

**The University of Pennsylvania**  
**Spring 2019**

**MGMT 809: Private Equity in Emerging Markets**

Mondays and Wednesdays 1:30 – 3:00 pm  
Lauder Auditorium

**Peter Tropper**

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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. 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.

The course has no prerequisites, but students are expected to have mastered the basics of corporate finance and accounting. Classes will be a mix of lectures, expert guest speakers and business cases, to provide students with a practical grasp of the private equity industry and the particular issues of how the business works in emerging markets. Cases will highlight the challenges and tasks at each stage of the investment cycle, such as structuring a new fund, originating new deals, conducting due diligence, creating value, monitoring performance of portfolio companies, and exiting. Guest resumes will be posted on Canvas.

## **CLASS LOGISTICS**

Grades will be based on attendance, class participation, a course project and written responses to discussion questions for each 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. It's important to check Canvas for Announcements because guest speaker schedules can change, and the professor may need to shift class topics and assignments on short notice.

## **WEEKLY DISCUSSION QUESTIONS**

Each week, the professor will post discussion questions related to the following week's classes on Canvas under "Assignments." Students must submit responses prior to Monday's class using Canvas. For the discussion questions, you get a B if your answers are minimal but suggest that you read the material; a B+ if your answers include some analysis and show that you have thought about the material; and an A- or A if your answers make the professor think about what you wrote. Higher and lower grades are rare for the discussion questions.

Note that questions for the first class are due before the class on Jan. 16.

## **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 28. Teams should have 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 sign up as a Course Project Team 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 uploaded to Canvas and presented to the professor by January 28, with an interim discussion with the professor by February 13. 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 on Canvas 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 28. Prior to the class on February 6, 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 27, and make its presentation in the form of a pitch book submitted on Canvas prior to the final class and in an oral presentation to the professor acting as the CIO of a major N. American pension fund with extensive portfolio of investments in emerging markets,. 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 28. The student must discuss a draft outline of the paper with the professor prior to February 6 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 on Canvas by the final class and should be no more than 10 double spaced pages in length. You do not need to present the paper to the professor, though a discussion is always welcome.

## **READING MATERIALS**

The course has several types of reading materials, including articles, case studies and individual chapters from books. An additional list of references will be posted on Canvas. Items marked below as "good references" are handy references for market practitioners but are not required reading for this course.

## GRADING

Assignments are graded on a 5 point scale, where 3.7 is a B+.

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

## COURSE SCHEDULE

<b>Jan. 16</b>	<b>Emerging Markets and Private Equity</b> The post-World War II system seems to be dissolving; how will the new system affect private equity in emerging markets?  Come to this class and find out.
<b>Guest</b>	David Wilton, Managing Director & CEO, Zheng Partners, LLC
<b>Readings</b>	1) EMPEA, <i>2018 Global Limited Partners Survey</i> 2) David Wilton, "Emerging Market Private Equity, Its Recent Growth and Differences with Private Equity in Developed Markets," (Chapter 5 in Darek Klonowski, <i>Private Equity in Emerging Markets</i> , Palgrave Macmillan, 2012)
<b>Good reference</b> (not required)	1) 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)

<b>Jan. 21</b>	<b>Martin L. King Day - no class</b>
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<b>Jan. 23</b>	<b>Business model of a PE fund</b> This class looks at the nuts and bolts of the business model of PE funds with a focus on funds in emerging markets. It covers the legal and business structures of funds, as well as market practice for fees, expenses and carried interest.
<b>Case</b>	none
<b>Readings</b>	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).
<b>Good reference (not required)</b>	Invest Europe, <i>Professional Standards Handbook</i> , April 2018

<b>Jan. 28</b>	<b>Fund strategies: the institutional investor's view</b> This class covers key considerations for manager and fund selection from the perspective of a large institutional investor. Practical tools will be provided for early screening and selection of funds and fund managers.
<b>Guest</b>	Maria Kozloski, Senior Manager, IFC Private Equity Group
<b>Case</b>	IFC, <i>The Beatles Fund II</i>
<b>Readings</b>	none
<b>Good reference (not required)</b>	ILPA, “Due Diligence Questionnaire,” (September 2016)

<b>Jan. 30</b>	Fund strategies – the <b>fund manager’s view</b> So you want to be a fund manager? Really?
<b>Guest</b>	David Mathewson, President, SEAF
<b>Case</b>	Felda Hardymon & Tom Nicholas, <i>New Enterprise Associates</i> (HBS #9-813-097, February 5, 2013). <b>Required:</b> Introduction (on p.1), pp. 5-11 and Conclusion (pp. 12-13).
<b>Readings</b>	<i>Starting a Private Equity Fund Firm – A Complete Guide</i> , <a href="http://www.profitableventure.com">www.profitableventure.com</a> ( <a href="#">Links to an external site.</a> )  Victoria Ivashina & Josh Lerner, Pay Now or Pay Later? The Economics within the Private Equity Partnership (HBS Working Paper 16-119, 2016). <b>Required:</b> pp. 1-4 and pp. 24-25.

