

# To Diversify or Not ?

Fourth ASEAN  
Social Security Board Meeting  
Manila September 1999



Dr. Mark Konyn



Dresdner RCM Global Investors

# | Quotes

*“There is no escaping the process of globalization.”*

*“ I think internationalisation is unavoidable.”*

*“ It (the Central Bank) must continually scan the local, global and regional environments . . . . and respond in advance or at least on time.”*

*“In efforts to diversify risk and enhance returns participation in foreign markets by institutional investors has increased exponentially.”*

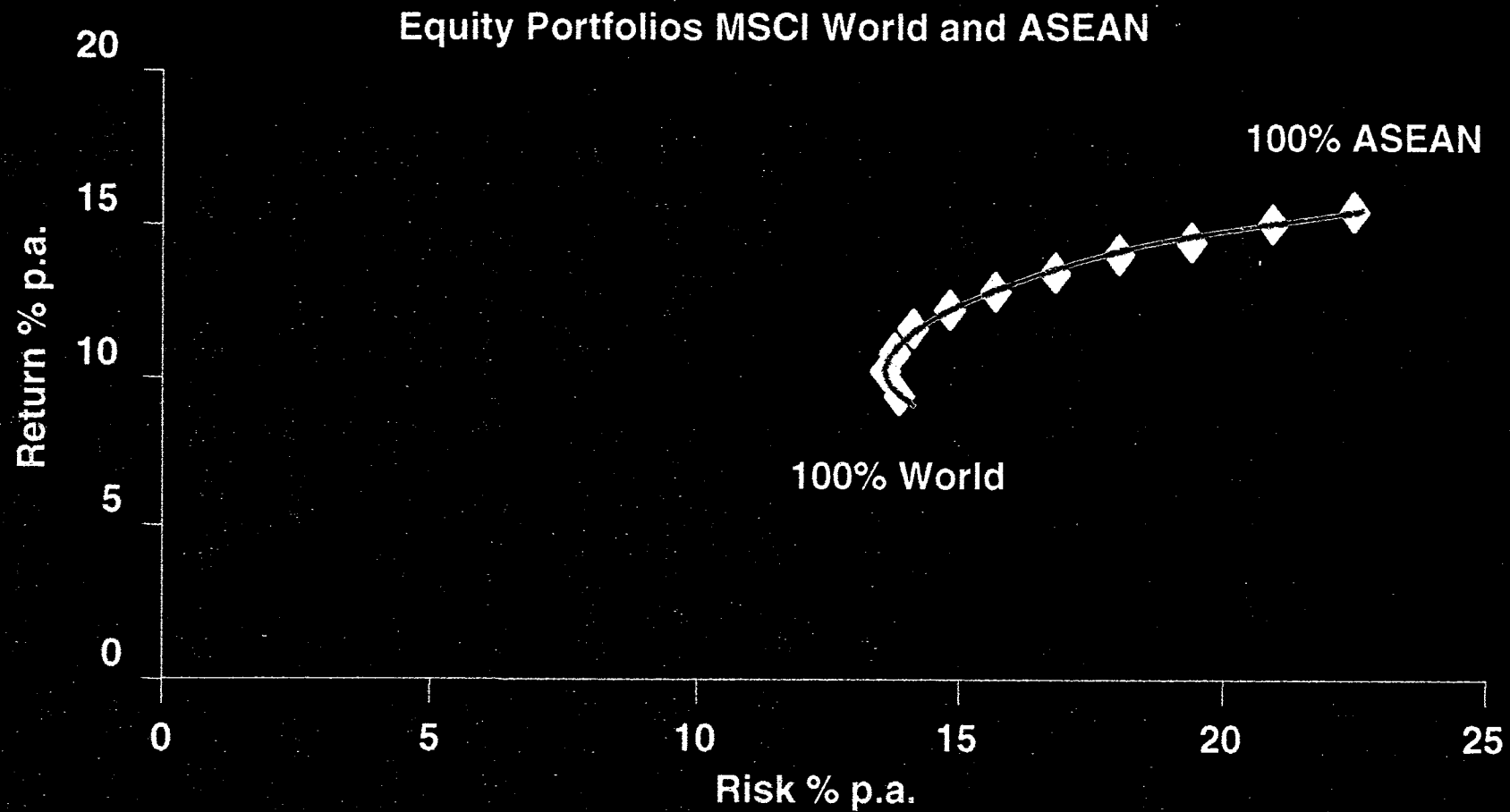
