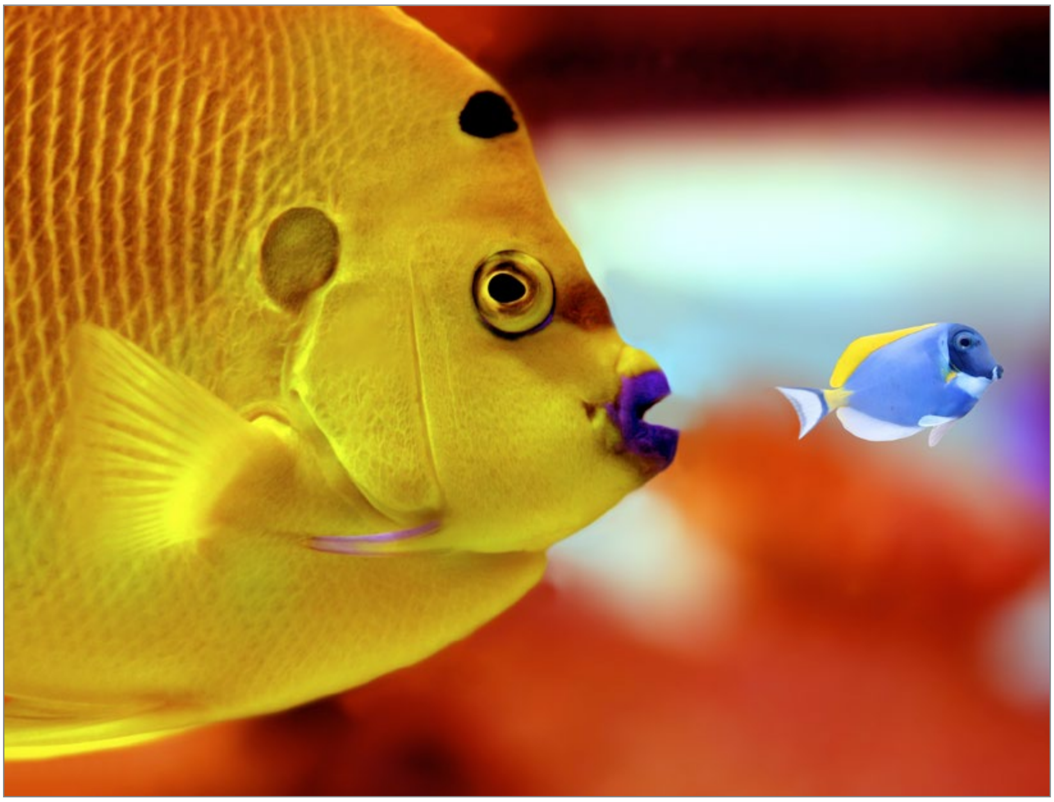
AVCJ
ASIAN VENTURE CAPITAL JOURNAL

Asia's Private Equity News Source

avcj.com April 14 2015 Volume 28 Number 13



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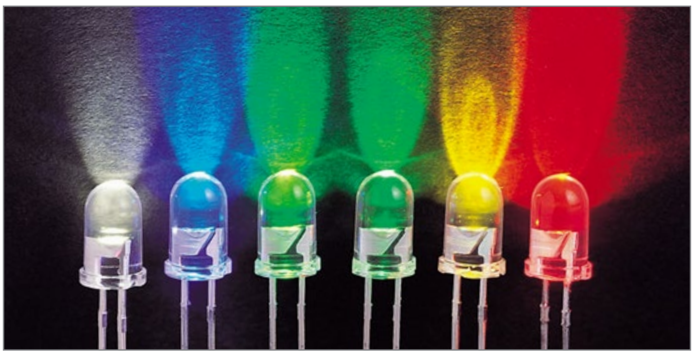
DEAL OF THE WEEK



Bright idea in China

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EDITOR'S VIEWPOINT

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Cultivating Asia carve-outs

PRIVATE EQUITY INVESTORS AGREED or completed nearly 200 buyouts in Asia last year, according to AVCJ Research. Roughly one quarter of these were carve-outs from corporate owners. South Korea, where domestic conglomerates are under pressure to divest non-core assets, was the largest source of deal flow.

The two largest carve-outs were also Korean: Hahn & Company teamed up with Hankook Tire to buy US auto parts maker Visteon Corp's local subsidiary Halla Visteon Climate Control (HVCC) for $3.6 billion; and The Carlyle Group acquired ADT Korea, fire safety and security systems provider Tyco International's local business, for $1.93 billion.

The general motivation for these divestments was the vendors' need to slim down and concentrate on particular business lines. Visteon said the HVCC sale would allow it to focus on cockpit electronics and cloud-based products and services. The ADT Korea sale was part of an extensive restructuring initiative at Tyco, which also saw the company offload its North American security unit.

More of these deals will apparently follow in 2015. Divestments are going to become a core component of companies' capital strategy this year as management teams response to pressure to improve portfolio performance and shareholders returns, according to a study by EY.

Nearly two thirds of executives in Asia Pacific surveyed as part of the study expect to see an increase in strategic sellers, compared to 54% globally. At the same time, about half of companies surveyed in the region anticipate a rise in unsolicited approaches by would-be buyers. Among those that have completed divestments, the bulk of the proceeds went towards reinvesting in growth, with two thirds seeing an increased valuation multiple for the remaining business following the sale.

Private equity firms are not the only potential acquirers of these assets, but divestments represent a strong investment theme. The most frequently cited reasons for corporates exiting particular units are the lack of a competitive market position or the asset not being part of the parent's core activities. With new investment and expertise, a private equity owner could recalibrate a business and make it competitive once again – several GPs have achieved this by supporting expansion into Asia.

Similarly, an investor driven by long-term returns is incentivized to take a non-core, and perhaps unloved, unit and help it perform. For instance, an existing management team might be frustrated by myriad reporting channels to bosses in Europe or its parent's reluctance to invest in a business that is no longer a priority. Private equity comes in, encourages management to take a minority stake in the business, commits fresh capital, and seeks to introduce better operating procedures.

An interesting aspect of the EY study is nearly 64% of respondents in Asia admit they don't conduct portfolio reviews often enough. The implication is that assets ripe for divestment are not identified quickly and this stymies deal flow. It is possible that private equity investors proposing divestments to companies would either be dismissed out of hand, or there would be insufficient preparation of an asset for sale, resulting in a more challenging transaction.

Indeed, the study observes that corporates can learn much from private equity when readying a divestment. Measures include: affecting operational improvements early, treating a business as a stand-alone entity with its own performance indicators, re-investing working capital in growth areas, establishing strong legal and governance systems, putting in place the right management, and introducing strategies for long-term revenue enhancement.

These are essentially the same procedures PE firms follow when working towards a trade sale. Indeed, recruiting new management, restructuring the sales and marketing, and investing in brand rejuvenation formed the basis of Affinity Equity Partners and KKR's profitable exit from South Korea's Oriental Brewery last year – as they sold the business to Anheuser-Busch InBev, the company from which they carved out the asset in the first place.

