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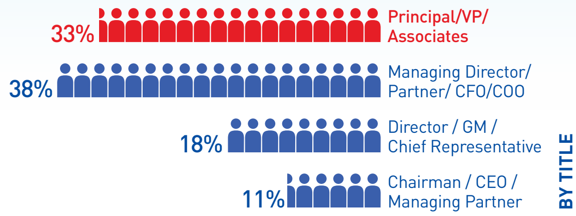

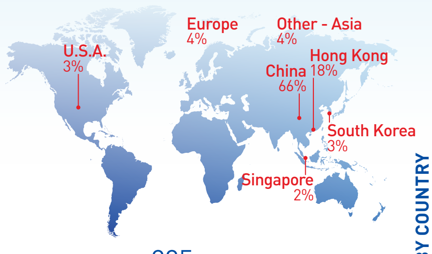

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EDITOR'S VIEWPOINT

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Pass the parcel

BARING PRIVATE EQUITY ASIA FINISHED 2015 with a flourish, acquiring China's HCP Packaging for $775 million and agreeing to buy Singapore-based precision engineering business Interplex Holdings for $320 million. In both cases, the sellers are other GPs – TPG Capital in the case of HCP, and CVC Capital Partners and Standard Chartered Private Equity in the case of Interplex.

Of the close to a dozen control deals Baring has disclosed since the start of 2013, eight have facilitated exits for existing private equity investors, including Vistra Group and CMS Info Systems, also from last year. A further two transactions have seen Baring-owned companies buy assets from other investors.

This is unusually high for an Asian pan-regional fund, but does it point to a broader trend? Generally speaking, there has been a gradual increase in private equity secondary exits in Asia, with $9.3 billion recorded for 2015 compared to $6.2 billion in 2010. The exception is 2012, which featured a couple of very large sales of minority stakes in companies – for example, Temasek Holdings paid $2.3 billion for Goldman Sachs' 1% stake in Industrial and Commercial Bank of China.

For buyouts alone, 2012 still represented a record high, with $4.9 billion transacted compared to $2.7 billion in 2015. This reflects the way that sizeable individual deals can really move the needle in Asia's nascent private equity market. Last year's outlier was MBK Partners' – announced but not yet closed – sale of China Network Systems to Morgan Stanley PE Asia and Far EasTone Telecommunications for $2.3 billion.

Speaking to AVCJ late last year, Jean Eric Salata, CEO at Baring, said the blossoming of secondary exits is a natural evolution for the industry in Asia. "It's the majority of the market in Europe and it's proven to be a very successful strategy generally," he said.

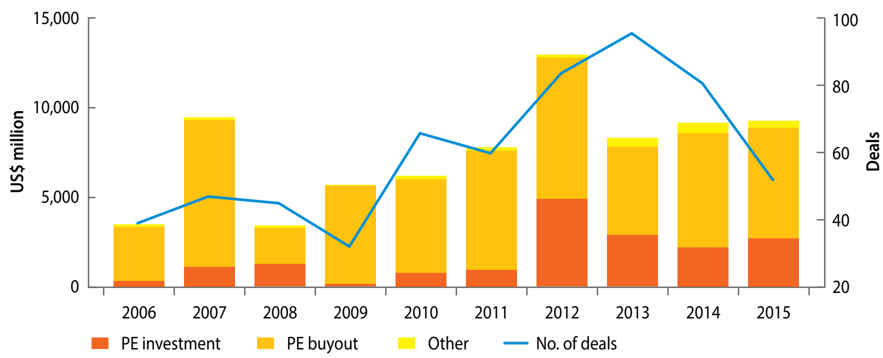
It is also worth noting that secondary buyouts fall into two categories: acquisitions of companies that are wholly-owned by other PE investors; and deals that see control transfer from a founder to a private equity firm, with existing minority investors exiting at the same time. This was the case with Baring's acquisition of India-based Hexaware Technologies, and more such deals may follow as PE investors persuade founders to exit alongside them if the preferred IPO route remains out of reach.

An argument could also be made that Asia's rapid growth will see more companies change hands as they achieve a scale and sophistication that requires a different kind of private equity investor. Bushu Pharmaceuticals, which Baring bought from Tokio Marine Capital in late 2014, would fall into this category.

Nevertheless, as has proved to be the case in Europe, secondary buyouts inevitably attract increased scrutiny – LPs are sensitive to the reasoning and pricing of any deal that involves a transfer of control from one PE firm to another. This doesn't have to be a problem for private equity firms, provided they deliver the desired performance.

