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Emerging Market Private Equity, It’s Recent Growth and Differences with Private Equity in Developed Markets

Introduction

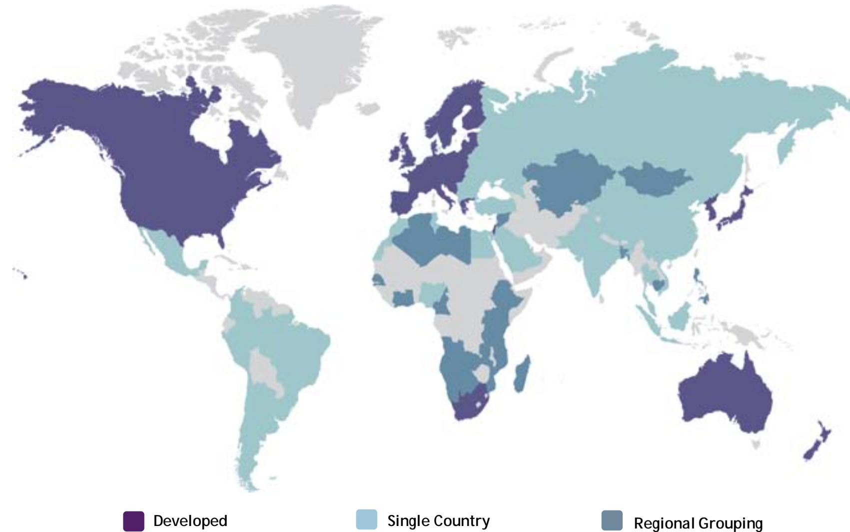
The opportunity in private equity in emerging markets has developed significantly in the last decade, in both scale and quality. However, in important respects it remains different from the predominant LBO opportunity in the US and Europe.

This chapter explores two broad themes: (i) What has driven the growth of the private equity opportunity in emerging markets since 2000 and what is required to grow the opportunity further and (ii) The differences between private equity in emerging markets and developed markets, the implications for investors and how investors can think about and manage these differences.

The Growth of the Private Equity Opportunity in Emerging Markets

In 2000 when IFC created a dedicated department to manage investments in funds it had already been investing in private equity funds in emerging markets for a decade with generally disappointing results – returns on the 1990s vintage private equity funds which IFC backed are currently running around 4-5%, much below the returns on IFC’s direct equity investments in the same period. When we investigated why returns had been so lacklustre one conclusion was that we had been supporting funds in countries in which, while the general demand for equity financing was high, too few of the control positions suited to private equity were available. At that time we concluded that the only emerging markets with enough deal flow for country-dedicated funds were the BRICs plus South Africa. We now think the investable opportunity is much broader, a genuinely global opportunity, as the map in Chart 1 illustrates.

