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China 2015

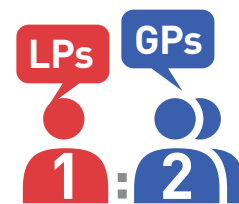
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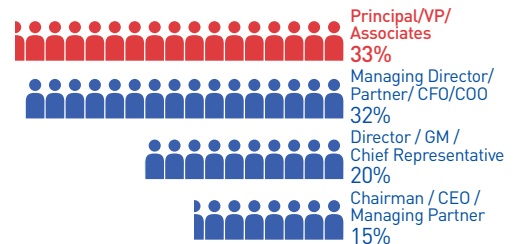
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BOYU CAPITAL AND HOPU INVESTMENT

Management both participated in a \$2.5 billion investment in Singapore-listed warehouse developer Global Logistic Properties (GLP) last year, but the other consortium members arguably make for more interesting reading. They include China Life Insurance, China Development Bank, China Post Insurance and Bank of China International-owned China Infrastructure Partners.

The consortium took a 1.5% interest in GLP and a 30.3% stake in the subsidiary that holds its substantial China-based interests. It is a stark illustration of the appetite of China's nascent institutional investors for exposure to certain kinds of private assets. However, the level of activity in Asia's broad infrastructure space stretches much further.

GLP's portfolio was worth \$19 billion and encompassed 29 million square meters of logistics facilities across China, Japan and Brazil as of year-end 2014 (and since then it has moved into the US market as well). The likes of GLP and Goodman – which works in China with Canada Pension Plan Investment Board (CPPIB) – have set up joint ventures with select clients to complement their fund management platforms and balance sheet capital.

The demand for infrastructure in Asia, particularly logistics facilities in China to meet the demands of the country's rapidly-expanding e-commerce sector, is clearly a major draw. Private equity firms also recognize this need; hence the string of substantial investments in warehouse providers and express logistics companies.

But infrastructure and logistics are also the most visible example of how institutional investors – many of which also fulfill the traditional LP role – are looking beyond blind pools for private markets exposure. The nature of the asset is an obvious contributing factor: it is capital intensive, long duration, yield-generating, relatively low risk and usually well-suited to clubs of investors working in partnership with skilled operating partners (whose compensation follows a different pattern to PE norms).

To some in the industry, though, it is also suggests that the amount of capital looking to

be deployed in Asia is far larger than the amount that can be accessed through funds. While there is increasing demand among North American and European groups for Asian exposure – many are still underweight on the region, particularly given its growing economic significance – they are joined by a host of new counterparts.

The make-up of the GLP consortium offers a snapshot of the insurance companies and other financial institutions that are expected to emerge as major players on the world stage. South Korean and Australian institutions are also ramping up their international exposure, while pockets of sovereign wealth and pension fund assets are emerging in Southeast Asia in the shadow of Singapore's established behemoths.

In the pure private equity space, this means more pressure on top-performing managers to boost their fund sizes in response to ballooning demand. Co-investment will undoubtedly play an increasingly prominent role, but it is unlikely to satisfy everyone. The answer is structures that exist beyond the traditional limited partnership model – in terms of size, tenure, ownership, and participation.

The caveats are that the assets must be suited to the approach and the investors must be sufficiently sophisticated to manage the portfolio, or find someone to do it for them.

If GLP's joint ventures and fund management platforms are one option, then Equis Funds Group's latest capital-raising effort is another. The Asia energy and infrastructure specialist collected \$1 billion for its second fund within six months plus a further \$700 million that will be used to support Fund I portfolio companies and supplement two clean energy platforms that are experiencing especially rapid growth.

It is not a complete departure from the blind pool, more a modification. But it points to a future that is increasingly tailored to meet the needs of investees and investors.

Tim Burroughs
Managing Editor
Asian Venture Capital Journal



Managing Editor

Tim Burroughs (852) 3411 4909

Staff Writers

Andrew Woodman (852) 3411 4852

Winnie Liu (852) 3411 4907

Holden Mann (852) 3411 4964

Creative Director

Dicky Tang

Designers

Catherine Chau, Edith Leung,
Mansfield Hor, Tony Chow

Senior Research Manager

Helen Lee

Research Associates

Herbert Yum, Jason Chong,
Kaho Mak

Senior Marketing Manager

Sally Yip

Circulation Administrator

Prudence Lau

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Jade Chan

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Pauline Chen

Director, Business Development

Darryl Mag

Manager, Business Development

Anil Nathani, Samuel Lau

Sales Coordinator

Debbie Koo

Conference Managers

Jonathon Cohen, Sarah Doyle,

Conference Administrator

Amelie Poon

Conference Coordinator

Fiona Keung, Jovial Chung

Publishing Director

Allen Lee

Incisive Media

Unit 1401 Devon House, Taikoo Place

979 King's Road, Quarry Bay,

Hong Kong

T. (852) 3411-4900

F. (852) 3411-4999

E. info@avcj.com

URL: avcj.com

Beijing Representative Office

No.1-2-(2)-B-A554, 1st Building,

No.66 Nanshan,

Chaoyang District, Beijing,

People's Republic of China

T. (86) 10 5869 6203

F. (86) 10 5869 6205

E. beijing@avcj.com

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GLOBAL

TPG reaches \$6.5b first close on latest global fund

TPG Capital has reached a first close of \$6.5 billion on its latest global fund. The vehicle, which was formally launched last October, has a target of \$8 billion and a hard cap of \$10 billion. The first close for TPG Partners VII is said to include \$2 billion in commitments for TPG Strategic Partners Interim Fund, a bridge vehicle raised last year from a small group of investors. Even if the hard cap is reached, the fund will be substantially smaller than its two predecessors from 2008 and 2006.

ASIA PACIFIC

Markus Ableiting to leave Capital Dynamics

Markus Ableiting has resigned from his position of managing director and co-head of Asia Pacific investment management at Capital Dynamics after more than 10 years with the firm. Tokyo-based Kazushige Kobayashi will become head of Asian investments. He currently serves as co-head of investment management in the region alongside Ableiting.

AUSTRALASIA

PEP to buy Kerry Group's Australian bakery unit

Pacific Equity Partners (PEP) has agreed to acquire Pinnacle, the Sydney-headquartered bakery unit of Irish food giant Kerry Group. The purchase price is reportedly up to A\$250 million (\$192 million). The company was formed in 1998 when Kerry expanded into Asia with the acquisition of the Mauri and Pinnacle ingredients businesses of Australian food group Burns Philp.

