



**International
Finance Corporation**
World Bank Group

A light gray world map is centered in the background of the slide, showing the outlines of continents and countries.

The Case For Emerging Markets Private Equity

V.10 May 2012

Introduction

IFC has a long-standing commitment to developing the private equity asset class in Emerging Markets (EMs).

We now have over ten years of experience with a specialist group focused on investing in Funds and we think other investors may benefit from sharing this experience.

Based on our experience and analysis of data from our portfolio we draw the following thoughts :

- 1) Emerging Market Private Equity (EMPE) has matured significantly as an area of investment. Returns have exceeded those on US PE over the last 10 years and both US and EU returns over the last 5 years.
- 2) **There appear to be diversification benefits in EMPE due to low leverage, its focus on domestic growth and different industry coverage relative to listed markets.**
- 3) **The returns on EMPE are driven by growth and efficiency rather than leverage or multiple expansion.**
- 4) Significant growth-oriented PE opportunities are available beyond the small number of countries in which most EMPE investors are currently concentrated.
- 5) Many of the risks of EMPE are over-stated and we provide data which places these risks in perspective.

Presentation

We intend that this becomes a living document.

We have based the content of this presentation on conversations with investors about the issues they have when they think about investing in EMPE.

There will be other issues of interest beyond the ones presently covered, so we have used PowerPoint to make the information available as it is easy to up-date and add new information in response to requests.

We encourage you to ask us questions and, if we have the information with which to answer or provide some insight, we will add it to the presentation posted on our website:

<http://www.ifc.org/funds>

If you find the information useful and use it in your own presentations, we would appreciate an acknowledgement of IFC and the named data providers.

Acknowledgements

It is possible to present this information due to the cooperation and hard work of a large number of people. We would particularly like to thank:

- The Managers of IFC invested funds who have been very generous in responding to our requests for information.
- The Emerging Markets Private Equity Association (EMPEA) for providing market data and insights.
- Cambridge Associates for providing benchmark data.
- Markus Taussig, now a professor at the National University of Singapore, for gathering and analyzing much of the data.



Private Equity in Emerging Markets Has Come of Age

Private Equity Has Proven Attractive Relative to Public Equity

	Comparative Net "End-to-End" Returns as of September 30th, 2011		
	Emerging Markets VC and PE Index	MSCI EM Index	S&P %00 Index
3 Years	11.9	6.6	1.2
5 Years	12.1	5.2	-1.2
10 Years	10.6	16.4	2.8
15 Years	8.3	6.8	5.2

EMPE appears to offer better access to domestic consumer-facing growth sectors (refer slide 9)

Source: Cambridge Associates

EM PE Returns Have Caught Up and Passed Returns on US/EU PE

	Comparative Net "End-to-End" Returns as of September 30th, 2011			
	US Venture Capital Index	US Private Equity Index	W. Europe PE Index	Emerging Markets VC and PE Index
3 Years	5	7.3	3.4	11.9
5 Years	6.8	8.1	8	12.1
10 Years	2.6	11.5	17.5	10.6
15 Years	31.7	11.6	17.4	8.3



Returns on EM PE have exceeded those on US PE over 10 years and both US & EU PE over 5 & 3 years



A disproportionate number of EM funds are in the top half and top quartile of the Global PE Universe for vintage years from 2004. For vintage years 2004 to 2008 EM Funds constitute between approximately 30% to 45% of the top quartile of the Global PE Universe.

Source: Cambridge Associates

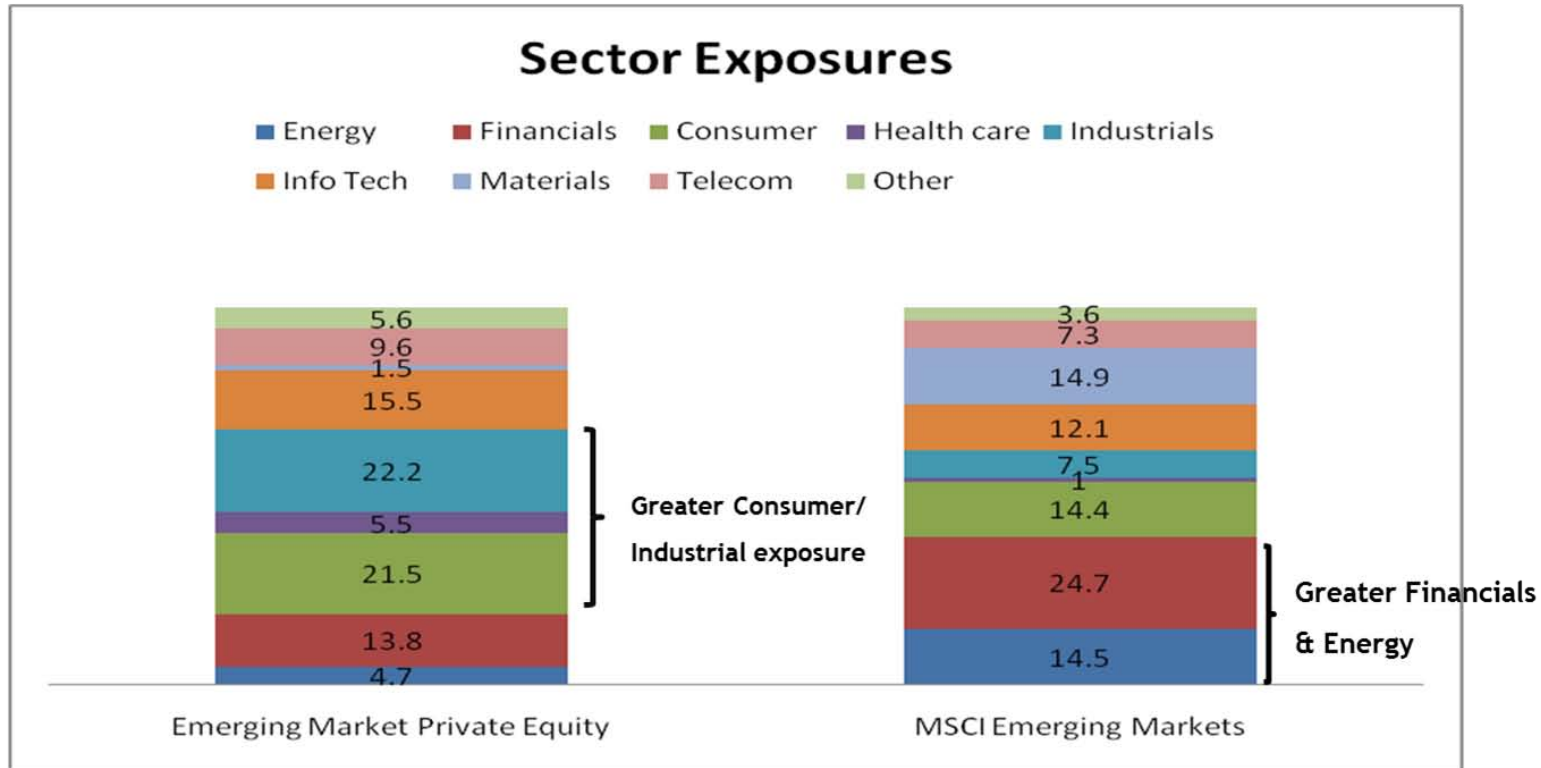


Diversification Benefits Exist: Industry Exposure Focus on Domestic Growth Low Leverage

Cambridge Associates LLC. Correlation of indices as of December 31, 2011	All Funds Net to LP	Top Quartile Net to LP
Correlation US and EM Private Equity 2000-2011	0.5705	0.5295

