GULFCAPITAL

Bridging West and East Asia:

The Investment Case for Ascending Asia

FOREWORD

At Gulf Capital, we are proud of our successful and robust 15-year track record of building global leaders out of the Gulf region. We have developed a particular expertise in investing in market leading companies in West Asia and expanding them rapidly through bolt-on acquisitions and organic growth across East Asia. This focus on the West-East Asia corridor allows our companies to operate in the fastest-growing region in the world, which noted economist and futurist, Dr. Parag Khanna, appropriately named “Ascending Asia”. Our acumen in identifying market leading businesses, aligning with exceptional management teams, and internationalizing operations and revenue streams across Ascending Asia is a key cornerstone of our approach to value creation as a leading growth markets investor.

The unprecedented growth opportunities presented by the emergence of Ascending Asia have never been greater. Against the backdrop of the evolving megatrends of deepening trade links, sizable FDI flows, greater political cooperation, and the fastest growing consumer sector, Gulf Capital is ideally poised to capitalize on this once in a generation cross-border opportunity. Ascending Asia’s GDP is expected to increase by $22 Trillion over the next decade, accounting for 60% of global GDP. The MENA region is expected to increase its GDP by over 3x by 2050, the ASEAN region is expected to grow by 3.7x and India by 5x. This turbo-charged growth is in sharp contrast to the anemic projected growth of the European economies at only 1.5x, and the modest growth of the US at 1.8x. For investors seeking long-term growth over the next three decades, a sizeable allocation to Ascending Asia, which will grow at twice the rate of Western economies, is the best way to capture it.

In terms of demographics, MENA and ASEAN’s populations continue to expand, brimming with dynamic youth, while the Western world stagnates. And the massive shift in wealth creation towards Ascending Asia is creating a new generation of millionaires and billionaires, resulting in surging demand for goods and services. Asia’s middle class is projected to reach 3 billion by 2030, representing 60% of the global total. Ascending Asia thus offers a phenomenal consumer growth story.

In addition to our expertise in building global leaders operating across Ascending Asia, Gulf Capital has evolved over the last decade into a disciplined thematic asset manager. It is our strong belief that sectoral selection and capitalizing on long-term megatrends is the surest way of capturing growth and returns in the long run. Our deep sectoral expertise allows us to navigate global markets by core themes and to identify unique investment opportunities in our priority target sectors of Technology and Fintech, Healthcare, Business Services, and Sustainability.

Covid-19 has also accelerated the shift towards digitization and e-commerce which were key themes in our Fund III portfolio. Emirates Auction, the leading online auction platform in the UAE, and Sporter.com, the leading online e-commerce platform for fitness, wellness and health products, are two examples of digitally enabled businesses which captured the shift towards technology before Covid and continue to perform strongly post-pandemic. The demand for digital healthcare and remote healthcare solutions across growth markets is also a trend we saw early on. Notable among health-tech startups in the region is Vezeeta, the largest HealthTech firm in the Middle East, which provides online doctor booking, tele-consultation and e-pharmacy services in 50 cities across the Middle East. Vezeeta is growing at over 100% annually and its user base grew by 3x to over 4 million patients between 2019 and 2020. Gulf Capital has also invested in another HealthTech firm, Accumed, which has grown to become a global leader in Revenue Cycle Management and has expanded aggressively through bolt-ons and organic growth into India, Philippines, Australia, and the Middle East.

The pandemic has also accelerated the shift away from cash transactions towards digital payments; another core trend we spotted early on. A young population, high levels of mobile and internet penetration, and market reforms are likely to boost MENA's digital payments market by 50-100% annually over the next five years. Saudi Arabia's digital transactions increased to 37% of all financial transactions in 2020 (nearly 10% higher than the government's original 28% target). Gulf Capital invested, early on, in Saudi Arabia's largest FinTech company, Geidea, which offers end-to-end payment solutions directly to merchants and has become the leading payments company in the Kingdom of Saudi Arabia. With Gulf Capital's help, Geidea has expanded rapidly into Egypt and the UAE and is preparing to expand rapidly across the rest of the Middle East and Africa. Geidea is well on its way to become one of the largest payments companies in the region. Gulf Capital is an active investor in the FinTech space and we intend to continue capitalizing on the explosion in digital payments and ecommerce across growth markets for years to come.

In summary, it is our firm belief that if investors want to capture rapid growth over the next three decades, they need significant exposure to the fastest growing industries across Ascending Asia. As a seasoned growth markets investor, Gulf Capital offers an unparalleled pedigree and track record of execution. Our deep industry expertise across the fastest growing sectors, cross border acumen, focus on internationalization and digitization, and a hands-on approach to transformational growth offer our investors access to a leading platform with a demonstrable track record of global growth and exits. Our deep local networks, market presence, and thematic investment approach allow us to identify and capture, early on, unique investment opportunities at appealing entry valuations and to expand these companies rapidly across Ascending Asia. The future is clear: the high growth and strong returns will come from Ascending Asia.

We are honored to partner with Dr. Parag Khanna and FutureMap to jointly publish this white paper on the appeal and promise of Ascending Asia, and we hope all global investors will appreciate the unique growth opportunities offered by this region.

