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# Earn your fees, private equity told

Jennifer Hewett

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As public attention focuses on the large fees being paid to private equity, Australia's largest industry superannuation fund is arguing that the fee structure should vary according to the skills and track record of the private equity players.

Mark Delaney, chief investment officer for AustralianSuper, which has \$25 billion in assets, said that super funds investing in private equity wanted "materially larger returns" than those available from the public markets.

Even low-cost industry funds did not mind paying high fees for high returns. But he could not understand why private equity fees of the base 2 per cent of funds under management and 20 per cent of profit were so standard across the industry, despite the difference in returns.

Mr Delaney was speaking at the Asian Private Equity and Venture Forum, which focused on the fashionability of Australian super funds as a source of money for private equity, including the larger global players.

The managing director of Principle Advisory Services, Les Fallick, said there had always been a huge dispersion of returns across the industry.

"A lot of people are paying high fees for mediocre returns," he said. "The challenge for investors is to identify those who will provide the best returns. You only want to be with the top-quartile managers."

But he said that "messaging about at the margin" with fees wouldn't help the situation, and private equity funds that couldn't provide the returns would eventually be driven out by the market.

Australia is particularly attractive to private equity fund managers - or general partners - because of the desire to diversify their global investor base and the increasing recognition that the Australian superannuation industry is a rapidly growing source of funds.

"That window of opportunity won't be open forever," Mr Fallick said. "It's important to build long-term relationships now, while Australia is flavour of the month."

Most Australian super funds are also increasing their exposure to private equity, in the expectation

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that superior returns will outweigh the greater risk.

QIC Global Private Equity investment officer Rune Jepsen said it still preferred to go overseas to talk to fund managers it wanted to invest with.

## KEY POINTS

\*Funds investing in private equity want materially larger returns.

\*Private equity sees Australian funds as a way to diversify their base.

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