GROWTH EQUITY IN ASIA
What's next?

INSEAD MBA 16J

Private Equity Elective

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Executive summary

- **Asia is currently experiencing an explosive growth on several plateaus. On top of growing demographically and economically there is a consistent trend of increasing size, number and sophistication of Private Equity professionals and deals.**

- **Over last 15 years, annual capital deployed by PEs was growing at a healthy 17% rate (vs. 9% global average). What's particularly interesting about this growth period is the fact that it considered disproportionately one type of investments - namely, growth equity, a.k.a. minority-stake investments.**

- **More than 80% of PE investments in Asia, come from three main "engines", being: Greater China, India and Southeast Asia. Mentioned sub-regions are the primary focus of this report.**

- **Key reasons for growth equity popularity in Asia are deeply rooted in culture and legal framework of the region - in other words, minority investments are here to stay. Some of the key drivers include:**
    - **Significant share of family-owned / controlled sizeable companies**
    - **Governments exerting political influence over sale of SoEs**
    - **Regulations don't allow foreign investors to own majority stakes in local companies**
    - **Personal contacts of the owners are critical for business continuity**

- **The future of PE looks bright looking both at responses we've got from GPs and LPs. In a recent survey of LPs, growth equity ended up at the top of list of intended allocation increases**

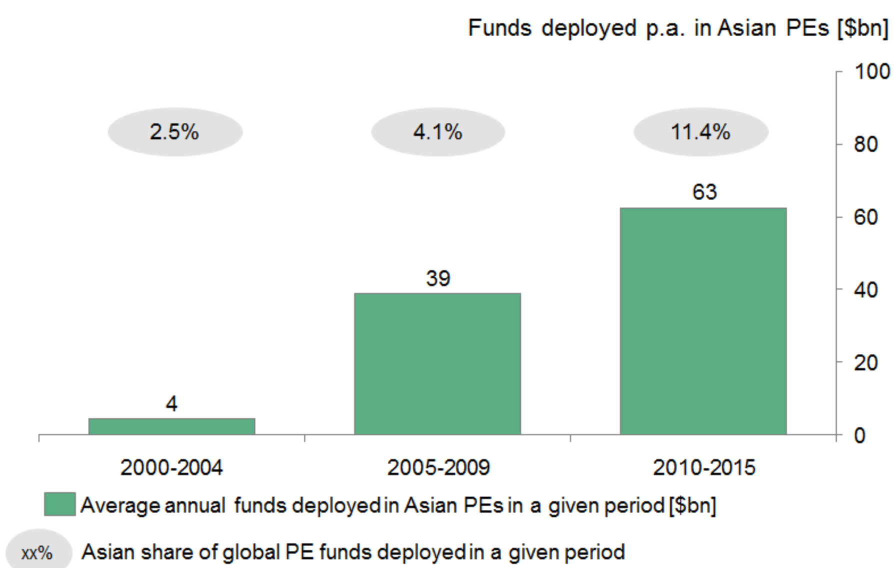
Introduction

This report intends to analyze key dimensions of the growth equity market in Asia. We analyzed recent market data in order to investigate key growth drivers. Additionally we looked into the qualitative factors in order to form a broad view on what is fueling development of minority investments in Asia. Following this analysis we looked at the competitive landscape and defined key capabilities required from GPs to participate in the expanding growth equity market. In order to make our conclusions more relevant we interviewed GPs and LPs - their perspective is included in the last chapter of the report.

For the purpose of this study, growth equity will be defined as a type of private equity investment in a minority stake of a relatively mature company that is looking for capital to expand or restructure operations, enter new markets or finance a significant acquisition without a change of control of the business.

Growth equity in Asia - overview

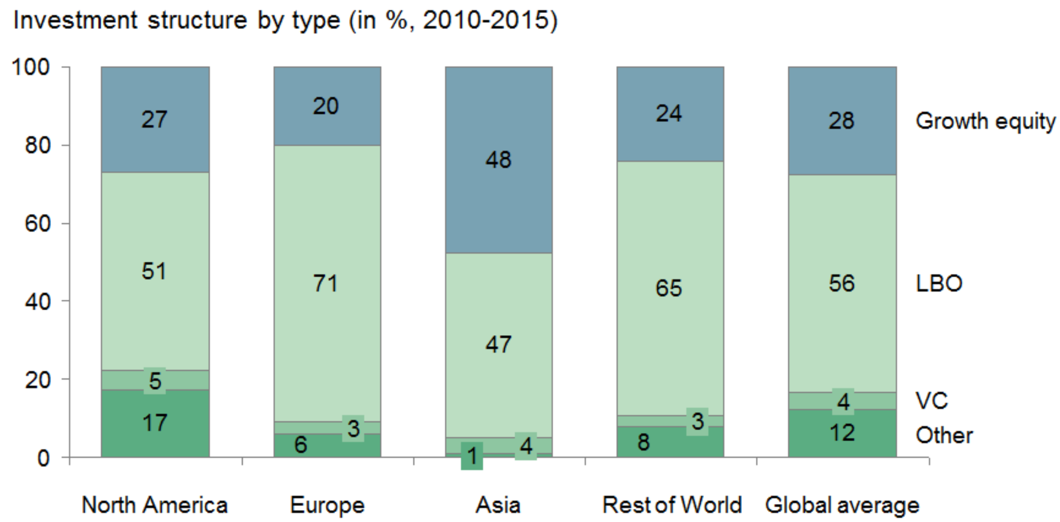
As Asia continues to grow it also attracts significant foreign investments from all over the world, including Private Equity investors. Future growth prospects far exceed those of developed markets in Europe and the US. All over the region, governments are dedicated to increasing living standards and reducing their dependence on exports. Large populations, growing incomes and urbanization are contributing to driving an economic transformation that is likely to generate opportunities for PE investors.



Source: Preqin, team analysis

Over the past 15 years, PE in Asia has experienced an outstanding growth. Average annual investments grew from $4bn in 2000-2004 to over $60bn in 2010-2015. The 15 year CAGR from 2000 to 2015 amounted to 17% - almost double the global average rate of 9%.

Looking at types of PE/VC investments all over the world in the past 5 years, Asia has been significantly skewed toward Growth Equity, compared to other key regions (such as North America and Europe) and the global average. In recent past, growth equity accounted for approx. half of all investments done in the PE/VC arena.



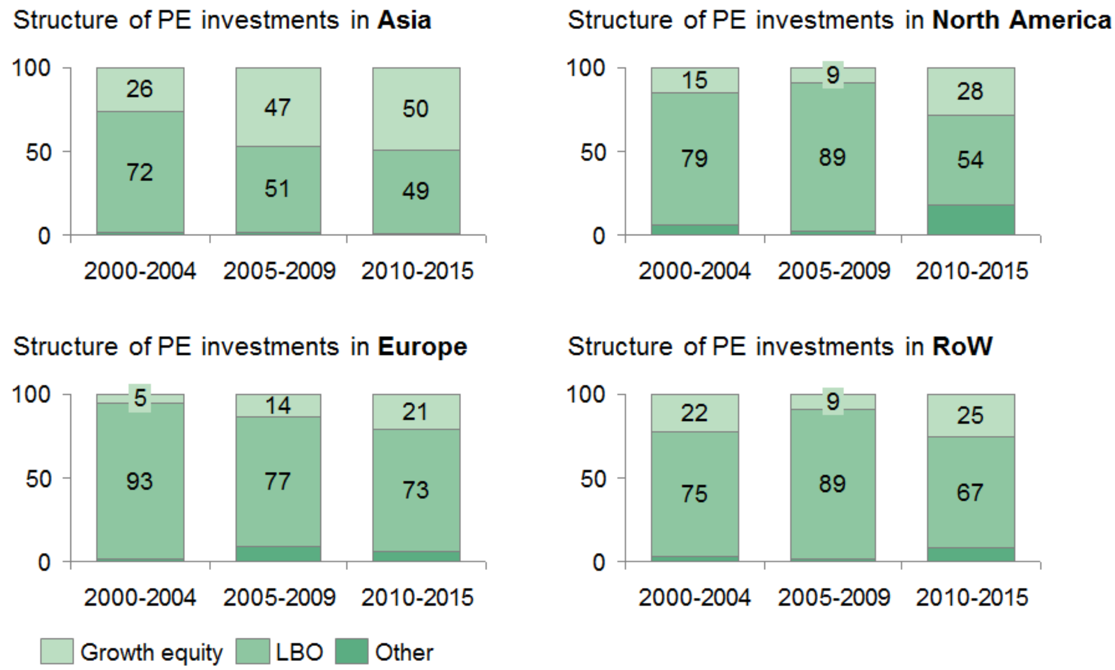
Source: Preqin, team analysis

Many of the largest global PE firms are embracing growth equity opportunities. Between 2004 and 2014, for example, 15 to 20 percent of deals done by Apax, CVC, and KKR were minority deals, and 25 to 40 percent of Blackstone and Warburg Pincus deals involved minority stakes.

