

Holding patterns

Southeast Asia VCs are bullish
yet reluctant to pull the trigger
amidst valuation concerns



- ▶ Fundraising pains push GPs towards deal-by-deal
- ▶ Is Hong Kong losing out to Singapore?
- ▶ Q&As: Vitalbridge Capital, ShawKwei & Partners



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EDITORIAL

Managing Editor

Tim Burroughs
tim.burroughs@iongroup.com

Associate Editor

Justin Niessner
justin.niessner@iongroup.com

Reporter

Larissa Ku
larissa.ku@iongroup.com

Design

Edith Leung,
Rana Tang

RESEARCH

Senior Research Manager

Helen Lee
helen.lee@iongroup.com

COMMERCIAL

Event Director

Jonathan Cohen
jonathan.cohen@iongroup.com

Publishing Director

Allen Lee
allen.lee@iongroup.com

Hong Kong Headquarters

25th Floor, The Center,
99 Queen's Road Central,
Hong Kong
T. (852) 2158 9769
E. subs@avcj.com
URL. avcj.com

Beijing Representative Office

Unit 07, Level 6, China Central Place Tower 2,
79 Jianguo Road, Chaoyang District,
Beijing 100025, P.R. China
T. (86) 10 5869 6203
E. CAVCJ@avcj.com

Southeast Asia in six trends

1 Fundraising: The VC show

Southeast Asia fundraising has ranged from USD 6.5bn to USD 10.3bn over the past eight years. The 2022 total of USD 6.7bn is not unusual. Break it down by strategy, however, and a clear trend emerges. In 2015, the venture share was 15%; in 2022, it hit 59%. A record USD 3.9bn was collected by VCs, led by Sequoia Capital, which secured USD 850m for its first stand-alone Southeast Asia fund. Other contributions came from East Ventures, Jungle Ventures, and Insignia Venture Partners, the latter two bettering their targets by significant margins.

Southeast Asia fundraising by strategy



Source: AVCJ Research

Southeast Asia's largest PE buyouts

Target	Date	USD m	Industry
GLP	Jul-17	5,527	Logistics
Equis Energy	Oct-17	5,000	Renewables
Chartered Semiconductor	Sep-09	3,893	Semiconductors
Parkway Holdings	Aug-10	2,526	Healthcare
RHB Capital	May-07	2,273	Financial services
SapuraCrest Petroleum	Jul-11	1,963	Oil & gas
SembCorp Marine	Sep-21	1,783	Shipbuilding
QSR Brands	Dec-11	1,612	Consumer
Interplex Holdings	Jan-22	1,600	Manufacturing
Magnum Corp	Dec-07	1,540	Leisure & hospitality

Source: AVCJ Research

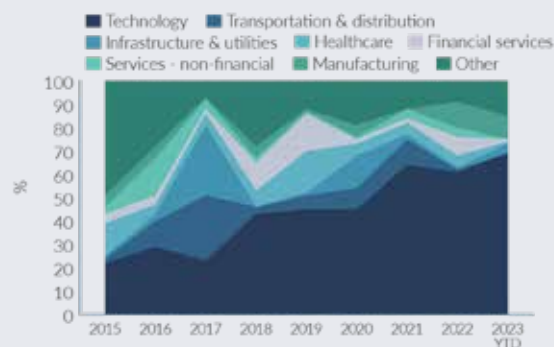
2 Buyouts: Little at the large end

Nearly six years after it closed, the USD 11.5bn privatisation of GLP (USD 5.5bn if rollover equity is excluded) remains Southeast Asia's largest PE investment. The region has only seen 31 deals of USD 1bn or more, of which 18 are buyouts. There were only four in 2021, even as investment reached a record USD 25.6bn. The reality is that Southeast Asia remains an opportunistic market for the large global and pan-regional GPs, a place where they must often step down in cheque size to put capital to work – as evidenced by CVC Capital Partners' recent USD 155m investment in Samator Indo Gas.

3 Sectors: Flight to stability

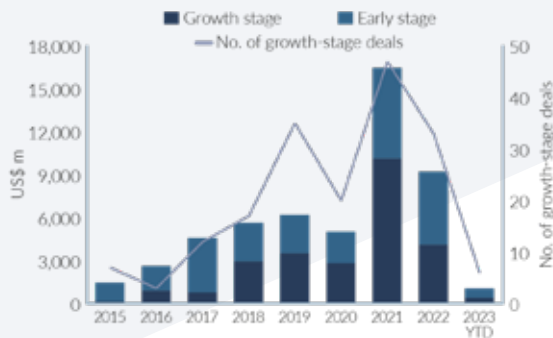
The technology sector accounted for 21% of Southeast Asia PE deal flow in 2015. Since then, it has grown steadily, reflecting the emergence of unicorns in the consumer-internet space, and reached 64% in 2021. Valuation corrections globally contributed to weaker sentiment in 2022 and the tech share dropped to 61%. Overall investment activity moderated as well – it fell 40% to USD 15.2bn – but some sectors held up better than others. Manufacturing, healthcare, and financial services, where assets are more tangible and to some extent countercyclical, saw smaller drop-offs or attracted more capital.

Southeast Asia PE investment by sector



Source: AVCJ Research

Southeast Asia tech investment by stage



Source: AVCJ Research

4 Technology: Growth-stage pains

This time last year, Kredivo was mulling the consequences of axing its merger with a US-listed special purpose acquisition company (SPAC). The Indonesian consumer credit business would stay private and raise more capital – but market conditions deteriorated. Southeast Asia tech investment fell from USD 16.5bn in 2021 to USD 9.2bn in 2022. Growth-stage activity slumped by over half to USD 4.1bn. Kredivo closed a USD 270m Series D in March, but it remains an outlier. Notably, Mizuho Bank took the lead, not one of the previously ubiquitous global GPs.

5 India-SE Asia: A new behemoth

When Jungle Ventures closed Fund IV on USD 600m last year, shattering the USD 350m target, Amit Anand, a founding partner at the firm, insisted the vehicle was not oversized. He noted that Jungle was among the first to pitch a single Southeast Asia-India strategy and that it was vindicated when “when Sequoia, Accel, GGV, Lightspeed, and other global franchises started doing the same thing.” The Southeast Asia-India angle is gaining traction as portfolio companies target both markets. In 2015, they received a combined USD 24.2bn. Last year, it was USD 57.8bn, just USD 6.6bn less than the China total.

PE investment: China vs India/SE Asia



Source: AVCJ Research

Southeast Asia PE: Investment vs exits



Source: AVCJ Research

6 Exits: Everything to prove

Southeast Asia represents a compelling growth story, underpinned by favourable demographics, rising middle classes, and greater penetration of technology. But this narrative must ultimately deliver returns. More than USD 65bn has been deployed in the past four years, up from USD 51.3bn in 2015–2018. Exits have not followed the same growth trajectory. There was one exceptional year, 2017, when proceeds reached USD 22.2bn; exclude that and the eight-year average is USD 6.9bn, with an aggregate USD 24.7bn for 2019 to date. The trade sale contribution fell from USD 7.9bn in 2021 to USD 3.5bn in 2022, but PE-to-PE deals rose 5x to USD 1.9bn.

Southeast Asia VC: Drought survivors

As weaker sentiment for technology risk cools venture capital markets globally, Southeast Asia is lagging in limbo. Investors remain bullish but continue to hold their fire amidst questions around valuations

The initial shock of COVID-19 provided much of Southeast Asia's start-up scene with its first wake-up call around undisciplined investment, over-aggressive business expansions, and playing loose with unit economics. That made the belt-tightening required in the industry's current pullback more palatable, but there is still a sense that things are different this time.

Most importantly, the chill on the market in the past several months has not been a shock but part of a predicted long-term cycle. This means that while a flight to quality and runway preservation have returned as dominant themes, they have been joined by heretofore less urgent calls for more immediate profitability.

For Southeast Asian venture, as an emerging asset class, the biggest question is to what extent a global slowdown in risk-taking and receding valuations may stunt ecosystem growth.

The idea that hot money is leaving the market is most often exemplified by the retreat of crossover investors such as SoftBank Vision Fund and Tiger Global Management. But regional actors are roundly expected to plug the most essential holes in this gap, at least until the global players return.

Appetite among institutional investors for Southeast Asian funds is another story, particularly given rising anxieties around portfolio valuations. Down rounds have not yet surfaced in the region en masse, but this is widely considered inevitable in the near term.

The latest indicator of the indirect global stress on Southeast Asia is the collapse of Silicon Valley Bank (SVB) earlier this month. Start-ups in the region are largely unexposed – especially versus those in India, China, and North Asia – but some collateral damage is expected in terms of general ►



“Now, for the first time, they have to think about what value they want to pay for something”

– Pinn Lawjindakul

liquidity. Many US investors are at a standstill, and M&A from the US into Southeast Asia appears set to slow even further.

Nevertheless, VC fundraising targeting the region reached a record USD 5.5bn in 2022 with standout hauls from the likes of Sequoia Capital (USD 850m), Jungle Ventures (USD 600m), and Lightspeed Venture Partners (USD 500m). The latter two will also target India. In the past few months, Asia Partners and Openspace Ventures have launched ASEAN funds targeting USD 600m and USD 650m, respectively.

