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Emerging Markets Private Capital Fundraising and Investment Decline in 2015;
Bright Spots in Infrastructure and Real Assets, Credit and Venture Capital

Washington, DC, 17 February 2016 – EMPEA's just-released emerging markets ("EM") private capital **Year-End 2015 Industry Statistics** reveal that private capital fund managers—inclusive of private equity, private infrastructure and real assets and private credit—raised US$44 billion for emerging markets in 2015, a 17% decline from 2014. Private capital investment also decreased, as fund managers deployed US$29 billion in EM companies, down from 2014's annual total of US$38 billion. Outside of emerging markets, fundraising increased in Western Europe, year-on-year, and declined in Developed Asia and the United States, while capital invested ticked upward across these three developed market regions.[1] Overall, the EM share of global fundraising declined from 14% in 2014 to 12% in 2015, while the EM share of global investment declined from 9% to 7% over the same period.

Reduced EM private capital fundraising and investment totals for 2015 were nevertheless in line with annual totals for 2012 and 2013, suggesting that private fund managers remained resilient in the face of what, for many emerging markets investors, was a difficult year. The impact of current macroeconomic challenges proved to be highly differentiated from one market to another. Yet there were a few common themes that investors faced to varying degrees across emerging markets, including currency volatility, capital outflows and declines in commodity prices. Furthermore, slowing economic growth in China reverberated in one way or another across many markets. Indeed, declines in fundraising and investment in China in part contributed to lower 2015 EM private capital totals overall, since the market typically accounts for a large share of EM activity (around 20% of annual EM fundraising and 40% of annual EM investment totals).

What these aggregate totals mask, however, is an increased diversification across fund strategies for EM-focused general partners ("GPs"). In 2015, growth capital and buyout strategies combined for less than 60% of total annual capital raised for emerging markets, in contrast to their share of more than 70% in each year since 2010. Gains from venture capital ("VC") strategies in recent years are one of the drivers behind this trend—GPs raised US$7.3 billion for EM-focused VC funds in 2015, the second highest annual total in the last ten years. Private credit along with private infrastructure and real assets funds also gained traction, further driving diversification. Fundraising for private credit and private infrastructure and real assets strategies—reported

[1] Sources: PitchBook (U.S. and Western Europe), Asia Private Equity Review (Developed Asia).

publicly in EMPEA's Industry Statistics since November 2015—increased year-on-year, collectively accounting for a larger share of capital raised than in any year since 2009.

David Creighton, Vice-Chairman of Cordiant and Chairman of EMPEA's **Private Credit Council**, stated, "Private credit fundraising was a bright spot in 2015, representing a larger share of capital raised in any year since 2009. Increased investor interest —encouraged, in part, by the efforts of EMPEA's Private Credit Council —is an endorsement of the asset class's attractive risk-return profile and the array of unique opportunities available."

While fundraising and investment declined in dollar terms in 2015, more companies than ever across emerging markets received backing from private funds. Fund managers invested in 1,475 companies in 2015, representing an 8% increase year-on-year and the highest annual total since EMPEA began reporting investment statistics in 2008. This increase in number is, at least partially, due to the rise of early-stage venture capital in select markets, most notably China and India. Approximately 50% of companies funded by GPs in 2015 received seed or early-stage VC financing.

Managers Seize Opportunities in Consumer Services and Health Care, Less Active in Oil and Gas

Fund managers navigated a shifting macroeconomic environment in 2015 not only by looking to diverse fund strategies, but also by investing in companies suited to withstanding headwinds and positioned to capitalize on longer-term market fundamentals. Specifically, fund managers deployed ever more capital in sectors that tap into attractive demographic trends present in many emerging markets, such as consumer services and defensive sectors, such as health care. Among all sectors, consumer services attracted the most capital in 2015, with US$9.8 billion deployed. Health care also had a breakout year as fund managers invested US$2.2 billion in the sector. Total capital invested in both consumer services and health care in 2015 was the highest since EMPEA began publishing investment statistics in 2008.

Coinciding with declining oil prices, private capital investments in oil and gas experienced the largest year-on-year decreases of any sector in both capital invested and number of deals. Only 12 oil and gas investments were recorded across emerging markets in 2015, the fewest since EMPEA began investment reporting in 2008, and far behind the 28 deals completed in 2014, the second lowest annual total. A difficult year for companies in the sector, however, could open up new and diverse investment opportunities as distressed energy assets come to market.

