INSIGHTS

MARCH 2023







PRIVATE EQUITY WIRE



BEYOND CHINA

HOW PRIVATE EQUITY IS PIVOTING IN ASIA

EXECUTIVE SUMMARY

Welcome to Private Equity Wire's March Insight Report, which explores the private equity market across Asia (ex-Australasia). Not surprisingly we start with China, where international dollar fundraising slumped last year. To be sure, Asia-Pacific-focused fundraising has been declining overall since 2017, but it is difficult to tell by looking at large pan-Asian mega funds run by KKR, Blackstone and the recently combined EQT and Barings Private Equity Asia, which each closed over USD11bn in their latest vehicles targeting the region. How these managers and others consider China, as geopolitics and economic growth cloud the horizon, is now the big question for investors looking at the region and one we consider on page 5. Despite the political noise, we find that different strategies are emerging on China and the absence of some managers will create space for others. With China targeting economic growth of 5% this year, yuan-based fundraising should continue to thrive. The pivot away from China by some investors is also benefitting two of the world's most exciting private equity markets: India and Japan. On pages 12 and 18, we look at turning points in these less-crowded markets and the contrasting opportunity set for pan-Asian managers there. The common thread here is demographic and they are both markets that favour the long-term investor. Other parts of Asia are benefiting in more ways than one. As both a fundraising magnet and a financial hub, Singapore has taken the spotlight from Hong Kong as wealth managers and global corporations relocate. But, as with China itself, Hong Kong is already planning its comeback, proving in many ways that the Asia we see today may look very different from the one that will emerge for private equity in the years to come.

Enjoy reading,

COLIN LEOPOLD
HEAD OF RESEARCH & INSIGHT

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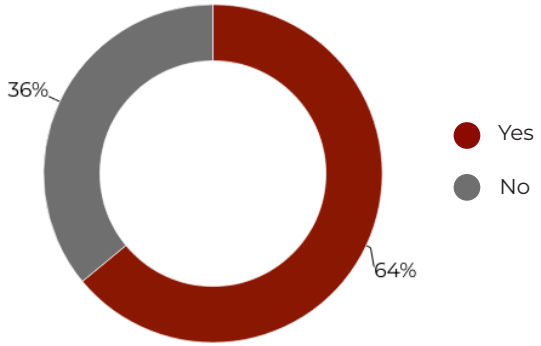
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METHODOLOGY

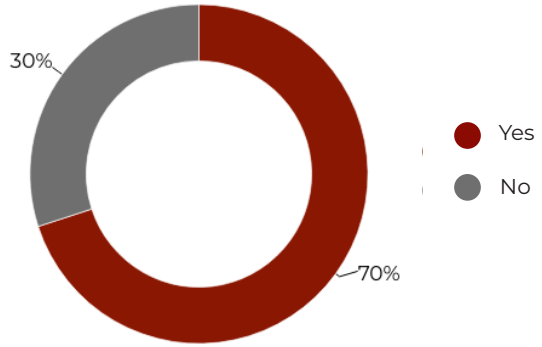
Private Equity Wire surveyed over 60 private equity professionals during January 2023 on their views around private equity fundraising and investment in Asia, ex-Australasia. Of the group surveyed, more than 95% were fund managers from North America, Europe, UK and rest of the world. The results of the survey were analysed by Private Equity Wire and during February 2023 they were discussed with a range of named and unnamed private equity sources primarily based or working in Asian private equity.

HOW OUR SURVEY SEES ASIA...

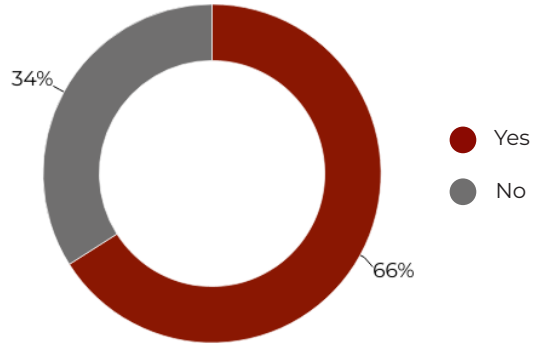
Survey asked: 'Are you currently targeting Asia-Pacific (ex-Australia) for **investment?**'



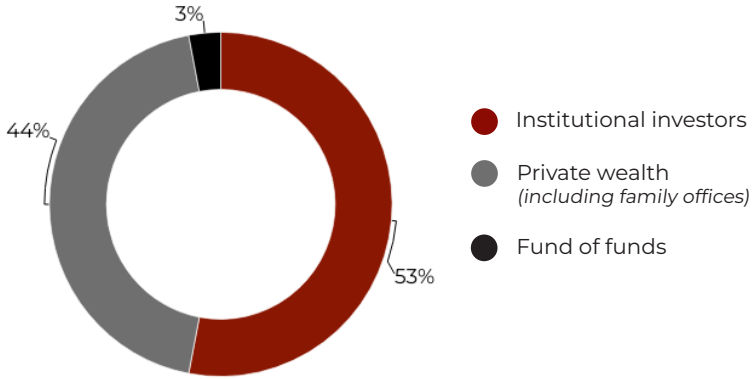
Survey asked: 'Are you currently targeting Asia-Pacific (ex-Australia) for **fundraising?**'



Survey asked: 'If no, do you plan to target this region over the next **12-24 months?**'



Survey asked: 'In terms of fundraising, which investor group do you believe is the most active in **Asian private equity?**'



Source: Private Equity Wire survey, February 2023

KEY FINDINGS

1

Don’t mention China

Institutional investors, particularly from the US, have soured on China amid geopolitical tensions and slower economic growth during zero-Covid, dragging down US dollar fundraising last year. Pan-Asian fund managers are pivoting to other parts of the region or creating yuan-based vehicles. In a Private Equity Wire survey, only 14% of managers selected China as the most attractive destination for investment in Asia. Regulatory risk and macroeconomics were the two main deterrents to investing in Asia as a region.

2

Japan bears fruit, for the few

After a long wait, US buyout funds have hitched onto two structural trends distinct to Japan: corporate carve-outs and a growing family ownership gap. Total deal value exceeded US$25bn last year, making it the second highest since 2012, but private equity still remains a small slice of Japan’s overall M&A market. Perceptions of private equity in Japanese society also make it a challenging terrain for the uninitiated and deal-making there can be a slow and proprietary affair.

3

Demographics drive India fundraising

Private equity funds located in India raised more than double the amount they did in 2021 – a 163% increase in fact. Though a switch to smaller deals last year has pulled down total value of dealmaking from the pandemic peak, sentiment is high and growing. The reasons are a government focused on growth, particularly around infrastructure and tech; the world’s largest population (by some measures), and a clear regulatory environment.

4

Hong Kong exodus lifts Singapore

An influx of Asia’s most wealthy to Singapore from Hong Kong has helped it become a new financial hub for the region and a hotbed of private equity fundraising. For the first time since 2008, Singapore dethroned China in total aggregate capital raised, according to Preqin. Our survey also found 70% of respondents believe Singapore is a more effective base for private equity funds operating in the region, compared to only 13% for Hong Kong.

