

Introductory Guide to Emerging Market Alternative Assets

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 ALTERNATIVE
EmergingInvestor



Introductory Guide to
Emerging Market Alternative Assets
2013



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Introduction to Emerging Market Alternative Assets

A New Reality for Investors

Over the last decade, and increasingly in the wake of the world financial crisis of 2008-2009, there has been a gradual but accelerating shift in the role and prominence of emerging markets (EMs) within the global investment universe. The shift is multi-faceted. First, EMs have become far more attractive and trustworthy in the eyes of global investors. No longer are these markets the province only of intrepid investors with high risk-tolerance. Instead, EM exposure has become an essential and increasingly prominent component of sophisticated investors' portfolios, whether they are high net worth individuals, family offices or prudent institutional investors seeking strong but steady returns.

One of the fundamental factors behind this attractiveness is growth. Emerging market GDP growth is currently 5 times that of developed markets, and most forecasts see the trend continuing. The list of the highest-growth countries in the world consists almost exclusively of emerging and frontier markets, from

emerging Asia to Sub-Saharan Africa to the Andean region of Latin America. Within many of these markets the consumer sector is seeing particularly strong growth, as the dynamics of urbanization that both bolster and feed off of rising GDP are creating larger consumer classes with rising purchasing power.

And yet growth is not the whole story. Equally important from the perspective of sophisticated investors are other propitious macroeconomic indicators and the newfound political stability in many of these markets. Countries that U.S. or European pension fund LPs, for instance, wouldn't have considered only half a decade ago — such as Peru or Nigeria — may now be essential to an investment strategy.

In a forthcoming profile in the inaugural issue of *Alternative Emerging Investor*, Dr. Mark Mobius of Templeton Emerging Markets Group, whose name has been virtually synonymous with emerging market investing since the late 1980s, notes the telltale signs of the new order, pointing not only to GDP growth

but to foreign reserves and debt-creditor status. "The amount of foreign reserves in emerging market countries has surpassed that of developed countries," he says, "so you have a situation where net-debtors have become net-creditors. And if you look at the debt-to-GDP ratios, the U.S. is now at 100%, Europe at 150, Japan at maybe 200. Emerging market countries have 50% on average.

"If you put it together, anyone with a brain in his head who's looking at fixed-income instruments, for example, would begin to think, 'Hey, wait a minute, why am I giving U.S. and European debt triple-A status and not some of these emerging countries.' It's not to say that there's no risk, that there aren't a few deadbeats among emerging market countries, but there's a growing realization that there's value out there, and people are starting to wake up to that reality."

Dr. Mobius himself was involved in that awakening. In 1987 he was hired by Templeton to run its Emerging Market Fund, the first closed-end mutual fund of its kind, giving individual investors

their first access to EMs through a fund. A quarter-century later, mutual funds and other equities-based vehicles remain popular among investors, particularly with the growth and maturation of EM domestic capital markets.

And yet, for many investors, investing in traditional instruments alone is inadequate for the purposes of diversification, risk-management and capturing the EM growth dynamic, and this points to the second facet of the overall shift: the increasing supply, diversity and complexity of alternative asset vehicles within these markets. From real estate to hedge funds to private equity and beyond, global allocations into EM alternatives have seen a steady upward trend for the last decade.

This movement is, in turn, two-fold: on one hand, major private equity, global macro and hedge funds from developed markets are steadily moving into EMs and raising EM-focused funds, while at the same time local fund managers and traders are appearing on the scene, not only in major EM capitals such as Singapore and São Paulo, but increasingly in smaller-market centers such as Nairobi, Lima and Bogota.

Indeed, the third facet of the shift is the rising prominence and power of these investors and managers from and within EMs. Local hedge fund managers are raising large funds, and many of them are outperforming their developed-market counterparts; the same is true in private equity and other alternative asset classes.

At the same time, there is a steady increase in EM-on-EM investments, entirely bypassing the traditional channels of global investment. One notable recent example was the launch, last year, of a US\$1 billion Africa fund by Brazilian

billionaire André Esteves's BTF Pactual, which will be the largest PE fund in the world focused exclusively on Africa and the largest Brazilian fund raised outside Brazil. Another example: China is the most important player in African infrastructure, and the largest trading partner for many emerging markets, including Brazil.

These relationships are fundamentally altering investment. It's a new world order. Emerging market exposure is becoming more crucial by the day, and the best investors will be the best-informed.

Introducing Alternative Emerging Investor

Yet being informed is no simple task. Indeed, in spite of the obviously huge repercussions of the shift sketched above (and they go far beyond investment, of course), there is very little in-depth, on-the-ground coverage of investment dynamics, challenges and opportunities within and between emerging markets, and few if any platforms where top investment professionals in all regions, sectors and asset-class specialties can exchange ideas and observations exclusively on EM alternatives.

Bridging that knowledge gap is the purpose of *Alternative Emerging Investor*, which will release its inaugural issue next month. The magazine will feature the insights and opinions of the most important investment professionals in the field, in the form of profiles, interviews and first-person contributions. Bimonthly issues will be complemented by bimonthly sector-focused reports, amounting to 12 publications a year, covering every major asset class, sector and region among emerging and frontier markets.

The Purpose of This Report

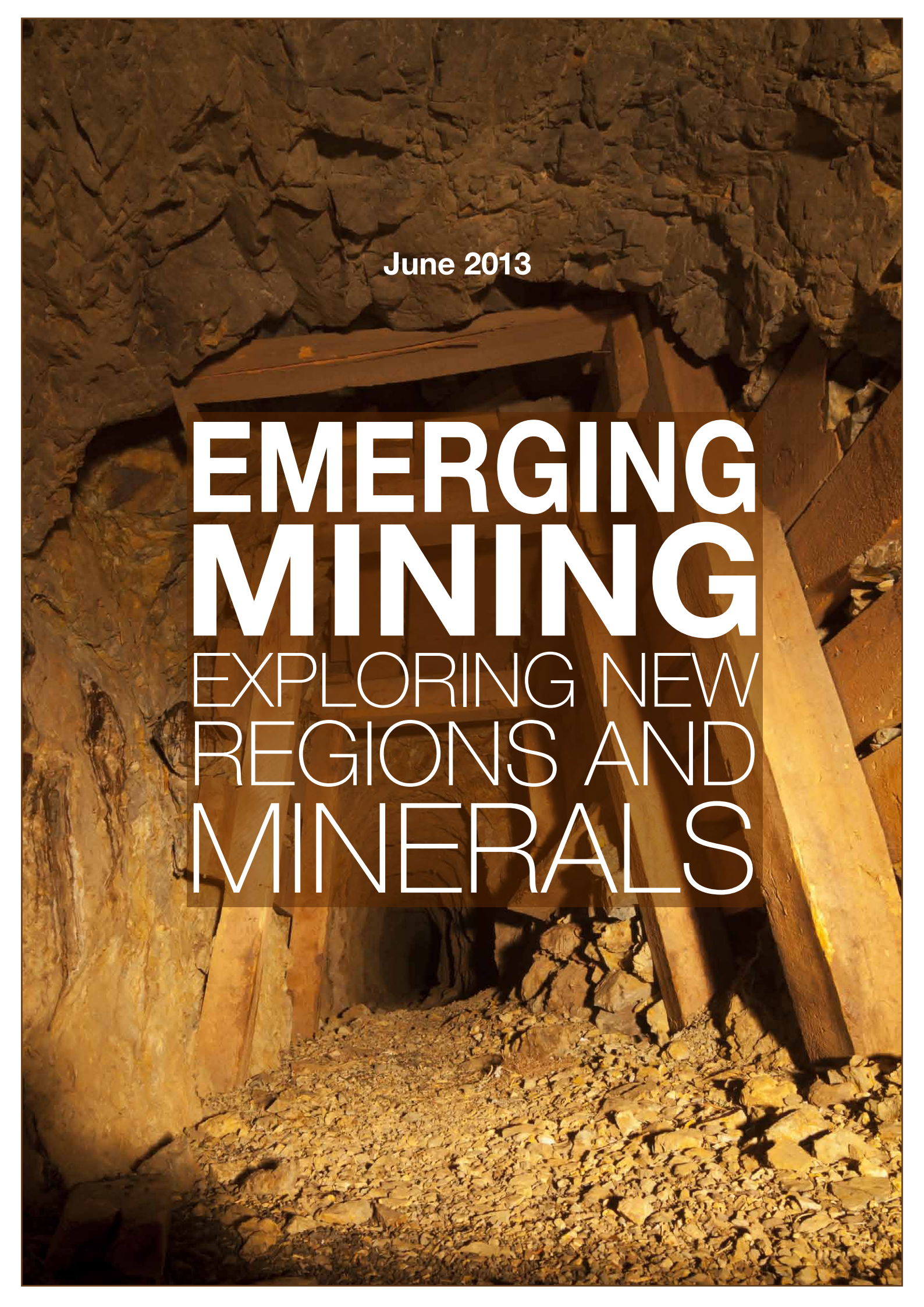
In advance of the inaugural issue of AEI, this report is meant to be an introduction to EM alternative asset investments, an entry-point to the more detailed and expansive discussions in the magazine and future reports. Based on interviews with 15 experts, more or less evenly divided between Africa, Asia and Latin America, the report covers 3 of the most important asset classes among alternatives: real estate, private equity and hedge funds. It also covers what is increasingly one of the most important and attractive sectors globally: agribusiness, where investment opportunities span asset classes, including private equity, real estate and commodities.

The purpose is not to detail specific investments or strategies, but to give prospective investors the basics of each of the areas covered so that they know what issues to consider and what questions to ask before getting on the phone with their advisor or manager.

Many investors, of course, will come to the report with a specific region, asset class or sector in mind, and they should find valuable information and advice regarding that topic. But we recommend reading through the other sections as well, not only as an introduction to other areas, but to get a sense of how top investors and managers approach investing, risk-management and portfolio-building in emerging markets. Indeed, many of the recommendations or observations regarding one asset class in one region are applicable across the board.

Highlights

On the next few pages we present a list of essential takeaways for each region, culled from the body of the report.

A photograph of a mine tunnel. The walls are made of dark, jagged rock. Several wooden support beams are visible, some running horizontally and others vertically. The floor is covered in loose, light-colored rock debris. The lighting is warm and focused on the center of the tunnel.

June 2013

EMERGING MINING

EXPLORING NEW
REGIONS AND
MINERALS

ALTERNATIVE **EmergingInvestor** **Providing global players the advantage of local expertise.**

The best way to gain exposure and capitalize on emerging market gains is through alternative asset classes. An inside look at the investment environment within Asia, Africa and Latin America will give industry professionals a local advantage when looking to diversify their portfolio, mitigate risk and capitalize on growth.

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- Take advantage of our unique actionable content complemented by contributions from leading industry experts
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- Receive industry specific and region specific special reports throughout the year. Coming soon: Mining in Frontier Markets.
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GDP growth (annual %)

1.1% 21.0%

The map shows the following countries and their approximate growth rates (estimated from the color scale):

- 1.1% - 5.0% (Lightest Red):** Former Spanish Sahara, Mauritania, Mali, Niger, Chad, Central African Republic, South Sudan, Ethiopia, Somalia, Kenya, Tanzania, Zambia, Zimbabwe, Botswana, Lesotho, South Africa, Mozambique, Madagascar, Mauritius, Réunion (Fr.).
- 5.0% - 10.0% (Light Red):** Tunisia, Libya, Arab Rep. of Egypt, Sudan, Eritrea, Djibouti, Somalia, Kenya, Tanzania, Zambia, Zimbabwe, Botswana, Lesotho, South Africa, Mozambique, Madagascar, Mauritius, Réunion (Fr.).
- 10.0% - 15.0% (Medium Red):** Morocco, Algeria, Libya, Arab Rep. of Egypt, Sudan, Eritrea, Djibouti, Somalia, Kenya, Tanzania, Zambia, Zimbabwe, Botswana, Lesotho, South Africa, Mozambique, Madagascar, Mauritius, Réunion (Fr.).
- 15.0% - 20.0% (Dark Red):** Senegal, Guinea, Sierra Leone, Liberia, Côte d'Ivoire, Ghana, Benin, Nigeria, Cameroon, Equatorial Guinea, Gabon, Congo, Dem. Rep. of Congo, Angola, Uganda, Rwanda, Burundi, Tanzania, Zambia, Zimbabwe, Botswana, Lesotho, South Africa, Mozambique, Madagascar, Mauritius, Réunion (Fr.).
- 20.0% - 21.0% (Darkest Red):** Angola.

- Africa has some of the highest growth figures in the world, with 7 countries in the top 10 for GDP growth in the last year.
- The consumer sector, a key story across all emerging markets, is especially compelling in Africa, which has the youngest population on the planet and an increasingly urbanized and affluent middle class.
- Key sectors for African PE include telecom, financial services (including consumer credit and personal banking), education, healthcare, agriculture (which accounts for 70% of Africa's labor force) and consumer goods.
- Key countries for PE activity include South Africa, Nigeria, Ghana, Kenya and Egypt.

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- African funds increasingly have a regional or pan-African focus, with the “sweet spot” being strong local companies that can be expanded regionally. At the same time, GPs are launching more regional sector-specific funds.
- Though there have been very few IPOs to date, funds with good companies are finding exit opportunities.
- The perception of risk in Africa is often exaggerated, and real risk can be mitigated through diversification and careful manager selection.

Hedge Funds: Tutu Agyare, Managing Director & CIO, Nubuke Investments

- The hedge fund industry is nascent but growing in South Africa, small and somewhat static in the rest of Sub-Saharan Africa.
- Throughout the region, the industry, though small, is highly effective and transparent.
- Currently there is not a great spread between private and public valuations, but the differential should grow in the coming years.
- The market still suffers from widespread misconceptions regarding the risks of investing there, but increasingly investors are coming to see that many African countries offer a compelling combination of high growth, high transparency, regulatory stability, low prices and excellent demographics and resources.
- The regional equities markets remain relatively illiquid, though there should be more public issuances in the coming years as owners take advantage of changing valuations. About half of African market cap is traded on offshore stock exchanges.

