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ASIAN VENTURE CAPITAL JOURNAL
AVCJ 30 years IN ASIAN PRIVATE EQUITY
Asia's Private Equity News Source
avcj.com March 14 2017 Volume 30 Number 10

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Cracks in the ice?

IS NOW A DANGEROUS TIME TO BE A global private equity investor among record levels of dry powder, sky-high EBITDA multiples paid for companies, credit still available on relatively easy terms, longer holding periods, and slower deployment of capital? While LPs appear increasingly keen to put money into the asset class, one wonders if it will end up in the right place, particularly for larger buyout strategies.

"As an LP I think my job is to try and get out of that flow as quickly as possible because it looks very top-of-the-cycle behavior. We are trying to find ways to differentiate ourselves, to be around the edges and find different things to do that are out of that flow as much as possible. We ask ourselves, 'Are we doing that just because it's top-of-the-cycle and that is typical top-of-the-cycle behavior?'" Steve Byrom, head of private equity at Australia's Future Fund, told the recent AVCJ Australia & New Zealand Forum.

Given the number and variety of LPs actively seeking to ramp up their PE exposure, it is likely that a significant proportion do not have the internal resources or mandate to be differentiated. The danger is they flock into similar kinds of strategies – typically the ones that can accommodate large checks – and end up with sub-optimal returns.

"At the top of the market we are seeing more and more competition. It is harder for GPs to get deals done, but there is more money coming their way, so more dry powder is accumulating," Michael Weaver, manager for private markets at Sunsuper, told the same forum. "US pension funds are doing what is right for them, but it is making it more challenging, particularly at the top end of the market, for those sorts of deals to get the returns we would expect private equity to generate over time."

The findings of Bain & Company's 2016 Global Private Equity Report underline this perspective. Global buyout activity was down on 2015 as PE firms encountered more competition from their peers – dry powder reached a record $1.47 trillion, of which $534 billion was earmarked for buyouts – and from corporates. Fueled by cheap debt, acquisition multiples surpassed 10x EBITDA in the US and Europe in early 2016, once again at or close to record highs. Pricing is seen by many GPs as the single biggest challenge facing the industry.

Yet LPs are willing to add even more fuel to the fire. Preqin's most recent survey found that 89% of LPs plan to commit as much or more capital to private equity over the next year as they have done in recent years, and 94% intend to maintain or increase their allocation in the long term. This is driven by distributions outstripping contributions for six years in a row and a low interest rate environment that makes private equity seem all the more attractive against other asset classes.

This phenomenon may abate as interest rates rise, but it's hard to say when this will be or what damage might be done in the interim. The Bain report noted there was a surge in fundraising activity for mega buyout vehicles in 2016. "Investors broadly do not cite megafunds as the most attractive type of fund, but such funds hold great appeal to large institutional investors who want to put a massive amount of capital to work in the asset class. And LPs who want to contain the complexity of their holdings see them as a way to limit the number of funds and relationships they need to track and manage," it added.

It is difficult to generalize about strategies across different geographies, as evidenced by LP responses to KKR's third Asian fund, which with an $8.5 billion institutional hard cap is likely to be significantly larger than its predecessor: some dismiss a vehicle of that size out of hand; others express caution, but are encouraged by previous performance and like the idea of pan-regional exposure; and still more want exposure to Asian growth in a big way and see no other way to get it.

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ISSN 1817-1648 Copyright © 2017*

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NEWS

ASIA PACIFIC

IFC mulls investment in Carlyle Asia fund

The International Finance Corporation (IFC) is considering a commitment of up to $25 million to The Carlyle Group's latest Asia growth fund, which has a target of $1 billion. Carlyle plans to make 15-20 investments from the fund. It will focus on small buyout and late-stage growth capital investments, primarily in China and India.

KKR sets $8.5b hard cap for Asia fund

KKR has set an institutional hard cap of $8.5 billion for its third pan-Asian fund, with the total expected to reach $9.2 billion including commitments from the firm's balance sheet and management team. A first close – of around half the hard cap – is scheduled for March 15.

A private placement memorandum for the new vehicle was issued in early November, with a target of $7 billion. The hard cap could be seen as a barometer of LP interest in the fund, and on a broader level, the demand for Asian exposure from large institutional investors. KKR declined to comment on fundraising.

The LP roster for Fund III includes Minnesota State Board of Investment, which approved a commitment of up to $150 million. This represents the pension fund's first commitment to any Asia-dedicated private equity vehicle. Meanwhile, Louisiana State Employees' Retirement System is said to have agreed to invest $50 million in the fund.

KKR closed its second fund at $6 billion in mid-2013. According to the private equity firm's most recent annual report, the fund had generated a net IRR of 21.9% and a multiple of 1.6x as of December 2016. The IRR and multiple for Fund I, which closed at $4 billion in 2007, were 13.6% and 2.2x.

AUSTRALASIA

QIC closes infrastructure fund at $1.8b

QIC, an investment manager controlled by the Queensland state government, has closed its global infrastructure fund at the hard cap of A$2.3 billion ($1.8 billion), beating the A$1.7 billion target. There was strong investor support from Australasia, China, Japan and Korea as well as the US and Europe.

Australia to streamline investment approvals

The Australian government has proposed an amendment to foreign investment rules introduced that require PE firms with foreign government entities as LPs to obtain regulatory approval when making a buyout, regardless of the dollar value of the deal. The requirement, which pushed up costs and led to long delays in approvals, is likely to be replaced by exemption certificates covering multiple transactions.

Uniseed secures $15m for VC fund

Uniseed, a venture fund manager associated with the Australian government's CSIRO research unit and a number of domestic universities, has secured A$20 million ($15.2 million) in fresh commitments for a new follow-on fund. The Universities of Melbourne, New South Wales, Sydney and Queensland will each invest A$5 million in the vehicle across the next 10 years.

Denham platform to buy listed miner

Denham Capital has agreed to take full ownership of Cradle Resources, an Australia-listed mining company that holds a 50% interest in a niobium project in Tanzania, at a valuation of A$55 million ($41.6 million). Tremont Holdings, a platform backed by Denham, is Cradle's joint venture partner on niobium project and already owns 19.6% of Cradle itself.

