FINDING THE MOST VALUE IN ASIA TODAY

Asia continues to be an attractive destination which lures investors trying to access its growth story, said panellists at Hubbis' SWISS-ASIA Wealth Exchange 2014 in Zurich in late October. The challenging part is to be able to choose the right investment vehicle and asset class to enter the market.

PANEL MEMBERS

NORMAN VILLAMIN
Coutts

VIKAS GATTANI
Progress Capital

SEAMUS DONOGHUE
Allocated Bullion Solutions

XAVIER BURKHARDT
EuroFin Asia Group

In years gone by, investors sought to access Asia directly. They bought Chinese property bonds and stakes in Asian telecom companies, for example, but ignored the need to appraise the share of the pie that these investments represented as part of the overall growth of the region.

"I think the landscape is much broader than it used to be in terms of how we can participate and how we can benefit from the growth dynamics of the region," says Norman Villamin, chief investment officer for Coutts in Europe.

But those investors which made mistakes from rushing into the market seem to have learned from them, adds Vikas Gattani, founder and chief executive officer of Progress Capital.

"They should have been looking at things like liquidity and volatility," he explains. "An important factor now relates to the fact that Asian currencies can be very volatile, which is something investors have started to pay heed to."

CONSUMPTION-LED GROWTH

While Asia has been a high-growth region for the past few years, a structural transition has taken place.

"Previously, growth was driven outwards by exports," says Seamus Donoghue, chief executive officer of Allocated Bullion Solutions. "Now we are seeing it transition into consumption-led growth."

With such a change has come new opportunities and ways to access the upside.

That being said, the various countries across Asia move at different speeds. Some of them, like China, have already moved into a phase where growth is driven by consumption while others, like India and the Philippines, are still struggling to transition and continue to depend on exporting services for growth.

"When GDP crosses US$2,500 per capita, that's when consumption really takes off," says Gattani, quoting an IMF study.

It is soaring in China, for instance, where GDP is double that level, and consumption has taken off visibly in countries like Thailand and Indonesia, where the GDP is slightly greater than the quoted benchmark. India, on the other hand, is only projected to cross the "consumption growth" threshold in 2017.

NORMAN VILLAMIN

Coutts

VIKAS GATTANI

Progress Capital

> "An important factor now relates to the fact that Asian currencies can be very volatile, which is something investors have started to pay heed to"

EVALUATING CHINA AND INDIA

While China and India are often seen as competitors, with China leading overall given its super-sized economy, panellists pointed to India as an investment destination which hasn't disappointed in terms of investment returns.

"Investing in Chinese equities has not made money over a long period of time, whereas investing in Indian equities has made investors a lot of money," says Villamin.

He adds that he thinks it is important dig deeper into the two countries to find growth opportunities.

In reality, the differences between India and China are stark. In the former, the private sector is hindered by governmental roadblocks yet still leads growth and development; the latter is propelled by public sector enterprises spearheaded by government policies.

SEAMUS DONOGHUE

Allocated Bullion Solutions

And according to Gattani, the election of the new Indian prime minister provides a stronger tailwind for business.

OPPORTUNITIES IN NEW MARKETS

With Asia's markets at different stages of development, new markets like Indonesia look promising, added panel speakers.

In particular, Gattani expects consumption to take off in this market with the new government in place and seemingly augmenting the prospects of the country.

Countries like Burma and Vietnam, for example, are at early stages of opening up their economies to foreign investments, and the expectation is that at some point in the future they will put in place a regime that is pro-business.

To give it some context, Villamin says these two markets are probably at the stage where Thailand and Indonesia were in the 1980s. "If you look back at those markets, you would want to be invested in the provision of electricity, telecoms, water and infrastructure," he says.

A RISKY ASIA OF TOMORROW

At the same time as getting excited about Asia's growth potential, investors must also beware the pitfalls. In line with this, an early assessment of risks is important to be able to safeguard the portfolio from avoidable losses, said speakers.

Key risk factors include geo-political issues and country risk, but many more are hidden beneath the surface. "Globally one of the risks is the exposure to China for some countries like Malaysia, Indonesia and Australia," says Xavier Burkhardt, investor relations manager for EuroFin Asia Group.

He also emphasises the difficulty in understanding all aspects of the venture when investing in companies as an equity investor. Therefore, he adds, transparency and corporate governance might be a source of risk, too.

This all highlights the importance of working with local partners which have a greater understanding of the domestic market, to assess such risks.

Villamin points to another important risk when he warns against underestimating the governments.

He calls it "long cycle reform", with it being hard to predict what each regime will do. ■

> "Previously, growth [in Asia] was driven outwards by exports. Now we are seeing it transition into consumption-led growth"

XAVIER BURKHARDT

EuroFin Asia Group