Funding a brighter future

The economic contribution of Australian Investment Council members

May 2022

Building a better working world

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The continued rise of private capital’s influence on Australia’s financial markets in providing alternative investment models and efficiently allocating capital delivers stability and resilience to the Australian economy. Importantly, the rising prominence of private capital also acts as a powerful catalyst for bold innovation for Australian companies seeking to expand locally and internationally.

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Introduction

Australia's private capital sector

Driving economic growth and innovation

Australia's private capital industry is a key contributor to this country's economic growth, driving investment and job creation in the sectors of the future. In 2020, funds under management of Australian-based private capital funds, including private equity, venture capital, corporate venture capital and private credit (collectively, private capital), topped $89.9 billion, driving investment in emerging, high-growth industries, and contributing approximately 2.6% of our nation's GDP.

Together, private equity and venture capital-backed companies, as well as private credit, have directly or indirectly supported nearly half a million Australian jobs (c. 470,000), with many of these in high-growth industries that continue to accelerate Australia's productivity and competitiveness.

Private capital's strong economic contribution is testament to the fact that more and more businesses are choosing to raise capital from private capital investors, rather than through public markets. Partnering with private capital firms can help businesses unlock growth and expansion opportunities through active asset management in a way that public markets simply cannot, offering smart, patient capital and driving the innovation that creates entirely new products and markets. Products that may start with local markets but, with private capital support, can often expand across the globe. The willingness of private capital to take risks, lend strategic and operational advice and open doors to networks can make the difference to start-ups at critical early-growth milestones, helping entrepreneurs realise their ambitions and build the successful companies that add jobs and tax revenue.

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Some of Australia's fastest growing, most innovative companies were originally backed by private capital, and now contribute significant value to the economy. Since 2011, 52 companies founded by Australians are each worth more than $100 million, 14 are worth more than $500 million and six are worth more than $1 billion. Many of these companies (75%) have continued to retain their headquarters in Australia.[1]

As Australia's economy recovers from a COVID-19-induced downturn. the role of private capital investors is expected to be more critical than ever. Our nation faces a once-in-a-generation opportunity to reshape for a brighter future. The pandemic accelerated progress in technology-driven transformation, particularly in digital health, advanced manufacturing, and IT, while also highlighting the need for a greater focus on issues such as sustainability and climate change. Now as we capitalise on these opportunities, private capital is uniquely positioned to provide the foresight and investment that will fuel high-growth sectors and boost Australia's transition to a low-carbon, knowledge economy.

About the Australian Investment Council

The Australian Investment Council is the voice of private capital in Australia. Council members partner with businesses across every sector of the market to help them grow, while supporting their local communities and creating new employment opportunities. Businesses backed by private capital investment make a significant contribution to growing the nation's economy. They are the standard-bearers of professional investment and include private equity (PE), venture capital (VC), corporate venture capital (CVC) and private credit (PC) funds, alongside family offices and institutional investors such as superannuation and sovereign wealth funds, as well as leading financial, legal, and operational advisers.

About this report

The Australian Investment Council seeks to gain a greater understanding of the important role that the private capital sector plays in the Australian economy. The Council commissioned EY to conduct an independent analysis to help determine and understand the total contribution (i.e. direct and indirect) to the Australian economy of the investments made by its members in 2020. This includes funds spanning across the venture capital (including corporate venture capital), private equity and private credit sectors.

To estimate these effects, an EY team worked with the Australian Investment Council to collect data about the Council's membership base and their investments across 856 Australian businesses. Through a survey, the industry breakdown was ascertained, with information on revenue and employment of the companies invested in by private capital firms.

Further information can be found in Appendix 3 and third party readers are encouraged to read this notice before reading the report.

This information was complemented with data from the Council's commissioned 2018 report, as well as additional research on the top companies/deals within private capital.

This data was compared with information about each industry to determine total contribution to employment and revenue by sector in the companies invested into by Australian Investment Council members.

To assess the total economic contribution of the sector, an input-output (IO) modelling framework has been used, which calculates how each Australian businesses' activities affect the broader Australian economy. The framework considers a range of key economic variables, including jobs and Gross Value Added (GVA), which is a measure of the value of goods and services produced in an economy, similar to Gross Domestic Product (GDP).

The total economic contribution is estimated by adding the direct and flow-on (indirect) effects of the activities of these businesses:

- The **direct** component measures the contribution made by the private capital-backed portfolio companies as a standalone sector, particularly the revenues and jobs created by the firms invested in. It excludes activity generated through its portfolios' supply chain purchases. This is the narrowest measure of the contribution a business makes to an economy.
- The **indirect** component measures the contribution made by the private capital-backed portfolio companies through the industrial activity generated through supply chain purchases. When measuring the indirect component, we only consider the domestic component of supply chain purchases, excluding activity generated in foreign supply chains.

A more detailed description of IO modelling can be found in the Appendix.

"Private capital is uniquely positioned to provide the foresight and investment that could fuel high-growth sectors and boost Australia's transition to a low-carbon, knowledge-based economy.

