



# LP Outlook for Emerging Markets: Results from EMPEA's 2018 Global Limited Partners Survey

An EMPEA webcast with expert panelists from AP2, Time Partners and Capital Dynamics

# Upcoming EMPEA events

- Register now for Emerging Markets Private Equity Week in Washington, DC
  - 14 May 2018: [8th Annual Institutional Investors-Only Summit](#)
  - 15-16 May 2018: [20th Annual IFC/EMPEA Global Private Equity Conference](#)
  - 15 May 2018: [20<sup>th</sup> Anniversary Celebration](#)
  - 17 May 2018: [EMPEA Private Equity Masterclass](#)
  - To register, please visit [globalpeconference.com](http://globalpeconference.com)
- Join us in São Paulo for EMPEA's [4<sup>th</sup> Private Equity Masterclass in Brazil](#)
  - 6 June 2018 (following Congresso ABVCAP on 4-5 June)
  - EMPEA and ABVCAP members receive complimentary registration with the member code: SP2018

For more information on these events and other EMPEA programming, please contact [programs@empea.net](mailto:programs@empea.net).

# Today's agenda

- Introduction from panelists
- Survey overview and methodology
- Presentation of key findings and panel discussion
- Audience Q&A

# Today's speakers



**Camilla Axvi**

Head of Private Equity, External Managers  
*AP2, Andra AP-fonden*



**Mark Florman**

CEO  
*Time Partners*



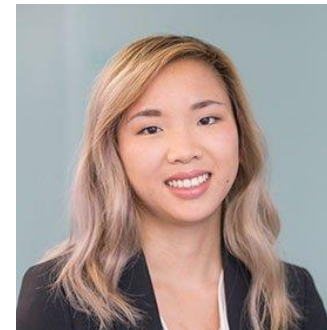
**Janusz Heath**

Managing Director and Head of Investment  
Management, Emerging Markets  
*Capital Dynamics*



**Jeff Schlapinski**

Director, Research  
*EMPEA*



**Rae Winborn**

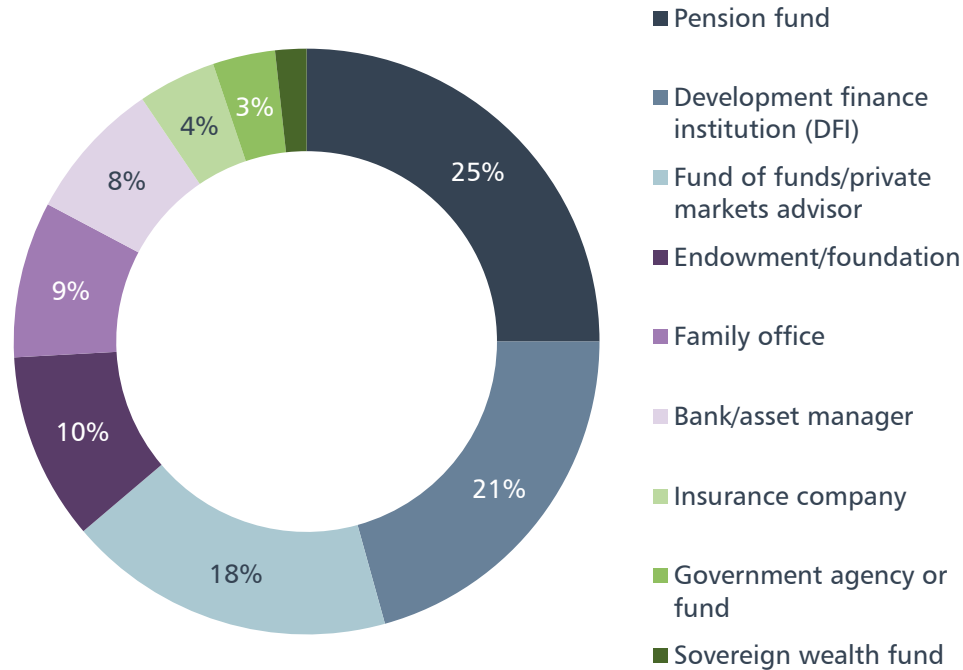
Manager, Research  
*EMPEA*

EMPEA's 2018 *Global Limited Partners Survey*

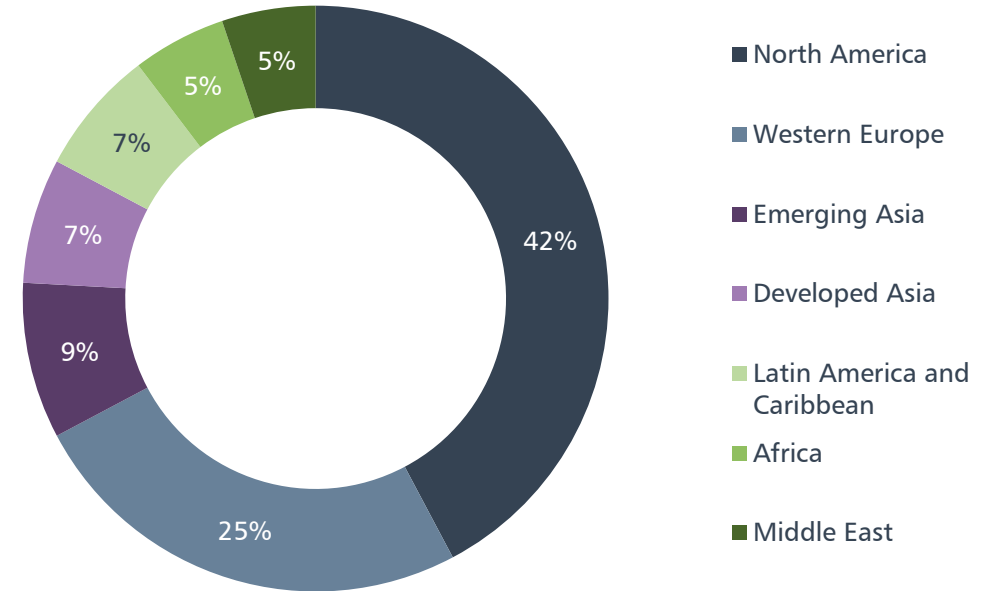
# Survey Overview and Methodology

# Respondent profile

## Respondents by Institution Type



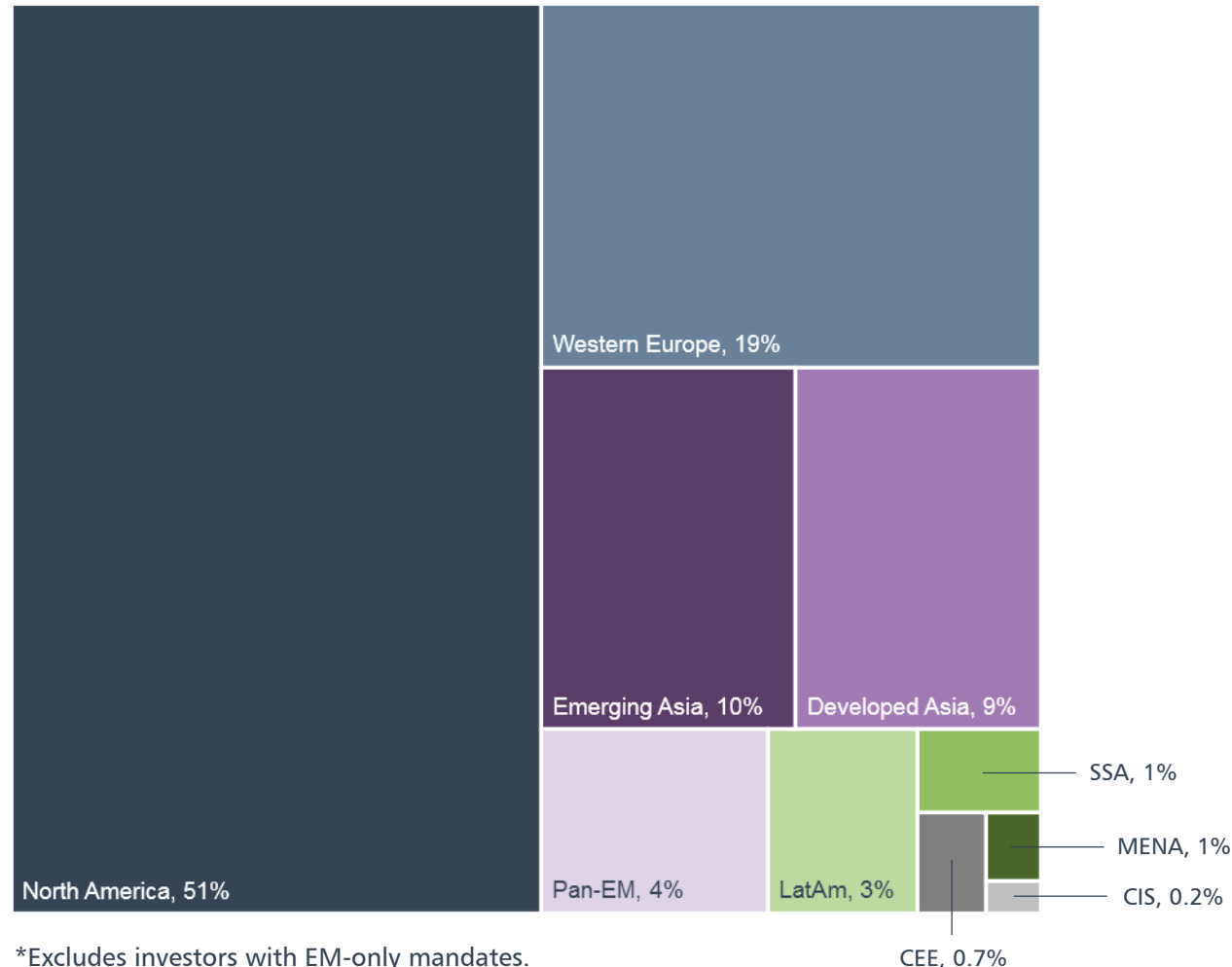
## Respondents by Headquarter Region



In February and March 2018, EMPEA surveyed 116 representatives from 107 different limited partners (LPs) headquartered across 36 countries—collectively representing more than US\$358 billion in reported global PE assets under management and US\$5.7 trillion in total AUM—to gather their views on emerging markets private equity (EM PE).

