ELEVANDI INSIGHTS FORUM

VC Investing in APAC amidst turbulent macroeconomic conditions

REPORT OF THE ROUNDTABLE HOSTED BY

Syfe and the Monetary Authority of Singapore

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ELEVANDI INSIGHTS FORUM 2023

The Elevandi Insights roundtable gathered leading venture capitalists, startup founders, and regulatory representatives to discuss the latest trends, challenges, and opportunities in Asia-Pacific (APAC) investing. Speakers highlighted the challenges and tactics for Venture Capital (VC) investment in APAC amid turbulent macroeconomic conditions. They also discussed sectors and innovations to watch, as well as regulatory frameworks that can evolve in tandem with these developments.

THEME 1

APAC VC activity in the current economy

THEME 2

What startups can do to thrive in turbulent macroeconomic conditions

THEME 3

Sectors to look out for

HOSTED BY

- Monetary Authority of Singapore (MAS)
- Syfe

CHAIRED BY

- Anthony Scaramucci, Founder & Managing Partner, SkyBridge

MODERATORS

- Dhruv Arora, Founder & CEO, Syfe
- Alvinder Singh, Deputy Director, Monetary Authority of Singapore

SPEAKERS

- Genping Liu, Partner, Vertex Holdings
- Nicholas Smalle, Partner, Apis Partners
- Shweta Rajpal Kohli, Chief Public Policy Officer, Peak XV Partners
- Vorapol (Brook) Supanusonti, Co-Founder & Managing Director, Asia Partners
- Andrea Baronchelli, Co-Founder & CEO, Aspire
- Caecilia Chu, Co-Founder & CEO, YouTrip
- Vicknesh Pillay, Singapore Venture Capital Association (SVCA)
- Tanuj Bhojwani, Partner, Oliver Wyman

EXECUTIVE SUMMARY

This report is a compilation of critical insights and lessons learned by venture capitalists and entrepreneurs throughout the past year of macroeconomic uncertainty. The conservative and cautious sentiment for venture capital investing in 2023 was a carryover from 2022, when the APAC region faced challenges such as slower economic growth, rising inflation, declining consumer confidence, and heightened geopolitical tensions.

At Elevandi Insights 2023, participants discussed and shared their perspectives on potential economic conditions in the near future, their strategies for mitigating volatile economic environments, and the forecasted outlook on innovation and regulatory developments in APAC. The diverse issues covered throughout the session can be best summarised into three key themes, as indicated below.

THEME 1

APAC VC ACTIVITY IN THE CURRENT ECONOMY

KEY TAKEAWAY 1

APAC VC FUNDING LANDSCAPE MIRRORS GLOBAL ECONOMIC UNCERTAINTIES

The global economy has experienced several obstacles over the last two years, including a slowdown of GDP, rising inflation, tightening interest rate policies, and heightened protectionism. These factors drove a revision of GDP projections by the International Monetary Fund (IMF), causing a negative cycle in venture capital where startups face reduced access to funding.

Protectionism can potentially hinder cross-border production, access, and knowledge dissemination, all of which are necessary for innovation. As the primary engine of innovation ecosystems, venture capitalists are now devoting more time to assessing target business models' long-term viability and profitability. This “wait-and-see” approach has ultimately led to a dip in VC funding in the region, underscoring the interdependence between economic trends and investing patterns.

KEY TAKEAWAY 2

APAC VC FIRMS ARE PRACTICING MORE CAUTION WHILE MAINTAINING MARKET OPTIMISM

While investors are practicing caution in their activity, as seen by the year's record-low trade deals in APAC, most are in agreement that APAC has a deep potential for success due to its favourable demographics.

For long-term success, venture capitalists must practice cautious investing while taking into account the vast and diverse nature of the APAC market so that they can identify viable sectors that can boost their portfolio’s stability and profitability.

THEME 2

WHAT STARTUPS CAN DO TO THRIVE IN TURBULENT MACROECONOMIC CONDITIONS

KEY TAKEAWAY 3

DURING AN ECONOMIC SLUMP, HEALTHY UNIT ECONOMICS ARE MORE IMPORTANT THAN EVER FOR STARTUPS

In addition to decreased VC activity, macroeconomic concerns have narrowed the breadth of international commerce to an extent limiting access to foreign resources for several APAC markets. Start-ups that have to depend mostly on internal resources while contending with declining VC financing would then have to struggle with bringing their innovations to market.

To alleviate these challenges, startups must shift to efficient growth over the outdated notion of "growth at all costs". Startups that employ a strategy towards healthy unit economics, and have a clear path to profitability over growth, will have the strongest chances for making it out of uncertain economic times.

KEY TAKEAWAY 4

PROACTIVE REGULATION CAN INCENTIVISE INNOVATION FOR STARTUPS

Regulators protect the society at large against any uncertainty and also set the precedent for building the infrastructure surrounding research and development. With regulated safe-testing environments, startups get the chance to develop their innovations further for market launch while also practicing regulatory compliance and empowering consumer protection.

THEME 3

SECTORS TO LOOK OUT FOR

KEY TAKEAWAY 5

AI AND CLIMATE TECH ARE TWO EXCITING INNOVATION SECTORS IN APAC, AND THE REGION CAN ALSO EXPECT EVOLVED ESG MINDSETS TOWARDS FUTURE POLICY

Since late 2022, the transformative impact of AI has strengthened investor confidence in the digitalisation sector, making AI-based startups highly sought after. Additionally, AI applications are evolving rapidly, becoming more dynamic and compatible with complex data requirements; for example, the collection and analysis of climate data.

Despite the dip in global climate tech deals, APAC’s climate technology investments still appear optimistic due to the region's unique geographic location, which has a greater-than-proportional impact on climate change. As a result, AI and climate technologies, with their myriad of use cases and applications, are exciting innovation sectors to watch for VCs and startups.

Beyond the exciting innovation spaces of AI and climate tech, APAC players are shifting their mindset to a more ESG-led one in view of regulators, investors and startups taking a more holistic approach towards business. This increased focus on ESG has led to a rise in legislative reforms surrounding sound governance, transparent data gathering, disclosure, and reporting.

THEME 1

APAC VC ACTIVITY IN THE CURRENT ECONOMY

APAC VC FUNDING LANDSCAPE MIRRORING GLOBAL ECONOMIC UNCERTAINTIES

The APAC region has faced several economic challenges that varied across its vast nations. Consequently, the International Monetary Fund (IMF) further revised their projections on GDP in APAC to better reflect the impact of weaker global external demand and resultant reduced output in the overall region.

