

Updated: January 14, 2016

**The University of Pennsylvania
The Wharton School
Spring 2016**

MGMT 809: Private Equity in Emerging Markets

Mondays 3:00 – 6:00 pm

JMHH 250

Peter Tropper

Office hours: Mondays by appointment

Phone: (301) 768-5403

Email: ptropper@wharton.upenn.edu

TA: TBD

Email:

COURSE SUMMARY

The course investigates the private equity industry in emerging markets. The goal of the course is to give students a realistic understanding of the roles, responsibilities and analytical skills required of market practitioners, as well as the tensions that arise between various stakeholders, including government officials, investors, entrepreneurs, and the press. It is designed to provide students with a basic practical understanding of the private equity industry and the particular issues involved with how the business works in emerging markets. The underlying premise is that private equity in those countries have evolved as a distinctly different asset class from private equity in industrialized countries in areas such as valuations, governance, structure, contract enforcement and regulatory transparency.

CLASS FORMAT

Classes will include a combination of lectures, expert guest speakers, and case studies. All students will be graded on participation in class discussions and for required responses to questions posed on Canvas by the Instructor. Responses must be submitted prior to each class using Canvas. The course has no final exam.

You are required to display your Wharton- issued name tent in each class to facilitate teacher-student interaction. Failure to display your Wharton issued name tent in a class section may result in not getting credit for the class.

COURSE PROJECTS

In addition to classwork, students will complete a course project, either as part of a team (writing a business case study or designing a new private equity fund) or individually writing a research paper, as described below. Students must select a project and inform the Instructor no later than January 20.

BUSINESS CASE

- Teams that elect this option for the course project will prepare a case study suitable for use in future classes on private equity. The case can focus on a critical decision for a company's management that involves a private equity investor in the company, a decision by a fund to invest in a company or a decision by an investor to invest in a fund.
- The proposed case study will need to be presented to the Instructor by January 25. An interim discussion with the Instructor must take place by February 15. The final text case is due by the final class on February 29.

LAUNCH A NEW PE FUND

- For this project, each team will work as a fund manager preparing to launch a hypothetical Fund II. The team must design a presentation to potential institutional investors, deciding on the fund's investment strategy, size, key terms, fund manager team composition, and the types of investors in the fund.
- Each team will prepare financial models for the fund and for the fund manager, including investments, exits, expenses, revenue, capital calls, distributions, and carry.
- Prior to February 8, (i.e., the week following the class on the business structure and terms), each team must deliver draft financial models to the Instructor and have a discussion with the Instructor on the plan to develop the manager

presentation, including key fund concepts and who-does-which-piece of the work.

- The final version of the two financial models is due by February 22, and the team must make its presentation in the form of a pitch book and oral presentation to the Instructor prior to the last class on February 29. Financial models will be graded on the degree to which the model captures the concepts as well as clarity of modeling and spreadsheet design. Presentations are graded according to content, clarity of presentation and likely appeal to the selected target investors.

RESEARCH PAPER

Students who elect to write a research paper may choose any topic related to private equity in emerging markets. The topic must be approved by January 25. The student must discuss a draft outline of the paper to the Instructor prior to February 8, with the final paper due by February 29.

READING MATERIALS

The course has several types of reading materials, including, individual chapters from books, articles, and case studies. Items marked with an asterisk are recommended, but not required, readings. These are handy references that students should know about, but not expected to learn thoroughly, for this course.

GRADING

30%	Class participation
35%	Course project
25%	Required comments on case studies and readings
10%	Class attendance

COURSE SCHEDULE

Jan. 13	<ul style="list-style-type: none"> • Course overview • Private equity: locust or engine of development? How do emerging markets differ from developed markets? • What makes a good environment for private equity? • World class firms from the emerging markets.
Guests	<ol style="list-style-type: none"> 1) Robert van Zwieten, CEO, EMPEA 2) Michael Barth, Managing Partner, Barth & Assoc. and former CEO, FMO
Readings	<ol style="list-style-type: none"> 1) "2015 Global Limited Partners Survey" (EMPEA, 2015) 2) David Wilton, "The Benefits of Private Equity Investment," <i>Commonwealth Trade & Investment Report</i> (2013) 3) "The Case for Emerging Markets Private Equity" (IFC, January 2013) 4) "Private-Equity Bigs Fight German 'Locust' Buzz" (<i>New York Post</i>, February 21, 2006) 5) UN PRI Association, "The Six Principles of Responsible Investing" (http://www.unpri.org/about-pri/the-six-principles) 6) "Global Private Equity Barometer (Coller Capital, Winter 2015-2016) 7) Roger Leeds with Nadiya Satyamurthy, <i>Private Equity Investing in Emerging Markets</i>, "Chapter 2: Private Equity Ecosystems: A Stark Contrast between Developed and Developing Countries" (Palgrave Macmillan, 2015) 8) Antoine W. van Agtmael, <i>The Emerging Markets Century; How a New Breed of World-Class Companies Is Overtaking the World</i>, "Chapter 2: Against the Odds" (Free Press, 2007) 9) * "Doing Business 2015: Going Beyond Efficiency" (World Bank Group, 2015)
Jan. 25 (part 1)	Private equity fund strategies

