Investing in Emerging Market
Steven Yang Yu - Redington

What should you consider before designing investment strategy?
Begin with the end in mind

"All investment strategy starts with the clear goals, objectives & constraints of the client, including a defined and agreed risk budget."

- Redington Investment Principle

Means to the end

Meeting the Gap

Developed Market Equity

Emerging Market Equity

Emerging Market Debt

Risk Parity

Multi-Asset

Infrastructure

Assets with Cash Flows

Smooth Volatility

Liability Driven Investment / Hedging

Property Leases

Corporate Bonds

Meeting the Gap
Why Emerging Market?

Capital Market Under Represented

Emerging Market Economies as % of Total World

- Population: 82.9% Emerging Markets, 17.1% Developed Markets
- Land Mass: 75.1% Emerging Markets, 24.9% Developed Markets
- Foreign Exchange Reserves: 94.0% Emerging Markets, 36.0% Developed Markets
- GDP at PPP: 49.0% Emerging Markets, 51.0% Developed Markets
- GDP at Market Rates: 41.0% Emerging Markets, 59.0% Developed Markets
- Market Cap (Float Adjusted): 15.0% Emerging Markets, 85.0% Developed Markets
- Debt Market Cap: 7.0% Emerging Markets, 93.0% Developed Markets

Source: Neuberger Berman
Economic Contribution Continues to Increase

Contribution of GDP by Country

- North America (35% to 24%)
- Developed Europe (27% to 6%)
- China (4% to 15%)
- Japan (13% to 6%)
- Rest of EM Asia (3% to 7%)
- Latin America (5% to 7%)
- Others (12% to 18%)

Source: IMF World Economic Outlook, April 2014

Rising Domestic Consumption

- World Consumption Growth
  - Compound Growth 8.4%
  - Compound Growth 2.0%

- % of Households with Disposable Income > $25,000 USD in China

Source: FundSmith

07 November 2014
Healthy Balance Sheet

General Government Gross Debt (% of GDP)

Source: IMF World Economic Outlook, April 2014

Growing Investment Universe

EM Fixed Income Universe

EM Equity Market Cap (USD Trillions)

Source: Ashmore
Which Asset Strategies?

Passive Equity

Source: Bloomberg
Passive Equity

FX carry explains some of EM Outperformance

Source: Bloomberg, MSCI

Active Equity

How do managers outperform?

Source: MSCI, JP Morgan, HSBC
Active Equity
High variation in active returns

Emerging Market Debt
Fast growing market

- Emerging market debt accounts for c.25% of total global credit market size ($30tn total)
- 3 main types of investible debt:
  - JPMorgan EMBI: Hard currency sovereign
  - JPMorgan GBI-EM: Local currency sovereign
  - JPMorgan CEMBI: Corporates (hard currency)
Emerging Market Debt
Good diversification and credit quality

REGIONAL SPLIT: GBI-EM
- Brazil, 27%
- Mexico, 21%
- Poland, 11%
- Russia, 6%
- Malaysia, 8%
- Turkey, 8%

Other, 8%

Emerging Market Debt
Attractive yields

Credit Spreads of EMD vs. Major Bond Markets

Yields to maturity as June 2014

Source: MSCI, JP Morgan, HSBC, Neuberger Berman

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Conclusions

• Structural economic growth
• Improving credit fundamentals and demographic trends
• Access to various source of returns
• Financial, geopolitical and currency risk remain
• Expanding investable universe for global investors
• Lack of research coverage and more alpha opportunities
• Career opportunities in local markets
Topic for this talk

• How we support overseas members (students and Fellows)

Institute and Faculty of Actuaries (IFoA)

• Promotes the work of actuaries
• Oversees the education of actuaries belonging to the body at all stages
• Expands actuarial knowledge through research and thought leadership
• Enforces ethical and professional standards
• Identifies matters where the work of actuaries would be of benefit to the public
“A global community” – April 2014 Session

- 26 exams of which students need 15 to qualify
- 13,607 entries from 9,846 students (out of 13,468 registered students)
- 168 exam centres in 81 countries
- 100 volunteer Examiners who set papers in teams
- 189 volunteer Markers involved in double blind marking each paper
- 320 entered ST9 (ERM) for CERA award
- 550 entered CT1 as non-members
- 295 qualified as Fellows

Student numbers by country

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Support to move into new fields
Enterprise Risk Management (ERM) - ST9
now used by overseas associations in:

- US (CAS)
- Australia
- South Africa
- India
- Israel
- Chinese Taipei
- Japan

Becoming a world standard

Links with local associations

Mutual Recognition Agreements in:

- USA and Canada
- India
- South Africa
- Australia
- Europe (AAE)
- Israel

and strong links with IAA and AAE
Certified Actuarial Analyst (CAA)

Introduced CAA to help build actuarial capacity, for example, in

- Africa
- Eastern Europe
- India

Overview of the CAA

- A professional qualification for those working alongside actuaries and in broader financial services

- Equip members with high quality technical skills and the support of a prestigious actuarial body

- Two new membership categories: Certified Actuarial Analyst and Student Actuarial Analyst

- Certified Actuarial Analysts are clearly differentiated from Fellows and Associates. They can use the post-nominal letters 'CAA'

- First exam session took place in August 2014. Next exam sessions are in January, June and November 2015
Employers: Why the CAA?

- Business models are increasingly built around a few high level experts supported by a greater number of technically skilled professionals.

- Operations centres undertaking processing work, technical and analytical roles.

- Employees in markets where there is a desire to build actuarial capacity at pace and at manageable cost.

- A global qualification – innovative approach to an evolving and increasingly international market.

- Opportunity to invest appropriately in staff development.

Case Study 1: China

- Appointed Wen Li as Actuary Representative.
- Built links with top 6 Finance and Economics Universities.
- Built links with employers and regulators.
- Member events (Beijing conference in May 2015).
- Student support network (CANUK).
- Student mentoring by local members.
Case Study 2: India

- Large number of students (3,500)
- Built links with IAI
- Built links with employers, especially offshore
- Seen as major market for CAA
- Links with regulators
- Student support for later exams

IFoA is a global organisation

- We can help you build your international career
- We have many volunteering opportunities to build your CV