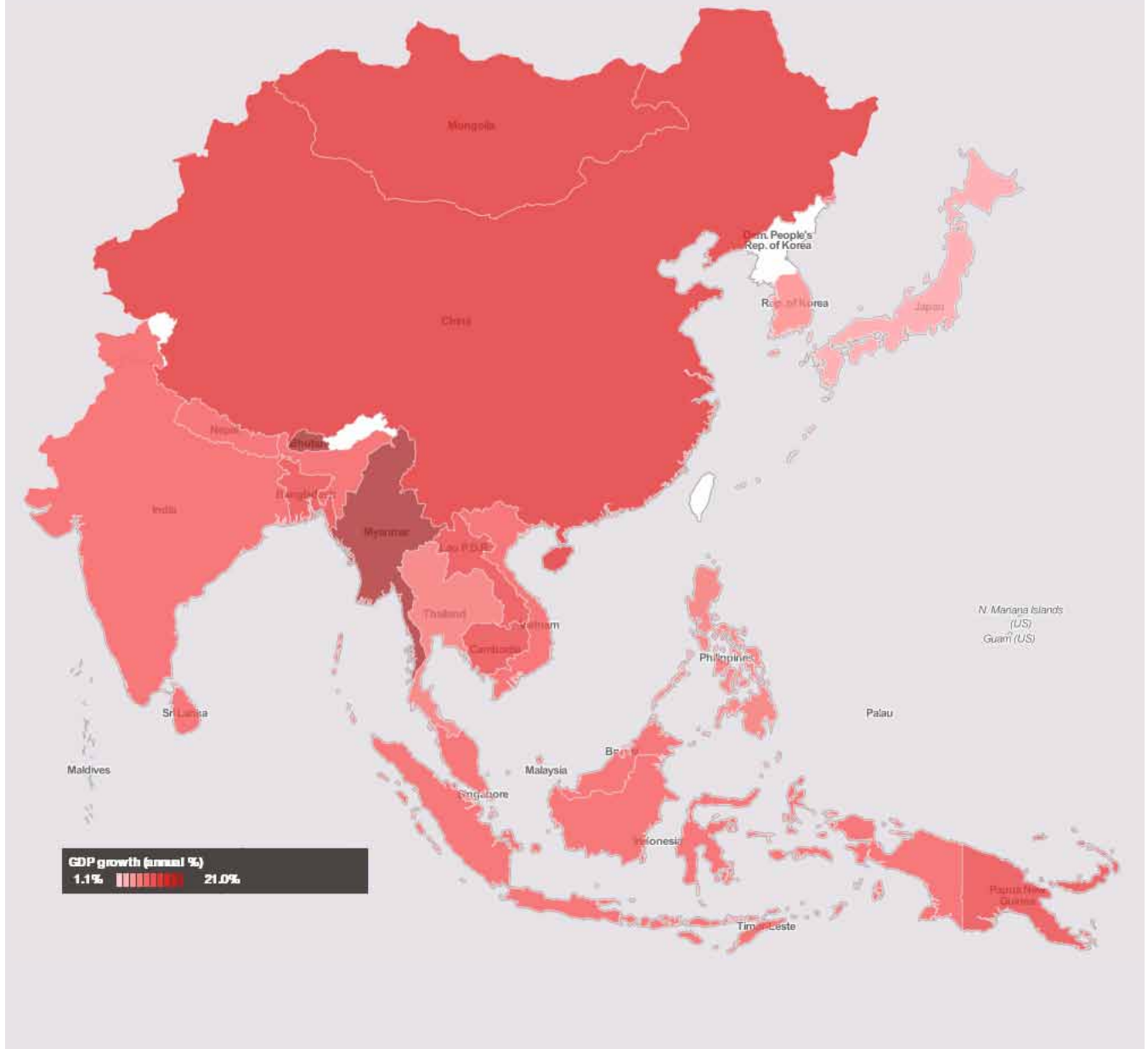
Real Estate: Thomas Reilly, CEO, Sanlam Properties

- There is a marked distinction between the South African real estate market, which is deep, liquid and well established, and the Sub-Saharan African market, which is new and relatively less accessible to investors.
- The growth statistics and demographic changes in Sub-Saharan Africa bode well for real estate across sectors, including retail, residential, office, industrial and hospitality.
- While there has been real estate development in many African capitals, there continues to be a gross shortage of quality, A-grade space. This is particularly true in the office and hospitality sectors.
- In the areas of development, construction, management and finance, South Africa continues to lead the continent, with most important companies and funds based there.
- Most countries have few restrictions on FDI in real estate.
- Standard real estate due diligence remains essential
- It is extremely important to have local partners on the ground.

Agribusiness: Dennis Matangira, Senior Managing Partner, Databank Agrifund Manager Limited (DAFML)

- With the AAF SME Fund, Databank and global DFIs are demonstrating the impressive potential of agribusiness PE in Africa.
- The best opportunities for agribusiness investment in Africa are in SMEs, many of which are extremely undervalued while offering attractive growth potential.
- Investors can tap this potential by bringing value-added farming, manufacturing and management expertise, as well as an awareness of international market demand.
- There are many SME possibilities in Francophone West Africa especially, where many businesses are traditionally family-owned and ripe for strategic growth equity.
- On-the-ground knowledge of politics and demographics, as well as an understanding of which countries have the most investor-friendly policies and approaches to the food value chain, are essential for investors.

Asia



Private Equity: Alice Chow, Senior Adviser, FLAG Squadron Asia

- The Asian PE industry is still relatively young, with huge room for growth but also limited experience among managers. Due diligence, therefore, is as important as it is difficult.
- Given the marked distinctions between countries as well as various levels of risk to account for, diversification is essential, both by geography and vintage-year.
- In spite of the “hot” money entering Asia over the last decade, business fundamentals and pricing remain attractive in many areas.
- Though it’s no longer news, the consumer-oriented plays in many Asian markets remain compelling.
- Managers should be open to diverse exit strategies beyond IPOs.

Hedge Funds: Adam J. Steinberg, Director of The Hedge Fund Association's China Chapter

- The hedge fund industry in China consists of 2 distinct components: domestic Chinese hedge funds playing the Chinese market, and offshore fund managers positioning themselves to play the market in the coming years.
- The hedge fund ecosystem is blossoming and is expected to grow significantly in the near future due to 2 important developments: the announcement that Shanghai will allow foreign managers to raise renminbi funds from Chinese investors for offshore investment, and the expectation that China will grant QFII status to major global hedge funds.
- Perhaps the more important trend is the eagerness of Chinese investors to move their capital abroad, particularly into U.S. real estate and other alternatives.
- Investors should carefully consider whether to invest in the Chinese domestic stock markets, which are highly volatile.
- Investors eager for exposure to Chinese companies can already get it through the New York and Hong Kong stock markets, as well as through private equity funds.

Hedge Funds: Yiming Di, Director, Hedge Fund Association, Shanghai Chapter; Principal, Schmittzehe & Partners

- Hong Kong is the regional center of hedge funds, and currently the best way for foreigners to access the mainland Chinese market is through Hong Kong-based vehicles.
- Foreigners can only get direct access to the Chinese market through QFII funds, but these funds are highly regulated and are not allowed to properly hedge.
- Foreign funds can simulate the mainland Chinese index approximately by using foreign exchanges.
- If and when China opens its “Great Wall” with the QDLP program, large foreign funds will have a marked advantage within the mainland Chinese market.
- For capital preservation, other asset classes in China, such as real estate and art, are much safer than investing in hedge funds.
- Investors investing directly in Chinese quant funds must be extremely careful with manager selection.

Real Estate: Frank Khoo, Global Head of Asia, AXA Real Estate Investment Managers

- It is important to divide Asia into segments with different dynamics: developed Asia, which includes Japan and Australia; semi-developed Asia, which includes South Korea, Singapore and Hong Kong; and developing Asia, which includes India, China and much of Southeast Asia. Each country has its own dynamics.
- Investors are entering Asia for 2 reasons: on one hand for diversification and steady income, and on the other for high returns. The first group are looking toward developed Asia, the second toward developing Asia.
- Investors can invest through REITs in developed and semi-developed Asia, as well as through funds or directly into projects, and generally it is easier for foreign money to enter and compete in these markets.
- The Japanese and Australian markets are seeing attractive spreads in the commercial real estate sector.
- The residential, retail and hospitality sectors also present attractive opportunities, particularly in developing Asia.
- Real estate is fundamentally a local business, and it's essential to have people on the ground. Country-specific and sector-specific strategies are best. Pan-Asian strategies require a pan-Asian team.
- Local Asian developers rule the industry, but there is room for GPs to come in and work with them.

Agribusiness: Tim Hornibrook, Co-Head, Macquarie Agricultural Funds Management

- Agribusiness is primarily a private industry, with few publicly listed companies, particularly in the pure agriculture space.
- Agribusiness offers distinct opportunities up and down the value chain. Different parts of the value chain have different margins and risk and return attributes.
- Risk and return are determined more by strategy and region than by the particular commodity.
- Investors entering the agribusiness space should first consider the trend or thematics they want exposure to. A prime example would be the changing diet across much of Asia due to urbanization and rising purchasing power.
- Agriculture is politically sensitive, and investors need to understand the politics and history of the countries they're entering. Net-exporting countries tend to have fewer restrictions on foreign investment and ownership.
- Other important considerations for investors include currency risk, logistical issues and time horizon. It's essential that an investor's time horizon match the project.
- The best agrifund managers combine financial and agricultural experience and expertise.

Agribusiness: William J. Kiernan, Director of GAI Research & Insight, HighQuest Partners, LLC

- Depending on the commodity, investing in Asian agricultural trends could mean investing in local Asian agricultural production or in foreign production serving Asian demand, particularly in the U.S. or Brazil.
- The Asian diet is transforming into one that increasingly resembles U.S. and European diets, with increasing consumption of specialty commodities such as tree nuts, oil seeds and fruit.
- In terms of scale, corn and soybeans are the most important commodities in Asian agriculture, but niche products serving the more sophisticated diet are increasingly attractive to investors.
- Because of worldwide restrictions on FDI, many investors, instead of doing pure farmland plays, are utilizing more creative operation structures and taking their own farming risk.
- When investing directly in commodities, hedging is essential, while investing in farmland is already a hedge for other investments.
- Big-name ancillary companies that supply seeds and equipment to the agricultural supply chain are benefiting from growth in emerging markets.

Latin America



Private Equity: Eric Saucedo, James Feeley, Scott Sucher & Jack A. Smith, Tricap Partners & Co.

- Economic growth and the rise of the consumer middle class continue to be the most important factors for investors entering LatAm.
- The best opportunities for good PE deals are in the small and midcap spaces, and typically involve companies that are owned by family groups.
- Too many people focus on IPOs, but the reality is that the majority of successful exits are through a strategic investor. Therefore, it is essential to enter into deals in sectors and countries where there is a high probability that you can exit through a strategic sale.
- The retail sector presents some of the best opportunities across the region.
- It is not enough for investors to throw money at LatAm companies and hope that things work out. It is essential to bring management and general operational know-how. In the infrastructure space, technical know-how is also key.

Hedge Funds: Victor Hugo Rodriguez, President & CEO, LatAm Alternatives, Founding Director of the Hedge Fund Association LatAm Chapter

- The big story in LatAm is the growth of the consumer middle class, particularly in Brazil, Peru, Chile, Colombia and Mexico.
- There have been substantial and rapid improvements in financial infrastructure, capital market liquidity and overall macroeconomic stability.
- Along with plentiful opportunities for capturing alpha, the region is seeing an increasing crop of beta-generating managers with world-class talent and standards.
- Public equities markets will grow as the financial and capital market infrastructure continues to improve and as global interest rates begin to rise, giving companies greater incentive to issue public shares. This development will increase the opportunities for long-short strategies among hedge funds managers.
- MILA (the Latin American Integrated Market) will continue to grow and improve, and will mostly likely include Mexico in the near future and other LatAm countries down the road.
- Energy, healthcare and education will continue to be particularly strong sectors for alternative investments.

Real Estate: Darin Bifani, CEO, Puente Pacífico Investment Advisory Ltda.

- Sustained economic growth in many LatAm countries coupled with the rising purchasing power of an emerging middle class is opening up many real estate investment opportunities across all sectors.
- Investors can gain access to the Latin America real estate markets through investments in listed equities, public and private investment funds and through direct investments. There are many listed real estate funds in Brazil, and many major real estate players in Chile are listed.
- Gauging the quality of investment opportunities requires a case-by-case analysis based on an investor's specific objectives, investment horizon and risk tolerance levels. However, in very general terms the sectors with the best opportunities, from least to most risky, are residential, office, retail and hospitality.
- Some notable investment opportunities in Latin America at the moment include "mixed use" affordable housing that combines residential units with services, retail space, business and technological parks and boutique hotels. There are also many interesting opportunities in the area of "green" construction and sustainable tourism.
- Many real estate products and services commonly found in other markets are relatively absent in LatAm, such as high quality logistics space, so in the face of rapidly increasing demand investors can reap high returns by bringing in good, scalable concepts.

- It is important to gauge risk on a project-specific basis, and not to rely on hard and fast assumptions regarding the risk in connection with a specific investment based on the prevailing country risk profile. Sometimes investments in “high risk” countries have relatively low risk, and vice versa.
- In addition to conducting thorough due diligence, putting risk management measures in place and making cost of capital adjustments, one strategy investors are starting to examine is combining direct investment in real estate with investments in publicly listed real estate companies, which can allow investors to build portfolios with potentially high return as well as additional liquidity. Due to the differences between Latin American countries, regional investment strategies also have interesting risk management potential.

Agribusiness: Mark J. Cutting, Member of the Advisory Board, Puente Pacífico Investment Advisory Ltd.

- Agribusiness investment can be divided into (1) investing directly in farmland, (2) investing directly in farming operations, (3) investing in general agricultural production companies, and (4) investing in pure commodities.
- Agriculture is attractive primarily because it is counter-cyclical and because of the shrinking supply and rising demand worldwide.
- It is essential to have country-specific strategies.
- In LatAm, Chile, Uruguay, Peru and Colombia, along with Brazil, represent the best opportunities.
- In the Andean and Southern Cone regions, it is essential to have grassroots farming strategies and vertical partnerships.
- Investments in farming operations usually require 6 or 7 years before operation gains are seen.
- Some of the best investment opportunities in agribusiness are in infrastructure and logistics.

[illegible]

Private equity is one of the most attractive asset classes, if not the most attractive, for global investors allocating into emerging markets. The industry entered several EMs in the mid-1990s, notably East Asia and Brazil, in most cases suffered a setback in the late 1990s or early 2000s, and rebounded strongly last decade. Indeed, according to the Emerging Market Private Equity Association (EMPEA), in 2012 PE funds in emerging markets received their highest percentage of global PE commitments to date, at 20%, up from 15% in 2011 and only 4% in 2004. Funds raised reached US\$40.8 billion, up from US\$38.5 million in 2011.

