Global Limited Partners Survey

Investors' Views of Private Equity in Emerging Markets

2013

EMPEA
Emerging Markets Private Equity Association

About EMPEA

The Emerging Markets Private Equity Association (EMPEA) is an independent, global membership association whose mission is to catalyze the development of private equity and venture capital industries in emerging markets. **EMPEA's 300+ member firms** share the belief that private equity can provide superior returns to investors, while creating significant value for companies, economies and communities in emerging markets. Our members, **representing nearly 60 countries and more than US$1 trillion in assets under management,** include the leading institutional investors and private equity and venture capital fund managers across developing and developed markets. EMPEA leverages an unparalleled global industry network to deliver authoritative intelligence, promote best practices, and provide unique networking opportunities, giving our members a competitive edge for raising funds, making good investments and managing exits to achieve superior returns.

In support of its mission, EMPEA:

- Researches, analyzes and disseminates authoritative information on emerging markets private equity;
- Convenes meetings and conferences around the world to promote information exchange between leading fund managers and institutional investors;
- Offers professional development programs to enhance knowledge transfer; and,
- Collaborates with stakeholders from across the globe.

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2013 Global Limited Partners Survey Executive Summary

The Emerging Markets Private Equity Association (EMPEA) is pleased to present the 9th annual edition of our *Global Limited Partners Survey*, which aims to provide EMPEA Members and the broader industry with a greater understanding of how limited partners (LPs) view the emerging markets private equity (EM PE) asset class. This study examines LPs' plans for future investment, perceptions of individual markets and regions, factors important in the fund manager selection process, barriers to greater investment, and return expectations.

The findings of this Survey are based on data collected from 112 LPs from over 30 countries. Representing public and corporate pension funds, insurance companies, sovereign wealth funds, banks, asset managers, endowments, foundations, family offices, development finance institutions, multilateral organizations and funds of funds, these institutional investors collectively represent disclosed global private equity assets under management of nearly US$430 billion and undrawn commitments of over US$180 billion.

Nearly 70% of the respondents have been investing through private equity vehicles in emerging markets for more than five years, while the remaining 30% are either newer entrants into the EM PE asset class or have never invested in an EM PE fund.

Key findings from the 2013 Global Limited Partners Survey include:

1 – EM PE Commitments Growing at a Slower Pace as Limited Partners Approach Their Allocation Targets

While LPs remain committed to investing in the EM PE asset class, there appears to be a slowing pace of new commitments as LPs near their allocation targets. While the majority of LPs (nearly 60%) expect the dollar value of their EM PE commitments to increase over the next two years, most do not plan to change the overall percentage of their institutions' current global private equity allocation directed at EM PE funds—suggesting that much of the anticipated increase in commitments will be in line with the broader growth of private equity portfolios.

2 – Sub-Saharan Africa Leads a New Tier of Emerging Markets, Displacing the BRICs as Most Attractive

For the first time in the Survey's nine-year history, none of the BRIC markets broke the top three most attractive markets for GP investment as viewed by LPs. Sub-Saharan Africa took the lead spot for the first time—jumping from 5th place in last year's Survey, and followed by Southeast Asia and Latin America excluding Brazil.

3 – Non-BRIC Markets Poised to See the Greatest Increase in PE Commitments

Nearly 54% of all LPs surveyed plan to begin or expand investment in Sub-Saharan Africa, 49% in Southeast Asia and 46% in Latin America excluding Brazil. Sub-Saharan Africa is likely to see the greatest amount of new investor interest with 19% of LPs planning to begin investing in the region over the next two years, followed by Turkey and Southeast Asia.

4 – LPs Remain Bullish on EM Outperformance vs. Developed Markets But Have Lowered Expectations

Institutional investors anticipate that private equity in emerging markets will outperform developed markets, with 61% of LPs expecting net returns of 16% or more from their EM PE portfolios versus 27% who expect similar results from their developed market counterparts. However, investors appear to be slightly less bullish overall relative to last year's Survey respondents.

5 – Funds Focused on Southeast Asia and Sub-Saharan Africa Expected to Deliver the Highest Net Returns

Return expectations for most emerging markets have dropped slightly year-on-year, suggesting a more measured attitude toward the EM PE asset class. Limited partners have the highest net return expectations for funds focused on Southeast Asia, with 68% anticipating returns of 16% or more. Slightly less than 60% of LPs have similar return expectations of Sub-Saharan Africa-focused funds.

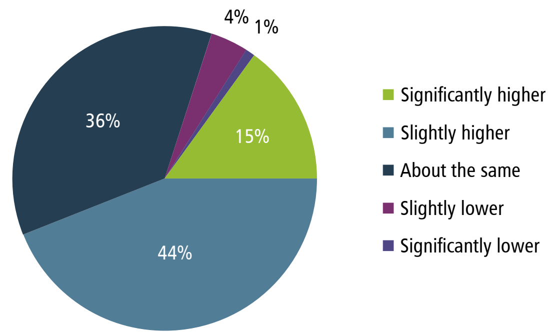
6 – Political Risk Remains Primary Deterrent to EM PE Investing But Less Pronounced Barriers Overall

Political risk is a less pronounced barrier overall but remains the primary deterrent to greater private equity investment in emerging markets. The percentage of LPs citing this as a key concern for most markets has declined—60% of LPs believe political risk to be an inhibitor with regard to investing in Russia/CIS (versus 73% in the prior year); 50% in MENA (versus 63%); and 36% in Sub-Saharan Africa (versus 66%).

EM PE Commitments Growing at a Slower Pace as Limited Partners Approach Their Allocation Targets

The majority of LPs (nearly 60%) expect the dollar value of their new private equity commitments to emerging markets to increase over the next two years, with 15% planning to significantly increase commitments. However, a greater percentage of respondents expect to maintain their current level of EM PE commitments in comparison to last year's Survey (36% versus 17%), suggesting that many institutional investors are approaching their target level of exposure. This marks the reversal of a trend seen since 2009 toward increasing commitments by a growing number of LPs.

