



empea

Emerging Markets Private Equity Association

Survey Of Limited Partner Interest In Emerging Markets Private Equity

April 2006

The EMPEA LP Survey was conducted with:



All contents © 2006 Emerging Markets Private Equity Association
www.empea.net

I. EXECUTIVE SUMMARY	3
II. INTRODUCTION	6
III. PROFILE OF RESPONDENTS	8
IV. INVESTMENT STRATEGIES IN EMERGING MARKETS	14
V. OPINIONS AND CONCERNS	23
VI. CHARACTERISTICS OF ACTIVE INVESTORS	27
VII. APPENDICES AND CHART DATA	31

I. EXECUTIVE SUMMARY

EMPEA's Second LP Survey: Emerging markets private equity is gaining traction

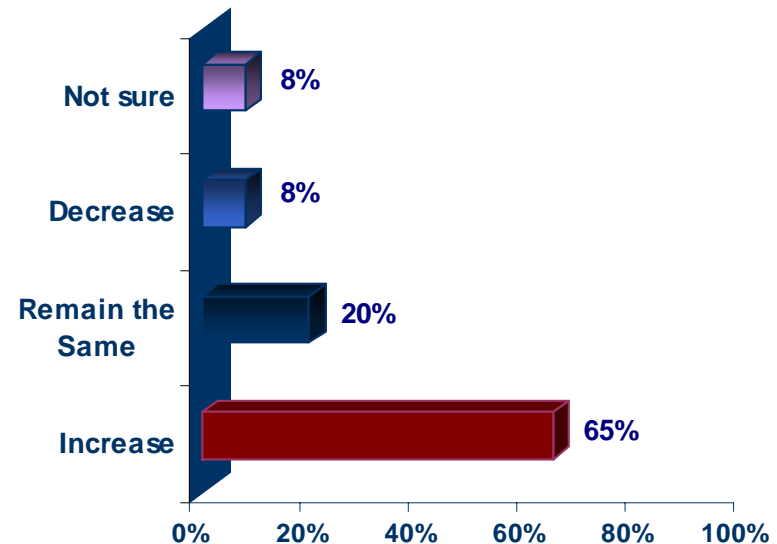
Key Findings:

- 65% of respondents expect to increase their commitments to emerging markets over the next five years, as a percent of total commitments (compared with 45% in EMPEA's 2004 survey).
- Those most likely to increase exposure are also currently the most active investors in emerging markets.
- While only 25% of respondents say returns from prior commitments had met or exceeded expectations, 74% say that past returns in these regions are not a good indicator of average future performance.

FUTURE EM COMMITMENTS

Chart 11, N: 76

“Do you expect your commitments to emerging markets funds to increase or decrease as a % of your portfolio over the next five years?”



Other Findings:

- **Asia*** is the region of greatest interest to respondents, followed by CEE/ Russia.
- Respondents prefer regional funds over single country funds and show only limited interest in funds of funds.
- Investors require a risk premium from emerging markets funds (ranging from 5.8% to 9%; averaging 7.1%) compared to their 2005-2006 US buyout commitments. Respondents who are already actively investing don't have a lower risk premium, implying they expect their EM funds will generate high returns.
- Greater interest in emerging markets funds is not correlated with lower return expectations from US funds.
- 83% of respondents agree or strongly agree that portfolio diversification is an important reason to consider emerging markets PE/VC.
- The investors most satisfied with prior commitments have had more active programs and exposure to more regions.
- The biggest constraints to further investment are concerns about accounting and corporate governance of managers and portfolio companies, followed by concerns that governments may not pursue sound economic policies.

* Asia ex Japan, Aus & NZ

II. INTRODUCTION

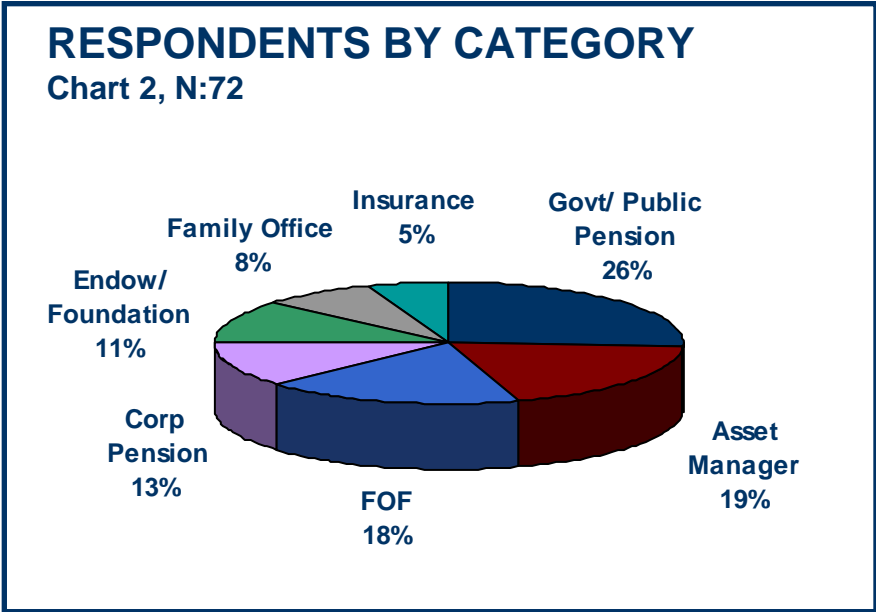
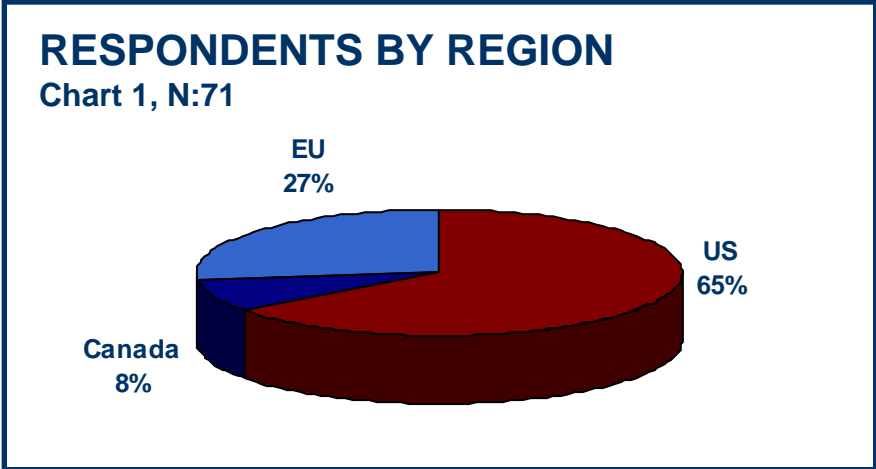
The Second LP Survey Of the Emerging Markets Private Equity Association

- **The Emerging Markets Private Equity Association (EMPEA) provides data and analysis to support the work of GPs and LPs who invest in emerging markets. Tracking the rapidly changing views of LPs is an important part of this mandate.**
- **EMPEA's First LP Survey, released in May 2004, provided the first indications of the significant upswing in interest in the asset class.**
- **EMPEA's Second LP Survey was conducted from November 2005 through February 2006. Surveys were sent to more than 300 institutional investors randomly selected from an LP directory.**
- **The Institutional Limited Partners Association (ILPA) and X-ILPA (an informal association of funds of funds and other asset managers) also distributed the survey to their members to reduce risk of selection bias.**
- **'Emerging Markets' refers to Asia except for Japan, Australia and New Zealand; Central & Eastern Europe/Russia; Latin America; Africa; and the Middle East.**

III. PROFILE OF RESPONDENTS

76 investors participated in the survey from a range of countries & categories

- Countries represented include the United States, Canada, United Kingdom, Germany, Holland, & Switzerland.
- LPs represent most major categories, with a fairly even distribution among investor types.
- The private equity program size for survey respondents ranges from US\$10bn to US\$100mm, with a median size of US\$1bn.
- LPs participating in the survey have combined assets under management of more than US\$2 trillion and combined private equity assets of approximately US\$150bn.



