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June 17, 2015: Asian secondaries ripe for picking.

Some of the best emerging markets secondary opportunities can be found in Asia.

Asia is becoming an attractive market for secondaries opportunities as a growing middle class and export-focused economies provide fuel for private equity firms.

"While the Western world was in a financial crisis, particularly in 2008, 2009 and 2010, a lot more capital raising was being done in Asia, particularly in China," said Justin Pollack, managing director in the private funds group at PineBridge Investments in New York. PineBridge, which manages $75.9 billion in capital, has six offices in the Asia-Pacific region.

"Western investors would have said, 'well we're in trouble', but Asia's got a lot of growth potential," he added. "Now those investments have become secondaries."

In addition to China and India, economies including Indonesia, Vietnam and Laos offer immature markets and higher growth potential compared to the mature markets in Europe and North America.

"In Vietnam, there are lots of export companies doing what China was doing 15 years ago," said Fabrice Moyne, a partner at niche private equity firm Mantra in Paris. "China is too expensive now, and also you have to be very careful there as there have been many accounting scandals."

Mantra, which focuses on off-the-beaten-path investment strategies, has made at least three deals from its latest Mantra Secondary Opportunities fund (MSO), with one of them having an 80 percent exposure to Asia, according to Moyne.

A survey by Coller Capital released on Monday last week suggested Asia-Pacific limited partners would become the most active players in the secondaries market in the next two years. The report, which surveyed 113 private equity investors globally, found 59 percent of LPs said they expected to buy assets in Asia and the Pacific region, with 50 percent saying they expected to sell assets there.

Despite a vibrant stock market in China, the time on the waiting list to take a company public is at least two years, Pollack said. "We've seen quite a few groups that invested in private companies before an IPO several years ago, or even after an IPO, and we're now at a point where they have not been able to sell down their shares, despite a hot market," he said. "That's one area where we see underlying private equity investors frustrated when they see success in China or a great stock market, or conditions seem ideal but they can't get liquidity."

These sorts of conditions create attractive opportunities for secondaries buyers, according to another firm active in Asian secondaries.

Capital Dynamics has executed a number of lucrative transactions in Asia, particularly smaller or side deals, according to the firm's managing director, Joseph Marks, speaking at a recent Private Equity International secondaries roundtable.

While the returns may be attractive, investing in secondaries in Asia can present certain challenges. An investor in Europe or North America who has never invested in places like China before may give up or have second thoughts if fund managers can't allay their fears.

"You wind up with an investor who's more likely to sell because they lose faith," said Pollack. That might not be a reflection of the manager, but because investors lose confidence when they can't see their investments on a regular basis, or talk to people either, he said.

"The trick is being on the ground to sift through all of the deals to uncover the quality transactions. It takes a lot of work," said Rudy Scarpa, partner at Pantheon in New York, at the roundtable. He added that most of the emerging markets secondary opportunities his firm identifies are in Asia.