These numbers corroborate another recent EMPEA report released last year, based on a survey of 400 global LPs, of whom three-quarters expected to increase their allocations to EMs in 2013 and 2014, compared with only 26% who expected to increase their allocations to emerging markets. Nor is it merely a BRIC (or BRICS) story any more, as Sub-Saharan Africa is rising up the list of top emerging market destinations for global PE commitments, and LatAm ex. Brazil ranked as the most attractive region for global LPs at the beginning of 2012.

It is easy to see why. Emerging markets have tremendous growth numbers in both absolute and relative terms, and many of them have young, increasingly urban populations whose purchasing power is rising by the month. Even in Brazil, where many investors have lamented the precipitous slowdown of its once-phenomenal growth, the emerging middle (or “C”) class has double-digit growth figures, according to a recent report published by Knowledge@Wharton.

The experts AEI spoke to for this report say that consumer middle class remains

the most compelling story across these markets, bolstering such as sectors as telecom, agribusiness, retail, financial services, healthcare, education and tech, while natural resource plays (including secondary and tertiary industries), IT and infrastructure are also generating strong returns. Our experts agree, too, that the best deals are generally to be found in the small and midcap space, where prices are low, multiples are high, and well positioned SMEs can be grown and scaled regionally or globally with proper management, strategy and marketing.

Investors generally have 3 options for entering the region: investing directly in a local fund, investing in a regional fund of funds or investing with the regional arm of a global manager. The dynamics of the PE industries vary from region to region, but the experts we spoke to point to certain common considerations and concerns, including the due diligence and manager selection given the short track records of many local managers in these regions, managing country risk, maintaining diversification and exiting investments.

Asia

Alice Chow, Senior Adviser, FLAG Squadron Asia

The tremendous growth in emerging Asia has brought massive PE investment to the region over the last decade. According to the EMPEA survey cited above, global LPs are still reaping and expecting the highest returns from their emerging Asia investments compared with other global regions.

One of the major players in Asian PE is Hong Kong-based FLAG Squadron Asia Limited. Squadron’s principal

money has existed since the 1970s, and it started managing third party funds in 2006. Recently Squadron was bought by FLAG Capital Management, LLC, a leading private capital investment management firm based in the U.S.

Alice Chow is Senior Adviser of FLAG Squadron Asia’s pan-Asian team, which consists of 10 investment professionals specializing in various Asian countries. With extensive experience in a region that has already seen significant allocations from foreign investors, she nevertheless sees an industry that is still growing fast in terms of AUM, government and regulatory support and manager talent.

“The market is developing rapidly, not only on the micro level, but the macro level too. In China, for instance, you see new regulations every year focusing on the local renminbi fund industry and some others affecting private equity in general.”

She stresses, however, that the industry is still fledgling in many respects, for better and for worse. “Asian PE is still relatively new and young; the penetration is by and large still low but catching up quickly to developed markets. But while there’s a lot of potential, there’s not as much experience here, not as many established fund managers.”

Much of the capital invested in Asian PE funds (outside of renminbi-denominated Chinese funds) over the last 6 or 7 years has come from U.S. institutions; increasingly, Canadian and European institutional investors are entering too, she says. But while these investors are entering the region in order to diversify their portfolios and/or capture growth, she says investors shouldn’t view the region as a single bloc. “Asia may seem like one market, but there are different languages, different cultural issues, and

the markets and sectors are at different stages of development.”

Each market presents unique political, currency and regulatory risk, making diversification paramount. Market performance also swings up and down. “Over the past few years, there’s been a lot of ‘hot money’ coming in,” she says, “but some of the markets are cooling down, and the market that’s the ‘flavor of the month’ may change. That shows you how important it is as a PE investor to have diversification.”

In addition to market diversification, vintage-year diversification is also crucial, she says, while sector diversification is increasingly accounted for by individual managers. “Right now the market is at a stage where most fund managers, including those in our portfolios, are generalists; even within one sector, such as TMT, there is software, hardware, mobile. But we are seeing the emergence of sector specialists.”

Given the still-fledgling nature of the market, due diligence is a challenge, and LPs should take their time and be careful about how they choose their managers. One sign of an able manager, she says, is an openness to exit strategies beyond IPOs. “You can’t rely on a manager to say they’ll exit only through an IPO. If the manager is experienced, like elsewhere, they’ll probably consider multiple venues for exiting.” Other possibilities include exiting through trade sales, secondary sales, putback options and both foreign and domestic IPOs.

It’s also essential to remember that PE is a long-term asset class. “You not only need to know the team, you need to understand the investment you’re getting into and have the stomach to stick with it.”

Ms. Chow concedes that analyzing manager stability and longevity along with

company strength and the dynamics of each country in a pan-Asian strategy is a daunting task, but firms like hers are armed to do it. “On the one hand, it’s very difficult to keep track of everything,” she explains. “In China alone, there are foreign-currency-denominated funds, renminbi-denominated funds; if you look at the directories, there are 2,000 funds, maybe more, and teams are constantly spinning out, reshuffling, shifting to different strategies and widening their coverage. But on the flip side, having a local team and being local helps to adapt to the fast-changing market. We do it quite well because we’ve been on the ground a long time, seen the up and down cycles, speak the languages.”

The best deals are generally to be found in the small and midcap space, where prices are low, multiples are high, and well positioned SMEs can be grown and scaled regionally or globally with proper management, strategy and marketing.

She also notes that players in the Asian PE scene are generally open to discussing what they’re doing with investors. “I’m not saying that developed markets are more proprietary with their information, but the sense here is of a smaller, tighter community that we are all helping each other to grow and where information about funds and portfolio companies is more accessible. And if you know how to evaluate the validity of those data in hand, it makes the job easier.”

Latin America

Eric Saucedo, James Feeley, Scott Sucher & Jack A. Smith, Tricap Partners & Co.

LatAm has rivaled emerging Asia in PE commitments over the last half-decade, recovering from the setbacks throughout the industry in the early 2000s. According to the Latin America Venture Capital Association (LAVCA), the region attracted US\$7.9 billion in commitments in 2012, 21% more than in 2011, with 37% more investments (237 in total). Brazil has been and continues to be the main beneficiary by far, accounting for US\$5.7 billion of the region’s commitments in 2012. It will remain the top destination for new commitments this year, even as LatAm ex. Brazil is confirming itself as a viable destination for commitments, as well as a means of diversifying away from Brazil.

Mexico, Colombia and Peru have quickly established themselves as the stars of the region’s PE industry. As a case in point, when the Abraaj Group entered the LatAm space by acquiring Aureos Capital in 2012, creating one of the largest growth market PE investment firms in the world, with over US\$7 billion AUM, the Dubai-based megafirm inherited a LatAm portfolio with zero Brazil exposure, its investments focused instead on the region between Peru and Mexico.

Colombia in particular has been a huge success story in the last few years. With only 4 local funds in existence before a series of landmark regulatory reforms in 2007, over 20 funds were raised in the next 3 years. A recent report from Knowledge@Wharton (quoting Balcoldex Capital) has the total AUM of funds in Colombia at US\$2.2 billion, with some experts believing that total could double in the coming years.

Then there's Brazil, a controversial case we won't resolve here. Suffice it to say that the country had a record-setting fundraising year in 2011 on the back of its outstanding growth figures over the previous few years. However, while it continues to be the top target among all EMs for PE investment, many investors have soured on its prospects, frustrated by what they see as an inhibiting, interventionist government and concerned with the chronic specter of high inflation and high interest rates. Nevertheless, for every naysayer there is a yea, with many pointing in particular to the largest consumer market in the region, worth US\$1.5 trillion in 2011, with retail, healthcare and infrastructure being the top sectors for investors, according to another recent Knowledge@Wharton report. Some investors are also seeing significant relative strength at the subsector level: islands of high, healthy growth amidst the current malaise.

Interestingly, LAVCA reports that funds raised in LatAm (as opposed to commitments) actually halved in 2012, to US\$5.6 billion, reflecting in part a shift among managers toward investments in small and mid cap companies, and a general avoidance of big tickets. According to James Feeley, a Partner at Tricap Partners & Co., an independent merchant banking and alternative asset management firm based in New York, this shift reflects some hard lessons learned over the last few years, as the penchant for big-ticket deals among foreign investors has been one of the most common and costly errors in the early stages of the LatAm's PE boom.

"A lot of big name funds are going to Latin America expecting to do billion-dollar deals," Mr. Feeley. "They like to write big checks, and there's nothing

wrong with that, but by trying to force U.S. investment principles like transaction size and minimum EBITDA, for example, they're missing the main opportunities in the region."

"Retail is one of the areas where we continue to see good opportunities. The model for the last 20 years in Latin America has been to put products on the shelf that no one's ever seen, and that works, but the model of customer service that we live and die by in the U.S. hasn't necessarily been a priority. Now you're starting to see companies trying to make the overall consumer experience better and get them at an earlier stage, but there's still a lot of room for improvement."

*Jack A. Smith, Operating Partner,
Tricap Partners & Co.*

He says the best opportunities for good PE deals, in terms of growth potential, high multiples and high returns, are in the small and midcap spaces, which typically feature companies owned by family groups. "No doubt these transactions can be more difficult to close," he says, "but

there's no doubt in our mind that this is where the best returns will be generated."

Eric Saucedo, also a Partner at the firm, which manages capital across asset classes, including in private equity, public equities, fixed income, hedge funds and real assets, emphasizes the win-win nature of PE in the region, and particularly the boon the industry's growth represents for these small companies. "Companies and countries in Latin America continue to need capital to grow, particularly because credit is generally not very accessible for small and middle market companies, making private equity capital especially important for continued growth."

But he insists that capital is not all they need, and not all that investors should give them. His colleague Jack A. Smith, an Operating Partner who specializes in management and strategic issues for client companies, agrees, saying mere capital injection is not enough to ensure a successful investment.

"The easiest part is giving a company money," Mr. Smith says. "The hard part is working with the company and growing the company's operations via improving operational efficiencies, expansion into other markets, and overall professionalization of the company. So whether you're investing with a fund or with a group like ours, you have to make sure you bring the operational experience to the transaction."

Asked to give his fundamental recommendation to investors and companies in this space, he says "Management, management, management."

Mr. Smith, who was the founder, CEO and Chairman of the Board of The

Sports Authority, the major sporting goods retailer, says the LatAm retail sector in particular can grow through more sophisticated business methods. “Retail is one of the areas where we continue to see good opportunities. The model for the last 20 years in Latin America has been to put products on the shelf that no one’s ever seen, and that works, but the model of customer service that we live and die by in the U.S. hasn’t necessarily been a priority. Now you’re starting to see companies trying to make the overall consumer experience better and get them at an earlier stage, but there’s still a lot of room for improvement.”

Turning to the tech sector, which is also benefitting hugely from the growing consumer class, Mr. Saucedo sees the same issue. “The tech sector is certainly growing, and it’s true that you don’t have to be in Silicon Valley to build a strong tech company; but at the same time, it’s important to remember that the technology itself is not usually the issue: it’s building a great company, and that, above all else, means having the right management team.

“There are good ideas coming out of the region, but you still need to build a viable company out of these ideas.”

Scott Sucher, also a Partner at Tricap, says that firms such as his, with extensive experience and global reach, can add value in infrastructure investments as well, an area where demand in the region is extremely high but technical know-how still, in many cases, lags behind.

“We’re representing a U.S.-centric fund in the infrastructure area,” Mr. Sucher says. “They recognize that there are not a lot of good opportunities right now in the U.S., and their European investments are pretty much under water, so they came to us because they want to

see how they can put capital to work in Latin America. They are extremely smart with respect to infrastructure, but they’re very limited in their experience in Latin America. We’ve been able to bring them exclusive transactions, partnering with some of the best companies in Latin America who are very receptive to work with a firm that brings significant knowledge and added value.”

“The consumer story could not be more attractive in Africa, and certain factors are making it more compelling than anywhere else: Africa has the youngest population on the planet, its governments and countries haven’t been burdened by a credit or housing crisis, and there’s an increasingly affluent middle class.”

Michelle Essomé, CEO, Africa Venture Capital Association

Just as too many investors have erred in seeking big-ticket deals, Mr. Saucedo sees a tendency to focus on IPOs as the ideal exit option. “IPOs are a luxury that early stage companies rarely enjoy,” he says. “The reality is that the majority of successful exits are through a strategic investor. So from a PE standpoint, you have to find the right sector and the right company where you think there will be a high probability of a strategic sale, areas where there is a high probability that

a strategic player would be interested in the company.”

For investors who can avoid bad deals and focus on bringing added value management and strategy to small and mid cap companies, Mr. Saucedo is highly optimistic about LatAm, particularly as a compensatory destination for U.S.- and Europe-focused investors.

“I think Latin America is in the midst of a unique time period,” he says, “and there’s probably a 5-year window until the U.S. and Europe fully recover, during which a lot of global funds will continue to seek opportunities in the region. It’s a great opportunity for Latin America and for private equity investors in general.”

Africa

Michelle Essomé, CEO, African Venture Capital Association

Africa is the emerging market region where some of the most exciting changes are afoot in the world of PE, with managers establishing themselves in the long-underrepresented Sub-Saharan region, and growth numbers that outstrip almost every other emerging market.

As Michelle Essomé, CEO of the African Venture Capital Association (AVCA), a not-for-profit member organization founded to promote, develop and stimulate private equity and venture capital in Africa, notes, the region has some of the highest growth figures in the world, with 7 countries in the top 10 for GDP growth in the last year. Sub-Saharan Africa will grow 5.7% in 2013, according to the IMF. “On an absolute basis the growth of many of these countries is exceptional,” Ms. Essomé says. “And on a relative basis, if you look at

the U.K., for example, it's lucky if it has any growth at all. So the growth story in Africa is really compelling."

Ms. Essomé, who has 20 years' worth of investment banking experience covering a wide range of marketing and origination roles, including two years marketing private equity funds to institutional investors, says the consumer sector is especially compelling in Africa. "The consumer story could not be more attractive, and certain factors are making it more compelling than anywhere else: Africa has the youngest population on the planet, its governments and countries haven't been burdened by a credit or housing crisis, and there's an increasingly affluent middle class."

