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CHINA DECELERATION LEADS TO OVERALL SLOWDOWN IN EMERGING MARKET PRIVATE CAPITAL ACTIVITY

Subdued investment in Asia's largest market, as well as fewer large-cap pan-Asia funds raising capital, rein in total EM activity levels despite bright spots in other regions, including Africa, other countries, such as Brazil and India, and certain sectors, such as oil & gas and fintech

Washington, DC, 24 September 2019: After an unprecedented year for private capital activity in emerging markets (EM) in 2018, EMPEA's Mid-Year 2019 *Industry Statistics* reveal a relative decline in the first half of the year as the fundraising and deal-making pace reverted to 2017 levels. Fund managers raised USD31.9 billion and invested USD26.3 billion across all EM geographies and asset classes—inclusive of private equity and venture capital (VC), private credit, and private infrastructure and real assets—representing declines of 10% and 32%, respectively, year over year.

The decline in fundraising in 1H 2019 was expected given the sheer amount of capital raised in 2018, particularly in Emerging Asia and Latin America. Overall, managers raised USD27.2 billion for Emerging Asia private capital across all strategies in 1H 2019, compared to USD78.2 billion in all of 2018. With many of the region's largest managers on the fundraising trail last year, Latin America also experienced a significant decline in the first half of 2019, with managers raising just USD1 billion. In contrast, Africa-focused fundraising appears to be on an upward trend after two slow years.

The slowdown in private capital investment activity in the first half of 2019 was more pronounced amid rising trade tensions between major economies and a more uncertain global economic outlook. Disclosed capital invested in China, which typically absorbs a substantial share of capital invested in emerging markets, fell from USD15.1 billion in 1H 2018 to USD9.8 billion in 1H 2019, with deal count across all transaction types in the country declining from 582 to 322 over the same period. Nonetheless, the USD26.3 billion deployed so far in 2019 puts emerging markets overall on track for the third highest annual total since EMPEA began tracking investment in 2008. Moreover, capital invested in several geographies, including India, the Middle East, and Latin America, actually increased year over year.

Jeff Schlapinski, EMPEA's Senior Director of Research, noted, "A correction in private capital activity in China was, perhaps, inevitable after a record-breaking 2018. There are plenty of factors to give investors pause, including trade frictions, bad debts in the financial system, and difficulties for some of the largest private technology companies. However, the private capital landscape in China has been robust over the last several years, and investors can adjust to the new conditions from a position of relative strength. In addition, what we are seeing in other markets—increased deal activity in Brazil and India, a rebound in fundraising for Africa-focused vehicles—points to continued confidence in EM opportunities on the part of investors."

Despite an overall decline in EM investment activity, certain sectors remained relatively resilient. Recent trends across emerging markets include:

- **Energy:** While deals in the renewable power segment have increased in recent years, oil & gas pipeline investments proved popular in the first half of 2019. Most notably, KKR and BlackRock invested USD1 billion in equity and USD4 billion overall to ADNOC Oil Pipelines in the United Arab Emirates (UAE), and a Brookfield Asset Management-led consortium acquired India's East West Gas Pipeline for USD960 million. Overall, managers deployed USD3 billion in oil & gas investments, up from just USD600 million in all of 2018.
- **Fintech:** Fintech has proven to be a growing destination for private capital in emerging markets, especially in the payments vertical. Managers deployed over USD1 billion in payments companies in 1H 2019, up from USD895 million in 2018 and just USD184 million in 2017. Many such investments have already begun to bear fruit. The April IPO of UAE-based payments company Network International on the London Stock Exchange raised USD1.4 billion in total and returned USD717 million to private equity investors.
- **Health Care:** Fund managers deployed USD3.9 billion in the health care sector during 1H 2019, a slight decline from the USD4.2 billion in disclosed investment 1H 2018. However, investor interest in health care has proven to be more resilient than the consumer discretionary segment—where capital deployed declined from USD10.2 billion to USD4.6 billion over the same period—and remains on track to surpass 2017 totals. Moreover, as evidenced by China-based lung cancer drug developer Antengene's USD120 million Series B round led by Boyu Capital and FountainVest Partners, EM health care opportunities increasingly involve new technologies and treatments, catering to the specific challenges faced by local populations.

Regional and country highlights from the 1H 2019 *Industry Statistics* include:

- **Africa**: Led by the USD425 million final close of Amethis' second pan-Africa fund, established Africa-focused private equity general partners (GPs) drove fundraising to USD1.6 billion in 1H 2019, a 59% increase from 1H 2018. The uptick illustrates that firms with local expertise have maintained traction even as some global players leave the region. However, more capital raised has not yet fed through into increased investment activity. Disclosed investment continued a decline that began in 2016, totaling just USD378 million in 1H 2019. VC continues to defy this trend, with fund managers finding increasing opportunities in the continent's technology space. GPs executed 24 VC deals in the first half of this year, on track to surpass all years since EMPEA's records began in 2008.
- **China**: Following a record-breaking fundraising year in which nine China-focused funds each raised USD1 billion or more, fundraising has declined to USD12 billion in 1H 2019, mirroring the slowdown in investment activity that drove down overall EM totals. Even in a more subdued environment, private capital investors remained eager to list their portfolio companies. The Hong Kong Stock Exchange (HKEX) implemented new rules in April 2018 to support the tech

economy and capture a larger share of new company listings. The policy has proven successful in the short term, as the number of private capital-backed Chinese companies listing in Hong Kong surpassed the number of those seeking to take advantage of US public markets in 1H 2019.

