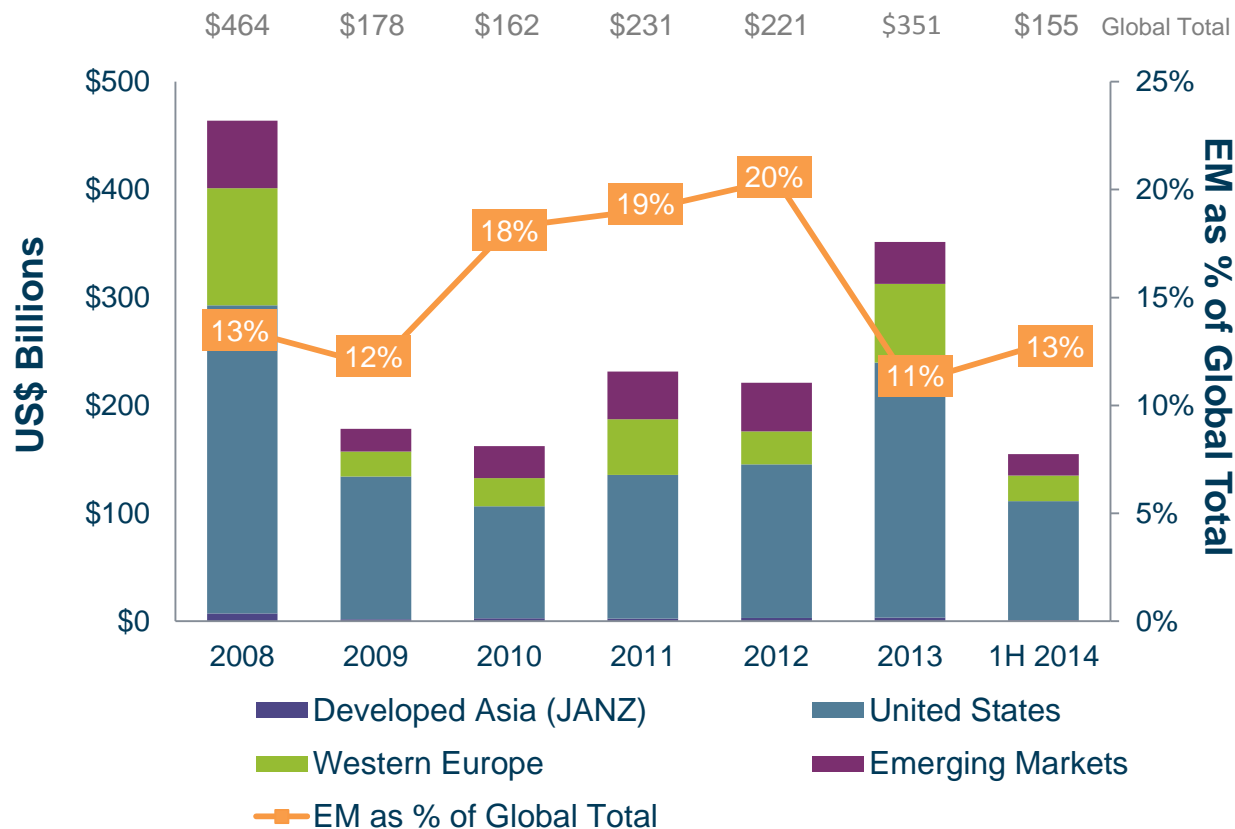

Russia Within the Context of Emerging Markets Private Equity

Maryam Haque
Head of Research | EMPEA
17 September 2014
VI Russian Private Equity Congress



