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LP insights: Asia

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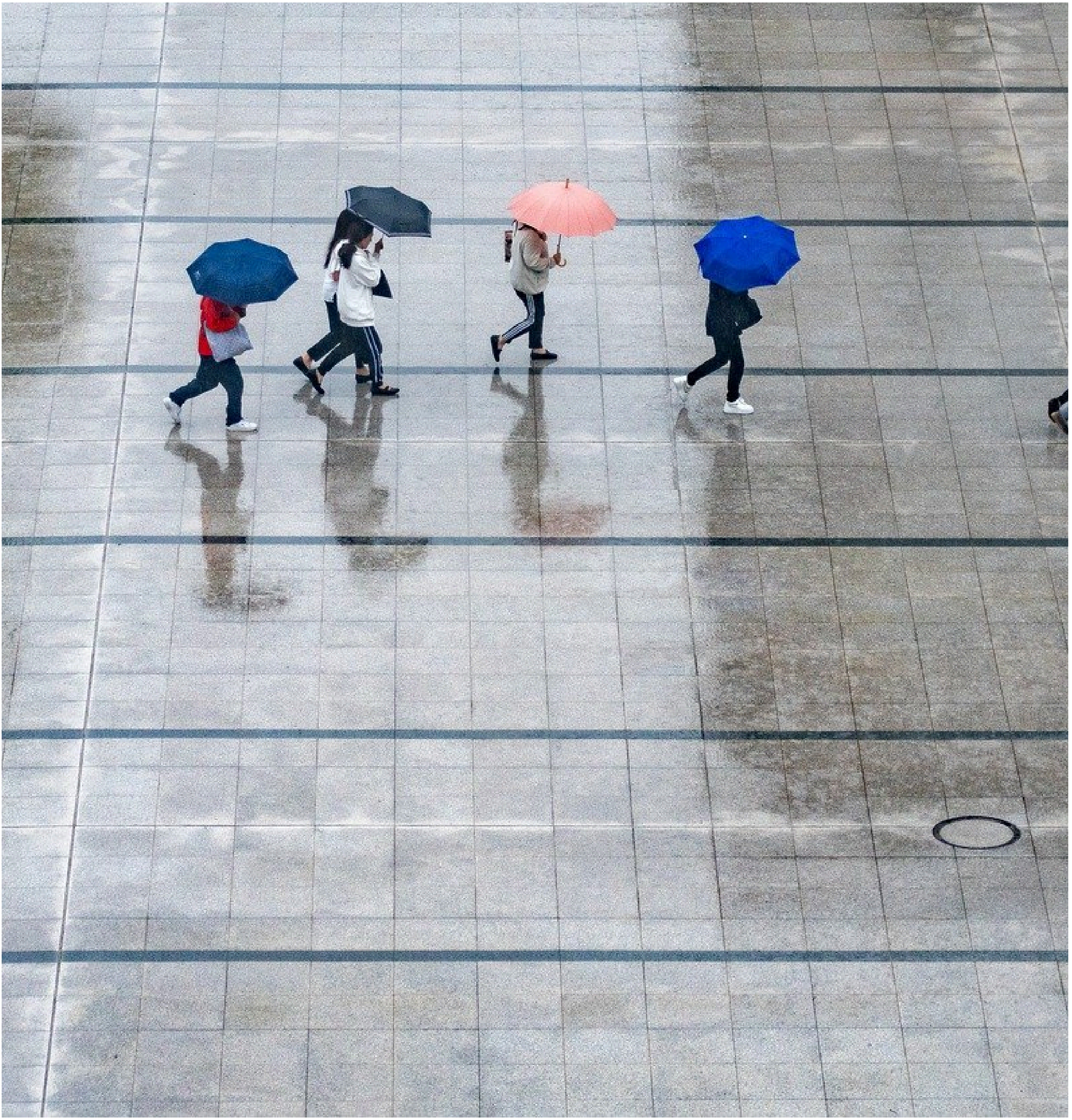
What are the opportunities for climate tech in Asia?



Climate tech

The Asian continent will be disproportionately affected by climate change, yet investment flows to the sector in the region remain low. What will it take to dial this up?

As temperatures rise faster in Asia than the global average, with record-breaking heatwaves across the region in April 2024, it's clear that the continent is already bearing the brunt of climate change. Yet scientists predict that there will be worse to come, with more intense typhoons and extreme rainfall in some areas, while droughts will become more common in others. The financial and social costs of these events are immense.

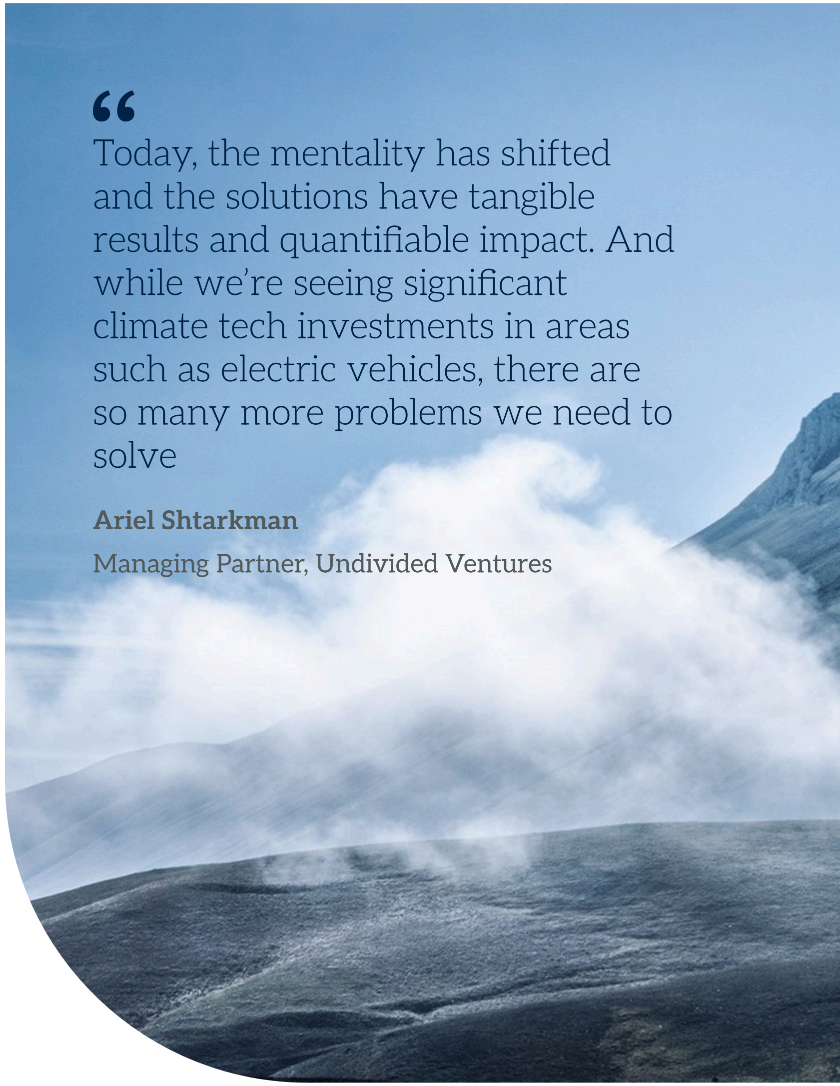
Yet Asia Pacific lags the US and Europe when it comes to investment in climate technology companies. "At around $90bn, the forecast total invested in climate tech ventures in 2024 is expected to exceed 2023 levels," says Jasandra Nyker, Managing Partner of Saja Climate Partners. "Yet the lion's share of that is being invested in the US and Europe. By contrast, climate tech investment in Asia is still in its infancy with pent-up demand. The market is growing, but it's still quite small – only $1.6bn is being deployed in Asia."

