

# RISING PRIVATE CAPITAL ALLOCATIONS IN ASIA PACIFIC A SIGN OF THE TIMES

With some industry insiders predicting the Asia Pacific region's private markets will grow from USD 1.62tn in 2019 to USD 4.97tn in 2025 at a staggering CAGR of 25.2%, a global shift in wealth and economic power is being accelerated by recent global uncertainty due to Covid-19.

Sensus spoke with Alexandre Schmitz, Managing Partner and Head of Asia Pacific at leading global placement agent Capstone Partners, to gain deeper insight into the trend and how it will impact the future of the industry.

## COULD YOU PROVIDE SOME CONTEXT BEHIND THE CURRENT SHIFT IN INVESTMENT FOCUS?

The main trend we have seen over the past 12-18 months is North American investors' decreasing appetite for putting money to work in China. For investors that aim to maintain an allocation to APAC, but also wish to decrease exposure to China, the natural choice is to move to India or Southeast Asia, in both the growth capital and venture capital space, as well as Australia or Japan in the buyout space. India and Southeast Asia are similar in terms of emerging middle class, whereas in Australia and Japan, it's more of a diversification play with attractive entry price compared to the West and a significant number of potential primary investments, in particular in the low mid-market segment.

Over the past twelve months, we've certainly seen a flight to size. In the context of Covid it's an easy decision for LPs, who are being more prudent than ever, to allocate to a large manager. In this context, larger players have been able to close funds while the lower end of the market – particularly first-time managers – have struggled. If you are not a big fund, or a region-focused fund-of-funds with a strong track record, the past year has been quite difficult.

## IS THE CAPITAL COMING SOLELY FROM NORTH AMERICA?

Taking the last two decades into perspective, European LPs have been a bit late compared to North American investors. More recently, we have seen real traction for more funds, but, as a whole, European investors are just embarking on their Asian investment programmes, whereas their North American counterparts have already been here for 10-15 years. European LPs will catch up quickly, however – and as North American firms continue to de-globalise, I believe European money will account for a larger portion of investment in the region.

Unlike the US and Europe, 99% of the lower end of the Asian market is made up of primary transactions, and the performance of established managers is convincing – making it quite attractive from an investment standpoint.

## WHICH STRUCTURES ARE POPULAR FOR INVESTMENTS INTO THE REGION?

For European investors, there was a real concern about recent changes in the Cayman structure. It's easy for LPs to turn away in the face of perceived risk and say no. These same concerns drove some Asian GPs to establish their funds in Luxembourg – which is an interesting decision, to say the least! Singapore is an obvious choice for Southeast Asia. In Australia, we are mainly seeing Australian structures, whereas in Japan we have noticed both Japanese and Cayman structures.