Exhibit 1: LPs' Anticipated Level of New Commitments to EM PE Over the Next 2 Years*



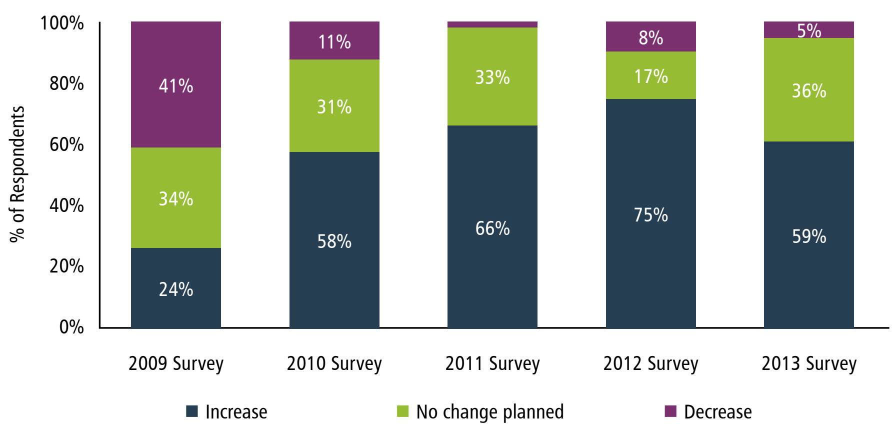
*Excludes development finance institutions and EM-focused funds of funds.

Funds of funds and public pension funds were the institutions with the greatest representation among all institutional investors planning to increase commitments. The top three reasons cited for increasing private equity commitments were: the desire to grow total private equity commitments inclusive of emerging markets; the search for greater exposure to high-growth economies; and, growing comfort with the skills and experience of EM PE-focused fund managers.

For those few institutions that plan to decrease commitments, the majority noted that that they have either met their portfolio goals or that they have less cash overall to deploy to new funds. Of those institutions that are unsure as to whether they will begin investing in the EM PE asset class, most cited limited staff resources to evaluate and identify EM PE opportunities as their greatest obstacle.

> "Emerging markets provide better opportunities for investment."
> — Asset Manager

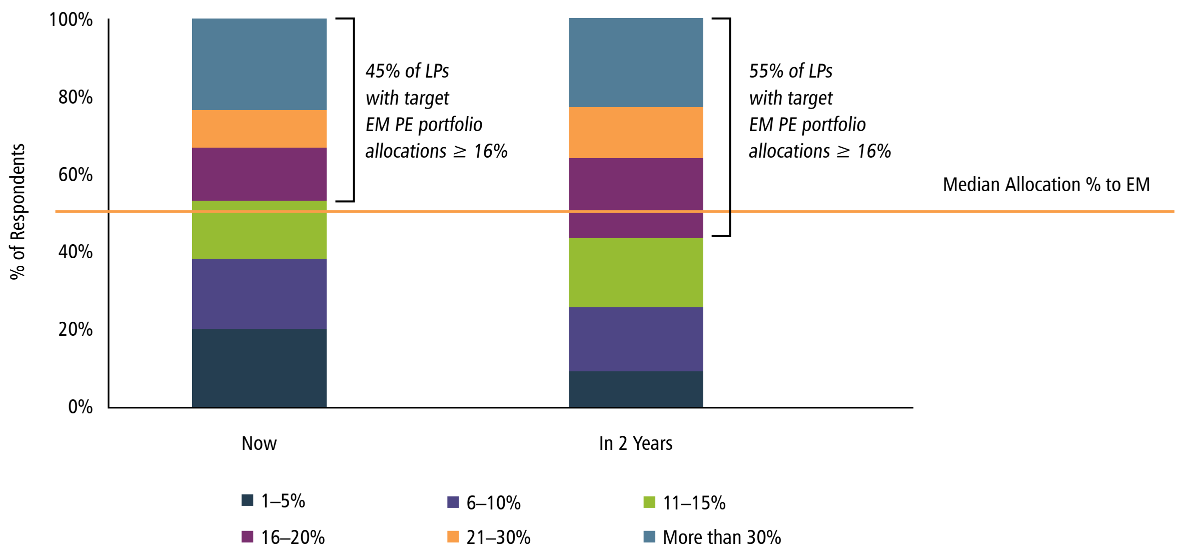
Exhibit 2: Anticipated Level of New Commitments to EM PE Funds Over the Next Two Years, 2009–2013*



*Excludes development finance institutions and EM-focused funds of funds.

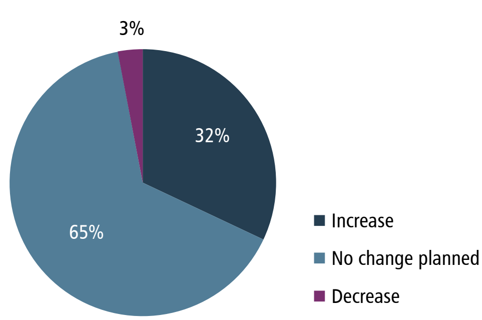
More than 32% of limited partners indicated plans to increase the percentage of their EM PE portfolios, resulting in the median investor having 16–20% of their private portfolio targeting emerging markets in two years—up from 11–15% today. Nearly all of the remaining LPs surveyed noted that they do not plan to change the overall percentage of their institutions' current global private equity allocation directed at EM PE funds, suggesting that much of the anticipated increase in commitments flowing to EM PE funds will be in line with the broader growth of an institutional investor's private equity portfolio.

Exhibit 3: LPs' Proportion of Total PE Allocation Targeted at EM PE*



*Excludes development finance institutions and EM-dedicated funds of funds.

