THE CASE FOR ASIA

Focus on opportunities in Asian private equity and infrastructure

The following is an excerpt from a research brief developed by Rumi Masih, PhD and Abdullah Z. Sheikh, FIA, FSA. The full brief summarizes their unique case for Asia ex-Japan as one of the most attractive strategic opportunities among global markets, based not on GDP alone, but on underlying productivity growth dynamics that they believe are fueling a long-term revaluation trend in the region. This excerpt focuses primarily on their thesis as it applies to Asian private equity and infrastructure opportunities. To read the whole article, or the full research report, visit jpmorgan.com/insight.

Opportunities in Asian Private Equity

Asia is a magnet for private equity and venture capital investing, with a compound annual growth of 90% in fund raising over the last four years.[1] Given this trend, it is appropriate to try to gauge the potential impact of productivity on this key market.

We analyze four key drivers of private equity market development—productive entrepreneurship, productivity growth, financial market deepening, and capital inflow—and use a dynamic panel model to test the direction and significance of their influence on our seven Asian private equity markets (China, India, Singapore, South Korea, Thailand, Indonesia, and Malaysia).

The most important result, from the perspective of our investment thesis, is that productivity growth is very significant in explaining private equity market development.

In Asia, however, the private equity opportunity set is a bit different, with the main opportunities reflecting both the region's rapid economic expansion and focus on productivity growth:[2]

1. Start-up and high-tech funds—these are most similar to traditional venture capital type providers
2. Corporate restructuring funds—characterized by investments in more established, expansion-oriented enterprises