



Morgan Stanley private equity arm raises \$1.7 billion Asia fund

 **By Stephen Aldred**
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The corporate logo for financial firm Morgan Stanley is pictured on a building in San Diego, California September 24, 2013. REUTERS/Mike Blake/Files

By Stephen Aldred

HONG KONG (Reuters) - Morgan Stanley said its Asia private equity unit has raised \$1.7 billion in its fourth Asia fund as it seeks investment opportunities in China and South Korea.

The fund, Morgan Stanley Private Equity Asia IV LP, has already made two investments from the new fund, and raised more capital than initially targeted, the Wall Street bank said in a statement on Monday.

Morgan Stanley had originally targeted \$1.5 billion with the fund, the same as its third Asia fund.

One of the key focus areas for Fund IV will be China.

"The last two years in China, we have seen the most attractive entry prices we have seen in the last 10 years," Chin Chou, CEO of Morgan Stanley Private Equity Asia (MSPEA), told Reuters.

Morgan Stanley's fund-raising comes as many banks spin off their private equity arms due to the Volcker rule.

The post-2008 crisis regulation restricts U.S. banks from trading on their own accounts and caps their investments in risky businesses such as hedge funds and private equity to just 3 percent of Tier I regulatory capital.

Despite that restriction, Morgan Stanley Private Equity Asia (MSPEA) has raised more money with Fund IV, its first fund since the Volcker rule, and with more of it from third-party investors.

The firm raised \$1.65 billion from third-party investors for Fund IV, compared to \$1.1 billion for Fund III. Morgan Stanley contributed \$50 million, or 3 percent of the latest fund, compared to \$400 million, or 27 percent of the previous fund. Chou told Reuters that the successful fund-raising was partly because it was the firm's fourth fund, and because the firm has a track record of strong performance.

Chou declined to comment on details of performance, but a source with knowledge of the firm said its first three funds are returning a net internal rate of return of over 20 percent, and have returned more than four times money on a gross basis for realised investments.

Making two to three times money is considered a very good return in private equity circles.

MSPEA has invested around \$2.5 billion in more than 50 investments in the region in the past 20 years.

The firm has already completed investments in Ssangyong C&B Monalisa in South Korea and Janalakshmi Financial Services in India from its fourth fund.

It is finalising two take-private deals for overseas listed China companies, Noah Education Holdings Ltd and Sino Gas International Holdings Inc .

Its past investments include Ping An Insurance Group <601318.SS> and Sihuan Pharmaceutical Holdings Group Ltd <0460.HK>, which is seen as a textbook case of the profits that can be made by buying out overseas-listed China companies, then relisting them closer to home.

MSPEA delisted Sihuan Pharma from Singapore in late 2009 before relisting the company in Hong Kong in November 2010. The firm has not fully exited, but expects to make around 8 times its initial investment when it does, said the source with knowledge of the firm, who declined to be named as details of the funds were private.

(Reporting by Stephen Aldred; Editing by Denny Thomas and Ryan Woo)