

INSEAD

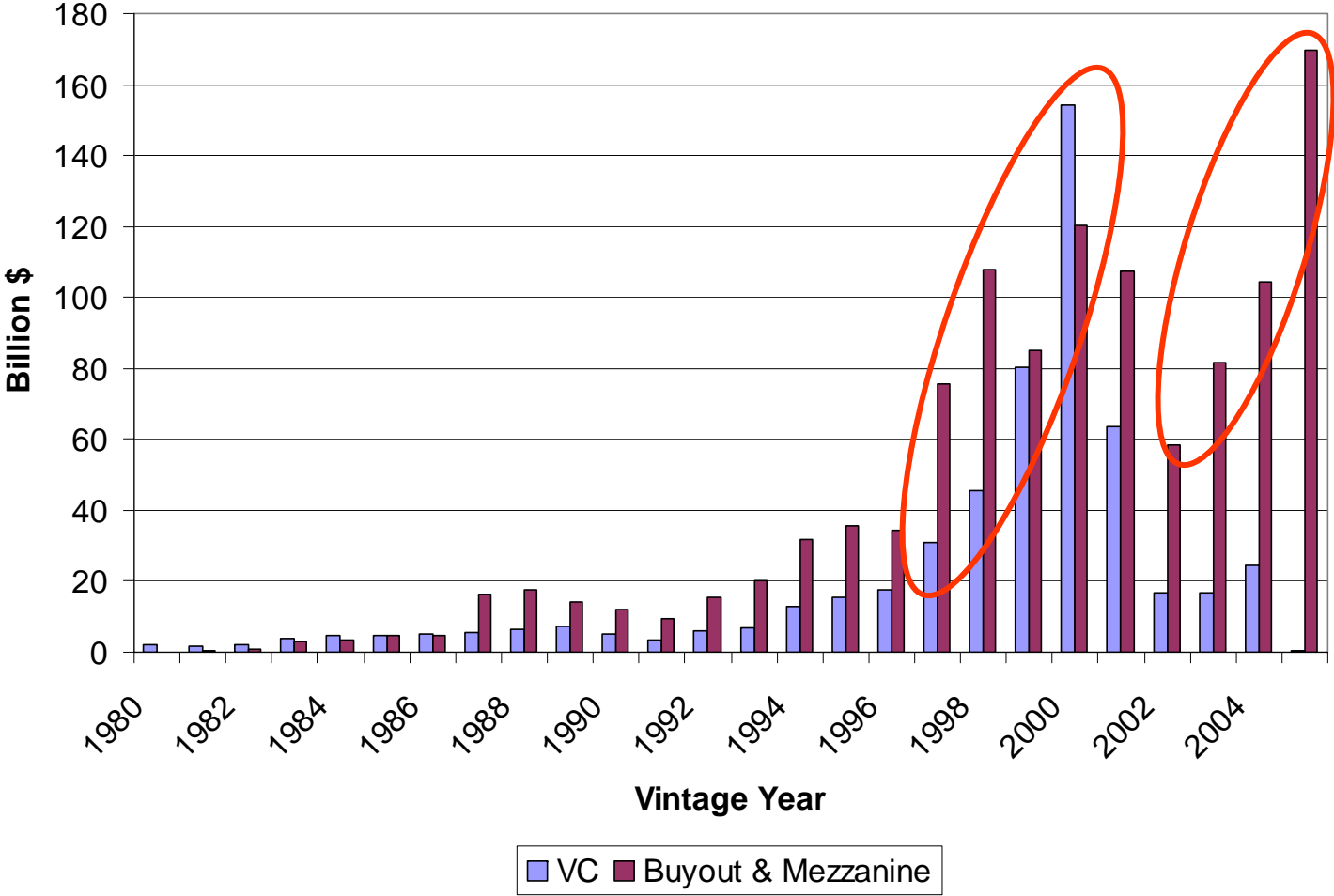
The Business School
for the World

Lily H. Fang

Professor of Finance

**Private Equity In Asia:
Opportunities & Challenges**

Hot Money



Source: Thomson Financial Venture Economics

Private Equity in Asia

- \$120B under management as of the end of 2005
- \$16B new money raised in 2005; \$17B fund-raising record set in 2000
- China almost caught up with Japan as the biggest destination of PE money in Asia: China \$5.75B invested; Japan \$6.6B

