



One Private-Equity Firm's Busy China Niche—Bad Loans

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For many private-equity firms, China is an opportunity for making growth investments, establishing footholds in Asia or finding sources of low-cost materials for their portfolio companies.



[Shoreline Capital Management](#) targets distressed assets.

And three months after closing its first fund, Shoreline has breezed through one-third of the fund's capital. The four-year-old firm, which has offices in China and the U.S., has acquired four portfolios of nonperforming 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, a \$178.2 million debut fund that had a final closing in June, says Benjamin Fanger, co-founder and managing director of Shoreline Capital.

Shoreline was formed in 2004 with China's troubled assets in mind. It targets nonperforming loans, or NPLs, that have been stuck on banks' balance sheets after decades of lending—essentially on behalf of the Chinese government—largely to insolvent companies. It also invests in real-estate projects that went unfinished after the 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, Goldman Sachs Group and Merrill Lynch made inroads in China's NPL market 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.

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.

Forbidden City's Guardian Lion by [d'n'c'](#), via Flickr.

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