GREATER CHINA

Legend backs truck logistics platform

Legend Capital has led a RMB250 million ($36 million) Series C round for Fuyoukache, a Beijing-based online truck logistics platform. Eastern Bell Venture Capital, Singapore-based Global Logistic Properties (GLP), ZhenFund, and AVIC Trust also participated. As part of the deal, Fuyoukache also obtained RMB300 million debt financing from AVIC Trust and GLP.

IDG-led group seals buyout of Osram unit

A Chinese consortium led by IDG Capital has completed the purchase of Ledvance, the lamps business of German lighting manufacturer Osram, for approximately EUR500 million ($527 million). Other consortium members include Chinese lighting company MLS, Yiwu State-Owned Assets Operation Center and Everbright-IDG Industrial Fund, a joint venture vehicle launched by IDG and China Everbright.

GP buys into US-HK entertainment merger

Co-High Investment Management, a Hong Kong-based PE firm focused largely on culture and media, has agreed to invest in a film production company formed through a US-Hong Kong merger. Co-High will take a substantial equity position in SK Global via its China Cultural & Entertainment Fund and support expansion of the company throughout Asia.

Matrix leads $15m Series C for Easemob

Matrix Partners China has led a RMB103 million ($15 million) Series C round of funding for Easemob, a Chinese start-up that provides instant-messaging services to mobile app developers. Government-backed group Yin Tai Jai He Capital also invested in the round.

Chengwei in Series B for SMS provider

Chengwei Capital has led a Series B round for Xin Xi Bao, a Chinese text messaging software developer. Jie Shi Capital, CAC Capital and Wind Capital are the other new investors, while existing backers IDG Capital and Vipshop both re-upped.

NORTH ASIA

Japan accelerator launches $17.5m fund

Darma Tech Labs, operator of Japanese hardware-focused accelerator Makers Boot Camp, plans to launch a JPY2 billion ($17.5 million) venture capital fund, with Kyoto Bank

serving as the anchor LP. The MBC Shisaku No.1 Investment Fund will target start-ups in Japan, North America and Europe.

SOUTH ASIA

Brookfield to buy SunEdison yieldcos

Canada's Brookfield Asset Management has agreed to buy two energy platforms operated by US-based renewable energy producer SunEdison, including one – TerraForm Global – with over half its total capacity in Asia. The PE firm will pay $787 million for all TerraForm Global's outstanding Class A shares and assume $455 million in debt.

GIC invests $113m in India's Can Fin

Singapore sovereign wealth fund GIC Private has invested about INR7.5 billion ($113.2 million) in Indian mortgage lender Can Fin Homes. The seller, state-owned Canara Bank, agreed to the transaction in order to monetize non-core assets. Can Fin operates 120 branches and 50 satellite offices, primarily in India's southern regions.

CPPIB, CDPQ pay $337m for stake in Kotak

Canada Pension Plan Investment Board (CPPIB) and Caisse de dépôt et placement du Québec (CDPQ) have paid INR23 billion ($337 million) for a 1.5% stake in India's Kotak Mahindra Bank from its founder Uday Kotak. The sale complies with a regulatory order for Kotak and other promoters to lower their collective holding from 33.6% to 15% by March 2020.

Reliance Capital exits Paytm stake to Alibaba

Reliance Capital has exited part of its stake in Indian e-commerce and mobile payments start-up Paytm to China's Alibaba Group for INR2.8 billion ($41.3 million). The exit comprises Reliance's entire 1% holding in Paytm parent One97 Communications. It will retain about a 1% stake in Paytm E-Commerce, which was created last year to operate Paytm's online marketplace.

IDG, Axilor launch India early-stage fund

IDG Ventures India has partnered with Axilor Ventures for a program that will discover and fund disruptive technology start-ups in the country. The Frontier Tech Innovators Program (FTIP) will invest in companies developing frontier technology – emerging technologies based on cutting-edge research that have yet to achieve widespread commercial adoption.

Carlyle exits India's Edelweiss for $131m

The Carlyle Group has fully exited its stake in India's Edelweiss Financial Services for INR8.7 billion ($131 million) in an open market transaction. The private equity firm sold 68 million shares of Edelweiss for INR127.37 each, a discount to the previous day's closing price of INR133.10.

Carlyle first invested in Edelweiss in 2011, paying INR8.6 million for a 3.9% stake via its fourth Asia growth fund. The firm has raised its stake several times since then, most recently in 2014. Prior to its exit Carlyle held 8.2% of the company. Other PE backers include SAIF Partners, which held a 3.2% stake as of April 2016.

Edelweiss has seen strong investor interest since last year, with the stock price climbing as high as INR142.30 in February after more than five years in which it rarely breached INR70.

The company has been trying to grow from its roots in capital markets advisory to embrace a more diverse business model including credit, insurance and wealth management. New ventures include a partnership with Caisse de dépôt et placement du Québec (CDPQ), which last year committed up to $700 million to Edelweiss over four years to invest in distressed assets and private debt in India.

Qualcomm, Accel back IoT player Borqs

Qualcomm Ventures and Accel Partners India have co-led a $10 million round of funding for Borqs, an India-China venture that develops internet-of-things (IoT) devices. In December, Borqs announced a reverse merger with NASDAQ-listed investment firm Pacific Special Acquisition in a deal worth $303 million.

Pi Ventures in $13m first close on AI fund

Indian early-stage VC investor Pi Ventures has reached a first close of $13 million on its debut artificial intelligence (AI)-focused fund. LPs in the fund include the Small Industries Development Bank of India. A final close of $30 million is expected later this year.

SOUTHEAST ASIA

Video streaming service Iflix gets $90m

Iflix, a primarily Southeast Asia-focused video streaming service that follows a similar business model to Netflix, has raised $90 million in Series B funding led by Liberty Global and Kuwaiti telecom company Zain Group. Several existing investors also re-upped, including European broadcaster Sky, Catcha Group, and Evolution Media Capital (EMC), which is backed by TPG Capital and Creative Artists Agency (CAA).

