

Presentation to Maldives Finance Forum

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Schroders

Agenda

- Why invest internationally?
- How have other investors expanded from their domestic market?
- What does the international investment world look like?
- Practicalities and the Shariah dimension
- Developing international financial centres
- Sovereign Wealth Funds
- Developing governance and asset allocation

International Investing

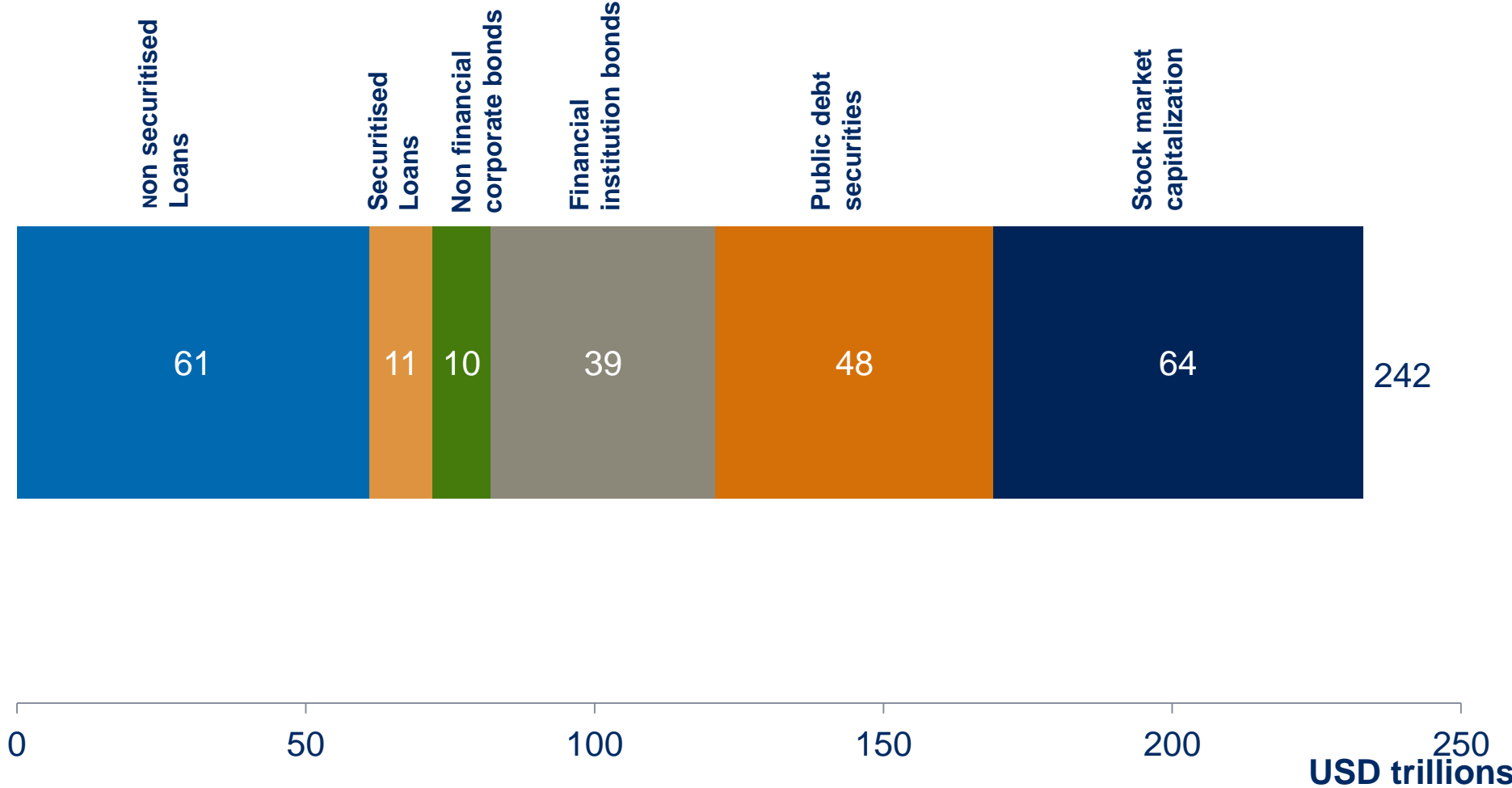
Pros

- Far wider universe of investment opportunities
- Greater diversification
- Liquidity and capacity to absorb high volumes
- Exposure to fast growing economies

