RISE OF CAPITAL CALL FACILITIES FOR ASIAN FUNDS

BACKGROUND

What is Funds Finance?

Typically there are three types of leverage used by Funds: Structural Leverage; Portfolio Leverage; and Financial Leverage, which includes undrawn lines of liquidity. ANZ's specialist Funds & Insurance team can support clients across all three levels, connecting with in-house specialists across Leveraged Finance, Project Finance, Property Finance, Loan Syndications, Corporate Advisory and Global Markets.

The rise of capital call facilities in Asia, speaks to Financial Leverage, which remains the most nascent of leverage categories across Asia Pacific. Capital Call facilities are typically revolving credit facilities secured by the unfunded capital commitments of investors in a fund.

The traditional capital call facility in Asia

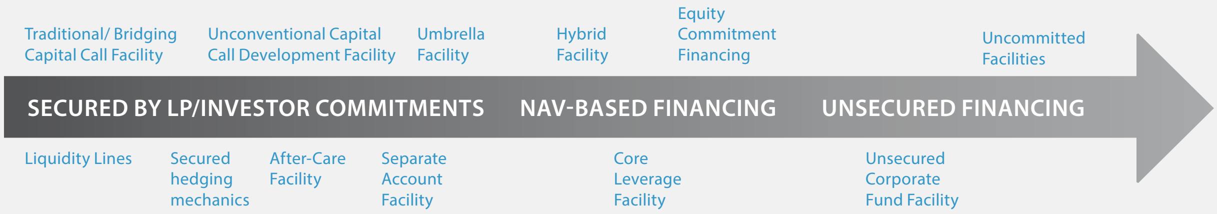
Initially, capital call facilities were offered as relationship deals for Real Estate funds. Key Asian fund sponsors began diversifying away from traditional equity stocks and bonds in 2008, looking to Real Estate as an alternative asset class to drive returns. Capital call facilities provided the Fund's general partners **(GPs)** with bridging finance during the period when the fund was drawing down from its investors. For example, some investors can require up to 30 business days' notice to provide funds to GPs, however banks can provide monies to the fund within 1-2 days business days. This liquidity materially increases the GP's flexibility in the execution of its business strategy.

Evolution of Funds Finance in Asia

ANZ has increasingly fielded requests for Funds Finance through Asia and Australia. While the traditional capital call facility remains the most common discussion point, we are increasingly structuring financing solutions for a broader range of specialty funds and sponsors, including Infrastructure, Private Debt, and other specialty Private Equity Funds.

"ANZ's Global Funds & Insurance team have structured a broad range of financing solutions for Funds in the US, Europe and our home markets in Australia and Asia. The Funds market in Asia is maturing fast and we are now working with a number of Asian-based Funds to support their intra-Asian and global investment strategies." — Mark Harding, Director, Funds.

Figure 4 – Evolving funds finance spectrum



This evolution of financing facilities used by Asian funds is reflective of several factors:

- Asian investors are increasingly comfortable investing outside of their home countries and are therefore **more exposed to the sophisticated funds finance markets of North America and Europe via GPs.**
- The liquidity wave, driven by unconventional monetary policies, record new debt issuance and financial regulatory reform, has contributed to historically low yields on assets. As a result, **GPs are taking longer to find suitable assets and need to act more quickly, in the face of competition, when opportunities present.**
- In the wake of the Global Financial Crisis, as regulators and policy makers shift focus to shadow banking, fund families are improving their governance, oversight and 'toolkits', to **improve fund performance and reduce liquidity risks.**
- As banks increasingly require collateralisation for derivative exposures to meet new regulatory standards, funds that invest in illiquid assets are looking for **alternatives to carrying a low yielding liquidity portfolio** for collateralisation purposes.
- Increased financing costs from banks for infrastructure and real-estate assets arising from post-GFC banking regulation can make **funds finance a cheaper alternative to asset or company level finance to enhance investment returns.**

Changing Demand Dynamics in Asia

The private equity industry in Asia continues to develop as the long term macro trends of urbanisation, industrialisation and the rising middle income class attract investor attention. Real Estate is losing ground to Venture Capital and Buyout Private Equity, additionally Infrastructure is increasingly being separated from Real Estate as its own asset class.

Total fundraising for Asia-focused funds has dropped off since peaks in 2011, largely due to the significant reduction in funds targeting China (Figure 5). This decrease has largely been driven by the general macro-economic Chinese slowdown and concerns regarding the real estate sector in China. It has also coincided with increased fundraising restrictions for Private Equity Funds, including the obligation to register with the Asset Management Association of China when raising mainland-based vehicles.

