SIGULER GUFF

# Rationale for a Small/Mid-Size Emerging Markets Private Equity Strategy

November 2015

The relationship between fund size and performance differs for private equity funds that invest in emerging markets versus those that invest in developed markets. While the difference in performance between larger (>$750m) and smaller funds (<$750m) is relatively insignificant for U.S. and European funds, the performance delta for emerging markets funds is much greater.[1]

**Small/Mid vs. Large/Mega Fund Performance by Region**

| Emerging Markets Private Equity and Venture Capital | 1-Year | 3-Year | 5-Year | 10-Year | 15-Year |
|---|---|---|---|---|---|
| All Sizes | 14.2% | 14.0% | 12.8% | 12.3% | 9.9% |
| Small/Mid (<$750m) | 20.6% | 17.6% | 15.4% | 16.0% | 11.5% |
| Large/Mega (>$750m) | 8.9% | 11.0% | 10.4% | 8.4% | 7.5% |
| ***Outperformance (bps): Small/Mid vs. Large/Mega*** | ***1,167*** | ***659*** | ***500*** | ***755*** | ***399*** |

| Developed Europe Private Equity | 1-Year | 3-Year | 5-Year | 10-Year | 15-Year |
|---|---|---|---|---|---|
| All Sizes | (2.9%) | 11.4% | 13.2% | 12.7% | 14.1% |
| Small/Mid (<$750m) | (5.5%) | 6.4% | 9.1% | 18.7% | 14.3% |
| Large/Mega (>$750m) | (2.6%) | 12.0% | 13.7% | 12.0% | 14.0% |
| ***Outperformance (bps): Small/Mid vs. Large/Mega*** | ***(293)*** | ***(559)*** | ***(464)*** | ***672*** | ***35*** |

| U.S. Private Equity | 1-Year | 3-Year | 5-Year | 10-Year | 15-Year |
|---|---|---|---|---|---|
| All Sizes | 8.8% | 16.2% | 16.0% | 12.6% | 10.6% |
| Small/Mid (<$750m) | 10.1% | 13.4% | 14.5% | 15.2% | 10.0% |
| Large/Mega (>$750m) | 8.6% | 16.7% | 16.3% | 12.1% | 10.7% |
| ***Outperformance (bps): Small/Mid vs. Large/Mega*** | ***156*** | ***(325)*** | ***(179)*** | ***304*** | ***(74)*** |

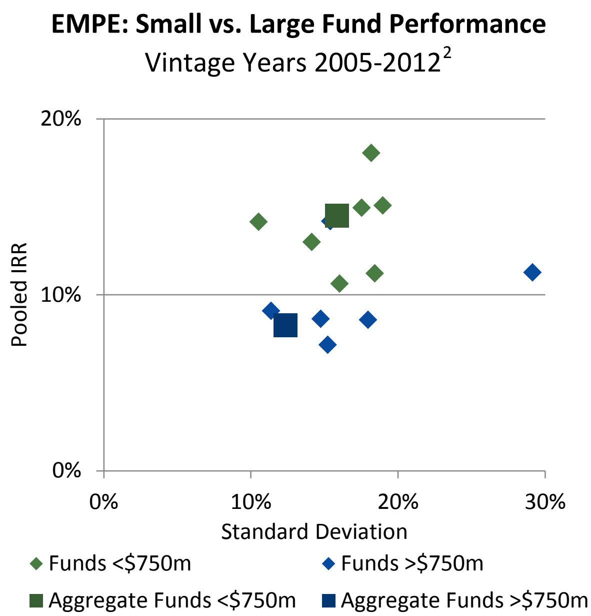
The return dispersion across performance quartiles in U.S. private equity (U.S. PE) is much narrower than in emerging markets private equity (EMPE). According to U.S. PE data from Cambridge Associates as of June 30, 2015, the average delta between the top quartile and bottom quartile breakpoints for vintage years 2000 - 2014 is 1,478 basis points. The EMPE average delta is 1,905 basis points, which is 427 basis points higher than U.S. PE and represents almost 30% more dispersion in EMPE.

More importantly, the gap between the U.S. PE median and first quartile breakpoints during that period was only 746 basis points, while it was 1,063 basis points for EMPE. This is 317 basis points higher than U.S. PE and represents over 40% more dispersion in EMPE. Against the background of significantly higher return dispersion, idiosyncratic fund selection is more important to achieving adequate, risk-adjusted performance in EMPE than it is in developed markets. A return-maximizing EMPE strategy requires thoughtfully diversified

[1] Source: Cambridge Associates as of June 30, 2015. Figures in tables may not total due to rounding

exposure to the small/mid-market fund segment in order to adequately mitigate single-investment and commitment risks in that segment.