Chart 1

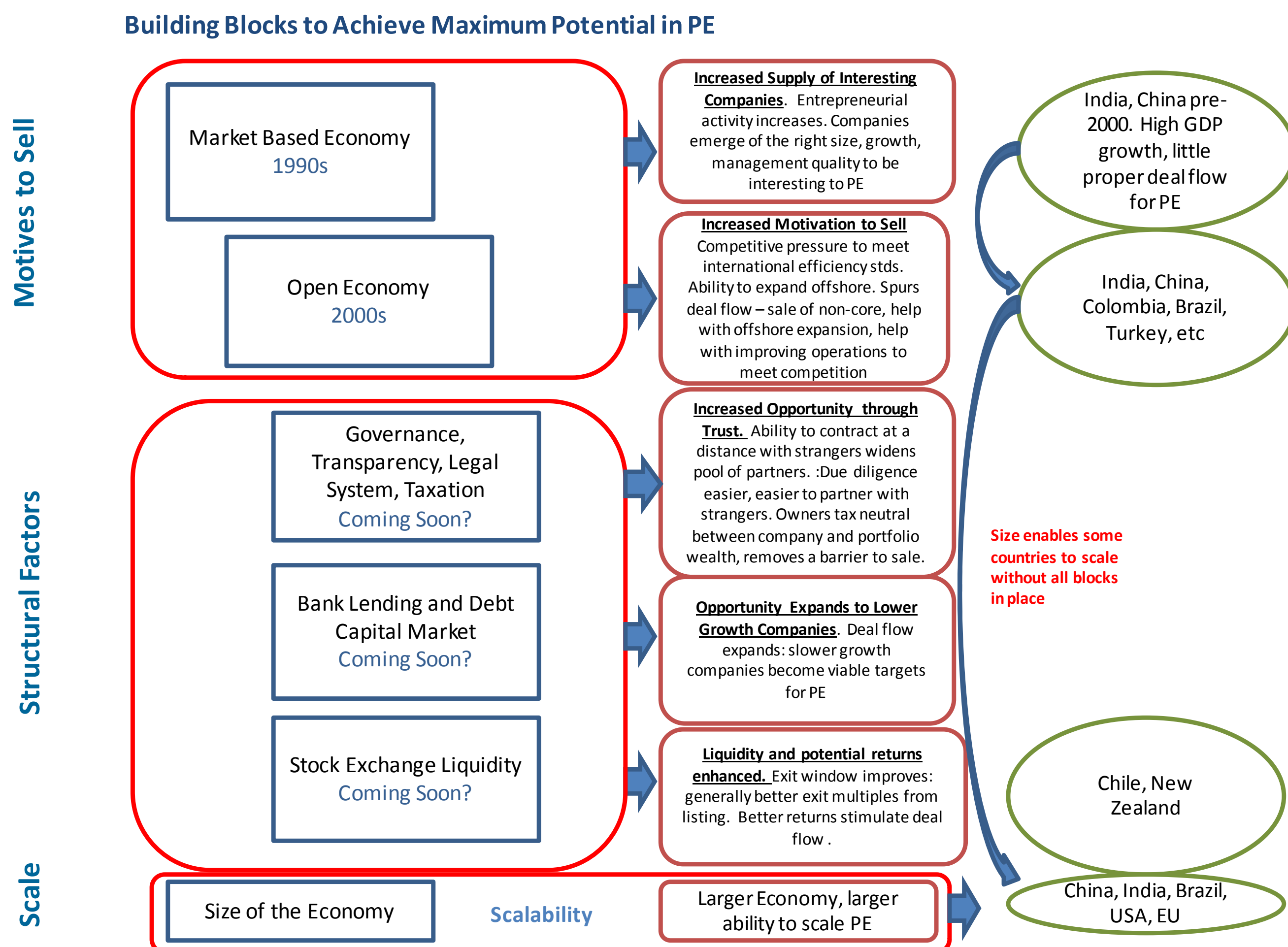


To understand why the private equity opportunity in emerging markets has grown so much in the last decade we need to step back a little and look generically at the building blocks that enable the industry to function successfully.

Private Equity has been an established industry in the US and Europe for long enough that investors have not needed to think about the foundations that are required for the industry to exist. The deal flow is there and there are GPs eager to raise funds to pursue it – it is just a matter of selecting the GP you want to back. However, when a business is transplanted from its home geography it becomes necessary to enquire how many of the building blocks that enabled the business to flourish back home are in place to enable it to flourish in its new home and, to the extent that some are wholly or partially missing, whether the business can be modified to succeed without them?

In my simple mental model of private equity there are a series of building blocks which affect both the supply of suitable deal flow and the options available to fund managers to create return on equity. These building blocks are summarized in Chart 2 and are discussed in the rest of this section. The potential scale of the private equity industry in a country is a combination of the number of building blocks which are in place and the size of the economy. A small number of building blocks in place in a large economy can lead to a larger private equity industry than a country with many building blocks in place but a small economy.

Chart 2



The growth in the private equity opportunity seen in emerging markets since 2000 has largely been driven by an increase in the availability of control positions. The motivation of company owners to sell influence and/or control to third parties has increased.

Why look at control positions? Private equity requires that value be created in a limited period of time before capital must be returned to investors. For the private equity fund it is much more certain that value can be created and an exit achieved in a limited time period if the fund has either outright control of a company or a minority position with significant control-like rights through a shareholders agreement. For private equity to take root there must be a large enough group of owners of companies who are willing to give up total or partial control of their companies. It is not enough that owners of companies would like additional equity financing – they need to be prepared to give up some degree of control to obtain it.

There are only a limited number of situations which motivate owners of companies to part with control, the most prominent of which are listed in table 1.

Table 1

Positive Motivation to Sell	**- Strong growth situation** **- Pre-Listing Clean-Up** **- Geographic Expansion**	**Minority** **Minority** **Minority**
Neutral Motivation to Sell	**- Generational Change** **-Conglomerate focusing on Core Business selling non-Core** **- Privatization**	**Majority** **Majority** **Majority**
Negative Motivation to Sell	**- Distressed business** **- Distressed owners**	**Majority** **Majority**

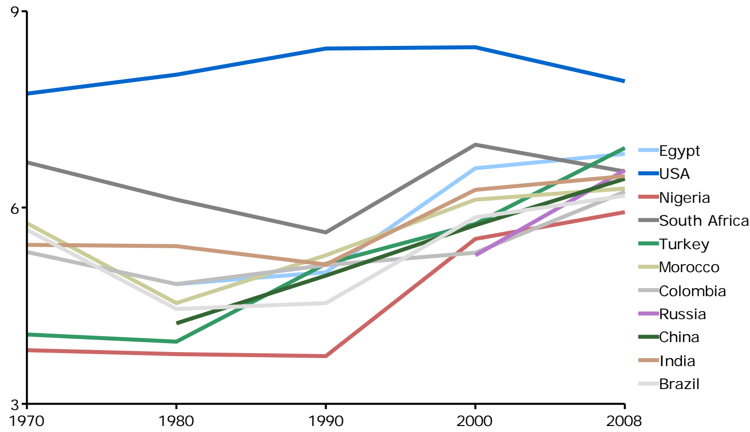
The first building block question to ask in moving private equity to a new country is (i) how many of these motives to surrender control are functioning and (ii) given the scale of the economy, does this provide enough deal flow for a private equity fund to have adequate selectivity in its deal selection? In a very large economy such as China a single motivation to sell control, such as strong growth that is too big for internal financing, can support a viable private equity industry. In a smaller economy multiple motivations to sell control will be required to generate enough deal flow to allow a fund to be properly selective.

Note that GDP growth is not listed as one of the drivers of deal flow suited to private equity. GDP growth will certainly increase the general demand for equity finance, but a high general demand for equity finance is not necessarily the same thing as a strong supply of the control positions required by private equity.

