

## Having boots on the ground critical to investing in Asia: Adams Street's Yar-Ping Soo

Asia is an emerging hotbed for private equity, and that is reflected in the numbers, and limited partners (LPs) have taken note. In 2017, three of the largest funds on the road to raise capital had a focus on this continent, and of the five largest PE funds in the market, four are from Asia.

“Today, Asian economies are almost 40 per cent of the global GDP, up from 25 per cent in the late 1990s. Asian private equity is 12 per cent of global private equity, up from a meagre 5 per cent in 2000,” Yar-Ping Soo, Partner (Singapore), Adams Street Partners, said in an interaction.

She also pointed out that Asia PE investments also are a key source of diversification, given their higher relative growth rates, and added that Adams Street Partners' PE allocations to this continent mirror this trend.

Yar-Ping, who primarily specializes in Asian pan-regional leveraged buyouts as well as country-focused funds, specifically in Greater China, Japan, Korea and Indonesia, was of the view that private equity in the Asian emerging economies ‘had not fully reached the full spectrum of investments opportunities compared to US and Europe’, thereby offering see more opportunities for investments.

“Overall, there are definitely more pockets of opportunity within Asia than in previous years. Performance in India has been trending in the right direction, and we are seeing attractive returns being generated in what were previously lower-growth, but more stable, markets like Japan, Australia and Korea. China will not disappear from the minds of investors and continues to be a scale market for venture in Asia,” she said.

**Yar-Ping's 5 takeaways:**

“While there are a lot more options for LPs today, the most sought-after funds and managers are still able to raise capital quickly and command market terms”.

“Increasingly (for GPs), the ability to act quickly and, in some cases, even co-underwrite a deal has become a major differentiating factor. To incentivize high-quality LPs to participate, a majority of GPs still offer co-investment without fee and carry.”

“The SEA private equity market still lacks depth. This is improving as more institutional funds deploy capital and make profitable exits for LPs.”

“The GPs and advisors have done a good job of educating the LPs of the consumer story in both India and SEA – alongside technology, consumer is now considered one of the main investment themes in these regions.”

“...our biggest takeaway is the vital importance of having “boots on the ground”, local investment professionals who can navigate the complex heterogeneous markets of the region”.

Edited Excerpts.

Have LPs' views of Asia changed during the course of time? How do they view Asia-Pacific as part of a global portfolio?

Private equity in Asia has developed significantly over the past twenty years. PE is now an integral part of the financial markets and is a form of risk capital widely accepted by entrepreneurs, corporations and policy makers in the region.

In the last two decades, the Asian markets have also evolved – they’ve become more integrated, and now play a significant role in the context of global financial markets. Today, Asian economies are almost 40 per cent of the global GDP, up from 25 per cent in the late 1990s. Asian private equity is 12 per cent of global private equity, up from a meagre 5 per cent in 2000.

Over time, allocations to Asia have become an important part of a global portfolio, rather than simply an opportunistic play. Asia PE investments also are a key source of diversification, given their higher relative growth rates. Adams Street Partners’ Asian PE allocations mirror this trend.

With Asia seeing an investment boom, how have the LP-GP dynamics changed? Today, LPs have a far higher range and number of GPs to choose from – has that changed the equation? How does Adams Street Partners view the investment opportunities in Asia in terms of deal flow, availability of good deals and valuations? Also, is there a vision to grow your Asia play in the mid-term and how much?

With the continued maturation of the global private equity industry, Asia now has a more experienced pool of investors – these individuals were developed through established firms, or were veteran investors who spun out to raise their own funds. While there are a lot more options for LPs today, the most sought-after funds and managers are still able to raise capital quickly and command market terms.

The number of high-quality Asia PE managers continues to increase, and there’s a new generation of experienced, young, and hungry GPs quickly gaining traction in the market also. However, regardless of the investor’s status as a veteran, or an up-and-comer, a detailed knowledge of the market and ability to act quickly is vital when it comes to picking and accessing the “real deal”.

How do LPs view a market such as India, considering the country has not really delivered for GPs in terms of exits? While everyone talks about India being a massive opportunity, where does it stand on the LPs' radar? We are also finally seeing a significant amount of challenged capital getting recycled in India – how much has it helped revive LPs interest?

As the third largest economy in Asia, India is an important part of most LPs' portfolios that have an Asia allocation, second only to China. Performance of funds raised from 2006–2010 has been challenging for a variety of reasons, but we have seen a clear improvement over the last few years as the demand/supply of capital improves and GP maturity comes into play. The recent liquidity drive and improving macro environment has definitely revived the broader LP interest in the Indian market. Adams Street is a long-term believer in this region; however, we maintain significant selectivity in what we invest in the country.

