



Private Debt in Asia

Justin Hall takes a closer look at Asia-focused private debt fundraising, including funds closed in 2015 and those currently in market.

While the majority of private debt activity has historically been focused on North America and Europe, data from Preqin's [Private Debt Online](#) points to a growing market for alternative financing in Asia. As shown in Fig. 1, 17 private debt funds with a primary focus on Asia closed in 2015, securing \$6.1bn in aggregate capital. There are currently 20 funds in market targeting Asia, which are looking to raise more than \$8bn collectively.

2015 was a significant year for Asia-focused private debt fundraising; it recorded both the highest number of funds closed and the most aggregate capital raised since 2012, continuing the upward trend of the past three years. While still relatively small compared with the North American and European private debt markets, Asia-focused fundraising continues to grow as investors become more comfortable incorporating exposure to the region in their portfolios (Fig. 2).

Forty-seven percent of Asia-focused funds closed in 2015 exceeded their initial target size. Of these funds, three focus primarily on Japan, and the remainder focus primarily on China, but with a wider focus on Asia. Among funds that fell short of their initial target size, India, Singapore and South Korea were most commonly targeted, with just one such fund each targeting Japan and China.

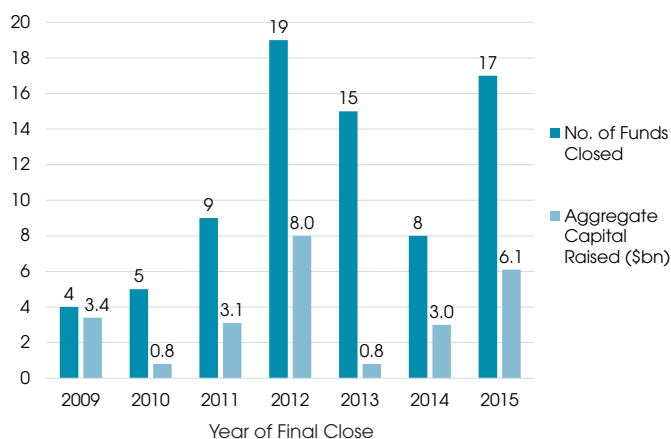
As shown in Fig. 4, the majority of managers of Asia-focused funds are located in Asia: 75% are based in India, Hong Kong or Singapore, and the remaining 25% in the US and UK. These statistics point to the importance of a thorough understanding and practical knowledge of local legal and regulatory systems.

To help mitigate these challenges, global fund managers such as [KKR](#), [Adamas Asset Management \(AAM\)](#) and [Babson](#)

[Capital Management](#) have started to establish joint ventures with local firms to gain access to the existing private lending infrastructure in various Asian countries. AAM launched [Adamas Ping An China Credit Fund](#), a joint venture with [Ping An Trust](#), a subsidiary of [Ping An Insurance Group](#). The direct lending vehicle focuses on growth companies in Greater China, specifically SMEs, and is looking to capitalize on the budding awareness of private debt fund managers' abilities as corporate lenders in the region.

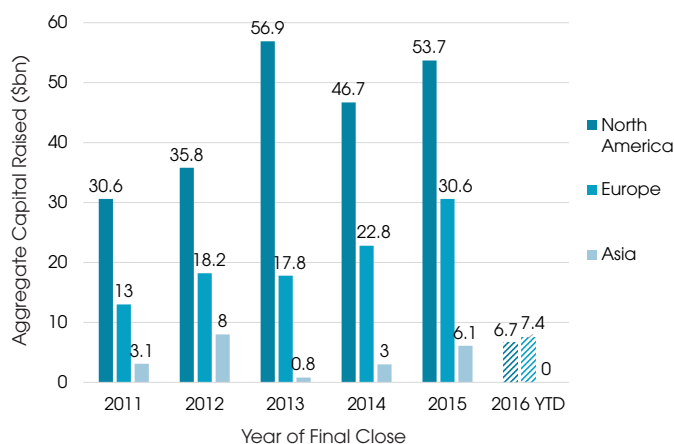
India is home to 40% of managers of Asia-focused funds in market, indicating increasing investor appetite and a positive outlook from managers operating in the fast-growing market. These funds are solely focused on investment in India, again a reflection of the importance of local knowledge. As seen in Fig. 5, some of the largest private debt funds currently in market are focused on investment

