

**The University of Pennsylvania
Spring 2021**

MGMT 809: Private Equity in Emerging Markets

Mondays and Wednesdays 1:30 – 2:50 pm

Professor: Peter Tropper

Office hours by appointment on Zoom: Tuesdays 2:00 pm - 6:00 pm and
Wednesdays 10:00 am-noon

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COURSE SUMMARY

This 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 the basic rules for private equity in those countries are similar to the rules in more industrialized countries, but market participants face a broader range of issues in areas such as valuations, governance, legal structures, contract enforcement and regulatory transparency.

To provide students with a practical grasp of the issues, classes will be a mix of lectures, expert guest speakers and business cases. Cases will highlight the challenges and tasks at each stage of the investment cycle, such as structuring and launching a new fund, originating new deals, conducting due diligence, creating value, monitoring the performance of portfolio companies and exiting. Prior to taking this course, students should have mastered the basics of corporate finance and accounting. Each class will focus on a specific topic, ranging from the basics of how and why private equity funds operate to complex issues such as fund governance and adding value to family firms. One of the homework assignments will include calculating a DCF valuation in a market where key information is not readily available.

The classroom will use a hybrid format, where some students attend in person and others attend on Zoom. In both cases, attendance is mandatory. Watch Canvas for announcements because guest speaker schedules can change, and the professor may need to shift class topics and assignments on short notice. Resumes of guest speakers will be posted on Canvas.

Prerequisite: FNCE611: Corporate Finance or equivalent

WEEKLY DISCUSSION QUESTIONS

Each week, the professor will post required discussion questions related to the following week's classes on Canvas under "Assignments." Background for the answers usually can be found in the readings, but occasionally they require students to link the readings to current events. Answers should be uploaded to Canvas and should be no more than two pages per question, including charts, sources and annexes. Regardless of whether the questions relate to the class on Monday or Wednesday, you must submit responses on Canvas prior to Monday's class. 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.

Note that questions for the first class are due before the class.

CLASS PARTICIPATION

Students receive a grade for class participation. During class, you can speak up or raise your remote hand, though it's often more productive to use the chat function, which is monitored by the TA for the course and recorded. However, we usually have more than 70 students in a class, and it is impossible for everyone to have a meaningful opportunity to speak in class. To deal with this problem, you also get participation credit if you submit questions on the class topic on Canvas by midnight of the night before class. Questions can be directed to the professor or to the guest and can relate to the assigned case.

COURSE PROJECTS

In addition to classwork, students will join a self-selected team and complete a course project. You have three choices for type of project: writing a business case study, designing and marketing a new private equity fund or individually writing a research paper, as described below. You must select a project and inform the professor via Canvas no later than February 3. Teams should have no more than 5 students. 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 February 3, followed by an outline uploaded to Canvas in advance of 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 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 should 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 February 3. Prior to the class on February 15, each team must have a discussion with the professor on the plan to develop the manager presentation, including key fund concepts. The team must deliver draft financial models to the professor by February 17.
- The team must deliver the final version of the two financial models via Canvas by March 3, and make its presentation in the form of a pitch book submitted on Canvas and an oral presentation during the final week of class. At the presentation, the professor will act as the CIO of a major North American pension fund with extensive portfolio of investments in emerging markets. Financial models are 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 fund's selected target investors.

RESEARCH PAPER

Students who elect to write a research paper may choose any topic related to private equity in emerging markets. You must sign up as a Course Project Team on Canvas even though you are the only person on the team. The topic must be submitted via Canvas and approved by February 3. The student must discuss a draft outline of the paper with the professor prior to February 17 and submit the final version of the paper via 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 they are not required reading for this course.

GRADING

Grades are based on the course project, on written responses to discussion questions for each class, on class participation, and on attendance. The course has no final exam. Assignments are graded on Wharton's standard 4 point scale, where 3.33 is the equivalent of a B+.

35%	Team project
30%	Answers to weekly discussion questions
20%	Class participation
15%	Class attendance

COURSE SCHEDULE

Jan. 20	<p>Business model of a PE fund</p> <p>This class looks at how PE in emerging markets differs from PE in developed markets, and covers the nuts and bolts of the business model of PE funds. It covers the legal and business structures of funds, as well as market practice for fees, expenses and carried interest.</p>
Case	none
Readings	<ul style="list-style-type: none"> ILPA, “Private Equity Principles,” Version 3.0 (June 2019)
Good reference (not required)	<ul style="list-style-type: none"> Invest Europe, <i>Professional Standards Handbook</i>, April 2018 Peter Tropper, <i>Private Equity in Emerging Markets Reference Materials</i> (December 2019)

Jan. 25	<p>Industry overview</p> <p>Every business has been affected by the pandemic. Get the latest on the private equity industry from Cate Ambrose, who runs the global trade association for private equity in emerging markets.</p>
Guest	Cate Ambrose, CEO, Emerging Markets Private Equity Association
Readings	<ul style="list-style-type: none"> EMPEA, <i>2020 Global Limited Partners Survey</i>
Good reference (not required)	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)

Jan. 27	Fund strategies – the fund manager’s view So you want to be a fund manager? Really?
Guest	David Mathewson, Senior Managing Director, SEAF
Case	Felda Hardymon & Tom Nicholas, <i>New Enterprise Associates</i> (HBS #9-813-097, February 5, 2013). Required: Introduction (on p.1), pp. 5-11 and Conclusion (pp. 12-13).
Readings	<ul style="list-style-type: none"> • <i>Starting a Private Equity Fund Firm – A Complete Guide</i>, www.profitableventure.com (Links to an external site.) • Victoria Ivashina & Josh Lerner, Pay Now or Pay Later? The Economics within the Private Equity Partnership (HBS Working Paper 16-119, 2016). Required: pp. 1-4 and pp. 24-25.

