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The U.S. economy is experiencing many diverse pressures that make the outlook for 2016 real gross domestic product growth about the same as in 2015—around 2.0% to 2.5%. Economic activity, however, is showing warning signs of slowing. In several states, mostly in the mid-section of the United States, there are signs of an increase in the probability of a recession. The fall in commodity prices, specifically oil, accounts for some of the problem, especially in the oil-dependent states of Alaska, North Dakota, and Oklahoma. This is resulting not only in a rise in non-performing loans, but also in a continuing downward trend in commercial and industrial loans. This pattern is not only evident in the oil and gas sectors; business lending is also showing evidence of growing more slowly in manufacturing sectors—and spreading from Western and Midwestern states to other areas of the U.S. economy.

Another potential drag on U.S. economic growth is the rising trade deficit. Texas, California, and Washington are the largest exporting states, and they will likely suffer the most as the country's export growth is expected to slow with moderating economic growth in Asia—China in particular—and major oil exporting countries in the Middle East and Latin America. Another factor adversely affecting U.S. exports is the appreciation in the trade-weighted value of the U.S. dollar relative to other major trading partners, especially since 2014.

During the first quarter of 2016, private equity activity slowed noticeably, following the slowing trend that began in the second half of 2015. Both the number of deals and deal value fell in the January–March 2016 period to its lowest level since early 2013. The median debt percentage used in transactions has also continued its declining trend since 2013. Even the median earnings before interest, taxes, depreciation, and amortization multiples of buyouts that declined in 2015 are likely to fall somewhat further in 2016, as suggested by the fall in the first quarter of 2016. U.S. private equity–backed exit activity also fell in the first quarter of 2016, following a record exit value for the fourth quarter of 2015 marked by the absence of any private equity institutional buyouts. Despite these negative trends, investor demand continued to support private equity fundraising efforts during the first quarter of 2016.

Given this moderating outlook for the U.S. economy and first-quarter softening in U.S. private equity activity, the focus in this issue of *The Journal of Private Equity* is on the diversifying of private equity activity to emerging markets overseas. Even though real economic growth in these countries is not as strong as it has been, it still is two to three times the real rate of growth in economic activity in the United States.

In their article "Private Equity in Emerging Markets: *Yesterday, Today, and Tomorrow*," Josh Lerner, Jake Ledbetter, Andrew Speen, Ann Leamon, and Chris Allen present an insightful analysis of private equity's expanding experience in emerging markets. This article examines quantitative data on economic growth, market composition, deal structures, exit opportunities, and manager performance in emerging markets relative to developed markets. Despite recent downturns, emerging markets are experiencing overall rapid growth, and private equity activity has been resilient. Private equity investments appear to focus on companies in high-growth sectors that are underrepresented in public markets, thereby allowing limited partners a more balanced exposure to a country's economic drivers. They also find that minority investments in private companies tend to perform on par with majority positions. Finally, because fund manager performance varies so widely but exhibits some consistency, their findings emphasize the importance of manager selection in terms of their private equity experience and knowledge of the country's business culture and environment.

Shifting from a macro view to a micro analysis, Darek Klonowski provides "Venture Capital and Entrepreneurial Growth by Acquisitions: *A Case Study from Emerging Markets*." He finds that expansion through acquisitions with the assistance of venture capital offers a unique business opportunity for entrepreneurial firms in the emerging markets of Central and Eastern Europe. This article focuses on Green Booth, a venture capital–backed entrepreneurial firm that expanded its business through acquisitions. The case study analyzes two financial development scenarios and provides actual financial results. The case also notes the value of the proceeds achieved by the founding entrepreneur and participating venture capitalists.

Another more micro perspective by Raviraj Karmvir Gohil and Vijay Vyas explore the Indian market from 2007 to 2012 in "Factors Driving Abnormal Returns in Private Equity Industry: *A New Perspective*." They identify the many factors that play a role in generating abnormal returns; for example, skill factors such as type of exit route, holding period, size of investment, stage of investment, and type of industry significantly affect abnormal returns of private equity funds. Market factors such as investment year, entry and exit value of S&P CNX Nifty, and market return during the period of the deal also drive abnormal returns in private equity funds as well as a fund's structure. Finally, stage of investment and the types of industry, sponsor, and exit style, as well as holding period and type of exit route, jointly influence abnormal returns in private equity funds.

In "Creditor Protection Law Effects on Venture Capital Investment in Africa: *Country-Level Evidence*," Jonathan O. Adongo explores the legal side of the business environment. This article examines variation in creditor protection laws to empirically investigate their effect on country-level venture capital investments in Africa. The results, using bank branch density as an instrumental variable, indicate that stronger creditor protection laws have significantly positive effects on seed, start-up, and early and expansion venture capital investments. Furthermore, the magnitude of their effect on investment at both venture capital stages is relatively larger than that on private equity investment. This supports the theory that the effects of a shock to financially constrained companies in imperfect financial markets are magnified when information asymmetry is more severe.

In the following article, "Private Equity Portfolio Company Political Activity," Todd Boudreau, Erika Alba, and Michelle Nuñez address an issue that may need to be managed carefully in any country. Many private equity and venture capital firms believe that few, if any, of their funds' portfolio companies engage in traditional governmental affairs activities such as lobbying or making political contributions to elected officials or candidates. Consequently, they often opt not to conduct a proper due diligence analysis on the political activity of a current or potential portfolio company target. We consistently find, however, that many companies across a range of industries do in fact engage in political activity to varying degrees and that the same attributes that make a company an attractive potential acquisition are also those that would lead a company to be politically active. In the United States, higher Security and Exchange Commission scrutiny on private funds will not only reveal compliance issues with regulatory consequences, but also raise issues for the fundraising for future funds.

It is not easy to measure comparative performance in any country. Thomas Plenborg and Rene Coppe Pimentel analyze and identify "Best Practices in Applying Multiples for Valuation Purposes." Their literature review suggests eight empirical implementation issues to which practitioners should give increased attention, including how comparable

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firms are selected, the use of reported versus forecasted earnings, and the most suitable way of calculating averages. They identify a more effective way to handle each implementation issue in order to enhance the accuracy of valuation outputs. By synthesizing the main empirical findings, thereby identifying best practices when applying market multiples, the authors expect to help analysts, portfolio managers, and investment bankers make more informed decisions when accessing firm value.

In "A Holistic Look into Life Sciences Venture Funding," Jon Carrick examines the funding of early stage life sciences ventures. Ten early stage life sciences ventures are explored to allow for an in-depth examination of their experiences. Carrick's findings suggest that the capital intensive nature of starting life sciences firms makes investment capital paramount. While venture capital is important, the author finds that other funding sources can play a crucial role in funding early growth. Optimal financial strategies to develop financial resources in early stage life sciences ventures require analyzing the paths, positions, and processes related to obtaining capital that the firm has available.

In "Private Equity Performance: *A Literature Review*," Raviraj Karmvir Gohil and Vijay Vyas review the major articles on the performance of private equity funds, venture capital funds, funds of funds, buyouts and reverse buyout funds. The factors driving performance persistence are also examined in private equity funds and in buyout funds.

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