



Emerging Markets Private Equity Association

LP Attitudes toward EM PE— What Has Changed?

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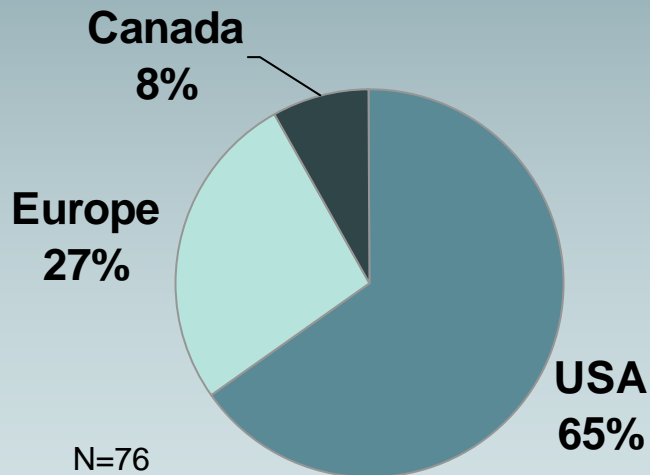
IFC's 9th Global Private Equity Conference in association with EMPEA
May 11, 2007, Washington, DC

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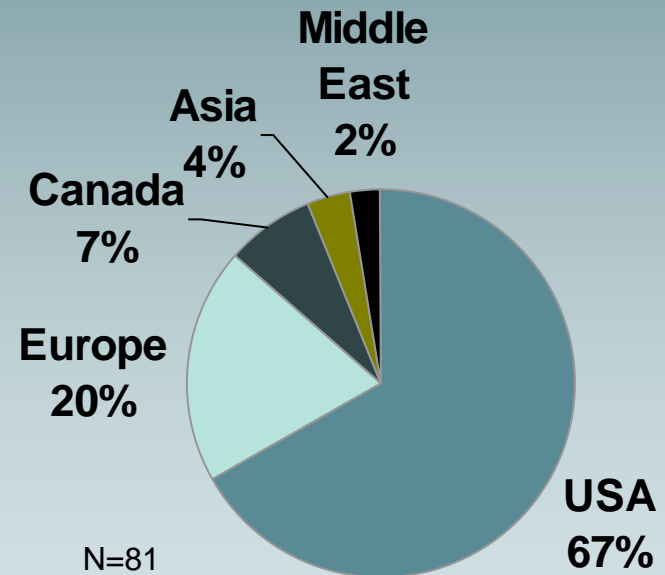
- **Methodology and Respondent Profile**
- **LPs' Evolving Interest in EM PE**
- **Drivers of Interest**
- **The Landscape in 2012**

Respondent Profile: Headquarters Location

2006

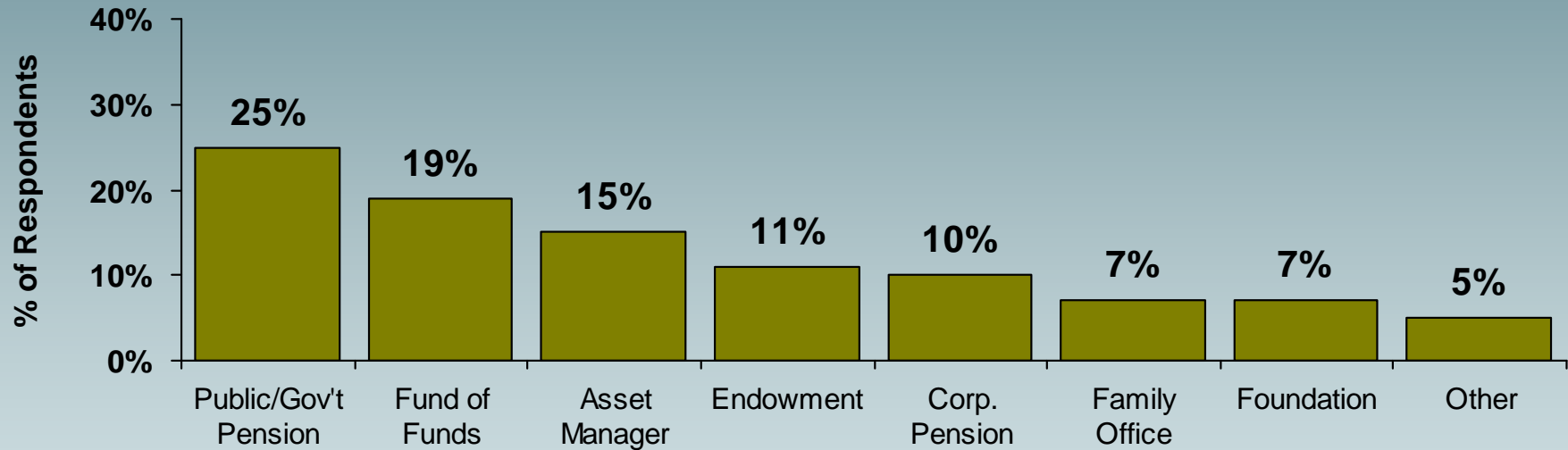


2007



The 81 respondents were balanced across institution types and geography.