PE-owned AWAS to sell aircraft to Macquarie

AWAS Aviation Capital, which is owned by Terra Firma Capital Partners and Canada Pension Plan Investment Board (CPPIB), will sell an operating lease portfolio of 90 aircraft to Australia's Macquarie Group for A\$600 million (\$470 million). The planes will be part of the Macquarie AirFinance division of the corporate and asset finance (CAF) group. Currently CAF owns operating leases for 130 aircraft.

Australian LPs lose out due to fee issues – AVCJ Forum

Australians are missing out on higher returns on their retirement savings as a result of superannuation funds' preoccupation with the fees charged by private equity managers and their reluctance to participate in the asset class, industry participants told the AVCJ Australia & New Zealand Forum.

"Australia is beginning to look like New Zealand on this issue where superannuation funds are surrendering the opportunity to make



returns to which their members are rightfully entitled," said Tim Sims, managing director at Pacific Equity Partners. He noted that Australian GPs distributed a record A\$4.4 billion (\$3.4 billion) to LPs in the 12 months ended September 2014 – a return of 25% net of fees and carried interest – but most of that went to overseas investors.

John Brakey, advisor at Principle Advisory Services, said he knew of six leading offshore funds that have closed in the last six months and excluded Australian investors because they are too difficult to handle. "You go in to talk about fundraising but you spend 20-30 minutes talking about fees," he said.

Other reasons given for superannuation fund reticence include tensions between LPs and GPs, and the fact that many programs started building their international PE exposure as the market was peaking in the mid-2000s. Neil Stanford, private equity investment manager at HOSTPLUS, added that superannuation funds are under different pressure due to liabilities and liquidity needs.

Sydney launches financial technology hub

Sydney has launched a hub for financial technology start-ups, supported by initial funding of A\$2 million (\$1.6 million) from a string of Australian banks, property and technology firms in collaboration with the New South Wales government. Known as Stone and Chalk, the hub is expected to start operations in May from a base in the city's central business district.

GREATER CHINA

CVC-backed HKBN IPO raises \$750m

Hong Kong Broadband Network (HKBN), an internet service provider controlled by CVC Capital Partners, has raised HK\$5.8 billion (\$750 million) in its Hong Kong IPO. The company sold 645 million shares at HK\$9 apiece. HKBN's PE backers – which also include GIC Private and Alpinvest – will collectively raise \$710 million from the float.

Fosun buys \$138 million stake in Thomas Cook

Chinese investor Fosun International has purchased a 5% stake in UK-based travel agent Thomas Cook Group for GBP91.8 million (\$138 million). Thomas Cook will issue 73.1 million new ordinary shares at GBP125.59 apiece. Fosun plans to increase its holding to 10% over time.

Alibaba affiliate to invest \$383m in Enlight Media

Hangzhou Ali Venture Capital, a VC subsidiary owned by Alibaba Group founders Jack Ma and Simon Xie, has acquired a RMB2.4billion (\$383 million) stake in Chinese TV and movie producer Enlight Media. Enlight Media has sold 2.8 billion new shares to Hangzhou Ali Venture Capital at RMB24.22 apiece. The move is a continuation of Alibaba's expansion into media and entertainment.

Chinese parenting site Lamabang raises \$100m

China online retailer Vipshop has led a \$100 million Series C round of funding for Lamabang, an online social networking platform that focuses on mothers. Existing investors Matrix Partners China, Greenwoods Asset Management and Morningside Technologies also participated.

JD, Beijing Water to launch environment fund

China-focused private equity firm JD Capital has partnered with Beijing Water Business Doctor to launch a RMB2 billion (\$320 million) environment fund. The Beijing Water Jiuding Environmental Industry Fund is seeking an initial RMB500 million. Beijing Water will commit RMB150 million and JD Capital will raise the rest from third-party investors. Shenzhen-listed Beijing Water provides industrial water treatment services.

Home furnishing site Jia.com raises \$160m

Jia.com, a Chinese home furnishing and decoration B2C online platform backed by several VC firms, has completed a Series D round of funding worth \$160 million. The identity of the investors was not revealed. Previous backers include Baidu and CDH Venture.

MediaTek launches \$300m corporate VC fund

MediaTek, a leading Taiwanese fabless chipmaker, has launched a \$300 million venture fund that will invest in global start-ups. The fund will be managed by the newly-established MediaTek Ventures, which will target semiconductor system and devices, internet infrastructure, services and internet-of-things.

Alibaba leads \$60 million Series C1 for Quixey

Alibaba Group has led a Series C1 round of funding worth \$60 million for US app search engine Quixey, as the Chinese e-commerce giant continues to ramp up its presence in the US tech sector. Other participants include SoftBank Corp, Goldman Sachs and GGV Capital.

NORTH ASIA

KIC, Kingdom to partner on PE investments

Korea Investment Corporation (KIC) and Kingdom Holding Company, an investment company controlled by Saudi billionaire Prince Alwaleed bin Talal, have agreed to collaborate on PE investments. It is said to be the first partnership between the sovereign wealth fund of a major nation and an investment holding company.

IMJ's Koichi Saito launches new VC fund

Koichi Saito, a former partner at Japanese venture capital firm IMJ Investment Partners, has launched his own VC outfit - KK Fund. Based in Singapore, the fund will target seed stage deals in Southeast Asia, Hong Kong and Taiwan.

Fenox backs Japan solar energy marketplace

Fenox Venture Capital has invested \$2 million in I AND C-Cruise (IACC), the Japanese start-up behind solar power web portal Green-

Taiwan's BLF issues real estate, infra mandates

The Bureau of Labor Funds (BLF), Taiwan's largest pension fund system, will allocate a total of \$2.4 billion to 12 global alternatives managers - four in real estate and eight in infrastructure. The new five-year mandates come from three entities operated by the BLF - the Labor Insurance Fund (LIF), the National Pension Insurance Fund (NPIF), and the newer Labor Pension Fund (LPF).

The real estate and infrastructure portfolios will total \$600 million and \$1.8 billion, respectively. LIF will allocate \$400 million to two real estate managers and another \$400 million to four infrastructure fund managers. Meanwhile, NPIF is seeking to commit \$200 million to two



real estate GPs, while the LPF will allocate \$1.4 billion to infrastructure managers.

To qualify, GPs should have been in operation for at least three years, have a branch in Taiwan, and \$5 billion or more in assets under management as of the end of last year.

In February 2014, six Taiwanese public labor fund schemes were combined and operated in a single investment department - the BLF, with about NT\$2.9 trillion (\$92 billion) in pension and insurance assets. Chao-His Huang, BLF's director general, told AVCJ that the system wanted to boost its alternatives exposure in 2015, with specific interest in real estate investment trusts (REITs) and listed infrastructure securities.

