

ASHA MEHTA

POWER OF CAPITAL

AN ADVENTURE CAPITALIST'S
JOURNEY TO A SUSTAINABLE FUTURE



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“Most investors miss opportunities in new markets simply because they are unaware of them. Asha will tell you how to make money in these markets before they have even emerged.”

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“Asha Mehta demonstrates not only why we need to invest in women, but also how our industry benefits from the combination of analytical rigor and global understanding of human behavior that women investors, like Asha, bring to the table.”

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—**GEORGE SERAFEIM**, Award-Winning
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“A most enjoyable and fascinating book by a pioneer in sustainable finance in emerging market economies. It is a firsthand account of her journeys through some of the hottest and, sometimes most controversial, emerging markets, how she learned to operate and invest successfully in them, and ultimately how private capital can help fight climate change.”

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“In her epic journey across the globe, Asha Mehta gives us a brave and bold analysis of the breathtaking challenges reshaping our world. Her journey from UP to the UN is truly inspirational. She has knitted together the interplay of financial returns, sustainability, the empowerment of women in the workplace and society and the role of technology in a succinct manner. The book shows how far society has come, but also how much more there is to do. She presents a vision that investors and business leaders alike should consider.”

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MTN Ghana

“This book tells the story of a headstrong young woman traveling the world with deep confidence, sensitivity, and insight. From traveling in India with no male chaperone, to Saudi Arabia with no head covering, she makes it all look easy. The resulting insights into investment opportunities in these emerging and frontier markets, backed up by real and innovative quantitative tools, give her a unique and distinctive perspective on the world. This is a book you will not want to miss, nor put down once you pick it up.”

—**CHURCHILL FRANKLIN**, Co-Founder and
CEO Emeritus, Acadian; Executive Chair, Intech

“We live in an era of unrelenting geopolitical crises alongside vast institutional wealth. Optimistic and perceptive, *Power of Capital* reveals the opportunity to build a sustainable ecosystem that we dare not waste.”

—**AJMAL AHMADY**, Former Governor
of the Afghanistan Central Bank

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Power of Capital is *dedicated to*
my father, who inspired me to travel;
my mother, who taught me to marvel;
my husband and our world tours;
and my children—the future is yours.

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Adventure Capital: An Introduction

Before I became an international investor, I intended to become a doctor. While I was premed at Stanford in the late 1990s, I decided to field-test my dream of serving the impoverished. I told my father that I was going to India—the same place he had escaped after fleeing the massacres during the Partition and growing up in a refugee camp without running water.

“Asha,” he lamented, “you cannot imagine what you will see. The poor are poorer than you think.”

Emboldened by my passion, I went, nonetheless. In Lucknow, a huge city in northern India, in one of the country’s poorest states (Uttar Pradesh), I felt perceived as a renegade. In some ways, the city was a modern metropolis, but it was still governed by a very conservative culture. Women in pastel- and jewel-toned saris looked disapprovingly at my jeans and uncovered arms, taking rickshaws by myself with no male chaperone.

“*Iske lardke pagal hai*,” they would mutter. I worked out with my limited Hindi vocabulary what that meant: “She’s a crazy girl.” Men and young boys would unflinchingly ogle me as they sat beside me. I would just look away.

I was staying with a host family, and it was my intention to follow the father to his job at the hospital and shadow his work. By Indian standards, the hospital was a modern facility. The hospital administration was proud that they offered procedures as advanced as kidney transplants. But I wasn’t in Palo Alto anymore. What I saw were chipped instruments, crumbling drywall, and bloodstains on the floors. This was a time when AIDS was running rampant through India, and my host father didn’t even have gloves. He performed surgery with a scalpel in his bare hands that he had washed thoroughly with soap and water.

As he operated, my father's words ran through my head. He was right. I couldn't have ever imagined. Out in the waiting room, perched on the dilapidated furniture were the families of the patients. During rounds, I would catch a glimpse of them, wiping wet eyes. As I watched them in their tattered clothes, unbrushed hair, and holed shoes, I reached the conclusion that these people needed help long before they arrived at the hospital. I realized then and there I wasn't going to be a doctor. What these people needed was not *health*, but rather *wealth*.

Over the following quarter century, I built a career investing in emerging economies such as India. During this period, emerging economies have transformed in ways that many others can't imagine.

When asked simple questions about global trends—what percentage of the world's population live in poverty; why the world's population is increasing; how many girls finish school—people frequently get the answers wrong. Is development still about “banks, beer, and cement”? Not anymore. It's true that the successful emerging market countries started by playing by the Old Economy playbook. Central planning in the late 1900s set the stage, variously, for a commodities boom, a manufacturing-based economy, and/or an open-armed embrace of globalization.