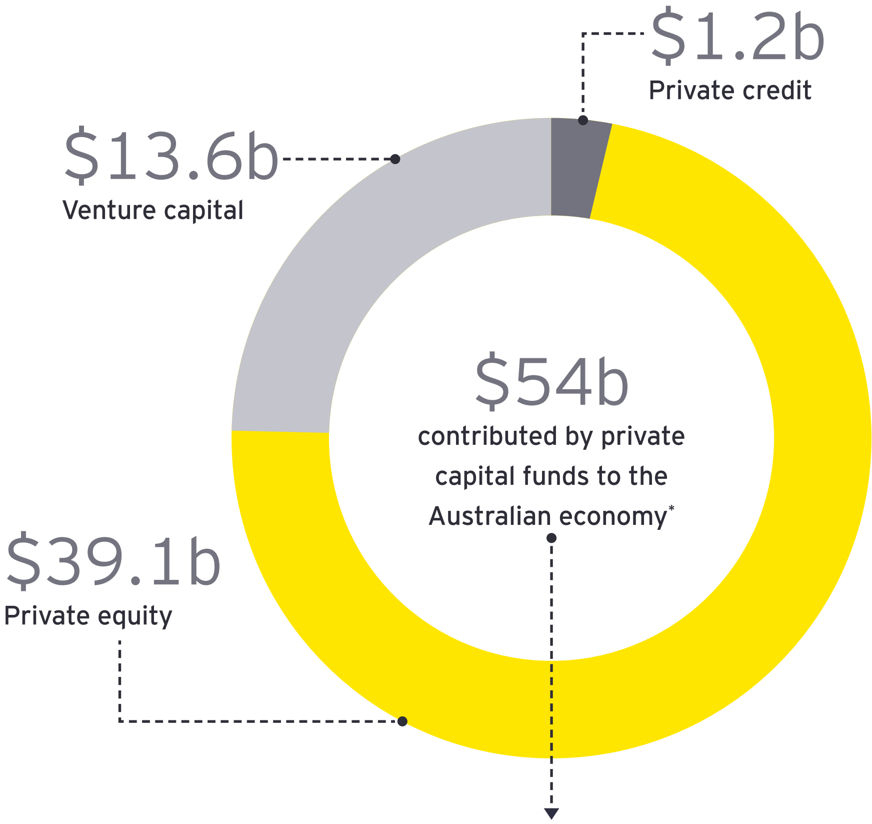
Private capital's contribution to the Australian economy

Over 200 Australian Investment Council members – representing 90% of Australia's private capital industry

856 businesses supported by Australian Investment Council members

$89.9b Australian private capital assets under management as at June 2021, up 11% in six months

$9.1b Aggregate capital raised by Australia-focused private capital funds in 2021

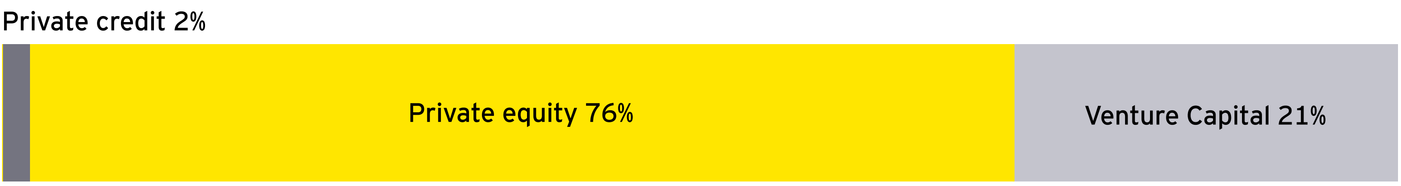


This is equivalent to
2.6% of Australia's GDP

70%
of private capital backed businesses progressed innovation during the pandemic

474,763 full-time jobs
supported directly or indirectly through private capital investment

Source of jobs created



* Contribution is defined here as Gross Value Added (GVA). Gross Value Added is a measure the value of goods and services produced in an economy and can be seen as similar to Gross Domestic Product (GDP).

Executive summary

The Australian Investment Council represents 90% of Australia's private capital sector, a dynamic industry spanning private equity, venture capital, corporate venture capital and private credit. Together these funds invest billions into the Australian economy each year, powering growth and employment in diverse businesses from start-ups to multinationals.

Creating jobs of the future

The sector supports nearly half a million Australian jobs (474,763), through direct employment from the businesses that have been invested in by fund managers, and those jobs indirectly created through the flow-on effects of spend.

Powering Australia's economic growth

Private capital investments contributed $54 billion to the Australian economy in 2020, as measured through its contribution to Gross Value Added (GVA). This equates to around 2.6% of the economy.

Driving key government priorities

Investments within the sector are closely aligned to key government priorities, such as advanced manufacturing, medical technologies and pharmaceuticals, space, clean energy, food and agribusiness and cybersecurity. Funds and strategic guidance from private capital investors are driving growth in the areas forecast to help secure Australia's economic future.

Fuelling innovation

Businesses backed by private capital are often at the forefront of innovation, supporting jobs of the future in sectors such as advanced manufacturing, IT, and health. Throughout the pandemic, it was private capital that continued to invest in ground-breaking ideas, with more than 70% of private capital backed businesses progressing innovation in the last 12 months.

Supporting ESG ambitions

More private capital investors are considering investments that meet environmental, social and governance (ESG) criteria. We see a growing trend to develop portfolios that are carbon neutral and demonstrate a commitment to creating long-term, sustainable value for a broader group of stakeholders.

Overview of findings

The role of private capital in Australia's economy cannot be underestimated. It provides stable, resilient capital in times of downturn, and powers the entrepreneurship and innovation that drives economic growth. Its ability to spot trends ahead of the broader market means private capital acts as a powerful catalyst for change, while its commitment to patient, long-term funding nurtures this change as markets emerge and evolve.

Private capital encourages more evenly distributed access to funding, offering alternative non-bank sources of financing and organises the more efficient allocation of capital across the economy. It is the platform that allows good businesses to become great ones, all while providing stable, consistent employment to thousands of Australians today and helping create the high-growth sectors that will deliver the jobs of the future.

