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A story that sells

ONE OF THE OBSERVATIONS MADE IN

last week's Australia-themed viewpoint was that private equity fundraising tanked in 2013, although there was a caveat.

Yes, GPs attracted commitments of just \$800 million, half the previous year's total. And yes, it was the lowest level since 2009. But, the article added, the market lacks depth. Only 19 funds – and 11 managers – have ever crossed the \$400 million mark. There are probably only four managers currently active that could draw in excess of \$750 million for a corporate PE vehicle.

Within days, Quadrant Private Equity proved the point, closing its seventh fund – and fourth raised as a fully independent entity – at A\$850 million (\$758 million) after just over one month in the market. It is indeed a market that lacks depth, and so when a fundraise goes fast it goes very, very fast.

The last time one of the Big Four came to market, Archer Capital in 2011, it accumulated A\$1.2 billion within four months. The similarities don't end there.

Archer was one of Australian private equity's biggest spenders in 2011, making four investments with a cumulative enterprise value of more than A\$1 billion across four transactions. It also made divestments worth more than A\$2.5 billion over the period, securing an average return of 3.2x and an IRR of over 40% from four exits. These included accounting software firm MYOB, which was sold to Bain Capital for A\$1.3 billion, nearly three times the sum committed in early 2009.

The previous year Archer made five investments, but the disclosed enterprise value was around \$150 million. There were no exits. A single exit in 2009 generated proceeds of just under \$100 million.

In 2013, a Quadrant completed four investments with an enterprise value in excess of \$400 million, according to AVCJ Research. This was less than the previous year but it should be seen in the context of broader market conditions: 2013 was an unusually quiet year for Australia's mid-market GPs, arguably due to strong public

market pushing up valuation expectations.

Quadrant also made two full exits during the course of the year and a partial exit in the opening few weeks of 2014, up from zero in 2012. The first two were both via the public markets: the GP sold its entire stake in fertility services provider Virtus Health through the IPO for an estimated return of 2.5x; and then the last of several sell-downs of New Zealand retirement home operator Summerset, which went public in 2011, took place in October, generating an estimated return multiple for the full investment of more than 3.7x.

These circumstances aren't altogether unusual. A GP approaching the end of its investment period – or at least closing in on the 70% deployment hurdle that typically allows new fundraising activity once crossed – is incentivized to invest any remaining dry powder. Similarly, as a fund enters years four and five, certain assets might ripe for sale, with investment bankers hankering after an IPO or strategic buyers making reverse inquiries about potential acquisitions.

Just to pick two of the largest funds that reached a final close in 2013, KKR likely benefited from the substantial exits of Unisteel and Intelligence Holdings from its first pan-regional fund as the successor vehicle closed in on the bumper \$6 billion target; and MBK Partners completed three of the largest buyouts seen in the region in between launching its third North Asia-focused fund in August 2012 and closing it in September at \$2.7 billion.

However, Archer and now Quadrant are stark examples of how investment and exit activity can be wound into a fundraising to great effect. Yes, the process is largely deliberate and managed. But it is the story that LPs want to hear: proof of thesis and execution ability.

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GLOBAL

CalPERS CIO dies following cancer battle

Joseph Dear, chief investment officer at the California Public Employees' Retirement System (CalPERS), has died following a battle with prostate cancer. Theodore Eliopoulos, senior investment officer for real estate, will continue to serve as acting CIO, pending any announcements about a search for a permanent replacement.

Dinneen leaves Siguler Guff for EMPEA

Patricia Dinneen has left Siguler Guff and joined the Emerging Markets Private Equity Association (EMPEA) as a senior advisor. Ralph Jaeger is replacing Dinneen as portfolio manager responsible for Brazil, Russia, India and China (BRIC), as well as certain frontier markets.

ASIA PACIFIC

Two in three PE executives expect salary hike in 2014

Two thirds of private equity investment professionals in Asia expect their base salary to increase in 2014 over the previous year. This comes after a comparatively flat 2013, in which only one quarter of investment professionals received pay rises, according to a survey conducted by Heidrick & Struggles.

AUSTRALASIA

Australia's CHAMP PE names John Haddock CEO

CHAMP Private Equity has appointed John Haddock as its first CEO. He will assume responsibility for the Australian GP's investment program together with day-to-day management of the firm, while continuing the deal origination and portfolio management activities he currently pursues as a managing director.

Beijing Capital beats Carlyle to TPI's NZ business

Beijing Capital Group, a Chinese state-owned enterprise principally involved in infrastructure, has outmuscled bidders including The Carlyle Group to buy Transpacific Industries Group's (TPI) New Zealand waste management business

Australia's Quadrant in \$758m quick-fire fundraise

Australian GP Quadrant Private Equity has closed its seventh fund at A\$850 million (\$758 million) after just over one month in the market. The vehicle was two times oversubscribed with interest from both domestic and offshore investors. The private equity firm's previous fund took six months to reach a final close of A\$750 million (then \$746 million) in late 2010.



Fund VII is expected to follow a similar strategy to that of its predecessors, investing in profitable businesses run by proven managers that have established positions in well-defined and expanding market segments. Quadrant typically targets companies with an enterprise value of A\$100-500 million and commits A\$70-150 million per investment, although this can be topped up by co-investors.

Australia private equity fundraising came to \$800 million in 2013, half the previous year's total. However, the market is not particularly deep and none of the mid-market GPs closed funds during the period. Quadrant alone has already put 2014 well on course to beat the 2013 total. The successful fundraise comes after a busy 12 months for the private equity firm, with three exits and four investments.

for NZ\$950 million (\$794 million). TPI is selling the New Zealand arm as part of a broader restructuring which will see it divest non-core assets and focus on growing its Australian operations.

PE-invested mining services firm goes bankrupt

The Anywhere Group (TAG), an Australian provider of temporary accommodation for the mining sector, has gone into administration owing Singapore-based PE firm Crest Capital Asia A\$9.5 million (\$8.4 million). Creditors - including Crest Capital - are seeking to recover a total of A\$14.5 million from the business.

