

Asia Private Equity: Identifying Opportunities in Disrupted Markets



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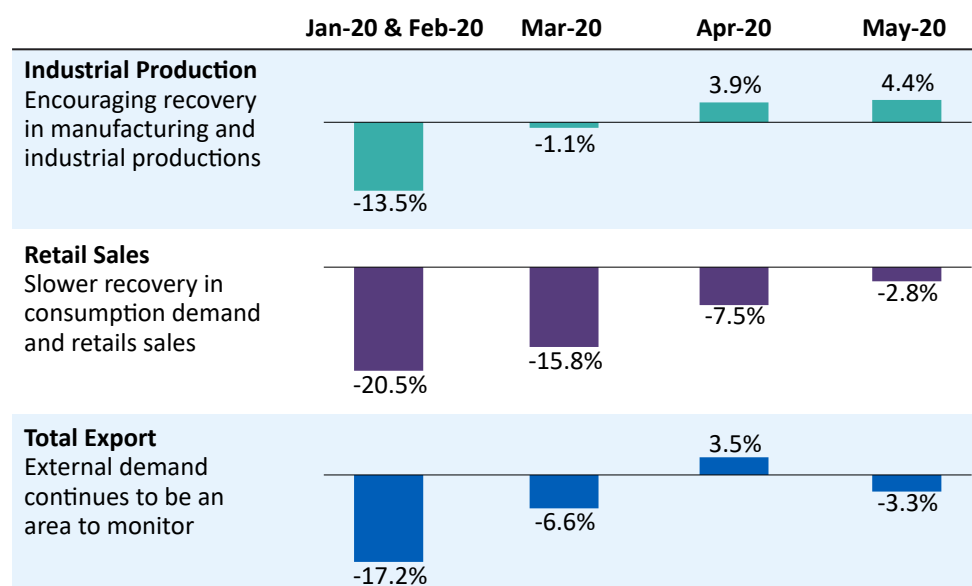
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Given that the COVID-19 pandemic arrived earlier in Asia, investors are understandably interested in how Asian markets are faring today, and whether private market opportunities are appearing on the horizon.

Our perspective at Adams Street Partners is that, while economic and investment activity was at a standstill during the first quarter, economies in many Asian countries are now opening up. We believe there is cause for cautious optimism that the pandemic may be under control in many Asian countries, which is encouraging for economic recovery and private market investments.

We do see investment opportunities resuming, although the market is far from monolithic and investors should carefully examine opportunities on a country-by-country and sector-by-sector basis. Consider the following selected monthly indicators of year-over-year growth rates in China.

Monthly Indicator YoY Growth¹



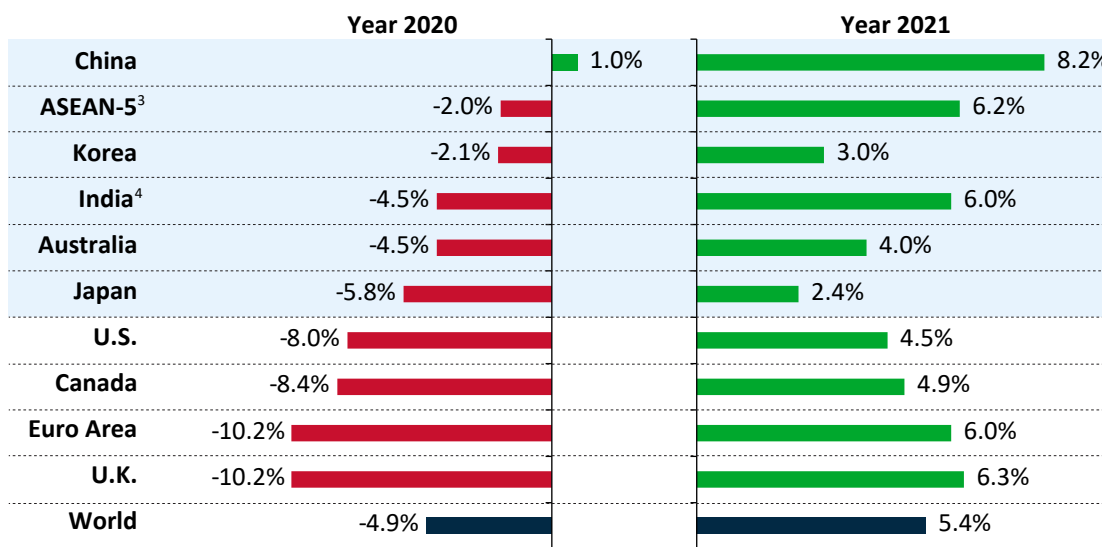
- We are seeing a strong recovery in the **industrial and manufacturing space**. Industrial production growth turned positive in April and continued to improve in May, versus the same periods last year.
- **Retail sales** are still declining, although the downward slope is less sharp. Domestic consumption was hit hard and is recovering slowly, mainly due to weakness in offline consumer services and brick-and-mortar retail. One bright spot we see is e-commerce, where many of Adams Street's portfolio companies operate, and which has maintained positive year-on-year growth and has been gaining ground during the pandemic.
- Looking at **exports**, we see that external demand is sending a mixed signal. The shutdown of China's domestic manufacturing capacity severely impacted exports in early 2020. The market bounced back in April as domestic production resumed, but declined again in May as overseas markets shifted to lockdown. June numbers are showing a return to positive year-on-year growth, but we believe this space could still have some volatility, depending on overseas markets' recovery.

If we look at the bigger regional and global picture, and the potential path of economic recovery as estimated by the IMF in the chart below, we see that many countries in Asia are expected to deliver stronger growth in 2020 and 2021; China is even projected to deliver positive growth this year. The IMF estimates that emerging nations in Southeast Asia and India are also expected to grow relatively faster than other parts of the world.