Tim Burroughs
Managing Editor
Asian Venture Capital Journal

PE secondary exits in Asia



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NEWS

ASIA PACIFIC

Bain closes third Asian fund at hard cap

Bain Capital has closed its third Asian fund at the hard cap of $3 billion plus a GP commitment of at least $250 million. The fundraising process has taken approximately seven months. Deployment of the fund will begin in 2016.

TPG sells HCP Packaging to Baring

TPG Capital sold HCP Packaging to Baring Private Equity Asia for $775 million, contributing to a total of $1.55 billion returned to LPs from the GP's Asian portfolio in 2015. TPG also invested $577 million during the year, taking the total committed from the sixth Asian fund to $1.4 billion.

KKR sets up oil and gas services platform

KKR has set up an oil and gas services platform for which most of the capital will come from the firm's second Asian fund. The platform will be led by Dubai-based Deepak Munganahalli.

AUSTRALASIA

IFM agrees sale of Pacific Hydro to SPIC

IFM Investors has agreed to sell Australia-headquartered renewable energy platform Pacific Hydro to China's State Power Investment Corporation (SPIC) for a reported A$2 billion ($1.4 billion). Pacific Hydro has 900 megawatts of capacity across Australia, Brazil and Chile.

GREATER CHINA

Regulator halts GP listings on New Third Board

The China Securities Regulatory Commission has suspended listings and fundraising by domestic PE firms on the National Equities Exchange and Quotation (NEEQ) system, also known as the New Third Board. It said it was concerned at the scale of fundraising activity and the use of proceeds.

PE-backed Focus Media re-lists in Shenzhen

Focus Media, a Chinese outdoor advertising business taken private in 2013 by the CEO and a consortium of private equity investors, has re-listed in Shenzhen. The process was delayed when the chairman of the initial target shell company had to resign. Hedy Holdings was chosen instead and agreed to acquire a 100% stake in Focus Media in a deal worth RMB45.7 billion ($7.37 billion).

Investors agree $9.3b Qihoo take-private

A string of domestic insurance companies have come in to support the $9.3 billion buyout of Qihoo 360 Technology, the largest private equity-backed privatization of a US-listed Chinese company. The transaction, which includes the redemption of about $1.6 billion in debt, will see a consortium, led by Hongyi Zhou, Qihoo's chairman and CEO, acquire the business for $77.00 per share.

The initial backers were CITIC Securities, China Renaissance Holdings, Sequoia Capital and Golden Brick Capital Private Equity Fund I. While China Renaissance is no longer cited as a consortium member, Taikang Life Insurance, Ping An Insurance, Sunshine Insurance, New China Capital, Huatai Ruilian and Huasheng Capital have been added to the roster. China Merchants Bank has committed to provide a term loan facility of $3 billion and a bridge loan facility of $400 million in support of the transaction. Qihoo was the leading provider of PC internet security and mobile internet security products in China in 2014, with 479 million monthly active users and 744 million smart phone users. It was also the number one PC browser provider and Android mobile app store operator. The company generated revenues of $1.39 billion for the year and net income of $222.8 million.

Tsinghua reaches first close on fund-of-funds

Redbud Capital, a VC fund-of-funds investment unit under Tsinghua Holdings, has reached a first close of RMB1 billion ($154 million) on its latest China-focused fund. The Redbud Huatong fund-of-funds, initiated by Tsinghua Holdings and Nantong State-owned Assets Investment Holdings, has a full target of RMB3 billion.

WuXi Healthcare closes second fund at $290m

WuXi Healthcare Ventures, a corporate venture arm owned by China-based WuXi PharmaTech, has closed its second early-stage healthcare fund at $290 million, exceeding the target of $200 million. The fund was launched earlier in 2015 with an anchor commitment of up to $50 million.

CPPIB, Goodman re-up in logistics partnership

Canada Pension Plan Investment Board (CPPIB) and Goodman Group have committed another $1.25 billion to their China logistics joint venture. The JV will also buy nine projects from Goodman with an end build-out value of over $650 million.

China Everbright launches fund-of-funds

China Everbright has established a fund-of-funds with initial capital of RMB5 billion ($769 million) and a full target of RMB10 billion. The vehicle will invest in funds managed by China Everbright as well as by third-party GPs.

Alibaba, Tencent back Bona Film private

Chinese internet giants Alibaba Group and Tencent Holdings have joined a consortium seeking to privatize Bona Film Group. The deal, which also includes Fosun Group, Sequoia Capital and SAIF Partners, values the US-listed company at approximately $1 billion.

