Periodic Research on Important Developments and Trends in EM PE April 2012

EMPEA Brief
The Evolution of PE in China

This EMPEA Brief is a primer on the history and development of China's domestic private equity industry, and provides an overview of local currency (RMB) fund managers—both foreign and domestic—operating in the country. It is a reprint of "The Evolution and Future of Private Equity in China," authored by EMPEA CEO Sarah Alexander and Senior Associate Mike Casey, which ran in the March 2012 issue of the Emerging Markets Private Equity Review.

Introduction

There may be no better symbol of the evolution of private equity in China than Chinese fund manager Hony Capital's announcement in January 2012 that it successfully raised US$4 billion in capital for two new funds—US$2.4 billion for its fifth USD-denominated fund and RMB10 billion (US$1.6 billion) for its second local currency (RMB) fund. Hony Capital illustrates the profound transformations that have taken place in China in the last decade, including the rise of professional domestic fund managers, the growth of RMB funds and the development of China's LP base.

The Chinese government has played a critical role in trying to develop an institutionalized domestic private equity industry. The government recognized that Chinese companies confronted a finance gap and viewed private equity as a means of financial intermediation that could provide long-term equity capital to help grow productive businesses. Over the last decade, the government adopted a variety of regulatory policies to catalyze the development of local fund managers, while fostering an environment where foreign fund managers could coexist with their local counterparts.

However, the rapidly evolving regulatory landscape and mushrooming of new funds have left ample opportunity for confusion and misunderstanding. The objective of this article is to clarify the Chinese market today by separating out the different types of private equity activity taking place. In particular, the article highlights the range of foreign currency and RMB fund managers and, in doing so, represents EMPEA's effort to educate industry stakeholders on the investible market in China.

Clarification of the types of private equity funds active in China, including delineation of institutional quality fund managers, will facilitate further capital flows—domestic and foreign—into the market. The article closes by exploring three trends likely to shape the future of private equity in China: growing demand for the asset class; increasing levels of local LP participation; and, professionalization paving the way for local Chinese investors to pursue cross-border and international opportunities.

Background

China's private equity industry has transformed over the last decade from one in which foreign firms dominated fundraising and investment activity, to one of coexistence (albeit not necessarily on equal terms) between local and foreign fund managers. In large measure, this is a direct result of the government's effort to create an ecosystem that fosters the development of an institutionalized asset class that can provide long-term equity financing to Chinese businesses.

The government has used a trial-and-error system to test what works best in China, while balancing its desire for local firms to learn from foreign investors against the need to maintain capital controls and command of the economy. The private equity market has evolved in three waves: from foreign managers raising foreign currency, to local managers raising foreign currency, to local managers raising local currency. These three structures coexist today, leaving plenty of room for confusion.

In the first wave—toward the beginning of the last decade—foreign private equity investors typically accessed the Chinese market through offshore holding companies. In these structures, Chinese companies received foreign capital injections offshore and sought to exit through an IPO on an exchange outside of China.

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Under this original structure, the bulk of the economics were going to participants outside of China. To reverse this trend and bring more private equity activity onshore, the Ministry of Commerce (MOFCOM) restricted the ability of foreign fund managers to pursue such offshore-structured investments, requiring that investments (and IPO exits) be made in China. Simultaneously, to encourage the development of local fund managers, MOFCOM promulgated regulations that enabled venture capital funds in China to raise USD from non-Chinese LPs, with the fund still treated as local for purposes of investible companies and regulations. These funds were granted a capital account, which pierced the capital controls and gave managers approval to convert foreign currency into renminbi for investments.

In the third wave, beginning in 2006–2007, the government took additional steps to develop a local RMB industry by allowing select Chinese institutional investors, such as China Development Bank and the National Social Security Fund, to invest in local RMB funds. The government also permitted Chinese fund managers then managing foreign currency funds to raise RMB funds as well.

Additionally, the central government reiterated its support for provincial, municipal and city governments to establish government guidance funds and channel capital toward policy priorities. Finally, the government enabled foreign fund managers access to the RMB market through programs enabling joint ventures with municipalities and Chinese corporations. With the central government's weight behind the asset class, private equity activity exploded.

