

R O U N D T A B L E

SPONSORS

DEBEVOISE & PLIMPTON • EY • LGT CAPITAL PARTNERS
SCHRODERS CAPITAL • THRIVE ALTERNATIVES

APAC's slowdown belies emerging bright spots

*While LP appetites for China are somewhat diminished,
excitement is growing around India and Japan,
write Amy Carroll and Alex Lynn*

Fundraising conditions in Asia-Pacific are brutal. Speaking at *Private Equity International's* annual Asia roundtable, Doug Coulter, partner and head of private equity for Asia-Pacific at LGT Capital Partners, notes, "APAC's global share of capital raised was just 9 percent in 2023, down from a 23 percent average over the past decade. Obviously, that is largely a reflection of the fact that appetite for Chinese private equity has slowed down."

However, China isn't the only reason for Asia-Pacific's fundraising challenges. "Around half of the APAC market historically has been venture and growth," says Chris Lerner, group chairman and co-founder at Thrive Alternatives. "A lot of investors have been disappointed by performance. Many of those managers failed to exit positions in the bull

market and have since experienced major corrections to valuations."

Of course, not all investors have abandoned the region altogether. "A lot of investors with a global remit have put a halt on Asia for now," says Coulter. "But then there are groups like LGT Capital Partners that have dedicated Asia programmes and Asia mandates. Those continue to invest.

"There are also a small number of investors, primarily based in the Middle East, ramping up in the region. Those investors see an interesting buying opportunity, particularly in the secondaries market. But overall, it is a demanding fundraising environment, and many GPs and LPs are having to rethink their Asian strategies."

Notably, there has been a flight to larger, pan-Asian strategies. *PEI* data

shows that \$29.1 billion was raised by Asia-Pacific funds in the first half of this year – broadly in line with the \$64.9 billion total for the whole of 2023. However, while 308 funds closed last year and 637 funds closed in the heady days of 2021, just 57 APAC funds closed in the first six months of 2024.

"The share of the pan-regionals has jumped substantially," says Coulter. "There has been a flight to perceived quality, or at least to brand names. In Q2, for example, only 15 private equity deals valued at \$500 million or above were completed in Asia. Dealflow can be shallow for these larger funds."

"Five percent of the total number of funds have raised more than 50 percent of the capital," adds Viswanathan Parameswar, head of private equity investments, Asia, at Schroders



Doug Coulter

Partner and head of private equity, Asia-Pacific, LGT Capital Partners

Doug Coulter joined LGT Capital Partners in 2007 to lead its Asian private equity investment activities. Prior to LGT Capital Partners, Coulter was a senior investment officer at the International Finance Corporation. He previously worked at Nomura Securities in Hong Kong and as a lawyer at Fasken in Toronto.

Shawn Yang

Partner, Debevoise & Plimpton

Shawn Yang is based in Debevoise & Plimpton's Hong Kong office. He is a member of the firm's investment management group with a practice that focuses on private equity fund formation, secondaries and select investor-side representations.



Luke Pais

Asia-Pacific private equity leader, EY

Luke Pais is EY's Asia-Pacific private equity leader, as well as CEO of Ernst & Young Corporate Finance in Singapore. He has led many M&A and fundraising transactions involving listed and private companies across Southeast Asia.



Viswanathan Parameswar

Head of private equity investments, Asia, Schroders Capital

Viswanathan Parameswar heads Schroders Capital's Asian investment programme and is responsible for all investment activities in the region, including primary fund investments, secondaries and direct co-investments. Prior to joining

Schroders Capital in 2009, Parameswar worked at Deloitte, Rothschild and Societe Generale Private Equity.

Chris Lerner

Group chairman and co-founder, Thrive Alternatives

Chris Lerner has spent his entire career building financial services businesses and working with asset managers in

Asia and globally. Prior to Thrive, Lerner was a managing partner for MSA Capital, and a global partner and head of Asia for Eaton Partners. Lerner began his career with Citigroup.