Dymon reaches $20m first close on VC fund

Singapore-based hedge fund Dymon Asia Capital has reached a first close of $20 million on its debut venture capital vehicle. LPs in the fund include Thailand-based Siam Commercial Bank (SCB), which committed an undisclosed amount via its financial technology subsidiary Digital Ventures. A final close is expected within the next 12 months.

Ping An leads Series C for Bigo Live

Bigo Live, a Singapore-based social video streaming app, has raised a Series C round of funding from a Hong Kong-based investment arm of Ping An Insurance Group. The round brings Bigo's total funding to $180 million to date and its valuation to $400 million.

Fave buys Groupon Singapore

Malaysian VC-backed online-to-offline (O2O) e-commerce company Fave has agreed to acquire Groupon Singapore, extending a string of related bolt-ons in Southeast Asia. It follows closely on the acquisitions of Groupon Malaysia and Groupon Indonesia. Fave investors include Sequoia Capital, Venturra Capital, 500 Startups, InnoVen Capital and India Asia Venture Group, among others.

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Intelligent designs

The emergence of internet-connected manufacturing has created a new investment area that will impact adjacent sectors and even entire economies for decades to come. PE is among the early movers

THE FIRST TWO DEALS COMPLETED BY Asia-IO Advisors say much about the scope of the investment potential of the emerging industrial IT sector known as smart manufacturing. The GP partnered with leading contract manufacturer Foxconn Technology and other investors to create Maxnerva Technology Services, a Hong Kong-based systems integration specialist. It followed up with the acquisition of Source Photonics, a hardware supplier for cloud computing companies operating in the US, China and Taiwan.

On one level, these investments illustrate the disruptive depth of the smart manufacturing space by touching on growth areas in both physical and systemic support industries. They also offer an example of how global giants and start-ups are proving to be compatible collaborators, moving the industry forward on multiple fronts with different risk profiles.

From a higher perspective, the prominent role of long-term smart manufacturing in Asia-IO's early deal making could help graduate the industry from a science buzzword to a viable business-building investment category – as well as establishing it as a distinct private equity specialization. In earlier cycles of factory technology development, GPs pitched strategies in IT and manufacturing domains separately. Now those worlds have converged, opening a door for those able to identify synergies between the two.

"Now that these two areas crisscross each other, it creates a new area for growth," says Denis Tse, managing principal at Asia-IO Advisors. "Smart manufacturing gives a competitive advantage to managers that understand both the technology and manufacturing side vis-à-vis investors that are just organized around pure technology or industrial verticals."

The next big thing

Smart manufacturing, also referred to as "industry 4.0" and the industrial internet-of-things (IIoT), is an umbrella term for digitization of the factory floor. Essential technologies include cloud computing, artificial intelligence (AI) and IoT. It involves enhancing the efficiency of sensors, robots and other relatively recent automation advancements through online equipment management platforms that allow for a greater ability to process big data and troubleshoot operational bottlenecks.

In Asia, China remains unsurprisingly the center of gravity, with grand plans to take its factories online through a string of ambitious, multi-generational partnerships with Europe's global frontrunners. Recent activity reflecting this momentum includes a $1 billion fundraise by AGIC Capital, which focuses on Asia-Europe manufacturing, and the $4.4 billion acquisition of German automation expert Kuka by China-based consumer electronics maker Midea Group.

"Rising labor costs and an ageing population not only in China but globally offer vast opportunities for Midea and Kuka to improve factory automation in many countries and strengthen Midea's future manufacturing capabilities," says Paul Fang, chairman and CEO of Midea.

Meanwhile, manufacturing-dependent Taiwan has prioritized smart factory policies in its various economic plans, while aiming to double the growth rate of its connected machinery uptake to 5% a year by 2023. The effort will be characterized by a focus on integrating downstream, midstream and upstream services so that they can be marketed as a comprehensive business tool.

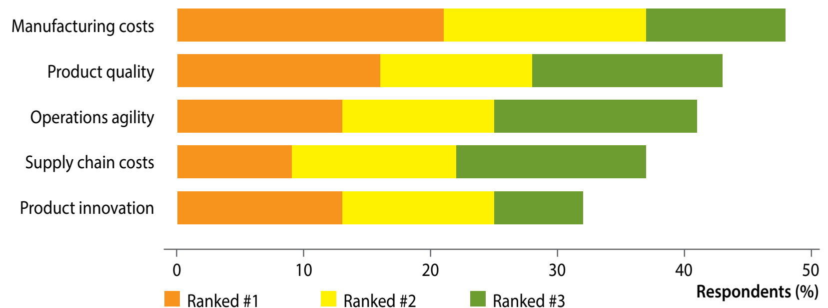
"Taiwan's role in the development of the smart manufacturing sector in Asia has been shifting from being a pure OEM/ODM [original equipment/design manufacturer] to a system integration-based role with experience and capabilities in the export of integrated services," says Ray Han, an analyst at Taipei-based Market Intelligence & Consulting Institute.

The first industries to experience widespread uptake of smart manufacturing technologies are expected to involve products that demand high quality standards including automobiles as well as less expensive goods that require precision assembly such as high-end mechanical devices. The proliferation will be balanced across heavy industrial giants looking for efficiencies in high-volume operations and smaller companies seeking above-the-line gains in the vein of new services or product streams.

The forked nature of this projection implies a range of inroads for private equity investors. For example, in addition to pursuing more implementation support services for its existing manufacturers, Taiwan is pushing hard on the start-up end of the equation with its "Asian Silicon Valley" project. The proposed technology park in the country's northwest will focus on IoT factory and supply chain applications.

Recent PE interest at the venture end of the spectrum, however, has tended to focus on other markets. Tokyo-based Sparx Asset Management is a case in point, having recently launched its first VC vehicle since being founded in 1989. The fund draws inspiration from the emerging manufacturing applications around robotics and AI, as well as Japan's demographic drivers. Last year, it participated in a $10 million round for 3D Media, a company that allows factory robots to

Where do you see industry 4.0 having the biggest impact within your organization?