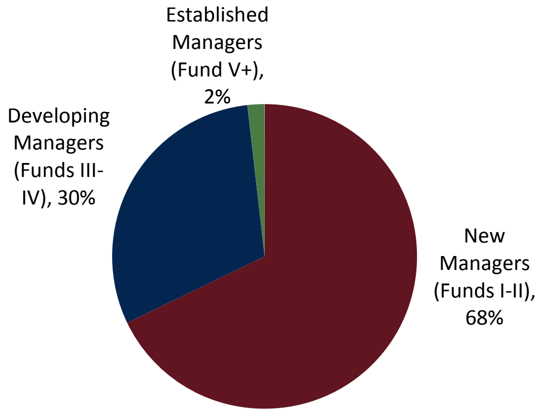
The following chart depicts the benefits of investment diversification in the small/mid-cap EMPE space, and the general rationale for how exposure to the small/mid-cap space fits into a broader EMPE investment strategy.




As shown on the following page, Cambridge Associates conducted an analysis for the International Finance Corporation and Emerging Markets Private Equity Association's institutional investors in 2014, which highlights the relevance of investing in earlier fund generations to achieve better portfolio-level returns in emerging markets.[3]

[2] Source: Cambridge Associates as of June 30, 2015. Data for 2006 vintage year in the >$750m size bracket is not available. One outlier is not shown as it extends beyond the chart's range.
[3] Source: Cambridge Associates as of September 30, 2013

**EMPE: Top Quartile Funds**
Vintage Years 2004-2009




**Percentile IRRs by Fund Generation (%)**
Vintage Years 1999-2008

| | Fund I | Fund II | Fund III | Fund IV | Fund V+ |
|---|---|---|---|---|---|
| **5th Percentile** | 35.7 | 33.8 | 37.4 | 18.0 | 17.3 |
| **25th Percentile** | 13.3 | 14.2 | 13.9 | 12.7 | 7.5 |
| **Median** | 4.6 | 8.5 | 7.0 | 3.5 | 1.1 |
| **75th Percentile** | (0.8) | (1.3) | (1.4) | 0.7 | (1.6) |
| **95th Percentile** | (14.2) | (10.0) | (12.8) | (4.8) | (6.4) |
| **Number of Funds** | 125 | 77 | 55 | 25 | 15 |

Strong small/mid-cap fund performance can be ascribed to the following key value drivers:

+ Strong GP-LP alignment of interest
  + GPs often commit significant personal net worth to small and mid-size funds
  + Personal wealth generated from carried interest – not through management fees

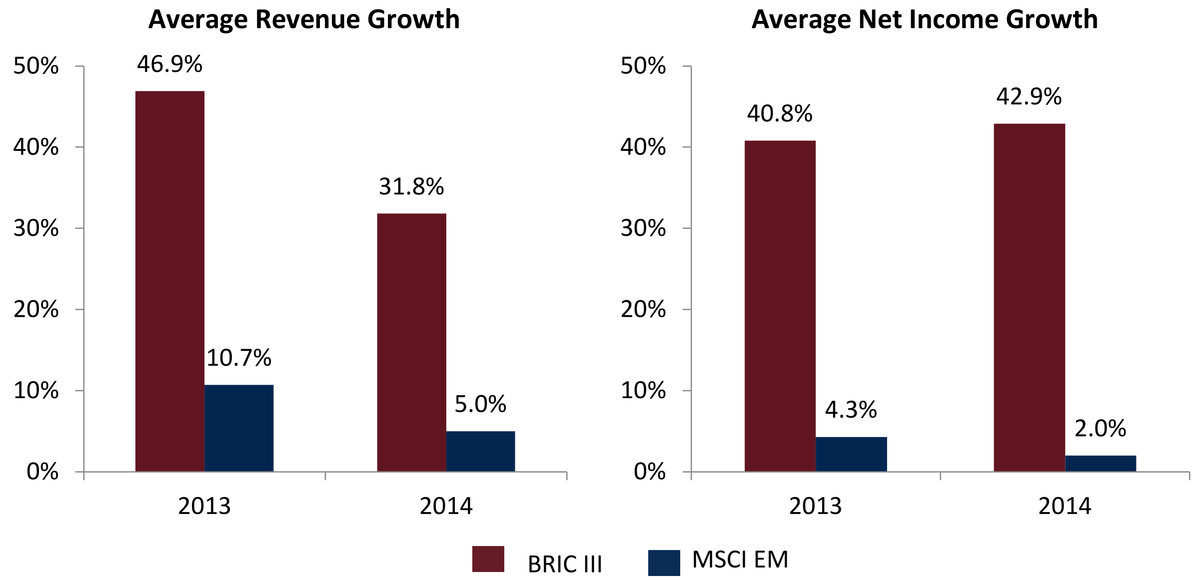
+ High degree of GP-LP interaction
  + Receptive to terms and structural negotiations
  + Greater sense of fiduciary duty/obligation

