

**The University of Pennsylvania
Spring 2017**

MGMT 809: Private Equity in Emerging Markets

Mondays and Wednesdays 1:30 – 3:00 pm
JMHH 250

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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 practical grasp 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 has 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. Grades will be based on attendance, class participation, a course project

and responses to discussion questions for each class (except the first class). The course has no final exam. You should display your name tent in each class to facilitate teacher-student interaction. Failure to display your name tent may result in not getting credit for the class.

DISCUSSION QUESTIONS

Discussion questions will be posted by the professor on Canvas under “Assignments” and responses must be submitted prior to each class using Canvas. For the discussion questions, you get a B if your answers show that you read the material; a B+ if your answers show that you have thought about the material; and an A- if your answers make the professor think about what you wrote. Higher and lower grades are rare for the discussion questions.

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. You must select a project and inform the professor no later than January 23. Teams should have either 4-5 students (for business cases or launching a new fund) or a single student (for a research paper). All teams, even for research papers, must be registered on Canvas.

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 case must be written in the standard business case format, presenting one or more problems that need to be solved.

- The concept for the case study should be presented to the professor by January 23, with an interim discussion with the professor by February 15. The team should schedule the final presentation to the professor during the week of the final class, and the final text of the case is due by the final class.

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 two financial models, one for the fund and one for the fund manager. The model for the fund should include investments, exits, expenses, revenue, capital calls, distributions, and carry.
- The team should get the professor's ok on the concept by January 23. Prior to February 8, each team must deliver draft financial models to the professor and have a discussion with the professor on the plan to develop the manager presentation, including key fund concepts.
- The team must deliver the final version of the two financial models via Canvas by February 20, and make its presentation in the form of a pitch book and oral presentation to the professor prior to the last class on March 1. Financial models will be graded on the degree to which the model captures the concepts as well as clarity of modeling 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 23. The student must discuss a draft outline of the paper with the professor prior to February 8 and present the final version of the case to the professor in the week prior to the final class. The final text of the case is due by the final class and should be no more than 10 double spaced pages in length.

READING MATERIALS

The course has several types of reading materials, including individual chapters from books, articles, and case studies. An additional list of references will be posted on Canvas. Items marked below as “good references” are handy references for practitioners that students are not expected to learn thoroughly for this course.

GRADING

30%	Class participation
35%	Course project
25%	Online discussion questions
10%	Class attendance

COURSE SCHEDULE

Jan. 11	Course overview <ul style="list-style-type: none"> • What does the PE world look like today? • How do emerging markets differ from developed markets? • What makes a good environment for private equity? • What are the hot buttons in this part of the business?
Guests	1) Robert van Zwieten, CEO, EMPEA 2) Michael Barth, Managing Partner, Barth & Assoc. and former CEO, FMO
Readings	1) David Wilton, “The Benefits of Private Equity Investment,” <i>Commonwealth Trade & Investment Report</i> (2013) 2) EMPEA, “2016 Global Limited Partners Survey”

Jan. 18	Business model of a PE fund <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	None
Readings	1) ILPA, "Private Equity Principles," Version 2.0 (January 2011)

Jan. 23	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).

Jan. 25	Fund strategies: the institutional investors' view <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	✓ Josh Lerner and Ann Leamon, "Yale University Investments Office: August 2006" (HBS case #9-807-073, March 2011).
Readings	1) Joshua Lerner, "A Note on the Private Equity Fundraising Process" (HBS case # 9-201-042, April 2011).

Jan. 30	Fundraising
Guest	Guy Eugene
Case	✓ “Southern Cross Latin America Private Equity Fund,” (IES198 0-608-015, December 2008).
Good reference (not required)	“International Private and Venture Capital Valuation Guidelines” (IPEV, 2012).

Feb. 1	<p>Fund strategies – the fund manager’s view</p> <ul style="list-style-type: none"> • Sector or instrument specialization? Venture capital, growth, leveraged buyouts, distress, real estate, infrastructure, secondaries, debt, impact, value chain? • 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?
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) Peter Olds, “Emerging Markets Fund Terms: How and Why Do They Differ from Developed Markets Funds” (EMPEA, <i>Legal and Regulatory Bulletin</i> , 2015).

