



Session Title: Increasing Private Capital Investment in ASEAN
Date & Time: 4 April, 13.15pm – 13.45pm
Speaker: Steven Okun , EMPEA ASEAN representative and McLarty Associates Senior Advisor

Introduction & Purpose:

This session explores why private equity (PE) funds are so appealing to the under penetrated Association of Southeast Asian Nations (ASEAN). It also touches on the significance of demographic dividend while environmental, social and governance (ESG) and sustainable development goals are the way to go.

Summary of the session

1. A brief introduction on EMPEA

Formed 15 years ago by the International Finance Corporation (IFC) and the World Bank, EMPEA is an independent non-profit association headquartered in Washington DC. It has **over 300 members, of which 100 are active in Asean.**

Its members include general partners firms, regional funds, sub-regional funds, country specific funds and impact investing funds. Investors in those general partners firms include insurance companies, pension funds, high networks and ecosystems, as well as service providers to those funds. The big names include KKR, McLarty Associates and DLA Piper.

With assets management of over US\$5 trillion, **this is a powerful group that is trying to bring private capital into emerging markets and ASEAN in particular.**

2. Opportunities investing in VIP and ASEAN

In 2018, while investors continue to look at BRICS (Brazil, Russia, India, China and South Africa), Steven said they should focus more on the VIP nations, namely Vietnam, Indonesia and the Philippines, and ASEAN.

An important asset class, **PE funds** are attractive to ASEAN due to the **size of ASEAN's gross domestic product (GDP) and the amount of growth that is occurring in the region**. Companies like Grab and Lazada are well funded by PE. There are lots of growth opportunities in ASEAN, which explains EMPEA's focus here but there are some challenges.

On what make **VIP** exciting places to invest in, Steven attributed it to their **large population size**. Vietnam has about 91 million people; the Philippines (100 million) and Indonesia (215 million).

These are very large economies with a growing middle class and domestic consumption. There is a lot of growth opportunities because of the demographic dividend in VIP.

Demographic dividend is defined by the level or proportion of the population that is within the working ages of 17 to 60. Thus, **Indonesia is not going to peak until 2030 when 65% of its population is within that workforce range.**

Because you have these large population, you have some very interesting investing semantics. Because you have a growing domestic wealth and middle class, people are much more interested in education.

That's why you see companies like Fulbright coming into Vietnam and why a lot more people want to buy insurance. With money to pay the rent, you are probably going to insure the bike that gets you around in your job.

Financial services will represent huge opportunities.

With **increasing competition from China and Japan** when it comes to investment, Steven urged **APCAC members and private venture capital investors alike to think about how they will live up to that challenge.**

He said **ASEAN is underpenetrated when it comes to private capital. If the investors and business community can work with the companies and governments in ASEAN, we can bring these numbers up, which**

will bring a lot more sustainable investment, development and growth into the region.

3. The ESG Challenge

There should be more private capital going into Malaysia, Indonesia and Vietnam by any matrix. **What's causing this lack of private capital into emerging markets, VIP and Asean? The biggest challenge** can be summed up by **environmental, social and governance (ESG)**, which is very different from corporate social responsibility (CSR) although both are very important.

CSR is what a business does as good corporate citizen but it is adjunct and peripheral to what they do as a business and operate daily. **ESG is what happens when a company impacts a business**, the way a company operates daily. Every company has ESG, including AMCHAM.

If companies think about how they address ESG from a risk and challenge perspective and create an opportunity out of ESG, they are going to be more sustainable both as a business and how they impact on society. If you increase your bottom line from an ESG perspective, you are going to make yourself more attractive to employees, customers, governments and investors.

Most people tend to stop at E, which is very easy to achieve. As investors, big companies, PE firms, VC funds, you can work with companies to improve their environmental impact that increases their societal and financial impact. **A lot of companies forget about the S. Cybersecurity is a big risk when it comes to S** while data privacy is another huge issue.

One of the biggest emerging G issues is diversity and inclusion. It is so great to see AMCHAM working with companies on increasing diversity and inclusion and getting more women onto corporate boards. Investors are looking at this. Not just media, NGOs and governments.

Where US investors and US businesses have a huge advantage, it's because we always have done ESG. It has always been part of our DNA, not just the CSR part but (also) the ESG part.

This is an advantage we need to really continue to take advantage of, especially we heard this morning how **brand USA may not be what it was when it comes to trade and Asia but it certainly remains**

extraordinarily strong, maybe never stronger when it comes to business.

Sustainable development goals (SDGs) are becoming much more important to the investment community. Think about that as a company, investor and how you can work with companies and governments in ASEAN to help achieve those SDGs. This is what's going to help us chart the bold future.

Takeaway from the session

- Investors urged to focus on BRIC and VIP countries in 2018
- VIP's demographic dividend offers growth opportunities
- Lack of private capital coming into VIP countries and Asean
- Other emerging issues: diversity and inclusion
- ESG has always been part of the DNA of US businesses
- Increasing importance of SDG for companies and investors