PREQIN SPECIAL REPORT: ASIAN PRIVATE EQUITY & VENTURE CAPITAL

SEPTEMBER 2018

CONTENTS

CEO's FOREWORD
- Mark O'Hare

In last year's Asian Private Equity & Venture Capital Report I noted that Preqin was expanding its investment in tracking the Asian alternative assets industry to reflect Asia's growing importance in the industry globally. Specific initiatives included our new Hong Kong office, followed by our new Guangzhou research centre in October 2017.

We expected this increased commitment to Asia research to deepen Preqin's data on the industry's scale and operations across Asia, but we were frankly unprepared for the sheer scale of the impact, and the picture that emerges of private equity & venture capital in Asia, and most especially in China. Based upon the latest figures, now published in this report:

- **AUM:** Asia-focused PE & VC funds account for $722bn of AUM, 25% of the global total;
- **Dry Powder:** Asia-focused PE & VC funds account for $246bn of dry powder, 25% of the global total.

The growth of Asian alternative assets was already widely acknowledged; we believe that this year's Preqin report highlights just how significant Asia has become in alternative assets globally, and raises the stakes for LPs globally in assessing their own asset allocations and their strategies for Asia.

The PE & VC industry in Asia is following its own development path, and has several distinctive features, of which I will highlight just five here:

- **Fund Manager Ecosystem:** is increasingly mature; Preqin's databases now cover nearly 4,500 fund management firms based in Asia, and the number grows weekly; many of these firms have already managed multiple fund generations, and have emerging track records.
- **Investor Ecosystem:** is also evolving rapidly; Preqin is now tracking over 1,000 significant LPs based in Asia, and this number is growing even more rapidly than the fund manager ecosystem; the mix of types of investor differs significantly from that in Europe and North America, with corporate investors, banks and insurance companies accounting for 51%, a significantly larger proportion than elsewhere.
- **Growth and VC Funds:** account for 60% of the money raised for PE & VC funds over the past five years, a significantly larger proportion than elsewhere; buyout funds are now growing as a proportion of the total.
- **Industry Focus:** reflects the rapidly growing and evolving wider economy, with information technology and consumer discretionary the two highest profile industry categories.
- **Fund Returns and Cash Flows:** still reflect the pattern that has emerged over the past several years; IRRs are broadly on a par with Europe and North America, but net cash flows to investors have disappointed; investors have yet to see the same returns of cash in Asia that they have become accustomed to in North America and Europe.

The report delves into further detail; and I thank my Preqin colleagues and our external contributors from Capstone Partners, Vickers Venture Partners and Gordian Capital for sharing their insights with us and with you.

Asia is already 25% of the global alternative assets industry, and that proportion will only grow over the coming decade, raising opportunities and challenges for investors and fund managers globally; Preqin is investing heavily to serve you with the best possible information to plot your strategy in this vital market.

Happy investing!

Thank you,

Mark O'Hare

THE CHANGING INVESTMENT LANDSCAPE IN ASIA

- Alexandre Schmitz, **Capstone Partners**

Now that the Asian private equity market has begun to mature, what impact has that had on the industry?
After the euphoria of the early days of the Asian private equity industry, where strong performance was achieved by following pre-IPO/momentum-driven strategies, institutional LPs have been disappointed by managers that were unable to return cash-on-cash money to their investors. Over recent years, the Asian private equity market has matured, with more GPs focusing on a hands-on investment approach rather than being passive stock-pickers. In that context, sector specialization has emerged as a better alternative to country focus. More than ever, healthcare, business services and consumer strategies offer the best value-creation prospects, particularly companies that rely on asset-light and tech-enabled business models.

At the same time, in a region which remains dominated by minority stake investments, secondary transactions have demonstrated a better ability to generate good cash-on-cash returns, particularly for portfolio companies relying on a technology-driven strategy. By buying existing shares or combining a secondary and a primary investment in a firm that has been backed for several years by venture capital investors, a GP can simultaneously reduce the intrinsic risk of the transaction and its holding period.

Last but not least, in the regions open to majority transactions (Japan, Australia and to a lesser extent in Southeast Asia), buyout strategies continue to attract the interest of institutional investors. These transactions in Asia-Pacific rely on growth (organic or buy-&-build strategies) and on operational excellence. In that context, Australia continues to be considered the most attractive buyout market, particularly in the small to mid-market segment where prices remain reasonable.

Two-thirds of private equity funds closed in 2017 used a placement agent, the largest proportion over the past decade. From your perspective, how has the way that GPs raise capital changed over recent years?
In Asia, there was a period when capital was abundant, especially in China. Due to the supportive IPO market at that time, the returns were strong and opportunities for growth investing were numerous. As market conditions shifted, GPs found it more difficult to raise capital on their own and started turning to placement agents to boost the odds of success for their fundraise. In addition to making the appropriate introductions to LPs at the right time, the placement agent can help the GP to be ready for fundraising in due time. This includes document preparation, loading the data room and preparing for diligence requests. Regarding documentation, it is important to focus on compliance with respect to each country, and a registered placement agent can work alongside legal counsel to determine the best course for fundraising. In a world where regulation constraints are increasingly complex to manage, partnering with a service provider with global vision and a local presence in the main LP markets is key.

Our data shows that Asia-focused private equity funds are much more likely to appoint a placement agent that is based in North America rather than Asia. In your opinion, what is the appeal for Asian private equity funds to use international placement agents over local firms?
When you look at the typical composition of the LP base of Asian GPs that have been able to grow over time, you clearly see the combination of three sources of funding: (i) Asian investors, (ii) international investors with a presence in Asia (mainly funds of funds and pension funds) and (iii) international investors without a presence in the region (mainly North America-based endowments and family offices). With increased interest from international investors, an Asian GP may determine that the best way to access these non-Asian investors is through a North America-based placement agent. In many cases, you find that North America-based placements agents will also have an office in Asia, which truly gives the GP the best of both worlds: a local presence as well as the deep reach into LPs that may be harder to access.

Have you seen many changes in LP appetite in Asia?
In addition to an increasing appetite for sector-focused, hands-on managers, the main evolution we have seen in recent years is the renewed interest for the mid-market segment. While the most successful managers have substantially increased the size of their funds, the most sophisticated LPs in both Asia and the West aim to rebalance part of their allocation to fund managers operating in the $300mn to $1.5bn range, not just in multibillion-dollar funds. Furthermore, there is an increasing interest to support managers that have demonstrated a consistent ability to offer quality co-investments. In that context, several international investors have opened offices in the region and/or reinforced their local teams for greater efficiency in executing a direct investment strategy alongside their fund allocation.

CAPSTONE PARTNERS
Founded in 2001, Capstone Partners is a leading independent placement agent focused on raising capital for private equity, credit, real assets and infrastructure firms from around the world.

ALEXANDRE SCHMITZ
Alexandre is a Managing Partner at Capstone Partners. He leads the distribution and the business development in Asia Pacific. He has a Masters Degree in Economics from the University of Louvain (magna cum laude) and is a Certified Financial Analyst.

www.csplp.com

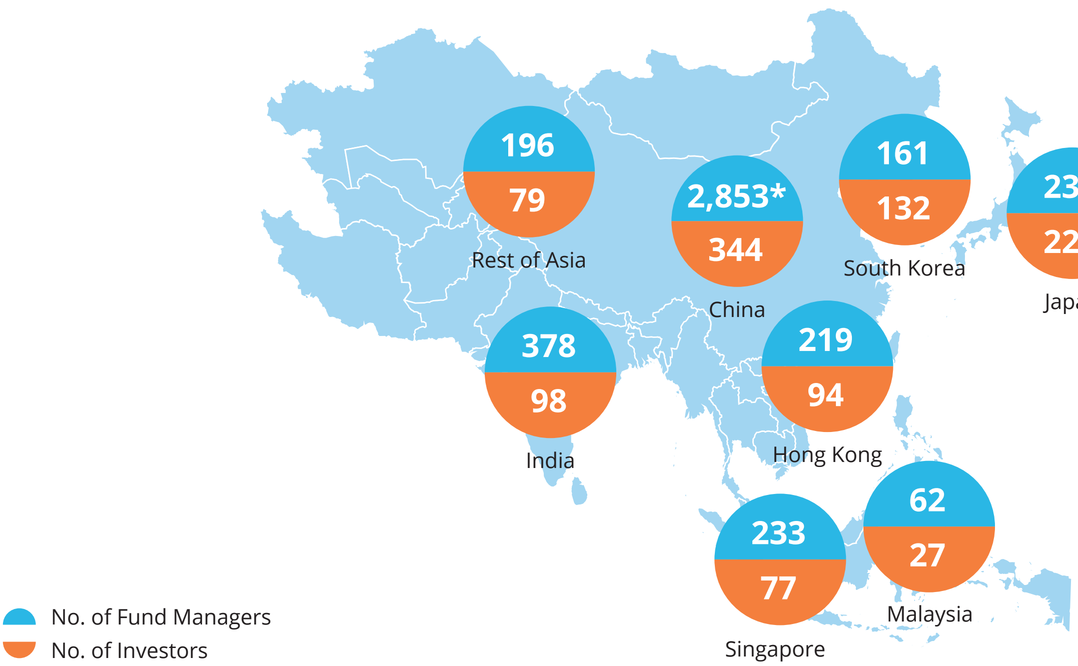
KEY STATS

$667bn
Amount of capital raised by Asia-focused private equity & venture capital vehicles closed since 2010.

$626bn
Aggregate value of buyout and venture capital deals completed in Asia since 2010.

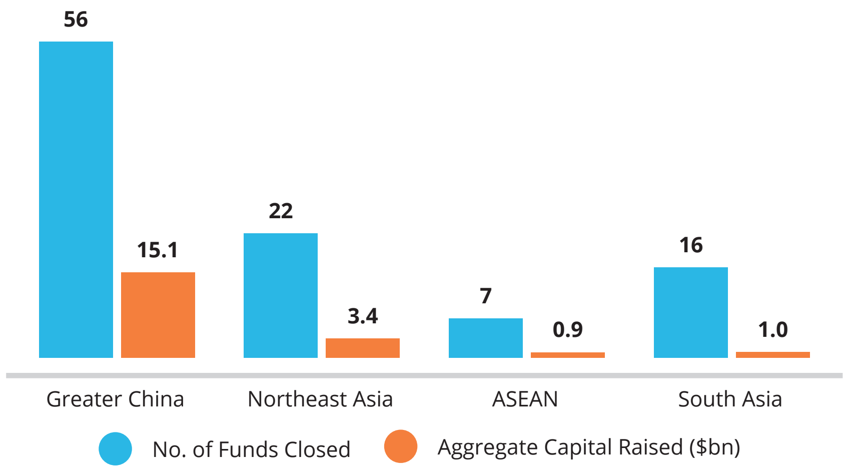
$722bn
AUM of the Asian private equity & venture capital industry as at December 2017.

Fig. 1: Location of Asia-Based Private Equity & Venture Capital Fund Managers and Institutional Investors



Source: Preqin

Fig. 2: Asia-Based Private Equity & Venture Capital Fundraising in 2018 YTD by Fund Manager Location (As at July 2018)



Source: Preqin

PREQIN'S ASIAN DATA

Fundraising and AUM figures of Asia-focused funds have increased significantly since the end of 2016. This can, in part, be attributed to Preqin's additional research efforts to strengthen our coverage of the Chinese private equity & venture capital market, with the opening of our Guangzhou office in October 2017.

Another factor driving the surge in AUM is the increase in the number of state-backed China-based funds, which are playing a big role for the private equity market in the region.

**Due to Preqin's additional research efforts to strengthen our alternative assets data in China, fund manager figures have increased significantly as we aim to be more reflective of the industry.*

THE ASIAN PRIVATE EQUITY & VENTURE CAPITAL UNIVERSE

The Asian private equity & venture capital market continues to grow due to the range of investment opportunities available as well as the increasing levels of technological innovation in countries such as China. As a result, Greater China remains at the forefront of private equity & venture capital activity in Asia, with 2,853 fund managers based in the region, nearly double the number of fund managers based in the rest of Asia combined.