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Robot revolution?

Robots are the highest profile components of a technologically advanced factory and historically represent the manufacturing industry's most promising – and frustrating – modernization ploy. They are fast and precise, but inherently inflexible, expensive and unable to adapt with the level of agility that most manufacturers need to meet market demands.

Industrial robots have been in use since the 1960s, but for most of that time, only the largest companies have had the in-house engineering resources to program and train them effectively. And even in the best of circumstances, the results have been decidedly underwhelming. It is said that industrial robots are capable of achieving only 10% of manufacturing tasks.

"Now, with the introduction of smart, software-driven collaborative robots, organizations can affordably begin to address that 90% gap," says Jim Lawton, chief product and marketing officer at Rethink Robotics. "Companies have quickly realized the value of flexible automation, and the collaborative robotics industry is poised for rapid growth as a result."

The US-based start-up has recieved backing from investors including Highland Capital Partners, GE Ventures and Adveq to improve robot capabilities through a new generation of train-by-demonstration software. The service is expected to allow manufacturers to deploy and coordinate an entire work cell through the controller of a single robot. The goal is to facilitate first-time smart factory technology integrations by allowing for value creation in the immediate term.

"We envision a time in the future where a robot can learn from other robots through shared knowledge in the cloud," Lawton adds. "You could have a robot in the US capturing data and understanding that if it handles a part a certain way, it improves part quality. The robot could then share that knowledge in the cloud so that robots in China could begin handling the part in a more efficient manner, as well."

move independently of preconfigured patterns through advanced vision systems.

"US tech companies have been leading in most IT industries, but in robotics, we think Japanese companies like 3D Media have huge potential because they're globally competitive in both software and hardware," explains Shun Ozasa, a spokesman for Sparx. "This is important in Japan because recruitment in factories is suffering due to the population decreasing, and robots are needed to increase productivity."

Taking it slowly

Singapore, like Taiwan, has benefited from substantial government support, particularly in the form of the "smart nation" initiative, which earmarked $13 billion in public funds last year for automation and big data-related technology development. Although similar civic modernization agendas usually become mired in municipal bureaucracies, the city-state's top-down federal authority system has allowed it to take a leading role.

"Industry 4.0 is at a global tipping point, and a meaningful ecosystem has been growing in Singapore," says Swee Yeok Chu, CEO and president at Singapore's EDBI, an investor controlled by the country's Economic Development Board. "With Singapore's leading manufacturing capabilities and base of high-value manufacturing activities, it is in a strong position to anchor and create smart manufacturing production and post-production activities in the region."

EDBI has described the flow of smart manufacturing investment into Singapore during the past two years as reaching a "critical mass." But its investments suggest wait-and-see approach, aiming to leverage growth opportunities as they gradually materialize. Chu notes that new adopters implement simple improvements like adding sensors and dashboards to better track operations, and eventually graduate to complex projects like machine learning and predictive maintenance.

Much of the prevailing rhetoric in this space likewise balances urgent themes of an industrial revolution with more tempered deployment strategy advice. The consensus is that integration plans need to be rolled out in a series of small steps that allow business to incrementally absorb the changes and become more competent with the technology.

Accenture estimates that IIoT has the potential to add $14.2 trillion to the global economy by 2030, but notes that capitalizing on the opportunity may be difficult. Among the more subtle pitfalls is the failure to align the new IT with existing operational technology (OT).

"Companies that organize operations, planning and engineering separately find it difficult to integrate processes even if they've already adopted technologies that make it easier to integrate supporting IT systems," says Peter Soh, a managing director at Accenture. "Many traditional OT systems are proprietary and closed. The way out is to develop a multispeed IT architecture that fuses the old with the new to deliver value at speeds required by the business."

The core challenge of smart manufacturing, however, is simply the expense of operating on the cutting edge. For GPs, the potential for costs overruns, time delays and resistance from management puts an onus on diplomacy with portfolio companies and developing a business case that allows for shared risk.

What to capture

Operationally, the success of connected sensor systems will depend on understanding that the process of data collection is not as clean as it appears. Not all of it will be reliable, and even useable information could be too much of a good thing. Excess data has been flagged early as one of smart manufacturing's recurring issues, resulting in "open loop" workflows where practical outputs are insufficiently monitored.

Oversight in this regard will require scrutiny of what information is being collected, who's using it and whether there is a better way of getting the desired result. Ideally, closing a data collection process loop will entail separate management for data generation, requesting the appropriate response action and confirming whether or not the response was successful.

"The biggest problem I see today when we talk about all these new technologies is that everybody wants to do it, but they don't really think about what they're really getting out of it," says Tim Szymcek, head of lean and advanced manufacturing for New Balance in Hong Kong. "A lot of factories just collect data and give some report to their customer to say that they've done it, but they didn't get much benefit. In fact, it just took their time, so they had a negative effect."

At this stage, industry's operational expectations reflect a range of strategies. According to Boston Consulting Group, only 21% of manufacturers anticipate the technology will make its biggest mark by reducing costs. This compares to 16% for improving product quality and 13% for driving innovation.

The difficulties around defining how these objectives should be monitored and prioritized are perhaps the clearest indicators of smart manufacturing's immaturity as a business development agenda. "You cannot approach it with the usual ERP [enterprise resource planning] implementation mindset and lay out A-Z what is going to be good for you in industry 4.0," says Domonkos Gaspar, digital transformation leader for Swiss industrial group Autoneum.."

From this perspective, rollout management must be approached as an R&D program. Trying

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and failing is part of the game, and not every effort will result in a return on investment.

Shaw Kwei & Partners has demonstrated a successful value-add approach with Chinese industrial adhesive manufacturer YongLe Tape, which it bought for $66 million five years ago, turned around, and recently sold for $190 million. The GP introduced modernized ERP protocols, upgraded manufacturing equipment and refocused marketing toward more complex products. This transition required not only a more highly trained team on the manufacturing line, but also a more sophisticated sales team.