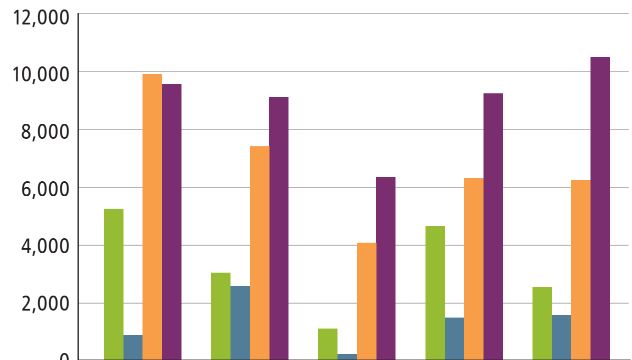
The Chinese Market Today

By most measures, China has emerged as the destination of choice for investors in emerging markets private equity. In both absolute and relative terms, private equity fundraising statistics for China have been astonishing. Fundraising for China-focused private equity funds has grown from US$3.9 billion raised by 28 funds in 2007 to US$16.6 billion raised by 63 funds in 2011.[1] On a relative basis, in the last five years, private equity funds dedicated to China have expanded from 7% to 43% of total funds committed to emerging markets private equity.

On the investment side, aggregate annual deal activity in China went from a peak of US$9.5 billion in 2007, to a trough of US$6.3 billion in 2009 and rebounded to US$10.5 billion in 2011. Investment data from 2011 show the value of investment activity in China represented roughly 40% of the total investments in emerging markets, and 50% of all investments made in the BRIC economies (see Exhibit 1).

[1] For EMPEA's methodology, country-specific fundraising totals only capture single-country funds, not country allocations or targets from regional or global funds. By definition, this implies a conservative—and likely underrepresented—estimate of private equity fund commitments to China, and it explains, in part, the delta between fundraising and investment totals for China.

Exhibit 1: Private Equity Investment in China Relative to Brazil, Russia and India, 2007–2011



	2007	2008	2009	2010	2011
Brazil	5,285	3,020	989	4,604	2,461
Russia	805	2,647	217	1,516	1,579
India	9,905	7,483	4,011	6,222	6,172
China	9,458	8,994	6,288	9,190	10,529

Source: EMPEA.

Some observers may look at our data and wonder why the fundraising and investment figures seem low. The principal reason is that EMPEA excludes from its statistics RMB fund activity that is primarily opportunistic trading capital in nature, and that in our view does not meet the traditional definition of private equity, as defined below.

To illustrate, depending on the source, the number of private equity funds in China ranges from the hundreds to the thousands. On the high side, global advisory firm PricewaterhouseCoopers recently estimated that China has about 3,500 private equity funds—a figure on par with the total number of private equity funds in existence globally—the majority of which are domestic (and by definition RMB-denominated due to currency inconvertibility).

The Chinese investment consultancy ChinaVenture notes that 1,084 RMB funds have emerged over the last three years, while local research company Zero2IPO notes that from January to November 2011, 171 PE funds and 295 VC funds were raised in RMB. The Centre for Asia Private Equity Research provides more conservative figures for 2011—their

About EMPEA

The Emerging Markets Private Equity Association (EMPEA) is an independent, global membership association whose mission is to catalyze private equity and venture capital investment in emerging markets. EMPEA's 300 members include the leading institutional investors and private equity and venture capital fund managers across developing and developed markets. For more information, visit us at empea.net.

data show 163 RMB funds were raised in the year (80 government-backed funds and 83 private-sector funds).

These data all come from reputable providers, but the variance in the distribution speaks to a significant challenge for participants in, and observers of, private equity in China: which of these RMB funds are institutionally investible, or institutional quality?

An Overview of RMB Funds

EMPEA believes that of the (potentially) thousands of private equity funds in China, only a handful of RMB fund managers are currently of institutional quality. To fit within EMPEA's definition of an institutional quality fund, a private equity fund manager should be managing a blind pool of third-party capital and taking an active management role in private companies. Moreover, professionalized fund managers should exhibit competence in back office functions, including processes, controls and risk management, and they should understand how to manage investor capital in a portfolio context.

EMPEA researched the spectrum of participants in RMB funds to establish a methodology for tracking fundraising and investment data for institutional quality fund managers in China. We did so because we believe clarifying the market's participants will help to educate institutional LPs on the investible universe of fund managers operating in China, and to support the development of best practices that will professionalize and institutionalize the asset class.

