PREMIER ISSUE

ALTERNATIVE

Emerging Investor

Mark Mobius:

The Father of EM Funds on Alternative Assets

African Investment Risk

Perception vs. Reality

In-Depth Coverage

Emerging Market Real Estate

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In 2007, I left management consulting in Beijing to seek new challenges in South America, landing in Buenos Aires with one suitcase full of clothes, one full of books and a laptop. At the time, as I saw it, there was little to connect the two regions aside from the fact that I could practice my Mandarin at any local grocery store.

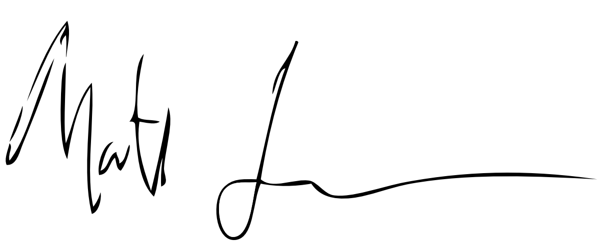
Six years later, the world is a different place: The crash of late 2008 swept aside the perception of polarity, creating a continuum of investment and trade between emerging markets: China has become Brazil's number one trade partner, overtaking the U.S.; Brazil's economy has surpassed that of the U.K.; China invests heavily in African infrastructure Brazil launches the largest African private equity fund – we're seeing a continually increasing interconnectivity. Today's world finds most developed nations having a 100% debt to GDP ratio or larger, coupled with 1% growth. Emerging markets have a 50% debt to GDP ratio and 5% growth, along with growing foreign reserves, and our net-debtors are becoming our net-creditors; a new world is taking shape.

This new emerging market world is what Alternative Emerging Investor was created to explore. As the need to increase EM allocations becomes less of a preference and more of a necessity, we have tasked ourselves with providing the key component of investing in these regions – local knowledge – to a global audience. Through extensive research and interviews, we bring actionable on-the-ground intelligence from Asia, Africa and Latin America to an investment community looking for alternatives to traditional investment options.

As a perfect complement to our inaugural issue we've spoken with Dr. Mark Mobius, one of the most recognized experts in emerging market investment, to learn from his extensive experience where these markets are going and how alternative assets have grown. For our in-depth coverage we look at real estate in all sectors from the low leverage, high growth of LatAm to the volatility of Hong Kong and the incredible demand of Africa, which is met with minimal supply.

It is with great pride and excitement that we launch this inaugural issue of Alternative Emerging Investor. We welcome any comments, suggestions or complaints in order to make this publication as useful as possible.

Saludos,



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Myanmar

Southeast Asia's New Frontier

The emerging markets of Southeast Asia continue to generate highly attractive investment opportunities. The newly open economy of Myanmar offers fresh prospects to investors, particularly in the gas and oil industry, but assessing the risk of operating in such a dynamic region can be challenging.

In both a fledgling economy like Myanmar and more established Southeast Asian investment destinations such as Malaysia or Singapore, a macro view of a country's political climate often paints a very different picture than what is happening on the ground.

Chris Larkin, founder and Managing Director of political and market intelligence company CLC Asia, has a decade of experience working with corporate clients and governments in the Association of Southeast Asian Nations (ASEAN) countries (Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Myanmar, Cambodia, Laos and Vietnam).

"I think what you see on the BBC and CNN paints a certain picture of an environment," Mr. Larkin says. "The classic example is Philippine mining. The issue of the Muslim insurgency down south tends to cloud the whole of the Philippines, although the country is a very prospective area and the mines up north operate perfectly well."

Upheaval in Myanmar may prove to be more widespread, although functioning business environments need not be regionally separated from social unrest. Contacts on the ground provide insight into the importance of local knowledge when assessing "country risk," no less so than in Thailand where Mr. Larkin is based.

"People get a snap view quite quickly," Mr. Larkin says. "In Thailand, you have coups, you have riots, you have all sorts of things that happen here, but at the end of the day,

business keeps ticking over. The Thai stock market keeps doing very well. For an outsider who doesn't know the country, those issues might scare people, but when you're on the ground it's just not an issue whatsoever; things keep moving on."

From a county risk perspective, Mr. Larkin says, Myanmar is the "new kid on the block," and in-depth country risk assessment is still in its early stages, as the government has not yet had a chance to respond to issues.

"In places like Myanmar, we're yet to see how macro issues play out," he explains. "The laws and institutions there are a work in progress and remain untested. So while there is an obvious commitment to opening up and to transparency, the typical problems when a country democratizes happen. You'll get increasing opposition to foreign investment and you have to see how the government reacts to that. You'll start getting interest groups with legitimate concerns on things like social and environmental issues, and again you have to see how the government responds. All these remain relatively untested."

"Hopefully, over time we'll get a clearer picture," Mr. Larkin continues. "There's always new issues arising; you've got ongoing tension between Muslims and Buddhists, which are capturing the headlines at the moment, although whether that reduces the attractiveness of the country remains to be seen. In my experience, those issues tend to remain isolated and distinct from doing business in a particular country."

Risk and company size can also share an inverse relationship. Mr. Larkin explains that larger companies have the luxury of sitting back and waiting to see how issues pan out, whereas smaller companies will often take on more risk for the benefit of being first on the ground.

For those companies that are averse to directly entering a newly opened country like Myanmar, indirect inroads are a possibility. Taking note of the inter-connectivity between Southeast Asian nations can often alleviate some part of higher country risk.

