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[The Wattle Watch](#)



In any given month, Wattle Partners meets with many different professionals offering a new investment product, idea or scheme. Most are a pass from us, but now and again some pique our interest.

This month we met with met with Barwon Investment partners about their Healthcare Property Fund but were surprised to learn about their Listed Private Equity capabilities.

With estimates of some \$1.2tn in capital committed to private equity funds around the world, there is some concern the market is becoming flooded. In just the last few months a number of Australian equity managers, including Pengana, have launched listed private equity funds that invest into illiquid, unlisted companies. As part of our meeting with Barwon regarding their Healthcare Property Fund, we were surprised to hear about their innovative solution to benefitting from the private equity boom.

What is the fund?

To put it simply, the Barwon Listed Private Equity Fund seeks to invest in listed companies involved in the Private Equity sector. This includes buyout firms, who acquire and then sell companies, private debt providers, who lend to these companies and sometimes take ownership stakes, alternative asset managers, who manage the underlying funds and derive performance fees and finally, private equity backed listed companies. The opportunity set around the world is much larger than we expected, at 950 companies and over \$1.7tn in market capitalisation combined across the likes of TPG, KKR, Oaktree, Blackstone and Berkshire.

Barwon have been running this strategy for over 11 years and have accumulated \$350m from sophisticated investors and family offices. The fund has delivered a return of 19.8% per annum over the last 10 years and 14.4% per annum over the last three.

Whilst it can be difficult to understand why an Australian fund manager has a competitive advantage in this sector, it seems they are one of very few around the world who have chosen to focus on this area of the market. The fund will invest into just 20 individual companies, based on bottom up stock selection, will not use leverage and offers daily liquidity. They seek to generate a return of 3% over the public markets return and provide full transparency into the underlying portfolio.

The fund is highly diversified, with the largest allocation (36%) to buy out firms or those offering growth capital like 3i Group and Onex. This is followed by private debt providers (20%) like Oaktree capital and Blackrock's specialist lending company. Next is alternative asset managers (27%) including Blackstone and KKR, providing exposure to the many funds raised and managed by these companies in the last decade. 16% of the fund is then allocated to companies currently backed by PE firms, including Australia's Cardno and Gentrack Group.

In an environment that is becoming more difficult to generate positive returns every day, we continue to seek out opportunities and specialists who can add value in their areas of interest. It is these groups and people who have built a competitive advantage that are best placed to deliver better than average returns at substantially less risk than listed markets and which warrant further consideration.