BEYOND CHINA

International fundraising slumped in China last year as regulatory risk and geopolitical tensions scared away investors. Pan-Asian private equity funds are seeking out alternatives whether those investors return or not

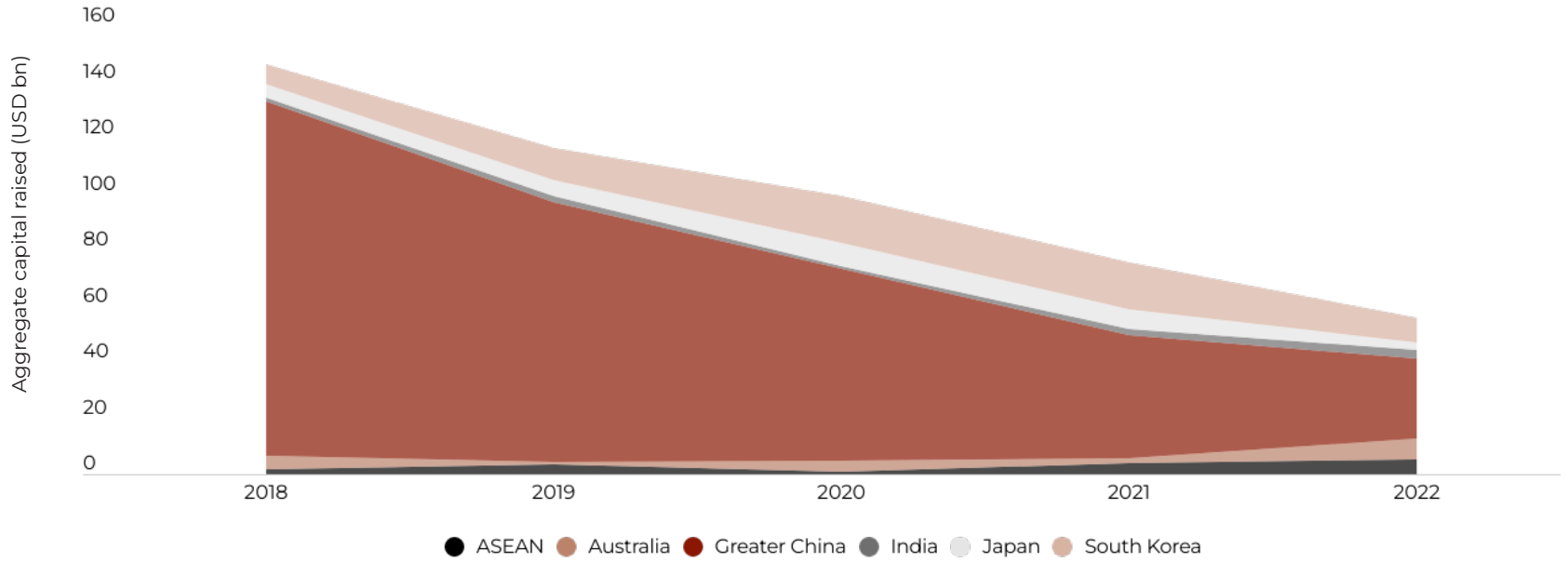
Global private equity investors are retreating from China amid rising geopolitical tensions with the US, forcing fund managers to tap local sources of capital and pivot into other parts of Asia.

Despite finally emerging from the shadow of a strict zero-Covid policy, international capital flows are unlikely to return to pre-pandemic levels amid a wider decoupling where US President Joe Biden wants to ban investing in Chinese technology companies and increase scrutiny of others.

"There has been a slight improvement in LP sentiment towards China as the government has moved away from its 'dynamic zero-covid' policy in recent weeks [and] we continue to see many LPs remain constructive to the opportunity in Asia, with international LPs starting to resume travel to the region after a



Figure 1.1 Asia-based private equity and venture capital fundraising



Source: Preqin Pro

long hibernation period during the pandemic," says James Shipperlee, managing director at placement agent Campbell Lutyens in Hong Kong. "However, the ongoing challenges facing China, both in terms of geopolitical concerns and regulatory uncertainty, are causing LPs to diversify into other segments of the [Asian] market."

From a dramatic USD fundraising decline that began in Q4 2021, Greater China-based private equity funds raised only $36.3bn in 2022, according to Preqin – just 28% of what was raised in 2021.

"For GPs raising funds with a pan-Asian strategy, certain LPs have requested that the fund's allocation to China be reduced and/or capped at a certain proportion of the fund [and] we are seeing increased interest in pan-Asian funds which are able to minimise their exposure to China as well as GPs focused on Southeast Asia, Japan, South Korea and India in particular," says Shipperlee.

CHINA CHILL

In a global survey by Private Equity Wire in January, only 14% of managers responding selected China as the most attractive destination for investment in Asia, ranking it third behind India and south-east Asia. The same survey also found regulatory risk and macroeconomic environment to be the two main deterrents to investing in Asia as a region.

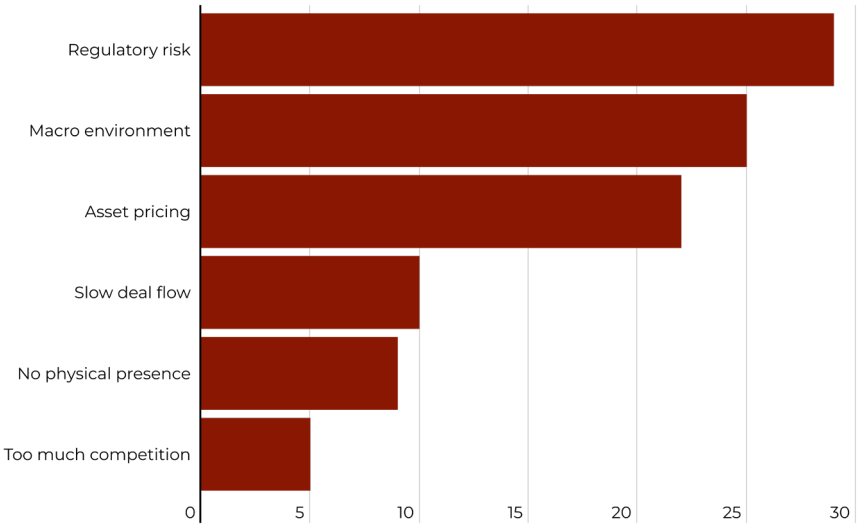
Given the US-China tensions, North American pension funds are currently the most cautious on China, while European institutions are looking at the situation through more of a commercial lens, says Andy Wang, partner at Adams Street Partners in Beijing. The head of the Washington State Investment Board Allyson

“

How we used to think about everything in Asia being driven by the economic growth of China, that is over

Robert Petty
Co-CEO, Fiera Capital (Asia)

Figure 1.2 Survey asked: *'What do you perceive to be the greatest hurdle to deploying capital in Asia?'*



Source: Private Equity Wire survey, February 2023

Tucker was recently reported as saying, "I happen to believe the US-China rivalry will be one of the dominant themes of our times. As a global investor, we have to think about whether or not we continue to be allowed to invest in China. Right now, we have exposure in every single one of our asset classes. It used to be a much larger part of our portfolio than it is today."

Canada's Ontario Teachers' Pension Plan (OTPP) has paused future direct investments in private assets in China due to geopolitical risk, it was reported in February. Singapore's sovereign wealth fund GIC has also pulled back from China after it was badly burnt by an investment in Ant Group, whose planned $37bn initial public offering was halted by Chinese regulators in 2020, according to The Financial Times.

WAITING FOR GROWTH

But not everyone is down on China and, for those that are, many see the current pause as temporary or even reversible once China's economy returns to stronger growth. Middle East investors are active and positive on China while international family offices and private wealth investors are more flexible [than institutions], says Wang. The same GIC news report in the FT also quoted a source as saying: "Don't be surprised if [GIC are] among the first to come back... they know China much better than others." A statement by GIC following the FT story said it continues to search for long-term investment opportunities in China.

"Investors like to stay a little bit away from China market but it's not really a long-term plan," says Won Ha, managing director at Ardian in Singapore, citing the end of this year or next year for their potential return. "Most of them will plan to increase their exposure to the China market when the market recovers so my view is that this is pretty much temporary. They want to see a feasible and very concrete recovery signal from the China market, then they will start to allocate their capital."