# | Key Considerations

- ◆ **Community wide coverage**
- ◆ **Matching members' benefit expectations**
- ◆ **Minimising shortfalls**
- ◆ **Minimising volatility**
- ◆ **Longer term budget balancing**
- ◆ **Balancing political considerations**

## **Possible (Beneficial) Side Effects**

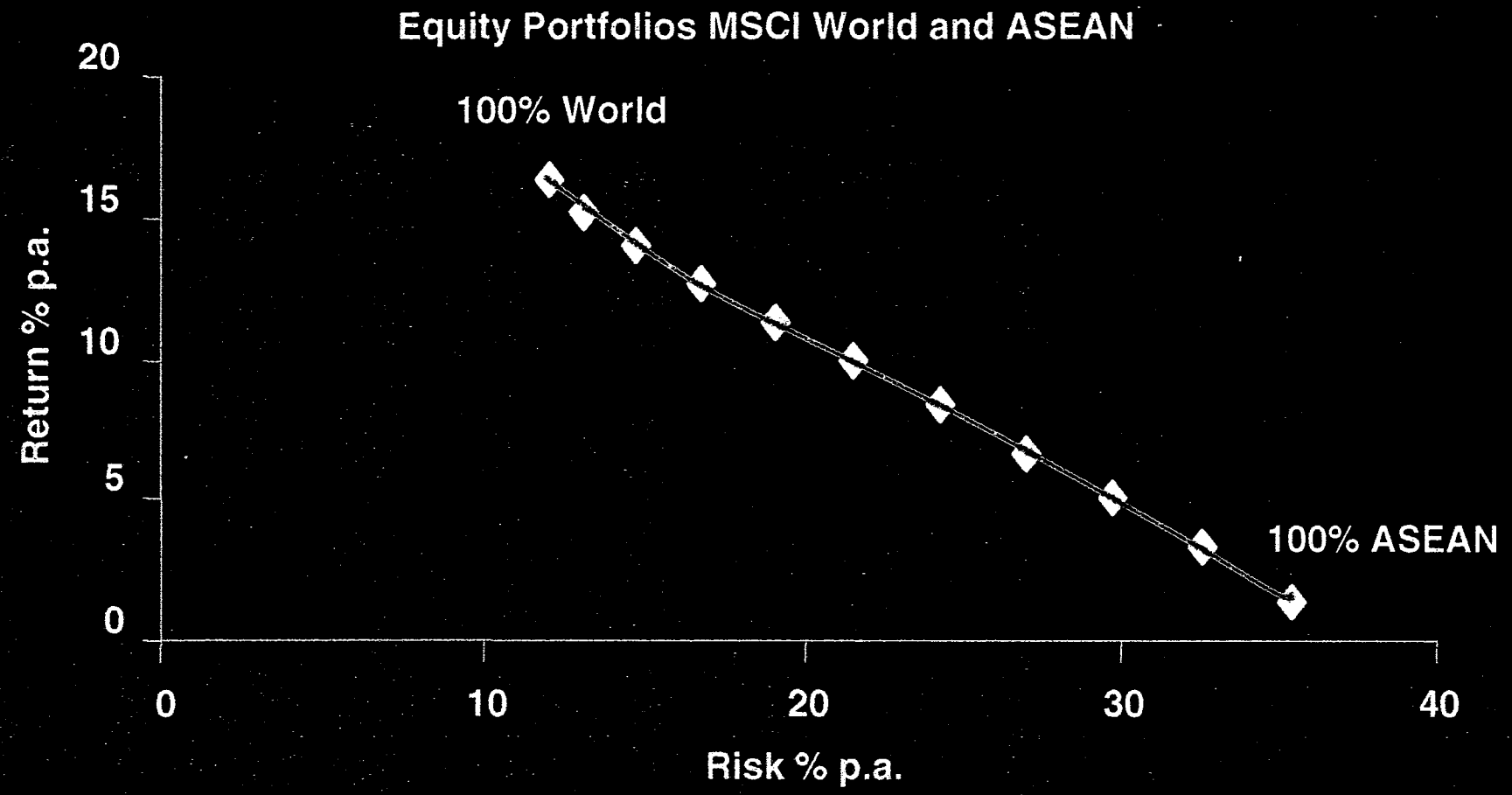
- ◆ **Improved corporate governance**
- ◆ **More developed capital markets  $\equiv$  Access to capital**
- ◆ **More developed individual savings markets**
  - ◆ **Stocks and Bonds**
  - ◆ **Mutual Funds**
  - ◆ **Insurance related services**
  - ◆ **Banking services**
- ◆ **Ultimately less state dependence**

