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One of the main themes we've discussed throughout our past 35 issues has been perception; or more accurately 'misperception' as we see emerging and frontier markets skewed through the lens of mass media. Our topic for this issue, impact investing, has also suffered from a problem of perception with an overriding opinion that impact equals no profit. I interviewed the manager of an impact fund five years ago, who had the usual problem of having too much cash; they had received sizable investments from Soros Foundation, multi-laterals and the like, but had no where to allocate it. While there has been a substantial evolution in the methodology of funds involved in impact investments, there still remains a skeptical perception from investors.

Creating a social impact no longer means a lack of profit and in many cases, it means the exact opposite. The concept 'impact' is no longer relegated to frontier markets; online music service, Spotify, chose to keep their headquarters in Oakland, California, and in turn were awarded impact investment for creating jobs in a developing area.

In our article on Novametrics, we can see that increasing impact can actually decrease risk by aligning the goals of investors with that of local populations, in turn, increasing profitability. The growth of renewable energy investment has huge on the ground impact and also turns excellent returns, on par or exceeding conventional plays.

No longer does social responsibility or impact have to mean charity, but rather taking a broader view of how investment can benefit both investors and local communities. Profit and raising standard of living within emerging markets no longer need to be considered mutually exclusive.



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CONTENTS



EMIA

06 Bad to Better: South African Hedge Funds

17 Mining for Frontier Data

20 Local Expertise, Global Knowledge

24 Raising Funds for the Frontiers

28 Little Risk, High Returns: Living the Dream With Infini

AGRIBUSINESS

12 Innovations to Benefit India's Smallholder Farms

IMPACT INVESTING

32 Renewable Energy is Powering Africa

36 Dispelling Myths About Impact Investment

39 Predictive Analytics Opens the Doors to Africa



POLITICAL RISK

44 Food Prices in
North Africa

46 The Nigeria
Conundrum

WEALTH ADVISORY MACROWATCH

49 Emerging Market
Data from CEIC

66 Latin America's
Spluttering Economic
Heart

Bad to Better

“We do what a lot of other fund managers do, except we’ve been doing it a long time,” is how Gavin Butcher, head of the South African hedge fund manager Optis Investment, explains what sets his company apart.

Optis Investment Management is the UK-based manager for two funds, a long-only African equity fund and a Global Opportunities hedge fund, both domiciled in the British Virgin Isles.

Capitalizing on Marginal Frontier Improvements

According to Mr. Butcher, Optis conducts a great deal of on-the-ground and in-house research and travels frequently, with the aim of truly understanding companies as opposed to simply looking at the numbers. He insists that finding good businesses with the right valuations entails getting in front of management as much as possible, rather than using broker research or relying on big teams off the ground with fragmented in-house research.

Mr. Butcher's background as VP/Senior Analyst at JP Morgan SA, Director and Senior Analyst at Cazenove SA, and Industrial/Mining analyst at ING Barings has given him a long-term understanding of South Africa. He has been investing in Africa since the middle of 2008, and has held analyst for positions rooted in South Africa covering a number of areas. He and his

colleagues have experience in every sector of the market, and have "done the whole gamut" from consumers to agriculture.

Deciding where to invest

Where does one begin when searching for opportunities for investment? According to Mr. Butcher,

"Finding good businesses with the right valuations entails getting in front of management as much as possible, rather than using broker research or relying on big teams off the ground with fragmented in-house research."

Optis wants "well-managed companies at the right price," with a sustainable competitive advantage. It is willing to take overhead positions, as well as take a risk when it feels appropriate. Although it has a 10% stock limit and a 50% country

limit, it has reached that limit when it thought it was the right position. "We don't try to encourage risk, but do say that if you really like a certain sector, we're willing to go and buy," says Mr. Butcher. "We like to get exposure to as much as we can. As a rule of thumb, my guideline is that if I look at a stock I need to be able to buy half a percent investment in my fund, and need to be able to do so in 12 trading days."

Mr. Butcher emphasizes the benefits of a small, active team, as the decision making process is quicker without a distant committee. "If you have an idea, you don't have to write a 30-page article, do a presentation, and discuss with all your colleagues. If you do that, by the time you want to buy the share has gone up 20%. We do lots of work; we see management, we'll go back and discuss things at the hotel. But we can push things through more quickly."

He says that when it comes to country allocation, politics is a big issue. Optis looks at the macro level, such as the kind of growth a country has seen and its population size, as well as the overall value of the market.

"You get to a point where you say, 'It's dropped enough, it's cheap enough.' Things get overly cheap, then run up again. Yes, there are risks involved; I'm not sure I want to make a theory out of this. But

I will say that you make the most money when things go from very bad to just bad,” says Mr. Butcher. In 2011, Optis saw a case in which the value of the fund went down in Nigeria, with the market bottoming out. But the hedge fund put more value to work, in the belief that prices had gone far beyond reasonable levels and it was time to buy. The index for the next year appreciated 17%. This is typical, says Mr. Butcher; many African markets overreact due to liquidity, and the investor needs to see through that.

A Focus on Management

Management makes all the difference in a company’s success. “We look at management very closely,” says Mr. Butcher. “We’ll check out their background and talk to them about their long-term plans, see what vision they have. Do they intend to take the company forward? Is the sector they’re in a growth sector we want to be exposed to?”

Optis looks for good prospects and a good project, which doesn’t require too much money and has management that knows what it is doing.

“We used to look at resource companies, from diamonds to black coal,” says Mr. Butcher. “I remember that at a presentation in London, a guy was going off the charts about how many grams per ton, what concen-

tration of iron ore, all these things. And I asked the simple question, ‘How are you going to get it to the customer? How many skilled people have you got who actually want to work there?’ There weren’t too many. This is the kind of critical thinking we try to do, regarding how to actually run a company.”

“Fund managers and companies need to know their client in order to target it. The identity of the consumer affects both timing and pricing.”

Fund managers and companies need to know their client in order to target it. The identity of the consumer affects both timing and pricing. Mr. Butcher gives an example of the current building materials industry in Africa. Selling a product in a 50kg bag on the side of the street from warehouses and distribution centers, to later be used in homebuilding – small shops, hardware stores, schools – makes

it a consumer product. On the other hand, if it is the government buying the product to build airports and a few roads, one can expect a delay of 10 years.

This particular example is a cautionary tale: big companies such as Lafarge, Deng & Olsen initially priced the building sector as an infrastructural balloon company, when it was actually a consumer company.

The lion’s share Egypt and Nigeria are the two countries that compose 65% of the fund, in about equal parts. Egypt is slightly larger than Nigeria in terms of percentage.

Mr. Butcher says Egypt looks promising. Strategically it is a very important country in the Middle East, with a great deal of support from the GCC states; politics also seem to have “settled down.”

In March there will be an investment conference to finalize the IMF loan, and though currency is an issue, when it “pops up” it only does so by 1%, as opposed to in South Africa where it does so by 20%. Egypt is improving its infrastructure; there are a lot of big businesses there, with a big population close to the EU. And any company you talk to, “from car to carpet sales,” is talking about demand improving; even the housing market has improved.

“We like Egypt and will continue to invest there,” says Mr. Butcher.



“The problem in Nigeria is the oil price; all the rest is noise. As tragic as Boko Haram and corruption are, they’ve been around for ages. As far as the election goes, I had a chat with a couple of brokers trying to gauge the lay of the land. They say, ‘Well, if the incumbent wins, it’s okay, but if the challenger wins, it’s also okay.’”

Oil prices have dominated the election, he says. “The odds are

that President Jonathan will win again, and that he’ll come back with a bigger stick and try to push things like the petrol subsidy through, to get the petroleum industry on its feet. The challenger is very anti-corruption; he’s got quite a strong base and is also a Muslim from the north, which defuses a lot of tension. I’m agnostic as to who gets in, as long as it’s peaceful. What we don’t want is a fiercely contested election. We want to

see the oil price move up a bit, but perhaps not 100 because then we’ll just remain oil dependent and get more of the same.”

A changing Africa

Mr. Butcher has watched Africa change over the course of his career, a development he says is accelerating. Technology is facilitating interactions and transparency.

Zimbabwe is going electronic this year. Kenya has had a capital gains tax introduced. Nigeria is seeing more (and more timely) disclosure. The first thing Optis looks at are the company's numbers, and it is now getting better access to information much more quickly.

Another change has to do with the increasing importance of pension funds. More companies are "getting on the bandwagon" and offering pensions and payrolls; the pension industry in Nigeria is a growing market, with a lot of money not finding its way into pure equity.

As for country-specific recommendations, Mr. Butcher repeats that Optis foresees growth in Egypt. "The problem there is that any leader trying to implement change, popular as that may be, becomes unpopular. People begin to protest," he says. "But there's a rebound. Look at the stock markets of Nigeria, Egypt, and Kenya. One

has gone up by 28%, another down 25%. The elections matter if there's violence, but if not, it will be the same as usual. The real issue is the oil prices; if they stay up, we will see a significant devaluation of the currency."

Morocco is pricey but has some interesting opportunities, he says. Zimbabwe also shows potential, although if the president dies there may be a run, with potential factional fighting and conflict with the new government. Optis has invested in new markets like Zambia, and is looking at Tanzania, which has just opened up to investors. It is also keeping an eye on Ghana, though it doesn't have anything there at the moment, as it is very liquid.

Optis works exclusively with companies listed in Africa, with the exception of the Johannesburg stock exchange, as it cannot buy Rand investments.

"If you take money out of South Africa, it needs to be taken out with bank approval, and if you bring it back it has to be repatriated," Mr. Butcher explains. "But we can buy diamonds listed in London with investments in South Africa. And we'll buy anything unlisted anywhere in the world as long as the focus of operations is in Africa. We try to attract investors who have taken money out of South Africa, including big institutions that have shown they want exposure to Africa."

He emphasizes the importance of long-term thinking. "You need to invest with a five to ten year view. We've been here a long time; we set up our first Africa fund in 2006. I can say this – Africa is improving, and with that there are an increasing number of opportunities for investors."

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A woman wearing a vibrant pink sari with a floral border stands in a field of tall, green grass. She is looking towards the right side of the frame. The background is a soft-focus field of similar grass, creating a sense of depth. The overall tone is warm and natural.

Innovations to Benefit India's Smallholder Farmers

 **Mark Kahn**

India is currently in the midst of an AgTech renaissance, mirroring the global boom, but with a unique focus on technologies for smallholder farmers. The purpose of this article is to familiarize readers with the Indian agricultural economy, the challenges faced by Indian agriculture, and how AgTech start-ups are creating sustainable solutions to address those challenges.

India's Agricultural Economy

For those readers unfamiliar with India's agricultural economy, a brief introduction: it's among the largest in the world and it represents 18% of the country's GDP. Total food grain production is currently around

260 million MT annually, although this past year has seen the negative impact from a poor monsoon season and excessive winter rain. India is the world's second largest producer of wheat, rice, sugarcane, cotton, vegetables, and tea. It's the largest global producer of milk (138 million MT annually), representing 17% of world production, as well as the top



Despite agriculture only being 18% of the economy, more than half of India's population is employed by the agricultural sector

worldwide producer of pulses, spices, mango, banana, coconut, cashew, papaya, and pomegranate. While Indian agricultural production has risen sharply in recent years, most yield levels are still significantly lower than global standards.

Despite agriculture only being 18% of the economy, more than half of

India's population is employed by the agricultural sector, although that number is dropping every year due to urbanization and industrialization. The number of farmers in India has fallen in recent years, from 127.3 million (2001 Census) to 118.7 million (2011 Census). As a result of this shift from farm to non-farm employment, real farm

wages have risen massively in the past decade. At the same time, the average farm size has continued to shrink, reaching a level of 1.2 hectares per farmer in 2010-11. It should be noted that smaller farm sizes are not a deterrent to increasing productivity, which instead requires modern inputs and technology.

Present & Future Challenges

Population growth, rising incomes, and dietary changes are exerting an immense demand pressure on Indian agriculture. At the same time, Indian agriculture is being hit from the supply side by climate change, urbanization, a collapsing water table, declining soil fertility, rising rural labor costs and a failing logistics system. When you combine these trends, the immense challenge facing Indian agriculture in the coming decade becomes clear. The high food price inflation of the past 10 years is just a symptom of this systemic pressure, and while the urban poor have seen more of their family income directed towards food costs, Indian farmers have benefited hugely from rising farm profits, fueling additional rural consumption.

Indian agriculture has historically struggled to feed the nation, but the Green Revolution and Operation Flood (1960s and 1970s) ushered in a long period where the Malthusian challenge from India's rapid population growth was no longer a major concern. In 2015, while population growth continues (albeit at a slower pace), the major pressure on India's food system comes from a massive dietary shift away from grain, notably rice and wheat, which for the past few years have been produced in surplus. Rising incomes from economic growth

have enabled Indian families to improve and diversify their diets. For starters, vegetable consumption has increased dramatically, and fruits have gone from being occasional luxuries to staples consumed on a daily basis. Likewise, urban and rural Indians have ramped up their intake of protein in the form of dairy, pulses, eggs, meat, and fish. Rising consumption of livestock products (primarily dairy and poultry) has also increased the requirement for feed grains, especially maize and

While blessed with plentiful arable land and incredible biodiversity, Indian agriculture is bottlenecked in virtually every resource it requires to deliver the growth in supply it needs to keep up with demand.

soya. Indians are also eating more processed foods, including sugar, oils, biscuits, beverages, dairy products, snacks, sweets/chocolates, and ready-to-eat (RTE) foods. As India develops, this dietary transformation can be expected to accelerate—similar to the experience in China and Southeast Asia

over the past two decades—putting ever more pressure on India's agricultural sector.

While blessed with plentiful arable land and incredible biodiversity, Indian agriculture is bottlenecked in virtually every resource it requires to deliver the growth in supply it needs to keep up with demand. For starters, India's plentiful hectares of arable land are beginning to disappear as urbanization converts fields into office buildings, shopping malls, and industrial zones. At the same time, climate change is stressing Indian crops, resulting in yield growth stagnation that threatens long-term food security. Indian soil quality has been degraded by decades of monoculture and imbalanced fertilizer usage, so much so that the formerly fertile zones of Punjab/Haryana and the Cauvery Delta are now thoroughly exhausted. A similar situation exists for water, where unchecked bore-well drilling and flood irrigation have collapsed the Indian water table in virtually every state, despite various water conservation initiatives, including check dams, watershed management, and micro irrigation. Rural labor is another resource that is rapidly vanishing, as urban migration and government initiatives like NREGA reduce the formerly plentiful pool of farm workers. As a result, farm wages for those workers who stay back have risen exponentially over the past decade and farmers are beginning to explore automation to counteract the

shrinking rural workforce. Finally, the logistics in place for transporting, storing, processing and marketing Indian agricultural production is failing spectacularly, resulting in massive food wastage.

Each of these bottlenecks (land, soil, climate, water, labor & logistics) inhibits the ability of Indian agriculture to meet the rising domestic consumer demand for food in India. Taken together, the bottlenecks threaten the very future of Indian agriculture, and technology solutions to address them are the need of the hour.

AgTech Adoption

As Indian farming has become more profitable, agricultural technology adoption rates have accelerated. Indian farmers have begun to rapidly move towards mechanization (to date mostly tractors, tillers, rotavators, and harvesters), hybrid seeds (as well as bio-tech traits for cotton), high-performance pesticides, specialty fertilizers, micro irrigation, bio-inputs, improved animal genetics (for poultry, dairy and aquaculture) and compound animal feeds. The rise of farmer-producer companies, commodity exchanges, modern warehousing, and farmer-linked food processing ventures, all of which have ensured that cultivators realize higher incomes and absorb less risk, have facilitated this rural technology boom.

Future adoption of agricultural technology will build on earlier trends, but will also include disruptive innovations capable of revolutionizing the sector. At Omnivore, we believe the following AgTech investment themes have the greatest upside potential:

- Farm Mechanization & Automation
- Sustainable Inputs & Biotechnology
- Big Data & Information Services
- IoT & Precision Agriculture
- Supply Chain & Logistics Tech
- Innovative Food Products & Services.

MITRA is a great example of a farm mechanization and automation startup that is trying to fundamentally improve Indian agriculture. Founded in 2012, MITRA designs and manufactures innovative agricultural machines for labor-intensive functions in high-value crops, where existing automation technologies are unaffordable for most Indian farmers. Over the past twelve months, MITRA has launched four automatic sprayer models for orchards and vineyards, which have been rapidly adopted by farmers in Maharashtra. MITRA has even begun exporting machines to West Africa, where horticulture farmers have similar requirements as their Indian counterparts. The founder of MITRA, Devneet Bajaj, is an INSEAD alumnus who previously worked for Paine & Partners, a

global agribusiness PE fund. He believes that eventually, MITRA products will even be sold to small farmers in the USA and EU, similar to how Mahindra tractors captured those markets over the past decade.

Barrix Agro Sciences is another AgTech startup from India that is worth paying attention to, this time in the area of sustainable inputs and biotechnology. Founded in 2011, Barrix Agro Sciences develops Integrated Pest Management (IPM) technologies that provide farmers with highly effective crop protection while reducing their dependence on chemical insecticides. Farmers across India are rapidly adopting next generation pheromone traps from Barrix, and seeing their agrochemical costs drop while insect control increases. Similar to MITRA, Barrix has also begun to export to African markets over the past year. The founder of Barrix, Lokesh Makam, previously worked for some of India's leading pharmaceutical companies, and his unique knowledge of formulations is key to Barrix's next wave of pheromone innovation.

MITRA and Barrix are just two examples of successful AgTech startups from India, but scores are thriving, and venture capital funds are increasingly active in the sector. Most successful AgTech startups in India are focused on the domestic market, but recognize that India has the potential to become an innovation hub, or a "laboratory", for

smallholder agriculture globally. With every major agro-climatic zone represented, Indian startups could develop, pilot, and scale-up products and services with export potential to other regions dominated by smallholder farmers, including South

Asia, Southeast Asia, Sub-Saharan Africa, and parts of Latin America. These regions share many of India's challenges, but lack India's base of technical and managerial talent, which is so critical to developing new ventures. While domestic con-

siderations will drive AgTech startups from India, the additional upside from exports will complement their overall growth. From small beginnings, expect to see Indian AgTech startups making a big impact over the next few years.

About the Author



Mark Kahn is the co-founder of Omnivore Partners, a venture capital firm, based in India, investing in startups that are developing breakthrough technologies for food and agriculture. Previously, Mark was the Executive Vice President (Strategy & Business Development) at Godrej Agrovet, one of India's foremost diversified agribusiness companies. Earlier in his career, Mark worked for Syngenta and PFM. He earned a BA (Honors) from the University of Pennsylvania and an MBA from Harvard Business School, where he graduated as a Baker Scholar. Kahn is a frequent speaker at the premier Global AgInvesting conferences, which are held annually in New York, London, Dubai and Singapore.

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Mining for Frontier Data

For the investor looking at emerging and frontier markets, one tool is more valuable than any other – information. One might be interested in a specific region or commercial sector, but going in without hard financial and economic data is a bit like shooting in the dark.

Since 1994 Exchange Data International (EDI) has been helping the global financial community make informed decisions through the provision of fast, accurate, timely and affordable data services.