EnergyNavi.com. It claims to be the largest marketplace in Japan's \$8 billion domestic household solar panel market, providing product reviews and cost estimates, as well as information on using solar energy,

Cool Japan invests \$37m in TV channel Wakuwaku

The government-backed Cool Japan Fund will contribute JPY4.4 billion (\$37 million) to a JPY 11 billion investment in entertainment channel Wakuwaku Japan alongside SKY Perfect JSAT Corp (SJC). The channel broadcasts locally-

translated Japanese content including anime, music, and film in Indonesia and Myanmar, reaching 2.5 million households. Demand for channels showing foreign content has risen in developing countries where economic growth has fueled the expansion of the middle class.

SOUTH ASIA

Maverick commits \$15m to adtech start-up

Maverick Capital Venture - the VC affiliate of hedge fund Maverick Capital - has led a \$15 million round of funding for India and Southeast Asia-focused mobile marketing data platform Vserv. The company's flagship offering is AudiencePro, a platform that pulls together data from multiple sources such as offline and online marketers, telecom operators, mobile app developers and other third-party sources.

SOUTHEAST ASIA

CIMB, Mitsubishi reach first close on SE Asia fund

Malaysian financial services provider CIMB Group and Japan's Mitsubishi Corporation have announced a first close of \$130 million on their ASEAN Industrial Growth Fund (AIGF). The fund aims to reach \$200 million in the next year. LPs include a number of Japanese institutions, with Development Bank of Japan (DBJ) is participating as part of the GP.

Singapore launches equity crowdfunding platform

Andy Lim, co-founder of Tembusu Partners and founder financial services group MoneyWorld, has launched Singapore's first equity crowdfunding platform. Known as FundedHere, the platform will enable start-ups to raise equity-based funding and venture debt rounds that are as small as S\$5,000 (\$3,700) for period of no more than a year.

Rocket delivers Series A financing to Bridestory

Rocket Internet has participated in a Series A round of funding for Indonesian online wedding marketplace Bridestory. The size of the investment was not disclosed, but it is said to be between \$1 million and \$10 million. Southeast Asia's online wedding market is said to be worth around \$18 billion.

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Global ambitions

Chinese corporates and financial investors are gravitating to Israel in their quest for high-end technology. This has buoyed local VC activity and more cross-border expansion is likely to follow

FOR THE FIRST TIME, A DELEGATION OF

22 Israeli VC and PE funds, led by the Ministry of Economy, embarked on a fundraising tour of Hong Kong, Shanghai and Beijing in January. Their objective: to expose the Israeli start-up ecosystem to Chinese investors and convince them to invest in funds and partner with portfolio companies.

"We want to develop long-term partnerships with Chinese enterprises and financial investors," says Kobi Rozengarten, a general partner at Jerusalem Venture Partners (JVP), one of the delegates. "We're seeing more Chinese large companies backing Israeli fund managers, making co-investments or targeting direct investments through M&A. Few Chinese players have actually acquired companies in Israel, but we will see more of this."

While in the past 20 years, US companies have been the primary investors in Israeli start-ups, followed by Europe, the growing Chinese presence cannot be ignored.

In 2014, 12 Israeli venture capital funds raised \$914 million between them, representing a six-year high, according to the Israel Venture Capital (IVC) research center and KPMG. Carmel Ventures' fourth fund was the largest vehicle, attracting \$194 million, with 25% of that coming from Chinese investors – namely Baidu, Qihoo360 and Ping An Insurance. JVC also reached a first close of \$160 million on its seventh fund, which has an overall target of \$180 million. Chinese LPs put in about 40%, with Qihoo360 participating once again alongside fund-of-funds Shengjing.

China rising

"There is no doubt that Chinese investors are becoming significant LPs in Israeli funds. That's the trend," says Yoram Oron, founder and general partner of Vertex Venture Capital in Israel. "In 2014, one third of the capital raised by Israeli fund managers came from Asia-based investors, compared with just 5% 10 years ago. That portion could be even higher in 2015."

Two months ago, Alibaba Group made its first foray into Israel, backing Tel Aviv-based Visualead, which creates Quick Response (QR) codes technology. The announcement came barely a month after Baidu said it would invest in video capture specialist Pixellot. Elsewhere, Yuanda

Enterprise Group bought Auto Agronome, a maker of smart irrigation and fertilization systems, last September in order to move into high-tech agriculture, while earlier in the year Bright Food acquired a 56% stake in Israeli dairy producer Tnuva from Apax Partners.

Without a large-scale domestic market, Israeli firms are used to going global and China has

ecosystem and they are well-served by leading legal and accounting service providers. Despite having a population of 8.1 million, Israel is home to about 5,000 start-ups. It claims to be second only to Silicon Valley as an innovation hub.

Encouraged by impressive exit records, global players are keen to invest. With nearly \$15 billion in M&A and IPO exits, 2014 represented an all-



been identified as the biggest market for them beyond the US. For its part, China wants to acquire technologies that will help its companies establish themselves as global leaders. What role can private equity and venture capital play in this?

Israel's ecosystem for high-tech start-ups has been 60 years in the making and it is particularly strong in communications and wireless technology. It all started with massive defense industry investments led by the government, but two decades ago the tech sector was opened up for private capital. The program, known as Yosma, prompted a handful of US VC firms, including Sequoia and Greylock Partners, to set up a local presence.

Vertex, which is owned by Temasek Holdings, was among the first Asian arrivals in the country, alongside Singapore government-backed Infocomm Investments and a clutch of local corporates.

The attraction was not only tech start-ups, but also a number of elite universities, as well as research centers run by the likes of IBM, Cisco and Intel. Plenty of entrepreneurs emerge in this

time record year for Israeli hi-tech sector – and a marked improvement on the 2013 total of \$1.2 billion, according to PwC. The standout deal was MobilEye, a road accident avoidance technology developer backed by Israeli Catalyst Investment, which raised over \$1 billion in its August IPO. It is Israel's largest-ever offering.

Being a catalyst

In recent years, Chinese PC maker Lenovo Group and electronics giant Huawei have also set up research centers in Israel. Around them are more than 250 multinationals of various stripes, and the technology players are increasingly acquisitive.

"When the chairman of Lenovo visited Israel recently, he said that American companies are buying advanced technologies in Israel in order to be more competitive in a global basis. Then he said Chinese firms should do the same, adding that Lenovo will do more acquisitions here than competitors such as HP," says Edouard Cukierman, founder and managing partner at Catalyst.