NORTH ASIA

Bain agrees to sell stake in Japan's Jupiter Shop

Bain Capital has agreed to sell its entire 50% stake in Japan's Jupiter Shop Channel to Jupiter Communication, a company part-owned by Sumitomo Corporation. Bain bought its interest from Sumitomo in 2012.

VIG Partners buys Korean PVC window maker

VIG Partners – which recently changed its corporate name from Vogo Investment – has agreed to buy Winche, a South Korea-based manufacturer of PVC windows, for KRW135 billion ($114 million). Winche claims to be the only PVC window manufacturer in Korea with full in-house capabilities from production to fitting.

SMFG to buy GE's Japan leasing unit for $4.8b

Sumitomo Mitsui Financial Group (SMFG) has agreed to buy GE Capital's Japan leasing business for JPY575 billion ($4.8 billion). The total asset value amounted to JPY510 billion for the year ended December 2014.

SOUTH ASIA

ChrysCapital seeks $600m for Fund VII

ChrysCapital is targeting $600 million for its seventh India fund, sources told AVCJ. ChrysCapital closed its previous fund in May 2012 at the hard cap of $510 million.

Blackstone invests $170m in IBS

The Blackstone Group has acquired a minority stake in India-based IBS Software for $170 million, facilitating an exit for General Atlantic. Blackstone has an approximately 35% interest in IBS.

Ujjivan Financial Services files for India IPO

Ujjivan Financial Services, an Indian microfinance institution, has filed for an IPO, which would facilitate exits for several PE backers. The firm wants to raise up to INR6.5 billion ($97.8 million) through an offer of new shares, while existing investors plan on selling 24.9 million shares.

Black River backs Future Consumer Enterprise

Black River Asset Management, an independently managed alternative investment unit of agribusiness giant Cargill, will invest $45 million in India's Future Consumer Enterprise (FCEL). It will subscribe to compulsorily convertible debentures, which must convert into equity within 18 months at a price of INR22.73 per share.

Three partners to leave VC firm Helion

Three of the six partners at India-focused VC firm Helion Venture Partners will depart to pursue other opportunities. With Rahul Chowdhri, Ritesh Banglani and Alok Goyal making their exit, Helion will be headed by Sanjeev Aggarwal, Ashish Gupta and Rahul Chandra, who founded the firm in 2006.

Dr Lal PathLabs gains on trading debut

Indian medical diagnostics service Dr. Lal PathLabs gained more than 50% on its trading debut following an INR6.3 billion ($95 million) IPO. The company sold 11.6 million shares at INR550 apiece. TA Associates and WestBridge Capital unloaded 5.86 million shares and 1.47 million shares, respectively.

CX Partners' Ajay Relan to step back

Ajay Relan, co-founder of India-focused private equity firm CX Partners, is taking a step back with Jayanta Basu assuming responsibility for daily operations as managing partner. The firm is said to be targeting $300 million for its second fund.

B2B logistics firm TrucksFirst raises $30m

TrucksFirst Services, an India-based business-to-business (B2) logistics services provider, has raised $30 million in a Series B round of funding provided by SAIF Partners and other investors. .

Baring Asia to buy Interplex from CVC, SCPE

Baring Private Equity Asia is set to buy Singapore-listed precision engineering business Interplex Holdings after CVC Capital Partners and Standard Chartered Private Equity (SCPE) agreed to tender their combined 57.7% interest in the company. Baring Asia is offering S$0.82 per share for all outstanding shares, valuing the company at approximately S$450 million ($320 million).

Headquartered in Singapore but with over 12,000 employees operating in more than 40 manufacturing plants in 13 countries, Interplex works with the likes of the automotive and electronics industries. CVC and Standard Chartered privatized Amtek Engineering for S$552 million in 2007, taking a 90% stake in the company. It was re-listed in 2010 and the two PE investors appear to have further reduced their holding through public market sales. Last year, Amtek announced the acquisition of US-based Interplex Industries for up to $210 million. The combined business was renamed Interplex.

Amtek's revenue has been largely flat since 2010, with a small increase to $633.1 million in 2014 over $626 million the previous year. Net profit has fallen every year since 2011, coming in at $17.5 million in 2014 compared to $26.9 million the previous year.

SOUTHEAST ASIA

CVC commits growth capital to Softex

CVC Capital Partners has made its fourth investment in Indonesia, taking a minority stake in Softex Indonesia. The size of the investment was not disclosed.

Indonesia to tighten rules for foreign VC

Indonesia's Financial Services Authority (OJK) said that foreign VC funds that hope to invest in Indonesian start-ups will be required to acquire local business licenses starting in 2016. In addition, foreign GPs will be encouraged to form joint ventures with Indonesian VC funds.