What is driving the attractiveness of growth equity (minority-stake deals) is certainly lower competition, since most of minority sales don't involve formal auctions where risk of overpaying is relatively high. As far a returns are concerned, recent research has found that there is no significant performance gap between majority and minority deals (analyzed period 2008 to 2013).

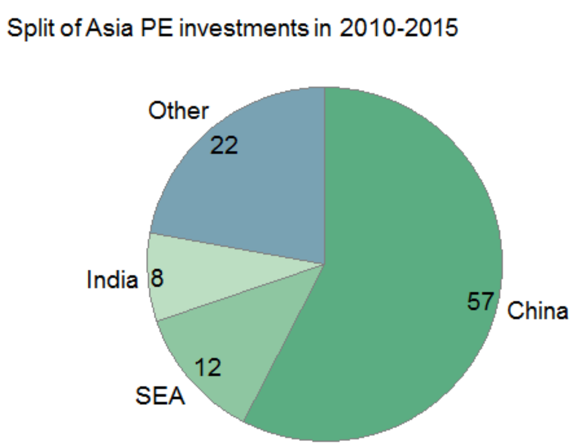
Popularity of growth equity in Asia is also not a recent phenomenon. Looking at an expanded time window from 2000 until 2015, it shows that growth equity has been consistently significant type of PE investment. In early 2000s, while North America and Europe saw only 5-15% of funds allocated to minority deals, in Asia share of growth equity amounted to 26%.

Growth equity gained momentum during the peak of the financial crisis, when debt finance was constrained and the sale of a minority stake was often the only way for a company to raise capital. This trend is visible in the analysis below, in the period 2010-2015 when Growth Equity increased its share globally and in all respective regions. Today, the debt-financing squeeze has largely passed, but some corporate balance sheets remain constrained, creating incentives to sell minority stakes. On top of the financial reasons there are other, specific to Asia, motives for engaging in a minority sale. In later chapters we will investigate in detail the key drivers for growth equity popularity in Asia.



Source: Preqin, team analysis

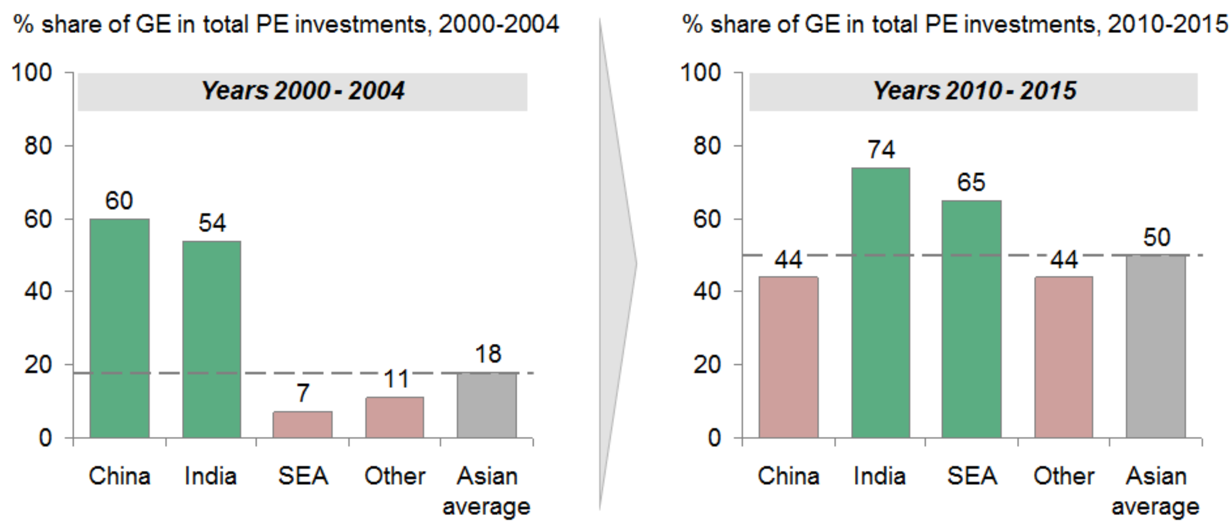
Since Asia is a very large and diverse region we will need to narrow-down the focus of this report to key sub-regions. Overall, almost 80% of PE investments come from three main clusters: Greater China, India and Southeast Asia. These are also sub-regions where growth equity has gained high penetration rates - other Asian markets such as Japan, Australia, South Korea are more mature and more skewed towards LBO type of deals.



Source: Preqin, team analysis

All of selected three Asian sub-regions are characterized by over-proportional representation of growth equity investments in the value-weighted structure of deals. While China, India and SEA have 45-75% shares of GE, other countries of the region are on average more similar to the global average level. Historically, however, development of minority investments was not happening at the same pace in all of the sub-regions. While China and India were skewed towards growth equity already in early 2000s, in SEA the shift from majority- to minority-deals happened in 2006-2011 reaching 65% in last 5 years. The key reason for LBO growing significantly in China in the most recent 5 years was the buyout capabilities of local PE firms, such as CDH Investment, Hony Capital, CITIC Securities and Bohai have become more matured. At a same time, Western buyout firms such as Carlyle, Baring and Warburg Pincus are more comfortable to invest in buyout deals in China since they can partner with some quality local players.

Another reason was the recent boom in the TMT sector in China. According to Preqin, three of the top five mega LBO deals in China, namely Qihoo, Focus Media and Giant Interactive Group, are all from this sector. Furthermore, many Chinese TMT firms are listed in Nasdaq or Hong Kong, which tends to have better corporate governance practice.



Source: Preqin, team analysis

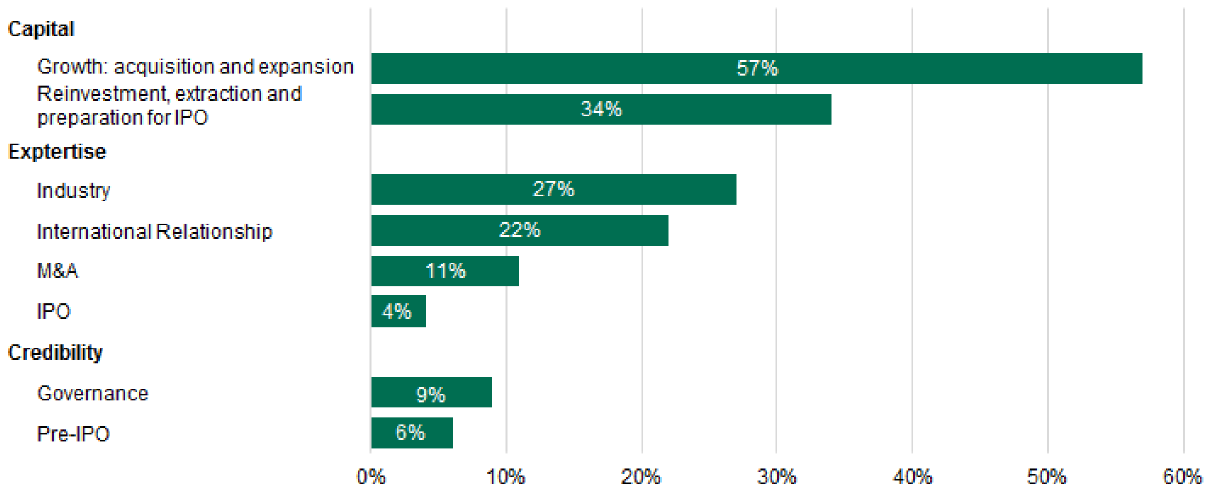
Above analyses state conclusively that significant part of growth of PE market in Asia has been driven by increasing popularity of minority investments in the three key analyzed sub-regions. Following chapters of the report will zoom-in on specific reasons for this growth and will form a future outlook. We will also present a view on what key competencies on GP side will enable funds to be part of this increasing market.

