



# The Asia-Based Investor Universe

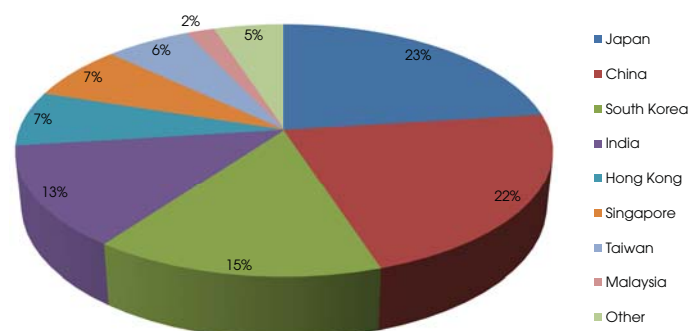
Preqin recently interviewed over 100 investors with an interest in investing in Asia in order to find out how they are investing in the region and their future preferences - [Louise Weller](#) explores the results.

At present, there are 407 active private equity investors based in Asia, representing 9% of the global active private equity investor universe, according to Preqin's Investor Intelligence database. As shown in Fig. 1, these investors are split primarily between four nations, which collectively account for almost three-quarters of the Asian investor universe: Japan (23%), China (22%), South Korea (15%) and India (13%).

Corporate investors are the most common type of private equity investor in Asia, representing 18% of the universe, while banks and investment banks account for 14% and insurance companies 12%. Foundations and endowments, two of the most common investor types in Europe and North America, collectively make up less than 8% of the Asia investor universe. Interestingly, even though sovereign wealth funds only make up 3% of the Asia-based investors by number, they account for over 10% of the aggregate \$21tn assets under management of the Asian investor private equity universe.

In terms of investment preferences, Asia-based LPs favour investments in venture capital or growth vehicles, which is indicative of the rapid growth in relatively young companies across the region. Sixty-three percent of Asia-based investors have invested in or are looking to invest in venture capital funds, while 51% show an active appetite for growth vehicles. Buyout funds attract interest from 44% of the total investor pool in the region. Asia-based investors have been more tentative than non-Asia-based investors when pursuing newer private equity strategies, such as distressed private equity, mezzanine, secondaries, and natural resources. However, as the private equity industry continues to develop and mature, we would anticipate that Asian LPs will diversify into new approaches to the asset class.

Fig. 1: Breakdown of Asia-Based Investors by Location



Source: Preqin

Asia-based investors, like those based in other regions of the world, tend to prefer to invest close to home, with 86% showing an active appetite for private equity funds focused on investing in the region itself. This figure is much higher than the 32% that consider investments in North America and the 24% that target Europe-focused private equity vehicles.

In terms of attitudes towards first-time funds, 38% of Asia-based investors will actively invest in first-time funds, while a further 10% will invest with spin-off managers. An additional 19% of the investor pool in Asia is willing to consider first-time funds on a case-by-case basis, leaving 33% that will not commit to these vehicles.

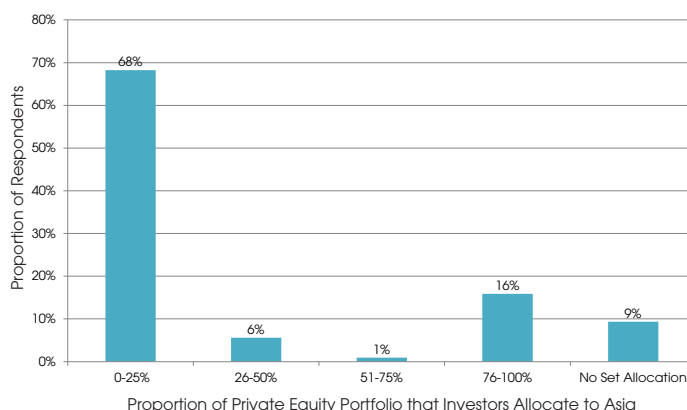
## Global Investor Survey - Views on Asia

With the repercussions of the credit crunch in 2008 and the more recent escalation of the eurozone sovereign debt crisis, institutional investor interest in private equity investments in emerging markets has continued to grow, with increasing numbers of LPs looking towards less traditional markets for increased portfolio diversity and performance. Asia in particular remains an attractive investment destination for LPs, with Preqin's H2 2012 Private Equity Investor Outlook study revealing that a significant 38% of investors worldwide feel that the region is currently presenting the best investment opportunities within emerging markets. In order to assess LPs' current attitudes towards Asia and their future plans in more detail, we conducted over 100 in-depth interviews with investors from around the world that have an interest in the region.