Cons

- Currency risk
- Less familiarity with investments
- Loss of capital to the local economy
- Greater demands on governance

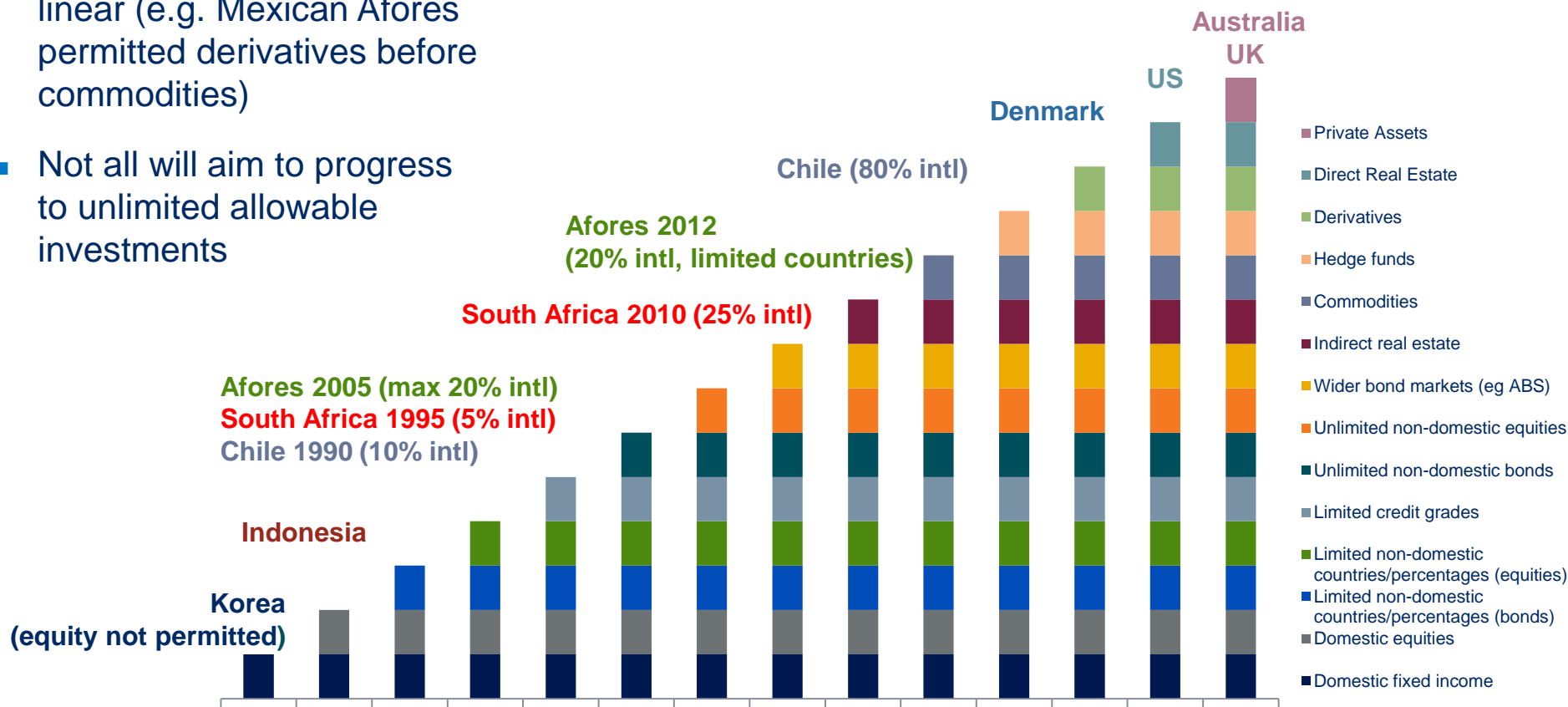
International Investing – stock of global financial assets