Sincerely,

Dr. Karim El Solh

Chief Executive Officer
Gulf Capital

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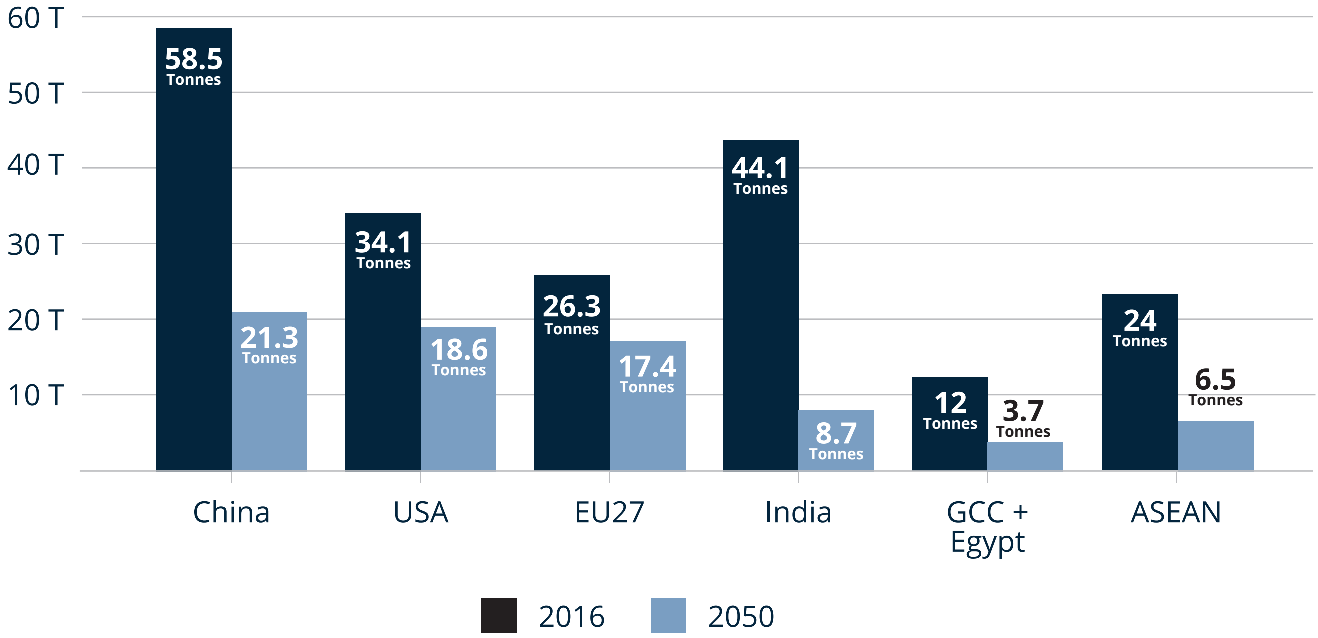
I DEFINING ASCENDING ASIA

World trade and economic activity have centered around Asia for much of history. And as in the past, Asia's current economic ascent isn't solely a consequence of developments in China and India, but also of sustained growth in West and Southeast Asia. On the basis of geography and deepening ties across the region, West Asia is the more appropriate term for the countries of the Gulf. Rather than the colonial-era terminology of the "Middle East," referring to West Asia captures the deepening West-East Asian linkages that span the world's most significant economic region.

With investor-friendly regulations, thriving industrial activity, a growing services sector, and a young entrepreneurial populace, West Asia (specifically Bahrain, Kuwait, Qatar, Oman, Saudi Arabia, the UAE, and Egypt) and ASEAN -- which we together define as 'Ascending Asia' -- are making large contributions to Asia's overall growth, which represents half the world's total projected GDP growth through 2050. By contrast, as growth in the EU and the US slows, their collective share of global GDP is forecast to drop from ~30% to less than 20% by 2050.



Already, Asia's exports and imports account for two-thirds of global trade. Its middle class is projected to reach 3 billion by 2030, representing 60% of the world's total. And by 2040, the Asian middle class is forecast to drive 40% of global consumption.

II GROWTH DRIVERS

Underpinning Asia's sanguine growth forecasts are its strong macroeconomic fundamentals, a growing youth population, as well as strengthening intra-regional trade and investment flows.

MACRO FUNDAMENTALS

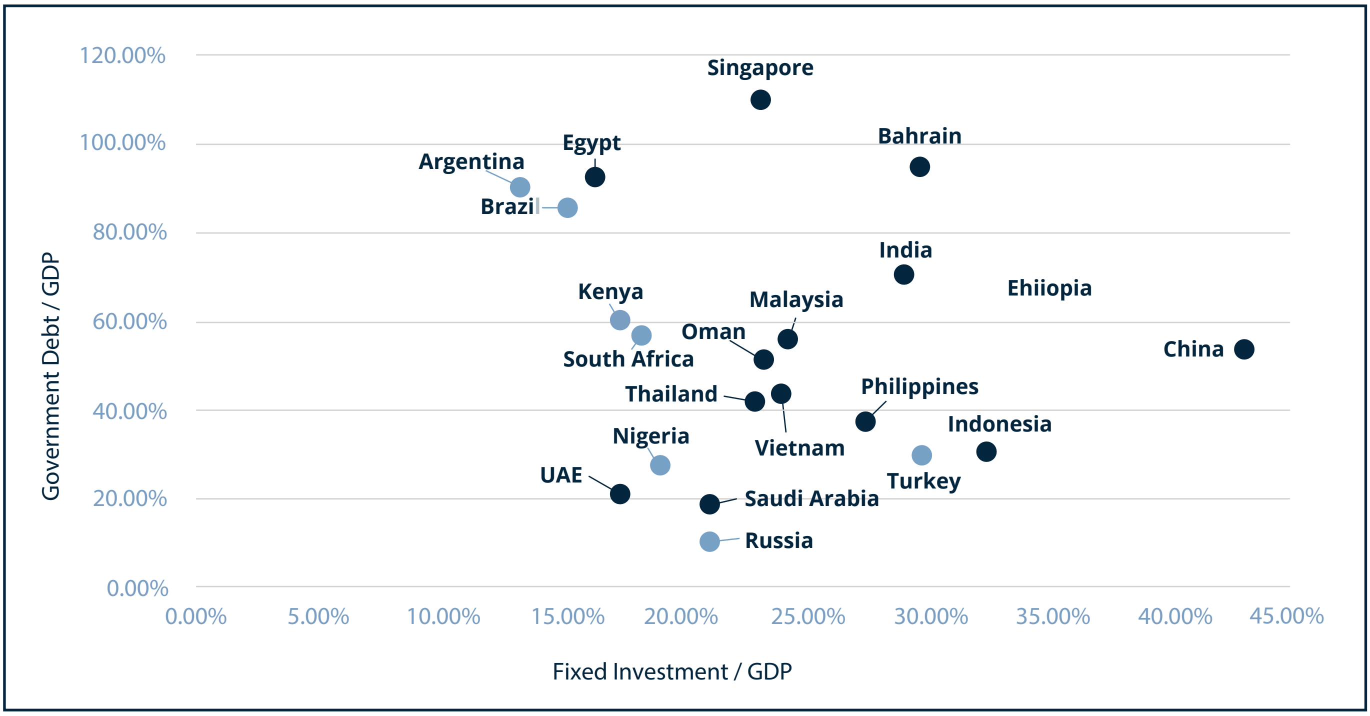
8 of the 10 biggest FX reserve holdings are in the GCC and Asia. The large foreign exchange buffers make sharp capital outflows less likely, and to the extent they do occur, less destabilizing.