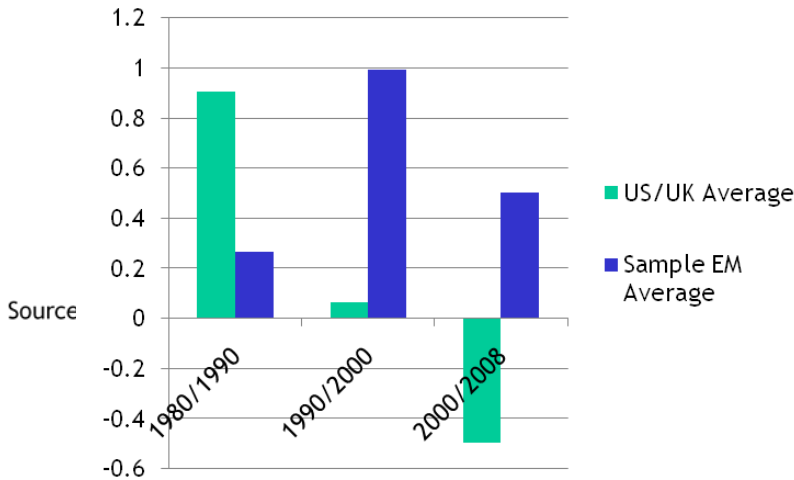
What occurred post-2000 in multiple countries to increase the motivation of owners of companies to sell control? In my opinion, there were two broad phases: in the 1990s many countries shifted to more market-based economic systems followed, after 2000, by a shift to more open economies. That these two trends occurred is shown in Charts 3a, 3b and 4.

Charts 3a and 3b use the Frazer Institutes Economic Freedom of the World Index to illustrate the significant improvement in conditions for business that occurred in emerging markets after 1990, particularly between 1990 and 2000. This period saw an increase in entrepreneurial activity, acceleration in GDP growth and the emergence of companies of a scale and quality to be interesting to private equity buyers. Yet the 1990s were not, generally, a good period for investors in emerging market private equity. Part of the reason for this is that while the companies were growing and emerging their owners were not motivated to either sell out or to share control with external investors. Additional equity financing might have been nice, but no need was seen for external advice or partnership.

Chart 3.a EFW Index Levels

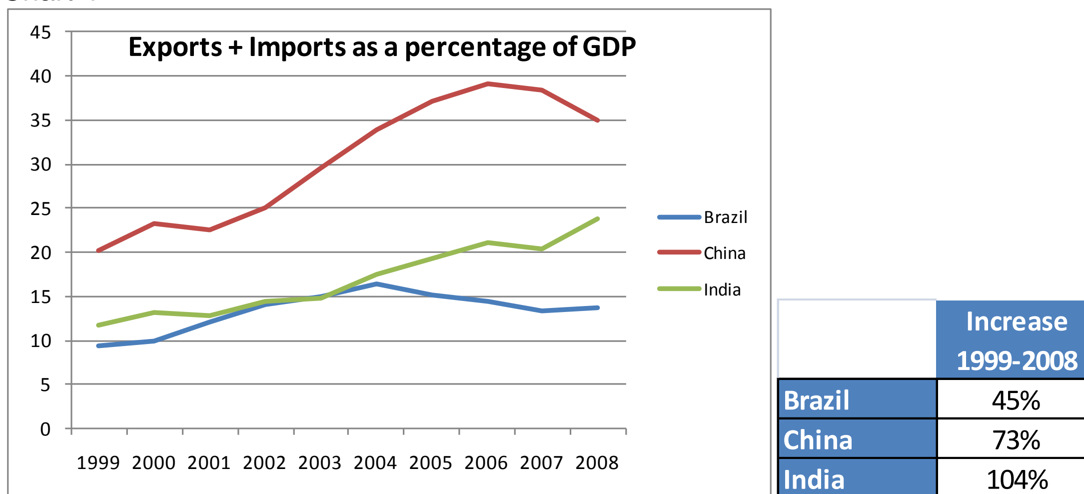


3.b EFW Index Changes



The opening up of economies that occurred post 2000 is illustrated by Chart 4 which shows exports as a percentage of GDP as a proxy for the greater openness to trade and capital flows over this period.

Chart 4



	Increase 1999-2008
Brazil	45%
China	73%
India	104%

The greater openness to trade and capital flows after 2000 – globalization – created both opportunities and pressures which made owners of companies increasingly open to both selling businesses and bringing in active third party investors. The internal business dynamic in a closed economy is quite different to that in an open one. In closed economies business owners tend to not focus on a core business and use spare cash flow to diversify, creating conglomerates. They are also less aware of foreign standards of efficiency and seek offshore expansion less actively. In this less competitive environment they see less need for external advice.

Opening the economy changes the internal dynamic. Facing greater external pressure, firms look more to build a competitive core business and sell off non-core businesses to fund the growth and improvement of the core business. Entrepreneurs are more interested in partnering with groups who can help to make the core business more competitive, expand production lines or expand offshore. Faced with a more competitive environment business owners become more willing to combine with or sell to competitors, creating platform build up and industry consolidation opportunities. If several countries in a region make a similar shift toward more market-based open economies, opportunities arise to create larger, more efficient, multi-country businesses.

The shift to market based economies in the 1990s encouraged larger better managed companies to develop and created growth, while the opening of economies after 2000 made activist third party capital attractive to help grow companies, improve efficiency and acquire surplus assets. The resulting increase in availability of outright control or minority positions with control like rights created the conditions in which private equity can thrive.

