



Timing the inevitable

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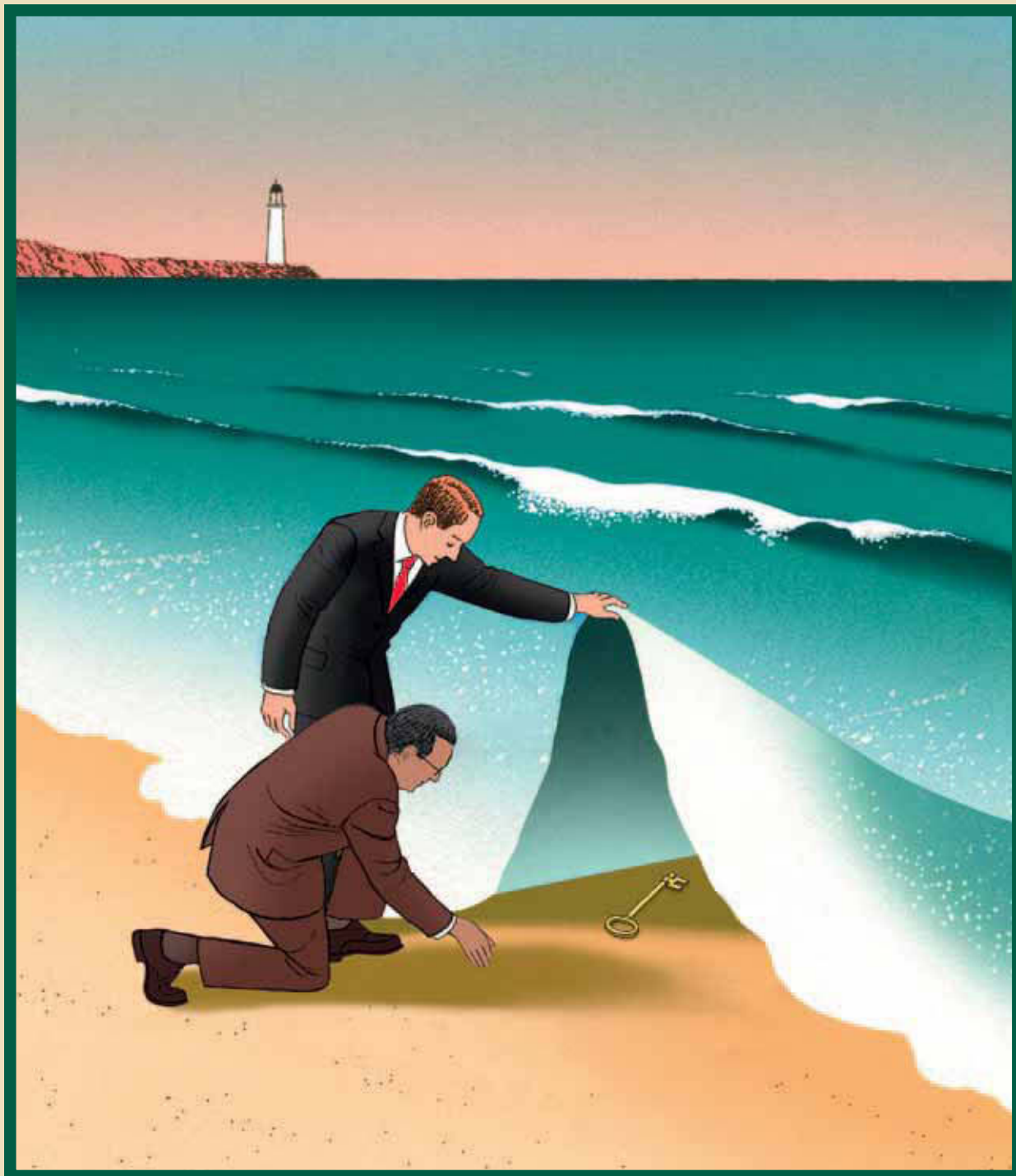
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Anything is possible
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Coller Capital

Unlocking liquidity for private equity investors

EDITOR'S VIEWPOINT

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The state we're in

THE RESULT OF THE RECENT US

presidential election has made the global markets very uneasy, with most Asian indices going into turmoil. This will definitely be a topic of discussion over the coming months. What does this mean for the region's private equity industry? While it will certainly have some impact on investment decisions in Asia and elsewhere, making predictions is difficult at this point.

To provide a baseline for these discussions, I would like to share some data points from AVCJ Research on private equity activity in the first nine months of 2016. A total of \$93.2 billion was invested across the region, well short of the \$142.7 billion deployed in 2015 as a whole. Similarly, exits – which generated proceeds of \$35.8 billion – were down on the totals for 2015 and 2014 (\$59.3 billion and \$66.4 billion).

The fundraising data bear a more favorable comparison to last year, but they also feature a massive anomaly. As recently as July, the picture was bleak, with \$23.6 billion committed to Asia-focused funds during the first six months, less than one third of the record \$91.3 billion raised in 2015.

However, between July and September a further \$55.3 billion was added to the coffers, making 2016 look more respectable. Unfortunately, this is not an indication of stronger institutional investor interest in Asia – the spike was almost entirely due to two giant policy funds established by the Chinese government to achieve growth and restructuring objectives.

It is also worth digging into the investment data in order to test that often repeated complaint that there is a lack of good deals in Asia. The chart below captures investments of \$20 million or more (to avoid distortion created by numerous VC transactions).

China leads the field in both volume (229) and value (\$32.9 billion), with Australia just behind in the latter category with \$32.5 billion. Both countries benefit from sizeable non-traditional deal flow, whether it is late-stage technology rounds in China for the likes of Ant Financial and Didi Chuxing or bumper infrastructure deals in Australia such as Asciano Group and Port of Melbourne. The combined value of the latter two transactions account for more than half of Australia's total for the period.

While investment in Australia has comfortably surpassed the total for 2015, China is unlikely to replicate the \$62.7 billion committed last year. It should come as little surprise that deal volume is also down substantially on 2015 (229 versus 348), contributing to decrease of similar magnitude for the regional as a whole. Japan is the only market to have seen a jump in value and volume on last year, which appears to validate claims from mid-market GPs that they are seeing more opportunities come to fruition.

Certain trends remain prevalent despite the apparent slowdown: co-investment, horizontal diversification and cross-border strategies, with the latter drawing considerable attention in a China context. But what of 2017 and the ripple effects of the new US administration? Should those ripples lead to macroeconomic waves in Asia that would present a problem, but long-term investors would hope to find ways to ride out the storm. The private equity opportunity in Asia is ultimately dependent on the fundamentals that underpin it.

Allen Lee

Publishing Director
Asian Venture Capital Journal

PE investments in major Asian markets

	2015		Jan-Sep 2016	
	US\$m	No. of deals	US\$m	No. of deals
Australia	24,155	30	32,540	18
China	62,720	348	32,895	229
Hong Kong	6,269	12	3,425	12
India	14,527	132	7,740	89
Japan	2,903	24	3,382	30
Singapore	2,863	17	3,162	14
South Korea	15,118	60	5,590	48

Note: Excludes deals below US\$20 million
Source: AVCJ Research



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ASIA PACIFIC

KKR launches third Asian fund

KKR has launched its third pan-Asian fund, which has a target of up to \$7 billion. The private placement memorandum was issued last week, according to a source familiar with the situation. The private equity firm closed its previous regional fund at \$6 billion in mid-2013.

Stevens, Bert leave Standard Chartered PE

Standard Chartered Private Equity (SCPE) CEO Joe Stevens and Bert Kwan, who was responsible for investment activity in Southeast Asia, have both left the firm. This leaves Nainesh Jaisingh in sole charge of the bank's PE unit.

AUSTRALASIA

AIP to buy Australia's Moly-Cop for \$1.2b

American Industrial Partners (AIP) will buy Moly-Cop, the mining consumables division of struggling Australasian mining and materials giant Arrium, for an enterprise value of \$1.23 billion. Arrium entered voluntary administration in April with debts of around A\$2.8 billion (\$2.1 billion) and the Moly-Cop sale was agreed by the administrator on behalf of creditors.

EQT buys Australian aerospace business

EQT Partners has agreed to pay Australian logistics conglomerate Brambles \$130 million for its aviation industry services unit, Chep Aerospace Solutions. The company is a Switzerland-based division of Australian supply chain industries group Chep, and was launched by Brambles in 2011 to supply the aviation industry with services related to cargo handling equipment known as unit load devices.

Quadrant-backed UPG acquires Rockpool

Quadrant Private Equity has taken control of Australian restaurant operator Rockpool Group via a bolt-on acquisition by existing portfolio company Urban Purveyor Group (UPG). Rockpool vendor and celebrity chef Neil Perry will remain with the company as it drives an expanded pipeline of brands in international markets.

Warburg Pincus to back data center platform

Warburg Pincus has agreed to partner US-listed Chinese internet services provider 21Vianet on a joint venture focused on developing and acquiring data centers in China.

21Vianet will seed the platform with four of its existing data center assets valued at more than \$300 million in all, while Warburg Pincus will contribute capital along with its resources and experience in the real estate sector. The initial



four assets will be 51%-owned by 21Vianet, with Warburg Pincus holding the rest. This shareholding pattern will be reversed for future projects.

The two investors expect continued strong growth in internet usage and cloud services to drive demand for data center services. They envision the platform expanding over the next seven years to include as many as 100,000 server racks - capable of holding several million servers - in turn-key data centers, standard modules and custom-built solutions across China.

Wolseley exits maintenance firm to trade buyer

Wolseley Private Equity has agreed to sell its controlling stake in Australian building maintenance equipment company Facade Access to Swedish industrial sector supplier Alimak for A\$120 million (\$92.1 million). The private equity firm acquired the business under the name E.W. Cox in 2007 for \$12.1 million.

GREATER CHINA

Alibaba plans \$1.5b entertainment fund

Chinese e-commerce giant Alibaba Group plans to step up its investments in digital media and entertainment businesses with the launch of RMB10 billion (\$1.48 billion) investment fund. It follows the creation of a digital media group that will hold assets including video streaming

platform Youku Tudou, web browser UCWeb, and Alibaba Pictures under a single entity.

Advent buys mattress maker from CITIC

Advent International has acquired a majority stake in Chinese mattress maker King Koil Shanghai Sleep System from CITIC Capital Partners for an undisclosed sum. CITIC paid RMB160 million (\$26 million) for a 57.14% interest in the company in August 2014. King Koil management team will continue to hold a minority stake under Advent's ownership.

China-backed GP to buy Lattice Semiconductor

Canyon Bridge Capital Partners, a US-based buyout firm backed by Chinese LPs, has agreed to acquire US-listed chip maker Lattice Semiconductor for \$1.3 billion. One of the founders of Canyon Bridge is Benjamin Chow, who previously worked for China Reform Fund Management, a GP sponsored by China Reform Holdings and other state-owned enterprises.

China Film, Pegasus Media launch movie fund

China Film, the country's largest movie distributor, and Pegasus Media Group have joined Hong Kong's Co-High Investment Management to launch a \$100 million film fund focused on US-China co-productions. It will invest in Sino-US film and TV projects, through the purchase of intellectual property and script rights, screenplay development and down payments for major cast members.

COFCO Meat completes \$252m Hong Kong IPO

COFCO Meat, a subsidiary of Chinese agricultural conglomerate COFCO Group that received backing from KKR, Baring Private Equity Asia, Hopu Investments and Boyu Capital in 2014, has raised HK\$1.95 billion (\$252 million) in its Hong Kong IPO. It sold 975.6 million shares at HK\$2 apiece, the bottom end of the indicative range. None of the PE investors made a partial exits.

Short-term rental site Xiaozhu raises \$65m

Chinese short-term rental site Xiaozhu.com has collected a total of \$65 million across two tranches from a group of China-focused VC investors. The pool of capital includes an extended Series C round completed last year,

which was led by Capital Today. Subsequent to that, Joy Capital and Bertelsmann Asia Investments (BAI) co-led a Series D round, with participation from several existing investors.

Yum China gains on US debut after spin-out

Yum China, the PE-backed group that operates KFC, Pizza Hut and Taco Bell in the country, gained 8% on its US trading debut after separating from parent Yum Brands. The trading price over the two months following the spin-out will impact the shareholdings of Primavera Capital and Ant Financial Group, which agreed to invest \$410 million and \$50 million, respectively, in September.

Alibaba, Legend back seafood importer Gfresh

Gfresh, a China-based seafood importer and online marketplace operator, has raised \$20 million from Riverhill Fund, an investment arm of Alibaba Group, and Legend Capital. The company will use the new capital to upgrade its logistics and supply chain services and improve its online operations.

VC-backed snack maker targets \$427m HK IPO

Zhou Hei Ya, a Chinese mass-market braised food producer backed by IDG Capital Partners and Tiantu Capital, is looking to raise up to HK\$3.3 billion (\$427 million) through a Hong Kong IPO. The company will sell 424 million shares at HK\$5.8-7.8 apiece. Neither of the venture capital backers will sell shares in the offering.

NORTH ASIA

J-Star owned insurer in bolt-on acquisition

J-Star will take control of Japanese insurance provider Hunel FEA through a bolt-on acquisition by existing portfolio company Nihon Hoken Service. It comes after Nihon transacted a similar acquisition late last year of industry peer Sokisha. The enlarged company will promote synergies among its recent acquisitions to promote growth across a number of insurance markets.

New Horizon pursues legal action over Japan's Sagami

Japanese GP New Horizon Capital has initiated legal action against Sagami, a domestic clothing

Convergence Ventures closes \$30m tech fund

Convergence Ventures, an early-stage VC firm based in Indonesia, has reached a final close of \$30 million on its debut fund.

Convergence Capital Fund I will focus on supporting start-ups either based in Indonesia or with a presence in the country. Convergence plans to invest in 30 early-stage companies focused on disruptive digital and mobile internet opportunities aimed at taking advantage of Indonesia's growing middle class.

Convergence was founded in 2013 and launched the vehicle in 2014 with a target of



\$25 million. At the time the GP was named Convergence Accel and the fund was named Convergence Accel Fund. Both later changed their names to avoid confusion with Accel Partners.

The firm has made 17 investments from the fund already, with both domestic and foreign companies represented in its portfolio. Commitments include a \$4.2 million pre-Series A round for hotel booking service Nida Rooms, co-led by CyberAgent Ventures, and two rounds of funding for dating app Paktor.

retailer which it had targeted for acquisition. It claims the company accepted a weaker offer from rival PE bidder Aspirant Group. New Horizon is also seeking damages from Sagami's selling shareholder FamilyMart Uny Holdings.

IDG, Accel invest \$3m in Bizongo

IDG Ventures has led a \$3 million Series A round for Indian business-to-business packaging marketplace Bizongo, with participation by existing investor Accel Partners. The capital will be used to improve supply chain and logistics capabilities, and to expand the seller base.

