

TRANSCRIPTION OF THE INTERVIEW WITH  
**MR. RICHARD YUE**  
CEO of ARCH CAPITAL

**ORIENTAL NEWS:** You have a lot of experience in real estate development, as the former Director of Investment at AIG. What are the new challenges for you here at Arch Capital?

**MR. RICHARD YUE:** I was at AIG for about 7 years, at which time I was covering their investment portfolio, making new investments for them through a large part of Asia. Arch Capital was born in 2006 as a joint venture between Ayala, a Spanish family that has been doing business in the Philippines for 175 years. They are a conglomerate with business in mobile telephones, banking, water resource management as well as real estate, which is their biggest business. They have a lot of development capabilities.

In 2006 we saw a lot of investment opportunities in real estate as well as a lot of capital flow into Asia. Arch Capital was a platform to capture the opportunities and combine it with the capital flow. We are basically a private equity fund management group. We represent a group of institutional investors, pension funds from Europe and the U.S. Macau was one of our first investments after Arch Capital was formed.

In terms of the investment challenges we see in Asia, the global financial crisis has been a major thing. We have definitely seen Asia come out much stronger as compared to Europe and the U.S. The Asian banking system is quite sound. We have had our cycles and learned from the past. The banks are well-capitalized and the economies are less leveraged. We are seeing strong growth led by countries like China and India. Our focus is on the fastest growing parts of Asia so we are spending a lot of time in China, with some investments in India as well, and that will continue to be our focus going forward.

**ORIENTAL NEWS:** As Arch Capital's website states, traditional Chinese philosophy is underpinned by a single guiding principle- preserving balance. Water, metal, wood, fire and earth; which of these elements represents more your personality?

**MR. RICHARD YUE:** Personally, I think I am more water. Water can take multiple forms and it is very fluid. It changes shapes and under different temperatures, it can turn into gas or ice. And I love being the water. Metal is also a good one because in China it represents wealth and money. We are in wealth management and we like to have a lot of metal. But for Chinese real estate, earth is really important because cement is made out of earth. Real estate combines steel rods, which is metal, with earth which is cement, and water. It is really a combination of three but if I have to pick one, I would pick water. Water also means money in Chinese culture.

**ORIENTAL NEWS: Especially nowadays I think water is very precious. Arch capital is a very recent company but you already have several projects going on in different countries. How has Arch Capital managed so much success in such a short period of time, all during the financial crisis?**

**MR. RICHARD YUE:** We work very hard. Arch Capital is really comprised of 2 major groups of people. There is a group of people who used to work for me at AIG who followed me over. I have worked with them for many years, we know each other well and thus, we can work very fast. The other group is from Ayala, who is a large developer with a lot of experience. We have combined people with a lot of real estate skills and people with regional markets and investment underwriting skills. We found a good chemistry that allowed us to move very quickly.

In the financial crisis we actually pulled back, in the sense that we were very cautious about what we were doing. But as we saw things stabilizing we pushed back in. We have been very busy since last year. Now we have investments in China, Macau, Indian and Thailand, and we are about to finalize an investment in Singapore. We really have an interesting footprint within Asia. A lot of our investors are also interested in Vietnam.

**ORIENTAL NEWS: China, India, Vietnam Thailand- all Asian. We are talking about half of the world population.**

**MR. RICHARD YUE:** You are right that there is a lot of population here already. China is a very large country on its own. But Arch Capital is an Asian platform and we will continue to be so. We do not have any plans to go global. Asia is where we are and we are very comfortable here. Within these big countries there very different regions so focus is also an area that we have to pay attention to. Without focus, you will spread yourself too thin. So within each country, we have certain focuses.

**ORIENTAL NEWS: One of the keys to Arch Capital's success is the fact that you always work with local partnership.**

**MR. RICHARD YUE:** There is a saying in Chinese that when you are at home, you rely on your parents, but when you are outside or abroad, you rely on your friends. Real estate is a business where you have to be a local. If you are building something, that product is used or occupied by local people so you must have the local content. So we believe in partnerships. Arch Capital is a partnership. When investors put their money in us; that is a partnership. When we invest in their money, we form partnerships. Our philosophy is that we identify someone who we like and trust, and with that group we want to do multiple investments with them. As opposed to doing 10 different investments and having 10 different partnerships, we are quite selective in terms of our partners. Partnerships are a part of our philosophy and they will continue to be a part of our philosophy. Some groups like to do everything themselves but we think that different parties can bring different things to the process. It makes a very good business model, especially for real estate.

**ORIENTAL NEWS: Now the world is turning to the East. Are you proud that your operations are all Asian?**

**MR. RICHARD YUE:** I am not sure that 'proud' is the right word. I think the correct adjective should be 'appropriate'. Real estate is a very local business. If you are someone from outside this market, who wants to get into this market and real estate investment, you want to find someone who is local, as opposed to someone who looks and thinks like you, to find investment opportunities. Being Asian is appropriate and our truly Asian platform makes us really home-grown.

