Global Limited Partners Survey

Investors' Views of Private Equity in Emerging Markets

2019

EMPEA

About EMPEA

EMPEA is the global industry association for private capital in emerging markets. An independent, non-profit organization, the association brings together 300+ firms—including institutional investors, fund managers, and industry advisors—who manage more than USD5 trillion in assets across 130 countries. EMPEA members share the organization's belief that private capital can deliver attractive long-term investment returns and promote the sustainable growth of companies and economies. EMPEA supports its members globally through authoritative research and intelligence, conferences, networking, education, and advocacy.

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2019 Global Limited Partners Survey Executive Summary

The 15th annual edition of EMPEA's *Global Limited Partners Survey* features the views of 104 limited partners (LPs) on the current conditions and outlook for emerging market private equity (EM PE). This study aims to shed light on how LPs' plans for investing are evolving, what factors are affecting their decision-making, and which geographies they view as attractive. In this year's survey, EMPEA has sought granularity on due diligence and manager selection considerations, as well as ESG policies and practices. Focus areas of the 2019 survey also include LP views on technology opportunities and the PE middle market.

Institutions participating in the 2019 survey include pension funds, family offices, development finance institutions (DFIs), funds of funds, private markets advisors, banks, asset managers, insurers, government agencies, endowments, foundations, and sovereign wealth funds. These limited partners are based in 37 different countries and collectively represent global PE assets under management (AUM) of approximately USD981 billion and total AUM of USD6.9 trillion. Additional details regarding survey respondents are available on Page 17.

Key findings from the 2019 *Global Limited Partners Survey* include:

- Over half of respondents* anticipate commiting more capital to EM PE funds over the next two years. This represents the first time that more than 50% of LPs have indicated they plan to increase commitments to EM PE since the 2014 edition of the survey. Furthermore, the proportion of investors who plan to increase the EM share of their overall PE portfolios reached its highest level in the past five years.

- Due diligence policies and practices are evolving in response to industry events and changing institutional priorities. Just under 44% of respondents have increased the amount of information requested from prospective GPs over the last two years, with a strong focus on operational practices, fund manager financials, and ESG considerations. Most LPs (63%) use their own proprietary questionnaire when conducting due diligence on PE fund managers, presenting challenges for GPs faced with growing demands for information from prospective investors.

- For the second straight year, Southeast Asia ranked as the most attractive market for investment in the next 12 months, and the markets of Emerging Asia continue to hold the top three overall slots in EMPEA's attractiveness ranking. Only Southeast Asia, China, and India recorded attractiveness scores of greater than 50 in the overall index, which tracks average LP sentiment toward emerging markets. Brazil was the biggest mover in the attractiveness ranking, climbing two spots to fourth above Africa (holding in 5th) and Latin America excluding Brazil (which fell to 6th).

- While Southeast Asia, India, and China represent the most attractive markets, LPs report different perceived weaknesses within each. In China and India, investors report an oversupply of funds and high entry multiples as deterrents to future investment while many also are already at their recommended levels of exposure to these markets. In contrast, Southeast Asia is perceived by 38% of respondents to have a limited number of established fund managers, and 22% believe that the scale of the investment opportunity is too small.

- Among the markets ranked least attractive—Russia/CIS, Turkey, and the Middle East—investors reported political risk to be the greatest deterrent to investing. LPs also expect the largest premiums above developed market PE returns for investing in Russia/CIS and Turkey.

- Unsurprisingly, 94% of respondents reported that the strength of a GPs' past performance was important or very important when evaluating an EM PE fund manager. Over one-third of respondents reported that active management and reporting on ESG criteria were 'very important' when evaluating a new manager, up from 26% in 2013 (the last time the question was asked in the same form).

- Over half of respondents indicated they are actively seeking investment opportunities in technology, with only 7% indicating no current or expected future interest in this investment area. Broadly speaking, e-commerce was viewed as the most promising technology area across all emerging markets.

- Despite less capital raised for middle-market EM PE opportunities in most regions over the last few years, 51% of LPs are actively seeking opportunities in this segment. Among those not actively exploring the middle market, 52% of respondents indicated limited staff resources as an obstacle.

- Nearly three-quarters of investors indicated that the performance of their EM PE portfolios has matched or exceeded expectations. The proportion of LPs reporting that their portfolio exceeded expectations increased slightly from 11% in 2018 to 13% in 2019.

- Investors reported recent headlines, such as US-China trade disputes, Brexit, and interest rate adjustments, to be of relatively little importance when making EM PE investment decisions. Instead, respondents indicated that overall growth prospects for and political developments in emerging markets would have the biggest impact on their EM PE decision-making processes.

* Excludes institutions with EM-only mandates, including DFIs, EM-focused funds of funds, and others legally mandated to invest in emerging markets.

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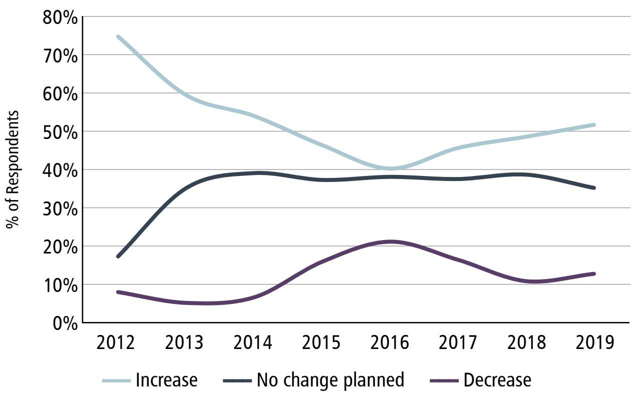
Percentage of Survey Respondents Planning to Increase Dollar Commitments and Allocations to EM PE at Highest Level Since 2014

For the third straight year, a growing proportion of respondents to EMPEA's *Global Limited Partners Survey* reported plans to increase commitments to EM PE funds over the next two years. Overall, 52% of respondents* plan to increase the US dollar value of their EM PE commitments, up from 48% in 2018 and just 40% in 2016—which was a year of economic distress and currency volatility across emerging markets. Since then, resurgent economic activity in Latin America and Asia have driven investors to return to emerging markets. EM private capital managers raised a record USD90 billion in 2018, up from USD58 billion in 2016. Conversely, 13% of respondents plan to decrease their overall commitments to EM PE, a slight uptick from 11% in 2018 but far less than the 22% of respondents in 2016's survey.

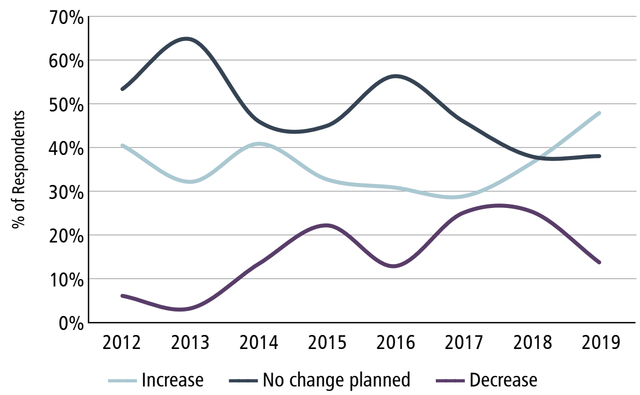
Investors also indicate a desire to increase their *percentage allocations* to emerging markets within their overall PE portfolios. In this year's survey, 48% of respondents (excluding EM-only investors) report that they plan to increase the proportion of EM PE in their overall allocations—the largest share of respondents across all editions of the survey. Furthermore, only 14% plan to decrease the share of EM PE in their private equity portfolios, approximately half the rate in last year's survey (26%). This shift of capital from developed markets to emerging markets comes amid uncertainty across many core developed markets, as well as reports of record levels of dry powder, high entry multiples, and intense competition for assets among many US-based private equity fund managers.

Exhibit 1: Anticipated Level of New Commitments to EM PE Funds Over the Next Two Years, 2012-2019*



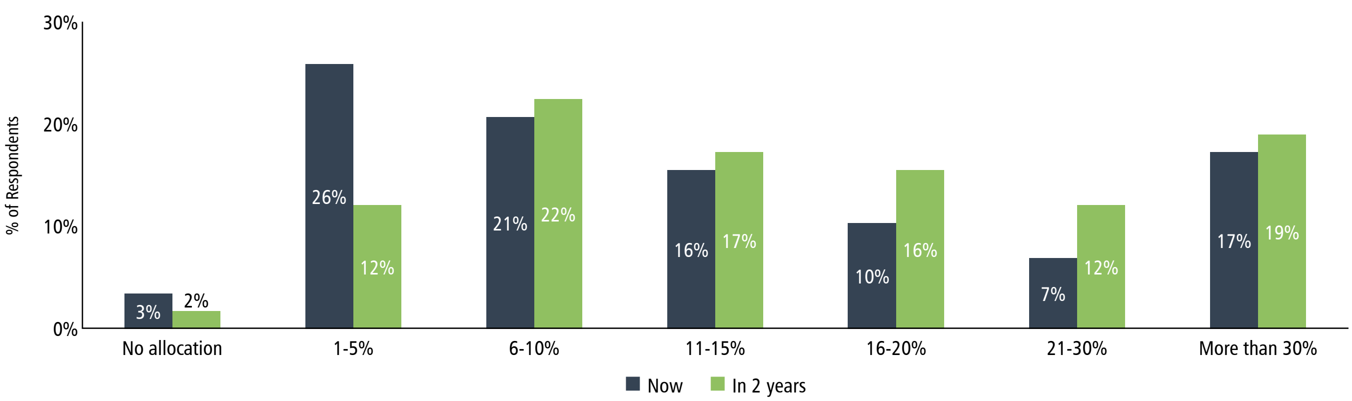
*Excludes investors with EM-only mandates.

Exhibit 2: LPs' Planned Changes to Proportion of Total PE Allocation Targeted at EM PE Over the Next Two Years, 2012–2019*



*Excludes investors with EM-only mandates.

