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2024

SOUTHEAST ASIA

# Private Capital Breakdown

PitchBook

# Contents




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# Overview

- Southeast Asia has become an intriguing region for private capital investment in recent years. Many countries in the region sport fast-growing and diverse economies that provide a range of sectors for investment. Investment in Southeast Asia has leaned heavily toward VC due to nascent tech ecosystems, robust demographics, and a large talent pool driving the future of economies within the region. 2022 set the high-water mark of private capital deal value within Southeast Asia when $34.1 billion was invested across PE and VC deals.

- The region offers vast opportunities but holds its fair share of challenges as well. Because Southeast Asia is not a single market, and government policies and regulations vary widely from country to country, much of the region's activity is centered in Singapore. Not only does the country offer a business-friendly environment for companies, but with favorable tax incentives, it also pulls much of the region's fundraising.

- Though the VC market is significantly more active than the PE market in Southeast Asia, VC within the region lacks growth-stage capital. Much of the activity occurs in earlier stages of venture because of the high number of small funds raised. In fact, just 8.5% of the funds closed since 2015 were closed at or above $250 million in capital commitments. This creates a challenge for growth as companies look to scale.

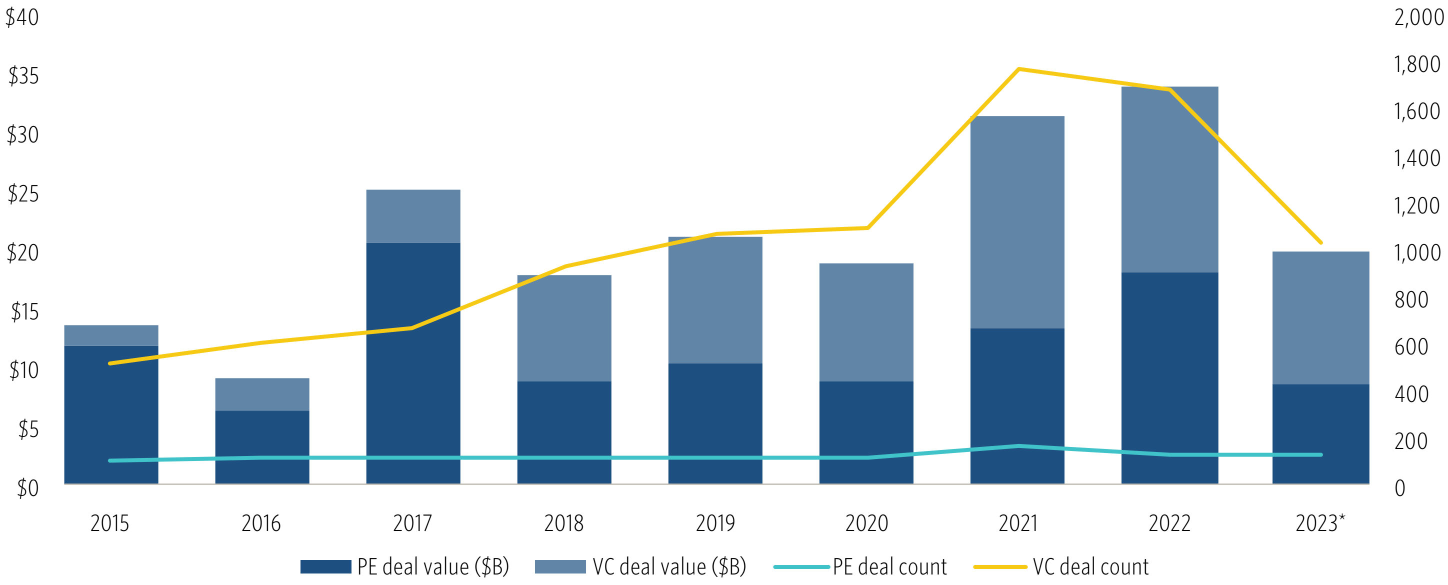
- For PE and VC, foreign investors play an important role within Southeast Asia. In 2021 and 2022, more than 60% of PE and VC deals included involvement from an investor based outside of Southeast Asia, and even higher proportions of capital invested were linked to foreign investor involvement. Factors driving this reliance include the lack of growth-stage funding as well as the nascency of private capital markets in the region. Nearly 70% of the VC firms that have raised a fund since 2015 have raised only one fund or are still investing out of their first vehicle.

- Cash returns remain elusive for investors in Southeast Asia for both PE and VC strategies. Since 2015, just $79.3 billion in exit value was generated by PE-backed companies, and just over $70 billion was generated by VC-backed exits. This value is incredibly lumpy as well. The four largest exits combined between the two strategies make up nearly 46% of total exit value. Grab's reverse merger with a SPAC in 2021 was the largest SPAC acquisition ever at $32.8 billion. In 2023, just $1.1 billion in VC-backed exit value was generated, and PE-backed companies generated just $7.0 billion on the year.

- Indonesia's venture market is a growing alternative to Singapore within Southeast Asia. As the region's most populous country (nearing 300 million), Indonesia offers companies the largest market for growth. Jakarta has developed a thriving tech ecosystem as well. But one of Indonesia's unique characteristics is its large network of conglomerates that have driven economic growth. These large, highly diversified companies have looked to invest in startups to expand new business lines and add emerging technologies under their umbrella.

# Southeast Asia market update

**Private capital deal activity**

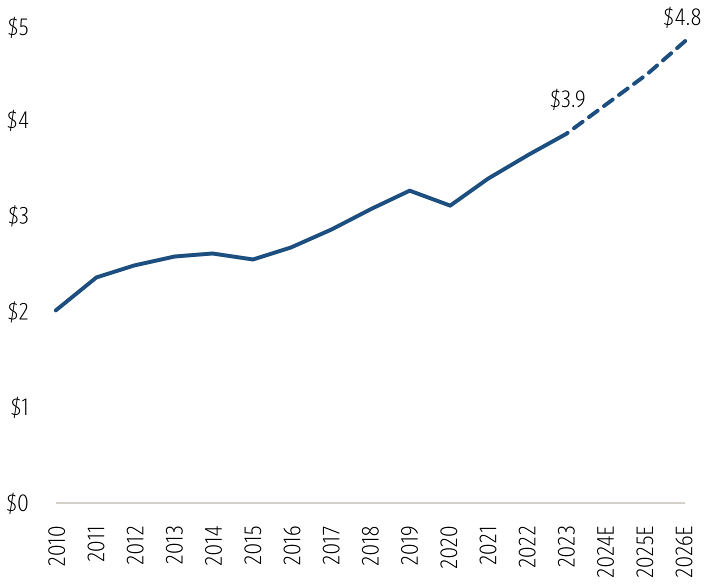



Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

Southeast Asia has grown into an emerging private capital market with strong momentum. Between 2015 and 2021, deal count within the region more than tripled, but over the past couple of years, dealmaking has been pinched more than other markets. Yet with the high-water mark of private capital deal value set at just $34.1 billion in 2022, there is a long runway for growth ahead.

Private investment grew alongside economic growth in the region. Since 2015, the region's GDP has grown more than 56%, from an estimated $2.5 trillion to nearly $3.9 trillion.[1] One challenge to growth in Southeast Asia is the fact that the region is an amalgamation of many, very different markets. Countries in the Association of Southeast Asian Nations (ASEAN) vary widely in terms of development, and private capital has fit within the market by adjusting to the different levels of opportunity. Indonesia is the largest economy by GDP standards at more than $1.5 trillion (estimated for 2024),[2] while Laos, the smallest, comes in at just over $14.1 billion.[3] Though investment opportunities are not limited to the largest markets, there are relatively few of them in a large portion of Southeast Asian countries. In general, private capital is limited to Indonesia, Malaysia, the Philippines,

**GDP ($T)***




Source: International Monetary Fund • Geography: Southeast Asia • *As of 2023
*Note: Data for 2024 through 2026 is estimated.*

1: "Real GDP Growth," International Monetary Fund, n.d., accessed February 28, 2024.
2: "Indonesia," International Monetary Fund, October 2023.
3: "Lao PDR," International Monetary Fund, October 2023.

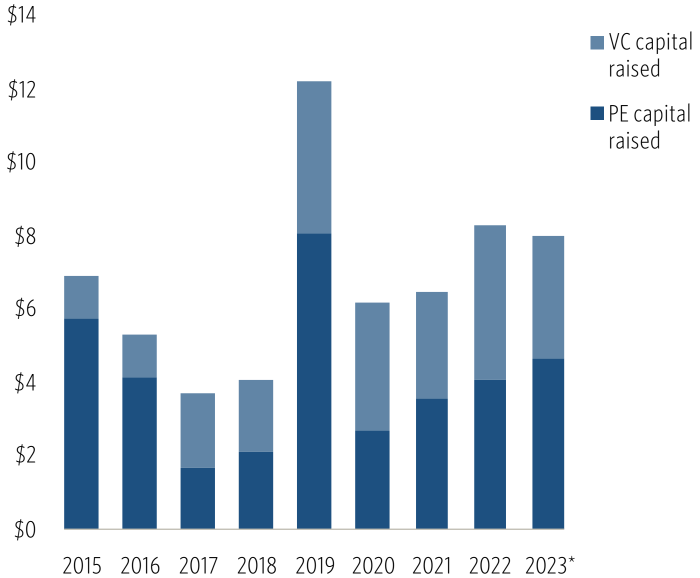
Singapore, Thailand, and Vietnam. Even within those markets, there is wide disparity in deal activity. Between 2015 and 2023, Singapore generated nearly 6,000 PE and VC deals, while just 421 were completed in the Philippines—though the data behind Singapore's activity is nuanced.

Singapore has always been Southeast Asia's financial center. This is no surprise considering Singapore has been a global financial hub for decades, has developed economically through probusiness regulations, and deploys tax incentives for corporations and individuals. These factors make Singapore the fulcrum of private capital in the region. Many of the investment funds operating in Southeast Asia are headquartered within the city-state, including those that focus their strategies on other countries. Singapore also acts as the registration center for many companies located throughout Southeast Asia. As laws and regulations vary between countries, the registration and operation of an entity in Singapore allows a freer flow of capital into and out of the business.

The ardent narrative for the private markets in Southeast Asia is not one solely focused on the economic development of its countries. Southeast Asia has an important consumer story as well. The population is nearing 700 million, with Indonesia closing in on 300 million people in the next couple of years.[4] It also skews young. The median age of the population is younger than 30 years.[5] Compare that with China (39.8), the US (38.5), Japan (49.5),[6] and the potential of the consumer base is put in greater context. The working population of Southeast Asia is estimated to grow by 24 million people by 2030,[7] further driving spending power to younger generations as the middle and upper classes expand. It is no surprise that consumer products receive a large proportion of VC invested in the region. In 2023, more than 36% of VC deal value was invested into the B2C segment, while that same figure was just 3.5% in the US.

On the backs of the young population, Southeast Asia's digital economy has become a major source of growth and development in the region. The number of smartphone users has reached nearly 336 million, which is more than 88% of internet users in Southeast Asia.[8] The digital economy now drives more than $200 billion annually and is estimated to reach nearly $300 billion in just a couple of years.[9]

**Private capital raised ($B)**



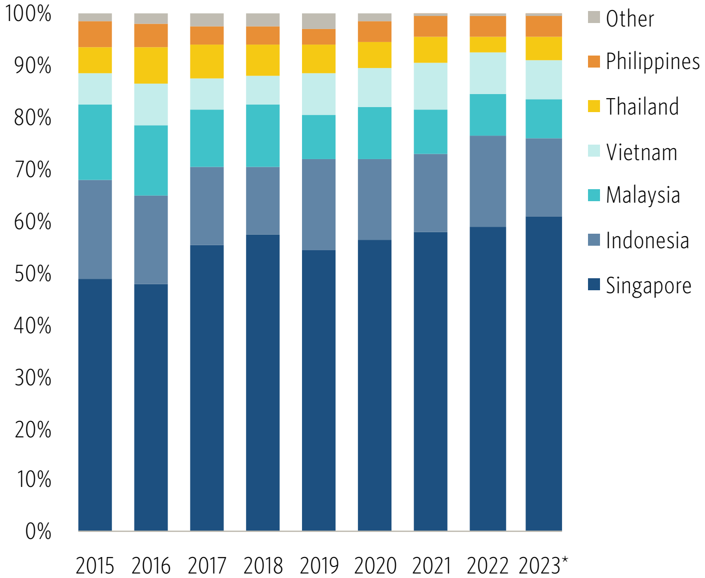

Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

Due largely to these reasons, the region's investment leans heavily toward VC, with more venture dollars making it into the market than PE dollars in most years. Across both strategies, investment has relied heavily on investors headquartered outside the region. In 2021, more than 92% of the capital invested in the region was delivered through a deal that included a foreign investor, and during the past couple of years, more than 61% of annual VC deal count included a foreign investor headquartered outside of Southeast Asia. From 2020 to 2021, the number of unique investors in the region more than doubled. That figure has quickly fallen back to 2020's level, and as these fewer investors have drained the capital availability in the region, time between financings has extended significantly.

The future growth of private capital markets in Southeast Asia is not guaranteed, though there are signs that point toward a fertile market moving forward. The economic growth is a positive of course, but so, too, are the demographic signals. As China falls out of favor by investors, Southeast Asia provides a unique risk that could be attractive.

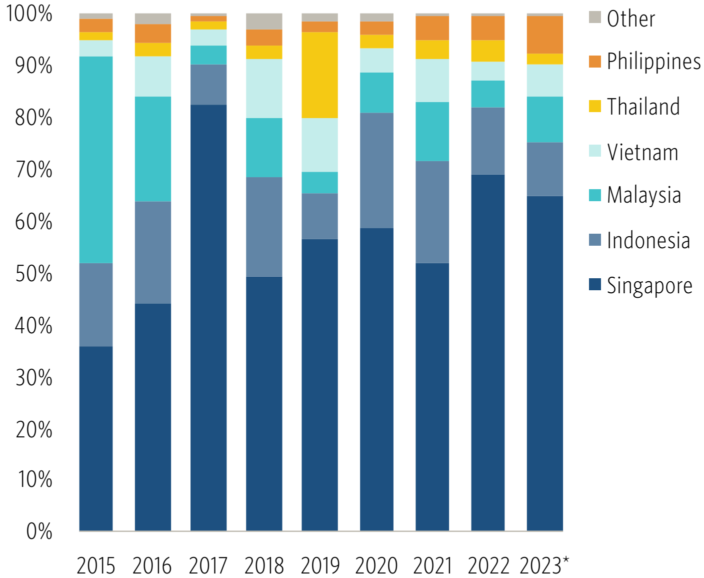
4: "Population," International Monetary Fund, n.d., accessed February 29, 2024.
5: "Section I: Demographic Indicators," Economic and Social Commission for Asia and the Pacific, 2022.
6: "Country Comparisons — Median Age," CIA, 2023.
7: "Bold Moves: Leading Southeast Asia's Next Wave of Consumer Growth," Bain & Company, Praneeth Yendamuri, et al., October 10, 2023.
8: "Smartphone Users in Southeast Asia, by Country, 2021-2026," Insider Intelligence, March 1, 2022.
9: "e-Conomy SEA 2023," Google, Temasek, and Bain & Company, November 1, 2023.

