AVCJ
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Hidden treasures?

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High-tech Hong Kong

City touts itself as Asia's next start-up hub Page 10

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Off the beaten track

VCs back Tuniu's different take on travel Page 13

EXPRESSION OF INTEREST ("EOI")

FOREIGN PARTNER SELECTION FOR A NEW SUB-SAHARAN PRIVATE EQUITY FUND

Today, Sub-Saharan Africa represents the last and perhaps one of the world's most attractive emerging market private equity frontier regions.

Our client is the investment banking arm of one of Sub-Saharan Africa's largest, oldest and most prestigious diversified publicly traded financial service institutions. In 2012,it reported audited assets in excess of $20bn,earnings of approximately $500m+, and a return on average shareholders' funds of 18.8%.

Over the past decade (2003-2013), our client has operated a small-cap private equity and principal investing business but now intends to raise a separate, significant and sizeable new private equity fund (the "New Africa Fund"). The New Africa Fund will focus on larger investments in Sub-Saharan Africa thereby capitalizing on the many attractive and diverse private equity opportunities in this high growth region.

Expressions of Interest ["EOI"] are now sought from highly successful and proven existing Private Equity firms operating internationally (prior emerging market PE experience is essential) to partner with our client in the New Africa Fund. Upon submission of an EOI as a co-fund manager, your firm, if pre-qualified, will receive a formal Request For Proposal ("RFP") due for submission by December 2nd, 2013. **Final partner selection is expected to occur by March, 2014.**

The International PE partner selected should expect to fully co-manage all aspects of the New Africa Fund with our client including: 1) providing a leadership role with our client in international fund raising and support on Africa wide fund raising efforts, 2) developing the New Africa Fund's investment strategy and sector/country focus, 3) the LP engagement process (preparing 3rd party presentation materials, road show, etc) and 4) negotiations and achieving financial closing(s) for the New Africa Fund.

Your expression of interest letter must include the following to avoid disqualification:
1. Full registered name of your current fund
2. Key person contact details (email, phone & physical address)
3. Total Fund Assets Under Management [AUM]
4. Name and address to where to send the formal RFP (contact name, fund name, e-mail and physical address only)
5. Your fund's website address

Only successfully selected responses to this EOI will be notified by e-mail to your designated contact by not later than October 31st, 2013.

Summary Indicative Timetable:
- Expression of Interest submission deadline: October 28th, 2013
- Successful EOI responses notified, October 31st, 2013
- RFP & Term sheet circulated Nov. 1st, 2013
- Management presentation& one-on-one meetings, November 14th & 15th, 2013
- RFP submission deadline, Dec. 2nd, 2013
- Successful RFP submissions notified Dec. 10th, 2013
- One-on-One pre-negotiations/Term Sheet review Dec. 12th – 15th, 2013
- One-on-One negotiations commence January 20th, 2014
- Conclude negotiations & partner selection March 31st, 2014

Please send Expression of Interest letters by October 28th deadline, 2013 by email to:
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Forbidden fruit?

THERE USED TO BE A TIME WHEN A private equity fund buying the portfolio company of another private equity fund was a serious faux pas. Nowadays, GPs have become less shy about buying from peers, who in many cases might be selling good but un-exited assets from maturing funds. Indeed, recycling assets has become a mainstay of private equity deal flow in the mature markets of the West.

In the last few years, the Asian community has become more active. According to AVCJ Research, 43 PE-to-PE deals have been logged so far this year, already exceeding the 40 transactions completed in 2012 as a whole. In terms of deal value, however, 2013 still trails 2012 by just under $5 billion to more than $8 billion. The main reason for the disparity is three $1 billion-plus transactions: Genpact, Akindo Sushiro and Industrial and Commercial Bank of China.

By contrast, 2011 volumes were substantially lower, although deals like MYOB and Skylark mean the full-year transaction value is comparable to 2013 year-to-date.

For obvious reasons, LPs are wary of sponsor-to-sponsor deals, but arguments can be made in favor of such sales. In particular, the current exit environment – a weak IPO market and strategic investors holding on to their cash reserves, which has slowed trade sales – makes it easier to justify secondary buyouts, especially if there is further value to be extracted from the asset.

Looking at the deals that have been completed, larger firms with big industry teams such as Bain Capital have been active on this front. These firms might make the case that they are uniquely positioned to take assets held by smaller GPs to the next level, potentially exiting at even better valuations.

The trend of extracting further value from existing private equity assets by GPs is here to stay with funds like NewQuest Capital Partners, the secondaries division of Ant Capital and a number of distressed asset players, specializing in acquiring the assets of private equity funds. Secondary funds, sovereign wealth funds and other large LPs are also looking to get into the direct investment game.

While there have been a number of Asian examples of private equity successfully exiting pre-owned assets, most of them have been purchased at distressed prices. The verdict for sponsor-to-sponsor deals remains to be seen.

Allen Lee
Publishing Director
Asian Venture Capital Journal

Asia's largest sponsor-to-sponsor secondary deals

Date	Value (US$m)	Investee	Vendor	Investor
Dec 2007	2193.2	The Tokyo Star Bank	Lone Star	Advantage Partners; Coller Capital; Partners Group; Lehman Brothers PE; Perennius Capital Partners
Oct 2007	2131.3	Arysta LifeScience Corporation	Bank of Tokyo-Mitsubishi UFJ; Lehman Brothers; Olympus Capital	Permira
Oct 2011	2072.5	Skylark	Chuo Mitsui Capital; Nomura Principal Finance	Bain Capital; HarbourVest Partners
Apr 2006	1300.0	Eastern Multimedia	AIDEC; Eastern Multimedia Group; Transpac Capital	The Carlyle Group
Aug 2011	1252.9	MYOB	Archer Capital; HarbourVest Partners; FLAG Capital	Bain Capital
Nov 2009	1116.2	Bellsystem24	Nikko Principal Investments	Bain Capital
Aug 2012	1000.0	Genpact	General Atlantic; Oak Hill Capital	Bain Capital; GIC Private
Aug 2012	1000.0	Akindo Sushiro	Unison Capital; company founder	Permira

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NEWS

GLOBAL

CalSTRS alters target asset allocation

The California State Teachers' Retirement System (CalSTRS) will recalibrate the long-term allocation targets of its $170 billion investment portfolio, placing greater emphasis on inflation-sensitive and illiquid assets at the expense of equities and fixed income. The pension fund's private equity target will increase by one percentage point to 13%. As of July 2013, it had $21.8 billion - or 12.8% of the entire portfolio - committed to the asset class.

