
**The Future of Growth Markets:
More than just another *BRIC* in the wall**

A world map is centered on the page, rendered in a light blue color. The map is overlaid with several vertical stripes of varying shades of blue and teal. The stripes are positioned at regular intervals across the width of the map. The text 'THE ABRAAJ GROUP' is written in a bold, blue, sans-serif font on the left side of the map, partially overlapping the stripes.

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ABRAAJ
GROUP**

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- [LP-Only Masterclass](#) – 10 February 2014
- [EMPEA and SAVCA Members-Only Reception](#) – 10 February 2014
- [Private Equity in Southern Africa](#), co-hosted by SAVCA, EMPEA and FT Live – 11 February 2014
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Panelists

Josh Lerner

Professor
Harvard Business School
Boston



Josh Lerner is the Jacob H. Schiff Professor of Investment Banking at Harvard Business School, with a joint appointment in the Finance and Entrepreneurial Management Units. He graduated from Yale College with a Special Divisional Major that combined physics with the history of technology. He worked for several years on issues concerning technological innovation and public policy, at the Brookings Institution, for a public-private task force in Chicago, and on Capitol Hill. He obtained a Ph.D. from Harvard's Economics Department.

Much of his research focuses on the structure and role of private equity organizations. This research is collected in two books, "The Venture Capital Cycle" (MIT Press, 1999 and 2004) and "The Money of Invention" (HBS Press, 2001). He is a Research Associate in the National Bureau of Economic Research's Corporate Finance and Productivity Programs, and organizes the NBER Innovation Policy and the Economy Group and the Entrepreneurship Working Group. His latest books are "Boulevard of Broken Dreams" and "International Differences in Entrepreneurship." He is the winner of the 2010 Global Entrepreneurship Research Award.

Purshotam Ramchandani

Partner
The Abraaj Group
Dubai



Purshotam Ramchandani leads The Abraaj Group's strategic initiatives and is a member of the Management Executive Committee. During the past 10 years at The Abraaj Group, Mr. Ramchandani has been involved in executing several investments and has worked on the launch of new Funds. In 2009, he helped set up the Group's Saudi office.

He has 14 years of experience in private equity and investment banking. Before joining The Abraaj Group, he was with the Investment Banking Group at Lehman Brothers in New York.

Mr. Ramchandani graduated from the University of Wisconsin.

Shakir Merali

Managing Director
The Abraaj Group
Nairobi



Shakir Merali is a member of The Abraaj Group's team in Africa where he oversees a number of investments in East Africa and has in-depth knowledge and experience within the Healthcare sector.

Prior to joining The Abraaj Group, Mr. Merali invested in early to mid-stage companies as a Director at Geocapital Partners in London, and has previously advised a number of Fortune 500 companies as a strategy consultant with the Monitor Group.

Mr. Merali holds a Bachelor's degree in Accounting and Finance and a Master's in Information Systems, both from the London School of Economics and Political Science.

What today's webcast will cover

- 1 Brief overview of global growth markets
- 2 How should investors think about investing in global growth markets?
- 3 How do investors access this investment opportunity?
- 4 What are the challenges of investing in private equity?
- 5 What are investors' perceptions of investing in private equity in growth markets?

The Abraaj Group Perspective

Experience

Two decades of investment experience in growth markets

Pioneered the private equity industry in many of the growth markets

Platform

Local access: **25+** offices, managed through **six** hubs

Global capability: **160+** investment and operating professionals, speaking **27 languages** and representing **41 nationalities**

c.300 investors

Track Record

200+ investments in 50 countries

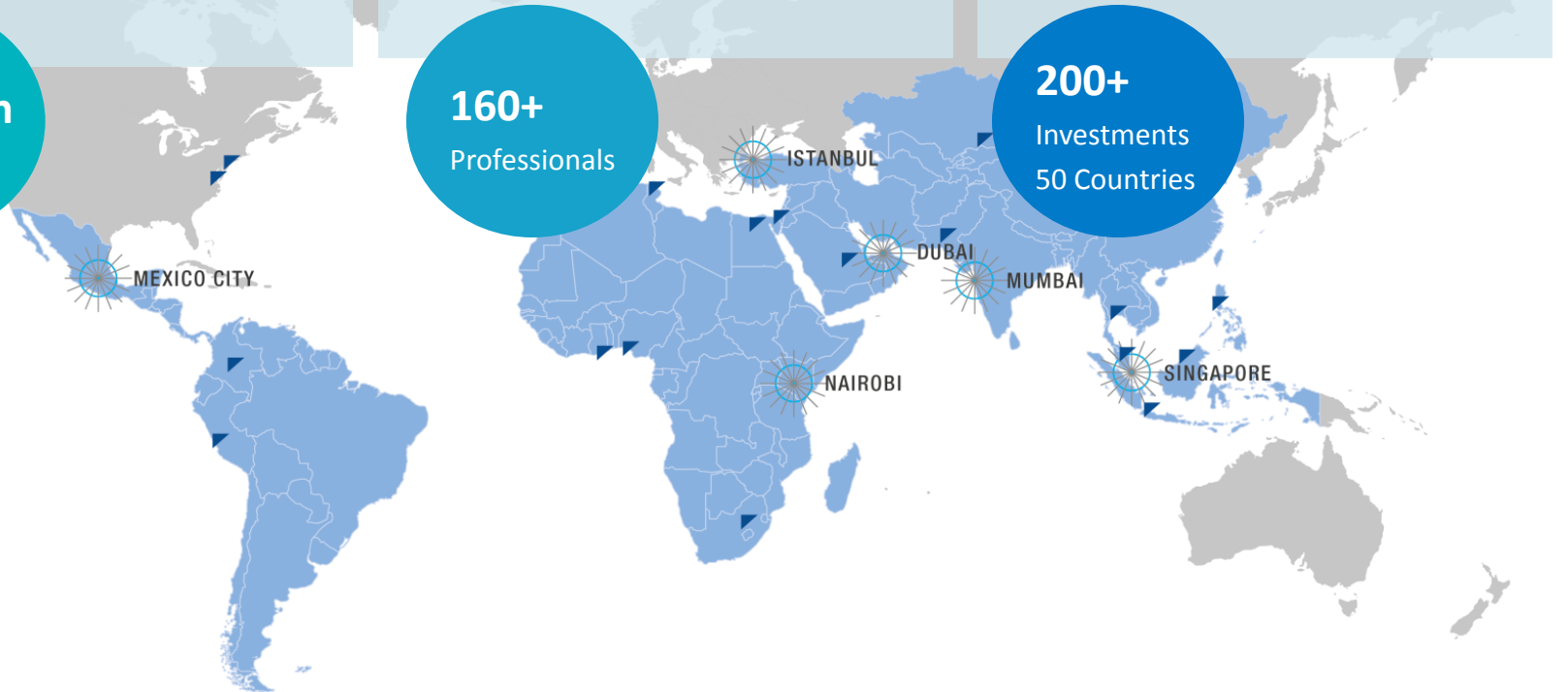
70+ full and partial exits

c.US\$ 4.2 bn returned to investors

US\$7.5bn
AuM

160+
Professionals

200+
Investments
50 Countries



Key takeaways

- 1 Global growth story is not just about the BRIC, and extends to markets across Africa, Asia, and Latin America
- 2 These markets are diverse and not monolithic, requiring a more nuanced view of the big picture
- 3 Macro tailwinds are important but effective investing is about identifying the right businesses in the right sectors
- 4 Dominated by family-owned businesses, private equity provides unique access to these opportunities
- 5 Generating consistent returns requires a purpose-built approach encompassing presence, experience and capabilities

19 of the 30 largest economies in 2050 will be from growth markets

2/3 of global expansion between now and 2025 will occur in growth markets

423 growth market cities will account for almost **half of the Global GDP growth** through 2025

MEXICO CITY

ISTANBUL

DUBAI

MUMBAI

NAIROBI

SINGAPORE

From One Month

Emerging World Loses Lead in Economic Growth

Wall Street Journal, August 11th 2013

“Momentum in the global economy is shifting to the developed world, away from the emerging economies...”

