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SPECIAL REPORT

The emerging world still beckons



From the publishers of Private Equity International

PE Connect

Quarterly Report

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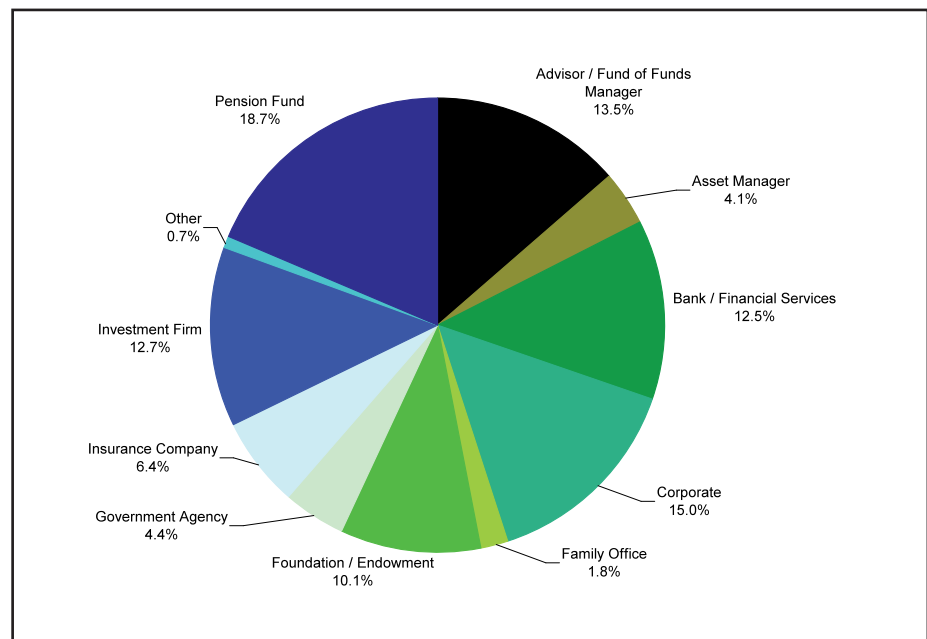


Why, in the face of global pressures, investors will continue to support private equity in developing markets, **By Andy Thomson**

Fundraising for emerging markets private equity has risen inexorably over the last few years. The quantum of capital raised is staggering enough in itself: according to the Emerging Markets Private Equity Association, 104 funds dedicated to investments in emerging markets raised more than \$35 billion in the first half of 2008, representing a 68 percent increase on the first half of 2007. By way of historic perspective, it's interesting to note that, in the whole of 2003, just \$3.5 billion was raised for emerging markets private equity.

But it's not just the amount of capital raised that's noteworthy, but also the range of investors now seeing emerging markets as an important element of portfolio construction. Research from our own PE Connect (www.privateequityconnect.com) database shows that pension funds are the largest type of investor in emerging markets private equity, contributing 18.7 percent of capital committed. But the same research shows a host of other organisations also involved: funds of funds, banks, insurance companies, government agencies, family offices and foundations among those happy to put considerable amounts of money to work.

LP types investing in Emerging Markets:



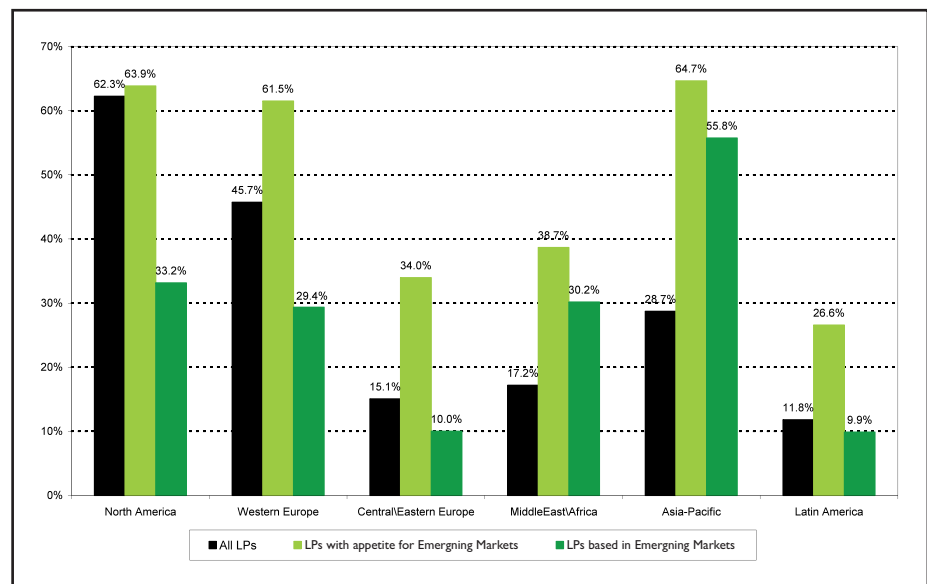
Source: PE Connect



Is this faith in emerging markets justified? It has to be acknowledged that emerging markets are not as “decoupled” from developments in Western markets as some had predicted they would be. The credit crunch and subsequent economic downturn has, for example, sent stock markets in the developing world plummeting and GDP growth rates, even in the new economic powerhouses of China and India, are being hastily revised downwards.