Creador buys stake in 7-Eleven Malaysia

Creador has acquired a 6.56% stake in 7-Eleven Malaysia Holdings, the country's largest convenience store chain with more than 1,900 stores, for around MYR108.8 million ($25.3 million). The PE firm bought 78.3 million shares at a reported price of MYR1.39 apiece.

New Forests invests in rubber plantation

New Forests has agreed to invest in a large-scale rubber plantation in Indonesia with Sampoerna Agro. The New Forests Tropical Asia Forest Fund will take a 35% interest in Hutain Ketapang Industri, manager of a 100,150-hectare forestry concession in West Kalimantan province.

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Clearing the air

Communication strategies are becoming more important within PE as expectations for transparency grow. GPs must demonstrate an ability to maintain the trust of a range of stakeholders, not just LPs

ALMA LAWRIE, HEAD OF INVESTOR relations at Samena Capital, has seen GPs chafe under demands from LPs and regulators for greater disclosure. But those sentiments are no longer topics of possible rebellion by fund managers; the battles already been resolved.

"I think from a GP perspective today, the question is how can I handle this transparency requirement, how will it impact my cost, how should I restructure my fund – not whether I like or don't like it," Lawrie told the AVCJ Forum in Hong Kong. "It's a debate which you would have had six or seven years ago, but now it's already too late. It's more about making sure that your model is adaptive and as inexpensive as possible to comply with the transparency requirement."

Other PE players concur that communication is vitally important in the industry today – the most important communication in their case being that between GPs and their stakeholders, including LPs, regulators and the media. However, these strategies are not uniform. The key factor is tailoring the approach to the needs of the market in which one operates, and being consistent once the strategy is chosen.

Trying to plan an approach to communication can be a daunting task for a GP, with valid reasons for and against a range of choices. In addition, trying to determine other firms' plans can be difficult; they will likely be unwilling to discuss their strategy, which of course can itself be part of the plan.

"Everyone has a strategy in place. They may say that they don't, but that is their strategy," says Niklas Amundsson, managing director of Hong Kong-based placement agent Monument Group. "For GPs that are filled with confidence and feel they can lead with their track record, their communication strategy might be not to communicate. And so that creates a little bit of mystique around the brand and the fund."

Keeping secrets

Of course, there are reasons for a GP to withhold details that have nothing to do with cultivating mysticism. Managers have to deal with potentially deal-breaking information, and the more people have access to that information, the more likely it will leak to a wider audience, either accidentally or deliberately.

However, a pattern of secrecy can damage a firm's image as well. In 2014, several prominent GPs settled a lawsuit in the US accusing them of conspiring not to outbid each other on certain takeovers. Though The Carlyle Group agreed to pay $115 million in the settlement, the cost was borne by investors in Carlyle Partners IV, including several US public pension funds.

Many pensioners were not informed due to the LPs' confidentiality agreement. Regulators have complained that putting public pension money into what are essentially secret accounts for high-risk investing violates the spirit of open government.

> "Our basic position is, LPs are our partners. We share as much as we can with you, and we're more than happy to do so. But sometimes we face problems" – Brian Lee

The question of openness regarding public funds worries fund managers as well, though for the opposite reason. "Our basic position is, LPs are our partners. We share as much as we can with you, and we're more than happy to do so," says Brian Lee, general counsel for China-focused GP FountainVest Partners. "But sometimes we face problems, like when we have US pension funds, which are regarded in the US context as government bodies."

Categorizing public pension funds as government entities is a matter of more than semantics. Public bodies in some states are subject to the Freedom of Information Act, and may have to reveal confidential information on request. This creates an even greater incentive for confidentiality on a GP's part.

Managers can temper demands for transparency by being seen as accommodating to investor concerns. Maintaining a good relationship with LPs can go a long way toward building a positive image. If investors believe the GP is willing to share what information it can, they tend to be more forgiving when managers hold back on some details. In particular, being able to treat individual investors' requests for data as important, even down to a small piece of information.

"It might be something that up to now was completely irrelevant, but all of a sudden someone filling in an internal monitoring report needs that number," says Monument Group's Amundsson. "There might be only one guy out of 25 LPs that needs that, but that's really important to him. And unless he gets that number, he's going to be really annoyed."

Potential antagonism

Conversely, if LPs believe a manager is willfully or unnecessarily withholding information, they may be far more demanding of openness during the regular annual, semiannual or quarterly review periods. This is not a minor concern; in a survey of 102 global LPs conducted last year by IAG and UK-based fund manager Thompson Taraz, "concealing bad news from investors" ranked second out of 24 reputational risk and environmental, social and governance issues.