Growth equity in Asia - factors of growth

Minority deals have been historically most common in emerging markets and especially in Asia. There are several factors that account for the difference.

- **Family owned / controlled businesses are more common structure in Asia than in developed countries** (e.g. 85% of business with $1 billion or more in annual revenues in Southeast Asia are family run, compared with 15% of US companies in Fortune Global 500), and owners are less willing to cash out stocks because less sophisticated stock markets make it difficult to find alternative investment opportunity and diversify their wealth
- **Government exerts political influence on the sale of SoE**s and sometimes allows them to sell only minority stakes
- **Regulation doesn't allow foreign investors to own majority stake**s in local companies in some specific industries (e.g. banking in China)
- **Owner's existing personal networks and relationships are essential part of the business** in Asia which makes PE investors more comfortable making minority investment

Principal Motivations of Sellers of Minority Stakes



Source: BCG analysis "Private-Equity Minority Investments"
Note: Out of 90 deals analyzed by BCG

There are three main motivations of sellers of minority stakes: the need to raise capital, the desire for specific expertise, and the desire for the credibility that an independent, professional investors can bring.

Capital:
Minority stock sales is an attractive way of raising capital while maintaining control of the company. During the financial crisis, debt finance was severely constrained and the minority stake sales was often the only way to raise capital. Debt-financing restriction has mostly passed today, but some companies remain constrained, providing motivation to sell minority stakes to PE funds.

Expertise:

Sellers expect expertise PE funds can provide. Particularly, they value knowledge about adjacent industry subsector and idea about how to accelerate future growth in new markets. Sellers also expect expertise in M&A and IPO as parts of value-up / exit strategy.

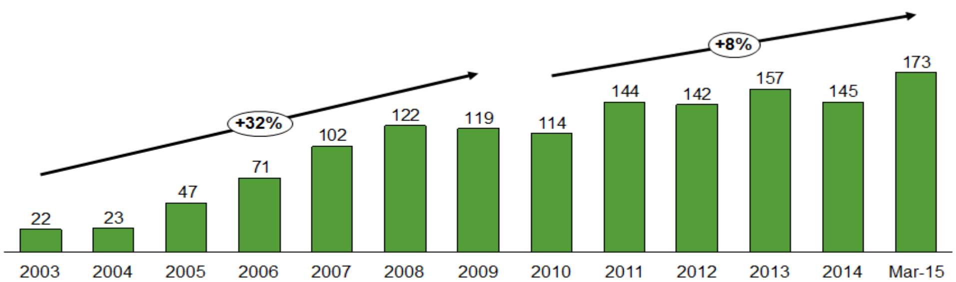
Credibility:
Sellers also expect credibility that PE funds can provide, e.g. governance, acceleration of growth, transformation from a small family-owned business to a professionally managed enterprise, etc.

From PE funds' perspective, there are several factors that justify minority stake investment even if it doesn't allow majority control of the company:

- Minority deals are often less competitive than majority deals because many sellers seek for more than capital alone, hence PE funds can differentiate themselves other than offer price, where they can avoid the winner's curse of overpaying.
- Minority deals are mainly done through bilateral transactions, not formal auctions, because sellers often want to keep confidentiality, fearing adverse publicity and the loss of customer as a result of information leakage. Consequently, PE funds can avoid a formal auction process which sometimes brings about bidding war among competitors.
- Minority deals are less likely to be lemons with hidden flaws because the owner's willingness to maintain control and the economic interest in the company indicate the confidence in the company's future business outlook.

Another reason for the increase in demand for minority deals is the historical high dry powder in Asia, hence PE funds are looking for opportunities to put this capital to work, sometimes in unconventional ways.

The Supply of Dry Powder in Asia
USD in Billion

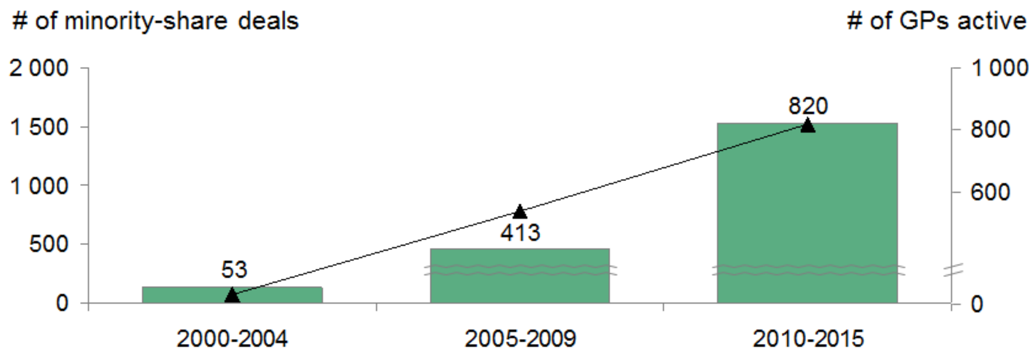


Source: BCG analysis "Private-Equity Minority Investments"

3. Market landscape analysis

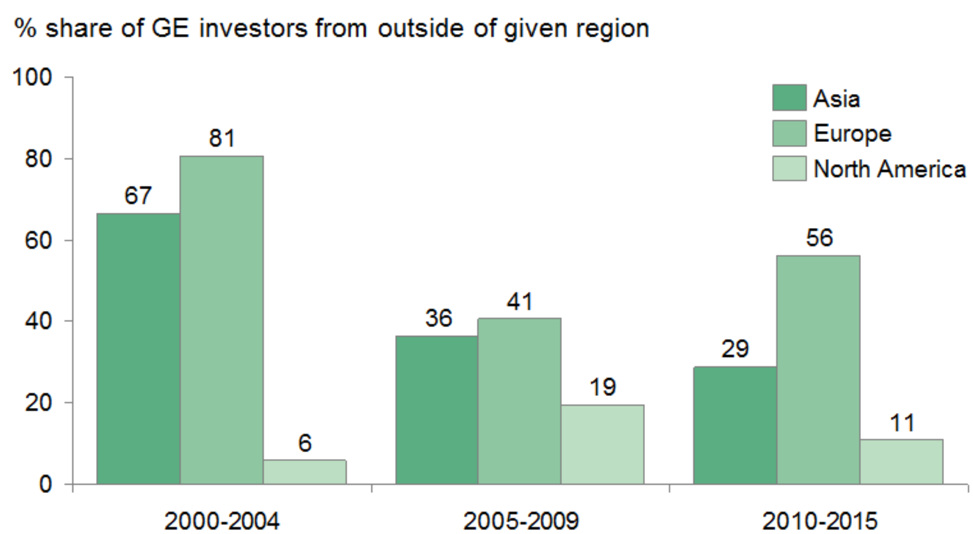
Due to dynamic development pace, Asian growth equity landscape has been changing rapidly over the past 15 years. Both in terms of number and size of the players, but also level of internationalization and target industries, Asian PE arena has evolved tremendously.

Back in 2000-2004, there were 53 GPs active in the growth equity segment. In that period, those GPs completed 78 deals. In following years, Asia has seen significant increase both in terms of number of players and minority-share deals. In 2010-2015 there were 820 active GPs making over 1.5 thousand deals.



Source: Preqin, team analysis

In terms of location of investors, Asia has seen a trend of GPs opening local subsidiaries to invest in the region. In contrast to e.g. Europe, where over 50% of investment are made by GPs located outside of the region (typically US), in Asia only 26% of investments are made by entities outside of Asia.



