

Coller Capital



# Emerging Markets Private Equity Survey

❖ 2009

INVESTORS' VIEWS OF PRIVATE  
EQUITY IN EMERGING MARKETS

# EMPEA/Collier Capital *Emerging Markets Private Equity Survey*

The *Survey* is a snapshot of private equity trends in emerging economies and provides an annual overview of investors' (Limited Partners') plans and opinions in relation to emerging markets.

This 5<sup>th</sup> edition of the *Survey* captures the views of 156 private equity investors from around the world. The findings are globally representative of the LP population by:

- Investor location
- Type of investing organization
- Total assets under management

## Contents

Key topics in this edition of the *Survey* include:

- LPs' appetite for emerging markets private equity
- LPs' returns expectations
- First-time investor plans for emerging markets private equity
- Emerging markets private equity risk and risk premiums
- Attractive areas for GP investment

## Abbreviations

- Limited Partners (LPs) are investors in private equity funds
- General Partners (GPs) are private equity fund managers
- Private equity (PE) is used as a generic term covering venture capital, growth capital, buyout and mezzanine investments
- Emerging markets private equity (EM PE) refers to private equity in the emerging economies of Africa, Asia, Central & Eastern Europe, Russia/CIS, Latin America and the Middle East

## 2009 *Survey highlights*

- LPs believe emerging markets will continue to present attractive investment opportunities over the next year (*Page 9*).
- Investors believe that recent-vintage EM PE funds will outperform equivalent developed market funds because of a lower reliance on debt to finance transactions and continuing – albeit slowing – economic growth (*Page 4*).
- LPs with current EM PE exposure plan to commit to additional geographies and/or additional managers over the next few years, despite cash constraints and heightened risk concerns (*Page 4*).
- New investors will enter emerging markets more slowly in 2009; those holding back cite concerns about EM PE risk and claim they have insufficient internal resources to evaluate managers (*Page 7*).
- The average risk premium for EM PE funds has risen to 7.2% from 6.7% in 2008 (*Page 8*).
- Brazil is ranked by LPs as the second most attractive emerging market for private equity investment over the next year, after China. Russia/CIS is ranked as the least attractive (*Page 9*).

## Investors are seeking additional EM GP relationships and/or geographies

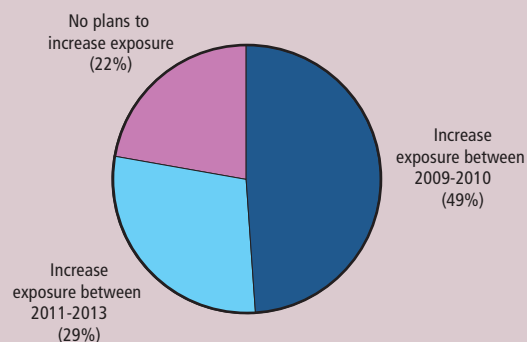
Over three quarters of LPs (78%) currently invested in EM PE plan to commit to additional EM managers and/or geographies over the next 5 years, with half (49%) planning to do so over the next 2 years.

## Recent EM PE vintages are expected to outperform equivalent developed market vintages

Over half of LPs (57%) believe their 2006 and 2007 vintage EM PE funds will be less affected by the global downturn than developed market funds of similar vintages.

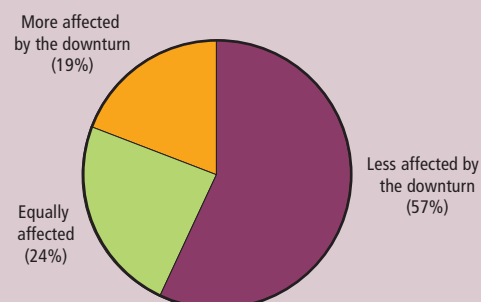
Investors attribute the resilience of 2006 and 2007 vintage EM PE funds to the comparatively robust growth of underlying emerging market economies (42% of LPs) and a lower reliance on debt to finance EM PE deals (44% of LPs).