The RMB fund market today consists of foreign and domestic fund managers (see Exhibit 2). The foreign fund managers are institutional quality and have a demonstrated track record. They often partner with local or municipal governments (e.g., Shanghai Blackstone Equity Investment Partnership) or Chinese businesses (e.g., Carlyle and Fosun Group).

Domestically, fund managers may be broken down into five categories. They populate a spectrum from professional, established fund managers with a demonstrated track record, to inexperienced entrepreneur-backed funds that have more of a hedge fund than private equity approach, and are designed to cater to high net-worth investor needs for liquid, short-term investments. In between, one finds a varying degree of government or state-owned enterprise (SOE) involvement—in some cases, the SOEs themselves are creating their own private equity arms. We view the categories of RMB funds run by domestic managers as:

Exhibit 2: Overview of the RMB Fund Landscape

	Fund Characteristics				Fund Manager Characteristics		Examples
Fund Manager	Size	LP Base	LP Influence	Objective	Team	Track Record	
Foreign							
Commercial GP	> RMB500m (US$80m)	Third-party capital	Blind Pool	Financial return through active management	Professional	Yes, over at least one fund	Carlyle; TPG; Blackstone; Morgan Stanley
Domestic							
Commercial Fund Manager							
w/ USD Fund	> RMB500m (US$80m)	Third-party capital	Blind Pool	Financial return through active management	Professional	Yes, over at least one fund	Hony Capital; CDH; Legend Capital; DT Capital
w/ RMB Fund(s) Only	Typically > RMB200m (US$32m)	Third-party capital	Typically Blind Pool	Financial return through active management	Professional	Yes, over at least one fund	Tiantu Capital; Cowin Venture Capital; Jiuding Capital
Financial Institutions (Banks/Securities Co.'s/Insurance Co.'s)							
w/ USD Fund	Typically > RMB500m (US$80m)	Third-party capital	Typically Blind Pool	Financial return; Develop skill set and track record	Professional	Sometimes	CITIC Capital; CITIC PE Funds Management; Everbright Group
w/ RMB Fund(s) Only	Typically > RMB200m (US$32m)	Typically internal funds used to build track record	Captive	Develop skill set and track record to raise third-party capital	Semi-experienced	Sometimes	China Merchants
Corporate							
	Typically > RMB200m (US$32m)	Corporate innovation fund; sometimes simply the CEO's investment fund	Captive	Financial return; Identify potential acquisition targets	Semi-experienced	Negligible	Fosun; Teda; Shenergy; Huaneng; Shanxi Coal
Government-backed							
	Typically > RMB200m (US$32m)	Government	Captive	Policy objective	Inexperienced	Negligible	Bohai IIF; Jinpu IIF; Jilin National Biotechnology Venture Capital Fund
Entrepreneur-backed							
	Typically RMB100m (US$16m)	High Net-Worth Individuals	Investment Committee	Financial return through asset flipping	Inexperienced	Negligible	Coal miners; real estate tycoons

Sources: Emerging Markets Private Equity Association; interviews with leading private equity fund managers, fund formation lawyers and funds of funds based in China. Please note: Government Guidance Funds typically act as funds of funds.