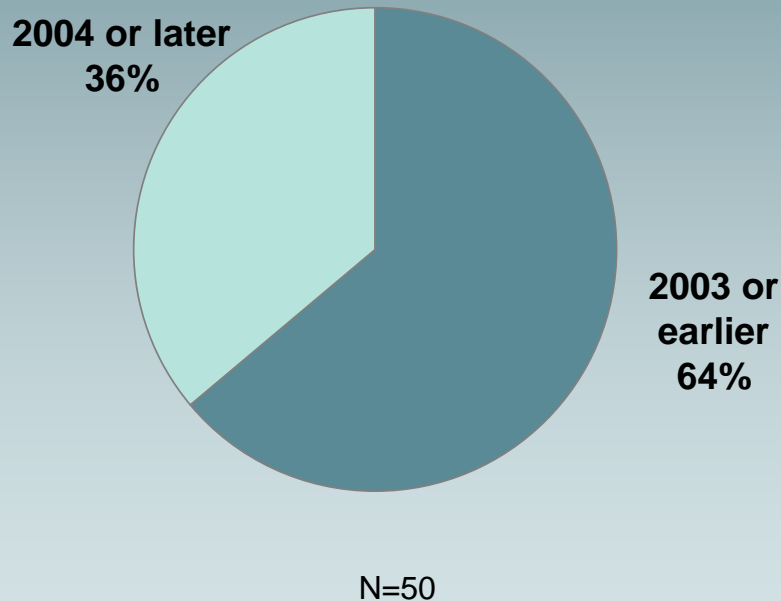
Respondent Profile: Institution Type



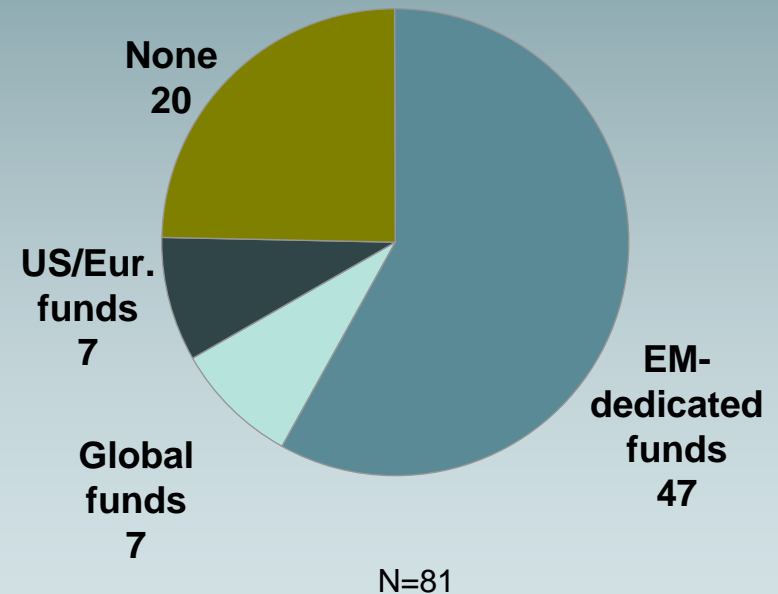
N=81

Most LPs Surveyed Had Prior EM Experience

Year of First Commitment to EM PE



2007 Previous Investment Activity Platform for Exposure



54 of LPs surveyed had direct experience investing in EM.

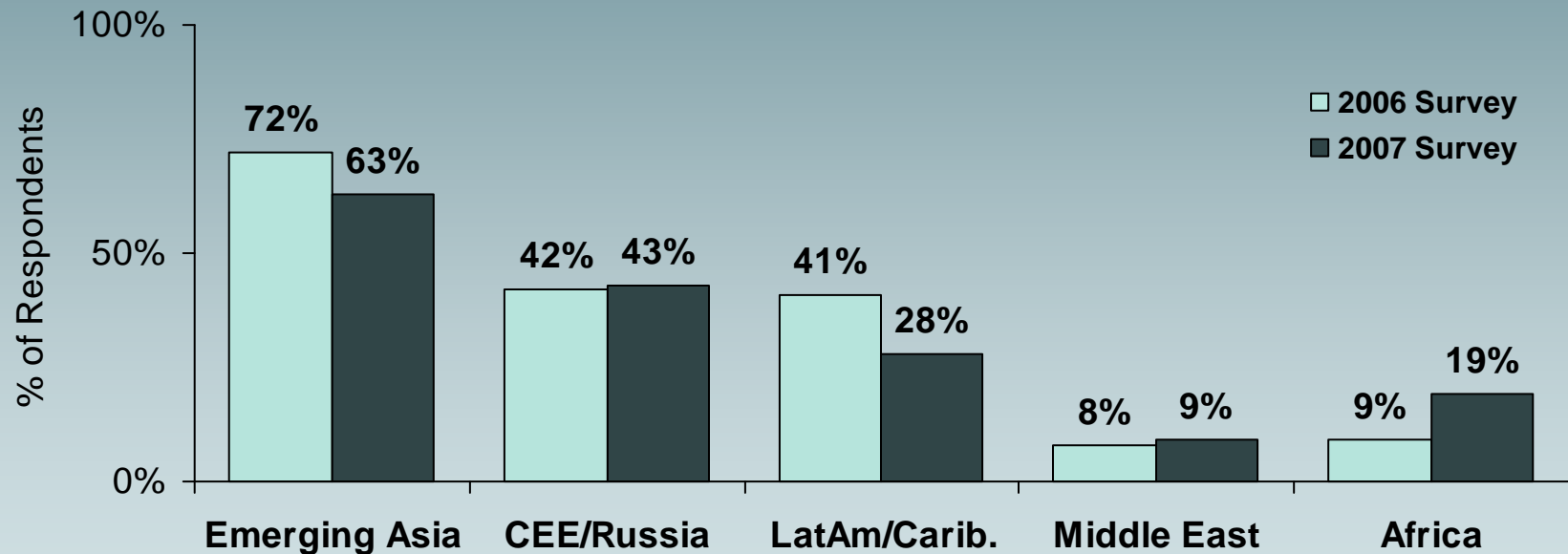
Endowments, Foundations Most Active as a Group

<i>Institution Type</i>	<i>% with EM experience</i>	<i>% committed 2003 or earlier</i>	<i>EM as % of PE AUM (2006–7)</i>
<i>Pensions (N=28)</i>	43%	32%	4.4%
<i>Funds of Funds, Asset Managers (N=27)</i>	63%	44%	7.1%
<i>Endowments, Foundations, Family Offices (N=21)</i>	81%	43%	13.2%

Endowments, foundations, and family offices are directing on average 13.2% of their PE portfolio to EM in 2007.