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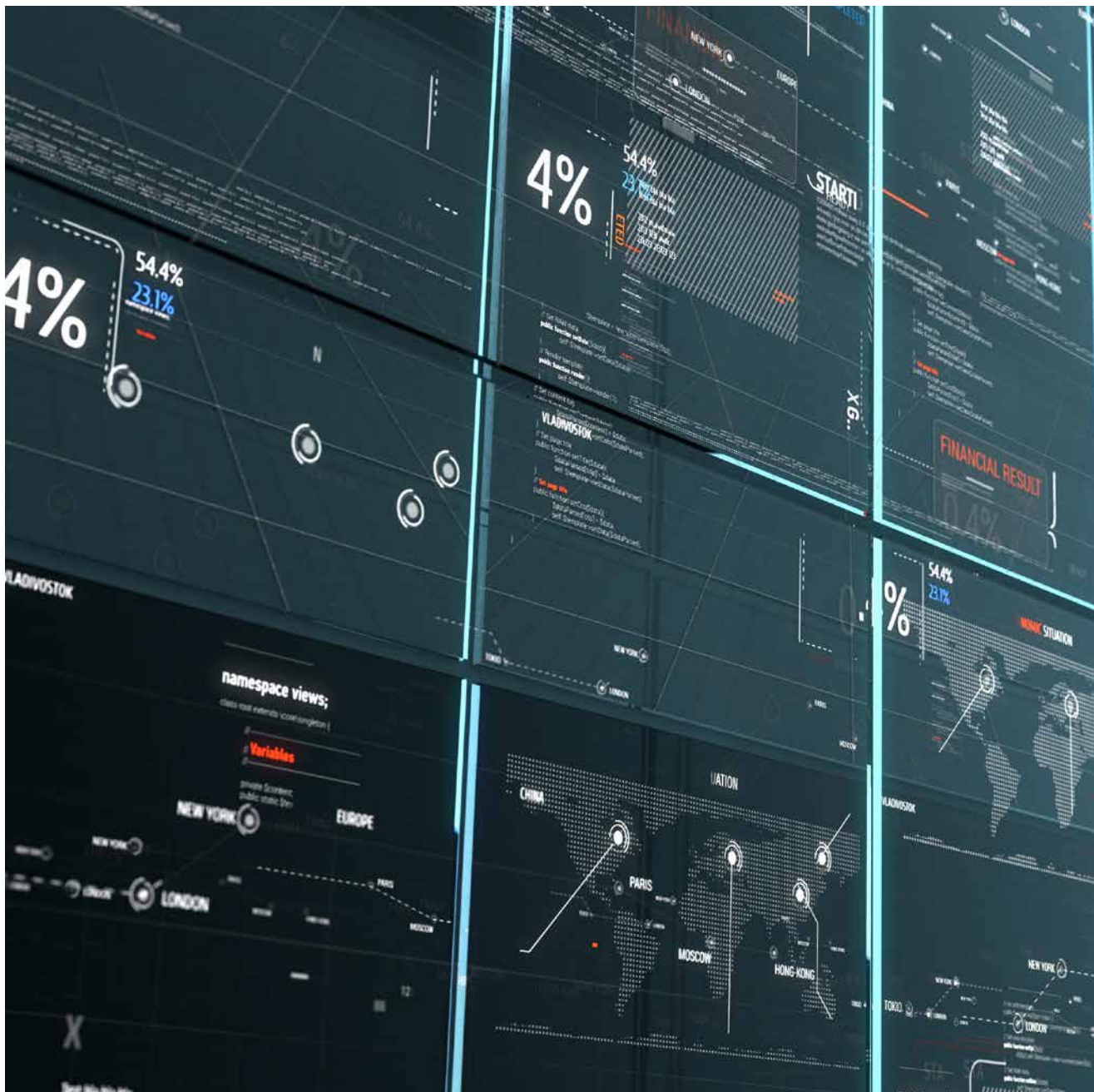
Today it is leading the way with its Africa Financial and Economic

Data service, covering all 56 countries of Africa. It provides business analysts, economists, government forecasters, academics and more with an unparalleled reference source of economic and financial intelligence.

CEO Jonathan Bloch says: “We see a significant growth in interest in emerging markets, in particular Africa. This interest is not just for investment and straightforward

financial purposes. There is also a need for economic awareness.”

Mr Bloch adds: “Today it is universally accepted that a deeper understanding of Africa’s financial and economic situation is a ‘must have’ for any organisation with or seeking an African footprint. Accordingly the evolution of our African Financial and Economic product reflects the changes that have taken place.”



A Neutral Presentation

Since Exchange Data International pools information from so many sources, one might wonder how it performs accuracy checks. But according

to Mr. Bloch, the EDI approach is simply to provide access to information without value judgement.

“We provide figures reported as published,” he says. “Our clients can then adjust them as required to suit their own criteria.”

Even compiling this “neutral” data requires significant manpower. EDI currently translates data into 26 languages every day, employs 375 people, and has operations in India, the United States, the UK and Morocco. According to Mr. Bloch, at the moment EDI has about 300 clients.

Greater granularity, greater demand fundamental to the success of commercial investment, risk assessment and thought leadership is a combination of logic, research, and analysis. All of which demand access to good data.

Mr. Bloch says: “Despite the mainstream providers [of emerging market data] like Reuters and Bloomberg having enhanced their coverage, our knowledge and interest in emerging markets means that we go much deeper to provide a bigger picture.”

Africa Financial and Economic Data is gathered from over 100 organisations worldwide, including:

- Regional and local African organizations.
 - International Trade organisations & NGOs.
 - African central banks.
 - African national ministries of finance and their respective offices of statistics.”
- Although the move by EDI towards frontier markets is relatively recent, Mr. Bloch sees it as the future.
- “The economic situation has changed. Most frontier markets didn’t exist 20 years ago. Now traditional fund managers, private equity firms and value investors no longer shun frontier markets as an investment. In fact, over the last ten or twenty years stock markets have established in the most unlikely places. These include Rwanda, Seychelles and Cameroon.”

Mr. Bloch adds: “Elsewhere Africa is now seen as having very good potential for consumer goods. Initially Africa was known for its resource companies; mines, etc. Now Africa has a growing consumer market.”

“What has not been available to date is comprehensive, collated, consolidated and above all, clear data. This is needed by interested parties in Africa to make informed political, financial, strategic and investment decisions.

EDI’s new African Financial & Economic Data product now provides this service where before it has never existed.”

Local Expertise, Global Knowledge

Keith Mahon is certainly the man-on-the-ground in Latin America, and in just over two years he has managed to consolidate the position of Apex Fund Services as a major fund administration player, all the way from their office in Montevideo, Uruguay. All it took was a mix of brawn, unabated expertise – a good dose of local know-how and adaptation.

More than simply taking a Darwinian approach, Mr. Mahon focused on relationship-building to create Apex's spotless reputation in the multicultural LatAm market. "It's through this relationship-building that they open up and that's where

you get the introduction to the next guy, because you're trusted," he confides. "It's just about building trust and confidence in a relationship, that's the culture of LatAm, that's what it has in common." Whereas in the fast-paced northern hemisphere million-dollar deals are sealed with a confident handshake after a brief meeting, LatAm customers require a different approach – one that borders on courtship. "It's about getting to know the people, and personally, I prefer that," Mr. Mahon offers. Wining and dining are good tactics to woo potential customers, but chances are the pro-

cess will require several meetings including a breakfast, a couple of lunches, a few coffees and perhaps even a drink after work. That effort seals the deal for a long-lasting and profitable relationship based on mutual trust: “There’s always a relationship with the client, and I think that’s great. Because you go through the good times together, through the bad times, as a team, it’s much more of a collaborative effort here.”

Although the region might not necessarily share a predisposition to building strong ties with fund managers, it’s good to remember that each country is its own world – which is why it’s so important to draw on local knowledge to overcome the defined cultural barriers to entry. LatAm customers like local partners, and are initially reluctant to work with foreign firms. Yet, that posed no challenge to Apex: they used their business acumen and expertise to overcome this obstacle. “First of all we talked to our existing clients to find out what their needs were and what they saw in the market, to have a proper understanding,” Mr. Mahon reveals. Therefore, as a result of the knowledge gained, this approach was complemented by employing a local work force that speaks the clients’ language – and culture. “That’s our competitive advantage in the market globally: local presence, local knowledge,” he professes, adding: “Being able to speak to somebody in your local tongue who

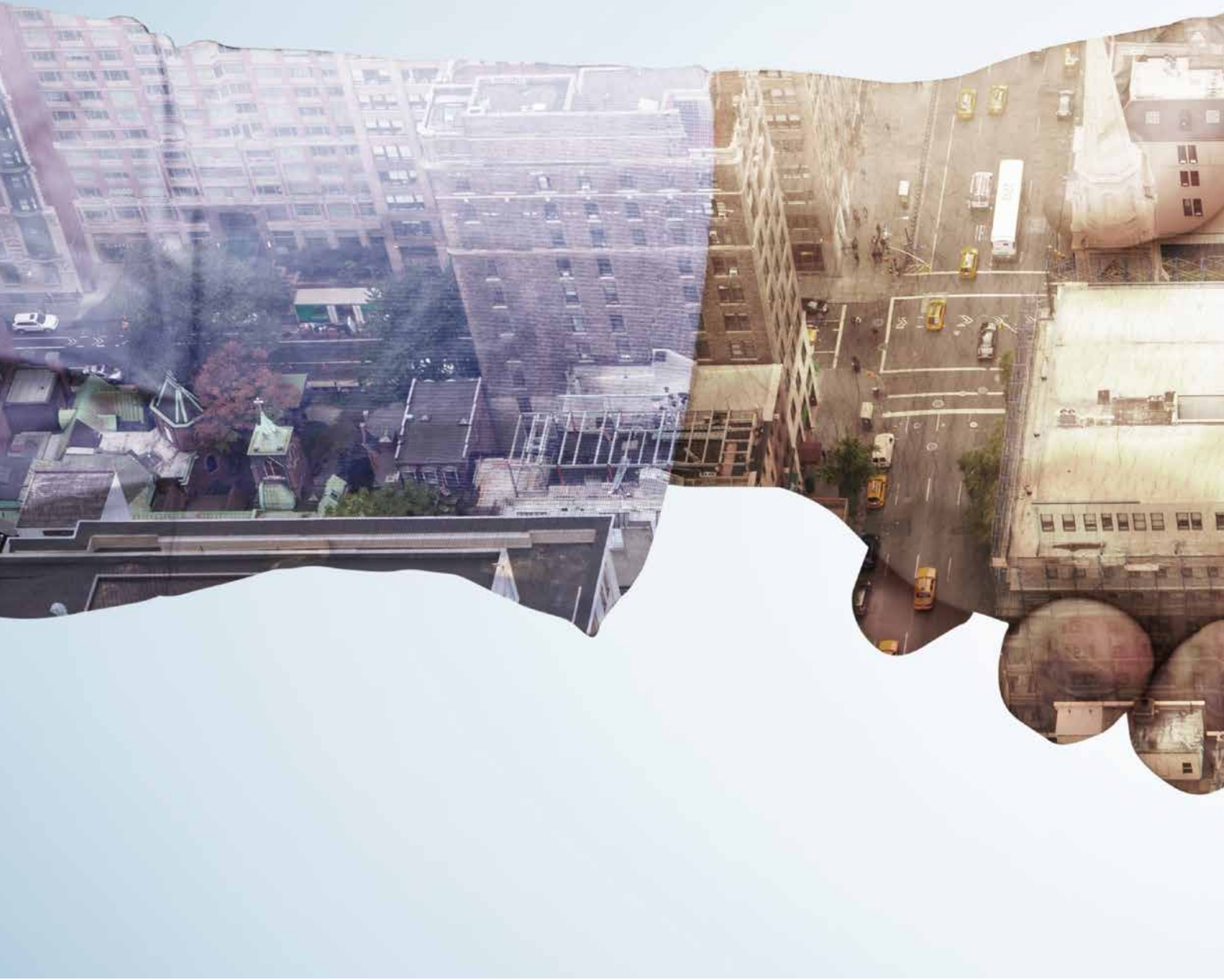
can explain, from the same country as you are, there’s a sense of trust in that where there’s been mistrust in offshore jurisdictions in the past.”

Apex certainly talks the talk and walks the walk: 75% of their employees in Montevideo are Uruguayan and speak not just Spanish but also Portuguese and English. For added support – and the comfort for their clientele – they rely on Apex’s 37 offices around the world. The strength of this backing inspires confidence, as evidenced by their growing customer base. “That’s definitely happening,” Mr. Mahon confirms, “we’re servicing our clients, they’re happy with their service, through word of mouth we’re growing not only organically, but we’ve entered new markets: we have new clients climbing on board.”

Having heeded the siren call of a post-commodities super cycle and the post-2008 economic climate in which the rest of the world crashed while leaving LatAm unscathed, Apex has managed to successfully carve itself a place among the leading fund administrators in this region. Competition is strong: there are a lot of new players and even more established players opening new funds. Yet

Apex has maintained its prominent position through careful planning, sheer market-awareness and fulfilling a clear need for locally-based expertise. The reason Apex located in Uruguay was because “We inquired around the region – into Chile and Argentina, Brazil, Mexico and Colombia – and found they were pulling us into the market. They were serviced from Europe, North America, wherever, and we decided we’d push in here and establish ourselves in the region, service them locally on local time zone and local language, and grow up off our existing base.” Undoubtedly a smart move. As opposed to big-name competitors, they set up





organically – not imposing themselves in the market, but actually being gently embraced by it.

Customers took well to their unique offer of international know-how with promise of better infrastructure and services, combined with their locally-sound approach of nurturing client-manager bonds

and developing long-term relationships based on mutual trust. Mr. Mahon agrees that it wasn't easy, but beams with positivity when asked about this process. "It hasn't been an uphill battle, but it's been a long conversation. I think that people are interested to hear the story and at first they've might have thought 'Here's another gringo

coming down', but I think the fact that we've based ourselves here, the fact that we did have big name players in the market – that starts the conversation. Then they went to find out more." Being based in Uruguay, working on local time and in the local language, merely facilitated the process.



The financial structure of LatAm has been rapidly evolving since Apex set up base in Montevideo, and they have adjusted accordingly – just like they adapted to investors’ needs. Managers have taken a focused approach: concentrating their efforts on something they’re good at, and steering clear from mix-and-match techniques. “From an investor’s

side,” Mr. Mahon adds, “they need a very straightforward message for investors: they don’t want something complicated. Investors want a simple message, but it’s also the same thing as with trust: they want to know the manager, they want to understand where they’re going.” And that they know: their clients are certainly in good hands. It’s not

common to get the right balance between international experience and local knowledge. The growth and expansion of Apex’s Uruguayan office certainly attests to investors being well-aware of this fact: they are getting sophisticated LatAm vehicles, catered to their needs and in a language they can understand.

Raising Funds for the Frontiers

Alpha seekers are headed towards new frontiers. Traditional markets are certainly tried-and-true, but it has some investors yawning at the trope of steady yet not sizeable enough returns. The risk posed by frontier and emerging markets no longer staves off investors who are on the hunt for new opportunities and higher returns. All they need is a reliable investment firm with the right tools and experience.

We caught up with the Managing Director of Apex Capital Introduction Services (ACIS), Leah Cox, to hear more. “Current industry milieu is progressive,” she reveals, adding, “which means investors are seeking new opportunities (outside of traditional markets) to benefit from higher returns.” It’s the natural flow of supply and demand, it would seem: “As investors haven’t necessarily been seeing the returns they would have liked in traditional mar-

kets, a door is opening for EM and Frontier markets to gain traction from those seeking alpha.”

This tipping of the scales in investor sentiment comes accompanied by a noticeable change in investor demographics. “We are certainly seeing a marked increase in the Family Office space at the moment

and this has had a direct influence on the increased interest in Emerging and Frontier markets,” Mrs. Cox confirms. This new trend reveals the surge of interest in diverse investment markets, which can’t easily be accessed by others, such as institutional investors – leaving the field wide open for the smaller and brazen investors.

What sets ACIS apart from its competitors is its innovative and technology-based approach to fund-raising and fund-managing, which in turn opens their doors to a wider range of investors. Technology has a place alongside their traditional fund-raising tools that increases their clients’ exposure among investors – with a creative twist.



“We actively encourage and assist our clients in engaging with platforms and social media opportunities, and managers see this as a valuable addition to traditional methods,” reveals Mrs. Cox. The presence of technology is now a constant in our daily lives, so it is only natural that using technology to promote a fund in new and creative ways is beneficial when it comes to Emerging and Frontier markets. ACIS’ smart, double-pronged approach appeals to both: traditional investors who favor roadshows and pitch books, as well as think-outside-the-box types who crave a fresh approach.

Fund managers are also welcoming these changes as they make their life easier, particularly those who are in a resource-strapped position. “We find that smaller managers with less in-house resources to concentrate on [traditional fund-raising] really do benefit from assistance in these areas.” Fund managers also profit from new technologies and trends by innovating upon mainstream ideas by adapting them and in turn, making them accessible. ACIS has dubbed this process the ‘middle-man’ set up. A good example of this innovative and modern approach, has been “the more recent emergence of syndication/crowd funding platforms [which] opens the alternatives world up to a much a wider breadth of investors.” This indicates that EM opportunities are now available to an increasingly larger audience of investors as a result of lower entry points – yet maintaining the same returns.

Although always looking towards the future, ACIS is not a firm to overlook the value of traditional methodologies, which complement their more forward-thinking approaches. Hosted events are still considered “an extremely valuable tool,” according to Mrs. Cox. The firm continues to host a vast number of conferences and seminars throughout the year, in order to present ACIS’ work and establish a face-to-face relationship with cli-

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same returns.*

ents. That’s where their company values really shine through: in interacting with clients and providing for their needs. And as usual, they do things a little differently – in this case by shying away from tiered services because, Mrs. Cox acknowledges, “there is no ‘one size’ fits all in the alternatives world and different investors have an appetite

for a wide variety of opportunities and strategies.” If that weren’t reassuring enough, she adds: “At ACIS we provide the same level of service to all funds whilst utilising the 12 years experience from the Apex Fund Administration business to effectively match investors and managers – this is a new approach and one that the Emerging and Frontier markets can certainly benefit from.” And their clients certainly can too.

Expertise, client-oriented services – what more can ACIS offer? Thorough due-diligence that covers any path towards where an investor might want to venture, packaged in the form of an internal database of their own design. “We have spent a lot of time researching how we can best assist both investors and managers find the right fit,” explains Mrs. Cox, “as a result of our findings we launched a bespoke database, Apex Alpha Portal, which lists key performance information for hundreds of liquid funds (anonymously).” This tool covers every style, strategy and geographical area that an investor might want to explore – and more. “For investors seeking niche strategies uncorrelated from traditional markets,” offers Mrs. Cox, adding, “Apex Alpha Portal opens up a plethora of global opportunities they perhaps wouldn’t have had access to before.”

Only ACIS’ blended approach of both tradition and innovation, forethought to client-satisfaction and exhaustive research, can offer EM and Frontier Market investors the key to global markets.