GREATER CHINA

Hony, Orix-backed theme park player targets HK IPO

Haichang Holdings, a Chinese theme park and property developer backed by Hony Capital and Orix Corp, is seeking to raise up to HK\$2.68 billion (\$345 million) through a Hong Kong IPO. The company will sell one billion shares for HK\$2.18-2.68 apiece.

Bayer buys Legend Capital's Dihon Pharma

Bayer has agreed to buy Dihon Pharmaceutical Group, a manufacturer of herbal traditional Chinese medicines (TCM). The acquisition facilitates the exit of Legend Capital, an investor in Dihon since 2010.

China Everbright, Catalyst raise \$100m for Israel Fund

China Everbright and Israel-based Catalyst Equity Management have reached a first close of \$100 million on a fund that will invest in Israeli companies. The Catalyst CEL Fund, announced last October, is looking to raise \$200 million, with a hard cap of \$300 million. China Everbright has provided \$75 million as seed capital.

PE-backed education provider aims for US IPO

Tarena International, a Chinese IT training services provider that counts Goldman Sachs, IDG Capital Partners, Jafco and Connion Capital among its investors, is seeking to raise up to \$100 million through a NASDAQ IPO.

HK promises action on PE tax exemption

Hong Kong's financial secretary, John Tsang, reaffirmed the government's plans to extend the profits tax exemption for offshore funds to include private equity, promising to "take forward the legislative work as soon as possible." Frameworks for a proposal to introduce open-ended investment company (OEIC) structures through which managers could raise Hong Kong-domiciled funds have also been drawn up.

Qiming invests in personal finance app developer

Qiming Venture Partners has led a \$15 million round of funding for Hangzhou Wacai Science, a

Chinese personal finance management mobile app developer, with participation from IDG Venture Partners and CDH Investments. Wacai has developed two mobile apps used by more than 60 million people to record their daily spending and manage credit card expenditure.

PE-backed Sunshine 100 eyes \$310m HK IPO

Sunshine 100 China Holding, a Chinese property developer backed by Warburg Pincus, has launched its Hong Kong IPO, seeking up to HK\$2.4 million (\$310 million). The company is offering 500 million shares at HK\$4-\$4.8 apiece.

LinkedIn to launch China JV with CBC, Sequoia

LinkedIn has established a joint venture with Sequoia China and China Broadband Capital Partners (CBC Capital) to expand into the China market. The site has launched a new simplified Chinese site, with a view to connecting over 140 million Chinese professionals with its 277 million existing members globally.

SCPE investee Sunfonda Group launches HK IPO

Sunfonda Group Holdings, the second largest luxury auto dealer in China - and a Standard Chartered Private Equity (SCPE) portfolio company - plans to raise up to HK\$683 million (\$88 million) through a Hong Kong IPO. The Xi'an-based car dealer plans to issue 150 million shares at HK\$3.65-4.55 apiece. Taiping Insurance will participate as a cornerstone investor.

Online pet store Boqii raises \$25m Series B round

Boqii.com, a Chinese social network and e-commerce platform for pet owners, has secured \$25 million in Series B funding from an undisclosed US-based investment firm, with participation from existing backer Goldman Sachs. The company's first round of funding came last June from Jafco Asia and Goldman.

NORTH ASIA

Carlyle buys Tyco's Korea unit for \$1.93b

The Carlyle Group has agreed to acquire Tyco International's South Korean security systems unit - known as ADT Caps - and assorted subsidiaries for \$1.93 billion. It is the largest private equity

GPIF launches infra program with DBJ, OMERS

Japan's Government Pension Investment Fund (GPIF), has formed a partnership with Development Bank of Japan (DBJ) and Ontario Municipal Employees Retirement System (OMERS) to invest in infrastructure assets. GPIF has earmarked JPY280 billion (\$2.7 billion), or 0.2% of its total JPY129 trillion of assets, for the scheme. It will invest via a unit trust to which DBJ will also contribute \$100 million.

The unit trust - to be managed by Nissay Asset Management - will in turn invest in infrastructure opportunities identified by OMERS, which will co-invest alongside the vehicle over its five-year investment period. Particular areas of interest include power generation, electricity



transmission, gas pipelines and railways. OMERS returned an average 11% annually between 2009 and 2013 through such investments, GPIF said.

Currently about 60% of GPIF's assets are invested in Japanese bonds, with the rest allotted to foreign bonds as well as domestic and international stocks. The announcement of the partnership comes three months after a government-appointed panel issued a report recommending Japan's pension funds increase their commitments to alternative assets.

buyout in Korea in US dollar terms since 2008. ADT serves approximately 475,000 small and medium-sized enterprises, commercial and residential customers via a network that includes 69 branches.

INCJ invests \$4.7m in Trigrice Semiconductor

The Innovation Network Corporation of Japan (INCJ) has invested \$4.7 million in Trigrice Semiconductor, a developer of digital audio technology. Existing investor Intel Capital also participated. Trigrice develops and licenses audio technology that converts analogue signals in digital signals and vice-versa.

SOUTH ASIA

India VC Nexus raises \$110m top-up fund

Indian GP Nexus Venture Partners is raising a \$110 million "opportunity fund" focusing on later-stage investments in existing portfolio companies. The vehicle is not open to new LPs and is scheduled to close in March. Snapdeal will be the first recipient of capital from the fund, with Nexus participating in a \$133.8 million Series D round led by eBay.

ASK Pravi takes minority stake in kidswear brand

India mid-market private equity firm ASK Pravi Capital Advisors has invested INR500 million (\$8 million) in children's clothing manufacturer Indian Clothing League. The round of funding is intended to support the Chandigarh-based business as it expands its manufacturing capacity and retail footprint.

Creador raises Somany Ceramics investment

Creador has increased its investment in Indian tile maker Somany Ceramics to \$10 million via a secondary market transaction. The GP initially took an 11.2% stake in the Mumbai-listed firm last month for INR499.9 million (\$8.1 million).

SOUTHEAST ASIA

Scentan invests \$75m in SaaS start-up Tradeshift

Tradeshift, a start-up that provides businesses with free payment management tools, has raised \$75 million from Singapore-based Scentan Ventures and is looking to expand into Asia. The UK and US-headquartered business provides a software-as-a-service (SaaS) platform that allows businesses to manage processes such as invoicing, payments and workflow.

