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Private equity sector on a roll

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Private equity firm Ironbridge Capital is set to raise the largest venture capital fund in Australia as surging demand from superannuation funds continues to bolster the sector.

The group's second fund is understood to have commitments of about \$1.3 billion from local and US-based investors, and it is still meeting potential investors.

The previous largest fund was raised by Pacific Equity Partners, which closed a \$1.2 billion fund in February, while Champ raised \$950 million in August last year.

"There's a clear indication that fund sizes are still increasing and that several managers are clearly in competition looking to have the biggest fund," said Les Fallick, managing director of private equity adviser and placement agent Principle Advisory Services.

Local investors committed more than \$3 billion to private equity in the year to June 2006, with total funds under management in the sector expected to top \$14.5 billion by the end of this year, according to a report released by KPMG earlier this month.

Private equity firms awash with billions of dollars in cash are taking an increasingly active role in markets, paying top dollar to invest in companies before restructuring them and spinning them off for hefty profits.

Earlier this week Affinity Equity Partners launched a hostile \$430 million takeover offer for listed retailer Colorado Group while private equity firms Catalyst and Archer Capital held discussions with retailer Orotan about a year ago about a possible privatisation.

Ironbridge managing director Julian Knights declined to comment before the fund's final close.

The group's previous fund, which closed in September 2004 after raising \$450 million, has been highly successful, making several high profile investments.

In April 2005, Ironbridge and partners CVC Asia Pacific and GIC Special Investments raked in a \$600 million profit following the \$1.43 billion sale of Affinity Health to Ramsay Health Care, after only a two-year investment period.

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In October last year it privatised the Nasdaq-listed Barbeques Galore and it has also made investments in food manufacturer Mrs Crocket's Kitchen and Queensland-based retailer Super A-Mart.

Local super funds including STA (now merged with ARF to become AustralianSuper), Equipsuper, the WA Local Government Super Plan and Westscheme invested in Ironbridge's first fund.

It also attracted high-profile international investors such as the California Public Employees' Retirement System (CalPERS), AlInvest and the private equity arm of the Government of Singapore Investment Corporation, GIC Special Investments.

A 2005 study by the University of NSW of 40 super funds' private equity investments found they have an average target allocation to the sector of 4.5 per cent, well above current average investment levels of 2.6 per cent.

KEY POINTS

- * Ironbridge Capital's second venture capital fund is set to be the largest.
- * It is not yet closed.
- * Demand from superannuation funds is driving the sector's success.

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