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NEWS

ASIA PACIFIC

Texas County & District re-ups in RRJ Capital

Texas County & District Retirement System (TCDRS) will invest $50 million in RRJ Capital's third fund, which is targeting at least $4 billion. The pension system committed a similar sum to the GP's second fund in 2013.

Sebastiaan van den Berg leaves HarbourVest

Sebastiaan van den Berg, Asia-based managing director with HarbourVest Partners, has left the firm after 10 years. Regarding future plans, van den Berg is considering various options with a view to remaining in Asia and in the private equity industry, AVCJ understands.

Kinnevik re-ups in Rocket-backed fashion group

Sweden's Investment AB Kinnevik has invested an additional EUR32 million ($34.4 million) in Global Fashion Group (GFG), an emerging markets fashion e-commerce group developed by Germany's Rocket Internet. GFG's Asia-focused assets include India's Jabong and Zalora in Southeast Asia and Australia.

Blackstone spins out Asia corporate advisory unit

The Blackstone Group has spun out its Hong Kong-based corporate advisory business to Comprador, a new outfit led by Anthony Steains, the former head of Blackstone Advisory Partners Asia (BAPA). Comprador will continue to offer the same services as its captive predecessor.

GREATER CHINA

CITIC Capital raises $140m via Cinda sell-down

CITIC Capital has exited China Cinda Asset Management, selling a 1.96% stake in the Hong Kong-listed non-performing loans manager for HK$1.09 billion ($140 million). It offloaded 229.2 million shares at HK$4.75 apiece. Cinda raised $2.5 billion in Hong Kong IPO in December 2013.

China VC firm Qiming raises $75m annex fund

Qiming Venture Partners has raised a $75 million annex vehicle on top of its third US dollar-denominated fund. The China-focused VC firm closed Fund III at $450 million in 2011. A portion of the earlier vehicle was held back for participation in subsequent rounds, but AVCJ understands several of these rounds are larger than anticipated, hence the need for the annex.

Ascendent seeks $500m for second China fund

China-focused GP Ascendent Capital Partners has set a target of $500 million for its second fund. The hard cap is not expected to exceed $650 million, according to sources familiar with the situation. The PE firm closed its debut fund at $365 million in 2012. Notable investments include pork producer WH Group, which raised $2 billion through a Hong Kong IPO last year.

The GP brings a merchant banking-style approach to private equity, providing companies with capital in conjunction with advice. This is in keeping with the two founders' backgrounds. Liang Meng and Kevin Zhang met when advising CNOOC on the attempted acquisition of Unocal in 2005 - Meng was leading J.P. Morgan's M&A team and Zhang was on the capital markets side at Goldman Sachs. Meng went on to lead D.E. Shaw's Greater China investment business while Zhang worked for TrustBridge Partners.

Speaking to AVCJ last year, Meng and Zhang observed that the advisory approach is particularly relevant in the present environment in China. Entrepreneurs are becoming more sophisticated, making them open to transactions they would not have considered 10 years ago, while the economy is slowing, which means companies are interested in solutions such as M&A that offer synergies and change the competitive landscape.

Online finance site 9fbank secures $110m

9fbank.com, a Chinese internet finance platform, has raised a new round of funding worth $110 million. Backers include VC firms IDG Capital Partners and SIG Asia, Hong Kong-based private equity firm Grandis Capital, Tsinghua University's joint ventures Incorp Capital and Union Fortune and Ping An Insurance.

Legend Capital, SIG lead Series C for PPDai

Legend Capital and SIG Asia Investment have led a Series C round of funding for PPDai, which claims to be the first and largest peer-to-peer (P2P) lending platform in China. Other investors include VMS Investment Fund, Sequoia Capital and Lightspeed China Partners. The funding size is close to $100 million.

PE-backed Red Star Macalline files for HK IPO

Red Star Macalline Group, a private equity-backed shopping mall operator in China, has filed to list on the Hong Kong Stock Exchange. Candlewood and Springwood, both of which are affiliates of Warburg Pincus, own 10.97%% and 5.88%, respectively, of Red Star Macalline.

Legend leads Series C round for China's UCloud

Legend Capital has led a Series C round worth approximately $100 million for UCloud, a Chinese cloud service provider, with participation from VMS Investment Fund, DCM, Bertelsmann Asia Investments (BAI) and GX Capital. Legend and BAI led a $50 million Series B round in June last year.

Installment payment platform raises $100m

Qufenqi, a Chinese electronics retailer that allows buyers to pay in installments, has raised approximately $100 million in a new round led by Shenzhen-listed games developer Beijing Kunlun Tech. Beijing Kunlun has acquired a 20% stake in Qufenqi for $50 million through its Hong Kong-based subsidiary Koram Games. The unit has also acquired a further 5.71% via VC firm Source Code Capital.

WoWo jumps 2.85% on debut after $40m US IPO

WoWo, the Chinese e-commerce platform that started out as operator of group-buying site 55tuan, jumped 2.95% on its NASDAQ debut after raising $40 million through its IPO. The offering marked a liquidity event for CDH Investments and Tianyou Investment, neither of which sold any shares in the offering.

Johnson & Johnson backs Vivo's healthcare fund

Johnson & Johnson Innovation (JJDC) - the venture capital arm of the eponymous healthcare and consumer goods multinational - has committed to $15 million to Vivo Capital's latest US and China-focused healthcare fund. The vehicle closed last month at $750 million.

Baidu leads Series C for ride-sharing app 51yongche

Chinese search provider Baidu has led a Series C round of funding for 51yongche, a China-based ride-sharing mobile app. Sequoia Capital also participated. The company said that the investment amounts to tens of millions of dollars.

NORTH ASIA

Japanese biotech firm targets $42m venture fund

An investment unit of Japanese biotech company Euglena is looking to raise JPY5 billion ($41.5 million) for a VC vehicle it has launched alongside SMBC Nikko and science start-up incubator Leave A Nest. The fund will invest in start-ups developing technology with real-world applications – as opposed to internet businesses.

SOUTH ASIA

India classifieds site Quikr raises $150m

Indian classifieds site Quikr has raised a $150 million in a round of funding led by existing investor Tiger Global Management. The round also includes previous backer AB Kinnevik and new investor Steadview Capital.

Prabhat Dairy, Dilip Buildcon file for IPOs

PE-backed Prabhat Dairy and Dilip Buildcon have filed for IPOs. Prabhat will seek to raise up to INR3 billion ($48 million) through issuing fresh shares as well as equity held by investors including Rabo Equity and Proparco. Dilip Buildcon is targeting INR6.5 billion, which would allow Banyan Tree Growth Capital to make a full exit.

Pension regulator mulls opening door to PE

India's Pension Fund Regulatory and Development Authority (PFRDA) is looking into ways in which domestic pension funds can participate in PE and VC funds. Funds under the National Pension System (NPS) can only buy government and corporate bonds and equities, but a panel tasked with reviewing investment guidelines has submitted a report that could lead to a relaxation of these restrictions.