LPs planning to increase their PE exposure by adding EM managers and/or geographies over the next 5 years



(Figure 1)

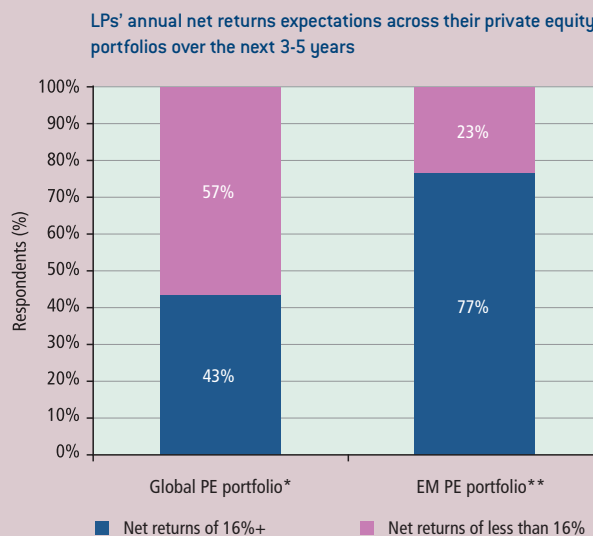
Performance of 2006/2007 vintage EM PE funds compared with developed market funds – LP views



(Figure 2)

## LPs expect favorable returns across their EM PE portfolios

LPs expect their EM PE commitments to perform well over the medium term. Over three quarters (77%) expect annual net returns of 16%+ over the next 3 to 5 years, compared with just 43% of LPs expecting such returns in the PE market as a whole.

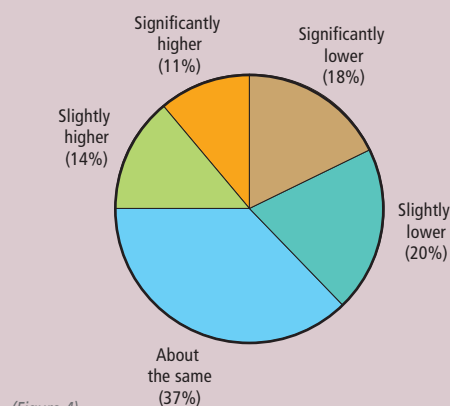


(Figure 3)

## Some EM PE investors may scale back for liquidity reasons but most remain committed to investing

Nearly two thirds of LPs (62%) with current exposure to EM PE expect the dollar value of their new commitments to remain steady or rise in 2009 relative to their actual commitments in 2008.

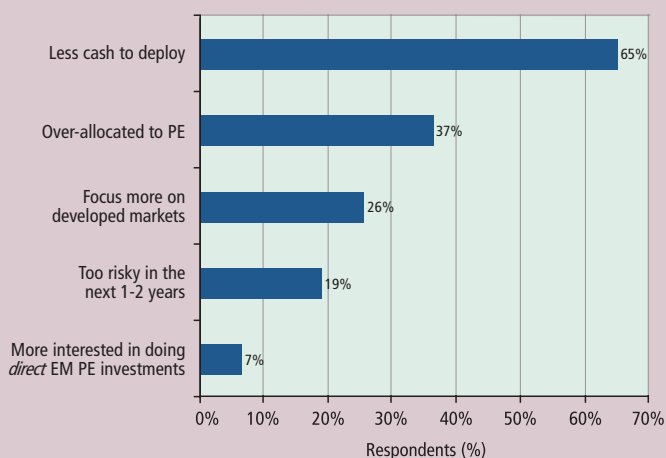
LPs' anticipated level of new commitments to EM PE in 2009 compared with their actual commitments in 2008



(Figure 4)

Only 26% of LPs who intend to reduce commitments are doing so to re-focus on developed markets; even fewer – 19% – cited EM PE risk in the near term as the driving factor.

