Emerging Markets Private Equity

Quarterly Review

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Contents

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In This Issue

2006 has been an exceptional year for emerging markets private equity by just about every metric, and the optimism was clearly evident amongst the 350 participants at EMPEA's 2nd Emerging Markets Forum earlier this month, co-hosted with Private Equity International. Performance data provided by Cambridge Associates and presented by EMPEA at the Forum illustrated that emerging markets benchmark returns have been solidly ahead of US and Europe on both a mean and top quartile basis for the last 3 years. Additional data on fundraising and exits further confirmed that the asset class had a strong showing across emerging markets regions in 2006. David Rubenstein, of the Carlyle Group and a keynote speaker at the Forum, reinforced this positive view with his observation that LPs cannot afford to ignore emerging markets private equity: "Given the growth dynamics of the global economy, private equity in emerging markets will generate higher returns than developed markets," he stressed.

This issue of the Quarterly Review includes an assessment of what might be called the re-emerging Latin American private equity market. Although the region is far from homogeneous, the underlying economic fundamentals have improved significantly in many countries, creating attractive private equity opportunities. It is notable, however, that most LPs are still hesitant about investing in the region. The issue also features an examination of co-investment, a hot topic in mainstream private equity that has begun to gain momentum in emerging markets. We look at the potential advantages as well as the risks for LP co-investing in private equity deals, and identify some of the LPs who are extending their co-investment reach to new regions.

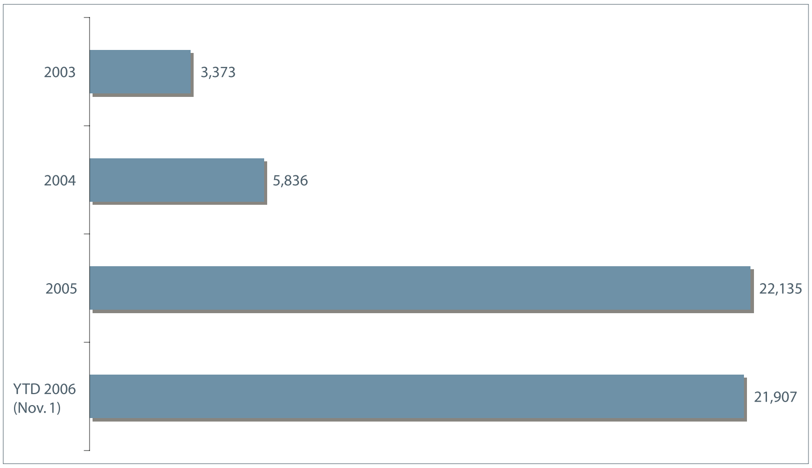
On behalf of all the EMPEA staff, please accept our warmest wishes for a peaceful and happy holiday season.

Roger Leeds
EMPEA Chairman

Emerging Markets Private Equity:
The Current Landscape and the Road Ahead

Fundraising for emerging markets private equity in 2006[1], appears on track to match or beat the record-breaking 2005 numbers. In 2005, fundraising topped $22 billion, or almost four times the $5.8 billion raised in 2004. For 2006 year through November 1, EMPEA estimates that $21.9 billion has been raised already (see Exhibit 1).

Exhibit 1: Emerging Markets PE & VC Fundraising-2003-YTD 2006 (in US$ millions)



Source: EMPEA Estimates

Regional Breakdowns

For Asia, excluding Japan, Australia and New Zealand, 94% of 2005 levels had already been reached. (See Exhibit 2.) Data for Central and Eastern Europe and Russia indicates that fundraising has already exceeded 2005 levels, including eight follow-on funds for the region. After increases of over 70% in 2004 and 2005, fundraising for Latin America looks unlikely to match 2006 levels, though invested capital in the region continues to grow significantly. By far, the biggest growth story in terms of fundraising is from the Middle East/Africa[2], the bulk of which is for the Middle East. Of the $3.8 billion raised as of November 1, EMPEA estimates about 70% is for the Middle East, including North Africa. Fundraising year-to-date for the region is already 41% above 2005 levels, and that is on top of a 400% gain last year.

Improving Returns

There is a fundamental reason why interest in emerging markets remains so strong: returns have not only been improving over the last three years, they are looking fairly robust on both an absolute basis and on a relative basis compared to other PE markets.

EMPEA tracks performance as reported by the Cambridge Associates emerging markets private equity index. Since June 2003, 1-, 3-, 5-, and 10-year returns have been improving steadily (see Exhibit 3). The 1-year return has exceeded 20% over the last 2.5 years. The 3-year return has gone from -9.5% in June 2003 to 22.6% as of June 30, 2006. This increase reflects the strong cash flows to LPs that have been driven by a significantly improved exit environment over the past few years. Returns are also strong at the regional level, with the strongest showing in Central and Eastern Europe and Russia, and excellent 1-year performance in Latin America.

Most significantly, however, emerging markets private equity funds are outperforming their US counterparts (see Exhibit 4). Over the last 1- and 3-year periods, the top quartile emerging market fund has beaten its US buyout and US VC counterparts by a substantial margin.

Broadening and Deepening

Emerging markets private equity is not only growing in terms of funds raised, but the asset class is also maturing in terms of

Exhibit 2: Emerging Markets Private Equity Fundraising by Region (in US$ millions)

	Asia (ex Jap/ANZ)	CEE/Russia	Latin America	Africa/ Middle East	Total EM
2003	$2,200	$406	$417	$350	$3,373
2004	$2,800	$1,777	$714	$545	$5,836
2005	$15,446	$2,711	$1,272	$2,706	$22,135
YTD 2006 (Nov. 1)	$14,528	$2,759	$813	$3,807	$21,907

Source: EMPEA Estimates

[1] Includes known first or final closes through 1 Nov 2006.

[2] EMPEA reports the Middle East and Africa together because often both Africa funds and Middle East funds include North Africa in their investment mandate.

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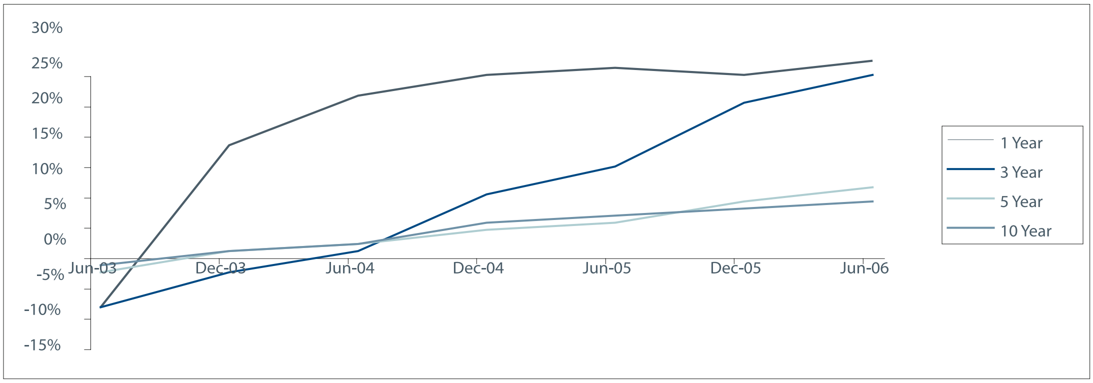
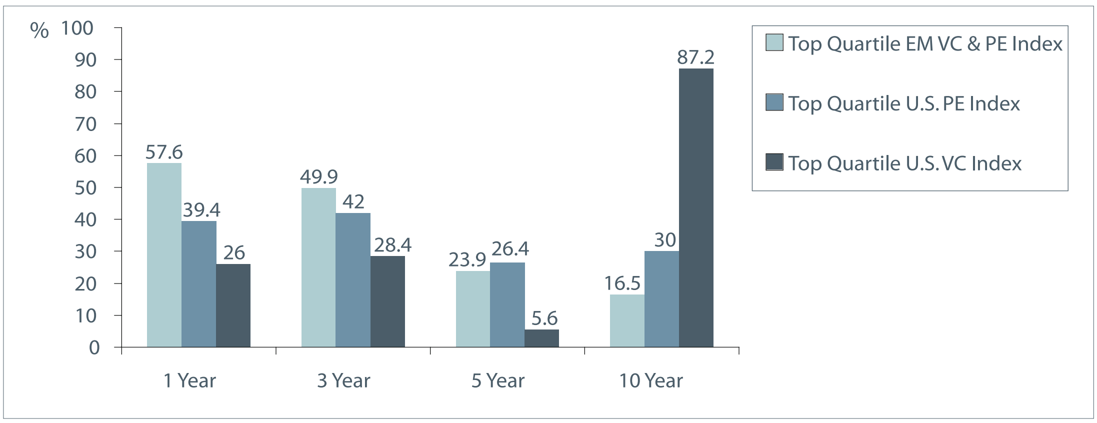
Exhibit 3: Trends in Emerging Markets VC & PE Returns (As of June 30, 2006)



Source: Cambridge Associates LLC Proprietary Index: pooled end-to-end returns, net of fees, expenses and carried interest.

