

## EMPEA SYMPOSIUM: INVESTMENT CONDITIONS IMPROVING

*"If I could still buy cash positive companies at 4X earnings with 80% leverage in the United States, I wouldn't be sitting here talking about China. In China and other emerging markets, the consumer has been unleashed, and he's insatiable."*

--- George Siguler, Siguler Guff

On why investors should look at emerging markets

*"What has changed in emerging markets and why should investors pay attention? People! People! People! The consensus of our speakers today is that we now see a much more seasoned class of managers."*

--- Josh Lerner, Harvard Business School

Summarizing a panel discussion on what has changed in emerging markets.

The shape of the global economy is transforming, and most investors are missing the trend -- the underpinnings of this transformation and the state of emerging markets private equity were the central themes of EMPEA's first annual symposium, **The Return of Emerging Markets Private Equity**, held on May 18 in Washington, DC.

Speakers emphasized that emerging markets are benefiting from trade liberalization, deepening capital markets (particularly in Asia), increased transparency, greater availability of leverage, and the "unleashing" of consumer demand. However, the central change that should warrant increased attention to emerging markets private equity is the quality of management. According to George Siguler of Siguler Guff, "The skill sets of managers are a quantum leap better than they were five to ten years ago." Siguler and other panelists detailed the emergence of a top tier emerging markets managerial class, trained in the best colleges and business schools, apprenticed at blue chip corporations, consultancies and investment banks, and now building businesses in emerging markets to global best practice standards.

"The number one change is improvement in the management gene pool," agreed Jean Eric Salata of Baring Private Equity Asia. Salata also noted that the entrepreneurial activity in the US is "heavily dominated" by non-US citizens, particularly Indians, Chinese and Russians, many of whom are now taking up leadership positions in private equity firms in the home countries. Paul Fletcher of Actis also emphasized the importance of having strong local teams in order to get the necessary information for the management of risk. Fletcher stated that: "Effective risk management means having your finger on the pulse of the markets where you invest, and that is the key to making attractive returns over the course of the economic cycle."

LPs appear to be taking notice. Erol Uzumeri of Ontario Teachers stated that his fund's unfunded commitments to GPs from emerging markets had increased ten times over the last few years and now totals over \$500m. Jim Seymour of Commonfund Capital, a \$5.6bn investment manager representing over 500 non-profit institutions, supported the notion of a positive trend, stating that there is "increasing interest in these markets among our client base." At the

same time, Seymour also noted a key constraining factor: long memories of bad experiences in past emerging markets funds. "I can see there are tremendous opportunities in Latin America," he said, "but emotionally there is still too much baggage for my firm to make investments there."

An introductory presentation by Andreas Beroutous and Aly Jeddy of McKinsey & Company's Private Equity Practice underlined the similarities between private equity in the developed and developing markets. According to Beroutous, "Private equity in both developed and emerging markets is cyclical, the average is not very exciting, the top performers are extremely profitable, and the class of top performers is more stable than in public markets." Perhaps the biggest difference is that in developed markets the top quartile is highly rewarding, but in emerging markets it is the top decile that drives strong returns, they said.

Others stated that track records driven by performance in the 1990s do not capture fundamental changes that have occurred in the last five years. Josh Lerner commented that the "skepticism, if not outright cynicism, one finds among institutional investors often does not appear to be deeply grounded in factual analysis. If you push, you find that there is not a lot of analytical depth supporting that skepticism." Jim McGuigan of Capital International echoed this view: "At the investment decision making level, as opposed to the professional staff level, there seem to be a lot of decisions made on the basis of out-of-date media driven assumptions."

EMPEA's annual symposium is one of several key program areas EMPEA provides to improve the information and data available on emerging markets private equity. For more information on EMPEA and the association's upcoming events, please visit [www.empea.net](http://www.empea.net).

*"One of the keys to success in emerging markets private equity is planning for exits from day one; opportunity doesn't knock very often or at the right time in thin capital markets, so GPs need to manage duration more explicitly than in developed markets."*

--- Andreas Beroutous, McKinsey's Private Equity Practice

*"Right now is as good as it gets: low interest rates, commodity prices at the right spot in the cycle, good deal flow, more trusted opportunities. All of these factors are leading to much better performance for emerging markets private equity"*

--- Paul Fletcher, Actis

*"We believe that developed markets returns will decline over time, and that makes emerging markets private equity of interest."*

--- Erol Uzumeri, Ontario Teachers' Pension Plan

*"I now have a more stable environment in Russia. I don't have to deal with some general that is privatizing an asset he doesn't own. Now entrepreneurs see that it is possible to make money through the formal economy; that is exciting."*

--- George Siguler, Siguler Guff