# Respondent profile *(continued)*

Disclosed Distribution of Current Committed Capital in Global PE Portfolio\*



92%

Percentage of respondents currently invested in at least one EM PE fund

78%

Percentage of respondents who have been investing in EM PE funds for more than five years

20%

Percentage allocation to EM in the PE portfolio of the average surveyed institution\*

# Results summary

- EM on the upswing?
  - A higher proportion of respondents\* plans to increase the dollar value of their commitments to EM PE than in any edition of the survey since 2014
- Emerging Asia divergence
  - Asian geographies lead EMPEA's 2018 market attractiveness rankings and LP return expectations
  - Perceived political risk and currency risk, as well as return premiums that would justify commitments, are higher for EM geographies outside of Asia
- Venture capital and private credit may figure more prominently in LPs' future investment plans
- Most LPs do take social and environmental impact into account, but few have dedicated allocations
- Manager selection
  - LPs appear more likely to expand commitments to country-dedicated and sector-specific GPs than to multi-strategy fund managers
  - Most LPs are neutral or cautious, but not opposed to EM PE fund managers' use of fund subscription lines of credit
- Return drivers and value creation
  - Middle-market funds are expected to generate the highest net returns for the 2017 vintage
  - GPs' ability to drive operational improvement are expected to have the biggest impact on returns from 2017-vintage EM PE funds
  - Half of survey respondents believe EM PE fund managers' value creation abilities are behind those of their DM counterparts

\*Excludes investors with EM-only mandates.



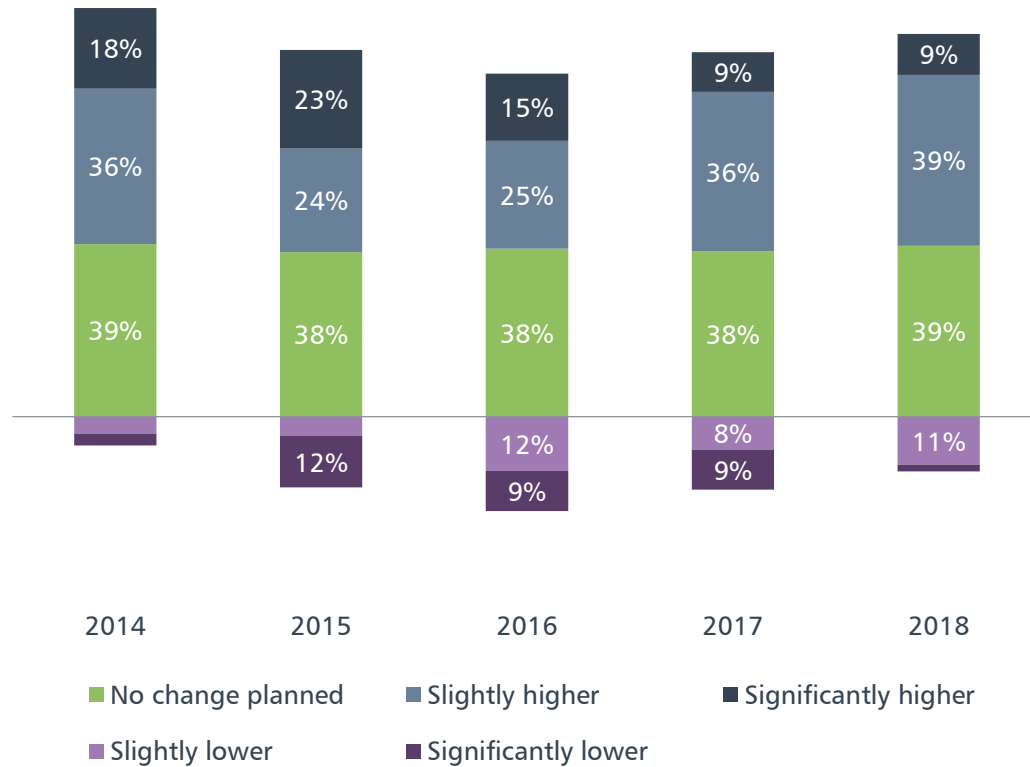
EMPEA's 2018 *Global Limited Partners Survey*

# Key Findings and Panel Discussion

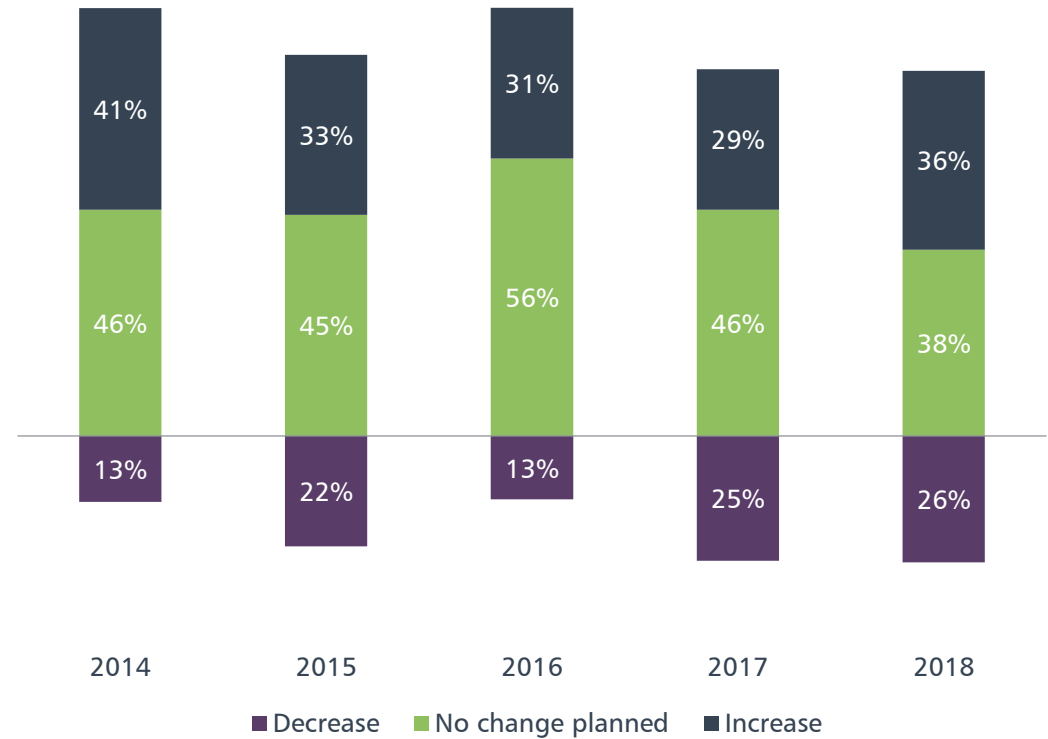
# Overall commitment levels

Has LP sentiment toward EM PE turned a corner?

Anticipated Level of New Commitments to EM PE Funds over the Next Two Years, 2014-2018\* (% of Respondents)



LPs' Planned Changes to Proportion of Total PE Allocation Targeted at EM PE over the Next Two Years, 2014-2018\* (% of Respondents)

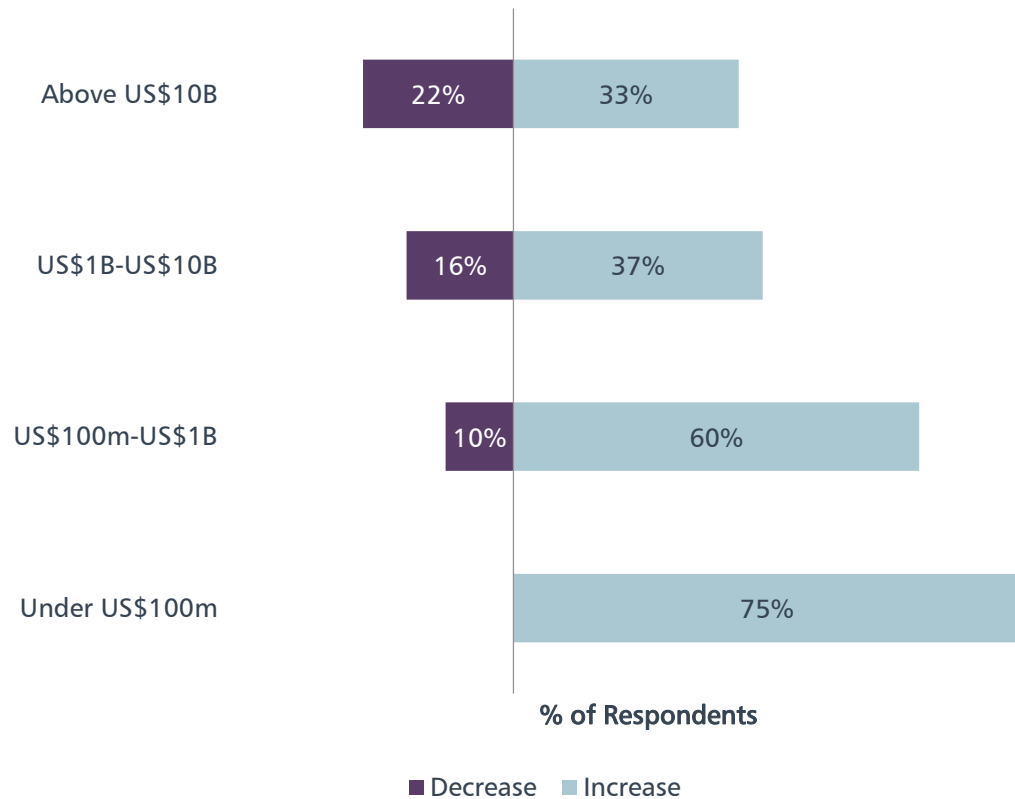


\*Excludes investors with EM-only mandates.