The local GP has actively promoted China-Israeli business. Last year, Cukierman invited 100

Chinese corporates, as well as PE fund managers, to visit Israel. In late 2013, Catalyst teamed up with China Everbright, an offshore investment arm of conglomerate China Everbright Group, to launch a \$200 million cross-border fund. It reached a final close in the third quarter of last year, with most of the capital coming from Chinese corporates.

Instead of targeting early-stage start-ups, the fund backs mid- to late-stage companies across agricultural technology, energy, industrials and manufacturing, healthcare, media and telecom. It invests in Israeli-based companies as well as Israeli-owned businesses located overseas.

"We were first attracted to the market more than three years ago. We work with a lot of Chinese corporates and institutional investors to help them review overseas investments. We feel there are many potential synergies between

to Chinese companies, introducing them to start-ups. At present, most Chinese investors in Israeli start-ups are strategic players, but few are of institutional scale and quality. It is hoped they can get a sense of what is on offer by participating in VC funds and, once more familiar with local markets, engage in co-investments with GPs or pursue direct deals independently.

Ping An employs this dual-strategy approach of direct VC investments and LP commitments. A few weeks ago, Ping An Corporate – the company's corporate VC arm – took part in a funding round for Rainbow Medical, alongside with ZTE Corporation and Yongjin Group.

Integration angle

One of the major reasons why Israeli venture capital firms are reaching out to China is the increasingly crowded nature of the US

investment by committing \$42 million in Lamina Technologies, a Switzerland-based cutting tools manufacturer that supplies the engineering, aerospace, automotive and transportation sectors. There is a clear fit with Chinese aspirations to climb the industrials value chain by introducing high-end technology.

"We are not only looking at companies in Israel, but also conducting a lot on-the-ground research to understand what is potentially acquirable and desirable in the Chinese marketplace, or from the perspective of Chinese corporates," says China Everbright's Fan.

Not only does the fund help portfolio companies expand their distribution networks in China, it also assists in terms of sourcing cheaper raw materials from China and even relocating manufacturing to the country to take advantage of lower production costs.

Furthermore, it is interested in working with Chinese LPs to acquire Israeli companies, consolidate industries, and enable technologies to be developed at scale. To this end, there must be a strong alignment of interest between Chinese and other investors, as well as with the management team of the target company.

"In the past, Chinese and Israeli companies have established joint ventures, which allow third-party investors to participate. But this is often very problematic because it can lead to conflicts of interests in relation to the intellectual property, the dividend distribution, and the exit," Catalyst's Cukierman says. "The model we're adopting now is quite unique in terms of solving those issues. We partner with a Chinese GP to support the development of Israeli portfolio companies."

Dr. Yesha Sivan, the executive director of the Collier Institute of Venture at Tel Aviv University, agrees that China is a relatively difficult market for Israeli companies compared to the US and Europe. This is because a local partner is almost always essential for market penetration and engagement with regulators. Identifying suitable partners can be hard, but with larger numbers of Chinese investors in these funds, it might become easier to gain traction.

Cultural divisions are another potential stumbling block, with a number of Israeli companies trying and failing to establish themselves as independent players in Shanghai and Beijing. "Israelis are very direct. When the things are not going well they say to your face. Asian people are a bit equivocal. Often Israelis don't know if a Chinese partner is saying yes or no and the find that frustrating," the Singapore-based investor says.

There is an opportunity for private equity to play an intermediary role in these situations, but concerns linger. JVP's Rozengarten admits

"There is growing interest from Asia so it's easy for us to fundraise. China has also become the biggest market for our portfolio companies. Having ties to local enterprises like Qihoo360, Ping An and Baidu could be very helpful for our portfolio"

– Ori Bendori

Chinese and Israeli players," says Shengyan Fan, managing director at China Everbright. "Chinese companies are putting a lot of money into R&D and they will benefit a lot of they go for overseas acquisitions."

A number of similar cross-border funds are now emerging. Last month, state-owned CITIC Group partnered with Israeli Bank Hapoalim to set up a \$150 million fund to invest in Israeli high-tech industries. Poalim Capital Markets, the investment arm of Bank Hapoalim, will establish a venture capital subsidiary in China with a view to bringing over Israeli technology.

Cross-border funds are not the only way in which Israeli VCs are engaging with China. Carmel Ventures had never tried to source LP contributions from Asia before last year, having traditionally relied on investors from the US and Europe, but Chinese enterprises and financial institutions were specifically targeted for Fund IV.

"There is growing interest from Asia so it's easy for us to fundraise," says Ori Bendori, a general partner at the firm. "China has also become the biggest market for our portfolio companies. Having ties to local enterprises like Qihoo360, Ping An and Baidu could be very helpful for our portfolio."

Carmel also wants to serve as a local partner

market and the detrimental impact this has on competitive advantage. "On the US stock exchanges, a large portion of companies are from Israel. They used to be big fish in a small pond," says a Singapore-based investor. "Now, every tech firm in the world comes to the US and so Israel is starting to look elsewhere. Europe isn't a good market for them because the tech sector is very fragmented. So they look to Asia."

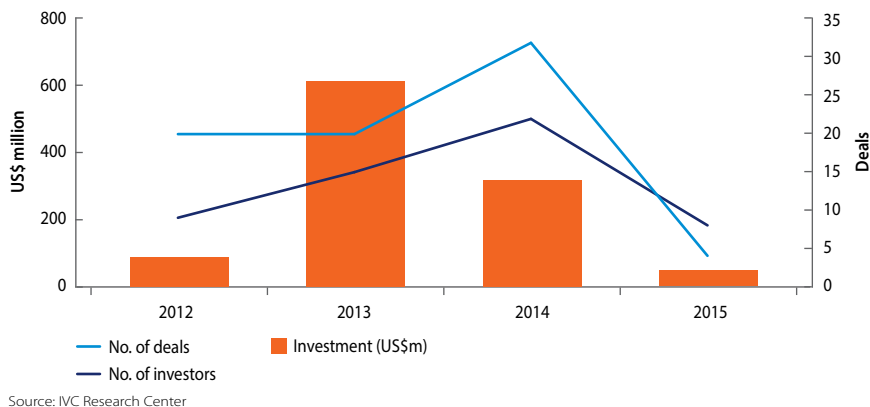
At the same time, industry participants attest that Israeli tech start-ups trade at competitive valuations. When a VC firm takes an Israeli portfolio company to list in the US, it is usually valued at a 20% discount to comparable domestic businesses due to the absence of a local sales network. On the M&A side, Israeli VC investors are routinely criticized for exiting portfolio companies on the cheap due to pressure to sell within a certain timeframe.