Source: Cambridge Associates, quarterly data March 2000 – Sept 2009

More Exposure to Consumer Growth than Public Markets



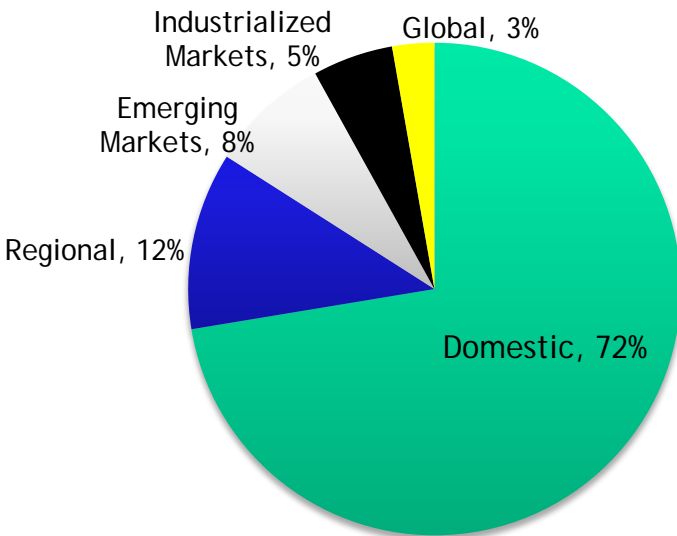
➔ PE provides access to sectors under-represented in public markets

Source: Cambridge Associates

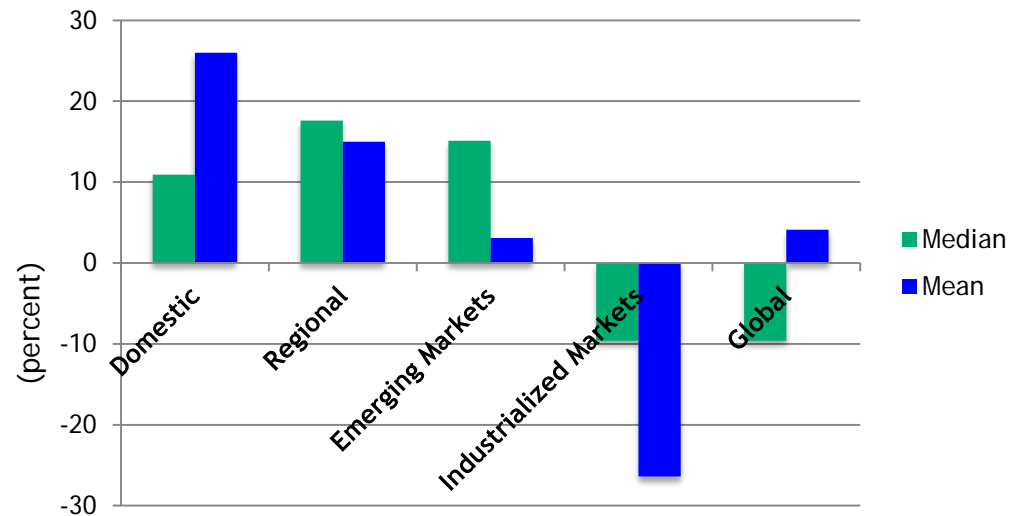
Growing Domestic or Regional Companies Provide the Deal Flow

As a result of the trends in deregulation and openness, most of the EMPE opportunities are companies targeting growth in Domestic markets or Intra-emerging-market growth.

Target Market - Focus *



Target Market - Return **



Sample: * IFC Funds Portfolio 2009 833 companies with clearly indicated market focus ** 300 companies that were fully exited

There are Four Basic Ways to Create IRR

A PE fund can achieve the same IRR through any of four basic strategies: leverage, multiple expansion, growth and efficiency.

Most funds use a blend of the four.

In EMs IRR is driven by growth & efficiency (see Slide 12)

	IRR	Equity	Cash out by Dividend, Stock Purchase etc	P/E at Entry	P/E at Exit	Revenue Growth p.a	Margin Improves from 5% to x%	Holding Period Years
Leverage	25%	30%	55%	6	6	0%	5%	5
Multiple Expansion	25%	75%	10%	6	14	0%	5%	5
Growth	25%	75%	10%	6	6	20%	5%	5
Efficiency	25%	75%	85%	6	6	0%	30%	5

Source: IFC model

Returns on Private Equity in Emerging Markets are Driven More by Growth than Leverage

Higher growth and lower leverage makes the source of risk in EMPE less cyclical and more operational

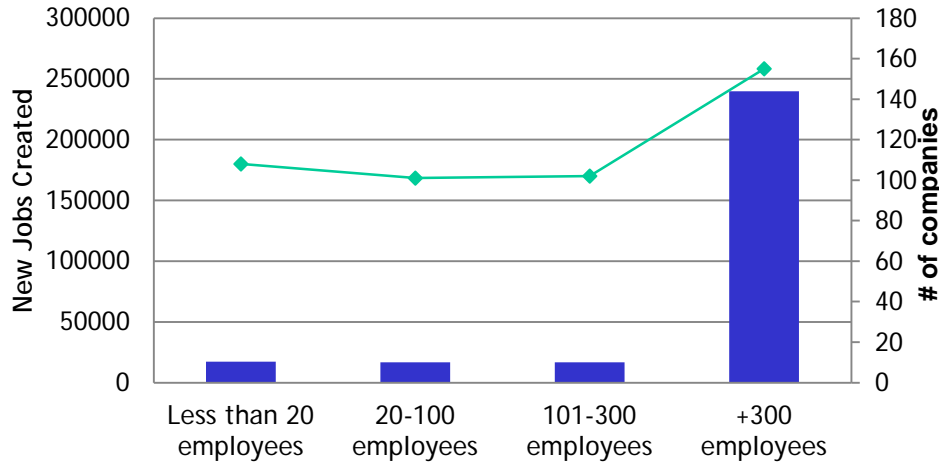
Companies in IFC-invested Funds:

	Emerging Markets	
	Median	Average
Annual revenue growth *	19.5%	37.8%
Debt-to-equity ratio **	0.33	0.74

Sample: 2009 * 527 companies in IFC-invested funds with holding time of at least one year ** 604 companies in IFC-invested funds, not including financial services

PE in EM Creates Jobs and Supports SMEs

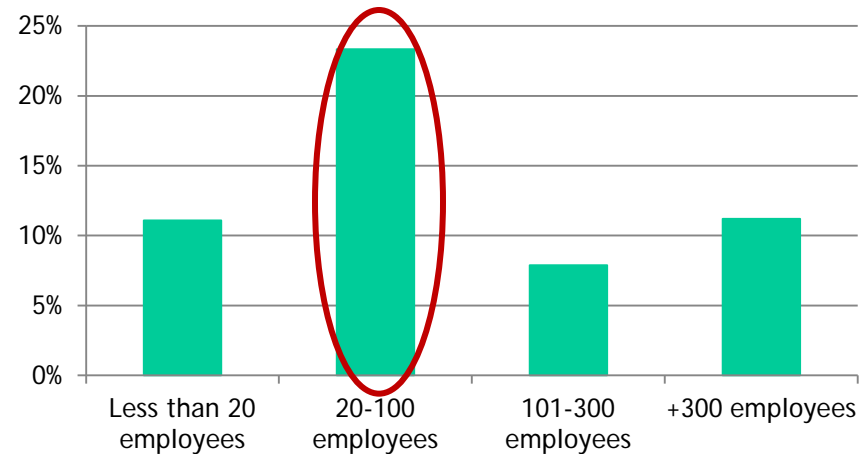
An analysis of investments made by 64 PE funds between 2000 and 2010



Job Creation (net)

291,000 net new jobs created by 466 portfolio companies.

Larger companies create more jobs.



% Job Growth (net) CAGR

14.7% growth in jobs across the sample.

Smaller companies grew faster at 18%.

Fastest job growth in companies with 20-100 employees.

