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A quiet revolution

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PRE-CONFERENCE ISSUE | **AVCJ PRIVATE EQUITY AND VENTURE CAPITAL FORUM JAPAN 2014**

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The third arrow

THE TIMING OF THE AVCJ JAPAN FORUM IN recent years has seemed somewhat fortuitous. In 2012, the event was held barely a fortnight after Permira bought sushi chain Akindo Sushiro from Unison Capital – grist for the mill to those keen on discussing trade sale exits, secondary buyouts and overseas expansion. And then last year's conference fell in June as investors were enjoying Prime Minister Shinzo Abe's reform policies and yet still figuring out the longer-term implications.

The 2014 forum should more or less coincide with Abe's formal presentation of a long-term growth plan. It is expected to include the structural reforms that comprise the third of his three arrows, the first two – addressing monetary and fiscal issues –already been released. Between them they are supposed to address Japan's three economic woes: slow growth, deflation and a dependence on deficit spending.

There are already signs as to what the growth plan will involve. A corporate tax cut was announced last week, and this week measures have been unveiled to get more foreigners and women into the workplace. Public pension funds are set to be reformed and a corporate governance code for listed companies will be introduced. There have also been pledges to deregulate energy, health and infrastructure and double foreign investment.

PE investors speak of the double-edged sword of Abenomics, regarding arrows one and two. Macroeconomic tailwinds may encourage domestic companies to divest assets or they may retain businesses because performance is improving. Either way, the rise in public equities likely made private market valuations less appetizing and IPO exits all the more attractive.

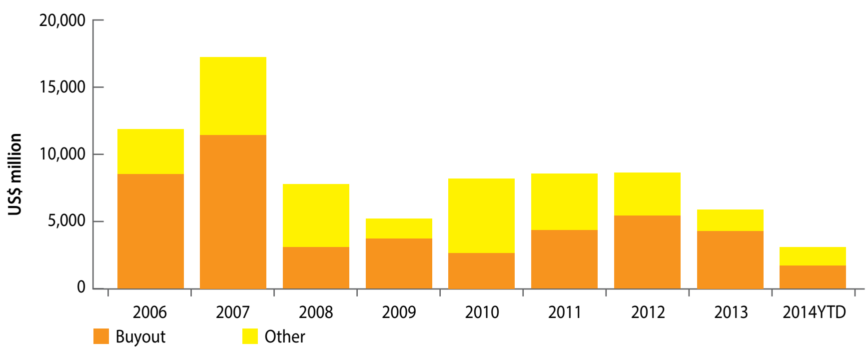
PE-backed IPOs have already generated proceeds of $4.1 billion so far this year, more than twice last year's total. Exits reached $3.6 billion to mid-June, roughly half the 2013 figure, although trade sales have been noticeably slower, likely due to public market valuations. Investment currently stands at $3.1 billion, compared to $5.9 billion in 2013. For all the talk of bigger deals in Japan, there have only been eight buyouts in excess of $300 million since the start of 2013. Only three of these were above $500 million.

Kazushige Kobayashi of Capital Dynamics and Soichi Sam Takata of Tokio Marine Asset Management, when asked about the importance of the third arrow for private equity, both stated that the impact would be indirect and a long time coming. It is unclear whether deregulation and restructuring in certain sectors would lead to increased deal flow for PE firms operating in those areas. The resistance to change often found within domestic management teams would stifle the potential of such reforms almost regardless of government encouragement.

But Japan's broader economic revival is dependent on the third arrow hitting its targets, whether deregulation or wage hikes, and the fortunes of PE are inextricably tied to this. As Yoshihiko Miyauchi, CEO of Orix Corp, observed last year, "a failure in releasing the third arrow could turn Japan's honeymoon into divorce."

Tim Burroughs
Managing Editor
Asian Venture Capital Journal

Japan PE investment



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NEWS

GLOBAL

Permira holds $7.2b final close global Fund V

Permira has reached a final close on its fifth global buyout fund, Permira V, at the hard cap of EUR5.3 billion ($7.2 billion), less than the EUR9.6 billion raised by its predecessor. It had been in the market for just under three years. Permira had originally set a EUR6.5 billion target for the fund.

ASIA PACIFIC

Hamilton Lane boosts Asia presence

Global fund-of-funds and separate accounts manager Hamilton Lane has promoted Tomoko Kitao to director in its Tokyo office and Masayoshi Yazawa has been hired as a senior advisor. In Hong Kong, Josh Jacob has been promoted to principal, Brenda Lau has become a vice president, and Steve Sungji An has joined the business development team.

AUSTRALASIA

Next-backed Hirepool confirms IPO plans

Hirepool, a New Zealand equipment rental business backed by Next Capital, has confirmed its plans for an IPO. The listing could raise around $250 million, making it the second-largest New Zealand IPO this year. The company expects to register its IPO prospectus around June 16.

EMR Capital invests $12m in phosphate explorer

EMR Capital, a resources-focused PE firm, will invest A$12.75 million ($12 million) in Australian Securities Exchange-listed potash explorer Highfield Resources. EMR will contribute A$12.75 million to a A$32 million round of funding. It invested $10 million in Highfield in April 2013.

GREATER CHINA

Internal issues hinder China insurers in PE

Unfamiliarity with asset allocation strategies and an emphasis on short-term investment returns are limiting Chinese insurance companies' exposure to private equity, industry participants told the AVCJ China Forum. John Qu, vice general manager of assets management at China Reinsurance, said that many executives do not realize the importance of building a PE portfolio because they are used to investing in public markets and picking the best stocks.

TPG, PAG lead $1.2b acquisition of DTZ

TPG Capital and PAG Asia Capital, together with co-investor Ontario Teachers' Pension Plan (OTPP) have agreed to buy DTZ, the property services arm of Australia-listed UGL, for an enterprise valuation of A$1.215 billion ($1.2 billion). UGL bought UK-based DTZ in 2011 as a distressed asset, paying GBP77.5 million (A$129.5 million). Struggling with high debts and declining profits within its core engineering services business, UGL planned to spin out DTZ via a public share sale. However, the company revealed in February that unnamed third-party investors had expressed interest in the asset. The sale is expected to deliver net proceeds to UGL of A$1.0-1.05 billion.

"We see a great opportunity in commercial real estate services to create a best-in-class firm servicing clients on a global basis. We believe DTZ is well progressed on this path, and that together with our co-investors we can accelerate the evolution of its strong platform," said Ben Gray, Asia managing partner at TPG, in a statement. Weijian Shan, chairman and CEO of PAG Group, added that, in addition to impressive resources and capabilities in Western Europe, Australia, Singapore and North America, DTZ holds the market-leading position in Greater China, the world's fastest growing services marketplace.

DTZ sells and leases office space on behalf of developers and property owners. The business employs 24,200 people in 208 offices in 52 countries, with a global headquarters in Chicago. It generated A$1.9 billion in revenue for the 2013 financial year, up 21% year-on-year, and accounted for 46% of UGL's total underlying operating revenue.

Alibaba acquires remaining shares of VC-backed UCWeb

Chinese e-commerce giant Alibaba Group has bought all the remaining shares of VC-backed mobile-browser firm UCWeb. The deal is understood to value UCWeb at $3.8 billion. Alibaba had brought its stake in the company to 66% last year, having originally invested alongside Ceyuan Ventures and Morningside Technologies in 2009.

Online shopping platform Mogujie raises $200m

Mogujie, a Chinese online shopping platform and social network, has raised $200 million in a Series D round of funding led by Hopu Investments and Trustbridge Partners. Existing investors Qiming Venture Partners and IDG Capital Partners also participated.