"It doesn't make sense to do smart manufacturing unless you upgrade your employees as well," says Kyle Shaw, founder and managing director at Shaw Kwei. "It's not just as simple as bringing in some sophisticated new equipment – you're looking at having to make changes across the organization or the investment will underachieve its potential."

People power

The idea of upgrading workers as well as the equipment they use hints at the cultural challenges around resolving the operational and implementation aspects of a smart manufacturing rollout. Most management practices in manufacturing pre-date the technological upheavals of recent decades, which means that even the savviest of professionals tend to follow archaic, redundant procedures. As a result, investors must take a delicate approach to reconciling the old ways with the new.

"You need people who are set up broadly enough to be able to converse about how this new technological approach is going to fit in with the old bibles of manufacturing management," adds Autoneum's Gaspar. "You have to be able to convince people who are from that school that there is big added value in maybe a little less time on the shop floor and more time on the computer. That's a human gap I'm seeing that is not getting elaborated when people talk about industry 4.0."

Another cultural consideration for long-term investors is that this human gap will also manifest itself outside the factory walls. On a macro level, the transition to smart manufacturing is tipped to utterly reshape national economies and cause major workforce displacements.

Professional conferences on the subject have so far maintained an optimistic drumbeat of arguments that smart manufacturing will employ different people but not necessarily less people. Concerns are mounting, however, that the unskilled millions underpinning Asia's massive manufacturing industry will be left out in the cold, putting economic pressure on the very governments currently lobbying for smarter factories.

As one industry professional puts it: "If there's an operator on the line just putting two things together all day, do you really go to him and say, 'I'm going to train you to be a robot programmer?"

This outlook highlights another risk factor for early adopters in the sense that governments may have to alter incentive schemes and regulations in order to negotiate politically sensitive employment issues. At the same time, the sheer magnitude of the potential social reverberations offers a reminder of the inclusively progressive nature of the opportunity set.

"The digital disruptors are attacking the multi-trillion dollar manufacturing industry using software, connected hardware, data and new business models to root out inefficiencies and create new profit pools," says Steve Taub, senior director of advanced manufacturing investments for GE Ventures. "Not only is this going to generate great returns for entrepreneurs and the investors who back them, it will create value for consumers who will ultimately benefit from the better, lower-cost goods that the advanced technologies allow us to produce."

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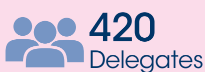

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Personal touch

Chinese VC firms are expected to offer value-added services as a way of differentiating themselves from the competition. Are formalized concierge services for founders and their families a step too far?

IN FIVE FUNDING ROUNDS ACROSS FOUR years featuring 13 different VC and strategic investors, online peer-to-peer (P2P) car rental platform Atzuche has experienced the full range of venture value-add. The Chinese company identifies Matrix Partners China as the one offering the most comprehensive service.

The VC firm, which has backed Atzuche from Series A through Series C, boasts a team heavy on operational experience, covering everything from human resources to public relations and marketing, and even healthcare. If a portfolio company founder or one of their family members falls sick, Matrix's medical department contacts its network of third-party doctors and arranges treatment. This personal touch value-add was a hit with Atzuche co-founder and CEO Wenjian Zhang.

"Old-fashioned VC firms think that providing capital is enough, but I think post-investment services are important. Matrix is well-known in our community for covering even the most trivial of details. Now, when new VC firms want to build a relationship with us, they go so far as offering to arrange for my wife to give birth in a hospital overseas," he says. "When we raise a next round, if two VCs offer the same amount of capital, I'll pick the one with the best reputation and most complete services."

In situations where investors are competing for access to the next hot start-up, providing deeper industry insights and hands-on support can be the difference between winning and losing a deal. While VC value-add is reasonably well-established in a business context, going a step further and engaging with entrepreneurs on a purely personal level – to the point of setting up concierge departments for founders and their families – has yet to become the norm. But will it?

"VCs are trying hard to differentiate themselves as the China market is getting more crowded and competitive. For large VC firms, the differentiation is their brands. Smaller or newly-formed players have to come up with other angles and ideas in terms of investment strategy, deal sourcing and value-add services," says Tommy Yip, managing partner at VC fund-of-funds Unicorn Capital Partners.

The full monty

The full-service offering is already present in the US market, with Andreessen Horowitz arguably the stand-out example. The GP has 22 investment team members listed on its website, plus around 270 professionals whose areas of expertise range from technical support to government policy. Google Ventures takes a similar approach. Just 15 of its 80-plus are investment professionals; the rest cover marketing, recruitment, engineering, and operations, among other functions.

In China, Sinovation Ventures, K2 Ventures and Matrix are recognized by LPs and entrepreneurs as having strong operating capabilities. Of Sinovation's 60-strong team across Beijing, Shanghai, Shenzhen and San Francisco, more than a half of them are operating professionals who help founders address almost every facet of running a small but fast-growing business. "A lot of hard work is needed to operate this kind of full-service model. And you have to be managing a pretty large fund, otherwise you can't afford to hire top-class operating professionals," says Chris Evdemon, CEO at Sinovation North America.

> "Old-fashioned VC firms think that providing capital is enough, but I think post-investment services are important"
> – Wenjian Zhang

GGV Capital began formalizing its value-add about five years ago. It created a portfolio services support group and a four-person venture partner team, with a view to helping founders in a more sophisticated, structured and customized way. Others are seeking to do much the same.

"When start-ups are in their initial stages of development, they aren't well-structured. A GP can help provide this framework, offering advice or contributing resources in the certain areas in a way that is beneficial to us. Our investor Morningside Capital has provided a lot of support in terms of marketing, HR and legal services," says Hua Su, founder of Chinese photo-sharing app Kuaishou.

While the majority of venture capital firms tend to make their value-add services more business-oriented – aside from traditional customs such as Chinese New Year gatherings – some are taking similar steps to Matrix and seeking to add value to entrepreneurs' personal lives as well. The question is whether these efforts need to be formalized and promoted as such.