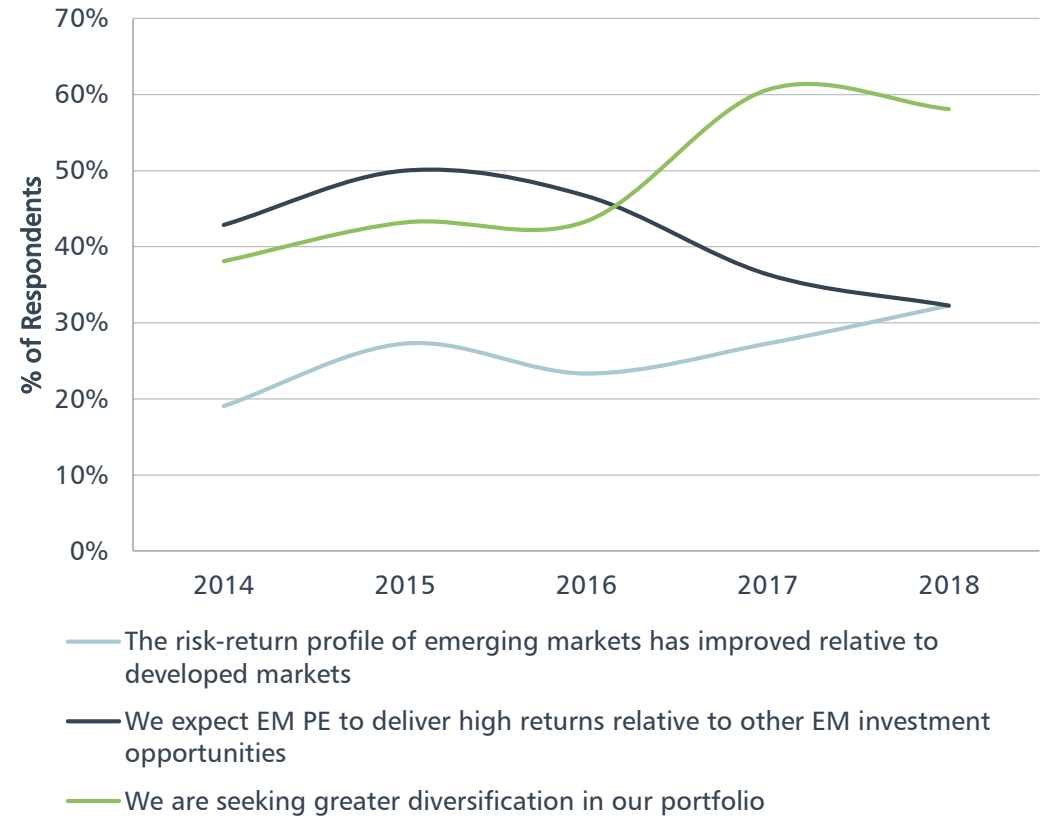
# Overall commitment levels *(continued)*

LPs' reasons for increasing commitments to EM PE appear to be evolving

Anticipated Level of New Commitments to EM PE Funds over the Next Two Years – By PE AUM\*



LPs' Reasons for Beginning or Increasing Commitments to EM PE Funds over the Next Two Years, 2014-2018\*

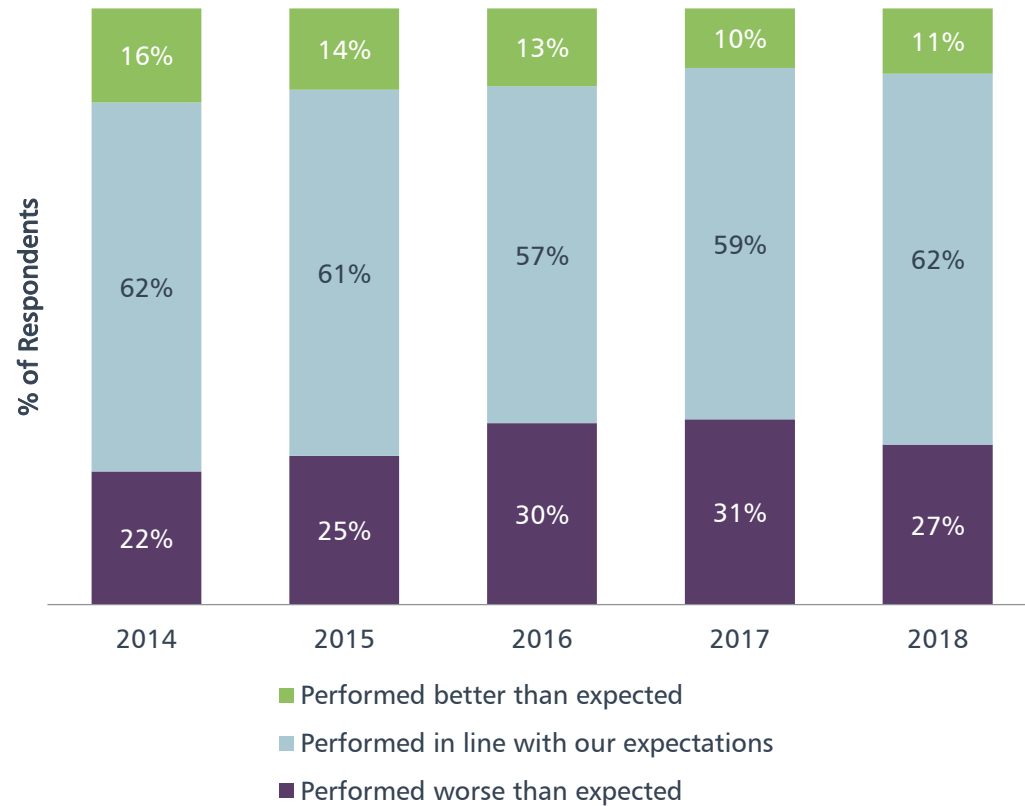


\*Excludes investors with EM-only mandates.

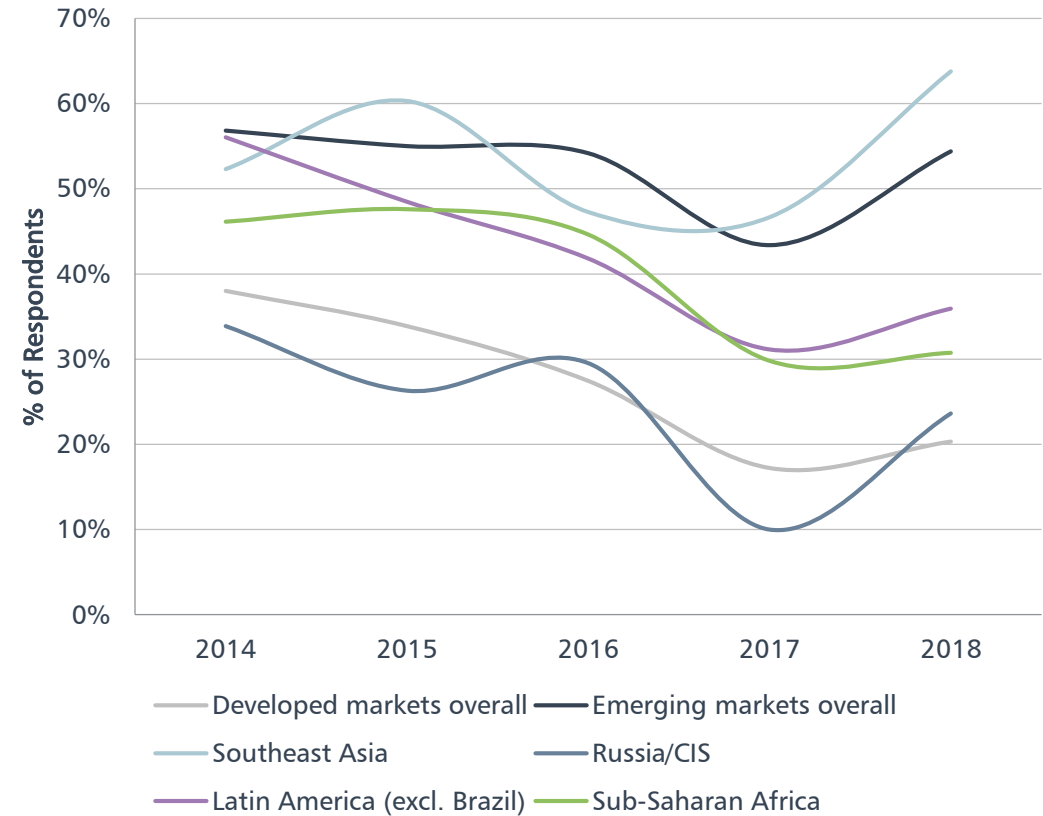
# Returns satisfaction and future expectations

LPs' satisfaction with returns is marginally higher, and expectations for the future have increased