Sequoia leads \$55m round for Freshdesk

Sequoia Capital has led a \$55 million Series

F round of funding for India and US-based customer support platform provider Freshdesk. The investment included participation from existing backer Accel Partners. It brings the company's total funding to date to about \$150 million and is expected to support an expansion of the product line and international footprint.

SOUTHEAST ASIA

Lazada buys Singapore's RedMart

Lazada, a Southeast Asia-based e-commerce platform founded by Germany's Rocket Internet and recently acquired by Chinese e-commerce giant Alibaba Group, has bought Singapore-based online grocer RedMart. The transaction is reportedly worth \$30-40 million. RedMart's existing management team will remain in place and the company will operate independently after the acquisition.

Jubilee Capital achieves \$30m first close

Jubilee Capital, a newly formed venture investment firm based in Singapore, has reached a first close of \$30 million on an early-stage technology fund targeting \$100 million. LPs include accredited Chinese and Singaporean investors. The vehicle will focus on post-seed and Series A investments in start-ups across Southeast Asia, China, Israel and the US.

Southeast Asia dating app raises \$32.5m round

Paktor, a Southeast Asia-focused mobile dating app, has received \$32.5 million in new funding led by K2 Global – a venture capital firm that makes late-stage tech investments in Asia and the US – and Indonesia-based MNC Media Group. The company's existing backers include YJ Capital, Golden Equator Capital, Sebrina Holdings VC, Vertex Ventures and Convergence Ventures.

IFC proposes backing Jungle's seed fund

The International Financial Corporation (IFC), the investment arm of the World Bank, has proposed a \$2 million investment in Jungle Ventures' Southeast Asia-focused seed fund. The fund, SeedPlus Singapore, is targeting SGD25 million (\$18.1 million). It will make seed investments in up to 20 companies based in Southeast Asia and India, particularly in information and communication technology-focused start-ups.



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Transition time

Asian GPs face increased scrutiny on succession planning as LPs seek to distinguish franchises that are sustainable from those that are not. For some founders, sharing economics and power isn't easy

THE FIVE MANAGING PARTNERS AT

Chinese VC firm Qiming Venture Partners gathered in January for what was expected to be a two-hour meeting. There was one item on the agenda: deciding on a mutually acceptable compensation scheme that reflected Gary Rieschel's reduced role in the firm while still acknowledging his contribution as one of multiple key persons on the latest fund.

This meeting had been three years in the making. Rieschel, who started his investment career with SoftBank Venture Capital in 1995 and founded Qiming with Duane Kuang 10 years after that, began the transition by stepping back from leading deals. His focus switched to nurturing the firm's mid-level talent, while continuing to serve on the investment committee.

Now it was time to finalize the next step, which would see Rieschel assume the role of chairman and relocate to Seattle to concentrate on Qiming's new cross-border healthcare fund. He had spent about a month considering the situation before submitting a proposal to Kuang and his other fellow managing partners. "After about 20 minutes everyone looked at each other and said, 'This is fair,'" Rieschel says.

Qiming has \$2.7 billion in assets across US dollar and renminbi funds, and closed its fifth US dollar vehicle in January, not long after that meeting. Rieschel attributes the smoothness of this transition to Qiming doing what many China VC firms have not in creating a sustainable partnership structure characterized by similar compensation for the managing partners, economics that are shared broadly across the team, and a willingness to promote from within.

"Many firms in Asia were set up with a 'strong man' leadership model. As time goes on, it is difficult for the leaders to bring newer partners into the mix, especially in terms of giving up real control on finances and voting," he says. "As a result, they don't have the bench strength. Turnover is often high and when someone leaves there is no one of similar ability to replace them."

While poor performance and spin-outs have caused some GPs to fade to the margins of Asian private equity, the transition of power between generations within the same firm is a rarity. However, as the market matures, and various founders approach retirement age, succession-

planning is increasingly an issue that LPs are asking GPs to confront.

"Everyone says they want to build an enduring franchise, but carrying it out is another matter," says T. Bondurant French, executive chairman of Adams Street Partners. "The biggest hurdle is performance and that is usually the culprit, but building a successful organization is the next part. It is something that is only clear with the passage of time. If the senior partners are about to retire and they haven't done a good job of building strong people below, that prohibits the firm from being successful going forward."

The cases that attract attention in Asia do so largely due to the status of the founders or the angst that takes place behind the scenes.

If there is one hard and fast rule that has been proven to apply here as well as in North America and Europe, it is this: those that leave succession planning too late – or let it string out too long – will struggle to make it work.

Follow the numbers

While succession planning is an exercise that spans human resources management, investment relations and business development, there is always a paper trail. The size of it is indicative of how much thought has gone into the process. "A lack of documentation relating to carried interest is more common than you could possibly imagine," says Dean Collins, a partner at Dechert. "Everything goes to those who have

Spin-outs: No succession

Such is the longevity of the senior team at IDG Capital Partners they are known in some industry circles as "the immortals." A byproduct of this stability at the top is executives further down the roster getting itchy feet – there have been at least two spin-outs from IDG.

"There are probably more spin-out GPs per head in Asian private equity than anywhere else in the world," says James Ford, a partner at O'Melveny & Myers. "It is not much different to the founder mentality of Asian, and particularly Chinese, corporates. People just hang on. If you don't like it, go start your own business."

The explosion of interest in China's tech sector has helped the likes of Banyan raise capital from an LP community that can be highly skeptical of first-time funds. But Asia has a track record of spin-outs that stretches back to the early 2000s when a spate of captive PE units within banks went independent. Since then, there have been phases of spin-out activity in markets such as India and China, often involving the country teams of larger platforms.

"You might find a team within a pan-Asian platform and there is only a limited allocation to the market they are investing in and they might want to go off on their own and raise a bigger pool of capital to pursue the deals they are seeing in that market," says Albert Cho, a partner at Weil. "Economics may be part of it but uniformly it is the desire to make their own mark on the market."

The succession planning burden falls back on the firm these executives are leaving as LPs question whether there is sufficient replacement talent. This weighed on TPG Capital's last fundraise – Weijian Shan went to PAG Asia Capital and Mary Ma relocated to Boyu Capital – and turnover is likely to have an impact on the next cycle of pan-regional fundraising. KKR, for example, must show it can fill the void left by David Liu and Julian Wolhardt, its most senior China dealmakers, who plan to start their own firm.

Global firms can point to their institutionalized systems and processes, but this is not of comfort to everyone. "It is a problem when the GP thinks the brand speaks for itself thus placing more emphasis on the organization, not the underlying investment professionals," says Jonathan English, managing director at Portfolio Advisors. "I think you should be very keyed in on these issues and do the work required to make an informed decision on what impact these moves might have on the organization overall."



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it on paper and it's their discretion whether it is shared further."

For a small to mid-size PE firm on Fund I or II, though, the focus is on creating a platform worthy of succession. It is only once that brand equity is in place or there is a need to bring in additional investment professionals that agreements tend to be formalized. Several areas require codification, but particular attention might be directed at two: the distribution of fund economics, including carried interest and excess management fees, as well as ownership of the management company that runs the firm; and dispute resolution covering the different circumstances under which someone might depart.

"We often get asked how much it would cost to put in place the equity documents and the response is they can be 20 pages or they can be 120 pages," says Justin Dolling, a partner at Kirkland & Ellis. "It depends on the size and complexity of the platform (such as multi or single strategy), the number of principals, the different levels of principals and the amount of detail you want to go into with respect to all the key aspects of the operations of the sponsor."

One gauge of whether interests in a firm are broadening beyond the founding group is the evolution of the key person clause. While on the early funds a key person event – which, if enforced, prevents new investments being made – is triggered by the departure of one individual, a second tier of professionals is brought into the fold as the vintages progress. The founder may still be categorized a super key person, but if a combination of second-tier professionals left a key person event would still occur.

"It's not common for senior management to be willing to permit someone from the younger generation to be a key person who can singlehandedly trigger a key person event, but when that does happen, it's a major transfer of power – it enables that individual to grind the investment program to a halt, at least on a particular fund," says John Fadely, a partner at Weil. "This is where succession planning can become quite apparent to the LPs, as they're very focused on negotiating the key person provision. In fact, alongside the economic terms, this is probably the most important term, and it's often viewed as the most important governance term, above even removal rights."

The caveat is that there is often enough wiggle room for a founder to prevent someone from the younger generation single-handedly triggering a key person event. This underlines the importance of LP due diligence, although investors observe that there is art and science in the process. Juan Delgado-Moreira, a managing director at Hamilton Lane, says that the absence of a culture oriented towards succession

Largest PE firms in Asia by funds under management

2000	
Firm	US\$m
AIG Global Investment	4,005
JAFCO	1,878
AIF Capital	1,560
SBI Investment	1,551
Goldman Sachs	1,500
H&Q Asia Pacific	1,413
RHJ International/Ripplewood	1,200
Unitas Capital	1,100
PCCW - CyberWorks Ventures	1,000
TPG Capital	997
HSBC Private Equity Asia	833
2010	
Firm	US\$m
The Carlyle Group	8,547
CVC Capital Partners	6,174
TPG Capital	5,750
Pacific Equity Partners	4,863
CDH Investments	4,780
KKR	4,700
SAIF Partners	4,333
Hony Capital	4,315
JAFCO	4,017
Unitas Capital	3,890
2016	
Firm	US\$m
The Carlyle Group	13,456
KKR	11,015
Sequoia Capital	10,835
RRJ Capital	10,300
Hony Capital	9,824
CDH Investments	9,110
TPG Capital	9,050
PAG Capital	8,849
China Minsheng Investment	8,130
Baring Private Equity Asia	7,963

Note: Calculations are based on cumulative funds raised, traditional blind pools only
Source: AVCJ Research

planning is "as much of a red flag as whether or not you have a good key man clause."

Testing this culture involves spending time with investment professionals across the target firm, considering the role played by the founder, his motivations and value contribution, and the steps taken to ensure bench strength. It is also important to quiz the less senior team members on their level of satisfaction with compensation, prospects and working environment.

"Deal attribution is important and prospective investors should go beyond the data room to assess through triangulation the appropriate credit for transactions," says Jonathan English, managing director at Portfolio Advisors. "You

try to figure out who is driving value, who has a good nose for deals, and who can make the right maneuvers when things go pear-shaped. If you aren't happy with how a person is being compensated and you think they may leave over time, you factor that into your decision."

Highly concentrated fund economics can therefore be problematic in that they do not incentivize team stability. This is all seen by many as fairly typical of Asia: there are said to be founders of PE firms in China who receive two thirds of the overall economics themselves, despite having raised multiple funds.

Anatomy of carry

In most cases, carried interest is allocated based on seniority and performance. Broad guidelines on the first portion are agreed prior to fundraising while the second portion sits in an unallocated pool – because it is impossible to tell at the outset how the portfolio will perform.

However, the balance between the allocated and unallocated portions of carried interest, and the decision process behind the distribution of the latter, can be sources of disharmony. There have been situations in which executives have departed private equity firms amid murmurs of poor treatment by greedy senior partners. It is often unclear where the truth lies. Did a particular individual fall foul of an opaque system under which they were denied their deserved share of the spoils, or did their performance not warrant a meaningful share of the unallocated pool?

This is not a challenge unique to Asia. In a paper published earlier this year, Victoria Ivashina and Josh Lerner of Harvard University revealed the results of an analysis of 700 funds from 2000-2015, most of them North America-focused. They found that the allocation of fund economics is typically weighted towards founders, with individual past performance having little impact on these allocations; the more unequal the distribution of economics, the less stable the partnership; and the departure of senior partners inhibits a firm's ability to raise additional funds.

One China-focused VC firm took the opportunity to alter its compensation structure several years ago following some turnover in the senior ranks. "Carried interest used to be allocated by seniority. I don't like that, and it's a problem for the industry as a whole," says one executive with the firm. "I told the senior partners, junior partners and some of the vice presidents that it had to be a meritocracy. Seniority carries some weight, but you are only as good as your track record."

The carried interest split is now 60% allocated and 40% unallocated. Everyone, from partners to vice presidents, has a profit and loss account that is tied to the portion of the portfolio for which they are responsible. Qualification for

the unallocated pool rests on generating 2x or above on investments and then the proceeds are distributed in line with the dollar returns; anything below that is considered underperformance. Approximately 10% of the pool is allocated on a discretionary basis when the lead partner on a deal wants to recognize a certain individual's contribution.

The idea, the executive adds, is to "minimize ambiguity." This was one of two contributing factors when Navis Capital Partners revised its approach to the distribution of carried interest for its seventh fund, which closed in late 2014. The other was rewarding outperformance. "I wanted a bigger stretch between really successful partners and less successful partners," says Nick Bloy, the firm's co-founder and managing partner. "Our older way of doing things wasn't creating enough differentiation."

Carried interest has always gone to every member of the Navis team, including support staff, and this remains the case. However, for investment professionals, the carried interest

pool was divided into two equal parts for Fund VII: the existing arrangement, whereby a portion is allocated based on seniority and speed of advancement, plus a new unallocated performance portion. There are set formulae for calculating an individual's share of each pool. Only those whose deals increase Navis' average return get to share in the performance pool, which is sub-divided into IRR and investment multiple categories.

Not all GPs primarily rely on agreed formulas for allocating carried interest. Australia-based Pacific Equity Partners (PEP) uses a model based on demonstrated performance through the life of the fund. The specific amount for each individual is decided through peer review over the life of the fund. This is seen as the best fit for an internal culture in which the dominant identity is the firm, not the individual.

Tim Sims, one of PEP's founders, identifies three elements that underpin this approach. First, the firm operates through an apprenticeship model. It hires experienced graduates from consulting

firms and investment banks, exposes them early on to the full workings of the investment process, and expects them to master those skills as they move through the organization. Second, there is a general recognition of the different skills and talents of individuals as they contribute to the deal process and how those can be put to use in combination. Third, the mechanics of the investment process is so ingrained that the people involved are interchangeable.

PEP has 25 investment professionals and about 10 managing directors, including four founders. Within the managing director group is an upper echelon that safeguards the company culture; admittance is limited to those who have been around long enough to show they fully buy into the culture and want to sustain it.

"Succession planning must be deliberate and gradual, and it must continually re-evaluate the people combinations that are emerging. It is too simple to take two people who work well together and assume that when you remove a generation of the firm the chemistry will still be there," says Sims. "You need to ensure that the culture of the firm is not subsumed by some personality culture-based style, which is easy to do, given the stakes are so high. If that happens then you will struggle as ambitious people look out for their own interests because the firm doesn't."

