

# HELPING SCIENCE TO FIND ITS OWN FEET

## INSTITUTIONS' ROLE IN HIGH-TECH START-UPS

By PETER CASSIDY

*Scientists may be worrying too much about the shortage of venture capital in Australia; perhaps they should look further afield and sell to the highest international bidder.*

**T**he role of the institutional investor in the supply of development capital and ways of bringing the science and business communities together can be examined from three viewpoints:

- the present investment environment for an institution;
- how an investment manager may review a long-term investment opportunity; and
- how investment decisions and wealth creation affect the scientific community.

The sharemarket crash of 1987 and the subsequent poor performance of the Australian equity market relative to other investment classes have tended to produce a "security-first" investment mentality in the community. Following the collapse of many high-profile, highly leveraged individuals and companies, the community appears to have placed place a high priority on the preservation of capital.

From an institutional perspective, these concerns are reflected in the product requirements of the customer. To the extent that individuals and trustees of superannuation funds adopt a risk-averse attitude to investment (as they have recently) there is a flow-on affect to the allocation of investible funds by institu-

tions.

In the past two or three years, we have experienced at AMP a significant shift away from market-linked products with an equity orientation to capital-guaranteed products which require a relatively high cash and fixed-interest component. There has also been a natural inclination for many of the newly established superannuation funds to go the capital-guarantee route until a satisfactory level of reserves has been built up.

By implication there is less capital available for equity investment at these points in the cycle; and portfolios tend to concentrate on companies with proven management, sound financial structures and good track records. These factors have led recently to a concentration by institutions on the major 50-100 stocks quoted on the Australian Stock Exchange.

The need for a high level of liquidity within institutional funds has also led to the focus on major company stocks. There is a tendency towards short-termism which is exacerbated by trustees of superannuation funds taking notice of the many surveys

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published by superannuation consultants regarding the performance of institutional investment managers.

While more responsible consultants will emphasise the longer-term nature of the business, the fact that the performance charts are the subject of such intense interest naturally results in a focus on shorter-term investment returns. Consequently, some institutional managers are reluctant to consider investment opportunities which are unlikely to produce results within a relatively short time.

My institution is a willing investor across the full spectrum of Australian enterprise provided that returns are commensurate with the risk involved. In particular, we are prepared to seek opportunities in the under-researched areas of the capital market where there is the prospect of higher returns.

However, there is a limit to what proportion of our investments can be put into equity-type investments. Our clients' risk preference means that we will probably not increase the current proportion of equities. Further, our clients' performance demands mean that we must maintain liquidity for a large proportion of our portfolios. This makes it difficult to have a large amount in unlisted enterprises or in long-term or long-lead-time projects.

Our experience of unlisted investments is that returns from larger resource-related investments have been very satisfactory, while those from smaller enterprises have been somewhat disappointing.

#### **How much good?**

One major complaint I hear from scientists concerns the lack of money to exploit a particular technology "for the good of Australia". I often wonder what the cost is for that added

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phrase—"for the good of Australia". One thing of which I am certain is that for AMP to make an investment in what is good for Australia, it has to be good for ordinary Australians who invest in our life insurance and superannuation products.

We seek to invest in successful—that is, sufficiently profitable—businesses rather than supporting individuals or products. If an individual is supported, it is for the objective of developing a profitable business and not a product. As a consequence AMP has not invested in any of the research-and-development based projects that have sought institutional support.

This does not mean that we are against research and development, but rather these projects do not meet our investment criteria. However, there are financial intermediaries which do provide services to universities by assisting them to raise funds for R&D projects. Often these investments are tax-driven schemes whose viability is determined by government policy.

It is my view though that institutions can best support the development of science in Australia by investing in businesses which can profit from investing wisely in R&D.

The government would like the public to believe that institutions have not supported long-term development investments. This is not true in the case of my organisation. We are major investors in other finan-

cial intermediaries, such as AIDC, Byvest and DBSM Capital partners, which invest in a range of medium-size businesses.

We recently strengthened our commitment to small business by subscribing \$24 million of new capital to BLE Capital to give us a one-third interest. Another large institution, National Mutual, has also acquired a substantial holding in the Melbourne-based venture capitalist Advent Western Pacific.

