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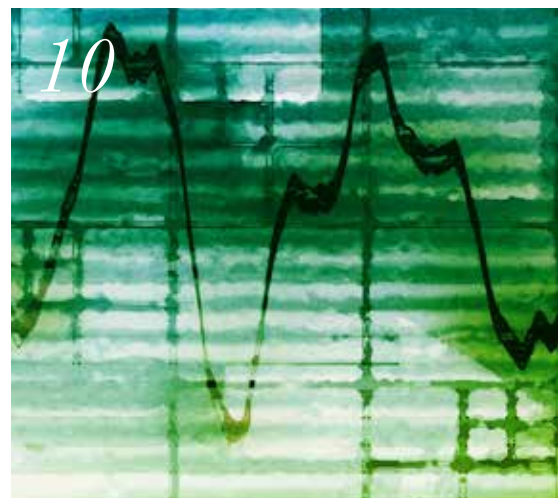
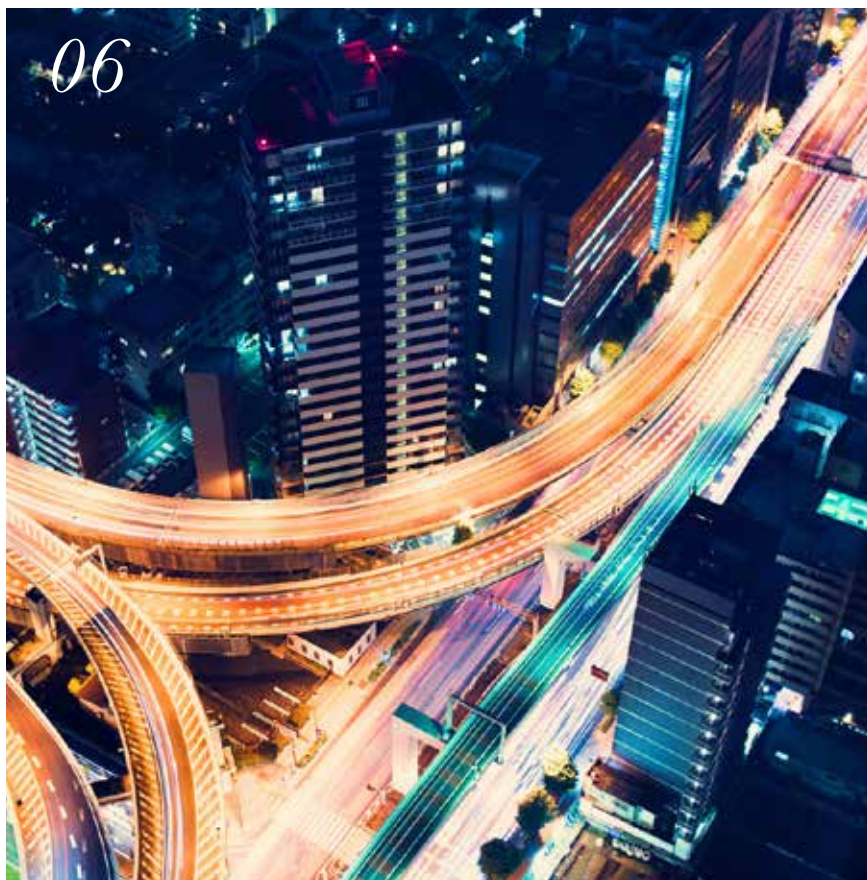
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CONTENTS

Issue 15 – January



REAL ESTATE

06 Institutional Real Estate Asia Pacific

COMMODITIES

12 Africa Commodities Slump: A Potential Gold Mine For Investors?

EMERGING MARKETS

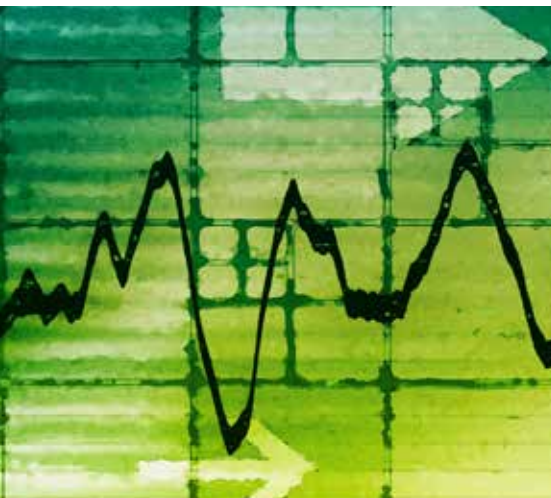
16 Economic Pressure Fails to Dim Sub-Saharan Africa's Long-term Promise

20 Economic Analysis: Assessing the 'Good, Bad & Ugly' in EM

28 Driving Middle Class Growth in Emerging Markets

36 Submerging or Emerging Economies?

42 When China Sneezes Who Catches the Cold?



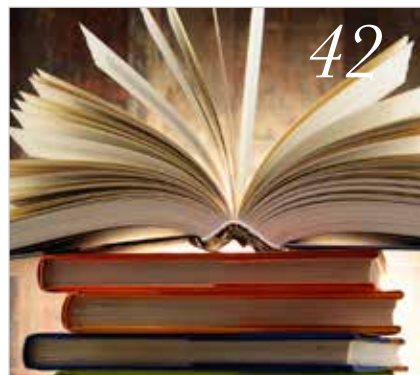
16



29



36



42

FOCUS

46 The Expansion of
Higher Education
Institutions Into
Emerging Markets

49 Choosing a
Manufacturing
Location in
Emerging Asia

52 Puerto Rico
Hindering Debt
Talks in Gambit for
Federal Aid

Institutional Real Estate Asia Pacific: The global hunt for yield

 **Lauren Parr (Real Assets Adviser)**

Five years into the global economy's recovery, interest rates remain low by historical standards. As such, investors' hunt for yield is intensifying. Fixed-income returns are low, and stock market returns are volatile, pushing investors into alternatives such as real estate.

As the recovery in the global economy and real estate markets transitions into a broader cyclical upswing — with activity supported by improving

underlying growth prospects, a favourable policy environment, lower energy prices and stronger US consumer spending — the weight of capital targeting property con-

tinues to increase, and transaction volumes continue to grow.

Institutional Real Estate, Inc.'s FundTracker database reflects five

years of steadily increasing amounts raised for real estate funds around the world, crowned by 2014's US\$91.7 billion — nearly twice the US\$46.8 billion raised in 2010. In addition, global property deal flow rose by 9 percent to US\$770 billion in 2014, according to Real Capital Analytics. And prime cap rates have declined to pre-crisis lows in several major markets. Yields in London, Hong Kong and San Francisco, for example, are now lower than they were prior to the global financial crisis.

“It's becoming increasingly difficult, with interest rates as low as they are and investors having turned to property several years ago now, to replicate the fixed-income yields

they were used to achieving,” says Russell Chaplin, chief investment officer - property of global investor Aberdeen Asset Management. “Yields have moved lower for better-quality stock across the globe. There doesn't seem to be a top-down free lunch.”

Where to now?

The question is, with so much liquidity pushing down returns, where can investors find the yields they need to fulfil their requirements?

In terms of pricing, the United States and the United Kingdom are broadly ahead of the pack. Europe is some way behind, and Asia and

emerging markets are lagging further. While higher yields are on offer across Asia, it is not a like-for-like comparison because different risks are associated with investing in those markets.

Investors agree life is tougher at this point in the cycle than it was two years ago. But despite record-low cap rates, real estate remains a good place to be relative to other lower-yielding asset classes.

“We're into the second half of the real estate cycle, which means the low-hanging fruit is gone. You can still find opportunities, but you need to put in more work to uncover value,” says Kye Joon Lee, director — Asia with Clarion Partners.



Core or higher?

Investors face a dilemma: to invest in the core end of the market, where returns look low in a historical context, or push for higher returns by taking on greater risk. An ongoing focus on stable income in gateway cities based on the prospect of rent increases, coupled with a move toward secondary assets, peripheral markets, alternative sectors and debt products as part of a broader search for yield over the past 18 months, provides evidence of both strategies.

“The way we try to do this is by looking bottom up at assets, which means we’re more concerned about the micro of an asset — where it is within a particular locale,” explains Chaplin. As a long-term value investor, Aberdeen leans toward lower-risk positions when the market looks stretched, while homing in on “less obvious assets” that can deliver a pricing advantage.

“We’re not necessarily looking for long leases but a durability aspect, which means an investment can be characterised by a series of very short leases as long as it provides us comfort that people will re-lease if a tenant left,” he says.

As risk appetite grows, investors increasingly are looking beyond traditional mainstream sectors to alternatives such as student housing, health care, hotels and leisure.

“We see a huge amount of opportunity in the residential, private rented sector in the UK, which is establishing itself as a future mainstream opportunity for institutional investors. The nation hasn’t built enough housing so, with an attractive supply/demand imbalance, the

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prospect for rents going up is compelling,” says Richard Gwilliam, head of M&G Real Estate’s property research.

With little cap rate compression on the horizon in developed markets, investors have an increasing

reliance on rental-rate growth prospects to drive returns.

Core/core-plus investor TH Real Estate is also focusing on maximising rental income. Says Mike Keogh, an associate director of research and strategy, “It isn’t so much a global hunt for yield today; it’s a hunt for rental growth. If you’ve got that, you get outperformance and are cushioned from a potential pricing adjustment as borrowing rates start to normalize.”

Investing in faster-growing, late-recovery markets that offer potential for accelerated rental growth is one of the three best risk-adjusted opportunities today, as identified by a Pramerica Real Estate Investors research paper, *The Search for Yield*. PREI, which operates as Prudential Real Estate Investors in the Americas, Japan and South Korea, recommends investors target office and retail assets in government centres and housing-bust markets such as Madrid, Miami and Phoenix, where low supply growth has created potential for rents in CBD areas to grow quickly from a low starting point.

PREI also advocates value-add investing in core markets as a means of earning excess returns via income growth. Little pipeline stock and an ongoing lack of capital expenditure across Northern European cities and established markets in developed Asia Pacific, including Hong Kong, Japan and Singapore, imply a significant opportunity to refurbish and reposition city center

office assets, explains the report. Strong leasing conditions in US office markets mean value can be found in taking on vacant space in the country's gateway cities.

Developing story

"Some of the best-yielding opportunities now, if an investor is willing to go up the risk curve further, [are] on the development side, which can provide an extra 200 basis points of yield on mature assets," notes Presima's Vincent Felteau, a portfolio manager for the Asia Pacific region. He sees value in master-planned developments, which often combine an office complex with ground-level retail, anchored by good transport connectivity.

"Because these projects are planned by a group of experienced developers, usually taking a longer-term investment perspective, we find they provide a very attractive yield over time versus buying one-off assets, which in this environment are getting very expensive," explains Felteau.

The development model is attracting growing investor interest across established global markets.

Build-to-core "is a good area to be looking," in Gwilliam's book. "It's a cheaper way to do it than buying off the shelf, and you're creating a core product at the end of it, with the caveat that this only works in stronger locales with solid funda-

mentals, where demand is coming back and where there is not much in the way of supply of new prime space."

US-based National Real Estate Advisors' managing director Kevin Verdi questions, however, whether "it may be time to shift away from more equity-oriented, build-to-core investing toward types of debt: construction loans, mezzanine debt and preferred equity," given development yields for core projects have compressed.

"At this stage in the economic cycle, in which stronger supply-demand fundamentals and increased rents have been mostly offset by increased land prices and rising construction costs, a more secure position in the capital stack can result in a lower-risk and higher-return outcome when compared to an equity investment," argues Verdi.

Debt and distress

Many investors have turned to debt investing in their hunt for yield; private debt funds raised US\$23 billion globally in 2014, according to the FundTracker database.

An opening for alternative lenders has been generated by rising transaction volumes, a stronger growth outlook, and regulatory changes such as Basel III, which restricts bank financing at higher loan-to-value ratios. Yet even in this realm, available returns are diminishing as pricing is driven down by contin-

ued low interest rates and increased competition among debt providers.

"Debt investing was a better opportunity two or three years ago. Today, LTVs are gradually moving up, and opportunities are drawing in; the window of opportunity is slowly closing," acknowledges Gwilliam.

One sector where Rocatton Investment Advisors still feels positive on returns is European distressed real estate. "If you're an investor that doesn't require an immediate yield, buying distressed assets from a bank, bad bank or other motivated seller relatively cheaply, fixing and repackaging them before eventually selling off, can be one of the best investments you can make on a global basis," says founding partner David Morton.

Changing trends

Another area of capitalization for investors, notes PREI, relates to changing market patterns driven by structural trends, which provide an opportunity to tap into long-term growth potential. The Search for Yield highlights on-going Urbanization as a basis for converting older, low-value office, retail or light industrial space to residential use in major cities such as Frankfurt, London, San Francisco, Sydney and Tokyo. Growing discretionary income across developing Asia and Latin America provides another incen-

tive for development of modern residential and retail assets.

“One of the things we definitely see as an opportunity globally is tied into a very big-picture trend of shifting consumer sales from bricks-and-mortar retail to online sales, benefiting the logistics market in most of the world,” adds Mike McMenomy, CBRE Global Investors’ global head of investor services.

He lists emerging economies in Europe, such as Poland, where there is a burgeoning market for e-commerce, as well as the emerging market of China, where logistics infrastructure is beginning to develop, as among locations that reflect a strong investment thesis.

“Strategies that are buying into the prospect of stable and growing income, whether through rental growth or repositioning, from core to improving or developing assets, all make sense today,” says Robert Gilchrist, chief executive of European asset manager Rockspring Property Investment Managers.

Opportunities in aggregate are becoming scarcer as yields have come in over the past year or two. But, because of low inflation, the real rate of return is still fairly high, and property as an asset class remains a good value compared to fixed-income investments. “There are still attractive pockets of value out there; you just have to know where to look,” insists Gilchrist.

Global backdrop at a glance

Even with extreme cap rate compression in the United States, where the economy is in expansion mode

Set against a backdrop of ultra-low interest rates, Asian markets are very difficult at present.

and interest rates are likely to rise first, the outlook for real estate is strong, given high tenant demand yet muted new development. The market’s transparency, stability and liquidity will continue to attract investors from around the globe, particularly from Asia as domestic markets are too shallow for investors to remain focused there.

The UK economy looks particularly healthy, with GDP growth fore-

cast to be the strongest of the G7 nations for the second year running. With greater confidence among businesses and consumers, in an environment where little new stock has been delivered over the past seven to eight years, rental growth is picking up strongly and spreading out across the country.

Dramatic variation can be seen across continental Europe’s economies. France is still trying to get into recovery mode, for example, while Spain has made enormous strides but is nowhere near regaining what it lost during the global financial crisis. Yet it is difficult to ignore what is an important economic block, despite recent issues surrounding a potential exit from the euro zone by Greece. Europe is expected to continue to draw global capital in search of relative value.

Set against a backdrop of ultra-low interest rates, Asian markets are very difficult at present. Following stellar performances in core markets such as Tokyo, Australia, Singapore and select provinces in China, yields have come in in line with very strong rental growth. Gaining exposure is one of the biggest hurdles, and markets often are accessed via investing in listed companies or taking a partnership approach.

Standout performers include Sydney and Melbourne, where cap rates are still higher, rental projections are steady and institutional-quality investments are aplenty.

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Lauren Parr is a freelance writer based in London.

Real Assets Adviser is the first publication dedicated to providing actionable information on the real assets class and facilitating important business connections for registered investment advisers (RIAs), wealth managers, family offices and independent broker/dealers. Coverage includes real estate, infrastructure, energy, commodities/precious metals, agriculture and timberland.