Exhibit 3: Survey Respondents' Proportion of Total PE Allocation Targeted at EM PE*



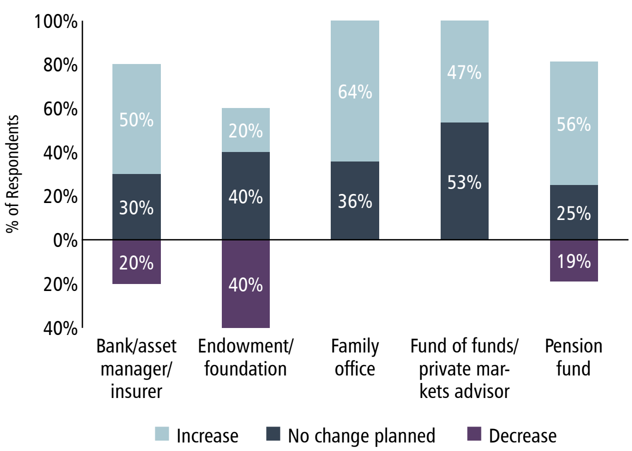
*Excludes investors with EM-only mandates.

Nearly half of survey respondents (excluding EM-only investors) report that they would like to allocate at least 16% of their private equity portfolio to emerging markets. Currently, only 34% of these respondents meet this threshold, and 47% reported that EM funds comprise between just 1% and 10% of their private equity portfolios. Furthermore, the largest proportion of respondents reported their target allocation in two years to be between 6% and 10%, followed closely by an allocation target of greater than 30%. This bifurcation suggests that some LPs may have 'paused' in building out their EM positions, but many others plan to make EM PE a major priority for future portfolio construction.

Among all institution types, family offices appear most likely to increase the level of their commitments to EM PE, with 64% of such respondents indicating plans to increase the US dollar value of their investments in the next two years. Furthermore, no family offices reported intentions to decrease their commitments to EM PE over the next two years, and this group potentially represents a significant source of new capital coming into the asset class. Likewise, a majority (56%) of pension fund respondents will increase their commitments to emerging markets over the next two years. In contrast, a higher proportion (40%) of endowments and foundations plans to decrease their commitments to EM PE than any other group of institutions included in the survey. Only 20% of endowments and foundations plan to increase their commitments.

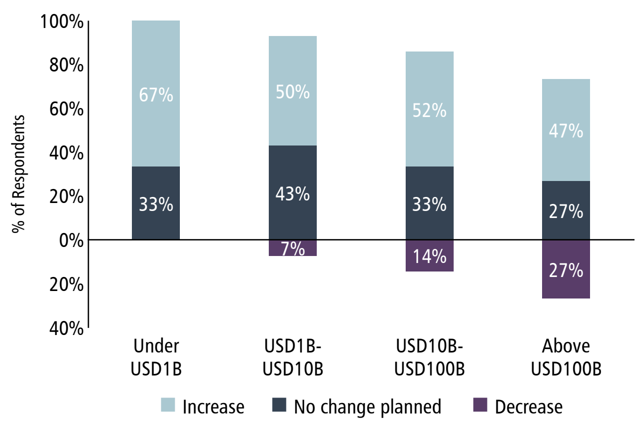
This year's results also reveal differences among LPs of different sizes, perhaps expected given the overlap between institution size and type. Smaller institutions—of which family offices account for a significant share—were much more likely to report plans to increase their commitments to EM PE than large ones. Among the subset of institutions with more than USD100 billion of total assets under management, 60% have been investing in EM PE for more than 10 years and two-thirds have more than 10 EM PE funds in their portfolios. Having acquired significant EM PE exposure already, these larger LPs may be recalibrating their portfolios until EM investment conditions improve further.

Exhibit 4: Anticipated Level of New Commitments by Institution Type*



*Excludes investors with EM-only mandates.

Exhibit 5: Anticipated Level of New Commitments by Total AUM*



*Excludes investors with EM-only mandates.

LP Views on the Attractiveness of Private Equity Opportunities in Emerging Markets:

"US-China trade tensions could provide unique long-term opportunities in private markets while the public markets may suffer from volatility in market sentiment."

–DFI

"The potential to generate highly attractive financial returns while effecting significant social impact is perhaps more prevalent in Africa than anywhere else in the world."

–Fund of funds

"Southeast Asia is growing fast and has sensible macro conditions."

–Fund of funds

"Brazil is one of the best opportunities in a generation."

–Family office

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Due Diligence Practices Evolving in Response to Industry Events and Changing Investor Needs

Due diligence policies and procedures are top of mind for many industry professionals following the demise of the Abraaj Group, which continues to attract mainstream press attention. The fallout has prompted many LPs to expand the scope of their due diligence processes to include a closer look at the internal operations and governance arrangements of fund managers. Beyond so-called 'operational due diligence', environmental, social, and governance (ESG) factors have become a focus area for a broad swath of the investor universe—not just DFIs or others traditionally inclined to consider the non-financial outcomes of their investments. While not every institution included in this year's survey has implemented substantial changes to their due diligence practices, the majority have. Survey responses also point to a growing challenge for fund managers in due diligence: juggling the unique demands and institutional arrangements of each of their potential investors.

Nearly half (44%) of survey respondents have requested additional information from prospective GPs over the last two years while 32% have updated their official due diligence policies or guidelines. The same share (32%) of LPs have dedicated additional internal resources for due diligence, most likely in response to the growing workload and specialized skills and knowledge the process now demands. While just 13% of survey respondents have hired outside consultants to assist with due diligence, the group is diverse in terms of the types of institutions represented—including eight of the nine types of institutions participating in the survey (see Page 17). Despite differences in size, strategy, and institutional mandates, at least some LPs have come to value the external validation provided by due diligence consultants.

EMPEA also asked this year's respondents to indicate what type of due diligence questionnaire they employ in order to get a sense of the practical ramifications for fund managers under review by LPs. Just 11% of LPs use a completely standardized questionnaire provided by an outside organization while 14% use a standardized questionnaire with an addendum specific to their

Exhibit 6: How Have Your Institution's Due Diligence Practices for EM PE Funds Evolved over the Last Two Years?

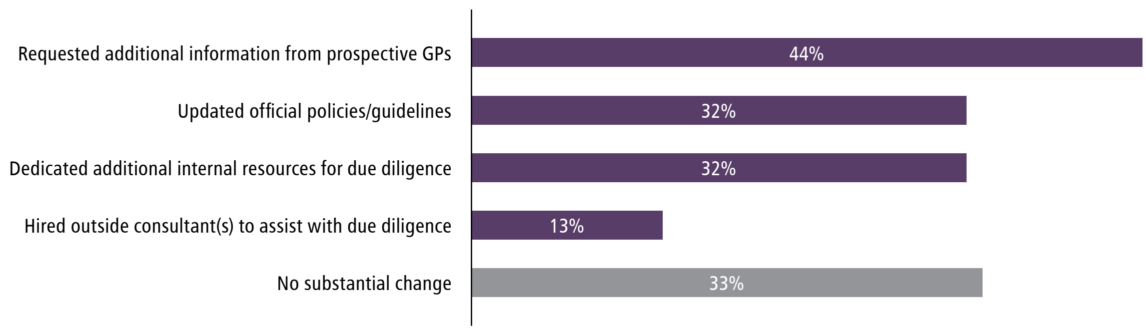
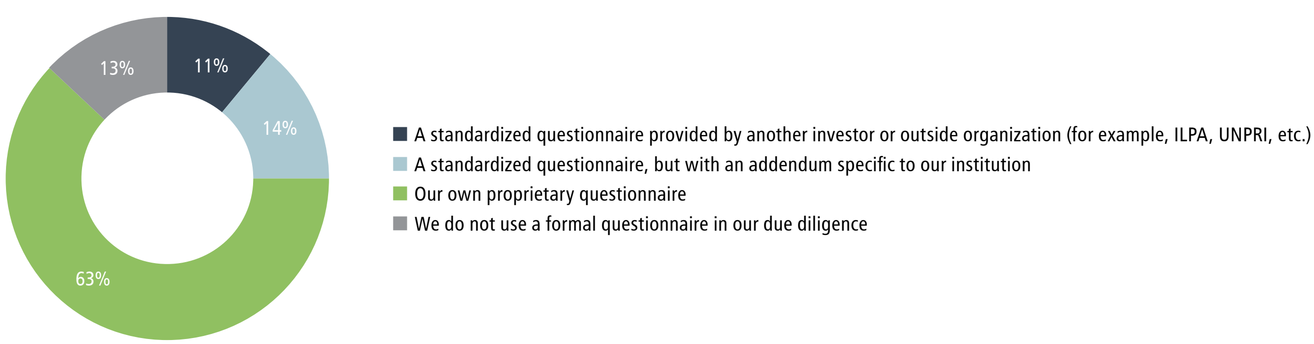


Exhibit 7: When Conducting PE Fund Due Diligence, Which of the Following Types of Questionnaire Do You Employ?



institution. Nearly two-thirds of the sample use a proprietary questionnaire. A small minority of LPs (13%) do not make use of a formal questionnaire in the due diligence process. The ubiquity of proprietary due diligence questionnaires among LPs included in the sample underlines the challenge for fund managers trying to raise capital. The findings point to the need not only for a differentiated strategy, robust deal pipeline, and cohesive investment team, but also for dedicated resources (either internal or external) to handle the diverse information needs of potential investors.

In addition to structured questions, LPs participating in the survey were asked to provide open-ended responses on how their approaches to due diligence have evolved in recent years. Answers coalesced around two dominant themes: operational due diligence and ESG. Many institutions are putting the internal operations of fund managers under close review, examining everything from financial controls and cash management to cybersecurity. In addition to having ESG *policies* in place, many LPs are looking to validate or verify the degree to which GPs' day-to-day work complies with these stated principles. Finally, some respondents are taking a closer look at team composition, especially with regard to gender diversity (see also Page 10).

Survey Respondents on How Approaches to Due Diligence Have Evolved:

"The Abraaj situation has forced us to rethink our internal processes to avoid a similar fiasco in the future."

–Fund of funds

"The emphasis has been put on alignment of interest, succession planning, team size (to reduce key-person risk), and internal controls."

–DFI

"For EM PE funds, we have a higher focus on operational due diligence (reporting, valuation policies, etc.)."

–Insurance company

"I think that having *internal* resources involved in due diligence is very important."

–Family office

"We have increased our focus on GPs' capacity and commitment to manage ESG risks, and we are looking more and more for GPs that feature a gender component within their senior investment teams or investment strategies."

–DFI

"We are more focused on ESG, operational due diligence, and diversity."