Since last year's edition of our Asian Private Equity & Venture Capital report, the number of institutional investors and fund managers in each Asian region has increased, highlighting the potential income streams available in the Asian markets, which show few signs of abating. Northeast Asia has seen steady growth, with Japan recording 40 fund closures in 2017, nine more than 2016, while aggregate deal value in the region more than doubled in 2017. The ASEAN region has steadily grown, with venture capital funds the most prominent fund type in market. Fundraising in South Asian countries increased between 2016 and 2017, with aggregate capital raised nearly $1.5bn higher.

INVESTORS

Preqin's online platform tracks 1,074 Asia-based institutional investors active in private equity & venture capital. China is home to the largest number, accounting for 32% of Asia-based investors, up five percentage points since last year's report (Fig. 3).

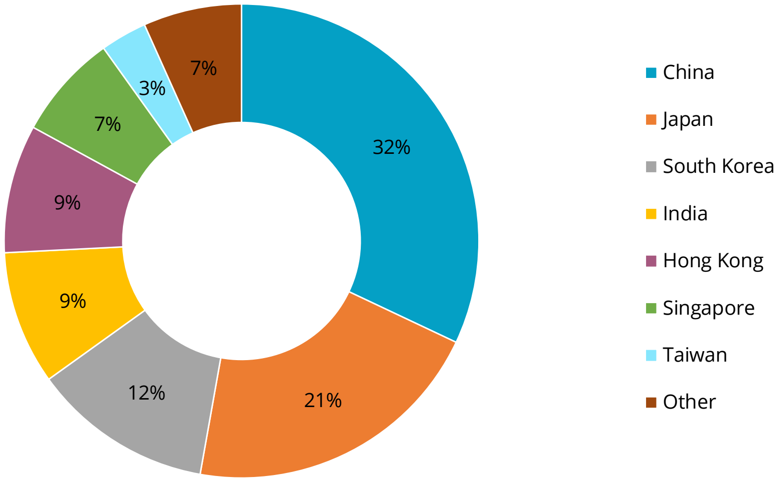
In Europe and North America, the majority of LPs are foundations and pension funds, whereas corporate investors, banks and investments companies make up the largest proportions of investors in Asia (Fig. 4).

ASIA-FOCUSED FUNDRAISING

Despite funds closed in 2017 securing $29bn more than in 2016, the number of funds closed each year has been on the decline since the peak in 2015 (Fig. 5).

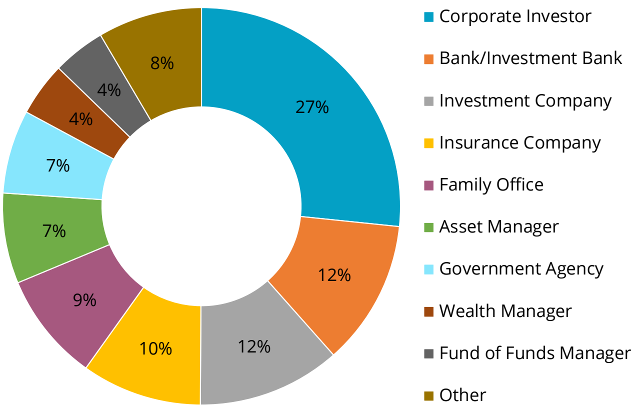
Larger funds have been entering the market, which can explain the increase in aggregate capital raised despite fewer funds closing, with 35% of funds closed in 2018 so far securing $250mn or more, an increase from 24% of funds closed in 2017 (Fig. 6). The largest Asia-focused fund closed so far in 2018 is Carlyle Group's buyout fund, Carlyle Asia Partners V,

Fig. 3: Asia-Based Private Equity & Venture Capital Investors by Location



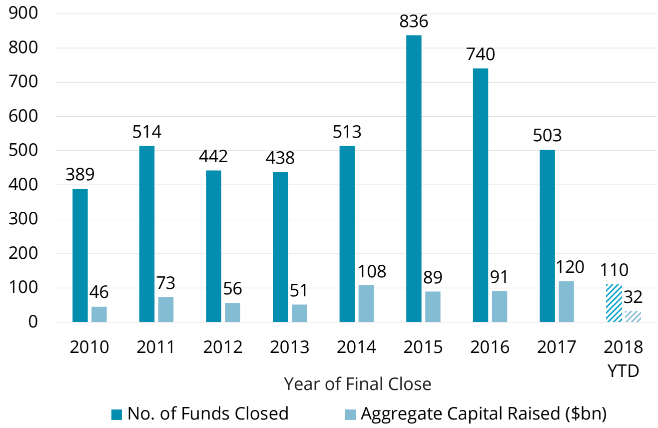
Source: Preqin

Fig. 4: Asia-Based Private Equity & Venture Capital Investors by Type



Source: Preqin

Fig. 5: Annual Asia-Focused Private Equity & Venture Capital Fundraising, 2010 - 2018 YTD (As at July 2018)*



Source: Preqin

which secured $6.6bn. Following this, Asia-focused buyout funds have already secured $14bn in 2018 so far (Fig. 7). Venture capital funds once again account for the largest number (660) of Asia-focused funds in market, although growth funds are targeting the most capital (Fig. 8).

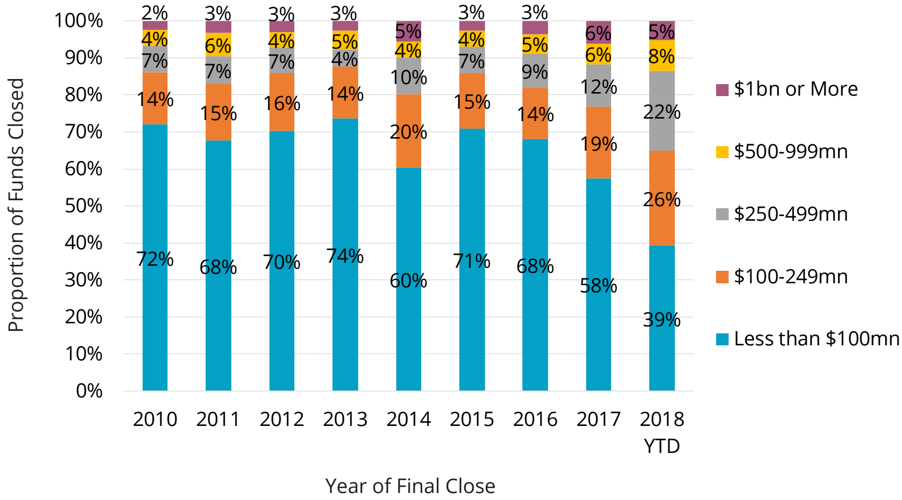
DRY POWDER

Asia-focused private equity & venture capital managers have a record $246bn in dry powder available to them as at December 2017, up by a substantial 71% from the previous year*, which was a record at the time (Fig. 9). Following the increased redistribution of capital to investors in recent years, investors are seeking to re-invest this capital in order to maintain their allocations. In addition, more investors are attracted by the opportunities in Asia and are therefore allocating fresh capital to the asset class.

OUTLOOK

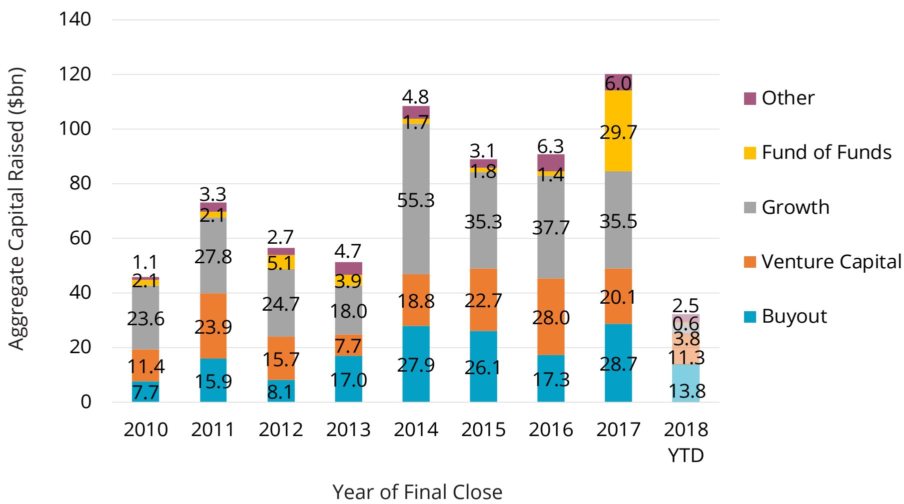
With record levels of dry powder and aggregate capital raised in the Asian market, the outlook for the industry appears promising. Increasing innovation has created more investment opportunities in the region, and in an age of technological breakthroughs, the appetite for innovation shows no signs of slowing. Venture capital funds continue to dominate the market, highlighting the sheer volume of start-ups emerging through increased demand for technology and the investment opportunities that arise from this.

Fig. 6: Asia-Focused Private Equity & Venture Capital Funds Closed by Fund Size, 2010 - 2018 YTD (As at July 2018)



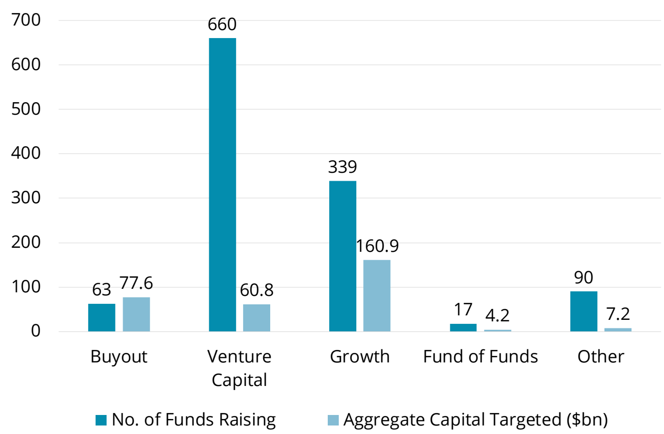
Source: Preqin

Fig. 7: Aggregate Capital Raised by Asia-Focused Private Equity & Venture Capital Funds by Type, 2010 - 2018 YTD (As at July 2018)



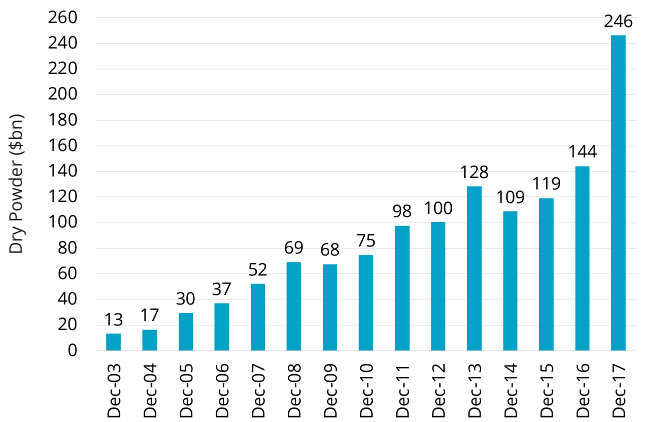
Source: Preqin

Fig. 8: Asia-Focused Private Equity & Venture Capital Funds in Market by Type (As at July 2018)*



Source: Preqin

Fig. 9: Asia-Focused Private Equity & Venture Capital Dry Powder, 2003 - 2017*



Source: Preqin

*Due to Preqin's additional research efforts to strengthen our alternative assets data in China, funds in market and dry powder figures have increased significantly as we aim to be more reflective of the industry.

