



# Changes in Investor Preferences and Implications for the Industry

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## Contents

### **A Pivotal Time for Emerging Markets, including Russia**

- Emerging markets private capital has grown substantially over the past decade
- Yet recent volatility and structural factors are transforming the industry

### **Three Themes Shaping Emerging Markets Private Capital**

- Fewer and larger GPs are raising capital as LPs consolidate relationships
- LPs are turning to specialized GPs and new market segments to maximize returns
- The glut of capital into 'hot markets' will continue to drive boom and bust cycles





A Pivotal Time for Emerging Markets

Industry growth  
meets macro  
volatility and  
structural changes



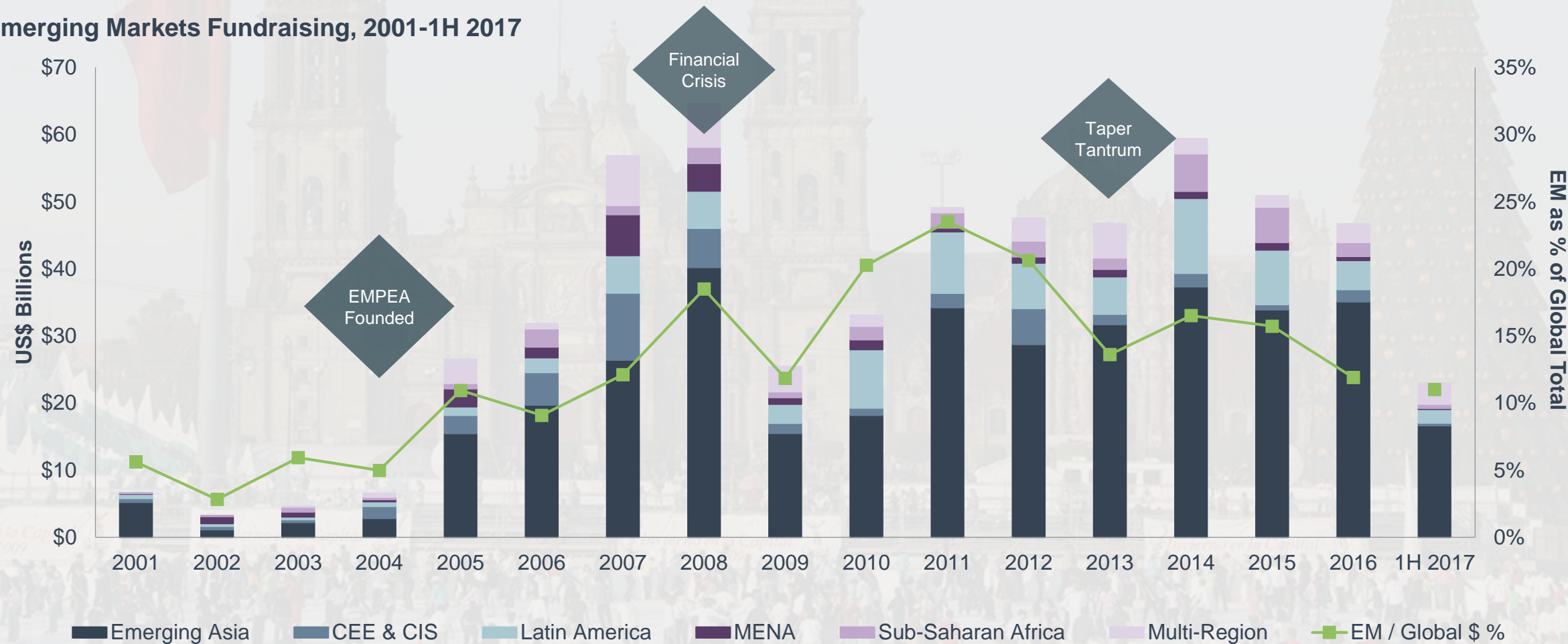


# The private capital industry in emerging markets has grown substantially over the last decade



However, fundraising has slowed in recent years despite increased allocations to PE globally

Emerging Markets Fundraising, 2001-1H 2017

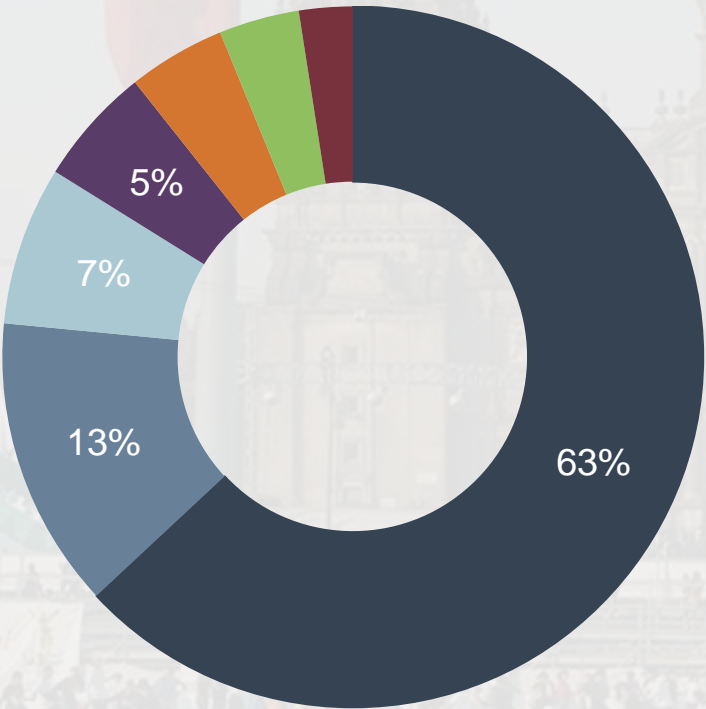


Source: EMPEA. Data as of 30 June 2017. Note: Fundraising data prior to 2006 are obtained from third-party providers.

# Russia and CIS represent two percent of fundraising in Emerging Markets since 2006

Emerging Asia dwarfs all other emerging market regions

Emerging Markets Fundraising, 2006-1H 2017



	% of Total Capital Raised	Total Capital Raised (US\$m)
■ Asia	63%	337,305
■ Latin America	13%	72,068
■ Multi-region	7%	39,216
■ Sub-Saharan Africa	5%	29,220
■ CEE	4%	24,066
■ MENA	4%	19,832
■ Russia and CIS	2%	13,209

Source: EMPEA. Data as of 30 June 2017.



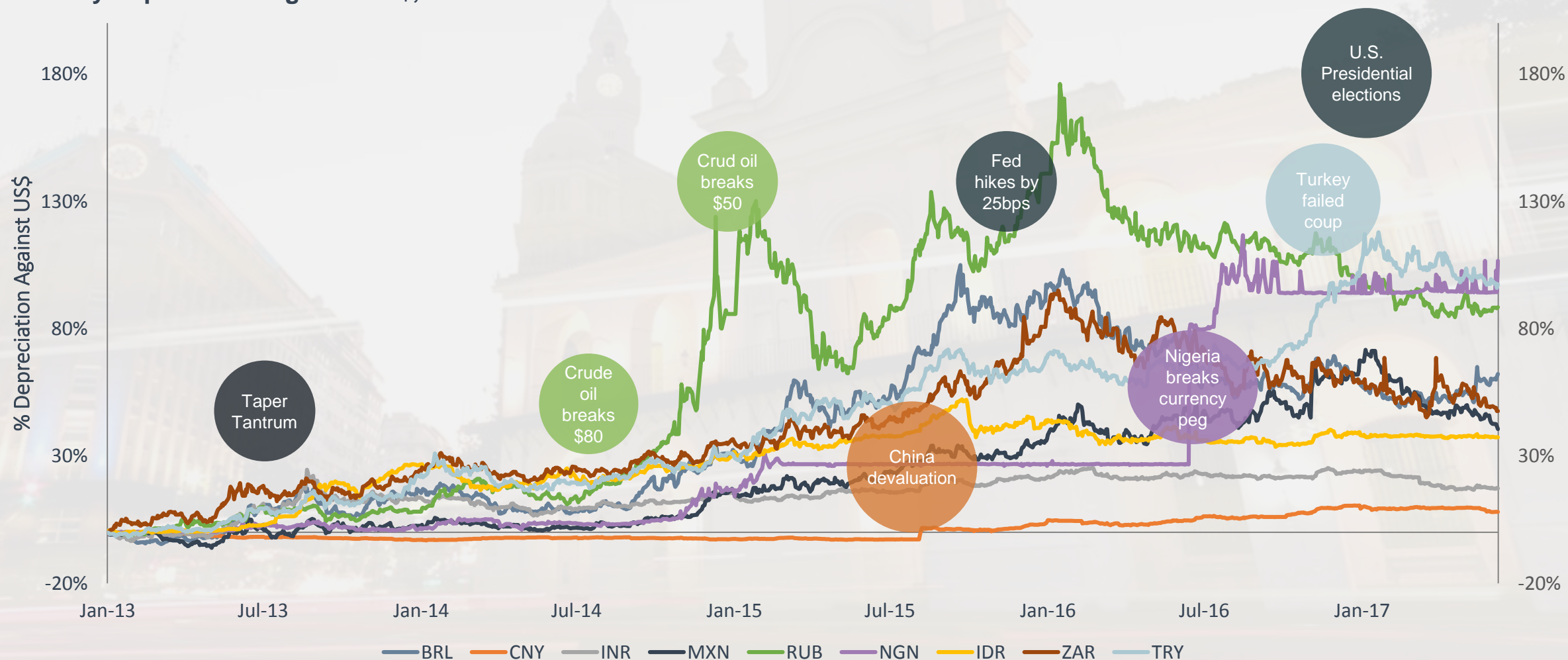
# LPs are most concerned about currency volatility, lack of exit activity and political risk

## Issues That Pose the Greatest Concern for LPs' EM PE Portfolio Management, Ranked 1–3



# Macroeconomic and political forces have increased volatility across EM currencies

Currency Depreciation Against US\$, 2013-2017



Sources: IMF and Investing.com.