DST leads $315m round for taxi-booking service Ola

DST Global has led a $315 million investment in ANI Technologies, operator of India taxi-booking platform Ola, alongside existing investors Tiger Global Management and Steadview Capital. DST contributed around $206 million to the round, while Tiger Global and Steadview put in $40.7 million and $10.5 respectively. Accel, which had backed the recently acquired TaxiForSure, contributed a further $5 million, with other smaller investors making up the balance.

Ola acquired rival TaxiForSure for $200 million in a cash and stock deal last month, adding TaxiForSure's network of 15,000 taxis across 47 cities to Ola's 70,000 taxis - and 30,000 auto rickshaws - across 85 cities. Aside from Accel, the merger also saw TaxiForSure backers Helion Venture Partners, Bessemer Venture Partners, and Blume Ventures, take a share in the new business.

With this latest investment, Ola has now raised just under $600 million across five rounds, not including the $40 million raised by TaxiForSure prior to it being bought. Ola's last funding round was led by SoftBank which invested $210 million with Matrix Partners, Steadview, and Tiger Global last October.

Apollo makes partial exit from Dish TV

Apollo Global Management has made a partial exit from India-based direct-to-home (DTH) television service operator Dish TV, selling INR2.62 billion ($42.1 million) worth of shares on the open market. The PE firm invested $100 million in Dish TV in 2009, taking an 11% stake. It still holds 85,035 unconverted global depository receipts – or a 7.98% equity stake – worth INR7.23 billion at current market prices.

Sequoia, TR lead $50m Series C for Urban Ladder

Urban Ladder, which claims to be India's leading furniture-focused online retailer, has received $50 million in a Series C round of funding led by Sequoia Capital and TR Capital. Existing backers Steadview Capital, SAIF Partners and Kalaari Capital also contributed to the round.

Warburg exits healthcare chain Metropolis

Warburg Pincus has exited its entire 27% stake in Indian healthcare chain Metropolis to the Shah family, one of the company's promoters. KKR backed the Shah family's buyback. The financial terms of the transaction have not been disclosed. The PE firm invested in Metropolis in 2010, buying ICICI Venture's interest for $85 million.

Snapdeal acquires VC-backed FreeCharge

Indian online marketplace Snapdeal has acquired online bill payment service FreeCharge in a deal said to be worth as much as $450 million. FreeCharge, which allows customers to pay utility bills and recharge their mobile phone accounts online, previously received funding from Sequoia Capital, Valiant Capital and Tybourne Capital.

MobiKwik gets $25m Series C round

India-based digital wallet app developer MobiKwik has raised $25 million in a Series C round led by Tree Line Asia. Existing investor Sequoia Capital also participated in the round, as did new investors Cisco Investments and American Express. It brings the total amount raised by MobiKwik to more than $55 million.

SOUTHEAST ASIA

IDB, Pertamina Pension Fund to set up PE JV

The Islamic Development Bank (IDB) and Indonesia's Pertamina Pension Fund have agreed to set up a joint venture private equity firm to invest in infrastructure and other projects in Indonesia. There is also the possibility of investment in other IDB member countries.

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Creatures great and small

Global fund-of-funds are looking to scale up and become more diversified, while many of their smaller counterparts are pursuing niche strategies. Is the model in a state of decline or a state of revolution?

WITH THE LAUNCH OF ITS LATEST FUND last month, Australian private equity fund-of-funds Vantage Asset Management is offering a very specific strategy to very specific group of investors. The new vehicle, Vantage Private Equity Growth 2, is targeting A$100 million ($76 million) to back GPs operating in Australia's mid-market buyout space where investees have an enterprise value of A$50-500 million.

Meanwhile, the fund is eschewing traditional institutional LPs in favor of small-scale investors, namely self-managed superannuation funds (SMSFs), endowments, and high net-worth individuals. Vantage CEO Michael Tobin – who spun out with his team from St. George's Bank in 2004 – explains that he came to the conclusion early on that it was better go small than try to compete with larger incumbents.

"To be a new player in the game it is difficult to get that critical mass to be able to compete," he says. "So we decided to take it down market and tap into a different segment."

While many global fund-of-funds are busy turning themselves into large-scale, multi-strategy asset management platforms, Vantage is one of a number of smaller players in Asia heading in the opposite direction. Concentration and specialization are their watchwords. Tobin is not the only looking to offer something different.

"I think the day of global fund-of-funds predominantly doing primary funds is over," says Michael Lukin, managing director at ROC Equity Partners, an Asia-focused fund-of-funds that spun out from Macquarie Investment Management last year. "If you are an optimist they are dying, if you are pessimist they are dead."

This market dynamic may be a natural consequence of increased pressure on the conventional fund-of-funds model. On the one hand, LPs have become more sophisticated and considering their options; on the other competition for allocations is intensifying. The focal point is usually fees. It begs the question of where, on the scale from super big generalist to super small specialist, is the best place to be.

Bifurcation point

"There has been an ongoing evolution in the fund-of-funds model over the past few years," says Wen Tan, a partner at FLAG Squadron Asia in Hong Kong. "Really what we are seeing in Asia is a continuation of what has already started occurring with funds-of-funds in the US and Europe which is – broadly speaking – a bifurcation of the industry."

Part of this is down to the fact that, as the market has matured, LPs have become increasingly aware of the need and the possible methods of reducing fee burdens and mitigating the j-curve effect when committing to the asset class.

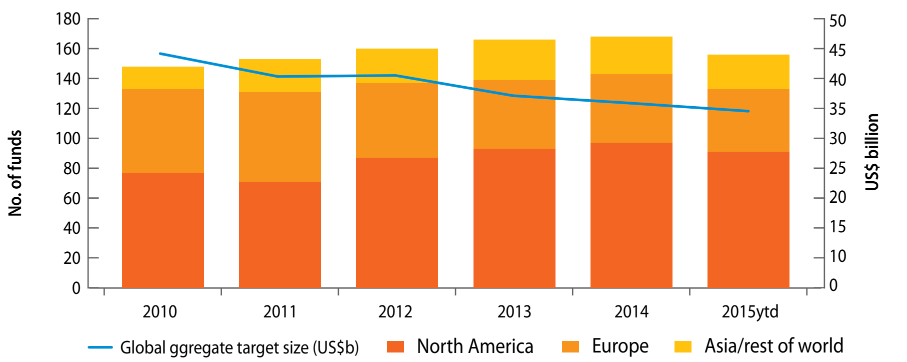
One way they have done this is to demand more concessions from fund-of-fund managers in return for big ticket commitments, usually structured as separately managed accounts (SMAs). These products can be highly customized, offering a combination of primary, secondary and co-investment exposure. This in turn has put pressure on managers who at best are seeing their margins squeezed and at worst are being passed over by LPs completely.

