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Hot News

Zero2IPO Exclusive

RMB Funds Usher in a Multi-channel Fundraising Era

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RMB Funds Usher in a Multi-channel Fundraising Era

Released by Zero2IPO Research Center

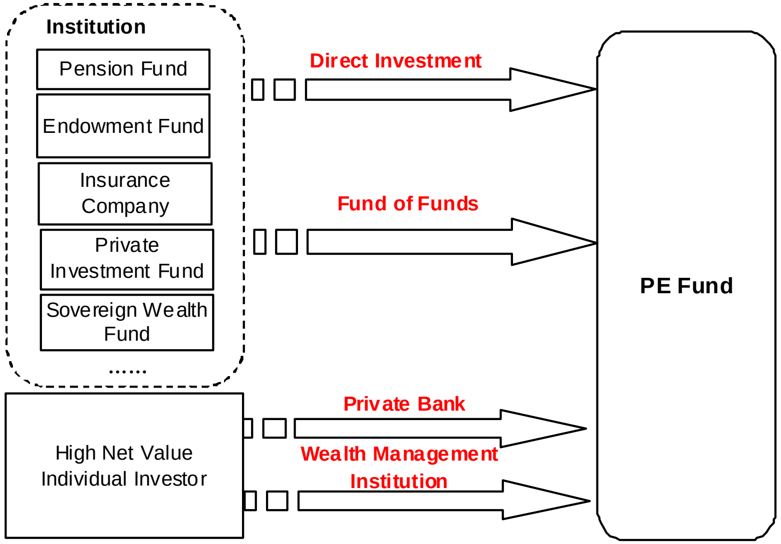
Under the background of the rapid growth of the RMB funds, on one hand, the VC/PE investment institutions expected to establish the RMB funds, while, on the other hand, the LP groups with huge funds in hand also looked for channels to participate in the VC/PE investment. The difficulty in connection between investment and financing channels becomes an important restricting factor for the development of the VC/PE market in China currently. Therefore, the intermediary institutions, which can build an effective communication channel between GP and LP, seem especially important in the current stage of development for the Chinese LP market. Presently, banks and the third party asset management institutions in domestic market play a positive role in VC/PC fundraising channels.

Channel 1: Private Equity Fund-of-Funds (PEFOF)

Other than direct LP fundraising, PEFOF first acquires funds from LP, and then invests in different types of VC/PE funds. In terms of direction of fund flow, Chart 2 shows two main fund chains. One flows to PEFOF from LP and then into "Investment Capital and Management Expenses" of VC/PE funds via PEFOF, while the other flows to PEFOF from PE funds and then into "Capital Return and Profit Payment" of LP via PEFOF.

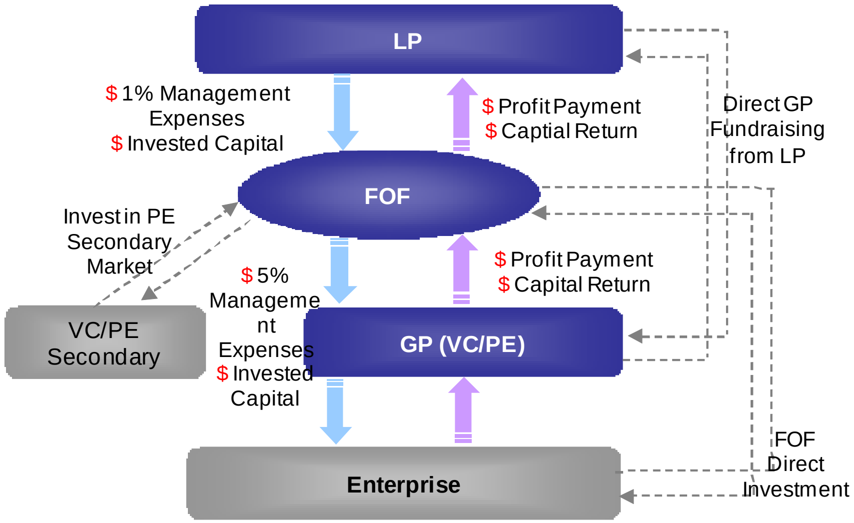
In terms of business mode, PEFOF handles an investment mainly by choosing a VC/PE fund portfolio to obtain investment returns by relying on the exit returns of invested funds. Even today, large PEFOF also handles di-

Chart 1 Main Fundraising Channels of VC/PE Funds



Source: Zero2IPO Research Center

Chart 2 Operating Mode and Profit Sharing of PEFOF



Source: Zero2IPO Research Center

rect investment and invests in the secondary market, except VC/PE funds.

