

Attractive & Relevant Investment Solutions for Asia's HNW Clients

The final panel of the Investment Solutions Forum in Singapore saw a panel of experts highlight three key areas. One is frontier equity markets, with Vietnam and the Middle East as key target markets. The second is the adoption of a medium-term value-based multi-asset strategy – grow slowly, grow carefully and value will revery to the mean. And finally, the many appeals of physical gold were explained for the delegates, who listened intently literally as the gold price began to break out of its recently range-bound consolidation.

These were the topics discussed:

- *Is GOLD an interesting asset class today? What's its role in a client portfolio?*
- *What's the difference between physical and paper gold?*
- *What are the interesting opportunities in Emerging and Frontier Markets?*
- *What are the opportunities to invest in Vietnam today?*
- *It's one year since Vietnam failed to enter MSCI's watchlist for a market status upgrade - will it happen this year?*
- *Can investors look to make money via a multi asset strategy as volatility / market uncertainty increases?*
- *Are there any thematic / more secular equity ideas that are poised to do well? Like the environment and climate change?*

PANEL SPEAKERS

- **Dominic Bokor-Ingram,**
Joint Lead Portfolio Manager, Fiera Capital
- **Mehak Dua,**
Business Development, GMO
- **Zvika Rotbart,**
Business Development Executive, J. Rotbart & Co.
- **Steven Mantle,**
Head of Marketing, PXP Vietnam Asset Management
- **Benn Ng,**
Managing Director, Head of South East Asia, Raffles Family Office



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THE KEY TAKEAWAYS

Vietnam's growth trajectory

The discussion began with a focus on the dynamics of Vietnam, with an expert explaining that the growth trajectory of the Vietnamese economy stands out even within the robust economic environment in Southeast Asia. The country looks set to follow the path of the larger ASEAN economies but is lagging about two decades behind, thereby offering investors a range of excellent opportunities.

Reform-driven change

Political, economic and financial sector reforms are driving Vietnam's economy forward. As well as rapid population growth and a dynamic workforce.

A retail market explosion

With GDP per capita surging, there is a clear path by reference to the more advanced countries of Asia that indicates Vietnam's retail market will explode with activity. As well as general domestic consumption.

Watch the management teams

Corporate governance is a critical determining factor for most serious investors. Trusting the management teams, finding an alignment of interest with minority shareholders and seeking a clear strategy for growth are all essential.

MSCI will wait...

More work needs to be done to make the stock exchange more transparent before Vietnam's MSCI emerging market index inclusion will occur. Both the quantitative and qualitative advances need to be consolidated and expanded before MSCI is likely to add Vietnam into its MSCI basket. Guests felt that was still a year, and possibly two or three, away.



Some frontier markets should be avoided

There are plenty of frontier markets but serious investors narrow this down usually to 10 or less. Some countries such as Nigeria, Venezuela and several African countries such as Zimbabwe should be avoided, for a variety of reasons.

But the Middle East has appeal

But Middle East countries such as Kuwait and Saudi Arabia are moving in the right direction and domestic consumption stocks such as banking, healthcare and education have considerable appeals as well as very reasonable valuations.

The multi-asset approach

A multi-strategy means that you have to invest across a fixed number of asset classes. For those investors who are value-based managers, and who consider that every asset has a fair value, the strategy must therefore be at least medium term, while waiting for prices to revert to the mean.

Aligning impact and value

A guest highlighted more impactful strategies in the resources sector, including metals, oil, water, and agricultural commodities. He explained that end products, such as Tesla or other products, are of less interest to his funds due to very high valuations, whereas upstream in the resources sector and technology going into these end products there is genuine value to be found.

Gold is glittering

Physical gold is non-correlated to mainstream financial assets, it is a US dollar and inflation hedge, it can easily be bought stored and insured outside the global financial system, it is highly liquid and, above all else, it has stood the test of the past several millennia as both a store and an enhancer of value.





MEHAK DUA
GMO

THE DISCUSSION BEGAN WITH A FOCUS ON the dynamics of Vietnam, with an expert explaining that the growth trajectory of the Vietnamese economy stands out even within the robust economic environment in Southeast Asia. The economy, said an expert, shows plenty of characteristics of the emerging economies of ASEAN but the reform process for the economy and financial markets began some 25 years later than, for example, Malaysia, Indonesia or Thailand.

