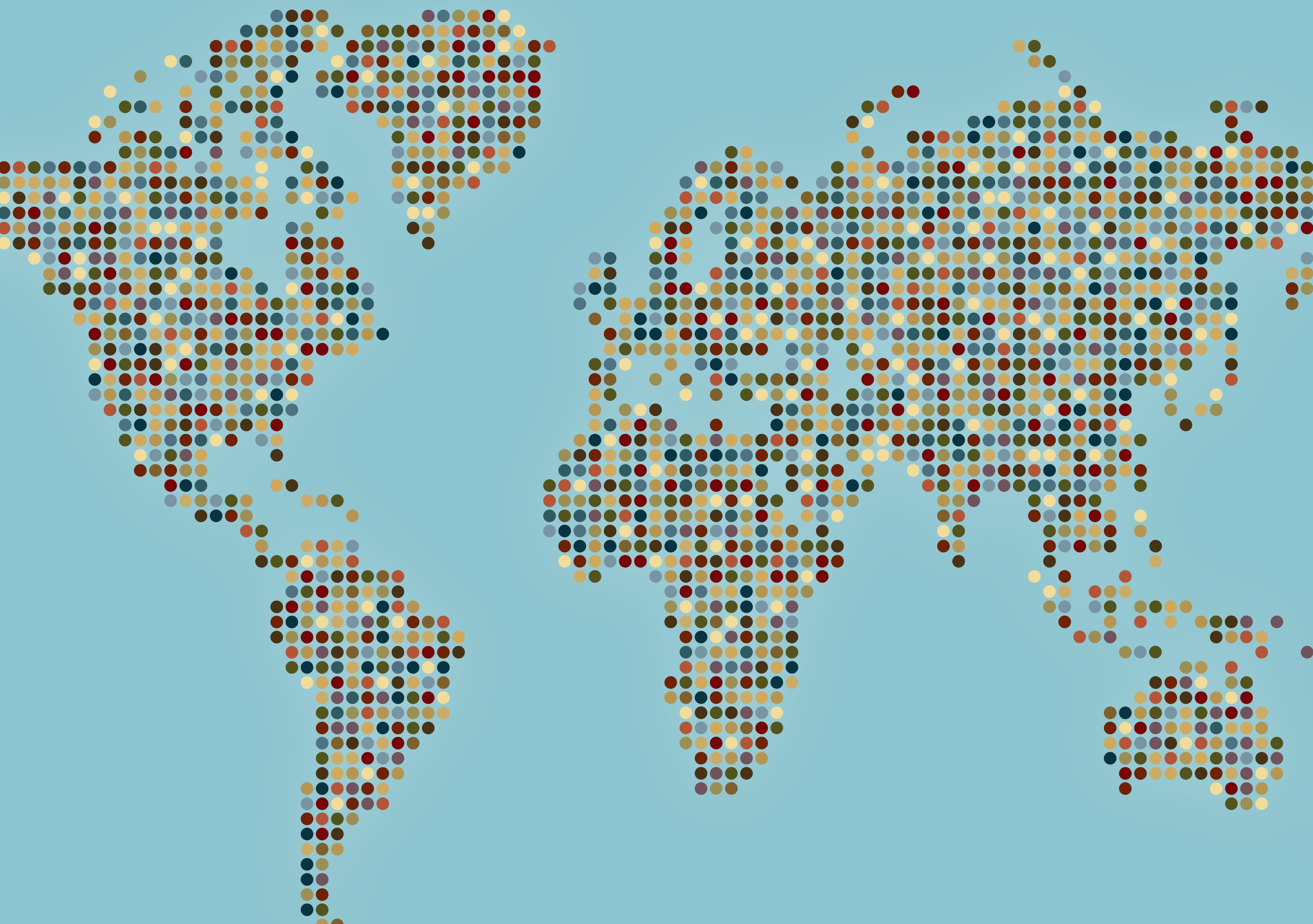
Global Limited Partners Survey

Investors' Views of Private Equity in Emerging Markets

2014



EMPEA

About EMPEA

EMPEA is *the* global industry association for private capital in emerging markets. We are an independent non-profit organization. As EMPEA celebrates our 10th anniversary in 2014, we have over 300 member firms, comprising institutional investors, fund managers and industry advisors, who together manage more than US$1 trillion of assets and have offices in more than 100 countries across the globe. Our members share EMPEA's belief that private capital is a highly suited investment strategy in emerging markets, delivering attractive long-term investment returns and promoting the sustainable growth of companies and economies. We support our members through global authoritative intelligence, conferences and events, networking, education and general and regulatory advocacy.

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2014 Global Limited Partners Survey Executive Summary

This edition of EMPEA's *Global Limited Partners Survey* marks our 10th year of analyzing limited partners' views on the private equity (PE) asset class in emerging markets (EM). From the 22 limited partners (LPs) participating in the inaugural 2004 survey to the 106 LPs responding to this year's questionnaire, the study demonstrates the growth of emerging markets private equity over the past decade and continues to reveal how LP sentiment on EM PE has evolved; LPs' plans for investment; which markets they view as attractive or unattractive, and why; perceived deterrents to investing; and return expectations for the asset class.

The findings of this survey are based on data collected from 106 LPs headquartered across 30 countries and representing a diverse set of investors, including public and corporate pension funds, insurance companies, banks, asset managers, sovereign wealth funds, endowments, foundations, family offices, development finance institutions and funds of funds. The institutions taking part in this survey collectively represent global private equity assets under management of more than US$680 billion.

Key findings from the 2014 Global Limited Partners Survey include:

41% of LPs* plan to increase the percentage of their total PE allocation targeted at emerging markets over the next two years, higher than the 32% reporting similar intentions in the 2013 survey.

54% of LPs* expect to increase the dollar value of new commitments to EM PE funds over the next two years—a smaller percentage than in 2012 (75%) and in 2013 (60%). A bulk of LPs attribute the increase to their growing global PE portfolios, including the portion directed at emerging markets.

67% of institutional investors view the risk profile of private equity in emerging markets as unchanged over the past year, suggesting that LPs remain relatively unfazed by recent volatility.

78% of respondents assess their EM PE portfolio performance as having met or exceeded expectations for the asset class, compared with 22% who consider their EM PE portfolios as having underperformed.