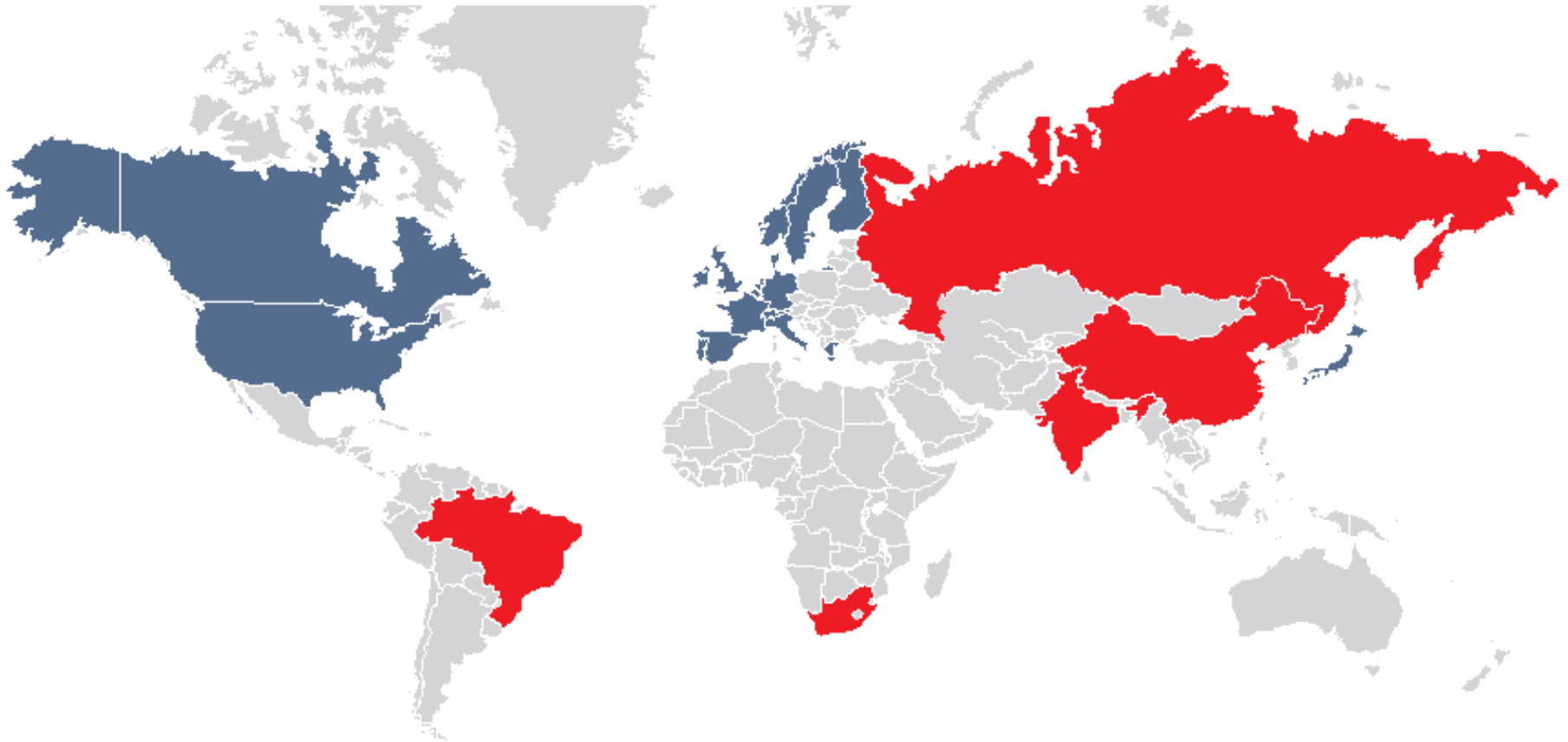


The Opportunity is Larger
Than You Think

Both the Breadth and the Quality of the EMPE Opportunity Have Improved Since 2000

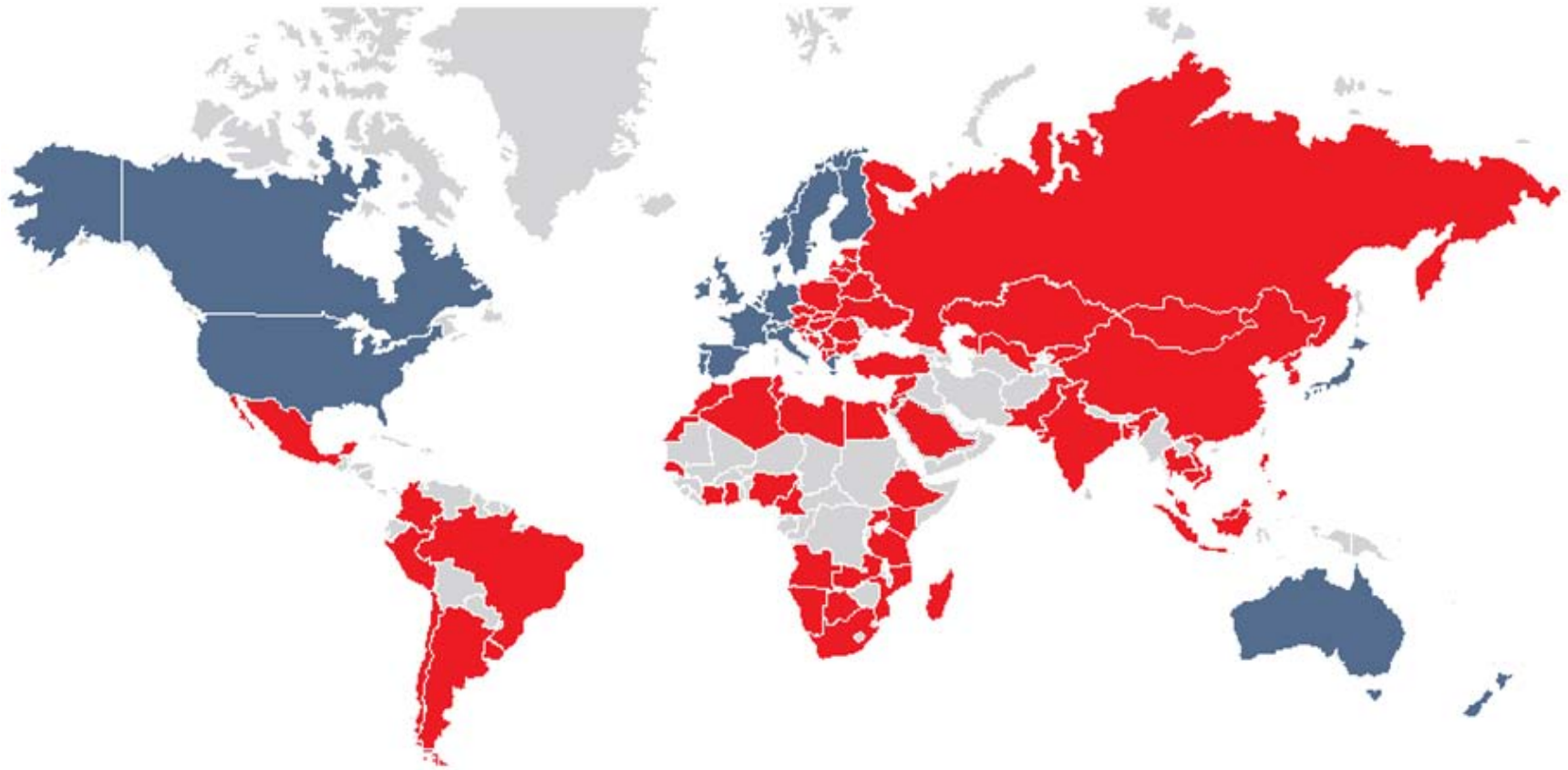
- Since 2000 the number of countries in which there is a meaningful volume of deal flow suited to PE (equity with real influence or control) has increased considerably.
- Having adequate deal flow to support local country-based teams improves the quality of the opportunity as deal origination, structuring and providing advice to the companies, can be done in close proximity and in real time by people embedded in the local market.

2000 - the Start of a Rapidly Growing Opportunity



- Developed Markets
- Emerging Markets with Private Equity Opportunity

2012 - The Opportunity is Very Broad



- Developed Markets
- Emerging Markets with Private Equity Opportunity, mostly single country, some regional

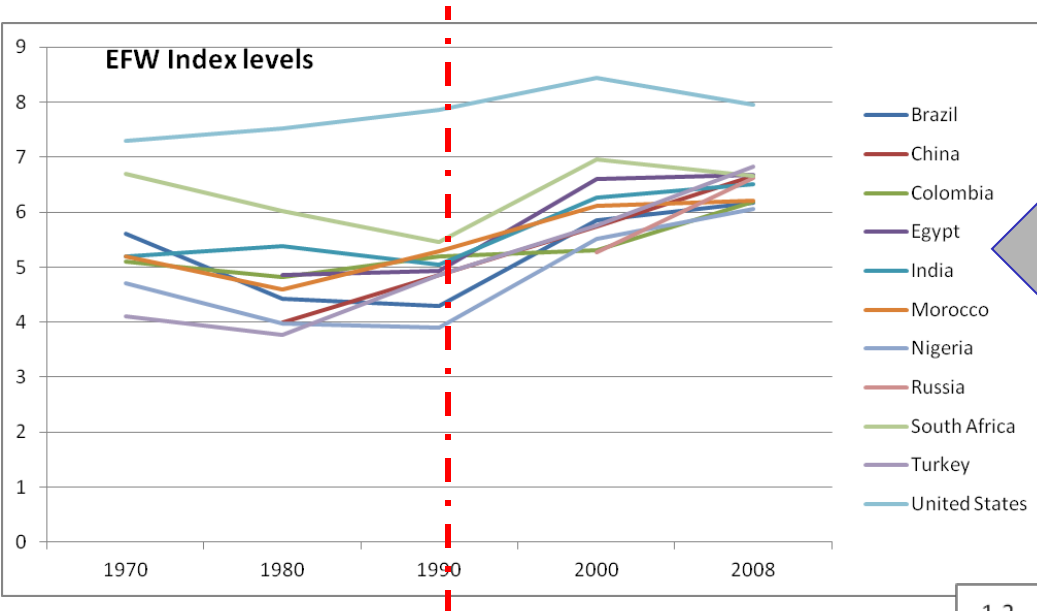
What Has Driven the Growth of the PE Opportunity?