MSPEA wins approval for Yongye take-private

A $360 million take-private bid for Chinese nutrients company Yongye International, supported by Morgan Stanley Private Equity Asia (MSPEA), has won shareholder approval. The deal was delayed due to the relatively stringent shareholder approval requirements. These were amended in return for higher price.

Minsheng Bank backs Modern Land PE fund

China's Minsheng Bank has committed RMB370 million ($60 million) to a private equity fund established by Modern Land, a Hong Kong-listed property developer. It accounts for 46.25% of the overall corpus for the Beijing Green Spring Equity Investment Fund.

Ex-Auda Asia head Pak-Seng Lai joins Vision Knight

Vision Knight Capital (VKC) has appointed Pak-Seng Lai, formerly head of Asia at Auda, as managing partner. Lai will focus on investments and portfolio companies in Southern China, as well as capital market relationships in Hong Kong.

NORTH ASIA

KSP reaches $11m first close on fourth VC fund

Japanese incubator KSP has reached a JPY1.2 billion ($11.7 million) first close on its fourth

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venture investment fund. The vehicle, which launched earlier this month, is targeting a final close of JPY5 billion – almost twice the size of its predecessor.

Orix to acquire Next Capital stake in Japan's Ashikaga

Japanese financial group Orix will become the second-largest stakeholder of Ashikaga Holdings, the parent of Ashikaga Bank, providing an exit for Next Capital Partners. Currently, Nomura Financial Partners is the leading shareholder, having bought the bank out of bankruptcy in partnership with Next in 2008.

SOUTH ASIA

Bain makes partial exit from Hero MotoCorp

Bain Capital exited about one third of its holding in India's MotoCorp, selling the stake for approximately INR14.8 billion ($248 million). The private equity firm sold 5.6 million shares in Hero at around INR2,636 apiece. It was expected to offload 8.57 million shares in total.

Japan's Meiji acquires India drug maker, Temasek exits

Japanese conglomerate Meiji Holdings has acquired Medreich, an Indian pharmaceutical company backed by Singapore sovereign wealth fund Temasek Holdings, for $290 million via its subsidiary Meiji Seika Pharma. Temasek invested just over INR1.09 billion (then $22 million) in Medreich in 2005 in return for a 25% stake.

OPIC backs Quadria, CX funds

The Overseas Private Investment Corporation (OPIC) has committed $100 million to Quadria Capital's South and Southeast Asia-focused healthcare fund, which is targeting $300 million. It has also agreed to invest up to $66 million in CX Partners' India mezzanine fund. The vehicle was previously expected to close on $70 million.

Bain sues Big Four auditor over India kidswear deal

Bain Capital is taking legal action against EY – formerly Ernst & Young – in the US, alleging that its now worthless investment in India's Lilliput Kidswear was made based on false financial statements that the accounting firm had audited. EY said the allegations of wrongdoing are baseless.

PE must prove value credentials to China targets

Private equity investors in China must be more careful picking sectors and prepared to work harder to secure deals and deliver acceptable returns, industry participants told the AVCJ China Forum. "It's no longer a rising tide floats all boats. Sectors go through different characters of growth - some are already mature and have no growth while others will keep growing fast for many years to come. Choosing the right sectors is more important than before," said Frank Tang, CEO and managing partner of FountainVest Partners.

Management teams are also far more sophisticated in terms of their own operations and their awareness of what private equity has to offer. This places the onus on would-be investors to emphasize how they can add value to what might already be a strong-performing business. Tang added that private equity has been commoditized in the eyes of some entrepreneurs, simply because they receive so many plain vanilla pitches. But where there is interest in bring on board outside investment there is often a particular problem that needs solving, whether it is a succession planning issue, a need for assistance in entering new markets, or a dispute between existing shareholders.

David Liu, country head for KKR, contrasted the China of 2000-2010, which saw significant capital markets development and strong returns, with the more challenging conditions of the last 3-4 years, where performance is increasingly dependent on operationally-focused and value-oriented strategies. "Making 20% IRR is a very difficult game but there are much larger deals and the market is becoming more mature," he said.

FashionandYou raises $10m Series D round from VCs

Indian discount e-commerce fashion site FashionandYou.com has raised $10 million from new and existing investors in a Series D round of funding including Sequoia Capital, Smile Group, Norwest Venture Partners, Intel Capital and Nokia Growth Partners.

Bain-backed Emcure Pharma withdraws IPO

Emcure Pharmaceuticals, the Indian drugs developer backed by Bain Capital, has withdrawn its plans to go public. The listing - which was to raise INR5 billion ($84 million) - is the fourth PE-backed IPO to be pulled in India this year.

Tiger Global leads $31m round for Freshdeck

Tiger Global Management has led a $31 million Series D round of investment in India's Freshdesk, a provider of a software-as-a-service (SaaS) customer support platform for enterprises. Accel Partners and Google Capital also took part in the round.

Khosla, Battery lead $9.2m Series B for HackerRank

Khosla Ventures and Battery Ventures have led a $9.2 million Series B round of funding for Indian hacker platform HackerRank. A number of angel investors also participated. Khosla led a $3 million Series A round for HackerRank in 2012.

Peepul Capital backs India's Cura Healthcare

India-focused Peepul Capital has invested $6 million in Cura Healthcare, a high-end radiology equipment maker. Peepul already holds a majority stake in the business.

SOUTHEAST ASIA

Inspire leads round for Thailand's aCommerce

Inspire Ventures has led a $10.7 million Series A round of funding for aCommerce, a Thailand-based e-commerce services provider. The round was organized by existing backer Ardent Capital.

Singtel's Amobee acquires VC-backed ad firms

Amobee, a mobile ad company owned by SingTel, has acquired two VC-backed digital ad firms, Adconion and Kontera, for $235 million and $150 million, respectively. Adconion previously raised capital from Index Ventures and Wellington Partners, while Kontera was supported by the likes of Sequoia Capital and Carmel Ventures.

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Sleeping giants

Following concerns about performance and a government review of asset allocations, Japan's public pension funds are prepping to enter private equity. But when will it happen and who stands to benefit?

THE NUMBERS ASSOCIATED WITH JAPAN'S $1.2 trillion Government Pension Investment Fund (GPIF) – the largest pension fund in the world – are mind-numbing. The most recent data published by Towers Watson, which ranks the world's largest pension funds, shows that GPIF is bigger than top five North American pension funds combined. It dwarfs the likes of California Public Employees Retirement System (CalPERS), California State Teachers Retirement System (CalSTRS) and Canadian Pension Plan Investment Board (CPPIB).

With assets under management (AUM) roughly equivalent to the GDP of South Korea, it is no surprise that the prospect of even a slither of this immense wealth making its way into private equity has GPs worldwide salivating. In theory, if GPIF was to put just 1% of its capital to work in alternative assets tomorrow, there would suddenly be $12 billion available for allocation.

GPIF has already taken a first step in this direction, forming a partnership with Development Bank of Japan (DBJ) and Ontario Municipal Employees Retirement System (OMERS) to jointly invest in infrastructure assets earlier this year. It has earmarked JPY280 billion ($2.7 billion) – 0.2% if its assets – for the scheme. Shortly before that it hired Noriko Hayashi, a veteran private-equity manager from Sony Life Insurance, and moved several existing staff into an investment group dedicated to the asset class.

There is no longer any doubt: the world's largest pension fund is getting serious about private equity. But this is more than a $1.2 trillion question.

The argument goes that greater participation from GPIF could not only offer private equity a new source of capital but also potentially precipitate a shift in sentiment in a country where institutional investors have historically been more conservative than their North American and European counterparts. While many GPs are excited by this prospect, it remains to be seen when they expect to the see the benefits and who in the industry is most likely to reap the rewards?