And, while this means there is significant opportunity for growth in years to come, there is still a long way to go. So where are GPs and LPs finding opportunity in Asia? And how will the sector scale up to attract more investment and generate more impact?

It really is different this time. Some investors with long memories may still be shying away from any opportunity with the "climate tech" badge. After all, nearly half of the $25bn of capital invested by clean tech funds formed between 2006 and 2011 was either lost or impaired, according to Cambridge Associates estimates.

Many investments didn't deliver on sustainability goals either. "I wasn't in the space then, but 15 years ago, there was a lot of hype and solutions that sounded great, but their impact on a sustainability front was limited at best," says Ariel Shtarkman, Managing Partner of Undivided Ventures. But, she adds, things have changed a lot since then.

"Today, the mentality has shifted and the solutions have tangible results and quantifiable impact. And while we're seeing significant climate tech investments in areas such as electric vehicles, there are so many more problems we need to solve. Our sector – the built environment – is responsible for 40% of carbon dioxide emissions globally. We need to address this challenge, and there is a tremendous opportunity for outsized returns while addressing this challenge via investing in the most innovative solutions."



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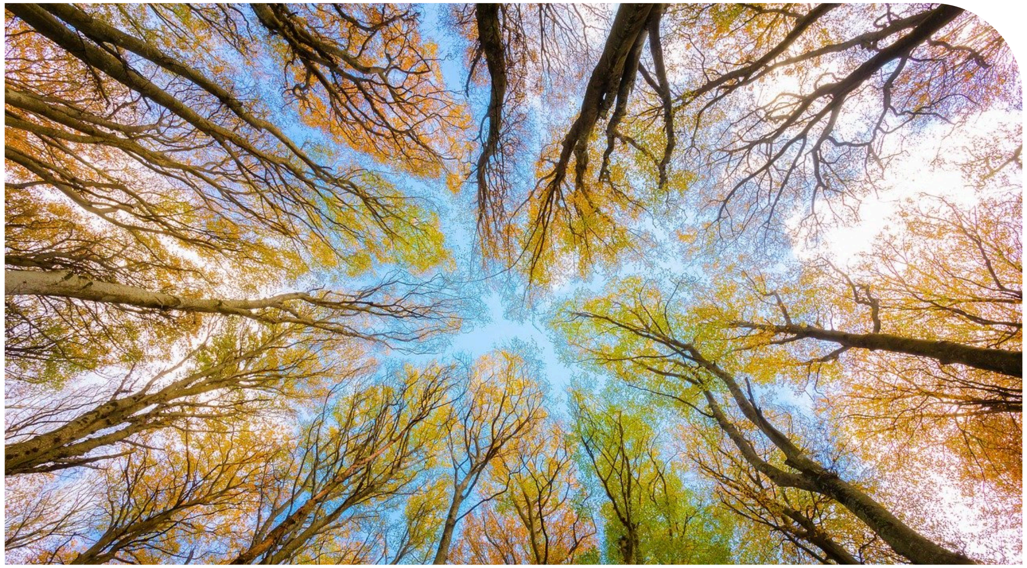
> Managing Partner, Undivided Ventures

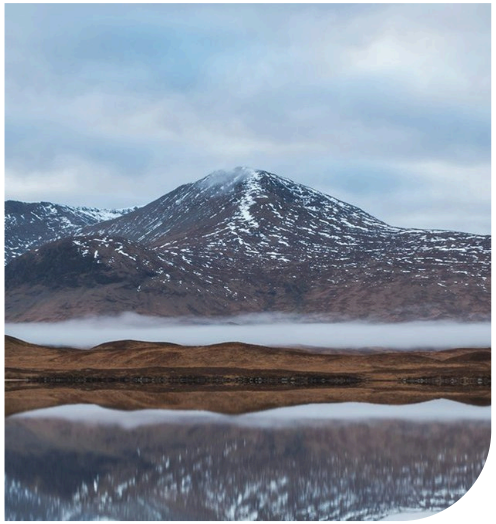


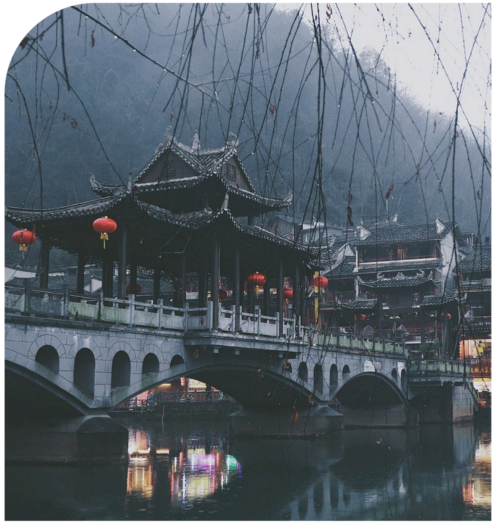
Large, local investors are helping to build out the climate tech sector in Asia. Temasek, for example, sees sustainability as vital for creating long-term portfolio resilience and value creation.

Climate tech investments support its ambition to reduce the net carbon emissions attributable to its portfolio to half their 2010 levels by 2030, with the ambition to achieve net zero by 2050, according to Eliza Foo, Director of Impact Investing at Temasek.

"We all have to play our part in investing our capital to make a difference or we won't have a world to invest in," she says. "Many climate technologies are still quite early in development, and it will take time to bring them to scale. We have a part to play in helping to build the ecosystem.

