



**International  
Finance Corporation**  
World Bank Group

# IFC's Experience in Emerging Market Private Equity

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**ALTERNATIVE INVESTMENT  
MANAGEMENT SYMPOSIUM**

APRIL 3RD – 5TH  
SEAPORT HOTEL & WTC  
BOSTON

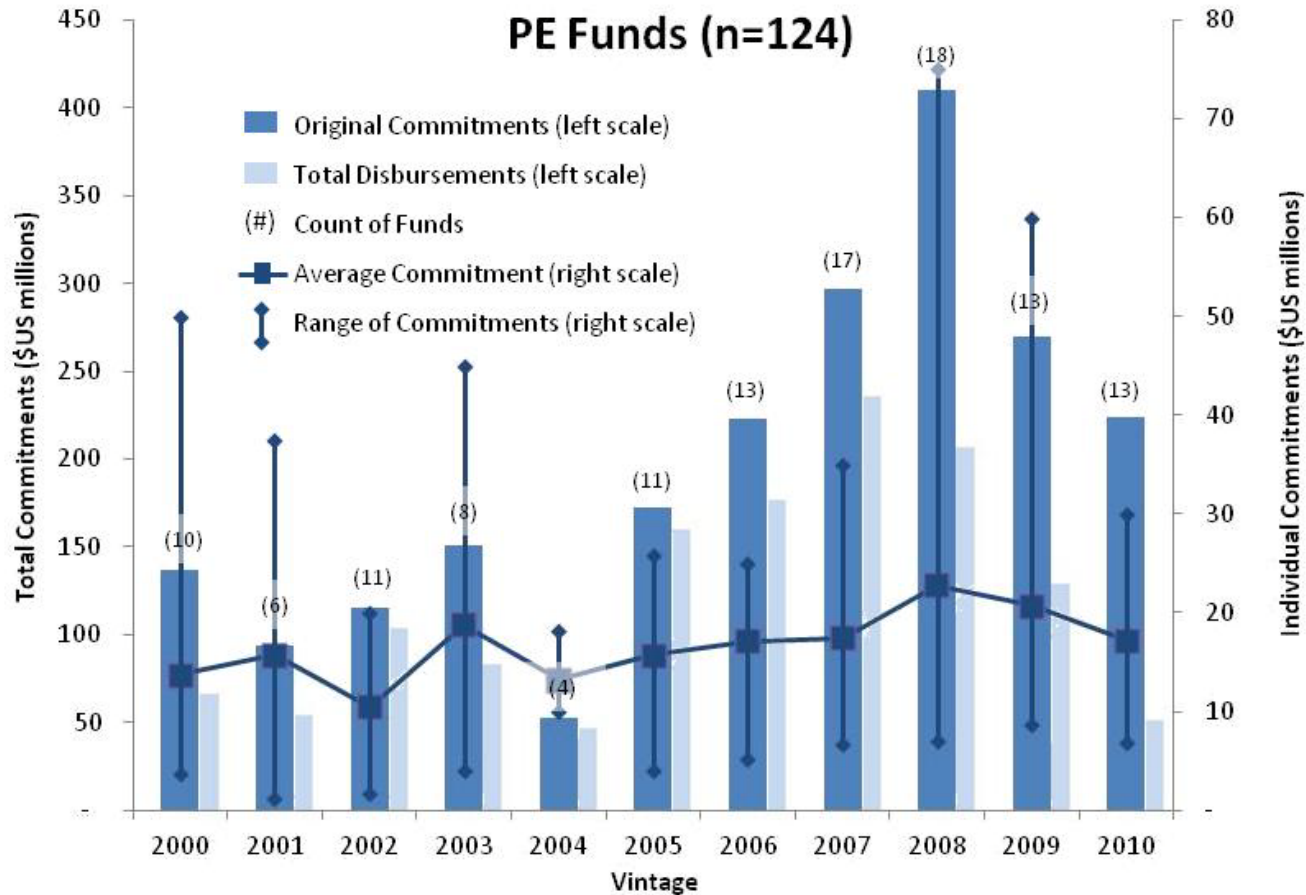
Boston April 4th, 2013

# 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**

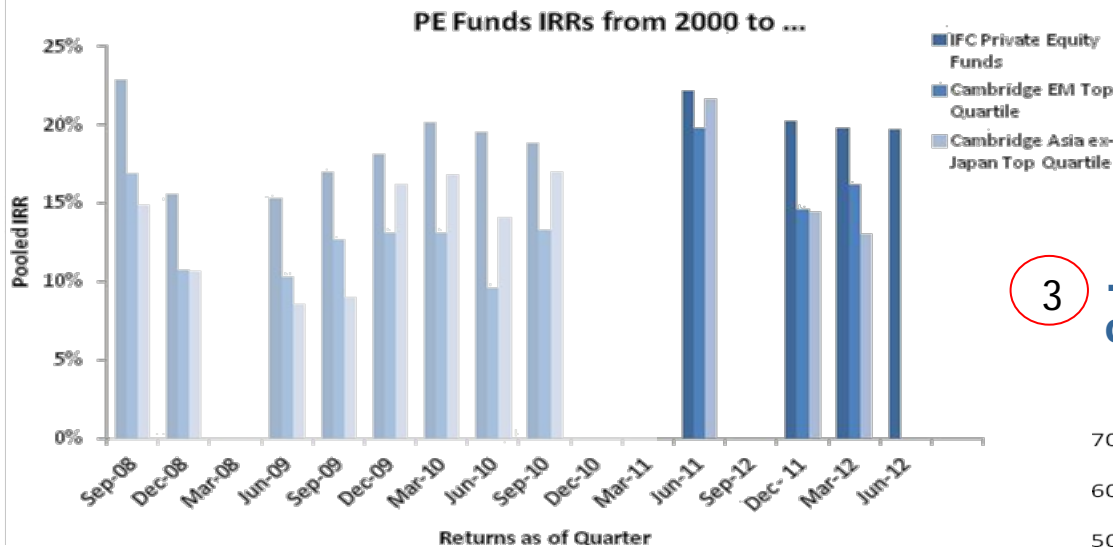


