

RPM Ep. 53 | Diversifying your Asia exposure with Zhiyao Ma and Hansong Qu

AM: Hello and welcome to RPM, the StepStone Group podcast that delivers quick takes and sharp insights into the themes and trends shaping the private markets. I'm your host, Anna Marcus. Today I'm joined by Hansong Qu and Zhiyao Ma, Vice President on our Asia Private Equity team. Hansong comes to us from Singapore and Zhiyao from Beijing. In today's episode, we'll discuss the investment case for Japan and India, including why these markets are top of mind for investors looking at China plus one alternatives. This conversation builds on our recent StepStone Group white paper series called Diversifying Your Asia Exposure. Hansong and Zhiyao, thanks so much for being here, let's dive right in.

HQ: Thanks for having us.

ZM: Thank you for having us, and good afternoon, Anna, and good morning Hansong.

AM: Yes, I know we're all spread out. But before we get started, I think our viewers would be really keen to hear more about your roles and your journeys to StepStone. Zhiyao, we can start with you.

ZM: I've been with StepStone for about eight years, helping to cover the APAC region alongside Hansong and the team. Over the past three years, I've spent more time on Japan, just given the interest in that market and the evolution there. It's been a great journey, I think our team has grown from just a handful of people to over 30 now across geographies, strategies and functions.

AM: Great. Thanks for sharing Zhiyao. Hansong, what about you?

HQ: Thank you again, good morning Zhiyao and good evening to Anna. So I am also going into my eighth year with StepStone as Zhiyao pointed out before we started. I also joined

the firm, on the investment team in Beijing, and I moved to Singapore earlier this year to help with our growing presence here, and as we'll unpack, later in, in this podcast, Singapore it's geographically a lot closer to Australia and India, which are two markets that we've been spending a lot of time on recently.

AM: So now shifting gears a bit, Zhiyao, to start can you talk to us a little bit about your latest StepStone white paper series, Diversifying Your Asia exposure and why you chose to start with Japan and India? Sure.

ZM: Sure and happy to. So, we cover all six major markets in Asia, and whenever our clients ask us about the region, we always remind them that Asia isn't just one big uniform place. It's incredibly diverse, and every market has its own quirks, everything from local culture and how their capital markets work. And that's actually why we started putting together these white papers, to give out piece a more country specific insight. We kick things off with Japan and India because our clients tend to ask us about those markets the most. And as you know, Anna, we're now pretty far along with our Australia White Paper, which will make our library even richer. This whole process is iterative, and since markets keep changing, so updating and expanding our, um, white papers is something we're committed to doing on a regular basis.

AM: And we might touch on Australia a little bit later, but for now, Hansong, do you have anything to add?

HQ: Yeah. Library is a great word. Um, but I think Zhiyao covered it well. We just want to unpack the nuance and depth of Asia, right? And I think for Asia, private equity for many years was just shorthand for China. But now the landscape has both broadened and deepened in other markets like Japan, India, Australia and Korea. And this is partially due to a slowdown in China that did expose some cracks, but Asia as a whole is still driving global growth, and China remains a pretty big component of that. So the next China is still China, but investors definitely have a lot of credible alternatives outside of the Middle Kingdom.

AM: So, now let's focus on Japan first. For years, Japan private equity was seen as rather inaccessible and sluggish. But the latest data shows it was the only major APAC market to grow in deal volume in 2022 through 2024. Zhiyao, what is driving this resurgence?

ZM: Sure. So basically there are three main types of deals happening here. The biggest chunk comes from business succession. Many business owners are getting into their 70s, and a lot of them don't have anyone lined up to take over. Then there's the uptick in privatization deals, and you've probably seen a few mentioned in the media. We're also noticing it in our own pipeline. In the past year, our team has closed four take privates, correct me if I'm wrong. Um, and this wave has a lot to do with lower valuations and more shareholder activism. On top of that, more conglomerates have non-core subsidiaries that are not efficiently managed, alongside increased pressure to enhance shareholder value. And these factors are leading more companies to consider carve outs. And I think here's what makes Japan especially attractive right now. Even though everything is getting pricier around the world, PE entry valuations in Japan are still pretty reasonable. And if you add the weak yen and cheap borrowing and that's a pretty good time to buy. And with money moving out of China and more uncertainty in the US and Europe, investors are looking at markets like Japan, which haven't always been under the spotlight. I think people are starting to realize that Japan has actually performed really well over the years.