The growth of Australia's private capital sector is testament to the value it brings to our economy and society. The industry is thriving, with Australian private capital assets under management (AUM) totalling $89.9 billion as at June 2021, up 11% in the last six months.[2]

Assessing private capital's contribution to the Australian economy

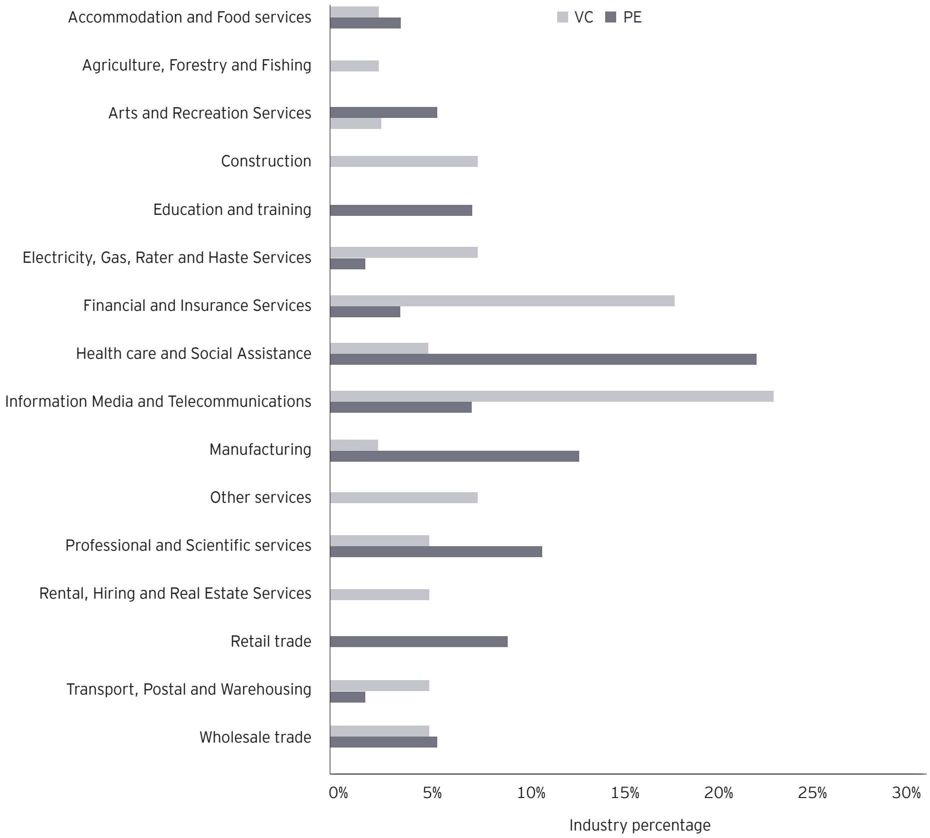
The funds which make up the Australian Investment Council member base played a significant role in this growth, supporting the inception, growth, and development of 856 Australian businesses, ranging in size from just a few employees to multi-billion-dollar firms. Council members include venture capital firms, private equity investors, as well as private credit, which together provide diverse sources of alternate funding, to meet the needs of different types of businesses at varying stages of the growth life cycle. The businesses supported by Australian Investment Council members span all industries, illustrating the scope of private capital investment across the economy. We see trends towards private capital investment in healthcare and social assistance, technology, as well as a growing focus on investing in targets that align with ESG goals – we explore these trends later in the report.

Companies invested in by Australian Investment Council members in 2020

Fund type	Companies	Average revenue ($m)	Average employees
Venture capital	518	28.6	84
Private equity	331	82.6*	402*
Private credit	7	185.1	349

* The average revenue and employees of the PE businesses here excludes the top 10 PE deals by Council members, which have been modelled separately

Australian Investment Council members by sector



Investments by Australian Investment Council members contributed more than 54 billion, or 2.6% of GDP to the Australian economy in 2020. Australian Investment Council members directly or indirectly supported almost half a million jobs, in diverse sectors ranging from agriculture and health and medical services to newer, more emerging industries of high growth.

Fund type	Direct		Indirect		Total	
	Gross value add ($m)	FTE employees	Gross value add ($m)	FTE employees	Gross value add ($m)	FTE employees
Private credit	641	2,443	528	7,793	1,169	10,236
Private equity	22,795	201,585	16,277	161,260	39,072	362,844
Venture capital	7,566	44,125	6,001	57,557	13,567	101,683
Total	31,002	248,153	22,807	226,610	53,809	474,763

Venture capital

518 businesses supported by Australian Investment Council's VC members

$7.6b direct contribution to the Australian economy

44,000+ jobs directly created

84 employees on average in each VC-backed business

Venture capital (VC) is the innovation accelerator of Australia's economy, investing in the emerging, high-growth sectors that will create the jobs of the future. Firms backed by the Australian Investment Council's VC members range from small start-ups to those generating up to $300 million annually, with VC investment appearing to have a strong multiplier effect. Together, these businesses contributed a total of $13.6 billion to the Australian economy in 2020 and directly or indirectly supported over 100,000 jobs. This represents more than 25% of private capital's overall contribution.

The provision of patient capital, strategic guidance and the courage to take calculated risks means VC brings a particularly powerful formula of support to early-growth business – and research suggests it is 3-4 times more effective than corporate research and development at fostering innovation.[3] The Australian government's recognition of the benefits of VC investment is highlighted through programs including the Early-Stage Venture Capital Limited Partnerships (ESVCLP) and Venture Capital Limited Partnerships (VCLP) programs which have helped Australian businesses lead the world in sectors including AgTech, MedTech, fintech, cybersecurity, mining and resources technologies, and digital technologies. Deals involving IT represented 38% of VC investment in 2020, while the year also saw increased funding in some of Australia's most high-profile fintech companies including Airwallex and Valiant Finance.