At Temasek, we have a range of partnerships to support this, including with Breakthrough Energy Fellows to set up its Southeast Asia Fellows Programme, and with the National University of Singapore to set up the Centre for Hydrogen Innovations." Temasek has also recently announced a commitment to set aside $100 million of concessional capital for climate action, aimed at supporting marginally bankable climate action projects in Asia through its community gifts.





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Eliza Foo,

Director of Impact Investing, Temasek

Early-stage companies need support to scale. The response to climate change lies not just in renewable energy project deployment but requires several enabling plug-in technologies, according to former IFC Regional Lead for Disruptive Technologies in South Asia, Ruchira Shukla, who is now Managing Partner and Co-Founder of Synapses.

“Renewables are part of the answer, but the world’s energy mix has only moved towards renewables by 2% in the past two decades,” she says. “That’s despite large-scale renewable capacity additions, as the overall global energy needs continue to compound. We also need engineering-led and deep science-based innovations to enable the transition at scale, and investments in new materials, new battery chemistries, circular economy models that deliver waste to value, more efficient motors, heat exchangers, smart EV components and climate-smart agriculture solutions.”

“We have a venture fund, a seed fund and an incubation programme to support the development of these STEM-led inventions and solutions through the lifecycle. We take product risk in the incubation programme and the seed fund, and only invest from the venture fund when the pipeline investees are commercially ready and have high quality, early revenue. That derisks the business from a product perspective, but it also shortens the time to exit for the venture fund.”

He points to an example in Vietnam. “We’ve invested in a textile company here that makes polyester using 50% recycled plastics,” he says. “It has been doing this for 10 years and it’s not cutting-edge technology, but we’re now seeing big brands become customers as they seek to improve the sustainability of their own products.”

The range of climate tech is vast. From creating solutions that prevent battery fires, cooling and heat exchange, and electric two and three-wheeled mopeds, through to carbon capture and green hydrogen, there is a huge array of technology and innovation for investors to select from. Temasek, for example, estimates that there is an annual $330bn investment opportunity in climate mitigation and adaptation in emerging markets alone. “We have to activate all pathways,” says Foo. “Otherwise, we won’t meet any of our ambitions by 2030 or 2050. That means building renewable energy and improving energy efficiency at a faster pace as well as using more innovative technologies, such as AI for advanced monitoring control systems and even bi-directional charging. We should also tap emerging technologies, including carbon capture, sustainable hydrogen and use nuclear energy. These are game changers.”

Partnerships and engagement will be vital. “We need to be bold and innovative,” says Foo. “To scale solutions, we have to test different business models and partner with think tanks, DFIs, philanthropic organisations, foundations and more to achieve solutions. We all need to work together to share ideas, knowledge, innovation and financing to find the right solutions and reach our goals.”

“The climate change challenge is large, urgent and it hits everybody,” adds Shukla. “No nation can solve it alone and no nation can be left behind. We need collaboration. If innovations solve problems in India, they may solve the same problems in Europe, the US or Africa, so there needs to be a lot of cross-pollination of ideas between organisations and countries.”

DPI or die?

How are LPs focus on DPI shifting?

As exits have slowed, a lack of distributions has been causing LPs some serious headaches. It's no wonder that so many are now focusing on returned capital in their discussions with GPs. But is this having unintended consequences?

There is no doubt that liquidity has been in short supply in private markets over the past two years. Deployment in private equity has clearly slowed since the massive run-up to 2021 and 2022, when buyout houses globally invested $2.3trn and $1.8trn, respectively, (versus $1.4trn in 2023), according to PitchBook figures.

Yet the downturn in exits has been much sharper: in 2021, private equity firms realised $1.7trn; in 2023, this had fallen to $744bn. Venture capital is in a similar position. All this translates into a lot of capital stuck in the system, LPs facing capital calls they may struggle to meet, and fundraising becoming a tougher slog than usual.

It's hardly surprising, then, that LPs have focused on distributions to paid in capital (DPI) over recent years when talking to existing and prospective GPs. But has the pendulum now swung too far? And could this be skewing incentives and behaviour among some GPs? Here are some perspectives from both sides of the LP-GP camp.

The shift to DPI could be here to stay. "DPI isn't new – Howard Marks wrote the famous line that 'you can't eat IRR' 20 years ago," says Christoph Landolt, Investment Manager at Multiplicity Partners.

"That's exactly what's happening now. You have these fantastic paper IRR gains, but investors are not getting any money back, so perceptions are changing. IRR becomes relevant in more mature funds when investors have received a lot of capital back, but for a younger fund with low DPI, IRR isn't relevant. It's all paper gains based on what can be subjective valuations, even if the auditor does say they are true and fair. Investors need to cover their capital calls, after all."

It's a question of balance. "The venture capital market was heated in the period to the end of 2022 and there are now a lot of stranded assets," says Pamela Fung, Partner at Morgan Stanley Private Equity Solutions.

"LPs are now chasing down for DPI, which puts GPs in a difficult position. If you have a great asset, it's capital efficient and it's still growing, it might be a sub-optimal time to sell right now as you may not achieve a great price, but the pressure is on. GPs need to be given the discretion to manage that, but in the current environment, it may be hard to strike the right balance."

> With LPs focusing on DPI, GPs are being asked to focus on exits
>
> Weichou Su, Partner, StepStone Group

But GPs need to be open with their investors. "With LPs focusing on DPI, GPs are being asked to focus on exits," says Weichou Su, Partner at StepStone Group. "Yet we have to be realistic: it's a challenging environment and so they won't be able to realise investment immediately. However, they can be transparent and keep communication open. GPs need to come forward and own what's happened rather than keeping quiet."

Be careful of what's left in the portfolio. "I think the way the conversation is going around DPI is problematic," says Joel Sandhu, Partner at TTA Capital & Investors Capital.

"It's great that it is focusing GPs' attention on exits, but there is a danger that what's happening is giving a false sense of security to investors. We see some great headline exits from our portfolio from 2020 to 2022

investments, but there is a sense that some GPs are selling the stars because they have to show something to their LPs.

My fear is that there may be fundamental problems in the rest of the portfolio, where companies are perhaps struggling. DPI is important, but it's more helpful to look at the entire fund portfolio, the value creation and where the companies are marked."

Overall fund performance still matters. "DPI is important, but IRR is still the number one metric," says Liam Coppinger, Head of Private Equity Asia at Manulife Investment Management.

"If you decide to do the work on assessing a manager, you have to evaluate the source and the quality of the DPI as well as the quality and outlook of the remaining assets. There may be positions that you want to hold longer because they're compounding winners. GPs need to be focused on managing the fund because fund-level returns are what matters. All too often, I find that managers talk to us about specific deals rather than fund performance, even though that's what we care about."