More than money

In this sense, succession planning is about more than just retaining talent through the equitable distribution of carried interest from funds. In the most recent edition of its Asia Pacific PE compensation survey, Heidrick & Struggles found that most respondents at partner and principal level thought their firms were effective in communicating compensation policies. As to whether succession plans were in place for senior leaders in Asia, the majority of respondents either didn't know or said they did not.

Michael De Cicco, a partner with Heidrick & Struggles, describes succession planning as "a time bomb, the biggest problem facing PE firms that they aren't talking about." With this in mind, he expected a positive correlation between a lack of transparency regarding compensation and uncertainty over succession planning – i.e. dissatisfaction with payment, or a lack of clarity on payment policies, is seen as symptomatic of a failure to ensure the next generation of leadership is in place and motivated to stay.

One explanation for the lack of correlation is that material steps to give this next generation an ownership interest in the firm and a say in its operations is just as important a component of succession planning as compensation. This is also where transitions are mostly likely to go wrong.

"Even if economics are evenly distributed,

Passives: Selling a GP stake

When Navis Capital Partners was founded in 1998, a European family office called HAL accounted for a large part of the first fund and took a stake in the management company as well. About three years ago, HAL decided it wanted to sell, resulting in a buyback that is still in the process of being completed.

Nick Bloy and Rodney Muse, the co-founders of Navis, led the acquisition of shares from HAL and Rick Foyston, another co-founder who scaled back his involvement in the business in 2007. A portion of that equity is now being sold on to other investment professionals at partner and senior partner level. "We set a low valuation multiple and we said no one had to write a check: they pay for it over time as a formulaic deduction from the annual bonus, from dividends, and from carried interest," says Bloy.

While a passive investor's decision to sell its stake in the GP has facilitated a transition in ownership at Navis, it is more common for this element of succession planning to be initiated by a third party buying into a PE firm. The valuations paid serve as guidance when founders allocate equity in the management company to up-and-coming investment professionals.

"If I tell you I will give you 50 basis points of the management company you might think I am kidding – what you really want is 50 more points of carry," says Juan Delgado-Moreira, a managing director at Hamilton Lane. "But after another investor comes in and buys a stake at a certain valuation, that 50 basis points of the management company is now really worth something."

For Affiliated Managers Group (AMG) and Dyal Capital Partners, participation in these deals has become the basis of a business model. AMG has taken minority stakes in over 30 public and private managers since 1994 and has more than \$700 million in assets under management. Earlier this year the firm acquired a 15% stake in Baring Private Equity Asia. The proceeds were earmarked for future GP commitments to Baring funds, improving financial flexibility, and succession planning.

"Creating shareholder value at the firm level, which is something that has already been done by several of our global competitors who have raised capital from the public markets directly or sold stakes to private investors, is a strategic tool for further motivating and aligning employees and will help to cement the partnership structure we have in place," Baring said in a memo to LPs.

The rationale for these investments is to tap into the affiliate managers' fee streams, which means that feasible targets must be of reasonable scale. AMG also has to be confident in the succession planning it is facilitating: if it is contributing to a transfer of power within a PE firm, it must have conviction in the ability of the next generation to deliver consistently high returns.

there is the question of power. At what point does the founder cede control of the firm's management, its future, hiring and so on, to other partners? When we see succession go wrong it is often because a founder just couldn't decide on when to step back," says Adams Street's French. "A bit of that could be characterized as ego. Someone who has founded a firm might want to spend time on a winery or collecting art, but it is a tension point."

Perhaps the most significant indicator of a transfer of power taking place is change in ownership of the management company – an area where Ivashina and Lerner found greater inequality between senior and junior ranks than for carried interest. There are various methods of redressing the balance. Several of the PE firms have gone public, allowing founders to sell down their stakes and providing a mechanism for equity to be awarded to others. Selling a stake in the management company is another option.

The most common route is revolving equity, whereby a departing founder or partner sells their interest management company and is paid out over an agreed period of time through ongoing – but incrementally reduced – participation in the economics of subsequent funds. The next generation of leaders then buy into the management company, typically at some kind of discount, financing the purchase by borrowing from the firm against future compensation streams.

The alignment of interests is intended to deliver a smooth transition, but problems arise when the dynamic between the older and younger generations fractures. At the heart of these tensions are differences over the speed at which the handover of power should happen and how much, if any, of the management company should stay in passive hands. Central to this is the value contributed by the founder ahead of and during the transition period.

A classic case – a version of it is currently being played out in an Asian firm – involves a founder who has moved into a fundraising and investor relations role, leaving the director-level executives to look after the investment program. The founder wants to retain control of the GP on the grounds that he is indispensable to the fundraising process, but the directors oppose this, saying they are creating most of the value.

No two situations are alike. There are private equity firms in Asia where fundraising and investment duties are split between founders and directors and harmony remains. Similarly, while in certain scenarios a senior executive who is reluctant to retire is moved into a chairman-style role that facilitates a graceful exit, it is wrong to characterize all founders as resistant to change.

For example, Thomas Kubr, executive

chairman of Capital Dynamics, is uncomfortable with younger professionals pushing too aggressively for ownership. "Just because they can do a few good deals, it does not mean they understand what it takes to build a firm. I love people who spin out – they are putting everything on the line – but I don't like younger guys gunning for ownership of an existing firm without having made any sacrifices," Kubr says. At the same time, he is sad to see firms die as a result of founders hanging on too long because it destroys a lot of brand value.

The only real solution is careful preparation, which is why LPs are increasingly raising the issue with portfolio GPs in Asia, even though founders may have years left in them. One obvious step that can be taken is to ensure a reasonable

themselves. The question remains whether these businesses would survive if one of the founders was hit by a proverbial bus.

None of these GPs has any problem fundraising, which suggests LPs are comfortable with the answer, or perhaps neglecting to ask the question at all because they want a piece of a popular fund. Yar-Ping Soo, partner and head of the Asia investment team at Adams Street Partners, puts herself in the former category. "Part of our job is to ask about the economic split and talk to all the team members, and not everything is what it might seem from the outside," she says. "A dominant character can still be generous, not just in terms of carry but also in terms of power."

Indeed, a prevalent theme of Asian private equity in recent years has been

"Even if economics are evenly distributed, there is the question of power. At what point does the founder cede control of the firm's management, it's future, to other partners?"

– T. Bondurant French

spread of ages within the upper tiers. Qiming has a 20-year spread across its five managing partners; while Rieschel is 60 and Kuang is in his 50s, the other three are early to mid-40s.

This is of particular importance in venture, given the role played by younger team members in tracking technology trends and working with entrepreneurs that are close to them in age, but PE firms are not immune to demographics. Navis' Bloy notes that neither he nor co-founder Rodney Muse is close to considering even a part-time role, and they are younger than two of the four-strong senior partner team.

"In five years or so, we need to identify the next generation of managing partners, probably three in number, and start streaming more equity to them," he says. "A future managing partner is not necessarily a current senior partner. I don't think it is in anyone's interests to have a managing partner serve in that role for a couple of years and then retire. It's a significant transition of a long-term responsibility – we are making a 10-year or more commitment to our LPs."

Cult of personality

The challenge for most private equity firms in the region is to get past whatever cult of personality may exist around the founders. Several of the larger indigenous Asian GPs – such as Affinity Equity Partners, Baring Private Equity Asia and PAG Asia Capital – are most immediately recognizable to many within the industry by the people that lead them rather than the firms

institutionalization. On one hand, regulatory compliance and LP reporting requirements have obliged GPs to pour more resources into back office operations; on the other, the sheer amount of capital raised – in some cases across multiple strategies – has created organizations that are more consistent and substantial. Most of these firms can point to their recruitment efforts and systems upgrades and claim to be robust.

Asked what would happen to the firm in his absence, one senior executive with a regional fund responds: "The partners would meet among themselves and elect a new leader but I can tell you right now how that vote would go. It would be a five-minute discussion."

Such bold statements may apply to some of the larger firms, but it remains to be seen whether their smaller counterparts can manage transitions without an exodus of talent or a drop in returns. Various industry participants believe this will happen, as Asia follows a similar evolutionary curve to North America and Europe. Doug Coulter, a partner with LGT Capital Partners, questions how much longer we have to wait.

"There was an idea that as the industry matured and more firms entered carry mode, there would be less movement as people saw the opportunity to stick around and get rich. But it hasn't really happened," he says. "Private equity is the ultimate people business – no matter how strong your databases, nothing can replace the knowledge of your investment professionals. And these people are still walking out the door." ▀



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SANNE

View from the top

Shangzhi Wu, chairman of CDH Investments, discusses China's slowing economy, the gems to be found in the middle market, cross-border opportunities, and making a multi-strategy firm institutionalized

Q: What is your sense of the investment climate in China?

A: It's not as easy as when we started 10-15 years ago, but relatively speaking, there is still a very healthy dynamic and a growing PE and VC market. An overall growth rate of 6% is not unattractive on a global comparative basis; some sectors are expanding slower than that, while others – such as TMT [technology, media and telecom], healthcare and logistics – are growing rapidly. At the same time, we see a lot of encouraging investment opportunities because of the cross-border angle. There are two drivers: the sheer size of the Chinese consumer market and the willingness of domestic companies, some of which are now of global size, to pursue outbound M&A.

Q: CDH launched a mid-market growth fund last year. Why?

A: There were two factors. The first is our own mandate. We have a \$2.6 billion US dollar fund and a \$1.2 billion renminbi fund – that's \$3.7 billion to put to work over 4-5 years, which works out at about \$800 million per year. Based on that mandate, we can't do \$20-30 million deals; we have to do \$100 million deals. On the other hand, people put forward attractive smaller deals to the investment committee and it is hard to reject them just because of size. We wanted to take advantage of these opportunities and the only way to do it was to have a separate team. Another consideration is sector expertise. The mid-market fund focuses on TMT healthcare and other fast growing sectors, so we have been able to build

on that, identifying synergies between the two teams. They are separate strategies but under one roof, so information-sharing and co-investment is effective.

Q: To what extent do these companies differ from the mid-cap businesses CDH backed 15 years ago?

A: The sectors are different but company profiles – the sizes and growth rates – are similar. What we have found is that some of the companies we invested in 15 years ago are now huge.

Q: WH Group has become very large – and CDH remains an investor after nearly 10 years. What did you expect of the firm when you first backed it?

A: Every time you make an investment you hope the company will grow to the size of WH Group, and maybe you put in more money and hold it for the long term. But each case is different. Sometimes companies grow to a certain size and then plateau, and you have to make a judgment call on whether to hold or get out. With WH Group, it was always the largest pork producer in China. Then the Chinese pork market grew to five times that of the US, so the company became global in size and developed global ambitions, which led to the acquisition of Smithfield Foods. We didn't foresee that on day one.

Q: How has CDH's approach to value creation evolved?

A: We are still learning in terms of post-investment input. Most of our investments are for minority stakes so it's very hard to implement a 100-day plan, but even when we do have



“Ultimately, private equity is a people business and the human capital challenge will always be there”

control, China presents a lot of operational challenges. Our strategy has been to team up with Chinese strategic players to address these issues. Baroque Japan is a good example. It had about 30 stores in China when a controlling stake became available, but we didn't think CDH alone could support growth. So we invited Belle International to invest with us, and they actually took over Baroque's China operation and there are now 160 stores. We leverage the resources of our investee companies, our partners, and outside experts in order to add value rather than have a limited number of our investment staff play that role.

Q: CDH is one of few multi-strategy firms in China. Why is this of benefit?

A: I think having a presence in different asset classes is good for CDH and for our LPs. It enables us to get more integrated into the Chinese financial system: we are learning a lot more about domestic capital markets, about our competitors, and about domestic LPs. This knowledge and capacity means we can react at different times to changing policies and market cycles. In each situation, we assess the business opportunity and ask if we can be meaningful, be competitive and form a strong management team. This must happen without diluting the resources for our existing businesses.

Q: With the addition of new strategies, do you feel your role has changed over time from CIO to more like a corporate CEO?

A: I am still very much involved in investment decision-making for the private equity, mid-market growth, real estate, and credit businesses. I am not running around on the frontline doing deals, but our investment committees tend to be quite small – three to five people – so you need to be aware of the risks and challenges. In terms of managing different businesses, our operational structure is very flat: we have partners who are responsible for particular strategies and we help them build teams, develop their strategy and coordinate fundraising. Ultimately, PE is a people business and the human capital challenges will always be there. You must ensure team members are happy in terms of compensation, promotion and career development. ▀

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TEG Pty Ltd

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Investment in Australia and New Zealand's largest ticketing and vertically-integrated live events company

July 2015



Velocity Frequent Flyer

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Investment in a leading Australian airline loyalty program

October 2014



Medical Director

Sole Investor

Investment in the largest clinical and practice management software provider in Australia

May 2016



Burger King

Sole Investor

Investment in the exclusive operator of the Burger King franchise in Korea

April 2016



Loen Entertainment Inc

Sole Investor

Leveraged buyout of the largest vertically-integrated music company in Korea

September 2013



Kyobo Life Insurance

Lead Investor

Investment in the third largest life insurer in Korea

September 2012



Primo Group Holdings Pty Ltd

Lead Investor

Leveraged buyout of Australia's largest meat processor

October 2011



Tegel Foods Ltd

Lead Investor

Leveraged buyout of New Zealand's largest poultry producer

May 2011



Beijing Leader & Harvest Electric Technologies

Lead Investor

Buyout of the leading manufacturer of energy-saving electrical equipment in China

October 2009



Oriental Brewery Co Ltd

Joint Lead Investor

Leveraged buyout of the second largest brewery in Korea

July 2009



The FaceShop Korea

Sole Investor

Leveraged buyout of a leading cosmetics company in Korea

October 2005



Loscram Limited

Sole Investor

Leveraged buyout of a leading returnable packaging hire company in Australia

August 2005



Himart Co Ltd

Lead Investor

Leveraged buyout of Korea's largest consumer electronics retailer

April 2005



Haitai Confectionery & Foods Co Ltd, Korea

Joint Lead Investor

Leveraged buyout of the second largest confectionery company in Korea

September 2001



NS Electronics Bangkok Ltd

Sole Investor

Largest financial restructuring and recapitalisation buyout in Thailand by a financial sponsor

February 2000



Mando Climate Control Corp

Lead Investor

First leveraged buyout in Korea by financial sponsors

October 1999

Untapped potential

Still at an early stage of its development, China's LP community has minimal exposure to offshore private equity. Institutions with big checkbooks aren't necessarily the fastest movers

CREDITEASE STARTED OUT AS A BRICKS-

and-mortar operation that linked individual lenders to small-scale borrowers, typically the rural poor and lower income urban dwellers. The crux of its business model was a network of Chinese high net worth individuals (HNWIs) with an appetite for ventures that were higher risk but higher return. While the peer-to-peer (P2P) lending platform went online and went public, CreditEase doubled down on its client base, offering a range of wealth management services. Now the company wants to take these HNWIs into international private equity.