Fig. 1: Annual Asia-Focused Private Debt Fundraising, 2009 - 2015



Source: Preqin Private Debt Online

Fig. 2: Annual Private Debt Fundraising by Primary Geographic Focus, 2011 - 2016 YTD (As at 17 May 2016)



Source: Preqin Private Debt Online

Fig. 3: 10 Largest Asia-Focused Private Debt Funds Closed in 2015

Fund	Firm	Vintage	Fund Size (\$mn)	Strategy
PAG Asia Special Situation Fund II	PAG Asia Capital	2015	1,375	Distressed Debt
Sunflower Fund	China Merchants Capital	2015	1,094	Distressed Debt
Hungkuk-Woori Senior Loan Private Special Asset Investment Trust No. 1	Heungkuk Asset Management	2015	563	Direct Lending
ADV Opportunities Fund I	ADV Partners	2014	545	Special Situations
Shoreline China Value III	Shoreline Capital	2015	500	Distressed Debt
Nomura ICG Japan Fund	Intermediate Capital Group	2014	377	Mezzanine
Tokio Marine Mezzanine Fund	Tokio Marine Mezzanine	2014	328	Mezzanine
SSG Capital Partners IV	SSG Capital Management	2015	325	Special Situations
Olympus Capital Asia Credit I	Olympus Capital Asia	2013	300	Direct Lending
Mezzanine Fund No.3	Mizuho Capital Partners	2015	242	Mezzanine

Source: Preqin Private Debt Online

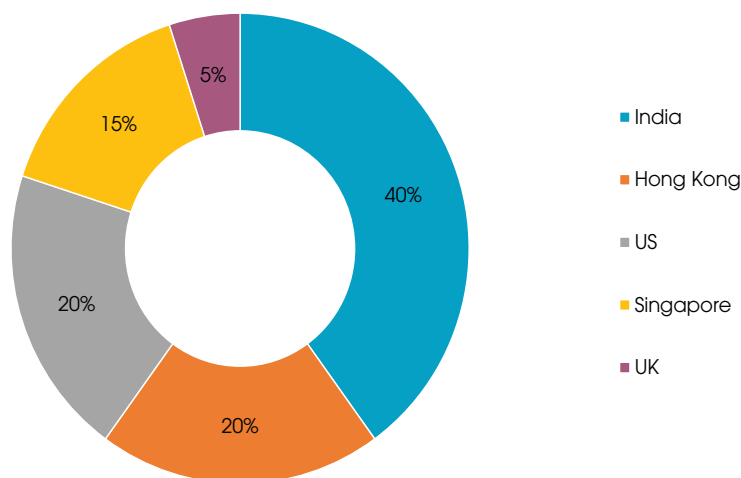


in India across a range of fund types; however, May 2016 developments in parliament may shift the balance to favour investors in India-focused distressed debt opportunities. The Indian Government has now passed a bankruptcy law which aims to make it easier to dissolve the assets of a failing business and strengthen the rights of debtholders, which has long been an issue for potential investors. This development, along with the ongoing pressure from the Reserve Bank of India for banks to reduce exposure to troubled companies, may potentially create more opportunities for fund managers in the distressed debt segment. While India is not the only Asian country in which investors are looking to invest in private debt, these steps by the government could help to distinguish the country from its peers through the eyes of investors.

The increasing interest from fund managers and investors across Asia coincides with the recent pullback in lending by banks in the region. Despite traditional banks maintaining a relatively large role within lending in Asia, it is likely that private debt financing options will continue to gain favour by offering flexible terms and loan servicing that could be more attractive to borrowers. Slowing economic growth in China and other countries in Asia is also creating new opportunities for private lending. In China, small and mid-sized companies have found it much harder to access credit through traditional lending channels, creating footholds for alternative lenders to expand operations.

In May 2016, the China Banking Regulatory Commission (CBRC) put measures in place to assist these small and mid-sized companies struggling with problems resulting from insufficient lending to private enterprises. These new regulations will require financial

Fig. 4: Location of Fund Managers Raising Asia-Focused Private Debt Funds (As at 17 May 2016)



Source: Preqin Private Debt Online

institutions to work with private firms to make it easier to access bank credit. This may indicate future intentions to push banks further into lending to Chinese companies looking for capital, which may potentially limit opportunities for private investment.