One of the major proponents and consequences of the global economic slowdown is rising protectionism. APAC economies have implemented and not withdrawn on average about 1,295 trade restricting measures a year, or a total of over 18,000.

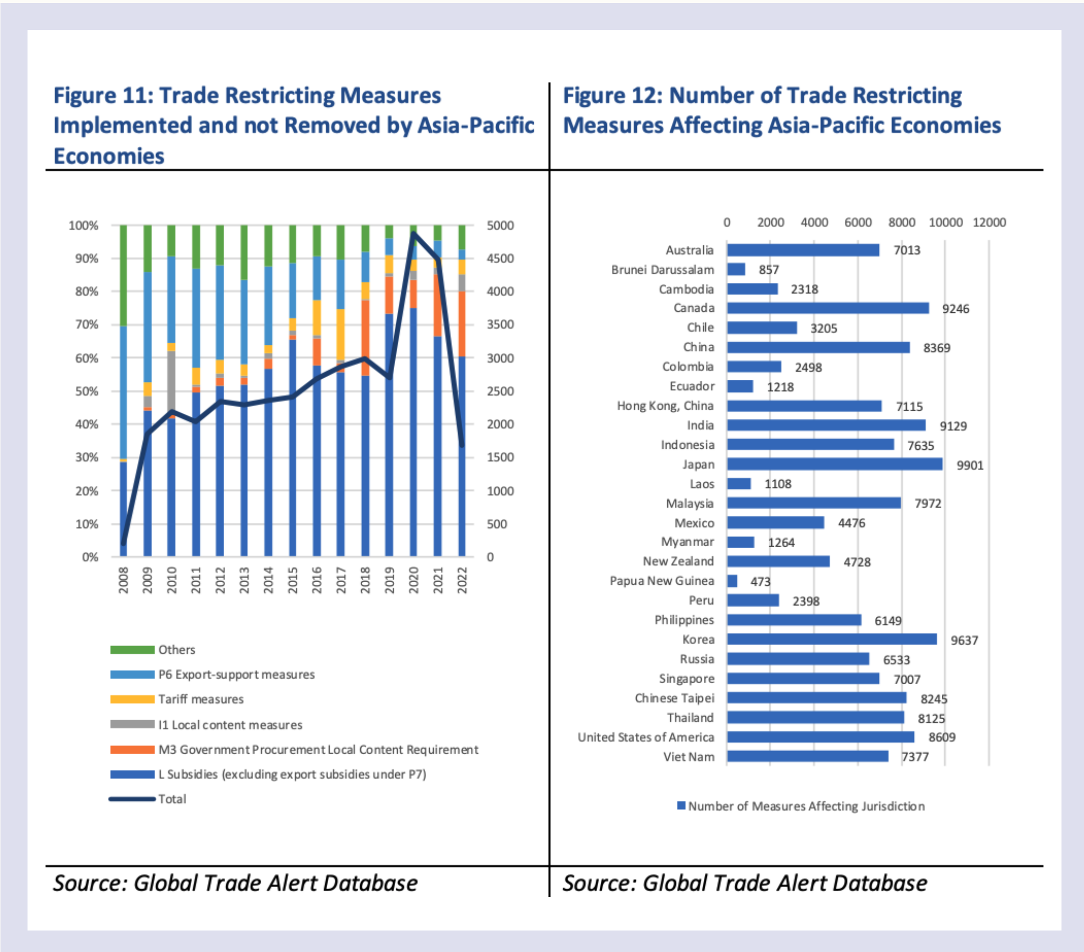


Figure 11: Trade Restricting Measures Implemented and not Removed by Asia-Pacific Economies

Source: Global Trade Alert Database

Figure 12: Number of Trade Restricting Measures Affecting Asia-Pacific Economies

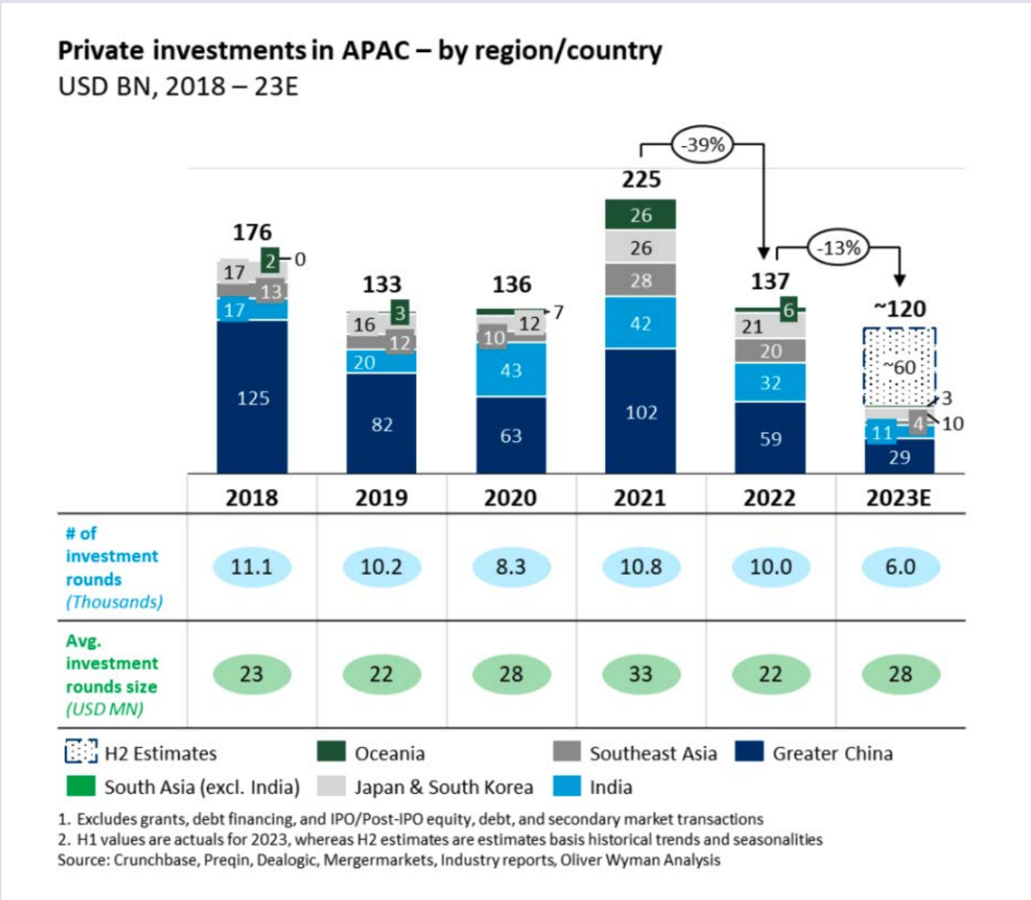
Source: Global Trade Alert Database

Source: www.pecc.org/resources/regional-cooperation/2745-state-of-the-region-2023-2024-supplement-report/file

Since venture capital is the fundamental engine of innovation ecosystems, protectionism can derail VC funding as it limits cross-border production, access, and diffusion of knowledge required to create novel solutions.