IFC invests in private equity funds as part of a continuous program, which is ongoing. In the vintage years 2000-2010, IFC invested in 124 private equity funds. Commitments, disbursements, number of funds and average commitment size are shown in the chart above.

# RETURNS

# There are Advantages in Capitalizing on the Global Opportunity...

... As Our Experience Shows



1



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

3

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

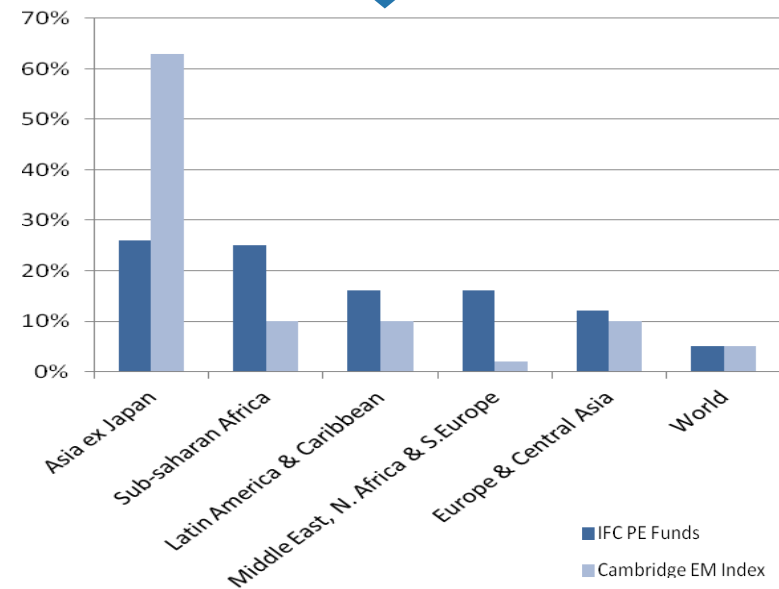


2

... as well as the MSCI...