"Overall the signal is that investors are moving in the private asset direction. GPIF is gigantic, so naturally everyone – public pensions and corporate pensions – is monitoring its next movement," says Tuck Furuya, a partner with placement agent Ark Totan Alternatives. "When we meet with pension funds now, private equity is the topic that they will always bring up."

Demographic bottleneck

Of course, these changes are not limited to GPIF; it is one of a number of Japanese public pension funds affected by a government review of their assets allocations. The process – which formally began two years ago – also includes: the National Public Service Pension Fund, the Local Government Official Employees Fund and the Public School Employee Pension Fund. Individually, they are a fraction of the size of GPIF, but collectively they control around $606 billion in assets.

> "GPIF is gigantic, so naturally everyone is monitoring its next movement. When we meet with pension funds now, private equity is the topic they always bring up" – Tuck Furuya

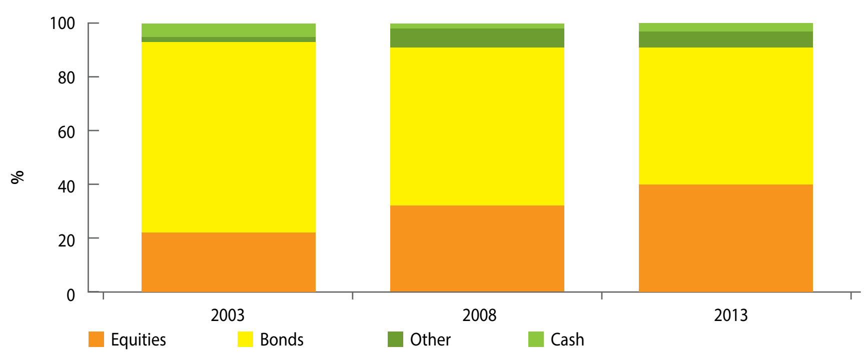
The fundamental problem faced by the pension funds stem from Japan's demographics. The population is projected to fall by 30% to below 90 million by 2060; the proportion of those aged 65 or older will have almost doubled from 2010. Fewer people are paying into public pension plans at a time when more people are retiring from work, which places increased pressure on returns. Add to this a succession of economic crises that have afflicted the country and it is clear that pension funds can no longer stick to their notoriously conservative strategies of old.

GPIF has been singled out by virtue of its size and less-than-stellar performance. The fund's portfolio currently comprises 60% domestic bonds, 12% domestic equities, 11% foreign bonds, 12% foreign equities and 5% short-term financial assets. While the most recent data shows it returned 10.2% in the 2012 financial year, in two previous years it returned 2.3% and -0.3%.

Taking Japan's pension funds as a whole, the picture is much the same. As of last year, 51% of assets were deployed in domestic and foreign bonds. While this represents a marked improvement to a decade ago – when bonds accounted for 71% – public equities have taken up a larger piece of the pie, leaving other assets on a paltry 6%.

The industry began to address the prospect of change in 2012 when GPIF launched a feasibility

Japan pension fund asset allocations



Source: Towers Watson

study on alternative assets. A government panel was also put together to address the issue.

As expected, the conclusion – which came through last November – was that GPIF that should reduce its reliance on bonds and invest in different asset classes, including private equity infrastructure, real estate and venture capital. It also outlined a proposal to overhaul the governance structure of the funds whereby the investment committee – currently part of the administrative arm of the funds – would report directly to a board of directors, independent of the CEO.

It is still unclear how this development is likely to affect smaller pension funds, and there are other factors to consider. Joji Takeuchi, CEO of PE advisory Brightrust, echoes Furuya's sentiment that investors are looking closely at what GPIF does, but he also points out that pension funds have already been hit hard by the fall out that the AIJ scandal in 2012.

The hitherto unknown Tokyo asset manager found itself at the heart of one the largest-ever financial scandals when it was discovered to have falsified performance records relating to around $2.4 billion in pension money. A total of 84 pension co-operatives representing 880,000 employees lost money as a result of the fraud. The number of smaller pension funds has since dropped dramatically as investors fled to the security of big name providers, but just as importantly, the scandal galvanized public opinion against high risk investments.

"At the moment that is impacting the number of potential investors from the pension sector committing to alternative investments," says Takeuchi. "However, institutional investors and financial institutions are coming back in general, and that will have more immediate implications for GPs."

The incumbents

The best way to gauge the broader change in Japanese investor sentiment is to look at those who currently invest in private equity. According to Preqin, primary LPs – not including fund-of-funds managers and secondaries managers – made around $1.3 trillion of commitments worldwide last year. Of this, around $26 billion – 2% of the total – came from Japanese institutions. To date, the most prolific investors are banks and corporates, with insurance companies, private sector pension funds, asset managers and investment companies accounting for smaller portions.

In general, industry participants report an improvement in sentiment towards the asset class among Japanese investors. Many put this down to the wider economics reforms brought in by Prime Minister Shinzo Abe – the Abenomics package comprising "three arrows" targeting monetary, fiscal and structural measures.

"During earlier periods of recession, many investors were risk averse and putting money into alternative assets was a challenge because the mentality then was that the economy might deteriorate," says Yasufumi Hirao, CEO of fund-of-funds manager Alternative Investment Capital . "Now, people are expecting more inflation and for corporate performance to improve so the risk is more affordable, which means there is capacity for alternative investment."

In terms of where this capital is going, the same Preqin report show that around 45% of the Japan-based banks include buyout vehicles within their investment strategy, while only 4% of corporate investors consider this fund type. Meanwhile, 87% of banks and corporate investors will consider venture fund opportunities. In terms of geography, 70% of banks will only invest in the Asia, but 79% of corporate investors are willing to back private equity funds focused on markets outside of Asia.

Japan's largest pension funds by assets under management

Pension fund	Assets as of year-end 2012 (US$m)
Government Pension Investment Fund	1,292,003
Local Government Officials	201,443
Pension Fund Association	119,199
National Public Service	93,149
Public School Employees	67,979
Organization for Workers Retirement	54,788
Private Schools Employees	40,611
National Pension Association	28,790
Mitsubishi UFJ Financial	25,282
Nippon Telegraph & Telephone	24,338

Source: Towers Watson

Pensions, on the other hand, are likely to take different approach, favoring low risk, low return strategies. While large funds and insurance companies might set a target return of around 15%, pension funds are more likely to be happy with a single-digit IRR.

The government advisory panel recently recommended that GPIF should aim for yearly returns of 1.7% plus the rate of wage growth, which implies 4.2% in total. This rate is lowest among the pension funds to which GPIF compares itself. CalPERS, for example, seeks an annual return of 4.75%.

A number of industry participants have declared that GPIF should do more to target higher returns. Yasushi Ando, CEO of New Horizon Capital and an adviser to the ruling Liberal Democratic Party on pensions, went on record earlier this year to say that the fund should deploy $95 billion into the asset class. Whether GPIF can be convinced to take on more risk is another matter.

"Pension funds don't pay much attention to financial institutions or sophisticated investors' behavior because the pension funds know right from the start that their understanding and capabilities do not match those of an experienced LP," says Ark Totan's Furuya, "So even if they see insurance companies investing into private equity, it doesn't mean much."

Follow the leader

As such, pension funds are more likely to take their lead from GPIF. The co-investment vehicle it recently set up with DBJ and OMERS could therefore be an indicator of how others proceed. The unit trust structure will be managed by Nissay Asset Management and invest in infrastructure opportunities identified by OMERS, which will co-invest alongside the vehicle over its five-year investment period. Areas of interest include power generation, electricity transmission, gas pipelines, and railways. DBJ, for its part, is contributing $100 million to the fund.