Source: McKinsey Global Institute, Haver, BIS, DB estimates

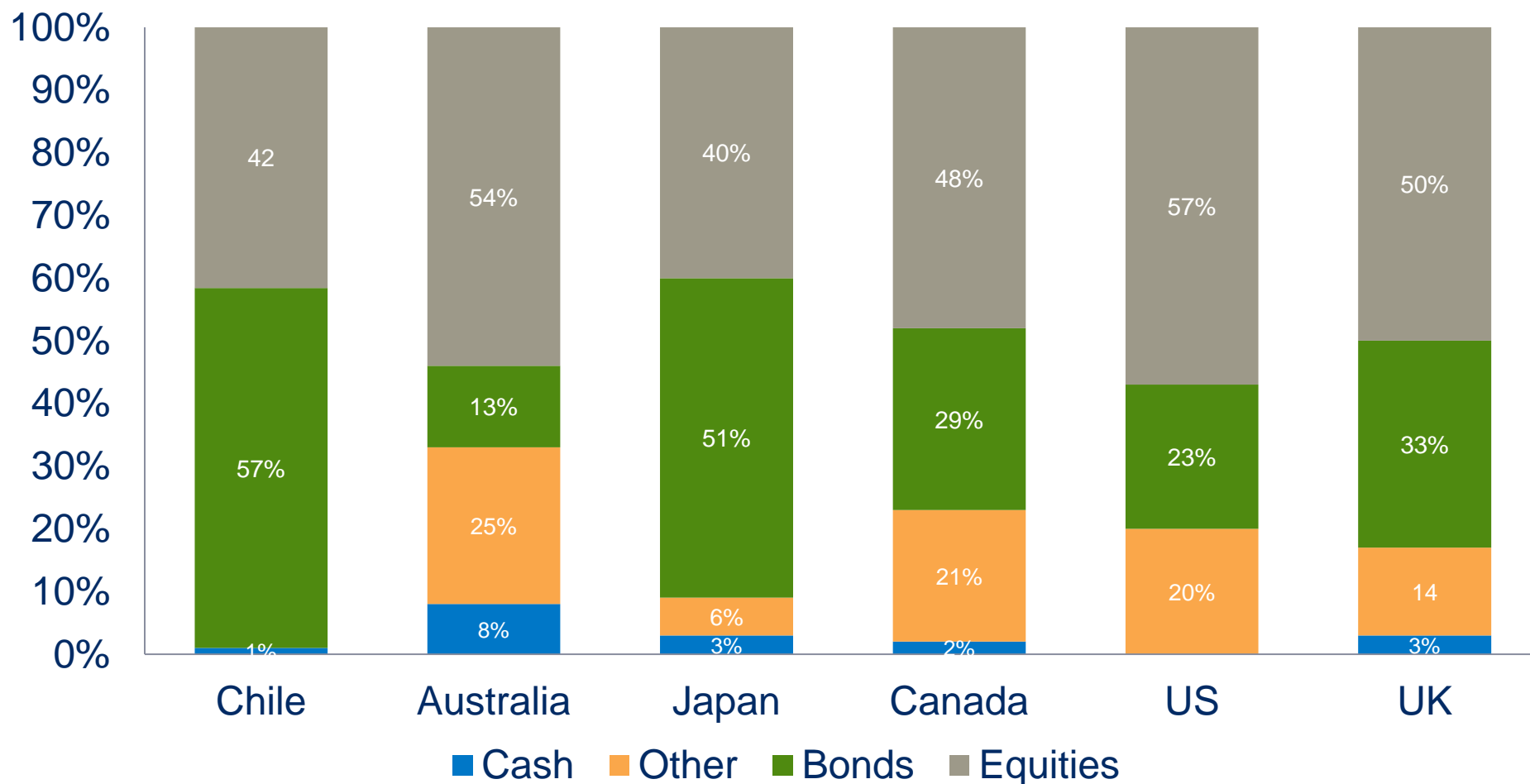
The broadening of investment horizons – DC pensions

