Mature and Not Mature Enough: *Comparing Private Equity in Developed and Emerging Markets*

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The international private equity environment offers an interesting but puzzling investment landscape. On one hand, there is private equity in developed markets. Here, the private equity industry has become a common feature of institutional financial markets in developed countries. Economic historians note that the industry developed in phases, starting in the late 1960s and early 1970s in the United States and the United Kingdom. The industry accelerated its developments in the mid-1980s and grew exponentially in the 1990s across various global markets. However, in the early 2000s, the global private equity industry entered a period of volatility. After the middle of the 2000s, the industry experienced a significant boom in fundraising and investing activities, followed by a major decline during and after the 2008 financial crisis.

On the other hand, there is private equity in emerging markets. In the last decade, an increasing amount of private equity has been dedicated to emerging markets (see Emerging Markets Private Equity Association (EMPEA) 2013, 2016, Lerner et al. 2016, and Klonowski 2013). In 2016, the industry's investment in emerging markets accounted for about 6.8% of global private equity investment, representing an increase from 2.4% in 2002. A number of reasons contributed to this trend. First, limited partners have been enticed by the attractive narrative of emerging markets that have experienced strong economic growth (see, for example, Johan and Zhang 2016; Lerner et al. 2016, Klonowski 2014, 2013, 2011; Scheela and Jittrapanun 2012; and Salehizadeh 2005). The economies of emerging markets have experienced growth rates three or four times higher than those of developed countries. An expanding middle class, a significant investment into domestic infrastructure, high in-country rural-to-urban migration, and increased population wealth has driven GDP growth in these markets. Second, emerging markets have demonstrated more responsible public finance decisions, reduced debt, improved corporate governance regimes, and a diminished reliance on exports. Limited partners perceive emerging markets to be more resilient to financial turmoil and economic downturns. Many emerging market countries also have a strong manufacturing and service orientation and possess a superior raw material base. Third, emerging markets also offer geographic diversification. This is important because there is less performance persistence in private equity returns now, compared with previous years. Fourth, emerging markets are becoming innovators rather than being a source of "cheap labor." With a growing focus on research and development, emerging market economies are likely to become the fastest growing innovation centers in the world. This tendency towards innovation has been aided by a growing trend among academics, business managers, and entrepreneurs to return to their home countries. Last, Western private equity markets are overcrowded and capital is searching for new destinations to generate premium returns.

The article aims to increase the understanding of the international private equity industry by examining it in the context of developed and emerging markets. Even though the number of academic studies focusing on the private equity activities in emerging markets has been increasing in recent years (the concept of private equity in developed markets is generally well understood), the broader international coverage of the industry is relatively weak and not well understood by general partners, limited partners, and academics. There are limited studies that simultaneously compare the dynamics of the two markets; such a dual-market orientation is especially important to limited partners who must concurrently scrutinize various markets in order to set their capital allocations.

This study focuses on the analysis of secondary data available from EMPEA and examines four statistics, which constitute the basic numerical characteristics of the international private equity industry (Klonowski 2017, Lerner et al. 2016, and EMPEA 2013, 2016). These include the value of fundraising, investing, exiting, and returns. Fundraising data captures the perceived attractiveness of each market to potential investors looking to deploy capital for the most attractive investment opportunities, which may be located in different geographic regions. Investing statistics indicate the monetary value of capital committed to actual deals by private equity firms. Exiting is the act of monetization of investments (or the conversion of illiquid investments into cash) and the amount of proceeds that accrue through this transaction. Lastly, financial returns exemplify the financial consequence of private equity activities across its complex investment value chain (i.e., from deal generation to exiting). As such, returns may be expressed in terms of internal rates of returns, cash-on-cash returns, public markets equivalent (PME) measures, and other modes. It is important to note that these descriptive statistics are not freely available and uniformly reported across all geographic markets. This variation makes consistent reporting and comparisons difficult. The problem is compounded when the most underreported statistics relate to exiting activities, which seriously impedes the calculation of financial returns.