Industry data suggest that fundraising is indeed a challenge. According to Preqin, there are presently around 156 funds-of-funds in the market – 23 of which are Asia-focused – targeting an aggregate $33.2 billion. By contrast, in 2010, there were 148 funds targeting $44 billion. Looking at capital raised globally, last year $14.2 billion went to 81 fund-of-funds; in 2010, 74 funds received $17 billion.

A snapshot of recent closes – where there will be some degree of exposure to Asia – offers an insight into the nature of this bifurcation: a mixture of global and regional, multi-play and pure-play. Partners Group raised just over $1 billion for its latest global infrastructure fund, which will target a mixture of primary, secondary and direct opportunities, while Hamilton Lane closed its eighth global private equity fund-of-funds at $426 million.

At the other end of the spectrum, Emerald Hill Capital Partners raised $400 million for its third Asian fund-of-funds. As in previous vehicles, endowments and foundations account for the vast majority of LPs and as a result the investment strategy is relatively specific: Emerald Hill prefers concentrated portfolios of smaller-sized funds with high growth strategies that offer the potential for higher net cash-on-cash multiples.

Fund-of-funds in the market



Source: Preqin

"The two models that work better are the funds-of-funds that are large, scalable, and can provide good services for reasonably low fees as they have significant economies of scale," says Javad Movsoumov, executive director with UBS's private funds group in Singapore. "On the other hand we have the very small, specialist funds-of-funds offering access to highly specialized products in niche geographies."

The first of these – established players with global footprints – have traditionally been able to capture most of the capital. This is important as fund-of-funds pursue greater diversification, particularly away from pure primaries towards

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secondaries and co-investment where there is often less pressure on margins.

"The private equity market is continuing to grow and you need a global and dedicated investment team to access it," says Josh Jacob, a principal covering relationship management at Hamilton Lane. "The fact that we are one of the largest allocators in the private markets gives better access to all these investment opportunities and manager relationships. Things like having an in-house legal team also help reduce costs."

Increased competition in the fund-of-funds space has also pushed managers into making early commitments GPs so they can hammer out better terms – for example, securing preferential access to more co-investment opportunities – and differentiate themselves from other plain vanilla primary-focused players.

Focused strategies

Emerald Hill, though by no means a boutique operator, occupies the specialist ground. Top Tier Capital Partners is in a similar position, having just collected in excess of $400 million for its latest fund, which will only target venture capital opportunities. The LP base largely comprises more sophisticated groups that effectively want to outsource their North American VC programs to a fund-of-funds manager.

Traditionally, Top Tier's advantage has been rooted in its ability to offer exposure beyond the reach of its LP clients. Many of the more popular North American venture capital firms draw on capital from the same group of LPs each time, which means it is difficult to get an allocation without the right networks.

Even if one of these investors successfully makes an inroad, the check size might be too small for it to go in directly.

"Once the argument for funds-of-funds was we can offer access to the big name groups that pension funds don't have," says Jessica Archibald, managing partner with Top Tier. "But that argument – and that model – is changing. Access is still important but so is being able to take larger allocations, being closer to the managers, and having better insights into the industry."

She adds that the cost of outsourcing a venture capital program is less than trying to do the same thing in house. Nevertheless, LPs cutting a larger check still expect concessions in the form of SMAs and customized solutions. Around 20% of Top Tier's LPs are looking to set up SMAs, although this does not necessarily equate to a drag on resources.

"If somebody comes in and says, 'I only want fund investments under $100 million in fund size,' we are already looking at those investments so we don't need to add more staff, we are just dividing the commitment differently," Archibald explains. "There is no additional work, accept on the reporting side."

However, it is worth noting that SMAs come in many different forms. It may be a vehicle that sits alongside a funds-of-funds providing identical or tailored exposure to the main portfolio at lower cost, or a fully independent mandate. A key issue is the amount of discretion that lies with the manager. The ideal scenario for a fund-of-funds is full discretion, for economic reasons if nothing else.

"Where separate managed accounts turns into more of an advisory relationship is where a fund-of-funds will essentially do the due diligence but the ultimate decision will be made by the investor," UBS' Movsoumov says.

Some smaller players do not offer SMAs. Emerald Hill, for example, is said to have rejected requests for such arrangements. ROC is willing to go down the SMA route, but its niche is similar to those of other Asia-only fund-of-funds – an ability to access, conduct due diligence on, and then manage relationships with smaller single-country GPs. These opportunities are beyond the reach of most North American and European LPs.

The value add is manager selection and the payoff is in the outsize returns that can come from early vintage funds. "There are plenty of people trying to play for volume, but the way we look at our business model is that we are generating premium returns on a smaller amount of capital," ROC's Lukin says.

The downside to this approach is that, in the absence of economies of scale, a fund-of-funds struggles to be flexible on fees. ROC recognizes the amount of capital it can deploy is relatively constrained and is not seeking to raise more than $400-600 million at a time. If performance is strong, fees will not be a concern for LPs, but the firm aims to counterbalance any pressure by offering secondaries and co-investment.

The advantage is the same as on the primary side: ROC can move swiftly in pursuit of opportunities that its clients cannot access on their own.

> "Getting acccess is still something people are willing to pay for"
> – Michael Lukin

Squeezed middle

Where the fund-of-funds model has come under the greatest pressure is between these two extremes. These are typically managers that are unable to concentrate on a particular area because of their size, but at the same time are not large enough to offer fee breaks and invest in diversified product offerings.

In many cases, the result has been consolidation. Many of these deals have been outside of the region. Examples include Grosvenor Capital Management's acquisition of Credit Suisse's Customized Fund Investment Group, and US firm Mercer's purchase of Swiss manager SCM Strategic Capital Management. In Asia, while a number of family offices have abandoned plans to raise third-party capital, there has only been one significant M&A transaction – US-based FLAG Capital Management buying Squadron Capital.

"As time goes on we have seen various firms really want to broaden their product offering and you have seen that consolidation take place," says Tan, of FLAG Squadron Asia, the combined entity. "So some firms are scaling up and getting economies of scale and others are broadening their product offering through consolidation."

Fund-of-funds reaching a final close in 2014

	Focus	Vintage	Amount (US$m)
Partners Group Global Infrastructure 2012	Global	2012	1084.6
Hamilton Lane Private Equity Fund VIII	Global	2011	426.0
IFC Catalyst Fund	Global	2011	418.0
Emerald Hill Capital Partners III	China	2012	400.0
Redbud Capital Fund II (Tianjin Redbud Capital)	China	2013	161.7
Yiwu Huishang Fund-of-funds (Tianjin Redbud Capital)	China	2014	80.8
Haidian Venture Capital Fund (Beijing Zhonghai)	China	2009	80.8
Longgang Venture Capital Fund	China	2014	80.8

Source: AVCJ Research

Tan cites FLAG Squadron Asia as a beneficiary of mid-size consolidation. The firm has a collection of niche strategies where it still makes sense for LPs to outsource programs but economies of scale are available through a single back-end platform. The key is finding the right balance between skill and scale.