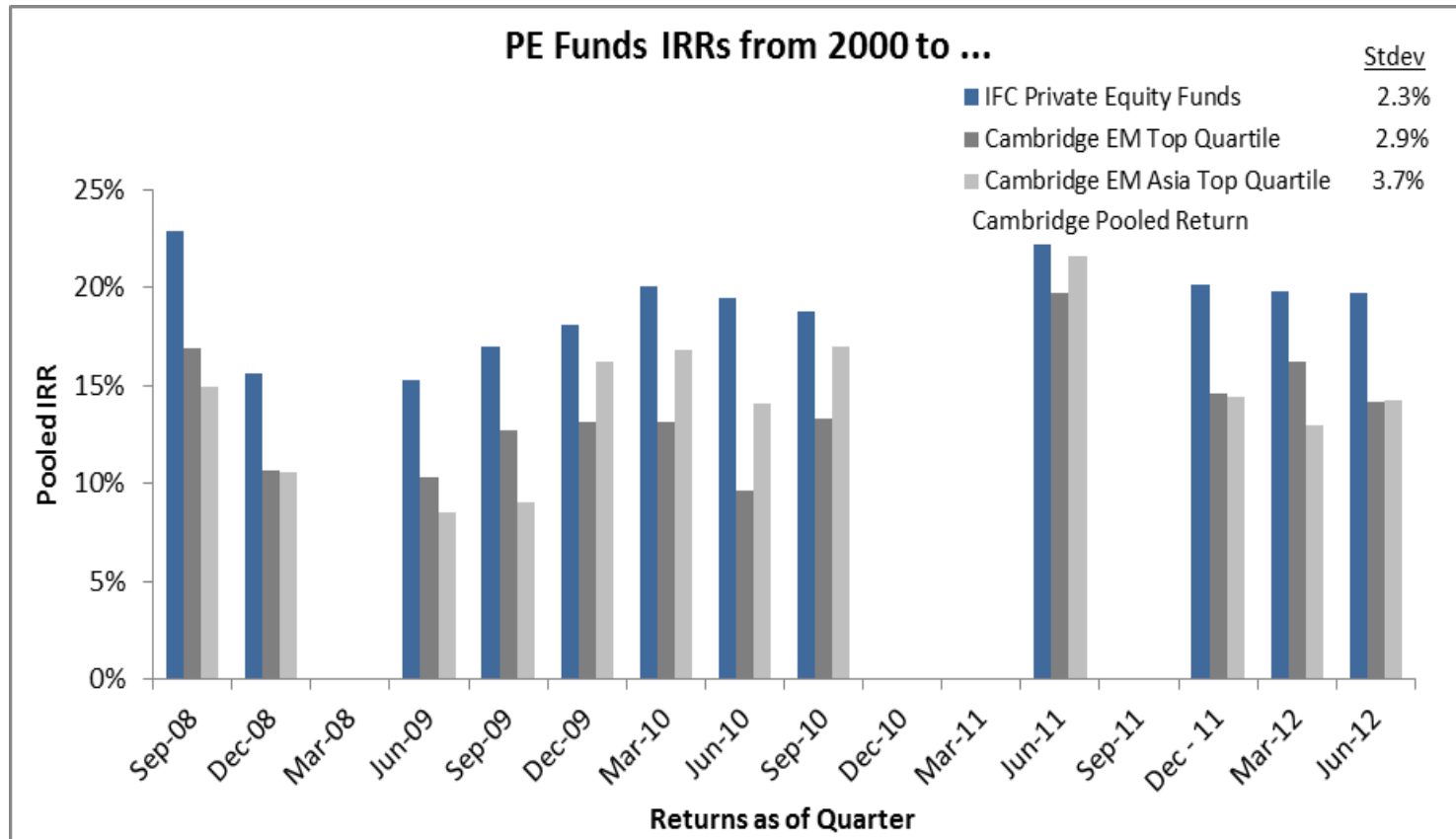
IRR from 2000 to	Jun-11	Dec-11	Jun-12
IFC Private Equity Funds	22.2%	20.2%	19.7%
MSCI Global Emerging Markets Index <sup>(1)</sup>	12.8%	9.7%	9.3%