Note: Representative rates for the period 8 January 2013 through 15 June 2017. Data as of 16 June 2017.



# For commercial investors, risks often overshadow return results

EM PE has outperformed EM public equities and has been competitive with DM PE (US\$)

## EM vs. DM, Top Quartile (Comparative End-to-end Returns)

	Index	1-Year	3-Year	5-Year	10-Year
EM	<b>Emerging Markets PE &amp; VC – Top Quartile</b>	6.0	21.7	22.6	23.1
	Emerging Markets PE & VC	4.6	9.2	10.3	9.9
	MSCI Emerging Markets	11.6	-2.2	1.6	2.2
DM	<b>U.S. PE &amp; VC – Top Quartile</b>	18.1	22.7	25.2	18.0
	U.S. PE & VC	10.0	10.3	13.4	9.9
	S&P 500	12.0	8.9	14.7	7.0
	<b>Western Europe PE &amp; VC – Top Quartile</b>	27.7	17.5	19.6	14.4
	Western Europe PE & VC	11.6	7.1	11.8	7.3
	MSCI Europe	-0.4	-3.2	6.3	0.4

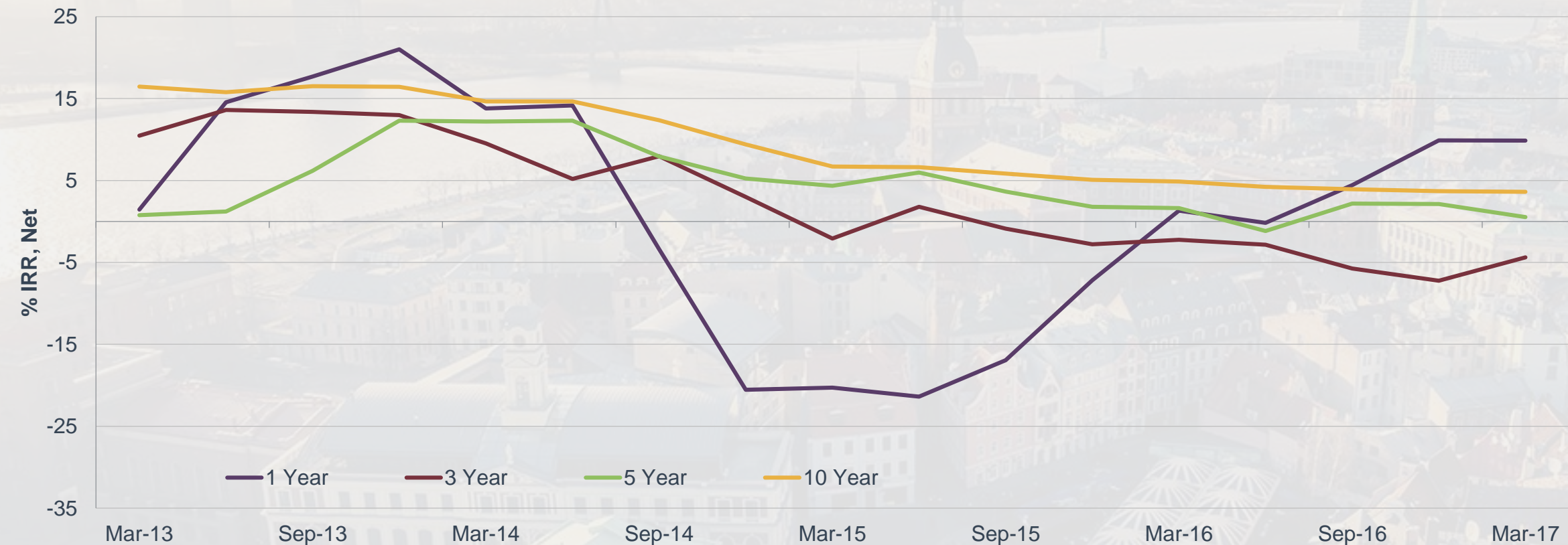


# Emerging Europe, including Russia, was previously among the top-performing regions for private capital globally



Returns have begun to recover three years after the commodity downturn and international sanctions on Russia

Emerging Europe\* PE & VC Performance

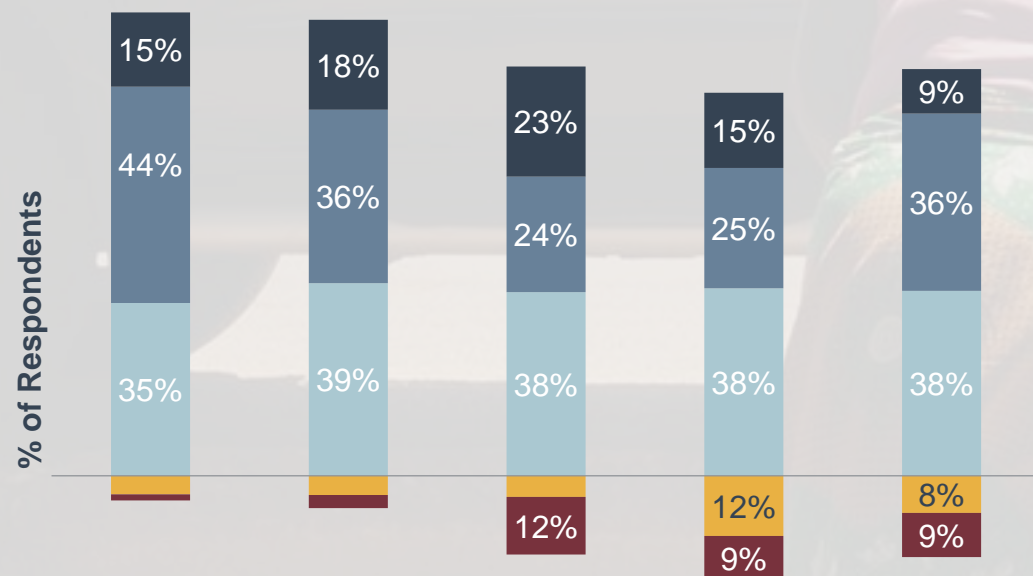


\*The Emerging Europe PE Index includes Russia.  
Source: Cambridge Associates LLC Proprietary Index: pooled end-to-end returns, net of fees, expenses and carried interest. Data as of 31 March 2017.

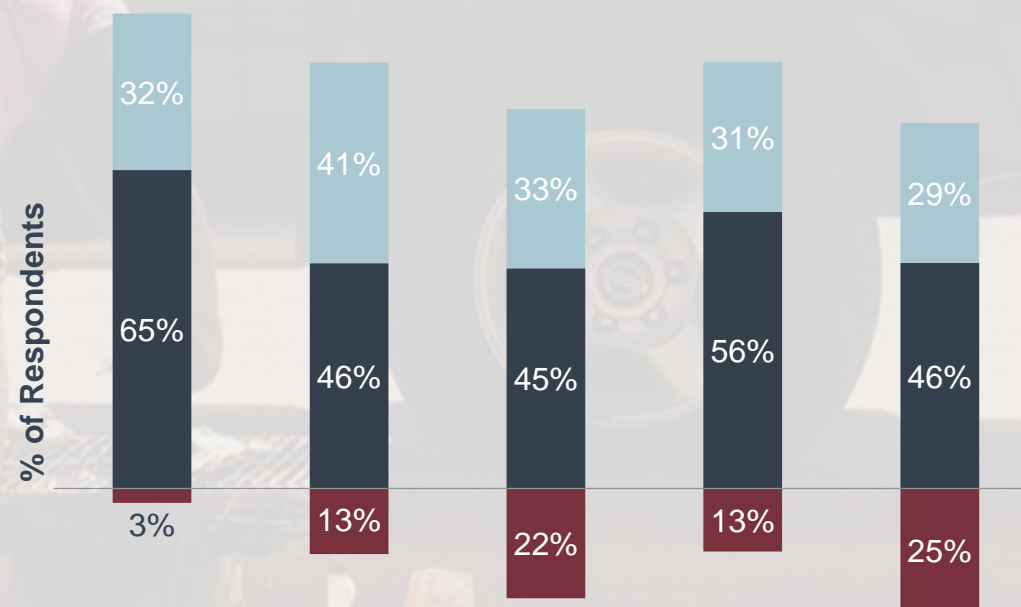


# New commitments to EM PE have slowed in recent years

Anticipated Dollar Level of New Commitments to EM PE Funds Over the Next Two Years, 2013-2017\*