GEOPOLITICAL SIGNALS

Such signals could be economic or political: economists predict China's economy will return to growth of more than 5% later this year (longer-term outlooks differ); and China's potential role as mediator (or aggressor) in the Ukraine war could also jolt relations with the US. Some foreign policy signals may not fit the established geopolitical narrative. At the end of last year, China's National Development and Reform Commission and Ministry of Commerce issued a 2022 edition of the Catalogue of Encouraged Industries for Foreign Investment which came into effect in January. China's industrial and supply chains and its central, western, and northeastern regions were identified as key channels for foreign investment. Chinese officials have also said publicly that a regulatory crackdown that began in 2021 and wiped billions of dollars of value off Chinese technology companies is over.

Jonathan Zhu, partner and co-head of Asia for Bain Capital Private Equity told Bloomberg in February that he expects China's private equity market to recover this year, though to a lower level. He cited the end of zero-Covid,

Figure 1.3 Private equity-backed IPO exits in China



Source: Preqin Pro

an expected recovery in consumer sentiment, and a rebound in Chinese stock markets as tailwinds.

In the meantime, pan-Asian fund managers with coverage across the region can adjust target country weightings (on paper at least) and limit LP exposure to China (where possible). Bain Capital invested around half of its first two Asia funds in China, but a smaller percentage of its larger third and fourth funds, noted the same Bloomberg report. BPEA EQT, formed by the merger of Sweden's EQT and Baring Private Equity Asia last year, raised one of the largest ever pan-Asian private equity funds at more than USD 11bn last year. It told Private Equity Wire it remains "fundamentally bullish on China in the long term" but in the near term is "assessing new investment opportunities carefully".

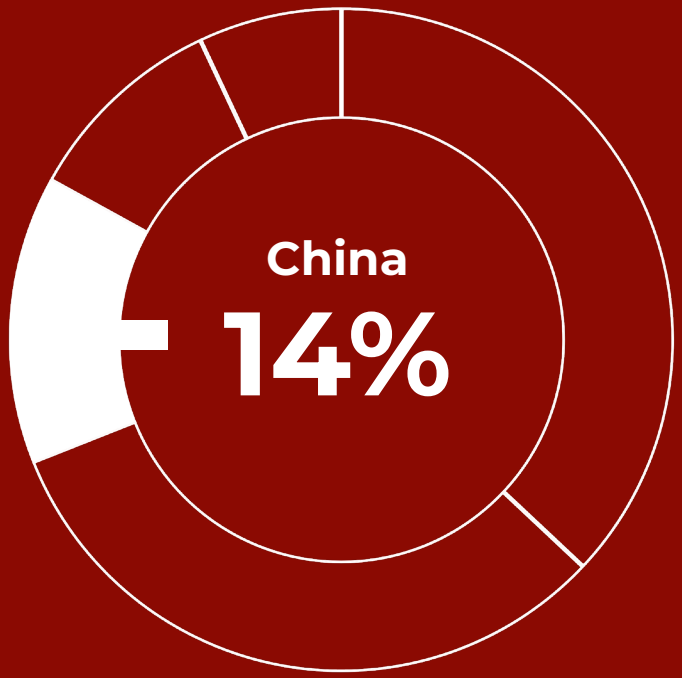
So far, established pan-Asian funds have found their investors to be generally accommodating to changes in tack, where geopolitical or regulatory risk has been cited, says Robert Petty, co-CEO and co-CIO at Fiera Capital (Asia). If China decouples from the global fundraising market more permanently, those fund managers have two further options: to raise funds in local currency (see box page 11) or to launch alternative country funds in Asia, targeting India or Japan for example. Whichever outcome is decided, the prominence of China in global fundraising circles seems unlikely to be restored to the same level anytime soon.

"The economic globalists that led the economic change in China, that is over," says

KEY FINDINGS

China falls out of favour for global private equity

Only 14% of international private equity GPs selected China as Asia's most attractive market, behind India and south-east Asia



INSIGHTS

LOCAL TALK: GO FOR YUAN

Global private equity funds are increasingly looking at China's local currency vehicles as economic and political uncertainty drag down US dollar fundraising. As USD fundraising crashed last year, yuan-based fundraising dipped only 4% on 2021, according to data from Chinese data provider Zero2IPO cited by the Wall Street Journal in January.

"It's very tough to launch a first time US dollar fund right now so the local market is more relevant," says Rainer Ender, head of private equity at Schroders Capital, which has launched four yuan-denominated fund-of-funds since 2020."In a multi-polar world, more of the investment has to be funded from local sources or more regional sources and that is 'if it happens, it happens', and then the supply-demand dynamics adjust."

Yuan funds allow international managers to make earlier stage investments in China and to list more easily on China's A-share market. One Asia-focused fund manager described the attraction of yuan-based fundraising as "pure and simple, good old, compelling valuations in a growth market". Schroders is focusing on early-stage venture and healthcare investments and targeting local managers for co-investments and secondaries. But yuan-based funds can also come with stricter government requirements on investing and are not without currency risk in a stronger dollar environment.

A local fundraising approach to China is not new. The world's largest private equity funds have been targeting dollars from China's high-net worth investors for some years now, but yuan-based fundraising has been a slower burn for most. China's Qualified Foreign Limited Partner (QFLP) structure for yuan funds was launched in 2010. In the seven years to 2017, fundraising grew from USD 17bn equivalent to USD 248 bn, according to Zero2IPO. Yet by 2021, only 4% of the total was by non-Chinese firms. Last year, the same proportion ballooned to 20%.

Warburg Pincus is currently raising 3 billion yuan ($439 million) in its maiden yuan-denominated fund, according to Reuters in February, which also referenced first-time yuan funds by L Catterton and Affirma Capital. A continued drag on US dollar fundraising could encourage many more.

> "In a multi-polar world, more of the investment has to be funded from local sources

Petty. "How we used to think about everything in Asia being driven by the economic growth of China, that is over. Now it's 'What am I doing in Japan? What am I doing in Australia? What am I doing in Indonesia' and that specificity of country is much clearer and cleaner – people are getting laser-focused on sector or country and the fundraising that you've seen around particular themes is being exponentially driven by what's going on in Asia." ■

KEY TAKEAWAY

GPs – US investors have soured on a China restrained by zero-Covid and geopolitical tensions, but a recovery in sentiment could come as early as this year



GOLDEN AGE CHEERED IN JAPAN

Private equity acquisitions surged in Japan last year, driven by long running structural trends. After a two-decade wait, a small group of US buyout firms are preparing for the next wave of domestic corporate carve-outs