We are in the trust business and people need to trust us. We manage their money and take care of them. I am quite proud to say that throughout this entire financial crisis, we came out much stronger. Being careful with people's money when we make investments has paid off.

**ORIENTAL NEWS: Arch Capital's main market is upper and middle class.**

**MR. RICHARD YUE:** In terms of residential we always like to be in the middle class and up- what I call 'neck level'. We are never at the high end. We are trying to build better quality homes in areas where it is lacking. People are always demanding better quality products and as they become wealthier, they can afford better products. By always building ahead in terms of quality, the market will come to you. For instance in terms of our project in Macau, we like to think that we set a new bar in terms of quality. But ours is not the top price. We are actually selling at the market norm price but we like to think that our project is better than what is out there.

**ORIENTAL NEWS: This report is going to be published in China Business News in China. What is the importance of China for your company?**

**MR. RICHARD YUE:** China is definitely very important in our business. Especially if you are in real estate, I think China is a huge market. If you believe in the stories urbanization story, an expanding middle class, consumption growth, the amount of infrastructure being built, these are all major drivers for real estate in China. If you go into the market with the right product for the right sector and avoid speculation, which is exactly what we are doing, that market will be there for the next 25 years. There are different cities within different regions, and all of those cities lack good quality products. That is what we are striving to provide.

**ORIENTAL NEWS: What about Macau?**

**MR. RICHARD YUE:** Macau was one of the first investments we made at Arch Capital. To me Macau is a very unique place. In China there are 2 unique places; Hong Kong and Macau. They each have their own characteristics and are specially administered. It is a unique place because the Macau 'story' has not been told properly and I think people have the wrong perception of Macau. But for us, Macau is a high growth area with a lot of opportunities. We think that the market needs to be repriced, especially as compared to other major cities in China. There are an awful lot of opportunities for us as a real estate fund/ developer.

**ORIENTAL NEWS: Do you see many competitors coming in from the mainland?**

**MR. RICHARD YUE:** In terms of development I think it is possible that you will see more real estate developers from China. Macau is a very small place so it is harder for them to come in a very big way because there is just no land for them to buy. And real estate developers are not interested in gaming. If you do not do gaming and only focus on development, you have to look for a big piece of land, which is not available in Macau. The entry barrier into the Macau real estate market is huge. From a competition point of view, I think there are probably more opportunities for them staying in China.

**ORIENTAL NEWS: What did you do strong during the financial crisis?**

**MR. RICHARD YUE:** We were very selective in terms of what we would look at and very clear about what markets we believed in. This was a crisis of a scale that we had never seen before. But we believed in certain markets like China and that the crisis would be a temporary thing. If we locked in our visions then, that was actually the time to look at deals and develop partnerships. That is exactly what we did. The deals that we are currently invested in were discussions that we started in the depths of the crisis. While a lot of people were retreating, we sent our guys into these markets to talk to everyone. I think you need to have a fairly medium to long term view and accept the cycles in between.

We are seeing corrections in China right now. The government feels that certain markets are too active, too hot, and they want to cool them. I think the measures are working and the market will have to cool for the longer term sustainability. You do not want the bubble to burst so you want to cool it in order to have more sustainable, longer term growth.

**ORIENTAL NEWS: What do you think One Oasis would bring to Macau?**

**MR. RICHARD YUE:** I do not want this to turn into an advertising session for One Oasis but let me share with you what I think about Macau and why we chose Macau. I am a member of the Macau Golf & Country Club so I have been coming to Macau on a regular basis for 15 years. I have seen the changes in Macau and believe in the changes. After the handover when they said they were going to take back the gaming license to introduce international operators, I was very encouraged when they finally announced the winners. As you see real money being put into Macau, you know these investments are not going anyway. We started trying to understand the market.

There is a population of half a million. At that time there were only 10,000 hotel rooms. If you saw all of the major plans, they were going to triple the number of hotel rooms and increase the number of gaming tables. But was it sustainable? Was there going to be a market for this?

As you see, it is happening. As the gaming revenue grows, you know this works. Macau has an appeal to a lot of people. I think this push for gaming in addition to the Meetings, Incentives, Conferences & Exhibitions (MICE) business, is the right way to do it. Macau will develop into a very interesting integrated entertainment area where you can have conventions and business meetings. It is an interesting destination with lots of entertainment, food and gaming. It is a unique place in China and leverages everything on China such as the population, economy, etc. but it is specially run and independent. That is what is so unique about Macau which we like. We look at the growth rate, the amount of money being invested, and then the price difference between Macau and other places. There is an opportunity.