The value of VC in driving growth and innovation is widely recognised. As Swoop Aero's Eric Peck says, it was the confidence and vision of VC that allowed the pioneering drone services business to take its ambition to the next level: "It wasn't about what the return on capital was going to be in a five-year period. It was how to build the next big company of the future."

Case study:

Folklore Ventures gives Swoop Aero the confidence to soar to new heights

When Eric Peck and Josh Tepper launched Swoop Aero in 2018, they had already raised a small amount of capital for their innovative drone services business. But they were scaling fast and needed more funding, as well as the insight into how to achieve their ambitions to "make access to the skies seamless".

Investment from venture capital firm Folklore Ventures came at a critical time, giving Swoop access to the capital and business advice, guidance and mentorship that helped it develop its growth plans. From their initial garage base, Swoop expanded fast, now leasing the former GE head office in Port Melbourne and building aircraft using advanced manufacturing systems and cloud-based digital twins. Swoop is now a world-leading drone logistics service, working in partnership with leading donors and healthcare agencies including the Gates Foundation and UNICEF to deliver life-saving medical supplies and vaccines across Africa, as well as in remote areas of Australia, England, and Scotland.

Team members from Folklore, as well as Right Click Capital, sit on Swoop's board, sharing strategic and planning advice and assisting with key hiring decisions. Their guidance is ongoing and hands-on, and fortnightly progress calls with Eric offer opportunities to review progress, discuss issues such as capital allocation, capex and decision-making discipline, and develop and support efficient and agile governance processes.

Eric says the backing of venture capital gave the company the confidence to keep going and meet its goal of reaching 100 million people by 2025. "The technology and long-term vision alignment we saw in venture capital is what drove us down that path," Eric explains. "It wasn't about what the return on capital was going to be in a five-year period. It was how to build the next big company of the future."

Private equity

331 businesses supported by Australian Investment Council's PE members

$22.8 direct contribution to the Australian economy

~200,000 jobs directly created

402 employees on average in each PE-backed business

Investments under the Australian Investment Council's private equity (PE) members in 2020 included some of Australia's biggest deals of that year, involving companies with revenues greater than $1 billion. Together, the top 10 investments in the PE sector employ over 70,000 people, and, in total, the sector directly creates and indirectly supports close to 360,000 Australian jobs, which represents two-thirds of the impact of Council members.

The resilience of PE investment in the face of adverse conditions ensured steady support of those businesses particularly important to Australians during the pandemic, including healthcare and consumer products. During the COVID-19 lockdowns, it was PE that continued to invest in those companies facing the toughest headwinds – airlines, cinemas, leisure companies and restaurants – keeping these vital industries afloat and thousands of Australians employed.

At the same time, PE investment is responsive to market trends in a way other finance is not. Its foresight, informed by analysis, allows PE to quickly reallocate capital from industries with poor future outlooks to those with better futures, including companies with stronger alignment to ESG values. In this way, PE is a fantastic catalyst for change.

Case study:

Allegro Funds puts Great Southern Rail back on track

From low value transport operator on the brink of failure to a thriving, iconic tourist experience – the story of Great Southern Rail (GSR) is an example of how private equity funding and expertise can turn a business around.

Most people are familiar with GSR's luxury trans-continental passenger rail services, The Ghan, The Indian Pacific and The Overland, which have set the standard for Australia's ultimate train travel experience. But only a few years ago, GSR was a company in crisis, its traditional business model of providing government-subsidised, affordable transport across the regions radically disrupted by the arrival of low-cost airlines in the 2000s.

By 2015, rail passenger numbers in Australia had dropped to just 40,000 people per year, a huge decline from more than 140,000 a decade earlier. That same year, Allegro Funds acquired GSR from its previous owner Serco, with the aim of building a new sustainable business model, to keep the trains in service and retain thousands of jobs.

Allegro's investment thesis was to transform GSR from a low value transport operator into a high-value experiential tourism business. The first step was to create a sustainable stand-alone business, separate from Serco and not reliant on government funding. Significant investments into systems, data and capability laid the foundations for the transformation to luxury rail cruiser, driven by a new vision to focus on providing exceptional experiential travel experiences. More than $80 million was invested in upgrading the carriages and facilities while reshaping the offering and creating richer experiences.

During Allegro's ownership, GSR tripled in profitability, employee numbers grew by more than 30%, forward orders doubled, and the business achieved world class net promoter scores. Following this successful transformation, Allegro sold a majority stake to Quadrant Private Equity who have used GSR as the platform asset for Journey Beyond, Australia's leading experiential tourism and leisure owner and operator. Under Quadrant's ownership, GSR has continued to thrive and execute on growth plans.

Allegro's ability to provide GSR with access to financial capital as needed allowed the business to retain surplus earnings and funds without any obligation to distribute them. GSR CEO Chris Tallent said the fund's experience in transforming businesses, coupled with a highly regarded and motivated GSR management team, were critical in ensuring the transformation was a success, "With a suite of iconic assets supported by a strong team, including Allegro and my management group, we were well positioned to capitalise on the forecast growth of the luxury experiential tourism sector in Australia."

Private credit

7 businesses supported by Australian Investment Council's PC members

$641m direct contribution to the Australian economy

~2,500 jobs directly created

349 employees on average in each PC-backed business

The Australian Investment Council's private credit (PC) members make up a nascent group but one which makes a significant contribution for its relatively small size. These businesses have the largest average revenue of Council members and invest in a small number of significant transactions that, through direct and indirect revenue, contribute a total of $1.2 billion to the Australian economy and directly or indirectly support just over 10,000 jobs.

