



Strong Growth in Emerging Markets Challenges Developed Markets

With Asia and Rest of World-focused fundraising levels set to exceed that of Europe-focused funds for a third consecutive year in 2012, [Kamari Simpson](#) examines investor sentiment and fundraising trends outside the traditional markets of North America and Europe.

Private equity investment in Asia and Rest of World has grown considerably over recent years and the current data held on Preqin's Fund in Market database suggests that 2012 is likely to represent the third year in succession that annual fundraising for Asia and Rest of World surpasses Europe.

The global financial crisis and its subsequent effects have resulted in increasing numbers of private equity investors committing capital to Asia and Rest of World-focused funds, as these economies are widely perceived to have been better protected from the negative impact of the crisis. While the number of funds closed and aggregate capital raised are still below the figures seen during the industry's 'boom period' of 2007 and 2008, there has been a resurgence in the amount of capital raised by Asia and Rest of World-focused funds in recent years.

The private equity industry's investment activity has expanded rapidly over the past decade, particularly in South America and Asia, alongside wider financial growth in the regions. Correspondingly, there has also been an expansion in the number of sophisticated institutional investors based in these locations. The prolonged uncertainty in Western financial markets, exacerbated by the eurozone sovereign debt crisis, has further amplified the LP interest in Asia and other Rest of World regions, often at the expense of allocations to funds targeting the traditional private equity hubs of North America and Europe. Consequently, Preqin has seen the reduction of the gap between fundraising levels in Europe compared to Asia and Rest of World. In this article, we analyze these shifts further using Preqin's data on funds with a main focus on Asia and Rest of World, which does not necessarily include those funds that invest in the region as part of a global investment strategy.

Asia and Rest of World Fundraising

Fig. 1 shows the percentage breakdown of private equity capital raised for investment in regions worldwide by year, as well as the proportion of capital currently being sought by GPs for investment in each region. It demonstrates that the proportion that Asia and Rest of World fundraising accounts for all of private equity fundraising has increased significantly over the last decade. Only 9% of capital raised in 2003 was raised by funds that primarily focused on investment in Asia and Rest of World; this percentage has progressively increased over the years, reaching a high of 25% in 2011, with 307 funds raising an aggregate \$76.9bn in capital commitments.

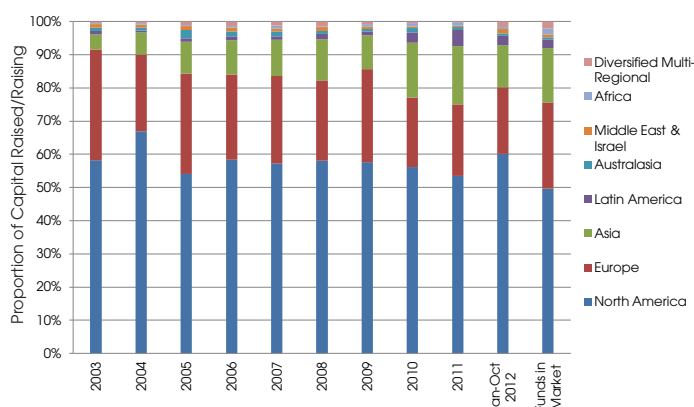
In both 2010 and 2011, Asia and Rest of World-focused fundraising accounted for a greater percentage of capital raised than Europe. In 2010, Asia and Rest of World-focused fundraising represented 23% (\$65.2bn) of all private equity capital raised, while Europe accounted for 21% (\$59.8bn). It is important to note that while North America remains the largest private equity market in the world, its economy has experienced a downturn in the rate of growth, and intense competition for suitable deals in the region has prompted many LPs to become more open to investment in emerging markets.

Conversely, China's strong growth in GDP over recent years has led to an increase in private equity investment, as the country was seen as having the potential to generate higher returns in comparison to the traditional, more mature markets of North America and Europe. Investment in Asia and other Rest of World markets is also proving beneficial to LPs as a means of geographically diversifying their portfolios.

Outside the traditional markets of North America and Europe, Asia is the most attractive region for private equity investment, followed by Latin America. Asia has consistently attracted at least 10% of all private equity capital raised year on year since 2005. In 2011, Asia-focused fundraising peaked, with 221 Asia-focused vehicles reaching a final close raising an aggregate \$54.1bn in capital commitments; this accounted for 18% of all private equity capital raised that year.