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

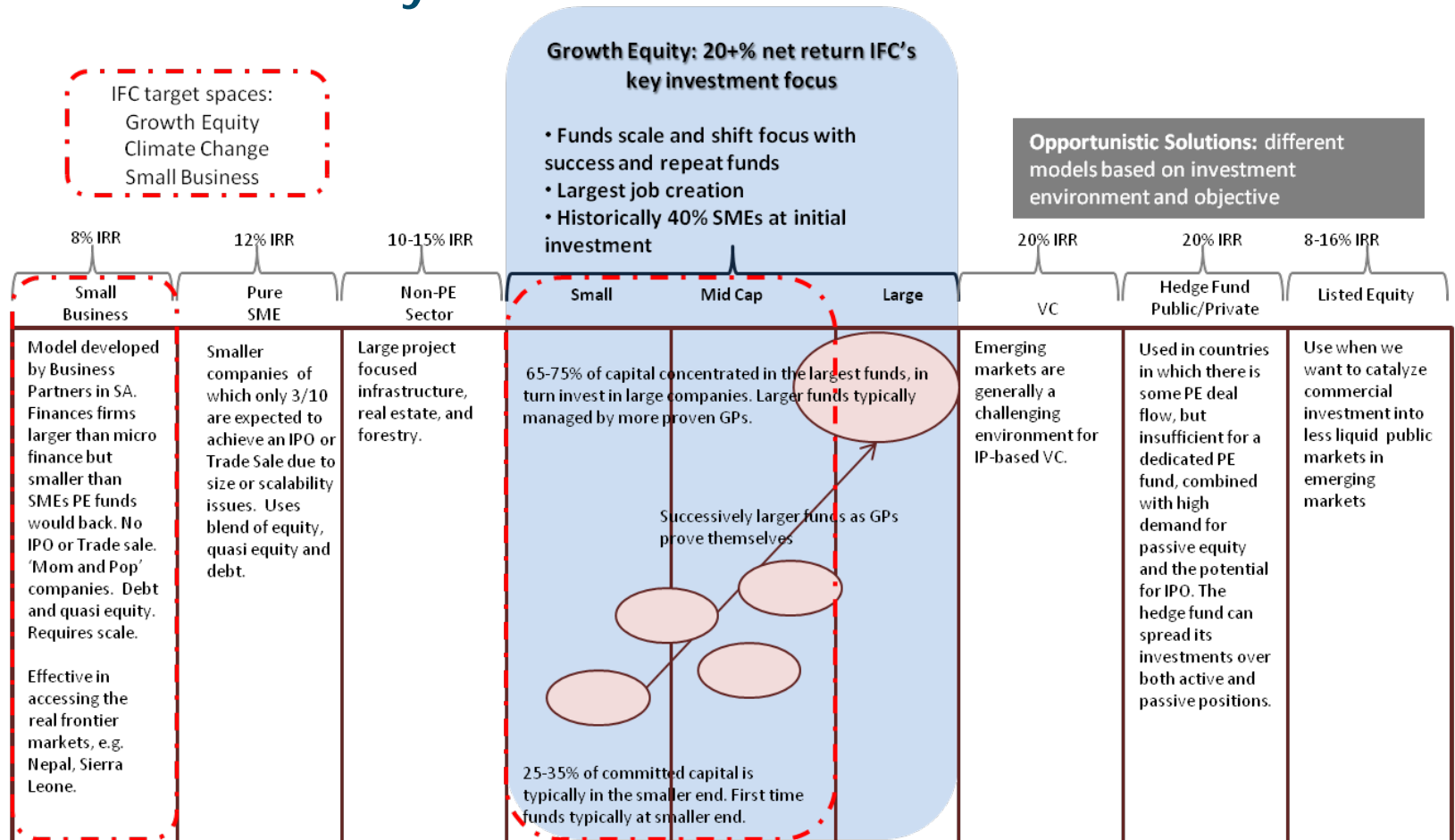
Note: Private Equity Funds Includes: Agribusiness, Cleantech, Midcap, Mining, SME, VC and Healthcare Funds