Source: Preqin, team analysis

Together with new GPs entering Asian growth equity arena, we have seen significant changes in terms of target industries for minority-stake investors. Below graph summarizes changes in growth equity investment priorities for Asian GPs. The period from 2010 to 2015 has brought important reshuffling of top industries. First of all we can see now much less of concentration compared to 2000-2009 period when top 2 industries amounted to over 70% of total funds deployed. Additionally, Asian region has been experiencing raising investors interest in IT and healthcare companies as well as consumer & retail and clean technology.

Structure of growth equity investments in Asia by target industry

2000-2004		2005-2009		2010-2015	
Business Services	45%	Business Services	53%	Industrials	21%
Energy & Utilities	33%	Industrials	17%	Information Technology	15%
Industrials	7%	Consumer & Retail	7%	Business Services	14%
Information Technology	6%	Materials	5%	Healthcare	11%
Healthcare	3%	Telecoms & Media	4%	Consumer & Retail	10%
Food & Agriculture	3%	Information Technology	3%	Real Estate	6%
Consumer & Retail	1%	Food & Agriculture	3%	Clean Technology	6%
Real Estate	1%	Energy & Utilities	3%	Food & Agriculture	5%
Infrastructure	0%	Clean Technology	3%	Energy & Utilities	5%
Clean Technology	0%	Healthcare	2%	Telecoms & Media	3%
Materials	0%	Real Estate	0%	Materials	3%
Telecoms & Media	0%	Infrastructure	0%	Infrastructure	0%
Share of top 3 industries	**85%**		**77%**		**50%**

Source: Preqin, team analysis

Taking into consideration that minority investors are often required to bring in expertise and contacts to best-practice comparable companies, increasing dispersion of target industries leads to further specialization of funds. While being an investment specialist (e.g. healthcare only) in Asia was not possible in 2000-2004, in 2010-2015 is simply a necessity to remain competitive.

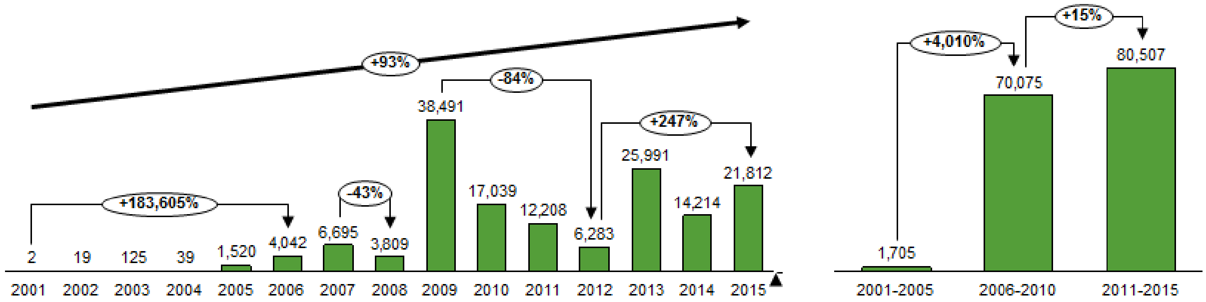
Following sections of the report investigate in detail market characteristics of respective sub-regions chosen for the study.

a. China

Following the Asian financial crisis from 2001 to 2006, China experienced higher annual GDP growth changes of 8 to 11 percent compared to the US' 1 to 4 percent and Russia's 4 to 8 percent respectively. It was during this time that the value of total growth equity grew from 2m in 2001 to 4,042m in 2006. Growth of 183,605 percent is clearly not sustainable but with an overall growth of 22 percent in the number of deals over the span of 15 years, it is clear that greater China's markets are opening their doors to the private equity scene. However, it was only in

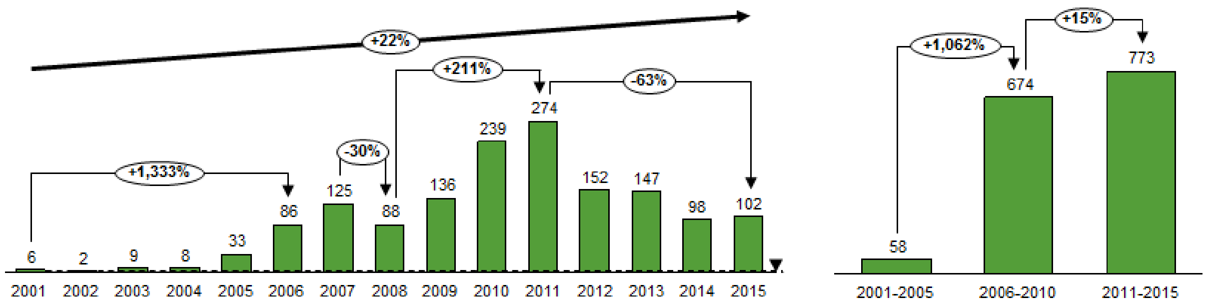
2006, when China started to better understand PE when China Investment Corporation paid US$3b for a little less than 10 percent of Blackstone.

Greater China total Growth Equity deal value (2001 to 2015)
USD in billion



Source: Preqin, team analysis

Greater China total number of Growth Equity deals (2001 to 2015)

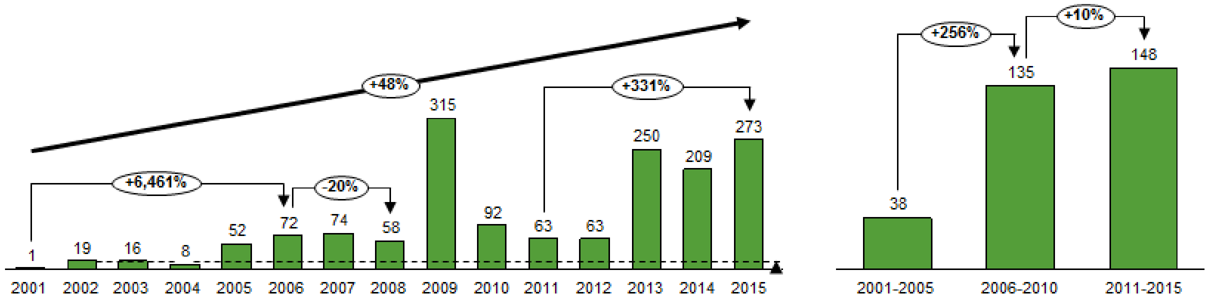


Source: Preqin, team analysis

Over the past 15 years, China has seen roughly 100 percent CAGR which can mainly be attributed to 2 factors - China joining the WTO as well as China opening its financial markets.

China joining the WTO signified China's deeper integration into the world economy. Opening borders to trade significantly impacted China's GDP growth and the movement of capital. Joining the WTO and the opening of financial markets led to an increase in China's foreign reserves which reached over US$47 billion.

Average Growth Equity deal size in Greater China USD in billion



Source: Preqin, team analysis

From 2011 to 2015, greater China experienced a 331 percent CAGR in average deal size. The re-emergence of sovereign wealth funds in the region is one of the main drivers of this growth. An example of a sovereign wealth fund buyers is Temasek Holdings, a Singapore sovereign wealth fund that holds claim to the largest deal in the region, with an investment of US$5.7 billion in Hong Kong-based beauty retailer A.S. Watson Group. There were a total of six mega-deals in greater China that had a value exceeding US$1 billion. Excluding these deals greater China's deal values would have still been US$23.7 billion in 2014, a 60% increase from 2013. Overall, the number of deals in the region was about 30% higher than its historical five-year average.

When comparing the performance in 2015 to that of the 2010 to 2014 average, 2015 was generally a good year for the greater China region. Greater China experienced an overall increase of 154 percent in deal value with a 54 percent increase in the number of deals to 488. However despite the growth and large pool of companies available, deal value is likely to deteriorate over the next 2 to 3 years compared to that of 2015 due to a decrease in growth, increase in competition from nontraditional investors, steep internet valuation and the exit and capital overhang provides.

