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Venture Fundraising in Yuan Soars as Investors Target Chinese Tech Firms

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HONG KONG — China-focused venture capital funds are increasing their bets on local technology companies and a further opening of Chinese domestic capital markets, raising money in the yuan at the fastest pace in five years.

Fund managers have raised 95.8 billion yuan ($14.54 billion) this year through late September in funds denominated in the Chinese currency, which is also known as the renminbi, compared with 56.7 billion yuan in all of 2016. That puts 2017 on pace to be the biggest year since 2012, when 145.8 billion yuan was raised, according to data provider Preqin.

There are currently 78 funds looking to raise as much as another 1.15 trillion yuan over the next couple of years, Preqin said, most of it coming from mammoth-sized state-owned entities and so-called government guidance funds, which seek to foster domestic innovation in different industries from advanced engineering and robotics to biotechnology and clean energy.

Those include the 350 billion yuan sought by the China Structural Reform Fund, 200 billion yuan targeted by the China State-Owned Capital Venture Investment Fund and a proposed 150 billion yuan for the state-owned Enterprise National Innovation Fund.

The enormous size of the fundraising ambitions of the Chinese state-backed funds means it may take some time before they reach their final goals. The China Structural Reform Fund, which was launched in 2016, has raised 20 percent of its registered capital and its president said in an interview with Caixin Global that funding will be completed by the end of 2018.

"We're at the all-time highest of capital-raising high water marks, with a tsunami of government-backed entities seeding incubators, VC funds, locally, provincially, nationally," said Peter Fuhrman, CEO of China-focused investment bank China First Capital. "China has a lot of money in its government apparatus. It wants to seed innovation and entrepreneurship and this is how it's doing it."

The surge contrasts with the slowdown in seed financing for start ups in the United States, which is down for the past two years. It also compares with flat growth expected for U.S. venture capital fundraising in 2017, according to estimates from the National Venture Capital Association (NVCA).

CATCHING ENTREPRENEURS

Firms such as Lightspeed China Partners, Morningside Venture Capital, GGV Capital and investment and merchant bank Ion Pacific that previously only had U.S. dollar funds are launching their first funds in yuan. Others like Hillhouse Capital, Sequoia Capital China and China Renaissance that have raised funds in both currencies are adding to their yuan cash pile with new funds.

Key to those firms is to not lose potential investment opportunities in sectors closed to foreign investors or miss out on investing with the Chinese entrepreneurs who now want to list their companies locally instead of in the United States.

"Catching the right entrepreneurs in the ecosystem is our number one priority, so currencies to us are just tools, those are the tools that I need to catch these entrepreneurs," said Harry Man, partner at Matrix Partners China, which has funds in both currencies. "That's why if you don't have RMB in your hand, ultimately you'll be missing 50 percent of the deals. Then you'll be forced to raise an RMB fund and that's why everybody is doing it."

Sequoia Capital China, which backed top Chinese technology firms such as Alibaba Group, is looking to raise at least 10 billion yuan for a new fund, while Hillhouse Capital, an early investor in companies including Tencent Holdings Ltd, Baidu Inc and JD.com Inc, is targeting about 8 billion yuan for its fund, sources told Reuters.

The investment management arm of securities firm China Renaissance is also adding to its yuan reserves with a new fund worth about 6 billion yuan, according to a person familiar with the plans who couldn't be named because details of the fundraising aren't yet public. Ion Pacific is raising 1 billion yuan for its debut fund in the Chinese currency, while GGV Capital is about to close fundraising for its first yuan-denominated fund.

"Some sectors don't allow foreign investors, so for example, in the culture and media industry you need to apply for certain licenses like video licenses and you need to be a local investor," said Helen Wong, a partner at Qiming Venture Partners.

"Now the IPO window is open for the local stock market, so that encourages a lot of companies to go for a local listing," she added, in reference to the increase in IPO approvals by regulators in

2017 that is prompting more companies to start preparations to go public. Previously, a slow approval process and long line of companies waiting for clearance dissuaded many from those plans.

The shift would give an added boost to the Shenzhen and Shanghai bourses. China has had 322 new listings this year, raising a combined $22.9 billion, Thomson Reuters data showed. This already surpasses the 252 for all of 2016, even after the country's securities regulator slowed the number of weekly IPO approvals in May.

It could also reduce the influence of the Nasdaq and New York stock exchanges, where many Chinese technology companies previously flocked when they went public.

"For the RMB side, you see more companies in restricted sectors like healthcare and media and certain parts of cleantech that needs government support to get started," said Hans Tung, managing partner at GGV Capital. "You also see companies in the fintech space and a lot of them need a license to operate a business in the financial services industry, so they tend to want to list in China."

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