No performance target has been disclosed for the vehicle, but GPIF earlier pointed out that OMERS returned an average 11% annually between 2009 and 2013 through such investments.

GPIF's Hayashi explains that the partnership represents an ideal starting place because it not only offers exposure to relatively low-risk alternative assets, but also affords GPIF much needed access to sophisticated investors in the shape of OMERS and DBJ.

"As a background to that program, we do expect to learn from experienced institutional investors, and we have already started to accumulate a knowledge base, better industry relations and more experience,' she says "This has been an important starting point as we seek to build our own resources."

This underscores the key challenge facing Japanese pension funds in that many lack the resources to run and effective private equity program.

Kazushige Kobayashi, managing director with Capital Dynamics, says the issue for many pension funds will be whether they have sufficient human resources to participate. A fund typically has only one or two professionals

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who handle all investments and they have to spend a lot of time on public equity and fixed income, given these account for the lion's share of portfolios. Accordingly, this has opened up opportunity for funds-of-fund and other gatekeepers looking to fill the knowledge gap.

Ark Totan is one such example, having been set up in 2010 with the specific intention of targeting pension funds. Based on his interaction with the pension fund community, Furuya explains that many are looking outside of Asia when making commitments. "Up until now whenever pension funds invest in private equity it is more likely to be foreign funds as opposed to domestic funds," he observes. "One of the reasons for that is the number of quality foreign funds that are available."

> "It didn't happen right away, but after a while investors started thinking that they might want to take the risk. It was quite a surprise to see that as it is something the Japanese market has not seen in a long time"
>
> – Yuka Hata

This implies that pension fund strategies are as much to do with investing in experienced managers as they are to do with investing in mature markets. Preqin found that 49% of Japanese LPs will not invest with first-time fund managers, while 29% are willing to back such managers provided they are spin-outs from existing firms and therefore have the semblance of a track record. Only 22% said they would invest in a first-time GP, no strings attached.

Baby steps

Furuya's point is endorsed by Yuka Hata, executive director with advisory and fund-of-fund manager Nomura Private Equity. "Japanese LPs normally like to start by investing in the US or Europe, they will not jump into Asia," she says. "We recommend they start with global fund managers, then once they start to construct their portfolio hopefully the client can be persuaded to put money to Asia."

At the same time, Hayashi says GPIF that it will not take a regional focus but rather maintain a diversified portfolio with a long-term perspective. However, since no other announcements have been regarding GPIF's future, industry participants can only hazard a guess as to the eventual impact of the asset allocation review. Progress will remains slow but many in the market remain optimistic.

"I think Abenomics has changed people's mentality." says Noumura's Hata. "It didn't happen right away, but after a while investors started thinking that they might want to take the risk. It was quite a surprise to see that as it is something the Japanese market has not seen in a long time."

This view is shared by Capital Dynamics's Kobayashi, who expects to see greater clarity in terms of GPIF's intentions in the near future. The wider pension community will then follow suit. However, progress – when it happens – will be incremental.

"GPIF is a big entity and if they invest, the amount would be relatively large," he says. "They have to select a manager for those programs and it will take a long time, maybe six months to a year or more, but we hope they can start that program sometime next year."

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Exporting Japan

Japan Bank for International Cooperation made its first commitment to a top-tier GP this year, backing CVC Capital Partners' latest Asia fund. Managing Executive Officer Shigeki Kimura explains the group's strategy

Q: How has JBIC's role as an investor evolved since it was first formed?

A: Historically, JBIC has been a trade financing institution but nowadays it is more focused on facilitating Japanese businesses as they expand abroad. For that reason it puts a lot of effort into supporting overseas M&A.

Q: What impact has this change had on JBIC's investment strategy?

A: We used to limit ourselves to debt financing but now JBIC is more focused equity financing for M&A deals. We have started to diversify our financial offerings and it has become an important tool for JBIC to support Japanese companies' overseas activities. For example, last year Marubeni acquired Gavilon – the number three grain trader in the US – in a $2.7 billion deal with JBIC investing around $600 million in the form of preferred stock. In March we supported a joint venture investment by Mitsubishi Heavy Industries into a European windmill business, investing a maximum of EUR132 million ($181 million).

Q: Why is JBIC's recent commitment to CVC Capital Partners Asia Pacific IV so significant?

A: We had previously made round 20 investments in PE funds, committing around $3 billion, but CVC is the first case of JBIC committing to in a top-tier PE fund. The ticket size for CVC commitment was $100 million; this was relatively big for us, although half of it was provided by Sumitomo Mitsui Trust Bank (SMTB). We are now seeking further opportunities. This participation can be a model that will facilitate greater coordination among PE funds, JBIC, Japanese financial institutions and Japanese companies as potential buyers. for portfolio companies.

Q: How does JBIC's mandate as a public fund impact its investments?

A: Because JBIC is a policy-based financial institution, our mandate is clearly set by law. When we invest in any private equity fund, one or more of our missions should be met. Furthermore, our investments should not be used in Japan, we focus only on overseas activities of Japanese companies. The investment with CVC helps us fulfill our aim of enhancing Japanese companies' overseas activities. We understand it is a commercial transaction and investment targets need to be met, so it depends on negotiations, but our agreement encourages CVC to introduce portfolio companies to Japanese companies at an early stage, and further facilitate information flow to Japanese companies.

Q: Do you expect to see more engagement between GPs and Japanese strategic investors?

A: Japanese companies are willing to be engage in more overseas M&A but the information flow between PE funds and Japanese companies is quite limited. Many Japanese companies and financial institutions have been unable engage with funds – for many reasons, but partly because the ticket size is very big. Through the JBIC-SMTB consortium we can get access to that club and play a catalytic role.

"The investment with CVC helps us fulfill our aim of enhancing Japanese firms' overseas activities"

Q: What will this role involve?

A: Not only will JBIC, and its partner banks, be able to add value by utilizing our knowledge and networks, but we will also be able to make co-investments alongside PE funds and alongside Japanese companies. JBIC has various financing tools at its disposal, ranging from senior debt financing to direct equity investment and fund investment. In addition, we can guarantee commercial loans provided by private sector banks. We have a broad network among Japanese companies and financial institutions, so we are in a unique position to work with global private equity firms like CVC.

Q: How has JBIC benefited from the recent changes in the Japanese economy and the polies introduced by Prime Minister Shinzo Abe?

A: The recent developments in the Japanese economy are helping us have a lot more exposure and communication with major players in the PE business. In the past, when the Japanese economy was not doing so well, there was a tendency to pass over Japan and go elsewhere because people believed the country was done. Since the Abe administration and Haruhiko Kuroda, the governor of the Bank of Japan, brought in a radical set of policies, the country has once again emerged as a new frontier. All eyes are on Japan and that has given us a significant opportunity to connect with major players, who are now re-evaluating the potential of Japanese investors and companies.

Q: What are JBIC's plans for its future PE exposure?

A: We want expand to our private equity investment program and this will be a priority as we look to engage in more equity activities either through direct investment or through investment in funds – but we have not set a target. Our history as an investor in the private equity industry is a relatively short but we are trying hard to communicate with major funds in Japan and outside. Several PE firms have a strong presence in Tokyo, such as KKR and CVC, and the exchange of views and information is improving. GPs are now bringing their proposals to us on a regular basis and we are making more trips abroad to Hong Kong, New York and London, trying to meet as many groups as possible in order to generate more deals.