- **Commercial GPs** – These fund managers most closely resemble traditional private equity investors. They typically manage blind pools of third-party capital, and seek financial returns through active management of portfolio companies. Some of the more established and professionalized commercial funds manage parallel USD and RMB funds. Most of these qualify as institutional quality funds. *Examples of Commercial GPs include: Hony Capital, CDH, DT Capital and Legend Capital.*
- **Financial Institutions** – These funds typically seek to create their own captive private equity arms, sometimes managing third-party capital (though not necessarily a blind pool). Some funds begin by using their own institution's capital to develop a track record, which can subsequently help them raise third-party capital later. For the more established investment banks, their differentiating characteristic is access to deal flow. Many of these funds solely manage RMB funds, though some managers, such as CITIC PE Funds Management and CITIC Capital, also manage USD funds. Some of these Financial Institution funds are institutional quality. *Examples of Financial Institution funds include: CITIC Private Equity Funds Management, CITIC Capital, China Everbright Group and China Merchants China Direct Investments.*
- **Corporate** – These managers typically launch captive corporate innovation funds and/or vehicles to identify potential acquisition targets. In some cases, however, the CEO or Chairman/Founder of the firm may use the company to establish a fund to make investments that may or may not be related to the core business. Select corporate funds may be institutional quality. *Examples of Corporate funds include: Fosun, Teda, Shenergy and Huaneng.*
- **Government-backed** – These funds are typically national, municipal, city or local government-backed funds launched to foster innovation or attain a policy objective. The government entity may place strategic or other priorities above returns or the management quality of the GP. The bulk of these funds are not institutional quality. Note that these funds are different than the joint ventures foreign fund managers establish with government entities. *Examples of Government-backed funds include: Bohai Industrial Investment Fund, Jinpu Industrial Investment Fund (GP Capital) and Jilin National Biotechnology Venture Capital Fund.*
- **Entrepreneur-backed** – These funds are a consequence of successful entrepreneurs—wealthy coal miners ("mei lao ban") and real estate tycoons, for example—seeking to capitalize upon public-private multiple arbitrage opportunities. These funds typically pursue pre-IPO deals and exercise little to no active management. The low risk, trading-style character is more akin to a hedge fund approach than true private equity. Frequently they use their own capital, or that of close associates, and invest on a deal-by-deal basis. The objective is to multiply capital quickly through high IPO valuations. *Note that there are exceptions for certain entrepreneur-backed funds. For example, industry sources note that Yunfeng Capital, the fund launched by Jack Ma—Founder, Chairman and CEO of Alibaba Group—is an institutional quality fund.*

From a fundraising perspective, the trading funds pose little challenge to institutional quality GPs raising capital from local institutional investors. In effect, there is a bifurcation in the market between professional private equity fund managers and inexperienced, smaller RMB funds:

- The former category consists of managers competing for capital from a handful of institutional quality anchor investors; an illustrative example would be Hony Capital, whose recent RMB fund is reported to have raised capital from the National Social Security Fund (NSSF)—China's reserve fund to support future social security needs—and China Life Insurance Company.
- The vast array of entrepreneur-backed trading funds tend to raise capital from high net-worth individuals, who according to industry sources are not necessarily passive investors.

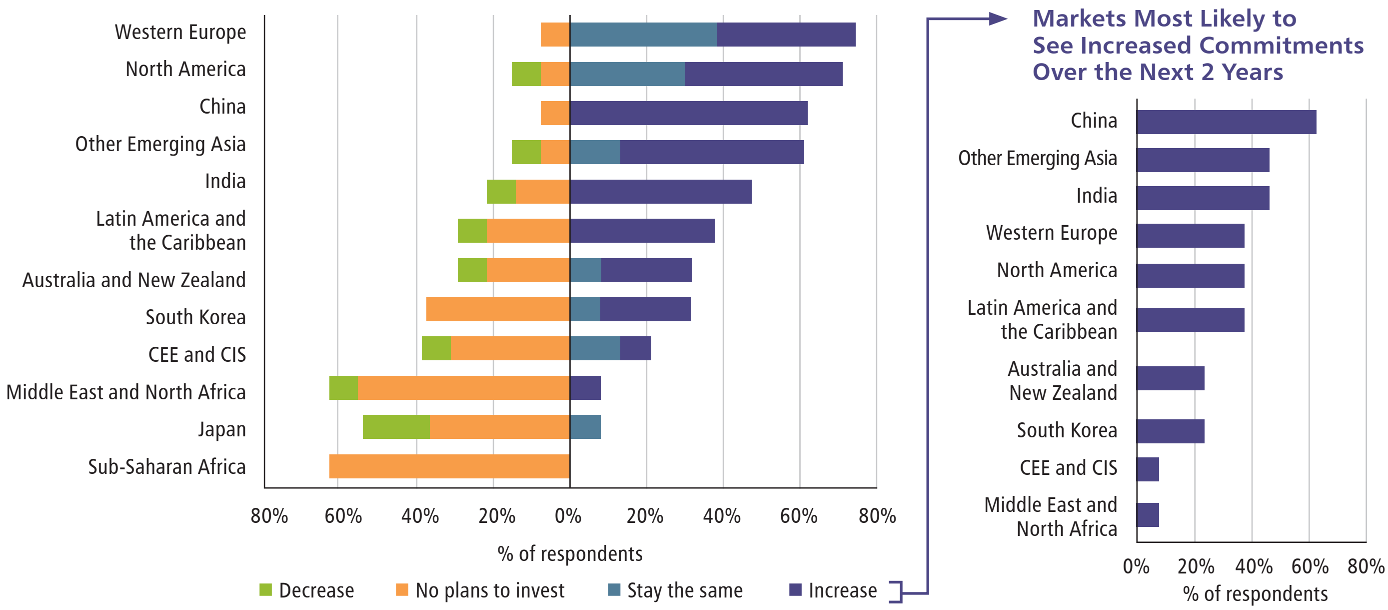
In November 2011, the National Development and Reform Commission (NDRC) issued a new regulation (Circular 2864) mandating that all funds with at least RMB500 million (US$80 million) in assets under management register at the national level. Any fund manager seeking capital commitments from NSSF will have to meet this AUM threshold and be registered with the NDRC. This regulation should help local institutional LPs distinguish professional fund managers from the pre-IPO trading schemes, and is a step in helping to institutionalize the asset class.[2]

