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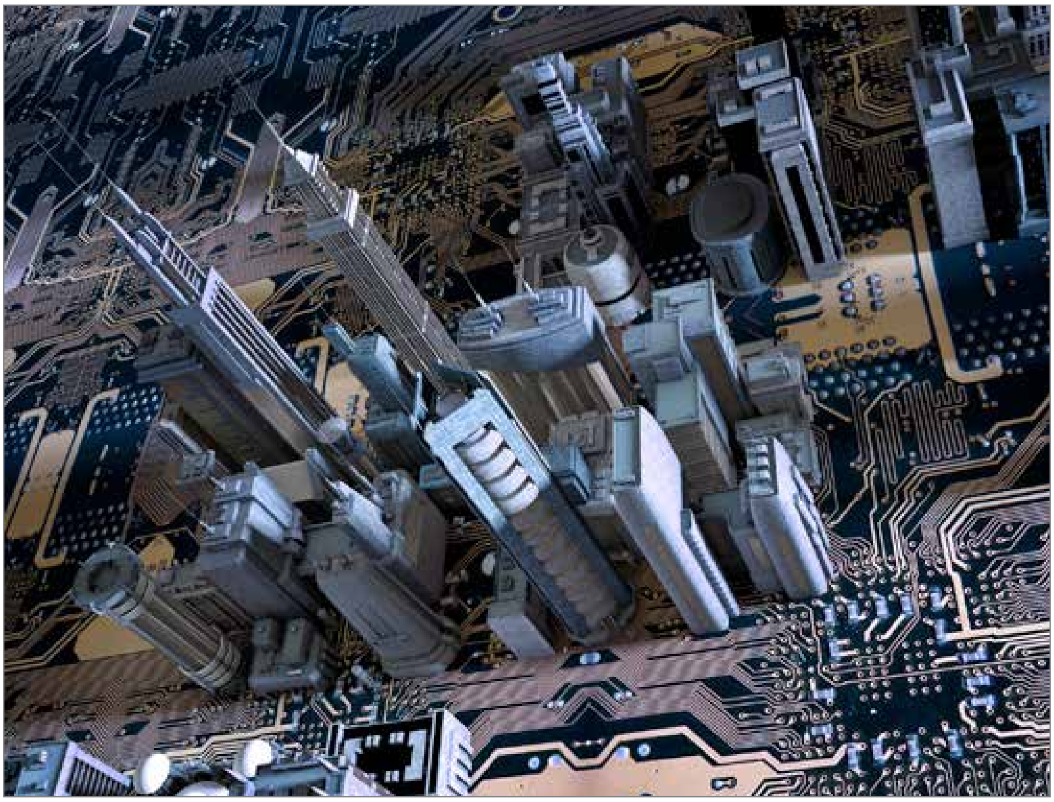

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Coping with volatility

THE RECENT FALL IN CHINA'S STOCK markets had some investors concerned about the prospects of the country's private equity market. GPs, naturally, downplayed the impact on private market activity, stressing that LPs should focus on the longer-term opportunities.

Indeed, after the 2008 fall, to which the current situation has been widely compared, IPOs only experienced a brief hiatus and came back much stronger in 2009. But isn't it very different and much more serious this time?

First, the fall is hardly surprising given the spectacular rise and fall of the Chinese indices. The fact that a lot of the "losers" were retail investors (many using margin accounts) and not the "more rational" institutional investors, suggests a more speculative market that is open to such fluctuations.

For example, the Shanghai Composite Index has more than doubled in the past year, soaring past 5,000 points, and in the last few weeks fallen up to 30%. It has since has recovered to the 4,000-point mark. Likewise, the smaller Shenzhen Composite Index has posted a one-month loss of around 35%, while the city's SME and Chinext boards have seen similar levels of price erosion, although some of these losses have since been recouped.

However, unlike 2008, there is plenty of government intervention this time. From the suspension of certain stocks and a crackdown on margin trading, to cutting interest rates and suspending new IPOs, the measures are a source of concern in some quarters that the government recognizes it is marshalling a slowing economy and the indices may not be able to recover on their own.

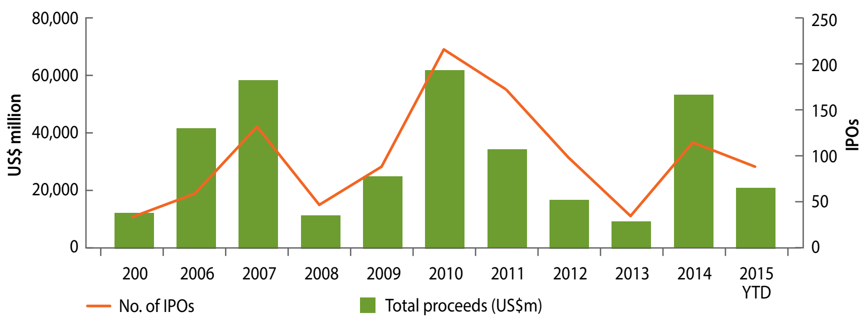
That coupled with the obvious effects of a disintegration of billions in wealth, predominantly amongst the middle class, may lead to a drop in consumer spending. It begs the question of what spillover effect this might have in other countries. The implications for private equity in this respect are unclear.

It is difficult to argue the impact will be zero, even if private equity firms' long-term objectives remain unchanged. From a short-term perspective, GPs with pending IPOs or looking to exit already listed portfolio companies will obviously not welcome this development.

M&A and trade sales are a consistent option and they may gain prominence if the market downturn is protracted. Those with dry powder will definitely welcome any dampening in entrepreneurs' expectations, leading to valuations that are closer to reality. I would also go far as to argue that a bit of market turbulence may actually be helpful to the long-term growth of the industry as it creates changes and gives rise to new opportunities.

Allen Lee
Publishing Director
Asian Venture Capital Journal

China PE-backed IPOs



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NEWS

AUSTRALASIA

PE-backed Nintex acquires US-based Drawloop

Nintex Group, an Australian software provider backed by TA Associates, has agreed to acquire Drawloop Technologies, a US-based software platform that offers automated document services. TA Associates acquired an undisclosed stake in the company alongside technology-focused GP Updata Partners in 2013.

GREATER CHINA

Shunwei raises $1b for third China VC fund

Shunwei Capital Partners, a Chinese VC firm set up by Lei Jun, the founder of mobile phone brand Xiaomi, has closed its third US dollar-denominated VC fund at $1 billion. The Shunwei China Internet Fund III, which had a target of $500 million, was substantially oversubscribed. The new vehicle will invest in start-ups in the areas of mobile internet, intelligent hardware and rural internet.

Hosen targets $400m for China food and agri fund

China-focused food and agriculture specialist Hosen Capital is looking to raise $400 million for its second US dollar-denominated fund. The PE firm, which counts domestic agribusiness conglomerate New Hope Group as an anchor investor in its funds, started out in 2010 in the renminbi space, closing its first fund at $177 million. It then raised a $127 million US dollar vehicle in 2012.