2015

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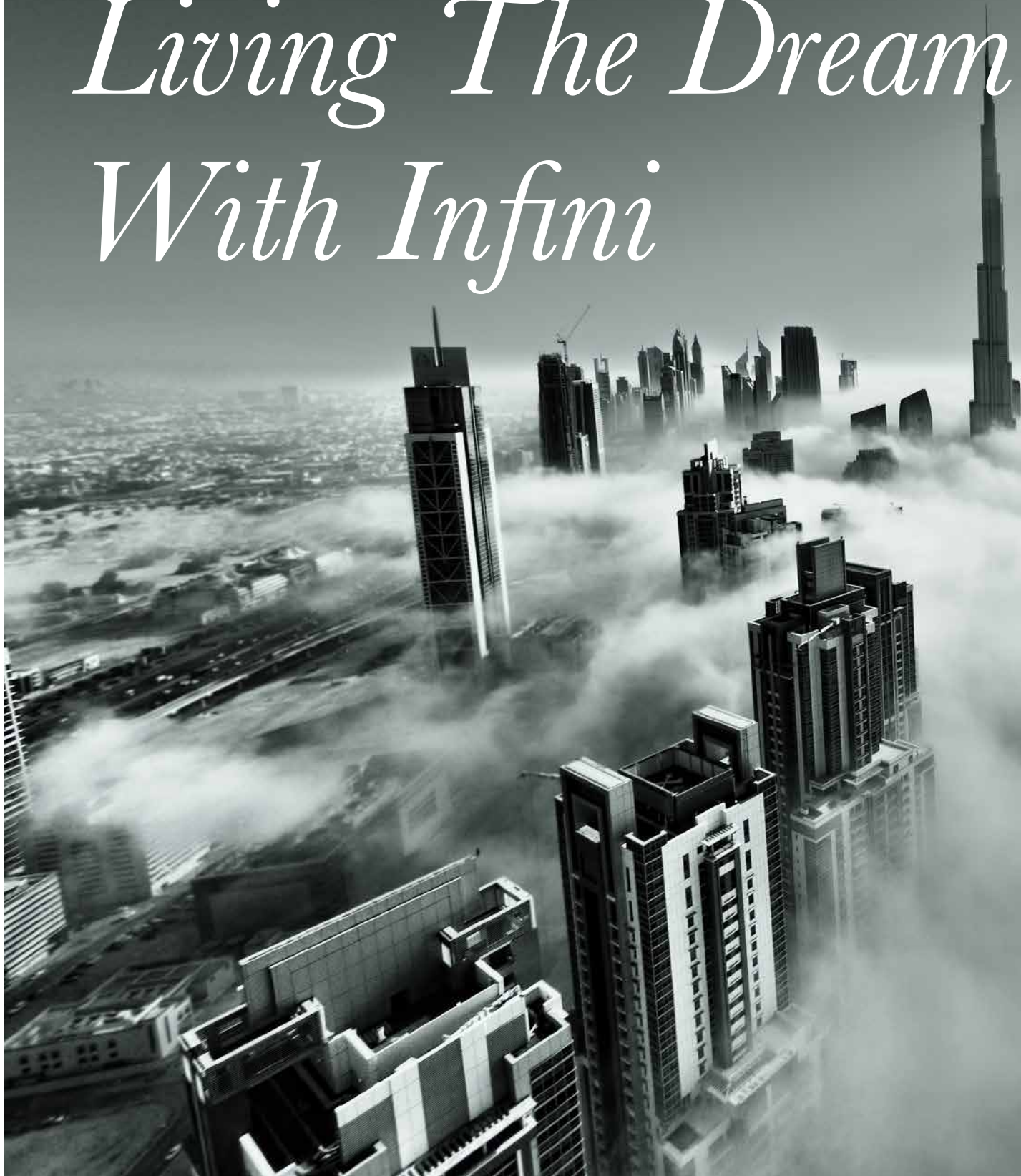
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EMIA

Low Risk, High Returns:

*Living The Dream
With Infini*



A far from typical tale in the asset management kingdom, Infini Asset Management was born within the nurturing embrace of a family office. Very early on, they realized that they're not the speculative kind of people – or traders. And remaining market-neutral became part of the core of their diversified asset allocation process.

Vibhav Jain, Senior Executive Officer & Director of Infini Asset Management, confirms it. “Being market neutral is something which good family offices and institutions understand very well.” Mr. Jain started trading in Chicago for CME, and complemented his experience with the family’s capital. They invested in banks, emerging markets, developed markets and more. By 2006 their market neutral product strategy began to take shape, and in 2008 they got to test out their efficacy: while a bloodbath took place in the marketplace, their remarkable strategy only took them down by 2%. That was a tell-tale sign that they were on to something good.

Family values firmly in place, Mr. Jain acknowledges that raising cap-

ital is a responsibility. Although there was a push in 2009 to turn the strategy into a public fund, the board flat out refused. Soon enough though, in 2012, he had his chance. His brainchild was averaging 28% while remaining market neutral. After such a remarkable performance, the creation of a public fund was placed back on the drawing board. Once in Dubai –their current corporate address– he applied for a category 3C license: a full-fledged asset management license. By 2014, all signals were a go and Infini Asset Management began to accept money from the market. “We did it differently, but the right way,” reminisces Mr. Jain. For a market-neutral fund, different is unusual – but it certainly pays off for Infini and its clients.

Establishing their base of operations in Dubai was yet another smart move by this long-term planning asset management firm. The ease of set up in this tax haven was an initial pull factor, as well as a fairly straightforward bureaucratic process that lets companies hit the ground running. A family-owned fund is actually the perfect fit for this cosmopolitan yet still traditional business hub. Much like themselves, “Middle Eastern investors are all about relationships,” Mr. Jain reveals. “We’re in touch with many family offices here, and it’s all about them getting comfortable. We end up going to dinner and not talking about funds more than 5 minutes.” A slow process, but it develops the much-needed trust and close-knit relationships in which business deals thrive.

The value in working with a family-run asset management firm is certainly exemplified by the commitment they display towards their investors – lacking amongst the firm’s more traditional competitors. And in a climate where it’s hard to find pure market neutral products, Infini was able to offer just that and combine it with attractive market neutral returns. While most market-neutral investments tend to give back 1-3% in returns, they filled the gap by offering both phenomenal absolute value returns and market neutrality.

What’s their tactic? The maturity of knowing how to stick to what they know, jokes Mr. Jain. For some, market neutral has become synonymous with boring, or even T-bills. But Infini proves that you can have your cake and eat it too: little risk, high returns. “It’s about applying all we’ve learned throughout the years,” he says. The best part? It works: “A bad year for me is 2%, 3% returns and good year is around 35%.”

Risk-averse in this case does not mean that Infini turns a blind eye to it. On the contrary, relative risk is always present, Mr. Jain confirms. “Amateurs don’t know how to control risk,” he offers, “The key is dynamic delta hedging, for the risk involved to go down.” He believes in getting out of the losses as soon as possible. Making money –of course– but conservatively and rationally. Their tactic is to be

aware of risk at all times by carefully monitoring, and knowing when to jump ship. They don’t look for gains: they protect against losses, and the gains happen organically. “You can’t control your gains,” he adds, “but you can control 100% of your risk.”

Infini’s strategy leans on derivatives – yet another uncommon trait, but not for a fund that wants to be market neutral. After all, equities are not an option. Derivatives offer more control rather than pure equities, while the latter are also a lot more dependent on factors out of one’s control. A focus on liquidity is next in their strategy, accompanied by diversification: 19 different sectors are in their portfolio.

New in the market, they have received cautious reactions – yet all positive. One is “this looks good, but we want to wait and watch,” offers Mr. Jain. Nobody has outright disliked what they do at Infini, nor refused to believe it after seeing the hard facts. Yet a shred of distrust at their young age is still present. Institutions come in with a checklist and halt when hearing the fund was created in 2014, but “having been regulated for three years, I will tick that box,” confidently asserts Mr. Jain. “That’s fine. I don’t want a single penny if you’re not comfortable. Get comfortable and then come forward.” Nevertheless, the overall response is good. “Some invest immediately, and some will invest soon,” he knowingly confides.

Infini actually shares the same careful approach when it comes to the opening of the Saudi Arabia derivatives market later this year. “We’re looking at it. We won’t get into it in the beginning, first we want to observe,” says Mr. Jain.

When asked about the future, he doesn’t beat around the bush. “I want to reach a billion in five years. I’ll leave it at that.” Ambitious and driven, with a prime product and blossoming client portfolio, this is undoubtedly attainable.

If the premise of high returns and low risk is not attractive enough, their core family values certainly exert its pull. “We don’t believe you invest in products, we believe you invest in people. Clients tend to understand what we do, share our passion and clarity of thought, while knowing what we’ve done during the last twenty years.” Expertise, family values, foresight, low-risk and high-returns. A real-life fairy-tale in the cold –and at times, unforgiving– financial world.

Since the writing of this article Infini has been recognized twice in the prestigious Alternative Investment Awards – 2015 winning “**BEST EMERGING FUND MANAGER - MENA**” and the “**BEST MARKET NEUTRAL HEDGE FUND- MENA**” For more information regarding Infini contact Graham Crutchley, graham@infinionline.com

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African economies are bustling with activity and attracting game-changing investors who are thirsty for innovation. The playing fields in this continent are wide open, allowing unconventional ideas to take root and blossom into profitable business ventures.

Renewable Energy Is Powering Africa

Amongst these, is renewable power generation. Beyond its eco-friendly allure lays a world of profitable opportunities, ripe for the picking. After all, without the essential energy infrastructure, business in these emerging markets cannot flourish. Denham Capital knows this well, and has been capitalizing on the growing demand for wind and solar energy for nearly a decade.

The latter, in particular, has been all the rage. The necessary technology to support the solar energy industry has advanced so quickly that set-up costs have plummeted. “Solar has dropped by more than 85% in the last decade,” Denham’s

Co-President and Managing Partner Scott Mackin, who oversees the firm’s Power team, confirms. With low set-up costs, set-up time frames have sped up. “We can build a facility in 6 to 9 months. Solar is the quickest thing to get up on the grid,” he offers.

Wind energy is also getting its chance to shine, albeit overshadowed by the rise of solar. Its longer set-up time frames are partly to blame. “Wind will generally take a year to 18 months after the financial closing. It takes longer to develop because you have to monitor your wind resource for a while before you begin. It’s a bit more complex than solar, but less complex than others.”



When it comes to picking the winning horse in renewable energy, you have to set your sight on market specifics, says Mackin. A careful assessment of market needs and baseload solutions are also important at the offset. “It could be hydro, or having access to gas-fired, otherwise there’s coal,” he asserts.

With that in mind, the days of traditional energy sources such as coal, oil and gas are far from long gone. Quite the opposite actually. Many emerging markets in Africa are reaching out for solutions that can address their growing energy needs based on peaceful coexistence: traditional hand-in-hand with renewables.

Also, traditional energy sources will be needed for baseload power until batteries become affordable and widely available. Mr. Mackin explains: “Countries with energy shortages need a lot of power, and they need it quickly. Today, to generate power for an emerging market, you’d start with solar, then you’d follow with hydro, wind or gas – whichever you have the more ample resources of. If you don’t have any of these, you may have to consider coal. But you have to have baseload power, also. The only thing that would alter this is if batteries become affordable, which would be a game changer.” Certainly a good tip for venture capitalists.

It is important to bear in mind that renewables are not always the most-

cost effective option out there. “It depends on a country’s solar regime,” Mr. Mackin offers. “For a country that can access gas more easily, it might be more economical to go for that than solar. But overall, solar is economical.”

Impact-conscious investors will be glad to know about the social side of renewables – besides their

*Involving
multilaterals in
our projects and
being a low-cost
provider of power
means that we
should survive
political turmoil
and have a wide
buyer market.*

unquestionable environmental-friendly appeal. Whereas setting up gas, coal or hydro is a complicated and drawn-out process that requires a long-term international workforce, renewable energy does not. The first wave of employees

might be international during the set-up stage, but it’s much easier to train the local workforce and provide them with permanent, gainful employment. A win-win for both local communities and businesses.

Yet another little noticed advantage of renewables is that there is a place for them everywhere. One has to just look at Germany: a solar-power leader at the global scale, although they don’t enjoy as much sunlight as African emerging economies do. “If there’s a will, there’s a way,” Mr. Mackin confirms. “It comes to a desire to make it happen.” South Africa has been a forerunner for the African market. Morocco has also taken leaps and bounds when it comes to renewables. Mr. Mackin also volunteers some other up-and-coming players embracing renewables: Zambia and Mozambique in the South, Nigeria, Ghana and Senegal in the West, as well as Kenya and Tanzania in the East.

The energy-thirsty African market is certainly fertile soil for wind and solar energy. Many European utility companies have already made the leap, followed by international developers, solar panel providers, wind turbine providers and a plethora of international firms – all enjoying support from both governments and multilaterals such as the World Bank, U.S. agencies and the OPEC, among others. The typical set-up with national governments looks much like the current situation in Brazil, Mr. Mackin re-

veals. “Most governments in Africa are opting for a system of privately-owned renewable projects, long-term contracted to sell power to the government or government-run agencies.”

He also offers some guidance for would-be investors who would like a piece of this appetizing emerging market opportunity. “Like anything, it depends on what your return hurdles are. If a particular investor’s lower hurdles reflect acquisition of operational projects, they will have access through stock ownership in public yield which are growing. For investors seeking high-debt returns, it’s a difficult market because re-

newable project finance debt is not as syndicated out as in, for example, the United States. There has been at least one bond deal done in South Africa on a renewable project, but most projects are debt financed by banks and multilaterals. For investors who want infrastructure-type returns, there’s plenty of that money in Africa looking for deals. You’d have to participate through an infrastructure player who’s in that market. Then there are insurance companies too. If you are looking for private-equity returns, there are a couple of firms out there –Denham being in our view a leader– that are positioned to take advantage of this market.”

Nevertheless, risk is always present in emerging markets – particularly political strife. Yet Mr. Mackin is quick to note: “Involving multilaterals in our projects and being a low-cost provider of power means that we should survive political turmoil and have a wide buyer market.” He offers a bittersweet anecdote of power stations in Cote d’Ivoire which didn’t just survive the civil war that tore this country apart, but also got paid up every month. After all, energy is a basic need that must be met, even in times of crisis.

Dispelling Myths About Impact Investment

Keith Allman is an author who has published four books on quantitative finance establishing himself as a figure in the world of commercial investment. His most recent oeuvre, *Impact Investment: A Practical Guide to Investment Process and Social Impact Analysis*, is a book destined for all investors and wealth managers who want to thread the increasingly tempting yet grossly misunderstood field of impact investing.

Investors often fear that impact investment is not as lucrative as its counterparts. Yet Mr. Allman quickly dispels our first myth: “There are certain funds that will have lower returns, but because of mandates,” he clarifies. “Your returns will be impacted if you have a social criteria that is too strict.”

Another common misconception is that impact investment directly targets lower-income populations. But it’s much broader than that, he explains: “Impact investment can be about setting up a port, creating jobs and by doing so, enhancing the local economy.” Impact investment is not just for the poor: it can benefit a greater part of the popu-

lation. “You bolster the economy, and that can trickle down to the low income,” he confirms.

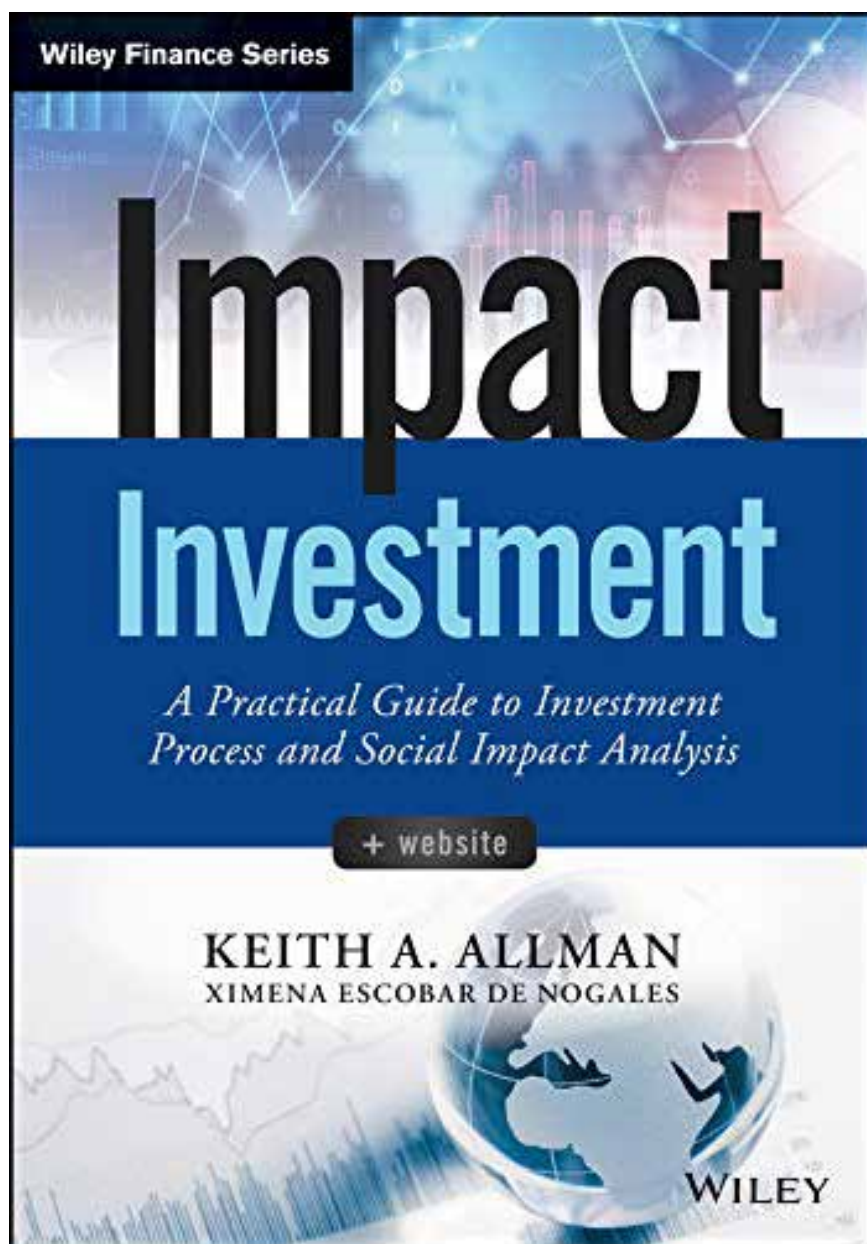
Socially responsible impact investment is certainly on the rise. We have moved on from the carbon era towards renewable energy and low-income housing. The lower cost of environmentally-friendly technologies have made it a worthwhile and profitable option. Billions

have been invested in this field and continue to be, alluringly displaying the true potential attributed to impact investment. Just a peek at any media outlet today will reveal that this particular form of impact investment –renewable energies– is certainly trending. “You can already see the growth, for instance, of solar,” Mr. Allman confirms, “Take solar in developing markets, and you’ll see the price has gone

down to the point it now seems economical to leapfrog. So it’s now to the point where people don’t look at it like an impact investment, they just look at it like a rational business decision.”