LPs' reasons for expecting their new commitments to EM PE funds in 2009 to be lower than their actual commitments in 2008

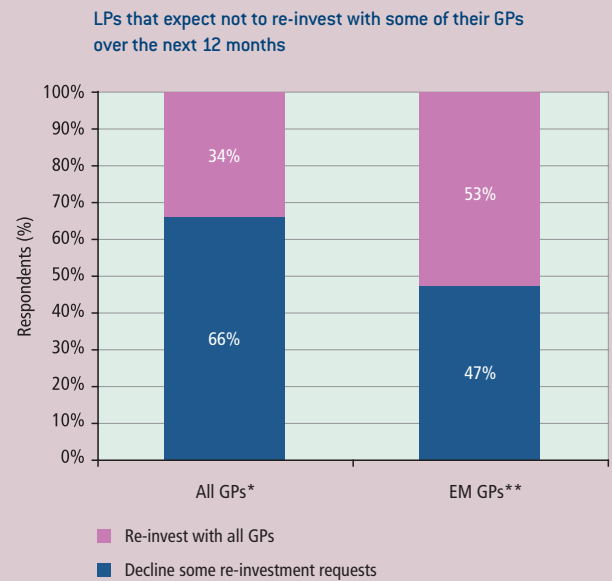


(Figure 5)



## Fewer EM GPs will be refused re-ups than developed market GPs

Just under half of investors (47%) in EM PE plan to refuse to re-invest with at least one of their GPs over the next 12 months. This compares with 66% of LPs planning to refuse to re-up with some of their GPs in the PE market as a whole.

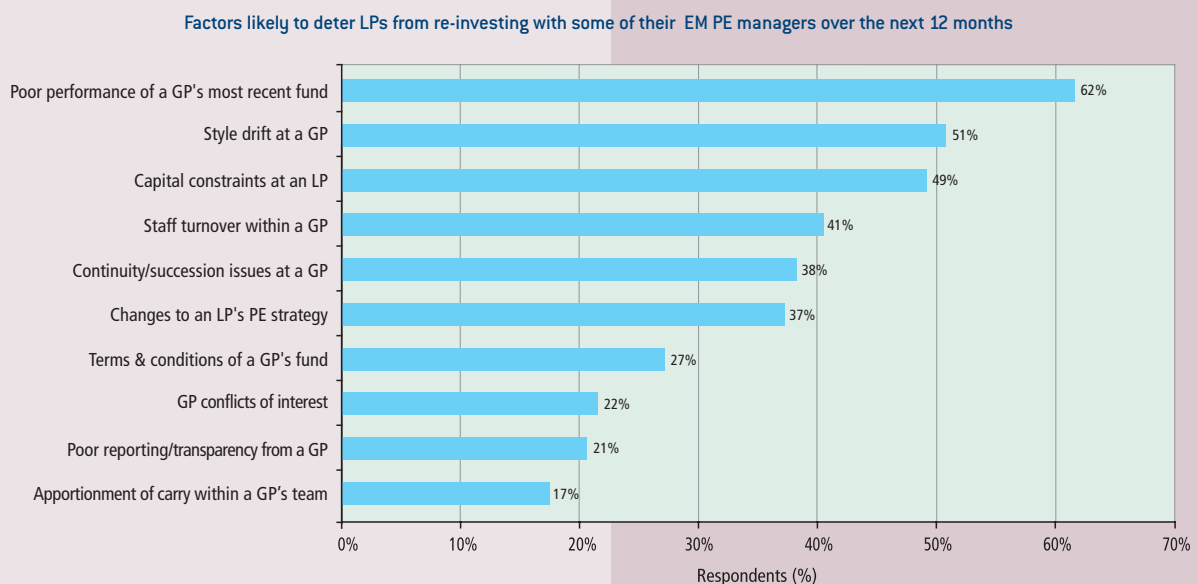


\* Collier Capital's Global PE Barometer. Data reflects LPs' intentions across the PE market as a whole.

\*\* EMPEA/Collier Capital's Survey. Data pertains only to LPs' intentions across EM PE.

(Figure 6)

The factors most likely to deter LPs from re-investing with at least one of their EM GPs are the poor performance of a GP's most recent fund (62%) and GP investment style drift (51%). Half of LPs (49%) also indicate that capital constraints will be an issue.

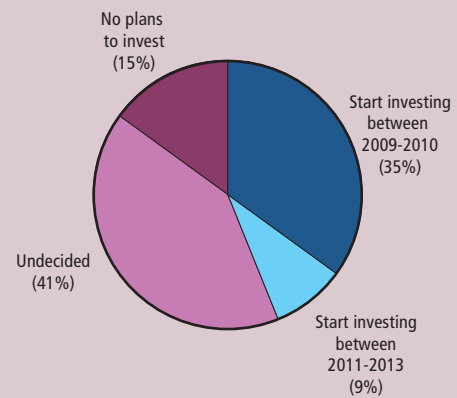


(Figure 7)

## One third of LPs without EM PE exposure expect to begin investing over the next 2 years

Of the LPs surveyed who do not have exposure to EM PE, over a third (35%) expect to commit to EM GPs within the next 1-2 years.