ASIA PACIFIC

LeapFrog in $204m first close on microfinance fund

Specialist microfinance investor LeapFrog Investments has reached a first close of $204 million for its second fund after just eight months in the market. The vehicle, which has a full target of $400 million, will back companies in South Asia, Southeast Asia and Africa. Backers include insurers such as MetLife, Prudential, XL Group, Achmea, PartnerRe and Swiss Re.

Walkers adds to Hong Kong investment funds group

Offshore-focused law firm Walkers has appointed Mark Cummings as counsel in its investment funds group in Hong Kong. Cummings, who joins the firm from Appleby, advises private equity and hedge fund managers on establishing structures domiciled in the Cayman Islands and British Virgin Islands (BVI).

GREATER CHINA

CID Group raises $100m for Greater China fund

Taiwanese private equity firm CID Group closed its fourth fund - which focuses on Greater China investments - at $100 million, with half the corpus coming from the GP itself. CID Greater China Fund IV is substantially smaller than its 2010 vintage predecessor, which drew $400 million in commitments. LPs familiar with the situation told AVCJ that CID was targeting a similar amount for this fund. The PE firm manages more than $1billion in assets across three funds.

ADB to become GP, gets $200m from anchor LPs

The Asian Development Bank (ADB) is to turn GP to enhance its investment capability, with a pan-regional fund targeting climate change and renewable energy to launch next year. It has already received $200 million from anchor investors and will partner with a global financial institution in running the vehicle, which will target areas such as natural resources, agriculture, environmental services and other segments related to climate change.

ADB so far has invested directly in private sector projects or contributed capital to other GPs. In 2012, $1.76 billion went into projects while $7.74 billion of financing was approved. This includes a $25 million contribution to the $625 million Philippine Investment Alliance for Infrastructure (PINAI) Fund. It is jointly financed by ADB, Philippines' state-owned pension fund Government Service Insurance System, Dutch pension fund asset manager APG, and the Macquarie Group.

Toru Kubo, ADB's principal climate change specialist, told AVCJ last year that the there are lots of opportunities in Southeast Asia because it is a segment largely untapped. "However, the investment ecosystem doesn't really exist and there has been a vacuum in the venture capital space," he said.

Blackstone consortium reduces Pactera MBO offer

A consortium led by The Blackstone Group has made a definitive offer for Pactera Technology International that values the US-listed tech outsourcing firm at approximately $600 million. Existing investor GGV Capital is also participating in the bid alongside company management. The consortium is offering $7.00 per American Depository Share, a 33% premium to the May 17 closing price but lower than the $7.50 originally offered in May.

RRJ invests $100m in China property developer

RRJ Capital has committed $100 to Chinese property developer CIFI Holdings by subscribing to a senior notes issue. The Hong Kong-listed firm has raised $225 million in total, the remainder being placed with Citigroup, Standard Chartered, Deutsche Bank, HSBC and Haitong International. RRJ capital Master FUnd II is investing via Dalvey Asset Holding.

Temasek names Yibing Wu as China head

Temasek Holdings has named Yibing Wu as senior managing director and head of China. Wu is currently chairman and CEO of Goldstone Investment, the direct investment arm of China's CITIC Securities, and the president of CITIC Private Equity Funds Management. Wu, who will assume his new post on October 1, succeeds Ding Wei, who will take on an advisory role as senior director for China.

Chinese authorities detain ex-CDH executive

Gongquan Wang, founder of CDH Venture Capital, has been detained by Chinese authorities for alleged involvement of New Citizen's Movement, a civil rights group advocating greater transparency in government. Wang left CDH two years ago. Around 20 police came to Wang's apartment at around midday on Friday.

Fosun backs Italian luxury menswear brand

Fosun International, China's largest privately-owned conglomerate, has agreed to buy a 35% stake in Italian menswear brand Caruso. Much like Fosun's investments in other foreign brands, the plan is to support Caruso's expansion in China. The investment came about after Patrick Zhong, Fosun's head of global investments, was pleased with a suit he ordered from the firm.

Intel Capital, AsiaVest to make partial exits Montage

Intel Capital and AsiaVest Partners will make partial exits from Montage Technology Group when the China-based semiconductor manufacturer completes its NASDAQ IPO. Montage is on course to raise up to $99.4 million, offering 7.1 million shares at $12-14 apiece. It was originally targeting up to $115 million. Intel Capital will reduce its stake from 10% to 7%, while AsiaVest drops from 19.2% to 11.5%.

Shunwei backs China child education app

Beijing Shunwei Venture Capital, founded by super angel investor Lei Jun, has committed a Series A round of funding for Babybus.com, which develops educational apps for children. Details of transaction were not disclosed but the investment size is said to be less than $10 million.

NORTH ASIA

Orion to launch $250m Japan care homes fund

Hong Kong-headquartered Orion Partners, formerly known as Ajia Partners, is looking to raise as much as JPY25 billion ($250 million) for its third Japan care homes investment fund. The Ostara Japan Aged Care Real Estate Fund 3 will focus on acquiring existing senior living assets with a view to generating a net IRR of 12-14%.

Japan's Dogan closes Kyushu SME fund at $34m

Japanese GP Dogan Advisors has reached a JPY3.3 billion ($34 million) close on its latest regional fund, Kyushu BOLERO (Buyout for local enterprise and reform organization) Fund 2. The fund will assist small- and medium-sized enterprises (SMEs) in need of restructuring, providing the capital needed to reduce debt. It will focus on businesses in the Kyushu region.

Nissay Capital invests $1.9m in towel company

Nissay Capital has invested JPY199 million ($1.9 million) in Japanese towel maker, Ikeuchi Towel. The size of the stake acquired was not disclosed. Founded in 1953, the company is based in Ehime prefecture and specializes in making organic cotton towels. It claims to be the first Japanese company to manufacture all its products using wind power.

SOUTH ASIA

Toshiba buys 3i-backed Vijai's electrical unit

Japan's Toshiba Corporation will acquire the majority of Vijai Electricals' electricity transmission and distribution (T&D) business for approximately $200 million. 3i bought a minority stake in Vijai for $25.8 million in 2006. The T&D business generates annual sales of $250 million, with products including transmission transformers, switchgearr and power transmission lines.