CreditEase and its domestic rival Noah Holdings are unique in China in that they have managed to harness private wealth that is often beyond the reach of the private banks. While the former used a P2P business as its launching pad – it has 200 offices and 3,200 wealth advisors – the latter rose to prominence as a placement agent. It helped the likes of Shenzhen Fortune Capital and SAIF Partners to raise renminbi-denominated funds, tapping into a sizeable local distribution network.

Gopher Asset Management followed, offering domestic fund-of-funds and secondary funds to these same investors. The company then sought to replicate this suite of products offshore, establishing an international private equity arm in 2012 as well as an office in Hong Kong. Gopher International now also covers co-investment and has a presence in Silicon Valley.

"What we have seen over the last 2-3 years is Chinese HNWIs starting to make global allocations to private equity. The peak was last year, and that's clearly the trend," says Piau-Voon Wang, co-CIO at Noah, who joined the firm earlier this year from Adams Street Partners.

By virtue of their distribution networks, CreditEase and Noah has managed to place themselves at the forefront of this Chinese charge into everything from real estate to private equity – and a slowing domestic economic and a weakening renminbi have only served to whet this appetite. The two firm's fund-of-funds products have already made commitments to global brand names such as KKR, The Carlyle Group and The Blackstone Group.

While HNWIs cannot expect to make the same impact on the market as institutional players by size of allocation, they represent a new

and attractive target for offshore private equity. This is especially welcome given that insurance companies – perceived by many as Asia's next big LP base – have yet to realize their potential.

"There is a huge amount of capital from Chinese insurance companies and pension funds seeking to invest in private equity globally, but foreign exchange controls are the most crucial hurdle right now," says Sally Shan, managing director at HarbourVest Partners. "Remove it, and there would be an aggressive shift into overseas private equity through fund commitments or direct equity investments. However, as it stands, everything is sort of slowing down."

Institutional tortoises

The largest and longest-standing players in the country's institutional landscape are sovereign wealth fund China Investment Corporation (CIC) and SAFE Investment, a unit of the State Administration of Foreign Exchange. There were among the first batch of Chinese LPs to enter the overseas PE market.

CIC, which has more than \$800 billion in assets, established CIC International in 2010 to handle private equity fund commitments and co-investments, as well as other asset classes. Last year it launched CIC Capital to drive overseas direct investment. The unit could have more than \$40 billion put at its disposal.

While CIC and SAFE are obvious targets for international GPs on the fundraising trail, their investment activity has lessened in recent years. CIC is said to be holding back because its private

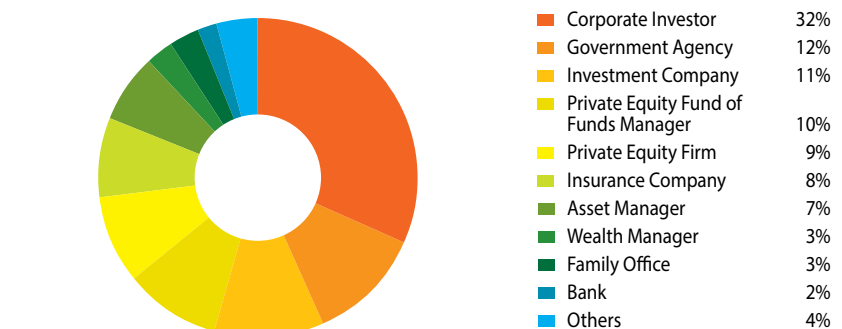
equity program is maturing and there is less capital available for new relationships. It is also committing more to direct investments. As for SAFE, checks are still being written but they are smaller in size and number – a reflection of the foreign exchange controls imposed by its parent.

Regulation is also an impediment for Chinese insurers. They received clearance to invest in offshore private equity and real estate funds in October 2012, but take-up has been modest. As of last year, about 2% of the Chinese insurance industry's RMB12.36 trillion (\$1.8 trillion) in total assets had been invested internationally. This is despite the overseas asset allocation allowance, which includes fixed income and private equity, rising from 5% to 15% three years ago.

Initial signs were positive, with China Reinsurance (China Re) becoming the first domestic insurer to back an international PE fund in 2013. Since then, China Life and Ping An Insurance have gradually increased their allocations to the asset class, followed by privately-held players like Taikang Life and Anbang Insurance. Their preference is for established brand names and strong track records; minimum check size restrictions push them towards fund-of-funds and global funds.

Ping An Insurance and Anbang are seen as the most aggressive players across fund investments and direct deals. According to one industry participant, Ping An mobilized three of its sister divisions to commit a total of \$950 million to a \$3.5-4 billion fund-of-funds raised by Neuberger Berman. The decision to invest came

China private equity investors by type



Source: Preqin

after just half an hour of discussion.

In recent months, second-tier insurers such as China Pacific Insurance and Qianhai Insurance, have started building overseas investment teams for PE, responding to the weakening local currency and stock market volatility. But they came up against a government intent on preserving stability, and foreign exchange controls are one of its tools. Since the start of the year, local banks have been ordered to limit the use of US dollars and strengthen checks on foreign exchange deal limits. New attribution quotas for the Qualified Domestic Institutional Investor (QDII) program have also put on hold.

Insurance companies with Hong Kong-listed subsidiaries – China Life, Ping An, Taiping Life, China Pacific and PICC – don't necessarily have to go through the same currency conversion

China Life is a case in point. The insurer, which has more than RMB1 trillion in total assets, set up China Life Investment in 2007, a dedicated alternative assets unit that pursues infrastructure and private equity deals as well as making pre-IPO commitments to late-stage technology businesses and state-owned enterprises. As of last year, it has RMB126 billion in assets. The unit has backed offshore funds raised by TPG Capital and others, writing checks of at least \$50 million. Investing in global brand names means it is easier to do reference checks on GPs with counterparts like CIC and GIC Private.

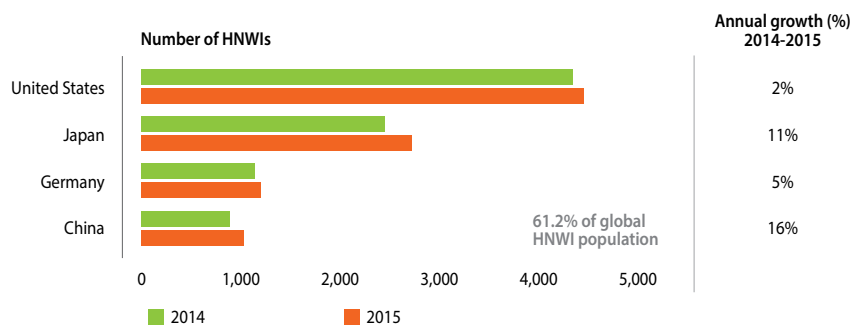
"They are under pressure to deploy a large amount of capital every year, but the team is not very large. It is very difficult to manage many relationships with offshore mid-market GPs, particularly when they don't have offices

China Post Life Insurance, a subsidiary of state-backed China Post Group, was established in 2009 and launched its PE program in 2014. Commitments have been made to five funds, onshore and offshore, including a cross-border VC fund raised by China Everbright and Israel's Catalyst Investments and a Canadian energy-focused fund. It helps that the insurer managed to assemble a reasonably large PE team with experience in overseas institutions; familiarity means there is greater comfort in backing smaller overseas managers with niche strategies.

However, teams like this are not yet the norm. Most Chinese insurance companies are still in the process of developing investment strategies and recruiting people to execute them, so their comfort zone remains the global brand names. "Almost all foreign GPs tell us they want to raise money from Chinese sovereign funds and insurances, but in reality, the chance of these Chinese groups investing the mid-market space is quite low," a placement agent says. "On the other hand, the chance of raising money from wealth management groups is probably higher and it's good to know them."

CreditEase and Noah started backing established global names but moved quickly into the middle market, and from there into co-investment. For Gopher International's latest fund-of-funds, which is seeking to raise \$300-400 million from Chinese HNWI's who have US dollars offshore, 40% of the corpus will go into fund commitments and 60% into co-investments. The co-investment part will be co-managed by Gopher and Sequoia Capital China.

Largest HNWI Populations, 2015 (by Markets)



Source: Capgemini Financial Services Analysis

approvals process, because they can use non-renminbi assets to make offshore commitments. Once they limited reserves run out, however, currency converting renminbi to US dollars would require approval.

"If you asked me last year whether Chinese institutional LPs would become a significant source of capital in offshore private equity, I would have definitely said 'yes.' That's why we advised clients at the time to build good relationships with Chinese insurers, because one day they will start investing in mid-market funds [as well as global funds]," says Guo Sun Lee, a partner King & Wood Mallesons. "Now, though, I am not sure anymore, as there are more regulations on capital control."

Willing participants

Regardless of these restrictions, insurance companies' desire for private equity exposure – onshore and offshore – is undimmed. This is only logical given their huge asset bases and long-dated liabilities. However, the level of sophistication of investment programs varies across the industry.

in China," says a source familiar with China Life Investment's strategy. "They understand that they might not get equal treatments, such as first-referral on co-investment rights, from large GPs as these typically will go to longer-standing LPs."

Taking a more aggressive approach to the asset class – for example, co-investing alongside a GP with a view to backing its next fund – is challenging due to complex internal reporting and approval systems. A China Re representative alluded to this problem at the 2014 AVCJ China Forum, noting that some executives from state-owned insurance companies do not fully grasp the risks and rewards of a private equity program and instead focus only on investments with a short-term horizon.

Privately-held and market-oriented insurers differ in this respect from state-owned China Life because they do have more strategic flexibility: this is evident from the greater interest in long-term assets at joint-stock insurers such as Ping An Insurance and Taikang Life. Younger players, whether joint stock or state-owned, may also have greater freedom because they are not weighed down by years of bureaucracy.

The customers

These firms have also sought to offer assurances to GPs looking to tap Chinese HNWI's that they, as intermediaries, represent a consistent and professional source of capital. CreditEase generated \$4.5 billion in wealth management sales last year, with individual investments in its US dollar and renminbi products starting from \$150,000. Each client is assessed to verify the origin of the funds, the idea being that foreign GPs only need conduct due diligence on CreditEase, not the underlying investor.

Investments are also taken upfront, which means the firm can respond to capital calls in a timely manner, rather than waiting for contributions from clients. "We thought that receiving capital commitments from retail clients would be an expensive, logistically challenging and a risky way of dealing with capital calls from our fund investments, and would complicate financial and cash management for our clients" says Richard Williamson, CreditEase's co-head of wealth management product.

The situation is far removed from 2011-2012

when HNWIs rushed into domestic private equity in expectation of swift returns on pre-IPO deals, sending fundraising to record highs. When the market slowed, investors became disillusioned with the asset class, ignoring capital calls or simply writing off their interests in illiquid fund positions. While the fundraising structures have changed, understanding of private equity has not necessarily improved, and so Noah also emphasizes education.

"Domestic investors do not have clear views on every product and some are misled by market information," says Noah's Wang. "We have over 1,000 professionals and 3,000 staff who educate investors on long term and illiquid assets, and return expectations for offshore PE products. It is a critical part of our service. Traditional GPs that want to raise money from Chinese HNWIs directly, I wish them good luck – it is a tough process and education alone requires substantial resources."

Establishing an institutional mechanism for tapping into the wealth of China's retail investors could deliver a potential windfall to international private equity firms, and also to the parties that operate the system. According to the latest installment of Capgemini's World Wealth Report, China's HNW population – defined as those with an investible assets of at least \$1 million – reached 1.03 million last year. The 16.2% year-on-year gain was the largest of any country globally.

By 2025, the number of HNWIs in Asia – driven by emerging markets such as China and India – is expected to be more than double the 11.7 million recorded last year, with aggregate wealth reaching \$42.2 trillion at that time, far outstripping the projected US total of \$25.7 trillion.

"If you add these four things together – the growth of the domestic Chinese HNW pool, the diversification of Chinese HNWIs' wealth away from their proprietary businesses, the increasing interest in offshore assets, and growing appetite for private equity – relative to HNWIs in other markets – you have a very strong long term structural trend driving Chinese HNW capital into offshore private equity, and we foresee that this trend will continue to grow," says Williamson.

Benjamin Wiley, a partner at placement agent Sixpoint Partners, which specializes mid-market funds, echoes this view. He also observes that more family offices are emerging out of China as the second generation takes over investment decision-making and professionalizes operations, bringing in third-party managers to construct and manage portfolios. This will likely heighten the appeal of HNWIs to international private equity firms.

"Private wealth has not been our main focus historically; we're focused more on institutional investors. In China, we're still assessing whether HNWIs could be a significant source of capital

Institutions: A local story

The National Social Security Fund (NSSF) is generally acknowledged as the first and most sophisticated institutional investor in the mainland. With RMB1.9 trillion (\$280 billion) in assets under management (AUM) as of year-end 2015, it also remains the largest.

Established in 2000, the pension fund made its first commitment to a domestic private equity fund in 2004. Four years later, it won regulatory approval to deploy up to 10% of its total assets in the asset class. "When the government tried to promote private equity 10 years ago, the NSSF was the only institutional investor domestically. It really is the guiding force for the entire industry, enabling many renminbi fund managers to raise capital. Without the NSSF, they could only talk to individual investors," says Frankie Fang, who heads the Beijing office of LGT Capital Partners.

Relying on a dedicated in-house team, the pension fund constructs its own fund portfolio and has backed funds raised by the likes of CDH Investments, Hony Capital and IDG Capital Partners. The team is also hands-on, sometimes conducting due diligence on specific deals, Hugo Shong, founding general partner at IDG, recalls. Last year, the NSSF started making direct investments, taking a 5% stake in Alibaba's internet finance affiliate Ant Financial Services.

Chinese insurers were not allowed to invest in domestic PE until 2010. The following year the cap on exposure to private funds and companies was raised to 10% from 5%, and then in 2012 investment in offshore PE funds was permitted. Two years later, the regulators decreed that investments in public and private equities combined could account for 30% of the total assets. The system continues to liberalize. In early 2015, insurers were allowed to get exposure to domestic venture capital funds, with an extra RMB200 billion released into the venture space.

In addition, they can now operate as GPs, setting up their own funds and raising capital from third parties. China Life Investment Holdings – the alternative investment platform of China Life Insurance Group – duly launched what it claims to be the largest-ever domestic healthcare fund; Taikang Life Insurance soon followed suit, forming a RMB5 billion healthcare vehicle in partnership with industry player Tasly Holdings.

While domestic alternatives have become mainstream for insurance companies, with increasing amounts of capital deployed in the asset class, Chinese endowments are still small compared to their overseas peers, although LPs are also emerging in this category.