57% of LPs expect net returns of 16% or more from their EM PE portfolios versus 38% of LPs who expect similar results from their developed market counterparts. Compared to last year's survey, this finding marks a downward adjustment for emerging markets and corresponds to more bullish expectations for developed markets.

China and Latin America (ex. Brazil) funds have the highest return expectations among LPs, with 61% and 56% of respondents, respectively, expecting net returns of 16% or higher for 2013-vintage vehicles.

Non-BRIC markets retain the top three spots as the most attractive markets for GP investment for the second year in a row. Latin America (ex. Brazil) regains the lead after it was displaced by Sub-Saharan Africa in last year's survey. Southeast Asia and Sub-Saharan Africa round out the top three.

Southeast Asia is poised to see the greatest influx of new investors over the next two years, while 32% of LPs already active in the region and 31% already active in Latin America (ex. Brazil), plan to expand their current commitments in those markets.

Political risk remains the primary deterrent for LPs to begin investing in certain emerging markets, including Russia/CIS, Turkey and the Middle East and North Africa (MENA). For Southeast Asia, Latin America (ex. Brazil) and Sub-Saharan Africa, LPs express concern over the limited number of established fund managers.

Growth capital fund strategies continue to remain a focus for investors, with 50% of LPs indicating plans to expand EM commitments to these vehicles over the next two years, followed by 36% of respondents expecting to increase commitments to buyout funds.

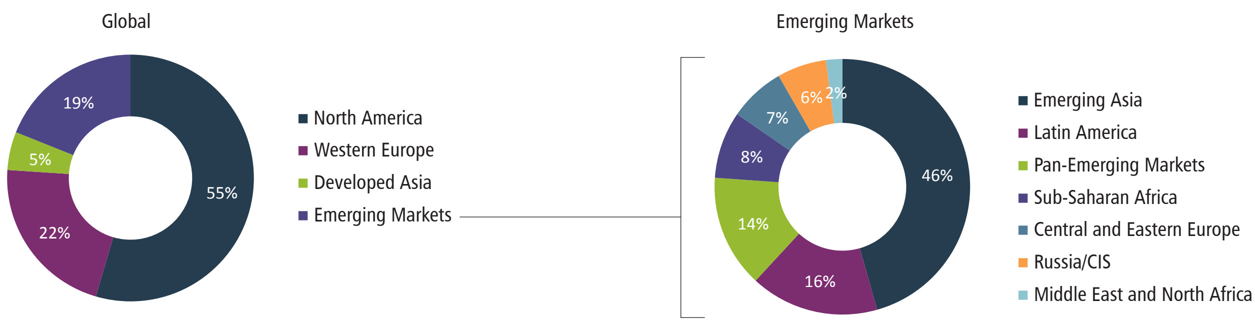
**Excludes development finance institutions and EM-focused funds of funds.*

Majority of LPs Plan to Maintain or Increase PE Allocation Targets to EM Over the Next Two Years

According to EMPEA, emerging markets private equity fundraising fell 19% from 2012 to 2013 and accounted for 12% of global private equity fundraising in 2013, compared with 21% in 2012. The United States and Western Europe, on the other hand, both reached their highest fundraising levels since the 2008 global financial crisis. For the typical private equity portfolio of a surveyed LP (excluding development finance institutions and emerging markets-focused funds of funds), North America and Western Europe, together, comprise 77% of current capital commitments, while emerging markets comprise approximately 19% of the portfolio.

Commitments to Emerging Asia continue to make up nearly half of emerging markets private equity portfolios, followed by Latin America (16%) and pan-emerging markets funds (14%).

Exhibit 1: Disclosed Distribution of Current Committed Capital*

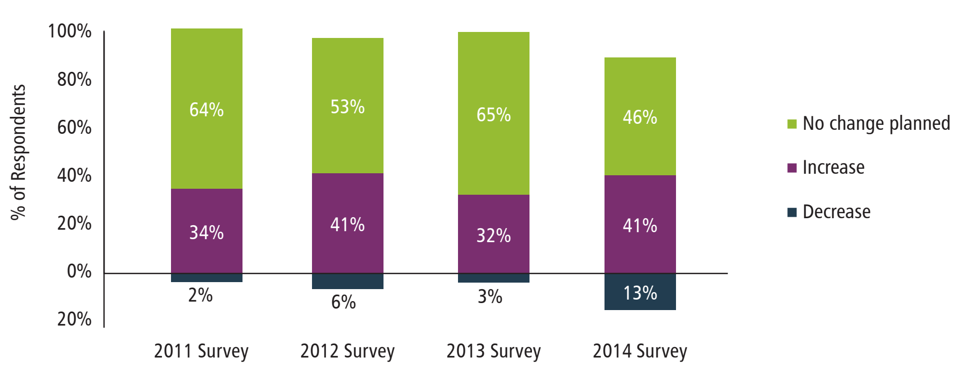


*Excludes development finance institutions and EM-focused funds of funds.

Nearly 41% of LPs plan to increase the proportion of their institutions' current global PE allocation targeted at EM, compared with 32% in the 2013 survey. On average, this year's respondents anticipate an increase in EM PE allocation of 2.4 percentage points, suggesting that EM PE is still growing as a percentage of global private equity portfolios for many institutions, and the surge in funds raised for the U.S. and Western Europe in 2013 may obscure the long-term trend.

Compared to the 2013 survey, more institutional investors expect a decrease in EM PE allocations. Last year, only 3% of LPs reported a planned decrease in EM allocation within their private equity portfolios, whereas 13% indicate a decrease in the 2014 survey. Pension funds have the greatest representation among institutions planning an increase to their share of PE allocations aimed at emerging markets, while a mix of institutions expect a decrease.

Exhibit 2: LPs' Planned Changes to Proportion of Total PE Allocation Targeted at EM PE Over the Next Two Years, 2011-2014*

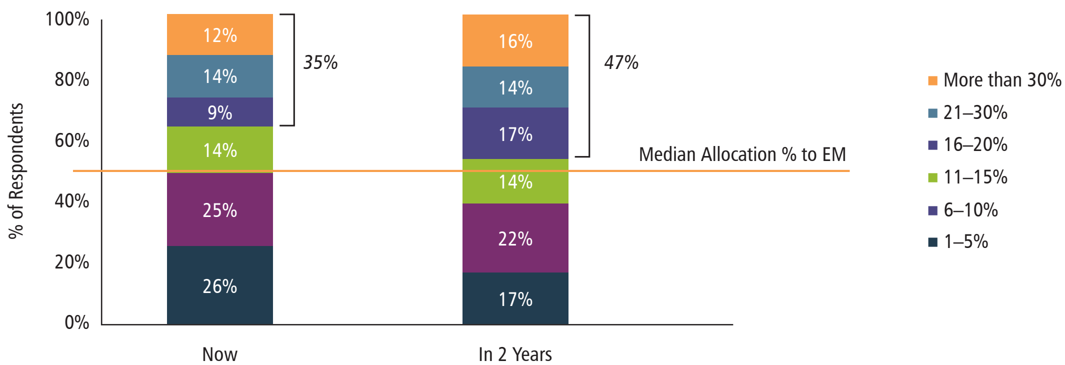


*Excludes development finance institutions and EM-focused funds of funds.

