AVCJ
ASIAN VENTURE CAPITAL JOURNAL
Asia's Private Equity News Source
avcj.com June 02 2015 Volume 28 Number 20

Innovation engines

Corporates find different ways to participate in Asia venture capital Page 7

EDITOR'S VIEWPOINT
Local partners are key to China cross-border deals Page 3

NEWS
Bain, ChrysCapital, FLAG, FountainVest, GIC, Marunouchi, Silver Lake, Temasek, Tiger Global, Warburg Pincus, Zodius Page 4

FOCUS
Chinese insurers in no rush to become GPs Page 11

DEAL OF THE WEEK
Tata envisages order in India logistics chaos Page 12

LP INTERVIEW
ROC Partners re-invents the fund-of-funds model Page 15

DEAL OF THE WEEK

Pampering the pets

Quadrant buys high-end pet food maker Page 12

FUNDS

Preparing for lift off

Accel, DJI fund will back drone start-ups Page 13

AVCJ
ASIAN VENTURE CAPITAL JOURNAL

16th Annual Private Equity & Venture Forum

Japan 2015

25-26 June, Conrad Tokyo

GLOBAL PERSPECTIVE, LOCAL OPPORTUNITY avcjjapan.com

Providing stability for investors in Asian private equity

Join Japan's premier private equity event and network with **215+ institutional investors**

REGISTER NOW!

Confirmed Limited Partners to speak include:

Kimihiro Fukuyama
Director, Growth & Cross Border Investment Department,
DEVELOPMENT BANK OF JAPAN

Yuka Hata
Executive Director / Investment Committee Member, **NOMURA PRIVATE EQUITY CAPITAL (NPEC)**

Hidekazu Ishida
Advisor
OSAKA GAS PENSION FUND

Yoshisuke Kiguchi
Chief Investment Officer
OKAYAMA METAL AND MACHINERY PENSION FUND

Shigeki Kimura
Managing Executive Officer, Global Head of Industry Finance Group, **JAPAN BANK FOR INTERNATIONAL COOPERATION**

Tatsuya Kubo
Managing Director
HARBOURVEST PARTNERS (JAPAN) LIMITED

Toru Masuda
General Manager of Investment Product Development Department and Head of Private Equity
SUMITOMO MITSUI TRUST BANK LIMITED

Isamu Sai
Partner, Tokyo
ADAMS STREET PARTNERS

Soichi Sam Takata
Head of Private Equity
TOKIO MARINE ASSET MANAGEMENT CO., LTD

... and many others!

For the latest programme and speaker line-up, please visit ***avcjjapan.com***

Registration: **Carolyn Law** T: **+852 3411 4837** E: **Carolyn.Law@incisivemedia.com**
Sponsorship: **Darryl Mag** T: **+852 3411 4919** E: **Darryl.Mag@incisivemedia.com**

Enquiry

Asia Series Sponsor

Co-Sponsors

Advantage Partners

BainCapital

KKR

PEP

TATA OPPORTUNITIES FUND

Simultaneous translation between Japanese and English will be available throughout the event
開催言語：日本語および英語通訳同時あり

An incisivemedia event
incisive-events.com

avcjjapan.com

Join your peers #avcjjapan

Scan the QR code with your phone to access avcjjapan.com

EDITOR'S VIEWPOINT

tim.burroughs@incisivemedia.com

A helping hand

WHEN HONY CAPITAL BOUGHT PIZZA Express for or about GBP880 million ($1.5 billion) last year, the plan was to turn the UK-based restaurant chain's nascent China presence into a commanding one. The private equity firm then built a dedicated platform for other acquisitions in the country's highly fragmented quick service restaurant industry.

It is a classic roll-up strategy: accumulate multiple brands into a single platform with the scale and diversity of product offerings to go public. Investment and operations professionals with relevant skill sets are recruited or deployed to work on the team tasked with building out these restaurant interests.

Fast dining is not the only area in which the private equity firm has participated in cross-border transactions. Also last year, Hony paid RMB15 billion ($246 million) for a 12.43% stake in Chinese hotel operator Shanghai Jin Jiang International, becoming the largest institutional shareholder. A few months alter Jin Jiang agreed to buy Louvre Hotels, Europe's second-largest hotel group, from Starwood Capital.

In contrast to the restaurant space, there is no dedicated team to handle cross-border hospitality deals. So the GP chose not to act alone. Hony and Jin Jiang will help Louvre penetrate the China market while simultaneously using the newly acquired European network to accommodate Chinese tourists going overseas.

"When bringing brands to China we want to make sure we can amass the necessary resources, in addition to the capital, to aid expansion. In the case of fast food chains we have our management platform, which is good for Pizza Express. In areas where we don't have a management group, we want to work with an existing portfolio company that has a strong China presence," John Zhao, Hony's CEO, recently told AVCJ.

In the last couple of years there has been a lot of hype about Chinese private equity firms going overseas, but they have yet to make a significant imprint on major international markets. There are two oft-cited reasons for this, and both equally apply to Chinese strategic players: most middle-market assets come to market via a competitive process; and sellers are wary of Chinese buyers' ability to get deals over the finishing line.

The second reason is likely more prevalent, if only because of intermittent past horror stories, mostly on the strategic side. Particularly in the US, there have been concerns about enforcing compensation rights against a Chinese buyers if a deal breaks down and uncertainty as to where the money is coming from when the bidder is a loose consortium of financial institutions, for example.

However, among the more experienced players, the importance of a strong a local partner when entering into a deal is a recurrent theme.

Speaking at the Hong Kong Venture Capital & Private Equity Association's recent China summit, Michael Weiss, a partner at China cross-border specialist Sailing Capital highlighted his firm's acquisition of US lifestyle products retailer Brookstone last year, which was done with a view to rolling out the brand in China. Embarking on the deal alone would have been a very different proposition to partnering with Sanpower Group, which has a sizeable presence domestic retail.

Similarly, RRJ Capital acquired the Greater China franchise rights for Dunkin' Donuts in partnership with Philippines-based quick service restaurant operator Jollibee Foods Corporation. Jollibee, which is already active in China, will have responsibility for the day-to-day operations of the joint venture as they look to set up 1,500 outlets nationwide.

Vivian Lam, a managing director with RRJ, identified two critical factors when targeting cross-border transactions. The first is finding a good partner with strong local expertise. The second is building a competent in-house team so the GP is not wholly dependent on the local partner and the joint venture retains a degree of independence.

For all GPs with ambitions to bring foreign brands into China, there must be an initial internal capability to identify the opportunity and then close and monitor the deal – areas in which the local partner may not be so strong. Weiss noted that the shortfall for some Chinese groups is not a lack of cultural affiliation with their offshore targets as an inability to communicate in the language of transactions and understand global M&A norms.