Nevertheless, from an investment perspective, the proliferation of private equity funds can present significant challenges for foreign and domestic GPs. Proven private equity investors with a commitment to value creation retain a competitive advantage in partnering with entrepreneurs seeking to build better businesses. However, the new breed of pre-IPO, short-duration RMB funds can skew market pricing and may risk tainting the overall industry if some of these less experienced funds blow up.

Moreover, the entrepreneurs themselves have a significant say in which type of capital they accept. The legal and regulatory environment facilitates the quick deployment of RMB funds, effectively putting USD funds at a relative

[2] Recent reports disclose that the revised "Securities Investment Fund Law," which will govern private equity funds in China, is in the final stages of approval with the State Council. If the law is passed smoothly, China's private equity industry will enter a new stage of development and become more institutionalized.

Exhibit 3: Anticipated Changes to US Dollar Value of Asian LPs' PE Fund Commitments over the Next Two Years



Source: *EMPEA Special Report: Asian LP Sentiment Toward Private Equity, 2012.*

disadvantage for investing in certain companies; this is particularly the case for local funds managing local capital. Foreign GPs, for example, that use the Qualified Foreign Limited Partner (QFLP) program to make their GP commitment in RMB operate at a disadvantage, as the fund is still treated as foreign, which places restrictions on investments in certain industries. Additionally, RMB funds may list their investee companies through onshore exchanges, which have historically offered higher valuations than those found in offshore markets.

Looking Forward – Three Trends Shaping the Future of PE in China

Despite growing pains, private equity in China retains a promising future. While there likely will be a shakeout among entrepreneur-backed and first-time funds in the short term, three overarching trends are supporting the long-term professionalization and development of the asset class: growing demand for private equity from companies and LPs; increasing levels of local LP participation; and, professionalization paving the way for Chinese GPs and LPs to pursue cross-border and international opportunities.

Trend One – Demand for the Asset Class Growing

The first trend for the future of private equity in China is that demand for the asset class is likely to grow due to pull and push factors. On the pull side, Chinese private companies will continue to face a finance gap and will seek private equity as a source of capital. On the push side, there is likely to be increased demand from limited partners—both foreign and domestic—for private equity exposure in China.

From the company perspective, despite rapid, substantial and ongoing reforms, China's financial sector remains bank-dominated and relatively underdeveloped. The banking sector, which itself is dominated by state-owned enterprises, serves primarily as a tool for the Chinese government to channel capital toward preferred businesses (typically SOEs) and policy priorities.

A 2011 survey revealed 35% of privately owned enterprises in China had not obtained bank loans, compared to 20% among SOEs, while 48% of small- and medium-size enterprises had no bank loans compared to 19% for large companies.[3] Despite the creation of an SME Board in 2004 and the launch of ChiNext—a Shenzhen-based exchange for growth enterprises—in 2009, public equity markets remain out of reach for most Chinese businesses. In the bond market, commercial paper issued by small- and medium-sized enterprises (SME Collective Notes) represented 0.08% of total bonds outstanding in 2011, while Commercial Paper more broadly represented 7.45% of the total.

