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PRIVATE EQUITY NAVIGATOR

Private Equity Analysis from INSEAD's Global Private Equity Initiative

NOVEMBER 2017

Executive Summary

Welcome to the eleventh edition of INSEAD's Private Equity Navigator. In this edition, we focus exclusively on the recent publications and articles from the Global Private Equity Initiative (GPEI) and its stakeholders. These touch on a wide array of PE-related topics, from partnership opportunities between PE investors and family firms, to global and India venture capital, to an overview of infrastructure investing. Each article within this edition is summarized below:

The Institutionalization of Family Firms – From Asia-Pacific to the Middle East is GPEI's latest flagship publication, featuring survey output and insight from interviews with 123 family firms and 14 experienced private equity firms. While an entrepreneurial spirit and close relationships are key elements at the start of a family's journey, introducing formal policies and procedures to institutionalize the firm's mission and values is critical to preserve its competitive advantage over the generations. The report also highlights settings in which family firms and PE investors can partner to unlock value.

Success Attracts New Players to Private Equity describes the latest themes shaping the PE industry of today and tomorrow. In particular, the article highlights the record levels of assets under management and the emergence of "alternative" PE strategies, underpinned by record fund distributions in recent years. However, high valuations have provided a challenging investing environment that will continue to test the mettle of PE investors and demand a broader skillset.

Will Late-Stage Venture Funding Pay Off? showcases the recent, explosive growth in the late-stage venture capital space: new corporate and sovereign entrants have driven unprecedented liquidity to the world's largest VC-backed companies, allowing them to remain private and focus on VC-centric metrics for longer. Whether these investments pay off and whether current frothy valuations hold up is an open question.

Deepak Shahdadpuri's interview **Indian Start-ups Must Compete Without Protection** provides insight into the consumer-focused venture capital space in India. While a wave of investors entered the Indian VC market in 2016/17, Shahdadpuri sees many of these new players competing over the same deals in a crowded market.

How Private Investors Can Narrow the Global Infrastructure Gap highlights the growing role infrastructure investment plays in institutional investors' portfolios. An ever-present (and growing) infrastructure gap in emerging and developed markets underscores the supply of projects, while newly raised funds by global heavy weights highlight the growing demand for professionally-managed infrastructure vehicles.

Claudia Zeisberger's interview **Time for Boards to See Private Equity as More Than a Financial Investor** highlights key elements of the private equity governance model, and details how organizations benefit from engaging a PE investor. Zeisberger also describes the challenging yet rewarding environment faced by senior executives when working at a PE-backed company.

The Double-Edged Sword of Being a Lean Start-up explores the role of experimentation in a start-up and its impact on the company's ability to adapt to future changes in its environment. Managers play a critical role in this situation, as they define the organization's focus on short-term performance and exploration.

Can Asean Compete With China and India for Private Capital? provides a snapshot of private equity investment flows in Asia. China continues to capture the majority of deal volume for emerging Asia, followed by India and Asean (in a distant third). The article explores why Asean is underperforming as a group and why this could change in the future.

As always, we endeavour to provide thought-provoking analysis and commentary on issues we discuss with our institutional LPs and Family Offices; we certainly welcome your feedback.

Contents

The Institutionalization of Family Firms - *From Asia-Pacific to the Middle East*

As family firms account for 70% of GDP in the global economy and 60% of global employment, the importance of long-term value creation extends beyond individual families – it is among the main drivers of economic growth and business innovation, as well as livelihoods.

An entrepreneurial spirit and close relationships are key elements at the start of a family's journey. Initial success typically relies on one or two individuals with a vision for a new business, the energy to execute, and the determination to persevere. However, as a family firm matures and transitions to the second and third generations (and beyond), introducing formal policies and procedures to institutionalize the firm's mission and values is critical to preserve its competitive advantage and enable sustainable growth over the generations.

To understand how families in emerging markets approach these topics, a recent GPEI research project surveyed 123 family firms in Asia-Pacific and the Middle East to measure levels of institutionalization across six key attributes: family ownership and succession, intangible family assets, corporate governance and leadership, growth capabilities, organizational design, and access to capital. Analysis of survey output and case studies sharing the experiences of individual families shed light on how institutionalizing aspects of a family firm can help ensure its long-term health and survival.

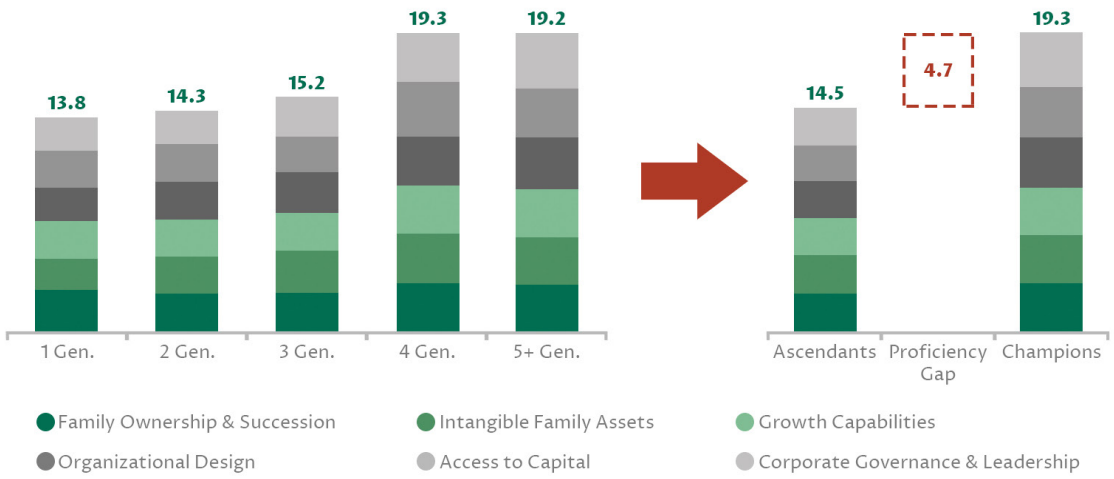
By nature, family firms are often inward looking and at times reluctant to seek external advice when faced with challenges. Taking a close look at the partnership opportunities between family firms and external investors, and interviewing 14 leading private equity firms, we report on how the PE industry can help family firms unlock value and expand.

Our exploration of the institutionalization of family firms focuses on businesses in Southeast Asia, South Asia (India & Sri Lanka) and the broader Middle East.

Findings from our survey

Exhibit 1 presents the main takeaway from our research: the significant jump in institutionalization between 1st to 3rd generation family firms and 4th generation firms and beyond. Each bar in the graphs presents the average institutionalization score of our survey participants by generation, with the different color segments of each bar representing the contribution of the six attributes measured in our survey to the total score.

Exhibit 1: *Level of Institutionalization by Generation*



To enable user-friendly analysis, we combine 1st, 2nd and 3rd generation family firms ("Ascendants") and 4th generation & beyond ("Champions") into two groups. In addition to outperforming in aggregate, Champions outperform Ascendants on each of the six attributes measured in our survey, underscoring the proficiency gap across business functions between these two groups. Outperformance in Corporate Governance & Leadership and Organizational Design in particular – attributes which the Champions outperformed the Ascendants by the widest and third widest margin respectively – underscores how formal policies and procedures underpin leading family firms' operations and success.

The Private Equity Perspective

To complement our findings with an external view on the level of institutionalization of family firms in Asia-Pacific and the Middle East, we asked 14 PE firms – all experienced investors in family businesses – to share their experience. Our interviews highlighted areas where family firms can focus to unlock value and topics that family firms should consider when exploring a partnership with a PE investor, as summarized below.

Pre-investment: The reasons most commonly cited in our interviews that a family firm would pursue a transaction with a PE partner were to manage succession and to unlock growth. While no two investments were identical, our interviewees all underscored the importance of taking a long-term view when exploring an investment in a family firm; building a relationship based on trust and mutual respect was described as a pre-requisite. For deals that progressed, the most challenging terms to negotiate related to valuation, board and operational control, rights to replace family members in management positions, and exit. Ensuring alignment regarding the company's strategic plan and operating model during the PE holding period was a key goal of discussions and documentation, with 100-day plans and explicit financial targets often included in co-signed share purchase agreements.