The Catalyst-China Everbright fund seeks to maximize value by targeting more mature companies that can operate in China.

For every investment, China Everbright will evaluate growth potential in the context of alignment with areas in which there are favorable policy environments, such as cleantech or healthcare, or particular private sector needs.

In August last year, the fund made its first

China and Hong Kong investment in Israeli private companies



that a few Chinese and Korean corporates were excluded from his firm's most recent fund due to suspicions about their intentions. However, as Chinese companies mature, he believes it will be possible to build long-term partnerships based on mutual respects.

Acquisition time

This greater familiarity should also facilitate M&A. The US capital markets remain the largest market for Israeli tech companies, simply because the

likes of Hong Kong and Singapore don't offer deep enough coverage of the sector. Trade sales are on the rise, however, with Chinese groups completing deals worth \$7 billion in Israel over the last three years, including acquisitions from private equity, according to Catalyst.

The firm expects to see more trade sales to Chinese strategic investors, typically once the target companies have established themselves in China. The implication is that exits will happen at a later stage than has been the case when

dealing with US and European buyers. It is hoped this will help sustain the nascent trend of Israeli companies becoming global operators in their own right, rather than just technology feeders to large corporates.

"We see Israeli companies trying to become bigger and operate more independently. For example, Waze, which was sold to Google for about \$1.5 billion, insisted on keeping their operating team in Israel. They refused to sell to Apple and Facebook because they were asked to move everything to the US," says Ori Cohen, an Israeli serial entrepreneur and a partner at Southeast Asia-focused venture capital firm Expara.

Cohen is in the process of organizing an investment forum in Israel at which Hong Kong, Chinese and Singapore VC funds will have the opportunity to network with 100 local start-ups. It represents a step away from the government-sponsored approach, with the focus wholly on entrepreneurs.

"We hope this interaction will result in us launching a fund in the future, similar to the Catalyst-China Everbright vehicle," he says. "We will remain in the private sector and I think that's what the government would like to see. They start the process but then the private sector picks it up." ▀

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Clarity calls

The first full budget by Prime Minister Narendra Modi's government was one of the most eagerly anticipated events for Indian private equity since last year's election. Did it live up to the hype?

WHEN INDIAN FINANCE MINISTER ARUN

Jaitley arrived the parliament building to present the union budget in July of last year nobody thought that the small brown case he was carrying would contain much.

Delayed by an election, the budget was being submitted by a government that been in power for just two months. True to expectations, while offering some reassurances that Narendra Modi, the new prime minister, was more business friendly than his predecessor, it gave little in the way of concrete answers.

The document included several broad macroeconomic targets such as tackling the deficit by reducing subsidies and encouraging

with Kroll. "Especially those who are aware that the lack of clarity has been an impediment to investing in India."

Passing through

One of the headline proposals made by Jaitley during his 90-minutes speech concerned tax pass-through status for Category I and II alternative investment funds (AIF).

At present, pass-through status is only granted to a sub-category of venture capital funds (VCFs) within Category I funds. This generally includes any vehicle deemed to have a positive spillover effect on the wider economy, such as an infrastructure funds, social impact

whole the leg up it needs," says Sanjeev Krishan, private equity leader with PwC. "Domestic venture funds always had pass-through status but Category II funds were left out, so this latest change has brought some relief."

Encouragingly, the finance minister has also proposed to allow other categories of foreign investors to commit to AIFs whereas currently this privilege was restricted to non-resident Indians. This could make it significantly easier for domestic fund managers to raise capital.

Another source of comfort for the private equity industry is the decision to defer the implementation of the general anti-avoidance rules (GAAR) for two years. The anti-tax avoidance regulation – which was introduced by Jaitley's predecessor Pranab Mukherjee in 2012 and was due to kick in next month – has been especially controversial because it contains provisions allowing revenue agencies to seek taxes from past overseas deals involving local assets retroactively. It is blamed for making financial and strategic investors wary of participating in India.

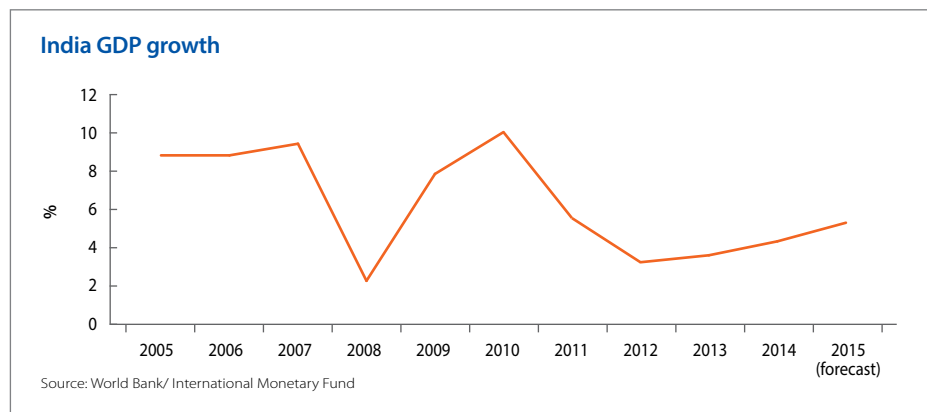
However, not only has GAAR been deferred, but has been proposed that all investments made up until March 31, 2017 – when GAAR finally comes into effect – should be made exempt from the regulation.

"This has been a big concern for the industry and I think the finance minister pushing GAAR back gives a lot of hope that the government doesn't intend to use any heavy-handed tactics to generate income," says Dhanpal Jhaveri, managing partner at Everstone Capital. "The government wants to give comfort to global investors that there won't be a witch hunt, and the deferment of GAAR gives us more breathing space to invest capital without worrying about implications further down the line."

Shades of gray

The flipside to this is that – while the government has provided some important answers – there are still significant gray areas unsettling investors. For example, with regards to AIF tax pass-through, the budget did not clarify the distinction between a fund's investment income and its business income. "I think while the intent is brilliant, the fine print could leave a bit of a sour taste," says PwC's Krishan.

A number of industry participants are also



growth through infrastructure investment. For private equity, perhaps the most positive development was liberalization of foreign direct investment (FDI) in certain sectors and promises of greater clarity on tax policies.

However, the consensus then was that it was still too early to make a call on whether the government would live up its promise.

This budget is different. Modi has been in power for 10 months and the industry wants to see firmer proposals. Until now the government seems to have hit a lot of positive notes with private equity and the business community as a whole; but last week's budget is arguably the best indicator so far as to whether Modi can match rhetoric with action.

