EMPEA/Coler 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 6th edition of the Survey captures the views of 151 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
- LP-GP alignment
- Emerging markets private equity risk
- Obstacles to investing in emerging markets private equity

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
2010 Survey highlights

- LPs view EM PE opportunities as attractive both in their own right and relative to PE opportunities in developed markets.

- Emerging markets’ share of new PE commitments will continue to grow as LPs seek exposure to high-growth markets. Investors with existing exposure to EM PE plan to grow their exposure from 6-10% of total PE commitments today to 11-15% over the next two years (Page 4).

- LPs expect their new commitments to EM PE to accelerate over the next two years (Page 4).

- The majority of LPs expect EM PE funds to outperform PE as a whole (Page 5).

- 70% of LPs are either satisfied or very satisfied with the performance of their EM PE portfolio relative to their listed equities in emerging markets (Page 6).

- The small percentage (11%) of LPs that intend to slow their commitments to EM PE cite cash constraints as the primary reason (Page 8).

- 61% of LPs consider themselves to be just as aligned with their EM PE managers as with their developed market GPs, while an additional 23% of LPs consider themselves to be more aligned with their EM GPs (Page 8).

- China, Brazil and India remain the most attractive emerging markets for GP investment (Page 9).
LPs’ rate of commitment to EM PE to accelerate

Over half (57%) of LPs invested in EM PE expect their new commitments to EM PE funds to accelerate in 2010/2011.

EM PE’s share of total PE commitments to increase

The median proportion of PE commitments targeted at emerging markets by LPs investing in the sub-asset class will increase from 6-10% today to 11-15% within two years. Over half (52%) of investors currently invested in EM PE expect to have more than 10% of their total PE commitments in emerging markets within the next two years – only 44% do so today.

* Excludes Development Finance Institutions and EM-dedicated Funds-of-Funds.
LPs increasingly confident in resilience of ‘bubble era’ EM PE funds

Two-thirds (67%) of LPs believe their 2006- and 2007-vintage EM PE funds will be less affected by the global downturn than their developed market funds of similar vintages. This compares with 57% of LPs in the 2009 Survey.

Large majority of LPs expect net returns of 16%+ from EM PE

Over three-quarters (77%) of LPs expect annual net returns of 16%+ from their EM PE portfolio over the next 3-5 years. Only 29% of LPs have similar expectations of their global PE portfolios.

Almost a fifth of investors expect net returns of 25%+ from EM PE

Approaching one in five (17%) LPs anticipate annual net returns of more than 25% from their EM PE portfolio over the next 3-5 years – just 3% of investors have similar expectations of their global PE portfolios.
LPs are pleased with EM PE performance relative to listed EM equities

70% of LPs are either satisfied or very satisfied with the recent performance of their EM PE portfolios relative to their listed EM equities.

2010-vintage EM PE funds expected to outperform developed market funds

Over half (59%) of LPs expect 2010-vintage EM PE funds to generate higher returns than developed market funds of the same vintage.
Economic growth is the primary driver of increasing EM PE commitments

Two-thirds (67%) of LPs planning to increase their commitments to EM PE cite exposure to high-growth markets as their primary motivation. Perceptions of an improved risk-return profile and more skilled and experienced GPs are also influencing investment decisions.

Recent improvement in EM PE risk-return profile, LPs say

The majority (61%) of LPs believe the risk-return profile of EM PE investment has improved over the last 12 months.
LP-GP alignment is at least as good for EM GPs as developed market GPs, LPs say

61% of LPs consider themselves to be just as aligned with their EM PE managers as with their developed market GPs, while an additional 23% of LPs consider themselves to be more aligned with their EM GPs.

Liquidity is the main issue for the few LPs slowing EM PE commitments

Only 11% of investors intend to slow their new commitments to EM PE (versus 38% in the 2009 Survey). Among these LPs, nearly two-thirds (64%) cited cash constraints as the main reason.
China, Brazil and India remain the most attractive emerging markets for GP investment

China, Brazil and India once again vie for the top of the league table. Central & Eastern Europe (CEE) showed the biggest change, dropping two places in the overall ranking.

As in the 2009 Survey, Brazil should see the largest increase in new investors in the next two years – 19% of EM PE investors expect to begin investing in Brazil, while just 3% of current investors plan to reduce or stop investment in the country.

Emerging PE markets in Asia will see the greatest expansion in commitments from existing investors in the next two years – 44% of investors plan increased exposure in China, 28% in India, and 26% in other Asian emerging PE markets.

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

<table>
<thead>
<tr>
<th>Overall ranking</th>
<th>2010</th>
<th>2009</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Brazil</td>
<td>2</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>India</td>
<td>3</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Other Emerging Asia</td>
<td>4</td>
<td>5</td>
<td>+1</td>
</tr>
<tr>
<td>Latin America (ex Brazil)</td>
<td>5</td>
<td>6</td>
<td>+1</td>
</tr>
<tr>
<td>Central &amp; Eastern Europe (inc Turkey)</td>
<td>6</td>
<td>4</td>
<td>-2</td>
</tr>
<tr>
<td>South Africa</td>
<td>7</td>
<td>7</td>
<td>-</td>
</tr>
<tr>
<td>Africa (ex South Africa)</td>
<td>8</td>
<td>8</td>
<td>-</td>
</tr>
<tr>
<td>Middle East</td>
<td>9</td>
<td>9</td>
<td>-</td>
</tr>
<tr>
<td>Russia/CIS</td>
<td>10</td>
<td>10</td>
<td>-</td>
</tr>
</tbody>
</table>

(Figure 12)

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

(Figure 13)
Political risk and inexperienced GPs are the main barriers to first-time PE investment in Africa and Latin America

A shortage of experienced GPs is the greatest barrier to first-time PE investment in Africa (60% of LPs) followed closely by political risk (58%).

For investors evaluating Latin American opportunities, political risk is the top concern (38% of LPs), while a shortage of experienced GPs is a barrier for 30% of LPs.

(Figure 14)
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**Respondent breakdown – 2010**

The Survey researched the plans and opinions of 151 institutional investors based in North America, Western Europe, Central & Eastern Europe, Asia, Africa, the Middle East and Latin America. They form a representative sample of EMPE investors.

**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 the emerging markets of Africa, Asia, Central & Eastern Europe, Russia/CIS, Latin America and the Middle East. EMPEA’s 280 members represent a broad array of private equity fund managers, institutional investors, service providers and other key stakeholders in the industry.

**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 6th 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 2010 by IE Consulting, a division of Initiative Europe (Incisive Media), which has been conducting private equity research for over 20 years.