LPs' Planned Changes to Proportion of Total PE Allocation Targeted at EM PE Over the Next Two Years, 2013-2017\*



2013 Survey 2014 Survey 2015 Survey 2016 Survey 2017 Survey

■ No change planned ■ Slightly higher ■ Significantly higher  
■ Slightly lower ■ Significantly lower

2013 Survey 2014 Survey 2015 Survey 2016 Survey 2017 Survey

■ Decrease ■ No change planned ■ Increase

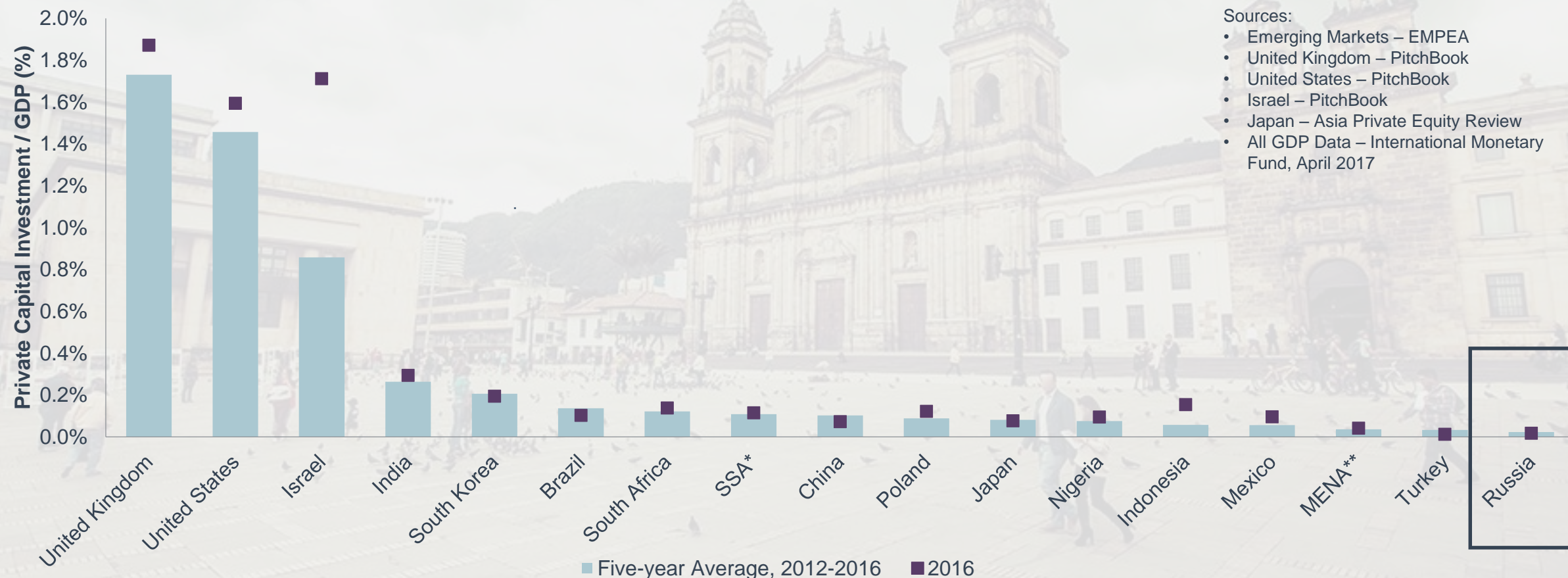
\*Excludes investors with EM-only mandates.  
Source: EMPEA 2017 Global Limited Partners Survey.



# The industry has only scratched the surface of the emerging market opportunity

Russia's private capital penetration is among the lowest of the major emerging market economies

Private Capital Penetration for Select Developed and Emerging Markets, 2012-2016



\*Sub-Saharan Africa. \*\*Middle East & North Africa. Note: Penetration rates represent disclosed capital invested from private funds as a percentage of GDP.

Source: EMPEA. Data as of 30 June 2017.



Three Themes Shaping Emerging  
Markets Private Capital

I. Fewer and larger  
GPs are raising  
capital as LPs  
consolidate  
relationships

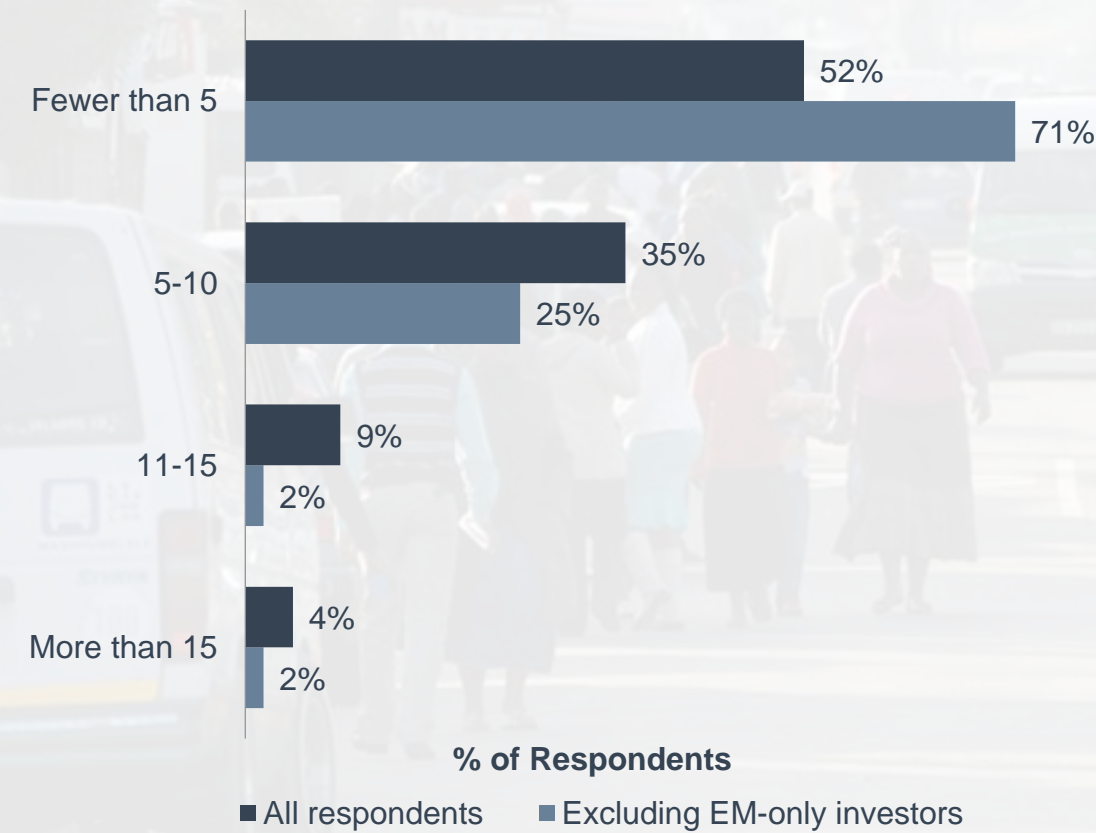




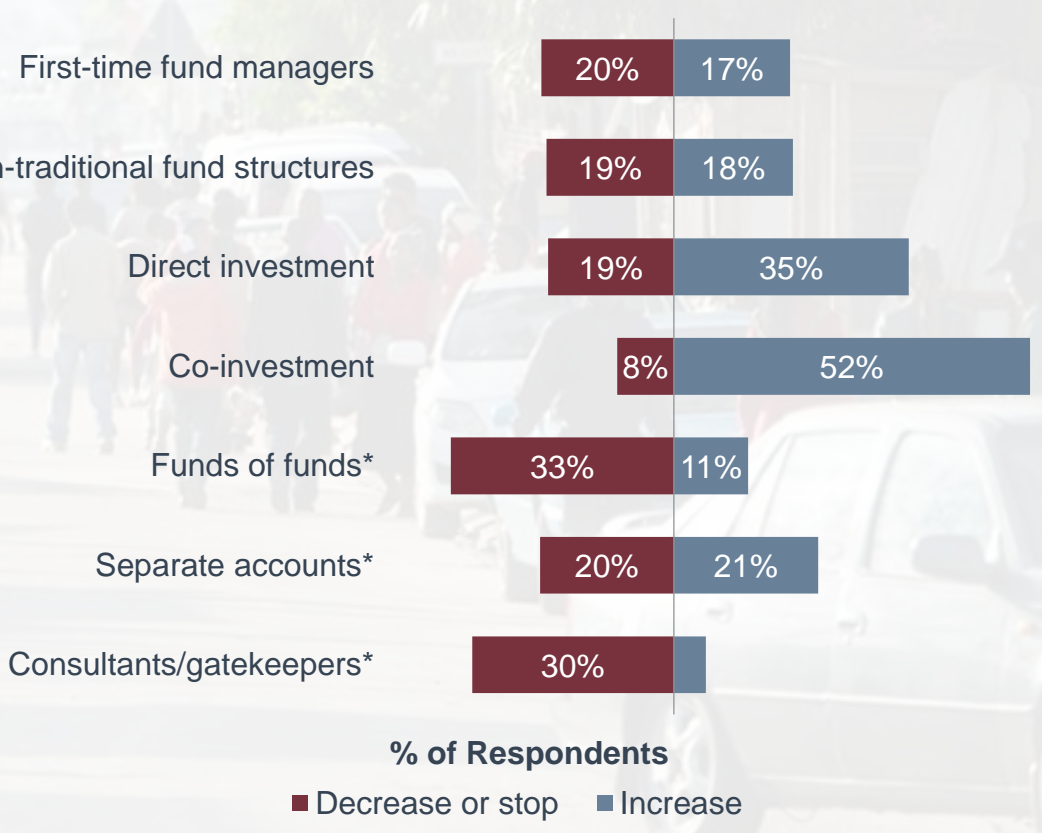
# LPs expect to form fewer GP relationships

Macroeconomic and institutional pressures put pressure on LPs to consolidate and access EM PE via different channels, like co-investing and direct investing

How Many New EM PE Fund Manager Relationships Do You Expect to Form in the Next Three Years?