"There will be consolidation and that will be a part of a firm's business development. It all depends on viability of the business, and the positioning of the business, and the ability of the business to adapt," says Mounir Guen, CEO of placement agent MVision. "The larger organizations that have very sophisticated marketing and have the resources for multiple offices will be at an advantage."

There are challenges at both ends of the market. Larger players want to grow their assets under management by offering more products to more investors, yet they cannot afford to this at the expense of quality. For smaller players that don't have the scale to offer discounts on fees, it is a case of explaining why their products merit a premium price.

"The fact that Asia is still an emerging market, and a tricky market for people to understand," says ROC's Lukin. "Getting access is still something people are willing to pay for, particularly if you are a US or European investor and looking to allocate 10% of your capital to Asia."

The bottom line is track record. Managers that have been through several cycles, and have data to back up their story, will have an easier time convincing LPs of their ability to add value. "Very clearly your performance has to be good enough to justify the fees," says Hamilton Lane's Jacob. "If you are going to out-perform the public markets, strategic allocation and portfolio construction are important."

Target market

Another factor worth considering is that the target LP community is also evolving. Just within Asia, the last five years or so have seen an increase in capital entering the asset class from sovereign wealth funds and state-backed pension investors. The next great untapped market is China's insurers and perhaps after that Japan's pension funds. Any of these groups might seek to gradually build their exposure to private equity through a fund-of-funds relationship.

Vantage is also looking to enter virgin LP territory and has turned to a less conventional means of bringing in investors. Its latest fund-of-funds is separated into two closed-ended unit trusts. Trust A is for smaller institutions, such as charitable foundations and university endowments of up to A$1 billion in size. These groups, which have small investment teams and limited knowledge of private equity, are subject to a minimum commitment of A$5 million.

Trust B goes even smaller, targeting high net worth individuals that can put in as little as A$50,000, although all the capital is called on application. They must also meet local qualified investor criteria.. These individuals tend not to be interested in customized solutions or fee competition, just getting into an asset class that was previously inaccessible to them.

Vantage is not the only fund-of-funds reaching out to new classes of investor through a retail-oriented product. And the same challenges apply in terms of providing liquidity to those investors should they choose to exit (the Vantage portfolio includes cash and fixed interest investments as well as PE). But it is an example of a niche offering that goes to great lengths – covering product structure as well as investment strategy – to separate itself from the mainstream.

"We will always look for niche opportunities that are unique and somewhat differentiated from the bigger players," says Vantage's Tobin. "I am not aware of any group that does just Australia, but we are on the ground and have very strong access capability, and we are closer to the newer fund managers."

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Slow start

Slower investment in the first quarter is either an historical norm or a worrying sign; fundraising flies by for the few, the majority still struggle; Asia's exit bonanza comes to a sudden stop as trade sales weaken

1) Investment: Early year lag

With an enterprise valuation of A$8.2 billion ($6.3 billion), the acquisition of GE Capital's Australia and New Zealand consumer lending unit by KKR, Värde Partners and Deutsche Bank represents one of the largest transactions seen in the region. It is an example of how PE is taking advantage of a global divestment drive by General Electric and, in an Australian context, brings variety to a large-cap deal flow recently dominated by infrastructure assets.

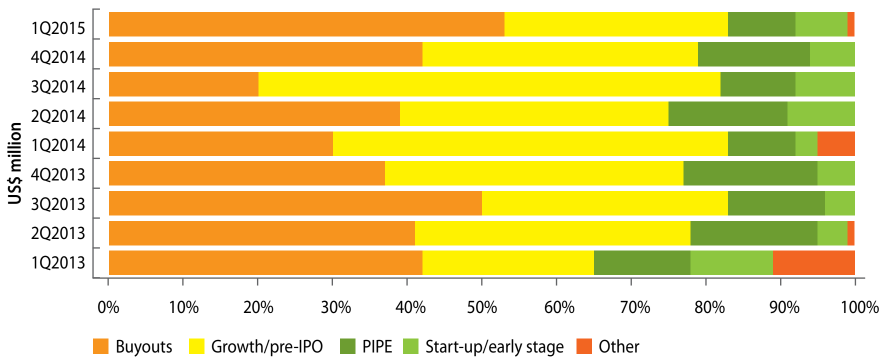
The investment is also roughly equal in size to the combined value of the 19 that sit below it in the private equity investment rankings for the first quarter of 2015. It adds gloss to an otherwise disappointing three months. Include the GE divestment and January-March 2015 is the weakest quarter since the penultimate three months of 2013. Exclude it and one must go back to the immediate post-global financial period for something worse.

To be fair, there were two $5 billion-plus deals in 2014 that had a similar impact on the headline number, but the average quarterly investment total for the year exceeded $22 billion.

So what is responsible for the 21% quarter-on-quarter drop in investment to $18.5 billion? It is should be remembered that the first quarter is a historical weak spot: the Lunar New Year festival reduces the number of work days in certain markets, while a tendency to cram deals in before the end of the calendar year, which can lead to a lag. The first quarters of 2009, 2010, 2011 and 2013 were the smallest of their respective years; the first quarters of 2012 and 2014 were the second-smallest.

As to the specific areas that have seen a drop off in activity, growth and pre-IPO and PIPE deals are worth highlighting. The quarterly average for growth and pre-IPO investments was $10.4 billion in 2014; the total for the first three months of 2015 was just over half that. PIPE deals came to $1.56 billion, 40% down on the 2014 quarterly average.

Asia PE investment by financing stage



Source: AVCJ Research

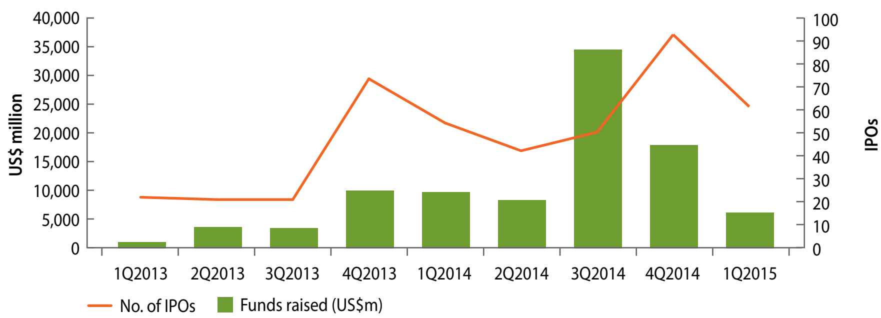
Strong public markets may have something to do with this. The Shanghai Composite Index began 2015 at a five-year high and gained 16% during the first quarter. The Hang Seng Index increased 3% in the fourth quarter of 2014 and then 5.5% in the first three months of 2015, nearing the five-year high set last September. The market's massive gains since the start of April are well-documented. India's BSE Sensex Index reached a record high at the end of January, up 11.5% from the start of the fourth quarter, although it had fallen back a little by the end of March.