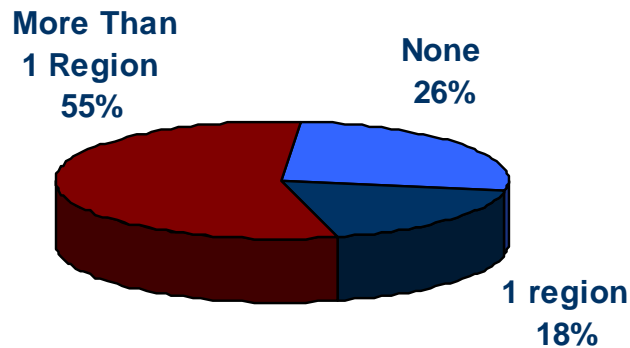
PREVIOUS LEVELS OF EXPOSURE

**Most respondents had some previous exposure to emerging markets funds;
11% had invested regularly in the past**

PREVIOUS EXPOSURE TO REGIONS

Chart 3, N: 76

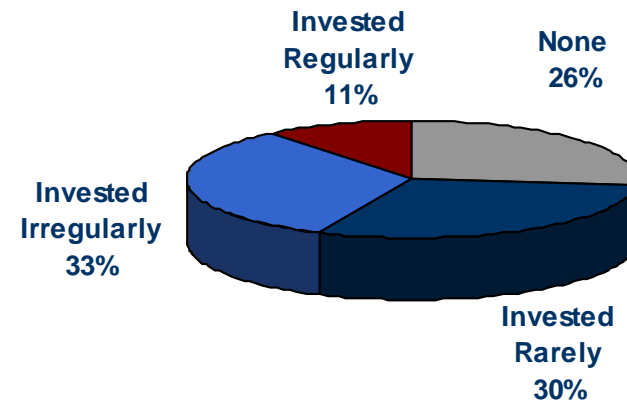
Previous exposure to funds in various emerging markets regions



PREVIOUS LEVEL OF ACTIVITY

Chart 4, N: 76

“Please describe your institution’s level of activity in emerging markets funds from the year of first investment through 2005.”



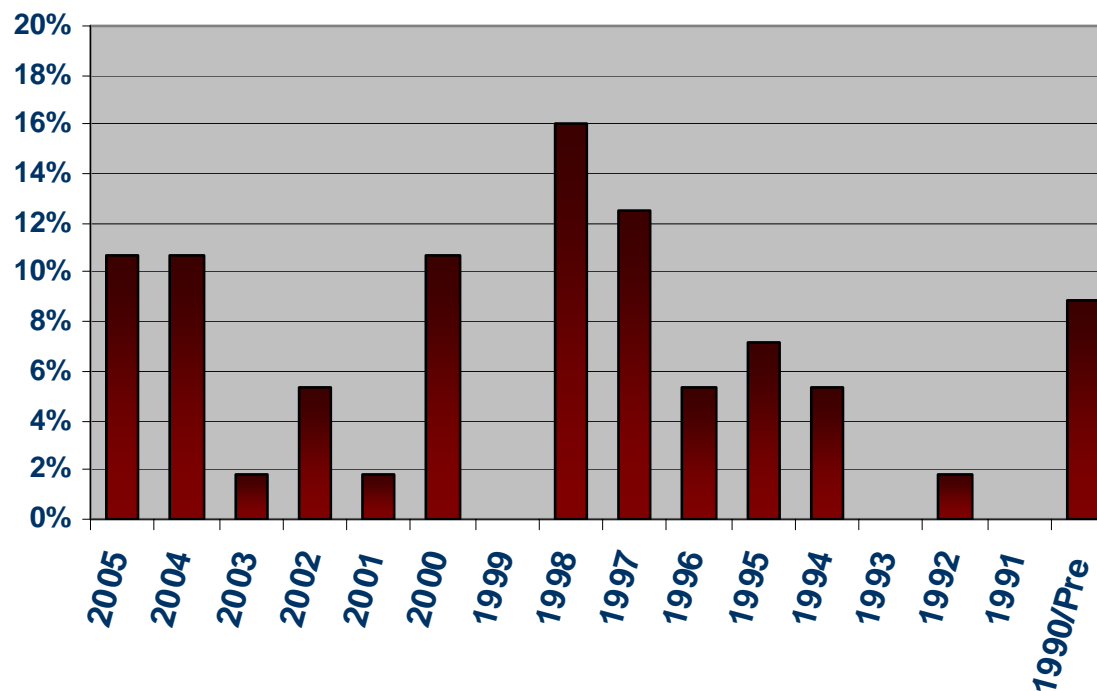
YEAR OF FIRST COMMITMENT

Respondents vary significantly in length of experience with emerging markets funds; median year of first commitment is 1998

YEAR OF FIRST EM PE FUND COMMITMENT

Chart 5, N: 56

“What was the year (approximately) of your institution’s first commitment to an emerging markets private equity fund?”

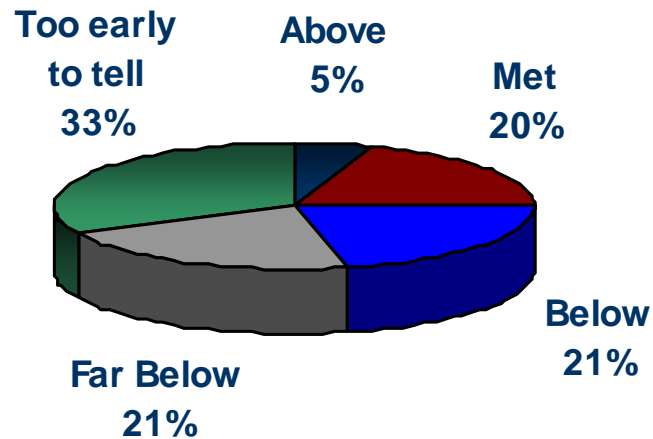


Respondents have not been particularly satisfied with past returns

RETURNS FROM PAST INVESTMENTS

Chart 6, N: 56

“In aggregate, have the returns of your EMPE investments met your expectations?”

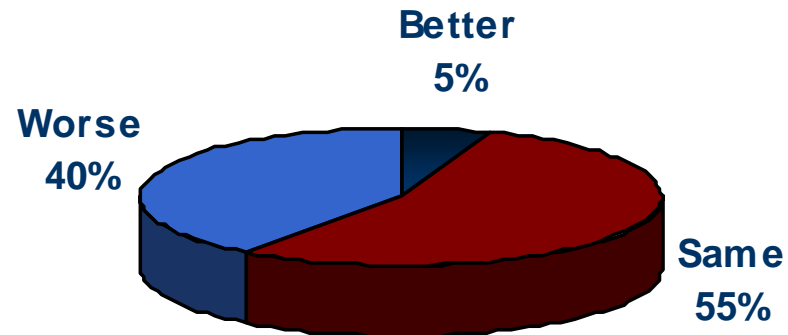


Most respondents have a neutral or negative assessment of the “integrity” (transparency, governance, communication) of their EM fund managers

INTEGRITY OF EM FUND MANAGERS

Chart 7, N: 55

“In aggregate, how has the integrity of your EM fund managers (e.g. transparency, governance, communications) compared with the rest of your portfolio?”



