

Fourth Quarter 2020

OPPORTUNITIES IN TRANSITION

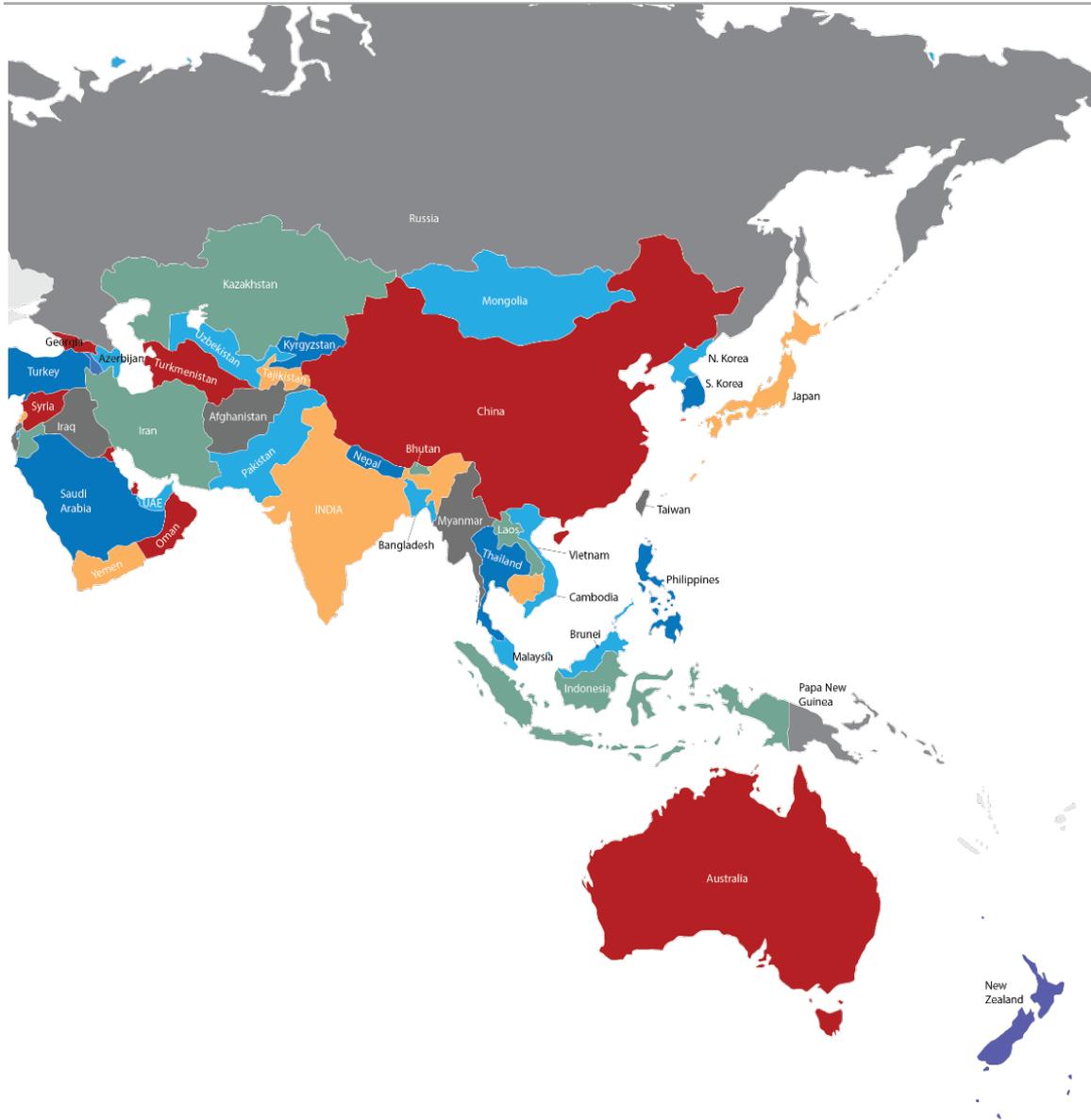
An Overview of the Asian Private Equity Market

EXECUTIVE SUMMARY

- For more than a decade, above average real GDP growth rates fueled interest from private equity investors in Asia.
 - Since 2013, Asian-focused private equity funds have raised more than \$900 billion (USD).¹
 - Greater China, India, Japan, and Korea collectively accounted for roughly 80% of aggregate capital raised since 2012. Only China and India expect 2021 GDP growth above 6.0%.²
- Venture and Growth Equity dominate Asian PE fundraising...
 - During 2019, roughly 77% of aggregate capital raised was for venture and growth equity strategies.¹
 - “Local giants” from Baidu, Alibaba, Tencent (BAT) to Toutiao, Meituan, Didi, Xiaomi (TMD+X) and now PDD, Kuaishou, Qutoutiao (PKQ) are increasing their influence.
 - They have sponsored a number of funds and independent management teams to complement in-house corporate venture activities.
- ...however, larger growth investors are evolving to pursue traditional leveraged buyouts (LBOs) where they can drive restructuring and operational value creation.
 - Firms include PAG Asia, Baring Asia, MBK, TPG Asia, CVC Asia, CITIC Capital, and more.
 - As the market matures, expect to see more sector focused or corporate team spinouts (e.g., Hosen Capital, Lilly Asia Ventures, Ince Capital).
- As of June 2019, dry powder available to Asia-focused managers sits at more than \$400 billion (USD).³

Data Sources: ¹Asia Venture Capital Journal (AVCJ); ² International Monetary Fund (IMF) World Economic Outlook (October 2020); ³ Preqin, Bain & Company
Note: Gross domestic product (GDP); Private Equity (PE)

EXECUTIVE SUMMARY: ASIA BACKGROUND



- Asia is home to more than 4.5 billion people, or approximately 60% of the world's total population.
- Asia is comprised of ~50 economies including China, India, South Korea, and Japan.
- IMF estimates aggregate GDP of Asian economies is more than \$40 trillion, roughly 30% of global GDP.
- Asia's GDP growth rate continues to outpace other emerging market peers in Latin America and MENA.

Data Sources: UBS, International Monetary Fund (IMF) World Economic Outlook (October 2020), Fund Evaluation Group (FEG)
Note: Gross domestic product (GDP) based on purchasing-power-parity (PPP); Latin American (LatAm); Middle East and North Africa (MENA)

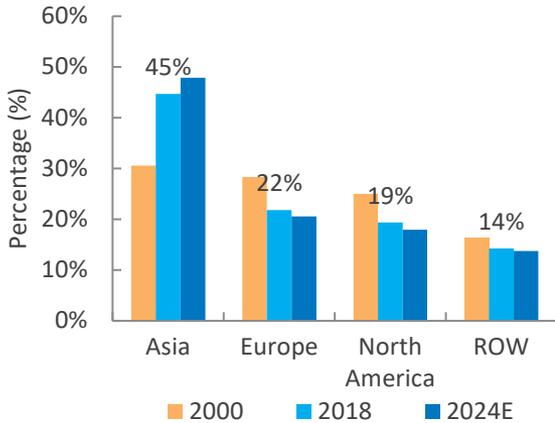
EXECUTIVE SUMMARY (CONT.)

- Recent LP concerns regarding heightened geopolitical risks, a global pandemic, trade disputes, and slower growth have negatively impacted capital allocation to Asia.
 - Investors continue to be highly selective about the GPs.
 - Capital was concentrated among larger “brand name” funds; many that were well oversubscribed.
- Competitive deal making environment led to higher valuations compared to other global markets.
 - Public market multiples in China, Hong Kong, Japan, and India are up.
 - Series C and later stage entry valuations have seen a significant uptick in valuations.
- Though largely unrealized, median returns for recent Asian-focused private equity funds have been attractive.
 - Net internal rate of return (IRR) and total value to paid-in (TVPI) have outperformed Europe.
 - Despite improvement, median distribution to paid-in (DPI) ratio continues to lag.
- Asian private equity landscape is massive and dynamic.
 - There are more than 800 private equity firms targeting opportunities across the region.
 - Turnover is a concern as economics tend to be concentrated among senior team members.
 - Prior to 2020, emerging managers and corporate team spinouts were prevalent.
- Asia should be considered a core PE market, but investors should be selective with commitments.
 - Focus on countries well positioned for continued economic growth and economic stability.
 - Target managers with clear competitive advantage (e.g., sourcing, value-creation, joint ventures).
 - Be mindful of portfolio construction. Don’t consider Asia as a “satellite”.