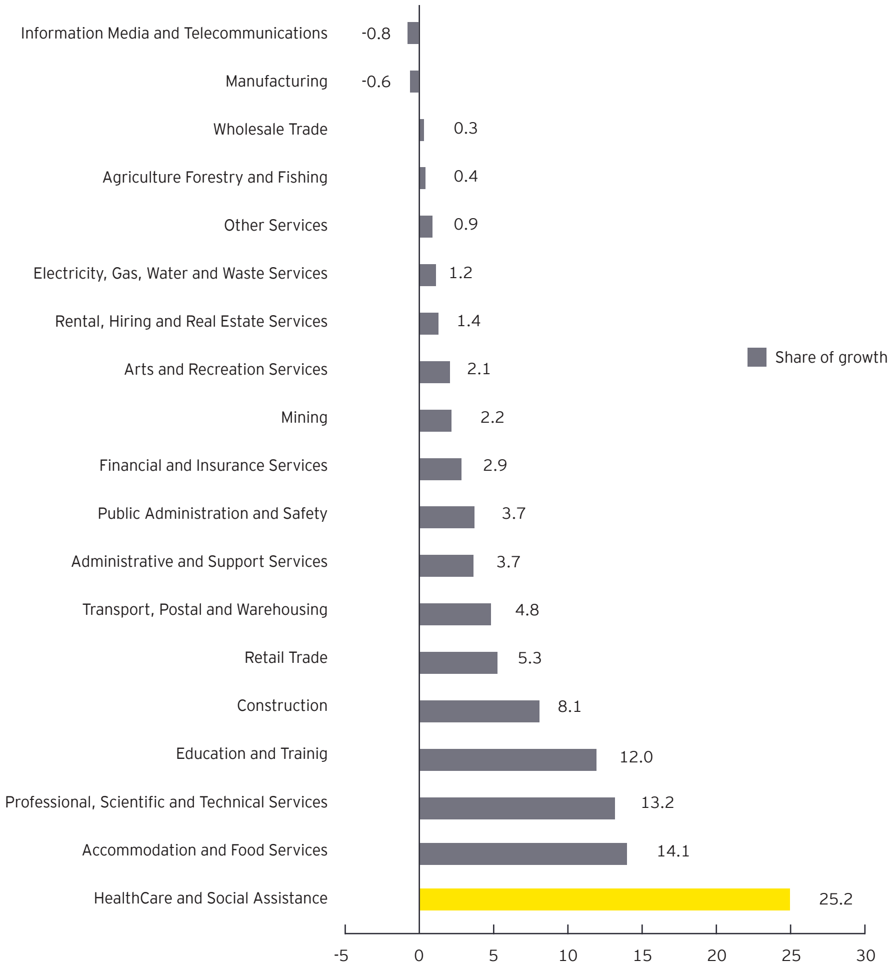
PC played a particularly valuable role during COVID-19, extending alternative or emergency capital to small and medium-sized businesses unable to secure financing from banks. PC also played a key role due to its flexibility of structure, which is uniquely suited to a more uncertain economic environment. These investments proved resilient, resulting in lower default levels than would have been expected[4] and making the sector an attractive and lucrative one for investors in economic downtowns.

PC's potential for delivering strong returns has seen it experience substantial growth in Australia and, overall, 2021 was a record year for the international and Australian private credit market. In Australia, PC reached a new total market size of $133 billion, or 11% of the overall corporate and business lending market. This represents 21% growth from the $109 billion invested in 2020.[5] Strong conditions are expected to continue, as reported in the EY Australian Private Debt Market Update for 2021, with the Australian market showing similarities to those of the US and Europe where improving economic conditions are encouraging PC investment.[6]

Spotlight on healthcare

Healthcare is tipped to see some of Australia's fastest growth over the next five years, driven by an ageing population, the growth of the National Disability Insurance Scheme and increases in government spending. Jobs in healthcare and social assistance are projected to increase by 250,000 between 2020 and 2025, the largest industry increase in Australia. Social assistance and care roles, in particular, have been identified as one of the key skills and jobs for Australia's future.[7]

Expected share of employment growth over the next 5 years



Source: Labour Market Information Portal, EY Analysis

Private capital, which has a long history of supporting healthcare, is expected to continue to be a major source of investment in the industry. In 2020, Australian Investment Council members contributed almost $10.9 billion to Australia's healthcare industry, supporting firms across the sector, and helping increase access to affordable services for all Australians. Private capital investment funded the expansion of critical health infrastructure including community-based care, telehealth services, and the development and delivery of COVID-19 vaccines. At a time when demand for healthcare soared, firms backed by the Council directly or indirectly employed more than 120,000 people in the sector.

Private capital economic impact of investment in healthcare

Healthcare	Direct		Indirect		Total	
	Gross value add ($m)	FTE employees	Gross value add ($m)	FTE employees	Gross value add ($m)	FTE employees
Private equity	7,669	66,946	2,431	47,984	10,099	114,930
Venture capital	581	2,417	184	6,283	765	8,700
Healthcare total	8,249	69,363	2,615	54,267	10,864	123,630

Building tomorrow's healthcare

"The healthcare sector is at a nexus where federal and jurisdictional initiatives are modernising digital health infrastructure, legislation and intergovernmental agreements support more free-flowing data sharing, and consumers expect technology to enable health and wellness. These factors are contributing to a fertile ground for innovation and private capital investment.