Excluding development finance institutions and emerging markets-focused funds of funds, surveyed LPs have a median current allocation to emerging markets of 10% within their private equity portfolios, with a median expected allocation of 15% in two years. In addition, this planned increase in allocation suggests 47% of LPs will have 16% or more of their PE portfolios aimed at emerging markets by 2016.

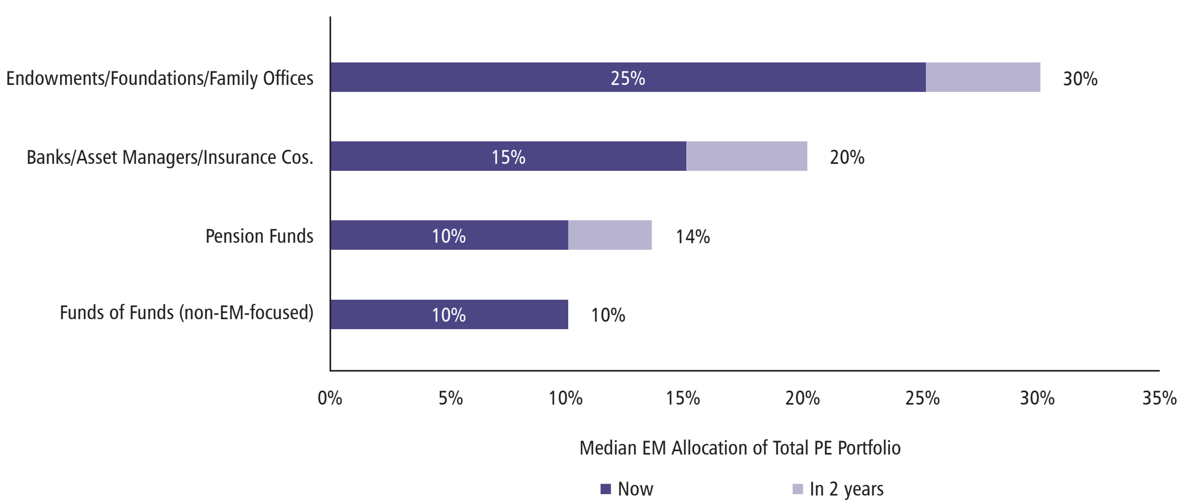
While funds of funds generally plan to maintain their current EM PE allocation, a diverse set of institutions expect to increase the percentage of their private equity portfolios targeted at emerging markets funds.

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



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

Exhibit 4: Median Proportion of Total PE Allocation Targeted at EM PE by Institution Type*



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

Pace of Anticipated EM PE Commitments Declines for Second Consecutive Year

Nearly 54% of LPs in this year's survey expect to increase the dollar value of their new commitments to private equity funds in emerging markets over the next two years. However, the pace at which LPs intend to make new commitments to EM PE slowed for a second consecutive year, as 75% and 60% of respondents projected an increase in the 2012 and 2013 surveys, respectively.

Exhibit 5: LPs' Anticipated Level of New Commitments to EM PE Over the Next Two Years*

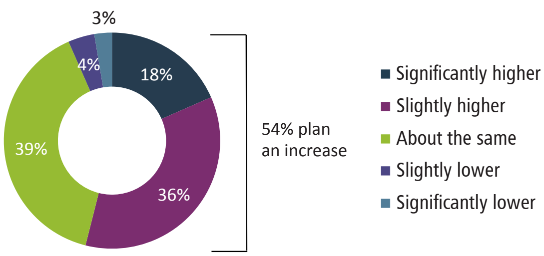
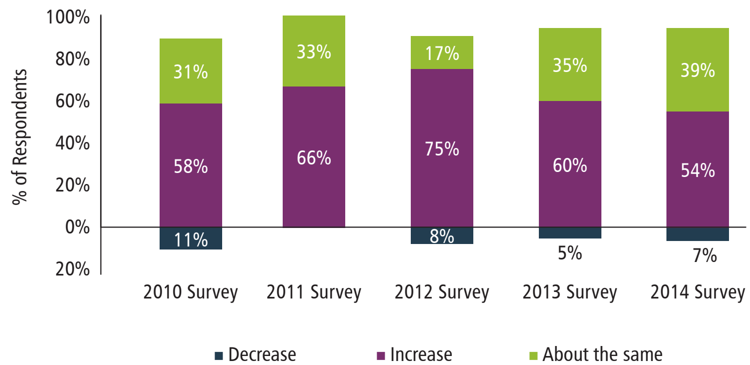


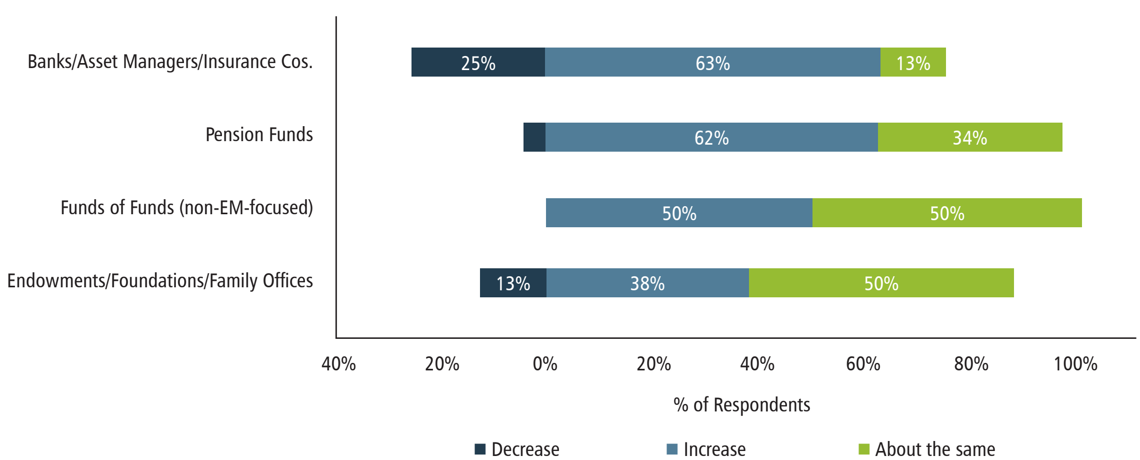
Exhibit 6: Anticipated Level of New Commitments to EM PE Funds Over the Next Two Years, 2010-2014*