Playing away

Emboldened by ample financing and the need to develop demand bases beyond a stagnating domestic market, Japanese companies are investing more overseas. Are they partner or competitor for private equity?

WHEN MEIJI SEIKA PHARMA – THE pharmaceuticals arm of Meiji Group - acquired Indian drug maker Medreich earlier this month it was an ideal solution to an issue that has often plagues Japanese companies. Meiji was keen to expand into the generic drugs market but like so many conglomerates found the domestic market did not offer the growth it needed.

The Japanese drugs market is by no means small, commanding annual sales of approximately JPY 6.45 trillion ($64.5 billion) it is second largest pharmaceutical market in the world, according to Thompson Reuters. However, only 6.6% of this market – $3.8 billion – comprises generic drugs. In India, however, generic drugs are worth a staggering $26 billion. Factor in the large, growing population and expanding middle class and it is clear why Meiji wanted to go there.

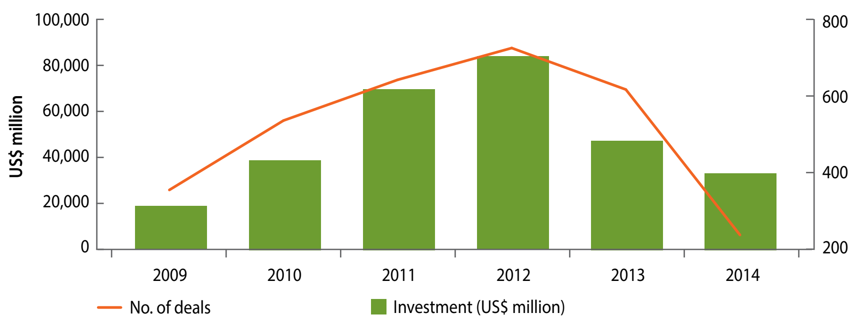
The deal – which provided an exit for Temasek Holdings, which invested INR1.09 billion (then $22 million) in Medreich in 2005 – not only demonstrates the continuing hunger among Japanese strategics for overseas assets but also shows how private capital can participate. There are plenty of opportunities to partner with Japanese corporates and exit assets to them, but these companies also represent a competitive threat on the investment side.

According to Thompson Reuters, Japanese outbound M&A stands at $33 billion dollars across 239 deals so far this year, compared to $47 billion over 614 deals in 2013. While the numbers do not match the previous peak of 2012 – when M&A reached $83.2 billion – they are impressive in context of a weaker yen. At the same time, many expect investment to increase further.

"If anything the story is that is getting bigger and better," says Hiroshi Kondo, head of M&A advisory and partner at law firm Baker & McKenzie in Tokyo. "For many of the Japanese firms doing outbound deals today the reason is growth. The prospects for demographic growth in Japan mean there is little else they can do other than go offshore to take new markets."

In addition to sluggish demand caused by ageing population, many firms venture overseas to counter the impact of fierce competition from domestic rivals industries. And they are backed in these endeavors by Japanese banks keen to provide M&A financing.

Japan outbound M&A volume



Source: Thomson Reuters

Fabled shores

Two themes have emerged when it comes to the jurisdictions in which Japanese firms are looking to invest. The US accounts for the most M&A transactions for any single country, with 46 so far this year. However, Southeast Asia features prominently as a region with 54 deals. While US companies are seen as mature and a source of advanced technology and expertise, Southeast Asia has come to the fore for different reasons.

"China and Thailand used to be popular destinations, but they have been joined by, among others, Indonesia, the Philippines, Vietnam and even Myanmar where it is possible to hire relatively cheap skilled labor," Satoshi Sekine, Japan private equity leader at EY. "Also, because of the close proximity to Japan, Japanese companies are more familiar and comfortable with Southeast Asia than other emerging markets."

Politics also plays a role, with Southeast Asia regarded as an attractive alternative to China, given the recent tensions between Tokyo and Beijing. "While there is still a strong trade relationship between Japan and China, the political tensions have encouraged some Japanese companies to diversify their overseas manufacturing locations and reduce reliance on China," says Paul Ford, a director at KPMG FAS.

Some of the most significant deals to take place this year have involved Indonesian companies. The first of these facilitated a partial exit for Northstar Group and TPG Capital when they sold another portion of Bank Tabungan Pensiunan Nasional (BTPN) to Sumitomo Mitsui Banking Corp. for $528 million. The Japanese group now owns 40% of the bank, having first invested in 2013. The second deal saw Nippon Life Insurance acquiring a 20% stake in Asuransi Jiwa Sequis Life for around $424 million.

Partly thanks to these transactions, financial services accounted for one quarter of all Japanese outbound M&A in the first of this year and in 2013. However, the lion's share of capital goes into consumer staples, which are responsible for 56% of M&A so far this year and 42% last year.

Southeast Asia is where Japanese strategics frequently come into contact with private equity, and for the latter it can be a double-edged sword. Cash-rich Japanese companies factor long-term synergies into their pricing, which means they can get comfortable with high valuations. For example, BTPN was priced at 4.5x book value, making it one of the most expensive bank transactions ever seen in Asia.

This is great for Northstar and TPG but not for PE firms bidding against Japanese strategics for assets. There are plenty of cases in which private equity has lost out, notably in 2011 when Indonesia's Garuda Food spurned selling an equity stake to The Carlyle Group in favor of a joint venture with Suntory. More recently, Japanese insurer Meiji Yasuda overcame competition from Carlyle, KKR and CVC Capital Partners to acquire a piece of Thai Life.

On the flipside, ties between Japanese

strategics and private equity can be mutually beneficial. Aside from providing a potential exit route, the Japanese party can bring strong industry knowledge and regional sales channels to a venture.

"From the Japanese corporate perspective, a private equity investor can help de-risk an investment," adds KPMG's Ford. "It provides capital to reduce the up-front investment, and also helps the corporate avoid consolidating the target business, which may be desirable in the case of a highly leveraged acquisition."

Alignment issues

However, even when there is a strong alignment of interest between PE fund and Japanese strategic investor, deals often do not come to fruition. One Asian GP making investments in Southeast Asia claims to have entered into six memoranda of understanding with Japanese investors, none of which resulted in a transaction being executed.

"The reality is that a lot of these strategics are not used to doing deals outside of Japan and they are very cautious," says the GP. "The low interest rate environment means they can preserve status quo and that means they are under no pressure to do something quickly."

> **"Many Japanese companies are going to be cautious, especially in Southeast Asia since due diligence and compliance issues are big headaches for them"**
>
> – Hiroshi Kondo

Baker&McKenzie's Kendo says various upsets experienced by Japanese strategic investors in emerging market in the recent past have also contributed to a climate of extreme caution. He cites the case of Ranbaxy – another Indian pharmaceuticals asset – which was acquired by Daiichi Sankyo in 2008, but ran into trouble with US regulators over allegations of doctored test results and was fined $500 million.

"Many Japanese companies are going to be cautious, especially in Southeast Asia since due diligence and compliance issues are big headaches for them. Many of our clients are beginning to ask us to conduct very careful compliance due diligence," he says. "The current trend of Japanese companies is to try and seek synergies at a very high level."

But there are organizations trying to smooth the way for better alignment of interested between Japanese investors and private equity, including the government-backed Japan Bank for International Cooperation (JBIC). In the last couple of years it has provided equity financing for overseas acquisitions by Marubeni Corporation and Mitsubishi Heavy Industries. Now JBIC is an LP in CVC Capital Partners' latest pan-Asian fund, with a view to improving communication between private equity and corporate Japan.

There will be no shortage of opportunities to realize this ambition, provided strategic and private equity investors recognize the capabilities each brings to a deal and are able to work together in a way that is mutually beneficial.