As the availability of deal flow has increased across multiple countries, so has the quality of the investment opportunity. The obvious point is that greater deal flow allows greater selectivity. The less obvious point is that the increase in deal flow made it viable for fund managers to become local.

In my experience private equity is a very local business, so the ability to be local is important. Each market has its own networks for sourcing transactions, its own quirks in due diligence and its own approach to operating businesses. Someone local, both physically and culturally, will

have better access to potential vendors through belonging to local networks; be better placed to understand the reputations of vendors; understand the particulars to be aware of in due diligence in the local market such as the number of sets of accounts and family or relationship ties in companies up and down the supply chain which may not transfer to a new owner; be better placed to identify talented local managers and convince them to leave comfortable and prestigious positions in more established firms for the higher risk/reward of a private equity backed firm; and better positioned to understand cultural factors which will assist a close working partnership to develop during the holding period, creating a bond which can be used to enforce the shareholders agreement independent of legal channels.

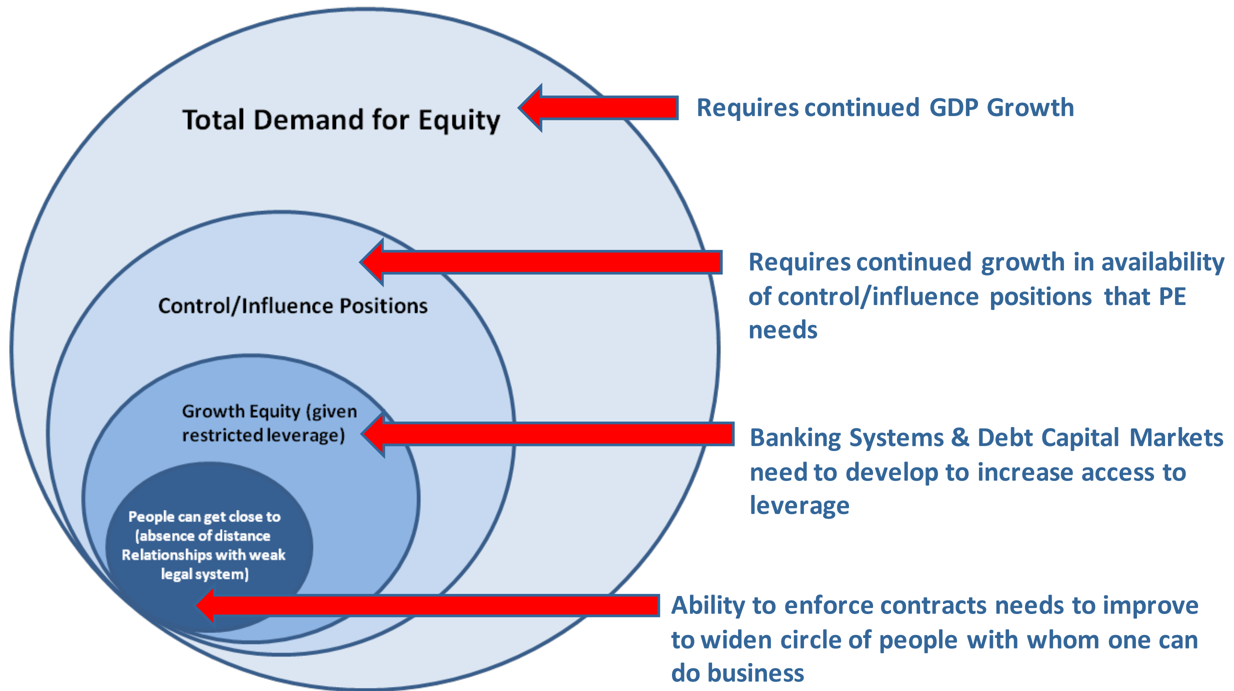
It was noted at the start of this section that in 2000 IFC concluded that the only countries with enough deal flow to support country-dedicated funds were the BRICs and South Africa. Where deal flow was insufficient at the country level to provide the selectivity needed to support a country-dedicated fund, fund managers and investors turned to sub-regional or regional funds as a way of getting a large enough deal base. While broadening geographic coverage remedied the deal flow issue, it made the fund manager more distant from each individual market. The growth in deal flow across multiple countries since 2000 has now made dedicated country funds viable in a wide range a countries (refer Chart 1) and this in turn has improved the quality of the private equity opportunity in emerging markets by enabling fund managers to become much closer to the markets in which they are investing.

In any given country the supply of deal flow suited to private equity can be viewed a little like a set of Russian nesting dolls – see Chart 5. The outer doll in the set, the total demand for equity, will be driven by the size and growth of the economy. Within this total demand only those companies whose owners are willing to part with some degree of control or influence to obtain equity finance will be attractive targets for private equity. There are a limited number of motivations for owners of companies to part with control, refer to table 1 for a description. Since 2000 the motivation to part with control has been stimulated by the pressures and opportunities created by more open economies.

Within the group of companies whose owners are willing to part with some degree of control, one factor determining which companies are potentially attractive acquisitions for private equity funds is the availability of leverage. The less leverage that is available, the more the attractive group of companies is limited to high growth companies.