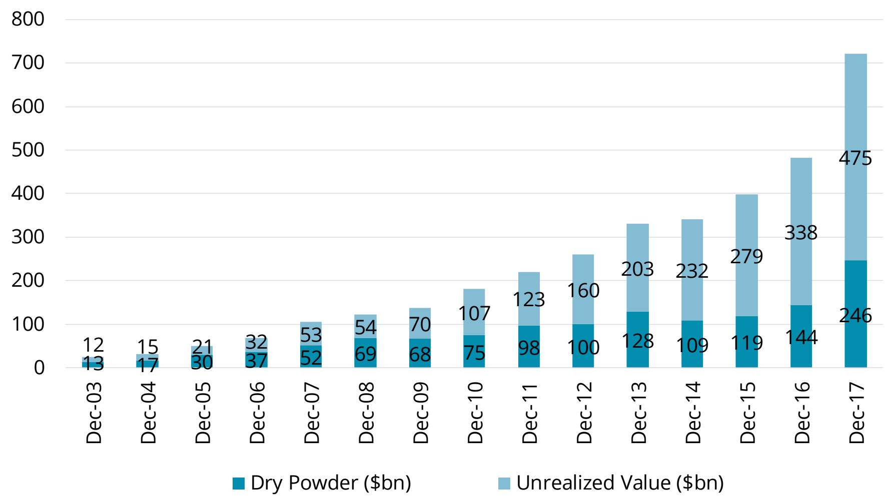
ASSETS UNDER MANAGEMENT

$722bn
Asia-focused private equity & venture capital AUM as at December 2017.

42%
Growth funds account for the largest proportion of Asia-focused dry powder.

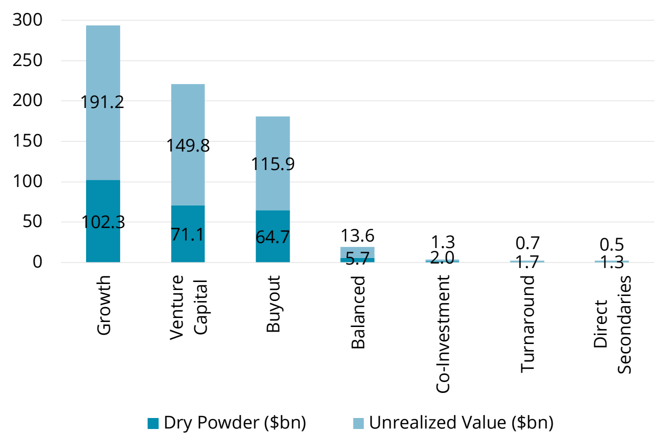
$246bn
Asia-focused private equity & venture capital funds have a record level of dry powder.

Fig. 10: Asia-Focused Private Equity & Venture Capital Assets under Management, 2003 - 2017*



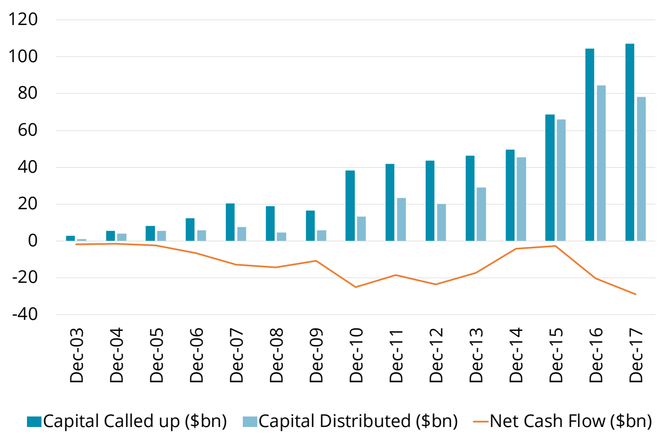
Source: Preqin

Fig. 11: Asia-Focused Private Equity & Venture Capital Assets under Management by Fund Type (As at December 2017)



Source: Preqin

Fig. 12: Asia-Focused Private Equity & Venture Capital: Annual Capital Called up, Distributed and Net Cash Flow, 2003 - 2017*



Source: Preqin

**Due to Preqin's additional research efforts to strengthen our alternative assets data in China, AUM and capital distribution figures have changed significantly as we aim to be more reflective of the industry. In Fig. 10, state-backed China-based funds hold $74bn in AUM at the end of 2017.*

Capstone Partners

Global private equity fundraising

Capstone Partners (www.csplp.com) is a leading independent placement agent focused on raising capital for private equity, credit, real assets and infrastructure firms. The Capstone team includes 35 experienced professionals in North America, Europe and Asia.

$1.7b
ATLAS HOLDINGS
Atlas Capital Resources III
Control investments in distressed opportunities
2018

€903m
alpha
Alpha Private Equity Fund 7
Mid-market buyouts in Continental Europe
2017

$625m
PLATTE RIVER EQUITY
Platte River Equity IV, L.P.
A Partner for Lower Middle Market Industrial Companies
2017

$537m
RUBICON technology partners
Rubicon Technology Partners II
Buyout investments in enterprise software companies
2017

$171m
BASIL PARTNERS
By Entrepreneurs. For Entrepreneurs.
Basil Technology Fund III
Buy & build of global niche IT services companies
2018

A$300m
ADVENT PARTNERS
Advent Partners 2
Lower mid-market buyout investments in Australia
2018

$175m
TR
TR Capital III
Secondary investments in Asia
2017

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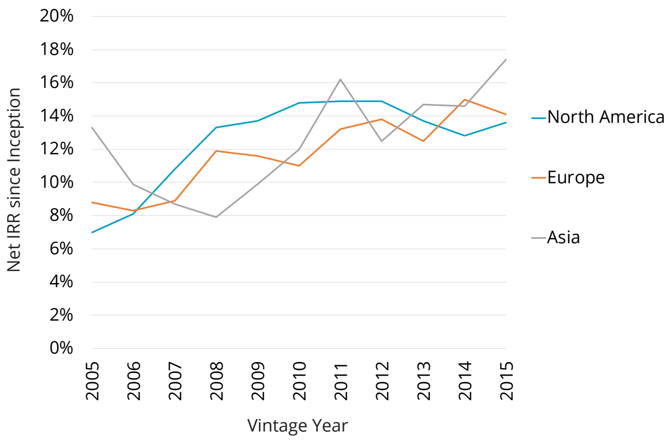
Americas – Europe – Middle East – Asia Pacific

Securities placed through CSP Securities, LP
Member FINRA/SIPC
Authorised by FINMA
CMS license holder from the MAS
Authorised by FCA

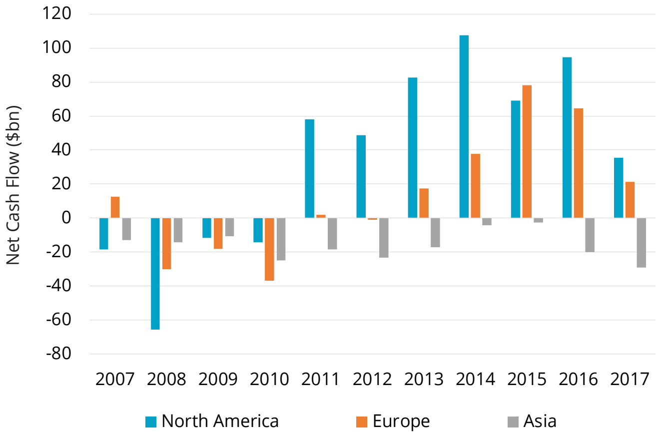
PERFORMANCE

Fig. 13: Private Equity & Venture Capital Funds: Median Net IRRs by Primary Geographic Focus and Vintage Year



Source: Preqin

Fig. 14: Annual Private Equity & Venture Capital Net Cash Flow by Primary Geographic Focus, 2007 - 2017



Source: Preqin

Fig. 15: Top Performing Asia-Based Private Equity & Venture Capital Funds (All Vintages)

Fund	Firm	Headquarters	Vintage	Fund Size (mn)	Geographic Focus	Fund Type	Net IRR (%)	Date Reported
Whiz Healthcare PE 1	Whiz Partners	Japan	2012	5,300 JPY	Asia	Growth	284.9	Jun-17
Nitzanim Fund (1993) Ltd.	Infinity Group	China	1993	20 USD	Middle East & Israel	Venture Capital (All Stages)	121.4	Jun-18
Development Partners Fund	Development Principles Group	Hong Kong	2005	79 USD	Asia	Growth	105.5	Jun-18
Ventech China III	Ventech China	China	2015	225 USD	Asia	Early Stage	105.0	Jun-17
Vietnam Equity Fund	Finansa Fund Management	Thailand	2005	15 USD	Asia	Expansion/Late Stage	104.9	Jun-18
CDH China Fund	CDH Investments	China	2002	102 USD	Asia	Growth	93.0	Jun-18
DP Fund	Ocean Equity Partners	Hong Kong	2005	78 USD	Asia	Growth	93.0	Jun-18
ChrysCapital III	ChrysCapital	India	2004	258 USD	Asia	Growth	89.2	Jun-18
CSK-VC bio-incubation	Whiz Partners	Japan	1999	3,300 JPY	Asia	Venture Capital (All Stages)	65.7	Jun-18
USIT I	JAFCO (Japan)	Japan	1994	7,000 JPY	Asia	Venture Capital (All Stages)	63.8	Jun-18

Source: Preqin

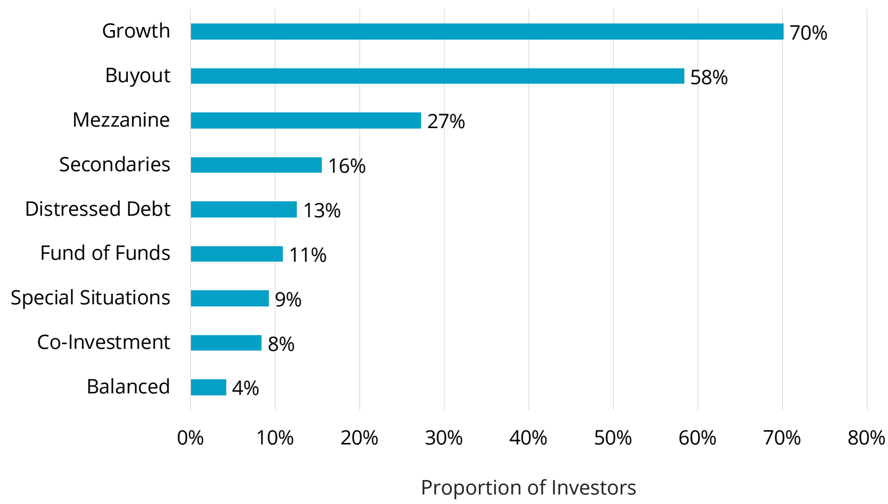
INVESTORS

33%
of Asia-based investors planning to commit $600mn or more to the asset class in the next 12 months are based in Singapore.

$65bn
Average AUM of Asia-based investors in private equity & venture capital.

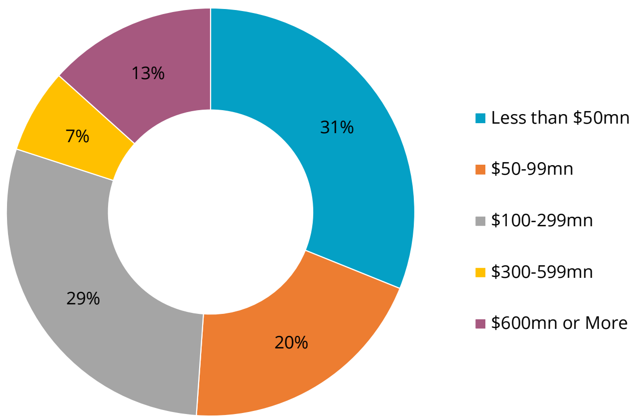
27%
Average target allocation (as a % of AUM) to private equity & venture capital among Asia-based investors.