It appears to be a win-win for all. Increasing profits from impact investment combined with cheaper technologies to make sustainable-minded development a reality have transformed the ugly duckling of investment into a majestic swan. Yet there’s more to it than just good will: “I think that for some investors it’s purely just math. And I think that with a lot of investors you meet, they’ll say ‘I’m just investing for returns’ and if you look at the larger guys with the real capital – the pension funds and the insurance companies of the world– some have a fiduciary responsibility towards their entity. They might not have impact-related decisions, but this makes sense, it’s a win-win.”

Although developed markets are increasingly leaning towards impact investment, emerging markets are certainly still the main breeding ground for sustainable investment ventures. But do EMs and SI necessarily go hand in hand? “I think there are more opportunities there because the situations are more obvious,” he reveals, “so you can easily see the need.” Yet, developed markets are in dire need of more than just renewable energy. “I think the less obvious are development programs for inner-cities, like try-



ing to revitalize Detroit. It's not so obvious when look at it in a global scale."

Still, emerging markets remain the Valhalla of impact investment. The reason is historic: taking the energy sector as an example, in currently developed economies, we started with coal and followed up with nuclear energy, finally making a turn towards sustainable and alternative sources. In emerging and frontier markets, sustainable alternatives can be the first choice. Plus, the first investments that go in have already been developed to have a larger impact – whereas developed economies started capitalistic and then thought about sustainability. High profits came first, sustainability merely an afterthought. With sustainable alternatives becoming cost-efficient, and impact investment profitable, this no longer has to be the case for emerging markets.

The key difference for impact investment in developed countries is where the focus is: here companies are more prone to boosting job creation, urbanization, etc. Mr. Allman agrees that this is a case of insider knowledge: the American or European investor is more aware of the specifics of their own market and region, and knows where to invest while minimizing their risk. On the other hand, when going into unknown territory in an emerging markets, a myriad of problems pop up, namely as a results of currency exchange and lack of local knowledge.

The reach of the impact does have its limitations. "The product or service has to be the socially responsible part of the business and it has to affect the population," Mr. Allman informs.

Commercial returns or subsidized returns? To risk or not to risk, that is the question. While greater profits may be reaped from commercial returns, as expected, the risk factor might make some investors uncomfortable. For stable returns and a high-impact factor, play-it-safe investors will find that subsidized returns are worth a look. "There are quite a lot of funds out there now that are trying to address some of the impact problems. The returns are lower than you would get if you invested in other types of funds, but the impact is much higher."

Curious potential investors might wonder: where to invest while maximizing the impact factor? The answer is not so self-evident, as Mr. Allman reveals by providing his expert opinion: "If I'm looking for commercial returns, I almost think that the best entities to look at are private-equity funds that are not established as exclusively impact funds. They might say that they do impact work, but a component of their money they are free to invest in regular investments. Also, if you're looking to go abroad, they should be local funds. They're generally a larger fund, hundreds of millions of dollars. Most of their fund is in traditional investments,

but they do dedicate a portion of their fund to impact. And that portion of their fund is about the size of many specialized impact funds. But they have the economies of scale to monitor effectively, to build value, to exit correctly. They have the resources to employ very high-quality investment managers. So if you're looking at it from a commercial basis and you want that type of return with that type of impact, I think you should be really examining those types of companies on a local level."

The seed has been planted. More people are having the conversation about impact investment, asking about it. "Whether it's from a board member or a director who says 'I'm interested in energy' or it's a reputational risk issue, I think it's on some people's minds. Before Bamboo, before impact, I worked in the private sector at a very large bank and never came across conversations like that." That's the first major step. And then there's also Keith Allman's book.

The 80s era in which investors charged into emerging markets guns ablaze are long gone. Now investors must align their goals with those of the local populations, simply because it's been proven to be the smart way to invest. Here's hoping that in ten years from now, sustainable investment will be more than just a trend, but actually how one invests.

Predictive Analytics Opens the Doors to Africa

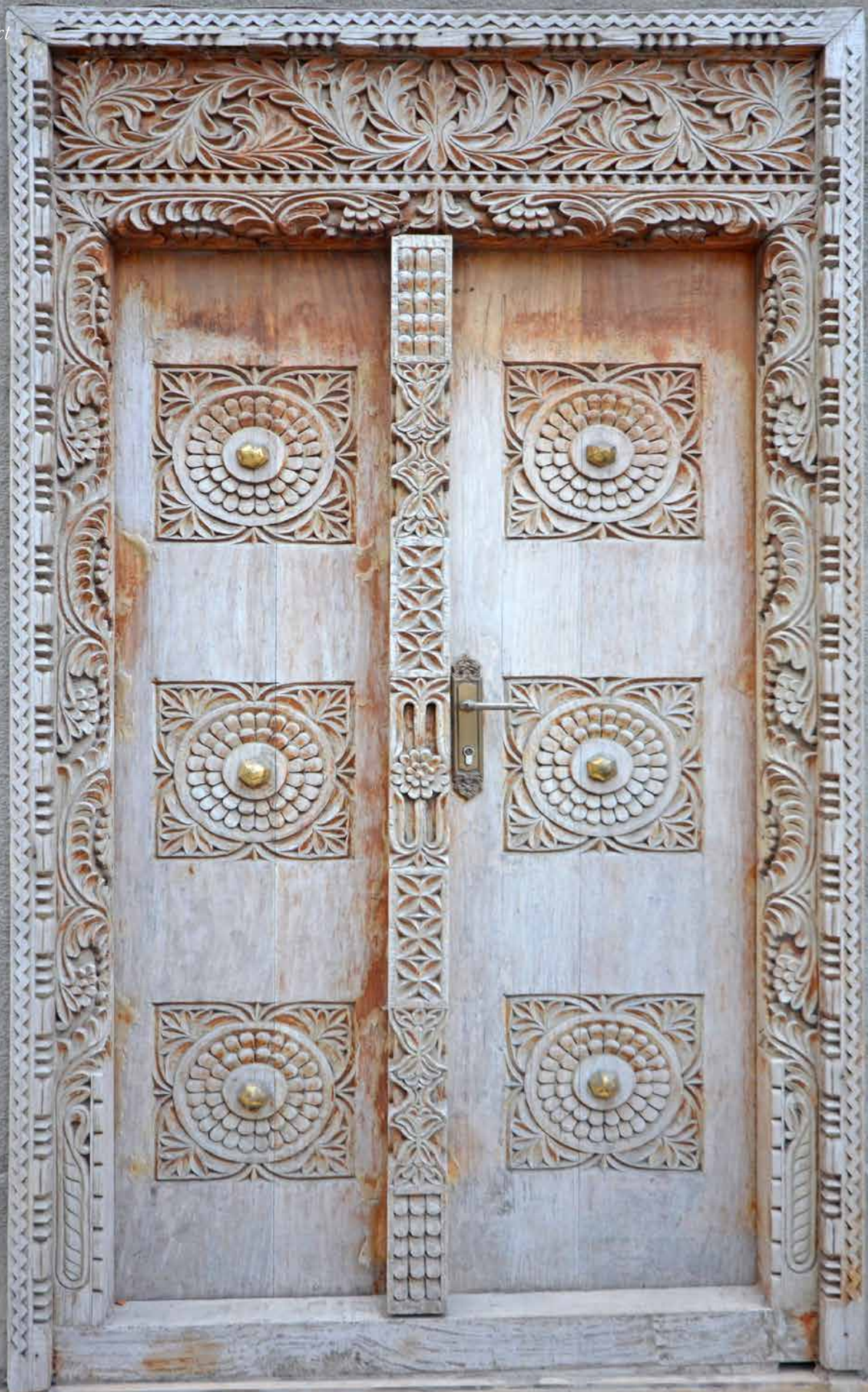
Predictive analytics are as close as seeing into the future as one can get – and even the U.S. Department of Defense agrees.

DC-based analytics firm Novametrics' holistic approach to risk management was employed by the U.S. government to accurately forecast terrorist attacks by Boko Haram in Nigeria. In 2012, the general report was that the influence of the terrorist group was waning. Novametrics independently assessed the influence of Boko Haram and identified vulnerable areas by using their weak signal analysis to integrate large amounts of socio-cultural and environmental data. Their predictions were unfortunately correct, as evidenced by the gruesome attacks that took place the following year and brought Boko Haram back under the international spotlight. Novametrics' analytical capabilities boast an 82% effectiveness. Fur-

thermore, their unparalleled and proven proficiency at assessing risk and characterizing vulnerability earned them a \$1.2 million Innovative Research Award from the U.S. Secretary of Defense.

The Science

The same technology is now available to emerging market investors, confirms Novametrics' founder Dr. Gregory van der Vink. "We turned the algorithms around, and instead of looking at the areas where risks converge badly, we identify areas where the factors converge for the best investment opportunities". What



Novametrics can provide, in just a few words, is the ability to more strategically navigate developing markets. Their weak-signal analyses enables investors to explore new territories with confidence and find their sweet spots. In Dr. van der Vink's words, Novametrics' predictive analytics can be summarized as follows: "If we have this type of business in this area, it will be this profitable, and we can say that with this level of confidence." Whereas his colleague at the award-winning company, Dr. Bogden, presents it in another way: "What we do basically is run comprehensive risk and optimization analysis to identify the prime opportunities." Now, risk-adverse investors can enjoy the same peace of mind that guides their business transactions in developed markets, but in the intrepid emerging markets, while making sense out of the plethora of data out there to base their decisions on cutting-edge analytical technology and pinpoint investment sweet spots.

Of course, analyzing risk to identify and evaluate prime opportunities is no easy task. There are thousands of variables at play that can make or break a capital venture or corporate expansion. There is a huge benefit for investors in utilizing analytic science. Novametrics' proven track-record has attracted the interest of investment firms and government agencies alike, who realize the potential of data-based solutions for achieving successful outcomes for seemingly unrelated purposes such as maximizing profit and combating terrorism.

For sound decision-making, investors as much as government officials need access to clear and concise analysis. Dr. van der Vink confirms this very fact: "You have to look at the thousands of factors involved in a successful business venture, and find the optimization -- where all the factors required for success converge."

Novametrics' multifaceted analytical approach of weak signal analysis closes down on a target area, evaluates environmental risk and social-political factors, then spotlights the prime opportunities for new ventures or the optimization of current ones. Their extensive database includes detailed census surveys, climatic models,

news agencies and media and integrated high-resolution satellite imaging, among other data sources. The data are integrated through predictive analytics to forecast profit potential, while detecting emerging threats and allowing the would-be-investor to mitigate risk.

Impact

For Novametrics, impact is an integral factor in reducing risk and increasing profits, not just a happenstance side effect or secondary goal for asset allocation. They enhance profitability and reduce risk by aligning clients' objectives with the area's capabilities and development priorities. It's simple: impact necessitates sustainability, and the later comes hand in hand with working alongside the host country, taking advantage of the financial incentives, employing its population and using –without depleting– the natural resources available. That's where the prime opportunities lie, in promoting environmentally sustainable economic development. But how can the investor tap into that? With Novametrics' careful due-diligence and thorough analytics. "That's how you find these sweet spots, where you have tremendously profitable business opportunities with minimal risk," Dr. Van der Vink confirms. Novametrics' comprehensive solutions account for the thousands of critical factors that lead to impact-minded commercial success. This includes an assiduous assessment of natural resources, environmental factors, development priorities and the sociocultural landscape – just to name a few. By letting Novametrics painstakingly analyze these factors, investors can benefit from ventures that simultaneously exert a positive impact on the region.

Liberia

Would you advise your clients or firm to make an investment in Liberia? The most likely response would be 'no'. Taking into consideration that global assessment agencies have rated Liberia one of the most corrupt,

least transparent and highly difficult countries to do business in, why would you? Yet at the same time, the nation has extensive natural resources and an untapped labor force. Novametrics was challenged to identify a highly-profitable and sustainable development project that would be simultaneously risk-resilient.

The team began working to identify a project and sector with the highest potential for: 1) financial profitability, 2) environmental-sustainability, 3) economic development (with highest human health benefits). Novametrics analyzed land productivity, natural resource distribution, workforce demographics, infrastructure, communications, transportation, energy financial incentives, and market access, as well as risk factors that included instability, corruption, and environmental disruptions. Thousands of data points were statistically integrated and quantitatively optimized using weak signal analysis. The results were triangulated and the ideal locations for such a venture were identified: those that would have the natural resources required at hand, the right logistics and infrastructure as well as a skilled local workforce – all factors that reduce pollution, maintain natural resources, and support the local economy while creating jobs and profiting from development priorities. From the resulting analytics, it was determined that the production of high-quality, organically-grown latex products would be a highly profitable, environmentally-sustainable venture. By aligning the latex manufacturing plant with a local university, partnering with a consortium of rubber growers, and identifying a location with renewable energy and market access, the project minimized its risk and

maximized efficiency profiting from existing local infrastructure. The carbon-neutral manufacturing plant will operate off the grid, eliminating vulnerabilities to risks associated with unreliable energy supply. The integration with the local consortium of rubber growers and university programs ensures strong local support and an educated workforce. The project addresses so many of the nation's development goals, that additional economic incentives are being awarded to it by Liberia's economic development office. Investors are

being attracted to the project not only for its profitability, but also because of its role as a flagship enterprise for environmentally-sustainable economic development. The impact, in turn, is providing market advantage that allows for premium pricing for socially-responsible, healthful, and environmentally-sustainable markets.

The impact, in turn, is providing market advantage that allows for premium pricing for socially-responsible, healthful, and environmentally-sustainable markets.

Africa Rising

It is no news that Africa has become a popular destination for emerging market investors and multinational expansion. Institutional investors have raced towards the African continent thirsty for portfolio diversification. Just last year, private-equity funds have invested \$8.1 billion

USD in African companies – a record amount just short of the \$8.3 billion USD high for 2007. Its growing consumer base with ever-increasing disposable income, combined with rich natural resources and an increasingly stable political climate, means that Africa now offers prime pickings for the trail-blazing investor. What's more: governments are welcoming investors with open arms.

Liberia Results	
Risks	• Mitigated through identification of prime opportunity and alignment with local goals & needs • Addressed infrastructure, energy, workforce, corruption, supply lines, market access, natural resources, etc
Impact	• Job creation as well as on-going contributions to AIDS/HIV prevention. contributes to essentially every development goal - poverty reduction, human health, & environmental sustainability
Profit	• Annualized ROI over first five years >30% • 10.2 Million USD project turning over 4.8 million USD in net revenue, which will increase by 1 million USD when original financing is paid off at year five

In brief, the stage is set for success, as World Bank indicators have revealed the main drivers of this continent's economic expansion: a large local consumer market with a growing amount of disposable income, infrastructure development, an increasingly skilled labor force, strong GDP growth reinforced by intra-regional trade agreements, and a marked rise in FDI.

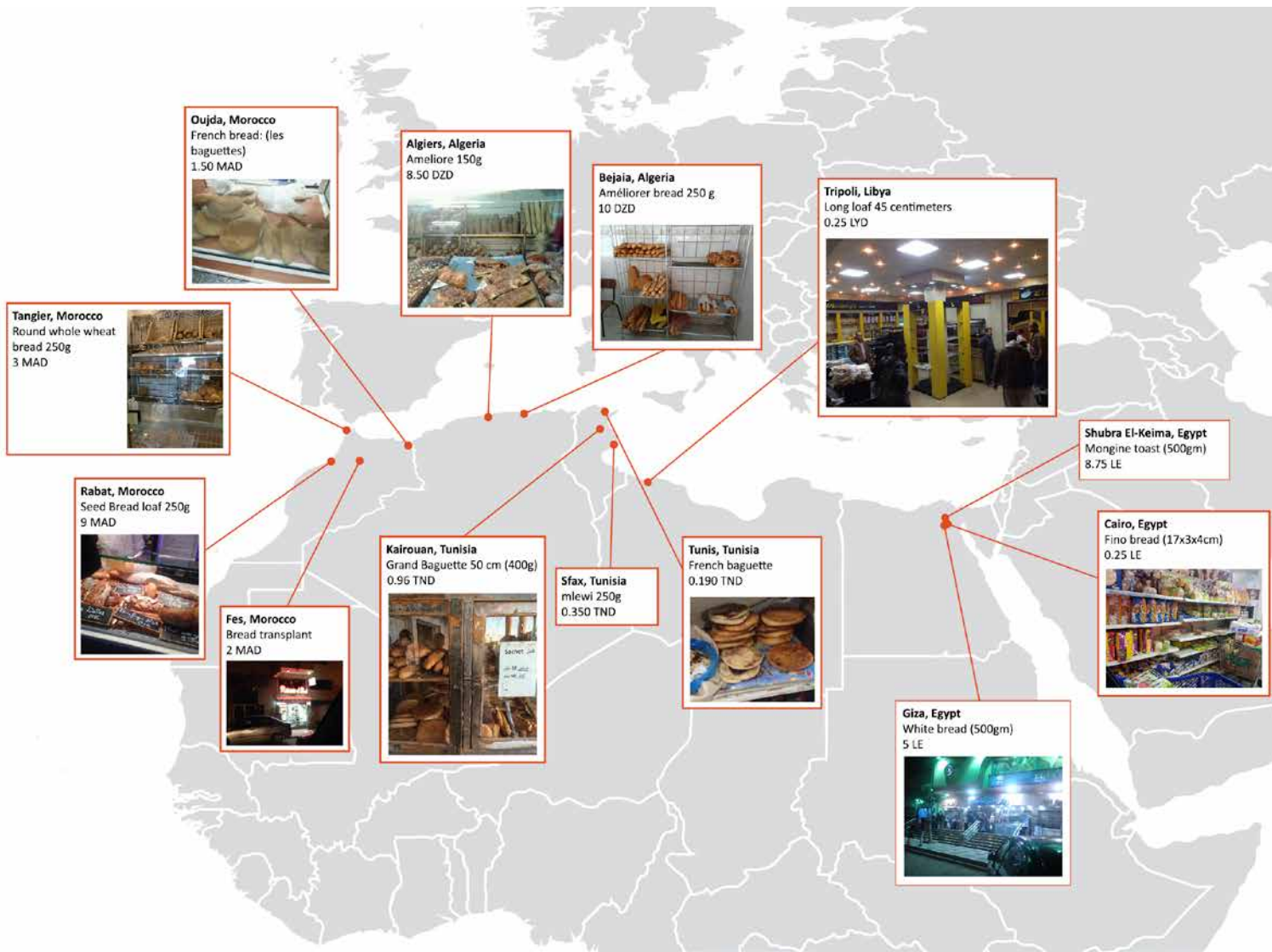
Yet the risks remain daunting: political strife, conflicts with local governance requirements, impediments to accessing capital, planning and logistics challenges, pinpointing adequate physical resources and struggles in finding the right talent in the right place. Moderately elevated risk and perceived obstacles for compiling on-the-ground due-diligence puts off would-be finance mavens from setting sail towards attractive African multiples. Recent patterns indicate that only the brav-

est dare venture into the continent, yet these pioneers are rewarded with first mover benefits in a highly diversified market with few competitors – while the rest observe from the sidelines.