Tsinghua University Education Foundation (TUEF), a non-profit university organization with RMB4 billion in AUM, was the first mover in private equity, making its debut commitment in 2008. It has built a diversified investment portfolio with significant PE allocation – both funds and direct deals – that accounts for a double-digit share of total assets. TUEF started investing in Tsinghua's family funds such as TusPark Ventures, and had since expanded into independent GPs such as CDH and CITIC Capital, as well as cross-border specialists Yao Capital and Cathay Private Equity.

"We had difficulty with long-term investment products in the early days. When we invested in a seven-year PE fund, we became very nervous and worried if portfolio companies could go for IPOs or achieve exits with good profits," says Huang Ying, investment manager at TUEF Asset Management. "Now, with more experience, we feel comfortable in traditional US dollar fund with lifespans of 10 years. We are also diversifying into smaller players with niche strategies. It's a learning process for us."

for our funds in the future. We are conservative at this stage, and would only consider taking capital from wealth managers' fund-of-funds that have already secured cash," says HarbourVest's Shan. "However, there is a long-term trend in the industry whereby more individual investors will get access to private equity assets."

Whatever the long-term projections, the more immediate obstacle facing HNWIs is the same as that for institutional players: foreign exchange controls. The government is specially targeting outflows of hot money – driven by Chinese HNWIs – that is used to speculate on offshore assets, but those with clear investment purposes and detailed information disclosure, should still

be able to get regulatory approval. It may just take longer than before.

This is perhaps in keeping with the broader message that the entry of Chinese capital into international private equity, from institutional and retail sources, will be a gradual process – although GPs keen to facilitate development should think about building relationships early.

"The Chinese LPs market is new and evolving quickly. You need professional staff in and of the market, the linguistic and cultural skills as well as a longevity in the market and an understanding of what's really going on," says Sixpoint's Wiley. "You need to cultivate LPs relationships, and keep up with changes in LPs' staff and strategies." ■

Asia's LP landscape

Asia is increasingly a target for private equity firms on the fundraising trail, but the region's LP base can be difficult to penetrate, with huge variations in size, appetite and sophistication

JAPAN

Three to watch: Japan Post Bank, Pension Fund Association, Development Bank of Japan

JAPAN'S GOVERNMENT PENSION

Investment Fund (GPIF) is the proverbial whale: a move into PE could trigger a flood of public pension money entering the asset class. However, so far the group has only made two investments and has yet to roll out a program geared to making regular allocations. For GPs currently fundraising, is it worth doing a meeting?

As one placement agent puts it: "If we are doing a road show for a large enough manager and have an extra slot, then we will reach out. They generally are willing to do meetings because they are intellectually curious."

Japan Post Bank is the other domestic giant, with approximately \$2 trillion in assets and a private equity program that officially launched in April. The model portfolio – likely to account for a low single-digit share of total assets across all categories of alternatives – is described as globally diversified, with space for small and mid-cap managers as well as large buyout funds. Access to Japan Post Bank is said to be marshaled by four local asset managers: Nissay, DBJ, Tokio Marine and Sumitomo Trust.

These asset managers – others include AI Capital, Nomura and Mitsubishi UFJ Trust – serve as gatekeepers for most of Japan's pension fund money. DBJ is arguably the most interesting of the group: it manages capital for its parent bank and also represents many of the country's regional banks, which are increasingly willing to make commitments of \$5-10 million to private equity, although primarily to domestic managers. It was reported last year that DBJ had agreed to work with Chiba Bank and Shizuoka Bank on an offshore private equity program, but so far this represents the exception rather than the rule.

More productive meetings for international private equity firms may come with the Pension Fund Association (PFA), which has around JPY12.7 trillion in assets and a 5% allocation to private equity, as well as a raft of domestic insurance companies and larger banks. The likes of Nippon Life, Dai-ichi Life, Daido Life, Sompo Japan

Nipponkoa, Norinchukin Bank and Sumitomo Mitsui Banking Corporation are all relatively seasoned investors in the asset class. Equity checks tend to be in the \$25-50 million range.

All told, there are said to be 10 active LPs in Japan that make several new commitments each year, and another 10 that are either less consistent of focus on re-ups.

KOREA

Three to watch: National Pension Service, Korea Investment Corporation, Korea Teachers' Credit Union

THE NATIONAL PENSION SERVICE (NPS)

and Korea Investment Corporation (KIC) are the established tier-one members of Korea's LP community: the former had KRW512 trillion (\$442 billion) under management at the end of 2015, including KRW9.1 trillion in private equity; the latter had an international portfolio of \$91.8 billion, with \$3.9 billion in PE.

However, there is an increasingly active second tier of investors largely unhampered by the minimum check size requirements that restrict NPS to mega funds and fund-of-funds (a \$5 billion US middle market fund is seen as a maybe; a similar vehicle of \$1.5 billion has no chance). In Korea Teachers' Credit Union, Korea Teachers' Pension, Korea Post, the Public Officials Benefit Association (POBA) there is a subset of pension funds that are active participants in international alternatives, making commitments of \$40 million or more. The caveat is whether they want exposure to traditional private equity.

For example, POBA said in March that it would double its allocation to offshore private equity funds in 2016 to \$200 million. Six months later it announced a \$120 million allocation to three US mezzanine funds, confirming Korean LPs' general preference for yield-generating assets such as credit and private debt.

A particular challenge in Korea is the request for proposal (RFP) culture that permeates many of the institutional investors. These often come with quite specific mandates, a short turnaround time, and a request that documentation be submitted in Korean. Investor relations professionals stress the importance of reaching

out to institutions in advance, establishing a degree of familiarity, but once the RFP is issued it is necessary to snap back into a formal process.

Most placement agents claim to have 20 or so active relationships, which may also include asset managers such as Samsung and various insurance companies.

CHINA

Three to watch: China Investment Corporation, SAFE Investment, Ping An Insurance

IT IS ONLY A MATTER OF TIME BEFORE

Chinese insurers become significant players in international private equity – much as they have in the asset class domestically – but it is unclear when that time will be. Fifty or so insurance companies could feasibly make allocations to offshore funds, but for now international GPs are focused on a small handful: the likes of China Life, Ping An Insurance and China Reinsurance.

While these groups have a tendency to back global brand names, some industry participants say they see a nascent but growing interest in middle market managers. However, the immediate question is whether insurance companies have dollars at their disposal: with the imposition of tighter foreign exchange controls earlier this year, international investment plans have been scaled back. The workaround is using offshore capital to make fund commitments.

The impact is expected to be temporary (it is worth noting that insurance companies have still managed to make some offshore direct property investments) and teams are still being assembled with offshore private equity in mind. "When they do get the greenlight to invest offshore, it will be a deep pool of capital," says one GP.

The two sovereign wealth funds – China Investment Corporation (CIC) and the investment unit of State Administration of Foreign Exchange (SAFE) – are still active, but arguably not as profligate as before. While CIC was obliged to make frequent commitments in its early years in order to build out the private equity portfolio, now the pace of deployment has slowed. The fund is also focusing more on overseas direct investments.

SAFE's portfolio has also matured but the pressure point is foreign exchange controls. Having been willing to write checks of \$250-500 million 18 months ago, the group has since reduced its minimum check size to \$100-200 million, according to one source. Hamilton Lane serves as gatekeeper to SAFE, handling all funds below a certain threshold.

Separately, there is increasing interest in Chinese high net worth capital, with wealth management players such as Noah Holdings and CreditEase offering their own offshore fund-of-fund and co-investment products as well providing third-party distribution services. Both have offices in Hong Kong and that is the best place to reach their international divisions.

HONG KONG & TAIWAN

Three to watch: Hong Kong Monetary Authority, Cathay Life, Fubon Life

THE HONG KONG MONETARY AUTHORITY (HKMA) is in the upper echelon of Asian private equity investors, comfortable writing checks of \$200 million and above. It is responsible for the HK\$3.42 trillion (\$441 billion) Exchange Fund, which had HK\$91.3 billion deployed in PE at the end of 2015, up from HK\$80.5 billion in 2014.

According to industry participants, HKMA is increasingly active in managing its private equity interests. Previously, Hamilton Lane, would have covered any fund up to \$3 billion in size, but the threshold is said to have been lowered.

While Hong Kong serves as a regional base for many global institutional investors, fund-of-funds and gatekeepers, the rest of pure domestic LP community is relatively thin. The Hong Kong Jockey Club has a small PE allocation, and then there is scattering of insurance companies (FWD is among those said to be ramping up its activity), private banks and family offices. The latter two categories may on occasion generate a sizeable commitment, but infrequently.

Six insurers make up the bulwark of Taiwan's LP community. Cathay Life and Fubon Life are the poster children, having been in the market for a number of years, built up strong internal teams, and established deep portfolios. Nanshan Life previously joined them at the head of this group, but it has been less active in recent years.

While insurers' exposure to private equity and hedge funds is capped at 2% of total assets, they are still able to write checks of \$20-50 million. They are also only allowed to invest in funds raised by PE firms registered in member nations of the Organization for Economic Co-operation and Development (OECD), which means there is a bias towards North America and Europe.

Much is expected of Taiwan's Bureau of Labor Fund (BLF). The group is still dealing with the after-effects of an industry restructuring in 2014, but with about \$80 billion in pension and insurance assets to draw upon, it will be in a position to make sizeable commitments. Real estate and infrastructure are likely to be the initial beneficiaries within the alternatives space.

SINGAPORE

Three to watch: GIC Private, Temasek Holdings, Bank of Singapore

WHILE GIC PRIVATE IS AN OBVIOUS TARGET for private equity firms, the best point of contact might not be in Singapore. The sovereign wealth fund has a network of international offices that handle its interests in different geographies, so a mid-market US GP seeking an allocation should arrange an appointment in New York.

Other Asian institutional investors have established a presence in other markets but the implication is that personnel and decision-making power is not so decentralized. For example, several placement agents and investor relations executives say it is still worth visiting Temasek Holdings in Singapore.

Below GIC and Temasek – the former is estimated to have more than \$300 billion in assets, the latter had \$179 billion as of March – the market is relatively shallow, although arguably not to the extent of Hong Kong. Two insurance companies, Great Eastern Life and NTUC Income, are active in PE as are a handful of endowments. The largest of these, the National University of Singapore, had S\$3.12 billion (\$2.2 billion) in assets as of March 2015 and is known for writing checks of up to \$20 million.

There are also a couple of asset managers, while several placement agents highlight the growing prominence of high net worth individuals, accessed through family offices or private banks. The likes of Bank of Singapore and Standard Chartered are said to have previously made commitments of up to \$100 million.

SOUTHEAST ASIA

Three to watch: Employees' Provident Fund, Brunei Investment Agency, KWAP

THE BRUNEI INVESTMENT AGENCY (BIA) and the country's Ministry of Finance – which is responsible for managing public service pension schemes – are the ultimate outliers among Southeast Asian institutional investors. They have

been making commitments to private equity since the late 1980s and are generally viewed as conservative, reliable and a ready source of \$20-30 million allocations.

The international private equity programs of most other groups in Southeast Asia ex-Singapore can boast nothing like this longevity. KWAP and Khazanah Nasional in Malaysia and Thailand's Government Pension Fund (GPF) all represent possible targets for GPs but investor relations executives say they do not approach these groups with a huge degree of confidence.

Malaysia's Employees' Provident Fund, meanwhile, is unquestionably on the rise. The group had MYR684.5 billion (\$162.7 billion) in assets as of year-end 2015 and has announced plans to increase its alternatives allocation from 4% to 8-10% over the next five to seven years.

EPF started investing in emerging markets private equity in 2005 and manages those relationships internally. Exposure to developed markets has built up over the last five years through four separate account mandates awarded to Goldman Sachs, Hamilton Lane, HarbourVest Partners and LGT Capital Partners.

AUSTRALIA

Three to watch: Future Fund, MLC Private Equity, QIC

AFTER FUTURE FUND, IT COULD BE argued that most important points of contact in Australia's LP community are StepStone Group and Hamilton Lane, such is the intermediated nature of the market. The advisor roster also includes the likes of Quentin Ayers, ROC Partners and Jana. Another local player, Frontier Advisors, is understood to have cut back on its private equity coverage.

A combination of consolidation within the superannuation industry and an intense focus on fees means that fewer groups are active in private equity than a decade ago. As a result of this consolidation, continued inflows of contributions from members and a general desire to reduce the number of GP relationships, the superannuation funds that do look at private equity are willing to write sizeable checks. AustralianSuper, for example, is said to want to commit at least \$200 million per fund.

Future Fund, QIC and MLC Private Equity have traditionally been the most international in their outlook, with offices and investment professionals located overseas. Other targets for offshore GPs typically include HESTA, Telstra Super, First State Super and AustralianSuper, as well as asset managers such as Continuity Capital and Perpetual. ▀



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New heavyweight

Japan Post Bank, which has \$2 trillion in assets, launched its alternatives division earlier this year. Tokihiko Shimizu, head of private markets investment, discusses where and how the group is likely to invest

Q: What factors led to Japan Post Bank creating an alternative investment program?

A: Japan Post Bank listed last November, so we had to start generating dividends to shareholders, but the investment portfolio was very much weighted towards Japanese government bonds. We had to shake up the investment strategy and one of the answers was to seek higher-growth returns in alternative assets.

Q: What were the key steps in developing the program?

A: It really started when Katsunori Sago, who used to be executive vice chairman of Goldman Sachs Japan, joined in June 2015 as CIO. He was followed by Naohide Une, formerly head of equity derivatives trading with Goldman Sachs in Tokyo, who is head of the strategic investment department. Then I joined in October of last year to lead the private investments business. We established the private equity investment department in December 2015, and we now have about 20 people covering private equity and real estate. We will deploy small percentage of overall assets in the alternatives space, which includes private equity, infrastructure, real estate and hedge funds. But this exposure will build gradually, over several years.

Q: When did you start making private equity investments?

A: We launched the program in April so that is when the first private equity investments were made. We selected a handful of Japanese asset management companies - fewer than five



- to serve as gatekeepers. We make commitments to them and they invest in funds. These asset managers have close relationships with advisors across the private equity industry. They don't necessarily have the knowledge or capabilities to select small and mid-cap players in geographies such as North America and Europe, so we would expect them to work with fund-of-funds and other advisors. I am unable to disclose how many funds we have backed so far, but our private equity program is big, although the percentage allocation is small. And it will be a globally diversified investment portfolio.

Q: How important are yield-generating assets to Japan Post Bank?

A: We have to deliver dividends to our shareholders, which means generating cash flow consistently year-on-year. I think private assets are an important part of this, particularly given the potential returns in private equity are so much higher than for the likes of government bonds. Within alternatives, real estate and infrastructure are also important because they offer stable, inflation-linked cash flow over a long period of time. They deliver an illiquidity premium

as well. The diversification that private assets offer is a positive addition to our portfolio.