TPG invests $23m in Sutures India

TPG Growth has acquired a minority stake in Bangalore-based surgical equipment maker Sutures India for INR1.5 billion ($23.5 million). Sutures manufactures medical products like absorbable and non-absorbable sutures, eyeless needles, surgical meshes, bone wax and disposable surgical gloves. Its products are exported to over 91 countries in Europe, South America, Africa and Asia.

PE-backed Endurance International to bu Directi

Endurance International Group, a US-based web hosting services provider controlled by Warburg Pincus and Goldman Sachs, has agreed to buy Indian online services firm Directi Web Technology for up to $110 million. Endurance announced the acquisition when it filed to raise up to $400 million through a NASDAQ IPO. A portion of the proceeds will be used to cover the acquisition costs.

India's Tata Capital to launch $300m Africa fund

Tata Capital plans to launch an Africa private equity fund with initial capital of about $300 million. It will focus on consumer goods, agriculture and agri-processing. Ashutosh Tyagi, senior vice president at Tata Capital, told the Press Trust of India that fund would also look to invest in energy, light manufacturing and financial services.

Healthcare chain Glocal gets $4m from SIDBI VC

SIDBI Venture Capital has invested INR250 million ($3.93 million) in Glocal Healthcare Systems, which operates multi-specialty hospitals in semi-rural parts of East India. The investment was made from the INR3.5 billion Samridhi Fund, which is backed by the UK's Department for International Development in association with Small Industries Development Bank of India (SIDBI), and provides capital to social enterprises.

SOUTHEAST ASIA

Khazanah exits Time Engineering stake for $21m

Malaysian sovereign wealth fund Khazanah Nasional has sold its entire stake in local IT firm Time Engineering (TEB) to Censof Holdings for RM69.8 million ($21.3 million). TEB provides solutions for e-commerce, cyber security and integrated intelligent infrastructure. It ended the first half of its 2013 financial year with an EBITDA of RM14.02 million and pre-tax profit of RM7.08 million.

Australia's Wolseley targets $279m for Fund III

Wolseley Private Equity is targeting A$300 million ($279 million) for its third fund, which will invest in small to mid-size privately-owned businesses in Australia and New Zealand. The GP expects to see considerable opportunities in this space as founders from the baby boomer generation approach retirement and struggle to identify successors capable of taking over their businesses.

The strategy is similar to that of Wolseley's second fund, which closed at A$235 million in

June 2008, targeting a combination of buyouts and growth capital as well as succession planning and industry consolidation opportunities. The firm's first fund, raised in 2005, received commitments of A$107 million.

Richard Burrows, a director at Wolseley, said that Fund III would seek to invest in six companies with enterprise values ranging from A$30 million to A$120 million. To come under consideration, companies must also be generating A$7-15 million in annual EBITDA. "That is where we see the greatest opportunity," he told AVCJ. "A lot of privately-owned Australian companies are in this segment and many of them face succession challenges over the next 5-10 years."

Overseas investors accounted for approximately one quarter of the Fund II corpus and Wolseley expects this share to increase for Fund III, in line with industry trends. Over the last 2-3 years the firm has been building relationships with international LPs.

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Finding an angle

China has seen a proliferation of niche funds in recent years as GPs try to stand out from the crowd with differentiated strategies. Are investors – institutions, individuals or governments – buying into the story?

THREE YEARS AGO, YUNNAN HONGFU Venture Capital, the first independent VC firm in southwest China's Yunnan province, launched its debut fund. The target: funeral services.

Expecting to see a wealth of investment opportunities following a local government pledge to improve funeral services quality, Yunnan Hongfu hope to reach a RMB$200 ($32.7 million) first close within 182 days. It would then invest in 40 small to medium-size funeral parlors and graveyards over the next three years.

After 160 days in the market, the VC firm scrapped its fundraising plan for lack of interested LPs.

Yunnan Hongfu's aborted vehicle would qualify as a niche fund, albeit an extreme example of one in the context of Chinese private equity. These funds usually focus on particular sub-segments of the healthcare, consumer and financial service sectors. Technology also comes into it. While IDG Capital Partners' broad China tech vehicles couldn't be described as niche, the mobile internet-focused "mFund" it set up with Hong Kong-listed gaming developer NetDragon Websoft probably could.

There has been a proliferation of specialist funds in China over the last 2-3 years, certainly compared to other parts of Asia, according to industry participants. This is essentially a function of the difficult fundraising environment.

Only $4.8 billion in capital entered renminbi-denominated funds in the first half of 2013, down from $15 billion in the same period one year ago. The situation has also been fraught on the US dollar side, with $1.8 billion committed between January and June of 2013, extending a general downward trend that dates back to 2011.

While many GPs are also struggling in other parts of Asia, China's problems are exacerbated by IPO uncertainty. Once the source of almost guaranteed stellar returns, the public markets are currently closed to new issues and even when they re-open the queue will be long and exit valuations are likely to be a shadow of their former selves. Fund managers must therefore offer more to investors than just a multiples arbitrage strategy. A niche approach could help a manager stand out from the crowd.

"Niche players are trying to differentiate themselves from generalist funds," says Frank Han, executive director at Bohai Industrial Investment Fund Management. "Smaller size fund houses lack the resources to source deals in every single industry. It is easier for them to market funds designated to a specific investment area. How these niche strategies perform and whether they appeal to investors remains to be seen."

Emphasis on expertise

Needless to say, a niche strategy is pointless if not backed up by genuine operational experience and deal access in a particular segment that convinces investors of a competitive advantage.

Real estate makes for an interesting example. Specialization takes many forms: residential property in a specific geography, a focus on hospitality, and even strategies devoted entirely to car parks. China Resources Capital (CR Capital), the financial services arm of state-owned China Resources Group, has established itself as an early market leader in the latter segment. Hong Kong-based Limetree Capital has since followed suit, launching its own fund aimed at addressing the country's lack of parking spaces.

> "Some GPs set up specialized funds simply because a local government wants to promote a specific industry" – Dayi Sun

CR Capital started principal investment in 2008 with capital from its parent company. It formed a specialist team responsible for deal sourcing, as well as developing and managing car parking space in several Chinese cities, including Chengdu, Chongqing, Tianjin, Shenyang, and Nanjing.

"Originally we didn't have the opportunity to acquire these kinds of businesses, given it is quite new in China – there were little or no investors or developers just a few years ago. So we sourced deals mainly from local governments, and then we constructed the car park buildings, which were managed and operated by our team," says Derek Cheng, managing director at CR Capital.