AM: Okay, really interesting themes, thanks for that. So, zooming in further now, what's happening inside Japan to trigger these reforms and shape some of these deal opportunities?

ZM: Yeah, we think it's clear that there are several powerful trends that are converging. For starters, the economy's growing again, inflation is held above 2% for a couple of years now, and we just jumped by more than 5% last year. That's a meaningful shift in a country that's known for decades of slow or stagnant growth. And then on the regulatory front, there's a real push to bolster corporate governance and unlock greater shareholder value. Japan is kind of feeling the heat to align with global standards on transparency and accountability,

and that's prompting companies to rethink their strategy. And then, I think culturally, perceptions are also changing.

Private equity is increasingly viewed as a credible exit route for small business owners and corporates alike. It's not just a financial play, it's a catalyst for operational upgrades and organizational transformation. On top of that, there's a growing talent pool in Japan. We know many professionals have cut their teeth at global institutions, and they're now bringing those best practices back home, and that's raising the bar across the whole industry. I think all of these factors together are powering the evolution we're seeing in Japan investment landscape right now.

AM: Well, yeah, it sounds like there's a lot of exciting, exciting stuff happening in Japan. So, now last question for a minute on Japan. Zhiyao, what's one misconception about Japan private equity that you wish investors would drop?

ZM: Yeah. I think people view Japan as an economic heavyweight. It ranks high in the world by GDP, but its PE scene isn't quite as established. In reality, the market's still finding its feet. It's relatively young and growing fast. The pool of PE players is on the smaller side for now, although expanding steadily. Domestic investors still make up most of the investor crowd, and if you've tried to get into Japanese funds recently, you might have run into issues of tight allocations. That said, there are definitely upsides. For one, the market still offers plenty of arbitrage opportunities, because it's less intermediated than what you've seen in the US and Europe. Plus, cultural factors matter, a lot. In Japan, things like reputation and long-term relationships can weigh just as heavily as price when it comes to picking a buyer.

AM: Wow, really interesting and good for our readers, or rather our listeners to keep in mind. So switching gears now India has been hyped for years, but today the market looks more tangible than ever. Capital markets are deepening, retail and institutional participation is on the rise, and India was the number one market globally in IPO count in 2024. So Hansong, in a few short words, what is India's investment pitch?

HQ: Yeah, that's right Anna. I think there are structural changes that make India more exciting to lead into this time around, and capital markets definitely a key part of that. So I'll take us a quick step back just to set the macro context first, and then we can speak about the market. So, the appeal it's a combination of continued growth scale and maturing infrastructure that um that that make it more compelling. So, India has and will continue to record GDP growth of around 6 to 7% in the near future. Um, it's now the most populous country in the world to pass 1.4 billion people, recently, and this is also a very young population, so it's a classic population pyramid, um, with a very broad base of younger citizens at the bottom, uh, which is the opposite, actually, of what we're seeing with Japan and Korea, who are, a bit more top heavy with a lot more gray hair.

AM: Interesting...

HQ: There will inevitably and continued to be growing pains for the country to work through as it continues its development. There's inequality of various shapes and forms. Um, there's improving infrastructure, which is pretty uneven, um, etc., but the government has been pretty steadfast in being pro-business, um, and running a pretty pro-reform agenda that does create a growing amount of what we think are investable private equity opportunities. So that's the quick macro backdrop. Market wise, yeah, you're right, India's public markets drew lots of attention, I think most notably in 2023 when it recorded the most IPOs in the world with 230 or 240, and then, as you mentioned, up top, this continued into 2024 with over 300 listings last year. But the important thing to note is that transaction value in India still lags pure markets like the US and China, and total market cap is also a lot smaller. Um, depending on estimates, it's around one tenth of the US and probably half that of China, so still in the very early stages of institutional development. There's also some added structural comfort from growing domestic retail and institutional participation. Um, so like with most of the other Asian economies, investors still lean pretty heavily on IPOs as a primary exit path, and we're seeing some of the best GPS and firms in India, both global and domestic platforms generate more consistent liquidity through IPOs. Um, there was a fair amount to unpack here, but I think in short, the exit environment is improving, partially because a lot of these are buyouts where there's only one person in the driver's seat, and global platforms,

like Zhiyao mentioned, they're rotating more capital into India, away from China. Um, and we're also seeing more secondary opportunities, so both direct and indirect portfolio constructs.