–Bank/asset manager

"We have become more standardized and detailed. It takes more time to get to know GPs (not only when they are fundraising), and we are less likely to want to work with short timelines."

–DFI

"We have brought on an in-house operational due diligence team."

–Pension fund

"Our changes are more structural—developing more detailed due diligence questionnaires, organizing our findings better, and getting more detailed information on fund manager financials."

–DFI

"We require data and direct communication with operating partners, as well as the ability to personally visit 'on site' and inspect business operations."

–Family office

"We have included more stringent operational due diligence standards, including compliance, cash management, valuation, and reporting. We have strengthened our ESG due diligence and are more demanding on validation."

–Fund of funds

"In general, we have made efforts to standardize our due diligence practices and evolve them to include coverage of more operational and organizational elements."

–Pension fund

"We have incorporated anti-corruption metrics, strengthened background checks, increased review of potential LP quality, and verified grade of adherence to ESG principles."

–Pension fund

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Investors Continue to Favor Emerging Asia Following Record Fundraising in 2018

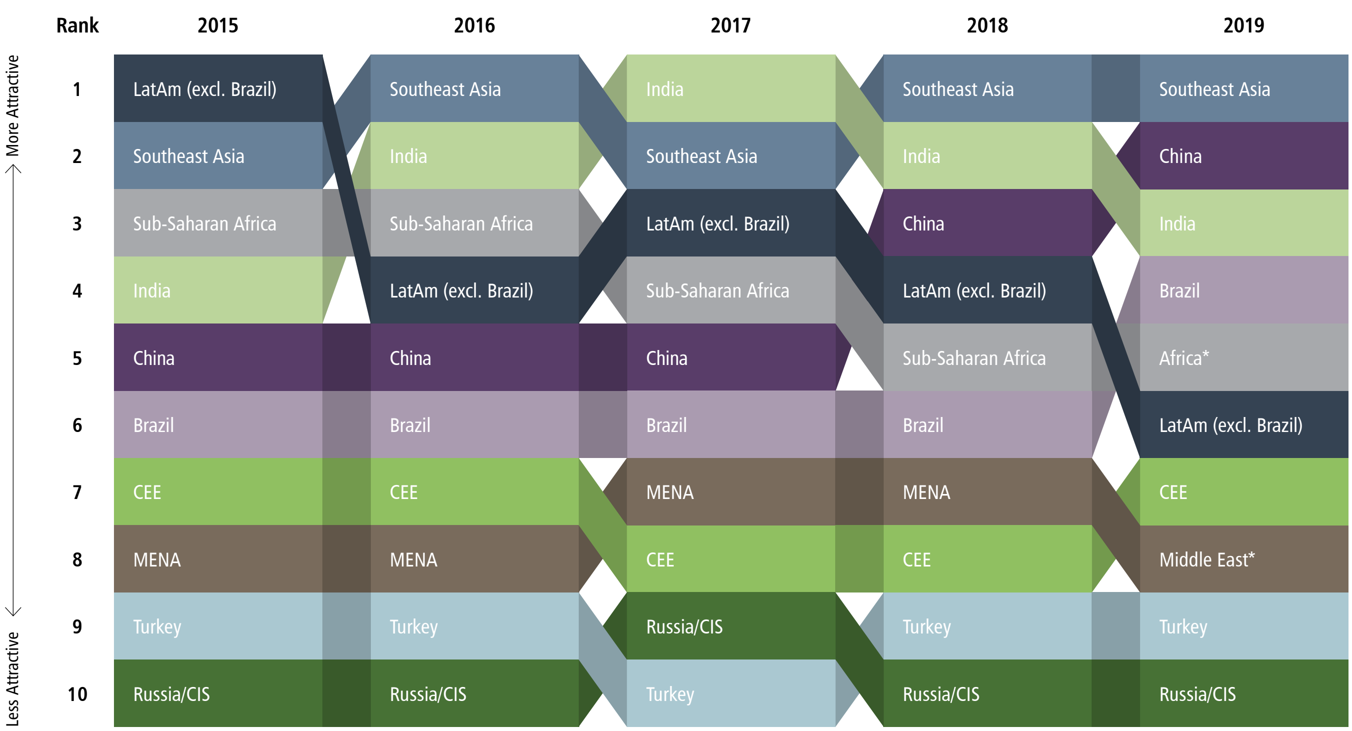
EMPEA's 2019 market attractiveness ranking captures LP perspectives on the relative investment appeal of ten different EM regions and countries over the next twelve months. Markets across Asia continue to dominate the top of the table, with Southeast Asia retaining its place as the most attractive market for investment in the eyes of LPs. China has overtaken India to claim second place, with the two swapping the positions they occupied in last year's survey. Given that 85% of private capital funds raised for emerging markets in 2018 accrued to Emerging Asia-focused vehicles—a total haul of USD76 billion in commitments—LPs' predilection for these markets comes as no surprise.

Just below the Asian markets, Brazil jumped to fourth place in this year's ranking after having occupied sixth place for the preceding four years, perhaps denoting improved perception of the country's economic prospects and the opportunities on offer in what remains a relatively deep market by EM standards. In contrast, Latin America (excl. Brazil) fell from fourth place in 2018 to sixth place in 2019, following a year of currency crisis in Argentina and sweeping political changes in Mexico. In the middle of the pack, Africa retained its fifth-place spot, arresting a gradual decline in its ranking since 2016.

Further down the table, the Middle East and Central and Eastern Europe (CEE) traded places relative to 2018, with the two having moved little in the rankings over the past six years. The stepdown to eighth place for the Middle East followed a challenging year of geopolitical quandaries and questions about the region's governance standards. At the bottom of the table, both Turkey and Russia/CIS retained their respective ninth and tenth places.

While EMPEA's annual market attractiveness ranking illustrates the *relative* appeal of each market, the scores used to compile the ranking can provide additional insight on *absolute* investor perception for each emerging market over time. Thus, this year's report includes a closer look at these metrics, which EMPEA has collected since 2008. Evaluating these scores over the past decade shows a clear high point for most markets in 2010 and 2011 as investors sought opportunities in new geographies beyond developed markets in the wake of the Global Financial Crisis.

Exhibit 8: The Attractiveness of Emerging Markets for GP Investment Over the Next 12 Months



Rank	2015	2016	2017	2018	2019
1	LatAm (excl. Brazil)	Southeast Asia	India	Southeast Asia	Southeast Asia
2	Southeast Asia	India	Southeast Asia	India	China
3	Sub-Saharan Africa	Sub-Saharan Africa	LatAm (excl. Brazil)	China	India
4	India	LatAm (excl. Brazil)	Sub-Saharan Africa	LatAm (excl. Brazil)	Brazil
5	China	China	China	Sub-Saharan Africa	Africa*
6	Brazil	Brazil	Brazil	Brazil	LatAm (excl. Brazil)
7	CEE	CEE	MENA	MENA	CEE
8	MENA	MENA	CEE	CEE	Middle East*
9	Turkey	Turkey	Russia/CIS	Turkey	Turkey
10	Russia/CIS	Russia/CIS	Turkey	Russia/CIS	Russia/CIS

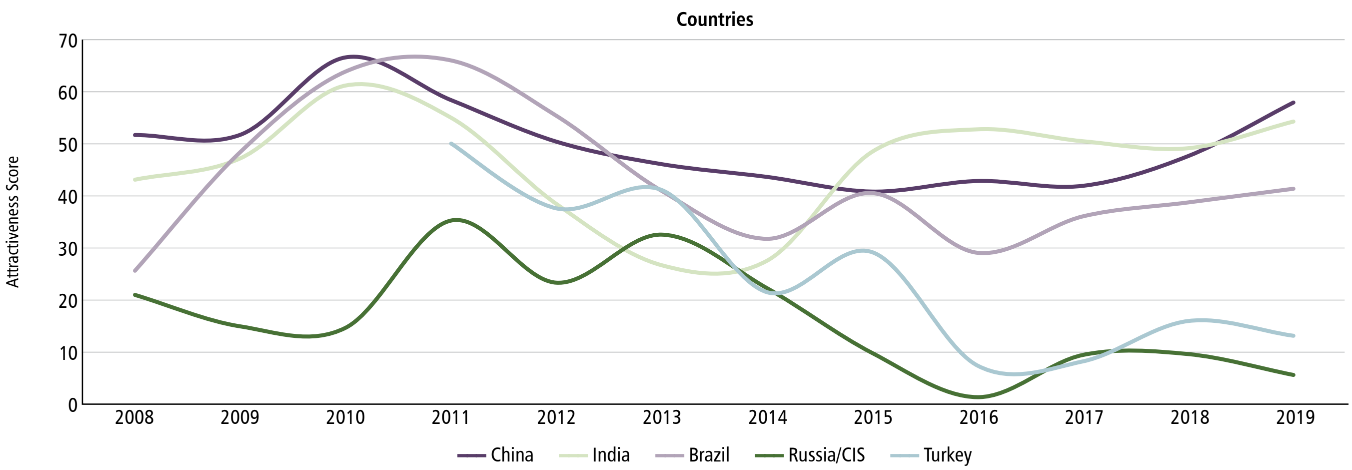
*Africa included in survey as 'Sub-Saharan Africa' and Middle East included in survey as 'MENA' prior to 2019.