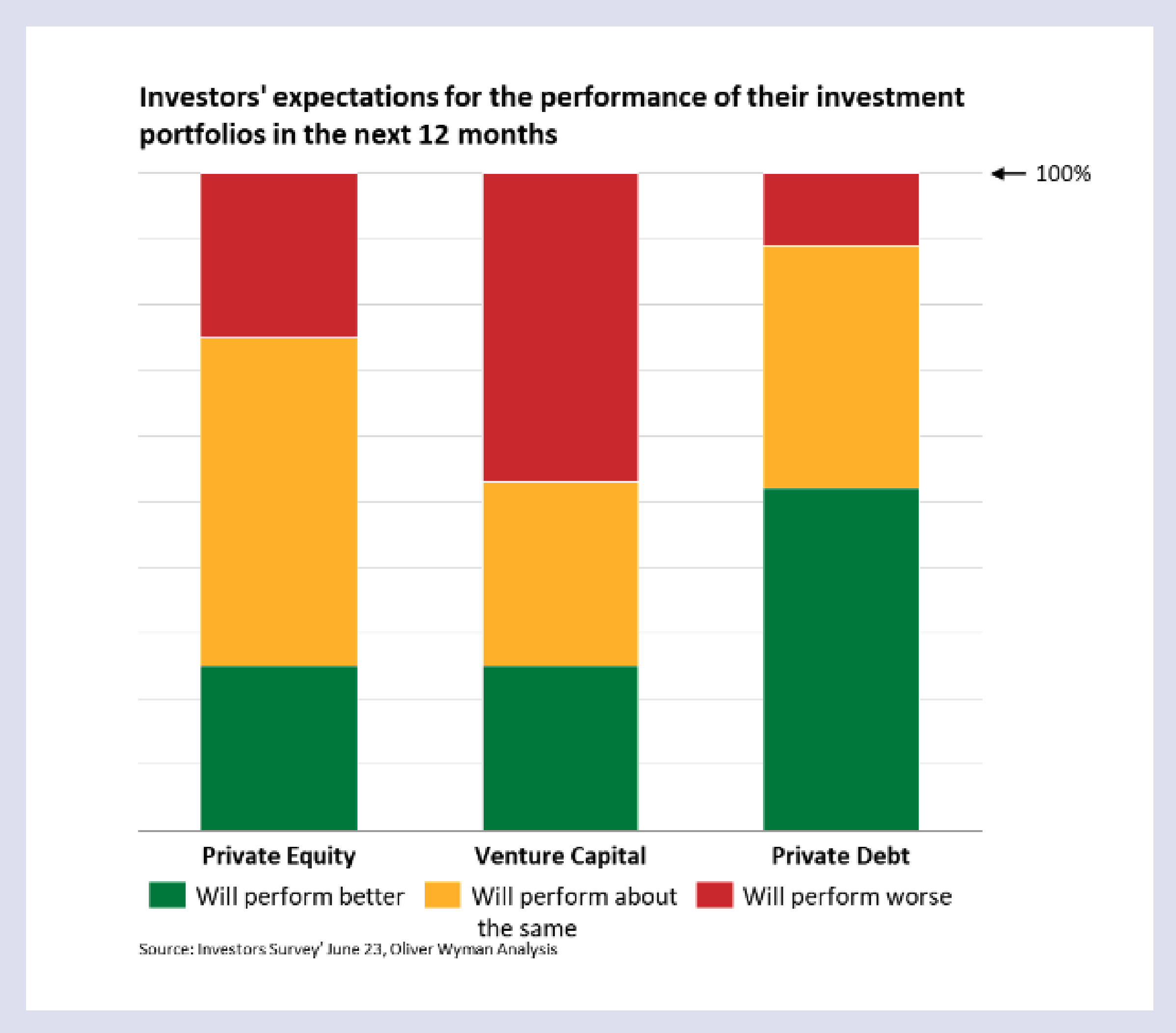
APAC VCS ARE PRACTICING MORE CAUTION WHILE MAINTAINING MARKET OPTIMISM

A more cautious investing approach has risen out of macroeconomic uncertainties, resulting in lower investments and trade deals throughout APAC.



One participant expressed, "I think the biggest root cause [of low deal flows in 2023] that is often touted is the greater discernment of investors. They're increasingly spending a lot more time looking at the sustainability of the business models, sustainability of the cash flows, and the path to profitability."

Beyond the bleak economic outlook lowering investor risk appetite, fundraising in APAC has also fallen due to the reduced distribution of capital back to limited partners (LPs) that resulted from fewer exits and depressed IPO markets throughout the region. Therefore, VCs face the pressure of maintaining highly stable and profitable portfolios to not only drive future startup investments, but also to maintain LP confidence.



It is important to note, however, that some venture capitalists practice caution while holding optimism on APAC's various potential due to its multitude of favourable demographic conditions. Namely, APAC nations like Indonesia, Thailand, and the Philippines boast young populations, an expanding middle class, swift urbanisation and digitisation.