Countries	Credit rating (S&P)	FX Reserves	SWFs (AUM)	Gross govt debt (% of GDP, 2020)
Saudi Arabia	A-	$449 billion	$458 billion	32.4
UAE	AA	$106.7 billion	$1.4 trillion	38.3
Kuwait	AA-	$48 billion	$691 billion	11.4
Qatar	AA	$40.9 billion	$394 billion	71.8
Egypt	B	$39 billion	$ 11 billion	90.2
Oman	B+	$17 billion	$35 billion	81.1
China	A+	$3.29 trillion	$2.9 trillion	66.8
India	BBB-	$582.4 billion	$190 billion	89.6
Singapore	AAA	$381.9 billion	$1 trillion	128.4
Thailand	BBB+	$278.2 billion	--	49.6
Indonesia	BBB	$138.8 billion	--	36.6
Philippines	BBB+	$109 billion	--	47.1
Malaysia	A-	$109 billion	$269 billion	67.5
Vietnam	BB	$89 billion	--	46.6

Asia's major currencies have also been less volatile in recent years, a consequence of greater local currency borrowing, and in the case of GCC countries, the US$ peg. The Gulf and East Asia are also home to 8 of the 10 largest global sovereign wealth funds and provident funds.

These large savings pools have helped keep debt-to-GDP ratios relatively low across most of Asia. To the extent that Asian governments have engaged in significant sovereign borrowing, it is often to finance developments in infrastructure, education
and other sectors driving long-term growth.

Government debt versus investment as share of GDP (2018)



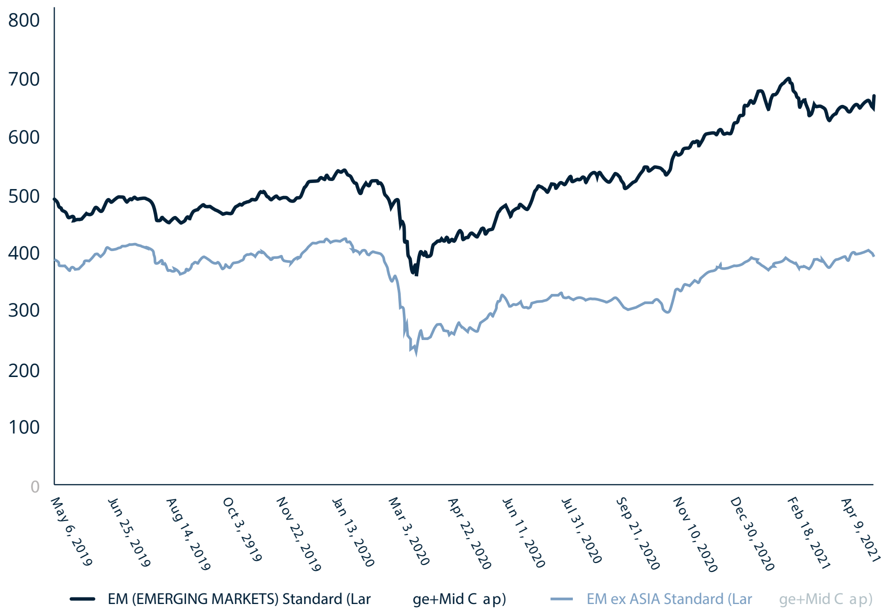
In addition to strong FX reserves, and prudent borrowing, Ascending Asia is increasingly marked by stable and low inflation; a trend the IMF expects to continue, with consumer price inflation projected to stay below 5% through 2026. This is in stark contrast to other emerging markets. Turkey is experiencing significant macroeconomic volatility with double digit inflation as its currency slides. Foreign and domestic investors are pulling away from local currency bonds in Nigeria, as double-digit inflation continues. And while analysts expect Brazil's economy to grow by 9.9% in Q2 2021, prolonged COVID-driven disruptions remain an impediment to price stability, and a sustained recovery.

Inflation Projections (2019-2026)

With strong macro fundamentals, large and mid cap equities in Asia's emerging markets continue to outperform their counterparts in emerging markets outside Asia, with the gap widening to nearly 300 points on the MSCI EM Index since the outbreak of Covid-19.

Asia accounts for most of emerging market equity growth
Emerging Markets vs Emerging Markets ex-Asia (2019 - April 2021)

MSCI Index
(liquidity of large and mid cap firms)



MSCI Index (liquidity of large and mid cap firms)

ASEAN AND WEST ASIA: FISCAL RESPONSE TO COVID-19

With most ASEAN countries recording population adjusted COVID case counts below the global average, the region appears to have been spared the worst health effects of the coronavirus pandemic. Much of the GCC has also managed the outbreak better than its peers. In addition to above average rates of testing and a timely vaccination program, most ASEAN and GCC governments have extended considerable fiscal and monetary support to increase consumer spending, and make it easier for businesses to borrow. Notable measures include:

ASEAN

Indonesia

- Mandated banks allocate 20% of business loans to SMEs from 2019. $4 billion fiscal allocation to SME support.
- Special task force established to attract foreign firms seeking to relocate from China.

Malaysia

- Extended income tax rebates and stamp duty exemptions for mergers and acquisitions.
- Tax holidays and special reinvestment allowances to encourage foreign manufacturing firms to relocate operations to Malaysia.

Philippines

- Corporate income tax to be lowered by up to 10 p.p over the next decade to boost FDI.
- Approved 12 new SEZs to spur investments in IT and manufacturing.

Thailand

- E-matching system introduced to simplify customs compliance and cross-border trade
- $1.7 billion cash infusion and tax write-offs to boost consumption.

Vietnam

- Accelerated timeline for privatization of key state-owned firms including the Vietnam Post and Telecommunications Group.
- Reduction in corporate income tax for firms with revenue less than ~$8.5 million.

Singapore

- Stimulus packages totalling $100+ billion rolled out since February 2020. These include provisions for:
    - Singapore-based enterprises borrowing up to $7.5 million to finance short-term import, export and guarantee needs (with the government covering 90% of borrowing risk)
    - $400 million allocated to co-invest in startups with the private sector.
    - $750 million to support new jobs for citizens, with the government co-paying salaries of all new local hires for one year.

WEST ASIA

UAE

- M~$9 billion in fiscal stimulus to the private sector.
- Central Bank generating $70 billion in additional liquidity, including through lowering cash reserve ratio requirements for banks .

Saudi Arabia

- $34 billion stimulus to the private sector.
- Suspension of tax payments, and other private sector dues to boost liquidity. 30% reduction in commercial and industrial electricity prices.

