Fund focus: LPs sign up for Axiom’s simple solution

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Changes in the market and turnover in the team notwithstanding, Axiom Asia secured $1 billion for a fourth fund much like its previous three: a co-mingled fund-of-funds that offers exposure to hard-to-access GPs

Customization has become the prevailing mantra among fund-of-funds globally as alternatives firms offer combinations of primary, secondary and co-investment exposure tailored to their customers' needs. With many LPs wary of how an added layer of fees can eat into their returns, fund-of-funds are seeking refuge - and hopefully returns - in extra complexity.

Against this backdrop, Axiom Asia's fourth fund, which has closed at just over $1 billion, beating the target of $750 million, is the essence of simplicity. It comprises a single co-mingled fund-of-funds; no separately managed accounts, no additional fees for secondaries or co-investment, and sizeable GP commitment (one-and-a-half times larger than for the previous fund) to ensure interests remain aligned.

"We think that simplicity is attractive, particularly for our strategy. In each cycle we are trying to build a diversified portfolio with about 20 funds in each portfolio. 80% is primary and 20% is secondaries and co-investment," says Marc Lau, one of four managing partners alongside Edmond Ng, Chris Loh and Alex Lee. "It is the same philosophy we've had over the previous three funds so there is no change."

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Established player

Axiom raised $1.15 billion for its previous fund in 2012 and the two before that closed at $950 million and $441 million, respectively. In proving it can consistently hit the $1 billion mark - despite some team turnover in the last couple of years - the firm has reconfirmed its position as one of the two preeminent fund-of-funds in Asia. The other, Asia Alternatives, closed its most recent fund last year, also at $1 billion, and collected a further $800 million in separate account commitments.

Now more than 10 years old, their high re-up rates have confounded expectations that LPs would move beyond the fund-of-funds model once they became more familiar with Asia. While Asia Alternatives places greater emphasis on customization than Axiom, they have a common investment theme, though one arguably pursued to different extents: providing predominantly US-based institutions with a channel into GPs they 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.

"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," says 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."

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. Of the $800 million earmarked for primary commitments, half will go to what Axiom classifies as next generation managers, typically groups that have spun out from established private equity firms or newly-formed teams comprising experienced investors.

In this respect, Axiom has been spoilt for choice in the VC market. "China produced a lot of spin-outs in 2014 and 2015. An unprecedented number of firms are running their first or second funds, and many are preparing to come back to market," says Loh. "It's the same in India. Growth funds may have disappointed but VC attracted quite a lot of capital in 2014 and 2015 and those GPs are coming back to market. Then in Southeast Asia we've never seen so many VC funds, not even during the 2000 boom."

Historically, Axiom's funds have tended to be one third buyout, one third growth and one third venture capital. 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 adds. "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."

Secondaries to shine?

Secondary deals are also expected to feature more prominently in Fund IV than in Fund III. While Axiom has chosen to hold back in recent years because it felt the market was too frothy, with buyers far outstripping sellers, now there are more opportunities. Lee puts this down to growing sophistication in the secondaries space. Transactions on offer 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.

If Axiom has a niche within this market, Lee sees it as buying LP positions in Asian funds that are not typical targets. The firm leverages its diverse set of primary fund-of-fund relationships, often closing deals involving funds managed by GPs it has backed in the past. This combination of relationships and knowledge is also important in co-investment: most of Axiom's portfolio GPs do not proactively show co-investments to LPs so it pays to spend time with them and make the interest clear.

Being of a similar age or older to many of the private equity firms it backs, Axiom has experienced the succession planning issues that are beginning to confront many GPs in the region. Prior to the launch of the most recent vehicle, Chihtsung Lam and Yew Hong Goh - two of the three managing partners in Fund III, alongside Ng - stepped back, leaving the current four-strong leadership team in sole charge. The transition was facilitated by GPs and LPs already being familiar with the team.

"The LPs know the track record has been generated by a similar team and that gives them comfort," Lau says. "It's a multi-year process. You have to start very early on, building up the exposure each one of the partners has with all of our stakeholders, whether GPs or LPs."