EM PE Portfolio Performance Relative to Expectations, 2014-2018\*



Net Return Expectations of 16% or More for Select Markets, 2014-2018

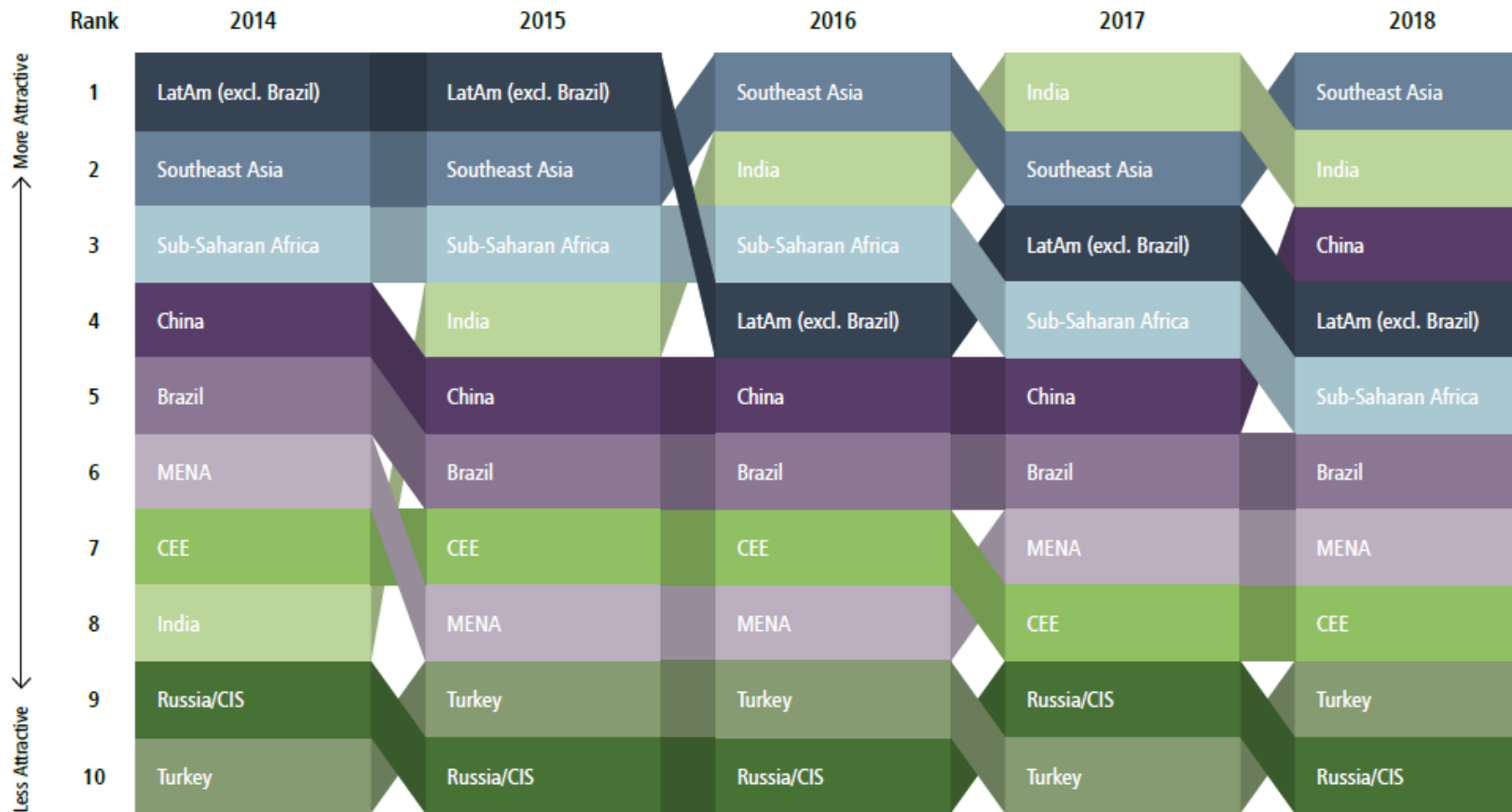


\*Excludes LPs that felt it too soon to assess the performance of their portfolios.

# 2018 market attractiveness rankings

Southeast Asia leads the pack, followed by neighboring Asian markets

The Attractiveness of Emerging Markets for GP Investment over the Next 12 Months

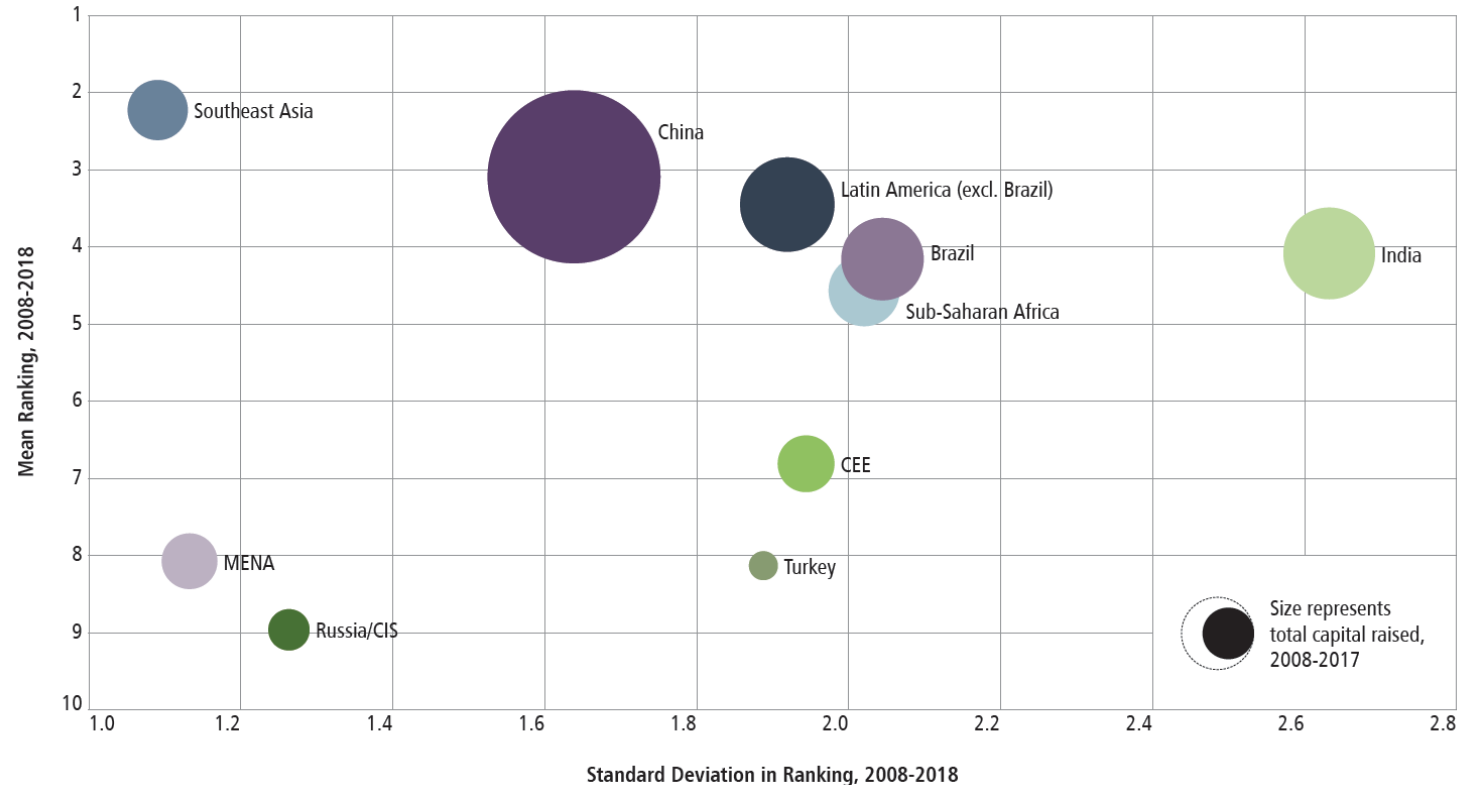


“In Southeast Asia, demographics power consumption. There are opportunities to leapfrog to internet-enabled solutions, as well as huge scope for health care investments.”  
–DFI

# Attractiveness rankings historical analysis

Southeast Asia and India have been the least and most volatile, respectively

Market Attractiveness Rankings Historical Analysis – Mean, Dispersion and Total Capital Raised



Central and Eastern Europe is relatively undervalued. Growth rates in these markets are higher than in developed markets, and exchange rates are expected to be stable over the next two years relative to the euro.”  
–DFI

Note: Southeast Asia was classified as "Other Emerging Asia" in 2010 and 2011 (and prior to that, not included in the survey). Sub-Saharan Africa was classified as "Africa (excl. South Africa)" from 2008 through 2010 and MENA as "Middle East" from 2008 through 2010. Turkey replaced South Africa (subsequently omitted) in the 2011 survey. "Total capital raised" figures are drawn from the EMPEA Industry Statistics (data as of 31 December 2017).