Capital, which focuses exclusively on the lower mid-market. “More money in the hands of fewer managers is a global phenomenon, but one that is particularly acute in Asia. However, lower mid-market funds don’t need to raise billions. There are plenty of managers happy to raise \$200 million-\$500 million, and that is where attractive opportunities lie.”

Coulter, meanwhile, believes that one advantage of it being harder to raise money for Asia funds is that fund sizes are becoming more realistic. “I think that is net healthy for the industry overall,” he says. “This also creates more LP co-investment opportunity. A rightsizing of the market is underway – in fact, there has been a 25 percent fall in the number of active private equity investors in Asia from 2021 to today, and that trend is likely to continue.”

China struggles

It is China, of course, that is being hardest hit by this shift. While geopolitical tensions and investment restrictions have played their part, Shawn Yang, a partner at Debevoise & Plimpton, says international investors seem to have lost confidence in a certain cohort of Chinese fund managers as much as they have lost confidence in China itself. “There is a perception that certain GPs were riding the bull run over the past 10-15 years as opposed to institutionalising and building capabilities,” he explains.

“I think that is one reason why we are seeing a flight to more established managers who are able to leverage pan-regional capabilities that correlate to more consistent returns. Another advantage for larger sponsors with pan-regional funds is the ability to pick and choose where they can deploy at any given time – for example, India and Japan in the current environment. It’s disheartening, but I don’t see international investors coming back to

less-established Chinese sponsors until there is proof of concept in terms of a shift to more institutionalised capabilities.”

Coulter also believes early investors in China were ultimately banking on a true buyout market emerging, allowing them to generate the kind of returns at scale that have been possible in the US for the past few decades. “That just hasn’t panned out as planned,” he says.

However, while dollar-denominated fundraising has slumped, the onshore RMB fundraising market in China continues to thrive. *PEI* has reported that both Brookfield and KKR registered

fund management businesses with the Asset Management Association of China earlier this year – a legal requirement for raising capital onshore.

“If you don’t invest in the RMB market, you are missing out on 80 percent of China private equity,” says Parameswar. “While the majority of that market is dominated by state-owned enterprises, we are one of a handful of investors to have the necessary licences. There is a real need for RMB investing to be institutionalised, and we see an opportunity to play a role of influence.”

Certainly, there are still attractive investment propositions to be found

“While there has been a consumption downgrade story in China, the consumption upgrade story in India is real”

DOUG COULTER
LGT Capital Partners

“[The younger generation in SE Asia recognises] that private equity represents a more stable and long-term source of finance compared to banks, which can take the umbrella away if it starts to rain”

LUKE PAIS
EY

in China. “We still see interesting investment opportunities, particularly around supply chain realignment,” says Luke Pais, Asia-Pacific private equity leader at EY. “We are also seeing Chinese companies realigning their overseas portfolios, providing opportunities for international funds to pick off good-quality assets. The opportunity set is shifting.”

“There will be great companies that emerge out of China,” adds Lerner. “We have already seen some in the tech space, and there will be more that emerge over the next 10-15 years. China has a real edge in areas such as vertical AI, robotics and advanced manufacturing, for example. Business services and domestic consumption are under-penetrated, and consolidation is overdue. There will be opportunities to invest as the focus shifts from quantum of growth to quality of growth.

“However, it is vital to be patient and take a bottom-up approach – for us, most likely through secondaries,

restructurings and co-investments, including through operationally driven build-ups.”

Coulter agrees that there will continue to be Chinese companies of scale emerging across industries. “The million-dollar question, however, is whether those are going to be backed by domestic capital going forward, or whether there will be a role for international capital, including private equity.”

Meanwhile, China is also facing significant struggles when it comes to exits. A market that has traditionally been dominated by IPOs is searching for alternatives in order to demonstrate DPI and jumpstart fundraising.

“We are seeing situations where founders are buying back their own companies, with credit funds helping to finance those deals, although many Asian entrepreneurs have an aversion to debt following the Asian financial crisis,” says Pais. “Then, of course, you have recaps and continuation vehicles.

All those alternative routes to liquidity are coming into play.”

Pais adds that in pre-2020 vintages in particular, there is a lot of quality sitting in portfolios. “There may be margin pressures, but businesses are fundamentally sound. Debt levels are moderate and so companies are not under immediate financial threat.