Q: How significant is Japan Post Bank's decision to invest in alternatives to the broader domestic LP community?

A: My impression is that, for a long time, the private markets industry thought that large Japanese institutional investors don't want to move into alternatives. We are a first mover among these institutions in terms of targeting private equity, but in a global context we are latecomers. However, we believe we can accumulate a lot of experience in private equity by hiring the right people and by communicating with experienced peers. We would like to forge close relationships

programs. At the same time, monetary easing policies and the low interest rate environment have pushed up enterprise valuations for companies involved in large buyout transactions. Many investors are looking for PE exposure but in certain segments of the industry the returns are likely to be lower. I see large international pension funds with very small teams covering big private equity programs and maybe they have little choice but to target larger funds. However, we want to be different from that. As a result, our private equity investment strategy is slightly biased toward on small to mid-size deals. While we will commit to large funds, we are prepared to allocate capital to a wide variety of PE firms within that small to

"The diversification that private assets offer is a positive addition to our portfolio"

not only with the GPs but also with experienced international investors in private equity. I don't know how much impact we will have on the industry, but I think this development will benefit institutional investors in Japan as well as the wider Japanese economy via our domestic investment itself.

Q: How do you expect your approach to differ from other large institutional investors?

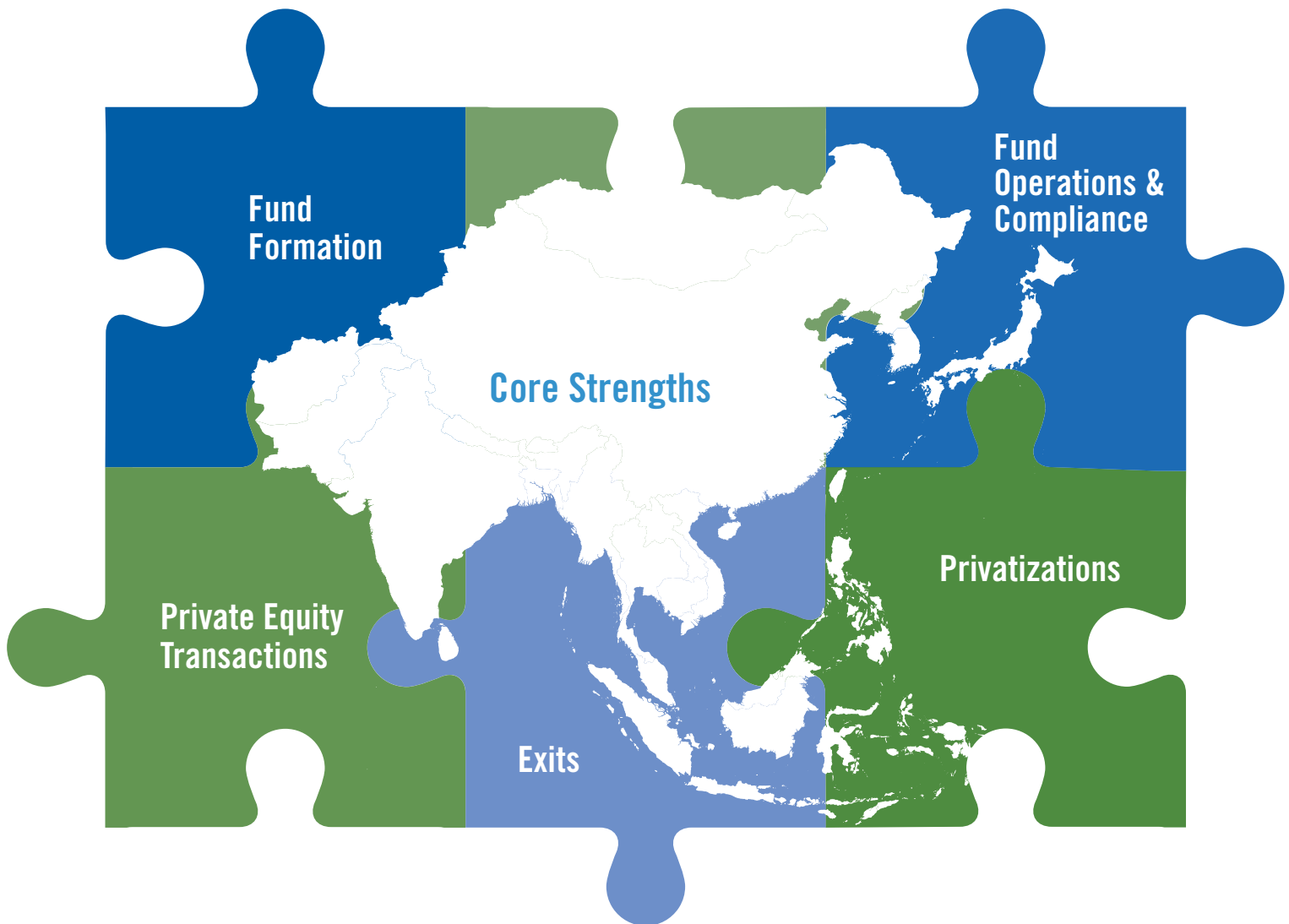
A: Some sovereign wealth funds and large pension funds tend to focus more on the mega funds and comprehensive partnership

mid-cap space to create a well-balanced, diversified portfolio.

Q: What plans are there for further expanding the alternatives team?

A: At present we don't have the capabilities or experience to participate in co-investment and direct investment. As our private equity exposure goes up, we expect more GPs will try and introduce co-investment opportunities to us. We need to recruit experienced professionals in this area. I hope that we can have these capabilities in place within about two years. ▀

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20 years of early days

Since the dawn of the internet in the mid-1990s spurred a global rebalancing of economic power, Asia's newest VC heavyweights have raised questions as to how this technology-driven shift will be governed

POLITICAL ENTHUSIASM FOR START-UPS

and venture capital investment in Asia's new economic powerhouses threatens to cloud projections about how the region's digital technology ecosystems will actually evolve.

Appetite for exposure to this space has undoubtedly been strong, with start-up funding across Asia Pacific reaching \$7.8 billion last year, according to AVCJ Research, versus \$742 million only 10 years prior. Investors are betting on the combination of long-term fundamentals – GDP growth, rising household incomes, greater smart phone penetration – and technology-enabled disruption. Confidence is buoyed by the fact that China and India are proven breeding grounds for successful start-ups.

Governments can stimulate these endeavors or stymie them – often through policy that is well-intended but poorly devised, communicated or executed. Perhaps nowhere is this more apparent than in China, where a flood of money from Beijing has led to local-level reverberations that highlight a number of uncertainties about the broader ecosystem's future.

"Whenever the government has a policy push on start-ups or innovation, you see local authorities setting up incubators and a lot of government guidance funds making policy-driven investments," James Lu, a China-based partner at US law firm Cooley. "It's good for the macro environment to have that at the top of the agenda, but a lot of these government-sourced funds are not disciplined compared to VCs. They are very short-term oriented, trying to sell their incubator programs as fast as possible."

A fine line

Recent activity includes the launch of a \$30 billion state-backed venture fund, following the establishment of a similar \$6.5 billion vehicle last year. It has also been reported that government-supported VC funds in China have raised a cumulative RMB1.5 trillion (\$231 billion).

There are two major problems. First, this type of government assistance may not be what start-ups want or need. Second, the proliferation of these funds has prompted concerns of a valuation bubble, characterized by a disproportionate amount of unqualified start-ups are rising through the ranks of investor favor due to a mix of uninformed support and well-funded

but dubious marketing streams.

Additionally, the nature of the capital means that China's digital economy could be shaped for years to come by political whims rather than by market forces. "The government is going to play an interesting role, if you think about censorship, security and content," says one industry participant. "All of those things in one way or another will affect the prospects of a start-up doing business there, so policy statements are making an impact on business models and future growth prospects."

The natural reaction to such interferences is to call for government to get out of the way. But in still-malleable frontiers such as the peer-to-peer lending segment of Singapore's fast-growing fintech space, stringent government controls can represent an attraction for VCs.

"People often ask for more de-regulation, but the flipside is that sometimes new industries should be regulated so we know the boundaries of what we can invest in or not, and what is the right timeframe of investing or not," says Stefan Jung, managing partner at Venturra Capital. "It's

CASE STUDY

China: Zero Zero Robotics

When Mengqiu Wang returned to China after 13 years in the US, he didn't experience any returnee culture shock, but he did notice a distinct shifting in the government's cultural influence toward the technology sector. The entrepreneur went on to establish Zero Zero Robotics, a Beijing-based personal-use drone start-up, with no intention of seeking state support.

The China he came home to, however, was considerably different to the country he had left. This is perhaps most evident in the ease and speed with which the Stanford-educated engineer got his latest company off the ground. "Starting a company in China these days is perhaps even easier than the US in certain regards because there are a lot of professional agencies and services that let you pay a very small fee and get registered in a short period of time," he says.

This incubation support has expanded Zero Zero operations across bases in San Francisco, Shenzhen and Hangzhou in less than two years. It now claims some 3,500 square meters of permanently rent-free office space thanks to Chinese government incentives. "I've never heard of these kinds of conditions outside of China," Wang says. "It definitely goes well beyond what I expected when I came back."

This growth process recently included a \$23 million Series A round to support development of the company's debut product, the "Hover Camera," and a steady stream of national TV appearances offering promotional opportunities typically reserved for far more developed companies. Much of the attention is tied to government efforts to encourage more of China's educated diaspora to return home, but it is also part of a broad-based initiative aimed at inspiring the existing local ecosystem.

Wang describes this fast-emerging environment as an efficient system where accelerators and VCs thrive in a survival-of-the-fittest market, regardless of whether or not they have government backing. Leave of absence concessions are offered to university students to allow them to pursue start-ups, and even college professors are given flexibility to grow venture businesses on the side.

Although this agenda aimed at bolstering the technology space has so far made effective use of the government's financial and communications heft, the inherent challenges of a cultural pivot in so large a nation remain as intractable as ever. "The start-up mentality here is a bit of a craze, especially in Beijing," Wang adds. "But in terms of originality and true innovation, I think it will take a while to change because education is still test driven and results driven versus creativity driven. Creativity means catering to each individual, but in a class with one teacher for 60 students, it's hard to ask for that."



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great as an investor if you have guidelines on what is actually the playing field.”

Singapore is a regional leader in striking a balance between government involvement and private innovation in the technology sector. The city-state has supercharged its VC industry through a string of matching funds, whereby the National Research Foundation makes commitments to funds on the condition that an equal amount of capital is sourced from the private sector. The manager has sole responsibility for investment decision-making.

The advantage of such approaches is that they give professional direction to government involvement and add to the lines of communication between policymakers and industry. This strategy appears to have had a direct impact on the local start-up ecosystem. Total VC investment in the country has increased steadily from \$61.1 million in 2010 when the matching system was implemented to \$918.1 million in 2015.

VC investment has already reached a new high of \$1.2 billion so far this year, but the number of deals is down by one third on 2015 as a whole, suggesting a shift in emphasis towards later-stage activity. While this is evidence of a maturing ecosystem, it also points to potential holes in the country’s ambitious innovation agenda, which includes a multifaceted smart city program and a number of financial sweeteners from government-backed accelerators.

“From a VC perspective, the grants in Singapore have helped enormously,” says Michael Lints, a venture partner at Golden Gate Ventures. “But there is a shift in focus where the grants are slowing down at the seed level. This is basically because companies are seeking more later-stage funds and the government is now opening grants for the corporates.”

Encouraging the expansion of later-stage investment activity does not have to include a retraction of start-up support, however. As markets become more advanced, governments will be better situated to help early-stage entrepreneurial communities through education systems.

Indian education

India provides a good example of combining a government push for early-stage company creation with broader educational support by hosting a widespread program of campus-connected accelerators where research is exchanged for equity or simply a space to work. But unlike much of Asia, India has never contended with a pervasive culture of conservatism, roundly frowning on entrepreneurialism in favor of more traditional, secure career paths. As a result, such investments may not be the best use of funds when fostering a start-up ecosystem.

“I don’t think the government needs to do necessarily anything on the accelerator front.

The IITs [Indian Institutes of Technology], which are partly government funded all have their own incubators, so they’re already contributing to the ecosystem,” says Ben Mathias, managing director at Vertex Ventures India. “But some of the government-funded incubators are still useful to the extent that entrepreneurs need initial seed funding, particularly in newer, un-established sectors. Once they get beyond that point of idea-to-product, the VC ecosystem is very well established.”

Government influence in company support at such an early stage is not always measureable, but India has charted some promising progress. In 2015, seed funding reached its highest level since the global financial crisis last year at \$6.6 million, compared to only \$1.4 million across the preceding five-year period.

This momentum has recently been boosted by Startup India, a funding campaign that also aims to add clarity to some complex issues such as tax exemptions. Having only been in effect for six months, however, it mirrors much of the immature and unproven nature of Asia’s government policy environment in general.

“There could be more clarity on taxation, particularly for companies that are co-located and co-managed in India and, say, the US or Singapore,” Mathias adds. “Nobody wants to be called up three years from now for unintentionally not paying their taxes just because they didn’t understand the rules.” ▀

CASE STUDY

India: Blume Ventures

India’s government started the year with promising signals about its willingness to engage the venture capital community, including the launch of a INR100 billion (\$1.5 billion) venture capital fund-of-funds. This coincided with a Union Budget that offered incentives ranging from a streamlined registration processes for new companies to a tax holiday for three of the first five years of a start-up’s life.

Improved sentiment around these measures has underpinned the establishment of a flurry of new incubators, the launch of the Startup India campaign and a move by the India Venture Capital Association (IVCA) to broaden its traditional PE-related mandate with the introduction of an arm focused on start-ups. Significantly, this new IVCA stream is expected to deliberate extensively on one of the unexpected complications of the government’s VC initiative: determining what constitutes a start-up.

“Start-ups extend well beyond what is defined as one by a VC firm. So coming up with a policy to define it tightly will always be very challenging,” says Karthik Reddy, co-founder and managing partner at

Blume Ventures, which recently closed its second technology-focused VC fund at \$60 million.

The concern is that unqualified legacy companies will exploit government start-up tax holiday incentives by finding mechanisms to create new companies that can handle the parent group’s contracts in lieu. This has led to a slowdown in policy implementation as the government mulls the most effective measures for policing related regulations.

“That’s an unfortunate part of business in India, but it’s a hard reality that anytime you create a new policy, there are enough creative minds who will find loopholes to abuse this policy,” Reddy says. “We are trying to boost start-ups by creating a wide enough umbrella that encompasses everybody, but it’s a struggle.”