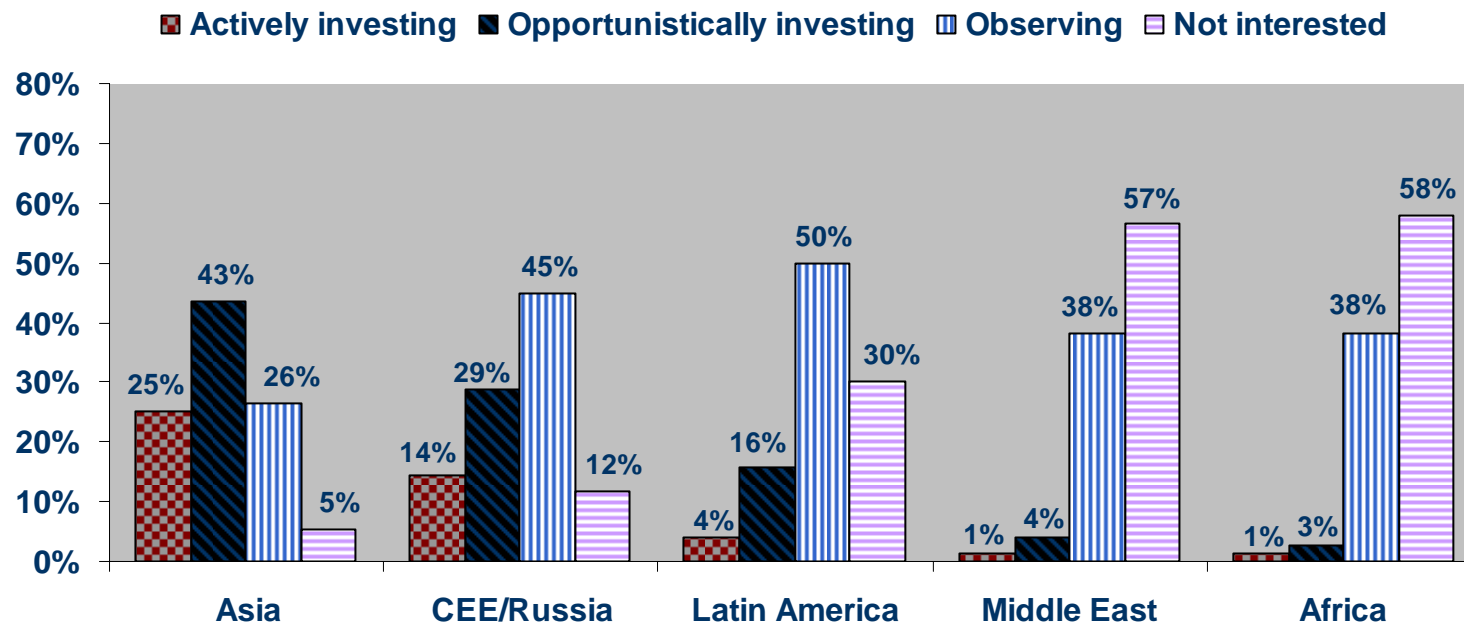
IV. INVESTMENT STRATEGIES IN EMERGING MARKETS

Respondents have the greatest interest in Asia, followed by CEE/ Russia

CURRENT INVESTMENT STRATEGY

Chart 8, N: 76

“How would you describe your current strategy regarding private equity and venture capital in the following emerging markets?”



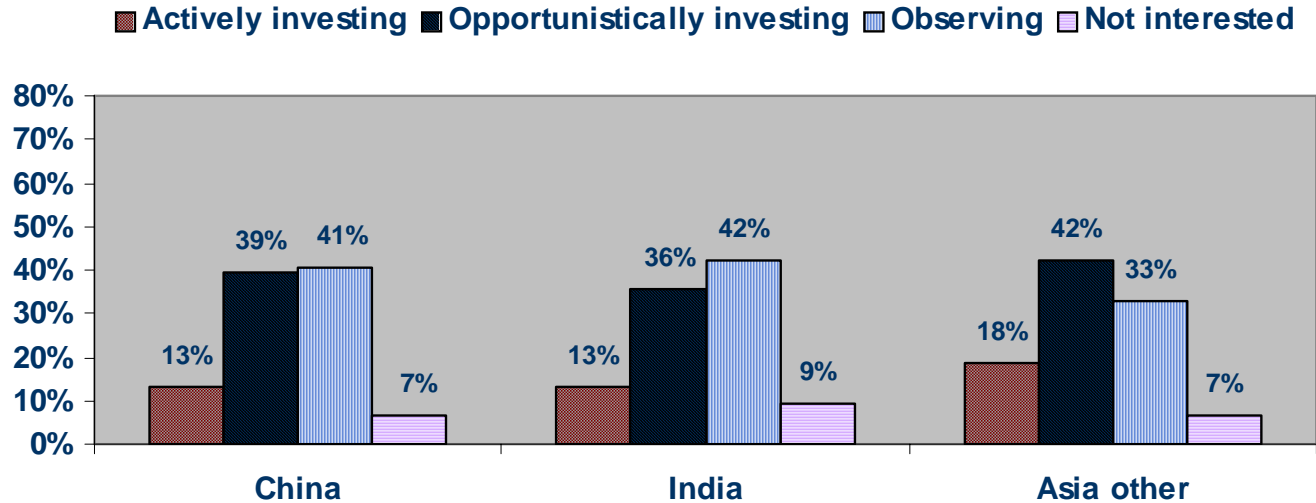
* Asia ex Japan, Aus & NZ

**For Asia*, respondents show a slight preference for China over India;
“Asia Other” slightly edges out both India and China**

CURRENT ASIA* STRATEGY

Chart 9, N: 76

“How would you describe your current strategy regarding private equity and venture capital in Asia*?”



* Asia ex Japan, Aus & NZ

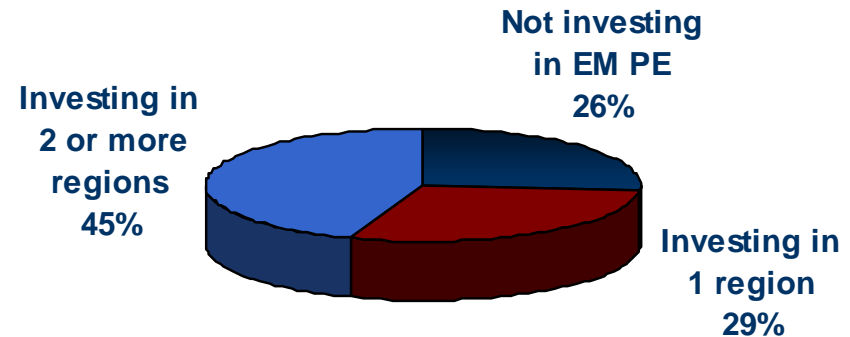
Many respondents are taking a multi-regional approach to emerging markets private equity

- 45% of respondents say their current strategy is to invest, actively or opportunistically, in two or more regions.
- 11% of respondents are currently investing actively in two or more regions.
- Of the 26% that are not investing in emerging markets, 67% say they are observing two or more regions.