For many years, investors entering the region were confined to South African funds as well as some global funds with bases in South Africa. "The South African PE market started in the 90s," Ms. Essomé explains, "and you have some very established managers such as Brait Private Equity and Ethos Private Equity. Ethos just closed its 6th fund, with US\$800 million. But they are the outliers. Outside of South Africa, very few managers are beyond their 3rd or 4th fund, so the industry is still very nascent." She notes that there are between 100 and 200 GPs in Africa, compared with over 400 in India alone.

Ms. Essomé puts the total current AUM of African PE funds at about US\$25 billion, with about half of that figure in South African funds. She says the key countries for PE activity are South Africa, Nigeria, Ghana, Kenya and Egypt.

Aside from the emergence of fund managers outside of South Africa, another important trend is that of funds across the continent becoming increasingly pan-re-

gional in their approach. "Funds are looking at the continent more holistically," she says. "You're seeing North African GPs, who historically have invested in this region or in the Mahgreb, now doing club deals in Nigeria and South Africa; and South African funds looking north."

They're looking at strong local companies that can be expanded regionally. "That's the sweet spot for GPs. The role of the GP providing growth equity is to take a great domestic company and create a great regional player." She mentions Ecobank and Letshego as prime examples of successful private equity transactions that have blossomed into key regional companies.

At the same time, a lot of these pan-African GPs are creating sector-specific funds. Among attractive sectors, she mentions telecom, financial services (including consumer credit and personal banking), education, healthcare, agriculture (which accounts for 70% of Africa's labor force), consumer goods, retail real estate (particularly shopping malls) and residential real estate.

Most of the PE deals in the region are in the range of US\$10 to US\$20 million, she says. In the 3rd quarter of 2012, there were 15 deals smaller than US\$25 million, 6 deals between US\$25 and US\$100 million and 3 deals between US\$100 and US\$300 million.

Though there have been very few IPOs to date, funds with good companies are finding exit opportunities. AVCA recently completed a study with E&Y showing that there have been over 100 exits since 2007, most of which were trade sales; stock markets are generally not liquid enough for IPOs. "I often hear it said that if you have a good company, you'll always find a buyer," Ms. Essomé says.

Direct and PE investors in the regions, so far, have included global development institutions, along with U.S. institutional investors and African sovereign wealth funds. "The industry is still largely funded by development finance institutions, such as the African Development Bank, CDC, FMO, DEG, IFC and SIFEM. They have been big catalysts, investing directly before starting funds, and then taking that first risk before commercial capital came in."

She says the perception of risk in Africa is often exaggerated, and real risk can be mitigated through diversification and careful manager selection. "Many countries in Africa are frontier markets with the expected risks and returns, but it takes an understanding of how these fund managers diversify to really understand the opportunity."

She notes that some commercial LPs will want the support of a fund of funds when entering the region, as this can help them allocate across a number of funds. "They might do this in the first instance and then, ten years later, do it directly. Others invest directly with the help of an investment consultancy."

Regardless of the investor, her recommendations are to "understand the growth opportunity, familiarize yourself with managers, and then decide if you want to invest through a fund manager, a fund of funds or do it directly."

Hedge Funds



The relatively nascent EM hedge fund industry is changing fast. The African hedge fund industry is establishing itself as one of the best and most consistent in the world, with hundreds of Brazilian multimercado funds and a small but talented handful of non-Brazilian managers beginning to garner more market share. In Africa the industry is taking advantage of huge growth and strong equities markets, mostly through funds domiciled in South Africa and Europe or the U.K. And in Asia, which has the highest AUM among EM hedge fund industries, the talk of imminent reforms in mainland China has major global players poised to make their move.

The dynamics of these industries are, of course, extremely complex, but we asked our experts to outline the hedge fund space in each region and talk about important developments. What gives them cause for optimism, and what cause for concern?

Asia

Adam J. Steinberg, Director of The Hedge Fund Association's China Chapter

Asian hedge funds have the most AUM by far among emerging markets, with US\$127.4 trillion as of the start of 2013, according to the Singapore-based industry intelligence provider EurekaHedge. This figure is up 9.79% from the year before, a healthy gain for a regional industry hit hard by the financial crisis and its aftermath. The industry's AUM grew by 900% between 2000 and 2007, to US\$176 billion. There has been a partial recovery since the crisis: at the end of December 2012, 39% of funds were above their 2007 high water marks, and EurekaHedge expects that percentage to rise this year.

The report adds that the lion's share of allocations in the region since the crisis have been to large hedge funds, leading many smaller funds to dry up and close; also, managers are generally avoiding single-country strategies.

As is true with every asset class in every emerging market region, speaking of a region as a whole can give a false sense of coherence. Hong Kong is the center of the Asian hedge fund industry, no doubt, and Singapore is a major player (as well as being the regional center of asset management generally), but India and South Korea are also important, and China, currently all but inaccessible to global hedge funds, seems poised to open its door, at least slightly. Each market has its own regulations and dynamics.

Here we focus on China, as the possible near-future developments in the Chinese hedge fund space will have the greatest effect on the investment universe worldwide.

(For readers interested in Indian hedge funds, the inaugural issue of *Alternative Emerging Investor* will include 2 interviews, courtesy of EurekaHedge, with 2 of the most prominent hedge fund managers focused on India: Dhawal Mehta, Head of India Equity Investment at Reliance Asset Management Singapore, and Samir Arora, Fund Manager of Helios Capital Management.)

The Chinese hedge fund industry can be bewildering to the outsider, so some basic definitions and explanations are in order. First, when hedge fund managers (or traditional equities managers) talk about buying Asian stocks, there are several categories of stocks that they could be referring to:

- A-shares and B-shares, which are traded on the Shanghai stock exchange;

- H-shares, which are traded on the Hong Kong stock exchange; and
- N-shares, which are traded on the New York or Nasdaq stock exchanges.

H-shares and N-shares are the most accessible to global investors, and many investors seek Chinese exposure exclusively through them. A-shares and B-shares are largely inaccessible, except for those few investors who have been granted Qualified Foreign Institutional Investor (QFII) status by the Chinese authorities.

To date, no hedge fund has been granted QFII status (although that may change soon, as we discuss below). And while QFII status gives investors access to A-shares and B-shares, their investment activity is limited. "There's no channel for foreigners to enter the mainland hedge fund market except through QFII funds," says Yiming Di, Director, Hedge Fund Association, Shanghai Chapter, and Principal at Schmittzehe & Partners, "but these funds are highly regulated. You can't short stocks or the index, for instance."

There still are options for investors keen on accessing Chinese growth or the appreciation of the renminbi. For one, they can invest directly in Chinese quant funds, although Mr. Di stresses that they should be extremely careful with manager selection. "These funds are very young and don't have extensive track records. You have to make sure their investment contacts and risk management are at the right level, and do background checks on individuals."

But a far less risky option is to invest in Chinese companies listed on foreign stock exchanges. As Adam Steinberg, Head of the China Chapter of the Hedge

Fund Association, observes, “Investors need to realize that Chinese A-shares and B-shares are not the only way to ‘play’ China. You can invest in U.S. companies that are highly reliant on the Chinese market. You can invest in Chinese companies listed in New York or Hong Kong.” He also notes that investors can access the market by using a broker with QFII status. “You’ll have to pay more, but you’ll get access.”

Mr. Steinberg paraphrases Kevin Carter, co-founder and CEO of California-based Baochuan Capital Management, who spoke on a recent HFA China panel. “If you take the total market cap of Chinese companies, 60% is in domestic Chinese A-shares, but 40% is in Hong Kong or New York. You can invest in 40% of the market without having QFII. So people are asking when they can get access to China, when the access is already there today.” Mr. Di agrees, but he adds that some sectors of the Chinese economy, such as the wine sector, are only listed on the Chinese exchanges.

Mr. Steinberg says investors should carefully consider whether to invest in the Chinese domestic stock markets. “Do you really want access? That’s the billion-dollar question. It can be a volatile market here.”

Lack of transparency and increasing distrust of Chinese companies and regulators are issues, too, as highlighted in a recent essay in *The Atlantic* by renowned China expert James McGregor. “The hedge funds and mutual funds that have been big investors in the China growth story and strong proponents of patience with China’s reform process have run out of patience themselves,” Mr. McGregor writes. “They figure that all Chinese companies are lying to

their investors so they are now turning toward investing in American and European companies with significant China exposure or playing China stocks on pure speculation.”

He even points to growing concern over N-shares. “If China doesn’t allow U.S. inspectors to examine the auditors in China who are certifying the books of U.S.-listed

“If you take the total market cap of Chinese companies, 60% is in domestic Chinese A-shares, but 40% is in Hong Kong or New York. You can invest in 40% of the market without having QFII. So people are asking when they can get access to China, when the access is already there today.”

*Adam Steinberg, Director, HFA
China Chapter*

Chinese companies as well as American companies with significant business in China,” he writes regarding an ongoing dispute with the U.S. SEC, “[it] could lead to a wholesale delisting of Chinese companies from American exchanges.”

And yet Mr. Steinberg and Mr. Di point to some possible positive changes in the offing that may well transform the Chinese and global hedge fund industries, and about which many investors remain cautiously optimistic:

- the announcement from the Shanghai Municipal Financial Services Office that it will allow non-Chinese funds, referred to as Qualified Domestic Limited Partners (QDLPs), to raise renminbi funds from Chinese HNWI and institutions for investment outside of China; and
- the expectation that China will open the QFII program to hedge funds, allowing them to be brokers in China and buy shares on Chinese markets.

Mr. Steinberg observes that many global hedge fund managers already have offices in China, mostly for research purposes, biding their time until the regulations open the market to them. “People are positioning themselves, including foreign funds, law firms, servicers, to be first out of the gate.” He notes that the QFII licenses will certainly go only to top global hedge fund managers with high AUM.

If the QDLP program goes through, large foreign funds will have a marked advantage within the mainland Chinese market, Mr. Di says. “China is trying to open up its Great Wall with the QDLP program, and if they do, foreign hedge funds will have a great advantage, as domestic funds will have a hard time competing in terms of AUM, infrastructure and risk management.”

Exciting as these possible reforms would be, Mr. Steinberg stresses that there may be a more important trend in Chinese alternatives: Chinese investors looking for offshore investments, especially in U.S. real estate and alternatives. “They’re looking to invest internationally. It’s happening now with greater volume and velocity.”

He says Chinese investors love real estate in particular and are keen on allo-

cating more to that sector abroad, which the QDLP program would allow them to do via non-Chinese funds. “They’re excited about the Shanghai program: they’re tantalized by high returns and want to get their money into offshore alternatives. So it’s mutually exciting.”

This trend highlights a great way for foreign investors and developers to receive capital for projects abroad, and Mr. Steinberg says it’s probably the most important opportunity for foreign investors and funds currently. “Instead of going to China to buy real estate or shares, the trend I’m seeing is Chinese investment overseas.”

Latin America

Victor Hugo Rodriguez, President & CEO, LatAm

Alternatives, Founding Director of the Hedge Fund Association LatAm Chapter

The Latin American hedge fund industry had US\$58.3 billion AUM at the end of 2012, according to Eurekahedge, down from its historical high of US\$64.2 billion the year before. As with the Asian industry, the period of high growth occurred in the last decade, before the crisis, even though its post-crisis performance has been remarkable relative to other regions. Indeed, LatAm hedge funds outperformed global hedge funds in 2008, dropping only 5.88% compared with the 10.13% global average, and has consistently outperformed most regions ever since.

Brazilian funds account for 93% of the LatAm industry. Called multimercado funds, they differ in certain significant ways from typical hedge funds, mostly in terms of transparency. The more regulated nature of these funds, according to Eurekahedge and other experts, ac-

counts in large part for their popularity among weary and wary investors in the wake of 2008-2009.

That Latin American funds and managers are outperforming those in other regions points to 2 essential facts, according to Victor Hugo Rodriguez, President & CEO of LatAm Alternatives, a third-party advisory and consultant to companies and alternative asset managers entering the region, and Founding Director of the Hedge Fund Association LatAm Chapter.

The first is the region’s sustained growth and improving macroeconomic and political stability, particularly in the Andean region and Mexico, but also in Brazil. “The growth of the consumer middle class has created huge opportunities over the last 3 years, and particularly over the last 3 quarters,” Mr. Rodriguez says. “Peru and Colombia are rising stars. Mexico is correlated with the U.S. and seems well-prepared to deliver great opportunities for the region. And it’s no secret that Chile was the first country to get everything in place and organized, a model of best practices. And though people are saying that Brazil is slowing down and getting messy macro-economically, they quickly forget that Brazil is still growing and the current slowdown is just a pause in the long-term growth.”

He says a telling phenomenon is the way in which domestic asset managers and “multilatina” companies are investing in the region. “Multinationals from Chile are acquiring companies in Colombia. Multinationals in Brazil are acquiring companies in Mexico. And when you go and visit the local pension funds, the largest institutional investors in the region, you’re surprised to see the investments they

have in the region. They want allocations and commitments in the region because they believe in the region, in the growth that’s happening there, and I think that’s an important signal for foreign investors to listen to.”

Along with plentiful opportunities for capturing alpha, there have been substantial and rapid improvements in financial infrastructure and capital market liquidity.

“When foreign managers and investors do their due diligence and research,” Mr. Rodriguez says, “trying to connect with the best managers in São Paulo, Rio, Santiago, Lima, Bogota, Mexico City, they’re often surprised to realize that most of these managers use the same tools and solution providers that managers in developed markets use: the best administrators, the best prime brokers, the best technology for risk management. And they’re also finding great infrastructure in the local exchanges and over-the-counter markets, allowing them to deliver liquidity.”

Most important of all, particularly from the standpoint of institutional investors considering entering investing in the region’s hedge funds, LatAm is seeing a deeper pool of managers with world-class talent and standards.

“The most important thing for investors in Latin America to understand is that there aren’t only great opportunities for alpha, but also talented, disciplined managers who can generate beta,” Mr. Rodriguez says.

In spite of the hedge fund industry’s increasing prominence, Mr. Rodriguez says the most popular alternative asset classes in the region are real estate, local regional private equity and corporate bond trading.

But he believes the ongoing transformation of the region's equities markets will change the landscape of the region's alternatives, particularly hedge funds.