VC-backed Food Runner makes Philippines bolt-on

Food Runner, a Singapore-based food delivery company backed by Digital Media Partners, has acquired Philippines counterpart City Delivery. The acquisition comes eight months after Food Runner, which supplies meals to customers in Singapore, Malaysia and Indonesia, spun out from group-buying platform DealGuru.

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Smoke and mirrors

A number of accounting scandals involving India-based private equity portfolio companies has contributed to the erosion of investor confidence in the country. Due diligence processes are being tightened in response

AS SOON AS GENERAL ATLANTIC (GA)

and India Equity Partners (IEP) set eyes on the report they commissioned into finances of Fourcee Infrastructure last year their worst fears were confirmed. The numbers simply did not add up. It appeared the promoters had been less than forthcoming about the performance of a company that was struggling, despite EA and IEP pumping in \$131 million between them just two years earlier.

Within days the alleged transgressions were public knowledge. The two private equity firms filed a petition with the Company Law Board (CLB) in Mumbai, declaring themselves the victims of an "extensive forgery and willful deceit" perpetrated by the promoters and several other top management.

On its own, the incident may have garnered less media attention had it not been the latest in a string of public spats between GPs and portfolio companies.

to India, the emergence of several cases in succession prompts talk of an endemic problem. It may indeed only be the tip of the iceberg, given that private equity investors usually see legal action as a last resort.

A recent Global Fraud Report published by Kroll Advisory Solutions goes some way to shed light on the prevalence of fraud in India and the risks investors are facing. Of the Indian companies surveyed, 69% reported some kind of fraud. Alarming, in nearly nine out of 10 cases, an insider – junior, middle management or a senior employee or an agent – had played a leading role.

Body blow

This is yet another blow to an Indian private equity market reeling from a slowing economy, a volatile rupee, pre-election political uncertainty and a tough fundraising environment. Many of those GPs that still have the mandate and

at Kroll Advisory solutions. "A number of these funds only take minority positions, so you have a lot of funds chasing similar opportunities, which means there is pressure to deploy."

Fundraising for India-focused vehicles came to \$24.2 billion between 2006 and 2008, six times the amount raised over the preceding three years and more than twice the sum raised over the succeeding three years. Until the tremors from this explosion began to ease off from around 2011, India did not want for dry powder – and this is before regional and global funds are factored in.

Growth capital investments peaked in 2007 and 2008 with 213 and 233 deals, respectively, totaling \$8 billion and \$7.5 billion. There was an inevitable dip following the global financial crisis before a return to form in 2010 as \$5.9 billion was transacted across 196 deals. In 2008, growth investments accounted for just under half of total PE deal flow in India, rising to around 60% in 2009. The growth share rose again in 2010, reaching 63%.

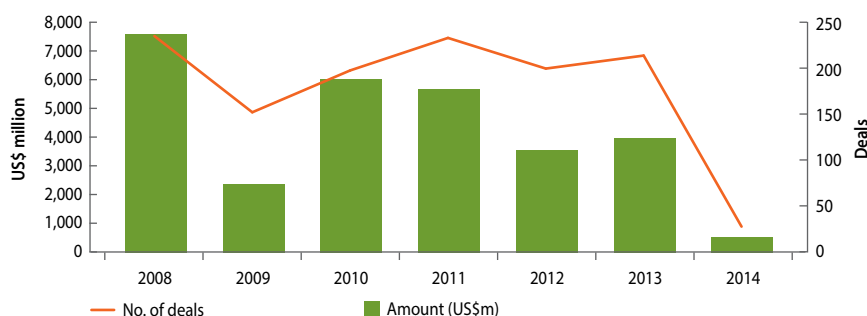
With promoters spoilt for choice and financial advisors flocking around them in search of fees, many of these transactions were executed via auction. Indeed, a number of the investments that later turned sour – such as Lilliput – came by way of a competitive process. The onus was on GPs to get deals done and get them done fast, resulting in rapid and potentially ill-considered due diligence.

Kroll's Khurana identifies several key problem issues: the quality of the due diligence being done; conflicts between information offered by existing diligence providers; and how that information was then interpreted by GPs. In short, procedures were being followed but execution was sometimes flawed.

However, even with perfect execution and a forensic review of internal financial data, the fraud might be so astutely conceived that it still goes overlooked.

"A decade ago, a promoter might take the investment and buy himself a luxury car," says Deepak Bhawnani, CEO of Alea Consulting Asia. "But now malfeasance is far more sophisticated with promoters having the ability to defraud millions of dollars through dummy companies set up offshore."

India growth capital investments



Source: AVCJ Research

Less than six months earlier, SAIF Partners India, following forensic audit carried by KPMG, accused kidswear retailer Catmoss Retail – to which it committed INR1 billion (16 million) in 2010 – of siphoning off funds. TPG Capital and Bain Capital had previously taken another kids wear retailer, Lilliput, to the High Court after accusing the promoters of accounting fraud. They owned 45% of the company, having invested \$86 million.

While issues of accounting fraud and financial mismanagement are by no means unique

appetite for exposure to India are being forced – by their LPs if not their internal oversight mechanisms – to reexamine how pre-deal due diligence is carried out and how portfolio companies are monitored.

The irony is that a number of the struggling investments can be traced back to the crowded market of 4-5 years ago, when it might be argued that GPs acted with undue haste.

"The private environment has been very competitive and a large amount of capital has been deployed," says Reshmi Khurana, India head

For this reason, many service providers are preaching a more comprehensive approach to due diligence that brings together financial, legal and operational functions. Indeed, some advisory firms are bolstering their local capabilities to meet demand for more holistic diligence efforts.

Kroll, for example, recently entered into a strategic alliance with BMR Advisors, incorporating the latter's experience with analyzing financial records into Kroll's own process. Meanwhile, Alvarez & Marsal (A&M) has recently expanded its India presence, adding a new transaction advisory group that offers financial accounting, tax and operational due diligence services in addition to setting up a dedicated commercial due diligence practice.

Vikram Utamsingh, who was recently appointed A&M's joint country head, notes that it is often the operational element of due diligence work, in particular, that is missing; this includes assessing if there are operational issues in a business that could cause problems when a private equity firm comes in to help it scale up.

