

Connectivity: lessons from a jaunt across a few Emerging Markets

I recently had the pleasure of getting married and taking some time to go travelling across Asia on an extended honeymoon through a number of our core markets as well as some more frontier locations.

Taking a step away from the coalface of emerging market investing, worrying about financial markets and the latest Fed minutes gave me a welcome chance to get a taste of daily life in these countries and see how they function.

In recent years the narrative surrounding emerging markets has too often been a tale of unfulfilled political reform, unpalatable corruption scandals and unhealthy reliance on commodities. It has been easy to become distracted from the broad wave of development crashing over the emerging world that keeps the team here striving to uncover investable growth opportunities from this backdrop.

When visiting these countries it was impossible not to see the profound changes occurring as their economies develop, irrespective of the specific governance issues that each country faced.

Our route traced a broad arc starting in Georgia (the former Soviet territory nestled in the Caucasus Mountains South of Russia), and finishing in the Philippines in South East Asia. The route took in EM stalwarts such as India and Thailand as well as countries like Iran and Myanmar that are only just opening up to outside investment.

Rather than stick to a tedious chronology I sought to pick out some key transformative themes that seem to transcend the diverse group of

emerging markets. In the process of thinking these through I realised how they all fell under the banner of one super-theme if you will, namely Connectivity!

The first connectivity transformation that struck me was the good old fashioned process of getting from A to B.

When I first took on the role of a travelling salesman in the USA I was taken back by the frequency of direct flights connecting seemingly unrelated mid-sized cities across the US. Did you know there are 17 direct flights per day connecting Minneapolis and Denver, and 7 connecting Minneapolis to Salt Lake City? I was similarly impressed when

I found out that there are 8 flights a day connecting Hyderabad to Chennai in India, with a full 14 from Hyderabad to the various super-hubs in the UAE.

Elsewhere, slow, dangerously overcrowded ferries held together with pictures of saints were once the norm for travelling between the 7000 islands that constitute the Philippines. There is now a fiercely competitive airline industry transporting people all over the archipelago with fares anywhere rarely starting much above \$50. One only need look at the Flightradar24 website that charts flights currently in the air all across the globe to see how the emerging world is catching up with Europe and the US (see screenshot below).



Screenshot from Flightradar24 website which tracks planes in the sky at any given time

A significant point to note is how this rise in quantity at budget prices has not for the most part impacted on the quality of the planes employed. Quite unlike some of the ageing AA and Delta planes I have found myself on, the fleets of the budget airlines connecting up the emerging world (the likes of Air Arabia, Jet Airways, IndiGo, AirAsia, Cebu Pacific and Avianca) seem to consist almost entirely of brand new Airbus A320s.



Flying Air Arabia, from Shiraz to Sharjah

The next connectivity transformation is the one that already gets plenty of coverage in the press, and that is how the internet and mobile devices are rapidly changing people's lives for the better.

The first point I wish to make on this is that almost every guesthouse or hotel I stayed in throughout the trip offered free Wi-Fi as a matter of course, putting to shame the significantly more upmarket hotels in the US that still consider it a chargeable extra.

The starkest example of how the rise in mobile connectivity was changing people's lives was found in Myanmar, a country that had for decades suffered under a highly repressive isolationist military regime that had long tried to stifle the availability of external information to its citizens. When I first visited the country in

2009 on the eve of a gradual transition towards democracy:

- the NLD, the main opposition party were a banned organisation with its leader under house-arrest;
- the media was still tightly controlled with most international news sites banned and state newspapers (complete with Kafkaesque 'advice' and denunciations of 'nefarious' international news outlets – see picture below) the dominant source of news; and
- mobile phone coverage was non-existent for foreign phones with mobile phone ownership withheld from all but the military regime and their "friends".

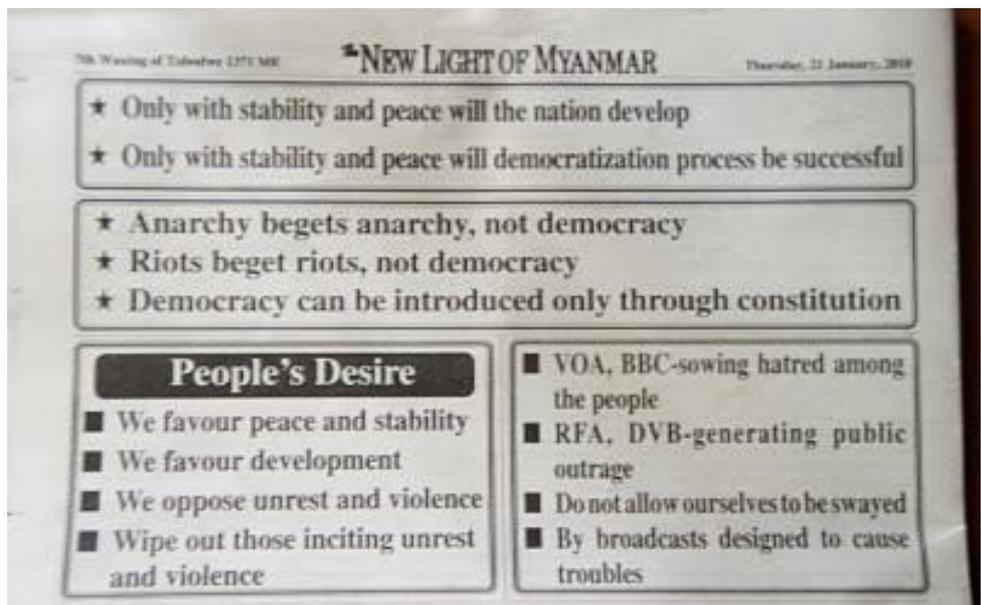
This time:

- not only was the opposition party on the cusp of winning the elections (albeit their leader remains prevented from standing as President);
- there was a thriving domestic media sector with apparently unrestricted access to any foreign news outlet;

- mobile ownership felt almost ubiquitous as was the mobile coverage across the country with all towns we visited boasting plenty of shops looking to flog Smartphones to an eager population.

