

Global Entrepreneur Indicator

from the Entrepreneurs' Organization

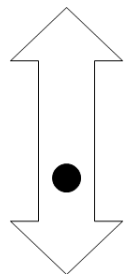
Europe-Middle East-Africa (EMEA) Entrepreneur Alternative Asset Class Predictions

Interim Report Two: October 2010
 Dr. Sally Ernst

Summary of Findings

Entrepreneurs in the Europe-Middle East-Africa (EMEA) region created full-time jobs last year, and the vast majority expect this to continue. After Asia Pacific and Canada, the EMEA region is the next highest in reporting improved profits in the last quarter and the expectation of increased net profits in the near future. The majority of EMEA-region entrepreneurs plan further reductions in long-term debt in the coming 12 months. EMEA entrepreneurs expect both commercial and residential property prices to fall, and a majority predict the price of gold will rise in the next 12 months. EMEA entrepreneurs believe interest rates will increase and access to credit lines will deteriorate in the coming quarter. Compared to other regions, EMEA entrepreneurs do more business outside their own region.

EMEA: Interim Findings – Second Survey (October 2010)



With an Indicator benchmark of 4.4 (out of 10), EMEA entrepreneurs have a neutral but slightly negative outlook on alternative asset class performance.

Entrepreneurs in the EMEA region hired additional full-time employees last year and three-quarters of respondents plan to hire both full-time and part-time employees in the coming year.

EMEA entrepreneurs have been increasing their headcount in the last year, with 58% of entrepreneurs in the region reporting hiring more full-time staff and 48% hiring more part-time and contract staff. Reflecting improved expectations about the economy, 76% of EMEA entrepreneurs expect to hire more full-time employees in the next 12 months, and 61% expect to hire more part-time and contract employees.

After Asia Pacific and Canada, the EMEA region is the next to report improved profits and expect increased net profits in the near future.

In terms of net profit in the last quarter, well more than half (59%) of EMEA entrepreneurs experienced an increase in net profits. For EMEA, this is an increase from just 36% in the previous report, a significant increase. By comparison, Asia Pacific had the largest percentage and significant majority (70%) of entrepreneurs reporting an improvement in profits in the previous quarter. Expectations for profits to increase in the coming quarter are as follows: ASAP (83%), Canada (74%), EMEA (73%), the US (71%) and LAC (65%).

At 55%, the majority of EMEA entrepreneurs plan further reductions in long-term debt in the coming 12 months. This is a significant increase as compared to the May 2010 Indicator benchmark of 16%.

All regions have been reducing long-term debt in the last 12 months. A majority (55%) of entrepreneurs in the EMEA region plan further debt reductions, compared to more than two-thirds (68%) of US entrepreneurs. Interestingly, this majority is a significant increase on last quarter's findings, where only 16% of EMEA entrepreneurs planned future debt reduction.

The majority of EMEA-region entrepreneurs report difficulties in accessing capital from banks, just like their peers in the US and LAC regions. Canada and Asia Pacific are the only regions reporting a low level of difficulty accessing capital from banks. All other sources of capital remain difficult to access for these business owners: angel investment, venture capital, government loans, friends and family.

Entrepreneurs in the EMEA region expect both commercial and residential property prices to fall, which is in line with all other regions except Asia Pacific.

Two-thirds of EMEA entrepreneurs (67%) expect commercial property prices to fall, with an almost identical percentage (66%) predicting residential property prices will fall, as well. Only in the Asia Pacific region are property prices predicted to rise (70%).

A majority of EMEA entrepreneurs predict the price of gold will rise in the next 12 months.

All regions expect the price of gold to rise in the next 12 months. The significant majority (71%) of Asia Pacific entrepreneurs believe gold will rise in price. Well more than half (59%) of EMEA entrepreneurs believe the price of gold will rise in the next 12 months. Canada and EMEA share similar expectations, while US and LAC entrepreneurs are split on the future price of gold.

EMEA entrepreneurs predict interest rates will increase and access to credit lines will deteriorate in the coming quarter.

Just more than half of EMEA entrepreneurs (54%) expect interest rates to fall, just like their peers in the US (56%) and LAC (60%). Canada (64%) and Asia Pacific (63%) are the only two regions expecting a rise in interest rates.

Canada (50%) and Asia Pacific (56%) are positive about accessing lines of credit. In contrast, entrepreneurs in EMEA, LAC and the US are fairly negative about accessing lines of credit. In EMEA, approximately half (52%) predict a decrease in access to lines of credit in their countries.