Not only can a heightened level of scrutiny during review periods require GPs to reveal sensitive information anyway, it fosters an atmosphere of distrust between managers and investors, and can backfire on a firm in the case of bad news. Investors might wonder why they should put up with demands for confidentiality if a GP's investment strategy does not work anyway.

Of course, a limited-communication strategy is not always a matter of choice for GPs, particularly for smaller funds. Unlike global players, which typically have more resources to spare for constant investor engagement, regional and single country managers have to ration their assets more.

"You get a nice Excel spreadsheet, everything's in order. Somebody behind that has to do the work," says Lee. "We actually have six people in our finance team, which is running all those numbers daily and slotting them into all those Excel spreadsheets."

However, whatever justifications a GP might

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have for limiting communication, the impression this approach creates can still damage its image among stakeholders.

An issue of accountability

In many ways, GPs no longer have a choice in the matter of communication; pressure from many quarters has mounted over time for ever more transparency. Crucially, this expectation encompasses more than just openness with LPs. Regulators demanding accountability from fund managers who are seen as deliberately retaining information that might reflect badly on them, and even ordinary citizens who are concerned about the impact of the PE industry on the broader economy, have raised issues regarding industry transparency.

A communication strategy must take these other factors into account and attempt to protect a GP against negative perceptions on a larger scale. One way to do this is to reach out to the news media. While a manager may dislike the loosening of control this brings, Edmond Lococo, senior vice president at ICR and leader of the firm's Asia public relations practice, argues that GPs need to understand that the increased public scrutiny under which they operate has changed the dynamics of relationships.

"If you're a company that relies on capital markets, you're married to those markets. Well, think about your own marriage. How often do you talk to your spouse?" Lococo explains. "If you're only talking when you crash the car or you're buying a house, you don't have the right kind of communication strategy with your spouse. If you're married to the capital markets, it's the same. You have to be talking to them at all times."

Pursuing good relations with the media can benefit GPs in a number of ways. Some managers find third-party sources to be a handy way to disseminate information without having it linked directly to them. Stakeholders may be skeptical about positive news that comes directly from a manager, for obvious reasons; hearing it from a trusted outside source can help overcome that doubt.

Josh Porter, managing director with Japan-based GP Advantage Partners, remembers pursuing a potential investment opportunity in Nagoya-based coffeehouse chain Komeda in 2008. The firm's previous experience with a similar business proved decisive in negotiations with the founder.

"We could sit there and present all we wanted to him about how great we were and why he should consider selling to us, but he actually had heard through the media that we had purchased another Nagoya-based company," says Porter. "That had gone well, so he decided, if we had done well with one, maybe we could work with him on this one as well."

The firm purchased a 78% stake in Komeda for JPY15 billion ($146 million), later exiting the position to MBK Partners for a 7x multiple.

Another use of the media is to soften the blow for bad news. In this case LPs would prefer to hear the news from the manager rather than reading about it for the first time in the media; indeed, industry players say that times of crisis are when a GP-LP relationship can make the most progress. In some cases investors can value the feeling of being kept up to date more than what the GP is actually telling them.

However, for a wider audience there are ways for a manager to anticipate negative developments and subtly shape the conversation in advance of the announcement.

"If a firm knows that there's a closing coming up, and that the numbers are going to be disappointing, someone might leak information that this is going to be a really disappointing first close – 'We're not going to get to $1 billion, it's going to be $800 million.' Then all of a sudden the close happens and it's actually $900 million," says Amundsson. "So the headline reads, 'First close stronger than expected demand.'"

A manager may also quietly reduce the hard cap of its fund to bring it in line with the expected close, then announce that the fund has closed at the cap in an effort to emphasize a positive message.

> **"As a private equity firm, I think we hesitate to get too actively involved on the media side, just because of concerns about appearing to be marketing to investors"**
> – Josh Porter

In house or out?

The more effort a GP expends on these matters, the more of a strain it will feel on its own resources, leading back to the question of priorities. While the need for a coherent communication strategy is clear, its relative separation from a GP's perception of its normal duties can understandably lead an overworked manager to push some of these responsibilities onto other shoulders.

The argument for outsourcing public relations issues is obvious: it frees up a manager's staff to focus on more directly investment-related matters. Especially for a smaller GP, the staff will likely have little experience or desire to take on PR work full time, but a full-time approach is indispensable if a manager's communication strategy is to be effective.

However, caution may be warranted before taking this route as well. Bringing in an outside manager inevitably requires the ceding of some control. Firms that go in this direction must make sure that the manager hired is clear about the strategy that they wish to follow.