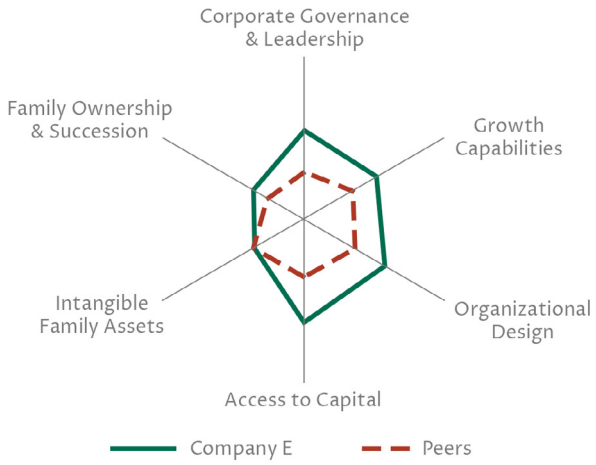
Post-investment: PE firms stressed the importance of gradually influencing and reshaping a family-owned firm, given that many family leaders were used to having the last word on a wide array of crucial business decisions with minimal external input. Strengthening and professionalizing management teams was a top priority described by our interviewees; adding to the finance team – often by hiring a non-family CFO – was a focus. Aligning remuneration practices at family firms to properly incentivize non-family managers was also a priority. From an operating standpoint, our interviewees stressed the importance of identifying what made a family firm successful and institutionalizing the business based on these strengths. Assisting with M&A, innovation and digitalization were areas mentioned on multiple occasions in our interviews.

Exit: For all interviewees, exit was the number 1 challenge in any investment with a family firm. To manage expectations, interviewees made it clear from the start that they would need to exit their stakes in a relatively "short" time period (years rather than generations). Given the prevalence of growth capital in Asia, waterfalls were cited by multiple interviewees as an important mechanism to ensure exit from a minority investment. While the waterfall provides the legal right to force an exit – with each step in the waterfall providing additional rights for the PE investor to achieve an exit and a put mechanism ultimately enabling the sale of its stake back to the family – interviewees underscored that finding a mutually agreeable solution and renegotiating contractual provisions when necessary was preferred to imposing terms of a waterfall.

Institutionalizing and professionalizing companies is core to the private equity investment model. Family firms that partner with private equity investors must understand their strengths, priorities and biases in order to maximize value from a partnership.

Family Firm Institutionalization: The Growth Story

This case shares the perspective of the founder and CEO of a family firm in Southeast Asia. Improving diversity on the board of directors, hiring a second layer of management to free up the entrepreneur's time, and tapping funding and expertise from a PE partner have helped ensure sustainability.



We are a first generation family firm in the logistics sector, based in Southeast Asia. I am the founder and CEO of the business and, together with my wife and brother, we hold a majority interest in the company. As the logistics sector and our business grew rapidly over the years, we decided to sell a minority stake to a PE firm in order to fund growth and draw on the firm's management expertise. Before choosing our PE partner, we talked to many potential candidates. We chose our current PE partner from a small group of candidates because they share our vision for the business and offered tangible, hands-on support.

Growth Capabilities

In my previous job – also in the logistics sector – I saw how much potential the market had and therefore decided to build my own business. As new retailers entered the market to tap the growing middle class, the demand for retail logistics exploded. In order to keep up with the demand, we needed to grow quickly – we couldn't hire enough trucks. With advice from our PE partner, we invested in our truck fleet and diversified into storage. In just a few years, we grew our fleet by four times, and built an integrated warehouse. To drive new business, we professionalized and expanded our sales team and trained them to sell our services across the value chain. Today we have increased our employee count ten times and our volume and revenue are way up.

Organizational Design

Our PE partner helped us tremendously with professionalizing our organizational design. With their guidance, we implemented systems, such as an ERP system, to track operational and financial aspects of the business. Also, we hired an HR manager, an IT manager and an accounting team, positions we did not have in the past. These changes have allowed us to be more nimble and efficiently tap new growth opportunities.

Corporate Governance & Leadership

One of the first things we did after the PE firm invested was professionalize our board. Understanding the need for efficient management, I decided to step down as Chairman of the Board to focus my energy as the company CEO. We also gave a board seat to the PE firm and brought in an independent director. The independent director is a seasoned professional from the industry and has helped me understand how to take advantage of the growth opportunities in the market in a responsible manner.

We also took steps to build out our management team so that I would have more time to focus on business strategy instead of the day-to-day decision-making that frequently took up all my time. I was originally the "everything manager" of the company, managing and guiding all aspects of the business. However, with our new funding we were able to hire additional layers of managers throughout the company: supervisors, managers and a COO. Our PE partner also helped us recruit these new managers. I now concentrate more on the vision of the company as well as training and mentoring our COO and managers.

*** The full report can be found *here*.**

Success Attracts New Players to Private Equity

By Claudia Zeisberger, INSEAD Senior Affiliate Professor of Decision Sciences and Entrepreneurship & Family Enterprise and Academic Director of GPEI, Published by the LSE Business Review on October 18, 2017

Beset by historically low interest rates, few investors can afford to ignore unlisted companies.

Private Equity is a fringe asset class no more; it has evolved, matured and refined its way into the mainstream. Yet, I foresee major changes for the industry and, fully aware that forward-looking statements have a tendency to dramatically stray from future reality, wish to dare a glimpse of what may come.

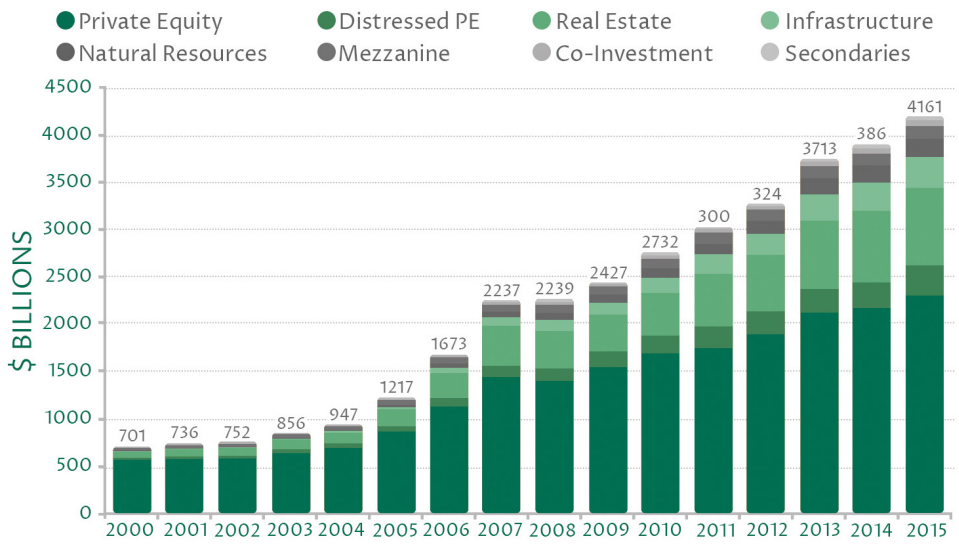
Success spawns imitators, and businesses have started to pay attention. Senior executives are keen to learn about the secret sauce that makes private equity funds so successful to port the lessons to their own organisations. Time will reveal if companies can successfully take a leaf out of the PE playbook; if they can become as rigorous and disciplined about execution as PE investors have been. US estimates suggest that 12 to 17 per cent of all companies with valuations over $100 million are in PE hands; so many senior executives are already in ring-side seats and, presumably, learning the tools of the trade.

A tsunami of capital?

I see no end in sight to the steady stream of capital flowing into the private equity industry. Beset by historically low interest rates, few investors can afford to ignore unlisted companies. Norway's pension plan and Japan's Government Pension Investment Fund (GPIF) – some of the final holdouts – have recently added PE to their investible universe and now compete with pension plans, sovereign wealth funds, family offices and HNW individuals in the search for unlisted opportunities.

Pension plans will continue to be enthusiastic allocators in light of their underfunding (by some estimates as high as $5 trillion). Sovereign wealth funds added US$ 1 trillion in investable assets between 2013 and 2015 alone; new ones continue to be launched, mainly in the emerging markets. China's insurers have started to allocate to offshore funds, adding to a wave of new capital looking for investable assets.

Exhibit 1: *Private Capital Assets Under Management by Strategy*



Source: Preqin

Some veteran investors started more than 15 years ago to try their hands on direct investing, thereby circumventing traditional private equity funds. Some have developed a solid reputation with excellent teams and challenge nowadays traditional PE players on prime targets. This desire to "go direct" will continue, but is unlikely to lead to a break with the traditional fund model; direct investing will prove successful only for a select few of the very large investors.

General partnerships: Transformation agents needed

This tsunami of capital allowed some private equity firms to grow rapidly, in the process extending their product offerings beyond that of PE. They left limited partnerships (LPs) wondering if the hungry dealmakers of old had turned into asset accumulators. More available funding made it easy for new players to enter the scene, a trend that will have an impact on deal making going forward. We are seeing experienced PE partners spin out to set up shop, larger limited partnerships turning into quasi-general partnerships and new players from the emerging markets joining as well.

More players participating has led to significantly higher valuations on deal entry, a trend that will certainly continue to test the mettle of PE investors and demand a broader skillset. No longer financial wizardry alone but the ability to transform and improve businesses will be the modus operandi of the most successful PE funds in future.

How may this play out?

