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Fundraising slows after record year

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Private-equity investors raised a record US\$63.5 billion this year to buy companies in the developing world, especially in Asia, even as the pace of fundraising slowed amid the global financial crisis.

Private-equity funds focusing on emerging markets raised 7 percent more money this year, compared with the year-on-year increase of 78 percent last year, the Washington-based Emerging Markets Private Equity Association said.

"We're seeing a leveling off in growth after several years of very dramatic increases, but have yet to see a decrease in capital being raised," Sarah Alexander, president of the industry group, said an e-mail to Bloomberg News.

Private-equity investors have pushed into new markets as credit dried up after the US subprime mortgage market collapsed, slowing deal-making in the US and Europe. Announced private-equity deals, excluding aborted transactions, shrank to US\$207 billion worldwide this year, less than a third of the US\$674 billion last year, data compiled by Bloomberg showed.

The funds focusing on Asia, excluding Australia, New Zealand and Japan, have raised US\$37.1 billion since Jan. 1, accounting for 58 percent of total fundraising in emerging markets, said the industry group, whose members include private-equity fund managers and institutional investors.

Investors putting money in emerging-market funds "still have capital to commit in 2009," Alexander said.

Investors see higher growth potential in developing markets, she said.

Funds that have come to the market in the last six months, particularly first-timers, will likely face a "much more challenging fundraising environment" amid the worst financial turmoil since the Great Depression, Alexander said.

"It's reasonable to assume that the fundraising cycle will grow longer - potentially taking 18 months or more to achieve a final close on a fund," she said.

Leopard Capital Ltd, which is targeting a US\$100 million fund to invest in Cambodia by March 31, has raised only about a quarter of the amount this year.

"Next year, the world's investment pie will be smaller and investors will be more discriminating on what fund strategies they back," Phnom Penh-based Douglas Clayton said.

Many of the funds that managed to raise money in the second half of the year have already drawn commitments from investors "for some time" as they have been attempting to raise capital for at least a year, Alexander said.

Dhaka-based Asian Tiger Capital Partners, which aims to raise a US\$50 million Bangladesh-focused private-equity fund, and Frontier Investment & Development Partners, which is seeking to raise US\$250 million to invest in Cambodia, postponed their plans till next year.

Morgan Stanley Capital International's Emerging Markets Index, a benchmark for equities in 24 developing nations, tumbled 53 percent this year.

Many of the first-time funds in emerging markets have sprung up in India and China, the world's two fastest-growing major economies, and are seeking capital from local institutional investors that have been "less severely" affected by the global equity rout, Alexander said.

Actis Capital LLP, based in London, raised US\$2.9 billion for an emerging markets private equity fund, which will allocate US\$1 billion to India and US\$600 million to China. New York-based Citigroup Inc said in May it raised US\$500 million to invest in roads, ports and utilities in India. This story has been viewed 220 times.