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

Among all LPs, 63% of banks, asset managers and insurance companies intend to increase commitments to EM PE funds, although 25% also plan to decrease commitments. The majority (62%) of pension funds also report that they plan to increase commitments in emerging markets. A bulk of LPs anticipating a growing EM PE portfolio attribute it to the overall growth of their PE portfolio. Several LPs (7%) reporting a decrease in commitments to EM PE funds cite that they have met their EM PE portfolio goals for now.

Exhibit 7: LPs' Anticipated Level of New Commitments to EM PE Funds Over the Next Two Years by Institution Type*



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

Risks of EM PE Relatively Unchanged Over the Past Year, Currency Risk Poses Greatest Concern

Two-thirds of respondents view the risks of private equity investment in emerging markets as unchanged over the past year, suggesting that long-term investors remain relatively unfazed by recent volatility. LPs rank currency risk as the most concerning macro-level issue related to investing in EM PE, followed by the economic slowdown in China and risk related to corruption or integrity issues. Exchange rate volatility in countries such as Brazil, India, Turkey and South Africa may have led to this unease.

Exhibit 8: Change in Perception of Risks of PE Investing in Emerging Markets

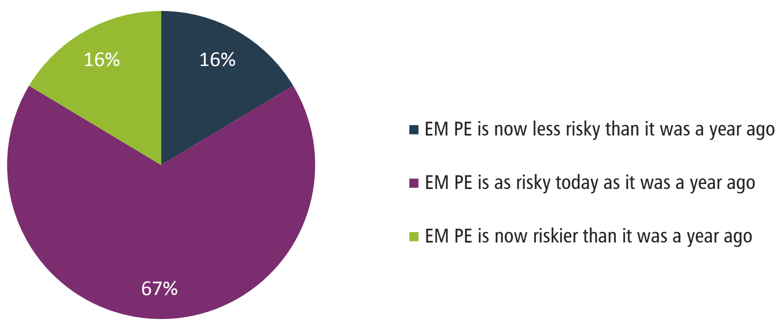
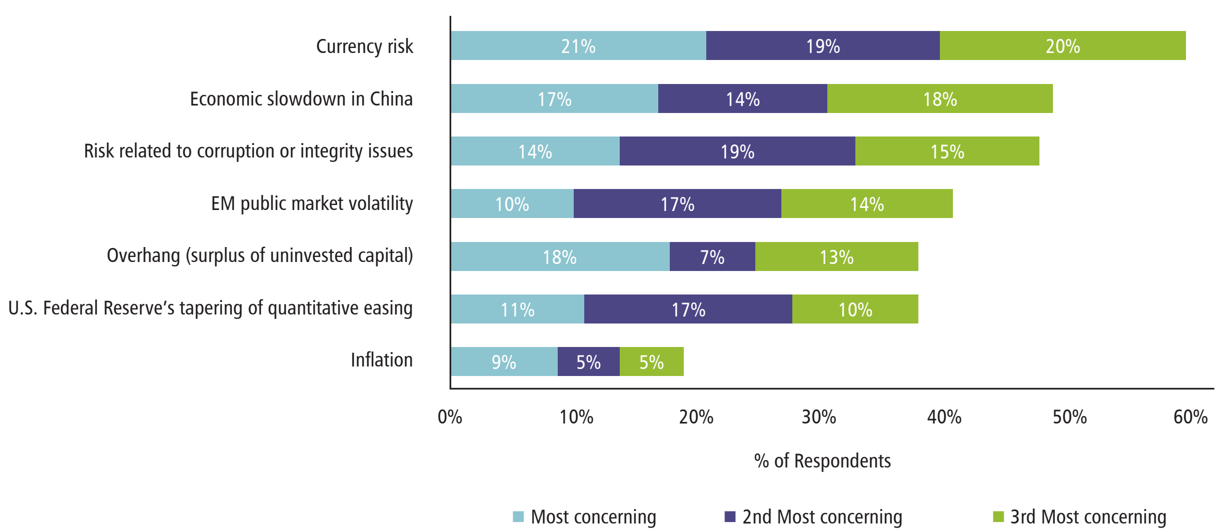


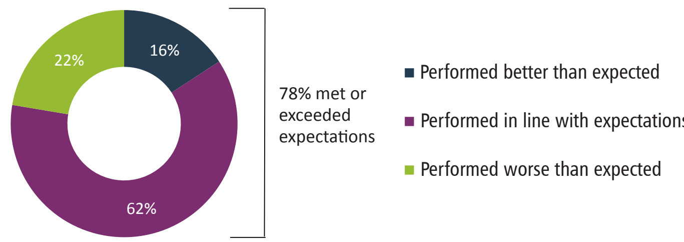
Exhibit 9: Macro-level Issues Related to EM PE That Pose the Greatest Concern, Ranked 1-3



EM PE Portfolio Performance Has Met Expectations for Most LPs But Many Have Adjusted Their Outlook

More than 78% of LPs report that their EM PE portfolios have met or exceeded their expectations for the asset class in these markets, with 16% of respondents noting the latter. Pension funds, funds of funds and development finance institutions collectively account for over 90% of the LPs with portfolios that have not met expectations, yet almost all plan to maintain or increase their commitments to EM PE funds over the next two years, suggesting their patience for returns.