PEFOF has its own advantages. Firstly, it can lower the investment threshold of VC/PE funds for LPs, pools the funds of small-and medium-sized investors to PEFOFs and then invests in VC/PE funds, offering opportunity for the small-and medium-sized investors to invest in the PE funds where only the large investors can access to. Secondly, PEFOF can diversify the investment portfolio through investment in VC/PE funds of different stages, places and strategies and becomes the effective investment tool to reduce the risks. Thirdly, there are huge gap in investment performance among different funds in VC/PE industry. Therefore, relatively stronger expertise is needed to choose the excellent funds and invest in them. PEFOF has the professional investment team, relationship network and strong negotiating ability, which can make up the shortages of investors. Furthermore, FOF also has the disadvantages accordingly, i.e., LPs need pay management expenses and profit sharing to both FOFs and VC/PF fund managers simultaneously, which also leads to the moderate FOF returns.

Channel 2: "Consignment Sale" of Private Bank Department

In accordance with the Notice on the Relevant Issues concerning Further Regulating the Investment Management of the Personal Asset management Business of Commercial Banks promulgated by the China Banking Regulatory Commission (CBRC) In July 2009, "The bank asset management funds shall not be invested in publicly-traded stocks or other relevant securities investment funds in domestic secondary market and the equity of unlisted enterprises and privately-issued or traded shares of listed enterprises", indicating that banks shall not issue the asset management products of stock investment and PE investment, however, the CBRC imposes no restrictions on the products in question provided by the commercial banks for the high net worth customers via the "private bank department". In the wake of the promulgation of new regulations, the PE investment mainly focuses on the cooperation between the private banks and the private institutions currently. In future, such cooperation will become increasing popular.

The private bank department controls the customer resources of the high net worth individuals and the small and medium-sized enterprises and is one of the main LP groups raising RMB funds in China. Banks play a role of financial consultants and financial intermediaries, sell VC/PE asset management products to qualified investors by choosing the suitable investment objects according to the total assets, risk tolerance, risk preference and other aspects of the high net worth customers in hand and then acquire the commission and profit sharing as the intermediaries accordingly. Such products have relatively higher requirements on the investors. On one hand, the minimum capital scale of investors shall be of RMB10-million level, while, on the other hand, the investment ability and risk preference of investors shall be compatible with the features of VC/PE investment. In view of the high risks taken by investors and the high reward acquired by sacrificing liquidity, the private bank departments have the obligations to disclose the information about risks, characteristics and objects of the investment to the customers in a timely and accurate manner. Furthermore, the private bank departments also carry out the due-diligence investigation to choose the excellent investment management institutions for the customers in the primary stage of investment and inspect whether the investment behaviors of the investment management institution are in line with relevant norms and disclose relevant information in time in later stage of investment.

This financing mode, started in China in late 2008, is still in the exploratory stage. China Merchants Bank and China Minsheng Bank first tried out the financing mode and complete the collection of the RMB funds for Prax Capital, DT Capital Partners and SAIF Partners as well as other institutions.

Presently, other commercial banks have also itched to have a go.

The VC/PE fundraising channels built by banks via the private bank departments have the irreplaceable advantages:

1. The high net value customers held by the private banks serve as one of a major LP group of fundraising in Chinese equity market currently;

2. At time of providing the financing channels, banks can also serve as the trust banks of the funds raised;

3. The small and medium-sized enterprises shall rationalize the proportions of equity financing and bond financing, while banks can handle equity financing in GP and provide follow-up bond financing after optimizing the assets structure of the invested enterprises;

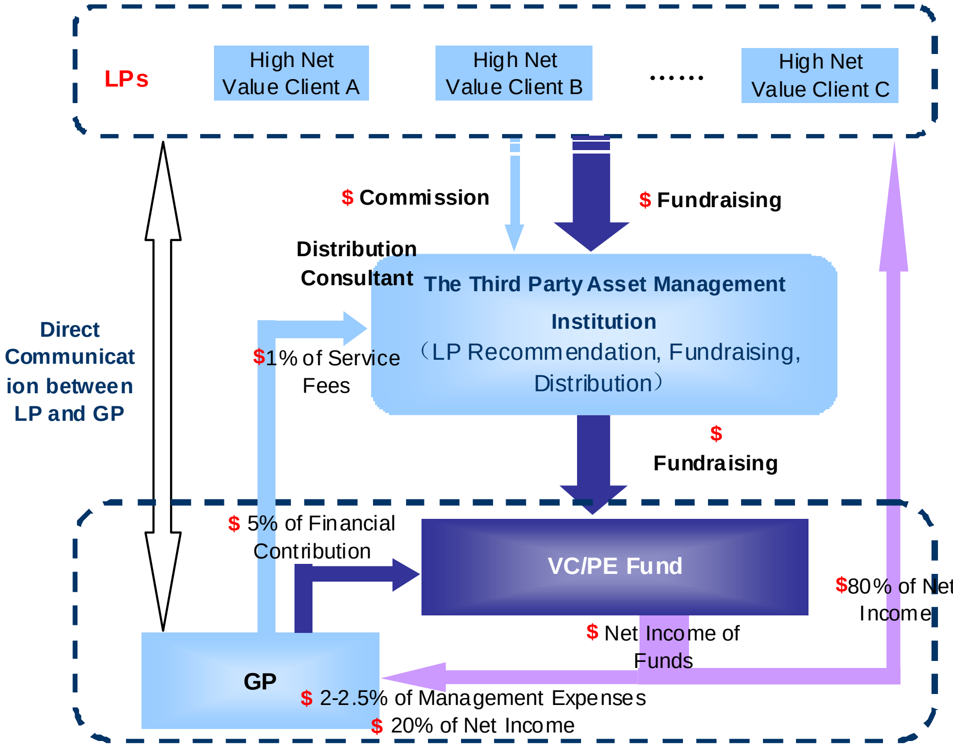
4. Banks have the strict supervisory system and provide powerful support for LP funds.