Exhibit 4: LPs' Planned Changes to Proportion of Total PE Allocation Targeted at EM PE Over the Next Two Years*

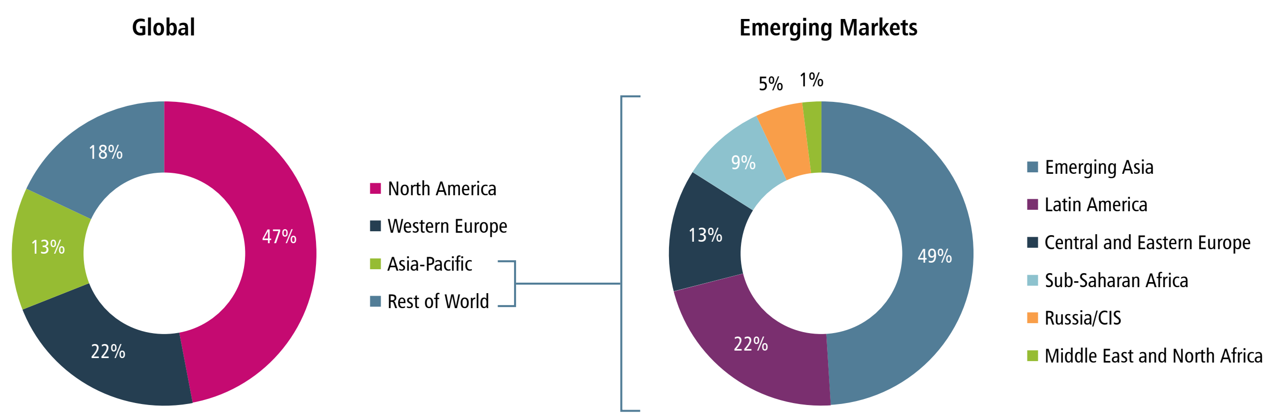


*Excludes development finance institutions and EM-dedicated funds of funds.

Sub-Saharan Africa Leads a New Tier of Emerging Markets, Displacing the BRICs as Most Attractive

The typical private equity portfolio of a surveyed limited partner (excluding development finance institutions and emerging markets-focused funds of funds) is predominantly focused on North America (47% of committed capital), followed by Western Europe (22%). Within emerging market private equity portfolios, Emerging Asia represents the bulk of committed capital (49%), followed by Latin America (22%) and Central and Eastern Europe (13%).

Exhibit 5: Disclosed Distribution of Current Committed Capital



Looking forward, signs suggest that LPs will not only increase their private equity exposure to emerging markets overall but also gradually diversify across a broad array of regions and countries based on perceived attractiveness. For the first time in the *Global Limited Partners Survey*'s nine-year history, none of the BRIC markets broke the top three most attractive markets. These findings may indicate a maturation of EM PE portfolios as LPs who initially built their emerging markets exposure via investments in the BRICs now seek the next wave of growth.

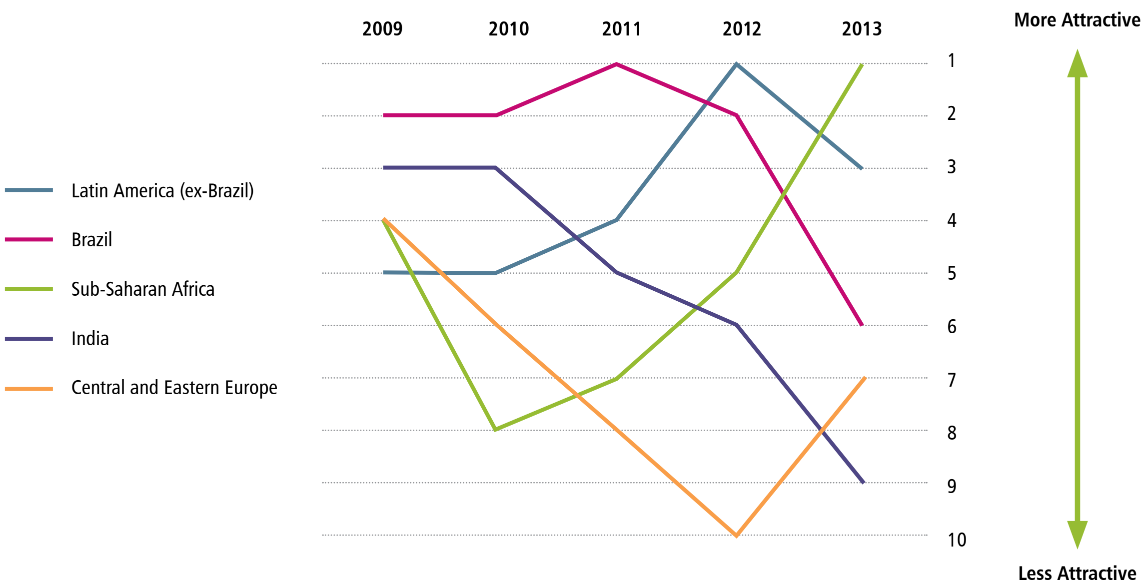
Exhibit 6: The Attractiveness of Emerging Markets for GP Investment Over the Next 12 Months – LP Views

	Overall Ranking		
	2013	2012	2011
Sub-Saharan Africa	1	5	7
Southeast Asia*	2	4	2=
Latin America (ex-Brazil)	3	1	4
China	4	3	2=
Turkey	5	7	6
Brazil	6	2	1
Central and Eastern Europe	7	10	8
Russia/CIS	8	8	10
India	9	6	5
Middle East and North Africa	10	9	9

*Classified as "Other Emerging Asia" in 2011, 2012.

Sub-Saharan Africa took the lead spot for the first time—a significant jump from its 5th place ranking in last year's Survey. Other leaders in the attractiveness rankings were Southeast Asia (up from 4th place to 2nd) and Latin America excluding Brazil (down 3rd from 1st). At the other end of the spectrum, India continued its downward slide, falling from 6th to 9th place, while the Middle East and North Africa region dropped to last place. Brazil has seen the greatest fall in recent years since being ranked as the most attractive market for investment in 2011.