Fig. 16: Fund Types Targeted by Asia-Based Investors in the Next 12 Months



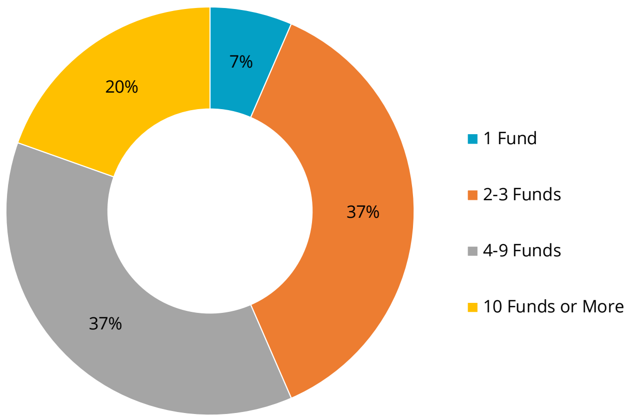
Source: Preqin

Fig. 17: Amount of Capital Asia-Based Investors Plan to Commit to Private Equity Funds in the Next 12 Months



Source: Preqin

Fig. 18: Number of Private Equity Funds Asia-Based Investors Plan to Commit to in the Next 12 Months



Source: Preqin

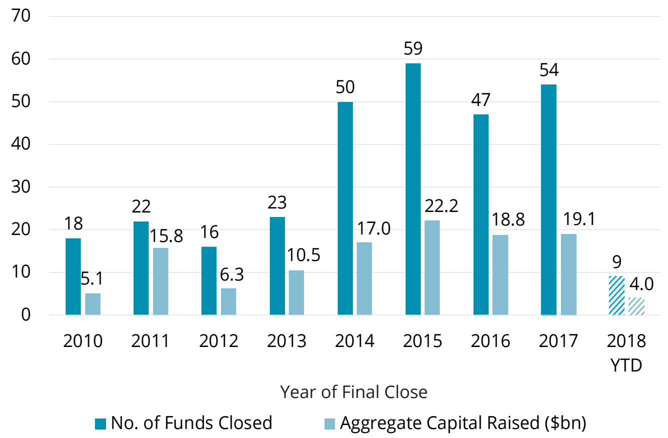
Fig. 19: Largest Asia-Based Investors by Current Allocation to Private Equity

Firm	Type	Location	Current Allocation to PE ($bn)
GIC	Sovereign Wealth Fund	Singapore	39.5
China Investment Corporation	Sovereign Wealth Fund	Beijing, China	22.9
Hong Kong Monetary Authority	Sovereign Wealth Fund	Hong Kong	20.0
National Pension Service	Public Pension Fund	Jeonju-si, South Korea	18.8
China Life Insurance	Insurance Company	Beijing, China	9.4
Asia Alternatives Management	Fund of Funds Manager	Hong Kong	9.3
Korea Investment Corporation	Sovereign Wealth Fund	Seoul, South Korea	6.9
Export-Import Bank of China	Bank	Beijing, China	6.2
Oriza Holdings	Fund of Funds Manager	Suzhou, China	6.1
National Social Security Fund - China	Sovereign Wealth Fund	Beijing, China	6.0

Source: Preqin

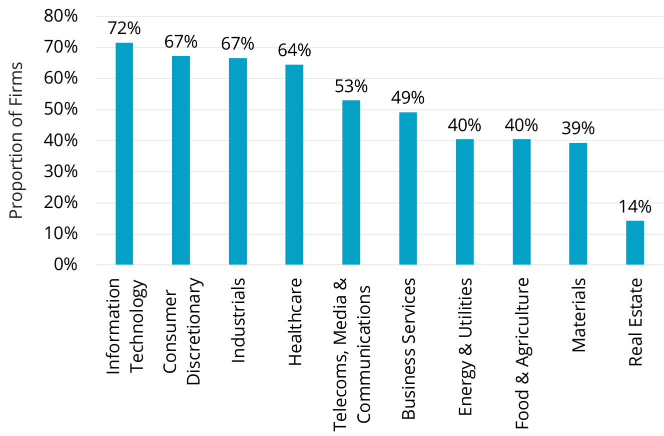
BUYOUT

Fig. 20: Annual Asia-Based Buyout Fundraising, 2010 - 2018 YTD (As at July 2018)



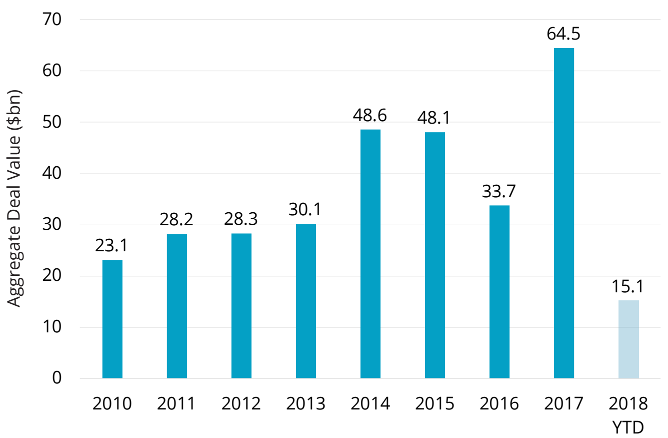
Source: Preqin

Fig. 21: Asia-Based Buyout Fund Managers' Industry Preferences for Underlying Investments



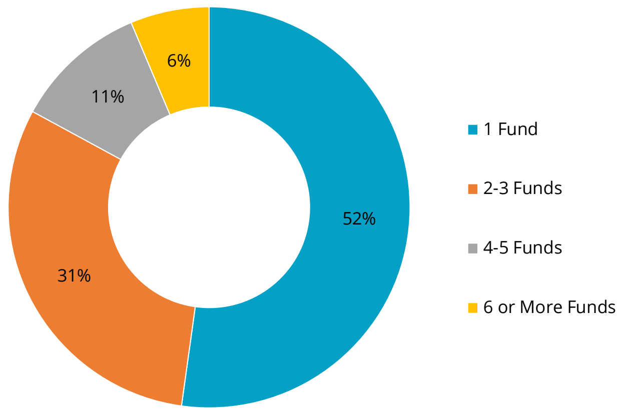
Source: Preqin

Fig. 22: Aggregate Value of Private Equity-Backed Buyout Deals in Asia, 2010 - 2018 YTD (As at July 2018)



Source: Preqin

Fig. 23: Asia-Based Buyout Fund Managers by Number of Buyout Funds Raised Previously



Source: Preqin

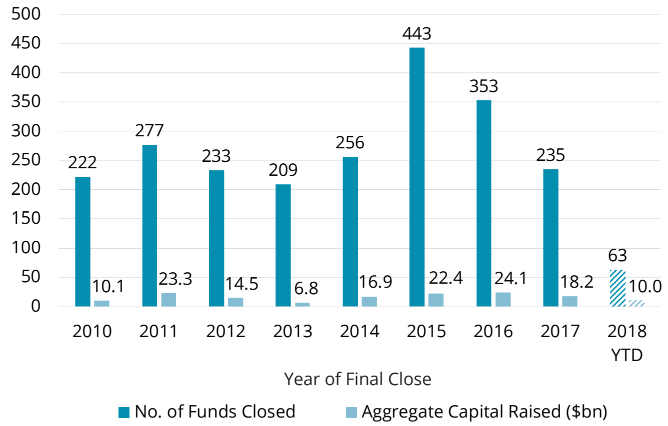
Fig. 24: Five Largest Asia-Based Buyout Funds in Market (As at July 2018)

Fund	Firm	Headquarters	Target Size (mn)
Asian Institutional Investor Joint Overseas Investment Fund	China Minsheng Investment Group	China	15,000 USD
Shenzhen Guodiao China Merchants Equity Investment Fund	China Merchants Capital	China	50,000 CNY
Baring Asia Private Equity Fund VII	Baring Private Equity Asia	Hong Kong	5,500 USD
GSR Global M&A Fund	GSR Ventures	China	5,000 USD
Primavera Capital Fund III	Primavera Capital	China	2,800 USD

Source: Preqin

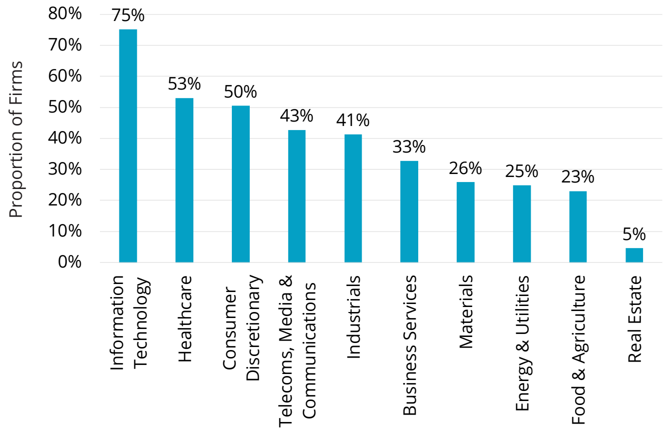
VENTURE CAPITAL

Fig. 25: Annual Asia-Based Venture Capital Fundraising, 2010-2018 YTD (As at July 2018)



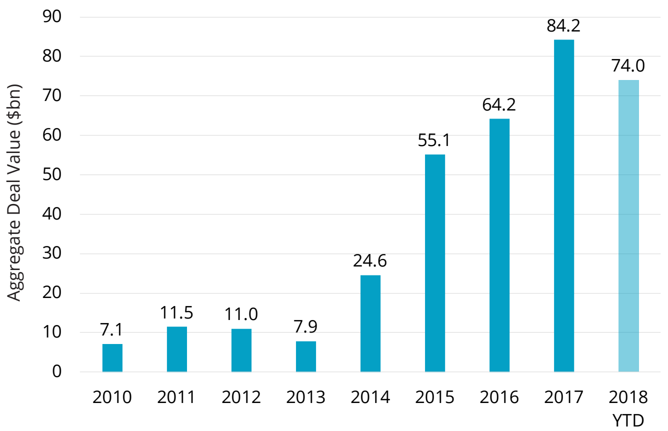
Source: Preqin

Fig. 26: Asia-Based Venture Capital Fund Managers' Industry Preferences for Underlying Investments



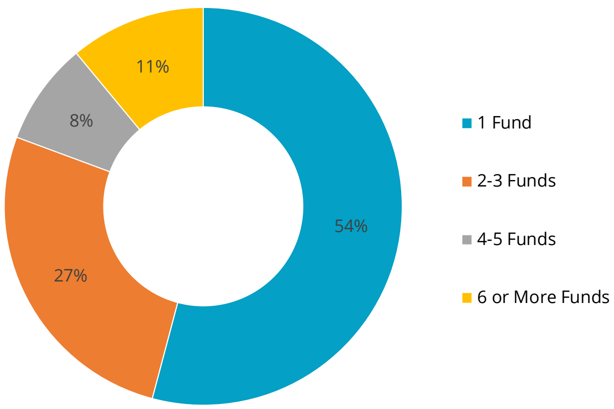
Source: Preqin

Fig. 27: Aggregate Value of Venture Capital Deals* in Asia, 2010 - 2018 YTD (As at July 2018)



Source: Preqin

Fig. 28: Asia-Based Venture Capital Fund Managers by Number of Venture Capital Funds Raised Previously



Source: Preqin

Fig. 29: Five Largest Asia-Based Venture Capital Funds in Market (As at July 2018)

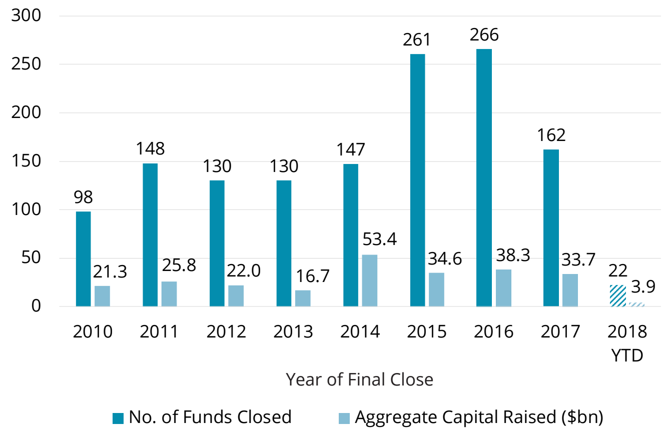
Fund	Firm	Headquarters	Target Size (mn)
China State-Owned Capital Venture Investment Fund	China Reform Fund Management	China	200,000 CNY
Guangxi Beibu Gulf Industrial Investment Fund	Guangxi Xijiang Venture Investment	China	20,000 CNY
Baidu Capital	Baidu Capital	China	20,000 CNY
Next Orbit Ventures Fund II	Next Orbit Ventures	India	2,000 USD
Banma Capital	Zebra Investment	China	1,000 USD

Source: Preqin

Figures exclude add-ons, grants, mergers, secondary stock purchases and venture debt.

