Asia Private Equity Forum 2014
Hong Kong Venture Capital and Private Equity Association

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Summary

- **AsianInvestor** reported that more industry consolidation and separately managed client accounts will be a growing trend in Asia's maturing fund of private equity fund sector, argues industry veteran David Pierce. This is part of a post-crisis industry movement resulting from a change in investor trends and is a sign of a maturing sector, says Pierce, an executive director for the Hong Kong Venture Capital and Private Equity Association.
    - Funds of PE funds are increasingly expected by investors to be able to cover multiple geographies and asset classes and, as a result, Pierce expects to see more consolidation – "or globalisation" – in the coming few years.
    - Another growing post-crisis trend is separately managed accounts (SMAs). The tailored accounts, which are created for individual investors, are an alternative to investing in the commingled funds offered by PE managers, said Pierce.

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Post-crisis investor trends will lead to further consolidation among funds of private equity funds and more negotiation around fees, says industry veteran David Pierce.

More industry consolidation and separately managed client accounts will be a growing trend in Asia's maturing fund of private equity fund sector, argues industry veteran David Pierce.

This is part of a post-crisis industry movement resulting from a change in investor trends and is a sign of a maturing sector, says Pierce, an executive director for the Hong Kong Venture Capital and Private Equity Association.

Funds of PE funds are increasingly expected by investors to be able to cover multiple geographies and asset classes and, as a result, Pierce expects to see more consolidation – "or globalisation" – in the coming few years. "You'll see asset managers from around the world coming together or setting up shop in different parts of the planet so that they can serve their clients more effectively."

Another growing post-crisis trend is separately managed accounts (SMAs). The tailored accounts, which are created for individual investors, are an alternative to investing in the commingled funds offered by PE managers. "The larger and even some of medium-sized investors are re-revaluating how they approach particular asset classes," says Pierce.

SMAs enable investors to negotiate specific terms, including fees, which for commingled funds are generally set at 2% for management and 20% for outperformance. "Generally the large investors are able to negotiate fee arrangements, which they may find more suitable for their purposes than just a one-size-fits-all approach," says Pierce.

He adds that he does not foresee an end to the so-called 2-and-20 model, but there will likely be more fee negotiations. “That’s being driven by investor demand and competition.”

A veteran of Asian private equity, Pierce is a partner of fund of PE funds Flag Squadron Asia, which was created in 2012 through the merger of Hong Kong’s Squadron Capital and Flag Capital of the US.

Before the merger, Pierce led the Squadron team when it was part of Search Investment Group – the family office of Robert Miller. The team spun out as a subsidiary in 2006.

Pierce is leaving Flag Squadron at the end of May, following a transition period. He plans to remain in Hong Kong and in the PE industry, but declined to comment on his future plans.

He has seen the PE sector grow from its early days in the 1990s to the current era of multi-billion-dollar funds raised by indigenous Asian firms.

“The private equity industry in China didn’t exist until 15 or 16 years ago,” says Pierce. “When I was living in Shanghai [25 years ago], there were no private companies in China. The fact that we’ve come as far as we have in that short amount of time is pretty astonishing.”