Coller Capital

EMPEA

Emerging Markets Private Equity Association

Emerging Markets Private Equity Survey

2011

INVESTORS' VIEWS OF PRIVATE EQUITY IN EMERGING MARKETS

EMPEA/Coller 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 7th 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' return expectations
- Attractive areas for GP investment
- Most competitive markets for GP deals
- Obstacles to investing in emerging markets private equity
- Participation by local LPs in emerging markets private equity funds
- Influence of ESG considerations on LP investment decisions

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

2011 *Survey* highlights

- Limited Partners (LPs) expect to increase their *new* commitments to emerging markets private equity (EM PE) as they seek even greater exposure to high-growth markets *(Page 4).*

- EM LPs expect the proportion of their total PE allocations directed at emerging markets to increase from 11-15% today to 16-20% in two years' time *(Page 5).*

- The majority of LPs expect that 2011-vintage EM PE funds will outperform developed market funds of the same vintage *(Page 5).*

- Over half of LPs expect returns of 16%+ from EM PE *(Page 6).*

- LPs have the highest return expectations of all for EM PE funds in Asia *(Page 7).*

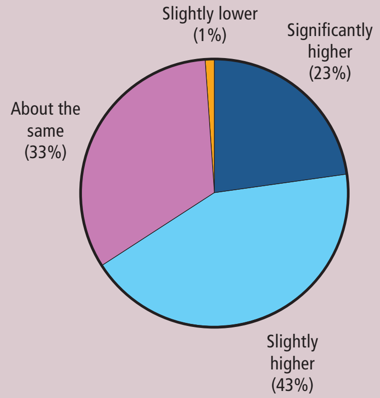
- Brazil has displaced China as the most attractive environment for GP dealmaking *(Page 7).*

- The majority of EM PE investors say ESG criteria are of considerable importance in their fund selection decisions *(Page 10).*

LPs expect to increase their new commitments to EM PE funds in the near term

Two-thirds (66%) of LPs with current exposure to EM PE expect the dollar value of their *new* commitments to increase in 2011/2012 relative to their *new* commitments in 2009/2010.

LPs' anticipated level of new commitments to EM PE in 2011/2012 compared with their new commitments in 2009/2010 *



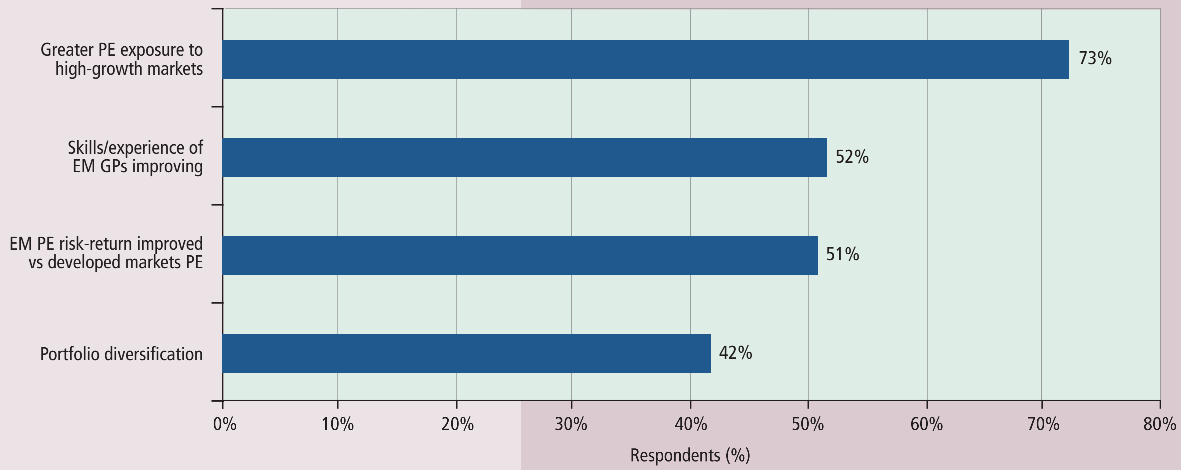
** Excludes Development Finance Institutions and EM-dedicated funds-of-funds.*

(Figure 1)

Economic growth remains the primary driver of increasing EM PE commitments

Three-quarters (73%) of LPs planning to accelerate their *new* commitments to EM PE cite the desire for exposure to high-growth markets as their primary motivation. Perceptions of growing skills and experience in the GP community and an improved risk-return profile are also factors positively influencing investment decisions.