Feb. 1	The investor's perspective This class covers key considerations for manager and fund selection from the perspective of a global development finance institution. Practical tools will be provided for early screening and selection of funds and fund managers.
Guest	Nicholas Vickery, Global Head, Private Equity Funds, International Finance Corporation
Case	TBD
Readings	TBD
Good reference (not required)	ILPA, “Due Diligence Questionnaire, version 1.2” (September 2018)

Feb. 3	<p>Company Board Governance: Function vs Dysfunction</p> <p>This session looks at how portfolio company boards function, make decisions and decide on strategy. Participants will explore various governance issues facing boards and board members serving as representatives of funds.</p>
Guest	Mike Lubrano, Senior Advisor, Nestor Advisors
Case	TBD
Readings	<ul style="list-style-type: none"> • Abraaj Scandal Timeline (December 2020) • “Family Business Governance Handbook” (IFC, 2011)
Good reference (not required)	<ul style="list-style-type: none"> • "Governance in Emerging Market Private Capital," (EMPEA, 2019)

Feb. 8	<p>Financing large projects in Emerging Markets is very different. Or is it?</p> <p>In this class, students discuss the issues of investing in a large private infrastructure project at a time of political and economic upheaval.</p>
Case	Qalaa Holdings and the Egyptian Refining Company (HBS #9-217-011), March 2018.
Readings	TBD

Feb. 10	<p>Impact investing</p> <ul style="list-style-type: none"> • 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. • Course wrap up and final comments
Guest	Monica Brand Engel, Founding managing director of Accion’s Frontier Investments Group, predecessor to Quona Capital
Case	<ul style="list-style-type: none"> • John Bazley and Cynthia Schweer Rayner, "Zoona Mobile Money: Investing for Impact, Case A and B" (Bertha Centre for Social Innovation and Entrepreneurship, 2015).
Readings	<ul style="list-style-type: none"> • “Annual Impact Investor Survey 2019 (Global Impact Investing Network, June 2019), Required: Executive Summary. • IFC, "Investing for Impact: Operating Principles for Impact Management," February 2019.
Good references (not required)	<ul style="list-style-type: none"> • Collaborative for Frontier Finance, "The Missing Middles: Segmenting Enterprises to Better Understand Their Financial Needs," (October 2018)

Feb. 15	<p>Private credit funds</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>
Guest	David Creighton, Chairman of the Private Credit Council and Senior Advisor, EMPEA; Chairman of the Board of Directors of Convergence; and Founder, Cordiant Capital Inc.
Case	IC Proposal for Trade Finance in Brazil (on reserve)
Readings	<ul style="list-style-type: none"> • "Private Credit Solutions: A Closer Look at the Opportunity in Emerging Markets," (EMPEA, 2019)

Feb. 17	The business of PE is adding value This session looks at how a GP adds value to a portfolio company: beginning in the due diligence phase, through development and implementation of value creation plans, and planning for the exit. Differing GP models and resource requirements will be discussed. Investments within a multi billion global portfolio will highlight the opportunities and challenges in the emerging markets.
Guest	Ashley Dunster, former CIO of Capital International
Case	none
Readings	none

Feb. 22	Fundraising 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.
Guest	Guy Eugene
Case	Joshua Lerner, "Note on the Private Equity Fundraising Process" (HBS case # 9-201-042, April 2011).
Readings	none

Feb. 24	Venture Capital 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.
Guest	Nikunj Jinsi, former Global Head of Venture Investment @ IFC
Case	Hisoft China (on reserve)
Readings	none

Mar. 1	Sourcing and structuring deals 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.
Cases	Marco Di Maggio and Gamze Yucaoglu, "iyzico: Fundraising in Emerging Markets" (HBS case #9-219-064, March 15, 2019)
Readings	<ul style="list-style-type: none"> • Claudia Zeisberger, Michael Pahl, and Bowen White, <i>Mastering Private Equity: Transformation via Venture Capital, Minority Investments and Buyouts</i> (Wiley, 2017), Required: Chapter 6: Deal Sourcing & Due Diligence. • "Volatility and Uncertainty: How Private Equity in Africa Navigates Through Turbulent Times," (AVCA, November 2017)
Good references (not required)	"Integrating ESG in Private Equity: A Guide for General Partners" (UN PRI Association, 2014).

Mar. 3	Valuing firms with limited information 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.
Case	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Eli Talmor and Florin Vasvari, <i>International Private Equity</i>, Required: "Chapter 10: Valuation of Private Equity Companies" (Wiley, 2014).
Good reference (not required)	IPEV, "International Private and Venture Capital Valuation Guidelines" (December 2018).

March 8	<p>It's all about exits</p> <p>How does a manager know when - or how - to exit an investment? What if the entrepreneur refuses to go along? What happens if the fund cannot exit by the end of the fund's legal life?</p>
Cases	<ul style="list-style-type: none"> • Meaghan Conway, "Exits in Emerging Markets: Actis' Investment in Umeme" (HBS Case #F-311, 3/17/15) • Empress Hotels (on reserve)
Readings	none

ABOUT PETER TROPPER

Peter Tropper is an expert in emerging markets private equity with 35 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 has served as chair of the Frontier Markets Council of the Emerging Markets Private Equity Association and as an investor representative on several PE fund 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 \$3.5 billion in more than 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. 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.