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

Media Coverage
16 January 2014

Citigate Dewe Rogerson

Summary

- **Khaleej Times** reported that Hong Kong is mulling the introduction of profit tax exemption for offshore funds as part of a series of bold tax reforms being initiated to reinforce its position as Asia's largest financial hub, Financial Secretary John Tsang revealed at the opening of the 4th Asia Private Equity Forum.
  - Tsang said the extension of profit tax exemption for private equity funds registered outside the city would help attract more private equity funds to domicile in Hong Kong, currently ranked among the top three financial centres in the world.

- **Khaleej Times** and **RTHK** reported that Financial Secretary John Tsang said at the opening of the 4th Asia Private Equity Forum that over the past decade, the total size of assets under management in Hong Kong has risen from about USD 400 billion in 2003 to USD 1.6 trillion in 2012. There are more than 370 private equity firms in Hong Kong with capital under management of about USD 100 billion as of September 2013, the finance secretary said.
  - Tsang said that going forward, financial market developments in Asia will be driven by three key factors: first, rapid wealth creation in this region and demand for high-quality financial services; second, the increase in portfolio allocation into Asia by global investors; and the third trend is the financial liberalisation of the Mainland, including the wider use of the renminbi as an international reserve currency.

- **AsianInvestor.com** reported that attractive economic growth rates, rising consumption and a 'pleasing' decline in corruption will help the sub-region weather turbulence this year, say PE executives. Southeast Asia is pegged for a turnaround by private equity executives, who expect it to endure the continued volatility of emerging markets this year.
  - Indonesia was the darling of Southeast Asia until May 2013, when the start of US Federal Reserve bond tapering triggered volatility in emerging markets, says Sandiaga Uno, managing director of Jakarta-based PE firm Saratoga Capital. However, the country's rosy long-term growth prospects have meant that business owners have not lowered the valuations of their businesses, preventing Indonesia from becoming a buyer's market, says Uno at the Asia Private Equity Forum in Hong Kong.

  - Karam Butalia, executive chairman of KV Asia Capital, notes that Southeast Asia’s economic growth is faster than that of Europe and the US, and domestic consumption is on the rise.
  - Rodney Muse, managing partner of Navis Capital Partners, notes another attractive – if unusually appealing – aspect of the sub-region; he said that corruption exists and it is declining, and he is quite pleased about how it’s declining.

- **Asian Venture Capital Journal** reported that cross-border transactions will become increasingly prominent in China private equity deal flow as the country’s economy matures and domestic companies seek to expand overseas, according to Shangzhi Wu, chairman and managing director of CDH Investments.
  - “Traditionally we were mostly doing growth capital, finding interesting companies at the growth stage and helping them through to the capital markets. But now Chinese companies have grown very big, the Chinese consumer market has become globally important," Wu told the Hong Kong Venture Capital and Private Equity Association's (HKVCA) Asia forum. "Cross-broader transactions have become interesting."
  - Wu also highlighted the investment opportunities that will come out of state-owned enterprise reform - the government wants to restructure these businesses to make them more efficient and competitive - logistics and the emergence of a "modified new economy."

- **Asian Venture Capital Journal** reported that the lack of corporate carve-outs relative to the size of the opportunity in the space has been among the biggest disappointments for Japanese private equity, investors say. Speaking at the Hong Kong Venture Capital and Private Equity Association's Asia forum, Richard Folsom, representative partner with mid-market buyout firm Advantage Partners, said despite the number of subsidiaries and divisions held by Japan's large electronics conglomerates numbering in the hundreds - if not thousands - private equity had only scratched the surface.
  - He added that while there have been some clear exceptions - KKR last year bought Panasonic's healthcare unit for JPY 165 billion (USD 1.66 billion) while Advantage bought its Sanyo Electric digital camera business a year earlier - he expected future deal-flow to be "lumpy."

- **Asian Venture Capital Journal** reported that while corruption is pervasive in emerging markets, GPs in Southeast Asia have found ways to profit from the imperfections. There are different dynamics to the corruption theme in Southeast Asia, according to Rodney Muse, managing partner at Navis Capital Partners. "There's cronyism, there's corruption and then there's leakage. They all exist in different degrees," he told the Hong Kong Venture Capital and Private Equity Association's Asia forum.

- But ridding a business of these imperfections is one of the reasons for private equity's existence in the region. "A multi-national is not going to buy a dirty business," Muse explained.

