Private market investors neglect risk in rush for returns

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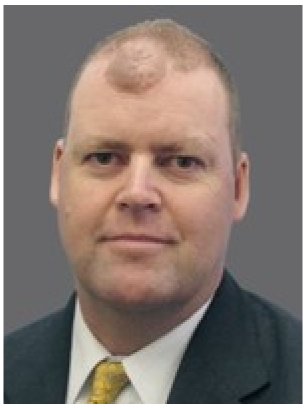
The recent scandal involving Adani Group and Canadian pension fund CPDQ exposes flagging standards as investors rush for private markets across emerging markets in Asia.

Asia's private market investors are compromising due diligence standards in their rush to increase allocations, according to consultants and governance experts.

The recent bribery scandal involving Adani Group and Canadian pension fund CPDQ highlights these concerns, said Peter Ryan-Kane, Hong Kong-based CEO and founder at investment consultancy PeRK Advisory.



Peter Ryan-Kane, PeRK Advisory

"[Pension funds] have gone to places they don't fully understand, and more fundamentally, where they have applied the same rules and standards as [at home]. There is an element of naivety in this. In places where there are not the same governance ethics, as in this case, things come unravelled," Ryan-Kane told *AsianInvestor.*

The scandal came to light when US federal prosecutors charged three former CPDQ employees and several executives from Adani Group and its energy subsidiaries on November 21.

The charges relate to an alleged $250 million scheme to bribe Indian government officials for securing and financing major state energy supply contracts.

The case particularly affects Azure Power, where CPDQ holds a 50% stake and OMERS, another Canadian pension fund, owns 20%.

François Dauphin, who leads the Montreal-based Institute for governance of private and public organsations, identifies a concerning trend.

He notes that investors' due diligence is suffering under pressure to deploy capital quickly and achieve returns, often in unfamiliar investment vehicles.


François Dauphin, Institute for Governance

“In recent years, there has been an abundance of capital from private funds or institutional funds looking for private investment opportunities to improve their total returns," Dauphin told *AsianInvestor.*

“The appeal of private placements lies in the potential for high returns, but the level of risk associated with such projects is also necessarily higher. This is all the more true when distance does not allow for direct monitoring."

Numerous institutional investors have rushed past standard risk assessment procedures in their eagerness to secure leading investment positions, he added.

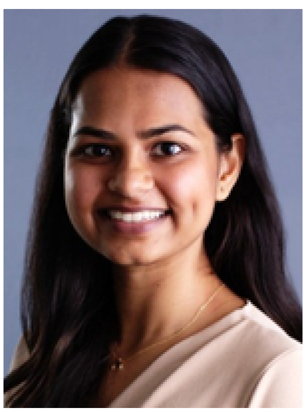
"This compromised approach to due diligence has inevitably led to adverse outcomes, as evidenced by the current situation in India."

INVESTORS FLOCK TO INDIA

Global investors, including pension and sovereign funds, are increasingly drawn to India's private markets as they seek diversification beyond their domestic markets and face local capacity constraints.

The numbers tell a compelling story, as Indian-focused private equity funds have raised $33.9 billion over the past four years, compared to $21.6 billion in the previous four-year period (2017-2021).

The Indian renewable energy sector, central to the alleged bribery scheme, has been a particular beneficiary of the new flows, according to Harsha Narayan, associate vice president and senior writer at Preqin.



Harsha Narayan, Preqin

“Renewable energy, particularly solar power, has become a cornerstone of India’s infrastructure growth," Narayan told *AsianInvestor.*

The government’s focus on decarbonisation and its goal of establishing 500GW of renewable capacity by 2030 has been a significant driver of foreign investment in this sector.

"Both LPs and GPs are increasingly concentrating on renewable projects in India and this momentum is expected to continue at least over the next five years,” she said.

India has emerged as an attractive alternative to China, where investors face poor returns and escalating economic and geopolitical risks according to Preqin's latest global investor survey.

China's popularity for venture capital investing dropped from 34% to 9% between June 2023 and June 2024, while India's rose from 41% to 56%, said the research.

Ryan-Kane noted that the shift was the latest in a rotation by global investors away from unfavoured countries towards those that offered higher returns.

“Capital is remarkably myopic, only able to follow a couple of theses at once, hence, we see rotation from US to China, then Japan, then India, with occasional bouts of Africa and Europe to liven things up," he said.

"Large global investors are inclined to [use] models, investment frameworks and governance that is too macro - the visiting foreigner will always be the last to know."

The public equity markets reflect similar momentum, with foreign investors directing over $35 billion into Indian public equities over four years.

During this period, India's Nifty 50 index surged 72%, while China's Shanghai Stock Exchange Composite Index declined 3%.