With Novametrics, this no longer needs to be true: savvy investors who want to mitigate risk and seamlessly overcome these only-in-appearance insurmountable obstacles can employ a 'scientific' strategic entry approach. What is certain is that the sky's the limit in this largely uncharted financial territory. To navigate it, explorers will need to be armed with a good map that minimizes risk and guides them towards the fertile lands they seek. A map that Novametrics' state-of-the-art solutions can provide, with the very same analytical and predictive science that help detect prime opportunities and optimize efficiency across this vast continent.

Food prices in North Africa

One of the most important factors for predicting local political risk in emerging markets are food prices. Bread in particular serves as a staple food across the MENA region. Some have argued that the Arab Spring was exacerbated –or even caused to some extent– by rising food prices. This issue’s data snapshot provides bread prices across a dozen cities in North Africa. Smart investors in emerging markets should track and pay attention to food prices and political risk when making decisions.





About the Author

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The Nigeria Conundrum

 James Knight

The fact that Nigeria has hardly been featured in the international news agenda since March is undoubtedly a good thing, and simply reinforces how remarkable its recent elections were. Providing endearing evidence of the country's ability to confound expectations, the dire predictions of a descent into mayhem following a closely-fought Presidential campaign proved to be reassuringly melodramatic.

Instead, a nation voted, and power changed hands at the ballot box. Without bloodshed, without a military coup, without a long-protracted legal dispute. That is hardly the stuff of headline writers' dreams, but one should not discount how momentous and giddy it

was for a nation to experience for the first time in 55 years of fragile democracy an incumbent President being defeated at the ballot box.

Outgoing President Jonathan has had his fair share of critics over the past six years, particularly for his

apparent inability to act decisively in times of crisis; but he was quick to admit defeat to his rival, Muhammadu Buhari, a 72-year-old former military leader who was on his fourth attempt at climbing the democratic route to the top. Jonathan's gesture did more to shore up belief in the democratic process in this oil-rich country than anything else achieved in his time in charge. And, having made a courageous and humble decision to respect the will of the Nigerian people rather than try and cling on to power with his fingernails, he has no doubt shuffled off the international stage in the knowledge that some of the charges of excess and graft that characterized his administration will not be landing at his door.

Despite the momentous electoral events, Nigeria remains Nigeria. The country operates on a complex web of patronage politics, with the

wheels greased by money coming from its vast, leaky, oil and gas industry. A rapid jostle for position among the business elite took place ahead of Buhari's inauguration on 29 May: as important as the ministers that the President Elect appoints will be the subtle shift in the strata of Nigeria's oligarchs over the second half of 2015. Aliko Dangote – Africa's richest man – is a northerner himself, and too much a part of the furniture to be affected by anything as transient as a change of President. He has already made such vast sums of money from his concrete business that he has little left to prove, and his new interests in refineries, power infrastructure, and agriculture, are all desperately needed in the Nigerian economy. Other figures, however, have been much more dependent on links they have forged with the outgoing administration, particularly the previous Oil Minister Diezani Alison-Madueke, and it remains to be seen whether their stock will fall in the coming months.

The naming of ministers and rise of new business alliances will reveal to what extent Mr Buhari's main political ally, the experienced Lagos politician Bola Tinubu – who helped deliver a swathe of votes from other ethnic groups in the southwest of the country to the opposition APC alliance – will play a role in the new administration. Another key behind-the-scenes player is former President Olusegun Obasanjo, a PDP stalwart and another former

military man, will take a backstage position in bridging gaps between Nigeria's two political parties in the national interest.

The business community has breathed a huge sigh of relief that political change has not deteriorated into violence. Buhari, in his speech to the new Congress, rightly mentioned the power sector as one

*Chronic levels of
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over the last ten years.
The security situation
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further investments in a
nascent mining industry.*

of the most important to Nigeria's future; it is the bedrock on which sustained economic growth will be built. Backing reforms in this sector instituted by Jonathan will be key, and an example of where continuity, rather than radical change, is

needed. Improvements in the structuring and incentivization of power generation and distribution must be matched by reforms in the transmission sector.

Despite the growth of the agricultural sector, and aspirations to grow services, telecoms and manufacturing sectors, oil and gas remain the bedrock of Nigeria's foreign exchange earnings, and will do for some time to come. The passage of the much-delayed Petroleum Industry Bill (PIB) through Congress will be a key item of the new legislative agenda, with implications for the International Oil Companies (IOCs) and local Nigerian firms.

But low oil prices have sent reserves through the floor, and will restrict the Finance Ministry's room for maneuver to pay for much-needed public services. Chronic levels of unemployment underline the lack of productivity in an economy that has seen year-on-year GDP growth of around 6-7pc over the last ten years. The security situation in the northeast prevents further investments in a nascent mining industry. While Buhari, as a northern Muslim and ex-military man, would seem to be well-equipped to grip the Boko Haram Islamist insurgency, his party have little experience in managing Nigeria's complex and interlocking security apparatus, elements of which often work to their own agendas. He also faces an uptick in insecurity among militants in the volatile Delta region, who have

the capacity to cause considerable damage to oil supply pipelines. Jonathan managed to keep a lid on this due to his ethnic and cultural links to the region; Buhari will be viewed with distrust, but has moved quickly to underline his committing to ending the continued environmental degradation that has blighted the region.

Overall the optimism is, for once, well founded. Nigeria can take heart from a new maturity to its political system, as it inches towards becoming one of the world's 20 largest economies by 2020. But the euphoria will need to be replaced by concrete action, and quickly.

About the Author

James Knight is a consultant with ten years' experience of working in and with emerging market countries. He is Director of Pionero Partners, a UK-based risk and strategic advisory consultancy serving international clients. He previously handled projects for Barclays Bank plc, the World Bank, and the United Nations. He started his career as a journalist, working for The Sunday Times, Reuters, The Economist, and Africa Confidential covering business, investment and conflict. He holds a degree from Cambridge University.

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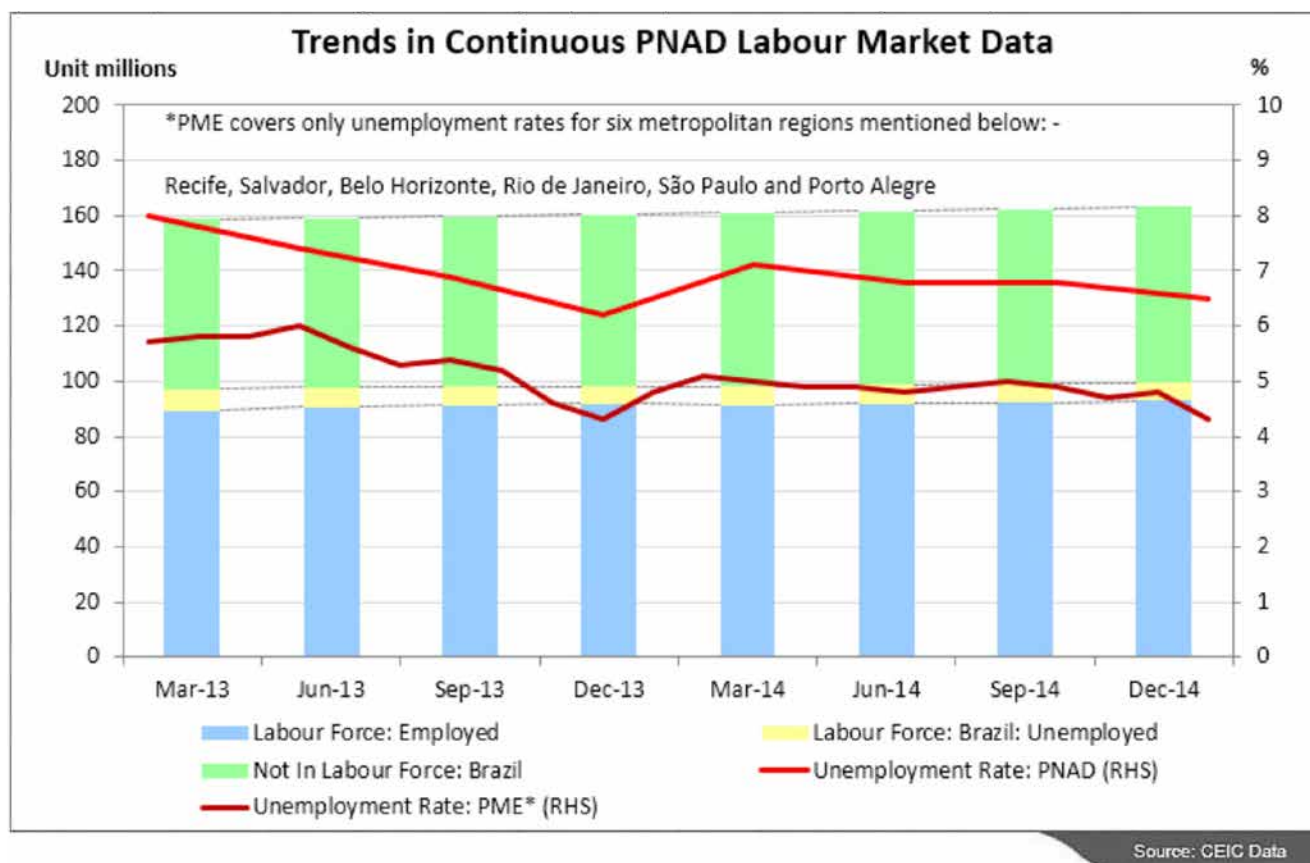
What does the New Brazilian Household Survey Say about the Labour Market?

The continuous national household sample survey (Continuous PNAD), which was recently released by the Brazilian Institute of Geography and Statistics (IBGE), provides users with a snapshot of Brazil's labour market. The survey is based on a sample of approximately 200,000 housing units in around 3,500 municipalities. While other labour market indices have existed prior to this, the Continuous PNAD enhances the range of available statistics by broadening their scope; one of the previous labour market indexes, the Monthly Employment Survey (PME), covered only the six largest metropolitan areas out of the twenty metropolitan regions across the country.

The national average unemployment rate stood at 6.5% in the fourth quarter of 2014, down from 6.8% during the previous quarter. However, as unemployment traditionally dips during the fourth quarter due to seasonal considerations, the decline in unemployment was unimpressive. Indeed, compared to its year-earlier level of 6.2% the unemployment rate was higher during the fourth quarter of 2014. Unemployment rates were particularly high in the Northeastern Region (at 8.3%) and were considerably higher for the female segment of the population (9.8%) than males (7.2%). Youth unemployment was particularly prominent with unemployed workers aged 18-39 years old contributing to around 70% of

total unemployed workers. According to the PME, the average unemployment rate was 4.6% in the fourth quarter of 2014, down from an average of 4.9% during the previous quarter and 4.7% during the same period of 2013.

Brazil's labour force participation has also been another area of concern. There were 63.8 million working age persons in the labour force as at the fourth quarter of 2014, an increase from 60.7 million in the first quarter of 2012. This corresponds to Brazil's labour force participation rate falling from 61.2% as at Q12012 to 60.9% as at Q42014. While the decline in labour force participation was relatively small, the declining trend in the labour



force participation rate since mid-2012 has been a cause for concern. A pessimistic explanation suggests that this is largely prompted by discouraged youths exiting or not participating in the labour market due to high unemployment among the young, along with the shortage of job opportunities. This questions

the ability of the Brazilian economy to create sufficient jobs, especially to counteract rising youth unemployment. However, a more optimistic reading suggests there is also deferment of employment as youths seek to improve their education levels, which is supported by modest increases in the number of employ-

ees who have participated in higher education. Workers with completed higher education levels rose to 18.6 million during Q42014 from 17.2 million during Q42013.

Contributed by Bruna Ferreira, CEIC Analyst

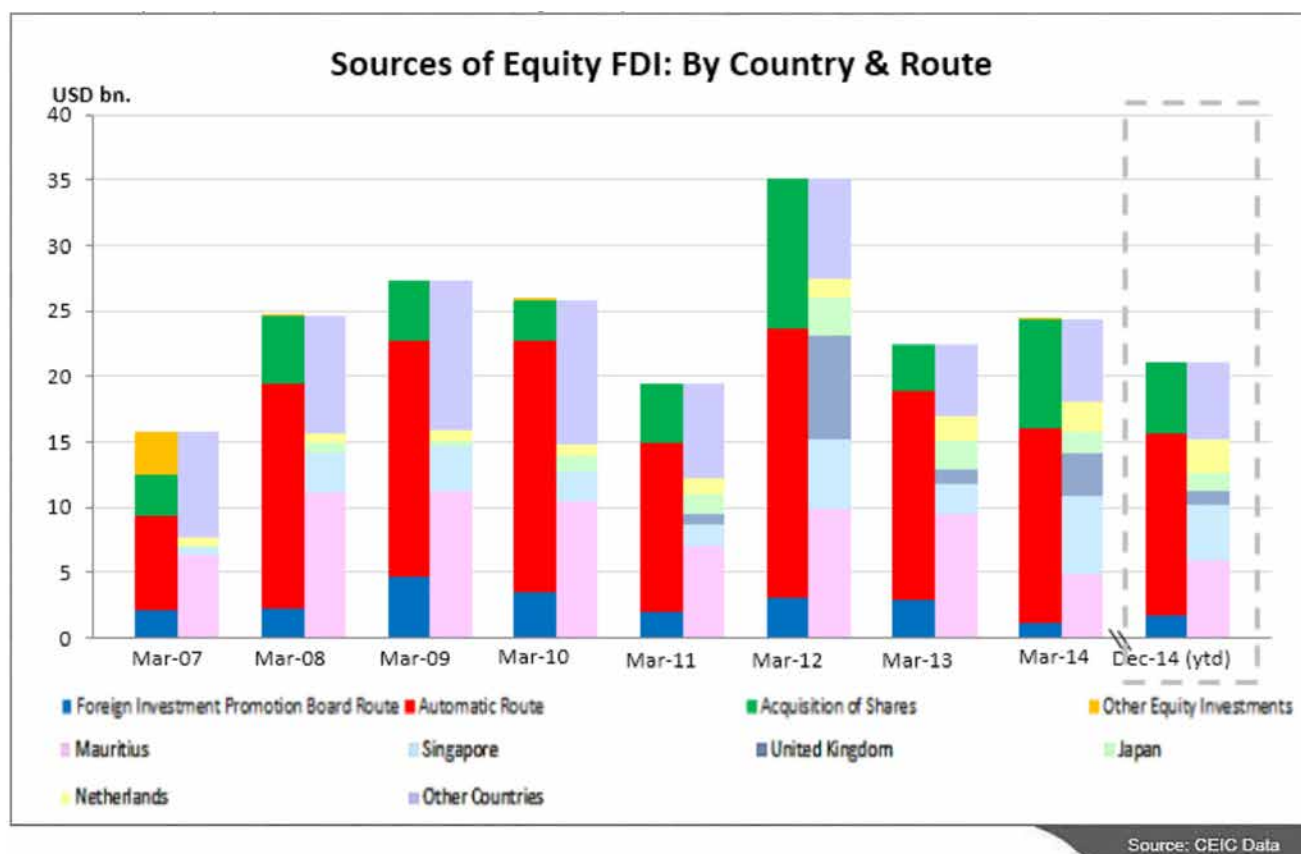
How is India's inward FDI derived and how can it increase?

India attracted net inward foreign direct investment (FDI) amounting to USD30.76 billion during the fiscal year ended March 2014, a 14.13% increase compared to the previous fiscal year. However, India's FDI comprised just 1.48% of its GDP in 2014, comparing poorly with its regional neighbours, notably Singapore (24.6%), but also China at (2.92%) and Malaysia (2.81%). Given that equity direct investments remain one of the most popular sources of India's FDI (comprising 82.16% of the total FDI inflows as of 2014), a comprehensive evaluation of these types of investments may provide a better understanding of how to improve India's FDI flows.

The government of India has long sought to attract FDI through various incentives. One of the key milestones in India's foreign investment engagement came with its rationalisation of FDI procedures through the in-

troduction of the "automatic route". This provides a channel for foreign investors to bypass multiple approval processes for foreign investment activities. The automatic route allows foreign investors access to specified economic sectors without prior approval from the Foreign Investment Promotion Board (FIPB). This route reduces red tape and eases FDI inflows into India once non-residents obtain the requisite industrial licenses. Given the broadness of sectors covered by the automatic route, investments from this channel usually account for over 60% of total equity FDI (excluding a dip during 2007). Outside the automatic route, equity FDI may also come in the form of ordinary shares acquisition (or other instruments such as convertible debt), stock swaps or the FIPB route. The latter, also known as the "government route", covers foreign investments where prior approvals from the FIPB are required (in addition to other relevant agencies).

However, FDI via the automatic route saw two successive year-on-year (YoY) declines during the fiscal year ended March 2013 (-22.78% YoY) and 2014 (-6.88% YoY), in part due to weaknesses in the global economy. Overall equity FDI, however, grew by a modest 8.36% due to sharply improved inflows from the foreign acquisition of shares, which more than doubled during the 2014 fiscal year (rising 133% YoY). In the context of growth in equity FDI overall, amid decline in the automatic route investments (during the fiscal year ended March 2014), there are several possible interpretations. Increased appetite for foreign investments through share acquisitions may suggest a changing preference towards different foreign investment channels. A less benevolent view suggests possible downward trend in foreign direct investments being temporarily offset by a temporary surge in foreign share acquisition, as foreign inves-



tors seek to increase their stakes, especially in sectors without caps on foreign investments.

Also salient in India's foreign equity investment statistics is the investment country of origin. India has, effectively, gathered a significant portion of its FDI from Mauritius, accounting for more than 30% of foreign inflows (amounting to USD4.86 billion during the fiscal year ended March 2014) despite the relatively tiny economic size of Mauritius compared to other foreign investors (second is Singapore, followed by the United Kingdom, Japan and the Netherlands). This anomaly is largely due to the favourable taxation status of Mauritius and India. A comprehensive

Double Taxation Avoidance Agreement between India and Mauritius, especially on capital gains, allows gains accruing on foreign investment being taxed only in Mauritius and at a favourable 3% rate. As such, a large portion of foreign direct investment originating from Mauritius is channelled through the country by non-Mauritian enterprises, including Oracle Global, Merrill Lynch and Vodafone.

Due to the long-standing and unique relationship between India and Mauritius (including the Mauritian generous taxation regime), replicating these arrangements with other countries may not be a feasible means of promoting FDI. While the poor global economic climate

has somewhat dented India's ability to attract FDI, the latest data suggest that returns from its regulatory liberalisation in the 2000s may have peaked and that India must discover new ways to improve its FDI inflows, particularly through structural reforms and improvement in its infrastructure. More importantly, India must extricate itself from a "Catch-22" where it relies on FDI for enhancing its infrastructure and fostering growth yet requires enhanced infrastructure and credible growth prospects to attract these elusive FDIs in the first place.

