Private Equity Investment in 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.

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

<table>
<thead>
<tr>
<th>Country</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>27%</td>
<td>28%</td>
<td>30%</td>
<td>32%</td>
</tr>
<tr>
<td>Russia</td>
<td>12%</td>
<td>11%</td>
<td>12%</td>
<td>11%</td>
</tr>
<tr>
<td>India</td>
<td>12%</td>
<td>11%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>China</td>
<td>28%</td>
<td>25%</td>
<td>23%</td>
<td>23%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year of Final Close</th>
<th>No. of Funds Closed</th>
<th>Aggregate Capital Raised (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>82</td>
<td>119</td>
</tr>
<tr>
<td>2007</td>
<td>122</td>
<td>132</td>
</tr>
<tr>
<td>2008</td>
<td>121</td>
<td>119</td>
</tr>
<tr>
<td>2009</td>
<td>119</td>
<td>144</td>
</tr>
<tr>
<td>2010</td>
<td>112</td>
<td>132</td>
</tr>
<tr>
<td>2011</td>
<td>112</td>
<td>119</td>
</tr>
<tr>
<td>2012</td>
<td>112</td>
<td>119</td>
</tr>
</tbody>
</table>
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. 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.

### Aggregate 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 (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 $42bn 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 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.

### 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.

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

<table>
<thead>
<tr>
<th>Fund</th>
<th>Vintage</th>
<th>Manager</th>
<th>Type</th>
<th>Target Size (mn)</th>
<th>Fund Status</th>
<th>Geographic Focus</th>
<th>Manager Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDH China Fund V</td>
<td>2013</td>
<td>CDH Investments</td>
<td>Growth</td>
<td>2,000</td>
<td>First Close</td>
<td>China</td>
<td>China</td>
</tr>
<tr>
<td>CITIC Buyout Fund</td>
<td>2013</td>
<td>Goldstone Investment</td>
<td>Buyout</td>
<td>10,000</td>
<td>Raising</td>
<td>China</td>
<td>China</td>
</tr>
<tr>
<td>Urban Infrastructure Construction</td>
<td>2012</td>
<td>All-China Federation</td>
<td>Infrastructure</td>
<td>10,000</td>
<td>First Close</td>
<td>China</td>
<td>China</td>
</tr>
<tr>
<td>Guochouang Kaiyuan Fund of Funds</td>
<td>2011</td>
<td>China Development Bank</td>
<td>Fund of Funds</td>
<td>10,000</td>
<td>Second Close</td>
<td>China</td>
<td>China</td>
</tr>
<tr>
<td>BTG Pactual Brazil Infrastructure Fund II</td>
<td>2012</td>
<td>BTG Pactual Bank Capital</td>
<td>Infrastructure</td>
<td>1,500</td>
<td>Second Close</td>
<td>Brazil, South America</td>
<td>Brazil</td>
</tr>
<tr>
<td>AVG CIS Agricultural Opportunities Fund</td>
<td>2013</td>
<td>AVG Capital Partners</td>
<td>Buyout</td>
<td>1,500</td>
<td>Raising</td>
<td>Russia</td>
<td>Russia</td>
</tr>
<tr>
<td>Blue Economic Zone Industrial Investment</td>
<td>2012</td>
<td>China Bright Stone</td>
<td>Growth</td>
<td>8,000</td>
<td>First Close</td>
<td>China</td>
<td>China</td>
</tr>
<tr>
<td>Ji India Infrastructure Fund II</td>
<td>2013</td>
<td>Ji Infrastructure</td>
<td>Infrastructure</td>
<td>1,250</td>
<td>Raising</td>
<td>India</td>
<td>UK</td>
</tr>
<tr>
<td>Astra Infrastructure Fund</td>
<td>2013</td>
<td>Astra Investimentos</td>
<td>Infrastructure</td>
<td>1,000</td>
<td>Raising</td>
<td>Brazil</td>
<td>Brazil</td>
</tr>
<tr>
<td>Astra Natural Resources Fund</td>
<td>2013</td>
<td>Astra Investimentos</td>
<td>Natural Resources</td>
<td>1,000</td>
<td>Raising</td>
<td>Brazil</td>
<td>Brazil</td>
</tr>
</tbody>
</table>

Source: Preqin Funds in Market
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.

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 capitals 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
$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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