Of the vehicles currently in market, both Asia- and Rest of World-focused funds are seeking slightly less capital than Europe-

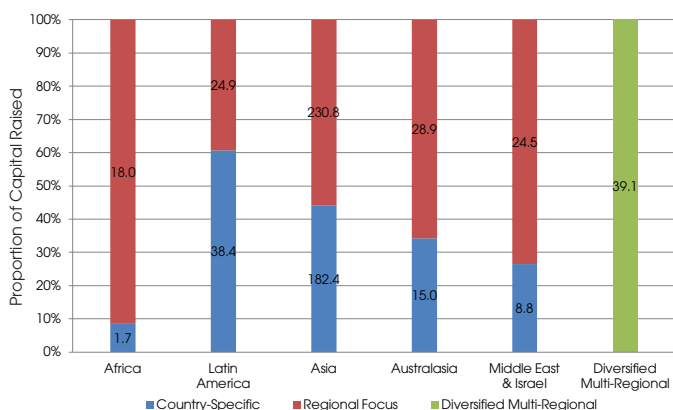
Fig. 1: Breakdown of Aggregate Private Equity Capital Raised by Region, 2003 - October 2012 (Including Funds Currently Raising)



Source: Preqin Funds in Market



Fig. 2: Asia and Rest of the World Fundraising by Region and Country Focus, 2005 - October 2012 (\$bn)



Source: Preqin Funds in Market

focused funds, targeting aggregate commitments of \$193.7bn and \$205.1bn respectively; this represents 24% and 26% respectively of the aggregate capital targeted by all private equity funds on the road. The largest fund that is primarily focused on investing outside North America and Europe and is currently in market is KKR Asia Fund II. Managed by Kohlberg Kravis Roberts, the fund aims to raise \$6bn in capital commitments for management

buyouts and growth equity investments, concentrating primarily on Japan, China and Australia.

Country-Specific and Regional Fundraising

A breakdown of the proportion of capital raised across Asia and Rest of World which is focused on country-specific investment or regional investment from 2005 to present is shown in Fig. 2. In both Asia and Latin America fundraising, country-specific funds account for the greatest proportion of capital raised, with these funds representing 44% (\$182.4bn) and 61% (\$38.4bn) respectively of the total capital raised for investment in each region. It is unsurprising that a large proportion of country-specific funds target investments in Brazil, India or China (BIC), which have become more established private equity markets for investment within Asia and Rest of World regions. India-focused and China-focused funds combined account for 75% (\$137bn) of the capital raised for country-specific investment in the Asia region.

Fig. 2 shows that GPs investing in the regions of Africa, Australasia and the Middle East (including Israel) generally adopt a broader opportunistic approach. These GPs invest across whole regions in order to avoid being susceptible to the risk of

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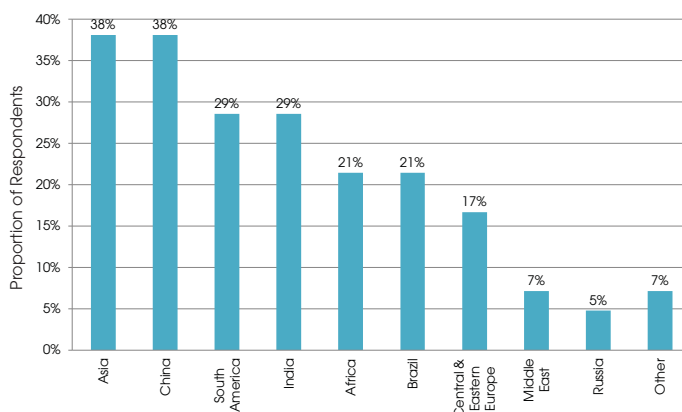


focusing investments solely within individual countries situated in these emerging markets. Ninety-two percent of capital raised for investment in Africa is for funds that focus on investing across the continent rather than in specific countries. Region-wide funds in Australasia account for 66% of the capital, and in the Middle East (including Israel) regional funds represent 74%.

It is important to note that some GPs invest across more than one emerging market region in search of strong returns. Since 2005, \$39.1bn in aggregate commitments has been raised by funds that seek investment opportunities in more than one region across Asia and Rest of World. The largest multi-regional fund to close since 2005 is Citigroup International Growth Partnership II. The \$4.3bn fund held a final close in 2008, and invests across South America, Asia and Eastern Europe, with Chile, China, India and Estonia as particular countries of interest.