Contributed by Ian Lim, CEIC Analyst

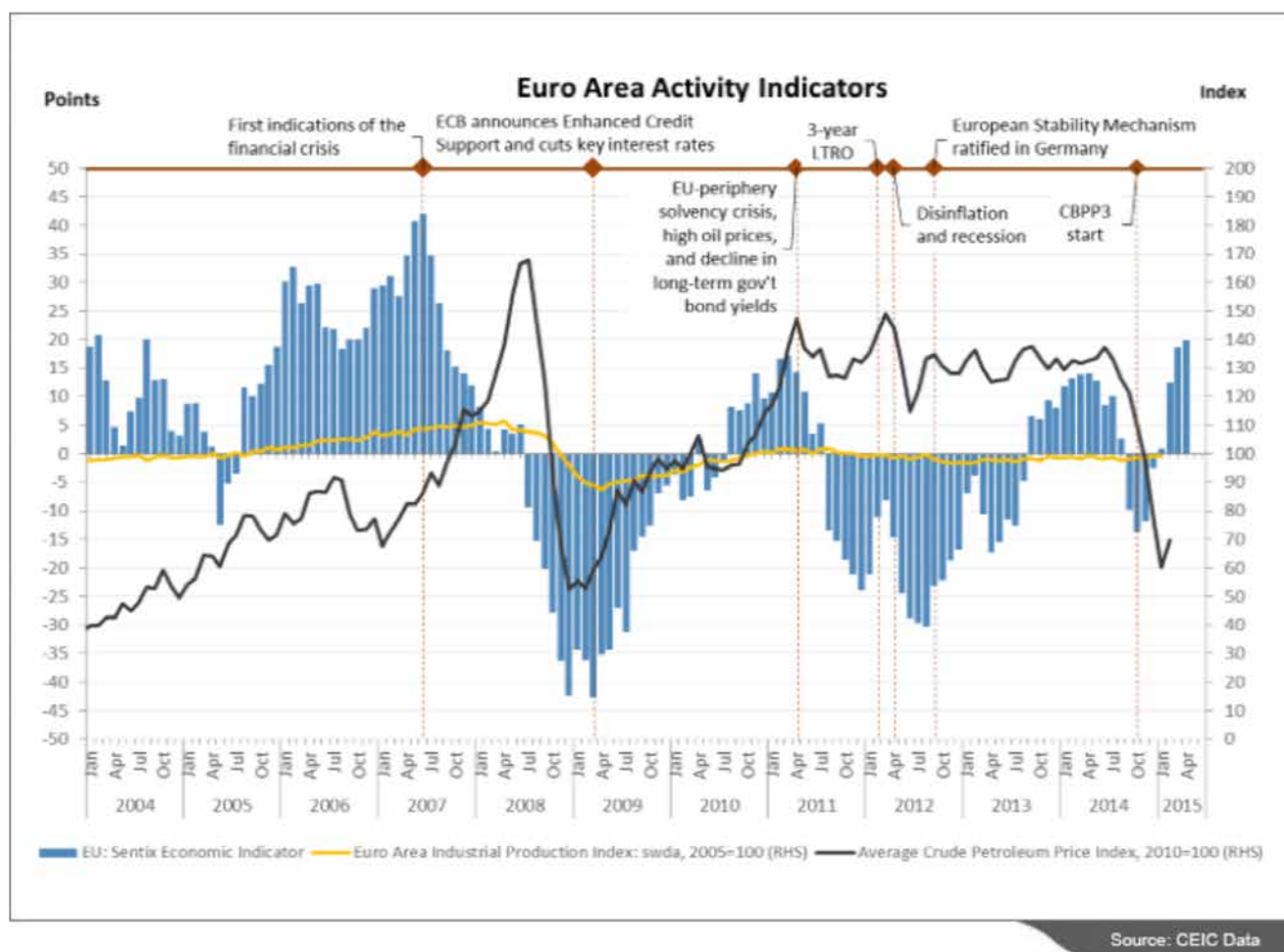
Economic Activity Outlook for the Euro Area - a Long and Winding Road Ahead

The past ten months brought a number of challenges and opportunities on both sides of the Atlantic: a record drop in global oil prices, the start of the euro area quantitative easing programme aimed at reviving its limping economic growth, and speculation that the US Federal Reserve will raise interest rates as it expects economic recovery to further tighten the labour market and stimulate inflation. These were some of the reasons for the plummeting bond yields in the Eurozone towards the end of 2014, and the depreciation of Euro against USD. The question is whether economic agents will react to these changes in a way that would increase activity in the Eurozone.

While there is no doubt that lower fuel prices can reduce the production and service costs for businesses, historical review of the data shows that they have not been pivotal in the overall production and investment dynamics of the European Union (EU). From the historical trends of some key activity indicators, such as industrial production, investor confidence, and equity value, oil prices are a driver only in extreme circumstances when market participants are sensitive to any signal. For example, oil prices seem to have been one of the factors dampening investors' expectations in the EU in April 2011, as measured by the Sentix economic indicator. However, this happened in the context of solvency issues in

the Eurozone periphery and sovereign bonds yield curve reversal, oil price volatilities is just one of many factors contributing to the recession experienced by the euro area over that period.

Indeed, European Central Bank's (ECB) actions, as well as signals from the 'real economy', such as inflation and unemployment, consumer confidence, and domestic political crises seem to affect activity indicators to a greater extent. The key driver of reversing the trend of investors' expectations and subsequently that of industrial production at the start of 2009 and 2012, and at the end of 2012 and 2014 seems to be ECB's policy re-



sponse to the euro area's problems, conducted via large-scale monetary policy and liquidity stimulus measures. On the other hand, the main factors for turning the trends down for these indicators seem to be the negative signals coming from continuous disinflation, persistent shortage of demand and growing unemployment. For example, the announcement of the 3-year long-term refinancing operations (LTRO) in December 2011 led to the Sentix economic indicator rising 15.8 percentage points between January and March 2012, leading to stabilisation in the IPI. However,

a sudden drop followed after poorer than expected data reported in March 2012 and the beginning of April (just before the Sentix survey was taken). February unemployment increased by 0.2 pp compared to December 2011, gross domestic product growth in the fourth quarter of 2011 slowed down from the previous quarter by 1.21 pp, wholesale and retail trade growth slowed down in January 2012 by 1.46 pp and inflation in February dropped slightly by 0.03 pp from December 2011 and was estimated to have dropped further in March.

Focusing on a more recent time-span and considering the euro area equities as an activity indicator highlights the influences of political crises. After the ECB introduced the third round of the covered bonds purchase programme (CBPP3) on 20 October, 2014, the MSCI equity index picked up by 6.8% in a day. The positive trend continued after the Asset Backed Securities Purchase Programme (ABSPP) was announced on 21 November, until 27 November when the MSCI index dropped by 0.5% and continued on a downward trend until mid-December 2014. In this case disinfla-

tion and a stagnant labour market, plus what was considered insufficient activity in bond holdings under the ABSPP, were influential. However, there was also another factor, a political one. The Greek bail-out question arose, which was to shape market reactions even further after 29 December 2014 when the Greek parliament dissolved.

The negative trend turned around for a longer period only after 7 January 2015 when new CPI data was released for December 2014 by Eurostat. Although the rate of inflation was negative, it was considered as a consequence of falling oil prices,

rather than the weak economy. Moreover, the data was taken as a signal that the ECB would roll out a new money supply expansion programme, purchasing government bonds. Equity markets reacted anticipating of euro currency depreciation, falling bond yields and increased equity trading. Investor, business and consumer sentiment also forecast increased economic activity, thus upward revisions of the official IMF World Economic Outlooks forecasts, to be released on April 14 is expected. Final inflation and unemployment figures for the first quarter are showing improving trends (reaching -0.9%

annual growth and 11.9% rate, respectively), so their development in the next few months will be keenly monitored.

Contributed by Hristo Nikodimov,
CEIC Analyst

The Russian Crude Oil Industry and Export Patterns in 2014

In spite of the recent political and economic challenges in Russia, crude oil production sustained its growth trend for a sixth consecutive year in 2014, reaching a record of 525 million tons. Crude oil production volumes collapsed during the 1990s, followed by a revival in the 2000s, but only recovered above 500 million tons in 2010 for the first time in the country's post-Soviet Union era. Export duties and tax revenues from oil production and trade constitute the largest share of the federal budget.

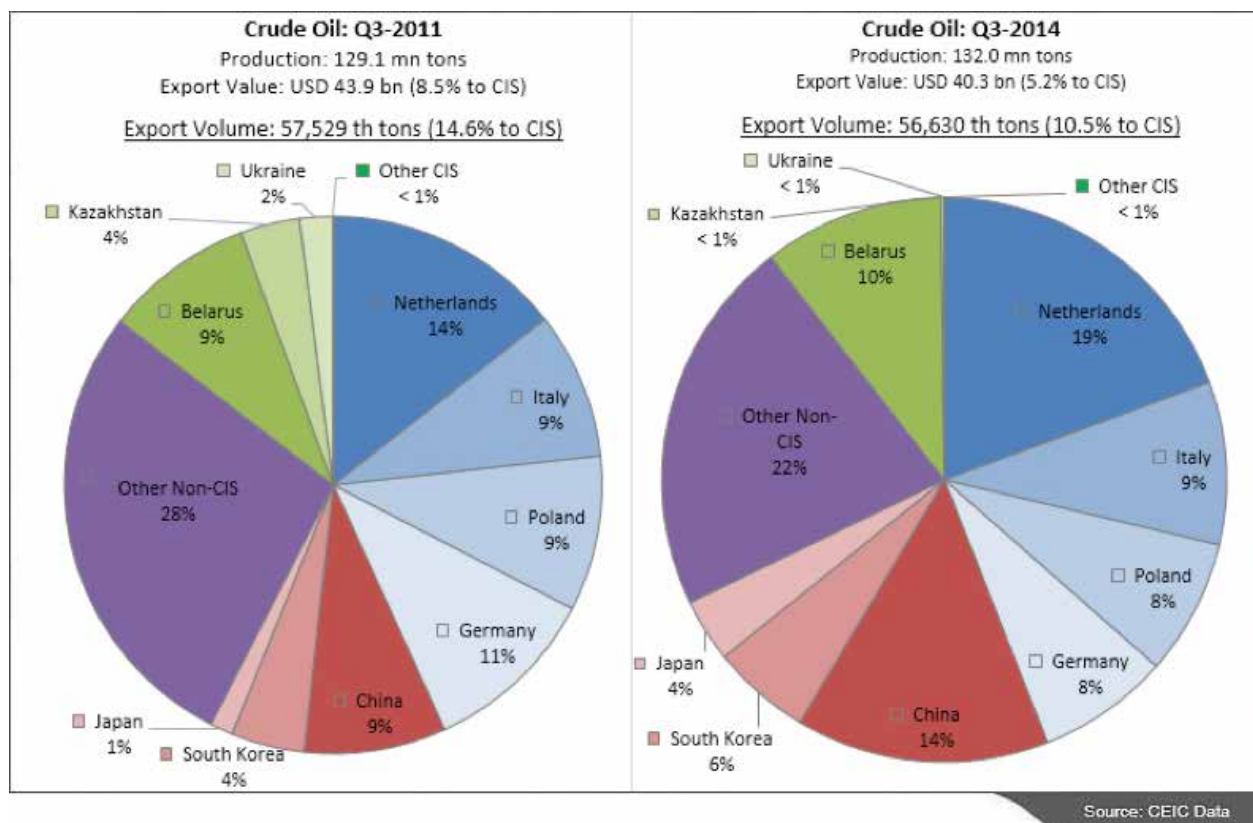
The volume of total crude oil exports declined by 5.6% year-on-year (YoY) in 2014. This, coupled with the steep oil price drop since the middle of last year, led to a decrease in export revenues in USD by 11.4% YoY. The Urals average crude oil price dropped from USD 108.93 per barrel in June 2014 to USD 46.58 per barrel in January 2015. The rouble devaluation ac-

counted for increasing rouble-denominated federal budget revenues from foreign trade of oil and gas, absorbing the pressure on the federal budget resulting from the decreasing USD-denominated export revenues. Federal government revenues from export customs duties on crude oil amounted to RUB 2.6 trillion in 2014 (RUB 2.3 trillion in 2013), which was the largest amount recorded in recent history.

The Commonwealth of Independent States (CIS) accounted for 10.8% of the total crude oil export volume of 223.4 million tons in 2014. In terms of value, however, crude oil export revenue from non-CIS countries totaled USD 145.6 billion or almost 95% of total crude oil revenues in 2014, since Russia sold oil at discounted prices to the CIS countries. The main CIS consumers of Russian oil have traditionally been Belarus, Kazakhstan and Ukraine. The balance, howev-

er, is changing in favour of Belarus, which increased its consumption of Russian oil by 73.1%, from 3.4 million tons in the first quarter of 2011 to 5.9 million tons in the third quarter of 2014. On the other hand, oil exports to Kazakhstan significantly diminished in 2014 from 2.3 million tons in the fourth quarter of 2013 to 0.1 million tons in the third quarter of 2014. Oil exports to Ukraine contracted to minimum levels and have remained close to zero during the past three years.

The Netherlands, Italy, Poland and Germany have traditionally been the main consumers of Russian oil in Western Europe, which has remained the major and the steadiest market for Russian oil for decades. The Netherlands is the largest importer reaching a peak of 56.9 million tons in 2010 and recording 32.2 million tons for the first nine months of 2014. Oil export growth to Europe has remained stagnant



during 2014, resulting from the strained trade relations with the European Union and Russia's expansionary policy in Asia.

Russia has expanded its presence in the Asian markets since 2009. Oil transportation capacities have grown in Siberia, streamlining Russia's oil exports to its Asian partners. The initial phase of the Eastern Siberia-Pacific Ocean oil pipeline construction was completed in 2009, and expanded to the Pacific coastline by 2012 to reach maximum capacity by 2015. China has taken the permanent position of the second largest consumer of Russian oil during the past two years, swiftly outrunning major European consumers. China imported 8.2 million tons of Russian crude oil in

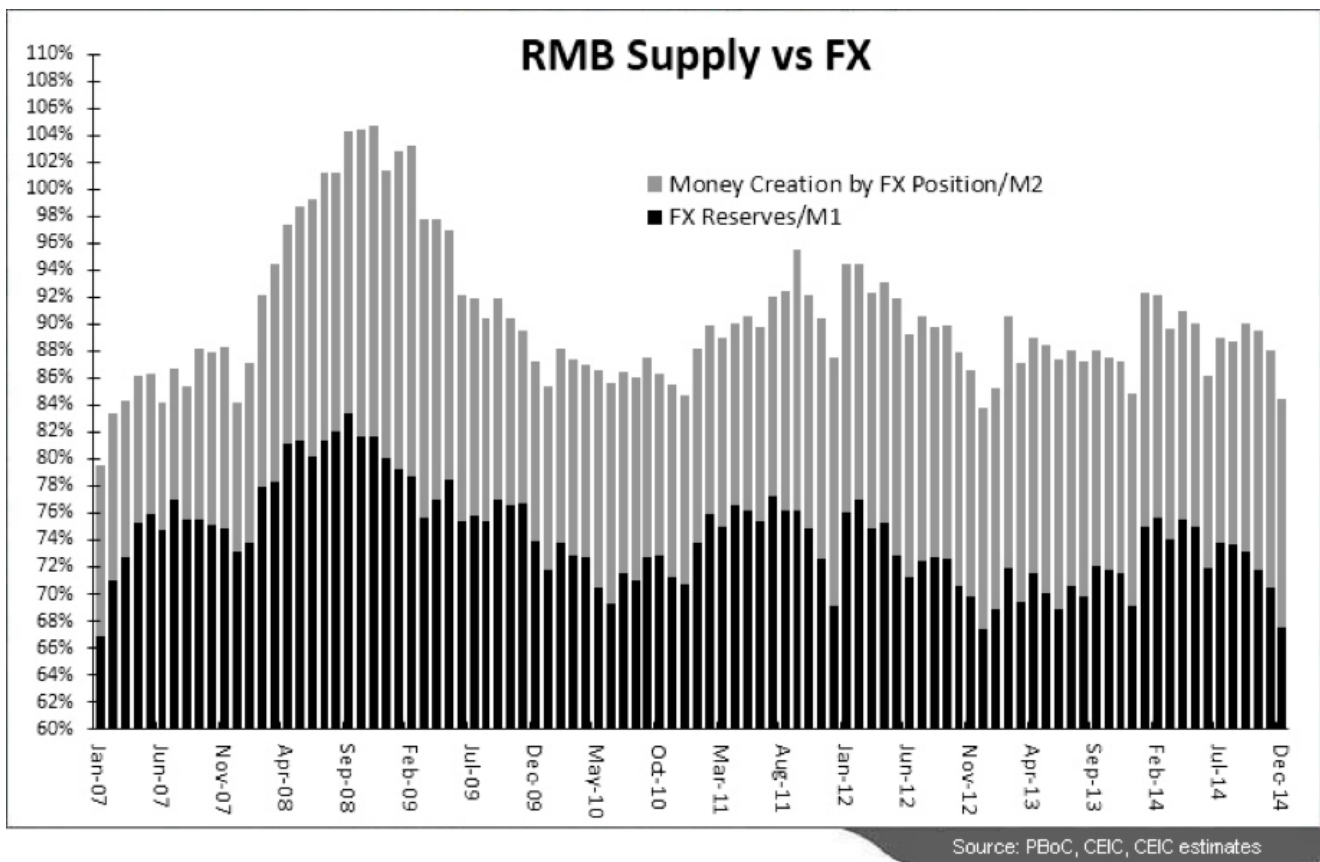
the third quarter of 2014, or 16.2% of the total non-CIS exports. Oil exports to South Korea have also significantly expanded in the last decade, peaking at 3.2 million tons in the third quarter of 2014. Oil exports to Japan reached 2.1 million tons in the same period, placing it in the top-10 importer list. Given the deteriorating relations with European partners, Asian markets are becoming increasingly important for Russia and new contracts with China are critical for further growth.

Oil and gas exports have been the main source of revenue for Russia and are a contentious topic due to the country's total dependence on oil and gas trade. The rouble devaluation only increases this dependence. The global oil price decline did not

have a significant negative impact on oil and gas revenues, which declined in foreign currency but rose in roubles at the same time. The rouble devaluation was a direct consequence of the oil price decline, providing a cushion for the budget revenues, while negatively affecting the financial system and purchasing power of the population. Interest rates and inflation have both risen, limiting internal access to credit. Foreign credit has been limited due to the sanctions. In the current conditions all industries, including oil and gas, might experience negative effects in terms of contracting investment and financing.

Contributed by Alexander Dembitski, CEIC Analyst

Internationalization of the RMB



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Will the RMB become a global reserve currency? The answer will appear after IMF's twice-a-decade review of the basket of currencies underlining

the Special Drawing Rights (SDRs) late this year. If the IMF decides to add the RMB into the basket, the path to RMB internationalization will be very well paved. The related impact

will be much greater than that of China's participation in WTO.

To push for the IMF's endorsement of the RMB as a global reserve cur-

rency alongside a strong US dollar would certainly be a very challenging task for the RMB given the current slowdown of the China's economy. It is expected that the RMB will face a lot of setbacks and will encounter hardships in its journey as a global currency, given China's current domestic and international economic-political environment. As the saying goes, "good things never come easy".

We may not be able to illustrate how this great undertaking will be carried out and accomplished. Yet, there is a close relationship between the RMB money supply system and China's foreign exchange whereby the US dollar content is very high in

the money supply. We will now use foreign reserves, position of foreign exchange purchases, M1 and M2 for the estimations below.

Estimates based on December 2014 statistics

1. Foreign reserves account for 67.6% of M1. If 65% of foreign reserves are US dollars, then it shows that M1 contains up to 44% of US dollars.