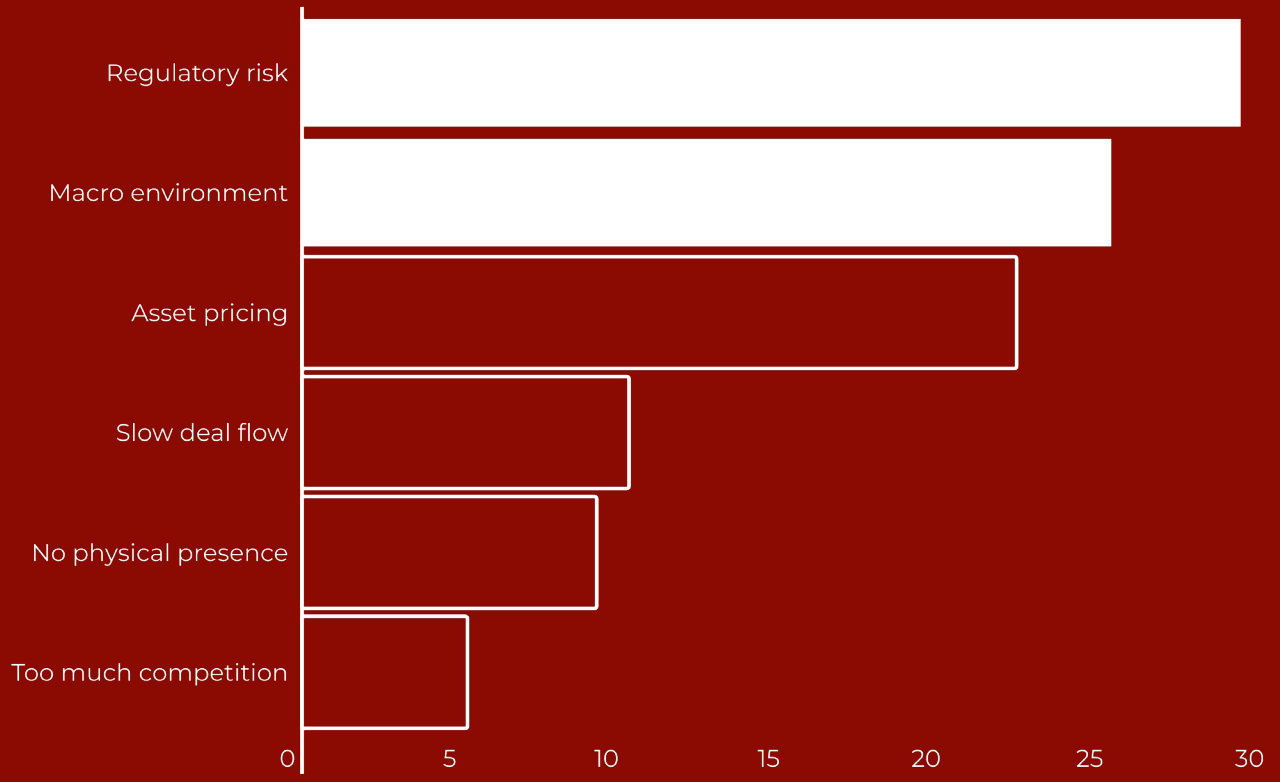
For an outsider looking in, Japan might seem the perfect private equity market. A weak yen, cheaper debt financing and steady government have created a happy hunting ground and the best 'not-China' option for many pan-Asian buyout funds. Two trends and one caveat make it unique.

Despite an early suspicion of foreign corporate raiders, governance reform has unlocked carve-out acquisitions among Japan's

KEY FINDINGS

Pan-Asian funds seek safe harbour

A survey by Private Equity Wire found regulatory and economic risk to be greatest hurdles to private equity deployment in Asia



INSIGHTS

largest conglomerates and an aging society has opened a succession gap at around half of all Japanese companies. Two decades after the first US buyout funds arrived in Tokyo, perceptions have changed and they believe the golden age for private equity may be finally here. “It may take Japan longer to get on a trend,” says Robert Petty, co-CEO and co-CIO at Fiera Capital (Asia), “but once it’s on it, it’s on it. And for private equity funds looking at Asia, there’s a greater acceptance that the capital markets that go with capitalism will be there in Japan”, in reference to both regulation and Japan’s active IPO market.

PATIENT CAPITAL

As other Asian markets softened last year, private equity activity continued to grow in Japan. Total deal value exceeded US$25bn, making 2022 the second highest year since 2012, according to Dealogic data. Between 2008 and 2018, the net median IRR for Japan buyout fund also outperformed North America, according to Preqin. “Unlike other countries, Japan’s private equity market remains hot,” wrote Bain & Company in an M&A Report on the country in January. “Funds created for investing in Japan are growing, and many Asia funds are shifting focus from China to Japan. So, the amount of dry powder to be invested in the country will remain substantial,” adding that interest rates are comparatively low in Japan, making it affordable to borrow for deals. The report also noted that enterprise value multiples of public companies in Japan remain substantially lower than in the US, partly because of their lack of a well-defined growth strategy.

KKR’s US$6bn carve-out of Hitachi’s logistics arm was Japan’s largest M&A transaction of 2022 and followed a successful bid by Bain Capital for Hitachi’s metal unit announced in 2021. Both buyout groups have said they are stepping up their activity in Japan, but these transactions are worth examining in context. Mega buyouts are still rare in Japan and tend to be limited to a small pool of managers that have been active there the longest.

While Japan saw a record 3,380 M&A transactions last year, only 96 were private equity-backed, according to Dealogic. For US buyouts, only four crossed the US$1bn mark in 2022 and all were completed by either KKR or Bain Capital, according to S&P Global Market Intelligence. Bain Capital bought microscope business unit Evident from Olympus and a majority stake in clothing maker MASH Holdings; while KKR acquired a real estate business from Mitsubishi Corp and UBS Realty in addition to the Hitachi logistics carve-out.

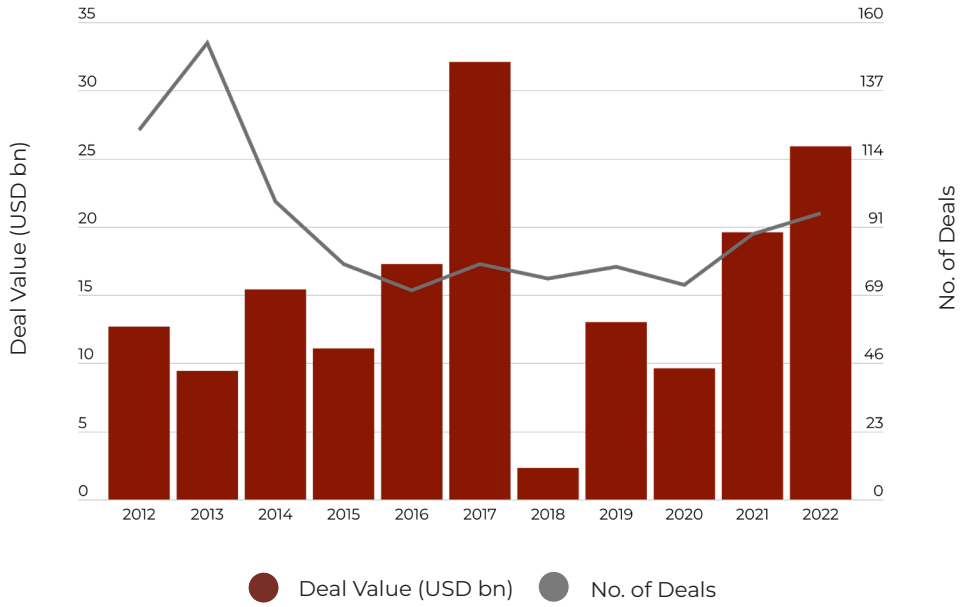
TOKYO’S NEWCOMERS

International and pan-Asian managers recognize the opportunity set in Japan, says Jeff Pentland, head of Asia-Pacific at Northleaf Capital, which opened a Tokyo office at the end of last year. But these managers (and their lenders) are not without caution and recognize the need for patience, he adds.

“Successful deals in the Japanese market take time, and there is a lot of work and relationship building that needs to happen to bring a deal to fruition,” he says. “Deal financing can also be complex and tailored

> “There’s a greater acceptance that the capital markets that go with capitalism will be there in Japan

Figure 2.1 Private equity activity in Japan, 2012-2022



Source: Dealogic



KAZUHIRO YAMADA
Head of Carlyle in Japan

Since we opened our Tokyo office in 2000, recognition of the private equity industry in Japan has gradually been changing. Over the past 5-10 years, there has been a significant change in attitudes towards private equity, particularly among large conglomerates and founder families. They now have great knowledge about private equity and understand the differences between GPs. Familiarity is an important factor in Japanese society, and this change has been helpful as we build on our track-record and conduct large transactions with visibility.