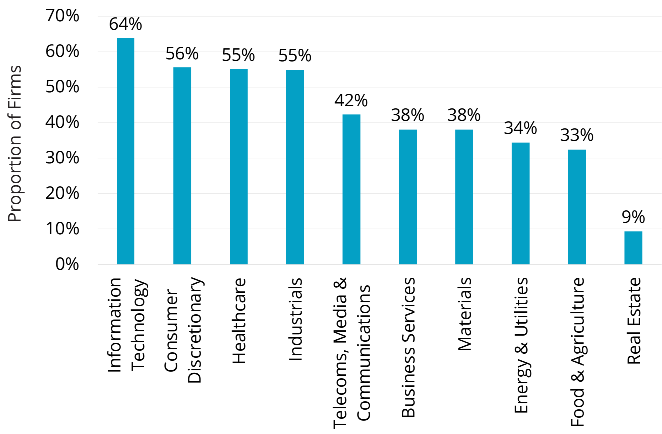
GROWTH

Fig. 30: Annual Asia-Based Growth Fundraising, 2010 - 2018 YTD (As at July 2018)



Source: Preqin

Fig. 31: Asia-Based Growth Fund Managers' Industry Preferences for Underlying Investments



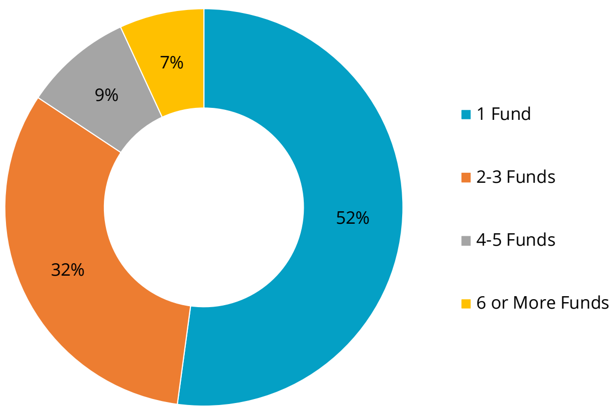
Source: Preqin

Fig. 32: Asia-Based Fund Managers Actively Managing Growth Funds by Location

Headquarters	No. of Firms
China	541
India	55
Hong Kong	50
South Korea	35
Singapore	33
Japan	25
Malaysia	7
Vietnam	3
Cambodia	3
Taiwan	2

Source: Preqin

Fig. 33: Asia-Based Growth Fund Managers by Number of Growth Funds Raised Previously



Source: Preqin

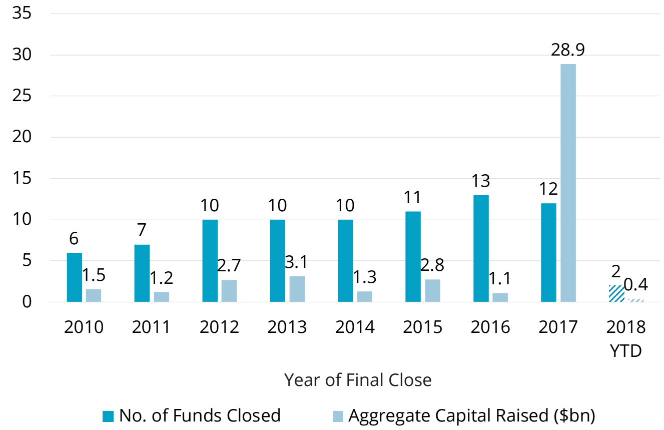
Fig. 34: Five Largest Asia-Based Growth Funds in Market (As at July 2018)

Fund	Firm	Headquarters	Target Size (mn)
China Structural Reform Fund	CCT Fund Management	China	350,000 CNY
China Integrated Circuit Industry Investment Fund II	SINO-IC Capital	China	200,000 CNY
Sino-Singapore (Chongqing) Connectivity Private Equity Fund	UOB Venture Management	Singapore	100,000 CNY
China Internet Investment Fund	China Ministry of Finance	China	100,000 CNY
Primavera Capital Growth Fund III	Primavera Capital	China	2,800 USD

Source: Preqin

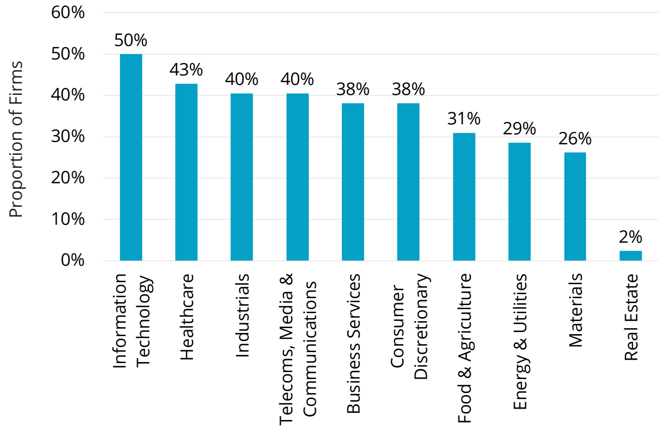
FUND OF FUNDS

Fig. 35: Annual Asia-Based Private Equity Fund of Funds Fundraising, 2010 - 2018 YTD (As at July 2018)



Source: Preqin

Fig. 36: Asia-Based Private Equity Fund of Funds Managers' Industry Preferences for Underlying Investments



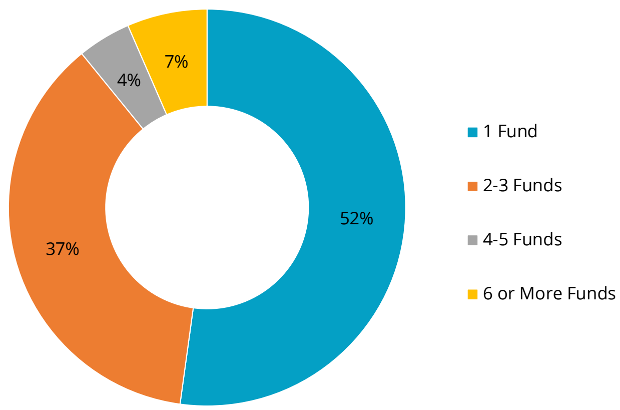
Source: Preqin

Fig. 37: Asia-Based Fund Managers Actively Managing Private Equity Funds of Funds by Location

Headquarters	No. of Firms
China	30
Hong Kong	3
Japan	3
Singapore	2
India	2
Taiwan	1
South Korea	1

Source: Preqin

Fig. 38: Asia-Based Private Equity Fund of Funds Managers by Number of Funds of Funds Raised Previously



Source: Preqin

Fig. 39: Five Largest Asia-Based Private Equity Funds of Funds in Market (As at July 2018)

Fund	Firm	Headquarters	Target Size (mn)
Yangtze River Delta Collaborative Advantage Fund	Shanghai International Group	China	10,000 CNY
Axiom Asia V	Axiom Asia Private Capital	Singapore	1,000 USD
GC Oriza Fund of Funds II	Oriza Holdings	China	5,000 CNY
Rongqu Fund of Funds	Hangzhou Touzhong 101	China	5,000 CNY
Nantong Redbud Huatong Equity Investment	Redbud Capital	China	3,000 CNY

Source: Preqin

WHAT IS IN STORE FOR VENTURE CAPITAL IN ASIA?

- Dr. Finian Tan, **Vickers Venture Partners**

Selina Sy: **According to Preqin data, Asian venture capital deal activity has expanded greatly over recent years, particularly in Singapore, Indonesia, South Korea and Hong Kong. In your opinion, why is Asia an area of venture capital growth and in which specific regions are you seeing opportunities?**
Finian Tan: Asia is the driver of global growth and hence it is the natural place to look for high-growth companies. China, of course, is in the lead. In fact, about 40% of the unicorns are from China, which is almost the same as the US. This is a huge jump from where they were just two decades ago.

SS: **And why is this possible?**
FT: The size of the Chinese economy and its growth rate, coupled with the ability to use technology to leapfrog other countries still using legacy systems. Success in China can easily sustain billions in valuation. The largest companies like Alibaba and Tencent are $500bn in size. No other country outside the US can sustain such a large company. This improves the risk/reward ratio of forming a start-up.

Ashish Chauhan: **You mention the comparison between China and the US; is venture capital the same in the two countries?**
FT: Developed countries have invested heavily in research and education and are therefore the inventors. Because they have first-mover advantage, such companies can also conquer some markets outside of their home countries. WhatsApp, for example, has conquered many countries outside the US. Companies in developing countries just need to be fast copiers with home-ground advantage. Of course, it is harder for such copiers to conquer more than their home turf, but if the country or region is big enough, it could still sustain a pretty good market value. WeChat, for example, is worth a lot, even though it does not have much presence outside of China. Alibaba is worth $500bn within just China alone. Besides home-ground advantage, government regulations can also help local companies compete with the global first movers. For example, Facebook and Google are banned in China, allowing their equivalents to thrive in the region.

SS: **Which other countries in Asia are exciting for venture capital?**
FT: When I first invested in Baidu in 2000, China was 8x smaller than the US. So whatever the value of the equivalent search engine in the US, China could only sustain one eighth of the value. But when you compute the future growth of China, the numbers become larger. That is what has panned out for Baidu, which is worth almost $100bn today, over 3,000x higher than when I first invested. So it is not just about economic size but future growth. Both India and South Asia are therefore very interesting; there are over a billion people in India and about 600 million in Southeast Asia and both have a track record of high growth and sufficient runway for a few more decades of such high growth. They are therefore in the sights of all VCs.

Today, the largest economic powers of the world in descending order are the US, China, Japan and Germany. By 2050, the largest economic region will be China and there is not much dispute on that. Number two will be the US and number three is likely to be Southeast Asia, fourth India and fifth Japan. Out of the five regions mentioned, four are in Asia, meaning Asia is not going to be just the main growth story as it already is now, but the dominant economic power and driver of the world. We have therefore placed our offices strategically in Shanghai, the US, Hong Kong, Malaysia and Singapore.

AC: **With regard to the firms that you mentioned such as Alibaba and Tencent that can be deemed good copies of Amazon and Facebook for example, do you feel they have the scope and trajectory to surpass the size of the likes of Amazon and potentially grow even further?**
FT: I think it is all in the execution. It is not clear yet if Alibaba will overtake Amazon, but it can give Amazon a serious run for its money, especially in countries that are not yet Amazon dominated. Indonesia and India are just getting into e-commerce and Amazon is not totally proliferated in either country. In fact, both Alibaba and Tencent are going all over emerging Asia and beyond to try and get a strong foothold by either growing organically or via acquisitions. Incidentally, their acquisitions are creating huge overall opportunities and good exit possibilities for venture-backed companies.