Exhibit 7: Market Attractiveness Rankings, Greatest Shifts 2009–2013



LPs view Sub-Saharan Africa as very attractive because:

"…of the increase in fund managers with a track record, significant investment opportunities, the dynamic of low entry valuations, and fast-growing markets."

"…Africa is the last frontier. Demographic, economic and regulatory trends in the region are all positive."

LPs view Southeast Asia as very attractive because:

"…of its large markets and limited competition—particularly in the lower/mid-market."

LPs view Latin America (excluding Brazil) as very attractive because:

"…of the expansion of the middle class, the low penetration rate of PE investments, and lower valuations than in Brazil."

"…high-growth sectors in these regions are under-represented in the public sectors and are accessible through private market investing."

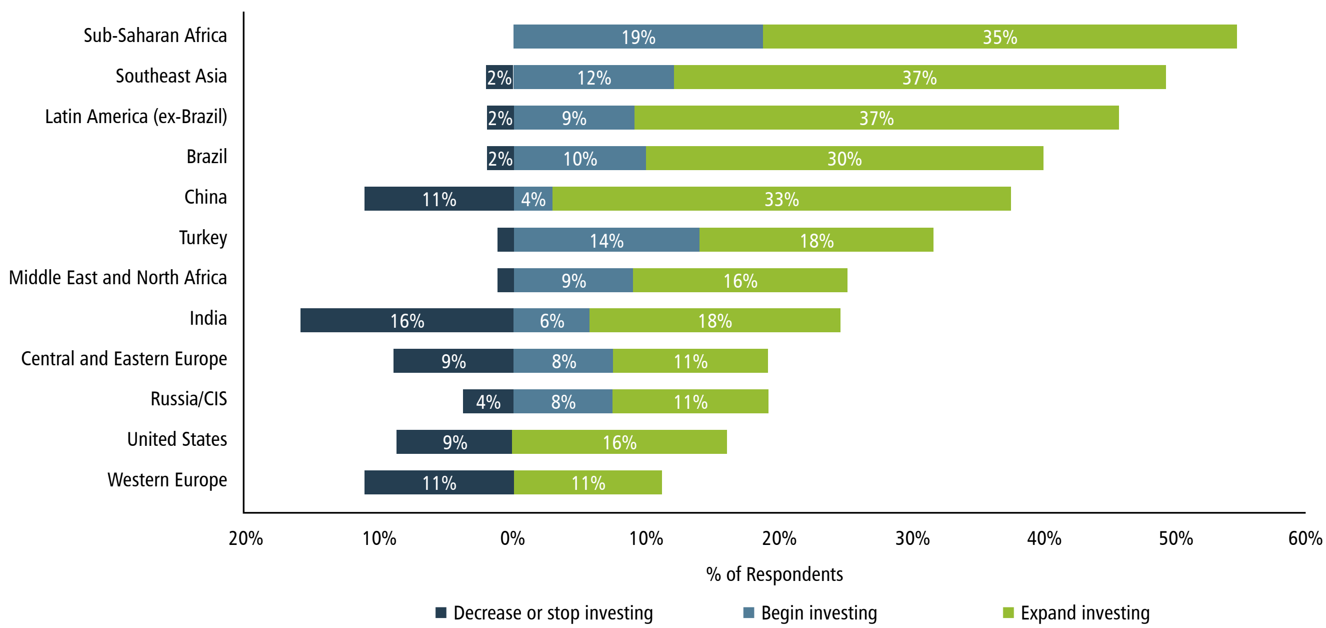
> "These markets (Sub-Saharan Africa, Southeast Asia and Latin America) are very attractive because of the growth and greater pool of managerial talent, the development of local capital markets, and the ability to build on lessons learned."
>
> — Fund of funds

Non-BRIC Markets Poised to See the Greatest Increase in PE Commitments

Limited partners plan to increase commitments over the next two years to a number of the non-BRIC markets ranked as most attractive for GP investment. Nearly 54% of all LPs surveyed plan to begin or expand investment in Sub-Saharan Africa, 49% in Southeast Asia and 46% in Latin America excluding Brazil.

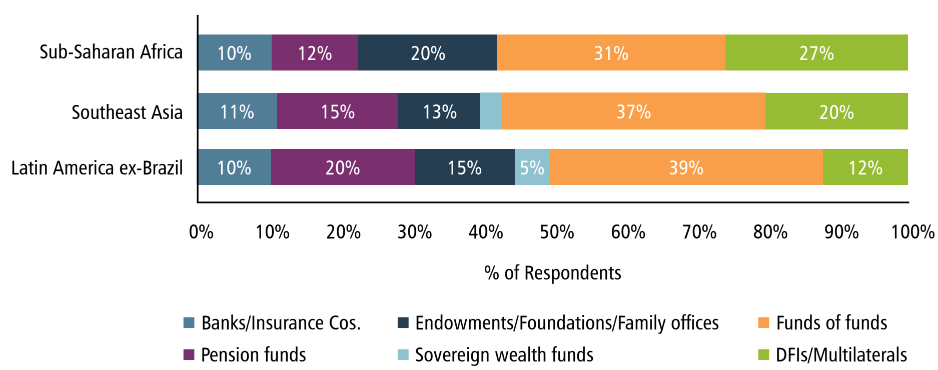
Sub-Saharan Africa is likely to see the greatest amount of new investor interest with 19% of LPs planning to begin investing in the region over the next two years, followed by Turkey (14%) and Southeast Asia (12%). New interest in Brazil has tapered off in comparison to 2012 and 2011, perhaps tied to exposure gained by investors during Brazil's recent fundraising boom. India is poised to see the greatest decline in investment with 16% of LPs planning to decrease or stop investing in the market.