"In early-stage ventures, we usually become very close to the founders and get to know them well. If they come to us, with whatever is going on in their personal life or something very urgent, of course we'll assist as best as we can," says Evdemon. "But formalizing this as a service in order to differentiate yourself is a step too far. One could argue it is pampering founders."

Raised expectations

Furthermore, once a GP formalizes this kind of value-add, it creates expectations about the quality of services it is providing. If there is not a deep level of in-house expertise or insufficient bandwidth to replicate it across multiple situations, perhaps personal relationships with entrepreneurs should be no more than casual.

"When you have 200 portfolio companies, you might have 10 founders' kids who need to go to primary school. We can't guarantee that each one will get into a top school in China," says Adam Li, co-founder of Panda Capital. "As a VC, we can only serve as an open source platform, connecting entrepreneurs with industry experts, such as headhunters who can share their views on how to find the right employees."

In much the same way, VC firms will continue to leverage the size of their portfolios by bringing executives from investee companies together to share insights into management best practice and strategic direction. For younger start-ups, this can represent a rich source of expertise that they generally cannot afford to bring in on a consultancy basis.

"Social activity is very meaningful for entrepreneurs. It's a lonely process building a new company. We do sometimes need our VC backers to expand our circle of friends, sharing different point of views and new ideas," says Atzuche's Zhang.

Hosen wins China food thesis support

HAVING RECENTLY CLOSED A $440 million fund, food and agriculture specialist Hosen Capital is a strong example of how a corporate-sponsored Chinese GP can evolve into a fully-fledged independent while gaining traction with international LPs.

Hosen started out in the renminbi space in 2010, with local agribusiness conglomerate New Hope Group as an anchor investor in its RMB1 billion ($177 million) debut fund. Although the GP had autonomy over its investments, New Hope took 50% of the carried interest. In 2012, Hosen raised $128 million for a US dollar fund; the International Finance Corporation, Temasek Holdings and Mitsui & Co. are LPs. It fell short of the $180 million target because the intention was to invest in parallel with the renminbi vehicle, so the team decided to start deployment rather than push on to a higher total.

China: Appetite for agriculture

By contrast, Fund III was oversubscribed within eight months, securing commitments from sovereign wealth funds, fund-of-funds and insurers across the globe. The institutional portion is 70%, with the rest coming from strategic investors such as online retailer JD.com as well as New Hope. While New Hope still gets a share of the carried interest, it is much less than before.

"We have industry LPs as well as institutional LPs because we made a great effort to cultivate the ecosystem around agribusiness. A variety of strategic investors are participating in the fund with a view to potential partnerships with our portfolio companies," says Alex Zhang, co-founder and managing partner at Hosen.

Food safety and farm technology will be prominent themes in the new fund, leveraging the willingness of China's emerging middle class to pay a premium for products that offer quality and reliability. Hosen is targeting growth and buyout investments that are either China-based or grounded in supplying consumers in China.

"China's food consumption market is three to four times bigger than that of the US in terms of value because of the population and the food prices in certain categories, such as protein," says Zhang. "If you can identify emerging category leaders in the agricultural space you will end up with decent returns because there is enough room to build global leaders."

The firm is now looking to raise a renminbi fund to complement the US dollar vehicle. Several domestic institutional investors, including government-backed fund-of-funds, have expressed interest. However, there will be a cap on the amount of renminbi raised, keeping it "much smaller" than the US dollar pool.

"In a competitive situation, having a renminbi fund is important because you can move money quickly to lock in a deal," Zhang says. "Alternatively, we might also find the equity check is relatively small for some growth-stage investments, so start off by providing a small amount of capital from the renminbi fund. As the company grows and raises larger rounds, we can invest through our US dollar fund as well."

Apis aims to make specialization count

IN MATTEO STEFANEL'S SIX YEARS WITH The Abraaj Group he was responsible for investments across the Middle East, North Africa and South Asia, ranging from an insurance company to an oil refinery. "The main fund deals were often in geographies that had little in common with each other, as they could be radically different industries," he says. "It means you can't do industry-specific value-add because you aren't specializing on any one industry."

This dilemma was the genesis of Apis Partners, which Stefanel founded in 2013 with Udayan Goyal, previously of Anthemis Group. The firm, which focuses exclusively on financial technology investments in South Asia and Africa, recently announced a final close on its debut fund of $287 million, beating the $250 million target. Stefanel sees the successful fundraise as evidence that LPs are recognizing the value of industry specialists in emerging markets.

"Investors have tended to consider 'emerging markets' as an asset class in itself – a geographic play, but one involving a diverse aggregation of different industries in hopefully homogenous, yet sometimes different geographies," he says. "They are now becoming confident enough to allocate on both a geographic and an industry basis, so you are starting to see more funds like ours, focusing on a specific sector or sub-sector."

The fund was launched in 2014 and achieved a first close of $157 million. Earlier investors include Intesa Sanpaolo Group, CDC Group, the European Investment Bank, FMO, Sweden's Swedfund and Old Mutual. African Development Bank, 57 Stars, Obviam, South Suez Capital, Prudential and Sarona Asset Management came into the final close.

Financial funds: Asian interest

The capital will be split 60-40 between Africa and South Asia, with check sizes falling in the $20-30 million range. There is a preference for transactional business models – from insurance to ATMs to point-of-sale devices – provided there is an innovation angle that lowers the cost of accessing financial services.

About $130 million has already been deployed across five investments, two of which are in India: ATM provider Electronic Payments & Services (EPS) and Star Health & Allied Insurance.

Stefanel believes Apis can make its specialization count through the exploitation of synergies: at the fund level by tapping into the team's industry networks for deals; and at the portfolio level through bolt-on acquisitions and having portfolio companies work together on initiatives. EPS is cited as a strong example of the former. Stefanel and Goyal had conducted due diligence on ATM providers in multiple markets in their previous roles, and developed relationships with the management teams.

"EPS called us up and said, 'We've grown the business and we think we are the right size for you, would you like to take a look?'" Stefanel explains. "Four of our five investments have been proprietary, thanks to knowledge and experience of the industry we have built up over 20 years."