- **The Australian Financial Review** and **The Australian** reported that at the Asia Private Equity Forum in Hong Kong, Brian Hong, senior managing director at CVC, said the firm had learnt painful lessons from its Nine investment, which had been loaded with "too much debt".
  - One of the mistakes CVC made was due to the high availability of financing capital that enabled the company to push itself beyond what the business could support. Effectively, CVC bought at the peak of the cycle, Hong said on the sidelines of the forum.
  - Steve Martinez, head of Asia Pacific private equity at Apollo Management and a director of Nine Entertainment, was also at the forum. He declined to comment on the performance of Nine, which is still trading below its initial public offering price.

- **The Australian Financial Review** reported that at the Asia Private Equity Forum in Hong Kong yesterday, around 200 dealmakers from around the region heard that the liberalisation of the Chinese economy will provide new opportunities for the brave investor, while reduced valuations in India were making that market more attractive, despite risks associated with the depreciating rupee.
  - The China opportunity set is so much bigger than it was before, and it is a very exciting market for people to operate in, said Fred Hu, founder of Primavera Capital.
  - Frank Tang, the CEO and founder of FountainVest, which raised an AUD 1 billion China fund in 2008, told the conference he was seeing more variety in Chinese deals. Five years ago, there was only growth capital. Now, there are entrepreneurs who want to sell, for succession, or because they have reached their limit for growth with the existing team. This provides new

opportunities, Tang said.

- Xiang-Dong Yang, the co-head of the Asia buyout team at The Carlyle Group, said economic liberalisation in China would help PE firms. Overall, there will be a lot of need in China for people like themselves, he said.

Full Articles

Hong Kong plans new tax reforms to lure PE funds
Khaleej Times
15 January 2014

Hong Kong is also an international banking centre with over 260 banking institutions from 35 different jurisdictions.

Hong Hong is mulling the introduction of profit tax exemption for offshore funds as part of a series of bold tax reforms being initiated to reinforce its position as Asia's largest financial hub, a top government official revealed on Wednesday at the opening of 4th Asia Private Equity Forum.

Financial Secretary John C. Tsang said the extension of profit tax exemption for private equity funds registered outside the city would help attract more private equity funds to domicile in Hong Kong, currently ranked among the top three financial centres in the world.

"We are working on the legislative proposals to provide a clear and certain tax environment for the industry. We hope to see the exemption implemented in good time," Tsang said.

He pointed out that over the past decade, the total size of assets under management in Hong Kong has risen from about $400 billion (all in US dollars) in 2003 to $1.6 trillion in 2012. Over 60 per cent of the assets are sourced from overseas investors. There are more than 370 private equity firms in Hong Kong with capital under management of about $100 billion as of September 2013, the finance secretary said.

He said the specially administered region's stock market, the second largest in Asia with market capitalisation of over $3 trillion, has listed more than 1,500 companies.

Hong Kong is also an international banking centre with over 260 banking institutions from 35 different jurisdictions. Assets held by banks exceeded $2 trillion at the end of last year, Tsang said.

Reaffirming Hong Kong’s commitment to the internationalisation of the Renminbi (RMB), Tsang said the city would expand its role.

"In the year ahead, we shall continue to play a leading role in promoting offshore business using the Mainland currency, the Renminbi," he added.

He said Hong Kong’s thriving commercialism and open economy made it a natural offshore hub for trading the currency. "With our city’s free flow of capital, effective rule of law and robust regulatory environment, Hong Kong is a fertile testing ground for the internationalisation of the Renminbi."

Hong Kong is also planning another legislative proposal to help pave the way for the introduction of the open-ended investment company, the OEIC, as a vehicle for setting up investment funds in Hong Kong, Tsang said as he stressed the importance of creative capital for Hong Kong and Asia in powering world growth.

The city also introduced two important legislative amendments in 2013 that will further develop it as a platform for international finance, he said. These include modernising the Trust Law to strengthen the competitiveness of its trust services industry and attract settlers to set up trusts in Hong Kong. The other amendment was on tax laws to give Islamic bonds, or sukuk, equal tax treatment to conventional bonds.

"We plan to introduce further legislative amendments to enable the issuance of sukuk under the Government Bond Programme. This will help develop Hong Kong’s bond market and expand our platform for Islamic finance," said Tsang.