Idinvest Partners launches $1b Sino-European fund

Idinvest Partners, a European PE firm that invests in small- and medium-sized enterprises (SMEs), has launched a EUR1 billion ($1.1 billion) cross-border investment fund to support European SMEs as they expand into Chinese markets. The vehicle, called Chance, is expected to reach a first close of EUR300 million by the end of this year.

Unicorn gets fund-of-funds commitments

Unicorn Capital Partners, a new China-focused venture capital fund-of-funds launched by Emerald Hill Capital Partners' former head of North Asia Tommy Yip, has secured initial commitments of $12 million for its maiden fund - Unicorn Partners Fund I. The firm is also led by Kah Fai Low, previously of Singapore fund-of-funds Eagle Asia Partners.

China GPs not phased by stock volatility - AVCJ Forum

China-focused GPs played down the recent slide in the domestic stock markets, urging investors to concentrate on long-term opportunities presented by continued growth and reforms.

The Shanghai Composite Index gained 5.76% on July 9 to close at 3,709 points, but since the middle of June it has fallen about 25%. The Shenzhen Composite Index has posted a one-month loss of 34.71%, while the city's SME and Chinext boards have seen similar levels. However, each index is still up on a one-year basis.

"I would encourage people not to look or read too much into what is happening in the public markets. This has happened in almost most the same manner three times for certain and probably four times," Derek Sulger, managing partner at Lunar Capital, told the AVCJ USA Forum in New York. "There is a massive run up to double or triple the previous level and then it goes back to where it started."

The phenomenon is very much driven by retail investors and shifts in the large pool of domestic savings in and out of the stock market.

"The distortion is driven by retail players," said John Lin, managing director of NDE Capital. "China does not have enough institutional flow to support stable valuations, although more institutions are being allowed to come in. We have some insurance-related LPs and sovereign funds are also coming in."

Ex-CyberAgent Beijing head forms China fund

Joei Dai, the former general manager of CyberAgent Ventures China in Beijing, has set up a VC firm - Gravity Venture Capital (GVC) - and is looking to raise $30 million to back Chinese start-ups. The fund will have a particular focus on start-ups in the online-to-offline and internet-of-things segments, and will seek cross-border opportunities in the Japanese market.

Sequoia exits luxury goods retailer Sparkle Roll

Sequoia Capital has sold its remaining stake in Sparkle Roll Group, a Hong Kong-listed Chinese retailer which sells branded luxury products such as cars, jewelry and wine, raising HK$120 million ($15 million). Sequoia paid HK$268 million for a 14.89% stake in the firm in 2009. The GP then raised a combined HK$200 million through two partial exits in 2011.

Joy leads $60m round for vacation rentals site

Xiaozhu.com, a Chinese short-term rental site, has completed a Series C round of funding worth $60 million led by Joy Capital, a new VC firm spun-out from Legend Capital. Other investors include Morningside Technologies, CITIC Capital and Magic Stone Alternative Investments.

Auto services platform raises $60m Series C

Diandian Yangche, a VC-backed mobile app that focuses on automotive after-sales services in China, has raised a $60 million Series C round of funding from undisclosed investors. Previously known as Yangche Diandian, the app secured a $30 million Series B round led by GGV Capital in last December.

NORTH ASIA

KIC invests $100m in US pet supplies firm

South Korea's sovereign wealth fund KIC has invested $100 million in US-based pet supplies retail chain PetSmart as part of a takeover led by BC Partners. The consortium also includes Singapore's GIC Private, Canada's La Caisse de dépôt et placement du Québec, StepStone and Longview Asset Management.

Japan's Genesis Healthcare raises $5.1m

US early stage investor Founders Fund and Japanese conglomerate Mitsui & Co have together invested JPY620 million ($5.1 million) in Genesis Healthcare, a Tokyo-based start-up that

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NEWS

develops genetic testing kits, in exchange for a 6% stake. Genesis will use the capital to expand and develop its consumer product offering in the healthcare sector.

SOUTH ASIA

Foxconn plans VC fund for Indian start-ups

Taiwanese electronics manufacturing conglomerate Foxconn Technologies plans to set up an India dedicated venture capital fund and an incubator to support local start-ups. The size of the fund was not disclosed. The VC unit is targeting start-ups operating in the areas of services, mobile internet, hardware and software integration.

Music streaming service Saavn raises $100m

Tiger Global has led a $100 million Series C round for Indian music streaming service Saavn, with participation from Bertelsmann India Investments, Steadview Capital, Mousse Partners and Liberty Media. Saavn is based in New York but targets Indian listeners and members of the global Indian diaspora.

Helion leads $30m round for big data start-up Axtria

Helion Venture Partners has led a $30 million round for US-based big data analytics firm Axtria. Venture capitalist Gururaj Deshpande also participated alongside angel investors Amar Sawhney, Rick Braddock and Fred Khosravi.

Hillhouse, Sofina back Hector Beverages

Beijing-based Hillhouse Capital and Belgium's Sofina have led a $29 million Series C round for Indian drinks maker Hector Beverages. Existing investors Sequoia Capital, Catamaran Ventures and Footprint Ventures also participated.

Tiger Global commits $20m to News in Shorts

Tiger Global has committed $20 million in a Series B round of funding to Indian news curating and redistribution platform News in Shorts. The start-up publishes about 60 news stories per day through its mobile app. The stories are condensed versions of longer articles from other online sources, and run no more than 60 words each.

China's Didi Kuaidi raises record-breaking $2b

Chinese mobile ride-hailing app operator Didi Kuaidi has raised $2 billion in a round including new investors Ping An Ventures and Capital International Private Equity Fund. The transaction is understood to be the largest ever fundraising by a private internet start-up globally. Existing stakeholders, including Alibaba Group, Tencent Holdings, Temasek Holdings and Coatue Management, also participated.

The company - which formed out of a merger of Didi Dache and Kuaidi Dache in February - may raise a few hundred million dollars more before the final closing in the coming months due to

increasing interest from global investors. The latest round, which closed in just two weeks, reportedly valued the Chinese start-up at about $15 billion. The company's cash reserve will grow to $3.5 billion after the fundraising.

China's taxi-booking space is dominated by Didi and Kuaidi, which continue to operate under separate brands but with combined resources and personnel. They have also expanded into car-pooling, car rental, designated driver services, as well as private car booking spaces, offering rides in Audi and Mercedes-Benz vehicles to high-end customers.

Online jeweler BlueStone gets $16m

Indian online jewelry retailer BlueStone has raised INR100 million ($16 million) from a group of investors led by Accel Partners, IvyCap Ventures and Dragoneer Investments. Existing backers Kalaari Capital and Saama Capital also took part in the round.

VCs commit $11m to India's Zoomcar

Car rental company Zoomcar has raised $11 million in funding from existing investors Sequoia Capital and Empire Angels, with participation from newcomer Nokia Growth Partners. Zoomcar plans to expand to an additional 15 cities and grow its fleet to 7,000 cars.

Indian doctor search app Lybrate secures $10m

Tiger Global has led a $10.2 million Series B round investment in Indian doctor search app Lybrate. The platform - which was officially launched in January - allows users to ask doctors questions online anonymously. They can also search for doctors and surgeries near to them, manage appointments, and save patient records.