Investors not currently invested in EM PE – investment plans for EM PE

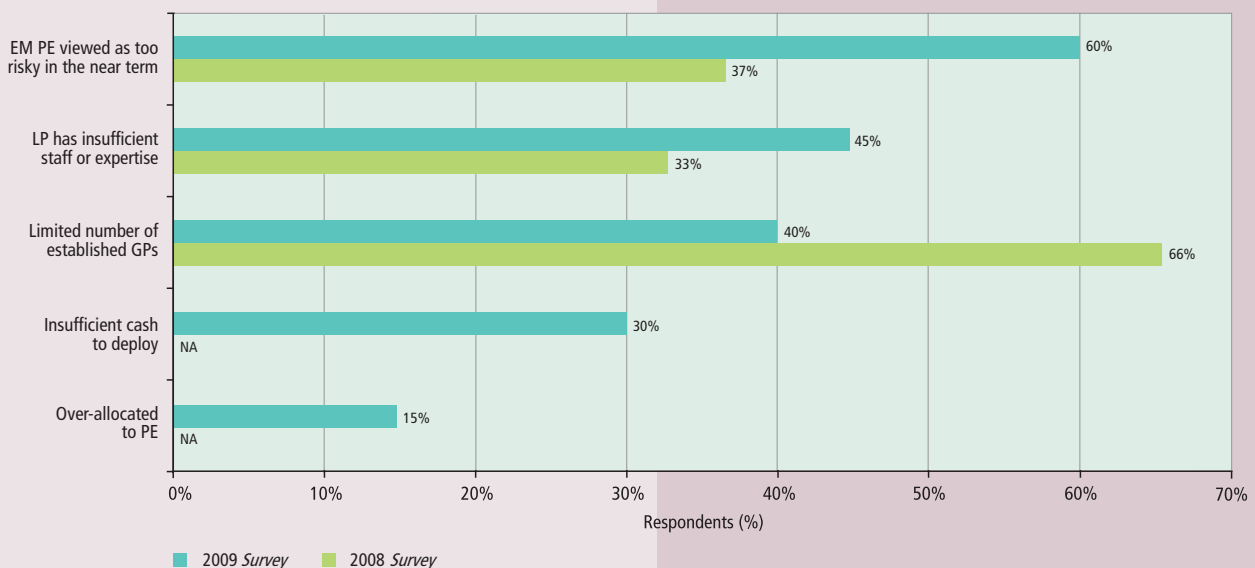


(Figure 8)

LPs planning not to invest in EM PE over the next 2 years cite risk as the leading barrier to investment – 60% consider near-term risk to be a deterrent, compared with 37% in the 2008 Survey.

Additional barriers preventing first-time investment by LPs in EM PE over the next 2 years include LPs' lack of EM PE expertise and a perception that there are too few experienced GPs.

Factors likely to deter LPs from beginning to invest in EM PE over the next 2 years



(Figure 9)

## LPs see EM PE as somewhat riskier, but still plan to increase their exposure

Nearly three quarters of LPs (73%) think that the overall risk of EM PE investment has increased over the last 12 months (in line with their view of PE across the world).

4 out of 5 LPs who perceive the risk to have increased in EM PE nonetheless expect to add additional EM GP relationships and/or geographies to their portfolios over the next 5 years.

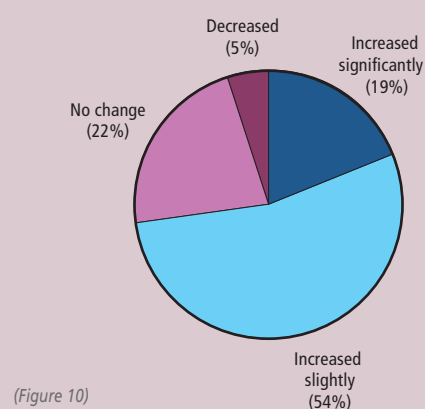
## LPs now require a higher risk premium for EM PE investments relative to developed market buyouts

LPs assess the risk premium required for EM PE investments relative to developed market buyouts as 7.2% in 2009 compared with 6.7% in 2008.

