Goals
This course provides you with a framework to think about investment opportunities in Asia, the fastest growing continent over the past 40 years. You will learn about the benefits as well as the potential risks of investing in different asset classes and different Asian economies. By analyzing investment opportunities in those markets, you will also become familiar with institutional details as well as major players in Asian capital markets.

Learning Approach and Materials
The course will be highly interactive, based mostly on class discussion. The professors will structure and organize the discussion, but the quality of the class will depend in large part on the efforts and insights of you, the students.

Case discussions will be a principal method of learning, with short lectures providing the conceptual framework for each case. The cases were chosen to represent investment opportunities in major asset classes, such as currencies, equities, and real estate, in the most important Asian economies, in particular China, Japan, and India.

You need to buy a course packet at the University Bookstore. The packet should be under the title, Professor Dewenter/Siegel FIN579 Asian Capital Markets. Other materials, such as lecture slides will be available on Blackboard.

Requirements and Grading
Your grade in this course will be based on the following:

- Participation in class discussion (individual) 25%
- Three case write-ups (group) 75%

Participation in Class Discussion is important in this class. You will find that you will understand and remember the material better if you participate in the discussions. Also, you will contribute to the learning of others in the class. The quality of your participation is more important than quantity. Since we only meet seven times, you should try to participate in each session. A sensible goal would be to make three to four comments each session. The participation grade will be determined by us based on the quality and quantity of your participation. You will have the opportunity, though, to provide us with your own evaluation of your participation (see the attached self evaluation form). Please note that in order to focus attention on the class discussion, we do not allow the use of laptops, smart phone, or iPads in class.

Case Write-up Each group, consisting of two to four students (no exceptions), will prepare three written analyses of cases in sessions 2 through 6. The groups can choose
which three cases they want to write up. The write-ups are due at the start of class. You
should typically assume that you have been asked to advise the case’s main protagonist.
What recommendations would you make and why? The write-ups should be no more
than four pages of double-spaced text, with no more than four pages of charts or tables.
The grade will depend on the quality of the analysis and the effectiveness with which you
use the facts in the case to present your argument. A grading matrix that is used to
evaluate your case write-ups is attached to the syllabus.

Schedule and Assignments

Session 1: Introduction
January 9 - Stephan Siegel

This first session introduces the course and starts by surveying economic and financial
development in Asian economies over the last decades. We then ask for which reasons
foreign investors might want to invest in Asian markets. In particular, we discuss the
benefits of diversification, the link between economic growth and expected returns, and
finally the investment opportunities arising from market frictions and inefficiencies.

Readings:
  Journal, 489-503.
- Solnik, B. and D. McLeavey, “Chapter 9 – The case for international

Session 2: Currency Markets in Asia
January 23 – Kathy Dewenter

We begin our look at Asian Capital Markets with a case on investing (or, speculating) in
currency markets. Bobby Srinivasan invests money for himself and other investors in
multiple Asian markets. In this case, he places a bet on the Australian dollar. Our case
discussion will review the logic of his decision and consider some choices he has once he
sees that his bet did not work. After the discussion, we will talk about why economists, in
general, believe it is extremely difficult to earn systematic profits in the currency
markets. Following this, we will hear from Mark Whitmore, Founder and CEO of
Whitmore Capital Management. Mark is a long time currency investor with his own view
on the potential for profits in the foreign exchange markets.

Reading:
  and D.G. Allampalli, AsiaCase.com The Asian Business Case Center, Nanyang
  Technological University, No: ABCC-2004-003.

Preparation Questions for Class Discussion:
1. What 2-3 factors are the most important determinants of currency values?
2. Do you think the prevailing pressure on the Australian Dollar at the time of the case was upward (stronger) or downward (weaker)?
3. Why did the RBA not lower interest rates?
4. What should Bobby do now and why?

Questions for Group Write-Ups:
1. Ex ante, was this trade a good bet?
2. Ex post, what should he do now?

Session 3: Financial Institutions in Asia
January 30 – Kathy Dewenter

Today’s session focuses on banking systems in Asia. We examine the case of the first acquisition of a domestic Japanese financial institution by foreigners in 2000 to learn more about Japan’s banks, the largest and some would say most troubled banks in Asia. In addition, the lecture and class discussion will point out similarities and differences across Asian banking systems and review implications of the recent global financial crisis on these banking sectors. Finally, we will hear from John Walsh, VP and Country Manager at U.S. Bank, about his experiences with Asian banking systems.