## Share of private capital deal count by country




Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

## Share of private capital deal value by country

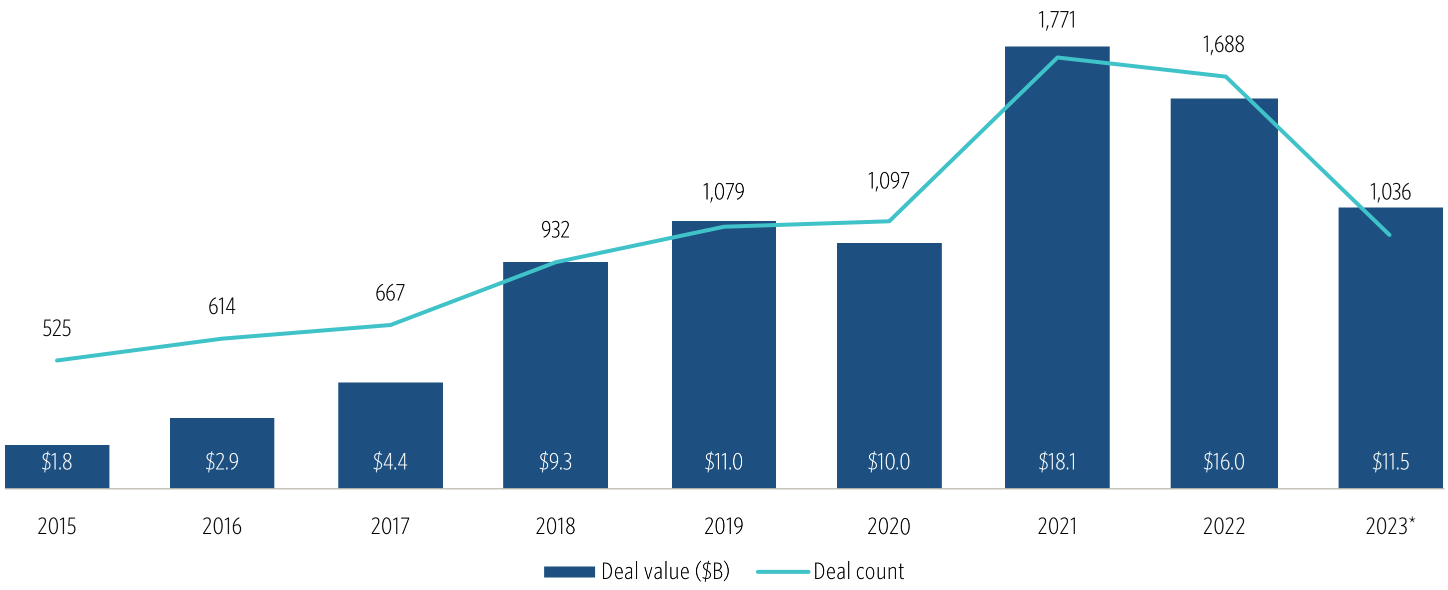



Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

For many emerging private capital markets, the need to see strong, recurring returns can be the catalyst for sustained investment and development. This is the current weakness for Southeast Asia, as a significant portion of the exit value generated by PE and VC since 2015 has come from an unusually small number of companies. Regional exchanges are the end goal for some investments in the region but can face barriers due to stringent listing policies or if large sums of capital need to be raised. Challenges to expansion may arguably be the more dynamic blockade to exits. Though the ASEAN Charter has served as a pathway toward an end goal of a single economic market across the region, Southeast Asia remains a nuanced region of markets with varying degrees of development.

# Dealmaking

### VC deal activity




Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

### Dealmaking sector breakdown: Software and consumer are front-runners

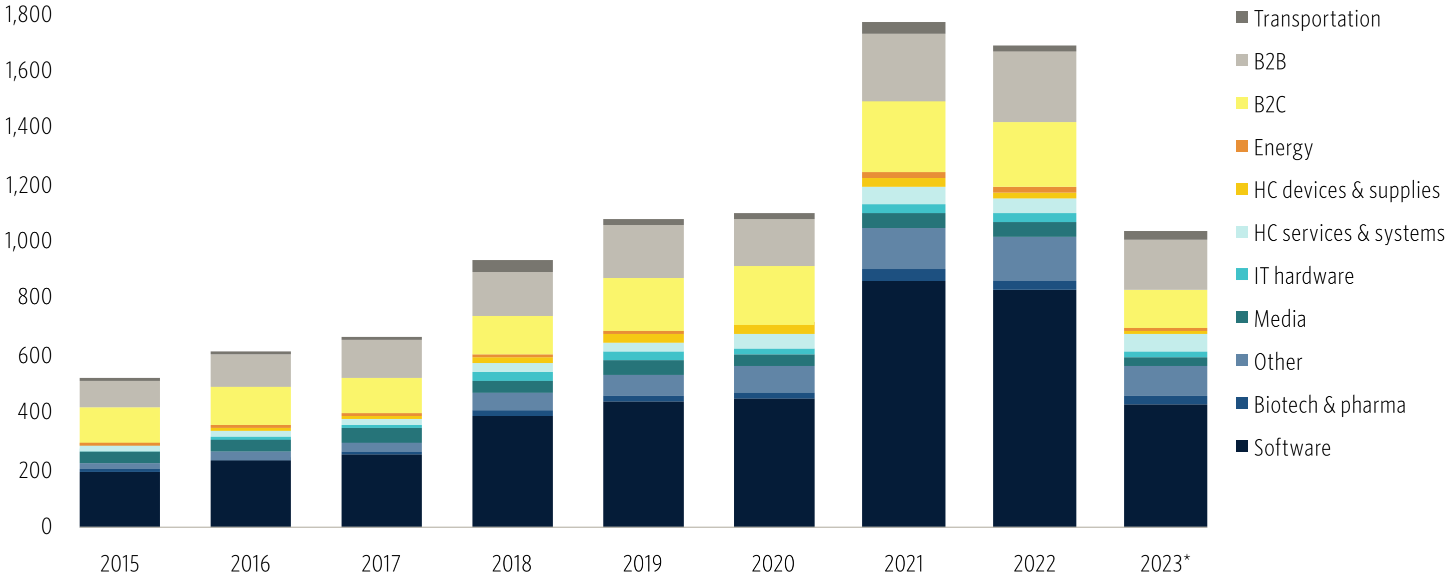
Among sectors, software and B2C have been best positioned for garnering venture funding in Southeast Asia. Between 2018 and 2023, the number of software deals as a proportion of annual deal count consistently hovered above 40%, attesting to investors' belief that technology applications can unlock significant market growth potential and outsized financial returns from the Southeast Asian ecosystem. During the 2021 market exuberance, the amount of venture dollars that were funneled into software deals constituted 46.9% of the region's total VC deal value; this figure retreated to 22.0% in 2023. During the same period, B2C companies more than doubled their share of annual deal value, surging from 16.8% in 2021 to 36.2% in 2023.

Robust demographics and a steady expansion in mobile adoption in Southeast Asia are core to growth in the region's digital economy. According to GSMA reports on Asia-Pacific's mobile economy, the percentage of smartphone users has steadily increased across Southeast Asia during the past decade. Smartphone adoption in Singapore ticked up from 87% in 2019 to 90% in 2022.[10, 11] During the same period, Indonesia surfaced growth from 74% to 83%.[12] In addition, the COVID-19 pandemic accelerated the rate of tech adoption for both individuals and businesses. During the past few years, digitalization transformed what used to be considered a "nice to have" as a must-have. This trend serves as a tailwind for future venture dealmaking activity in the region, as consumers and enterprises are keen to use tech-enabled platforms on a day-to-day basis.

In VC, B2C has been a pronounced trend in Southeast Asia. The sector has been a leading force of the regional venture market. Within Southeast Asia, the growth witnessed in multiple markets is underpinned by robust domestic consumption. For example, in the Philippines, the household consumption expenditure made up 76.6% of the GDP in 2023.[13] Having a large population with strong purchasing power translates into vast opportunities for startups operating in the consumer space. The Singapore-based

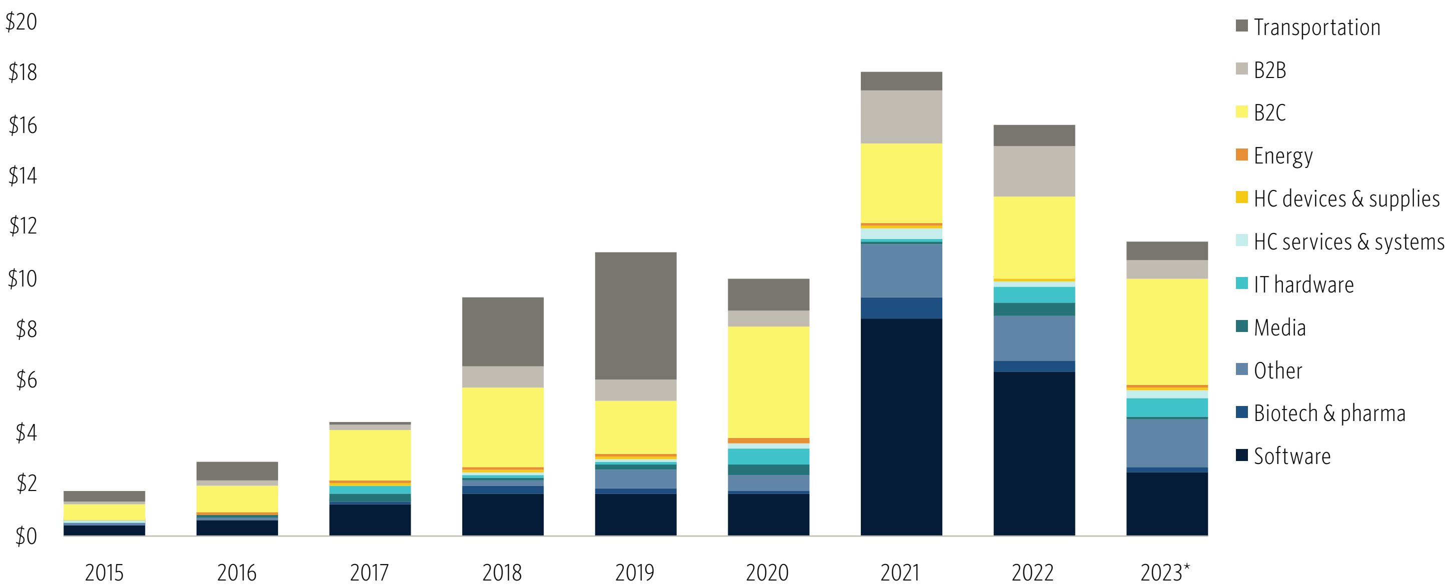
10: "The Mobile Economy Asia Pacific 2020," GSMA, n.d., accessed February 28, 2024.
11: "The Mobile Economy Asia Pacific 2023," GSMA, n.d., accessed February 28, 2024.
12: Ibid.
13: "Gross National Income (GNI) and Gross Domestic Product (GDP) by Expenditure," Philippine Statistics Authority, n.d., accessed February 28, 2024.

## VC deal count by sector




Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

## VC deal value ($B) by sector




Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

consumer internet company Sea serves as a prime example of a regional success story. The company started as a gaming business and expanded into e-commerce in 2015 when it launched Shopee, now Southeast Asia's largest e-commerce platform.[14] Grab, the Singapore ride-hailing app that listed on Nasdaq through a reverse merger in 2021, also demonstrated the market potential for consumer software.

Indeed, Southeast Asia boasts a highly consumptive population, which presents a myriad of opportunities for favorable outcomes in the consumer category. The key to unlocking that level of success lies in developing high-quality products that cater to customer needs in a price-sensitive market while building an enduring brand name. As of now, customers in many parts of Southeast Asia have relatively

14: "Shopee," Sea, n.d., accessed February 28, 2024.

low levels of brand loyalty and tend to switch around when making purchasing decisions solely based on price. This makes it difficult for consumer brands to grow and maintain a sticky customer base. As product quality and sophistication keep evolving across the region, we expect to see B2C-focused startups developing and launching enduring business models and brands in the coming years.

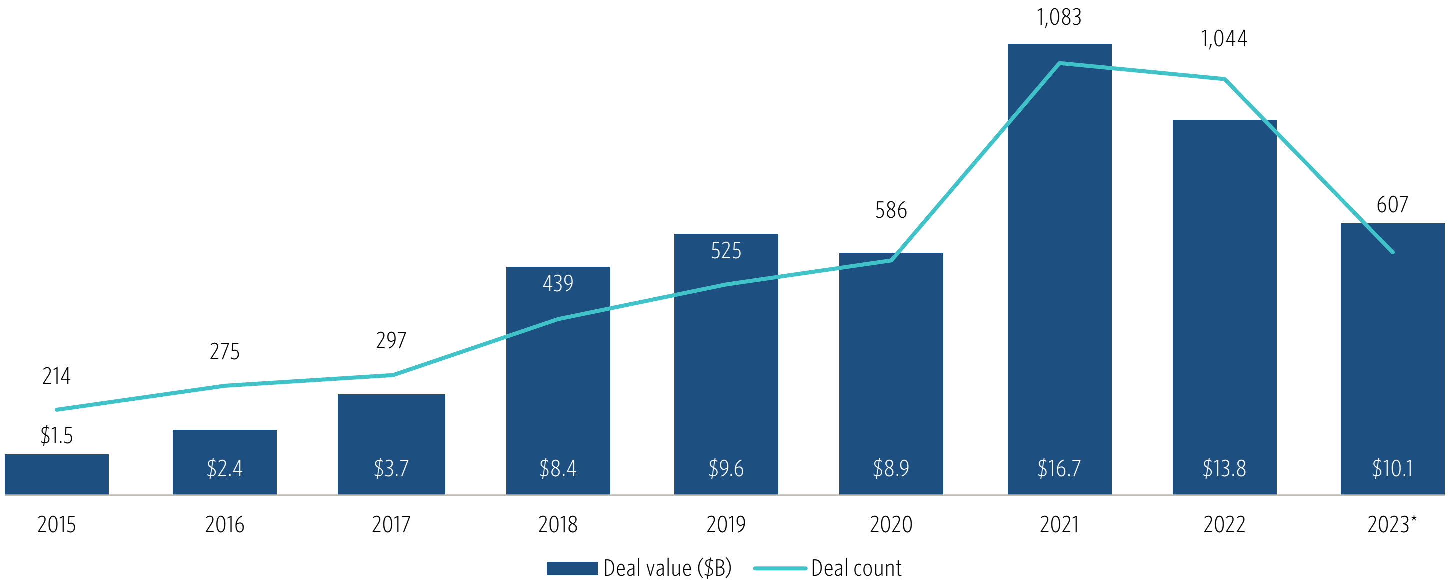
Between 2021 and 2023, B2C's share of total VC deal count in the region dropped from 14.4% to 12.8%, while B2B's share rose steadily, notching 16.5% in 2023. Several factors may have contributed to the reversals in B2B and B2C deal volume. The B2C sector took off before B2B because it was a more appropriate focus for such a strong population base. B2C business ideas such as ride-hailing are also generally more intuitive to investors, which resulted in a larger investor base for the sector. Over time, the B2C space became more crowded and competitive. Because the sector has already tested and launched business ideas that have worked on more mature markets such as the US, Europe, and China, the speed of new idea implementation has naturally slowed down. B2B businesses, on the other hand, experienced a series of tailwinds, thereby seeing increased opportunities and investor traction. As B2C software applications become more sophisticated and have a large user base, many of these consumer-oriented platforms will call for enterprise-level solutions. For example, a ride-hailing application requires back-end tech support that necessitates B2B product offerings. In addition, a growing number of established corporations in Southeast Asia are seeing second- and third-generation owners taking over. The younger generation's familiarity with digitalization, and recognition of its importance, leads to increased purchasing willingness for enterprise software solutions.