To The Next

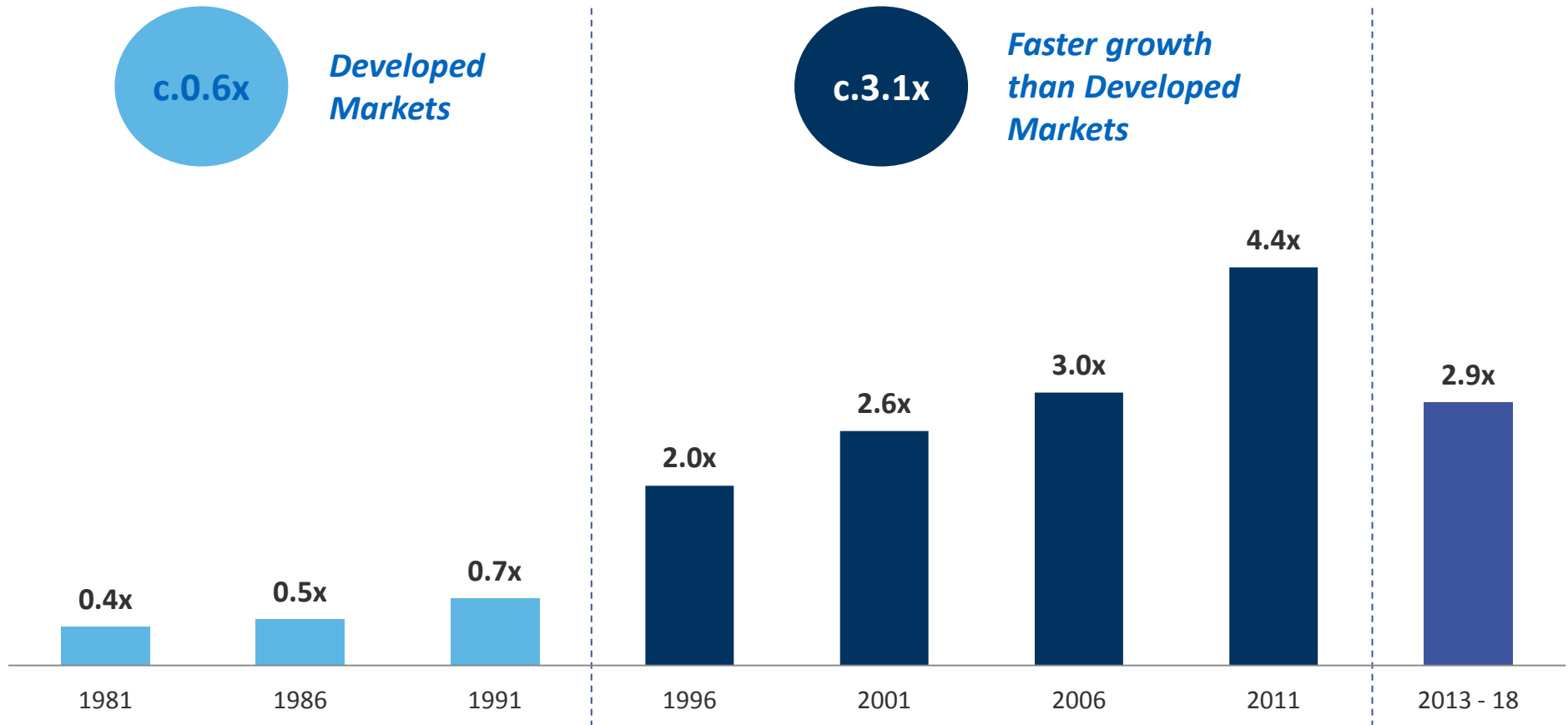
Emerging Markets No Longer Submerged

Wall Street Journal, September 10th 2013

“Rumors of the death of emerging markets may have been greatly exaggerated...”

...should not distract us from the clear long-term trends of these markets

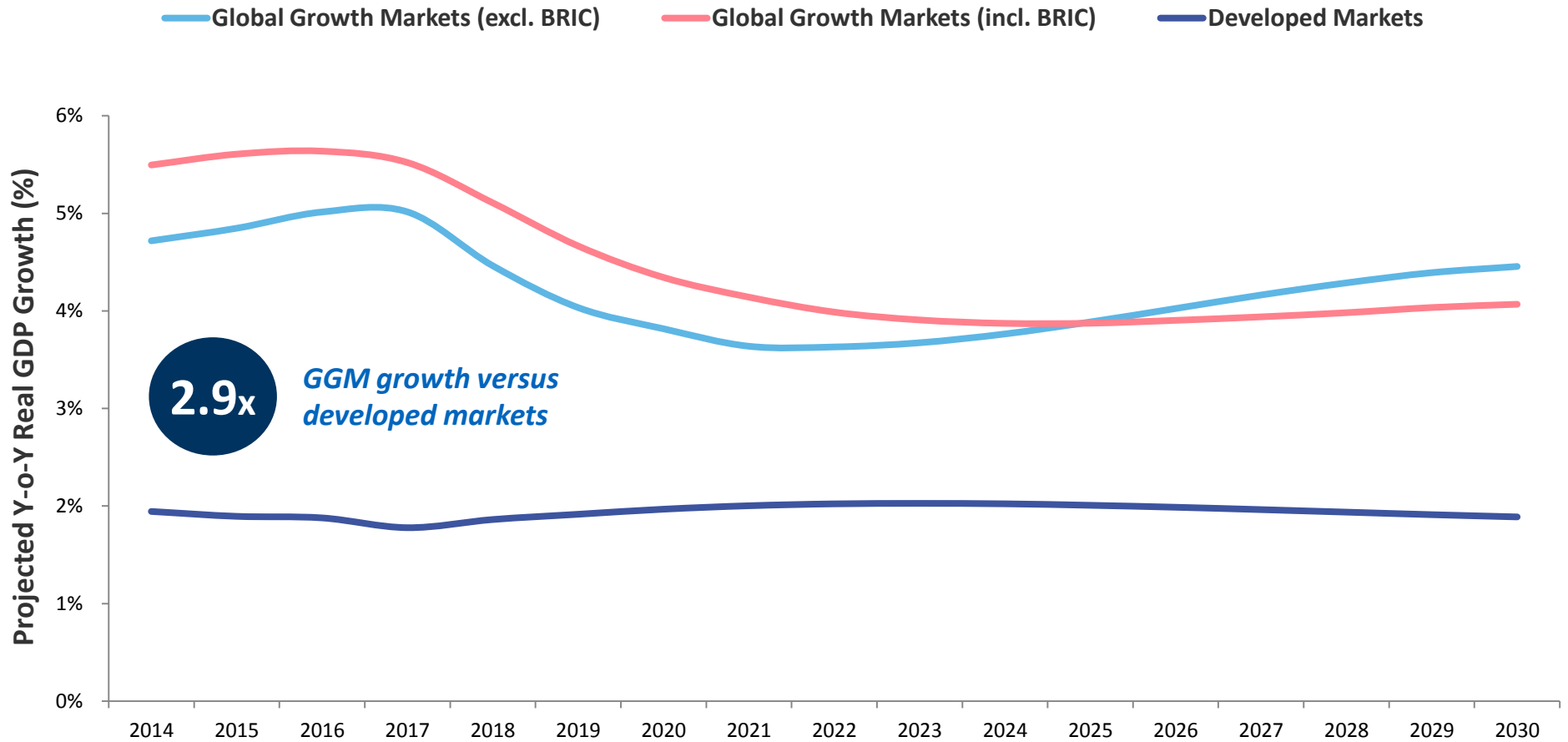
Growth markets have gone from lagging to outpacing developed markets



Multiple of GDP Growth in Growth Markets versus that in Developed Markets

Not just another BRIC in the wall

The global growth story extends across markets in Africa, Asia, and Latin America



Not just another BRIC in the wall

While BRIC offer single-country scale, the future requires a regional perspective

In GDP Terms



...is already the same size as Brazil



...is where China was in 2004



...is where India was in 2005



...is where Russia was in 2006



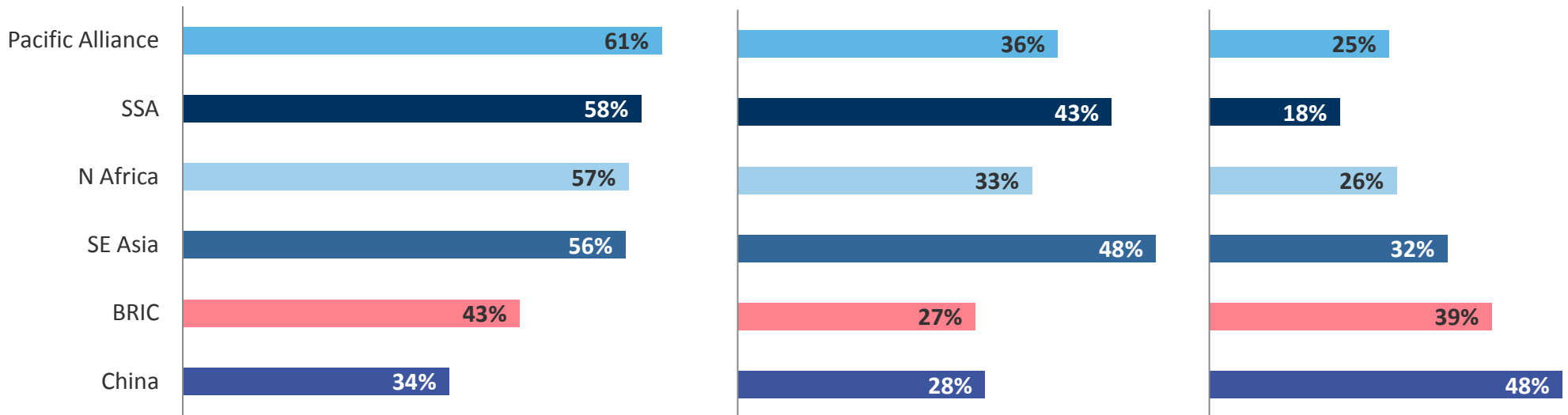
Not just another BRIC in the wall

Moreover, these regions are being driven more by consumption than by investment as is the case with BRIC, and especially China

Private Consumption

Exports

Fixed Investment



Percentage of GDP Growth attributable to Private Consumption, Exports and Fixed Investment (2002-2012)

Need to look beyond GDP growth – and focus on the drivers underlying that growth...