Improved corporate governance and the stewardship code that followed in 2014 and 2015 forced many CEOs to have a more proactive dialogue with global investors and placed more pressure on them to demonstrate a return on investment over share price. Before this, Japan's financial system was mainly supported by the Japanese banks. I believe the dialogue that has opened between private equity and Japanese CEOs is going to be happening across industries in Japan – similar to the US in the 1980s.

We are comfortable with the political landscape in Japan as we take a long-term view on policies rather than worry about short-term political dynamics. Some industries can be defensive and the Japanese government is very careful in looking at changes in the shareholding of defense and technology companies, but the same type of protectionism can also be seen in the UK or US.

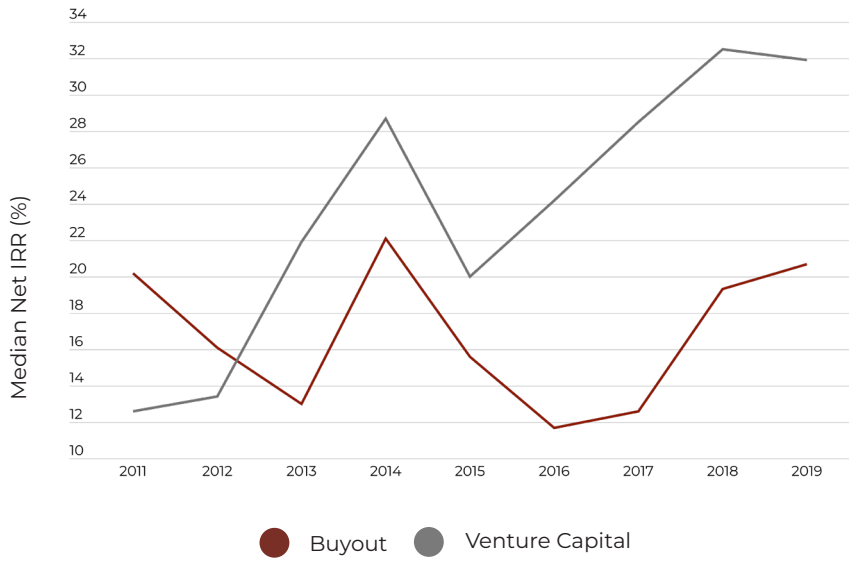
There has not been a significant change in valuations in Japan as elsewhere because we have availability of debt and Japanese banks have large deposits versus lending. Competition for deals is increasing, but this only applies to auction deals. Actually, the majority of our deals in Japan are proprietary. Japanese sellers care about who they are selling to – price is important, but relationships and value creation capabilities are more important.

“

Investors want to see a feasible and concrete recovery signal from China, then they will start to allocate their capital

Won Ha
Managing Director, Ardian

Figure 2.2 Performance of Asia-focused private equity funds (2011-2019)



Source: Preqin Pro

to each opportunity... The most successful managers are likely to be those who understand and are sensitive to the nuances and subtleties of doing business in Japan."

The advice hasn't been lost on others. Bahrain's Investcorp, which in February announced its plans to open a Tokyo office, has recruited former financial services minister Heizo Takenaka to chair its Japan operations. Foreign funds will have to face down Japan's own investment firms, particularly where takeovers are deemed more politically sensitive. Arguably one of the most high-profile buyouts in the country – the US$15bn sale of Toshiba – attracted interest from many of the world's largest private equity firms including Bain Capital and CVC, but preferred bidder status eventually went to an all-Japanese group in October 2022.

THE NEXT WAVE

Given that Japan's succession gap cuts across all parts of the economy, buyout funds must be sector-agnostic and opportunistic, says Kazuhiro Yamada, head of Carlyle in Japan. "Historically, ownership would move to a competitor but now there is another option for them in private equity, which can keep them independent," he says. "You still need deep knowledge about the industry, to demonstrate value and how you can grow the company."

Globally Carlyle has six industry teams – in Japan there is a focus on three: technology, media and telecoms; general industry and manufacturing; and consumer, healthcare and retail. US buyout funds are looking for the next wave of carve-outs among Japan's manufacturers and electronics makers and in its industrial and energy sectors, where chemical and oil companies are reviewing their operations through an ESG lens. As electric vehicle production ramps up globally, Japan's automotive companies are also reviewing growth plans tied to combustion-engine cars, creating potential investment opportunities for private equity.

"The first wave of carve-outs mainly focused on independently operating entities within a group, like listed subsidiaries," Takanobu Hara, a Tokyo-based partner at BPEA EQT said in an interview with Reuters last year. "Now we are seeing an increasing number of 'real' carve-outs, in a sense that conglomerates are carving out business divisions from within."

In 2007, as the global financial crisis unraveled, Japanese TV broadcast a mini-series about a US investor that takes advantage of struggling firms entitled 'Vulture'. Carve-outs at Japan's household names Toshiba, Panasonic and Hitachi have helped to change this perception but set-backs – like when KKR's Nissan carve-out ended in a court-led restructuring last year – may not be completely unavoidable. ■

KEY TAKEAWAY

GPs – Foreign private equity managers already tuned into Japanese society have a head-start on corporate carve-out opportunities and ownership gaps among companies the mid-market

DOUBLING DOWN ON DEMOGRAPHICS

Private equity fundraising more than doubled in India last year. As it becomes the world's most populous country, global private equity sees growth in supply chain manufacturing and tech

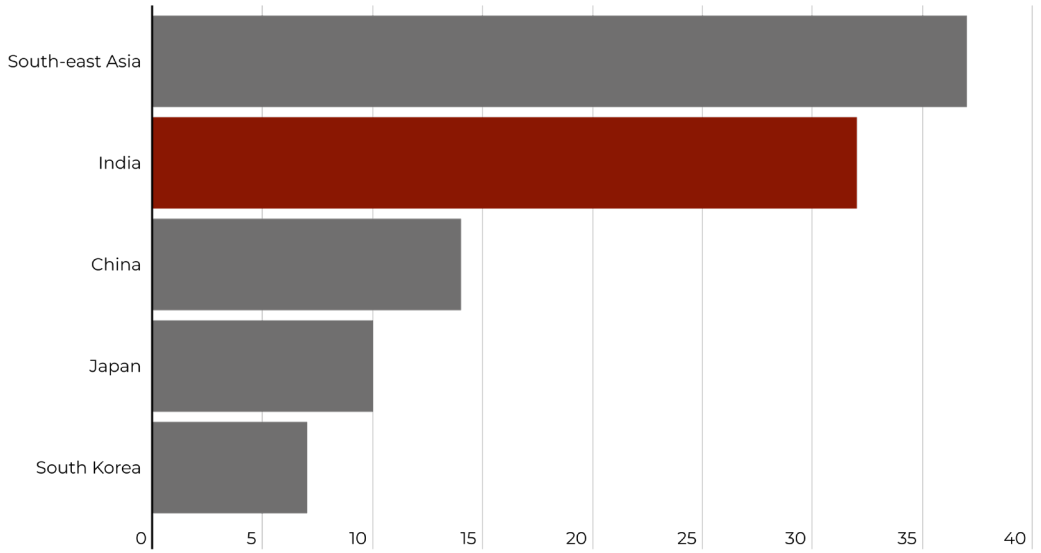


While the total value of private equity investment into India has fallen from the peak of 2020 and 2021, the number of deals being made there continues to grow and fundraising is booming as global private equity funds pivot from China to the world's second largest population.