CURRENT INVESTMENT STRATEGY, AGGREGATED

Chart 10, N: 76

Current strategy across emerging markets regions

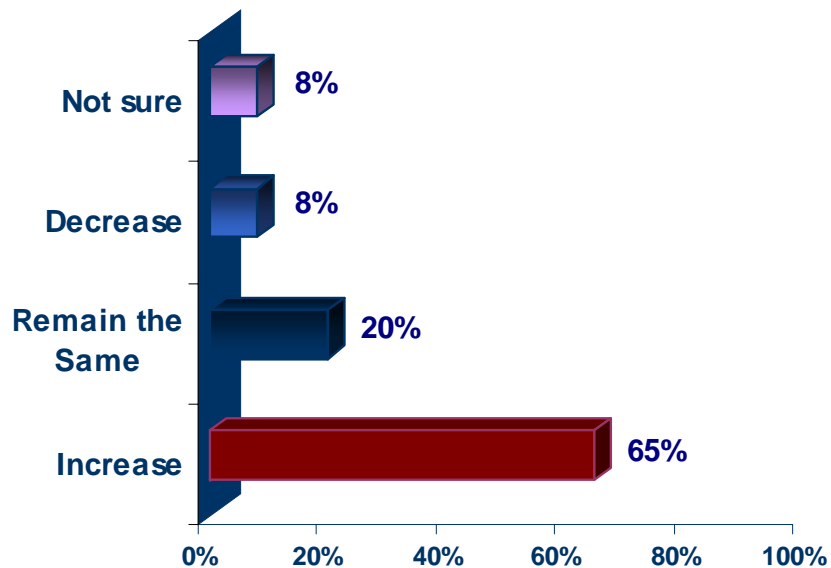


65% plan to increase their exposure to emerging markets
Investors already active in EM are the ones most likely to increase exposure

EXPECTATION OF FUTURE COMMITMENTS

Chart 11, N: 76

“Do you expect your commitments to EM funds to increase or decrease as a % of your portfolio over the next five years?”



65% of all respondents plan to increase their exposure, while 20% are holding steady.

Additional analysis:

- 76% of investors active in 2 or more regions plan to increase their commitments to emerging markets.
- 20% of those who plan to increase commitments are “new entrants” not currently investing in emerging markets.
- Those who plan to decrease commitments began investing in EM funds earlier than the average (median year of 1995 versus 1998).

**Regional funds are preferred over single country funds;
interest in funds of funds and sector-specific funds is low**

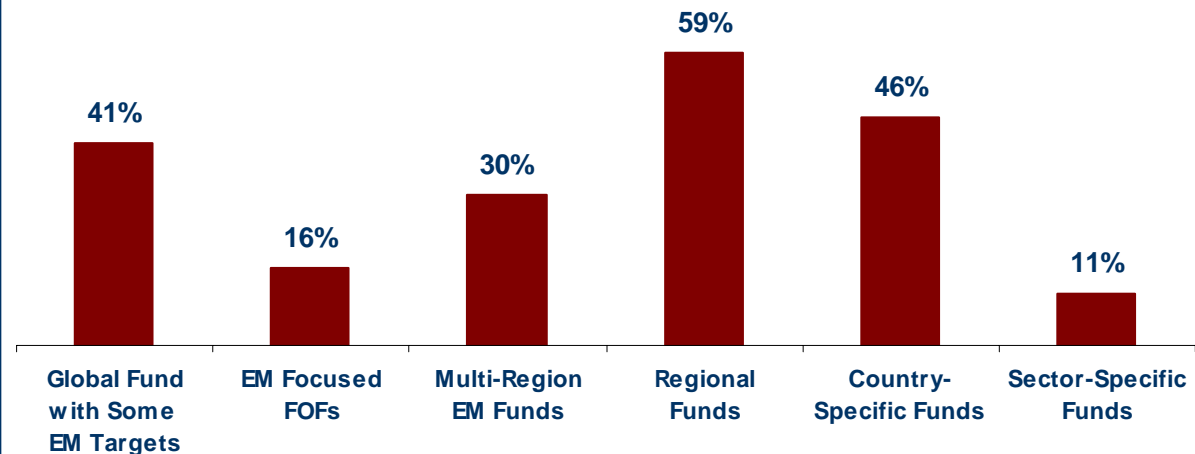
Additional analysis:

- **82% of respondents who are planning to invest expect to do so through multiple fund types.**

FUND TYPE PREFERENCES

Chart 12, N: 76

“Through which types of funds do you expect to invest in emerging markets in the future?” (Select all that apply)



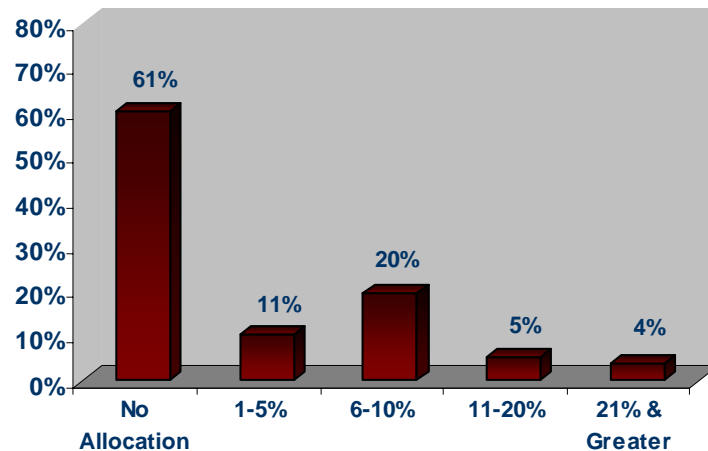
40% of respondents have an allocation that applies to emerging markets
Common allocations are to *Asia, Emerging Markets & Rest of World*

32% of respondents with no allocation are also investing in emerging markets funds.

LEVELS OF ALLOCATIONS TO EMERGING MARKETS PE

Chart 13, N: 76

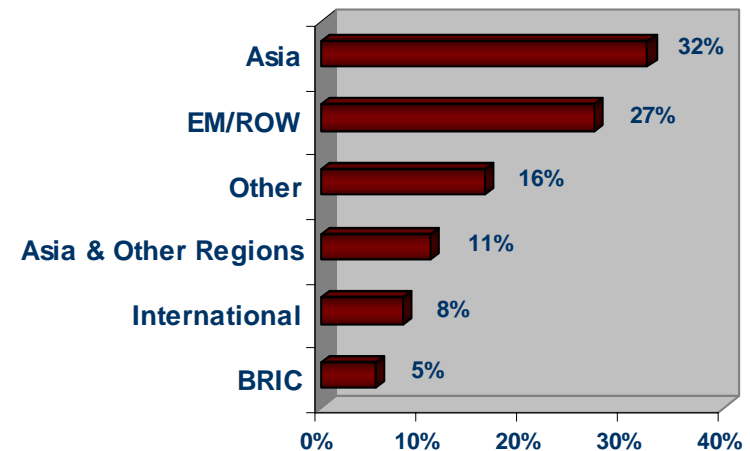
“Please describe what allocation, if any, you have that would apply to emerging markets private equity or venture capital?”