Actis leverages energy experience

UGANDAN POWER DISTRIBUTION network Umeme was a tough sell. With as many as 20 deaths by accidental electrocution per year as of 2009, the company seemed to be under a curse. But Actis Capital had taken a closer look and saw that the solution could be much easier than anyone had previously guessed.

"On day one, we fenced substations and repaired poles. And not only did that mean the fatality rate dropped to somewhere between zero and one, we didn't have as much losses in downtime and maintenance costs," remembers Neil Brown, partner and head of the investor development group at Actis. "So all those things which we should do from an ESG [environmental, social and governance] perspective were actually commercially sensible as well."

This willingness to tackle the challenges of building energy networks in emerging markets has been rewarded by investors, with Actis closing its fourth global energy fund at the hard cap of $2.75 billion. Up to 75% of the corpus will go towards building renewables platforms in emerging markets – the firm already has four from its previous funds in operation, including India-based Ostro.

Actis builds platforms by acquiring construction-ready projects and concluding power purchase agreements (PPAs); this allows it to obtain financing to complete construction and get the assets operational. When the platform has reached sufficient size Actis seeks a buyer attracted by the prospect of steady returns. Where possible, the firm sweetens the pot for acquirers by building in growth potential in the form of prepared construction projects. In one case, Actis secured an exit from a South American platform by showing the buyer how the asset could achieve immediate expansion.

Energy deals: Platform play

"We had 394 megawatts of solar and wind under operation, and another 480 MW in the pipeline. So they could continue to grow the business if they wanted to," says Brown. "These were sites where we had wind measurement data, and they were ready to go if someone wanted to get a PPA, finance them and construct."

This focus on renewable energy and emerging markets makes the firm a natural target for impact investors. But while DFIs are represented in the latest fund, the vast majority of capital comes from pure financial investors such as public pension funds, sovereign wealth funds and insurance companies. Brown attributes this concentration to the firm's success in returning capital: it has completely exited its first fund and has already returned more than 100% of investors' commitments from the second.

"It's a very diverse, commercially driven client base, which I think reflects the fact that we are mature and probably a top manager in the markets in which we operate. We don't need DFI capital in the same way a new manager does who has no track record," he explains. "They're important, but that's more by virtue of the markets we're in than where we are in our life cycle as a GP."

PayPal backs Korea counterpart Viva Republica

PAYPAL HAS MADE SEVERAL ATTEMPTS to take Venmo, its peer-to-peer (P2P) money transfer service, into South Korea but failed to gain traction due to the fragmented nature of the market. Meanwhile, local player Viva Republica – which operates a similar platform called Toss – has been on a consolidation drive. With $3 billion in transactions processed from six million users over the past two years, it has claimed to be expanding at four times the rate of Venmo.

Such is the success of Toss that PayPal came into Viva Republica's oversubscribed Series C round, which recently closed at KRW55 million ($48 million). The deal was led by existing investor Goodwater Capital, with participation from Bessemer Venture Partners, Altos Ventures and Partech Ventures.

Korean fintech: Making waves

"Viva Republica was the fastest growing financial services company in the world. We identified it and decided to invest," says Eric Kim, co-founder and managing partner of US-based VC firm Goodwater, which co-led a $23.7 million Series B for the company last year alongside Qualcomm Ventures. "And then in the Series C, we decided to double down because Viva Republica has grown even faster than we had expected. The business model and management team are getting stronger as well."

Although Korea is a global leader in terms of IT infrastructure and smart phone penetration, mobile banking has proved more problematic. For example, it takes five password checks and around 37 clicks to transfer $10 through online banking services provided by the major commercial lenders. With Toss, users only need to enter their password once and complete three steps to transfer up to $435.

Having established itself as service through which users can split the bill at restaurants, settle utility invoices and make online purchases, Toss has branched into other areas of consumer finance. There is now a financial dashboard that provides a complete picture of a user's bank accounts, as well as credit scoring and micro-lending services. "At $1 trillion a year, South Korea is one of the largest consumer loan markets in the world. Viva Republica could provide a lot of transparency with its consumer-focused tools," says Kim.

Kim and S.G. Lee, Viva Republica's CEO, are also looking to ride a wave of deregulation to achieve deeper penetration of the electronic financial services market. Citing data provided by the Bank of Korea, Viva Republica claims its app is 10 times larger than those of all its Korean competitors combined – and most of those are primarily focused on B2B services.

"We will only focus on the Korean market this year to ensure we are dominant. We will decide whether or not to expand overseas by the end of the year. If we go abroad, Southeast Asia will be in our priority because the market situation is similar to Korea," says Lee. He adds that there are currently no plans to launch joint products with PayPal in the near term.

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From the outside in

Stefan Jung has spent five years in Southeast Asia's start-up scene, first as a leader at Rocket Internet and then as a VC investor. He believes the region is just beginning to unlock its potential.

IT WAS 2011, AND ROCKET INTERNET, THE Berlin-based start-up incubator founded by brothers Oliver, Marc and Alexander Samwer, wanted to take its business global. The firm had made its name by bringing internet business models from other markets to Europe where it could enjoy a first-mover advantage, and wanted to replicate that success in emerging economies worldwide.

Stefan Jung, a business partner of Oliver Samwer's and like many of Rocket's early start-up founders a management consultant at Boston Consulting Group, was among the first leaders of the firm's India expansion. But the owners had bigger plans for him: soon after Rocket's India launch, Oliver asked Jung to move up to international managing director, and gave him his choice of territories. For Jung the decision was easy.

"It was the combination of a massive market of close to 700 million people, with being able to build the leading players in the field, that made me the most attracted to Southeast Asia," he remembers. "While Brazil and India were probably more developed, you could see that Southeast Asia would become the next big thing."

Now, having spent more than five years at the heart of Southeast Asia's booming tech start-up scene, first with Rocket and then as a co-founder of two venture capital firms, Jung is more confident than ever that he made the right decision. He believes he can continue to play a leading role in the region as its entrepreneurial culture develops in the years ahead.