Tim Burroughs
Managing Editor
Asian Venture Capital Journal

Managing Editor
Tim Burroughs (852) 3411 4909
Staff Writers
Andrew Woodman (852) 3411 4852
Winnie Liu (852) 3411 4907
Holden Mann (852) 3411 4964

Creative Director
Dicky Tang
Designers
Catherine Chau, Edith Leung, Mansfield Hor, Tony Chow

Senior Research Manager
Helen Lee
Research Associates
Herbert Yum, Jason Chong, Kaho Mak

Senior Marketing Manager
Sally Yip
Circulation Administrator
Prudence Lau
Subscription Sales Executive
Jade Chan

Manager, Delegate Sales
Pauline Chen

Director, Business Development
Darryl Mag

Manager, Business Development
Anil Nathani, Samuel Lau

Sales Coordinator
Debbie Koo

Conference Managers
Jonathon Cohen, Sarah Doyle,
Conference Administrator
Amelie Poon
Conference Coordinator
Fiona Keung, Jovial Chung

Publishing Director
Allen Lee

Incisive Media
Unit 1401 Devon House, Taikoo Place
979 King's Road, Quarry Bay,
Hong Kong
T. (852) 3411-4900
F. (852) 3411-4999
E. info@avcj.com
URL. avcj.com

Beijing Representative Office
No.1-2-(2)-B-A554, 1st Building,
No.66 Nanshatan,
Chaoyang District, Beijing,
People's Republic of China
T. (86) 10 5869 6203
F. (86) 10 5869 6205
E. beijing@avcj.com

The Publisher reserves all rights herein. Reproduction in whole or in part is permitted only with the written consent of AVCJ Group Limited.
ISSN 1817-1648 *Copyright © 2015*

NEWS

GLOBAL

Aberdeen buys FLAG Capital

Aberdeen Asset Management has bought FLAG Capital Management, the US-based firm that acquired Asia-focused fund-of-funds Squadron Capital in 2012. The deal will double the size of Aberdeen's private equity business to about $15 billion in assets under management.

GREATER CHINA

VC activity will continue to thrive - AVCJ Forum

Chinese VC deal activity will retain its strong momentum over the next few years, largely due the increasing diversity of exit channels. "There are a few unicorns emerging in China and their M&A activity is very vibrant," J.P. Gan, managing partner at Qiming Venture Partners, told the AVCJ China forum. Jeffery Chin, vice chairman and managing director of Vickers Venture Partners, added that the GEM board and the New Third Board should also offer attractive exit options.

Warburg Pincus makes partial exit from CAR

Warburg Pincus has completed a partial exit from China Auto Rental (CAR), raising HK$3.1 billion ($401 million) and reducing its stake in the company to 11%. The PE firm, which paid $200 million for a 23% stake in CAR in 2012, sold 168 million shares via a placement to third parties at HK$18.50 apiece.

Weibo invests $142m in taxi-booking platform

Chinese social media platform Weibo Corporation has invested $142 million in Kuaidi Dache and Didi Dache, the country's leading mobile taxi-booking services, which recently agreed to merge. Sina Corp-controlled Weibo said that it was investing through Xiaoju Kuaizhi, the vehicle created to hold the two companies.

PE-backed IMAX China files for HK IPO

The China business of movie theater operator IMAX, in which FountainVest Partners and CMC Capital Partners acquired a 20% stake just over a year ago, has filed for an IPO in Hong Kong. FountainVest and CMC each own 10%, having invested $80 million at a valuation of $400 million. The balance is held by IMAX Corporation.

GPs wary of public market volatility, regulation

China's A-share market may be trading record highs, but PE investors told the AVCJ China forum that they are still wary of public market exits, citing the amount of time it takes to complete the process.

The certainty of exit is just as important as the valuation at which one can exit, noted Lihong Wang, managing director with Bain Capital. A buyout-focused investor like Bain may have to wait three years before applying to list due to change-of-control regulations. The application

process itself could also be lengthy and then the private equity firm's shares would be subject to a three-year lock-up. "I don't know if you can be confident that the market will still be at the current valuations three or more years from now," Wang said, adding that Hong Kong listings and trade sales remain the preferred route.

Even primarily minority investors have been forced to seek alternative exit channels. Yao Duan, managing director at Shenzhen Co-Win Venture Capital, said that her firm had completed 20 M&A exits in the past two years.

CICC Private Equity faced a similar dilemma with Jiangyin Tianjiang Pharmaceutical. It agreed with management to seek out a strategic buyer because the IPO process would have taken too long and Hong Kong-listed China Traditional Chinese Medicine agreed to buy a majority stake in the business for $1.34 billion. "It is a very long process and the return will not be as good as if we had listed the company directly on the A-share market. But when you factor in all the other considerations that was the best option for us," said Cathy Zhang, managing director at CICC.

Tiger Global joins $134m placement for eHi

Tiger Global has joined hedge fund SRS Partners in a $134 million stock placement for Chinese car rental service eHi Car Services. The transaction will comprise two tranches, of 11.4 million shares and 10.9 million shares, respectively. In addition, eHi's two largest shareholders, Ctrip and the Crawford Group, will sell a combined 2.7 million common shares to the buyers at the same price of $6 per share.

GIC, BlackRock to cornerstone 3SBio's IPO

GIC Private and BlackRock have joined four other investors to cornerstone Chinese biotech pharmaceutical developer 3SBio's relisting in Hong Kong, two years after it was taken off NASDAQ by CITIC Private Equity. 3SBio is looking to raise up to HK$5.5 billion ($712 million) through the sale of 484.9 million new shares and 121.2 million shares held by CITIC. The shares will be priced at HK$8.30-9.10.

JD.com leads $70m round for Fruitday

Chinese online retailer JD.com has led a $70 million Series C round for Fruitday, a China-based e-commerce site dedicated to selling imported fruit. The company claims this is the largest funding round in China's fresh produce e-commerce industry to date. Existing investors SIG Asia Investments and ClearVue Partners also participated.

Luxury e-commerce site gets $30m Series C

Pacific Venture Partners has led a $30 million Series C round of funding for Xiu.com, a China-based luxury brand e-commerce platform. Existing investors Kleiner Perkins Caufield & Byers (KPCB) also took part in the round.

Cathay backs China food ingredients maker

Cathay Capital has bought a 25% stake in Chinese food ingredient maker Cabio Bioengineering (Wuhan). The PE firm, which invested through its Sino French (Midcap) Fund, will help diversify Cabio's product portfolio, increase its market coverage and create downstream applications.

NSSF posts 11.7% investment return for 2014

China's National Council for Social Security Fund (NSSF) generated an investment return of 11.69% in 2014, up from 6.2% the previous year. Investment income came to RMB142.4

This announcement appears as a matter of record only.

April 2015

Innovative Directions in Alternative Investing

$10,100,000,000

Lexington Capital Partners VIII, L.P.

THIS PARTNERSHIP HAS BEEN ESTABLISHED TO ACQUIRE A DIVERSIFIED PORTFOLIO OF PRIVATE EQUITY AND ALTERNATIVE INTERESTS IN THE GLOBAL SECONDARY MARKET.

Lexington Partners

New York 660 Madison Avenue, New York, NY 10065 212 754 0411
Boston 111 Huntington Avenue, Suite 3020, Boston, MA 02199 617 247 7010
Menlo Park 3000 Sand Hill Road, 1-220, Menlo Park, CA 94025 650 561 9600
London 50 Berkeley Street, London W1J 8HA 44 20 7399 3940
Hong Kong 15/F York House, The Landmark, 15 Queen's Road Central, Central, Hong Kong 852 3987 1600

info@lexpartners.com **www.lexingtonpartners.com**

NEWS

billion ($22.9 billion). NSSF's total assets stood at RMB1.53 trillion, of which 8.5% was deployed overseas. The proportion of assets entrusted the third-party managers increased from 46.05% to 49.74%.

NORTH ASIA

Lixil unit files for insolvency

Japanese bathroom fitting company Lixil is set to lose at least JPY41 billion ($337 million) after its German-listed Chinese subsidiary, Joyou AG, filed for bankruptcy. Lixil acquired the business after it bought German faucet maker Grohe from TPG Capital in late 2013. The company said it had fired Jianshe Cai, Joyou's founder and chairman, and his son and deputy chairman Jilin Cai. It is looking to launch a legal action against the pair.

