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Global Entrepreneur Indicator
from the Entrepreneurs' Organization

Asia Pacific Entrepreneur Alternative Asset Class Predictions

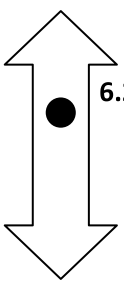
Interim Report Two: October 2010

Dr Sally Ernst

Summary of Findings

Asia Pacific (ASAP) entrepreneurs have been hiring full-time employees at a higher rate than any other region, and entrepreneurs plan to hire more in the coming year. Long-term debt reduction is not a current priority, and the region's entrepreneurs report that it is not difficult to access capital from banks. ASAP entrepreneurs are the only group among their global peers predicting property prices to rise in the next year, along with the price of gold and interest rates. ASAP entrepreneurs have the highest expectations of growth of all the regions. ASAP entrepreneurs identified the following as the most popular sub-regions for doing business outside of their own region: the US, Western Europe, the Middle East and Northeast Asia.

ASAP: Interim Findings – Second Survey (October 2010)



6.22 ***With an Indicator benchmark of 6.21 (out of 10), ASAP entrepreneurs have a slightly positive outlook on alternative asset class performance.***

Asia Pacific entrepreneurs have been hiring full time employees at a higher rate than any other region, and more entrepreneurs plan to hire in the coming year.

Entrepreneurs in the ASAP region have hired full-time persons in their businesses at a higher rate over the last 12 months more than any other region, with well more than half (60%) hiring more full-time staff than the global average (52%). In the next 12 months, the significant majority (79%) of Asia Pacific entrepreneurs intend to continue hiring at a greater rate than any of their global peers. Canada and the Europe-Middle East-Africa (EMEA) region are also above average in score for hiring plans (75% and 76% respectively). Both EMEA (61%) and Asia Pacific (60%) entrepreneurs plan to hire more part-time and contract staff than the global average.

Asia Pacific leads the global increase in profits, with even better performance expected in the next quarter.

Last quarter, while profits increased in all regions, the significant majority (70%) of Asia Pacific entrepreneurs experienced an increase in profits. Canada had the next largest proportion of entrepreneurs with increased profits (60%). All regions are predicting net profits to increase in the coming three months. In the Asia Pacific region, the vast majority (83%) of entrepreneurs predict their profits will increase, followed by Canada (74%), EMEA (73%) and the US (71%).

Long-term debt reduction is not as great a priority for entrepreneurs in the Asia Pacific region as for their global peers, and the region's entrepreneurs report that it is not difficult to access capital from banks.

Long -term debt reduction is not a priority for Asia Pacific entrepreneurs. About half of Asia Pacific entrepreneurs (52%) plan to reduce long-term debt. By comparison, nearly two-thirds (68%) of US and (65%) Canadian entrepreneurs plan debt reductions.

Asia Pacific and Canada are the only regions reporting a low level of difficulty accessing capital from banks. Both regions have a clear majority who say it is not difficult to borrow from banks. All other sources of capital remain difficult to access for these business owners: angel investment, venture capital, government loans, friends and family.

Asia Pacific region entrepreneurs are the only region predicting property prices to rise in the next year.

Asia Pacific entrepreneurs are the most bullish about property prices. Moreover, ASAP is the only region predicting property prices to rise in the next year. For residential property, the significant majority (71%) of Asia Pacific entrepreneurs expect prices to rise in the next 12 months. For commercial property, more than two-thirds (68%) expect them to rise. This far exceeds the feedback from the second most optimistic region, Latin America-Caribbean (LAC), with figures of about one-third (33% and 37% respectively) for both classes of property. In fact, outside of the Asia Pacific region, property prices are expected to fall. In the US, two-thirds (76%) of entrepreneurs expect commercial property prices to fall.

A significant majority of Asia Pacific entrepreneurs predict the price of gold will rise.