"It is important to ask if the operational issue is a one-time problem or is it a fundamental problem that can hurt the future profitability of the business," says Utamsingh. "This is the piece that has been missing and I think that if PE firms would add that piece, they would have a much more informed and holistic view of the business they are investing in."

"The one thing that we look for in our global portfolio partners is a strong management team that is open to partnering with us, rather than just seeking a capital injection."

— Heramb Hajarnavis

A number of GPs claim they already recognize the importance of making due diligence more than just a box-ticking exercise. Varun Batra, a partner at Baring Private Equity Partners India, says while his firm will carry out the usual mix of internal and external diligence in addition to business, forensic, legal, accounting and tax diligence, the most important part comes in bringing together separate elements in an attempt to find a common thread.

This "joining the dots" process not only protects GPs from investing in the wrong companies, but also can prevent them from missing opportunities.

"It is important to have a seamless approach where you take the information from a background check and test it against the information from financial due diligence and vice and versa," says Kroll's Khurana. "So you can really

Private equity-promoter disputes in India

Investors	Company	Investment size (US\$m)	Nature of dispute	Sector
General Atlantic, India Equity Partners	Fourcee Infrastructure	131	2013 - PE investors took promoters to court on charges of fraud and embezzlement and willful deceit	Infrastructure
TPG Capital, Bain Capital	Liliput Kidswear	86	2012 - Bain, TPG filed a case with the Delhi High Court after accusing the firm of accounting fraud	Retail
SAIF Partners	Catmoss	21.6	2013 - SAIF accused promoters of fudging accounts and filed a case with the Delhi High Court	Retail
New Silk Route, CVC, Baring India	KS Oils	90	2011 - NSR stepped down from the board, accusing the promoters of fudging accounts	Consumer goods
ICICI Ventures	Subhiksha Trading Services	52	2009 - ICICI wrote off part of its investment over lapses in corporate governance, Subhiksha subsequently went bust	Retail

Sources: Various

get to the bottom of the issue rather than saying 'I have heard rumors and I am not going to touch this deal or this sector.'"

Conflicts of interest can also be eliminated when working with third-party advisors by ensuring no one has previously worked with the diligence target. "If it is a private company then we definitely insist on some outside of the comfort zone of the company and employ a firm we are comfortable with," says Baring's Batra. "Using an existing auditor unless part of the Big Four is not something we can live with."

This sentiment is echoed by A&M's Utamsingh who reports of a misconception among some

Trust between GP and promoter is therefore of paramount importance. Not only does the PE investor want to ensure the promoter will not do anything illegal but it needs them to be able to take on board advice and execute a business plan. Respective interests regarding financing, governance, transparency and environmental practices must be completely aligned.

"This involves agreeing on a governance model and discussing a path to exit prior to an investment, and understanding the promoters' outside business interests and investments," says Heramb Hajarnavis, a director at KKR in Mumbai. "The one thing that we look for in our global portfolio partners is a strong management team that is open to partnering with us, rather than just seeking a capital injection."

Yet, in many cases the promoter is seeking just that, viewing a private equity investor as check writer, not active investor. Indian promoters have traditionally been reluctant to allow a minority shareholder to have too much of a say in the running of their businesses, although numerous industry participants attest that the relationship is now changing, with GPs demanding greater input and transparency regardless of their stake in the business.

It helps that sponsors are no longer spoilt for choice. Fundraising in India has declined every year since 2011 when \$3.7 billion was raised across 27 funds. Last year, a total of \$1.8 billion was committed to country-focused managers, less than one fifth the 2008 peak.

"We are seeing GPs in India being more active in managing the portfolio, they are speaking more frequently with management they are looking at financial reports and taking a more active and also putting into international best practice with regards to corruption and compliance," says Sidharth Bhasin, a partner at Shearman & Sterling.

Accordingly, background checks on the promoters have become a central feature of

Indian GPs that if an accounting firm is working for a target business in some other capacity already, then it knows the business better than anybody else, thereby presenting an advantage. More often than not a PE firm needs a fresh pair of eyes to look at a business and assess whether there are any fundamental issues – somebody not colored by previous experience and relationships.

A minority partner

Still, the issue for many GPs is how to bring this influence to bear when in most cases they have little control at board level. India is still very much a market dominated by minority investments. Growth capital deals accounted for 212 of the 452 private equity transactions that took place in 2013; there were just 21 buyouts, although of course the ticket sizes tend to be larger.

any due diligence process. In the past, this might have involved light-touch measures such as looking into whether the promoter has a criminal record, been accused of stealing money, or treated joint venture partners badly. Now, the process extends more deeply into business issues: the promoter's level of professionalism, how much freedom and he gives to his second line of management, and how strong the management is.

Some maintain that is this kind of due diligence is often ultimately reliant on the quality of the GP's own network and connections. "People do not give much credence to the informal channels of diligence you build through your networks and that only come through a period of time and obviously as you build relationships across sector," says Gulpreet Kohli, managing director with ChrysCapital Partners.

It is also important to look at the promoter's networks. One of the central issues in this respect is whether or not the business is dependent on favors and personal connections for growth – which comes back to the issue of how portfolio companies can be effectively scaled.

"The ability to grow is a key question when we try to assess background checks because most funds come to use and say, 'He is running a great INR2 billion (\$32 million) business but we

want to make it five times the present size – is he capable of doing that?'" explains Kroll's Khurana.

Belt and braces

But due diligence process is not limited to the pre-investment stage. Post-deal diligence has also become a necessity for GPs looking to be more proactive in monitoring portfolio investments. They are also increasingly willing to get outside help if any irregularities occur.

This is precisely what has happened in the corporate governance disputes that have emerged in country.

Alea's Bhawani – who reports a 65% surge in post-transaction due diligence in the last full calendar year – says more GPs should look to exercise their shareholder rights: asking for monthly or quarterly financial statements and interacting with management – other than the promoters – more frequently.

Anecdotal evidence suggests that a GP is often two years into a minority investment before it is clear whether an investee is really on target and able to meet growth projections. This is typically because private equity firms must wait one year after their capital commitment for audited financial reports along with projections to arrive for formal analysis. Indeed, these reports might not be completed or not completed

properly prior to the investment, so processes also require time to become entrenched.