"I don't believe the weaker yen in itself will cause long-term outbound M&A to decline," one GP tells AVCJ. "The primary drivers are the strategic need to diversify and optimize supply chains, and to grow the top line outside of a challenged domestic market. These drivers don't go away, especially on the revenue side."

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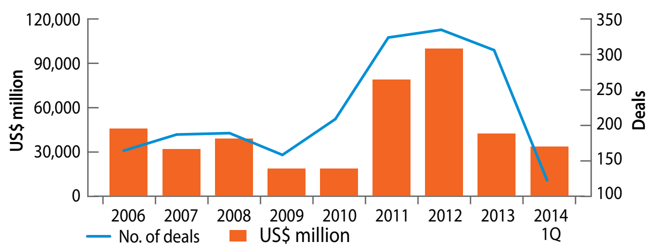
May 2014

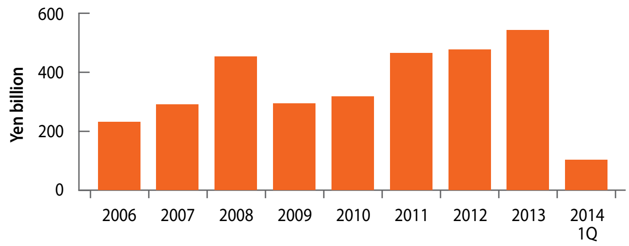
An outbound story

Led by a number of bumper deals, outbound M&A by Japanese corporations has reached new heights in the last few years. Most of the activity takes place close to home within Asia. Data supplied by S&P Capital IQ

Japanese outbound M&A



Japanese outbound direct investment



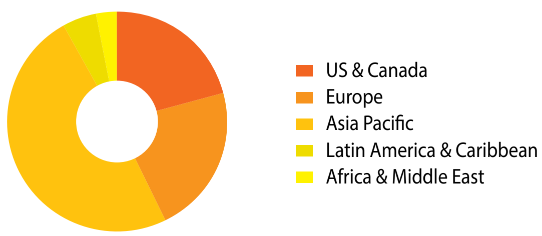
Most active investors by deals

Company	No. of deals
Mitsubishi Corporation	65
Mitsui & Co	64
Marubeni Corporation	62
Sumitomo Corporation	44
ITOCHU Corporation	32
Toyota Tsusho Corp	24
Nippon Steel & Sumitomo Metal Corporation	18

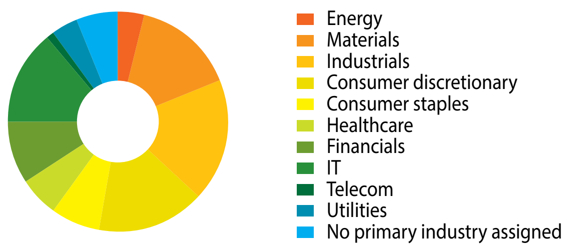
Most active investors by capital deployed

Company Name	Total deal size (US$m)
SoftBank Corp	44,455.8
Takeda Pharmaceutical	22,474.4
Marubeni Corporation	20,946.7
Suntory Holdings	20,159.7
Japan Tobacco	19,691.5
Unison Capital	15,970.4
Silver Lake	15,866.8

Deals by destination



Deals by industry



Top M&A deals - ex-Asia

Date	Investee	Value (US$m)	Investors
Oct-12	Sprint Corporation (US)	41,100.0	SoftBank Corp
Dec-06	Gallaher Group (UK)	18,893.3	Japan Tobacco
Jun-07	Intelsat Investments (Luxembourg)	15,866.8	BC Partners; Silver Lake; Unison Capital
Jan-14	Beam Suntory (US)	15,799.7	Suntory Holdings
May-11	Nycomed SICAR (Switzerland)	13,767.4	Takeda Pharmaceutical

Top M&A deals - Asia

Date	Investee	Value (US$m)	Investors
Jul-13	Bank of Ayudhya Public (Thailand)	5,286.7	Bank of Tokyo-Mitsubishi UFJ
Jun-08	Ranbaxy Laboratories (India)	3,831.7	Daiichi Sankyo
Apr-09	Lion Nathan (Australia)	3,731.2	Kirin Holdings
Feb-11	New China Life Insurance (China)	3,640.0	Nomura Holdings; CICC
Dec-06	Mirant Asia Pacific (Hong Kong)	3,424.1	Marubeni Corp; Tokyo Electric Power

Note: Outbound targets defined as companies headquartered outside Japan; deals may include foreign parties alongside Japanese investors

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Policy play

Japan's response to the Fukushima nuclear crisis has been to draw up plans for the world's biggest alternative energy market. Foreign investors see solar power as the surest route to sustainable returns

WHILE INVESTMENT IN ALTERNATIVE energy dropped 14% globally last year, Japan bucked the trend in sensational style. Capital committed to the space jumped 80% to $35.4 billion in 2013.

The increase is a product of necessity as the country struggles to fill the gap left by its shuttered nuclear plants in the wake of Fukushima crisis in 2011. And the underpenetrated solar market is regarded by foreign private equity and infrastructure investors as rich in potential. Money is expected to flow into existing and greenfield projects.

Goldman Sachs plans to pump JPY50 billion ($487 million) into the sector over the next five years; UBS and GE Capital are targeting domestic operators; and Macquarie Capital announced a joint venture with local engineering firm Maeda Corp. to focus infrastructure and renewable energy projects, although progress has yet to be made. A consortium led by Equis Funds Group and Partners Group, meanwhile, is building a brand new utility business in Japan.

There is also considerable interest from domestic players, with PE funds, financial institutions, energy trading houses and conglomerates keen to provide project financing.

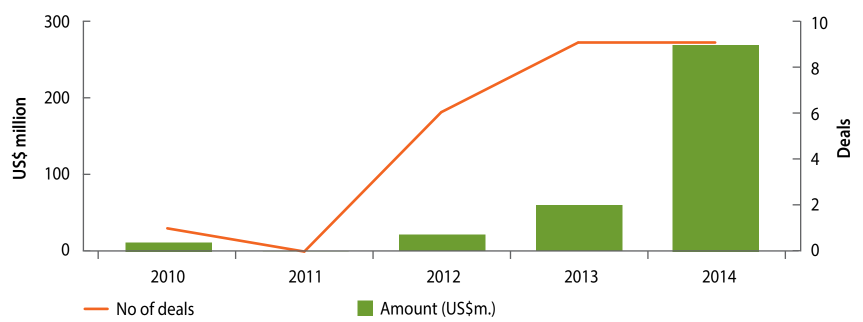
"It is an attractive market because the government is committed to rapidly building up the renewable energy sector post-Fukushima and they have a well thought-through subsidy regime," says Benjamin Haan, Partners Group's head of private infrastructure in Asia Pacific. "The opportunity is huge as the development of the sector is just at its early stage. We do think that this is one of the most attractive opportunities we see globally right now."

The question for foreign investors is how comfortable are they hitching themselves to this government-led renewables transformation. Where does the hype stop and reality begin?

Ambitious targets

Renewable energy currently accounts for less than 10% of Japan's total energy mix. The government wants this share to rise to at least 20% by 2030. Solar is expected to play a significant role in this expansion, with capacity reaching 28 gigawatts by 2020 and 53 GW by 2030. Come 2050 it is supposed to meet 10% of total domestic energy needs.

Japan Cleantech VC investment



Source: AVCJ Research

With this in mind, the Ministry of Economy, Trade & Industry (METI) announced a feed-in tariff scheme for renewables in 2012. The solar feed-in tariff was set at JPY42 per kilowatt (KW), the highest in the world at that time.