SOUTHEAST ASIA

LVMH buys Singapore online beauty retailer

Luxury goods conglomerate LVMH has acquired Luxola, a VC-backed beauty e-commerce start-up based in Singapore, for an undisclosed sum. Luxola raised $10 million in a Series B round led by Transcosmos and Gree Ventures in March last year. Other investors include LVMH beauty products subsidiary Sephora, WaveMaker Labs, and Singapore's National Research Foundation.

Malaysia eyewear retailer gets $3m Series A

Nova Founders Capital and Caixa Capital have led a $3 million Series A round for Malaysia-based eyewear retailer GlassesGroupGlobal. Several angel investors also participated in the round, which brings the total amount raised by the company since its 2012 founding to $4.5 million.

Tata leads Series B round for Singapore's Nearex

Tata Capital has led an undisclosed Series B round investment in Singapore micro-payments start-up Nearex via its Tata Capital Growth Fund. Existing investors Beenos Asia and Xinvesco also took part. The company was set up in 2012 by mobile technology industry veterans Mayank Sharma and Arun Tanksali.

Foody raises Series B round from Garena

Vietnamese food platform Foody has raised a Series B round from the investment arm of Singapore internet company Garena. Foody will use the funds to expand its services, which include a restaurant review platform, a table-booking service, and a food delivery business..

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Connecting the dots

The start-up scene in Southeast Asia is growing apace but making the most of the region's potential is as much about having cross-border capabilities as it is about targeting the right opportunities

AFTER SPENDING YEARS CONVINCING entrepreneurs from all over Asia that the Lion City was the place for fast-growing start-ups, Singapore-based accelerator JFDI.Asia is now telling its latest batch of foreign founders they can stay home – at least for part of the time.

Unlike previous iterations of the JFDI.Asia accelerator, the program will also be partly delivered online so start-ups from overseas can cut costs and stay close to their customers. The idea could be seen as a radical departure from the notion that the very purpose of an accelerator is to bring start-ups and their mentors together.

On the other hand there is a logic in trying to develop a model the can leverage technology – JFDI.Asia claims to be experimenting with "transformational technologies" like workflow app Slack to virtualize its offering – to better connect start-up which their investors while keeping them local. Should the online program prove a success, JFDI.Asia is even considering going entirely online in future, while offering partial online programs from other regional centers.

JFDI.Asia is not the only early-stage investor in Southeast Asia looking at ways to manage the sometime conflicting goals of regional expansion and local competitiveness. As a regional hub Singapore still sees the bulk of investment activity in the region, but at the same time the ecosystem is becoming more decentralized. Successfully taking advantage of the early-stage opportunity in Southeast Asia will in many ways depend on investors' ability to work across borders, but doing so convincingly is a challenge.

"There is a general idea that the most successful Southeast Asian start-ups have to be able cover the region and I subscribe to that," says Khailee Ng, a venture partner with 500 Startups in Kuala Lumpur, "A local champion that can scale quickly can still get an attractive exit, but it takes a regional champion to get VCs really excited."

AVCJ Research's data illustrate the importance of working across jurisdictions to support portfolio companies. Firstly, the ecosystem has seen a lot of growth. Last year, $1.25 billion was invested in 96 early-stage rounds, compared to $601 million for 125 rounds in 2013. It remains to be seen whether 2015 can match this total, but the $303 million already invested across 60 rounds represents a marked improvement on the $254 million committed to 67 deals in 2010 and 2011 combined.

There has also been geographical change. In 2010, more than half of the start-ups to get funding were based in Singapore, while the rest were divided between Indonesia and Vietnam, plus one deal in Cambodia. Today, Singapore still takes the largest bite (about 41%) – followed by Indonesia (26 %) – but countries like Thailand, Philippines, and Malaysia are beginning to feature more prominently.

Start-up state

Part of the reason Singapore has flourished as a start-up hub is its status as Southeast Asia's only developed economy: it can offer start-ups better security, rule of law, lower taxes, and easier access to capital.

"I think each country has its own strengths and we have to play to those strengths," says Hugh Mason, co-founder of JFDI.Asia. "Singapore's strength is that it has money to invest and a stable fiscal and economic environment."

Another important factor in Singapore's success is support from the government which has been clear about it ambitions to create Southeast Asia's Silicon Valley. JFDI.Asia is an example of this. When it set up in 2010, the accelerator received its first capital injection in the form of a government grant. Another factor is the number of multinational companies headquartered in Singapore that can provide capital, resources and talent. Amit Anand, co-founder of Jungle Venture explains that this was part of the logic behind setting up in Singapore.

"Singapore has always been a hub for tech companies because it is easier to build a team here that has knowledge of operating Southeast Asian markets," he says. "Our value proposition has been that we can help start-ups move out their home market and expand overseas. So, if you look at Jungle's portfolio you will see that the majority of our portfolio companies have been regional from day one."

Singapore-based Travelmob, a Singapore-based social networking website for booking accommodation and room rentals in Asia, is a case in point. The company received $1 million in seed funding from Jungle in 2012 and then went on to expand region-wide, before being acquired by HomeAway the following year.

Software-as-a-service platform Trade Gecko – which offers inventory services – also started out in Singapore with JFDI.Asia's accelerator program. It subsequently received backing from Jungle, before using Singapore as platform broadening its footprint to neighboring jurisdictions.

However, it is worth noting and that both these start-ups exist in the software and internet space. Nicko Widaja, an angel investor and program lead at Jakarta-based Indigio Incubator, explains that this sector has a number of advantages when looking to expanding regionally. "The biggest challenge for start-ups looking to expand is that they need a product that is easily replicable with low acquisition cost," he says "Consumer SaaS [software-as-a-service] is a good example of easily replicable product – for example, you won't sell different versions of Dropbox in two different countries."

> "A local champion that can scale quickly get still get an attractive exit, but it takes a regional champion to get VCs really excited" – Khailee Ng

This observation is shared by Paul Srivorakul, co-founder and chairman with Ardent Capital in Bangkok, who also notes that many SaaS and mobile apps start-ups prefer to base them themselves in Singapore, as it offers better access to regional and global markets.

However, Singapore is not just a place for start-ups to base their operations. 500 Startup's Ng observes that of the 17 Singapore-registered companies his firm has backed in the past 12 months, just 10 are registered in the jurisdiction. They do this chiefly as a means to access

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additional sources of capital. This he says was the case with Playbasis , a Bangkok-based gaming specialist that registered its parent company in Singapore so that it could apply for funding from the National Research Foundation (NRF).

'The company set up in Singapore just to make sure they could potentially get the funding," says Ardent's Srivorakul. "It is incredibly smart for the government to lure these start-ups , but in terms of where its real operations and opportunities are – other than financing – it is Indonesia , Thailand and Vietnam."

Local heroes

VCs looking to invest in start-ups operating in sectors that require more local expertise might not see as much value in targeting on Singapore companies. E-commerce-focused Ardent, which is also very active in Indonesia, falls in this category. Srivorakul adds that more and more founders are seeking opportunities outside of Singapore, particularly where they see larger addressable markets.