There is a global consensus that the price of gold will rise in the next 12 months. Again, more Asia Pacific entrepreneurs (71%) than those from any other region believe the price of gold will increase, although well more than half (59%) of EMEA entrepreneurs expect the price to rise.

Asia Pacific region entrepreneurs expect interest rates to rise and access to credit lines to improve in the coming quarter.

Entrepreneurs in Asia Pacific (56%) and Canada (50%) expect that access to lines of credit will improve and interest rates will rise (63% and 64% respectively). All other regions expect lines of credit to be limited and interest rates to fall, especially in LAC where a majority (60%) of entrepreneurs predict interest rates will fall.

Outside of their own region, Asia Pacific entrepreneurs identified the US, Western Europe, the Middle East and Northeast Asia as the most popular sub-regions for doing business.

Nearly half of ASAP region entrepreneurs (48%) conduct business within Southeast Asia, with slightly fewer (41%) conducting business in South Asia. Just over a third (35%) of ASAP entrepreneurs are conducting business in the Pacific region.

Outside of the Asia Pacific region, the US (25%) and Western Europe (20%) are the next most important, closely followed by the Middle East and North East Asia. The other sub-regions; Eastern Europe, Canada, Africa and Latin America attract less than 1 in 10 (10%) each of Asia Pacific entrepreneurs.

Asia Pacific entrepreneurs favor using business partners and associates as their primary source of financial advice.

Asia Pacific entrepreneurs rely most on business partners and associates (76%) for financial advice. Asia Pacific entrepreneurs rely more on friends and family for financial advice (64%) than their US counterparts (63%). In the US region, entrepreneurs cite business partners and associates as their most frequently used source of financial advice (82%).

Asia Pacific entrepreneurs are the most likely of all regions to have investments in foreign currencies. In the coming 12 months, Asia Pacific entrepreneurs have the highest intention of all regions to invest in green energy/clean technology.

Outside of their own businesses, Asia Pacific region entrepreneurs have investments in residential real estate (67%), stocks/bonds (57%), commercial real estate (42%), personal retirement accounts (38%), mutual funds (34%), art (22%), private equity (20%), precious metals (17%), luxury goods (15%), corporate retirement accounts (13%) and foreign currencies (13%).

Asia Pacific entrepreneurs are the most likely to have investments in foreign currencies (13% compared to the global average of just 4%). Along with Canadian entrepreneurs, Asia Pacific entrepreneurs are most likely to have investments in real estate equity (8%).

In the coming 12 months, the top three alternative asset classes that entrepreneurs in the Asia Pacific region intend to invest in are residential real estate (43%), commercial real estate (36%) and stocks/bonds (32%). This is in line with their expectations about property prices and the economy in general. Future investment intentions broadly follow the pattern of current investments. However, Asia Pacific entrepreneurs have the highest intention of all the regions to invest in green energy/clean technology (16% compared to the global average of 10%). Additionally, 12% are looking to invest in commodities, once again the highest proportion globally.

Asia Pacific entrepreneurs have the highest expectations of growth among all the regions, selecting environmental/recycling/green energy as the fastest growing industry in the next 12 months.

Asia Pacific entrepreneurs had the highest aggregate average score (6.8 out of 10) for expectations of growth across all industries in the coming 12 months. The region's entrepreneurs gave the following industries as their top five picks for future growth in the coming year.

1.	Environmental/recycling/green energy	7.3
2.	Health/medical	6.8
3.	Pharmaceuticals	6.8
4.	Biotech	6.7
5.	Oil/gas/energy/mining	6.7

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

Asia/Pacific	237
Canada	118
Europe/Africa/Middle East	85
Latin America/Caribbean	55
United States	712
Global Total	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 US$1,670 billion 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 indispensible 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.

For Further Information about the Research:

Research Contact:
Dr. Sally Ernst
Entinno
+44.777.8510.397
sal@entinno.com

Media Contact:
Ryan Meyer
Entrepreneurs' Organization
+1.571.481.2427
rmeyer@eonetwork.org

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