Exhibit 4: Performance Comparison: EM VC & PE Index vs. U.S. PE and VC Indices (As of June 30, 2006)



Source: Cambridge Associates LLC Proprietary Indices: pooled end-to-end returns, net of fees, expenses and carried interest.
Note: Results are a customized end-to-end calculation based on subsets of top quartile funds in the Cambridge Associates LLC Emerging Markets Venture Capital and Private Equity, U.S. Private Equity, and U.S. Venture Capital indices, as determined by net IRR rankings within each vintage year and index. Based on data compiled from 592 U.S. private equity funds formed between 1986 and 2006; 1,111 U.S. venture capital funds formed between 1981 and 2006; and 194 emerging markets venture capital and private equity funds formed between 1986 and 2006.

geographic and deal diversity. Private equity is expanding to new markets with no or limited history of private equity, and garnering larger deals. We are also seeing increased use of leverage, and the emergence of sector-focused and follow-on funds, and secondary sales. A few highlights of developments in the asset class in 2006 include:

In Asia

- Two Vietnam-focused funds closed on a total of $160 million and an ASEAN fund closed at $130 million.
- 2006 has seen at least five deals in Thailand, including the first secondary buyout in SE Asia.

In the Middle East

- The first ever Libyan fund is in the market for $100 million and a major US private equity fund is seeking an investment in Libya. A $300 million Pakistan fund has closed and already made its first investment.
- In Egypt, private equity investors bought a majority stake in family-owned, leading pharmaceutical company Amoun Pharmaceuticals for $459 million.

In CEE/Russia

- At least eight follow on funds have been raised in Russia, Poland and accession countries.

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- 2006 has seen at least three deals in Romania, totaling $50 million.

In Latin America

- There are four Mexico-dedicated funds in the market that are raising $370 million and a follow-on Latin power fund closed at $393 million.
- In Uruguay, a leading private equity fund invested $167 million for a 60% stake in Nuevo Banco. There were also two deals in Colombia.
- The largest ever Mexico buyout took place—60% of the industrial products division of Kimberly Clark de Mexico to a leading private equity/hedge fund for $434 million.

In Africa

- The largest ever Southern Africa fund closed at $750 million, dedicated to buyouts in Southern Africa, and two new North Africa-dedicated funds closed on $77 million.
- Two record-breaking deals in South Africa—Alexander Forbes and Shoprite—are both expected to close at over $1 billion.

Challenges

The emerging markets private equity story looks very good, but there is a long way to go.

A realistic assessment would indicate that challenges remain. Emerging markets private equity remains nascent in many regions and countries. Penetration is still low versus the US and Europe. In 2005, fundraising for emerging markets represented only 15% of the US and 7.8% of the global total. In 2005, total emerging markets private equity fundraising was only .21% of GDP, versus .85% in Western Europe and 1.22% in the US. Further, approximately 23% of capital raised to date in 2006 for emerging markets is intended for India and China alone.

While the past two years have been extremely encouraging, it's still too early judge the outcome of recent activity. Investment returns from the 2005 and 2006 vintage funds over a 3-, 5- and 10-year horizon will be important to validate the attractiveness of emerging markets private equity as an asset class over the long term.

Regional Feature: Latin America
Re-emergence of Latin American Private Equity

More private equity and venture capital has been invested in Latin America[1] over the first half of 2006 than in any other full year since 2000, perhaps signaling a rebound in the Latin America private equity industry.[2] (See Exhibits 1 and 4.) In 2006, private equity investments in Latin America increased from US$1.07 billion in all of 2005 to over US$1.54 billion during the first half of 2006 alone. Both 2005 and 2006 have also been impressive in terms of exits, with $1.5 billion returned to LPs in 2005, almost equaling funds raised that year, and US$1.97 billion returned to investors in the first half of 2006.

Exhibit 1: Latin American Private Equity at a Glance
(in US$ millions)

	Total	Ex- Brazil
PE Funds Raised 2005	$1,272	$1,000
PE Investments 2005	$1,069	$595
Net Returns to LPs 2005	$1,494	$858
PE Funds Raised 1H2006	$141	$63
PE Investments 1H2006	$1,538	$1,320
Net Returns to LPs 1H2006	$1,966	$575

Source: Venture Equity - Latin America

Key Factors for the Latin America PE Market

Improved investment and exit performance is welcome news for a private equity market that is still struggling to overcome a legacy of poor returns in what had been a highly unstable macroeconomic environment. Latin America's private equity industry came to a near stand-still in the three-year period of 2001 to 2003 when private equity funds raised only $1.4 billion. In 2003, exits generated only $657 million, and in 2004 exit activity almost completely dried up with funds generating a mere US$96 million in proceeds.

While many funds went out of business—or in the case of US funds that ventured south, simply went home — those funds that survived have indeed been tested, and are now benefiting from the lack of competition and scarcity of capital.

Exhibit 2: Latin American Private Equity Investments by Country, 2004-1H2006 (in US$ millions)

Country	2004	2005	1H2006
Andean*	$16	$15	$26
Argentina	$215	$261	$156
Brazil	$120	$474	$218
Caribbean	$0	$0	$36
Central America	$6	$14	$0
Chile	$10	$76	$512
Mexico	$138	$176	$270
Uruguay	$0	$0	$170
U.S./Regional	$103	$55	$0

*Andean Region includes Bolivia, Colombia, Ecuador, Peru
Source: Venture Equity - Latin America

Fund managers are also moving aggressively throughout those countries that have pursued economic stabilization. Historically, Argentina, Brazil, and Mexico have accounted for the lion's share of investment, but more recently the flow of capital has varied year to year and has been driven by a small number of larger deals. For example, the comparably smaller markets of Chile and Uruguay have taken up a disproportionate amount of capital in 2006. (See Exhibit 2.)

The context for private equity investing has also greatly improved with stronger macroeconomic performance, higher volumes of trade from ambitious free trade agreements, and increased domestic consumption. The most important macroeconomic trend has been the stabilization of inflation through the adoption of inflation targeting policies in key countries. Between 1999 and 2002, Brazil, Chile, Colombia, Mexico, and Peru adopted inflation targeting policies.

Macroeconomic improvements have provided a foundation for a boom in stock market performance throughout the region. Over the three-year period from 2003 to 2005, the MSCI Public Returns Index

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1 This feature focuses on Latin American private equity outside of Brazil, although the region-wide statistics do include Brazil. For a feature on private equity in Brazil, please see Emerging Markets Private Equity Quarterly Review: Vol. 1, Issue 2.

2 Summary private equity data for this feature is provided by Venture Equity Latin America. Ed. Alex Burgess.

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shows Latin America with returns of 146%, compared to 38% for the MSCI Emerging Markets Index and 10.5% for the United States. For this period, Colombia's stock market was one of the top three global performers. The Bolsa Valores de Mexico has been the most durable and consistent performer. Over the 10-year period ending November 2006, Mexico's stock market (based on the benchmark IPC Index) gained 5.2 times in US dollar terms.

However, while news about the investment climate appears positive, the private equity industry continues to face a major challenge in fundraising. In 2005, fundraising dedicated for Latin America (ex-Brazil) topped $1 billion, but only $63 million was raised during the 1st half of 2006. Another $600 million was closed in July 2006 alone, so full year numbers may still reach the 2005 benchmark.