Earlier this year, CR Capital partnered with Dutch pension fund asset manager APG to establish a $265 million car parking vehicle, known as the Resources Urban Car Park Investment Partnership. Other strategic investors include Macquarie Capital and Asia Pacific's leading car park manager and operator Wilson Parking Hong Kong.

Certain seed assets, including a few thousands car parking berths developed by CR Capital, will be injected in the vehicle. After that it will source additional deals from the market. Returns will come in the form of parking fees and land appreciation, with are projected to deliver annualized growth of about 14%.

For their part, industry specialist Wilson Parking and AGP Capital – which has previous exposure to car parking assets in Europe and the US – will be expected to contribute knowledge and expertise that supports the management of these assets in China.

Cheng hints the firm will continue exploring niche strategies in this sector, with senior housing and student accommodation among the potential targets. "There are companies investing in senior housing now, but their business model hasn't been well-developed. Investors need time to explore how to make a profit out of this kind of investment in China. There is high demand for emerging quasi real estate assets," he says.

The consumer sector has also emerged as a popular specialist play. L Capital Asia is arguably the poster child in this space, having reached a first close earlier this month on its second regional fund at the institutional hard cap of $950 million. The invest in the same areas as its predecessor: consumer products, including fashion, leather goods and jewelry; beauty and wellness; lifestyle and food and beverage; and select retail and distribution assets.

If L Capital is best described as a sector-focused GP, China Telescope Investments certainly has a niche feel. The Telescope Consumer Growth Fund I, which is co-managed by SAIF Partners, targets retail and chain stores.

This strategy – investing in a single business model across the consumer sector – is rooted in the founder's experience, with Yucun Du's family

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having previously run Chinese hypermarket chain Home World Group. Strategic investors in the fund include other chain store entrepreneurs who can advise portfolio companies.

Niche exits: Who's buying?

The basic premise of a niche fund is that a manager with experience and expertise in a particular segment can identify and cultivate a highly concentrated but lucrative set of investments. Does this mean the exit pipeline is similarly narrow?

The answer depends on the nature of the assets. Funds focusing areas such as art and wine have little option but to sell through an auction process. Where the investment targets are companies, however, the standard exit routes of public listings and trade sales apply.

For example, China Bright Stone Investment, which has partnered with the Guizhou provincial government to launch a tourism fund, is expected to invest in a basket of tourism-related companies. Exits might come through sales to entities tied to the niche fund's government backer. In July, IDG Capital Partners exited travel agency Tongxiang Wuzhen Tourism Development to the investee's parent company, CYTS Tours Holding, for $67.5 million. The initial investment, in 2009, was encouraged by the local government as a means of promoting the tourism industry.

For real assets, exits could also be made to institutional investors looking for stable cash yields. China Resources Capital (CR Capital), which has established a $265 million car parking vehicle, known as Resources Urban Car Park Investment Partnership, sees domestic insurers as potential buyers. According to Derek Cheng, managing director at CR Capital, several leading insurance companies in Shanghai have already expressed an interest.

"Traditional private equity real estate funds cannot fully digest their investment capital. They are facing investment pressure and to some extent they are prohibited from investing in the residential development market," he says. "So they are looking to real assets such as infrastructure. Car parking is also another type of asset class they can invest in."

Local government agendas

In the US dollar-denominated fund universe, vehicles are specialist rather than niche, often with a focus on healthcare, cleantech, biotech and energy. Most truly niche offerings exist in the renminbi space and many are formed for reasons that go beyond providing LPs with a differentiation story.

There are two primary factors. First, opportunities created by larger enterprises wanting to spin-out business units under independent funds, classified as market-oriented vehicles driven by investment returns. Second, piggybacking on local government policies and winning state backing for funds managed by professionals who claim to have operational experience in niche areas.

"Some GPs set up specialized funds simply because a local government wants to promote a specific industry. We see this as a marketing strategy for raising capital," says Dayi Sun, managing director at fund-of-funds Jade Invest.

China is awash with specialist industrial funds targeting everything from financial services to culture and media.

In July, China Bright Stone Investment partnered with the Guizhou provincial government to launch the country's first tourism-focused fund, targeting up to RMB30 billion. The vehicle, Wuling Mountains travel industry investment fund, will mainly invest in Guizhou's Wuling Mountains tourism areas. Commitments are being sought from state-owned banks, the National Council for Social Security Fund, insurers and listed companies.

China Fortune Link Fund Management, meanwhile, has rolled out a RMB100 million ($16.3 million) venture capital fund to invest in Qinghai, a province located in China's far northwest. It wants to partner with the local government to launch VC funds that support potential start-ups in the region.

Industry participants are skeptical as to whether Fortune will keep its promises to invest in Qinghai, with some suggesting the fund is just an excuse to win subsidies from the local government but invest in more developed regions that are richer in opportunities. Questions are also asked of Bright Stone, and whether it will really help boost Guizhou tourism industries. Similar vehicles have been used by PE players to win approval for land acquisitions and real estate developments.

The Shanghai Financial Fund, managed by GP Capital, was the largest renminbi fund raised in 2011, reaching a $2.9 billion first close. However, market sources say only half of this capital was actually invested in the financial sector.

Sun says he examines specialist funds closely before commiting, noting that they haven't necessarily outperformed generalist vehicles.

"There are certain criteria to evaluate an industrial fund performance," he adds. "Firstly, do the investment managers have the relevant industry expertise and will they deploy capital in these particular areas? Secondly, are they able to raise capital from institutional investors rather than through local government subsidies? We are more convinced it is a sustainable business model if they are able to do this."

The demand side

Niche funds comer with a high concentration of risk, while a generalist fund offers investors more exposure to different regions and industries. Niche managers therefore tend to be selling a particular theme or story, and the chances of an LP buying into largely depend on that investor's origins and criteria. A North American LP with broad exposure to Asia, for example, might be unwilling to take the strategic risk.

"US endowments may only allocate to 1-2 funds in Asia each year. They will often opt for generalist funds to provide them with more diversification and gain broader exposure," says Vincent Ng, a partner at Atlantic-Pacific Capital. "However, it also depends on whether or not the investor has had a longer and more developed program in China and Asia as a whole. Niche fund strategies might be part of efforts to increase and deepen exposure in Asia."

The appeal of CR Capital's car parking vehicle to APG might have been the nature of its returns – these are real assets that generate stable cash yields. High net worth individuals and family offices, meanwhile, may be drawn to more alternative strategies like wine and art funds.

