Axiom raises $1b for fourth Asian fund-of-funds

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Axiom Asia has closed its fourth pan-regional fund-of-funds at just over $1 billion, sticking to its tried and tested model of a single co-mingled vehicle with no separately managed accounts. The initial target was $750 million.

The firm raised $1.15 billion for its **previous fund** in 2012 and the two before that closed at $950 million and $600 million, respectively. However, this is the first vehicle raised without two of the co-founders, Chihtsung Lam and Yew Hong Goh, who have stepped back. Fund IV is led by four managing partners: Edmond Ng, Chris Loh, Alex Lee, and Marc Lau, all longstanding members of the Axiom team.

As with the previous funds, the objective is to build a diversified portfolio with about 20 managers; 80% of the corpus is earmarked for primary fund commitments and 20% for secondaries and co-investment. Axiom has also continued with the tradition of increasing the size of the GP commitment in each vintage, with the contribution to Fund IV one-and-a-half times larger than that for Fund III.

"Why has our strategy prevailed? Because we are complementary to our LPs, we are real partners to them. They have their own direct programs, they can access the markets on their own, but we act as an extension of their teams on the ground in Asia," said Lau. "We bring them local color, flavor and knowledge - and they also get a return on their money that is attractive relative to the risks they are taking. If we aren't delivering decent returns we don't deserve a place in their portfolios."

Axiom's value to its predominantly US LP base (two thirds of the investors come from that country) is as a channel into GPs these investors might not otherwise be able to access, because the funds are either in high demand or too small and risky to warrant a direct allocation. Half of the $800 million for primary commitments will go to next generation managers, typically groups that have spun out from established private equity firms or newly-formed teams comprising experienced investors.

In previous funds, 50% of the corpus has been deployed in China with the rest spread evenly across Japan, South Korea, Southeast Asia, India and Australia. A similar geographical split is expected for Fund IV. The vehicle is also expected to follow the pattern set by its predecessors and divide the capital more or less equally between buyout, growth and venture strategies.

In the growth and buyout space, Ng observes that LPs are increasingly asking for middle market exposure, usually specific to a certain country or subset of jurisdictions. Indeed, quality managers of this size have become somewhat sparse in China as successful GPs move beyond the sub-$1.5 billion space.

"A lot of the people with strong track records have gone on to raise larger funds," Ng added. "However, some are now forming what they call mid-market funds to get back into the game. Then there are some managers who, for various reasons, have decided to stay in that market and not raise larger funds. China is a dynamic place. There are always plenty of quality people worth backing."

In addition, having held back from the secondaries market in the previous fund due to concerns about frothy valuations - and consequently put more of the 20% into co-investment - Axiom is likely to be more active this time around. Opportunities range from spin-outs of captive PE units from banks to restructurings for funds that are nearing the end of their term life and need to return capital to investors.

Probitas Partners served as placement agent for Fund IV.