Paul Grant
EY Oceania Federal Government Digital Health Leader

Now, as Australia's healthcare sector learns lessons from COVID-19 and positions for the future, private capital is helping drive a transformation. Once considered a laggard in the adoption of technology, healthcare is accelerating digitisation, driven largely by the pandemic's forced shift to digital solutions and telehealth.

Investment from private capital is helping to build a healthcare model of the future that will include an increased focus on mental health, at-home or community-based services and preventative care. Already global surge is seen in private capital activity in healthcare – the sector attracted US$151 billion of private capital investment in 2021, more than double the previous year.[8]
We expect to see similar growth trends in Australia. Private capital's role in nurturing and commercialising digital innovation will prove a critical enabler in progressing federal government strategic growth priorities in areas such as medical technologies and pharmaceuticals, while strengthening retail health,[9] at-home and community-based services.

Private capital's ability to efficiently allocate capital, provide strategic advice and act as an incubator will also help ensure state-of-the-art care is economically sustainable, affordable and inclusive for all Australians.

Case study:

Brandon Capital and OneVentures help Vaxxas redefine vaccine technology

Imagine a world of needle-free vaccines. That's the ambition of Brisbane-based Vaxxas, which, with the support of Brandon Capital and OneVentures, is pioneering a high-density microarray-patch (HD-MAP) with the potential to dramatically enhance the performance of existing and next-generation vaccines.

Vaxxas is based on technology developed at the University of Queensland. Instead of using traditional needles, the Vaxxas patch is covered in tiny microprojections coated with vaccine that is applied to the skin. The proprietary dry-coating technology eliminates or significantly reduces the need for vaccine refrigeration during storage and transportation, easing the resources and logistics burden of maintaining the vaccine "cold chain" to potentially increase vaccine access.

In 2011, Vaxxas received Series A round financing led by OneVentures with co-investment from Brandon Capital, and Boston-based Healthcare Ventures, and $36 million of Series B financing predominately from OneVentures managed funds in 2015. This support allowed the company to expand trials and attract a further $15 million Series C investment from global pharma company Merck in 2020.

It was the initial willingness of venture capital to invest in the novel thinking behind Vaxxas that allowed the company to take its MAP technology from a Brisbane lab to the human clinical studies that have proven its ability to improve the efficiency and effectiveness of a vaccine's immune response. From its first applications in infectious disease and oncology, Vaxxas has now forged collaborations with leading global organisations to develop and commercialise vaccines for some of the world's most devastating illnesses, including the flu, measles, rubella and, most recently, COVID-19 (in collaboration with the University of Texas at Austin in the United States). Vaxxas has a growing workforce of more than 95 and has just begun work on its first manufacturing facility in Northshore Brisbane.

Spotlight on technology

Private capital continues to be a major force behind the growth of Australia's tech industry, which is fast becoming a world leader. Research suggests that the tech sector contributed $167 billion to the Australian economy in 2020-21, making it the third largest sector behind mining and finance.[10] Already our fourth-largest export sector, technology is growing rapidly, helping Australia develop a more diversified trade portfolio and become more competitive in the global knowledge economy.

$12.4 billion

total contribution to Australian economy by tech firms backed by the Australian Investment Council in 2020

Technology businesses* supported by the Australian Investment Council contributed a total of around $12.4 billion to the Australian economy in 2020, and the sector was the top target for the Council's VC members during the year. These results demonstrate the continuation of the sector's strong support for tech innovation – IT deals have made up about half (51%) of total VC transactions in Australia since 2010.[11] Deals are increasing in value too. Seven out of 10 of 2020's largest deals by Australian VCs were in IT or financial services, much of this increase driven by significant funding rounds for high profile fintech companies.

Technology	Direct		Indirect		Total	
	Gross value add ($m)	FTE employees	Gross value add ($m)	FTE employees	Gross value add ($m)	FTE employees
Private credit	188	698	156	2,106	345	2,804
Private equity	4,009	36,798	3,831	21,290	7,841	58,087
Venture capital	2,138	13,489	2,029	17,526	4,167	31,015
Technology total	6,336	50,984	6,017	40,922	12,352	91,906

*Technology includes Professional, Scientific & Technical Services and Information, Media & Telecommunications

Shaping industries of the future

VC's particular mix of capital and expertise makes it uniquely positioned to drive the surge in innovation that has characterised Australia's IT sector over recent years. VC-backed fintechs are shaking up the traditional finance industry, digital disrupters including Canva prompt businesses to consider bold new approaches to long-standing challenges and companies such as Appen are redefining how the world's biggest companies use data.

COVID-19 was a critical point for the tech sector, accelerating our use of technology and fast-tracking growth and innovation, much of it supported by private capital. At a time when other industries were shedding jobs, the tech sector created 65,000 jobs during the pandemic, adding to the existing employment base of 861,000.[12] Technology businesses backed by Australian Investment Council members directly or indirectly supported 91,906 jobs in Australia in 2020.

91,906

jobs supported by Australian Investment Council-backed technology firms in 2020

The investment in the sector is expected to continue to increase, as digitisation becomes a critical enabler across our economy. Over half of the 20 most in-demand jobs and skills for the future are technology roles.[13] As more businesses require digital skills and look to incorporate emerging technologies, growing the Australian technology industry will be key to our nation's future. Over 80% of businesses said they were looking to adopt key technological innovations in the next five years (including cloud computing, big data analytics, connected devices and artificial intelligence).[14] To help make its shift to a world-leading digital economy, Australia has developed the Digital Economy Strategy which lays out federal government ambitions, with priorities including digital government, tech start-ups and advanced manufacturing.[15] Private capital is ready to play a critical role in realising these ambitions. Already about half of the Australian Investment Council members we surveyed say their portfolio companies are involved in advanced manufacturing, while 42% are aligned with Australia's aim to build a technology-backed economy, working in fields as diverse as fintech and quantum computing. As private capital flows into these sectors, its impact goes beyond direct funding, sending signals to the business community that drive innovation and growth.

