

Asia's rising stars

PEI Asia asked some of the region's leading private equity LPs to name their pick of the Asia Pacific region's "first-time" funds. The results are the eight names listed on pages 16 and 17. While some of the people may be familiar, having already made their mark elsewhere in Asian private equity, the firms they run now are probably not – yet. They have had the toughest of challenges thrown at them, in the form of the economic downturn, but the expectation is that these eight firms will go on to establish themselves firmly in the bedrock of the Asian private equity industry. Reporting by Jenny Blinch, Siddharth Poddar and Yvette Choo.



Sorting the wheat from the chaff

One of the most frequent complaints from would-be institutional investors in Asian private equity is that there is a shortage of skilled local GPs on the ground, especially in the developing economies.

And yet, at the same time, there is an abundance of people trying to set themselves up as fund managers – particularly in growth economies like China and India, which, pre-downturn, were seeing new funds and GPs sprout like mushrooms.

Somewhere between the would-be GPs and the purse strings of institutional LPs is a gap that must be bridged by experience. Of the hundreds of fledgling GPs, only tens will be actually prove their ability to invest well, and institutional investors will, as a matter of course, wait until they have passed at least this first hurdle. After all, if you are a pension fund, or even a fund of funds managing other people's money, why would you take a blind gamble when you can wait and take an informed risk?

The attitude is best summed up by Andrew Liu, managing partner and chief executive of Hong Kong-based Unitas Capital,

who said in a recent interview with *PEI Asia*: “My advice to family, friends and LPs is never invest in first time funds – that's why I'm so grateful for the people that supported us first time round.”

So how do first-time GPs ever get up and running? Some will invest their own capital, others will call on friends, family and business contacts to support them. Others still turn to governmental organisations, as Veronica John, CEO of IDFC Capital, which is currently raising a \$500 million emerging markets fund of funds, explains.

“A lot of funds in the emerging markets start by having the benefit of DFI [development finance institution] money or multilateral development bank money and very often that is able to catalyse some more risk-averse private investors,” she says. “These organisations have played a critical role in getting the industry off the ground and helping to formalise it by supporting first-time teams.”

While these cub GPs appear often appear on the radar screen of the more established private equity investors fairly early on, it will normally be for monitoring purposes only. Institutional LPs will often have a long list of criteria – varying depending on the region or market in question – that needs to be met before they will commit to a new GP relationship.

Chief amongst these criteria is, of course, experience. Some kind of a track record is essential – “ideally three or four years of investment experience and hopefully some exits in between” says John. Bearing in mind the economic ill winds currently buffeting economies which have experienced nothing but growth in the past few years, many LPs would also look to see some prior experience – whether operational or financial – of a downturn.

Then there is the question of an alignment of interests. “There is a whole set of additional risks in backing a first time manager,” explains Hugh Dyus, a Hong Kong-based associate director at Macquarie Funds Group. “Private equity compensation structures potentially reward managers for taking risk, as they share in the upside but not in the downside unless they are also investors in the fund. It is accordingly important to us that first-time managers themselves commit an amount of money that is substantial relative to their personal financial situations. This provides protection against first time managers which want to ‘have a go’ and place bets with other people's money.”

The ideal “first-time” GP for many Asia-focused LPs, as in other parts of the world, would seem to be a tried and tested key man or team, who built experience investing on behalf of a captive private equity fund or the Asian operations of a global firm before spinning out to form an independent entity.

This is the model that built some of Asia's most prominent private equity names, Unitas Capital (which started life as Chase Capital Asia in 1999) and Affinity Equity Partners (which began as UBS Capital Asia Pacific) among them. It is also the model reflected in many of the ‘rising stars’ the LPs we interviewed for this piece picked out (see overleaf).

Amongst them you'll find CX Partners, headed by Ajay Relan, who had previously led the Indian operations of Citi Venture Capital International since its inception in 1995; Tasman Capital Partners, formed by a team who met working at DB capital, the private equity arm of Australia's Deutsche Asset Management; and FountainVest Partners, set up by four ex-Temasek Holdings executives.

All in all, our list contains eight names recommended by a network of Asia-focused LPs. They weren't the only eight names to be mentioned – we had quite a long list – but all of the funds named overleaf were picked out by at least two LPs.