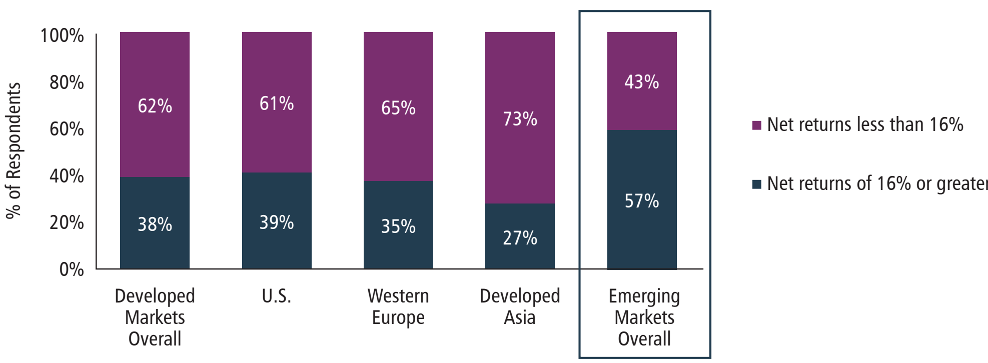
Exhibit 10: EM PE Portfolio Performance Relative to Expectations*



*Excludes LPs that felt it too soon to assess the performance of their portfolios.

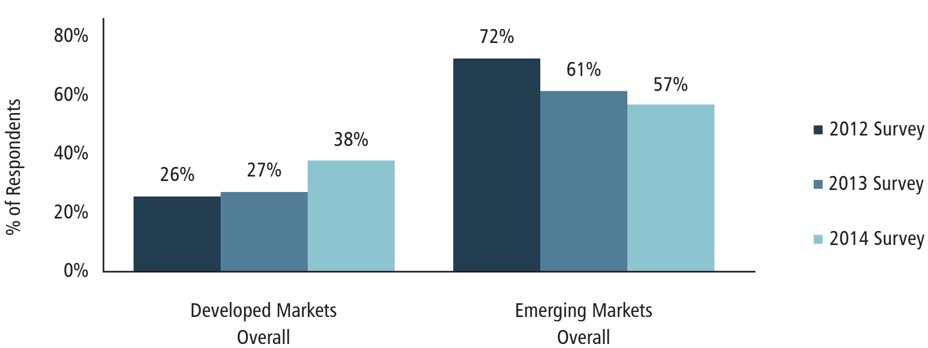
Institutional investors continue to expect private equity in emerging markets will deliver higher net returns than in developed markets. Nearly 57% of investors anticipate net returns of 16% or greater from their EM PE portfolios, compared to expectations for similar results from funds focused on the United States (39%), Western Europe (35%) and Developed Asia (27%).

Exhibit 11: LPs' Annual Net Return Expectations for Developed Market vs. Emerging Market PE Portfolios



In comparison to the 2012 survey, fewer LPs expect net returns of 16% or more from their EM PE portfolios, down from 72% to 57%. This downward adjustment may reflect the effects of recent underperformance from some EM PE portfolios, and the three-year trend shows a convergence of expectations for emerging market and developed market portfolios.

Exhibit 12: Net Return Expecatations of 16% or More for Developed Markets and Emerging Markets, 2012-2014



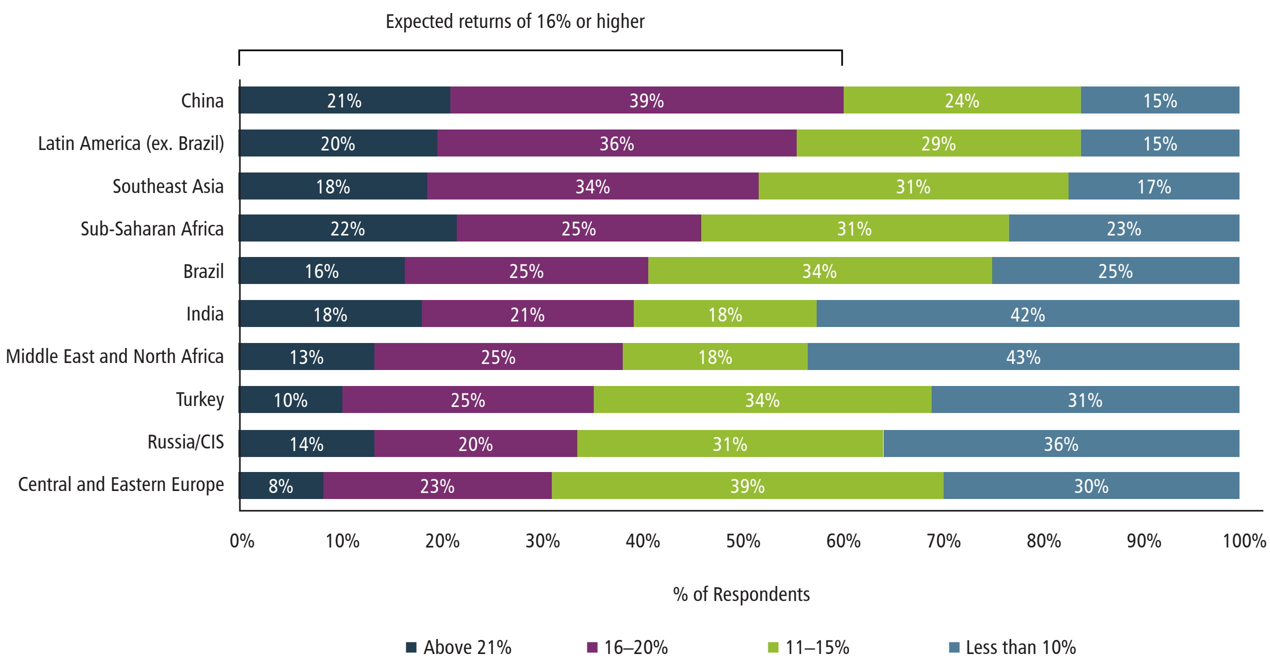
China-dedicated Funds and Latin America (ex. Brazil) Funds Expected to Net Highest Returns Within Emerging Markets

Limited partners have the most bullish outlook for private equity funds focused on China, as 61% of respondents expect net returns of 16% or more from 2013-vintage vehicles, compared with 54% of respondents expecting similar returns from 2012-vintage funds in last year's survey.

Institutional investors also have a positive outlook on potential returns from PE funds focused on Latin America (ex. Brazil), Southeast Asia and Sub-Saharan Africa though the expectations have cooled somewhat, consistent with overall EM PE. In comparison to last year's survey, Southeast Asia and Sub-Saharan Africa both registered a decrease in the percentage of LPs expecting net returns of 16% or higher, with Southeast Asia falling from 68% to 52% and Sub-Saharan Africa down from 59% to 47%.

