



Private Equity Investment in Emerging Markets: The BRIC Nations

With investor interest in emerging markets continuing to grow, [Jessica Sutro](#) examines private equity investment in the BRIC nations, which have often been regarded as the primary focus of emerging markets-focused investment. We explore the latest data on these countries, including trends in investor interest, fundraising and deals.

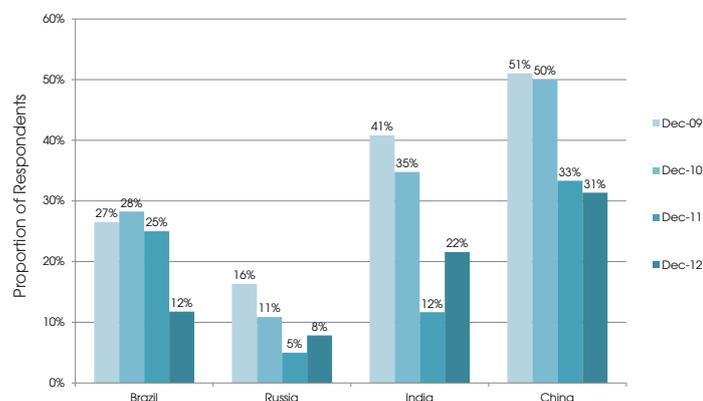
With economic uncertainty continuing in more developed markets, many investors are increasingly looking to gain exposure to emerging markets in their private equity portfolios in order to achieve greater diversification and target potentially higher returns. Ninety percent of private equity investors interviewed by Preqin in December 2012 that invest or consider investing in emerging markets stated that they plan to maintain or increase their private equity allocations to emerging markets over the next 12 months (Fig. 1).

Brazil, Russia, India and China have often been regarded as the primary focus of private equity investment in emerging markets, historically grouped together as the BRIC nations. The four BRIC countries are now some of the largest economies in the world, and continue to attract significant capital from private equity investors. In this article, we examine recent private equity trends across the BRIC nations, including investor interest, fundraising, and buyout and venture capital deals activity, in order to explore their current place within the wider emerging markets private equity space.

Investor Interest in BRIC

Fig. 2 shows that among investors interviewed by Preqin in December 2012, the four BRIC countries are still viewed as presenting the best opportunities within emerging markets by significant proportions of investors. The BRIC nations were the only specific countries to feature prominently among regions and countries within emerging markets named by respondents. China and India in particular are attractive to LPs, with 31% and 22% of investors interviewed naming these countries respectively as currently presenting the best opportunities within emerging markets.

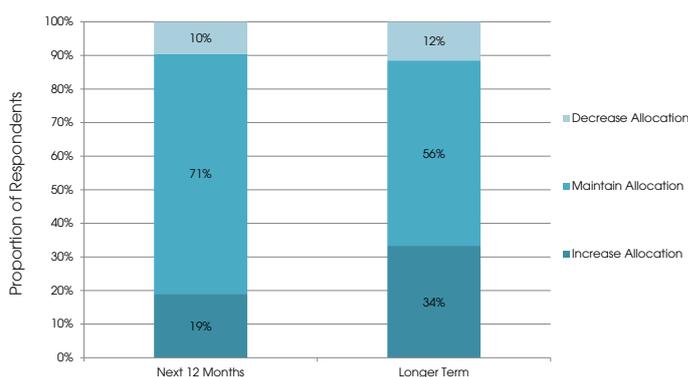
Fig. 2: Countries and Regions within Emerging Markets that Investors View as Presenting the Best Opportunities*



Source: Preqin Investor Interviews, December 2009 - December 2012

*Respondents were not prompted to give their opinions on each country/region individually; therefore the results display the countries and regions at the forefront of investors' minds at the time of the survey.

Fig. 1: Investors' Intentions for Their Private Equity Allocations to Emerging Markets

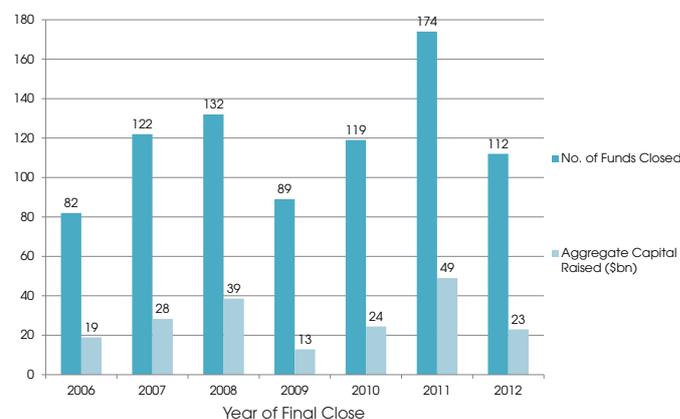


Source: Preqin Investor Interviews, December 2012

However, since December 2009 there has been a decline in LP interest in two of the BRIC nations, China and Brazil. The proportion of investors interviewed that view China as presenting the best opportunities within emerging markets has dropped from 51% in December 2009 to 31% in December 2012, and the proportion of investors naming Brazil has dropped from 27% to 12% over the same time period.