Perhaps the greatest concern is that these cultural barriers are not merely gumming up tax break plans in the near term. Such headwinds are indicative of a fundamental difference in business attitudes between India and the country whose success story it most wants to replicate.

“The things that led to China accelerating its venture ecosystem and almost catching up with the US over a 15-year period – I don’t think we have all those ingredients in India,” Reddy adds, evoking China’s “walled garden” approach to foreign investment protectionism, India’s cumbersome regulations in areas such as e-commerce and cynicism among Indians about their ability to compete globally. “Nothing has been unshackled. People ask if we’ll be able to do what China has managed to do, but I can’t see it happening in less than 10 years.”

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Logistical linchpin

Three months on from a \$550 million Series D round of funding, Nadiem Makarim, founder and CEO of Indonesia-based ride-hailing and delivery platform Go-Jek, discusses where he sees the market heading

Q: How difficult was it to launch Go-Jek in 2011 and how does the environment then compare to now?

A: When we started, I used my savings, borrowed from family and friends, and basically bootstrapped it, but given the cost of labor in Indonesia, I was able to sustain the business completely self-funded for three years. Because the starting costs are so small, Indonesia is one of the best places to test and prototype a business model. Now it would be harder because there are three leading players in the ride-hailing business in Indonesia – Uber, Grab and us – and we are all well-capitalized and the scale is so big. If I was starting Go-Jek today it would not be Go-Jek.

Q: Does that also apply to the different verticals Go-Jek is moving into?

A: It's tricky because of the network effects of fundraising across all business models as opposed to raising capital for a single business model. Each of our divisions is kind of run independently but there is so much synergy on the backend – it is an overwhelming competitive obstacle. Competitors may also copycat us in terms of verticals beyond ride-hailing and then there will always be more start-ups and more money chasing opportunities in each vertical. But the chances of becoming number one are slight.

Q: What factors do you consider when entering new verticals?

A: We look at two things: whether it classifies as a big spend for Indonesia's middle class; and

whether it can be synergized with our core business, Go-Jek drivers. We want to add more services so the existing fleet maintains its loyalty to us. We will soon be in 14 verticals and the possibilities are limitless. We have already amassed a huge number of loyal customers and the cost of not trying is sometimes



greater than the cost of trying. We see the Go-Jek app as a big playground to test digital ideas. Not all of them are going to be successful and we are fully cognizant of that, but we think we could easily get into the 20s of distinct products.

Q: The payment business, Go-Pay, works across all the verticals. Was introducing it always part of the plan?

A: No. Go-Jek makes it a point to not have a long-term plan. We have our six months to one-year goals, but in the tech industry things change every six months – there are external factors like competition and new technologies springing up. Go-Jek excels at knowing what it doesn't know and being able to pivot quickly and select new products and when we see the market moving. We are in a very privileged position given our user base to be able to move

markets to where we want to take them. Go-Pay is an example of that.

Q: What kind of growing pains does Go-Jek experience?

A: Every possible scaling challenge it is possible for a tech company to face we are facing right now: scaling up the technology fast enough; hiring senior engineers fast enough; dealing with hundreds of thousands of drivers and their expectations; maintaining a balance between supply and demand while maintaining the income of drivers; maintaining a company culture when growing so rapidly in terms of headcount; hyper-expansion into multiple cities and standardizing operating culture across those cities. But the best learning happens when you are slightly struggling a bit. We try to bite off slightly more than we can chew in order to maintain our commitment.

Q: How much pressure is created by the amount of marketing expenditure required?

A: It's part of my job that stresses me out the most. We could

use that money for far more innovative purposes, but because competition is so aggressive we have to match others' spending to protect market share. Our investors understand the business is extremely capital intensive and they have given us full freedom to decide how to defend and increase market share. I think part of the challenge is not just depending on the huge amount of capital we have raised, but to think how we can find an advantage from a product and execution perspective.

Q: In China, competition in the ride-hailing space has been eased through mergers. Do you see the same happening in Southeast Asia?

A: Given the fact all the players are highly capitalized and the prospect of one or several parties dying is almost an impossibility at this stage, at some point, if we are going to make money, it is likely there will be change in the market. Whether it happens sooner or later I have no idea. It is definitely not something we would consider while executing our current strategy.

Q: How much government support is there for start-ups?

A: An e-commerce roadmap is being rolled out, which I think will support the industry, but I have yet to see any policies make a significant impact, negative or positive. What is good is that the government is very pro-tech right now. It understands that innovation outpaces regulation, and is therefore open-minded and flexible in adjusting regulatory structures to wherever technology evolves to. ▀

“Go-Jek excels at knowing what it doesn't know and being able to pivot quickly and select new products and when we see the market moving”

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As governments of Southeast Asia's emerging economies look to create more workable VC policy environments, start-ups and investors have proliferated across a patchwork of imperfect systems

THE SIZE AND RAPID GROWTH OF

Southeast Asia's emerging markets have always been a major attraction to VC investors, but historically, government-related uncertainties have usually proven to be the critical impeding entry factor. Now, though, the industry is beginning to justify its moves into these countries, citing real cultural and regulatory milestones as much as commercial potential.

After reaching a final close of \$60 million close on its second Southeast Asia-focused fund, Golden Gate Ventures emphasized governance conditions as an important investment incentive, noting in particular the various start-up programs of Indonesia and Malaysia. Meanwhile, US-based accelerator 500 Startups, which has launched a \$50 million vehicle targeting the region, referred to these two countries as part of a "golden triangle," alongside Singapore.

"The regulatory stuff is not as restrictive as people think," says Khailee Ng, managing partner at 500 Startups. "In both countries unicorns have been created – Grab from Malaysia and Go-Jek from Indonesia – and new start-ups continue to get funded by foreign funds at an unprecedented rate."

The challenge for venture investors going forward is to recognize which steps forward will translate into the next unicorn-producing ecosystem, which ones will fizzle and which ones will merely build on a transgenerational growth process that bears few short-term rewards. Although governments in the region appear to be of one mind when it comes to modernization, they represent independent, imperfect laboratories, tracking sporadic progress toward that ultimate goal.

Going local

The most recent traction of note in Indonesia's policy environment has been a tightening up of VC registration rules that has opened up more opportunities for foreign investment. The new regulations essentially crack down on convertible instrument workaround structures that had previously allowed international companies to maximize foreign ownership thresholds by falsely registering as VCs.

Under the revised system, foreign VCs are able to set up in the country and manage bespoke funds on a case-by-case basis so long as the

manager is Indonesian. This allows any number of unit holders to be foreign parties but sidesteps many of the taxation and permitting inhibitors related to foreign ownership. Although the move does little to streamline the country's often discouraging red tape, it is being interpreted as part of a new government recognition of VC.

"There are now starting to be conversations between the regulator and the core community of VCs, which is getting a sympathetic ear," says Joel Hogarth, a partner at Ashurst who specializes in cross-border transactions involving Indonesia. "I'm expecting new regulations to come out that will provide further incentives for

CASE STUDY

Indonesia: Orami

The creation of Amvesindo, Indonesia's venture capital and start-up association, earlier this year has cemented the country's status as a robust early-stage investment environment, at least by the standards of emerging Southeast Asia. It also highlights the suddenness of this ecosystem's arrival since most of the 12 GPs that started the lobby group were founded more recently than many of their portfolio companies.

Orami, an online retailer for the mother and baby market, is one of the start-ups currently enjoying the perks of this newly energized climate with fresh memories of a more difficult policy environment only a few years ago. The company traces its Indonesian roots back to 2012, when local venture funding opportunities were considerably scarcer and policy support was lacking.

"The last couple of years have been a lot easier for venture capital, but my old mantra is that it's better for the government to stay out of it," says Eka Himawan, CFO at Orami. "Their intentions have always been good, but the execution is normally pretty troublesome. That's what happened in 2013 – the policymakers wanted to help local start-ups, but in the end, it just made life more difficult."

That 2013 episode included a 100% ban on foreign ownership of e-commerce companies – a move aimed at clearing the way for local start-ups to take a leading role in the country's rapidly expanding online markets. Orami's Indonesian predecessor, Blina, was trying to raise funds at the time and was therefore obliged to explore a range of convoluted legal workarounds.

The key turning point in this narrative was the 2014 election of President Joko Widodo, who has been regarded by venture players as a more competent technocrat, especially after his administration appointed private equity veteran Thomas Lembong as trade minister. The change precipitated a full reversal of the e-commerce restrictions of 2013 as well as a number of other negative-list liberalizations.

This backdrop helped set up Blina's merger with a Thailand-based Moxy and a \$15 million Series A round led by Amvesindo co-founder Sinar Mas Digital Ventures. The investment included participation by China's Gobi Partners, US-based Velos Partners and Facebook co-founder Eduardo Saverin.

The regionally anomalous availability of such sizeable and diversified Series A rounds, however, is not usually attributed to Indonesia's recently relaxed policies as much as to the sheer size of the local economy, which is considered the world's eighth largest by GDP. As such, Orami and other players in the country's nascent digital economy are still calling for improvements including a technology tax holiday.

"It's better to feed the fish before you eat them," Himawan explains. "Right now, we're still all small fish in the ocean, and they're already trying to harvest these companies. We're not profitable so we don't have to pay corporate taxes, but we're paying a lot of taxes like VAT and service tax. Singapore and Malaysia are more advanced in this."

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investing this way and providing venture capital. There is a strong desire in government to say the homegrown start-ups ought to have as much access to funding as possible."

One of the main concerns in this context is that the country's most successful companies are vulnerable to being bought out by international competitors before they can establish a resilient, globally relevant presence for Indonesia in any particular end segment. Domestic lobby groups have anticipated this threat by pushing for tax breaks, but such concessions remain a highly politicized matter that the industry's regulatory body is powerless to act on independently.

The bureaucracy machine that underpins this struggle for government favor helps color

Indonesia's stewardship of the VC industry as high-altitude stratagem, with broad-stroke rulings that set nationwide agendas around control parameters and decisions on which sectors will be chosen for development. Malaysian government involvement, by comparison, appears much closer to the ground.

Praise for Malaysian venture policy typically cites the government's seed funding mechanisms and direct contact with start-ups via a variety of mentoring programs and specialized agencies. The most effective of these have been Cradle, an organization that offers grants and networking services, Magic, an accelerator program which has recently shifted focus toward non-tech business models, and MSC, a special

economic zone near Kuala Lumpur.

MSC companies benefit from a range of tax benefits and foreign ownership-oriented concessions such as offshore hiring flexibility and relaxed income repatriation rules. However, the costs associated with relocating to the MSC zone has kept many cash-strapped entrepreneurs unserved until the creation last year of a special sub-program for start-ups that doesn't require moving headquarters.

"MSC for Startups will definitely have a big impact because it's more holistic in terms of tax breaks, attracting capital and bringing in foreign talent," says Andrew Wong, founder of MAD Incubator. "But start-ups will still have a problem getting talent from the existing pool because most of Malaysian universities are backdated in terms of the technology they teach their students. The government is trying to do something about it, but we will only see the results in one or two generations."

Recruitment issues

This inability by the government to make short-term impacts on the talent pool is echoed in Thailand, where much of the necessary infrastructure and political will are in place, but the start-up ecosystem remains uninspiring. The cultural inhibitor in this case is a familiar tendency for the best minds to gravitate toward less risky, established industries that are still growing rapidly.

The predominant blueprint for transcending this impasse has been to leverage the country's appeal to educated foreign entrepreneurs, who are often living in co-working spaces and illegally operating tax-free outside of the formal workforce. Industry rumor often suggests Bangkok is Asia's third most preferred destination for this group after Hong Kong and Singapore.

"The government needs to get these people into the system so they can play a part in society – and that can only be done if it's an easy process. You get tax benefits and so on, but you don't get initial funding, and some entrepreneurs who live under the radar here may not be prepared to pay the legal costs of a complex application to the BOI [Board of Investment], says Johannes von Rohr, founder of local venture builder and accelerator Rabbit Internet. "Imagine if they incentivized these people who are now illegal with a grant that let them give back to the country. The more these people consume, the more they invest locally."

While the Thai government is not expected to embrace illegally active entrepreneurs, it has demonstrated an awareness that setting the cultural agenda is an important aspect of establishing a venture ecosystem. This work was recently punctuated by the launch of the

CASE STUDY

Malaysia: Touristly

When Malaysia-based travel start-up Touristly launched in June 2015, it knew that networking and partnerships would be as critical to its success as an initial injection of capital.

Achieving practical milestones, however, is never an easy task for digital companies in a country where traditional manufacturing and natural resources remain the principal economic drivers.

In a one-year surge, the company – which focuses on providing activity itineraries rather than hotel and flight bookings – has expanded its offering to include some 7,000 deals across 72 destinations in Asia Pacific. This growth spurt culminated recently in pre-Series A investment from local accelerator Tune Labs as well as collaborations with travel brands under the Tune Group such as AirAsia and Tune Hotels.

The progress has been underpinned largely by a number of government start-up support mechanisms, including accreditation within Malaysia's MSC special economic zone, a MYR500,000 (\$120,000) commercialization grant under the Ministry of Finance's Cradle Fund and professional direction under Cradle's Coach and Grow program. "We've been quite fortunate with the way the local ecosystem is growing, and there is a lot of interest by the government to support young start-ups through grants," Sarma says.

Cradle was established in 2003 as a MYR100 million program and received an additional MYR50 million under the government's latest budget plan. Beyond funding, it offers mentorship, competency building trainings and access to strategic connections with various industries and government bodies.

Touristly cites the agency's Coach and Grow support as a valuable resource in pitching events to meet investors. The program – which operates in association with the Malaysian Venture Capital & Private Equity Association and the Securities Commission – focuses on helping pre-seed businesses scale and source early adopters.

The company also benefited from its MSC status, notably greater flexibility in hiring foreign talent and an invitation to establish contacts with the Ministry of Tourism. Attaining MSC status, however, remains a cumbersome procedural obstacle for young companies that are preoccupied with core business-building activities. In order to make the service more accessible, the government recently launched a sub-program known as MSC for Startups, which offers a reduced tax holiday in exchange for networking privileges and applications protocols more in line with early-stage needs.

"They understand that start-ups are small teams of less than 10 people – at least in the early days – and at that point, you're not really at the stage where you're going to spend eight hours filling out a form or going through the red tape just to get a status. You're more focused on making the business and product work," Sarma says. "Right now the process is tedious, but we did have an opportunity to air our concerns. I think they're listening and we'll see some improvements soon."

Technology Ministry's Startup Thailand program, which coincided with the unveiling of a \$568 million venture fund aiming to create 10,000 start-ups in the country by 2018.