In 2014, China's GDP in purchasing power parity terms hit $17.6 trillion last year versus $17.4 trillion in the US, making China the largest economy in the world. Given the size and growth, PE activity can be expected to grow as well as more competition want a portion of China's pie. However, since 2014, there have been a wide consensus of China's economic slowdown, after policymakers announced that they would lower the GDP growth target for 2014 to 7.5%, compared to historical targets of 8%+. Since then, China's financial market has been more volatile as witnessed from the ups and downs of the number of deals and value of total deals. Furthermore, political risk is still a major consideration as regulations and political landscapes are still way behind when compared to developed countries like the US and Japan.

Growth Equity Investment Ranking in China

2000-2004
USD MM

Rank	Name	Deal Value	# Deal
1	**Actis**	**$496.0**	**3**
2	GEMS	460.0	1
3	GIC	460.0	1
4	Hutchison Whampoa	460.0	1
5	JAFCO Investment (Asia Pacific)	304.0	1
6	Standard Chartered Private Equity	282.0	1
7	Baring Private Equity Asia	282.0	2
8	Warburg Pincus	155.0	2
9	Principle Capital	26.0	2
10	Cathay Capital Group	26.0	1

2005-2009
USD MM

Rank	Name	Deal Value	# Deal
1	**Hopu Investment Mgmt**	**$7,700.0**	**2**
2	BOCI Private Equity	7,335.2	2
3	China Life Insurance	7,300.0	1
4	Temasek Holdings	7,300.0	3
5	CDH Investments	1,180.6	15
6	KKR	1,070.0	6
7	Bohai Industrial Investment Fund M	923.5	4
8	Warburg Pincus	819.7	15
9	Hony Capital	739.3	12
10	Carlyle Group	686.7	17

2010-2015
USD MM

Rank	Name	Deal Value	# Deal
1	**CDH Investments**	**$3,754.7**	**16**
2	China Life Insurance Company	2,922.5	3
3	Hony Capital	2,894.0	20
4	SDIC Fund Management	2,542.0	8
5	Ping An Caizhi Investment Mgmt	2,310.4	10
6	CITIC Private Equity Funds Mgmt	2,155.1	16
7	Ningbo Huisheng	2,124.2	2
8	Zhuhai Puluo	2,124.2	2
9	YF Capital	1,958.7	4
10	KKR	1,790.0	13

: Global Investor
: Local Investor

Source: Preqin, team analysis

Since the early 2000s there have been a number of global investors and PE funds who were leading the growth equity market until the mid-2000s. However, in the advent of huge Chinese investors, the market was fueled by their activities- especially the top four investors (three local, one global) who's investments breached the $7,000m mark and their average deal size was far larger than $2,000m during 2005-2009. This trend continued after 2010, when Chinese investors occupied the top 9 slots in terms of deal value during 2010-2015. Despite having enormous presence in the local market, of the foreign investors, KKR is the only global investor ranked within top 10.

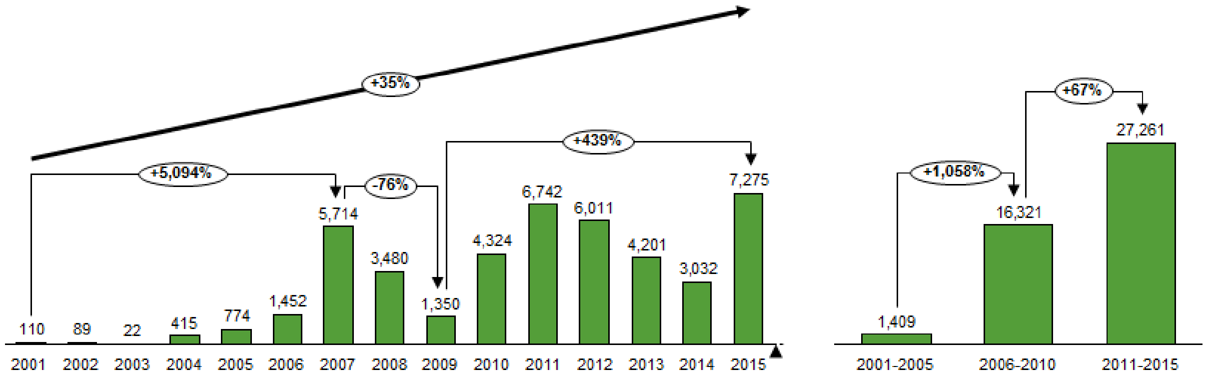
b. India

India is one of the fastest growing economies in the world and has emerged as a key destination for foreign investors in recent years. Despite a slowdown in Growth, India's economy proved to stabilize in 2015, after the rising optimism and expectations for the country led to a 30% increase in returns in the Indian stock market in 2014.

Backed by the strong macroeconomic landscape, PE activity continued to play a pivotal role in the country's capital needs, accounting for 53% of foreign direct investment inflows. India's GDP grew by 7.2% from 2014 to 2015, compared with 6.6% from 2013 to 2014. The services sector experienced particularly strong growth. Notably, trade, hotels, transport, communication and related services grew by nearly 11%, leading the sector's overall growth. Alongside all these macro-economic trends, the acute drop in oil prices was a key contributor to the economic growth for oil importing nations such India.

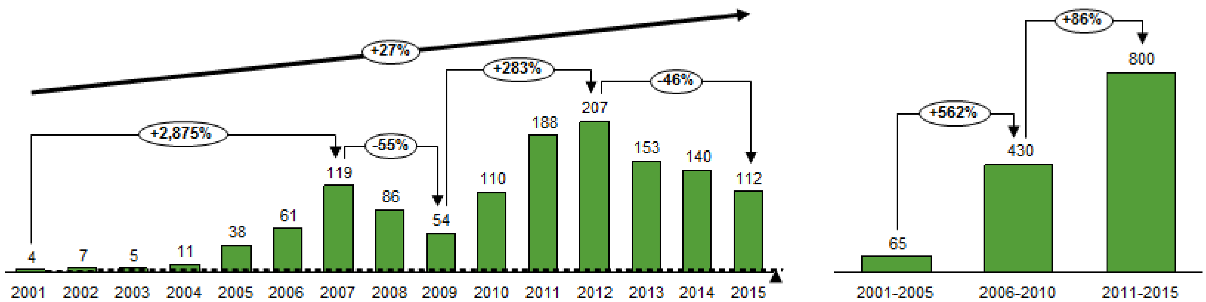
India total Growth Equity deal value (2001 to 2015)

USD in billion



Source: Preqin, team analysis

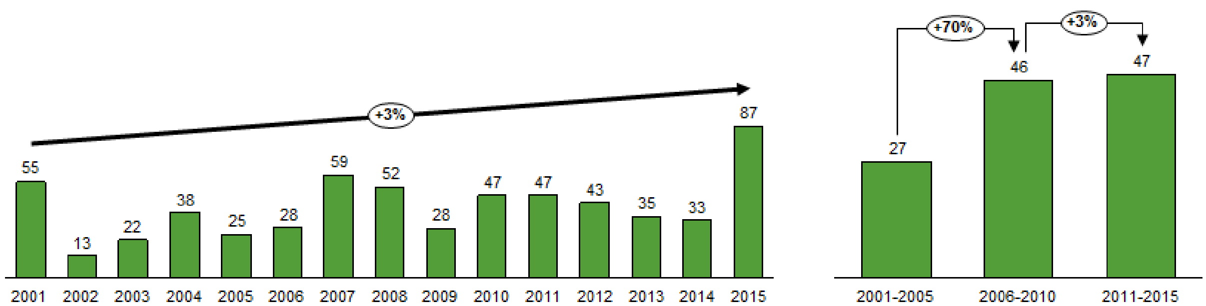
India total number of Growth Equity deals (2001 to 2015)



Source: Preqin, team analysis

Not surprisingly, PE investments in India saw an increase of 140% as deal value of growth equity increased to $7.3 billion—surpassing 2011 peak levels of $6.7 billion. Contrary, the number of growth equity deals has declined for the last 4 years in a row (CAGR -46%). Many emerging countries suffered a depreciation of their currency in 2013. The Indian Rupee was one of those severely depreciated during the period, which negatively affected foreign investor's sentiment. Currency fluctuation is one of the biggest risk of investing in emerging markets and this declining trend has continued till 2015.