Egypt

- Fiscal stimulus totals $6 billion. ~$3 billion aimed at the tourism sector.
- Interest rate on loans to tourism, industry, agriculture and construction sectors reduced from 10% to 8%.
- $600+ million in low-interest credit extended to help citizens pay for consumer goods.

Bahrain

- ~$2.5 billion stimulus passed in the immediate wake of COVID.
- Zero-interest lending facility expanded by upto $10 billion (29% of GDP) to facilitate loan moratoriums, and to extend additional credit.
- Cash reserve ratio for retail banks reduced from 5% to 3%.

Kuwait

- $1.6 billion stimulus passed in the immediate wake of COVID.
- Bank capital adequacy requirements lowered by 2.5p.p to 10.5%.
- Concessional long-term loans extended to SMEs.

Qatar

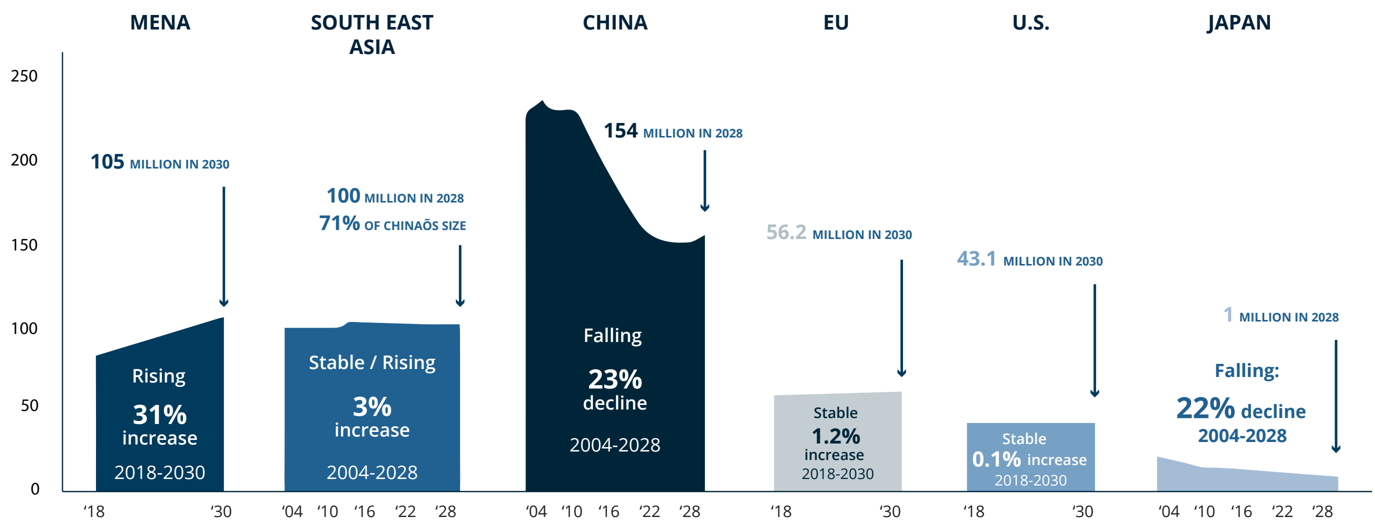
- $~23 billion extended to hard-hit sectors, including hospitality, tourism, retail, and logistics. Waiver of rental and utilities payments to households and businesses.
- Zero-interest repo window totalling 9.3% of GDP to provide liquidity to banks.
- Qatar Islamic Bank providing interest-free loans to private companies.

DEMOGRAPHICS

The median age in most Asian countries remains under 30. Notably, even as China ages, it retains a sizable population of young people, with 700 million Chinese below age 40. Additionally, the number of 15-24 year olds across MENA is forecast to increase by over 30% over the next decade, making it the region with the fastest growing youth population in the world.

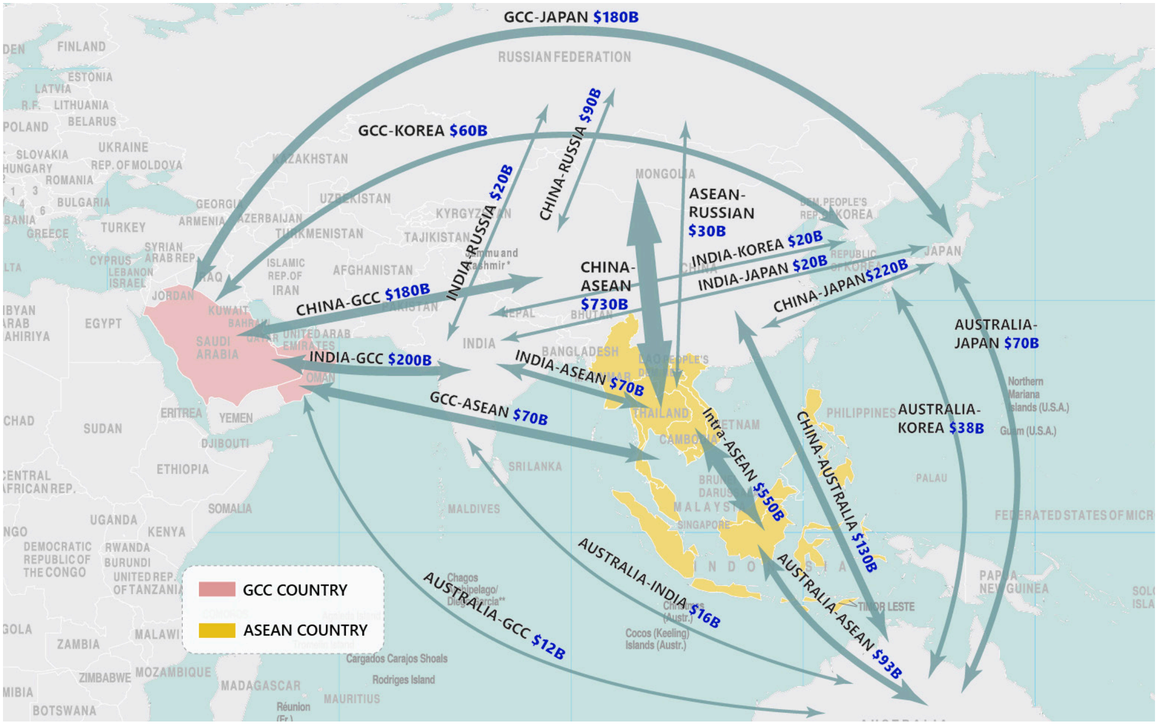
With over 820 million working age millennials, and approximately 2 billion under the age of 40, global growth will increasingly centre around Asia, especially as aging trends in Europe and America accelerate.