Compared to other regions, EMEA entrepreneurs do more business outside their own region.

Three-quarters of EMEA entrepreneurs conduct business in Western Europe, with the second most popular region being the Middle East, attracting one-third of EMEA entrepreneurs. Just more than one-quarter of EMEA entrepreneurs (26%) conduct business in the United States, a similar proportion to the number of EMEA entrepreneurs who do business with Eastern Europe. All other sub-regions, including Africa (11%), have business dealings with at least 10% of EMEA entrepreneurs. EMEA and Asia Pacific are the most significant business partners for Africa.

EMEA entrepreneurs are the least likely to obtain financial advice from a banker or family and friends.

Entrepreneurs in the EMEA region are the least likely of all the regions to ask family and friends for financial advice (53%). They are also the least likely to get financial advice from a banker (32%) or print and Web-based sources (33%). Entrepreneurs in EMEA rely primarily on business partners and associates (79%) for advice on financial matters.

After Asia Pacific, EMEA region entrepreneurs have the highest intention to invest in green energy and clean technologies (12%).

Outside of their own businesses, EMEA entrepreneurs have investments in residential real estate (51%), stocks/bonds (45%), personal retirement accounts (40%), commercial real estate (27%), corporate retirement accounts (14%), private equity (14%), luxury goods (14%) and art (11%).

The top three alternative asset classes that EMEA entrepreneurs intend to invest in during the coming 12 months are residential real estate (32%), personal retirement accounts (31%) and stocks/bonds (26%). After Asia Pacific, EMEA region entrepreneurs have the highest intention to invest in green energy and clean technologies (12%).

The EMEA region has the lowest percentage of entrepreneurs invested in mutual funds (9%). Very few also invest in gas (1%), oil (1%), foreign currencies (1%), real estate equity (2%), fine wine (4%) and hedge funds (5%).

EMEA entrepreneurs have positive expectations for growth across all industries and believe the environmental/recycling/green energy industry will be the fastest growing in the next 12 months.

The predictions of growth industries for the coming 12 months gave an aggregate average score of 5.9 from EMEA region entrepreneurs, meaning the region is slightly optimistic in terms of overall economic growth. The following industries are the EMEA's top five picks for the highest growth in the coming year.

1. Environmental/recycling/green energy	7.2
2. Biotech	6.9
3. Health/medical	6.8
4. Entertainment	6.4
5. Business services	6.3

About the Research

This report is part of the Global Economic Indicator research program conducted by the Entrepreneurs' Organization in partnership with The Standard Chartered Private Bank. This research program began in May of 2010 and consists of a five-year series of quarterly surveys of Entrepreneurs' Organization members. The full report and findings are available at: <http://www.entrepreneurindicator.com/>.

The significance and uniqueness of this global research program lies in the very tight definition of a successful entrepreneur represented by the Entrepreneurs' Organization's membership base. All those surveyed have successfully founded a business grossing more than US\$1 million in revenue annually. Overall, EO members average US\$18.4 million in revenue per year. Between them, these entrepreneurs employ more than 1.3 million workers, with an average of 191 employees per entrepreneur. The average age of the entrepreneurs surveyed is 40. This group is generally very difficult to gain access to and poll. However, the Entrepreneurs' Organization holds a member base fitting these criteria that are captive to the organization, providing the ability to gain an entree to this highly important sample of the successful entrepreneur population.

This initial research surveyed more than 7,300 entrepreneurs in 42 countries from the Entrepreneurs Organization, achieving a response rate of 20% based on a minimum reach of 7,300.

Global Entrepreneur Indicator: Alternative Asset Classes

This is the second report providing readers the interim findings of a series of research activities over an intended period of five years being undertaken by Entrepreneurs' Organization (EO) in partnership with Standard Chartered Private Bank. At the time of writing, The Global Entrepreneur Indicator for Alternative Asset Classes is the first of its kind globally, which measures entrepreneurs' predictions on Alternative Asset Class performance.

Six versions of the Alternative Asset Class indicator have been produced:

- Global Indicator – aggregate of all respondents globally
- Country and Regional Indicators – aggregate for each country with a discrete response rate above 50. For this survey, the countries and regions include:
 - US
 - Latin America and the Caribbean (LAC)
 - Canada
 - Asia Pacific region (ASAP)
 - Europe-Middle East-Africa (EMEA)

Detailed Interim Research and Regional reports will appear at <http://www.entrepreneurindicator.com/>.