Average Growth Equity deal size in India (2001-2015)
USD in billion



Source: Preqin, team analysis

In 2015, India recorded 164% growth in average deal size from $33m to $87m. After 2010, global PE funds such as KKR and Goldman Sachs, whose typical deal size is around $100m, began to actively invest into the market. The average deal size has been inflated partly due to the increased activities of these large cap oriented investors. The maximum deal size in 2015 was Carlyle's investment into Mana Energy and India Venture Fund Advisor's investment into Atria Convergence Technologies (both deal size of $500m), which are higher than the historical average deal size in India, thus affecting the overall figures.

Growth Equity Investment Ranking in India

2000-2004 USD MM Rank	Name	Deal Value	# Deal	2005-2009 USD MM Rank	Name	Deal Value	# Deal	2010-2015 USD MM Rank	Name	Deal Value	# Deal
1	**Warburg Pincus**	**$315.0**	**5**	**1**	**Blackstone Group**	**$895.8**	**9**	**1**	**KKR**	**$2,624.1**	**29**
2	Temasek Holdings	75.0	1	2	Carlyle Group	784.3	6	2	Warburg Pincus	1,428.9	20
3	TPG	75.0	1	3	IDFC Alternatives	739.4	16	3	Goldman Sachs Merchant Banking	1,128.2	15
4	Actis	59.2	6	4	ChrysCapital	607.9	13	4	Standard Chartered Private Equity	1,104.4	21
5	IDFC Alternatives	42.6	2	5	Warburg Pincus	567.8	9	5	IFC Asset Management Company	1,018.8	24
6	CLSA Capital Partners	28.7	3	6	Citi Venture Capital International	542.5	10	6	India Value Fund Advisors	768.0	10
7	ICICI Venture Funds Management	22.0	1	7	Providence Equity Partners	428.0	2	7	TA Associates	707.9	6
8	Standard Chartered Private Equity	20.5	1	8	3i	420.7	11	8	Blackstone Group	684.2	16
9	SAIF Partners India	16.5	1	9	ICICI Venture Funds Management	384.9	11	9	Carlyle Group	664.6	13
10	VentureTech Solutions	16.5	1	10	Baring Private Equity Asia	358.3	6	10	Actis	632.0	6

: Global Investor
: Local Investor

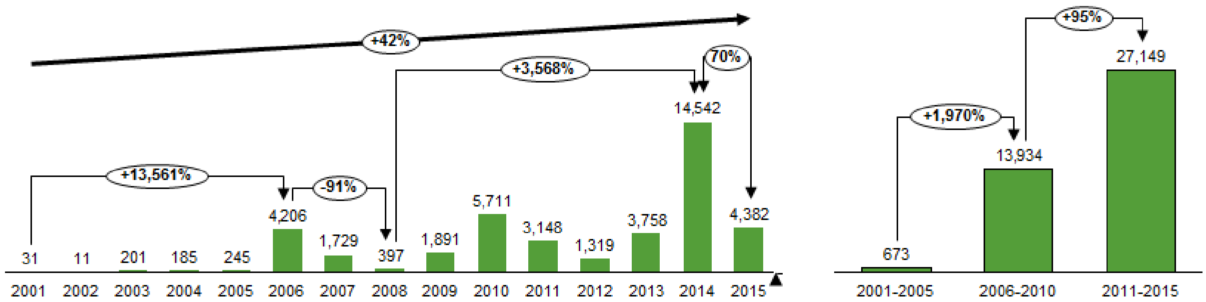
Source: Preqin, team analysis

In the early 2000s, there were no global PE firm such as KKR, Apax, Blackstone and Carlyle. However, many of them entered the market by the mid-2000s. Approximately 80% of deals are classified as growth equity investment because of the four factors mentioned in Section 2, and PE firms known as buyout funds also make minority investments (including PIPE and add-on). In 2011 to 2015, the top 5 are all global PE funds which have increased their presence after the financial crisis in 2008. Although there were more than 200 PE firms which invested into Indian company for the last five years, these top 10 PE firms have a market share of approximately 38% in India.

c. Southeast Asia

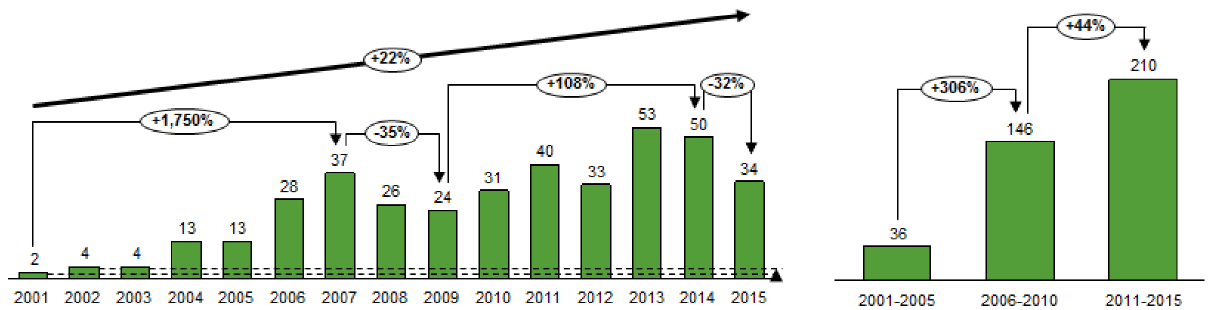
After the Asian financial crisis in the late 1990s, there was a rapid growth in the Growth Equity market in the Southeast Asian region (SEA), in terms of both deal value and number of deals. Our analysis of SEA shows a 42 percent and 22 percent CAGR in terms of deal value and number of deals respectively. Such growth was primarily stimulated by 4 factors brought about by the aftermaths of the Asian financial crisis- Improved investment/regulatory environment, availability of buyout opportunities, maturity of fund managers, and improved exit environment and track record.

Southeast Asia total Growth Equity deal value (2001 to 2015)
USD in billion



Source: Preqin, team analysis

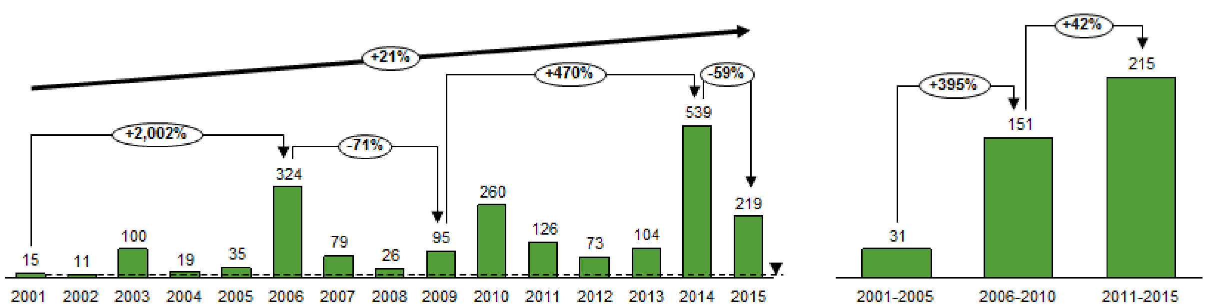
Southeast Asia total number of Growth Equity deals (2001 to 2015)



Source: Preqin, team analysis

Similar to Greater China and India, the Growth Equity market in SEA grew significant with 13,561 percent and 1,750 percent growth in terms of total deal size and number of growth respectively. Unsurprising, SEA was not immune from the 2007-08 global financial crisis, and experienced a drop in total Growth Equity deal value of 91 percent from 2006 to 2008. Given the strong economic growth prospect in the region, deal value rebounded swiftly after the crisis and we see a CAGR of 50 percent for deal value from 2009 to 2014. However, deal value dropped again in 2015. Reasons could be political turmoil (e.g. Malaysia and Thailand) and election (e.g. Singapore) cause the sovereign wealth fund backed PE funds be more cautious when closing deals and asset value getting overvalued after a prolonged bull market.