SS: **What do you feel are the most important factors for institutional investors when investing in technology?**
FT: Venture capital is a very unusual asset class, as it is the only one in which the average performs very well, but the median loses money. The reason for this is because performance varies greatly: the top quartile makes a huge amount of money and the remainder of the market wallows. This is due to something called the “halo effect”. The best VCs attract the best deals and what is left goes to the next rung of VCs. That is why the best VCs in the world remain so for many decades, unlike the hedge fund world where the best firms change every year due to the liquid nature of investments. In venture capital, once the top VCs make their choices, the best companies would have already been taken off the market.

In my view, the best way for an institutional investor to invest in technology is to look for the top-quartile VC firms that are still open and invest in all of them quickly as they will not be open for long. And once you get your foot in the door, you can continue to invest in these VCs for decades. Because of the halo effect, these VCs will continue to perform for decades too.

SS: What do you think this would mean for those fund managers that are not in the top quartile?

FT: If you have a good couple of funds, and manage them well, it is possible to start growing the halo effect. It is a bit of a chicken and egg situation, but once you get going, you have got to do it well and not make too many mistakes. After that, you can almost cruise. But it is important not to let success make you complacent because technology changes so fast. Companies that die are those that remain stagnant.

SS: Are you seeing more or less appetite from institutional investors for Asian venture capital?

FT: Right now, there seems to be a lot of interest in technology for two reasons. One is the low-yield environment which makes it harder to achieve target returns. The high returns of venture capital provide the ability to average up the returns. The second is that it is clear from the list of the top companies in the world today that almost all of them are technology companies that did not exist 20 years ago. And the best way to get to know these companies early is through venture capital.

SS: What does it take to be a good venture capitalist?

FT: It takes three things to be a good VC. You need a good deal flow, a good filter and to be able to help the companies grow. Everything we do is focused on these things.

SS: Is this the same criteria for venture capital in Asia?

FT: Yes, in general. However, emerging markets investing requires a lot of local knowledge. It is not just about identifying unmet needs, it is about identifying the problem and understanding the local characteristics. You need to be local, you need to be homegrown. Our Southeast Asian team are all homegrown and bilingual, and this allows them to know what is going on in the US and how to apply it in the local environment.

SS: In your opinion, in which areas do you feel the best opportunities lie for Asian VCs going forward?

FT: I would say Asia is currently at the stage of fast-copying ideas and then developing them in a way that suits local characteristics. Going forward, however, Asia can become a global leader in some areas. Today, the best and most efficient payment system is in China – I have friends who no longer carry wallets and only need their phone. So in payments, they are already global leaders. To have China take such a lead was hugely unexpected. In two years, WeChat Pay has become as large as Alipay, so even Alipay was disrupted somewhat. But to replicate the Chinese payment system outside of China is not as easy due to its unique financial system. Both Alipay and WeChat Pay are not just trying to replicate their success overseas, but instead acquiring the best in class of each company in their respective regions.

I think another area in which China could take the lead is in artificial intelligence. The reason for this is because there are two ingredients for a successful artificial intelligence company: talent and data, and the two cannot be mutually exclusive. China is overtaking the world because people do not care so much about privacy there, and as a result, the richness of big data is incredible. So, I think China is going to lead in artificial intelligence in a big way and this will become clear in about 10 years. Baidu is already the first to launch mass-produced autonomous buses for closed communities. Even while all the hype has been around the Western competitors like Tesla, Google, Apple, Amazon and other car manufacturers. As such, we are investing both globally and in Asia, betting on the undisputed mega trends.

SS: How does one maintain consistent performance as a VC since each fund will have a different portfolio?

FT: We are fortunate to have done well for our first few funds. This allowed our halo effect to grow and as a result attracted very good people to join us and very good deals to pitch to us. Today we are 30 strong across seven cities and get a deal flow of about 6,000 deals a year, around 10 of which we invest in. Many of these companies can continue to perform at a high growth rate for decades to come and can therefore be in the portfolio of not just one fund, but successor funds as well, and essentially become trees that keep on giving. As long as conflicts of interests are well handled, this strategy engenders consistency because the greatest risk for a VC is not knowing the company well at the point of investment. If a successor fund is investing in a company of the previous fund, the VC would have known the company for many years. Conflicts can be properly managed as long as the funds do not sell to each other and instead allow successor funds to join in at later rounds of new money. Pricing should of course be third party led, and the final say should be an advisory committee made up of limited partners that can ensure that conflicts are handled to their satisfaction.

VC is known for high returns but also high volatility. If volatility can be shown to be low, capital will pour in and the strategy will be oversubscribed quickly. The key is to resist raising a fund so large that returns are affected. Thankfully, we still have a long way to go before we reach that stage since we have a big team that covers a lot of regions and strategies and our deal flow is currently higher than our access to capital.

VICKERS VENTURE PARTNERS

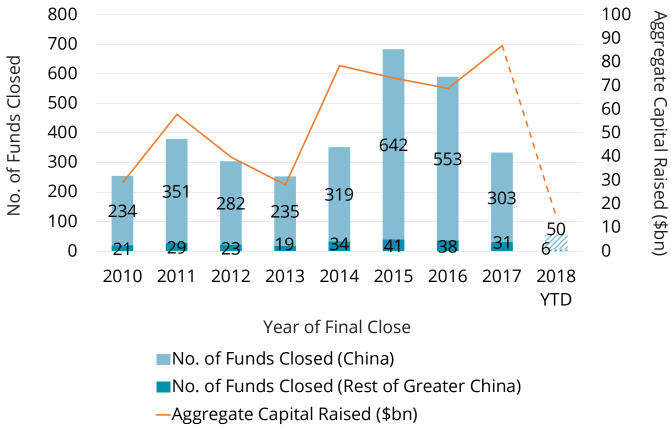
Vickers was founded in 2005 by Dr. Finian Tan and his four partners with offices in Shanghai, Hong Kong, Kuala Lumpur and Singapore and a presence in San Diego. Vickers seeks to create long-term value for its investors by investing in and building a stable of companies with large growth potential. Its portfolio covers life sciences, technology, media and telecommunications as well as consumer and financial services.

www.vickersventure.com

GREATER CHINA

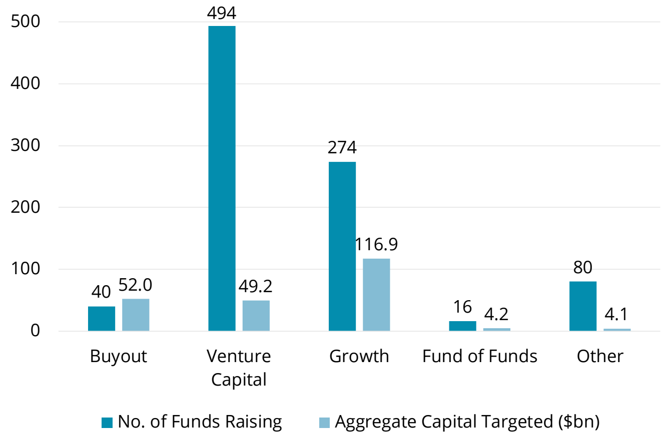
China, Hong Kong, Macau and Taiwan

Fig. 40: Annual Greater China-Based Private Equity & Venture Capital Fundraising, 2010 - 2018 YTD (As at July 2018)



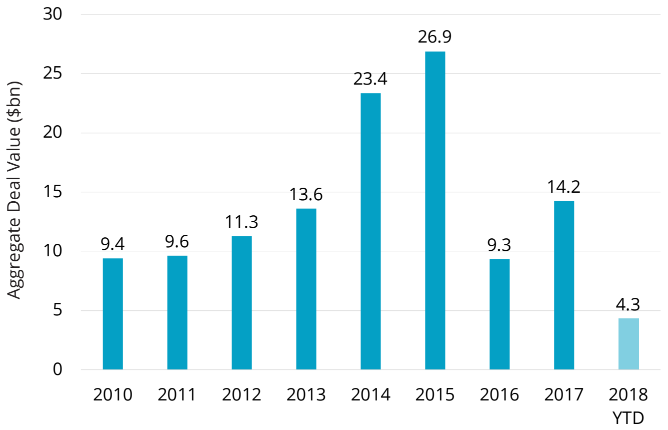
Source: Preqin

Fig. 41: Greater China-Based Private Equity & Venture Capital Funds in Market by Fund Type (As at July 2018)*



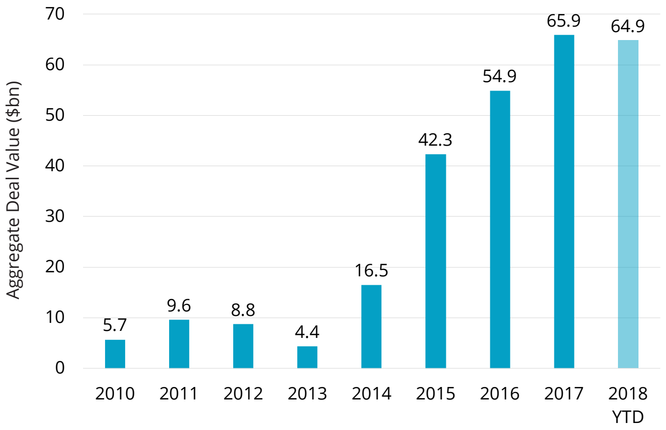
Source: Preqin

Fig. 42: Aggregate Value of Private Equity-Backed Buyout Deals in Greater China, 2010 - 2018 YTD (As at July 2018)



Source: Preqin

Fig. 43: Aggregate Value of Venture Capital Deals** in Greater China, 2010 - 2018 YTD (As at July 2018)



Source: Preqin

Fig. 44: Five Largest Greater China-Based Private Equity & Venture Capital Fund Managers by Aggregate Capital Raised in the Last 10 Years (As at July 2018)

Firm	Headquarters	Primary Strategy	Aggregate Capital Raised in Last 10 Years ($bn)
SINO-IC Capital	China	Growth	22.6
China Reform Fund Management	China	Venture Capital	20.2
CCT Fund Management	China	Growth	19.6
China Aerospace Investment Holdings	China	Growth	17.4
Inventis Investment Holdings (China)	Hong Kong	Growth	12.2

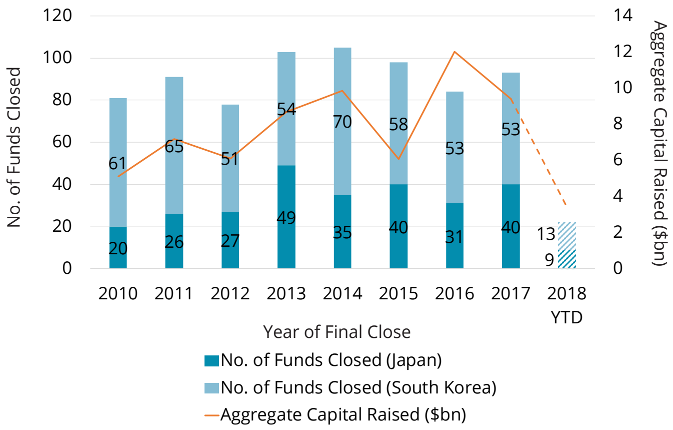
Source: Preqin

*Due to Preqin's additional research efforts to strengthen our alternative assets data in China, funds in market figures have increased significantly as we aim to be more reflective of the industry.
**Figures exclude add-ons, grants, mergers, secondary stock purchases and venture debt.