“For a long time, Southeast Asia has been flush with capital and had the luxury of being more growth-focused than unit economics-focused. This is a time of reckoning for everyone, from founders to VCs to consumers,” said Pinn Lawjindakul, a Singapore-based partner at Lightspeed. “Now, for the first time, they have to think about what value they want to pay for something.”

Reality bites

Justification for ongoing confidence is often as simple as pointing to Southeast Asia’s social mobility and modernisation fundamentals, along with the long horizons of VC. Even the most visible cracks in this story, the tech ecosystem’s first widespread layoffs, are often dismissed as a proactive function of cash burn control and scant compared to the number of jobs created by the digital economy in recent years.

Lawjindakul, for example, estimates that only about 20% of Lightspeed’s Southeast Asia portfolio companies have been compelled to rationalise their workforces in the current slowdown. None of the firm’s investees in the region has exposure to SVB.

Like many investors, however, Lightspeed has slowed its pace of deployment to a pre-boom norm. The firm’s number of transactions per year jumped from 1-2 to 4-6 during the pandemic. Between the first and second half of 2022, deal flow fell 20%-25%, while formalised investments declined 40%-50%.

This is partially explained by the idea that start-ups don’t want to face a tough valuation environment and potential down-rounds. Even if a marginal increase in valuation can be achieved, going to market in a climate of uncertainty can be

viewed as a sign of desperation.

At the earliest stages, there is also a sense that many tech professionals are simply not taking the leap with their own businesses. The thinking is that economic uncertainty has taken the shine off entrepreneurial risk-taking and kept the best and brightest under more established employers.

In anecdotal terms, up to half of the deals happening in recent months have been for stable category leaders, which have seen valuations hold up on the back of steady investor interest. A smaller but significant minority of deals are represented by bridge rounds at flat valuations. Distress-oriented extension rounds are considered prospective but not yet pervasive.



The bulk of bridge rounds in Southeast Asia have tended to be 20%-40% the size of the company’s prior round and completely internal, according to Brian Ng, a VC-focused partner at Singapore-based law firm Rajah & Tann. Openings for new investors have come to light in the form of secondaries, where recently active angel investors feeling pain in public markets will seek liquidity in their private holdings.

GPs’ annual portfolio valuations for 2022 have yet to come to light, but they are expected to reflect relatively minor adjustments. This will be explained in part by the idea that tech on public markets is heavily associated with big tech infrastructure rather than the resilient software-as-a-service (SaaS) models preferred by VC firms.

Still, SaaS valuations appear to be roller-coasting with everything else. Pre-pandemic, SaaS start-ups in Southeast Asia traded at around 10x-12x their annual subscription revenue, according to two industry participants. That figure dropped to 8x in the panic of early 2020 before scaling as high as 30x in 2021 and 2022. It’s now back to around 10x-12x.

Other segments that ran hot in the past two years may have experienced even wilder rides, such as cybersecurity, e-commerce, and work-from-home and remote consumption-related concepts.

“If you are in an earlier vintage, 2010 to 2015, you have a problem because all those guys have to exit this year. Even a secondary exit at the fund level is going to be massively affected because your fund-level MOIC [multiple on invested capital] will drop drastically,” said Vicknesh Pillay, a



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founding partner at Singapore VC firm TNB Aura.

“Though revenues have increased from the time you invested, the public comps have decreased, so you need to revalue your entire portfolio. The marks will be reduced, but more importantly, there’s pressure to create DPI [distributions to paid-in], which I don’t think is going to happen in 12–18 months.”

Picking winners

The damage implied by this scenario is contained by the hockey stick-shaped history of the ecosystem’s development; annual VC fundraising targeting Southeast Asia didn’t cross the USD 1bn mark until 2015. The average fund size during the 2010–2015 period was only USD 46.5m, according to AVCJ Research. Last year, it was USD 152.3m.

TNB Aura is an advocate of managing this risk with compact portfolios that allow for private equity-style stewardship of companies. Since July last year, the firm has required all 20 of its investees to have 30 months of runway. Every company needs a plan to be profitable by 2024.

TNB Aura also insists on having a board seat at every investee company. Consequently, the firm emerged from COVID-19 unscathed. About 10% of the portfolio has raised an extension round since industrywide investment dropped off mid-2022.

Investors with larger portfolios and less control tend to expound the virtues of diversification and upfront discipline in due diligence. 500 Global, which has backed more than 340 companies in Southeast Asia, doubled down on the region last month with the recruitment of three new partners in Singapore, Malaysia, and the Philippines.

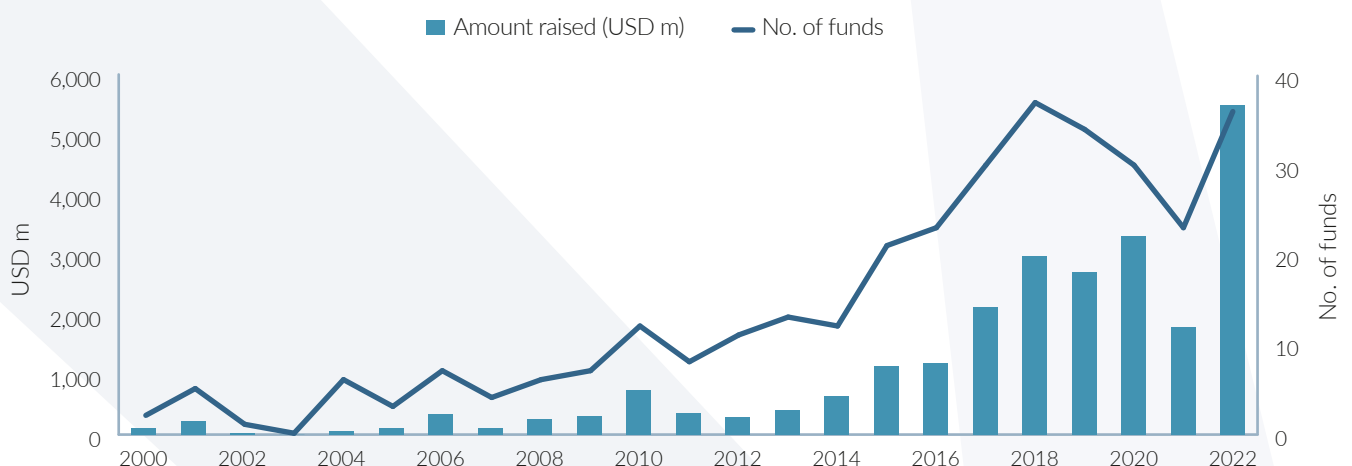
Vishal Harnal, a Singapore-based global managing partner at 500, said that even in a recession in a developing region, there are still winners in technology. He identified distribution, logistics, supply chain, healthcare, and education as areas likely to increase in adoption in a downturn. Approaching them in this context is merely a matter of adjusting the playbook.

“It takes some sort of real shock to the system, or some kind of cataclysmic event, for us to change our minds about entering a market,” Harnal said. “Is now the time to start a Ukraine tech fund? Probably not. It takes that kind of event to shake our view on a market because we base decisions on what it will look like in the next 5–10 years.”

This is not to say there isn’t a geography lens to debates around the current macroeconomic pressures on Southeast Asian venture capital.

Indonesia, for example, is the outlier in terms of inflated, un-updated valuations, according to three sources familiar with the market. They claim that ►

Southeast Asia VC fundraising



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down-rounds in the wake of an overexuberant 2020-2022 are proliferating in the country in hushed circumstances. One non-software company, incubated by Y Combinator, was said to fetch a valuation of 100x annual revenue before recently closing down.

Across Southeast Asia ex-Indonesia, the average VC deal size during the boom period of 2021-2022 was USD 14m, a 77.2% increase on the average for the five prior years, according to AVCJ Research. In Indonesia, it was USD 16.3m, up 143.3%. The discrepancy will be felt in capital raising rounds first but most painfully in exits.

"Those that invested at 15x-20x are likely to think any offer to buy their company is a low-ball offer, even if it's the right price. I think the real wreckage in Southeast Asia, particularly in Indonesia, is yet to come because the top of the market wasn't that long ago," said Field Pickering, head of VC at Singapore's Vulpes Investment Management.

"Companies that raised at the very top are only now going back to the market, so the next 6-9 months is when we'll see the real pileup of overvalued companies."

Desirable debt

Vulpes, a multi-strategy alternatives investor,

traces its history back to the early 2000s when it was one of the largest hedge funds in Southeast Asia and an early experimenter in venture capital regionally. It is not active in venture debt, but in the current environment, it considers the idea of getting paid cash regularly to take equity risk increasingly attractive.

