

**The University of Pennsylvania
Spring 2024**

MGMT 809: Private Equity in Emerging Markets

Mondays and Wednesdays 1:45 – 3:15 pm

Classroom: JMHH260

Professor: Peter Tropper

Office hours by appointment

Phone: 301-768-5403

Email: PLTropper@gmail.com or ptropper@wharton.upenn.edu

TA: Sonia Shivdasani

TA's email: VijetaS@wharton.upenn.edu

COURSE SUMMARY

This course investigates the private equity, venture capital and credit industries in emerging markets, from the perspective of a 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 governance, valuations, 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 more complex issues such as fund governance and adding value to family firms.

WEEKLY QUIZZES

At the start of every Monday class, students will take a short online quiz on the content of the prior week's classes. Remember to bring your laptop to each Monday 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 via Canvas no later than January 31. 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 January 31. The team should upload a draft outline of the case to Canvas and discuss it with the professor by February 14. 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 the week of February 26.

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 reason for presenting a second fund is to give the team the opportunity to showcase their performance in Fund I. 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 January 31.
- Each team should prepare a cash flow model for the fund that includes investments, exits, expenses, revenue, capital calls, distributions, and carry.
- Prior to the class on February 14, 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 14.
- 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 the week of February 26. 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 models, 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 January 31. Students should submit a draft outline of their papers on Canvas and discuss them with the professor by February 14 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 the week of February 26 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, the weekly quizzes, class participation and class attendance. Grades are weighted as shown in the following table. 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+. In line with Wharton policies, the class Grade Point Average may not exceed 3.50.

40%	Team project
30%	Weekly quizzes
20%	Class participation
10%	Class attendance

AI TOOLS

For this course, students are permitted to use generative AI tools to create content that is not submitted for evaluation. For example, you can ask an AI tool for ideas for your team's course project. You may *not* submit for a grade any content that was generated by AI tools without the explicit pre-approval of the professor. Doing so in this course constitutes cheating under the University's [Code of Academic Integrity](#) and can lead to a failing grade and other sanctions.

CLASS LOGISTICS

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 reading 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.

COURSE SCHEDULE

Jan. 17	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. 22	Fund manager incentives This class concludes the examination of the PE funds business model, focusing on common 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>

Jan. 24	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"> GPCA, <i>Q3 2023 Industry Data & Analysis</i> (20 November 2023) Reuters, <i>Analysis: in emerging markets, the bulls are back again</i>, (November 23, 2022)

Jan. 29	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 company boards and LPACs.
Guest	Mike Lubrano, Managing Director, Valoris Stewardship Catalysts
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)

Jan. 31	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	Nicholas Vickery, Global Head, Private Equity Funds, International Finance Corporation
Case	<ul style="list-style-type: none"> • IFC, <i>Delphus II</i>
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)

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Feb. 5	It's all about exits 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? We also take a quick look at how to figure out valuations of privately held companies. 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.
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
Good reference (not required)	<ul style="list-style-type: none"> IPEV, <i>International Private Equity and Venture Capital Valuations Guidelines</i> (December 2022)

Feb. 7	Beyond Silicon Valley: Exploring Venture Capital in Emerging Global Markets Through an exploration of emerging market deals and trends, students will learn the basic terms that are used in typical VC transactions while gaining a better understanding of the evolving landscape of VC in emerging economies.
Guest	Melanie de Nysschen, Director, GendEquity
Cases	<ul style="list-style-type: none"> <i>to be provided</i>
Readings [2023]	<ul style="list-style-type: none"> 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. 12	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	<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)
Good references (not required)	<ul style="list-style-type: none"> • Juliet Clemens, <i>The Role of Placement Agents in GP Fundraising</i> (PitchBook Data, Inc., January 20, 2023)

Feb. 14	Impact investing 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"> • Hand, D., Sunderji, S., Pardo N., <i>2023 GIINsight: Impact Investing Allocations, Activity & Performance</i> (GIIN, June 2023) • PRI, <i>Integrating ESG in Private Equity</i> (2014)

Feb. 19	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 dollar 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. 21	The fund manager's view 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.
Guest	David Mathewson, Partner and Chief Operating Officer, Quona Capital
Case	<ul style="list-style-type: none"> Felda Hardyman & 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

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Feb. 26	Private credit funds and course wrap up 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.
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"> David Creighton, <i>Credit prepares to run with the sustainable investing baton</i>, (Private Debt Investor, March 2020) Meera Narayanaswamy and Fedor Miryugin, <i>Private Credit in Emerging Markets</i> (IFC, EMCompass, Note 98, January 2021)
Good references (not required)	<ul style="list-style-type: none"> Cambridge Associates, <i>Private Credit Strategies, An Introduction</i> (2017) EMPEA, <i>Private Credit Solutions: A Closer Look at the Opportunity in Emerging Markets</i> (2019)
Week of Feb. 26	Project presentations

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.