Some might look at these “rising stars” and feel the title is a bit of a cheat, since many of the people behind the firms named are already established as “stars” in the Asian private equity industry. In one case, Riverside Asia, we are dealing with the new Asian operations of a long-established US private equity firm. However, like the LPs we consulted in preparing this feature, we are cautious about choosing from hundreds of “have a go” first-time managers, preferring instead to focus on those firms and funds which have been given an institutional seal of approval. ●

“Organisations like [development finance institutions] have played a critical role in getting emerging market private equity off the ground.”

Ones to watch

1 Ambit Pragma

Founded: 2007.

Headquartered: Mumbai.

First fund: A \$100 million fund that will invest in the lower end of the mid-market in India. The average bite size per deal will be between \$5 million and \$10 million.

The fund saw an initial close on \$50 million in June 2008. The fund is focused on entertainment, healthcare, logistics, infrastructure services and food.

Key people: Rajeev Agrawal, Mangesh Pathak, Nirmesh Prakash, Sidharth Kedia and Suresh Goyal.

Ambit Pragma was founded by Rajeev Agrawal, one of the founding members of the highly-regarded India Value Fund. Agrawal was with the Indian buyout shop for almost seven years until March 2007. However, this is no buyout firm. The grapevine has it that Agrawal was keen to make growth investments at the smaller end of the spectrum and so set out with his own venture, bringing in four other professionals. All five members of Ambit's team (named above) specifically focus on one of the sectors that the firm invests in. The firm's maiden vehicle is backed by the likes of CDC Group and the International Finance Corporation. The team collectively has about 75 years of operating experience and 15 years of investing experience. According to one Singapore-based LP, "Ambit provides strong operational value addition capabilities as a team [whose members] have extensive experience in their respective domain."

2 FountainVest Partners

Founded: 2007.

Headquartered: Hong Kong; another office in Shanghai.

First fund: A \$1 billion growth capital fund

closed in November 2008. The fund is focused on growth capital opportunities in China and will invest between \$50 million and \$150 million per deal. Sectors targeted include domestic consumption, alternative energy and infrastructure.

Key people: Frank Tang, Terry Hu, George Chuang and Chenning Zhao.

When four leading executives from Temasek Holdings leave the firm to set up their own private equity fund, people take notice. So did a number of leading institutional investors when FountainVest set out to raise \$750 million for its maiden vehicle. Not only did the firm manage to garner commitments from leading institutional investors Ontario Teachers' Pension Plan (\$200m), Canada Pension Plan (\$200m), Temasek (\$50 million), Washington State Investment Board (\$50m), and CDC (\$40m), it also managed to raise substantially more capital than it had set out to do. An experienced team that knows its market well and is backed by leading investors, FountainVest is here to stay. It was mentioned as 'one to watch' by almost all of the limited partners canvassed for this feature.

3 Hopu Investment Management

Founded: 2007.

First fund: The firm manages Hopu USD Master Fund, which closed on \$2.5 billion in 2008. The fund makes investments in China and is focused mainly on opportunities arising from the restructuring of state-owned enterprises and the rapidly growing private sector in the country.

Key people: Fang Fenglei, Chaohui He, Richard Ong, Dominic Ho.

Hopu is headed by former Goldman Sachs executive Fang Fenglei, a familiar name in Chinese business circles even

before entering private equity, and encompasses other Chinese business power hitters. The fund has reportedly received commitments of \$1 billion from Temasek Holdings and \$300 million from Goldman Sachs. Add Daiwa Group's \$100 million commitment into the mix and the faith LPs have in Fenglei becomes evident. Hopu has, by virtue of its size and backers, become a prominent name in Chinese private equity within a year of its maiden fund's final close. The firm has since made three investments: one in a Mongolian ore mine, a second investment in Bank of China, and finally, the acquisition of a minority stake in China Construction Bank.

4 Riverside Asia

Founded: Riverside was founded in 1988, but its first Asia-focused fund, Riverside Asia Fund I, was launched in 2007.

Headquartered: Cleveland, Ohio, the US. In Asia, it has offices in Hong Kong, Seoul and Tokyo.

First fund: Riverside Asia Fund I is targeting \$100 million and held a first close on \$25 million in September 2008. The firm's initial focus in Asia will be on the more mature economies of Japan, Korea, Australia and Singapore. It focuses on investments at the smaller end of the middle market and typically likes to assume control positions.

Key people: Stuart Baxter, managing partner and fund manager of Riverside Asia Fund I.

