

**The University of Pennsylvania
Spring 2023**

MGMT 809: Private Equity in Emerging Markets

Mondays and Wednesdays 1:45 – 3:15 pm

Classroom: Lauder Auditorium

Professor: Peter Tropper

Office hours by appointment

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COURSE SUMMARY

This course investigates the private equity and credit industry in emerging markets, from the perspective of a PE fund at each stage of its life. Students will get a realistic understanding of the roles, responsibilities and analytical skills required of fund managers and investors, as well as insights into the tensions that can arise between various stakeholders, including government officials, investors, entrepreneurs and the press. Although the basic rules for private equity are similar across the globe, market participants in emerging markets 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. Guest speakers allow you to imagine what it is like to work in their role. Cases highlight the challenges and tasks at each stage of the investment cycle, such as launching a new fund, conducting due diligence, creating value and exiting. Each class will focus on a specific topic in a fund's life cycle, 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.

CLASS LOGISTICS

Grades will be based on attendance, class participation, written responses to discussion questions for each class and a team project. The course has no final exam. You should display your name tent in each class to facilitate teacher-student interaction and to ensure that you get credit for class participation. Watch Canvas for Announcements because guest speaker schedules can change, and the professor may need to shift class topics and assignments on short notice.

Prior to taking this course, students should have mastered the basics of corporate finance and accounting. **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 as pdf files to Canvas and should be no more than two pages per question, including charts, sources and annexes. (One page is preferred; two pages is a maximum, not a goal). Regardless of whether the questions relate to the class on Monday or Wednesday, you must submit responses on Canvas prior to Monday's class. Grades: 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; 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, but classes usually have more than 70 students 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 before class. Questions can be directed to the professor or to the guest and can relate to the assigned case or to prior classes.

TEAM PROJECTS

In addition to classwork, students join a self-selected team and complete a team project. You have three choices for type of project: (1) write a business case, (2) prepare a slide deck to launch a new private equity fund and (3) individually write a research paper, as described below. You must select a project and inform the professor on Canvas no later than February 1. Teams should have no more than 5 students. All teams, even for research papers, must sign up as a Course Project Team on Canvas.

Option 1: Business case

Teams that elect this option for the team project 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 should 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 1. The team should upload a draft outline of the case to Canvas and discuss it with the professor by February 15. The final text of the case is due on Canvas by the final class. The team should schedule an oral presentation to the professor during Exam Week.

Option 2: Launch a new PE fund

For this project, each team works 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.

- The team should get the professor's ok on the concept by February 1.
- Each team should prepare a financial model for the fund that includes investments, exits, expenses, revenue, capital calls, distributions, and carry.
- Prior to the class on February 15, each team should have a discussion with the professor on the plan to develop the fund manager presentation, including key fund concepts. The team should submit drafts of the financial models on Canvas by February 15.
- Submit the final version of the two models on Canvas by the final class.
- Submit the pitch book on Canvas by the final class.
- The team should make its presentation in the form of an oral presentation to the professor during Exam Week. No other written material is required. At the presentation, the professor will act as the CIO of a major North American pension fund with an extensive portfolio of investments in emerging markets. The project will receive a single grade that incorporates the model, the slide deck and the presentation. The 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 fund's selected target investors.

Option 3: Research paper

Students who elect to write an individual 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 should be submitted on Canvas and approved by February 1. Students should submit a draft outline of their papers on Canvas and discuss them with the professor by February 15 and submit the final version of the paper on Canvas by the final class. The paper should be no more than 10 double spaced pages in length. A discussion about the paper with the professor during Exam Week is recommended but not required.

READING MATERIALS

The course has several types of reading materials, including articles, case studies and individual chapters from books. Most readings and cases are in the study.net course pack. Others are in Canvas under Files-Readings. 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 team 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+. and the class Grade Point Average may not exceed 3.50.

40%	Team project
40%	Answers to weekly discussion questions
10%	Class participation
10%	Class attendance

All relevant University policies regarding Academic Integrity must be followed. Please consult the [Code of Academic Integrity](#) for details and clear descriptions of prohibited actions. Any violation of the Code will automatically lead to a FAIL or F grade. Violation of the [MBA Code of Ethics](#) may lead to additional sanctions.

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COURSE SCHEDULE

Jan. 18	Business model of a PE fund This is the first of two classes that examine the nuts and bolts of the business model of PE funds that focus on emerging markets. The first class covers the basics of the business model and fund structures.
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

Jan. 23	What's Driving Private Equity in Emerging Markets? 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 capital in emerging markets.
Case	none
Guest	Cate Ambrose, CEO, Global Private Capital Association
Readings	<ul style="list-style-type: none"> Reuters, <i>Analysis: in emerging markets, the bulls are back again</i>, November 23, 2022.