EM PE Fundraising in Global Context

Global PE Capital Raised by Geography, 2008 – 1H 2014

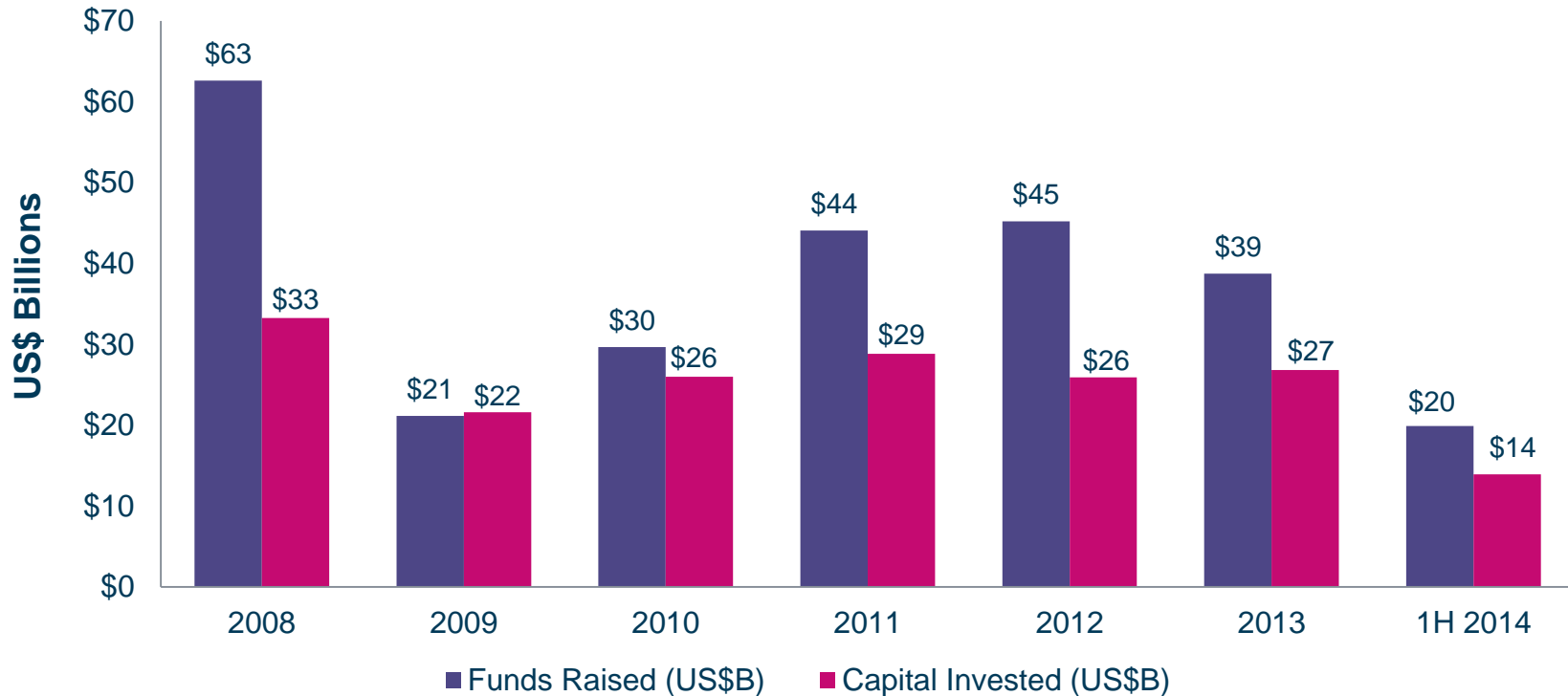


PE fundraising levels have recalibrated across both emerging markets and developed markets

Sources: Developed Asia - Asia Private Equity Review, U.S. – PitchBook, Western Europe – European Venture Capital Association, EM – EMPEA

A Closer Look at EM PE

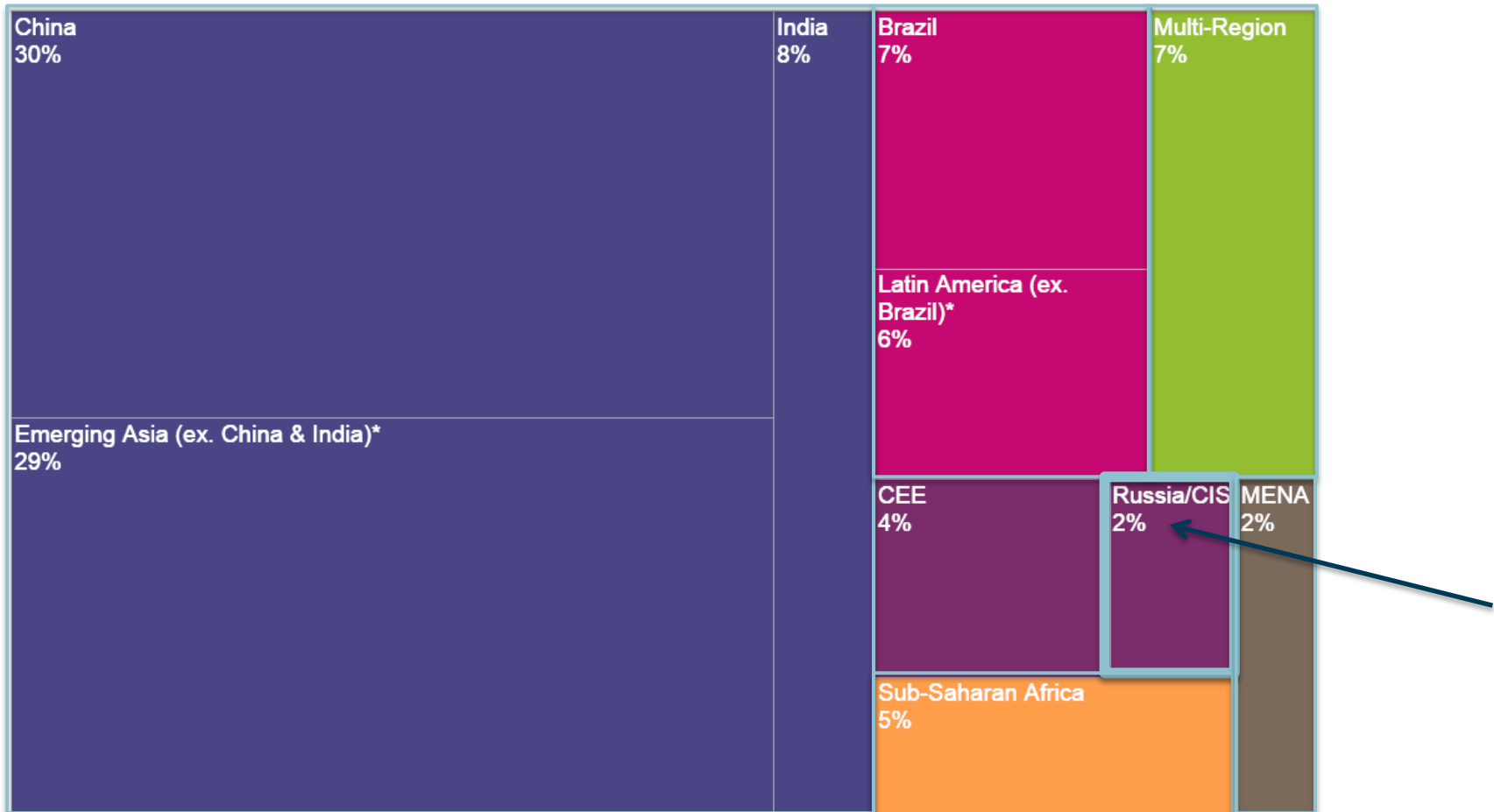
EM PE Fundraising & Investment, 2008 – 1H 2014