With this lag period, spotting potential issues early is vital. "Problems arise when one starts to see beyond the smoke and mirrors – financial statements not being submitted to the local departments on time, tax filings being delayed, frequent changes in CFO and auditors. That is when the alarms bell start ringing," says Bhawani.

A&M's Utamsingh notes that the evolution of industry in India will be dependent on promoters opening up to GPs as partners and appreciating what they bring to the table. "The PE firms are forcing the change," he says. "They realize that success in investing in the country by relying on management to execute the business plan and just playing the role of investor is not enough."

At the same time, the long-term impact of a greater emphasis on proper due diligence and risk aversion is fewer private equity firms chasing the same deals. A more mature market is a less volatile market, however – the frauds and private equity write-offs will thin out, but then so will the intermittent cases of outsize returns.

"It is a situation where term sheets are signed for 60 days rather than 30 days or less," says Bhawani, "and this allows investors to evaluate comprehensively as the diligence process is not rushed." ▀

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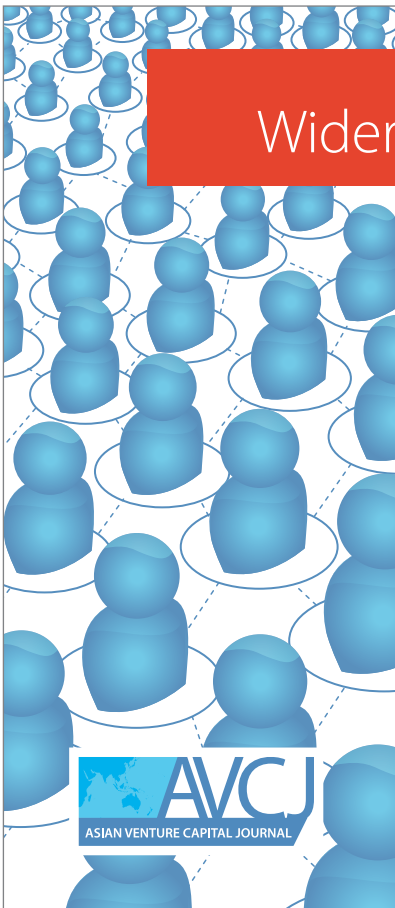
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Money to burn

Chinese technology firms are becoming increasingly acquisitive, with certain players snapping up assets within months of going public. What is driving this change?

GOING PUBLIC ISN'T ENOUGH FOR THE modern day Chinese technology firm – there is also a growing appetite for strategic M&A to sate.

Two giants of the domestic scene, Tencent Holdings and Baidu, went public in 2004 and 2005, respectively. Tencent made one small acquisition the same year, while Baidu waited until 2008 to get in on the action. Since 2011, Tencent has pumped more than \$762 million into 10 disclosed deals and Baidu has deployed \$363 million across five.

Perhaps inspired by their larger counterparts, a number of recently listed tech firms – young enough that their VC backers are mostly still on board – are embracing M&A opportunities. Online retailer LightInTheBox and mobile app developer Sungy Mobile both made acquisitions within several months of going public in the US last year. So did flash sales site Vipshop Holdings, which completed its IPO in 2012.

On a broad level, Chinese tech firms, principally those in the internet sphere, are engaging in M&A as part of their battle for market supremacy. This is most visible among

same applies to the likes of LightInTheBox, Sungy Mobile and Vipshop. These companies don't yet occupy multiple markets but they must respond to a commercial environment far more competitive than it was 10 years ago by supplementing their technologies, market positions and knowhow.

"All of a sudden technology firms are accelerating their acquisition pace and spending increasing amounts of money, which didn't really happen before 2011," says Zhou Wei, managing partner Kleiner Perkins Caufield & Byers China (KPCB). "But if you look at the US tech players, M&A is a key component in engineering businesses to move further."

From nothing to something

Twenty VC-backed Chinese firms went public in the US and Hong Kong between 2003 and 2005. None of these firms engaged in M&A in 2003; there was one deal in 2004; and then 11 in 2005.

The reasons for this relative inactivity are simple. First, there were fewer acquisition targets because the tech, media and telecom (TMT)

VC-backed travel booking site Qunar in 2011. Since then the major tech firms have become profitable and sought to dramatically expand their footprints in new market segments.

The newly-listed companies have been able to participate because most of them were turning a profit – albeit a slender profit – before listing. While online video site Youku, which has since merged with rival Tudou, and e-commerce site Dangdang only recently announced they had entered the black, about four years after their IPOs, LightInTheBox reported a profit last March and went public in June. Sungy Mobile was profitable one year ahead of its listing.

They are therefore in a position to introduce new technologies and expertise through direct acquisitions, rather than spending years building up capabilities in house.

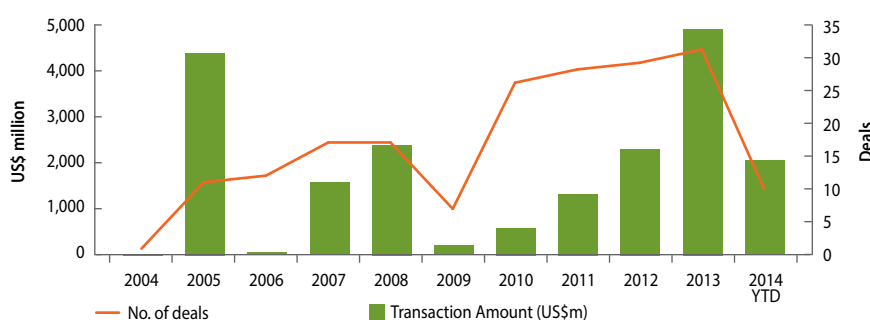
"Today is much more competitive environment for everyone in different ways – internet, mobile internet, and e-commerce. Everyone is fighting for the same and similar things," says Ron Cao, co-founder and managing director of Lightspeed China Partners. "And there is definitely a need for talent and a strong team, of course along with the products and services. Go back 4-5 years and this wasn't in the mindset of a public company's CEO."