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Robert Cowan, Utah Retirement Systems

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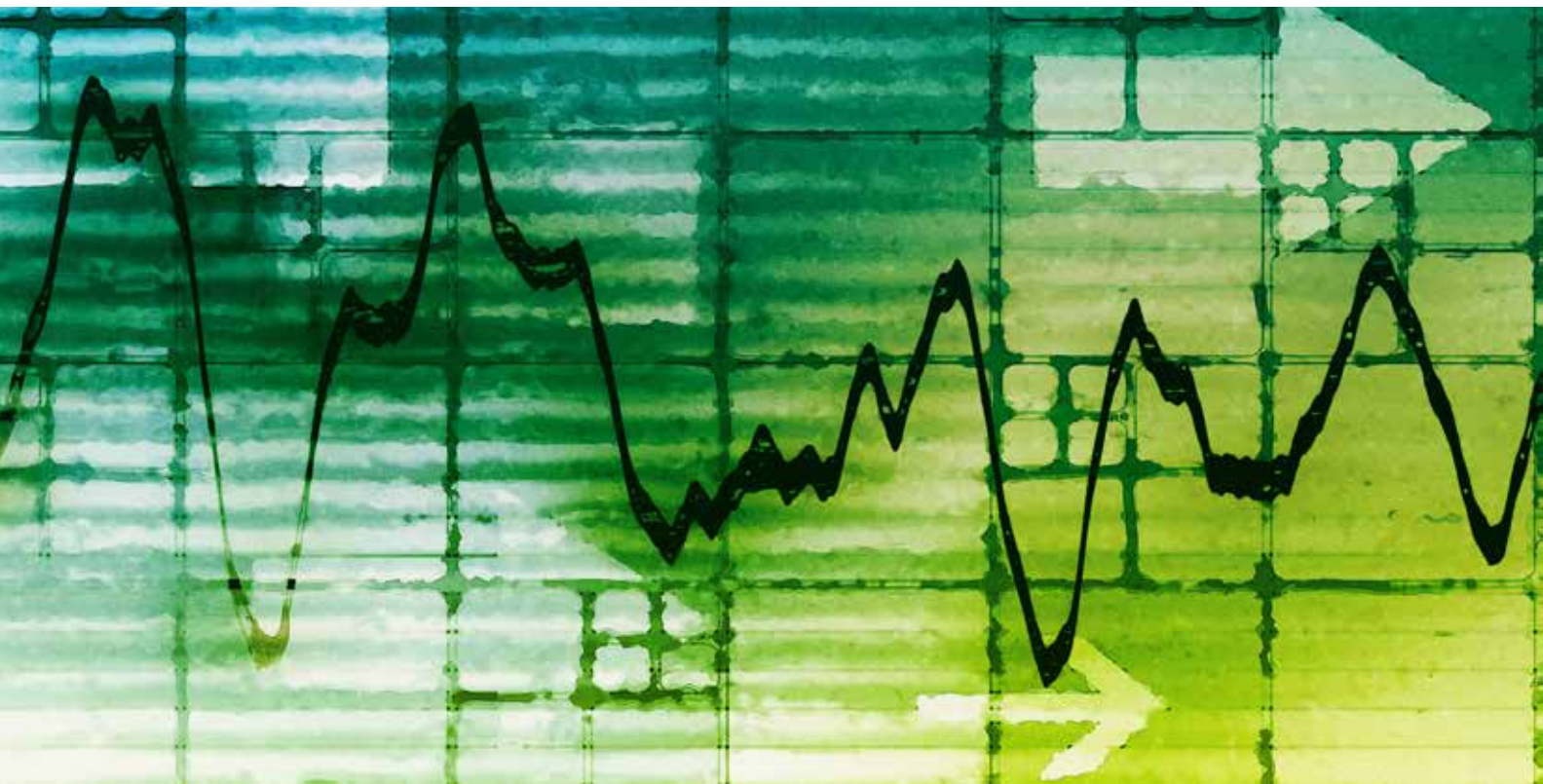
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Africa Commodities Slump: A Potential Gold Mine for Investors?



 **Konstantin Makarov (Real Assets Adviser)**

The recent downturn in Africa's commodities markets might seem to signal dark times for the continent's emerging

economies. The slump in global oil prices prompted Angola's government to end fuel subsidies; weak copper rates dramatically reduced

the value of Zambia's currency; and J.P. Morgan delisted the Nigerian naira from the Emerging Markets Bond Index.

But for long-term investors in Africa, these setbacks are blessings in disguise. They exposed the fault lines in sub-Saharan Africa's growth narrative, but they also emphasized salient new opportunities at both the public and private investment levels.

Depressed commodity prices forced regional policymakers to wake up to the need for diversified economies. In Angola, for instance, the government now recognizes the urgent need to reduce its dependency on oil. Instead of shying away from these seemingly troubled markets, investors should see abundant openings in young but lucrative development sectors.

As Angola and other African countries realize they can no longer invest solely in uncertain commodities, they will further open to other forms of economic stimulation. The following industries represent key areas for investment in the next several years:

Agriculture: Angola is particularly keen to restructure its agriculture industry, as it currently imports 90 percent of its food supply. Companies can help the country reclaim farmland damaged by decades of war and establish an affordable local production system. In turn, these companies will benefit considerably from investing in the resource-rich nation. An Israeli firm proved the viability of such an investment in Kenya, where it won a

high-priced deal to develop a farm under the Galana-Kulalu irrigation scheme. The farm produced its first harvest earlier this year, and the project demonstrated the opportunities for foreign businesses to help revitalize Africa's economies.

Industrial manufacturing: The Zambian government recently built a Multi-Facility Economic Zone aimed at boosting the country's manufacturing industry through in-

*As Angola and
other African
countries
realize they
can no longer
invest solely
in uncertain
commodities*

creased foreign partnerships. The move could mitigate losses due to Zambia's weak copper market and, if successful, will demonstrate how other nations in the region can transition to more stable, long-term economic strategies. Investors need to get in on the ground floor of these opportunities. Growing manufac-

turing sectors often indicate opportunities to break into new markets and secure favorable deals on pricing and exchanges.

Fintech: Mobile phone use is on the rise across Africa, creating interesting possibilities for banks, investment firms and other mobile money solutions. In Kenya, the government recently launched the M-Akiba, a state-backed bond only available on mobile platforms. The program aims to encourage people to save and bolster the government treasury. Kenya boasts "the most developed mobile payment system in the world" in Safaricom's M-Pesa, a system that indicates the massive potential for fintech products in other parts of Africa as well.

Foreign investment projects: International corporations should move now on foreign-friendly markets like Tanzania and Ethiopia. Tanzania recently lifted its 60 percent foreign ownership cap to entice companies to hold IPOs on the Dar es Salaam stock exchange, the best-performing exchange in Africa. Ethiopia debuted its landmark light rail system in September 2015, thanks to significant funding from the Export-Import Bank of China. Chinese companies built the cars and the power supply. Eventually, they will also train local rail staff. Both milestones signify the growing appreciation of foreign investment's role in accelerating capital markets.

Sustainability ventures: Foreign companies that provide solutions to socio-economic problems find they can establish strong, long-term footholds in many African markets. Infrastructure, public health and water resource initiatives represent a small fraction of the areas in need of investment. M-KOPA proved

both its sustainability and profit using a combined platform of solar and ICT energy to provide electricity to low-income residences in Kenya, Tanzania and Uganda.

Investors must realize that developments are lying beneath the veil of crisis that should inspire confidence

in Africa's promise for the next decade. As Africa's many development projects and policy shifts suggest, the narrative is morphing from a tale of economic need to one of sustained and balanced growth.

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Konstantin Makarov is managing partner at StratLink Africa.

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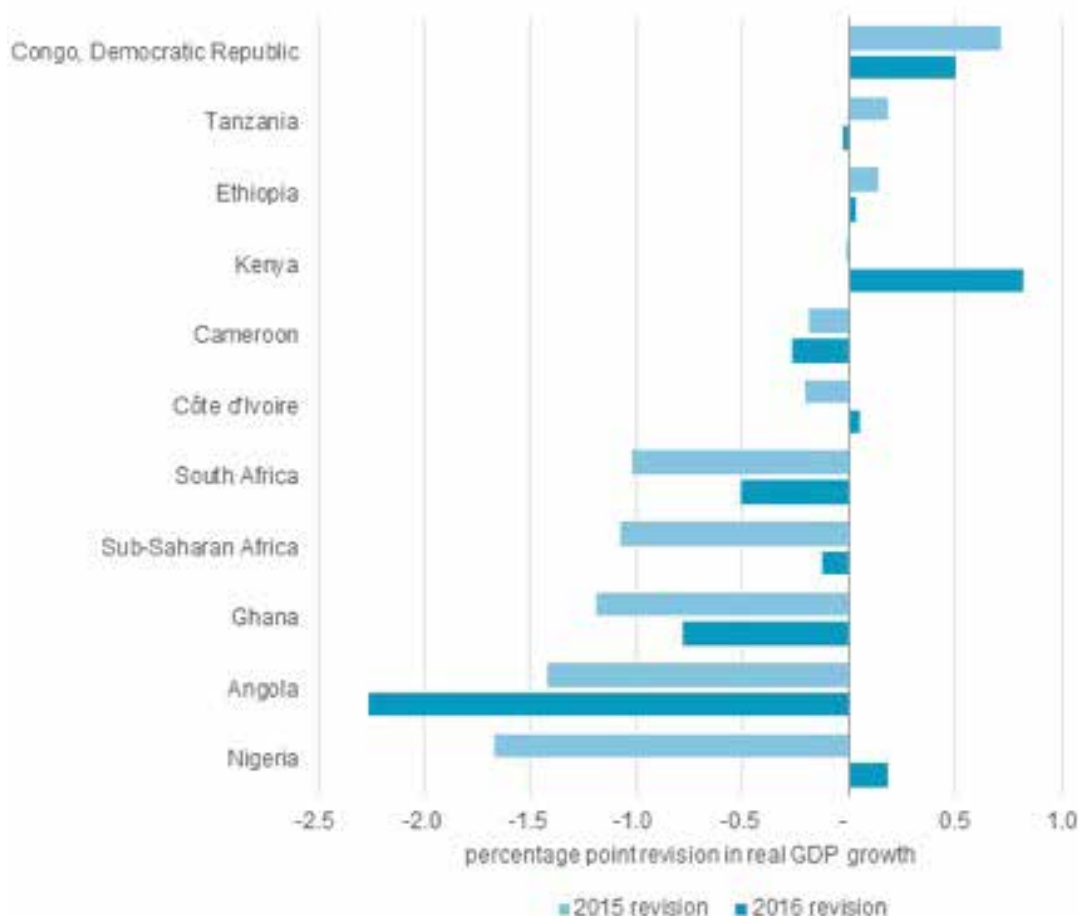
Economic Pressure Fails to Dim Sub-Saharan Africa's Long-term Promise

 Sarah Boumphrey



Earlier in the year I asked the question can Sub-Saharan Africa ride out commodity price losses? I argued that yes it can because the key to Africa's growth lies outside commodities. Its potential as a consumer market, its young, fast-urbanizing population and its burgeoning middle class should be why Sub-Saharan Africa is still top of mind for many multinationals and why falling commodity prices will not put an end to the "Africa Rising" narrative in the long-term.

Revisions to Real GDP Forecasts in the 10 Largest Sub-Saharan African Economies: 2015 and 2016



Source: Euromonitor International from national statistics/UN/IMF
 Note: Data refer to the revision in real GDP growth since March 2015

Downward pressure

There's no doubt that commodity price falls and China slowdown are impacting the region, and several major economies have seen large downward revisions to their GDP. Those reliant on commodities, such as Nigeria, Angola and Ghana, have seen the largest falls. As a whole we now expect Sub-Saharan Africa to grow at 4.2% in 2015, compared to

our forecast of 5.3% in March of this year. But it will remain the second-fastest growing region globally, behind Asia Pacific.

Conversely, the Democratic Republic of Congo, Tanzania and Ethiopia have all had their growth prospects revised upwards. In the Democratic Republic of Congo's case this is despite its reliance on commodities. All three are experiencing strong growth in consumer expenditure.

The size of the domestic market plays a key role

The importance of commodity exports varies substantially across economies. Private consumption accounts for more than 80% of GDP in both the Central African Republic and Kenya; and in both economies exports account for less

than 10% of GDP. This is partly why both will be amongst the region's fastest-growing economies in 2015.

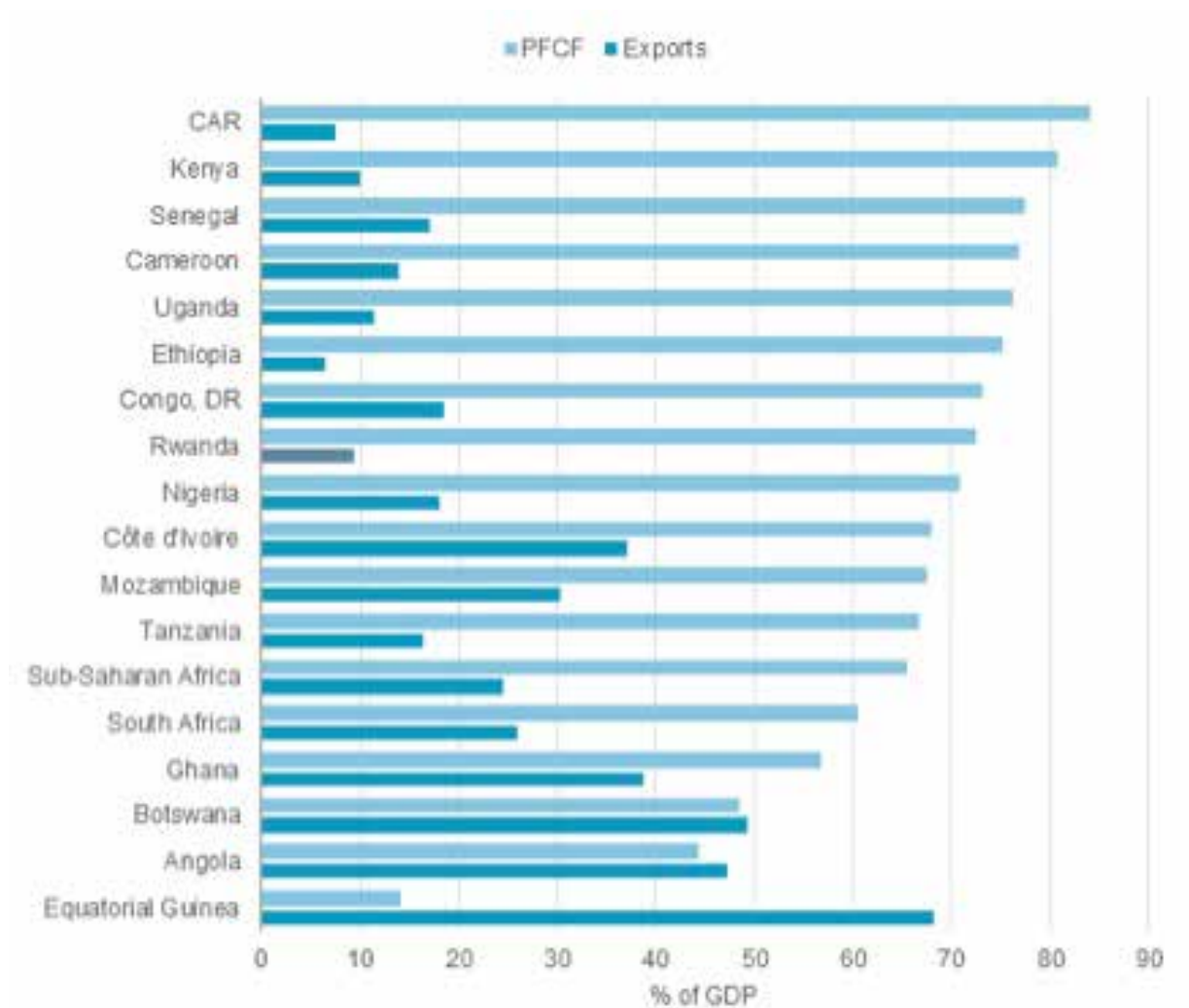
The strength of private consumption is driven by gains in household income. For example, in Cameroon and Kenya the number of households with a disposable income over

US\$10,000 in 2014 constant prices has increased by 48% since 2009. In Kenya this growth is set to accelerate sharply to 2019 – with growth of 65% over this period. The bottom of the pyramid should not be overlooked though as in both countries the majority of households earn less than US\$5,000, and this will remain the case in 2019.