More LPs Had Invested in Asia than Any Other Region

Regional Exposure Within Last 5 Years

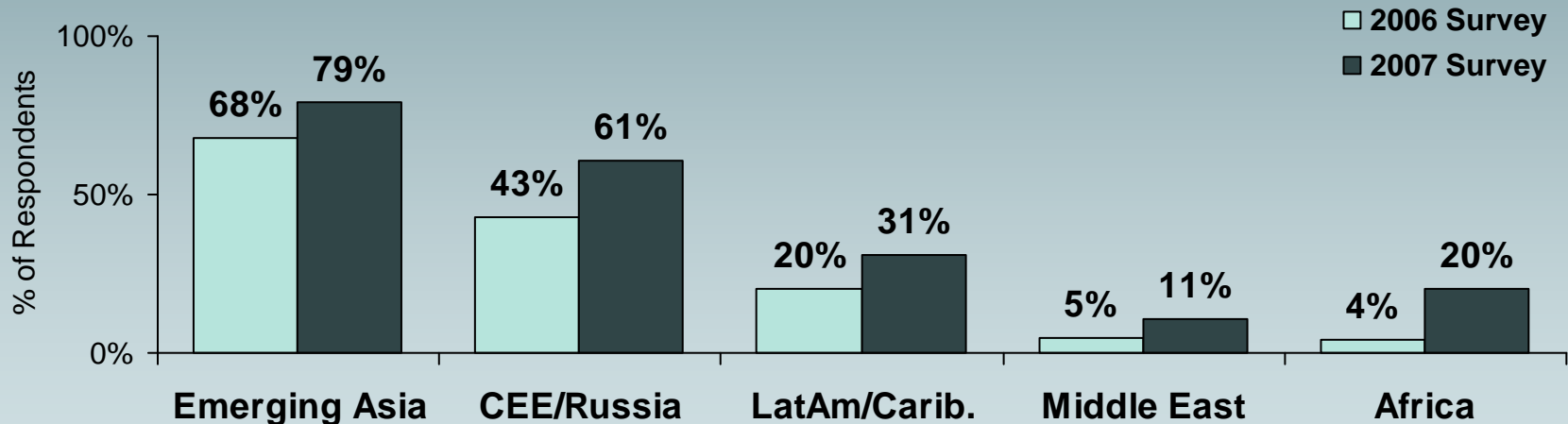


N=76 (2006); 81 (2007)

38 of the 54 with direct experience in EM had invested in 2 or more regions.

2007: Higher Investment Activity Across All Regions

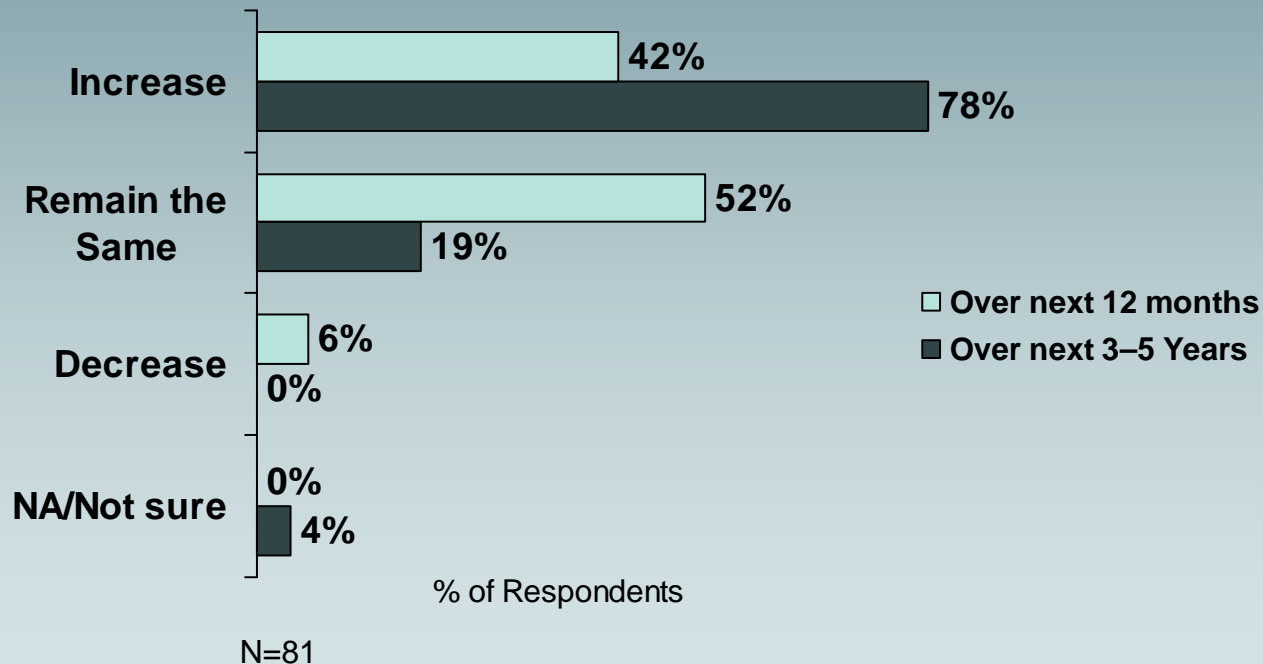
Current EM Investment Strategy: Actively or Opportunistically Investing



N=76 (2006); 81 (2007)

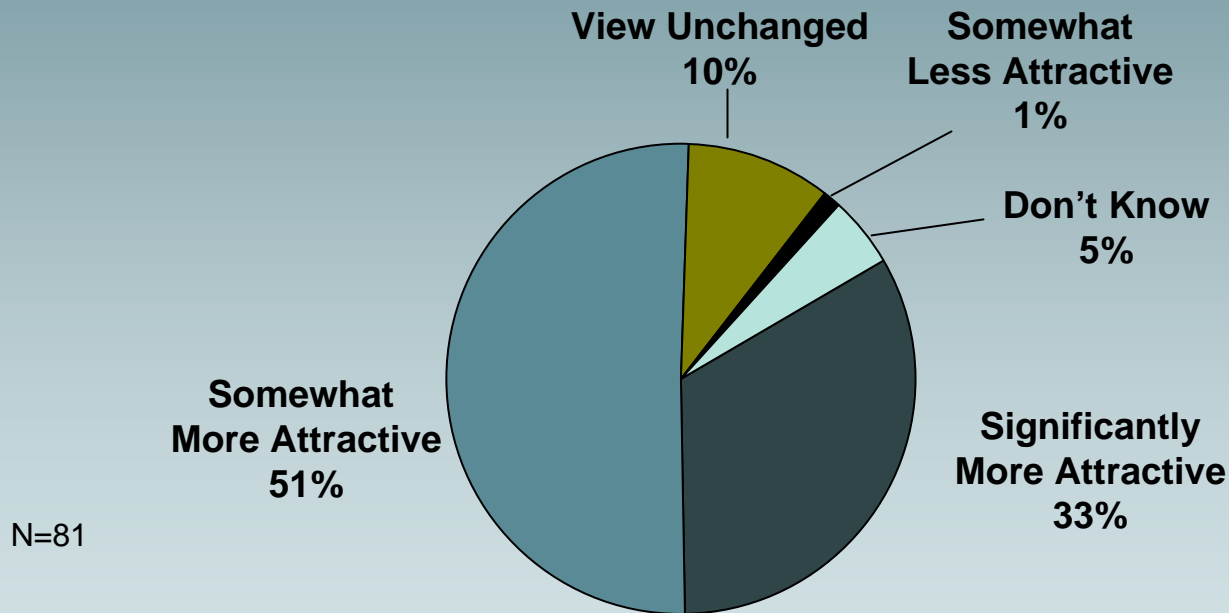
LPs Expect Dramatic Growth In EM PE Next 3–5 Years

