

Placement agents on the Asia trail

Intermediaries linking GPs and LPs East and West



As Asia Pacific becomes increasingly important in global portfolio allocations, intermediaries are playing a key role in linking investors and funds in the West and Asia. This is a two-way traffic, as Asia becomes a significant source of global LP commitment as well as new funds. Placement agents, therefore, are a prime component in introducing new openings to investors with limited reach and resources. *AVCJ* spoke to several leading participants in the region on current issues and opportunities in the sector.

The role of placement

Placement agents usually have little trouble justifying their intermediary position, especially to GPs: "First time funds – unless they are a spin out story – can have a difficult and frustrating time trying to establish themselves in the market as there will be numerous questions on execution, attribution, performance, and market positioning," says Nikki Brown, Partner at *MVision*.

Paul Denning, CEO at Denning & Co., points to the consulting as well as outreach function from a GP's perspective. "With a placement agent, you can come up with your Top 50 of ideal investors. You're looking for someone who has good, deep, trustworthy relationships."

Charles Daugherty, Managing Partner

at Stanwich Advisors, has a preference for newer funds, despite the extra work involved. "The larger funds have size, momentum, and view, and compensate their advisors like travel agents. Our objective is to find the next leaders. This requires a tremendous amount of due diligence."



Bob Mast

From the opposite, LP perspective, placement agents in Asia have a basic, practical *raison-d'être* for their business, according to Ed Greene, Partner at CP Eaton. "It's the time resources needed to come to Asia to market US or European funds. If you're going to senior management in your GPs, and tell them I'm going to put you on a plane for 15 hours, and take you to Tokyo, Hong Kong, Singapore, or wherever, you'd better have a good group of people for them to talk to."

Denning sees another solution for Western LPs. "Within the Asian market, a lot of the smaller LPs that don't have access to Asia geographically understand that they're not going to see all the funds initially, so they're pushed to consider a fund of funds. I think that's a good idea for Asia, at least initially."

Quality benchmarks with placement agents

Private equity firms and LPs alike face another due diligence hurdle when assessing placement agents. And the cream of industry advisers feel there is no escaping this.

Les Fallick, Founder and Managing Director at Principle Advisory Services, warns that, "GPs should do the same kind of diligence on their placement agent as a gatekeeper should on a GP. Make sure that the track record that you're being offered actually resides in the people who are going to do your assignment, not the organization."

Brown sees communication as crucial. "An agent whose business practice is to advise and manage a fund raise, as opposed to making introductions, will work closely with the general partner to prepare all the relevant materials. They also ensure the general partner communicates all aspects of their story eloquently and succinctly." George Gaines, Partner at BerchWood Partners, adds, "Sometimes spinout groups can be more attractive than the firms they left, particularly if they have attribution for the



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best parts of their former firms' track record."

Greene sees an important role for agents in highlighting neglected propositions. "There are great management teams that are not well known, and they need to be identified in the market place. And that is one of the values that a placement agent brings to this process."

"Our whole business is built around introducing or connecting GPs that we find interesting to LPs we deal with on a global basis," says Robert Mast, Managing Director at Monument Group. "Because of the buy-side perspective of our team and the extensive due diligence effort behind our fundraisings, many investors also look to us as a 'quality screen' to help them identify new GPs of high quality."

"The better opportunities will be away from these larger groups," agrees Daugherty. "They will invest in less competitive deals, may have more upside to create rapid growth/operating value, etc. These smaller groups will grow or emerge to be the next generation of top performers in the region."

Fallick also recommends placement agents to be ready to stand and fall by their GPs. "Placement agents may say caveat emptor, or that it's not our place to be responsible for the managers' performance. Well, they're wrong."

Bridging the gap between the West and Asia

Pro-Asian sentiment is naturally a factor in the placement agents' dealings with the LP base in particular. However, hurdles

may remain on the GP side. "You have this explosion of firms in Asia, particularly in China and India, but the majority of them are first-time funds and teams, and in some cases either teams without much of a track record or without much ability to coherently present their track record," says Gaines.

"The international investor community is turning their focus heavily onto the Asia Pacific region broadly with a special concentration on Australia, China, India, and Japan," Brown adds. "The regional funds have shown popularity as have local funds."

"There is great interest in Asia among the LP community, partly because of the exciting economic growth projected for the region but also because there have been a growing number of examples – both on an individual deal basis and on a fund basis – that the venture capital and buyout markets are developing, creating attractive institutional investment opportunity and ultimately, outstanding financial performance," says Mast.

Greene believes now is the time for action. "If you wait until private equity becomes a mature market here, you're too late to the party. The same is true on the LP side: it's even more immature than the GP side as far as global reach goes."

However, Daugherty cautions that, "there is a difference between LPs that invested in earlier cycles of Asian private equity euphoria and those that are making their first commitments to the region." Earlier memories of losses, break-ups of management teams and fund blow-ups

extremely plentiful at the moment, indeed, close to a commodity," agrees Fallick.

"Competition within the placement agent market continues to be strong for attractive funds, and the ability to connect with LPs and raise funds on an international basis has become increasingly important," says Mast. "There are a variety of agents in the market, and a large number of them are very sales-oriented," cautions Brown.

Fallick has some trenchant comments on the sector. "The placement business is still highly fragmented, and finding consistent quality is a challenge for GPs. The market is competitive, there is strong downward pressure on fees, and the long-term stability of the placement agent model is still open to question."

"The placement agent business is going the same direction as the market in general: it's becoming more of a barbell," notes Denning. "What you find with the larger placement agents is a lot of them have new people who don't have those relationships."

As Fallick adds, "quintessentially it's a relationship business, and those relationships have traditionally prospered more inside boutiques. In that sense, the placement business mirrors the private equity business. There's better alignment of interest in a boutique than there is in an investment bank or a corporate."

Pressures on placement agents

The buoyancy of the current fundraising market may make for an easy time for placement agents. "The fundraising market is in a euphoric state with growing activity, and volumes," believes Brown. "Capital is



George Gaines

"Our belief as a firm is that long-term we will build our business gradually by committing to the culture and the region, and the nuances of the traditions, and to learn from that," adds Greene.

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"An agent cannot be successful in Asia if they don't understand the region and are not prepared to roll up their sleeves and get their hands dirty," concludes Daugherty. "Most of the LPs that will focus on these smaller/mid size players (\$200-400 million) must do the same."

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