Exhibit 8: LPs' Planned Changes to Their EM PE Investment Strategy Over the Next 2 Years



LPs looking to enter or expand into Sub-Saharan Africa, Southeast Asia, and Latin America excluding Brazil represent a diverse mix of institution types.

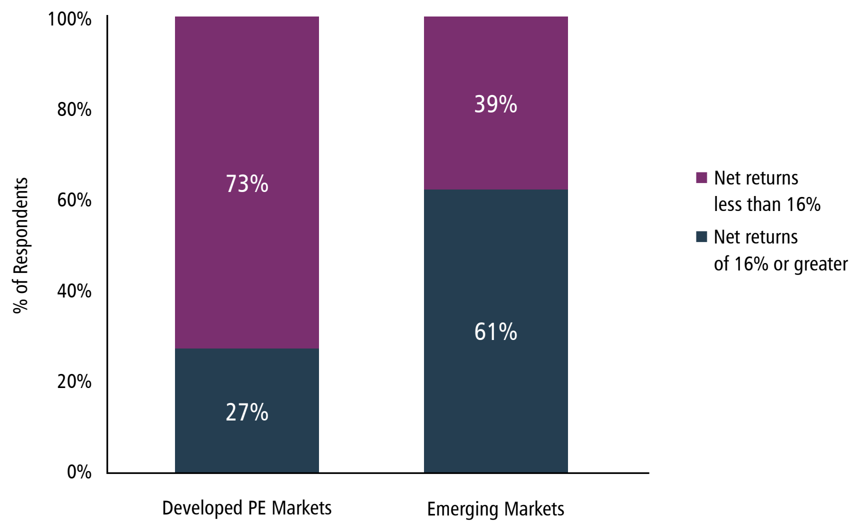
Exhibit 9: LPs Planning to Begin or Expand Investment in Select Markets by Institution Type



LPs Remain Bullish on EM Outperformance vs. Developed Markets But Have Lowered Expectations

Institutional investors anticipate private equity in emerging markets will outperform developed markets, with 61% of LPs expecting net returns of 16% or more from their EM PE portfolios versus 27% who expect similar results from their developed market counterparts. However, investors appear to be slightly less bullish overall relative to last year's Survey respondents—72% of whom expected returns of 16% or more from their EM PE portfolios.

Exhibit 10: LPs' Annual Net Return Expectations for Developed Market vs. Emerging Market PE Portfolios in the Next 3–5 Years



LPs believe private equity in emerging markets will outperform developed markets due to:

"…stronger demographics, higher growth rates, growing consumer markets, inter-emerging market trade linkages, underinvestment and lack of competition."

"…the improving state of private equity industries in the emerging markets."

"…there are greater inefficiencies in emerging markets, which is good for PE; there is greater scope to improve businesses."

" Well managed EM PE funds will outperform developed PE funds because growth will not come from developed countries in the years to come. There are still many untapped opportunities in the developing world that will drive this growth."

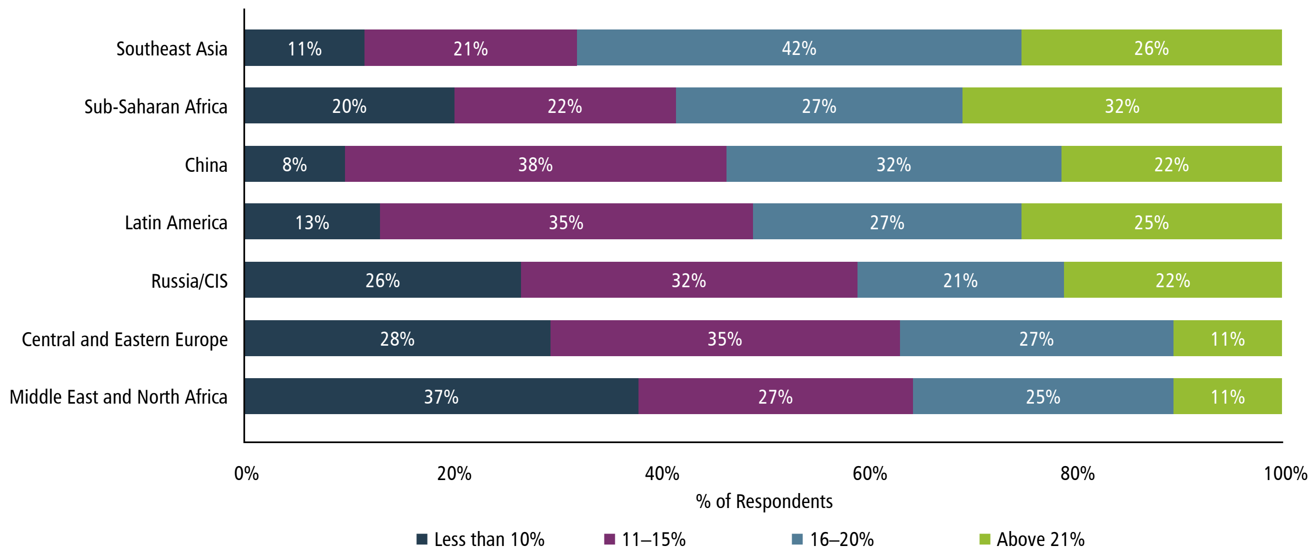
— Fund of funds

Funds Focused on Southeast Asia and Sub-Saharan Africa Expected to Deliver the Highest Net Returns

While return expectations for most emerging markets have dropped slightly year-on-year, suggesting a more measured attitude toward the EM PE asset class, LPs continue to have high hopes for 2012-vintage funds.

