Global Investing
in today’s world

More钱 than sense
financially repressive policies

the future of
Pension Management

Stewardship Principles

Fintech
Impact on careers

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Dear Members,

The last quarter of 2016 was marked by two important milestones for the Society. On 5 October 2016, after many months of due diligence and extended rounds of negotiations, we appointed Kaplan Learning Institute as our exclusive training provider for the IBF accredited programmes as well as the regular CFA preparation courses. We ultimately chose Kaplan as it has the best teaching methodologies, training facilities and professional support for our candidates.

To celebrate our partnership with Kaplan, we are extending a special promotion to candidates who sign up for the upcoming June 2017 CFA exams: a waiver of annual associate membership dues for the first year\(^1\), a 10% discount for both live and online courses, and a 10% discount for all the CFA\(^\text{®}\) Schweser self-study materials. We would greatly appreciate it if you could help spread the word about this promotion to your friends, colleagues, or associates.

The second milestone was the inaugural investment conference organized by the Singapore Society on 4 November at the SGX Auditorium. Following an overwhelming positive response that our members had to the global CFA Institute Annual Conference held in Singapore in 2013, it was only a matter of time before we organized our own investment conferences as a local chapter.

The CFA Singapore Investment Conference aims to keep local members abreast of the latest in thought leadership and expert opinion by inviting world leading business leaders, economists, and asset managers to share in Singapore. We had 21 speakers (including the moderators), each an expert in their field. The experts included the likes of Ng Kok Song (chairman and founding partner of Singapore-based Avanda Investment Management and former Group CIO of GIC), Dr Keith Ambachtsheer (one of the most influential persons in institutional pension management), and Dr. Alan Bollard (Secretary General of the Reserve Bank of New Zealand).

Other highlights for the quarter included the following:

**Career Development & University Outreach**
- Opened the application process for our second Mentoring Programme
- Kicked off the University Investment Research Challenge with 8 universities signed up to participate in the local round
- Conducted a symposium about how innovations in technology are disrupting career opportunities in the banking and finance industry (jointly organized with Financial Women’s Association Singapore on 6 October)

**Networking** - We had 56 attendees at our annual golf challenge at Orchid Country Club on 7 October. We had 110 attendees at our Year-End Party on 19 December.

**Advocacy** - Our **Advocacy Committee** launched a set of stewardship principles in November 2016. The principles provide institutional asset owners, asset managers and relevant service providers such as proxy advisors and investment consultants with a framework to greater awareness of what stewardship encompasses, what it is supposed to achieve and why it is important for the investment profession and community.

**Membership** - We had 110 attendees at the CFA Charter Awards ceremony on 22 November at The Joyden Hall at Bugis+. Newly appointed Asia-Pacific Managing Director for CFA Institute, Nick Pollard was keynote speaker. Nick also hosted a town hall style meeting open to all members at lunchtime on the same day.

Best wishes to all of you for a happy, healthy and successful 2017. Please do not hesitate to reach out to us at 6323-6679 or email us at info@cfasingapore.org for any queries on how you may participate in our programs. We wish you and your families a fruitful year ahead.

Best wishes,
Jan M. Richards
President of CFA Singapore

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\(^1\) A one-time joining fee of S$107 is applicable for new members.
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Global Investing
in today’s world

At the CFA Singapore Investment Conference held on 4 November 2016 at SGX Auditorium, structural developments in the global economy and investing in today’s world were discussed. The speakers were:

- **Ng Kok Song**, Chairman and founding partner of Avanda Investment Management, and former CIO of GIC.
- **Andrew Parry**, Head of Equities, Hermes Investment Management
- **Kevin Chen**, CFA, CIO for Pan Asia, AXA IM Rosenberg Equities
- **Kelvin Tay**, CIO for Southern Asia-Pacific, UBS
- **Dr Alan Bollard**, Executive Director of APEC Secretariat and former governor of the Reserve Bank of New Zealand

CFA Singapore Professional Development Committee Co-Chairperson, **Arun Kelshiker**, CFA, was the event facilitator.