Let me close with a look ahead at the immediate future. In 2016 we came to the end of a so-called 'exit supercycle' which is bound to have long-term consequences. Returning money endeared the PE industry to its limited partnerships and facilitated fundraising. LPs were happy to 're-up', remembering the recent 'good years' of positive cash flows; so it is no wonder that 2014 to 2017 will go down in history as record fundraising years.

Consequences of such 'irrational exuberance'[1] are starting to show. Deal making has been slow since 2016 – not surprising of course in a time of record high valuations (in certain emerging markets EBITDA multiples of 20 times are not unheard of). Whether deals done at such ambitious valuations will be managed to a profitable exit is everyone's guess; but three predictions can be made:

- Fewer deals now will lead to fewer exits in the years to come, in turn returning less money to investors. In addition,

- Slower deal activity will lead to rising dry powder and to LPs starting to ask about their funds sitting idle on the sidelines – possibly looking for greener pastures elsewhere.

- Multiples at record levels will encourage quick exits, leading to shorter holding periods (a reminder of pre-GFC times). It will certainly question the industry's proposition of value creation.

The above concerns are well justified, yet the demand from companies for (private) capital and experienced partners willing to roll up their sleeves remains strong. Will the private equity industry be able to respond to the challenges and ensure that their capital continues to reach the most deserving companies?

This blog post is based on the author's book 'Mastering Private Equity – Transformation via Venture Capital, Minority Investments and Buyouts' (Wiley) and its accompanying case book, 'Private Equity in Action – Case studies from Developed & Emerging Markets'.

*** The article can be found *here*.**

[1] "Irrational exuberance" is a phrase used by the then-Federal Reserve Board chairman, Alan Greenspan, in a speech given at the American Enterprise Institute during the dot-com bubble of the 1990s. The phrase was interpreted as a warning that the market might be somewhat overvalued.

Will Late-Stage Venture Funding Pay Off?

By Bowen White, Associate Director of GPEI, Published by INSEAD Knowledge on October 5, 2017

It is uncertain whether private investors will capture the value they expect from tech unicorns.

Uber, Didi Chuxing, Airbnb… these names immediately evoke images of unicorns, warchests and disruption, as well as reflect the 14x growth in annual venture capital investment since the 1990s. But they also call to mind a more cautionary image in today's frothy VC market – a bubble – and raise questions about the sustainability of valuations in a market fueled by new entrants and record VC and PE dry powder.

Traditionally, venture capitalists have provided small sums of capital in staged funding rounds to nurture and test the viability of disruptive, high-risk business models in an entrepreneurial environment. Recent data indicate that this role remains alive and well and has in fact thrived over the past decade. More accurately described as early-stage venture capital, this segment of the market has maintained a remarkably consistent share of total VC investment volume since the late 1990s (Exhibit 1A), reflecting its rapid growth alongside the larger end of the VC market.[2]

While early-stage rounds have maintained a consistent share in aggregate, the composition of early-stage funding has evolved significantly (Exhibit 1B), notably with the emergence of angel and grant funding rounds in the 2006-10 period and seed funding rounds in 2011-15. Given the 14x growth of the overall VC market and the consistent share of early-stage VC, the sharp increase in the share of angel and grant as well as seed rounds translates into an exponential, 59x increase in the volume of funding invested in business models at the very earliest, highest-risk phases of development since the late 1990s.

As the volume of investment in angel and grant as well as seed rounds expanded significantly, the average size of both rounds fell; the drop was significant for seed rounds (Exhibit 2). More founders are therefore getting access to early-stage funding, which affirms the assertion that venture capital's funding of entrepreneurship is alive and well: The number of angel and grant as well as seed rounds per year has increased 133x over the past two decades.

The average size of Series A rounds has also remained relatively consistent over the past 20 years, but this is where the data take a turn. Indeed, the average size of Series D through Series G funding rounds has grown significantly.

Exhibit 1A: *Early-stage & late-stage VC, as a % of total VC investment*

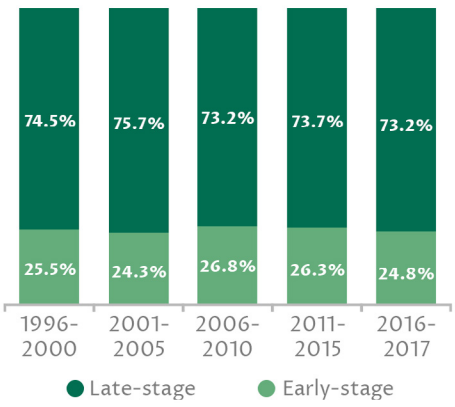
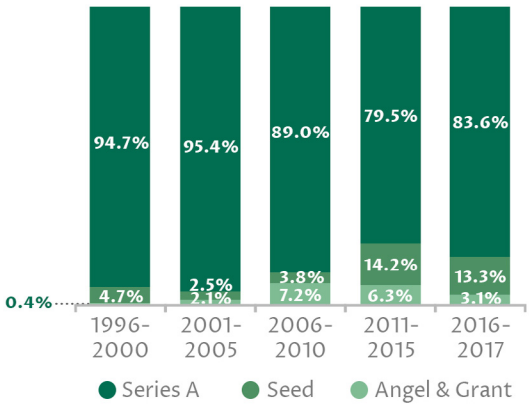


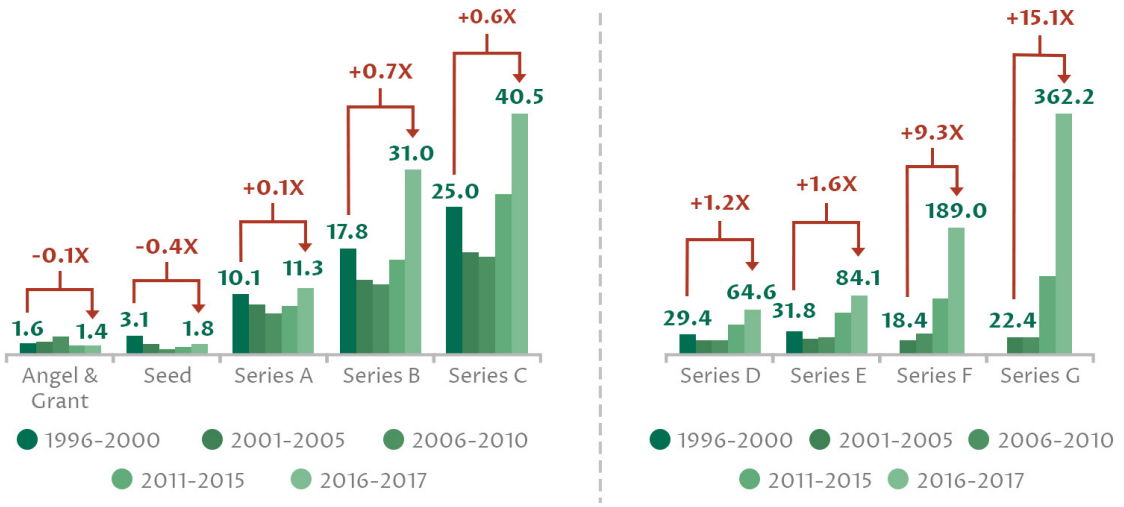
Exhibit 1B: *Breakdown of Early-stage VC, by Round*



Source: Preqin

[2] Early-stage venture capital = grant, angel, seed, and Series A rounds. Late-stage VC = Series B - Series K rounds.

Exhibit 2: *Average Size of Round (in US$ mIllions)*



Source: Preqin

The emergence of the mega-round

To assess the growth in large, late-stage venture capital rounds, our dataset is re-organised according to the size of an investment round (note: not valuation, the total dollar amount deployed in the round). The availability of funding for large, successful VC-backed companies wishing to remain private is made clear by Exhibit 3A: The share of VC rounds greater than US$100 million has grown from less than 10 percent of total VC investment in the late 1990s and early 2000s to nearly 50 percent in the 2016-2017 period to-date. At the top end of the spectrum, investment rounds over US$1 billion are largely a recent phenomenon, as 38 of the 47 such rounds in our dataset were closed from 2014 onwards.

Large and mega VC rounds have been dominated by a new set of players that are becoming increasingly involved in VC-style investment, namely sovereign and corporate investors (Exhibit 3B), as rounds of investment over US$500 million exceed the mandate of all but the largest PE and VC players.[3] By far the largest sovereign and corporate investors in these rounds are Chinese, notably Alibaba-linked entities and various Chinese state-owned financial institutions. Softbank and Singapore government-linked entities also participated in a significant number of large rounds, while other corporates largely invested in start-ups aligned with their core businesses.