LightInTheBox, for example, sources goods from Chinese manufacturers and sells them primarily to overseas customers – yet it didn't have a physical presence in any of the foreign markets it served. The acquisition of Seattle-based social e-commerce site Ador has helped fill this knowledge gap, with the addition of Ador co-CEOs Mark Stabingas and Quinten Shay, both of whom previously worked for Amazon.

Sungy Mobile bought paid \$50 million earlier this year for US-based mobile ad network GetJar. Having started out operating 3G web portals in 2004, Sungy raise three rounds of funding from IDG Capital Partners, WI Harper Group, JAFCO Asia and CBC Capital and gradually transformed itself to be a modern-style app developer.

"We shifted our focus to the development of mobile applications and mobile platform in the second half of 2010. However, we are a newcomer in this field and there is a lot of talent in the market," Winston Li, CFO of Sungy Mobile, tells AVCJ. "Meanwhile, the majority of our mobile app revenues come from Western

HK, US-listed tech firms M&A



Source: AVCJ Research

Baidu, Alibaba Group and Tencent, but the trend extends deep into the industry.

Smart phone manufacturer Xiaomi and US-listed antivirus software provider Qihoo 360 are currently in the second tier but upwardly mobile, and making acquisitions to this end. Mobile payment, software, e-commerce, mobile gaming and various consumer-related businesses running online-to-offline (O2O) models are all in play.

Continue down the food chain and the

space was in its nascent stages. Second, internet players still lacked cash. Most income was sourced from online advertising and gaming, while e-commerce platforms were providing very low margin returns.

In this context, entrepreneurs remained focused on their core business, says KPCB's Zhou.

The landmark deal – in terms of size and marking out a future trend – was arguably Baidu's \$306 million purchase of a majority stake in

markets – so it makes sense for us to acquire the US operation of the Getjar group.”

Finally, Vipshop, which is backed by DCM and Sequoia Capital, bought domestic cosmetics and fashion products site Lefeng.com for \$132.5 million. The deal is expected to diversify the

their portfolio companies and the likes of Baidu, Alibaba and Tencent. The idea is that these large players have the networks, talent and capital to help their smaller counterparts scale up. In a recent deal, Tencent paid a reported \$500 million for a 20% stake in Dianping, a VC-backed online

straying far from their core businesses. Sources tell AVCJ that Alibaba is currently considering an investment in Qihoo360 to expand its web browser service, while Tencent is in discussions with Vipshop and JD.com, China second-largest B2C online clothing site, with a view to challenging market leader Alibaba.

VC investors are generally positive about these acquisitive corporates, in part because they offer an alternative exit channel to an IPO. For now, activity has largely remained within China as companies encroach upon each other's territories. Hans Tung, managing partner at GGV Capital, expects the next stage in the evolution process to involve Chinese tech firms expanding overseas.

“Internet giants are trying to change the landscape,” he says. “They aren't just staying in their own core business areas but trying to build kingdoms compromising different businesses. If they don't do this, they will be phased out from the market in next 10 years.”

Sina, NetEase, and Shanda Interactive Entertainment serve as lessons for today's tech firms. They all listed in the US and were once regarded as market leaders, but have since faded. The problem? Losing the competitive edge after staying too focused on core businesses and not engaging in expansion-focused M&A. ▀

“They aren't just staying in their own core business areas but trying to build kingdoms compromising different businesses. If they don't do this, they will be phased out from the market in next 10 years”

– Hans Tung

company's product offering. While Vipshop is strong on flash sales for apparel, it has less experience in cosmetics, and struggles to compete against cosmetics specialist Jumei.com.

Sequoia is an investor in Vipshop, Lefeng and Jumei. “This deal is great for Sequoia. It now owns the top two players in the category, with a board seat on each. This may have led to the transaction, but ultimately it doesn't matter to Sequoia if Lefeng is acquired by Vipshop or Jumei,” a China-focused fund manager says.

VC firms can also play matchmaker between

listings provider best known as one of China's most popular sites for restaurant reviews.

Dianping has a strong O2O business – dealing with restaurants' owners to provide group-buying services to online users. It might be able to leverage Tencent's larger user base by combining with social-networking mobile applications QQ and WeChat.

O2O is only area of competition among the internet giants. They are also battling for position in navigation and map applications, e-commerce platforms, and searching engines – in some cases

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Kendall Court's mining compromise solution

INTREPID MINES WAS LEFT WITH A CHOICE:

continue to participate in the Tujuh Bukit copper-gold project in Indonesia as a minority investor, or sell up. It wasn't a choice the Australian resources company had envisaged making when it agreed to assume control of Tujuh Bukit in a deal struck with local partners in 2007, but walking away with some cash was a brighter prospect than seemed likely 12 months ago with the asset seemingly beyond reach.

Intrepid decided to sell, and in Singapore-based private equity firm Kendall Court it found a willing buyer.

"We had been looking at the underlying asset and when word came out there would likely be some sort of resolution and a stake may become available, we jumped at the opportunity," says Chris Chia, managing partner at Kendall Court.

This resolution involved Indo Multi Niaga (IMN), one of Intrepid's former partners, issuing a \$70 million promissory note to an Intrepid subsidiary for a bond convertible into a 15% stake in Merdeka Serasi Jaya (MSJ), the holding company for the Tujuh Bukit project. The bond

can be exercised once MSJ goes public, which it wants to do in the third quarter of this year. In addition, there is the right to acquire a further 7.5% stake in MSJ for \$37.5 million at the time of the proposed IPO.

Intrepid has signed over these rights to Kendall Court for \$40 million in cash plus a standby letter of credit also worth \$40 million.

It brings to a close a chain of events that began seven years ago at a time when mining and exploration licenses could not be held by foreigners. The licenses for Tujuh Bukit were held by IMN on the understanding that the local partners would issue 80% of the shares to Intrepid. A new shareholder agreement, reflecting a relaxation in foreign investment laws in 2009, couldn't be reached and relations began to fracture.

In 2012, the licenses were transferred to a new majority shareholder in IMN, an entity controlled by Indonesian billionaire Edwin Soeryadajaya,

co-founder of domestic GP Saratoga Capital. Saratoga and Provident Capital were responsible for brokering the resolution. Provident is also understood to be an investor in the business.