Recent moves by the People's Bank of China to constrain liquidity to dampen inflation expectations will likely exacerbate this finance gap. In turn, demand for private equity

[3] Morgan Stanley Research, "Greater China Economics: Issues in Focus." 9 December 2011. Pg 49.

investment among entrepreneurs and private sector companies is likely to increase.

From the institutional investor perspective, EMPEA and Coller Capital's most recent LP Survey data show that China is the second most attractive market for GP dealmaking (behind Brazil), and that 78% of all LPs expect annual net returns of 16% or more for Emerging Asia-focused private equity funds over the next three to five years, the highest among all regions. Moreover, 40% of LPs indicated that they planned to increase their exposure to China, the largest expansion in commitments across the emerging markets.

EMPEA's recent *Special Report: Asian LP Sentiment Toward Private Equity* reveals that 62% of Asian LPs plan to increase their commitments to China over the next two years—the largest allocation of any emerging market region or country—while roughly 90% of LPs expect returns greater than 16% for China-focused funds, with one-third expecting net returns greater than 21% (see Exhibit 3).

This appetite for exposure to private equity in China makes sense. On the one hand, academic research suggests correlations between economic growth and stock market returns are unproven, so LPs seeking to tap growth dynamics in the emerging markets need exposure to a variety of asset classes. On the other hand, even if the correlations between growth and returns were tight, foreign LPs seeking exposure to the China market face a number of restrictions on putting their money to work in the country. To access the RMB-denominated "A-share" market, foreign investors must first receive a license as a Qualified Foreign Institutional Investor from the China Securities Regulatory Commission, which are under a quota. Even then, of China's estimated 5 million companies, only 2,354 were listed on onshore exchanges as of February 2012.

Moreover, as Jim O'Neill, Chairman of Goldman Sachs Asset Management, has argued, China's growing companies—like those in many emerging markets—may best be accessed through private equity. This is due partly to a relatively thin free float in public equities, but also to the fact that the government controls large portions of listed equities. Private equity fund managers can therefore leverage their local knowledge and expertise to broaden the opportunity set for their investors.

As one of the pioneers of private equity investing in China put it succinctly in a recent comment to EMPEA, "Every Board of Directors, CEO, CIO, and pension officer must consider China as a destination for all asset classes—regardless of the structural risks, regulatory changes, valuation volatility, capital imbalances, RMB competition, cases of fraud, GP instability and corporate governance opacity. The overall growth, consumption shift, industrialization, and urbanization in China are part of too great a macro event for LPs in PE programs to ignore." LPs seem to agree.

Trend Two – Increasing Levels of Local LP Participation

The second trend shaping the future of private equity in China is the growing participation of local LPs in the asset class. In recent years, the Chinese government has adopted a number of regulatory policies that facilitate the development of a professionalized local LP base.

Beginning in 2008, NSSF obtained approval from the State Council to invest in private equity funds that are registered with the National Development and Reform Commission (NDRC). Two years later, the China Insurance Regulatory Commission permitted local insurance companies to invest up to 5% of their total assets in private equity.

Still, there are very few institutional quality LPs in China—LPs that are primarily motivated by long-term financial return and are willing to invest passively in a blind pool. Many market participants believe NSSF is the sterling example of a professional LP in China, and an example for local LPs to emulate. In an interview with the authors, a Managing Director at one of the leading commercial funds in China noted that the status of China's LP base is one of the biggest misperceptions outside observers have of the market. "There are very few pockets of LP money in China," he said, "Without an anchor investor like NSSF, the only other way to get to scale is if you have the insurance companies or corporates behind you, and very few of the insurance companies or corporates are actually professional LPs looking to deploy capital as a 'passive' LP."

The bulk of the money being raised for RMB funds is coming from retail investors and governments. On the retail side, high net-worth individuals and a number of trust companies, which pool retail capital for investments, have been making commitments to private equity to generate yield at a time when real estate investments are constrained, and fixed income and public equity returns are low. Regulators have started to clamp down on this activity in light of recent fraudulent fundraising schemes, which may end up reducing the pool of non-institutional capital available for private equity.

On the government side, an array of city and municipal governments, government guidance funds—effectively government-sponsored funds-of-funds—and industrial parks allocate capital to private equity funds to further policy objectives. These investments deviate from the traditional concept of passive LP investment and are typically captive in nature.