This comparative study is important for at least three reasons. First, the study considers the evolutionary patterns of private equity in developed and emerging markets in the context of the general model of the industry's life cycle (established by Michael Porter in the 1980s). Five key parameters are used to discern differences between the two markets. Second, the study focuses on longitudinal data focusing on key industry statistics. Third, in conclusion, the article discusses the most critical transition issues facing limited partners and general partners today.

THE MATURATION OF PRIVATE EQUITY IN DEVELOPED COUNTRIES

Industries evolve over time. The most traditional description of industry evolution suggests that industries normally advance from initial development stages to growth, maturity, and eventually, decline. These changes describe an industry's life cycle (Porter 1980, 1998). At the beginning of their development, industries often appear fragmented where no single industry participant has a commanding leadership in the marketplace, granting, of course, that exceptions do exist. For a period of time, the industry's initiators expect early developers, subsequent entrants, successive participants, and initial followers to be able to generate significant premium price, strong profits, repeatable cash flows, and above-average returns because their unique commercial offers fill a distinctive niche in the market.

However, as more competitors enter the industry in search of profits, premium prices can decline due to market over-supply, which, in turn, negatively affects revenues, profit margins, and cash flows. At this point in industry development, all competitors aim to better differentiate their commercial propositions, often by clearly defining their market strategies (most commonly on the basis of price and quality). As the market develops, consumers also become more sophisticated with respect to choosing products or services with the right combination of characteristics; they become better at differentiating between competitors. Eventually, industries mature and become consolidated around a few large players that dominate the marketplace. The process of industry consolidation usually begins with the weakest competitors leaving the field. At this juncture, the growth rate in the industry may slow or even decline. Profits shift into losses, and positive cash flows convert into cash drains.

At such a point in time in the industry's development life cycle, competitors have a limited number of viable options. First, some firms may be content with engaging into "profit strategies," where they aim to reduce expenses, reduce or eliminate capital expenditure programs, or dispose of product lines (or even entire divisions). These strategies focus on stabilizing profits, hoping that the industry can be revitalized or resurrected at some point in the future. Second, competitors can transform or retool their existing operations for alternative or related uses, given that they have developed strong core competencies, capabilities, and proficiencies over time. These enterprises hope that their experience is transferable to another industry or marketplace. Third, firms in the industry may engage in turnaround strategies, hoping for a short-term improvements to occur, though these strategies seldom work in the long-term. Fourth, they may pursue more drastic survival strategies, such as surrendering their independence. This may occur through "captive strategies" (i.e., by bringing another partner into the operations, who may become the lead investor in the venture), or by selling themselves to a willing buyer (either through a "fire sale" or more orchestrated disposal). Finally, competitors may engage into a process of orderly wind-down of their operations, or simple liquidation. Of course, it is important to note industries do not need to mature or decline if they are capable of reinventing or reinvigorating themselves in some meaningful fashion.

Considering the general model of the industry's life cycle (as described above), the most critical question related to the private equity industry in developed markets is whether the industry has already entered the maturity stage or even the decline phase, as some observers directly or indirectly note (Ernst & Young 2016; Wolfson 2013; Lerner 2011, Kendrosky 2009, Mason 2009). While the industry evolutionary pattern may be portrayed in various ways, five key parameters can be used to assess this transition, including size, diversity, competence, financial performance, and the industry's position on the life cycle (see Exhibit 1 for a comparison of private equity in developed and emerging markets).

When considering the size of the private equity industry, we normally consider two statistics, namely fundraising and investing, although, as noted, existing and returns are typically considered if data can be consistently reported from all geographic regions. The number of private equity firms that operate in the marketplace can also characterize the industry's size. It is important to note that private equity firms need to operate with a critical mass of other "co-habitants" in its ecosystem. These consist of investee firms, limited partners (LPs), advisors and consultants (i.e., accountants, lawyers, environmental specialists, and technical experts), banks and other financial institutions, intermediaries, and so on. Diversity is another key dimension that can characterize the private equity industry. This descriptor may be defined as a multidimensional view of the industry addressing the breadth of market segmentation, the industry's proficiency to address underlying investment risks, the type of financing offered to investee firms, the extent of innovation in the industry, and the industry's structures of quality control, reporting, and monitoring. The industry's characteristic of competence refers to general partners' (GPs) ability to fulfill the needs of their key stakeholders (i.e., managing capital and expertise for investee firms, providing returns to LPs, and so on) in the most effective manner. Industry competence also relates to private equity firms' and the entire industry's internal improvements and innovations. Furthermore, financial performance relates to the industry's profit potential (or GPs' profit potential, which may include management fees, carried interest, and other fees) and, most critically, the financial returns generated to LPs. Lastly, the industry's evolution refers to any transition or evolutionary changes as the industry matures.