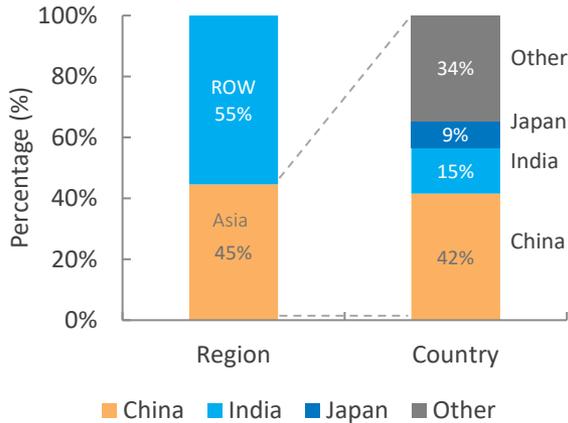
MACROECONOMIC OVERVIEW

Select Economic Development Indicators

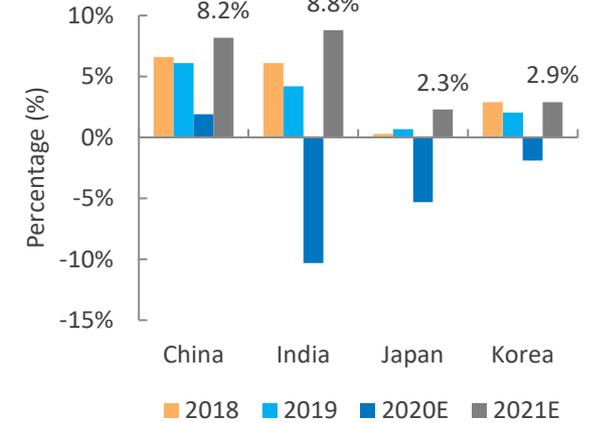
GDP Distribution by Region¹



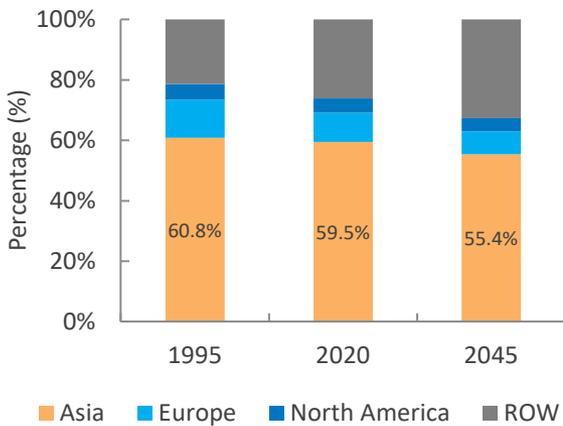
GDP Distribution by Country¹



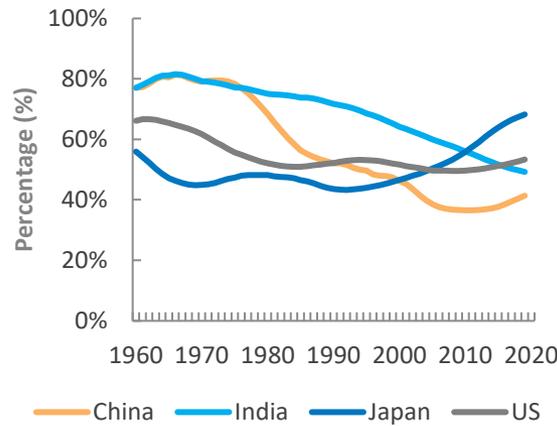
Real GDP Growth Rate^{1,2}



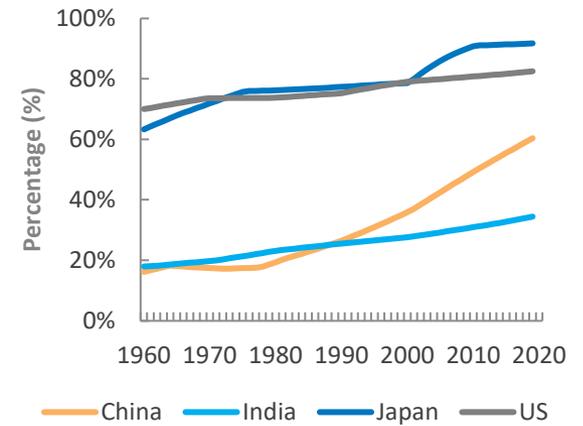
Global Population³



Dependency Ratio^{4,5}



Urbanization Rate^{4,5}

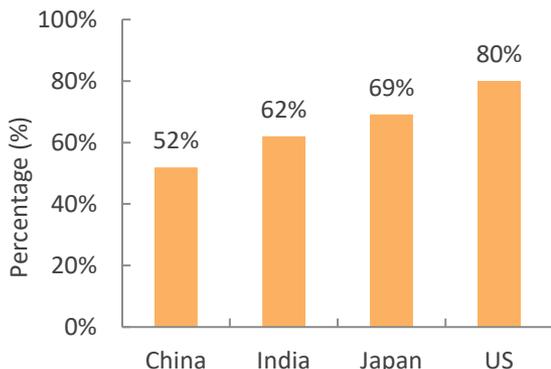


Data Sources: ¹International Monetary Fund (IMF) World Economic Outlook (October 2020); ²Fund Evaluation Group (FEG); ³United Nations, Department of Economic and Social Affairs (2019); ⁴CIA Factbook; ⁵World Bank World Development Indicators; Note: Gross domestic product (GDP) based on purchasing-power-parity (PPP); Latin American (LatAm); Middle East and North Africa (MENA); Compound annual growth rate (CAGR); Rest of the World (ROW)

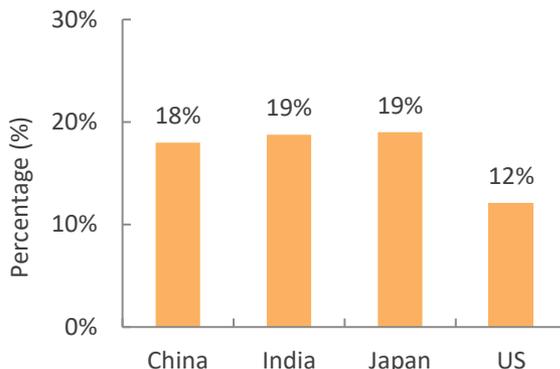
MACROECONOMIC OVERVIEW (CONT.)

Select Economic Development Indicators

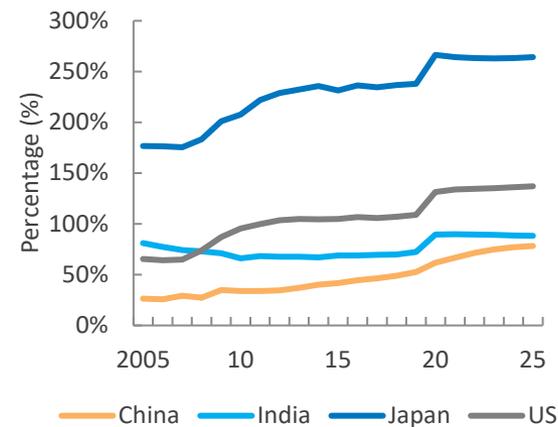
Services as a % of GDP¹



Gross Exports as a % of GDP²



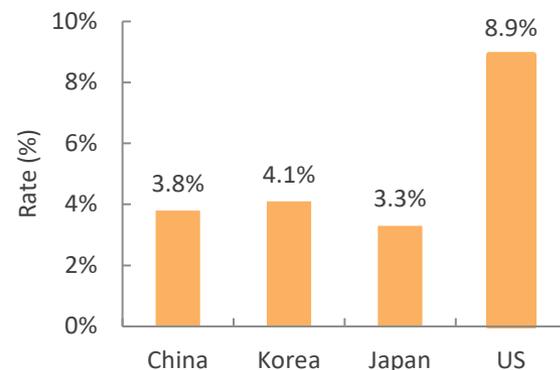
Government Debt as a % of GDP³



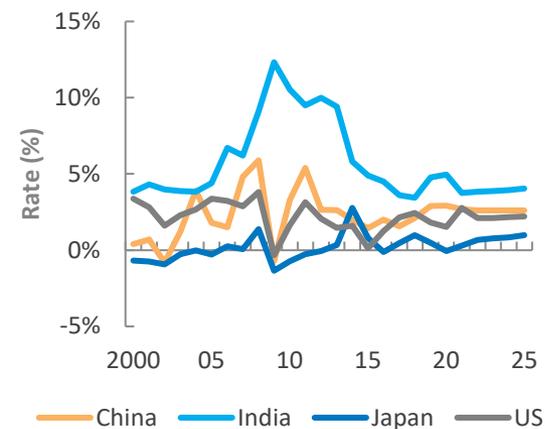
Corruption Scores Ranking⁴

Country	Rank (of #180)
Hong Kong	#16
Japan	#20
United States	#23
India	#80
China	#80

