EAST ASIA

A sleeping giant is waking

The Asian market is as big as it is diverse, and Guy Hands, who has recently returned from his latest tour of the region, believes it will increasingly look to private equity

Our Australian cattle business, Consolidated Pastoral Company, likes to show investors a world map with East Asia circled, covering Japan, China, India and Indonesia. They point out that more people live inside that circle than outside it in the rest of the world. It's that population density and the dynamism of growth in Asia – the continuing drama in China notwithstanding – which will make it the locus of economic power globally in the decades to come, and which will create tremendous opportunities for the private equity industry.

Terra Firma has its origins in a Japanese bank, Nomura, and we have always had a strong Asian connection. I started travelling to Asia in the early 1980s when I was at Goldman Sachs, stepped these trips up when I joined Nomura, and have continued with Terra Firma. Many of our investors are Asian, and we hold annual investor events in Tokyo and Hong Kong. We also now have an office in Beijing that is our hub for the region. This year I have visited Japan, China, Hong Kong, Singapore, Taiwan, South Korea and Malaysia several times.

In different Asian markets I found different areas of interest in what we do. In China, which is beginning to grapple with the same long-term demographic issues that already affect Europe, there was tremendous interest in the latest in British care for the elderly, with our Four Seasons Health Care being the largest such provider in the UK. In Hong Kong and Taiwan there was keen interest in European real estate as an asset class, an area of particular specialty for us given our Annington Homes and Deutsche Annington investments. In Japan, they wanted to know how we do business transformations because many Japanese firms are in urgent need of that kind of change.

What is perhaps most striking about Asian investors is the tremendous diversity. You have sovereign wealth funds in China, Singapore and Malaysia; Japanese and South Korean pension funds; Chinese and Taiwanese insurance companies; the Australian superannuation funds; family offices in Singapore and Hong Kong; and of course high net-worth individuals across the region.

And the potential for growth of Asian institutional investors is enormous. Several Asian markets, like Australia, Japan and South Korea, have highly advanced pension systems, but many do not, and when they create them that will create big new pools of capital. Similarly, sovereign wealth funds exist in some countries but others are only just beginning to set them up.

Private equity is an established asset class in some Asian countries, but in others it is only beginning to emerge. In some Asian markets pension funds are only now being given the freedom to invest in alternatives, having previously been prevented from investing in anything beyond equities and bonds. In China, some institutional investors were not allowed to invest abroad. Now they are able to, they are exploring options in Europe and North America and looking closely at private equity.

Family offices and high net-worth individuals across Asia are also beginning to embrace private equity. It was often the case that many Asian high net-worth individuals made their money in real estate, and preferred to invest their wealth in something they understood, rather than in funds managed by third parties. But now there is an increasing understanding of the need to diversify portfolios, and of the long-term value that private equity investments can generate. ■

Guy Hands is founder, chairman and chief investment officer of Terra Firma