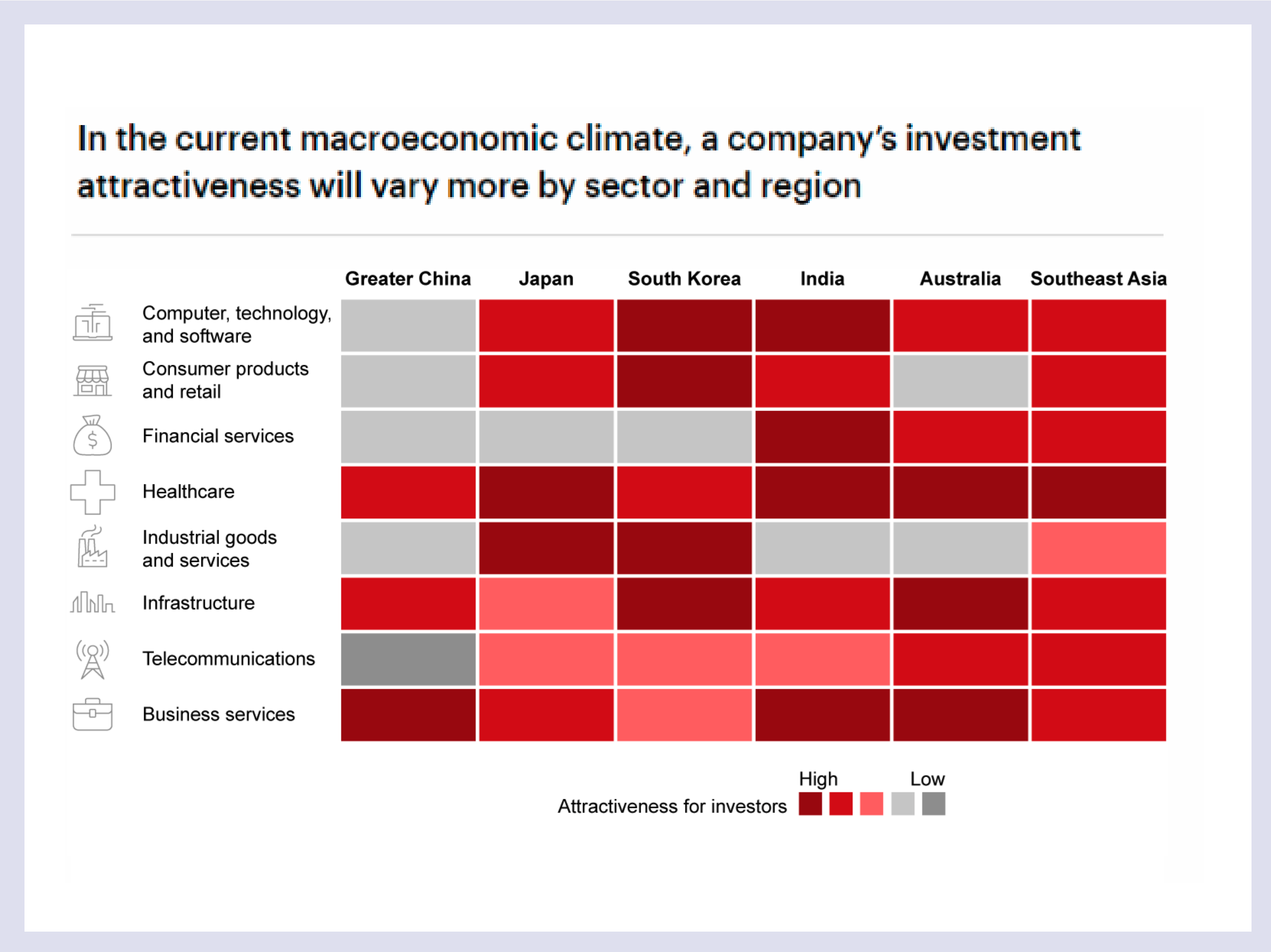
One participant highlighted, "We have to really think beyond the hype cycle and think about what is changing on a much longer horizon."

DIFFERENTIATED SECTORS

A way to practice optimistic caution is for VC firms to recognise that APAC is a diverse region with a diverse set of product and service needs, so that investors can better identify specific and potentially profitable sectors that can provide even greater stability for their portfolios.

One participant said, "Different funds would have their own priority. But speaking from our own experience, I think quite decidedly the first priority is in protecting our own portfolio."

Another participant highlighted, "It's important to be clear on what are the markets that strategically make sense to you over the long term that position you well both from a business perspective but also from a geopolitical perspective so that you can [achieve] your goals and navigate through this [economic] period."