The countries/regions perceived to have increased most in terms of risk were Africa (excluding South Africa), Russia/CIS and Central & Eastern Europe.

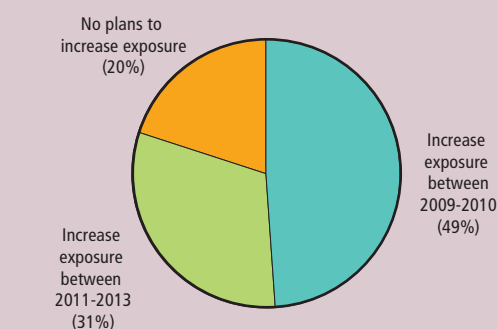
Brazil was the only country/region perceived to require a lower risk premium in 2009 compared with 2008.

Change in overall risk of EM PE investment over the last 12 months – LP views



(Figure 10)

The investment plans of EM PE investors who think EM PE risk has increased recently



(Figure 11)

LPs' perception of risk premiums required for EM PE funds relative to developed-market buyout funds – by EM country/region

	2009	2008	Increase in risk premium
Brazil	6.4%	6.9%	-0.5%
China	6.4%	6.3%	0.1%
India	6.4%	6.1%	0.3%
South Africa	7.0%	6.4%	0.6%
Latin America (ex Brazil)	7.5%	6.7%	0.8%
Middle East	7.3%	6.5%	0.8%
North Africa*	8.0%	6.7%	1.3%
Central & Eastern Europe (inc Turkey)	6.4%	5.0%	1.4%
Russia/CIS	8.4%	6.9%	1.5%
Sub-Saharan Africa (ex South Africa)*	8.4%	6.7%	1.7%
Other Emerging Asia	7.3%	N/A	N/A

\* "Pan Africa" in 2008 Survey

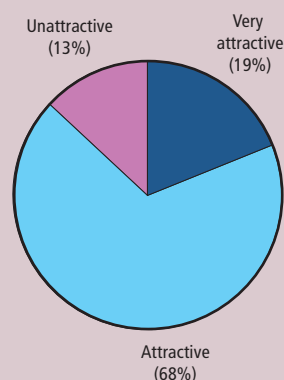
(Figure 12)



## LPs believe emerging markets still present an attractive investment opportunity for GPs

The current global financial crisis appears to have detracted little from the attractiveness of emerging markets as an investment destination. The majority of LPs (87%) believe that emerging markets hold attractive opportunities for GPs over the next 12 months.

Attractiveness of emerging markets for GP investment over the next 12 months



(Figure 13)

## Brazil seen as more attractive for GP investment over the next year; CEE and Russia/CIS less so

The biggest movers in the investment attractiveness rankings are Brazil, which shifts to second place from fourth in 2008; Latin America, which moves up 2 places; and Russia/CIS, which falls three places to the bottom of the league table.

Brazil just beat India into second place by having a slightly larger number of investors rating it as *very attractive* – 18% versus 16% for India. Russia/CIS, on the other hand, had three-quarters of all EM PE investors (74%) rate it as *unattractive* for GP investment over the next year.

The attractiveness of emerging markets/regions for GP investment over the next 12 months – LP views

	Overall ranking		
	2009	2008	Change
China	1	1	0
Brazil	2	4	2
India	3	2	-1
Central & Eastern Europe (inc Turkey)	4	3	-1
Latin America (ex Brazil)	5	7	2
Africa (ex South Africa)*	6	5	-1
South Africa	7	9	2
Middle East	8	8	0
Russia/CIS	9	6	-3

