PODCAST TRANSCRIPTION SESSION NO. 279-JERRY WANG

Welcome to the Lend Academy Podcast, Episode No. 279, this is your host, Peter Renton, Founder of Lend Academy and Co-Founder of LendIt Fintech.

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Peter Renton: On our last podcast of 2020, we're going to do something a little different, we're going to be talking about emerging markets. I am delighted to welcome the CEO and Founder of Haitou Global, Jerry Wang, on to the show. Now, Haitou Global is really interesting because, I think, they have a unique perspective. They're actually based in New York, from China based in New York, investing in emerging markets, private credit and providing basically credit lines to fintech lenders in emerging markets.

We get into that in some depth and we talk about how they were able to do this, what they look for in investments, the types of companies that they're working with and it's super interesting. Jerry also provides his perspective on the region as a whole, particularly Southeast Asia, Africa. He's got his finger on the pulse as to what's happening, not just in fintech there, but broader trends in the larger economies. It was a fascinating interview, hope you enjoy the show.

Welcome to the podcast, Jerry!

Jerry Wang: Hi, how are you, Peter? Thank you so much for the invitation.

Peter: Of course, I'm great. So, I'd like to get this thing started by giving the listeners a little bit of background. I know you're not from this country, just like me, but why don't you just give the listeners some of the background of your career and how you got to where you are now.

Jerry: Yeah, sure. So, I grew up in China, I went to college in Beijing, I came to the States 20 years ago and studied at Notre Dame, worked at Notre Dame and so I spent half of my life in China and half of my life in the United States. We live in New York, the company's out in New York so we've been in office for seven years now, but still travel extensively back to China, Asia and other continents too.

Peter: Okay. Why did you decide to start Haitou Global, what was the thinking there?

Jerry: Well, we started seven years ago, 2014, here in New York City. The rationale was, you know, I spent a couple of years in offices and allocating capital in emerging markets and I just felt like, you know, the emerging markets and entrepreneur bug you know, I wanted to do something different and I want to serve the other markets, you know, emerging markets, always underserved.

There are investors coming out of China and Asia and they want to allocate capital globally. but they have no experience, no channel, no platform to help them to do so and that's how I set up the platform on helping Asian investors originate in the US. Gradually, we branched out to other markets, mostly emerging markets, over time.

Peter: Okay. So, maybe why don't you just describe what you guys do exactly, how you've kind of structured your company and where you invest.

Jerry: So, since day one, we are positioned as a global asset location platform and so there are a couple of fundamental principles. For example, we're technology-enabled, we're a research-driven platform so we have our apps and we invest in different emerging markets, it's global and it's based on technology platforms. Those are, you know, the main principles. Other than that, we are not much different from the much larger investment houses, you know, we allocate capital into different asset classes, stocks, bonds and venture capital, real estate and we invest in different markets like the United States, Southeast Asia, Africa. So, even though we're a small firm, but we're as diversified as any other houses.

Peter: Right. We're going to be focusing here on the fintech space and in particular, I know you do a lot of private credit-type investments. Why include that.....it's, obviously... not every investor has a private credit/debt that's in their portfolio, what was your thinking there in making that a big part of what you do.

Jerry: Well, it's just a natural evolution. When we started the company seven years ago, we worked more like a cross border LendingClub type of platform and we wanted to use, you know, global payments, cross border transaction platforms help the local Chinese and the Asian investors invest in the US and that's our original thesis and credit is just a natural set. You know, it affects income, it's stable and it's liquid so that's how we like the asset classes. It's just like public credit, you know, it's volatile, you had a market and the yield real low under current environment and that's why we picked the private credit sector.

We know the sector well and that the investment has strong demand for uncorrelated and high yield that's why we picked the sector. It's difficult because, you know, in terms of private you had to choose your own field, you had to structure it and you had to manage your services. There is a high bar and it's not like you can just open a Charles Schwab account and start trading it. So, like you mentioned, this is kind of an investment we really like, you have a high hurdle and you have a high demand and we have the team, the investors, the technology to manage it, to mitigate the risk so it's a strong portfolio for the whole asset class diversification.