Despite the attractiveness of investing in what is now a comparatively capital-scarce environment, many international LPs have remained uncertain about Latin America private equity funds. The 2006 EMPEA Limited Partner Survey found that only 4% of surveyed LPs indicated they were actively investing in Latin America compared to 25% for Asia. (See Exhibit 3 for fundraising and investment totals over time.)

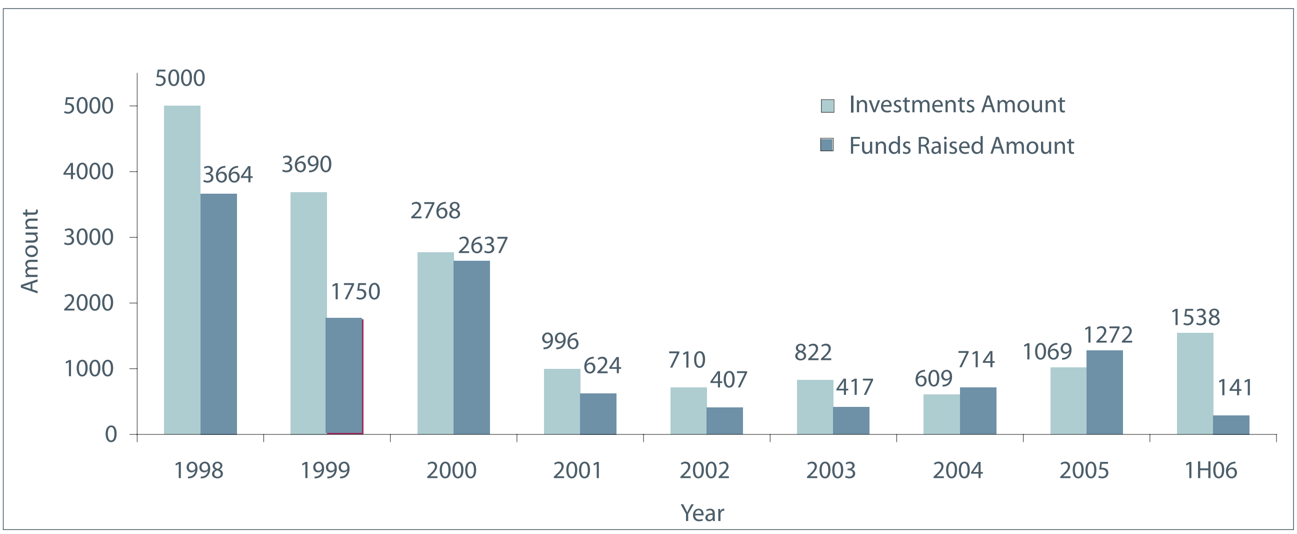
The discrepancy between fundraising and investments also points to another trend—large global players are investing in Latin America from non-dedicated pools of capital. One effect of increasing interest from these global players is the emergence of a broader secondaries market. For example, Merrill Lynch Global Private Equity recently acquired Grupo Convermex, a maker of disposable tableware, from JP Morgan Partners. The increasing activity of these global players may signal that Latin American private equity is more robust than commonly thought, since these global funds would not necessarily be captured in Latin America PE data.

Improved Performance

The 13-year history of private equity in Latin America is littered with poor fund returns that have been a tremendous drag on overall long-term performance statistics. Between 1993 and 2000, approximately 150 private equity related funds were raised with capital totaling US$15 billion. The track records of many of these funds did not meet expectations. The 10-year return and 5-year return as of June 30, 2006 for Latin American funds in the Cambridge Associates LLC proprietary database were -3.2% IRR and -6.1% IRR respectively.

However, the private equity industry has undergone a rigorous filtering process, and survivor managers and newly interested global players are driving a strong record of recent exits and improved measured performance. Strong performance from survivor funds has pushed the Cambridge Associates numbers up to 14% over a 3-year horizon and 31% over a 1-year horizon. Top funds are reportedly delivering overall returns above 25%. (See Exhibit 4 for performance statistics.)

Exhibit 3: PE/VC Investments and Fundraising in Latin America, 1998-1H2006 (US$ millions)



Source: Venture Equity - Latin America

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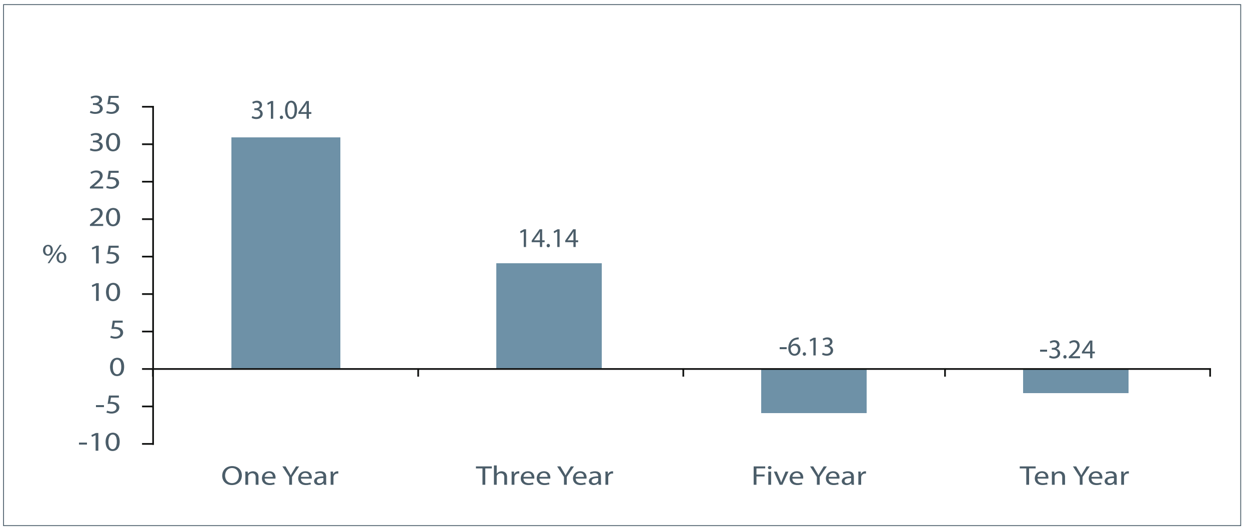
Exhibit 4: Latin America & Caribbean PE Index (as of June 30, 2006)



Source: Cambridge Associates LLC Proprietary Index. Pooled end-to-end returns, net of fees, expenses, and carried interest.

Strong Run of Exits

Eduardo Elejalde, Chairman of the Latin America Venture Capital Association and Founding Partner of the Latin America Enterprise Fund (LAEF), which has managed $472 million of capital, stated that exits have been the biggest challenge. "Exiting was particularly difficult because the capital markets did not advance with the private equity industry, but the situation is changing. The ability to exit is transforming our asset class."

Exit activity began to rebound in 2005, generating a five-fold increase in proceeds over 2004. In the beginning of the year, Southern Cross sold a 10.71% stake in one portfolio company to institutional investors for $130 million. In November, Darby Overseas Investment and Citigroup Venture Capital (CVC) International divested their shares in Promotora, the Mexican waste management company, raising $114 million on the Mexican Bolsa stock exchange. The firms had invested US$16 million and US$24 million respectively in 2002. Advent International also exited its stake in the Mexican retailer Aerocromidas de Mexico in a secondary sale to Grupo Areas de S.A.

Another important 2005 exit concerned the Mexican telecom company Axtel, which had been backed by the Blackstone Group, Soros Group, and EMP Global. Financial data is only available for EMP Global's US$70 million stake, which was worth US$114 million at the time of the December 2005 IPO on the Bolsa exchange. JP Morgan and Greenwich Street Capital Partners also fared well in a trade sale of their Argentinean meat packer Swift Amour SA, which was sold to Brazilian meat packer Friboi Ltda for US$200 million in September.

Exit activity continued to flow in the first half of 2006. There were eight disclosed exit transactions, with four attributed to Mexican firms. Notable public offerings include the Mexican homebuilder Homex, an investment that had been led by the Mexican fund Nexxus Capital and Sam Zell's Equity International.