In North America and some of the other mature venture ecosystems in the world, enterprise software-as-a-service companies have outperformed their retail peers in terms of securing VC dollars and investor traction. But in Southeast Asia, the development of B2B software has been challenged by corporations' unwillingness to purchase software subscriptions, their budget, or their lack of history with such purchases. However, we expect to see enterprise software adoption accelerate in the coming years as the region's economy continues to expand, businesses prepare for and become more accustomed to software purchases, and the private market becomes more mature. Many of the VCs active in Southeast Asia that we spoke with indicated that their tech-focused portfolio companies have added B2B components to further expand their revenue streams.

## Foreign investor participation

Since 2015, foreign investors have played a prominent role in the regional venture ecosystem, deploying swaths of capital to promising startups with the goal of driving financial returns. Within the region, venture is still a nascent asset class. The ecosystem sits at an early phase of development, which helps explain why multiple markets are in search of fund manager expertise and capital availability, particularly

## VC deal activity with foreign investor participation




Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

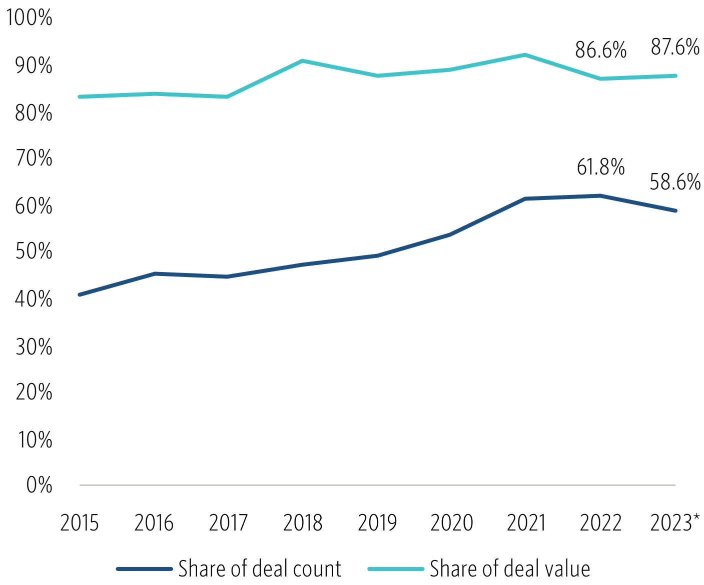
at the venture-growth stage. Against this backdrop, emerging markets hoped that foreign investors would help address a lack of capital availability within the region.

Within Southeast Asia, major markets including Singapore, Indonesia, and Vietnam have naturally garnered a higher level of foreign investor interest. Some global brand-name VC and PE firms set up offices in Singapore and invested across the region, or they partnered with investment experts on the ground with an in-depth knowledge of the regional market as well as access to a wide network of private market participants. Compared with its regional peers, Indonesia has long been a preferred investment destination primarily due to its sheer market size. Vietnam has witnessed increased foreign investor interest in recent years. Some have referred to the country as "the next Indonesia" given its economy's rapid evolution and its growing infrastructure due to the increase in global companies shifting their supply chain and manufacturing plants from China to Vietnam.

During the past couple of years, foreign investor involvement in Southeast Asia has ebbed and flowed in light of fluctuating macro dynamics. Between 2021 and 2022, when the global market experienced a wave of pandemic-fueled capital influx, foreign investor participation in the region surged. In 2021, a record $16.7 billion was deployed to Southeast Asia by foreign investors, representing 92.1% of the total VC deal value of $18.1 billion while participating in 61.2% of completed deals. Foreign investors have consistently participated in more than 60% of PE deals, too. These high rates of foreign investor involvement place great pressure on their sustained activity. Though it receded over the past couple of years, it has remained above pre-pandemic levels.

A proper evaluation of the retreat of foreign investors from Southeast Asia requires us to put it into a global context. Starting from the second half of 2022, global public markets experienced significant price corrections due to interest rate hikes and geopolitical uncertainties, the effects of which then permeated the private market, particularly venture. Heightened market volatility and a challenging fundraising environment led to investors pulling back from global investments, instead focusing on helping existing portfolio companies continue growing in a tough market. Some regional investors perceived the pullback of foreign investor participation as an opportunity to increase their investment footprint by being more active in dealmaking and doubling down on the best-performing portfolio companies.

### VC deal activity with foreign investor participation as a share of all VC deal activity



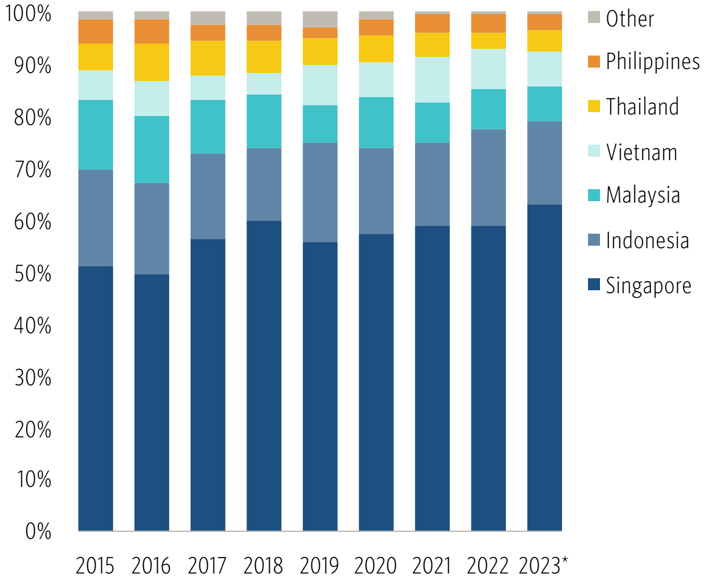

Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

Anecdotally speaking, regional investors observed shifts in global investor participation from Southeast Asia to other emerging markets, particularly India and Latin America. The primary reason was the deal price—for startups with similar business models and founder quality, valuations in Indian and Latin American markets are lower, thereby making the deals more attractive. Differences in founder attributes were also cited as a consideration.

Looking ahead, we see tailwinds for foreign investor interest to pick up over the next few years. To start with, a favorable macroeconomic outlook and strong demographics point to a consistently growing ecosystem. Also, regional success stories such as Grab and Gojek demonstrate vast market potential.[15] Additionally, in light of elevated US-China tensions in 2023, foreign investors, particularly those from the US, have turned their eyes to other parts of Asia-Pacific (APAC), including Japan, India, and Southeast Asia. One caveat to increased foreign investor capital inflow is whether Southeast Asia startups will be able to convert paper gains from the past few years to cash distributions to LPs. Given the nascency of the regional venture ecosystem, many Southeast Asia-based funds have not generated outsized exits and therefore have not made distributions to LPs. TVPI and IRR alone are insufficient to build a strong track record given the inclusion of unrealized gains, and future DPI will help craft a compelling case for LP commitments.

15: Gojek and Tokopedia merged on May 17, 2021, to form GoTo Group, which currently trades on the Indonesia Stock Exchange.

## Share of VC deal count by country

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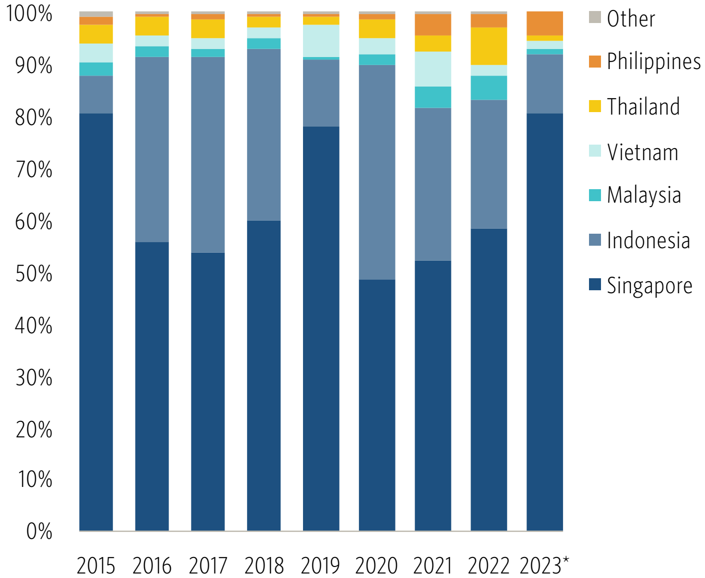
## Share of VC deal value by country

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### Indonesia: A core regional market benefiting from a series of tailwinds

The world's fourth-most-populous country and Southeast Asia's largest country by land, Indonesia is well positioned for continued growth in its venture landscape. During the past decade, there has been a steady uptick in foreign investor interest in the Indonesian VC market. Japanese financial institutions such as large banks have had a long history of operating in Indonesia, primarily due to colonization and long-term economic ties between the two countries. The three Japanese megabanks, Mitsubishi UFJ Financial Group (MUFG), Sumitomo Mitsui Banking Corporation (SMBC), and Mizuho, are all involved in Indonesia's startup scene, either by having subsidiary banking branches operating on the ground or via direct investments into startups. Investment activity from South Korea is correlated with the historic expat culture and Indonesia being one of the largest consumer markets for select industries such as entertainment. From the US, large multistage funds such as Sequoia as well as leading accelerators like Y Combinator have been active in investing in Indonesia.

A range of factors help explain why many foreign investors have taken a bullish view of the Indonesia VC landscape. From a macro perspective, a sizable population, robust demographics, and a growing economy point to large market potential. Between 2015 and 2022, the country's GDP ascended from $860.9 billion to $1.3 trillion, and post-pandemic GDP growth also illustrates a healthy upward trajectory.[16] As of 2022, Indonesia had a population of 275.5 million people, 37% of which were within the working-age group.[17] As of 2022, the smartphone adoption rate in Indonesia stood at 83%, and it is projected to ascend to 94% in 2030 with a market size of 380 million, second only to India within Asia-Pacific.[18] A fast-growing internet population as well as the adoption and integration of technology into businesses provide an attractive backdrop for growth in the private market. A rising middle class presents additional tailwinds for the Indonesian market.

The homegrown success story of eFishery, an Indonesian agtech startup, helps illustrate the growth momentum of the ecosystem. The company raised a Series C in 2022 from a host of prominent investors, including Temasek, one of Singapore's sovereign wealth funds (SWFs). The aquaculture startup's success is noteworthy because agtech investments in Southeast Asia are generally on the lower end of the tech spectrum than they are in more developed emerging markets such as China. The startup had humble beginnings with a low-cost Internet of Things device that aimed at connecting a large population of fish and shrimp farmers in Indonesia. Over time, it added a suite of features such as payments, lending, and a marketplace for selling, serving as a one-stop solution to

16: "Indonesia," The World Bank, n.d., accessed February 28, 2024.
17: "World Development Indicators: Population Dynamics," The World Bank, n.d., accessed February 28, 2024.
18: "The Mobile Economy Asia Pacific 2023," GSMA, n.d., accessed February 28, 2024.

a highly fragmented but large market. The success of eFishery also illustrates a regional investment theme: the super app, which replaces and revamps a conventional, inefficient, and disorderly process with an organized single application.

In Indonesia, favorable government policies on education provide extra impetus for the domestic talent pipeline. Take the 2023 state budget as an example. According to President Joko Widodo, the Indonesian government considered the improvement of human-resource quality as one of the six pillars of the budget.[19] Initiatives to enhance the quality of Indonesian human resources pertain to all aspects of education, ranging from access, distribution, and infrastructure to facilities.[20] Such efforts are a tailwind for the domestic market, as businesses rely on talent to excel and expand.

Similar to what we have observed in other emerging markets, the return of "sea turtles"—people who pursued academic degrees abroad or may have spent time working overseas—has been playing an important role in the evolution of the Indonesian private sector. When overseas-educated graduates return to their homeland and launch their own entrepreneurial projects, they bring along a wealth of resources, including a global perspective, domain expertise, and a proprietary network. Because venture is a US-born, foreign-imported concept, sea turtles can contribute invaluable knowledge from studying and working overseas. The Indonesian government promotes studying abroad by providing financial assistance to Indonesians through the Indonesia Endowment Fund for Education.[21]

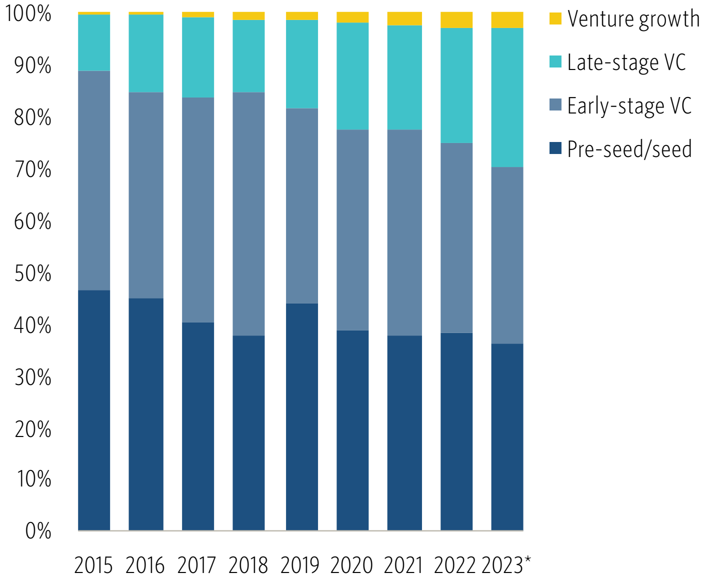
One of the most important and unique characteristics of the Indonesian private market that has a direct, visible impact on the domestic venture scene is its conglomerates. The country is heavily influenced by a high double-digit number of diversified conglomerates, the major of which started during or after World War II and tend to operate in multiple business domains.[22] Large conglomerates have played a major role in both Indonesia's overall economic development and the regional startup ecosystem. Conglomerates are open to partnering with startups, and some have an end goal of eventually acquiring startups that exemplify a high degree of synergy. Both conglomerates and startups are motivated to collaborate with each other. For conglomerates, despite having ample resources, it is often challenging to develop and implement innovation from within. With a corporate hierarchy in place, decision-making and new process implementation are slow. As a result, conglomerates are incentivized to form partnerships with startups to help incubate new ideas, stay up to date on the latest technology trends, and potentially tuck startups into the organization to expand new business lines instead of developing everything from scratch. In addition, some conglomerates leverage partnerships with startups as a marketing scheme, intending to project an innovative and open-minded image of the organization in media outlets. From a startup perspective, working with conglomerates brings a host of benefits, including nonfinancial resources such as free working space, lab access, branding, and reputation as well as access to the conglomerate's network.

Beyond partnerships with startups, some conglomerates have their own venture investment units. For example, Sinar Mas Group, one of Indonesia's largest conglomerates with footprints across a variety of sectors, has three investment arms: SMDV, Living Lab Ventures, and STAR Capital. Conglomerate-affiliated corporate venture capital (CVC) arms in Indonesia could have a variety of funding sources, including their own fund, the parent organization's balance sheet, and sometimes capital raised from external LPs. Direct investments made by conglomerate-affiliated CVC arms tend to carry an additional layer of strategic components to startups that potentially hold synergy with the parent organization. Conglomerates without their own CVCs, on the other hand, may still actively engage with startups, potentially through a third-party intermediary such as independent VC firms.

