



IFC

**International
Finance Corporation**
World Bank Group

Equity Investing in Emerging Markets – Lessons from 45 years of experience

EMPEC 2007 Conference, Moscow

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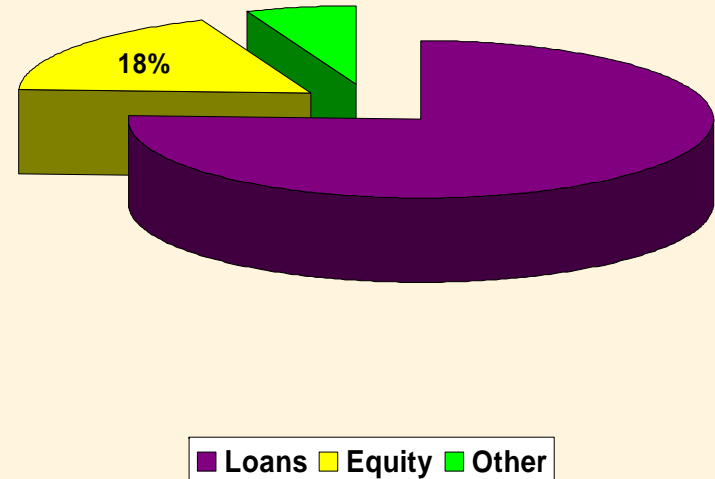
Equity Investing in Emerging Markets

Agenda

- **History of IFC**
- **Our approach to equity investing**
- **Lessons from a long term global equity program**
- **IFC role & development impact**
- **Trends/Challenges facing the industry**

Background: International Finance Corporation

- Part of the World Bank Group
- Established in 1956
- Private sector focus
- \$21.6bn total portfolio (FY2006)
- 18% of portfolio in equity (\$3.9bn at cost)
- Unique financial institution: developmental + commercial objectives



IFC: A Unique Financial Institution

- **Comprehensive approach to investing in emerging markets:**
 - **Largest multilateral provider of debt financing for private sector**
(**\$16.4bn in loans as of EY2006**)
 - **Significant player in emerging markets Private Equity**
(**acting in both GP and LP roles**)
 - **Active Advisory/Technical Assistance Program**
(**a world-wide team of 1,700 professionals**)
- **Strong strategic partner for both investees and investors**



IFC Equity Strategy: Macro view

- **An essential part of our investment program, broad exposure**
- **Returns vary by sector/country, improved in past 5 years**
- **Standard terms:**
 - **Minority stakes (max 20%) with significant governance rights**
 - **Passive investor (usually) with local shareholder status**
 - **Long-term holding (8-15 years)**
 - **Exit preferred via public listing**
 - **Investments made directly and through funds**
 - **Instruments include straight and quasi-equity (e.g. preferred shares, convertible debt, warrants, other hybrids)**
- **Strategy evolution: Western sponsors (puts) ⇔⇔ local companies (IPOs)**

IFC: Equity Portfolio at a Glance (as of 6/30/06)

Current State:

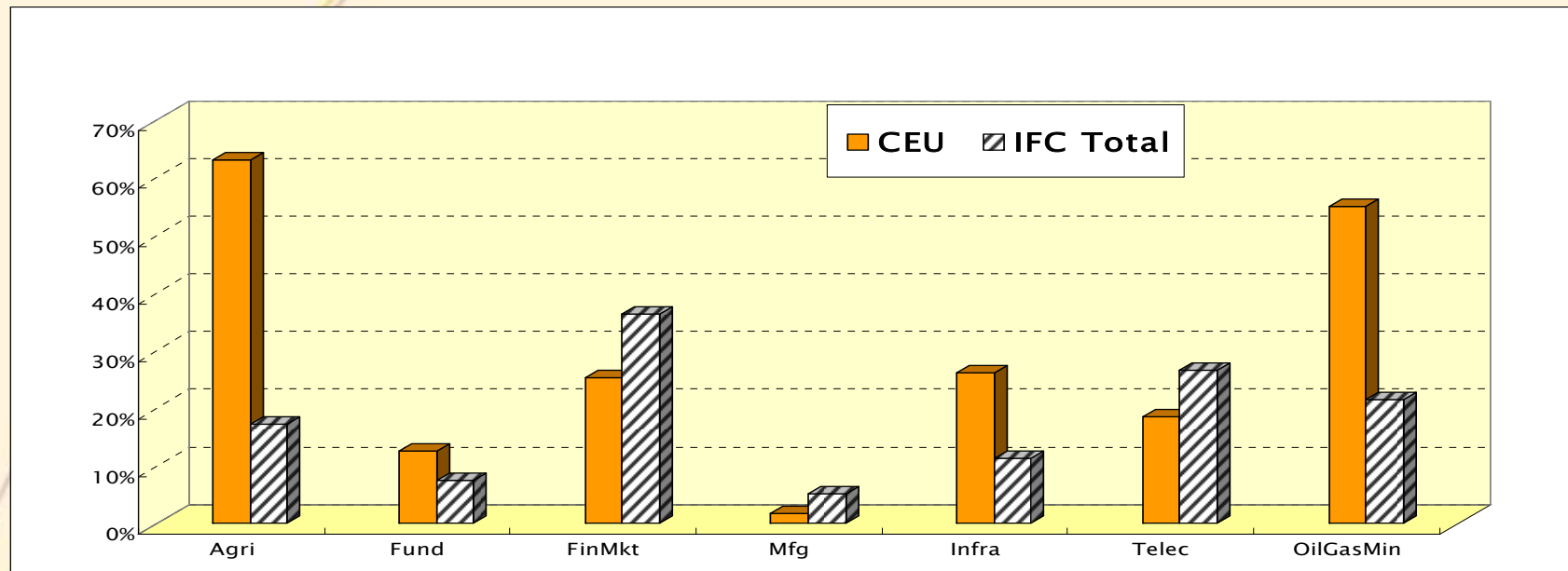
- Size has grown by 25% since 1999 (\$3bn ⇒ ⇒ \$3.9bn)
- Market value is 2.2x cost (equals 34% of committed portfolio)
- Top regions: East Asia (27%), LatAm (25%), South Europe (13%)
- Top countries: China (18%), Brazil (7%), India (7%)
- Top sectors: Fin. Markets, Infrastructure, Oil/Gas/Mining
- Most investments made in Growth/Expansion stage deals
- Aggregate return (cumulative net IRR): 16%

Future Direction:

- Commitments expected to grow by 50% by 2009
- Similar target regions and sectors
- Efforts to make investments through Funds for hard-to-reach segments
- Broaden deal flow via Co-investments with Funds

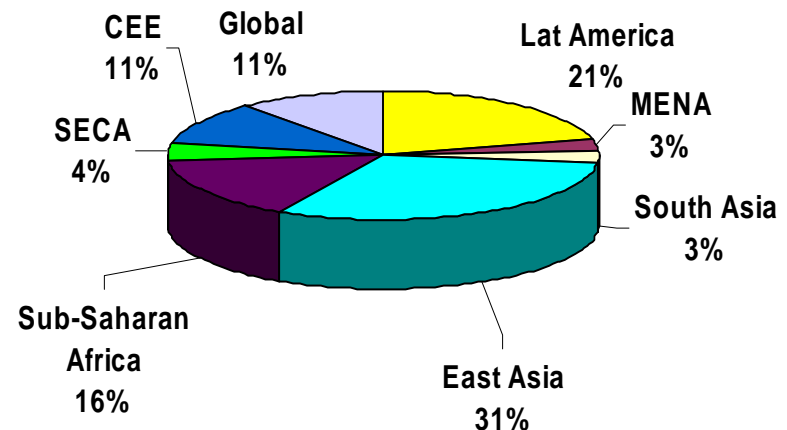
IFC: Equity Portfolio at a Glance – C&E Europe