Part of this transformation will be rooted in macroeconomic factors, he says. "With the low interest rates in the region, there's no appetite for anyone to open up to the equities space for financing when they can just issue bonds at conservative rates and keep their equity in a company growing in value. At the end of the day, the reason you're not seeing more of these IPOs is due to the effects of quantitative easing around the world. But when inflation picks up, you'll see more issues and more opportunities for long-short equity plays."

Improvements in the equities markets' infrastructure will also contribute to the industry's transformation. He is particularly bullish about MILA (the Latin American Integrated Market), which aims to combine the stock exchanges of Bogota, Lima and Santiago into a single exchange, and which many believe will incorporate Mexico, and possibly other LatAm countries. At that point, he explains, "there won't be a differentiation between large and small markets."

Mr. Rodriguez says that energy, health-care and education will continue to be particularly strong sectors for alternative investments. "In terms of risk-adjusted returns, those three sectors seem to offer the best opportunities for returns across all countries," he says. And he points to one particular country that, long the bane of risk-wary investors, may transform substantially in the coming years:

"Venezuela is facing dramatic changes internally, seems to have the biggest oil reserves in the world and seems to

be willing implement changes in order to capture some of the international investors eager to deploy capital in that frontier. Investors should definitely keep it on the radar screen. It will offer great opportunities in the event that the new government delivers the major guarantees that the institutional investors community needs. You don't hear much about it, many investors are in-

"The most important thing for investors in Latin America to understand is that there aren't only great opportunities for alpha, but also talented, disciplined managers who can generate beta."

Victor Hugo Rodriguez, President & CEO, LatAm Alternatives; Founding Director, HFA LatAm Chapter

vesting in bonds there, and I think most people would agree that if the government makes the necessary changes, it will be a great place to allocate and capture alpha."

"It seems to be just the beginning," he says of the region's hedge fund industry, "with a lot of room for growth. I think 2013 to 2023 will be a great decade for LatAm."

Africa

Tutu Agyare, Managing Director & CIO, Nubuke Investments

The African hedge fund industry is much smaller than that of Asia and Latin America, but it, too, is attracting more attention from global investors. They are eager for exposure to a region whose MCSI sub-index saw 60% returns between early 2012 and early 2013, largely from non-commodity-related stocks. Currently most of the money investing in African hedge funds comes from U.S. institutional investors, though there are increasing seeing inflows from Europe and the U.K.

As we saw with private equity in Africa, the industry can be divided into South African and Sub-Saharan African sectors. As Tutu Agyare, Managing Director & CIO of Nubuke Investments, explains, "There is a nascent and growing hedge fund industry in South Africa primarily, which is focused on investing within South Africa. In the rest of Africa, the universe of funds remains small and static because the feed pool of specialists who really know how to invest across Africa came mostly out of investment banking, and that pool is diminishing."

The industry, although small, is highly effective, he says. "I would say it's generating returns similar to the longer-term returns of the PE industry." Mr. Agyare's fund, the Nubuke Africa Multi-Strategy Fund, posted returns of 29.12% in 2012, based largely on investments in Kenya, Ghana and Nigeria.

He adds that the industry is also remarkably transparent: "Most funds give somewhere between daily and quarterly liquidity and allow investors to see and discuss the portfolio."

One of the limitations on the industry is that there is not an enormous discount between privately and publicly available assets. “But I think the differential will grow given the size and scale of investable assets and given the poor state of growth in the rest of the world,” Mr. Agyare says, noting that fund flows are already a multiple of what they were in 2008. “I believe this growth is secular, not cyclical. And the good news is, while prices in the rest of the world have returned to their 2007-2008 highs, they haven’t in Africa.”

About half of African market cap is traded on offshore stock exchanges. “There’s very little liquidity in the onshore equities markets,” Mr. Agyare says, “though in the fixed income and local currency markets there’s enough liquidity to run a strategy. But the other thing to remember is that the universe of exposure to Africa doesn’t exist only in African onshore markets. There’s about as much market cap listed on the exchanges in the U.S., Canada, the U.K., Europe, Australia, where you can get direct access to companies whose revenues are generated in Africa.”

The market still suffers from widespread misconceptions regarding the risks of investing there, Mr. Agyare says, though increasingly investors are coming to see that many African countries offer a compelling combination of high growth, high transparency, regulatory stability, low prices and excellent demographics and resources.

“We have to work through a lot of false perceptions. But for the discerning investor, and especially the U.S. institutional investor who has to deliver 500 basis points to his institution, with inflation at 2.5%, where are you going to get 800 basis points

in what is essentially a zero-growth world, adjusted for inflation? Where can you find an investment universe that is the fastest growing and inexpensive? There are absolutely issues with corruption and political risk in certain areas, but the region has 54 countries, and you don’t have to invest in all of them.”

Besides, he adds, “we’re a U.K.-based fund, and of all the jurisdictions we operate in, the most unstable framework is that of the U.K.”

He points to Nigeria as a country full of opportunity that nevertheless has to stem a tide of misconceptions.

“People take Nigeria for a basket case, but last year it grew 6.5% and this year it’ll grow another 7.5% or 8%; and if they fixed a few fundamental issues it would grow faster than China. There are many highly capable listed companies there.

“If you’re really scared,” he adds, “you can buy Nestlé Nigeria, or Guinness Nigeria, the local subsidiaries of foreign companies. They’re actually trading at higher multiples than their parent companies because the growth rates are better.”

He also emphasizes that Nigeria’s is a story not only of growth, but of enviable corporate and governmental responsibility. “The only country in the world post-Crisis that actually seized all its banks’ bad assets and forced them to get their NPLs down below 5%, that took the banks that had gone bust and put them under sequestration, and that actually put bad bank managers in jail, was Nigeria.”

In sum, then, Mr. Agyare thinks the choice is clear: “I think the disciplined

and discerning investor making non-emotional investment decisions has to end up in Africa.”

Regarding how, he points to several options: “First, there are ETFs listed in the U.S. that cover Africa, then funds issued by U.S. institutions such as Morgan Stanley. Then you have more specialist funds issued by institutions in the U.K. or South Africa that have more focus. And finally you have even more focused funds where a greater proportion of investment decisions are deferred to managers who are actually African, who understand the nuances of what’s going on and don’t fall for the hype, and who are focused on delivering returns to investors.” His fund falls in the latter category.

But the options will no doubt multiply in the coming years, as the ongoing growth story and capital market maturation open up more possibilities for hedge fund managers.

“With 15 of the top 25 fast-growing economies being in Sub-Saharan Africa,” Mr. Agyare says, “and given the state of the rest of the world, you’re going to see enormous growth in the size of the fund management industry, and you’ll see new issuances coming into the market as owners start to take advantage of the change in valuations. So I think the industry is going to be one of the brightest spots on the planet for growth business in the financial world.”

Real Estate



Even before the drastic increase in alternative asset allocations that we've seen in EMs over the last decade, real estate investing was popular among regional investors. Much of East Asian and Middle Eastern wealth is bound up in real estate, for example, both domestically and abroad, and the same can be said for many countries in Latin America.

Outside certain countries and regions with more advanced capital markets, however, real estate investing in EMs, whether by foreign or domestic investors, has traditionally been limited largely to direct investments. These limitations, however, are gradually lifting, with real estate funds, REITs and listed stocks of real estate companies offering global investors better opportunities for exposure.

Here, the experts we spoke with discuss the consequences of these expanding opportunities in the context of high-growth markets. But they also stress that real estate, perhaps more than any other asset class, must be thought of in local terms. The nature of real estate investing varies from country to country, province to province, project to project. For that reason, it is essential to avoid generalizations and to adopt a bottom-up approach with the help of a knowledgeable team on the ground.

Asia

According to Frank Khoo, Global Head of Asia for AXA Real Estate, the first thing investors need to understand about investing in Asian real estate is that the region consists of essentially 3 distinct zones, all of which have unique dynamics:

- developed Asia, which includes Japan and Australia;

- semi-developed Asia, which includes South Korea, Singapore and Hong Kong; and
- developing Asia, which includes India, China and much of Southeast Asia.

Each of these regions, and each country within those regions, has its own dynamics and opportunities. Indeed, as Mr. Khoo observes, "Asia is so diverse that it will probably have a market to meet your needs."

Those needs tend to fall into two categories: diversification with steady income, or high returns. "The first group are going into developed Asia, Japan and Australia, and looking for income-producing assets," Mr. Khoo explains, "while the second group are looking to China and India and taking more development risk."

It is essential for investors to know which of these camps they fall into. "Before you get on the plane to Asia," Mr. Khoo says, "you have to know what you want to achieve there. Are you looking for high returns or for income? What is your time horizon? What is your risk tolerance?"

If you can handle the volatility of capital markets, a REIT may be the best option, he says, noting that the REIT market has developed in certain markets, giving investors good exposure to Australia, Singapore, Hong Kong and Japan.

"But investors looking for investments that perform like the asset class and not like the capital markets," he says, "may prefer investing in physical real estate, either through a fund, if you want more diversification, or directly."

He adds that the barriers to entry are generally much lower in developed Asia

for foreign investors. "The market is more transparent, so foreign capital can compete respectably with local capital. But in developing Asia, where relationships are more important, it's harder for foreign capital to compete, especially for income-producing assets."

The lowest barriers are in the commercial real estate sector in developed Asia, a sector where institutional investors seeking diversification and steady income feel most comfortable.

The Japanese and Australian markets in particular are seeing attractive spreads in the commercial real estate sector, he says. "From an institutional investor's point of view, those who are looking for core investments are going to the developed Asian markets of Japan and Australia, especially in commercial real estate, where the yields you can get in Tokyo, Sydney and Melbourne are very attractive versus the borrowing rates." He notes that in Tokyo the grade A and A-minus assets currently have yields above 4.5% with borrowing rates at less than 1%, so the spread is about 350 basis points.

"Rent values in Singapore and Hong Kong are on their way down," he adds, referring to the commercial real estate sector, "but cap values are still at all-time highs."

Though he insists that it's impossible to sum up sector dynamics across the region, again emphasizing the importance of a localized approach, some sectors have strong region-wide dynamics.

"You can safely say that the residential sector will continue to see growth across Asia, as the population, except in Japan, is young and the middle class is urbanizing. In fact, some mar-

kets, like China, Singapore and Hong Kong, are trying to limit this growth with capital gains taxes and restrictions on financing, but you continue to see growth.”

Retail presents similarly region-wide opportunities. “Obviously retail is very location-specific, but again with the exception of Japan, the sector is benefiting from these demographic trends.”

In hospitality, he says the best opportunities in the region are those revolving around the increasingly adventurous and demanding Chinese consumer. “In the Asian market, many countries are growing, and once the population satisfies basic needs, they start to travel, first within the country and then outside,” he explains. “The Chinese consumer, for example, is now traveling everywhere. So there’s a lot of room for growth in the hospitality sector, especially catering to the Chinese consumer. I still think the hospitality sector is not catering to the Chinese enough.”

The biggest investors in Asian real estate are the Asians themselves; they include institutional investors looking for income and capital gains, and retail investors, with most investment coming from the latter. “If you look across the board at the richest people in Asia,” he says, “in every single country, most of them put their money in and get their money from real estate, which shows you the dominance of real estate in the region.”

You can also see the dominance of these real estate developers, he says. “The people who are calling the shots in Asian real estate are the big Asian developers. Most are country-specific, except for some in Japan, Hong Kong and Singapore that are moving out of their

home countries. Most of them have their own team doing asset management, while they use the big service providers, such as CB Richard Ellis, for brokerage and top-fee services.”

But while local Asian developers rule the industry, there is room for GPs to come in and work with them, he says. “The market is still growing and LPs looking to diversify will continue to come, whether for returns or for stable

“Before you get on the plane to Asia, you have to know what you want to achieve there. Are you looking for high returns or for income? What is your time horizon? What is your risk tolerance?”

Frank Khoo, Global Head of Asia, AXA Real Estate

income. And I think most will look for established managers and will be reluctant to work with local developers, whereas GPs with people on the ground can more easily work with partners or execute strategies themselves. So even though developers are dominant in Asia, there is definitely an opportunity for GPs to actually coexist with developers and grow.”

He says that the local nature of the industry makes it imperative for managers

to have teams on the ground. “You need local people managing, and given that Asia is so diverse, if you want to adopt a pan-Asian strategy, you need a pan-Asian team on the ground.”

“For me,” he adds, “country-specific and asset-class-specific strategies still work best in Asia.”

Latin America

Darin Bifani, CEO of Puente Pacifico Investment Advisory Ltda.

For investors entering LatAm real estate, the main story is one we’ve already seen: sustained economic growth in many LatAm countries coupled with the rising purchasing power of an emerging middle class. These dynamics, as well as a significant rise in the availability of credit, are fueling a real estate boom.

“For a long time the middle class in Latin America was relatively small,” says Darin Bifani, CEO of Puente Pacifico Investment Advisory Ltda., a business advisory firm that assists clients with sourcing, structuring and executing cross-border investments, asset dispositions and other corporate transactions in Latin America. “The rapid growth of this segment, combined with increasing credit availability, has unlocked a huge amount of consumer power to buy first homes and other real estate and real-estate-related assets.”

Explaining the crucial credit factor in more detail, he notes that the improving macroeconomic strength of the region has brought the price of international credit down. “Some Latin American countries have been able to put bonds in international markets at very low prices,” he says. “Chile put out a long-term bond late last year at a little over

2%, which if you think about bond interest rates from an historical perspective in Latin America is amazing. And that converts into more funds to support government-driven real estate and infrastructure initiatives, additional capital for local banks and the ability of the banking sector to build mortgage and consumer credit portfolios.”

And this, of course, is a boon for real estate. “You have literally millions of people who for the first time are able to make real estate purchases that weren’t before.”

Growth, stability and increasing credit are creating opportunities across various sectors. And although Mr. Bifani stresses that investors must always perform a case-by-case analysis of an investment based on their specific objectives, investment horizon and risk tolerance levels, he says that the sectors with generally the best opportunities are residential, office, retail and hospitality.

The least risky is the residential sector, particularly for the middle and lower-middle-class segment that is benefiting from sustained growth. The next step up is office real estate. “There’s wide agreement that there’s not enough quality space on the market to satisfy demand,” he says. “That’s certainly the case in Peru, where a lot of global companies are now moving.”

Next in terms of riskiness comes retail, which is “heavily dependent on consumer credit and inflation, numbers that move around quite a bit in Latin America.” He points to the many major regional retailers building credit card brands, giving people a greater ability to spend and boosting retail sales. “The low credit costs are opening the door for real estate com-

panies, such as retailers, to make large acquisitions in other Latin American countries.”