	<ul style="list-style-type: none"> • Venture capital, growth, leveraged buyouts, distress, real estate, infrastructure, secondaries, debt, impact, value chain. • Sector specialization? Geographic focus? • How does strategy change as next fund grows? • What are the pros and cons of taking majority or minority stakes in investees? • What are the best instruments for investing in emerging markets? • Need LT investors: no short term trading here (e.g. pension funds good, hedge funds no; no liquidity)
Guest	Sev Vettivetpillai, Partner, The Abraaj Group
Case	Ali Gara, "The Abraaj Group: Making of a Global Private Equity Firm" (Stanford Business School Case #F-312, March 2015).
Readings	1) Jim O'Neill, "BRICs and Beyond" (Goldman Sachs, 2007).

Jan. 25 (part 2)	Venture capital
Guest	George W. Siguler, Managing Director, Siguler Guff & Co.
Case	Siguler Guff IC Memo, "Jive Investments," 15 December 2015.
Readings	1) Eli Talmor and Florin Vasvari, <i>International Private Equity</i> , "Chapter 17: Venture Capital" (Wiley, 2014).

Feb. 1 (part 1)	<p>Business model of a PE fund</p> <ul style="list-style-type: none"> • The basic deal between investors and fund managers • Alignment of interest within the manager team and with the investors • Key terms • Implications of the LP/GP and other structures
------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Case	TBD
Readings	<ol style="list-style-type: none"> 1) ILPA, "Private Equity Principles," Version 2.0 (January 2011). 2) Peter Olds, "Emerging Markets Fund Terms: How and Why Do They Differ from Developed Markets Funds" (EMPEA, <i>Legal and Regulatory Bulletin</i>, 2015). 3) "Barbarians at Middle Age." (<i>The Economist</i> April 14, 2014). 4) Geoffrey Kittredge and John W. Rife III, "Deal-by-Deal and Pledge Fund Models" (EMPEA, <i>Legal and Regulatory Bulletin</i>, Spring 2014). 5) Mara Topping, "Evergreen Alternatives to the 2/20 Term-Limited Fund" (EMPEA, <i>Legal and Regulatory Bulletin</i>, Spring 2014) 6) CalPERS Investment Committee meeting, Part 2 of 2 (YouTube video: https://www.youtube.com/watch?v=VN1HkGTWk5U&app=desktop, August 17, 2015, starting at minute 55).

Feb. 1 (part 2)	<p>Fund raising: the institutional investors' view</p> <ul style="list-style-type: none"> • Who invests in PE in EMs and why • How do fund managers market their funds? • How do investors select funds?
Guest	Maria Kozloski, Senior Manager, IFC Private Equity Group
Cases	<ol style="list-style-type: none"> 1) "Yale University Investments Office" (HBS Case #9-807-073, March 2011). 2) "Southern Cross Latin America Private Equity Fund," (IES198 0-608-015, December 2008).
Readings	<ol style="list-style-type: none"> 1) Joshua Lerner, "A Note on the Private Equity Fundraising Process" (HBS case # 9-201-042, April 2011). 2) "Track Record and Its Prescriptive Limitations" (PEI, May 22, 2015).

	3) "Pension Funds and Private Equity: Unlocking Africa's Potential" (EMPEA, 2014).
--	------------------------------------------------------------------------------------

Feb. 8 (part 1)	Managing the investment process <ul style="list-style-type: none"> • Building deal flow, auctions vs proprietary sources • Function of the Investment Committee • Role of investors
Case	Paola Sapienza, Vineet Bhagwat and Apaar Kasliwal, "Surya Tutoring: Evaluating A Growth Equity Deal in India," (Kellogg School of Management Case #KEL 679, October 2012).
Readings	1) Mini case: slow investment pace (Avanz Capital 2015) 2) "India Private Equity Report," (Bain, 2015)

Feb. 8 (part 2)	Due diligence by fund manager <ul style="list-style-type: none"> • What does due diligence really mean? • What do you do when there is no information? • What role do investors play? • How important are environment & social issues?
Case	"Abraaj Capital and the Karachi Electric Supply Company," (HBS Case # 9-812-019, July 2014).
Readings	1) "Due Diligence Questionnaire Tool." Version 1.0 (ILPA, October 2013). 2) "Integrating ESG in Private Equity: A Guide for General Partners" (UN PRI Association, 2014). 3) "Environmental, Social & Governance (ESG) Reference Guide" (EMPEA, 2014).