# Efficient Frontier – 7 years to Jun-96



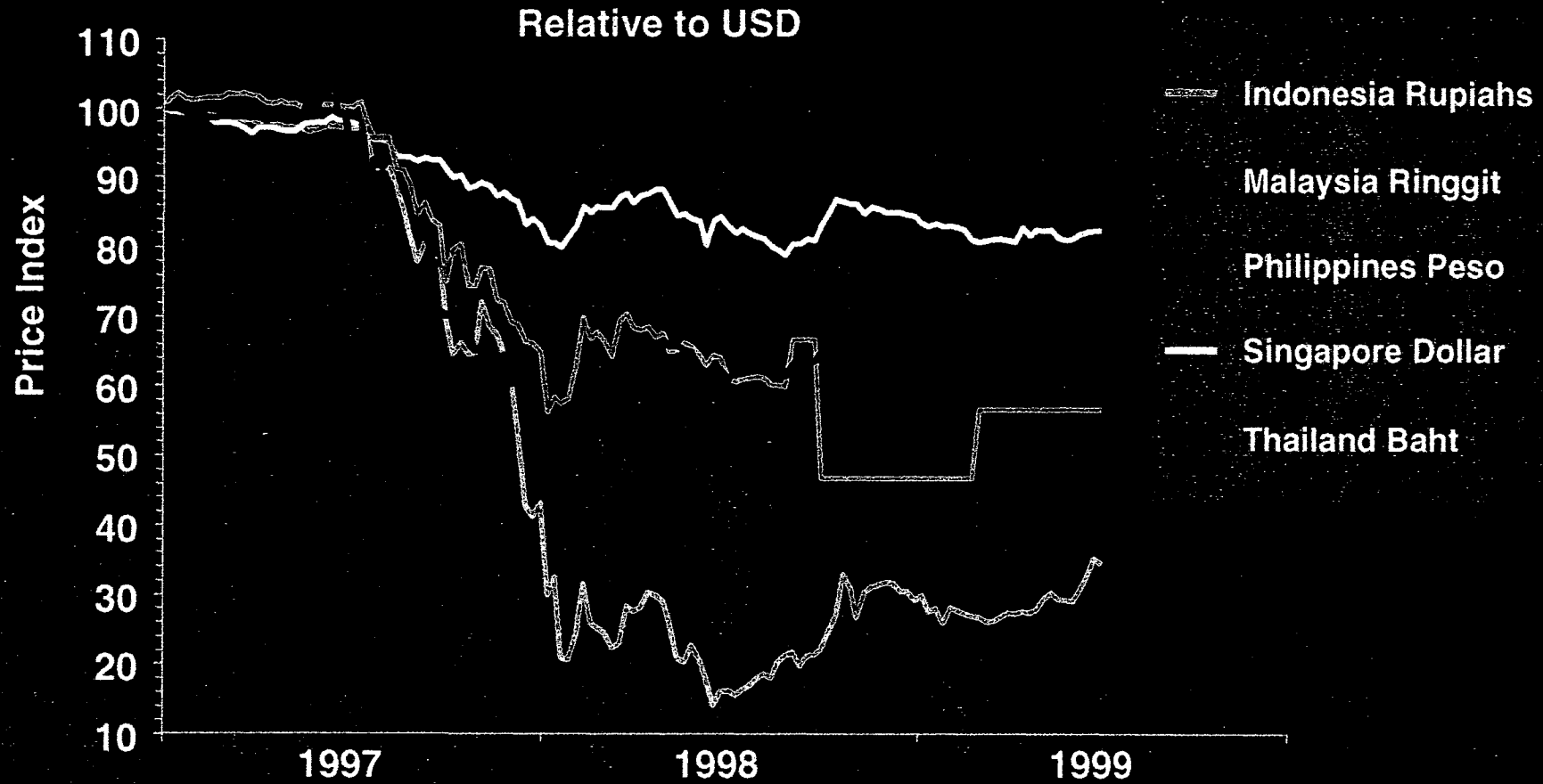
Source: Dresdner RCM

# Efficient Frontier – 7 years to Jun-99



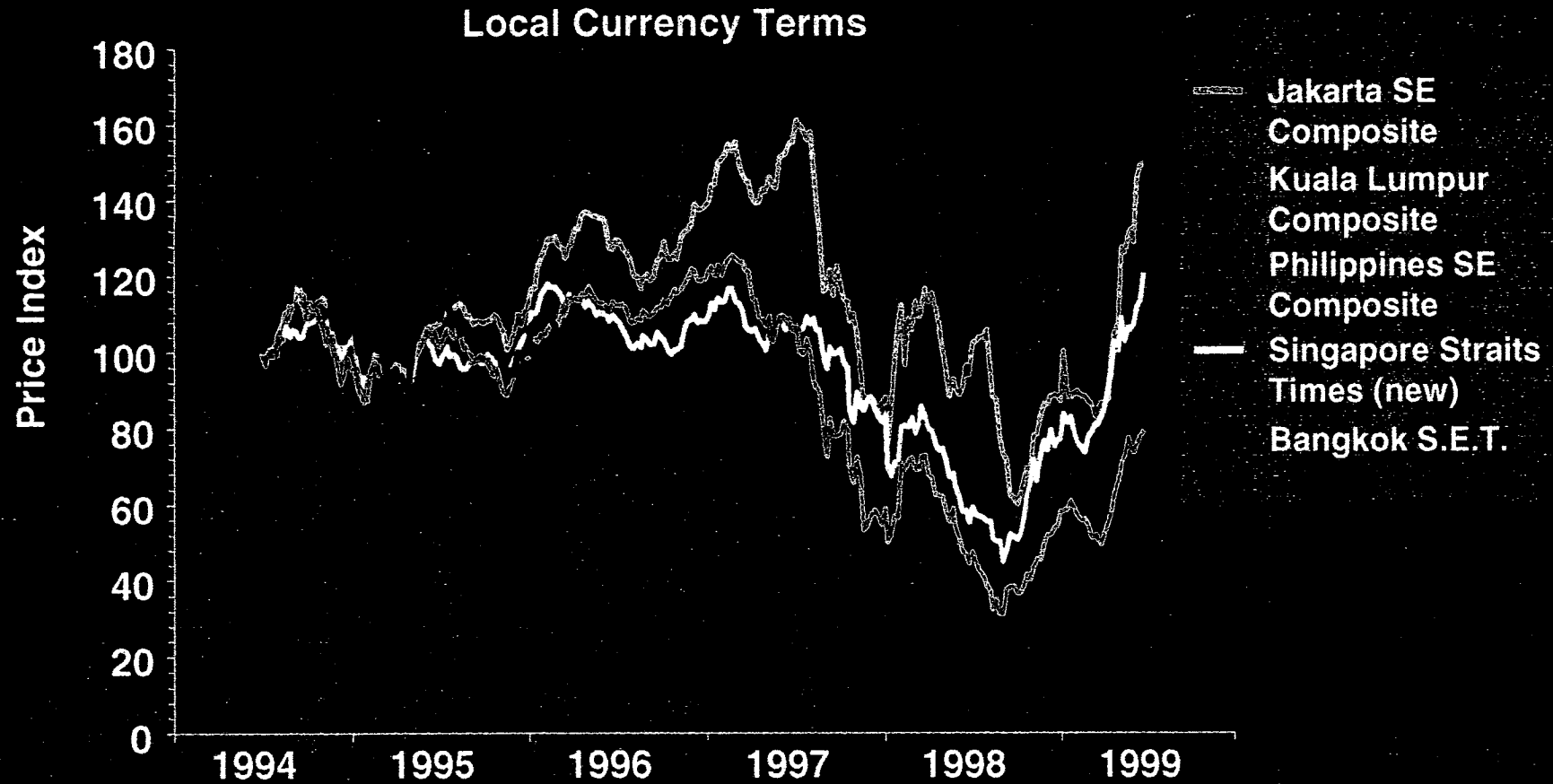
Source: Dresdner RCM

# ASEAN Currencies



Source: Datastream

# ASEAN Stock Markets



Source: Datastream



# Risk Characteristics for the Philippines

## Returns

	5 Years' Return in PHP %	10 Years' Return in PHP %
Manila Composite	-9.5	145.6
MSCI World	184.2	343.0
91D T-bills	87.6	368.5