Enrique Bascur, the head of the Latin America group for a $1.6 billion fund run by Citigroup Venture Capital (CVC) International, believes that the best exits will come by having companies that play to a global advantage. In 1998, CVC International bought a $20 million stake in a Chilean salmon producer and then helped the company become the second largest supplier in the world. CVC International sold the company to a Norwegian group for $90 million in 2005.

In 2001, Bascur followed the same strategy by buying a 30% stake in Chilean salt producer Sociedad Punto de Lobos. While the group had been selling 70,000 tons of salt for local consumption, CVC helped open sales for de-icing in the US northeast, which proved to be a market of 3.5 million tons for the company.

Bascur believes "Exits are possible for Latin America because there are good companies with good managers that are poised to take advantage of global markets." CVC International received US$144 million for its shares, which it had originally purchased for US$30 million, in a 2006 trade sale to the European salt leader, K+S.

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Today's Top Regional Fund Managers

One of the most successful fund managers in the region has been Advent International, which is now investing its third Latin American fund. Advent has reportedly delivered strong returns despite a challenging environment.

Advent has more than 30 investment professionals on the ground in Latin America. Ernest Bachrach, Managing Partner of Advent, says that having a well-rounded team is crucial. "There is a lot of work to do in these companies. In many cases, they need to be untied from their past practices, and that requires a lot of work at different levels—with the CEO, with the finance people, with the sales people. But, there is great opportunity. Take our Mexican retail chain Controladora Milano. The number of new buyers looking for $50 suits was remarkable. It gives us great confidence that these markets are truly emerging."

Advent's $200 million acquisition of Controladora Milano was also noteworthy because it included $90 million of debt financing. The retailer only owns fifteen of its 257 stores and therefore did not have sufficient assets to secure its own financing, providing a strong bread-and-butter private equity opportunity for Advent.

Bachrach believes that taking control positions and providing a comprehensive value proposition for a portfolio company are critical to success in emerging markets and particularly in Latin America. Bachrach also believes that while Advent has a strong foothold in Mexico, a regional approach is best suited to the Latin America opportunity as the best deals may be found in some of the smaller markets. In 2006, Advent acquired Banco Commercial in Uruguay for $167 million. The firm has also been active in Argentina, where they exited Fada Pharma in a trade sale to Polygon labs in February 2006.

Darby Overseas Investments has also been investing in the region since the mid-90s, and is led by Nicolas Brady. Brady helped to stabilize regional currencies in 1980s when, as US Treasury Secretary, he issued the so-called Brady Bonds. Darby manages a regional private equity fund, a regional mezzanine fund, and a financial services fund focused on Central America. Darby is also looking to expand its play in the Americas by launching a Hispanic markets fund, which would invest in the US with an eye to cross-border transactions in Mexico and other Latin American countries as well.

Alejandro Schwedhelm, Managing Partner of Darby's financial services fund, stated: "Our first financial services fund was a bit ahead of its time, but Central America is a different place than it was six or eight years ago. Regulation has improved, we have better transparency, and a better idea of what the numbers mean. The process leading to the Central American Free Trade Agreement

Exhibit 5: Sample of PE Fund Managers Investing in Latin America*

Fund Manager	Geographical Focus
Advent International	Regional Latin America
AIG Capital Partners	Global Investor
Alothon Group	Latin America Regional
Altra Investments	Colombia
Aureos Capital	Caribbean & Central America
Barings Mexico	Mexico
Capital International	Global Investor
Carlyle Capital	Mexico Fund
Citigroup Venture Capital International	Global Investor
Conduit Capital	Latin America Regional
Darby Overseas Investments	Latin America Regional
EMP Global	Latin America Regional
Eton Park	Global Investor
Grupo Dolphin	Argentina
INEN Capital	Mexico
Latin America Enterprise Fund	Latin America Regional
Moneda Capital	Chile
Nexxus Capital	Mexico
Pegasus Capital	Argentina, Chile
Southern Cross Group	Latin America Regional

* Does not include Brazil Only Funds

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(CAFTA) has also changed the perspectives of business owners—they are now thinking in bigger, more strategic terms, and that provides the basis of a good relationship with private equity."

The improved environment has been good news for Darby. They recently sold their shares in the Costa Rican bank Interfin to Scocia Bank for a reportedly healthy IRR near 30%. In 2006, three other banks have made acquisitions in Central America, including HSBC, Citibank, and GE Capital. According to Schwedhelm, "Movement in the banking sector is driving higher prices, which is good for exits, but a bit tough for finding good entry prices. However, there are many opportunities in other elements of the financial services sector where there has not been any contamination effect in terms of pricing."

One of the relatively new leaders in the market has been the private equity firm Southern Cross founded by Rick Rodriguez, formerly of Morgan Stanley, and Norberto Morita, a well known CEO from Argentina. Founded in 1988, the firm operates in seven countries, but focuses on Argentina, Chile, and Mexico.

According to Rodriguez, "Latin America has not been the favorite flavor for some time, but LPs are now getting serious—everyone is searching for yield, and the fundamentals in Latin America provide that opportunity."

Rodriguez believes the recent availability of leverage is a positive sign for the asset class. "One can now find terms for debt that are commensurate with the risk profile," Rodriguez stated. "In the past, managers would take bridge loans with a high level of uncertainty, which is insane in a market where windows of opportunity open and close with the blink of an eye. Today, in Mexico and Chile, you can get debt for a five-to seven-year term, properly structured." Southern Cross recently acquired two water utilities in Chile from the British water company Thames RWE. The firm paid $400 million for the two companies, more than half of which was raised through debt.

For Rodriguez, the biggest challenge in the market is the time it takes to complete deals. One deal required a three-year period of engagement, so the market requires up front investment, and, according to Rodriguez, a value proposition of being able to improve operations. Rodriguez reports that Southern Cross took the Chilean retailer La Polar out of bankruptcy and doubled EBITDA in 18 months. "We could only do that with an intense involvement. With a fund in the range of $200 million, we will only do a handful of deals—that is the key to be successful in this market. And, now with the appearance of debt, we now have one of the best investing environments in the world," he said.

Conduit Capital has demonstrated that a sector approach focused on power can appeal to international LPs. Conduit recently closed what is now the largest private equity fund in Latin America, according to Scott Swensen, Managing Partner, with $393 million. "A well-done infrastructure fund in emerging markets is essentially a super-charged mezzanine fund because your downside risk is protected by steady US dollar cash flows, but you can achieve returns in the range of 20% to 30% or more because of the kick from exits and the interest from strategic and institutional investors in these growth markets," Swensen said.

Swensen also described how Conduit is adapting its strategy in response to the increased attention coming from global players. According to Swensen, "On large assets we are now seeing more involvement from hedge funds, which is driving us to earlier stage investment where hedge funds won't go and where we have a competitive advantage."

Emerging Country and Regional Fund Managers

The number of failures in the last decade of Latin America private equity has resulted in a smaller number of established GPs with substantial funds under management. However, spin-offs from global financial houses and the emergence of several impressive local players appear to be gradually populating the industry with a wider selection of funds.

Nexxus Capital was founded by Luis Harvey in Mexico, and in 1998 they raised their first fund of approximately $75 million in partnership with Zephyr Management. NAFIN, the Mexican Development Bank, and the IFC were the primary sponsors. The fund invested in five companies and has exited three, returning $213 million of capital. The tandem of Nexxus and Zephyr raised a second fund of $120 million in 2002 and invested in six deals. The fund is expecting a healthy return north of 20% despite the write-down of two investments. Nexxus is now raising a third fund independently.

The Mexican homebuilder Homex was one of the most successful deals for Nexxus, which made the investment along with one of its LPs, Sam Zell's Equity International. According to Harvey, "Our strategy is to buy at emerging market prices, take advantage of US synergies, and sell at US prices. Mexico is a country that straddles the developing and the developed worlds and that is exactly our opportunity." Homex was a perfect example as the investors entered at a price around four times EBITDA and exited at a multiple of nine, taking advantage of a growing middle class as well as a market of Mexicans living in the US taking mortgages for new homes in their country of origin.