Expected Change in EM Commitments as Percentage of PE



Institutions View EM PE More Favorably

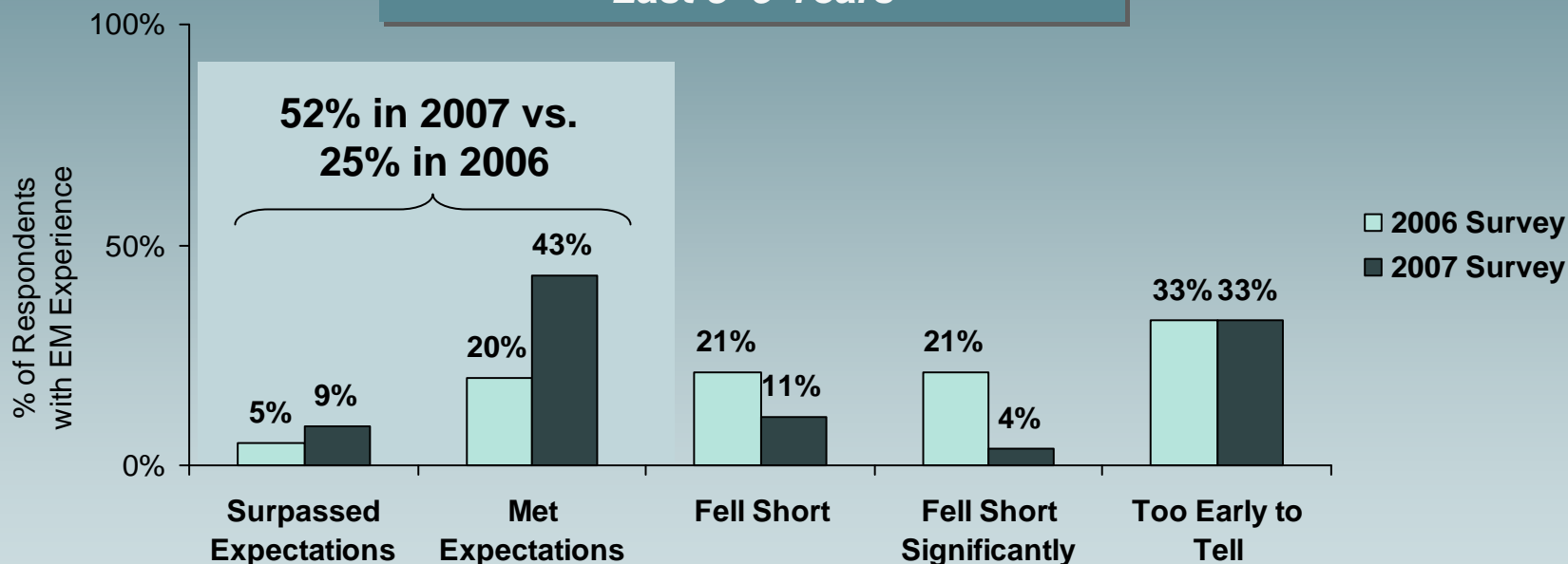
“Consensus View” within Institutions on Attractiveness of EM PE vs. 3 Years Ago



84% of LPs surveyed believed the institutional view of EM PE had improved over the last 3 years.

52% of LPs: Returns Met or Exceeded Expectations

Satisfaction with EM PE Returns, Last 3–5 Years

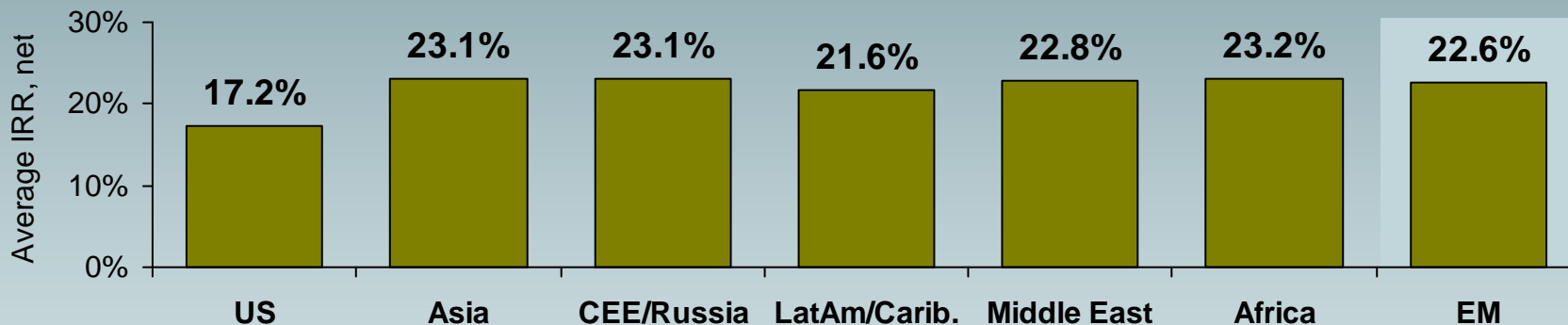


N=55 (2006); 54 (2007)

Only 25% of LPs surveyed in 2006 claimed returns had met or exceeded expectations.