Unemployment Rate^{1,3}



Inflation Rate³

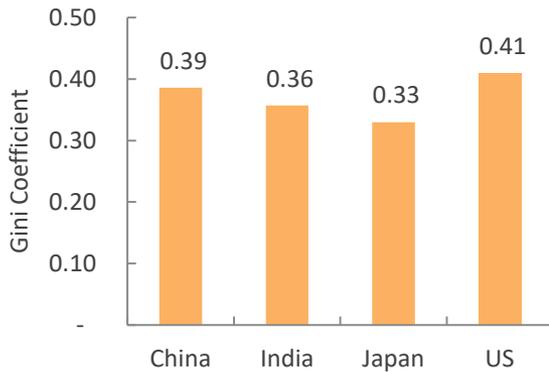


Data Source: ¹CIA Factbook; ²World Bank World Development Indicators; ³International Monetary Fund (IMF) World Economic Outlook (October 2020); ⁴Transparency International (2019);
 Note: Lower rank within Corruption Score means country is perceived as being relatively less corrupt. Gov't Debt expressed as general government gross debt

MACROECONOMIC OVERVIEW (CONT.)

Other Considerations

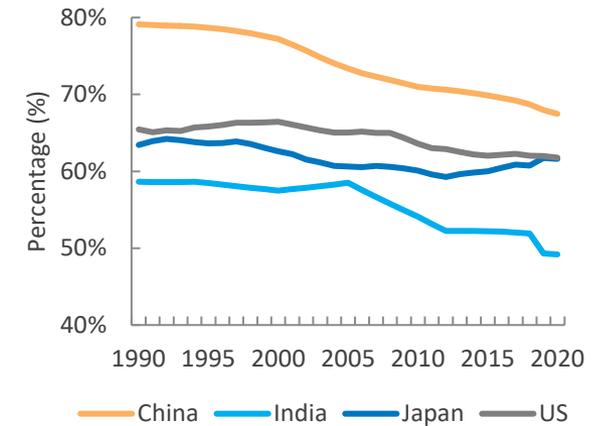
Income Distribution¹



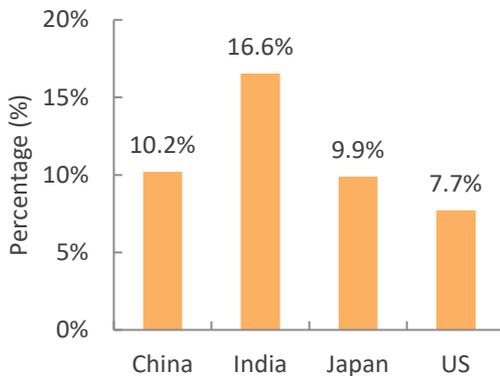
World Economic Freedom Rank²

Country	Rank (of #180)
Hong Kong	#2
United States	#17
Japan	#30
China	#103
India	#120

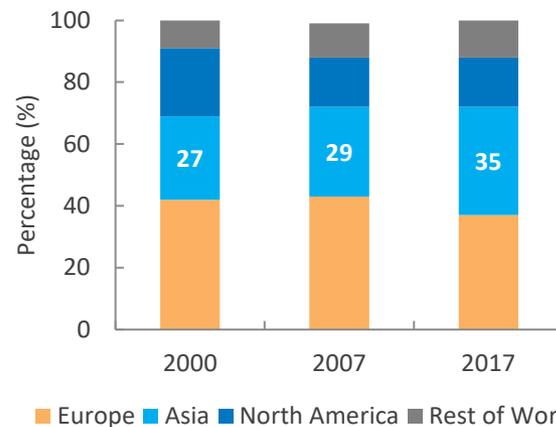
Labor Force Participation³



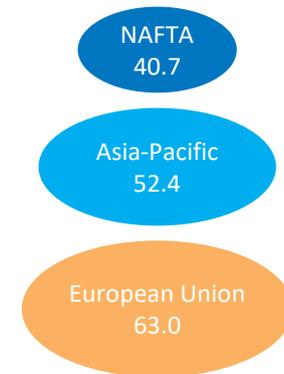
Informal Economy as a % of GDP⁴



Global Annual Trade by Value⁵



% Interregional Trade by Region, 2017⁵

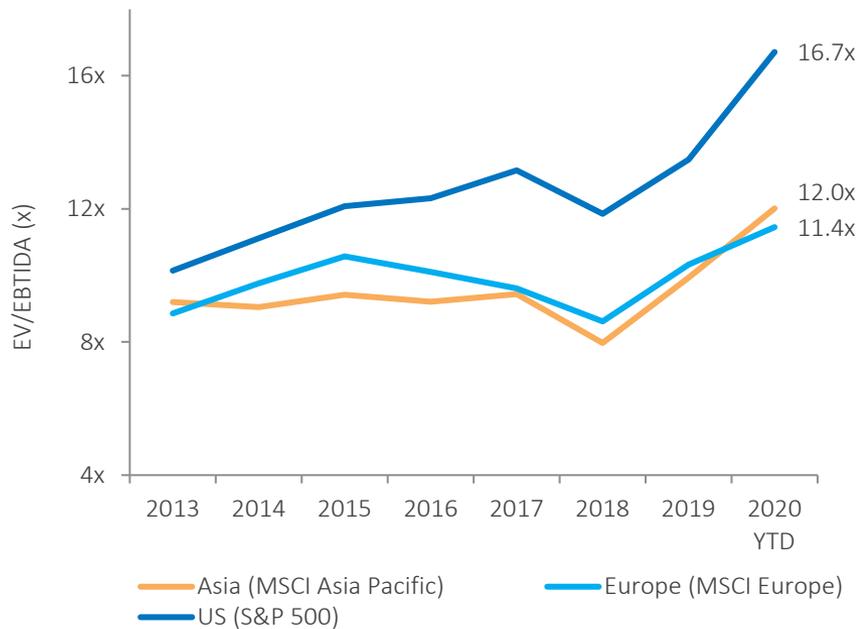


Data Sources: ¹CIA Factbook; ²Heritage Foundation (2020); ³World Bank World Development Indicators; ⁴Association of Chartered Certified Accountants (ACCA); ⁵McKinsey & Co., World Bank
 Note: The informal economy is the part of an economy that is not taxed, monitored by any form of government, or included in any GDP, unlike the formal economy. The Gini coefficient (also known as the Gini index or Gini ratio) is a measure of statistical dispersion intended to represent the income distribution of a nation's residents and is the most commonly used measure of inequality.

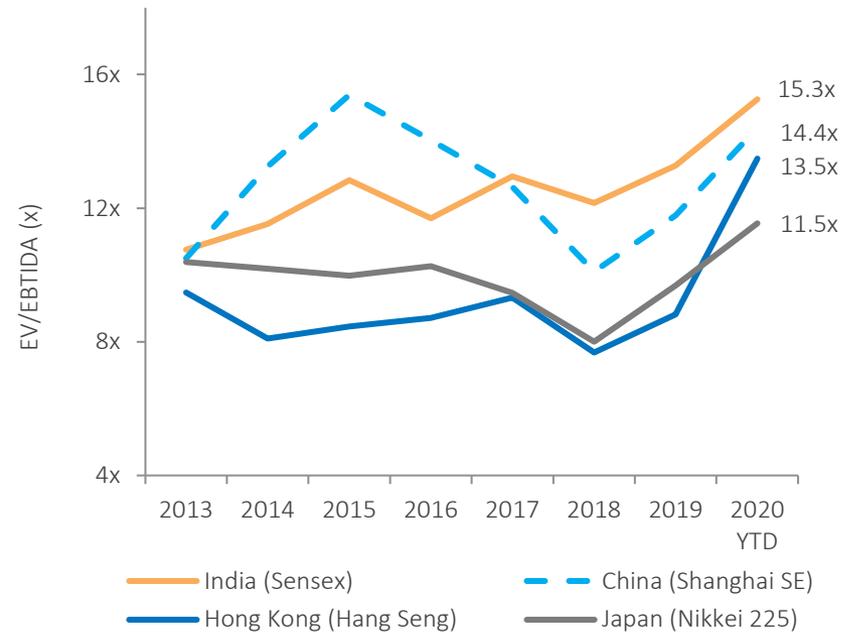
PUBLIC MARKET VALUATIONS

- U.S. public market valuations trade at a premium to regional indices in Asia and Europe.
- Chinese public market valuations have rationalized since peaking in 2015; Indian public market valuations remain the highest in the region at 15.3x EBITDA.

