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RMB Funds' LPs Still in Bud & Fundraising of Third-party Wealth Management Institutions with Huge Potentials

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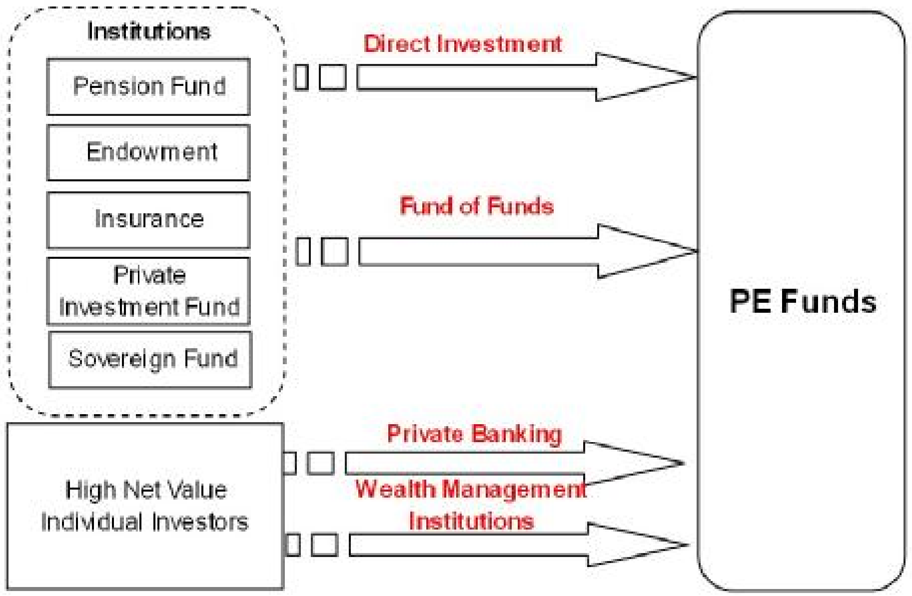
RMB Funds' LPs Still in Bud & Fundraising of Third-party Wealth Management Institutions with Huge Potentials

Analyst with Zero2IPO Research Center

The vibrant development of RMB funds has become the highlight of this stage, while the convenient investment circulation mechanism featuring "local fundraising, local investment and local exit" is expected to become a dominant mode in China's VC/PE market. For this reason, effectively building a communication channel between GPs and LPs is a necessary way for VC/PE institutions to enhance the fundraising efficiency and fulfill common interests of various investors and fundraisers. The funding source is essential to the financing of all VC/PE funds. The success for the fundraising of a fund directly depends on when a newly established fund wins the recognition and commitment of capital injection from LPs. Therefore, it is very necessary to analyze the current status and trend of China's LP market and understand the status quo of the fundraising for RMB funds in China. Zero2IPO Research Center, a famous VC/PE investment research institution in Great China staged out the China RMB Fund LP Market Research Report, which disclosed the status quo and development momentum of RMB fund LP market and made a detailed analysis on the fundraising channels of RMB funds.