Readings:
- Case: “Shinsei Bank (A),” HBS Case 9-302-036

Preparation Questions for Class Discussion:
1. What went wrong at Shinsei bank?
2. What’s the current competitive position of Shinsei (ie, a SWOT analysis)?
3. What’s your assessment (pro/con) of their turnaround strategy?

Questions for Group Write-ups
1. Beim and Calomiris, Emerging Financial Markets, Chapter 7, The Trouble with Banks, pp 256-278 identify three factors that explain bad banking decisions. How does Shinsei demonstrate or provide an example of each factor?
   a. Connected lending: bank lends to firms connected with the bank (e.g., owners, BOD, families, friends, firms that bank owns shares in).
   b. Moral hazard: decision maker does not bear full risk of decision, ie, can capture upside but does not bear cost of downside. In banking: deposit insurance eliminates risk of bad loans to both bank managers and depositors.
   c. Overcapacity: financial market development and liberalization create alternatives to banks, as a place to store or get money. These changes lead to overcapacity and increased competition among banks, creating incentives for greater risk taking.
2. Is this purchase a good deal for Ripplewood Holdings? In other words, if you were their advisor, would you tell them to make this deal?
Today’s session focuses on microfinance, one of the fastest growing areas in Asian and other emerging economy financial markets. The case examines the funding decision for a rapidly growing MFI in India. Our discussion will cover the logic or “value proposition” of MFIs, and also examine the for-profit versus not-for-profit debate. After the case, we will look at the size and growth of other forms of consumer credit in Asia. We will then discuss investment opportunities in microfinance with Richard Moxon, Director of Investment Analysis at Global Partnerships.

Readings:

Preparation Questions for Case Discussion:
1. Why is SKS seeking to raise external finance?
2. What methods might one use to value SKS? What is the value of a single SKS branch? Value the branch by discounting cash flows to equity. Cash flows to equity = Net income + depreciation - capital expenditure + net borrowing. Discount equity cash flows at the equity discount rate, you may assume an equity risk premium of 8%.
3. What are the key determinants of the value of a single branch?
4. Assuming that SKS expands its branch network according to the schedule in Exhibit 3, what is a fair value for SKS, the firm?
5. Evaluate the offers SKS is facing. What are the advantages and disadvantages of each?
6. Is it feasible or even appropriate for micro-credit organizations to attract outside, for-profit funding?
7. What should Akula do?

Questions for the Case Write-up:
In addition to the case, you should also look at (and play with) the three spreadsheets for the SKS case, posted on Blackboard in the “Class Materials” file. In particular, consider these questions:
1. Look at this spreadsheet to see how rapidly equity must grow given loan growth. How big a role does retained earnings play?
2. Which of the assumptions at the top of the sheet have the biggest marginal impact on valuation?
3. How much would value grow if their branch growth was 50% higher than projected here? 50% lower? What do you think is a realistic projection for branch growth? (Extra credit: see if you can find the mistake in their equations on how they calculate the value of branches.)

The write-up should be formatted as an outside consultant’s report to Akula, with a recommendation as to what he should do.
Session 5: Capital Markets in China
February 13 – Stephan Siegel

In today’s class, we take a closer look at financing opportunities available to a medium sized privately owned company in China. Geeli, a profitable air-conditioner manufacturer in Guandong, is looking to raise USD 400 million to expand its operations. Even though China is capital rich, Geeli is considering raising equity outside of China. We will compare the valuation of Geeli from the perspective of a Chinese and a U.S. investor and discuss the differences. We will then take a broader look at the development of capital markets in China. Finally, Ray Jovanovich, Hong Kong-based Asia Chief Investment Officer at Amundi, will provide us with his first-hand investment experience in China.

Readings:
- Case: “Geeli,” HBS Case 9-206-105

Preparation Questions:
1. If Geeli was a U.S. company, what financing option would you recommend?
2. How is your recommendation going to change because Geeli is a Chinese firm?
3. Conceptually, who should pay a higher price for a stake in Geeli, a U.S. or Chinese investor?

Questions for Group Write-Ups:
1. Assume you work for Hastie Friedman at Solnik and MavLeavey in Hong Kong. You have been asked to summarize and assess the financing options available to Geeli in general. Your discussion should put Geeli’s case in a broader context by addressing questions 1 through 3 above.
2. Furthermore, assume a U.S. based private equity fund is interested in investing in Geeli. Assume the fund provides the entire investment amount (USD 400 million), but insists on using a 20% discount rate. Should Geeli go ahead with this investor or not?