"Going forward, financial market developments in Asia will be driven by three key factors: first, rapid wealth creation in this region and demand for high-quality financial services; second, the increase in portfolio allocation into Asia by global investors; and the third trend is the financial liberalisation of the Mainland, including the wider use of the renminbi as an international reserve currency," said Tsang.

Hong Kong is a key stakeholder in each one of these three trends, he added. "The government and our regulators also work hard to strengthen Hong Kong’s competitive edge in an increasingly competitive environment."

"With a community of innovative and ambitious entrepreneurs on one side and a population of internationally travelled, wealthy tycoons on the other, Hong Kong could be a powder keg of a techonomy waiting to explode," he said quoting a Forbes magazine report ranking Hong Kong as the Number One "Top Tech Capital to Watch".

For Asia to power global growth, Tsang said, "we also need to harness the power of innovation in Hong Kong and in our region. Venture capitalists and equity fund managers have the experience to identify the best ideas as well as the skills and resources to manage the development of these ideas from drawing board to reality".

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John Tsang: the SAR government is committed to enhance the competiveness of Hong Kong's financial industry (曾俊華：政府致力提升本港金融服務競爭力)

RTHK

15 January 2014

財政司司長曾俊華提到，未來亞洲金融市場由 3 大因素帶動，首先是區內財富快速增長，高質素的金融服務需求上升，其次是全球投資重心移向亞洲，另外，內地金融國際化、內地開放及擴闊人民幣使用。

他認為，3 個因素對香港有重要影響，特區政府會強化香港競爭力。

曾俊華在一個有關私募基金的論壇上說，截至 2012 年在香港管理的資產達到 1.6 萬億美元，較 03 年增加 3 倍，截至去年 9 月超過 370 家私募基金在香港管理超過 1 千億美元資產。

他又說，很多城市希望複製美國矽谷，他認為是難以做到，即使學習矽谷的成功要素，亦要配合本身的獨特性，而香港的軟件及硬件齊備，而且背靠祖國，有較多機會發展新業務，無論個人或企業資金可以透過香港進入中國同亞洲。

Southeast Asia on private equity firms' radars

AsianInvestor.com

16 January 2014

Indonesia remains an attractive market for PE, helped by an anti-corruption drive
Southeast Asia is pegged for a turnaround by private equity executives, who expect it to endure continued emerging markets volatility this year.

Indonesia was the darling of Southeast Asia until May 2013, when the start of US Federal Reserve bond tapering triggered volatility in emerging markets, says Sandiaga Uno, managing director of Jakarta-based PE firm Saratoga Capital.

However, the country's rosy long-term growth prospects have meant that business owners have not lowered the valuations of their businesses, preventing Indonesia from becoming a buyer's market, says Uno, speaking on a Southeast Asia-focused panel yesterday at the Asia Private Equity Forum in Hong Kong.

Fellow panellist Karam Butalia, executive chairman of KV Asia Capital, notes that Southeast Asia's economic growth is faster than that of Europe and the US, and domestic consumption is on the rise. "I sincerely believe that Southeast Asia's time has come."

Panellist Rodney Muse, managing partner of Navis Capital Partners, notes another attractive – if unusually appealing – aspect of the sub-region: "[Corruption] exists and it is declining, and I'm quite pleased about how it's declining."

Strict enforcement of laws in the US financial sector has likely changed attitudes, says Muse.

Uno notes that "Indonesia is undergoing a massive transformation" as the result of a recent anti-corruption drive. "More than 400 high-ranking officials, governors, ministers and parliament members are now behind bars."

When pressed to name Southeast Asia's most corrupt countries, Muse cites Myanmar, Cambodia and Laos "as utterly opaque and utterly corrupt and un-investible by my standards". Vietnam, on the other hand, "is bureaucratic and corrupt simultaneously, so they're incompetent at being corrupt".

Aside from high valuations for businesses and pockets of corruption, there is also the challenge of gaining controlling stakes in Southeast Asian companies – particularly those owned by families.

“They don’t like to give up control. Even if they say they are prepared to do it, deep down it's not natural to them,” says Muse.

Their business acumen can also complicate deal exits, he adds. “Quite often, the family conglomerate ultimately seeks to buy back the business from you, or buy out your stake from you... at that point they’re going to try to cap your returns.

“When it comes time for you to try to maximise price, they’ve got very shrewd ways to make it pretty hard for you to sell it to anybody but them,” says Muse. “ I’ve become very respectful [about families], but cautious.”