Private equity funds located in India raised more than double the amount in 2021 – a 163% increase in fact – lifting the total raised to USD13.7bn from USD5.2bn in 2021, according to data from Refinitiv. Sentiment is high. In a survey by Private Equity Wire in January, India was ranked as the second most attractive area in Asia for private equity investment, behind south-east Asia.

Technology – a large and growing section of India's economy – was ranked as the sector most attractive for private equity investment across Asia as a whole. Internet and computer software companies saw the highest level of investment in India last year and were jointly responsible for around 66% or US$15.3bn of the private equity investment there during the year. "As investors diversify away from China amid increased uncertainty in the market, India and Southeast Asia may benefit from this shift,"

Figure 3.1 Survey asked: *'Which country or part of the region do you see as the most attractive currently for investment?'*



Source: Private Equity Wire reader survey, February 2023

Elaine Tan, a senior analyst at Refinitiv, wrote in an analyst note. "Value creation through digital transformation and increasing depth in India's innovative start-up ecosystem continues to drive activity."

Across India, at least three start-ups were created every day of last year and the country was home to the second highest number of unicorns in the world – defined as a start-up valued over US$1bn. With international fund managers nervous of consumer tech in China following government regulatory crackdowns in 2021, India has appeared a safer bet (even with new rules from the Reserve Bank of India on digital lending last year).

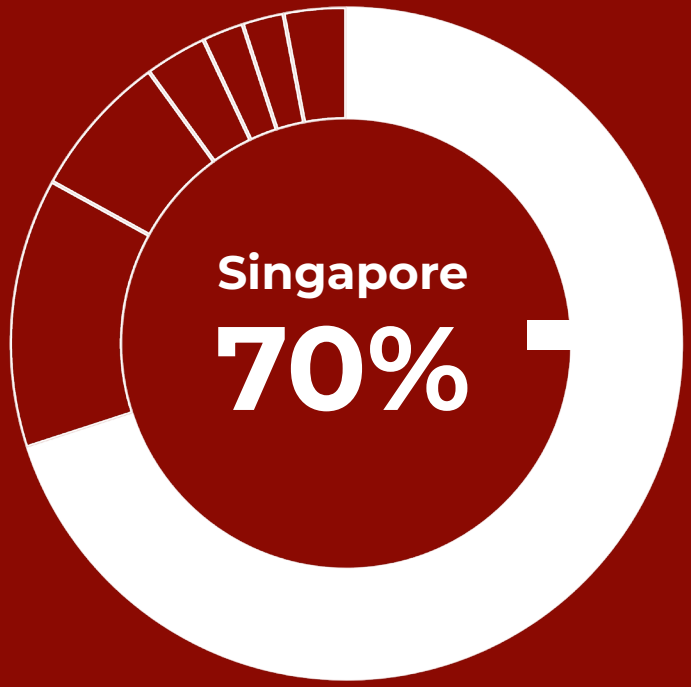
"I would say the regulatory environment is stable, supportive and predictable," says Amit Jain, co-Head of Carlyle's India investment advisory team who was hired in 2021 as part of Carlyle's doubling down on the region. "Based on our experience, we believe that the rules of the game are clear. For investors like us, depending on the sector, it's very clear what you can own and what you cannot own. In our view, India has had an open and constructive stance towards technology and technology-enabled global businesses."

Demographics and economic growth are a big part of India's story. At some point this year, India is expected to overtake China as the world's most populous nation, as China's population shrinks. Scaling Indian lifestyle brands or mapping e-commerce markets in the country is made easier by global GPs bringing in experience from their activities in developed markets, but this also makes India a more suitable part of global buyout fund strategy, rather than a country-specific fund, says a person at a US-based fund.

KEY FINDINGS

Singapore holds new status for GPs

Seven out of 10 international private equity funds believe Singapore to be the best operational base in Asia, over Hong Kong



INSIGHTS

In an interview with India's Economic Times in February, KKR co-founder Henry Kravis – described by the newspaper as an "Indophile who has been frequenting [India] since 1998" – said India is in "beta (stage) right now" and talked up technology and infrastructure as two key areas of investment. "India has a lot of young companies and a lot of young entrepreneurs and that is your future," he told the interviewer.

BETA STAGE

"India is one of the most sought-after points in Asia," agrees Rainer Ender, head of private equity at Schroders Capital, pointing to the country's young population, good education, English language and its role as a new manufacturing hub in the region. But he warns: "you cannot be too procyclical there, even though the private equity market is still surprisingly small".

While it is unlikely India will replace China as the world's factory floor, the Modi government is trying to lure manufacturing from China by spending on infrastructure. He unveiled a $1.3tn infrastructure plan in 2021 and continues to pump money into roads, airports and power projects ahead of an expected re-election this year. Many of the most well-known private equity firms active in India such as KKR and Canadian pension giants CPPIB and OTPP are already investing heavily in India through their infrastructure funds.

Speaking at a press briefing in February, Blackstone's president and chief operating officer Jonathan Gray, said a "government oriented towards growth" made Blackstone bullish on India and an "anchor" which will continue to be its biggest market in Asia. Blackstone manages assets worth $50 billion in India, including in private equity and real estate and plans to invest more in data centres and warehousing, driven by a rise in ecommerce transactions, he said.

The reorientation of global supply chains in Asia is also attracting private equity into India's pharmaceutical, chemical, and power sectors. Advent International and PAG were both involved in the separate acquisition of Indian pharma companies last year. The fragmented, often family-owned structure of Indian pharma make it ripe for continued private equity interest.

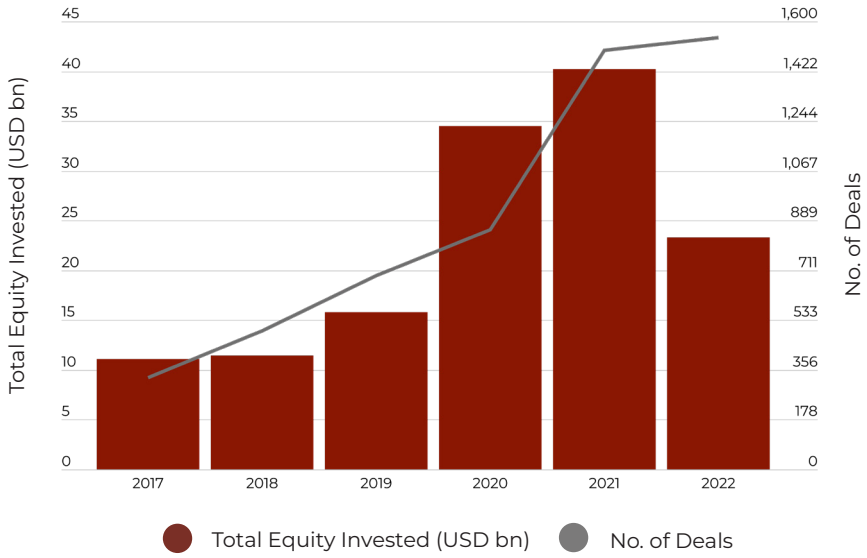
KEY TAKEAWAY

SPs – Private equity funds are doubling down on India as the outlook for China remains cloudy. Large managers with infrastructure and venture capital funds will be tempted to play across all strategies