EV / EBITDA of Public Markets by Region



EV / EBTIDA of Public Markets in Key Asian Economies



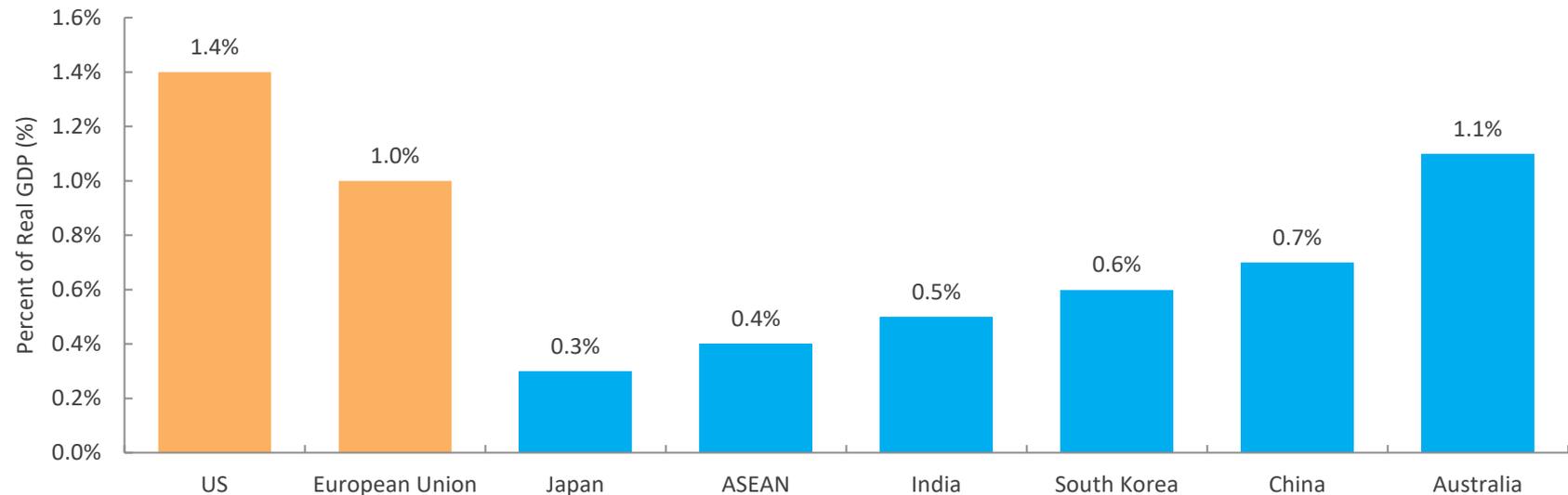
Data Source: Bloomberg; Data as of October 21, 2020

Note: Enterprise Value (EV) and Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)

PRIVATE EQUITY PENETRATION

- The private equity markets in Asia are still at relatively low levels of penetration, despite high growth in funds raised in recent years.
- Private equity investment in Japan, ASEAN, and India was less than 0.5% of Real GDP. Lower than that of the U.S. and the European Union.

Private Equity Investment as a Percent of Real GDP
Three-Year Average, 2017-2019

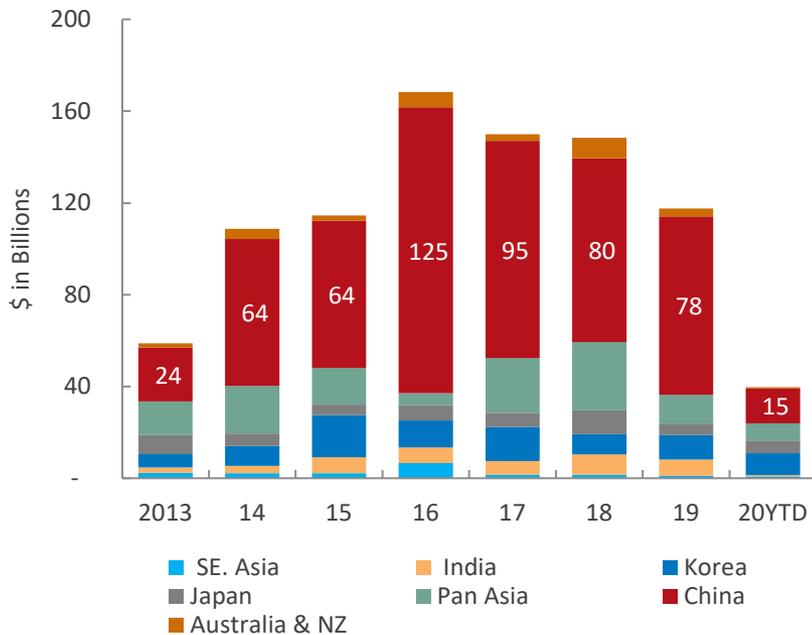


Data Sources: UBS, Dealogic, The Economist Intelligence Unit; Data as of December 2019
Note: United States (U.S.); Association of South East Asian Nations (ASEAN)

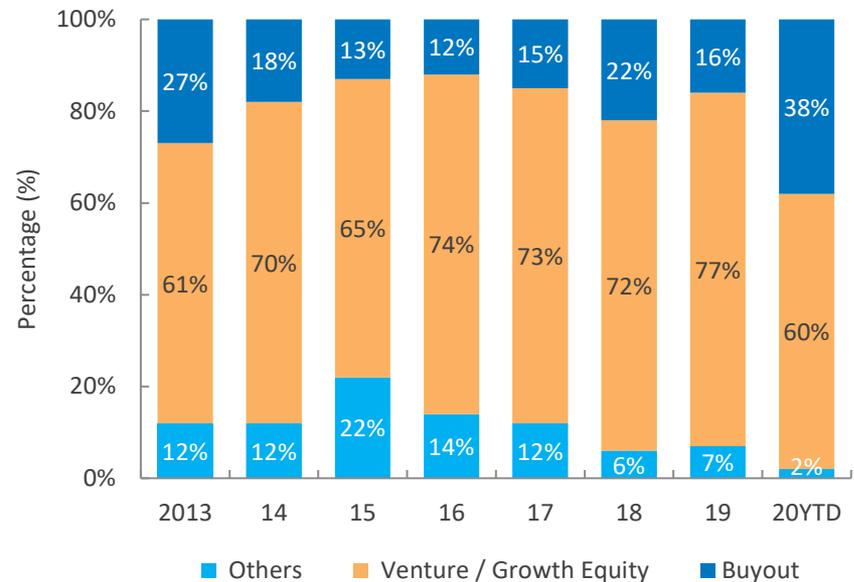
ASIA FUNDRAISING

- During 2019, Asian-focused private equity funds raised roughly \$118 billion (USD). Year-to-date fundraising negatively impacted by the global pandemic and geopolitical tensions.
- Since 2013, Greater China accounted for roughly 60% of aggregate capital raised in the Region.
- Venture capital and growth equity strategies dominate Asia private equity fundraising, but leverage buyout strategies are emerging.