"Many start-ups would first try to do Singapore first, and then they go into Malaysia," he says. "But what we are starting to see now is that more are actually trying to go into Indonesia straight away."

HappyFresh, which uses smart phone apps to coordinate deliveries of fresh groceries, followed this strategy. Originally set up in Malaysia, the company raised its first seed round in March before expanding into Indonesia, and then Thailand. The challenge for companies in this space is being able to expand into new markets while maintaining a strong local presence.

Khailee Ng, a venture partner with 500 Startups, adds that this can be difficult given the speeds at which start-ups must expand regionally – especially if they are coming from a small domestic market. One of 500 Startups' Malaysia investments is ride-hailing app GrabTaxi. It launched in 2011 and received an undisclosed Series A round from 500 Startups and Vertex Venture the following year. The company has since raised more than $530 million from six investors across four rounds. Its most recent round came earlier this month when Coature Management put in $200 million.

"Most start-ups will try and get one country right and then go to the next country, learn from execution and do a third country," says Ng. "But I have seen more companies with regional ambitions, like GrabTaxi, that are collapsing the timeframe. They will do one country and within three months they will open in a few more."

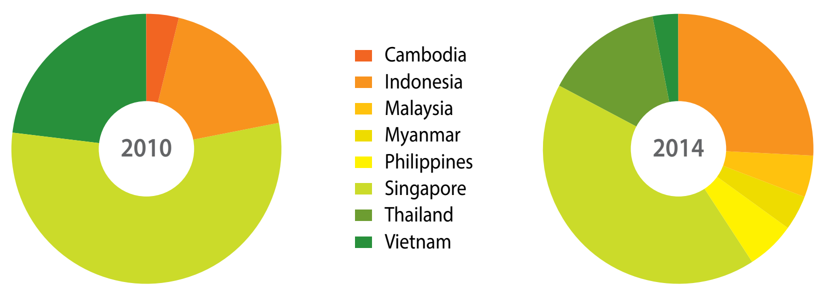
One way start-ups might typically achieve this is to take a fly-in approach, putting together a team of expatriate founders that it can drop into a country to launch local operations, not unlike German incubator Rocket Internet and its e-commerce start-ups. Grabtaxi, on the other hand, went hyper-local, using a minimal amount of foreign talent and hiring as many locals as it could.

By contrast – due to the size of their addressable domestic market – some start-ups based in Indonesia are under less pressure to expand into new markets. E-commerce specialist Tokopedia, for example, has raised has received five rounds of funding, most recently raising $100 million from Japan's SoftBank Corp. and Sequoia Capital in October last year. The company has yet to expand outside Asia. Similarly, Bukalapak, another Indonesia-only e-commerce player, is now on its Series B round of funding.

The idea is that if these companies can become the number one – or even number two – in Indonesia they can generate attractive returns in a small amount of time by focusing on expanding nationally, and perhaps later be acquired by a larger player. This is not just in the e-commerce sector.

"Food is an exciting area, we are seeing a lot food tech companies get good valuations and there is a lot of investor appetite," says Ng. "Every local champion is backed by a VC and every country has its own local version of Yelp and they are getting rolled up and expanding to other parts of Southeast Asia."

Early Stage Investments in South East Asia



Source: AVCJ Research

The ASEAN angle

Where there is a need to expand regionally, it can still be a difficult to work across borders. Jungle's Anand says that language and culture do not really present a challenge; rather, the problems that normally arise from regional expansion are regulatory. Arguably, greater integration between Southeast Asian countries could come through the likes of the Association of Southeast Asian Nations (ASEAN), but the issue goes beyond economic integration.

"Politicians focus on things like policy frameworks but from a start-up point of view that is not so much of a barrier as stuff like freedom of movement," says JDFI.Asia's Mason. "For example it is still difficult for Filipinos to get on a plane and come to Singapore, even if they have money."

Meng Weng Wong, co-founder of JFDI.Asia alongside Mason, identifies two forces that will eventually bring about greater integration for Southeast Asia's early-stage ecosystem. First are the top-down effects of regional governments on tariffs, trade barriers and access to work visas. Then there is the bottom-up effect of entrepreneurs seizing opportunities in payments, logistics, and outsourcing. For example, a regional payment gateway solutions can abstract away the diversity of currencies in the region.

Similarly, JFDI.Asia has developed a platform for its start-ups called Legalese that converts legal documents for different geographies so founders can better handle jurisdictional diversity in terms of paperwork and investment structures. Jungle's Anand echoes Wong's optimism. "I feel that eventually Southeast Asia will look more and more look like one homogenous market," he says. "More people will set up multiple offices across the region capturing the best value provided in that market."

As is becomes easier to connect jurisdictions in Southeast Asia it is clear to see why some might question whether Singapore can remain a hub for the region – the focus may instead gradually shift towards somewhere like Jakarta or multiple sub-regional outposts. But, JFDI.Asia's Mason doesn't view it as an either-or scenario.

"It is tempting to look for competition but maybe the trick is to look for collaboration," he says. "If you look at the whole of Southeast Asia, there are 600 million people – of those maybe 60 million are middle class – and if you work on an individual country basis you have tiny pockets of markets. But if you think pan-ASEAN then you could have a bigger pportunity than North America or Europe."

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The bulls hesitate

China's equities wobble is unlikely to discourage companies from local listings, and a rise in renminbi fundraising could result; Asia investment hits record high; public market sales dominate exit activity

1) Fundraising: RMB rebound approaching?

Four weeks ago, everyone was expecting a rebound in renminbi-denominated fundraising. China's stock markets were at record highs and there was unbounded enthusiasm for the possibilities of going public domestically. Local currency funds would be required to support companies operating in industries in which direct foreign participation is not permitted.

The Shanghai Composite Index (SCI) was at its highest level since 2008 and the Shenzhen bourses – the main board, SME Board and Chinext – were trading at levels never seen before. And for those seeking liquidity for early-stage companies, but without the long waiting times and strict regulatory requirements of the other boards, the National Equities Exchange and Quotation (NEEQ), or the New Third Board, had become an increasingly attractive option.

Then came the fall. The SCI gained 5.76% on July 9 to close at 3,709 points, but since the middle of June the index has fallen approximately 25%. The Shenzhen Composite Index has posted a one-month loss of 34.71%, while SME and Chinext boards have seen similar levels of price erosion. Suddenly the multiples arbitrage case for de-listing a company in the US or reorienting a private company from an offshore to an onshore IPO was no longer quite so compelling.

In the midst of all this, second quarter fundraising statistics from AVCJ Research show that renminbi-denominated vehicles received less capital than for any quarter in the last 18 months. Commitments came to $2.2 billion, down from $6.6 billion for January-March, and the number of funds winning commitments fell by half. Meanwhile, nine US dollar funds reached final or incremental closes worth a combined $2.7 billion, compared to three funds and $1.2 billion in the previous quarter.