Despite its complications, the Qualified Foreign Limited Partner (QFLP) pilot programs in Beijing and Shanghai, which enable a limited number of foreign institutional investors to commit to RMB-denominated fund managers, could serve as a short-term stopgap for professional fund managers seeking to raise capital from foreign institutional quality LPs. Over time, however, we believe the LP base in China will adopt best practices and become more professionalized, thereby enabling the development of a viable system for non-bank financial intermediation.

Trend Three – Professionalization Paving the Way for Chinese Investors to Pursue Cross-border and International Opportunities

The final trend is that the growing professionalization of Chinese GPs and LPs will enable cross-border and international investment opportunities. Hony Capital CEO John Zhao has disclosed that cross-border investment will form one of the core strategies of Hony's latest USD fund, as the firm seeks to help Chinese companies expand overseas and assist foreign companies entering China. Hony Capital executed its first cross-border transaction in 2008, when it joined a consortium of financial sponsors to facilitate a Hony portfolio company's acquisition of Compagnia Italiana Forme Acciaio S.p.A., an Italian concrete manufacturer.

We expect to see more of these cross-border transactions in the years ahead, and for other fund managers, such as CDH and CITIC, to pursue them. We also expect more local fund managers to begin raising foreign currency funds.

Most market observers are well aware of the efforts of China Investment Corporation (CIC), the Chinese sovereign wealth fund whose mandate is to focus on overseas investments, to invest its portfolio in a range of non-Chinese equity, fixed income, private equity funds and infrastructure projects. However, other Chinese LPs, such as NSSF, are reported to be evaluating fund managers for private equity investments abroad. Moreover, in February 2012, Shanghai International Group, the investment affiliate of the Shanghai government, established Sailing Capital International, an RMB50 billion (US$7.9 billion) fund to facilitate outbound investment.

Two new funds suggest there will be additional avenues for Chinese investors to tap international opportunities. The first, A Capital's RMB3 billion (US$475 million) China Outbound RMB Fund (a joint venture with the Beijing Municipal Bureau of Financial Work) seeks to raise capital from Chinese institutional investors, as well as private and state-owned companies, and channel equity investments to European companies that can provide win-win partnerships with Chinese strategic investors.

Similarly, RIT Capital Partners' joint venture with Beijing-based Creat Group, J. Rothschild Creat Partners, is an approximately RMB5 billion (US$792 million) fund for outbound investments. The fund will raise capital from Chinese companies, with the proviso that the State Administration of Foreign Exchange (SAFE) must approve each transaction on a case-by-case basis. While these funds might not meet the strict definition of managers of a blind pool of third-party capital using active management to improve private companies, they may portend a future trend.

Yet as alluring as this trend is, and as intuitive as it may seem for Chinese companies to buy recognized brands, market access and marketing and distribution capabilities abroad, the short-term challenges are significant. On a relative basis, Chinese companies suffer from a paucity of management talent. The challenges of sourcing deals, identifying synergies and managing post-merger integration are quite significant. Industry sources note that in developed markets, research suggests more than 50% of M&A activity in the end does not create positive synergies. As one local fund manager asks, "How much higher is this hurdle when your acquirer is a Chinese company?"

Conclusion

The pace of change in China makes it exceedingly difficult for investors outside—and even inside—the region to understand the market. In some ways, the rapid evolution of the private equity market in China presents one of the greatest challenges to the long-term viability of the asset class in the country. EMPEA is working to provide greater transparency on the amount and types of private equity activity taking place in China, and in doing so, we hope to provide fund managers and LPs a greater understanding of the investible market.

As Chinese private equity houses raise foreign currency funds—recent examples include Shenzhen Cowin Venture Capital, Jiuding Capital and Sino-Century China Private Equity Partners, all of which are now raising their first USD funds—and as they begin to pursue cross-border and international opportunities, by necessity they will need to adopt the international standards of transparency and governance that the pioneering Chinese funds, such as Hony Capital and CDH, adopted early in their development. In addition, there will need to be a level playing field for foreign funds participating in China—regardless of the currency in which their funds are denominated.

EMPEA will continue to serve as a source of intelligence and provider of industry best practices to foreign fund managers investing in China, Chinese private equity firms investing at home and abroad, and LPs seeking to understand how China compares to other emerging market opportunities. In doing so, we hope to play a helping role in enabling private equity to become a professionalized and institutionalized asset class in China.