Case study:

Blackbird Ventures backs Canva to transform the world of design

Visual communication platform Canva has become synonymous around the world with beautiful, simple design templates that empower anyone to design anything and publish it anywhere. The award-winning business, which is one of Australia's fastest growing start-ups, is backed by Australasian venture capital fund Blackbird Ventures.

Blackbird co-founder and Partner, Rick Baker, initially met Canva co-founders Melanie Perkins and Cliff Obrecht in 2012 in Perth where they were running their prior startup, Fusion Books. At the time, Blackbird was raising its first Early Stage Venture Capital Limited Partnership (ESVCLP) fund, which evolved into a $29.4 million fund of committed capital from 96 individual investors. An investment of US$250,000 from this fund became seed funding for Canva, allowing Melanie and Cliff to develop and launch their first version of the platform, which aimed to fill a gap in the market for design solutions that anyone could use without existing skills or upfront costs.

Now one of the world's fastest-growing software companies, Canva is still backed by Blackbird, which has participated in all of the company's funding rounds so far, investing more than $270 million overall. This support has allowed Canva to expand and scale at speed, amassing a global community of more than 80 million monthly active users and helping attract top engineering and product management talent to Australia. The majority of the company's 2,800 employees are based at Canva's Surry Hills headquarters.

Today Canva is creating value beyond the bottom line. Driven by a core value to "be a force for good", the company has pioneered the Pledge 1% movement in the Australian technology industry and offers its platform free of charge for use to over 65,000 schools and 200,000 non-profit organisations worldwide.

Spotlight on environmental, social and governance (ESG) investment

The trend towards socially responsible and sustainable investment has moved from the sidelines to centre stage, with ESG issues becoming central to investors' decision-making. In 2020, responsible investment in Australia grew 30% to almost $1.3b – 15 times the rate of the overall investment market (30% to 2%).[16] This growth is in line with that of global sustainable investment which reached US$35.3 trillion in five major markets in 2020, a 15% increase in the past two years (2018 – 2020).[17]

Investor demand for more responsible investment is the biggest driver of this growth, with 98% of investors saying they evaluate non-financial disclosures that relate to the environmental and social aspects of a company's performance.[18] The impact of COVID-19 further strengthened investor resolve – 90% of investors say that they now attach greater importance to corporates' ESG performance when it comes to their investment strategy and decision-making.[19] More than one-third of investors have rejected a fund because of inadequate ESG policies.[20]

90%

of investors say ESG performance is more important when making investment decisions since the pandemic

Australian regulators are increasing scrutiny around ESG disclosures. ASIC has signalled its intention to review whether funds are accurately representing their ESG focus or just "greenwashing",[21] and APRA has clarified the requirements for climate change risk disclosures.[22] But broader stakeholder pressure is also prompting private capital to ensure investment targets align with community expectations around ESG. EY research found that 43% of people want to buy from businesses that benefit society, even at a higher cost.[23]

It's not surprising then that private equity managers cite ESG as a top three strategic priority,[24] a focus we see reflected in our survey of Australian Investment Council members. Sixty-seven percent said the activities of their portfolio companies align with environmental responsibility – second only to economic recovery from COVID-19 in importance.

98%

of investors evaluate ESG as a part of performance

Case study:
Adamantem supports Climate Friendly to help Australia achieve net zero

Climate Friendly is a leading Australian carbon farming project services provider, partnering with landholders to create carbon abatement projects that increase the amount of carbon their land removes from the atmosphere. Typically, this involves a land manager changing their land management practices to, for example, re-grow native vegetation or selectively plant native trees to improve their land, storing carbon and qualifying for the issue of Australian Carbon Credit Units (ACCUs). Climate Friendly's portfolio of over 130 projects spans more than 10 million hectares across Australia, and has delivered over 20 million tonnes of carbon abatement. In this way, Climate Friendly and its partners play a key role in developing a sustainable land sector and supporting Australia to achieve net zero by 2050.

Private equity firm Adamantem found Climate Friendly an attractive investment as it expects demand for ACCUs to increase. The Australian government's long-term emissions reduction plan, released in October 2021, assumes 10-20% of the emissions reduction required to achieve net zero by 2050 will be provided by offsets. Climate Friendly's strong market position, attractive project pipeline and industry leading technical capability makes it the ideal platform to service growing demand for carbon offsets from government and corporates.

Adamantem's support has helped Climate Friendly significantly scale operations, including increasing its rate of new project commencement, expanding the team by more than 20 people, building out the technology platform, increasing the sophistication of its ACCU portfolio trading and sales strategy, and developing new methodologies for carbon offset projects. Now Adamantem is working with the Climate Friendly team to help them deliver on their ambitious target to abate 100 million tonnes of carbon emissions by 2025, believing that the Sydney-based company demonstrates how private capital can help support the transition of the economy towards net zero.

Investing in a more sustainable future

As the story of Climate Friendly tells us, businesses with a strong ESG focus aren't just aligning with expectations – they are positioning themselves to succeed in a changing world. Research suggests that sustainability practices have a positive impact on a company's investment performance.[25] Investors tell us they believe that companies with a robust ESG performance are better prepared for risk and uncertainty and more likely to achieve long-term value.[26] All 10 of the largest superfunds in Australia have an active ESG policy and Australia has the largest amount of signatories to the UN's principles for responsible investment in the Asia-Pacific region.[27]

> “Investors tell us that companies with a robust ESG performance are better prepared for risk and uncertainty and more likely to achieve long-term value.