LPs Have High Return Expectations

Expected Returns of PE Commitments, by Region

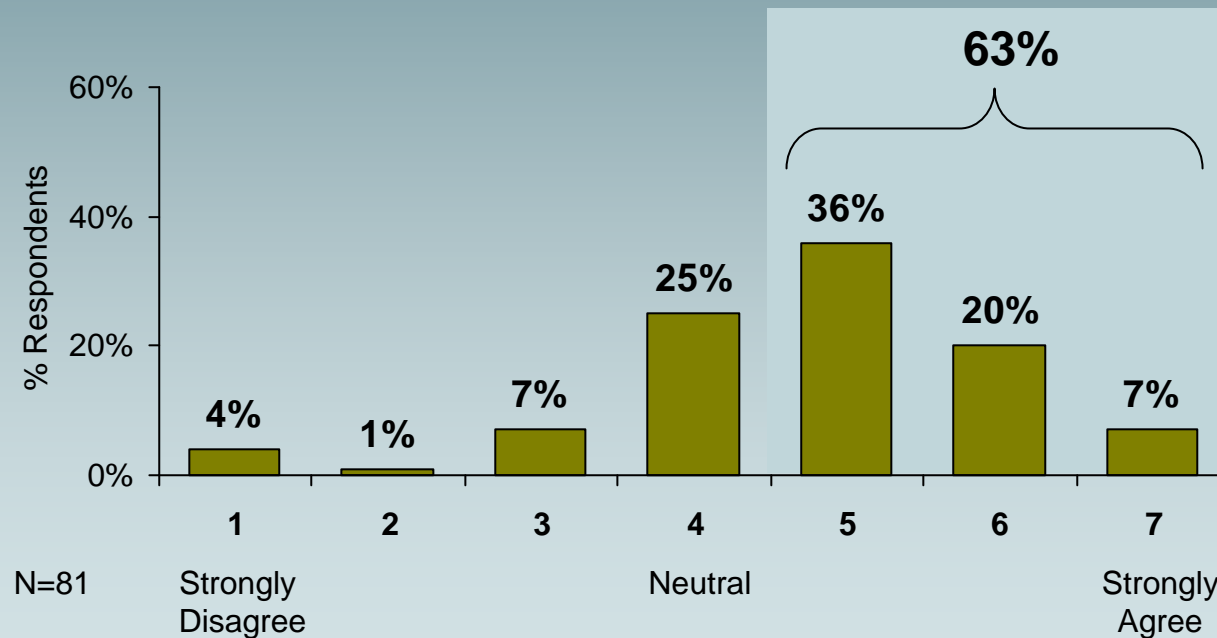


N=81

On average, LPs expected EM PE funds to generate premiums of 5.4% over U.S. commitments.

LPs Deem Higher Returns Sustainable

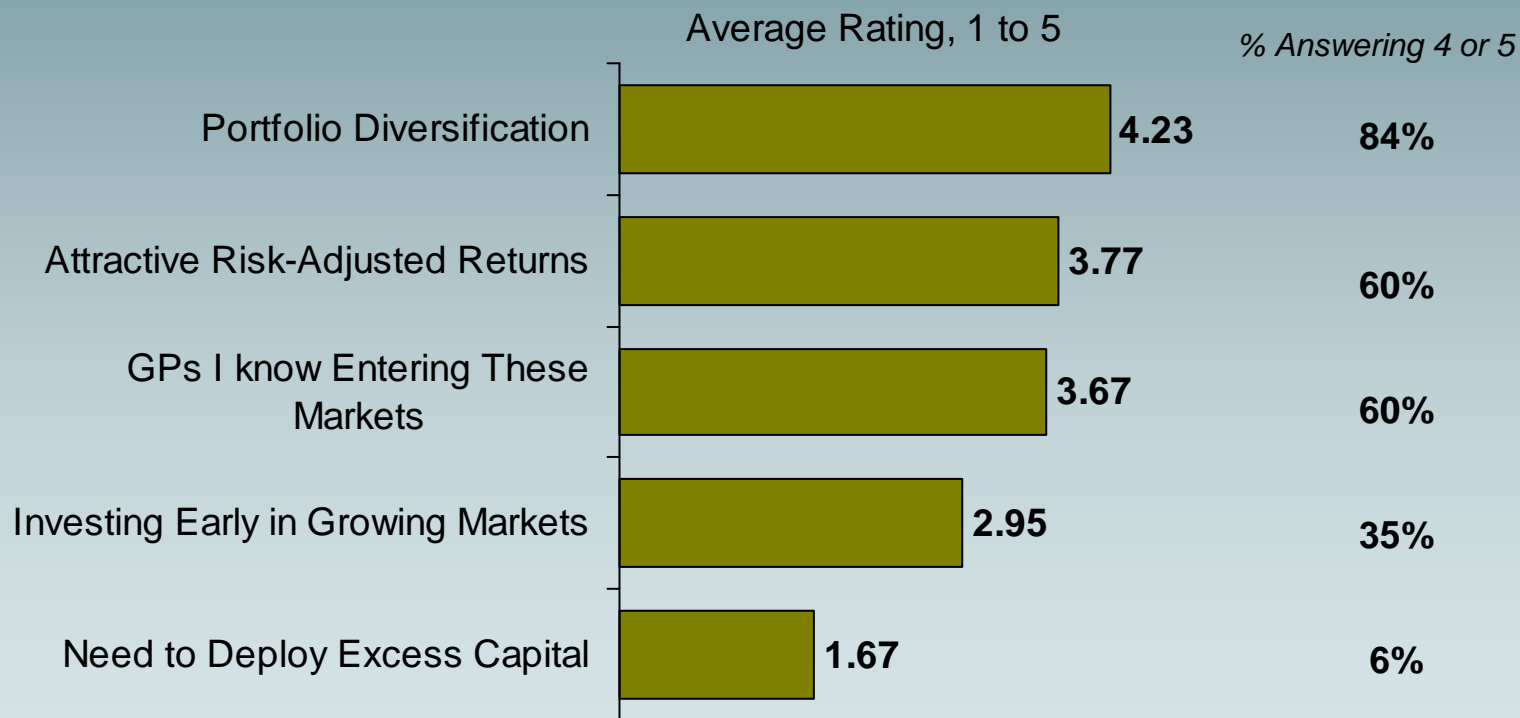
Agreement with statement: "EM PE funds will be delivering substantially higher returns than developed markets in five years' time."



63% of LPs agreed or strongly agreed that EM PE would be producing higher returns by 2012.

Portfolio Diversification Remains Strongest Driver

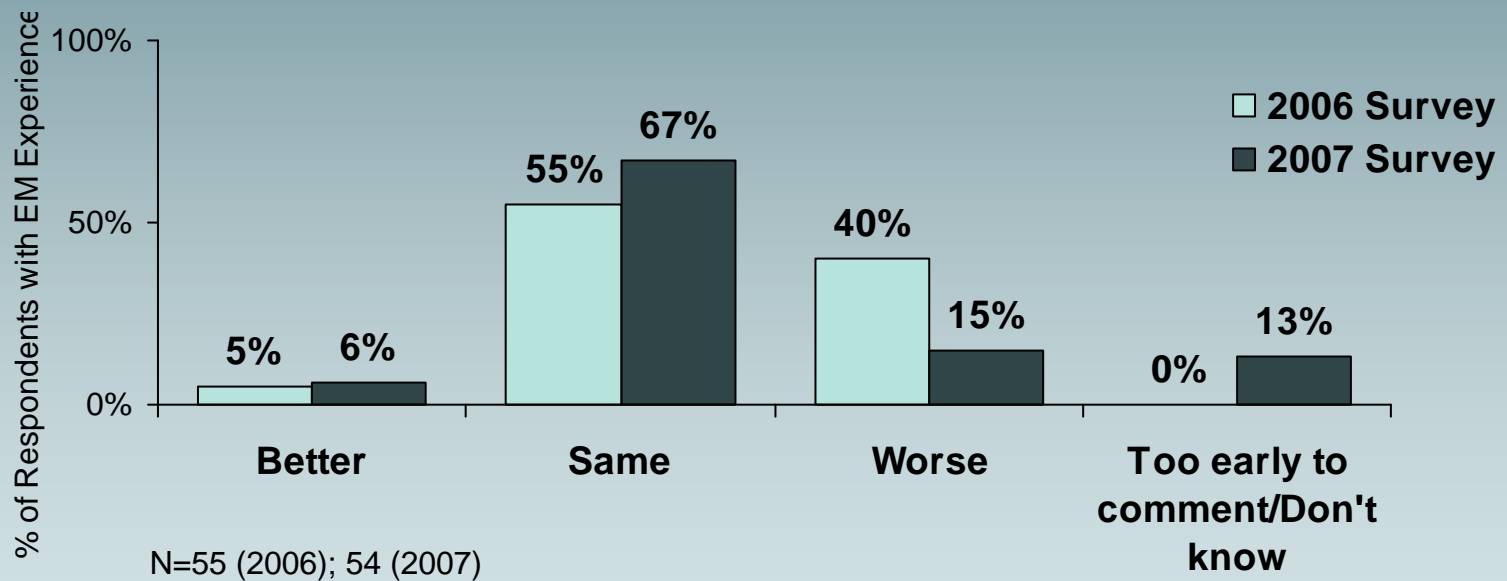
“On a scale of 1 to 5, with 5 being very important, please rate the following reasons for why LPs choose to actively invest in emerging markets private equity.”



