There has been a rise in the number of global institutional investors who prefer to invest into South-east Asia and Asia, generally via Singapore-domiciled funds, due to the city state's reputation as a well-regulated, transparent jurisdiction. PHOTO: AFP

Singapore the PE, VC hub to watch

The momentum is expected to carry through this new decade. And there are four factors that make this so. BY JASON NELMS AND MARCUS SIK KIN TO

SINGAPORE emerged in the 2010s as one of the key Asia hubs for private equity (PE) and venture capital (VC) fund managers. We expect Singapore's momentum to continue throughout the 2020s as the country seeks to capture an increasing share of the market for PE and VC fund management in the region and globally.

The confluence of four key factors has created strong advantages in Singapore's favour, and have driven growing interest in both establishing fund management operations and setting up PE and VC funds in the Republic.

Booming South-east Asian markets

Singapore is firmly entrenched as the regional hub for South-east Asia, which has experienced tremendous economic development over the past decade, and which nurses great expectations for the coming one. GDP across the region rose more than 57 per cent from 2010 to 2019, to exceed US$3 trillion.

The region is now home to 11 "unicorns" (startups valued above US$1 billion), a number some have forecast to double or more than double in the coming decade. VC deal value last year jumped more than 18 times compared to 2012. As China continues to mature and global trade disruptions drive long-term structural changes, many international managers we have spoken with view South-east Asia as the most exciting "emerging" market for growth over the next decade. We expect the region to remain atop the list of attractive markets for global investors in the years to come, with Singapore well-placed as the regional gateway.

Investor demand

The growth in South-east Asia's economic outlook mirrors an explosion in global investor interest in region-focused PE and VC funds.

PE and VC fund-raising may face lingering headwinds in 2020 due to record amounts of dry powder, ongoing trade tensions, high valuations and cyclical risks. However, the fund-raising market should be sustained in the short term by increased investment allocations to the region, and the emergence of new types of PE and VC investors in the region such as global sovereign wealth funds, financial institutions and family offices.

Many existing managers are expected to return to the fund-raising market later this year and into 2021 as the investment periods on their existing funds wind down and South-east Asia's advantages grow. In particular, we see continued interest in country-specific funds (particularly Indonesia and, on a smaller scale, Vietnam), while well-placed global and regional managers will continue to pursue and grow successful pan-Asean (plus India) investment strategies as the region becomes more integrated.

Despite a robust VC and startup ecosystem, a lack of growth equity and exit opportunities (for mergers and acquisitions and initial public offerings) have proven to be a key bottleneck to growth.

Recent signs point to a breakthrough on this front. We see growing investor appetite for "growth capital" funds (typically focused on C and D rounds). The markets have also seen substantial growth in acquisitions by regional startups and corporate VC platforms, including high-profile acquisitions by Grab, Go-Jek, Tokopedia and other South-east Asian unicorns.

In the long term, managers we have spoken with believe that increased liquidity options will boost return multiples and entice new managers and investors into regional markets, which will help drive a virtuous cycle in Singapore's favour.

Efficient and transparent operations

Managers surveying their options are increasingly finding Singapore to be among the most cost-effective and user-friendly jurisdictions to operate in globally.

In recent years, the Singapore government has continued to stay a step ahead of the competition among fund management hubs by introducing favourable new policies. For example, in 2017, the Monetary Authority of Singapore (MAS) introduced a new category of licence for VC fund managers. Fund managers have found the new VC licensing rules to be user-friendly, compared with those in other jurisdictions, which has further reduced barriers to entry and running costs.

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Additionally, the new Singapore Variable Capital Company (VCC) entity type, which was launched earlier this month, should simplify the way many funds and deals are structured. VCCs offer a number of legal and mechanical advantages over more traditional corporate structures, which will both save costs and reduce administrative burdens.

We have also seen a dramatic increase in the number of global institutional investors – particularly in Europe – that prefer to invest into South-east Asia and Asia generally via Singapore-domiciled funds, due to Singapore's reputation as a well-regulated and transparent jurisdiction.

Additionally, international managers have increasingly found that the set-up process for Singapore funds is substantially the same as for other leading jurisdictions in which they have operated, further reducing any uncertainty and hidden transition costs.

Growing business ecosystem and talent pool

Singapore has grown its pool of international talent in areas such as fund management, law, accounting, consulting and corporate services in recent years. More and more firms have sought to establish Singapore as a leading – or sole – Asia hub, due both to market demand and the city state's appeal to global talent.

The country has consistently ranked at or near the top of the list of the best countries globally for expatriates, and also was recently ranked the most desirable relocation destination among Asia-based job-seekers. This growing ecosystem will help ensure that managers and investors will be able to operate efficiently and effectively from Singapore at a world-class level.

Global and regional market forces, smart planning by the Singapore government and an attractive environment to live and work have combined to make Singapore a preferred regional destination for the fund management business. As the foregoing factors continue to drive momentum for Singapore this year and beyond, we expect the country to capture an increasing share of the market for PE and VC fund management in the region and globally over the next decade.

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