On the flip side, the powerful presence of conglomerates in Indonesia presents potential hurdles for regional startups. The influence that conglomerates have on the private sector could translate into an uneven playing field. With large swaths of cash and nonfinancial resources such as human capital and networks, conglomerates can help accelerate the growth trajectory of the startups they partner with or from their CVC portfolio. Meanwhile, not every startup is designed to or wants to pursue collaboration with or funding from a conglomerate. For instance, a startup with ambitions of global expansion may step back from an investment opportunity by a conglomerate that focuses on the regional market and does not like foreign investor influence over the startup's cap table. Startups that are not well suited or ineligible for conglomerate support may find themselves at a disadvantage compared with their peers.

19: "Minister Reveals 2023 State Budget Allocation for Ministry of Education, Culture, Research, Technology," Cabinet Secretariat of the Republic of Indonesia, December 1, 2022.
20: "President Jokowi Delivers Details of 2023 State Budget," Cabinet Secretariat of the Republic of Indonesia, August 16, 2022.
21 "Indonesia - Country Commercial Guide," International Trade Administration, January 9, 2024.
22: "Transitions in Indonesian Conglomerates - With a Focus on the Third Generation of the Founding Families," Mitsui & Co., September 2022.

## Share of VC deal count by stage

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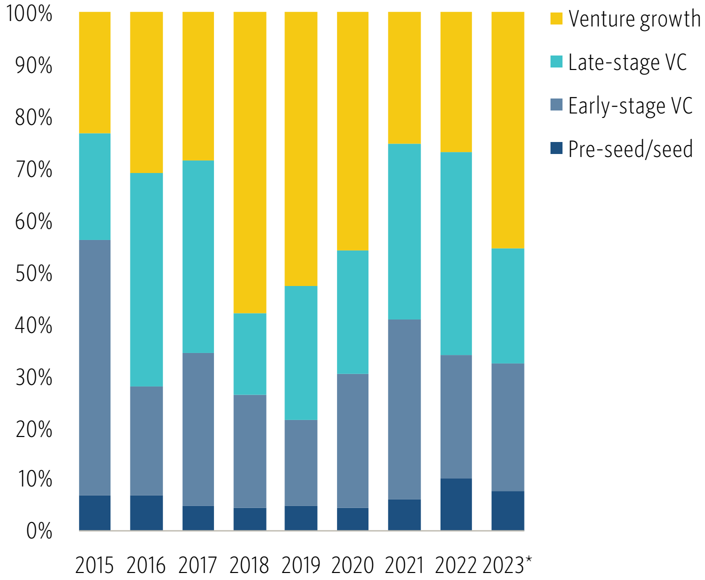
## Share of VC deal value by stage

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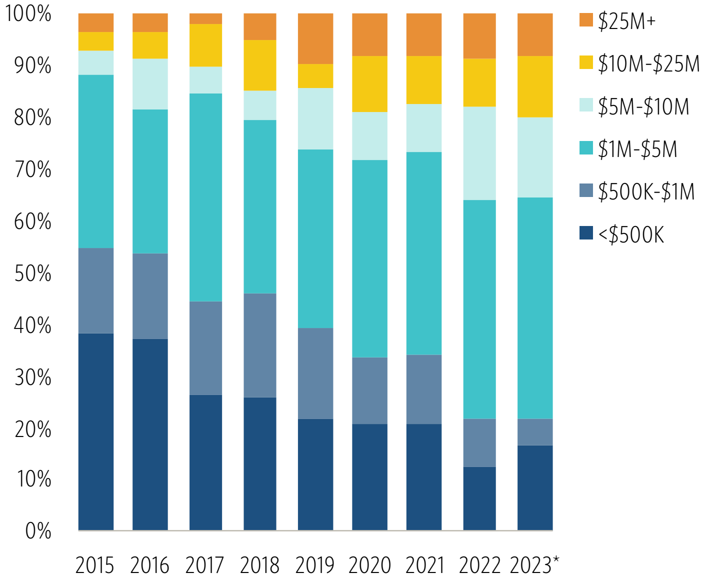
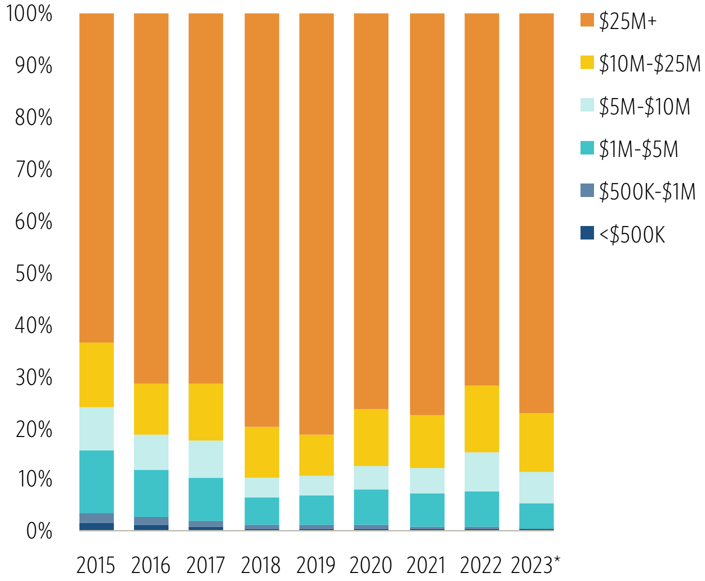
## Share of VC deal count by size bucket




Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

## Share of VC deal value by size bucket




Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

## Lack of growth-stage funding

An ongoing challenge for the venture ecosystem in Southeast Asia is a lack of growth-stage funding. In 2022, 48 venture-growth deals were closed—a record high for the regional VC ecosystem. However, this number is still low and subsequently dipped to 33 in 2023, reflecting a 31.3% YoY decline. A challenge that goes hand in hand with growth-stage capital supply shortage is a lack of large deals. On a deal count basis, the proportion of VC rounds in Southeast Asia with a ticket size north of $25 million remained below 9% between 2020 and 2023. In 2023, only 34 VC deals from the region with known deal value were above $10 million, attesting to a lack of venture funds with the scalability to support startups that need significant capital injection.

While Southeast Asia has a robust pipeline of high-quality startups, it is difficult for mature startups that typically need significant cash infusion to secure outsized financing from within the regional market. Unlike the US, where there is comprehensive financing coverage across the venture lifecycle, from a company's inception all the way to public listing, Southeast Asia lacks robust funding support for the later stages of venture. At the core of this capital-supply-and-demand imbalance for growth-stage companies is the natural difference in the structure of regional private markets and the need to produce more globally acclaimed brand names.

Each market within Southeast Asia has a unique composition of market players. As the region's largest market by population, Indonesia has historically had a larger volume of traditional VC deals. Vietnam has been coming close to Indonesia with a booming startup scene. Malaysia has yet to have a large volume of pure VC activity, as many deals are done through high-net-worth individuals (HNWIs) or wealthy families.

With regards to Thailand, where corporations are powerful, it is hard for VCs, in particular overseas VCs, to penetrate the market or to compete against domestic corporations for deals. Certain industry sectors, especially strategically important ones such as telecommunications, tend to be connected to the monarch or the military. In either situation, corporations can provide startups with a range of resources beyond cash, such as networking and office space. As a result, many Thai-born startups are influenced or funded by corporations.

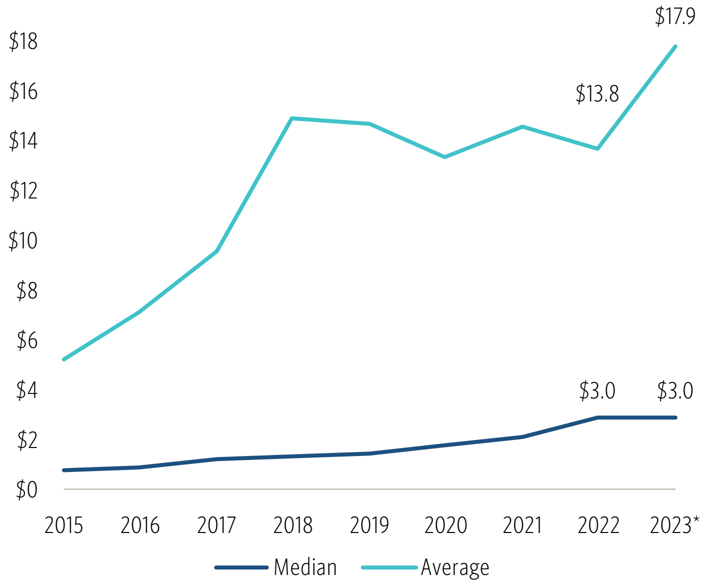
Smaller regional markets such as Myanmar, Cambodia, and Laos are limited by market size and have a low volume of venture-style investments. Certain parts of those markets also carry high geopolitical risk, adding to potential concerns from investors within Southeast Asia or abroad.

### Global and regional expansion: Cracking the code of outsized return potential

For founders and investors looking to achieve billion-dollar-style, outsized return potential, it is essential to lay out a road map for expanding across and beyond the regional markets. Acquisitions constitute the lion's share of regional VC-backed exits. However, it is likely for most M&A to generate eye-watering returns. Developing a playbook for cross-border business expansion will in turn produce more regional unicorns. As of 2023, 32 unicorns were active in Southeast Asia. We expect this cohort to grow over the next few years as the regional venture ecosystem becomes more established.

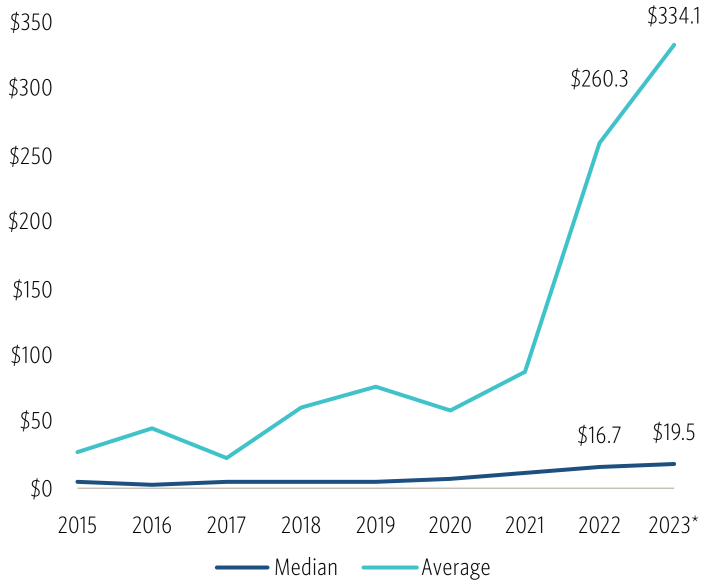
Excluding Singapore, which has a large volume of regional companies setting up holding entities there, Indonesia is the largest and most well-funded startup ecosystem in the region. With Indonesia's sheer market size, companies could theoretically achieve large investment outcomes, with the caveat that just like other island countries, Indonesia has diverse cultures, languages, and traditions, the heterogeneity of which add to challenges even for domestic business expansion.

### Median and average VC deal value ($M)



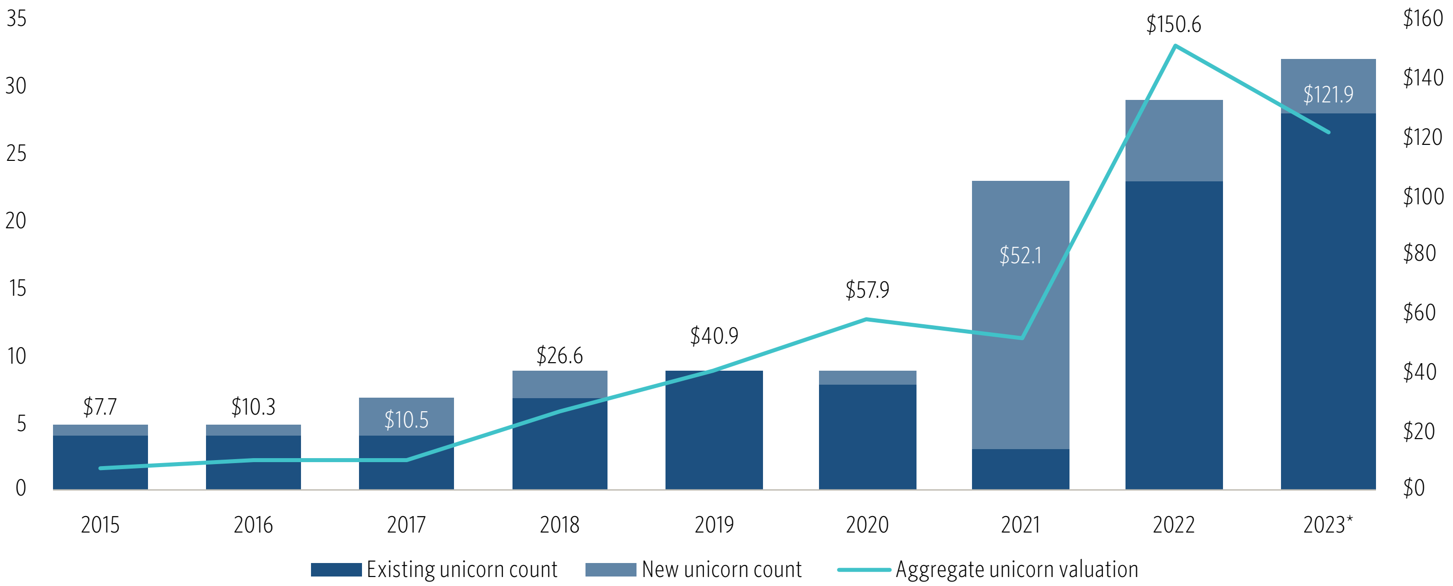

Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

### Median and average VC pre-money valuation ($M)




Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

## Aggregate unicorn valuation ($B) and count




Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

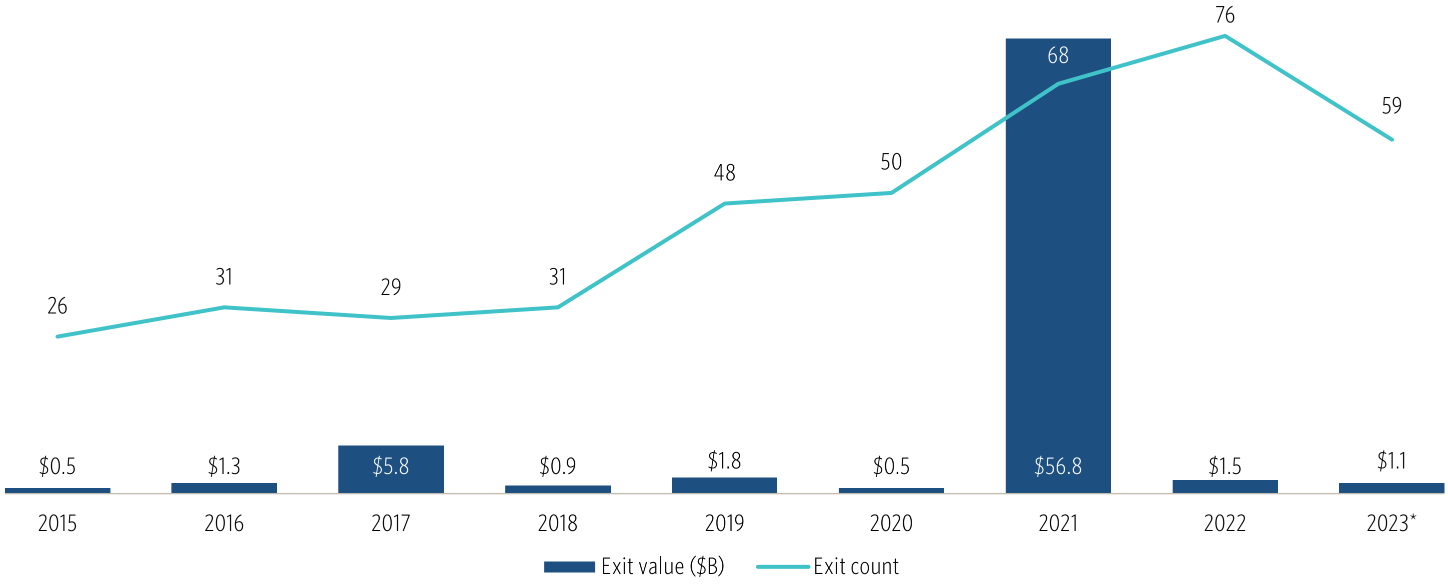
Like their global counterparts, Southeast Asian entrepreneurs seek inspiration from business ideas from more developed markets. Anecdotally speaking, founders from Indonesia keep their finger on the pulse of the latest market trends in India, analyzing whether success stories can be implemented domestically. Similarly, founders from the second- and third-largest markets in Southeast Asia, the Philippines and Vietnam, stay up to date on Indonesia's venture market trends and evaluate opportunities where they see the potential for replicating and launching a similar business model in their own markets.