However, Ng's view is that most overseas institutional investors still view specialist blind pool equities funds as too niche for their liking. It is therefore hard to see some of these managers being able to scale to a very large size.

Enrique Cuan, managing partner at placement agent Mercury Capital Advisors, echoes these sentiments, noting that while an LP in the US or Europe may have the flexibility to invest in a financial services, healthcare, or energy fund in its home market, appetite for these sectors in Asia is still nascent.

Some niche strategies will prove sustainable – either as fully independent US dollar vehicles or renminbi funds that develop a following beyond local governments offering subsidies – and appetite for the asset class may pick up in other parts of Asia as exposure to the region grows. For now, though, the vast majority of LPs are still quite conservative.

"There is a lot of talk about frontier markets, sector funds, and new asset classes but the reality is that 80% of the capital invested in Asia is concentrated in about 20 funds," Cuan adds.

26TH ANNUAL

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PRIVATE EQUITY & VENTURE FORUM

12-14 November 2013
Four Seasons Hotel, Hong Kong

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Head of Asia
AUDA


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Managing Director
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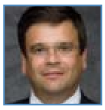
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The Silicon Harbour

Hong Kong is touting itself as Asia's next great tech start-up hub. It must first address expensive real estate, the role of government as facilitator, and strategic positioning vis-à-vis mainland China

THERE ARE FEW THINGS THAT ILLUSTRATE the growing convergence of online and offline commerce as well as Snaptee. Launched this month, Snaptee is an iPhone app that allows users to design a T-shirt in the palm of their hand – in a matter of seconds – and then have it printed and delivered.

"Snaptee is almost the poster child of what I see as a trend in Hong Kong," Adam Lindemann, managing partner of Hong Kong-based Mindfund, tells AVCJ. "It is the intersection of mobile apps and making stuff, and it takes advantage of all Hong Kong's strength."

The Hong Kong-based company behind the app – which received $600,000 of seed funding in February – was started by Wai Lun Hong and Gary Lee, the founders of Hong Kong daily deal website Gobuya. Snaptee was name-dropped by more than a couple of investors attending The Indus Entrepreneurs (TiE) Investors' Forum last week as one of the start-ups leading the way in Hong Kong's emergence as an entrepreneurial hub.

Lindemann is one of a handful of early-stage investors to have put their faith in Hong Kong's burgeoning venture capital industry, having recently moved over from Japan. He is not alone in his optimism.

The TiE event, the first of its kind organized by the Silicon Valley-based entrepreneurs' network in Hong Kong, played host to several angel investors, venture capitalist and government officials keen to tout special administrative region as a draw for a plucky young entrepreneurs with big ideas – a "Silicon Harbor."

The question is how much is hype and how much is reality. If a start-up scene is to take root in Hong Kong, will it bear any comparison to Silicon Valley?

Hype or reality?

Anecdotal evidence suggests more entrepreneurs are considering Hong Kong, followed by the investors willing to back them, but it seems this has yet to translate into meaningful deal flow.

"One of the biggest problems is perception," admits Simon Galpin, the director general of InvestHK, the Hong Kong government agency responsible for promoting foreign direct investment. "Everyone knows Hong Kong is a great place for multinationals, and a great regional base, but publicity around the fact we have some of the highest office costs in the world creates the impression that Hong Kong is only for the big guys."

Indeed, a recent report by real estate consultancy CBRE still ranks office space in Hong Kong's Central District as the most expensive in the world, costing $235.23 per square foot annually. This compares to $194.07 per sq ft in Beijing and $161.16 per sq ft in Tokyo. It is also more than double that of Singapore – $99.65 per sq ft – another emerging start-up hub.

> "It needs to be completely market driven. You need to ask yourself what is the role of the Californian or US government in the success for Silicon Valley and the answer is that there isn't any"
>
> – Chris Evdemon

One way this problem is being addressed is through the proliferation of co-working spaces, the first of which – BootHK – launched in 2011. Some of these spaces fit the mold of a typical incubator or accelerator program in the US or elsewhere in Asia where start-ups are provided with capital and mentorship in exchange for an equity stakes. AcceleratorHK or Softlayer are examples of this.

A great many, on the other hand, simply provide working space as way for start-ups to reduce real estate costs, while providing the opportunity to connect with other entrepreneurs. These include the likes of Hong Kong Commons, The Good Lab or Innovation Labs where a desk or office can be rented cheaply on an hourly, weekly or monthly basis.

"With the availability of co-working spaces the argument that Hong Kong is too expensive for start-ups is really out the window," says Tytus Michalski, managing director of early-stage fund Fresco Capital Partners.

However, some still question the merits of locating in Hong Kong over somewhere like Singapore or Beijing. The region's proximity to mainland China has been both a blessing and a curse. When compared Singapore or Tokyo, for example, Hong Kong is arguably better placed for start-ups taking advantage of China as a manufacturing base and as a consumer market.

Snaptee already outsources T-shirt printing to mainland partners. Arkologic, a maker of solid state data storage devices, which was founded in 2010 and incubated at Hong Kong's M-Lab, makes use of its proximity to China in other ways – it is on the doorstep of the world's largest IT market but also runs its quality assurance functions out of Hangzhou.

This is cost-effective but it also begs the question: Why not just go to China?

"Hong Kong may be unique in being situated right next to the mainland, but that also means the vast majority of the talent, resources and focus is going to be found there," says Chris Evdemon a partner at Beijing-based incubator Innovation Works. "So there is the concern that by comparison not a lot of people are going to take Hong Kong seriously."

At least three cities in China claim Silicon Valley clones of their own. Shenzhen has Nanshan district, home to internet giant Tencent Holdings. In the north, Zhongguancun, part of Beijing's Haidian District, has been recognized as technology hub since the 1980s when it spawned the likes of Lenovo and Chinese tech conglomerate Founder Group. And Shanghai can point to Zhangjiang Hi-Tech Park, which has a strong pedigree for R&D in life sciences, IT, semiconductors and software.

Not just a China angle

Unsurprisingly then, many Hong Kong advocates are eager to downplay the region's connections to rest of China in favor of its global credentials. Fresco's Michalski is of the opinion that to emphasize Hong Kong as a gateway to China misses the point.

"I don't see Hong Kong as a gateway to China, I see it as a global city," he says. "I am a firm believer when I say we shouldn't dilute Hong Kong by saying it is only about China – if you have a China-focused business you don't have to be in Hong Kong. Where Hong Kong differentiates itself is as a global platform."

