Private equity

PAG raises $3.6bn for Asian buyout fund

Shan Weijian's investment vehicle to invest in businesses that have 'barriers to entry'

Shan Weijian - © Bloomberg

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by: Henny Sender in New York

Shan Weijian (http://next.ft.com/content/3ff9abaa-aba1-11e0-8a64-00144feabdc0), the former TPG executive who now leads private equity firm PAG (http://next.ft.com/content/269331c2-6378-11e3-886f-00144feabdc0), has raised $3.6bn for his second Asian buyout fund, joining the fundraising rush in the region.

The fundraising comes at a time when there are conflicting trends about the extent to which there is a credit crunch in Asia.

Many private equity firms expect banks in the region to curb lending as corporate borrowers struggle. Executives at many investment groups hope that if the banks retreat, it will leave a gap that their capital can fill.

However, in some parts of Asia, private equity, distressed and venture capital funds have raised such large sums that Mr Shan thinks there is too much capital trying to be invested, which could hit returns to investors.

In recent months, Singapore-based RRJ has raised $4.5bn, and Bain Capital has raised $3bn, while Barings Private Equity raised $4bn earlier last year, joining KKR which raised $6bn.

Mr Shan's first buyout fund, which closed with $2.5bn just over three years ago, has already returned $1.5bn of capital so far and has a gross internal rate of return of about 30 per cent.

Mr Shan expects the most profitable opportunities to come from companies that cater to domestic demand from a rising middle class, particularly in China, and invest in entertainment, healthcare and financing firms as well as internet apps.

However, it is still possible to lose significant amounts of money in those sectors, with growth does not necessarily leading to profitability, given the intense competition.

"There is always too much capacity, competition and capital," Mr Shan said. "The key is to identify and build businesses that have barriers to entry."

Emerging markets, particularly in Asia and Latin America, have not had a particularly strong period in recent years, faced with everything from a downturn in commodities prices to regulatory uncertainties.

"We still like the diversification of investing in emerging markets," said Nicole Musicco of Ontario Teachers' Pension Plan. "We are long term, so we can ride out the cycles. And Shan and his team have deep market insight and know how to get deals done in Asia."