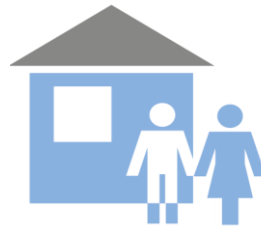
Key trends across many of these growth markets



Political & Economic Reforms



Attractive Demographics



Growing Middle Class



Urbanization



Regional Connectivity



catalyst across majority of the growth markets

26

median age, compared to 40 in the developed markets

1.7bn

additional middle class consumers by 2030

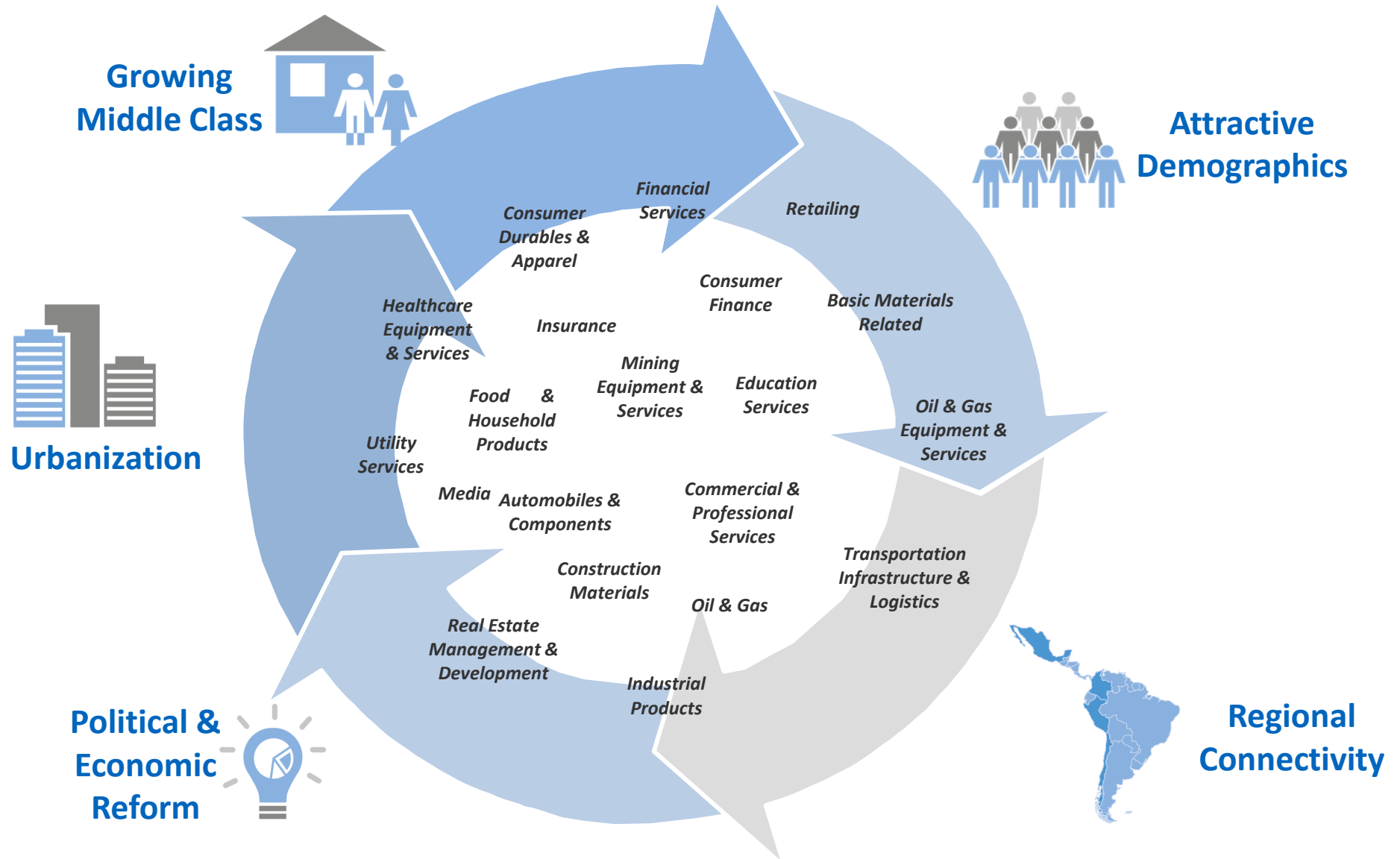
56%

urban population by 2030

\$1.2tn

South-South global trade flows

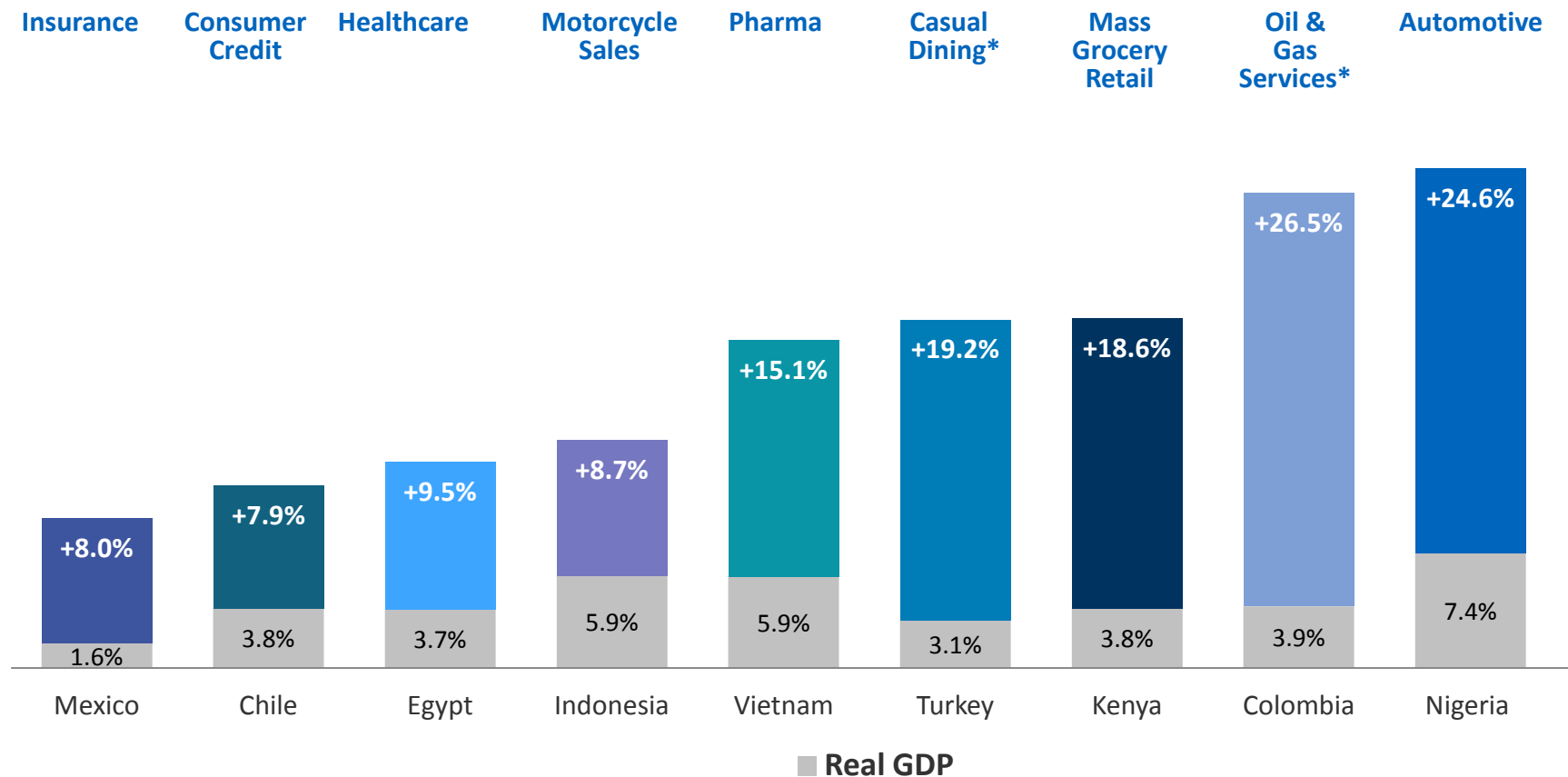
... which are creating investment opportunities across a large variety of sectors



Key is to identify the right sectors benefitting most from the underlying trends

Illustrative

Sector Revenues Versus Real GDP Growth (CAGR 2007-2012)



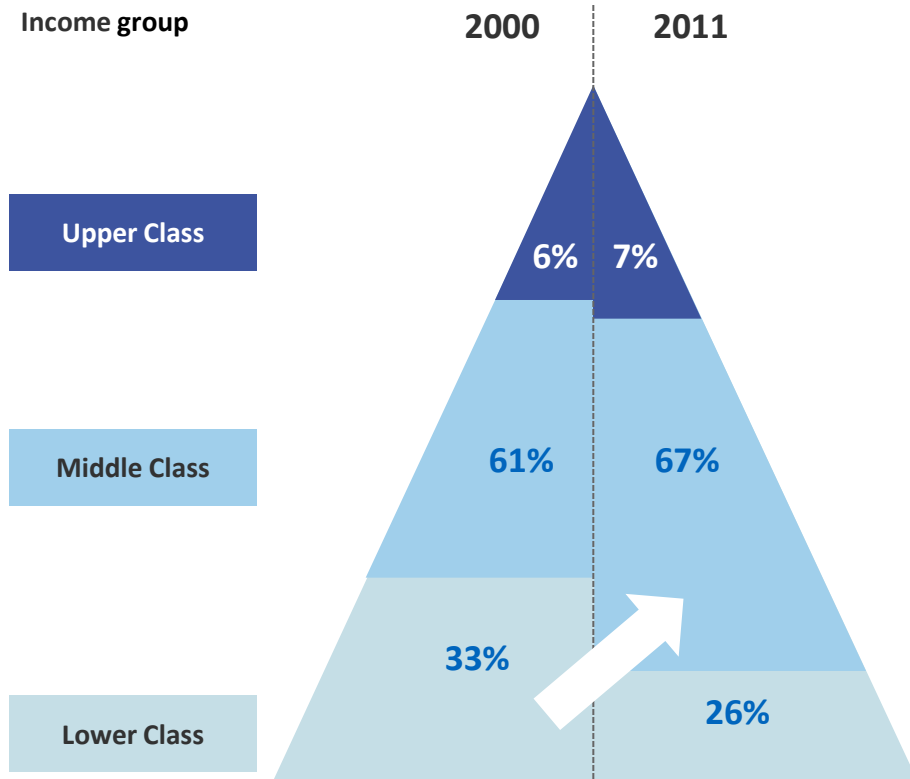
Sources: Euromonitor, Economist Intelligence Unit, BMI, World Bank, Superintendencia de Sociedades (Colombia), EFG Hermes
 Note: *5-Year CAGR (2006 – 2011) used due to data availability. † 5-Year CAGR (2005 – 2010) used due to data availability.