Brian Hong, senior managing director of CVC Capital Partners, agrees that while some families can be very ruthless, partnering with them is necessary, since "in many of these countries, they actually own the best and most attractive assets”. He says he won't work with a family until he has spent many months with them to form mutual trust.

Southeast Asia's individual and disparate markets will grow at differing paces, with Uno foreseeing a pick-up in Indonesia this year, while Muse and Butalia believe Thailand could surprise market-watchers with a quick recovery despite current civil unrest.

"If Thailand can pull through some relatively turbulent times, it could surprise on the upside," says Muse.

CDH chairman eyes China cross-border opportunities
Asian Venture Capital Journal
15 January 2014

Cross-border transactions will become increasingly prominent in China private equity deal flow as the country’s economy matures and domestic companies seek to expand overseas, according to Shangzhi Wu, chairman and managing director of CDH Investments.

"Traditionally we were mostly doing growth capital, finding interesting companies at the growth stage and helping them through to the capital markets. But now Chinese companies have grown very big, the Chinese consumer market has become globally important," Wu told the Hong Kong Venture Capital and Private Equity Association's (HKVCA) Asia forum. "Cross-broader transactions have become interesting."

CDH already has exposure to this trend, with longstanding portfolio company Shuanghui International last year agreeing to buy US counterpart Smithfield Foods in a deal worth $7.1 billion including debt. CDH helped restructure Shuanghui and holds a 33.7% stake, while Goldman Sachs, New Horizon Capital and Temasek Holdings have smaller interests. The company is thought to be planning a Hong Kong IPO.

In Smithfield, Shuanghui has a partner that has already been through the vertical integration process the Chinese firm is seeking to emulate. This is seen as key to improving efficiency, quality and food safety.

Wu also highlighted the investment opportunities that will come out of state-owned enterprise reform - the government wants to restructure these businesses to make them more efficient and competitive - logistics and the emergence of a "modified new economy."

The latter is most apparent in the evolution of retail into an online and shop front environment. He cited eHi Auto Services, a Shanghai-based car rental company that now receives 87% of its orders via the internet and mobile devices. A CDH Ventures portfolio company since 2009, eHi received $100 million in funding from Ctrip International, China's largest online travel agency, last December.

As to the challenges facing China-focused GPs buffeted by macroeconomic headwinds, Wu warned that LPs will still demand fund performance and cash distributions. This requires private equity firms to be disciplined, quick to react to problems and mindful of downside protection.

Fund managers must also adjust to China's changing financial system and the increasing regulatory burdens that come with exposure to multiple strategies.

"Previously we're only managing US dollar funds, we were only a small branch of foreign direct investment," Wu said. "Since 2008, we've entered into different types of regulatory frameworks as a state asset manager."

CDH currently manages assets across private equity, venture capital, real estate, and public equities, using Qualified Foreign Institutional Investor (QFII) quotas to invest in domestic A-share market. The firm is in the process of raising its fifth US dollar fund, which has a target of $2 billion a hard cap of $2.5 billion. A first close of $1 billion was reached in early 2013.

PE investors rue lost Japan carve-out opportunities
Asian Venture Capital Journal
16 January 2014

The lack of corporate carve-outs relative to the size of the opportunity in the space has been among the biggest disappointments for Japanese private equity, investors say.

Speaking at the Hong Kong Venture Capital and Private Equity Association's Asia forum, Richard Folsom, representative partner with mid-market buyout firm Advantage Partners said despite the number of subsidiaries and divisions held by Japan's large electronics conglomerates numbering in the hundreds - if not thousands - private equity had only scratched the surface.

"With movement in the exchange rates and the weakening of the yen, lots of large corporations see themselves as more stable now and are under less pressure to undergo restructuring," he said. "So they are likely to delay a lot of the divestments that a lot of people have been hoping for."

He added that while there have been some clear exceptions - KKR last year bought Panasonic's healthcare unit for JPY165 billion ($1.66 billion) while Advantage bought its Sanyo Electric digital camera business a year earlier - he expected future deal-flow to be "lumpy."

On the other hand, Folson said founder-owner succession opportunities will continue to be a staple of private equity deal flow in Japan - six out of the last eight deals closed by Advantage fell within this category - even if individual deals continue to be relatively small.

This sentiment was echoed by Yasushi Ando, CEO of New Horizon Capital, who added that entrepreneurs are becoming increasingly open to the idea of selling to private equity.