Brazil, India and China continue to attract large proportions of the investor capital that is committed to investments in Asia and Rest of World, and will likely continue to see a significant proportion of the fundraising activity in the region over the coming years. However, there is evidence to suggest that funds will increasingly look for investment opportunities outside these three countries, primarily due to concerns regarding intense competition for assets

Fig. 3: Countries and Regions within Emerging Markets that Investors View as Presenting Attractive Opportunities*



Source: Preqin Investor Outlook: Private Equity, H2 2012

and inflated deal prices, slowing economic growth, difficulties with IPO exits, and regulatory restrictions for foreign investors.

LP Sentiment towards Asia and Rest of World

In mid 2012, Preqin conducted a survey of over 100 investors to analyze the key geographies LPs will consider for investment

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Fig. 4: Five Largest Asia and Rest of World-Focused Private Equity Funds in Market

Fund Name	Firm Name	Fund Type	Fund Focus	Target Capital (mn)
KKR Asia Fund II	Kohlberg Kravis Roberts	Buyout	Asia	6,000 USD
TPG Asia VI	TPG	Buyout	Asia	4,000 USD
RRJ Capital Master Fund II	RRJ Capital	Buyout	Asia	4,000 USD
Actis 4	Actis	Growth	Diversified Multi-Regional	3,500 USD
Affinity Asia Pacific Fund IV	Affinity Equity Partners	Buyout	Asia	3,500 USD

Source: Preqin Funds in Market

over the following 12 months, published in [Preqin Investor Outlook: Private Equity, H2, 2012](#). Fig. 3 presents the regions and countries within emerging markets that investors view as presenting attractive opportunities*. A substantial 72% of LPs surveyed will invest or consider investing in emerging markets. Of these LPs, 95% aim to increase their exposure to emerging market regions over the next 12 months. Another encouraging sign is that none of these LPs plan to reduce their exposure in the long term. China and, more broadly, Asia remain attractive locations for investment to the largest proportion of LPs (38%). Good investment opportunities are also viewed to be on offer in India and South America, each named by 29% of investors that have an appetite for emerging markets.

Outlook for Asia and Rest of World Private Equity

It is evident that Asia and Rest of World regions are viewed as attractive investment propositions for many LPs, with growing interest in recent years in these regions. Asia particularly has been buoyed by the strong growth of many of its constituent

economies and the increasing maturity of the domestic private equity industry. The recent turmoil that has prevailed in more developed financial markets has inclined LPs and GPs alike to pursue investment opportunities in the less developed private equity markets in the regions of Asia and Rest of World. There has also been significant growth in the number of GPs based in these regions. As investors gain greater confidence and experience of investing in Asia and Rest of World, the way they access these investments is likely to evolve, and exposure to the region may become a staple in the investment portfolios of many LPs.

**Respondents were not prompted to give their opinions on each fund type/country/region individually; therefore the results display the fund types, countries and regions at the forefront of investors' minds at the time of the survey.*

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The difference between success and failure in attracting institutional commitments can be the ability to identify which investors are most likely to be interested in your fund.

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Preqin updates these details by speaking directly to investors – saving you time and ensuring our intelligence is up to date and accurate.

- **Future Investment Plans** - Investor profiles include details of investors' future fund searches, detailing whether they are targeting specific private equity strategies and/or regions of focus, and also contain summaries of their plans for the next 12 months.
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Future Plans, Searches and Mandates Jump to...

Date of Plans: Q4 2012

Timeframe: Immediately

Next 12 Months:

Estimated Investments:	Estimated Amount (mn):
1-2	
Managers in Next 12 Months:	Mainly new managers, some existing managers

Fund Types Targeting: Buyout, Distressed Debt, Fund of Funds, Venture (General), Growth

Regions Targeting: Asia Pacific, Europe, North America, Emerging Markets

Summary: *Wellness Investor Fund* typically looks to make one or two commitments to private equity funds per year. It is looking to increase its exposure to direct funds in the future.

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 - Bridge Fund
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 - Early Stage
 - Expansion / Late Stage
 - Hybrid
 - Secondaries
 - Turnaround
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 - Mezzanine
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 - Europe
 - North America
 - Emerging Markets
 - Global
 - Rest of World
- Timeframe of Next Investment

Keyword Search:

Investor Name	Fund Types	Regions	Date Inserted
Wellness Investor Fund	Buyout, Growth	Asia Pacific	08/10/2012
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Wellness Investor Fund		Europe	08/10/2012
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