# Deterrents to investing

Factors Likely to Deter LPs from Investing in Individual Emerging Markets/Regions Within the Next Two Years\*

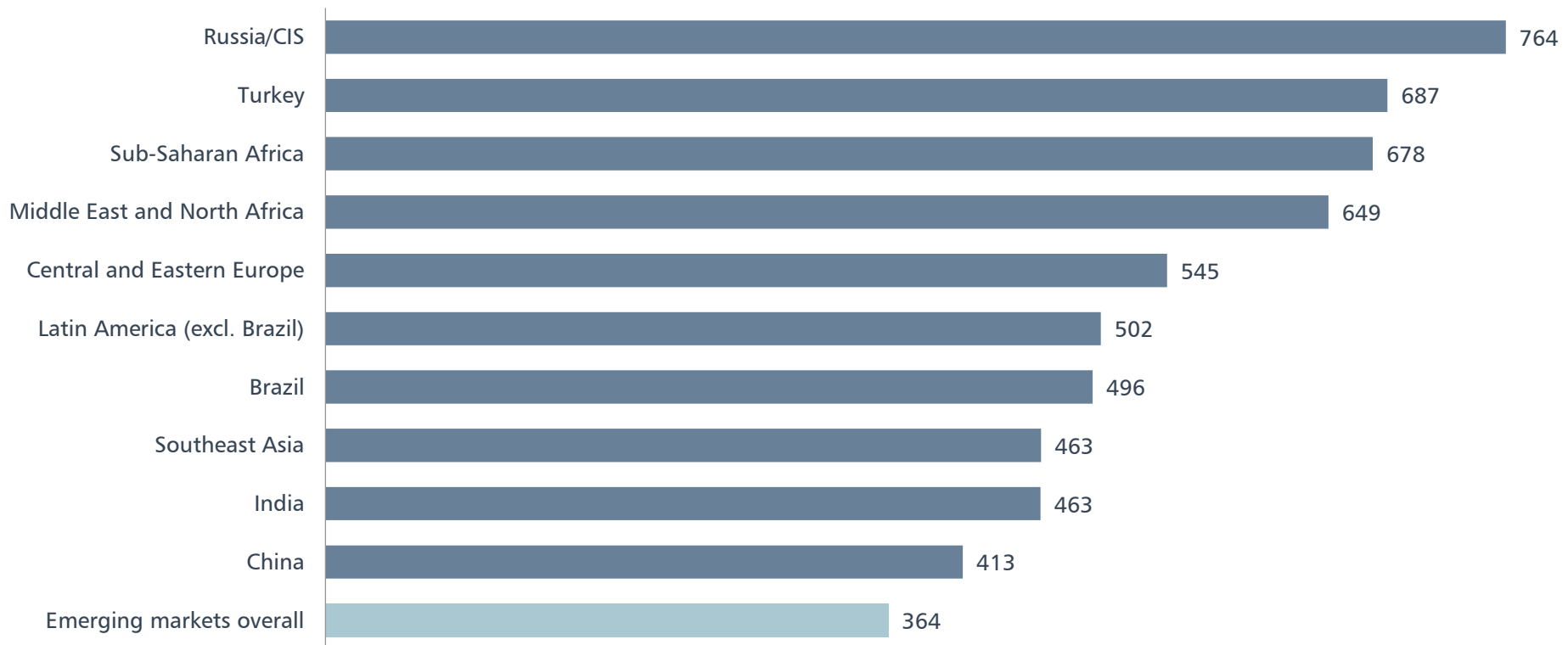
	Already at recommended exposure	Historical performance	Limited number of established fund managers	Oversupply of funds (too competitive)	Scale of opportunity to invest is too small	Entry valuations are too high	Weak exit environments	Challenging regulatory/tax issues	Prefer exposure via other asset classes	Political risk	Currency risk
China	26%	5%	5%	19%	2%	14%	10%	31%	21%	36%	17%
India	24%	17%	17%	7%	5%	24%	24%	24%	17%	10%	29%
Southeast Asia	15%	6%	42%	3%	15%	9%	18%	24%	15%	18%	30%
Russia/CIS	9%	11%	21%	0%	11%	0%	18%	36%	12%	70%	33%
Turkey	7%	7%	21%	0%	14%	2%	18%	26%	16%	72%	42%
Central and Eastern Europe	15%	10%	27%	0%	27%	0%	17%	15%	24%	22%	17%
Brazil	27%	15%	12%	7%	2%	5%	17%	29%	15%	39%	59%
Latin America (excl. Brazil)	13%	13%	34%	0%	25%	3%	25%	25%	16%	34%	53%
Middle East and North Africa	11%	15%	41%	0%	26%	0%	24%	24%	15%	50%	37%
Sub-Saharan Africa	10%	12%	44%	0%	29%	0%	34%	37%	15%	61%	51%

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

# Desired return premiums

With the exception of CEE, higher perceived political and currency risk are associated with higher expected return premiums

Return Premium over Developed Markets That Would Justify Decision to Commit to EM PE Funds (Mean Respondent, Basis Points)

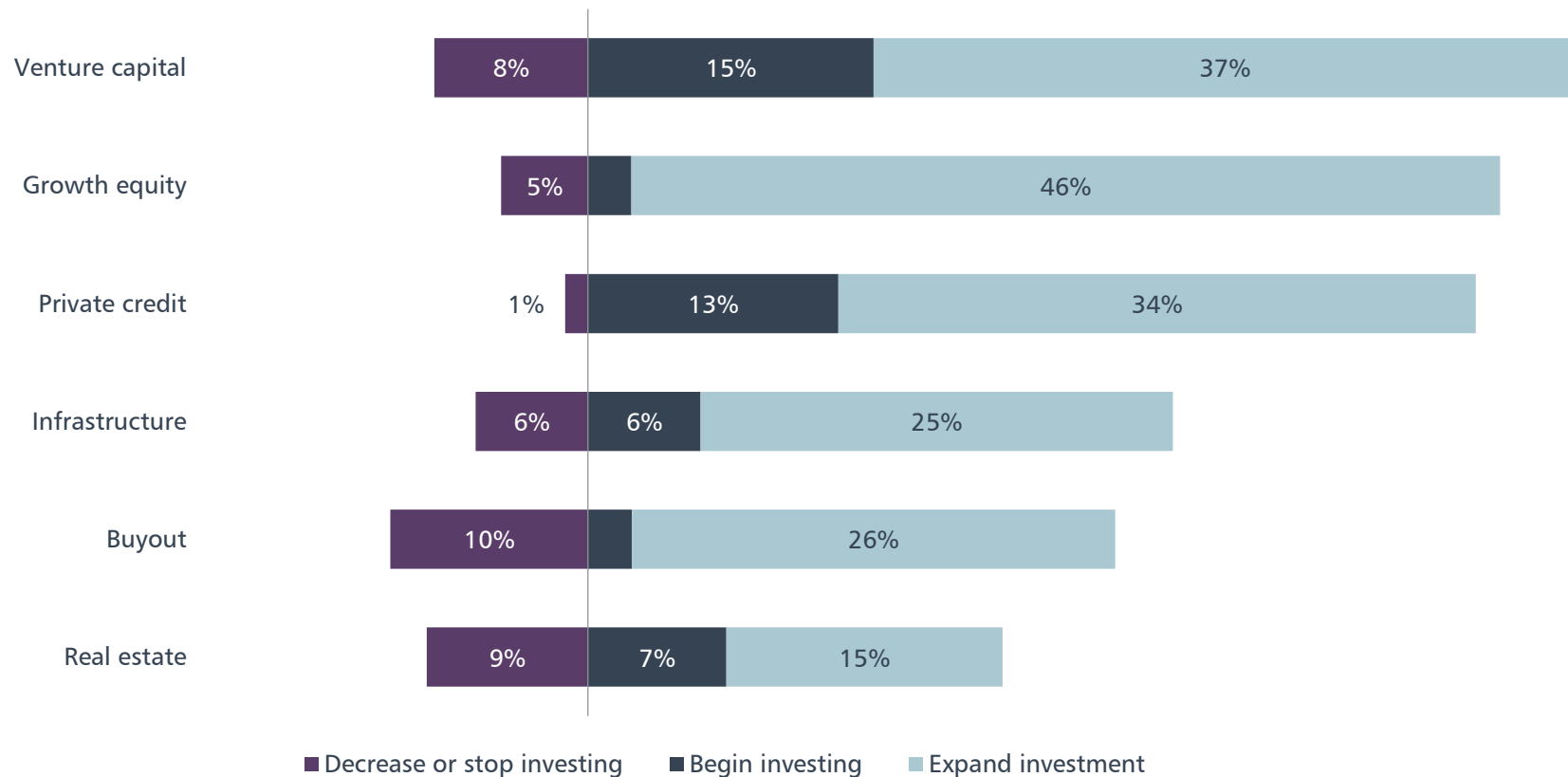




# Fund strategies

The proportion of respondents planning to begin or expand investing in venture capital and private credit funds has increased since the 2016 edition of the survey

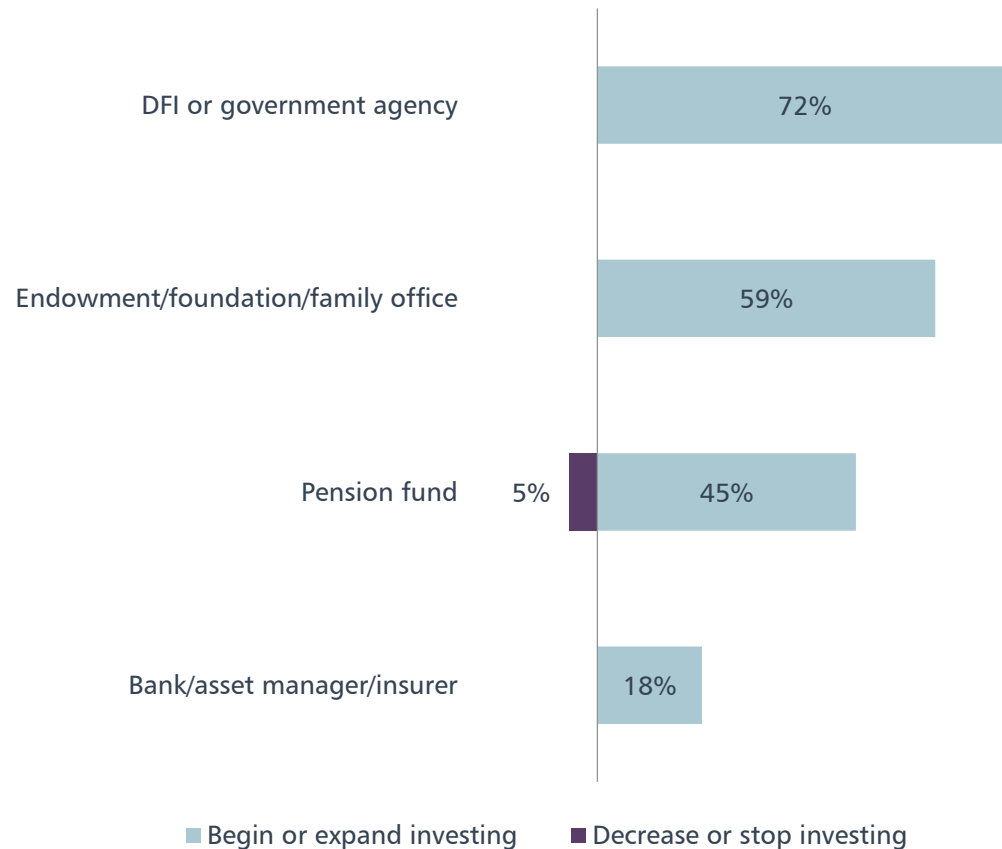
Planned Changes to EM PE Investment Plans over the Next Two Years – Fund Strategies (% of Respondents)