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Pegasus Capital was founded by Michael Chu, formerly with KKR, and Mario Quintana, a founder of the leading pharmacy chain in Argentina. Woods Staton, a founder of several corporate franchises in South America, including McDonald's in Argentina, later joined the group. The team is managing approximately $120 million of private equity investments, primarily in Argentina. One example of their portfolio is the consumer finance group Union Provincial.

Chu compared his experiences from KKR with investing in Latin America. "The determinants of success are different. In the US, we looked for stable cash flow, predictability, and low business risk so that we could then add high financial risk, while hopefully enhancing management capabilities. In the US, a firm specializes in a niche such as leveraged buyouts and burrows in. In Latin America, it is the opposite. Traditional capital markets are not nearly as developed, the owners of a company are usually the managers as well, and windows of opportunity open and close rapidly so an investor has to understand volatility. It is critical to understand the effect of volatility on the price of assets, and move in and out of market niches. In Argentina, we found companies that were worth 15% of what we thought the underlying value was, so in a sense the crisis is what provided our leverage."

Chu stated that the current regional opportunities differ from those the firm located during the Argentina crisis. He emphasized that, "We are great believers in local knowledge. One can't fly into these markets. At KKR, when the firm was primarily focused on the US, we used to have two offices, and that was only because some partners liked the east coast and others liked the west coast. In Latin America, extraordinary returns are there, but you have to be local." Pegasus has just announced a new real estate fund in partnership with Merrill Lynch, and looks to be building an interesting profile in the Latin American countries outside of Mexico and Brazil.

Ettore Biagioni is leading the Alothon Group, which was formed by the Latin America private equity team that split off from Deutsche Bank after ten years of operations. The Alothon team has monetized 20 out of the 29 investments for which they have been responsible and continue to manage as part of the spin-out. Biagioni reports that two of the exits were through listings, including the recent IPO of Odontoprev through which they exited the majority of their holdings. The remaining exits were trade sales, divided roughly half to international buyers and half to local buyers.

According to Biagioni, "A regional approach with strong sector-based expertise is critical for success. It is important to have a broad regional focus in order to get the best deal flow, but also to have the ability to go deep with sector expertise because helping company managers is what at the end of the day drives returns in Latin America."

Looking Forward

Ernest Bachrach of Advent recalled when during the late 1990s over US$8 billion flowed to private equity funds in Latin America in the context of significant instability, and he believes a similar gold rush is occurring in Asia today.

Bachrach, who also has experience in Asia, believes "Latin America currently has more interesting fundamental conditions for private equity, and there are reasonable valuations, a good class of managerial talent, and little competition for deals." Bachrach continued, "The stars are aligning for private equity in Latin America. The region is now dominated by democratic governments that have learned the lessons of macroeconomic policy. Currencies have stabilized, and domestic income is growing."

Julio Laestres, Managing Partner of Darby's Latin America regional funds, believes the investment proposition starts with Mexico. According to Laestres, "Following NAFTA, Mexico trade has now reached $300 billion with the United States, and the integration of common markets is driving very interesting deal flow." Darby invested in a Mexican pharmaceutical company because the regulatory environment had been aligned with that in the US, providing a platform for exports.

As Latin America warms up, some investors are worried about over-exuberance on the part of hedge funds. One global fund manager estimates that $1.5 billion of hedge fund capital went into the Latin America private equity space over the last year. The manager said, "The movement of hedge funds is worrying, and reminds me of the fly-in style of investing that led to such calamity in the nineties. In Latin America, markets not only go up and down, but they open and shut."

Katherine Downs, a Director with EMP Global's regional Latin America fund, described the importance of deep relationships on the ground. "All the managers we teamed up with had an inspiring vision, but the good ones also had an attention to detail and an ability to implement. It is critically important to work closely with managers to really understand and support the crucial implementation issues for a portfolio company."

Latin America appears to be coming back on the radar screen, and LPs will be watching the quality of investments and exits. Other key developments include The Carlyle Group's move into Mexico with a new fund. They have made three investments including a bilingual call center, a for-profit university, and the second largest cinema chain. Eton Park Capital Management, another global player making news in Latin America interests, produced one of the largest deals in Mexico with a $434 million purchase of the industrial products division of Kimberly Clark de Mexico this past October.

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Activity is also percolating at the lower end of the market, as the SME investor Aureos Capital has made seven investments in Central America since 2002, and has recently had their first exit in selling a regional technology company to a buyer from the Caribbean. According to Erik Peterson of Aureos, "There are definitely a lot of family-owned companies, but the second and third generations see a need for change and private equity has a role."

The industry does appear to be strengthening, but will LPs see room for increased exposure to Latin America? Will questions about the amount of capital flowing to Asia motivate LPs to consider other emerging market regions? Those are key questions for Latin America's fund managers, both those that survived the region's earlier traumas and those new players who are stepping up to fill the vacuum of managers in the market. LPs will be watching fund manager performance with interest, but also the performance of the region's political and regulatory leaders to see if conditions for macroeconomic stability and improving investment environments in key countries have truly taken root.

Guest Article: 2005 Scorecard on the PE/VC Environment in Latin America and the Caribbean

By Ramona DeNies, Research Director, LAVCA

The Latin American Venture Capital Association (LAVCA) has developed with the Economist Intelligence Unit (EIU) a Scorecard ranking the investment climates of individual countries within Latin American and Caribbean (LAC).

Representative Sample of Scorecard

Country	Overall Score
UK	92.6
Israel	79.4
Chile	76.5
Spain	69.1
Brazil	58.8
Taiwan	58.8
Mexico	54.4
Costa Rica	52.9
Peru	47.1
Trinidad & Tobago	44.1
Colombia	42.6
Argentina	41.2
El Salvador	41.2
Uruguay	39.7
Jamaica	38.2

In recent years, several nations within the LAC region have pursued promising legislation and programs to bolster their private equity and venture capital industries. It seems that investors are taking note. Fundraising for the region increased from US $417 million in 2003 to over $714 million in 2004 and $1.3 billion in 2005. However, further improvements are clearly needed to enhance industry growth within the region.

The inaugural 2005 Scorecard ranked the investment environment in eleven LAC countries and four comparison nations from outside the LAC region according to twelve criteria:

- Laws on VC/PE fund formation and operation
- Tax treatment of VC/PE funds and investments
- Protection of minority shareholder rights
- Restrictions on institutional investors in making VC/PE investments
- Protection of intellectual property rights
- Bankruptcy regulation (bankruptcy procedures/creditor rights/ partner liability in cases of bankruptcy)
- Capital market development and feasibility of local exits (i.e., initial public offerings)
- Registration/reserve requirements on inward investments
- Corporate governance requirements
- Strength of the judicial system
- Perceived corruption
- Use of international accounting standards and quality of local accounting industry

Major findings of LAVCA's 2005 Scorecard

- The friendliness of the business environment for VC/PE investments varies greatly across the region.
- There is a correlation between the degree of favorability for a country's business environment and its investment environment.
- Chile provides the most favorable investment environment with a ranking of 76.5 on a scale of 1 to 100.
- The next three most favorable environments are found in Brazil (58.8), Mexico (54.4) and Costa Rica (52.9).
- Seven of the eleven LAC countries are rated below 50; the regional median is 44.1.

To access LAVCA's 2005 Scorecard, please visit www.lavca.org or contact LAVCA Research Director Ramona DeNies at rdenies@lavca.org.

LPs Seeking Co-investment Opportunities in Emerging Markets

An important development in global private equity in recent years is the growing attention by Limited Partners to co-investing, in which LPs invest directly into deals led by private equity funds. Although co-investing is still much more common in the mainstream markets of the US and Europe, it is likely to increase in emerging markets, as leading LPs build additional capacity in these regions, and as a new crop of emerging market funds of funds enters the scene.

EMPEA's 2006 LP Survey gives one indication of LP interest in this area: fully 45% of the 76 LPs surveyed said they were interested in co-investing alongside their emerging market GPs.

Risks and Rewards

The main attraction of co-investing is that it has the potential to increase the returns from private equity investing, because LPs pay lower (or no) fees carried interest on the capital they invest via a co-investment, compared to substantial fees and carried interest on the capital they invest via a private equity fund. Co-investing also helps LPs put more capital to work, an important consideration particularly for larger pensions and asset managers.