The prosperity of many emerging-market countries has risen dramatically in the past 20 years. The rapid growth means that the world as a whole must be regarded through a different lens. Emerging markets should no longer be regarded as poor and disadvantaged. Rather, on some measures, they are on a fast track to overtake Western countries.

What Is an Emerging Market?

China has become the poster child for the changes underway in emerging markets. A mere 20 years ago, America was sending Peace Corps volunteers to China to help the struggling nation. Today, China accounts for 15% of the world's economy, and its contribution to global GDP growth now outpaces that of the United States.¹

Established emerging countries, such as China, have become mainstream investments in the past 40 years. With increased access to technology, capital, and governance standards, these countries have evolved and grown, making for a dynamic, deep, and diversified group.

The biggest winner over the past decade is without a doubt Asia. Today, Asia comprises the vast majority of emerging countries' worth. They've achieved their success by elevating the consumer class and establishing themselves as the world's technological leaders. For instance, South Korean companies have become worldwide household names (think: LG electronics, Samsung, or Hyundai).

Outdated conceptions of “first-” and “third-world countries” are not only offensive today, but they are steeped in the antiquated inaccuracy of the “second-world countries” designation used for the old Communist Bloc. At one point, my former colleague Jim O'Neill at Goldman Sachs coined the term BRIC markets, or those in Brazil, Russia, India, and China. Yet that did not include more than 50 emerging market countries.

Today, classifications are largely based on established benchmarks. A “frontier” economy is ranked below an “emerging” economy. In general, they measure similar considerations, specifically those that relate to market openness. That's important: the classifications are not based on size, geopolitical importance, or the type of government. Rather, they examine the fundamental ability of investors to put capital to work. If a market is open and accessible, investors can invest with the confidence that the markets can be navigated with simplicity, that their holding rights will be respected, and that capital will be returned if called.

In fixed income, a country's classification directly affects the pricing of a sovereign bond. A country's cost of capital—its ability to borrow at reasonable rates—is also tied directly to its classification. At this point, only seven countries, all small by comparison, have been “upgraded” into the emerging markets classification over the past 15 years: Colombia, Qatar, United Arab Emirates (UAE), Pakistan, Morocco, Saudi Arabia, and Argentina. (The rest of the countries in the emerging markets classification were grandfathered in.)

In equities, it can be more about prestige. On a cold January morning in Boston, I hosted the chairman of the Pakistan Stock Exchange in my office. He was giddy with joy and pride that his stock exchange had just been upgraded. He beamed as he told me, “We became an emerging market before China!” I laughed out loud. No one could question which country was the Goliath.

Nevertheless, I shared in the chairman's joy; the upgrade from frontier to emerging generated substantial returns for investors like me. The upgrades can matter for equities, because when a country graduates into the emerging market asset class, significant-return events can occur. The inclusion marks the moment that a country goes from nearly uninvestable into the mainstream. As a result, a ton of capital crowds into the country, sending returns soaring. When the UAE joined the index, its stock market immediately doubled in size; from the time that the classification agency announced the upgrade to time that the change became effective, investors had the chance to double their money, as the market posted a cool 99% return in 12 months.

Power of Capital

Capturing a return like that can make an investor's career. And I sought to do it again in the next great Gulf market: Saudi Arabia. But conducting on-the-ground research in Riyadh wasn't easy. First, there was the awkward fact of being female. The strict limitations on interactions between men and women in Saudi seemed shocking at first. Just about everyone refused to look at me—a reflex that, tragically and comically, reminded me of my days at investment conferences back home in Boston, where women in attendance were rare!

Even approaching the Saudi Telecom Company (STC) headquarters for an investor meeting was an intimidating experience. The walled compound resembles a military fortress. Which, in a way, is appropriate. As a national security interest with significant state ownership, STC hosts sensitive state information.

As my entourage passed through the heavily barricaded steel front gates, our van was stopped by a guard asking for identification. My host, a broker, deftly fielded the man's questions in Arabic. The guard peered into our vehicle. We were a fine bunch, Westerners dressed in sleek dark gray and deep blue suits, holding briefcases, polished and prepared for our day of meetings. As the lone female, I stood out. My black abaya made me feel invisible and inexcusable, all at once.

Staring at me, the guard asked my broker why I was present. He told the man that I was a large investor evaluating STC. The guard said that I couldn't be admitted. My broker insisted that I had to be. And so it went. I could sense the growing tension as they spoke, even if I had no

idea what was actually being said. After some aggressive back-and-forth, including a demand that I show my passport—I was the only one in the group obliged to do this—I was finally allowed to enter along with the others.