Feb. 15 (part 1)	Valuing firms & structuring deals <ul style="list-style-type: none"> • Valuing investments • What are the risks?
-------------------------	------------------------------------------------------------------------------------------------------------------------------------------

	<ul style="list-style-type: none"> • What are mitigating steps that a fund can take?
Cases	<ul style="list-style-type: none"> ✓ “Hony, CIFA and Zoomlion: Creating Value and Strategic Choices in a Dynamic Market” (HBS Case #811-032, January 2012). ✓ “ACA and the Union Bank Acquisition” (HBS Case #9-814-080, September 2015).
Readings	<ol style="list-style-type: none"> 1) Eli Talmor and Florin Vasvari, <i>International Private Equity</i>, “Chapter 10: Valuation of Private Equity Companies” (Wiley, 2014). 2) “International Private and Venture Capital Valuation Guidelines” (IPEV, 2012). 3) “Private Credit Solutions: Mezzanine Financing in Emerging Markets” (EMPEA, May 2014). 4) “GPs Struggle to Understand Indian Entry Multiples” (PEI, October 15, 2015) 5) Roger Leeds with Nadiya Satyamurthy, <i>Private Equity Investing in Emerging Markets</i>, “Chapter 6: China: Private Equity with Chinese Characteristics” (Palgrave Macmillan, 2015).

Feb. 15 (part 2)	<p>The business of PE is adding value</p> <ul style="list-style-type: none"> • Adding value • Monitoring investees • Reporting to investors
Guest	Peter Goodson, UC Berkeley – Haas School of Business
Cases	<ul style="list-style-type: none"> ✓ “Mekong Capital & Golden Gate Restaurants” (INSEAD Case, 2015). ✓ .
Readings	<ol style="list-style-type: none"> 1) “Whistleblowing,” news.bbc.co.uk/2/hi/programmes/newsnight/9682677.stm (BBC clip, January 12, 2012).

Course Syllabus

	<p>2) "Broadening Horizons: How Do Private Equity Investors Create Value?" (EY and AVCA, 2014).</p> <p>3) Peter Goodson, "Asian Warning Signs Ahead: Better Earn Your Two and Twenty," (Super Return Asia, 2014).</p> <p>4) "Private Equity Roundup for China" (EY, 2015).</p> <p>5) Drew Wilson, "GP bottleneck Crimps Southeast Asia" (<i>Private Equity International</i>, December 11, 2013).</p>
--	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Feb. 22	<p>It's all about exits</p> <ul style="list-style-type: none"> • Why not wait and get a higher price? • IPO or not to IPO? • What if the entrepreneur refuses to go along? • Course wrap up and final comments
Case	<p>✓ "Exits in Emerging Markets: Actis' Investment in Uneme" (Stanford U. Grad School of Business Case #F-311, March 2015).</p> <p>✓ "Gobi Partners and DMG," (HBS Case #9-810-095, April 2010)</p>
Readings	1) TBD

Feb. 29 (part 1)	<p>Governance</p> <ul style="list-style-type: none"> • Formal and informal structures • Value (and cost) of good governance • Fund governance vs investee governance • Role of investors & reporting
Guest	Teresa Barger, Senior Managing Director, Cartica Capital
Case	"Celtel International B.V." (HBS Case #9-805-061, July 2006).
Readings	<p>1) "Quarterly Reporting Standards: Best Practices." Version 1.0 (ILPA, October 2011).</p> <p>2) "Family Business Governance Handbook" (IFC, 2011).</p> <p>3) "Corporate Governance of Non-Listed Companies in</p>