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Methodology

Survey

The survey incorporates elements of cited Alternative Asset Class investments as described in the research report literature scan below. The test for the choice of key indicators for the purposes of this research is that they are later measurable against actual asset class performance.

There are seven categories measured in the indicator:

- Currency
- Residential real estate
- Commercial real estate
- Precious metals
- Managed futures
- Hedge funds
- Selves/own businesses

Some additional questions of interest to Entrepreneurs' Organization about their members' opinions, which are not used in the calculation of the Indicator, have also been included in the Indicator survey. These, as well as data from Indicator questions, may be used in the Alternative Asset Class Indicator or other Entrepreneurs' Organization Indicators.

The Indicator is calculated as the category score, or averaged upper end and neutral percentages divided by 10, which are then averaged across all category scores with equal weighting to give the final Indicator benchmark out of 10.

Limitations

- Not all respondents may have received the email
- Over 50% surveyed were based in the US and represented 58% of respondents.
- Some regional Indicators have a small response rate relative to their size. These reports can perhaps be used in the context of the longitudinal data as a benchmark made richer over time
- There may be anomalies in the membership data, such as an owner or major shareholder rather than founder may be included in respondents or other anomalies.
- There may be anomalies caused by technology in the process from data extraction, to survey delivery, to responses, to first stage analysis. While noted as a limitation, this is for probity as these are estimated to be minimal.
- Per the below statistics, most of the membership base is categorized as founder or cofounder, however, more founders and cofounders could be included in the owner and major shareholder categories. Members in these additional categories could potentially be categorized as entrepreneurs, dependent on the nature of intent to innovate or innovation.

Founder or Co-Founder	53%
Owner	34%
Controlling Shareholder	9%
Other	4%

Response Rates Summary

ASAP	237
Canada	118
EMEA	85
LAC	55
US	712
Global	1207

Background to Alternative Asset Classes

Entrepreneurs are a special group, given their ability to assimilate the information available to the general population differently to generate opportunity and create new things. This group continues to be a generally understudied population at scale.

There is some evidence that alternative asset classes may improve investment returns as part of a portfolio. While loose and broad, the definition of alternative asset classes may exclude stocks, bonds and cash.

For the purposes of the Global Entrepreneur Indicator, alternative asset classes were defined as either tangible or intangible goods that have a proven economic value but are not typically included in standard investment portfolios. Investors may look to alternative asset classes to diversify their portfolios. Due to their nature, it can be difficult to arrive at an objective valuation of alternative asset classes.

Bonds, stock and cash are generally excluded from the definition of alternative asset classes, as they represent, in most cases, the fundamental constituents of portfolios.

About Alternative Asset Classes

Given its broad definition, the Global Entrepreneur Indicator carves out the alternative asset classes and/or components of alternative asset classes that are most easily measurable for their return and are subjectively perceived to be more accessible, attractive and/or applicable to entrepreneurs. They have then been ordered by the alternative asset class' ability to be consistently and clearly valued and measured.

For example, Private Equity has been excluded for the purposes of the research, as these investments are usually relatively large, available to qualified investors only and may not be applicable to the majority of entrepreneurs. Another example is philanthropy, which may not be clearly valued or measured. In the case of education, it has been excluded because the risk is not easy to assess. Even though education is perceived by some as an investment with a high return—higher even than bonds or gold—it is difficult to quantify when considered against 'conventional' assets such as bonds or equity for which return is justified by risk (Judd, 2000).

Hedge Funds

Hedge Funds became popular as an investment vehicle in the late 1990s as an alternative to stocks, which were then characterized by high prices and low returns (Edwards & Liew, 1999). According to HFR (2010) hedge-funds have recovered in the first quarter of 2010 from the low values reached in early 2009. Globally, hedge funds now manage USD \$1.67 trillion of assets. During the first quarter of 2010, hedge funds have recorded an average return of 2.56%. Relative-value funds have recorded higher values, returning on average 3.58% in the first quarter of this year (Jones, 2010; HFR, 2010).