Nonetheless, there are still many important reasons for continuing to support emerging markets in the years ahead. For example, some emerging markets – China and certain Middle Eastern economies spring to mind – have healthy current account surpluses and fiscal reserves that will help buffer them from the economic headwinds. Furthermore, many emerging markets investors have by now been through a number of political, economic and currency-related crises, and are arguably more experienced and better able to cope than they would once have been. In addition, the opportunity in certain sectors is so compelling that to be diverted by short-term difficulties would probably not be the wisest course of action – think infrastructure, for example.

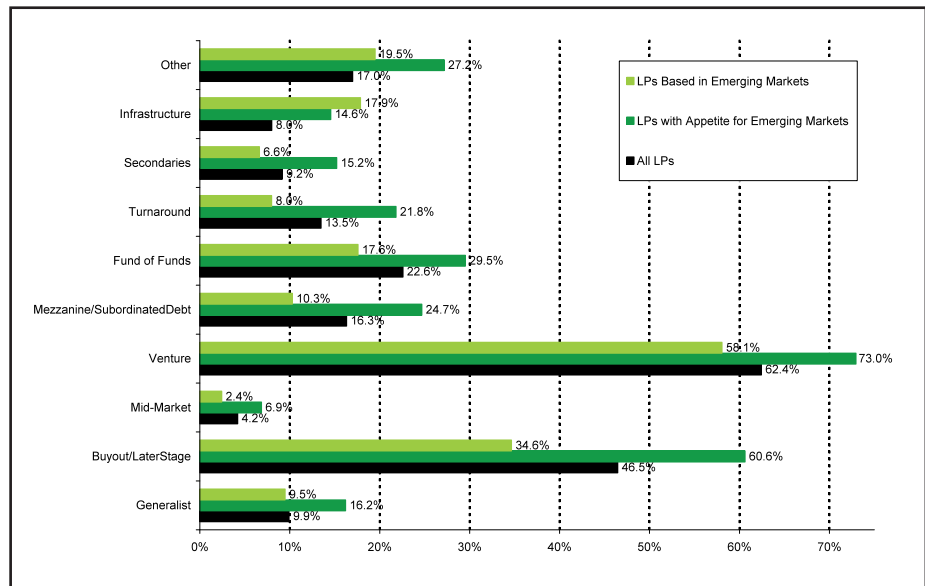
Emerging markets regional appetite:



Source: PE Connect

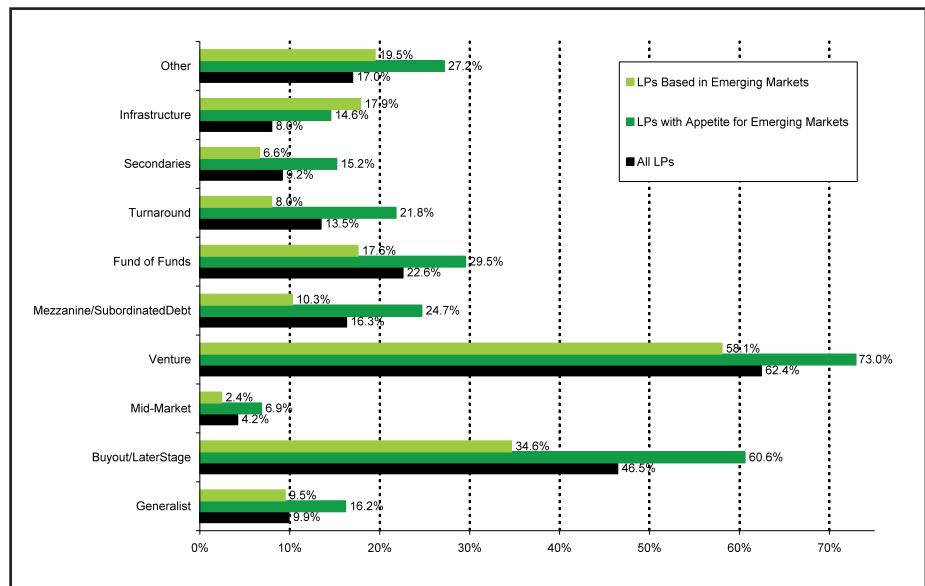
It might be naïve to imagine private equity firms in emerging markets looking forward to the period ahead with relish. Financing deals is tougher, owners of companies are tending to sit on their hands rather than sell at knockdown prices, and achieving exits is a hard task now that many IPO markets have been effectively shuttered. For all this, there is an outstanding opportunity: stand firm in the face of the financial tsunami and private equity in developing regions will have passed a vital credibility test.

Emerging markets appetite by fund type:



Source: PE Connect

Emerging markets fundraising by type:



Source: PE Connect

There has been talk of limited partners pulling back capital from emerging markets to the safe havens of the West. There is an irony in this, given that the meltdown in world markets had its roots in America’s subprime crisis. But even accepting this – and admitting the likelihood that fundraising totals in the period ahead may not be quite so impressive as in the recent past – experienced LPs which have seen difficult markets before are unlikely to retreat at this stage. There’s still way too much worth staying for.