Between certain regional markets that share a high degree of similarity, cross-border expansion or planting a seed and growing a similar business model may present an attractive opportunity. For example, within Southeast Asia, Indonesia and the Philippines are similar in many ways. First, the two island countries have similar supply chain structures. The last order of distribution for fast-moving consumer goods—mom and pop shops in the form of sari-sari stores in the Philippines and warungs in Indonesia—are essentially the same. Second, ideas around community—"kampong" in Indonesia and "barangay" in the Philippines both refer to the smallest social unit—are highly similar, alluding to success from employing a shared set of social selling strategies. With these similarities between the two markets, thematic investors see opportunities in taking proven success in Indonesia, or Indonesian companies seeking a second growth market, to the Philippines, where similar market, social, and cultural dynamics serve as a tailwind. An example of such cross-border expansion is Xendit, an Indonesian payment gateway platform, that entered the Philippines a few years ago. Out of the 320 million transactions the company processed in 2023, 40 million, or 12.5% of the yearly volume, came from the Philippines,[23] attesting to the growth potential the company was able to unlock from cross-border expansion.

23: "Xendit Philippines Wrapped 2023," Xendit, Dawnavie Dadis, January 9, 2024.

# Exit activity

## VC exit activity




Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

### Mixed impact of macro market on exit activity

Venture-backed companies in Southeast Asia are not immune from the macro headwinds facing other, more developed venture ecosystems. Similar to global VC dealmaking trends, exit activity has lagged recently. Public markets within the region were generally muted in 2023—the MSCI AC ASEAN Index increased just 83 basis points on the year—and inflation has eased significantly, though it did not spike nearly as high as in other regions. However, the lacking exit activity in 2023 is likely due to reasons other than macro headwinds, as exits are difficult to come by in the region.

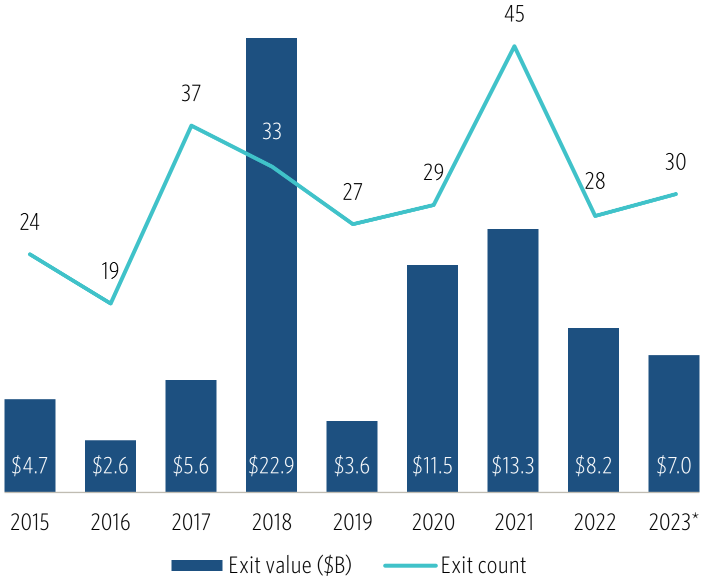
While US exit counts have fallen by 43.2% (VC) and 39.2% (PE) from the highs of 2021, exit activity in Southeast Asia has dropped from the highs by 22.0% (VC) and 33.3% (PE), a relatively lower decline. For VC, the banner year for exits was 2022, and at 59 exits completed in 2023, the market for liquidity remained arguably strong compared with historical data because it was the third-most-active year in terms of completed exits. The caution with that sentiment is that exits remain much smaller than in other markets, and the number closed annually is a low bar to reach.

Annual PE exits have surpassed 35 just twice, and with such low counts, annual exit value is volatile and heavily impacted by outlier exits if they occur. 2018 stands as PE's record-high exit value for the region at $22.9 billion, of which $17.5 billion was generated from two IPOs of Vietnamese companies, Vinhomes ($12.0 billion) and Techcombank ($5.5 billion). Just $7.0 billion in exit value was generated in the PE market in 2023.

One challenge for exits in the region is the relatively lower incentive for foreign buyers to enter into the market in the current environment. Because of the difficulties with expansion across Southeast Asia, acquisitions are generally targeted at companies that have already completed that expansion or are well entrenched in a large market within the region. An example is the acquisition of Singlife in Singapore by Japan's Sumitomo Life, which expands the Japanese insurer's reach and coverage within Southeast Asia.

The lack of returns generated, coupled with the high amounts invested in the region over the past few years, have manifested in a growing secondary market. This trend in secondaries could further reveal itself if foreign investors, which have accumulated large portfolios within the region on aggregate, continue their pullback to traditional strategies and geographies.

## PE exit activity




Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

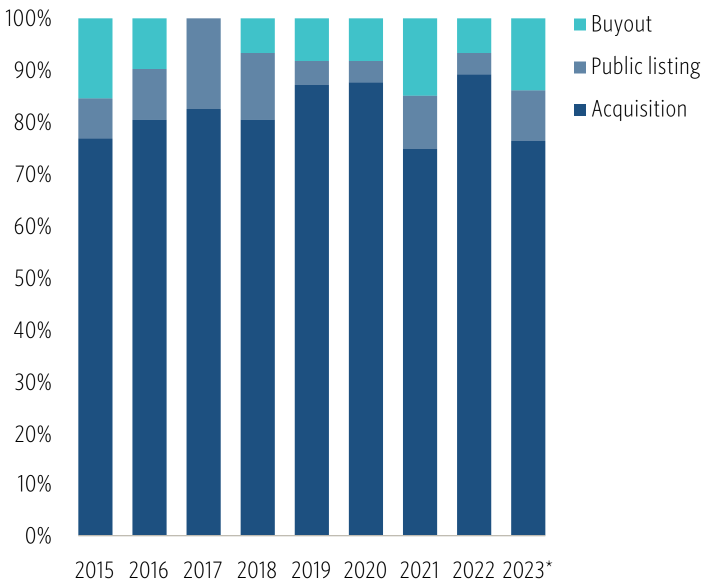
### Short record of venture exits

One of the major challenges with sustained investment momentum in Southeast Asia is the lack of exits of VC-backed companies in the region over the past decade. Just $70.2 billion in exit value has been generated since 2015, more than $55 billion of which came from the three largest exits, each of which was completed in 2021. The low exit counts reflect several challenges, including a lack of adequate avenues for exits, as well as the difficulties companies have with growing to a size needed to drive the significant returns required of venture investors.

Though VC-backed exits have increased in number—growing from 26 in 2015 to a high of 76 in 2022—outside of 2021, the highest exit value achieved has been $5.8 billion in 2017 thanks to the more than $4 billion exit of e-commerce company Sea. With low returns generated on a recurring basis, investors, both foreign and local, will be challenged to sustain levels of investment within the region, as LPs will look for returns that justify the risks involved with the developing market. Foreign investors especially are more apt to return to traditional strategies and geographies in the face of headwinds, and with other markets developing quickly, such as India and Latin America, exposure to developing VC markets is not limited.

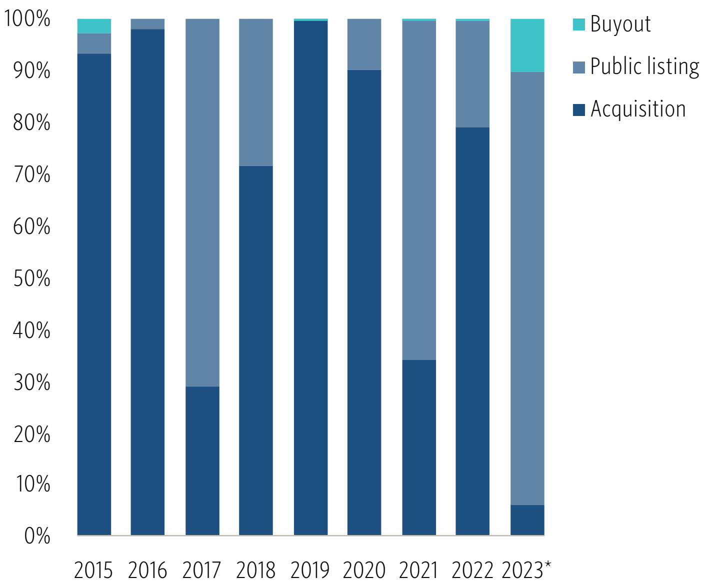
In the rising valuation environment of the global VC market over the past few years, fewer exits create market pressures on dealmaking, especially with regard to entry prices for VC investors. Company valuations and deal prices in Southeast

## Share of VC exit count by type




Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

## Share of VC exit value by type




Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

Asia have remained relatively low when compared globally, but as companies move through the venture lifecycle and look for later-stage funding, the relatively low ceiling for exits incentivizes investors to remain ardent on pricing, leading to further dilution for founders and early-stage investors.

A factor in the lack of attractive exits for investors is the inability for many startups to scale large enough to generate a considerable return. Nearly 87% of the exit value since 2015 has been generated by six exits of over $1 billion, and that proportion jumps to 96% of exit value when including the top 20 exits.

The challenges for companies even looking to expand cross-border in the region are not attractive to VC, even as the economic growth of the region points toward further development of a capable VC market. While there is not an ideal investment-to-exit ratio, in Southeast Asia it has continually been above 20-1. This further complicates sustained investment into the region as losses pile up for investors.

## Smaller regional exchanges a challenge for large IPOs

Exchanges in Southeast Asia also add to the challenges for large companies looking to go public, and for many, listing on US exchanges—or Hong Kong's Hang Seng Index—has been the more attractive option. SHEIN, which is currently headquartered in Singapore, though it launched in China, is a good example. The company has signaled its intent to list on the New York Stock Exchange, which would likely provide it the opportunity to raise larger amounts of capital and remain listed in an arena with larger interest from investors.

Over the past few years, Grab combined with a SPAC to list on the Nasdaq, and Sea and Digiasia Bios listed on the New York Stock Exchange, representing three of the four VC-backed public listings above $400 million out of the region. The Singapore Exchange is the largest exchange within Southeast Asia but is just ninth largest by market cap within APAC.

Beyond the ability to raise enough capital, a reason for companies looking elsewhere is the stringent regulations employed by several regional exchanges and the often lengthy filing timeline. On some exchanges, companies are required to be profitable or project profitability in the near term. When Sea went public on the New York Stock Exchange, it had experienced growing losses over the previous few years. Grab's losses were in the billions annually when it completed the largest-ever SPAC combination and listed on the New York Stock Exchange in 2021.

### Largest VC exits in 2023*

| Company | Close date | Exit value ($M) | Exit type | Industry sector | Country |
|---|---|---|---|---|---|
| Digiasia Bios | February 15 | $400.0 | Reverse merger | Information technology | Indonesia |
| VKTR | June 19 | $234.5 | IPO | B2B | Indonesia |
| Webuy | October 19 | $192.0 | IPO | B2C | Singapore |
| Foundation Healthcare Holdings | March 8 | $112.0 | Buyout/LBO | Healthcare | Singapore |
| Ohmyhome | March 22 | $65.0 | IPO | B2C | Singapore |
| One River Power | December 26 | $30.7 | M&A | Energy | Malaysia |
| CytoMed Therapeutics | April 17 | $24.5 | IPO | Healthcare | Singapore |
| InvestingNote | January 4 | $22.2 | M&A | Financial services | Singapore |
| Innov8tif | February 7 | $7.2 | M&A | Information technology | Malaysia |
| SpaceAge Labs | July 17 | $2.6 | M&A | Information technology | Singapore |

Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

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## Largest PE exits in 2023*

| Company | Announced/close date | Exit value ($M) | Exit type | Industry sector | Country |
|---|---|---|---|---|---|
| 21Cineplex | August 2 | $1,343.8 | IPO | B2C | Indonesia |
| UMW Holdings | December 13 | $777.3 | M&A | B2B | Malaysia |
| DXN Holdings | May 19 | $756.3 | IPO | B2B | Malaysia |
| Singlife | September 13 | $662.9 | M&A | Financial services | Singapore |
| Quest Global Services | July 25 | $640.0 | Buyout/LBO | B2B | Singapore |
| MFS Technology | November 30 | $460.0 | M&A | Information technology | Singapore |
| FV Hospital | July 12 | $328.5 | M&A | Healthcare | Vietnam |
| Asia Pacific Institute of Information Technology | February 19 | $300.0 | Buyout/LBO | B2C | Malaysia |
| Safe Fertility Center | November 1 | $129.0 | IPO | Healthcare | Thailand |
| Restaurants Development | December 18 | $128.9 | M&A | B2C | Thailand |

Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

### The emergence of secondaries in Southeast Asia as a means of generating liquidity

Due to a range of factors—internal considerations and external forces alike—LPs and GPs may have liquidity concerns and need to access capital from inherently illiquid holdings. The need to generate liquidity before a private market fund reaches the point of having exited all its underlying positions has given rise to secondaries in the global private capital market. Potential reasons for an LP wanting to liquidate their position in a fund include a shift in investment strategy by shuffling legacy positions and a need to rebalance their portfolio. In the US, the ongoing liquidity crunch that many institutional investors have been faced with further propelled the need for liquidity generation. The same has been playing out in Southeast Asia, where the joined forces of an evolving private market and liquidity needs have led to the emergence of the regional secondaries market. While the number of active, regionally focused secondary firms and the current market size of secondaries remain limited, we expect the secondary landscape in Southeast Asia to gradually and consistently expand in the years ahead. Despite the existence of unfulfilled liquidity needs, secondaries are still at a nascent stage of development within the region. Many market participants are not familiar or comfortable with the secondary strategies yet, which alludes to the asset class having a long way to go.