LPs' motivations for accelerating new commitments to EM PE funds in 2011/2012 *



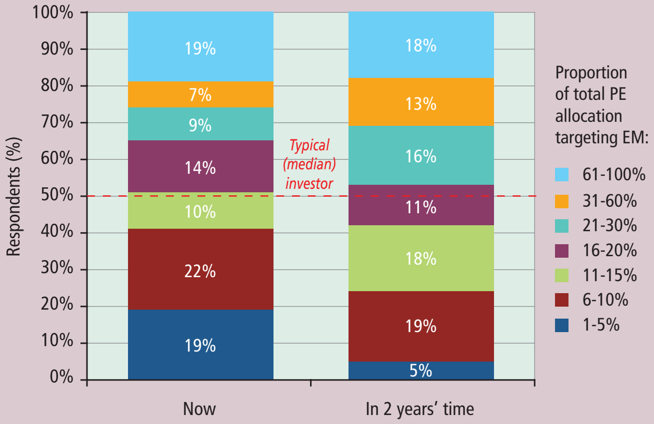
** Excludes Development Finance Institutions and EM-dedicated funds-of-funds.*

(Figure 2)

EM PE will capture a substantially higher share of LPs' total PE allocations in two years' time

A typical EM PE investor will have 16-20% of their total PE allocation targeting emerging markets in 2013 – up from 11-15% today. Three quarters (76%) of EM PE investors expect to have 11% or more of their total PE allocation targeted at EM – up from 59% of LPs today.

EM PE investors' proportion of total PE allocation targeted at EM PE *



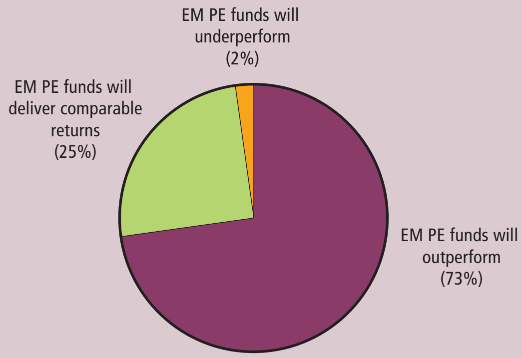
** Excludes Development Finance Institutions and EM-dedicated funds-of-funds.*

(Figure 3)

2011-vintage EM PE funds expected to outperform 2011-vintage developed market funds

Nearly three quarters (73%) of LPs expect 2011-vintage EM PE funds to generate higher returns than developed market funds of the same vintage. Almost all investors attribute this expected outperformance to faster growth in emerging market economies.

Performance of 2011-vintage EM PE funds vs 2011-vintage developed market funds – LP expectations

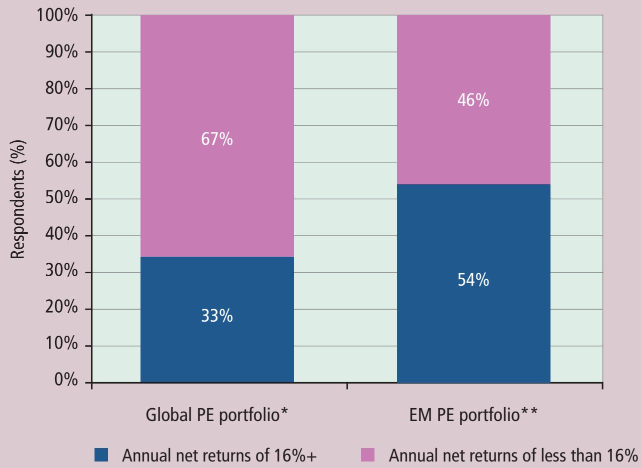


(Figure 4)

Over half of EM PE LPs expect medium-term net returns of 16%+ from EM PE

More than half (54%) of LPs expect annual net returns of 16%+ from their EM PE portfolios over the next 3-5 years. Only a third (33%) of LPs have similar expectations of their global PE portfolios.