*This article is an excerpt of the discussion.*

**What issues should investors be mindful of, given today’s unprecedented amount of global debt and deleveraging?**

**Huge global debt and negative interest rates**

**Ng Kok Song**: The best way of characterizing the current environment is: We are living with the consequences of the enormous build-up of debt that led to the global financial crisis. Not only do the advanced economies have to work through this mountain of debt, this is the case with even the emerging economies, especially in China.

All the significant economies have this problem of indebtedness which is a huge constraint on growth. Not only do the advanced economies have to work through this mountain of debt, this is the case with even the emerging economies, especially in China.

So, we are in a balance that prevents that global economy from slipping back into a recession. But we have reached a point where monetary policy has reached its limits. The effectiveness of monetary policy has lessened considerably and has reached the point of diminishing returns.

Negative interest rates, for example, have a counter-productive effect on the markets because they are very bad for banks, especially the banks in Europe. Banks’ profitability has been severely impacted by negative interest rates.

A very significant part of all the government bonds in the developed economies has been bought by central banks. A large part of the global government bond market now carry negative yields.

We are at an important juncture where the future of the global economy depends on the ability of governments to devise forms of fiscal stimulus. In other words, monetary policy has reached its limits for providing solutions to stimulate demand.
Fiscal policy has to come into play

Everybody believes it is a good idea to spend more on infrastructure, but political gridlock gets in the way. Even though Germany has a trade surplus that is as high as 8% of GDP, the German government is still practising austerity. If the most prosperous country in Europe is practising austerity, what hope is there for the other European economies that are really struggling? Angela Merkel running for elections next year constrains how much she can do for these struggling countries.

I think we should focus on China because the PRC economy accounts for one third of global economic growth. Together, China and the other emerging economies account for half of global growth. You might say that the Chinese locomotive has slowed down. But there is hope that it can resume its locomotive function, provided that China deals in good time with its own snowballing of debt.

China has to restructure its corporate debt. Hopefully, at the 19th National Congress of the Communist Party of China next year, President Xi Jinping can consolidate enough power to deal with issue of the restructuring corporate debt. If he can do that, then the corporate debt issue will improve materially and growth prospects for the global economy will be better.

Europe moving from austerity to stimulus

Andrew Parry: At the last Jackson Hole meeting, there was this recognition that the efficacy of stimulus through monetary policy has been diminishing. Furthermore, monetary policy has possible negative consequences such as pension fund deficits. In the corporate sector, other than competition and technology, one challenge was the cash constraint when pension fund obligations are rising. When pension fund obligations rise, it makes you more short-term in corporate investments.

In Europe, we are beginning to see a possible change of fiscal policy. German monetary policy has dominated the region since the financial crisis. In 2008, the Eurozone’s budget deficit as a percentage of GDP was 6.5%. This has narrowed down to just under 2%. So, the budget deficit is now well under the Maastricht guidelines. Some of that is due to a weighted average contributed by Germany’s very large surplus.

We have already begun to see a softening of the austerity language. Over the last 6 to 9 months, the word austerity has been absent, rather than dominating the headlines.

I do think that in Europe, we will see a lessening of the pressure on austerity. Fiscal stimulus is in vogue at the moment the way things are going with the markets. The problem with fiscal stimulus is: What form does it come in?

We all like to see infrastructure spending. The problem is that Europe’s infrastructure is rather good. They have been spending a lot of money on infrastructure.
Andrew Parry joined Hermes Sourcecap (now Hermes European Equities) in December 2006. As CEO, he was responsible for the day-to-day management of the company and business development. In August 2014, he was appointed Head of Equities for the Hermes group. He established Pembroke Capital Management in January 2003 and successfully launched the Magenta Fund, a global equity non-directional fund in March of that year. Before that, he was CIO of International Equities at Northern Trust Global Investments (Europe) Ltd. Before that, he was Head of International Equities at Julius Baer Investments, CIO at Lazard Brothers Asset Management, and Head of UK Equities at Baring Asset Management. He has over 31 years of investment management and business-building experience.

