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ADB launches fund to invest in ailing firms

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The Asian Development Bank (ADB) has tied up with ADM Capital to launch a fund that will invest in distressed assets in Asia. The Asian lending bank announced yesterday that the partners have raised an initial US$138 million (HK$1.08 billion) in an exercise that is expected to raise US$500 million.

Focusing on southeast and south Asia, the fund will inject capital in to companies that are ailing financially, but which managers believe are potential success stories.

The aim is to protect jobs, incomes and employee-shareholders by reducing corporate bankruptcies and bad debtors, which in turn raise the cost of borrowing and make banks reluctant to lend.

The region is believed to account for more than US$800 billion in non-performing loans (NPLs), with at least US$480 billion in China and Hong Kong alone.

ADB is the anchor investor in the ADM Maculus Fund, which will be managed by ADM Capital, a Hong Kong investment manager with extensive experience in managing Asian distressed debt.

ADB has made a US$20 million commitment to the fund, with six European and American pension funds putting in the remaining US$118 million. Neither partner would identify the pension funds.

The Hong Kong government was approached to invest but declined to participate despite predicted returns of 20 per cent a year.

``This fund will promote the recovery of financially distressed but potentially viable companies in Asia,'' said ADB Private Sector Operations Division director Alfredo Pascual.

Pascual said the fund will give companies in Southeast Asia the chance to regainoperational viability, sustain their economic contribution to their markets and lessen the adverse impacts for stakeholders.

``ADB is dedicated to reducing poverty in the Asia and Pacific region through pro-poor sustainable economic growth, social development and good governance,'' Pascual said.

Robert Bestani, director general of ADB's Private Sector Operations Department, said: ``Not addressing the NPL problem of the banking sectors will impair capital significantly. As credit costs increase to cover the cost of NPL losses, financial institutions would resist making fresh loans.''

Denys Firth, a director at ADM Capital, said NPLs in China and Indonesia ``far outweigh the value of the stockmarket''.

According to various estimates, China's four biggest banks are holding about 1.89 trillion yuan (HK$1.78 trillion) of bad loans - 19 per cent of total mainland lending.

Beijing spent US$45 billion bailing out Construction Bank and Bank of China last December, part of a strategy to help them reduce bad loans, reorganise and sell shares abroad.

Standard & Poor's estimates that bad debt held by all Chinese financial institutions may be 40 per cent of total lending, and predicts it will cost US$656 billion for China to bail out the entire banking system.

Christopher Botsford, a director of ADM Capital, said the fund was presently studying two investment opportunities in the mainland, but refused to name the companies.

``We would be looking at companies with good underlying business,'' he said.

A minimum of 85 per cent of the fund's portfolio will go to China, India, Indonesia, Malaysia and Philippines, and the rest would go to the newly industrialised economies.

``The fund's core objective aligns with ADB's strategy of promoting poverty reduction through job creation and preservation, infrastructure preservation and development, banking reform and corporate governance,'' Pascual said.

Botsford said consultations had been held with the Hong Kong government.

``We would love to have the government invest in the fund, as the returns are quite high. Unfortunately they did not come on board,'' he said.

Botsford said the first tranche would be fully invested by the end of the year with a second round of fund raising to start once three-fourths of the fund is invested.

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