In the 15-year period between 2000 and 2015, international private equity firms focusing on developed markets raised \$5.6 trillion and invested \$4.4 trillion (see Exhibit 2). While the average annual growth rates for fundraising and investing activities in developed markets were equal to 17.0% and 23.9% respectively over this time period, the growth rates in recent years have been uneven and have slowed (fundraising: 2011: 17.7%, 2012: 15.1%, 2013: 35.1%, 2014: 1.5%, 2015: −5.0%; 2016: −18.8%; investing: 2011: −5.1%, 2012: 36.5%, 2013: 5.5%, 2014: 28.5%, 2015: −4.5%, 2016: −12.2%). It is important to note that since the 2008 financial crisis, there has been a growing

Exhibit 1

Characteristics of the Private Equity Industry in Developed and Emerging Markets

Key Industry Characteristics	General Description	The Private Equity Industry in: Developed Countries	Emerging Markets
Size	• Volume of business (i.e., critical mass) • Strong growth, but with diminishing growth rates overtime	• Fund raising and investing statistics decline • Number of funds decline	• Fundraising and investing has strongly increased for a period of time and stabilized in recent years • Zig-zag pattern of fundraising and investing • Wide diversity in deal size • Investing and fundraising patterns different than expected
Diversity	• More market segmentation • Availability of different products • Ability to diversify various business risks • Innovation	• GPs invest in to a wide range of investee firms • GPs focus on provision of various types of financing (i.e., debt, equity) for diverse purposes • GPs focus on different industries, but "group" mentality prevails	• GPs invest in "safe" sectors of the economy, but generally display a generalist orientation • More mature markets (like Central and Eastern Europe) experience more diversity; these markets also see different types of financing
Competence	• Improvement of service to customers • Continued education and learning • Ability to attract talented people into the industry • Quality control • Trust and share holders' oversight	• Only selected private equity firms are able to provide effective assistance to investee firms • Flow of less competent profesionals during the PE industry's rapid growth • PE is perceived as less "competent capital" • GPs become more specialized • Private equity's cognitive shortcuts lead to errors	• Influx of professinals in to the industry from a wider range of professions • GPs have wide ranging, but inconsistent skill sets and capabilities • Fewer deals are syndicated
Financial performance	• Premium pricing initially allows for sustainability of strong profits and margins • Profits and margins decline over time • Profits become losses • Firms adopt different profit strategies	• Returns decline • Compensation terms for GPs are "sticky" –GPs can easily live off of fees	• Returns are inconsistent • Only select GPs in any region of emerging markets are able to deliver consistent returns • "First time" GPs have lower chances of survival and are likely to "lose money"
Industry's transition	• Industry's evolution moves from fragmentation to consolidation • Penetration of new entrants • Limited sustained leadership position at the outset; leaders emerge in the industry over time	• Emergence of market leaders as captured by fundraising statistics • LPs aim to reduce their number of GP partnerships • Consolidaiton process is slow	• PE transition patterns are difficult to observe • Poor performers may operate in the market for long periods of time • It is more difficult to identify market leaders • Consequently, LPs often use a "wide-spray" approach to GPs