- **India**: Following a two-year spike in India private capital fundraising, India-focused funds raised only USD2.1 billion in 1H 2019. Venture capital fundraising activity saw the greatest drop, with only USD264 million raised for the strategy. However, disclosed investment reached USD6.5 billion, on track to exceed all years on record at EMPEA and driven in part by big-ticket infrastructure deals. Such transactions have become increasingly common in the country since 2017. In the latest example, Brookfield Asset Management led the USD960 million East West Gas Pipeline acquisition in March.
- **Southeast Asia**: LPs ranked Southeast Asia as the most attractive EM region in EMPEA's 2019 *Global Limited Partners Survey*, and fundraising for Southeast Asia has rebounded from its recent low point in 2016, with USD1.4 billion raised in 1H 2019. Venture capital has emerged as the most active strategy in the region: nine VC or venture debt funds achieved a close in the first half of 2019, led by the USD175 million first close of Jungle Ventures' fourth fund. Despite positive sentiment, disclosed capital invested by private capital fund managers in Southeast Asia in 1H 2019 fell to its lowest level in four years, in concert with a slight decline in the number of deals compared to previous periods. With relatively few private equity GPs actively pursuing buyouts, particularly in the middle market, Southeast Asia may present an attractive competitive landscape for firms in this segment who are able to raise capital.
- **Central & Eastern Europe:** After a relatively robust 2018, private capital fundraising and investment activity in Central and Eastern Europe (CEE) slowed in 1H 2019. Managers raised only USD271 million, led by the USD306 million interim close of Innova Capital's sixth fund—of which USD67 million was raised in 1H 2019. Lower-middle market private equity and venture capital deals continued to be the most popular destination for investors in CEE, with nearly all disclosed deals under USD25 million in size. The total number of exits completed also declined in the first half, with fewer strategic sales completed, perhaps in part due to increasing caution among corporates across Europe. However, secondary sales have provided a consistent exit strategy for GPs, as exemplified by Enterprise Investors' USD114 million sale of software-enabled public relations company invite to Mid Europa Partners in Q1 2019. The overall number of secondary transactions is on track to surpass the total for 2018.
- **Latin America:** Following strong fundraising in 2018, private capital fund managers in Latin America raised just USD1.1 billion in the first half of 2019, led by Vinci Partners' third mid-market fund. This down year appears to be in line with historical fundraising cycles for the region, which previously saw peaks in capital raising in 2011 and 2014, compounded by the absence of large funds currently in the market and the precipitous drop in Mexico-focused fundraising. In contrast, GPs put more than USD4.4 billion to work in 1H 2019, the highest first-half total on record and on pace to reach record-high, annual investment totals for the region. Brazil accounted for the majority of this total, attracting more than USD3.1 billion as investor sentiment toward the market continues to improve.
- **Middle East:** Activity in the infrastructure segment still has an outsize effect on regional investment totals, with GPs tapping into established energy opportunities in the region. In the first half of 1H 2019, KKR and Blackrock together contributed USD1 billion in equity and a total USD4 billion to the buyout of UAE-based ADNOC Oil Pipelines in the largest disclosed Middle

East private capital investment on record at EMPEA. The effect of large energy and infrastructure deals on overall investment totals should not obscure the overall shift in private investment activity across the region toward VC, which accounts for an increasing share of all funds active in the region. Additionally, the majority of private capital deals in 1H 2019 were in one of two segments: business-to-business software developers and consumer-focused e-commerce or digital media companies.

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Additional EMPEA Member Data Resources

In addition to the Mid-Year 2019 *Industry Statistics* in PDF presentation, EMPEA members can access the full Excel workbook, including performance data from Cambridge Associates, and EMPEA's new interactive *Data Portal* using their website logins.

EMPEA will also be releasing its members-only *Data Insights* shortly. These market snapshots contain high-level executive summaries; key data points; and fund, investment, and exit listings for all major markets, as well as specific strategies and sectors. For more information about EMPEA's content offerings, please contact research@empea.net.

About EMPEA

EMPEA is the global industry association for private capital in emerging markets. An independent, non-profit organization, the association brings together 300+ firms—including institutional investors, fund managers, and industry advisors—who manage more than USD5 trillion in assets across 130 countries. EMPEA members share the organization's belief that private capital can deliver attractive long-term investment returns and promote the sustainable growth of companies and economies. EMPEA supports its members globally through authoritative research and intelligence, conferences, networking, education, and advocacy. To find out more, please visit EMPEA.org.

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