ALLOCATION DESCRIPTION

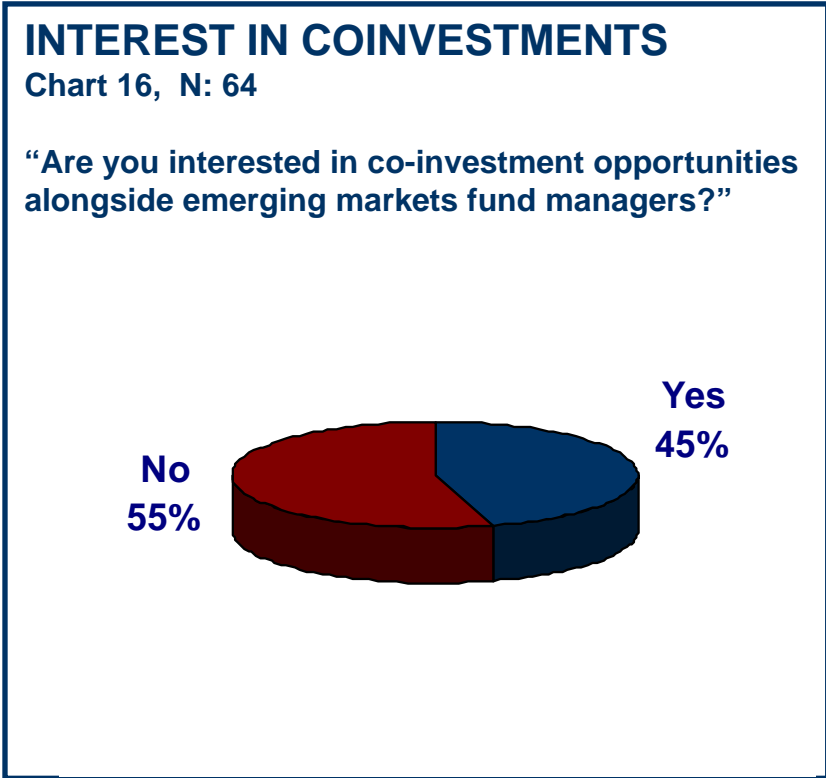
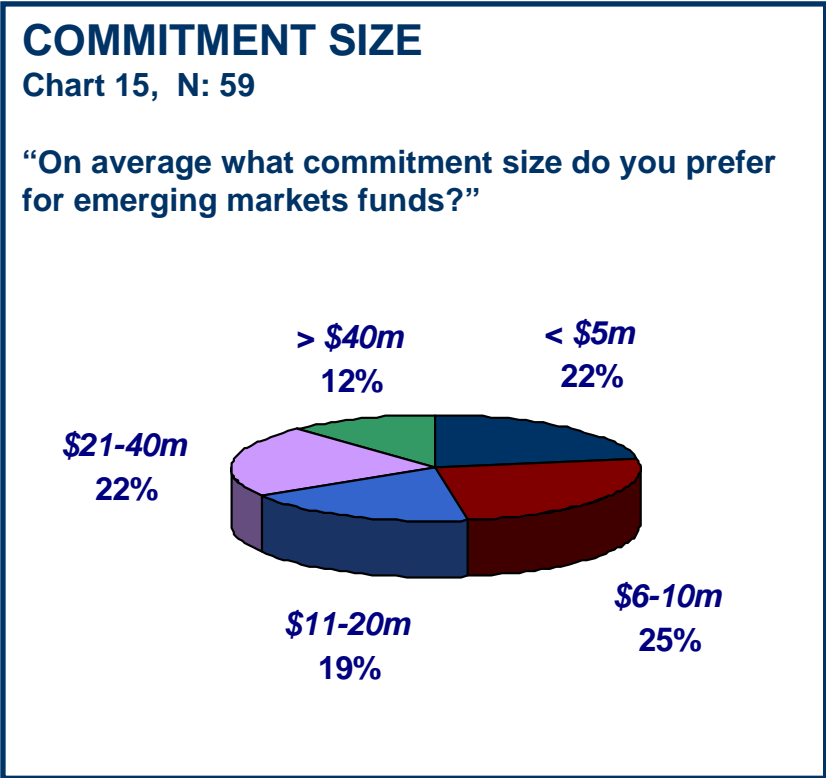
Chart 14, N: 41

“Please describe what allocation, if any, you have that would apply to emerging markets private equity or venture capital?”



COMMITMENT SIZE AND COINVESTMENT

66% of respondents prefer commitment sizes under \$20m
Nearly half are interested in co-investing with GPs



Respondents expect a premium for taking on emerging markets risk; ranging from 5.8% to 9% and averaging 7.1% across regions

Note: Many respondents checked “10% or more” for required premium, which was interpreted mathematically as 10%. As a result, this chart probably understates perceived differences between regions, and between emerging markets and the US. The number of survey respondents (N) for each region and number checking “10% or more” are noted below.

Region	“N”	# saying “10% or more”
Asia	56	11
CEE/ Russia	49	14
Latin Am	39	19
Middle East	28	21
Africa	28	21
Multi - regional	42	8

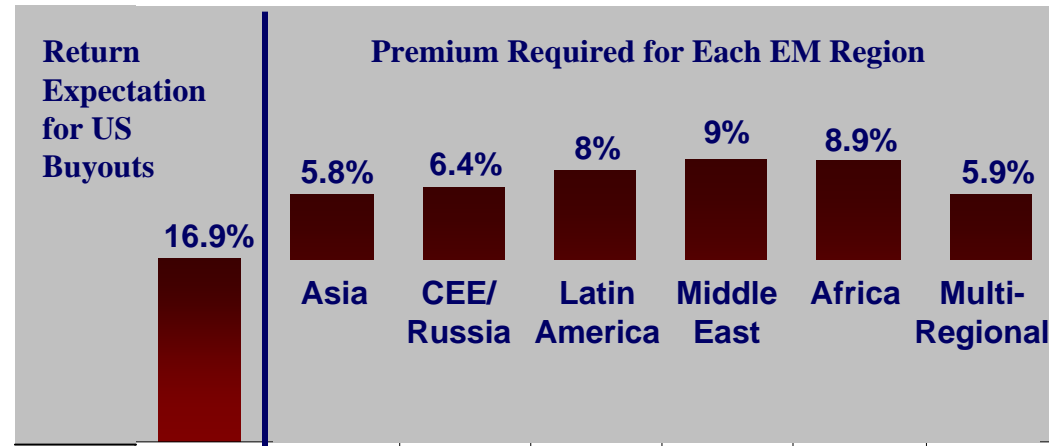
COMPARISON OF REQUIRED PREMIUM, BY REGION

Chart 17

“What returns do you expect from your 2005-2006 US buyout commitments (in IRR, net of fees and carried)?”



“What premium would you require over US buyout returns to invest in a fund in the following regions?”



* Asia ex Japan, Aus & NZ

See Appendix A for detail on Return Expectations for US Buyouts

See Appendix B for detail on required returns by region

V. OPINIONS AND CONCERNS

WHAT FACTORS WOULD INCREASE ACTIVITY?

The main constraints to further investing appear to be concerns over governance at the national, fund and portfolio company levels

Question: "How would these factors affect your interest in emerging markets PE?"