Although India and Russia saw declines in investor interest between December 2009 and December 2011, both have seen growing investor interest over the last year, as shown in Fig. 2. The proportion of investors naming India as presenting the best private equity investment opportunities within emerging markets increased

Fig. 3: Annual Fundraising for BRIC-Focused Private Equity Funds by Year of Final Close, 2006 - 2012



Source: Preqin Funds in Market



Fig. 4: Top 10 Largest BRIC-Focused Funds in Market by Target Size (As of March 2013)

Fund	Vintage	Manager	Type	Target Size (mn)	Fund Status	Geographic Focus	Manager Location
CDH China Fund V	2013	CDH Investments	Growth	2,000 USD	First Close	China	China
CITIC Buyout Fund	2013	Goldstone Investment	Buyout	10,000 CNY	Raising	China	China
Urban Infrastructure Construction Industrial Investment Fund	2012	All-China Federation Industrial Funds Management	Infrastructure	10,000 CNY	First Close	China	China
Guochuang Kaiyuan Fund of Funds	2011	China Development Bank Capital	Fund of Funds	10,000 CNY	Second Close	China	China
BTG Pactual Brazil Infrastructure Fund II	2012	BTG Pactual	Infrastructure	1,500 USD	Second Close	Brazil, South America	Brazil
AVG CIS Agricultural Opportunities Fund	2013	AVG Capital Partners	Buyout	1,500 USD	Raising	Russia	Russia
Blue Economic Zone Industrial Investment Fund I	2012	China Bright Stone Investment Management Group	Growth	8,000 CNY	First Close	China	China
3i India Infrastructure Fund II	2013	3i Infrastructure	Infrastructure	1,250 USD	Raising	India	UK
Astra Infrastructure Fund	2013	Astra Investimentos	Infrastructure	1,000 USD	Raising	Brazil	Brazil
Astra Natural Resources Fund	2013	Astra Investimentos	Natural Resources	1,000 USD	Raising	Brazil	Brazil

Source: Preqin Funds in Market

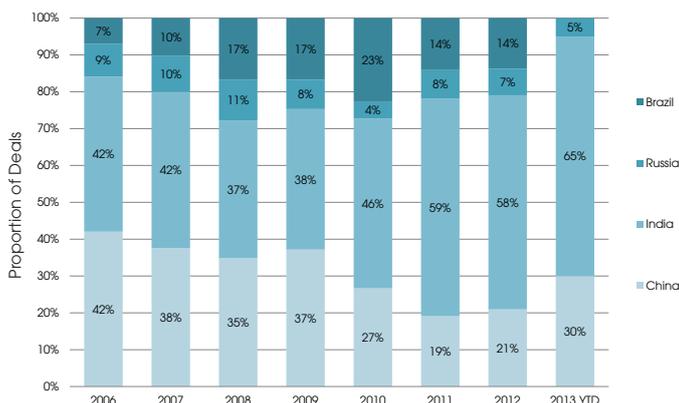
from 12% of investors in December 2011 to 22% in December 2012. Russia saw a slight increase over the last year, from 5% of investors interviewed naming the country in December 2011 to 8% in December 2012.

BRIC-Focused Fundraising

Aggregate annual fundraising for private equity funds focused exclusively on the BRIC nations has consistently accounted for about a third of both the number of (33%) and aggregate capital raised (35%) by emerging markets-focused funds between 2006 and 2012. Fig. 3 shows that BRIC-focused private equity fundraising saw a peak in 2011, with 174 funds targeting these countries raising an aggregate \$49bn. In 2012, 112 funds raised a smaller aggregate \$23bn, closer to the fundraising levels seen in 2010, when 119 funds raised an aggregate \$24bn in capital commitments from investors.

Exclusively China-focused funds have historically represented the largest proportion of capital raised for investment in the BRIC nations; in 2012 these funds accounted for 73% of the total capital

Fig. 5: Proportion of Number of Private Equity-Backed Buyout Deals in the BRIC Region by Country, 2006 - 2013 YTD (As at 20 February 2013)



Source: Preqin Buyout Deals Analyst

raised by BRIC-focused funds. Comparatively, exclusively India-focused funds only represented 10% of the capital raised by BRIC-focused funds that closed in 2012.

Many fund managers raising capital to invest in the BRIC nations are increasingly raising single country-focused funds, rather than vehicles that plan to invest across multiple BRIC nations. In 2006 and 2007, an average of 21% of the number and 24% of the aggregate capital of funds exclusively targeting the BRIC nations was raised by fund managers targeting more than one country. In 2012 this has dropped to only 5% and 4% of the number and aggregate capital raised by purely BRIC-focused funds. Of the 236 BRIC-focused funds currently in market, only 7% are targeting multiple countries. Fig. 4 shows that all of the top 10 largest BRIC-focused funds in market are targeting specific countries, and half have a specific focus on China.