## Standard Deviation

	10 Years Annualised %
Manila Composite	36.8
MSCI World	17.5
91D T-bills	1.4

## Correlation

	Manila Composite	MSCI World	91D T-bills
Manila Composite	1		
MSCI World	-0.6	1	
91D T-bills	0.0	-0.1	1

# Different Portfolios

## Returns

	3 Years Return in PHP %	5 Years Return in PHP %	10 Years Return in PHP %
70% T-bills & 30% Manila Composite	27.8	60.2	342.4
70% T-bills 20% Manila Composite & 10% MSCI World	41.7	78.0	358.7

## Standard Deviation

	3 Years Annualised %	5 Years Annualised %	10 Years Annualised %
70% T-bills & 30% Manila Composite	12.2	10.5	11.2
70% T-bills 20% Manila Composite & 10% MSCI World	8.8	7.6	8.2

# Stock Market Index Sizes in ASEAN

*US\$ billion*

Philippines	32.3
Singapore	123.8
Thailand	57.2
Jakarta	50.7
Kuala Lumpur	74.9
US	2,771.7

*As at 30/06/99*

# Social Security Assets

*US\$ millions*

CPF	48,071 <sup>1</sup>
EPF	33,287
Socso	1,485
SSS	3,506
GSIS	736
Astek	793 <sup>2</sup>
Taspen	700E