LPs' Planned Changes to Their Means of Accessing EM PE Investment Opportunities Over the Next Two Years



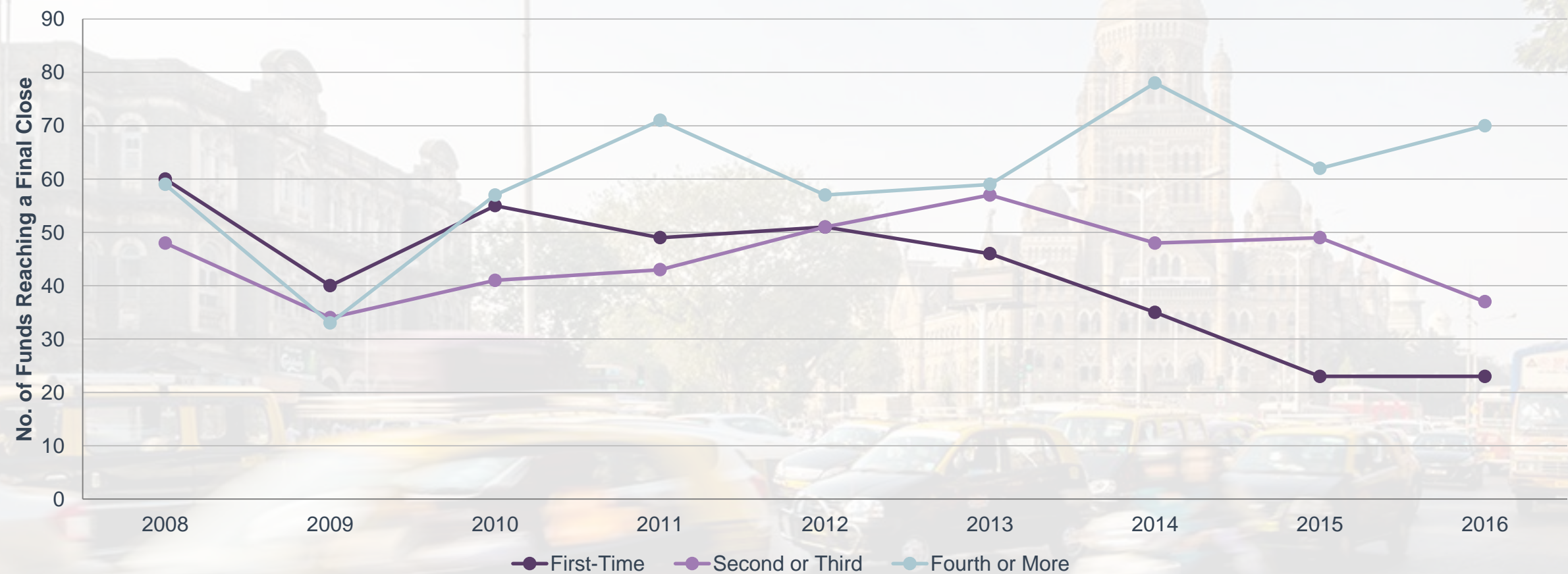
\*Excludes funds of funds and private market advisors. Source: EMPEA 2017 Global Limited Partners Survey.



# Consolidation is more evident by fund experience

First-time funds have decreased steadily since 2010, while second or third funds have decreased since 2013

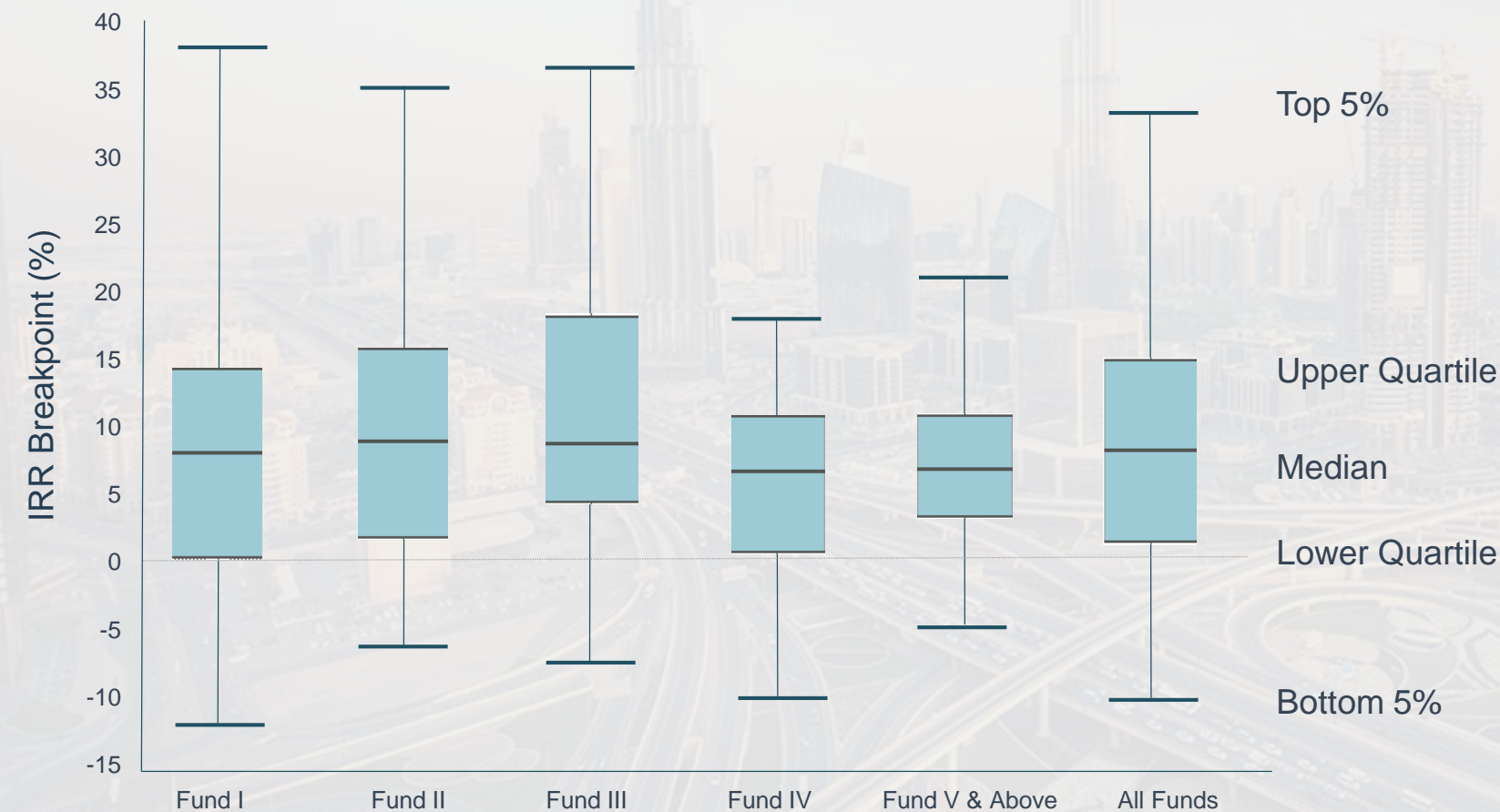
EM Fund Experience Distribution – Final Closes Only, 2008-2016



Source: EMPEA. Data as of 31 March 2017.

# Earlier funds (especially funds II and III) have the highest potential for outsized returns, but also higher risk

EM PE IRR Performance by Fund Series Order, Vintage Years 2000-2009  
(Net to Limited Partners, as of 31 December 2014)



Source: Cambridge Associates Private Investments database, as of 12/31/2014. IRR performance figures are net to Limited Partners. Fund order is determined as funds raised under the same strategy with a stable key investment team and does not include friends and family funds or other non-institutional funds.