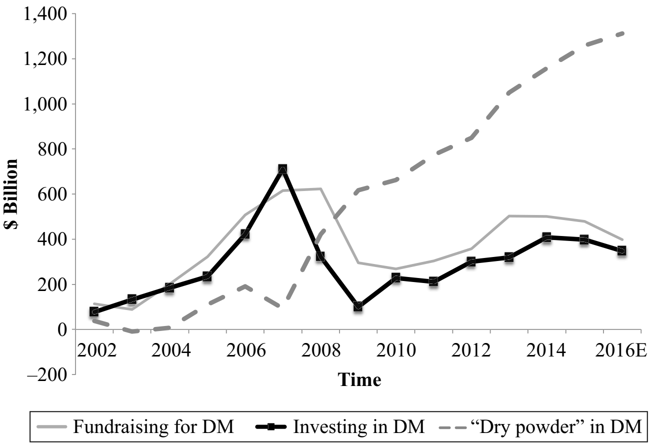
Note: PE—private equity; GPs—general partners; LPs—limited partners.
Source: Adapted from Klonowski 2017.

divergence between fundraising and investing activities in developed markets; specifically, fundraising has strongly overtaken investing. Since 2008, fundraising amounted to \$3.7 trillion, while investing totaled only \$2.6 trillion. Over the years, this discrepancy between investing and fundraising has led to a substantial accumulation of uninvested capital (commonly called "dry powder"). At the end of 2016, "dry powder" was estimated to equal \$1.3 trillion (see the progression of the dotted line in Exhibit 2). We may further express the divergence between fundraising and investing activities in a measure that we name the "capital deployment efficiency ratio" or CDER: it is defined as a longitudinal ratio of cumulative investing to fundraising activities. Between 2008 and 2016, CDER was equal to 70.7% compared with 95.3% in the previous period (i.e., between 2002 and 2007). This reflects generally weaker economic conditions in developed countries, problems related to identifying suitable deals and challenges with exits. The continuous growth of "dry powder" may pose a significant problem to GPs because it creates the threat of alienating from the asset class LPs that expect a timely deployment of capital and above-average returns. Excessive "dry powder" may also have a negative impact on GPs in limiting their future chances of successful fundraising. At some point in the future, LPs may become increasingly reluctant to commit additional capital to the industry until the apparent "underinvestment" is resolved.

In addition, returns from developed markets have been declining in recent years across various types of investments and this has been measured in various performance statistics (such as internal rates of returns, PMEs, illiquidity premiums, and so on), including

EXHIBIT 2

The Key Statistics for Private Equity in Developed Markets from 2002 to 2016 (expected)



Note: PE—private equity, DM—developed markets.
Source: Based on EMPEA 2016.

venture capital investments, private equity deals, and buyouts (see Klonowski 2017 for a review of literature related to financial returns from private equity). In the United States, which is the most developed private equity market in the world, for example, the illiquidity premium (defined as the difference between returns from private equity less returns from public markets) was equal to about 1% in the 15-year period from 1999 to 2013. Significantly, the illiquidity premium was outright negative in the ten-year period ending in 2013, whereas it was positive and equal to 7.1% from between 1986 to 1999. In nominal terms, private equity returns have declined from 18.7% in the 1990s to 14.3% in the 2000s.

THE EVOLUTION OF PRIVATE EQUITY IN EMERGING MARKETS

In the last few years, countries in emerging markets have continued to successfully develop their private equity industries on the basis of four fundamental and interrelated pillars: economic transformation, systemic infrastructure improvement, entrepreneurial sector development, and exit market development (Johan and Zhang 2016; Lingelbach 2015; Klonowski 2014; Humphrey-Jenner and Suchard 2013; Scheela and Jittrapanun 2012; Bruton, Ahlstrom, and Puky 2009; and Ahlstrom and Bruton 2006). In terms of economic transformations, in many emerging markets, economic programs have been based on three key components, including macroeconomic stabilization, liberalization, and privatization, which are often referred to as the "Washington consensus." Of course, there are countries (i.e., China, Turkey, and others) that have crafted and subsequently pursued their own economic development strategies. The second component of adaptation in emerging markets entails systematic infrastructure. This broadly relates to the manner in which local governments provide appropriate institutional and administrative support to the private sector. Similarly, the development of the entrepreneurial sector has been one of the most critical components of strong economic growth. The attention here is placed on the timely and problem-free migration of entrepreneurial firms through subsequent stages of development as well as limiting roadblocks to entrepreneurship. Finally, private equity firms have become accustomed to monetizing their investments whether through initial public offerings or trade sales. Here, countries in emerging markets have worked on developing stronger foundations for public market development and attracting strategic investors through foreign direct investment (FDI). Understandably, these four components are interconnected; each component feeds off another to create a symbiotic ecosystem that collectively augments the development of private equity in emerging markets.

