IFC’s Experience in Emerging Market Private Equity

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Outline

• Investment Pace
  - To Give a Sense of Scale

• Returns
  - What Drove the Returns?

• Fund Selection

• Future Trends?
Results Have Been Achieved at Scale

Commitments and Number of Funds
IFC's Private Equity Funds Portfolio Vintages 2000-2010

IFC invests in private equity funds as part of a continuous program, which is ongoing. In the vintage years 2000-2010, IFC invested in 124 private equity funds. Commitments, disbursements, number of funds and average commitment size are shown in the chart above.
RETURNS
There are Advantages in Capitalizing on the Global Opportunity...

... As Our Experience Shows

IFC has out-performed the Emerging Market Index....

.... with a much more geographically diversified exposure.

<table>
<thead>
<tr>
<th>IRR from 2000 to</th>
<th>Jun-11</th>
<th>Dec-11</th>
<th>Jun-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFC Private Equity Funds</td>
<td>22.2%</td>
<td>20.2%</td>
<td>19.7%</td>
</tr>
<tr>
<td>MSCI Global Emerging Markets Index (1)</td>
<td>12.8%</td>
<td>9.7%</td>
<td>9.3%</td>
</tr>
</tbody>
</table>

Source: IFC Portfolio as of June 2012 and Cambridge Associates, IFC analysis
Note: Private Equity Funds Includes: Agribusiness, Cleantech, Midcap, Mining, SME, VC and Healthcare Funds
(1) MSCI returns on IFC Private Equity Fund cashflows in the relevant period
Consistent Out-Performance, Lower Volatility
Our Performance Has Benefited From Diversification

The margin of out-performance is driven a lot by what is happening in Asia, given our under-weight position

Source: IFC Portfolio as of June 2012 and Cambridge Associates, IFC analysis
Note: Private Equity Funds Includes: Agribusiness, Cleantech, Midcap, Mining, SME, VC and Healthcare Funds
Analysis of Returns

Potential Drivers of Returns:

• Type of Fund
• Fund Size
• Geography
• Manager Selection
We Select Funds From Multiple Spaces with Very Different Characteristics

**Growth Equity: 20+% net return IFC’s key investment focus**
- Funds scale and shift focus with success and repeat funds
- Largest job creation
- Historically 40% SMEs at initial investment

**Opportunistic Solutions: different models based on investment environment and objective**
- 20% IRR
- 20% IRR
- 8-16% IRR

**Small Business**
- 8% IRR
- Model developed by Business Partners in SA.
- Finances firms larger than microfinance but smaller than SMEs.
- PE funds would back. No IPO or Trade sale. ‘Mom and Pop’ companies. Debt and quasi-equity.
- Requires scale.
- Effective in accessing the real frontier markets, e.g. Nepal, Sierra Leone.

**Pure SME**
- 12% IRR
- Smaller companies of which only 3/10 are expected to achieve an IPO or Trade Sale due to size or scalability issues.
- Uses blend of equity, quasi equity and debt.

**Non-PE Sector**
- 10-15% IRR
- Large project focused infrastructure, real estate, and forestry.

**Small**
- VC
- 65-75% of capital concentrated in the largest funds, in turn invest in large companies. Larger funds typically managed by more proven GPs.

**Mid Cap**
- Used in countries in which there is some PE deal flow, but insufficient for a dedicated PE fund, combined with high demand for passive equity and the potential for IPO. The hedge fund can spread its investments over both active and passive positions.

**Large**
- Listed Equity
- Use when we want to catalyze commercial investment into less liquid public markets in emerging markets.

**Other types of funds are slices out of these verticals.**
They will primarily have the financial and developmental characteristics of the vertical of which they are a slice. e.g. Climate Change, Education, Health Care, Agribusiness, Impact
IFC Backs Mostly Smaller to Mid-Sized Funds
This is a Less Crowded Space

<table>
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<tr>
<th>Total Emerging Markets 2007-2012</th>
<th>No. of Funds</th>
<th>% Funds</th>
<th>Total Capital Raised (US$m)</th>
<th>% Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;US$100m</td>
<td>227</td>
<td>31%</td>
<td>10054</td>
<td>5%</td>
</tr>
<tr>
<td>US$100m-US$249m</td>
<td>157</td>
<td>22%</td>
<td>24446</td>
<td>11%</td>
</tr>
<tr>
<td>US$250m-US$499m</td>
<td>105</td>
<td>21%</td>
<td>36521</td>
<td>16%</td>
</tr>
<tr>
<td>US$500m-US$999m</td>
<td>61</td>
<td>14%</td>
<td>39736</td>
<td>18%</td>
</tr>
<tr>
<td>&gt;US$1 billion</td>
<td>61</td>
<td>12%</td>
<td>111071</td>
<td>50%</td>
</tr>
<tr>
<td>Total</td>
<td>611</td>
<td></td>
<td>221827</td>
<td></td>
</tr>
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Cambridge Associates Data indicates EM funds < $750m out performing funds > $750m, with around 3x as many smaller funds achieving Total Value Multiples > 2x

Source: EMPEA
Manager Selection Made a Significant Contribution
Geography Was Not Significant in IFC’s Case

• vs. Cambridge Associates EM PE Index

• vs. MSCI Global EM Index

Note: As Cambridge Associates returns data was not available for Africa (6% of the CA index) and MENA (5% of the CA Index) the MSCI return was used for those two regions

Source: MSCI for MSCI index prices, IFC for IFC cash flows, Cambridge Associates for Cambridge Associates data
IFC Backs Many First Time Funds - To Our Advantage

There is an Early Mover Premium in Entering Nascent Markets
If you have the experience to capitalize on it.

Source: IFC fund investments by Vintage Year as at June 2012
Summary - IFC Performance History

IFC’s Results Have Benefited From:

- Diversification - Taking Advantage of the Entire Global EM Opportunity
- Concentration in Mid-Sized and Smaller funds
- Good Manager Selection
- Capturing the Early Mover Premium
FUND SELECTION
IFC’s Approach to Fund Selection

1) Cannot rely on track record
   - Nascent Markets   - Evolving Markets

2) What is driving PE-suited deal flow?
   - How much?   - Minority or Control?

2) Which drivers of return are available?
   - Affects required GP skill set

4) Local team

5) Alignment of Incentives
WHAT OF THE FUTURE?
In A Nutshell

- Diversification Will Still Be Beneficial
- The Early Entrant Premium Will be Present, but Diminishing
- The Mid Market Will Continue to be Attractive
- Markets are Still Evolving, Bringing Opportunity & Risk
  - Track Record, in isolation, will remain a weaker indicator than in developed markets
  - You Must Keep Close to the Markets
- Risk of Flooding with Excess Capital has Increased
  - Constraint is Scale, not Risk
What Are We Looking At?

China - West & North where PE is less developed
- Growth equity, not pre-IPO
- Dry powder less excessive than estimates indicate due to local LP defaults
- Need for operating partners increased due to slower revenue growth
- Control positions increasing due to one child policy

India - New generation of growth equity managers, not momentum
- Frontier states, Tier II & III cities
- Control positions increasing: conglomerates, competitive pressure, portfolio wealth

New Markets: 1st Philippine fund Bangladesh Thailand
Re-visiting: Russia Turkey Indonesia Sub-Saharan Africa Central America
Worth Watching: Vietnam Egypt
THANK YOU

QUESTIONS?

For more information on IFC’s experience investing in Emerging Market PE Funds, please go to our website www.ifc.org/funds