With this in mind, we expect the push for more sustainable investment to only ramp up, particularly as government increases its support through initiatives such as the Clean Energy Finance Corporation. About half of investors surveyed by EY expect to increase their ESG investing in private equity and venture capital over the next two to three years. Research by the Responsible Investment Association Australasia suggests that renewable energy and energy efficiency (34%), sustainable land and agricultural management (17%), impact investments (10%)[28] and social and sustainable infrastructure (10%) will be the most sought-after ESG-aligned targets.

As Australian Investment Council members intensify their focus on more environmentally sensitive, socially responsible investments, they may have to be prepared to compete for the best targets. Responsible Investment Association Australasia research found that only about half of the investors surveyed felt that there were enough ESG offerings to meet their needs.[29] Challenges may also lie in meeting greater expectations around the transparency and comprehensiveness of ESG disclosures and reporting. Assessing and measuring ESG impact is still difficult for many businesses, and there is an urgent need for ESG to mature to the same level as financial disclosure. We see greater progress in consistent adoption of climate-related metrics but there is still a way to go in agreeing how to report on social issues such as diversity and wage equality.

Appendix

1. Input-output (IO) modelling

Input-output (IO) modelling calculates how the impacts created by activity in one industry affect the broader economy through established intra- and inter-industry relationships. Our IO modelling measures the interdependence between one industry and the rest of the economy using economic multipliers. Economic multipliers are one way to estimate the total economy-wide contribution of direct and indirect economic activity for a particular industry. The fundamental multipliers use for this study are described below.

Direct effects	Production-induced indirect effects
Direct output of the industry (i.e., revenue + GST); direct employment, etc.	Flow-on contribution generated by an industry purchasing inputs from other industries

Direct effects – measure the initial requirements for an extra dollar worth of output for a given industry. The direct effect on the output of an industry is a one-dollar change in output to meet a one-dollar difference in final demand. Associated with this direct effect is a (direct) difference in GDP, employment, income, etc. The direct effects were estimated using information from a number of sources, including the systems of national accounts. The following approach was used to estimate the direct economic contribution:

Production-induced indirect effects – measure the changes due to inter-industry purchases as they respond to the demands of the directly affected industries. This includes the chain-reaction of output up and down the production supply chain. The production-induced indirect effects were estimated using IO modelling. The main data requirements for IO modelling are input-output tables that give an estimate of the total output for a particular industry, as well as all of the interactions between industries within a given economic region. Our primary data source for this study (i.e. the input-output data used to construct the IO model) is given by the Australian Bureau of Statistics (ABS Australian National Accounts: Input-Output Tables – 2018-19).

Limitations of Input-output modelling

There are some limitations in the application of IO modelling and analysis, as the use of fixed multipliers implies that the structure of the economy remains unchanged by economic events. IO modelling also applies no supply-side constraints on the availability of inputs, such as labour, capital/equipment and land. While IO is a common form of economic modelling, there are factors that must be considered in interpreting the results, including:

- The approach assumes fixed production coefficients and constant returns to scale. This means that no matter how much is produced, the per-unit cost of required inputs remains the same
- IO assumes unlimited availability of production inputs such as labour, capital / equipment and land (i.e. there is a lack of supply-side constraints)
- The approach does not account for price changes that may result from increased competition for scarce resources
- The analysis is built on a static picture of the economy that does not consider dynamic adjustments that may occur as a result of potential future shocks
- The effect of technology on productivity / production efficiency improvements is not considered
- The method considers average effects, rather than marginal effects, meaning that IO models do not consider economies of scale, unused capacity or technological change.

2. Survey data

The economic contribution of private capital was calculated using anonymised survey data provided by the Australian Investment Council. Council members were asked to complete a survey containing information about the private capital investee companies including industry and performance information.

Responses were received from Members of the Council for 79 investee companies. To ensure a representative sample, the average revenue and FTE for private equity was combined with data from previous surveys (from 2015 and 2016). A summary of the population estimate is below:

	Australian Investment Council members survey data			Population estimate used in IO modelling		
	Number of firms	Average revenue ($ millions)	Average FTE	Number of firms*	Average revenue ($ millions)	Average FTE
Venture capital	51	28.6~	84~	518	28.6~	84~
Private equity	16	65.9	350	331	82.6^	402^
Private credit	2	185.1	349	7	185.1	349

*Total number of Australian companies invested in by Australian Investment Council members.

~The bottom 10 responses from VC firms are outliers and were excluded from the average revenue and FTE calculation.

^ We have used the revenue and employee estimates from previous surveys to complement the data we received from the surveys, removing outliers. In addition, we added in actual information from the top ten private equity deals with data received directly from the Australian Investment Council, which were modelled separately as part of the population of firms.

3. Notice

Ernst & Young was engaged on the instructions of the Australian Investment Council to conduct an Economic Contribution Study ("Project"), in accordance with the Australian Investment Council Economic Contribution Study dated 8 March 2021.

The results of Ernst & Young's work, including the assumptions and qualifications made in preparing the report, are set out in Ernst & Young's report dated April 2022 ("Report"). The Report should be read in its entirety including the cover letter, the applicable scope of the work and any limitations. A reference to the Report includes any part of the Report. No further work has been undertaken by Ernst & Young since the date of the Report to update it.

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