Figure 1 Major Fundraising Channels of VC/PE Funds

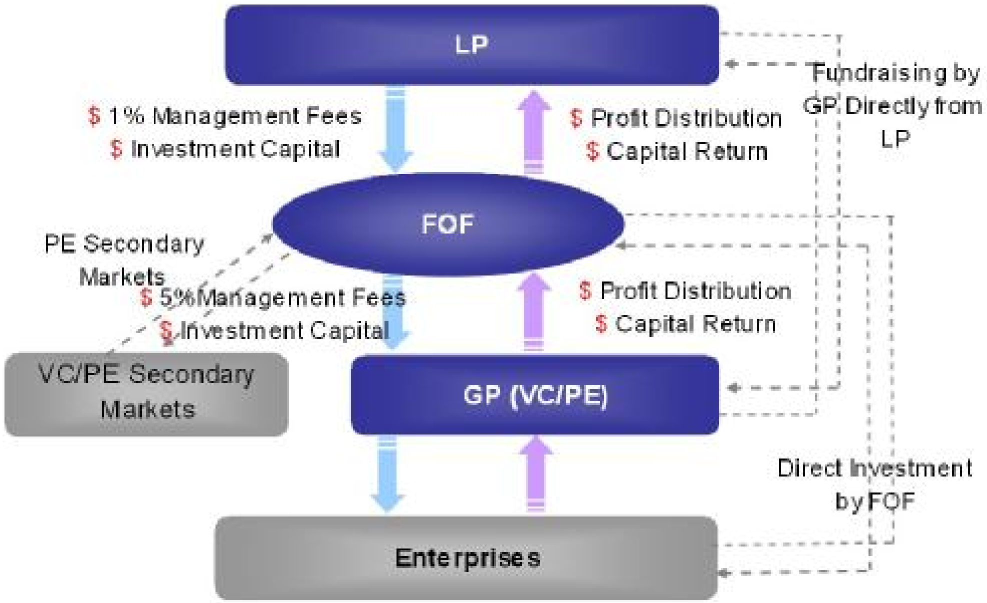


Source: Zero2IPO Research Center

Compared to foreign LPs, China's local LP market still remained at the initial stage. In recent years, more and more private investors have gradually gained the access to direct equity investments amid the continuous development of the sound and multilevel capital market system in China. As of H1'11, the National Council for Social Security Fund has invested in 11 VC/PE firms; the government guidance fund has mushroomed and gradually grown mature in operation; commercial banks, securities companies, trust companies, commercial insurance companies and other financial institutions have played an active part in the pilot of direct equity investment; private capital is ambitious to join the important local LP camp; and it is believed that as the policy environment for equipment investments is changing for the better, part of the social capital such as local pension funds and corporate annuities will be used for direct equity investment. These large institutional investors represent an important potential candidate for China's local LP group.

As RMB funds are developing quickly, VC/PE firms hope to launch RMB funds on one hand, and the LP group with a huge amount of cash

Figure 2 Operation Mode & Benefit Division of FOFs



Source: Zero2IPO Research Center

is also actively seeking the channel to participate in VC/PE investment. The poor linkage between investing and financing channels has become a significant factor hindering the development of China's VC/PE market. Therefore, the intermediaries that can build effective communication channels between GPs and LPs seem more important at the development stage of China's LP market.

So far, RMB funds on the domestic market raise funding via the following three ways: direct fundraising, PEFOFs and third-party intermediaries' fundraising participated by commercial banks, trust companies and third-party wealth management institutions.

Channel I - Direct Fundraising

The most traditional and common method to raise a new fund is to directly sell fund shares to pension funds, university endowments, asset management companies, families, wealthy individuals and other LPs. The maturity of most funds is five to seven years, which means the investment team will start the fundraising for the second fund in the third year after the first fund is established, thereby in a constant circle.

Channel II - PE FOF Fundraising

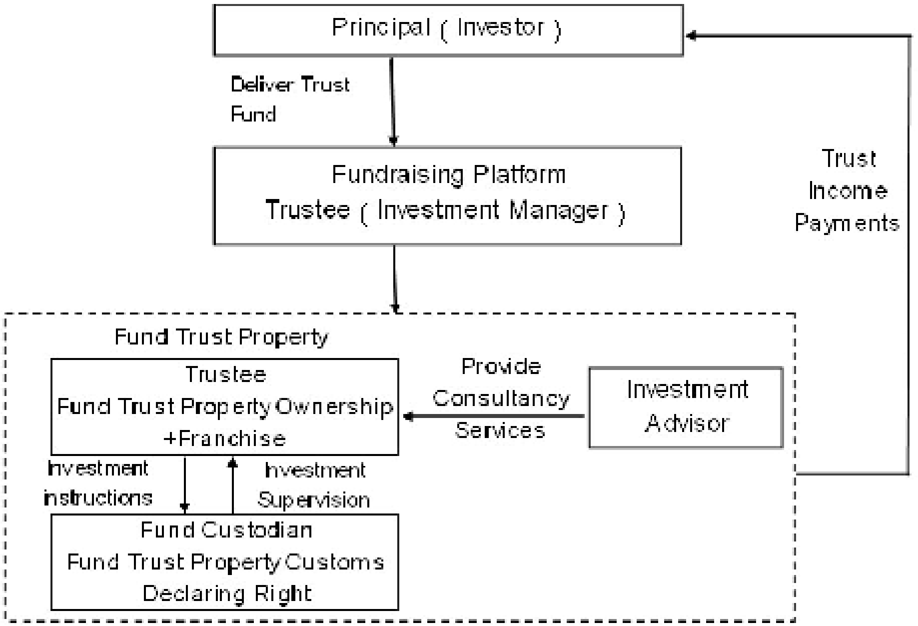
Unlike direct fundraising from LPs, PE FOF will firstly obtain money from LPs and then invest in different types of VC/PE funds. By fund flow direction, Figure 2 illustrates two major fund chains: One is the "investment capital and management fee" that flows from LPs to PE FOFs, and then from PE FOFs to VC/PE funds. The other is the "capital return and profit distribution" that flows from PE funds to PE FOFs and then from PE FOFs to LPs.

Channel III - Fundraising via Third-party Intermediary

The channels of the third-party intermediary include bank, trust and the third-party wealth management institutions. As trust business has been quickly developing in China in recent years, the trust platform as the fundraising channel for VC/PE funds has attracted more and more attention in the market. The PE trust business means a trust company invests the fund under its trust plan in equities of unlisted enterprises, restricted circulating stocks of listed companies and other equities approved by the CSRC for investment. In reality, this is a pooling investment mechanism under which a trust company raises money through the trust mode to make equity investments in and provide operation management services for enterprises in compliance with legal requirements, shares the interest and bears the risk with the invested enterprise, and obtains the investment income through the IPO exit and asset restructuring of the unlisted enterprise or capital operation. The specific operational process of trust-based PEs is as follow.