<sup>1</sup> 2/28/98

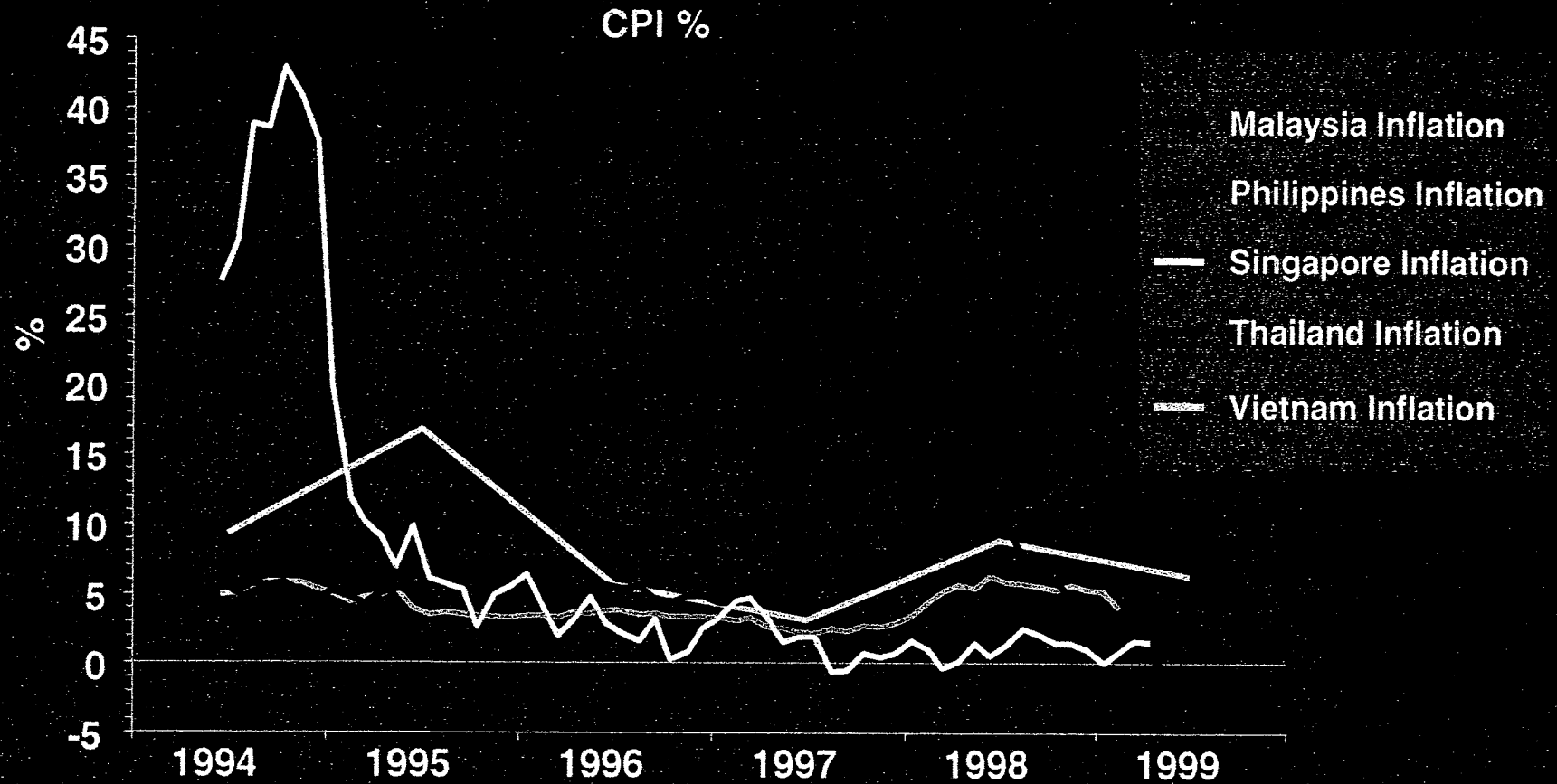
<sup>2</sup> 12/31/96

# Diversification in the New Environment