India posted a slight increase in returns potential in this year's survey. Nearly 40% of LPs anticipate returns of 16% or more for India-focused funds (versus 35% last year).

Exhibit 13: Distribution of Net Return Expectations From 2013-Vintage Funds



Non-BRIC Markets Continue to Attract LP Attention for Second Consecutive Year

For the second consecutive year, LPs view non-BRIC markets as most attractive for GP investment. In line with bullish return expectations, Latin America (ex. Brazil) regains the top spot, having been displaced in last year's survey by Sub-Saharan Africa, which bumps down to the third spot in the latest survey. Southeast Asia holds steady as the second most attractive market. Coming off of a strong private equity fundraising year for both Latin America (ex. Brazil) and Southeast Asia, LPs continue to see the opportunity for growth and strong returns in these two markets.

While China-focused 2013-vintage funds are expected to deliver the highest returns, the country holds its place as the fourth most attractive destination for GP investment over the next 12 months.

The two biggest movers from last year's ranking are MENA (jumping from tenth to sixth) and Turkey (dropping from fifth to last). At sixth place, this marks the highest ranking for MENA over the past five years. Along with Turkey, Russia/CIS also drops in the ranking, falling to ninth place in this year's survey. Both of these markets have experienced difficult political environments over the past year, and Turkey has faced further challenges with currency fluctuations, which may have contributed to this sentiment.

Exhibit 14: The Attractiveness of Emerging Markets for GP Investment Over the Next 12 Months - LP Views

		Overall Ranking		
		2014	2013	2012
Latin America (ex. Brazil)	↑	1	3	1
Southeast Asia*	→	2	2	4
Sub-Saharan Africa	↓	3	1	5
China	→	4	4	3
Brazil	↑	5	6	2
Middle East and North Africa	↑	6	10	9
Central and Eastern Europe	→	7	7	10
India	↑	8	9	6
Russia/CIS	↓	9	8	8
Turkey	↓	10	5	7

*Classified as "Other Emerging Asia" in 2012.

Note: Arrows represent change in ranking from 2013 to 2014.

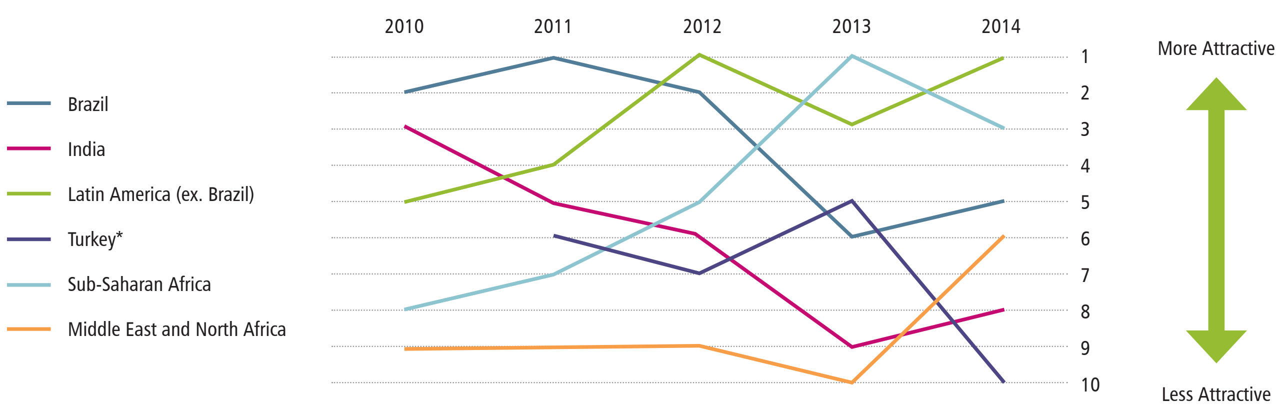
Latin America (ex. Brazil) is attractive because

> "…of lower valuations, political reform and long-term structural changes."
>
> *— Public pension fund*

Southeast Asia is attractive because

> "professionalization
> + strategic realignment
> + regional growth
> = solid returns."
>
> *— Fund of funds*

Exhibit 15: Market Attractiveness Rankings, Greatest Shifts 2010-2014



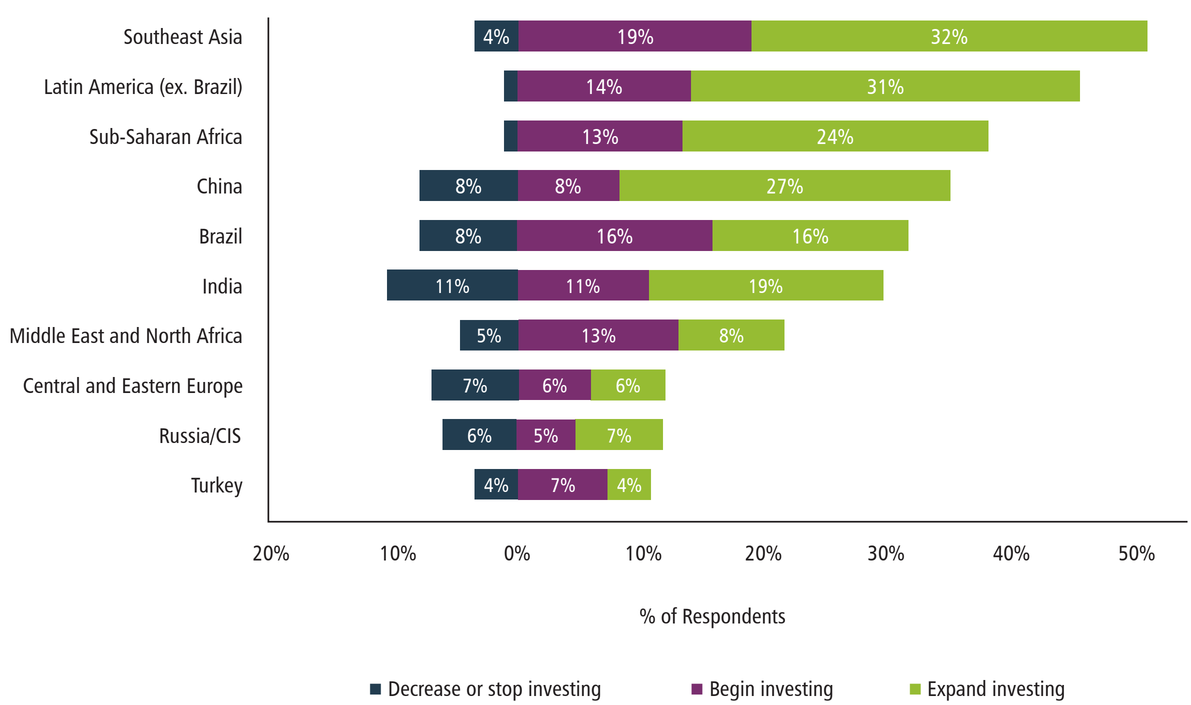
*Reported as a separate market beginning in 2011.