Feb. 6	<p>Valuing firms with limited information</p> <ul style="list-style-type: none"> • Building deal flow, auctions vs proprietary sources • Function of the Investment Committee • What are the risks?
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	<ul style="list-style-type: none"> • What mitigating steps can a fund can take?
Cases	<ul style="list-style-type: none"> ✓ “Abraaj Capital and the Karachi Electric Supply Company,” (HBS Case # 9-812-019, July 2014). ✓ 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	<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) Bain & Company, “India Private Equity Report 2016,” (Executive Summary, pp. 3-6) 3) Mini case: slow investment pace (Avanz Capital 2015), (to be distributed in class)

Feb. 8	The business of PE is adding value <ul style="list-style-type: none"> • Adding value • Monitoring investees • Reporting to investors
Guest	Peter Goodson, UC Berkeley, Haas School of Business
Case	✓ Peter Goodson, “Can Mekong Capital’s Operating Advanatge Boost the Value in Its Exit from & Golden Gate Restaurants” (INSEAD Case #03/2016-6162, 2016).
Readings	Markus Taussig, Matthew Schwarz and Kenneth Chin, “Private Equity and Evolving Market Mechanisms”, Chapter 23 in Darek Klonowski, editor, <u>Private Equity in Emerging Markets (Palgrave MacMillan, 2012)</u>

Feb. 13	The secondary market
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Guest	Brian Sullivan, Paul Capital Partners
Case	✓ David Scharfstein, "Paul Capital Partners: Secondary Limited Partnership Investing" (HBS case #9-209-089, October 2010)
Readings	TBD

Feb. 15	Picking good companies
Guest	Paul Fletcher, Chairman, Actis
Case	Meaghan Conway, "Exits in Emerging Markets: Actis' Investment in Umeme" (Stanford Business case #F-311, March 2015)
Readings	Jeremy Connick, Kem Ihenacho, Jennifer Mbaluto and Carolyn Campbell, "Managing Political Risk in Emerging Markets" (EMPEA, <i>Legal and Regulatory Bulletin</i> , 2012).

Feb. 20	Structuring deals <ul style="list-style-type: none"> • What does due diligence really mean? • How do entrepreneurs see a potential investment by a PE fund? • How important are environment & social issues?
Case	✓ "Hony, CIFA and Zoomlion: Creating Value and Strategic Choices in a Dynamic Market" (HBS Case #9-811-032, January 2012). ✓ "Hotel Ivory" (HBS case #9-213-050, May 2014)
Readings	Xuan Zhang, "Accessing Chinese Investors: A Quick Regulatory Update" (EMPEA, <i>Legal and Regulatory Bulletin</i> , 2016)
Good references (not required)	"Integrating ESG in Private Equity: A Guide for General Partners" (UN PRI Association, 2014).

Feb. 22	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	Monica Brand Engel, Founding managing director of Accion's Frontier Investments Group, predecessor to Quona Capital
Case	✓ Alnoor Ebrahim and V. Kasturi Rangan, "Acumen Fund: Measurement in Impact Investing (A)" (HBS case #9-310-011, May 2011).
Readings	<ol style="list-style-type: none"> 1) "2016 GIIN Annual Impact Investor Survey" (GIIN and J. P. Morgan Chase & Co., May 2016). 2) Erik Simanis and Duncan Duke, "Profits at the Bottom of the Pyramid" (<i>Harvard Business Review</i>, October 2014).

Feb. 27	Governance <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	✓ Empress Hotels (to be distributed in class)
Readings	1) "Family Business Governance Handbook" (IFC, 2011).

Mar. 1	It's all about exits <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	✓ "Gobi Partners and DMG," (HBS Case #9-810-095, April 2010) ✓ Troika Fund: Failure to Exit (September 2016)
Readings	TBD

Private Equity in Emerging Markets Reference Materials

I. SUGGESTED BOOKS ON PRIVATE EQUITY

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*, (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).

II. USEFUL WEB SITES & NEWSLETTERS

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.eavca.org	East Africa Venture Capital Association
www.empea.org	Emerging Markets Private Equity Association
www.empea.org	<i>Legal & Regulatory Bulletin</i>
www.thegiin.org	Global Impact Investing Network
www.investeurope.eu	European Private Equity & Venture Capital Association
www.ifc.org	DFI Toolkit on Corporate Governance

www.ivca.in	Indian Private Equity & Venture Capital Association
www.ilpa.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.privateequityvaluation.com	International Private Equity & Venture Capital Valuation
www.savca.co.za	Southern African Venture Capital & Private Equity Association

III. SELECTED BEST PRACTICE DOCUMENTS

- ILPA: Private Equity Principles
- ILPA: Reporting Best Practices
- ILPA: Due Diligence Questionnaire
- EMPEA Guidelines: Key Elements of Legal and Tax Regimes Optimal for the Development of Private Equity
- EMPEA: Environmental, Social & Governance Reference Guide
- IFC: Family Business Governance Handbook
- IPEV: Valuation Guidelines
- OECD: Corporate Governance of Non-Listed Companies in Emerging Markets
- UN PRI: Integrating ESG in Private Equity
- World Bank: Doing Business

ABOUT PETER TROPPER

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.

Course Syllabus

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.