



Stockhead

Private equity investments are good ESG alternatives, according to Federation's Cameron Brownjohn

The Ethical Investor: Why dipping into private equity is a must for ESG investors, with Federation's Cameron Brownjohn

News

February 10, 2023 | [Eddy Sunarto](#)

- **Private equity markets have been popular in recent times amid volatility in stock markets**
- **Some of these alternative market funds have ESG credentials**
- **Stockhead reached out to Cameron Brownjohn, CEO of Federation Asset Management**

Private equity (PE) funds have the potential to offer investors a safe harbour at a time when the outlook for global growth is shaky amid an unprecedented pace in rate hikes.

Some PE funds also boast strong ESG credentials, catering to the increasingly vocal ethical investor whose expectations are forever growing.

Cameron Brownjohn, CEO of a leading Australian alternatives investment manager, **Federation Asset Management**, said his ESG focus has played a significant role in underpinning the fund's strong performance.

"We have investments in renewable energy generation activities, renewable energy storage activities, sustainable and social infrastructure, property investments where there is a

significant economic and social outcome, and operating businesses where the products or services provide a net societal benefit,” Brownjohn told *Stockhead*.



Cameron Brownjohn, CEO of Federation Asset Management

So far, the Federation Alternative Investments fund has returned 17.1% per year since inception, investing in sectors across the ESG gamut.

Brownjohn uses negative screens to exclude investments in companies that are materially involved in fossil fuels, gambling, tobacco and alcohol, armaments, live animal export and old growth logging.

ESG aside, he believes the current volatile investment climate is tailor made for private equity funds due to its lower volatility and low correlation compared with listed equities.

“We believe private equity not only offers a deeper pool of companies in which to invest, but that many of these companies are more innovative and productive compared with their listed counterparts,” Brownjohn said.

“It’s a view that we share with one of Australia’s foremost institutional investors, the Future Fund, which has 37% of its \$193 billion invested in private equities and alternative investments – its largest allocation of any asset class.”

ESG-focused fund

Federation recently launched the Federation Alternative Investments II (F2) fund, an open-ended strategy that provides investors access to institutional grade, private companies.

Brownjohn believes the pathway to long-term value creation is to invest in companies and assets that address key ESG aspects.

“We invest in the areas that make the greatest net positive difference to society, and we believe this in turn will produce the greatest long-term value,” he said.

“Our Investment Committee and investment team take into account ESG and ethical issues in our process of research, analysis, selection and monitoring of investments.

“We employ positive and negative screens to ensure that our investing activities are responsible,” he added.

Sectors in which the F2 fund invests include clean power production, health and education-related real estate, and companies that meet a social and economic need.

Brownjohn cited Synergis, an unlisted disability housing trust that was established in a joint venture with Social Ventures Australia (SVA), as a prime example of an investment having a significant social benefit.

Synergis builds and develops homes for people living with disability in Australia. To date, it has committed to about 87 investment properties that will provide homes for more than 340 NDIS participants.

“This investment represents capital value of about \$155 million, against an immediately addressable \$11.5 billion opportunity set,” he said.

The case for investing in private markets

Many market watchers now believe the traditional “balanced portfolio of stocks and bonds” will no longer beat inflation in today’s world.

To beat sky-high inflation rate, investors will now need to think outside the box and **incorporate alternative investments** into their portfolio mix.

“Alternative investments” is a broad term that includes private equity, venture capital, hedge fund, or anything that’s not listed and doesn’t fall under the traditional bonds, cash and stocks definition.

Some investors are drawn to the private market due to the potential for greater returns, as well as lower volatility than listed markets.

“I suspect that many private equity firms would have delivered both of these features through 2022,” Brownjohn told Stockhead.

“Federation’s private equity investments have delivered in excess of 23% return, while on average, investors in ASX 200 companies have lost money in what has been a volatile 2022.”

But investing in private companies is not without its risks.

Murky valuations and lack of liquidity are usually top of investor’s mind when investing in the alternatives market.

There’s also usually a high minimum investment amount set, prohibiting smaller investors from accessing these funds.

The F2 fund however has a minimum investment amount of only \$20,000 for retail investors. The fund also allows for monthly subscription and redemptions.

Brownjohn acknowledged that if private companies have an inappropriate capital structure and unsupportive shareholders, then the next 12-24 months can look particularly risky.

“Good private equity managers will support their portfolio companies and use debt prudently,” he said.

He believes that going forward, the availability of opportunities will support PE investing.

“There are far more private companies than listed companies.

“The key is finding those companies that would benefit from the support of private capital, and the management teams with the skill to properly utilise it,” Brownjohn said.

The views, information, or opinions expressed in the interview in this article are solely those of the interviewee and do not represent the views of Stockhead.

Stockhead has not provided, endorsed or otherwise assumed responsibility for any financial product advice contained in this article.