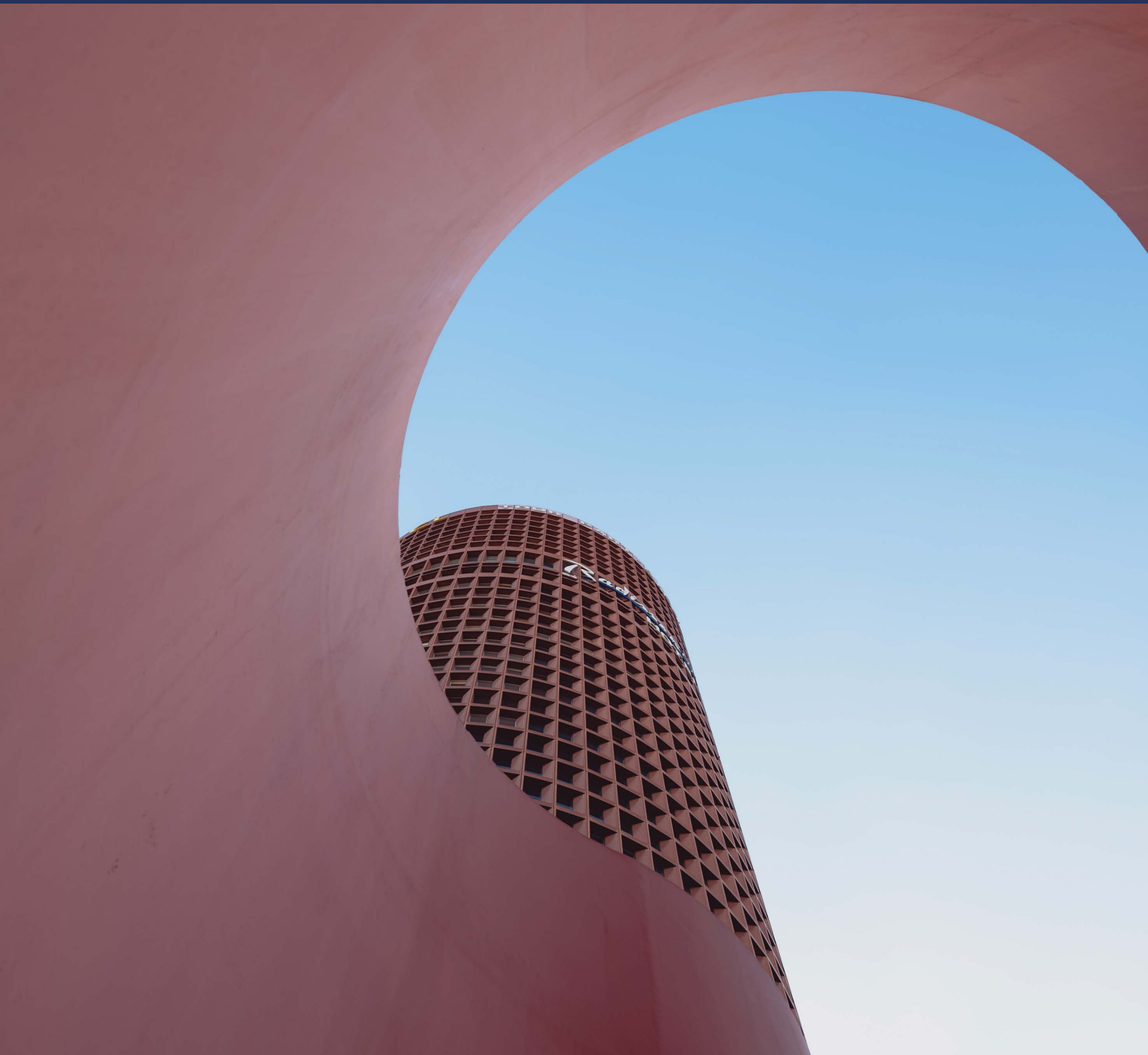
Source: Bain & Company

Collaboration with experienced regional investment experts is critical for navigating APAC's vast and diverse markets, as they have a local presence and operational expertise that can give significant localised insights. Therefore, with such an open outlook on the APAC market, VCs stand to gain the upper hand in safeguarding investing activities in the long run amid current protectionist markets.

One participant mentioned: “Think about the spectre of nationalism that's infecting the different countries, and how do we [VCs] do a better job of defusing that? Because if we do that, the next 50 years in venture capital investing will be the greatest expansion of economic efficiency and innovation that the world has ever seen.”

THEME 2

WHAT STARTUPS CAN DO TO THRIVE IN TURBULENT MACROECONOMIC CONDITIONS

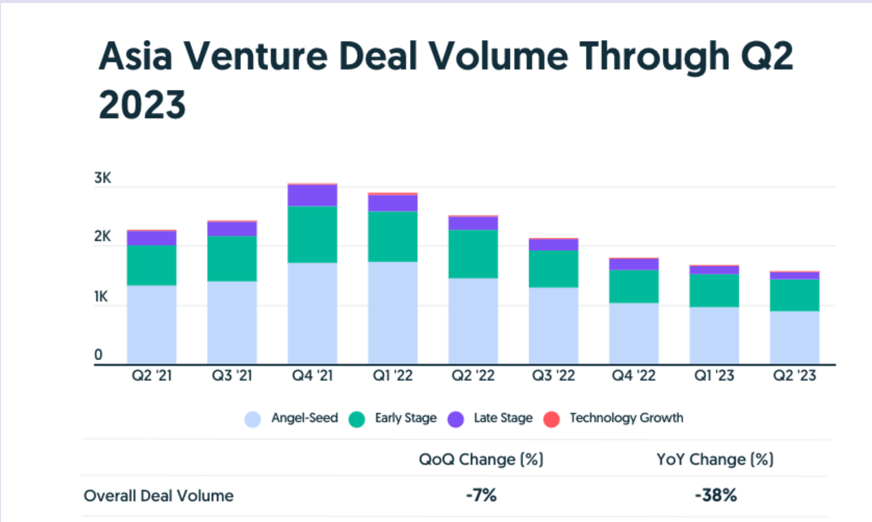


KEY TAKEAWAY 3

DURING AN ECONOMIC SLUMP, HEALTHY UNIT ECONOMICS ARE MORE IMPORTANT THAN EVER FOR STARTUPS

Macroeconomic turbulence saw surges and troughs in import and export demand, prompting protectionist markets to restrict cross-border movement of commodities and services. Such constraints can stifle the pace and extent of innovation for startups as they would be forced to be more reliant on internal resources and face the opportunity costs of limited access to vast foreign facilities.

Moreover, startups may continue to find themselves in difficulty as VC firms dial back on investing across all stages.



Source: Crunchbase

One participant said, “With what's happened in the world in the last couple of years, it's been a bit of a double whammy because as an early growth stage company, we are looking for capital to grow. At the same time, our end consumers who are retail investors, are also suffering.”

How can startups combat these challenges?

Now that vigilance is rising among growth and public market investors, startups have to pay more attention to their unit economics - prioritising strong profitable growth over a “growth at all costs” mindset. This can entail lowering non-essential expenditures that are nice-to-have but not business critical, as well as investing in effective innovation processes that optimise processes and add value to customers.

With healthy unit economics, start-ups can establish right-side up businesses that employ and retain the best talent, grow efficiently and profitably, and attract today’s VC dollars.

PROACTIVE REGULATION CAN INCENTIVISE INNOVATION FOR STARTUPS

Regulators can help accelerate innovation by defining frameworks, offering guidelines, and providing infrastructure that can stimulate successful R&D. By establishing proactive engagement, both sides can understand each other's needs, and innovations can be effectively introduced into the market to benefit the society at large.

One example is ‘regulatory sandboxes’— a safe-testing environment where businesses can test their innovations with regulatory discretion and adequate customer protections. Singapore has had great success with sandboxes constructed around the autonomous vehicles (AV) industry, where the country established a testing centre to analyse AV capabilities before letting the new technology on the road.

Source: Asian Development Bank

One participant highlighted, “When they (regulators and innovators) try to strike that balance between risk mitigation, protecting consumers, and promoting innovation, you will see inherent stress. But that stress is sometimes good. It is seen as short-term pain, but in the long term, what you want is a stable industry.”

Towards other impactful innovations, several APAC nations have proposed or launched guidelines aimed at providing safeguards for society accessing emerging technologies without impeding innovation. For example, Malaysia and Singapore have multiple policies in place to regulate FinTech developments such as crypto currencies, digital banking and more.