## Allocations to Asia

Almost three-quarters (74%) of investors allocate up to half of their private equity portfolio to Asia, as shown in Fig. 2, while a

Fig. 2: Proportion of Private Equity Portfolio That Investors Allocate to Asia



Source: Preqin



further 9% have no set allocation to Asia and instead take a more opportunistic approach, preferring to invest as and when favourable opportunities arise. Sixteen percent of LPs look to allocate 76-100% of their private equity portfolio to investments in Asia, although the vast majority of this group of investors are based within the region.

#### Geographical Preferences

Greater China continues to attract the most attention from LPs, with over half (58%) of the investors we spoke to stating that the region is presenting attractive investment opportunities within Asia, followed by India, which was named by 36% of LPs. In a similar study conducted last year, a higher 68% and 61% named China and India respectively as presenting attractive investment opportunities. Some investors named a number of fast growing regions as presenting more favourable opportunities, including countries such as Vietnam.

In terms of the geographical scope of the funds that investors look to commit to, over one-third (35%) of LPs prefer to invest in country-specific funds, allowing them to tap local expertise and to control the geographic exposure they gain. A German insurance company told us: "We are likely to focus more on country-specific funds going forward, as we are looking to target certain countries." Thirty-one percent of LPs look to gain exposure to Asia through pan-Asia funds, while 16% prefer to invest in funds focusing on opportunities via a wider global mandate. Twenty-three percent of LPs prefer to take an opportunistic approach when investing in private equity in Asia.

#### Fund Manager Location Preferences

When considering which fund managers to work with when investing in Asia, the vast majority of LPs expect the fund manager to have some local presence within the region. Over half (55%) of LPs prefer to invest with a local manager that has an office in the country they will be investing in, while a further 24% will consider investing with an international manager as long as they operate a local office. Local presence and expertise are clearly viewed as important factors by investors, though a significant 21% of LPs told us they have no particular preference with regards to fund manager location and instead are primarily concerned with the past performance and track record of the GP, as opposed to their physical location.

Investors continue to approach investing in first-time funds with caution and Asia-based fund managers are no exception. Nevertheless, many LPs that target private equity investments in Asia understand that the private equity industry in the region is still developing and, as a result, are slightly more willing to invest with emerging managers. Forty-two percent of LPs with an interest in Asia will consider committing to a first-time vehicle, which is higher than the 34% of the limited partner universe as a whole that will consider doing so. A further 6% of LPs with an interest in Asia will commit to a fund raised by a spin-off team.

#### Fund Type Preferences

Over half (54%) of investors interviewed feel that growth funds are presenting the best investment opportunities in Asia at present (Fig. 3), which reflects the fact that many markets in Asia are

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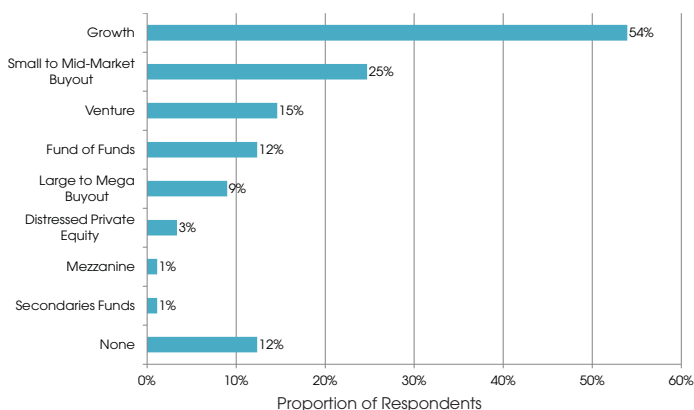
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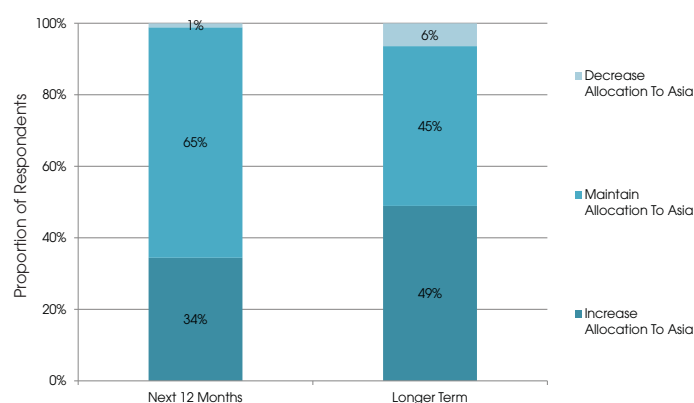
Fig. 3: Fund Types Investors View as Currently Presenting the Best Investment Opportunities in Asia