"I think overall the government seems to have addressed some of the taxation and fundraising issues facing the private equity industry in India," says Reshmi Khurana, managing director

funds, or funds targeting small- to medium-sized enterprises (SMEs). By including the rest of Category I and all of Category II, the government is bringing into the fold sector-specific and sector-agnostic funds that might be entirely commercially-oriented.

Pass-through status means that dividends will not be taxed at the fund level; the tax liability flows through to the LPs as if they had made a direct investment in the portfolio company that is generating the income. The only exception to this rule is that any income categorized as business or professional income, such as fees. These will continue to be taxed at the fund level.

Meanwhile, Category III AIFs are not included in the tax exemption. These are vehicles that generally use large amounts of leverage to generate short-term returns, i.e. hedge funds.

"I think government's ambition has been to give the alternate assets investment space as

concerned that the government has not followed up its promise not to enforce retrospective tax with a commitment to remove this provision from GAAR completely.

Nevertheless, the general feeling is that the budget marks some significant wins for the industry because it takes steps to reassure

market watchers stress the significance of the government's broader macroeconomic plans. The bottom line for many investors is that for the private equity industry to recover, so must the economy. Perhaps the more important question is whether the budget contains the necessary measures to drive growth.

“The fact that the government is setting a longer term roadmap that will hopefully improve overall economic activity is good for PE. Our business is about long-term capital investment and so we need more stability both from a political and an economic perspective”

– Dhanpal Jhaveri

investors. “This is a fairly positive budget because it tries to allay some of the concerns around the tax issue we have been battling in the past,” says Everstone’s Jhaveri. “There are still some gray areas in the finance bill which need to be addressed but overall we like it because the budget is moving away from being event-driven to becoming more focused on policy.”

Even with all these policy initiatives, many

“Overall, I don’t think there are any significant big bang announcements, but I think there is enough in it to excite local production and revive the investment cycle,” says PwC’s Krishan.

A similar view is reflected by Kroll’s Khurana who observes that the major headaches among the more established GPs in India – some of which are facing issues with fundraising – is the challenge of finding good investment

opportunities. As such, they are more concerned with how the impact of the budget outside of PE.

“What many PE investors are hoping is that all the steps the government is taking – not just on the taxation issue – will help kick-start the economy and get it from 5.5% growth to close to 8%,” says Khurana. “Only when the consumption cycle kicks in again will Indian entrepreneurs look to expand their businesses, and that is when they look for private equity money.”

To this end, the budget has taken care to articulate a long-term vision for the country. This includes utilizing savings made on the back of cheaper oil imports to channel more capital into road and rail infrastructure; slashing spending on controversial subsidies and welfare schemes; an overhaul of the country’s monetary policy; and the creation of public debt management agency.

While the budget has left the industry with lingering question marks, the sentiment remains optimistic – provided, of course, that the government maintain momentum in its reforms.

“The fact that the government is setting a longer term roadmap that will hopefully improve overall economic activity in the country is good for PE” reflects Everstone’s Jhaveri. “Our business is about long-term capital investment and so we need more stability both from a political and an economic perspective.” ■

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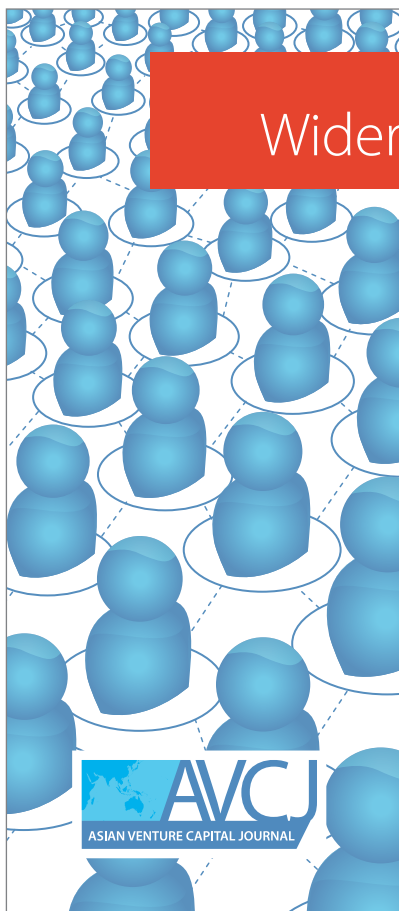
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The C2B segue

While private equity capital is pouring into China's B2B online car-trading platforms, some investors claim to see more value in smaller scale but less-penetrated and higher-margin C2B space

AVCJ HAS REPORTED ON EIGHT PE AND

VC investments in Chinese used-car trading platforms in the past 18 months, but this could be just the tip of the iceberg. Private capital has flooded into the space as a force for disintermediation, taking advantage of information asymmetries and inefficient distribution channels.

Most of the investment has targeted the B2B and B2C segments: wholesalers and dealerships trading used vehicles amongst themselves, and dealerships selling cars on to the next owners. Chief among them are B2B specialists Youxinpai and Cheyipai, which have raised \$260 million and \$150 million, respectively, during the period.

The C2B segment – whereby consumers sell vehicles to wholesalers – is less penetrated, but Yongshan Zhang, a principal at Baird Capital's China growth equity team, thinks it has the most potential.

"Wholesalers exist is because there are still information asymmetries, but as the penetration of online platforms deepens, 1-2 big C2B platforms plus localized B2C retailers is likely where the industry would go," he says. "From a profitability perspective, the C2B model is likely to get there first due to its asset light business model and favorable working capital profile."

Baird has backed this up by leading a Series A round of funding for Carsing, a Shanghai-based C2B platform that last year branched out into Shenzhen. FLAG Squadron Capital and Delta Capital also participated. The size of the investment was not disclosed but it is said to be around \$10 million.

Choose your segment

Carsing was founded in 2009 by Lin Zhe, who previously worked at Chinese car information portal 51Auto.com. His colleagues included the founder of CarKing, a B2C platform that is also backed by Baird. Set up as a C2B and B2B model, serving as a mobile platform through which consumers could buy and sell cars, Carsing soon switched to C2B only. The online operation was complemented by an offline presence.

The Delta team, which is based in Shanghai, first heard about the company through friends who had used the service and made an approach in late 2013. This did not result in a transaction due to concerns about valuation. When Delta

reviewed the situation six months later, Carsing was already in discussions with Baird and so the two firms agreed to team up, with FLAG Squadron coming on board as well.

