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Ex-Shoreline executives reform as ShoreVest, target China NPLs

Tim Burroughs

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ShoreVest Capital Partners is bidding on its first Chinese non-performing loan (NPL) portfolios since the core team members departed Shoreline Capital.

ShoreVest is led by Benjamin Fanger (pictured), who co-founded Shoreline with Xiaolin Zhang in 2004 and helped build it into a business with more than $1 billion in capital under management. Zhang continues to serve as managing partner of Shoreline, which remains active in the distress market. Fanger is joined at ShoreVest by seven of the 12 senior investment, legal and compliance members from Shoreline's previous funds.

The firm claims to be tracking more than $15 billion worth of potential investments. Acquisitions currently in progress would be financed using capital sourced from a large global asset manager, which has selected ShoreVest as its exclusive partner for investing in Chinese NPLs. The identity of the asset manager was not disclosed.

"Our business is a human business, founded on alignment of interests with investors, a platform of diverse and senior professionals who desire to continue to work together over the long term, and a depth of experience we believe is unparalleled. These principles are what have brought us together again within ShoreVest," Fanger said in a statement.

Shoreline closed its third fund at $500 million in mid-2015 and then raised a $200 million overflow vehicle. However, the firm was reportedly thrown of course as a result of strategic differences between the two founders. The team that has reformed as ShoreVest were not the only ones to depart. Another spin-out, DCL Investments, closed its debut fund earlier this year with more than RMB3.7 billion ($500 million) in commitments. CDH Investments' wealth management platform is among the backers.

NPLs in China's financial system are estimated to amount to $3 trillion, at least six times larger than the previous cycle when estimates were around $500 billion, according to ShoreVest. The seeds of the current bad debt investment opportunity were sown seven years ago when the Chinese government sought to assuage the impact of the global financial crisis by initiating a RMB4 trillion (then $586 billion) stimulus package and instructing banks to issue loans as fast as they could.

The credit boom subsequently came to a halt amid slower economic growth and credit tightening, creating a host of soured loans as borrowers failed to make good on their repayments. China's asset management corporations are buying discounted portfolios of NPLs from the banks, but the volume of bad loans is so large that they are expected to sell on a portion to third-party investors.

"Beijing and bank regulators have been actively encouraging Chinese banks to recognize and sell NPLs. Indeed we are working with an unprecedented deal flow," Fanger added.

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