Marunouchi Capital exits toymaker Takara Tomy

Marunouchi Capital has sold the last of its stake in Japanese toymaker Takara Tomy via an open market sale. The PE firm offloaded a 12.2% stake in the business, or 10.3 million shares. Based on the previous closing price, the consideration is likely to be in the region of JPY7.5 billion ($61 million). The deal comes five months after TPG Capital exited the Takara Tomy.

YJ Capital, East Ventures back big data start-up

YJ Capital - the corporate venture capital arm of Yahoo Japan - and East Ventures have invested JPY260 million ($2 million) in Use Local, a Japanese big data start-up. Set up in 2007 by former Rakuten engineer Masao Ito, User Local develops a suite of web analytics tools under names Nakanohito, Ugokuhito, User Insight, and Social Insight.

SOUTH ASIA

Zodius reaches $110m first close on VC fund

Indian venture capital firm Zodius Capital has reached a INR7 billion ($110 million) first close on its $500 million technology-focused fund being raised in partnership with Avendus Capital. Zodius Capital II - which launched in April last year - will have a particular focus on late stage and pre-IPO investments in digital and SMAC (social, mobile, analytics and cloud) companies.

Silver Lake-backed Avago agrees $37b Broadcom deal

Avago Technologies, a Singapore-incorporated chip maker backed by Silver Lake Partners, has agreed to buy its NASDAQ-listed rival Broadcom Corp. for $37 billion in cash and stock. The deal comprises $17 billion in cash and about $20 billion in Avago shares. The newly formed Singapore holding company will be called Broadcom Limited and will be led by Avago CEO Hock Tan.

In total, Broadcom Corp. shareholders will get a 32% stake in the combined entity, which Avago claims will have an enterprise value of $77 billion and combined annual revenues of about $15 billion.

Avago, which started life as started life as the semiconductor products division of HP and later Agilent Technologies, specializes in the design, development and global supply of a range of analog semiconductor devices. Broadcom, meanwhile, provides semiconductor solutions for wired and wireless communications.

The deal comes 18 months after Silver Lake invested $1 billion in the company to help fund its $6.6 billion acquisition of LSI Corporation. Silver Lake had previously acquired Avago alongside KKR, GIC Private and Temasek Holdings in late 2005 in a deal worth $2.66 billion. The company then went public in 2009 in a $650 million IPO. Silver Lake, which exited the last of its stake to an undisclosed investor last year, generated a 5x money multiple from the investment.

ChrysCapital exits stake in Mankind Pharma

ChrysCapital Partners has sold its 11% stake in India-based Mankind Pharma to investment firm Capital International for just over $200 million, valuing the company at about $2.2 billion. The deal is understood to have generated a near 10x money multiple for the GP, which invested $25 million in the firm in 2007.

Temasek's India NBFC to provide home financing

Fullerton India Credit Company (FICC), the Indian non-banking financial company (NBFC) owned by Singapore's Temasek Holdings, will set up a new unit offering home financing in the affordable housing segment. It has already applied to the National Housing Bank for a license to set up a subsidiary with an initial investment of INR1 billion ($15.7 million).

ICICI Venture exits Future Lifestyle Fashion

ICICI Venture has exited its stake in Future Group-owned India apparel company Future Lifestyle Fashion (FLF) through an open market transaction. The GP sold its 1.15% stake - or 2.1 million shares - for INR175 million ($2.7 million). ICICI Venture acquired its interest by investing in Future Retail, then Pantaloon Retail, in 2006. It then obtained shares in FLF through a stock swap deal as part of a group restructuring in 2013.

Regulator rejects Baring Asia's Sharekhan buyout

India's Foreign Investment Promotion Board has rejected Baring Private Equity Asia's bid to buy IDFC's stake in Mumbai-based brokerage Sharekhan. Baring had included in its offer IDFC's stake in Human Value Developers, a non-banking finance company owned by several Sharekhan executives. That offer was also rejected.

Everstone hires head of capital markets, exits

India and Southeast Asia-focused Everstone Capital has named Bhavna Thakur as its head of capital markets and exits. She will be based in Mumbai and lead the GP's capital markets and exits function across the PE and real estate businesses.

SOUTHEAST ASIA

Malaysia's Cocoaland rejects Navis buyout offer

Malaysian confectionary manufacturer Cocoaland Holdings has rejected a takeover bid from Navis Capital Partners that valued the company at MYR377.5 million ($104 million). This follows an announcement by Cocoaland last month that it had held preliminary discussions with EQT Partners about the possible sale of a majority interest in the business.

andrew.woodman@incisivemedia.com

Pleasing the parent

Companies want to keep tabs on technological innovation in order to stay relevant in their industries by nurturing Asia's tech start-ups. However, there is no uniform approach to corporate venture capital

THE RISE OF ASIA'S FINANCIAL technology start-ups threatens to disrupt the banking sector in a big way. Industry incumbents face a choice between adaptation and extinction. To keep up with the pace of change, many corporates are looking to venture capital as a way to access the creativity of the start-ups that threaten to upend the status quo.

Singapore's DBS Bank – a 47-year-old institution with S$400 billion ($300 billion) in assets – is one such beast. Like many large corporates across many verticals, it is looking to back next big thing in its industry. But DBS has not formed an in-house corporate venture capital arm. Instead it has teamed up with Hong Kong-based early-stage investor and incubator Nest and set up the DBS Accelerator.

"In the long term DBS is looking at investments where it can make an acquisition, but normally the company has to be a certain size to justify DBS' involvement," says Simon Squib, CEO of Nest. "What we try to do is organize and systemize the early-stage investing space which traditionally has been quite messy – we are a deal-flow platform."

The DBS Accelerator, which will launch from next month, is targeting eight start-ups operating across in across seven segments: banking, big data, banking infrastructure, mobile payments, risk monitoring, security and small and medium-sized enterprise (SME) banking. The idea is that Nest provides the space, the program and mentorship while DBS contributes additional resources and capital in return for access to the next big fintech innovation.

The DBS-Nest tie-up is just one of a number of ways corporates are departing from the traditional captive corporate VC model. The very definition of corporate venture capital is being challenged, both in terms of the nature of the parties' involvement and the strategies they are pursuing. The issue for corporates – and their partners – is finding a model that fits.

"Corporate venture capital in Asia has been led by early pioneers and now there is a wave of new entrants," says Tytus Michalski, managing director of Fresco Capital in Hong Kong. "Instead of a one-size-fits-all idea, it is important to match the business model to the needs and strengths of each individual company."

Given the various ways corporate-backed VC is classified, it is difficult to accurately convey the size of the ecosystem in Asia, but AVCJ Research data provides a starting point. For the purposes of this article it has tracked any Asia-focused early-stage fund that is managed by a VC with a corporate parent – so that includes corporate VC funds that also raise capital from external LPs.

The data indicate that corporate VC fundraising activity underwent a resurgence in 2014 with 25 funds receiving $2.24 billion on aggregate, compared with $923 million across 26 funds in 2013, and $763 million raised for 13 funds in 2012. It is worth noting, though, that two funds attracted half of the total capital raised: IDG China Venture Capital Fund IV and Legend Capital Fund IV, which raised a combined $1.09 billion. Both firms have for some time received commitments from third-party investors.