“They typically just need more time to get earnings back to where they need to be to exit. LPs, meanwhile, are being reasonable, and so extensions are being granted and continuation vehicles are going ahead. We are already starting to see exit pipelines increasing, and by the end of this year and into 2025, we expect to see a lot more momentum around exits.”

Shifting to India

In contrast to China’s IPO-centric exit market, India has historically had a more even mix of secondary buyouts, strategic sales and public listings. “India has topped the exit tables in the

region for nine out of the past 12 quarters, which is remarkable given the relative size of its private equity market,” says Coulter.

Despite a rich variety of exit opportunities, it is the development of the Indian IPO market that has proved truly transformative. “We are even seeing Indian companies redomiciling from the US because they expect to attract higher valuations in their domestic market,” says Coulter. “We came into India fairly early on, in 2012, and our returns have been in line with our China returns. Meanwhile, if you look at public market indices, India has vastly outperformed China since 2000, so there is a lot to like.”

Parameswar notes that Schrodgers Capital has been investing in India for more than 15 years. “A lot of fundamental changes have taken place in that time. GDP has doubled. Overall market cap has quadrupled. The size of the private equity market has also quadrupled to \$40 billion annually. [The covid-19 pandemic] was another major gamechanger for India, allowing the country to leapfrog in terms of digital infrastructure. The government is a lot more stable with Modi 3.0, and a great deal of money has been invested in infrastructure and financial inclusion.

“India also benefits from a frugal ethos: the country just carried out a moon landing for the cost of the average Hollywood movie production. And then, of course, there is the vibrant IPO market. India’s dependency on foreign institutional money driving Indian capital markets has disappeared. You can operate within the confines of a top five economy while still benefiting from the arbitrage opportunity of a developing country. As you can see, we are big fans.”

Pais adds that there is a real domestic consumption story taking place in India. “We are seeing consumer brands, healthcare brands, even

Spotlight on Southeast Asia

While China, India and Japan tend to dominate discourse around the APAC private equity market, Southeast Asia is also commanding increasing attention

Southeast Asia’s growing appeal to investors is in part due to the fact that these markets seem to be increasingly accepting of control intervention, roundtable participants tell *PEI*.

“In Southeast Asia, the direction of travel is certainly towards managers taking a greater degree of control,” says Luke Pais of EY. “Whether that involves equity control is another matter. But certainly, the level of operational intervention is increasing.”

This is creating the need for managers to augment their capabilities, as most were not built that way, Pais continues. “Founders and entrepreneurs want to know what value an investor can bring to their business, and funds want to make sure they have a say in the value creation journey. That hasn’t always been the case in the past.”

According to Chris Lerner of Thrive Alternatives, Southeast Asia received a lot of attention in prior years as a result of its innovation and the growth of its start-ups. However, the economy is dominated by family businesses, which in many cases benefit from a regional footprint and a clear lens on supply chain realignment. “That means we are likely to see a bigger role for private equity where sponsors should be able to offer solutions for family succession, improved management and digital transformation, albeit across a complex set of submarkets,” says Lerner. “Here I believe we can learn from what has and has not worked in European private equity.”

Another key appeal of the Southeast Asia market, in common with India, is the growing ambition of the entrepreneur community. “The younger generation has been educated around the world and interned with major companies,” says Pais. “They have then come back to their family businesses with a lot of experience and drive. This younger generation has fewer qualms about dealing with private capital. As a result, many of these businesses are now looking to scale beyond their domestic borders.

“One issue, however, is talent. As you get to the top, the talent pool tends to be narrow. This in turn means families are starting to value the support private equity firms can bring in terms of improving business practices and executing on M&A, for example. They also recognise that private equity represents a more stable and long-term source of finance compared to banks, which can take the umbrella away if it starts to rain.”

medtech brands specifically developing products meant for the domestic economy, and that means you can justify a premium. On the flip side, however, currency depreciation has eaten into a lot of returns in the past.”