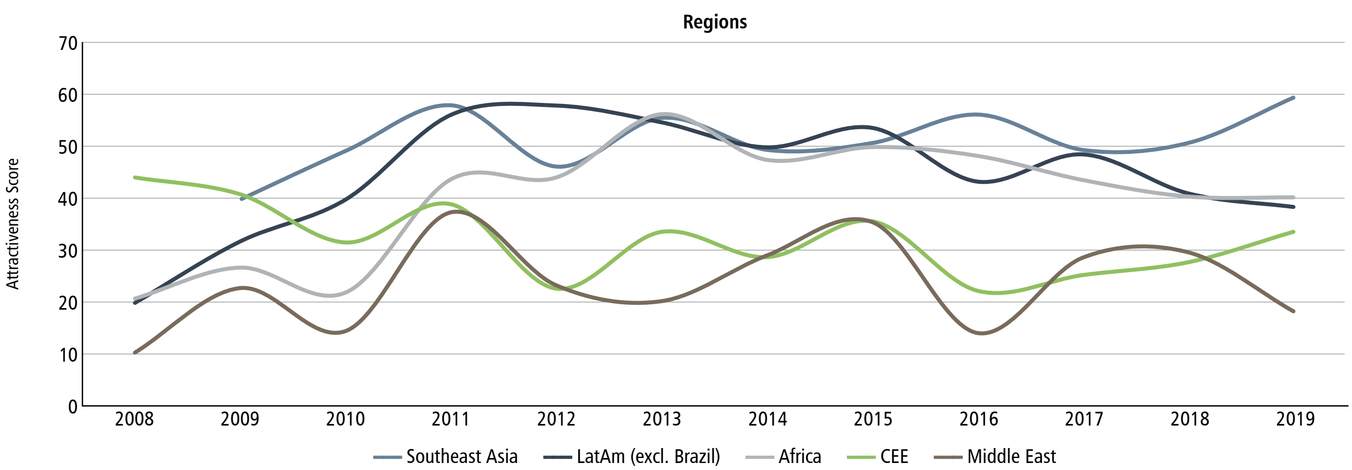
Following that peak, LP sentiment toward EM regions has largely oscillated within a limited score band. Southeast Asia, Latin America (excl. Brazil), and Africa have hovered around an average score of 50 (representing a response of attractive) since 2011, but in the last two years these regions have diverged, with the attractiveness of Southeast Asia improving noticeably in contrast to the gradual decline of the latter two regions. CEE and the Middle East have consistently been viewed as less attractive than other regions by LPs. Nevertheless, CEE's score has steadily improved since 2016, which bodes well for the region's fund managers seeking to raise new vehicles.

In contrast to EM regions, *individual countries* have varied significantly in their attractiveness scores since 2010. LP views on China—the standout emerging market for both fundraising and investment activity in 2018 with USD35 billion raised and USD28 billion invested—have improved markedly since 2017 as investors have piled into the market. Similarly, India's score increased sharply in 2015 and has held steady since then, coinciding with a surge in fundraising for the country. Trailing the two Asian markets, Brazil's perceived attractiveness has gradually recovered over the last four years, but is still far below its 2011 peak.

While investor perception of China, India, and Brazil has continued to improve in recent years, the opposite is true of Russia/CIS and Turkey. The attractiveness of both markets has deteriorated significantly since peaking in 2011, perhaps reflecting the geopolitical turmoil and substantial currency challenges that both geographies have faced. No Russia-focused private capital fund has reached a close since 2014, and with 91% of respondents to this year's survey rating Russia/CIS as unattractive, that trend is likely to continue.

Exhibit 9: Market Attractiveness Index





Note: The raw scores used to compile EMPEA's market attractiveness ranking are calculated by assigning a numerical value to each limited partner's response regarding the attractiveness of each market. A score of 100 reflects a response of 'Very Attractive', 50 of 'Attractive', and 0 of 'Unattractive'. The scores included in the chart above reflect the mean of all survey responses. Southeast Asia was classified as 'Other Emerging Asia' from 2009 through 2011 (and prior to that, not included in the survey). Africa was classified as 'Africa (excl. South Africa)' from 2008 through 2010 and as 'Sub-Saharan Africa' from 2011 through 2018. Middle East was classified as 'MENA' from 2011 through 2018. Turkey replaced South Africa (subsequently omitted) in the 2011 survey.

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Political Uncertainty Remains Most Prominent Deterrent to Investing in Many Geographies

Political risk remains a top concern for LPs when deciding where to allocate capital, and in this year's survey nearly every geography saw an increase in the percentage of survey respondents citing political risk as a deterrent. Russia/CIS remained the market that generates the most concern among LPs, with 71% registering hesitation. LPs are also increasingly apprehensive about political developments in the Middle East, with 70% of survey respondents citing the region's political climate as a deterrent in 2019, a jump from 50% in 2018's survey. Turkey followed closely behind, with 69% of LPs indicating that political risk would dissuade them from committing capital to the country.

Given the financial market volatility evident in emerging markets over the last few years, it is unsurprising that the historical performance of PE in all geographies apart from China became more relevant as a deterrent for investors in 2019. An average of 20% of respondents registered concern regarding past performance in this year's survey, nearly double the average rate in 2018 of 11%. Africa and Latin America (excl. Brazil) experienced the largest increases in the percentage of LPs citing past performance as a deterrent to investing.

Private equity has nevertheless recovered some appeal when compared by LPs to other asset classes in emerging markets. Last year, 17% of respondents on average cited a preference for other asset classes as a deterrent to investing in PE in emerging markets. In 2019, only Southeast Asia saw a nearly equivalent percentage of respondents (16%) citing this factor as a deterrent.

Exhibit 10: Factors Likely to Deter LPs from Investing in Individual Emerging Markets Within the Next Two Years*

	Already at recommended exposure	Historical performance	Limited number of established fund managers	Oversupply of funds (too competitive)	Scale of opportunity to invest is too small	Entry valuations are too high	Weak exit environments	Challenging regulatory/tax issues	Prefer exposure via other asset classes	Political risk	Currency risk
Africa	15%	36%	45%	2%	24%	5%	40%	25%	9%	62%	53%
China	35%	2%	2%	23%	2%	21%	16%	23%	9%	21%	16%
India	27%	31%	18%	20%	0%	22%	18%	20%	11%	22%	38%
Southeast Asia	16%	22%	38%	13%	22%	13%	9%	9%	16%	19%	38%
Russia/CIS	17%	12%	25%	1%	10%	1%	20%	32%	9%	71%	39%
Turkey	8%	13%	15%	2%	10%	2%	11%	18%	8%	69%	57%
Central and Eastern Europe	20%	13%	28%	7%	22%	2%	13%	13%	13%	35%	30%
Brazil	29%	21%	10%	4%	0%	4%	8%	19%	10%	44%	40%
Latin America (excl. Brazil)	20%	30%	30%	0%	7%	0%	23%	20%	11%	43%	52%
Middle East	7%	18%	41%	0%	20%	5%	18%	25%	11%	70%	32%

*Indicates percentage of respondents answering for each region/country.

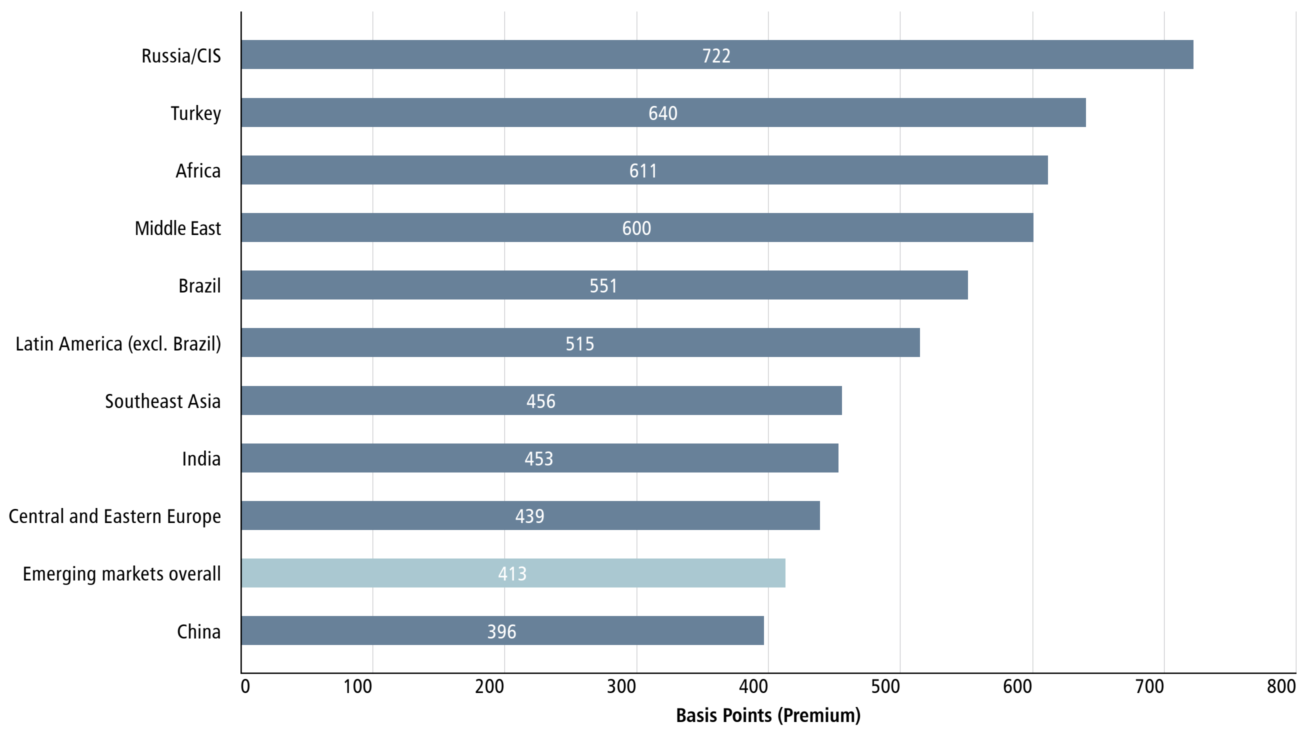
Brazil has experienced some of the most extreme bouts of currency volatility of all emerging markets over the last five years, but the proportion of LPs indicating this factor would deter them from investing in Brazil declined from 59% in the 2018 survey to 40% this year. While the real has not regained much of its value lost since Brazil's economic downturn began, investors appear to have some hope for a more stable macroeconomic picture under the country's new presidential administration.

Out of all emerging markets, LPs demonstrated relatively little concern regarding political risk and exit potential in China, India, and Southeast Asia. Investors also require some of the lowest return premiums over developed markets for investing in these three geographies. These indications of relative attractiveness are not without their drawbacks. All three lead the rankings in terms of perceived fund oversupply and heightened entry valuations—symptomatic of an environment where too many funds look to be chasing too few deals. Although 13% of respondents indicated that an overcrowded market for funds and heightened entry valuations were major deterrents to investing in Southeast Asia, nearly three times as many (38%) indicated they were more concerned by the lack of established fund managers in the region. With only 16% of respondents indicating that they had reached the recommended limit for their exposure to the region, this figure indicates that investors continue to see potential for growth.