The mainstream approaches to secondaries in Southeast Asia largely mirror what we have observed from other global markets such as the US. For LP-led secondaries, secondary funds tend to purchase fund interests directly from the LP or may opt to build a preferred equity structure. Regarding GP-led secondaries, the common approach is to set up continuation vehicles, which closely resemble the practice from other global markets. For GP-led transactions, a commonly faced issue for selling VC assets is the pricing gap, where secondary buyers may not be aligned with the GP on the fair market value of the assets. A potential solution to such cases is setting up special arrangements, such as a preferred equity structure, that both allow LPs to access liquidity and help the buyer with downside protections.

Two characteristics of secondaries in Southeast Asia distinguish this strategy from that of the global market. First, like other emerging markets in APAC, VC is a much bigger asset class than PE in Southeast Asia in terms of deal volume. This contrasts with the US and other mature markets, where PE secondary transactions often dominate, as many buyers prefer buyout positions that tend to produce more stable returns. In light of VC being a leading force of the regional private market, secondary funds in Southeast Asia approach the VC-PE mix differently, with some only open to acquiring PE assets. Among funds that are more flexible with VC positions, including growth assets, some

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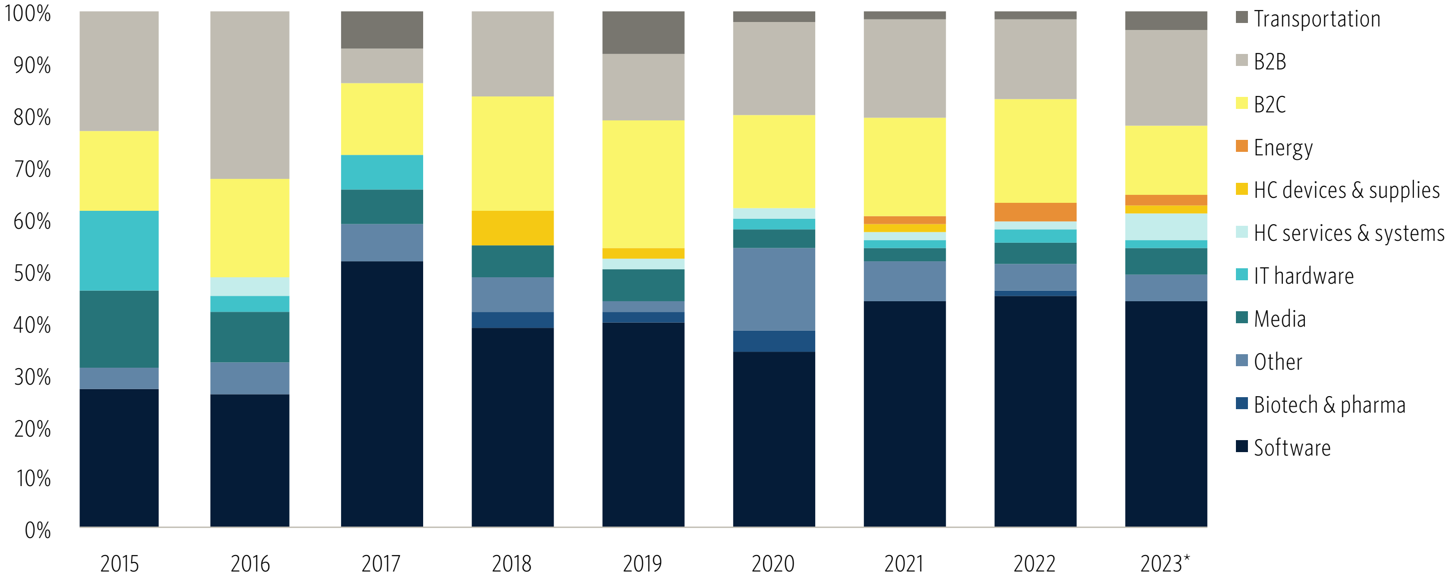
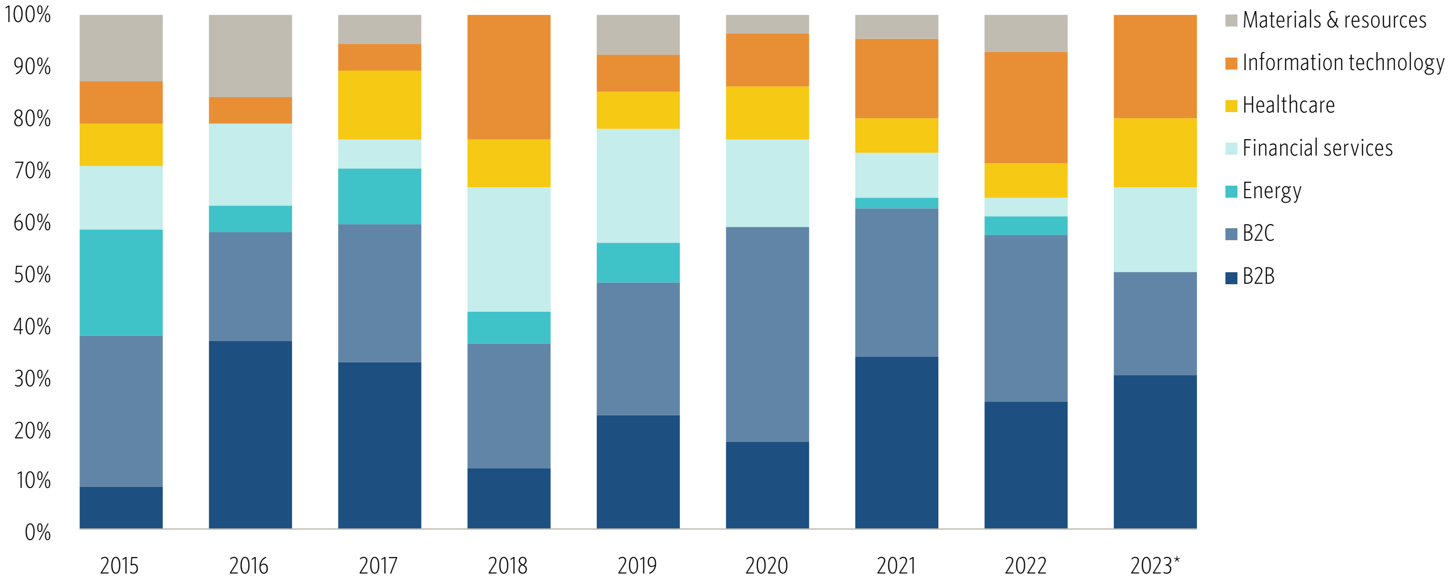
## Share of VC exit count by sector




Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

## Share of PE exit count by sector

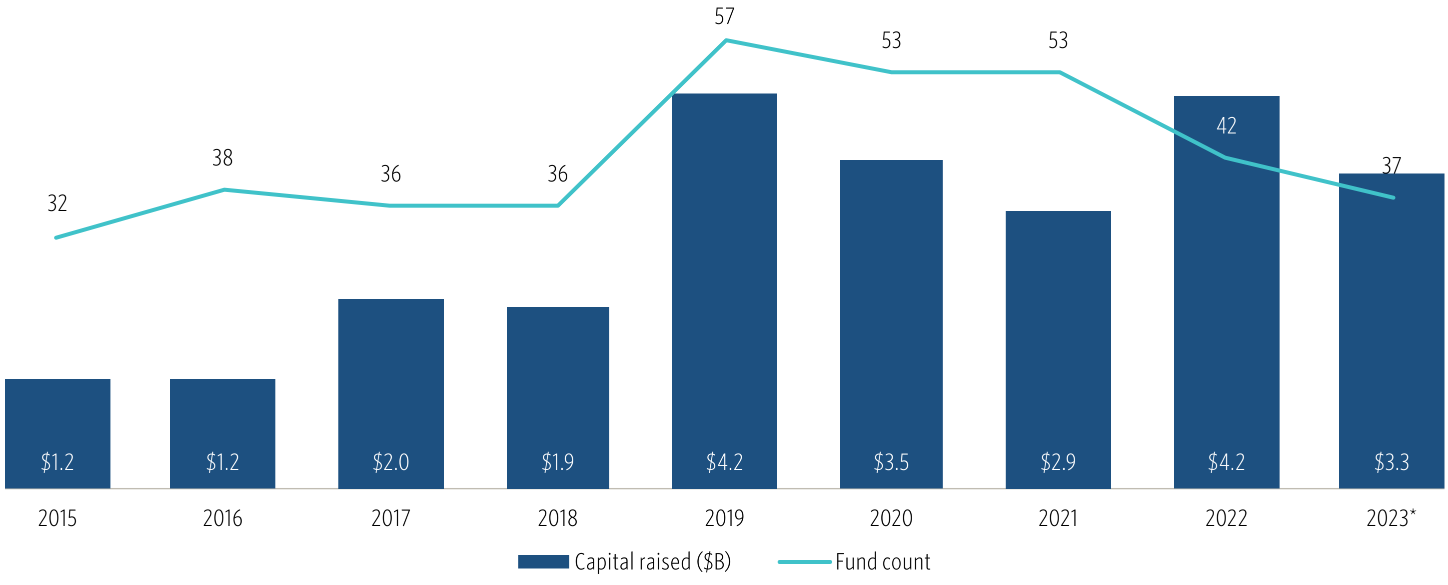



Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

would position LP interests in VC as an opportunity to harvest potential upsides, if an underlying portfolio company ends up becoming a unicorn. Second, within the region, even some of the largest market players—SWFs or government-affiliated investment vehicles such as Malaysia's Khazanah Nasional Berhad and KWAP—sometimes have liquidity needs. These large deals can be coordinated and initiated by secondary funds that form a syndicate.

# Fundraising activity

### VC fundraising activity




Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

### Lack of large funds

Over the past couple of years, private capital fundraising growth across Southeast Asia has tailed off in count. From 2019 through 2021, the number of PE and VC funds closed each year remained relatively even as global investors pushed money into the region, causing the region to miss out on the opportunity to increase the number of local funds alongside the heightened interest. However, PE and VC fund counts fell to just five and 37 closed, respectively, in 2023. Even amid that fall in count, the amount of capital committed to private capital funds has remained relatively stable, even rising above prior years in 2022 and 2023. The reason for this is the dearth of growth-stage capital funds within the region.

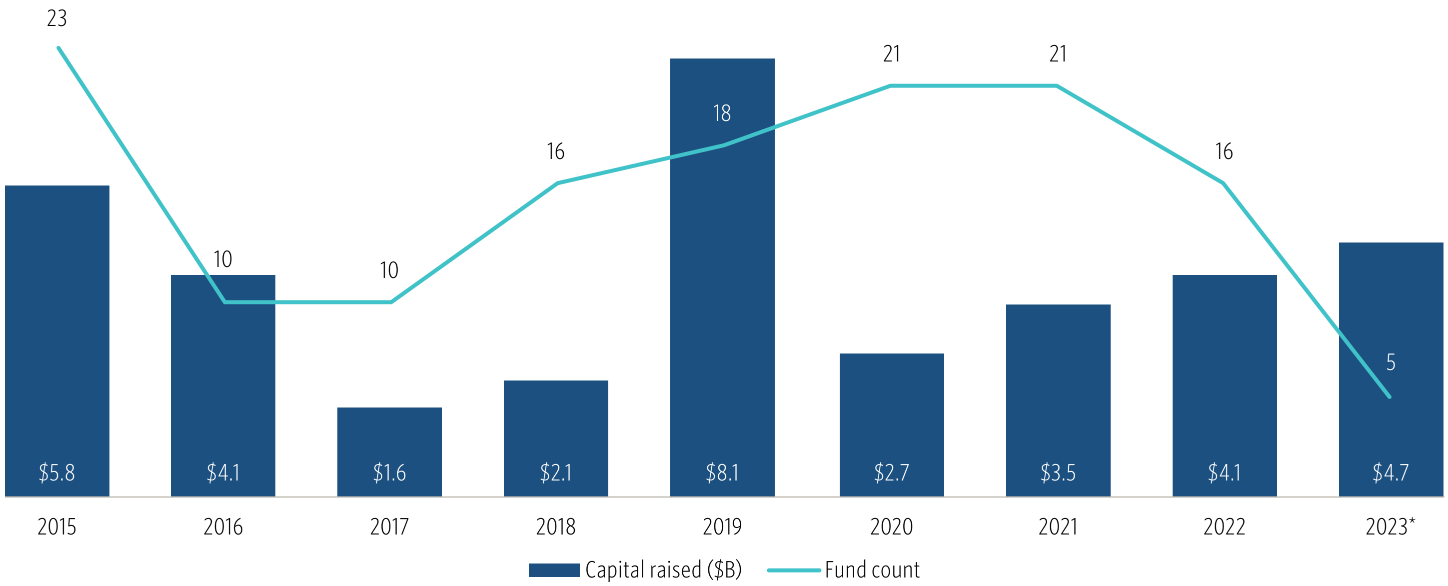
Of the VC funds that have been closed since 2015, just 8.5% have been at or above $250 million in size. Not only does this cause a general lack of growth-stage capital within Southeast Asia and increase the reliance on foreign investors, it also concentrates pricing power for late-stage deals. Deal sizes in Southeast Asia tend to be much lower than in more developed venture markets such as the US and Europe. The inability to raise capital from local funds presents further challenges to navigating company growth throughout the region.

This lack of growth capital exhibits a causality dilemma. If companies are unable to raise the needed capital for growth, then the ability to grow large enough to generate the desired returns for investors is hindered, and the cycle repeats. While certain companies and business models can quickly attract the capital needed—such as Grab, which had seen similar models develop across other global markets—more localized models find higher barriers.

### Lack of track record for GPs

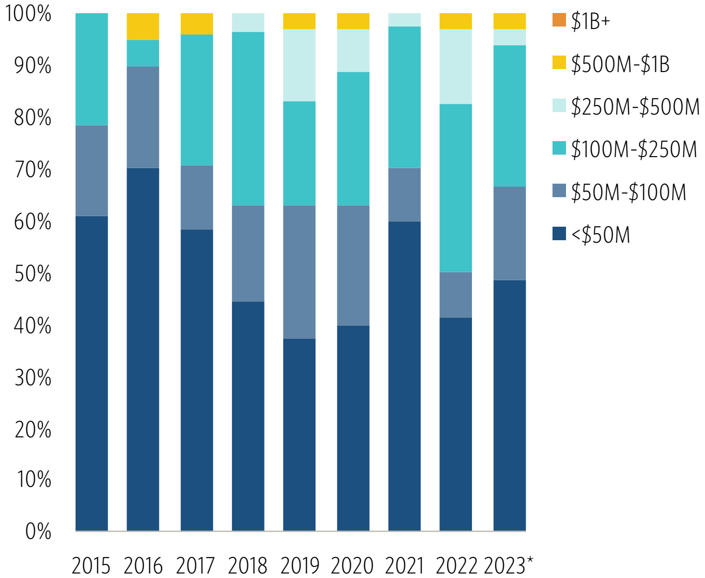
While VC fundraising has grown significantly over the past decade, the market has a relatively new investor base. Nearly three-quarters of the funds closed since 2015 were run by emerging managers at the time of the closing. As the market continues to develop, we will see this proportion become more balanced. Currently, nearly 70% of the firms that have closed

## PE fundraising activity




Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

## Share of VC fund count by size bucket

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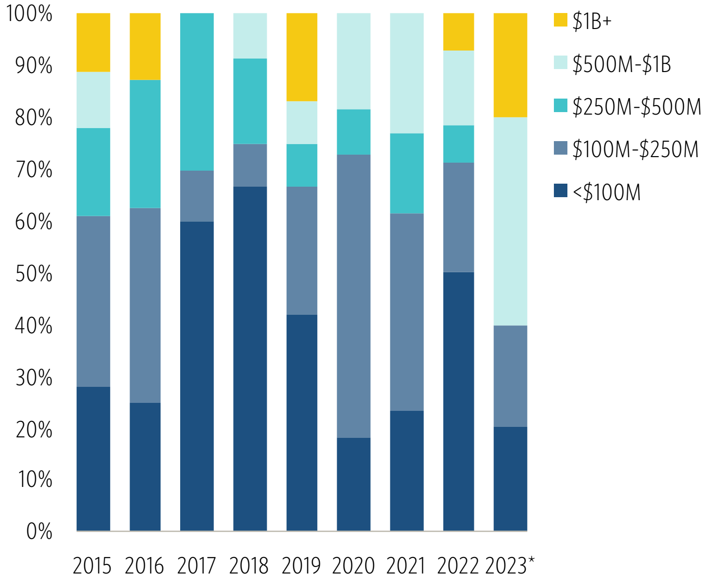
## Share of PE fund count by size bucket




Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

a fund since 2015 either raised just a single fund or are still investing out of their inaugural vehicle.