- Equity commitments at 10% of total portfolio (below IFC's 18%)
- 52% in Russia, 10% in Ukraine and 7% in Georgia
- Strong performance (both realized and unrealized)
- Strategy: grow portfolio 50-100% by 2009 (in Russia, Ukraine, Georgia)
- Focus on Manufacturing, Fin Markets, Infrastructure, Chemicals
- Main challenges: minority shareholder rights/quality of sponsors



IFC: Investing in Funds

- Started in mid 1980s in Asia, have built up global presence
- Today, a \$1.56bn broadly diversified portfolio
 - over 120 funds in 70 countries
- Core strategy:
 - selecting fund managers who add value
 - supporting growth companies
 - targeting SME sector (55% of all portfolio companies)
- Solid portfolio statistics:
 - 400+ companies
 - 80% with sales growth
 - improving returns/net IRR
(5% ⇒ ⇒ 17%)
- Commitments of \$400mil p.a.




IFC: Lessons from 45 years of experience

Key Success Factors in Fund Investing:

#1. Manager

#2. Manager

#3. Manager



You can't structure
around a bad fund
Manager!!!!!!

IFC: Lessons from 45 years of experience

How to select a better quality GP:

1. Do know your market:

- Survey each market to identify top quality GPs
- Maintain on-going contact with key players
- Stay active via conferences, associations, publications

2. Do NOT:

- Use industrial companies as GPs
- Invest alongside dominant industrial company LPs
- Back GPs without relevant experience/local connections
- Invest in fads and “hot” concepts



IFC: Lessons from 45 years of experience

IFC looks for Fund Managers who:

- Identify good opportunities to create value
- Negotiate control mechanisms (e.g. governance rights)
- Invest with owners who want to grow the company and sell it
- Combine track record, team cohesiveness, value-added skills and deep knowledge of local markets
- Structure fund terms to align interests with LPs:
 - Management fee of 2% or less, or based on a budget
 - Carried interest on an aggregate basis (not deal-by-deal)
 - Limit on costs that can be passed to the LPs by the GP
 - Disclosure and sharing of fees charged to portfolio companies

IFC Fund Strategy – The Big Picture

- **Focus on end product: building strong companies that build strong emerging market economies**
- **Promote professionalization of the industry and best practices**
- **Disseminate knowledge of emerging markets**
 - **EMPEA/ILPA**
 - **Performance benchmarks**
 - **Environmental & Social training programs**