Rank	Factor	Significantly Increases	Moderately Increases	No Increase
#1	Greater reason for confidence in the accounting & corporate governance of EM fund managers and portfolio companies.	54%	38%	8%
#2	Greater certainty that governments will implement sound economic policies.	50%	45%	5%
#3	Greater liquidity and a more reliable 'IPO Window' in local stock markets.	38%	54%	8%
#4	Commitment by emerging markets fund managers to accepted reporting and valuation standards.	34%	48%	18%
#5	A significant improvement in returns over older vintage EM funds.	32%	58%	10%
#6	Greater investment by local institutions (pensions, etc.) in EM funds.	9%	51%	40%

Chart 18 N:76 *Rank determined by Percent Indicating Significantly Increases*

WHAT FACTORS WOULD INCREASE ACTIVITY?

Sample comments from respondents on what factors would affect their interest in investing in emerging markets private equity and venture capital:

“Continued maturity of private equity markets from a legal, governance, stability and transparency view, stable management teams with longer term track records.”

“Absolute size of the PE markets.”

“More managers with proven and repeatable track records.”

“More case studies of PE in emerging markets; more transparent track records and access to funds of funds.”

“Greater transparency into portfolio holdings.”

“Better terms than US funds.”

“GP continuity. There is a rash of team jumping by MDs and junior members.”

“Increasing local consumption and greater M&A activity.”

“More reliable legal system to protect investors!”

“Increased institutional quality deal flow, presence of 'locally-based' private equity fund management teams.”

It appears that portfolio diversification and a belief that emerging markets have changed dramatically are driving institutional investors

Question: "Please indicate your level of agreement with the following statements:"

Opinion	Agree Strongly	Agree	Disagree	Strongly Disagree	Don't Know
One important reason to consider emerging markets PE/VC is portfolio diversification.	25%	58%	11%	5%	1%
Emerging markets are growing & changing quickly, so past returns are not a good indicator of average future performance.	5%	74%	17%	0%	4%
On average, the skill set of emerging markets private equity managers has improved.	9%	59%	2%	0%	30%
Positive economic news from emerging markets should be discounted because the risk of downturn is always high.	4%	50%	41%	0%	5%
Returns from emerging markets PE funds are increasing.	5%	46%	9%	1%	38%
We don't have the staff/resources to understand these regions well enough to invest in them.	8%	26%	46%	17%	3%

Chart 19 N:76

VI. CHARACTERISTICS OF ACTIVE INVESTORS

EMPEA created an Emerging Markets LP Interest Index in order to better analyze the characteristics of more and less active investors

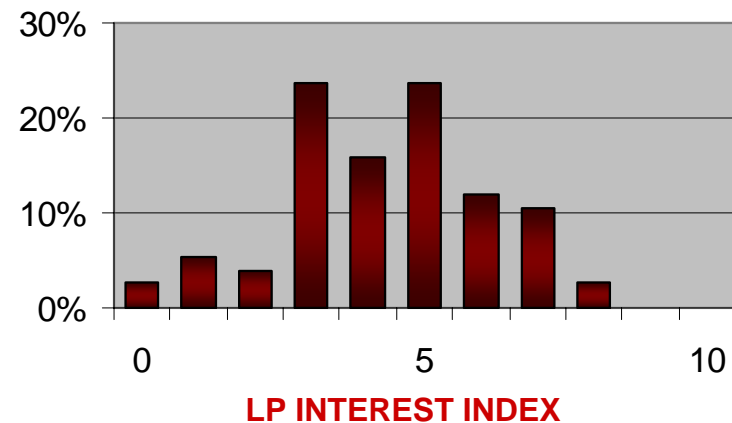
EMERGING MARKETS LP INTEREST INDEX

- The LP Interest Index is based on respondents' answers to questions about current strategy in China, India, Asia*, CEE/ Russia, Latin America, Africa & the Middle East along with their expectation regarding commitments in the next 5 years.
- Each respondent's answers were totaled, creating a range of value that could be used to test correlation & compare categories.
- The average score on this index for all respondents was 4.3.

* Asia ex Japan, Aus & NZ

Distribution of Respondents by Level of Interest in Emerging Markets

Chart 21, N: 76



0 Rating = No interest in any EM region & No plans to increase

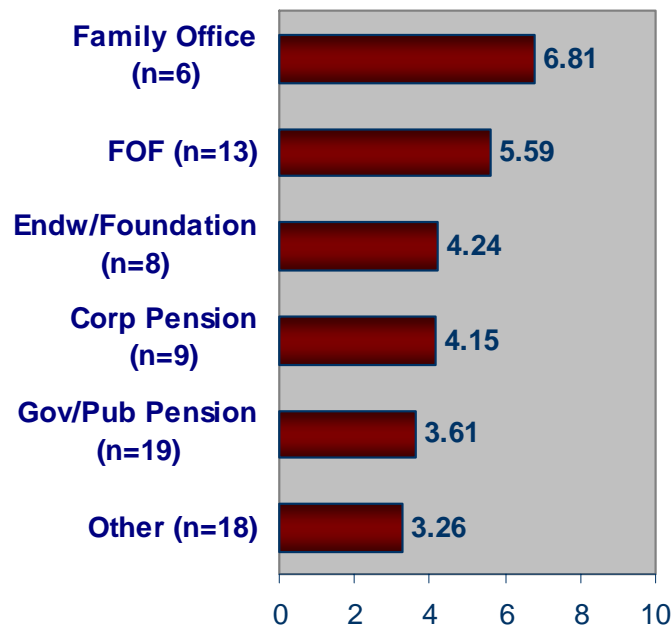
5 Rating = Actively investing in at least 1 EM region, opportunistically investing elsewhere, & Plan to increase

10 Rating = Actively investing in all EM regions & Plan to increase

**Family Offices and Funds of Funds are the most interested investors;
on average, EU respondents are moderately more active than US**

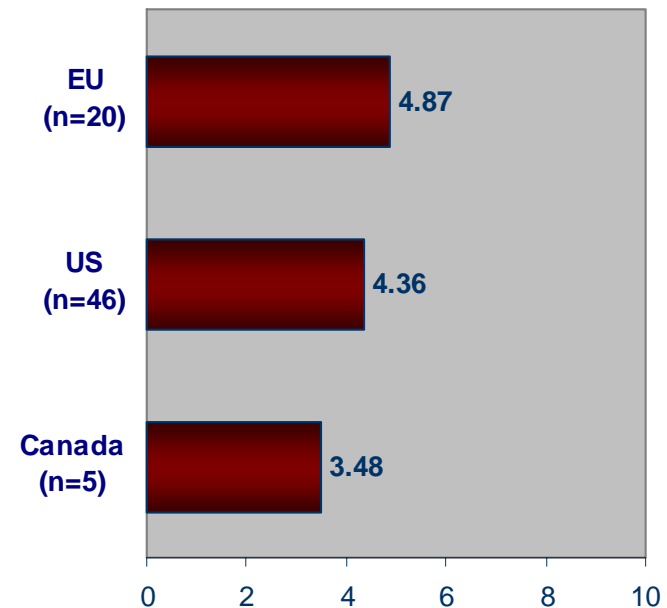
Avg LP Interest Index Score By Category

Chart 22, N:73



Avg LP Interest Index Score By Region

Chart 23, N:71



FACTORS CORRELATED WITH INTEREST

The LP Interest Index is correlated with prior exposure, satisfaction with returns, and views on diversification; little or no correlation with other factors

