

GREATER CHINA CORNER - FUNDS

Against the Odds

An LP and GP of an ASEAN-China Fund are not shying away from fund raising

It has been a quiet third quarter in terms of fund raising, as activities slowed significantly in the wake of Wall Street's financial crisis. In the third quarter of the year, over US\$12.4 billion of fresh capital has come into the market through 53 funds, a decline of 34.6% and 20.9% respectively compared to the preceding quarter (fig. 31).

The General Partners

The Singapore-based **UOB Venture Management** ('**UOB Venture**') is undeterred by the prevailing negative sentiment. In late August it launched its ASEAN China Investment Fund LP II ('ASEAN China II') with a target fund size of US\$250 million to US\$300 million. This, compared to its predecessor US\$76 million fund, was a bold step, especially when the global financial industry is undergoing perhaps its most extensive and severe correction in recent history.

Mr Kian-Wee Seah, managing director of UOB Venture, was confident that ASEAN China II will receive a positive response from institutional investors. In addition to having received commitments from two of the previous anchor investors in ASEAN China Investment Fund LP ('ASEAN China I'), it is the

latter's illustrious investment track record that has given the UOB Venture management team a dose of optimism.

Launched in April 2003, ASEAN China I was a collaborative effort between a handful of development financing institutions including the **Asian Development Bank, China Development Bank, PROPARCO**, the French government's investment and promotions company, and the Swiss government's **State Secretariat for Economic Affairs (SECO)**.

The ASEAN China I had a special focus on seeking opportunities in companies that are based in ASEAN as well as China (figs. 32 & 33). At the time when it was launched, China had yet to prove its ability to provide returns to investors, while ASEAN had then yet to exhibit full recovery from the 1997-1998 Asian Financial Crisis. But its cornerstone investors were prepared to undertake this venture on faith.

It has been four years since ASEAN China I first commenced its capital deployment in August 2004. Since then, this fund has invested in 14 companies. Of these, the holdings in three companies have been entirely released, while an additional seven companies are currently listed on the Singapore Exchange Ltd. By the end of June, ASEAN China I had achieved an internal rate of return of 62.2% on a realised and unrealised basis.

So far, ASEAN China I has successfully fulfilled its sponsors' goals, with two of its best performer companies located in China and Thailand, respectively China XLX

Fertilizer Ltd. and Mermaid Maritime Ltd. With a relatively short investment holding period for these two companies, the return multiples of 4.66 times and 2.61 times respectively have translated into outstanding internal rate of returns.

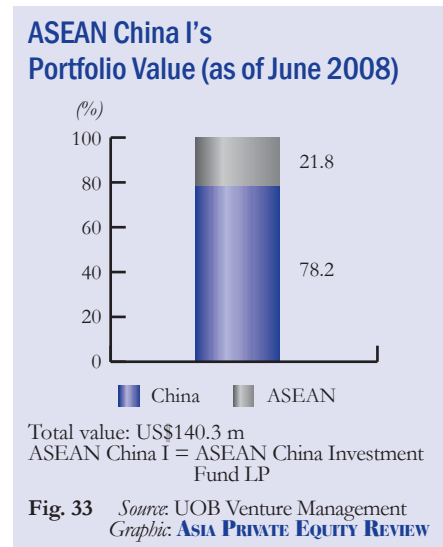
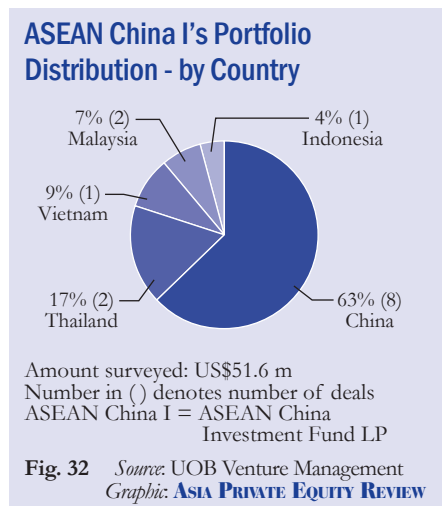
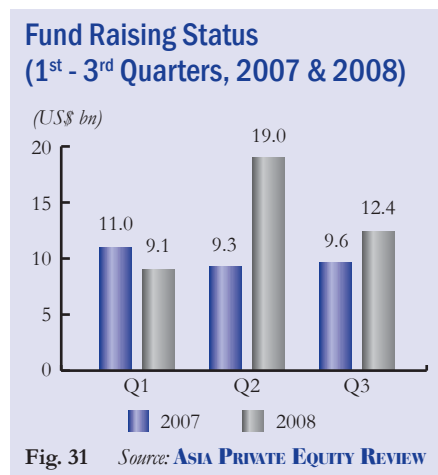
The Limited Partners

ASEAN China I was a joint initiative between the Asian Development Bank and SECO. Ms Veronica John, formerly at the Asian Development Bank, was a key architect of the ASEAN China I. She has since left the multilateral organisation and joined **IDFC Capital** where she will continue to seek promising fund managers.

The other prime force that helped launch the ASEAN China I was Mr Claude Barras, who now heads **Swiss Investment Fund for Emerging Markets** ('**Sifem**'). Sifem will continue to be closely associated with ASEAN China I.

After having held the position as head of SECO's investment promotion unit, in 2005 Mr Barras led in forming Sifem. It is an independent private fund of funds that focuses on the global emerging market. Sifem is mandated to manage SECO's investment portfolio. On behalf of the Swiss government, it will be a cornerstone investor in ASEAN China II.

In reviewing the successful track record of ASEAN China I, Mr Barras cited a combination of "high professional standards" of the fund management team and "exciting opportunities in the region (Asia)"



being one of the key factors. He added that the general partners' disciplined divestment programme was also central in presenting an illustrious returns record to limited partners. "By disposing of some of their shares when portfolio companies had an IPO, as opposed to gambling on the market continuing to rise" was the sensible strategy, Mr Barras observed.

For the past ten years, Sifem, on behalf of SECO, has invested in more than 40 emerging market private equity funds. Mr Barras proudly pointed out that ASEAN China I "is among the most successful" in Sifem's portfolio.

Similar to UOB Venture, Sifem is currently engaged in raising its own funds. It has launched the rABOP

Fund with a socially responsible investment ("SRI") mandate. Credit Suisse is an anchor investor in this SRI fund. rABOP Fund primarily invests in microfinance institutions and small and medium enterprise funds in emerging markets.

On Sifem's drawing board is the blueprint of a traditional global fund of funds for emerging markets. This new fund will continue to seek partnership opportunities with those with which it has an established relationship. Significantly, the fund of funds will have substantial exposure to Asia.

Mr Barras is aware of the mushroom of Asia-focused fund of funds in Asia, as well as those with global mandates. He believes that during challenging times such as now,

discerning institutions will continue to make allocations to those with proven track records. His assertion is based on the performance of Sifem's portfolios. "With the exception of a very few", he commented, "Sifem's fund portfolio has provided positive financial returns".

Comments

The performance of ASEAN China I has conveyed a resounding message that to adhere to the basics is the key factor for an illustrious investment track record. Even though the fund raising environment has now become quite unfriendly, both Sifem and UOB Venture are confident that their respective funds will receive friendly receptions. Their magic potion is their own track records. ■



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