; you are at the top of the organisation and you talk directly to the people involved.'[27]

Mr Hodges also noted that as Bradken became a stand-alone entity there was a period of three to five years with specific things to do and targets to meet. He also found that the private equity owner was significantly closer to the business and challenged many of the known norms.[28]

There was also an effect on employment levels. Prior to the private equity takeover a number of plants were shut down and people retrenched. Although there was little capital expenditure, efficiencies were driven through work practices and other changes. From 2002 onwards staff levels increased. Currently the company employs around 3,000 people and there have been no further staff reductions.[29]

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22 EBITDA is an acronym for earnings before interest, tax, depreciation and amortisation are deducted. It is a measure of cashflow of a company.

23 Bradken had to withdraw its first $245 million float due to lack of institutional interest in May 2004 (see James Chessell, 'Bradken's the next to cash in', *Sydney Morning Herald*, 29 May 2004).

24 CHAMP Private Equity, *Profile*, p. 9, http://www.champmbo.com/CHAMP_profile_02_07.pdf (accessed 10 August 2007).

25 CHAMP Private Equity, Selected previous investments, (accessed August 2007): http://www.champmbo.com/html/portfolio_bradken.htm

26 Mr Brian Hodges, Managing Director, Bradken, *Committee Hansard*, 26 July 2007, p. 32

27 Mr Brian Hodges, Managing Director, Bradken, *Committee Hansard*, 26 July 2007, pp 33–34.

28 Mr Brian Hodges, Managing Director, Bradken, *Committee Hansard*, 26 July 2007, p. 34.

29 Mr Brian Hodges, Managing Director, Bradken, *Committee Hansard*, 26 July 2007, p. 33.

Types of private equity transactions[30]

1.29 There are several types of private equity transaction ranging from the purchase of a private company, the purchase of a division of, or entire, public company to the exit from the investment. These transactions are outlined below.

Purchase of a private company

1.30 The most common form of private equity transaction is the purchase of a private company. Owners of private businesses increasingly see private equity funds as an attractive source of expansion capital and management expertise that is needed for the business to expand to a point where it will be suitable and ready for a trade sale or initial public offering (IPO). In such cases, the private equity manager invests capital for a stake in the business and also provides ongoing advice to management of the company.

1.31 Many business owners who are looking to retire after building up a business over many years, are selling to private equity managers in order to realise the capital that they have accumulated in their business.

Purchase of a publicly listed company

1.32 This is the smallest category of private equity transaction. According to the Australian Private Equity and Venture Capital Association Limited (AVCAL), only about a dozen publicly listed companies in Australia have ever been taken private by private equity.[31] Nonetheless, this is the category that receives the most attention, particularly when icon status or economically significant companies are involved.

Purchase of a division of a publicly listed company

1.33 A more common type of private equity investment is the purchase by a private equity fund of a division (rather than the whole) of a listed company. Often the listed company describes the division being sold as 'non-core' and has, for some years, concentrated its attentions (and capital investment) on other divisions.

Sales of businesses by private equity

1.34 Unless they are written off, all businesses bought by private equity are sold, generally via either a trade sale or an initial public offering (IPO) on the stock exchange or, in a small but growing percentage of cases, to another private equity fund.

30 This section is based on Australian Private Equity and Venture Capital Association Limited (AVCAL), *Submission 17*, pp 11–12.

31 Australian Private Equity and Venture Capital Association Limited (AVCAL), *Submission 17*, p. 11.

Returns from private equity investment

1.35 The use of debt means that investors can receive a higher rate of return on the capital they have invested in the funds. Private equity investment targets a return of at least five per cent above the return on public equity markets.

1.36 Fund managers receive a management fee based on the size of the fund and they also receive a share in the capital gains delivered to the fund's investors. The management fee is usually calculated as a percentage of the funds under management. The percentage is negotiated between the investors and the manager at the time the fund is raised. An indicative figure is one to two per cent for larger private equity funds. This figure covers the overheads of the business including salaries and the costs of conducting due diligence on investments.[32]

1.37 The manager's share of capital gains (referred to as 'carried interest' or 'the carry') is 20 per cent in virtually all funds globally and is calculated after all fees and expenses paid by the fund have been returned to the investors. The manager only receives a share in capital gains if the fund has delivered a minimum return known as the 'preferred return'. If the target is not met, the manager receives no share in capital gains. AVCAL advises that the preferred return is usually similar to the long-term bond rate, currently about eight per cent per annum.

1.38 These percentages for the returns from the investments are often referred to as the '2 and 20 rule'.

1.39 There is a wide gap between the returns of the best performing private equity funds and the rest. Private Equity Intelligence Ltd states that this gap is around 10 per cent per year between the first quartile returns and the median return of funds.[33] Further, those funds in the bottom quartile return around 10 per cent below the median returns per year. The differences in funds tend to persist over time and this is a consistent pattern across all types of private equity fund, including funds of funds.