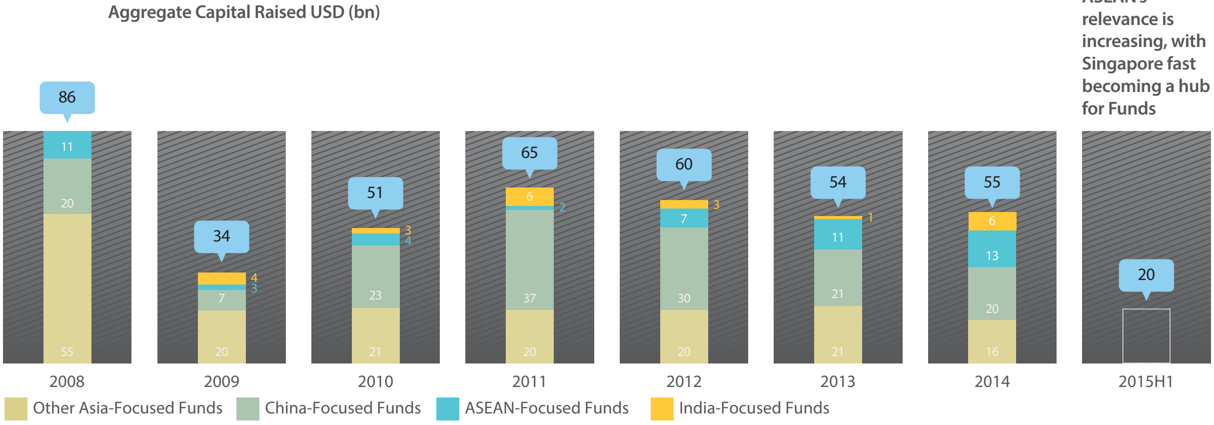
However, while Asian-focused investments have declined year to date 2015, as Figure 5 demonstrates, Asia remains a very relevant source of fundraising for global private equity funds. As such, many funds are setting up regional headquarters in Singapore and Hong Kong, taking advantage of their world class regulatory, legal and tax framework as well as proximity to Asia Pacific investors and investment opportunities.

While much of Asia Pacific investors' allocation is directed intra-regionally, increasingly the investment mandates are expanding to reduce concentration risks and access the world's highest yielding investments.

"With respect to real estate investments, Asian Sponsors have recently increased their geographical allocation to Europe and US (relative to Asia-Pacific) because stabilised property yields there are still more attractive than in Asia at the moment. However, Asian Sponsors have not stopped investing in real estate in Asia-Pacific as evidenced by CIC's (China Investment Corporation) ¥140bn purchase of Meguro Gajoen Complex in Tokyo and Investa's A$2.45bn real estate portfolio in Australia early this year" — Li Min Lam, Asian Head of Property Funds.

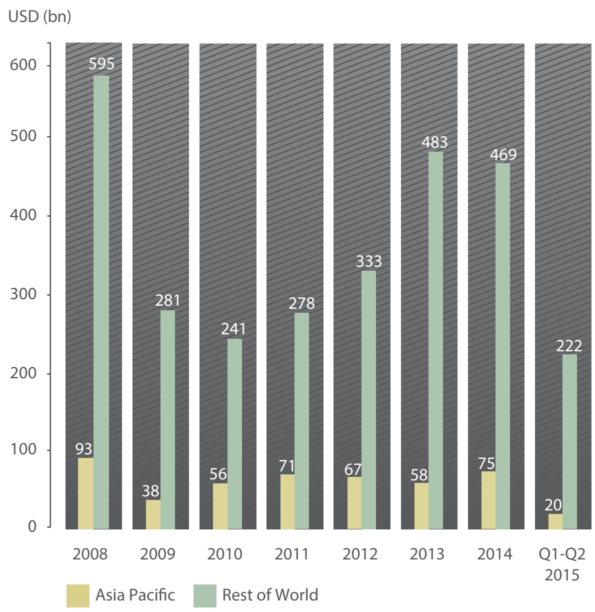
CHINA FOCUSED FUNDRAISING DROPPED TO A FIVE YEAR LOW IN 2014 OF $20BN THROUGH 49 FUND CLOSURES

Figure 5 – Annual Asia-Focused Private Equity Fundraising 2008-2015 YTD



Source: Preqin

Figure 6 – Annual Private Equity Fundraising by location 2008-2015 YTD



Source: Preqin

ASIA PACIFIC WAS A STRONG CONTRIBUTOR IN 2014, HOWEVER 1H2015 HAS HAD A SLOWER START ACROSS ALL GEOGRAPHIES

SHARING OUR INDUSTRY INTELLIGENCE WITH CLIENTS

ANZ's Global Funds & Insurance team work with both fund sponsors and the funds themselves to structure debt facilities that meet their evolving needs. For capital call facilities, the quality of the investors and understanding of their credit characteristics is key to the size of the facility. Involving a bank that works with investors in their home domicile of Asia Pacific, and has significant experience in the more broadly syndicated US and European markets, increases the pool of eligible investors upon which the borrowing base is calculated.

Financial leverage opportunities form one part of ANZ's suite of value-add solutions for funds and should be considered in the context of our ongoing client dialogue covering Investor Sales, Risk Management, Yield Enhancement, Asset and Company Level Financing as well as Corporate Advisory.

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