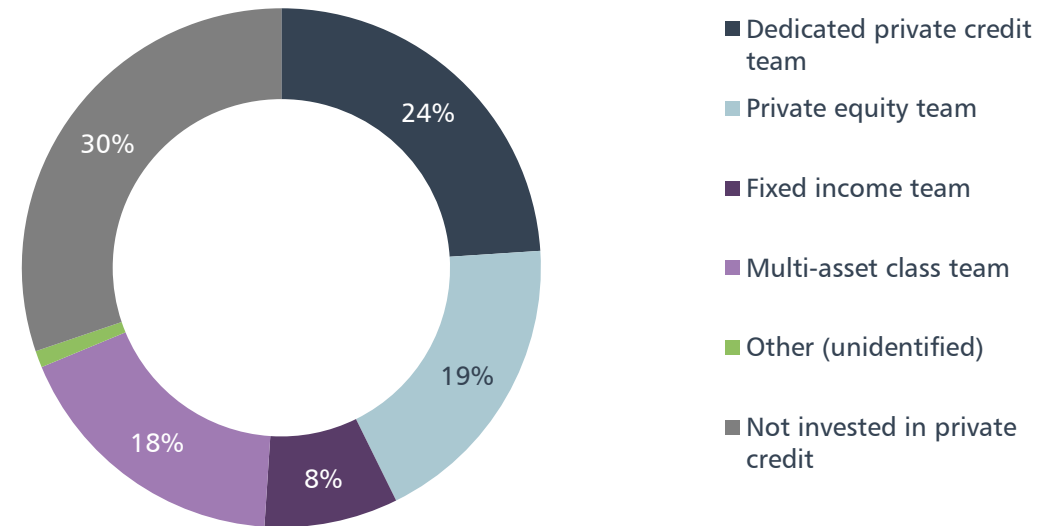
# A closer look at private credit

While commitments to private credit are rising, most LPs do not have dedicated private credit teams

Planned Changes to EM Private Credit Investment Plans by Institution Type (% of Respondents)



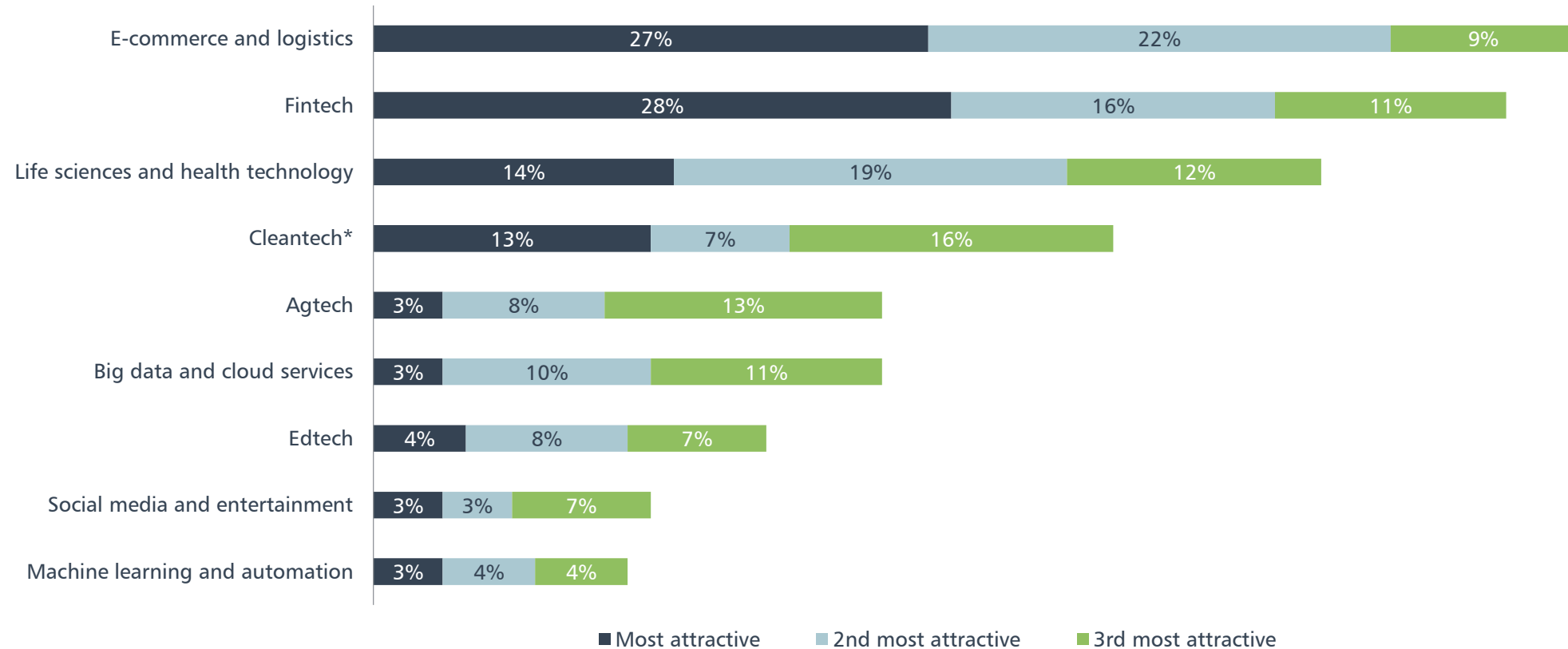
Team or Department Responsible for Private Credit Investment Decisions (% of Respondents)



# Attractiveness of technology areas

Respondents express strongest conviction in e-commerce and fintech

Most Attractive Technology Areas for EM Investment over the Next Two Years (% of Respondents)

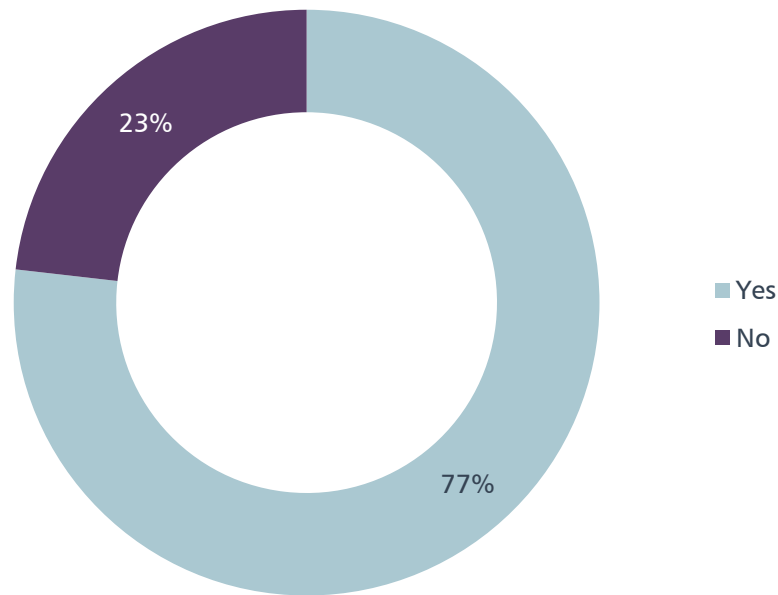


\*Includes renewable power and energy storage.

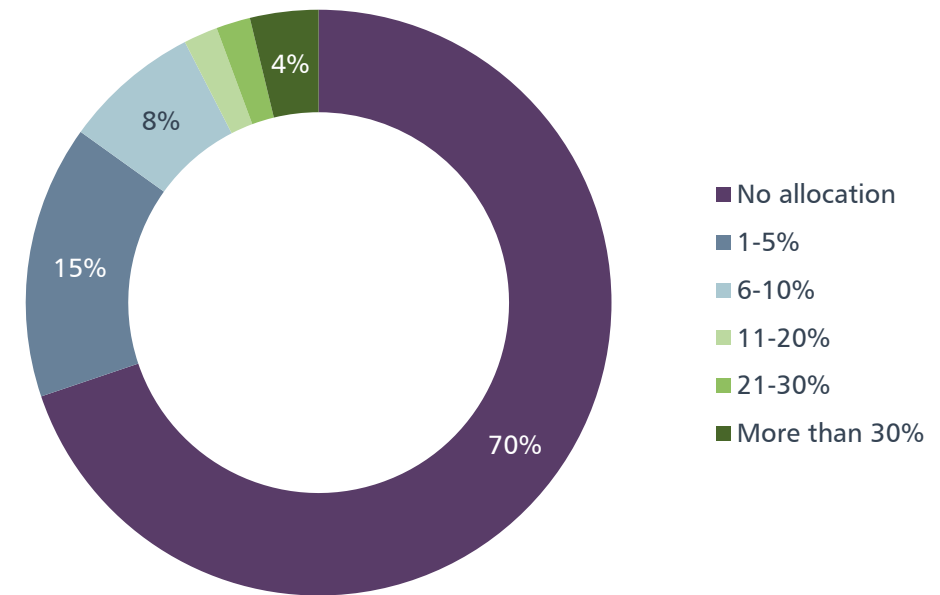
# Consideration of impact vs. impact investing