The argument follows that Hong Kong offers better access to multinationals that can serve as investors and customers to start-ups. Doug Glen, a Hong Kong-based angel investor and an early backer of Arkologic, takes it a step further, noting that start-ups can leverage the region's strong financial services sector. Glen has also invested in Aidyia, which builds artificial intelligence to make predictions on the financial markets.

"Hong Kong is never going to be what Silicon valley is in chip design," he says. "But it could be leading entrepreneurial center for financial high tech, particularly in the booming Asia market."

Wherever Hong Kong start-ups focus their energies there are still questions over the role of government. Should it replicate the model in places like South Korea and Singapore where the government is heavily involved?

As the state-backed champions for Hong Kong's start-up scene, InvestHK has so far limited its functions to helping companies and investors by giving advice and facilitating links in the business community. The agency does not offer capital itself and has been keen to differentiate itself from other, more hands-on, government programs.

"Hong Kong's strength is in not trying to coral or shepherd particular groups of start-ups into projects," says Galpin. "For us it is about supporting and joining the dots, so entrepreneurs coming to Hong Kong can quickly understand what is available to them, how they can go about it and where they can get support."

So far government support has included InvestHK launching its StartmeupHK Venture Program in July. Around 380 entries were received from within Hong Kong and across the globe. Twelve of these will be selected to participate in StartmeupHK Week in December, where they will get access to potential business partners, capital and marketing opportunities.

They will also compete for free advisory services as wells as complimentary work and retail space provided by sponsors and program partners.

Light touch credentials

"There are people in Silicon Valley who talk about the rainforest rather than the paddy field," says Galpin. "We are of the view that it is better to work with individual entrepreneurs, understand what they need and then try to provide them with solutions to make sure that, when they do set up, they are as successful as they can be."

This approach contrasts sharply to Singapore where the likes of Temasek and GIC Private have backed numerous incubator and accelerator programs as well making direct investments into companies. In Hong Kong, however, while government support is welcome to a point, many say the light-touch approach is more effective

"The government can have a role in jump-starting an ecosystem, but too much involvement is a bad thing to my mind," says Innovation Works' Evdemon. "It needs to be completely market driven. You need to ask yourself what is the role of the Californian or US government in the success for Silicon Valley and the answer is that there isn't any."

In this vein, many industry participants maintain that the Hong Kong can only become a start-up hub by nurturing an entrepreneurial culture from the grass roots, with individual investors and companies leading the way.

"There is no amount of money you can deploy that can create a Silicon Valley ecosystem," says Glen. "But where you have a virtuous combination, such as good universities, engineers and mentors, little by little you will have the critical mass needed to create an entrepreneurial hub."

Ironbridge's creative liquidity solution

STAPLED SECONDARIES AND GP restructurings have become common parlance as Asia's private equity investors grapple with a challenging fundraising environment, even though talk still overshadows action. In each case, new investors come in to replace old, creating much needed liquidity for funds nearing the end of their lives – and providing impetus for future capital raising efforts.


Ironbridge: Creating liquidity

Somewhat uniquely for the region, Ironbridge Capital is offering a combination of the two.

The Australian GP has set up a new vehicle to absorb the remaining assets in Funds I and II, estimated to be worth around A$600 million ($556 million), with existing LPs given the choice of rolling over their positions or exiting. Those that opt to participate are also being asked to contribute to a A$250 million fund that will make fresh investments.

"It's a smart move on their part," an LP familiar with the situation told AVCJ. "They were seeing a lot of secondary activity in their funds anyway, and instead of not getting anything from this activity, they have turned it into a GP restructuring and are looking to get more primary capital. If they came back to market with a primary fund now it would be difficult to raise – this way they get some money time and some more money."

Time is important to Ironbridge because the firm's problems, according to investors, are largely focused on its debut fund.

The A$450 million vehicle, which reached a final close in September 2004, engaged in buyouts at the peak of Australia's boom market and several portfolio companies struggled during the global financial crisis that followed. Yacht manufacturer Riviera entered receivership in 2009; Barbeques Galore and Super A-Mart, were merged under an entity and then partially exited at a loss to Quadrant Private Equity last year.

The second fund, a 2006 vintage vehicle with a corpus of A$1.05 billion, is in much better health. If Ironbridge is able to fully exit Fund I and show further progress on Fund II – 7-8 investments have yet to be realized – then another, larger fundraise a couple of years down the line would likely be better received. Three of four exits are expected this year, the LP said.

This approach has been employed in the US, but as far as AVCJ can tell, never in Asia – although there have been some variations on the theme. Farallon Capital Management, for example, previously offered an exit to hedge fund LPs with exposure to the illiquid side of its business in Asia by setting up a new vehicle to acquire the existing assets. Apparently there were few takers at the proposed price.

Earlier this year, Advantage Partners closed a JPY20 billion ($200 million) bridge fund intended to help the Japanese GP win back investor confidence following a trouble-hit fourth fund. Like Ironbridge, there was a sense that Advantage would struggle to raise a full-size fund; instead the GP plans to return to market, its reputation restored, in 12-18 months time.

MOPE raises $155m India growth fund

MOTILAL OSWAL PRIVATE EQUITY (MOPE) opted for more of the same when raising its second growth capital vehicle – India Business Excellence Fund (IBEF) II – remaining focused on domestic consumption, financial services, healthcare, manufacturing and infrastructure services.

The INR5.5 billion ($125 million at the time), 2007 vintage IBEF I has returned 40% of capital to investors so far, from deals such as part exits from non-banking finance company AU Financiers and dairy Parag Milk Foods. This performance helped bring in institutional investors to raise more than 50% of the $155 million follow-on fund, which launched in July 2011 and closed this month.

"What we have exited in terms of cost is just 10% of our investments. A lot of exits are at various stages and we hope to achieve a few exits in the next 6-12 months," explains Vishal Tulsyan, managing director and CEO of MOPE.

The first fund was raised largely from family offices and high net worth individuals (HNWIs), but second time around 70% of the $105 million raised from international investors is institutional money – including Squadron Capital and the International Finance Corporation.

The deal size has also changed, up from $6-13 million to $8-20 million, which Tulsyan says is in line with the growth of the economy. "Since the first fund was raised in 2007, the size of the economy has more than doubled and so has the size of mid-market companies. Increasing the fund size by around one third is a function of that," he explains.


