



David Berchenbriter

## Placement agents go places in Asia Pacific

### Asian funds to fore as credit crunch unrolls

Fundraising has been one of the bright spots of a decidedly mixed year for private equity in 2007. Funds raised for Asia Pacific in particular shone in terms of raising and performance during the year, despite the credit crisis: *AVCJ* Research figures showed fundraising for 2007 topping \$50 billion for the first time at almost \$51 billion, a 23.4% increase on the \$41.2 billion raised for the region in 2006. With so much activity afoot, placement agents naturally saw a strong twelve months that brought their role more than ever into the foreground. *AVCJ* contacted some industry leaders for their prospects on where the business will go in the year ahead.

#### Asia Pacific and investors' attitudes

The placement agent community reports an almost uniformly positive attitude amongst LP clients towards Asia Pacific. Ed Greene, Managing Director in charge of Asia at CP Eaton, puts the case succinctly. "In the next ten years, the Asian alternative market offers a better opportunity for development of alternative funds than the US or Europe."

"The LP interest in Asia overall seems unabated," remarks David Brechenbriter,

Partner at BerchWood Partners. "As the 'financial crisis' continues to play out, it gives investors reason to re-evaluate the overall composition of their portfolios, and to reconsider the risk/returns analysis regarding Asian managers." His fellow partner George Gaines adds that "Asian fundraising is strong and continues to grow with a successive number of record years," and predicts "another record year" in 2008.

"The interest in Asia Pacific is quite strong from the investor base and growing," agrees Mounir Guen, CEO at MVision. He has seen Australia particularly outperform comparable Western markets. "You've got an almost perfect platform. You've got the capital markets, the regulators, the various investment laws, you've got this fantastic platform for execution. Australia has really moved ahead of many markets, including European markets."

"There is a bewildering range of new product coming onto the market," agrees Les Fallick, founding Managing Director at Principle Advisory, noting "many Asian LPs are inexperienced in private equity investing and due diligence."



Ed Greene

However, the picture is not unambiguously rosy. Although Charles Daugherty,

Managing Partner at Stanwich Advisors, maintains that "Asia represents a rich and compelling opportunity for private equity," he acknowledges that "it remains very complicated. There are many countries and very different cultures, legal, accounting systems, capital markets, etc." Peter Desjardins at leading Gulf placement agent Magog & Cie cautions, "in general people continue to like the macronumbers; but the earlier experience (i.e. post-1998, and post-2001), has been negative; and no one has really yet been through a complete cycle."

#### Placements in Asia

Placement agents are certainly finding they have a role in this thriving new market – for GPs and for LPs. For LPs new to a market, a placement agent can be an invaluable door-opener – and a bridge to the wider investor world for new GPs.

Paul Denning, CEO of Denning & Co., sees the activity level in the region creating huge opportunities – and need – for placement. "New GP investors are coming on line every day focusing on opportunities in Asia. There is a tremendous need to identify and qualify those investors."

"As Asia is a relatively new area of investment for many LPs, it is imperative that these 'new' Asia investors be contacted – especially given that LPs who have already made commitments to a

"competing" fund are not necessarily the best prospects," Brechenbriter points out.

"The velocity of change and growth in Asia is seen in the rapidly developing alternative investment landscape," notes Greene. "This addresses both the GP community and the nascent, but broadening, LP investor base." And he adds, "Asia is full of first-time groups looking to launch Fund 1 or 2. As such, the urgency of the aforementioned assistance and guidance we bring is critical."

"The role of a placement agent begins with an understanding of the history and environment over the last ten years in Asia," cautions Daugherty. "There are many GPs that have very limited private equity investing experience. If they were in the business ten years ago, they, most likely, have lost a lot of money."

Gaines sees an immense value add for inexperienced Asian GPs in working with placement agents. "Most Asian GPs have relatively little experience fundraising to American and European institutions – so tailoring and positioning their story for that audience is critical. Also, there are cultural divides,



Mounir Guen

continued >> p11



George Gaines

*p9>> continued* language barriers, time differences and the mundane logistics of organizing an efficient and productive road show."

## Service offerings in the placement business

Placement agents distinguish themselves by a skill set that goes well beyond simple access to funds and capital. "Few people understand the important role that a placement agent brings to both the GPs and the LP community," Greene feels. "There is a perception that the placement agent simply finds money for the GP to invest. That's a gross understatement."

"The basic job of a placement agent is really a service provider," Guen readily admits. "It's an ability to bring an expertise of execution which enables the GP to basically raise the fund that they need. A number of placement agents have a different technique of execution."

"A placement agent that understands the market ... and can help investors to understand the various market drivers, what is required to be successful, what makes a GP 'special,' and their competitive strengths and weaknesses, will stand out," Daugherty maintains.

Denning lists a number of ways whereby placement agents "help position GPs in the marketplace," including: "identifying the most appropriate and compatible prospective investors," then combining these in a "mosaic," pre-marketing the fund through informal meetings and other means, assisting with production and editing of fundraising materials, and

post-marketing services and analysis to support "future fundraising efforts."

"The value-add we provide to the manager begins with our due diligence," notes Brechenbriter. "Most issues likely to surface during the fundraising can be identified before marketing starts."

Fallick articulates the benefits to the new LP community in Asia. "Responsible placement agent can help Asian LPs develop high quality manager selection and due diligence processes. A placement agent can also help Asian LPs form networks with other more experienced LPs internationally."

Daugherty sees diligence on GP teams as essential from the placement agent's point of view. "It is very difficult to pick the GPs who have the strong relevant experience that provides sufficient evidence that they are good at the business. You need to look at the GP's backgrounds and proxies for the necessary skills and experience."

After a placement agent's review, Greene believes, GPs are, "not only prepared to address the issues and questions of a challenging institutional investor market, but at the end of the day, they have sharpened their own internal processes

and controls. They learn a great deal from our vetting and consulting process."

"The GP is our client, but our fundraising experience and LP relationships are our franchise," Gaines concludes. "We serve as an intermediary, not only in terms of introductions, but also in bridging the language gap between the story a GP likes to tell and the information an LP is most interested in hearing."

## The macro environment

The recent record levels of Asian fundraising have occurred in a shifting financial environment that is affecting the placement business as well as private equity per se. "In general, the experienced investors are apprehensive, thus cautious, and very selective," observes Desjardins.

"That favors the brand names, and those GPs that have over the years built viable relationships, and are considered reliable."

"The credit crunch will help sort the sheep from the goats and the wheat from the chaff," Fallick feels. "A credit crunch should be good for quality GPs and smart LPs."

Denning sees the emerging markets as "increasingly attractive," but with some ambivalence. "They are inefficient, highly volatile, and the perceived risk is intolerable for

most – thus the opportunity. Again, experienced placement agents are critical to an investor's success."

"While there has been private equity investing for many years, the opportunities today are very different from what has been available in the past," Daugherty finds. "The roles of venture, growth and buyouts have grown dramatically. New markets have opened in China and India that did not exist ten years ago."

Guen sees shifts in the global LP landscape pushing capital towards Asia. "A number of the older pools of investors in private equity are now quite full in terms of their relationships in the US, and getting...g full in Europe. The gap they have is the rest of the world."

"As the Asian managers' investment pace becomes more 'normal,' there will be an opportunity for managers to develop long-term business and investment models," Brechenbriter believes. "With the IPO window appearing to close in some markets, it will be more difficult for managers to achieve exits through the public equity markets, at least in the short term."

"A lot of money has been raised. There will be a shakeout," concludes Daugherty. "The discipline required in Asia is no different than what is required anywhere else." - PSM/SY



Paul Denning



Les Fallick