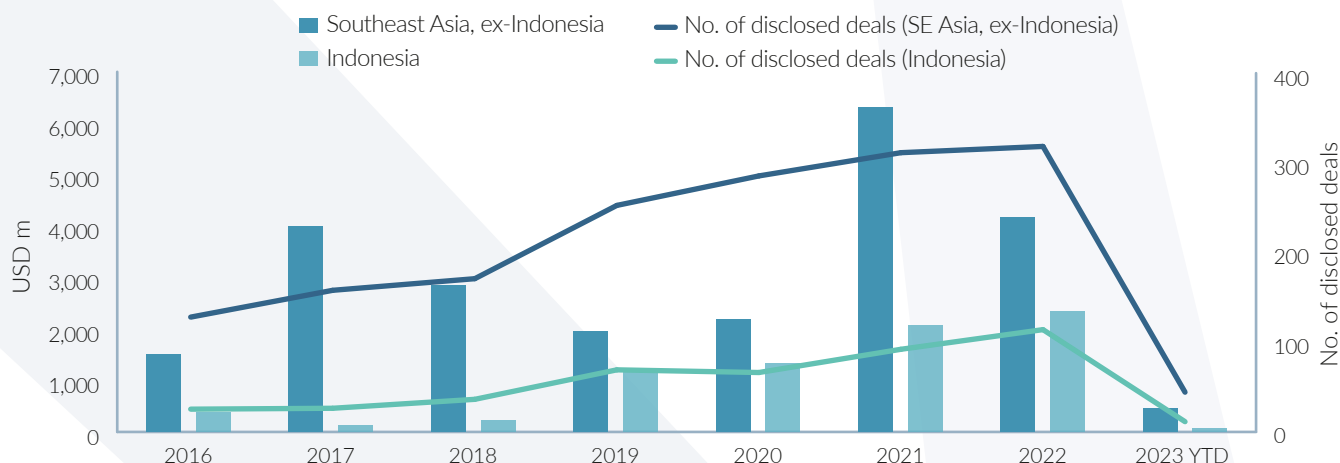
Paul Ong, a partner with venture debt provider InnoVen Capital in Southeast Asia, describes a fledgling asset class in the region as bolstered by broader VC woes. It's worth noting that InnoVen was formed from SVB's Asia business before being acquired by Temasek Holdings in 2015.

"I think there's an element of that in pretty much every deal that comes to us now," Ong said, referring to start-ups looking to venture debt as a way of raising capital without facing the spectre of a down-round or flat-round.

He echoes the notion that with reduced valuations, regional M&A and consolidation activity is heating up; TNB Aura's Pillay said several of his portfolio companies had been approached by smaller counterparts hoping to be absorbed. Some of these proposals were said to be in "deep" discussions. Venture debt is facilitating such discussions.

"We've spoken to a lot of growth-stage

Southeast Asia VC investment



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businesses that raised large rounds last year and have very healthy cash balances but are still excited to explore borrowing because they see opportunity to grow inorganically,” Ong added. “They want to be able to press ahead with these opportunities without eating into their balance sheet.”

There’s reason to believe this trend – if it materialises – would be weighted toward later development stages. At the earlier stages, valuations have proven more stable and regional funding sources more plentiful.

Although seed-stage transaction sizes spiked as high as USD 100m during the pandemic in more established ecosystems such as the US, they have stayed in a range of USD 6m to USD 15m in Southeast Asia. The same cannot be said for more mature start-ups – which sets up a potentially delicate growth-stage market in the near term.

“You might see aggressive investment around the Series B stage this year, providing liquidity at a very steep discount to the best companies that unfortunately got their valuations wrong 18 months ago,” Pickering said.

“But the risk is you get a bad name in the market, even if you argue that you’re providing a service to these companies. You have to structure it so you’re not just wiping out early investors.”

The key to successful down-rounds in terms of deal mechanics is in balancing the anti-dilution clauses for existing shareholders with sweeteners for incoming investors such as preferred liquidation and redemption rights.

In most cases in Southeast Asia, the solution is likely to be a complete reset of the cap table, whereby all parties get the same valuation with ordinary shares and liquidation rights. The incoming investor sets the bar in terms of valuation, and existing backers will benefit from going into the negotiation with more units.

Green shoots?

But this is largely theoretical. Ng of Rajah & Tann hasn’t tracked any such activity since questions about valuations began intensifying last year. However, he does see pressure in the early growth stage.

In one anecdote, he describes a regionally active start-up with a valuation of around USD 200m that couldn’t close a funding round quickly

enough, ran out of runway, and was submitted to a rescue restructuring. The viable parts of the business were moved into a new entity, and the existing VC investors were reorganised around it.

“Companies around that valuation – USD 200m – that were slightly aggressive before in terms of valuation are finding it difficult to meet the cash runway and just going under,” Ng said, adding that he sees green shoots in the deal market that suggest the funding winter is almost over.

“This is obviously one of the more drastic situations because the whole company had to be restructured. Closing some offices, that’s something that happens on a regular basis.”

Cautious optimism appears to be the prevailing viewpoint across industry participants, but the degree of caution varies.

Southeast Asia is accustomed to commodity cycles, currency fluctuations, and all manner of political upheavals, most of which represent relatively short and sharp disruptions to an implacable overall growth story. COVID-19 proved yet another challenge in this vein. The current tech rout, by contrast, is likely to be the first long-term region-wide economic event in the ASEAN start-up era.

In this environment, the company-level cost-cutting that characterised the early pandemic will persist, and it will give way to more risk-taking as valuations normalise. But that narrative will not unfold without significant weeding. Ultimately, the shakeout is understood to be a positive development for the maturation of the ecosystem – at least from the perspective of those who don’t get shaken out.

“This year is most likely going to be painful in terms of valuations coming down and portfolio valuations adjusting down. We’ll see slower deal activity, and I don’t think it will pick up dramatically in the second half. I think it’s going to take us into next year, so strap in tight and focus on your portfolio companies until then,” said Ben Balzer, a Singapore-based partner at Bain & Company.

“But long term, this is not an industry that has overheated so much that we’re looking at a cliff or any major correction. This is a natural cycle we’re going through. If your portfolio is diversified, you can withstand this and you should be well positioned for the next few years.” ■

Q&A:

Vitalbridge Capital's Jinjian Zhang

Jinjian Zhang, founder of Chinese VC firm Vitalbridge Capital, on addressing domestic turbulence, getting investors to reengage on China, and where he sees opportunities in Southeast Asia

Q: How difficult are conditions for China GPs right now?

A: Private funding for Chinese companies in the first quarter of 2023 was about half that recorded in the first quarter of 2022. And only one-quarter of that funding was in US dollars, compared to 50% in the first quarter of 2021. The pace of investment has slowed significantly. We've also seen a big adjustment in valuations. In 2021, a high-profile spinout from a large domestic technology company could have raised capital at a USD 200m valuation before even building a team. Today, the same founder might get a valuation of USD 40m-USD 50m.

Q: Has Vitalbridge's investment pace also slowed?

A: After closing our second fund on USD 275m in 2021, we didn't make any new investments that year. Either valuations were too high, we lost out to other GPs that submitted term sheets before we could complete our due diligence, or companies didn't meet our minimum criteria. By the end of 2021, LPs were questioning our cautious approach. Entering 2022, the valuation bubble burst and market sentiment turned gloomy, so we started making our bets. Our investment pace has accelerated this year, especially with the emergence of new opportunities around smart hardware and artificial intelligence-generated content. I think it is generally easier to identify good entrepreneurs in a challenging environment; they launch businesses based on strong beliefs rather than just trying to catch a market tailwind. ▶



“In the movie Jurassic Park, they say ‘life finds a way.’ Money finds a way, too”

Q: Would you agree that renminbi-denominated funds are becoming more important than US dollar funds in China, given the preference for local listings and concerns about US-China regulatory issues?

A: Managing a renminbi fund requires a different skillset to a US dollar fund. Renminbi funds tend to focus on production and supply chains, while US dollar funds are more about backing innovation and frontier technologies. However, there has been some convergence as manufacturers explore frontier technologies and technology companies prioritise supply chains. I think US dollar funds should focus on areas where there is overlap. That said, as a pure US dollar manager, we have encountered situations where founders only accept renminbi. For example, a digital healthcare company that has accumulated a large amount of patient data might be more comfortable with renminbi even though there are no rules prohibiting US dollar participation in this space. Last year, we applied to the Shanghai government for a QFLP [qualified foreign limited partner] quota, which should give us more flexibility. The pandemic has delayed the approval process, but we expect a response reasonably soon.

Q: What can you do in terms of helping portfolio companies that are navigating a funding winter?

A: Starting in the second half of 2021, we told founders repeatedly that a downturn was imminent and that they should get prepared. In the first half of last year, we encouraged some companies to push ahead with layoffs. They were very grateful for the advice. A rising market allows businesses to grow very quickly, but sometimes it leaves them bloated, which is unhealthy. With sound management, some portfolio companies broke even on a single-month basis in the second half of 2022, and they might break even across 12 months this year. The best founders can maintain vitality and tenacity in the toughest of times – a trait exemplified by the likes of Steve Jobs and Elon Musk. Some GPs saw founders quit last year; we didn't encounter a single case. When we back up a start-up, our decision is based on a founder's

vitality, durability, and involvement. These are the key criteria, not their resources.