The prospects of China have been less encouraging of late. Against this mindset, for investors looking at Asia, do you see them deciding to refocus their attention on India and South-East Asia?

Overall, there are definitely more pockets of opportunity within Asia than in previous years. Performance in India has been trending in the right direction, and we are seeing attractive returns being generated in what were previously lower-growth, but more stable, markets like Japan, Australia and Korea. China will not disappear from the minds of investors and continues to be a scale market for venture in Asia.

Overall, how is the co-investment scene in Asia? Are LPs increasingly implementing private equity co-investment programmes as a means to reduce fees?

There is strong competition for co-investment, with the sovereign wealth funds (SWFs) taking a majority of the market share. Increasingly, the ability to act quickly and, in some cases, even co-underwrite a deal has become a major differentiating factor. Quite often there is a mutual need regarding co-investments, with GPs requiring co-investor dollars to secure a transaction that is larger than their fund can support. To incentivize high-quality LPs to participate, a majority of GPs still offer co-investment without fee and carry.

For LPs investing in Asia, has it been a challenge to remain focused on the selective assets that they invest in here, keeping in mind that the market is highly heterogeneous, complex and each country is in a different place in terms of maturity? Has there been a lesson learnt in this regard?

Adams Street has been investing in Asia for the last 15 years, and our biggest takeaway is the vital importance of having “boots on the ground”, local investment professionals who can navigate the complex heterogeneous markets of the region. Given the dynamism in the market, frequent communication with GPs is incredibly important for sourcing and due diligence purposes. We structure our investment teams to ensure they can build and maintain key relationships in their region in order to access the best available opportunities for our clients.

When it comes to India and SEA, for the global LP community, how aware are they of the ongoing consumer boom? Is this a key factor for higher allocations to these regions?

The GPs and advisors have done a good job of educating the LPs of the consumer story in both India and SEA – alongside technology, consumer is now considered one of the main investment themes in these regions. Healthcare and education are also becoming increasingly popular themes for these markets.

How much dry powder is too much? To what extent are the larger regional funds skewing the statistics?

The percentage of Asia private equity, with respect to global private equity, is still much lower comparing the relative sizes of the public market or GDP sizes. Furthermore, private equity in the Asian emerging economies has not fully reached the full spectrum of investments opportunities compared to US and Europe. I definitely see more opportunities for investments.

With the advent of pension funds, sovereign wealth funds and even insurers now making direct investments, how has the competition impacted the strategy and decision making by both GPs and LPs?

These investors sometimes compete with the GPs, sometimes co-invest with the GPs, and sometimes provide exits for the GPs. While direct investments are becoming more prevalent for certain LPs, they are generally a small portion of the overall private markets portfolio, and complement the investments being made in GP funds. Ultimately, they are providing a healthy competition to the GPs to stay ahead, and I would say the symbiotic relationship between the GPs and these LPs continues to exist.

How do LPs view exits in Southeast Asia and Asia?

The SEA private equity market still lacks depth. This is improving as more institutional funds deploy capital and make profitable exits for LPs.

In terms of secondaries, how have you seen that market evolve in Asia and at what stage of the maturity in the secondaries space is the region when compared globally?

As the amount invested into Asia has increased over time, the secondaries market in Asia has also grown. In addition to the standard LPs selling their stake of a fund, we are also seeing secondaries initiated by the GPs. Some of these are transitional capital can be initiated by the GP to provide liquidity to earlier investors.

How can GPs stand out from the crowd? What are LPs looking at in a fund they invest in? What has been the most mentioned point in GP's conversations with LPs?

Adams Street likes to say that we want to invest in a GP who makes a difference to their investments. As the market gets more complicated, a GP needs to differentiate itself to the seller – as an example, this can be through their unique understanding of the business, or by providing strategic and operational input, or helping a company make connections that they otherwise would not have.

Do GPs feel that increasingly LPs are scrutinizing the performance of individual deals and underlying more rigorous fund due diligence?

Adams Street has always been very focused on portfolio reviews – we are constantly monitoring GPs, both those with whom we have invested, and those we are tracking for future investment opportunities. And, we think that most managers would agree that LPs are definitely reviewing their investment portfolios with greater scrutiny.

Besides performing a detailed review of the portfolio, we also focus on team dynamics and motivation – we believe this enables us to get a thorough understanding of what is happening at the “human” level of a fund. We have also heard that there has been an increasing number of LPs who require GPs to fill out a standard questionnaire.

*By Joji Thomas Philip*