

# Colonial First State Diversified Private Equity Fund Newsletter

March 2006

- The Colonial First State Diversified Private Equity Fund ('the Fund') gives investors exposure to unlisted companies across a broad range of industries and business life cycle stages.
- The Fund aims to achieve returns for investors that are 5% pa greater than traditional listed investments over its ten-year life.
- The Fund will commit no more than 40% of its total committed capital to 'Early stage' investments and at least 60% of its total committed capital to 'Later stage' investments.
- The Fund is managed by a team of five investment professionals (see details on the back) and also has the benefit of an Investment Advisory Council (of respected industry participants chaired by Mr Bill Beerworth).

## The Fund at a Glance – as at 31 December 2005

<b>Fund size (four equal instalments – all now received):</b>	\$103.1 million
<b>Cumulative distributions paid to investors to 31 December 2005:</b>	\$71.7 million
<b>Cash available for new and follow-on investments:</b>	\$18.55 million
<b>Cash available for contingent investment commitments (currently undrawn):</b>	\$5.4 million (see note 1 below)
<b>'Later stage' investments, at cost:</b>	Australian Vinyls – \$11.2 million SG Fleet Services – \$8.1 million Mincom – \$5.5 million Technisyst – \$4.3 million Integration Management – \$4.1 million Endeavour Healthcare – \$2.6 million
<b>'Early stage' investments, at cost:</b>	AtCor Medical – \$3.2 million
<b>Total portfolio, at cost:</b>	\$39.0 million
<b>Total portfolio, at valuation (reviewed by auditors):</b>	\$42.0 million
<b>Summary position as at 31 December 2005</b>	
<b>Cumulative distributions paid to investors</b>	\$71.7 million
<b>Remaining Net Assets of the Fund</b>	\$66.0 million
	<b>\$137.7 million</b>

Note 1: \$2.8 million of this contingent investment relates to the Australian Vinyls investment and \$2.6 million relates to the SG Fleet Services investment.

## Market conditions and investment activity

The past six months has seen continued high levels of capital being raised for investment in new private equity funds. The majority of funds raised have been by established managers focussed on large buy-outs rather than our primary focus, which are buyouts and expansion opportunities in the 'mid-market', being private businesses which typically have an enterprise value in the \$30-150 million range.

Although pricing pressures are still very real, we continue to see a large number of prospective investment opportunities and are currently in due diligence for a new investment for the Fund.

The final investment which was identified for the Fund in September 2005 was not able to be completed because of our withdrawal as a result of business performance issues. It is part of the team's process during due diligence to continually monitor performance and in this instance, the business performance declined sufficiently to require the team to revisit the transaction pricing, which was not able to be agreed with the vendors.

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In addition to seeking new investments for the Fund, we are actively considering follow-on investments in some of our existing businesses. We anticipate that by June 2006 the Fund will be close to 'fully committed'. The Manager intends to reserve some of the residual cash in the Fund to support any minor acquisitions for portfolio companies.

The Fund has been very active in realising certain investments over the past year (Europcar, Flexirent and Penrice have been fully exited in cash transactions). The Fund also completed the Initial Public Offering ('IPO') of AtCor Medical in November 2005 and while this is a capital raising transaction, it clearly moves the Fund's investment much closer along the path to liquidity.

## Continuation of positive investment revaluations and distributions

Investment performance for the past six months has continued to be positive and, as at 31 December 2005, the portfolio was valued at \$42 million, being an amount of \$3.0 million over its cost base. It should be noted that the major investments in the portfolio are recent investments, having short holding periods and we do not believe all of the potential value of these investments is captured in the current valuations. For example, the largest investment, Australian Vinyls has a holding period of less than six months as at 31 December 2005. It is expected with later stage investments that there will be an improvement in performance from the businesses over the medium term as they continue development under private equity ownership.