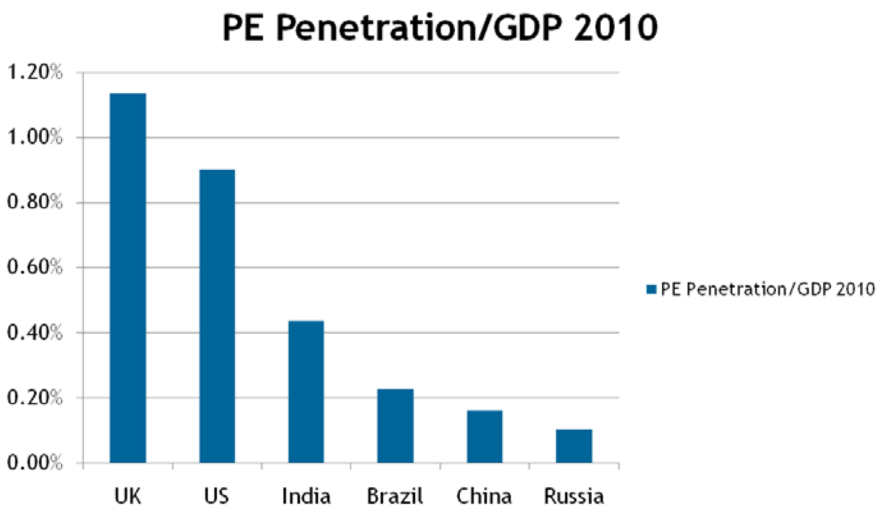
Within the group of high growth companies with owners willing to part with some control, a fund manager is limited to dealing with those companies with whom he or she can develop a relationship of trust. If the legal system allows efficient contract enforcement this can be a relatively large group. If contract enforcement is poor, the fund manager will be constrained to deal with those companies with which he can develop a personal relationship.

Chart 5



What might be the next steps for further expanding deal flow in emerging markets? Using capital committed as a percentage of GDP as a measure of market development, the emerging markets, including the BRICs, are currently much less developed in terms of private equity than the US and Europe – see Chart 6.

Chart 6



Clearly it is to be hoped that the trend of the last twenty years to more market-based and more open economies will be sustained or at least not be reversed, as it is this trend which has underpinned the growth of private equity in emerging markets. If current economic stresses in

the global economy were to lead to policies of protectionism and balkanization, it would tend to limit the further growth of private equity and at the extreme cause it to shrink.
Beyond a continuation of the existing trends, two developments at the local level will help to grow the private equity opportunity – improved access to debt finance and improved ability to enforce contracts. These are two of the Structural Factors in Chart 2 above.

Private equity in emerging markets uses relatively little debt as its availability is limited. As a generalization banks largely remain focused on lending against assets rather than cash flow and debt capital markets are very under-developed. Pre-crisis companies within funds in which IFC had invested had average and median debt-to-equity ratios of 0.74 and 0.33 respectively compared to an average ratio a little above 2 in developed markets. The availability of leverage has a direct impact on the number of companies which make suitable targets for private equity. The less leverage that is available, the higher the revenue growth that is required in order to meet the target return on equity. In a low leverage environment only faster growing companies are suitable acquisitions for private equity funds. The larger number of slower growing companies are not capable of generating the target return on equity without additional leverage. By increasing the supply of debt finance, more developed debt markets in emerging markets would increase the number of companies that are potentially attractive acquisitions for private equity.

A large number of emerging markets have weak legal systems in which contract enforcement is difficult or very slow. An efficient legal system allows strangers to collaborate as the ability to efficiently enforce a contract reduces the need to have a very close relationship with and deep knowledge of the other party. An enforceable contract allows trust in the absence of a deep and personal relationship. By widening the circle of people in whom you can place trust, enforceable contracts make it possible to do business with many more people. Conversely, if contracts are not easy to enforce, your circle of trust and the people with whom you can do business are limited to those with whom you have a personal relationship, possibly as limited as family members. Weak legal systems in emerging markets limit deal flow by limiting the number of people with whom a fund manager can do business. Strengthening legal systems would increase deal flow by increasing the possibility of doing business with people who are less personally known.

How similar or different is the private equity opportunity in emerging markets and developed markets?

As the opportunity in emerging market private equity has expanded since 2000 the risks and the differences with private equity in developed markets have declined somewhat. However, differences are still present and it is worth investors while to understand what the differences are and how they might shape an approach to investment in emerging market private equity. The differences affect both the scale of the opportunity and the risk. Of those differences affecting risk, my experience is that some can be mitigated considerably.

Overall, I think that (i) the risks in emerging market private equity have, in the last decade, typically been over-stated by investors; (ii) the emphasis on growth and efficiency improvement as the source of return on equity in most emerging markets results in a private equity model that is less exposed to cyclical or macro shocks than the developed market private equity model that is more dependent on leverage and also possibly on multiple expansion; and (iii) for investors

not restricted by a large minimum commitment size, there is a broad diversification opportunity of which few investors are taking advantage.

A glance at Table 2 shows that the performance of private equity in emerging markets relative to developed markets has improved dramatically over the last decade. While the average return on EM PE lags the US and Western Europe over 15 years, by 10 years it has passed the US and in the last 5 years has passed both the US and Western Europe. It is particularly noticeable that EM PE has passed developed market PE in the post-crisis period.

The progressively better returns from EM PE, both absolutely and relative to developed markets suggest two things to me. Firstly, that some aspects of EM PE have improved and reduced the quality gap with PE in developed markets and, secondly, over the crisis some of the differences have worked in favor of EM PE.