Average Growth Equity deal size in Southeast Asia (2001-2015)
USD in billion



Source: Preqin, team analysis

Small-cap (<$50m) deals dominated the SEA growth equity market during the period from 2001 to 2005, as average deal size fall between the range of $11m to $35m, with the exception of 2003, besides more than 90 percent of the deals are small-cap. However, there was a structural change since 2006, as average deal size have consistently above $50m, with the exception of 2008, and almost half of the deals executed during the period from 2006 to 2015 are mid-cap ($50m to $1b). Furthermore, since 2013, there were also three large-cap deal (>$1b), which are Global Logistic Properties Limited, United Envirotech Limited and Avago Technologies. In the future, we expect the average deal size will keep on growing and more large cap deals to come. To further segment the SEA market by market, Investments are focused mainly in Singapore and Malaysia which are home to 70% of deals. In the meantime, Indonesia is picking up the traction to be the top destination for PE players as we witness more investments in the country in the recent years.

A drop in commodity prices and weakening of local currencies, have discouraged some business owners from selling their companies. Oil has dropped by more than half over the past 12 month and both the Malaysian ringgit and the Indonesian rupiah recorded 17-year lows against the US dollar in 2015, leading to a more conservative market for PE firms. Yet despite these economic conditions, we can expect an increase in private equity growth value as the strength of the US dollar continues to grow which inhibits private equity firms in the US to continue investing. At the same time, since SEA companies seek to pursue their growth strategy with renewed interest, we expect an increase in the demand for capital, thereby creating opportunities for PE investment.

Deal outlook in Southeast Asia is likely to improve over the next 2-3 years. As investors look for an attractive alternative to China, Southeast Asia's potential returns and ASEAN benefits are making the region more and more attractive. This attractive markets are increasing competition in the region. However, investors should remain cautious given macro conditions of key countries such as Malaysia Thailand and Indonesia.

Growth Equity Investment Ranking in SEA

2000-2004 USD MM				2005-2009 USD MM				2010-2015 USD MM			
Rank	Name	Deal Value	# Deal	Rank	Name	Deal Value	# Deal	Rank	Name	Deal Value	# Deal
1	**Silver Lake**	**$200.0**	**1**	**1**	**TPG**	**$1,405.8**	**10**	**1**	**Hopu Investment Mgmt**	**$2,718.0**	**2**
2	IFC Asset Management Company	56.1	2	2	Permira	838.9	1	2	Boyu Capital	2,565.9	2
3	AIF Capital	45.0	2	3	General Atlantic	810.0	3	3	Bank of China Group Investment	2,518.0	1
4	Temasek Holdings	45.0	1	4	3i	650.0	4	4	China Development Bank Capital	2,518.0	1
5	Lombard Investments	16.3	4	5	GCM Grosvenor Private Markets	650.0	2	5	China Life Insurance Company	2,518.0	1
6	Navis Capital Partners	15.8	1	6	Temasek Holdings	642.9	3	6	KKR	2,092.7	9
7	3i	15.0	1	7	Morgan Stanley PE Asia	620.0	1	7	Carlyle Group	1,662.8	8
8	CLSA Capital Partners	15.0	2	8	Banque de Luxembourg	620.0	1	8	CVC Capital Partners	1,558.1	4
9	Morgan Stanley PE Asia	11.3	1	9	Och Ziff Capital Mgmt Group	620.0	1	9	CITIC Capital	1,500.0	2
10	Mekong Capital	3.5	7	10	Cerberus Capital Management	525.8	1	10	RRJ Capital	1,299.7	5

: Global Investor
: Local Investor

The growth equity market had not been active in the early 2000s, and it was in the course of opening the market to global investors and the typical deal size was far less than $100m. There had been many PE firms which specifically focused on Asia (Temasek, Navis, etc.) but not many global PE firms entered in the market. Global PE firms entered into the market in mid 2000s and fueled the market, and the deal size has recorded larger than $100m partly because of global investor's large cap oriented investment strategy. During 2010-2015 Chinese investors became active in SEA region and occupied top 5 and surprisingly some of their deal was larger than $1,000m, which is far higher than the historical growth equity investment record in the region.

4. GP perspective

In order to go beyond quantitative analysis, this reports includes perspectives of local GPs on key dimensions differentiating respective sub-regions of the Asian growth equity arena.
We've interviewed several PE professionals and included below key highlights and conclusions from those conversations.

	China	India	Southeast Asia
Growth drivers	- In the past decade, the **Chinese government has loosen the regulatory and policy restrictions** for western private equity firms to enter and/or expand their operations in China - Soaring stock prices in Chinese and Hong Kong stock market helped **lifting valuation of exits via IPO**, which is the most prevalent exit mode for PE deals in China - **The strong GDP growth** (10% CAGR from 2000 to 2010) is very attractive for local investments in China	- **Prime minister Modi's structural reforms enhanced investor sentiment and as a result market is picking up** (e.g. FDI in retail industry opened in 2015) - **India's homogenious society and regulations in each region** make investors feel comfortable to make multiple investments (by contrast, Southeast Asia has a lot of different regulations)	"- **China and India have not generally delivered** returns in line with PE expectations - **Investors are increasingly paying attention to Southeast Asia** (population of 600m, 3rd largest after China and India) - **We're starting to see some outsized returns in SEA** (e.g. Matahari Department Stores returned 7x the capital delivered on a large capital outlay)"
Key competences	- **Relationship (or guanxi) plays an important role** for doing business in China, even though guanxi alone will not ensure success - In depth **knowledge in a particular sector** is also important, given the complexity of the country it is difficult to operate as a generalist	- The key to compete is **localization and networks** - even global PE firms such as KKR and Blackstone hire local talents and utilize networks (for deal sourcing, deal execution and operational improvement after investment, etc.)	" I would say that in most cases, the **ability to be local and originate deals is the biggest differentiator** (very few deals have been done by way of auctions). Other than that its ability to identify a good deal, good execution, adding value during post-investment
Outlook	-**Short term** – Foreign investors have been **withdrawing capital** from China due to economic slowdown (which many reckon as over-reaction), and overall investors's entiments are not very optimistic - **Long Term – The key advantages of China remains unchanged** (e.g. easy regulations, low cost of labour, relatively low tax) over long term, and therefore still an attractive investment destination	- **India's market outlook is positive** - stable economic growth continues to attract PEs (GDP growth rate of c.7%, which more than 2x of global average) - Modi's structural reforms / deregulation **further accerelate opening the market to the foreign investors**	"- **Expect to see more PEs trying to spend time and money in this region.** In particular: more deals done in Indonesia, Vietnam and the Philippines - **Deals done in Singapore and Malaysia will increasingly be for companies with a regional focus.**"
Attractiveness	Despite the turbulence in capital market in the recent months, **PE remains one of the most attractive asset classes among (domestic) institutional investors**. This is because the declining interest rate and volatilile in the equity market in China would direct more investors to invest into alternative (or more exotic) assets in order to **search for attaractive yield and achieve their investment objectives**.	- **Bureancracy still exists and less transparency** is a challenge for PE investors - **Unclear tax system** demotivates to invest in India (e.g. Vodafone was claimed by the government for avoiding taxes of more than $600m in 2007)	"**The macro tailwinds are strong but the challenge is finding principals who are willing to deal with PE investors** (both selling minority and a controlling stake) - In many sectors here, MNCs are strong so **finding local champions is also a challenge.**"