Chia sees their involvement as a positive development. "As with any industry that has regulation around it and involves the commodities space, you must be comfortable with your underlying partner," he says. "I have known Saratoga and Provident for 10-15 years and they provide a solid combination of execution and

business sense."

Tujuh Bukit's prime asset is a copper-gold resource boasting 19 billion pounds of copper, 28 million ounces of gold and 400 million pounds of molybdenum. The in situ metal value of the second asset is said to be \$100 billion.

Despite the IPO, Kendall Court plans to stick around and see some of these assets realized. "It is one of the world's top 5 untapped copper resources in terms of intrinsic value," Chia adds. ▀



Minerals: Rick pickings

VCs keep the faith in Snapdeal

SAAMA CAPITAL WAS ONE OF A GROUP

of VCs that backed Indian online jewelry store Bluestone.com in early 2012. It is a vertical play in the country's e-commerce industry – targeting a particular market segment – and this might ordinarily have been a turn off. But Bluestone was an exception.

"We are still in the early days of e-commerce: people start with low value items and move up the food chain. Unless, like Bluestone, you have a product that is high value and high margin it does not make sense in India right now," says Ash Lilani, Saama's managing partner and co-founder.

Bluestone focuses on quality and user experience – it has even embraced the online-to-offline model like certain vertical players in China's e-commerce space – but Lilani reckons India is still 2-3 years away from wider-scale implementation of this approach.

"Horizontal plays are working better right now," he says, pointing to Saama's continued

support of Snapdeal, the online marketplace that recently received \$133.8 million in Series D funding. The round was led by eBay, with existing investors such as Saama, Intel Capital, Bessemer Venture Partners, Nexus Venture Partners and Kalaari Capital also participating.

"Snapdeal is an agnostic marketplace and not pursuing any particular category," adds Mahesh Vaidya, a director at Intel Capital, endorsing the horizontal approach. "It is adding new categories all the time."

These categories now number 500 and include about 4 million individual products. Snapdeal has a registered user base of approximately 20 million and expects gross merchandise value (GMV) of nearly \$500 million in the current financial year, rising to \$1 billion the following year. It aspires to be profitable the year after that.

Snapdeal's latest capital injection comes less than a year after the previous round, worth \$50 million, which was also led by eBay, joined by

fellow newcomers Saama, Intel Capital, ru-Net and Recruit Holdings. Early backers Bessemer, Nexus and Kalaari were present too. Lilani says the size and speed of the Series D is testament to the rapid growth India's e-commerce market has experienced in the interim, with Snapdeal's GMV approaching six times what it was when Saama first agreed to invest.

The most recent round is expected to be enough to put the company in a position for a US IPO, which is slated to happen within 24 months.

Snapdeal continues to invest in technology to support transactions. In the last year an online payment gateway, inventory management tools and an improved logistics platform have been introduced. A mobile phone app that enables sellers to track shipments is currently in the works.

For Vaidya, this justifies both Snapdeal's marketplace approach – as a facilitator of sales rather than a holder of inventory – and Intel Capital's investment thesis. "We look for companies that allow our channel partners to gravitate towards online transactions in an efficient a manner as possible," he says. ▀



Online shopping: Big in India

European incursion

Munich Private Equity Partners set up its first overseas office in Shanghai to demonstrate a commitment to Asian managers, with China at the fore. It is now seeking out local champions

MUNICH PRIVATE EQUITY PARTNERS

(MPEP) may take its name from the iconic German city close to its headquarters, but the firm wants to be seen as a local investor.

"In many respects, I'm sure a lot of Asian GPs will feel we are an Asian LP. Operating with a local team rather than being a fly-in, fly-out LP is incredibly important for us," says John Morrison, MPEP's managing director. "As a Europe-headquartered LP, we have to be exactly the same as the GPs we speak to – need to have a genuine local presence in Asia."

The firm was created through a spin-out from German financial services provider RWB Group in 2012. It continues to serve RWB clients that want exposure to global private equity but now also raises capital from external retail investors, typically high net worth individuals.

MPEP's Shanghai office is its first – and so far only – overseas base, with a seven-strong local team.

Three-pronged approach

MPEP's investment vehicles fall under three broad categories. First, there are \$1.9 billion global market funds, 30% of which are deployed in Asia, with half of that allocation going to China-focused GPs. Second, \$450 million special market vehicles, which are either geographic-limited – for example, comprising entirely China or India managers – or follow thematic investment patterns, such as secondaries funds.

Third, the firm launched a pan-Asian fund last year that targets investments in India, China and Southeast Asia, with a target of \$138 million.

MPEP's typical commitment is \$15-20 million per fund, and it has so far backed 27 managers in Asia. There is a slight bias towards larger funds. "Up to now, we haven't invested in smaller single country funds because we don't want to be overexposed to the volatility in some of those countries," Morrison explains.

In this way, MPEP gravitates towards markets in which the private equity industry has scale or is well established: China, India, Japan and South Korea. Through the same logic, while recognizing that opportunities are emerging in the likes of Vietnam and Malaysia, the firm favors a pan-regional approach to Southeast Asia. It backs managers such as Kuala Lumpur-headquartered Navis Capital Partners, which also offers exposure

to Greater China and Australia.

"It is an opportunity to catch all Southeast Asia opportunities without exposing ourselves to single-country risk," says Tony Zhu, head of emerging markets at MPEP, who leads the Shanghai office.

Making primary fund investments is all about finding a local champion. MPEP does this by defining the entire opportunity set, placing GPs into several key groups, and then identifying a winner in each one.



Hony Capital triumphed in the large country fund category – MPEP backed the GP's fifth vehicle – and BVCF was chosen among the Chinese sector specialists. MPEP committed to the GP, formerly known as BioVeda China Fund, last year after being impressed by the team's ability to leverage domain expertise to find targets at attractive valuations.

However, not every sector specialist qualifies for consideration. While MPEP is willing to support GPs in telecom, media and technology (TMT) and life sciences spaces, cleantech vehicles are regarded as concept rather than sector-focused funds.

"We did think about whether to pick a local champion in cleantech several years ago," says Zhu. "But based partly because of our knowledge of European markets, we think that within cleantech it is very difficult to build up your domain expertise in specific industries, such as solar. It is a very broad concept."

Local champions are also selected based on positioning in a market that is seen to have future potential.