Positive signs in 1H 2014 as capital raised and invested increased 48% and 28%, respectively, year-on-year

Where Has The Capital Gone?

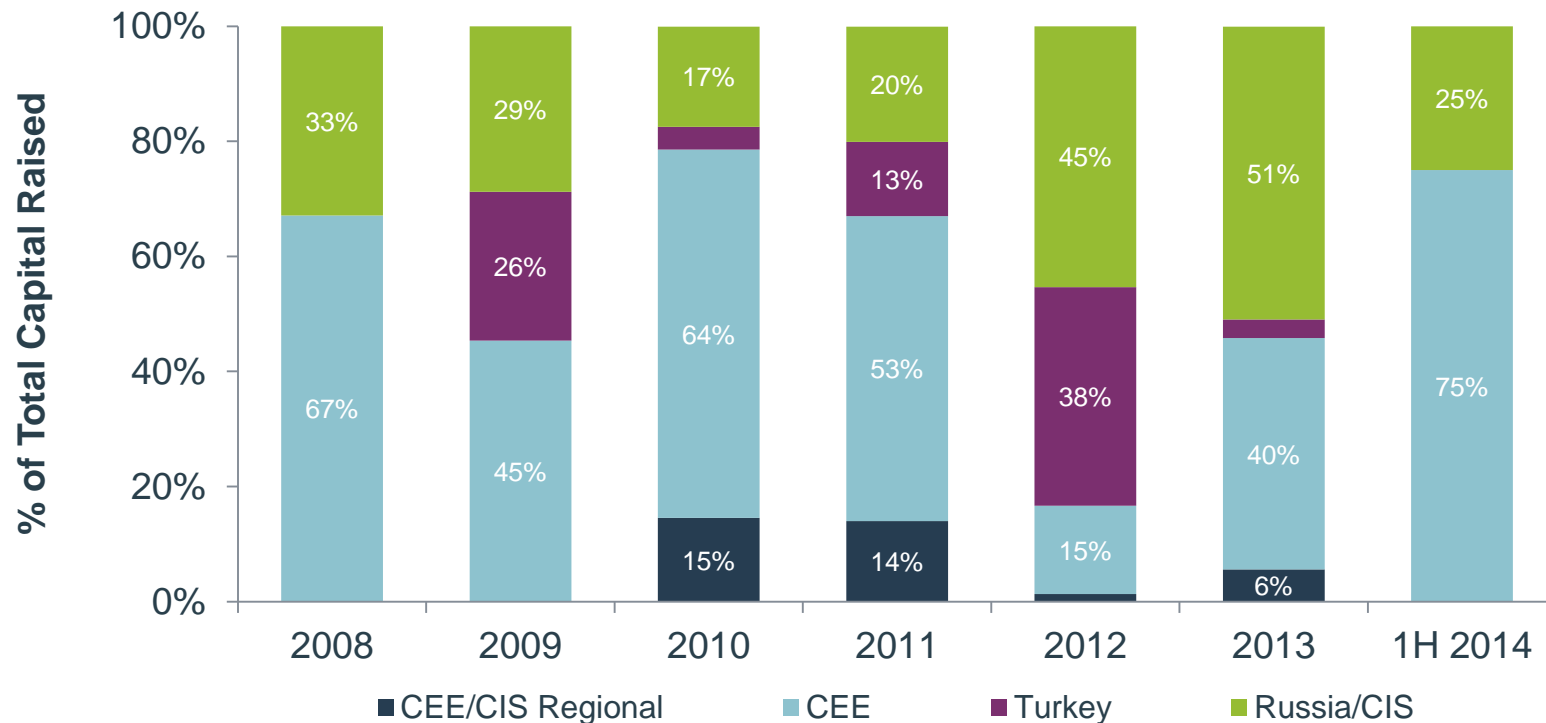
EM PE Fundraising by Select Markets, 2008 – 1H 2014 (% of Capital Raised)



*Includes regional funds.