The riskiest sector, he says, is always going to be hospitality. “But in this space, as in others, you’re starting to see greater stratification of products,” he explains. “In the past there was a narrow range of availability, but with the boom you’re seeing widening of the band of possibili-

“For a long time the middle class in Latin America was relatively small. The rapid growth of this segment, combined with increasing credit availability, has unlocked a huge amount of consumer power to buy first homes and other real estate and real-estate-related assets.”

*Darin Bifani, CEO, Puente
Pacífico Investment Advisory
Ltda*

ty. So there are tremendous options there, including at the higher end, with five-star boutique hotels, and value-added hotel services, tours, excursions.”

Some notable investment opportunities in Latin America at the moment include “mixed use” affordable housing that combines residential units with services, retail space, business and techno-

logical parks and boutique hotels. There are also many interesting opportunities in the area of “green” construction and sustainable tourism.

Mr. Bifani points to infrastructure as well.

“There are big deficits in port infrastructure throughout Latin America, and with trade volumes growing supported by numerous free trade agreements and demand for Latin America’s vast commodities, there’s a great opportunity to invest in real estate that supports it, including storage and industrial facilities.”

Many real estate products and services commonly found in other markets are relatively absent in LatAm, such as high quality logistics space, and in the face of rapidly increasing demand, Mr. Bifani says, investors can reap high returns by bringing in good, scalable concepts.

“If you come here with a scalable concept, such as combining renewable energy and low-income housing, that’s a great way to establish market presence and get returns. And what’s great about Latin America is that many things are scalable on a regional level. Many countries in Latin America are growing but at different rates, and they’re at different points in the process. So once you have a good product, you can place it in different markets at different times.”

Though the region’s industry is “light years from the size and development of the U.S. or U.K.,” it is growing fast, Mr. Bifani says. “Brazil has a number of listed real estate funds, and Chile, too, has a number of very strong real estate companies investing across sectors with diverse strategies.”

He says there are fewer large international players in the Latin America real estate space than one might expect to find, although firms such as Walton Street, Paladin and Prudential are pursuing Latin America real estate strategies. “I’m surprised because, given where returns are globally, I would have expected funds to be more aggressive, but most of them are still in study mode. I expect to see more funds following the Paladin and Prudential model of taking a pan-LatAm approach and investing opportunistically.”

He says a regional approach is often necessary for larger funds because of volume issues. “If you have US\$500 million, it’s hard to spend that in Chile alone.”

Another issue facing large investors is asset over-valuation. “That’s a real issue in Chile, for example, where the pension funds have so much money that you have a tremendous amount of capital chasing a small asset pool.”

For Mr. Bifani, LatAm real estate is excellent for investors because of the diverse opportunities it offers. Before entering, however, he says it’s essential for investors to step back and gauge their own risk tolerance.

“You have to set your return and risk threshold and, based on that, look around the region, country by country, sector by sector, and ask: Where can I get the highest returns given my parameters?”

“If an investor is looking for stable yields and income and relatively low risk, we might recommend that they invest in a Chilean A-grade office building. If an investor wants high returns and is willing to take development risk, we might recommend that the investor look at the Peruvian retail sector.”

He says that investors have to be willing to recognize the limitations of different segments and different countries when putting together an overall strategy that allows them to meet their return goals.

“If you’re a PE fund looking for an IRR of 15%, you’ll be hard-pressed to find that in Chilean office real estate. But what you can do is combine the Chilean office sector with higher-risk investment in Peru with more of an upside.”

Political risk is a huge concern for investors coming into LatAm (as well

“There are 52 cities in Africa with more than a million people; that’s exactly the same amount as Europe. But half of those cities don’t have a single A-grade closed shopping center. So if you look at the supply-and-demand dynamics of that space, it presents a compelling investment case.”

Thomas Reilly, CEO, Sanlam Properties

as other EMs), but Mr. Bifani says it’s important not to make assumptions regarding risk or returns for any one country. “You’ll hear people saying certain countries are more risky than others, but when you look closely you see disparities between what they’re saying and reality.” For example, he notes

that the residential cap rates for several communes in Santiago are only around 5% or 6%, which is extremely low. “These types of returns are lower than what some publicly listed real estate companies have provided, even though the stock market gives investors much greater liquidity. These types of investment structure/return anomalies are not common, but they do occur.

“So the point is: don’t make hard and fast assumptions. If possible, try to retain sector and segment neutrality and look at each opportunity on its own terms.”

Mr. Bifani also observes that investors tend to think of political risk on the sovereign level, but there is local political risk, too. “Some communes in Santiago, for example, are freezing construction projects while they redo zoning laws,” he says.

And he makes the very interesting point that there is often a large difference between political risk perception and political risk reality. “This can cause situations where countries and project sponsors pay risk premia that are higher than really should be the case,” he says.

He gives Peru as an example. “Think about how much value the Lima stock market lost when Ollanta Humala was elected before almost immediately bouncing back. Fears that he would be anti-business caused stock prices to free fall, but if you followed what he was saying during his campaign, you would have realized that he was more centrist than people feared. So stock prices in the run-up and aftermath of the Peruvian presidential election is one example among many of how capital costs often dramatically deviate from actual risk levels, and this can create very interesting investment opportunities.”

Finally, Mr. Bifani observes that investors are beginning to mitigate risk by combining direct investments in real estate with investment in the capital markets, allowing investors to unload their assets more easily. “This is a good strategy for institutional investors coming in looking for returns but with low risk tolerance,” he says.

Africa

Thomas Reilly, CEO of Sanlam Properties

The African real estate market is attracting global investors for reasons similar to what we saw in LatAm: excellent growth numbers, an increasingly affluent consumer middle class and policies and regulatory frameworks that are often friendly to FDI. A widening array of funds are available to investors, the South African equities market offers many real estate-related stocks and listed vehicles and the major South African fund manager Sanlam Properties is preparing to launch the first REIT focused on Sub-Saharan Africa.

“There are huge growth statistics coming out of much of the region,” says Thomas Reilly, CEO of Sanlam Properties. “It’s making all the right noises. But there aren’t too many platforms in place for a sophisticated investor to tap those markets. We’re giving them that access.”

Mr. Reilly describes the current state of real estate investing in Africa, noting the marked distinction between the South African and the Sub-Saharan markets. “In South Africa, there’s a multitude of real estate offerings you can invest in; the sector is very liquid, with a lot of possibilities listed on the exchange, and it’s also easy to come in and invest

directly outside of a fund or listed stock. Outside of South Africa it’s more tricky, and you really have to rely on local people active in the market, and it’s good to take advantage of an institutional or fund offering with substance and credibility behind it.”

The region’s growth numbers and strong demographics are buoying all sectors, notably retail. “There are 52 cities in Africa with more than a million people; that’s exactly the same amount as Europe,” Mr. Reilly observes. “But half of those cities don’t have a single A-grade closed shopping center. So if you look at the supply-and-demand dynamics of that space, it presents a compelling investment case.”

The same can be said of the office building sectors in the region’s leading capitals, such as Lagos, Accra and Nairobi. “There’s a fair amount of office space available around the continent; if you take a snapshot of these capitals, there are tall buildings everywhere. But not a lot of this space is A-grade, where a large international company would feel comfortable setting up a regional headquarters.”

The hotel sector, too, currently combines high demand with a lack of high quality. “Hospitality presents a huge opportunity, and it’s going to be in growth mode for the next decade,” he says.

He says host countries have few restrictions on FDI in real estate, so it is relatively easy for investors to enter the region and invest directly. But standard real estate due diligence remains essential. “You have to go through your due diligence process as you would in any country, making sure you’re buying the right title, that the owner is actually the owner. As long as you make use of the

right professional services, it’s not a difficult process.”

His main recommendation to investors is to have local support. “Investors need to take advantage of local knowledge. It’s difficult for U.S., European, Latin American or Asian investors to come in and expect to know the ins and outs of the real estate market here. So it’s important to have a partner or enter into a PE fund offering backed by local funds with people on the ground. You can’t underestimate the value of that.”

Sector Focus: Agribusiness



Agribusiness is among the most attractive sectors in EMs, offering investors opportunities across asset classes and up and down the value chain. The sector is especially interesting because both the supply-side and the demand-side dynamics are shifting and creating investment opportunities around the world: trade routes are shifting and the diets and demands of the rapidly growing and urbanizing populations of EMs themselves are transforming, all while arable land per capita continues to diminish.

There is an urgency to this attraction, too, with a mounting awareness of the importance of food security and the essential role that EMs will play in feeding the world in the future. Among the seven countries with more than 30 million hectares of arable land, four — Russia, Brazil, Ukraine and Argentina — are considered EMs, and only Brazil, Argentina and Australia have more than 5 million hectares yet to be brought into production, according to a report by Macquarie Agricultural Funds Management. Brazil leads the world with 22 million hectares available for new production.

Africa, too, has immense swaths of valuable land. EBG Capital (as quoted in the *Financial Times*) reports that the Sub-Saharan region has 590 million hectares available for development, compared with 380 in the rest of the world. According to a recent report by the World Bank, private sector investment in and development of African agriculture is the best way to ensure meeting that continent's needs.

And yet in spite of the availability of land in much of the world, and in spite of the need to improve and expand pro-

duction, the sector remains untouched by many large-scale investors.

The same report by Macquarie Agricultural Funds Management notes that institutional investment in farmland stands about US\$30-40 billion — miniscule compared with the global value of farmland of \$8.4 trillion. The report estimates the current investable universe of farmland at \$1 trillion. And yet, outside of the U.S., where institutional investors own significant portions of farmland, institutional ownership in other major agricultural producing countries ranges between 2% and 10%.

Notes Tim Hornibrook, Co-Head of Macquarie Agricultural Funds Management, "Agriculture is quite a unique sector in that, despite being 10,000 years old, is only just being discovered by institutional investors." He pins their avoidance partly on the nature of the industry's ownership. "Global agribusiness is primarily a private market sector: there are very few listed public companies, maybe 500 to 600, and at least half of those are chemical and fertilizer companies." He adds that the lack of academic literature on investment in the sector, along with paucity of agrifund managers with lengthy track records, keeps many institutional investors away.

Mark J. Cutting, a member of the Advisory Board at Puente Pacifico Investment Advisory Ltd., a Santiago-based business advisory firm, agrees, noting that the nature of the sector and the mechanics of investing in it remain ambiguous to many outsiders. "It's unclear to investors what exactly agribusiness entails," he says, "and the capital flow into the industry remains tainted by the fact that there's no underlying core of professionals and companies that work clearly in the space."

Mr. Cutting says there are three types of people involved in the space: "those with no background in agriculture, but who see the opportunity; those who are agronomists or agrarian economists; and fund managers or asset managers. None of these types has the entire picture, and there are very few firms that bring them together. So the knowledge in the industry is very fragmented."

Mr. Hornibrook concurs. "The best agricultural fund managers have a combination of investment management experience and agricultural operational expertise."

As the Macquarie report notes, however, in spite of the lack of commitments by institutional investors, they are paying much more attention to the sector.

Mr. Cutter gives some reasons why. "To start, [the sector] is counter-cyclical: when real estate is down, for instance, agriculture tends to be high. Second, agricultural land is finite, and at the same time there's growing demand from the massive daily growth in population and global wealth."

Mr. Hornibrook adds that agribusiness offers distinct opportunities up and down the value chain, with different segments offering different margins and risk and return attributes. "The good thing about agriculture and agribusiness," he says, "is that there's something for every type of investor."

There are four basic options for investors in agricultural production:

- investing directly in farmland,
- investing directly in farming operations,
- investing in general agricultural production companies, and
- investing in pure commodities.

As Mr. Cutting explains, “Investors [in EMs] have tended to invest in this space through buying publicly listed shares of companies or through commodity trading, though it’s slowly starting to change and we’re seeing institutions and individuals gaining access to direct farming and farmland investments, owning land and either leasing it or operating a business. It’s happening in Africa more so, less so in Latin America.”

But according to William J. Kiernan, Director of GAI Research & Insight at HighQuest Partners, a strategic advisory firm to companies, investors, trade associations and governmental organizations operating in the global agribusiness and food industries, the crackdown on foreign direct investment in the agriculture sector by governments around the world is pushing investors toward other models. “Farmland is like timber and mining in that governments tend to frown on FDI,” he says. “There’s certainly been a backlash against FDI agriculture pure plays all around the world.”

“We’re seeing joint ventures,” he adds, “but also more creative operating structures where investors are willing to invest in integrated farm operations where they take farming risk instead of taking a pure, passive play.”

Mr. Kiernan also points to ancillary industries as excellent investment targets. “For the machinery and supplies companies, like John Deere, Case IH, Monsanto, one of their primary strategic focuses in the next 20 years is building their businesses in emerging markets, especially Africa but also Latin America and Asia. John Deere just made a massive investment in China.”

Investors can also aim higher up the value chain, at processing, distribution and

food retail. Logistics and infrastructure are ripe for investment at all levels.

Mr. Hornibrook, of Macquarie, notes that different parts of the value chain have different margins and risk and return attributes, and risk and return are determined more by strategy and region than by the particular commodity. Investors entering the agribusiness space,

Institutional investment in farmland stands about US\$30-40 billion, miniscule compared to the global value of farmland of \$8.4 trillion. The current investable universe of farmland is estimated to be \$1 trillion. And yet, outside of the U.S., where institutional investors own significant portions of farmland, institutional ownership in other major agricultural producing countries ranges between 2% and 10%.

then, should first consider the trend or thematics they want exposure to.

“In Asia,” he says, by way of example, “you might look at increasing protein consumption resulting from increasing incomes and growing urbanization.

If you’re looking to gain exposure to a pure protein play, you might consider investing into livestock production, and you’ll look at the area of the world which has a competitive advantage.”

He discusses how an investor might compare U.S. and Australian cattle production. “U.S. cattle are predominantly grain-fed whereas Australian cattle are predominantly grass-fed. Therefore, investing into U.S. cattle also comes with the associated volatility of grains prices. Then there’s disease risk: Australia has never had an export-restricting disease, while the U.S. has. Then you look at proximity to Asian markets: Australia is on the doorstep, so we have a transportation cost advantage.