Africa's perceived merit as an investment destination has suffered since the peak 'Africa rising' years. A higher proportion of respondents cited historical performance, the scale of investment opportunities, a disappointing exit environment, and a lack of established fund managers as deterrents to investing in Africa than in any other EM geography. Survey respondents underscored these concerns by indicating that only a premium of 611 basis points above developed market PE returns, the third highest of any market, would justify investing on the continent. However, the share of respondents citing political risk as a deterrent to investing in the region has declined since last year, though the factor remains a concern for 62% of LPs.

While Central and Eastern Europe is perhaps neither the most attractive nor the most worrying investment destination for survey respondents, the return premium above developed markets that would justify commitments to the region is among the lowest of all EM geographies. This response mirrors the low level of concern regarding political and currency risk, competition for assets, entry valuations, and exit potential in the region. Compared to neighboring Russia and CIS—which had more than twice the proportion of surveyed LPs noting concerns about political risk and regulatory challenges—CEE appears to provide a more attractive investment environment.

Exhibit 11: Return Premium Over Developed Markets That Would Justify Decision to Commit to EM PE Funds (Mean)



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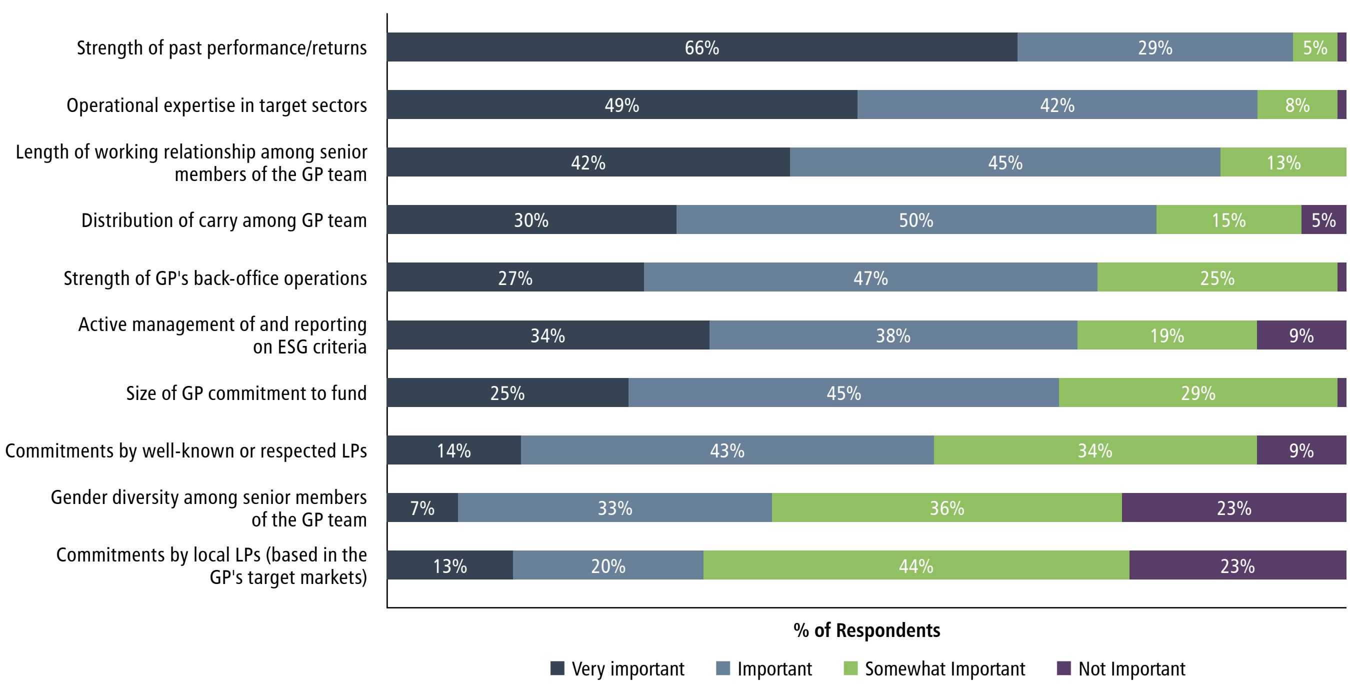
Past Performance Still Most Important Manager Selection Criteria, but ESG Gaining in Prominence

Findings from this year's survey suggest that traditional manager selection criteria continue to hold significant weight for investors, but others like ESG and gender diversity are fast emerging as institutional priorities. Unsurprisingly, LPs identified past performance and returns as the most important factor in evaluating an EM PE fund manager, with 66% of respondents considering it very important. The importance of past performance for manager selection might present a challenge for first-time fund managers, who represent 24% of all EM PE funds reaching a close in 2018. However, operational expertise in target sectors was the second most important factor selected by LP respondents. This preference suggests that fledgling GPs who target sectors in which they have proven knowledge and skills may be able to compensate for a lack of a historical track record as an institutional fund manager.

Notably, 40% of LPs surveyed indicated that gender diversity among a fund manager's senior team was important or very important when selecting an EM PE fund manager, with only 23% responding that gender was not at all important. While gender diversity may be emphasized less than other traditional manager selection criteria, its importance is growing alongside the body of evidence that gender-balanced management teams across a range of industries tend to perform better than firms with male- or female-dominated leadership. While the proportion of respondents that considered gender at least somewhat important was consistent across most institution types, the exception was single-family offices, 70% of which designated that gender diversity was not important when evaluating a GP. This discrepancy may show that LPs are responding to increasing pressure from their stakeholders to incorporate gender parity considerations when allocating their capital. Family offices may face fewer of these pressures on the whole.

The proportion of LPs that view the size of a GP commitment to a fund as very important dropped to 25% from 43% in 2013, the last time the question was included in the survey in the same form. This decline may indicate that LPs are putting less stock in 'skin in the game' as a differentiator when selecting funds. Although operational expertise and the length of the working relationship among leadership were the second and third most important factors, respectively, in GP selection, the proportion of LPs that consider these factors very important has also fallen over the past six years. In contrast, a higher share of respondents in this year's survey indicated that active management of and reporting on ESG criteria was very important—34%, compared to 26% in 2013.

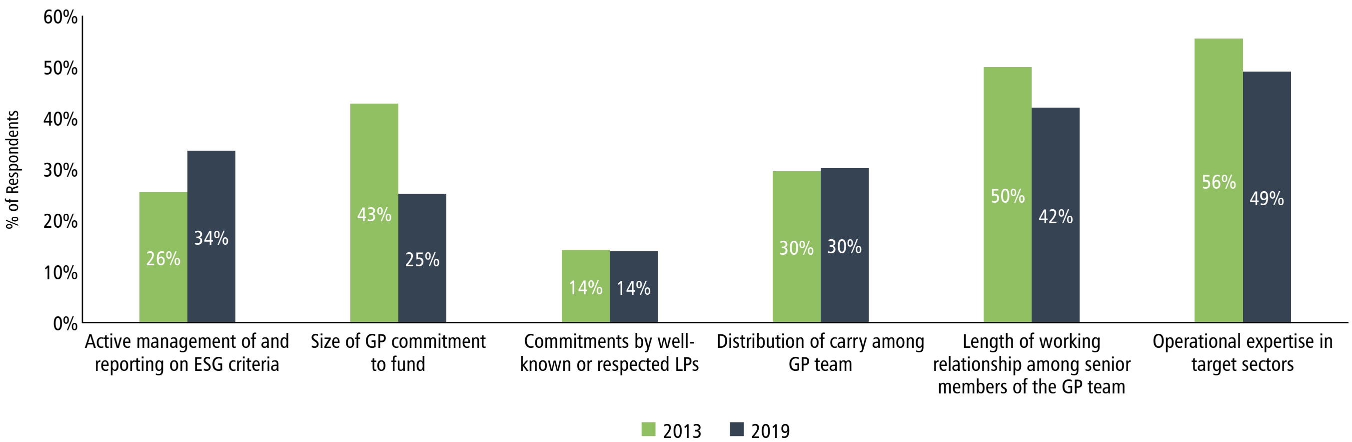
Exhibit 12: Relative Importance of Manager Selection Criteria



While only a third of LPs consider ESG practices very important when selecting a manager, the majority of respondents incorporate ESG into their investment process, with 69% expecting formal ESG reporting on at least an annual basis. Although DFIs were among the first institutions to implement ESG policies in EM PE, both DFIs and other types of LPs had similar views on ESG practices, with an exception regarding the inclusion of ESG provisions in LPAs. While half of all respondents include ESG provisions in their LPAs, the proportion drops to 33% when considering only non-DFI LPs. *All* of the DFIs responding to this year's survey require that LPAs include ESG-related language. A similar focus on the part of DFIs is apparent in EMPEA's findings regarding the importance of *quantitative* ESG metrics. Only 40% of respondents overall expect GPs and/or other investees to produce quantitative metrics on ESG outcomes. The corresponding figure for DFIs was 65% and for non-DFI respondents, only 31%.

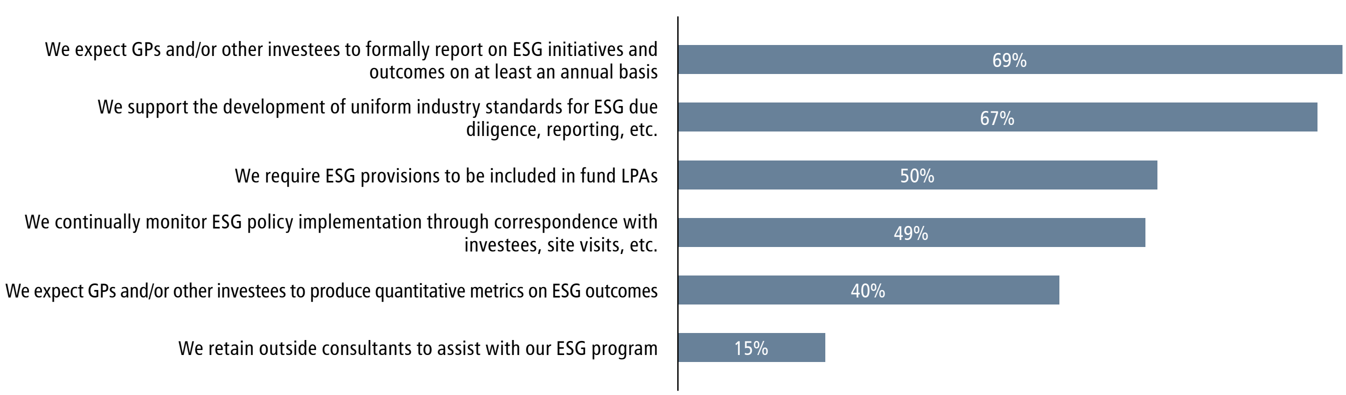
Two-thirds of respondents indicated that they would support the development of uniform ESG industry standards. Given the lack of uniformity among LPs with regard to basic due diligence features like questionnaires (see Page 4), it would seem such a goal will prove difficult to achieve in the short term. Nonetheless, GPs, especially smaller firms for which ESG monitoring represents a considerable expense, should be encouraged by broad LP interest in a more streamlined reporting process.