CEE and CIS Fundraising Trends

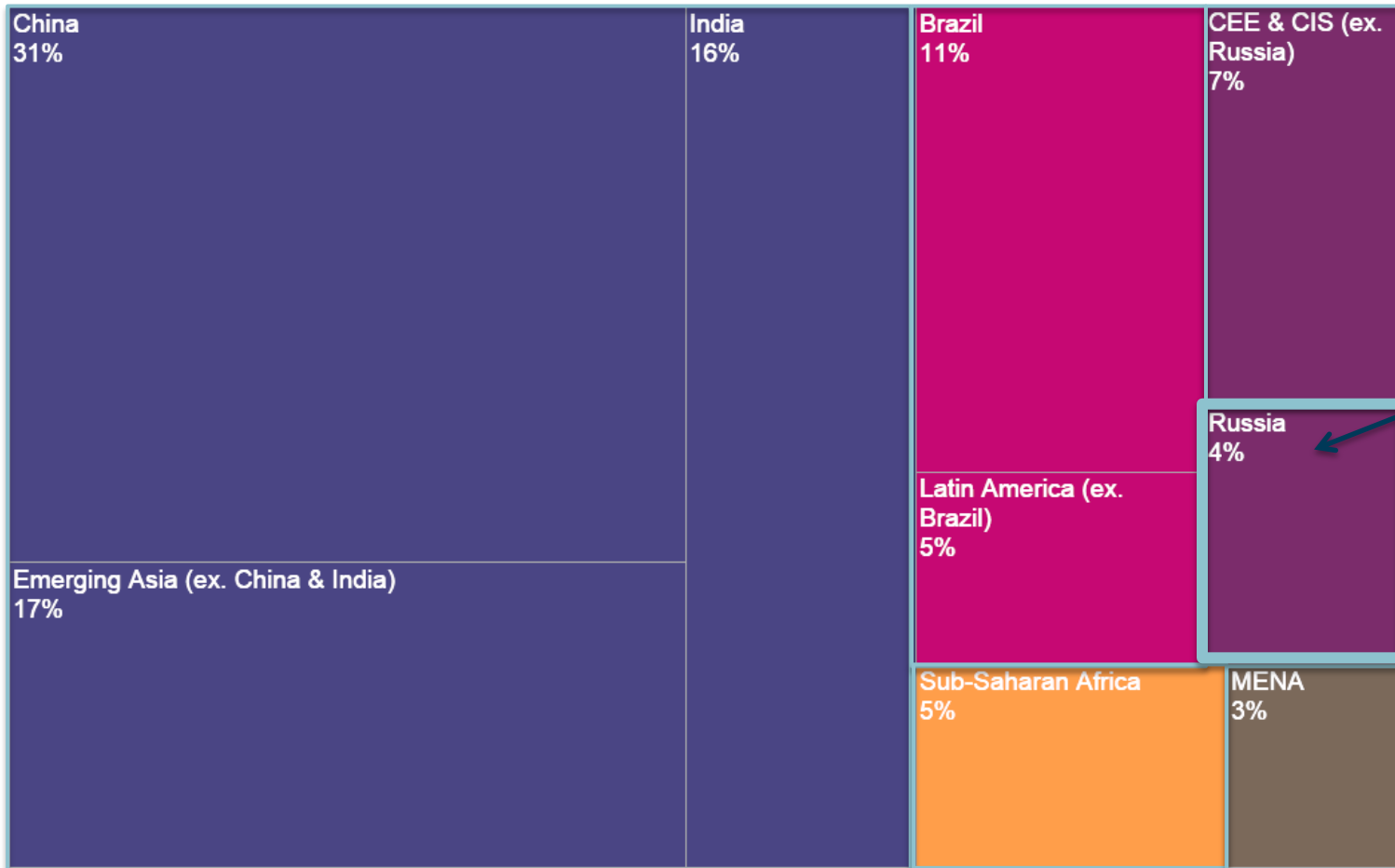
CEE and CIS Fundraising by Geographic Focus, 2008 – 1H 2014



Vehicles focused on Russia/CIS comprised an increasing share of capital from 2010 to 2013

Russia Has Accounted for 4% of PE \$ Invested

EM PE Investment by Select Markets, 2008 – 1H 2014 (% of Capital Invested)