PE requires (i) interesting businesses in which to invest, and (ii) access to equity stakes with *influence* over the business.

Three trends have increased both the number of businesses and the ability to acquire influence.

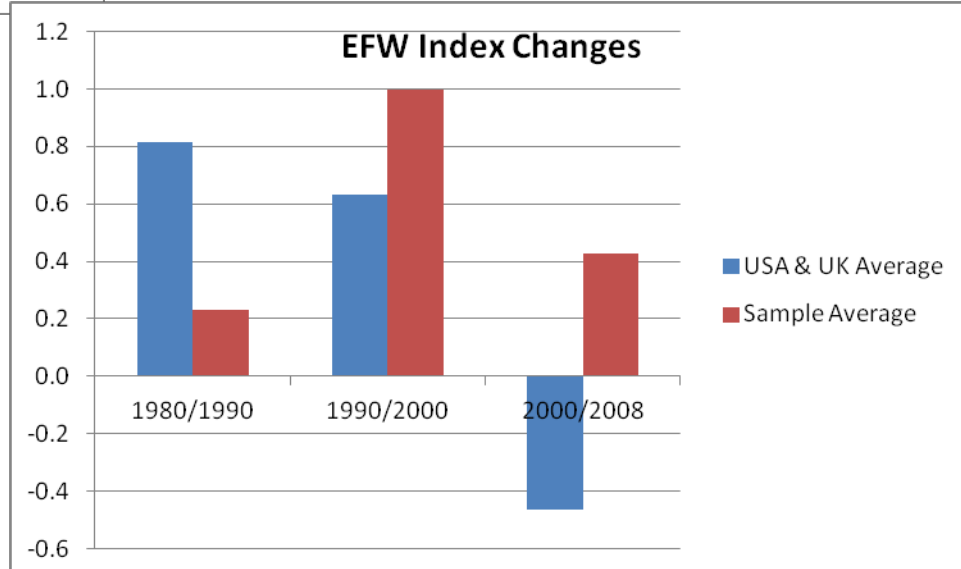
- The move to market-based economies since the 1990s is increasing entrepreneurial activity and the number of businesses of interest to PE (see slide 19).
- The opening of trade and capital flows since 2000 increases both opportunities to expand and competitive pressure, leading to more business owners seeing third party capital as attractive (see slide20).
- The close identification of family status and wealth with direct ownership of a company reduces as portfolio wealth becomes an option and is seen to work, reducing reluctance to allow in third party equity.
- Future growth in the PE opportunity in EM will require a continuation of these trends plus improvement at the local level in the ability to enforce contracts and access to debt (see slide 21) .

Improved Local Conditions Create Businesses



Measures of conditions for private business have improved across a wide range of emerging markets since the 1990s, leading to an increase in the number of companies of interest to PE.

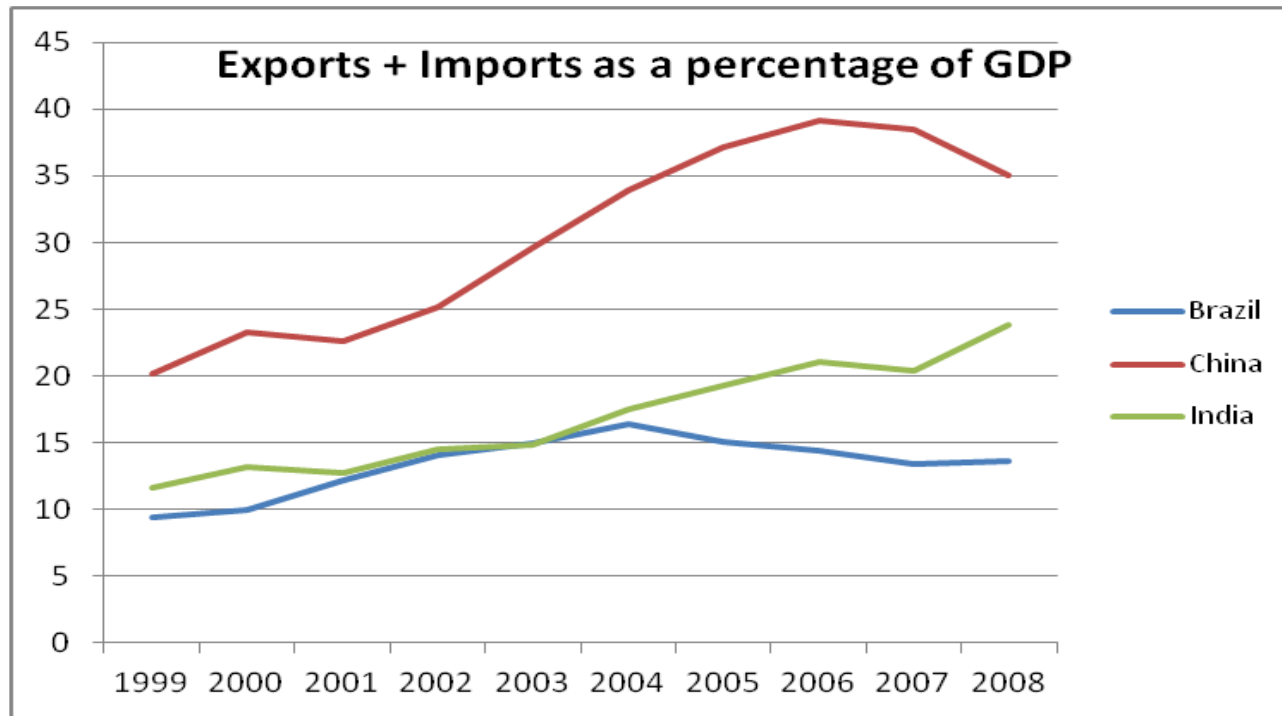
The scale of the improvement in conditions for private business in EMs since 1990 is significant.