Asia Private Equity Fundraising Volumes



Asia Private Equity Fundraising Strategy



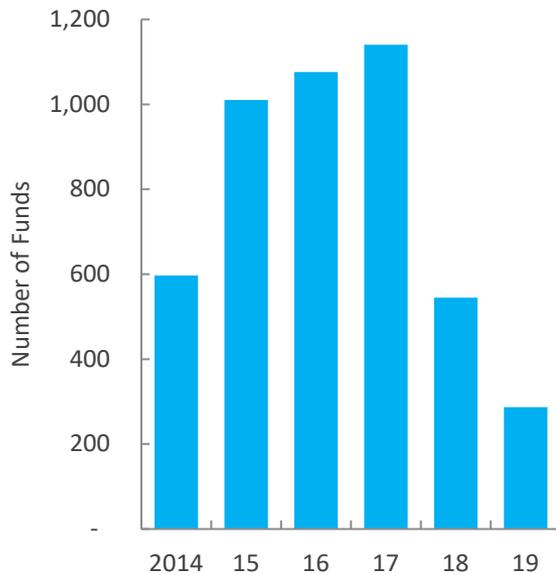
Data Source: Asia Venture Capital Journal (AVCJ); Data as of June 30, 2020
 Note: Greater China includes China, Hong Kong, and Taiwan; Southeast Asia (SEA); Australia / New Zealand (NZ)

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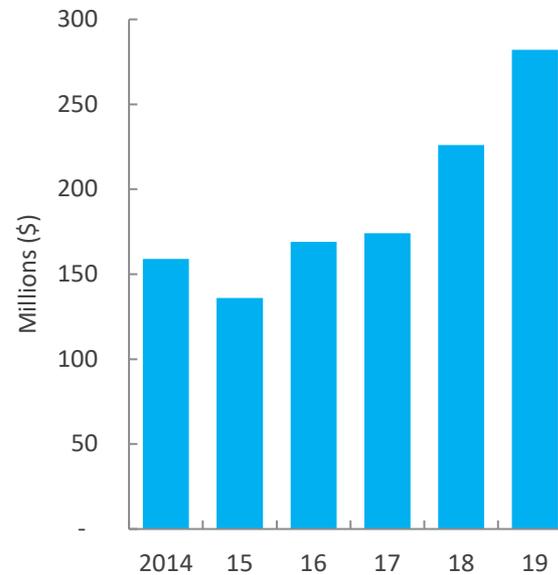
ASIA FUNDRAISING (CONT.)

- Fundraising data underscores an ongoing flight to quality.
- During 2019, fewer private equity funds closed, but with record sizes and well above target.
- Capital was concentrated among larger “brand name” funds, many that were well oversubscribed.

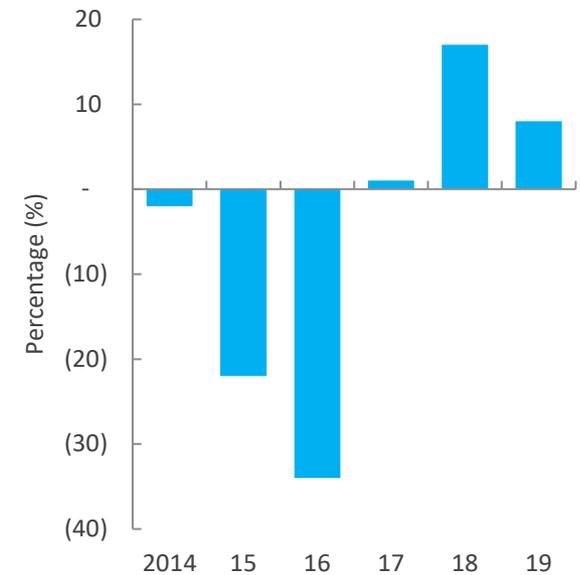
Asia-Focused Funds Closed



Average Size of Closed Funds



Fund Size vs. Target

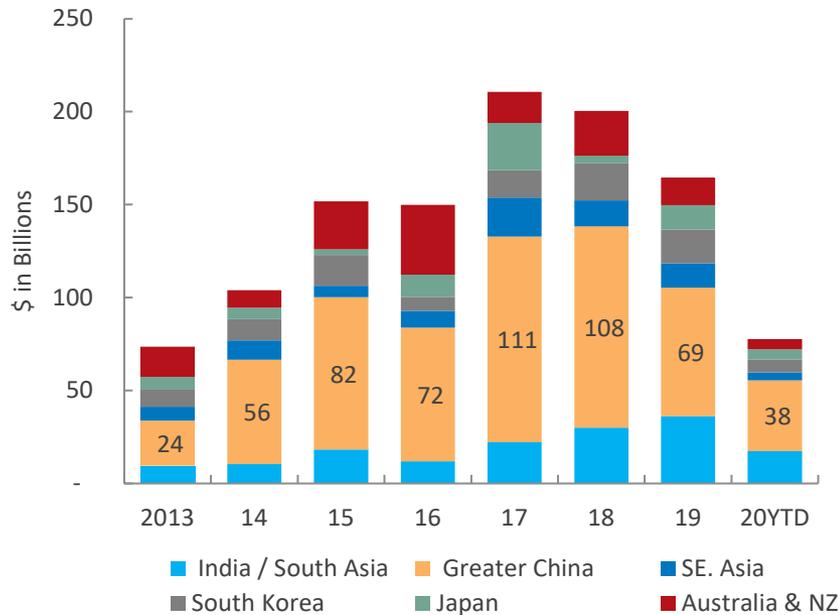


Data Sources: Preqin, Bain & Company; Data as of March 30, 2020

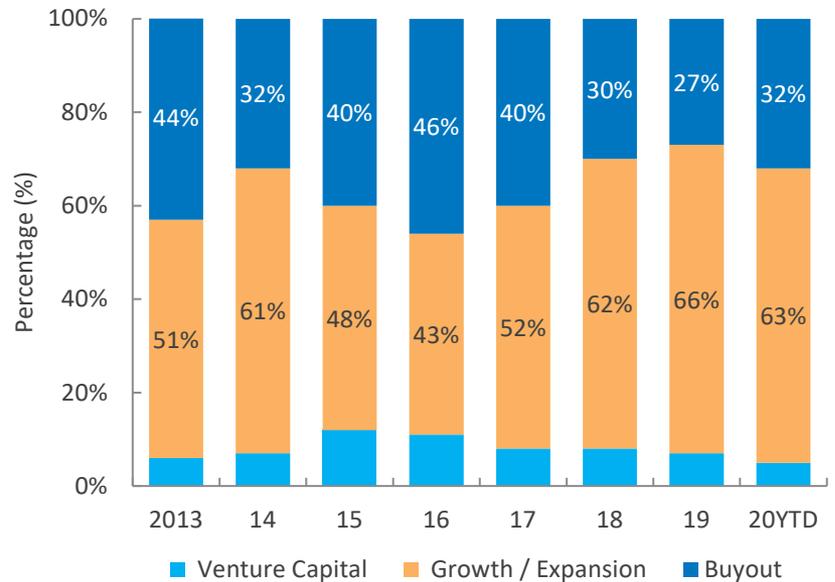
ASIA INVESTMENT

- During 2019, roughly \$165 billion (USD) of private equity invested was allocated to Asia.
- Greater China remains the top private equity investment destination in Asia. Since 2013, the country accounted for roughly 50% of private equity investments in the Region.
- Growth capital and leveraged buyouts continue to represent ~60% of all transactions.

Asia Private Equity Investment Volumes



Asia Private Equity Investment Strategy



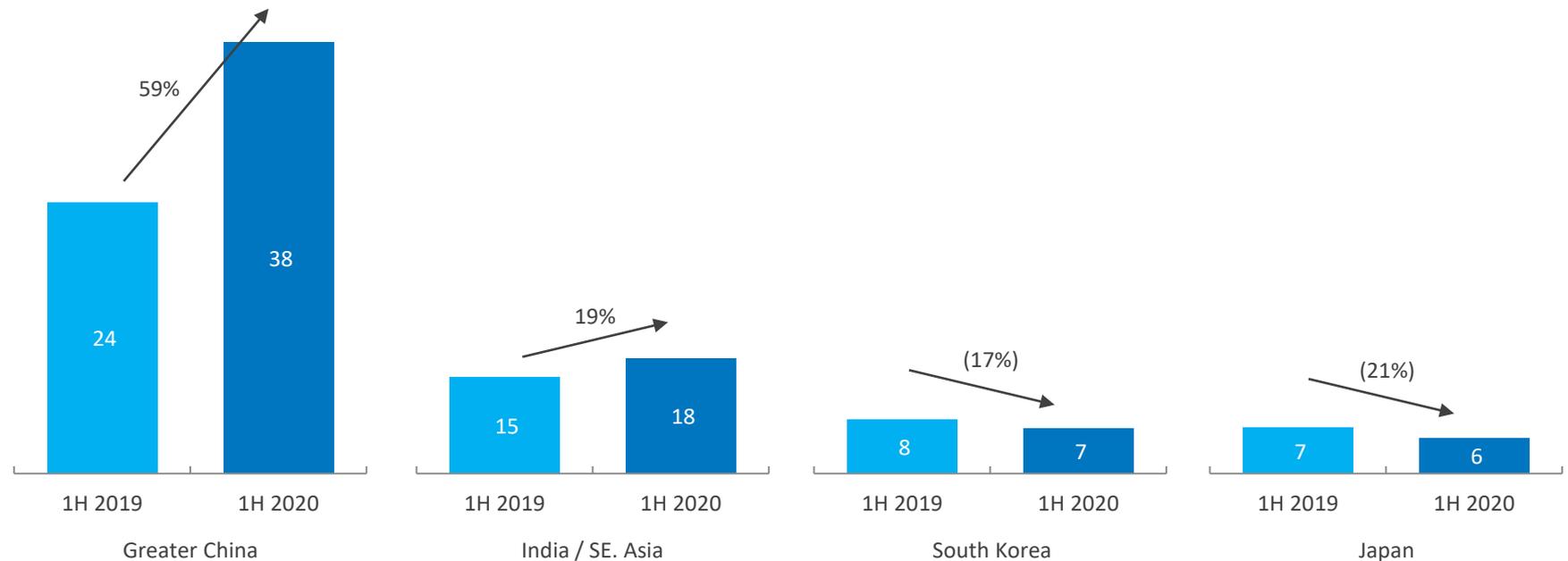
Data Source: Asia Venture Capital Journal (AVCJ); Data as of June 30, 2020
 Note: Greater China includes China, Hong Kong, and Taiwan; Southeast Asia (SEA); Australia / New Zealand (NZ)

