PE in Asia has come along way in the past couple of years and with capital committed for the region combined with capital already sitting in PE funds looking for investment opportunities, the indications are that the trend will continue for some time.

Just 28 months ago CVC Capital Partners raised the then-largest Asian PE fund at US$1.98Bn. As a sign of the times the same firm is rumoured to be nearing the close on its new Asian fund at $6Bn. In the past few months KKR raised an Asian fund of $4Bn and then was outdone by TPG a few weeks later at $4.2Bn. However, this pales in comparison to the more mature PE markets of Europe and the U.S. where there have been a few funds raised in the past year in the $10Bn range. In any comparison of PE activity/size, Asia lags far behind, but is catching up.

According to the Center for Asia Private Equity Research $15.4Bn was raised in the first half of 2007 for Asian PE and another $25Bn is expected to be committed in the second half – a rise of 57% over the same period last year.

Against this back-drop where capital is almost a commodity, new PE teams (GPs) are being set-up at a startling pace. These include teams that have left existing firms as well as other senior professionals who have left i-banks, consulting firms and industry to form GPs (PE management firms).

The following trends prevail in the PE markets in Asia currently:

- Not surprisingly, China and India remain the hottest markets and seem to offer the best opportunities for LPs. There has also been a pick-up in interest in the emerging markets of S.E. Asia while Japan shows steady albeit uninspiring interest.
- The term “the tide raises all boats” was used more than a few times at a recent Asian PE conference in Hong Kong, but going forward the LPs are searching for the GPs with the differentiators, those that will have the staying power over the long haul, through the tough times.
- For China investments, LPs recognize the value that teams of local PRC nationals may bring – those that are connected through various channels and will see more exclusive investment opportunities.

China

New legislative regulations passed in June of this year have made the PE environment in China easier for domestic players than previously when the vehicle of choice was an off-shore entity. This has encouraged several local players to establish PE funds under a limited partner structure. In the past few years the government had approved only a small number of PE funds, but this seems to be changing.

The other recent notable development in the China market is the acknowledgement of the government to create more Renminbi denominated PE funds, rather than USD.

At this point in time it is not only established PE teams that are able to “go it alone” in China such as the core team from Temasek’s team there, who recently left to setup a new fund. As long as LPs see strong ability to source and assess deals among two or more professionals, there is likely to be interest. As an example, the head of Goldman Sachs in China, Mr. Fang Fenglei, is strongly believed to be leaving the firm to be the key person behind a new PE partnership. He is also rumoured to be targeting US$4Bn split between a USD and RMB fund. There are several other new domestic teams that are rumoured to be at various stages of development.

The PE landscape in China includes foreign PE firms, affiliates of i-banks and other financial institutions, domestic GPs (not many, but growing) as well as subsidiaries or JVs of Chinese companies such as Haier, Tsinghua, Start and Legend.

The demand from LPs when considering China PE teams is shifting from the top global brands such as Carlyle and KKR to more localized platforms that are able to deliver on the following:

1. Access to deals that are less competitive, which perhaps only “localized” teams are able to source.
2. Localized teams are believed to be able to curry the support of the government, unlike most foreign firms.

Despite the trend for LPs to back PE teams with a “local” feel in China, there are still many foreign firms coming. A few months ago one of the few domestic Japanese GPs, Advantage Partners, announced a new China operation – the first significant player from Japan. There are several other U.S. and European PE firms investigating the possibility of setting-up in China, or are in the process of doing so already.

A few foreign PE firms have entered China initially for the purpose of helping their portfolio companies develop or outsource. These include the large European firm Apax Partners as well as U.S-based Baird Partners, which have several manufacturing concerns in their portfolio. Making new investments in China will likely come when such firms raise their comfort level and understanding of the market there.

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