Q: Some China GPs have responded to the difficult conditions by switching to other markets. Would you ever do the same?

A: I think US dollar funds have picked a lot of very low-hanging fruit in China over the past two decades. It was hard for private companies to access traditional banking financing, so they needed other sources of capital. Today, GPs must work harder to find attractive opportunities. In the movie Jurassic Park, they say "Life finds a way." Money finds a way, too. Capital gravitates towards areas offering the best returns just as water flows into low-lying terrain. Our job is to find the best returns – the low-lying terrain that will attract water rather than just following the water. The key questions are whether there is still enough growth and innovation in China and whether there are still high-quality founders.

Q: So, what are the prospects for growth and innovation in China?

A: China is still growing and opportunities around innovation are no less than they were 20 years ago. The key growth driver is demand, which relies on two factors: population size and consumption power. China has a population of 1.4bn and per capita GDP is around USD 12,000. The wealthiest 10% earn four times more than that, so there are 140m people on USD 48,000, the same level as Japan. Ten years from now, China's GDP per capita will be USD 24,000 and the top 10% will be earning USD 96,000, which is where Switzerland is today. Their cumulative spending power will be 15x the current level in Switzerland. At the same time, Chinese entrepreneurs will increasingly tap into growth in other markets. I think Chinese entrepreneurs are the scarcest resource in the world today. They emerged in a fiercely competitive domestic market, which means they are resilient and visionary.

Q: Will policy volatility remain an obstacle?

A: The whole world is becoming more political

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and there is a tendency to demonise China. At China's 16th National Congress in 2002, the key takeaways were about opening up, loosening regulations, expanding the middle-income group, and legalising earnings that didn't derive from labour. The major challenge today is imbalance – there is a widening gap between regions and individuals in terms of prosperity. What we saw at the 19th National Congress in 2017 was a prioritising of even development and a willingness to use regulation to achieve that. The opportunity set changed, and certain areas were no longer viable for investment. That's why, when Vitalbridge started in 2019, we focused on digitalisation and didn't touch education – even though that was my area of expertise at my previous firm. [Zhang spent seven years at Trustbridge Partners prior to founding Vitalbridge and made several successful investments in the education space.]

Q: How do you feel about Southeast Asia as an investment destination?

A: We've been following the development of Southeast Asia closely. It has huge growth potential, but unlike China, it's not a unified market. There are 11 countries with their own languages and cultures. We've seen a lot of

Chinese companies build factories in Southeast Asia, and they treat the region as a second manufacturing base and sometimes as a target market for products. It is an exciting trend, but we are waiting for the right time to bet on it. What we are interested in right now is Chinese technology start-ups serving domestic companies that are expanding into Southeast Asia. They are providing services such as payroll management, tax planning, outsourced labour, and even data compliance to these companies. That is more interesting to us than the development of Southeast Asia itself. We saw a similar phenomenon when US companies started going global.

Q: Are US dollar investors re-engaging with China?

A: I can only speak for Vitalbridge, but yes, we are seeing that. The number of LPs reaching out to us is rising, whether that is emails or site visits. We've received enquiries from some large Japanese LPs, which hasn't happened before. Meanwhile, our US-based LPs are now introducing us to other LPs that might be interested in our strategy. I don't find they are pessimistic on China; on the contrary, they are optimistic about the growth opportunity. ■

Asia fundraising : To the grindstone

As macro uncertainties add red tape to fundraising processes and oblige some managers to operate on a deal-by-deal basis, the improvisational, survivalist nature of Asian private equity is on display

Having launched its debut fund in November 2021 with a target of AUD 300m (USD 202m), Australian private equity firm Glow Capital Partners recently confirmed a first close of AUD 55m. All the capital came from personal high net worth investor contacts. The plan is to entice institutional investors by drip-feeding them co-investment opportunities.

Glow, which focuses on tech-enabled consumer themes, hopes that by demonstrating its due diligence and deal sourcing rigour – while offering investors a taste of deals as well as insights into its process – LPs smelling the cusp of a new macro cycle will be persuaded over the line.

“The only way to get consideration now is to present co-investment opportunities, so we’re being much more proactive on that with a view to building relationships,” said Justin Ryan, co-founder of Glow, who previously spent extended stints at Quadrant Private Equity and Catalyst Investment Managers

“Some LPs won’t co-invest unless they are a fund investor, but there is an emerging group of institutions that are more open-minded to just straight-out co-investing. Some just want to keep doing it deal-by-deal. Others are happy to work toward a potential fundraising down the track.”

Ryan observes that LPs are generally looking for co-investment ratios of 1:1, such that every dollar of fund commitment is matched in co-investment. Three sources from around the region described ratios of 3:1 and 4:1 as increasingly commonplace expectations – and these are sometimes met.

Clean primary tickets are not unusual, but they are no longer the most common outcome in a fund commitment process, even among



“The only way to get consideration now is to present co-investment opportunities”

– Justin Ryan

brand-name managers. Beyond ramped-up co-investment rights and accompanying fee discounts, terms-based solutions have tended to focus on quasi-secondaries.

"We're talking to a GP about a combination of structured secondary transactions across two previous vintages, plus a co-investment deal on the fund they're raising right now. There are four components, and all combined, it's worth around USD 90m-100m, including the primary ticket," said Ricardo Felix, head of Asia at placement agent Asante Capital.

"We're seeing more transactions like this, and it's a win-win-win outcome when they work. However, given both their tailored and binary nature, the opportunity cost can also be punitive."

Compromise is king

The most creative workarounds are rapidly proliferating in the US and Europe and considered likely to come to Asia. They include net asset value (NAV) financing arrangements, whereby a lien of credit is introduced into a fund, acting like a dividend recap. LPs receive a distribution and the portfolio is collateralised against the debt.

The idea is to create liquidity at minimal cost, but much depends on the loan-to-value ratio (LTV). Large buyout portfolios can generate meaningful distributions; growth and venture less so. Indeed, for the minority investors that dominate the Asian landscape, flexibility around fund terms is a secondary response to simply reducing the target corpus and extending the offer period.

This feeds into the still anecdotal observation that the global fundraising slowdown is forcing would-be fund managers to go into deal-by-deal mode in a more pronounced way in Asia, where 732 growth and venture funds have achieved incremental or final closes since the start of 2022 versus 53 for buyouts.

Nevertheless, the fundraising drop-off in the past two quarters reveals a trend that does not discriminate by strategy. The average quantum raised per quarter fell by around 90% in each of buyout, growth, and venture, when comparing 2022 to 2023 to date, according to AVCJ Research.

The prevailing approach in recent months has been to pool investments made on a deal-

by-deal basis into a warehouse vehicle that can be proposed to LPs as a kind of seeded and therefore de-risked fund portfolio ready for an anchor investment.

Denis Tse, CEO of Singapore-based Asia-IO Partners, an affiliate of Korea's ACE Equity Partners, is a proponent of warehousing as a means of transitioning from deal-by-deal to a comingled fund in the current environment. Both Asia-IO and ACE invest on a deal-by-deal basis, but Tse declined to comment on any potential fundraising aspirations.

"The common denominator is that at the end of the day, it's all about what you invest in," he said regarding best practice for making a warehouse-to-comingled transition work.

"The good thing about the current market is that there's so much price dislocation, you can actually find good deals. If you have a collection of good opportunities and you can amass a decent size portfolio that can be warehoused, then it can be quite attractive."

There's reason to believe, however, that this strategy will be less doable in Korea than Southeast Asia, or any other market in the region.

Korea is unique in that it has a deep pool of institutional LPs well-attuned to single-asset project funds. But these investors are becoming wary of the industry-wide uptick in direct secondary buyouts, not wanting to revisit companies they backed with another local manager. They are also losing their appetite for outbound investments amidst a weakening Korean won.

"In Korea, it's getting extremely hard for managers to find Korea-based equity and debt providers to finance their deal-by-deal project funds. In fact, a lot of project fund deals have gone bust since last year. Many of the new managers in Korea are not going to survive if they rely solely on a project fund strategy," said Jay Kim, founder of Orchestra Private Equity.

Orchestra is attempting to transition to comingled funds by leaving the country and taking a quasi-warehouse approach. The firm's last two acquisitions – KFC Korea and Japanese construction industry supplier Stack – were organised with a Singapore license at new headquarters in the city-state.

Orchestra is targeting USD 300m for its debut blind pool fund, and most of the capital is

expected to be raised from global LPs, including investors in the Stack and KFC project funds. Kim acknowledges this is a tough road and said there would be “a lot” of co-investment. The global shift away from China exposure is expected to help.

There are a few rules of thumb for first-time managers in this position. First among them is that GP ownership should be the last thing brought to the negotiating table. It could take three vintages to get it back, and it will be expensive to do so.

Second, some angle around specialisation is helpful for first-time managers. Australia’s Heal Partners closed its debut healthcare, education, and lifestyle fund last November on AUD 200m. In September, Tower Capital closed its debut blind pool fund on USD 379m, making much of its deep Singaporean roots and tight focus on the country. Only USD 55m of the corpus was earmarked for co-investment.