N=81

Notable Improvements in Governance & Communications

Quality of Governance and Communications of EM Funds vs. Rest of PE Portfolio



In 2007, only 15% of LPs considered the governance and communications of their EM PE funds inferior to the rest of their portfolio, versus 40% in 2006.

Commentary on Drivers of Interest in 2007

“Access to good fund managers—better than expected.”

—Insurance Company, Europe

“Increased maturity and credibility of track records.”

—Fund of Funds, Europe

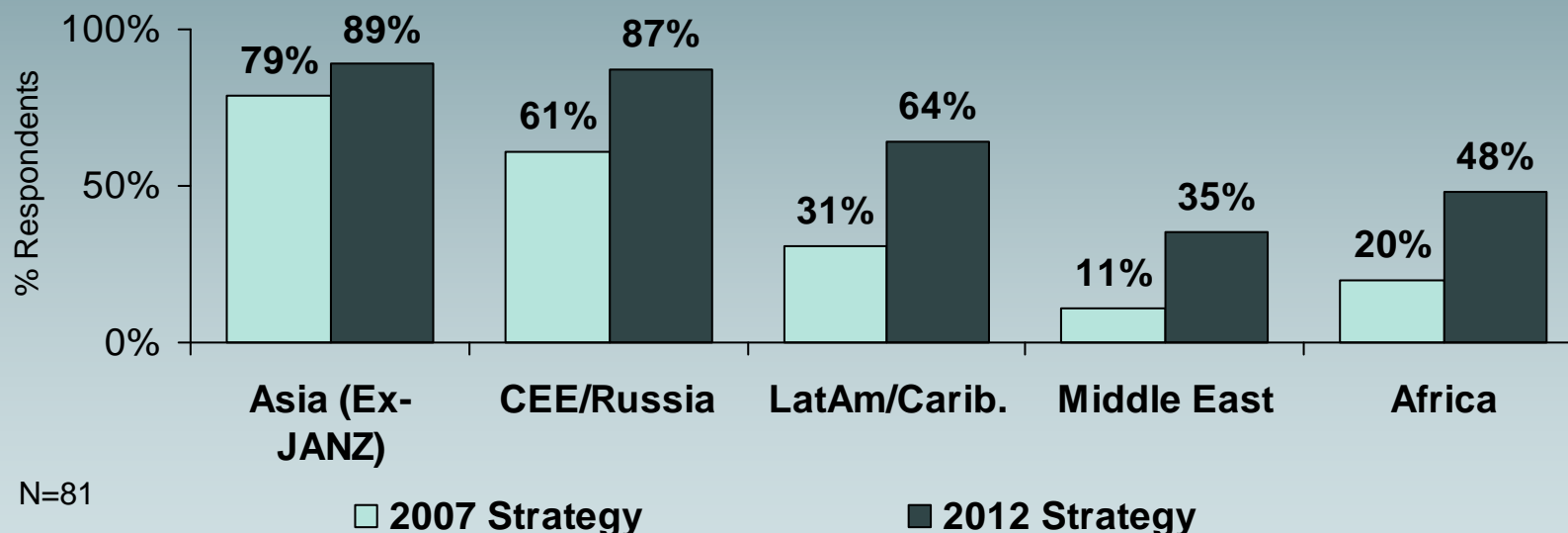
“Diversification, returns, maintain access to premier funds.”

—Fund of Funds, U.S.

“We believe in the long-term potential of EM PE and its diversifying benefits, in the face of slowing PE returns in developed markets.” *—Public Pension, U.S.*

Regional Strategies To Intensify over Next 5 Years

*Actively or Opportunistically Investing
2007 vs. 2012*



Asia will continue to draw new entrants: 48% of LPs with no EM experience planned to invest in Asia in 2007, growing to 70% by 2012.

Long-term Drivers of Change in Investments

“Demand from our investors—strong belief that the asset class has the potential to outperform developed markets over the medium-long term. Build relationships early with top EM PE managers.” —*Fund of Funds, Europe*