"Instead of a one-size-fits-all idea, it is important to match the business model to the needs and strengths of each individual company" – Tytus Michalski

Changing models

To get an idea of the how corporate VC is evolving in the region it is worth starting with the traditional model employed by the earliest entrants. The most successful examples are the likes of US chipmakers Intel and Qualcomm. Most of their activity in Asia has focused on China. Of the $14 billion raised by 204 corporate VC funds in the region over the past 10 years, more than half has gone to 79 China-focused vehicles.

Intel Capital claims to have invested roughly $2 billion in Asian start-ups since 1998; $700 million of this has gone to 120 China tech start-ups. Qualcomm Ventures, meanwhile, has been active in the region since 2000 and currently has 33 current investments across and China, India and Korea. However, Intel and Qualcomm are exceptional examples. Industry participants note that plenty of other corporate VC units have struggled in the region.

Part of Intel and Qualcomm's success is down to the way their VC arms are structured. James Shen, vice-president and managing director with Qualcomm in Beijing, divides traditional corporate VC in the three categories: the strategic model, the ecosystem model, and then a hybrid of the other two. The first involves a corporate VC making investment decisions purely from a strategic standpoint, and focuses on how the target company can directly benefit the parent.

"In this kind of VC model, the team is often not very independent," explains Shen. "They will have a team led by executive vice president who will handle the corporate strategy and the decision making and it is mostly top-down, meaning the top executives already know the strategy, they target a certain kind of start-up, and ask the team to execute on the deal."

By contrast, the ecosystem model – which is closer to the structure adopted by Qualcomm and Intel – offers the team greater autonomy with regards to investment decisions. It is essentially a bottom-up approach whereby the team will source deals based on broader long-term corporate aim of building of the ecosystem, i.e. not just backing companies that are directly connected to parent's business.

Shen notes that this is largely a function of maturity, with the more established corporate VCs seeking investments that will benefit the ecosystem. The remit for these players is to keep tabs on the latest developments in their sector.

"One way a corporate justifies setting up a fund is basically for research scouting and trend watching," adds William Bao Bean, an investment partner at SOS Ventures, who previously worked for Singtel Innov8, the corporate VC arm of Singapore's Singtel. "If you have some skin in the game, the depth of the data you can pull out is much greater that if you are just reading a newspaper or doing meetings."

There third approach, which combines both models, is by its nature harder to capture. It involves targeting strategic investments that

andrew.woodman@incisivemedia.com

directly benefit the parent while looking to back the next macro trend. Shen notes that Chinese internet giants such as Baidu, Alibaba Group and Tencent Holdings fit into this category. For example, Tencent's investments in mobile taxi-booking platform Didi Dache and online listings and group-buying service Dianping could both be seen to help broaden the parent's own platform.

However, it is not only corporate money that is being put to work. Tencent launched the Tencent Collaboration Fund in 2011 with a target of $1.5 billion. One of the benefits of taking capital from outside investors is that it mitigates issues related to traditional corporate VC.

Bao Bean observes that the reason some corporate venture capital funds have not been successful is where corporates have been too focused on their own strategy. Their interests have consequently come into conflict with those of portfolio start-ups. He observes that many corporations often have a short-term outlook, focusing on the next set of annual or quarterly results, as opposed to the next 10 years.

"The board of directors will look at the j-curve and look at the early losses, and if the company overall is not doing well it would cut the corporate venture program leaving start-ups in the lurch," says Bao Bean. "As a result corporate VC has got a very bad reputation, which is why so many corporate VCs failed in the past."

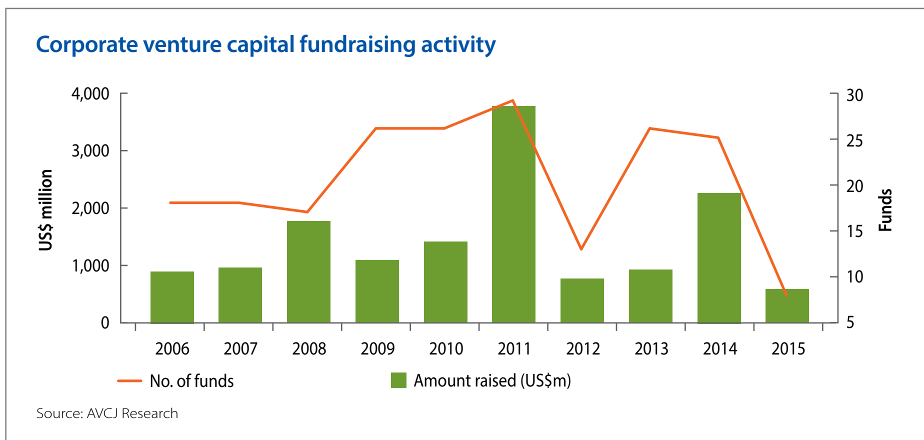
This point is echoed by Ben Weiss, a venture partner with SoftBank Ventures Korea (SBVK). He notes that because the SBVK sources around half of its capital from outside LPs, there is a need to focus on producing a financial returns as well as achieving strategic goals. This helps align the interests of the corporate VC and the portfolio companies. For SoftBank, the benefit of having LPs is more strategic than financial.

"From SoftBank Japan's perspective, it is less about financial returns – it doesn't move the needle for a group that size – they are more interested in having the first look into new technologies," says Weiss. "But it is a better model in my view because they get value from the LPs as they often have very good contacts."

Another possible benefit of a more independent corporate VC arm is that the investment team is able to operate on performance-based model. One of the major shortcomings of some firms is that managers are not compensated as they would be in traditional VC funds. For example, some corporate VCs do not include carry. According to Bao Bean, VCs that compensate based on performance generally do better in the long term, while those who do not are setting themselves up for failure.

Venture war chests

It is worth considering, however, that not all forms of corporate venture capital fit easily into the above definitions. Industry participants note that a number of relatively young VC-backed start-ups recently entering the space employ another kind of hybrid approach: they are looking to cultivate close ecosystems that incur direct benefit to their parents.



Source: AVCJ Research

The stand-out example is Chinese smart phone maker Xiaomi, which was set up 2010 and has its own corporate venture capital unit, Xiaomi Ventures. There also some interesting case studies outside of China such as Japanese game developer Gumi and Korea messenger app Line Corporation, which have both set up corporate VC units in Japan in the past year. This trend is arguably more prevalent in Asia than in the West.

"Asian companies are a lot more aggressive on the venture side and they use their investment arms as competitive weapons," Bao Bean explains. "They are creating ecosystems where you get partnership and investment. So for Xiaomi, if you don't take their money, you can't partner with them, but it you become part of their ecosystem, you get cash, distribution and monetization. It is a powerful combination."

Qualcomm's Shen also adopts the weapon analogy when referring to Xiaomi's VC activity. He also notes that what makes Xiaomi interesting is that Lei Jun, the company's co-founder, is also co-founder of Shunwei Capital Partners, which regularly participates alongside Xiaomi in ecosystem investments.

These start-ups are often developing smart hardware that is expected to complement Xiaomi's product line up. Huami, a start-up that manufactures fitness wearables for Xiaomi, raised $35 million from Shunwei and four others in December. Meanwhile, Xiaomi Ventures has backed companies such as iHealth, which is expected to help Xiaomi develop mobile health technology solutions.

"Xiaomi is not an R&D company – the way it innovates is through its go-to-market strategy and through its branding," says Weiss. "But through investments it can get a look at a company, form partnerships, and buy intelligence. It is a way to take a bite, without eating the whole cake."