Furthermore, strategic repositioning may be necessary but must be done in moderation and without contradicting the idea that LPs tend to prefer that managers stick to their strengths in a downturn.

Credit funds have proven popular among private equity investors in recent months as have expansions into earlier or later stages. The latter is a trend that predates the fundraising slump, but

India’s Chiratae Ventures reaffirmed the idea in the doldrums of late 2022, collecting INR 7.6bn (USD 93m) for its first growth-stage fund.

The overarching challenge is that new strategies can require time to build out, perhaps longer than the market cycles to which they are responding. This is most often highlighted as a risk for China-focused managers looking to recast themselves as regional actors. There are also risks around perceptions of insincerity, especially in areas of heightened investor wariness such as greenwashing.

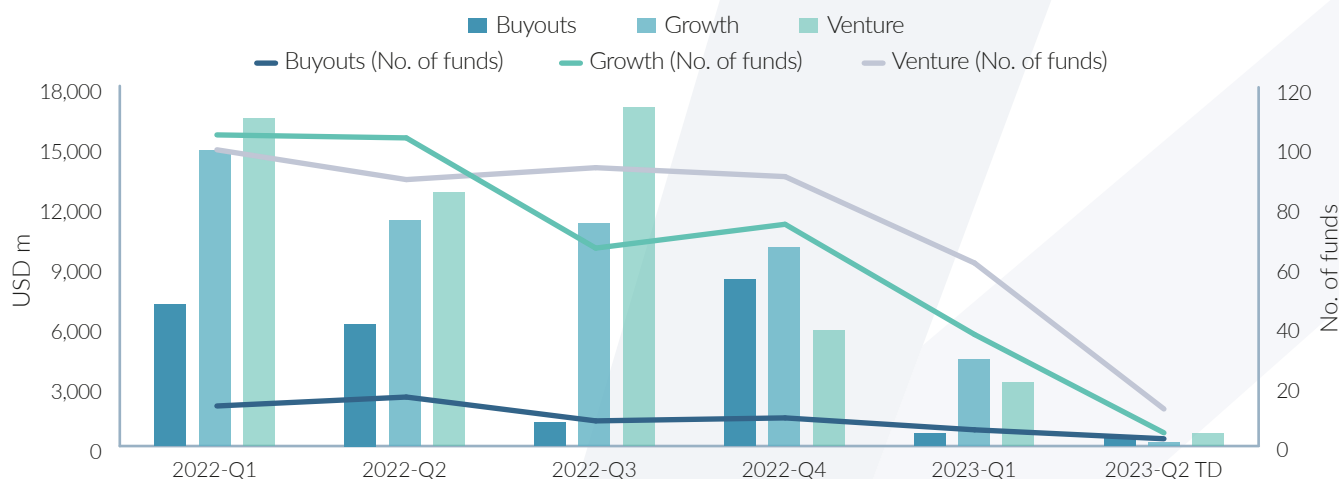
“We’re seeing a lot of interest in impact and sustainability from regional investors. What’s more, although international LPs are interested in Asian impact and sustainability, for now at least, there are very few managers with a proven track record to get those investors comfortable enough to invest,” said Charles Wan, Hong Kong-based head of Asia at placement agent Rede Partners.

“While this will take time, if a manager has a viable impact and sustainability-focused asset or strategy at present, it will have a higher chance of being funded by LPs.”

SMA and beyond

Australia’s Liverpool Partners – which has made a feature of its environmental, social, and

Asia-based fundraising by strategy



Source: AVCJ Research



governance (ESG) framework – claims to be one of those exceptions. The firm invests via a mix of separately managed accounts (SMAs) and blind pool funds, which include some of the same LPs.

Funds under management amount to about AUD 1.2bn, including an impact fund that reached a AUD 350m first close in 2021 and a generalist private equity fund set up in 2019. The latter has not yet firmed up its target but will probably seek AUD 300m–AUD 500m. The fundraising process for both blind pools is on hold, probably for the rest of the year.

The SMAs, meanwhile, benefit from the programmatic approach to investment pursued by large-format LPs. Jonathan Lim, a managing partner at Liverpool, declined to specify the number of SMAs under management but described it as “meaningful.”

“We’re seeing that the larger institutional investors want to allocate more into sustainability, responsible investing, and impact, but you have to be able to structure and address their needs rather than just have a cooking-cutter, conventional PE strategy,” Lim said.

“In this market, you must listen more and give

LPs a blend. If you have only one single approach to raising capital, it will be trickier, and you could get stuck.”

SMAs and sidecar funds are one point of flexibility that is more amenable to the growth and venture end of the spectrum. In most instances, the investors will be government actors seeking more comfortable regulatory and tax terms. In others, they will be addressing tech-oriented strategic agendas. As GPs take on more of these vehicles, they will need to balance fundraising needs with investment orientation.

“GPs considering funds-of-one should prioritise opportunities where those LP relationships are either supplemental or strategic to the flagship mandate, as opposed to dilutive,” said Sean Murphy, a fund formation partner in the Singapore office at law firm Cooley.

“Even in a difficult fundraising environment, you don’t want to be in a position where you have conflicting SMA mandates, and you’re trying to figure out where your attention is going to be.”

Later-stage and more experienced managers are pulling different levers, including turning toward local currency vehicles as a way of buttressing

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their US dollar fundraising. HarbourVest Partners, which closed its latest Asia-Europe fund-of-funds last year on USD 1.6bn, has noted an increase in locally minded LPs becoming more familiar with private equity and supporting such endeavours.

Most of the action on this front is happening in China, with global managers such as L Catterton and Affirma Capital hitting first closes on their debut renminbi-denominated funds within the last six months. Meanwhile, Collier Capital recently confirmed a first close on its inaugural renminbi secondaries vehicle.

Secondaries have also proven a critical fundraising tool at the larger and more established end of the market, particularly where packages are

more questions around risk, exits, and pricing. Setting up in advance to do such transactions is a big undertaking.”

The hard yards

The most potent revelations of the bear market are not in the complexity of specialised vehicles, commitment terms, and fund restructurings, however. They're in the daily grind of the managers such as Glow's Ryan, who are accustomed to blind pool investing but now find themselves in a deal-by-deal world, navigating the malaise with a considerably different job description.

Martin Mok, formerly of EQT, Goldman Sachs, and CVC Capital Partners, left the latter of these firms in February 2022 to set up his own firm the following April. China-focused Azuremount Partners had significant initial commitments from two EQT LPs, but by August, the Shanghai lockdowns and general China jitters were all too much, and the investors pulled out.

Azuremount was compelled to switch from writing USD 50m cheques in China's lower middle market – which accounts for the bulk of Mok's track record – to a VC-oriented mandate of sub-USD 10m deals.

The first investment came in January, with Azuremount leading a USD 5.7m round for brain surgery technology provider PrimaNova, which was targeting USD 4m in the raise at a USD 30m valuation. The start-up is pre-revenue and China-based – “everything people hate nowadays,” Mok joked – but he was able to mobilise various ex-China and US-dollar investors from his network.

“It's not an easy life. I used to write a USD 50m cheque here and a USD 100m cheque there without relying on external parties outside the investment committee. Now you have to ask every family office and all your friends and family,” Mok said.

“The advantages are you get freedom, satisfaction, a group of people who think alike, and you can really spend time on meaningful things. If I can deploy USD 20m in the first 12 months and USD 30m in the second 12 months, that's enough to cover the costs, and I think I could do it for life. I don't think I'd go back to the old days, but never say never because let's face it, the failure rate of these shops is high.” ■

“Even in a difficult fundraising environment, you don't want to be in a position where you have conflicting SMA mandates”

– Sean Murphy

diversified away from single-asset risk and include co-investment staples.

Dominic Goh, a managing director focused on secondaries at HarbourVest, expects to see more GP-led deals in the years to come, noting that while the transactions may take some time to organise, they're still a faster solution than a strategy pivot.

“There has been an increase in inbound enquiries and GPs asking questions about what can be done, as these transactions can be highly structured, highly bespoke,” Goh said, describing LP desires to see more distributions in a period of uncertainty as a key theme in the current environment.

“And frankly, you need something like that to arrive at outcomes that all parties will accept in today's environment, where investors are asking

Hong Kong vs Singapore: No zero-sum game

Pandemic-related restrictions have dented confidence in Hong Kong as a private equity hub, while Singapore is on a roll. But gains for one don't necessarily translate into losses for the other

When Apollo Global Management tasked Matt Michelini with overseeing its growing Asian business, internal discussions were held as to where the regional head should sit: Hong Kong or Singapore?

Speaking at the AVCJ Forum last year, Marc Rowan, the firm's co-founder and CEO, wryly noted that he advocated for Singapore – only for Michelini to choose Hong Kong. Today, though, Michelini runs Asian operations out of Singapore, having concluded that Hong Kong's pandemic-related entry requirements were not conducive to a role that involves regular intra-regional travel.

"Doing three weeks of hotel quarantine every time you return to Hong Kong just didn't make sense. He couldn't just sit there while everyone else was travelling," said a source close to Apollo.