Table 2

	Comparative Net "End-to-End" Returns as of June 30, 2011		
	US Private Equity Index	W. Europe Private Equity Index	Emerging Markets VC & PE Index
3 Years	6.6	1.1	11.2
5 Years	10	11.3	15.5
10 Years	11.4	19.3	12.1
15 Years	12.5	18.8	9.7

Source: Cambridge Associates

What are the differences between PE in emerging and developed markets, how have the differences evolved and how should investors think about and manage the differences?

I have summarized some of the major differences between private equity in emerging and developed markets in table 3.

Table 3

EM PE difference to US/EU PE	Scale Impact	Risk Impact	Risk Mitigation
Return driven by growth rather than leverage	Lower leverage reduces the number of companies suitable for acquisition	Less subject to macro and cyclical risk than LBO. Higher execution /operational risk	Select GP able to manage operational risks
Mostly minority positions	Lower investment per transaction	Implementation of value/exit plan requires cooperation of majority. Shareholders agreement may be difficult to enforce. Exit may be difficult.	Select GP with the skills required to become viewed by the majority as a partner. IFC's experience is that ability to form a strong relationship achieves cooperation and mitigates enforcement risks. IFC experience is that minority exits compare favorably to control exits.
Weak Contract enforcement	Limits the range of people a GP can work with, limiting deal flow.	Enforcement of shareholders agreement can be difficult.	Select GP with the skills required to become viewed by the majority as a partner. IFC's experience is that ability to form a strong relationship achieves cooperation and mitigates enforcement risks.
Smaller Companies	Smaller transaction sizes.	Potentially longer time to scale to size required to exit. Smaller companies may be more vulnerable to macro shocks.	In IFC's experience transaction sizes have to become quite small before there is a noticeable increase in negative outcomes.
Exits: Limited IPO, less liquid stock exchanges, less M&A activity	Limits capital willing to enter the market to that with less time sensitivity and more tolerance for illiquidity.	Less developed capital markets reduce exit opportunities. Can be either trapped or need to give up some return to secure an exit.	IFC's experience is that while returns on IPO are higher, trade sales provide good returns. GP needs to be aware of volatility in the exit window and be prepared to opportunistically exit even if it appears premature. LPs need to be aware of the greater difficulty of exiting listed stocks and ensure alignment of interest with the GP on distributions in kind.
Availability of experienced GPs	Not possible to crystalize the PE opportunity without a competent GP.	Huge return quartile gaps in PE. Lack of experience greatly increases risk.	IFC returns from 1st time funds have been surprisingly good – in excess of 20% net. There appears to be an early mover advantage. Still, not for the faint of heart.

The key structural difference between emerging market and developed market PE is the reliance on growth for returns in EM PE. It was noted above that the lower leverage typical in EM PE reduces the scale of the opportunity. The lower leverage also has the advantage of making EM PE relatively more resistant to macro and cyclical shocks of the type recently experienced.

There are four basic drivers of return in private equity: leverage, valuation multiple expansion; revenue growth and improved efficiency driving higher margins. Each of these drivers of return requires a certain skill set and environment to successfully execute and each has its own risks. The returns on most PE transactions come from a blend of these four basic drivers. However, the blend differs across markets, fund managers and periods of time.

A PE strategy based heavily on leverage uses little equity and extracts a lot of cash during the holding period: it is very reliant on a stable macro environment and continued access to debt, neither of which held in the period immediately following the crisis. Reduced access to debt and declining earnings and margins due to a weak macro situation will have an especially large negative impact on return on equity in a heavily leveraged company.

A strategy based primarily on generating return on equity through revenue growth and improvement in margins will come under pressure from a macro economic slowdown or increased competitive pressure in the particular industry. However, a high growth company with low leverage will be less vulnerable to macro and cyclical shocks than a highly leverage company with low or no growth. The relative resilience of a strategy emphasizing growth, a common strategy in emerging market PE due to low availability of leverage, is something we have seen in the post-crisis period.

The focus on revenue growth as a primary driver of returns also results in a business model with considerable impact on job creation and support for small and medium sized businesses. In 2009 examination of companies within funds which IFC had backed showed median and average job growth post-investment of 12% and 22% respectively. Sixty four percent of companies had been SMEs at the time of the initial investment.

However, while a growth-focused strategy with low leverage is more resilient to macro shocks, a PE strategy anchored in growth and efficiency gains is also more exposed to execution risk. A growth strategy is very dependent on the skill of the GP and company management to avoid operating and strategic execution problems at the company level. Execution of a growth strategy would be expected to be more difficult in emerging markets due to a number of factors including fewer experienced GPs, the prevalence of minority positions and fewer experienced senior and middle managers.

We manage this greater execution risk through seeking GP teams with the right skills and experience to actively assist the management of investee companies.

As noted earlier, the different PE strategies each require particular skills and market environments to execute successfully. Part of our investment process is to understand what the drivers of return are in each market and to then ensure the skills and experience of the teams we back match with the way the returns need to be made. In a market where returns will mostly come from organic growth, we look for GPs whose teams have the skill and experience to actively assist and guide the management of investee companies. Those with experience at a senior level in corporate operations, consulting and as entrepreneurs are typically most able to actively help management. If a significant part of the growth is expected to be inorganic, as for example it often is in Brazil, then M&A experience in the team is relevant. If leverage will be important, as it is in South Africa, financial structuring skills will be relevant to executing the strategy and investment banking experience in the team is relevant.