# 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



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

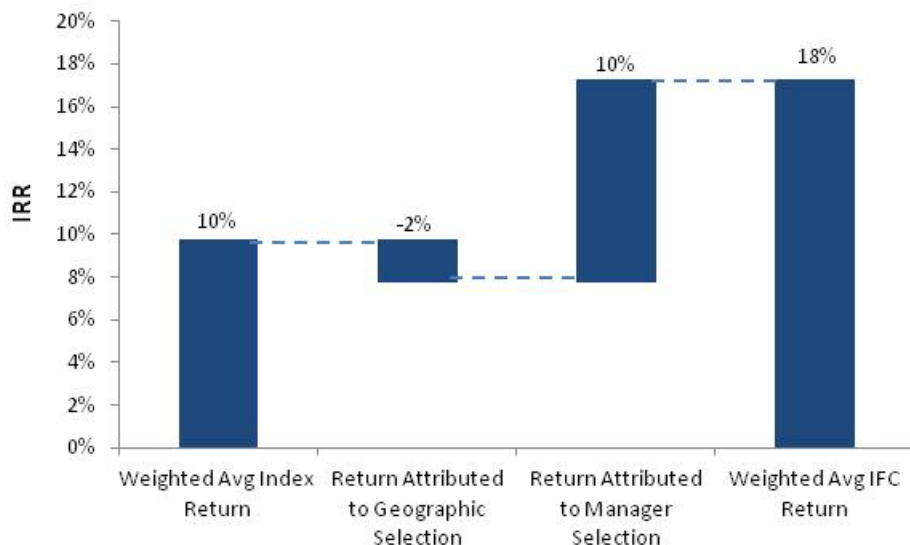
	Total Emerging Markets 2007-2012			
	No. of Funds	% Funds	Total Capital Raised (US\$m)	% Capital
<US\$100m	227	31%	10054	5%
US\$100m-US\$249m	157	22%	24446	11%
US\$250m-US\$499m	105	21%	36521	16%
US\$500m-US\$999m	61	14%	39736	18%
>US\$1 billion	61	12%	111071	50%
<b>Total</b>	<b>611</b>		<b>221827</b>	

Cambridge Associates Data indicates EM funds < \$750m out performing funds > \$750m, with around 3x as many smaller funds achieving Total Value Multiples > 2x

