

# Colonial First State Private Equity News

February 2002

**Welcome to our first 2002 newsletter for the Diversified Private Equity Fund.**

## Valuation of your units

As an investor, we will keep you regularly updated with news on the individual investments in the Fund. Along with this newsletter, you will also have received your statement showing the value of your units in the Diversified Private Equity Fund. Other than for an underwriting fee, interest income and management costs, you will have noticed that the units have not changed much in value since the date of your initial investment. This is because we have valued each of the investments at cost as at 31 December 2001, which is consistent with the Valuation Guidelines of our industry body – the Australian Venture Capital Association Limited (AVCAL). Due to the long-term nature of this asset class, being a 10-year fund which will not be fully invested until the fourth year (2004), the performance of the Fund will not usually begin to become apparent until at least two years have elapsed.

## Fund activity

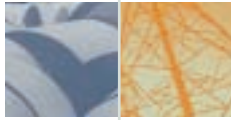
Since the Fund closed for subscriptions on 31 July 2001, we have been busy reviewing investment proposals for inclusion in the portfolio. To date, we have screened approximately 200 proposals, of which we have invested in three – Integration Management, Endeavour HealthCare and Europcar Australia (for more details on these investments please see over).

A further ten proposals have been sufficiently interesting to warrant detailed review, however, we have not ultimately progressed for various reasons (the most common of which was that certain aspects of the opportunities did not meet our investment guidelines). We are currently reviewing investment opportunities in a number of industries - food preparation/distribution, manufacturing, software and information technology, financial services and retailing.

The number of investment opportunities that we are beginning to see from the Commonwealth Bank networks is pleasing and Brian McGlynn (Investment Director) and Gai Metzke (Business Development Manager) are very active in progressing this area. We are currently focusing on businesses which have an existing Commonwealth Bank lending relationship, but need private equity to fulfil their growth plans (which may in turn be organic or through acquisition).

**Steve Baldwin**  
Head of Private Equity

[colonialfirststate.com.au/privateequity](http://colonialfirststate.com.au/privateequity)



## Industry Outlook

The 2001 calendar year saw a significant increase in management buyout/buyin (MBO/MBI) activity in the private equity sector, with the most high profile transactions being the asset sales by Pacific Dunlop to private equity syndicates. While we are not targeting MBO/MBI's of that size (with equity values over \$50 million), we have in recent months seen an increasing number of smaller deals (requiring \$5-20 million of equity) in this segment of the market. We anticipate that these types of transactions, which are typically in more established/mature industries, will form a significant part of the Fund's ultimate 'Later Stage' investment portfolio.

Having money to invest in the current climate also means that we can take advantage of the 'Early Stage' investment opportunities that are arising. With the IPO market effectively closed to the vast majority of these businesses, we are now seeing more reasonable valuations (which was not the case in 1999 and 2000). It is also a time when a good private equity fund manager can prove its worth - adding value by assisting with new strategies, corporate governance and the introduction of key contacts to help grow the business.

## The Fund at a Glance

<b>Fund size</b>	\$103.2 million
<b>First instalment (paid in 2001)</b>	\$25.8 million
<b>Amount invested to date</b>	\$21.8 million
<b>Investment commitments</b>	Endeavour HealthCare – \$7.8 million Integration Management – \$4.0 million Europcar Australia – \$10.0 million
<b>Investment stage allocation</b>	Early Stage – no more than 40% of portfolio (\$41.2 million) Later Stage – at least 60% of portfolio (\$62.0 million)

### Early Stage Investment Criteria

Prior year revenues: less than \$10 million p.a.  
Typical investment commitment: \$3-\$5 million



Integration Management

**Integration Management (IM)** is an 'early stage' company to which

the Fund committed \$4 million in May 2001. The company generated revenues of \$4 million in the June 2001 financial year.

Sydney-based IM has developed billing software that allows telecommunications carriers to accurately invoice and verify the charges for the use of their own networks, as well as other carriers' networks. This is known as an 'interconnect billing system'.

Despite the adverse market conditions for the telecommunications industry generally, IM has traded well in the past six months, having won significant new contracts in Malaysia and Taiwan and also having formed a partnership with Comptel (the world's largest telecommunications mediation company). The company is currently bidding for a number of large international sales and they are on track to achieve strong revenue growth for the June 2002 financial year.

### Later Stage Investment Criteria

Prior year revenues: greater than \$10 million p.a.  
Typical investment commitment: \$5-20 million

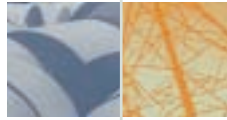


**Endeavour HealthCare** (Endeavour) is a 'later stage' company to which the Fund has committed \$7.8 million.

Perth-based Endeavour is a vertically integrated healthcare provider, seeking to further consolidate its business by building, through acquisition, a critical mass of general practice (GP) and occupational health practices and pathology businesses across Australia.