Emerging markets have not been immune to certain "teething," evolutionary and transition challenges (Klonowski 2011; Ahlstrom, Bruton, and Yeh 2007; Ahlstrom and Bruton 2006). Returns in emerging markets have been inconsistent and volatile; this reflects the high variability of returns in public markets and fluctuations in FDI (i.e., less or more foreign strategic investors). Some emerging market countries are also perceived to pose a political risk—a label any emerging market country wishes to avoid. Moreover, it is sometimes difficult to effectively process deals in a timely manner within emerging markets. A number of emerging markets still suffer from a complex legal infrastructure, substandard accounting regulations, poor preparation by investee firms to receive capital, and corporate governance issues across both public and private sectors. In addition, exit opportunities may be unbalanced, either skewed toward public listings or sales to strategic investors. In some markets, exits are rare. Some of the

EXHIBIT 3
Some Notable Differences between Initial Expectations and the Actual Reality in Private Equity in Emerging Asia

Characteristics	Initial PE Firms' Assumption	Reality on the Ground
Deal size	+$100 million	≈$35 million
Capital deployment	Steady	Slow (many PIPE deals done by PE)
Exits and returns	Growth in public markets and premium returns	Politicised IPOs; problematic exits
External drivers of PE development	"Systemic" improvements	Broad "systemic interference"
Partnering with local entrepreneurs	Conducive for co-operation	Corporate governance challenges
Competition for deals	Low due to broad opportunity	High (entry valuations bid up)

Note: PIPE—private investments in public equities, PE—private equity.

differences between initial expectations and the actual reality in the private equity industry are illustrated by the case of Emerging Asia in Exhibit 3.

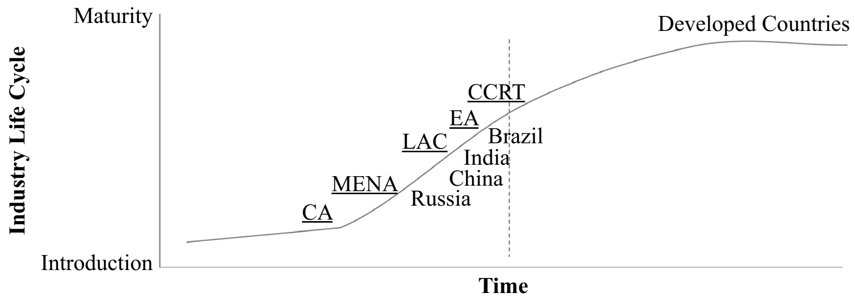
Exhibit 4A presents the evolution of private equity in emerging markets. This exhibit is presented according to the classifications adopted by EMPEA. According to EMPEA, emerging markets can be divided into five main geographic regions. The first region is Central and Eastern Europe, the Commonwealth of Independent States, Turkey, and Russia; this block is jointly described with the acronym CCRT. The other regions are Continental Africa (CA; this region is sometimes also referred to as Sub-Saharan Africa, or SSA), Emerging Asia (EA), Latin America and the Caribbean (LAC), and the Middle East and North Africa (MENA). A number of conclusions related to data on emerging markets can be drawn from Exhibit 4A. First, the development of private equity in emerging markets lags behind private equity development in developed countries. This distinction presents an interesting paradox for LPs: while financial returns from private equity in developed countries have declined, returns from emerging markets have been on the rise even if they are inconsistent and volatile. Accordingly, LPs are learning that GDP growth does not necessarily convert into strong financial returns, as many emerging markets are missing the key pillars necessary for the consistent development of private equity. LPs may, thus, be stuck between "a rock and a hard place" in terms of where to place capital allocations earmarked for private equity. Second, Exhibit 4A illustrates that there are significant differences between emerging markets with respect to development. Some emerging markets are better classified as "beginner" markets, while other emerging markets are more "senior." For example, the CCRT region may be viewed as the most "senior" region, while MENA and CA are viewed as "beginner" markets.