A more nuanced view of the big picture

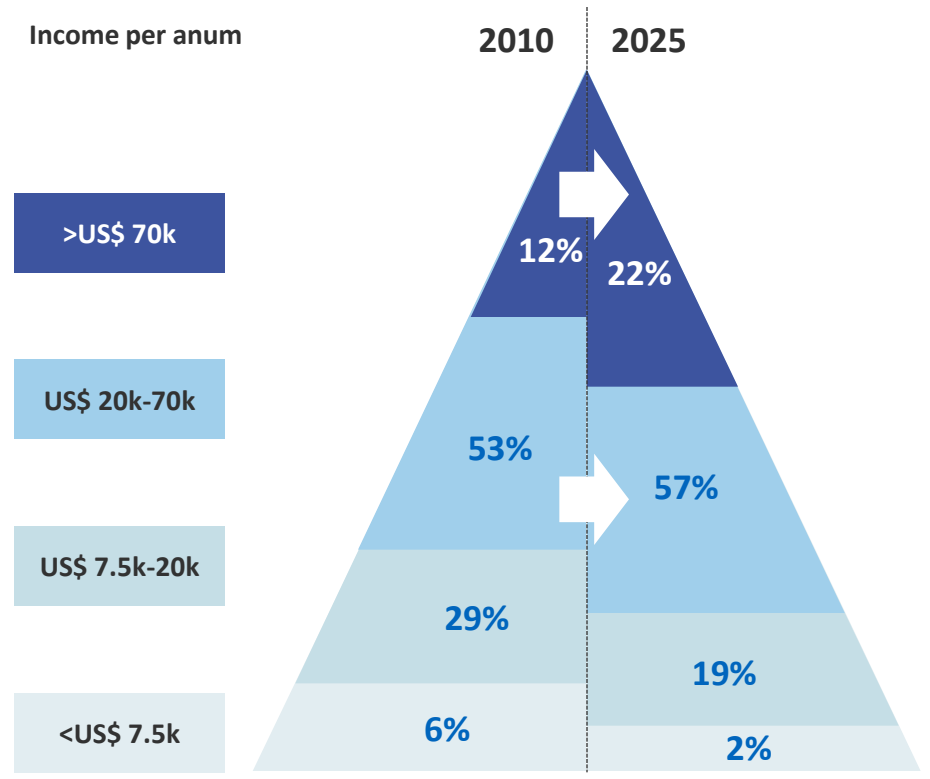
In some growth markets, the real middle class story is about rising incomes within an already large middle class...

Mexico



Percentage of population by income group¹

Turkey



Households by income group²

Sources: World Bank, Credit Suisse, Business Monitor International

¹Middle Class defined as income between US\$ 5,833 - 84,486 per year (As per 2011) ²McKinsey Urban World Data



A more nuanced view of the big picture

...whereas in Sub-Saharan African, the middle class story is two-pronged: one of rising incomes, the other of people moving into the middle class from the bottom of the pyramid

Number of People in SSA 2020 (mm)

58

Upper middle class¹

346

Lower middle class²

Two Distinct Consumers



- Have bank accounts and use mobile phones
- Drive around in their own cars and motorcycles



- Have unpredictable cash-flows
- Visit local vendors/street stalls and only purchase essentials

Two Distinct Opportunities

Higher-Value Goods and Services

- Durables e.g. cars and televisions
- Financial products
- Quick service restaurants

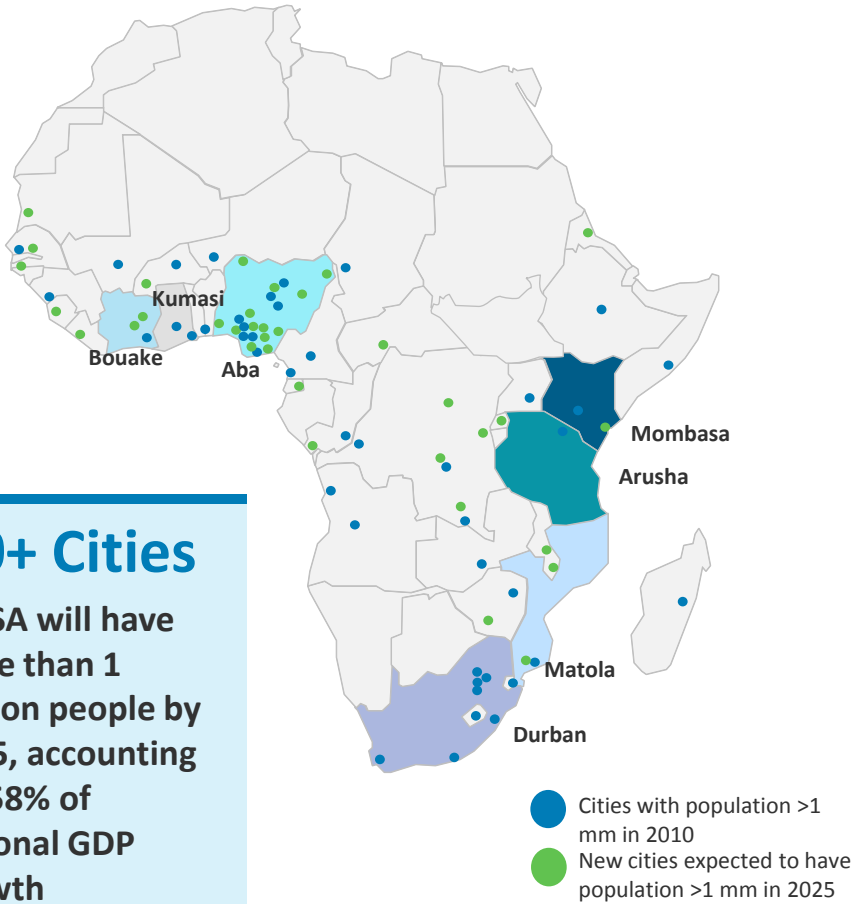
Affordable Goods and Services

- Staples in small packs e.g. toothpastes, detergents
- Packaged and snack food
- Micro-insurance and micro-finance



A more nuanced view of the big picture

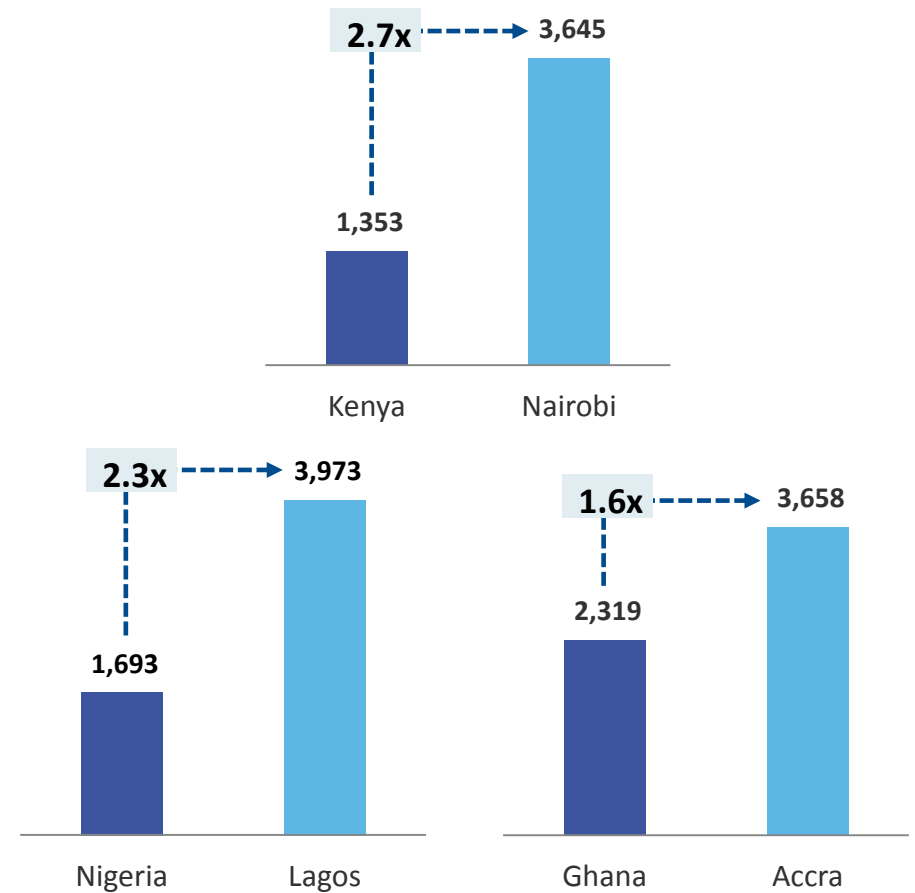
Some markets, such as Sub-Saharan Africa, are experiencing first time-migration into cities and these cities are growing at several times the national rate...