The benefits of any of these things I don't feel I need to labour.

Beyond just the improving availability of mobiles and mobile coverage, it was interesting to note the enthusiasm and sophistication with which local businesses (particularly in the tourism sector) leveraged their newly acquired connectivity to build their businesses. Whilst I was in Nepal in the wake of the devastating earthquake that struck last year, many small business owners we encountered were effectively utilising social media and blogging platforms to reassure potential customers and engage fluidly with would-be tourists to mitigate the damage to the vital tourism sector. Indeed, not to be left behind by the trend that made Oxford Dictionary's 'Word of the Year' for 2013 we were asked on multiple occasions throughout our trip for 'selfies' with people, including in one



The 'New Light of Myanmar' state newspaper (complete with Kafkaesque 'advice' and denunciations of 'nefarious' international news outlets)

memorable occasion by a monk at a monastery who later added us on Facebook – brave new world.

The third and final element to connectivity that I encountered was cultural and illustrated how barriers and differences that may seem stark from a distance have a tendency to blur upon closer inspection – the spread of the ‘selfie’ mentioned earlier is a case in point.

A lot of the binaries that inform western opinion of certain countries are quickly revealed to be more diverse upon on the ground inspection best witnessed during my time in Iran.

Travelling from Christian Armenia into the Islamic Republic of Iran one would be forgiven for imagining a fairly impermeable border. Nevertheless, when mentioning to Armenians that Iran was our next destination we were encouraged by the fact that the universal reaction was incredibly positive (usually with comments like “lovely country, only problem is no wine”) reflecting the close relationship the two countries have...and obviously the varying availability of booze. After further conversations we learnt that Iran not only holds a sizable Armenian



The NLD, the main opposition party were a banned organisation with its leader under house-arrest in 2009; In 2015 it was on the cusp of winning the elections

community but there are two seats reserved in the Iranian Parliament for Armenian Christians (alongside seats for Iranian Jews, Zoroastrians and Assyrian Christians). The hard-line anti-American views of the world held by a small segment of the population that seem to form the backdrop for a lot of previously negative media coverage are only partially visible on the ground there. Despite the potentially negative reception we would find coming from the country described as “Little Satan” all the people we met were remarkably welcoming and friendly to hear people from Britain were visiting their country.

In a country where sanctions have until very recently kept western companies out and the removal of which seems to get certain investors salivating at the prospect of accessing what has been described as an ‘untouched’ or ‘virgin’ market on account of its isolation, one could be forgiven for picturing a primitive country deprived of the everyday consumer conveniences that we take for granted. However not only do Iranians exist just fine without the golden arches or the Starbucks mermaid, there are a panoply of barely concealed domestic copycat companies filling the void, (some of my favourites below).



In Iran there are a panoply of barely concealed domestic copycat companies of international brands previously barred by sanctions filling the void

This classic import / brand substitution has not been limited to simple consumer businesses but embraced by Iran's IT local community which has created Cafe Bazaar in place of Google Play; Bamilo instead of Amazon; Snapp instead of Uber; and Mazando instead of Ebay.

The general conclusion I came to is one that could very easily be taken negatively for those seeking global differentiation and the preservation of distinct cultures being that only that the world is becoming easier to get around but also more homogenous in its tastes, use of technology and general commercial landscape. Nevertheless, whilst the planes may be European, the apps American (if by idea conception if not practice) and the cheap manufactured goods as Chinese as any in the Western world, there was always the distinct cultural quirks of each country that kept each one distinct and interesting. Whereas in the developed world I feel it is easy to lap



North East Asia at night with North Korea outlined

up each new technological innovation in our stride and take the benefits they offer for granted, a key difference I found was how these developments were really appreciated as exactly that – the means by which people's lives and livelihoods were noticeably improving, which was both heart-warming as well as exciting from an investment perspective. If any of the

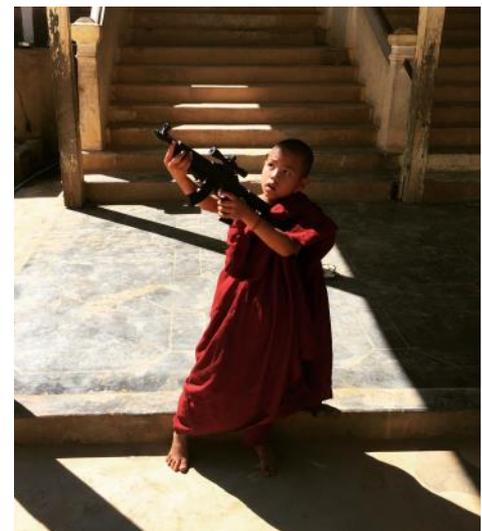
homogenisation discussed above discourages anyone from visiting and of the countries mentioned I would encourage you to ignore everything you read, if this still fails for the really intrepid I hear there is still North Korea (see picture...and contact either Lorcan or Cassandra at Matterhorn who have been there for recommendations).



The Joubi Bridge in the Iranian city of Isfahan at dusk, just as temperatures cooled and families went out to promenade across the bridge.



A tricycle in the Philippines, one of the many ingenuitive ways scooters are refitted across the globe to provide cheap transport solutions.



A novice monk in Myanmar taking some time off his studies to join his friends (some robed, others not) and partake in a bb-gun battle.

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