According to co-investment specialists, several important risks go hand-in-hand with these benefits. First, because GPs usually offer co-investment opportunities late in the deal process, LPs face the risky prospect of evaluating and deciding on often complex transactions in tight timeframes, typically 2-4 weeks. Although LPs enter deals at the same overall valuation as the GP deal leader, they may be offered a different mix of securities than the GP, for example, preferred rather than common stock which can lower their return relative to the deal sponsor. In this context, LPs interested in co-investing need ready access to direct investment skills and experience, which differ from the general skillset of an LP.

A second risk of co-investing is portfolio concentration, since co-investing causes LPs to double their bets on specific companies —once via the fund and a second time via the co-investment. At the end of the Internet bubble, several large North American pension funds found themselves dangerously concentrated in telecommunications as a result of private equity co-investments. Another potential risk is adverse selection—the possibility that GPs will only offer the least attractive deals to others. Because of this concern, most LPs prefer co-investment when a GP is investing its maximum into a deal too large for the GP to complete on its own.

GPs that need additional capital for a deal usually have several options in addition to their own LPs, including joining forces with other private equity firms and drawing capital from other investment institutions, such as hedge funds. "If they can move quickly enough, it's more convenient to co-invest with LPs," says Antonio Bonchristiano of the Brazilian private equity firm GP Investimentos. "You avoid the extra work of raising a syndicate for a club deal, and with your LPs the terms are usually pre-negotiated."

Some Major Players

Many of the most active LPs in co-investing are very large pension and pension-like institutions, such as AlpInvest Partners, Ontario Teachers' Pension Plan, Caisse de dépôt et placement du Québec, GIC Special Investments (the private equity arm of the Government of Singapore Investment Corporation) and Performance Equity Management (the private equity manager for the General Motors pension). For these groups, co-investing is an important means to put more capital to work in an asset class where the largest LPs often face challenges deploying capital. As Sander van Maanen, a Partner at AlpInvest, explains, "Co-investing gives our investors an opportunity to invest more money at a good return."

Although co-investment is still largely a US and European activity, AlpInvest is one of the leading co-investment groups turning its attention to co-investment in emerging markets. A €30bn firm created to manage the private equity investments of two leading Dutch pension funds, ABP and PGGM, AlpInvest has allocated 15% of its capital to co-investment, of which 10% is now earmarked for Asia. Sander van Maanen has recently launched AlpInvest's Hong Kong office, from which he will lead the firm's Asian co-investment program. "We decided to go into co-investing in Asia", says van Maanen, "because at 10% of the global private equity market, it is big enough to warrant an office now, and we expect significant growth in the future."

Van Maanen explains that AlpInvest's approach to co-investing in Asia will be similar in most respects to their approach in the US and Europe. The group will only co-invest with lead investors with which it has an LP/GP relationship, and "that we know well and trust." AlpInvest will not prioritize specific sectors. "We like deals where the lead investor is very well positioned in terms of their knowledge of the sector and the company to lead the deal," he says. "With that leadership in the deal, we don't need to specialize in certain sectors and can take advantage of wide deal flow."

Van Maanen expects most of the Asian co-investments deals to be in the €20-€50m range, smaller than in the US and Europe, where the group has invested an average of €150m across 40 deals.

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Two other institutions active in co-investing in emerging markets are Teachers' Private Capital (the private capital arm of Ontario Teachers' Pension Plan) and GIC Special Investments. Both groups have institutional histories that include significant experience in direct investing, and for this reason, both approach private equity fund investing in part with co-investing in mind.

One of the biggest bets Teachers' Private Capital has placed in Asia was a US$250m anchor investment into the The Carlyle Group offshoot MBK Partners in 2006. Because of this commitment, it is likely that Teachers' was offered an opportunity to co-invest in MBK Partners' recent US$1.4bn purchase of China Network Systems, the Taiwanese cable company, although officials at Teachers' would not comment on the transaction.

GIC manages over US$100bn of foreign reserves for Singapore, and the private equity arm, GIC Special Investments, has been an active investor in private equity funds, direct deals and co-investments for many years in Europe, the United States and Asia. GIC was an anchor investor in the AIG infrastructure funds in Asia, and co-invested in several deals via that relationship.

The Emergence of Dedicated Vehicles

Because co-investing requires staff with the capacity to rapidly evaluate deals, most of the larger US government pensions, which typically have much smaller investment teams than their Canadian or European counterparts, have been less active in co-investing. Recently, several US pension funds have taken a new approach to co-investing by doing so through third-party-managed "dedicated co-investment vehicles." Examples of these vehicles include Lexington Partners Co-Investment Partners, which manages US$1.5bn for New York State Teachers Retirement System and Florida State Board of Administration, and Fisher Lynch Capital, which manages co-investments for the Oregon Public Employees Retirement Fund and the Washington State Investment Board.

One firm managing a dedicated co-investment fund that has already begun investing in emerging markets is AXA Private Equity, which in March 2006 placed €10m in the Polish cable company Aster alongside Mid Europa Partners. That investment came from AXA's €550m co-investment fund, which has a mandate to invest globally in LBOs of greater than €150m. According to AXA Senior Director Emmanuel Lejay, a key to the strategy is to invest "alongside GPs that we know well and that have a demonstrated track record."

Funds of Funds Also Co-investing

In addition to large pensions and dedicated vehicles, another category of active players in co-investing is funds of funds. Most of the new emerging markets funds of funds will reserve a portion of their capital, typically 20%, for co-investing, and most have significant direct deal experience at their disposal.

Pat Dinneen, the Managing Director in charge of Siguler Guff's US$600m BRIC Opportunities Fund, says the fund has a mandate to invest up to 20% of its capital in co-investments. "We have a robust pipeline, and I think we'll do the full 20%," said Dinneen. Siguler Guff's co-investment strategy is to focus on sectors where the firm has domain expertise and to consider deals from both GPs the fund has committed to and from other GPs well known to the firm.

"Co-investing can pose enormous risks and enormous challenges," Dinneen noted. "But we are not starting from scratch. We are mostly piggy-backing on the work of GPs we know and trust, and leveraging the domain expertise we have from the ten direct investment funds Siguler Guff has managed or co-managed." Another element of the firm's strategy is to negotiate into fund partnership agreements low or no fees on co-investments and a preference for LP co-investing over other sources of additional capital.

Varun Sood, Founder and Managing Partner of Capvent, which invests in India and China from a combined fund of funds and discretionary account platform, believes that funds of funds managers in emerging markets can add value to their GPs through co-investing. "The GPs in India are new players and they need perspective from a team with international experience. When we co-invest we can be a bridge for the fund or for the company to connections internationally."

Capvent expects to invest US$150m a year in India, of which 25% will be through co-investments. Capvent's approach to co-investing in India is somewhat unusual in that, according to Sood, the firm will actively target co-investments led by GPs who are not investees of the fund of funds. "70% of the money [in private equity deals in India] is coming in from overseas funds. We won't invest in those funds as part of our India fund of funds, but we will invest in the deals those international funds do in India. We want to give our investors a piece of the whole market."

Jim Seymour, Managing Director of EMP Global's initiative to raise an emerging markets fund of funds, points out an important concern for funds of funds that co-invest. "Most funds of funds charge significantly higher carried interest on co-investment returns than on fund investment returns, which may lead to investments in lower quality co-investments and commitments to lower quality managers because they may provide co-investment opportunities."

Gene Pohren, Managing Director of the emerging markets fund of funds effort for PCG International, sees a shifting landscape of

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supply and demand for co-investments in Asia. "A lot of firms are raising larger funds, giving them the ability to do bigger deals on their own. But there is a co-investment opportunity when working with smaller funds, in the US$200-400 million range, as they pursue mid-sized companies," he said.

Hedge Funds and other Innovations

An important source of co-investment capital in emerging markets in recent years has been hedge funds, with groups such as Fortress, Eton Park, Equity International, and Ashmore active in private equity deals, in either a co-investing or deal sponsor role. Dirk Donath of Eton Park comments that several hedge funds have been attracted to emerging markets "because of compressed returns in the US and because emerging markets have done well. For these groups, co-investing is a way to ramp up very quickly," he said.