Globally, we have seen established managers collect an increasing amount of commitments to venture. These firms (those with four or more funds) have become more trusted partners during the venture slowdown as LPs rely on existing relationships and track records of returns. While LPs looking for the risks associated with Southeast Asia may focus less on manager experience, the lack of experienced investors in the region adds to the barriers of generating commitments from foreign LPs. In 2023, more experienced managers raised funds than during any year prior, even as the total number of closed funds was fewer than the previous four years.

Fundraising activity is a lagging indicator of the development of a market. While a sharp increase of new funds may warrant discussion of an emerging ecosystem, a sustained increase in fundraising may not materialize until returns that satisfy the LP base can be generated.

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## Government funds of funds

There is no shortage of government-affiliated capital within Southeast Asia, and several countries have allocated capital to boost their local venture ecosystems or participate within the global venture market, such as with portions of Singapore's SWFs. Malaysia has taken one of the more direct approaches to boosting its local investment ecosystem by deploying capital directly into local VC funds. The government set up allocations such as Malaysia Venture Capital Management and Penjana Kapital to both directly invest in deals and serve as LPs in funds that will deploy capital into Malaysian startups. To attract foreign capital into Malaysian funds, the government has added stipulations that would provide a fund with a one-for-one investment: a dollar for each dollar provided by the foreign investor.

Similar approaches have been made to aid development of startup ecosystems around the globe. The European Investment Fund has allocated $4 billion to be invested in growth funds within Europe over the next few years, looking to keep highly valuable companies and technologies within the borders of Europe.

For now, within Southeast Asia there will likely continue to be a void in late- and growth-stage capital that cannot be filled by government entities alone. Though the vast reserves of capital remain in the region, much of that is tabbed to invest in infrastructure and the further development of economies, which have not heavily leaned upon the private capital markets.

### Largest VC funds in 2023*

| Fund | Close date (2023) | Fund value ($M) | Fund type | Country |
|---|---|---|---|---|
| Vertex Ventures SEA V | September 12 | $541.0 | Early-stage VC | Singapore |
| Antler Elevate Fund | June 8 | $285.0 | Late-stage VC | Singapore |
| Arbor Venture Fund III | May 27 | $250.0 | VC | Singapore |
| Go-Ventures II | June 20 | $240.0 | VC | Singapore |
| B Capital China I | January 19 | $234.7 | VC | Singapore |
| Suzhou UOB QDLP USD Fund | March 28 | $200.0 | VC | Thailand |
| Monk's Hill Ventures Fund III | April 18 | $200.0 | Early-stage VC | Singapore |
| VisVires New Protein II | October 30 | $145.0 | VC | Singapore |
| 500 Southeast Asia III | September 7 | $143.0 | Early-stage VC | Singapore |
| Northstar Ventures I | December 15 | $140.0 | Early-stage VC | Singapore |

Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

### Largest PE funds in 2023*

| Fund | Close date | Fund value ($M) | Fund type | Country |
|---|---|---|---|---|
| TPG Asia Fund VII | February 11, 2019 | $4,630.0 | Buyout | Singapore |
| True Light Fund I | September 28, 2023 | $3,300.0 | PE growth/expansion | Singapore |
| The Sino-Singapore (Chongqing) Connectivity Private Equity Fund | December 31, 2016 | $2,823.6 | Buyout | Singapore |
| C-Bridge Healthcare Fund V | April 8, 2022 | $1,670.0 | Buyout | Singapore |
| Navis Asia Fund VII | January 29, 2015 | $1,500.0 | Buyout | Malaysia |
| L Catterton Asia 3 | October 31, 2019 | $1,450.0 | PE growth/expansion | Singapore |
| SGT Capital Fund I | April 15, 2015 | $1,010.0 | Buyout | Singapore |
| Navis Asia Fund VIII | August 3, 2021 | $900.0 | Buyout | Malaysia |
| C-Bridge Healthcare Fund IV | March 1, 2019 | $852.0 | Buyout | Singapore |
| Northstar Equity Partners IV | October 16, 2015 | $810.0 | PE growth/expansion | Singapore |

Source: PitchBook • Geography: Southeast Asia • *As of December 31, 2023

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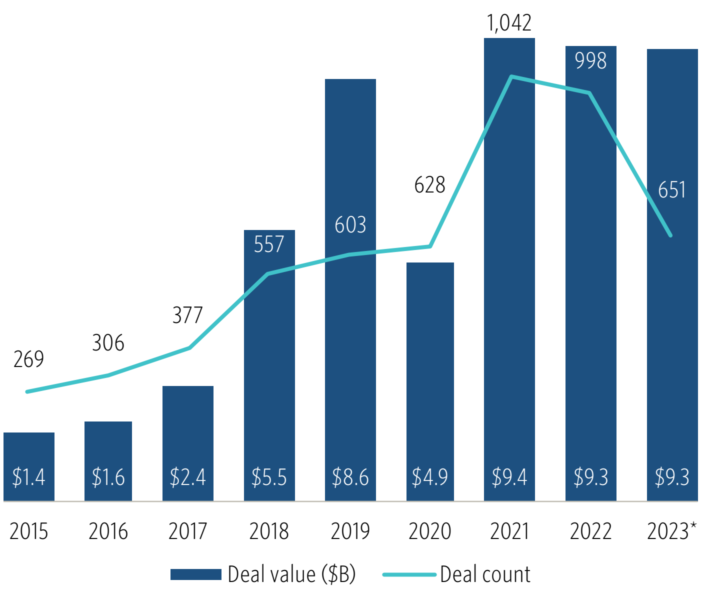
SPOTLIGHT

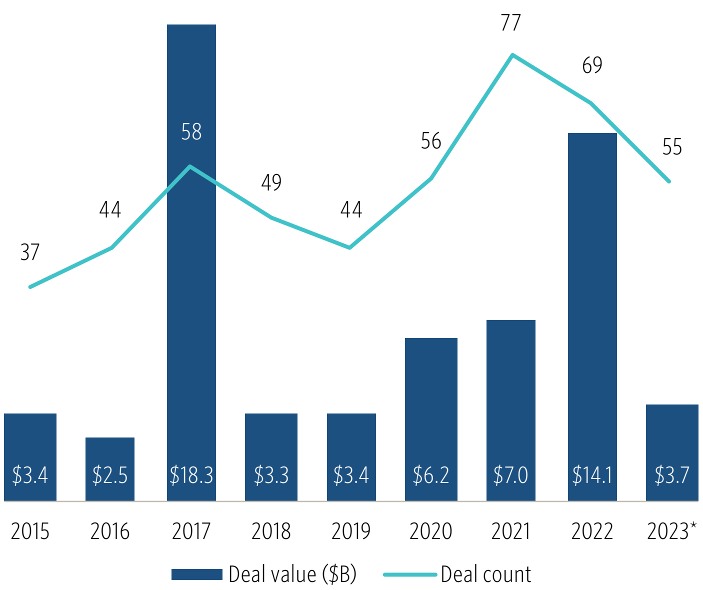
# Singapore

### VC deal activity




Source: PitchBook • Geography: Singapore • *As of December 31, 2023

### PE deal activity




Source: PitchBook • Geography: Singapore • *As of December 31, 2023

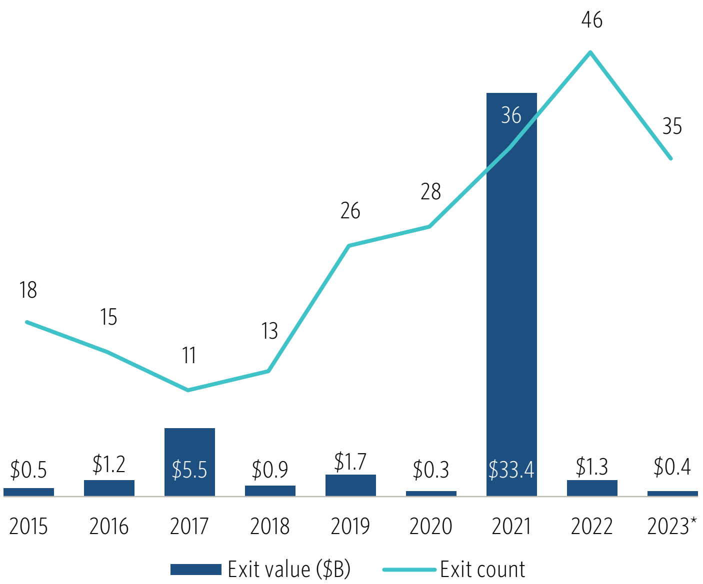
## VC ecosystem and funding style

Despite the city-state's modest size and population, Singapore is a core piece of Southeast Asia's private capital ecosystem and serves as a nexus point connecting different markets within the region. As one of the "Four Asian Tigers"—countries and regions within APAC that have witnessed high-speed economic growth since the 1960s—Singapore has been a long-standing financial hub. In fact, in 2023, 13.8% of the country's nominal GDP was derived from the finance and insurance sector.[24] Within Southeast Asia, Singapore stands out in terms of relative market maturity and professionalism. Compared with other regional ecosystems, the private capital landscape in Singapore is closer to the US in terms of the setup of market participants and the availability of various investment facilities. Investors pumping capital into the private market include SWFs, global and regional PE and VC investors, CVCs, family offices, and HNWIs.

Government policy has played a pivotal role in Singapore's economic growth. Keenly aware of the city-state's shortcomings, in particular its small size and a lack of natural resources, the Singapore government has long been focused on value-add, thereby attracting multinational enterprises (MNEs) to invest and set up offices in Singapore.[25] Skilled labor, infrastructure, and the city-state serving as the regional financial nexus are among Singapore's competitive advantages, and the government seeks to attract foreign investments that promote innovation and technology advancement.[26] A major incentive for MNEs to establish a presence and invest in Singapore is tax—the city-state does not have capital gains tax for corporates or individuals, and the headline corporate income tax rate has held steady at 17% for years, with partial tax exemption policies for qualified businesses.[27, 28] In addition, the Budget 2024 released by Singapore's Ministry of Finance demonstrates the government's commitment to facilitating growth for local

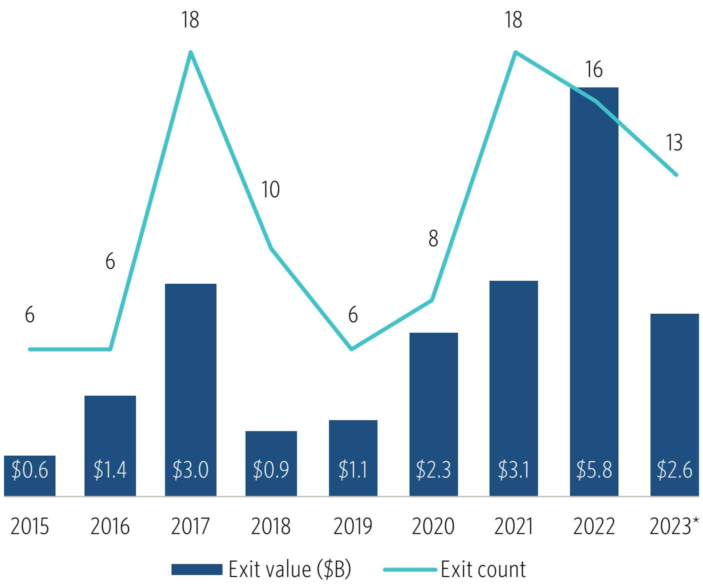
24: "Singapore Economy," Singapore Department of Statistics, February 2024.
25: "How Will We Sustain Growth and Help Singaporeans Secure a Better Future?" Singapore Ministry of Finance, February 28, 2024.
26: Ibid.
27: "Singapore," PwC, May 4, 2023.
28: "Corporate Tax Rates Table," KPMG, n.d., accessed February 29, 2024.

### VC exit activity




Source: PitchBook • Geography: Singapore • *As of December 31, 2023

### PE exit activity




Source: PitchBook • Geography: Singapore • *As of December 31, 2023

businesses. According to Budget 2024, the government plans to invest in emerging technologies, provide financial support for enterprises, and facilitate technology adoption for small and medium-sized enterprises.[29] These measures help further promote the momentum of growth in the country.

From a private capital market perspective, Singapore being an investment hub means that regional investors tend to travel back and forth between Singapore and their headquarters within Southeast Asia to build relationships with the broader investor community and engage in value-adding activities beyond financial support. Investors from other regional markets may regularly spend time in Singapore to help connect their portfolio companies with Singapore-based investors, thereby assisting with follow-on fundraising efforts. The investors may also introduce startup founders to industry experts to further work through business ideas and projects. This is important for the growth of earlier-stage portfolio companies that may not have an established network yet. Conversely, Singapore investors seek to build relationships with regional investors that are active in other markets. Given the nuances of how business is conducted in each market within the region, Singapore investors that cover all of Southeast Asia are keen to exchange thoughts with and gather market intelligence from their peers operating on the ground in other markets.

## SWFs of Singapore

Singapore's two SWFs, Temasek Holdings and the Government of Singapore Investment Corporation (GIC), constitute a unique component and central piece of the regional private market. Temasek, founded in 1974, and GIC, founded in 1981, boast AUM of $450 billion and $770 billion, respectively, making them two of the largest and most long-standing global SWFs. The establishment of both entities traces back to the post-1965-independence investment philosophy that to attain success in business management, the government should hand over its assets to independently run, long-term-focused investment vehicles.[30, 31] Temasek and GIC were thus born as stewards of the nation's surplus reserves to preserve and grow capital over a long investment horizon as well as to promote sustainability by making diversified investments in a variety of asset classes across the globe.