The geological maps for the country are 50-60 years old so there is a huge amount of exploration to be done. Myanmar is still a few years off an extractive industry like shale gas – a sector which is rapidly growing in Indonesia.

"Thailand had no sanctions against Myanmar, so there's greater inter-connectivity between the nations," Mr. Larkin says. "Thai business people have been on the ground there for 20 years and are well placed to enter the market. So people who are based in Thailand, or know Thailand quite well, have a head start. Businesses are quite quickly realizing this and looking at exploiting a Thai angle into Myanmar."

As well as close interaction with a well established network of ground-level associates, Mr. Larkin points to the importance of establishing a client's goals and expectations from the very beginning.

"We investigate to make sure we can offer clients answers to their questions," Mr. Larkin says. "We don't accept every job that's offered to us. If we're able to tap the right resources and human capital, to help our clients answer their questions, then we will. Regardless of where you are in Southeast Asia, there are various similar themes in how government works or what the incentives within governments are."

While Mr. Larkin's operation is client driven and country agnostic, naturally he receives inquiries about some countries more than others.

"Myanmar, Indonesia and Thailand are the key countries which we get asked about the most," Mr. Larkin says. "Countries like Malaysia and Singapore are less inherently risky than most others in Southeast Asia, from a country risk perspective."

For Mr. Larkin, assessing country risk involves an understanding at an operational level, rather than solely prognosticating on economic and political risk.

"A hedge fund will be reacting to, for instance, something very macro and will be looking for that information on an instantaneous basis. We don't really serve that market. Our clients like to look at the risk factors which may affect them more directly," Mr. Larkin says.

"In Myanmar, for the past 12 months it's been about looking into market entry and figuring out who's who," he continues. "We've had a lot of interest from people looking to deal with the oil and gas sector because potential there is massive. There's been some interest in the mining sector. The geological maps for the country are 50-60 years old so there is a huge amount of exploration to be done. Myanmar is still a few years off an extractive industry like shale gas – a sector which is rapidly growing in Indonesia."

Mr. Larkin uses the example of Indonesia to expound on the importance of closely monitoring specific case studies of past incidents when assessing country risk for clients.

"In Indonesia's mining sector there is often very good news, but every year or two there will be a story about expropriation," he says. "They're often not clear on whether it's government-led or bad governance on behalf of the firms themselves; we try to get to the bottom of those stories."

Most of CLC Asia's clients are from North America and Europe. Mr. Larkin explains that local companies doing business in Asia are often more comfortable with business being more conservative and slower.

Local firms "are probably mitigating their risk fairly differently," he says. "Obviously, foreign firms have compliance teams and compliance issues which they need to address. Their work is more 'check list' based in some cases; making sure their compliance teams are happy with whatever transaction or business venture they're entering into, and we can help from that focus."

Mitigation of risk, or Phase II of operations to Mr. Larkin, involves basic application of lessons learned and the more nuanced fostering of relationships within a country.

"Sometimes it's very common sense stuff; looking at case studies about how other people have done things," he says. "Mining is a classic example; many junior mining companies who've just raised some money in Singapore or Toronto and don't have much cash may not think it's important to develop roads or schools to help bring local people on-board. The more savvy try to partner with people in-country who have a bit of influence or are respectable enough that potential events may not affect them as much."

For Mr. Larkin, country risk is an evolution of the concept of political risk. It is important to understand risks and frame them from a project valuation stand point, and assessment of country risk must incorporate aspects of business and society within the context of the whole risk area.

Access to on-the-ground information is imperative to mitigating risk, both for the larger investor wishing to put out feelers in Thailand while events play out in Myanmar, or the small company wishing to reap the rewards of making early headway into a country that is obviously rich in potential.

70% sold (or 88% of costs covered once the building is complete – the bridge). Plus, they know the builder has cash equal to 50% of costs. And yes, you did read that right, and I did mean to introduce the word compounded when referring to the interest rate; bankers will add the interest to the loan balance and charge you interest on that too.

So, what is the bank's risk?

Two major risks in residential developments: not finishing the building (running out of cash to build) and an unexpected drop in demand/ sales prices.

As seen above, bankers in Colombia lend up to 70% of the construction costs. This sounds risky, but the building and cash flow from sales collections during construction equals another 50% of costs. Total costs covered: 120%. The bankers have a 20% cushion on their bridge, and the building will still be built, even if some customers rescind their purchases and the other 30% of the sales are not realized prior to the loan coming due. This methodology seems good and fair for a senior bank loan, but not at a double-digit mid-teens interest rate. That, in my many years of private equity experience, is a sweet double-digit IRR deal for very little risk.

Dear private equity deal makers, here's an opportunity.

Author Biography

Felix Villalba has over 15 years of experience on both the operating side and the investment side of business transactions. After his MBA, Mr. Villalba worked for captive financial services companies at Dell and Whirlpool, and later spent over five years as CFO with two venture backed technology companies. Dell's successful effort to start Dell Financial Services marked Mr. Villalba's official involvement in the venture industry in 1997. After that he joined an Austin Ventures backed company that later led to his joining Pacesetter Capital Group. At Pacesetter, private equity firm, he was Vice President and served as Portfolio Manager for several inherited deals, some of which required intervention strategies. In 2009, Mr. Villalba formed his own Private Equity management firm, Accordo LLC and raised Accordo Fund 1 and 2, placing investments in residential and hospitality developments in Colombia.
Mr. Villalba is a graduate of the University of Notre Dame with three degrees, a Masters in Business Administration, a B.S. in Civil Engineering, and a B.A. in Economics. He successfully completed the Harvard Business School's Executive Management Development Program.