Vietnam’s many appeals

Vietnam is perhaps the single most glaring frontier market opportunity, with what experts believe is a very sustainable political reform process, a sustainable economic reform process and positive growth in the economy and in corporate performance.

In this light, Vietnam is a stand-out opportunity. “We see a very sustainable political reform process, a sustainable economic reform process which is producing genuine growth in the economy and genuine growth in companies,” said one guest.

“You have a very clear path ahead if the government’s policies and the economics continue to develop as we expect,” he commented. “This will result, across companies and across industry sectors, in dynamic change and improvement, so for us, the key is that Vietnam follows the path laid out by the other more developed Asian markets, as



DOMINIC BOKOR-INGRAM
Fiera Capital

those offer an obvious blueprint of what’s going to happen. After all, what is happening and has been transpiring across Asia for many years is obviously very good indeed.”

Following the ASEAN trail

With GDP per capita surging, there is a clear path by reference to the more advanced countries of Asia that indicates Vietnam’s retail market will explode with activity. The investment appeals are obvious and not complex to understand. Mobile phone shops, electronics goods, retailers, grocery stores, jewellery shops, these just require the right management and the right corporate governance.

An investor also focused on Vietnam’s appeals, noting that the range of listed equities has expanded significantly in recent years, and that a second big wave of IPOs recently came to a conclusion. “Essentially this market has been in a bull market phase for the past seven years or so,” he explained. Corporate governance is a critical determining factor for us, and we have a team of analysts locally who regularly meet with the management teams, that type of analysis is difficult to do from overseas, you need to be on the ground.”

Good governance vital

“We take a two-stage investment process where the first stage is to look at which countries are performing and which are creating the highest economic growth,” another expert added. “We never buy on the basis of the top down, for us the key in these frontier and emerging markets is finding companies with managements that we can trust extremely well as minority shareholders and so that’s why we spend so much time out in these countries meeting the management, working out where the growth opportunities are, and then working out whether there are companies that we want to be exposed to. In Vietnam, we have certainly found a number of those types of companies, whose management teams understand the markets and the value of a strong share price in reducing their cost of capital.”

A guest explained however that more work needs to be done to make the stock exchange more transparent before Vietnam’s MSCI emerging market index inclusion will occur.



STEVEN MANTLE
PXP Vietnam Asset Management

Vietnam and MSCI inclusion? Not yet...

Some of the quantitative criteria for inclusion have been achieved but more work needs to be done there, as well as on the qualitative front with regards to transparency and treatment of foreign investors, the release of announcements in English and so forth. “I do not see the MSCI inclusion taking place for a couple of years,” a guest pronounced.

The no-go zones

Looking further afield at the broader universe of frontier markets, this guest highlighted how 85% of their frontier fund’s portfolio is in seven or eight countries. “Some of the many frontier countries are not investible for a variety of reasons,” he explained, “and Nigeria is one such country currently, as there is no investment in power and without power, there cannot be growth. You have a situation today where even when the oil price is at reasonably elevated levels, population growth in Nigeria is higher than GDP growth, which means GDP per capita is falling.

Nigeria should be growing 6% to 8% a year but is hardly growing. So, as there is no reform, or as it is actually going backwards in terms of reform, from a top-down perspective we are not interested.” He added that Venezuela and Zimbabwe are also no-go zones currently.

However, there are some other countries, such as Myanmar, Cuba, Ethiopia that have interesting characteristics and if they were to embrace the concept of foreign inward investment would be seriously worth considering.

Buying into domestic consumption

To offer a flavour of the types of appealing investments available in certain preferred frontier markets, he highlighted education, financial services and healthcare in the middle east. “We have been investing in a university company in Kuwait that has developed a US class university for 20,000 students, and a Middle Eastern bank which currently has foreign ownership restrictions but very appealing valuation metrics, and a healthcare company in the Middle East that has a roughly USD10 billion market cap that is bringing world class healthcare to the region at a much reduced price from travelling to Europe as the wealthy from that region have normally done. The average PE for these businesses is about 10 times, so that gives you an idea of the growth potential and the low valuations to buy into that growth.”