He is also a member of the Investment Committee of the Trafalgar House Pension Trust and a non-equity director of Aeron Fund Managers. He was formerly an independent investment advisor to the Investment Sub-Committee of the Mineworkers’ Pension Scheme.

Is there going to be a reduction in taxes? Well, Ireland is in trouble for having very competitive corporate tax rate. Some people in the Eurozone view Ireland as a tax haven in the way they would view the Cayman Islands or Bermuda. People are going to be disappointed somewhat, to have governments interpret fiscal stimulus. It is probably not going to be nice and easy infrastructure spending, but more likely to be just a slashing of the pace of reductions in government spending.

**Kevin Chen:** As a bottom-up equities manager, I would like to share what all this liquidity and debt has done to corporate investment decision making, as well as the impact this has on investors.

What we are seeing is: There is much money available but the corporates are not really using this money for investment. They rely on financial engineering to boost profitability reports, rather than invest in productive activities for future growth.

Today, returns on equities and debt yields are low. Market volatility is also amplified by aggressive monetary policy. Investing becomes more risky. Fund managers end up chasing for yields and leveraging so as to achieve return targets. Over the long term, the entire investment market loses its ability to allocate capital to the most productive activity.

**Kevin Chen:** To quote Nobel Prize winning economist Joseph Stiglitz, adopting a single European currency was a fatal error, since it prevents weaker economies from having the monetary flexibility they need in times of recession. Can UK employment rise after it leaves the European Union?

**What remains to be seen of the future of the European Union and of investing in European assets?**

**Andrew Parry:** Greenland was the only country that has exited the EU, and it took them 7 years to negotiate that exit. The UK exit is more complex as it is a larger part of the European economy. Britain is a large consumer of European goods. Brexit is a two-way exit. The losses as well as the benefits go two ways. This will be a long running saga.

David Cameron’s agreement to bring Brexit to a referendum was bad politics. The grave lesson to governments around the world is: If you are going to ask foolish questions to the electorate, don’t be surprised if they come up with an answer that you don’t like.

The popular press would like to label us as an anti-immigration or xenophobic country. But Britain has had a millennia of influxes – Angles, Saxons, and Romans, etc. We have had a long tradition of racial assimilation. So, I don’t think we are a xenophobic or racist country.
Kevin Chen, CFA joined AXA Rosenberg in 1999 and was been appointed Pan Asia Chief Investment Officer in 2010.

Before his current role, Kevin served as Portfolio Engineer, America Deputy Chief Investment Officer, and Asia Pacific Chief Investment Officer.

Prior to joining the firm, he was a summer associate with AON Corporation in Chicago; a research assistant for the Catholic University of America in Washington, DC; and a journalist, director, and producer in Haikou, China.

There was a complex series of factors that led to the vote: Scotland has its own agenda. London has its own gilded cage economy. Insecurity into retirement is a very big issue.

Many of those who voted to leave were poorer, older and less educated than those who voted to remain. The middle class has trouble keeping up with technology, and there is a general feeling of insecurity. To give an example of the inadequacy of savings: The average pension savings in Britain is 4,000 pounds. That’s not how much they are going to get per annum. That’s how much people have saved for their retirement. That insecurity played a very big part in the vote.

There is a strong message to governments around the world. Any government going for an election really needs to take into account the mood of the people. It needs to carefully consider how to frame the choice of responses to its questions.

There is also a lesson to be learned about foreign commentators commenting on domestic issues and the influence this has on elections. Every time they exhorted us to vote to remain, more people wanted to leave. Be very careful about trying to bully populations who feel disenfranchised into voting the way that it “needs to”.