THEME 3

SECTORS TO LOOK OUT FOR

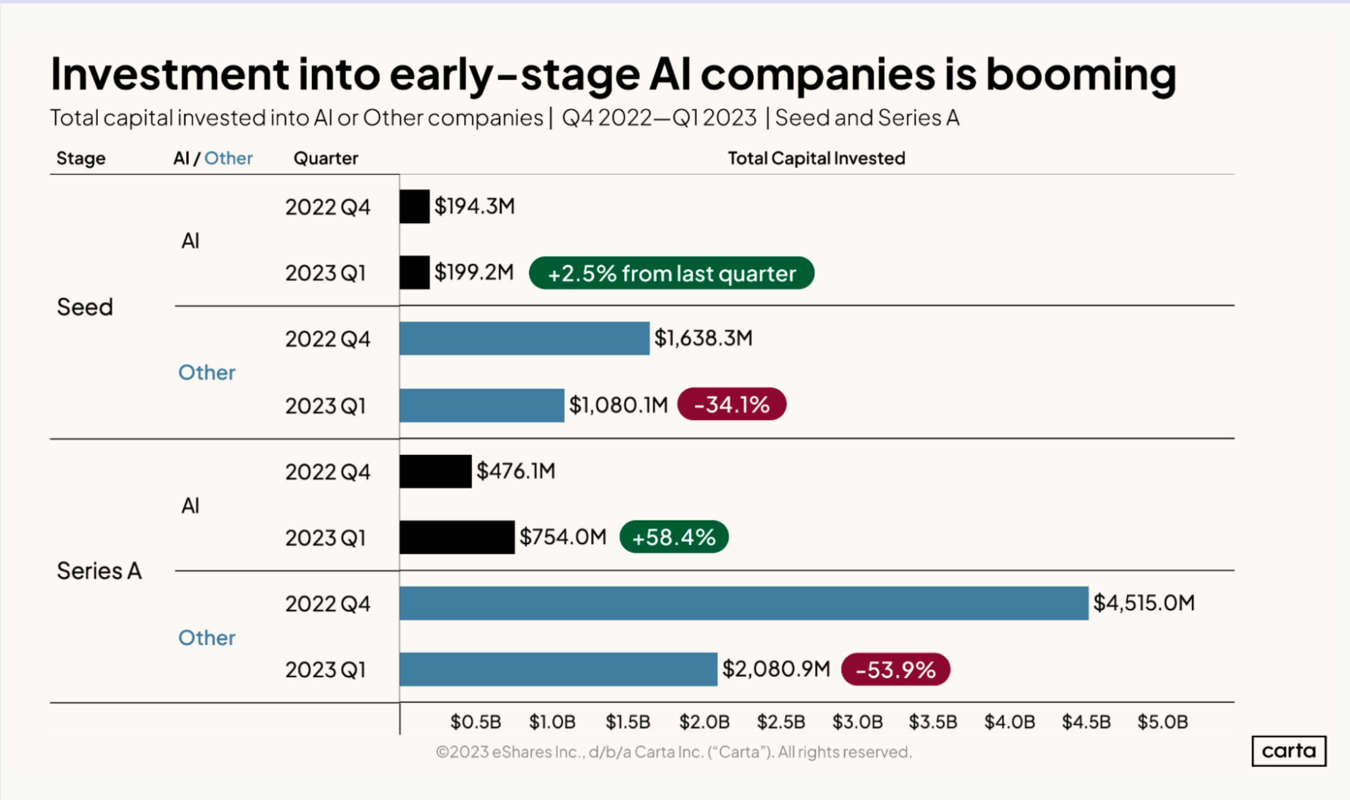
AI AND CLIMATE TECH ARE TWO EXCITING INNOVATION SECTORS IN APAC, AND THE REGION CAN ALSO EXPECT EVOLVED ESG MINDSETS TOWARDS FUTURE POLICY

1. THE PROMISE OF AI INNOVATION

Representing the modern wave of digitalisation, AI holds a promising future among investors and entrepreneurs in the startup ecosystem. Generative AI (Gen AI) in particular has received much attention, having been embedded in many everyday tools, such as communication and content creation.

One participant expressed, “What is more exciting for us going forward is the transformative nature of generative AI that could potentially make our products much more human.”

IDC Survey data shows that two-thirds of APAC organisations are exploring potential use cases or are already investing in Gen AI technologies in 2023.



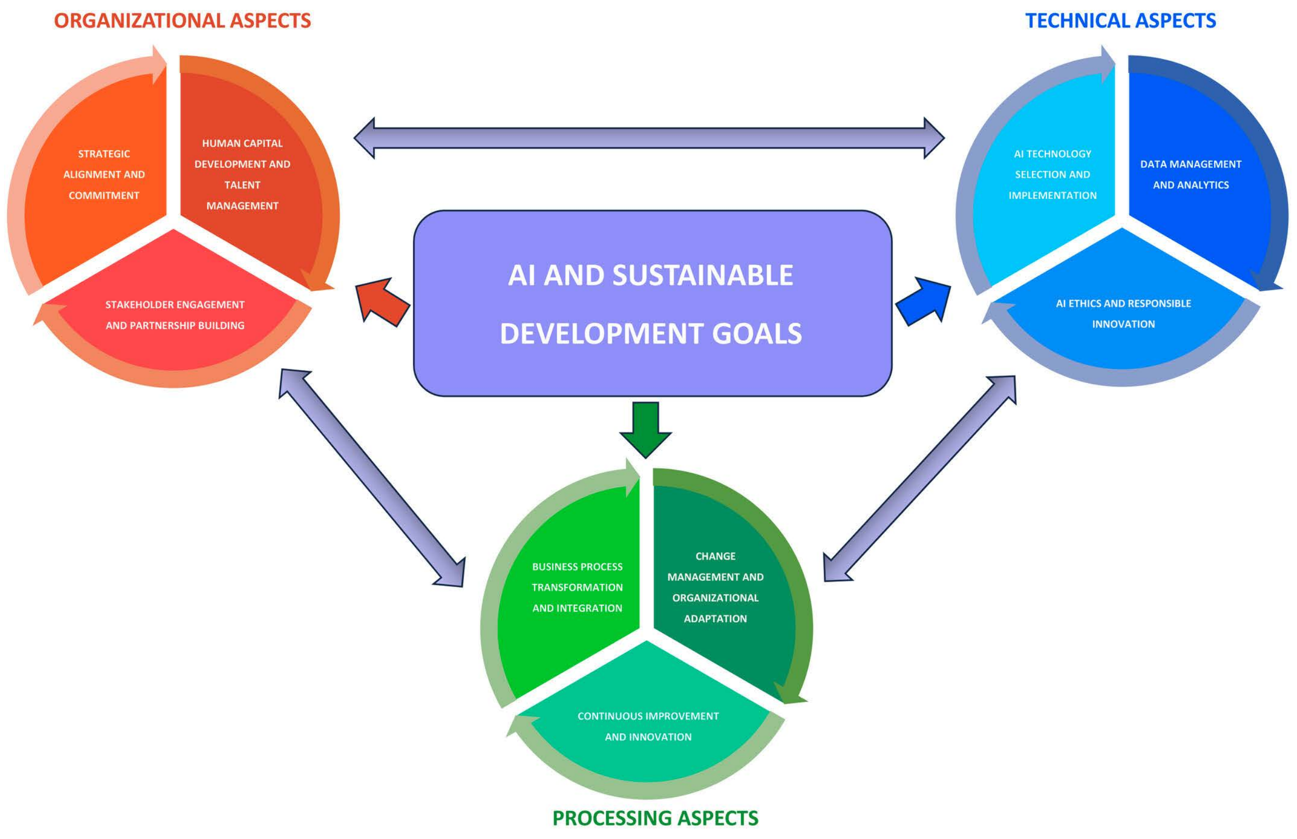
Source: Carta

AI'S DIVERSE APPLICABILITY

AI's integrative capabilities with the organisational, technical and processing aspects of various digitalisation undertakings is a key reason for its popularity. Gen AI enables APAC businesses to streamline operations and gain an edge over their competitors.