Dynamic consumer markets key for growth

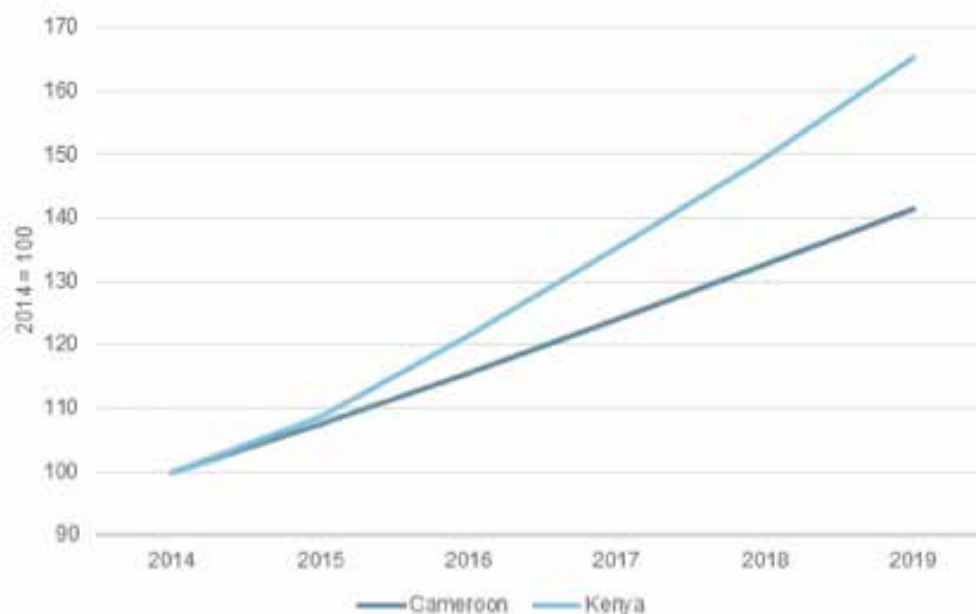
The upshot is yes Sub-Saharan Africa is being affected by commodity

Importance of Exports and Private Consumption in Selected Sub-Saharan African Economies: 2014



Source: Euromonitor International from national statistics/UN/IMF

Growth in the Number of Households with a Disposable Income over US\$10,000: 2014-2019



Source: Euromonitor International from national statistics

prices and the China slowdown, but in the long term the region's potential remains strong, particularly for those economies with dynamic consumer

markets. This is not to say that risks should be downplayed – political instability, poor business environments and inadequate infrastructure

overshadow some countries in the region, but the future can be bright for those with a diversified economy and growing consumer base.



About the Author



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ECONOMIC ANALYSIS

ASSESSING THE 'GOOD, BAD AND UGLY' IN EM

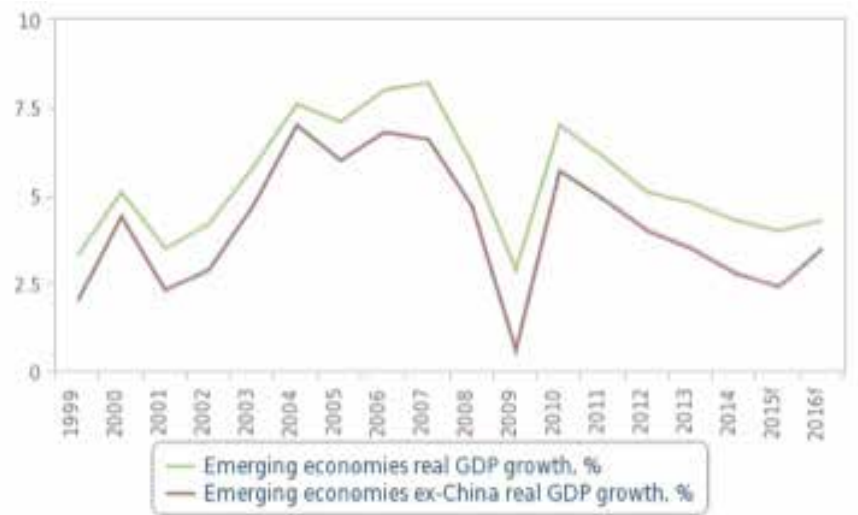


This year's 4.0% real GDP growth figure for emerging markets (EMs) will mark the worst outturn since 2009 and the second-worst since the turn of the millennium. On aggregate, things are set to improve by 2016, as we see EM growth as a whole rebounding by 0.4pp versus 2015, to 4.4% from 4.0%. However, this will be well below the previous five-year average of 5.5% growth. And there will be significant divergences within EM, with the main 'bounces' in growth coming in countries that had already contracted significantly in 2015 (e.g. Brazil and Russia), and with slower growth expected in many of the world's largest economies, including both China and India.

With emerging markets as a whole growing well below potential, it is not hard to identify several EM economies that are performing poorly. But likewise, there are a

Trough...For Some

Emerging Markets - Real GDP Growth (%)



f=BMI Forecast. Weighted by USD Nominal GDP. Source: BMI

handful of countries that should perform strongly, particularly those that are less linked to the Chinese economy and global commodity complex, and/or which have better economic reform prospects.

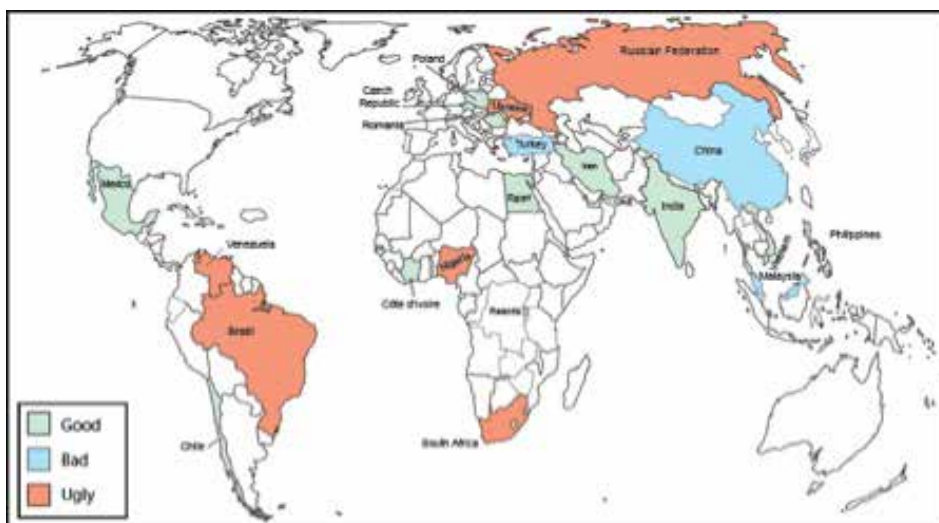
In this article, we look at countries that we assess as ‘good,’ ‘bad’ and

‘ugly,’ beginning with the latter two categories. Our groupings of ‘bad’ versus ‘ugly’ countries are really a matter of degree. ‘Bad’ countries will see significantly slower growth on average in 2015-16 than that posted in 2013-14, while ‘ugly’ countries will not only see below-potential growth this year and next, but they face significant real contractions and economic crises

with few prospects of relief in the near future. And there is every reason to believe that some of the 'bad' stories could become 'ugly' in a matter of months. But there are some brighter stories as well in various corners of the globe, including in central Europe, large emerging markets such as Mexico, and in more frontier markets like the Philippines, Cote d'Ivoire and Egypt.

'Good, Bad And Ugly' Of Emerging Markets

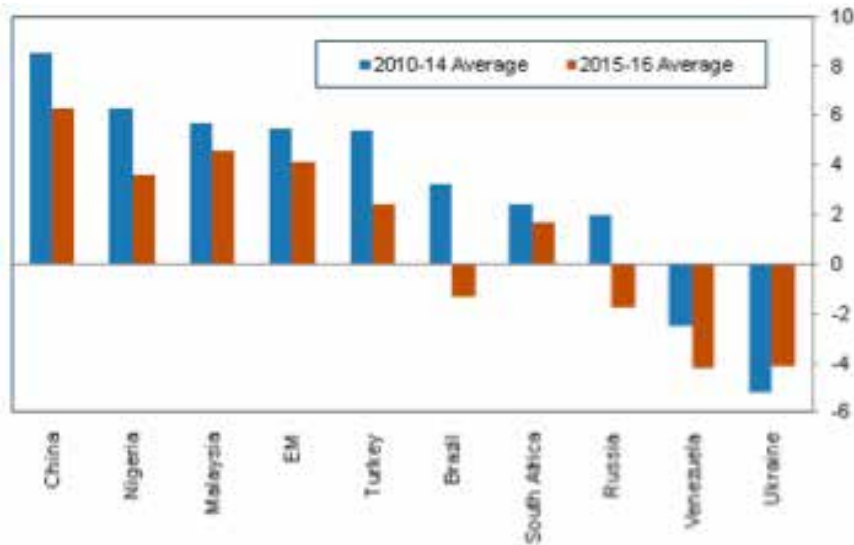
Emerging Markets - Countries As Assessed By BMI



Source: BMI

Bad...And Ugly

Real GDP Growth Averages (%)



The Bad

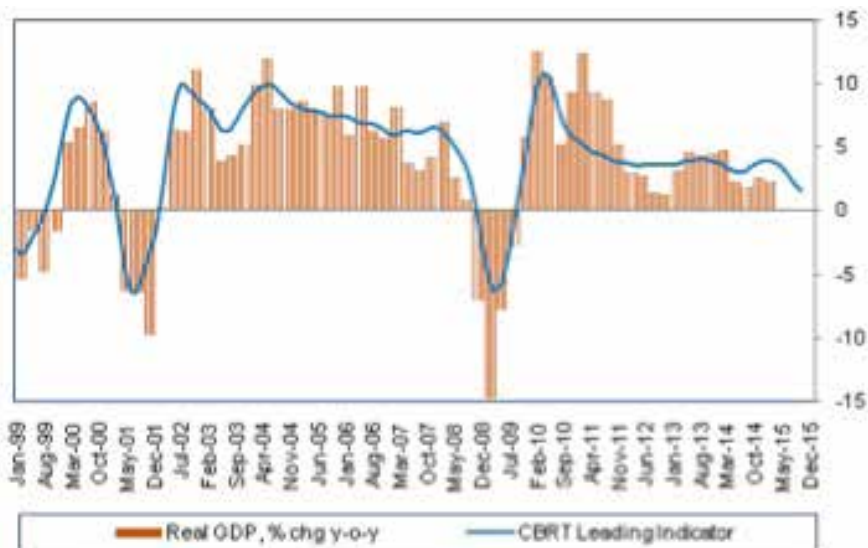
China is the most impactful globally of the ‘bad’ economic stories. ‘Bad’ of course is relative especially in the case of China, with growth likely to be maintained above 5.0%, but the miracle growth story is long

over and the near-term prospects are poor. High-frequency data suggest a deepening slowdown in the Chinese economy, with the Caixin/Markit Flash purchasing managers’ index (PMI) printing at a six-and-a-half-year low of 47.1 on August 21. The poor manufacturing per-

formance is little surprise given recent demand conditions for China’s exports, which fell by 8.3% year-on-year (y-o-y) in July and are now down by 0.5% cumulatively in 2015 versus the same period in 2014. The economy’s surprisingly strong Q215 real GDP growth print was largely a result of a surge in financial services activity amid the final leg-up in the country’s stock market bubble, and this will be a net drag in Q315, thus threatening the government’s full-year 7.0% real GDP growth target. We maintain our below-consensus growth forecasts for China, including a 5.9% real GDP expansion in 2016 (versus 6.7% per Bloomberg consensus).

Growth Momentum Slowing Sharply

Turkey - Real GDP, % chg y-o-y & Central Bank of Turkey Leading Indicator



Source: CBRT, Turkstat, Macrobond

Growth in Turkey has been surprisingly resilient so far this year. But the outlook is poor. With manufacturing PMI declining to 49.3 in August from 50.1 the previous month, political instability rising significantly, and lira depreciation increasing FX debt burdens, growth will suffer and we see limited scope for a recovery in the manufacturing sector over the coming quarters. Economic conditions could deteriorate to the point where Turkey becomes an ‘ugly’ economy in the next year or two. The security situation has deteriorated significantly in recent months with Turkey’s decision to play a larger role in the US-led coalition against the Islamic State in Syria and a breakdown in the peace process with Kurdish separatists. The combination of slow growth, high inflation, political uncertainty and sluggish exter-

nal rebalancing will be a precarious mix ensuring that capital flight and lira depreciation continue to weigh on growth potential. We are well-below consensus on economic activity, and forecast real GDP expansion of 2.2% and 2.7% in 2015 and 2016 respectively, both under Bloomberg consensus estimates of 2.9% and 3.4%.

While crisis fears are abating in Malaysia, economic weakness will persist as the effects of domestic and external headwinds continue to be felt through

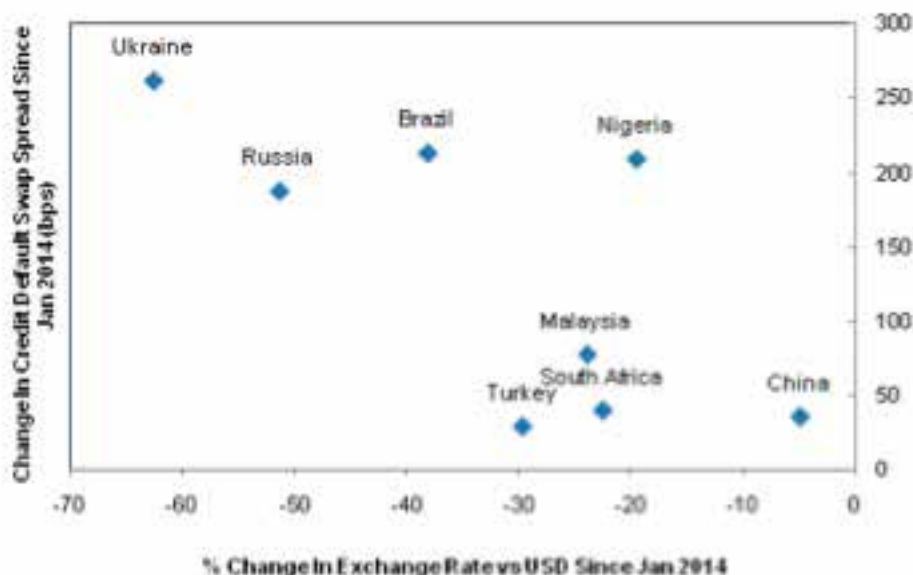
the real economy. While oil prices have rebounded slightly, the effects of lower oil prices (as compared to the June 2014 peak) will continue to have a negative effect on the Malaysian economy. The implementation of a 6.0% goods and services tax in April has also raised the cost of doing business, while the weakening currency has increased the cost of imports. All these factors will undermine growth, informing our forecast of real GDP growth in 2015 and 2016 to come in at 4.7% and 4.5%, respectively, down sharply from 6.0% in 2014.