The company is said to be China's third-largest online trading platform after Youxinpai and Cheyipai. It runs six auctions per day – taking commissions from buyers only – and has 15 locations. The plan is to open 30 outlets and enter nine new cities this year, and also develop a financing business. The new capital will support these expansion plans and, due to the asset-light business model, it is expected to go a long

"The entry barriers are also high because it takes time to build up a reputation among consumers"

– Greg Ye

way: over the six years prior to this investment, Carsing's capital expenditure was just \$10 million.

"We heard about this company from our friends, not through conventional advertising channels, and we think word-of-mouth is the most effective way of marketing Carsing's services. We are not going to raise those huge amounts because we don't think that is healthy or sustainable," says Greg Ye, founder and managing partner at Delta. "The entry barriers are also high because it takes time to build up a reputation among consumers."

He notes that it is important to spend time understanding a target market before moving in. Carsing likes cities with large car-owning populations but the sweet spot is mid-range car ownership. It is harder for a second-hand business to get traction in areas where there are many luxury vehicles. In terms of regulation, the ease with which a license plate can be transferred between owners is a key consideration.

An interesting quirk of Carsing's business is the number of transactions that see cars sold in Shanghai and then shipped to buyers in second- and third-tier cities. There are no licensing transfer headaches – the cars are sold without plates – but it presents a transportation

challenge. A medium-term goal for Carsing is to set up a logistics network to support these transactions, which would raise the entry barrier still further.

New rivals?

Competition in the space is slim, with Ping An Group the other major player. However, there remains the possibility that the likes of Youxinpai and Cheyipai might try to expand into C2B. According to industry sources, margins are thin in the B2B space due to limited bargaining power and the rebates offered to dealerships in return for their business. A movement towards the consumer-facing segments, where there is more scope for value added services and higher margins, seems logical.

But Zhang notes that the B2B model relies on relationships with dealerships but C2B essentially means competing against them and he doesn't see how this conflict can be resolved

"Before C2B came along the biggest channel for consumers selling cars was trading-in to dealerships, which would work with scalpers to price and buy vehicles," he says. "Consumers knew they couldn't get a good price but due to safety and convenience they went with it. C2B solves this problem because you are inviting hundreds of buyers to bid on your car rather than haggling with one person."

Ye adds that vertical expansion may not even be on the B2B players' agenda due to the expectations for growth in the industry as a whole. There are huge expansion opportunities in lower-tier cities, where consumers are more pragmatic about buying second-hand, while car rental companies are a rich source of reasonably-priced cars that has yet to be fully tapped. Last year, Youxinpai investor Warburg Pincus told AVCJ that it envisaged China following a similar, but internet-enabled, path to the US market, with large-scale players bestriding auctions, financing, recovery, repair and information.

There were just over six million used car transactions in China last year, up 16.3% year-on-year, with passenger vehicles accounting for 3.5 million of them, according to the China Automobile Dealers Association. "The big players are doing fewer than 200,000 cars a year between them," says Ye. "We should see triple-digit growth over the next five years." ▀

KV driven by more than a sweet tooth

WITH INCOMES RISING AND TASTES

becoming more refined, Asia represents a growing market for luxury goods. Chocolate is no exception. While supply problems are partly responsible for a 30% increase in global cocoa prices over the last two years, the 60% jump in the retail price of chocolate suggests that rising demand is also a factor.

Aalst Chocolate sees opportunity in Asia's growing sweet tooth. Founded in 2003, the company is the first in Singapore to produce both standard couverture chocolate and the more expensive couverture chocolate. More than 98% of its goods are exported to over 40 countries in Asia, the Middle East, and North America, to be used in high-quality creations by chefs and bakers.

This luxury cache made Aalst an irresistible target for KV Asia Capital, which last week announced an investment in the company. But Vibhav Panandiker, the firm's CEO, says he was more impressed by Aalst's ability to take advantage of the high international regard for Singapore-made produce.

"One of the sectors we focus on is food processing, and while Aalst Chocolate is a high quality company, it also benefits at a macro level by leveraging Singapore's reputation for trust," Panandiker says. He puts this down to strong policies on food safety. "Given the food scares we've had in other countries, Singapore just stands out as a trusted source for food processing," he adds.

Aalst was actively looking for financing when it met KV Asia. The PE firm was impressed by the chocolate maker's financial performance as much as its products. In 2013, revenue came to \$35 million with EBITDA and net profit of \$4.5 million and \$3 million, respectively. The company has also seen compound annual sales growth of 15% over the past three years.

Details of the investment have not been disclosed, but it falls within KV Asia's standard equity check range of \$25-75 million. The PE firm will help fill out the management team

with people who can contribute to product line improvements and expanding Aalst's presence in existing markets.

Panandiker also sees the Aalst as a good fit with the firm's other portfolio companies. KV Asia's has bought two other Singapore-based businesses – skincare brand Derma-

Rx International Aesthetics and nursing home operator Orange Valley Healthcare. Food production represents a new direction, but it is still regarded as a consumer service.

Panandiker adds that the projected rise in chocolate prices was not actually a major factor in the investment decision. "The

way that this whole market works is that you get a processing spread, irrespective of the price of the inputs, which have a large cocoa content," he says. "So the variation in commodity prices doesn't really matter to the profitability. But yes, there is this speculation by analysts that the price of chocolate is going to go up." ▀



KV Asia: Chocoholics

Ola and TaxiForSure share a ride

CAR OWNERSHIP IN INDIA IS VERY LOW;

according to the country's 2011 census, passenger vehicle penetration is just 4.9% overall and a mere 9% for urban areas. For a country of 1.3 billion, suffering from poor public transport, it means the demand for taxis is extremely high.

However, the taxi market is highly fragmented. Riteshi Bangali, a partner with Helion Venture Partners estimates that only 3% of the market is organized with an average fleet size of only around five cars.

"The utilization of taxis is already low – about 40% – so consumers have typically struggled to find taxis when they needed them. We thought it was an ideal market for a technology-enabled aggregator," says Bangali. "Happily for us that is exactly how the market has played out."

Launched in 2011, TaxiForSure was one of the first start-ups – along with Ola and US-based Uber – to offer a mobile app platform in the taxi market. Helion put in \$500,000 as part of a seed stage investment alongside Accel Partners and Blume Ventures. Three years, and three rounds later, TaxiForSure has been bought by Ola for in a

\$200 million cash and equity deal.

Rather than exit, Helion has acquired a stake in a combined entity that comprises TaxiForSure's 15,000 taxis across 47 cities with Ola's 70,000 taxis and 30,000 auto rickshaws across 85 cities. The companies generated revenue of INR 420 million and INR5.1 billion, respectively, in the 2014 financial year.