Youth population by region



INTRA-REGIONAL TRADE

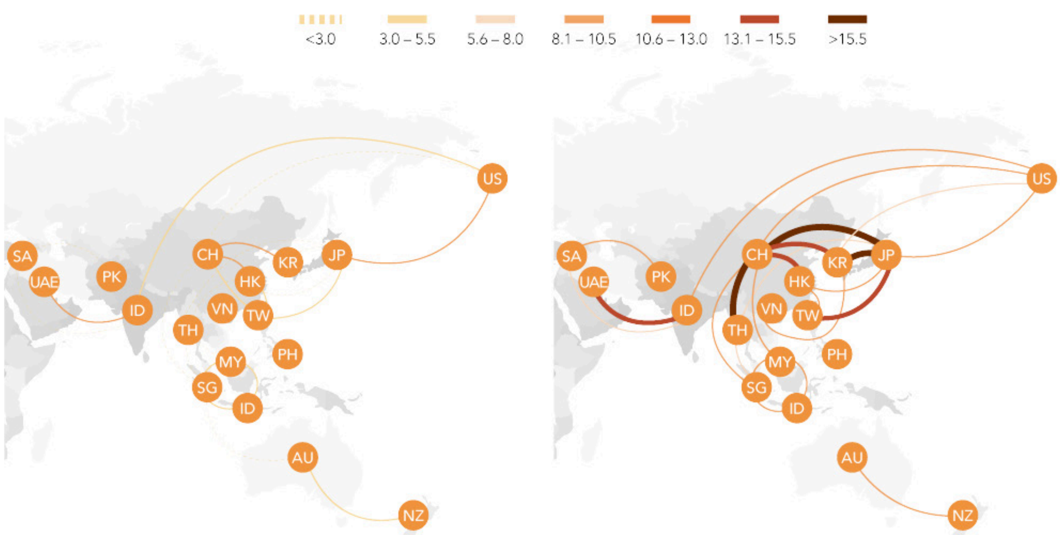
Asia's economic rise is marked by a strengthening of intra-regional trade and investment flows. Nearly 60% of exports originating in Asian countries are destined for other markets in Asia. Notably, GCC's trade with China, Japan, and India now totals over $550 billion; with India and China, seeing a 4x and 5x rise in GCC imports respectively between 2008-18. (By comparison, GCC-EU trade in 2018 totalled ~$145 billion, and GCC-US trade, ~$100 billion).



Over half of Asia's FDI flows are also intra-regional, reflecting deepening ties between financial systems and corporate sectors.

These trends are likely to accelerate post-pandemic, as more Asians stay in Asia for holidays and education, spending their money and starting businesses within the region.

Intra-regional Travel Expanding with New Destinations Asians will stay in Asia bolstering a post-COVID economic rebound (Number of travellers, millions)

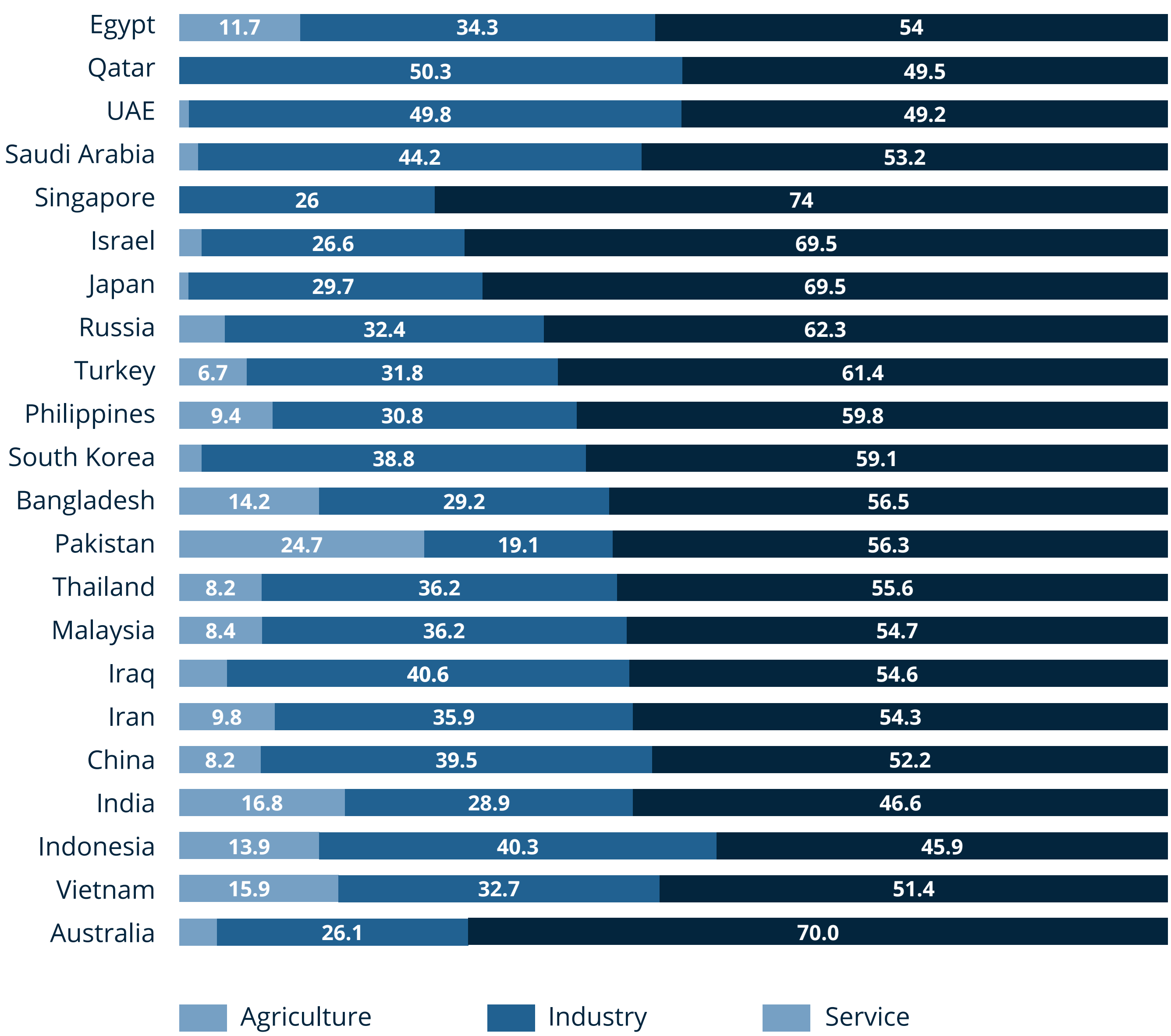


Over the long-term, Asia-led frameworks including the Regional Comprehensive Economic Partnership (RCEP) will further strengthen intra-regional trade and investment flows. With 3.6 billion consumers, and 30% of global GDP, RCEP is fast emerging as the world's largest free trade zone. For ASEAN, improved market access through RCEP could increase regional GDP by $19 billion annually by 2030. Additionally, in recent years, the Belt and Road Initiative (BRI) has reoriented Chinese investment focus to West Asia, with over 50% of the $160 billion in Chinese FDI to the region since 2005 coming in just the last 5 years.