- Progression is often not linear (e.g. Mexican Afores permitted derivatives before commodities)
- Not all will aim to progress to unlimited allowable investments



Source: Schroders. For illustration only. Countries and sectors are mentioned for illustrative purposes only and should not be viewed as a recommendation to buy/sell. Further information in the Appendix.

Global pension scheme asset allocation



Source: Towers Watson 2014 Global Pension Asset Study, Superintencia de Pensiones, Schroders

Pension funds - Proportion of domestic investments

Equities

	1998	2003	2008	2013e
Australia	74%	79%	56%	53%
Canada	65%	49%	41%	30%
Japan	60%	61%	60%	44%
UK	74%	58%	45%	39%
USA	84%	81%	70%	62%

Bonds

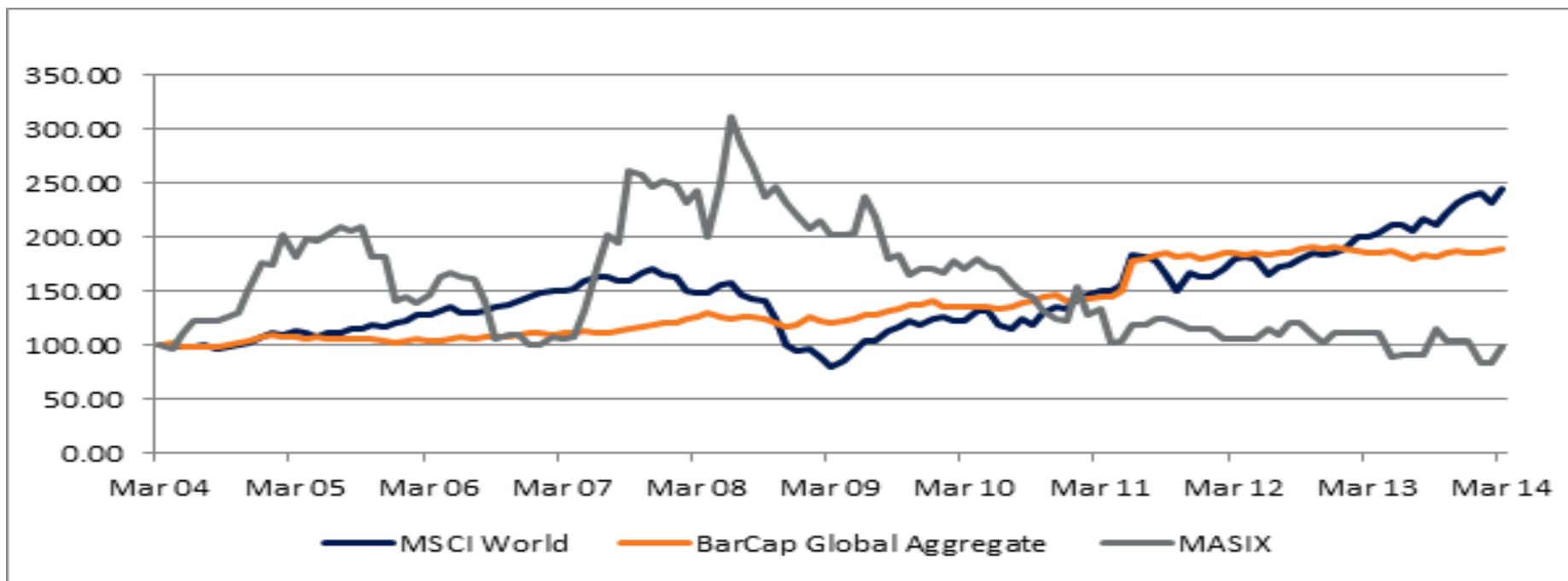
	1998	2003	2008	2013e
Australia	88%	79%	65%	60%
Canada	97%	91%	99%	98%
Japan	82%	92%	74%	70%
UK	87%	62%	85%	86%
USA	94%	96%	94%	93%

