The recent challenges of raising capital in Australia, according to Clearway Capital Solutions

28 May 2009. Source: Clearway Capital Solutions. Dennis Mothoneos

The credit crisis, the decline in equity markets and the deterioration of the real economy, has resulted in Australian superannuation funds facing a challenging conundrum. Despite private equity becoming increasingly attractive, several factors have discouraged new commitments – leading to a difficult capital raising environment for managers, writes Dennis Mothoneos, managing director of Clearway Capital Solutions.

The superannuation funds that made significant commitments to buy-out funds in 2006 and 2007 vintages (particularly mega and large) have been finding it difficult to make new commitments in the short term.

Firstly, actual private equity allocations may have shifted significantly higher than strategic targets - as the steep decline in public equity prices has not been matched by similar declines in private market holdings. In some cases, this may have lead to a potential breach of investment parameters. Secondly, some risk-averse superannuants have switched from growth and balanced options to cash. This has exacerbated the asset allocation problem, given the obvious place to fund redemptions is from listed assets. This has been further exaggerated by the introduction of the Australian Federal Government guarantee on bank deposits.

Thirdly, declines of around 30 per cent in the Australian dollar have required a significant amount of cash to fund realised currency losses in relation to hedging programmes and increased the dollar value of calls on international private equity commitments. Finally, portfolio company distributions have fallen steeply given the worsening real economy.

Whilst mandated employer contributions under the superannuation guarantee scheme has directed cash-flows to superannuation funds, these have not been sufficient in some cases to offset the factors described above.