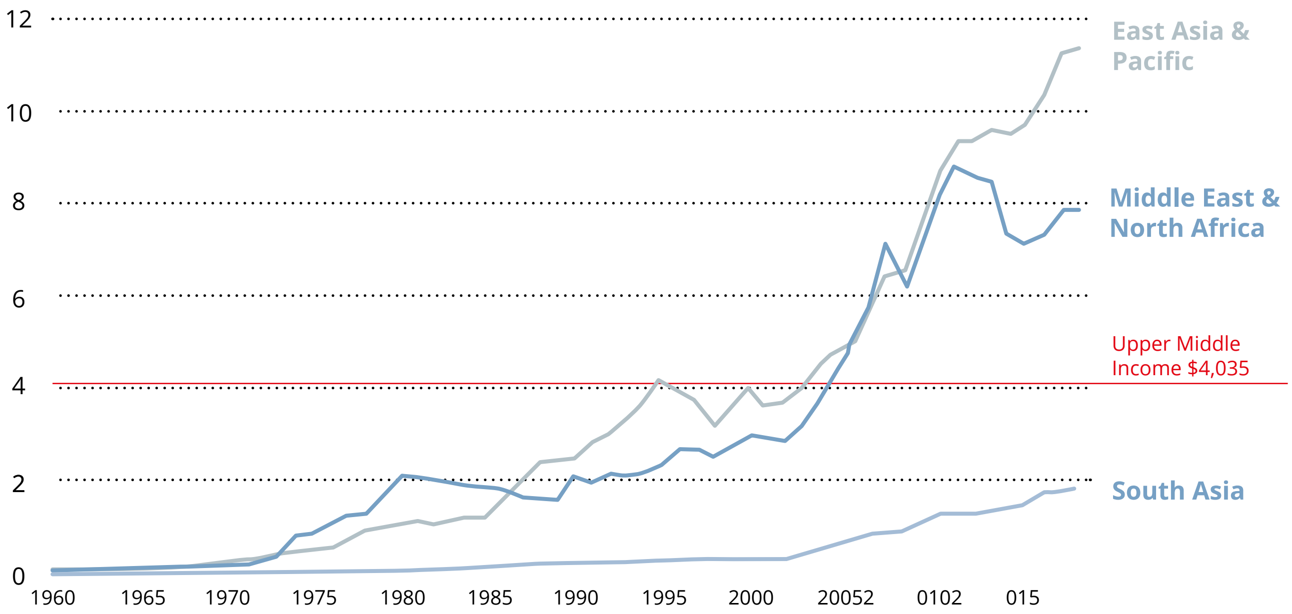
LEAPFROGGING TO SERVICES

Encouragingly, even as global manufacturing remains concentrated in Asia, most Asian economies are rapidly transitioning towards services, which accounts for over half of regional GDP. This service sector expansion remains crucial to overcoming the middle-income trap, as well as the risk of premature deindustrialization due to accelerating labor automation.

Leapfrogging to Services: Asia's Precocious Development Model



III THE CONSUMERS OF TOMORROW



Much of East Asia and the GCC already lie far above the threshold of upper middle income status. As per capita incomes in the GCC and Southeast Asia rise, mass affluence driven consumption will increasingly centre on key markets in Ascending Asia. As the Boston Consulting Group highlights, demand for high-end goods and services are forecast to increase sharply across ASEAN as Thailand, Indonesia, Vietnam and the Philippines see more new entrants to the mass affluent consumer class than to the middle-class over the next decade. (Southeast Asia's mass affluent population is projected to double to 140 million between 2020-2030).