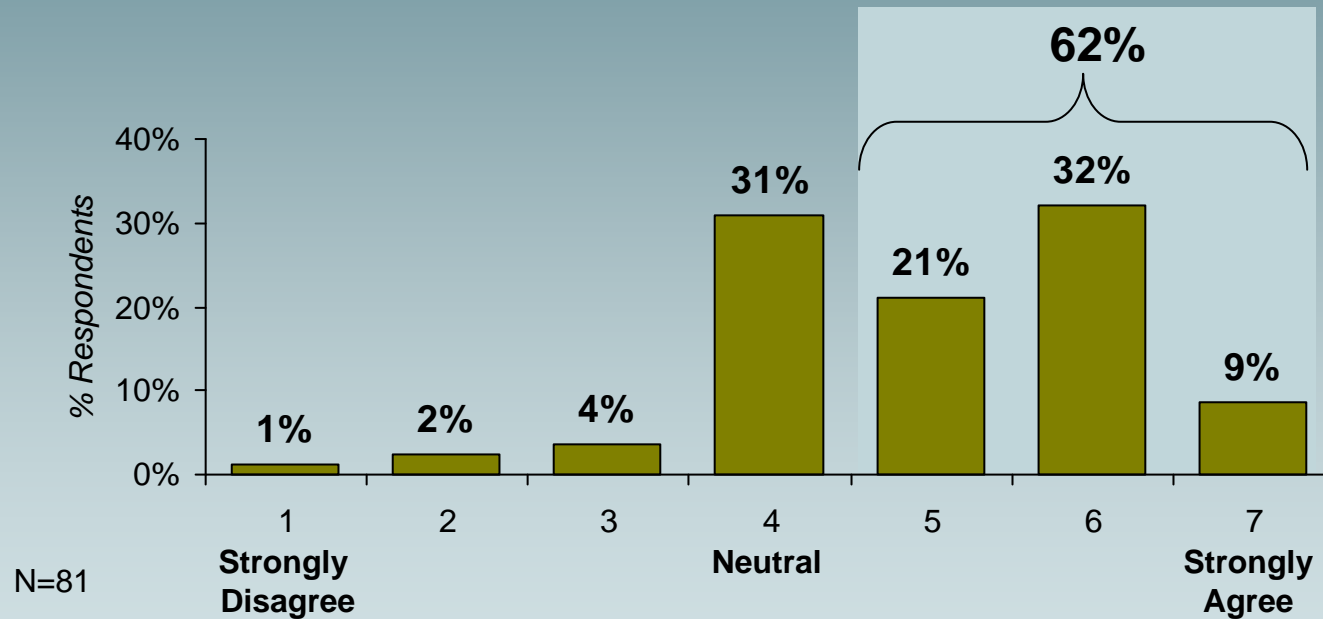
“Best in class managers and favorable macroeconomic conditions.” —*Asset Manager, U.S.*

“Increased exits and better, more consistent performance of funds.” —*Public Pension, Canada*

“Resources necessary to properly analyze and monitor these markets.” —*Endowment, U.S.*

China and India Continue to Dominate Through 2012

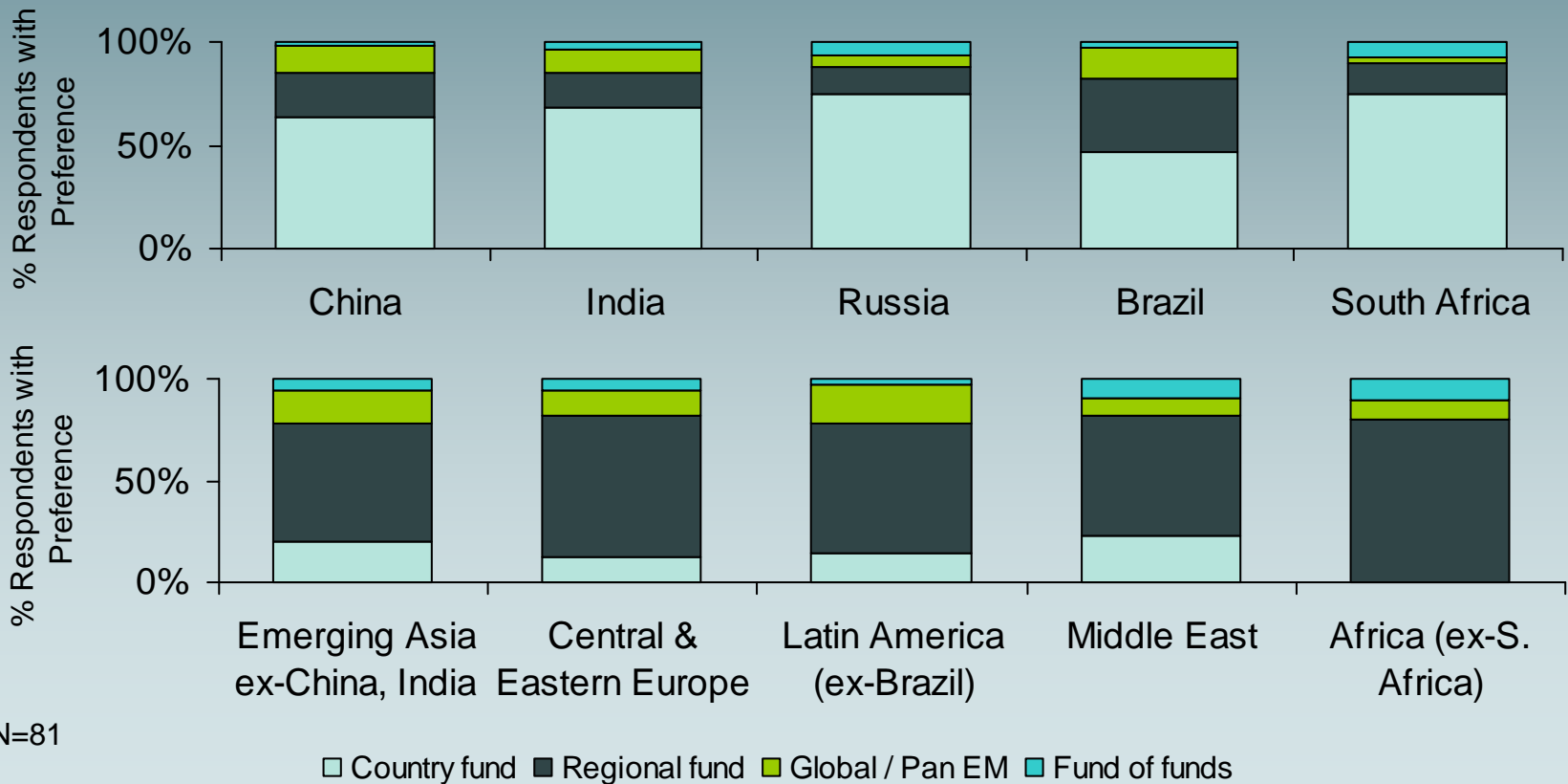
*Agreement with statement:
“India and China will dominate emerging markets private equity.”*



“Russia and Latin America do not appear to have sustainable long-term growth potential above 4%, nor are they large enough to warrant a strategic focus. Hence, we only focus on Asia. The term ‘emerging markets’ doesn’t mean anything to us.” —Foundation, U.S.