Dr Alan Bollard: Brexit came as a shock to many people. People have been working their lives on the basis of regional integration. And what has happened is regional disintegration.

At the Asia-Pacific Economic Co-operation talks, we were concerned about migration and loss of sovereignty in the region. We were thinking about soft globalisation as an alternative model, where membership was voluntary and a
Based in Singapore, Kelvin Tay joined UBS Wealth Management Asia in April 2006 and was deputy head of P&S Consulting (Southeast Asia), where he helped clients structure investment portfolios based on asset allocation. Prior to joining UBS, he worked at Deutsche Bank Private Wealth Management (Asia) as the Asian & European Equity Strategist responsible for Asian & European equity selection. He was also the portfolio manager of the Asian equities portfolio and was also responsible for conducting funds research.

In 2002-2004, he was a Regional Telecoms Analyst with JPMorgan Chase where he was consistently one of the top 3 rated regional Asian telecoms analysts in international surveys such as AsiaMoney and Institutional Investor. In 2000-2002, he was a Regional Telecoms Analyst with ABN AMRO (Asia) Ltd in Hong Kong, where he was ranked No.3 in AsiaMoney’s Asia-wide regional telecoms analyst survey in 2001 and his team was ranked No. 1 in the 2000 Greenwich survey. Prior to that, Kelvin worked at Overseas Union Bank in Singapore as a credit analyst in loan syndications and capital markets.

country could drop out of the coalition because it was on a trial basis. This is probably the way that globalisation will continue, but we need to learn from the built-up pressure encountered within the European Union.

**How is China going to pan out?**

**Kevin Chen:** When I travelled in the US and in Europe, I found that people’s perception about China focused on things that were quite different from what most people in China are concerned about. They focused on things that were about to explode: Today, it is property prices. Tomorrow, it is the banks’ balance sheet. The day after, it might be the mounting corporate debt.

I would say China is at the stage of having completed its first phase of growth among emerging markets in the region. Its GDP per capita is still lower than the world’s. In the last 20 years, it was the emergence of the private sector that had been driving growth, rather than the state-owned enterprises. China has learnt much over the past 20 years and its people have skills and calibre. Going forward, I believe the private sector will remain China’s main growth driver, rather than state-owned enterprises.

I view its debt problem as manageable because of the huge amount of assets that the government has. A lot of wealth had been accumulated in China over the past 20 years of growth. However, the debt situation cannot continue over the next 10 years. That will be something that China has to fix, but I would say its long term growth potential is there.

**Kelvin Tay:** China is an extremely diverse and complex country. Instead of looking at it as a whole with GDP per capita at US$8,000, you need to look at China like a continent, like the way you would look at Europe. You need to view tier one cities like Beijing, Shanghai, and Shenzhen as the Germans of the country. You also have tier three and tier four provinces which are like the Eastern European countries – fast growing but with infrastructure that is not quite there yet.

We view China’s underlying problems as more social than economic. For example, the hukou system must change. The state-owned enterprises need to be reformed. The underutilized capacity at the state-owned enterprises must be dealt with before China can move forward.

The biggest obstacle is in encouraging consumer spending. How do you encourage the generation of people who do not like to take up debt to start spending more? You can’t, because people’s mindset do not change. It’s like asking your grandmother to borrow to buy a car, or to use a credit line.
On top of that, they save a lot of money because there is no pension or welfare system for insurance. With the exception of one or two hospitals in Shanghai or Beijing, the quality of the public healthcare system is inadequate. They ask: *What can I do when I grow old if I have only one kid?*

At this point in time, we have China’s economy slowing down. The structure of its economy is changing. There is no other economy in the world that is going to make up for the slowdown in China.

The high amount of debt that many governments are in prevents them from increasing infrastructure spending. Without spending, the global economy cannot grow. After the World War II, global economic growth was strong because of the post-war reconstruction spending in Japan and Europe, as well as the building of highways in the US.