Having completed two acquisitions in mid-2001, Endeavour is now in a period of consolidation and is concentrating on proving its business model. Certain senior management changes were made by the Board late last year and Endeavour has recently (January 2002) sold its under-performing Victorian assets to the Mayne Group, realising book value.

INDUSTRIAL



(formerly Delta Europcar) is a 'later stage' company to which the Fund has committed \$10 million. The company generated revenues of \$66 million in the June 2001 financial year.

Melbourne-based Europcar Australia is Australia's third largest car rental company (behind Avis and Hertz). The company grew very significantly in 2000 and 2001 through acquisition of the National Car Rental business in Australia and has ambitious growth plans over the next 3-5 years.

The collapse of Ansett and the events of 11 September 2001 have undoubtedly affected the Australian car rental market in recent months. Europcar Australia has emerged positively, increasing its airport national market share to around 13% and continuing to trade profitably. The company has made several announcements recently – a name change to Europcar Australia, a partnership with Virgin Blue airlines and its expansion into New Zealand via a joint venture.

#### Further Information

If you would like further information on your investment in the Diversified Private Equity Fund or know of a business that requires funding please:

- Contact your financial adviser
- Contact the Investor Service Centre on **13 13 36**
- Visit the Colonial First State website: [colonialfirststate.com.au/privateequity](http://colonialfirststate.com.au/privateequity)

Please be aware that the dates for payment of your next instalments are:

2nd Instalment: 5pm, 31 July 2002  
3rd Instalment: 5pm, 31 July 2003  
4th Instalment: 5pm, 30 July 2004

We will notify you in writing in advance of each of these dates.

#### Direct debit

Investors who paid their original instalment by cheque may wish to take advantage of the convenience and efficiency of the direct debit system for their future instalments. Payments under the direct debit system are processed on the last day of the instalment period and are automatic, meaning that you do not have to worry about missing the deadlines through cheques being delayed in the post or similar circumstances.

To take advantage of the direct debit facility simply call the Colonial First State Investor Service Centre on **13 13 36** and we will arrange for a direct debit authority to be sent to you.

#### Protecting your privacy

You are receiving this newsletter as part of your investment in the Colonial First State Diversified Private Equity Fund. If you no longer wish to receive this update, please contact the Investor Service Centre on **13 13 36**.

Colonial First State recognises the importance of protecting your personal information and we confirm that our processes meet the requirements of the Privacy Act and the National Privacy Principles.

## Exclusive Offer

### Become a Europcar Australia Privilege Ready Cardholder

Europcar Australia would like to offer you the chance to become a Privilege Ready cardholder.

As a Privilege Ready cardholder, you will be recognised as a valued Europcar customer in over 2,600 locations throughout Australia and worldwide. Privilege Ready is the ultimate in express service. Simply by completing one master rental agreement, you receive a corporate rate and will always benefit from the fastest service available. Your rental agreement will be pre-printed prior to your arrival, allowing you to sign the agreement, show your drivers licence and drive away.

In line with Australia's Privacy Laws, we have not released your personal details to Australia Europcar – instead, if you are interested in taking up this offer, please contact Melinda Hofman on (02) 8224 6412 to obtain an application form.

To take advantage of this special offer, please ensure that all completed forms are returned to Colonial First State Private Equity by Friday 22 March 2002. Please note that Colonial First State does not receive any fees or commission in relation to this offer.

EXC



**MEET OTHER MEMBERS  
OF OUR INVESTMENT TEAM**

- 1 Peter Jenkins** focuses on biotechnology and medical devices (typically 'early stage')
- 2 Rajeev Dhawan** focuses solely on 'later stage' opportunities
- 3 Brian McGlynn** focuses on all dealflow from the Commonwealth Bank networks
- 4 Duncan Taylor** focuses on information technology (typically 'early stage')
- 5 Nitin Singhi** focuses solely on 'later stage' opportunities
- 6 Robert Routley** primarily focused on 'later stage' opportunities

**ANALYSTS**

- 7 Douglas Cook** helps evaluate prospective investments
- 8 Tom Fennell** helps evaluate prospective investments
- 9 Lance Grayson** helps evaluate prospective investments

*Interests in the Colonial First State Diversified Private Equity Fund are offered by Colonial First State Investments Limited ABN 98 002 348 352. They are not deposits of, nor are they guaranteed by, the Commonwealth Bank of Australia ABN 48 123 123 124 its subsidiaries or any other company. Interests in the Fund are subject to investment and other risks, including possible delays in repayment and the loss of income and principal invested. Past performance is not an indication of future performance. This document provides general information only.*



THE INVESTMENT TEAM