## Existing Investment – Australian Vinyls



Melbourne-based Australian Vinyls Corporation ('AVC') is Australia's only manufacturer of polyvinyl chloride resin and was originally formed as a joint venture between Orica (formerly ICI), and PolyOne in 1997. Following a management buyout of the business from Orica in 2002, the business was established as an independent manufacturing operation located in Laverton, Victoria. PVC resin is sold largely to pipe manufacturers, for use in residential, commercial and infrastructure construction. The Fund completed a buyout in partnership with management in July 2005.

AVC was considered an attractive investment for the Fund, with significant barriers to entry, a very strong management team with a proven track record in leveraged buyouts, and long-standing supply relationships. Opportunities for expansion include both development of new products and potential acquisitions of chemical trading or manufacturing businesses.

AVC's performance for the December 2005 quarter has been well ahead of the business case on which the Fund invested. With annual revenues in excess of \$250 million, AVC is of sufficient scale for either a sale or IPO to be considered as an exit strategy. The Fund is represented on the AVC board by Tom Fennell.

## AtCor investment – Listed on the Australian Stock Exchange



Sydney-based AtCor Medical develops and markets the *SphygmoCor* range of non-invasive cardiovascular diagnostic devices, which provide physicians with important data concerning the condition of the heart and the arterial vascular system, that currently can only be measured by the insertion of a catheter. The Fund acquired its shareholding in February 2004 and acquired a further stake of \$0.8 million in October 2005.

Cardiovascular disease is a major worldwide health concern, with over 70 million sufferers in the USA alone. *SphygmoCor* has already gained endorsement from major medical research institutions and regulatory approval for use in key markets, including the US, Europe and Japan. The device has achieved significant acceptance in the research and clinical trial markets, with over 500 units currently placed in leading cardiovascular clinical research centres in 40 countries worldwide.

AtCor Medical listed on the ASX in November 2005 at an issue price of 50 cents raising \$15 million in new capital for the expansion of the business in the USA. The majority of shares held by the Fund are subject to a voluntary 24 month escrow agreement with the underwriter of the AtCor IPO under which approval of the underwriter is required prior to any disposal. A smaller number of shares are subject to a mandatory one year ASX escrow period during which these shares may not be sold or disposed. Following the IPO the Fund ceased to have representation on the AtCor Board.

Two major outcome trials both utilising the SphygmoCor System were presented at the American Heart Association meeting in November 2005. The STRONG Heart study and the CAFÉ results underlined the importance of central blood pressure measurements in assessing cardiovascular risk and the effects of pharmacologic therapy on clinical outcomes. AtCor expect this information to positively impact the understanding and acceptance of CV measurement and SphygmoCor, in both the research and clinic markets in the USA.

## Existing investment – SG Fleet Services



**FLEETAUSTRALIA** Sydney-based SG Fleet Services was established in early 2004 by JSE-listed Super Group Limited, a South African

fleet management and automotive supply chain business, which then proceeded to successfully negotiate the acquisition of Commonwealth Bank of Australia's fleet management business. Super Group had expressed a strong desire to have an Australian private equity consortium as a partner in the transaction, and the Fund acquired its shareholding in SG Fleet Services in June 2004.

The former Commonwealth Fleet Lease business (now renamed Fleet Australia) manages approximately 30,000 vehicles in a diverse portfolio, under either lease or long-term management contract.



In May 2005, SG Fleet Services acquired SMB Fleet Management, Australia's premier provider of novated lease fleet management services with a fleet of approximately 15,000 vehicles. The Fleet Australia and SMB Fleet Management businesses are being progressively integrated. SG Fleet Services sees further scope for industry consolidation and will continue to review further acquisition opportunities.

Performance for the December 2005 half-year was good with the Fleet Australia business having to manage the effects of the depressed state of the used vehicle market very tightly. The Fund's most likely mode of exit from this investment will be through an IPO or a sale to Super Group. The Fund is represented on the SG Fleet Services Board by Damian Rigney.