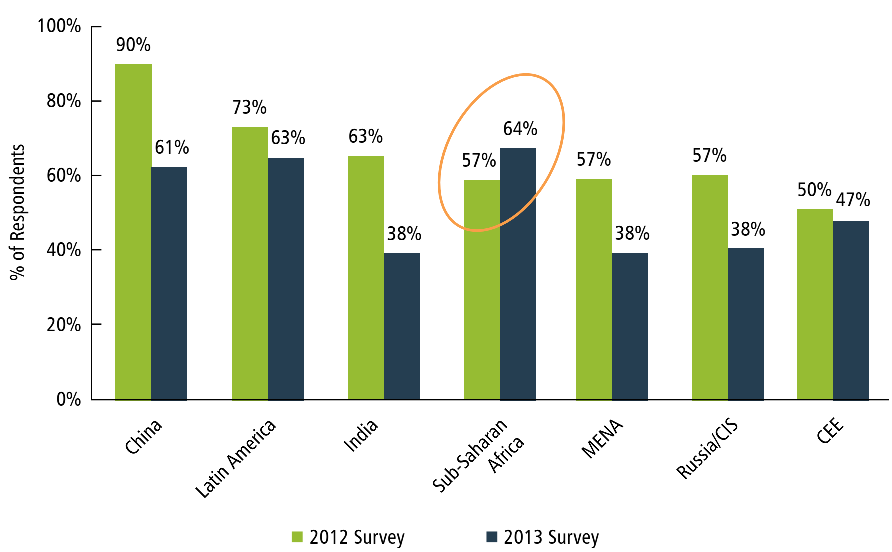
Limited partners have the highest net return expectations for funds focused on Southeast Asia, with 68% anticipating returns of 16% of more. Slightly less than 60% of LPs have similar return expectations of Sub-Saharan Africa-focused funds. China continues to be viewed relatively favorably with 54% of LPs expecting returns of 16% or more; however, this is a drop from the 76% of LPs who had similar return expectations last year while ranking the market as having the highest returns potential.

Exhibit 11: Distribution of Net Return Expectations From 2012-Vintage Funds for Select Markets



Most LPs have adjusted their return expectations downward for nearly all emerging market regions and countries to which they have exposure year-on-year. The one exception is Sub-Saharan Africa where 64% of investors with exposure anticipate net returns of 16% or more versus 57% who indicated the same expectations last year.

Exhibit 12: Net Return Expectations of 16% or More for Select Markets by Investors with Exposure, 2012 vs. 2013



Political Risk Remains Primary Deterrent to EM PE Investing But Less Pronounced Barriers Overall

Political risk is a less pronounced barrier overall but remains the primary deterrent to greater private equity investment in emerging markets. However, the percentage of LPs citing this as a key concern for most markets has declined—60% of LPs believe political risk to be an inhibitor with regard to investing in Russia/CIS (versus 73% in the prior year); 50% in MENA (versus 63%); and 36% in Sub-Saharan Africa (versus 66%).

Sub-Saharan Africa also registered a decrease in the percentage of LPs who believe that there are too few GPs with track records operating in the region in comparison to last year's Survey (36% versus 50%). Nonetheless, the perception of too few established GPs remains an inhibitor to private equity investment in Sub-Saharan Africa as well as other emerging market regions that LPs view as most attractive—Southeast Asia and Latin America excluding Brazil.

Waning interest in Brazil, China and India may be attributable to an oversupply of funds resulting in too much competition, which was cited as a factor likely to deter investors from entering these markets. Limited partners also expressed concern over high entry valuations in India (49%) and, to a lesser extent, Brazil (26%).

Exhibit 13: Factors Likely to Deter LPs from Beginning to Invest in Individual Emerging Markets/ Regions Within the Next 2 Years*

	Limited number of established GPs	Oversupply of funds/too competitive	Scale of opportunity to invest is too small	Entry valuations are too high	Weak exit environments	Challenging regulatory/ tax issues	Prefer exposure via other asset classes	Political risk
China	3%	30%	5%	13%	13%	23%	15%	20%
India	6%	37%	6%	49%	33%	27%	22%	16%
Southeast Asia	37%	7%	20%	10%	3%	7%	23%	10%
Russia/CIS	18%	0%	10%	2%	8%	32%	22%	60%
Turkey	24%	6%	6%	12%	3%	12%	33%	30%
Central/Eastern Europe	18%	3%	21%	8%	13%	15%	21%	28%
Brazil	6%	35%	0%	26%	0%	0%	23%	10%
Latin America (ex-Brazil)	36%	7%	7%	7%	4%	0%	21%	21%
MENA	36%	2%	30%	4%	11%	16%	11%	50%
Sub-Saharan Africa	36%	0%	33%	2%	19%	17%	14%	36%