Exhibit 3A: *VC investment rounds by size, as a % of total VC investment*

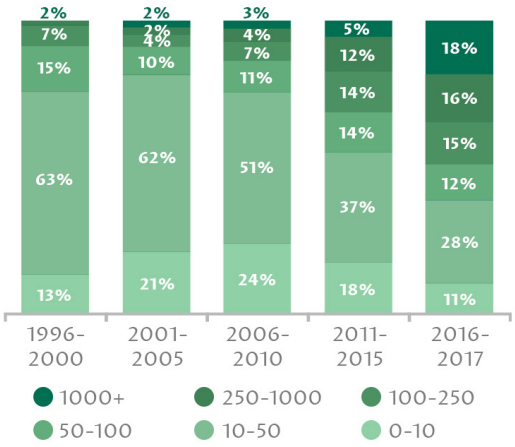
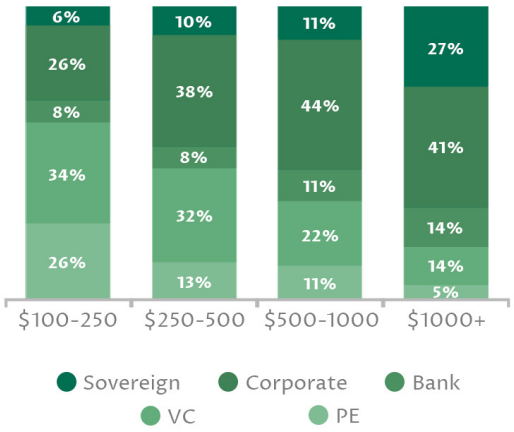


Exhibit 3B: *2016-17 VC rounds greater than US$100 million, by Investor Type*



Source: Preqin (3A), Crunchbase (3B)

The impact: valuations, exits… and time

With non-fund investors providing funding at the top end of the market, as well as VC and PE dry powder at an all-time high, valuations across VC-style investment have been on the rise. Emblematic of this valuation inflation is the number of rounds that valued a start-up at US$1 billion or more in recent years, i.e. unicorn funding rounds. What remains unclear is whether these valuations will be maintained at exit and deliver on investor's expectations, or disappoint and generate losses; at mid-year 2017, the glut of privately-held unicorns was growing (Exhibit 4A).

The availability of capital at all funding rounds and the growth in late-stage investments have allowed start-ups to remain private and independent longer, particularly those that eventually tap public markets. Indeed, VC-backed companies that were sold in the first half of 2017 had raised more money prior to exit than in any year on record (Exhibit 4B). While this allows entrepreneurs to run longer with an extended focus on VC metrics (e.g. growth, cohorts, scaling, etc.) relative to the bottom line, it should make investors ponder the existence of a bubble.

Implications of the mega-rounds

At no point since the dot-com bubble have the VC industry and VC-backed companies captured so much the imagination of the investing and general public. The application of the VC investment model – backing high-risk business models with the potential to disrupt traditional industries and produce outsized returns – has spread beyond the industry's early-stage origins, as billion-dollar businesses at scale are raising billion-dollar funding rounds. Indeed, the industry's late-stage fire power is reshaping the way companies at the forefront of innovation develop and engage with the business landscape.

The question remains whether private investors will capture the returns public investors have reaped from the tech space in the past (e.g. through an investment in the Microsoft or Google IPO). Certainly not every unicorn will make it, and certainly not every investor (with the exception of a Softbank, Alibaba or Chinese government) has the scale or ambition to participate across a portfolio of mega-rounds. What is not in question is the blurring of the lines between traditional VC, PE, bank, corporate and sovereign roles in the tech landscape. In the meantime, mind the froth.

Exhibit 4A: *Unicorns Rounds and VC-backed Exits Valued at US$1 BIllion-plus*

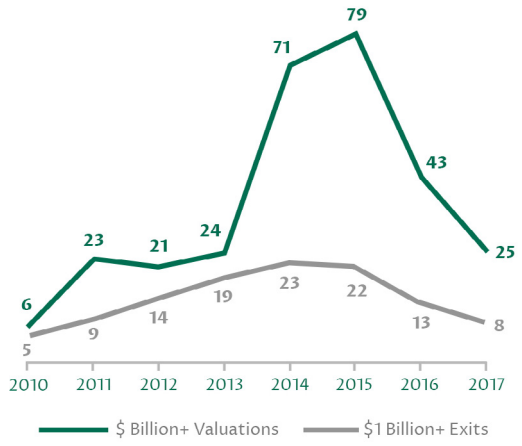
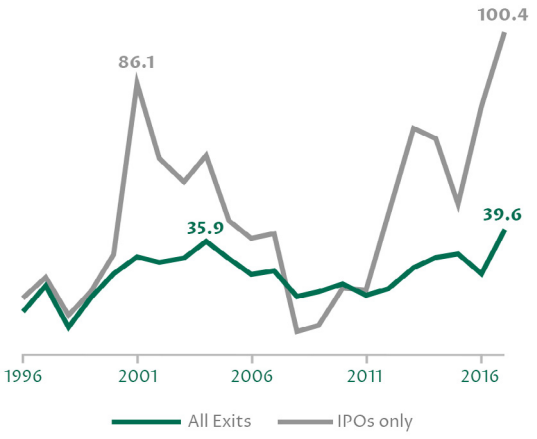


Exhibit 4B: *Median Funding Raised by VC-backed Companies Prior to Exit (in US$Millions)*



Source: Pitchbook (4A), US and Europe data only; Preqin (4B)

*** The article can be found *here*.**

[3] Categorisation of a round as sovereign, corporate, bank, PE or VC investor was determined by the type of a given round's lead investor.

Indian Start-ups Must Compete Without Protection

By Deepak Shahdadpuri, GPEI Alumni Advisory Board Member and Founder & Managing Director of DSG Consumer Partners, Published by Livemint on April 29, 2017

The reluctance of venture capitalists (VCs) to fund non-tech businesses and consumer-focused products is largely related to "pace of scale"—it takes a very long time, often decades, for a non-tech consumer business to create a brand and become a market leader, says Deepak I. Shahdadpuri, founder and managing director of Singapore-based investment firm DSG Consumer Partners Asia Pte Ltd.

Shahdadpuri's firm, which recently hit the final close of $40 million for its second vehicle, is among the first funds to focus exclusively on the consumer space in India, having put capital in companies such as specialty food ingredients maker Veeba Foods, Greek yogurt maker Epigamia, and tea chain Chai Point.

In an interview, Shahdadpuri said while India still has very few consumer-focused VC funds, the country has hit a point of inflection as venture backed consumer brands are scaling quicker, and there are several success stories around. "We also have other funds broadening their mandate to include early-stage non-tech opportunities, just like Sequoia did successfully 5-6 years ago," he added. Edited excerpts:

Even today, when it comes to consumer brands, start-ups in that space often can't raise funding from banks, they are too small for private equity (PE) and most VCs don't want to be seen doing anything outside tech. Despite the opportunity, why are VCs not jumping on board when it comes to consumer businesses of the non-tech variety?

I think we will see more venture funds enter the market as the opportunity becomes more obvious. There is a very long gestation period to develop, build and scale a consumer business and the gestation is longer in the non-digital physical world. I started focusing on the space in 2004 with my investment in Sula Wines. At that time, there was almost no institutional capital available to back seed and Series A rounds in non-tech consumer businesses. Fast forward 13 years and things look better. However, demand for early-stage risk capital from consumer-focused entrepreneurs still materially outstrips supply. Many of my peers have started looking at this sector more aggressively, including Saama Capital, Sequoia and Verlinvest. These investors are patient and understand that it takes a very long time, often decades, for a non-tech consumer business to create a brand and become a market leader. I believe we have hit a point of inflection. Venture-backed consumer brands are scaling quicker and there have been success stories like Sula, Veeba, Paperboat, Raw, Epigamia, Kama, Forest Essentials and Bira. This will attract more funds who can now see that you can build a profitable business and exit. I am glad VCs have not been jumping on the bandwagon as you put it; but they will be sooner than you think.

You have seen the VC space in India for a long time. MintAsia recently reported as to how during the past 18-odd months, a whole new generation of venture capital firms have taken root, hoping to usher in the next era of early-stage investing. How do you view this, considering that not since 2006-07 has the market in India experienced such an influx of new firms, especially home-grown ones?

There are many more new VCs in India today, highlighting the opportunity and the demand for capital. They play across the spectrum from seed to late stage and are a mixture of local, regional and global firms. India is a very attractive market, given its strengthening economy, and its very attractive and large base of domestic consumers. The emergence of new funds will take a Darwinian evolution with only the best funds attracting the most capital and the bottom tier funds exiting. This is great for both the venture industry and entrepreneurs. What is concerning is that many of the funds are generic and looking at the same deals. As the market evolves and matures, I would expect to see more funds getting more domain focused, given the large opportunity in so many different sectors. For example, even within the consumer segment, I expect to see more specialization into FMCG (fast-moving consumer goods), fintech, healthcare, education, etc.