India: Growth opportunity

IBEF II will take significant minority stakes in 12-15 small and medium-sized enterprises (SMEs). More than two thirds of the fund capital will go to consumer, financial services and healthcare companies, while the rest will be invested in sectors such as manufacturing.

The first three are defensive sectors linked to growing consumption and discretionary spending, which is why they have found favor with PE investors, resulting in rising entry valuations. In this regard MOPE has the advantage of its parent Motilal Oswal group, a diversified financial services provider that can help the GP scout for transactions.

"The institution has helped us tremendously in terms of our ability to reach a large number of independent financial consultants who are a source of deal flow for us. It's also helped us extend our reach to tier-two and tier-three cities," Tulsyan says.

A INR350 million investment by IBEF II in Intec Capital was sourced through such channels in March and efforts are country underway to take the company private. Another INR350 million has been committed to Magicrete Building Solutions, a Surat-based manufacturer of autoclave aerated concrete (AAC) blocks.

"These blocks are replacing traditional bricks in construction and we've seen a huge growth in terms of demand. It has seen compound annual growth of more than 50% and this is expected to continue for the next 5-10 years," Tulsyan elaborates.

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Investors book passage with Tuniu

MOST TRAVEL E-COMMERCE COMPANIES in China are essentially search engines that provide information on hotel and flight bookings plus a payment mechanism. The team at Tuniu opted for a different tack, focusing specifically on packaged tourism, and they have established themselves as one of the biggest players in the segment.

Tuniu provided over 40,000 tours to more than 3 million visitors in the first half of this year, and it has the potential to grow further as China's online travel industry continues to develop rapidly. Last year, market transaction size exceeded RMB170 billion ($28 billion), with an annual growth rate of 30%, according to iResearch.


Tuniu: Tailored travelling

Investors appear to be convinced by the Tuniu story. The latest round of funding, led by Temasek Holdings, is worth $60 million, of which $10 million comes from DCM. It brings total investment in the company to around $123 million. Gobi Partners backed Tuniu's Series A round in 2008, with DCM entering in the second round. The Series C saw Highland Capital Partners, Sequoia Capital and Rakuten join the investor roster.

When the company launched in 2006, group booking and package products was a more complex, under-exploited segment typically served offline by tourism agencies. Since most Chinese tourists still prefer to travel in groups instead of just hopping on a flight to a vacation destination, Tuniu decided to list those products online and provide lead generation to the offline tour package companies.

Hurst Lin, partner at DCM, says the company now has enough purchase power to come up with its own branded tour products. "What's different now is that it is reaching into supply chain and is more involved with the upstream supply chain," he explains.

For example, the funding will help diversify the service to offer a list of tour components that users can mix and match to personalize their tours. But a lot of customers need to sign up to for each attraction and hotel that goes into the package and this requires scale. Once there is a certain level of demand it brings the cost down.

"Tuniu is raising more money so it can scale up enough to drive down the cost of these tour packages and more travel agencies will list their products on the platform," Lin adds.

As the business evolves to a hybrid model, it will work to identify trends in customer preferences with its business operation supporting system. The technology provides database analysis to understand what customers are buying and adjust offerings to meet demand.

A wider choice for also means attracting more tour suppliers and increasing the number of departure cities and destinations it offers. "We continue to add cities based on where we see the demand. Our destinations are places Chinese are fond of going and if they want to head to out-of-the-way places like Scotland or Iceland, we'll add those destinations," Lin says.

Kravis on Asia

KKR co-founder Henry Kravis recently briefed a group of reporters on his firm's investment strategy in Asia, offering glimpses of a business that is rooted in private equity yet stretches well beyond it

Henry Kravis was speaking alongside Joe Bae, KKR's Asia managing partner, and Ken Mehlman, the firm's global head of public affairs. They touched on a wide variety of topics, including: the deployment of KKR Asian Fund II, at $6 billion, the largest private equity pool ever raised in the region; the importance of credit solutions to counterbalance emerging Asia's underdeveloped capital markets; expectations for Japan in the wake of the Prime Minister Shinzo Abe's economic reforms; and the increasing attention paid to environmental and social governance. These are excerpts of Kravis' comments.

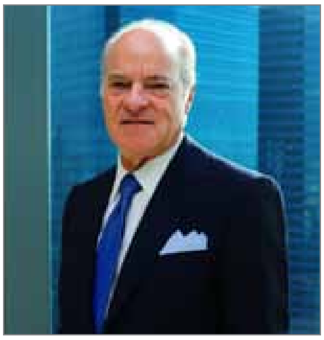
On KKR's private markets, public markets and capital markets strategy…

You take all of that and wrap it up and we like to think of ourselves as a solutions provider. How can we help a company accomplish what it needs to accomplish? Years ago anyone of us at KKR would meet a CEO and the first question we would typically ask was, 'Is your company for sale?' And if the answer was no, we didn't have a lot to talk about. Today it is reversed. We go in, learn about the company, the needs of the management, and how we can be helpful to them. That may mean we re-do their capital structure; it may mean we provide some debt capital where they can't get it today because the banks are cutting back and funding is not as plentiful as it was before; it may be taking minority positions in equity; or they may want to make an acquisition but don't have the wherewithal of available capital to do what needs to be done.

On the investment climate in Asia…

If you believe everything you read, India is going down the tubes, China is going down the tubes, and so on and so forth. This is all part of countries becoming more mature – a normal part of a long cycle. Trees never grow to the sky, there are always going to be some setbacks. George Roberts and I have always believed that you can make your best investments when you go against the tide. If you have conviction and you believe in the fundamentals for the long term you can do very well. We are not interested in making those pre-IPO investments and hope the company goes up and we get out. We are making long-term investments. Our average holding period at KKR has been about 7.5 years for the last 30 years. When you take the long view – that we can bring operating expertise and experience to bear – and multiples are down, this is a terrifically interesting time for us.

> **"They say, 'I will put up the stock as a collateral package and borrow against it.' That's perfect – we'll lend right into that and we are very happy to do it as long as we have experience with the promoter"**



On the size of KKR Asian Fund II…

To us it's not a question of large fund, small fund. When you have a larger fund you have a lot more flexibility to invest in smaller companies and in larger companies. The important thing is can you find companies that make sense and you have the wherewithal to get a transaction done. We were able to buy [Korea's] Oriental Brewery during the financial crisis. We were not the highest bidder but the seller, InBev, knew we could get a financing done. They knew we had the capital, we could speak for it, and that gave us a huge advantage. We didn't have to go out and find six partners in order to put it together.