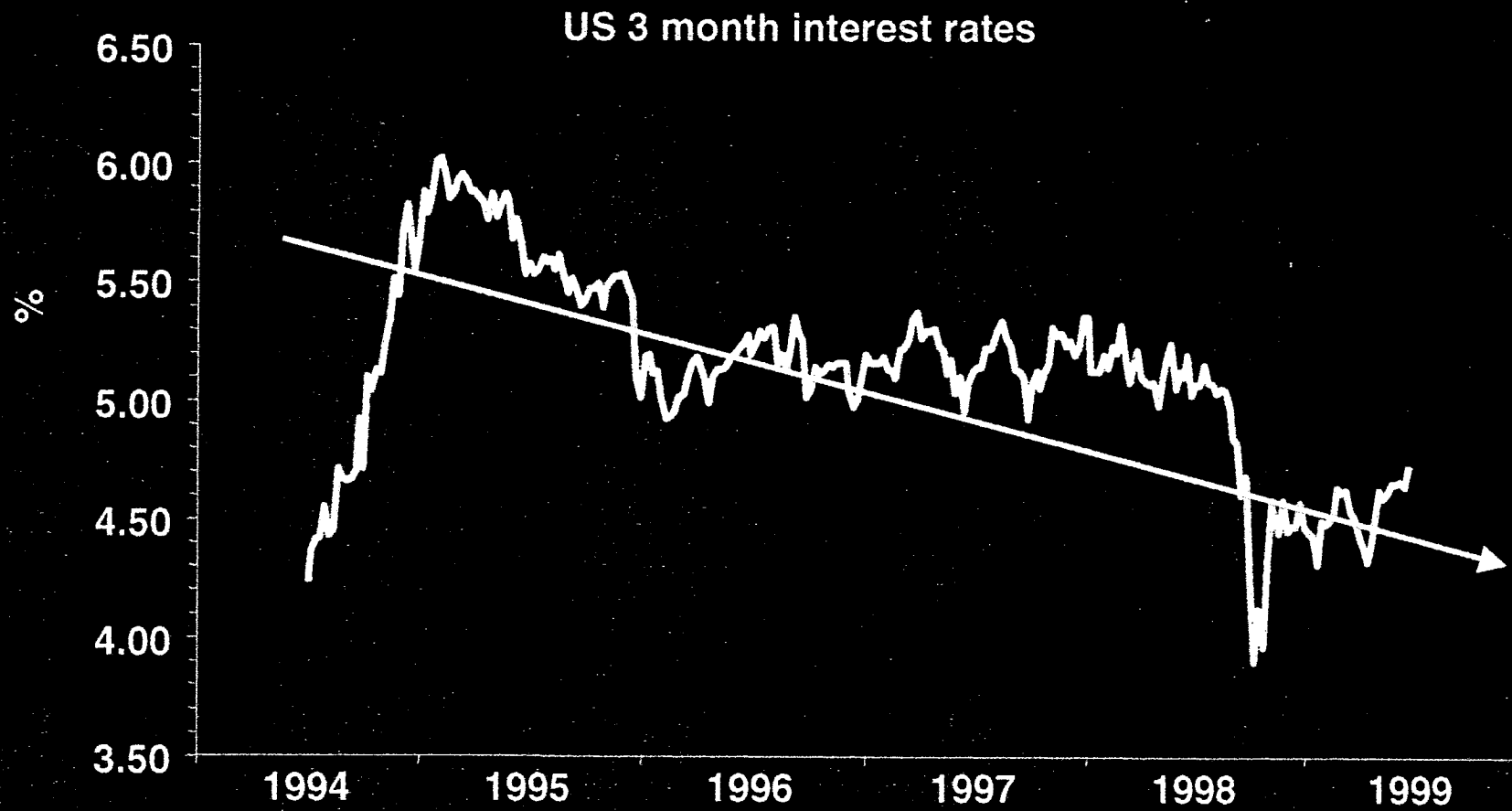
Source: Datastream

# ASEAN Inflation



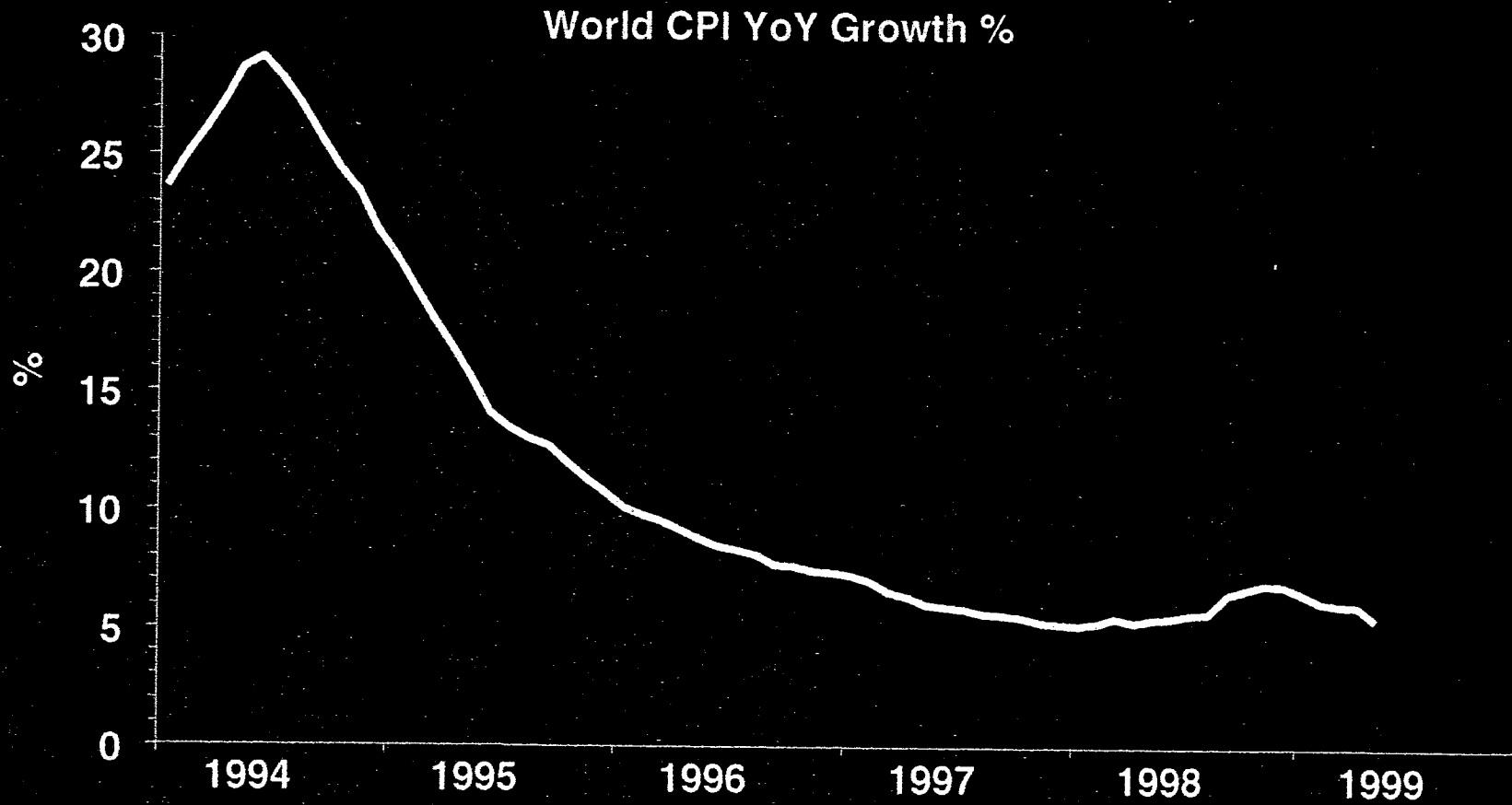
Source: Datastream

# Global interest rates



Source: Datastream

# Global Inflation and Investment Returns



Source: IMF International Financial Statistics