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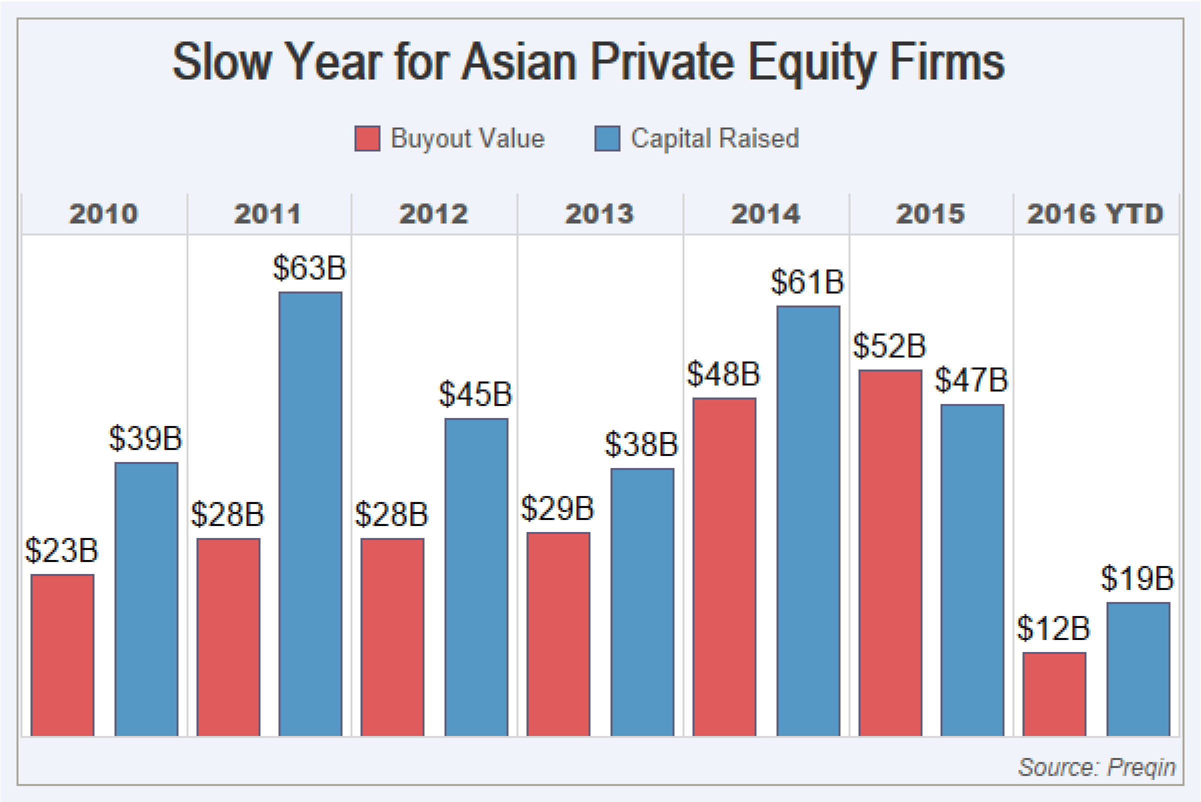
Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

# What Attys Need To Know About Asia's PE Slump

By **Benjamin Horney**

*Law360, New York (October 3, 2016, 5:42 PM EDT)* -- Private equity firms in Asia have struggled to raise capital and swing deals in 2016 at the same pace as in recent years amid a regional economic cooldown and geopolitical uncertainty ahead of the U.S. presidential election, though experts say the slowdown isn't the first step towards catastrophe.

Asian private equity firms have raised a combined $19 billion from limited partners thus far this year, according to data from a report released last month by research firm Preqin, a significant drop-off from 2015's total of $47 billion. The total value of buyout deals clinched by Asian private equity firms has suffered as well, with just $12 billion worth of deals inked thus far this year compared to $52 billion in 2015.



Neil Torpey, a corporate partner at Paul Hastings LLP who spent more than a decade in the firm's Hong Kong office, told Law360 that while the overall numbers paint a gloomy picture of the current private equity landscape in Asia, there is no impending doomsday in the forecast.

"There are definitely some very bright spots in Asia," he said, pointing to sectors including real estate, energy and technology. "There's a view that there are some very good opportunities in a number of markets across Asia."

In order to understand the dip, it's important to understand why the numbers were so high in the first place. Each year between 2010 and 2015 saw at least $38 billion in private equity capital raised by Asian firms and funds, Preqin data shows, and according to Andrew M. Ostrognai, a corporate partner atDebevoise & Plimpton LLP and head of the firm's private equity practice in Asia, it's no coincidence that such a strong half-decade came directly after the global financial crisis.

"I think there was a perception, and perhaps it was a reality, that the [global financial crisis] hit Asia, and particularly China, less hard than it did in other parts of the world, and particularly the [U.S.] and Europe," said Ostrognai, who works out of Debevoise & Plimpton's Hong Kong office.

"And, of course, investors still needed to put their money to work," he added. "So I have wondered whether during those years a more stable Asia looked like a more attractive investment destination than the troubled States or Europe."

The fact that many investors saw Asia as a region where they could still put their money to work while other parts of the world attempted to regenerate their economies in the wake of the financial crisis led to an increased interest in the Asia private equity market as a whole, according to Jason Nelms, a corporate partner at Morrison & Foerster LLP.

Nelms, who is head of Morrison & Foerster's Asia fund formation practice, told Law360 that starting in 2010 there was an uptick in both interest and confidence throughout parts of the region including in China, Southeast Asia and Korea, among other markets. That, coupled with continued struggles in the U.S. and Europe, caused many global investors to "shift greater portions of their PE allocations to China and greater Asia," Nelms said.

"In 2015 and now 2016, despite bright spots in places like Japan and India, the focus of regional and global investors has continued to move toward the relatively healthy U.S. markets," he said. "The primary driver has been continued cooling and uncertainty in China."

With the global financial crisis becoming more a remnant of the past each year, it isn't too shocking that the numbers have come back to earth, but there are other reasons for the slowdown as well. According to Torpey, the significant slide in 2016 can be partially attributed to the upcoming U.S. presidential election, with this go-round in particular having had an effect on business in Asia.

"I do think there is at least some dampening of deal activity ahead of the U.S. presidential election," Torpey said. "There's been a lot of rhetoric around China and its economic activity and currency practices and the like, although most of the discussion in the campaign has been factually incorrect. Nonetheless, it does give some players pause to see what the outcome of the election is before proceeding."

And some experts say other issues have contributed to Asia's private equity stagnation, including an increasingly crowded market, currency fluctuations in parts of the region and the fact that other parts of the world, including the U.S. and Europe, are beginning to flourish once again.

The shifting figures will likely cause more headaches for attorneys representing smaller, less-established players in the region, according to Ostrognai.

"The larger and established funds get raised on schedule, and generally increase in size," he said. "For those who are newer to the practice, and thus generally representing newer managers, I imagine this can create all sorts of dislocation and difficulty."

Attorneys seeking to help their clients weather this year's dip in private equity fundraising and dealmaking will be best prepared by understanding how we got here, experts say, and by ensuring that clients don't overreact and decide to completely abandon their business plans.

"Stick with it," Ostrognai said. "Short and simple. Be there in the good times and the bad, always fully committed."

--Editing by Katherine Rautenberg and Kelly Duncan.