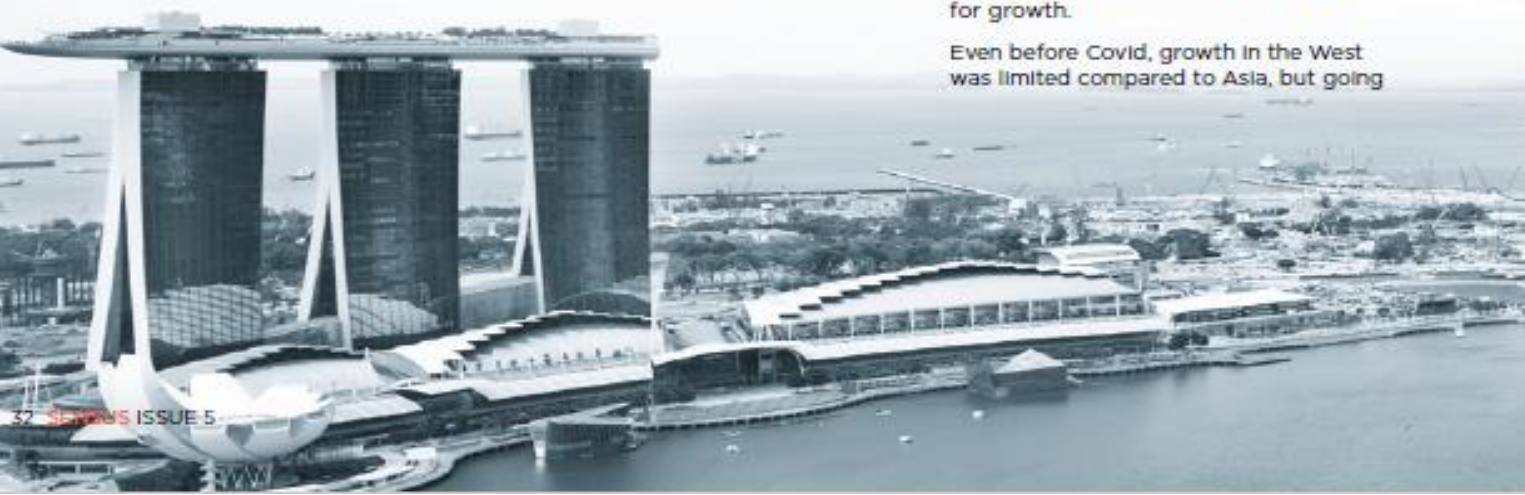
## WHICH SECTORS ARE ATTRACTING PARTICULAR INTEREST AT THIS TIME?

At a global level, but especially in Asia Pacific, technology, consumer-branded, healthcare and education are at the top of the list. When you look at the performance of Asian funds compared to Europe and the US, true performance has been overweight in healthcare and technology.

## WHAT ADVICE WOULD YOU OFFER INVESTORS LOOKING TO ENTER ASIAN MARKETS?

Post-Covid, the relative performance in Asia has been better. In Europe, people are beginning to realise that the pain lies ahead in the future, not in the past. Therefore, it makes sense to expose your wealth to a better environment for growth.

Even before Covid, growth in the West was limited compared to Asia, but going



forward it looks to be a major crisis. In China, people are already back to work just like before. It is one of the few countries that experienced expansion last year – unlike European markets.

It does not mean that Europe is completely uninteresting from a PE standpoint, but is probably more so than public markets. The beauty of emerging Asia is the relative inefficiency of the PE industry. You can still find situations where you pay an attractive price compared to fair value, partly due to the primary nature of investment in Asia. This stands in stark contrast to Europe, where over 50% of the market has traditionally been secondary, with sponsor-to-sponsor transactions.

**IS THERE GREATER VALUE TO BE FOUND IN COUNTRY-SPECIFIC MANAGERS? OR DO REGIONAL MANAGERS OFFER BETTER FLEXIBILITY FOR INVESTORS?**

We strongly believe it is better to consider managers that have a regional approach. The risk of being forced to deploy in country-specific situations is much too high. If you are restricted to investing in only one country, you are completely exposed to all political and currency risk in that country. With a regional approach, you can steer away from a volatile market for say 12 months until things settle down, while concentrating on other more attractive options within the region.

**ANY LAST THOUGHTS TO SHARE WITH READERS ABOUT THE YEAR AHEAD?**

We anticipate a real rebound next year. A lot of managers have postponed or delayed their fundraising due to Covid – but they cannot wait forever. If you look at divestment, a lot of transactions have been put on hold too. I also expect to see higher fundraising activity. GPs continued to invest in 2020, but we anticipate a real catch-up effect when the travel restrictions are over.

Another trend to watch is continuous GP-led restructuring. More and more funds are nearing or at the end of their investment periods, and some have already extended one or two times in an attempt to wait for better valuations. But you have to provide liquidity to your investors at some point, in particular if you want to raise new funds. It will be interesting to see how this situation resolves.

If you compare the LP world in Asia Pacific and the US, we anticipate over the next 5 years a massive increase in allocation from LPs towards more private equity, private debt, infrastructure, and real estate. This will be a great development for both local and international GPs. ★