Young, gifted and hungry

While Southeast Asia's growing population played a major role in Jung's desire to set up shop there, the demographic opportunity he saw was not only a matter of bodies. The region was overwhelmingly young, with a median age of just 28 in Indonesia at the time, and also on an increasingly even footing with the Western world through the advent of smart phones and the mobile internet.

A young and tech-savvy population was likely to be a good market for the e-commerce ventures in which Rocket excelled, and which were to that point largely absent in the region. But Jung believed there was another advantage to the picture the numbers painted. These people, who knew of the success enjoyed by the likes of Amazon and eBay in the US, were likely impatient for an opportunity to cast themselves in the same story – which Rocket could give them.

"I think we were quite successful in recruiting people because we had a clearly defined profile of people that we were looking at to start these companies," says Jung. "It was a very specific profile of people that had been academic outperformers, and extremely disciplined and hardworking, and at some point they had had the ambition to start their own company and be an entrepreneur."

> "When you build a new firm it's like starting a company – you work day and night together. So you should really be excited to spend every day with those people"

Jung pitched this crowd on the benefits that Rocket could provide: immediate connections to a global network of start-up founders whose experience and advice they could draw on, along with financial and managerial support from Rocket to smooth over the initial bumps of starting a company.

From this talent pool Rocket drew the first crop of managers for its Southeast Asia start-ups, most notably online fashion retailer Zalora and e-commerce platform Lazada. Despite the two companies' recent stumbles, Jung looks back at their early history as a critical period for building acceptance in the region of both technology-based business models and an entrepreneurial risk-taking spirit.

"If you just take Indonesia, where I spent the most time, for a lot of the initial founders at Zalora and Lazada, their next start-up after that became massively successful," he says, citing Go-Jek founder Nadiem Makarim and MatahariMall CEO Hadi Wenas, both of whom formerly occupied senior roles at Zalora, as examples of Rocket success stories. "So I think it was a great entrepreneur school in a way, and that pitch and how we recruited people worked out really well for them as well."

But as Rocket was taking off, Jung had started to look for an exit. Though he was grateful for the opportunity that the company had given him to help build a new ecosystem, he was also beginning to recognize that his talents could be put to better use in a different part of this ecosystem.

Taking the plunge

Global Founders Capital (GFC) was the seed that would grow into Jung's next career as a VC investor. The Samwer brothers had founded the firm in 2012 to invest in early-stage start-ups worldwide, and Jung had come on board to help source investments in Southeast Asia. It was while pursuing the dual role as company founder for Rocket and investor for GFC that Jung decided to fully commit to the investing world.

"There are better CEOs than I am, and I'm just much more interested in the intellectual exercise and understanding new trends in technology and what are really great investment opportunities," he explains. "So my personal passion and skill level is a much better fit for VC than for the operating side."

After this realization Jung could have stayed in the Samwers' orbit by moving over to GFC full-time. Instead, he decided to take the entrepreneurial plunge himself and found his own firm. To that end he began to look for the right group of partners for the new venture.

Despite his years with Rocket and GFC and his understanding of technology, Jung recognized that he was still a relative novice in Southeast Asia and as a VC investor. To

complement his outsider's perspective he sought co-founders who shared his investment philosophy but could provide a deeper insights into the local market. Interwoven founder Peng T. Ong and Kuo-Yi Lim, former CEO of Singapore-based VC firm Infocomm Investments, provided the right combination, and the three set up Monk's Hill Ventures in 2014.

With Monk's Hill up and running Jung now had his place in Southeast Asia's venture community. But even as the new firm lined up investments including logistics start-up Ninja Van and online real estate marketplace Zipmatch, a new opportunity was on its way from an unexpected source.

Jung's latest move came at the invitation of John Riady, director of Indonesia-based Lippo Group, whom he had known for some time. In 2015 Riady and Lippo Digital Ventures (LDV) managing partner Rudy Ramawy asked Jung to join them in founding Venturra Partners, a new VC firm with a $150 million debut fund and LDV's entire portfolio of Southeast Asian technology start-ups.

Though it would mean leaving Monk's Hill, Jung saw the new firm as an opening he couldn't pass up. Taking over LDV's portfolio meant the firm would have a ready-made network with which to connect founders, while the Lippo Group, the fund's largest LP, could provide additional support.

"I was extremely excited about working with them, because when you build a new firm it's like starting a company – you work day and night together. So you should really be excited to spend every day with those people," says Jung. "And with John, Rudy, and now Tee [Plern Suraphongchai, a former director at Ardent Capital who joined Venturra last year], it's just a perfect match."

Among Venturra's four managing partners, Jung sees himself as a valuable counsel for start-up founders thanks to his experience globally and as a local leader for Rocket. For instance, Rocket has always emphasized the importance of data collection and meeting metrics among its start-ups, and Jung makes the effort to impress this upon founders of Venturra-backed start-ups as well.

The next generation

But Jung is clear that his role is not to be a supervisor of entrepreneurs, as at Rocket, where founders often have little real authority in the running of a business. He believes that start-ups are well served by VC backers who will guide and warn them, but must ultimately be allowed to make decisions on their own.

"I want to give feedback and ideas to entrepreneurs, but ultimately they build the business and I'm on the sidelines," says Jung. "The benefit that we have as investors is that we see so many data points and so many patterns across different industries, so I can say, 'I see something in a portfolio company in the healthcare business which is actually a very good parallel to something that we're seeing in financial services. Have you thought about that?'"

Jung has been in Southeast Asia long enough to see some of his early investments become regional leaders, such as flight booking service Traveloka, the first investment by GFC in 2013 and now one of Indonesia's tech unicorns. But in his view the community is just getting started. The start-ups that Venturra has backed, including Thailand's online fashion retailer Zilingo and Singapore-based online car marketplace Carro, have the potential to be even bigger than the region's first batch.

"I hope I can find companies extremely early, when nobody knows about the founders. These are companies that are probably not major household names, even in the investment circle today, but that I think in two or three years will be massively big companies," says Jung. "I'm pretty excited and pretty clear that I think they will be successful in the future."

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