The robust development of private equity in emerging markets is demonstrably evident in terms of aggregate statistics (see Exhibit 4B for a presentation of key statistics in emerging markets, including fundraising and investing). Evidence of this progress is recognizable in how private equity in emerging markets has secured an increasing slice of the global private equity market with respect to fundraising and investing. In the 15 years between 2002 and 2016, fundraising in emerging markets grew from $3.2 billion in 2002 to $46.0 billion in 2015—nearly a fifteen-fold increase (the estimate for 2016 was equal to about $30.0 billion). Peak fundraising was equal to $58.0 billion in 2008. While in 2009, fundraising declined by 62.1% to $22.0 billion; it subsequently increased in 2010 to $31.0 billion—a 40.9% increase. Note that this decline in fundraising was more severe in global private equity markets (excluding data from emerging markets), with a decline of 23.8% in 2008, a further decline of 44.9% in 2009, and an 8.2% decline in 2010. However, fundraising recovered in 2011, with an increase of 7.3%. Cumulatively, fundraising for emerging markets has totaled $503.9 billion since 2002. In the last ten years, approximately 215 new private equity funds have been raised each year, with an average fund size of $199.7 million, though down from $350.0 million in earlier years. Fundraising in emerging markets accounted for 11.7% of global fundraising in 2015. Of the total, 69.0% of fundraising for emerging markets was directed to Emerging Asia, with

Exhibit 4

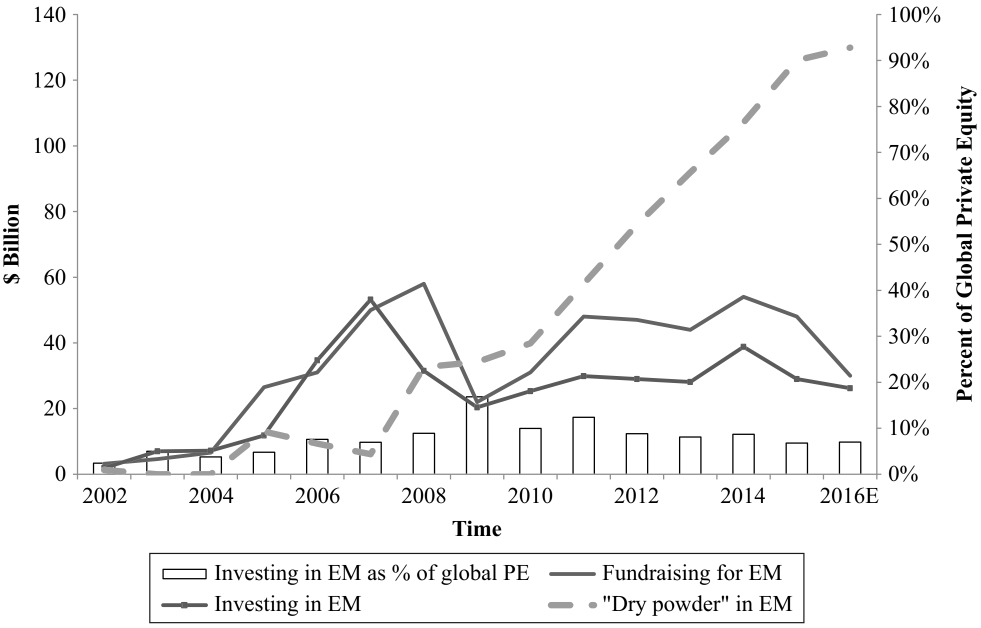
The Key Statistics and Evolution of Emerging Markets

Panel A: The Life Cycle of Private Equity in Emerging-Market Regions and Selected Countries



