INVESTING IN ASIA

Stealing a march on the old Silk Road

Asian private equity markets are often misunderstood, but could hold great potential for those willing to take the first step, says Samena Capital's Shirish Saraf

Q We've had BRICs and other acronyms: what's next?

We're not into acronym investing. No one has invested in a BRIC fund. It may sound nice but there's nothing practical about it; the four countries are completely different in every way and every form. In terms of geography it doesn't make much sense, either.

The West thinks of Asia as predominantly China, but it includes India and the Middle East, which are big engines of growth that can't be ignored. It's becoming more evident that we're going back towards India and China dominating a large proportion of global gross domestic product.

In the 15th century, India, China and the Middle East dominated the world. Until 250 years ago, 50 percent of world GDP was just India and China and that was the case for nearly 1,000 years. The last 200 years were just an aberration because of the industrial revolution, colonialism and what came from it. It looks like we're going back to the future. They have big turnaround stories and tremendous purchasing power.

Q Are any geographies becoming particularly interesting?

Our investment focus is India, South Asia, Indonesia, Vietnam, Sri Lanka and Myanmar.

The latter was the richest country in Asia during the 1960s and now it's the third-poorest in the world. It has around $1,200 per capita, a population of over 50 million and every resource above and below ground, with 70 percent of the world's teak and its first gas mines. It has the second-highest gas finds after Qatar, 90 percent of the world's rubies and 40 percent of its jade. Not to mention tremendous tourism potential. Geographically it's located between two consuming nations; India and China, and these are countries that cannot be ignored.

Q Has the recent Rohingya crisis dented this story?

Things like this can change the perception and for sectors like tourism that can make a difference. But we're there for the long-term and I hope some of these things will take a rest. Overall, you'll see that the government will come out ok.

Q What are the difficulties of investing in these regions?

There was a lot of pessimism about India four years ago, but we've always been big believers. These countries have faced tremendous challenges over the past five to seven years; whether it's the Arab Spring or the emerging markets currency crisis, where they lost 50 to 60 percent against the dollar.

But this is a time of unusual dollar strength that is unlikely ever to be repeated again. The pound lost 40 percent against the dollar, the euro lost 30 percent and the Canadian dollar lost 35 percent. You can hedge against the dollar, but we think it will come down against these currencies.

India has one of the youngest populations in the world, which is a tremendous opportunity. It's going to be growing between 8-10 percent in terms of GDP and rise from $1,700 per capita to about $3,000 in the next six years. There's 600 million people that have just come into financial inclusion, so they can now get their first bank account, water bills and telephone contracts.

These are huge moves and clear opportunities. People on the inside of this stand

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Saraf: *stewards of 10-year money should be as open and transparent as it gets*

to gain and the non-believers will just watch for some time before joining at a later stage.

Q Are there any regions you find less attractive?

We're not taking such big bets in the Middle East. Dubai reflects the new reality of Asia and there are new Asian economies around it, so it's like Hong Kong was to China. We like many of the Gulf countries but we've got a bit of a wait and watch approach there right now. They're going through some challenging times due to war and the changing Middle Eastern order.

Q Do other emerging markets – such as Africa and Latin America – appeal at all?

I've no interest in being in Africa. It's not so easy and I don't think anyone's done particularly well in the past six years. The broad themes across Latin America and Africa sound easy to do but they're difficult to execute: I'm not a big believer in taking a region as one big emerging market, it's too early for that.

Q How easy is fundraising for these markets?

When we used to do India people would tell me it wasn't on their radar. Today most people tell me they can't afford not to. Increasingly the mood is shifting and people are realising India and South Asia is where the real story lies in a very dull world outside. They're getting more interest, but because many more have not yet returned capital they paint the whole area with the same brush. I think increasingly for players that have already exited businesses there'll be a lot of money flowing.

Q Why are you regulated by four authorities?

We're regulated by the Financial Conduct Authority in the UK, the Securities and Futures Commission in Hong Kong, the Dubai Financial Services Authority and the Securities and Exchange Board of India. It's not typical for a firm of our size but it's good discipline and it works for us. Investors feel more comfortable coming into businesses they understand, with people they understand. You've got to be very conscious of that.

Increasingly the move is towards transparency, whether regulators call for it or not. When you take 10-year money you should be as open and transparent as it gets, because it's the right of every investor to know what they're getting into. What are your family issues or story, and what's your future? This is why we've imposed this discipline on ourselves even though it's not really necessary. ■

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