Three Themes Shaping Emerging  
Markets Private Capital

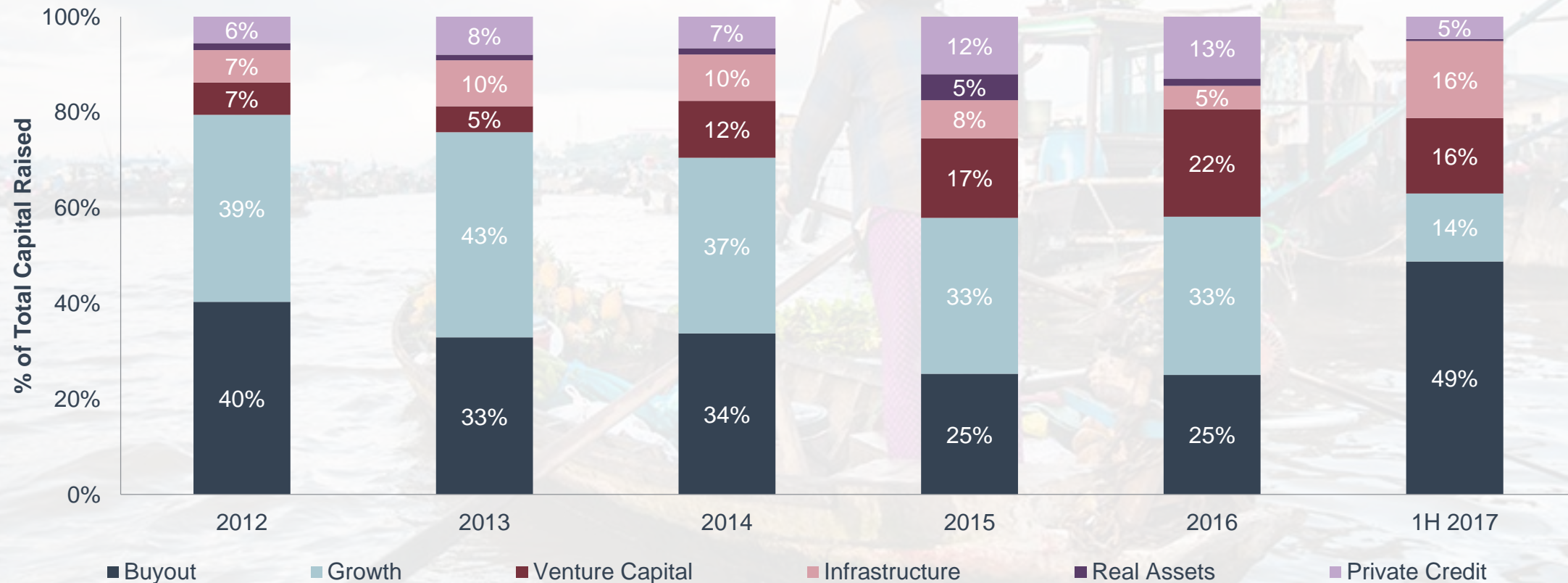
II. LPs are turning  
to specialized GPs  
and new market  
segments to  
maximize returns



# EM private capital is no longer just a growth equity story

Funds with buyout and growth strategies comprised 79% of funds raised in 2012, but just 58% in 2016

Emerging Markets Fundraising by Strategy, 2012-1H 2017

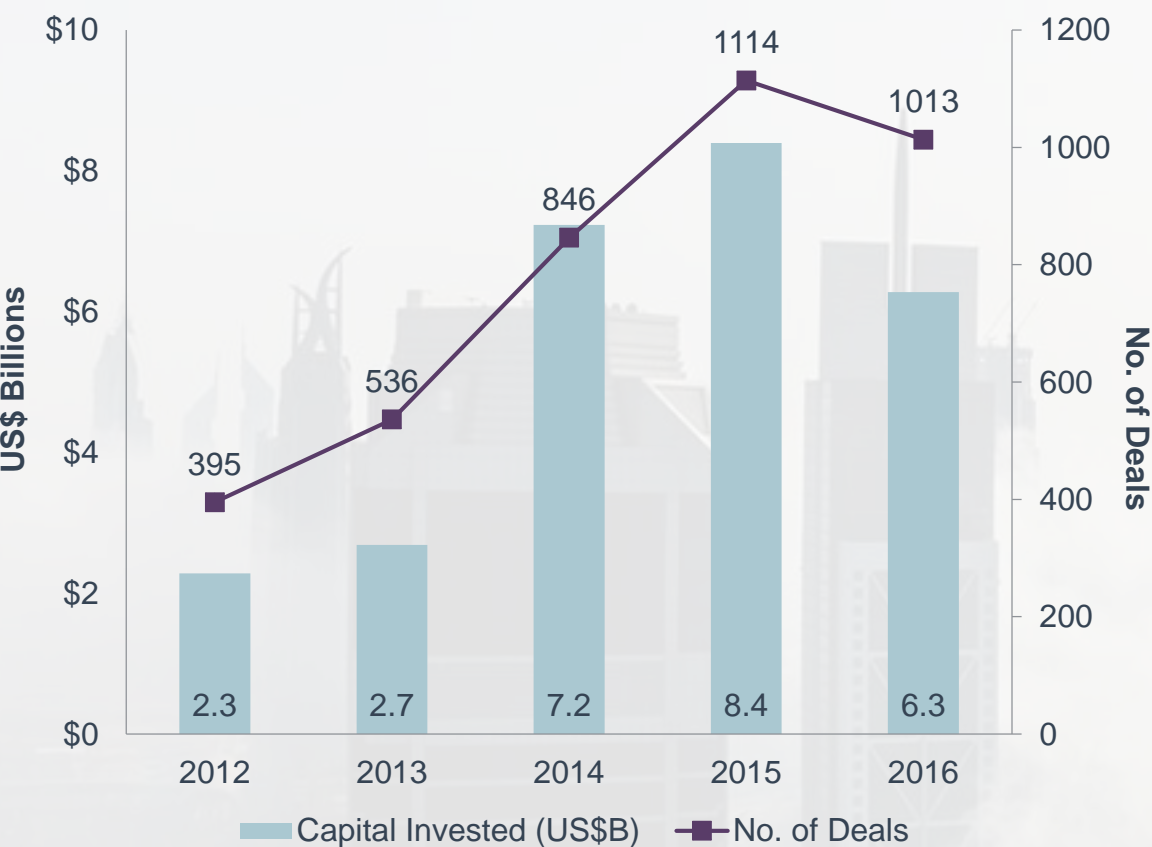




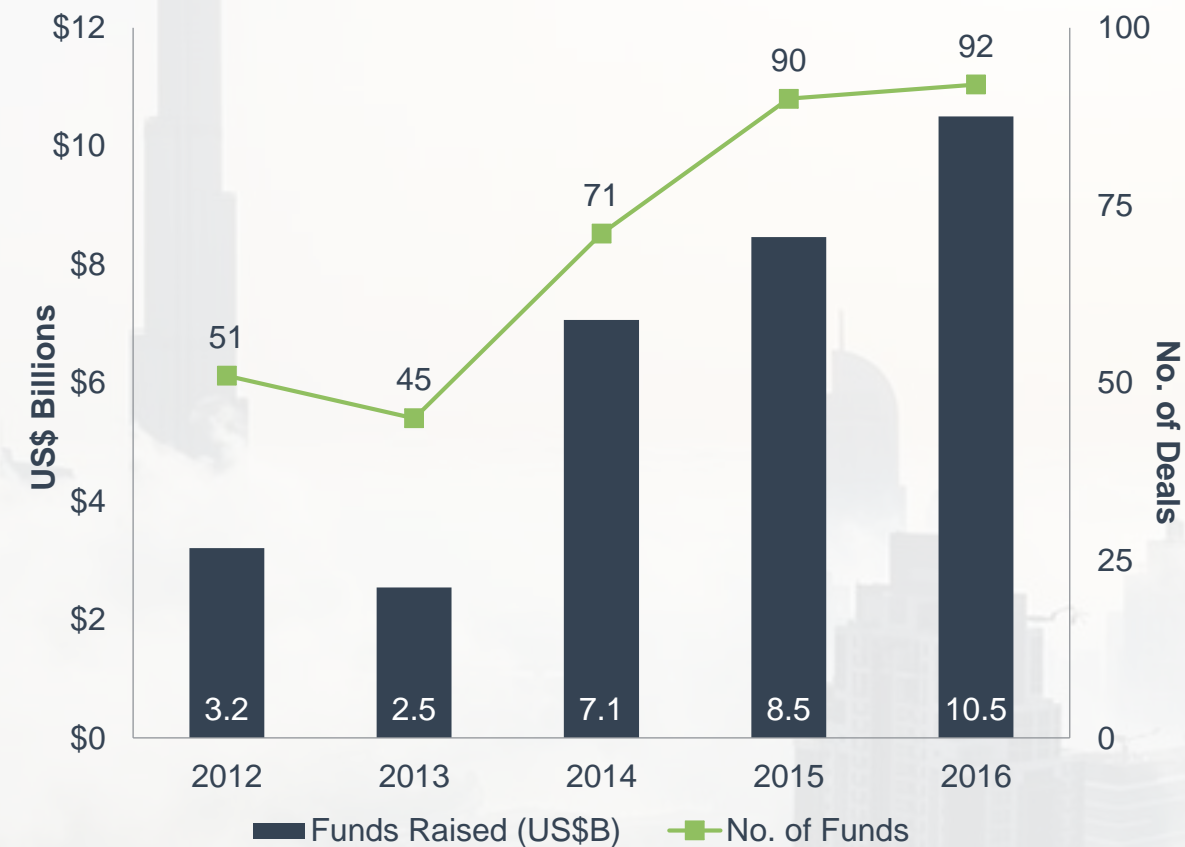
# The rapid rise of venture capital

Venture capital fundraising climbed to US\$10.5B in 2016, the highest level on record, while investment declined slightly in Asia after a meteoric rise over the previous four years