Exhibit 13: Manager Selection Criteria – 'Very Important' Factors for Respondents, 2013-2019



Note: Displays the percentage of survey respondents that consider a given selection criteria 'Very Important' in each year.

Exhibit 14: ESG Policies and Practices



LPs Keen to Pursue Technology Investments, Seeing Promising Opportunities in Transitioning Economies

Given growing investor interest in EM technology opportunities, EMPEA sought to enhance the discussion surrounding this space with the inclusion of a technology-specific panel of questions in this year's survey. The results indicate that an overwhelming majority (76%) of LPs invest in technology opportunities in emerging markets, with 53% of respondents signaling that they actively seek out such investments. Only 24% of investors in the sample do not currently invest in EM technology areas, and just 7% indicated they would not consider investing in EM technology opportunities in the future.

LPs' means of accessing technology opportunities have shifted as the private investment landscape in many emerging markets has matured. Approximately half of investors look to gain exposure to technology companies through early-stage venture capital funds (51%) and co-investment (49%). However, a greater share (73%) of LPs continue to access technology opportunities via growth

Exhibit 15: Does Your Institution Currently Invest, or Plan to Invest, in EM Technology Opportunities?

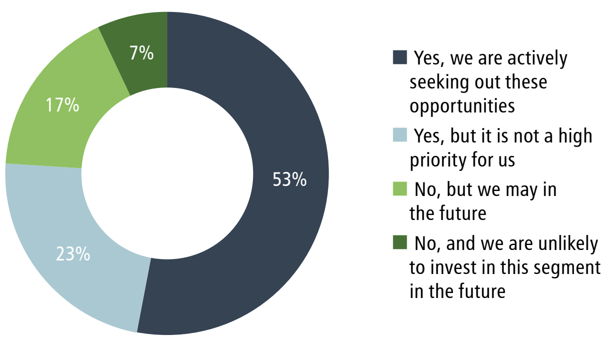


Exhibit 16: How Do You Access, or Plan to Access, Technology-Focused Investment Opportunities in Emerging Markets?

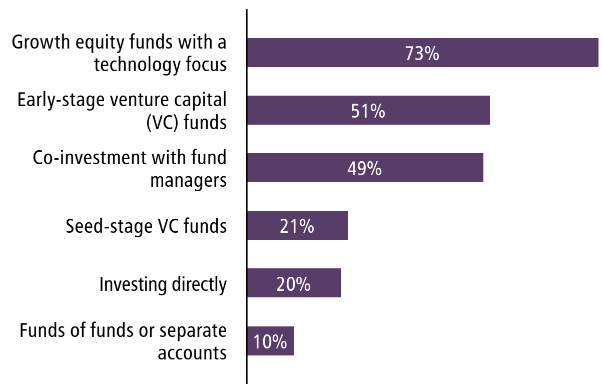
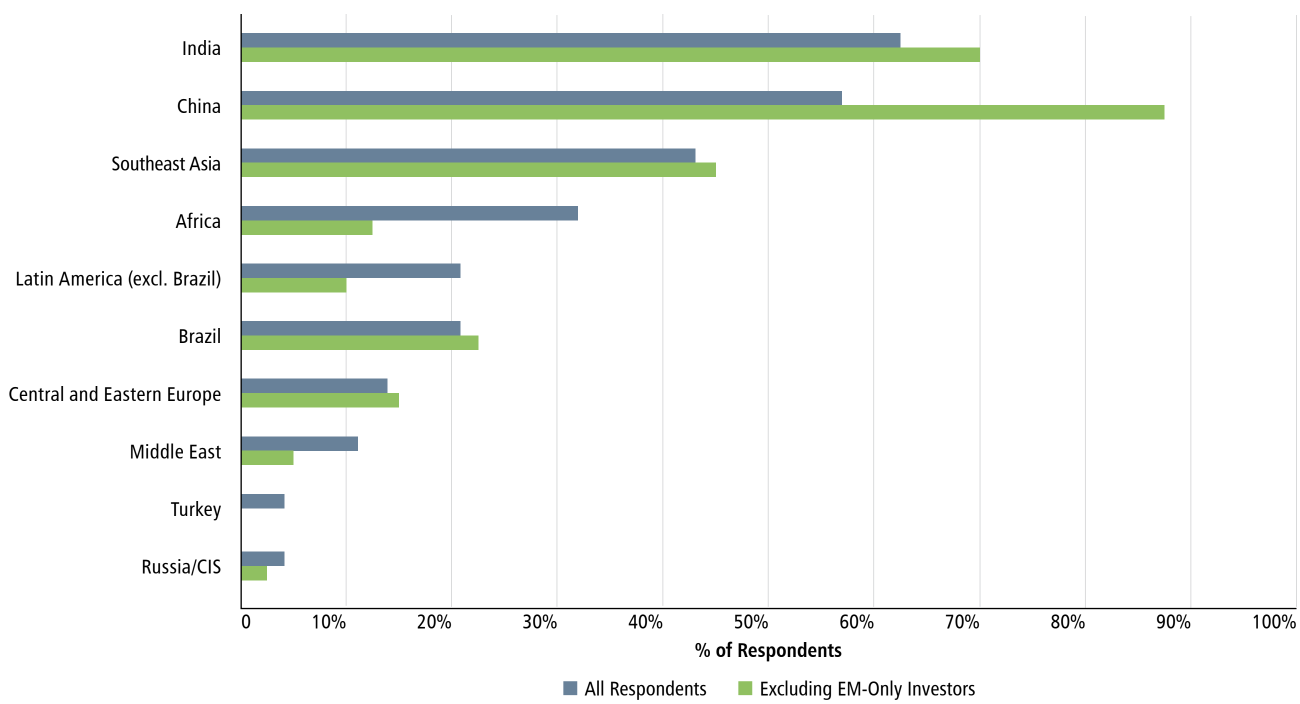


Exhibit 17: In Which of the Following EM Geographies Do You Currently Invest, or Plan to Invest, in Technology Opportunities?



equity funds—which raised USD25 billion across all emerging markets in 2018, compared to USD19 billion for VC funds, according to EMPEA's *Industry Statistics*.

When respondents were asked to indicate where they currently invest, or plan to invest, in technology opportunities, markets in Emerging Asia attracted the highest share of respondents, in line with higher perceived overall attractiveness of Asian markets (see Page 6). Attracted by favorable exit opportunities for technology-enabled companies—as highlighted by high-profile strategic and public market exits for India-based technology-enabled companies in the past few years—63% of all LPs currently invest or plan to invest in technology opportunities in India, the highest percentage of all EM geographies. However, when we exclude EM-only investors from the sample, the highest percentage of LPs (88%) invest or plan to invest in China, with India following behind at 70%. The disparity stems from the prominence of DFIs, which are more likely to include India in their mandates than China, in the EM-only subset of respondents. Nonetheless, the markets of Emerging Asia garnered a substantial amount of interest among technology-inclined respondents as rising affluence in Asia has further enabled the expansion of opportunities across consumer digital services, fintech, and health and life sciences.

Beyond Asia, LPs also expressed interest in the growing technology ecosystems of Africa. The region attracted 34 venture capital deals in 2018 according to EMPEA's *Industry Statistics*, and 32% of all survey respondents currently invest or plan to invest in technology opportunities on the continent. Moreover, 46% of all respondents considered fintech to be the most promising technology area in Africa, the highest share among all EM geographies.

As the digital economy continues to evolve in emerging markets, LPs appear to favor consumer-focused technology verticals including fintech and e-commerce. However, for select markets, respondents were more likely to view verticals like agricultural technology and transportation and logistics as the most promising. Indeed, certain technology-enabled business models appear attractive despite political and economic fluctuations. When asked about technology verticals in Russia and the Commonwealth of Independent States, 35% of respondents considered transportation and logistics the most promising technology area for investment. Similarly, respondents demonstrated confidence in Brazil's comparative advantage in agribusiness despite a turbulent election cycle and the effect of the recent recession on growth in consumer spending, with 28% of respondents indicating that food and agricultural technology was the most promising local technology segment.

Exhibit 18: Which of the Following Technology Areas Do You Consider the Most Promising in Each of the Following Geographies? (% of Respondents)

	E-commerce and online-to-offline (O2O) services	Fintech	Life sciences and health technology	Transportation and logistics	Cleantech*	Food and agricultural technology	Business services**	Educational technology	Social media and digital entertainment
Africa	12%	46%	2%	8%	10%	19%	0%	4%	0%
China	27%	10%	29%	6%	6%	0%	12%	2%	8%
India	22%	24%	10%	12%	9%	9%	9%	2%	3%
Southeast Asia	24%	24%	9%	11%	2%	7%	17%	4%	2%
Russia/CIS	20%	15%	0%	35%	5%	10%	10%	0%	5%
Turkey	23%	18%	5%	18%	5%	18%	14%	0%	0%
Central and Eastern Europe	24%	19%	5%	10%	24%	5%	14%	0%	0%
Brazil	17%	25%	3%	11%	8%	28%	8%	0%	0%
Latin America (excl. Brazil)	17%	26%	0%	9%	17%	17%	9%	6%	0%
Middle East	25%	13%	13%	17%	21%	4%	4%	4%	0%

*Includes renewable power and energy storage.
**Includes enterprise software, cloud computing, etc.