Jan. 25	Fund manager incentives This class concludes the examination of the PE funds business model, focusing on standard market practice for fees, expenses and carried interest.
Case	<ul style="list-style-type: none"> none
Readings	<ul style="list-style-type: none"> none
Good reference (not required)	<ul style="list-style-type: none"> Heidrick & Struggles, <i>2020 Asia Pacific Private Capital Investment Professional Compensation Survey</i>

continued

Jan. 30	The institutional 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	Carlos Mayorga, Global Portfolio Manager, Private Equity Funds, International Finance Corporation
Case	<ul style="list-style-type: none"> • IFC, Delphus II
Readings	<ul style="list-style-type: none"> • none
Good reference (not required)	<ul style="list-style-type: none"> • ILPA, <i>Due Diligence Questionnaire 2.0</i> (November 2021) • IFC, <i>Fund Governance Document and Information Request List for Funds</i>, (2019)

Feb. 1	Fundraising & Valuations 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. We also take a quick look at how to figure out valuations of privately held companies.
Guest	Guy Eugene
Case	<ul style="list-style-type: none"> • none
Readings	<ul style="list-style-type: none"> • David Teten, <i>The pros and cons of choosing a placement agent for small funds</i>, Venture Capital Journal (April 12, 2021)

continued

Feb. 6	<p>Fund strategies – the fund manager’s view plus open discussion</p> <p>So you want to be a fund manager? Really? The class looks at the life and pressures of the PE business from the perspective of a fund manager.</p> <p>Students will have the floor for part of the class, to ask questions about the private capital industry and discuss issues of concern.</p>
Guest	David Mathewson, Partner and Chief Operating Officer, Quona Capital
Case	<ul style="list-style-type: none"> 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"> none

Feb. 8	<p>Private credit funds</p> <p>This class looks at the private credit business, 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 Board of Directors of Convergence; and Founder, Cordiant Capital Inc.
Case	<ul style="list-style-type: none"> Nord45, <i>Balkan Grain & Oilseeds Processor</i> (April 15, 2022): Required: Executive Summary (pp. 1-6).
Readings	<ul style="list-style-type: none"> EMPEA, <i>Private Credit Solutions: A Closer Look at the Opportunity in Emerging Markets</i> (2019) David Creighton, "Credit prepares to run with the sustainable investing baton," (Private Debt Investor, March 2020)
Good references (not required)	<ul style="list-style-type: none"> Cambridge Associates, <i>Private Credit Strategies, An Introduction</i>, (2017)

continued

Feb. 13	Governance: Function and Dysfunction This session looks at how funds and portfolio company boards function, make decisions and decide on strategy. Participants will explore various governance issues facing boards and LPACs.
Guest	Mike Lubrano, Managing Director, Valoris
Case	TBD
Readings	Dallas & Lubrano, <i>Governance, Stewardship and Sustainability</i> (ICGN, 2021), Required: Chapter 2.
Good reference (not required)	<ul style="list-style-type: none"> • EMPEA, <i>Governance in Emerging Market Private Capital</i>, (2019) • IFC, <i>Family Business Governance Handbook</i> (2011)

Feb. 15	Venture Capital 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 into an asset class of its own in emerging markets in the past decade.
Guest	Nikunj Jinsi, former Global Head of Venture Investment at IFC
Cases	<ul style="list-style-type: none"> • Jeffrey Conn and Federico Antoni, <i>Golden Gate Ventures: Growth Decisions</i> (Stanford Case E-769, Oct. 18, 2021) • Rembrand Koning, John Macomber, Pippa Tubman Armerding, and Wale Lawal, <i>mPharma (A)</i>, (HBS #9-721-428, Jan 11, 2021)
Readings	<ul style="list-style-type: none"> • The Economist, <i>The bright new age of venture capital</i> (November 27, 2021) • Alexander Lazarow, <i>Out-Innovate: How Global Entrepreneurs from Delhi to Detroit Are Rewriting the Rules of Silicon Valley</i>, (Harvard Business Review Press, 2020). Required: Introduction (the rest is good reading, too)

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Feb. 20	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. The speaker's experience with a multibillion global portfolio highlights the opportunities and challenges in the emerging markets.
Guest	Stuart MacKenzie, CEO, Ethos
Case	none
Readings	<ul style="list-style-type: none"> • BCG, <i>Value Creation in PE</i>, January 2022

Feb. 22	It's all about exits; open discussion 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? Students then review the events behind the Abraaj scandal - the largest collapse of a private equity firm in history - and consider lessons to be learned from it. Students will have the floor for part of the class, to ask questions about the private capital industry and discuss issues of concern.
Guest	none
Case	<ul style="list-style-type: none"> • Simon Clark & Will Louch, <i>The Key Man</i>. Required: Prologue, (Harper Collins, 2021).
Readings	<ul style="list-style-type: none"> • LAVCA & EMPEA, <i>Structuring for Exit: New Approaches for Private Capital in Latin America</i>, (2021), Required: pp. 1-8

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Feb. 27	Impact investing and course wrap up 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.
Guest	Monica Brand Engel, serial entrepreneur and co-founding partner of Quona Capital
Case	<ul style="list-style-type: none"> • John Bazley and Cynthia Schweer Rayner, <i>Zoona Mobile Money: Investing for Impact, Case A and B</i> (Bertha Centre for Social Innovation and Entrepreneurship, 2015).
Readings	<ul style="list-style-type: none"> • Global Impact Investing Network (GIIN), <i>Global Impact Investments Surpass \$1 Trillion for the First Time</i>, Barrons, October 12, 2022) • IFC, <i>Investing for Impact: Operating Principles for Impact Management</i>, February 2019
Good references (not required)	<ul style="list-style-type: none"> • Collaborative for Frontier Finance, <i>The Missing Middles: Segmenting Enterprises to Better Understand Their Financial Needs</i>, (October 2018) • PRI, <i>Integrating ESG in Private Equity</i>, 2014

Week of Feb. 27	Project presentations
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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 is Directorship Certified® by the National Association of Corporate Directors, a designation that signals a commitment to boardroom excellence.

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 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 was later sold to Standard & Poor's. A commercial service, it provided 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.