Russia in Comparison to BIC Markets

BRIC PE Fundraising & Investment Totals, 2008 – 1H 2014

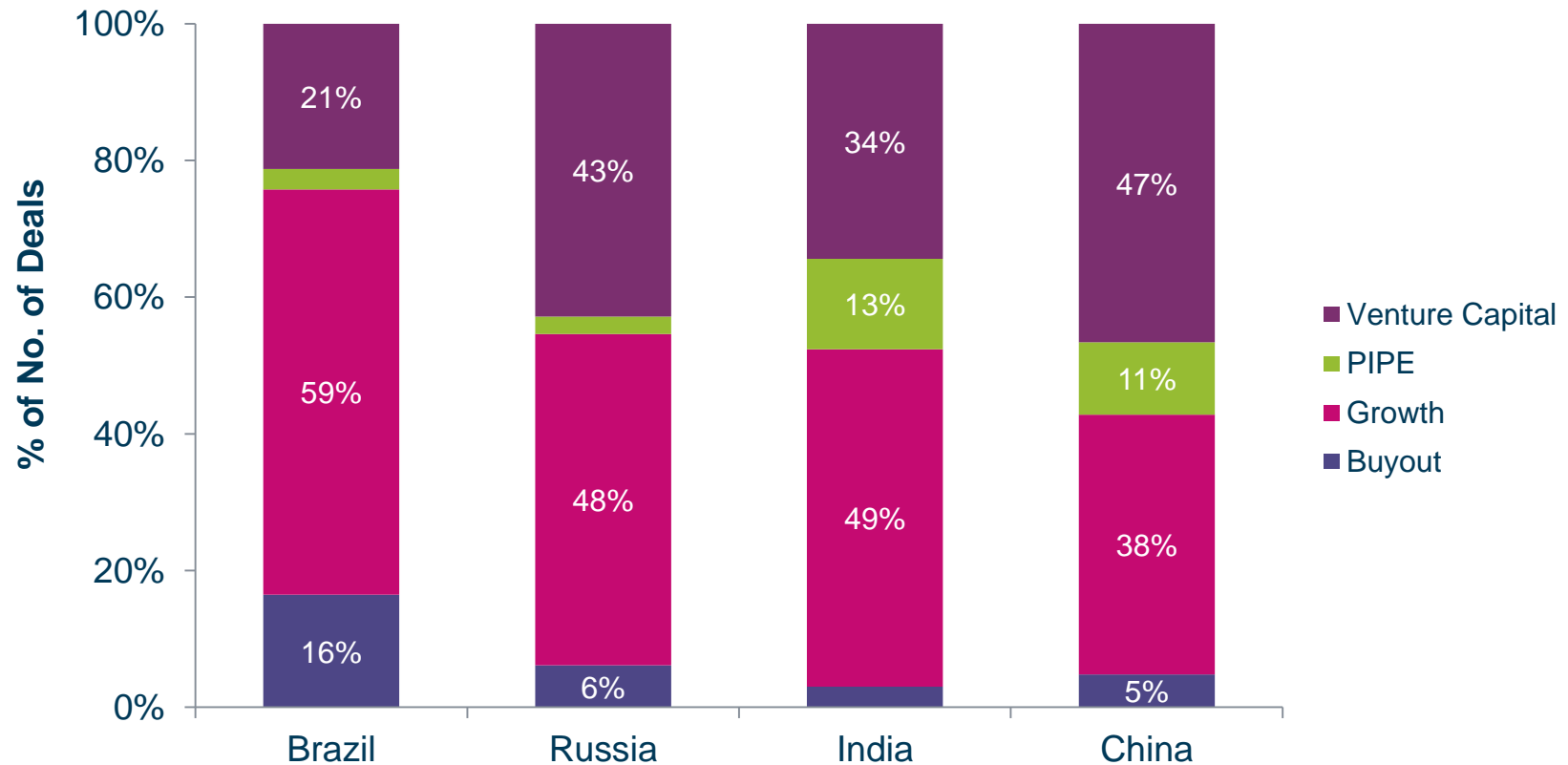
	Funds Raised (US\$B)	Multiple*	Capital Invested (US\$B)	Multiple*
Brazil	17.7	2.8	19.7	2.6
China	77.5	12.4	55.1	7.2
India	20.3	3.2	29.0	3.8
Russia	6.2		7.6	

* "Multiple" is equal to the ratio of each market's fundraising and investment totals, respectively, to Russia's.

In both PE fundraising and investing, Russia has lagged behind its peers Brazil, India and China.