The Ugly

Some countries have not just poor-and-weakening economic activity, but are simultaneously facing headwinds to economic reform, and

Hard Times For Some EMs

‘Bad and Ugly’ Countries - CDS And FX Moves Since January 2014



*Venezuela excluded from analysis due to inconsistent exchange rate data. Source: Bloomberg, BMI

in some cases, a currency collapse or other crisis. Our ‘SoBR’ (South Africa, Brazil and Russia) economies are on this list, as are countries reeling from the commodities collapse and deteriorating policy-making.

Extremely high inflation, rising constraints on government spending and a poor business environment will result in a deep recession in Venezuela in 2015. On nearly every front, significant headwinds will keep Venezuela’s economy on the back foot over the coming years. Private consumption will be hampered by the rapid erosion of purchasing power associated with the world’s highest inflation, while the collapse in the price of crude oil will constrain government expenditures. Government antagonism toward the private sector will signifi-

cantly hinder private investment, particularly in the non-oil sector. We forecast Venezuela’s recession will deepen from the estimated real GDP contraction of 2.5% in 2014 to 5.6% in 2015. We expect the recession to stretch into a third year in 2016, although the lower base provided by 2015 will see a less pronounced contraction of 2.9%.

There are echoes of these circumstances in Nigeria — oil had previously made up as much as 90% of Nigeria’s total exports, and so the fall in prices has resulted in a sharp decline in the supply of US dollars, causing the naira to plummet. Inflation has been steadily increasing in Nigeria since November 2014 and will continue to rise into 2016 by our forecasts. Meanwhile, delays over key appointments by Nigeria’s President Muhammadu Buhari are

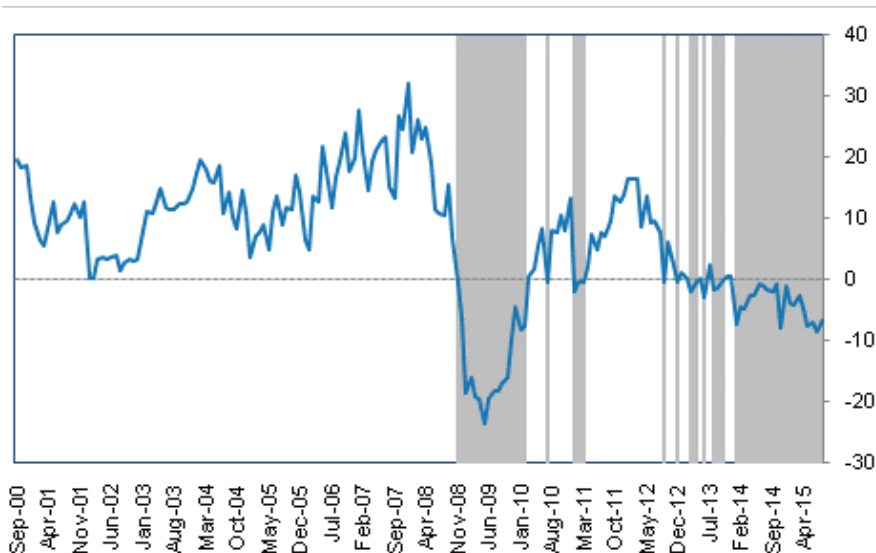
worrying investors and underscore the difficulty he will face in delivering on his reform agenda promised during the election earlier this year. JP Morgan's decision to exclude Nigeria from its GBI-EM bond index in early September is an indictment of the central bank's unorthodox policies and a major blow to Nigeria's market credibility. The country faces an inevitable currency devaluation by year-end on the order of 10%.

In South Africa, which has a sizeable manufacturing base (around 17% of GDP), ongoing load-shedding is impacting exports and employment through hitting factories' ability to operate. South African business confidence hit a 16-year low in August and real GDP contracted by 1.3% in Q215. President Jacob Zuma has estimated that the problems with state-supplier Eskom have shaved a percentage point off growth this year, and we forecast a lacklustre 1.4% real GDP expansion in 2015 and just 1.9% in 2016.

We have turned increasingly negative on an already very pessimistic outlook towards Brazil's short-term economic prospects in recent weeks, as a deteriorating household demand story, economic weakness in China, persistent headwinds to investment and increased political tension will prolong the country's economic recession. We forecast real GDP to contract by 2.2% in 2015 and 0.4% in 2016. Long-term prospects are not much better — the country's

Ugly Collapse

Russia - Investment In Productive Capacity, % chg y-o-y



Source: Federal State Statistics Service. Note: Months when investment contracted are shaded.

divisive political environment has limited the scope for fiscal consolidation and structural economic reforms and has already helped lead to Standard & Poor's downgrade of Brazil's long-term currency credit rating to junk status.

In Russia, we maintain our real GDP growth forecast of -4.0% y-o-y in 2015 which is below Bloomberg consensus of -3.7%. Amid Western sanctions and a collapse in oil prices, investment fell for the 20th consecutive month in August. Though the central bank has reduced rates five times already in 2015, despite rising inflation and currency weakness, they are still prohibitively high which continues to stifle investment from the supply side. Consumption is suffering from a collapse in real wages (-9.8% y-o-y in August). Staying in the re-

gion, neighboring Ukraine is in the midst of a deep economic contraction from which it will not emerge until 2016. Retail sales and fixed investment each contracted by 25% y-o-y in real terms in Q215. While such contraction will decelerate in H215, real GDP by expenditure is down by 14.7% y-o-y in Q215, continuing on its path of rapid decline. The devaluation of the hryvnia has driven up inflation and has not led to huge advantages for production and exports, as input costs have soared. The currency depreciation has reduced imports to an even bigger extent, partially mitigating the effect on GDP. Moreover, a significant amount of industrial production used to take place in eastern Ukraine, where the heaviest fighting between the government and separatists is ongoing. Overall investment and also government and

private consumption are not likely to recover anytime soon.

The Good

While EMs are certainly facing testing times, there are nevertheless a handful of economies which are poised for strong performance over the coming years. The factors underpinning this are varied, but positive reform momentum, political stability and robust fiscal dynamics are common themes. Below, we pick out our regional favourites.

In Asia, we expect the Philippines and Vietnam to outperform their peers over a multi-year time horizon. In the Philippines, prudent fiscal and monetary policy, along with a significant improvement in political stability, has facilitated acceleration in growth in recent years. These policy successes are unlocking the country's strong potential, which is powered by a large English-speaking population, positive demographic trends and low indebtedness. Vietnam also benefits from favourable demographics and political stability. In recent years, the Communist Party has been implementing increasingly business-friendly, market-based reforms. Given Vietnam's Labor cost advantages, the country boasts many of the same attractive qualities that China did approximately 10 years ago, and it is well-placed to be an alternative base for firms who are beginning to find China too expensive. Furthermore, cycli-

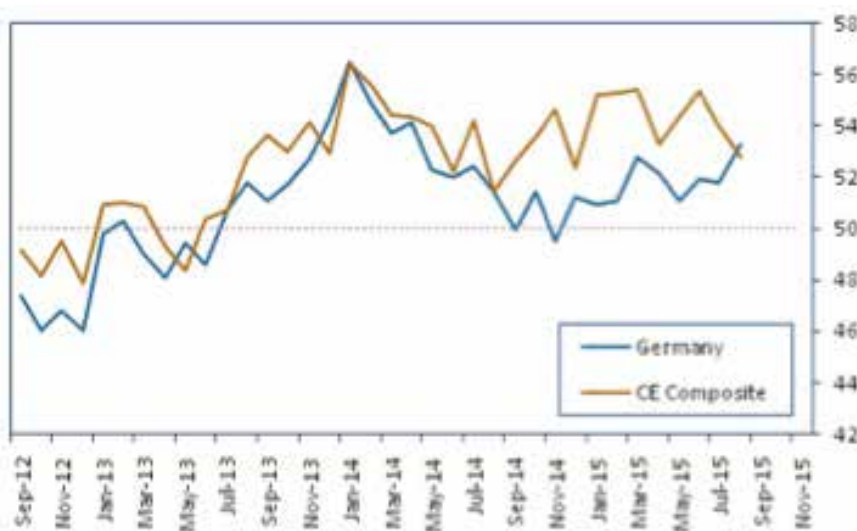
cal challenges are abating: the real estate bubble has largely been unwound and the financial sector is getting back on its feet.

India could arguably be classified as a 'bad' economic story, particularly compared with the lofty expectations coming into 2015. We expect weakening agricultural growth and slowing reform momentum to weigh on overall economic growth, and India's Q1FY2015/16 real GDP growth (quarter ending June 2015) came in at a disappointing rate of 7.0% y-o-y (versus the Bloomberg consensus of 7.4% and a level of 7.5% y-o-y in the previous quarter). In fact, we have downgraded our FY2015/16 (April-March) growth forecast to 7.3% from 7.6% previously. However, this would still be by far the strongest growth rate among major emerging markets, and the country remains unusually well-in-

sulated to the global slowdown, with 2015-16 average growth actually accelerating versus the 2010-14 period (7.3% versus 7.0%). While the pace of headline GDP growth in the coming year is unlikely to pick up as rapidly, the manufacturing sector is a bright spot. We expect the government's efforts to boost the manufacturing sector through the 'Make In India' campaign to continue gaining traction, and this is evident in various high frequency data, including a six-month high manufacturing PMI reading in July. Furthermore, India stands to benefit from the commodities collapse, given that oil represents around one-third of the import bill, and with the associated falling inflation, the central bank has room to cut rates in order to boost activity.

In emerging Europe, we favor Czech Republic, Poland and Romania. We

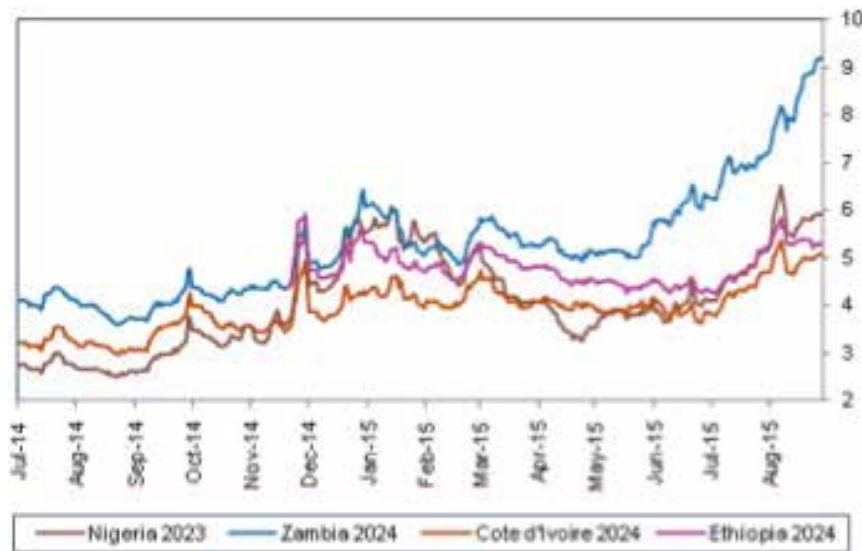
Strong German Demand To Benefit CEE Manufacturing PMIs



Source: Markit, BMI. NB. CEE Composite = PMI average of Poland, Czech Republic, Hungary.

Côte d'Ivoire Outperforming Regional Peers

Spread Of USD Eurobond Over Equivalent US Treasuries, pp



Source: Bloomberg

hold an upbeat view on the central Europe growth story, expecting out-performance versus the wider Europe region. Our view is predicated on the strong consumer outlook, with households likely to continue benefiting from improving labor market conditions, low inflation and very low borrowing costs. The manufacturing sector will also support growth, given that central Europe is highly exposed to improving German demand via exports and integration in the German supply chain. Regarding Czech Republic, Poland and Romania, these are our regional favourites because each economy has a relatively solid fiscal profile which gives the respective governments scope to support growth with modestly expansionary fiscal policy over the coming years.

Latin America's standout economies are Chile and Mexico. Chile's pros-

pects have brightened thanks to government efforts to improve the business environment, as well as a push to incentivize investment into high value-added manufacturing and diversify away from the mining sector. Strong institutions (by regional standards) are another key plus. Mexico's outlook is even brighter. The economy will benefit from strong ties to the US and recent structural political and economic reforms, which have presaged the liberalization of the energy sector. Although Mexico is currently navigating choppy waters, with consumption cooling and the extractive sector suffering from subdued oil prices, the multi-year outlook is strong.

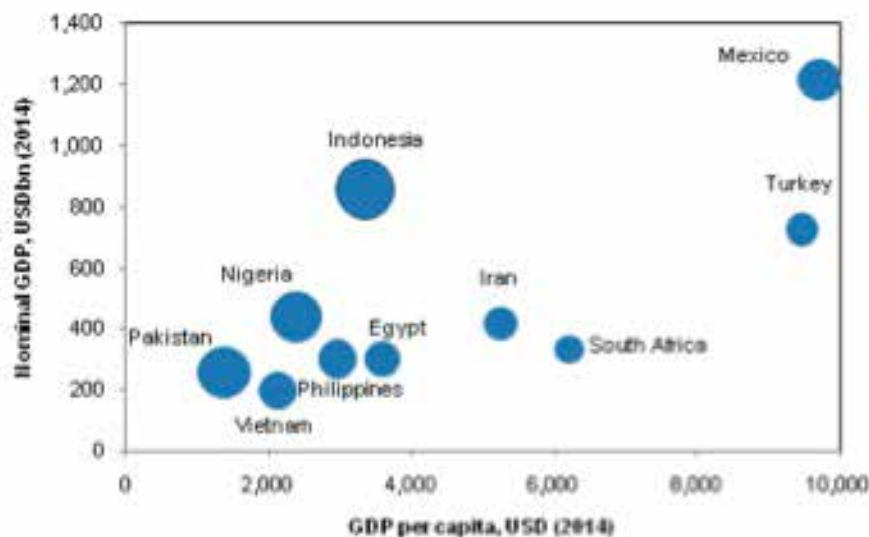
In Sub-Saharan Africa (SSA), Côte d'Ivoire and Rwanda are positioned for outperformance. Focusing first on Côte d'Ivoire, the economy

stands in good stead thanks to its relatively minimal exposure to China and commodity prices. The country's leading export is cocoa, for which we expect prices to remain elevated over the coming years. Growth will gain tailwinds from buoyant government spending following a USD1bn Eurobond issue in February 2015. Furthermore, private investment should surge once the October 2015 presidential elections have passed, assuming that the polls pass relatively peacefully and reformist President Alassane Ouattara wins another five years in power. Turning to Rwanda, on the macroeconomic front the outlook is positive thanks to prudent policy, heavy investment in infrastructure and crucially, flourishing services. Given the lack of diversification in most SSA economies, this sets Rwanda apart.