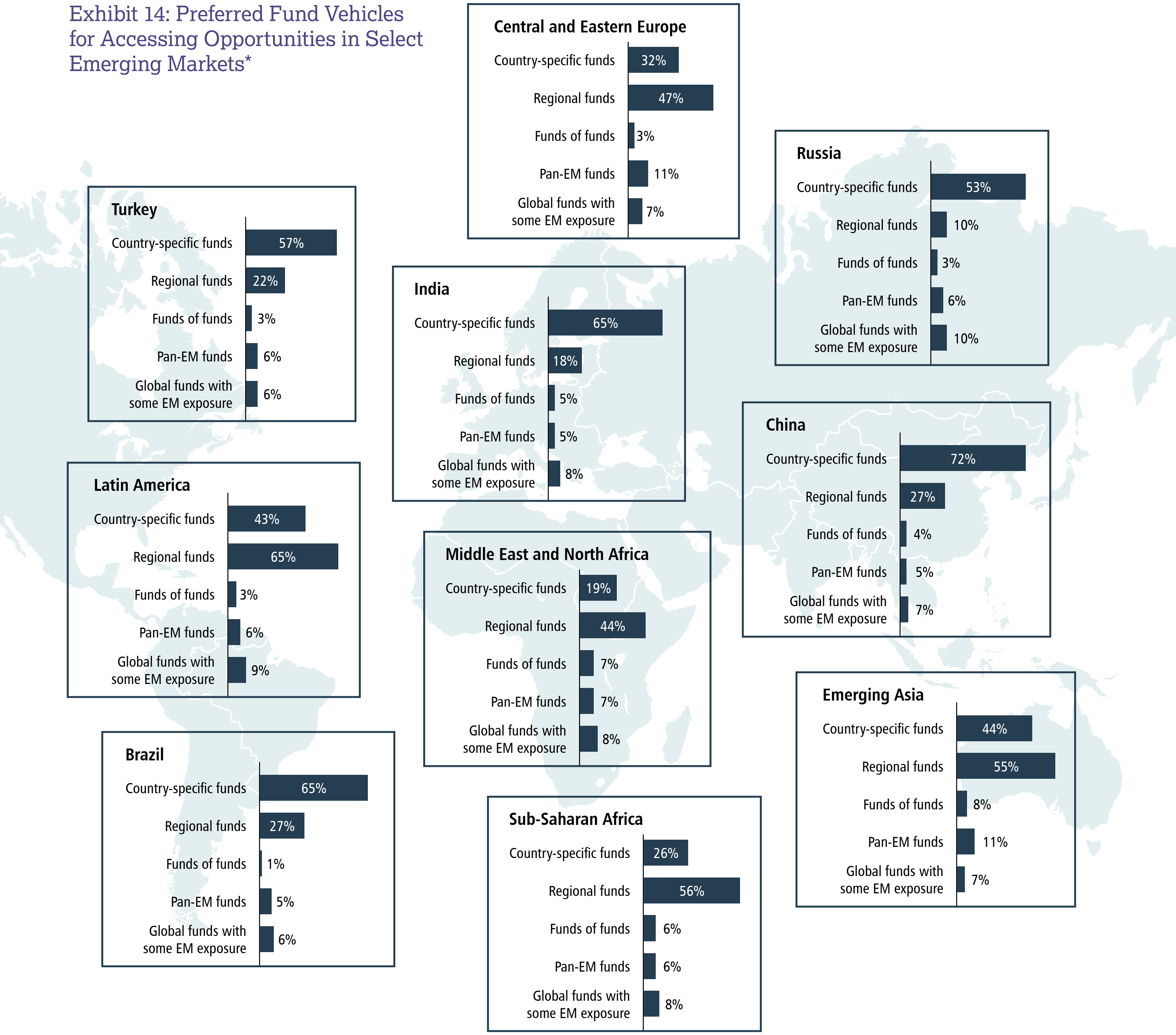
*Indicates percentage of respondents answering for each region/market.

Institutional Investors Value a Variety of Fund Vehicles

Limited partners favor country-dedicated funds for the BRICs plus Turkey. Regional funds are most likely to be preferred by LPs seeking to enter a number of markets that they have indicated to be of interest—Sub-Saharan Africa, Southeast Asia and Latin America (excluding Brazil).

Pan-emerging market funds and global funds were consistently of less interest to LPs across all emerging market regions.

Exhibit 14: Preferred Fund Vehicles for Accessing Opportunities in Select Emerging Markets*

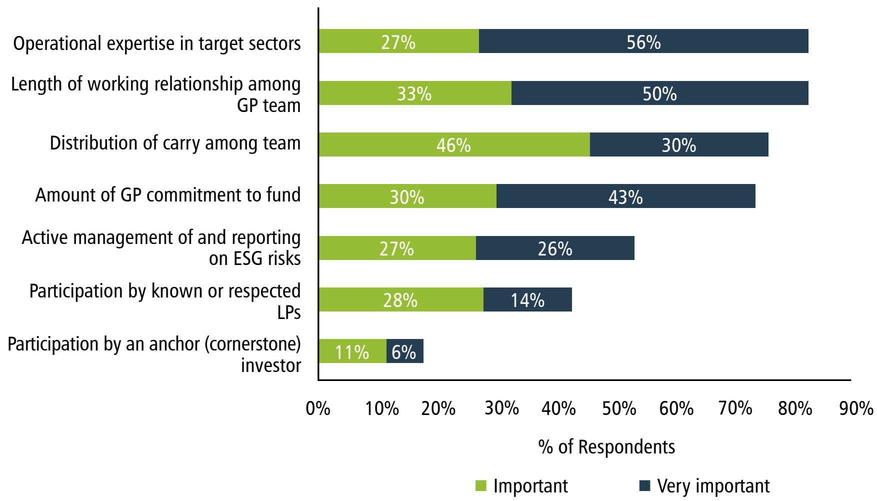


*Indicates percentage of respondents answering for each region/market.

Fund Manager Selection

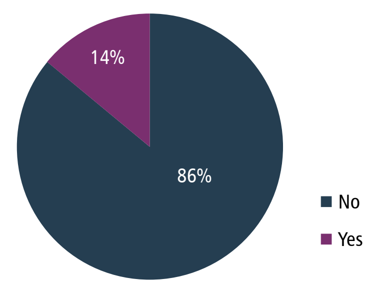
When evaluating an EM PE fund manager, LPs view with greatest importance the GP's operational expertise in target sectors and the length of the working relationship among members of the GP team. LPs are least concerned about the presence of an anchor investor and the names of the other LPs in a fund.

Exhibit 15: Important Factors in Evaluating an EM PE Fund Manager



The majority of LPs (86%) do not use consultants or gatekeepers. Public pension funds and smaller institutions with assets under management of US$400 million or less were most representative among those firms using these types of intermediaries.

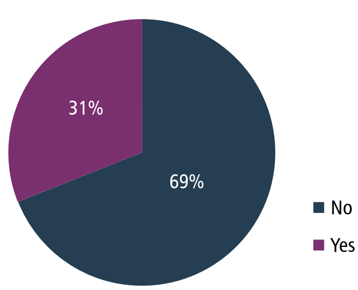
Exhibit 16: Does your institution use consultants/gatekeepers to invest in PE?