80+ Cities

in SSA will have more than 1 million people by 2025, accounting for 58% of regional GDP growth

Household Consumption per Capita, 2012 (in constant 2005 US\$ PPP)



Sources: McKinsey Urban World, Various sources

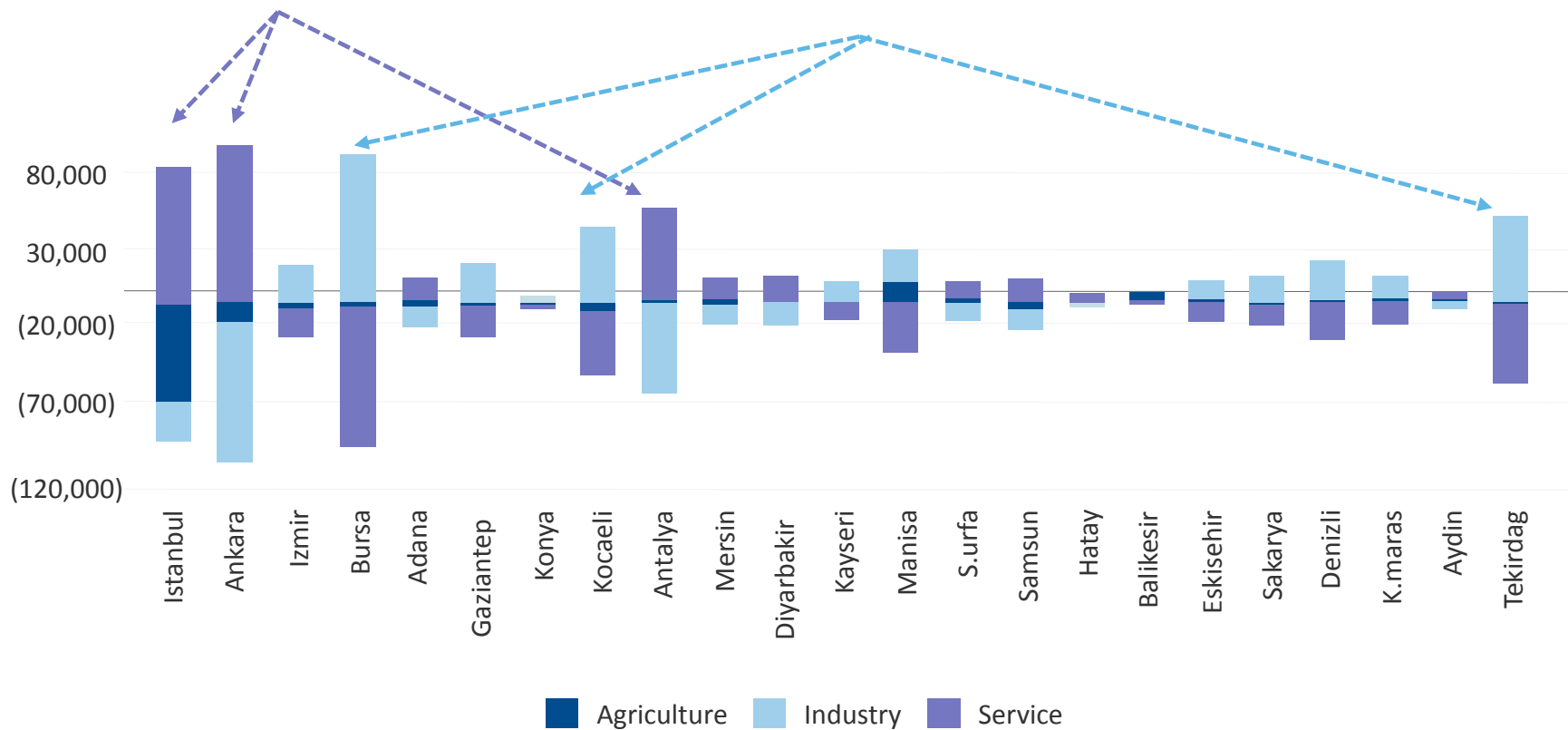
¹ Lower growth projected in Cote d'Ivoire as data compiled during Civil War. 2011-12 Nominal GDP growth= 9.1% (EIU); ² Nominal GDP annualized growth between 2010-2025



A more nuanced view of the big picture

...whereas Turkey is already as urbanized as Europe, and the opportunity in tier-two cities is compelling

Change in Employment by Sector in Turkish Cities (2008-2010)

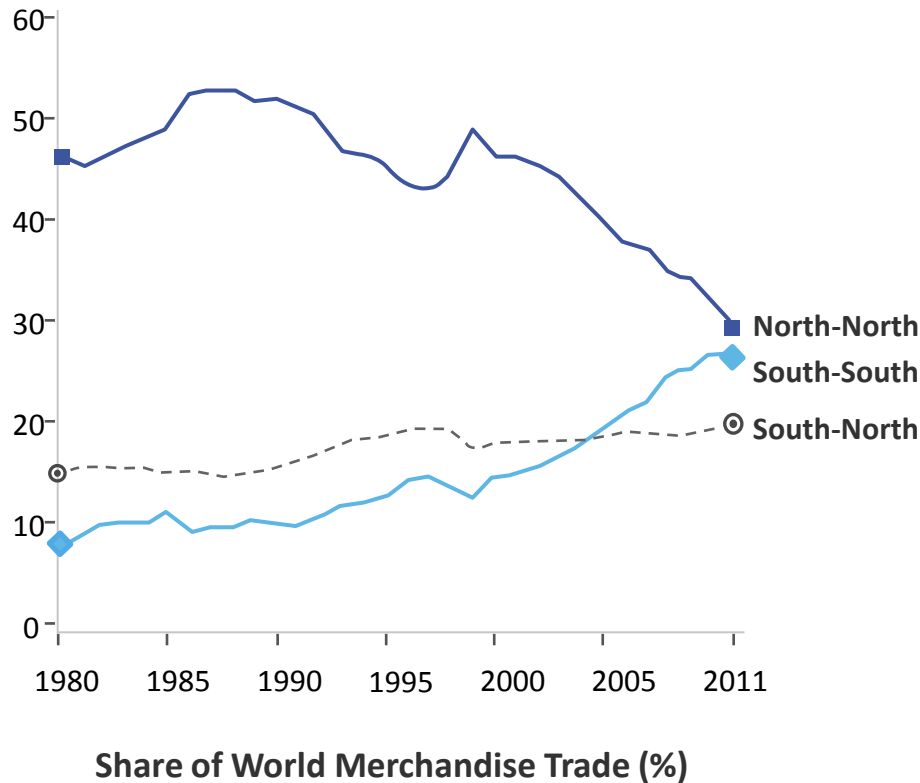




A more nuanced view of the big picture

“South-South” trade creating regional economic blocs, and opportunity for multinational scale

“South-South” Trade more than Tripled over 1980-2011



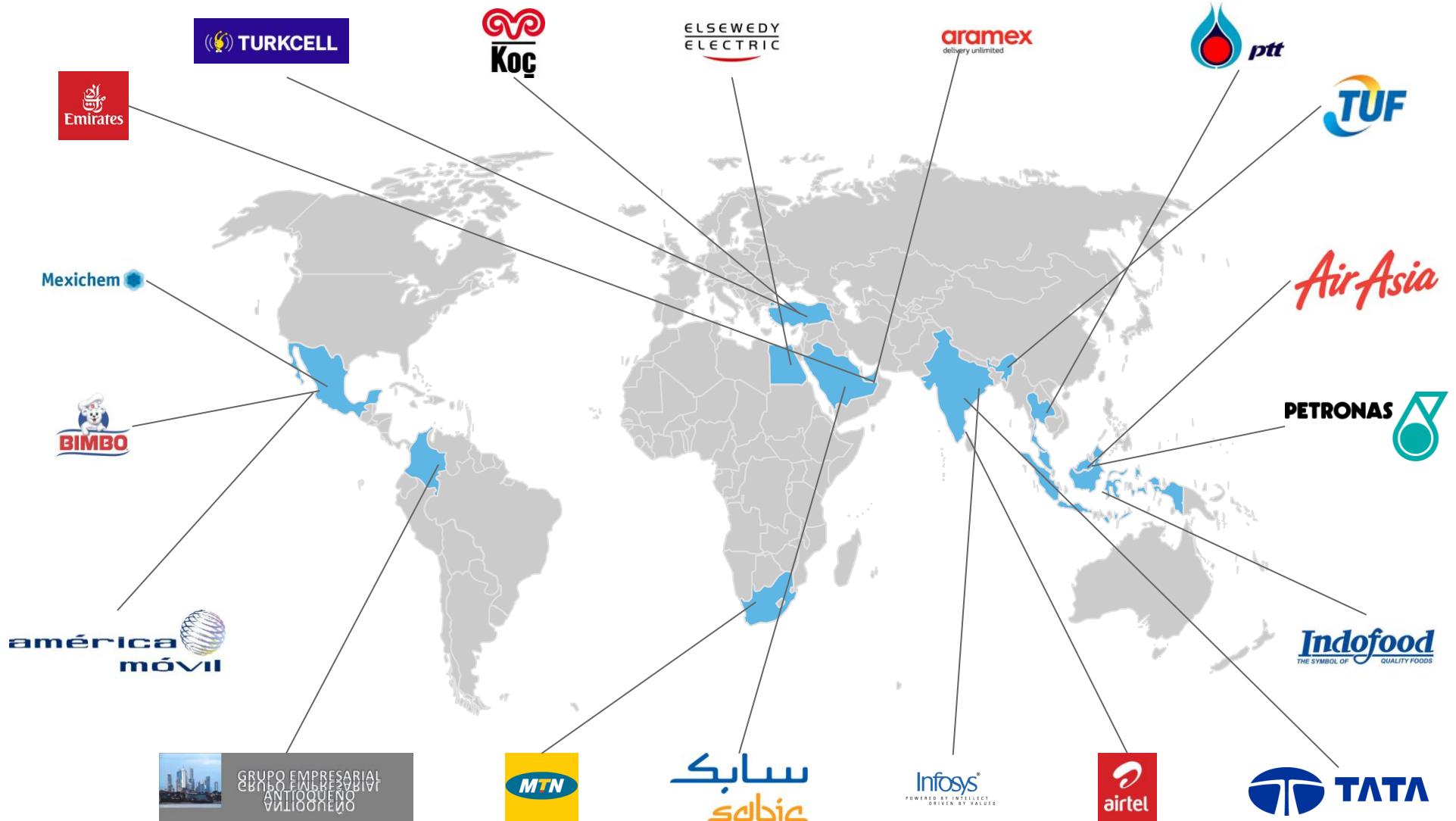
Pacific Alliance



The Pacific Alliance is focused on:

1. Removing tariffs on **90% of merchandise trade** between members
2. Integrating stock exchanges into the **“MILA” exchange**
3. Expanding links to Asia as members of the Trans-Pacific Partnership, a group which encompasses **30% of global GDP** and **20% of exports**