We now have a situation where local VCs are sourcing a substantial portion of their capital from domestic investors—family offices, HNIs, some local financial institutions and even a bunch of local corporate houses. How can this alter the character of the country's start-up market?

The emergence of local pools of capital is fantastic news. Each LP (limited partner) brings a different perspective and will contribute to the local start-up ecosystem. It is important that India has, and maintains, a robust, early-stage market so that start-ups can emerge and grow. In the past, the bulk of the capital was mid-market and buyouts. Successful early-stage funds raise larger and larger funds and are forced to abandon doing seed deals. I hope that the next generation of early-stage managers find their own sweet spot, develop their own defensible investment thesis and stick to doing early stage.

Does the current downturn (in funding) spell an opportunity for some of the smaller Indian VCs—since large firms have all been cutting back on seed-stage investments—and does this provide a gap in the market for these new/smaller VCs?

I have a different perspective. There always has been, and continues to be, a gap in early-stage investing, particularly in the non-tech segment. Successful funds like SAIF, Sequoia, Matrix and others scale up as they succeed. Poor performing funds will leave the market as they are unable to raise new funds. As a result, there is almost always a continuous vacuum in the early stage segment. This is an opportunity for new managers to step in and prove their ability to make returns and forces established managers to debate raising new funds materially larger than previous funds.

Has India reached a stage where home-grown packaged consumer goods type of business can thrive—today, new firms don't need tens of millions of dollars to achieve scale due to new distribution and marketing models. Are we, therefore, at an inflection point for the creation of such consumer businesses, or is that still far away?

Yes and no—FMCG-type business can thrive, ecosystems have evolved, and it is easier today for FMCG start-ups to scale. But it is still not easy. Some firms have built a business by organizing the unorganized segment and repacking a traditional product to make it more relevant like Hector Beverages has with its Paperboat line of products. Other firms identify a white space with no direct competitor, think about Raw Pressery, India's first High Pressure Processed cold press juice company, or Drum Foods and its first to market greek yogurt brand Epigamia. These firms must create the category and be creative about how they market and reach new consumer. The eco-system continues to change and so does consumer behaviour and demands. I expect the pace of such new investments entering the market to accelerate...

The lack of exits in Indian start-ups is by far the biggest concern among global LPs who are investors in venture capital and private equity funds. How big a concern is this?

This is a real concern and something that all GPs (general partners) spend a lot of time thinking about. However, they continue to be exits across stage and sectors including DSG Consumer Partners Asia's part exits from Redmart, OYO and Veeba; Saama Capital exiting from Paytm and Snapeal, and others. However, this is a very small percentage of invested dollars in the same period.

As someone closely involved in the VC space, and also with entrepreneurs, what is your take on the current situation? When will investor sentiment improve?

I am very bullish at this stage and the pipeline is very exciting. Without articulating a reason, the India entrepreneur scene is as robust as it has ever been. With a thriving local market and consumers who are demanding and willing to spend, most VCs are excited about the prospects to back tomorrow's winners. However, very few investors have a dedicated focus to the consumer space. I expect this to change over the next five years as more specialized funds enter the segment. We also have other funds broadening their mandate to include early-stage non-tech opportunities just like Sequoia did successfully 5-6 years ago.

What are the investment trends that you are bullish on this year? What are the trends in the start-up space in India and South-East Asia that one should watch out for?

We continue to look at medium- and long-term consumer trends in India and SE Asia. The demographics are super exciting: young population, higher GDP income, propensity to spend and exposure to global media. In particular, we like big, long-term themes, including retail, food, beverage, packaged products, wellness, health, financial services and other businesses that will benefit from the boom in consumption.

You recently partnered with another INSEAD alumnus to create a investment firm called InseadAlum Ventures in Singapore, with a capital of nearly $700,000 to invest in start-ups founded by ex-students of the international business school. What was the logic behind this?

InseadAlum Ventures (IAV) was an initiative of Will Klippgen (managing partner, Cocoon Capital) and myself to start a fund focused on mentoring and funding promising INSEAD alumni. The logic is two-fold—we believe very exciting entrepreneurs are graduating from INSEAD and will be a source of deal flow and, second, this was a meaningful way that Will and I can give back to INSEAD, where we both earned our master's degrees.

Both for investors and also for start-ups, has the Narendra Modi government delivered on its promise to improve the ease of doing business?

Modi was elected to power in May 2014 and one of his election mandates was to make it easier to do business in India. It is still not easy; but from my perspective, Modi has made it easier to do business.

What is the biggest pain point in India—is it series A and B? I am asking because data shows early-stage investment still continues to be robust.

What I see is a polarization in the availability of capital. I see a lot of capital at the seed stage from family and friends, angel investors, new funds and dedicated early-stage funds. As markets progress, the most successful funds will raise new rounds of capital while poor performing funds will exit the business. So you have the best funds moving up the value chain...

Of late, we've been hearing some arguments on capital dumping and whether Indian start-ups need protection from foreign competition? What is your take?

This is a thorny subject. I have heard both sides of the argument and each camp has a well argued and substantiated position... but I do feel Indian start-ups need to be able to compete in the open marketplace and there should be no protection.

How will the goods and services tax (GST) reshape the Indian start-ups?

Many market players are concerned about the negative impact of GST. However, I feel the impact will be positive. GST is a unified code that does away and consolidates VAT (value-added tax), service tax, central excise, octroi or entry tax.

Dry powder with PE/VCs active in India stands close to a six-year high of $7.1 billion, according to data from private deal tracker Preqin. Does this suggest an improved fund-raising environment? Or does this suggest lack of strong deal flows, or even a lack of confidence to deploy capital in India, considering the negative news that start-ups there have been attracting for a while now?

I think the reality is somewhere in between. India is a very large economy and will continue to attract the interest of both international and domestic investors. In the short term, we will probably see periods of exuberance and periods where the news is negative. Overall, I believe, India and South-East Asia are very attractive destinations.

*** The article can be found *here*.**

How Private Investors Can Narrow the Global Infrastructure Gap

By Wissam Anastas, INSEAD Alumnus and Co-Founder of Transition Energy Capital, Published by INSEAD Knowledge on September 4, 2017

Governments have been unable to address infrastructure shortfalls. Private investors can help fill the gap.

Chronic underinvestment in global infrastructure has been a consistent headache for policymakers for decades. A ***2016 McKinsey study*** placed the gap in infrastructure spending at $800 billion annually through 2030. One solution suggested by the study? Tap the $120 trillion of assets managed by banks and institutional investors.

With purported stable, long-term cash flows, infrastructure projects align well with the typical demands of large financial investors. Industry giants such as Brookfield have been in this space for a long time and make the case. Blackstone's recently unveiled $40 billion infrastructure fund along with Brookfield and Global Infrastructure Partners funds that closed in excess of $15 billion suggest there is strong demand, and the funds' ability to leverage those amounts with debt financing underscores their real impact.

Core characteristics of the asset class

The growing demands placed on the world's infrastructure have been exacerbated by population growth, increased urbanisation, a transition to low-carbon economies and national budget constraints. These structural shifts and the consistent return profile of mature infrastructure projects have helped propel infrastructure to a viable, long-term asset class with a unique role in an institutional investor's portfolio.

The stable return profile and low correlation to traditional asset classes offered by infrastructure are driven by the following core characteristics:

- **Provision of essential services resilient to the economic cycle:** Infrastructure assets generally serve as the backbone for basic, irreplaceable public services such as road networks, airports and power lines. As such, essential infrastructure assets benefit from relatively inelastic demand, relative to debt and equity capital markets.

- **High barriers to entry:** Assets usually enjoy some form of monopolistic market positioning through regulations, concessions or capital constraints, or through other characteristics that would make a similar investment unreasonable or uneconomical.

- **Predictable and resilient long-term cash flows:** Infrastructure assets are long-life assets. The regulatory framework, concessions or contracts under which services are provided typically run for 15 to 20 years, sometimes for more than 40 years, with pricing provisions that provide a predictable return over time.

- **Inflation-linked revenues:** Cash flows produced by infrastructure assets are commonly linked to measures of economic growth such as gross domestic product or inflation. In some cases, revenue increases due to inflation are embedded in concession agreements, licenses and contracts.

- **Predictable operations and maintenance capital requirements:** The nature of infrastructure assets is such that they are generally highly capital-intensive with relatively predictable operating and maintenance expenses.

These general characteristics of infrastructure hold true across its wide array of underlying industries, be it energy infrastructure, transport infrastructure, telecom infrastructure or social infrastructure.

Risk/return – Infrastructure in an investor's portfolio

As an asset class, infrastructure investments provide a risk/return profile that spans between core real estate and private equity investments. While infrastructure assets share the characteristics listed above, there is significant variability in the risk/return profiles of assets at different stages of development. Add the specific attributes of the target country, market segment and asset dynamics, and the risk/return permutations are endless.