**ORIENTAL NEWS: Now it is the position of the government to try and diversify. How do you see Macau in 20 years?**

**MR. RICHARD YUE:** It has always been the wish of the Macau government to have a diversified economy. They know that they are too reliant on gaming. By bringing all of these international names, their original wish was to bring in a more balanced economy. Even in 5 years, Macau will be a different place. I am already bringing my family there on the weekends because a certain singer is performing there or an event is going on. We have had investor events in Macau and people would stay a couple of days to do sightseeing. We had a golf event. More and more of this will happen as we build the land linkage into Macau, which would solve a lot of the access issues.

Access is a big issue that I think Macau must face and solve, especially if they want to keep growing the MICE business economy. Access is still difficult for people flying in. There are not enough direct flights into Macau. They have to go through Hong Kong, where they will miss the handful of ferries that go directly from Hong Kong to Macau. There are only a few ferries a day and there are strict rules that you have to be there so many hours before that people just forget it. People have to get off, take the train to Hong Kong, get in a taxi to the Macau Ferry Terminal, get off the ferry in Macau and then take a taxi to their hotel. That is an entire day's journey. If you are conducting business, you lose a lot of time making all of those connections. I think that has been hurting Macau. International arrival is the key if you want that MICE business.

**ORIENTAL NEWS: What about the bridge from Hong Kong? There was a debate saying that not many passenger cars would be able to make it through anyway.**

**MR. RICHARD YUE:** I absolutely think the land link will transform the way people get to Macau. I personally think that it would be well-used. It is not just the link between Hong Kong and Macau but the link between Hong Kong and the southern part of the peninsula, Zhuhai. With that bridge, you are really able to connect to the entire Pearl River Delta; Hong Kong, Guangzhou, Macau and all of the cities within that triangle. It is absolutely going to be very powerful from the logistics point of view, the people moving point of view and the economic integration point of view.

**ORIENTAL NEWS: Does that mean you will keep investing in Macau?**

**MR. RICHARD YUE:** One of our focuses in China is the Pearl River Delta, precisely because of this integration. The integration by train and roads is already there. This last linkage would complete the triangle. Our base is in Hong Kong and we have invested in Macau, in Foshan just outside of Guangzhou and we will continue to look for places. There are a lot of opportunities, wealth and GDP within this region as well as a large population. I think this is a super region within China and we are quite looking forward to being part of it.

**ORIENTAL NEWS: From the point of view of investing in Macau, like with One Oasis, what would be the contribution to the increase in jobs and social economic development?**

**MR. RICHARD YUE:** Construction and property management creates jobs. As one of the larger privately-owned residential development, we would have our own contributions to the job market. Right now it is tough because there are not enough labourers and it is hard to hire the right skilled labourers. On one hand Macau needs to solve the unemployment situation, which in my opinion, is actually not a major issue. But finding the right skilled labour is the challenge. We have had a lot of difficulty in importing the right kind of skilled labour.

For Macau to continue on this growth pattern and for people to continue to feel confident to invest to create more jobs, you need to allow them to build and for them to build, they need the right labour. I think it is a positive cycle. As the pie grows bigger there will be more opportunities for everyone. I hear from our peers in the same business that they are also having labour issues. If you do not, inflation will become an issue. That jacks up costs and everything will go up.

**ORIENTAL NEWS: From the planning of these investments in Macau, do you have locals or foreigners buyers?**

**MR. RICHARD YUE:** Predominantly local. We will probably get a mix but we were pleasantly surprised that it was predominantly local. Where we are, you have to believe in the future of Macau because we are close to the Cotai Strip. From a traditional Macau resident point of view, that is quite far for them. To have a lot of the local buyers actually give us an endorsement, that they believe we are going to build the right product in the right location, and develop a community there, we were pleased with the results.

**ORIENTAL NEWS: I had the opportunity to see it and I think it is very green compared to the rest of the city.**

**MR. RICHARD YUE:** Our theme is being able to switch from resort living to city living, because Macau is so small and we are surrounded by green with a golf course in front. That is really our marketing pitch. We are not too far but far enough to stay away from the city.

**ORIENTAL NEWS: Do you have any closing remarks for the readers of China Business News?**

**MR. RICHARD YUE:** Going back to your question about what we will see in Macau in 5, 10, 20 years, I think Macau will continue to prosper. Macau will become a much bigger city, with much closer integration with Hong Kong and southern China. We see Hengqin Island being developed, with a big push in education. We will see a more balanced economy in Macau as better access is available. More people from different origins will be able to get to this destination. Access and connectivity should be a big initiative for Macau. In 5, 10, 15 years Macau will be a place that everyone is talking about in Asia, as a business destination, to have fun and leisure, with famous restaurants, etc. Not just for southern China but for all of Southeast Asia.

**ORIENTAL NEWS: Thank you very much.**