As most of the countries in which we invest require a growth focused strategy, we mainly seek teams with a core of members who bring operating experience from past positions.

Teams with strong operating experience bring a further benefit when dealing with minority positions in countries with weak contract enforceability. Through being seen to add value to the company they are able to form a bond, a partnership, with the majority owner which, in our experience, reduces the risks of weak contract enforcement significantly. A strong feeling of partnership both reduces the probability that the majority will try to squeeze out the minority or

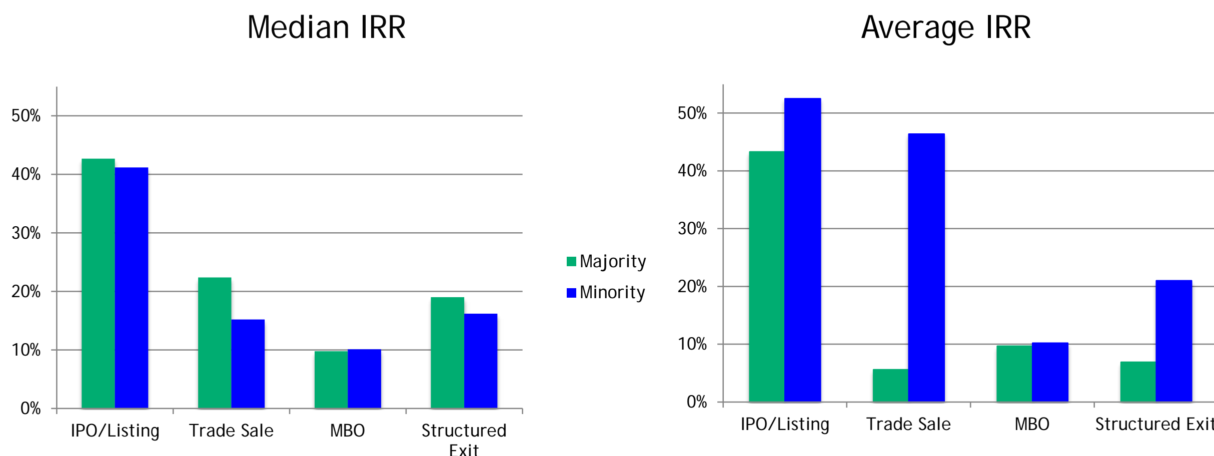
limit the minority's share in the up-side and gives the minority greater persuasive ability to enforce the shareholders agreement.

This understanding of the importance of partnership between the GP and the investee company in mitigating the risks of minority positions in countries where contract enforcement is weak was formed only gradually. Our initial conclusion, after reviewing the poor experience of our 1990s funds with minority positions, was that minorities did not work. We continued to back funds making minority investments as a necessary evil – in most countries minority positions were all that was available. These later funds' investments in minorities were successful and, when compared to the earlier funds, the difference lay in the ability of the GP to be seen as a partner through adding value.

In the earlier funds the minority had too often been deprived of its due share of the up-side. When an investment was very successful, the majority was unwilling to share the profits. They asked 'Who has created this wealth, us with dirt under our nails or this passive investor, nice as they are as a general sounding board?' Having convinced themselves that the minority had contributed little except capital, the majority would then proceed to arrange things so that the minority received an enhanced debt-like return, rather than the full equity return due. In the later funds, where the GP had contributed to the growth of the company and was seen as a partner, the GP's right to full participation in the gains was not questioned.

Chart 7 compares returns from exits of minority and control positions in companies backed by funds in which IFC has invested and the results from minority positions are good, indicating that the risks can be managed.

Chart 7



Sample: Exits of 61 majority positions and 251 minority positions from IFC invested funds

The importance of selecting a GP whose team has the right skill and experience for the particular market is highlighted by an exercise we did several years ago to see what impact different factors were having on our returns and development results. As a development institution IFC backs many first time fund managers – over 70% on average in the last five years – and also seeks ways to back private equity in the frontier where few other investors will go. We expected that one or both of these factors would have some negative impact on results. Table 4 compares the top and bottom ten percent of funds in our portfolio at that time (March 2009). As expected the difference in both returns and development impact between the top 10% and the bottom 10% is considerable. What is surprising is that the additional risks IFC takes as

a development organization in backing first time funds and seeking out frontier investments did not appear to contribute to the difference in results. The best 10% of funds were in fact more invested in the frontier (proxied by exposure to IDA, the poorest countries) than the worst 10% and, by coincidence, the percentage of first time funds was the same in both the best and worst 10%. The major difference, the factor driving the wide variance in results, was the quality of the fund manager.

The 150 funds in the sample were comprised of a mix of vintage years from the 1990s to the mid 2000's, a period over which IFC's learning curve in respect to fund investing was steep. As a measure of GP quality we applied a small subset of our current diligence criteria related to manager skill set and degree of 'localness' to each fund and scored each fund between 0 and 1 based on the extent to which the diligence criteria were met. The top 10% met the simplified diligence criteria while the bottom 10% generally failed comprehensively.