EXITS MATURING

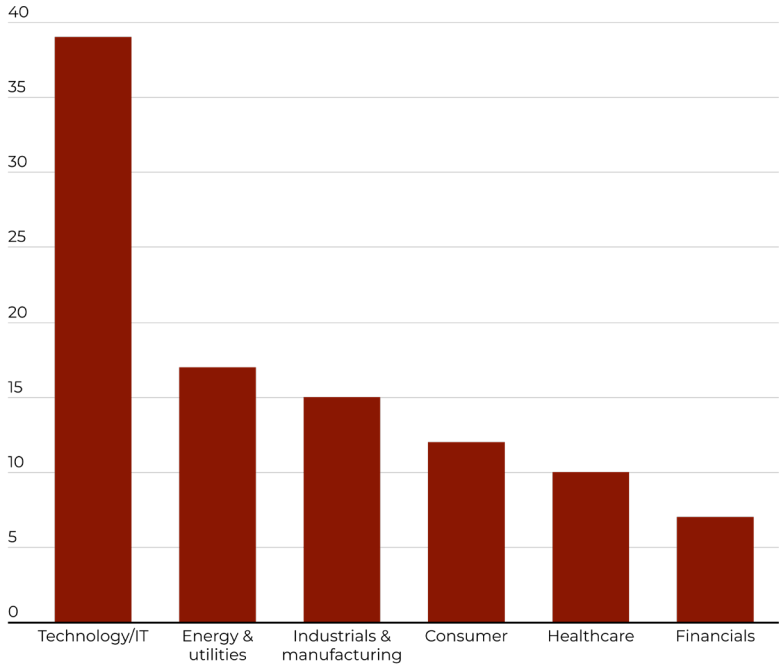
One challenge for private equity and venture capital funds in India has been the exit environment, which is considered still immature by international standards. After a "subdued" period, almost three quarters of all India's PE and VC exits by value took place in the five years after 2015, according to a recent report

Figure 3.2 Private equity investment in India, 2017-2022



Source: Refinitiv

Figure 3.3 Survey asked: *'What do you see as the top sector for private equity investment across Asia-Pacific (ex-Australia)?'*



Source: Private Equity Wire reader survey, February 2023

by EY. The same report identified "issues of corporate governance, contract enforcement and lack of a vibrant ecosystem for secondary and strategic deals" as exit hurdles during the period mentioned. Big-ticket acquisitions of start-ups such as Walmart's $16bn purchase of Flipkart in 2018 are still rare in India and large IPOs can be challenging. Increasing levels of domestic liquidity are helping, says Jain at Carlyle. Increased activity from global buyout funds, a trend for more controlling stakes and larger investment sizes should help further. ■



NICHOLAS MACKSEY
Partner, BPEA EQT

Some GPs have focused on Asia for growth equity investments, historically relying on IPOs as an exit. Since the IPO markets have dried up over the past few years, these teams are tied up with long-held portfolios.

To succeed in a diverse region like Asia requires strong local relationships as well as global sector and operational capabilities. We have a 'local-with-locals' approach, with teams on the ground in eight cities, a thematic investment strategy underpinned by international sector teams and an active ownership approach.

EQT's merger with Barings Private Equity Asia (BPEA) last year has allowed us to bring a global perspective to every transaction in Asia – the Asia team can now access EQT's global network of industrial advisors – which helped particularly on digitalization and sustainability transactions.

Our LP base has expanded significantly in recent vintages with increasing support from international and local investors – the mix of each has stayed roughly stable. Looking forward, we see interesting secular trends across Asia in technology services, compliance services, healthcare, and software. As corporates move their data to the cloud and have an increasing need for software productivity tools for their teams, there is a growing demand globally for cloud technology and more sophisticated software tools. Also, while companies globally are feeling the pinch of skill shortages – particularly in the tech industry, the APAC region has a growing talent pool to fulfil these needs.

“

India is one of the most sought-after points in Asia but you cannot be too procyclical there

Rainer Ender
Head of Private Equity, Schroders Capital

ASIA'S CENTRE OF GRAVITY SHIFTS

An exodus of investors and investment firms from Hong Kong is threatening the city's status as a global financial hub. Singapore is ready to step into its place



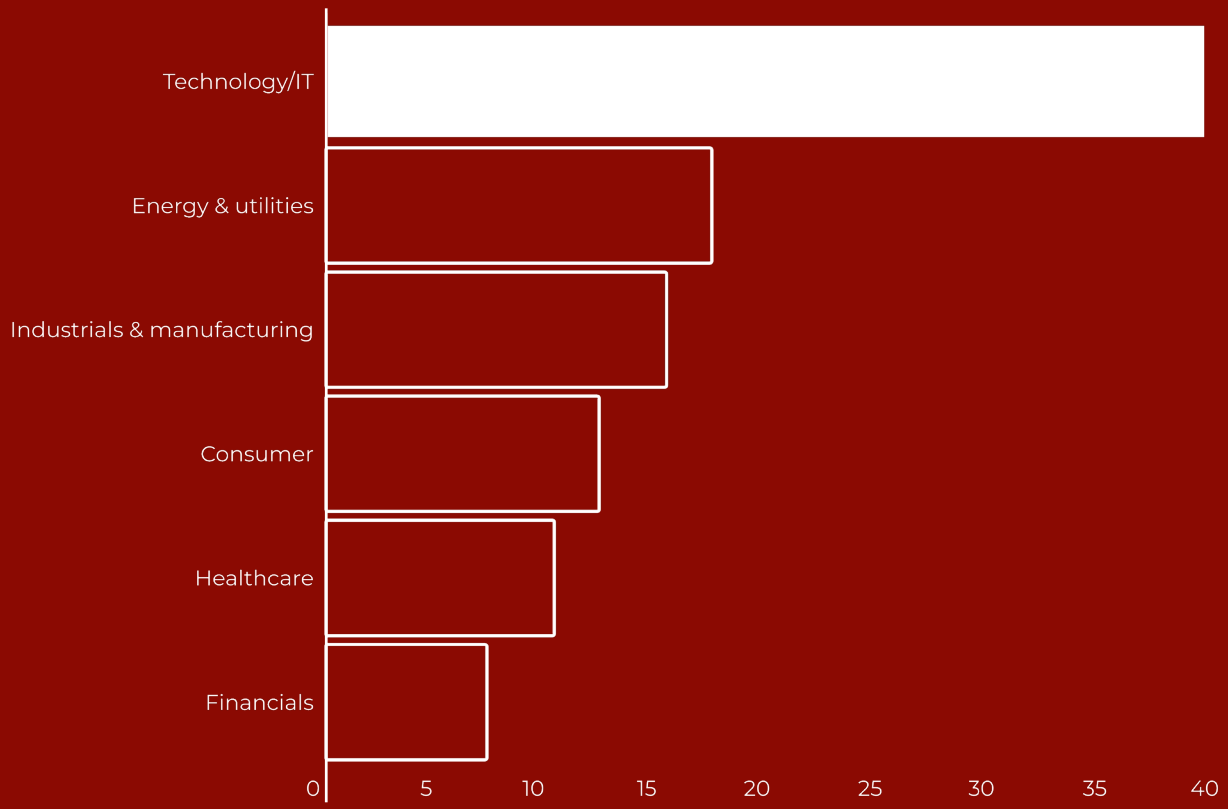
Hong Kong is back – or so it would like you to believe. After the exodus of more than 140,000 workers over two years of quarantines and pro-democracy protests, the government there has launched a marketing campaign to lure back investors and business.

Sweeteners include funding for international firms opening offices, new graduate visas and even free flights for tourists. The focus is not just on attracting visitors from the US or Europe though, Hong Kong is also trying to regain status in the Asia investor community as a global financial centre and bridge to the rest of

KEY FINDINGS

Tech is still Asia’s hottest sector

More than a third of private equity funds are targeting technology companies in Asia, followed by energy and utilities



INSIGHTS

the region.

It faces stiff competition from Singapore. A survey by Private Equity Wire found 70% of respondents believe Singapore is a more effective base for private equity funds operating in the region, compared to only 13% for Hong Kong. Mumbai and Beijing were third and fourth preferred locations respectively.