Most LPs take impact into account, but few have dedicated allocations

Does Your Institution Take Social or Environmental Impact into Account When Making Investment Decisions?\*



Percentage of PE Portfolio Dedicated to Impact Investing\*

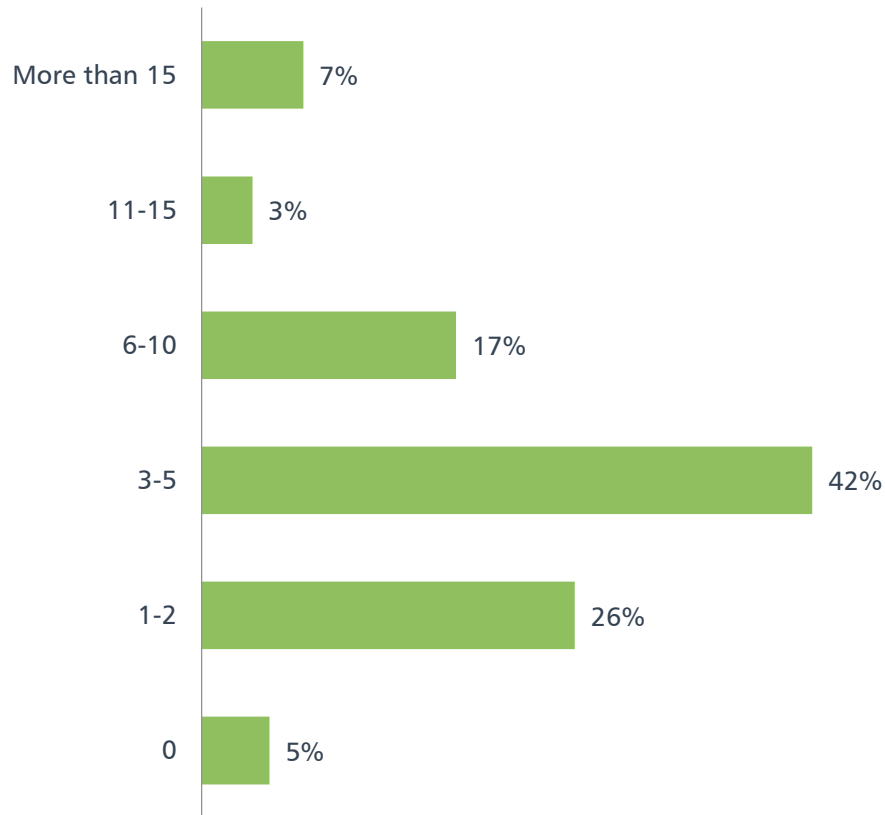


\*Excludes DFIs, government agencies and investors with impact-only mandates. Proportions indicate the percentage of respondents for each answer choice.

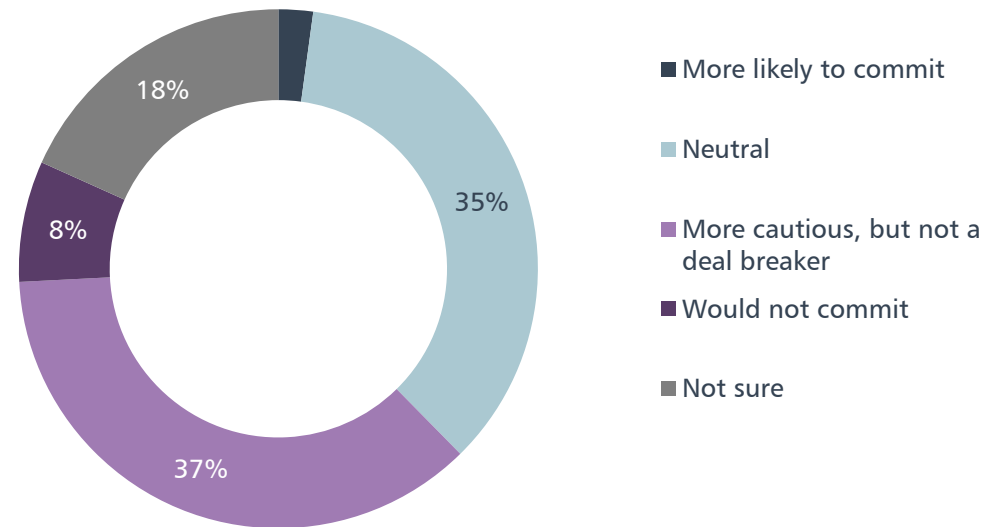
# Manager selection

Most LPs are adding at least some new EM PE fund manager relationships

Number of New EM PE Fund Manager Relationships Expected in the Next Three Years (% of Respondents)



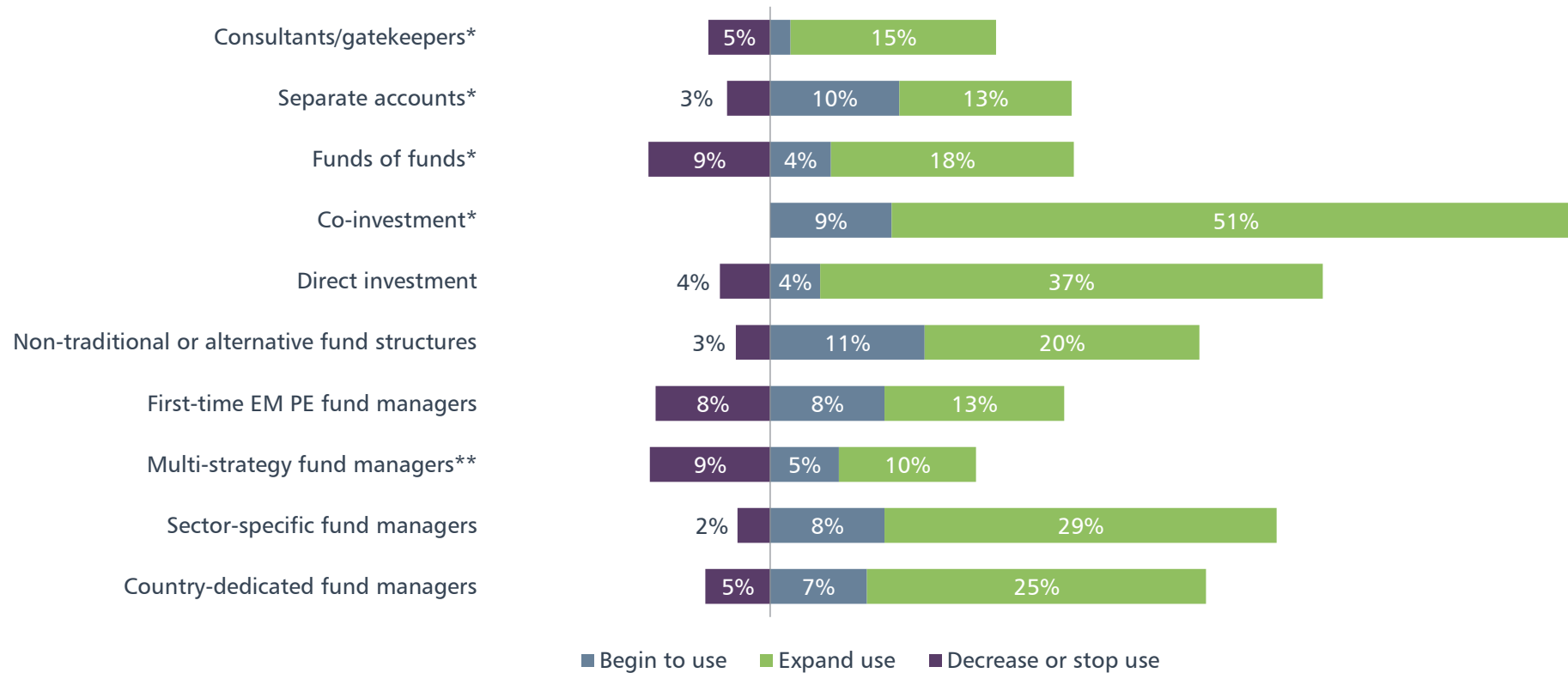
Effect of EM PE Fund Manager's Use of Subscription Credit Lines on Decision to Commit (% of Respondents)



# Means of accessing EM opportunities

Will LPs favor country-dedicated and sector-specific fund managers to multi-strategy GPs?

LPs' Planned Changes to Means of Accessing EM PE Investment Opportunities over the Next Two Years (% of Respondents)



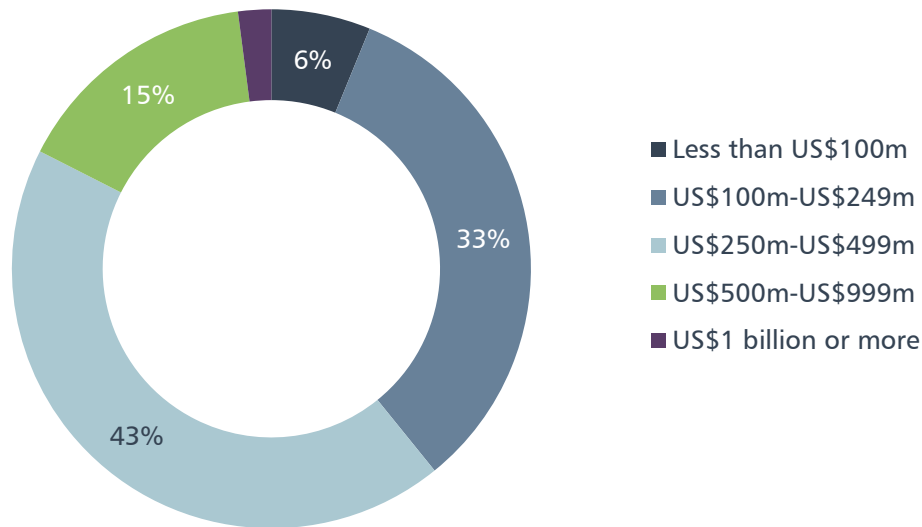
\*Responses exclude funds of funds and private markets advisors.