Aprameya Radhakrishna, co-founder of

TaxiForSure, tells AVJ that the deal means that not only does Uber have a larger domestic competitor to contend with, but also better capital efficiency. "Winning market share in the current environment of intense rivalry calls for burning disproportionate amounts of cash," he says. "The same growth can be achieved with a lower burn if the two domestic aggregators – TaxiForSure and Ola – could get together and unlock the inherent synergies."

TaxiForSure will continue to operate as a

separate entity, in part because the companies complement each other through a fundamental difference on the supply side. Where Ola works directly with taxi drivers, TaxiForSure works with smaller taxi operators. "It made a lot of sense to put the two pools of supply together, it gives the combined company access to both these sources of supply," says Bangali.

He estimates the combined entity is now

around 10 times the size of Uber India in terms of rides, making it by far the largest player in the space. No one expects Uber to give up market share without a fight, but it now faces a heavyweight rival.

"There are a lot of synergies which are working well for both the brands, we think we can

work together to further revolutionize personal transportation in India," says Radhakrishna. "The combined entity will be strong enough to fight the bigger and better capitalized, foreign players in this space." ▀



TaxiForSure: Hitching a ride

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Deal Status: Agreement in Principle
Acquisition Technique: Leveraged Buyout
Acquisition Attitude: Neutral

Involved Companies

Company Name	Deal Role	Amount(USD\$m)	Deal Status	Industry	Nationality
Carplus Asia - China	Investor	n/d	n/d	Private Equity	United States
CSC China Management Co., Ltd.	Investor	n/d	n/d	Private Equity	Hong Kong
China Everlight Ltd.	Investor	n/d	n/d	Finance	Hong Kong
CITIC Capital Partners Ltd.	Investor	n/d	n/d	Private Equity	China (PRC)
Changsheng Investment Ltd.	Investor	n/d	n/d	Private Equity	China (PRC)
Non-Other Yang	Investor	n/d	n/d	Unclassified	China (PRC)
China Pacific (China) Holdings, Co., Ltd. (China Pacific)	Investee	n/d	n/d	Advertising	China (PRC)
Preston International Ltd.	Seller	n/d	-17.20%	Steel	China (PRC)
Undisclosed Shareholder(s)	Seller	n/d	-65.24%	Unclassified	United States
Chengdu Global Markets Asia Ltd.	Financial Adviser, Investor (CSC Asia Asia)	n/d	n/d	Securities/Investment Banking	United States
Chengdu Global Markets Asia Ltd.	Financial Adviser, Investor (CSC Asia Asia)	n/d	n/d	Securities/Investment Banking	United States
Chengdu Global Markets Asia Ltd.	Financial Adviser, Investor (China Everlight Ltd.)	n/d	n/d	Securities/Investment Banking	United States
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Larger than life

Baring Private Equity Asia has closed its sixth fund at \$3.98 billion. CEO Jean Eric Salata explains how the firm has sized up to raise its largest-ever vehicle, and where he expects to deploy the capital

Q: At which point did you realize that the latest fund would exceed expectations?

A: Early on in the fundraise we received a very strong response from investors, particularly from existing investors, so we knew we were going to have a lot of demand. We wanted to accelerate the fundraising process in order to minimize the amount of the distraction to the team. Even in that first close we had the difficult situation of having to allocate to investors less than what they were looking for in order to accommodate all our existing LPs.

Q: Has the broader LP appetite for Asian private equity has improved?

A: I think people have generally had better returns out of their North American private equity portfolio funds in the last 3-4 years because of the strength of the US market. However, since Asia has been underperforming – from a relative valuation market standpoint – now is not a bad time for LPs with a more balanced, or contrarian, view to take some of those North American distributions and re-deploy them in an environment where there is more dislocation, and where you may be able to get better value, and where public markets are trading well below historic highs.

Q: What issues do LPs focus on when deciding to commit to the region?

A: The main issues are returns, realizations, and cash distributions, and your ability as a team to maintain those going forward; I think the Asian GPs raising capital right

now are the ones that have demonstrated the ability to give money back to investors. You hear a lot about the lack of distributions in Asia, and that is probably true on average for the industry, but if you break it down between those that are getting distributions back to investors versus those that are not, you can see that realized returns are the key factor in fundraising.

Q: What is it about Baring's investment strategy that you feel appeals to LPs?

A: We are not a country fund, and we are not purely a leveraged buyout shop or growth equity fund. We cover a wide range of different geographies, including Japan and India, which some firms exclude. I think a combination of all those, our track record on distributions, and the team's stability is something that appeals to investors. Our 19 years of investment experience gives our LPs the confidence that we can navigate whatever the future throws at us in terms of the economic cycle.

Q: How have you expanded your resources and team to deploy this larger pool of capital?

A: Our footprint already covers the entire region and the team has more than doubled since the last fund – so we have gone through the expansion phase that we needed to anticipate this fund. We have also been recruiting people from business school into our entry-level positions; we have been adding to our operations team; and we have been adding people with more sector capabilities. Going forward we will continue to grow in a more measured way.

Q: How has the deal landscape changed in recent years and what opportunities are you targeting?

A: Deal flow has evolved over the last 4-5 years. We are not really doing anything different now to



“Asian GP raising capital right now are the ones that have demonstrated the ability to give money back to investors”

what we have been doing for the past five years but the market has changed and there are now more buyout opportunities and even larger minority deals. This has been happening for quite some time. If you look at 2014, we invested about \$1 billion in equity with a total transaction value of about \$6 billion. However, there was flow in both directions and in the same period we distributed something like \$800 million to our LPs.

Q: What is your assessment of the exit environment?

A: The exit environment is a little challenging right now for IPOs in general but last year we had two offerings in Hong Kong – China Shengmu Organic Milk and waste water treatment business Kangda International Environmental. Other than that, we were able to secure a few trade exits including Primo Japan, a big stake in our Indonesian flight services business Cardig Aero Services, and Net Japan. If you look at the bulk of the capital we distributed last year, much of it came from trade sales, but it is cyclical. I also think we are going to see more secondary sales, which is a very healthy development for the industry as a whole.

Q: Do you anticipate more cross-border transactions, such as your investments in UK fashion chain Cath Kidston, and Grenada-based St. George's University?

A: These kinds of cross-border deals are a very interesting area. We are spending more time there and we see it as a big growth opportunity. If you look at Cath Kidston – which involved a PE seller – all of the growth is coming from Asia and we were brought in with view to creating more value because of our capabilities in the region. The St. George's investment is a similar situation where you have an established business in the US in a sector where we have strong knowledge and capabilities. Increasingly, you will find that those GPs able to do something different with a company are the ones that generate top-quartile returns. ▀

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