Peter: And then what about emerging markets, you're focusing a lot on those countries that are less developed, what's the thinking there? Why invest in emerging markets?

Jerry: So, we have key teams, one in New York, mostly the Investment Team, another in Beijing, Research Team, Operation Team, Technology Team and so we get to know both markets really well. You know, we started our office five years ago in Beijing so we can cover Southeast Asia and South Asia easily, not too distant, but it's much easier than from New York and that's how we can cover that region and cover that by investment class and also, because it's what I have seen in the past years. So, we know China really well and has been growing fast, particularly in the fintech sector so we surpassed the US and we can get to know the biggest fintech market in the past couple of years.

We've seen that fact, you know, the China teams and the business models and the technologies were adapted by the Southeast Asia and South Asia markets quickly that's why we naturally branched out to Indonesia, India. Those are, you know, big markets as big as China and they're more open and they have a low starting point that you can grow much faster, even faster then China because, you know, China has certain size already and is tightly regulated that's why we got interested in the Southeast Asia market. From there, we now branch out to Africa, to LatAm, it's just a natural evolution and we've done our investment and research and we discovered local teams at the corners and we intentionally wanted to diversify our investment.

Peter: Right. So, what do you look for then in an investment in these emerging markets? Firstly, I presume, you're doing mainly debt investment, correct, and you can correct me if I'm wrong, but what are you looking for, what makes a good investment in these places.

Jerry: First of all, we are looking for growth, right, and with growth comes returns and yield. Now, we're looking for, you know, regulations and the teams, talents so a lot of things they have to come together to form a solid investment thesis but, at the end of the day, we're looking for returns so what we can get out of those markets, can we mitigate that risk. So, for example, Southeast Asia, we have different investments.... for example, we buy technology stocks so, for example, EAC (?), they are e-commerce application and also payments, they have gaming too.

Those are still stocks, but our biggest investment has been through credit, we also have venture arm and we heavily invested in India companies, Indonesia companies, Singapore companies, mostly fintech, but our big investment has been through private credit so we lend to the local platform. For example, the e-commerce, they sell cell phones in the Indonesia market, we provide installment payments to the local consumers and also we have agriculture, loans to the local farmers. They borrow from the traders and, you know, buy the seeds and the produce, the goods they sell them and pay us back.

So, we are more like a platform, but we don't do direct lending, we lend to the local platforms and then they work with, you know, local producers, borrowers and structure the loans so we're more like a fund manager.

Peter: Right. The listeners will be well aware of that model. So, what kind of yields are you looking for because, I imagine, some of these things are pretty high risk, what sort of yields makes it interesting for you?

Jerry: So, we're looking for, you know, risk-adjusted yield and he has to keep paying like a risk premium and for some of the stocks that we're looking for like over 15%. In terms of credit, we're looking around 15% so we can take 12%, we can take 18% and the rules are more structured product. So, we are working with local platforms, they provide, you know, proper guarantee for principal and interest and we want securitization of that underlying asset, you know, cell phone loan portfolio and, you know, collateralized by the phones itself, if you can't pay then they can get your phone back, something like that.

We also have, you know, supply chain finance secured by the underlying goods and so that is why we have been…our performance has been stable in the past five/six years and has not been impacted much during the pandemic because we have structures in place and guaranteed, it's also shorter term. So, our average duration has been, historically, four/five months and during the pandemic that was lowered to like two months so we can get our money back in a quarter even though we didn't do so. We need to have some redemptions during the pandemic and we handled the liquidity well just because the underlying liquidity is there. So, it's not as if we're locking up the capital for five years like the private credit funds that we offer the most liquidity.

Peter: Right, right, that's really interesting. So then, when you look across these companies, when you said you've got a team in Beijing that particularly works on the Southeast Asian market, I mean, what of verification, what kind of analysis do you do before you pull the trigger on one of these deals?