LPs Prefer Country and Region Funds

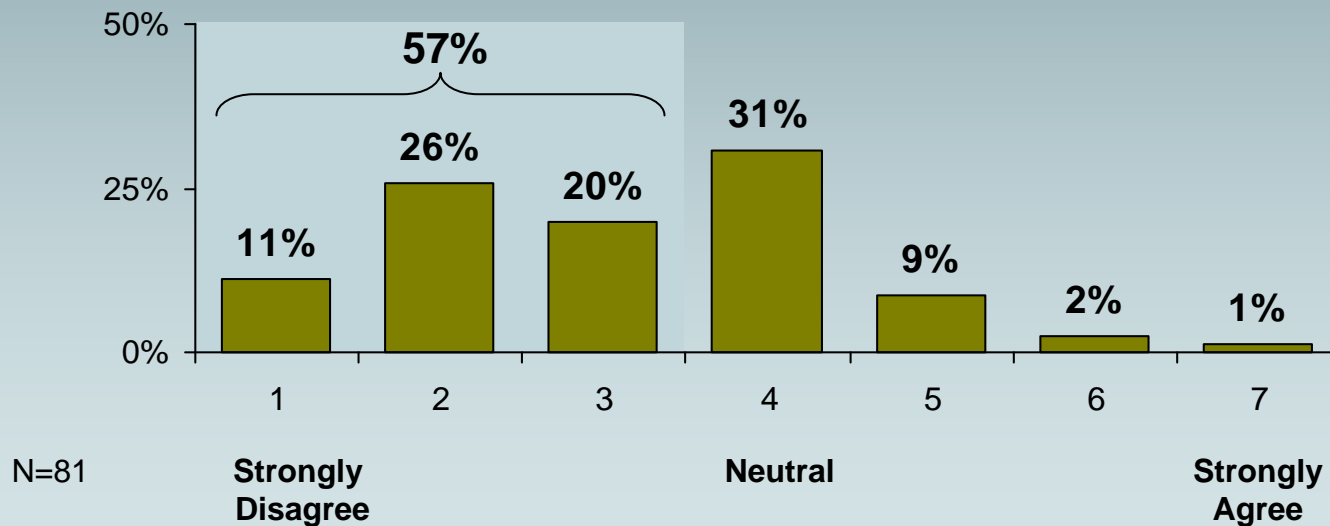
2012 Strategy Vehicle Preferences



N=81

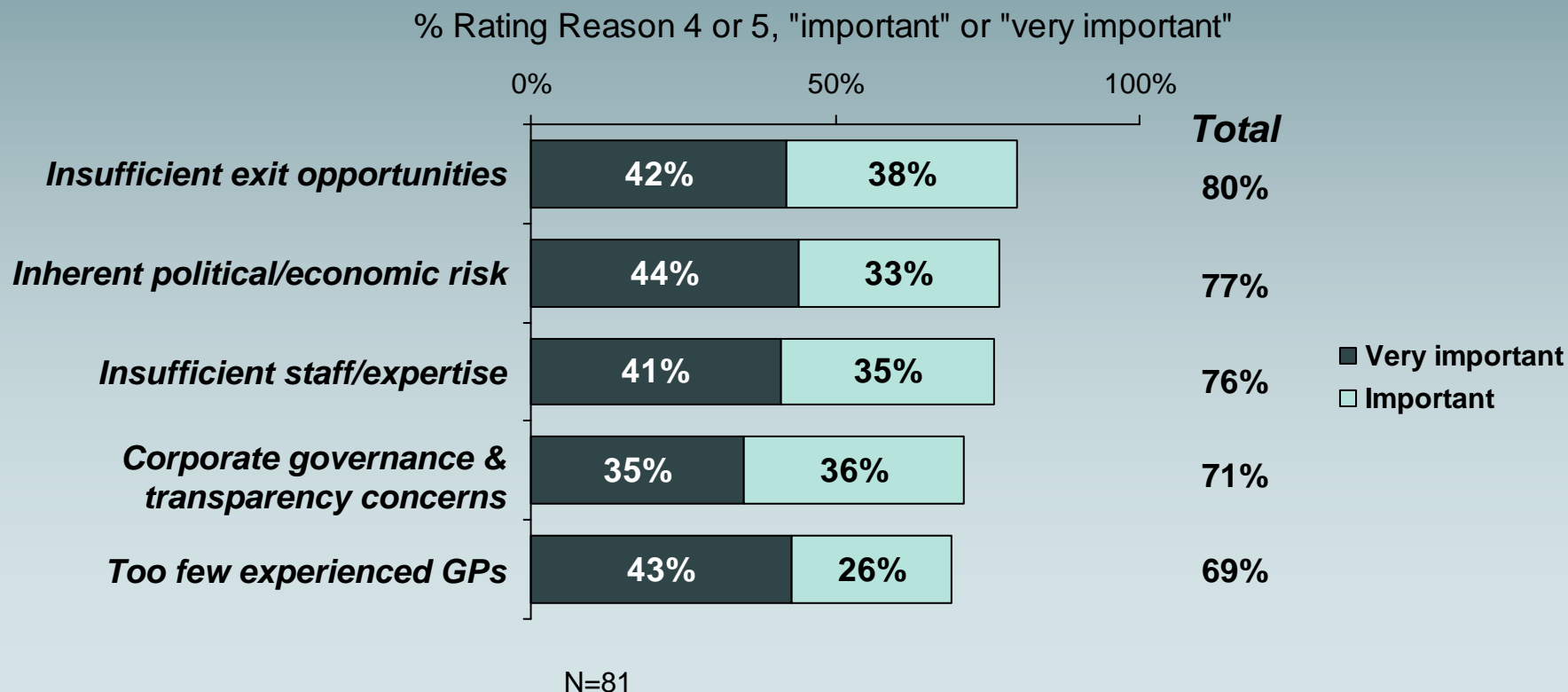
However, EM Still Not Mainstream

*Agreement with statement:
“Emerging markets private equity will be a standard part of
allocation strategy for the vast majority of LPs in five years’ time.”*



Why Not Invest? Risks and Challenges Persist

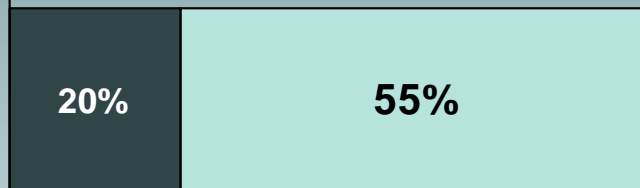
Percent of LPs rating following factors as “important” or “very important” reasons why LPs choose not to actively invest in emerging markets private equity.



No Expected Flight in Face of Coming Correction

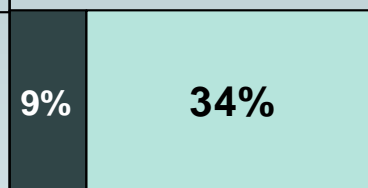
LPs' Five Year Outlook for EM PE

“A major correction in emerging markets private equity will have taken place.”



■ Strongly agree
□ Agree

“Investors will shift focus back to US and Western Europe.”



■ Strongly agree
□ Agree

**Thank You
to our
Survey Participants!**