LPs' annual net return expectations for their PE portfolios over 3-5 years



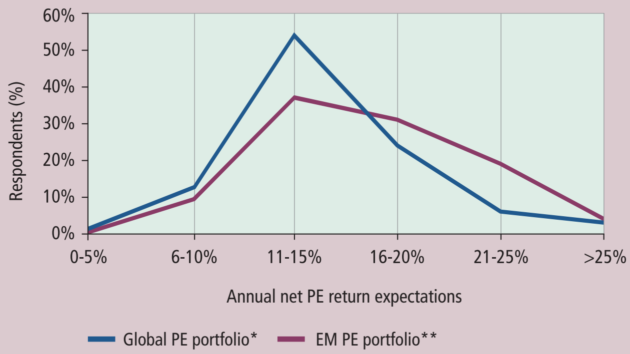
* Coller Capital's *Global PE Barometer.*
** *EMPEA/Coller Capital Survey.*

(Figure 5)

Almost a quarter of investors expect medium-term net returns of 21%+ from EM PE

Approximately one in four (23%) LPs anticipate annual net returns of 21% or more from their EM PE portfolios over the next 3-5 years. Just 9% of investors have similar expectations for their global PE portfolios.

Dispersion of LPs' annual net return expectations over 3-5 years – EM PE vs global PE portfolios



* Coller Capital's *Global PE Barometer.*
** *EMPEA/Coller Capital Survey.*

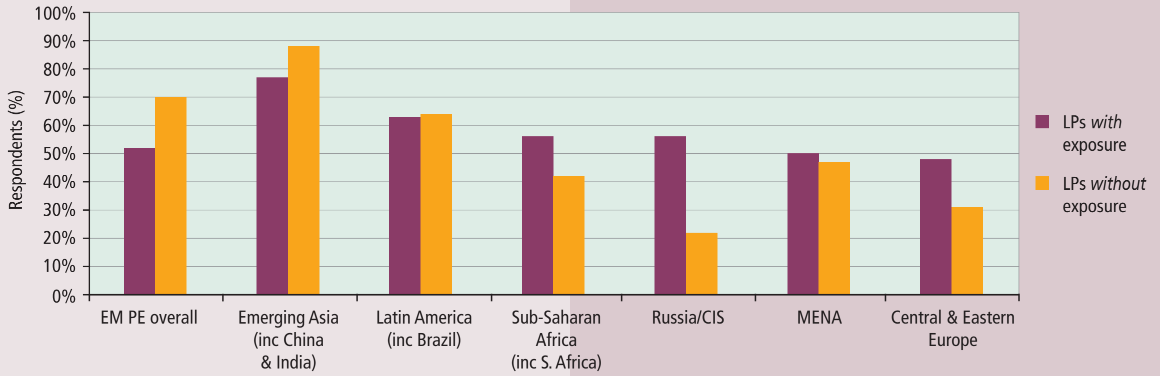
(Figure 6)

LPs have the highest return expectations for Emerging Asia PE funds

Over three quarters (78%) of all LPs – both those *with* and *without* EM PE exposure – expect annual net returns of 16%+ for Emerging Asia PE funds over the next 3-5 years. Nearly two-thirds (64%) of LPs expect this level of performance for Latin American funds.

As might be expected, investors' return expectations for an individual PE market vary depending on whether they do or do not have exposure to that market. Investors *without* exposure to Emerging Asia are even more optimistic than those *with* exposure, while those *without* exposure to CEE, Russia and Sub-Saharan Africa are more pessimistic – especially in the case of Russia.