Private Equity In Asia

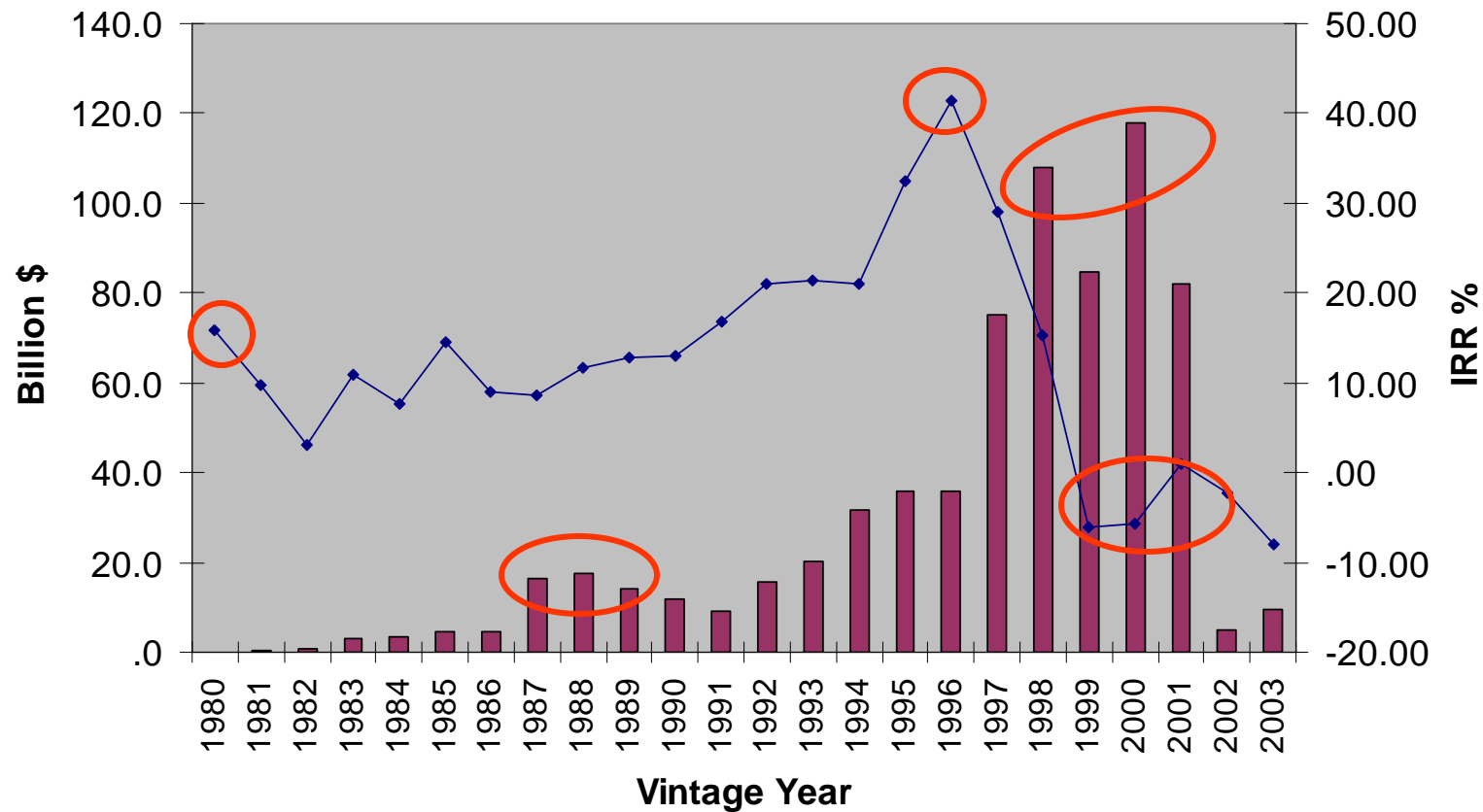
- Carlyle: USD \$3B
- TPG: \$10B
- Newbridge: \$1.5B Asia Fund
- Goldman Sachs
- Warren Buffet
- Carl Icahn

Why Asia?