“Then you get into economics, the operating margins in one country versus another, and of course your ability to acquire assets in certain countries, as that can be restricted. And you also have to consider logistics in processing. If you’re involved in beef production in Russia, you might have to move beyond the farm and get involved in the logistics of processing; otherwise it’s difficult get the product to market.”

Other important considerations for investors include currency risk, logistical issues and time horizon. It’s essential that an investor’s time horizon match the project, Mr. Hornibrook says.

Agriculture is politically sensitive, and investors need to understand the politics and history of the countries they’re entering. As Mr. Hornibrook points out, net-exporting countries tend to have fewer restrictions on foreign investment and ownership. “We’re wary of investing in countries that are net importers of food, as they’re more likely to have political complications because of issues around food security.”

Overall, he says, “investors need to have a good understanding of risk in terms of what’s in the manager’s control and what’s outside the manager’s control, and they need to understand how the manager manages those uncontrollable risks.”

Asia

*William J. Kiernan, Director of GAI Research & Insight,
HighQuest Partners, LLC*

*Tim Hornibrook, Co-Head, Macquarie Agricultural
Funds Management*

In giving the example above about rising protein consumption in Asia, Mr. Hornibrook points to the profound effect urbanization and GDP growth have on diets. “If you take Malaysia and Indonesia: they are adjacent to each other, but Malaysia’s per capita beef consumption is 2 to 3 times that of Indonesia. The difference is due to relative GDP.”

In addition to beef, the Asian population is consuming more specialty commodities such as tree nuts, fruit and oil seeds (especially soybeans), as well as ever-increasing quantities of corn and corn-based products.

Mr. Kiernan, of HighQuest Partners, explains this transformation in simple terms. “Think about what people eat in the U.S. and Europe: that’s what the Asian diet is morphing into.” He and Mr. Hornibrook agree that it is one of the major trends that make Asian agribusiness so attractive today.

Asia as a region, and China in particular, is an increasingly massive player on both the supply side and the demand side of global agribusiness, and investors can

tap Asian trends from either side. Indeed, says Mr. Kiernan, “Any exposure to the agricultural sector, no matter what the asset class, is exposure to Asia.”

Investors might look first toward investing in Asian demand, which may mean investing in production across the world.

“One of the quick and easy ways to get exposure to Asian agricultural dynamics at the lowest relative risk profile is through corn and soybeans,” Mr. Kiernan says, “particularly in producing and exporting regions such as the U.S. and Brazil. This could be through buying farmland or investing in large integrated companies such as Louis Dreyfus, Cargill or ADM.”

Asian countries produce a lot of many agricultural commodities less efficiently than the U.S. or Brazil, even counting shipping costs.

“Asian countries have limited agricultural productive capacity based on land, water, soil fertility, etc.,” Mr. Kiernan explains, “and they have to carefully allocate those resources toward the crops they can produce most successfully. That’s why with China, for instance, its corn, rice and wheat yields are actually higher than the U.S.’s, whereas its oil seed and cotton yields are far inferior.”

China has made a conscious policy decision to rely on oil seed imports instead of growing them itself. “With China, if you go back to 1995, they were slight net exporters of soybeans. Now their imports account for 50% of global trade, most of it to feed hogs for pork and feed the changing Chinese diet. You’re seeing a similar pattern in corn. So you see major changes in trade flows, and not just on the demand side: this year, Brazil will overtake the U.S. as the largest soybean producer and exporter.”

Aside from these staples, Mr. Kiernan says there is also increasing investor interest in niche items and specialty commodities revolving around healthier diets, including tree nuts, berries and fruit. “With certain commodities such as almonds and vineyard products, you’re seeing significant development in Asia. For others, these countries are looking abroad.” Thus, investors can tap this trend by investing in almond farms in California, for instance, which supplies 80% of world’s almonds.

For investors targeting Asian production, as opposed to consumption, he points to

palm oil production in Indonesia and rice and rubber in Southeast Asia. But they should be aware of limitations. China, for instance, “is off limits” because of the severe restrictions on FDI, and global issues biotech IT rights are posing a challenge to investors.

“Some countries in Asia, China in particular, have significant restrictions on GMOs, for example,” Mr. Kiernan says. “So there are increasing costs for everyone to use these technologies, because companies know they need to protect their patents.”

Latin America

*Mark J. Cutting, Member of the Advisory Board, Puente
Pacífico Investment Advisory Ltd.*

Latin America has several agricultural powerhouses, and as we saw with the three asset classes discussed in this report, the investment climate is improving remarkably, offering investors numerous vehicles through which to tap the sector. Aside from investing in publicly listed equities, investors can do private equity investments in agribusiness companies up and down the value

chain; they can invest in agriculture-related infrastructure; or they can invest in agriculture-related real estate.

But first, according to Mr. Cutting, of Puente Pacífico, investors approaching LatAm agriculture need to start by getting rid of regional notions. “You have to get down to individual countries: there is no ‘Latin America’ in terms of investment strategy, no strategy that fits all countries.” He says Chile, Uruguay, Peru and Colombia, along with Brazil, represent the best opportunities “for 2 or 3 lifetimes,” and that Chile and Uruguay in particular are excellent entry points into the region.

These countries are attractive largely because of their political stability. “In Chile and Uruguay, and increasingly Peru and Colombia, there’s more political stability than people think. Chile, of course, is the star, and there’s little difference here between the left and the right, economically speaking.” Political stability is an essential consideration given the long-term nature of direct investments in agricultural land, he says, noting that these investments tend to require six to seven years, and sometime more, before seeing operation gains.

Infrastructure, logistics, storage and road haulage are areas where many strategies should focus. “They allow you to ride the supply/demand imbalance,” he says. He notes, however, that agribusiness investors in the Southern Cone and Andean regions, regardless of the subsector, can be difficult because of the small ticket sizes. “The deals are too small. Everyone is scrapping around for US\$5 million.”

Consequently, whether investing in farmland, farm operations or another agribusiness segment, investors need lo-

calized expertise and strong integration with the value chain. “If you want exposure specifically to Andean or Southern Cone agriculture, you really need a grassroots strategy, multi-faceted, with direct investments and vertical partnerships,” he advises.

Mr. Cutting stresses that the health of the region and world depend not merely on agriculture investment, but on sustainability and responsibility. “We’re in the middle of a 10-year commodity boom, particularly agriculture. Land pricing is high. But we also live at a time when more and more land is being taken out of food production for biofuels or because of climate change.

“But agriculture is different from real estate in that the product belongs to the people, which means it lends itself to responsible and sustainable development.”

He says agriculture investors have the opportunity to step back and approach the sector differently. “That’s why you’re seeing pension funds coming in and putting weight behind sustainable agriculture, not necessarily organic agriculture but agricultural practices and production that are sustainable and respectful of local communities.”

Africa

Dennis Matangira, Senior Managing Partner, Databank Agrifund Manager Limited (DAFML)

Africa offers some of the best agriculture investment opportunities in light of its available arable land, the untapped potential of land already in cultivation and the rapidly increasing demand of its urbanizing populations. And yet global private equity investors have been slow to enter the region.

“People have a knee-jerk reaction to agriculture,” says Dennis Matangira, Senior Managing Partner of Databank Agrifund Manager Limited (DAFML), a pan-Africa-focused PE group with special interest in agriculture and food production value chains. “You mention agriculture and they leave the room.” He blames this reaction on misplaced concerns over risk. “Casual investors talk about the volatility and cyclicity of the sector and how you can’t control prices and weather patterns, but they don’t look at the inherent positives or examine the value-chain.”

DAFML manages the AAF SME Fund, which focuses on growth equity investments in food production and processing SMEs throughout Africa. Promoted by a handful of major development finance institutions (DFIs), including the Agence Française de Développement (AFD) and the African Development Bank (AfDB), the underlying thesis of the fund was that the best way to address the problem of food security worldwide and in particular the huge untapped potential in the African food value chain sector was through PE, even though virtually no private money was prepared to take the leap into PE focused on the African food chain.

The fund first closed in February 2012 at US\$30 million and is currently fundraising for its final close with a final target size of US\$80 million. It is investing in the whole agribusiness value chain, with at least 25% targeted toward primary agriculture, 40% toward secondary industries and the remainder toward tertiary industries. Limiting its primary agriculture investments is a means of diversifying to meet capital needs across the whole value-chain, Mr. Matangira explains.

He says the fund is focused on SMEs because they offer the best opportunities

for agribusiness investment in Africa. “The SME sector is really the driving force in emerging markets, and in Africa it’s even more pronounced: SMEs represent one of the leading pivots for the continent’s growth.” Many of them, he says, are extremely undervalued while offering huge growth potential. “Our typical ticket on the SME investment is about US\$2-3 million, which is very substantial considering that a lot of these companies don’t have the huge enterprise values that would be expected in more liquid markets.”

The fund gets five times as many deals below US\$4 million as it does over US\$10 million. “At over US\$10 million there just aren’t many attractive opportunities in Africa unless you go after auction deals, apply financial engineering or support infrastructure investment,” he says. “But in these cases such as infrastructure, there are too many players with billions of dollars they can’t deploy because of the risk around executing the deals.”

The possibilities of SME investment are especially ample in Francophone West Africa. “Historically the companies there tend to be small and family-owned, and now those families are starting to understand that they can find partners and start to expand.” In certain countries, the governments are taking strides to foster foreign investment in agribusiness. “Ethiopia and Cameroon are examples of where they are now putting laws in place that are very investor-friendly.” Mauritius is particularly friendly to PE funds, he says, noting that it has signed bilateral agreements with numerous countries.

Investors can tap the potential of SMEs in the agribusiness sector by bringing value-added farming, manufacturing and man-

agement expertise, as well as an awareness of international market demand. As an example, Mr. Matangira points to the fund’s first investment, West End Farms in Cameroon, which specializes in maize, soybeans, pork and poultry operations. “Our job with that farm is to increase yields, and we have the expertise to achieve that, mainly by changing the composition and acidity of the soil. Within an 18-month cycle, we expect to increase the yield from 2 tons per hectare to about 7.5 tons. So you don’t have to over-think what your returns are going to be from a market standpoint; your main job is to put in the capital to develop production.”

He says the investment thesis is in line with what he sees throughout much of Africa:

- supply/demand fundamentals (growing deficit in animal feed supply, growing demand for pork products);
- downside protection (crop off-take agreements with floor and ceiling prices);
- a committed sponsor team (sustained passion for farming and strong potential that could benefit from technical support);
- a strong upside via diversification (expanding downstream integration through pig operations); and
- improving food security (potential large-scale expansion through current leases held by the farm).

Mr. Matangira says the gap in management expertise in Africa is “very real,” and that there’s also a general lack of orientation toward international markets. He gives the example of an investment the fund expects to close soon, with an organic fertilizer company in Southern Africa. Though a small operation, Mr. Matangira says it will grow when opened to international

markets, as it “offers a product with international dynamics that provides an integral solution to farming all around the world.”

On-the-ground knowledge of politics and demographics, as well as an understanding of which countries have the most investor-friendly policies and approaches to agriculture, are essential for investors, Mr. Matangira says.

“Investors need to understand the country in which they’re investing. Every country has its own approach on how to grow its food value chain sector. Some will actually give you a matching grant, doubling your investment overnight, or give you farmland for free under the condition that you make it productive. Some are trying to grow productivity internally and are setting up policies and legislation where imports are forbidden until internal production is bought up. And it’s important to check if a country has bilateral protection agreements, in order to de-risk your investment.”

Finally, he says the most important factor when investing in agribusiness SMEs is to “understand the local entrepreneur you partner with.”

Mr. Matangira is bullish about his fund’s investments and the opportunities in African agribusiness PE in general. “In a couple of years,” he says, “after people start seeing AAF SME fund’s returns, the industry will change dramatically. So far, no one has been able to clearly articulate, with empirical evidence, where the opportunity lies in African agriculture/food value chain; but that’s what we’re doing.”

Expert Biographies

Africa

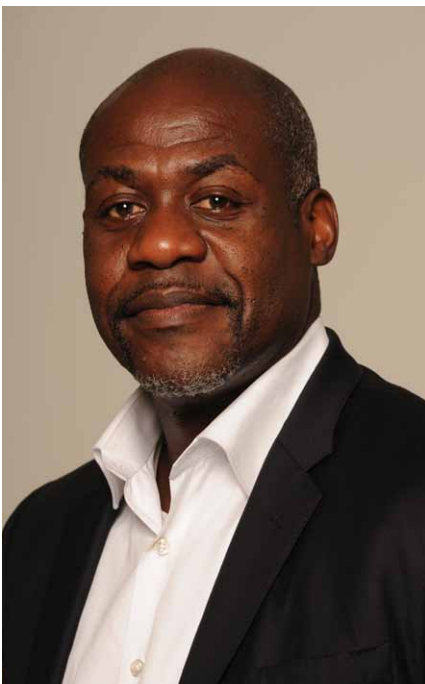


Michelle Essomé

Chief Executive Officer at the African Venture Capital Association. She has 20 years' worth of investment banking experience covering a wide range of marketing and origination roles in equities, fixed income and investment management with Merrill Lynch, Goldman Sachs, JPMorgan, Lehman Brothers and Nomura, including two years marketing private equity to investment consultants and U.K. LPs. Ms. Essomé has an MBA in finance from Columbia Business School, where she was a Robert F. Toigo fellow, and a BBA in finance from Howard University. She has worked in the U.S., U.K. and France, and is fluent in French.

The African Venture Capital Association is a member-supported association whose sole mission is to promote private equity and venture capital investment in Africa. Private equity and venture capital investment in Africa has the potential to have a profound catalytic impact on the development of African economies, companies and communities, and to provide strong commercial returns for investors. AVCA's members include private equity and venture capital firms, institutional investors, foundations and endowments, international development institutions, global professional service firms and academic institutions from around the globe who share a passion for Africa. AVCA promotes the highest ethical standards in governance, provides unparalleled networking opportunities for fundraising and delivers ground-breaking intelligence and thought leadership on the Africa private equity and venture capital industry.

www.avca-africa.org



Tutu Agyare

Managing Pand CIO of Nubuke Investments. He has been a board member of UBS Investment Bank for 3 years. He ran a 250-person multi-country equity business in emerging markets spanning Russia, South Africa, Dubai, Turkey, Israel, Eastern Europe, London and New York. He also ran the second largest brokerage house in South Africa and as a consequence has very strong relationships across Africa. He was responsible for successfully building, maintaining and managing senior government and business relationships across emerging markets with a special emphasis on Africa and as such has a very strong personal network of contacts across a spectrum of governments, corporations and senior business leaders in a broad range of countries. Mr. Agyare also set up and ran the mentoring program for UBS Europe and was Head of Diversity for 3 years for the bank. A successful business coach and mentor to a significant number of up and coming African businessmen across the continent, having been mentored and coached by Marshall Goldsmith, Mr. Agyare has been named by Fortune as one of the top 5 business coaches in the world.