Jerry: First of all, we do kind of like a top-down approach, you know, we look at the macro data, we're looking for a big population, over 100 million people, GDP growth over 5%, stable political structure and reasonable type of regulations, we look at all the macro. Well, if it was right, we would just start out there, look for local partners and we find the local platform to partner with. So, those are more like a top-down approach. Bottom line is we find the right team, they have the local expertise, they know the market, they speak the language, they can deal with the local consumers directly and also, we have the long term approach, we are talking like 10/15/20 years and its not like short term five months or ten months and we get our money back and then we are gone.

So, we spend a lot of time getting to know the market, getting to know the team, we also develop the API system, connecting their lending platform to our operation, our risk management platform so we can get the data on a daily basis then we consolidate all the risk factors, we can act fast. For example, during the depths of the pandemic we shut down the lending starting end of March for like a month just because the country shut down, right. They locked down part of India, the whole Jakarta area and we launched that program during the month so we're pretty flexible and the team has to be flexible.

Most of the teams we partner with, they have the local expertise, they have the technology background so just like we spent a lot of time....I used to travel there like four times a year, every quarter and make the team conduct due diligence, we actually manage the process. It's not like a traditional fund manager, you give the money, you just wait or hope that you will get the money back. We constantly manage the exposure.

Peter: Right. So, these lenders that you're working with, it sounds like they're building APIs so you've got APIs connected to your systems, I mean, these are all tech-enabled lenders, it sounds like. Is that true?

Jerry: Exactly. So, many of them work in traditional sectors, although not tech-enabled. For example, the commerce that we're working with, the e-commerce website and e-commerce apps and for logistics, they all have their own system in place, you know, we know where the goods are we also have the rate sheet and we know if it's onboard a boat or a ship and it's on it’s way to Vietnam so we have all the information. We ask them to provide to us, it has to be managed by technology, otherwise, we just can't keep track of every single investment on a daily basis.

Peter: Right, that makes perfect sense. You've talked about a few countries already, but like where do you think are the most promising opportunities today globally, what countries do you think have the best potential?

Jerry: Like I mentioned, we like the large populations and right now, you know, we're pretty optimistic about the India market, Indonesia, Mexico and we like India just because those countries are going to come out of the pandemic and strong. Also, they're going to continue their growth trajectory even though they've been down during the pandemic, they bounce back quickly coupled with the global trade and re-shaping of the global supply chain.

A lot of businesses are going to shift from China to India, to Indonesia, to Vietnam and also, you know, there are frictions between countries, but, mostly globalization is back on track, China signed the RCEP [Regional Comprehensive Economic Partnership] agreement with the ASEAN countries and also, I think, the US is going to be back on track with the TPP agreement. So, we're betting on globalization affecting the trading and betting on the financial technology, global payment, how the global payment movement is going to help global trade. A lot of our businesses are cross border so those technology trends and demographic trends is going to help us a lot.

Peter: Right, right, okay, that makes sense. So, you've got a very curious, very interesting thesis, do you think it's the technology then that differentiates you from other investors getting on the ground? I mean, what do you think differentiates your company from others trying to do a similar thing?

Jerry: I guess we are emerging markets-oriented, we have always been in Asia and we are just getting to know Africa and LatAm better so this is in our blood, right, we're focused on emerging markets. Also, my background, you know, I started in my first job as a software engineer and so

I have software engineering-type genes also because I worked for endowments before I went global, it's more the institution mindset, you know, just now like a fintech entrepreneur, you start an app and you start working on peer-to-peer lending.

Eventually, it's going to come back to me, you know, my Asian background, my institutional investing background so that's why we shaped the financial, you know, had a global platform serving both individuals and institutional investors through technology, through emerging markets investment opportunities. I mean, a lot of institutional investors, they want to get into this market, but they don't know how, right.

So, we provide the beta, we provide the technology platform and then we also, just like every now and then, we travel there. We have to go on the ground and just get to know the market, get to know the people better over time and it takes time. So, we spent the past six and a half year building the platform, setting up the infrastructure and now is the time to catalyze it.

Peter: Right. So, you talk about your travels, you're on the ground in these markets, but this year that'll be really difficult since March, I imagine, so how have you adapted your company this year without being able to travel. Are you doing exactly the same thing, you're just doing it on Zoom, what are you doing?