AM: All right, thanks. So, going further on that point, in our recent white paper Hansong you framed India as two distinct opportunities, India for India versus India for the world. Can you unpack that for us?

HQ: Yeah, that's exactly right. And thank you for your readership, Anna. We think it's important to highlight, like Zhiyao mentioned, you know, that Asia and within Asia, um, markets like India, they're not monoliths, right? It's um, for India in particular, it's two stories playing out in parallel. Um, so the first one is India for India. So we see this as sectors that draw on the domestic growth engine. Um, so sectors like consumption, healthcare and financial services. And within India these are still largely unorganized and also underserved, which leaves a lot of headroom for expansion. The other story that's playing out is, um, we think of it as India for the world, so goal globally facing India Inc, um, and sectors like IT services manufacturing and pharmaceuticals, and so, what's interesting what we like about this play is that these businesses are generally underwritten in rupees, but they collect revenues and dollars and euros, which offers a pretty natural hedge against currency swings, but also plugs directly into global demand. And we like that, it's that India offers this kind of dual threat, and it allows for sector diversification even within one country.

AM: Wow, super interesting narratives on both opportunities in India. I don't think I've heard that before, so thanks for sharing again. And of course, global macro shifts matter too. So to that end, um, Hansong, how is supply chain realignment shaping the types of deals that you're seeing on the ground in India?

HQ: Yeah, that's a really good point. Um, a phrase that people might have heard recently is China Plus One, uh, which is a very real phenomenon, but it's also very nuanced. I think the

simplest description of this is just companies looking to diversify their manufacturing to India and Southeast Asia out of China. So these are global, but also Chinese companies looking to broaden their physical footprints. But we would note that supply chains, they've grown to be as embedded in China as they are for a reason, right? I think it's because of the ecosystem, the convenience, um, the expertise and just the concentration of human capital that's built up there. Um, using Apple as an example, the headlines recently mentioning various figures around how there's a growing percentage of iPhones that are now being made in India, um, which is true, but I think the reality of this is that it's currently just a small portion of the whole process, Um, which presents a lot of headroom, um, and growth ahead. So for, for us, you know, maybe moving away from the example of Apple, I think for us, the opportunity set, it's not in the actual manufacturing lines, right, it's also the logistics and the digital infrastructure that's needed to help facilitate this, this pivot.

And it's not just replacement capacity moving stuff from being made in X to Y, it's a lot of net new growth actually, that benefits GP's who have a lot of experience across geographies, and they can help management teams navigate and really unlock that growth in a tangible way, not just in India but also broadly across the region. So, um, a recent example: we met with an Australian sponsor this week, they have a company, um, in the portfolio that literally manufactures nuts and bolts and distributes it in ANZ. Um, and that sponsor actually work with this company to open a facility in Vietnam a few weeks ago. Um, so that's just one example of a lot of similar stories that we've seen playing out across the portfolio. So, Zhiyao, I think you've been spending some time on this recently, I don't know if there's anything you wanted to add...

ZM: Um, yeah, I think you're exactly right, I think, um, supply chain diversification is very complex and very nuanced. And with that, um, there are a lot of opportunities. Um, our team, we have an investment on the ground under that theme, and I think we'll continue to spend a lot of time in this area. Um, perhaps, um, this, um, theme itself deserves another white paper, um, another research piece.

AM: Okay. Yeah. Uh, thanks for that, both of you. It's very helpful context right now. So, I'm sure our listeners are going to be quite grateful. And concluding, and zooming out for a

quick moment, even though they're quite different, India and Japan, as you both mentioned, are really top of mind for investors looking to diversify their Asia exposure. Zhiyao, is this interest overheating or do you think it's rather sustainable?

ZM: I think that's a very, very fair question, an important consideration. Japan's private equity market is still a fraction of the US and Europe in terms of absolute volume and penetration, but it's been gaining momentum. I think overall the outlook is still quite positive, because it's powered by strong long-term fundamentals. Um, but in the short term there is significant interest from both local and global investors. So it will be interesting to watch how all that dry powder will influence future returns. I think historically, buying low and selling high has been a key return driver, and so maintaining that, um, strong multiple will be important going forward. According to SPI by StepStone, our proprietary database, the fact that entry prices here are still lower than in other major markets bodes well. It suggests that we're not heading to an overheated market just yet.