History serves as a useful lesson. "Private equity managers are extraordinarily creative and resilient," says Michael Barzyk, Global Head of Private Equity at Allstate Investments.

"If we wind back the tape a decade or so, the hot issue wasn't DPI, it was net IRR. So what happened? Subscription lines of credit went from 30 days to 360 days, which artificially increased IRRs to satisfy LPs.

In today's environment, NAV loans and continuation vehicles are the equivalent of that – LPs are asking for money back and these mechanisms appease investors. The point is that not all DPI is created equally. The way I view it is as a kind of hierarchy: NAV loans are lower quality DPI than continuation vehicles, which are lower quality than secondary buyouts, which are lower quality than trade sales."

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Building for returns

Spotlight on portfolio construction

In today's volatile world, building resilient portfolios has never been more important in private markets, given their long-term investment horizons. So how are LPs going about this?

Given differing objectives and risk tolerance, there are almost as many approaches to constructing a private markets portfolio as there are LPs. But with the recent liquidity squeeze, higher interest rate environment and rise in geopolitical tensions, what are some of the broad trends in the ways LPs are navigating volatility when deciding how and where to allocate their capital?

Diversification – to a point

Some aspects remain constant, precisely because private markets are long-term, usually blind pool, investments. And for many, consistent pacing is a north star in portfolio construction.

"Data tells us that vintage year is among the most statistically significant factors correlated with fund level alpha, so vintage year diversification is key to our portfolio construction," says Michael Barzyk, Global Head of Private Equity at Allstate Investments.

"I would be remiss to reduce private equity exposure or deployment during more challenging or uncertain times because how would we know ex-ante that these are not going to be among the best vintage years?"

Naturally, other forms of diversification are also important, especially when it comes to some of Asia's smaller markets or sector exposure, to avoid concentration risk, as Barzyk explains.

"We are seeking to fund the best ideas, but we also have to look at how adding a manager will affect our overall portfolio," he says. "So, if we had, say, three of the best technology managers coming to market and we already had a 40% concentration in software, that might not be the best idea for our portfolio. We try to think holistically when selecting managers."

Liam Coppinger, Head of Private Equity Asia at Manulife Investment Management, takes a similar approach. "For our general account, we aim to match our Asian assets to our Asian liabilities, so our programme is pan-Asian," he says.

"We never want to be too excited or too disappointed with any one market, so we look at our exposure on a quarterly basis and determine whether we should be adding to certain markets or sectors or whether we already have sufficient coverage and exposure. Then, when we look at adding managers, we ask why we are going to add them and what they will give us. For example, do we need more exposure in Southeast Asia or in the healthcare sector or are we just adding more of the same? Then, we also need to decide if we want to add a new manager or just scale up with an existing one."

Yet, in a market where the dispersion of outcomes is so high, over-diversification is a sure-fire way of diluting returns, as Meiping Yap, Director – Private Capital at Stonehage Fleming, explains.

"Portfolio diversification is vital. We don't want to do concentrated bets on specific themes, but we also don't believe in over-diversifying because then you are just buying the private equity index," she says.

Settling on the right segments

After a period of heady returns, when increasing multiples and low-cost leverage flattered many managers' track records, LPs are today seeking out areas where true value creation will drive returns.

"For us, it's less about what the individual manager can do, and more about the overall portfolio," explains Joel Sandhu, Partner, TTA Capital & Investors Capital. "So we focus on operational capabilities because that's where the outperformance comes from. There is nothing special about buying a private company – you have to be able to grow the business, increase its revenue. Multiple arbitrage supported by leverage may have driven returns for 10 to 15 years, but these days, we have to be convinced that managers are taking action to grow EBITDA and revenues."

And these opportunities, says Yap, can be found in the mid-market buyout and growth spaces. "Private equity is such a broad market, so it's really important that we focus on the market segments that are truly going to outperform through the cycle and provide attractive illiquidity premia to our investors," she explains.

"In our view, that's mid-market buyouts and growth equity globally because these managers can deliver outperformance through the entire investment value chain – buying at below market multiples, driving returns through operational growth and exiting through multiple routes."

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Joel Sandhu Partner, TTA Capital & Investors Capital

It's also about what you don’t do

While most LPs are following a consistent path in investment pacing and determining the outperforming areas, the more volatile conditions we see today are making investors tread more carefully in certain areas where they perceive higher risk.

“We do make tactical adjustments to our portfolio that are informed by the wider macro picture, including fundraising and DPI levels,” says Barzyk. “This has meant that we have de-emphasised Asia - and China especially – over the past three years. That’s not a permanent shift, but a tactical move in response to underlying macro and geopolitical factors. However, we are still keen to engage with Asian managers because what we hear about the region in the US may not be a true representation of what’s happening on the ground.”

Yap is similarly cautious about the region, albeit because of longer term trends and specific characteristics of Asia’s markets. “We have been investing in Asia since the early 2000s, but we take a measured approach to allocation as the band of outcomes is so large – you can either knock it out of the park or you can significantly underperform,” she says.

“There are FX swings, greater uncertainty on exit windows, geopolitical risk and many other factors. We don’t allocate to Asia for the sake of portfolio diversification, so our Asian managers really need to outperform their US or European counterparts – something we’ve achieved, given our long history of investing in the region.”

Liquidity matters

While liquidity at some point has always been important, the slowdown in exits in many markets and a lack of distributions is causing a headache among many LPs today as funding capital calls and making new investments to maintain vintage year diversification becomes more challenging. Routes to early liquidity are therefore at the forefront of many investors' portfolio construction plans today.