- Funds flush with cash
- Asia is relatively new to private equity
- Attractive valuation
- The rising Asia and the declining US\$

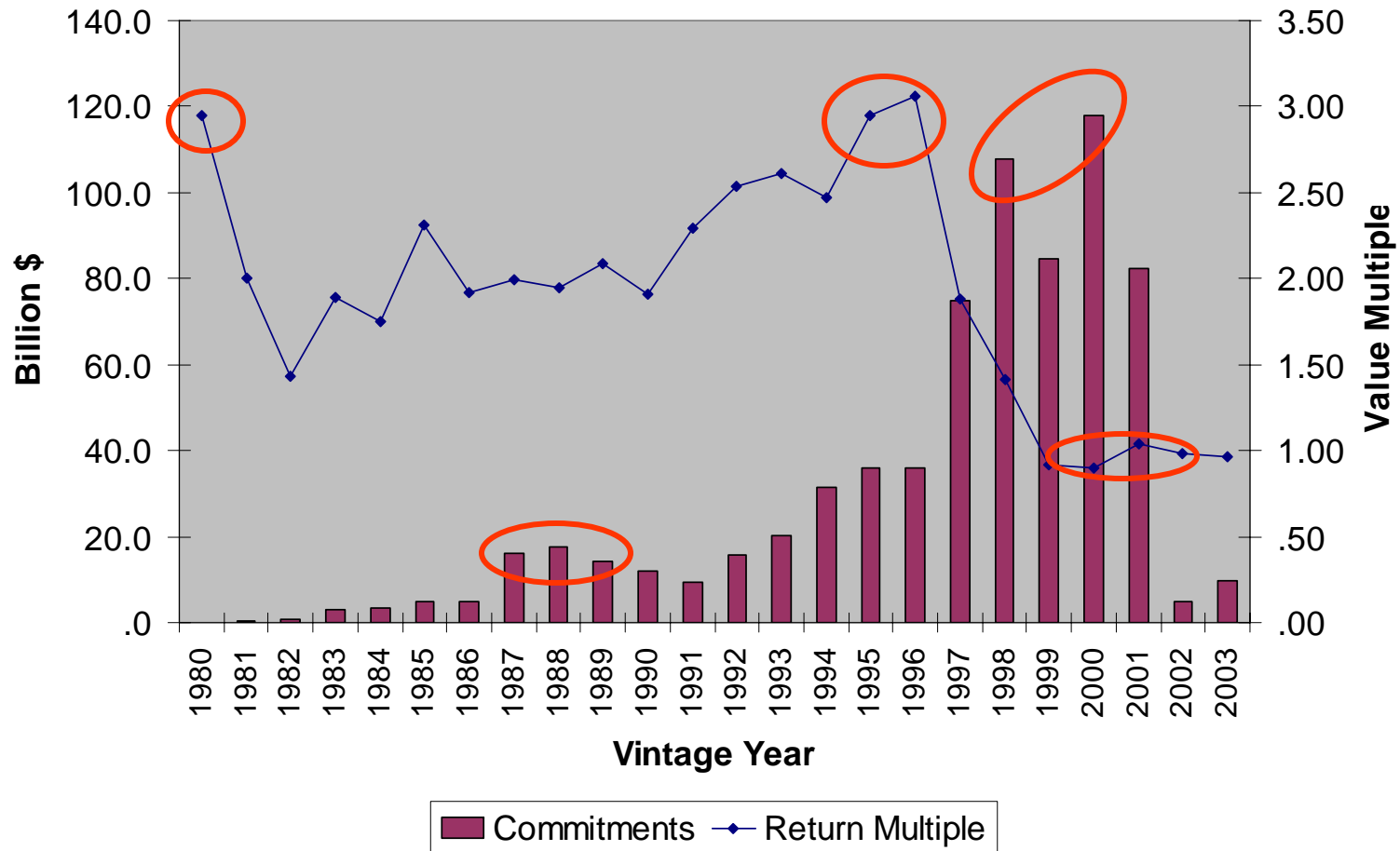
Problem #1: Money Chasing Deals

Total PE Commitments and Average Return



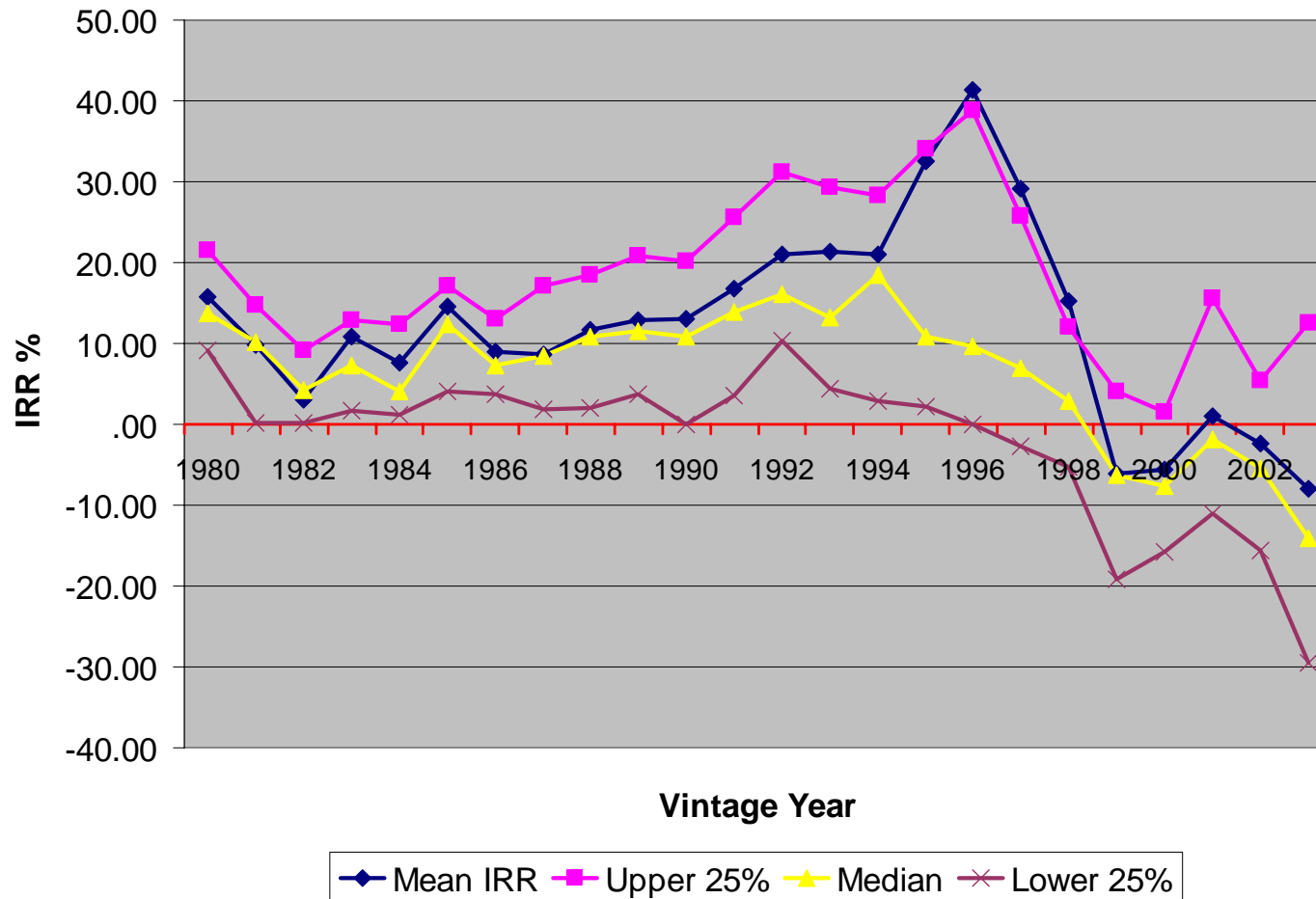
■ Total PE Commitments ◆ Average PE Returns

All PE Commitments and Value Multiples



Problem #2: Skewed Returns

Are PE Funds Created Equal?



Problem #2: Skewed Returns

	Venture Capital	Leveraged Buyouts	US Domestic Equity	Foreign Equity
Maximum	498.2%	243.9%	18.1%	19.5%
First Quartile	17.1	23.8	16.6	16.1
Median	8.1	13.2	15.5	14.9
Third Quartile	0.6	1.1	14.9	14.0
Minimum	-89.7	-65.9	13.2	11.1
First-to-third Quar	16.5	22.7	1.7	2.1
Standard Deviatio	30.0	35.7	1.3	2.1

Source: Computation by David Swensen, Pioneering Portfolio Management; data period 1980-1997

Summary

- Private equity is subject to “money-chasing-deals”
- Private equity return is highly skewed: while the best funds persistently out-perform, the worst would not get to raise a second fund

Conclusion

- Due diligence – careful discernment of risk-return relations offered by funds – is always important
- But it is never more important than in a red-hot environment like today
- Private equity, despite its tremendous attraction, often fails to offer either the return or the desired diversification that investors hoped for
- When investing, accessing a fund's track record and character is extremely important. Top funds persistently earn superior returns, whereas bottom-tier funds will almost surely disappoint

Private Equity in Asia: Particular Challenges

- Hot money is always worrisome
- But more importantly, private equity still has a public image problem in Asia
- Corporate (and political) inertia in much of Asia makes it difficult to make sweeping restructurings necessary to improve efficiency
- But things are changing and private equity investment in Asia will be a rewarding endeavor for those who spend efforts to actively add value