Private equity investment in China fell by nearly 50% quarter-on-quarter to $5.22 billion in January-March 2015, the lowest total since early 2013, according to AVCJ Research (and these are preliminary data, so further activity could yet emerge). India's fall was marginal. This is a reminder that public markets are not the only factor weighing on private equity activity.

Certainly, anecdotal evidence suggests investors are quietly bullish on India, while in China there is more uncertainty as GPs look for the optimal entry point in an environment of slowing growth.

It should come as no surprise that technology remains the exception to the rule. VC investment in China topped $750 million in January-March, less than the final three months of 2014 but still among the third-highest quarterly totals on record. In Kuadi Dache, Lufax and Ele.me – digital platforms for taxi-booking, peer-to-peer lending and food-ordering, respectively – China was responsible for three of the 10 largest investments region-wide. India VC investment reached $340 million, also large by historical standards.

Private equity-backed IPOs



Source: AVCJ Research

2) Fundraising: Asia still bifurcated

Asia-focused energy and infrastructure investor

Equis Funds Group has the distinction of two entries in the 15 largest funds raised between January and March 2015 – further confirmation, if it were needed, of bifurcation in the fundraising market. Some GPs find it relatively easy to attract commitments from LPs; others struggle; Equis had sufficient demand to raise an additional vehicle.

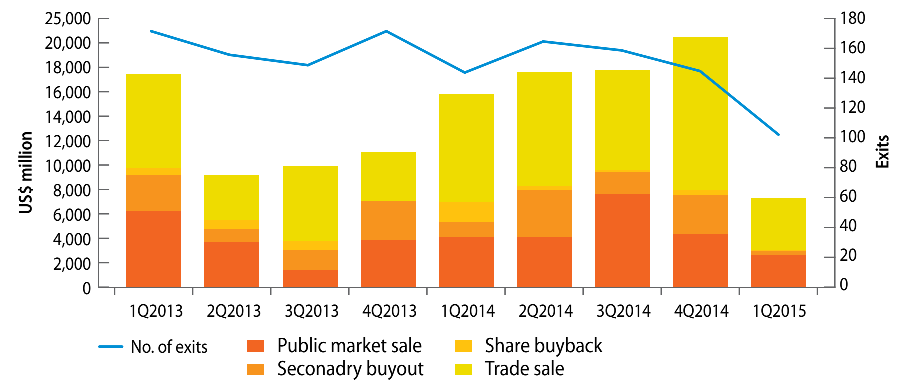
Strictly speaking, the firm actually raised three pools of capital: a $1 billion second fund, which completed a first and final close after less than six months in the market, and is already one third committed; a $300 million follow-on vehicle to Fund I, a 2012 vintage vehicle with a corpus of $647 million; and $400 million for two existing platform investments – covering solar in Japan and wind energy in India and Southeast Asia – that require additional capital because of their rapid growth.

It is a remarkable rise for a GP that is barely five years old and testament to what can be achieved with relevant experience (Equis' partners are seasoned infrastructure investors in Asia) and a differentiated narrative (while there is a trend among certain LPs to get direct exposure to infrastructure assets, more than a few industry participants say there is a shortage of good infrastructure managers in Asia).

As appears to be the tradition among GPs in the region, Equis increased its hard cap from $900 million to accommodate demand. Baring Private Equity Asia, which closed its sixth pan-Asia fund at $3.98 billion, did the same. Banyan Capital dealt with excess demand somewhat differently. The China VC firm closed its first fund in January 2014 at $206 million, but the speed of the fundraise meant some LPs missed out. Banyan responded by fast-tracking Fund II, which closed at $362 million barely 12 months after its predecessor.

These success stories are among the few. Private equity fundraising in the first quarter of 2015 came to $12.8 billion, down from $15.6 billion for the previous three-month period. The number of funds achieving an incremental or final close came to 45, roughly the same as the final quarter of 2014. But these totals represent a sharp decline on the average 90 funds that attracted capital in each of the preceding eight quarters.

Asia private equity exits



Source: AVCJ Research

3) Exits: End of the party?

In the absence of substantial trade or secondary sales, Asia private equity exits plunged to the lowest quarterly total in three years in the first three months of 2015. Just below 100 exits were agreed or completed – down 30% on the previous quarter – while the amount transacted in dollar terms fell by nearly two thirds to $6.6 billion.

South Korean GP Vogo Investment's sale of its majority stake in Tong Yang Life Insurance to Anbang Insurance Group for KRW1.13 trillion ($998 million) was the largest deal from the quarter. A total of 73 trade sales generated $11.4 billion in the final three months of 2014; 44 were responsible for proceeds of $3.8 billion in January-March 2015. Disclosed secondary sales came in below $300 million, the lowest total since the first quarter of 2010, with just five deals announced.

The biggest drop-off in activity was in Japan and Australia, which saw quarter-on-quarter declines of 95% and 80%, respectively. Given these two markets were responsible for the largest deals in the previous quarter – Permira's $3.5 billion sale of Arysta LifeScience Corporation in Japan and Affinity Equity Partners' $1.26 billion sale of Primo Smallgoods in Australia – this was predictable. However, there is another issue beyond bumper trade sales: both markets have seen a fall in PE-backed IPOs.

The Nikkei 225 Index ended the first quarter at its highest level since 2000 and the ASX 200 Index is at heights not seen since before the global financial crisis. In Japan, a total of 27 offerings by private equity portfolio companies generated proceeds of $3.7 billion in the final quarter of 2014, of which $1.5 billion was returned to LPs. There were 16 PE-backed IPOs between January and March of this year that raised a combined $203 million, although the quarterly figures have been quite volatile in recent years.

Australia's decline is more consistent and protracted. PE-backed IPOs returned with gusto towards the end of 2013 and that momentum began to ease off last year. Proceeds peaked at $2.7 billion in the second quarter of 2014 and slipped to $1.4 billion – with $461 million exited – in the final quarter. AVCJ Research has records of just one PE-backed offering worth less than $40 million in the first three months of 2015.

The forthcoming IPO of Bain Capital-owned accounting software provider MYOB should represent a shot in the arm for Australia's second-quarter numbers, but it remains to be seen whether investor appetite is sufficient for many more PE-backed offerings.

China also saw a substantial fall in private equity exit proceeds – from $3.4 billion in the last three months of 2014 to $943 million in the first three of this year. There was not much change in the number of exits (28 versus 31), although it is well down on the 40-plus posted in each of the first three quarters of 2014.

The pace of PE-backed China IPOs continues to accelerate, though, with 37 in January-March, up from 32 and 23 in the previous two quarters. Still, the proceeds of $4.9 billion were a fraction of the preceding periods – a reminder that offerings such as Alibaba Group don't come along every day. Indeed, no Chinese companies went public on the New York Stock Exchange or NASDAQ in the first quarter, compared to three in October-December 2014.