On India as a template for credit solutions in Asia…

Most of the companies in India are family-controlled and there is a holding company and shares in their different companies. They will finance against those shares as they want to make other investments or if they need some liquidity themselves. But they don't want to sell. They say, 'I will put up the stock as a collateral package and borrow against it.' That's perfect – we'll lend right into that and we are very happy to do it as long as we have experience with the promoter. I think over time you will see these capital markets in Asia build out, but they aren't there yet.

On the prospects for Abenomics-enlivened Japan…

I think they are going to get there. Whether they will get there in full or not remains to be seen, but they will clearly make progress. I think what finally has happened – and I have been saying it now for several years – is you see some shoots coming up. Certain companies in Japan are being much more flexible, are thinking about non-core assets, saying, 'Between Korea and China we are losing our stature, we are not important as a company, we have to change.' They are still a long way away from proving this is working but we are seeing more signs that companies want to do the things that are necessary to reposition themselves to be much more competitive. We are seeing more potential activity today than we have ever seen. And it's a positive kind of traction.

On the growing importance of environmental and social governance (ESG)…

We made an investment in Modern Dairy that solved a problem in China after the melamine scare and we were able to build out farms, build out dairy stock and have an off-take venture with Mengniu Dairy. That was huge. It was huge for the government in China; it was huge for institutional investors that we deal with. We did the same thing in China with United Envirotech, which is a clean water and waste water recycling business. It ties into our ESG focus. These are the kinds of questions that our institutional investors are focused on. And that's new. It used never to be a question.

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Enter the dragon

Since arriving in Hong Kong in 1986, AIF Capital's Peter Amour has witnessed the emergence of China and the ups and downs of Southeast Asia, enjoying some of the opportunities that have come with it

"IT WAS A FASCINATING PLACE," says Peter Amour, CEO of AIF Capital, recalling Hong Kong in the mid 1980s. "Anyone involved could see firsthand the impact of China opening to the migration of manufacturing across the border, the opening up of trade flows and the emergence of the tigers in Southeast Asia."

Amour had the privilege of witnessing this evolution from a number of different vantage points: as a lawyer, as a corporate advisor with an investment bank, as vice-president of one of Asia's largest animal feed producers, and finally as a private equity investor.

The road to his first job in finance, with Standard Chartered Bank, began in 1979 when he was still a student at the University of New South Wales taking a dual degree in accounting, finance and law. "It was very early on so there were very few commercial trips to China," recalls Amour. "I did a big tour and I saw even then there were going to be a lot of changes and I wanted to be a part of it."

The trip had made enough of an impression that in 1984, after two-and-a-half years practicing law in Sydney, Amour returned to China to take up a scholarship at Shanghai's Fudan University. From there he joined Baker & Mackenzie, first in Shanghai and then in Hong Kong. He didn't turn back.

Agri angle

One Amour's first clients was Standard Chartered Asia, and after advising the bank on a number of deals he joined full time in 1987. While there he became involved with Thai agri-business Charoen Pokphand Group (CP Group), one of Asia's largest animal feed and chicken producers, and the first company to go public in Hong Kong with a large part of its business in China.

Following the listing, CP went on the acquisition trail and was looking to raise more capital. Through his work with Standard Chartered Amour got to know the company well and in 1990 he was offered a position as vice president with the firm's finance group in Hong Kong.

"I jumped at the chance," he says. "It was a great opportunity and even back then they were a major investor in China and had a very large set of business activities spread over the agriculture and industrial sectors."

Amour stayed in role for nine years and took part in more than 150 transactions in sectors as diverse as food and beverages, agriculture, telecom, power, industrial manufacturing and logistics. He also handled the major debt and equity financing requirements of the firm's Hong Kong-listed entities.

"I did a big tour and I saw even then there were going to be a lot of changes and I wanted to be a part of it"

"Even then it was still very much the early days of China opening up so the challenge was getting a grip on the dynamics of the local market and the potential that was out there," says Amour. "It was a less sophisticated environment than today, so it was all about educating the market and financiers of the opportunity that was there."

During this period, he participated in another IPO first when CP Group listed subsidiary Ek Chor China Motorcycle on the New York Stock Exchange in 1993. It was the first non state-owned enterprise affiliate with all its business in China to debut on the US bourse.

Amour then left CP Group in 1997 to start his own business and co-founded Axia Capital Partners, a boutique investment advisory. His first client was AIF. "The Asian financial crisis had occurred and AIF – because it was a regional fund and had assets in the Philippines, Indonesia and elsewhere – had some challenges in the first fund portfolio," says Amour.

Among Axia's other mandates was the $100 million Hong Kong-listed Shanghai International Shanghai Growth Fund, which was sponsored by Temasek Holdings, the Shanghai municipal government and Taiwan's Kwang Hua Securities. The firm also advised a large US corporate pension fund on a $100m private equity investment fund targeting Hong Kong, China and Thailand.

Amour was eventually invited to join AIF as COO in 2002, becoming CEO a year later. The firm had been focused on infrastructure was been working through its first fund, Russell AIF Asia, which closed in 1994. The successor fund, which closed at $100 million in 2001, saw a shift in strategy.

"What became clear was that opportunities for us then were not so much doing large infrastructure projects but focusing on more growth capital opportunities in Asia," explains Amour. "In the early 1990s in emerging Asia there was a need for infrastructure investment but once that had been laid by the early 2000s we saw the emergence of mid-cap companies looking to take the advantage of this infrastructure and they needed capital."

Expansion and integration

Fund II identified three major investment themes: the emergence of the middle class, the growth of manufacturing across Asia, and regional integration through cross-border expansion. More than 10 years and two funds later – AIF reached a final close of $315 million on AIF Capital Asia IV last November – the change of strategy seems to have paid off.

Notable investments have included: Singapore global agri-products supply chain manager Olan International in which AIF was the first PE firm to invest before it went public in 2005; YES Bank, one of the most successful Indian banks of the last decade in which AIF invested $3.2 million for a 7.5% stake in 2003; and Bharti Infratel, the Indian telecoms infrastructure subsidiary of Bharti Airtel, which received early backing from AIF before it raised around INR4.17 billion ($763 million) last December in what was India's biggest IPO in two years.

"We have been doing this across Asia for the last 20 years so the network of portfolio companies we have worked with is very strong," say Amour. "The last decade has seen the range of businesses out there and sophistication of the management teams improve and we are very excited about the next decade because growth and Asian integration will only continue."