+ Attractive small/mid-size target companies
  + Less deal flow competition and limited intermediation
  + Lower entry prices/purchasing multiples creates potential from valuation arbitrage
  + Higher revenue and profit growth
  + Multiple exit options for smaller funds/deals through strategic buyers, financial buyers, and IPOs

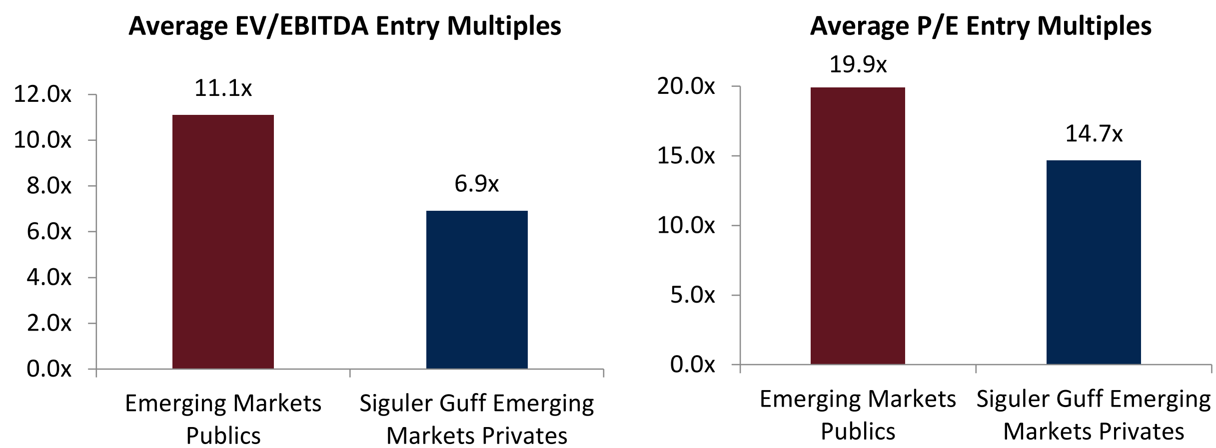
+ Competitive advantages of smaller private equity-led companies
  + Ownership provides strategic insights/support
  + Control/influence helps upgrade/retain better paid/incentivized management teams
  + Ownership creates stronger management/shareholder alignment
  + Owners are willing to invest in long-term company growth

Our empirical analysis (shown below) suggests that a focus on smaller/earlier generation funds allows for access to higher-growth private equity companies at attractive purchase price multiples. These elements are the two key components for strong EMPE performance.

**Higher Growth Rates at Private Emerging Markets Companies**[4]




**Lower Entry Multiples for Private Emerging Markets Companies**[5]




Our investment track record in the small/mid-cap space has validated our strategy and we are confident that we can continue and replicate our success in the coming years.

[4] Sources: Capital IQ, underlying Siguler Guff fund managers
Full year 2014 revenue growth for BRIC III was calculated using data from 57 out of 139 underlying companies, representing 75% of NAV as of December 31, 2014. Full year 2014 net income growth for BRIC III was calculated using data from 26 out of 139 underlying companies, representing 58% of NAV as of December 31, 2014. MSCI EM analysis includes all public companies that have reported full year 2014 results as of April 13, 2015. All outliers with revenue or net income growth greater than 400% were removed from both the BRIC III and MSCI EM samples. Companies with negative net income are excluded from the net income analysis for both samples. Information provided to Siguler Guff by underlying fund managers has not been independently verified. There is no guarantee that the operating performance presented above will continue to be strong, nor can there be any assurance that the operating performance of the excluded companies is as strong as that presented.
[5] Sources: Bloomberg, Capital IQ, Siguler Guff database Average Emerging Market Publics: Represents the average annual multiple for the RTS, BSE Sensex, Bovespa, and Chinese (average of Shanghai, Hang Seng, and Shenzhen) exchanges between 2003 and 2014, weighted by the aggregate exposure of BRIC I, II, and III to each respective country on an invested capital basis. Average Siguler Guff Emerging Markets Privates: Entry multiples are calculated based on Siguler Guff's propriety database of BRIC I, II, and III companies from April 2003 – December 2014. Not all companies are included in this analysis; companies where the trailing P/E or EV/EBITDA multiple at entry were not available were excluded. The sample for Siguler Guff Emerging Markets Privates entry multiples represents approximately 26% of the aggregative underlying invested capital of the BRIC portfolio.

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