IFC Fund Investing: Current Strategy

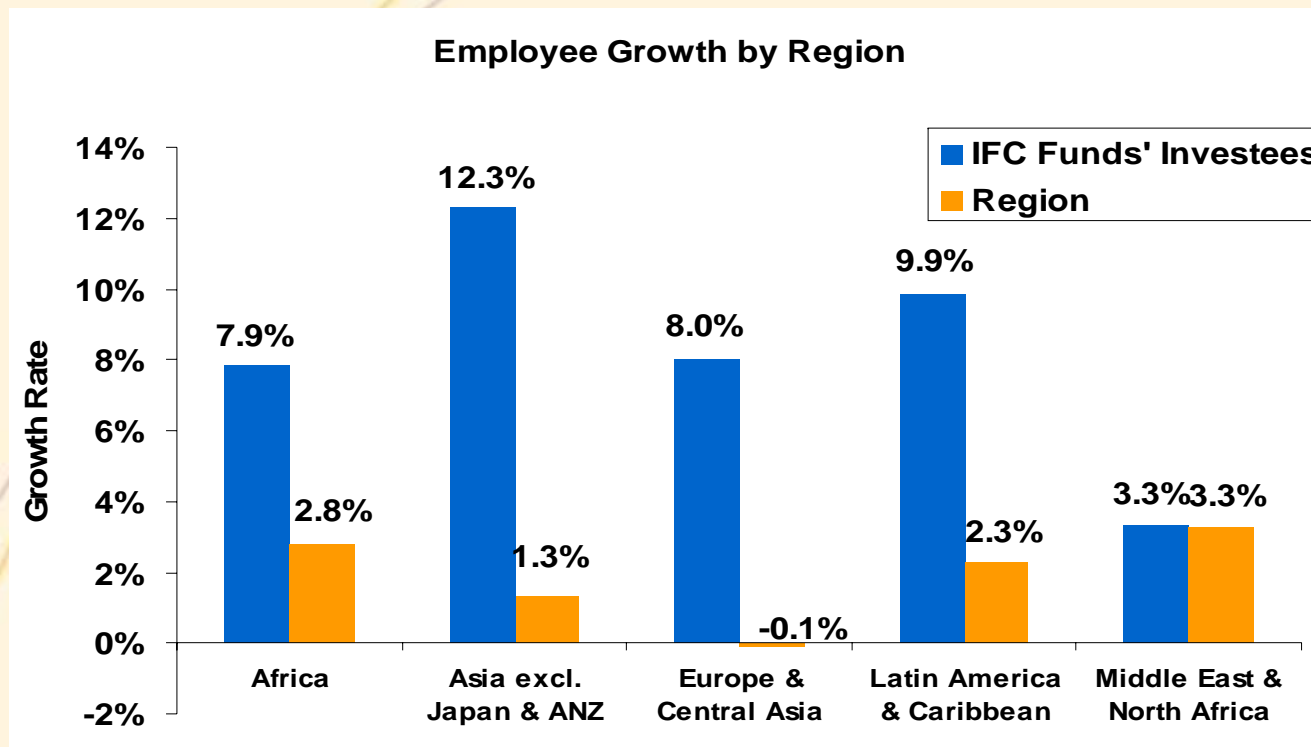
- **Increase support to emerging managers**
- **Leverage relationships to broaden IFC's direct client base**
- **Further develop new products and areas**
- **Develop opportunities in Frontier markets**
- **Continue being selective => not volume business**
- **Seek managers that complement IFC's direct business**

IFC Fund Investing: Development Impact

- *Effect on Companies*
 - Growth of companies
 - Job creation
 - Labor productivity
 - Support to SMEs
 - Access to finance/new markets
- *Effect on Industry*
 - Improved governance and transparency
 - Develop new/local managers

IFC: Development Impact through Employment

- Higher employment growth than corresponding regional average
- This growth represents the creation of over 54,600 jobs in total



International Labour Organization, "Global Trends in Employment, Productivity, & Poverty."
World Employment Report 2004-2005. pg. 27



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IFC's Role in Fund Investing

- **Structuring funds to international standards**
- **Governance:**
 - **Actively participating through the Advisory Board**
 - **Increasing efficiency in management and reporting**
- **Promoting environmental and social sustainability**
- **Providing regional and industry expertise**
- **Catalyst for additional investors**
- **Help reach minimum fund size**
- **Counter-Cyclical market support**

EMPE Industry Trends & Challenges

- **Has Emerging Market Private Equity “Graduated”?**
 - Awareness of EMPE in industry, government and public
 - Record fundraising levels (\$33bn in 2006, vs. \$3bn in 2003)
 - “Globalization” of large PE firms brings them to EMs
 - Entrance of hedge funds bring more liquidity
- **But headlines can be misleading:**
 - Awareness does not translate into broad financial flows
 - Large Asian economies account for 2/3 of the \$33bn raised
 - Established fund managers get the bulk of capital/talent
 - International best practices are applied sporadically

IFC: Equity Investing in Emerging Markets

In Conclusion:

- **Need for IFC to support evolution of private equity (still)**
- **Opportunities for financial success, value, development**
- **Growing field: room for everybody**
- **Investors can and should complement one another**
- **Open to working with other direct and fund investors**