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Q&A Asia Alternatives Founder Worries More About Transitions Than Slower Growth

While the slowdown in growth in China was front of mind for investors when Asia-focused fund-of-funds sponsor **Asia Alternatives** recently hit the fundraising trail, co-founder and managing director **Melissa Ma** is more concerned about the broader political and economic transitions in the region. The firm just completed raising $1.8 billion for its Asia Alternatives Partners IV Fund, including a $1 billion commingled pool. She spoke with Bloomberg Brief's Ainslie Chandler.

Q: What's the strategy of the new fund? Where do you see opportunities in Asia?

A: With the current market views, we estimate that about 50 percent of fund four will be invested in Greater China, roughly another one-third in Japan and Korea, about 15 percent in India and the rest of Asia will be opportunistic. Asia is not a monolith. We have very developed economies like Japan, Korea and Australia. These tend to be more buyout in nature. On the other hand, you have some of the largest and fastest growing emerging countries. How somebody makes money in Japan is very different than how someone makes money in India. Those emerging, developing markets tend to be still predominantly growth or expansion capital investment opportunities, with maybe some venture capital. Our expected fund composition is probably two-thirds or as much as 80 percent in buyouts and growth capital. The buyouts will be mostly small and midmarket buyouts. The remainder will be roughly split between venture capital and special situations.

Q: What was the hardest question you were asked by LPs while you were fundraising?

A: People ask us to read a crystal ball and to say what is going to happen in a certain country. If I had that kind of crystal ball I would be in a very different profession. [They ask about] one of the biggest differences in the market environment since we raised our last fund, the slowdown in growth in China. Everyone saw the news about the 7 percent growth rate in China for the quarter. That is one of the hardest questions but also probably the most relevant question because that's been a meaningful change. Any Asia-dedicated strategy is clearly going to have China as a core component.

Slower growth over the long term in China was inevitable. China moved from being an emerging market to now being a developing market. In the next 10 years they are going to try to make the transition from being a developing market to a developed market. And, just like in every other country that has had to make that transition and has made it successfully, it means the growth rate will fall because it's just sheer scale.

I like the phrase that Chinese President Xi Jingping uses, which translated means "the new norm" or "the new normal." And that's what China is entering, the new normal of 6 to 7 percent growth. But it's a more stable and more balanced growth. In the short term, there is inevitably going to be ups and downs. In the long term this is a positive trajectory for the country and one that is necessary.

Q: What does this mean for private equity?

A: The way we think about it is private equity is often considered transition capital. The luxury that private equity has is that it's long-term, sticky capital. Our fund, like almost all funds in the industry, has a 10-year life. Therefore it can weather some of the short-term ups and downs. You can take advantage of the dislocations that will happen along the way, then China's transition should create some opportunities.

Q: You have a big presence in China and hold a Qualified Limited Partner License to invest in onshore markets there. What is the significance of that?

A: The renminbi is still not a convertible currency. Foreigners cannot freely convert U.S. dollars to renminbi to invest onshore in local investments. Over 10 years ago the government started the Qualified Foreign Institutional Investor program that's more famous. That is a license and quota-based program by which foreigners can invest in public markets in China. You can convert U.S. dollars into renminbi up to that quota to invest in the Chinese public markets. The Chinese government is trying to find a similar way for foreign investors to participate in the local renminbi private equity market. Being able to access local currency investments opens up another set of opportunities.

Q: What keeps you up at night?

A: In each individual market there are things that I worry about. We have a lot of economies in Asia that are going to transition in this next decade. Look at what Prime Minister Shinzo Abe is doing in Japan. If he is successful, that is a major transition. Prime Minister Narendra Modhi in India. And maybe not as high-profile, but what Joko Widodo is doing in Indonesia and President Park Geun-hye in Korea. They all have an element of reform and transition in these economies. On the one hand it's a very exciting and potentially hopeful time on a macro basis for Asia. On the other hand, that's a lot of pressure on these leaders. So I worry about whether they can execute these big plans. There are the conditions in their control, like politics, and conditions out of their control, like global shocks or global events.

AT A GLANCE

Age: 44

Based in: San Francisco and Hong Kong

Hometown: Oak Ridge, Tennessee

Career history: Goldman Sachs, McKinsey & Co., Hellman & Friedman

Degrees: AB and MBA from Harvard

Favorite sports team: San Francisco Giants

If you could have another career it would be: Chef

Recommended book: Wish You Happy Forever by Jenny Bowen