Views from the Field: Reflecting on 2013 and the Outlook for EM PE in 2014

EMPEA
Emerging Markets Private Equity Association

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As the industry closes the books on 2013, several EMPEA Members provide their views on key trends and lessons learned in the past year for emerging markets private equity, and look to the opportunities and challenges facing the asset class in 2014.

The Global Firms' Views

Koenraad Foulon, Co-Founder and Senior Managing Partner, Capital International Private Equity Funds

"For Capital Group, 2013 was a year to invest beyond the BRICs. Our 2011 fund, CIPEF VI, completed four new investments—three of which were in emerging markets outside the BRIC countries. We made our first ever investment in Chile, while returning to Colombia and the Philippines, where earlier vintage funds made successful investments 12 years ago. While Capital Group covers and holds investments in Brazil, Russia, India, and China, which saw increased competition and heated valuations, the most compelling value this year came from beyond BRIC markets.

Looking ahead to 2014, we can be sure that the fundamental long-term attractiveness of EM PE remains strongly intact. In particular, we believe that the consumer-driven and natural resources sectors hold distinct potential. Consumer-related stocks are underrepresented within MSCI and across emerging public equity markets more broadly. As a result, private equity offers investors unique access to this attractive growth sector.

In 2014, we are excited to continue to navigate the global EM PE landscape free of top-down country allocations, and seek to opportunistically identify and pursue compelling value in both BRIC and non-BRIC markets.

Viktor Kats, Deputy Head, Global Infrastructure Fund, IFC Asset Management Company

"2013 saw many corrections in terms of private equity flows in emerging markets, making opportunities more attractive. A number of companies in big markets tried to list and were unsuccessful, so they went to private markets, where they had to adjust their valuation expectations. Hopefully, in 2014, the gap will narrow between sellers and what investors are willing to pay.

Furthermore, for those investors who have a lot of dry powder available, the market is very good right now. For instance, in India, because of currency depreciation and the overall economic slowdown, many investors have been hit. On one hand, investors really have to be careful to pick the opportunities that will survive this slowdown, but on the other hand, they have a greater choice.

Looking to 2014, there are several trends from the macroeconomic point of view that we see as favorable for infrastructure investing in emerging markets. First is investors' increased awareness of this sector/asset class, and second, there is less competition for some of the assets due to growing risk awareness, which translates to less capital available from capital markets, banks or private investors. However, growth for infrastructure assets is still high, and the need to deleverage is increasing. Therefore, terms of trade are shifting more toward investors, so those who understand the risk and have capital are in a good position.

We are also seeing pension funds that want to enter emerging markets directly asking us to participate in some of their deals. These types of conversations make for a dynamic infrastructure market. We see a good pipeline, and we plan to preach this "gospel" of emerging markets infrastructure to investors.

The View from China

Benjamin Fanger, Co-Founder and Managing Director, Shoreline Capital

"At the end of last year, a trade publication asked me what I thought would happen in 2013 in Chinese private equity, and now with hindsight I would not change a word: in 2013, the investing world woke up. GPs realized China cannot defy economics. LPs realized capital should be allocated toward niche managers with real ability to generate value. And we all realized the next decade will look very different from the last—that successful investing will focus on inefficiencies and value generation rather than just growth.

In China, distressed opportunities have been steadily increasing as the economy decelerates, companies face stress and banks begin to sell non-performing loans. Capitalizing on such opportunities requires a local platform and a long history navigating the illiquid credit environment in China. Looking ahead to 2014, I see an increased interest in Chinese distressed opportunities, though prospective investors and fund managers realize the barriers to entry are high.

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