Equity investment into infrastructure projects can fall into three main investment strategies: core/core plus, value-added and opportunistic. Different investment strategies within the infrastructure space have different risk/return profiles and are suitable for investors with different risk appetites and return expectations.

Core/core plus strategies, such as public-private partnerships (PPPs) have the potential to provide stable long-term returns, while growth and development infrastructure typically offer significant capital appreciation potential. For example, an investment in a brownfield, regulated infrastructure asset – such as a regulated electricity transmission network focused on yield – is supported by a detailed regulatory or contractual framework with explicit revenue-inflation linkage. The high predictability of returns from this type of asset typically comes part and parcel with limited capital appreciation potential.

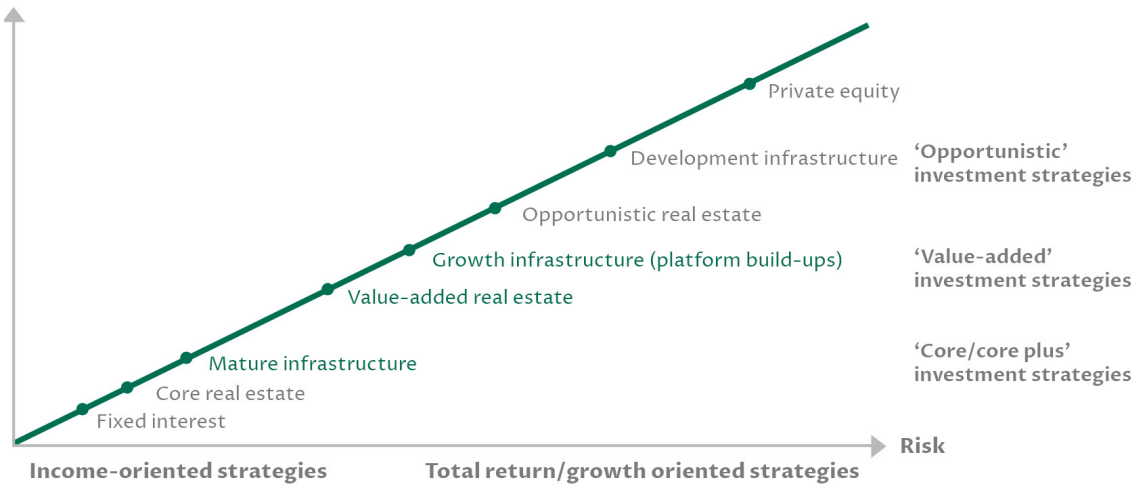
Investing in a ***value-added*** strategy such as a greenfield PPP project can involve additional risks, but also offers additional capital appreciation potential. As an example of growth infrastructure opportunity, we have seen many independent power producers (IPPs) successfully built-out in recent years. These IPPs tend to have seed assets with contracted cash flows that support the expansion into new geographies and, potentially, new technologies.

The telecom tower business is another underlying segment that has been successfully replicated over different geographies. The quality and volume of underlying contracted assets in telecom tower businesses make it an attractive sector for a platform play. Similar to an IPP model, the risk and considerations are naturally country- and location-specific, yet the economic models and key value drivers are similar.

Opportunistic investments and ***value-added*** infrastructure strategies have similar risk profiles but have at least one risk factor that makes a project's return profile more uncertain.

Returns for all lifecycle investments can be de-risked and/or enhanced by the specialist skills of professional infrastructure investment managers, particularly those supported by asset management teams. Infrastructure

Risk/return profile of infrastructure investment



provides managers with an active and strategic opportunity to add value directly to an investment and increase returns. Applied effectively, active asset management can, amongst other things, help boost user volumes and revenues, cut costs and optimise capital structures and cash flow, enhancing returns over and above the cost of active management.

An investor's risk appetite, knowledge of different segments, investment horizon and deployable funds are key considerations that dictate either a broad allocation policy (typical for large institutional clients) or focus on specific deals in a single segment (value-add fund manager or family office).

The way forward

The demand for infrastructure is not expected to soften any time soon. The short to medium-term outlook for infrastructure investing is positive due to a wall of capital chasing investible assets and the pursuit of yields in the current low-interest-rate environment. The high multiples seen for infrastructure assets and companies in 2016 are likely to persist in 2017, supported by a huge amount of bank liquidity.

While the ability of policymakers to plug the global infrastructure gap remains an open question, the attractiveness of the infrastructure asset class for institutional investors seems less controversial. Big-ticket investors, including infrastructure funds and major institutional investors now going direct, are looking to deploy large amounts of capital in brownfield assets in developed markets. Opportunities in greenfield assets presented by the infrastructure gap, particularly in emerging markets, may attract investors seeking more attractive yield and capital appreciation, yet global political uncertainty will enable only the best projects to reach a close.

*** The full article can be found *here*.**

Time For Boards to See Private Equity as More Than a Financial Investor

By Claudia Zeisberger, INSEAD Senior Affiliate Professor of Decision Sciences and Entrepreneurship & Family Enterprise and Academic Director of GPEI, Published by the INSEAD Corporate Governance Centre on October 30, 2017

Interview with book author, Professor Claudia Zeisberger, on her new book "Mastering Private Equity – Transformation via Venture Capital, Minority Investments & Buyout".

The model and workings of Private Equity (PE) has evolved over the years. The image of vultures seeking to prey on underperforming companies with steady cash flows in heavily leveraged transactions has evolved to one of highly proficient transformation agents seeking to impact businesses at critical junctures in their development.

Intervention of PE has created positive impact on portfolio companies through increased performance and competitiveness, improved management, and often increased employment (though not always and not necessarily in the short run). Board directors with the mandate to drive performance from the top ought to have a sound understanding of private equity and its potential to transform businesses – if (and only if) the right partner is found. Likewise, it would be advantageous for independent directors to have an understanding of the pros and cons of involving PE partners in their respective firms, and how to effectively do so.

In this issue of Author Interview, we invite Professor Claudia Zeisberger, the academic director of INSEAD's Global Private Equity Initiative and co-author for the new book "Mastering Private Equity – Transformation via Venture Capital, Minority Investments & Buyouts" to comment on the Private Equity scene and the insights that board directors and senior executives may gain from PE in driving value creation and high-performance in organisations.

Thank you Professor Zeisberger for giving us time to conduct this interview.

1) Can you tell us what motivated you to write the book & what you learned in the process?

Writing this book was a fascinating journey that brought several points to light: PE and VC, whilst popular topics, are rarely if ever looked upon in the context of the broader economy. Private Equity professionals are sometimes frustrated by the lack of understanding of their craft by the business community, which often leads to misinterpretation and misrepresentation and at times to a backlash or unfair accusations. Research papers – both of the applied and academic kind – usually take a close look at narrow and specific areas of private equity deals and investing, yet ignore the broader contextual issues. Resources to understand the big picture, to cover the entire spectrum – from venture to growth equity to buyouts – and to provide perspective are few and far between. There was room for a book to step in to prepare all parties for an informed discussion.

2) In the past decade and a half, PE assets under management have seen a fivefold increase backed by strong performance and growing investor interest. What are the drivers of success for PE investment?

PE funds have indeed delivered impressive performance both in absolute and relative terms, when compared with other alternative assets (especially Hedge Funds); that has in turn led to a large inflow of new money from institutional investors. There are several ingredients to the secret sauce of PE outperformance: a careful selection of target companies where the PE firm's partners can add value; a rigorous process on how to implement the planned improvements during the investment period and most importantly: the right incentive structures to ensure that the interests of all stakeholders – management team, business owners and investors – are aligned.

3) How can organisations benefit from engaging with a PE investor?

By selecting the right PE investor, organisations can add significant industry-specific and broad business experience to their boards in order to achieve their respective targets, be it international expansion, aggressive growth or restructuring. PE partners bring new perspective

to businesses, open doors to different markets and above all give the firm access to their extensive networks. Finding the right PE firm though is key, and with over 8,000 professional PE vehicles globally this is no mean feat and requires careful planning.

4) What are the core principles of PE governance?

Targets are clearly communicated and incentive structures ensure alignment of interests from senior management down to the factory floor worker. Furthermore, it is single-minded attention on results and execution, not taking your eye off the ball: focus, focus, focus from day one when the investment thesis is implemented based on the 100-day plan all the way to exit preparation a few years later.

5) Are there principles of the model that board directors can replicate to benefit their organisations and perhaps reduce the need for an engagement with a PE?

Of course – that is assuming the board is able to agree on a clear direction for the firm and can then ensure rigorous implementation of those plans. In the end, clarity of goals and diligent execution is key without regard for sacred cows. I would start by defining clear accountability for senior management and by implementing processes to check for deviations from the original plans and put clear remedies in place to get back on track. Unfortunately in publicly listed firms it is often difficult to satisfy the various stakeholder interests and marry the focus on a well-defined long-term plan with quarterly reporting requirements. The same may apply to family owned businesses where governance structures are often lacking.