- International equity investment tends to be more advanced than international bonds

Source: Towers Watson

10 year returns on international and domestic assets for a Maldives investor

Annualised total returns* in RFY 10 years to 31 March 2014



MSCI World (global equities) **+9.3%**

Barclays Global Aggregate (global bonds) **+6.6%**

MASIX index (Maldives equities) **-0.2% excluding dividends***

Source: Bloomberg

International Investing - Practicalities

International investing involves the use of

- an investment manager (unless you invest directly)
 - custodian to hold the assets, collect dividends and process corporate actions
 - an index provider to benchmark performance
 - brokers to trade securities
-
- And possibly a consultant to advise on strategy and manager selection

This can be simplified by the use of a mutual fund rather than building your own portfolio

Trading in equities and bonds

- Bonds are almost always traded over the counter (“OTC”)
- Equity trades can be placed either through stock exchanges or through Multilateral Trading Facilities, all of which are regulated
- Most countries have at least one traditional exchange, but increasingly they are owned by major groups
- Exchanges provide a regulatory function (e.g. listing of securities)

Benchmark indices

- Developed in order to measure the total performance of a market - the Dow Jones in the USA was the first benchmark
- Usually calculated from the weighted market capitalisation of all securities
- Index or passive management developed in the 1970s, where an investor simply buys all the securities in an index or a representative sample
- MSCI and FTSE are the leading providers of equity indices ("MSCI-World“ “FTSE World”) and Barclays of bond indices ("Barclays Global Aggregate")
- Investors face a choice between passive and active management
- Proliferation of index products and exchange traded funds

Global equity investing

Achieving Sharia compliance

- Global Investing with non-compliant securities filtered out
- Greater exposure to Oil and Gas, Health Care and Technology

	Return % in (US dollars) to March 31 2014		Volatility 5 years
	3 years	5 years	
FTSE Sharia All World	+7.5	+16.8	15.7
FTSE All World	+9.1	+18.5	16.2

Developing a financial centre

Case study – Dubai International Financial Centre

- Established 2004
- 1039 registered entities by 2013
- 15600 employees
- Full ownership of subsidiaries permitted (not allowed elsewhere in the UAE)
- Jurisdiction is independent from the UAE – legal framework under English common law
- Respected regulator
- Excellent infrastructure

Developing a financial centre

Case study – Singapore

- MAS founded 1971; one of its objectives is to “develop Singapore as a financial centre”
- Outstanding infrastructure and pro-business environment
- Free Trade and Double Tax Avoidance Agreements
- Stable political and regulatory framework, AAA rating
- Deep pool of financial talent
- 124 commercial banks, 296 fund management licenses

Developing a financial sector

The importance of infrastructure

World Bank 'Ease of Doing Business' Index June 2013 rankings

Singapore	1
Mauritius	20
UAE	23
Maldives	95

Source: World Bank; 189 countries ranked

Number of Direct Weekly Flights, April 2014

Dubai-London	99
Dubai-Singapore	38
Mauritius-London	7
Mauritius-Dubai	14
Mauritius-Singapore	1
Male – London	3
Male-Dubai	19
Male-Singapore	18