Southeast Asia Poised to See the Greatest Influx of Capital

For the second year in a row, more LPs plan to expand or begin investing in non-BRIC markets than in BRIC markets. Over the next two years, more than half of LPs plan to begin or expand commitments to Southeast Asia, where investors expect to see high net returns. Latin America (ex. Brazil) and Sub-Saharan Africa continue to attract interest from LPs, with 45% and 38% of respondents, respectively, planning to expand or begin investing in these two regions.

As in the 2013 survey, the highest percentage of LPs (11%) plan to decrease or stop investing in India, followed by China (8%) and Brazil (8%). Central and Eastern Europe, Russia/CIS, and Turkey are likely to see the least amount of new investor interest, as the smallest percentage of LPs plan to begin investing in these regions over the next two years.

Exhibit 16: LPs' Planned Changes to Their EM PE Investment Strategy Over the Next Two Years



Concern Over Political Risk for EM PE Grows

Overall, concern over political risk increased for emerging markets private equity compared to the 2013 survey. LPs note political risk as the main deterrent for PE investing in Russia/CIS (70%), Turkey (54%) and MENA (53%), three markets that have recently faced political unrest.

While Southeast Asia, Latin America (ex. Brazil) and Sub-Saharan Africa are poised to see an increase in commitments over the next two years, the limited number of established fund managers in these markets poses a concern for institutional investors.

LPs cite an oversupply of funds resulting in too much competition as a barrier to invest in China and Brazil. While LPs have the highest net return expectations for 2013-vintage funds focused on China, concerns over an economic slowdown and a crowded PE market may be factors for a decrease in commitments. The decline in expected commitments to India may be a function of weak historical returns, which LPs cite as the main deterrent to invest there.

Exhibit 17: Factors Likely to Deter LPs from Beginning to Invest in Individual Emerging Markets/ Regions Within the Next Two Years*

	Historical performance	Limited number of established fund managers	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	15%	7%	41%	0%	30%	19%	26%	11%	30%
India	44%	18%	23%	5%	23%	41%	44%	10%	26%
Southeast Asia	9%	43%	17%	17%	17%	13%	22%	26%	17%
Russia/CIS	25%	27%	2%	2%	2%	18%	36%	14%	70%
Turkey	20%	22%	2%	20%	12%	15%	15%	15%	54%
Central and Eastern Europe	43%	41%	0%	24%	8%	30%	14%	14%	27%
Brazil	11%	22%	33%	4%	19%	4%	22%	19%	11%
Latin America (ex. Brazil)	14%	36%	9%	0%	0%	9%	27%	23%	32%
Middle East and North Africa	24%	47%	7%	44%	4%	24%	13%	13%	53%
Sub-Saharan Africa	26%	55%	3%	45%	3%	32%	24%	11%	53%

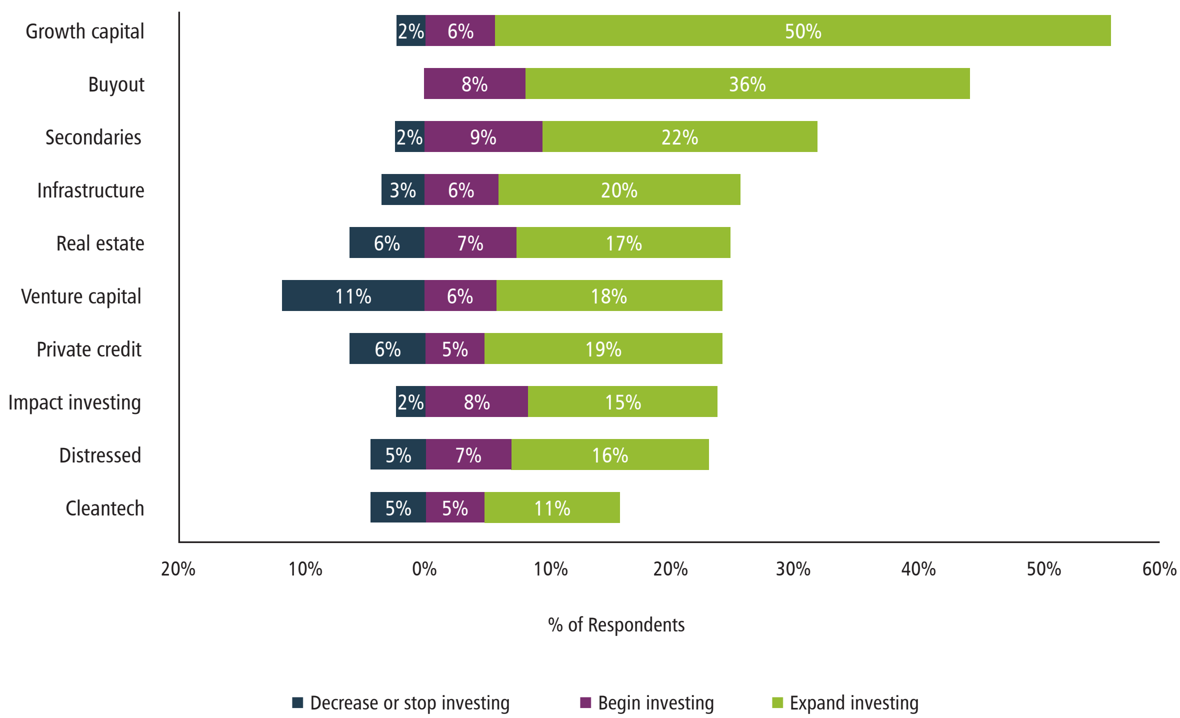
*Indicates percentage of respondents answering for each region/market.