\* "Pan Africa" in 2008 Survey

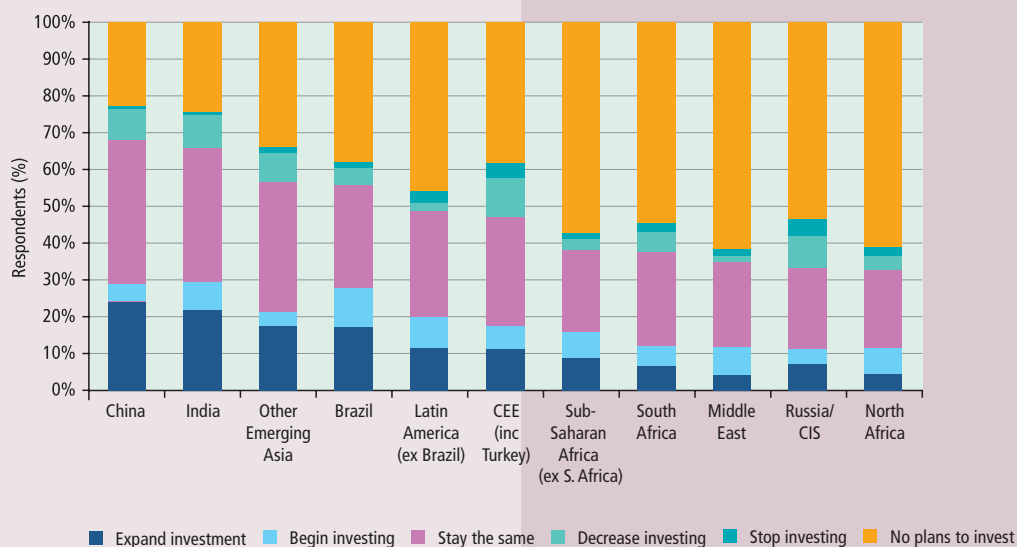
(Figure 14)

## Brazil poised to gain the most first-time investors

Brazil will see the largest net increase in new investors in the next 1-2 years – 17% of current EM PE investors plan to increase their exposure to Brazil, with another 11% expecting to begin investing in the country for the first time.

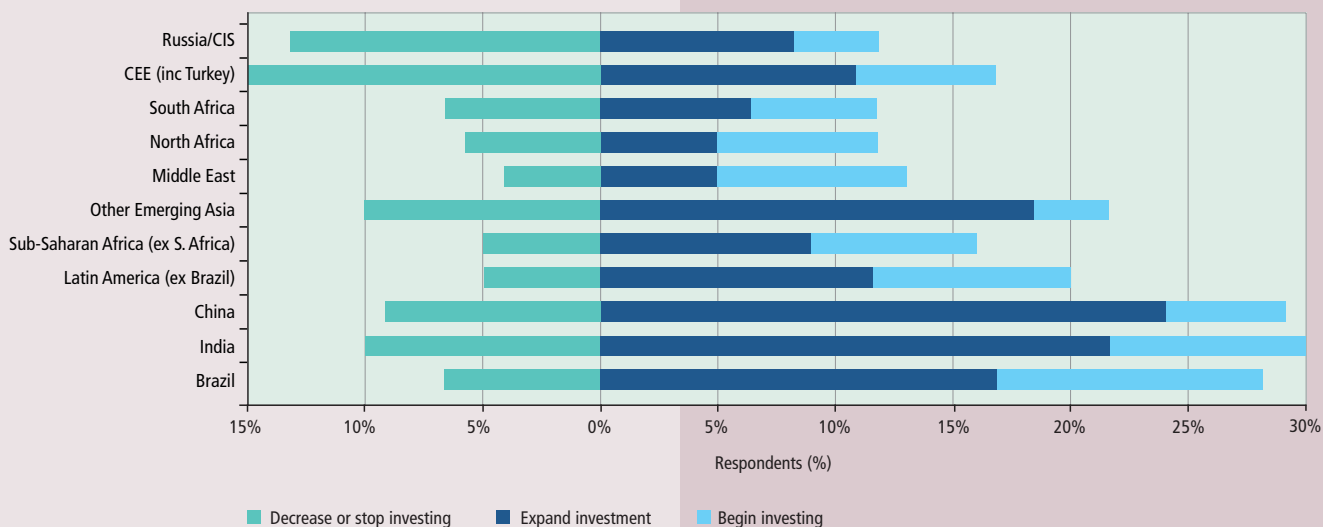
Russia/CIS is likely to lose more investors than it is likely to gain over the next 1-2 years.