Source: Fraser Institute, Economic Freedom of the World (EFW) Index

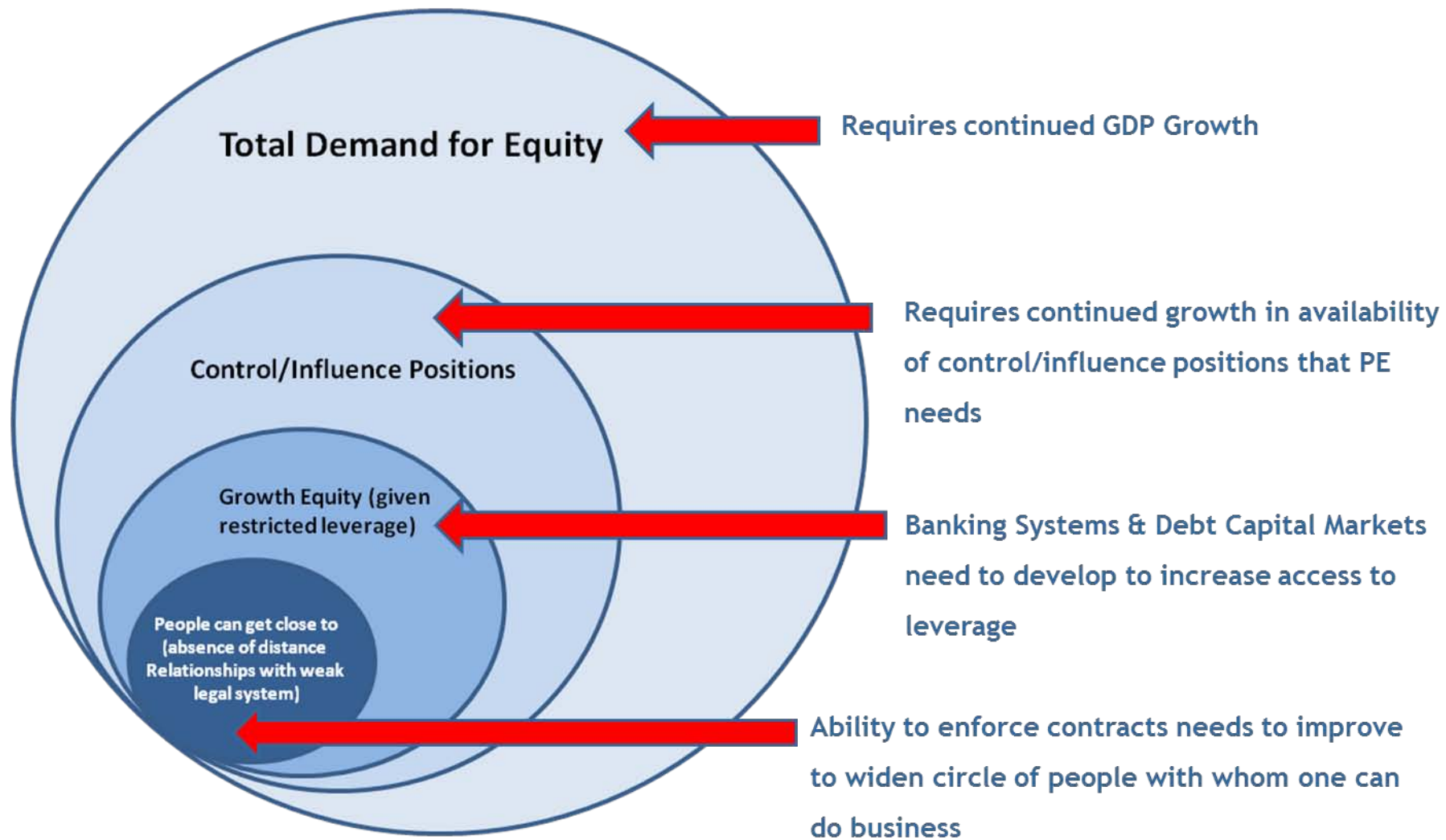
Increased Openness Creates PE Deal Flow

Emerging markets have opened their trade and capital accounts since 2000, increasing both opportunities to expand and competition in domestic markets. This creates more situations where sale of equity with influence over the business is seen as desirable by owners in order to attract the capital or the skills needed to expand, to compete, or to increase focus on core business by sale of non-core business.



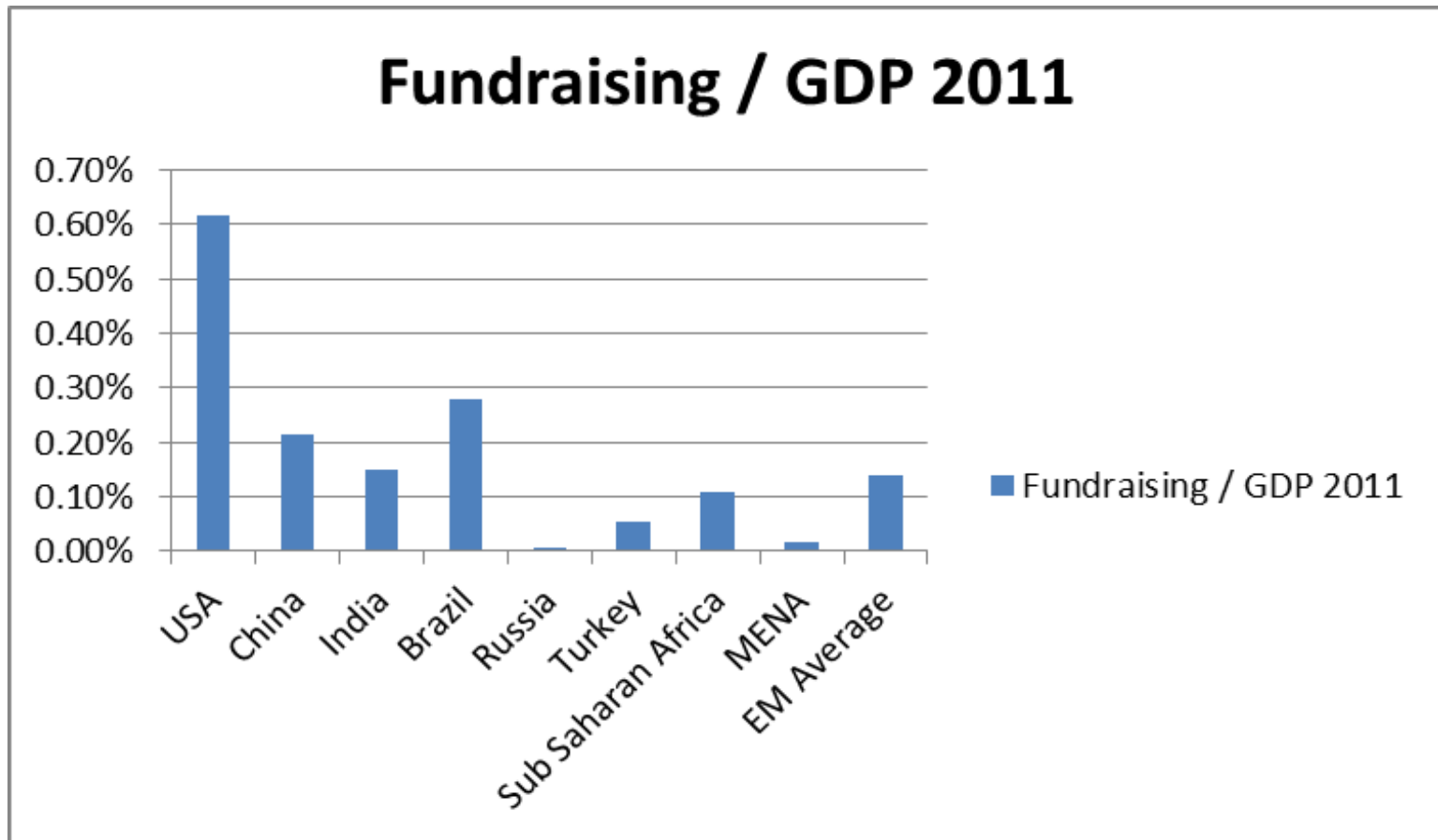
	Increase 1999-2008
Brazil	45%
China	73%
India	104%

Key Drivers of Growth in the PE Opportunity



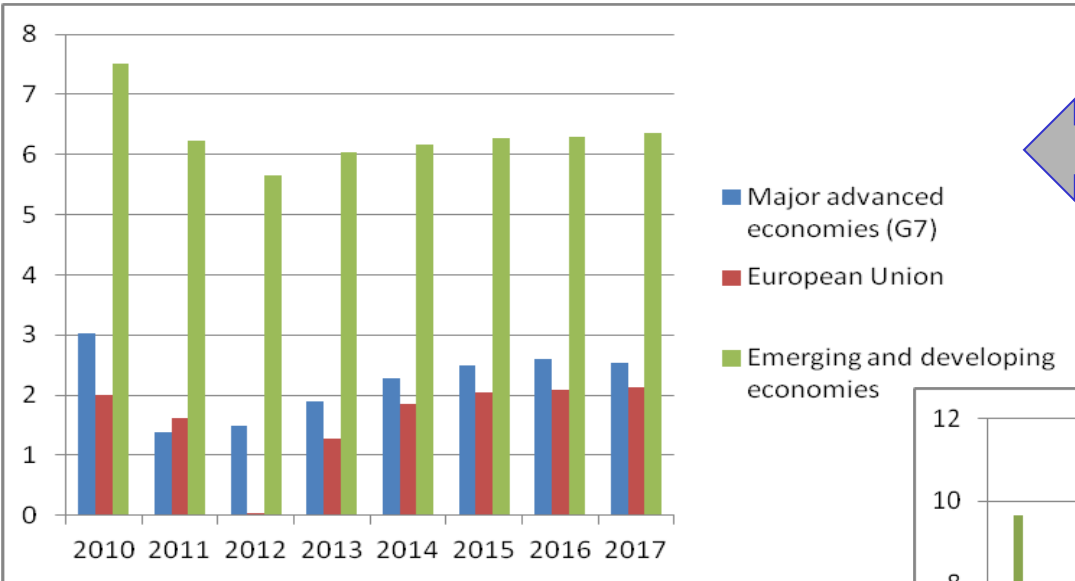
Low Penetration - Room to Grow Further

Even in the BRICs, fundraising as a percentage of GDP is low in EMs compared to the US, indicating much more room to grow.