In the Middle East and North Africa region, our regional favourites are Egypt, Iran and the United Arab Emirates (UAE). Egypt's multi-year growth outlook is strong and sustainable. Political risks are subsiding, the tourism industry is recovering and investment is flooding in, most recently into the gas sector. Construction and banking are also poised for rapid growth. As regards Iran, there is huge pent-up demand as the economy emerges from three years of recession following the July 2015 nuclear deal. The consumer sector has massive potential for growth and the oil sector will ramp up output. Although bureaucracy and corruption are perti-

High Spending Power In Iran

Select Emerging Markets - GDP & Population



nent concerns, these drawbacks are outweighed by the opportunities. The UAE, meanwhile, is positioned to become the hub for trade with Iran. Things are looking strong domestically as well. The country has lower exposure to oil prices than other oil exporters in the region, and fiscal tightening has shored up the government balance sheet. The finance, tourism and shipping sectors are poised for particularly strong performance.

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About the Author

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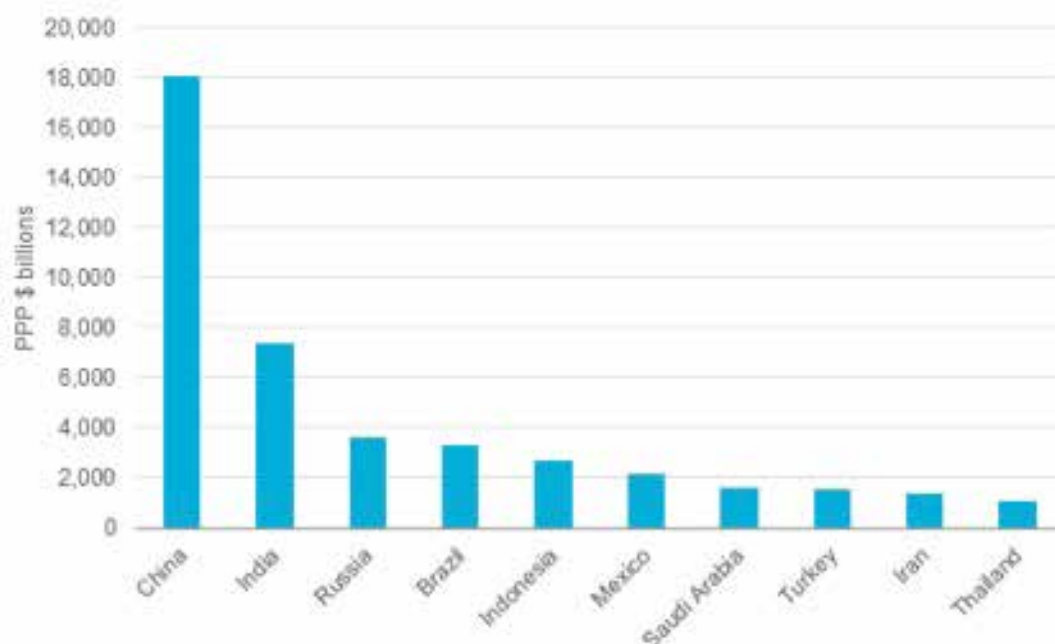
Driving Middle Class Growth in Emerging Markets

 **Sarah Boumphrey**

Some of the most crucial foundations of middle class-growth in emerging markets include economic growth, increased productivity, an attractive business environment, female labor participation, urbanization, increasing educational attainment and the establishment of a social safety net. Looking at the world's 10 largest emerging markets (measured in PPP terms) we see stark differences in these drivers of prosperity.



The World's 10 Largest Emerging Market Economies: 2014

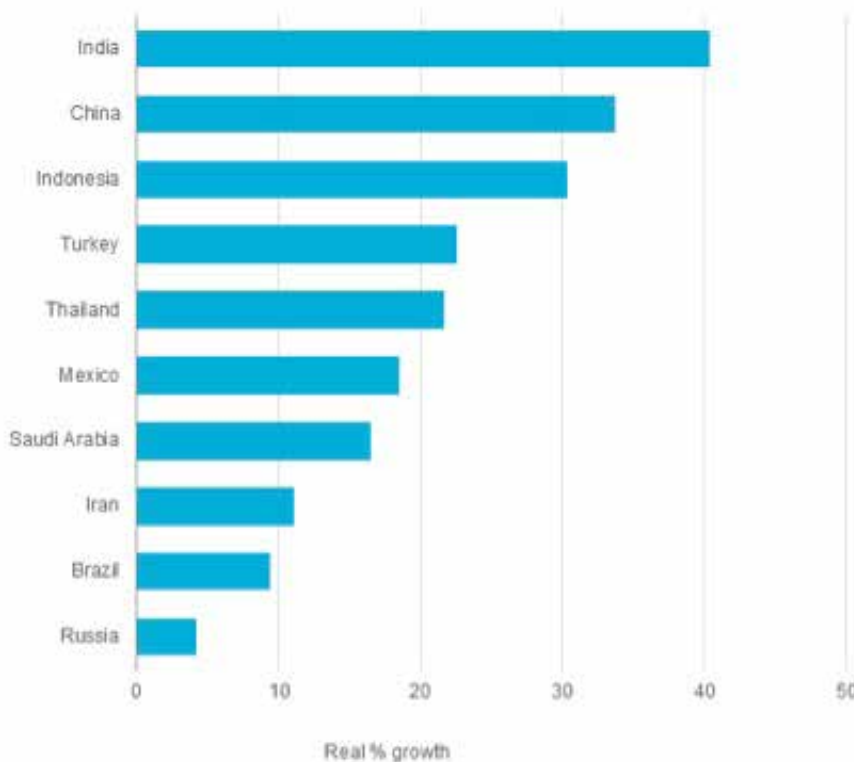


Source: Euromonitor International from national statistics/OECD /IMF

Economic growth: the good, the bad and the ugly

Strong and sustainable economic growth is a prerequisite for an expansion of the middle class. Looking ahead to 2020, we see stark differences. India, which we forecast to be the fastest-growing, is growing at a pace 10 times that of Russia, the slowest growing. Russia is mired in recession and is expected to see its economy shrink this year and next as a result of the low oil price, sanctions and structural challenges such as a dearth of investment and a lack of economic diversification. India on the other hand, as an oil importer, is benefit-

Real GDP Growth: 2015-2020



Source: Euromonitor International from national statistics/OECD /IMF
Note: Data are forecast

ting from the low oil price, and is expected to achieve rates of growth above 7.0% annually up until and including 2018.

Productivity: Asia rules

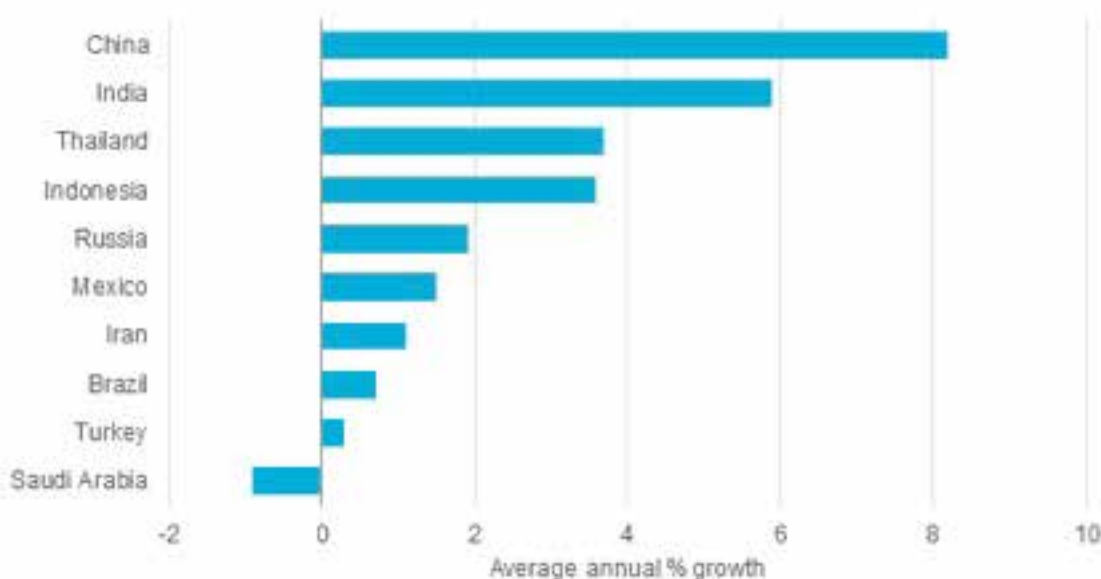
Productivity is a crucial factor in driving income and economic

Having said that China's productivity levels are not high at US\$13,421 per person employed in 2014, only the 6th highest amongst these 10 countries. This is unsurprising of a country which has hitherto relied on a cheap labor growth model. China should continue to see gains in productivity as a result of rising Labor costs and an increase in services as the government continues in its attempt to steer a course towards

Business Environment: On friendly terms

A good business environment encourages investment – both foreign and domestic – creating employment and boosting economic growth. It

Average Annual Growth in Productivity: 2009-2014



Source: Euromonitor International from International Labor Organisation (ILO)/Eurostat/national statistics

Note: CAGR of Labor productivity measured in real US\$ per person employed

growth. The four Asian emerging markets dominate in terms of the real growth in productivity. Despite India topping the ranking of overall economic growth, China is the top performer in productivity terms.

a consumption-led growth model. Conversely, Saudi Arabia saw its productivity levels fall between 2009 and 2014. It suffers huge inefficiencies in its labor market, in part due to its Saudiisation policy.

also supports the development of the formal economy and middle class consumers tend to work in the formal economy. In terms of corruption, Saudi Arabia ranks best, coming in 55th globally. Corruption in

Business Environment Rankings: 2014/2015

	Corruption Perceptions	Ease of Doing Business
Saudi Arabia	55	82
Turkey	64	55
Brazil	69	116
India	85	130
Thailand	85	49
China	100	84
Mexico	103	38
Indonesia	107	109
Russia	136	51
Iran	136	118

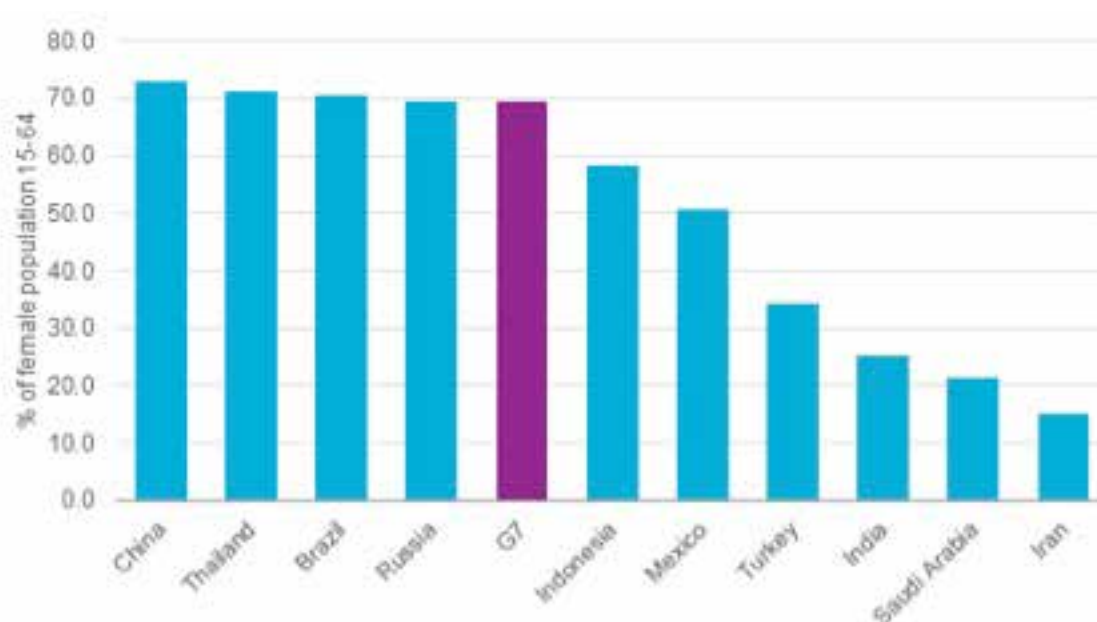
Source: Corruption Perceptions 2014: Euromonitor International from Transparency International.
Ease of Doing Business 2015: World Bank

Saudi Arabia has been decreasing thanks to the government's targeting of the issue. The National Authority for Combating Corruption was reconstituted in 2011, while Sau-

di Arabia ratified the United Nations Convention against Corruption (UNCAC) in 2013. The World Bank ranks Mexico an 38th globally, ahead of Belgium, Italy and Chile in

terms of the ease of doing business. It takes just 6 days to start a business in Mexico, compared to 29 days in India. The Mexican government is legislating for a raft of reforms

Female Labor Participation: 2014



Source: Euromonitor International from ILO/Eurostat/national statistic/UN

aimed at improving the business environment, encouraging investment and placing the economy on a sound footing for sustainable growth.

Working women

An increase in female Labor participation leads to more dual income households which are by their nature higher-earning. The number of women in the workforce varies massively between these 10 economies, with Iran and Saudi Arabia bringing up the rear, to China where 73% of working age women are in the Labor force – still a rate 14.3 percentage points

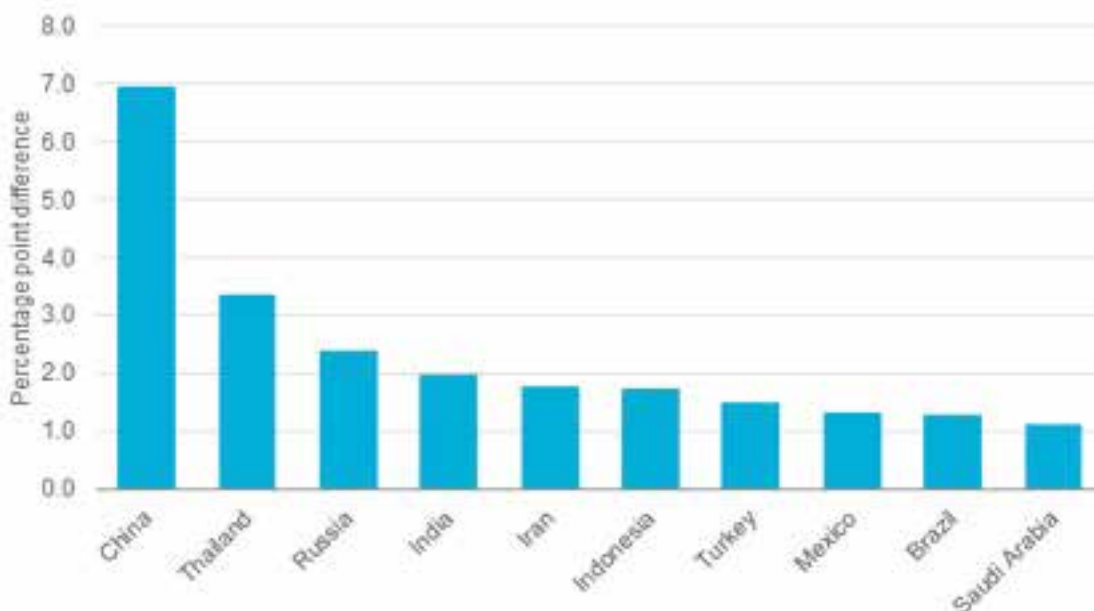
lower than that of men. Only four of the 10 have female rates higher than 70%, the G7 country average. Getting the most out of human capital is a basic way to drive economic growth; harnessing female employment is a first step in this.