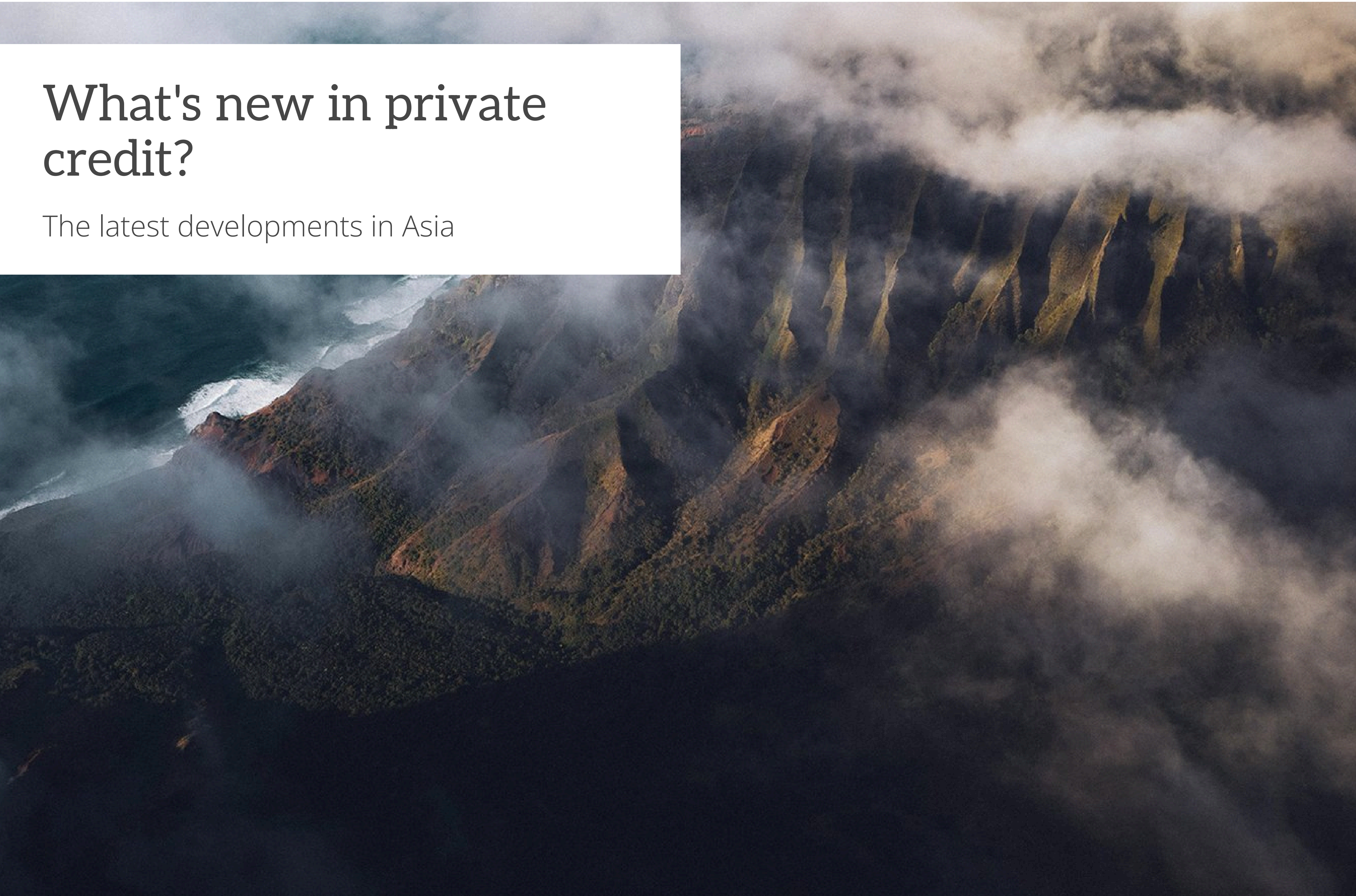
It's something family offices have always had to factor in. "We pace ourselves through the cycle," says Yap. "Our families give us an equal commitment every year so that, by around years seven or eight, the programme becomes self-funding."

Exposure to private credit is another way of achieving this. "We start from the question of why we are in the business of investing for the family, and the answer to that is that they want to preserve capital and protect it from inflation, while also being able to draw down capital," says Tuck Meng Yee, CIO, JRT Partners. "Investment pacing is important, but we have to factor in the need for some liquidity, particularly when we have the kinds of issue we see today with DPI more extended than expected. So we have 30% in liquid assets, but we have also built exposure to private credit as a relatively liquid, shorter duration cash flow stream."

Kerrine Koh, Head of Southeast Asia at Hamilton Lane agrees. "We build portfolios that take into account the desired level of returns, the risk investors can withstand and any liquidity requirements they may have," she says. "Many of our investors look for an element of liquidity and for these, we'd design a private markets portfolio that would have around 20% to 30% private credit, perhaps more tilted towards the performing or origination side as opposed to distressed or opportunistic because of that need for liquidity."

What's new in private credit?