<b>Feb. 4</b>	<b>Due diligence and structuring deals</b> This session outlines due diligence issues, with a focus on the risks to consider. The cases cover a range of topics, including business integrity, market judgements, company structure, governance, regulation, accounting/finance, social, environmental, human resources and exits.
<b>Cases</b>	1. “Hotel Ivory” (HBS case #9-213-050, May 2014) 2. “Abraaj Capital and the Karachi Electric Supply Company” (HBS Case # 9-812-019, July 2014).
<b>Readings</b>	Claudia Zeisberger, Michael Prah, and Bowen White, <i>Mastering Private Equity: Transformation via Venture Capital, Minority Investments and Buyouts</i> (Wiley, 2017), Chapter 6: Deal Sourcing & Due Diligence.

	"Volatility and Uncertainty: How Private Equity in Africa Navigates Through Turbulent Times," (AVCA, November 2017)
<b>Good references</b> (not required)	"Integrating ESG in Private Equity: A Guide for General Partners" (UN PRI Association, 2014).

<b>Feb.6</b>	<b>Investment Committee decision - would you make the investment?</b> In this class, students discuss the presentation of an unusual proposal to the investment committee of a major fund manager for emerging markets. The discussion will be led by the Managing Director of the fund.
<b>Guest</b>	George W. Siguler, Managing Director, Siguler Guff & Co.
<b>Case</b>	Siguler Guff IC Memo, "Project Luminare" (November 2018).
<b>Readings</b>	none

<b>Feb. 11</b>	<b>Fundraising</b> Fundraising is the first step in a PE fund's life cycle. The goal is to raise sufficient capital, not only to invest in portfolio companies but also to finance the fund manager's business. This class looks at the fundraising process and highlights the key considerations for investors and fund managers.
<b>Guest</b>	Guy Eugene
<b>Case</b>	Joshua Lerner, "Note on the Private Equity Fundraising Process" (HBS case # 9-201-042, April 2011).
<b>Readings</b>	none

<b>Feb. 13</b>	The business of PE is <b>adding value</b>
<b>Guest</b>	Ashley Dunster, former CIO of Capital International

<b>Case</b>	none
<b>Readings</b>	none

<b>Feb. 18</b>	<p><b>Private credit funds</b></p> <p>This class looks at private credit, which is fairly new to emerging markets. Why do entrepreneurs find it attractive? Private credit covers a broad range of strategies and instruments and can even offer advantages to investors in encouraging good environment, social and governance practices.</p>
<b>Guest</b>	David Creighton, Senior Advisor EMPEA; Director of Convergence; and Founder, Cordiant Capital Inc.
<b>Case</b>	IC Proposal for Trade Finance in Brazil (on reserve)
<b>Readings</b>	<ol style="list-style-type: none"> <li>1) "Private Credit in Emerging Markets: Recent Findings from EMPEA's Research," (EMPEA, November 2017)</li> <li>2) "Private Credit Strategies: An Introduction," (Cambridge Associates, 2017)</li> </ol>

<b>Feb. 20</b>	<p><b>Venture Capital</b></p> <p>This session assesses the merits of using a venture capital product in emerging markets. Through an evaluation of a case study of an IFC deal, students learn the basic terms that are used in typical VC transactions and get a better understanding of how the VC asset class has evolved in emerging markets in the past decade.</p>
<b>Guest</b>	Nikunj Jinsi, Global Head, IFC Venture Capital Group
<b>Case</b>	Hisoft China (on reserve)
<b>Readings</b>	none

<b>Feb. 25</b>	Valuing firms with <b>limited information</b>
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	This class looks at a case that combines many of the risks associated with investments in emerging markets. Students will be required to produce a DCF or other valuation of a firm where some key information is not given in the case.
<b>Case</b>	1) 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).
<b>Readings</b>	1) Eli Talmor and Florin Vasvari, <i>International Private Equity</i> , "Chapter 10: Valuation of Private Equity Companies" (Wiley, 2014).
<b>Good reference (not required)</b>	IPEV, "International Private and Venture Capital Valuation Guidelines" (December 2018).