Characteristics	"Beginner" Emerging Markets	"Senior" Emerging Markets
GDP Growth	Robust (4–12%)	Moderate (4–6%)
Deal Generation	Inconsistent	Steady and repeatable
Corporate Governance	Challenging	Low to moderate concerns
Exit Environment	Often one-sided & limited	Balanced
Return Track Record	Unproven/no data	Confirmed

Panel B: Fundraising and Investing Statistics for Emerging Markets between 2002 and 2016 (Expected)



Note: CA—Continental Africa; CCRT—Central and Eastern Europe, the Commonwealth of Independent States, Russia, and Turkey; GDP—gross domestic product; EA—Emerging Asia; EM—emerging markets; LAC—Latin America and the Caribbean; MENA—Middle East and North Africa; VC—private equity.

Source: EMPEA 2016.

17.0% (the second highest percentage) directed to Latin America and the Caribbean. The most popular investment themes include expansion and buyout deals. The largest known closings in recent years include private equity funds closed by RRJ Capital ($4.5 billion in 2015), Baring Private Equity Asia ($4.0 billion in 2014), and PAG ($3.7 billion in 2015); each of these funds targeted Asia.

Investing has followed a similar pattern: $1.9 billion was invested in 2002 and $31.8 billion in 2015. Estimates for 2016 equal $26.2 billion. Together these translate to 1,482 deals per annum with an average deal size equal to $17.7 million (over the last ten years). The most popular investment sectors include consumer goods and services, financial services, and industrial sectors. Most capital has been employed in expansion and buyout deals. A significant portion of investment has also been dedicated to firms operating in public markets, so-called "PIPE" deals, or private investment into public enterprises. Cumulative investing in emerging markets has equaled $378.8 billion since 2002. The peak investing period was 2007, with $53.2 billion of capital deployed. As with fundraising, investments fell sharply in 2008 and 2009, declining 40.8% and 35.2% respectively. This contrasts with a decline of 54.6% and 68.8% for global private equity markets, excluding emerging markets. As noted above, in 2015, investing in emerging markets accounted for 6.8% of global private equity. Emerging Asia continues to be the largest recipient of private equity investment. Based on 2015 data, private equity penetration (expressed as a ratio of private equity investment to GDP) in emerging-market countries was low compared with more developed countries (India: 0.41%; China: 0.10%; Brazil: 0.09%; Russia: 0.007% versus UK: 1.95%; US: 1.41%; Israel: 0.77%), leaving significant room for growth.

As in the case of "dry powder" for global private equity, a similar accumulative trend in emerging markets (see the dotted line in Exhibit 4B) has arisen albeit at a different level of monetary accumulation (billions in emerging markets rather than trillions in developed countries). At the end of 2016, "dry powder" was estimated to equal to $129.9 billion (again, see the dotted line in Exhibit 4).

Exhibit 5 presents a disaggregated comparison of the major characteristics of each region and lists the top three countries with the most-developed private equity industries. Exhibit 5 also captures a number of underlying shifts in emerging markets over recent years (i.e., 2013–2015). For example, deal sizes have fallen sharply across most emerging markets (with the exception of Emerging Asia), while the number of deals has increased. By implication, this means GPs are making more but smaller deals. Moreover, there has been a reallocation of capital among emerging-market regions. More capital has been raised for deals in Emerging Asia, Latin America and the Caribbean, and Continental Africa, while the CCRT region has seen significant declines in fundraising and investing activities, due to recent disappointing returns compared with the past. In addition, some regions differ with respect to how efficiently GPs are able to deploy capital. The highest capital efficiency deployment ratio is seen in the LAC and CCRT regions, while in MENA and EA it is the lowest.

Emerging markets have recently generated strong returns, while generating a higher level of volatility compared with developed markets. For example, according to EMPEA's report, ten-year nominal returns are highest in Asia (14.3%), Latin America and the Caribbean (9.7%), and Africa (7.2%). Central and Eastern Europe (including Russia) have generated 10-year returns equal to 6.7% (EMPEA 2016).