Coulter, however, says if you chart the rupee against the yen through recent history, you will find the rupee

has proved relatively strong. “Foreign reserves are at record highs. As a dollar investor, it is wise to plan for continued currency depreciation, but it may not be as dire as some think.”

Coulter adds that, while India can be an expensive market in terms of valuations, the leading domestic private equity funds in the country have made

“Japan sponsors have exercised extreme discipline in terms of not expanding fund sizes despite outsized demand, even if that means losing out on large deals to pan-Asia funds”

SHAWN YANG
Debevoise & Plimpton

“More money in the hands of fewer managers is a global phenomenon, but one that is particularly acute in Asia”

VISWANATHAN PARAMESWAR
Schroders Capital

very good returns by paying high valuations for high-quality assets. “While there has been a consumption downgrade story in China, the consumption upgrade story in India is real. I would say India is interesting both in terms of its domestic consumption and as an exporter to the world, whether that’s in pharma, IT services, software or any number of other sectors.”

Pais agrees that India’s home market is what makes it stand out in APAC: “China’s economic structure was far more geared around exports, which are inevitably more cyclical. India has a far stronger domestic consumption component to its story and so should be more resilient over the longer term.”

The Japanese mirror

Japan is another firm favourite. “One of the big advantages that the Japanese market offers is it is possible to draw parallels to the evolution of the private equity playbook developed in North America,” says Lerner. “Above all, it is a market where it is possible to get control and, by virtue of having control, to make a difference to established businesses, upgrading management and making operational improvements.”

Lerner adds that businesses can be acquired for reasonable valuations, and that, as a less mature private equity market, there is still a lot of white space in terms of the manner and ability to add value. “Certainly, Japan would seem to be very attractive on a risk-adjusted basis in the context of Asia. The best buyout funds in Japan are not necessarily producing better returns than the best buyout funds in North America, but they are probably producing more consistent outcomes with lower leverage on far more favourable terms. Together with a robust M&A environment and proven ability to return capital, that makes it a compelling market.”

In particular, a proliferation of public-to-private opportunities is

emerging following changes that have been made to corporate governance and Tokyo Stock Exchange rules, Lerner explains. “There are not a huge number of domestic managers in Japan relative to the opportunity set. This makes it a relatively easy market for LPs to navigate when compared

with India and China, where there are vast numbers of GPs and limited persistence of performance, meaning there are no clear winners, vintage over vintage.”

“If you invest across Asia,” adds Coulter, “then you are probably going to be heavily exposed to growth and

venture. Japan, by contrast, is a real buyout market, which is one of the reasons we like it. I would also agree that it is a market that is relatively easy to get your hands around. There are only a small number of successful domestic investors, which can make life easier for US or European LPs.”

The problem, however, is that recent Japanese fundraisings have been between four to 10 times oversubscribed, Coulter explains. “Even top-tier LP names, including well-regarded US college endowments, have sometimes received little to zero allocation. The market is severely access constrained.”

Indeed, the discipline that Japanese managers have demonstrated in maintaining fund size in the face of huge demand is in sharp contrast to what has been witnessed elsewhere in the world.

“Japan sponsors have exercised extreme discipline in terms of not expanding fund sizes despite outsized demand, even if that means losing out on large deals to pan-Asia funds,” says Yang. “Japanese sponsors seem focused on sticking to their sweet spot in a way that cuts across the grain at a time when investors can’t seem to get enough access to allocations in Japan. I find that to be quite fascinating and admirable.”

According to Pais, the Japanese story is only just beginning. “We are tracking more than 200 situations in Japan that we expect to play out over the next three to four years. There is a huge amount of pending dealflow. There is insufficient local capital to pursue all of that dealflow, so it will need to be augmented by pan-regional and international players.

“A lot of these businesses are high quality and global in nature, but many are undermanaged. Some of the M&A that has been completed has been poorly integrated, for example, so there is a huge amount of potential value to be had.” ■

“The best buyout funds in Japan are not necessarily producing better returns than the best buyout funds in North America, but they are probably producing more consistent outcomes with lower leverage on far more favourable terms”

CHRIS LERNER
Thrive Alternatives