Data Source: Asia Venture Capital Journal (AVCJ); Data as of June 30, 2020

ASIA INVESTMENT (CONT.)

- During 1H 2020, private investment in China and India grew 59% and 19%, respectively, over the same time period last year.
- Meanwhile, South Korea and Japan have seen private equity investment activity fall. Going forward, structural reforms and economic transitions are likely to lead to an increase in corporate carveouts, take privates, and management buyouts.

Private Investment, \$ in Billions

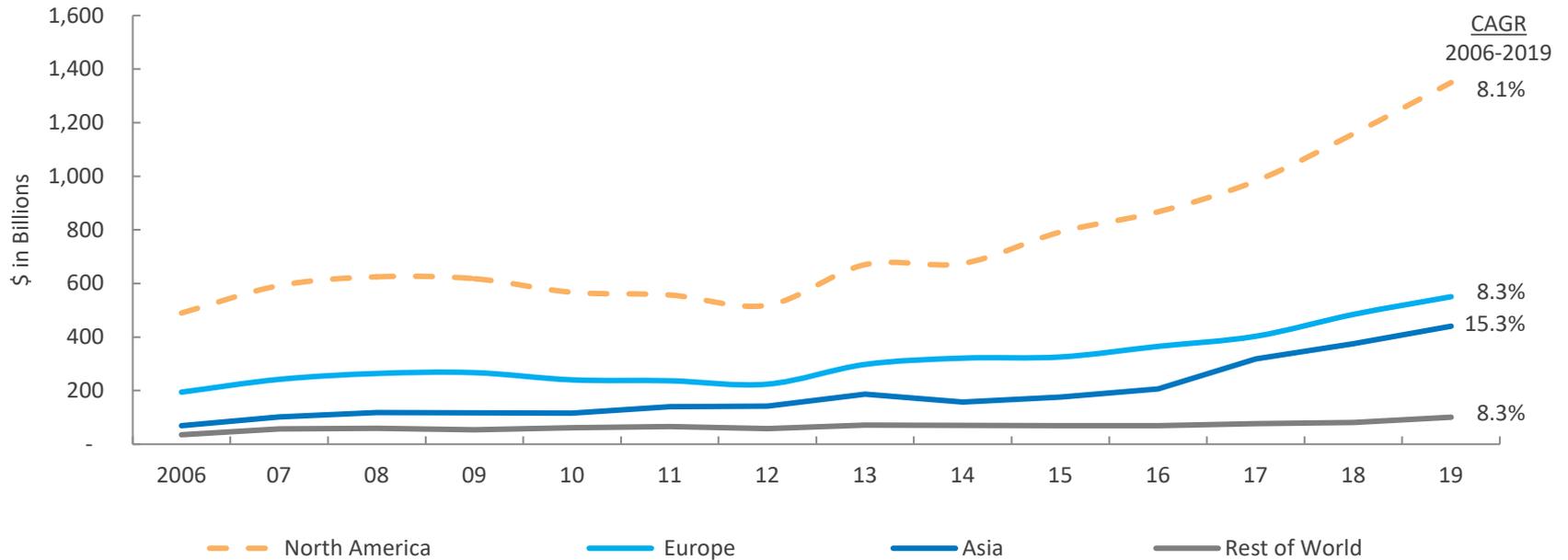


Data Sources: Preqin, Bain & Company, Asia Alternatives

DRY POWDER

- Globally, dry powder with private equity managers totaled \$2.5 trillion (USD) as of the end of December 2019.
- Dry powder levels in Asia have slowly accumulated in recent years due to caution around an uncertain macro-economic outlook.
- Lower fundraising activity due to COVID-19 pandemic and LP risk appetite is likely to reduce Asian dry powder levels.

**Private Capital Dry Powder By Region
2006 – 2019**

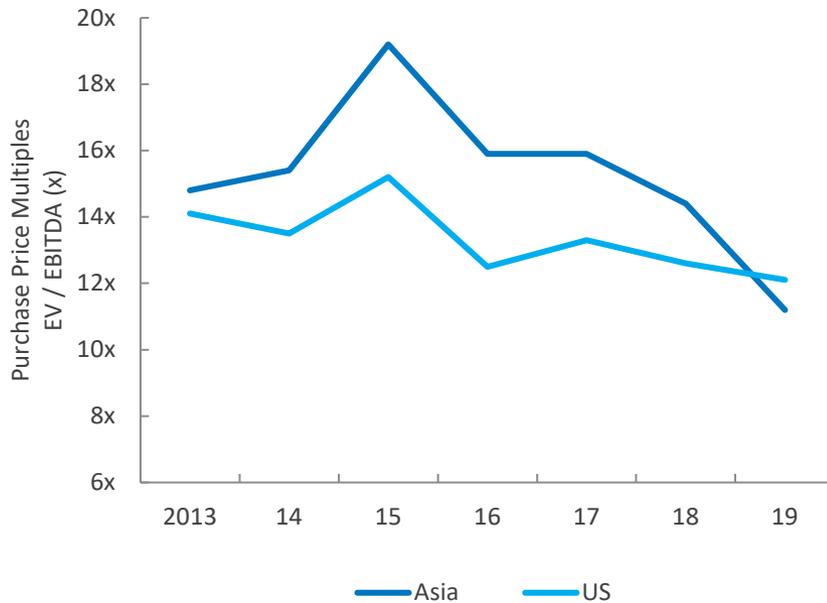


Data Sources: Preqin, Bain & Company; Data as June 30, 2020
Note: Compound Annual Growth Rate (CAGR)

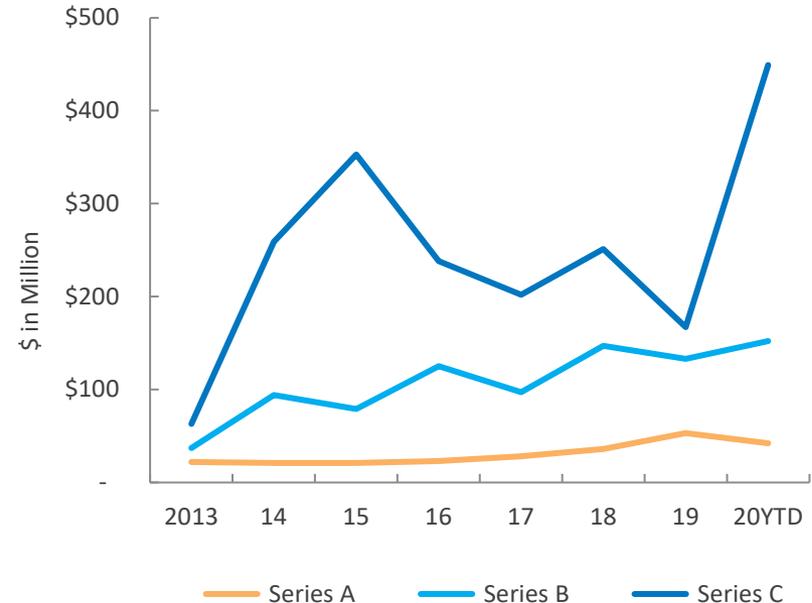
MULTIPLES AND ENTRY VALUATIONS

- Prices in the Asia-Pacific region remain elevated. Increased competition across the region and soaring valuations in technology sectors have sustained M&A multiples.
- Early stage venture valuations remain relatively low. Series B valuations continue an upward trajectory. Series C and later stage entry valuations have seen a significant uptick in valuation.