The latest developments in Asia

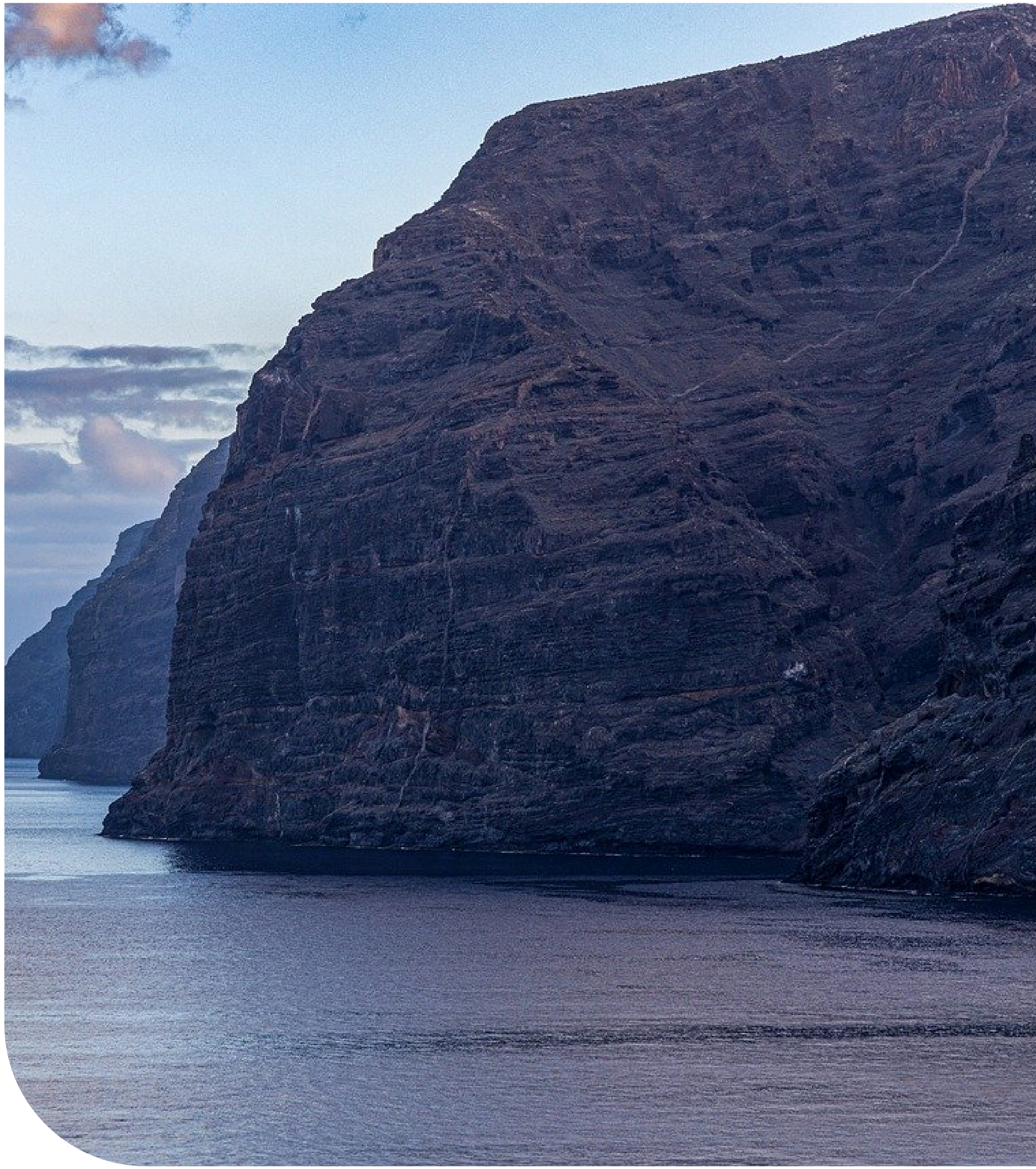


The prospect of lowering interest rates has done little to dampen investor enthusiasm for private credit, but how is the market evolving as average fund sizes continue to creep up? And how is Asia's private credit scene developing?

The higher interest rate environment of the past two years and further retrenchment of the banks from more areas of lending has led many to claim that we're in a golden age for private credit. The asset class grew rapidly in the decade to 2023, with firms raising ever-larger funds and institutional investors increasingly making direct investments.

Fundraising fell in 2023 and 2024 from the highs of the previous two years, but the scale of this decline has been far smaller in private credit than for its cousin, private equity. Yet, like many other areas of private markets, capital is increasingly concentrated among larger funds, with average fund sizes at $1.5bn for those reaching a close in Q2 2024, according to Preqin data. The market is also highly concentrated in the US and Europe, while Asian private credit funds raised just $1bn of the $50.4bn global total for the second quarter of 2024.

So how will lowering interest rates affect the market? And will we see more defaults as we move further through the current cycle? GPs and LPs offer their views on private credit trends.



Junior debt is getting more attention, even though investors allocate largely to senior debt.

"Junior debt had a tough time as a financing solution from 2010 to 2020 when interest rates were low," says Leo Fletcher-Smith, Head of European Private Credit Strategy at Aksia. In the mid-market in particular, low rates meant you could have heavily levered senior structures with thick equity cushions. Now we're in a different world. You can't lever senior structures to the same extent, and you have to have non-cash pay, intermediate tranches as a tool to bridge between senior debt and equity. The last time we saw this was in pre-GFC capital structures."

In the second quarter of 2024, 88% of private debt capital raised went to senior debt strategies, according to Preqin – and that, says Raheman Meghji, CIO of DB Investment Partners, presents an opportunity.

"Private credit spread is determined by supply and demand," he says. "If you consider that most investors are allocating more capital to senior direct lending strategies, there is less going into junior debt. That means, regardless of interest rates, if you're able to structure and create good deals where risk is managed well, you should be able to generate a 400 to 600 basis points premium in junior or structured equity strategies versus senior debt."

Defaults may not rise, but that doesn't mean capital won't be lost.

This is partly to do with funds needing to keep their LPs on side, according to Fletcher-Smith. "Reported defaults going forward definitely will not tell the whole story," he says. "That's because if you have a debt structure where there's one lender and one borrower and something goes wrong, the last thing the lender wants to do is declare a default because it will have to tell its LPs. So we'll see lenders amending structures to preserve the optics of a pristine track record."

It's also to do with looser terms, such as cov-lite. "You're going to see fewer defaults than you would have in the past because documentation standards have evolved," says Antoine Lourtau, Partner at Park Square Capital. "But recovery rates will also be lower because, by the time a company defaults, it will be too late. The only thing that is going to protect you is credit selection."

Asia's credit markets are different from those in the US – and that doesn't necessarily mean more risky.

"If you look at private credit from a regional perspective, many investors would say there are certain markets in Asia where you would expect a premium over US and European markets," says Meghji.

"But that only takes into consideration a broad brush risk-return calculation. Actually, when you dig in and you look at the protections you have in Asian deals, the type of LTV, the leverage in absolute terms, they look very interesting. We see very few deals in Asia with an apples-to-apples comparison with European credit because a business that is financed at five to six times in Europe will only get three to four times in Asia."

A managing director at a private credit fund agrees. "Asia's opportunity set is not deep, but it's pretty wide," he says.

"You can still find a lot of value compared with the US market and you're typically getting 150 to 100 basis points of premium, without taking that much more risk because the quality of documentation in Asia is significantly better than what you typically see in the US.

You get personal guarantees in addition to assets and cash flows. You can lend to companies that are quasi-investment-grade and get a similar return to a true middle market company in the US, but with lower leverage levels and much better protections."

Private credit is now a broad asset class

“Investors need to think of private credit as a spectrum,” says Meghji. “It's not a discrete component of the capital structure. Private credit spans everything from bank lending to private equity. So pick where you want to be in that spectrum. It’s also much broader than corporate direct lending. It includes real estate lending and asset-based finance, and much beyond these. Private credit finances anything; it's just that it's being done in the private market.”

...and that makes selection and diversification more possible.

“At the top end of the market, there are too many players and too much money chasing deals,” says Jae Yoon, CIO and Chairman of NYLIM. “That means covenants get lighter – something that will become relevant later in the cycle, when we’re likely to see recovery rates come down. Investors also need to be aware that mega-funds often do deals together, so if you have a portfolio of just large managers, you may end up concentrated in the same deals across different funds. All this makes it important for investors to diversify when building out a private credit portfolio – by manager, strategy and place in the capital structure.”

The status report

An update on private markets

On private versus public markets

“The whole idea of private markets no longer makes sense. The markets are evolving quickly and we’re seeing a blurring of public and private markets. In private debt, we are seeing the banks pull back and that will continue. We’ve seen that in direct lending, but it’s now happening in asset-based finance. All this means that the investable universe of public and private fixed income securities is growing dramatically, so the players who can only do private or public are not going to find it easy in that environment.”