IMF's Real GDP Growth Forecast²

(as of June 2020)



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Fundraising and Investments

With respect to the Asia private equity market, we expect GPs' fundraising timelines to be prolonged. At the onset of the pandemic, many LPs were focused on assessing the impact on their portfolios, so committing new capital was not a top priority. In addition, as due diligence moves from physical interactions to video conferences, we expect that not all LPs will be comfortable with the virtual due diligence process. Having a local office and boots on the ground can make a difference. In China, for example, our Beijing colleagues can meet with GPs face to face. We think the limitations on due diligence will result in investors gravitating toward more established franchises and existing relationships. For Adams Street as an investor, the positive takeaway from this trend is that the reduced capital supply will mean less market competition and potentially more attractive investments.

The market's overall investment pace slowed down in the first half of 2020. We saw that deals continued to take place even during the lockdown, but on a very selective basis involving market leaders, high-quality companies, and defensive assets. Two recent notable examples were Jio Platforms, Reliance Industries' digital unit based in India, and Yuanfudao, an online education company based in China. We expect the investment pace of Asia's private equity market to pick up in the second half of 2020 and into 2021, as Asian economies continue to see recovery. In particular, we expect investment activity to pick up sooner in China, which we observed through our China co-investment flow recently.



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Exits and Liquidity

As one might expect, new exit events slowed materially in the first half of this year. However, we did continue to see distributions from some listed portfolio companies. Many tech and healthcare stocks had a particularly good run in the second quarter and our fund managers took advantage of the public market rebound to take money off the table.

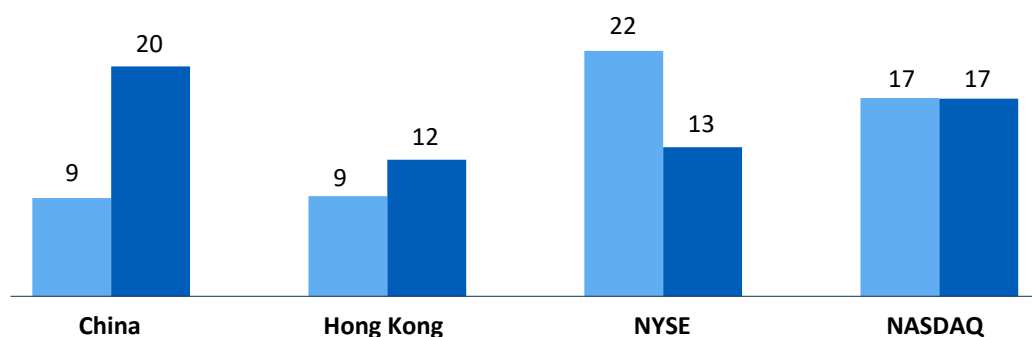
IPO activity, particularly in China and Hong Kong, was also very strong during the first half of this year. The two stock exchanges in China, Shanghai and Shenzhen, raised more than twice as much capital compared to the same period last year. China and Hong Kong's combined fundraising volume is now comparable to what the NYSE and NASDAQ raised in first half of 2020. Both the Hong Kong Stock Exchange and Shanghai Stock Exchange reformed their listing rules so that more technology and healthcare / biotech companies are eligible for IPOs. The Shenzhen Stock Exchange recently made similar reforms, and we expect the listing process to be easier and faster.

IPO Fundraising Amount by Stock Exchange⁵

(US\$ bn)

1H2019

1H2020



Conclusion: Selective Opportunities

Taking all of these factors into account, we remain cautious and vigilant in the short-to-medium term. COVID-19 looks likely to be coexisting with us for an extended period of time, which may lead to economies opening up and locking down again. We expect recovery in the physical economy will continue to face challenges, and company earnings might remain volatile.



There are several implications on our short-to-medium term investment strategies:

- First, we expect to see a “flight to quality” trend in the private market in this uncertain environment, as we have seen a similar trend already occur in the public market. We believe that top-tier managers should continue to be oversubscribed and high-quality companies should have few problems raising capital, but others may not fare as well. If capital raises remain relatively slow and market competition is reduced, we expect that there will be attractive opportunities to invest in select, best-in-class Asian managers and companies.
- Second, we continue to favor businesses focused on domestic markets. The pandemic has had a major impact on global trade, on top of the continuing trade frictions between countries, so we expect that businesses relying on import and export may face headwinds. Fortunately, given the large population in Asian countries, many companies have sizeable domestic markets.
- Third, we feel opportunistic investments and dislocation opportunities remain attractive, including secondary opportunities, PIPE and take-privates, and distressed and special situations.

In the long-term, we remain very positive on private equity opportunities in Asia. Just as private equity investments generally performed well after the Great Financial Crisis, we expect PE will continue to outperform other asset classes, and the 2020-2021 vintages are likely to be favorable for investors. ■

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1. Source: National Bureau of Statistics of China, retrieved on July 9, 2020. January and February data was published by the National Bureau of Statistics of China on a combined basis.
2. IMF, World Economic Outlook June 2020 Update.
3. ASEAN-5 refers to Indonesia, Malaysia, Philippines, Thailand, and Vietnam.
4. For India, data and forecasts are presented on a fiscal year basis which is from April 1 to March 31.
5. Source: Wind, Dealogic, CICC, as of June 30, 2020. China IPO based on online issuance date; Hong Kong IPO based on pricing date; NYSE/NASDAQ IPO based on listing date. China IPO amount includes all domestic stock exchanges, and converted to US\$ based on an FX rate of US\$:CNY=7.1

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