"Last year Japan was number one globally in terms of investment in solar energy. It's not just hype and it's not going away in the near term," says Paul Ford, a transaction services partner at KPMG FAS. "When you look at the size of Japan's energy market and the long term need to both replace nuclear power and reduce liquefied natural gas imports, clearly there is a real opportunity in terms of size and growth of the renewable energy market."

There is one notable difference between solar and other forms of renewable energy, such as wind or biomass: it is generally less speculative, with a shorter implementation period and more predictable returns.

The high feed-in tariff attracted a deluge of project applications before it was quickly reduced to JPY36 per KW and then JPY32 per KW. Industry participants compare this policy-driven speculation to past activity in the real estate market. As one local GP explains, developers require approval from the government to produce solar energy at a specific site, but few want to get their hands dirty producing electricity. The preference is to sell the land rights at a higher price to other investors.

"In other cases, solar energy providers won't start construction once they receive the land permit until the price of solar panels has dropped to a point at which they can save on production costs," the GP adds.

In this context, it has become difficult finding suitable sites for solar facilities. Developers are only allowed to use "unproductive land," such as young forests, golf courses or even industrial zones. Another consideration is that the location of the site has to be convenient for connecting to transmission cable and getting electricity online.

The government has introduced a raft of criteria that projects must meet within a certain timeframe as part of efforts to weed out speculators. For example, for projects that were previously approved at JPY42 per KW, applicants should demonstrate before August this year that they have taken steps towards implementation. Foreign investors are generally reassured by such moves, seeing them as evidence of the government's commitment to the sector.

Two-and-a-half years ago, Singapore-based Equis hired a local team to navigate the Japanese market and this resulted in creation of utility start-up Nippon Renewable Energy (NRE).

"They can interface and build relationships with key counterparties in Japan. It's very important to have local employees managing the business, in particular now that Japan is more open to solar energy. We feel that not having that local expertise is going to be a key barrier to entry for any new participants trying to enter the Japanese renewable energy market," says David Russell, CEO and partner of Equis.

Rather than enter into agreements with third parties, the Equis team focused on land acquisitions from its own balance sheet. The rationale was, if they controlled the land directly they would also have complete autonomy over development and construction, unrestrained by the will of speculators.

"Of course, this approach carries a little more risk compared to what we've done in developed nations because we have to put the cash up front to secure the project. However, it's tempered by the fact that we have confidence in the Japanese government to deliver on its renewable energy plans," says Adam Ballin, a partner at NRE.

Once land has been acquired, a developer enters the engineering, procurement and construction (EPC) phase. Here a local partner is necessary to serve as contractor on the project and offer assistance in obtaining the relevant permits and managing local stakeholders.

The newly-established NRE received a $250 million equity investment earlier this year led by Equis and Partners Group. Co-investors include Babson Capital, LGsuper and Qantas Superannuation. NRE has 300 MW in its development pipeline for the next two years, and the first 48 MW is being constructed using the investors' equity. Discussions are underway with Japanese banks for debt financing for the rest.

While foreign PE investors are increasingly positive on Japan's solar prospects, some of their domestic counterparts are less bullish. Tokio Marine Asset Management has raised JPY 22.5 billion across two solar-focused funds in the last two years. For its next fund, the firm plans to diversify into other sources of renewable energy, such as biomass, geothermal and hydro.

"Electric power companies' capacity to accept volatile sources of power like solar and wind is an obstacle in developing the market. Both are subject to natural conditions, which undermine the stability of electric system itself. We have already see cases in which power companies have denied requests for connection," says Koji Sumii, head of product planning at Tokio Marine.

Proliferation of choice

However, the government could head off concerns in this area as well. Last week, a bill was passed outlining plans to deregulate the electricity retail market over the next two years, which is expected to give another boost to the alternatives.

Under the new regulations, end-users will be allowed to pick the companies that provide their electricity. At present they are restricted to regional utility providers companies, which are controlled fewer than 10 service providers. Utility conglomerates will also be required to spin off their generation, transmission and distribution businesses into separate entities by 2020 to create more competition.

"Deregulation in the electricity retail sector has already raised interest from companies to enter the electricity business and approach end-users. This is a whole new business opportunity, which has already prompted investments, including private equity investments, into the energy sector," says Motoya Kitamura, partner at ROC Partners, a fund-of-funds which recently spun-out from Macquarie Group.

Deregulation also opens up new potential areas of investment for private equity. For example, taking a minority position in a start-up electricity service provider – which previously wouldn't have been able to survive in the highly concentrated market – should be an option. It can target consumers who may be looking for renewable energy at a cheaper price.

Hann of Partners Group sees it as part of the broader maturation of the industry.

"It takes the introduction of a new feed-in tariff or other support measures to kick-start the development of solar in a new market," he says. "The first movers tend to be experienced specialist foreign players or larger local industrial players. As the sector matures over time, other players become more comfortable with investing in the sector, such as local pension funds.

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Institutional imperatives

Kazushige Kobayashi, managing director at Capital Dynamics, and Soichi Sam Takata, head of private equity at Tokio Marine Asset Management, discuss the implications of improving investor sentiment in Japan

Q: How has investor sentiment in Japan changed since the introduction of Prime Minister Shinzo Abe's economic reforms package?

KOBAYASHI: Investor sentiment has improved dramatically over the past year under Abenomics. Overall, positive returns in the year ended March 2014 created more capacity for taking risk. In addition, we are on track to meet the 2% inflation target and investors are now seriously considering reviewing their investment strategy in this – modestly – inflationary environment.

TAKATA: It has changed, but I believe it is not necessarily a function of Abenomics itself, but more a result of the fact that stock markets have risen and the yen has depreciated significantly since then, improving their existing investment positions, enabling them to take more investment risk going forward.

Q: How important is the third arrow of Abenomics – structural reform – to PE and has there been any progress?

KOBAYASHI: The third arrow takes a long time to be implemented and to be effective. The government has been very active since presenting the first plan in June 2013 and a couple of the initiatives, such as enhanced corporate governance and public pension fund reform, have a positive, although indirect, impact on private equity. Continued implementation is very important for the Japanese economy, including the private equity industry.

TAKATA: The third arrow is important to the extent that it may have a reasonable impact on global investor sentiment on the medium-term prospects for Japan. However, I do not believe that it necessarily has a direct impact on private equity deal flow or other facets of the private equity industry. There are parts of the structural reform plans that can have an immediate impact to certain industries, and investment in those areas may benefit. While there has been little progress on the third arrow, it takes time – but I believe there is a reasonable chance that it can happen.

Q: What is the health of the domestic private equity market? Are the middle market and lower middle market GPs seeing more deal flow?

KOBAYASHI: We saw fewer new deals last year due to an overly rapid increase in public equity prices, and because GPs are busy exiting deals. Since the beginning of this year, we've heard that deal flow is picking up. The majority of transactions are still in the mid- or lower mid-markets, but we are also seeing large deals, such as the divestment of Panasonic's healthcare business and Sony's PC business.

TAKATA: The large end of the market has become competitive, as is the case with other parts of Asia where global players come in and crowd the market whenever there are opportunities. The middle market has become slightly underdeveloped as – due to a macro environment that hasn't been conducive to raising risk capital in recent years – many smaller GPs were not able to move up into the space after existing mid-market players grew in size.

Soichi Sam Takata

Kazushige Kobayashi

Q: A lot of hope is being pinned to Government Pension Investment Fund's (GPIF) expected move into PE. Will it open up the asset class?

