PRINCIPLE
ADVISORY SERVICES

Australian Pension Funds Embrace U.S. Market

By Mark Cecil

In a London hotel room in 2001, **John Buehler**, a managing partner with **Energy Investors Funds**, had a productive discussion with placement agent **Les Fallick**.

Fallick, the founder of Sydney-based Principle Advisory Services, convinced Buehler to make a trip to Australia, where superannuation funds—the equivalent of U.S. pension funds—were doubling in size every four years and looking for places to invest outside the country. Buehler, whose firm was more than a year away from its next fundraise, agreed to make the trip.

A short time later, the two met with a dozen Australian limited partners in an effort to "prime the pump," as Buehler put it. Principle Advisory Services "knew it would bear fruit in Fund II," said Buehler. "And it did."

In 2003, Energy Investors Funds, which has offices in Boston, New York and San Francisco, raised about 20 percent of its $750 million United States Power Fund II from Australian investors. This month, those same investors are all upping their contributions as the firm prepares to hold a final, $1.35 billion close on its latest independent power and electric utility focused fund, United States Power Fund III. With both funds, the firm had about twice the demand it could handle from Australian LPs, Buehler said.

Energy Investors Funds is just one of a lengthening parade of firms that have had success raising money in Australia. Superannuation funds are awash with capital and U.S. firms are well-advised to forge LP relationships as soon as possible. Other firms that have raised money there include Latin American and Caribbean power buyout shop **Conduit Capital Partners**; U.S. buyout firms **Kohlberg Kravis Roberts & Co.** and **Madison Dearborn Partners**; and funds-of-funds managers **Adams Street Partners** and **HarbourVest Partners**.

Among U.S. buyout shops New York-based KKR could well be the biggest fundraiser in Australia. According to sources, the firm has raised large amounts there for two of its buyout funds in the market—the KKR 2006 Fund, which reportedly has collected more than $16 billion, and the $4 billion-target KKR Asia Fund. Chicago-based Madison Dearborn Partners raised about $125 million in Australia in 2005 and 2006 for its $6.5 billion fifth fund, which it closed last year, according to a person familiar with the fundraising. KKR declined comment, while Madison Dearborn didn't return calls.

A Super Market

Why are GPs flocking to Australia? Because when it comes to superannuation funds, the cup truly runneth over.

Since the 1980s, mandatory contributions by employees have helped these funds grow at a minimum average clip of 9 percent per year. After factoring in investment returns, some superannuation funds have posted average annual growth rates of as high as 30 percent over the last decade. With $900 billion under management in these funds, Australia is now the fourth largest pension market in the world, according to the Australian Venture Capital Association.

Australia has seven pension funds with assets greater than Au$20 billion ($16.9 billion), according to Principle Advisory Services. Within ten years, at current growth rates, many of these plans will have more than Au$100 billion in assets. Among the biggest are Sydney-based financial services giant and superannuation fund manager **MLC**, Auckland, New Zealand-based **New Zealand Superannuation**, Brisbane, Australia-based superannuation fund **QIC**, and Melbourne-based **UniSuper**.

"We basically have a phenomenon here that is colloquially known as 'the wall of money,'" said **Matt Latham**, a partner in law firm Jones Day's Sydney office. "That so-called wall of money is looking for a home, and that home has traditionally been Australian equities. Now there is a desire for alternative investments."

Indeed, while Principle Advisory Services tracks about 40 Australian LPs already backing private equity, most with target allocations ranging from 5 percent to 10 percent, the amount that's actually invested in private equity is relatively small. In a May 2007 report, the Sydney-based Australian Venture Capital Association stated that only about 2 percent of superannuation fund capital is currently invested in private equity.

This leaves lots of room for scaling up, and a number of LPs seem primed to do so.

Case in point is UniSuper, which manages the pensions for the nation's university employees. The fund has 365,000 members, over Au$24 billion of assets, and net contributions of about Au$1 billion per year. Active in Australia's domestic market with advisor **Wilshire Associates** for a decade, it began an international private equity program two years ago with London-based **Altius Associates** as its advisor.

According to **Gary Gabriel**, head of private markets at UniSuper, the fund now has Au$600 million invested in private equity globally and plans to grow that portfolio to Au$2.5 billion over the next five years.

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