Natural Resources/Commodities

The Bloomberg Global Poll of investors, traders and analysts conducted on 19 January 2010, revealed that after stocks, commodities were considered as the most promising asset class (Dorning & Dodge, 2010). Commodities may be perceived by some to be an attractive investment as, being strongly linked to supply and demand, this alternative asset class has the advantage of potentially protecting portfolios from inflation (Bloemker, 2010). Examples of investible commodities are:

- Gas
- Oil
- Corn
- Cotton
- Copper
- Soybean
- Precious metals (Platinum, Gold, Silver)

According to the Halifax Assetwatch press release published 6 March, 2010, precious metals overall increased in value by 242% in the decade December 1999 to December 2009. Respectively, gold registered an annual average increase in price of 14.2%, platinum of 12.7% and silver of 12.6% (Halifax Assetwatch, 2010).

Managed Future Accounts

Managed future accounts are investment vehicles managed by Commodity Trading Advisors (CTAs) (Investopedia, 2010a). CTAs trade a portfolio of futures, forwards or options in global currency, interest rate, metal, energy and agricultural markets (Morgan Stanley Smith Barney, 2009). Although the strategies that CTAs employ on their portfolios can vary greatly, these managers all trade highly liquid and regulated financial products (Barclay Hedge, 2010).

Investors may perceive managed futures as an attractive way to diversify their portfolio due to their potential non-correlation to stocks and bonds (Barclay Hedge, 2010). Successful managers generally use modern portfolio theory to pick assets that will maximize returns against the level of risk they have chosen to take (Investopedia 2010b). Since their introduction in 1980, according to the CASAM CISDM CTA Equal Weighted Index, managed futures had a compound average return of 14.52%, almost double the return of U.S. stocks over the same period (based on the S&P 500 total return index).

Real Estate

Investment in real estate can be directed to the purchase of any of the following categories of estates and may be perceived by investors as a hedge against inflation (Skidmore, 2010):

- Commercial real estate
- Residential real estate

In the UK, returns on residential and commercial properties respectively recorded an average 11.1% and 5.8% return between December 1999 and December 2009. However, in 2009 alone residential properties recorded a return of 8.7%, and commercial properties recorded a return of -1.4% (Halifax, 2010).

Even though real estate is often considered an alternative asset class, it is sometimes considered an 'additional' asset class to stock, bonds and cash. One reason is that before the emergence of stocks and bonds, real estate was the preferred asset class. Upon the invention of stock and bonds, these were considered alternative asset classes to real estate. Additionally, real estate is often considered as a fundamental and indispensable component of a well-diversified portfolio (Anson, 2006).

Microfinance

Socially Responsible Investments ("SRIs") are investments aimed to generate financial return and social, environmental and ethical improvements. Of all SRIs, microfinance is currently the sector that attracts the largest number of investors.

Microfinance is a term that describes the provision of financial services to poor parts of the population that otherwise would not have access to banking services. Micro-loans are aimed at poor individuals who are able to engage in a productive entrepreneurial activity. Examples of micro-borrowers are street vendors, small farmers and fishermen.

According to a study conducted by The MIX on a sample of around 704 microfinance institutions, for the year 2007, the leading 176 MFIs recorded a RoE of 17.2% (The MIX, 2006). Investments in microfinance are expected to rise to around USD 20bn by 2015 (Deutsche Bank Research, 2007).

Wine

Wine investment has registered steady growth since the early 1990s, with an average annual growth rate of 17.64%. Compared to other alternative asset classes, wine investment has some perceived advantages: wine is easy to store, is likely to increase in quality with time, is not subject to fashions and may be shown to increase value with rarity. Increasing global demand and the existence of professional investment advice services appear to be making wine an interesting investment opportunity (Golding, 2009).

Collectibles and Luxury Items

Categories of goods that can be included in the collectibles and luxury items alternative asset class are:

- Art (produced by famous artists and emerging artists)
- Photography
- Stamps and coins
- Antiques
- Classic cars and motorbikes
- Vintage watches
- Yachts
- Designer fashion
- Sport and music memorabilia and autographs
- Toys

Let's take the example of art. Even if the return is almost impossible to measure accurately, it appears an increasing number of investors perceive art as an interesting alternative investment opportunity. Bernard Duffy, manager of the "Emotional Assets" fund, which invests in art and other collectibles, thinks investors can make a 15% profit per year (Papworth & Collinson, 2009). However, art may be perceived as a long-term investment that is likely difficult to value, and may be unlikely to guarantee immediate liquidity. On the other hand, art may also be considered by some as a hedge against inflation.

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