KEYNOTE ADDRESS
- Joseph Bae, **KKR**

Since launching in Asia over a decade ago, how has KKR's strategy evolved in the region?
Over the last 10 years, KKR has built a large regional footprint in Asia in a systematic and disciplined way. As a result, today we have one of the largest private equity platforms in Asia, with seven offices, more than 120 KKR executives and more than $10bn of capital deployed. In addition, 15 executives from KKR Capstone support our efforts. In fact, some of our best returns globally in private equity at the firm have come out of Asia.

While we have grown in size, our strategy has – at a high level – stayed the same: maintain highly localized teams that are fully integrated with our global platform. Asia is not one big market – it is a collection of different markets. By localizing our investment teams, executives can focus on unique origination channels in the local markets we want to do business in. At the same time, KKR's global network is critically important as it offers companies access to our operational capabilities, industry expertise and network of US or European contacts, all of which can help accelerate the growth of the local businesses we partner with.

In the next five years, do you see KKR's Asia strategy continuing to change?
We think there is an increasing advantage to having multiple pools of capital. To succeed in Asia long-term, it is not simply about how big your private equity fund is, but rather about the flexibility you have to partner with key entrepreneurs and stakeholders in the region. At KKR, we are fortunate to have many pools of flexible capital beyond private equity, whether through special situations, direct lending, real estate, or even our Firm's balance sheet. Our ability to take advantage of different investment opportunities up and down the capital structure will be a critical piece in how we continue to succeed in Asia.

Where are you seeing attractive risk/return opportunities in Asia in light of emerging market declines and the general concern about Asia's slowdown?
The current macro growth environment is very different from when we first entered the market in 2005. In certain emerging markets, like China, we are seeing a deceleration of growth and a slowdown in global trade overall. Given these headwinds, we are most inclined to buy complexity and sell simplicity.

Particularly in China, we want to invest behind opportunities where our differentiator is not our capital but rather our ability to provide a solution. For example, we have made multiple investments in Chinese agricultural companies that focus on food safety and security for everything from poultry to milk, beef to feed. As the government works to ensure the country's food safety practices keep pace with economic expansion, gaps in operations and quality control have led to a number of large, food-related incidents in the country, shaking consumers' confidence in the safety of their food. In the aftermath of such events, companies are looking for a partner who can add value and help them implement global best practices to emerge even stronger and safer than before. This is one way we have integrated Environmental, Social and Governance (ESG) principles into our investment process.

We also see unique opportunities in markets such as Japan, Korea and Australia where we believe we can create large-scale corporate carve-outs, taking our operational approach to investing and helping drive meaningful improvements at the companies we invest behind. In emerging markets such as India, we see a shift to more control-oriented opportunities and, therefore, do not focus on small minority growth deals. Instead, we are looking to invest in larger-scale opportunities which might be more complex operationally, but where we are able to provide a solution in addition to supplying capital.

Where do you see the best investment opportunities in Asia in terms of geography?
From a pipeline standpoint, one of our busiest markets today is Japan and there are a number of reasons for that. The country's focus on corporate governance, on corporate reform and the divestiture of non-core assets is creating significant opportunities for firms like us to partner with leading Japanese corporates and acquire non-core businesses to fundamentally reposition their growth trajectory. Our carve-out of Panasonic's healthcare business and its subsequent acquisition of Bayer's global diabetes care business is a prime example of this.

Japan is also interesting in that valuations on a relative basis are quite low in comparison to other mature markets, such as the US and Europe. The financing markets are among the most liquid in the world for Japanese banks and the potential for operational improvement is high. Finally, the competitive landscape within private equity is much more limited in the area given how difficult it is to penetrate the Japanese market. The combination of these factors – and the way KKR's franchise is uniquely positioned in the region – makes Japan an attractive geography for us.

And with regards to sector?
We continue to be attracted to sectors tied to domestic consumption in emerging markets. This includes longer-term trends around a rising middle class, urbanization, services and consumption, and means we are spending a lot of time in healthcare, food, consumer and financial services sectors. Nonetheless, a lot of those sectors today are overvalued, so we need to be quite disciplined about how we deploy capital into them. More recently, we have started investing in markets like Indonesia

– where we made our first two private equity investments this year – because we can get access to very significant domestic consumption trends at a much more interesting valuation than we can in markets like China and India.