VC/PE funds can raise money through the bank channel mainly in the following modes: "bank-trust integrated" wealth management product mode and commissioned sale by private banking department. Banks and trust companies exert respective advantages in launching equity investment products: Banks satisfy customer demand, while trust companies can also reduce the fundraising cost and increase the financing amount, which is a win-win outcome. Also, the target company can also improve corporate governance and enhance profitability with the help from PE investment. Zero2IPO Research Center observes that private banking department will form closer cooperation relationship with PE fund management institutions along with its booming development in the years ahead. As a result, more banks are expected to wean off their dependence upon trust institutions and turn to the "commissioned sale" by private banking department.

Figure 3 Operation Flow of Trust-based PE



Source: Zero2IPO Research Center

Besides bank and trust institutions, third-party wealth management institutions enjoy rapid growth along with the rising domestic high net value individuals. Third-party wealth management institutions refer to those independent wealth management intermediaries. These institutions do not represent banks, insurance companies and other financial institutions, but can independently analyze the financial status and wealth management demand of customers, judge the investment tools needed and offer integrated wealth management planning services. Now, third-party wealth management institutions have appeared to help GPs raise money, which saves extensive human and time costs for GPs, shortens the fundraising period and increases the fundraising efficiency. Foreign VC/PE firms are easier to raise USD funds, because they are very familiar with many overseas LPs, involving not many intermediate links. However, it is another story if they want to raise RMB funds. In China, foreign GPs are rather strange with local LPs, and local LPs are also strange with the operating mode of foreign GPs. Therefore, it is a very good method that foreign VC/PE institutions entrust third-party independent wealth management institutions to help raise RMB funds.

At present, the majority of domestic third-party wealth management institutions are light-asset companies that have reliable funding source for the bulk of their clients being private entrepreneurs. After developing for years, part of prominent third-party wealth management institutions have stood out with their broad platform and sound brand credibility, such as Noah and MYFP, etc. Zero2IPO Research Center predicts that with the advent of expansion of private wealth, domestic third-party wealth management institutions will embrace huge space for development. ■

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Hisense Broadband Wins US $19.7M from Advantage Partners

Sept. 22, 2011, it.sohu.com

Hisense Broadband Multimedia Technologies Co., Ltd. (HBMT) obtains an investment of JPT1.5B (approximately US $19.7M) from Japanese PE firm Advantage Partners, according to foreign media.

HBMT, founded in 2003 as a subsidiary of Hisense Group, specializes in the production of broadband multimedia household electrical appliances such as tablet TV receivers, etc. Advantage Partners completed this transaction through a private placement.

Emmett Thomas, Asia partner of Advantage Partners, said that Advantage Partners had researched on numerous Chinese media

Xiao Nan Guo Cancels IPO Plan Due to Weak Market

Sept. 21, 2011, finance.sina.com.cn

Xiao Nan Guo a Chinese restaurant chain group planned to cancel its IPO due to weak market conditions, according to market sources.

Up to the deadline for the public subscription on September 20, it is reported that Xiao Nan Guo gets a slight oversubscription, of which the international placement was also fully subscribed. So, it was formerly expected to go public on September 28 as scheduled.

Xiao Nan Guo plans to issue 335 million new shares in Hong Kong, 90% of which is international placement, and 10% for public offering. The IPO is priced between HK $1.65 and HK $2.2 per share, traded in 100 shares per lot, with an admission fee totaling RMB4444.35. Merrill Lynch and Standard Chartered act as its sponsors. In addition, Xiao Nan Guo is expected to achieve an annual profit of no less than RMB113.8M by the end of this year.

Dakang Pasture Sets up A Partnership Enterprise

Silicon Valley to establish a partnership enterprise dedicated in industrial M&As. By utilizing the resource advantages of Paradise Silicon Valley and various financial facilities to magnify investment capacity, the new enterprise will be encouraged to purchase or participate in upstream or downstream enterprises that fit Dakang Posture's development needs, with a view to uplift and entrench the leading position of the company in the sector via industrial integration or reorganization.

Paradise Dakang, the new enterprises, will run with a total capital of RMB300M in a 5-year partnership duration. Dakang Posture will offer RMB30M as a limited partner, accounting for 10% of the total capital amount. Paradise Silicon Valley designated Henyu Venture Capital, its wholly-owned arm, to invest RMB30M into Paradise Dakang as a general partner, accounting for 10% of the total. What's more, Paradise Silicon Valley will assume the responsibilities to raise the rest 80% capital and enable the capital to get in place by installment in accordance with investment schedule. Paradise Dakang will focus on pastoral farming and relevant projects.

Konjoy.com Wins RMB10M-grade