"Generally speaking, the government of Singapore has always been very welcoming to private equity funds," says Lay Hong Lee, managing director at Flexstone Partners in Singapore. "In terms of startups, entrepreneurs, innovation, the ecosystem has been growing over the last 10-20 years. And with the closing from COVID in another countries, I think it has been very helpful to Singapore."

RICH OPPORTUNITY

An influx of Asia's richest agree. According to the Singapore Department of Statistics, Singapore's total population grew by 3.4 per cent by mid-2022, mainly due to the increase in the non-resident population.

Singapore has done a good job specifically attracting start-up founders and VC investors, says Edith Yeung, general partner at VC firm Race Capital. "Many of my VC and founder friends from mainland China have moved to Singapore as the Chinese government policy is a little bit unpredictable and the regulatory risk is high for entrepreneurs."

South-east Asian-focused venture capital funds in particular are choosing to be headquartered in Singapore, so they can more easily connect and expand across Indonesia, Vietnam and Malaysia. High-profile investors, including Sequoia Capital, Softbank, and Accel Partners, have all established a presence in the city to take advantage of its growing startup ecosystem and fundraising has boomed as a result.

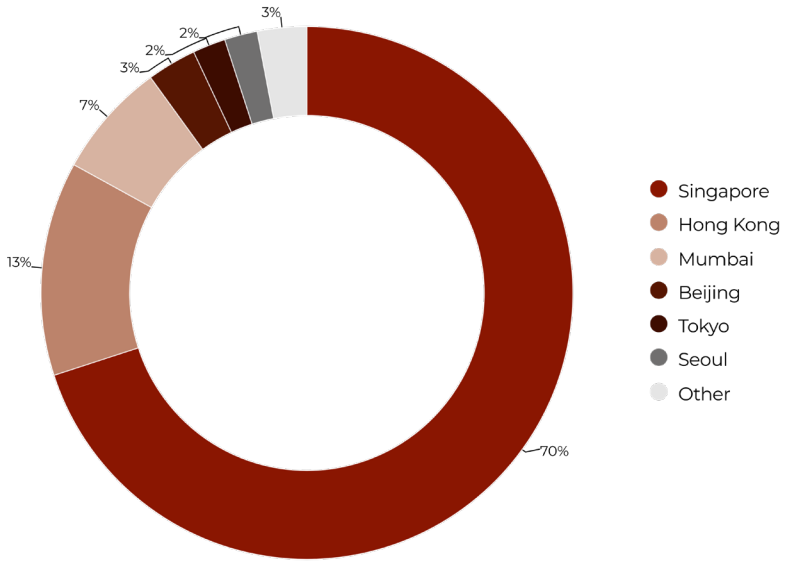
SE ASIA BRIDGE

One of the key advantages of Singapore as a centre for venture capital is its strategic location in the heart of Southeast Asia, one of the fastest-growing regions in the world. The region is home to a rapidly expanding middle class, a growing number of tech-savvy consumers, and a large pool of young, entrepreneurial talent. By establishing a presence in Singapore, venture capital funds can tap into this vast and rapidly growing market, which is projected to reach $300 billion by 2025. Traditionally a base for semiconductor and hardware manufacturing and logistics, Singapore is fast becoming a hub for software and ecommerce startups, particularly in deep tech.

Accel has made around 10 investments in southeast Asian growth and late-stage startups over the past two to three years. "While India kept us busy in the last decade, the focus is going to be on both India and Southeast Asia now. We expect both the economies to grow to a significant size," Prayank Swaroop, partner at Accel India, was reported as saying last year.

Private equity fundraising in Singapore last year reflects the growing status of the city-status too. According to Preqin at the end of last year, it emerged as one of the rare financial hubs in the world to attract a record cash pile, mostly targeting private equity-

Figure 4.1 Survey asked: *'Which location is a more effective base for private equity funds operating across Asia-Pacific (ex-Australia)?'*



Source: Private Equity Wire survey, February 2023

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Japanese sellers care about who they are selling to – price is important, but relationships and value creation more so

Kazuhiro Yamada
Head of Japan, Carlyle

> Many VC and founder friends have moved to Singapore as regulatory risk [in China] is high for entrepreneurs

SOUTH-EAST ASIA: SENTIMENT SPLITS

Allocations to south-east Asia have become less of a priority for US and European pension funds grappling with the denominator effect and lower distributions in 2022. According to DealStreetAsia and Ontra's Private Equity in SE Asia: Fundraising Landscape 2022 report, there were 43 funds focused on this region seeking an aggregate of $11.4 billion by the end of September 2022 but only $3.81 billion was raised. The proportion of international LPs who see south-east Asia as the most attractive market declined to 19% from 23% in the previous year, according to US-based Probitas Partners' 2023 Institutional Investors Survey.

Yet in terms of investment, particularly around early-stage tech and venture capital – a key characteristic of south-east Asia's market – sentiment is remarkably positive. Private Equity Wire's survey – which comprised almost entirely GPs – identified south-east Asia as the 'most attractive' region or country for investment in Asia. Despite casualties as VC and growth-based valuations have crashed, overall private equity deal value has bounced back strongly since the pandemic, particularly in Singapore, Vietnam and Indonesia. Healthcare and financial services are also growing as alternatives to tech and growth investing. Pan-Asia funds with dry powder take note.

Figure 4.2 Largest Asia-focused funds closed in 2022

NAME	VINTAGE / INCEPTION YEAR	STRATEGY	GEOGRAPHIC FOCUS	FUND SIZE (USD MN)
Baring Asia Private Equity Fund VIII	2021	Buyout	Asia	11200
Blackstone Capital Partners Asia II	2021	Buyout	Asia	11000
FountainVest Capital Partners Fund IV	2022	Growth	China	2900
Qiming Venture Partners VIII	2022	Venture (General)	China	2500
Trustbridge Partners VII	2020	Growth	China	1700
C-Bridge Healthcare Fund V	2021	Buyout	Asia	1670
Crown Asia-Pacific Private Equity V	2021	Fund of Funds	Asia	1650
Hahn-Coller Single-Asset Continuation Fund	2022	Buyout	South Korea	1500
Jingma Bole Emerging Industry Equity investment Partnership	2021	Venture (General)	China	1330
EUM Next Stage Fund	2021	Venture (General)	South Korea	1150
BonAngels Pacemaker Fund IV	2022	Venture (General)	South Korea	992
LYFE Capital Fund IV	2022	Early Stage	China	935
Sequoia SEA Fund I	2022	Venture (General)	East and Southeast Asia	850
BlueRun Ventures Dual- currency Fund	2022	Early Stage	China	822
Eastern Bell Capital USD Fund II	2021	Growth	China	800
Petra 8 PEF	2021	Balanced	South Korea	800
CICC GCL Carbon Neutrality Industrial Fund	2022	Growth	China	707
Creador V	2021	Growth	Asia	700
BAI USD Fund	2020	Venture (General)	China	700
Elevation Capital VIII	2022	Early Stage	India	670

Source: Preqin Pro

backed real estate and early-stage VC and defying a global fundraising slump. For the first time since 2008, Singapore dethroned China in total aggregate capital raised, crowning it Asia's fundraising star.

Hong Kong is down but not out. One top of a re-opening charm offensive, the government there is thinking long-term. In February it named the board members for the newly established Hong Kong Investment Corporation, mirroring the Government of Singapore Investment Corporation (GIC) set up in the early 1980s. But while Singapore has been criticized for soaring rents, it seems unlikely that for companies recently arrived from Hong Kong they will be in a rush to return. ■

KEY TAKEAWAY

GPs – Singapore is increasingly becoming a magnet for rich investors and private equity firms alike, and fundraising there last year reflects that in surpassing China

PRIVATE EQUITY WIRE

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