This should not be read as a firm-wide commitment to Singapore at the expense of Hong Kong, the source added, noting that Apollo recently signed a new lease that doubles its office space in Hong Kong. It operates under a dual hub system, with more than 30 people in Hong Kong and around 25 in Singapore. Apollo didn't respond to a request for comment.

Hong Kong's supposed fall from grace as a financial centre has been widely documented, punctuated by the largest annual population contraction on record and widespread frustration – not least within the business community – at protracted travel and distancing restrictions. In Singapore, meanwhile, a sharp influx of monied migrants has ramped up the cost of living as well as the city-state's profile.

Studying these dynamics in the context of Asia's private equity industry invites binary interpretations but they often fall short, not least ►



"We see groups keeping the Hong Kong office and adding Singapore to broaden their scope"

– Arthur Leung

because events are shaped by an assortment of contributing factors. Moreover, decisions to relocate (or not) are often personal, rather than the result of top-down corporate diktats, and explanations can be meandering, defensive, and emotional.

Hong Kong's pandemic-related policies have tested the patience of private equity players, but ultimately, they are the by-product of a broader business concern: whether mainland China, with its commitment to "dynamic zero COVID" and rising geopolitical issues, is accessible and desirable.

Dwindling deal activity in China is already prompting career reassessments. "We are getting inquiries from people who have been let go or whose strategies have changed, or who see the writing on the wall amid a slowdown in the deals they are able. They are asking about opportunities in Singapore," said Michael Di Cicco, a senior client partner at recruitment consultant Korn Ferry.

Another factor is a shift towards localisation – opening more satellite offices and redeploying headcount from regional hubs or making additional hires – that emerged as a trend several years ago and has been accelerated by the pandemic, according to one Hong Kong-based LP.

"Ten years ago, a new entrant would choose Hong Kong, it was a no-brainer, an obvious first office location. Today, you are at least going to ask the question. Maybe Hong Kong still makes sense. It depends on who you are, how big your team is, and what you're actually doing," the LP said.

"One thing we can say for sure is that everyone wants to decentralise more. It's not just Singapore. People might beef up their team in Sydney or add headcount in Seoul and Tokyo. That's the reality."

Staffing up

Private equity industry participants moving or expanding into Singapore fall into three broad categories. First, numerous China-focused managers are responding to challenges at home by trying to do more China-relevant deals overseas, with Southeast Asia typically high on the agenda.

This is not restricted to venture capital. Primavera Capital Group opened a Singapore office at the end of last year, while Hillhouse Capital Group has moved senior professionals into local premises it has retained for some

time, according to two sources familiar with the situation.

FountainVest Partners is also thinking about establishing a base in the city-state. A source close to the firm observed that "China nexus" has always been part of the investment mandate and cross-border transactions are becoming increasingly prominent in overall deal flow. The FountainVest portfolio stretches from New Zealand to Europe and some companies have a presence in Singapore.

Second, some global and pan-regional managers that already have a presence in Singapore are adding more resources. Emphasis varies markedly. Bain Capital currently has no PE investment professionals in Singapore, though there are some under the credit strategy, and CVC Capital Partners has a larger headcount in Southeast Asia and Australia than in Greater China.

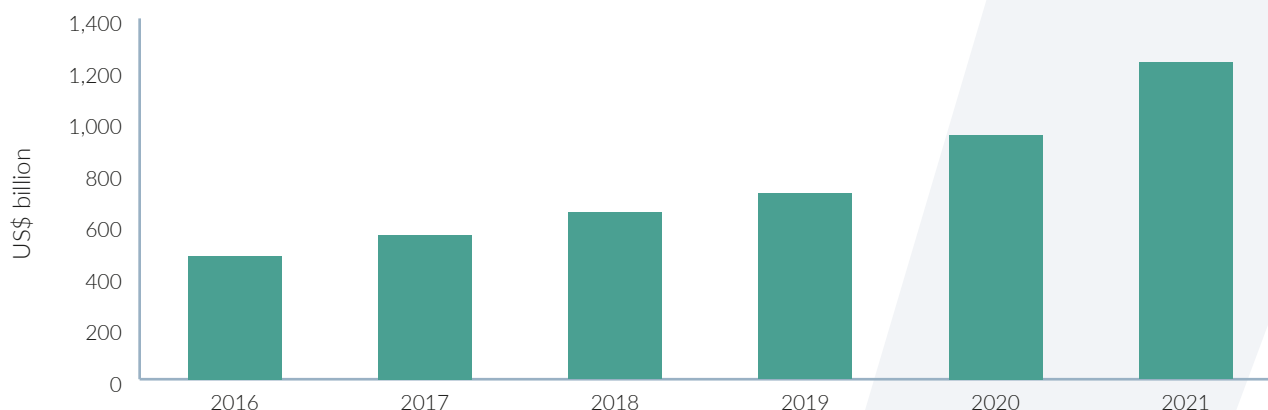
It is worth noting that Southeast Asia features less prominently in Bain's portfolio than other geographies, while the region has produced some of CVC's biggest recent wins. The Asia heads or co-heads of CVC, TPG Capital, and Permira all sit in Singapore, unlike most of their regional peers. In each case, choice of location is said to have been driven by individual preference.

Third, LPs are staffing up in Singapore, from fund-of-funds to pension funds. Some of this is strategic – Ontario Teachers' Pension Plan (OTPP) said last year that it expects Singapore headcount to exceed Hong Kong; Alberta Investment Management Corporation (AIMCo) observed that geopolitical concerns led it to choose Singapore – and some personal.

Often, in the absence of a senior hire or a new office opening, transitions are gradual or barely noticeable. "A year ago, people would turn up, get a serviced apartment, and say they were staying for a couple of months. As time went by, they bought cars, started renting apartments, and brought their kids over," noted Thomas Lanyi, a Singapore-based managing director at CDH Investments.

Kyle Shaw, a found and managing director at ShawKwei & Partners, to some extent fits this profile. Overseeing an industrial manufacturing portfolio that has become increasingly

Singapore's alternatives AUM



Source: Monetary Authority of Singapore

Southeast Asia-centric, he gravitated towards Singapore as Hong Kong's pandemic policies persisted. A temporary move subsequently became permanent. ShawKwei retains a Hong Kong office.

"I lived in Hong Kong for 30 years, but I have no reason to be there," said Shaw. "I've not enjoyed it the last couple of years. I have more business to do outside of Hong Kong and it is easier running things from Singapore."

Structural dynamics

Between 2019 and 2021, alternative assets under management (AUM) in Singapore nearly doubled, reaching SGD 1.23trn (USD 877bn), according to the Monetary Authority of Singapore (MAS). AUM for private equity alone was SGD 541bn in 2021, up from SGD 375m in 2020, while the venture capital total rose from SGD 16bn to SGD 24bn.

Much of this is tied to the growing popularity of Southeast Asia as an investment destination – and, to some extent, appetite for India as well, given Singapore's role as a nexus for South Asia.

More than 40% of capital deployed in Asia over the past decade went to China, but Southeast Asia and India are growing faster, albeit from much lower bases. Investment in Singapore and India was 2.25x and 3.5x greater 2017 and 2021 than in the five years prior.

"Recruitment demand tends to come from

appetite for Southeast Asia. We see groups keeping the Hong Kong office and adding Singapore to broaden their scope. This might drive relocations rather than recruitment, but then they need local talent to comply with regulations in Singapore," said Arthur Leung, a consultant in the Asia Pacific financial services practice at Egon Zehnder.

Investor relations and family office professionals are also in demand – the former to cover Southeast Asia's growing LP universe and the latter to serve the influx of wealth. Leung estimates that Singapore has seen twice as many family office setups as Hong Kong in the past 24 months.

These sentiments are echoed by Nainesh Jaisingh, Singapore-based CEO of Affirma Capital, who claims to have "never seen proliferation like it." He notes that Singapore worked hard to create a private banking hub, which now appears to be paying off, but private equity is the bigger catch.

"Private equity can have a huge impact on Singapore in areas where it wants impact," Jaisingh explained. "Once you get private equity managers, you get accountants, lawyers, consultants, and investment bankers – exactly the sort of high-end professional jobs Singapore would like. The whole ecosystem is stimulated by private equity, and it becomes self-perpetuating."

Singapore has made significant strides in the past 10 years to provide structural and regulatory

certainty for private equity investors that choose to make it their base of operations.

The jurisdiction has become a popular destination for regional platforms that sit in between master or feeder funds and the special purpose vehicles (SPVs) used to make investments. Managers must incur costs to establish substance, but this leads to exemptions from tax at the fund level and access to the double taxation agreement (DTA) network.

A more recent addition is the variable capital company (VCC), a highly flexible version of the private equity limited partnership intended to encourage managers to domicile their funds in Singapore.

Sanjay Gujral, chief business officer at Everstone Group and chairman of the Singapore Venture Capital & Private Equity Association (SVCA), believes strong regulation and local infrastructure, political stability, and geopolitical neutrality have all contributed to Singapore's rising private equity AUM. But he also highlights the role of structures that are tax efficient and internationally accepted.