2. When money creation by FX position reaches 104 trillion yuan, then it is equivalent to 84.5% of M2.

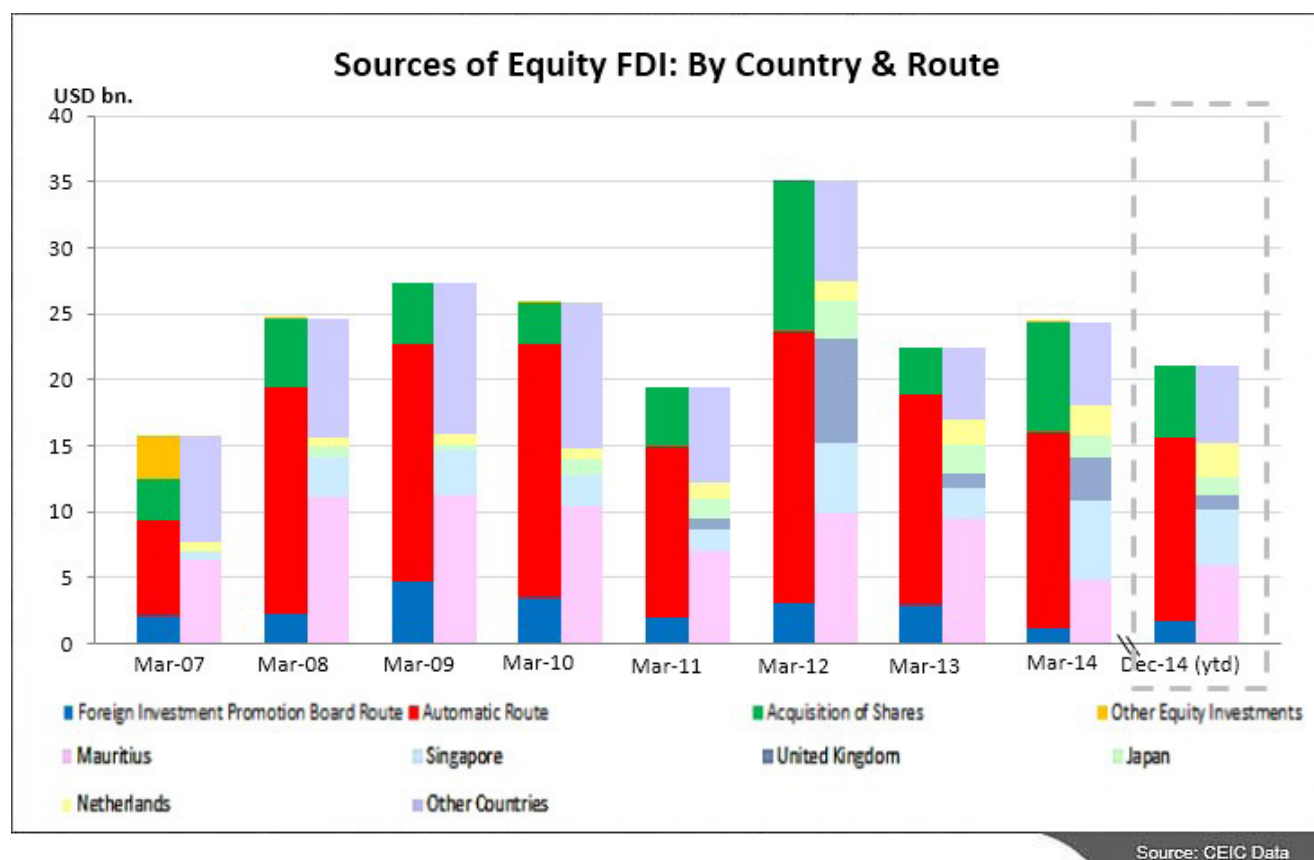
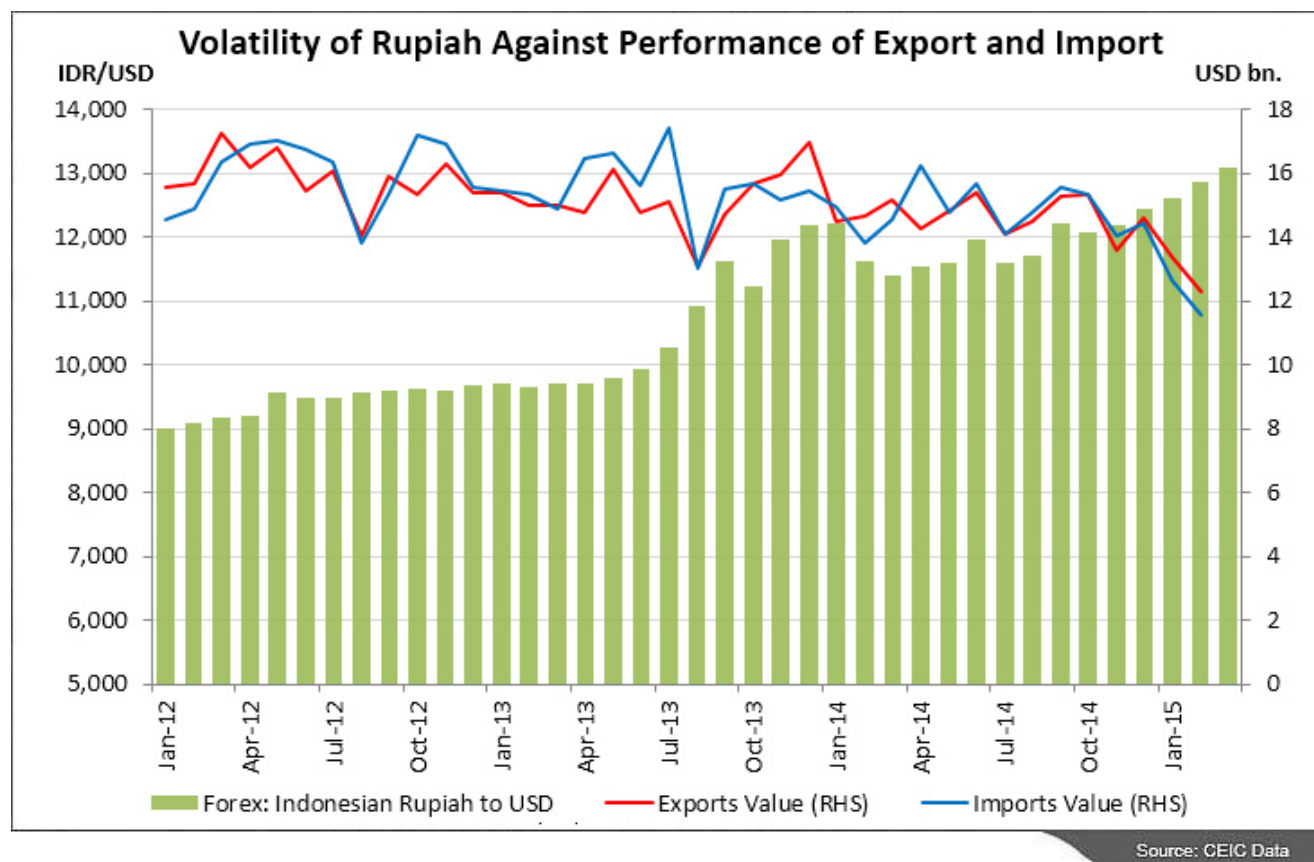
With the ongoing US dollar appreciation, the RMB must first maintain its stable value and appreciate at a gradual pace. Otherwise, the progress of RMB internationalization will be hindered. However, future development of the RMB will be more likely affected by political purposes as well as the prevailing international situation. Economic factors may have a much less important role to play.

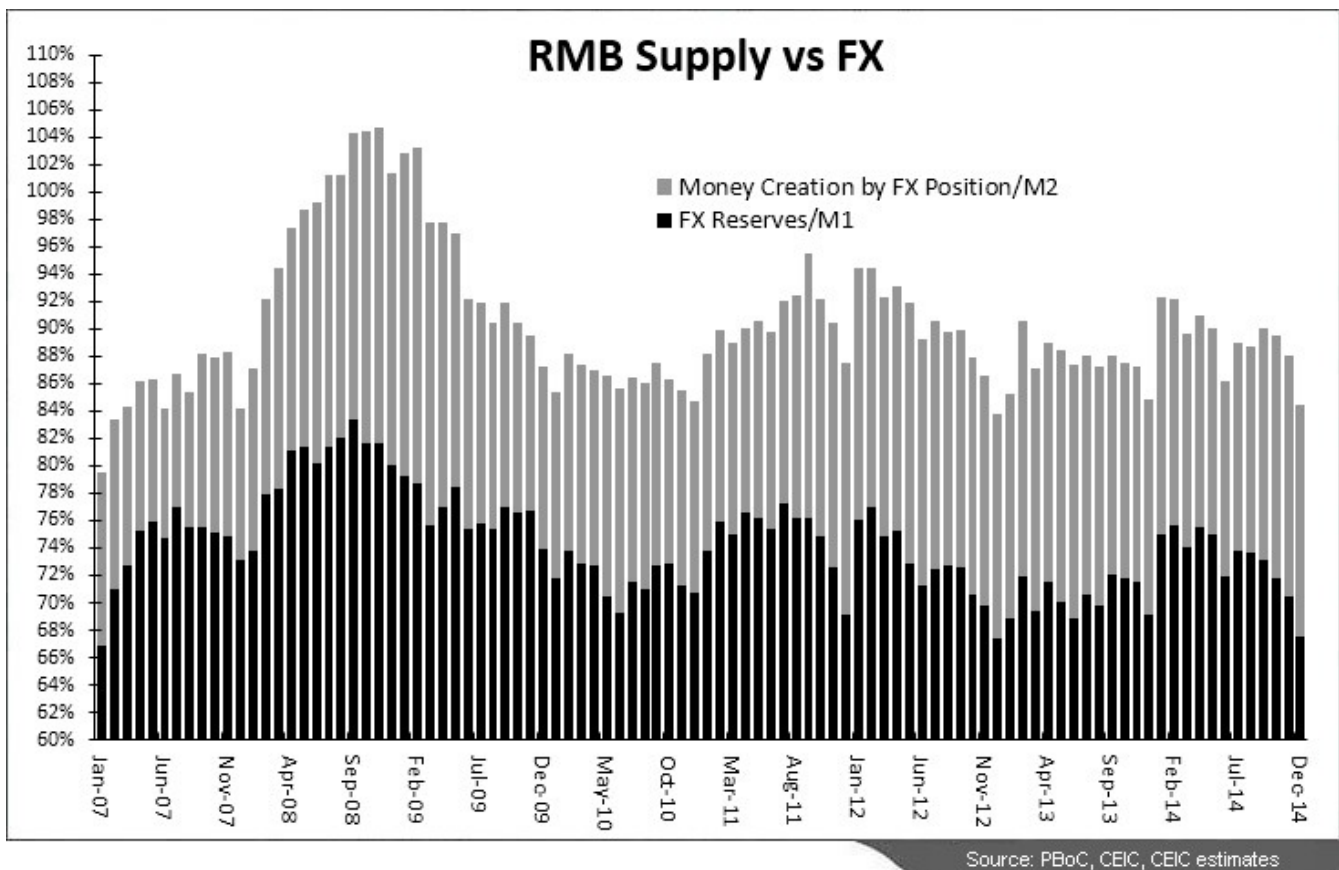
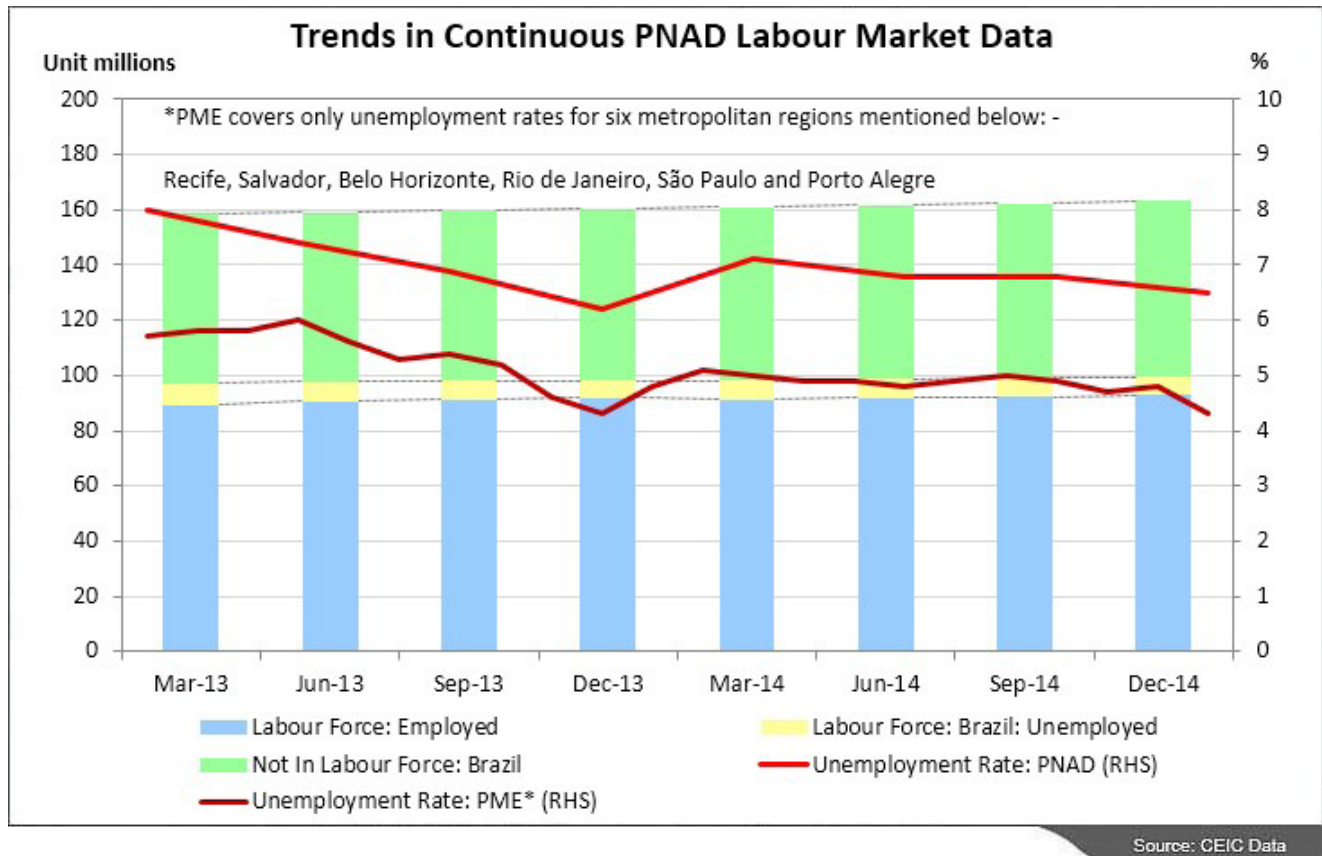
Contributed by the China Database Team

Rupiah's Depreciation Casts a Shadows over Investment Climate

The optimism of foreign investors towards the Indonesian equity market seems to be faltering, partly due to negative sentiment surrounding the political situation and prolonged depreciation of the Indonesian Rupiah (IDR) against the United States Dollar (USD). This is evidenced by the persistent foreign net selling for six of the past eight months on Indonesia's Stock Exchange, with net sales of IDR 5.43 trillion in March 2015.

The dampened economic outlook from a weaker currency caused fear of profit erosion in the stock market (on a foreign exchange adjusted basis), reinforcing foreign investors' decision to sell their stocks. Nevertheless, the Jakarta Composite Index, Indonesia's benchmark stock index, has been on a bullish trend, rising to 5,518.68 points in March 2015 from 5,137.68 points six months ago, despite the strong selling pressure from foreign entities and the weaker currency, suggesting that





MACROWATCH: Emerging Market Data from CEIC

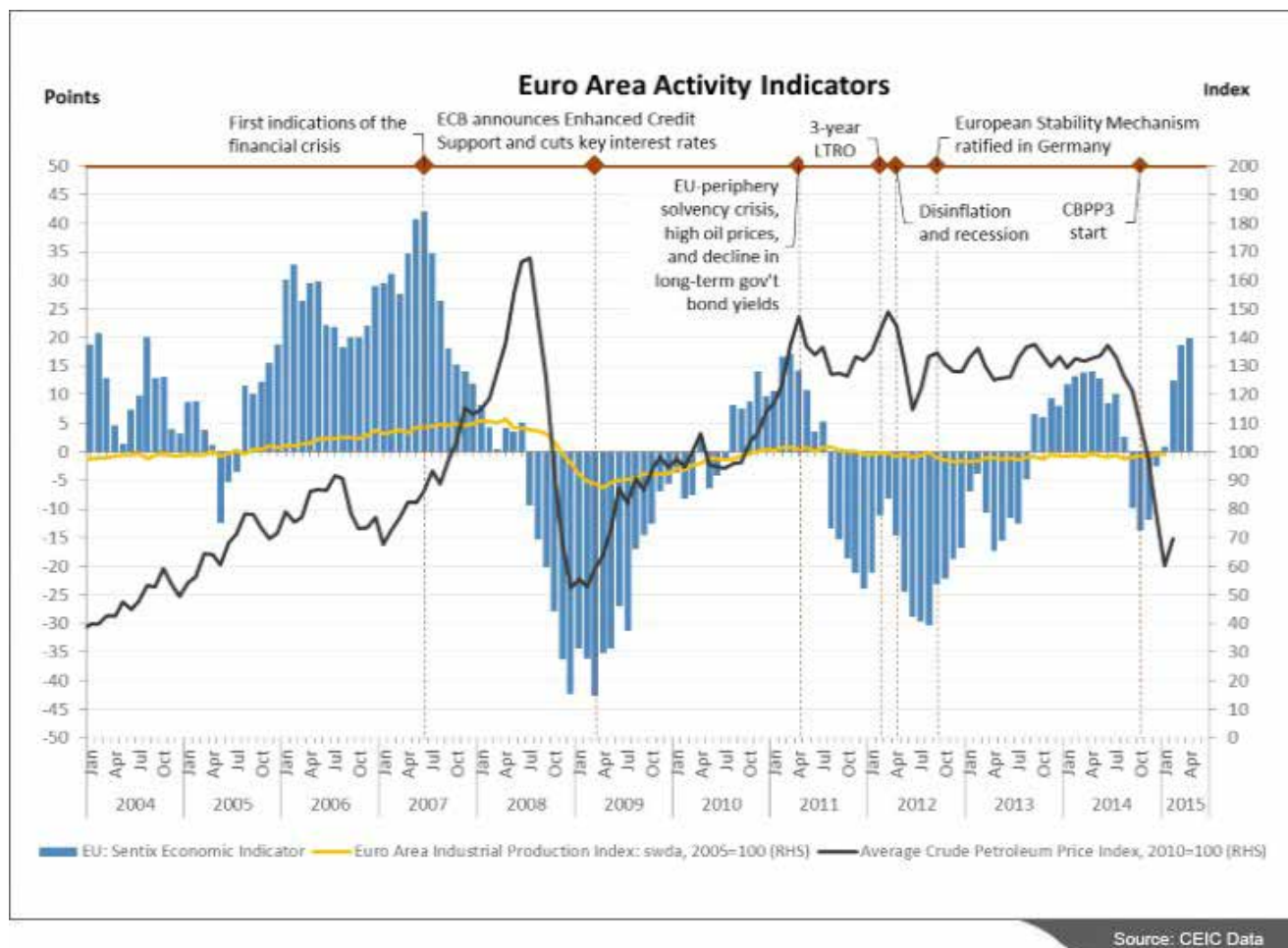
the market is still receiving support from domestic investors.