Investors expecting annual net returns of 16%+ from different EM PE regions over the next 3-5 years

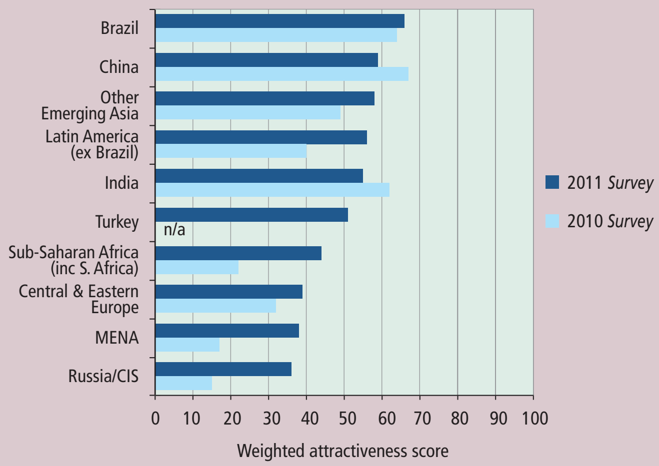


(Figure 7)

Brazil displaces China as the most attractive emerging market for GP dealmaking

In LPs' eyes, Brazil has leapfrogged China as the most attractive market for GP dealmaking in the next 12 months – and the rest of Latin America is also now viewed as significantly more attractive than it was a year ago. Nascent Asian PE markets are now perceived to be as attractive as China – a significant shift from a year ago.

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

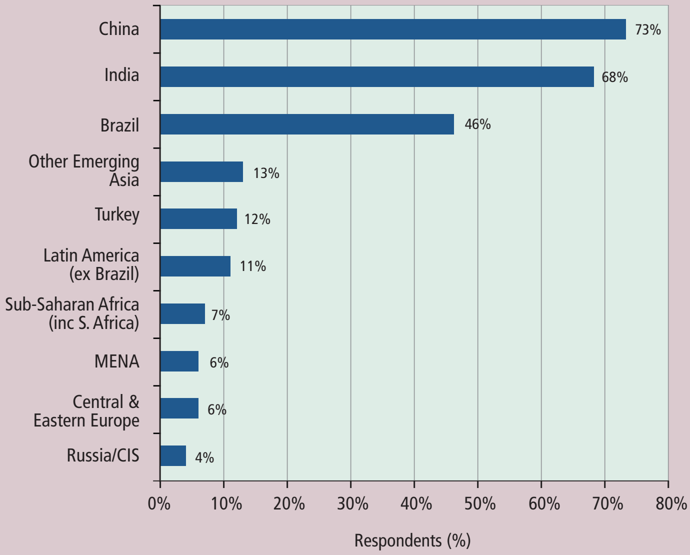


(Figure 8)

Investors expect to see the greatest competition for PE deals in China, India and Brazil

Almost three-quarters (73%) of LPs expect GPs seeking deals in China to experience intense competition over the next 12 months. Over two thirds (68% of LPs) believe GPs investing in India will face intense competition for deal flow.

Markets where GPs will face intense competition for deals in the next 12 months – LP views



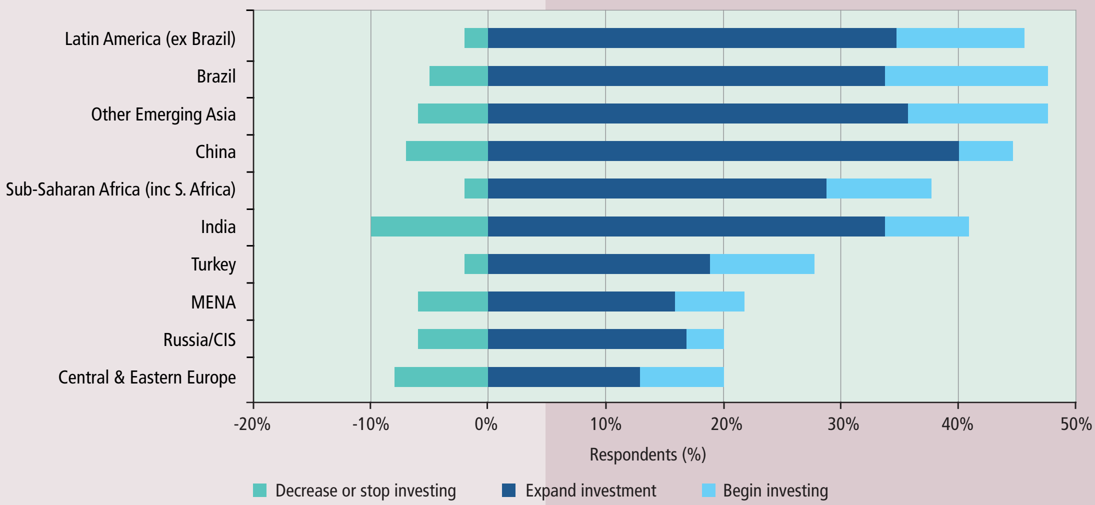
(Figure 9)