	Emerging Markets.” (OECD, 2006). 4) “Private Equity Roundup - Africa” (EY, 2015)
Feb. 29 (part 2)	Impact investing <ul style="list-style-type: none"> • What is impact investing? • How do you measure impact? • Do companies face a tradeoff between impact and financial return? • What types of investors care about impact?
Guest	Ambassador (ret.) John Simon, Founding Partner, Total Impact Capital
Case	<ul style="list-style-type: none"> ✓ “Acumen Fund: Measurement in Impact Investing” (HBS Case A #9-310-011, May 2011 and Case B #9-310-017, May 2011). ✓ Michael Chu and Rachna Tahilyani, “Aspada: In Search of the Right Structure for Impact Investing” (HBS Case #9-314-099, July 2014).
Readings	<ol style="list-style-type: none"> 1) “Eyes on the Horizon: The Impact Investor Survey” (J. P. Morgan and The GIIN, May 4, 2015). 2) “Introducing the Impact Investing Benchmark” (Cambridge Associates and The GIIN, 2015). 3) “From Blueprint to Scale: The Case for Philanthropy in Impact Investing” (Monitor Group and Acumen Fund, 2012). 4) “Impact Investments: An Emerging Asset Class” (J. P. Morgan, 2010). 5) Erik Simanis and Duncan Duke, “Profits at the Bottom of the Pyramid” (<i>Harvard Business Review</i>, October 2014). 6) John Simon and Julia Barmeier, “More than Money: Impact Investing for Development” (Center for Global Development, 2010).

RESOURCES

Antoine W. van Agtmael, *The Emerging Markets Century; How a New Breed of World-Class Companies Is Overtaking the World* (Free Press, 2007).

Roger Leeds with Nadiya Satyamurthy, *Private Equity Investing in Emerging Markets*, "Chapter 6: China: Private Equity with Chinese Characteristics" (Palgrave Macmillan, 2015).

Josh Lerner, Ann Leamon and Felda Hardymon, *Venture Capital, Private Equity, and the Financing of Entrepreneurship* (Wiley, 2012).

Eli Talmor and Florin Vasvari, *International Private Equity* (Wiley, 2014).

Kwek-Ping Yong, *Private Equity in China: Challenges and Opportunities* (Wiley, 2012).

Useful PE Web Sites

Numerous journals and organizations produce regular, high quality material online:

www.avca.com	Africa Private Equity Association
www.asiape.com	Asian Private Equity Research Ltd.
www.avcj.com	Asian Venture Capital Journal
www.empea.org	Emerging Markets Private Equity Association
www.evca.eu	European Private Equity & Venture Capital Association
ivca.in	Indian Private Equity & Venture Capital Association
llpa.org	International Limited Partners Association
www.lavca.org	Latin American Private Equity & Venture Capital Association
www.privateequityinternational.com	Private Equity International
www.privateequity.com	PrivateEquity.com
www.savca.co.za	Southern African Venture Capital & Private Equity Association

blogs.wsj.com/frontiers/	<i>Wall Street Journal</i> frontier markets blog
------------------------------------------------------------------------	--------------------------------------------------

ABOUT THE INSTRUCTOR

Peter Tropper is a renowned expert in emerging markets private equity with 30 years of investment and advisory experience in 110 countries in over 200 funds. Fund managers, institutional investors, and policymakers in this rapidly growing asset class regularly seek his guidance.

Peter advises fund managers and institutional investors on private equity fund formation and governance issues. He is the chair of the Emerging Markets Private Equity Association's Frontier Markets Council and sits on several PE advisory committees. He teaches professional development programs for fund managers and is a frequent speaker at industry conferences.

In January 2014, Peter left IFC as Chief Investment Officer in IFC's Private Equity Group, which had commitments of more than \$3.5 billion in over 180 private equity funds plus investments in two dozen fund managers, all dedicated exclusively to emerging markets. At IFC, he worked on more than 200 funds and served as IFC's representative on the advisory committees of numerous private equity funds. In his last role at IFC, Peter was the global lead for funds that invest in small and medium enterprises, and set up and ran the SME Ventures program for funds that invest in small enterprises in frontier markets.

Prior to 2001, he was the HQ "anchor" for the supervision work of IFC's South Asia Department, with a portfolio of 100 companies in the financial sector. Until September 1999, Peter served in IFC's Latin America and Caribbean Department, where he was responsible for identifying and structuring IFC's investments in the financial sector in the Caribbean and Chile, and for recommending investment strategies that contribute to the development of the region's capital markets.

Peter also served as the first head of IFC's Emerging Markets Data Base unit, which since has been sold to Standard & Poor's. The EMDB is a comprehensive database that provides detailed statistics on stock markets in developing countries. A commercial service, it includes information on more than 2,000 stocks in 45 developing countries.

Peter joined IFC in 1984, after several years as Deputy Director of the Northeast-Midwest Institute in Washington, D.C. The Institute was created to promote the economic development of the states in the northeastern and Midwestern regions of the

United States.

He has a B.A. from Yale University, an MBA from the University of Maryland, and a Master's in International Affairs from the Johns Hopkins University School of Advanced International Studies.