NORTHEAST ASIA

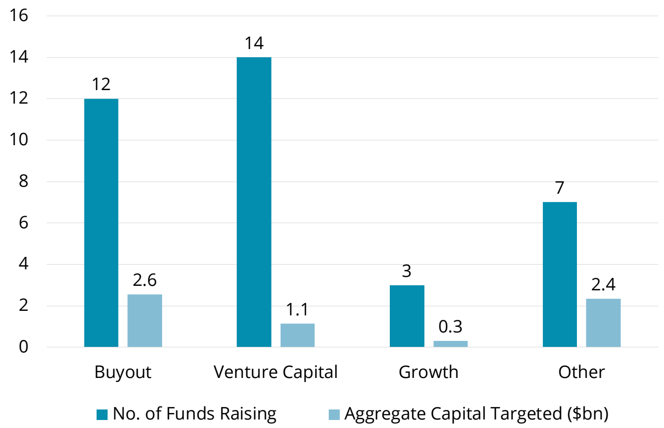
Japan and South Korea

Fig. 45: Annual Northeast Asia-Based Private Equity & Venture Capital Fundraising, 2010 - 2018 YTD (As at July 2018)



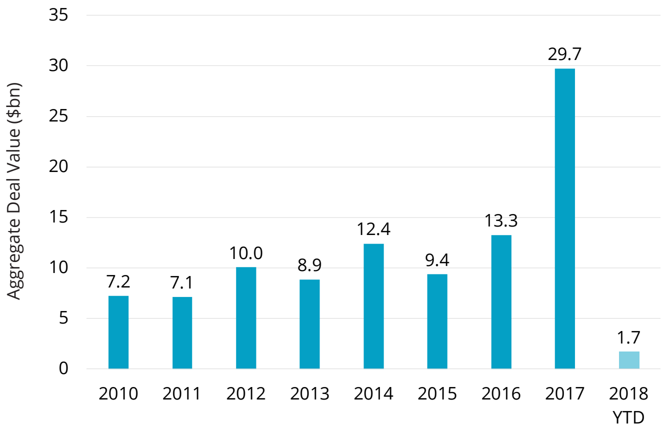
Source: Preqin

Fig. 46: Northeast Asia-Based Private Equity & Venture Capital Funds in Market by Fund Type (As at July 2018)



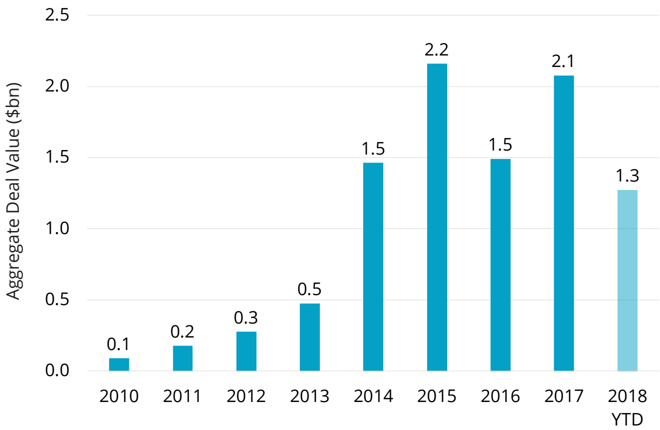
Source: Preqin

Fig. 47: Aggregate Value of Private Equity-Backed Buyout Deals in Northeast Asia, 2010 - 2018 YTD (As at July 2018)



Source: Preqin

Fig. 48: Aggregate Value of Venture Capital Deals* in Northeast Asia, 2010 - 2018 YTD (As at July 2018)



Source: Preqin

Fig. 49: Five Largest Northeast Asia-Based Private Equity & Venture Capital Fund Managers by Aggregate Capital Raised in the Last 10 Years (As at July 2018)

Firm	Headquarters	Primary Strategy	Aggregate Capital Raised in Last 10 Years ($bn)
MBK Partners	South Korea	Buyout	8.9
KDB Private Equity	South Korea	Buyout	4.3
Hahn & Company	South Korea	Buyout	3.2
STIC Investments	South Korea	Growth	2.8
IMM Private Equity	South Korea	Buyout	2.3

Source: Preqin

*Figures exclude add-ons, grants, mergers, secondary stock purchases and venture debt.

SINGAPORE – THE PATH TO ASIA'S DOMINANT ALTERNATIVE FUND DOMICILE HUB
- Mark Voumard, **Gordian Capital**

Christopher Elvin: **Can you provide a brief profile of Singapore as an asset management centre?**

Mark Voumard: Establishing itself as a leading pan-Asian asset management centre over the past decade, Singapore's fund industry assets under management (AUM) as of the end of 2016 was S$2.7tn (US$1.9tn), with the vast majority (78%) of total AUM sourced from outside Singapore, with 55% from Asia-Pacific, 19% from North America and 17% from Europe. Not surprisingly, the Asia-Pacific region is the recipient of the majority (66%) of those investments, with 39% of AUM invested in ASEAN, 13% in Europe, 13% in North America and 8% in Rest of World. The Monetary Authority of Singapore (MAS) has a reputation as the regulatory gold standard in Asia.

CE: **What differentiates Singapore from other onshore domiciles such as Dublin or Luxembourg?**

MV: Unlike onshore letterbox regimes such as Dublin or Luxembourg where there are thousands of funds but very few managers with a physical presence, Singapore has 884 licensed/regulated asset managers with physical operations and staff located in Singapore. With 66% of AUM invested in Asian assets, from a strategic perspective it clearly makes sense to base a fund in the region where investments are made. Singapore offers: a conducive pro-business environment; solid business infrastructure; a skilled workforce; a rigorous corporate governance framework; adherence to international accounting standards; an extensive double tax agreement (DTA) network (83); the most extensive network of free trade agreements (FTAs) in Asia; favourable tax incentives for Singapore domiciled funds; a thriving local VC scene; the locale of choice for Asian PE, RE & VC managers; an OECD & full FATF member; tax efficient but not a tax haven and a rating as the number one most politically stable country in Asia. Combined with a safe, green, clean and family-oriented lifestyle, investment managers typically want to be based in Singapore and manage money from here.

CE: **What is the S-VACC?**

MV: To encourage further growth of the fund management industry and to facilitate fund domiciliation activities in Singapore, the MAS launched a public consultation in March 2017 on a proposed corporate structure for investment funds, the Singapore Variable Capital Company (S-VACC). The S-VACC is modelled on established specialized corporate structures found in international fund jurisdictions such as the UK's "open-ended investment company" ("OEIC"), Luxembourg's "Société d'investissement à capital variable" ("SICAV") and the Cayman Islands' "protected cell" company structures.

Currently only 12% of funds managed from Singapore are Singapore domiciled, with 88% offshore, typically Cayman-domiciled funds. The government is targeting the development of a Singapore fund industry where most funds are domiciled here, driving, over time, a large increase in the number of professional service providers, with a positive impact on employment and the skills base of the financial industry workforce. The S-VACC is expected to play to Singapore's regulatory strength and to be consistent with the global pressure for tax transparency, including but not exclusively driven by BEPS, which includes calls for businesses to be domiciled within the jurisdiction where they have substantive operations.

CE: **Can you explain, based upon your own experiences, the current challenges of using existing Singaporean structures and how the S-VACC is expected to overcome those issues?**

MV: For our asset management, corporate, institutional investor and family office clients, we make use, to varying degrees, of all three types of legal structures now available in Singapore: unit trusts, "companies" (entities formed under Singapore's Companies Act) and limited partnerships. Unit trusts offer investors the ability to ring-fence assets via different sub-trusts but cannot utilize Singapore's 83 DTAs. We make use of them when they suit both the investment and investor objectives, particularly when DTA treatment is not a factor. We use a Singapore company, acting as a fund, for most of our "illiquid" funds (private equity, real estate, venture capital, private credit and infrastructure funds). Corporate status (and real substance in Singapore) allow these funds to access Singapore's wide DTA network. We make only occasional use of limited liability partnerships (LLPs) because they provide no corporate tax benefits and do not qualify for the tax exemptions available to private limited companies. The limitations of these existing domestic fund structures significantly impede growth in the onshore Singapore-domiciled fund industry. The introduction of the S-VACC aims to address this:

Issue: Lack of variable capital structures

Singapore corporations currently have fixed capital, making it difficult for investor shareholders to subscribe and redeem freely from the structure, thereby limiting the use of companies incorporated under the Companies Act as collective investment schemes in Singapore.

S-VACC solution:

An S-VACC will be allowed to vary its capital and therefore to redeem shares freely and pay dividends using its capital, provided that shares are issued and redeemed at their net asset value. S-VACCs may also be able to issue debentures relating to specific sub-funds. All these features will combine to provide flexibility in the distribution and return of capital.

Issue: Solvency test, distributions, accounting classification of redeemable preference shares

Funds set up as corporations in Singapore are required to go through administrative processes such as solvency tests, both annually and prior to return of capital. This means that they may only declare dividends from profits. This can be challenging administratively and raises liability issues for the directors (if distributions are found to have reduced base capital). If the fund generates an overall loss or there are insufficient retained earnings the capital is "locked", making orderly redemptions problematic. When a Singapore fund is capitalized (invested in) using redeemable preferred shares (standard for illiquid funds), IFRS requires that assets be classified as "liabilities". This compounds the problem when conducting the required solvency tests prior to distributions.

S-VACC solution:

Segregation and ring-fencing of assets. It will be possible to create sub-funds within an S-VACC, which itself will be a single legal entity. The sub-funds will operate as separate cells (each without an independent legal personality), with segregated assets and liabilities, subject to disclosure and registration requirements. They will be constituted by registration with ACRA and each will be assigned a unique sub-fund identification number. The assets of each sub-fund will be ring-fenced and not available to discharge liabilities of, or claims against, the S-VACC or any other sub-fund. Any liability incurred on behalf of, or attributable to, any sub-fund of an S-VACC will be discharged solely out of the assets of that sub-fund. To mitigate against cross-cell contagion, the MAS is proposing to void any provisions which are inconsistent with the segregation of assets and liabilities of sub-funds (e.g. provisions in the constitution or in agreements entered into by the S-VACC), and to require the S-VACC to ensure proper segregation of assets and liabilities of sub-funds. It will be possible to wind up each sub-fund separately. Each sub-fund will be able to sue and be sued individually, to have different investment strategies and investors, and to invest in other sub-funds inside the same S-VACC.

Issue: Privacy

Currently, the financial statements and shareholder lists of Singapore corporations are publicly available. While this issue can be mitigated through the use of feeder funds in offshore jurisdictions, it would be optimal not to have to resort to this.

S-VACC solution:

The register of shareholders will not need to be public. Information on shareholders will still be available to the MAS and ACRA for regulatory, supervisory, tax and law enforcement purposes. The manager will need to perform industry-standard KYC/AML on beneficial owners; nominee directors will be required to disclose their nominee status and the beneficial owners they represent.

CE: What are the other expected core features of the S-VACC?

MV: The Board of Directors (BoD): The BoD will need to meet "fit and proper" standards defined by the MAS representing a degree of indirect regulation of the fund as the BoD will need to include at least one person who is also a director of the Investment Manager (required to be licensed and regulated by the MAS). Directors will generally be subject to the existing requirements under the Companies Act. We expect to see an independent director "industry" in Singapore grow substantially as S-VACCs are rolled out.

Licensing: Importantly, only certain fund managers will be permitted to manage an S-VACC. They will need to be: (a) holders of a Capital Markets Services licence (the senior licence in Singapore) such as Gordian Capital; or (b) registered as a fund management company (RFMC – holding the junior licence in Singapore); or (c) a specified exempt fund manager (bank, merchant bank, finance company or insurer licensed or approved in Singapore). The MAS is expected to apply AML/CFT requirements on S-VACCs in line with current requirements for licensed and/or registered fund managers.

Re-domiciliation: Foreign corporate entities that are equivalent to an S-VACC (for example Irish ICAVs and UK OEICs) will be allowed to re-domicile as S-VACCs in Singapore. This aligns with recent amendments to the Companies Act which now permits the re-domiciliation of foreign companies in Singapore.

Tax: Tax in itself is a separate discussion, but, the news is generally good. The S-VACC will be included in the 13X and 13R tax incentive schemes; and the S$200,000 minimum annual local business spend requirement will apply at the S-VACC level (not on a cell-by-cell basis). The S-VACC will have both full access to the (83 treaty) Singapore DTA network and the GST remission granted to investment funds in Singapore. The detailed tax framework should be finalized in October 2018.