Another MPEP's investments last year was Kedaara Capital, an India-focused GP that

reached a final close of \$540 million on its debut fund. The LP's rationale is rooted in a belief that India will return to form in the next two years, with particular opportunities in the lower-middle market segment. Kedaara, which is targeting corporate carve-outs, was deemed to be a good fit.

"In a large market, it's possible to have a number of country champions," adds Morrison. "It's a bit like the Olympic Games – it's not like there is only one winner and one gold medal."

"In a large market, you can have a number of country champions. It's a bit like the Olympic Games – it's not like there is only one winner and one gold medal"

– John Morrison

There are a lot of different events, so we want to support managers who succeed in different niches," Morrison says.

Opportunities ahead

MPEP's co-investments and secondary deals have so far been restricted to Western markets. The in-house view is that, given its current stage of evolution, there is unlikely to be significant development in Asia's secondary market over the next three years. This is put down to the limited number of institutional investors active in the region compared to Europe and the US.

The trend MPEP does see emerging is increased specialization among Asian GPs, and with this greater operational value-add as sector expertise is truly brought to bear. This broadly follows the evolutionary curve of the US market, with larger players to the fore.

"Asia has yet to fully embrace all the benefits of operational improvement in portfolio companies," Morrison says. "There will probably a move towards more buyouts and really active engagement from managers. The mid-size and larger funds, rather than the smaller ones, are best positioned to do that." ▀

PRIVATE EQUITY IN ASIA

Investment Breakdown by Country From January to February 2014

Investee Country	Amt. Invested US\$m	No. of Deals	(Disc.)	No. of Investees
China (PRC)	4,341.4	79	50	79
Japan	1,226.0	45	32	45
India	957.3	55	44	55
Australia	436.9	6	3	6
Singapore	299.9	10	9	10
Hong Kong	181.8	4	3	4
South Korea	101.6	4	4	4
Indonesia	80.0	4	1	4
Malaysia	34.7	1	1	1
Thailand	0.8	1	1	1
Vietnam	-	1	-	1

FUND-RAISING MONITOR

CLOSED FUND

Location:	Hong Kong
Fund Name:	Affinity Asia Pacific Fund IV, L.P.
Closing Amount:	US\$3.8 billion
Launch Date:	September 2012
Fund Manager/Advisor:	Affinity Equity Partners Limited
Stage Focus:	Buy-outs (MBO/MBI/LBO), Expansion/ Growth Capital
Industry Focus:	Consumer products/services, Electronics, Financial services, Manufacturing - Light, Medical, Services - Non-Financial, Transportation/ Distribution
Geographical Focus:	China (PRC), Hong Kong, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Thailand, Vietnam
Contact:	Tang Kok-yew
Phone:	(852) 3102-8328
Email:	kytang@affinityequity.com
Website:	www.affinityequity.com
Update:	Affinity Equity Partners has reached a final close of \$3.8 billion on its fourth fund, \$300 million over its hard cap of \$3.5 billion. Fund IV will have the similar investment strategy as the previous funds, focuses on growth capital and buyout opportunities in Pan-Asia region in diversified sectors.

NEW FUNDS

Location:	China (PRC)
Fund Name:	ClearVue Partners, L.P.
Target Amount:	US\$200 million (Closed at US\$262 million)
Launch Date:	February 2014
Fund Manager/Advisor:	ClearVue Partners
Stage Focus:	Expansion/ Growth Capital
Industry Focus:	Consumer products/services, Information technology, Telecommunications
Geographical Focus:	China (PRC)
Contact:	Harry Hui
Phone:	(86) 21-5031-8996
Email:	Info@cvpcap.com
Website:	www.cvpcap.com
Update:	ClearVue Partners has raised \$262 million for its first fund, ClearVue Partners, L.P., well exceeding the target of \$200 million and hitting the hard cap for the fund. ClearVue Partners focuses on investment opportunities in the fast growing consumer market in Greater China, specifically in the food & beverage, consumer products, and consumer Internet & mobile sectors. Investors of the fund include Fidelity, Emerald Hill, Harbourvest, AUDA, JP Morgan, Verlinvest, Robert Wood Johnson Foundation, and many other top-tier foundations, endowments and leading family offices.

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Deal Status: Agreement in Principle
Acquisition Technique: Leveraged Buyout
Acquisition Attitude: Neutral

Involved Companies

Company Name	Deal Role	Amount(USD\$m)	Deal Status	Industry	Nationality
Carplus Asia - China	Investor	n/d	n/d	Private Equity	United States
CDI China Management Co., Ltd.	Investor	n/d	n/d	Private Equity	Hong Kong
China Everlight Ltd.	Investor	n/d	n/d	Finance	Hong Kong
CTIC Capital Partners Ltd.	Investor	n/d	n/d	Private Equity	China (PRC)
Everlight Asia Fund Ltd.	Investor	n/d	n/d	Private Equity	China (PRC)
Non-Other Yang	Investor	n/d	n/d	Unclassified	China (PRC)
China Pacific (China) Holdings, Co., Ltd. (China Pacific)	Investee	n/d	n/d	Advertising	China (PRC)
Private International Ltd.	Seller	n/d	-17.20%	Steel	China (PRC)
Undisclosed Shareholder(s)	Seller	n/d	-65.24%	Unclassified	United States
Chingpin Global Markets Asia, Ltd.	Financial Adviser, Investor (CDI China Management Co., Ltd.)	n/d	n/d	Securities/Investment Banking	United States
Chingpin Global Markets Asia, Ltd.	Financial Adviser, Investor (China Everlight Ltd.)	n/d	n/d	Securities/Investment Banking	United States
Chingpin Global Markets Asia, Ltd.	Financial Adviser, Investor (CTIC Capital Partners Ltd.)	n/d	n/d	Securities/Investment Banking	United States
Chingpin Global Markets Asia, Ltd.	Financial Adviser, Investor (Non-Other Yang)	n/d	n/d	Securities/Investment Banking	United States
Chingpin Global Markets Asia, Ltd.	Financial Adviser, Investor (China Pacific (China) Holdings, Co., Ltd. (China Pacific))	n/d	n/d	Securities/Investment Banking	United States

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