1.40 Research conducted by Private Equity Intelligence Ltd indicates that the largest funds outperformed the smaller ones.[34] The difference between the groups in certain years is as much as 20 per cent. It can be explained by the fact that the general partners who manage large scale buyout funds are generally well known, established players with long and successful track records, who have been able to raise increasingly large funds as they become more experienced and have established good reputations within the industry. Limited partners are keen to invest in these funds

32 See paragraphs 1.45–1.46 below.

33 Private Equity Intelligence Ltd, *Private Equity Spotlight*, May 2007/ Volume 3 - Issue 5, p. 03, (accessed July 2007): www.preqin.com

34 Private Equity Intelligence Ltd, *Private Equity Spotlight*, June 2007/ Volume 3 - Issue 6, p. 04, (accessed July 2007): www.preqin.com

because of their excellent returns, as well as their relatively lower risk compared to other forms of private equity investment.

Benefits of private equity

1.41 Private equity generates economic activity through increasing mergers and acquisitions. To make money they have to increase productivity and profitability, which are important for economic growth. The industry argues that it increases jobs and profitability which in turn generate taxation revenue. Further, the deals generate significant fee income for banks, lawyers and accountants.

For takeover targets

1.42 In addition to an injection of capital into buyout targets, private equity offers non-financial skills such as non-executive directors, extensive business networks and management expertise. AVCAL claims that private equity adds value to businesses by ensuring that each investment has the characteristics outlined below.

Alignment of interests

1.43 The foundation of private equity's ability to add value is its closer alignment of interests between all shareholders, owners and management. In contrast to the wide range of investors in public companies, each has a genuine stake in the business and is firmly focused on increasing its value.[35] Private equity-backed companies have concentrated and stable ownership and private equity owners hold at least one board seat (and often control the board) allowing for more effective engagement with management teams and the board if problems arise. Further, the level of management ownership in private companies is significantly higher than in public companies, which creates additional incentives for the managers. In many cases, the senior executive team (and sometimes those lower down) invest alongside their new owners, making them owners too.[36] The executives are expected to invest their own money into the venture — often hundreds of thousands or millions of dollars.

Long-term focus

1.44 Private equity invests with a three to five year horizon which enables private equity-backed companies to invest in new products, new businesses and new employees without concern for short-term earnings effects. This is in contrast to public companies that may be under pressure from analysts and shareholders for shorter-term returns. In addition to their continuous disclosure obligations, public

35 UniSuper Limited, *Submission 1*, p. 3.

36 Lucinda Schmidt, 'Surviving Private Equity', *The Australian Financial Review Boss Magazine*, May 2007, Volume 8, p. 48.

companies must issue annual and half-yearly reports, and in some cases quarterly cashflow reports.[37] These obligations can affect a company's day-to-day share price.

Detailed due diligence

1.45 The research and assessment that private equity managers conduct during the investment process provides detailed insight into:

- the strengths and weaknesses of a business, both financial and non-financial;
- the dynamics of the industry in which the business operates;
- the business's potential for growth; and
- the prerequisites for achieving this growth (for example, a change of strategy, operational improvements and capital expenditure).

1.46 The insight from due diligence allows the private equity owners to develop with the management a comprehensive and coherent long-term plan to increase the value of the business. This plan will typically:

- stress the importance of sales growth as well as cost efficiency;
- emphasise cash as much as earnings;
- focus on a small number of essential performance measures;
- include a training and development program for employees; and
- include a capital expenditure program to ensure that the business has the plant and equipment necessary to meet its growth targets.[38]

For investors

1.47 The key benefit of investing in private equity is the potential to earn higher returns than in the traditional asset classes. In order to achieve these returns, investors must accept a higher level of risk and also a less liquid investment.[39] According to UniSuper Limited, super-normal profits are expected to arise from information arbitrage opportunities that result from the market's immaturity, and hence relative inefficiency.[40] However, the strong growth in the size of the private equity market and the increase in the number of managers and investors in these markets may have led to the information asymmetry arbitrage being eroded. As previously mentioned, while some private equity funds yield significant returns, it is not universally the case across

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37 ASX Listing Rules, Chapter 4, Periodic Disclosure.

38 Australian Private Equity and Venture Capital Association Limited (AVCAL), *Submission 17*, p. 10.

39 Australian Private Equity and Venture Capital Association Limited (AVCAL), *Submission 17*, p. 9.

40 UniSuper Limited, *Submission 1*, p. 3.

the sector and in some cases investors are taking on additional risk without receiving adequate compensation.

1.48 Another benefit for investors arises from diversification. Due to their low correlation with traditional asset classes such as listed equity, property and fixed income, private equity investments can be used to diversify an investment portfolio and, therefore, to reduce the overall risk of the portfolio.