Session 6: Real Estate Markets in China and India
February 27 – Stephan Siegel

The recent real estate bubble in the U.S. notwithstanding, we will discuss real estate investment opportunities in Asia, in particular India and China. We will look at those opportunities from the perspective of a North American institutional investor that considers direct investments in both markets. We will then review the arguments for investing in Asian real estate. Finally, Yang Liang Chua, Singapore-based Head of Southeast Asia Research at Jones Lang LaSalle, will discuss with us structures and trends in Asian real estate markets.

Readings:
- Case: “Cadim: The China and India real estate market entry decisions,” Ivey 909N03
Preparation Questions:
1. Why is Cadim, a Canadian pension fund manager, considering investing in real estate projects in India and China?
2. What key factors should be considered with respect to investing in India and China and how would you assess those factors for both countries?
3. What is your recommendation to the board with regards to investing in India and/or China?

Questions for Group Write-ups
1. Assume you are working for Richard Dansereau at Cadim and have been asked to provide him with a recommendation for the upcoming board meeting.
2. Most importantly, he expects that the recommendation is based on a well-structured analysis of the options available to Cadim.
3. Your report should be in the form of a memo to Richard Dansereau.

Session 7: Current Investment Trends in Asia
March 5, 6 pm – 8 pm – Stephan Siegel/Kathy Dewenter

Tonight we will talk with Keith Ferguson, Chief Investment Officer of the University of Washington, and George Long (tentative), Hong Kong-based Founder and Chief Investment Officer for LIM Advisors, about their current activities and their expectations for Asian economies and financial markets and then take your questions.
Participation Self Evaluation

Name:___________________________________

Below we describe four different levels of participation. Please take a look and decide which description (or which combination) best characterizes your participation in the course to date. Please circle the grade associated with your choice. You can provide additional information on the back of this form.

1. I participate regularly, contributing to the progress of the lecture or the case discussion in nearly every class. My pattern of contribution is steady. I make major, substantive contributions. In some instances, I believe my contributions add a unique insight to the class. At the same time, I do not speak up to simply rephrase what has already been said. Similarly, I ask questions that after some reflection I concluded are not obvious. Finally, I have attended all class sessions.

2. I participate occasionally, with a contribution at least every other class. The frequency of my participation has been steady or increasing. Most of my contributions are fairly brief responses to straightforward questions. I am prepared and able to give an appropriate answer when called upon. I have missed at most one class.

3. I participate infrequently, but I have spoken at least once. I do not raise my hand very often. It is likely that on those occasions when I have spoken I was called on.

4. I offer mostly opinions and rarely speak when a deeper analysis is required. When called on, I may not have been well prepared to answer the question, or my answer may have been weak or insufficient. My questions have revealed that I was not familiar with the facts of the case or the required reading for the class.

Please select one choice and circle the letter to the right:

- I meet ALL criteria under 1. A
- I meet almost all criteria under 1, but fail to fully meet every criterion. A-
- I meet or exceed all criteria under 2. I meet some criteria under 1. B+
- I meet ALL criteria under 2. B
- I meet almost all criteria under 2, but fail to fully meet every criterion. B-
- At least one element under 3 characterizes me. But I also meet some criteria under 2. C+
- At least something described in 4 applies to me. C
- I have never spoken in the class or I have missed 3 or more classes. C-

Signature:________________________________ Date:________________

CHECK HERE [ ] for additional comments on the back.
### Grading Matrix for Case Write-ups

Case: ___________________________

Students: __________________________

<table>
<thead>
<tr>
<th>Category [Weight]</th>
<th>General Description</th>
<th>Your Grade</th>
<th>Comments on your paper:</th>
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</thead>
<tbody>
<tr>
<td>Style/structure [20%]</td>
<td>Clear, convincing, easy to follow, well organized</td>
<td>Hard to follow, typos and grammar errors</td>
<td></td>
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</tbody>
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| Micro analysis [40%]  
- strategic assessment  
- financial analysis | Complete, grounded in reasonable assumptions, sees risks, includes sensitivity analysis | Incomplete, confusing, unbelievable | |
| Macro Assessment [30%]  
- country factors  
- global trends | Identifies relevant relations, linked with the analyses | Cursory, decoupled from analysis, missing | |
| Conclusion [10%] | Well grounded in the analysis, actionable, realistic | Vague, not backed by analysis | |
| **Total/Average** | | | |