"There have been concerns around tax arrangements in certain jurisdictions, and with that, there has been an increasing transition to legitimate jurisdictions that enable people to have an onshore presence," he said. "That has been a trend over the last decade and Singapore has benefited."

Hong Kong has been playing catchup in almost every respect – extending a fund-level tax exemption to include private equity, updating limited partnership legislation, and addressing fears that carried interest could be taxed as income rather than capital gain – yet there are still holes in the system.

For example, carried interest is subject to a 0% levy, but few GPs are taking advantage of it. Darren Bowdern, a tax partner at KPMG, offers three explanations. First, the Inland Revenue Department insists that carried interest must flow through Hong Kong to qualify and most private equity firms aren't set up in this way. Second, some investment instruments – such as debt – are excluded. Third, uncertainty over qualification makes managers question whether the high level of disclosure is worth it.

"Even before COVID, we saw larger managers start to consolidate their investment holdings in Singapore – usually with a Cayman fund and a Singapore platform. There is a cost to doing this, with the minimum spend and a minimum amount of capital at the SPV level, but you know what is required to comply. Hong Kong isn't providing that certainty," Bowdern said.

"A lot of the compliance and reporting obligations, and the supporting infrastructure that goes with them, is increasingly being put in Singapore rather than here."

Message received?

The government recognises industry concerns, according to Duncan Chiu, member of the Hong Kong Legislative Council (LegCo) for the technology and innovation functional constituency. However, addressing them takes longer than in Singapore because the process tends to be stakeholder driven.

"The Singapore government can push through legislation top-down and take more of a trial-and-error approach. In Hong Kong, when we talk about legislation it is bottom-up. We see a problem, raise it, the government does a consultation to see whether legislative change is necessary, and we discuss it in LegCo," he said. "Maybe there is more balance in the process."

Nevertheless, Chiu admits that Hong Kong can be too bureaucratic and would be helped by being "more willing to serve rather than see everything as black and white."

The need to reengage a disaffected international business community appears to have hit home. John Lee, the territory's chief executive, made several overtures to business in his annual policy address in 2022, and this was followed by financial technology event at which proposals were made to allow retail trading of crypto assets and a financial forum that saw mainland regulators reaffirm the importance of Hong Kong as their preferred international hub.

Senior PE executives who attended the forum offered mixed feedback. Andrew Li, head of Greater China at Advent International, said the tone was positive and there was a "clear message that Hong Kong is back." Another dealmaker, visiting from Singapore, noted that it's all very

well trumpeting a Hong Kong rebound, but “I can still nearly hear a pin drop when I walk through Exchange Square.”

Measures announced in Lee’s policy address included the establishment of designated units to coordinate efforts to attract foreign companies and talent to Hong Kong, an HKD 30bn (USD 3.8bn) fund to co-invest in companies that set up local operations, work permit waivers for professionals who meet financial and academic criteria, and relaxed immigration policies for certain industries.

To Vincent Ng, a Hong Kong-based partner at placement agent Atlantic Pacific Capital, these measures demonstrate how the government has been “put on notice that it cannot just rely on the goodwill of China but must step up and win additional business.” He expects more policies to follow.

LegCo’s Chiu points to the crypto consultation and tax concessions for family offices – another policy address announcement – as evidence of material progress, adding that the government must more actively promote what the territory has to offer. This includes highlighting Hong Kong’s strategic positioning within the Greater Bay Area and how foreign investors can capitalise on it.

As to the longer-term implications of the national security law, and what it means for governance and civil liberties in Hong Kong, he believes the relatively narrow application of the legislation will eventually become clear. “The

government saying this isn’t enough. Once people see the existing court cases and details of the charges, they will get more comfortable,” Chiu observed.

Several industry participants also downplayed the impact of the national security law on the ease of doing business in the territory.

Swings and roundabouts

Singapore also faces challenges as it looks to build upon its private equity momentum. SVCA has made the development of local talent one of its priorities. A long-term work visa scheme was introduced last August, aimed at high-income-earning foreigners, but Everstone’s Gujral observes that more must be done to deepen talent pools at entry and junior levels as well.

However, the most immediate issue confronting residents is limited resources. New arrivals have put housing supply under pressure: rents for private apartments rose 31% year-on-year in September 2022, extending the streak of consecutive increases to 21 months, according to real estate portals 99.co and SRX. Finding places for children in local schools is also proving difficult.

“Everything from premium apartments to houses is going for 2.5x more than any previous peak,” said Affirma’s Jaisingh. “I don’t think it’s sustainable.”

Government intervention is one possibility, especially if disquiet among Singapore nationals grows. Alternatively, the inflows could abate. Some Southeast Asia-focused managers openly question whether the bullishness of Chinese managers targeting the region will persist, given deals are fewer and smaller than in China and geographies are fragmented.

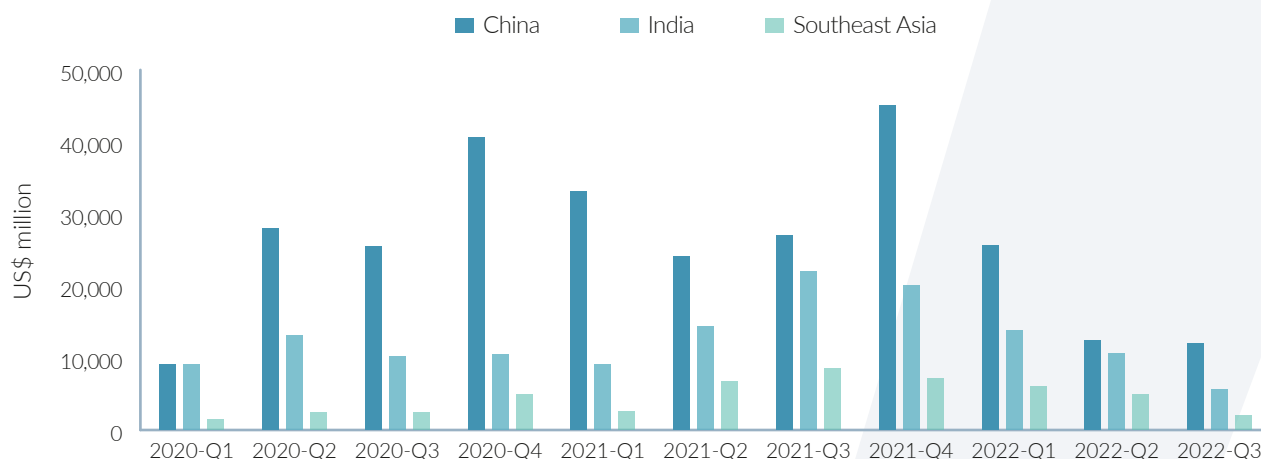
“You can’t just send someone down from Hong Kong and expect them to get much done,” said CDH’s Lanyi. “Southeast Asia has become so popular among our peers from North Asia. This will put pressure on valuations, especially if some investors want to do deals purely to demonstrate their capabilities vis-à-vis LPs or the banking community.”

It is unclear how any kind of rebalancing in Singapore will impact Hong Kong. Conditions may stabilise as restrictions ease, but complications around access to mainland China, and the

“I do miss the commercial energy of Hong Kong and I want to go back there, but Singapore has positioned itself well for LPs and GPs”

– Nainesh Jaisingh

Private equity investment: China vs India vs Southeast Asia



Source: AVCJ Research

availability of deal flow, remain in place.

"It is harder to recruit people who are not already in Hong Kong," said Di Cicco of Korn Ferry. "You can make the argument that now it's easier to get into schools and rents are coming down, and Hong Kong is re-opening. But if I'm in Hong Kong, my job is focused on China and I can't get into China, there are questions. People are trying to figure out whether this speaks to their long-term needs."

Leung of Egon Zehnder has also found it tougher to fill positions in Hong Kong, but the nadir came in the last three months of 2021 and the first three months of 2022. Meanwhile, he is receiving more enquiries from mainland-based talent open to relocating to Hong Kong.

No one interviewed for this story was willing to say definitively that Singapore would supplant Hong Kong as Asia's leading private equity hub. It has too many incumbent advantages, while North Asia is too big a market to ignore and too difficult to cover adequately out of Singapore, even if China is avoided or deprioritised for a period.

"Once it gets back to a level playing field, all the benefits of Hong Kong continue. Geographically, it's more central – Beijing and Tokyo are a long way from Singapore," said one investor relations professional based in Hong Kong. "A year from now, Singapore versus Hong Kong will go back to what it was before: something Singapore likes

to talk about, and Hong Kong doesn't really care about."

To other industry participants, it has never been a zero-sum game or even clearcut rivalry. Chiu of LegCo describes competition between the two financial centres as healthy, with each pushing the other to improve its financial offering.

The matter of which jurisdiction would be the preferred location for an overarching regional platform is open for debate, but that debate is perhaps negated by the growth in Asian private equity and the need for more people, more offices, and more local resources. While Hong Kong's pre-eminence might be questioned, that doesn't necessarily mean Singapore is elevated to top spot.