"For a long time the Japanese founder has hesitated to sell his business as he has spent years building the company and he feels responsible for his employees," he said. "But recently the situation has changed and a founder is more willing to sell his business and enjoy his retirement. People are starting to understand the benefits of selling to a fund."

Corruption an opportunity for SE Asia dealmakers

Asian Venture Capital Journal

16 January 2014

While corruption is pervasive in emerging markets, GPs in Southeast Asia have found ways to profit from the imperfections.

There are different dynamics to the corruption theme in Southeast Asia, according to Rodney Muse, managing partner at Navis Capital Partners. "There's cronyism, there's corruption and then there's leakage. They all exist in different degrees," he told the Hong Kong Venture Capital and Private Equity Association's Asia forum.

But ridding a business of these imperfections is one of the reasons for private equity's existence in the region. "A multi-national is not going to buy a dirty business," Muse explained.

Cleansing is important to the exit thesis, whether it be an IPO or sale to a multi-national, and GPs in the region have built up capabilities to identify and eliminate corruption.

While corruption levels may vary, a common element is that "a company has four books - first for the tax office, second for the bankers, third for the owner and the fourth for the wife of the owner," said Saratoga Capital founder Sandiaga Uno. That's why the firm insists on installing CFOs in the companies it invests in, to get better control of the situation.

Leakage in particular is all pervasive and distorts economics. Brian Hong, managing director at CVC Capital Partners, noted that it can be a source of opportunity. After buying one business, CVC brought in new management to plug these leakages and found that the margins for the business doubled.

CVC steers clear of Australia after Nine nightmare

The Australian Financial Review

16 January 2014

Hong Kong | After being severely burnt by its investment in Nine Entertainment, a senior executive of CVC Capital Partners said the private equity firm has no plans to return to the Australian market, which has too much capital chasing too few opportunities.

CVC paid $5.6 billion to buy Nine from James Packer between 2006 and 2008, but lost almost all of its money in the debt restructure. In 2012, local executive Adrian MacKenzie left CVC and the firm has closed its Australian office.

At the Asia Private Equity Forum in Hong Kong, Brian Hong, senior managing director at CVC, said the firm had learnt painful lessons from its Nine investment, which had been loaded with "too much debt".

"Frankly, one of the mistakes we made was because of the high availability of financing capital that enabled us to push ourselves beyond what the business could support. Effectively, we bought at the peak of the cycle," Mr Hong said on the sidelines of the forum.

"What is harder about [investing in Australia] is it is a very competitive market. The amount of private equity capital and other capital chasing deals … it is a small country.

"The practical reality is that outside the resource space, the rest of the country is quite small. As a result, the amount of local as well as global capital that is in that market means essentially to do deals, you have to basically sharpen your pencil a little bit more than in another market."

CVC manages $US50 billion ($55.5 billion) for more than 300 investors worldwide and has 20 offices on three continents. But Mr Hong said the firm was not looking to re-enter the Australian market.

"To be honest, we are going to take a few years before we revisit that -market," he said.

CVC maintains a holding in hotel group Mantra in Australia, co-owned with UBS, and has a 27 per cent stake in Jetset Travelworld Group. Mr Hong would not be drawn on the timing for exits of these holdings.

Mantra CEO Bob East told The Australian Financial Review in November the company was "not running a process for an IPO at this stage, but are leaving our options open".

Steve Martinez, head of Asia Pacific private equity at Apollo Management and a director of Nine Entertainment, was also at the forum. He declined to comment on the performance of Nine, which is still trading below its initial public offering price.

China, India PE options set to expand
The Australian Financial Review
16 January 2014

Private equity firms have had a hard time doing deals to capitalise on the economic growth of China and India. In both countries, targets are like rare diamonds in the rough, while exits routes are typically blocked.

In China, initial public offering markets have been closed and there is now a backlog of 700 companies waiting to float in Shanghai.

But these complexities are not deterring global and regional players from raising big funds. KKR recently raised $US6 billion ($6.7 billion) for an Asian-only fund while CVC raised $US2 billion for Asian investments.

At the Asia Private Equity Forum in Hong Kong on Wednesday, around 200 dealmakers from around the region heard that the liberalisation of the Chinese economy will provide new opportunities for the brave investor, while reduced valuations in India were making that market more attractive, despite risks associated with the depreciating rupee.