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Over Half of Surveyed LPs Actively Investing in Middle Market, but Resource Constraints Pose Limits for Others

While large buyouts and late-stage venture rounds for newly minted unicorns receive most of the headlines in both developed and emerging markets, findings from the OECD suggest up to 45% of total employment and 33% of GDP in emerging markets is generated by small and mid-sized companies, many of which need financing. However, a growing share of capital raised by private investment vehicles in emerging markets has accrued to large-cap funds and venture capital. While EMPEA's fundraising data suggest less interest in middle-market funds on the part of LPs, 81% of survey respondents reported they currently invest or plan to invest in middle-market opportunities, including 51% of respondents indicating they actively seek out such opportunities. Only 8% of LPs in the sample do not consider middle-market investment opportunities and would likely not consider them in the future.

When broken out by institution type, funds of funds and private markets advisors had the highest proportion of respondents reporting they seek out middle-market investments, followed closely by DFIs and government agencies. The distribution of responses among institution types is to some extent a reflection of their relative sizes and institutional mandates. Funds of funds' *raison d'être* often is their ability to source harder-to-access funds and direct deals in the middle market. Similarly, DFIs are mandated by their shareholders to stimulate economic development and job creation in their target markets and support mid-sized funds as a means of providing capital to companies that cannot access sufficient bank financing.

Pension funds and endowments reported less interest in pursuing middle-market opportunities, perhaps due to the relatively larger commitments these types of institutions must make to meet deployment goals. Moreover, among respondents that do not actively seek middle-market opportunities, 52% indicated that limited staff resources hampered their ability to do so. Many institutions may lack the resources to perform initial due diligence and subsequent monitoring of a geographically dispersed group of fund managers investing in the middle market.

Exhibit 19: Does Your Institution Currently Invest, or Plan to Invest, in Middle-Market EM PE Investment Opportunities?

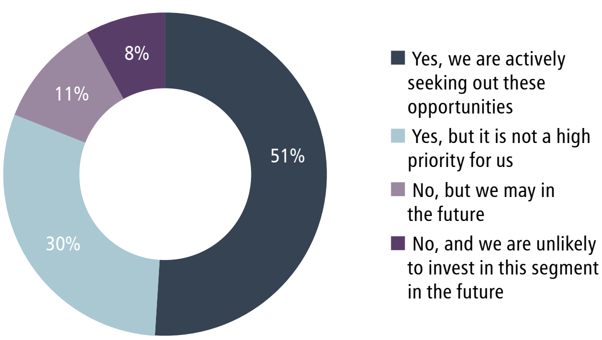


Exhibit 20: Respondents Actively Seeking Middle-Market EM PE Opportunities by Institution Type

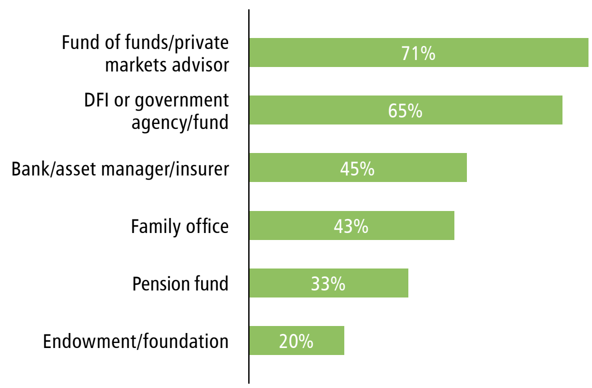
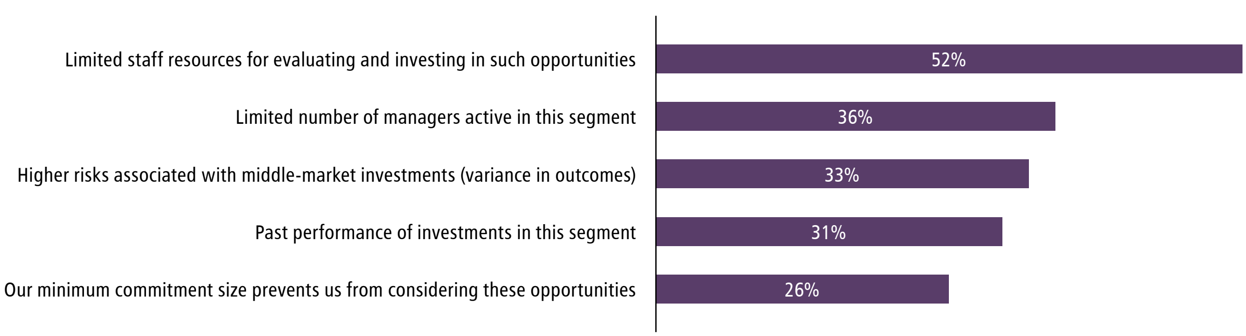


Exhibit 21: What Are the Greatest Obstacles to Allocating a Greater Proportion of Your EM PE Portfolio to Middle-Market Opportunities?

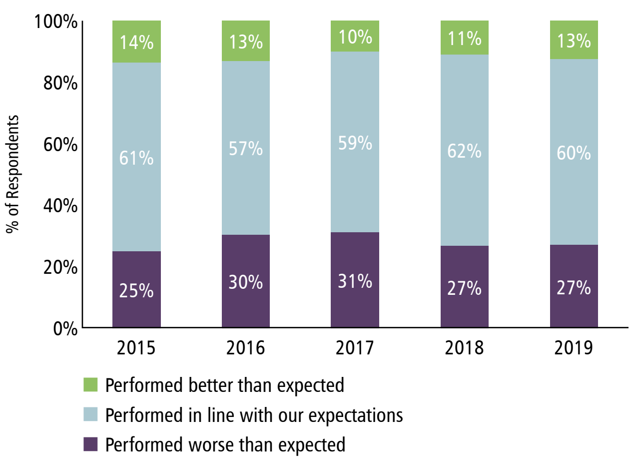


EM PE Performance Meets Expectations for Majority of Respondents Despite Effect of Currency Depreciation

Nearly three-quarters of survey respondents report that their EM PE portfolios have met or exceeded their expectations, mirroring findings from recent editions of the survey. Likewise, the share of respondents reporting that their EM PE portfolios have performed worse than expected was largely in line with previous years at 27%. Perhaps surprisingly, a higher share (19%) of survey respondents with truly global mandates reported that their EM PE portfolios have performed better than expected compared to those institutions investing exclusively in emerging markets (3%). While returns have met expectations for many investors, it should also be noted that expectations have declined for most emerging and developed economies since 2015—with the exception of markets in Emerging Asia like China and India, as well as Southeast Asia (not displayed in the exhibit below).

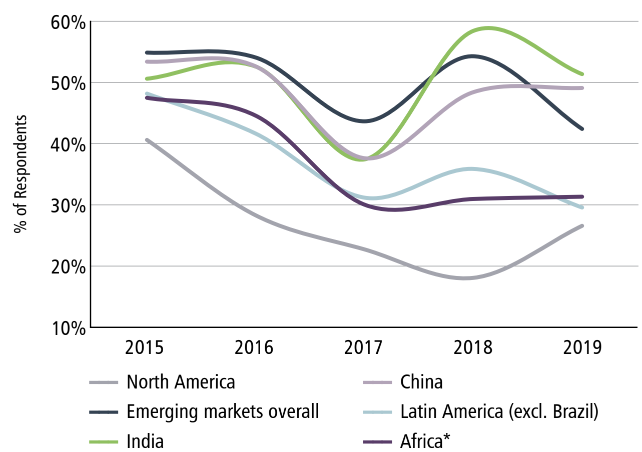
In cases in which their EM PE portfolios have *not* met their expectations, LPs were most likely to cite currency depreciation as a factor that played a large role in underperformance, with exit delays and poor performance of underlying businesses also among the most impactful factors. While political risk is continually cited as a deterrent to investing in many emerging markets (see Page 8), the results of this year's survey indicate that LPs have not perceived political changes to be a significant source of fund underperformance relative to other factors.

Exhibit 22: EM PE Portfolio Performance Relative to Expectations, 2015-2019*



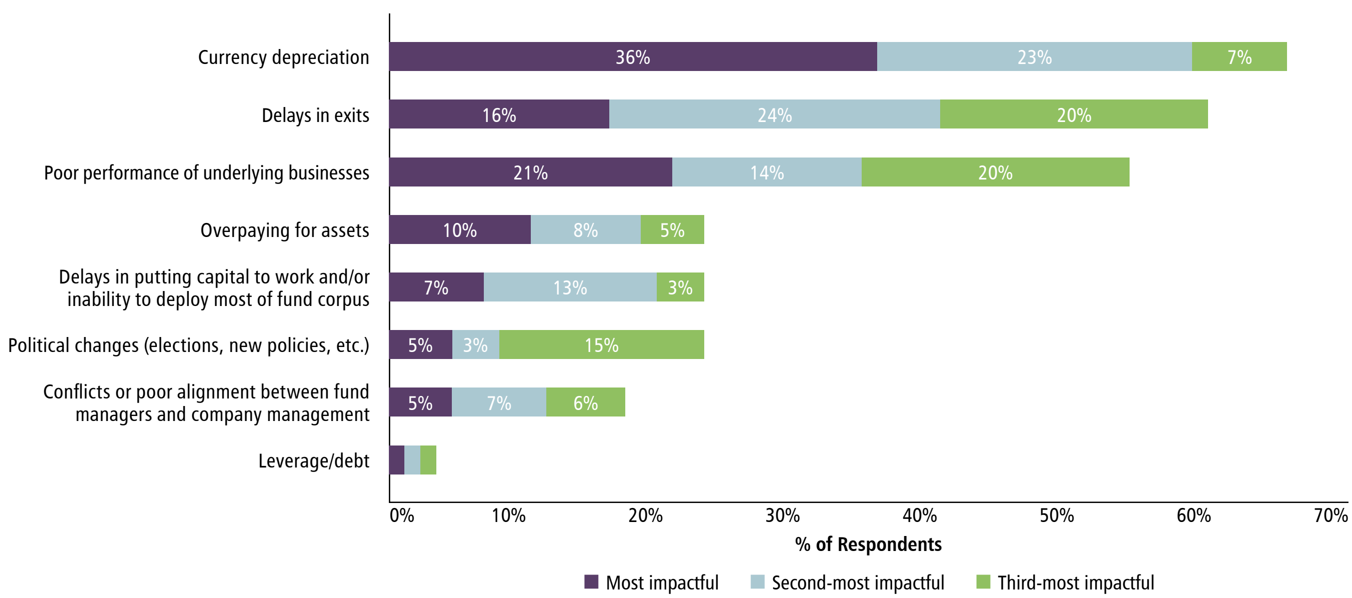
*Exludes LPs that felt it too soon to assess the performance of their portfolios.