Not all start-ups wanting to dip their toes in venture capital can draw on the experiences of a technological polymath like Lei Jun. Another solution is to establish a formal partnership with a pure VC player. A recent example of this is Chinese drone start-up DJI which brought in Accel Partners – one of its VC backers – to launch a $10 million fund targeting drone-related products and services that could add to its ecosystem.

"A number of start-ups try to have their own in-house people but the learning curve is often longer than they realize," says Shen. "Investing is not a half-an-hour decision, it is a science. By partnering with a professional team you will be more effective."

With various corporate VC models gaining traction in the tech industry, the next issue is finding start-ups that willing to take the capital. The benefit with partnering with these VCs is clear for start-ups. Among other things, they are able to leverage capital and resources of an investment company that may have an international network and a well-established portfolio of companies that may offer synergies.

Nobuaki Kitagawa, CEO of CyberAgent Ventures, adds that corporate VCs can help start-ups in tapping overseas markets. "If a start-up wants to expand their business to another market we can work with the start-up companies by using our business footprint," he says. "This is particularly important in the Japanese market."

Willing partners?

However, as mentioned, the obvious downside is that the strategic interests of the corporate clash with those of the start-up. This can lessened to a degree by having a corporate VC fund that

andrew.woodman@incisivemedia.com

operates with some degree of autonomy, but it does not erase all potential conflicts.

Weiss notes that it can be hard for start-ups to predict whether a corporate VC will make a follow-on investment. He recalls a story of corporate VC that operated across numerous verticals and backed a start-up that shared a strategic synergy with ones of its business units. However, the unit was subsequently sold off and the start-up became non-core overnight.

Other issues arise when multiple corporate investors are involved. Inevitably, some want to secure certain rights over the others: the right to launch a product, the rights to acquire the company, or even just certain observer rights which may create conflicts.

"If you have a potential customer in your board room, it can be very difficult to talk about doing business with their competitors, so you need to segregate board meetings and conference calls and take out relevant board members," says Weiss.

CyberAgent's Kitagawa echoes this point, noting that many start-ups are concerned that taking an investment from one company might make it difficult to work with other players in the same industry. Shen, however, argues that the level of comfort start-ups have with their corporate backers is also a factor of geography

Largest corporate VC fund closes, 2014-2015

Fund name	Manager	Country	Size (US$m)
IDG China Venture Capital Fund IV	IDG Capital Partners	China	586
LC Fund VI	Legend Capital	China	500
QUALCOMM China Investment Fund	QUALCOMM Ventures China	China	150
Gumi Ventures II	Gumi Ventures	Japan	107
IDG 90's Entrepreneur Fund	IDG Capital Partners	China	100
Rakuten Globbal Venture Fund	Rakuten Ventures	Japan	100

Source: AVCJ Research

and culture. He observes that in China start-ups are more likely to see early alignment with larger internet players beneficial to their growth than their Western counterparts.

"Chinese companies are more likely to weigh up the pros and cons," says Shen. "There is much greater tolerance than there is in the US where people feel their options will limit if they align too early."

Nest's Squibb notes that it was the desire to bridge this potential misalignment of interest – and strike a balance between a corporate that supports and corporate that smothers innovation – that led to the model adopted by DBS. The firm has also partnered with life insurance company AIA Group to set up an accelerator that will back start-ups with technologies relevant to the insurance and healthcare industries.

The bottom line is supporting start-ups and then facilitating corporate access to that innovation without the need to commit the same amount of resources or have exposure to the same degree of risk associated with running an in-house fund.

"When I meet with start-ups, the problem they are trying to solve rarely matches the problems corporates are trying to solve – they speak a totally differently language." Squibb says. "So there has to be a communication buffer between the two universes. We try to understand both sides of the equation. If we can connect the dots, everyone wins in the long term."

The most authoritative and comprehensive guide to private equity investors in Asia

Asian Private Equity Online Directory

The **Asian Private Equity Online Directory** is the most comprehensive online directory on private equity and venture capital in Asia. It is easy to navigate, enabling access to a listing of around 3,900 Asian private equity firms and over 9,600 professionals.

For a free trial, please visit asianfn.com/VCDemo.

To subscribe, call Sally Yip at +(852) 3411 4921 or email AVCJsubscriptions@incisivemedia.com

avcj.com

AVCJ DATABASE

asianfn.com/Research_Database.aspx

Your ultimate link to the Asian private equity, venture capital and M&A markets

AVCJ database is the ultimate link between Asian dealmakers and those who provide advisory, financial, legal and technological services to the private equity, venture capital and M&A industries. The AVCJ Database gives subscribers access to more than 125,000 companies and facts and statistics on over 90,000 transactions.

Features

- A large profile pool with around **6,800** funds, **3,800** GPs and **3,000** LPs
- Comprehensive records, including more than **80,000** M&A transactions; **19,000+** PE/VC investments; over **2,400** PE/venture-backed IPOs; and in excess of **3,400** exits
- Pan-Asian coverage, including Australasia and Japan
- Data that is updated daily and tracked as far back as 1990 - the longest and deepest track record in Asia.
- Data downloads in MS Excel and PDF formats
- Powerful search functions and accurate statistics for the analysis
- Customer service via telephone and email

Buy-outs (MBO/MBI/LBO)

Deal Status: Agreement in Principle

Acquisition Technique: Leveraged Buyout

Acquisition Attitude: Neutral

Involved Companies

Company Name	Deal Role	Amount(US$mln)	Deal Stake	Industry	Nationality
Carlyle Asia - China	Investor	n/d	n/d	Private Equity	United States
CDH China Management Co., Ltd.	Investor	n/d	n/d	Private Equity	Hong Kong
China Everbright Ltd.	Investor	n/d	n/d	Finance	Hong Kong
CITIC Capital Partners Ltd.	Investor	n/d	n/d	Private Equity	Hong Kong
FountainVest Advisors Ltd.	Investor	n/d	n/d	Private Equity	China (PRC)
Nan-chun Jiang	Investor	n/d	n/d	Unclassified	China (PRC)
Focus Media (China) Holding Co., Ltd. (FocusMedia)	Investee	n/d	n/d	Advertising	China (PRC)
Fosun International Ltd.	Seller	n/d	-17.20%	Steel	China (PRC)
Undisclosed Shareholder(s)	Seller	n/d	-65.24%	Unclassified	United States
Citigroup Global Markets Asia Ltd.	Financial Adviser, Investor (Carlyle Asia - China)	n/d	n/d	Securities/Investment Banking	United States
Citigroup Global Markets Asia Ltd.	Financial Adviser, Investor (CDH China Management Co., Ltd.)	n/d	n/d	Securities/Investment Banking	United States
Citigroup Global Markets Asia Ltd.	Financial Adviser, Investor (China Everbright Ltd.)	n/d	n/d	Securities/Investment Banking	United States
Citigroup Global Markets Asia Ltd.	Financial Adviser, Investor (CITIC Capital Partners Ltd.)	n/d	n/d	Securities/Investment Banking	United States
Citigroup Global Markets Asia Ltd.	Financial Adviser, Investor (FountainVest Advisors Ltd.)	n/d	n/d	Securities/Investment Banking	United States
Citigroup Global Markets Asia	Financial Adviser,	n/d	n/d	Securities/Investment	United States

Plus

- ✔ New features on selection
- ✔ Performance data on exits
- ✔ Portfolio holding period

For a live demonstration or to subscribe, please call Helen Lee at +(852) 3411 4961 or email Helen.Lee@incisivemedia.com

avcj.com

GP or LP?