"The China opportunity set is so much bigger than it was before, and it is a very exciting market for us to operate in," said Fred Hu, former Goldman Sachs chairman for greater China and founder of Primavera Capital, a private equity firm with offices in Hong Kong and Shanghai.

Another Goldman Sachs alumnus, Frank Tang, the CEO and founder of FountainVest, which raised a $1 billion China fund in 2008, told the conference he was seeing more variety in Chinese deals. "Five years ago, there was only growth capital. Now, there are entrepreneurs who want to sell, for succession, or because they have reached their limit for growth with the existing team. This provides new opportunities."

Xiang-Dong Yang, the co-head of the Asia buyout team at The Carlyle Group, said economic liberalisation in China would help PE firms. "Overall, there will be a lot of need in China for people like us," he said.

"With the slowing down of the economy, deals may be fewer, but PE firms are getting better. There will be more leveraged buyout deals which will help boost returns, and the exit environment will be good."

In India, private equity firms have been cautious about slowing growth, high inflation, the sharp depreciation of the rupee, and a high proportion of non-performing loans in the banking sector. Blackstone, for example, which has more than a dozen investments in India, was stung by its investment in stock exchange group Financial Technologies, which saw shares fall 70 per cent in the second half of 2013, amid a fraud scandal. Indian elections this year are creating uncertainty.

Yet the macro conditions in India have seen valuations fall, according to Vivek Chhachhi, a partner at CX Partners. Decent assets can be found at around nine times EBITDA, compared to averages of around 17 times three years ago. Baring Private Equity Asia managing director Bala Naidu said the next two years would be a challenge for India and a recovery was a couple years away, "so now is the right time to invest". Meanwhile, Robert Petty, co-founder of Clearwater Capital Partners, said financial services companies provided the best exposure to the growth of the Indian economy. "Being a contrarian is how you have to play India."

Burnt once, CVC wary of `different' Australia
The Australian
16 January 2014

INVESTMENT: Global private equity giant CVC Capital Partners says it still has no plans to make fresh investments in the Australian market after its disastrous foray into Nine Entertainment Group, warning that it is tougher to do deals in Australia than in other parts of Asia.

Hong Kong-based CVC Capital Partners managing director Brian Hong said it was going to take ``a few years'' before the firm re-entered the Australian market because it was ``very different to the rest of Asia''.

``When we invest in Asia we invest in sectors we think will benefit from some macro trends like rising household income, urbanisation, under penetration of certain sectors. The reality is Australia is very, very different. It doesn't have a lot of that,'' he said on the sidelines of the Asia Private Equity Forum in Hong Kong.

``It does have rule of law and great financing markets. The ability to do buyout transactions in that market is better than anywhere else in Asia. The issue is the approach you have to take is different to when you invest in emerging Asia.''

Mantra and Jetset Travelworld Group are CVC's only remaining holdings in Australia after it lost $2 billion on its investment in Nine, which was floated on the Australian stock exchange in November.

The losses on Nine prompted CVC Asia Pacific managing partner Adrian MacKenzie to resign in September 2012 after 17 years with the firm.

While there is speculation CVC is looking at quitting its 65 per cent stake in Mantra that was acquired in February 2008 through a float or trade sale, Mr Hong declined to comment on the timing of the group's investment from either Mantra or Jetset.

He said there were lessons to learn from the Nine experience.

``Frankly, one of the mistakes we made was because of the high availability of financing capital that enabled us to push ourselves beyond what a business could support. Effectively, we bought at the peak of the cycle,'' he said.

Mr Hong said Australia was a very competitive market and that there were better opportunities for CVC in emerging markets of Southeast Asia like The Philippines.

``What is harder about (Australia) is it is a very competitive market. (In terms of) the amount of private equity capital and other capital chasing deals, it is a small country. The practical reality is that outside the resource space the rest of the country is quite small,'' he said.

``As a result, the amount of local as well as global capital that is in that market means essentially to do deals, you have to basically sharpen your pencil a little bit more than in another market.''

Also attending the conference was Steve Martinez, the head of Asia Pacific, private equity for Apollo Management -- a cornerstone investor in Nine. Mr Martinez is a director of the media group.

His luncheon address was closed to the media and he declined to comment on Nine following his speech.

Media Coverage
16 January 2014

- **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.

Full Articles

More consolidation tipped for funds of PE funds
AsianInvestor
21 January 2014

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.”