Asia must continue to urbanize

Middle class households tend to be urban. Urbanization promotes the development of the middle class be-

cause cities tend to be the engines of economic growth, attracting higher-productivity businesses and creating a consumer class. All the largest emerging markets outside of Asia are predominantly urban – the Asian exceptions are Indonesia, India and Thailand, with Thailand bringing up the rear with an urban population of just 35.7% in 2014. Urbanization has transformed the Chinese economy, and between 2009 and 2014 the urban population increased at a rate seven times that of the population overall. It's important that growth is happening across cities though. Mexico is the most urban, but here one-in-five

Difference in Growth of Total Population and Urban Population: 2009-2014



Source: Euromonitor International from national statistics/UN

Note: Data refer to the percentage point difference between the period growth

of the urban population live in the Mexico City area and Mexico City is more than four times larger than the second city, Guadalajara. Whilst this kind of imbalance is not unusual, a strategy of promoting second tier cities can lessen inequality and boost economic growth.

Educating the masses

Educational attainment is another crucial metric for boosting human capital and with it productivity and economic growth. An educated population is a draw for foreign investment and high-paying jobs.

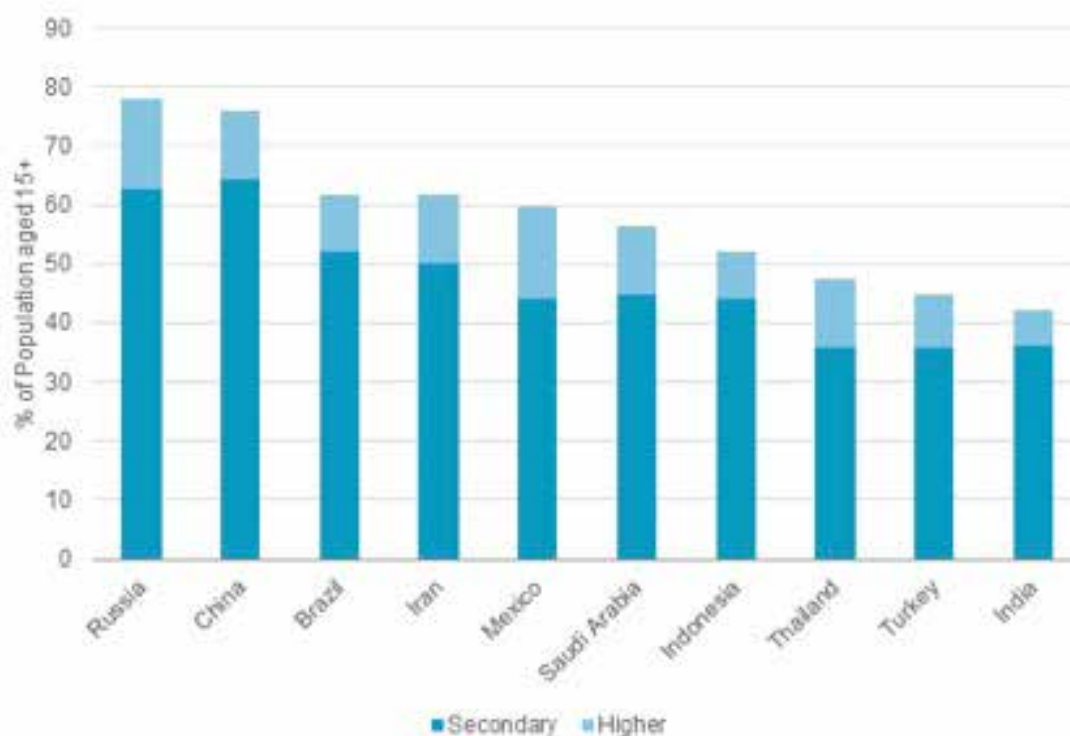
Looking at the population aged 15+ with at least a secondary education there is a large gulf between these 10 markets. Russia tops the ranking and India brings up the rear. In terms of higher education, Mexico has the largest percentage. In all but two countries, Turkey and India, there are more people with a secondary or higher education than there are people with a primary or no education. Mexico and Brazil have seen the strongest growth in the proportion of their populations with a secondary education since 2009. India meanwhile has seen no increase in its proportion with a secondary education. As well as boosting secondary enrolment attention must turn to boosting tertia-

ry education if these economies are to boost their competitiveness.

Social safety net

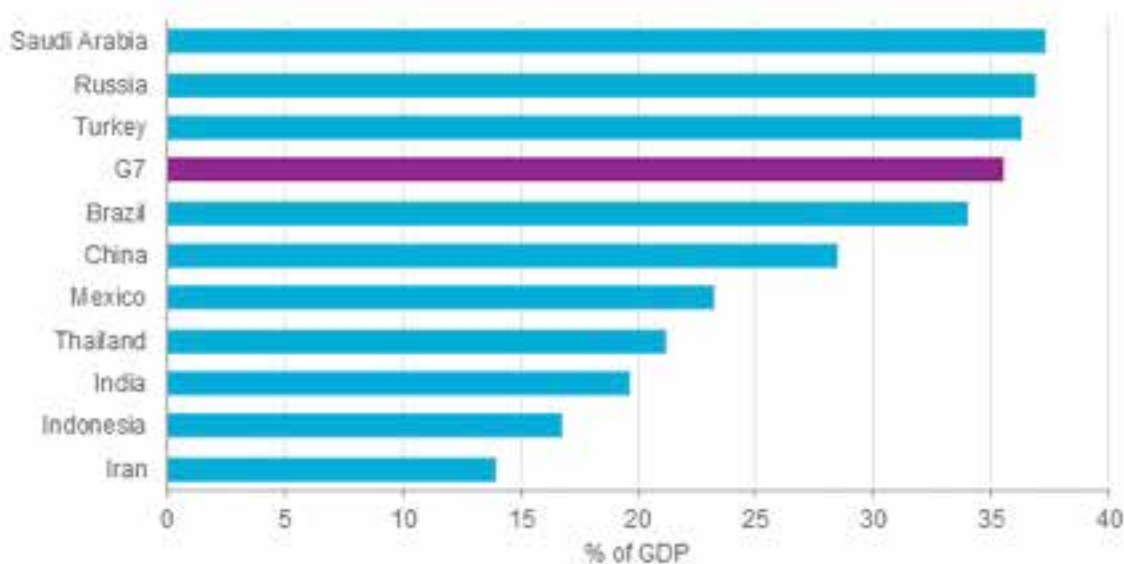
The development of a social safety net boosts middle class growth and specifically spending. A safety net allows for a more flexible workforce, reduces insecurity and prompts consumption. This is borne out in the Chinese situation whereby the average household saved a massive 40% of its disposable income in 2014 in part due to the lack of comprehensive health care and pensions – but also due to inequality and the aging population. To finance a social safety net, gov-

Population with Secondary or Higher Education: 2014



Source: Euromonitor International from national statistics/UN

Government Revenues as % of GDP: 2014



Source: Euromonitor International from national statistics/IMF

ernments must be able to collect sufficient revenues, and this is a challenge in many of the largest emerging markets. Government revenues are less than 25% of GDP in five of these economies: Mexico, Thailand, India, Indonesia and Iran. In Mexico and Thailand less than

20% of government spending is directed toward social security and welfare.

These seven factors are central to the development of the middle classes as well as generating economic growth more broadly. A strong middle class is

in turn a driver of economic growth, creating something of a virtuous circle. These are of course not the only factors that drive the development of the middle class, but they represent important underlying dynamics.



About the Author



Sarah Boumphrey is the Head of Strategic, Economic and Consumer Insight at Euromonitor International. Sarah specialises in issues around sustainability, emerging markets and the post-recessionary consumer landscape and the impact this has on businesses - follow her on Twitter @SarahBoumphrey.

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Submerging or Emerging Economies?

 **Sarah Boumphrey**



Emerging and Developing Economies' Contribution to Global Real GDP Growth: 1991-2030



Source: Euromonitor International from national statistics/OECD/Eurostat/IMF
 Note: Data from 2015 onwards are forecast. Data are fixed at 2014 prices.

Emerging markets may have been getting a bad press in recent time but the factors that have underpinned their growth are still real. No one can deny a slow-down is occurring, but the situation is more nuanced than that and commercial opportunities exist today and will continue to do so in the future.

The past: A predictor of the future?

Since 1980, emerging and developing economies have increased their GDP by over 300% in real terms.

Compare this to 150% in the USA and 77% in Germany. It's true that growth has slowed considerably since its China-driven peak of 2007, and between 2015 and 2030 the pace will undoubtedly slow further, but nevertheless emerging and developing economies will still contribute more than 65% of global economic growth between 2015 and 2030.

Differentiate, differentiate, differentiate

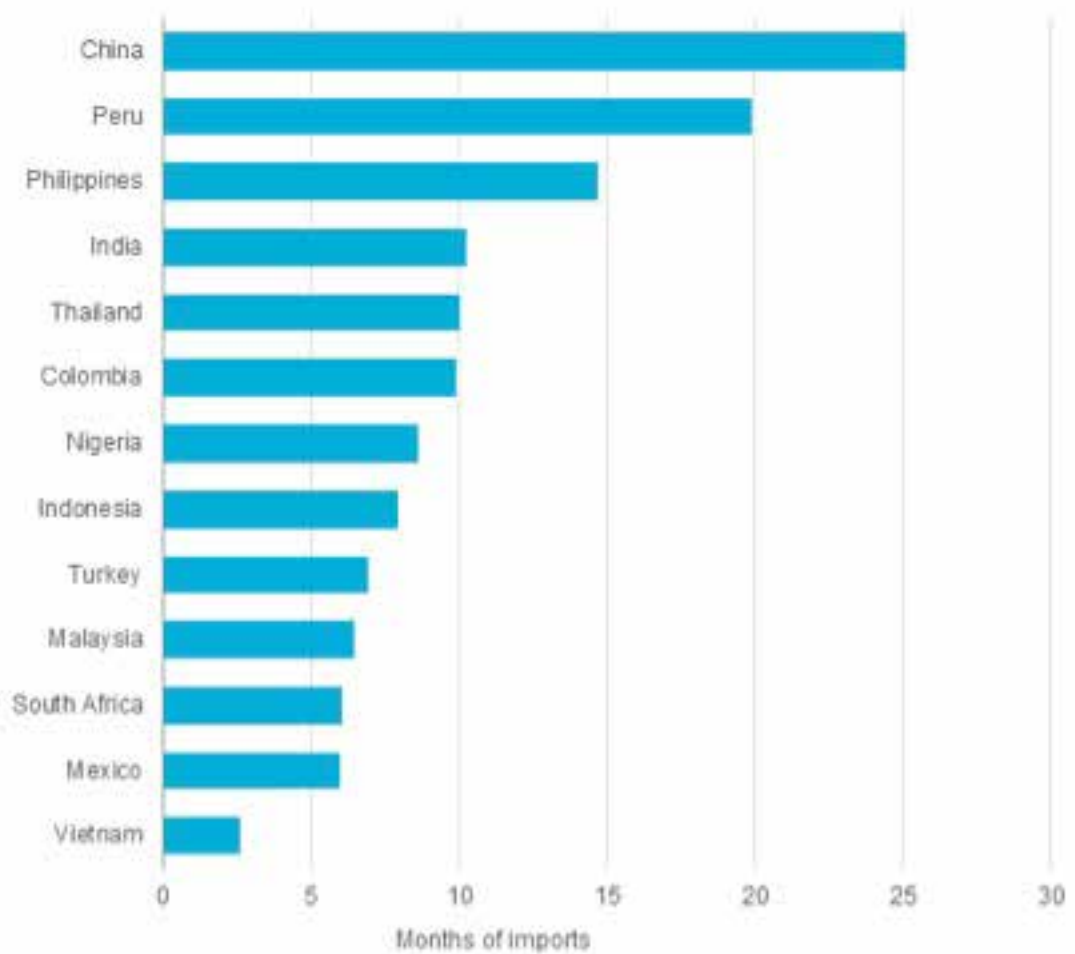
What's important in the coming years is to learn to differentiate.

Quite apart from debates over its value, the term "emerging markets" is not shorthand for doom and gloom or for that matter, boom. It is important to look below the surface in at least three different ways:

1. Heed economic fundamentals

The current cyclical downturn ignores some good performances. For instance, Bangladesh, where growth has exceeded 5% every year since 2003; the Philippines which has seen solid growth driven by private consumption and investment; and Cambodia which has averaged growth of 7.0% per annum since 2010.

Total International Reserves in Months of Imports in Selected Emerging Markets: 2015



Source: Euromonitor International from national statistics/OECD/IMF

Note: Data are forecast.

Countries with robust fundamentals or reform programs in place are in a stronger position than those without; as are those with less exposure to external shocks. Significant international reserves for example will insulate against capital flight and falling export income.

2. Take a cities approach

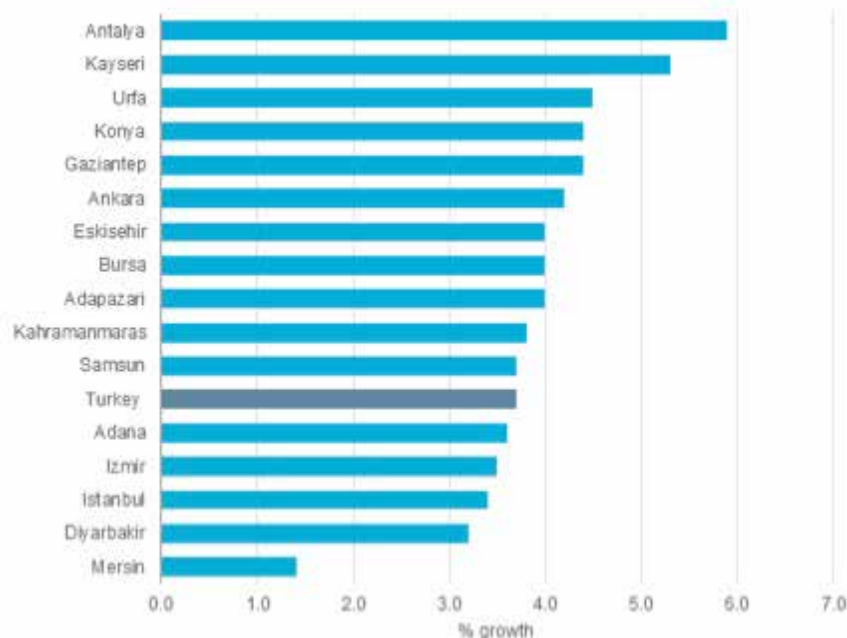
Country-level data misses vital trends too. At city level there are winners

and losers. For instance take Turkey. The Turkish economy has suffered from weak consumer spending, an over-reliance on short-term capital inflows and high unemployment. Its 16 largest cities accounted for two in every three dollars spent nationally in 2014 and cities such as Antalya, Kayseri and Urfa are seeing much stronger growth than the national average. Planning at the city level is vital in an era of uncertain growth.

3. Target specific consumer segments

As well as differentiating geographically, it's important to look beneath headline growth figures at specific consumer segments. Since economic growth peaked in China in 2010, sales of luxury goods may have slowed, but the market for more everyday categories is continuing to see strong growth.