While US-headquartered Riverside was founded in 1988, its team in Asia is relatively new – most members joined the team in 2007 and 2008. The global firm has a good track record in the SME space and is different from other firms in that it employs the same strategy in Asia. "Riverside Asia does small platform

investments and then add-ons. Within three or four years, they get 3x or 4x EBITDA. This strategy is very popular in the US and may work in Japan and Korea," said a Japan-based LP. The fund's investments so far include Japanese parking lot operator Shinsouki and an add-on acquisition, MAOS, another Japanese parking lot operator. Many LPs *PEI Asia* spoke to for this feature also spoke favourably of these parking lot transactions.

5 Valiant Partners

Founded: 2006.

Headquartered: Tokyo.

First fund: Valiant Buyout Fund I closed on ¥17.5 billion (\$186 million) in Oct 2007. The Japan-focused fund invests between ¥1 billion and ¥4 billion in Japanese companies across all sectors. The fund has injected ¥5 billion into three investments and has approximately ¥10 billion left to spend.

Key people: Ken Kato, co-representative partner, Ayumi Sakurai, co-representative partner, Daisuke Shintani, partner, Akira Takagi, partner.

Valiant Partners was founded in 2006 by Ken Kato, Ayumi Sakurai, Daisuke Shintani and Akira Takagi. Of the four, Kato, Sakurai and Shintani were formerly colleagues at MKS Partners, one of the top three local private equity firms in Japan. Kato and Sakurai respectively spent eight and 10 years in MKS Partners where they led many growth capital, buyout and turnaround transactions. The two, along with Shintani and Takagi, are responsible for Valiant's fundraising and deal sourcing activities. Valiant Partners gained attention among LPs for raising its capital very quickly. Its debut fund held a first close on ¥3 billion in October 2006 and a final close on ¥17.5 billion one year later.

6 Keytone Ventures

Founded: Reportedly in 2008.

First fund: Keytone has reportedly raised \$104 million for its debut fund.

Key people: Joe Zhou, founder and managing partner.

The most elusive of our first time funds, information on Keytone Ventures – and its founder John Zhou – is pretty hard to come by, despite glowing recommendations from several LPs. Zhou was part of the team hired by Kleiner Perkins in 2007 to launch KPCB China and its \$360 million China-focused fund. A US-based institutional investor says Zhou was a key man in the firm, which he left in 2008 to set up Keytone Ventures. However, Zhou still remains an affiliated partner of the KPCB China. Previously, he spent six years as a partner at SAIF Partners, a Greater China-focused private equity firm. Before SAIF, Zhou worked in Softbank China Venture Capital. It is unlikely the high-profile Zhou will stay out of the limelight for long.

7 CX Partners

Founded: 2008.

Headquartered: New Delhi.

First fund: The firm plans to raise \$750 million to broadly invest in consumer-driven businesses in India. The fund has already received an investment from US investment adviser Morgan Creek Capital Management. It reportedly held a first close on \$220 million in March.

Key people: Ajay Relan, founder and managing partner, Jayanta Basu, partner, Amit Bhatiani, partner.

Ajay Relan was at the helm of the Indian operations of Citi Venture Capital International (CVCI) for 13 years from its inception in 1995. At the highly-respected CVCI India, he built and managed a team that invested more than \$1 billion in approximately 40 Indian companies in the

period from 2001 to 2008. Relan believes he can replicate CVCI India's success with CX Partners by drawing on the vast experience and networks in India he and his partners built up over the last several years. Working alongside him, Basu was formerly the vice president of CVCI India while Bhatiani was previously a portfolio manager at US hedge fund Duma Capital.

8 Tasman Capital Partners

Founded: 2008.

Headquartered: Sydney.

First fund: In December 2008, co-founder Janine Middleton told www.pei-asia.com the firm was preparing to launch its maiden fund: a mid-market fund targeting A\$350 million. The Australia- and New Zealand-focused fund will target buyouts, buy-ins and roll-ups. The fund is expected to close in the third quarter of 2009.

Key people: Co-founders and managing directors Gene Lorenz, Janine Middleton, and Rob Nichols.

This is one tight team. Lorenz, Middleton and Nichols founded Tasman Capital Partners through the management buyout of Nikko Principal Investments Australia from Citigroup in September 2008. At the time of Nikko's inception in 2006, Lorenz and Nichols were working together at DB Capital, the private equity arm of Australia's Deutsche Asset Management, and left to move to Nikko.

The team is highly experienced, not only in private equity, but also, crucially, in working together, as one Singapore-based LP points out. The core team worked together for several years at DB Capital Partners, and have continued to pull in tried and tested old colleagues when building their team. Last December in fact, Victoria Rohrsheim, another ex-DB Capital Partners colleague, joined the firm as associate director and chief financial officer. ●