David Hunt, President & CEO, PGIM

On venture capital risk and returns

“If, as an LP, your private equity strategy is giving you 15% to 20% net, your hope would be that venture investments would be delivering north of that to reflect the higher risk. Yet in reality, many VC funds don’t meet their preferred return hurdle. The problem is that many investors believed in the promise of investing in companies that would reach $1bn valuations; but they failed to look at the maths of what that would do to a fund portfolio. If you’re taking a sub-5% stake of a company in a $100m Series A round, and the company does get to a billion, that’s a $50m outcome and it doesn’t move the needle on a fund. Add to that, high valuations and a lack of capital efficiency in many of the companies backed, and I think many LPs may find that their private equity outperforms their venture capital portfolio.”

Pamela Fung, Partner, Morgan Stanley Private Equity Solutions

On GP platform expansion

"Many GPs are expanding into new strategies on the back of strong performance. These platforms make a lot of sense because they can bring, say, deep domain knowledge to different segments of the market and have economies of scale and synergies. As an LP, we must assess each strategy on a case-by-case basis. This ensures that the new strategy is additive and where their expertise is visible, that team incentives are appropriate, and that overall alignment remains intact, because it's a very different proposition from a GP that is focused on single strategy."

Sunil Mishra, Partner, Adams Street Partners

On the LP-GP relationship

"Many people don't realise that a venture capital fund has a longer lifespan than most marriages in the US. You have to treat LP-GP relationships with that level of respect. There needs to be open communication about any issues and be transparent with valuations, how you're arriving at them and what you're comparing them with. GPs need to update LPs regularly and work through any problems together – they're married for at least 10 years, after all."

Ali Fancy, Partner, Cento Ventures

On four big trends in private markets to 2030

"Private markets in 2030 will look quite different, driven by four main trends. The first is that private markets will represent between 12% and 15% of client portfolios, up from 10% today, so from $13tn today to between $17tn and $20tn. The second is we think that infrastructure and private credit will be the fastest growers, increasing from 20% today to around 30% of private markets allocations. Third, a small set of very capable global asset managers, who can serve clients' needs across their whole portfolios, will capture most of the growth in private markets. And fourth, the fog of private markets will continue to give way to transparency, consistency and standardisation as investment in data ramps up."

Mark Wiedman, Head of the Global Client Business, BlackRock

The regional round up

What's the word on the street in some of Asia's most important markets?

Japan

A market that has held promise for many years, Japan is finally having its moment as economic and corporate governance reforms are taking root. "Things have fundamentally changed in Japan over the past few years," says David Hunt, President & CEO of PGIM.

"We are now seeing price and wage increases, corporates are focusing much more on governance and the country has made significant progress in bringing more women in to the workforce to help deal with its ageing demographic profile. There is a lot of hype about the market currently and I think some of that has got ahead of itself, but Japan is one of the big beneficiaries of geopolitical tensions – many companies are using Japan now as a base for their Asian operations."

These shifts are also now being felt in the country's private equity market as businesses become more open to the industry's approaches. Among the deals often cited as examples of private equity's acceptance in the country is the 2023 $15bn take-private of conglomerate Toshiba.

"Japan is coming of age," says Sunil Mishra, Partner Adams Street Partners. "Its economy is large, but it has historically had cultural sensitivities around private equity. That is now changing as deals such as Toshiba have got over the line – that was a defining moment for the industry there. I'm excited about Japan – there is a growing depth and sophistication of GPs there."

And there are plenty more of these kinds of deals – along with succession transactions, given Japan's ageing population – as the Tokyo Stock Exchange (TSE) has undertaken reforms, including requiring publicly-listed companies to form a plan to ensure their market value is greater than their book value.

"Take-privates will fuel the supply of deals in Japan," Jun Tsusaka, CEO and CIO of NSSK. "There are around 4,000 public companies on the TSE and 3,000 of them are trading at less than $1bn and more than 30% trading under book value. These companies may not have research coverage, and many have limited public float and low market values. As a result, many are looking at whether they really should be public, given the TSE's reforms and activist investor pressure."

India

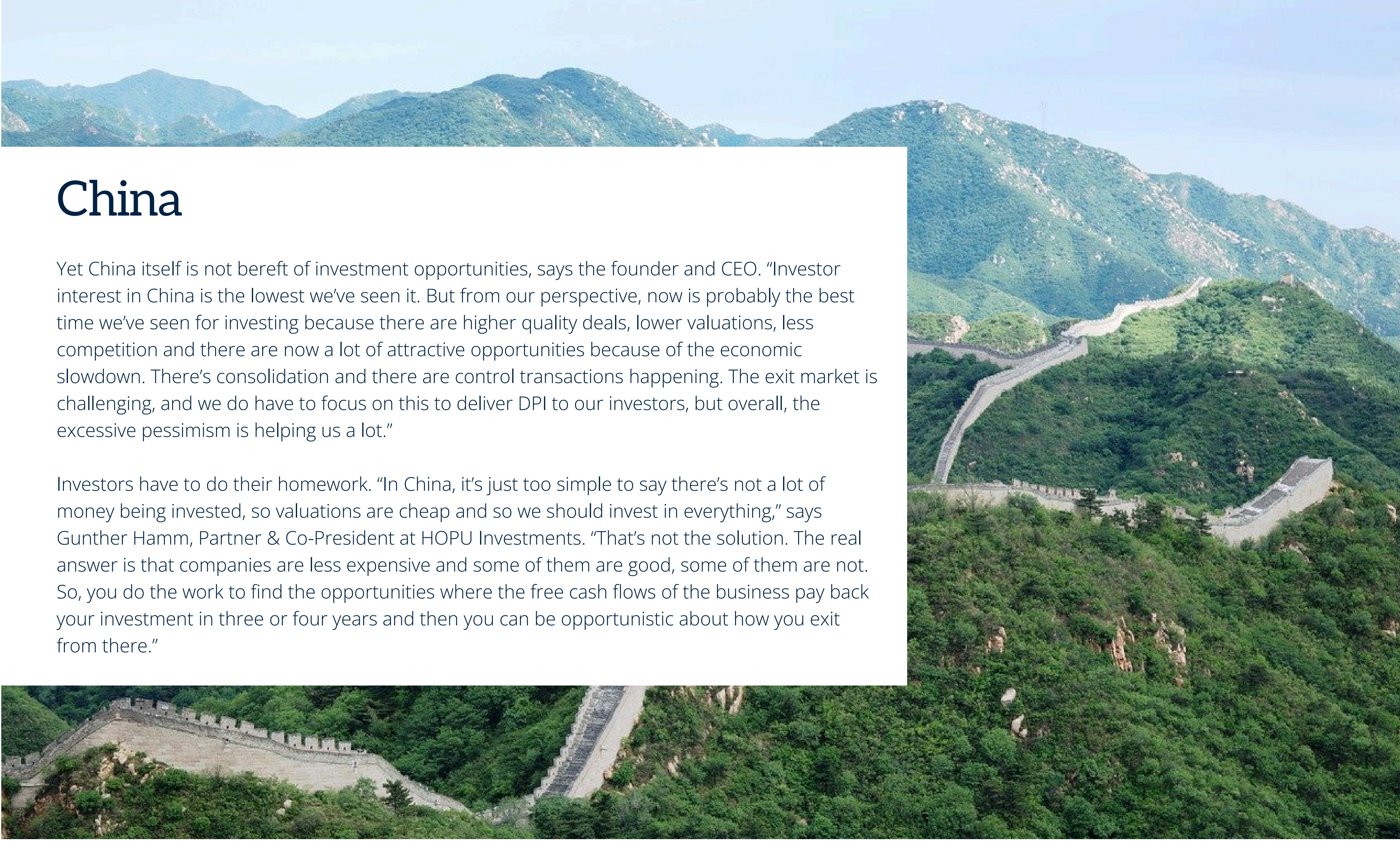
India is getting a lot of attention right now. And the reasons, according to Amit Dalmia, Senior Managing Director at Blackstone, are clear. "In India, there is a lot of momentum, which is driven by the three Ds – demographic dividend, digitalisation and democracy," he says. "Also, India's scale is reflected in number four, five, six – the fourth largest public market, fifth largest economy and 6%-plus real GDP growth."