There wasn't another woman in sight. If the company had any female workers, they would be sequestered, required to work in a separate building. In this instance, I found that wearing an abaya embarrassed and emboldened me at once.

In the conference room, I peppered the management team with questions about its long-term objectives and liberalization outlook. The atmosphere was strained. The investor relations team relayed their facts to us in officialese: fully accurate but lacking in color. When questioned, they revealed almost nothing. Still, I had to credit them for trying—the very idea of an investor relations team was a revolutionary one for the Kingdom a decade ago. Clearly, the Saudis were evolving with the times.

And evolve they did. Over the following years, Saudi Arabia liberalized its market, allowing foreign capital. The country became the largest market to be included in the Emerging Markets index in history, and investors who were early to this market were well rewarded. When countries remove the barriers to global flows, foreign investments start pouring in. International investors caught on to this tidal shift and helped catalyze the change. That promoted the rise of a growing consumer class. Rapid liberalization has brought billions into the middle class. They position the emerging markets to surpass the standards of their developed market peers over the next decade.

Markets of the Gulf Cooperation Council (GCC), and Saudi Arabia in particular, constitute the most important investment story of the past decade. Investing in this region used to mean a simple bet on oil. That was before the country allowed foreign capital to enter, driving efficiency, transparency, and liquidity into the private sector. Liberalizing capital has not only enabled foreign capital to enter the Gulf markets, it has likewise allowed capital to exit. Today, the GCC sovereign wealth funds are among the largest pools of capital across the globe.

The Gulf's transformation from a desert, Bedouin land dotted with camels and oil rigs to a global financial epicenter with a thriving consumer class has lured deep-pocketed investors.

On the other hand, governments that have proven untrustworthy to promote free and open trade have slid back into irrelevance. That's why

some shining stars among emerging market countries a decade ago, such as Russia and Turkey, have lost their luster. Argentina, once the cultural and economic capital of the Southern Cone with the same GDP as Canada, was recently demoted *below* an emerging market classification. The list goes on. Following an airstrike in Lebanon, all of the major institutional banks closed their offices in Beirut, locking out pools of capital. Instability reaches down, ultimately, into the lives of all of a country's citizens, suppressing innovation. For anyone trying to judge which country will rise, these indicator arrows are pointing straight down.

When stability and good governance arise, investors take note, seek growth, and allocate capital. Improving wealth builds a virtuous cycle of prosperity and investments. Colombia is a case example. In a taxicab in Bogota in 2003, my driver careened through the streets; when I asked him to slow, my driver matter-of-factly explained the risks of being stopped, robbed, kidnapped, and worse by drug traffickers. A few short years later, after Colombia ended its civil war and peace took over, the country's financial markets experienced the first ever "upgrade" from frontier to emerging market status. The country's returns soared, and Colombia became the first dramatic success story of my career.

Having shed their "banana republic" past with threats of military rule and desolate poverty, emerging markets today are the fastest growing, most dynamic markets across the globe.

Technology: AI for Alpha and Impact

Key among the drivers of the emerging markets' growth spurt is technology. The FinTech and telecom revolutions have enabled the rise of savings accounts, credit lending, and other financial tools that fuel business growth in these regions. Thanks to HealthTech, rural dwellers have more rapid access to medical care than ever before. As a result, lives have been saved and well-being improved.

Across the world, the rise of technology has been a growth phenomenon. Tech has given us speed, precision, robustness, and scale. It has liberated us from such disparate constraints as paper-based calculations, rows of workers, and national boundaries. Leveraging machines has brought great benefits in terms of objectivity, scalability, and cost.

I know. I have been a global quantitative investor for more than 20 years, using technology to cover tens of thousands of stocks and more technology to build portfolios with hundreds of stocks. This infrastructure has enabled me to invest capital in the farthest corners of the globe, in tiny increments that reach down in the poorest countries' penny stock companies, all because of technology.

The nature of the investment industry is not only upturned by tech, but it has been rewarded as well. The past decade's market returns have been dominated by tech: in the United States, it's been the FANG stocks (Facebook, Apple, Netflix, and Google), and in the emerging markets, the winners have been China's BATs (Baidu, Alibaba, and Tencent). The sector has so much redefined global economies that MSCI was obliged years ago to redefine its sector definitions to better account for technology.

Global as this change is, when it comes to emerging markets, the opportunity is outsized. Technology brings tangible advantages to leapfrog the developed world and to get emerging economies roaring.

For one, technology is cheap, which is essential for populations with less spending power. Over the past decade, as the cost of technology has plummeted, the number of smartphone owners has skyrocketed from 150 million to 4 billion. The population of more than half the world today carries a supercomputer in their pockets.