Table 4

	IRR as of March 2009 (simple average %)	Development Impact Score Highly Suc = 3 HighlyUn S = -1	1st Time Funds %	IDA % (<$1000 GDP per capita)	Average Deal Quality Score Max = 1 Min = 0
Top 10%	**46.6%**	**2.10**	**53%**	**27%**	**0.97**
Bottom 10%	**-38.3%**	**0.14**	**53%**	**13%**	**0.17**

Sample: 150 Funds in IFC's portfolio in March 2009, excluding those in the J-curve

The risk associated with first time funds and the frontier is interesting and deservers further examination. Our experience leads us to believe that there is an early mover advantage in emerging market private equity investing. Currently our returns show first time funds returning 21%[1] compared to 14% for non-first time funds. If first time funds are selected carefully enough, so they have local presence and the skill set required to generate returns in the particular country then, in less competitive markets, the fund team have considerable time in which to conduct diligence on each target company. There is time to properly understand companies and to develop relationships and action plans before investing. The neophyte fund team is not forced by competitive pressure into errors of haste. This early mover advantage will decay over time as markets become more competitive and eventually the risk of backing first time funds will rise to the levels seen in developed markets and expected by investors, but for now the early mover advantage persists in many countries.

The potential to achieve commercially attractive returns extends over a much wider geography than most investors comfort zones. IFC's performance compared to the top quartile of the Cambridge EM PE Index and the MSCI is shown in Table 5. The long term performance of IFC's private equity portfolio is consistently in the top quartile and in excess of returns that would have been achieved on the same cash flows invested into and taken out of EM public equity.

[1] This excludes one extreme outlier which, if included, takes the return on first time funds to 27%.

Table 5

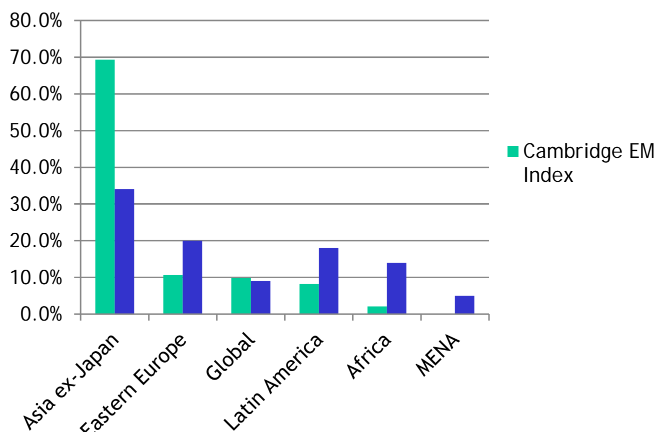
IRR from Jan '00 to	Jun 30 2011
IFC: Private Equity Funds*	22.2%
IFC: All Funds**	18.5%
Cambridge EM PE Top Quartile***	19.8%
Cambridge Asia EM PE Top Quartile***	21.7%
Cambridge US PE Top Quartile***	17.4%
MSCI (IFC PE Fund Cashflows)****	12.8%

* Includes: Agribusiness, Cleantech, Midcap, Mining, Pharma, SME, VC and Healthcare Funds
** Includes: Agribusiness, Cleantech, Midcap, Mining, Pharma, SME, VC, Healthcare, Debt, Forestry, Infrastructure, Listed, Real Estate, Secondary Funds

*** All PE Fund types excluding Forestry, Infrastructure, Real Estate, and Secondary Funds
**** Identical cashflow stream converted into cumulative MSCI shares; valued as the new terminal value (on 6/30/11) for the series of cashflows

Analyzing this performance, a key point is that IFC's geographical exposure is wildly different from that of the Index. As Chart 8 shows, the Index is 55% in Asia while IFC's exposure is only 27%; the Index in only 4% in Africa while IFC currently has 26% of its private equity portfolio in Africa. Certainly over the period since 2000 geographical diversity and IFC's push to the frontier has benefited returns: currently our 11.5 year return on African private equity is 20.2%. For those investors who are not limited by a large minimum commitment size, the broader opportunity is very interesting.

Chart 8



Conclusion

The opportunity to invest in private equity in emerging markets has grown considerably since 2000 in scale, geographical scope and quality. The growth to date has been driven by the combination of a shift to more market-based economies and greater openness to trade and capital flows, which have lead to an increase in the availability of equity positions with control or control-like rights attached. Further increases in the scale of the opportunity require a

combination of continued economic growth and improvement in contract enforcement and the availability of debt finance.

Return on emerging market private equity has improved considerably over the last decade and over the last three years exceeds that on both US and EU private equity. IFC's experience demonstrates that the risk of private equity in emerging markets relative to developed markets is not as large as is commonly thought. The increase in deal flow which has allowed the spread of country funds to multiple markets has diminished risk by increasing localization - placing teams in the countries in which they invest. The use of much lower levels of leverage in emerging market private equity relative to developed markets has provided a buffer against recent macro and cyclical shocks. Risks related to contract enforcement, minority positions and managing operational risk can be mitigated effectively through careful selection of GPs with the right skill sets for local conditions and, quite strikingly, there appears to be an early mover advantage which has improved the odds that first time funds will meet with success.

The immovable issue facing investors appears to be one of scale and diversification rather than risk. While the opportunity for good returns is widely spread it is, as yet, in many places not deep. This constrains the geographic footprint available to investors with large minimum commitment sizes and careful investors will want to avoid flooding the markets. However, for those investors whose minimum commitment size is moderate enough to permit it, it is possible to build a well diversified portfolio with excellent potential return.