EM Venture Capital Investment, 2012-2016



EM Venture Capital Fundraising, 2012-2016

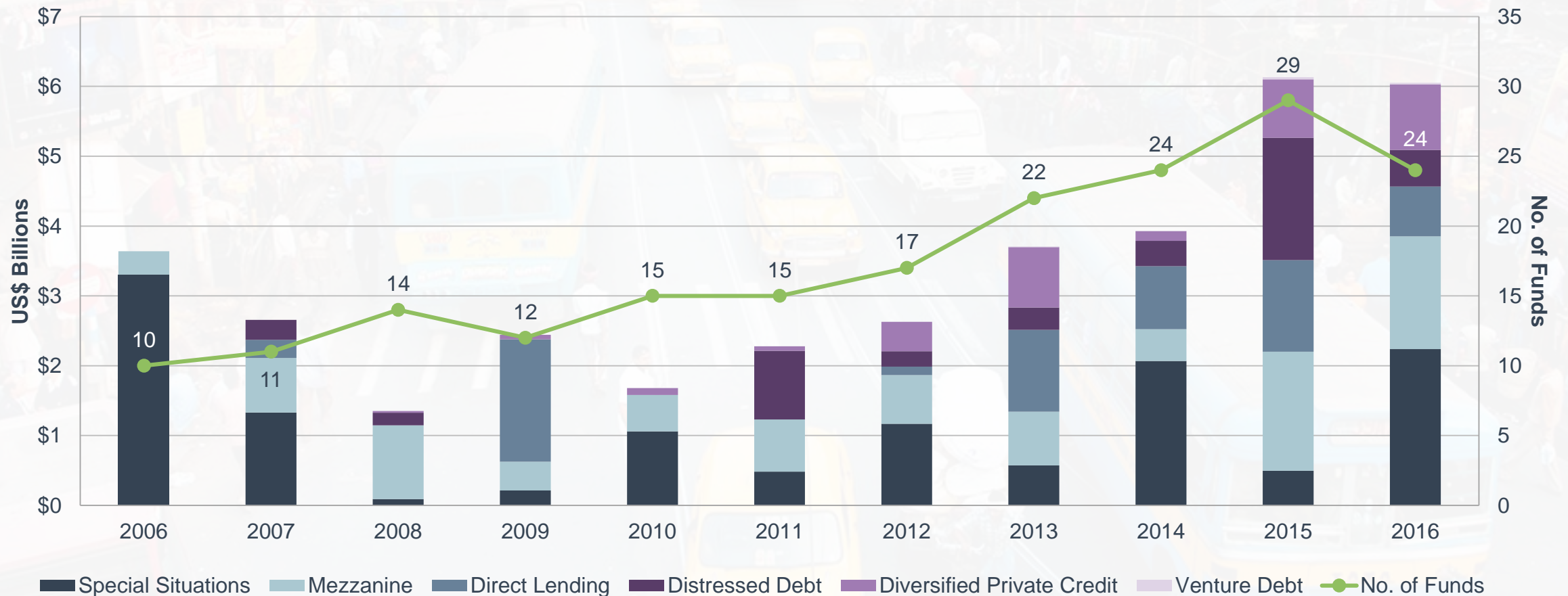


Source: EMPEA. Data as of 30 June 2017.

# Private credit GPs raised a record amount of capital in 2016

Private credit fund managers raised US\$6B in 2016, the highest total recorded by EMPEA since it began tracking fundraising in 2006

EM Private Credit Fundraising, 2006-2016





Three Themes Shaping Emerging  
Markets Private Capital

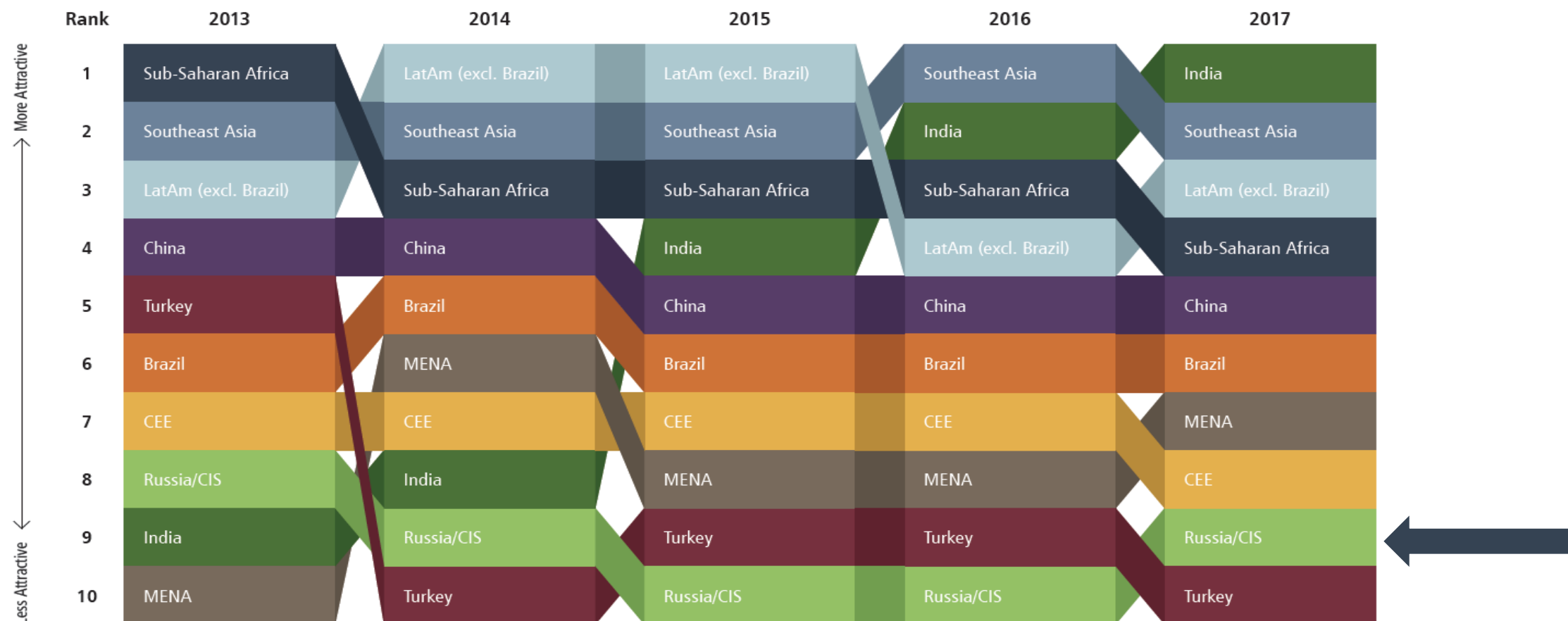
III. The glut of  
capital into 'hot  
markets' will  
continue to drive  
boom and bust  
cycles