Source: Official Airlines Guide

Sovereign Wealth Funds

- SWFs are owned by governments, usually for the benefit of future generations or for stabilising the economy
- They are a recent phenomenon, most dating back only to the mid 2000s
- They are funded either by revenues from commodities (e.g. Norway, Kuwait) or from current account surpluses (e.g. China, Singapore)
- \$7 trillion in total assets
- Best practice is that they do not invest in the local economy

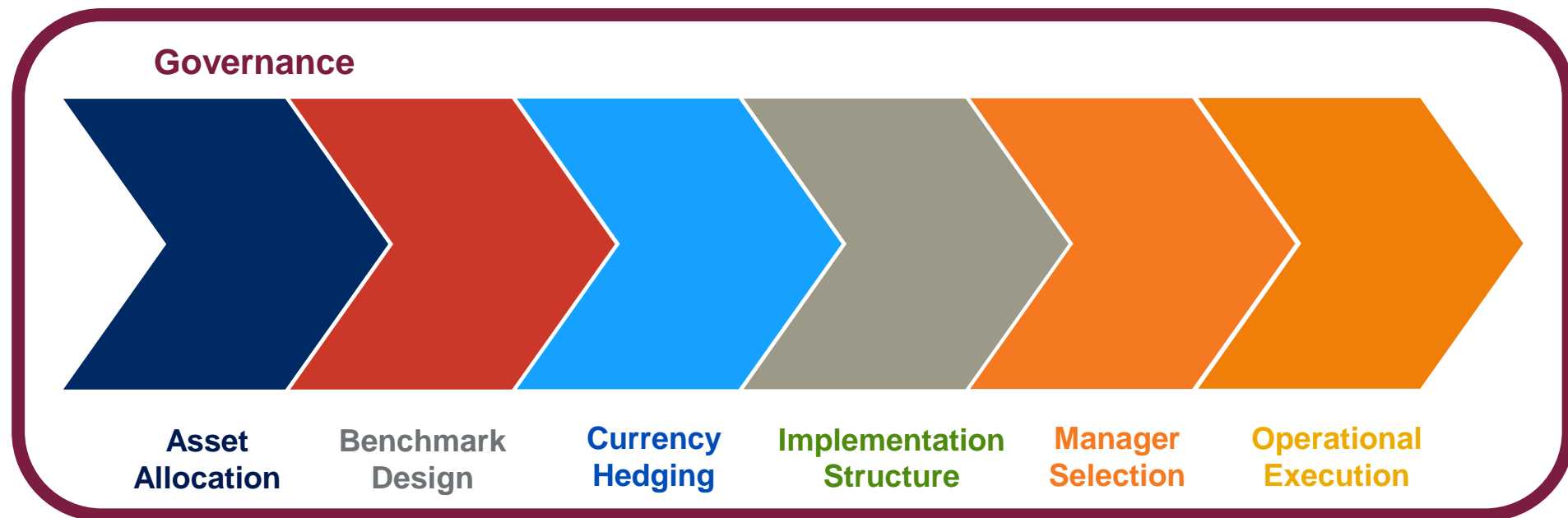
Case Study – Petroleum Fund of Timor-Leste



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- Formed 2005 to "contribute to the wise management of the petroleum resources for the benefit of future generations"
- Ministry of Finance is responsible for overall management and strategy
- Operational management delegated to the Central Bank
- Initially invested entirely passively, in line with benchmark indices, now using some active management - Schroders have managed 5% of the Fund since 2010, aiming to beat the MSCI World Index
- Fund at end 2013 was worth \$14.9 billion, annual running costs \$2.9 million. Performance 3.5% per annum over five years

Decisions, decisions....

