

Private Equity Activity in Asia Slows in 2016 YTD

Fundraising and buyout deal activity falls sharply, but venture capital maintains momentum

Preqin's latest report on the private equity industry in Asia finds that in 2016 YTD there has been a steep decline in activity from the record levels seen in 2015. Fundraising has fallen in all regions, and the aggregate capital raised by Asia-based private equity firms is just \$19bn in 2016 YTD, significantly below the total seen in 2015 (\$47bn). China-based funds, which have long been the driving force behind the private equity market in Asia, have secured \$12bn so far this year, well down on the \$32bn and \$34bn raised in 2014 and 2015 respectively. Similarly, South Asia-based fundraising is yet to surpass \$0.3bn in 2016 YTD, despite raising \$3bn last year. The same trend can be seen in private equity-backed buyout deal activity; aggregate deal value in 2016 so far is just \$12bn, less than a quarter of the record \$52bn deal value recorded in 2015. Deal value in China has seen the biggest decline, from \$31bn in 2015 to \$5bn this year, while in ASEAN countries aggregate deal value has fallen from \$4bn last year to \$0.7bn in 2016.

Although fundraising has fallen, venture capital activity in the region has maintained its momentum. Asia has recorded 2,174 deals so far in 2016, worth a combined \$42bn; this is on course to match the record seen in 2015, when there were 3,651 deals recorded worth a combined \$52bn. Venture capital deal value ASEAN countries has already broken 2015's record, with \$2bn in deals already recorded, up from \$1.4bn last year. China also looks set to maintain its upward trajectory, with the combined value of deals recorded in 2016 YTD (\$36bn) already nearing the all-time high seen in 2015 (\$39bn). By contrast, India has seen a slowdown in activity, with 60 deals announced worth \$3bn, well short of the \$7bn recorded in 2015.

Other Key Private Equity and Venture Capital in Asia Facts:

- **Fundraising Concerns:** In a survey of Asia-based private equity and venture capital firms, **the highest proportion (59%) felt that fundraising was the key challenge facing the industry in the next 12 months.** Additionally, 63% believe that the level of competition for investor assets has increased from 12 months ago.
- **Dry Powder:** **Dry powder held by Asia-based private equity and venture capital firms reached \$110bn in August 2016,** a 15% increase from the \$96bn recorded at the end of 2015. Thirty-two percent of fund managers said that they had noticed an increase in competition for deals compared to 12 months ago.
- **Regional Performance:** Asia-focused funds have experienced more variation in IRR between different vintage years compared to Europe- or North America-focused funds. However, **Asia-focused vehicles also have the highest net IRRs of any geographic focus for funds of each vintage year since 2010.**
- **Investor Universe:** Investors based in Asia constitute 13% of the global private equity and venture capital universe. **China and Japan have the largest proportions of Asia-based investors** (27% and 25% respectively), and together account for 73% of the \$34tn in AUM held by investors in the region.
- **Investor Preferences:** **Half of Asia-based investors see venture capital as currently presenting the best investment opportunities, up from 43% a year ago.** Small to mid-market buyouts, distressed private equity and growth vehicles are all increasingly favoured by investors in the region.

To access further information and analysis, please see the full report below:

<https://www.preqin.com/docs/reports/Preqin-Special-Report-Asian-Private-Equity-&-Venture-Capital-September-2016.pdf>

Comment:

"2016 has so far represented something of a slowdown in activity for the Asian private equity market. Fundraising remains well down on the levels seen in 2015 and buyout deal activity is also struggling for momentum, as the market attempts to recover from the sharp economic downturn in China last year. Venture capital deal activity, however, continues its pattern of rapid expansion and growth in Asia, despite fundraising faltering. China in particular, having long been the powerhouse behind the Asian venture capital industry, looks on course to again exceed its annual record for deal activity, an impressive feat.

Overall, the fundamental question for the private equity industry in Asia is whether it can replicate the levels of capital we have seen distributed to investors from funds in North America and Europe. Fundraising and the exit environment are the biggest key concerns cited by fund managers in the region, which suggests that they understand the industry is at a crux: if it can offer real returns to investors, then Asia stands to win a permanent place in global LPs' portfolios."

Mark O'Hare – Chief Executive, Preqin

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Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q', the company name being an amalgamation of the former name, Private Equity Intelligence.

About Preqin:

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