Trends by Investment Stages

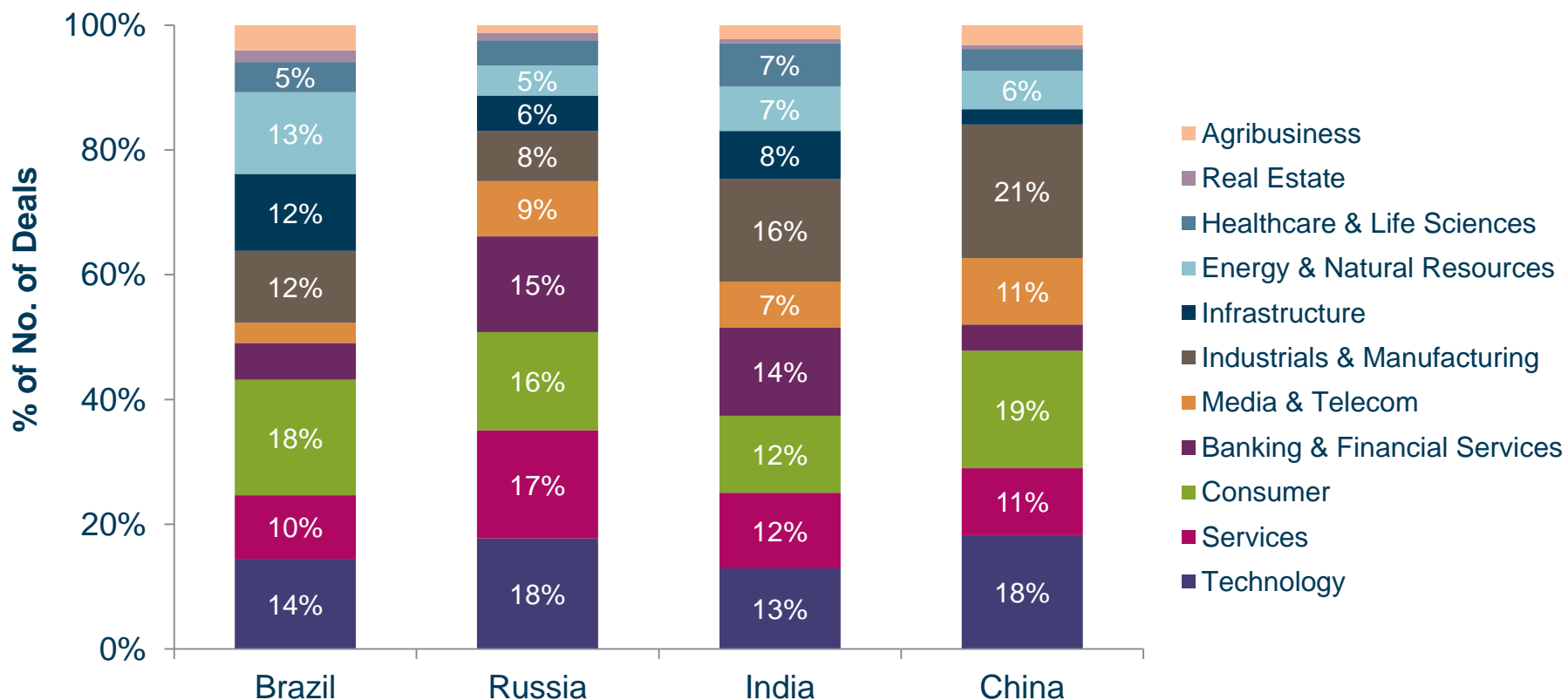
Investment by BRIC Market & Stage, 2009 – 1H 2014 (% of No. of Deals)



VC activity has played a larger role in deal volume in Russia and China

Sector Analysis

Investment by BRIC Market & Sector, 2008 – 1H 2014 (% of No. of Deals)



The services and technology sectors have led investment activity in Russia since 2008

VC/PE Attractiveness

VC and PE Attractiveness for Select Markets

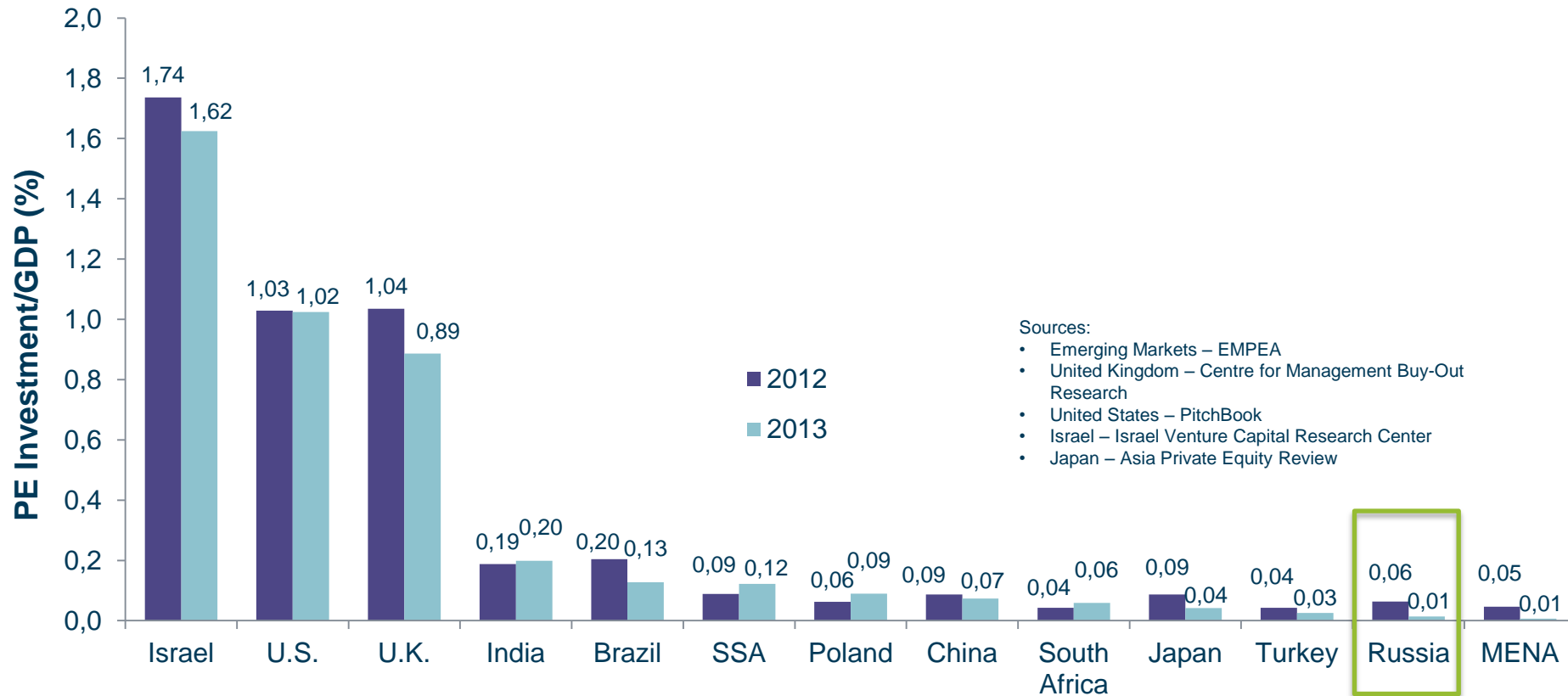
6 “key drivers” of country attractiveness for investors in VC/PE assets

