

# This Fund Thinks Southeast Asia Looks Ripe For Investment, And Here's Why

Jacob Wolinsky · 03:58pm EST

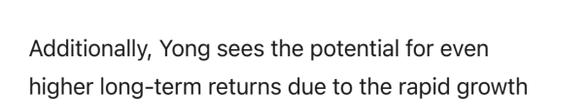
S&P Global Market Intelligence predicts that the [Asia-Pacific](#) region will dominate the world's growth in the coming year, generating positive real GDP while the U.S. and Europe likely fall into a recession. With that dominance comes a wide array of opportunities for investment in key Asia-Pacific markets.

**Asia-Pacific region to lead global growth in 2023** According to S&P Global, the Asia-Pacific region [will see real GDP growth of about 3.5%](#) in 2023. The region produces 35% of the world's GDP with support from free-trade agreements in the region, supply chain efficiency and competitive costs. S&P Global expects the Asia-Pacific region to play a significant role in preventing a worldwide recession and restricting the economic pullback to developed markets like the U.S. and Europe.

A recession in the U.S. could be good for the investment environment in the Asia-Pacific region. The [Financial Times](#) noted that U.S. recessions starting in 1990 and 2007 triggered significant capital inflows to emerging markets following a period of risk aversion similar to what we've seen recently.

For example, the international capital markets supplied about 1% of emerging markets' GDP after almost a decade of pulling money out. By 2010, those inflows had grown to 2% of GDP.

As the Asia-Pacific region looks poised for growth in the coming years, some asset managers are already in position to take advantage of the ripening opportunities in certain markets.



From left-to-right: Yong Ing Fatt, Yong Khung Sen, [+] Evergreen Fund

## Opportunities in emerging markets

In a recent interview, David Yong, CEO of Evergreen Group Holdings, which manages the Evergreen Fund, explained how recent and current events have impacted the opportunity set in the Asia-Pacific region. He noted that emerging markets strongly outperformed developed markets before the COVID-19 pandemic and recent geopolitical tensions.

Additionally, Yong sees the potential for even higher long-term returns due to the rapid growth rates in the area. He highlighted the diversification opportunities offered by emerging markets, although with excellent opportunities comes risk as well.

"With the current volatility in the macroeconomic environment, risks to financial stability include inflation, deterioration of the economic outlooks, high borrowing costs, and volatility in the commodity markets, just to name a few," Yong explained. "Yet, investors have continued to diversify across these emerging markets, recognizing that they are more resilient to external vulnerabilities. Having said that, it is very important for investors looking to get exposure in emerging markets to weigh their risk-to-reward ratio."

He added that exchange-traded funds or [mutual funds](#) offer the easiest, most accessible ways for investors to start diversifying into those emerging markets. Yong also suggested that investors can selectively search for opportunities involving collateral in the form of assets pledged to credits or those with sizable cash reserves.

However, he advised investors to ensure prudent risk management amid the current macroeconomic conditions. After all, stock exchanges and other investment vehicles in emerging markets are still in their infancy, presenting a challenge for retail investors in conducting due diligence.

## Growing strength in Asian consumers

Specifically, Yong sees opportunities in micro-financing in Singapore and other parts of Indochina. For example, he pointed to untapped potential in financing in Asia's underbanked regions. Microfinancing has provided the large percentage of the Indochina population that doesn't have bank accounts with access to a systemic lending institution. Yong highlighted the growing strength of the consumer as a key contributor to the growth of the financing industry in the Asia-Pacific region.

"As an emerging market progresses, there is often rapid income growth which brings the rise of a consumer class with it," he explained. "A marketplace full of consumers hungry for new products and services is conducive for new companies to germinate. Here, we saw the opportunity to enter the market and provide financing to these rapidly growing companies. With the right offerings in a strategically chosen market, a business can expect revenue to grow steadily."