Exhibit 23: Net Return Expectations of 16% or More for Select Markets, 2015-2019



*Africa was classified as 'Sub-Saharan Africa' from 2011 through 2018.

Exhibit 24: In Cases in Which Your EM PE Portfolio Performance Has Not Met Your Expectations, Which of the Following Factors Have Played the Biggest Role?



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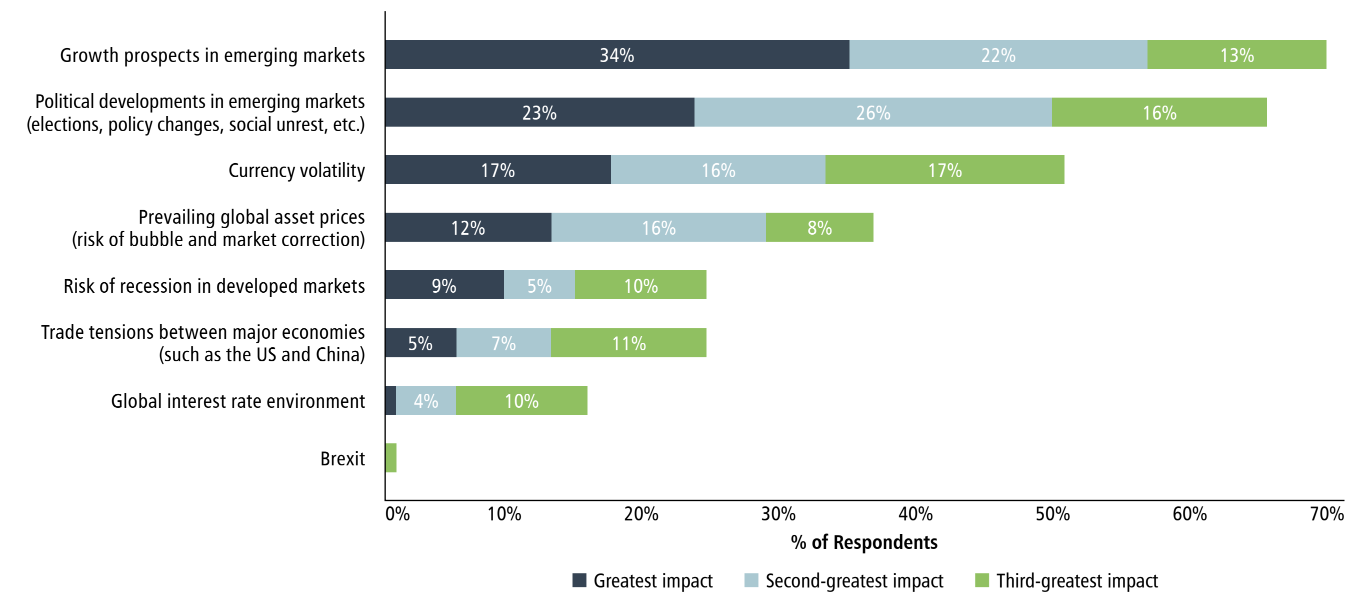
EM Growth Prospects and Political Developments to Have Greatest Impact on Investor Decision-Making

In order to get a better sense of the broader forces shaping investor thinking, EMPEA asked this year's survey respondents to rank the economic and political factors that would have the largest impact on the decisions they make in shaping their EM PE portfolios over the next two years. Respondents indicated that growth prospects and political developments *within* emerging markets will have the greatest effect on their decision-making. Below these top-ranking factors, 50% of survey respondents cited currency volatility among the factors that would most influence their choices with regard to EM PE. The order of this particular ranking stands in contrast to respondents' views on the factors that have contributed to underperformance in their EM PE portfolios. A much higher proportion of LPs indicated that currency volatility affected performance than political or policy changes (see Page 15).

Broader global financial conditions in the form of prevailing asset prices or interest rates, trade tensions, and the risk of recession in developed markets rank lower among all possible responses. Trade tensions among major economies, such as the US and China, may have knock-on effects on developed and emerging markets alike in the years to come, but as of yet they appear to have a limited impact on investor decision-making when it comes to private equity in emerging markets, specifically.

EMPEA also asked respondents to provide some indication of factors that *unduly* influence investor decision-making with regard to EM PE. Even though a majority of respondents give great weight to growth prospects, political developments, and currency volatility in emerging markets, open-ended responses reveal that some believe that these factors should be discounted in favor of other fundamentals—lack of competition, secular changes in consumption patterns, etc.—that drive investment opportunities.

Exhibit 25: Which of the Following Economic and Political Factors Will Have the Greatest Impact on Your Investment Decision-Making with Regard to EM PE over the Next Two Years?



> "Several EM countries suffer from heightened currency volatility during election years even though the political outcomes may not impose significant risks to macroeconomic management."
>
> *–DFI*

> "In emerging markets, we find the best niche or 'undiscovered' opportunities. There is much more competition for companies in developed markets."
>
> *–Family office*

> "I think investors are not loyal to EM-focused GPs because they are so focused on the macro."
>
> *–Pension fund*

> "Investments in privately held assets, especially those that serve domestic consumption, in emerging markets have been shown to be more resilient to global economic crises. A recession or other major headwind will hit within the next year or two. Emerging markets are the place to be."
>
> *–Fund of funds*

Respondent Profile and Survey Methodology

In February and March 2019, EMPEA surveyed 118 representatives from 104 different institutions to gather their views on private equity in emerging markets. The institutions included in the survey are based in 37 countries and collectively represent more than USD6.9 trillion in total assets under management. Development finance institutions, funds of funds, and pension funds constitute the majority of the sample included in this year's survey, with the balance consisting of family offices, endowments, foundations, banks, asset managers, insurers, government agencies, and sovereign wealth funds. In cases where multiple responses from the same institution were received, only one response has been included for questions pertaining to institutional policies, current allocations, and future investment plans. More than 98% of institutions surveyed are currently invested in at least one EM PE fund, and 82% have been investing in EM PE funds for more than five years. EM investments constitute 21% of the current overall PE portfolio of the average surveyed institution (excluding development finance institutions, EM-focused funds of funds, and others legally mandated to invest in emerging markets).

Exhibit 26: Respondents by Institution Type

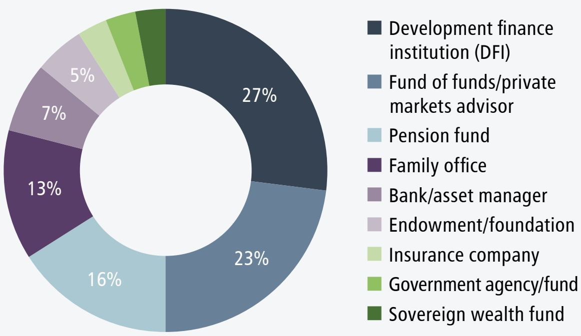


Exhibit 27: Respondents by Headquarter Region

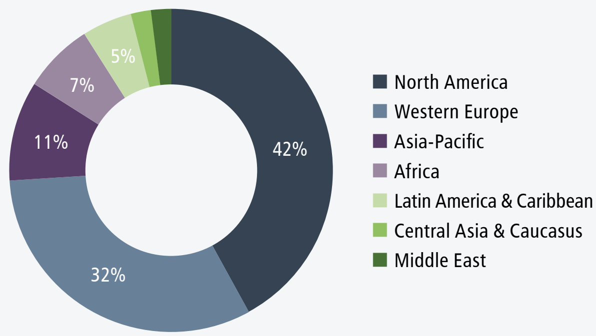
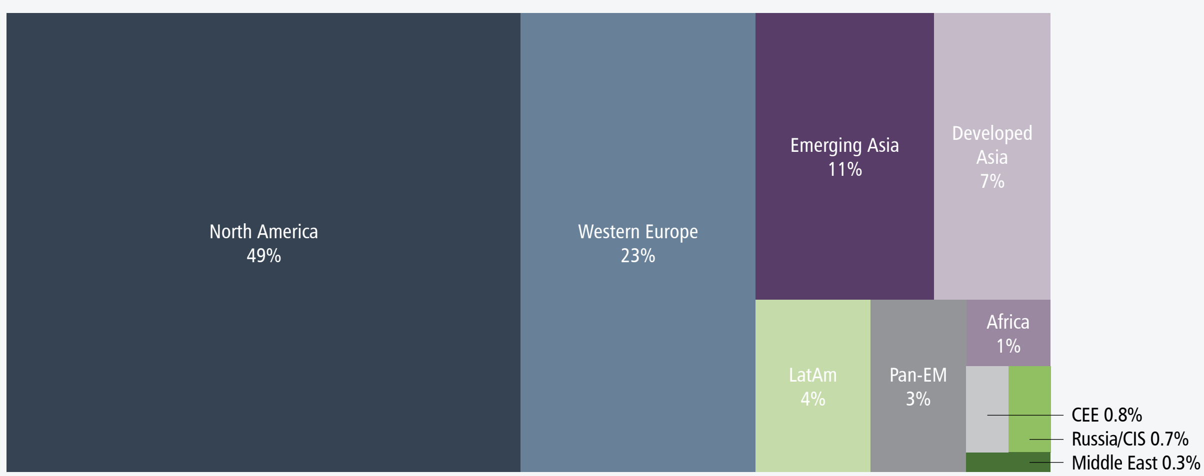


Exhibit 28: Disclosed Distribution of Current Committed Capital in Global PE Portfolio*



*Excludes investors with EM-only mandates.

Survey Definitions

Emerging markets ('EM') include all countries outside of the United States, Canada, Western Europe, Israel, Japan, Australia, and New Zealand.

Private equity ('PE') encompasses (leveraged) buyout, growth/expansion, venture capital, and mezzanine investment strategies.

Emerging market private equity ('EM PE') funds are PE funds that principally target investments in emerging markets.

Limited partners ('LPs') are investors in PE funds.

General partners ('GPs') are PE fund managers.

Development finance institutions ('DFIs') are independent, government-backed, or multilateral financial institutions that promote private sector development in emerging and frontier markets.

Note: In some exhibits, percentages may not sum due to rounding.

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