# India leads 2017 market attractiveness rankings

Russia/CIS has ranked in the bottom three in each of the past five years

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

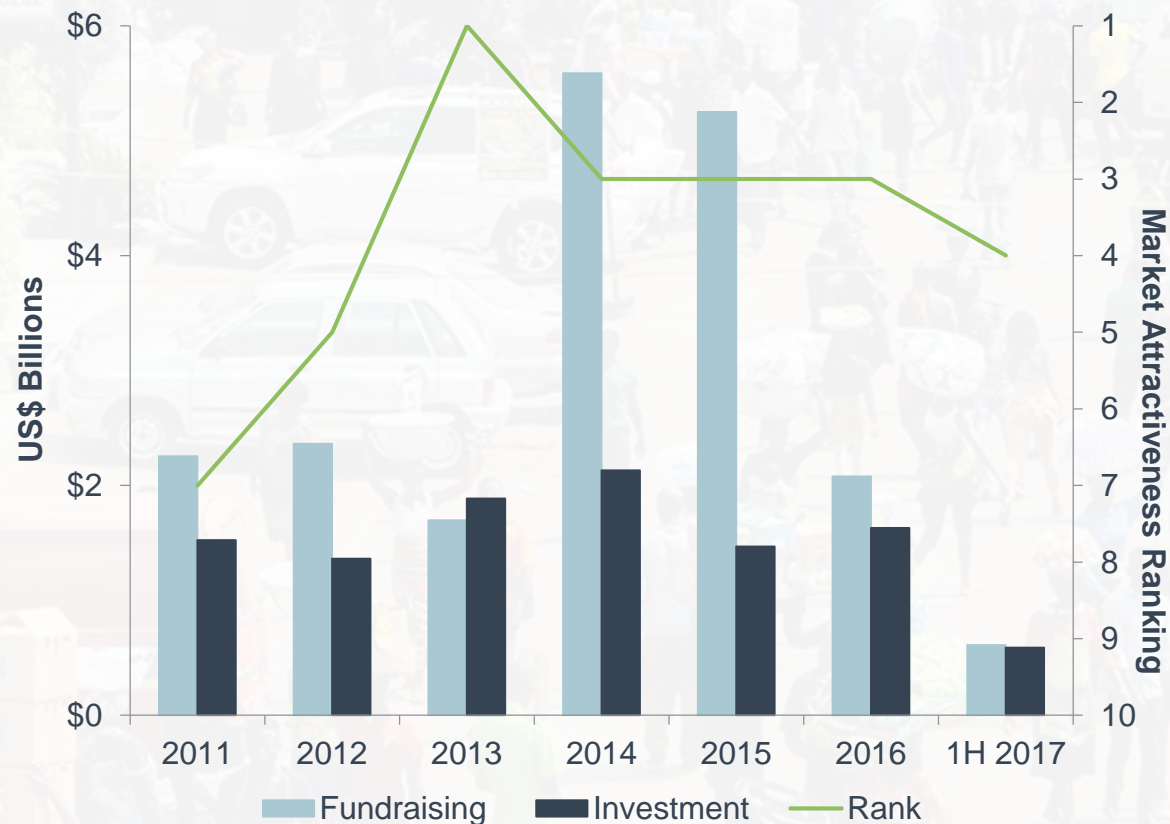




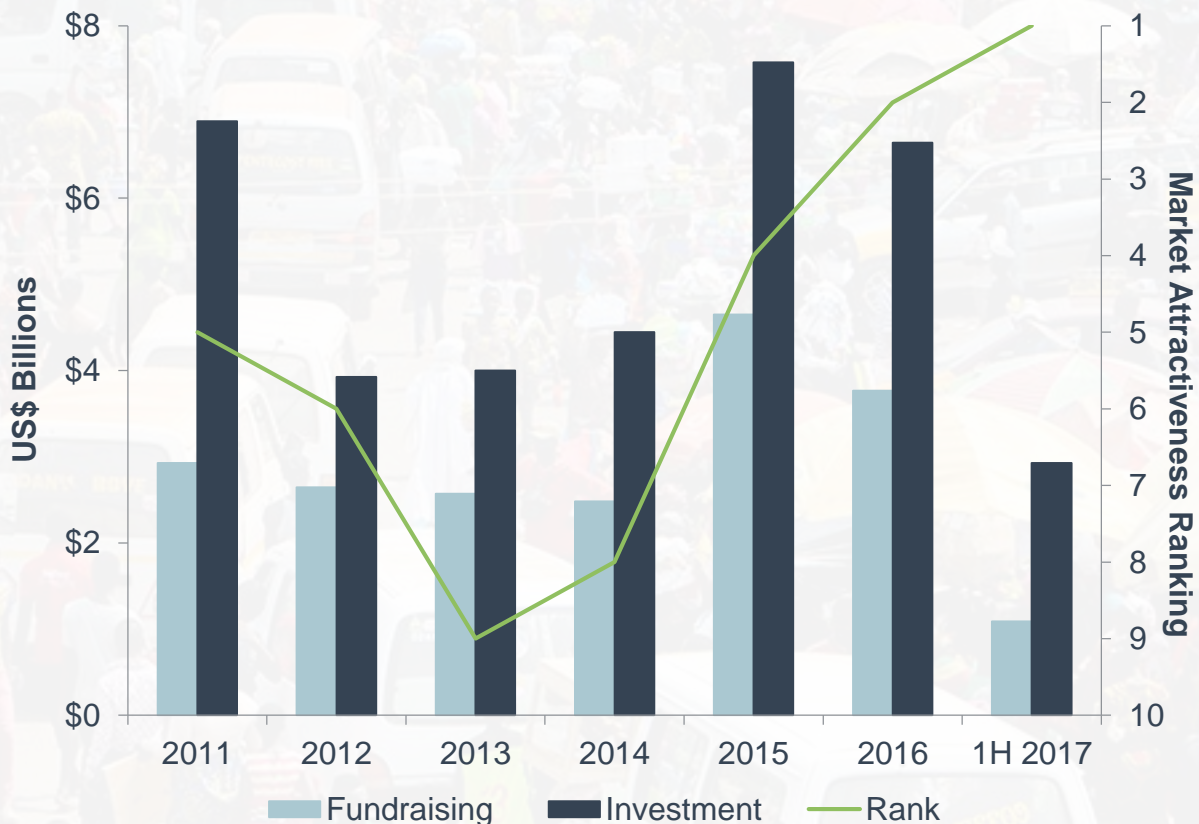
# India and SSA's high rankings are reflected in the data

The rise in popularity of Sub-Saharan Africa and, most recently, India may encourage another boom and bust cycle

Sub-Saharan Africa Fundraising and Investment vs. Market Attractiveness Ranking



India Fundraising and Investment vs. Market Attractiveness Ranking

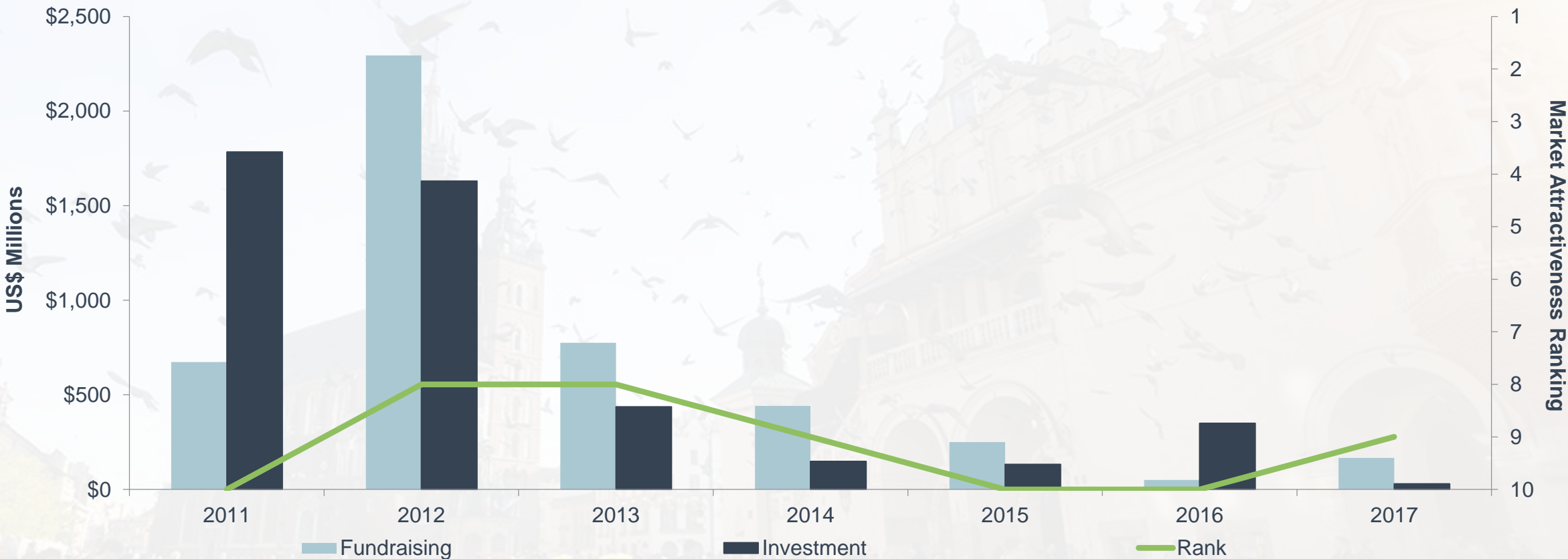


# Russia and CIS ranks low regardless of activity in the region



For those GPs that can raise capital, a relatively less competitive environment could be conducive to generating returns