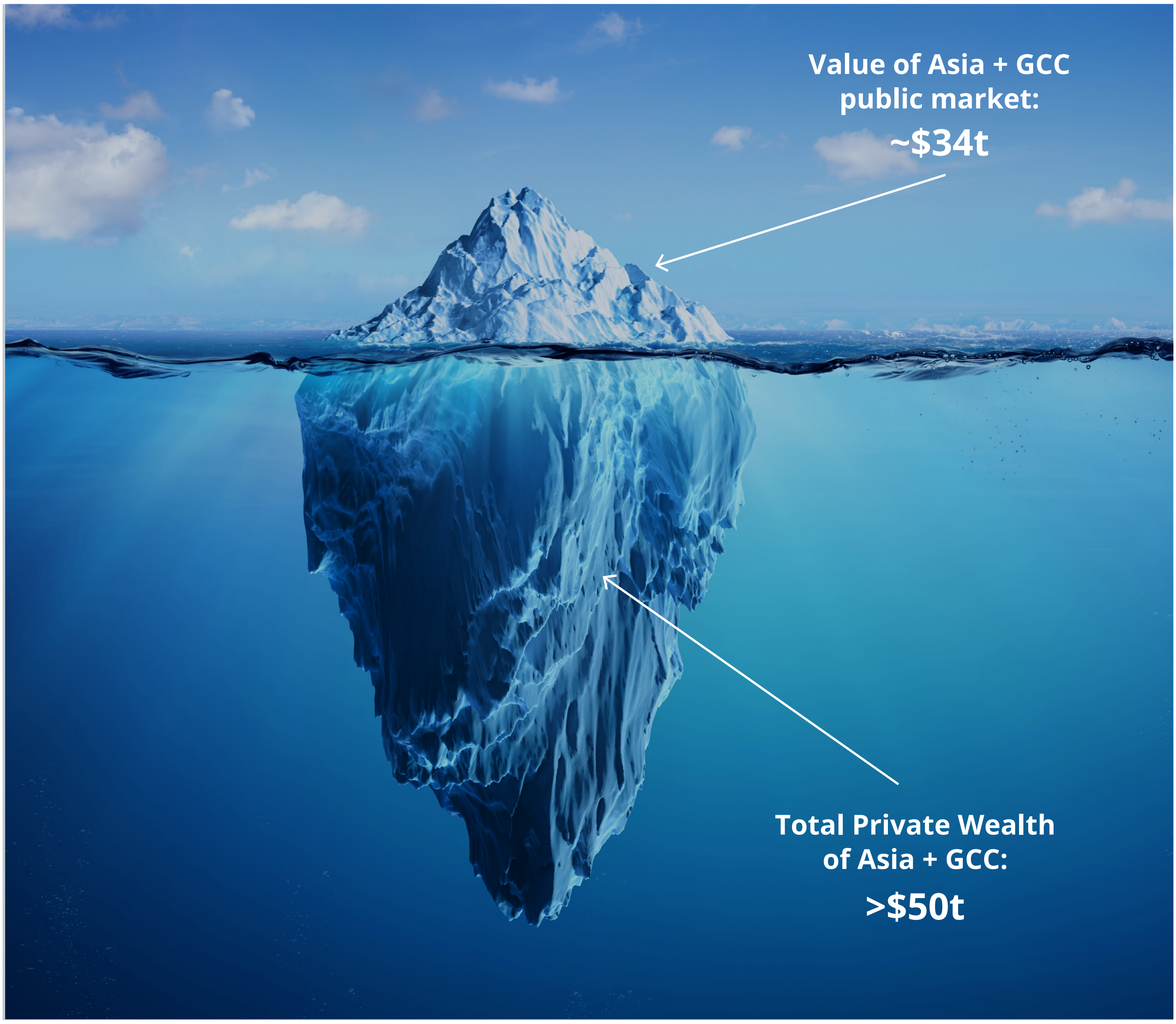
Even in India and Egypt, where incomes are more modest, rising disposable income will lead to a sharp increase in demand for healthcare, transportation, clothing, finance, and other services, driving a virtuous cycle of consumption-led growth as Asians purchase goods and services made in Asia, produced by Asians, priced in Asian currencies.

For West Asia, Bain Capital projects the post-COVID economic rebound to propel consumer spending to pre-pandemic levels by 2021-22. And with GCC consumers showing a growing willingness to shop online, the region could witness faster consumption growth as buyers are exposed to more choice. An April 2021 Bain Capital survey reinforces this sentiment by highlighting that ~70% of high-net-worth GCC buyers who traditionally opt for in-store luxury shopping are now comfortable with online shopping.

GROWING PRIVATE WEALTH IN ASCENDING ASIA

Private wealth accumulation in Asia is expected to reach $70 trillion by 2025. overtaking North America. Already, 38% of the world's billionaires are in South and East Asia. The GCC boasts approximately 17,000 UHNWIs as of 2020 (up from 10,000 in 2014).

Private wealth in the GCC region is estimated at $4.2 trillion, and is projected to grow at 6% p.a. to $5.5 trillion by 2025.



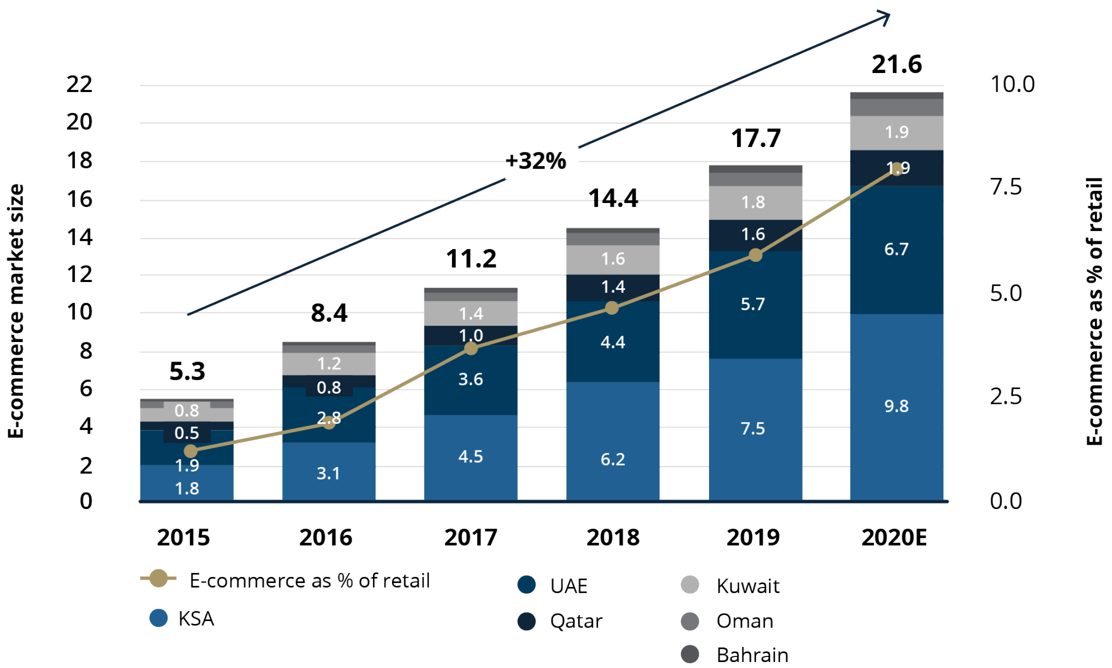
IV REGIONAL OUTLOOK

The two wings of Ascending Asia -- the Gulf states and Southeast Asia -- represent parallel stories of young regions with strong infrastructure investment and rapid digital adoption. MENA has ~390 million unique mobile subscribers. 5G users are expected to account for over 20% of all mobile users in the region by 2025, spurring the growth of E-commerce, FinTech and HealthTech.

Across ASEAN, regional internet penetration has climbed to 67%, and 450+ million mobile subscribers, leading the digital economy to expand threefold between 2017-20, to account for 7% of the region's GDP.