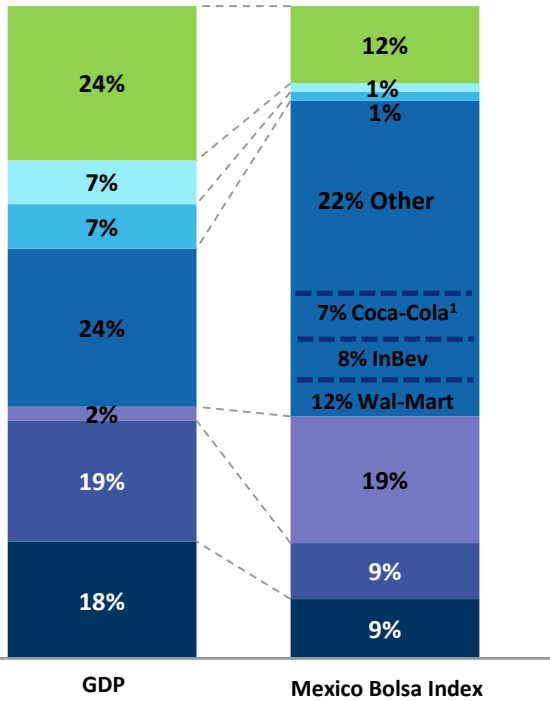
All these diverse and distinct trends are creating regional and global champions



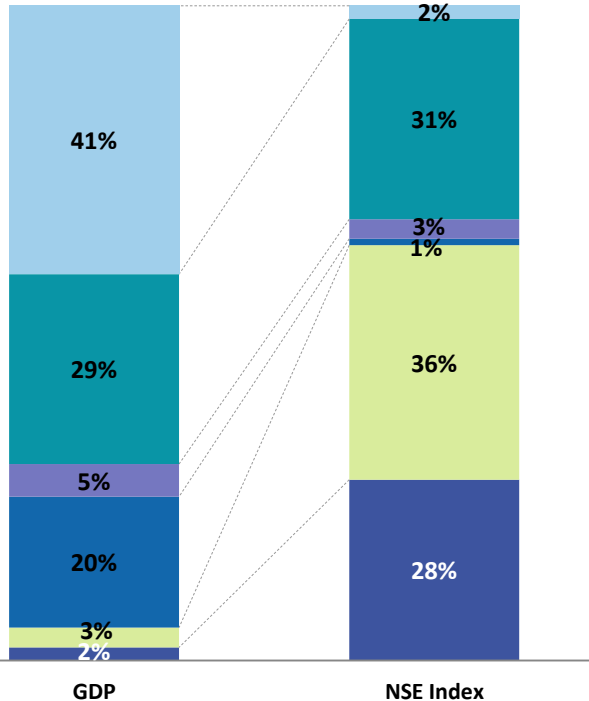
Accessing the opportunity

Public markets are not always reflective of the overall economic landscape...

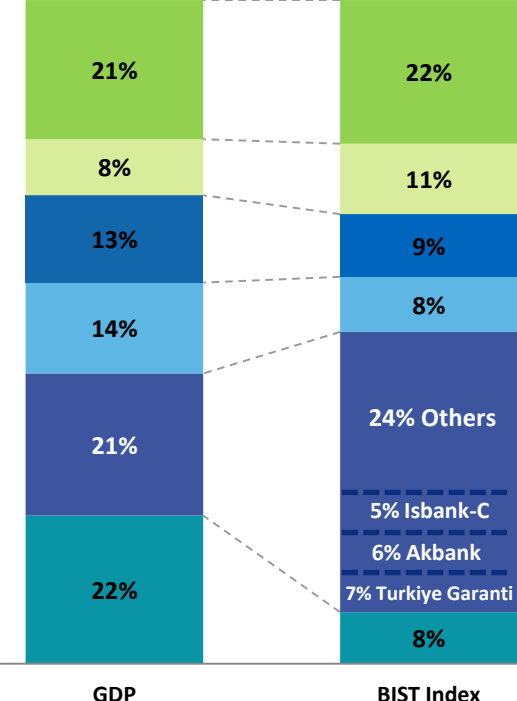
Sector Composition in Mexico



Sector Composition in Nigeria



Sector Composition in Turkey



- Manufacturing
- Financials
- Industrials, Telecoms & IT
- Discretionary
- Logistics
- Construction
- Others
- Staples
- Materials
- Energy
- Communications

Accessing the opportunity

...and present their own nuances

Illiquidity

Limited market liquidity and depth

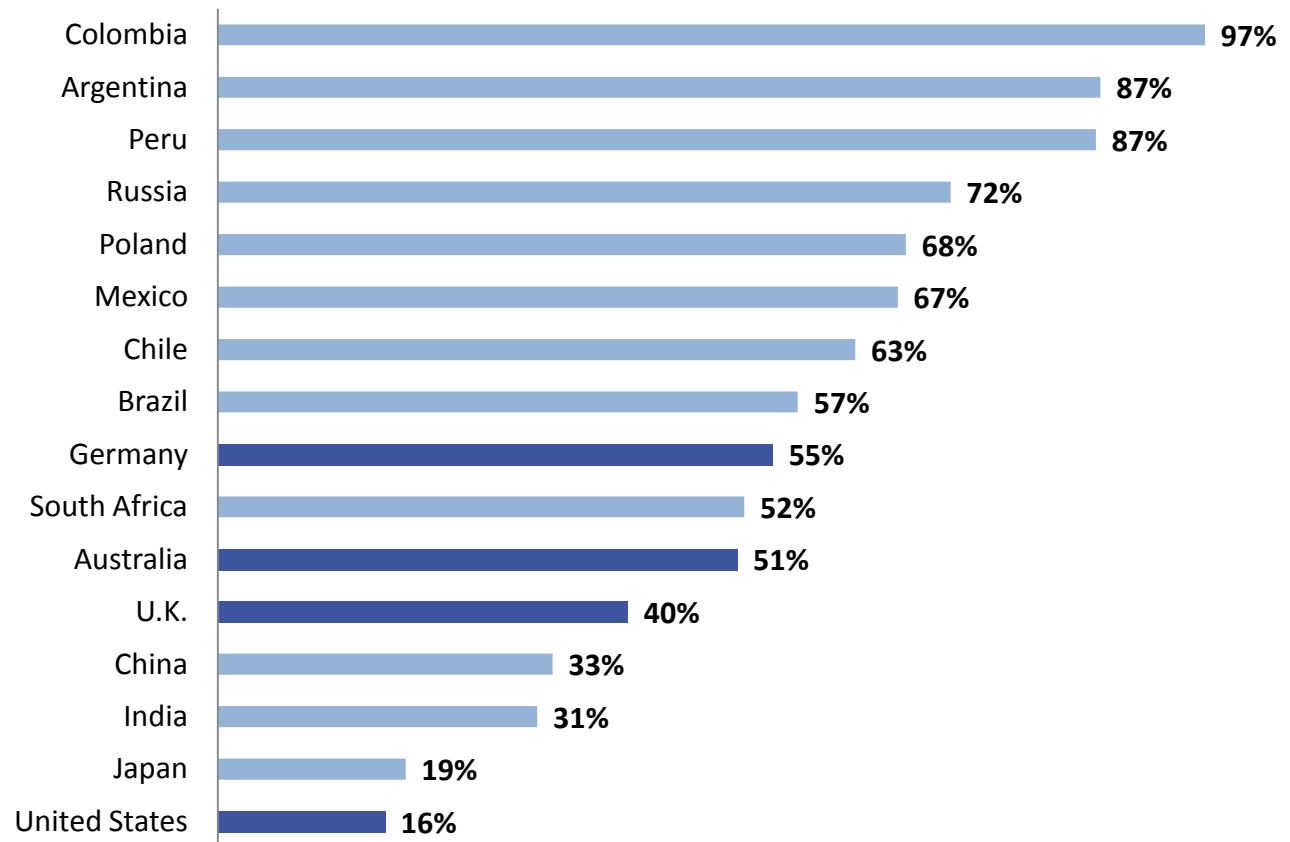
Market trading velocity¹ in GGMs is **44% versus 75%** in developed markets

Limited Micro Access

Exchanges are dominated by a **handful of companies** operating in select sectors