One participant highlighted, "One of the biggest challenges facing the green revolution per se is the ability to extract data, often in unstructured formats or in non-traditional formats like images. [Gen AI can help] transform that [data] into something that can be easily understood, easily analysed across a large population."

Novel AI tools have become a turning point in the digitalisation of sustainability initiatives that are effective in achieving overall sustainable development goals (SDGs). The automated nature of AI can be applied to tools such as energy-efficient hardware, data gathering platforms, and even Smart Weather Data Management that can drive decarbonisation and food security goals.

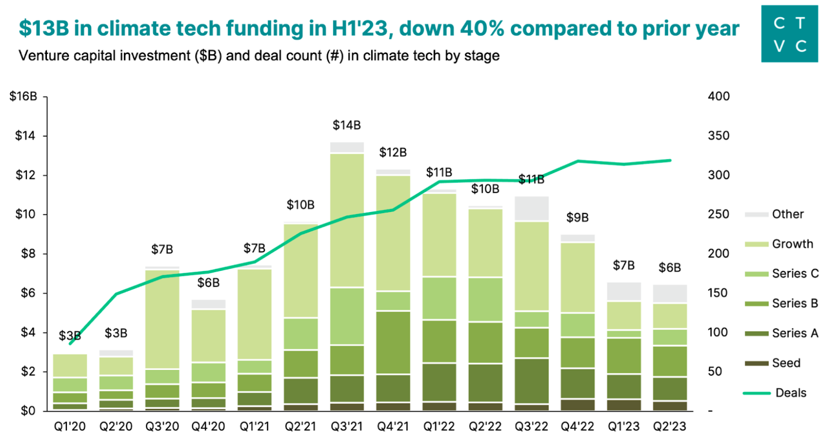


Source: Sustainable Development Journal

2. CLIMATE TECHNOLOGY ON THE RISE

According to a 2023 UNESCO report, the APAC region accounted for 80% of all global new catastrophe displacements from 2008 to 2020, making it the world's most climate-vulnerable region. Hence, while global investments in climate technology may have dipped, several APAC markets, particularly in Southeast Asia, have seen a rising trend of investments within this sector.

GLOBAL



Source: CTVC

SOUTHEAST ASIA

Green tech volume at highest level in at least five years

Equity funding for green tech firms per quarter

Top 10 green tech equity funding in Q3 2023

Firm	Funding Type	Value	Category
InterContinental Energy	Series B	$115m	Renewable energy
Blue Planet Environmental Solution	Corporate round	$5m	Waste mgmt.
Rekosistem	Venture - Unknown	$5m	Waste mgmt.
HydroLeap	Series A	$4.4m	Water treatment
NEU Battery Materials	Seed	$3.7m	Battery recycling
Zuno Carbon	Seed	$2.5m	Carbon mgmt.
Rimm Sustainability	Series A1	$2.1m	Sustainability mgmt.
Solar AI Technologies	Seed	$1.1m	Renewable energy
PVA Pro	Seed	$1m	Manufacturing
Waste4Change	Venture - Unknown	$0.1m	Waste mgmt.

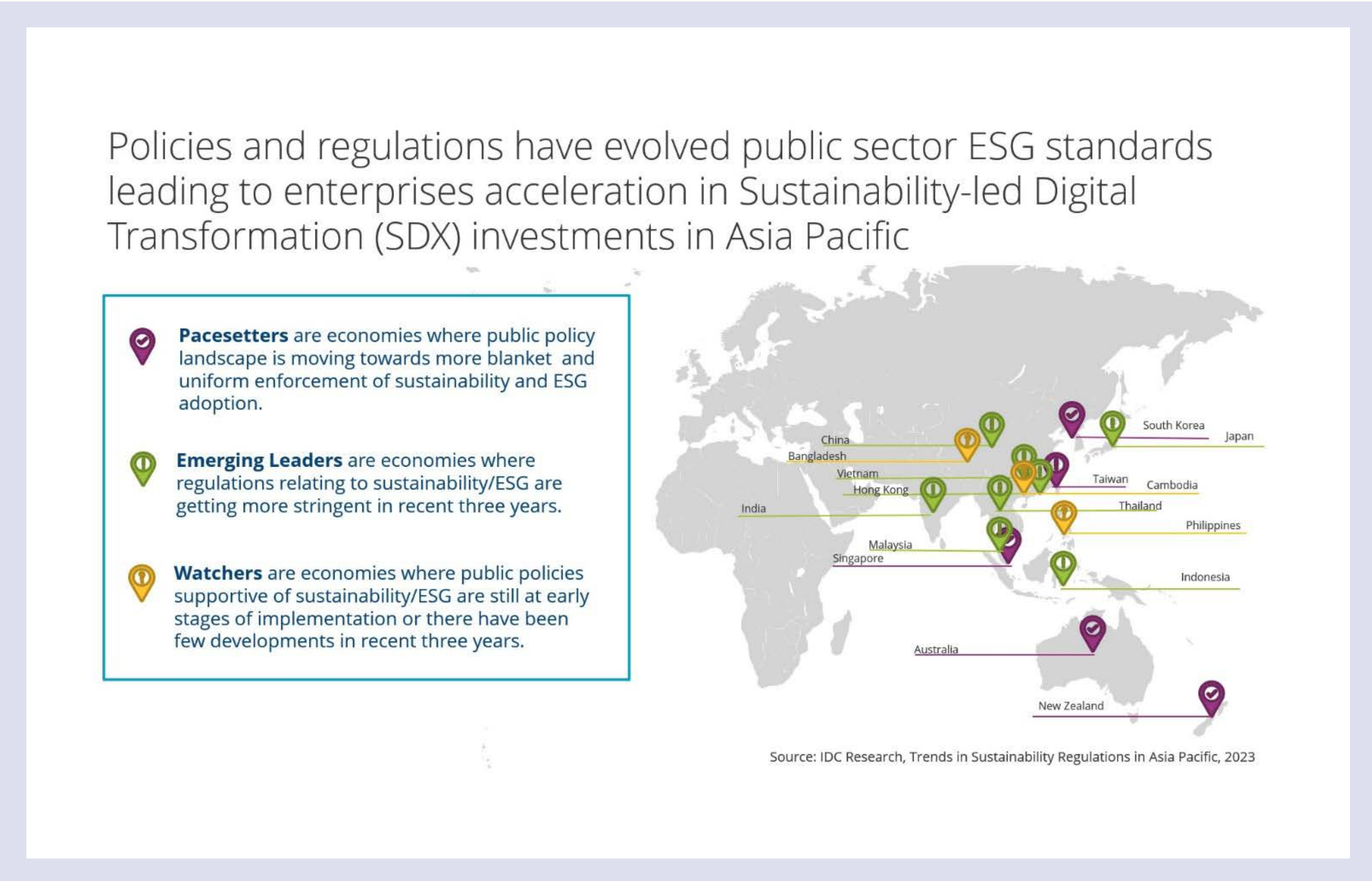
Source: Deal Street Asia

One participant said, ""It's important to not jump on the hype train and look at fundamentals and understand patterns."