With this technology in hand and demographics on their side, emerging economies are innovating faster and better than their global peers. Around 90% of the world's population under 30 live in developing economies,² and this young cohort is quick to adapt to technology and eager to develop it further. The results speak for themselves: since 2017,³ digital revenue in emerging markets has grown by an average of 26% per year, compared with 11% in developed countries.

Technology not only equalizes wealth across borders but within borders as well. Cell phone technology has empowered a revolution. I've spoken to a SIM seller in Brazil who obtained his street license by mobile phone, a day worker in Lagos who picks up jobs by phone rather than losing hours in traffic to visit his old job site, and my own elderly Auntie in Bhiwani, India, self-authenticates with optical biometrics to do her mobile banking. E-commerce has brought billions into the formal economy, lifting the poor, giving them voice, providing capital to the financially starved, and creating tax revenue for countries along the way.

What Does the Future Hold?

As technology and capital fuse together to create new sectors and reward innovators, investors often ask what for. Is growth inexorable in a depleting planet? Does technology deliver the cohesion we had envisioned? While the poor are poorer than we expect, why are the rich richer? Questions like these prompt businesses, citizens, and governments alike to consider how systemically interlinked each part of our economy is.

By 2010, investors globally began to recognize the power of their capital in generating a more sustainable world. By 2015, world leaders were ready to take action. The historic signing of the Paris Agreement holistically enacted a set of principles that have driven meaningful climate action. The largest emerging market economies, China and India, have become leaders in developing novel technologies that reduce the dependency on fossil fuels and hence reduce pollution, improve health, and mitigate unrest.

Socially and environmentally, while we are more interconnected than ever, the disparities between social classes had never been so stark.

As a result, the largest power center—the private sector—is taking action. Recognizing the possibilities for a more just world if power and capital were wielded by leaders who reflected its constituents, the capital markets have begun to embrace diversity, equity, and inclusion. Sustainable investing has gone mainstream, trillions of dollars are earmarked, and corporate leadership teams, compelled by their investors, are exhibiting their willingness to bend the future.

In May 2020, the most powerful US leaders, CEOs of the globe's largest multinational firms, signed the Business Roundtable Agreement. This statement redefined the role of capital in designing our societies. On the fiftieth anniversary of Milton Friedman's seminal statement that "the role of business in society is business," inequality and a multi-stakeholder approach instead took center focus.

The integration of the world's economic systems forces us to recognize that capital is the currency that builds ecosystems—from China's dominance to Russia's relevance to American's well-being. How we wield that capital enables us to generate not just tomorrow's return but also tomorrow's ecosystems.

In real time, we're witnessing awakened investors around the globe embrace the power of their capital to build tomorrow's ecosystems,

ultimately, to generate returns for our investors while driving lasting positive impact through our investments.

As we set our allocation agendas, many adventure capitalists are leaning into the emerging markets where volatility can be hedged and returns can be made. The broader opportunity in emerging markets is especially profound. Not only are emerging markets high-growth, high-return markets, they also represent countries that face urgent environmental, political, and economic challenges. The UN Sustainable Development Goals (SDGs) unite capital allocators, from multilaterals and governments to private investors, to use their capital to address critical challenges, from poverty and inequality to climate change and environmental degradation. With a targeted goal of 2030, investors are pumping trillions of dollars into local economies as well as the required technologies.

Given the coming flood of sustainable assets, the rise of emerging markets, and access to technologies, the SDGs have the potential to reshape the global economy for the next 20 years.

While the developments in the future remain unknown, the overall patterns have emerged by now in full relief. Emerging markets began their modern economic journey with an industrial base, taking advantage of their cheap resources—both labor and commodities. But accessible and inexpensive technology has enabled them to leapfrog into the future. As better-educated, tech-enabled consumer classes have grown in these countries, they are poised today to vault upward. We can now bring vast sums of private investment capital to deliver both returns and positive social impact.

Today's lens toward a sustainable ecosystem highlights the fact that investments can help governments achieve social ambitions that improve the lives of millions of ordinary people.

When I returned to the villages in Uttar Pradesh, India, two decades after that fateful journey to the Lucknow hospitals, the landscape had shifted—quite literally. Farmers in the villages were by now on the cusp of adopting smart technology, far from the times when they relied on reading the clouds.

“I produce chili much faster and with less pain in my hands,” one woman told me as I glanced at her hardened, thin fingers with thick, protruding knuckles. She went on to say that she now used the same amount of pesticide for a week that had previously lasted only for three days. In my mind's eye, I could picture the increased margins on