Restricted access to small-to-mid-sized growth companies limits diversification

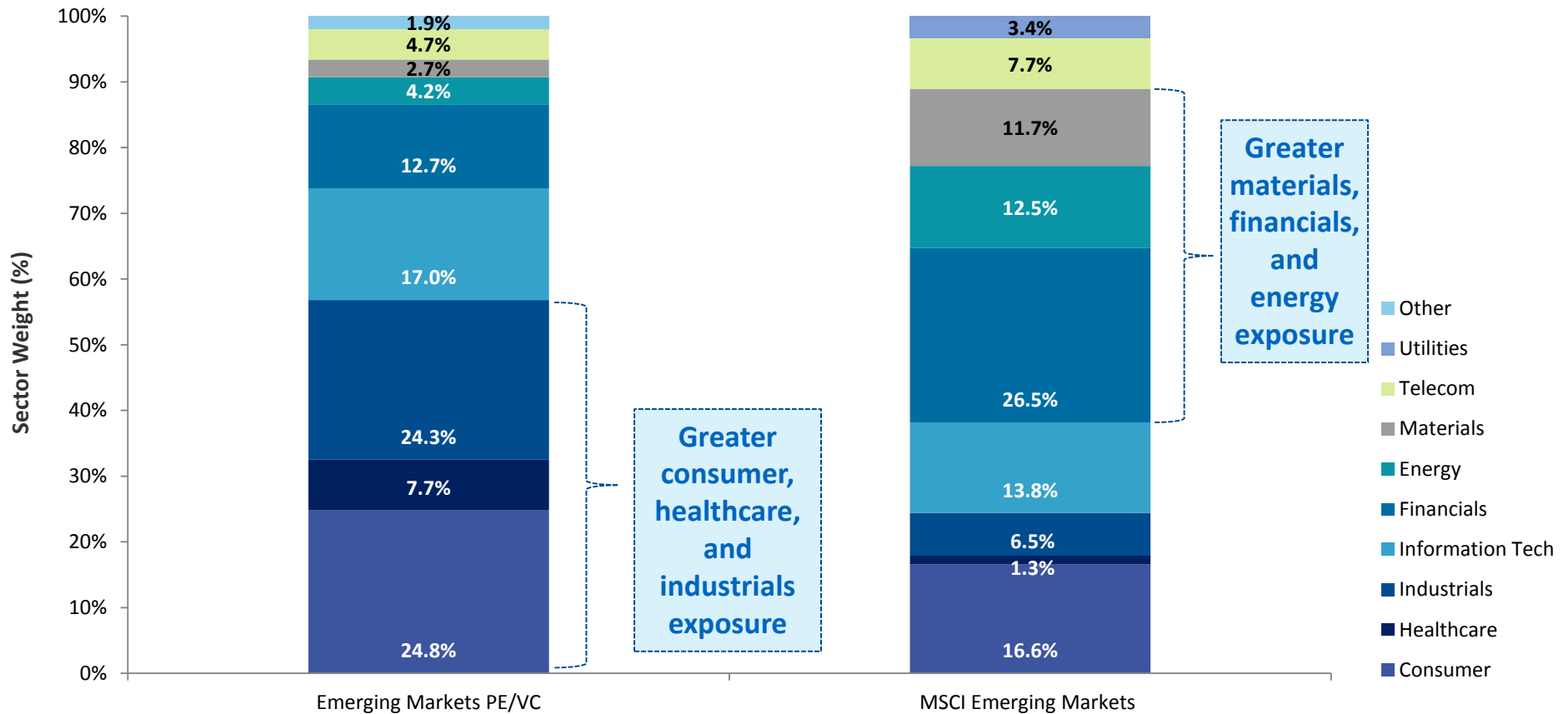
Share of Market Cap Held by Top 10 Firms in Selected Countries



Accessing the opportunity

Private and public markets provide different sector exposures in these countries

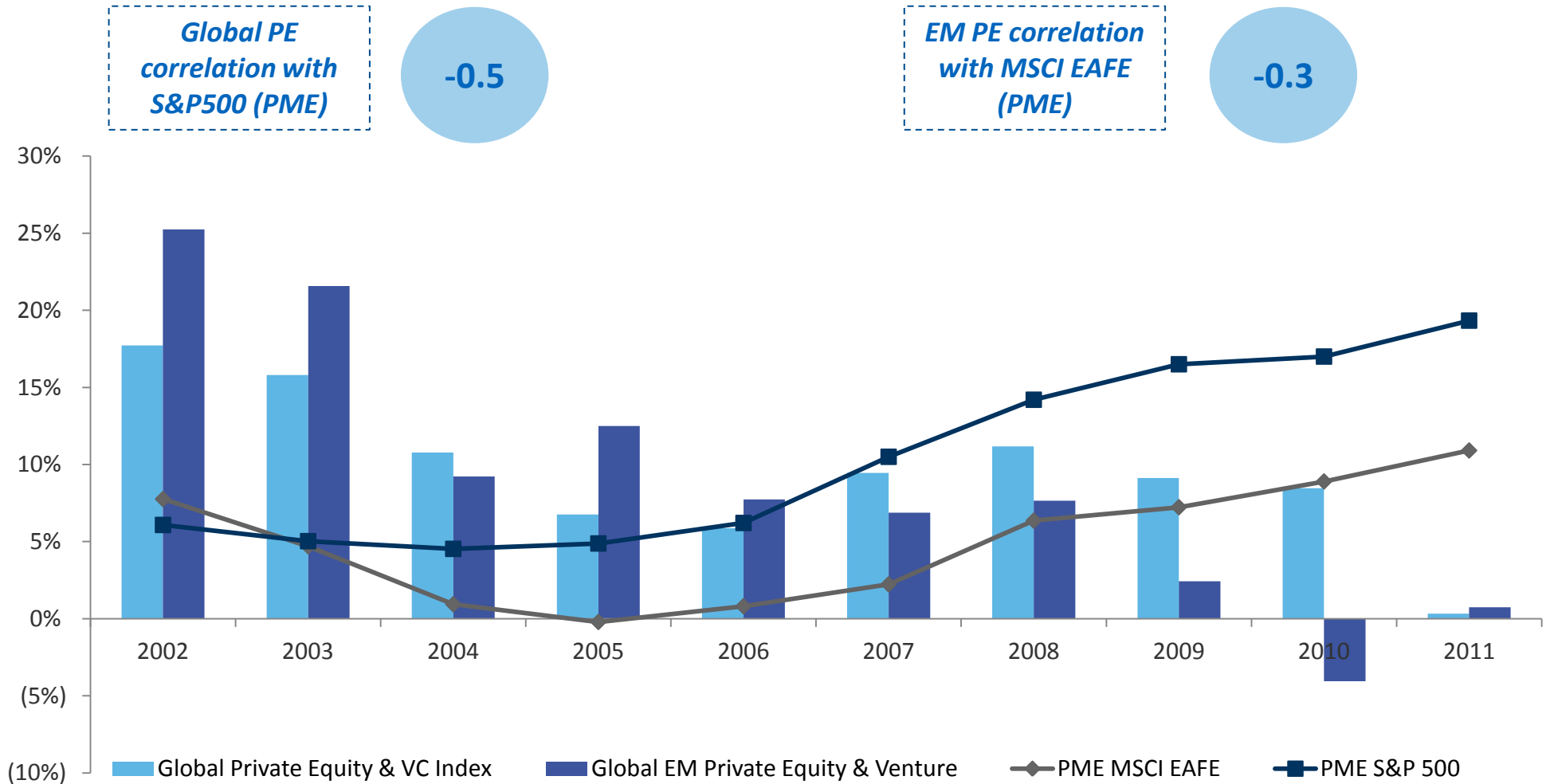
MSCI EM Index and Cambridge Associates EM PE/VC Index Sector Exposure, December 2012



Private versus Public Index Comparison (2012)

Accessing the opportunity

Private equity returns less correlated with public market over the last decade



Within private equity, investment strategy is a natural diversifying factor

Growth Equity vs. LBO

Earnings growth the primary driver of returns

Limited reliance on excessive leverage

PE Competitiveness

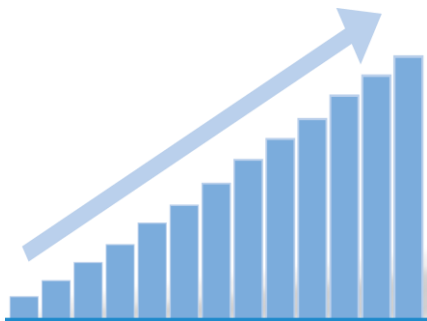
Choice of deals is critical to tap the micro; seek privileged access to growth

Active ownership model in control-themed investments

Regional Plays vs. Country

Sovereign/political risk diversification

Tapping intra-regional growth opportunities

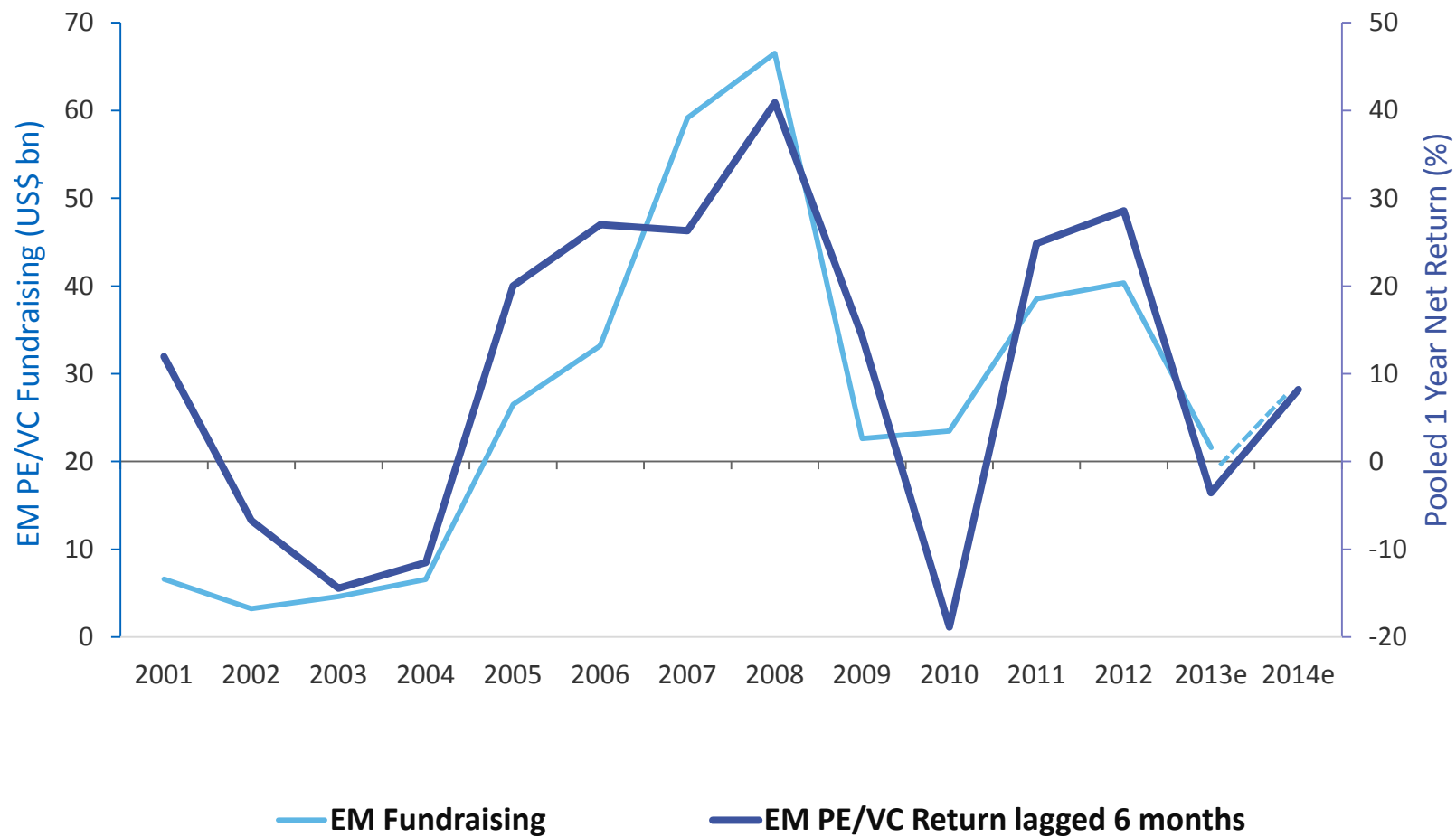


-  **1** | Counterparty risk
-  **2** | Operational risk
-  **3** | Liquidity risk
-  **4** | Legal / regulatory concerns
-  **5** | Macro events
-  **6** | Political issues