Real Growth of Consumer Expenditure in Turkey and its Major Cities: 2015

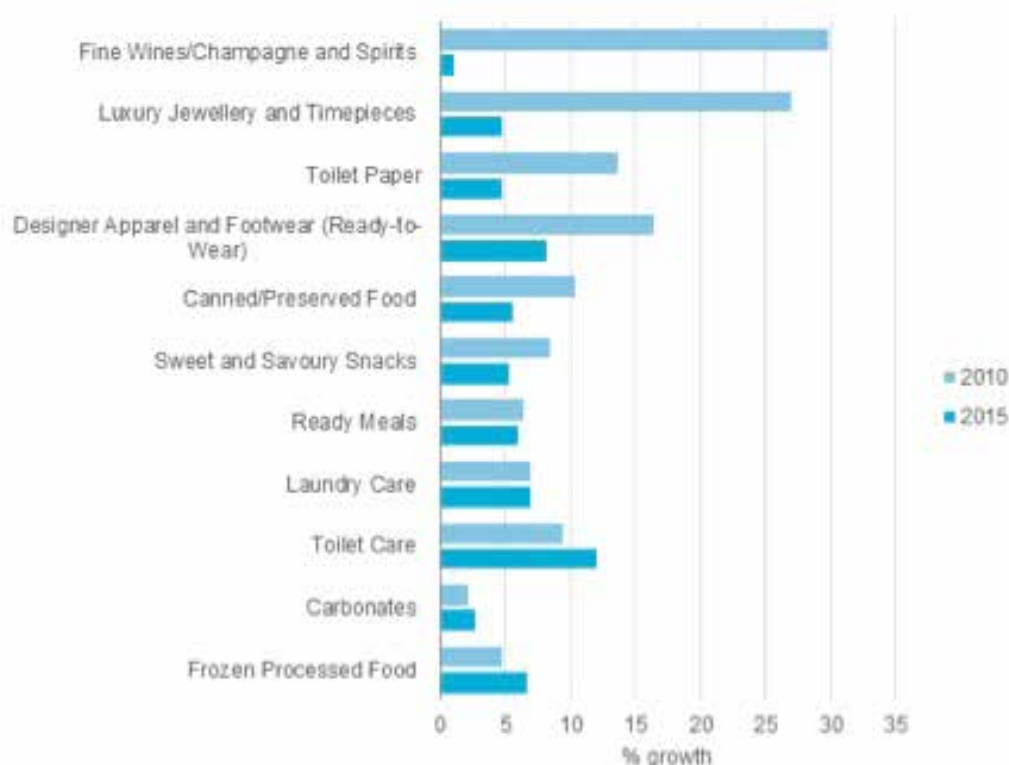


Source: Euromonitor International from national statistics/Eurostat/UN/OECD

Note: Data are forecast.

The middle class in many emerging markets is expected to continue to see strong growth. A middle class income is an indicator of sufficient spending power to consume non-essential goods and for many companies this segment is considered to be their mainstream target consumer. In the 53 markets for which we have data, the number of households with a disposable income over US\$10,000 (in 2014 prices) will increase by 176 million between 2014 and 2030, and the increase for those with an income over US\$25,000 will be 87 million. Meanwhile in Africa, despite strong economic growth and a growing middle class, the base of the pyramid remains a crucial segment. Although individual spending power

Real Value Growth of Selected Consumer Market Categories in China: 2010/2015



Source: Euromonitor International from trade sources/national statistics

Note: Carbonates refer to off-trade sales.

in this segment is (necessarily) limited, taken as a whole, it represents a valuable opportunity for local and multinational consumer goods companies.

Too big to fail

Emerging and developing economies are home to 85% of the world's

population and will account for 95% of global population growth to 2030. It would therefore be short-sighted to write these markets off. Even with real GDP growth averaging 5.1% per year between 2015 and 2030, China will add an additional US\$12,094 billion to its economy between now and 2030, twice as much as the USA. Emerging market strategies have always

been long-term, current debates over labeling and slowdown should not overlook this.



About the Author



Sarah Bounphrey is the Head of Strategic, Economic and Consumer Insight at Euromonitor International. Sarah specialises in issues around sustainability, emerging markets and the post-recessionary consumer landscape and the impact this has on businesses - follow her on Twitter @SarahBounphrey.

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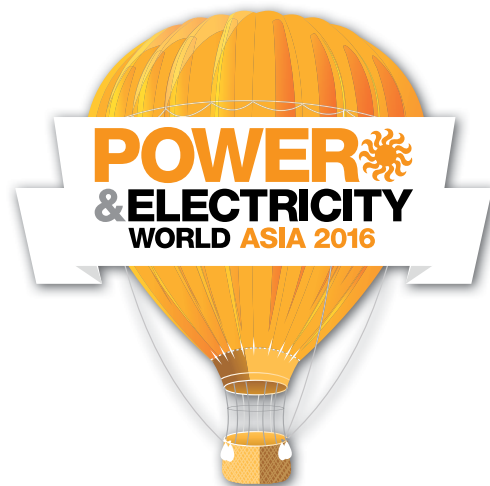
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When China sneezes who catches the cold?

 **Ricard Torné, Senior Economist - FocusEconomics**

Since the early 2000s, China has grown into one of the world's two main growth engines, along with the United States. This situation intensified during the global financial crisis and has remained unaltered in recent years. Therefore, any slowdown or economic turmoil in China has dramatic consequences worldwide. The recent lackluster situation in China's property sector and less robust infrastructure spending at regional levels due to financial con-

straints have reduced demand for commodities. This situation has exerted further downward pressure on prices and hit growth among commodity-export-driven nations. Developed countries are also feeling the pain of weaker growth in China mainly due to lower purchases of consumer goods, including luxury items. Nevertheless, it is worth highlighting that China is now in a soft patch, which means weaker growth but not declining economic activity (at least not for now).

The countries most affected by the slowdown in China will be those that have an open economy and are heavily exposed to the world's second-largest economy. Within this context, one of the most affected economies is China's neighbor Mongolia. The country had been one of the fastest-growing economies from 2010 until early this year, but in Q2 Mongolia expanded a meagre 2.2%. This was mainly the result of China's falling imports of minerals, which plummeted on av-

erage in Q2 and Q3 by nearly 30%. Although to a lesser extent, this situation is similar to what happened in Hong Kong, Korea, Malaysia and Taiwan, which all recorded multi-year falls in shipments to China partially due to lower demand from the world's second-largest economy. To illustrate the impact of the recent slowdown in China on the Asian economies, FocusEconomics panelists cut 2.0 percentage points from Taiwan's economic outlook and they now expect the island nation's economy to expand only 1.5% in 2015.

Another spillover of the slowdown in China and, more recently, this summer's turmoil in the equity market, is that the Chinese are spending

less overseas. The consequences of this decline are most evident in Hong Kong, where retail sales have deteriorated markedly in recent months. It's also fair to add that the nations that are feeling the brunt of China's weakening economic growth are precisely the ones that benefited the most during the boom years. Conversely, the countries that are weathering the storm from China better are those with a stronger domestic market and which are less reliant on exports. One example is India.

India is in a better position to withstand China's slowdown than many of its regional peers simply because it isn't an export powerhouse. India's economic growth is driven

by domestic demand, which is expected to remain resilient in the near future. Consumption, although performing below potential, will be supported by slowing inflation (which has almost halved from 2013 to 2015) and the low commodity price environment should benefit Indian firms and the country's current account deficit. Moreover, Indian businesses are not highly integrated with the Chinese economy; exports account for a relatively small portion of GDP and Indian exports to a diverse market with China accounting for around 5%. That being said, a significant slowdown in China would impact India through general capital outflows from emerging markets and a broader global trade slowdown, es-



pecially one that ripples throughout Asia.

The key area for India to address to fuel future growth is implementing meaningful economic reforms. Although Prime Minister Narendra Modi was elected on a campaign chock-full of ambitious reforms and a plan to foster foreign investment, the government has yet to deliver on many of its key promises. Easing labor market rigidities, simplifying tax procedures and reforming land acquisition laws are all key changes that would encourage investment and improve the business climate. In addition, improving the country's infrastructure, which is poor, revitalizing credit growth and addressing the banking sector's vulnerabilities are all steps that can help support the economy's momentum.

In 1990, 12 years after Deng Xiaoping and the Communist Party of China started a gradual but steady reform of the economy, China's nominal GDP was around 400 billion and the country was struggling to enter in the world's top 10 largest economies. Twenty-five years later, China has become a global economic power with a nominal GDP of nearly USD 11 trillion, while ranking second only to the United States. The emergence of China has had vast consequences for the global economy. In particular, this situation has been enormously positive for China's neighboring Asian countries, which benefited from the

years of economic boom in China and rising demand. Nevertheless, the current slowdown is threatening to destabilize some countries in the region. While it is true that some countries are less exposed to fluctuations in the China's economy, in general, the region has become extremely dependent to eco-

nomie developments in the world's second-largest economy due to an increasing regional integration. Therefore, instead of asking who is catching the cold when China sneezes, now it is more appropriate to say, "Who is not going to the hospital when China appears to be

FOCUS ECONOMICS

About the Author

FocusEconomics is a leading provider of economic data, forecasts and analysis on the most important macroeconomic indicators for emerging and frontier markets. The company's extensive global network of economists, coupled with its position as an industry leader, are indications of its solid reputation as a reliable source for business intelligence among the world's major financial institutions, multinational companies and government agencies. FocusEconomics reports are available by contacting info@focus-economics.com or visiting www.focus-economics.com.



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The Expansion of Higher Education Institutions Into Emerging Markets: Potential and Pitfalls

Emerging Strategy

Along with the rise of a globalized world economy and the emergence of Asia as a central driver of global demand growth, higher education institutions (HEIs) – particularly those from the developed west – have undertaken a policy of expansion abroad. In recent years this expansion has often taken the form of international satellite, or branch, campuses, whereby an established HEI sets up an affiliated campus abroad and leverages its brand's prestige to attract interested students.

Cognizant of the increasing demand for quality higher education in the developing economies of Asia and the Middle East, international satellite campuses offer rich country HEIs conduits to attract bright young students in fast growing developing economies such as China. Moreover, as New York University's (NYU's) global expansion drive demonstrates, having an international presence also offers home institutions a unique marketing opportunities.

For their part, governments keen to boost both the quality of their edu-

cation systems as well as their ability to attract and retain talented individuals have seen merit in hosting satellite campuses. To this end, they have offered rich country institutions generous financial incentives, thereby helping spur the growth of international satellite campuses in the past decade.

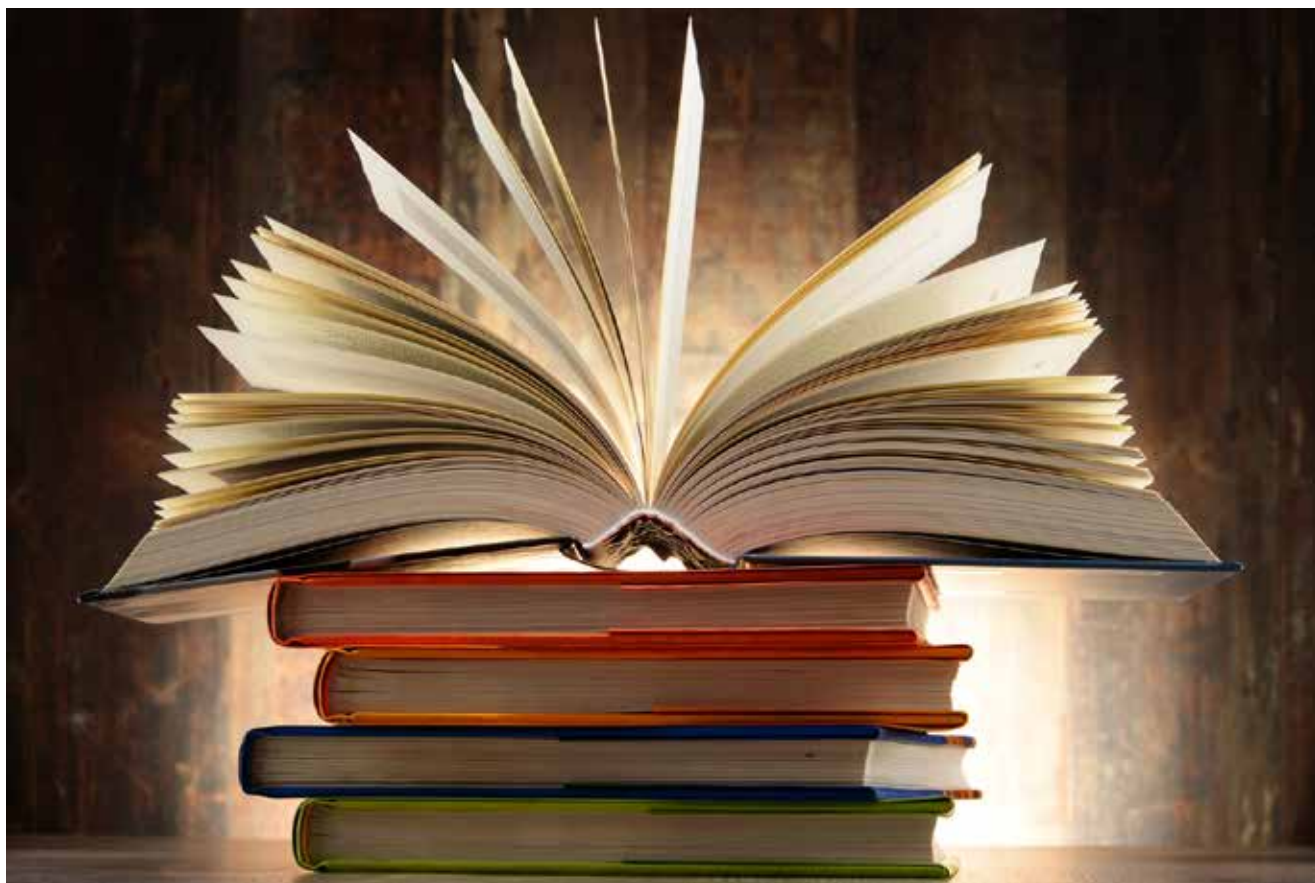
However, while we see the global growth of HEIs continuing, backlash from a wide array of stakeholder groups and the financial risks associated with low enrollment mean that HEIs must become more strategic and discerning in their international ambitions. We believe rich world HEIs will increasingly use risk minimization strategies such

as dual-degree joint ventures (JVs) with local education institutions, rather than bear the risks associated with opening an international branch campus on their own.

The rapid expansion of HEI's degree granting foreign branch campuses in recent years has been profound – by the end of 2014 the UAE had 33, China 29 and Singapore 14, all up from practically none just ten years earlier. Among these countries' foreign branch campuses, HEIs originating from the US, UK, France and Australia make up a significant majority. Other popular destinations for HEI's international expansion include South Korea, Malaysia and Qatar, all of whose

governments place a high priority on boosting the global prestige of their education systems.

The government of the UAE, in particular, exemplifies the trend of generous financial inducements for prestigious rich world HEIs to open satellite campuses abroad. When encouraging NYU to open a degree granting branch in Abu Dhabi, the emirate's government offered NYU USD \$50 million, in addition to bearing the costs of construction. Once operations began, Abu Dhabi has continued to subsidize or pay in whole the hefty tuition costs of students attending the branch campus. Similar, if somewhat less generous inducements have been offered by



other host countries such as Singapore and Qatar.

However, as the case of NYU Abu Dhabi illustrates, satellite campuses can cause a backlash among home institution faculty, alumni and students, as well as the wider public. NYU has been widely castigated by university affiliates and human rights campaigners alike for abuses committed on the migrant laborers used to construct the University's Abu Dhabi campus. Critics also point to the clash of values between the academic and personal freedom championed by western HEIs, and the repressive nature of regimes such as the UAE and Singapore which stifle political debate and criminalize homosexuality.

Moreover, because of a widespread view of international satellite campuses offering a product inferior to their home institution, it is often difficult to attract talented students. This reality, coupled with the often high cost of tuition, means branch campuses often close prematurely due to low enrollment, exposing HEI to significant financial risk. The University of New South Wales and NYU's Tisch School of Art both closed their Singapore campuses due to financial insolvency related to low enrollment. Many analysts fear the recent influx of foreign HEIs into China is akin to the influx of over 30 HEIs into Japan in the 1980s – after two decades of stagnant economic growth only two remain today.