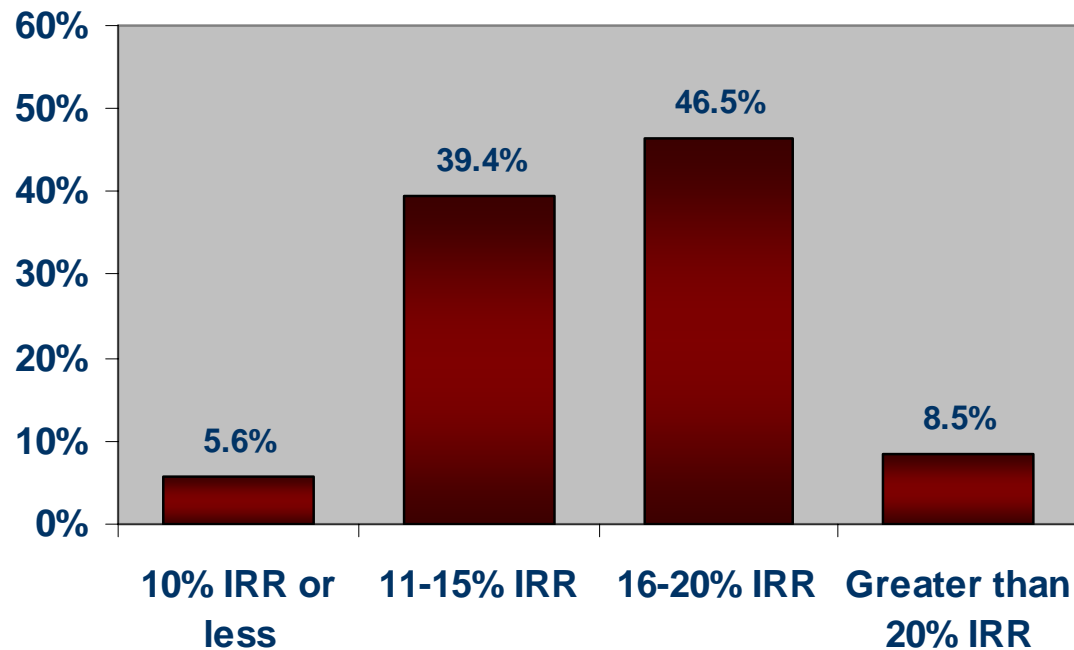
Correlation between EMPE LP Interest Index and....	Correlation Coefficient	Possible Explanation
Past Exposure to EMPE	.52	<i>Institutions that have invested keep investing; getting started is a hurdle.</i>
Satisfaction with returns on previous EMPE commitments	.43	<i>Past returns matter, but do not dominate.</i>
Opinion on importance of portfolio diversification	.41	<i>Investors are partly interested because they believe EMPE provides diversification; alternatively, those who invest the most experience the most diversification.</i>
Year of first investment	.26	<i>Those who invested during the mid '90s are least likely to be interested now.</i>
Satisfaction with the integrity of fund managers from previous commitments	.19	<i>Significantly less correlation than there is with satisfaction with returns.</i>
Size of respondent's PE program	(.12)	<i>Smaller LPs are slightly more active.</i>
Average required premium from EM funds	.043	<i>Suggests that LPs who invest do not do so because of lower perception of risk.</i>
Opinion on likelihood of downturn in EM	.029	<i>Differences in macro views don't seem to be a driver of interest level.</i>
Expected returns on 2005-2006 US buyout commitments	.028	<i>Interest in emerging markets is not correlated with lower return expectations in the US.</i>

VII. APPENDICES AND CHART DATA

US RETURN EXPECTATIONS

Chart 17A , N: 76

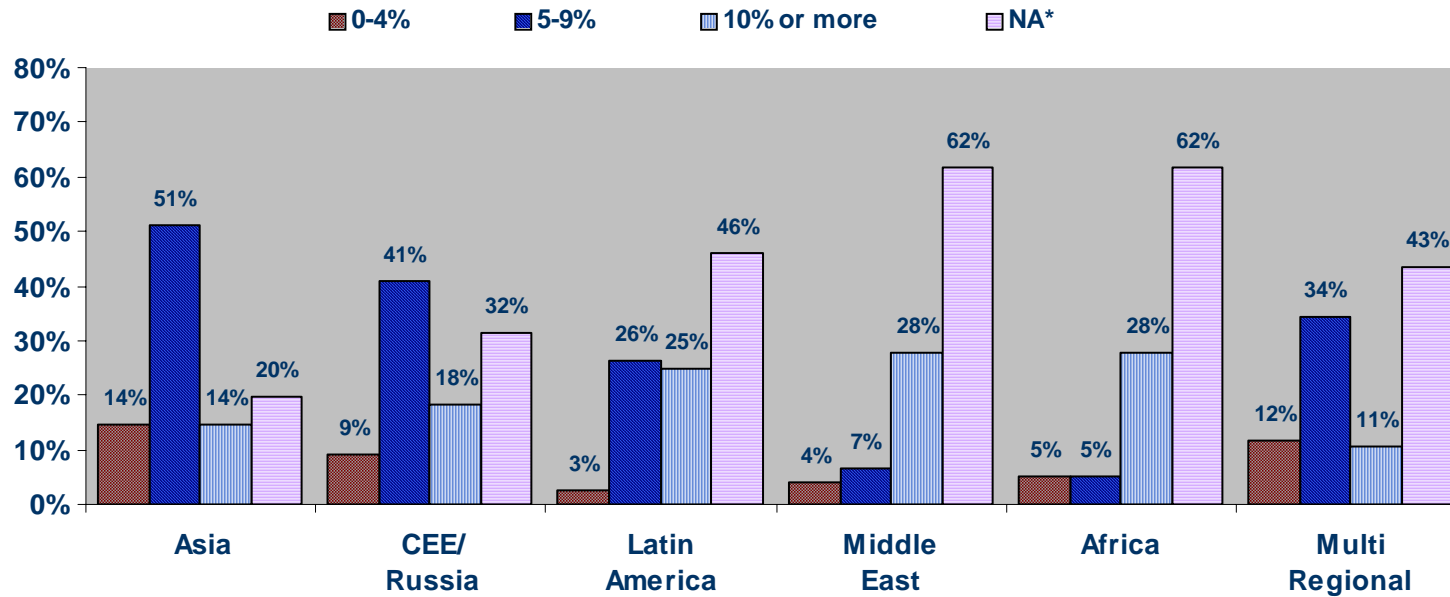
“What returns do you expect from your 2005-2006 US buyout commitments (in IRR net of fees and carried)?”



REQUIRED PREMIUM

Chart 17B , N: 76

“What premium would you require from a fund in the following regions, relative to US buyouts?”



*Asia ex Jap, Aus & NZ

LPs are very positive about EMPEA programs

EMPEA Programs

Chart 20, N:76

“What EMPEA programs and publications would be valuable to you? Please check any of the programs below that would be of significant value for your institution.”