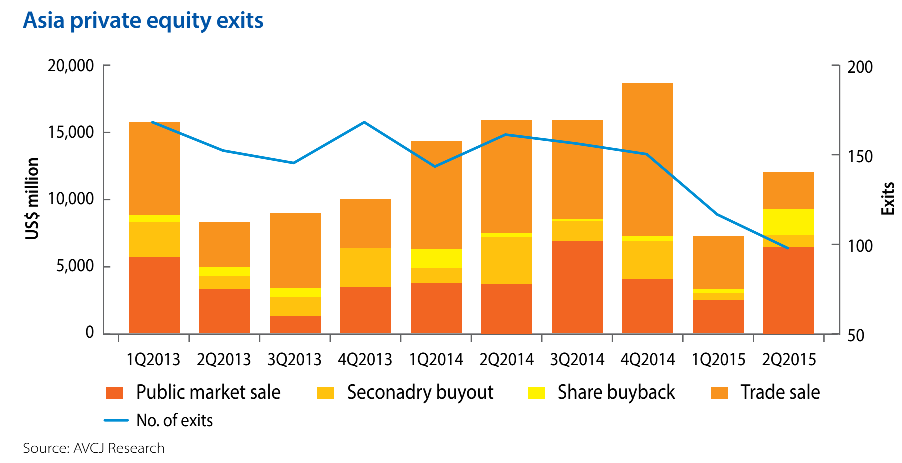
How much should we read into this? Not much, in all likelihood. Renewed appetite for renminbi funds based on opportunities in the technology space is still quite short-lived and fundraising efforts may have yet to reach a conclusion: Notably, partnerships between Sequoia Capital and Huatai Securities and China Renaissance and CITIC Securities have yet to result in any final close announcements.

And the capital will probably be raised. Despite the recent sell-off, each of China's main indexes is still up substantially on a one-year basis, and take-private offers for US-listed Chinese companies continue unabated.

Furthermore, although enabling certain technology companies to go public domestically would require regulatory change – such as removing the requirement that applicants have been profitable for the last two years – numerous industry participants have bought into the idea that this will happen. Purported initiatives include setting up a new board on which companies already listed overseas can offer shares to domestic investors.

Where foreign ownership restrictions prevent offshore venture capital funds from having direct exposure to certain industries – the variable interested entity (VIE) structure that works around this obstacle for US listings does not apply domestically – renminbi funds may be well positioned to capitalize. And most VC-focused renminbi vehicles are currently a fraction of the size of their US dollar counterparts.

At the same time, it is worth noting that there is still a place for US dollar funds in the technology space. There remains uncertainty about participation in certain industries, but the decision last month to allow foreign investors to fully own and operate e-commerce companies in China suggests that, in this area at least, altering investment structures to accommodate an onshore listing will not be necessary.



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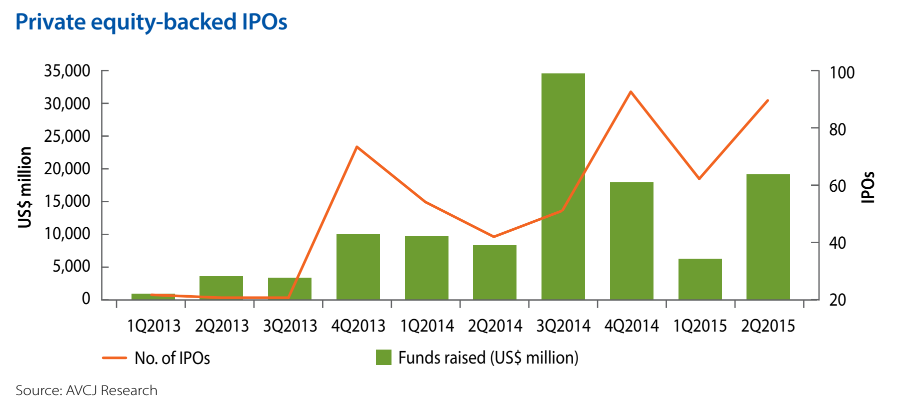


Source: AVCJ Research

In addition, for companies that have reached a certain size on the back of offshore funding there may be no incentive to change course. Large, late-stage rounds for technology companies have become an industry standard over the last 18 months. In the second quarter, GGV Capital, Qiming Venture Partners and Banyan Capital raised a top-up fund, an annex fund and a co-investment fund, respectively, all of which allow continued participation in portfolio companies that have gained traction.

Missing the second quarter cut-off by a matter of days, Shunwei Capital Partners closed its third US dollar fund at $1 billion – nearly twice the size of its predecessor and comfortably the largest pure China VC fund in operation.

2) Investment: Bouncing back

Asia private equity investment got off to a typically slow start in 2015, with first-quarter figures – as they then stood – indicating the weakest three-month period in nearly two years. The region has since more than made up for its hesitancy. Between March and June, investment reached $34.2 billion, the highest quarterly level on record, surpassing the $31.9 billion posted for October-December 2007.

The number of transactions was actually down slightly on the previous three-month period, but the check sizes were bigger; and written by an array of investors that stretches well beyond traditional private equity, with sovereign wealth funds, pension plans and hedge funds all in the mix.

This is characteristic of the activity in China: the amount of capital deployed nearly tripling on a quarter-on-quarter basis to surpass $18.6 billion, but transaction volume for both periods was in the region of 200.

Inevitably, technology continues to attract huge interest. Alongside a $850 million round for entertainment listings and discount deals service Dianping and a Silver Lake-led $500 million investment in US-listed travel site Qunar, there were two sizeable deals, both within the Alibaba Group ecosystem, that unify financial services and information technology.

Ant Financial Services, an affiliate of Alibaba Group built around the company's Alipay network, received $1.4 billion from a group of investors including the National Council for Social Security Fund, China Development Bank Capital, Primavera Capital and GP Capital.

Ant Financial is also the largest shareholder in Zhong An Online Property Insurance, which raised $931 million from CDH Investments' wealth management platform, China International Capital Corp, SAIF Partners, Keywise Capital Management, and a Morgan Stanley-controlled vehicle.

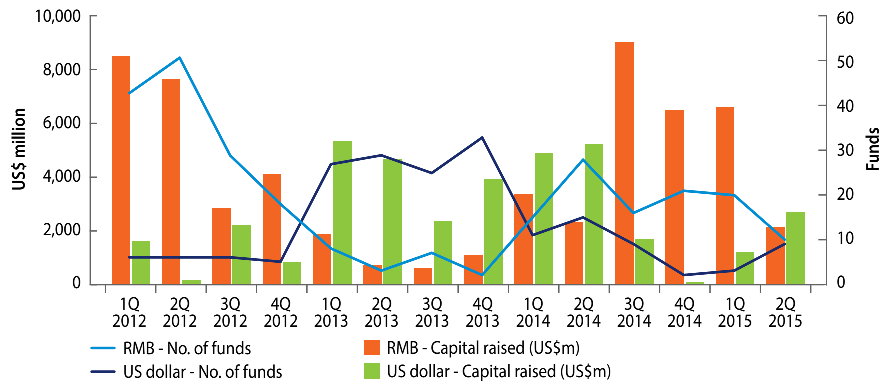
Zhong An, whose other backers include Tencent Holdings and Ping An Insurance, is said to be the first insurance company in China to sell policies and handle claims online. It has ambitions to extend its relatively nascent business into areas such as life insurance and asset management. The company is emblematic of the kind of disruption Ali Financial wants to bring to the traditional bank-led system, and investors are clearly willing to pay a premium for exposure.

three months of this year.