CONCLUSIONS

The international private equity environment offers an interesting but perplexing investment landscape. On one hand, private equity in developed countries seems to have reached the mature stages of development, where fundraising and investing have been increasing at diminishing rates and the disparity between these two characteristics is widening, leading to an increase in "dry powder." Consequently, returns have been declining. On the other hand, returns from emerging markets have been rising, but inconsistently so. The leading region in emerging markets is the Emerging Asia, which has vastly under delivered in comparison to expectations.

This "no man's" land in the global private equity markets creates multiple problems for general and limited partners. Both general partners and limited partners face transition issues and general partners have at least three challenges. First, returns from the asset class in developed markets have been declining in recent years and are more or less on par with returns from public markets (on average, the "illiquidity premium"

EXHIBIT 5
Key Fundraising and Investing Statistics for Emerging-Market Regions from 2013 to 2015

Region	Country Ranking in the Region[1]	Annual Averages per Region for 2013–2015 (and for 2002–2012) Fundraising ($ billion)[2]	Investing ($ billion)[2]	Deal Size ($ million)	Number of Deals	Capital Deployment Efficiency Ratio (CDER)[3]
Central and Eastern Europe, the Commonwealth of Independent States, Russia, and Turkey (CCRT)	Russia Poland Turkey	1.4 (3.5)	1.8 (3.1)	15.0 (32.8)	121 (89)	92.4%
Latin America + the Caribbean (LAC)	Brazil Mexico Colombia	7.2 (3.4)	4.4 (3.7)	30.0 (51.6)	144 (67)	105.5%
Middle East and North Africa (MENA)	Morocco UAE Egypt	1.0 (2.1)	10.8 (1.4)	12.4 (31.9)	63 (40)	67.4%
Continental Africa (CA), aka Sub-Saharan Africa (SSA)	South Africa Nigeria Kenya	3.2 (1.4)	1.7 (1.5)	14.1 (29.1)	111 (47)	85.5%
Emerging Asia (EA)	China India South Korea	31.3 (18.3)	22.7 (15.1)	34.4 (31.)	949 (431)	79.2%

Notes: [1] *The ranking of countries in the first column, deal sizes, and numbers of deals are based on 2013–2015 data (EMPEA, 2016).*

[2] *Fundraising and investment statistics are based on data from 2011–2015. Numbers in brackets reflect historical averages based on data from 2002–2012 (EMPEA, 2013).*

[3] *The capital deployment efficiency ratio (CDER) is a longitudinal ratio of cumulative investing to cumulative fundraising between 2002 and 2012 (EMPEA, 2013). In other words, funds are investing a certain percent of every dollar raised.*

Source: EMPEA 2013, 2016.

is around 1%). Research indicates that there is less of a relationship between GPs' past performance and future returns. Consequently, many GPs may face difficulties persuading LPs of their investment storyline for the future. This also raises a more general concern about the allocation of money to the asset class. Second, LPs are likely to expect more transparency and governance from GPs, and yet many GPs have been unaccustomed to this level of disclosure and scrutiny. The failure to address this expectation is one of the major complaints from LPs. Only publicly quoted GPs are likely to meet LPs' expectations. This disclosure problem is much worse in emerging markets. Finally, Exhibit 1 shows clear signs of maturation for the private equity industry in developed countries. If these signs persist over a period of time, the industry in developed markets would require some sort of renewal, reinvention, or reinvigoration. This refocus could come from changing the investment and operational model of private equity, changing the investment process (including techniques related to due diligence, financial contracts, value addition), reducing fees, looking for unique investment opportunities, and so on.

Limited partners are likely to face equally challenging tasks. The most challenging is the allocation of capital earmarked toward private equity in specific geographic regions. As noted, LPs may be facing challenges and "teething" problems in emerging markets and signs of industry maturation in developed markets. In other words, both markets face transition issues that LPs may not have encountered before. Nonetheless, one may argue that the storyline of emerging markets may be easier to dissect for LPs because of their stronger familiarity with the dynamics of industry progression (as in the case of developed markets). Of course, the risk is that this familiarity may be of little use for LPs if emerging markets develop along an unknown trajectory.

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