In the absence of substantial trade or secondary sales, Asia private equity exits plunged to the lowest quarterly total in three years

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Go Scale's China angle wins Philips deal

THE AUCTION OF DUTCH ELECTRONICS giant Philips' LED components and automotive lighting unit that began in June of last year drew bids from a host of global buyout firms. Bain Capital and a KKR-CVC Capital Partners consortium are among those said to have submitted offers.

But a Chinese group, which entered the fray in mid-March, eventually won out, in part thanks to its deep industry connections in China.

The consortium led by Go Scale Capital, which is sponsored by VC firms GSR Ventures and Oak Investment Partners, has agreed to buy an 81.1% stake in the Lumileds unit, with Philips holding on to the remaining 19.9%. The deal values the unit at $3.3 billion.

The takeover will be financed in part from funds managed by Go Scale, which total at least $500 million. Co-investors are putting in the rest. They include Hong Kong real estate and solar investor Kin Ming Cheng's Asia Pacific Resources Development Investment, government-backed Nanchang Industrial Group, and a number of unnamed LPs from GSR and Oak's funds.

Lumileds operates in more than 30 countries and reported $2 billion in sales last year and over $200 million in EBITDA. As part of the transaction, more than 600 patents related to LED manufacturing and automotive lighting will be transferred from Philips to Lumileds.

"It's a sunrise industry," says Sonny Wu, co-founder and managing director of GSR Ventures and chairman of Go Scale. "Our bid overcame fierce competition because we are able to accelerate Lumileds' production capacity in China. The company is actually facing overcapacity in developed countries right now."


Go Scale: China play

China's clean energy industry is worth approximately $3 trillion and is expected to see rapid growth, Wu added. Supported by the Jiangxi provincial government, Go Scale will scale up Lumileds through integration with Chinese companies that are looking for energy efficient solutions. The GP is targeting an ambitious 5x return on its investment within five years, and ultimately plans on exiting via IPO.

China and US-based GSR has already made at least six investments in China's LED space. It previously partnered with Oak in backing LED manufacturer SunSun Lighting and lithium-ion battery maker Boston-Power.

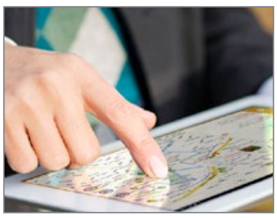
Within the Go Scale acquisition platform, Oak is primarily responsible for generating deal flow. In addition to cleantech, the platform will pursue deals globally in pharmaceuticals, life sciences, materials and consumer goods. The common theme is bringing resources to the China market.

"GSR and Oak have industry expertise in advanced technology such as electric cars, energy-saving batteries and wireless equipment. We bring will bring technology from the US or Europe and help consolidate Chinese industries," says Allan Kwan, venture partner at Oak. "China will become the biggest market for these products, although the firms may also serve international markets."

Dianping secures $850m pre-IPO round

HAVING RAISED $850 MILLION – THE largest disclosed round for a Chinese tech start-up so far this year – in a matter of months, Dianping is now thought to be nearing an IPO. The investment values the 12-year-old company, described as a Chinese version of Yelp and Groupon, at $4.05 billion, well into unicorn territory.

Backers include Singapore's Temasek Holdings, private equity firm FountainVest Partners, Chinese conglomerates Wanda Group and Fosun Group, and smart phone maker Xiaomi. The largest investor in the round, however, is domestic internet giant Tencent Holdings.


Dianping: Pre-IPO war chest

This gives the competitive dynamic in China's group-buying space – Dianping makes its money through a combination of paid listings and discount offers – an extra twist. Dianping is in competition with Meituan, which is backed by Alibaba Group. One month ago, the firm announced a $700 million round from a group of undisclosed investors, achieving a valuation of $7 billion.

However, the two companies' business models are not identical. While Meituan enjoys greater transaction volume by virtue of its exposure to lower-tier cities, Dianping concentrates on tier-one and two locations.

"Dianping has higher quality assets, such as restaurant reviews, in addition to group-buying services," says J.P. Gan, managing partner at Qiming Ventures Partner, which invested in Dianping's $100 million Series C round in 2010. "Dianping is still stronger in the major cities and that makes a difference. The lower cities you would probably have never heard of their names."

In addition to restaurant reviews and group-buying services, Dianping provides e-membership and restaurant reservation services. It is also an active investor in complementary businesses. In May of last year, it acquired a minority stake in online food-ordering platform Ele.me for $80 million. The company followed up last month by leading a $23 million Series C round for another player in the space, Meican.

Dianping is also now targeting consumers beyond the food and drink space. It has expanded into different lifestyle verticals, such as hotel bookings, hair-styling and massages. As of the fourth quarter of 2014, the company had more than 190 million monthly active users and over 60 million reviews. Its services cover 12 million businesses in 2,300 cities nationwide.

Dianping plans to use the new capital to take the fight to Meituan by penetrating third- and fourth-tier cities. Gan believes the company can also scale up through its mobile offering. Although Dianping's mobile platform has been in operation since 2011, after Tencent acquired a 20% stake in the business last year it moved to another level, being incorporated into its new partner's instant messaging app WeChat.

"It's a perfect application for mobile phones. Location-based technology gives Dianping the opportunity to overtake this market," says Gan.

PE agrees $2.1b Australia energy carve-out

IN THE PAST 18 MONTHS, APACHE HAS sold off more than $11 billion worth of assets, ranging from oil and gas interests in the Gulf of Mexico, Egypt and Argentina to liquefied natural gas projects in Canada and Australia. To this can be added the company's Australia exploration and production business, which pending various approvals, will be sold to Macquarie Capital and Brookfield Asset Management.

The transaction will add $2.1 billion to Apache's coffers and bring a decade-long period of international expansion closer to its finish. The company is targeting growth in the North America onshore market, where production is more visible, predictable and repeatable.

Macquarie and Brookfield will use the assets to form a new intermediate oil and gas producer. Len Chersky, head of private equity for Brookfield in Australia, stresses that managing existing operations and serving the domestic gas market remains the top priority, but the consortium is keen to grow organically and through M&A. The latter may well provide opportunities.

"The combination of market volatility and significant capital commitments by current market participants may result in sales of non-core assets by other market participants," Chersky says. "The consortium is well placed to capitalize on those."

Apache: Crude strategy

With crude oil prices down nearly 50% since June 2014, oil companies are looking to raise capital in order to repair their balance sheets. Last month Chevron announced plans to accelerate its divestment program through 2017 by increasing targeted asset sales from $10 billion to $15 billion. The company subsequently offloaded its 50% stake in Australian oil refiner Caltex for A$4.72 billion ($3.57 billion).

Last year Royal Dutch Shell exited Australia's refining industry through a A$2.9 billion asset sale to commodity trader Vitol and BP is also scaling back its exposure in this area.

In Australia and beyond, private equity investors are considering potential carve-outs, albeit with more of a focus on exploration and production. Chersky notes that PE players with dry powder and an understanding of upstream commodities could do well. "The down cycle always provides buying opportunities across the full value chain, including exploration, production and services," he adds.