**Asia Private Equity
Median M&A Transaction Multiples**



**Asia Private Equity
Average Entry Valuations**



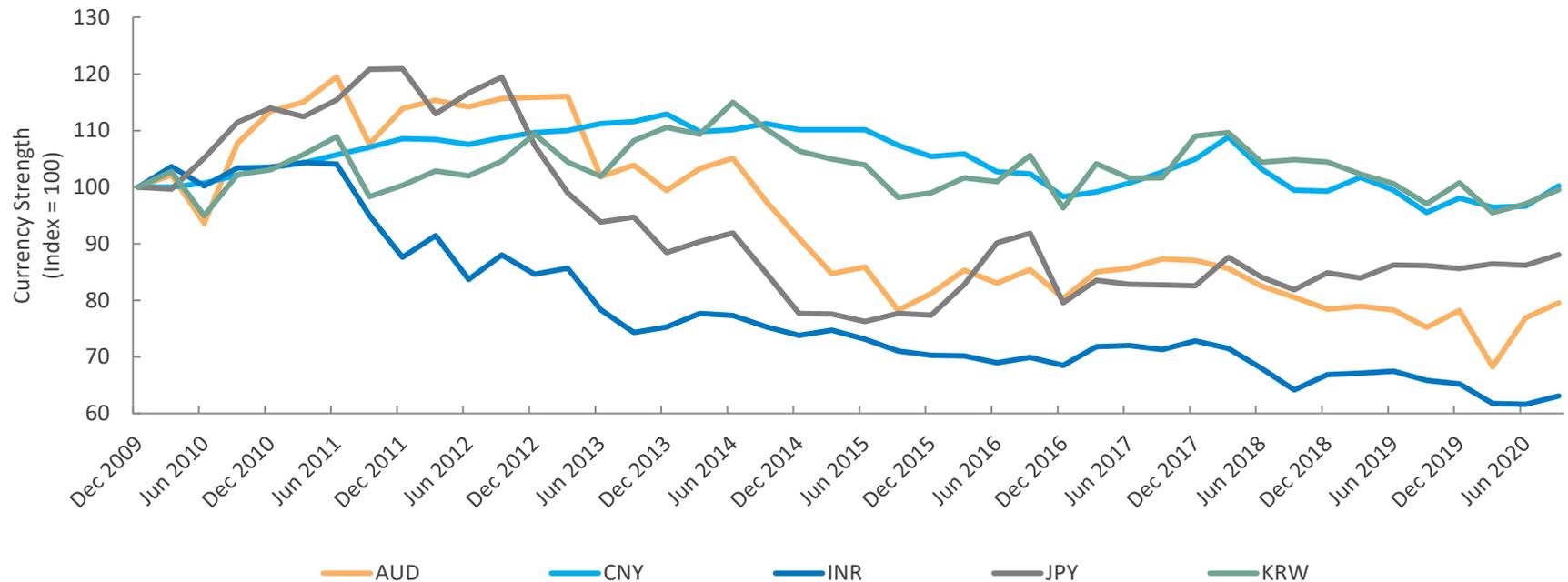
Data Source: UBS, Dealogic; Data as of March 31, 2020
 Note: Enterprise Value (EV), Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA); Mergers & Acquisitions (M&A)

Data Source: Undisclosed Recommended Manager; Data as of June 30, 2020
 Note: Subset of Undisclosed Recommended Manager venture portfolio

CURRENCY IMPACT

- Since 2010, most major Asian currencies have depreciated against the USD.
- Low commodity prices, current account deficits, government regulations, tariffs, and a relatively strong U.S. economy are to blame.
- The effect will be lower returns for Asian focused funds when measured in USD.

Relative Strength of Select Asian Countries vs. USD
Indexed: December 2009 = 100



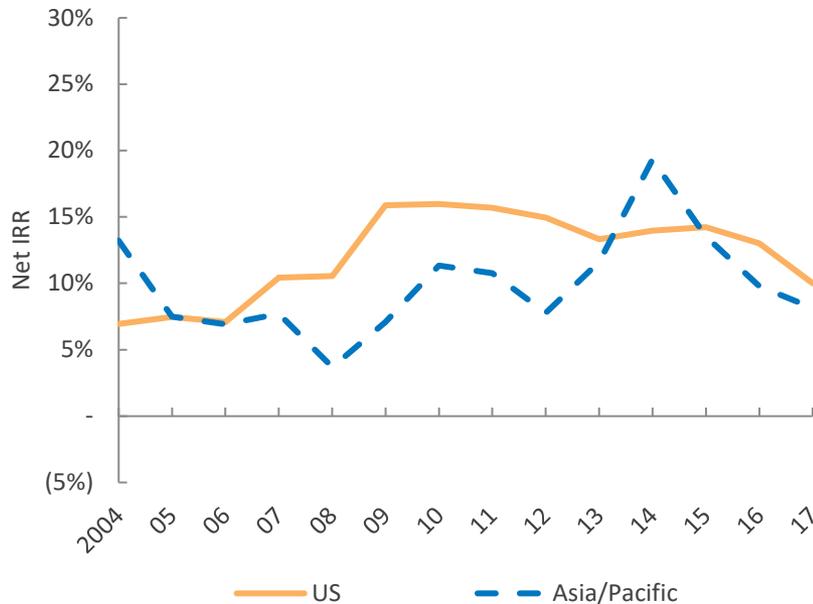
Data Sources: Bloomberg, UBS, FEG

Note: Currency Strength is measured by the respective countries' currency exchange rates against the USD on a monthly basis; Exchange rates are normalized at January 2010

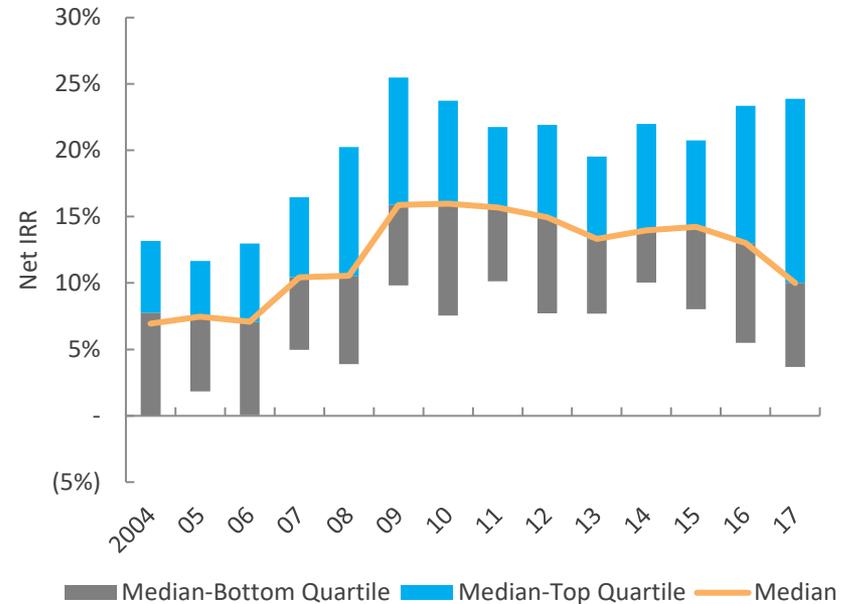
PERFORMANCE – NET INTERNAL RATE OF RETURN (IRR)

- Median net IRRs in Asia range between 3.7% and 19.3%. Asia outperformed U.S. in 3 of 14 recent vintages.
- The spread between top and bottom quartile performing Asian PE funds is large.
- Manager selection is an important factor in seeking top quartile returns.