I noted earlier that our most profitable development experiences had been with larger investments. I think it is worth mentioning a few examples.

We own 100 per cent of Computer Sciences of Australia, one of Australia's largest computer software and systems development companies.

In the technology arena we, and National Mutual, are committed to a substantial long-term investment in Optus, the second telecommunications carrier. This core investment will enable smaller businesses to exploit opportunities which will emerge from the projected growth in telecommunications. Investors such as the AIDC are available to assist in the development of these opportunities.

We have been a major supporter of the development of Australia's mining and agricultural resources. We are a major investor in the aluminium industry, from bauxite mining to alumina production and aluminium smelting, as well as participating in the development of the Central Queensland coalfields.

Value-added developments from Australia's resource base have provided AMP with long-term wealth creation for the benefit of its policyholders.

***Some institutional managers are reluctant to consider investment opportunities which are unlikely to produce results within a relatively short time.***

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## Science and technology

How should Australian scientists exploit their intellectual property and technology developments? I do not believe our scientists should wait for Australian industry to exploit their discoveries.

Businesses have their own agendas and often the small Australian industrial base will not have a world-competitive company capable of exploiting an opportunity offered by the scientist.

The development of a successful start-up company in the technology area has proven to be extraordinary

**Only the largest companies can afford to focus resources on pure science that has no immediate commercial benefit.**

ily difficult in Australia; scientists should stop worrying about the lack of these business developments.

The cost of the phrase "for the good of Australia" is generally the failure of a non-sustainable business.

In focusing on the development of valuable opportunities, I have not differentiated between pure research

and applied development. In my view, only the largest international companies can afford to focus resources on pure science that has no immediate commercial benefit. Government is the other source of funding for pure research that can be viewed as having a social benefit.

My feeling is that we are reaching a new balance. For example, salaries of academics are under pressure as Government cuts back on funding for universities and pure research. New options for raising money have to be explored by our universities. Scientists can have control over their destinies by reallocating their resources like any world-competitive business.

I hope that our scientists will adapt to meeting the demands of the market and use the wealth they can acquire from market-driven R&D to support their fundamental research goals.

The wealth of Australia is enhanced if our scientists can sell their innovations to the highest bidder and establish their own profitable relationships in the global village. Maybe they will be lucky and find some Australians in the throng with whom they can do business and create wealth, but I for one am not worried if they don't.

More important, internationally competitive Australian scientists will be available to support new internationally competitive businesses that may establish in Australia. It is the institutions' role to continue to identify and invest in those businesses. ■

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# REMEMBER NCSC RELEASE 102?

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lent uranium market and financial analysis. From the valuation point of view, perhaps most interest focused on the fact that without any identified expert basis of opinion or comment shown, downward adjustments to "management estimates" of 0 per cent, 10 per cent, and 20 per cent respectively were made to ore reserves (resources?), operating costs, and capital cost estimates.

In fairness and on balance, maybe the resource and cost estimates didn't matter?

■ **Question 3.** Why did the report within the Australian Consolidated Minerals Part B takeover response not comply with NCSC Release 149?

■ **Answer.** Easy. It was a voluntary report, not one required under the Corporations Law.

Broader questions arising from these valuations are:

Does the incentive fee basis of appointment kill, or at least jeopardise, any independence that might have been perceived?

Does responsibility for the technical comment rest anywhere at all, or is it disclaimed or is it reflected back on the company?

The reports we refer to are on high-quality letterheads, are very well presented and readable, yet they are arguably sparse on the identified and attributed independent technical input which one would normally expect to see in such mineral valuation reports.

The concern we express is of a possible retrograde step towards the inadequate reporting standards of earlier years, bringing with it the potential to reflect poorly on all those who support and aspire to achieve the highest standards of valuation technique and procedure.

JASSA readers who share our concerns about these matters could express those concerns to the ASC, the ASX, or the Mineral Valuation Committee c/o The AusIMM, 191 Royal Parade, Parkville, Victoria 3052.

**Norman Miskelly FSIA  
Neil Cole FSIA  
Michael Lawrence**

# NEW MEMBERS

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