Public market exits accounted for just over half of total transaction value, a level not seen in nearly four years. Of the 20 largest exits during the quarter, 10 were open market sales, including four of the top six. This compares to five open market sales in the top 20 for the first quarter of 2015.

Hony Capital completed two exits, selling $1.3 billion worth of shares in CSPC Pharmaceutical Group – a state-owned enterprise it helped restructure over a number of years – and a $169 million stake in Chinasoft International. The Carlyle Group and Warburg Pincus also completed sizeable open market sales, each realizing around $400 million from Haier Electronics Group and China Auto Rental.

Renminbi vs. US dollar fundraising in China



Source: AVCJ Research

Other significant contributions to the second quarter investment total came from South Korea and India. Deals in the former jurisdiction included a bail-out for Posco Engineering and Construction but also two transactions that reflect its e-commerce potential: A KKR and Anchor Equity Partners-led group paid $360 million for a controlling stake in Ticket Monster, while SoftBank Corp. injected $1 billion into rival player Coupang.

India, meanwhile, posted its sixth consecutive quarterly increase in private equity investment, confirming the industry's recent revival. A total of $3.8 billion was committed – up from $2.7 billion in the previous three-month period. Notable deals include The Carlyle Group investing $500 million in South Asia-focused start-up Magma Energy, car-booking platform Ola getting $400 million from new and existing investors; and Apax Partners paying $384 million for a stake in Shriram City Union Finance.

3) Exits: Riding the bull run

With public markets across the region at record highs – or close to them – private equity investors set about unwinding their positions in the second quarter of 2015. Overall exits for the period came to $12.2 billion, short of the quarterly average for 2014 but a marked improvement on the relatively disappointing first

In Japan, Cerberus Capital disposed of its interest in Seibu Holdings for $857 million following a protracted dispute with the board, while Bain Capital and Japan Industrial Partners generated $615 million through the sale of much of their remaining holdings in restaurant chain Skylark.

KKR's India team weighed in with a $413 million exit from Bharti Infratel via the public markets, although three of that jurisdiction's six entrees in the top 25 exits were trade sales. This comes after India was responsible for seven of the 25 largest exits in the first three months of 2015. Over the two years prior to that, the quarterly average was below three.

After a weak first three months, private equity-backed IPOs rebounded to $19 billion, the strongest quarterly performance in four years – if the third quarter of 2014, which included the Alibaba Group offering – is excluded. Hong Kong was the driving force, delivering seven of the 10 biggest offerings during the period. In the first three months of the year this market was responsible for only one of the top 10.

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Gaining a foothold

Southeast Asia continues to be a challenging environment for new fund managers, but many GPs have found ways to market their products. Reaching LPs' required standard of competence is the key

THE WORLD OF FUNDRAISING IN Southeast Asia continues to be a small one. Dreams of persistent expansion seem far off; while a record 38 funds were raised in 2008, since the global financial crisis levels have fluctuated widely, with just half that number in 2014. These numbers do not tell the whole picture, of course. Deals continue to be transacted, and money continues to move through the system. In addition, players in Southeast Asia's investment community say that temporarily dry wells are by no means a disaster for the industry.

"In Southeast Asia, the number of GPs today is higher than it was five years ago, but it's still a relatively small group. That's partly because it's difficult to raise a fund. And that's the way we like it," says Eugene Lai, managing director and co-managing partner at Southern Capital. "That imposes discipline in the market. If there's no discipline, and there's too much money chasing too few deals, that's not a good investment environment."

Lai, and other managers of established Southeast Asia-focused funds, see much to like about the current state of the region. But they know that the outlook is not so promising for everyone. The region continues to be challenging for newly established funds, due to uncertain climates in the affected countries and skepticism among LPs about future prospects.

Safety in scale

Fundraising figures for Southeast Asia GPs tell a story of consolidation. While the number of vehicles raised has swung widely since the high of 2008 – going from 22 in 2011 to 35 just two years later, and dropping down to 19 the year after that – the dollar figures for the pre- and post-financial crisis periods are more revealing.

According to AVCJ Research, significant funds of the post-2008 vintage number 70 in all and have received aggregate commitments of $12.3 billion, while the 122 2004-2008 vintage funds raised $13.3 billion. This means a higher average fund size, from $109 million to $175 million.

In addition, some types of fund are seeing more participation than others; the six funds of $500 million and up raised since 2008 have collected $5.3 billion in all, while funds of the same size raised between 2004 and 2008 took in just $3.3 billion. That contrasts with the figures for funds of $100-500 million, which dropped from $7.1 billion to $5.7 billion. For those in the $100 million and below bracket, the aggregate figure has fallen from $3 billion to $1.3 billion.

One of the biggest players in Southeast Asia is Navis Capital Management, which has raised two pan-regional funds since 2008, totaling $2.6 billion. Nick Bloy, co-managing partner at the firm, says that a large fund size is also partly a necessity for doing business in Southeast Asia.

"It's expensive to run multiple offices, so you need to have a certain scale to be able to afford to have multiple people in multiple places," he explains. "I think you need to be in the $1 billion-plus space to be able to do that at an appropriate scale and with an appropriate scope geographically."

Navis also serves as an example of another tendency among funds in Southeast Asia: the push to geographically diversify. Less than half of the funds raised since 2008 – of all sizes – are focused on a single country, with the rest being aimed at two or more, or having a pan-regional focus. While the same is true for pre-2008 funds, the proportion of regional to country-specific funds is much narrower in that case.

This approach has several advantages for GPs – for example, having a presence in several countries can help managers avoid a downturn in one. If a particular market becomes difficult, whether it is due to spiking valuations or economic uncertainty, a GP can turn its attention to other areas and wait for opportunities to revive. There are drawbacks as well. As noted earlier, operating a scale business across multiple countries is expensive. Many firms, both large and small, get around this by establishing a central office – usually in Singapore – and travelling from there to the other countries in which they operate. But this approach has its downside too, in terms of travel time and logistics costs.

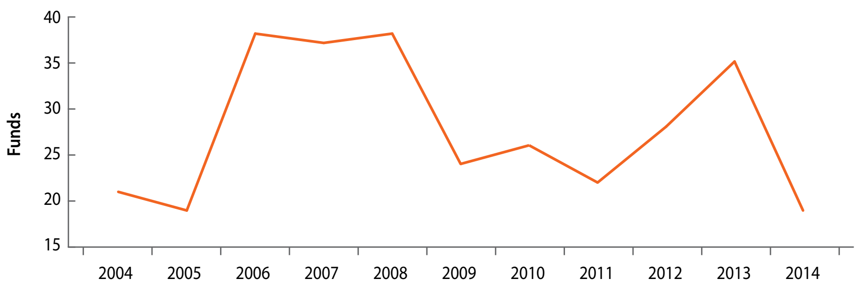
Another complicating factor is the reluctance of LPs to invest in funds that are not sufficiently diversified. Northstar Group is a prominent exception, having closed an Indonesia-focused buyout fund at $820 million in 2011, but it was one of only three out of the 10 biggest post-2008 funds to have a country-specific approach rather than regional or pan-regional. It is also worth noting that while Northstar is most active in Indonesia, the GP has completed deals in Singapore, the Philippines and Thailand.