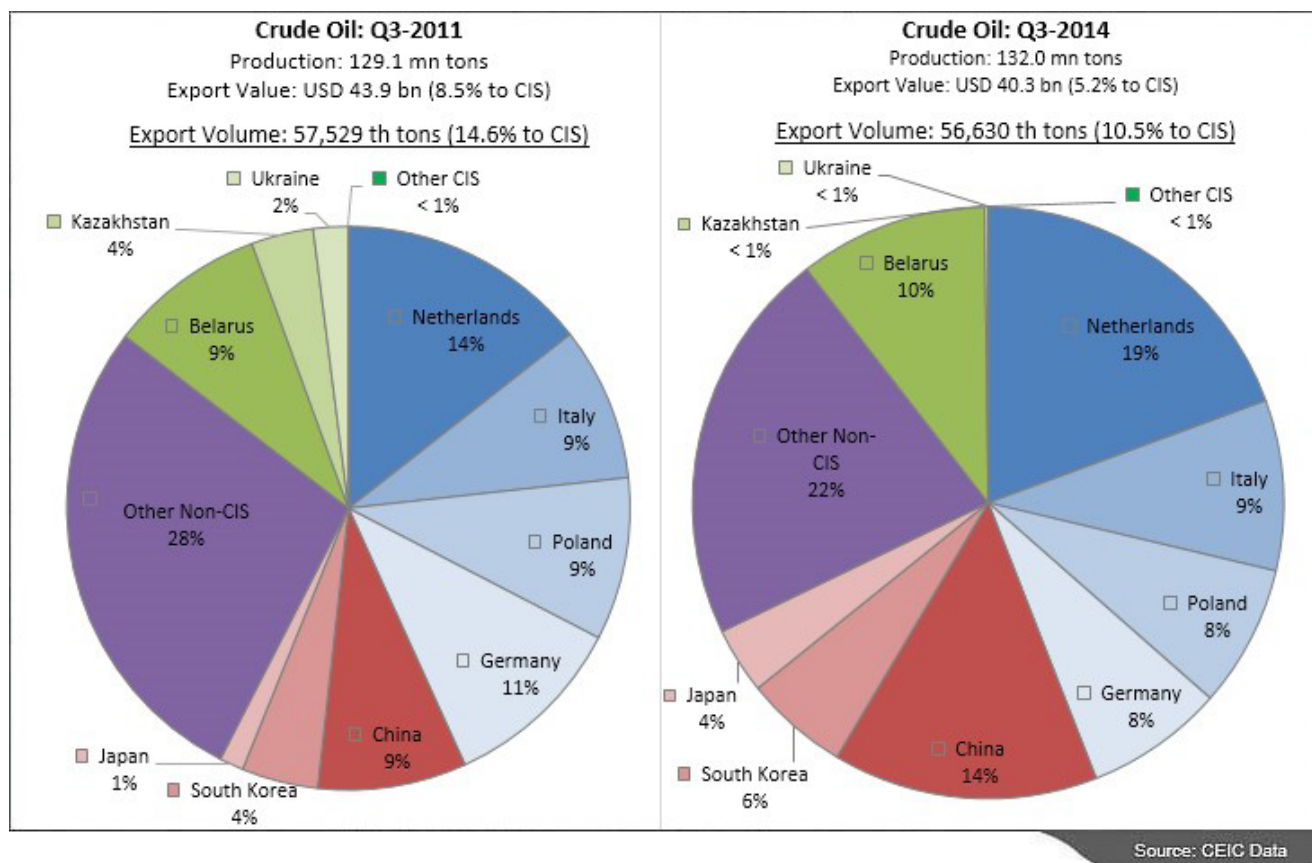
Statistics from the Bank of Indonesia (the central bank) show the IDR depreciating against the USD since March 2014, weakening to IDR 13,084/USD in March 2015, its lowest level since June 1998, from IDR 11,404/USD during the same period of last year. The Rupiah's depreciation is arguably not caused by Indonesia's economic fundamentals, but largely with the improving economic condition of the US along with the expectation of an increase in the US's benchmark interest rate by the US Fed-

eral Reserve in the near future. The stronger USD has also caused the currencies in other countries to weaken against the greenback, as investors exit emerging markets in anticipation of a higher return in the US.

Even though the weakening trend of Indonesia's currency is a concern, with the rupiah touching IDR 13,000/USD in March 2015, the government believes that the depreciation will improve the country's trade balance, as imports become more expensive while exports become more competitive. The boost to exports would also be expected

to help improve the current account deficit, which expanded to 3.19% of GDP in 2013, before narrowing to 2.95% in 2014, compared to a current account surplus of 0.19% of GDP in 2011. Unfortunately, Indonesia's exports have yet to benefit from the weaker currency. Statistics from the Central Bureau of Statistics indicate that exports from Indonesia have been declining year-on-year for five consecutive months since October 2014, to USD 12.29 billion in February 2015, their lowest level since October 2010, from USD 14.63 billion a year ago. Nevertheless, the lower export value was offset by declining imports,





which fell to USD 11.55 billion in February 2015 from USD 13.79 billion in the previous year, leading to a trade surplus of USD 738.3 million, thus preventing a widening of the current account deficit.

The depreciation of the IDR against the USD should theoretically provide improved opportunities to boost exports in the form of enhanced competitiveness of Indonesian products. However, Indonesia has not been able to reap its benefit in part due to the sluggish trend in prices of its prime export commodities in tandem with a slowdown

in the economy of China, a large source of demand for Indonesian exports. Without an increase in export earnings, the weaker IDR will make it more challenging to repay external debt, which rose to 32.93% of GDP in 2014, from 29.14% in the previous year. This would especially hurt the private sector, which has increased its external debt to 18.33% of GDP from 15.61% over the same period.

The Bank of Indonesia takes a serious view of the continuous weakening of the Rupiah and has intervened in the foreign exchange

market to stabilize its depreciation. Partly due to this foreign exchange intervention, Indonesia's foreign currency reserves fell to USD 105.94 billion in March 2015 from USD 109.80 billion in the previous month. However, the surprise cut in the key interest rate by 25 basis points in February 2015, the first decrease in three years, also shows the determination of the central bank to not forgo economic growth, even if it is at the expense of further aggravating a weaker currency.

Contributed by Yudha Prawira, CEIC Analyst



About the Author

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Latin America's Spluttering Economic Heart

 **Sarah Boumphrey**

Brazil accounts for one third of both Latin American GDP and population, but the performance of the region's largest economy has been dismal so far this year. Although contagion to the smaller economies in the region will be – on the whole – limited, the impact on business will not.

Staring Economic Catastrophe in the Face

Brazil's situation is one of its own making. Consumption-led growth has run its course and real GDP growth averaged just 1.6% between 2011 and 2014. The current slow-

down is not just a cyclical glitch, the economy is in dire need of serious reform for sustainable growth to be achieved but the political appetite for this has been lacking. As a result, Brazil is staring economic catastrophe in the face. Growth is stagnating, inflation climbing, the currency weak and government finances strained. This is coinciding with a political scandal involving the president and the state-owned energy company Petrobras.

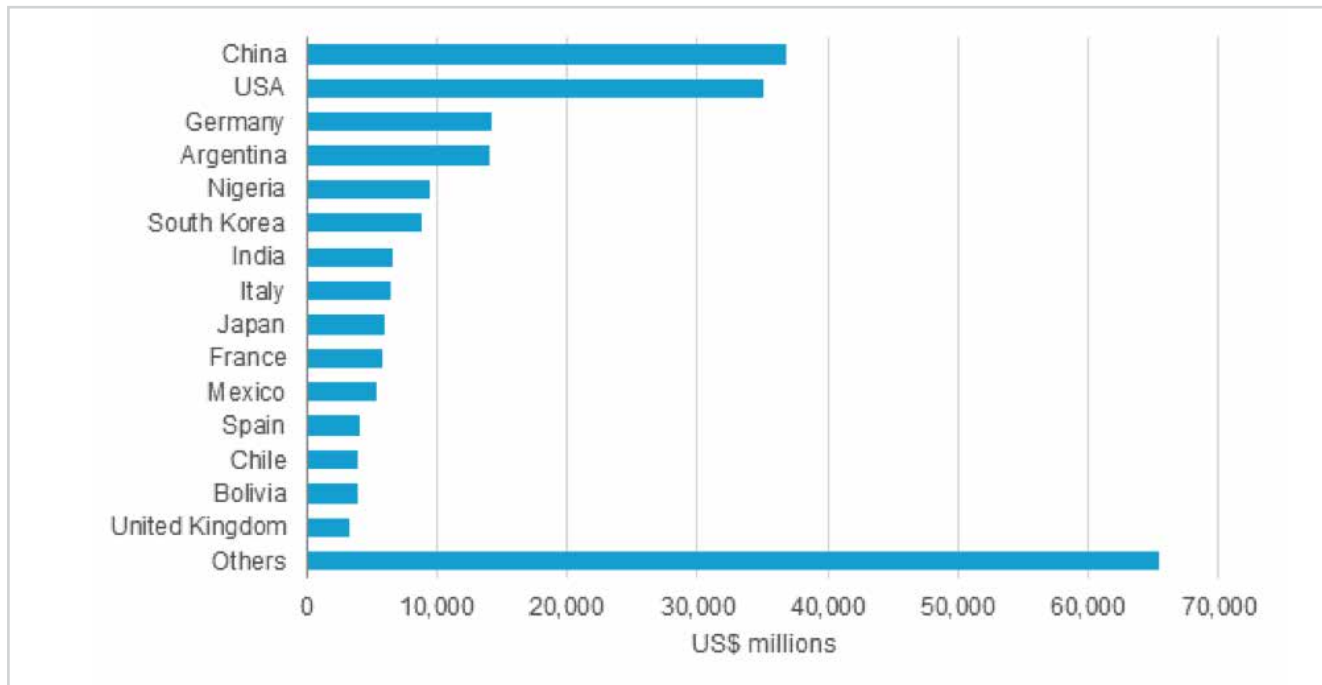
Regional Spillovers Are Muted

Regional spillovers from Brazil's slowdown are relatively limited.

One reason is that trade linkages are perhaps surprisingly weak – in other words only a small proportion of Brazil's imports originate from Latin America – 16.4% in 2014. In fact, almost one third of imports come from the USA and China

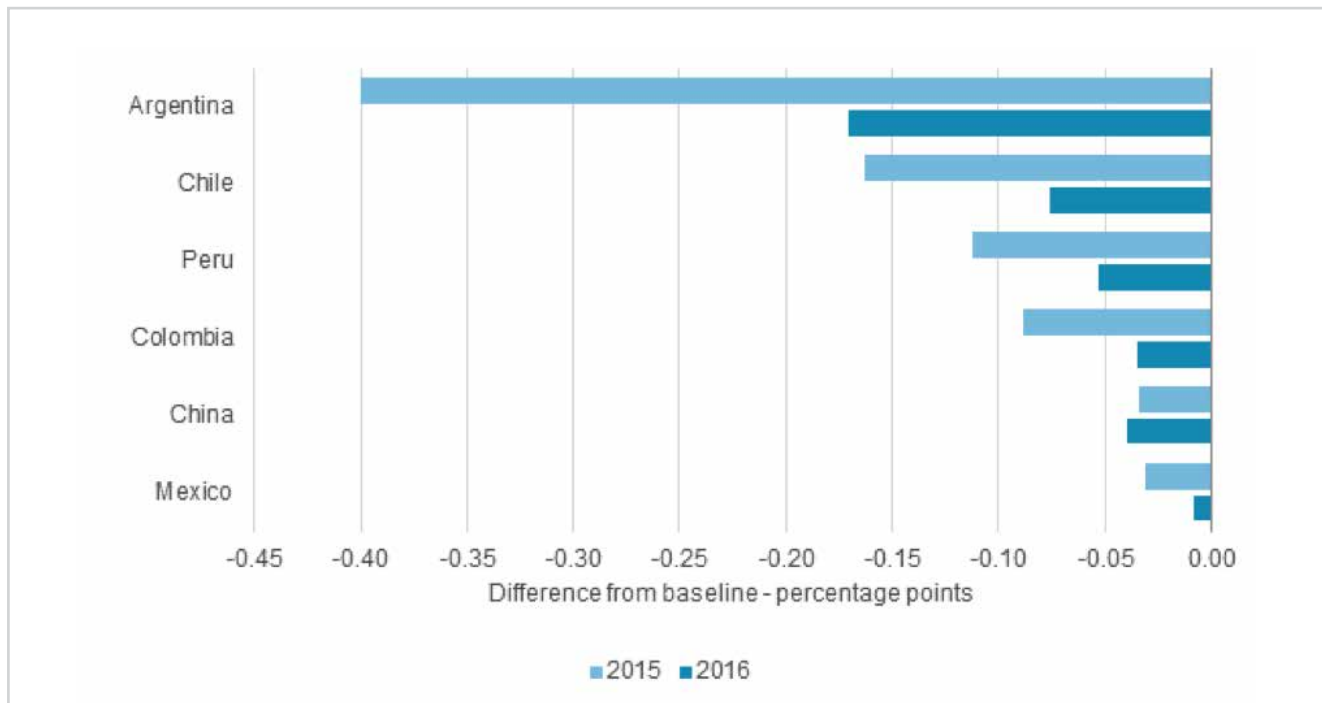
Our macro model shows that the three most-affected countries from a Brazilian slowdown would be Argentina, Chile and Peru. Brazil was the destination of 20.8% of Argentina's exports in 2014 and a two percentage point slowdown in Real GDP growth in Brazil from Q2 2015 would shave 0.40 percentage points off growth in Argentina in 2015 and 0.17 percentage points in 2016. Argentina's weak economic fundamentals do not help, nor does

Brazil Imports by Origin: 2014



Source: Euromonitor International from International Monetary Fund (IMF), Direction of Trade Statistics

Countries Most Affected by a Brazilian Slowdown



Source: Euromonitor International's CAMI Macro Model

the composition of its exports to Brazil, which lean towards consumer goods.

Chile and Peru, with their stronger fundamentals and different export composition are less affected. Growth in Chile would be revised down by 0.16 percentage points and growth in Peru by 0.11 percentage points in 2015.

The Region's Key Consumer Market

More importantly, Brazil is a key market for consumer goods companies. Home to nearly one third of the region's population, Brazil accounted for 53.3% of value sales of beauty and personal care in Latin America in 2014, 40.7% of consumer appliance sales and 37.7% of packaged

food sales. With consumer expenditure currently set to increase by just 0.6% in 2015 and with spending on durable goods forecast to actually decline by 1.1%, business will have its work cut out to part Brazilians from their money in 2015.

Note: Alcoholic and Soft Drinks refer to off-trade. All data refer to retail value RSP

The rise of its middle class has been a key engine of Brazilian growth, and is the main target of multinationals. Between 2000 and 2014 the number of households earning more than S 25,000 USD (in 2014 prices) increased by 117%. 27.4 million entered the labour force, and consumer lending expanded by 546% in real terms. As a result it's no surprise that Brazil's economic deterioration will be closely watched in board rooms around the world.

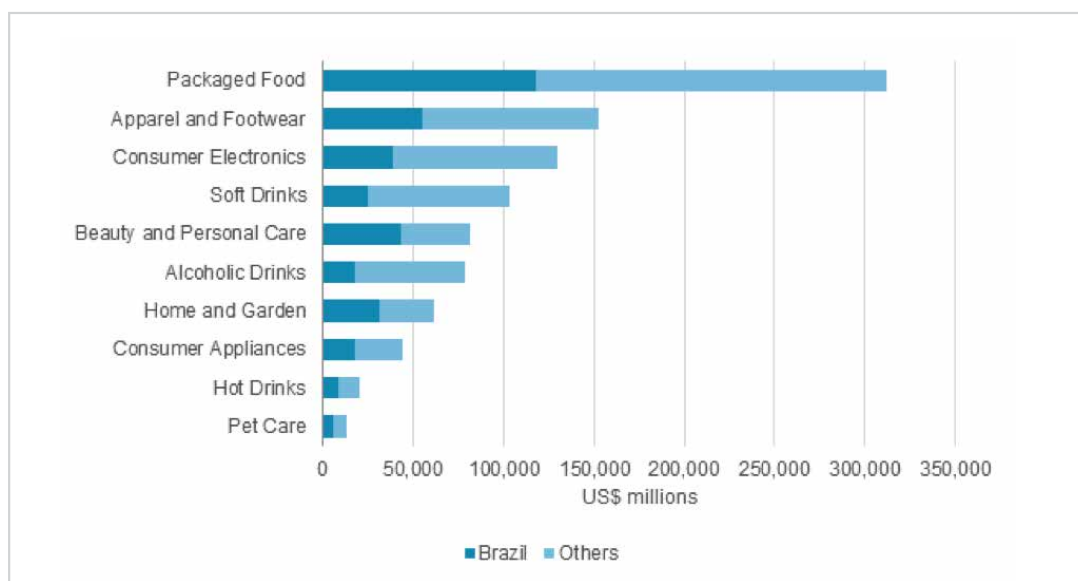
A Region at Risk of Economic Stagnation

Brazil is by no means alone in its troubles; the region's third and fourth largest economies Argentina and Venezuela are also (to put it mildly) in the economic doldrums. With GDP growth forecast to contract in 2015, both countries face numerous and substantial challenges. Mexico, the region's second-largest economy, is performing better, but even here prospects are dimmed by the oil price, which is putting pressure on government finances.

We're currently forecasting growth of just 1.9% in 2015 for Latin America as a whole, and when adjusted for population growth, this figure

is even more desultory – 0.9% in per capita terms. With three of the region's four largest economies at best struggling this year, and at worst mired in recession, 2015 looks set to be a watershed for Latin America's economic prospects, for all the wrong reasons.

Selected Market Sizes in Latin America: 2014



Source: Euromonitor International trade sources/national statistics



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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Rohit Shukla,
Chief Executive Officer of Larta Institute

Global AgInvesting, the world's most well attended agriculture investment conference series, is pleased to announce the inaugural GAI AgTech Week in San Francisco. This groundbreaking event will provide two and a half days of engaging keynote presentations by industry leaders, thought-provoking panels, innovative company presentations and interactive workshops, all designed to educate and inspire investors and entrepreneurs with a broad range of investment opportunities in the food and agriculture technology sectors worldwide.

AGENDA HIGHLIGHTS

- A view from the field: farmers' perspectives on agriculture technologies
- Building a pathway to public markets for agtech entrepreneurs
- The California drought & technologies to address the challenge
- Big Ag's views on M&A and R&D in the agtech space
- Company presentations from multiple agtech subsectors and agtech advancement hubs, including Canada, Israel, Australia & New Zealand
- Skill-building workshops for investors and entrepreneurs