6) PE is often associated with speed, profits and stress for the executives in place in the organization. What would be your recommendation to them?

I had this discussion recently with a senior executive who had experience working both in public listed companies & under PE ownership. His advice: private equity investors are straight shooters and seasoned professionals. Keep the communication channels open and share information – both good and bad – promptly and honestly. Appreciate the fact that you are working with an engaged and responsive investor who wants the company to outperform. When I asked him about his preference he was quick to answer: if you like to get things done, and can stomach the need for speed, then PE ownership is preferred. And let's not forget that management compensation packages in PE-owned firm can be very lucrative assuming all goes to plan.

7) And your recommendation to independent directors, joining a PE portfolio firm?

Be ready to work in a dynamic and fast-paced environment with an active board and experienced co-directors. This desire for strong board oversight will make it an exciting experience for even the most experienced board members.

*** The article can be found *here*.**

The Double-Edged Sword of Being a Lean Start-up

By Vikas Aggarwal, INSEAD Associate Professor of Entrepreneurship and Family Enterprise, Published by INSEAD Knowledge on July 20, 2017

Experimentation is vital in early-stage start-ups, but it involves a set of trade-offs that can influence a firm's ability to adapt to future technological change.

"Move fast and break things" was the oft-quoted motto of Facebook's early days. This ethos of speed is replicated in the lean start-up methodology, which emphasises getting to market as quickly as possible and learning from multiple, rapid iterations of a start-up's product market offering. While experimentation is a cornerstone of the lean start-up approach, how does the process of learning – which occurs hand-in-hand with experimentation – influence a start-up's longer-run viability? In particular, can learning and experimenting also have some say in whether a start-up is able to adapt to future technological advances?

Entrepreneurs often experiment until they hit upon a product or service offering that works. After this, exploration generally ceases, because the more time spent experimenting, the longer it will take to get a product to market. Yet, while time spent exploring may hamper firms' short-term performance, such experimentation can have longer-run benefits in the form of what we call adaptive capacity – the innate organisational capacity to adapt to technological change.

In a recent article in Strategic Management Journal, "Adaptive Capacity to Technological Change: A Microfoundational Approach", co-authored with Hart Posen and Maciej Workiewicz, we argue that the capacity of an organisation to adapt to different types of technological change is an untapped characteristic that arises from the same process through which the organisation develops its routines. We show that routines evolve over time, starting early in a firm's life cycle. As nascent start-ups experiment with different ways of doing things – as part of a lean start-up approach – this same process of experimentation then endows the firm with varying degrees of adaptability to different types of (future) external change.

What is particularly interesting about these properties of adaptability is that managers have the ability to tune their development early in a firm's life cycle. Managers can do this by influencing the degree to which individuals in the organisation are incentivised to engage in explorative behaviour, for example. Ultimately, managerial choices made early on to shape adaptive capacity can have an effect that lasts well into the future.

From the individual to the organisation

Our paper develops a stylised model of a simple organisation (akin to a nascent start-up), in which a small number of individuals come together, jointly developing a set of ongoing routines. As part of this process, individuals learn about the environment they are in, influenced by their interdependencies. We show that this individual-level learning process then leads to a number of interesting organisational properties. For example, an "organisational memory" develops, in which knowledge is embodied not only in the minds of individuals, but also in their interconnections. This is inherently a property of the organisation: If one individual leaves, a new worker who joins with little understanding of the organisation may ultimately come to act like the individual who left.

Another key property of the organisation that arises as routines develop is adaptive capacity. We have long known that organisations tend to become more cautious and conservative over time. What we hadn't necessarily understood, however, is that the routines that lead to this inertia are themselves equipped with the capacity to change. This organisation-level change can occur as a response to different types of external technological change.

We examine three such forms of technological change, which we call incremental, discontinuous and entrapping. These differ along the axes of difficulty, i.e. how hard is it for the organisation to change in response to the new environment; and inducement, i.e. firms' perceived rewards from engaging in the change effort. We show that not

only does adaptive capacity differ among these various forms of change, but also that there are trade-offs: In developing adaptive capacity early on, start-ups cannot optimise across time horizons and across the various types of change. In some cases, for example, start-ups may have to sacrifice short-term efficiency for long-term adaptability. In addition, they may have to resolve to be more adaptable to one type of technological change as compared to another.

Managing for an unknown future

Adaptive capacity arises as an outcome of the experimentation process in a start-up's early stages, and is embodied in the collective knowledge and beliefs of individuals. But there is another important way in which individuals matter, namely, through effective forward-looking strategising. Managers have an important role to play in this regard, because choices that affect the incentives of employees to experiment early on also affect the existence of particular forms of adaptive capacity further down the line.

There are a variety of levers managers can use to guide the degree of experimentation that leads to different levels of adaptive capacity. They can hire employees with certain characteristics, e.g. some people may be more naturally inclined towards experimentation than others. They can also engage in structural initiatives, such as incentive programmes that reinforce the need for experimentation, like Google's 20 percent time which allowed engineers to spend a fifth of their worktime on projects they are passionate about.

Ultimately, from the perspective of a manager, there is a strategic trade-off, because it is impossible to be certain what form of technological change may be coming in the future. Managers must therefore do their best to anticipate the particular form of environmental dynamism that will occur, often relatively far into the future, and then adjust the balance between short-term performance and long-term adaptive capacity accordingly.

Adapting at the right moment

As organisations mature, even over the medium-term, there will be technological shifts that cause a firm's innate adaptive capacity to kick-in (or not). Facebook, for example, nearly missed the opportunity in mobile, because its focus was firmly on the web-based market. Yet it did ultimately adapt. As an organisation, it had the capacity to morph itself to match the realities of the mobile era; by doing so it maintained its dominance of the social media market.

Managers of start-ups need to continually evaluate what the future is likely to hold. Doing so will enable them to continue to guide the development of their firm's adaptive capacity. As Facebook considers its responses to virtual and augmented reality, for example, their management will need to evaluate whether their employees collectively have the capacity to adapt to these impending technological changes.

*** The article can be found *here*.**

Can Asean Compete with China and India for Private Capital?

By Ian Potter, INSEAD Alumnus and Distinguished Fellow of GPEI and Claudia Zeisberger, INSEAD Senior Affiliate Professor of Decision Sciences and Entrepreneurship & Family Enterprise and Academic Director of GPEI, Published by South China Morning Post on November 3, 2017

Wealth generation, internet use and returning overseas talent will determine the pace of investment.

If a California venture capitalist were to take a New Yorker's view of Asia, it might look something like this – Japan in the foreground, China looming at the top, India rising in the far distance and then the "flyover" states of Asean dotting the middle ground.

While flows of private investment capital certainly follow this pattern, there are real differences between the buyout and venture capital approaches to Asia and between the three big economic blocks within.

At a regional level, buyout and growth equity – majority and minority equity investments in mature companies – combined appear to be slowing. The number of deals in the four years to 2016 has dropped by close to 30 per cent, although deal value dropped by only 11 per cent. The biggest change has been a sharp decline in deals in India, which masks an increase in the number of Asean deals.

Also, across the region, the opportunities for deploying private capital are increasingly tilting in favour of venture capital. The causes for this are varied, but common reasons include the relative youth of public companies and the resulting lack of restructuring opportunities; and the continuing preference among family businesses to keep it in the family and resist external capital on terms commonly needed to entice private equity.

The number of buyout and growth deals in Asia is the lowest among the three major regions relative to venture capital. Of all private deals done in Asia in 2016, 90 per cent were venture, compared with 70 per cent in North America, the region with the next highest venture capital proportion. In dollar value, venture capital in Asia was at 39 per cent and in North America 28 per cent of total private capital deployed. So in Asia, private capital, for now, is really more venture capital.

And the number of such deals in the region was up 3 times in the five years to 2016 and the value of these deals was up 4.8 times.

China dominates the venture capital market in Asia, stimulated by a strong – perhaps untested – investing ecosystem, a large urban, connected domestic market and rapid user acceptance of new products, which leads to more rapid post-seed funding cycles. China commanded more than half of all Asian venture capital deals in 2016 and more than 80 per cent of invested capital. India was the second most popular destination, producing 26 per cent of the deals done.

Asean, despite having in aggregate the third-largest economy in Asia and the fastest growing internet market in the world in Indonesia, only managed less than 10 per cent of Asian venture deals.

Why is this so and is there an opportunity for Asean to do more?

Asean should be an attractive destination for venture capital, with a fast-growing, young, well-educated population that in some countries rivals that of the US for GDP per capita. Certainly, the statistics seem to be turning more favourable – in the five years to 2016, the deal count increased by three times and, perhaps more importantly, deal value by nine times. That said, venture capital investment as a proportion of regional GDP remains well below US levels and those of China and India, and what investment there is remains relatively concentrated in a few key countries.