Growth Capital and Buyout Fund Strategies Dominate But Secondaries Poised to Draw Investors

While growth capital deals declined last year in terms of value and volume according to EMPEA's industry statistics, the fund strategy will remain a focus among LPs investing in emerging markets, with 50% of respondents planning to increase commitments to growth funds over the next two years. More than 36% of LPs look to increase their investment in buyout funds, which allow GPs to take majority stakes and have greater control in adding value and exit strategies. Buyout vehicles are also the only fund strategy for which no respondents report a decrease in investment. While a higher percentage of LPs will *expand* investment in growth and buyout funds, the highest percentage plan to *begin* investing in secondary vehicles (9%). Primarily pension funds plan to start investing in secondary vehicles.

EMPEA's statistics show venture capital activity has increasingly accounted for a larger proportion of EM PE deals; however, the largest percentage of LPs (11%) plan to decrease or stop investing in funds targeting this strategy in emerging markets over the next two years.

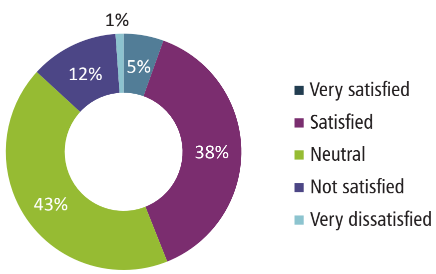
Exhibit 18: Planned Changes to EM PE Over the Next Two Years by Fund Strategy



LPs' Views on EM Fund Managers and Companies

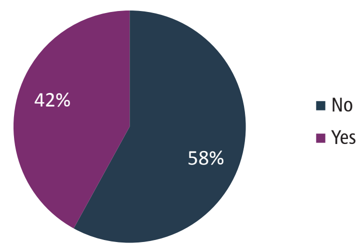
In assessing their existing emerging markets private equity GP relationships, 43% of LPs express satisfaction in fund manager reporting, while the same proportion is neutral. Funds of funds generally feel the strongest dissatisfaction, with nearly 30% of respondents providing a negative assessment.

Exhibit 19: LP Satisfaction with the Level and Quality of EM PE Fund Manager Reporting



The majority of LPs (58%) do not invest in emerging markets private equity funds of funds. Pension funds, endowments and foundations are most representative among institutions utilizing this investment strategy.

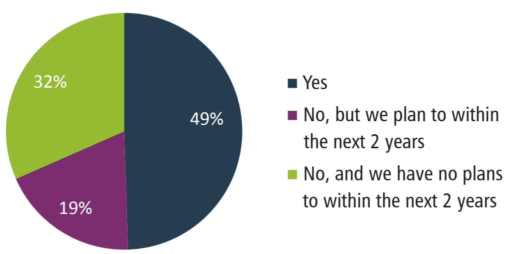
Exhibit 20: Does Your Institution Invest in EM PE Fund of Funds?*



*Excludes development finance institutions and funds of funds.

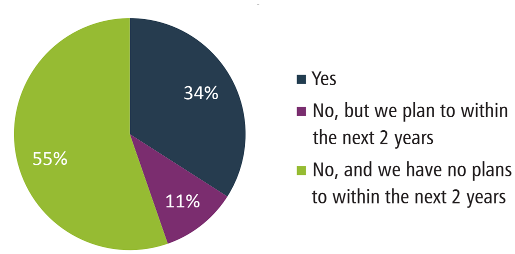
Nearly half of LPs (49%) have co-invested with an EM PE fund, while another 19% of LPs plan to co-invest within the next two years. Slightly less than 80% of development finance institutions have co-invested, while sovereign wealth funds and public pension funds are most likely to co-invest with an EM PE fund by 2016.

Exhibit 21: Has Your Institution Co-invested with an EM PE Fund?



While more than one-third of LPs have made a direct investment in an EM company, 55% of investors have no plans to directly invest within the next two years. Only 11% plan to do so within the next two years. Development finance institutions and funds of funds have the highest representation among institutions that have made a direct investment.

Exhibit 22: Has Your Institution Directly Invested in an EM Company?



Respondent Profile and Survey Definitions

Between February and March 2014, EMPEA surveyed 106 LPs headquartered across 30 countries. Respondents included public and corporate pension funds, insurance companies, banks, asset managers, sovereign wealth funds, endowments, foundations, family offices, development finance institutions and funds of funds. Collectively, these institutional investors manage global private equity assets in excess of US$680 billion, with a median current allocation to emerging markets of 10% within their private equity portfolio. Approximately 97% of respondents are currently invested in EM PE funds, with 50% holding a portfolio of 11 or more funds.

Exhibit 23: Respondents by Headquarters

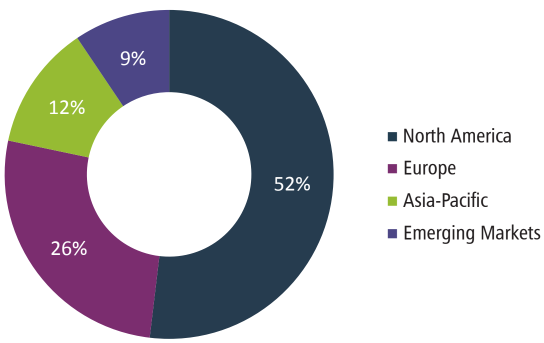
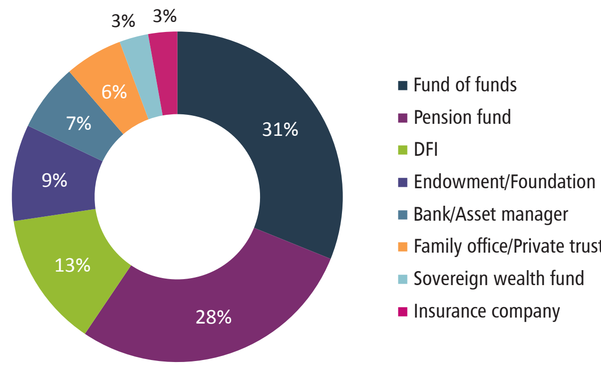


Exhibit 24: Respondents by Institution Type



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

Survey Definitions

"Emerging markets" (abbreviated to "EM") encompass the private equity markets of all countries outside of the United States, Canada, Western Europe, Israel, Japan, Australia and New Zealand, collectively referred to as "developed markets."

"Emerging Asia" encompasses all of Asia excluding funds whose primary investment focus is Japan, Australia and/or New Zealand.

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

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

Note: In some exhibits, percentages may not sum to 100% due to rounding.

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