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152. HEDGEWORK FEBRUAR 2018 ALEX LEE & CHRIS LOH, AXIOM ASIA PRIVATE CAPITAL

„Investors will see the merits of investing in Asian private equity“

Alex Lee und Chris Loh, Private-Equity-Spezialisten von Axiom Asia Private Capital, beschreiben anlässlich des 152. Hedgeworks die Vorteile von PE-Investments in Asien und warum diese den effektivsten Zugangsweg darstellen, um an der «Wachstumsstory Asien» bestmöglich zu partizipieren.



Alex Lee

ist seit 2009 als Managing Partner für Axiom Asia tätig und verfügt über 17 Jahre Private-Equity-Erfahrung in Asien. Er leitet den Bereich Sekundärinvestitionen bei Axiom und ist darüber hinaus für Primärinvestitionen in Japan, Südostasien und Australien zuständig. Vor seiner Zeit bei Axiom Asia war Alex bei Collier Capital. Er hält einen Bachelor in Chemieingenieurwesen sowie einen Mastertitel in Business und in Finanzen.

Axiom Asia Private Capital

ist eine unabhängige Fondsverwaltungsgesellschaft, die sich auf Investitionen im asiatisch-pazifischen Raum konzentriert. Axiom Asia wurde 2006 gegründet und verwaltet derzeit vier Private-Equity-Dachfonds mit einem Gesamtvolumen von über 3,5 Milliarden US-Dollar. Axiom bietet Anlegern Zugang zu erstklassigen, auf Asien fokussierten Private-Equity-Fonds, die über Buyout, Wachstum und Risikokapital diversifiziert sind.

Zu den Investoren von Axiom Asia zählen Stiftungen, Family Offices, Pensionskassen und Finanzinstitute auf der ganzen Welt.

HEDGEWORK: Mr. Lee, Mr. Loh, could you please first of all give a brief background on Axiom and its roots?

CHRIS LOH: *Axiom started over a decade ago with an exclusive focus on investing in Asian private equity. Today we have one of the largest and most experienced teams on the ground comprised of “born and bred” locals covering this diverse market. Currently we manage four private equity funds-of-funds with US\$3.6 billion under management.*

HEDGEWORK: You have teamed up with POLARIS to broaden your reach in Germany and some other European countries. Do you already have investors in Germany?

ALEX LEE: *About 1/3 of our investor base is European and Germany is very much a core LP market for us. Our German investors include a number of public and private pensions as well as family offices.*

HEDGEWORK: What has changed in Asia over the past decade from a perspective of a dedicated Private Equity Fund-of-Fund like Axiom?

LOH: *Asia has seen tremendous growth in the past ten years. China’s economy alone has grown by four times over the last decade and today Asia is home to five “trillion-dollar economies”. As a consequence, we have seen the Asian PE market expand and mature greatly with many highly experienced fund managers raising funds.*

HEDGEWORK: Let’s speak about risks a bit more specifically, how do you assess and mitigate political-, macro- and FX-risks?

LEE: *Our investors are getting a lot of exposure to developed economies like Japan, Australia and Korea, where we see the risk levels as being very similar to Europe’s. That said, we believe vintage and geographic diversification is critical in mitigating such risks. Investing across a diverse range of countries allows investors to mitigate currency changes from uncorrelated swings in currencies across the portfolio over time. From a fund-of-funds perspective, we are committing over a three-year vintage horizon and our underlying funds are investing over a similar three-year horizon, therefore our exposure is really layered in over five to six years.*

HEDGEWORK: Why should an investor not just buy listed equity in order to participate in the Asian growth story?

LOH: *Firstly, private equity returns have consistently outperformed public equity returns in Asia. Secondly, if you drill down into the sector makeup of Asian public indices you will find that these tend to have significant weightings to large state-owned enterprises (SOEs) in industries such as Finance, Oil and Gas, and Construction. High growth sectors that benefit directly from the consumption upgrade such as Consumer, Information Technology and Healthcare, feature far more prominently in private equity portfolios compared with public market portfolio.*

HEDGEWORK: How about small cap equities?