"If you're focused just on Indonesia, Philippines, Thailand, Malaysia, I think it's very difficult to sell your product, because you're very un-hedged and undiversified, so it's a tough sell," says Kai Schneider, head of the funds and management group in Southeast Asia for Clifford Chance. "Northstar has done a great job in a very difficult country, but those are, frankly, not the norm. It's more regional plays."

Storms on the horizon?

LPs may also be put off by the possibility of political disruptions in the region, such as the recent turmoil in Thailand or last year's presidential election in Indonesia, which held back deals. This type of instability can be worrying to investors because it has the potential

Southeast Asia-focused PE funds launched



Source: AVCJ Research

to derail even the best manager's plans.

While these issues are not necessarily a deal breaker in and of themselves, they can make an investment decision much trickier. Brian Lim, a partner at private equity fund-of-funds Pantheon, observes that LPs may decide that a fund with all its eggs in one basket is simply too big of a risk.

"Some investors take the view that the political problems in Thailand are just noise," says Lim. "They've had political issues for a very long time, and some investors have made decent returns from Thailand throughout those times. But other investors will ask if it's really worth dealing with those risks at this point. It's easier to say no when you have a lot of noise, political or otherwise, that may distract from making optimal allocation decisions."

> **"First-time funds have a real tough time, they struggle to reach a first close. You compare that to others on Fund III, IV and V, they have to scale back investors because there is so much interest"** – Kai Schneider

Some funds pursue a sub-regional strategy, a compromise between a risky single-country approach and an expensive pan-regional one. Southern Capital is one such GP; its third fund, which closed in 2012, is focused on investments in just three countries: Indonesia, Singapore and Malaysia. The proximity of the three countries means the travel time between them is minimal, and they also present opportunities for investment in cross-border trade.

Southern is not the only firm pursuing this strategy; Andrew Thompson, head of Asia Pacific private equity at KPMG, argues that focusing on a smaller grouping of countries within the region is a natural choice.

"It's a logical grouping, because obviously, Bahasa is between Malaysia and Indonesia, and Singapore has very strong linkages with both of those countries," he says. "A key rule is that if you put all your eggs in one basket in this region, one day that basket will spill. Hence, even highly successful investors such as Northstar are talking about regionalization rather than continuing what has worked so well in the past."

Maintaining a sub-regional focus might help firms to reduce costs somewhat. But it reinforces the barrier to entry for less established funds. Starting small in a single country seems to be unfeasible without an unquestionable pedigree, but all funds have to start somewhere.

Spin-offs of existing funds can overcome the first-time challenge to a degree: trading on an established name and reputation means they don't have to introduce themselves fresh to a skeptical market. But even in these cases, investors tend to prefer to stay with a known brand where they can.

"There's a real world of haves and have nots. First-time funds have a real tough time, they struggle to reach a first close. You compare that to others on Fund III, IV and V, they having to scale back investors because there is so much interest," says Clifford Chance's Schneider. "Even spin-offs, where they have good pedigrees, struggle to get to a first close. Even with the same strategy, same geography, when one fund is a new launch and one is a successor fund, the outcome is usually starkly different."

Deal size dilemmas

One reason that experience counts so highly is the perceived difficulty of securing deals in the region. Large transactions in the $200 million-plus range are hard to come by, and the majority of deals are in the mid-market range. This is a depressing factor for investors, though Navis' Bloy says focusing on deal size may not give a fair picture of the opportunities available.

"I think that the really interesting opportunities come more from a couple of sources. One is divestments by corporates of non-core businesses – these are subsidiaries that have been overlooked, and there is a pent-up value creation opportunity," he says. "The other is family-run businesses, where there's a transition from the founders to the next generation, and the next generation may want a partner to help them run it going forward, particularly in this challenging environment of going cross-border."

Cross-border trade is indeed an area with a chance for growth, fuelled by economic integration among ASEAN countries. Many hope that breaking down barriers to trade and travel will stimulate economic activity among the ASEAN member nations that will, in turn, create investment opportunities for private equity.

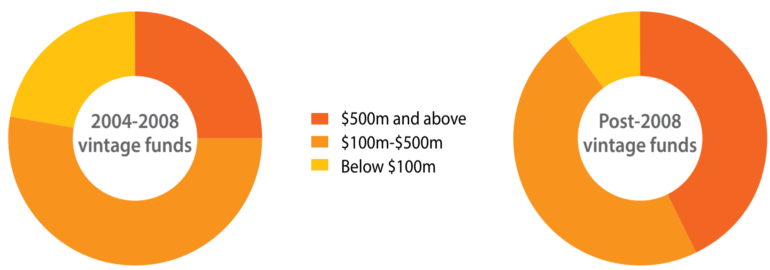
However, Wen Tan, a partner at FLAG Squadron Asia, says that the hopes for integration are overblown. "There are so many carve-outs and restrictions that have been imposed or negotiated by various countries," he explains. "Yes, it's a move in the right direction, but will it fundamentally change the landscape? Our view is that it won't."

While the current environment makes it difficult for newcomers, there are signs that this state of affairs may not last. OCBC, which operates in Southeast Asia as a mezzanine capital provider and as a fund-of-funds, is willing to back country-focused funds, if there were any available. Daniel Kwan, a vice president with the mezzanine unit, notes that LPs have become experienced enough to be comfortable taking a risk on smaller funds with a country-specific or sector-specific focus; it is only a matter of time until they become available.

In addition, as LPs gain sophistication and experience in the region, some have begun to exercise more control over their investments. While this may create more work for fund managers, some GPs, such as Southern Capital's Lai, say such worries are shortsighted. More active LPs can help guide a manager to try more effective approaches to handling their funds.

"A lot of GPs will just try to raise more money, because that's the default position of most GPs," says Lai. "But LPs are concerned about the size of the addressable market for your strategy. They say, 'If you want to invest in a particular country, and you're pursuing a particular investment strategy, what is the size of your addressable market?' And then they will conclude, that means your fund should only be X million dollars."