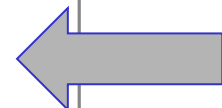


Source: EMPEA

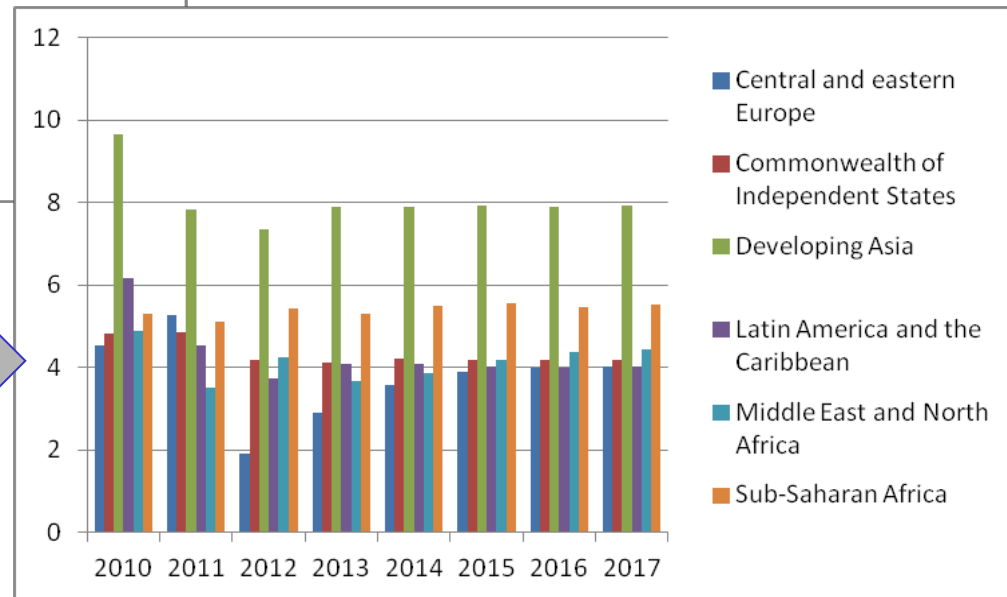
Continued Growth in Emerging Markets Supports Private Equity



GDP Growth in EMs predicted to remain considerably above that of developed economies

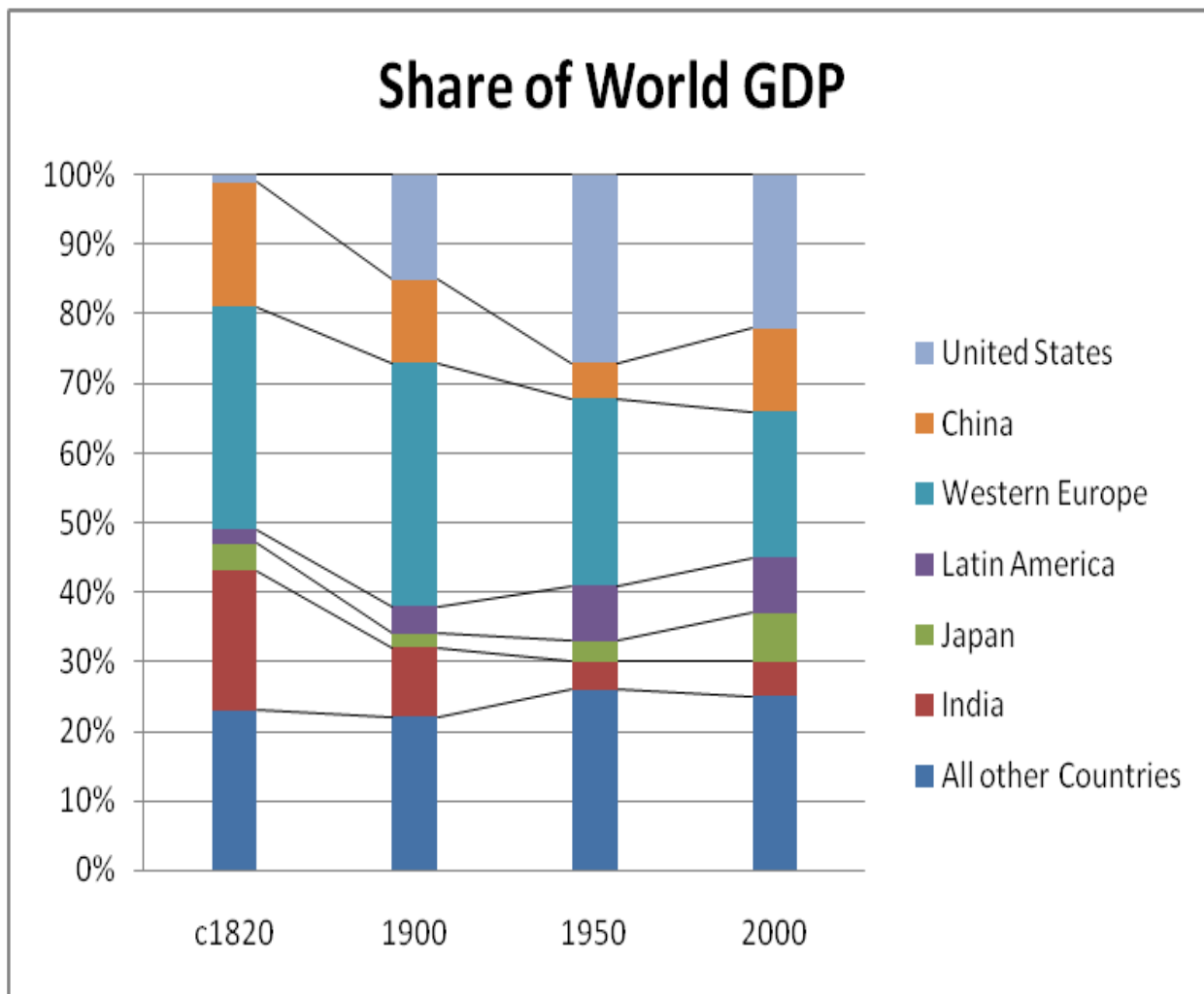


GDP growth predicted to remain positive across the emerging markets



Source: International Monetary Fund, World Economic Outlook Database, April 2012 GDP at constant prices, percentage change

Share of World GDP is Dynamic



Differential rates of growth, over time, have a significant effect on the distribution of investment opportunities