Standard Chartered Private Equity used to have offices across the region, including teams in Hong Kong that focused on China and Southeast Asia. After Jaishingh led a spinout that resulted in the formation of Affirma, the China team moved to Shanghai and Southeast Asia was covered out of Singapore. The Hong Kong office closed.

"Even then, I used to go to Hong Kong a lot because so many LPs were based there," Jaishingh said. "Now, we see the big names opening offices in Singapore or thinking about it. I do miss the commercial energy of Hong Kong and I want to go back there, but Singapore has positioned itself well for LPs and GPs." ■

Asian private equity and venture capital intelligence

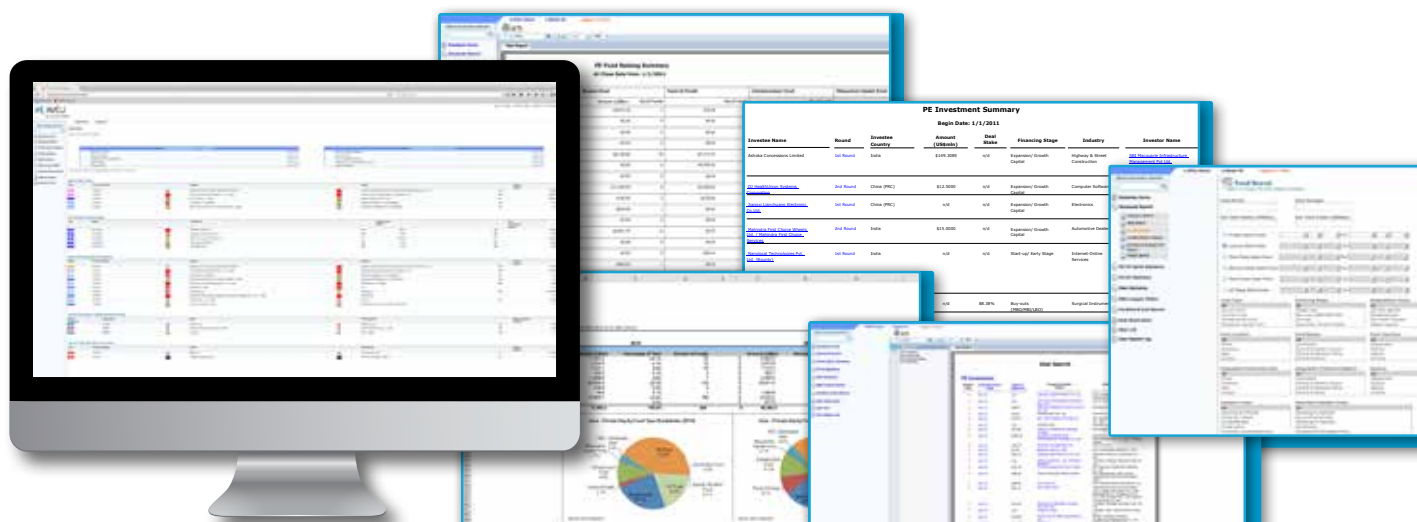
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Q&A:

ShawKwei Partners' Kyle Shaw

Kyle Shaw, founder and managing partner of ShawKwei & Partners, on bright spots in industrial manufacturing and becoming more Southeast Asia-centric as supply chains reduce China exposure

Q: What is the investment environment like right now?

A: We are very busy, and our fund is now about two-thirds deployed. It's a good environment for investment but you must be more willing to fly around and see things – people aren't coming to you and pitching you at your desk. We are a control investor, and we try to be a value-added investor, so we need to spend time with companies. The pandemic slowed us down, for sure, and now maybe it takes twice as long to do a deal as before.

Q: It often seems to be the case that investors are working on deals but not necessarily getting them across the line because of valuations and general market uncertainty. Is this true of ShawKwei?

A: In my small world, that's not the case. The things we've been looking at are moving. There have been some where we stopped because after conducting detailed due diligence, we didn't think they were worth pursuing. On another, a couple of weeks ago, we stopped because we lost. It was a two-horse race, and the other horse was willing to pay more and close faster than we were. And then recently we signed a letter of intent for another deal. A lot of people talk about deals not moving, but that's par for the course in private equity.

Q: So, global macroeconomic issues are not proving to be a hindrance?

A: We live in a world where interest rates are ►



“Almost daily, customers of our portfolio companies are expressing their desire to reduce manufacturing in China and reduce their exposure to China”

rising, so there is a natural hesitation to wait until we tip into a recession or interest rates stop going up. There is also a lot of concern about geopolitics. Other than that, it's not so bad. US-China decoupling creates interesting opportunities for people outside of the US and China; the price of oil isn't all that high; the stock markets aren't all that bad. Things could take a turn for the worse in a month or so, but the markets are telling me that people have accepted the status quo. I think we are exposed to some interesting trends around global supply chain redeployment, energy, and marine services. And we've tried to position ourselves in Southeast Asia, which is a vibrant spot right now.

Q: That's why you personally relocated from Hong Kong to Singapore last year?

A: I was in Hong Kong in the late 1980s and early 1990s and then I moved to Shanghai in 1992, saying there for five years. It was a useful experience. A lot of people in Hong Kong were saying, 'I should move to Shanghai,' but they were comfortable in Hong Kong and thought they could do China on fly in-fly out basis. My view has always been that you need to be somewhere to understand what's going on. After five years in Shanghai, I felt I did understand, so I came back to Hong Kong because I wanted to be more than just a China investor. Moving to Singapore wasn't so different. You must be all-in, not fly in-fly out.

Q: Is ShawKwei now more Southeast Asia-centric than Greater China-centric?

A: We did a deal in Australia recently; we are expanding our portfolio companies into the Middle East; we have a large business in India; and we are looking at deals in the US involving companies that are Asian in their focus. Singapore isn't just a Southeast Asia play; it gives me the ability to pursue regional opportunities.

Q: To what extent does this reflect customer appetite for China at the portfolio company level?

A: Almost daily, customers of our portfolio

companies are expressing their desire to reduce manufacturing in China and reduce their exposure to China. More recently, they have wanted to reduce exposure to Taiwan as well because of concerns about a blockade or an invasion cutting off supply chains. No procurement officer sitting in the US or Europe wants to be in a position where they can't put anything in the warehouse, so they just aren't taking risks. They are going to Southeast Asia and asking suppliers to provide the same components. We don't spend a lot of time hunting for business, it's more like business is coming to us, it drops in.

Q: Which countries are the biggest beneficiaries of this phenomenon?

A: Malaysia and Thailand are picking up business. Vietnam was but in the last six months they've suffered a credit crunch and a property price collapse, so things have slowed a bit, but they will come back. Indonesia is going to benefit. India is already benefiting, and people are trying to figure that out. There is also a re-shoring angle, which benefits the US, Mexico, and Canada. People want to be closer to production.

Q: Does Southeast Asia have the infrastructure to handle this additional demand?

A: Two US companies we have as customers have set up major facilities in Malaysia over the last couple of years – we are talking 20-30-acre sites and hundreds of millions of dollars of investment. That's just two companies that come to mind because I was dealing with them yesterday. A lot of foreign companies are setting up shop in Southeast Asia and they are creating the infrastructure. It might be slower than they would like – 24-30 months rather than 18 months – but it's getting done.

Q: What do these shifts mean for exits? Are you seeing more interest from private equity buyers?

A: There is a lot of interest in Southeast Asia, so there is no shortage of natural buyers for assets in the region. We haven't sold much to private



equity in the past, but I think that will change. Private equity is more liquid nowadays and maybe underinvested, so they are looking to put money to work.

Q: You've owned precision manufacturer Beyonics for more than a decade and last year you expressed a reluctance to sell given efforts to reorient the factory footprint towards Southeast Asia have started to pay off. What happens next?

A: We keep getting new business that is 6-9 months out and we don't want to sell until it comes in because people aren't willing to pay for something when they aren't sure if it will happen. We need to stop getting so many opportunities that are further down the road or forget about selling based on what we think we can get in 6-9 months. The challenge is that the business hasn't plateaued or matured yet – we are still in an extremely high-growth mode, and we are catching and harvesting a lot of interesting customers. At the same time, the business isn't highly levered. In a classic leveraged buyout, you pay down the debt and get some improvement

in EBITDA and there is a multiplying effect on the equity investment. However, it diminishes the longer you hold it because debt is expensive, so you are incentivised to pay it off quickly. With Beyonics, we are seeing earnings growth and the pick-up in multiple is driven by the quality of those earnings.

Q: You're also invested in CR3 Group, an engineering services provider that wants to transition from oil and gas and chemicals to low-carbon areas. Is this reflective of your broader approach to energy?

A: Yes. We want to participate in energy transition. CR3's traditional carbon-based customers are moving towards clean energy, and we can accompany them on that ride. There is strong cash flow from the traditional business, so we can use that to make investments for the future while remaining profitable. It's not like a start-up where success is based on our ability to continue raising capital. Energy transition will be a significant part of our strategy going forward. We are already exploring opportunities involving clean energy-type businesses on the battery side. ■

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REGISTRATION: Anil Nathani

T: +852 2158 9636 E: book@avcj.com

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