Fund sizes in Southeast Asia



Source: AVCJ Research

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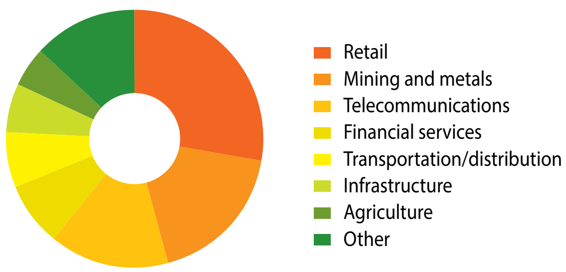
Southeast Asia PE investment by sector

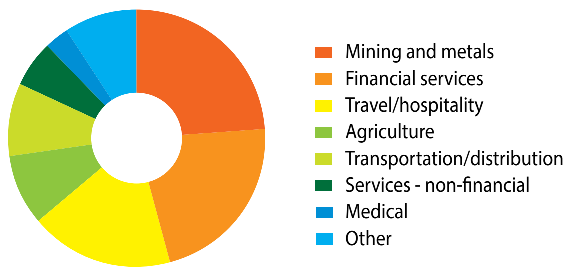
Singapore, Malaysia and Indonesia - in that order - have been the primary drivers of Southeast Asia deal flow since 2010. Regardless of the individual market, consumer, services financial and non-financial, and commodities feature strongly

Indonesia



Source: AVCJ Research

Malaysia



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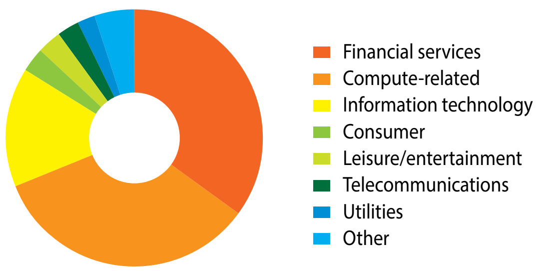
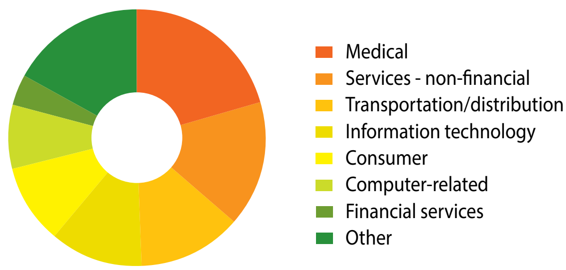
Philippines



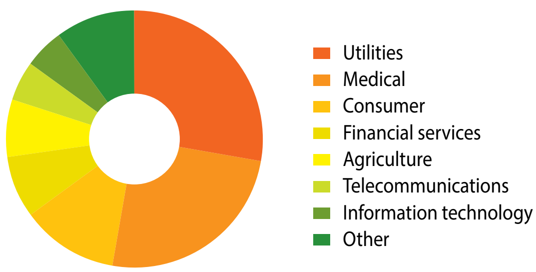
Source: AVCJ Research

Singapore



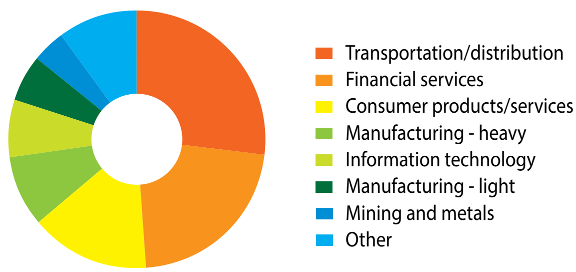
Source: AVCJ Research

Thailand



Source: AVCJ Research

Vietnam



Source: AVCJ Research

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Outward thinking

Emmett Thomas, head of Asia at Advantage Partners, explains why helping Japanese firms enter other markets in the region and bringing Asian companies into Japan has become an important investment thesis

Q: Advantage set up its Hong Kong office in 2008. What was behind this decision?

A: Fundamentally, we had two ideas. The first was that a number of our Japanese mid-market portfolio companies had an imperative to expand into Asia. We have since helped two thirds of these companies access value from Asia either through greenfield expansion into new markets, through partnerships with local firms, or through bolt-on acquisitions. There have a dozen bolt-on acquisitions. Our Asian portfolio companies have been also been active in regional expansion but not as aggressively as the Japanese portfolio companies. The second idea was that we could invest in Asian companies and enable them to leverage Japan. Value could be created by helping them enter the Japan market, by helping them acquire Japanese businesses, or by helping them leverage some source of competitive advantage in Japan, like brands, technologies or advanced management techniques. We have subsequently made investments in three Chinese companies and one company in Guam, which all fit this model.

Q: Why are cross-border capabilities becoming more important to Japanese GPs like Advantage?

A: If we look at the sectors and the types of companies in which we are investing, mid-market founder succession deals and corporate carve-outs are our two sweet spots. In Japan, it is sometimes hard for these companies to achieve growth domestically. They usually have strong brands or technologies, and they have some competitive advantage, but it is not always fully monetized because they are only domestic in nature. We see a very strong value proposition in helping these companies grow overseas, and we have now created a variety of success stories in our portfolio. We need to configure ourselves to deliver that value to investee companies or else our competitiveness as a GP in Japan will be undermined. Having the ability to help companies move overseas is an important part of Advantage being successful.

Q: Is there always an overseas expansion angle?

A: Not always. Some businesses are targeting a purely domestic market, and don't have anything to leverage overseas. Probably a third of our Japanese portfolio companies over the last two funds never did anything overseas.

Q: What are the other benefits to having operations outside of Japan?

A: Increasingly we are helping Japanese businesses that have to deal with more competition from Asia, especially from China or Korea. So often when we make an investment, not only do we look at opportunities to expand that company into Asia, but we also look at the threats to the company from Asian firms looking to expand into Japan, or compete in other countries. Whether a potential competitor is Chinese, South Korean, or Southeast Asian, we have to understand how strong that company is and the nature of the threat to our potential portfolio company. So there is also a bit of defensive angle to it.

> "Having the ability to help companies move overseas is an important part of being successful domestically"

Q: What is your take on the current macroeconomic environment in Japan?

A: Abenomics is very important and so far it has been a success. It perhaps has not gone as far, or as fast, as some would like but compared to the many years of disappointing political leadership, it has had a huge impact. The mood in the private sector right now is better than at any time I have seen in the last 20 years – people are feeling better, and companies are investing. Abenomics will also deliver long-term benefits for the private equity industry. If you look at the third arrow of the Abenomics package, it is targeting corporate performance and getting big companies to focus on return on equity (ROE) and creating shareholder value. That will ultimately result in more deal flow for private equity, as big companies look to shed assets to improve performance. There are new corporate governance guidelines such as requirements for independent directors at listed companies. Also, there is a new stock market index requires a minimum 10% ROE, which many big Japanese companies don't fulfill.

Q: How important is legislation such as the corporate governance code in this context?

A: The legislative change provides a trigger and offers some direction but ultimately the private sector has to reform itself. No one is going to legislate for companies to start making more money or doing share buybacks. But if the political leadership is there and companies recognize that change is good for them from a business standpoint, then at some point the private sector will reform itself. That is the way it should work. That way you get more sustainable change.

Q: What kinds of deals you expect to see in the future?

A: The recovery of the economy should create some tailwinds and opportunities. There are several themes. One we currently are pursuing is low cost innovation. In 2013 we invested in a massage parlor chain called Riraku. The company has developed a new business model where they deliver a 30-minute massage at half the prevailing market price. It is tapping into a cost-sensitive segment, and as a result growing more than 20% per year.

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