Interestingly, firms based in Brazil, Russia, India and China have been raising an increasingly large proportion each year of the total capital raised for investment in the BRIC nations; in 2010 BRIC-based managers raised 69% of the aggregate capital raised by BRIC-focused funds and in 2012 this increased to 83%. In 2007, prior to the financial crisis, BRIC-based fund managers only represented 43% of the aggregate capital raised by BRIC-focused funds.

Buyout Deals

Private equity-backed buyout deals within Brazil, Russia, India and China have been growing significantly in recent years, making up an increasingly larger proportion of emerging markets deals in terms of both number and aggregate deal value. In 2006, buyout deals in Brazil, Russia, India and China accounted for 53% of the number and 36% of the aggregate value of deals across emerging markets. In 2012, this increased, with deals in the BRIC nations representing 71% of the number and 70% of the aggregate value of emerging markets deals.



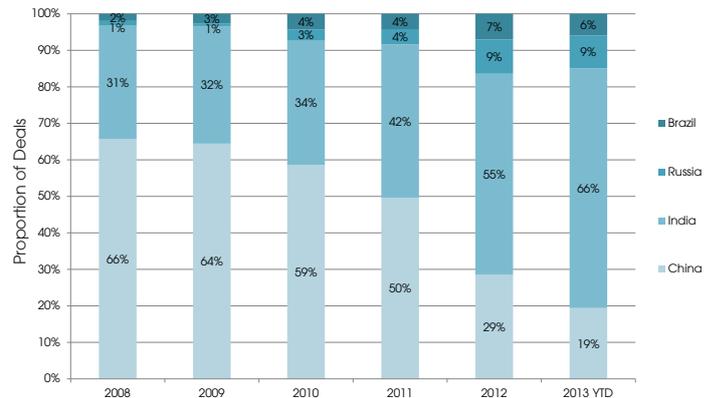
Fig. 5 shows that India has consistently represented the largest proportion of deals among the BRIC nations, averaging 49% of private equity-backed buyout deals within BRIC nations annually between 2006 and 2012. China, however, has often attracted the greatest proportion of aggregate value of BRIC buyout deals, averaging 43% across the period. In 2012, China deals accounted for 55% of the aggregate value of all BRIC buyout deals throughout the year.

The largest buyout deal to take place in the BRIC region from 2006 to March 2013 was in December 2012, when Carlyle Group, China Everbright, CITIC Capital and FountainVest Partners, together with management, agreed to take Focus Media, a digital media group based in China, private for \$3.7bn.

Venture Capital Deals

The BRIC nations are even more prominent among emerging market venture capital deals; in the period between 2008 and 2012, venture capital deals within Brazil, Russia, India and China accounted for an average of 76% of the number and 87% of the aggregate value of venture capital deals taking place across emerging markets. The number of venture capital deals in Brazil, Russia, India and China has been increasing since 2009, from 270 deals in 2009 to 512 deals in 2012. The aggregate value of BRIC deals peaked in 2011 at \$7bn, but fell in 2012 to \$4bn.

Fig. 6: Proportion of Number of Venture Capital Deals in the BRIC Region by Country, 2008 - 2013 YTD (As at 20 February 2013)



Source: Preqin Venture Capital Deals Analyst

India has seen the most growth among the BRIC nations with respect to venture capital deal activity. Fig. 6 shows that the proportion of the number of BRIC venture capital deals represented by India has increased significantly in the last four years, from 31% in 2008 to 55% in 2012. The number of venture capital deals taking place in India has grown from 120 in 2010, to 201 in 2011, and 282 throughout 2012.

In contrast, the number of venture capital deals taking place in China declined over the last year. Two hundred and thirty-seven venture capital deals took place in China in 2011 valued at an aggregate

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\$5.3bn, compared to 146 deals in 2012 with an aggregate value of \$2.2bn. All of the 10 largest venture capital deals by deal size in the BRIC region since 2008 took place in China, the largest of which was the \$500mn Series C financing of 360Buy, an online retailer of computer, communication, and consumer electronic products in China, by a consortium of investors, including DST Global.

India has also received the greatest proportion of early stage deals between 2008 and March 2013; 33% of venture capital deals taking place in the country across this period were angel/seed or Series A/Round 1 deals, compared to 28% in Brazil, 20% in Russia and 23% in China. China has received the greatest proportion of later stage deals, with 27% of venture capital deals taking place within the country since 2008 consisting of Series B, C, or D and later deals, compared to 12% in Brazil, 12% in Russia, and 15% in India. Brazil attracted the greatest proportion of expansion/growth capital, with 12% of deals at this stage.

Outlook

Brazil, Russia, India and China continue to attract significant attention from private equity investors, and represent significant proportions of emerging markets-focused fundraising and deal activity. As each of the countries has developed in recent years, many fund managers targeting these nations have increasingly been raising single-country focused funds. India and China in particular

are attracting large amounts of capital from investors and have witnessed significant levels of buyout and venture capital activity in recent years. Although BRIC-focused private equity funds saw a decline in fundraising in 2012 compared to 2011, as the economies in these countries continue to grow in the future, they are likely to remain attractive to private equity investors investing or considering investing in emerging markets.

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