Russia and CIS Fundraising and Investment vs. Market Attractiveness Ranking



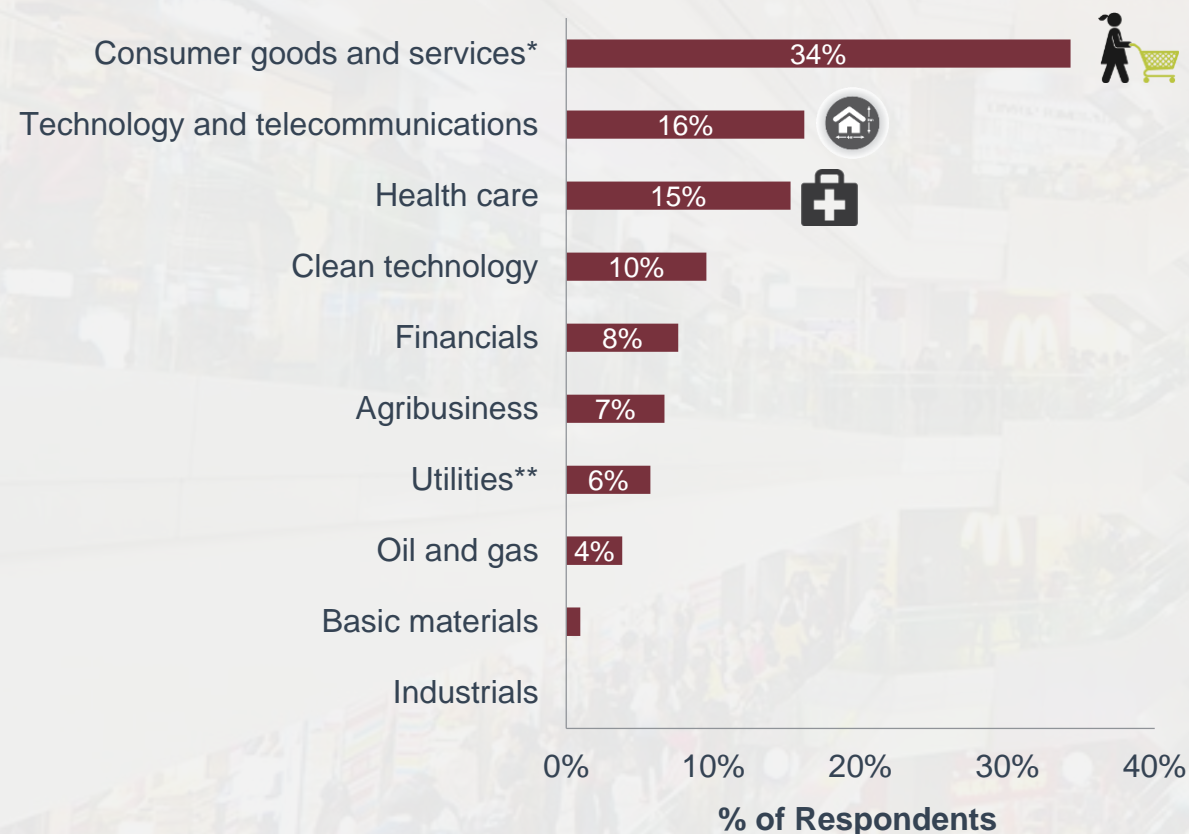
Source: EMPEA. Data as of 30 June 2017. EMPEA 2017 *Global Limited Partners Survey*.



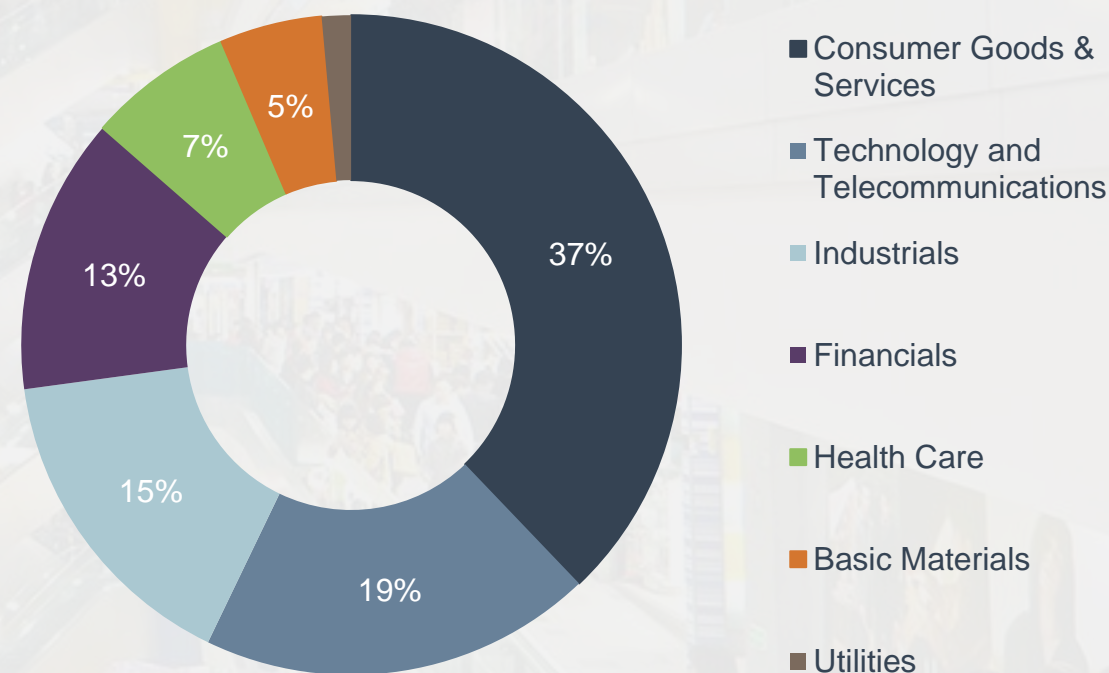
# Consumer goods and services is the most attractive for LPs

The number of investments have more than doubled since 2010, due in large part to VC investment in consumer services

Most Attractive Sectors in Which to Build Exposure via EM PE



Russia and CIS Investment by Sector, 2012-1H 2017



## Takeaways

### **LPs are leading structural changes in the industry**

- Increase in co-investment and direct investment
- Capital concentration
- Relationship rationalization
- Alternatives to traditional growth equity, like VC and private credit, are gaining interest

### **Best-in-class GPs are tailoring their teams and fund offerings to stay ahead of the curve**

- Large managers, on one hand, and specialized managers, on the other, have an edge in fundraising
- GPs are developing PE-adjacent products in credit, infrastructure and real estate
- Proprietary deal origination, active value creation and proactive exit strategies must take precedence over following boom and bust cycles







EMPEA

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### CEE and CIS Data Insight 1H 2017

During the first half of 2017, fund managers invested USD 3.5 billion in CEE and CIS, representing the region's largest first-half investment total since 2008. Much of the capital invested in the region is for the year comes from pan-European managers such as Citic and Fidelity, which both participated in the USD 1 billion investment round in Algeria. Overall, 28% of managers investing in CEE and CIS in 1H 2017 have pan-European or multi-regional roots, an increase from 17% of managers in 2016 and just 27% in 2015. Conversely, Central European fund managers drove out activity in the region. Managers focused on the region completed IPOs or public offerings in Turkey, Poland and Romania since December, as well as a listing by Mid Europe Partners of Hungarian logistics platform (Helmus) in Budapest in early Q3 2017. Of these countries, only Poland had previously recorded a PE-backed IPO since EMPEA began reporting exit statistics in 2008. This uptick in public market exits suggests a growing maturity of both the managers and markets within CEE and CIS.

Update on methodology: Unless otherwise specified, EMPEA's data and statistics include private equity, private equity infrastructure and real estate.

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#### Capital invested in CEE and CIS reached US\$2.5 billion in 1H 2017, the region's largest 1H total since 2008

#### CEE and CIS Fundraising and Investment, 2010-2017

Year	Funds Raised (\$B)	Capital Invested (\$B)
2010	1.5	1.5
2011	2.2	2.2
2012	2.0	2.0
2013	1.5	1.5
2014	0.7	0.7
2015	1.5	1.5
2016	0.7	0.7
2017	2.5	2.5

#### Managers completed 28 deals in Q2 2017, up from just 21 in Q1

#### CEE and CIS Investment by Quarter, Q3 2016-Q2 2017

Quarter	Capital Invested (\$B)	Total No. of Deals
Q3 2016	0.5	12
Q4 2016	0.5	12
Q1 2017	0.5	12
Q2 2017	0.5	28

#### Turkey and Poland accounted for 47% of deals in CEE and CIS in 1H 2017

#### CEE and CIS Investment by Country, 1H 2017

Country	Capital Invested (\$B)
Turkey	1.0
Poland	1.0
Czech Republic	0.5
Estonia	0.5
Latvia	0.5
Other	0.5

#### The consumer services sector attracted 87% of capital invested through just 27% of deals completed in CEE and CIS

#### CEE and CIS Investment by ICB Industry, 1H 2017

ICB Industry	Capital Invested (\$B)	No. of Deals
Consumer Services	2.0	27%
Health Care	0.5	10%
Consumer Goods	0.5	10%
Technology	0.5	10%
Other	0.5	10%

#### Among the sub-regions of CEE and CIS, only Turkey is on track to beat its 2016 deal count

#### CEE and CIS Investment by Sub-region, 2H 2016-1H 2017

Sub-region	Capital Invested (\$B)	No. of Deals
CEE	1.5	15
CIS	1.0	13

#### Public market transactions represented 38% of exits in 1H 2017, with strategic sales falling to 23%

#### CEE and CIS Exits by Transaction Type, 2013-1H 2017

Transaction Type	Capital Invested (\$B)	No. of Deals
Strategic Sale	0.5	10%
Secondary Sale	0.5	10%
Share Sale	0.5	10%
Other	0.5	10%

### Untying the Red Tape to Unleash India's Economic Promise

Dr. Michael Agti, President of the U.S.-India Business Council

The past couple of years have seen a number of policy changes in India that have opened up the economy to foreign investment. The Indian government has been successful in creating a more business-friendly environment, and this has led to a significant increase in foreign investment in the country. The Indian government has also been successful in creating a more business-friendly environment, and this has led to a significant increase in foreign investment in the country.

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### EMPEA Brief Alternative Paths to Liquidity

Unlocking "Stock" Capital

Key findings:

- 1. The rapid development of the industry, particularly in the public market, has led to a significant increase in the number of public market exits.
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