KOBAYASHI: We expect other public pension funds will follow GPIF once it starts to invest in private equity. Those public pension funds manage total assets of approximately $1.6 trillion so it will have a big impact. As for corporate pension funds, their structure and status are different from public pension funds and they do not necessarily follow the trend. But we think the public funds' move will create an impetus for corporate pension funds to revisit their strategy on private equity as well.

TAKATA: There is a reasonable chance that GPIF's foray into private equity will help to nudge other pension funds to invest in the asset class, but I believe the process will be much slower than one would expect, and the likelihood of the market expanding quickly is quite small.

Q: What is domestic LP sentiment like in general? Are they looking for more international exposure, secondaries and co-investment?

KOBAYASHI: Over the past fiscal year, insurance companies became active again and even commercial banks are now investing, although they need to be careful about regulatory issues and synergies with their business. Both of those invest internationally and they invest in secondary funds or buy secondary positions directly. As for co-investment, since Japanese LPs have limited human resources and are far from the US and Europe, they face challenges in executing such transactions by themselves.

TAKATA: Domestic LP sentiment has improved quite a bit in the past few years due to the rise in the public stock markets and the depreciation of the yen. Robust distributions in more mature private equity portfolios also help to reduce exposure, helping to increase appetite to reinvest money into the asset class. Given that the more mature markets are in the US and Western Europe, and given the likelihood of the yen depreciating further over the medium term is reasonably high, I believe many domestic LPs are comfortable expanding their exposure outside of Japan.

What Asian investment destination are you interested to hear about?

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CAMBODIA

Opportunity: Deal-making in Southeast Asia's frontier markets, such as Cambodia, has been limited as investors remain **cautiously optimistic but hesitant to enter**.

PE Attractiveness Index: Rank 89
Cambodia is increasingly attractive to PE professionals and experts recommend to stay alert

GDP (US$ billions):	15.6
GDP Growth (%):	7
PE investment in 2013 (number of deals):	2
PE investment in 2013 (US$ million):	not known
Number of exits in 2013 (number of deals):	0
Amount of exits in 2013 (US$ million):	NA
Number of funds raised:	0
Amount of funds raised in 2013 (US$ million):	NA

More information: blog.iese.edu/vcpeindex/cambodia/
www.adb.org/countries/cambodia/economy

INDONESIA

Opportunity: While Indonesia found itself mired in a downturn as a result of currency volatility going in the second half of 2013, the fundamentals that have raised **Indonesia's attraction remain intact**.

PE Attractiveness Index:	Rank 46 Indonesia is getting increasing exposure
GDP (US$ billions):	868.4
GDP Growth (%):	5.8
PE investment in 2013 (number of deals):	31
PE investment in 2013 (US$ million):	658 e.g. +8% since 2012
Number of exits in 2013 (number of deals):	4
Amount of exits in 2013 (US$ million):	2,077.1 e.g. +691.4% since 2012
Number of funds raised:	3
Amount of funds raised in 2013 (US$ million):	227 e.g. -70% since 2012

Key sectors (Trends): Retail and wholesale, infrastructure

More information: blog.iese.edu/vcpeindex/indonesia/
www.adb.org/countries/indonesia/economy

MALAYSIA

Opportunity: Malaysia has seen a number of **regional funds spring** up as investors look to tap neighboring markets.

PE Attractiveness Index:	Rank 13
GDP (US$ billions):	316.5
GDP Growth (%):	4.7
PE investment in 2013 (number of deals):	26
PE investment in 2013 (US$ million):	758 e.g. +62% since 2012
Number of exits in 2013 (number of deals):	12
Amount of exits in 2013 (US$ million):	995 e.g. -39.5% since 2012
Number of funds raised:	5
Amount of funds raised in 2013 (US$ million):	1,054 e.g. +137.2% since 2012

Key sectors (Trends): Financial services, Transportation & Distribution

More information: blog.iese.edu/vcpeindex/malaysia/
www.adb.org/countries/malaysia/economy

MYANMAR

Opportunity: Myanmar has ground to cover before becoming **a viable target for private equity...**

PE Attractiveness Index:	Rank 13
GDP (US$ billions):	56.41
GDP Growth (%):	7.5
PE investment in 2013 (number of deals):	1
PE investment in 2013 (US$ million):	not known
Number of exits in 2013 (number of deals):	1
Amount of exits in 2013 (US$ million):	22.6 e.g. 100% since 2012
Number of funds raised:	1
Amount of funds raised in 2013 (US$ million):	not known

more information:
http://www.adb.org/countries/myanmar/economy

PHILIPPINES

Opportunity: Philippines is moving onto investors' radars as **stable politics translates into investor interest**.

PE Attractiveness Index: Rank 42
and highly gain interest from the PE communicaty gaining 22 ranks in the past 4 years

GDP (US$ billions):	276.7
GDP Growth (%):	7.2
PE investment in 2013 (number of deals):	21
PE investment in 2013 (US$ million):	572 e.g. +5,498% since 2012
Number of exits in 2013 (number of deals):	1
Amount of exits in 2013 (US$ million):	not known
Number of funds raised:	1
Amount of funds raised in 2013 (US$ million):	115 e.g. -81.6% since 2012

Key sectors (trends): TMT, Financial services

More information: blog.iese.edu/vcpeindex/philippines/
www.adb.org/countries/philippines/economy

SINGAPORE

Opportunity: Asia's most mature markets, like Singapore, will showcase **the biggest buyouts** compared to the small and mid-sized deals that have occurred across the region.

PE Attractiveness Index:	Rank 3
GDP (US$ billions):	295.7
GDP Growth (%):	4.1
PE investment in 2013 (number of deals):	93
PE investment in 2013 (US$ million):	3,061 e.g. +214% since 2012
Number of exits in 2013 (number of deals):	13
Amount of exits in 2013 (US$ million):	196.2 e.g. -91.8% since 2012
Number of funds raised:	12
Amount of funds raised in 2013 (US$ million):	1,970 e.g. -28.9% since 2012

Key sectors (Trends): Transportation & Distribution, TMT

More information: blog.iese.edu/vcpeindex/singapore/

THAILAND

Opportunity: Thailand remains **an attractive investment destination**, albeit one that has taken a backseat to other markets in the subregion.

PE Attractiveness Index:	Rank 31
GDP (US$ billions):	387.3
GDP Growth (%):	2.8
PE investment in 2013 (number of deals):	18
PE investment in 2013 (US$ million):	35 e.g. -86% since 2012
Number of exits in 2013 (number of deals):	4
Amount of exits in 2013 (US$ million):	473.8 e.g. +0.8% since 2012
Number of funds raised:	1
Amount of funds raised in 2013 (US$ million):	350 e.g. +100% since 2012

Key sectors (Trends): Utilities

More information: blog.iese.edu/vcpeindex/thailand/
www.adb.org/countries/thailand/economy

VIETNAM

Opportunity: Vietnam remains **a relatively stressed market** with the bulk of investment involves strategics or non-private-equity investors.

PE Attractiveness Index:	Rank 68
GDP (US$ billions):	171.2
GDP Growth (%):	5.1
PE investment in 2013 (number of deals):	10
PE investment in 2013 (US$ million):	627 e.g. +800% since 2012
Number of exits in 2013 (number of deals):	3
Amount of exits in 2013 (US$ million):	110 e.g. -70.1% since 2012
Number of funds raised:	0
Amount of funds raised in 2013 (US$ million):	NA

Key sectors (Trends): Financial services, Consumer products & services

More information: blog.iese.edu/vcpeindex/vietnam/

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Source: AVCJ Research, International Monetary Fund, Asian Development Bank Outlook 2014. The VC and PE Attractiveness Index

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