Antonio Bonchristiano notes that hedge fund interest in co-investing was a significant reason that motivated GP Investimentos to pursue a public offering of a stake in the management company. The offering raised US$308m (net of underwriting fees), with most of the capital being set aside to provide additional equity for large deals led by GP Capital Partners III, the firm's most recent fund. The strategy appears to be working: Bonchristiano expects that by the end of 2006, GPCP III will have invested US$225m, while leveraging an additional US$305m in co-investments.

The increased interest among LPs in co-investing—which, in essence, is an effort to increase the benefit of relationships with GPs and to decrease the cost—has made co-investment terms an important negotiation issue in current fundraising. Many GPs are looking to increase the fees on co-investing, and carried interest on co-investment of 10% or greater is becoming common, along with a one-time deal sourcing fee. Another strategy that GPs are pursuing is to pre-establish a set pool of capital to draw upon. The leading Chinese firm CDH is pursuing this strategy with its latest fund CDH III, which will be a US$1.2bn fund with a $US400m side car for co-investments. Officials at the firm would not disclose pricing for the two vehicles.

Member News

Abraaj Capital acquired an 80% stake in Pakistan's MS Forgings, the first investment from the US$300M Abraaj BMA Pakistan Buyout fund.

Actis took control of a 71% stake in Sri Lanka's Ceylon Oxygen Ltd and plans to make an offer for the rest of the company.

Advent International and Turkven Private Equity acquired Turkish company Roma Plastik through a management buy-out, valuing the company at €56M (US$74M).

Aureos Capital, via its Aureos Southern Africa Fund, acquired a 7% stake in financial services firm Real People Investment Holdings.

Baring Private Equity Asia made a 25% equity investment in AirTAC, a Chinese industrial pneumatic components manufacturer from its recently closed US$490M fund.

South African supermarket giant Shoprite Holdings accepted a ZAR13B (US$1.8B) takeover bid from a group of investors led by **Brait Private Equity**, which will own 21% of the company.

A consortium of US and international private equity investors, led by **Citigroup Venture Capital International (CVCI), Capital International Private Equity Fund IV (CIPEF)** and Concord International Investments, acquired a 93% stake in Amoun Pharmaceutical Co. (Amoun) for US$459M, one of the largest private equity transactions to occur in Egypt to date.

Conduit Capital Partners invested US$9M in Benito Juarez and US$8.8M in SOGAP V, Mexican energy providers, via its recently-closed Latin Power III fund.

DEG Invest purchased an 8.24% stake, valued at €11M (US$14.6M), in Atlantic Grupa, a leading Croatian maker of neutraceuticals.

EMP Global LLC's IDB Infrastructure Fund partially exited its US$85M investment in Saudi International Petrochemical Company ("Sipchem"), a diversified petrochemicals company.

Ethos Private Equity closed its Ethos Fund V for ZAR5.5B (US$750M), the largest Southern Africa fund to date.

Euroventures Ukraine profitably sold its 30% shareholding of Laona Limited, the second largest wholesale distributor of pharmaceuticals in Ukraine, to company's management for an undisclosed amount.

Henderson Equity Partners closed its €830M (US$1B) fund, Henderson PFI Secondary Fund II L.P., an infrastructure fund.

ICICI Venture Funds reportedly sold roughly a 5% stake of Info Edge (India) through the secondary market to Fidelity for roughly Rs 80 crore (US$17.9M).

International Finance Corporation will make a US$50M equity investment in the Avenue Asia Special Situations Fund IV, L.P, which focuses on the disposal or restructuring of nonperforming assets.

Istithmar acquired approximately 2.7% share capital of the Standard Chartered PLC through a US$1B structured investment.

Lombard Investments, Inc. completed the placement of 71.9 million of its shares in Central Pattana Public Co. Ltd, the leading shopping mall developer and operator in Thailand for consideration of approximately US$40M, or 4.2 times Lombard's original cost.

The **Mekong Capital** Enterprise Fund II announced a US$6M maiden investment in International Consumption Products Joint Stock Co., a Vietnamese food rinse manufacturer.

NBK Capital secured commitments totaling US$200M, completing the first closing of its NBK Capital Equity Partners Fund.

The Balkan Accession Fund, a joint-venture between **Romanian-American Enterprise Fund** and the Bulgarian-American Fund, closed at €110M (US$146M).

SHUAA Partners closed its private equity fund, SHUAA Partners Fund I, with US$200M.

Stratus VC acquired a 20% percent stake through its R$5M (US$2.5M) investment in Connec, a Brazilian designer and manufacturer of thin client computers and embedded software.

Warburg Pincus closed its 12th fund, Warburg Pincus Real Estate I L.P., at US$1.2B. The new fund will invest in real estate all around the world with over half of the investments in Asia and Europe.

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Emerging Markets Private Equity Exits & IPOs