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LOH: Asian smaller companies typically trade at a significant discount (in terms of price-to-book) compared to their larger cap peers. A lack of liquidity in a lot of the names also means that trading large positions can be problematic. Besides this, sentiment and momentum have an outsized impact on their performance and share price movements can more often than not be disconnected from company fundamentals. Corporate governance issues and lack of resources to do extensive due diligence may be another reason why some investors choose to avoid cherry picking small cap equities.

HEDGEWORK: From looking at the market data, it seems that investors don't really get paid for growth, let alone the additional currency or political risks? So why should investors consider to allocate to Asian PE?

LEE: When investors say they don't get paid for growth, they are referring to data from funds that are at least ten years old and have been through a full cycle. These funds were raised when the Asian PE market was still very young. Investors took chances on managers who were relatively inexperienced. As a result, many weaker teams were funded and went on to produce poor results, dragging down median returns in Asia. On the other hand, you couldn't raise a fund in the US or Europe unless you had a solid track record. So, when we compare median returns in Asia to median returns in the US or Europe, we are comparing apples to oranges. But even in those early days, there were already a crop of strong managers in Asia. From the 2006 vintage, the top 5% of managers in the US and Europe returned 2.5x and 2.0x respectively, whereas the top 5% of managers in Asia outperformed both, returning in excess of 4.2x on a net basis (according to Cambridge Associates Q2 2017 data). Today there are hundreds of fund managers in Asia with established track records, so it will be harder for those with no track record to raise funds. Going forward, I believe the data will look different and more investors will see the merits of investing in Asian private equity.

HEDGEWORK: What is the value add of a dedicated Asian PE FoF-Provider? Couldn't investors do it themselves by buying a few of the largest, established single PE funds in the region?

LEE: Within the investable universe for private equity in Asia, there are well over 800 distinct active fund managers. This is defined as fund managers who have raised at least one Asia-focused fund within the past three years. Given the complex and disparate markets in Asia, an investor who does not have a deep knowledge of the fund manager landscape would find it quite challenging to pick top performers. The better funds in Asia are often oversubscribed, possibly when they are only in their second or third fundraising. Since inception, Axiom has been proactively identifying top-tier emerging funds and we've built a reputation in the market for becoming anchor investors in those funds before they become highly sought-after. This helps us secure meaningful allocations to oversubscribed funds. From our own experience, secondaries and co-investments have also been significant contributors to our performance. This requires local presence, a large team, domain knowledge and scale to be treated as a preferred buyer or co-investor. A serious investor focused on building a portfolio of the best managers in Asia would benefit from pooling these resources.

HEDGEWORK: What is the role of Venture Capital (VC) in your portfolios and in how far is VC in Asia different to US or Europe if at all?

LOH: A staggering statistic we came across is that over the next seven years, 88% of the next billion people to enter the middle class will be from Asia. That's 880 million more people that are going to buying the iPhone 20! This rising middle class is precisely why Venture Capital is a critical component of our portfolio. Outside of the US, China has clearly emerged as the next largest center of innovation and we are seeing a rise in innovative entrepreneurs building new companies to tap into the increasingly affluent Asian consumer. VC in Asia refers more to early-stage growth opportunities that are focused on scaling proven or promising business models which is fundamentally different from VC in the West which tends to be more focused on technology risk. We at Axiom are feeling very excited to be living in Asia now and looking for the next batch of innovative startups.

Das Interview führte Ronny Kohl

„Private equity returns have consistently outperformed public equity returns in Asia.“



Chris Loh

ist ebenfalls seit 2009 für Axiom Asia als Managing Partner tätig und verfügt über 17 Jahre Private-Equity-Erfahrung in Asien. Er verantwortet Axioms Fondsinvestitionen in Indien sowie Risikokapitalinvestitionen in ganz Asien. Vor seiner Zeit bei Axiom Asia war Chris bei GIC SI beschäftigt. Er hält einen Bachelor in Elektrotechnikwesen sowie einen Master in Business und in Elektrotechnik.

Die POLARIS Investment Advisory AG

ist ein strategischer Partner von Axiom Asia und übernimmt in dieser Funktion die Kundenbetreuung institutioneller Investoren in Deutschland und der Schweiz. POLARIS ist auf alternative Anlagestrategien im Bereich Liquid Alternatives und Privatmarktanlagen spezialisiert.

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