

Media Release

Private Equity outlook for 2024 strong, as Federation ends 2023 on a high note



4 December 2023: Despite a challenging year for broader public equity allocations in 2023, private market manager Federation Asset Management stayed true to its investment principles and continued to deliver investors a strong return.

“Through to end of October 2023, Federation team members maintained our track record of delivering strong returns (+15.7% net) as we added assets across the portfolio, with a focus in the childcare and sustainable energy infrastructure sectors,” Cameron Brownjohn, Chief Executive Officer of Federation said.

“Whilst acknowledging the macro environment, we see increasing portfolio relevance for Private Equity through 2024 because of its heightened ability to navigate weaker operating environments for protracted periods. By sticking to our approach of identifying high quality companies in our key focus areas, and investing for the long term, we have been able to deliver superior returns,” Brownjohn said.

The private equity sector in Australia is on track to deliver consistent long term returns which are non-correlated to the listed markets. Over the past decade, private equity and venture capital in Australia have yielded an 18% return on investment compared to 9% for the ASX 100 and 8% for the ASX Small Ordinaries Index in the last decade. *

Federation’s year in review

Federation continued to build its childcare portfolio across NSW, QLD, VIC and SA in 2023 and is on target to reach a A\$1 billion childcare portfolio by 2025.

“Our childcare assets are mostly newly built and bespoke centres with long-term leases that have CPI-indexed cashflows and minimal capex requirements. These are very attractive investments for our investors,” Brownjohn said.

“In addition to our acquisition of these centres, we are also focussed on installing solar panels to reduce the centres’ carbon footprints.”

Brownjohn also pointed out that the provision of childcare has a direct correlated link to improved female workforce labour participation in Australia, another positive ESG outcome.

In the Healthcare sector, Federation’s interest in George Clinical was sold to Hillhouse Capital Group in July 2023 delivering Federation with a 57% gross IRR on the investment in George Clinical which equates to 4.9x MoM over 3.5 years.



“We are pleased to have sold George Clinical to Hillhouse Capital for a sizeable increase on our original investment,” Federation’s chief executive officer Cameron Brownjohn said.

“We are also pleased with the depth and performance of Federation's broader portfolio and pipeline. Our investors are well exposed to sectors that benefit from the aging population mega trend which to us means strengths in healthcare, seniors financing and other white collar service sectors.”

In the sustainable infrastructure sector, Federation’s 90% owned Riverina battery energy storage system went live. As of early October 2023, the 150MW/300MWh Riverina and Darlington Point Energy Storage Systems (Riverina BESS) was fully operational.

“Riverina Bess is now importing and exporting electricity at its full nameplate capacity and benefiting New South Wales energy consumers. It is New South Wales’s largest and most advanced battery and is expected to power 240,000 homes with electricity during peak time,” Brownjohn said.

The Federation Alternative Investments II fund also got a tick of approval from rating agency Zenith Investment Partners in 2023, which cited the high calibre and extensive experience of the firm’s principals as reasons for the rating.

The state of play

Whilst Federation prefers minimal gearing in portfolio companies, the private equity industry was impacted by higher interest rates throughout 2023. However, deal activity started to pick up as expectations around further interest rate hikes stabilised towards the end of the year.

In the third quarter of 2023, PE firms announced deals valued at US\$101billion with deals of \$US100 million increasing by 63% from the first quarter, according to Ernst & Young Global Limited. A recent EY survey of PE investors across geographies also found that two thirds of investors surveyed expected PE activity to accelerate further over the next six months.

“Deal flow through the back half of 2023 has been very strong and we expect this to continue into 2024. We will also continue to focus on our ‘profit with principle’ approach which requires us to make investment decisions from a cautious, long-term viewpoint and an eye on the future,” Brownjohn said.

*Source: Cambridge Associates <https://aic.co/AIC/AIC/Articles/Blog/2021/06-June/Australian-Private-Equity-and-Venture-Capital-Strong-Performance-Continues.aspx>

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About Federation

Federation invests in businesses that meet economic and social needs. We aim to become Asia-Pacific’s leading investor in renewable energy, health and education real estate and operating companies with strong growth potential. Our team has a strong track record of working together over a number of years and offers unrivalled investment experience across these sectors.

The firm manages capital commitments of A\$1.4 billion for clients across the Asia Pacific region, including in Australia. Federation is a signatory to the United Nations Principles for Responsible Investing (UNPRI) and is certified by the Responsible Investment Association of Australasia (RIAA).



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