Thus, while Asia and the Middle East represent important opportunities for established HEIs to tap into the burgeoning demand for quality higher education, directly establishing satellite campuses presents home institutions with significant risk – both to their finances and reputation. It is therefore essential that such institutions have comprehensive market intelligence before making any commitment.

Satoko Okamoto, Director at Emerging Strategy's Shanghai Of-

fice, comments: "While we believe developed world HEIs will continue to expand abroad, especially here in Asia, they will increasingly do so through dual degree issuing joint ventures with prestigious local universities. Capturing the emerging demand for higher education is an investment opportunity HEIs can't pass up, but the failures in Abu Dhabi and Singapore demonstrate the need for more strategic thinking and effective risk management in their global expansion."



About the Author

Emerging Strategy is the leading provider of customized market intelligence services across global emerging markets. We understand the complexity and opacity that businesses face when competing globally, particularly in emerging markets. We believe in lifting the veil by providing senior management with objective insights about markets and market participants, so that global businesses can thrive. Our work spans all continents, with a focus on Asia and Latin America, but our studies have spanned over 50 countries to date.

www.emerging-strategy.com

Choosing A Manufacturing Location In Emerging Asia

Emerging Strategy

The rapid industrialization and economic development of Asia presages one of the largest economic shifts in history. While the early-industrializing economies of the western world accounted for the vast majority of economic output in the 1950s, today's growth is increasingly driven by the Asian economic engine.

Although this realignment of economic heft has been a long-term process, Asia's importance for global growth increased by leaps and bounds following the 2008 Global Financial crisis, which for the developed West ushered in "secular stagnation" – an extended period of low growth. With Asian economies constituting ever larger shares of global GDP, the East becomes not only the key driver of global wealth creation, but the primary center of demand for top multinational brands.

However, while demand may shift east, manufacturing will likewise

shift south toward emerging ASEAN economies and India as China's labor costs skyrocket. In such an economic environment, successfully identifying the next generation of low-cost manufacturing hubs will become a primary challenge for multinational investors and small-and-medium enterprises (SMEs) alike.

China's Burgeoning Middle Class

While the reorientation of demand generation and economic clout to the East began with the export-driven success stories of Japan, South Korea and Taiwan, it has been the unprecedented growth in China's economy since the late 1970s and subsequent blossoming of a burgeoning consumer class which has catalyzed the shift from West to East.

With a middle class whose private consumption is projected to grow at a rate of more than 20 percent per annum over the coming decade, Chinese demand is one of the primary motors for global growth. Its young, globalized generation of urban consumers born in the late 1980s to early 1990s (dubbed G2, or Generation 2 by McKinsey) is an increasingly important market segment for global brands. Brand conscious and internet savvy, these consumers play an ever larger role in the global growth of multinational firms – a trend which we predict will only accelerate in the coming five to 10 years, despite China's relative economic slowdown.

The Rising Economies of India and ASEAN

A similar trajectory is likewise transforming India and Southeast

Asia. In these economies, the same growth factors that fostered the birth of China's middle class, such as urbanization and industrialization, can now be seen at work.

For example, consider Indonesia – a country which boasts the world's fourth largest population and already accounts for over two-fifths of ASEAN's overall GDP. The archipelagic nation's steady 5% growth rate in recent years and high degree of urbanization (reaching 53% in 2012) has allowed a 45 million member middle class to flourish — a lucrative market for global brands which is projected to exceed 135 million by 2030.

Thus, while the growth of a middle class in ASEAN member states and India has up until now played a supporting role to China in the initial eastward shift in economic clout, it is precisely their expansion in the coming years which will cement Asia as the new, long-term driver of global growth. Indeed, as the Indian

manufacturing sector's rapid 17.1 percent compound yearly growth from 2006-2011 demonstrates, the global economy is not merely witnessing a shift in demand from West to East, but also a shift in manufacturing capacity from North Asia to South.

Labor Cost Comparisons and the Manufacturing Shift South

As China moves up the manufacturing value chain, wages have risen in tandem to support a more consumption geared growth model. In the past five years, the minimum wage has increased by double digits year-on-year throughout China, and in metropolitan areas such as Shanghai and Shenzhen now exceeds RMB 2,000/month (USD312/month).

With average monthly wages of USD107 and USD165 respectively, it is apparent why Vietnam and Indonesia are capturing much of China's manufacturing. Investors have already witnessed the migration of industries such as footwear from Southern China to Vietnam. Given the generous tax incentives, relatively low corporate income tax (CIT), and looming demographic dividend of Vietnam, Indonesia, and several other ASEAN nations, we predict that this southward migration of manufacturing capacity will only accelerate over the coming decade.

India too, under the impetus of BJP Prime Minister Narendra Modi's "Make in India" campaign, is poised to benefit from the shift of manufacturing out of China. The campaign, unveiled in late 2014, seeks to provide generous tax incentives and liberalize previously stringent caps on foreign ownership in sectors ranging from automobiles to tourism and hospitality in order to attract manufacturing and thereby expedite India's industrialization. Beyond these regulatory changes, the Indian government has pledged major infrastructure investments through 2017 to decrease the added cost to supply chains of India's previously rickety transport system.

Forecast for the Future

Assuming Prime Minister Modi continues to maintain the political



will needed to see through his program of reform, India's low labor costs, burgeoning population and steadily growing domestic market ensure that it – much like the emerging ASEAN economies – will attract more and more of the low value added manufacturing capacity which China relied on for its own economic transformation.

Under these macro-economic conditions, we foresee the expansion of the so-called “China plus one”

strategy into one in which global brands rely on multiple South and Southeast Asian economies for their manufacturing needs, while still turning to China for more advanced industrial processes.

Adil Husain, Managing Director of Emerging Strategy, comments: “Not only will states such as Vietnam, Indonesia and India integrate themselves more closely within global supply chains to leverage their strategic location to sell to

increasingly affluent Chinese consumers, but the expansion of their manufacturing sectors will spur the growth of their own demand generating middle classes. The shift of manufacturing from north to south will therefore also serve to ensure Asia is the primary engine driving global growth and consumption in the decades to come.”



About the Author

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Puerto Rico Hindering Debt Talks in Gambit for Federal Aid

 - **Xavira Neggers Crescioni, Maryellen Tighe
and Andrew Scurria**

The Government Development Bank for Puerto Rico (GDB) has made it very difficult, if not impossible, to hold meaningful restructuring talks with holders of USD 72bn in commonwealth debt, said three sources close to the situation, a lawyer following the restructuring and two analysts.

That's because commonwealth officials are angling for some kind of help from the US Treasury and/or the US federal government, such as a bailout or access to Chapter 9 of the US bankruptcy code, said the three sources, the lawyer and two analysts. Throughout the year, the island has attempted to raise up to USD 2.95bn in bond debt through the Puerto Rico Infrastructure Financ-

ing Authority (PRIFA), debt that would be backed by petroleum tax hikes, commonly referred to as "la crudita". The first source and an analyst, however, described the effort as unrealistic.



Principal groups in the so-called PRIFA deal were never restricted and never sat down for formal negotiation of terms with the government on this deal, the first source said. The GDB engaged with a group of bondholders earlier this year, but balked at the terms, and more recently with a group of bondholders represented by Davis Polk, talks which eventually broke down.

An official at Davis Polk declined to comment.

One small step for Puerto Rico, one giant step for a restructuring

Indeed, the island hasn't even been able to agree on terms of confidentiality with its creditors – a crucial step in any restructuring negotia-

tion. Large holders of USD 47bn in commonwealth debt – including a large mutual fund – are refusing to sign non-disclosure agreements (NDAs), according the first source. The NDAs would prevent holders of the same credit from speaking even with each other, while the island's largest stakeholders want this information to be completely public, said the first source.

The NDAs are part of a “divide-and-conquer” strategy that is part of GDB attorneys Cleary Gottlieb's playbook, the first source and analyst claimed. Since 1 January 2014, Cleary Gottlieb has billed the GDB USD 30m for its services out of the more than USD 60m total spent on advisors, the Puerto Rico Comptroller's Office reported.

While calls to the GDB were not returned, a source close on the government's side of the table denied these allegations, saying the “many,

many NDAs have been signed with stakeholders' advisors.”

The government source explained the advisors could speak to each other, but could not discuss the latest financial data given to them by the GDB with the stakeholders' they were advising. “We will be signing NDAs with bondholders in the near future,” the government source added.

GDB nixes talks on agency notes
In October, GDB officials also nixed talks with holders of USD 4bn in GDB debt, the most recent difficulty in negotiations.

Talks with the GDB broke down because of “bad faith” on the part of commonwealth officials, the three sources, the lawyer and two analysts said, adding that government officials want to show they are trying to resolve the commonwealth's fiscal problems without truly doing

so in order to get Chapter 9 access or some other form of US federal aid – grants, loans, guarantees or a Super Chapter 9.

“They want chaos and they want a handout from the US government,” said the second source close, adding the GDB failure is just fodder to call for federal aid. “This is a well-choreographed show, the source said.

“The most amazing thing about the GDB thing that came out [on 21 October] was that they didn’t talk about recovery per bond,” said the second analyst, who pointed out that GDB officials only said they’d buy the bonds back at 130% of the current trading price, and replace it with a new bond.

“There were no real GDB negotiations,” said the lawyer. “That term sheet was slammed down on the table as a ‘take it or leave it’ by the commonwealth.”

My way or the highway

In a written statement 21 October, GDB President Melba Acosta nixed a new USD 750m bond deal with holders of GDB debt because the agency was not able to reach a mutually beneficial agreement.

The GDB added that “the GDB and the Working Group are engaging constructively with key stakeholders to achieve a comprehensive path forward, and we have begun the process of signing non-disclosure agreements and initial due diligence with a number of creditors.”

Neither GDB President Acosta nor Governor Alejandro Garcia Padilla responded to calls seeking comment on the matter, but, at a press briefing, the governor’s press secretary, Jose Manuel Ortiz, stated:

“It is of the utmost importance that Congress act so that Puerto Rico has access to a debt restructuring regime. Otherwise in November or December we will have to choose between giving essential services and paying the debt....and the governor has said in this scenario he would choose essential services over debt payments.”

When asked about GDB restructuring negotiations, Ortiz said, “Conversations related to additional measures to glean liquidity are continuing.”

Clock is ticking

While negotiations might continue, the government needs to act soon. In November, December and January, the commonwealth faces respective debt payments of USD 69.4m, USD 397.2m, and USD 902.5m.

December debt service includes USD 354.8m in principal on short-term GDB notes, USD 270m of which are insured by NPFG, and January’s debt load includes payments of USD 331.6m for general obligation bonds that are constitutionally guaranteed, according to the agency.

The first analyst said he believes the commonwealth wants to default because this way government officials can avoid spending cuts and government reforms before the 2016 elections, leaving the ensuing havoc to the next governor or the fiscal federal control board, which will have to deal with the mess.



About the Author

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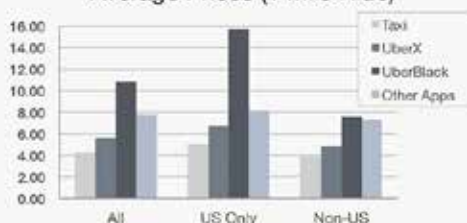
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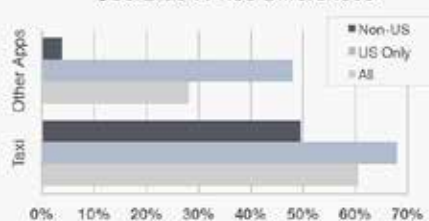
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Los Angeles	Base Fare: \$2.85 Additional: \$0.30 per 1/9 mile	\$5.25	UberX: \$4–\$5 UberBlack: \$15–\$16	Curb: \$7 Lyft: \$6.18 LyftPool: \$5.57
New York	Base Fare: \$2.50 Additional: \$0.50 per 1/5 mile + \$.80 surcharges	\$5.30	UberX: \$10–\$13 UberBlack: \$19–\$24	Lyft: \$15.20 Via: \$5 Gett: \$8.98
Washington DC	Base Fare: \$3.25 Additional: \$0.27 per 1/8 mile	\$5.14	UberX: \$5–\$7 UberBlack: \$15–\$16	Curb: \$9 Lyft: \$6.55 LyftPool: \$5
Buenos Aires	Base Fare: \$16.90 Additional: \$0.17 per 200m	\$3.15		
Hong Kong	Base Fare: \$2.84 first 2km Additional: \$.21 per 200 meters until \$10.06 then \$.13 per 200 meters	\$2.84	UberVan: \$4.13–\$4.90 UberBlack: \$6.84–\$8	
London	Base Fare: \$3.62 Additional: \$30.17 per 162.2 meters until \$26.25 then \$30.17 per 68.5 meters	\$8.45–\$13.56	UberX: \$9.05–\$12.07 (1.3x) UberExec: \$15.09–\$16.60	Kabbee: \$19.75 Gett: \$15.84
Montreal	Base Fare: \$2.59 Additional: \$1.28 per km	\$4.64	UberX: \$4.51–\$5.26 UberSelect: \$8.27–\$9.78	
Mumbai	Base Fare: \$.32 first 1.5 km (25% night surcharge) Additional: \$.21 per km	\$0.33	UberX: \$2.11 – \$2.16 UberBlack: \$2.26–\$2.38	Olacabs Mini: \$1.58– \$1.81 Olacabs Sedan: \$1.81–\$2.08 (1.2x)
Rio de Janeiro	Base Fare: \$1.41 Additional: (M–Sa 6h–21h) \$0.55 per km (M–Sa 21h–6h) \$0.66 per km	\$2.51	UberX: \$2.43–\$2.97 UberBlack: \$3.78–\$4.05	
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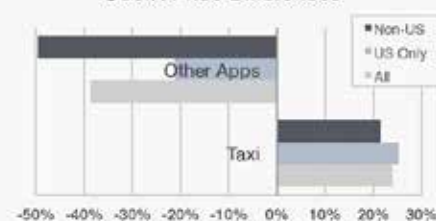
Average Prices (1 Mile Ride)



UberBlack Price Differences



UberX Price Differences



There is no other hotter area right now than the ridesharing space, which consists of companies like Uber, Lyft and Ola Cabs. Given how large Uber has gotten, recently raising another reported \$2.1bn at a \$62.5bn valuation, Findyr wanted to find out more information on how it compares to other methods of transport and people's opinions of the service.

Approach

We tasked our Findyrs in 11 cities around the world with getting local-

ized information and data on traditional taxis, UberX, Uber Black and Uber-competitors such as Lyft, Ola Cabs and Gett.

Our Findyrs captured pricing data and surveyed locals on the ground in each of the cities.

Our Findings

What we found is that UberX typically beats all other ride sharing apps on price based on price per mile, though it is more expensive than regular taxis. Consumers are

willing to pay for the convenience and reliability.

For Uber Black, Uber's luxury option, fares are higher across the board, except in London where Kabbage actually prices higher.

Uber's meteoric rise has outpaced competitors. Market liquidity in the car service market has allowed them to dominate, largely on price. As a result, regional competitors (Lyft, Didi Kuaidi, Ola Cabs and GrabTaxi) have formed a global strategic alliance to better compete with Uber.



Conclusion

For investors and analysts in financial services looking to get information on non-public companies, Findyr can tap into its Findyrs and produce pre-IPO snapshot reports, often in less than 48 hours, for a fraction of the price of typical research requests.



About the Author

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