

SPOTLIGHT

ASIA PACIFIC

This year marks the 20th anniversary of HarbourVest's on-the-ground presence in Asia Pacific, which began with our Hong Kong office opening in 1996. Together with our newer offices in Beijing, Seoul, and Tokyo, we provide investors in the region access to more than 60 country funds and new managers, as well as secondary and co-investment opportunities. During those two decades, we have committed more than \$4 billion in capital to locally based businesses. As Hong Kong-based Managing Director Hemal Mirani pointed out in her presentation at HarbourVest's May annual meeting, the anniversary coincides with a strong rise in demand for private equity investments in the region. The following is a summary of her remarks.

REGIONAL TRENDS

The private equity business across Asia Pacific has grown and matured alongside the region's dynamic economy, which has seen a culture of entrepreneurship and start-ups spread rapidly. Passive minority investments of the pre-2000 days are giving way to more controlled investments, while global managers are increasingly competing with regional and local managers.

While China's powerhouse economy has shifted into a lower gear, its size and vibrancy still make it the envy of most countries. Today, China is the biggest e-commerce market in the world due in large part to the growth of local companies. Similarly, the rapid rate of digital adoption across other countries in Southeast Asia – including India, Indonesia, and the Philippines – is spurring new investment.

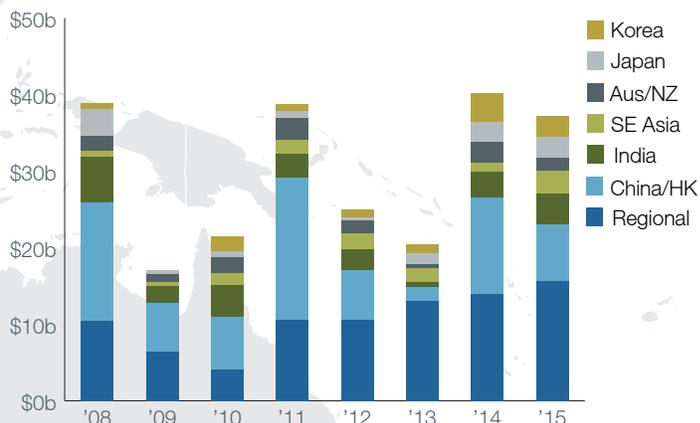
Australia, meanwhile, continues to boast one of the most resilient, developed economies in Asia Pacific as it has not experienced a recession in more than two decades and has achieved real GDP growth rate of 3.3% per year during that time. Momentum in the country's service sector (business and consumer services, education, healthcare, and transportation) is expected to continue over the next few years and generate attractive investment opportunities.

“On a global basis, Asia Pacific is the fastest-growing private equity market in the world.” – Hemal Mirani

2015 HIGHLIGHTS

On a global basis, Asia Pacific is the fastest-growing private equity market in the world. Global fundraising has more than doubled over the last 10 years, and the region generated \$37 billion in 2015 – just shy of its record-high set in 2014. Regional funds have steadily grown in popularity, accounting for the greatest share of capital raised over the past four years. By country, China was the lead engine (20% of the total), followed by India and Southeast Asia.

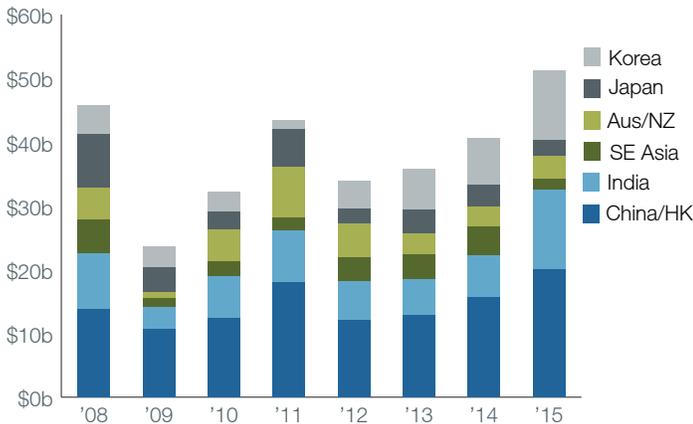
CHART 1: PRIVATE EQUITY FUNDS RAISED



Source: AVCJ, APER, EMPEA, supplemented by HarbourVest analysis of other activity in the market; China data excludes RMB funds