\*\*Multi-strategy fund managers includes GPs with multiple funds dedicated to different asset classes and/or geographies.

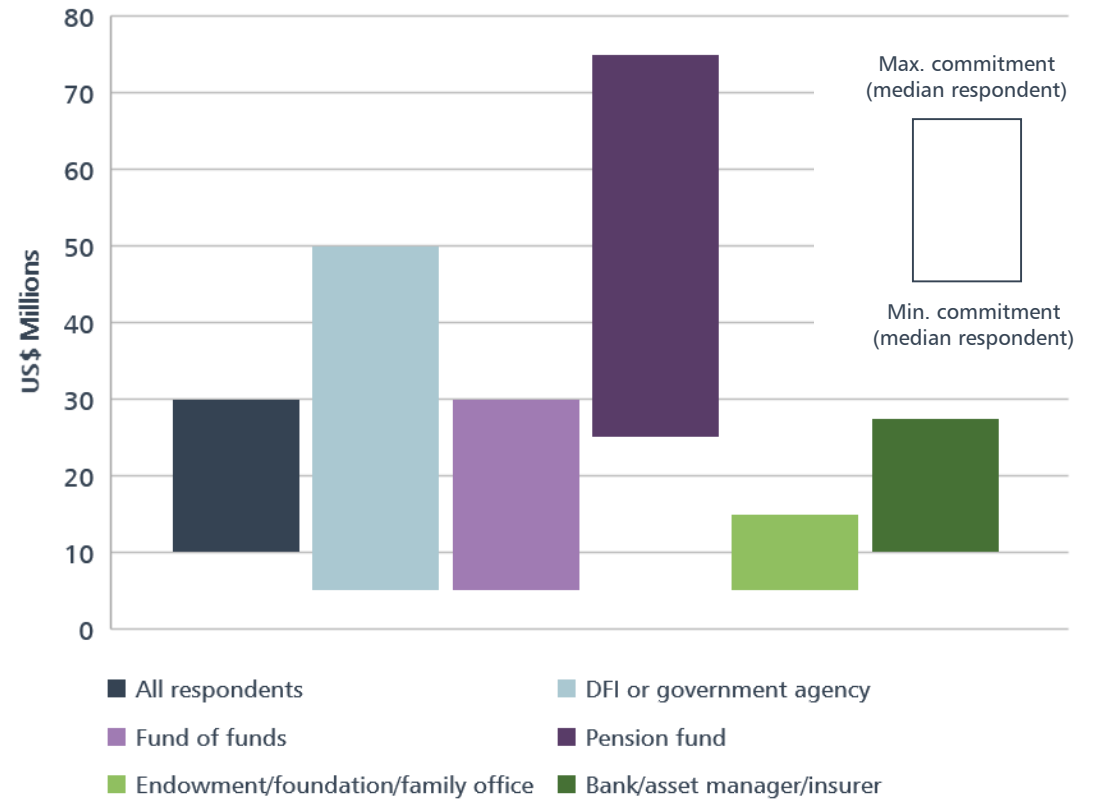
# Fund size vs. commitment size

Mid-size funds are expected to generate the highest net returns

2017-vintage Fund Size Segment Expected to Generate the Highest Net Returns (% of Respondents)



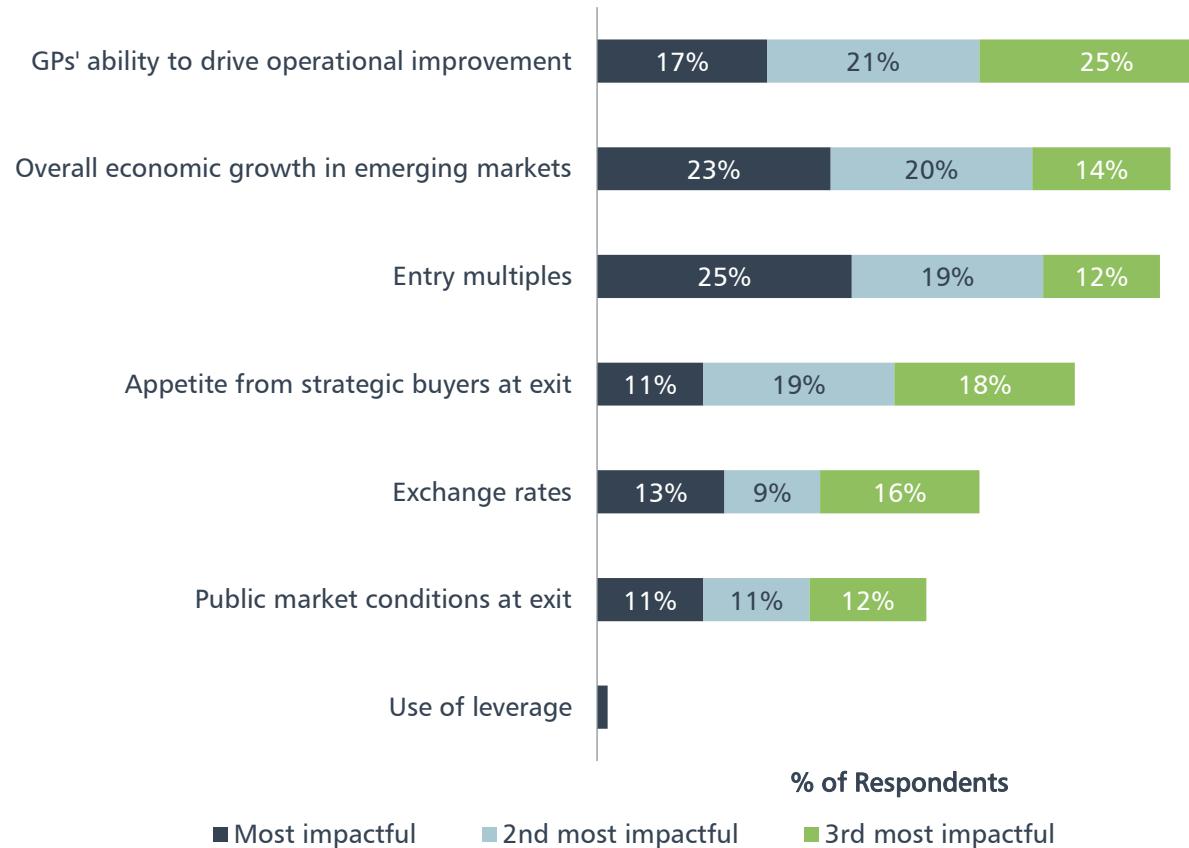
Minimum and Maximum Commitment Sizes to EM PE Funds by Institution Type



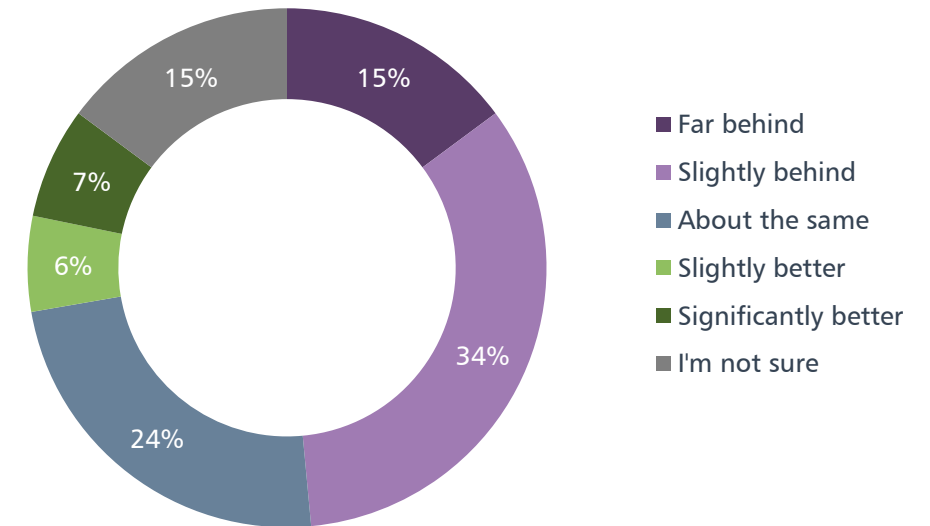
# Return drivers and value creation

LPs indicate GPs' operational skills will have the biggest impact on future performance

Return Drivers Expected to Have the Biggest Effect on the Performance of 2017-vintage EM PE Funds



EM PE Fund Managers' Value Creation Abilities in Comparison to DM Peers (% of Respondents)





# Q&A



**Camilla Axvi**  
Head of Private Equity, External Managers  
*AP2, Andra AP-fonden*



**Mark Florman**  
CEO  
*Time Partners*



**Janusz Heath**  
Managing Director and Head of Investment  
Management, Emerging Markets  
*Capital Dynamics*



**Jeff Schlapinski**  
Director, Research  
*EMPEA*



**Rae Winborn**  
Manager, Research  
*EMPEA*



20<sup>th</sup> GLOBAL  
PRIVATE  
EQUITY  
CONFERENCE

HOSTED BY  
 **IFC** International  
Finance Corporation  
WORLD BANK GROUP  
Creating Markets, Creating Opportunities

IN ASSOCIATION WITH  
 **EMPEA**



122.3354

108.365

106.554

100.665

# 20 YEARS

OF PRIVATE EQUITY INVESTING  
IN EMERGING MARKETS

14-16 MAY 2018 | WASHINGTON, D.C.