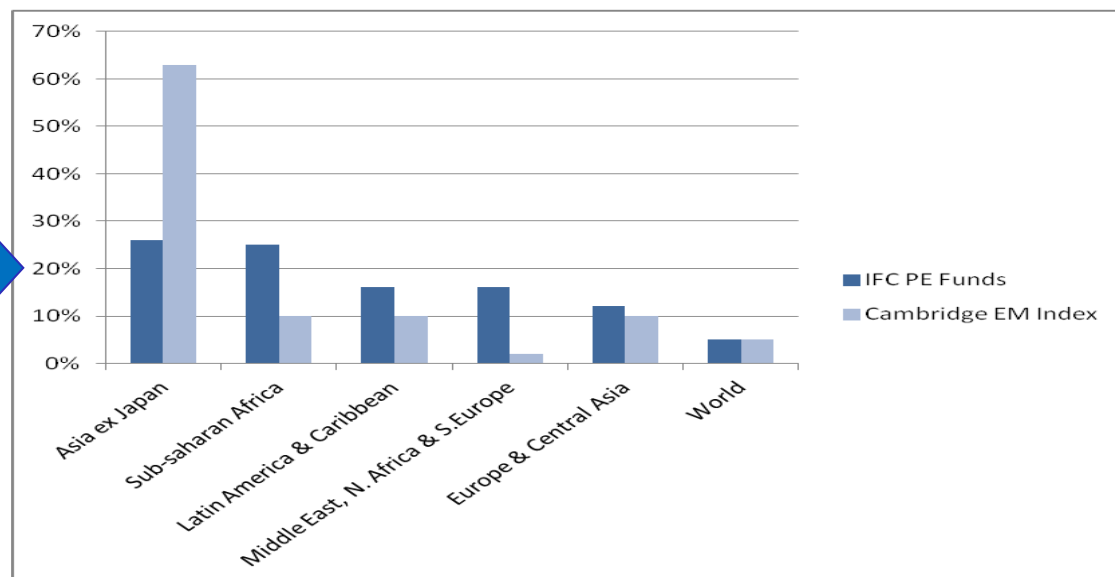
Source: Angus Maddison, University of Groningen

Taking Advantage of the Broader Opportunity Improves Returns

Private Equity Performance Benefits from Diversification

IRR from Jan '00 to	June 30 2011
IFC: Private Equity Funds *	22.20%
IFC: All Funds **	18.30%
Cambridge EM PE Top Quartile ***	19.80%
Cambridge Asia EM PE Top Quartile ***	21.70%
Cambridge US PE Top Quartile ***	17.40%

IFC has out-performed the Emerging Market Index with a much more geographically diversified exposure.



* Includes: Agribusiness, Cleantech, Midcap, Mining, SME, VC and Healthcare Funds

** Includes: Agribusiness, Cleantech, Midcap, Mining, Small business, SME, VC, Healthcare, Debt, Forestry, Infrastructure, Listed, Real Estate, Secondary Funds

*** All PE Fund types excluding Forestry, Infrastructure, Real Estate, and Secondary Funds

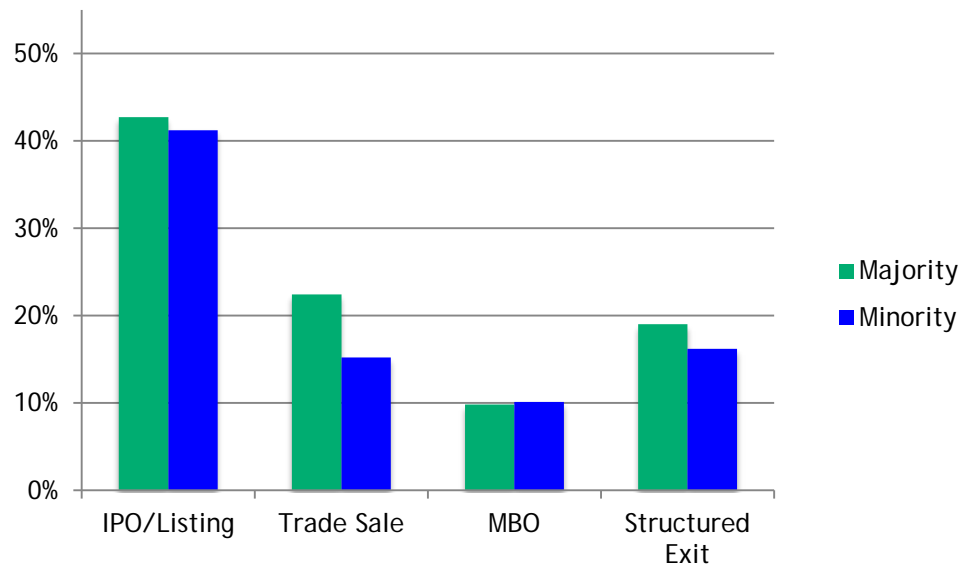
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Myth Busters: Frequently Cited Risks with Private Equity in Emerging Markets

Minority Positions Are NOT Too Risky

Minority positions (blue) have performed well in all forms of exit, indicating that the risks associated with minority positions can be managed effectively.

Median IRR



Average IRR

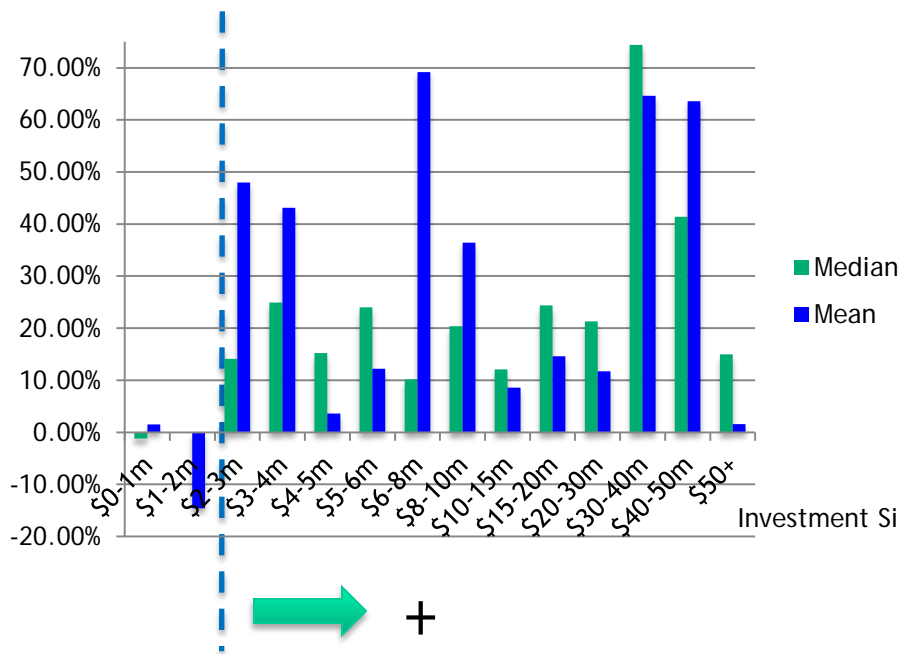


Sample: 2009 Exits of 61 majority positions and 251 minority positions from IFC invested funds

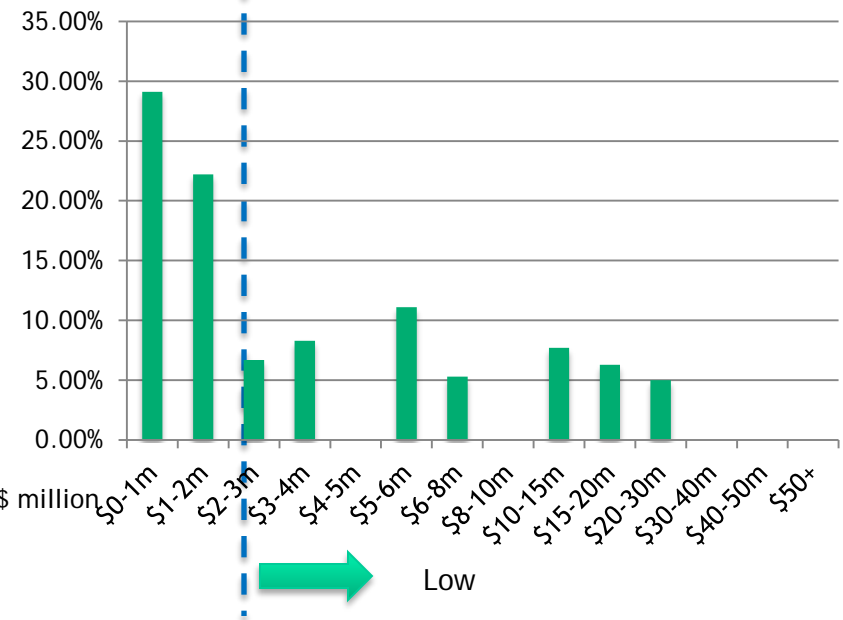
Smaller Companies Are NOT Too Risky

Experience in deals as small as \$2 million has been positive, suggesting that smaller companies are less risky than commonly perceived.