Fewer Funds, both Large and Small, Closed

Only 115 funds reached final closes in 2015, the lowest number since EMPEA began tracking fundraising in 2006, reflecting a difficult fundraising environment for many GPs. In past communications and in-depth reports (**Emerging Middle Markets: Closing the Gap Between LP Ticket Sizes and Mid-Market GPs**; **EMPEA Brief: First-time Funds in Emerging Markets**), EMPEA has highlighted a concentration of capital commitments in fewer, larger funds. Yet 2015 statistics reveal a year-on-year decline in the number of funds reaching a final close for all size segments, except those between US$250 million and US$499 million. Most notably, the proportion of total fundraising that the largest US$1 billion plus-segment accounts for has, for the first time since 2009, experienced a year-on-year decline. This reflects the fact that many of the largest pan-Asia fund managers, which have historically accounted for large shares of EM fundraising, closed vehicles in preceding years. Given the continued need for private capital in addressing financing gaps faced by companies in emerging economies, as well as the role of new managers in deepening the opportunity set for institutional investors allocating capital to emerging markets and fostering sustainable development, EMPEA will continue to explore this trend and its impact.

Fund Managers Finding Paths to Liquidity

While it is difficult to discern long-term trends in private funds' distributions to limited partners given biases in disclosure, numerous reported liquidity events in 2015 indicated that fund managers found ways to return capital to investors despite a difficult economic environment. Notably, exit avenues differed dramatically from region to region. In Emerging Asia, 50% of exits recorded in 2015 were via public markets and 24% via strategic sales. In contrast, outside of Emerging Asia, public markets accounted for just 22% of exits and strategic sales for 46%. Overall, Emerging Asia accounted for 82% of all public market exits and 95% of all PE-backed initial public offerings across emerging markets.[2]

Additional Regional Highlights

Emerging Asia – Aggregate funds raised and capital invested by GPs in Emerging Asia declined in 2015, dropping 7% and 14%, respectively, from 2014 levels. India was a notable bright spot, with the return of large GPs to the fundraising trail and sustained VC momentum contributing to year-on-year increases in funds raised and capital invested of 80% and 56%, respectively.

In response to India standing out as a market that represents both the exception to aggregate EM trends and the importance of understanding on-the-ground opportunities, M.K. Sinha, Managing Partner and Chief Executive Officer of IDFC Alternatives, explains, "LPs are cautiously optimistic about Indian private equity and are likely to make commitments selectively to managers with strong exit track records and a clearly articulated investment strategy. For PE, value creation in India will be from addressing emerging opportunities like tapping the huge potential of rural markets through e-commerce, fulfilling telecom product gaps, improving agribusiness productivity, preventing crop destruction, investing in healthcare, extracting value from idle assets by improving deployment, etc. The government is very focused on ensuring a pickup in private investment activity during this year."

CEE and CIS – After several challenging years for managers investing in CEE and CIS, recent indicators may hint at a forthcoming recovery for the region's private capital landscape. The disclosed value of buyout transactions in the region increased 86% year-on-year, driven by several large privatizations in Poland and Southeastern Europe. In contrast, disclosed buyout deal value for emerging markets overall fell 49%, from US$12 billion in 2014 to US$5.9 billion in 2015.

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[2] The latter figure includes public offerings at which private fund managers at least partially divested from a portfolio company and offerings for which no share disposal was closed.

Latin America – Despite macroeconomic challenges, most notably currency volatility and falling commodity prices, fund managers in Latin America raised more than US$6 billion in 2015—a decline from 2014's record haul but on par with previous years' fundraising totals. Going forward, lower asset prices in 2016 may provide attractive opportunities for fund managers to deploy the capital raised in recent years.

MENA – Private capital fundraising and investment in MENA increased 1% and 23%, respectively, from 2014 to 2015, making MENA the only major emerging market region to post year-on-year increases in either measure. Looking forward, the investment environment in MENA appears poised for change, with the opening of Saudi Arabia's public markets to foreign investors in 2015 and the lifting of Iranian sanctions in early 2016 generating potential opportunities for asset managers in the region.

Sub-Saharan Africa – Fund managers raised US$3.6 billion for Sub-Saharan Africa in 2015, the second highest annual fundraising total for the region since EMPEA began tracking fundraising in 2006. This came on the back of 2014's total of US$4.3 billion raised, indicating that limited partner interest remained strong, even as macroeconomic challenges such as currency volatility and declining oil prices contributed to reduced growth expectations for many of the region's economies.

EMPEA will be releasing its executive summaries and data overviews for each emerging market region via its members-only quarterly **Data Insights** later this month, with individual coverage of Brazil, India and China. Updates to the **Data Dashboards** will also be available to the public later this month and detailed information can be accessed by EMPEA Members through their logins. For more information, contact support@empea.net.

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About EMPEA

EMPEA is *the* global industry association for private capital in emerging markets. We are an independent non-profit organization with over 300 member firms, comprising institutional investors, fund managers and industry advisers, who together manage more than US$1 trillion of assets and have offices in over 100 countries across the globe. Our members share EMPEA's belief that private capital is a highly suited investment strategy in emerging markets, delivering attractive long-term investment returns and promoting the sustainable growth of companies and economies. We support our members through global authoritative intelligence, conferences, networking, education and advocacy. To find out more, please visit EMPEA.org.

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