CE: What do you see as the timing and the likely uptake?

MV: Our understanding is that "go live" will be in Q2 2019. The MAS is taking the time necessary to get the design right at the outset, rather than having to make multiple amendments. Consequently, they are actively consulting with different segments of the fund management industry to get their input.

Looking ahead: (a) the industry will require clarification on tax; (b) service providers will need to be ready to handle the operations of the new structures and (c) investors outside Singapore will need to be educated about the new structures. All of this will take time, but we are confident that, over time, Singapore will become Asia's dominant alternative fund domicile hub.

GORDIAN CAPITAL

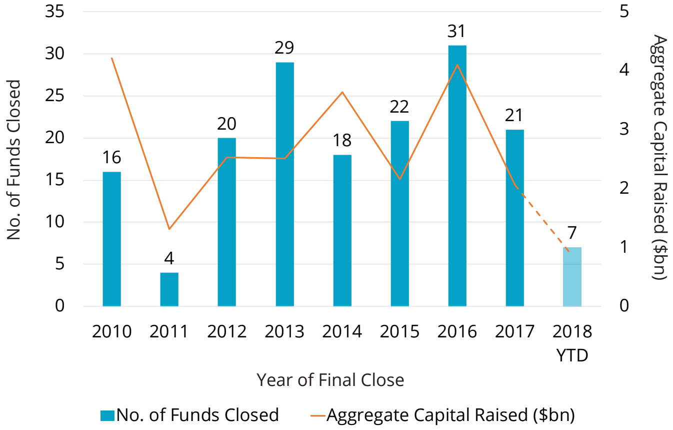
Established in Singapore in 2005 by capital markets professionals and alternatives industry veterans active in Asia since the 1980s, Gordian Capital is Asia's leading independent alternative funds specialist, managing in excess of US$2bn. Our clients, based globally, include institutional quality asset management companies, corporates, family offices and institutional investors seeking investment opportunities in Asia across the full spectrum of asset categories including PE, RE, VC and Infrastructure via fully regulated, cost effective and tax efficient bespoke regional investment vehicles that we structure and operate on our platform. We do not manage any proprietary capital thereby removing conflicts of interest.

www.gordian-capital.com

ASEAN

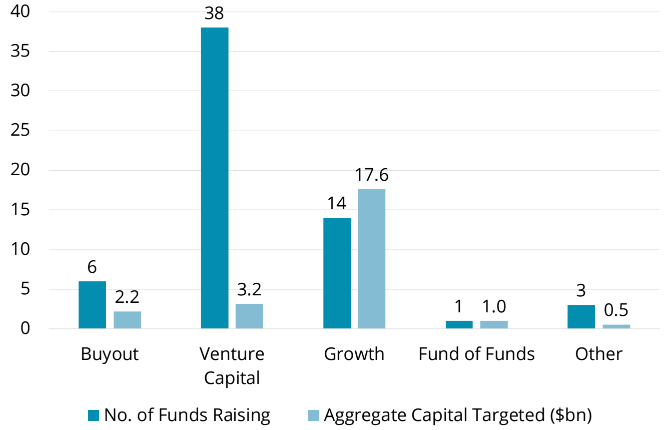
Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam, Brunei, Cambodia, Myanmar and Laos

Fig. 50: Annual ASEAN-Based Private Equity & Venture Capital Fundraising, 2010 - 2018 YTD (As at July 2018)



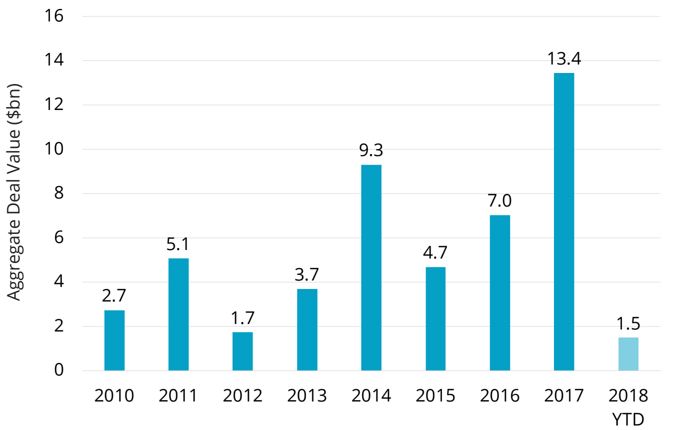
Source: Preqin

Fig. 51: ASEAN-Based Private Equity & Venture Capital Funds in Market by Fund Type (As at July 2018)



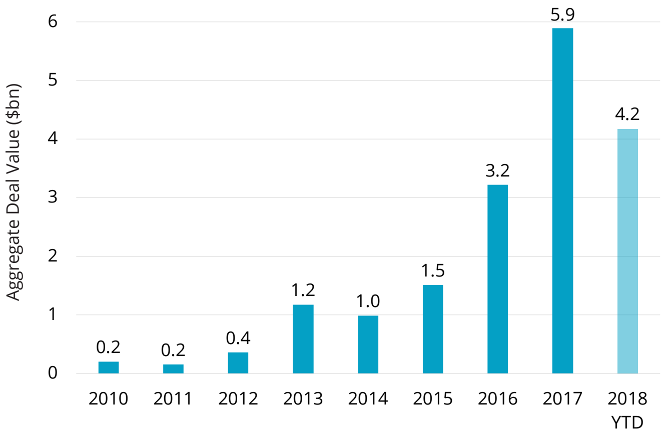
Source: Preqin

Fig. 52: Aggregate Value of Private Equity-Backed Buyout Deals in ASEAN, 2010 - 2018 YTD (As at July 2018)



Source: Preqin

Fig. 53: Aggregate Value of Venture Capital Deals* in ASEAN, 2010 - 2018 YTD (As at July 2018)



Source: Preqin

Fig. 54: Five Largest ASEAN-Based Private Equity & Venture Capital Fund Managers by Aggregate Capital Raised in the Last 10 Years (As at July 2018)

Firm	Headquarters	Primary Strategy	Aggregate Capital Raised in Last 10 Years ($bn)
Axiom Asia Private Capital	Singapore	Fund of Funds	3.2
Navis Capital Partners	Malaysia	Buyout	2.7
Northstar Group	Singapore	Buyout	1.9
Creador Management Company	Malaysia	Growth	1.3
TAEL Partners	Singapore	Growth	1.3

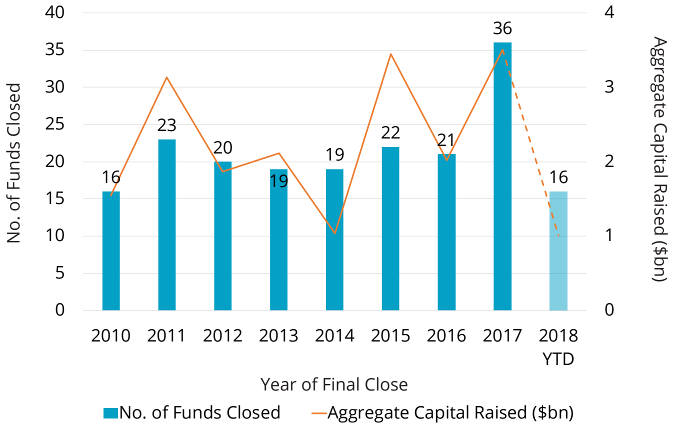
Source: Preqin

**Figures exclude add-ons, grants, mergers, secondary stock purchases and venture debt.*

SOUTH ASIA

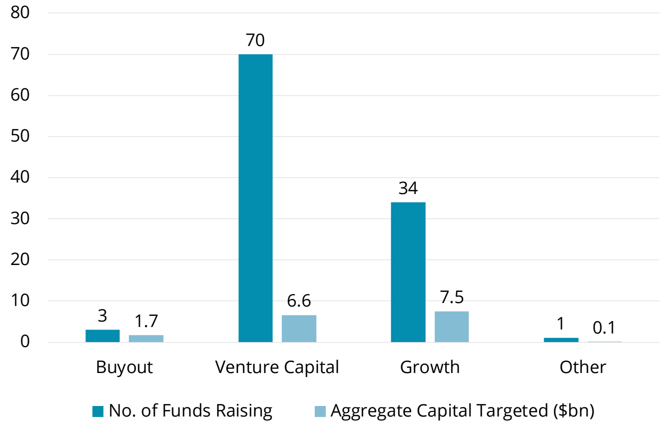
Bangladesh, India, Nepal, Pakistan and Sri Lanka

Fig. 55: Annual South Asia-Based Private Equity & Venture Capital Fundraising, 2010 - 2018 YTD (As at July 2018)



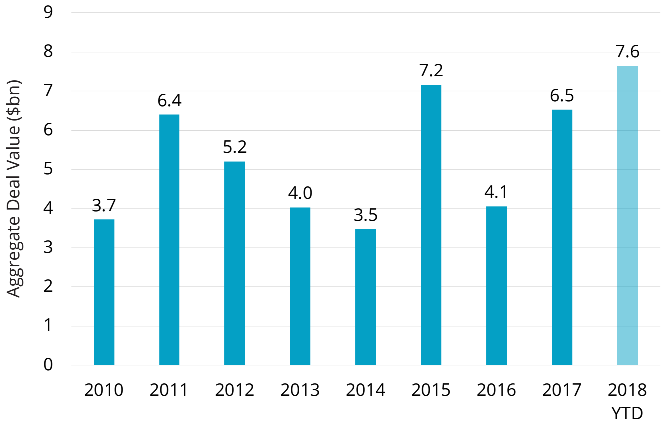
Source: Preqin

Fig. 56: South Asia-Based Private Equity & Venture Capital Funds in Market by Fund Type (As at July 2018)



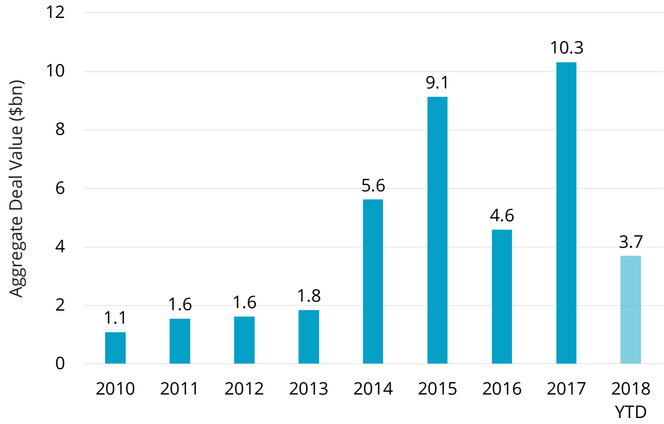
Source: Preqin

Fig. 57: Aggregate Value of Private Equity-Backed Buyout Deals in South Asia, 2010 - 2018 YTD (As at July 2018)



Source: Preqin

Fig. 58: Aggregate Value of Venture Capital Deals* in South Asia, 2010 - 2018 YTD (As at July 2018)



Source: Preqin

Fig. 59: Five Largest South Asia-Based Private Equity & Venture Capital Fund Managers by Aggregate Capital Raised in the Last 10 Years (As at July 2018)

Firm	Headquarters	Primary Strategy	Aggregate Capital Raised in Last 10 Years ($bn)
True North	India	Buyout	1.7
Kedaara Capital Advisors	India	Growth	1.4
Everstone Capital	India	Growth	1.3
ChrysCapital	India	Growth	1.1
Nexus Venture Partners	India	Venture Capital	1.1

Source: Preqin

**Figures exclude add-ons, grants, mergers, secondary stock purchases and venture debt.*

PREQIN SPECIAL REPORT:
ASIAN PRIVATE EQUITY & VENTURE CAPITAL

SEPTEMBER 2018

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