Brookfield's investment in the Apache business will be held by its private equity platform, which has $21 billion in assets under management globally, including $4 billion in the energy sector.

The asset, which will be managed jointly with Macquarie, produced a daily average of 49,000 barrels of oil equivalent in March. It comprises interests in six directly-operated oil and gas fields and a two more operated by BHP Billiton; gas processing facilities and associated infrastructure; and exploration and production permits for several basins.

The consortium has already secured a long-term gas supply agreement with aluminum producer Alcoa, which runs from 2020.

Steady return on SE Asia infrastructure

MOST OF THE COMMUTERS WHO TAKE Malaysia's Cheras-Kajang Highway each day likely don't spare a thought for its operators unless they are paying a toll. It might be a source of national pride as one of the first four-lane dual carriageways in the nation, but its users seek reliability rather than excitement.

Cerah Sama: Roadway returns

Reliability has been the watchword for the road's operators, Grand Saga – as well as for CapAsia, which paid about $10 million in 2007 for a 35% stake in Cerah Sama, Grand Saga's parent company. That investment is the latest of several Southeast Asian infrastructure holdings CapAsia has exited in recent years, with the firm selling its stake to a joint venture between majority shareholder Taliworks and Employees Provident Fund for $21.9 million.

Although infrastructure requires the sort of long-term investments that are generally not the province of private equity, CapAsia has made it their specialty. The firm's three funds are all geared toward infrastructure projects in Southeast Asia. Its oldest, the Southeast Asian Strategic Assets Fund (SEASAF), is on the verge of exiting its last asset, with power company Malakoff on course to go public later this year.

Craig Martin, CapAsia's co-CEO, says that many large institutional investors are attracted to the stability that infrastructure assets offer, but do not have the time to work with local partners. CapAsia serves as an intermediary.

"Typically our investments will be minority positions, and that obviously requires a lot of work," Martin says. "That's the role suited to a fiduciary fund manager like us, rather than the big institutional investors themselves."

Although CapAsia secured a 2.5x return on the Cerah Sama investment, the firm would have preferred to hold on to it even longer. In this way the private equity model can be a limitation.

There was a similar dilemma in 2013 when exiting Thailand's Don Muang Tollway in a deal that Martin calls "bittersweet." That divestment netted CapAsia and its co-investor Bank of Tokyo-Mitsubishi UFJ $132 million at a money multiple of just under 3x. While the disruption of traffic from an earlier flood helped determine the timing of the exit, given the choice the firm might stayed involved longer.

"One of the failings of the private equity fund industry is that we are beholden to this 10-year closed-end fund life structure," Martin says. "If there was a better model, we'd hold these assets forever, or until the end of the concession period."

Despite these restrictions, CapAsia believes that there is a solid future in infrastructure investment. Cerah Sama is the type of story that the firm hopes to see more of: a steady return on investment, capped by a sale to a reliable local partner. In a field that other private equity firms overlook, the road ahead is wide open.

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Keynote Speaker

Eric Mason,
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Luncheon Keynote

Joe Lee,
Chief Strategy Officer,
KuaiDi Technology Co. Ltd.

Andrew Teoh
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Lean and mean

In six years of operation, Singapore's Hera Capital has pursued a strategy focusing on small funds and quick deployment. Managing Partner Thierry Panafieu explains the virtues of staying small

Q: Hera's fund raising model seems closer to deal-by-deal than to the traditional blind pool structure. Would you classify your approach that way?

A: Rather than deal-by-deal, I would say vintage by vintage, or portfolio by portfolio. Our investors do not get to pick the deals in which they invest. They invest in a structure that is then deployed across four, five, six companies. If they don't like the companies that we're showing them, then we say let's talk again in six months about a commitment a year from now. So we keep the dialogue going.

Q: What is it about this structure that is more appealing than the alternatives?

A: The GP was the all-powerful actor in private equity 20 years ago, but these days there's a much fairer repartition of power between GPs and LPs. And we find that LPs want to understand what they invest in. Because we deploy the capital so quickly, by the time we receive a commitment we have already pre-identified the companies in which we're going to invest. So when investors commit to Hera, they typically have a fairly solid view of where their money is going. And this is something they find incredibly attractive.

Q: What sort of investments do you target and how do you identify them?

A: We focus on Southeast Asia, and effectively on three sectors – consumer retail, media, and technology. The region here offers compelling trends for investments, but we also realize that companies are usually not ready to receive private equity money, for multiple reasons. So we have a methodology which we have labeled the "investor readiness scorecard." This allows us to properly assess the status of the companies in which we invest, so that we know where we can improve these companies after investment.

Q: How did the scorecard come into being?

A: It's actually a mixture of my experience and my co-founding partner's experience. His early experience was in the automotive industry, where operational execution is key to everything. He developed an operational scorecard to make sure the companies his corporation bought would execute properly. When I was working in private funds, we also developed ways to help portfolio companies. When we joined forces, we decided to take a much more hands-on approach and this led to the development of the scorecard.

Q: And how does the scorecard work?

A: We look at a company on seven pillars, ranging from the business vision to the management to the operations to financial discipline. Each pillar has about 50-60 criteria. These are very open questions, so it's very subjective in a way. That's why it takes a long time to do the scorecard analysis. You have to answer about 300 open questions, and each question takes a good half-hour to answer, if you have good systems in place. So when you've been through this, you have a fairly detailed view of the company, of where it stands and of what needs to be fixed, to be best in class.

Q: What is it about Hera that appeals to investee companies?

A: There are very few high-touch funds of our size. Most funds start at $20 million; we stop at $10 million. If you want high-touch funds with cross-border expertise and a real methodology to add value to the companies, that want to invest $10 million, you just won't find any others.

"The GP was all powerful in PE 20 years ago, but these days there's a much fairer repartition of power between GPs and LPs. And we find that LPs want to understand what they invest in"

Q: Your fundraising happens quite often. How many LPs re-up from previous rounds?

A: Pretty much 100%. We have a semi-closed group of about 20 investors who obviously like what we do, and who basically come into every single fund – not necessarily with the same amounts, but they do tend to follow us from fund to fund.

Q: What are the limitations in your approach?

A: There are big pluses about what we do, but also some minuses. When you raise a fairly closed-end fund, you don't have a lot of reserves for follow-on investments in your companies. So that is a limitation. It is quite possible that we'll decide to raise a bigger fund, probably toward the end of this year or next year. But this is not decided yet.

Q: If you did decide to raise a bigger fund, would you still be able to take potential deals to the investors on the level of detail that you do now?

A: I think if you really want to be disruptive in private equity you can. So you can easily see ways where you raise a bigger amount of money, but you could still have, for instance, a yearly screening of deals, where you communicate on the future deals you're going to do, and possibly even give some power to the investors to form a view of what you're going to do. I think we'll still be able to be highly differentiated while raising a larger amount of money.

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