<u>Risk</u>	<u>Mitigant</u>
Counterparty Risk	<ul style="list-style-type: none"> ▪ Focus on privileged deal sourcing ▪ Right partnerships ▪ Ensure continued alignment
Operational Risk	<ul style="list-style-type: none"> ▪ In-house operating expertise ▪ Right to drive the growth agenda ▪ Ability to attract right human capital ▪ On-the-ground presence
Liquidity Risk	<ul style="list-style-type: none"> ▪ Not a growth-market specific risk
Legal/Regulatory Concerns	<ul style="list-style-type: none"> ▪ Counterparty selection ▪ Sector selection
Macro Events	<ul style="list-style-type: none"> ▪ Portfolio construction ▪ Active focus on loss reduction ▪ Managing currency risks
Political Issues	<ul style="list-style-type: none"> ▪ Differs from country to country ▪ Sector / counterparty selection critical ▪ Deal with consumers



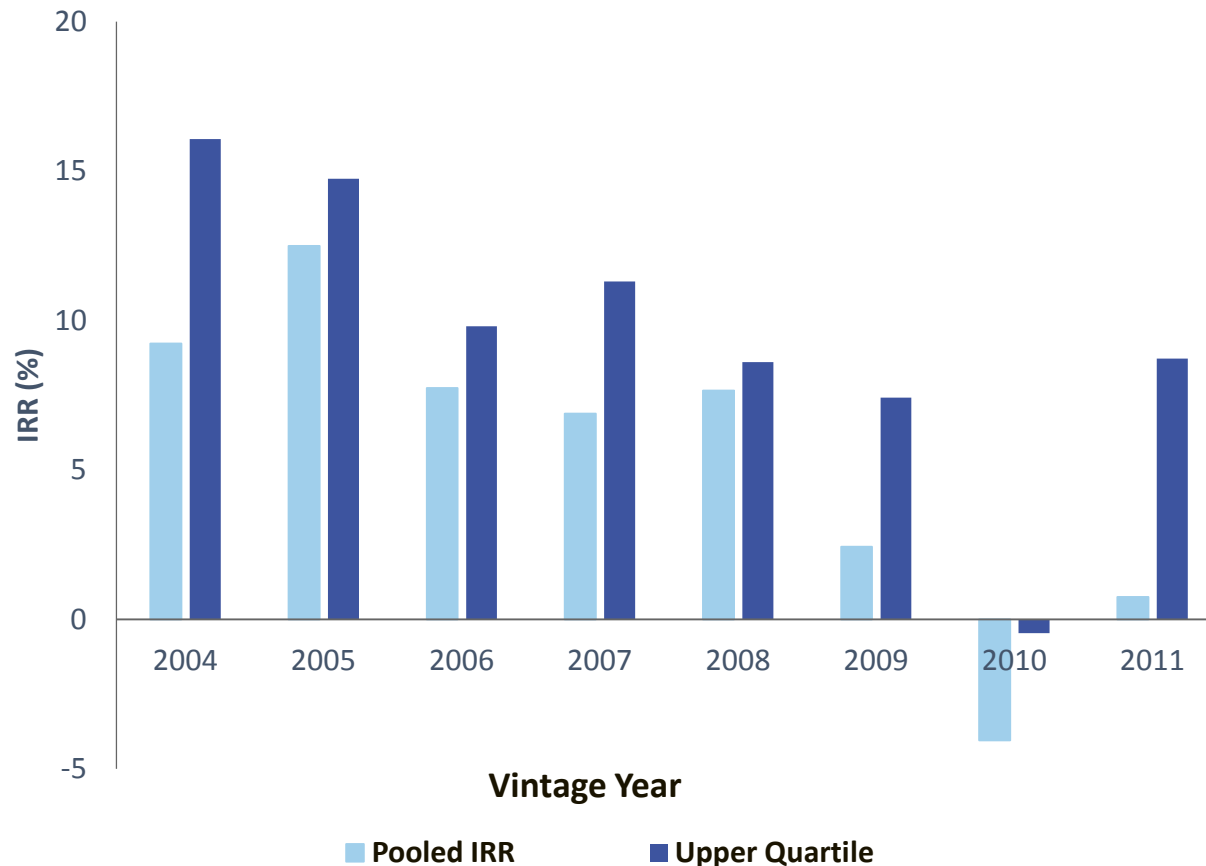
Relationship between fundraising and returns



Factors likely to deter LPs from beginning to invest in Latin America, MENA and SSA regions within the next 2 years

	Ranking	% Of Respondents	Finding
Limited number of established GPs	1	36%	Due diligence critical for success.
Political Risk	2	36%	True. Rewards must compensate for this risk.
Scale of opportunity to invest is too small	3	23%	Smaller funds outperform larger funds.
Prefer exposure via other asset classes	4	15%	Public equity gives inadequate coverage.
Weak exit environments	5	11%	Exits as good or better than developed markets.
Challenging regulatory/ tax issues	6	11%	Evolving and converging with developed markets.
Entry valuations are too high	7	4%	Valuations no worse than developed markets.
Oversupply of funds/too competitive	8	3%	Due diligence critical for success.

Emerging market net IRR



The 2010 vintage has been disappointing but not disastrous. The TVPI for these funds is 0.95, but valuations are recovering and recent returns indicate a healthy recovery:

Emerging market PE/VC returned 8.2% for the year ending 6/30/2013, compared to 3.2% for the MSCI emerging market equity index.

Investor concern with return volatility

Volatility of one year returns is unsettling for investors, but 3 year returns are consistently greater than 10%

Three-year and one-year emerging markets PE/VC returns at each quarter since 2008



Key takeaways

- 1 Global growth story is not just about the BRICs, and extends to markets across Africa, Asia, and Latin America
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Webcast Topics have included:

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- Changing Landscape of EM PE Fund Formation
- Identifying and Mitigating Risks in Southeast Asian Investments
- Investment Spotlight: Secondaries
- The Appeal of Africa: Maximizing Investment Opportunities While Mitigating Risk
- EMPEA Guidelines: A Legal and Regulatory Framework for Global Private Equity
- Private Equity Fund Structuring, Oversight and Administrative Matters
- LP Outlook for Emerging Markets: Preview of EMPEA's 2012 LP Survey Results
- Anti-Corruption Policies: What Every EM PE Practitioner Should Know
- Investment Spotlights: Emerging Europe & Mexico
- The MENA Region: An Overview and Update
- The Impact of the AIFM Directive on PE and VC in Emerging Markets
- Private Equity in North Africa: What Every LP Must Know
- The Impact of the Dodd-Frank Act on Investment Adviser Regulation in the U.S.
- Private Equity Investing in the Middle East, North Africa and South Asia
- Evolving Key Terms & Conditions in Today's EM PE
- How Will the ILPA Principles Shape GP-LP Relationships in Emerging Markets?
- Strategies to Address and Prevent LP Defaults
- Role of the Secondaries Industry in Emerging Markets Private Equity
- Corporate Governance in Emerging Markets Private Equity
- Frontier Markets & Beyond

An EMPEA Professional Development Webcast with CrossBoundary
Investment Spotlight: Frontier Markets and Beyond
Thursday, September 19th at 10:00 EDT, 15:00 BST, 22:00 HKT
Free for EMPEA Members and Qualified LPs
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An EMPEA Professional Development Webcast with Kroll Advisory Solutions
Identifying and Mitigating Risks in Southeast Asian Investments
TUESDAY, 19 MARCH 2013 AT 10:00 EDT / 14:00 GMT / 22:00 HKT
Free for EMPEA Members and Qualified LPs
Kroll Advisory Solutions EMPEA

AN EMPEA PROFESSIONAL DEVELOPMENT WEBCAST WITH ERNST & YOUNG
Investment Spotlight: Changes in China
Thursday, January 24 at 10:00 EST/15:00 UK/23:00 HK
Free for EMPEA Members and Qualified LPs
ERNST & YOUNG EMPEA

An EMPEA Professional Development Webcast
The Appeal of Africa: Maximizing Investment Opportunities While Mitigating Risk with Kroll Advisory Solutions
Wednesday, 26 September 2012 at 10:00 (Washington)/15:00 (London)
Free for EMPEA Members and Qualified LPs
Kroll Advisory Solutions

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EMPEA Guidelines: A Legal and Regulatory Framework for Global Private Equity
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Emerging Markets Private Equity Fund Structuring, Oversight & Administrative Matters
Tuesday, June 5 at 10:00 EDT/15:00 London
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LP Outlook for Emerging Markets: Preview of EMPEA's 2012 LP Survey Results
Wednesday, April 11 at 10:00 EDT/15:00 London
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Anti-Corruption Policies: What Every EM PE Practitioner Should Know
Thursday, March 29 at 10:00 EDT/15:00 London
Free for EMPEA Members and Qualified LPs
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EMPEA Contact Information

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