Private Debt Intelligence – 6/4/2018

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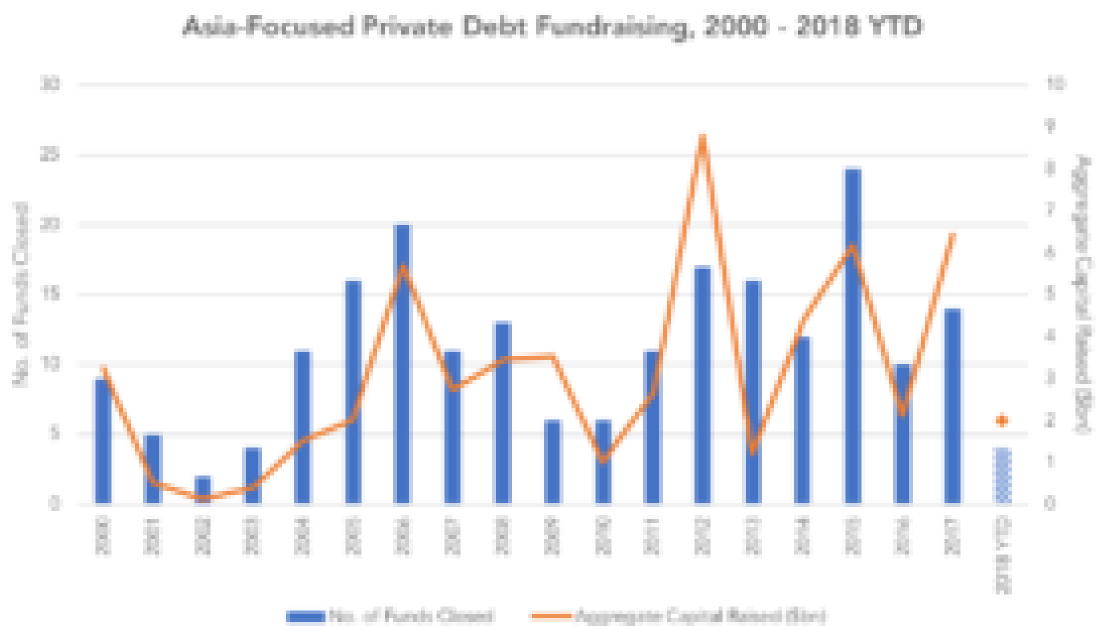
Private Debt Fundraising Struggles to Gain Momentum in Asia

Chart



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Although the rapid expansion of the private debt industry is widely recognised, it is equally apparent that the bulk of the increase has been focused on established markets in North America and Europe. Less focus has been paid to opportunities in Asia, and consequently the region has had difficulty in building momentum in recent years.

2012 marks the highest annual capital total for fundraising, as Asia-focused funds secured $8.8bn from investors. This was followed by just $1.2bn raised in 2013, and swings in annual fundraising have continued up to 2017. The number of funds closed focusing on the region has seen similar variance, from a record 24 vehicles that closed in 2015 to just 10 that closed the following year.

With such limited overall activity, the cyclical nature of fundraising activity for Asia is influenced by the closure of a small number of larger funds. The three largest funds closed in 2015 account for 73% of capital raised in that year, the same proportion as the three largest funds of 2017. Equally notably, the fund types which account for the bulk of fundraising vary from year to year – special situations funds represented 73% of capital raised in the record year of 2012, but just 27% in 2017. Similarly, mezzanine funds accounted for 38% of fundraising in 2017, but only 15% in 2012.

However, prospects for future activity are encouraging. More than 900 investors have a stated preference for Asia-focused private debt funds, and 30% of investors surveyed at the end of 2017 said they thought Asia represented the best opportunities in 2018. These investors are well served for prospective funds – as at June there are 31 Asia-focused funds in market, seeking a total of $11bn from investors.

This may be in part a reaction to the consensus that markets in North America and Europe are approaching a pricing peak, and given the long timeframes of private debt vehicles there may be an expectation that opportunities in Asia will multiply in coming years. For the time being, though, it remains a niche area of the industry, and fund managers raising Asia-focused vehicles must expect to face a long and challenging fundraising process

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