While Temasek and GIC's histories are rooted in the nation's unique fiscal policy and both are massive-scale global investors, the two SWFs differ from each other in terms of asset allocations. As of Q1 2022, GIC's allocation to PE stood at 17% and was dwarfed by the SWF's public market investments (30%) and its largest holdings of national bonds and cash (37%).[32] In contrast, Temasek is much more active in injecting capital into

29: "Supporting Businesses and Driving Growth," Singapore Ministry of Finance, February 16, 2024.
30: "History of Temasek," Temasek, n.d., accessed February 29, 2024.
31: "Made of Bold," GIC, n.d., accessed February 29, 2024.
32: "2021/22 Report on the Management of the Government's Portfolio," GIC, July 2022.

the private market. As of Q1 2023, more than half of Temasek's portfolio was in "unlisted assets and funds," including PE and credit fund allocations and direct investments into companies.[33]

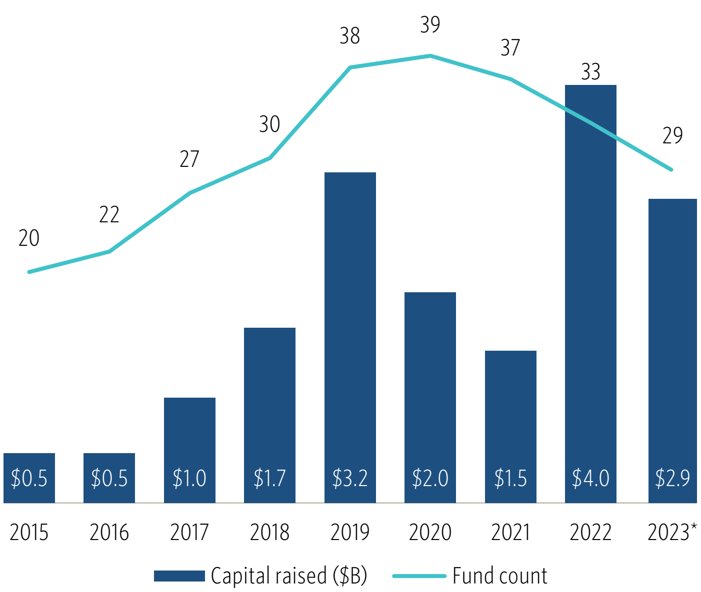
Despite having a globally diversified portfolio, Temasek has been playing an active and important role in the regional ecosystem. A third of Temasek's unlisted portfolio consists of private Singapore companies.[34] Two examples of the SWF's domestic direct investments are a cross-border payment software Nium that temporarily unlocked unicorn status in a Series D round in 2021 and BasisAI, a B2B augmented intelligence platform that was acquired by Aicadium, a Temasek-backed AI company.

Since around 2015, Temasek has backed and/or anchored five Singapore-based venture funds: Jungle Ventures, Openspace Ventures, Golden Gate Ventures, Monk's Hill Ventures, and Wavemaker Partners. All five VC firms cover Southeast Asia, and many specialize in information technology, particularly software. The primary goal of Temasek is to help their portfolio managers professionalize and grow in scale to eventually secure commitments from overseas institutional investors, especially pensions, endowments, and corporations from the US and Europe. Beyond capital commitments, additional support provided by Temasek includes consistently sharing market observations with their managers, highlighting the regional funding gap that Southeast Asia faces. The successful nurturing of the regional ecosystem by Temasek has manifested in global LP commitments to new funds. In May 2022, Jungle Ventures secured backing from global institutional investors such as IFC, DEG, and StepStone Group for its $600.0 million Fund IV.[35] As these regional funds backed by Temasek institutionalize, scale up, and move toward later-stage investments over time, a challenge faced by the regional venture ecosystem is a lack of robust coverage throughout the VC lifecycle. The VC landscape in Singapore is still in need of more managers—emerging and established alike—to support founders at the earlier stages of venture.

## The influx of family offices in recent years

Beyond large-scale institutional investors such as Singapore's SWFs, a major difference in private market transactions in Singapore is the participation of family offices. Back in 2015, when the private market in Singapore was in very early stages of development, the investor base was primarily made up of family offices and HNWIs. The LP landscape has since evolved significantly.

### VC fundraising activity

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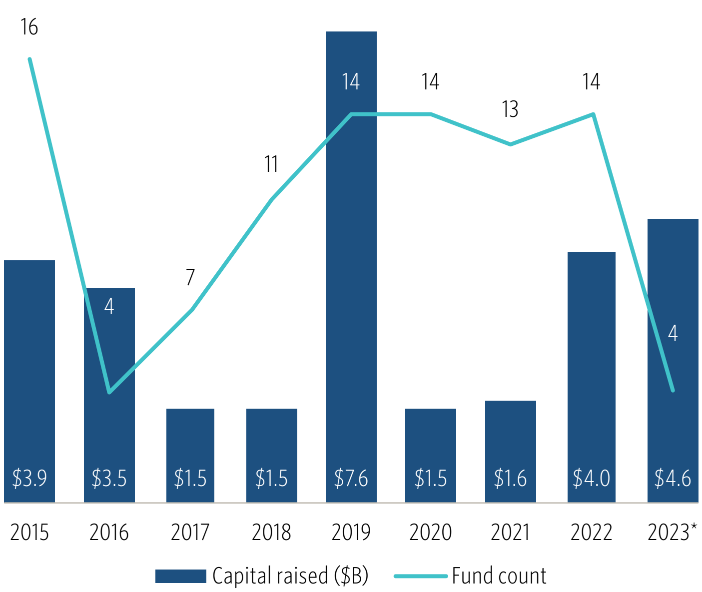
### PE fundraising activity




Source: PitchBook • Geography: Singapore • *As of December 31, 2023

33: "How We Invest," Temasek, n.d., accessed February 29, 2024.
34: Ibid.
35: "Jungle Ventures Closes a $600M Fund, Bringing Its Total Assets Under Management to Over $1B," TechCrunch, Catherine Shu, May 17, 2022.

Over the past couple of years, there has been an influx of family offices moving to or setting up shop in Singapore. The government of Singapore facilitated this trend from both a legal and tax perspective. Overall, the economic and political stability, robustness of legal frameworks, and the ease of conducting business in Singapore made the city-state an attractive destination for incorporating family offices. Family offices from the rest of the world have been establishing their presence in Singapore, including families moving out of Hong Kong partially due to geopolitical considerations, as well as European and US family offices.

The inflow of Chinese wealth into Singapore captured much media attention throughout 2023. Anecdotally speaking, many Chinese family offices view Singapore as a safe harbor for wealth preservation, in contrast with actively investing their wealth into the local private market, in particular high-risk asset classes such as venture. As a result, family offices set up by wealthy Chinese individuals tend to be inactive or do not hold substantial amounts of capital. The Singapore government has since raised the bar for setting up family offices with a goal of attracting more business professionals and wealthy families into the country. The stance can be illustrated by the family office minimum capital deployment requirement, which stipulates that single family offices are required to invest at least 10% of their AUM or 10 million Singaporean dollars.[36] Going forward, we expect to see family offices continue to establish their presence in Singapore as the country maintains its competitive advantages regarding tax incentives and structural stability.

## Companies and investors setting up holding companies in Singapore

Many, if not most, of Southeast Asia-based venture-backed startups have holding companies in Singapore, regardless of where the startup's business activities take place. The same can be said about active regional investors, which likely have holding entities in Singapore but actively invest elsewhere through teams based in those respective markets. While setting up holding companies in Singapore is neither cheap nor easy, startups and investors are incentivized to do so primarily from tax and regulatory standpoints. Tax incentives are particularly relevant to investors when they anticipate liquidity events for their funds.

The same story applies to Singapore-based startups.[37] Holding companies set up in Singapore allows for easier inflows and outflows from companies to investors, making it easier to navigate legal restrictions across the region. With most of Southeast Asian venture-backed startups having holding companies in Singapore, taking the dealmaking activity in Singapore at face value distorts the reality.

Southeast Asia is far from being a single, homogeneous entity. Each regional market has a different set of languages, cultures and customs, networks, infrastructure setups, and, above all, unique regulatory environments. Certain countries within the region have strict capital-control rules that result in additional challenges and uncertainty in cross-border money movements. Against this backdrop, having a Singapore holding company helps ease the process for investors to transfer funds and repatriate gains as well as for founders to receive and move capital to their country of operations.

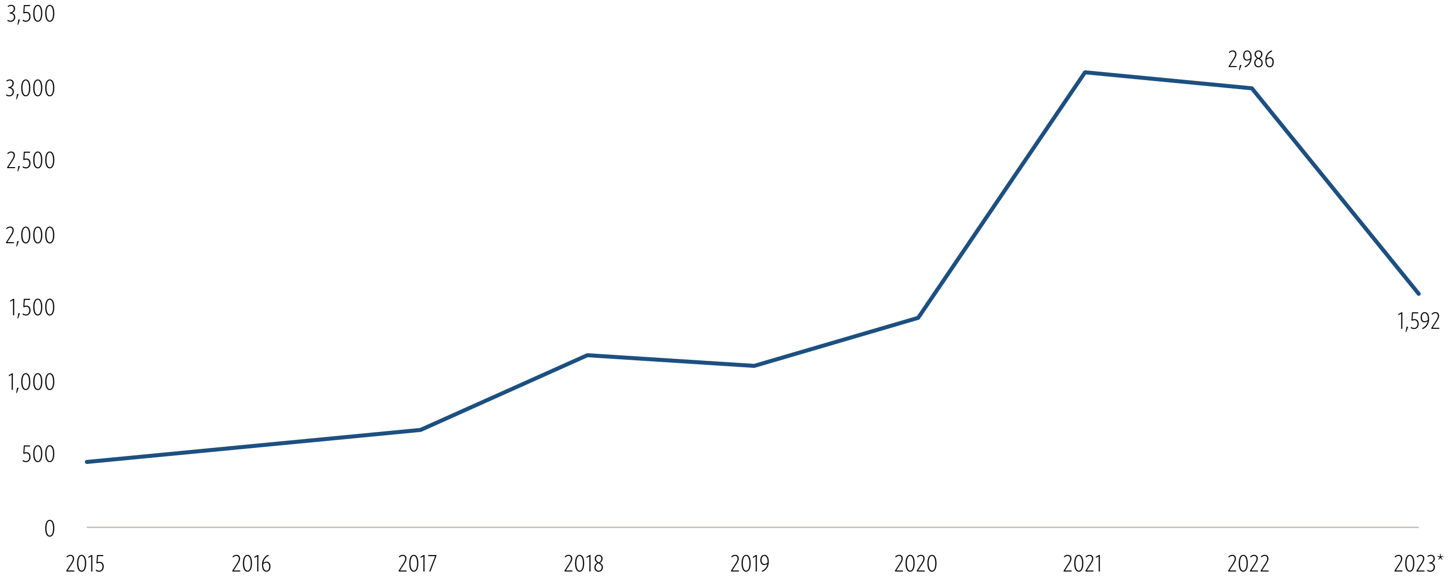
Vietnam serves as an example of a country with strict and complex capital controls. From an investor perspective, sending funds to a Vietnam-based portfolio company requires approval from government-affiliated banking entities, and the investor likely needs to set up multiple accounts for the money transfer. Once capital flows into Vietnam, getting it out—including the repatriation of investment gains —is even more difficult. In contrast, transferring funds via a holding company in Singapore is a much more straightforward and predictable process and in turn helps lower investment risks. That is why investors are careful about how portfolio companies are structured.

Many VCs invest in regional startups only if they already have a holding entity in Singapore. In the case where the startup is nascent, such as at the seed stage, the lead investor will typically step in and help the company set up a Singapore holding entity. From a startup perspective, particularly businesses with a regional or global expansion blueprint that are planning on fundraising from Singapore-based and nonregional investors, having a holding company in Singapore provides a layer of legal protection and helps ensure the ease of money movement. The transparent, stable, and robust legal system in Singapore helps companies ensure that they can access and move capital across borders.

36: "Singapore as a Family Office Hub," DLA Piper, Barbara Voskamp, Victor Sanlorien Cobo, and Anne Klaassen, January 22, 2024.

37: The common practice of double bookkeeping only aggravated the issue of artificially inflated deal activity in Singapore. Many startups have two sets of books: one for the government or official reporting and the other reserved for internal management. For example, a Vietnam startup may only record its revenues and expenses through its Vietnamese entity and not through its Singapore holding entity. This translates into an imbalance in data availability and subjectivity across different regional markets.

## Unique VC investor count

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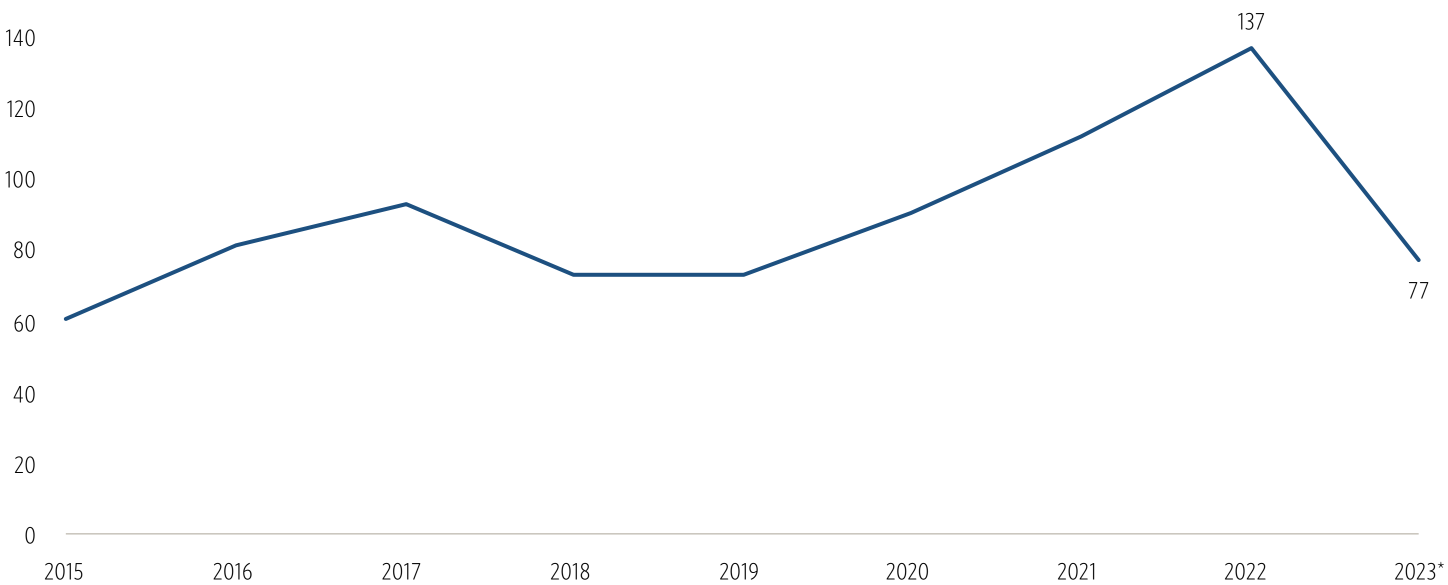
## Unique PE investor count

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# Additional research

Private markets


### 2023 Japan Private Capital Breakdown

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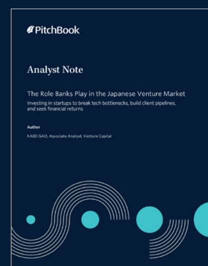


### Q4 2023 Analyst Note: The Role Banks Play in the Japanese Venture Market

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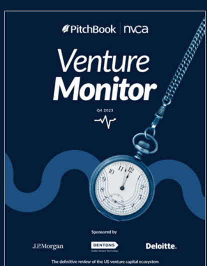


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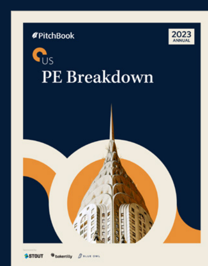


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