Goldman, Lazard China Dealmakers Decamp for Upstart Funds

by Cathy Chan Jonathan Browning

(Bloomberg) -- Veteran China dealmakers at Wall Street banks and Western buyout firms are heading for the exits, in search of the more lucrative deals and higher remuneration offered by smaller funds.

Three senior merger advisory bankers from Goldman Sachs Group Inc., Bank of America Corp. and Lazard Ltd. have resigned within the past month for senior roles at fledgling investment funds, according to people familiar with their departures, who asked not to be identified discussing private information. Carlyle Group LP Managing Director Alex Ying left the firm in January after two decades to set up Rivendell Partners, which focuses on mid-sized buyouts in Greater China and Vietnam, other people said.

The moves highlight the increasing challenges big banks face in retaining their top dealmakers in an environment of tighter regulations and shrinking fees. Revenue from investment banking in the Asia Pacific region fell 8 percent in 2016 to the lowest in at least five years, according to data from research firm Coalition. Merger advisory revenue dropped 4 percent, the figures show.

“Deal flow from China has come down considerably -- those flows are severely curtailed relative to where they were,” said Henry Tillman, chairman of London-based advisory firm Grisons Peak LLP. “With investment banking revenue declining, people are going to look at their options.”

Imminent departures include Andrew Huang, a managing director advising on Greater China mergers and acquisitions at Goldman Sachs who has resigned to join Chinese private equity firm FountainVest Partners, according to the people. Peter Kuo, a China M&A banker at Lazard, is leaving to help run a technology fund backed by Chinese investors called Canyon Bridge Capital Partners, the investment firm confirmed in response to Bloomberg queries.

Higher Returns

Ellis Chu, head of China M&A at Bank of America, has also resigned and will be joining an Asia-focused fund, the people said.

Spokesmen for Bank of America, Goldman Sachs and Rivendell declined to comment on the departures. A representative for Carlyle confirmed Ying's departure, declining to comment further. FountainVest Chief Executive Officer Frank Tang didn't answer calls to his mobile phone seeking comment.

Running or working for a smaller, Asia-based fund can offer managers greater independence in decision-making on deals and give them a bigger share of fees and profits from exiting investments. Senior executives at global buyout funds in Asia typically have to share 40 percent to 60 percent of deal fees generated in the region with U.S. and European counterparts, people familiar with the practice said.

Smaller funds are also making more money. Private funds in Asia with assets of $500 million or less had a median internal rate of return of 16.1 percent over a three-year timeframe, compared with 11.5 percent at peers with more than $1 billion of assets, according to data compiled by research firm Preqin Ltd.

High Turnover

"A reason these guys are leaving likely also includes the fact those big firms have been having a challenging time of late in China, which leads to higher work pressure and unusually high turnover," said Peter Fuhrman, chairman of Shenzhen-based China First Capital. "You can then try to set up on your own, make some deals, hope for success."

The exits follow other recent moves to smaller outfits. KKR & Co.'s two most senior China executives left in December to form a China-focused investment firm. Richard Wong, an M&A veteran at Morgan Stanley, resigned this month after 16 years to help set up Nexus Point Partners, a China-focused buyout fund started by MBK Partners Ltd. co-founder Kuo-Chuan Kung.

The bankers and their new funds will face challenges when it comes to sourcing China deals. The government is clamping down on money outflows, which augurs poorly for outbound acquisitions. What's more, competition is increasing from Chinese securities firms. Three Chinese banks ranked in the top 10 advisers on offshore acquisitions by mainland companies since the beginning of 2016, according to data compiled by Bloomberg.

Among the first buyout specialists to make the leap from big outfits were KY Tang, who left UBS AG's private equity fund in 2004 to start Affinity Equity Partners, and Michael Kim, who set up MBK in 2005 with five other senior Asian executives from Carlyle. In 2010, TPG Capital lost Shan Weijian, who left to found PAG Asia Capital. The next year, Mary Ma departed to help start Boyu Capital.

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