IRR by Investment Size *



Share of Write Offs by Investment Size **



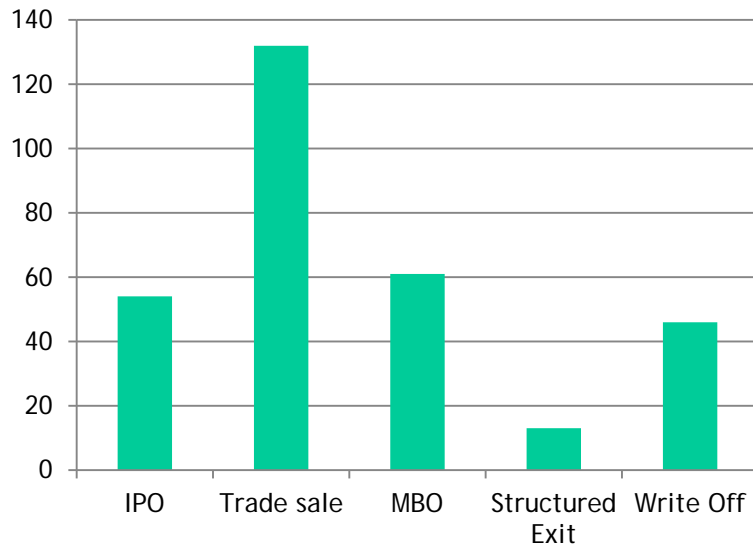
Sample: 2009 * 313 exits from IFC invested funds ** 323 exits from IFC invested funds

Attractive Exits ARE Available

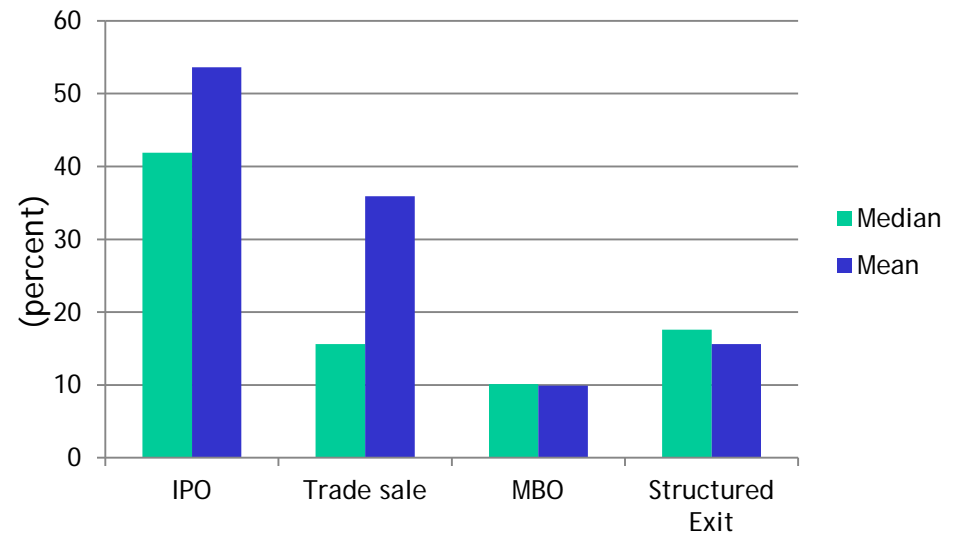
Attractive exits are happening despite less developed capital markets, although access to an IPO improves returns.

Average Holding Period = 4.9 years

Number of Exits *



IRR on Exits **



Sample: 2009 * 325 exits from IFC invested Funds ** 266 non-write-off exits

A Fund Manager With the Right Skills CAN Overcome 1st Time Fund & Frontier Risks

IFC's experience is that the differentiating factor in fund quality is the Manager's skill set, not 1st time fund risk or a frontier focus.

	IRR as of March 2009 (simple average %)	Development Impact Score Highly Suc = 3 HighlyUn S = -1	1st Time Funds %	IDA % (<\$1000 GDP per capita)	Average Deal Quality Score Max = 1 Min = 0
Top 10%	46.6%	2.10	53%	27%	0.97
Bottom 10%	-38.3%	0.14	53%	13%	0.17

The Same

More Top 10%
in the Frontier

Sample: 2009 150 Funds currently in IFC portfolio, excluding those in the J-curve

First Time Fund Risk is Lower Than Expected

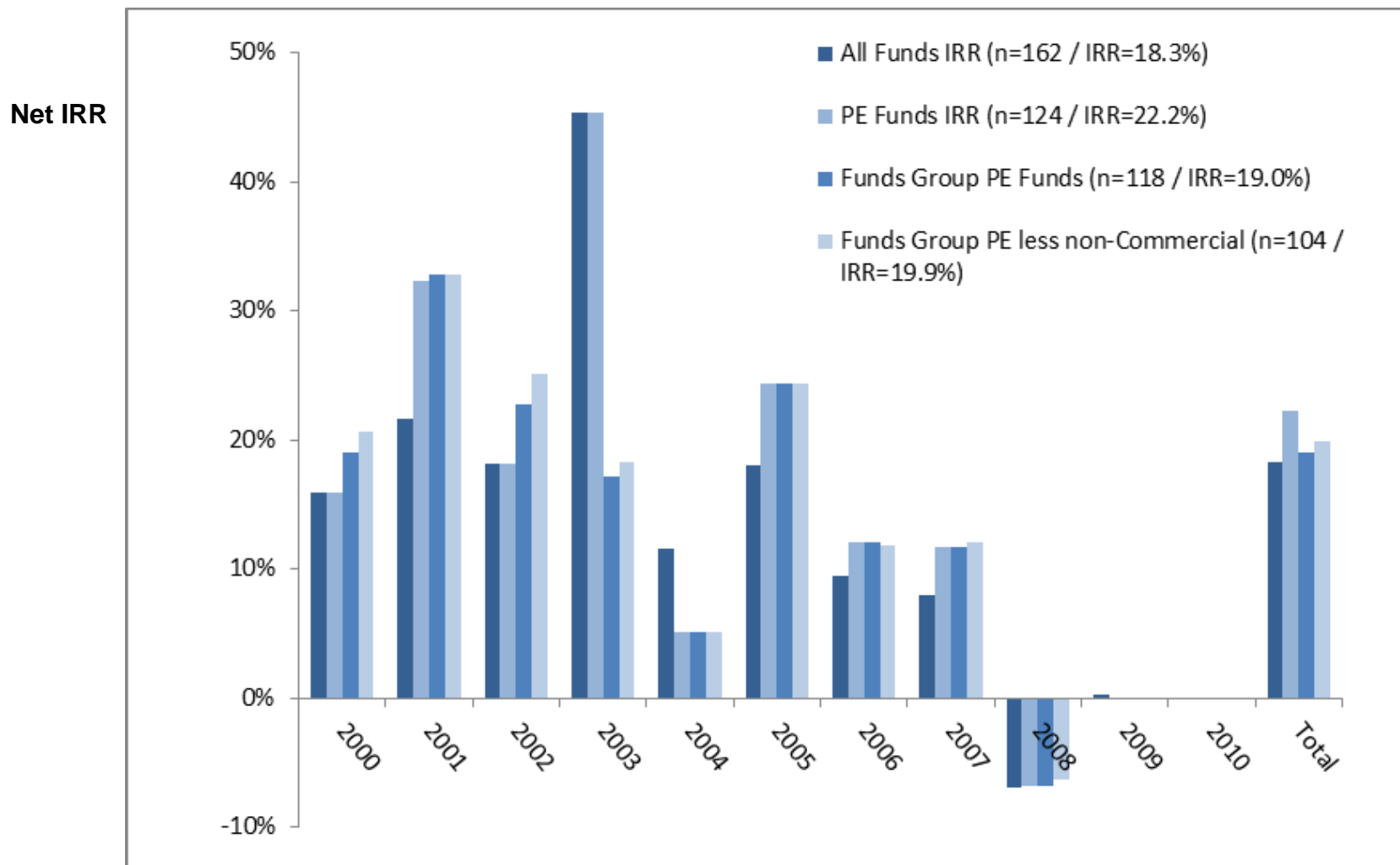
IRR from 2000 to June 30th 2011

IFC All Funds	18.3%
1st Time Funds	24.0%
Non-1st Time Funds	11.1%



**Early Mover Advantage reduces risk on
1st Time funds in Emerging Markets**

It Does NOT Take Longer to Exit the J-Curve



Source: IFC fund investments by Vintage Year as at June 2011