Many firms pursue a mixed strategy, keeping charge of the public messaging for the most part but turning to an outside house in crisis situations. Advantage's Porter recalls a time when another restaurant in its portfolio had an outbreak of E.coli and the firm brought in an external communication team to manage the social media response.

"We work pretty closely with a PR firm in those types of situations," he says. "They do have those capacities, obviously, to manage and see what information they can get out there that is more factual and based on data as opposed to just rumors. But it is a good question, whether we should be more proactive. As a private equity firm, I think we hesitate to get too actively involved on the media side, just because of concerns about appearing to be marketing to investors."

In some situations, an outside manager is essential. IPOs, for instance, require intensive focus on the market in which a company is to be listed that GPs, particularly smaller managers, will be unable to provide. When ICR was helping a Chinese social media company with a US listing, it came up with a detailed strategy to differentiate the company not just from its domestic peers, but from its US competitors as well.

The possibilities for outsourcing have their limits, though. Particularly in the field of LP relations, there is no substitute for direct communication. GPs that can make an investor feel in the loop and appreciated, and that appear to be proactive on resolving their concerns, are highly likely to retain a positive impression.

"If there are some surprises of a negative nature, I think the most important thing is to be as transparent as possible and communicate with your LPs at the earliest you can," says Samena's Lawrie. "And then you try to turn it around so that the negative surprise can become actually a positive surprise in the long term."

Macpac aims to scale new heights

JAN CAMERON GOT HER START IN business hand-sewing sleeping bags for a sports clothing brand in the 1970s. This led to the creation of Kathmandu in 1987, an early mover in Australia and New Zealand's outdoor apparel and equipment space. Quadrant Private Equity and Goldman Sachs JBWere bought the business nearly 20 years later, and Cameron walked away with an estimated NZ$275 million ($185 million).

Kathmandu continued to build scale and went public in 2009. It remains the market leader with 160 stores across Australia and New Zealand. Cameron, meanwhile, moved on to another outdoor apparel and equipment provider, Macpac. Her involvement dates back to 2011, but by that point the business was already part-owned by Bernie Wicht, Cameron's ex-husband and an early collaborator at Kathmandu.

"They never set out to make a replica of Kathmandu. This business was not meant to become as mass market as Kathmandu is now," says Paul Readdy, a director at CHAMP Ventures, which recently acquired a majority stake in Macpac. "While Macpac doesn't have the brand recognition and depth of clientele of Kathmandu, we believe it is stronger in terms of brand authenticity and quality."

Macpac was set up in 1973 as a supplier of high-end climbing packs. From there, it moved into tents and other equipment, and then footwear and apparel. The company was a wholesale player until 2008 – around the time Wicht arrived – when a retail element was introduced. It now has 43 stores (27 in New Zealand and 16 in Australia).

Macpac: Mountaineer's choice

CHAMP is said to have paid around A$70 million ($51 million) for Macpac, with Cameron, Wicht and CEO Alex Brandon holding minority interests. The management team has said that part of CHAMP's appeal was its work on Lorna Jane, an Australian wholesaler and retailer of women's fitness and leisure apparel that has seen significant growth.

There have been discussions as to how the companies can leverage each other's knowledge. Readdy notes that Lorna Jane has already gone through the Australia expansion that Macpac is now targeting. "Macpac's sales per square foot are higher in New Zealand than in Australia, and that's partly because people don't know what Macpac is in Australia," he explains. "Similarly, Lorna Jane was a Queensland business that then went national. It took a while for sales per square foot to increase in Victoria and New South Wales."

There are also plans to build up Macpac's nascent online business and expand the company's international wholesale activities, which are currently limited to equipment distribution agreements in Europe and Japan. CHAMP is interested in finding distributors for Macpac's clothing and footwear in the US and beyond. Again, this is a strategy that appears to be working for Lorna Jane.

"We like vertically integrated brand stories with heritage. Lorna Jane has that and Macpac certainly has it as well," Readdy adds.

Investors back Benlai's cold chain solution

TO HUAFENG YU, FOUNDER AND CEO OF Chinese fresh food e-commerce site Benlai.com, keeping products fresh is more challenging than sourcing or selling them.

Yu co-founded Weitepai in 2011 to provide third-party delivery services to e-commerce players like Yihaodian. The following year he came up with an online grocery store idea and launched Benlai, which means "back to the original life." From the outset, cold chain delivery services have been a priority.

Banyan Capital and CDH Investments together around $40 million in Series A funding in February 2014. This was followed by a Series B round from an undisclosed Chinese agriculture and consumer-focused VC firm.