APAC continues to have a constant pool of capital to actively promote innovations for climate technology that includes maximising financial inclusion, resource access, and even AI-integrated technologies for underserved communities. The APAC Sustainability Seed Fund is an example of a venture fund that actively supports 13 non-governmental organisations (NGOs) with their diverse sustainability-based innovations.

3. ESG-BASED REGULATORY MODELS

APAC players are changing to a more ESG-led mindset as investors, regulators, and startups consider a more holistic approach to business. This increased attention to ESG has led to new policy and standard launches within the region that promote transparent data collection, disclosure, and reporting, as well as good governance when it comes to ESG-centred activity or products.



Source: IDC

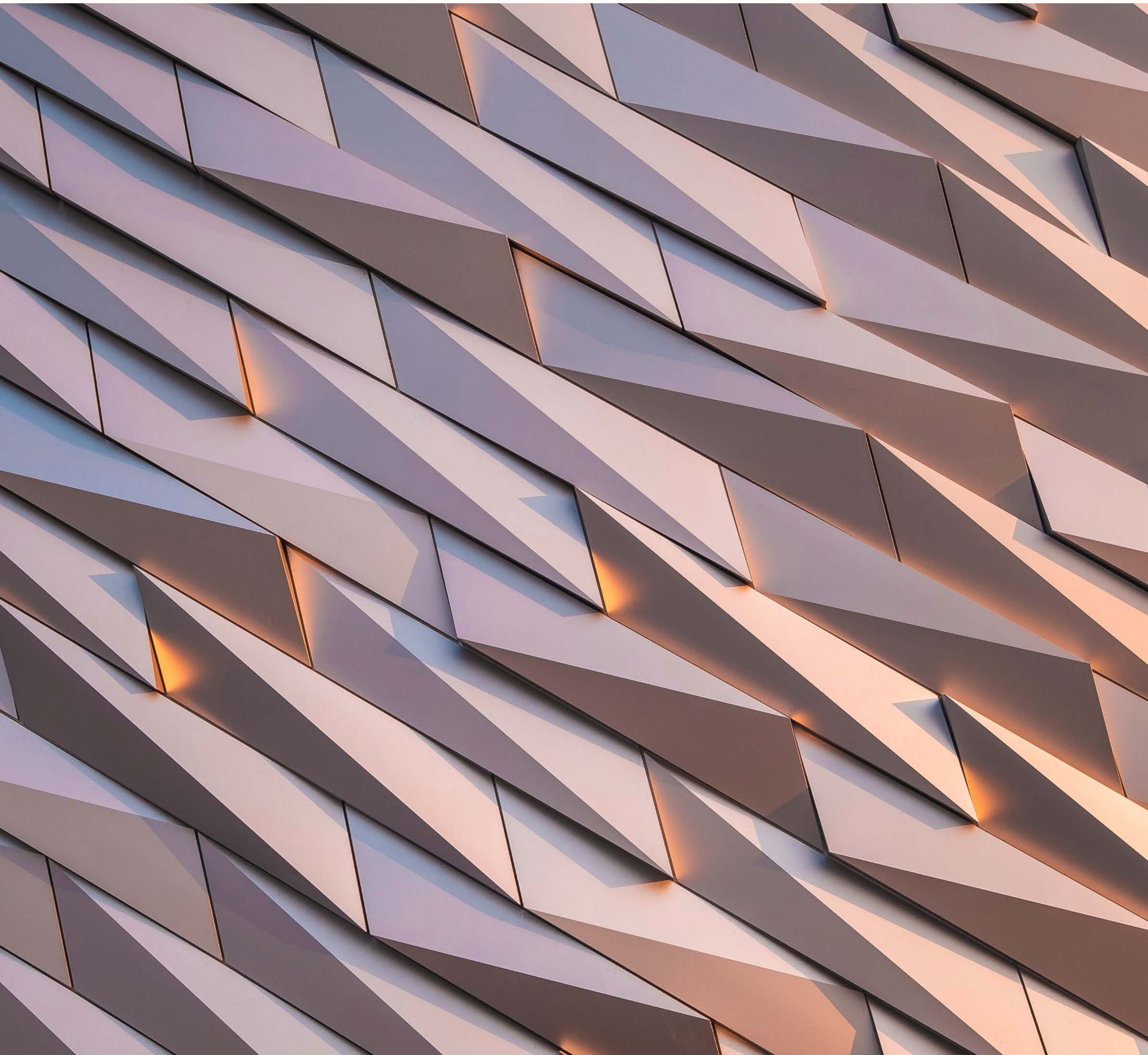
One participant mentioned, “A lot of times, we've seen the catalyst for uptake of ESG type use cases to be driven by either national agenda or in certain cases more directly regulatory approaches.”

Moreover, the Monetary Authority of Singapore (MAS) recently launched the Singapore-Asia Taxonomy for Sustainable Finance (Taxonomy) which focuses on defining robust, science-based technical screening criteria for sustainable economic activities. It aims to guide investments towards environmentally sustainable projects in Singapore and the ASEAN region, supporting the transition to a low-carbon economy. The Taxonomy provides a framework for investors, companies, and policymakers to identify and allocate capital to green and transition activities, enhancing transparency and combating greenwashing.

With these approaches setting an example for the rest of APAC, it illustrates how regulators with an ESG-led mindset can ultimately ensure society, consumer, and environmental protection in the face of novel innovations.

FINAL THOUGHTS

The Elevandi Insights roundtable examined the general challenges and opportunities faced by APAC's VCs and startups where participants presented their diverse perspectives of navigating the APAC economy while driving innovation and benefiting the society at large. Overall, we continue to monitor this exciting innovation and policy space as we explore new market developments that will strengthen APAC's investment and startup ecosystem on a global scale.



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