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How is investment in private markets changing? A view from two senior Asia-focused LPs

To better understand the outlook for the investment in the private markets industry we interviewed two of our LP Ambassadors. David Pierce, Head of Asia for HQ Capital, with currently more than US$11 billion in assets under management, and Marcus Simpson, Head of Global private equity, QIC with A$5.1bn AUM under management, kindly took part:

Since you started in the industry, what has been the biggest change you have witnessed and what impact do you think this has had on private markets' investing?
MS: More sophisticated and direct investing by institutional investors, ranging from direct deals, direct secondary purchases and sales, and co-investments.
DP: Well, it's been more than 20 years since I started in the Asian PE industry and the growth in the numbers of active GPs and the amount of capital being committed has been beyond all expectation. The single biggest change, which is pretty obvious, is that nearly every institutional investor now takes Asian private markets seriously. The arrival of material amounts of institutional capital has driven many other changes that wouldn't have happened otherwise.

Where do you see the most favourable returns coming from?
MS: As before, from backing growing companies with excellent management teams in attractive sectors
DP: To date, growth equity in China has delivered the most favourable returns - as well as some of the worst! The successes have been remarkable by any standard but the distribution of returns across GPs and funds is rather wide and makes generalization difficult.

The theme for Outperform Asia 2017 is "embracing disruption in the search for returns" - how do you think the industry can be disrupted further for increased returns?
MS: Change will continue, the newer strategies are the ones that today are driving returns for clients
DP: I don't know and am looking forward to finding out at the event!

How do you think the LP/GP relationship will adapt over the next 5 years? (if at all)
MS: The revolution in the relationship between LP/GPs that began after the GFC will continue. Some investors will move further out on the direct curve, others will remain more passive. Some LPs will have their hands burned from their direct programs in the next recession this will have them move back to more passive investing.
DP: For the most part, I think it will remain pretty much as it is today, with increasingly knowledgeable LPs working more and more closely in partnership with increasingly sophisticated GPs. Co-investments should continue to grow in number and scale, which will affect the dynamic to some extent, but not fundamentally.

Which sector are you most excited about?
MS: We're focused on the consumer, including health care services, food, and innovation investing – as the global consumer grows existing and new companies will grow to meet their needs. *[Editor: see analysis below for more on industry performance*]
DP: We don't have one favourite sector but if you require me to select just one it would be education.

What keeps you (as an LP) awake at night?
MS: People and their actions
DP: Lately, political developments elsewhere in the world that can end up having a major impact on our portfolio in Asia. Of course, there's little point in worrying about them, but I can't help it. These are extraordinary times.

Final Thoughts: What surprises you most when talking about Asia with investors from other parts of the world?
DP: The huge gap between perceptions of what is going on in Asia between those who rely on the media and overseas pundits and those who take the trouble to travel and work closely with those of us who are actually on the ground. I continue to be amazed to meet investors in Europe and North America who have never been to China or even Japan.

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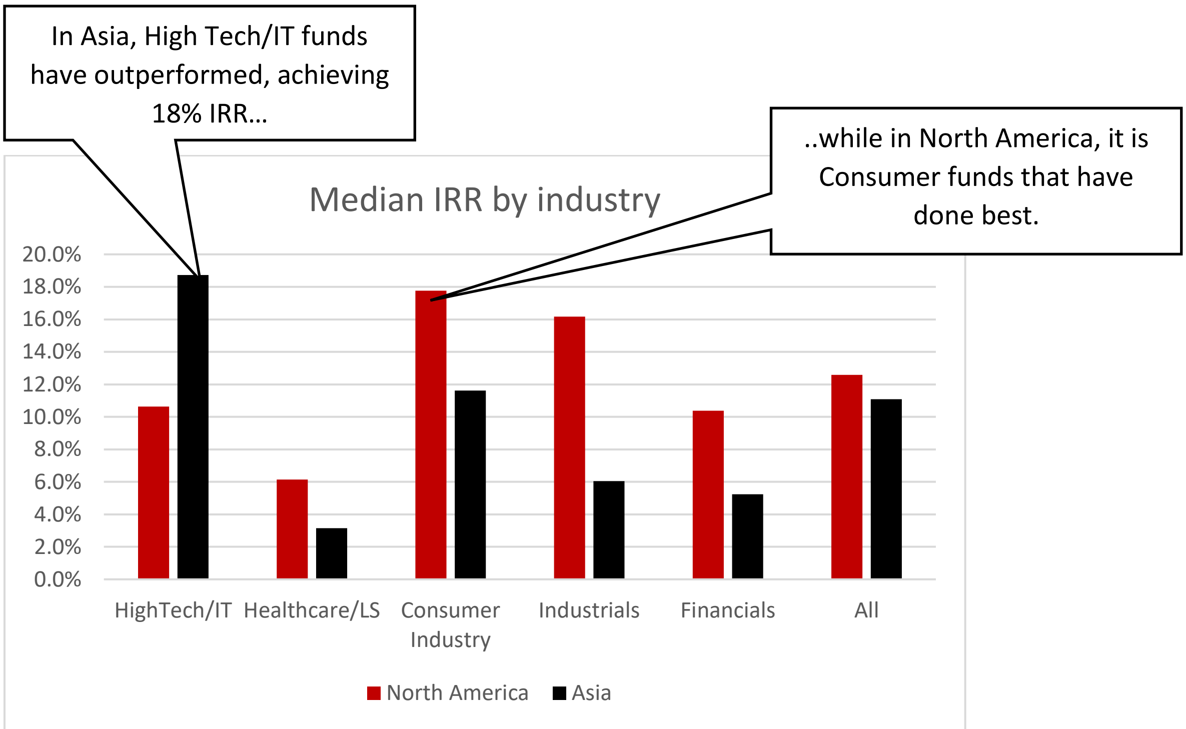
Which industries are outperforming? An analysis of CEPRES data

Marcus Simpson mentioned an interest in the consumer and healthcare sectors. So, we used the CEPRES, PE. Analyzer platform to compare the performance of different industry funds in Asia compared with North America. We found that HighTech/IT funds have performed best in Asia so far, with a sparkling IRR of over 18% - doing much better than comparable North American funds, whose median IRR is around 10%. But for North America it is the Consumer sector that has outperformed, followed closely by Industrials. In both North America and Asia, Healthcare funds have generally underperformed.



Source: CEPRES PE. Analyzer, Outperform Analysis July 2017

We will be discussing this and other market-shaping trends at our next event, Outperform Asia, 26 September 2017, Hong Kong. www.outperformasia.com

As an Outperform community member we have managed to negotiate a VIP discount for you with CEPRES. We are pleased to offer you a VIP 15% discount on the Premium and Professional version of PE.Analyzer. This 15% discount is valid until 27 September 2017. For subscriptions after this date, a 10% discount is applicable if the subscription is taken before 31 December 2017.

To find out more go to: www.cepres.com and quote the VIP code: OutperformAsia when purchasing your subscription. (This discount cannot be combined with any other discount available)
Daniel Schmidt, CEO of CEPRES will be speaking at Outperform Asia on 26 September. To meet him at the event or to discuss the platform in more detail with a demo, contact him directly on daniel.schmidt@cepres.com and quote the VIP code.