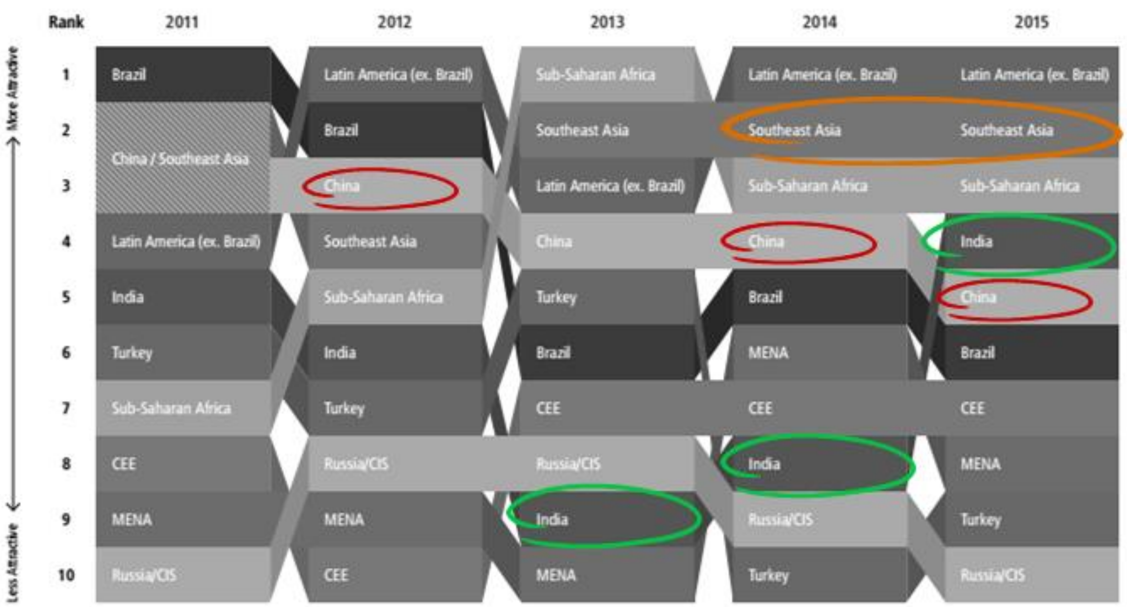
Source: Expert interviews

Based on the GP interviews, all of the SEA key markets will remain attractive, with SEA being most attractive in the short-term. Key required competences are consistent and focus primarily on being local in order to: i) manage networks and fundraising, ii) supervise existing investments. What is specific to minority investments are capabilities required for successful influence and negotiations with majority owners. Being skillful at inter-cultural communication would be a key capability specific to minority investors in Asia.

5. LPs perspective

According to EMPEA survey in 2015, growth equity funds, historically the dominant PE investment strategy in emerging markets, continue to attract the most of LP attention. The three most attractive emerging markets for GP investment over the next 12 months, as ranked by LPs, remain unchanged from 2014. What has been highlighted in the summary of GP interviews above is further reinforced by LPs expectations; for the last three years, Southeast Asia has been ranked #2 which illustrates LP investors' interest / attention to the region. India jumped from #8 to #4 in 2015. Though India continues to face challenges, LPs' bullish return expectations for India PE funds coincides with the election of a reform-minded government in May 2014 that has lifted investor sentiment. India also leapfrogs both China and Brazil, whose rankings shifted down one spot from 2014. China went down from #4 in 2014 to #5 in 2015. China has recorded 6.9% GDP growth in 2015 and is expected to growth more than 6.0% goring forward, but overseas investors are paying more attention to Southeast Asia and India.

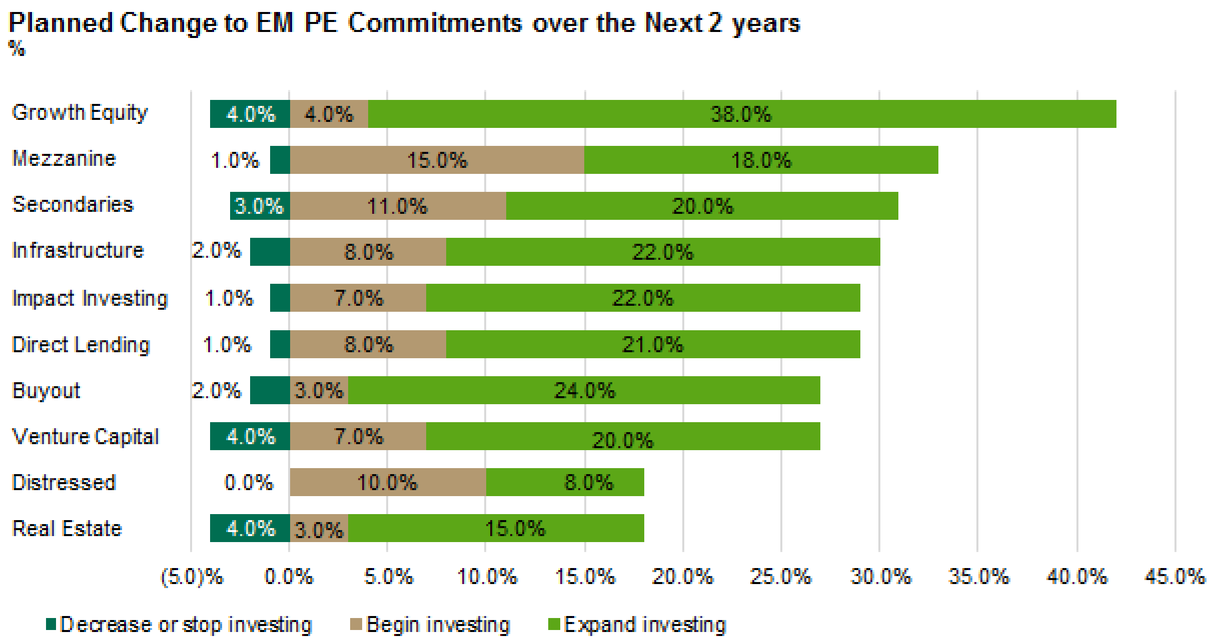
The Attractiveness of emerging markets as perceived by LPs (annual survey)



Note: "CEE" refers to Central and Eastern Europe. China and Southeast Asia tied for second place in 2011. Southeast Asia was classified as "Other Emerging Asia" in 2011 and 2012.

Source: EMPEA "Global Limited Partners Survey"

Looking at the results of EMPA survey considering LPs sentiment concerning different kinds of funds, growth equity is at the top of the list of intended allocation increases. Although the survey is global and as such includes LPs not only interested or located in Asia, we believe significant portion of intended minority investments will be made in Asia (due to popularity of those kinds of funds in the region.



Source: EMPEA "Global Limited Partners Survey"

Summary

Overall, looking at the performance of growth equity funds in Asia, we believe they are likely to remain the most popular form of investing in the region for the foreseeable future. The growth factors are deeply rooted in the FDI environment, regulations, structure of businesses and also culture. As marketplace for minority investments becomes more crowded, we foresee two main trends to become more visible:

1) Development of more niches - e.g. growth buyout where Navis capital has led the way

2) Expansion of adjacent spaces - e.g. market for secondary investors in growth buyout arena or minority investors coming in post-VC stage during primary investors' exit

One thing is sure, Asian PE space will remain a dynamic, exciting place which is likely to experience significant investment and growth in the coming years.

Appendix 1: Technical notes concerning data analyzed:

We used primarily the Preqin database. Using labels available, following is the summary of data categorization used in this study:

Regional clusters

Prequin label	This report
Australasia	ROW
Caribbean	ROW
Central America	ROW
Central and East Europe	Europe
Central Asia	ROW
Far East	Asia
Greater China	Asia
Israel	ROW
Middle East	ROW
Nordic	ROW
North Africa	ROW
North America	North America
South America	ROW
South Asia	Asia
Sub-Saharan Africa	ROW
West Europe	Europe

Investment types

Prequin label	This report
Add-on	Growth Equity
Buyout	LBO
Distressed Debt	Other
Growth Capital	Growth Equity
Merger	Other
PIPE	Growth Equity
Public To Private	LBO
Recapitalisation	Other
Restructuring	Other
Special Situations	Other
Turnaround	Other

Asian sub-regions

Prequin label	This report
Bangladesh	Other
Cambodia	SEA
China	China
Fiji	Other
Hong Kong	China
India	IND
Indonesia	SEA
Japan	Other
Laos	SEA
Malaysia	SEA
Maldives	Other
Mongolia	Other
Myanmar	SEA
Nepal	Other
Pakistan	Other
Philippines	SEA
Singapore	SEA
South Korea	Other
Sri Lanka	Other
Taiwan	China
Thailand	SEA
Vietnam	SEA

Appendix 2: Key sources:

Preqin database
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