Source: Preqin

growing rapidly. One-quarter of LPs named small to mid-market buyout funds as presenting attractive investment opportunities in Asia, which is a considerably smaller proportion than the 49% of LPs worldwide that named this fund type as the most favourable in Preqin's recent study. A US-based foundation noted: "We have not seen much buyout activity in Asia compared to other regions." Similarly, distressed private equity funds have attracted less attention in Asia than in more developed markets. Just 3% of the LPs we spoke to felt distressed private equity funds are presenting

Fig. 4: Investors' Intentions for the Proportion of their Private Equity Portfolio Allocated to Asia



Source: Preqin

attractive opportunities in Asia, as the majority of investors feel there are more attractive distressed opportunities in Europe and elsewhere.

Nearly half (48%) of investors prefer to gain exposure via funds that focus solely on Asia, demonstrating the growing focus on investment in the region. As the Asian economies have continued to develop, investors are more confident in gaining exposure to solely Asia-focused funds, as opposed to funds that only include



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Asia as a part of a wider remit and that may only allocate a small amount of capital to the region. However, it is important to recognize that fund of funds vehicles remain a useful method of gaining exposure to the asset class, and more specifically Asia, for some institutional investors. Fund of funds vehicles allow LPs to hold more diverse portfolios of investments through smaller numbers of commitments, and 13% of LPs stated they prefer to gain exposure to Asia through funds of funds. One European investor told us: "If we were bigger we might look at direct funds, but funds of funds are more appropriate for our size."

#### Future Intentions for Private Equity Investment in Asia

During 2012 so far, 35% of the LPs we spoke to have made new commitments to private equity funds focusing on opportunities in Asia, with the region looking set to remain an important part of LPs' investment portfolios over the next year. As shown in Fig. 4, over one-third (34%) of LPs expect to increase their allocation to Asia over the next 12 months, with a further 65% of investors looking to maintain their current level of exposure to the region.

Investors generally agree that in the longer term Asia is likely to continue to be an integral part of their portfolios, with almost half (49%) of the investors we spoke to planning to increase their private equity portfolio allocations to investments in Asia and 45%

intending to maintain their current levels of exposure. As Asian economies continue to develop and the local private equity industry becomes ever more sophisticated, the future will likely see even more interest from investors around the world.

#### Outlook for Asian Private Equity

From our conversations with institutional investors around the world, it is evident that Asia remains an attractive investment proposition for many LPs. In recent years we have seen growing interest in the region, which has been buoyed by the rapid expansion of many Asian economies, the increasing maturity of the local private equity industry, and the recent turmoil that has prevailed in more developed financial markets. In addition, the region now plays host to a number of nascent private equity hubs such as Mumbai and Singapore, which is an encouraging sign for the future development of the Asian private equity industry.

As LPs become more confident and experienced when investing in Asia, the way they access the region will undoubtedly evolve and there will be changes in the countries and regions they will look to gain exposure to. However, should economic growth continue, it is likely that the region will become more and more significant for the private equity asset class as a whole.

#### Data Source:

This article features data from Preqin's interviews with over 100 LPs from around the world with an interest in investing in Asia. The interviews were conducted for the forthcoming [Preqin Special Report: Asian Private Equity](#), an in-depth review of Asia's private equity market due to be released at the end of September.

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