"The fresh grocery market is worth several trillion renminbi in China but internet penetration is still very low," says Zhen Zhang, co-founder of Banyan Capital. "Benlai has built its own cold chain logistics and warehouses, which is a key differentiator from its industry counterparts."

However, developing a self-owned logistics network requires plenty of cash. A few days ago, Benlai raised more than $100 million in Series C funding, with Shenzhen-listed home appliance maker Joyoung committed $30 million for a 3.82% stake in the start-up. Several undisclosed strategic investors and PE firms also participated, including CDH. Banyan did not, given its early-stage focus.

Benlai gained prominence in its early days thanks to Shijian Chu, a local entrepreneur. Previously director of state-owned Hongta Tobacco Group Chu was arrested on corruption charges. Released from prison in his 70s, he became an orange farmer. Yu turned Chu's life story into a marketing campaign for Benlai's "Chu Orange" line.

Benlai: No need for carts

He didn't stop there. The Chu Orange was followed by the "Pan Apple," named for property tycoon Shiyi Pan, co-founder of Soho China, and the "Liu Peach," which got its moniker Chuanzhi Liu, chairman of Legend Holdings.

"Yu has strong marketing and advertising skills. That's why a lot of Chinese agribusiness wholesalers want to work with Benlai, supplying fruit, vegetable, seafood and other fresh products on the platform," Zhang says.

Benlai focuses on providing quality goods – nutrition and food safety are priorities. This resonated with Joyoung, which wants to sell its kitchen appliances to consumer groups that have similar sensibilities.

The new funding will allow Benlai to continue expanding its supply chain and delivery services. The company has warehouses in Beijing, Shanghai and Guangzhou, and offers cold chain logistics services in 22 cities. Sales have grown 300-400% every year since inception and reached RMB268 million ($41 million) in 2014, although Benlai still posted a loss RMB208 million.

Person-to-business (P2B) is another area in which the company sees growth potential. "By sourcing food directly from individual farmers, Benlai can maximize the sales to convenience stores and supermarkets," Zhang adds.

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In credit

Jonathan Lavine, managing partner at Sankaty Advisors, explains the firm's strategy in Asia and globally. He was speaking to AVCJ ahead of the acquisition of GE Capital's Australia and New Zealand commercial lending and leasing portfolios

Q: Sankaty started with direct lending, then went into structured credit, bank loans and distress. What was behind this evolution?

A: The product evolution we have has really been focused on where we think the best returns are for our money and our partners' money. We ask ourselves, does it leverage what we know how to do? Is the opportunity itself scalable? Is it an investment or a trade? And can do something differentiated and deliver to our investors the opportunity and exposure to an asset class that enhances their portfolios?

Q: To what extent could your direct lending activities be classified as shadow banking?

A: Most institutions with funds that do direct lending, or registered funds, they are not in any way secretive or in the shadows. They are in fact fulfilling a very important role, because in general, and particularly for mid-size companies, you are not seeing banks lending any more. At best they are doing arranging, maybe providing some revolvers. Funds have stepped in and in many ways done a really good thing because they are principal investors generally, they are seeking where capital is needed, and providing important capital. It is not like there are secret trades going on and so the expression "shadow banking" always throws me off. I think it is a private market and it barely scratches the surface of what the need is.

Q: Where do you see the best opportunities for buying loan portfolios from banks?

A: Bank loan portfolios come out for a variety of reasons. The most obvious is that banks need to shed assets. Second, banks are retrenching geographically, so you see some really good portfolios that do not fit in the geographic footprint that the institution now wishes to have. Third, there is a lot more pressure on return on equity – banks'

capital has become increasingly dear and so they are strategically exiting products. We are seeing those sorts of opportunities all over the world – to a lesser extent in the US, although we have bought a portfolio in the US where a bank was exiting a product. In Europe, there are banks under pressure to sell assets as well as people retrenching back to their home geographies. And then in Asia and Australia we have seen a mix, but largely people pulling back on the geography – non-local banks that don't want far flung operations so they are selling portfolios.

Q: Will distressed investment opportunities follow similar geographical patterns?

A: Distressed opportunities are going to follow a series of patterns. Some are a function of the fact that there has been a lot of issuance recently, and when that happens, 18-20 months later you see a distress cycle. Secondly, there are industries in transition and industries that have fallen out of bed, particularly in commodities, where you see distress on a global basis. Thirdly, there is distress caused by economic problems. We are seeing that largely in Europe but there are pockets of it across Asia as well. What will be interesting is the fourth category, which is distress as a result of growth happening too quickly. A lot of people talk about that in Asia, a lot of people are waiting to see it happen, but as a practical matter you haven't seen a lot of it yet.