Evergreen is expanding beyond conventional, traditional ways of financing, setting its sights on creating a seamless ecosystem using fintech and digitalization. Yong said they are pioneering a disruptive model capable of reshaping the microfinancing industry using financial technology.

## Opportunities in the Asian real estate, automotive and content markets

He also pointed to growing interest in the [real estate](#) market within the world of finance.

"Financing can serve to aid international development and financial inclusion in terms of societal impact," Yong said. "As global ideologies of housing and home ownership evolve, financial inclusion has created a trend of turning away from income generation to microfinancing to fulfill housing demands and needs. Coupled with the rise of privatization of financing, we saw the upside potential within the real estate market in developing countries and emerging countries to generate passive income in meeting these demands."

Currently, Evergreen is focused on private financing deals with developers. The firm holds residential, commercial, and industrial assets in Singapore, Vietnam, Cambodia, and Korea.

Yong also highlighted Singapore as a market with opportunities in the automotive market, particularly in the repairs and ancillary claims business.

He explained that Singapore has a higher accident rate than other similar, high-wealth countries like Canada and Japan due to the scarcity of land and dense population. Yong added that Singaporeans are required to purchase automobile insurance in order to be able to drive there. As a result, the Evergreen team saw additional opportunities in that market.

Evergreen also sees opportunities in the Korean content industry. Yong said the successful release of the popular Netflix [NFLX -0.8%-0.8%](#) original *Squid Game* and the global success of K-pop groups like BTS and Blackpink. Evergreen has been collaborating with South Korean entertainment companies in Southeast Asia.

One of the firm's investments in this market is the KOSDAQ-listed company Rainbowbridge World. Evergreen signed a memorandum of understanding with Rainbowbridge to distribute its content and profit from the increasing global demand for Korean content.

## The importance of ESG in Southeast Asia

Yong cited three primary factors that drew Evergreen to Southeast Asia: regular cash flow, sustainability and social responsibility.

"Not every business is able to offer the advantage of regular cash generation," he explained. "For our financing business, the interest of almost every deal is charged on a monthly basis. For automotive, the claims typically take from three to six months to complete. Hence, we decided to go into financing and automotive because it would be able to improve our cash flow on the group level."

Of course, every business must be profitable to survive, but Yong feels that ESG factors are far more important over the long run. In addition to the impact on the environment and society, he believes a sustainable business model is one that is responsible and has a positive impact on the global or local scale. The Evergreen team linked their microfinancing investments to the "S" part of ESG.

"Microfinancing is one of the most effective ways of creating positive impact in a sustainable manner, providing locals with the financial support they need," Yong said. "Evergreen works closely with the local governments in supporting their financial policies, as well as closely with the local community in numerous outreach programs to promote and support societal goals."

## The key issues facing the Asia-Pacific markets

Of course, no area of investment is without concerns. For example, Yong sees several issues affecting the Asian microfinance markets. He highlighted the social costs on communities when businesses lose sight of their corporate social responsibilities, choosing instead to prioritize profits. Additionally, he warned that problematic social norms that are deeply rooted in the region, like discrimination and gender inequality, often plague its microfinancing markets.

Over-indebtedness is another critical concern with investing in the Asian markets. According to Yong, some microfinancing firms fail to perform the necessary due diligence in their race for profitability. Without those checks, the default risk increases dramatically, especially if the borrower lacks financial or business training.

Yong believes these issues can be addressed by tightening the regulations that govern microfinancing and setting more stringent rules for loan issuance and borrower eligibility.

Another issue facing Southeast Asia is the lack of global connectivity. Aside from the big entertainment companies like SM Entertainment and YG Entertainment, smaller entertainment firms deal with challenges finding the right partners to work with to distribute their content throughout Southeast Asia.

The region also faces cultural and language barriers. However, as more Korean entertainment companies partner with Southeast Asian companies, a bridge between the two areas is strengthening. Evergreen expects these growing partnerships to open more doors for the Korean entertainment market to expand throughout Southeast Asia.

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