Country	Rank	VC/PE Index	Economic Activity	Depth of Capital Market	Taxation	Investor Protection & Corporate Governance	Human & Social Environment	Entrepren. Culture & Deal Opportunities
China	24	77.4	116.6	86.0	109.4	61.3	51.8	71.4
India	29	69.9	99.2	82.2	78.4	60.3	49.0	59.8
South Africa	30	69.7	79.8	77.8	105.5	86.1	39.7	62.5
Turkey	33	67.4	89.2	76.6	103.4	61.7	47.2	57.1
Brazil	36	66.1	89.6	75.8	77.6	57.1	58.3	51.7
Mexico	38	64.7	96.7	72.7	87.1	60.0	35.6	60.9
Russian Fed.	40	61.3	97.3	70.6	87.3	44.9	31.7	63.6

Economic activity and entrepreneur tax incentives are positive drivers for investors in Russia

PE Within the GDP Context

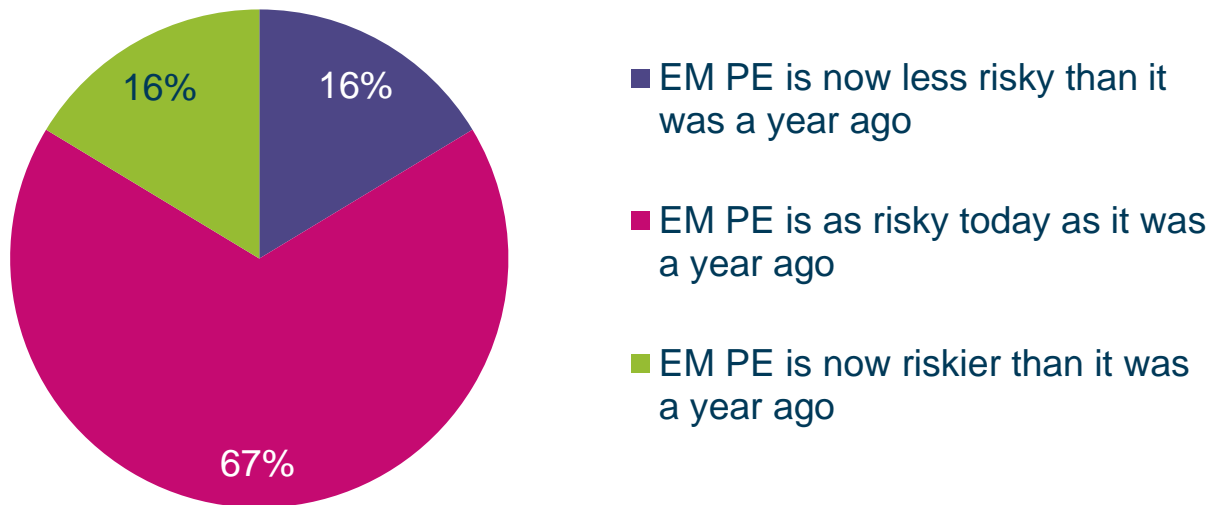
PE Penetration for Select Markets, 2012 – 2013



Low PE penetration levels suggests potential for PE in Russia still significant

LPs' Views on EM Risks...