**Median Net IRR
U.S. and Asia-Pacific**



**Net IRR Quartile Spread
Asia-Pacific Only**



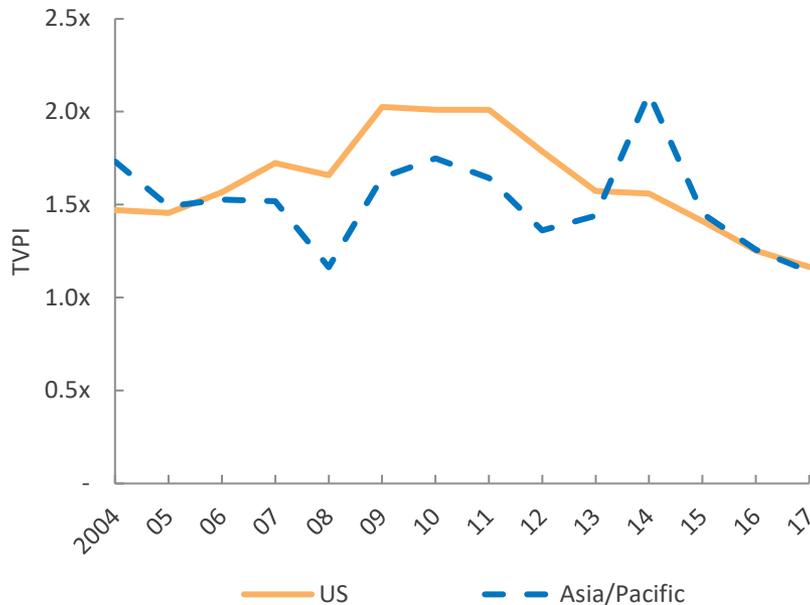
Data Source: Thomson One; Data as of March 31, 2020
Includes Buyout & Growth Equity, Venture Capital

Data Source: Thomson One; Data as of March 31, 2020
Includes Buyout & Growth Equity, Venture Capital

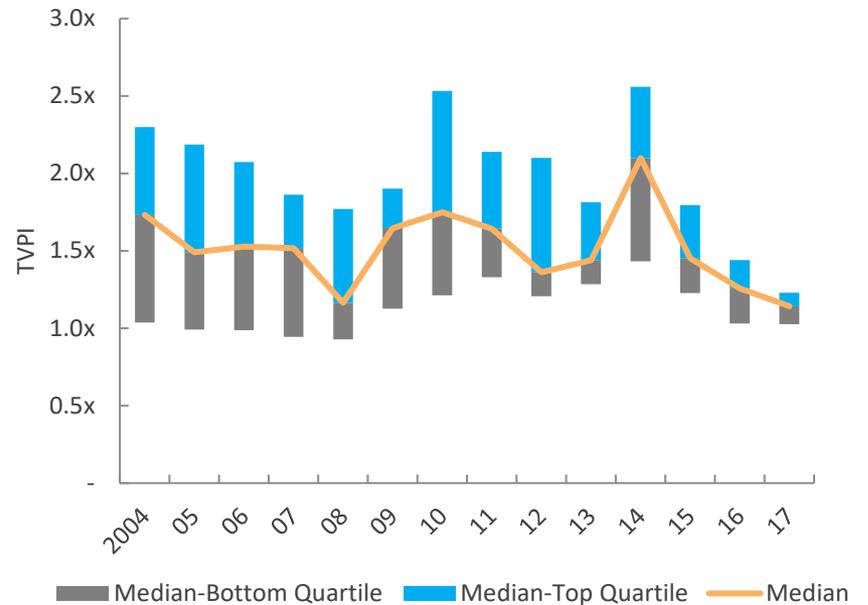
PERFORMANCE – TOTAL VALUE TO PAID-IN (TVPI)

- Median TVPIs in Asia range between 1.14x and 2.10x. Asia outperformed U.S. in 3 of 14 recent vintages.
- The spread between top and bottom quartile performing Asian PE funds is large.
- Manager selection is an important factor in seeking top quartile returns.

**Median TVPI
U.S. and Asia-Pacific**



**TVPI Quartile Spread
Asia-Pacific Only**



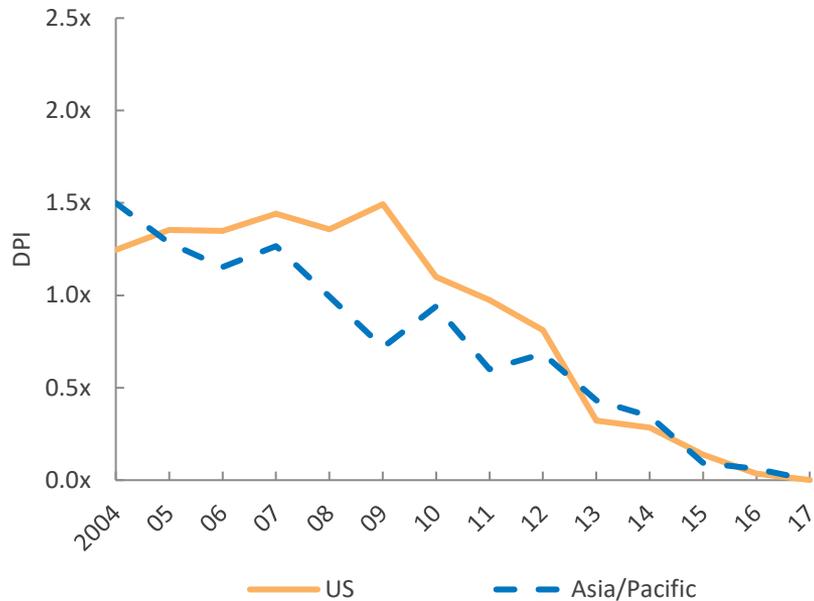
Data Source: Thomson One; Data as of March 31, 2020
Includes Buyout & Growth Equity, Venture Capital

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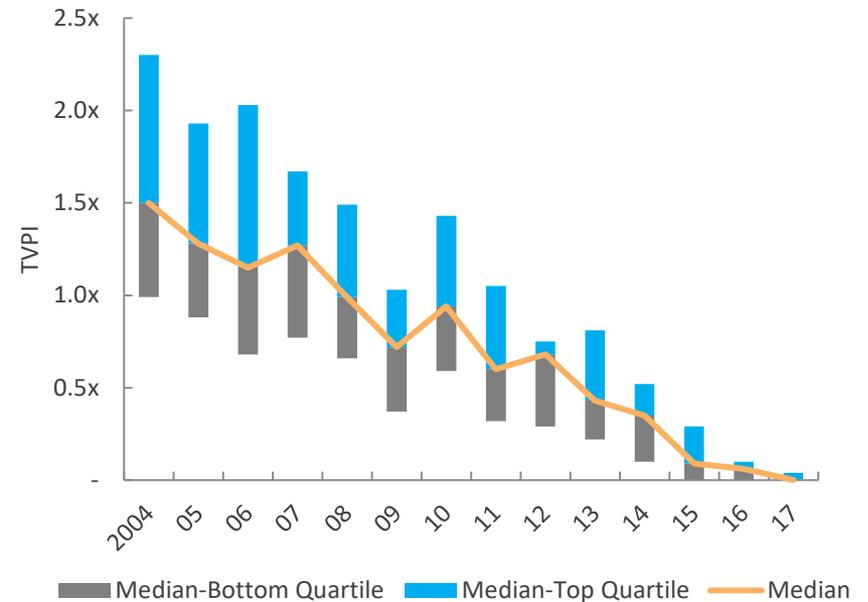
PERFORMANCE – DISTRIBUTION TO PAID-IN (DPI)

- Distributions from seasoned Asian PE funds have been anemic. Median DPIs consistently underperformed the U.S.
- The median DPI for a 2009 vintage Asian PE fund is 0.7x.
- Distribution activity in Asia increased in recent years, but activity still lags the U.S.

**Median DPI
U.S. and Asia-Pacific**



**DPI Quartile Spread
Asia-Pacific Only**



Data Source: Thomson One; Data as of March 31, 2020
Includes Buyout & Growth Equity, Venture Capital

Data Source: Thomson One; Data as of March 31, 2020
Includes Buyout & Growth Equity, Venture Capital

CONCLUSION

- There are clear challenges to Asia's economic rise both internally (e.g., financial risk, growing inequality, rule of law and corruption) as well externally (e.g., geopolitical, trade disputes).
- Regardless, private equity stands to benefit from both long-term structural changes (e.g., demographic, regulatory) and near-term macroeconomic transitions (e.g., price dislocations, liquidity concerns).
- Moderating growth is unlikely to slow the role of private equity in Asia, but it may impact deal type. LPs may find success backing GPs who can provide sector-focused expertise in growing local businesses.



DISCLOSURES

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