Outlook

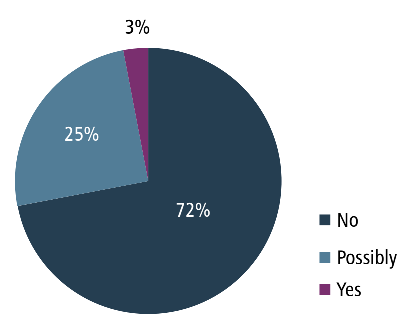
Nearly 70% of LPs seek co-investment opportunities with EM PE funds. When EMPEA last asked this question in the 2008 Survey, only half of LPs expressed interest in co-investments with their emerging market GPs.

Exhibit 17: Does your institution seek co-investment opportunities with EM PE funds?



The majority (72%) of LPs surveyed do not plan to sell any existing EM PE interests in the secondaries market over the next 12 months. Only 3% plan to do so with another 25% considering the possibility.

Exhibit 18: In the next 12 months, are you likely to sell any of your existing EM PE interests in the secondaries market?



Respondent Profile and Survey Definitions

Between February and April 2013, EMPEA surveyed 112 LPs from over 30 countries, representing a diverse mix of public and corporate pension funds, insurance companies, sovereign wealth funds, banks, asset managers, endowments, foundations, family offices, development finance institutions, multilateral organizations and funds of funds. These institutional investors collectively represent disclosed global private equity assets under management of nearly US$430 billion and undrawn commitments of over US$180 billion.

Exhibit 19: Respondents by Headquarters

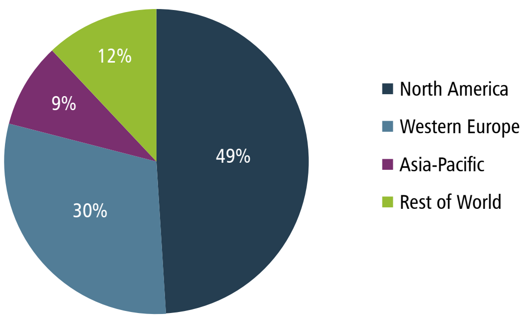
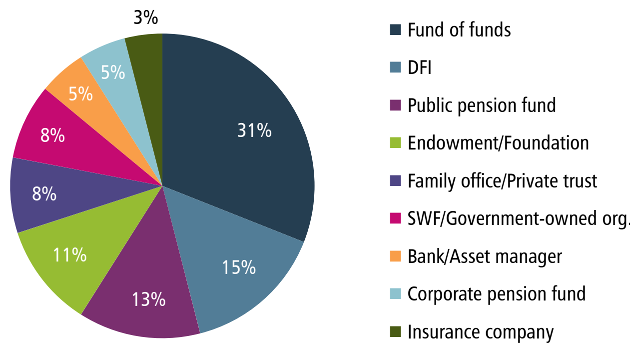


Exhibit 20: Respondents by Type of Organization



Prior editions of the annual *Global Limited Partners Survey* are available at www.empea.org.

Survey Definitions

"Emerging markets" (abbreviated to "EM") encompasses the private equity markets of all countries outside of the United States, Canada, Western Europe, Japan, Australia and New Zealand. "Emerging Asia" encompasses all of Asia excluding funds whose primary investment focus is Japan, Australia and New Zealand.

"Private equity" (abbreviated to "PE") encompasses leveraged buyouts, growth capital, venture capital and mezzanine investments.

"Emerging markets private equity" (abbreviated to "EM PE") funds encompasses PE funds that principally target investments in emerging markets.

Our
300+ member firms represent nearly **60 countries** and over **US$1 trillion** in assets under management.

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EMPEA Professional Development Webcast
Presented with Debevoise & Plimpton LLP
25 June 2013
10:00 Washington/15:00 London/22:00 Hong Kong

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Presented with AZB & Partners, Berchwood Partners and Debevoise & Plimpton LLP
10 June 2013
Mumbai, The Four Seasons

Private Equity in Emerging Markets
Hosted by EMPEA and FT Live
15 October 2013
London, Intercontinental Park Lane

Private Equity in Africa
Hosted by EMPEA and FT Live
16 October 2013
London, Intercontinental Park Lane

EMPEA

Emerging Markets Private Equity Association

Founded in 2004 by a handful of visionaries at the heart of the emerging markets private equity and venture capital industry, EMPEA is an independent, global membership association whose mission is to catalyze private equity and venture capital investment in emerging markets.

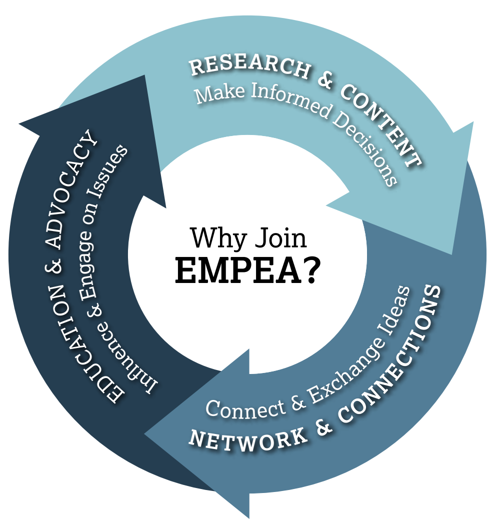
EMPEA's 300+ member firms share the belief that private equity can provide superior returns to investors, while creating significant value for companies, economies and communities in emerging markets. Our members include the leading institutional investors and private equity and venture capital fund managers across developing and developed markets.

EMPEA leverages an unparalleled global industry network to deliver authoritative intelligence, promote best practices, and provide unique networking opportunities. Whether it is an LP choosing an investment location and fund manager, or a GP seeking new sources of capital, EMPEA creates opportunities for members to succeed in a highly competitive investment environment.

A different type of private equity and venture capital association

- Global Approach
- Authoritative Research
- World-Class Network
- Industry Voice

For more information about EMPEA, visit www.empea.org or contact Kyoko Terada at teradak@empea.net or +1.202.333.8171.



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