Saudi raises its profile

And this expert’s current favourite frontier market, aside from Vietnam in the longer-term, is Saudi Arabia. “It is going through a very robust reform process which is starting to create a very real non-oil economy, and secondly it has had 50% of its inclusion in the MSCI emerging market index, so it is now 1.8% and will go to 3% in August. However, it is also the least internationally owned emerging market in the world. Foreign ownership levels today in Saudi Arabia, for historic reasons, are about 2%, whereas the average emerging market the size of the Saudi market is 30% to 50% owned by foreign investors. If you translate that into potential inflows into the Saudi market you get to a number of about USD150 billion.”



BENN NG
Raffles Family Office

A medium-term multi-asset approach

A representative from a multi-asset value-based investor and hedge fund operator from the US gave his insights into both of these areas, noting that the firm’s total USD60 billion under management, roughly, was split fairly evenly between these two strategies. Within the hedge fund strategies, the firm operates some niche equity strategies such as a resource strategy, a climate change strategy and in fixed income some emerging market high yield, and other sub asset classes within fixed income.

“The multi-strategy is a good approach,” he reported. “A multi-strategy means that you have to invest across a fixed number of asset classes, so as we are a value-based manager, we think every asset has a fair value, so our philosophy is simple - buy below that fair value and as things revert to the mean we then make money. Right now, we are 40% allocated to equities, we have a 30% allocation to alternatives, and the balance cash and equivalents.”

He added that they shied away US equities for the past three years because of high valuations.

“Most of our equity allocation is actually into emerging markets, and within that value stocks,” he noted. “Typically, we have a medium-term horizon because if you’re a value investor you can’t expect to make money every year but over the medium term as the market reverts to mean you should see your capital grow.”

“MOST OF OUR EQUITY ALLOCATION IS ACTUALLY INTO EMERGING MARKETS, AND WITHIN THAT VALUE STOCKS,” HE NOTED. “TYPICALLY, WE HAVE A MEDIUM-TERM HORIZON BECAUSE IF YOU’RE A VALUE INVESTOR YOU CAN’T EXPECT TO MAKE MONEY EVERY YEAR BUT OVER THE MEDIUM TERM AS THE MARKET REVERTS TO MEAN YOU SHOULD SEE YOUR CAPITAL GROW.”

Aligning impact and value

He also highlighted more impactful strategies in the resources sector, including metals, oil, water, and agricultural commodities. “We see this again from a value-oriented perspective,” he said, “as we know that resources will run down and prices therefore rise. As to the focus on an area such as climate change, we do not buy into the Tesla type end products, because of valuations, but we do try to invest in the battery makers or those companies supplying the materials or technologies that go into producing the battery.”

Gold gains momentum

Another expert highlighted the appeals of gold. Physical gold is non-correlated to mainstream financial assets, it is a US dollar and inflation hedge, it can easily be bought stored and insured outside the global financial system, it is highly liquid and, above all else, it has stood the test of the past several millennia as both a store and an enhancer of value.

Physical gold is not a financial product, so it can be held privately, directly by the client, or at secure logistics storage facilities in secure countries, and clients can then also have access to it. If clients



ZVIKA ROTBART
J. Rotbart & Co.

sell, they can trade USD50 million comfortably, and they get the money the same day, so it is very liquid, it is a real asset, not a paper promise.

The precious metals market is monitored by London, by the London Bullion Market Association, which supervises the refiners, the logistics operators, and the entire precious metals ecosystem to ensure it is professional and sound. Investors, the expert explained, should stay within this ecosystem, as the precious metals investment industry has nowadays become highly professional in Asia, with an outstanding infrastructure of secure storage and logistics and insurance.

He advised against paper gold in the form of ETFs, for example, as they are not 100% backed by gold and are also within the global financial system, and therefore exposed to its weaknesses in times of extreme stress. Physical gold is 100% outside the financial system and will perform relatively well when the stress elevates to very high levels in the financial markets.

“We are very bullish on gold,” he reported, “and we like to stress that physical gold should be held for the medium to long term. And in terms of logistics the Asia region offers excellent gold infrastructure in Singapore and Hong Kong, so there are plenty of resources here for Asian HNW investors.” ■