Skepticism around such moves, however, remains rooted in the lack of detail and the notion that policymakers are not fully aware of the industry's needs. These concerns are evident in the Philippines as well, where the government is believed to be prioritizing capital-based

– worthwhile goals to be sure, and necessary, but not sufficient when one considers that the opportunity, especially with asset-light tech start-ups is to aim for massive success."

Moving forward

Popularly recommended policy changes for the Philippines include revised visa and residency permits for start-up founders, a review of the foreign investment negative list which currently

and grants, but also through a better alignment of relevant government agencies. Forums have also been established that bring together government and industry players in an effort to define common positions and actionable support initiatives.

The Philippines' momentum can be seen as a microcosm of Asia's broader emerging markets situation since it overlaps the election of a new and unproven administration, eager to break with tradition but bound by a stubborn socioeconomic inertia. With no expectation that a universal formula for the creation of a successful VC community will come to light, the industry is anticipating more experiments with liberalized policies and deepening lines of communication.

"We don't know how much government assistance is helping start-ups in Southeast Asia because it's still too early to say in countries like the Philippines, Vietnam and Thailand," says MAD's Wong. "Generally, there isn't much assistance, especially when it comes to internationalization, but the governments in Southeast Asia are starting to take notice of entrepreneurship. Within the next 2-3 years – even in Indonesia – you'll start to see a lot more government policies and interventions that will help these start-ups grow." ▀

"There is a strong desire in government to say the homegrown start-ups ought to have as much flexible access to funding as possible"

– Joel Hogarth

solutions for a VC ecosystem more troubled by systemic, non-financial roadblocks.

"The good news is there is clear political will to modernize the environment. The bad news is that much of the support is oriented towards events, which are one-off in nature, rather than policy changes, which have structural impact," says Minette Navarrette, president of Manila-based Kickstart Ventures. "The government perspective, at least for now, is guided by a desire to broaden inclusion and stamp out poverty

prohibits involvement in media and telecom, and a streamlining of the process for starting a business, receiving investments, scaling and closing down. Simplified labor laws are also in need for allowing greater mobility across companies and flexibility for hiring and right-sizing.

The latest practical progress was the submission earlier this year of legislation intended to provide government support for young companies mainly in the way of subsidies

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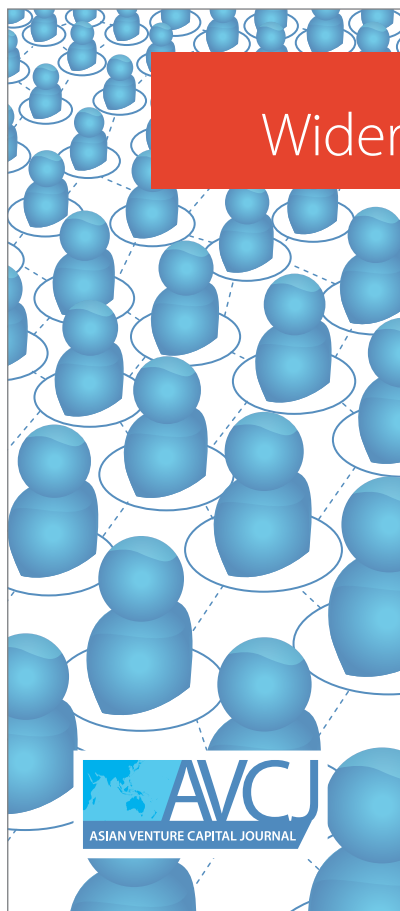
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A man for all seasons

As co-founder of Chinese online travel site Qunar, Chenchao Zhuang has experience building and selling a technology business. Now a VC investor in his own right, he offers insights into the world of start-ups

Q: What were the market conditions like when you founded Qunar and how did that impact the evolution of the business?

A: When we founded Qunar in 2005, Ctrip was the largest player in the online travel agent (OTA) space, although online travel transactions only accounted 2-3% of the whole industry. We thought that if the entire travel industry went online, it could be worth \$60-100 billion – so if we could cover 20% of market that would be a \$1-2 billion company. The initial plan was to do a neutral platform that could be used for searching travel products and finding the best deals. But internet penetration was growing so fast in China, particularly on the mobile side, so we expanded into online booking and also shifted from being PC player to a mobile player. As of the end of last year, Qunar had a 35% share of domestic flight ticket sales and nearly 20% of hotel room bookings, with 85% of transactions completed via mobile app. That volume was beyond our wildest expectations.

Q: How difficult was it for Qunar to raise VC funding?

A: We met almost every active VC firm in China (most were US-based) but no one believed there could be another big player in online travel alongside Ctrip – even Expedia-backed eLong, the number two player, was unable to match it. Ctrip and eLong were growing 6% year-on-year, but we thought they weren't expanding aggressive enough. After several meetings in 2006, GSR Ventures decided we had a chance, and then

GGV Capital came to us right after the global financial crisis in 2009. Over the course of one year during the crisis our ticket sales volume increased six-fold – we were selling budget airline tickets – and we turned profitable. Expedia also made a buyout offer, but since GGV was a minority investor and willing to support our growth, we went with them.

Q: Baidu bought a majority stake in Qunar in 2011. Was this unusual for the start-up industry at the time?

A: We were probably the largest M&A deal at the time, but then the travel business was large. Almost every six months someone would try and buy Qunar, including Ctrip and Baidu. I didn't think the company's value had been fully realized, particularly given the growth in our mobile business, so I didn't want to do a full sale. At the same time, monetization was a challenge because there wasn't a reliable payment system that customers could use through their phones. A lot of our online traffic was coming through Baidu, so the best option was to take some strategic money but remain independent. Eventually they agreed to take a majority stake and help us go for an IPO. They acquired shares from existing investors as we didn't need extra cash.

Q: When start-ups work with larger internet companies there is always a concern they will be absorbed. What would be your advice to founders that receive such offers?

A: In hindsight, we should have been much more cautious about

selling a majority stake to Baidu because our experience with them was mixed. We had a lot of autonomy and there were benefits from the relationship with Baidu, but issues arose when the companies' strategic



“When a start-up considers selling a majority stake to a large firm, the most important thing is to make sure the terms are clear and tight”

paths diverged. When a start-up considers selling a majority stake to a large firm, the most important thing is to make sure the terms are clear and tight.

Q: When did you start making angel investments?

A: Before setting up Qunar, I made two angel investments. The first was in social shopping site Meilishuo. The CEO is a good friend of mine; I was trying to hire him for Qunar

but he wanted to start his own business, so I put a little money into the venture. The second investment was in a financial technology start-up. When conducting research on different online verticals, I found financial services interesting as well as travel – it was a popular area in the US but quite new in China and still highly regulated. I thought the sector would see massive deregulation. After that, I backed a few early-stage VC funds, including Crystal Stream Capital.

Q: The latest step in your journey from entrepreneur to investor is setting up your own VC firm, Zebra Global Capital. Do you think individuals with a similar background to yourself will end up dominating China's venture capital industry?

A: I doubt it. If you look at the US, with the exception of Andreessen Horowitz, most successful VCs do not have entrepreneur backgrounds. Entrepreneurs have good ideas – sometimes as a result of their talent, sometimes by accident. But 90% of their success is that ability to make it happen. It requires a lot of disciplines, and strong execution and team-building capabilities. Venture capital is a different business. As a minority investor, you need to understand the market opportunity, pick the right people and then make a decision on deploying capital. VCs cannot afford to make too many mistakes when picking the right people. At Zebra, we plan on being more involved in our portfolio companies, and have greater influence over operations. ▀

Private equity by numbers

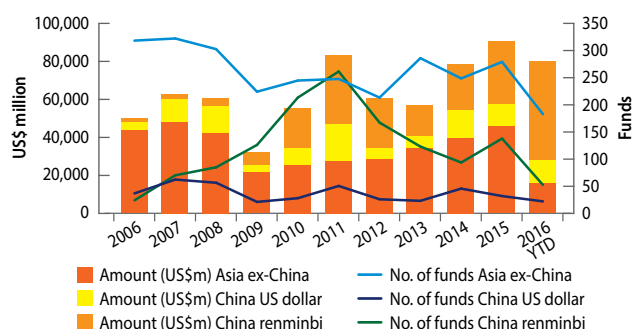
Fundraising: Renminbi funds drive Asia capital-raising in 2016; middle-cap funds continue to get squeezed out as GPs aim higher

Investment: China, India, Korea see sharp drop in activity in 2016; late-stage tech investments and Australian infrastructure support headline number

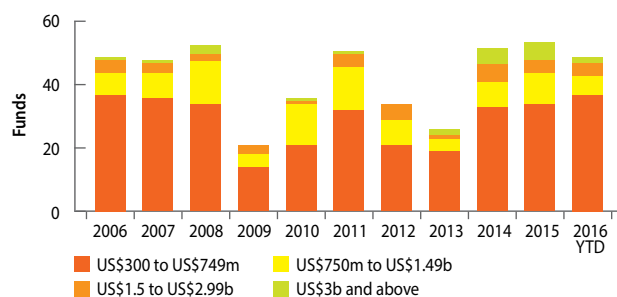
Exits: Volatility contributes to slowdown in open market sales, trade sales in 2016; mega deals still substantially move the needle in Asia PE exits

Performance: 2015 remains the only year in which Asia distributions exceeded capital calls, according to Hamilton Lane; Asia trails developed markets in DPI and IRR for most vintages, but particularly 2008-2010

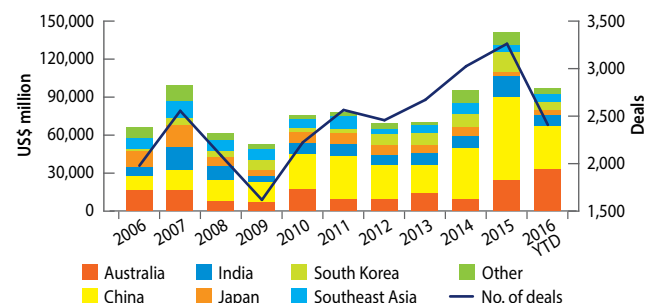
Asia private equity fundraising



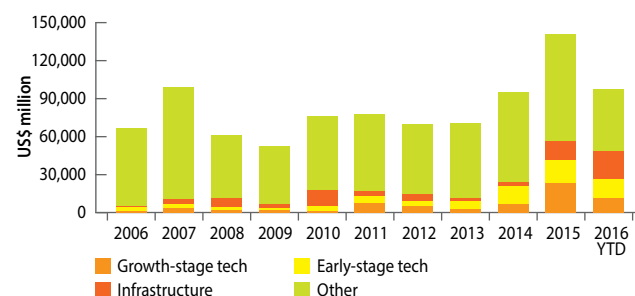
Asia private equity fund final closes by size



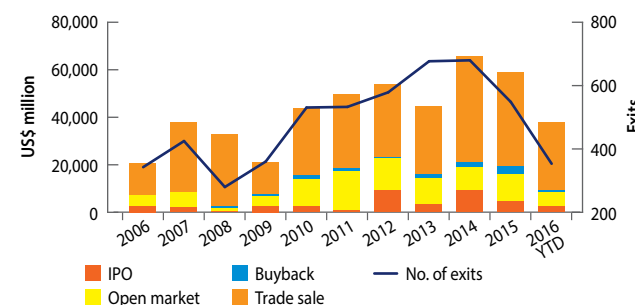
Asia private equity investment by target market



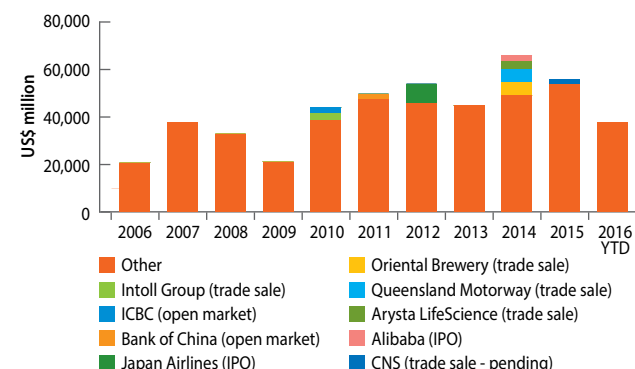
Technology, infrastructure share of Asia PE investment



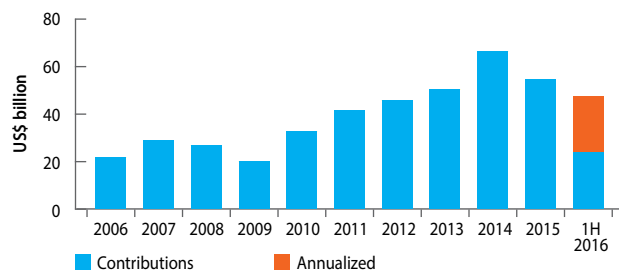
Asia private equity exits by type



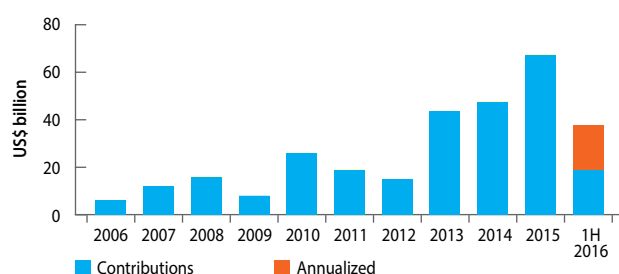
Large cap deal share of Asia PE exits



Asia-focused private equity capital calls

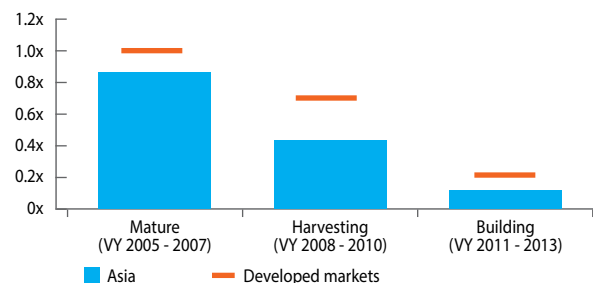


Asia-focused private equity distributions

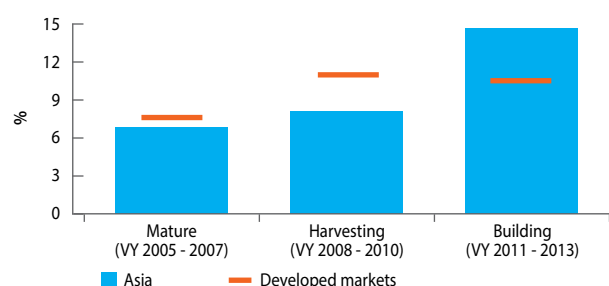


Source: Hamilton Lane Fund Investment Database

Private equity fund median DPI by fund stage



Private equity fund median IRR by fund stage



Source: Hamilton Lane Fund Investment Database

Note: Data correct as of June 2016

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