Channel 3: The Third Party Asset Management Institutions

The third party asset management institutions refer to those independent asset management intermediaries, which do not represent banks, insurance companies and other financial institutions and can analyze the financial situation and asset management requirements of the customers independently, assess the needed investment tools and provide comprehensive financial planning services. The independent third party asset management institutions often make an general understanding on the basic situation of the customers, including assets conditions, investment preference and wealth target, and then tailor the wealth management strategies according to the actual conditions as well as provide the asset management products to realize the wealth target of the customers.

The process of fundraising often needs large human and time costs to look for the target LP, communicate and negotiate, carry out the due-diligence investigation and build trust. However, the newly-emerging third party asset management institutions can help GP to raise funds, which saves plenty of human and time costs, reduces the time of fundraising and improves the efficiency of fundraising. Therefore, it is a good way for VC/PE institutions to entrust the independent third party asset management institutions to raise the RMB funds.

Chart 3 Cooperation Flow between the Third Party Asset management Institutions and VC/PEs



Source: Zero2IPO Research Center

Time: September 15th, 2010 | **Venue:** Sheraton Miyako Hotel Tokyo | http://events.zero2ipo.com.cn/2010/jp2010/

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Zero2IPO CHINA CEO SUMMIT 清科-中国高成长企业CEO峰会

Zero2IPO-2010 CEO Summit

Time: October 21th,2010 Venue：Beijing, China

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Spring Capital Asia Reaches US$250M, Beats Target

Sep. 1, 2010, Zero2IPO News

Spring Capital ("Spring") has achieved a final closing of US$250 million, which is the fund cap, in late August.

Spring works with entrepreneurial and profitable companies in the PRC that are seeking early growth capital to guide and expand their business.

Of the US$250 million raised for Fund One, 71 percent came from family offices, 16 percent from funds of funds and pension funds, and the remaining 13 percent from corporate and high networth investors.

Spring has been established in late 2007. It completed a first closing in November 2009 and a second closing in February 2010.

Spring has an investment team of seven including CEO Vincent Chan and partners Thomas Xue, Louis Choy, Wenzhong Jia and Felix Wong. Thomas formerly worked for Pinpoint Capital (Shanghai) and Louis commenced private equity in Transpac. Wenzhong spent a number of years in Crosby. Felix is Vincent's former colleague in JAFCO Asia and the current CFO.

Tiantu Capital Newly Increases 3 Investment Projects in Two Months

Aug. 31, 2010, Zero2IPO News

Recently, following the investment of RMB30M in Bainianliyuan Eco-Agriculture Co., Ltd. in this May, Shenzhen Tiantu Capital Co., Ltd. (Tiantu Capital) newly increased three investment projects recently, including Centrin Data System Co., Ltd. (Centrin Data), Shenzhen Leveking Biology Engineering Co., Ltd, (Leveking Engineering) and Beijing Zhongneng Huanke Technology Development Co., Ltd. (Zhongneng Huanke).

In June 2010, Shenzhen Tiantu Xingrui Venture Capital Co., Ltd. and Shenzhen Tiantu Venture Investment Management Co., Ltd. accomplished the investment in Centrin Data. Up to now, Tiantu Capital's 3rd round of PE fund

ment Management Co., Ltd. and Tianjin Tiantu Xingsheng Equity Investment Fund Partnership Company (limited partnership) accomplished the investment in Leveking Engineering with a total amount of RMB20M. At the same time, Shenzhen Tiantu Venture Investment Management Co., Ltd. and Tianjin Tiantu Xingsheng Equity Investment Fund Partnership Company (limited partnership) also accomplished its investment in Zhongneng Huanke.

ActBlue Obtains RMB150M Investment from GPCP and IDG

Aug. 31, 2010, Zero2IPO News, Amy Chen

Anhui ActBlue Co., Ltd. signed an investment agreement with Shenzhen Green Pine Capital Partners (GPCP), IDGVC Partners