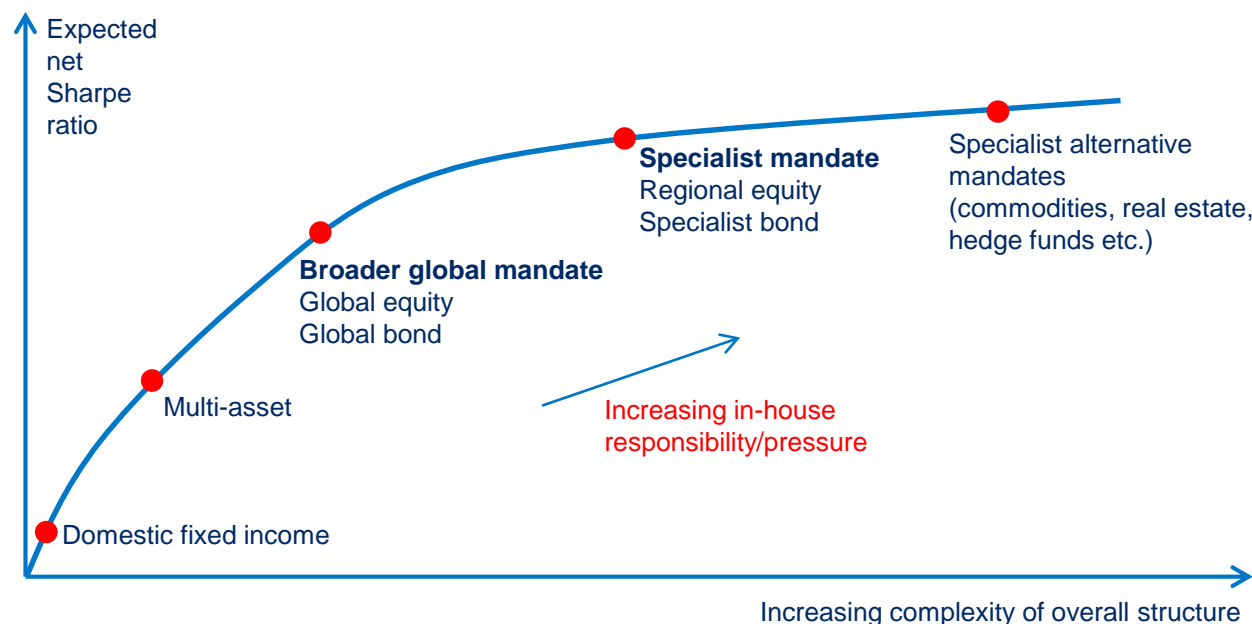


Source: Schroders, for illustration only

Governance budget

The importance of governance in the implementation decision

- The number and type of portfolios used should be linked to the fiduciary's:
 - Time available
 - Resources
 - Expertise
 - Systems
- The less familiar the mandate the more resource is likely to be required, at least initially
- Whether or not to hedge currency is a critical decision



Pension fund investment trends

- Changing appetite for risk (DB and DC)
 - Rise of matching + growth portfolios
 - Closures, buy-outs, buy-ins, transfers
 - Downside protection overlays
- Vulnerability of fixed income portfolios (DB particularly)
 - Loosening constraints
 - Focussed beta
 - Outcome-oriented
- Risk interpretations (DB and DC)
 - Real return objectives, increased dynamism (eg. risk parity)
 - De-risking vs re-risking
 - Increasing globalisation of equity portfolios
 - Re-thinking of 'alternative' investments
- Governance enhancements
 - In-house teams
 - Outsourced CIO model
 - Knowledge transfers from service providers

Designing a strategic asset allocation

Setting portfolio objectives – primary and secondary



Generate 5% income per annum, then seek to preserve capital

Primary objective

Secondary objective

Achieve return of CPI + 4% return, with as little variability as possible

Maximise return, subject to not losing more than 10% in any 12-month period

Conclusions

- International investments provide opportunities to diversify into styles or sectors not available in the domestic markets, and capacity to absorb growing assets
- They may produce higher returns but will certainly lower risk
- Currency hedging can reduce the volatility of international investment returns.
- The level of governance budget (time, effort, resources and expertise) will dictate the complexity of arrangements manageable, and should be considered before undertaking the next steps.
- For the first stage in international investing we recommend a broad multi-asset approach

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