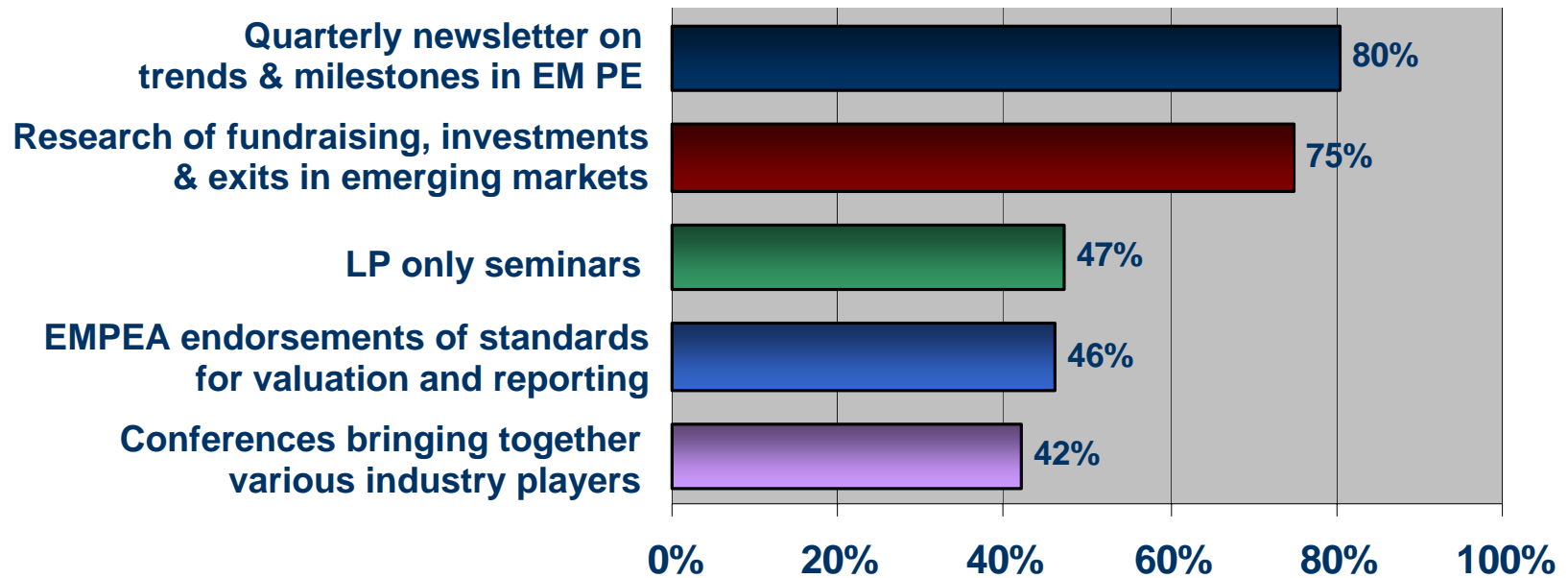


Chart 1 Respondents by Country

N:71

	% of Respondents
US	64.8%
Canada	8.5%
EU	26.8%

Chart 2 Respondents by Category

N:72

Govt/ Public Pension	26.0%
Asset Manager	19.2%
FOF	17.8%
Corporate Pension	12.3%
Endowment/ Foundation	11.0%
Family Office	8.2%
Insurance	5.5%

Chart 3 - Previous Exposure to Regions

N:76

	% of Respondents
None	26.3%
Invested in 1 EM region	18.4%
Invested in 2 or more regions	55.0%

Chart 4 - Previous Exposure By Level of Activity

N:76

	% of Respondents
No prior EM invst	26.3%
Invested rarely in EM	30.3%
Invested intermittently	35.5%
Invested regularly	10.5%

CHART DATA

Chart 5 - Year of First EM Commitment

N:56

Year	% of Respondents	
2005	10.7%	1997 12.5%
2004	10.7%	1996 5.4%
2003	1.8%	1995 7.1%
2002	5.4%	1994 5.4%
2001	1.8%	1993 0.0%
2000	10.7%	1992 1.8%
1999	0.0%	1991 0.0%
1998	16.1%	1990/Pre 8.9%

Chart 6 – Returns from Part Investments

N:56

	% of Respondents
Above	5.4%
Met	19.6%
Below	21.4%
Far Below	21.4%
Too early to tell	32.1%

Chart 7 - Integrity of EM Fund Managers

N:55

	% of Respondents
Better	5.5%
Same	54.5%
Worse	40.0%

Chart 8 - Current Investment Strategy by Region

N:76

	Asia	CEE/Russia	Lat Am	Middle East	Africa
Actively investing	25.0%	14.5%	3.9%	1.3%	1.3%
Opportunist. investing	43.4%	28.9%	15.8%	3.9%	2.6%
Observing	26.3%	44.7%	50.0%	38.2%	38.2%
Not interested	5.3%	11.8%	30.3%	56.6%	57.9%

* Asia ex Japan, Aus & NZ

Chart 9 - Current Asia Strategy

N:76

	Asia other	India	China
Actively investing	18.4%	13.2%	13.2%
Opportunistically invst'g	42.1%	35.5%	39.5%
Observing	32.9%	42.1%	40.8%
Not interested	6.6%	9.2%	6.6%

Chart 10 - Number of Regions of Interest

N:76

	% of Respondents
Not investing in EMPE	26.3%
Investing in 1 region	28.9%
Investing in 2 or more regions	44.7%

CHART DATA

Chart 11 – Expectation of Future EM Commitments
N:76

	% of Respondents
Increase	64.5%
Remain the Same	19.7%
Decrease	7.9%
Not sure	7.9%

Chart 12 - Fund Type Preferences
N:76

	% of Respondents
Global fund with some EM targets	40.8%
EM focused FOFs	15.8%
Multi-region EM funds	30.3%
Regional funds	59.2%
Country-specific funds	46.1%
Sector-specific funds	10.5%

Chart 13 - Allocation Percent
N:76

	% of Respondents
No Allocation	60.5%
1-5%	10.5%
6-10%	19.7%
11-20%	5.3%
21% & Greater	3.9%

Chart 14 – Allocation Description
N:37

	% of Respondents
BRIC	5.4%
International	8.1%
Asia* & Other Regions	10.8%
Other	16.2%
EM/ROW	27.0%
Asia*	32.4%

* Asia ex Japan, Aus & NZ

Chart 15 - Commitment Size
N:59

	% of Respondents
< \$5m	22.0%
\$6-10m	25.4%
\$11-20m	18.6%
\$21-40m	22.0%
> \$40m	11.9%

Chart 16 - Interest in Co-Investments
N:64

	% of Respondents
Yes	45.3%
No	54.7%

Chart 17 – Comparison of Required Premium, by Region
N: Varied

	Asia	CEE/ Russia	Lat Am	Middle East	Africa	Multi region
0-4%	14.5%	9.2%	2.6%	3.9%	5.3%	11.8%
5-9%	51.3%	40.8%	26.3%	6.6%	5.3%	34.2%
10% or more	14.5%	18.4%	25.0%	27.6%	27.6%	10.5%
NA*	19.7%	31.6%	46.1%	61.8%	61.8%	43.4%

* Asia ex Japan, Aus & NZ

**APPENDIX C, Chart 20 - What EMPEA programs and publications would be valuable to you?
Check any of the programs below that would be of significant value for your institution.**

Conferences bringing together various industry players	42%	N=32
EMPEA endorsements of standards for valuation and reporting	46%	N=35
LP only seminars	47%	N=36
Research of fundraising, investments and exits in emerging markets	75%	N=57
Quarterly newsletter on trends and milestones in emerging markets private equity	80%	N=61