The underperformance as a group and the unevenness across countries can be explained by a couple of key dimensions – GDP per capita and mobile internet speeds. If we look at precedents in other countries and in China in particular, the threshold GDP per capita level of US$4,500 would appear to be a trigger for sparking rapid increases in market size. China hit

that threshold at pace in 2010 and the growth in venture capital deals since has been exponential. Married with urbanisation, which drives internet use and mobile download speeds that approach or exceed the global average, this is a recipe for commercialisation. Add a seasoning of returning talent – the so called "sea turtles" – and the recipe is complete.

India has struggled on all counts and has witnessed much more moderate investment growth.

Asean, growing steadily at roughly 6 per cent a year and with higher base levels for both conditions, is likely to fall somewhere in the middle – a more rapid scaling of venture capital investment than India, but shy of China's pace.

Within Asean, Singapore aside, GDP and download speeds remain largely unsatisfied at the country level. Thailand and Malaysia are close to meeting the GDP criteria, with fast-changing Vietnam and Indonesia in the next cohort. Policies in these countries are either in place or in formation to enhance the ecosystem for venture investing. Singapore is a special case with a timely and well thought through set of policies that address infrastructure needs and those of start-ups. Others are trying to follow, but execution remains uncertain and uneven.

What if Asean does begin to more fully meet the trigger criteria?

In China and India early deals were very much "me too" or fast localisations of western models. However, after the initial land grabs, both began to develop locally adapted and genuinely differentiated products at scale (payment systems and in-app platforms in China, and the policy-driven "digitisation" of the population in India) that are beginning to find international acceptance. For Asean, the "me too" deals – such as Grab and GoJek – have largely been done and it is an open question as to how or whether the region can drive genuinely creative new markets.

Where does this leave Asean and its ability to attract private capital? It is an attractive young market making good progress towards what might be a real acceleration in venture-investing velocity and scale. But demographics alone will not ensure long-term growth. That acceleration is dependent on the continued progress of wealth generation and the speed and use of the internet.

The trends are visible and deal valuations seem reasonable, so we are optimistic that venture capital flows will accelerate, particularly with the continued return of overseas talent. With that, the second-stage private capital flows of more international private equity will follow, but venture will continue to be disproportionately represented in this young region's financial scorecard.

The article relates to Claudia Zeisberger's book, "Mastering Private Equity – Transformation via Venture Capital, Minority Investments and Buyouts". INSEAD is a graduate business school that is consistently ranked among the top schools in the world.

*** The article can be found *here*.**

Case Studies

"As the team flipped through the presentation, they pondered the various options for value creation: there seemed to be an opportunity to grow revenue by expanding WMF's established brand to other geographies, and to improve the efficiency and profitability of the business. Critical choices and priorities would have to be set, however, to generate an attractive return by the end of the investment period."

"Finding the Perfect Recipe: KKR's Buyout of WMF" explores the operational value creation opportunities of KKR's buyout of the WMF group, a diversified kitchenware and professional coffee machine manufacturer headquartered in Geislingen, Germany. Presenting a concrete example of the potential for PE to improve the competitive positioning, operations and culture of a portfolio company, the case provides an inside view of the way deal teams evaluate potential acquisitions.

This case emphasizes private equity firms' focus on operational value creation in a large buyout, in particular the process of analysing the potential for returns by improving operations in the target company. This differs from classic studies on takeovers based purely on financial metrics.

For more information, please visit the case site ***here***.

"Joost recognized that any CS impact fund in Asia would need to be compelling from a traditional portfolio theory point of view, meeting its high expectations for attractive risk-adjusted financial returns. So the focus would have to be on "win-win" deals involving businesses that could create "shared value".

"Credit Suisse: Building an Impact Investing Business in Asia" describes how an entrepreneur helped Credit Suisse launch a commercially viable impact investing business in Asia. It specifically details the investment strategy and process for a new impact fund aligning social impact objectives with commercial goals of the bank. It also presents two new investment opportunities needing evaluation.

This case is ideal for teaching about impact investing, sustainable investing or responsible finance. It can also be used more generally for topics related to social impact or base of the pyramid in emerging markets – for example, as part of a course on economic development, entrepreneurship, strategy, social entrepreneurship, private equity or venture capital.

For more information, please visit the case site ***here***.

PE Events @ INSEAD

Future PE Events

9th Annual INSEAD Asian Private Equity Conference, Singapore, 2017

INSEAD's Private Equity Club (IPEC) will again host its annual conference in Singapore. This year's conference will feature insights from some of the most prominent GPs and LPs active in the region on topics including value creation, emerging markets, SEA start-ups, asset allocation, real estate and venture capital. The conference will be held at the Asian Civilisations Museum and INSEAD's Asia campus on 9-10 November 2017. Learn more ***here***.

30th Annual AVCJ Private Equity & Venture Forum, Hong Kong, 2017

The AVCJ Private Equity & Venture Forum is the leading private equity and venture capital conference in Asia, bringing together more than a thousand GPs, LPs and other professionals to Hong Kong for three days of quality discussions, strategic debates and productive networking. It will be held at the Four Seasons in Hong Kong on 14-16 November 2017. Use discount code AVCJHK_INSEAD15D to enjoy a 15% discount off the regular price. Learn more ***here***.

Kaizen & INSEAD Education Symposium (KIES 2018), Singapore, 2018

KIES 2018 will bring a global, hands-on perspective, covering emerging trends, cutting-edge technologies, innovative business models and new delivery methods in education – all while staying focused on the needs of local institutions, students and businesses. KIES 2018 will serve as an interactive platform for educators, thought leaders, investors, policy makers and business leaders. The Symposium will take place on INSEAD's Asia campus on 1-2 March 2018. Learn more ***here***.

Past PE Events

AVCJ Malaysia Forum 2017, Malaysia, 2017

The AVCJ Malaysia Forum returned to Kuala Lumpur on 19 September 2017. The event focues on the opportunities, the isues and the challenges in private equity, venture capital and other types of alternative assets for investors based in Malaysia and Southeast Asia. Bowen White, Associate Director of GPEI, held a ***presentation*** at the forum titled "The Truth Behind the Numbers". To learn more see ***here***.

Professor's Breakfast Lecture Series: Private Equity & Venture Capital Investments, Singapore, 2017

Professor Claudia Zeisberger gave a talk on Private Equity and Venture Capital Investment as part of a series of Professor's Breakfast Lectures, organized by the INSEAD Alumni. She was also available to sign copies of her latest book after the event: "Mastering Private Equity". The event took place on INSEAD's Asia campus on 6 September 2017. Learn more ***here***.

Echelon Asia Summit 2017, Singapore, 2017

Echelon is a digital platform engaging over 6,000 industry leaders and professionals that also features a two-day technology and business conference held annually in Singapore. Bowen White, Associate Director of GPEI, moderated a panel on "Corporate M&A: Singapore and Beyond" at the summit. The Echelon Asia Summit 2017 was held on 28-30 June 2017. Learn more ***here***.

SuperReturn South & Southeast Asia, Singapore 2017

SuperReturn South & Southeast Asia

SuperReturn South & Southeast Asia is part of the SuperReturn Series – the world's leading private equity & venture capital events. Professor Claudia Zeisberger moderated a panel on "Where is the region heading? What are the expectations over the next 2-3 years and what would unlock faster growth?" at the conference. The conference was held from 12-14 June 2017. Learn more ***here***.

About Us

The Global Private Equity Initiative (GPEI) is INSEAD's private equity think-tank and works hand in hand with private equity firms to create timely and thought provoking output. Our research targets to enhance the productivity of the capital deployed in this asset class and to facilitate the exchange of ideas and best practices amongst limited and general partners and other stakeholders involved in the industry (e.g. family firms, investment banks, and regulators).

In the eight years since its launch, GPEI has created a suite of original and relevant content on a range of under-researched topics and geographies. GPEI helped to establish a state of the art comprehensive curriculum in Private Equity at INSEAD that is executed in close cooperation with the industry. We continue to combine the energies and talents of INSEAD's research and educational capabilities with the school's alumni and global professionals in the PE industry.

INSEAD's global presence gives GPEI a unique advantage to conduct research into the established markets for private equity while at the same time exploring new frontiers in emerging markets to arrive at a truly global perspective on the asset class. Our local presence in Europe, Asia and the Middle East combines a global mission with a close link to some of the world's largest sovereign wealth funds, family businesses and fund managers.

We are supported by two world class organisations (General Atlantic and KKR) that recognize the importance of independent research and outreach activities for the growth of the global private equity industry. In addition, GPEI draws on leading data providers to the private equity industry – Preqin and EMPEA – for its on-going research activities.

If you are interested in assisting our research efforts, or would like further information on INSEAD's Global Private Equity Initiative, please visit ***https://centres.insead.edu/global-private-equity-initiative/***.

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