

EMP Global's Don Roth Shares His Views on Emerging Markets

As a way of providing further insight into the development of the emerging markets PE asset class, the *Emerging Markets Private Equity Quarterly Review* occasionally features interviews with pioneers in the EM PE space.

Don Roth, co-founder and managing partner of EMP Global (formerly Emerging Markets Partnership), is a Washington, DC-based manager with more than a decade of experience investing across multiple emerging market regions, through eight funds totaling US\$7 billion in commitments. EMP Global's funds cover Asia, Africa, the Middle East, Eastern Europe and Latin America.



First, that a suddenly developing macroeconomic or political crisis in a region or country can destroy even the best investment.

Second, the importance of good and improving governance. In emerging market investments you will never be able to reach paradigmatic standards, but you need to keep moving towards best practice. You need to insist on having acceptable governance. Good governance is among the largest factors in determining our success or failure.

Third, the Asian, Mexican and Russian financial crises drove home the lesson that liquidity matters. In 1993, we overestimated the future growth in the 1990's of the deepening and broadening of emerg-

ing markets capital markets. We did not anticipate the Asian crisis that happened in 1997. We had forecasted a steady march to greater depth and breadth for emerging markets.

Fourth, it took us a while to truly learn how to assist in value creation in our investee companies. In the early days, we did not fully appreciate the best way to help. We learned that as a general rule having an impact on both 90-day planning and the three- to five-year horizon planning is critical for our portfolio companies. Before 1997, we underestimated the importance of insisting we would be there with both feet. Since 1997, we have invested in 34 companies and have generated more than a 2X multiple and a gross IRR of more than 40%. As pioneers we took our lumps, but we have forged an effective process for private equity investing in our markets.

Lastly, we learned the hard way that venture capital and start-ups are a very different form of investing in emerging markets, and also that a newly established or changing regulatory environment can have an enormous impact on your business. Today we avoid both venture investing and difficult regulatory environments.

EMPEA: You launched EMP in 1992 along with co-founder Moeen Qureshi. How did you and Moeen meet?

DR: I first met Moeen in 1971. I was living in Tokyo in charge of Asian investment banking at Merrill Lynch, and he was a senior executive at the IFC. I then worked with Moeen at the World Bank as Treasurer in 1988. The titles are different today, but at that time I ran the money and Moeen ran the lending operations. By 1992, we thought that conditions were such that a new entity would be successful concentrating in emerging markets private equity. I had lived 16 years outside the US in Hong Kong, London and Tokyo, and Moeen had been at the center of so much of the change that had gone on in the developing world for several decades. It was an exciting time.

EMPEA: You were one of the early movers into private equity in emerging markets. How did you come to form EMP Global?

DR: Both of us saw the emerging markets world changing rapidly. The USSR had just collapsed. China was rapidly opening up its economy. India was changing. Eastern Europe was now part of the free world. We saw that equity and debt markets were deepening and we saw the success our friend Antoine van Agtmael was having in his emerging markets public equities trading group. We thought emerging markets private equity could be the next thing.

EMPEA: You've been investing in emerging markets since 1993, which means you have invested in good times and bad. What lessons have you taken?

DR: The various crises of the 1990's—Asian, Mexican, Russian, etc. were painful learning experiences. Many lessons had to be learned. I would put the top five as follows:

EMPEA: Why did you decide to raise regional funds across the emerging markets, rather than simply focusing on one region, such as Asia?

DR: We saw a commonality to our investment thesis across the regions, shaped of course by peculiarities of each market context. We assumed this commonality existed in 1992, and I have to say that we have found this assumption to be true. Take the example of our Africa funds. Tom Gibian [of EMP Africa] learned private equity with us in Asia. When we saw similar types of opportunities to invest in companies in Africa, we paired him with Kim Jaycox, formerly head of Africa for the World Bank, and this team has performed superbly. We are comfortable with our model of combining private equity experts with regional experts so that each team

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understands deal structuring but also the context in which those companies are operating. This has worked well.

Also, take for example the mobile phone industry in Africa. We had invested in this sector in other emerging markets. When we started investing in Africa, there was limited penetration of cell phones in many countries. Now many of the countries have a vibrant industry representative of the emerging consumer class. We have been very successful in investing in the mobile industry in Africa on both a regional and country basis. Cellular exemplifies the commonality of the emerging markets opportunity we see across regions.

EMPEA: What do you see for the future?

DR: We basically believe that over the next decade that emerging markets will grow at over twice that of developed markets. This will present a great opportunity for private equity globally in emerging markets. There is a tremendous scope for private equity to partici-

pate in this growth. In our view this opportunity is not limited to one country or one region—it is a systemic opportunity.

We think the percentage of emerging markets GDP to global GDP will double over the next thirty years. We see emerging markets private equity moving from being a bolt-on for institutional investors to being a core part of a portfolio in the next fifteen years. We will continue to see a higher percentage of world-leading companies coming from emerging markets. Over the next 15 years, we will see the distinction between OECD countries and many of the more advanced emerging market countries disappear. The frontier economies of today will be tomorrow's core emerging markets. If what I am saying turns out to be true, a major focus of global capital will be on what we consider now to be the emerging market world. We are in an interesting space. •

The first EM PE Quarterly Review Interview featured The Carlyle Group's David Rubenstein and can be found in Volume I, Issue 4 on EMPEA's Web site (www.empea.net).

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