Change in Perception of Risks of PE Investing in Emerging Markets



LPs view the risk profile of EM PE as relatively unchanged over the past year

...Each Market Poses Challenges

Factors Deterring LPs From Investing in Select Markets Within the Next 2 Years

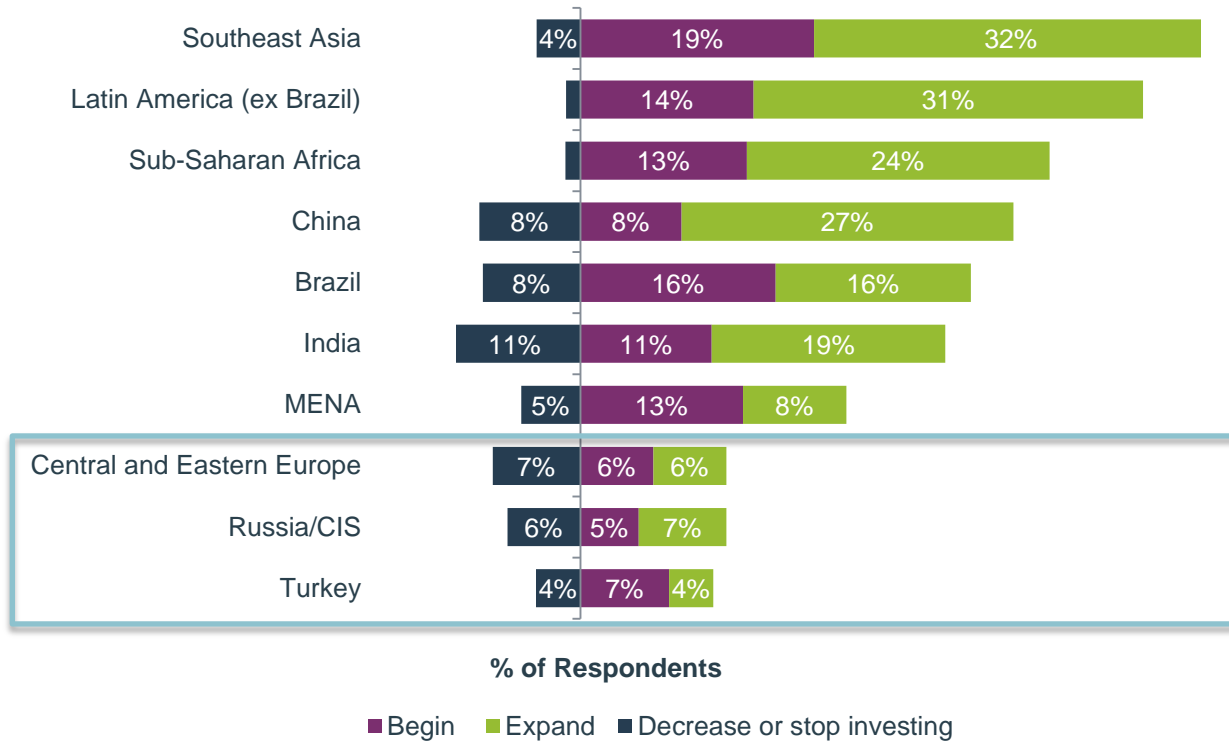
	Historical performance	Limited number of established fund managers	Oversupply of funds / too competitive	Scale of opportunity to invest is too small	Entry valuations are too high	Weak exit environments	Challenging regulatory / tax issues	Prefer exposure via other asset classes	Political risk
China	15%	7%	41%	0%	30%	19%	26%	11%	30%
India	44%	18%	23%	5%	23%	41%	44%	10%	26%
Brazil	11%	22%	33%	4%	19%	4%	22%	19%	11%
Russia/CIS	25%	27%	2%	2%	2%	18%	36%	14%	70%
Central and Eastern Europe	43%	41%	0%	24%	8%	30%	14%	14%	27%

Note: Indicates percentage of respondents answering for each region/market.

LPs view political risk as the main deterrent to investing in Russia/CIS;
Competition, scale of opportunity and entry valuations are not significant barriers

How Will LPs Change Their Investment Strategies?

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



Non-BRIC markets are poised to see the greatest increase in LP commitments through 2016

Which Markets Look Attractive?

EM Attractiveness 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

For 2nd consecutive year, non-BRIC markets remain most attractive, but seemingly out-of-favor markets can present positive investment opportunities for LPs with contrarian view

**Classified as “Other Emerging Asia” in 2012.*

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

How Have PE/VC Funds Fared?

Comparative End-to-End Returns by Region (as of 31 March 2014)

Index	One Year	Three Year	Five Year	Ten Year
Emerging Markets PE & VC	14.43	7.51	15.5	12.34
Emerging Asia PE & VC	17.91	8.63	17.75	12.98
CEE & Russia PE & VC	13.79	9.52	12.21	14.65
Latin America & Caribbean PE & VC	-1.33	-1.74	13.12	12.44
Africa PE & VC	7.74	6.12	9.49	11.57
MSCI Emerging Markets	-1.07	-2.54	14.83	10.45
U.S. VC	30.51	15.31	14.15	10.05
U.S. PE	19.07	14.15	17.41	14.03
Western Europe VC	33.01	14.23	12.12	7.26
Western Europe PE	23.21	10.48	16	16.16
S&P 500	21.86	14.66	21.16	7.42

The index is an end-to-end calculation based on data compiled from 510 global emerging markets private equity and venture capital funds (includes funds investing primarily in Africa, Asia/Pacific–Emerging, Europe–Emerging, Latin America & Caribbean and Middle East–Emerging) including fully liquidated partnerships, formed between 1986 and 2013. The Asia Emerging Markets Index consists of 290 funds, the Europe Emerging Markets Index consists of 57 funds, the Latin America & Caribbean Index consists of 48 funds and the Africa Index consists of 46 funds. Please note that the Global Emerging Markets Index contains 66 funds that do not fall into these specific regions stated above. A Middle East index is not calculated because of insufficient sample size.

On a 10-year basis, returns for CEE & Russia funds have beaten other emerging markets, developed markets and the S&P 500

To learn more about EMPEA
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