Q: What differences do you see between the current credit cycle and the previous one?

A: The last cycle was really a function of everything going down and generally everything then coming back up. The level of correlation among assets was unprecedented. The opportunities now are much more nuanced and in many ways more interesting. They are different by geography, different by industry, and you must work a lot more at unearthing them. It is not as simple as buying bank loans that are all trading down. So, the diversity and global nature of the opportunity today – and the fact they aren't mega distressed assets like in 2008 when we had Lehman Brothers and General Motors – I think that allows thoughtful funds to look for opportunities patiently and find the ones they really like and can put some effort behind.

> "The opportunities now are much more nuanced and in many ways more interesting. They are different by geography, different by industry, and you must work a lot more at unearthing them"

Q: How important was the purchase of the loan portfolio from J.P. Morgan to building out Sankaty's global business?

A: The acquisition of J.P. Morgan's Global Special Opportunities Group was important to us for several reasons. First and foremost, we think it was a really good, differentiated investment opportunity. Secondly, we brought on 10 people who added to the experience of our 125 existing investment professionals. Thirdly, it gave us a little bit more mass in Hong Kong in particular and that helps us attack the Asian markets with a pretty seasoned portfolio and with people who have been doing business there for several years. It also gives us an opportunity to both do distress and private lending, for which the Asian opportunity really will present itself over the next few years.

PRIVATE EQUITY IN ASIA

Investment Breakdown by Country From January to December 2015

Country	Deal Amount ($mln)	No. of Deals	No. of Disclosed Deals	No. of Investee
China (PRC)	$61,619.5	1019	706	948
Australia	$23,960.1	73	54	72
India	$18,640.7	577	463	518
South Korea	$13,957.0	181	173	179
Hong Kong	$3,696.4	30	22	30
Japan	$3,023.7	493	337	481
Taiwan	$2,533.1	15	11	15
Singapore	$1,622.0	82	59	77
Indonesia	$1,198.8	65	23	63
New Zealand	$648.7	51	26	51
Vietnam	$159.7	13	10	13
Pakistan	$147.5	4	4	4
Thailand	$81.9	18	14	16
Philippines	$81.4	18	7	18
Laos	$80.5	1	1	1
Malaysia	$56.9	44	29	41
Sri Lanka	$53.1	1	1	1
Cambodia	$15.0	1	1	1
Myanmar (Burma)	$0.3	1	1	1
Bangladesh	$0.03	2	2	2

FUND-RAISING MONITOR

CLOSED FUND

Location:	Hong Kong
Fund Name:	Bain Capital Asia Fund III, L.P.
Closing Amount:	US$ 3 billion (final close)
Launch Date:	July 2015
Fund Manager/Advisor:	Bain Capital Asia, LLC
Stage Focus:	Buyouts (MBO/MBI/LBO), Expansion/ Growth Capital, Mezzanine/ Pre-IPO
Industry Focus:	Computer related, Consumer products/services, Electronics, Financial services, Information technology, Leisure/Entertainment, Manufacturing - Heavy, Manufacturing - Light, Media, Medical, Retail/Wholesale, Services - Non-Financial, Telecommunications, Transportation/ Distribution
Geographical Focus:	Australia, Cambodia, China (PRC), India, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Thailand, Vietnam
Contact:	Jim Hildebrandt
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Email:	jhildebrandt@baincapital.com
Website:	www.baincapitalasia.com
Update:	Bain Capital has reached the hard cap of $3 billion for its third Asian fund. Fund III is expected to follow a similar strategy to Funds I and II, targeting buyout opportunities in the $400-500 million range, in addition to smaller growth deals of $40-50 million. The geographic focus will be China, Japan, India and Australia, with deals also coming under consideration in Southeast Asia and South Korea.

NEW FUNDS

Location:	India
Fund Name:	ChrysCapital VII, LLC
Target Amount:	US$ 600 million
Launch Date:	December 2015
Fund Manager/Advisor:	Nuvo Chryscapital Advisors Pvt. Ltd.
Stage Focus:	Buy-outs (MBO/MBI/LBO), Expansion/Growth Capital, Mezzanine/Pre-IPO
Industry Focus:	Consumer products/services, Financial services, Information technology, Infrastructure, Manufacturing - Heavy, Manufacturing - Light, Medical
Geographical Focus:	India
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Update:	ChrysCapital is targeting $600 million for its seventh India fund, as a number of domestic private equity firms look to capitalize on a renewed investor interest in India and a strengthening economic outlook.