LP commitments to Latin American and Asian EM PE to grow strongly

As in the 2009 and 2010 *Surveys*, Brazil should see the largest increase in *new* investors in the next two years – 14% of EM PE investors expect to *begin* investing in Brazil, while one in ten (11%) expect to *begin* investing in the rest of Latin America.

Emerging PE markets in Asia will see the greatest *expansion* in commitments from existing investors in the next two years – 40% of LPs plan increased exposure to China, 34% to India, and 36% to Other Emerging Asian PE markets.

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



(Figure 10)

Deterrents to LP investment vary significantly by region and are market-specific

The small number of established GPs is the major deterrent to LP investment in several of the less-developed PE markets (Sub-Saharan Africa, the MENA region, Latin America (ex Brazil) and Other Emerging Asia).

Political risk is a major deterrent to investing in Russia, the MENA region and Sub-Saharan Africa. High entry valuations are the biggest hurdle for new investors in India, China and Brazil.

One-third of LPs indicated that cash constraints had been a major factor in deterring them from investing in EM PE markets where they had no commitments.

Factors likely to deter LPs from beginning to invest in individual emerging markets/regions over the next 2 years – % of respondents

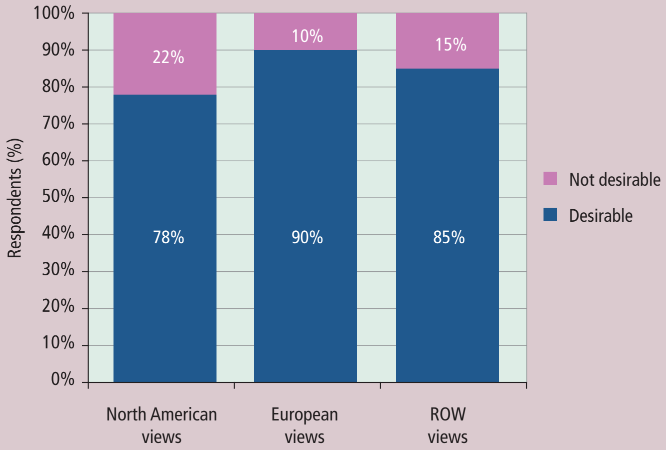
	Limited number of established GPs	Scale of opportunity to invest is too small	Entry valuations are too high	Weak exit environments	Challenging regulatory/tax issues	Political risk
China	7%	7%	45%	14%	31%	24%
India	14%	0%	58%	14%	8%	11%
Other Emerging Asia	38%	19%	4%	35%	12%	19%
Russia/CIS	25%	12%	2%	17%	30%	63%
Turkey	28%	23%	5%	12%	7%	12%
Central & Eastern Europe	19%	16%	5%	27%	11%	16%
Brazil	11%	3%	31%	11%	11%	3%
Latin America (ex Brazil)	32%	19%	16%	10%	10%	23%
MENA	39%	33%	2%	14%	12%	32%
Sub-Saharan Africa (inc S. Africa)	47%	24%	2%	14%	12%	39%

(Figure 11)

Local institutional investors participate in the majority of EM PE funds, and this is viewed favorably by non-local LPs

The large majority of LPs (84%) believe the participation of local LPs in an EM PE fund is advantageous. (Where LPs *were* wary, they saw potential misalignment of interests between local and non-local investors as the issue most likely to cause friction).