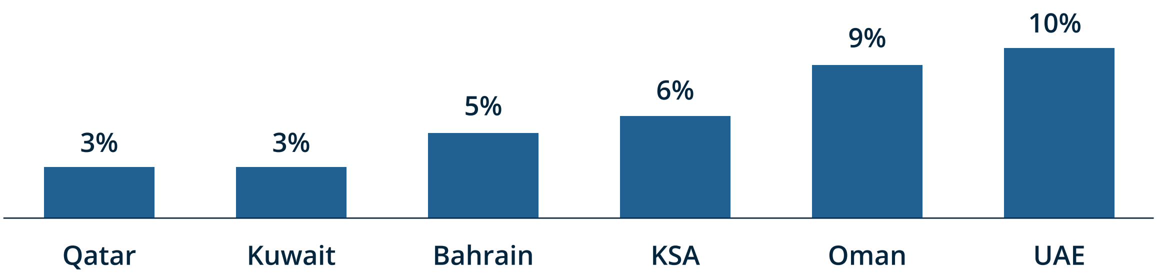
E-commerce: COVID-19 has accelerated the spread of e-commerce in the GCC, with 80% of young Arabs reporting frequently shopping online in 2020, 18 compared to 71% in 2019. The average transaction value of online shopping baskets also remains 40% higher than the average value of shopping baskets in supermarkets. Amazon and Noon account for ~50% of the GCC's $22 billion e-commerce sector.

E-commerce market size historical growth 2015-2020 ($ billion)



HealthTech: While GCC countries spend far less per capita on healthcare than Western countries with similar incomes, MENA's demand for digital health services is forecast to grow by ~13% p.a, giving the industry a valuation of $1.8 billion by 2024. Recognizing the opportunity, PE and VC investments in MENA's healthcare startups have increased nearly 3x to $72 million between 2019-20, accounting for 7% of total start-up funding in the region.

Country-wise CAGR (2017-2022) estimated growth for CHE



FINTECH: While digital transactions constitute a relatively small share of all payments across the GCC, a young population, high mobile and internet penetration rates, and market reforms are likely to boost MENA's e-payments market by 50-100% p.a. over the next five years.

Already, Saudi Arabia's digital transactions increased to 37% of all financial transactions in 2020 (nearly 10 p.p. higher than the government's 28% target). Pre-pandemic estimates from the Boston Consulting Group suggest UAE's cash transactions as a share of total will drop from 72% to 46% by 2021.

ASEAN's digital economy already accounts for 7% of its GDP. And with 1/3 of the region still without internet access or mobile subscriptions, there is plenty of headroom for growth. Key sectors include:

Countries	Fast-Growing Sectors	
Singapore	Fintech	Digital Health
Malaysia	Islamic Banking	E-Commerce
Indonesia	E-Commerce	Telecommunications
Thailand	E-Commerce	Digital Health
Philippines	Business Process Outsourcing	Digital Marketing

As the table suggests, the drivers of ASEAN's digital economy have expanded from retail, travel, and local services in past years, to financial services, proptech, edtech, and healtech. Moreover, digitised value chains, especially in logistics, are evolving in ways that add far more value.

Fueling ASEAN's digital economy are the region's super-apps. Notable among them, SEA Group, a global consumer internet company with core businesses in digital entertainment, e-commerce, and e-payments is now valued at $127 billion. Grab, a ride-sharing, food delivery, and e-payments company, is aiming to go public, with expectations of a $40+ billion valuation. The Indonesia-based super-app Gojek, and regional e-commerce giant Tokopedia merged in May 2021, giving the new entity a valuation of $18 billion. Importantly, each of ASEAN's super-apps have had Chinese, US, and Japanese funding, without management or customers having to choose sides in a new "tech Cold War."

Southeast Asia's Hunt for Super-Apps

	sea	Grab	gojek
Origin	Singapore	Singapore	Indonesia
Sector	Diversified	Ride-sharing / Delivery	Ride-sharing / Delivery
Market Cap	**$127b**	**$35b**	**$10.5b**
Key Investors	Ontario Teachers' Pension Plan, General Atlantic, Tencent	Vertex Ventures, GGV Capital, Soft Bank, Didi, CIC, Mitsubishi	Paypal, Facebook. Visa, PT Astra, Mitsubishi, Warburg Pincus
About	Leading global consumer Internet company with core businesses in digital entertainment, e-commerce and e-payments Key products include Shopee (e-commerce), Garena (video game development) and SeaMoney (Fintech).	Provides transportation, food delivery and digital payments services in over 350 metropolitan areas in SE Asia and Japan.	Offers food delivery, commuting, digital payments, shopping, and hyper-local delivery services in SE Asia, Gojek is SE Asia's largest consumer transactional technology group on a gross transaction value basis. Merger with Tokopedia expected to generate new valuation of $18b.

Southeast Asia's Hunt for Super-Apps

	VNG	iflix	CARRO
Origin	Vietnam	Malaysia	Singapore
Sector	Diversified	Streaming	Online auto sales
Market Cap	**$2.2b**	**~$1b**	**~$290m**
Key Investors	IDG Ventures, Tencent, CyberAgent Capital	Fidelity, Liberty Global, Sky UK	Mitsubishi, SoftBank, Insignia Ventures
About	Core interests are in digital entertainment, e-payments and cloud services. Vietnam's first unicorn start-up, VNG currently has over 100m users.	Free and subscription based video on demand service focused on emerging markets. iFlix has over 25 million active users.	Online used car marketplace offering a fullstack services including financing, warranty options and roadside recovery.

CONCLUSION

V ASCENDING ASIA AS A VITAL INVESTMENT DESTINATION

Asia accounts for more than 50% of global GDP in PPP terms, and its growth trajectory far outstrips the West. The region is forecast to deliver 3.5x the growth of Western economies in the decades ahead, accounting for over half the world's total projected GDP growth through 2050. As growth in the EU and the US slows, their collective share of global GDP will drop from ~30% to less than 20% by 2050.

Within this greater Asia, the GCC and Southeast Asia are two ascending regions with rising youth populations where demographic and technological shifts will generate a significant expansion of the services sectors. Across these societies, rising affluence and consumption will drive business expansion, corporate profits, and higher valuations. Longer-term reforms including capital account liberalization and accelerated privatization will unlock fresh investment inflows into new Asian listings.

Additionally, East and West Asia's deepening trade and investment networks indicate that capital, companies, and consumers will increasingly traverse the Indian Ocean and strengthen ties along the new Silk Roads, stitching the region into a whole greater than the sum of its parts. As we look to the future, it becomes increasingly difficult to imagine a global portfolio that doesn't include strong exposure to Ascending Asia.

KEY SOURCES

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MSCI

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Santander

Statistical Centre for the Cooperation Council for the Arab Countries of the Gulf (GCC-STAT)

US Energy Information Administration

World Bank Group

World Integrated Trade Solution


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