And, while exits were challenging a few years ago, many believe things have changed dramatically. "Five years ago, very few in India would have said that IPO was an exit option for a venture-backed company," says Surya Mantha, Managing Partner, Capria. "Today, the stock market has deepened, Indian participation is higher than foreign participation and it offers terrific liquidity – it's the fourth largest in the world. There is excess and irrational exuberance, but this will sort itself out in the short term. Over the medium to long term, IPO has become a viable and a credible option for venture-backed companies."

South East Asia

Southeast Asia was already growing, but China's reset over recent years has boosted the region's prospects further. "The China-plus-one story has favoured Southeast Asia more than any other part of the world," says Nicholas Bloy, Co-Founder & Managing Partner at Navis Capital Partners. "The region has an industrial ecosystem that is half the size of, but comparable to, that of China. It has the same kind of precision engineering, complex manufacturing capability. So, we're seeing exports from Malaysia up by about 12% because supply chain managers are saying they need an alternative to China for their sophisticated electronics, for example. It's not easy to exit as the public markets have not yet fully woken up, but the multinational buyers, who were absent from the market for a couple of years, are now starting to return."

And it's not just industries such as electronics that are benefiting from geopolitical tensions or some of China's economic policies. "China's cost containment programme is having a serious impact on companies," says a private equity firm founder and CEO. "Pricing of health products, for example, is among the lowest in the world – so, a well known cancer drug in China costs about 5% of the US price. Chinese companies are therefore thinking about where they can look outward for growth with relatively little geopolitical risk, so many are looking at setting up manufacturing in Southeast Asia."



China

Yet China itself is not bereft of investment opportunities, says the founder and CEO. "Investor interest in China is the lowest we've seen it. But from our perspective, now is probably the best time we've seen for investing because there are higher quality deals, lower valuations, less competition and there are now a lot of attractive opportunities because of the economic slowdown. There's consolidation and there are control transactions happening. The exit market is challenging, and we do have to focus on this to deliver DPI to our investors, but overall, the excessive pessimism is helping us a lot."

Investors have to do their homework. "In China, it's just too simple to say there's not a lot of money being invested, so valuations are cheap and so we should invest in everything," says Gunther Hamm, Partner & Co-President at HOPU Investments. "That's not the solution. The real answer is that companies are less expensive and some of them are good, some of them are not. So, you do the work to find the opportunities where the free cash flows of the business pay back your investment in three or four years and then you can be opportunistic about how you exit from there."

Australia

One of the region's more mature markets, Australia is seeing some outsized successes in software, according to John Henderson, General Partner at Airtree Ventures. Counterintuitively, that's a natural consequence of being far from other markets and having a population that numbers just 26 million people.

"Two obstacles – geographic isolation and a small population – have turned into advantages for Australian software companies," he says. "Ambitious entrepreneurs, realising that they can't generate venture returns from a business servicing just the Australian market, know that they have to go for global markets almost from day one. They have come up with highly efficient go-to-market models that they can sell from their Australian base because they have to fly thousands of miles to get to other markets. They are capital-efficient and they become large companies in a short timeframe."

There are also plenty of opportunities for more mature businesses. "There are between 60,000 and 65,000 small and medium-sized enterprises in Australia and if we assume that up to 15,000 of these are actionable opportunities, that's quite a deep pool," says Simon Feiglin, Managing Partner at Riverside Asia Partners. "Many of these are owned by the baby boom generation and we can work with them to help find solutions that they can't do on their own – they can't access the public markets and Australia is under-serviced for capital, so for firms with capital, there are some great opportunities."

Korea

Home to trends that have swept the world, such as K-pop and K-beauty, Korea's dynamism today is unique, with many companies able to grow rapidly in their domestic market even before targeting international expansion.

"Korean consumers are very tech-savvy, fast adopters and open to innovation, all of which sits on top of the latest IT infrastructure," says a director at a corporate investor. "This means that B2C companies in Korea can scale successfully even in a market with just around 50 million people."

This growth is supported by government policies and investments that fund innovation. "The Korean government recognises that startups are a vital engine for the economy and so the government fund has invested around $1.5bn this year alone as an LP in VC funds in Korea and globally," says Yeojung Moon, Senior Managing Director, IMM Investment. "It can be a smart investment strategy to follow the Korean government's money and policies. There are also open innovation efforts, where companies such as Samsung, LG and HMG are actively investing in Korean startups and providing strategic support for founders to go global. So it can also be smart to follow these corporate investors."

Yet investing is only part of the story – and here Korea has a secret sauce, says Moon.

"Korea has a specialised public markets track for startups in areas such as healthcare and deep tech – this is for companies that are not yet profitable, but growing fast – and there are high trading volumes in this market," she says. "It also has a lot of secondary funds for start-ups. As a result, unlike the US, where the venture capital fund cycle is around 10 to 12 years, in Korea, it is shorter at about seven to 10 years. That means venture funds in Korea have a good ecosystem for liquidity."

Yet all this does come at a price. "Valuations are clearly higher in Korea than many other markets," says the corporate investor director. "Sometimes that may be justified, sometimes not, but it is linked to the fact that there is a clear path to exit for Korean companies – most of the time it's IPO. As an investor, we have to assess the returns and whether there is comfort that an exit and return will be there."

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