AM: All right, well, Hansong, I know that Zhiyao mentioned at the top of the episode that you were leading on the Australia paper. Um, just so our viewers and listeners know that one has not yet been released, but Hansong, do you have any tidbits or sneak peeks you can maybe share with our listeners and viewers?

HQ: Yeah, happy to. I don't know if there's a plot twist to spoil, but look, I think we're excited about all of the constituent markets across Asia, but Australia, we think is a pretty differentiated path against what we see as the, the backdrop of developing Asia, so China, India, Southeast Asia and developed Asia, mostly Korea and Japan. And we see it as sort of a third path, that can offer investors stability without sacrificing growth, and without giving too much away, so the highlights are Aussie PE it's under-penetrated with a pretty meaningful supply and demand gap, so around half of the US, we measure dry powder as a percentage of GDP growth, sorry, as a percentage of GDP, and also it lags, um, developed markets like Europe pretty meaningfully. Um, and so we think this gap is particularly attractive to the mid-market, where the number of capital efficient businesses, uh, that are investable significantly outweighs the number of, um, larger companies. So we the team,

we look through Australian tax records and there are over 25,000 companies with turnover between 10 and 100 million, this annual turnover, which is around seven times more than the number of companies that generate over 100 million in annual revenue. So, these companies are typically less sophisticated, um, and can be bought for cheaper valuations, and they can also benefit from a lot of the sort of low hanging fruit that a typical private equity playbook can bring to bear, just to help them accelerate growth. And also just on top of that, we think the sector thematics and defensive plays like healthcare and business services are also attractive, and a lot of these subsectors are ripe for a roll out of place. Um we also have a beautiful Sydney office, so we look forward to catching up with investors once that comes out.

AM: Right, yeah, I mean, how could you not? I've still yet to make it to our Sydney office, but fingers crossed I'll get there one day. Uh, but with that, I'm really excited to read the paper, and I actually think it'll complement our papers on Japan and India quite nicely. It should come out this October, so stay tuned for more information. Now, switching gears, let's end with one final question for you both. Zhiyao, I'll start with you: if you had to distill one sentence of advice for investors thinking about Asia beyond China, what would it be? Can you tell us?

ZM: Um, so Asia has a lot of cutting-edge tech innovations and new business models that's coming out, and there's a large young population that's eager to consume, and PE is a great way to witness and capitalize on that growth, but there...but Asia PE is also a developing market, and there are a lot of um, there are a lot of risks and considerations for, um, investors, um, especially those who are entering this market for the first time. Um, and it's important to really understand the markets and the managers in a comprehensive and data-driven way.

AM: Sure, yeah, I mean, that's a great, great point to flag, so thank you Zhiyao. Hansong, is there anything you'd like to add? Maybe some last takeaways for our listeners or our viewers before we hop off the air?

HQ: Yeah, not too much, I think what Zhiyao hit on was exactly right, I think it's very important to maintain discipline and sort of that intellectual honesty when looking at opportunities. Um, so I think, you know, our usual refrain for investors is we, we have a lot of sort of, uh, risk management in place when we filter by um asset manager and then also the asset, so that's two layers of sort of filtration, but I think it's also very important to, um, pull everything together and benefit from the pattern recognition that everyone's developed. I think across the market, it's, it's China and beyond, which gets at the title of our series Diversify Asia PE. So, I think while there's definitely a slowdown in China, the market's not going away. We're actually seeing some green shoots there in terms of deal activity. Um, so yeah I think it's diversifying across Asia. And it's less about chasing the next big headline and more about constructing a portfolio, a thoughtful portfolio that really reflects the region's nuance and the full spectrum of modalities. And I think the last parting thought is, um, definitely come visit, I think it's, um, it's hard for a lot of the things that work like that access talking heads, um, talking about, um, uh, when, when you're not in the market, right? When you're on your commute to work and reading up on papers, I think that's really important to come to Asia and definitely reach out for any investors who are planning something.

AM: That is it for today's episode of RPM, Zhiyao and Hansong thank you so, so much for being here, and thanks to our audience for listening. For more information on these topics or Asia Private Equity as a whole, check out our related white paper series called Diversifying Your Asia Exposure.

As we mentioned, there's papers on Japan and India and one on Australia soon to come out. With that. As always, listen or watch RPM wherever you usually get your podcasts. Thanks so much again, Zhiyao and Hansong.

ZM: Thank you so much Anna.

HQ: Thank you Anna.