As of May 2016, 15% of Asia-focused funds in market target China specifically, of which all managers are based in Hong Kong but maintain a presence in China. As previously stated, AAM has utilized joint ventures to gain access to the Chinese direct lending segment. Similarly, [DAC Financial Management](#), which is raising [DAC China Special Opportunity and Situation Fund II](#), has focused on distressed credit and special situations in China since 2002 via its subsidiary Gao Fei Consulting Services Co Ltd. In 2005, Gao Fei was granted an unlimited distressed asset servicing license, making it the only foreign entity

to hold this privilege in China. These relationships, along with the CBRC requirements, stress the importance of having a 'footprint' in China when looking to invest in distressed credit.

Given the growth in the number of Asia-focused funds in market – a 113% increase from 2014 to 2015 – it is likely that the region may be the next in line to benefit from the development of the global private debt marketplace. For fund managers looking to enter the region, knowledge of local laws and regulations will remain important, as is also the case throughout North America and Europe. Fund managers based in Asia will likely continue to manage the majority of funds focused on the region, but, as funds continue to successfully reach targets, global managers may look to increase their exposure and coverage of Asia, too.

Fig. 5: Largest Asia-Focused Private Debt Funds Currently in Market (As at 17 May 2016)

Fund	Firm	Location	Vintage	Strategy	Target Size (\$mn)	Primary Geographic Focus
Carlyle Asia Structured Credit Opportunities Fund	Carlyle Group	US	2014	Direct Lending	1,000	Asia
ICG Asia Pacific Fund III	Intermediate Capital Group	UK	2015	Mezzanine	1,000	Asia
IFC-Apollo Distressed Debt Fund	Apollo Global Management	US	2016	Distressed Debt	1,000	Emerging Markets, India
Piramal India Resurgent Fund	Piramal Capital	India	2016	Distressed Debt	900	India
KKR India Alternative Credit Opportunities Fund	KKR	US	2012	Mezzanine	750	India
Clearwater Capital Partners Fund V	Clearwater Capital Partners	Hong Kong	2016	Special Situations	650	Australia, China, India, South Asia, South Korea
Adamas Ping An China Credit Fund	Adamas Asset Management	Hong Kong	2016	Direct Lending	500	China

Source: Preqin Private Debt Online

PREQIN GLOBAL DATA COVERAGE



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	PRIVATE EQUITY*	HEDGE FUNDS	REAL ESTATE	INFRASTRUCTURE	PRIVATE DEBT	NATURAL RESOURCES
INVESTOR COVERAGE 	6,273 Active Private Equity LPs	5,072 Active Hedge Fund Investors	5,313 Active Real Estate LPs	2,762 Active Infrastructure LPs	2,125 Active Private Debt Investors	1,913 Active Natural Resources Investors
FUND COVERAGE 	19,659 Private Equity Funds	20,902 Hedge Funds	5,715 PE Real Estate Funds	1,065 Infrastructure Funds	2,047 Private Debt Funds	1,538 Natural Resources Funds
FIRM COVERAGE 	10,049 Private Equity Firms	8,278 Hedge Fund Firms	3,443 PE Real Estate Firms	493 Infrastructure Firms	966 Private Debt Firms	809 Natural Resources Firms
PERFORMANCE COVERAGE 	6,304 Private Equity Funds	13,800 Hedge Funds	1,491 PE Real Estate Funds	214 Infrastructure Funds	734 Private Debt Funds	429 Natural Resources Funds
FUNDRAISING COVERAGE 	2,219 Private Equity Funds	14,931 Hedge Funds	1,005 PE Real Estate Funds	193 Infrastructure Funds	276 Private Debt Funds	225 Natural Resources Funds
DEALS COVERAGE 	BUYOUT 47,163 + 21,337 Buyout Deals** Exits	VENTURE CAPITAL 101,846 + 11,809 Venture Deals*** Exits	INFRASTRUCTURE 12,925 Infrastructure Deals			

Alternatives Investment Consultants Coverage:

527

Consultants Tracked

Funds Terms Coverage: Analysis Based on Data for Around

14,330

Funds

Best Contacts: Carefully Selected from our Database of over

362,564

Contacts



PLUS

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