In terms of investment activity, Asia Pacific reached an all-time high of \$51 billion last year – an increase of 28% from 2014 – with deals valued at over \$1 billion dominating certain key markets, and strong co-investment activity reflecting investor appetite. China was home to most of the activity (40%), while India (24%) and Korea (21%) were active markets as well. The mobile/internet, consumer, retail, healthcare, and financial services sectors attracted much of the investment in China, while consumption and services drove deal flow in India.

CHART 2: TRANSACTION VALUE BY REGION



Source: AVCJ, APER, EMPEA, supplemented by HarbourVest analysis of other activity in the market; excludes investments by sovereign wealth funds, RMB funds and other non-PE financial investors.

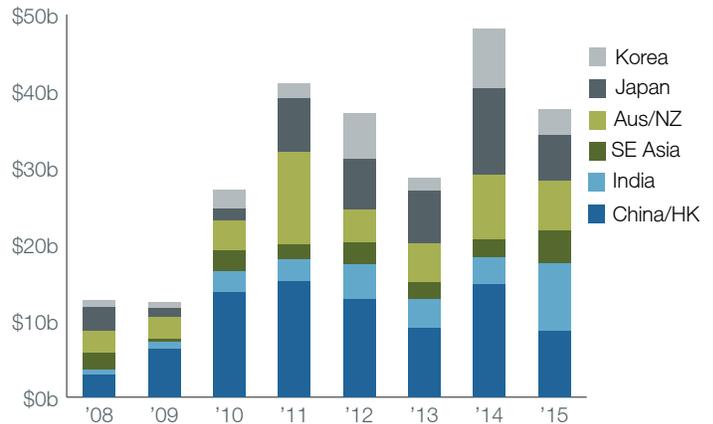
The internet’s domination of deal activity was one of the bigger themes across Asia Pacific in 2015. As a percentage of investment cost, internet-related deals grew from 25% during the three-year period ending in 2014 to 48% – with consumer deals also showing a healthy increase (11% to 16%). In contrast, deals focused on financials, industrials, and services contracted.

In terms of deal pricing, Asia Pacific remains cheaper than the U.S. and Europe with a notable bifurcation of the market. Over the past three years, deal multiples have ratcheted up from 9.4x to 12.3x in developing “growth markets,” and have fallen from 8.3x to 7.6x in developed, buyout-focused markets.

Liquidity generation fell to \$37.6 billion in 2015, slightly behind 2014 levels. At \$8.8 billion, India more than doubled its overall exit value from the previous year and edged just above China. Trade sales continued to be robust in the developed markets (e.g., Australia, Japan, and Korea).

“As digital technology increasingly defines the daily routine of middle-class Asians, companies offering internet solutions are rapidly gaining in popularity.” – Hemal Mirani

CHART 3: PRIVATE EQUITY-BACKED EXITS



Source: AVCJ, APER, EMPEA, supplemented by HarbourVest analysis of other activity in the market. Past performance is no guarantee of future returns. Includes IPO, Other Public Market, Trade Sale and Secondary exits; Excludes venture-backed IPOs

OUTLOOK

Going forward, the future for Asia Pacific looks bright. By 2025, the region will be home to 4 billion people, with important shifts in spending patterns and behaviors. Demographic changes, increases in discretionary income, and new consumption patterns will continue to boost growth. An evolving economic model in China, growth in the emerging markets of Southeast Asia and India, and continued stability in the developed markets of Asia should provide compelling investment opportunities.