Desirability of local investors in EM PE funds – LP views



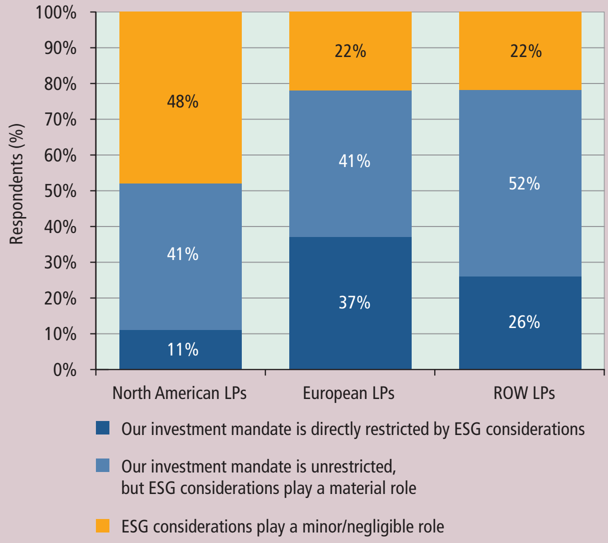
(Figure 12)

Investors see ESG issues as important investment criteria in EM PE

78% of LPs outside North America say environmental, social and governance (ESG) considerations materially impact their fund selection process. This compares with half (52%) of North American LPs.

More than one-third (37%) of European EM PE investors have their investment mandates directly restricted by ESG issues, compared with just one tenth (11%) of North American LPs and a quarter of LPs (26%) from outside Europe and North America.

Impact of environmental, social and governance (ESG) considerations on LPs' fund selection processes *



** Excludes Development Finance Institutions.*

(Figure 13)

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Respondent breakdown – 2011

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

About EMPEA

The Emerging Markets Private Equity Association (EMPEA) is an independent, non-profit, global industry association that catalyzes private equity and venture capital investment in the emerging markets of Africa, Asia, Europe, Latin America, and the Middle East. EMPEA's more than 290 members comprise a broad array of private equity fund managers, institutional investors and other key stakeholders in the industry, representing more than 50 countries and over US$900 billion in assets under management.

About Coller Capital

Coller 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.

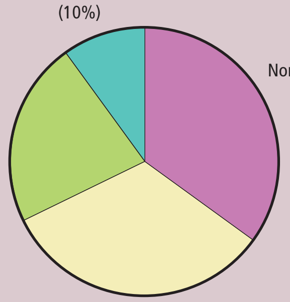
About the Survey

This marks the 7th edition of the annual *Survey* of LP interest in the asset class. Previous years' results are available at www.empea.net.

Research methodology

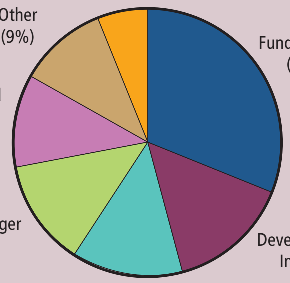
Research for the *Survey* was undertaken in January-February 2011 by IE Consulting, a division of Initiative Europe (Incisive Media), which has been conducting private equity research for over 20 years.

Respondents by region



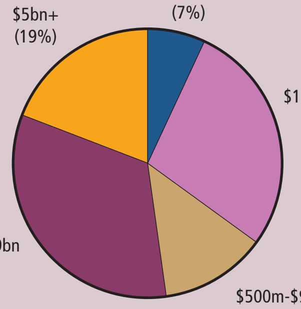
(Figure 14)

Respondents by type of organization



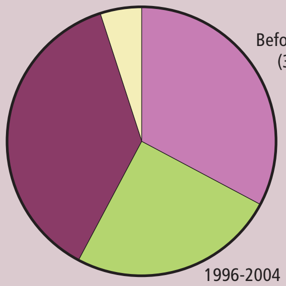
(Figure 15)

Respondents by total assets under management



(Figure 16)

Respondents by year in which they started to invest in EM PE



(Figure 17)

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