Nubuke Investments LLP (“Nubuke”) is an investment management company founded in 2007 with offices in London. Their principals have over 70 years of experience in making investments and raising capital in African countries. Nubuke has an extensive network of contacts including government officials and management teams of local companies across the continent. Their network of contacts allows them better access to transactions occurring in the region and to accurate and timely information to help with an investment process. They are regarded as local players with lower transaction costs to access markets.

www.nubukeinvestments.com



Thomas Reilly

CEO of Sanlam Properties, a division of Sanlam Capital Markets Limited. He is also responsible for the Sanlam Group Treasury, and is a member of the Sanlam Capital Markets executive. Mr. Reilly joined Sanlam in 1999 to head the fixed income business of Gensec Bank. He has been instrumental in repositioning Sanlam Properties as a player in commercial property finance and building a real estate fund capability. One of his latest achievements is the establishment of the Sanlam Africa Real Estate Fund, which will be launched soon. The fund will be one of the first listed real estate income funds with an investment focus across Sub-Saharan Africa. Prior to joining Sanlam, Mr. Reilly headed the interest rate derivative business for ABSA Bank, and before that he ran the interest rate derivative business for First Derivatives, a joint venture between First National Bank and Firstcorp Merchant Bank. Mr. Reilly holds an Honors degree in economics from the University of South Africa.

Sanlam Properties (SP) has recently undergone a metamorphosis and is now positioned within the Capital Management cluster of businesses. A result of this has been a significant change in terms of its focus, and a new mandate for the business has been approved. The business is segregated into two core business units: Sanlam Properties: Real Estate Finance and Sanlam Africa Real Estate Fund. For more information visit: www.sanlam.co.za



Dennis Matangira

Senior Managing Partner at Databank Agrifund Manager Limited (DAFML), has gained a wealth of experience in the private equity industry in both Africa and the U.S. He worked for bulge bracket investment banks in the U.S. for over 15 years executing leveraged acquisition finance deals and proprietary distressed investments. In 2008, he transitioned to a fortune 100 defense and aerospace company where he headed the execution of middle market investment deals. He later founded Kalahari Capital Partners, which focused on executing SME deals in Africa, before ultimately transitioning to head Databank Agrifund Manager Limited.

The AAF SME Fund is a private equity fund established in 2010 to invest in food production and processing at the small to medium enterprise (SME) level throughout the African continent, particularly sub-Saharan Africa. The

regional breakdown of the Pan African investment landscape is Northern Africa (excluding Libya), West and Central Africa, East Africa and Southern Africa, collectively referred to as the Target Regions. The Fund, which first closed in February 2012 at US\$30 million, has a final target size of US\$80 million and is managed by Databank Agrifund Manager Limited. The Fund was established out of the AAF, a food and agriculture private equity investment fund. The AAF is managed by Phatisa Fund Managers and achieved a first close of US\$151 million, which was sponsored by the Agence Française de Développement (AFD), African Development Bank (AfDB), the Government of Spain, Alliance for a Green Revolution in Africa (AGRA), International Fund for Agricultural Development (IFAD), Banque Ouest Africaine de Développement (BOAD), ECOWAS Bank for Investment and Development (EBID) and the Development Bank of South Africa (DBSA).

www.dafml.com

Asia



Alice Chow

Senior Adviser and a member of the FLAG Asia Investment Committee. Ms. Chow originally joined the team in 2002 and rejoined the firm in 2006 after spending two years assisting the chairman of a Hong Kong public company in setting up his private investment office. Ms. Chow previously worked at QED Global Limited, a Hong Kong-based technology and media ventures company, and served as an engagement manager with McKinsey & Company in New York. She began her career in cardiovascular research with Genentech, Inc. Ms. Chow holds an MBA from Stanford University and a BA in Molecular Biology from the University of California at Berkeley, where she was Phi Beta Kappa.

FLAG Squadron Asia Limited is a premier Asia Pacific focused private equity investment firm that, on behalf of its clients, constructs and manages portfolios of private equity funds and co-investments across the region. The firm has one of the largest teams on the ground in Asia with extensive local knowledge, broad language

skills, a deep appreciation of the nuances of each market, and an established track record dating back to 2001, helping current and future investors to access difficult-to-reach sectors and geographies to maximize returns. FLAG Squadron Asia Limited is a subsidiary of FLAG Capital Management, LLC (“FLAG”), a leading independently owned private capital investment management firm founded in 1994 with over US\$6 billion in client commitments.

www.squadroncapital.com



Adam Steinberg

Originally from San Francisco, Adam Steinberg has lived in mainland China for over 9 years. He is the Director of HFA’s (Hedge Fund Association) China Chapter. Mr. Steinberg is a financial and corporate PR expert with over 7 years of experience in financial communications, crisis communications and reputation management. He has worked for the world’s leading PR agencies, including: Edelman, Ketchum and Hill + Knowlton Strategies. After earning his MBA from CKGSB in Beijing – China’s most “high-profile” business school, Mr. Steinberg and his team at Ketchum won the prestigious industry Gold SABRE Award for their PR work in support of JPMorgan Chase. Mr. Steinberg is fluent in written and spoken Mandarin Chinese. The Hedge Fund Association, HFA, is an international not for profit industry trade and nonpartisan lobbying organization devoted to advancing transparency, development and trust in alternative investments.

www.thehfa.org



Yiming Di

Born in China, worked with ABN AMRO and Commerzbank in Singapore and Hong Kong, set up his own hedge fund in Shanghai from 2008 to 2010 trading commodities across Asia and Europe, and currently is working with a consulting firm based in Shanghai, mainly conducting China focused investment research for global hedge funds and mutual funds. He has headed the Hedge Fund Association’s Shanghai Chapter since June 2012.

Schmitz & Partners (S&P) is a China-focused consultancy with a commitment to providing excellence and practical solutions. Part of the Sustainomics Group, S&P provides corporate finance advisory and business consultancy services assisting companies and financial investors with activities into and out of China. S&P’s team of seasoned high-calibre China business professionals have assisted many leading multinationals and financial institutions from around the world, as well as mid-sized and smaller companies. This work has included assistance in acquisitions and divestitures, strategic partnerships and organic growth through both strategy and execution. The company also helps clients significantly reduce operating costs via a proven structured global procurement process.

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Frank Khoo

Appointed Global Head of Asia for AXA REIM in 2008, he oversees all investment and asset management activities in the Asia Pacific region and is responsible for all Asian investment funds. Mr. Khoo has more than 15 years direct experience in real estate investment and management. Prior to joining AXA REIM he was with the Pacific Star Group, a boutique Pan Asian real estate investment house headquartered in Singapore, where he was instrumental in the launch of several funds. Mr. Khoo holds an MBA (accountancy) from Nanyang Technological University in Singapore, a bachelor of chemical engineering (honors) and a Bachelor of Science from the University of Queensland in Australia. He is also a qualified Certified Public Accountant in Singapore.

AXA Real Estate, a wholly owned subsidiary of AXA Investment Managers, is the largest real estate portfolio and asset manager in Europe, with over €45 billion of assets under management (as of December 2012). It has over 140 third party institutional clients across the world and managed funds for 10 AXA insurance companies. With over 500 professionals operating in 22 countries, AXA Real Estate's competitive advantage stems from its global fund management expertise combined with extensive on-the-ground deal sourcing, asset management and development capabilities. AXA Real Estate structures and actively manages or advises investment products, seeking wide-ranging opportunities to deliver targeted returns commensurate with clients' risk profiles through a variety of investment strategies. These range from core to opportunistic, country-specific to geographically-diversified, sector-specific to multi-sector, with the capacity to invest at all levels of the capital structure. Global growth remains a key priority and AXA Real Estate is currently expanding in both the U.S. and Asia.

www.axa-realestate.com



Tim Hornibrook

Executive Director at Macquarie Group. He has worked at Macquarie for more than 11 years and has been working in the development of Macquarie's Agricultural Funds Management business since 2004. Mr. Hornibrook has been involved in the development and management of all of MAFM's institutional funds. He maintains ongoing oversight as a Director of the operating companies owned by each fund. Mr. Hornibrook has an MBA from the Australian Graduate School of Management and a Bachelor of Arts (Honors) in psychology from Tulane University.

Macquarie Agricultural Funds Management (MAFM) is a dedicated manager of agricultural assets and has managed Macquarie Group's real asset agricultural fund initiatives since 2003. MAFM is responsible for both owning and operating agricultural assets on behalf of investors. Its management team has extensive farm management and investment management experience. MAFM currently operates approximately 3.6 million hectares of farmland in Australia and Brazil and has over US\$1 billion of agricultural assets under management or committed. MAFM man-

ages, or has formerly managed, investments across livestock, row crops, permanent crops, dairy and forestry. Having farm and investment management expertise in-house provides for a single point of accountability, while creating the right alignment between the people working on farms all the way through to the end-investors.

www.macquarie.com.au



William Kiernan

Director of Global AgInvesting Research & Insight at HighQuest Partners LLC and has over 20 years of experience in the investment management and agriculture industries in finance, public equities, private equity and real estate investing. He is currently Director of Research & Insight for HighQuest Partners where he is responsible for conducting and managing research in the agriculture and investment sectors, as well as providing advisory and research services to clients in these sectors. He can be reached at bkiernan@highquestpartners.com or 1-978-887-8800 ext. 119.

HighQuest Partners is a globally recognized consulting, events and media company serving the food, agriculture, agribusiness, feed and biofuels sectors. Its consulting business guides organizations in making informed strategy, M&A, capital investment and management decisions, while its online Global AgInvesting Research & Insight platform provides critical education and information to investors to make qualified investment decisions. The company also hosts world-renowned conferences that include the GlobalAgInvestingSM series, the Oilseed & Grain Trade Summit, and the Women in Agribusiness Summit. Soyatech, a HighQuest Partners subsidiary, is a leading source of information on soy and oilseed through its annual Soya & Oilseed Bluebook, business-to-business e-newsletter and website resources.

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Latin America



Eric Saucedo and Jack Smith

Eric Saucedo is a Partner at Tricap Partners & Co. He has extensive experience in both investment banking and private equity investments and has many years of experience in the due diligence and execution of numerous public and private transactions, including many private equity investments in the U.S., Europe and Latin America with UBS, Compass Capital (J.P. Morgan Partners), Apax Partners & Co. and J.P. Morgan & Co. Mr. Saucedo holds a BA in economics from the University of California at Berkeley and an MBA from The Georgetown University McDonough School of Business. He is a Director of Granite Intelligence, a due diligence and investigations firm, and a Director of The KidSmart Company, a supplemental learning company.



Jack A. Smith is a Partner at Tricap Partners & Co., actively serving in management and board capacities at various client companies. He previously served as Chairman of the Board and Chief Executive Officer of The Sports Authority, Inc., a company he founded in 1987. He previously served on the Board of Directors of Darden Restaurants (NYSE: DRI), also serving as chairman of the audit committee, and on the Board of Directors of Carrols (NASDAQ: TAST). He currently sits on the Board of Directors of Fiesta Restaurant Group, Inc. (NASDAQ: FRGI), Compex Technologies Inc. (NASDAQ: CMPX), a medical device manufacturer, and Pangea Brands, a licensee of professional sports products.

Tricap Partners & Co. is an independent merchant banking and alternative asset management firm, serving the investment needs of companies, institutions, family offices and individuals in complex financial strategies and investment decisions. Founded in 2004, Tricap Partners & Co. is a boutique investment and advisory firm that strives to provide solutions that create lasting value for its investors, its clients and society at large. The solutions it provides reflect the insights generated by its diverse, global business platform, which encompasses private equity and real estate funds, hedge fund solutions and independent advisory and restructuring practices.

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Victor Rodriguez

Founder and CEO of LatAm Alternatives. Mr. Rodriguez has over 17 years of experience in management, sales, marketing and business development within the securities industry in the U.S.-LatAm region. He was Partner and Head of Latin American Prime Brokerage for Merlin Securities (mid tier prime broker) and Director of Global Institutional Sales at Trade Station Securities (publicly held corporation: TRAD). Before that he worked as Director of Latin America for Terra Nova Trading (now LightSpeed Trading), and in the late 90s he was the founder, President & CEO of Pristine.com Latin America. He has been a live TV economics news anchor and currently serves as the founding Director of The Hedge Fund Association (HFA) – LatAm Chapter. He lives in New York, South Florida and Latin America.

LatAm Alternatives is a financial services company and an independent third party advisor boutique established in 2010. The firm's headquarters is located in Fort Lauderdale, South Florida, commonly known as the gateway to Latin America. LatAm Alternatives is a team of professionals with a focused expertise in the alternatives and traditional global asset management instruments. The company believes in long-term relationships while representing the most outstanding managers in targeted strategies.



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Darin Bifani

CEO and Founder of Puente Pacífico Investment Advisory Ltda. Prior to forming Puente Pacífico he was Managing Director, Regional Counsel of Cushman & Wakefield Capital Asia, a real estate investment banking and asset management platform based in Asia. Prior to this he worked in the corporate finance and real estate departments of several international law firms, including Sullivan & Cromwell, Paul Hastings and Baker & McKenzie. He was also seconded for substantial periods of time to GE Capital and Lehman Brothers. He is the author of the book *Managing BRIC Real Estate Investment Risk* and has published over 30 articles on business and legal topics. He graduated magna cum laude from the University of Buffalo Law School and summa cum laude from the State University of New York at Albany.

Puente Pacífico is a business advisory firm based in Santiago, Chile. The firm advises clients on sourcing, structuring and executing investments and other corporate transactions in Latin America. In addition to investment and transactional work, the firm conducts research and designs tools to help clients analyze, quantify and manage investment risk.

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Mark Cutting

Has extensive experience in Pan-European asset and fund management over the past 10 years. This includes business planning, strategy, acquisition disposal and all aspects of value enhancement. He has extensive experience in the investment space serving as a Director at Jones Lang LaSalle, Head of European Asset Management at the Kenmore Property Group and Principal of Ariel Investment Management.

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