<b>Feb. 27</b>	<b>Impact investing</b> This class addresses the role of fund managers in building sustainable and profitable companies that contribute to the economic development of the countries and communities in which they operate. It looks at issues such as potential trade-offs between making money and doing good as well as how to measure and report impact achievements.
<b>Guest</b>	Monica Brand Engel, Founding managing director of Accion's Frontier Investments Group, predecessor to Quona Capital
<b>Case</b>	✓ John Bazley and Cynthia Schweer Rayner, "Zoono Mobile Money: Investing for Impact," (Bertha Centre for Social Innovation and Entrepreneurship, 2015).
<b>Readings</b>	1) "Executive Summary: 2018 GIIN Annual Impact Investor Survey" (Global Impact Investing Network, June 2018). 2) IFC, "Investing for Impact: Operating Principles for Impact Management," Consultation Draft, October 2018. 3) Collaborative for Frontier Finance, "The Missing Middles: Segmenting Enterprises to Better Understand Their

	Financial Needs," (October 2018)
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<b>March 4 and March 6</b>	<b>Spring break - no class</b>
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<b>March 11</b>	<b>Governance</b> This session looks at the governance structure of funds and best practices in fund and investee governance. Participants will explore a series of typical issues faced by fund managers and fund investors.
<b>Guest</b>	Teresa Barger, Senior Managing Director, Cartica Capital
<b>Case</b>	none
<b>Readings</b>	1) Articles on Baring Vostok and Abraaj Group (on reserve) 2) "Family Business Governance Handbook" (IFC, 2011).

<b>March 13</b>	<b>It's all about exits</b> <ul style="list-style-type: none"> <li>• Why not wait and get a higher price?</li> <li>• IPO or not to IPO?</li> <li>• What if the entrepreneur refuses to go along?</li> <li>• Course wrap up and final comments</li> </ul>
<b>Cases</b>	1) "Gobi Partners and DMG," (HBS Case #9-810-095, April 2010) 2) Empress Hotels minicase (on reserve)
<b>Readings</b>	none

# 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).

Claudia Zeisberger, Michael Prahl and Bowen White, *Mastering Private Equity: Transformation via Venture Capital, Minority Investments & Buyouts* (Wiley, 2017).

### II. USEFUL WEB SITES & NEWSLETTERS

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

<a href="http://www.avca.com">www.avca.com</a>	Africa Private Equity Association
<a href="http://www.asiape.com">www.asiape.com</a>	Asian Private Equity Research Ltd.
<a href="http://www.avcj.com">www.avcj.com</a>	Asian Venture Capital Journal
<a href="http://www.eavca.org">www.eavca.org</a>	East Africa Venture Capital Association
<a href="http://www.empea.org">www.empea.org</a>	Emerging Markets Private Equity Association
<a href="http://www.empea.org">www.empea.org</a>	<i>Legal &amp; Regulatory Bulletin</i>
<a href="http://www.thegiin.org">www.thegiin.org</a>	Global Impact Investing Network

<a href="http://www.investeurope.eu">www.investeurope.eu</a>	European Private Equity & Venture Capital Association
<a href="http://www.ifc.org">www.ifc.org</a>	DFI Toolkit on Corporate Governance
<a href="http://www.ivca.in">www.ivca.in</a>	Indian Private Equity & Venture Capital Association
<a href="http://www.ilpa.org">www.ilpa.org</a>	International Limited Partners Association
<a href="http://www.lavca.org">www.lavca.org</a>	Latin American Private Equity & Venture Capital Association
<a href="http://www.privateequityinternational.com">www.privateequityinternational.com</a>	Private Equity International
<a href="http://www.privateequity.com">www.privateequity.com</a>	PrivateEquity.com
<a href="http://www.privateequityvaluation.com">www.privateequityvaluation.com</a>	International Private Equity & Venture Capital Valuation
<a href="http://www.savca.co.za">www.savca.co.za</a>	Southern African Venture Capital & Private Equity Association
<i>Wall Street Journal</i>	frontier markets weekly newsletter

### III. SELECTED BEST PRACTICE DOCUMENTS

- EMPEA Guidelines: Key Elements of Legal and Tax Regimes Optimal for the Development of Private Equity
- EMPEA: Environmental, Social & Governance Reference Guide
- Invest Europe, *Professional Standards Handbook*, April 2018
- IFC: Family Business Governance Handbook
- ILPA: Private Equity Principles
- ILPA: Reporting Best Practices
- ILPA: Due Diligence Questionnaire
- IPEV: Valuation Guidelines (2015 edition)
- OECD: Corporate Governance of Non-Listed Companies in Emerging Markets
- UN PRI: Integrating ESG in Private Equity: A Guide for General Partners
- 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.

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.