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After 3 Months, Shoreline Debut Fund Is One-Third Deployed

BY SHASHA DAI

9/11/2008 -- For many private equity firms, China means opportunities for making growth investments, establishing footholds in Asia, or sourcing cheap materials for portfolio companies.

Shoreline Capital Management Ltd. has a different strategy. The four-year-old firm targets distressed assets in China.

Three months after closing its first fund, Shoreline has already breezed through one-third of the fund's capital. Shoreline, which has offices in China and the U.S., has made four acquisitions of non-performing loans from Chinese banks, and one investment in an unfinished property development project in Southern China. The five deals all came from Shoreline China Value I LP, a \$178.2 million debut fund that had a final closing in June of this year, said Benjamin Fanger, co-founder and managing director of Shoreline Capital.

Shoreline was formed in 2004 with China's troubled assets in mind. It targets non-performing loans, or NPLs, which were stuck on banks' balance sheets after decades of lending - essentially on behalf of the Chinese government - to insolvent companies. The firm also invests in real estate projects that are unfinished after their developers defaulted on debt or ran into legal troubles.

China's distressed asset market is much less crowded than in the U.S. Investment banks including Morgan Stanley & Co., Goldman Sachs Group, and Merrill Lynch & Co. made major inroads in China's NPL market earlier this decade but largely retreated after picking off the low-hanging fruit.

When it comes to real estate, Shoreline targets what Fanger calls second-tier cities, under the logic that the majority of foreign capital in China goes to big metropolitan areas like Beijing and Shanghai. "Spreads are much better [in smaller towns]," Fanger said.

That's why Shoreline's proposition struck an accord with U.S.-based institutions such as endowments, foundations and pension funds that favor firms with niche strategy or regional focus. It also helped Shoreline weather headwinds that first-time funds typically face. Fund I had been in the market for about 12 months before closing on more capital than the \$150 million it originally targeted.

Fanger and fellow co-founder Xiaolin Zhang were classmates at University of Chicago Graduate School of Business. Both had extensive experience investing and working in China and formed Shoreline in early 2004. Zhang focuses on NPL investments, while Fanger is in charge of deal flow and fund-raising. A third partner, Jeffrey Yang, specializes in real estate deals.

Before it had a fund, Shoreline got its feet wet by investing the capital of Cargill, the conglomerate whose diversified offerings include food and risk management services. Shoreline made five investments in this way, some of which had been realized before it hit the fund-raising trail.

Reach Shoreline's U.S. office in the San Francisco area at 408-377-3668.

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