Jerry: Well, yeah, that's a good question. I canceled all my trips, my trip to India, to Nigeria, to Mexico so I stayed in New York for the whole year. I was in California early this year, that's about it. So, a couple of things, one thing is that we have always been digital, you know, we have the technology platform, we do the Zoom calls way before the pandemic hit us so we continue to do the video conferencing and talking to different time zones, different continents, maybe more frequently as before, but always in that case.

Other than that, we are working with markets and teams we have always been working with. You know, we don't get into jumping into something suddenly. For example, we're attacking the Mexican market, working with a US team, the former CapitalOne team out of DC, we know the team for three years so we've been working with them in other markets. Now, we're working together in Mexico and now we're working with the local team we have known for five years.

So, either we're working with the same team to go into different markets or same markets with different teams, it always has been something that we've been cooking for a long time and now we are fairly comfortable with. It’s not like we are jumping into new things right now. It's just a natural branching out based on our past experience or based on our network, just like accumulation of knowledge and resources.

Peter: So, you haven't met any new investors with people this year that you haven't met face-to-face or have you?

Jerry: We have. We made one investment in Nigeria working with the team who work with local carriers and we never met the team, but we know the team fairly well, it comes through our network and the back office is in Shenzhen, the front office is in Nigeria. We know the team and the environment really well, I was there last year, October, I know the carrier, I know the cell phone manufacturer so that's how it can help the business and it's a trial.

We start small and get over frictions, how to smooth it out. I mean, our Beijing team flew to Shenzhen to visit the team, I haven't seen them, we talk on Zoom from New York. You know, it's like I said, we have always been working this way and I can't spend half my year in Africa so we do go there at least once a year, twice a year in normal times.

Peter: So, Mexico, have you made a first investment in Mexico yet or are you still looking?

Jerry: It's not launched so we work with the DC team and their back office is in Chengdu, China, you know that they have the engineer and reasonable cost. So, we actually committed three months ago and we've done all the market research in terms of product and we set up a registered company, it just registered like last week. So, I think we're committed, but we haven't launched the business yet.

Peter: Right, right.

Jerry: ...so called US and the China partners, it’s a joint venture.

Peter: Right, I got it. So, do most of your investments have some kind of Chinese connection or it is not necessary?

Jerry: It is not necessary, but we try to add the Chinese component and that's our value add. For example, we invested in a fintech company here in the US, in Texas, they do a kind of natural gas engine, we try to bring them to the China market and we offer them a leasing program so some try to buy the equipment, we just provide the lease about $15,000 for the equipment. So, there's always been financial technology component in it and that we help them to expand into other emerging markets, not just China. We help them to get into the Philippines.....so that’s a new initiative you know, right, so protect the environment based on our agenda. We want to make money and also doing something good.

Peter: Right, right, for sure. So then, are your investors Chinese individuals, I mean, who are the LPs for your company?

Jerry: So, I'd like to mention, when we started if was more like a cross border LendingClub with many smaller investors and over time, we are consolidating so most of our investors right now are like family offices, high net worth individuals. We are trying to, you know, tap into the institutional world just at the beginning of this year. We set up the credit fund last year so it's only 14 months check record, but it's short.

Before that, we offered platform notes in the realty project, those are tailored for the middle class investors, but we have gradually evolved into more institutionalized investment platform partly because of my background and partly because this is a trend, right. For example, in LendingClub there are mostly ABS or institutional funding other than individuals and I think they're going to completely shut it down to individual investors. It’s the same trend, this is a more efficient, this is how it worked, used to work.

Peter: Right, right. So, do you plan… all of the credit that you're providing to these platforms, do you hold the loans all the way through? I guess these are short-term loans, aren't they, so you hold them through the maturity, right?

Jerry: Yes. The way, you know, we source a loan, we structure loans, we invest in loans, we hold them through maturity then we recycle, we rotate, we reinvest in those same loans. The longest platform we've been working with is like four and a half years now unless there are some shifts in the market or on the platform, otherwise, we're committed for the long term. Even though the loans are short, but our investment horizon is long.