### Existing investment – Technisyst



Technisyst offers end-to-end mobile data solutions for two main markets – Public Safety and Intelligent Transport. The Fund acquired its shareholding in June 2004 and made a further investment of

\$500,000 in November 2005 to increase the working capital base.

The company's public safety wireless data solutions are built to meet the demands of mission-critical environments, where lives are at stake and time is typically of the essence. It is the prime contractor on the NSW Whole of Government Contract Mobile Data Radio Service where 300 ambulances across the Sydney region are able to be tracked and receive and send data over a 34 base station network.

Technisyst was awarded the prime contractor role on the Victorian Department of Infrastructure 'Melbourne Smartbus' Project. This project, which is scheduled to be completed in the third quarter 2006, uses real-time advanced passenger information system (RAPID) software to enable buses to be tracked, late running buses to receive traffic signal priority, and for passengers to receive up-to-date information about bus arrival times. Technisyst acquired Saab ITS during the December quarter, gaining the intellectual property rights to RAPID on a worldwide basis. It has also assumed management of the prestigious fully operational Auckland RAPID project.

The company has strategic alliances with Telstra, Mobitex Technology and ADT Wireless. The performance of Technisyst for the December 2005 half year was adequate with a stronger second half expected by the Fund. The Fund's most likely mode of exit from this investment will be through a sale to an industry participant. The Fund is represented on the Technisyst Board by Nitin Singhi.

### Existing investment – Mincom



Headquartered in Brisbane since its formation in 1979, Mincom is one of Australia's largest commercial software

and services company with over 1,100 employees in 17 different offices internationally. The Fund acquired its original shareholding in October 2002 and is represented on the Mincom Board by Damian Rigney.

Mincom's software allows companies to automate the accounting, human resources management and payroll, materials management, project management, (asset) maintenance management and e-procurement functions. Mincom technology is used in more than 400 customer sites around the world within the mining, oil and gas, utilities, transportation, defence and government industries. Mincom is a recognised industry leader in its chosen markets.

Performance for the December 2005 half-year was significantly ahead of plan with Mincom recording its highest profit after tax in its history for the half year. The outlook for the June 2006 full year is also encouraging. Richard Matthews, CEO has completed a major review of the business and his senior management team. The business has expanded significantly in Russia, Eastern Europe and China in the past six months. The business also continues with its major project for the Australian Defence Force (ADF), where it will in partnership with the ADF develop the world's first deployable, fully integrated, tri-services military logistics solution.

The global nature of the company's operations would indicate a preferred exit strategy via trade sale, although the business is of sufficient size to also consider an IPO.

### Investment Activity in December 2005 Half Year – Integration Management realised at a \$3.7 million loss



Sydney-based Integration Management focuses on selling an 'interconnect billing system' that allows telecommunications carriers to accurately invoice and verify the

charges for the use of their own networks, as well as other carriers' networks. The Fund acquired its original shareholding in Integration Management in May 2001. After a prolonged period of very low investment by the carriers in which the business struggled to gain momentum, the Fund decided to exit this investment to TMT Capital, a New Zealand based shareholder of Integration Management with a strong focus on telecommunications investments.

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## Members of the Private Equity Team

Damian Rigney is the acting head of private equity. Damian joined Colonial First State Global Asset Management in November 2005 as Head of Transactions and Capital Projects for Property and Alternative Investments. Damian is currently standing in for Steve Baldwin who left Colonial First State in January 2006. The investment team retains the continuity of its core management with Damian assisted by Tom Fennell, Brian McGlynn and Nitin Singhi (Investment Directors), Sam Winter (Investment Manager) and Neil Raffan (Investment Analyst). Brian, Nitin and Tom have been with the business since 2001.

## 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; or
- Contact the Investor Service Centre on **13 13 36**; or
- Visit the Colonial First State website: [www.colonialfirststate.com.au/privateequity](http://www.colonialfirststate.com.au/privateequity)

### 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**.

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