China's insurance companies are allowed to have more exposure to private equity than ever before. This includes the right to set up their own GPs, but not all market players will plot such a course immediately

IN CONTRAST TO MANY GLOBAL insurers, over the last eight years Met Life has stopped pursuing direct and co-investments in private equity. It was decided that the benefits of low or no management fees and carried interest did not outweigh the volatility risks.

"You are taking larger positions in a smaller number of companies; adverse selection risk is significant for us," David Lindstrom, managing director for alternative investments at Met Life, told the AVCJ China Forum. "Volatility is a concern so we try to balance the benefit of better economics on an individual deal versus creating volatility which would mean our allocation to equity would be lower – otherwise we would push up the overall volatility of the company."

Met Life has been investing in private equity for more than 30 years, and of its $500 billion in balance sheet capital, 2% is committed to PE and hedge funds. This allocation is held down by a combination of regulatory issues, capital charges and above all a desire to minimize volatility. Building a meaningful co-investment portfolio also requires a substantial team. And while Met Life manages third-party capital in other asset classes, there are no plans to do so for PE.

With Chinese insurance companies now empowered to do more in private equity than ever before – including setting up their own GPs – it is instructive to consider why some of their international peers have passed on opportunities to broaden exposure.

Opening the door

Insurers were first allowed to make LP commitments to domestic private equity funds in 2010. The following year the cap on investment was lifted from 5% of total assets to 10%, and then last year it was decreed that public and private equities combined could account for 30% of assets. Fast-track approvals have also been introduced for PE fund commitments.

Along the way, insurers were also given the green light to participate in offshore funds, with overall offshore investment capped at 15% of total assets. China Reinsurance (China Re) was the first GP to participate in a big-name offshore GP, committing $30 million to KKR's 11th North American vehicle. It has followed up with investments in funds raised by The Carlyle Group and Lexington Partners.

In the last six months the pace of reform has speeded up considerably. As Sally Shan, managing director with HarbourVest Partners, put it: "When China moves fast, it moves fast. We have seen that in the stock market and in many industries, even for the regulators."

First, in December insurers won approval to invest in domestic venture capital funds, albeit with tighter exposure restrictions than for private equity. Within three weeks of that announcement, clearance was given for insurers to set up their own PE funds that focus on investments in small and medium-sized enterprises (SMEs). The China Insurance Regulatory Commission said this could see RMB2 billion ($322 million) being invested in SMEs.

> **"In China 30 years means 10 years and patience is also probably defined differently"**
> – Sally Shan

The asset management unit of Sun Life Everbright Life Insurance, which is backed by China Everbright Group, has launched a fund, but others are in no hurry to follow suit.

"At this point in time we haven't set up a GP under China Re to do direct investments. Rather, we work with our partners to look at co-investment opportunities and also use our principal balance sheet money to do some direct investments if those opportunities are really interesting," said Xiangming Fang, managing director at China Re. Her firm's current priority is building a diversified global portfolio.

One obstacle to faster progress is regulation. While the CIRC has said that insurers can set up asset management companies to act as GPs, it has yet to offer detailed guidance as to how this will work. Sammuel Zhao, a partner at law firm Junhe, identified one particular problem: most insurers are state-owned and companies of this nature cannot act as GPs; therefore, these companies must dilute their shareholdings in asset management subsidiaries.

Beyond this, recruitment remains a pressing issue. The standard response to queries about insurers' gradual move into international private equity is that they are busy building in-house investment teams that are familiar with long-term asset allocation strategies. This is a challenge for any investor branching out into new areas. "There are constraints in terms of finding qualified people and putting in place a compensation structure for qualified people is not easy thing," Met Life's Lindstrom observed.

Horses for courses

Nevertheless, there are already some teams in the insurance ecosystem. Ping An Ventures was set up three years ago, not as an insurance company-owned vehicle – this was prohibited at the time – but as a captive investment arm of the ultimate parent, financial conglomerate Ping An Group. The idea was to replicate the Google Ventures model and identify innovations that can benefit the group.

"We started as a strategic initiative and after 1-2 years we realized we had the capability to deal with the business and then we transformed into more of an investment company," said Le Yu, managing director at Ping An Ventures. "It is very difficult to find the right people but if you find them you can set up your own company. Last week the head of Ping An Asset Management was talking to me about the possibility of setting up an investment company together."

Junhe's Zhao also sees potential in insurance companies teaming up with independent private equity firms to form joint venture GPs.

It remains to be seen whether insurance companies can be successful if they try to raise capital from third parties. Much might rest on convincing prospective investors that they have an advantage over the rest of the market in terms of deal-sourcing, by virtue of their established networks. Met Life's Lindstrom cautions patience, noting that it takes years to put a private equity strategy in place – as LP or GP – and trying to change too quickly is counterproductive.

Based on the speed of recent regulatory reforms, it is unclear at what pace the industry might evolve. "I think we should recognize that in China 30 years means 10 years and patience is also probably defined differently," said HarbourVest's Shan. "It is a very interesting time – maybe the best time and the worst time."

DEAL OF THE WEEK

holden.mann@incisivemedia.com / tim.burroughs@incisivemedia.com

Tata sees logistics angle in India tax reforms

THIRD PARTY LOGISTICS (3PL) COMPANIES have traditionally struggled in India. For example, the country's fragmented tax system meant that companies moving goods cross-country had to pay multiple tariffs and stop for traffic examination each time they crossed state lines.

Such difficulties were one of the justifications behind the planned goods and services tax (GST) bill. The bill, introduced to Parliament last year, would replace the state and federal tariffs with a single point-of-sale payment. It would also eliminate the need for interstate checkpoints.

The potential of the GST to simplify operations in India's 3PL sector was not lost on the Tata Group, which was considering offloading its Drive India Enterprise Solutions (DIESL) asset. DIESL, which maintains a total of 6.5 million square feet of warehouse space in 190 locations across India, was a good performer but not one of the Tata's principal businesses.

"Initially our discussions were around growth capital for the company, but we then recognized that to achieve scale, combining DIESL with TVS would deliver this immediately, while also providing a greater strategic focus and wider capabilities, with a recognizable cultural fit," says Rishaad Bilimoria, principal with the Tata Opportunities Fund (TOF).

TVS Logistics, a transport-focused subsidiary of TVS group, was a natural choice to take the asset. Though TVS mainly operates in the US and UK, Tata knew that the GST would encourage the company to focus on India. DIESL presented TVS with a number of strengths: its existing warehouse network covered more than twice the space that TVS' Indian warehouses, and DIESL had established relationships with consumer goods producers.

Logistics: End to the logjam?

"We knew GST was a game-changing event," says Bilimoria. "Obviously TVS now wants to significantly grow the proportion of its India business, relative to the whole. So from that perspective it made sense for them to focus on consolidation in India."

TVS agreed to buy DIESL, with TOF paying $39.3 million for a minority stake in TVS. The deal is awaiting regulatory approval. "For TVS it's really a transformational move, giving them more scale and additional significant end to end capabilities in India," says Padmanabh Sinha, managing partner at TOF. "It also gives them access to Tata group companies, which DIESL is already catering to among its client base."