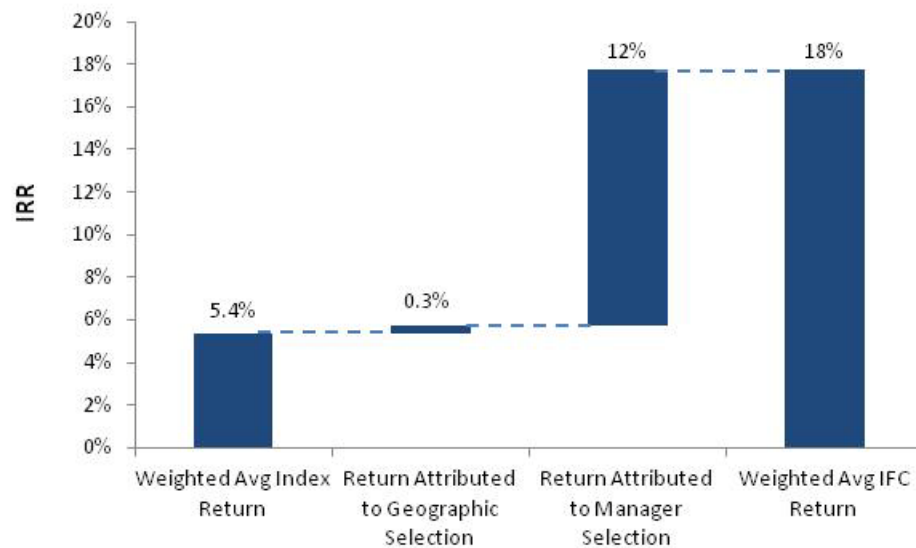
Source: EMPEA

# 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



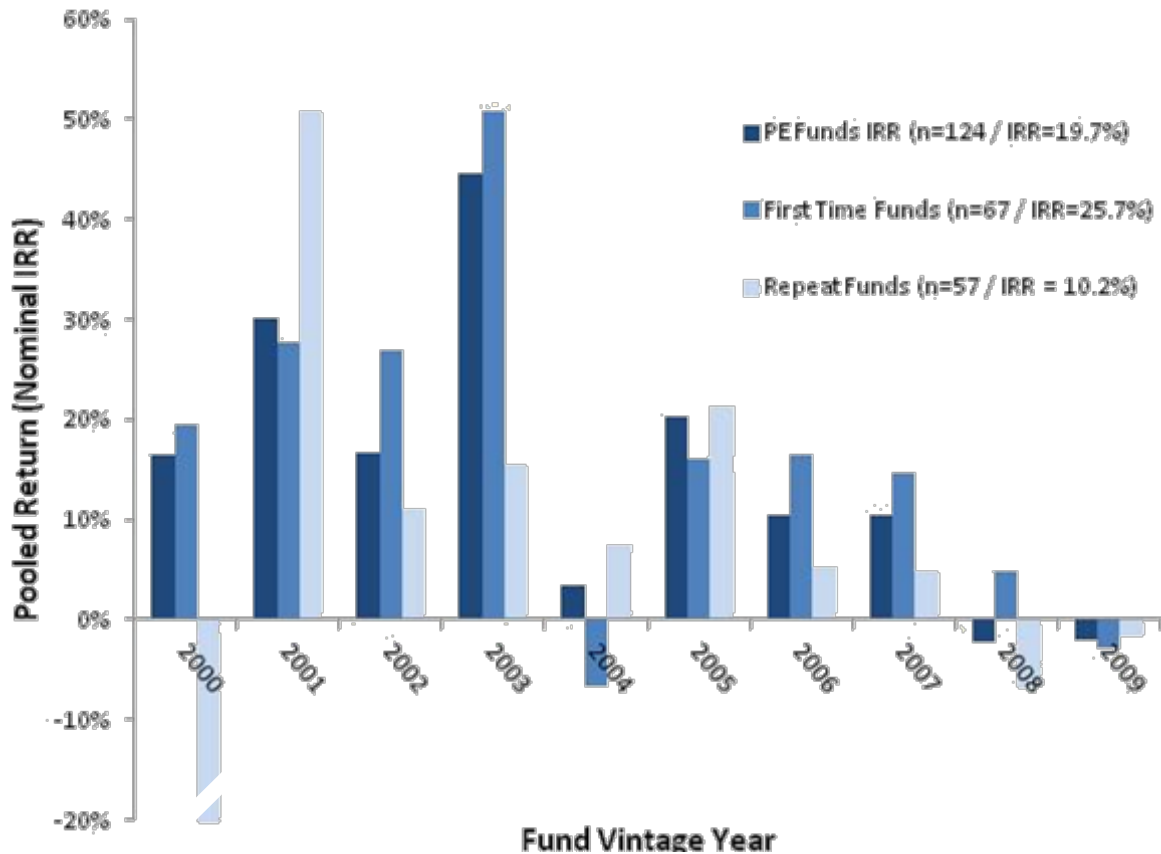
•Note: As Cambridge Associates returns data was not available for Africa (6% of the CA index) and MENA (5% of the CA Index) the MSCI return was used for those two regions

•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: 1<sup>st</sup> 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](http://www.ifc.org/funds)