Country	Portfolio Company Name	Private Equity Firm	Date of Investment	Capital Invested (US$mm)	Date of Exit	Exit	Return	Other PE Investors
Argentina	CableVision	Hicks, Muse, Tate & Furst	N/A	N/A	Sep-06	Trade sale to Grupo Clarin and Fintech of 40% stake in CableVision.	N/A	Fintech
Brazil	Lupatech	Axxon Group (Natexis Mercosul Fund)	Jun-05	US$11.6 million	Dec-06	Partial exit in June 2006 via IPO with follow-on trades in Dec 2006. Original stake was 18.7%.	6.9x; 397% IRR	GP Investimentos, BNDESPar
Chile	Carnes Nuble	Moneda Assets (ChileTech)	1998	N/A	Oct-06	Sale to Garces family for 26.6% stake.	57.6% IRR	N/A
Chile	La Polar	Southern Cross Group	1999	US$30 million	Oct-06	Sale of 20.1% stake in La Polar on the Santiago stock exchange for US$159 million.	N/A	N/A
China	Focus Media Holdings Ltd.	Carlyle Group	Aug-04	US$35 million	Sep-06	Partial exit of 20% of shares in Focus Media to secondary investors for US$2.85 million. Carlyle has already recouped its $35 million in original investment Target Media, which was acquired by Focus Media.	N/A	3i, Draper Fisher Jurvetson, CDH Investments, Goldman Sachs, WI Harper
China	Mermaid Maritime Ltd.	UOB Venture Management Pte. Ltd.	Apr-05	US$16.68 million	Oct-06	Trade sale to Thoresen Chartering of Hong Kong for a gain US$10.29 million.	87% IRR	Lombard Investments
China	Mei Da Coffee Co. Ltd.	H&Q Asia Pacific	1998	N/A	Nov-06	Trade sale of 85% stake in Mei Da to Starbucks Corporation.	N/A	N/A
China	Home Inns & Hotel Management	IDG Technology Venture Investments	Aug-03	US$1.8 million	Nov-06	Partial exit of a third of shares via IPO on NASDAQ, realizing US$15.3 million. IDG's remaining stake is valued at US$36.6 million at offer price.	N/A	Susquehanna China Investment, Sycamore Management Corp.
China	Home Inns & Hotel Management	Sycamore Management Corporation	Aug-03	US$3.0 million	Nov-06	Partial exit via IPO on NASDAQ, realizing US$25.4 million. Sycamore's remaining stake is valued at US$59.3 million at offer price.	N/A	Susquehanna China Investment, IDG Technology Venture Investments
Czech Republic	Radiokomunikace AS	Altima (Division of Bivideon)	2001	CZK 6.8 billion	Nov-06	LBO of complete stake in Radiokomunikace by Al-Bateen Investment Company, Lehman Brothers Private Equity, and Mid-Europa Partners for €1.2 billion (CZK33.6 billion).	N/A	N/A
Guatemala	Orzunil I de Electricidad Ltda	Globeleq (managers for CDC Group)	N/A	N/A	Sep-06	Trade sale of complete stake (14%) to OrPower 3 Inc.	N/A	N/A
Hungary	Invitel	Mid Europa Partners, GMT Communications Partners	May-03	€325 million	Oct-06	Partial exit. Mid Europa and GMT Communications have agreed to sell 14.2% each to Invitel's senior management for €118 million total. This reduces the two funds' holdings in Invitel to 33.33% each.	3x	N/A
India	Glenmark Pharmaceuticals	Actis	2002	US$11.6 million	Oct-06	Sale to HSBC Global Fund.	N/A	N/A
India	Havell India Ltd.	CLSA Capital Partners	Dec-04	US$5 million	Oct-06	Partial exit.	4x	N/A
India	EXLService Holdings Inc.	Oak Hill Capital Partners, LP	Nov-02	N/A	Oct-06	Partial exit of preferred shares via IPO on NASDAQ, remaining common shares are worth US$142.42 million	N/A	Financial Technology Ventures; TCV
India	EXLService Holdings Inc.	Financial Technology Ventures	Nov-02	N/A	Oct-06	Partial exit of preferred shares via IPO on NASDAQ, remaining common shares are worth US$47.44 million	N/A	Oak Hill Capital Partners, LP; TCV
India/US	Integreon Managed Solutions, Inc.	Connect Capital, The View Group	N/A	N/A	Nov-06	Trade sale to Manila-based LiveIt Solutions for US$1.67 billion.	N/A	N/A
India	Infoedge (Nakuri.com)	ICICI Venture Funds Management	2000	Rs. 7.3 crore (US$1.6M)	Nov-06	Secondary sale to Fidelity for Rs. 80 crore (US$18M). ICICI retains 3% of Infoedge.	N/A	Kleiner Perkins Caufield & Byers, Sherpalo Ventures
Mexico	Grupo Convermex SA de CV	JP Morgan Partners	Jun-03	US$135 million	Sep-06	LBO by Merrill Lynch Global Private Equity.	N/A	N/A
Poland	Polish Energy Partners	Enterprise Investors	1997	N/A	Nov-06	Sale of remaining 16.5% stake for €9.2 million on the Warsaw Stock Exchange.	3x	N/A
Romania	Continental Hotels	GED Group	1996	€4.5 million	Nov-06	Sale of 20.11% stake to majority shareholder RED Group.	2x	N/A
Romania	RALFI SA/Estima Finance	Romanian-American Enterprise Fund	1998	€6 million	Sep-06	Sold to GE Money.	9x; 100%+ IRR	N/A
Romania	Domenia Credit	Romanian-American Enterprise Fund	2003	€4.5 million	Sep-06	Sold 40% of stake in 2003 to EBRD and DEG; sold remaining stake to GE Money.	3x; 50%+ IRR	EBRD, DEG
Romania	Leasemart Holding BV/Motoractive	Romanian-American Enterprise Fund	1998	€8 million	Sep-06	Sold to GE Money.	8x; 80%+ IRR	FMO
Saudi Arabia	Saudi International Petrochemical Co.	EMP Global (IDB Infrastructure Fund)	N/A	US$85 million	Nov-06	Partial exit via IPO for US$60.5 million.	5x	N/A
South Africa	TRAC	Actis	1997	N/A	Aug-06	Trade sale of entire stake (26.9%) to existing shareholders.	N/A	N/A
Sri Lanka	South Asia Gateway Terminals	Actis	2000	N/A	Oct-06	Trade sale.	N/A	N/A
Thailand	Central Pattana Public Co., Ltd.	Lombard Investments (Thailand Equity Fund)	Jun-03	US$24 million	Aug-06	Sale of 3.3% stake for US$40 million, remaining 4.9% stake is estimated at US$60 million.	4.2x	N/A
Ukraine	Anthousa Ltd.	Euroventures Ukraine	Jul-02	US$2.5 million	Sep-06	Partial exit of 20% of shareholding via private placement; fund has sold approx. 80% of original shareholding, generating $48M, and retains 5%, estimated to be worth US$26M.	48.4x	N/A
Ukraine	Laona Investments Ltd.	Euroventures Ukraine	Jul-02	US$2 million	Sep-06	Management buyout of Euroventure Ukraine's 30.4% of shareholding.	2.6x; 28% IRR	N/A
Zambia	Manda Hill Centre Ltd.	Aureos Capital (Zambia Venture Capital Fund)	Dec-98	US$1.24 million	Aug-06	Sale to HBW of South Africa of minority stake in the first shopping mall in Zambia.	3.4x; 17.86% IRR	COMAFIN

This list represents a sample of exits recently announced. This list is not meant to be exhaustive, but rather indicative of the exit trends in emerging markets private equity. Information is compiled from submissions to EMPEA and from a range of publicly available news sources. We encourage all fund managers to submit information about their exits to EMPEA on a regular basis for possible inclusion in the Quarterly Review. Please send information to empea@empea.net.

Industry Events Calendar

Q1 2007

- **The 2007 North American Private Equity COOs and CFOs Forum**
  January 17-18, New York
  http://www.privateequityinternational.com/newyork07
- **Private Equity Forum**
  January 28-31, Dubai
  http://www.iirme.com/pe/
- **Private Equity Analyst Outlook 2007**
  January 30-31, New York
  http://events.dowjones.com/
- **Ninth Annual Conference on Latin America Private Equity**
  February 6-7, Miami
  http://www.economistconferences.com/
- **The 2007 Private Equity Emerging Leaders Forum**
  February 13-14, New York
  http://www.privateequityinternational.com/elf07
- **The 2007 Private Equity Infrastructure Forum**
  February 22-23, Berlin
  http://www.privateequityinternational.com/berlin07
- **Best Practices for Serving on a Company Board**
  February 23, Webcast
  http://www.nvca.org/
- **4th Annual Globalization of Australian Private Equity – A Market in Transition**
  February 26-28, Sydney, Australia
  http://www.asianfn.com/
- **The VentureOne Outlook Conference**
  February 27-28, San Francisco
  http://ventureoneoutlook.dowjones.com/
- **EVCA 2007 Investors' Forum**
  March 14-15, Geneva
  http://www.evca.com/html/events/conferences.asp
- **The Private Equity International Middle East Forum**
  March 19-20, Dubai
  http://www.privateequityinternational.com/dubai07
- **LAVCA 2007 Annual Summit**
  March 19-21, Guatemala City, Guatemala
  http://www.lavca.org/
- **VentureWire's Web Ventures Conference**
  March 20-21, San Mateo, CA
  http://webventures.dowjones.com/
- **3rd Annual Thunderbird Global Private Equity Investing Conference**
  March 29-30, Phoenix, AZ
  http://www.t-bird.edu/TPEC/07conference/

Want to know more about upcoming events & conferences?

www.empea.net

Industry Events Calendar

Q2 2007

- **2007 Asian Private Equity Real Estate Forum**
  April 18-19, Hong Kong
  http://www.privateequityinternational.com/

- **2nd Annual 2007 AVF-Dubai**
  April 22-24, Dubai
  http://www.asianfn.com/

- **2007 European Private Equity Investor Relations Forum**
  May 2-3, London
  http://www.privateequityinternational.com/

- **9th Global Private Equity Conference – IFC & EMPEA**
  May 10-11, Washington, DC

- **6th Annual AVF 2007 - China**
  May 16-18, Beijing
  http://www.asianfn.com/

- **3rd Annual 2007 AVF USA: Asia-'US Heartland' Buyout Forum**
  June 4-6, Chicago
  http://www.asianfn.com/

- **Private Equity World – Latin America**
  June 5-7, Miami
  http://www.terrapinn.com/2007/pelatam/

- **18th Annual Venture Capital Investing Conference**
  June 6-8, San Francisco
  http://www.ibfconferences.com/

- **2007 EVCA Symposium**
  June 13-15, Rome
  http://www.evca.com/

- **2007 North American Private Equity Investor Relations & Communications Forum**
  June 19-20, New York
  http://www.privateequityinternational.com/

- **Globalization of Healthcare Investing Conference**
  June 20-21, Cleveland, Ohio
  http://www.ibfconferences.com/

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Email choij@empea.net for details.

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May 10-11, 2007 | Washington, DC

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This annual conference brings together various private equity players—fund managers, institutional investors, financial institutions, and others who are active in emerging markets private equity.

Last year, the 8th Global Private Equity Conference sold out, with more than 600 participants.

Additional information and registration details will be available by the end of February 2007.

For information on sponsorship of this event, please contact Abby Phenix at +1 202-449-1155 or phenixa@empea.net.