For its part, TOF felt that the expected boost to India's 3PL sector from the GST bill made this a good time to get involved with TVS. The firm expects the combined companies to emerge as a market leader by the time of TVS's IPO, which is planned within the next two years.

"Ultimately we're private equity investors, not bankers, so our approach to this combination was to ask what could be an exciting investment opportunity for us," Sinha says. "We could have looked at owning DIESL ourselves, but we felt that this is obviously transformational, and much more strategic and value creating."

Quadrant makes another premium pet play

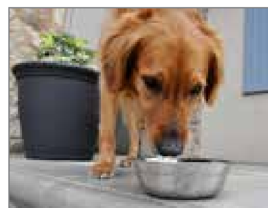
QUADRANT PRIVATE EQUITY'S LAST foray into pet services was relatively short-lived. It bought City Farmers for A$93 million ($84 million) in September 2013 and within 10 months had agreed to sell the business to Greencross for A$205 million in cash and stock.

But the premise of the deal – that Australians are increasingly "humanizing" their pets, stimulating demand for premium products and services – remains relevant. Indeed, the magnification of this trend on a global scale was key to Quadrant's acquisition of a majority stake in VIP Petfoods for A$410 million ($313 million).

The industry dynamic is twofold. First, there is a movement away from feeding pets table scraps to feeding them manufactured food; it is estimated that manufactured food now accounts for 80% of pet consumption globally, although only 50% in Australia. Second, pet owners are shifting from mass brand, low price products to premium foods.

"The premiumization of pets is quite strong in Australia and evidenced globally, particularly in the US," says Jonathon Pearce, investment director at Quadrant. "With the trend towards grain-free foods and premium foods, it is probably accelerating."

US-based Freshpet has already capitalized on this trend, going public in November 2014. It was set up in 2004 and posted $86.7 million in sales and $5.5 million in adjusted EBITDA last year. VIP is 10 years older and generates over A$300 million in revenue and A$50 million in EBITDA. It could have pursued an IPO but the founders, Tony and Christina Quinn, decided to work with Quadrant instead, and retain a minority interest in the business. The PE firm expects the company to go public in due course.



Australian pets: Eating better

Producing more than 150,000 metric tons of pet food each year, VIP ranks third in Australia's $3.3 billion pet food industry after Mars and Nestle. However, it is the runaway leader in the chilled pet food segment, which accounts for about 10% of the market. It is also the number one player in the segment globally, exporting to the US, Canada, South Korea and Japan.

"Tony Quinn has a chilled pet food business in New Zealand that the family sold before moving to Australia," Pearce says. "They introduced it to Australia in 1994 and have increased its presence in the grocery channel. Nestle and Mars don't like the chilled segment, in dog food and in other categories. It's a difficult supply chain to manage."

He sees the technology that enables VIP to manufacture at a favorable price point on a large scale as a competitive advantage that will serve the company well as it expands in the $80 billion US pet food market, where it already has a distribution agreement with HEB Texas Grocery. Quadrant's capital will be used to support growth, and this could include setting up manufacturing facilities in the US.

"It's a relatively young market in the fresh segment and the US market is massive. You really just need to focus on one state to be relevant," says Pearce.

Accel, DJI to expand drone ecosystem

ACCEL PARTNERS' $75 MILLION investment in Chinese drone maker DJI earlier this month – said to value the company at $8 billion – came with an extra component: the two groups agreed to form a $10 million fund that would back other start-ups in the space.

The new SkyFund, which comprises equal contributions of $5 million from Accel and DJI, will support all kinds of drone-related hardware and software that extend the technology into different areas, such as agriculture, oil and gas, and other industrial sectors. Each category will require specific software, whether it involves inspection, mapping or imaging, to be relevant to its user base.

"DJI has large SDK [software development kit], which basically exposes its hardware to the software. Everyone in the world could build applications on top of DJI's hardware now," says Vasant Natarajan, a partner at Accel.

The fund will invest a minimum of $25,000 per company and will consider start-ups within China and globally. In additional to capital, investees will receive product and technical resources from DJI, access to preferred demos and beta programs, and co-branding opportunities. There may also be the potential to sell products to DJI's customers in the future. Accel, meanwhile, will leverage its experience with its current and past portfolio companies to help scale up these nascent businesses.

Drones: Going mainstream

At present, DJI's products are used by customers in more than 100 countries for applications including film, construction, inspection, nature conservation, firefighting, and agriculture. Frost & Sullivan estimates that DJI accounts for 70% of the global consumer drone market.

Although the fund was only launched a few weeks ago, Natarajan says the response has been overwhelming. The VC firm has interacted with more than 150 drone-related start-ups from different countries. Some have already raised capital from other investors and they are looking to the SkyFund to participate in larger later rounds, while others are just getting started.

The fund is expected to back 25-30 start-ups in total, with the first couple of investments scheduled to close in the next few months. Beyond that, selected portfolio companies will receive follow-on funding from Accel, DJI, or possibly both.

Natarajan says the primary purpose of setting up a drone-dedicated fund is to encourage larger entrepreneurial activity in the unmanned aerial vehicle (UAV) space. To be part of the SkyFund, entrepreneurs don't have to be exclusive users of DJI's SDK technology. Other technologies are also welcome.

"I don't think the SkyFund will necessarily invest in competing technology," he says. "We anticipate investing in potential hardware component makers, battery technology providers or router operators. Hopefully they're contributing to the progress of drones, and so in the end, they are brought into the ecosystem and make drones more accessible to everybody."

avcj.com

Market intelligence on Asian private equity? AVCJ is your solution

The ***AVCJ Private Equity & Venture Capital Reports*** provide key information about the fast changing Asian private equity industry. Researched and compiled by ***AVCJ***'s industry leading research team, the reports offer an in-depth view of private equity and venture capital activity in Asia Pacific, as well as, in major countries and regions including Australasia, China, India, North Asia and Southeast Asia. These reports are used by the leading private equity firms in Asia and across the globe.

Each ***AVCJ Report*** includes the latest statistics and analysis, delivering insights on investments, capital raising, sector-specific activity. The reports also feature information on leading companies and business transactions.

For more information, please contact
Sally Yip at +**(852) 3411 4921** or
email AVCJsubscriptions@incisivemedia.com.

AVCJ - your Asian private equity information source.

asianfn.com/journal_regionalreports.aspx

AVCJ ASIAN VENTURE CAPITAL JOURNAL

5th Annual Private Equity & Venture Forum

Singapore 2015

20-21 July • Four Seasons Hotel, Singapore

SIGN UP BY 12 JUNE AND SAVE US$200

GLOBAL PERSPECTIVE, LOCAL OPPORTUNITY avcjsingapore.com

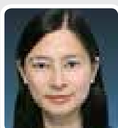
Navigating the risks and rewards of the ASEAN opportunity

Join Southeast Asia's most respected fund managers, venture capitalists, corporations and limited partners on 20-21 July at the **AVCJ Singapore Forum**, the leading Southeast Asia focused private equity and venture capital gathering in the region. Attendees will hear two days of expert debates, keynote interviews, case studies and innovation stories focused on recent deals, market activity and the private equity issues that have been making the headlines.

