

Overseas investment working well for MillhouseIAG

MillhouseIAG Limited has returned in excess of 24 per cent per year net of fees on each of its private equity funds in their first two years and expects even better performance from the third year – currently being audited – according to chief executive David Millhouse. Mr Millhouse is the founder of the Brisbane-based business that operates across a range of business advisory and funds management areas.

He said he is confident for the future of the private equity funds as he believes there is lots of value yet to be unlocked in the current investment portfolio. His target is to build investments to half a billion dollars in ten years from inception of the funds.

MillhouseIAG is unusual among Australian private equity firms in that so far it has raised all of its investment capital in Australia and invested it all overseas. Mr Millhouse was unapologetic about that. He said that since the firm started investing it had been unable to identify investment opportunities in Australia that met its criteria of having potential for ten times investment growth in ten years. It had, however, found such opportunities in Germany and more recently Singapore.

So far all of MillhouseIAG's investments have been in life sciences, high technology and IT but Mr Millhouse said there was no intention to restrict investment to those areas, they were simply the areas in which the most promising opportunities had been found at the right price. He expected the funds to eventually invest across a wide range of industries.

Investing at the right price was a key to achieving the top quartile performance that the firm targeted, Mr Millhouse said. He said the firm had been unable to find good value in the high technology sector in Australia primarily because the current investment climate had enabled hundreds of technology businesses that should have remained in the venture capital and private equity space to raise capital in IPOs and list.

"In Australia these companies currently get listed on the stock exchange so easily that the sector is vastly overpriced. The mum and dad investors who buy these stocks probably don't realise that the firms they are investing in will need large sums of follow-on finance over probably ten years that will dilute their investments down to almost nothing.

Also, the depth of the market in Australia doesn't compare with that in Europe," he said. Mr Millhouse said high technology companies in Germany had benefited from the extensive government support in recent years that had been associated with the reunification of the former East and West German states.

There was also a much deeper tradition of high technology development in Germany that had resulted in a richer store of intellectual property. On top of that, the slow economic growth in Germany over recent years had ensured investment values were much lower than in Australia. Some of the MillhouseIAG funds' investments had been in businesses that had been close to insolvent.

In a recent investment, MillhouseIAG funds took an 80 per cent stake in technology company Condat AG. The company is to be restructured to serve as an acquisition vehicle in the German IT industry.

Mr Millhouse said his investment philosophy differed from the conventional venture capital portfolio approach that accepted that not all investments would be successful. "To achieve alpha performance, every kick needs to kick a goal. If you accept that some investments will not be successful then all you can hope for is beta performance," he said. Mr Millhouse spent ten years studying Australian private equity investment models before his firm moved into the area and during this time he had concluded that global investment would be required to achieve out performance. The unit trust structure of the MillhouseIAG funds enables continuous fund raising. Mr Millhouse said funds were being invested almost as quickly as they were raised.

St George Bank-backed Ascalon Capital Managers Ltd recently made a strategic equity investment in MillhouseIAG (AVCJ, May 07).

Millhouse has just commissioned Standard & Poors to review its operations and a report is expected to be available within a few months.

The current MillhouseIAG private equity/ venture capital funds are:

- Millhouse IAG Private Equity Trusts 1 and 2 – open to institutional investors
- Millhouse IAG Private Equity Fund – open to retail investors
- Deutsche Life Sciences – a specialist life science institutional venture capital fund in Berlin
- Deutsche IT – a specialist information technology venture capital fund which has a foundation investment in a Berlin-based IT business