Peter: Right, I get it, I get it, okay. So, I'm curious to get your perspectives on the trends in the fintech-enabled lending space specifically. I mean, you've got a very interesting viewpoint doing it. You obviously have the US market, but you've got a viewpoint on to the emerging markets, what are the trends you're seeing there? Is there a similar kind of things going....obviously, we've talked about cell phones and mobile, but maybe you just talk about ....tell us some of the trends you're seeing in these emerging markets.

Jerry: Well, I think the biggest tailwind is like the 5G, the smart phone penetration and the mobile payments. Surprisingly, in some of the emerging markets' penetration rates are higher than the US so it's easier adaption for them getting into online lending or installment loans. So, that's why we like the emerging markets, they have the structure ready and they have the (inaudible) so people are.....you know, they're making a few thousand dollars a year now and the average phone is $500, they have the money to spend, they want to borrow and, again, their earning power.

So, those are the trends that we're seeing and also, many of the platforms we've been working with are like immersed with the Chinese component. Some platforms, they sell Oppo/Vivo phones, Huawei, Xiaomi phones, some are buying from Africa. For example, one producer they sell cashews to the Chinese market, we're providing supply chain financing for them. In the China market, it's incrementally becoming a consumption market, right, so they are upgrading what they're buying globally, not just like exporter anymore, it's a big importer.

So, those are the trends we're seeing and there are a couple of different US models in the emerging markets too, for example the Affirm model, buy now pay later. It's getting popular in the US and Australia, but they're also popular in China and India. And the consumer, they want to buy but they want a fair treatment, they don't want to pay for the, you know, high interest rate, not like a virtual credit card, a different model applying in any virtual market quickly so I see the adaption rate is really high, really fast and those markets have scale.

Also, the fintech model....winner takes all, right, so once you dominate the market then you can start making money and the investment period is short, it's fast so you can....one business model it can maybe take you 10 years to get to a million users in the US. It will take you probably just two or three years in China or India. The younger generation are very, very, you know, interested in financial technology, they feel we can help them, they are tech savvy.

Peter: Okay. We're recoding this on December 16th, but this is going to be published on the 31st of December, the last day of the year so I'd love to kind of get your perspective on 2021 as we turn the corner on 2020. What are your plans for the year and what do you think are some of the things you are looking for out of 2021?

Jerry: First of all, I want to go back to the emerging markets, I want to be able to travel again, go back and see our partners, see how they're doing and also, continue to expand. You know, we have built the infrastructure to invest globally and we can attack (inaudible) again. I guess, we haven't changed a thing, in terms of the investment thesis or our investment structure because our model was tested during the pandemic.

Also, I feel the emerging market is going to come back strong in a couple of countries like for example, China is going to have a positive GDP this year; Vietnam is going to be positive; India and Indonesia are going to bounce back next year. It's going to be faster than, you know, the OECD countries so we see those will continue to be strong, promising markets. We just want to go back there, do what we have been doing the past years.

Peter: Right, right, okay, We'll have to leave it there, Jerry, it's been fascinating talking with you and we wish you all the best for the new year. Happy Holidays and have a great 2021.

Jerry: Thanks, Peter, let's catch up again next year.

Peter: Sounds good, okay, see you.

Jerry: Okay, bye.

Peter: Bye.

You know, one of the reasons I wanted to get Jerry on was because the emerging markets really have....that's where some of the outsized opportunities are going to be over the next few years and Haitou Global has got a really unique perspective and a unique approach to those markets.

We saw this in our Latin American event that we held early this month and there are huge opportunities. Part of the reason for that is it's a pretty tech savvy population, a lot of the particularly....they skew younger, smart phone penetration is increasing and they don't have traditional financial services in a lot of these economies, but they have demand for financing and that's what, obviously, Haitou Global's taking advantage of. It's providing the funding for a lot of this demand and I think it's going to be a big opportunity that more and more companies should be paying attention to, I think.

Anyway, before I sign off, this is the last episode of 2020, I am very happy to be turning the page on this year, looking forward to 2021. We've got a lot of great guests lined up and I want to thank everybody who has listened to the show this year, we really appreciate it and I'm looking forward to an exciting 2021. So on that note, I will sign off, thank you very much for listening and I'll catch you next year. Bye.

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