LPs' planned changes to their EM PE investment strategy over the next 1-2 years



(Figure 15)

LPs' planned changes to their EM PE investment strategy over the next 1-2 years – net increase/decrease



(Figure 16)

# EMPEA/Collier Capital *Emerging Markets Private Equity Survey*

## Respondent breakdown – 2009

The Survey researched the plans and opinions of a representative sample of 156 institutional investors based in North America, Western Europe, Central & Eastern Europe, Asia, Africa, the Middle East and Latin America.

## About EMPEA

The Emerging Markets Private Equity Association (EMPEA) is an independent, global industry association that promotes greater understanding of, and a more favorable climate for, private equity and venture capital investing in emerging markets. The 260+ members of EMPEA represent over \$500 billion in assets under management and include GPs, LPs and other key industry stakeholders.

## About Collier Capital

Collier Capital, the creator of the *Global Private Equity Barometer*, is the leading global investor in private equity secondaries – the purchase of original investors' stakes in private equity funds and portfolios of direct investments in companies. Collier Capital has offices in London, New York and Singapore.

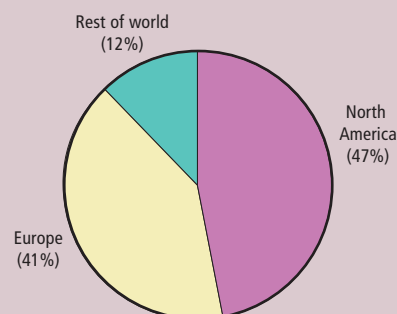
## About the Survey

This marks the 5<sup>th</sup> edition of the annual *Survey of LP interest* in the asset class. Previous years' results are available at [www.empea.net](http://www.empea.net).

## Research methodology

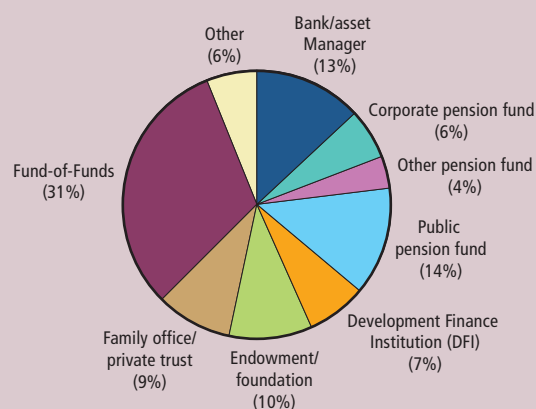
Research for the Survey was undertaken in January-February 2009 by IE Consulting, a division of Initiative Europe (Incisive Media), which has been conducting private equity research for 20 years.

Respondents by region



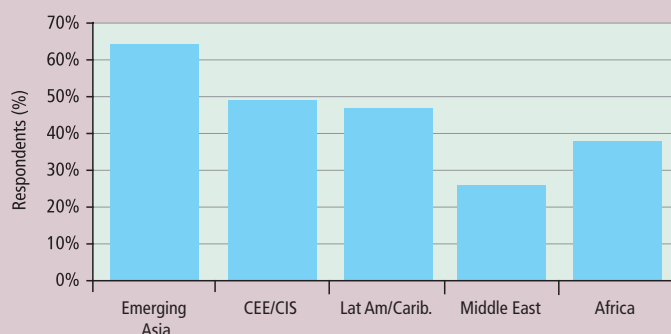
(Figure 17)

Respondents by type of organization



(Figure 18)

Respondents' current EM PE investment strategy



(Figure 19)

Respondents' current EM PE investment strategy – % of PE assets allocated to EM PE

	EM as % of PE assets
Bank/asset manager	17.2
Corporate pension fund	14.3
Corporation	0.5
Development Finance Institution (DFI)	49.0
Endowment/foundation	14.1
Family office/private trust	21.3
Fund-of-Funds	12.5
Government-owned organization	19.3
Other pension fund	7.3
Insurance company	12.5
Public pension fund	15.6

(Figure 20)



[www.empea.net](http://www.empea.net)

Coller Capital

[www.collercapital.com](http://www.collercapital.com)