Are you seeing more buyout and control deals across Asia-Pacific?
Absolutely. In markets like Korea and Japan, that has always been our core target deal. In India, there has been a meaningful shift in opportunity to do interesting control deals and we are hoping to see more buyout and control deals becoming available in China, especially given the succession issues entrepreneurs are facing in the region and the slowing growth environment.

We are seeing a record level of cross-border M&A activity from companies from markets such as China. What is driving this activity, and what opportunities are you seeing?
One of the distinct developments in the global M&A market over the last five years is the emergence of Asian strategic buyers. Of all cross-border M&A deals today, approximately 25% involve Chinese buyers and 11% involve Japanese buyers. So, over one-third of today's global M&A market is being dominated by Chinese and Japanese buyers. A big reason for this is the excess liquidity on-shore and companies' fundamental desire to gain access to technologies, customers and new channels of growth abroad. This is especially true in the manufacturing sector, where Chinese companies want to migrate to higher value-added manufacturing and away from commodity manufacturing.

This is an opportunity for global firms like ours that are integrated across the US, Europe and Asia. For example, in the last year we executed on transformational cross-border deals with two of our portfolio companies: Haier, which acquired GE's global home appliance business, and Panasonic Healthcare, which acquired Bayer's global diabetes care unit. These acquisitions repositioned the companies as dominant global businesses and helped fulfil a long-term strategic desire of the management teams to expand abroad. Being able to connect buyers and sellers from around the world has also been a big reason for our achieving of premium prices for assets we are selling out of our portfolio.

What is your approach to deal sourcing in Asia?
First and foremost, it is being positioned in the market as solutions providers, and not simply as financial investors. We want to be chosen as a partner in order to fundamentally help improve companies and grow businesses.

We have a highly localized approach to deal sourcing. Maintaining a deep local network of relationships and teams is a key element of how we source deals. In the last decade, the majority of what we have done in Asia has been on a proprietary basis, participating in very few secondaries and auctions. We also try to develop a specialized expertise in certain areas, such as food safety and specialty agriculture, to differentiate ourselves in terms of industry knowledge.

Valuations in Asia have only corrected to a moderate extent in light of market uncertainty. How do you source deals in this environment?
Equity markets have performed very differently in emerging markets over the last five years than they have in the US and Europe. While valuations in those regions are very high, Asia has been in a 72-month downturn in equities. This is mostly driven by concerns around a slowdown in China as well as weakness in foreign currency with the expectation that the US dollar will rise. We believe we are close to where we think the market is stabilizing in the emerging markets. Therefore, now is an interesting vintage for us to be more aggressive in deploying capital as we believe we are closer to the bottom of the cycle than the top.

With the low valuation environment in Asia today, how difficult has it been to monetize your investments at attractive prices?
In the last 10 years, we have invested \$10bn and returned over \$11bn back to our investors, with \$9bn being returned in the last five years alone. We have found that if you have a high-quality business in Asia that is growing, the exit will likely take care of itself, either through the IPO market or through a strategic sale of the business. The key is being nimble, flexible and ensuring you hit the windows for exit at the right time.

What are the main challenges heading into 2017 and what is your advice to navigate these?
Given the global political movement towards populism, I expect to see more volatility in addition to continued headwinds facing global trade. Another challenge would be the significant structural changes needing to take place in the Chinese markets to rebalance their economy. To navigate these properly, I would stress the need to be flexible, opportunistic and focused on the risk-reward you are looking to take in the marketplace. Investing across Asia today is not a simple bet. To succeed, you must have a very specific strategy in terms of how you are going to create value above and beyond what the macro market is doing.

KKR
Founded in 1976, KKR is a leading global investment firm that invests in multiple asset classes. In our private equity business, we invest our own capital alongside third-party capital through a group of private equity funds and co-investment vehicles, for long-term appreciation, generally through controlling ownership of a company or strategic minority positions. In our investments, we aim to grow and build long-term value, which we believe ultimately benefits our fund investors as well as the companies in which we invest, their employees, and the communities in which the companies operate.

JOSEPH BAE
Mr. Bae has been with KKR for over 20 years and is the Managing Partner of KKR Asia and the Global Head of KKR's Infrastructure and Energy Real Asset businesses. He is the Chairman of KKR's Asia Private Equity Investment Committee. He also serves as a member of KKR's Americas and European Private Equity Investment Committees and KKR's Energy, Infrastructure and Special Situations Investment Committees.

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