KEYNOTE SPEAKER:

Ming Lu
Co-Head of Asia Private Equity and Head of Southeast Asia
KKR

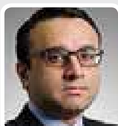
General Partners and Limited Partners confirmed to speak are:



Rebekah Woo CFA, CAIA
Director Asia, Growth Markets
CDPQ ASIE-PACIFIQUE PTE. LTD

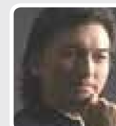
Nick Nash
Group President
GARENA

Azam Khan
Chief Investment Officer, Infrastructure East Asia and Pacific, **INTERNATIONAL FINANCE CORPORATION**



Ashish Shastry
Managing Partner
NORTHSTAR GROUP

Tapan Meshram
Senior Investment Manager
STATE GENERAL RESERVE FUND OF OMAN



Finian Tan
Chairman
VICKERS VENTURE PARTNERS

... and many others!

For the latest programme and speaker line-up, visit **avcjsingapore.com**

Registration: **Jayla Tam** T: **+852 3411 4935** E: **Jayla.Tam@incisivemedia.com**
Sponsorship: **Darryl Mag** T: **+852 3411 4919** E: **Darryl.Mag@incisivemedia.com**

Enquiry

Asia Series Sponsor

Co-Sponsors

Advantage Partners

Creador

TATA OPPORTUNITIES FUND

Legal Sponsors

Simmons & Simmons

Networking Cocktail Reception

SANNE

Exhibitor

MOORE

An incisivemedia event
incisive-events.com

Join your peers #avcjsingapore

winnie.liu@incisivemedia.com

Spin-out story

Having created the largest Asia-focused fund-of-funds as a division of Macquarie, Michael Lukin and his team spun out two years ago to form ROC Partners. Secondaries and co-investments are the areas of focus

THE ORIGINS OF ROC PARTNERS CAN BE traced back to the early 1990s and Macquarie Investment Management Private Markets (MIMPM). The fund-of-funds business was very much focused on the Australian market and then in 1998 started committing capital across Asia.

Institutional investors such as Australia's superannuation funds were logical customers. MIMPM took their money, allocated it to PE fund managers – and with the gradual addition of LPs from the US and Europe – soon became the largest Asia-focused fund-of-funds in the market.

Now the clock is ticking. LPs have built up internal capabilities to manage assets, making the role of the primary fund-of-funds less important. MIMPM had to change in order to survive. Two years ago, Michael Lukin, Andrew Savage and Shaw Ng led a management buyout from parent company Macquarie and the business was re-branded as ROC Partners – it wanted to differentiate itself by providing investors with a truly tailored advisory service.

"Ten years ago, a primary fund-of-funds would be sufficient to generate premium fees," says Lukin, managing director at ROC and previously global head at MIMPM. "But what we're seeing now is that we need to be doing things that our investors just can't do by themselves, whether that is because of their own resourcing constraints, transaction timeliness, or the deal origination. The key is there is an increasing focus on transactional activities among fund-of-funds."

Having already deployed more than a half of its $5 billion assets under management (AUM) in secondaries and co-investments, ROC wants to develop these two themes further.

On the ground

With offices in Hong Kong, Sydney and Tokyo, ROC has over 20 employees managing its portfolio. Although the firm sees opportunities in infrastructure, real estate and agriculture in Asia, there are no plans to launch dedicated investment products in the near term. Currently the core business is Asian private equity, with 20-30 existing GP relationships on the primary side ready to generate deal flows.

Lukin warns that if a fund-of-funds doesn't work closely with GPs in order to understand their underlying assets and economies, its competitive advantage will be eroded.

"The risk in the market today is that, people are trying to throw away their primary fund relationships and purely focus on secondaries and co-investments. I think that's a very short-term game to play. GPs won't show you the best deals if you're not a LP. You need an integrated approach to how you manage your relationships in order to generate good returns," he adds.

> "We are very reactive to where we see opportunities"

Asia is a nuanced market in that countries are at different points in their respective economic cycles. It is not unusual for a market to be heavily favored for a period, and then completely fall from grace. ROC sees these moments as prime entry points. For example, Japan has not been popular with investors over the past three years, so ROC invested aggressively and these efforts have translated into fruitful returns.

"We're very reactive to where we see opportunities," Lukin says. "We use a bottom-up approach: if we see an opportunity, then we assess whether we can create outsize returns. That opportunity might come through our primary relationships across the region where the manager has a specific angle in a particular market; it might be a secondary opportunity that is quite attractive; or it might be a co-investment deal where we see an interesting industry vertical or segment with attractive valuations."

In addition to being geography-agnostic, ROC is strategy-agnostic, covering everything from buyouts to venture to distress.

Sweet spot

The fund-of-funds has never had meaningful commitments from Macquarie Group and its current AUM is all third-party money. New investments in the secondary and co-investment spaces will be $25-30 million in size – a market segment that is seen as less competitive than others, but also consistent.

"When we think about allocating or raising funds, we're most focused on ensuring that we don't move too far away from what we think is the sweet spot for equity investments in Asia. Once you get into a position where you need to allocate $100 million to each opportunity, you're in a very difficult part of the market, where you can't get access to a lot of country-focused funds or you are dealing in secondary opportunities that are highly contested," Lukin says.

In many cases, existing GPs will alert ROC when secondary positions in their funds become available. Lukin sees no lack of deal flow, noting that most of the global secondaries players focus on larger investments.

ROC sees increasing secondary opportunities in China, which could be attributed to two factors. Firstly, a large number of China-focused funds were raised between 2008 and 2010, so there is more supply on a general level. Secondly, some US investors are becoming impatient with the relative lack of liquidity generated by China compared to their home market. As such, they are likely to be interested in opportunities to exiting their China holdings and re-focusing on domestic opportunities.

In terms of co-investment, when the business was mainly a primary fund-of-funds few industry participants would seek co-investment. Although there is now more interest, it can be difficult for LPs to co-invest directly in deals unless they have dedicated resources on the ground.

"Typically, we've found that when the process starts, there will be up to 10 funds putting their names forward," Lukin says. "But then pretty quickly it narrows down to one or two because the others either don't understand the business or the geography or need too much time to execute the deal. Because we are on the ground, we do see a disproportionate amount of co-investment deal flow."

AVCJ
ASIAN VENTURE CAPITAL JOURNAL

Brochure now *AVAILABLE*, download at avcjphilippines.com

Private Equity & Venture Forum

Philippines 2015

2 September, Fairmont Makati Hotel, Manila

GLOBAL PERSPECTIVE, LOCAL OPPORTUNITY avcjphilippines.com

SAVE US$300 book before 12 June 2015

Unlocking the potential

The inaugural **AVCJ Philippines Forum** will offer in-depth analysis of the risks and rewards presented to private market investors looking to commit capital to the growing economy of the Philippines.

The Forum will also provide an educational platform to showcase private equity and venture capital and the potential investment opportunities that will be of interest to investors in the future.

Forum highlights:

- **Find out** about the role of private equity in business and how they can help Filipino businesses reach their potential
- **Learn** about venture capital and entrepreneurism in the Philippines
- **Hear** about the opportunities for private sector investment in infrastructure and untapped opportunities in real estate
- **Debate** the catalysts for increasing foreign direct investment into the Philippines
- **Identify** strategies for sourcing deals and forming win-win relationships with HNWI's and conglomerates
- **Understand** the LP appetite for capital exposure to the Philippines

Registration: **Yeni Kittrell** T: **+852 3411 4836** E: **Yeni.Kittrell@incisivemedia.com**
Sponsorship: **Darryl Mag** T: **+852 3411 4919** E: **Darryl.Mag@incisivemedia.com**
Enquiry

Lead Sponsor

An incisivemedia event
incisive-events.com

avcjphilippines.com

Join your peers #avcjphilippines