But now, there are no visible drivers. Clearly, China will no longer grow at 8% to 10% a year. We need to be prepared for slow growth going forward.

**Andrew Parry:** Sometimes, looking at history helps to put the current situation into context. The US economy is the economy and the stock market of the twentieth century. We have to remember that over the past century, the US economy went through some very tough times. We had the 1929 Wall Street Crash. We had the Great Depression.

China and Asia form the dominant population centre of the world. A few hundred years ago, Asia was the wealthiest economy in the world. There seems to be a cycling back of wealth from the west to the east in a long and uneven progression.

We are investing in China as high-value added proposition vis-à-vis the Eurozone. We are seeing it as an inevitable development over a 50-year time horizon, and trying not to be bogged down by 5-year cycles, even though there will be many excursions along the way.

China’s potential is still there, as the new boy on the block that challenges the US as the superpower of the last hundred odd years.

**Q: Is there scope for currency intervention in trade deals?**

**Dr Alan Bollard:** The Trans-Pacific Partnership Agreement is a trade agreement among 12 of the Pacific Rim countries, not including China. I don’t think trade agreements such as the TPP have the framework suitable for resolving currency issues, such as whether or not to have the gold standard or Bretton Woods.
More Money than Sense
financially repressive policies

Money managers are saying: "Monetary policy may have failed, but there’s this other thing that is coming -- co-ordinated fiscal expansion. It’s a good thing, so you should buy equities.”

This kind of talk flies in the face of the advice given by Ronald Reagan: “The nine most dangerous words in the world are -- We’re from the government. We’re here to help you.”

Excessive debt
Governments of the world today are striving to lower the debt-to-GDP ratio after they learnt in 2007 that at current levels of debt, a recession can lead to bankruptcy and depression.

There is now so much debt in the system that what would have been a normal recession in any other time may turn into a depression that threatens the very stability of governments and countries on the verge of bankruptcy.

Every policy that we’ve had since 2009 was ultimately aimed at bringing down the debt-to-GDP ratio. In 2007, global debt-to-GDP ratio was 244%. Today, it is 268%. The money that has been created has not made the system more stable. Instead, the debt-to-GDP ratio has gone up.

There are two reasons why this metric is important. Firstly, when the public debt-to-GDP ratio goes above 100%, real GDP growth rates decline (Reinhart & Rugoff). Governments care about real GDP growth rates because that is what gets them elected.

Secondly, public debt-to-GDP ratio going above 100% has been a trigger for government intervention, according to a study by IMF. Japan’s public debt-to-GDP ratio is now 221%. The first austerity programme in Japan was launched in the mid-1990s when its public debt-to-GDP ratio reached 100%.

The other trigger is when private sector debt-to-GDP ratio exceeds 150%. These are levels that governments cannot ignore and are triggers for policies of financial repression.

Financial repression
A government will never announce a policy called ‘financial repression’. When the government introduces financial repression, it has to give...
diplomatic names for it. When Kennedy introduced capital controls in America, he called it the *interest equalization tax*. Who can be against equalization? When the French government needed money from the wealthy, they called it the *solidarity tax*. Who can be against solidarity? Today, we call it *macro-prudential regulation*. Who can be against prudential regulation? The government can control the financial system by regulating it. Macro-prudential regulation is a way of managing the whole system.

The following are examples of financially repressive policies under the guise of macro-prudential regulation:

- **Credit controls in the property investment market**
  The Financial Policy Committee of the Bank of England pushed credit away from the 'buy-to-let' mortgage market.

- **Government mandated interest rates**
  With Regulation Q in the USA, deposit taking institutions were told what level of deposits they could offer.

- **Transaction taxes on all financial assets except government debt**
  UK duty on equities was 2%, and now 12% on UK property.

- **Dividend controls**
  Limit how much money a company can pay out in dividends.

- **Earnings controls**
  UK corporate tax was 52% in 1982. Nixon’s Cost of Living Council froze prices for 90 days.

- **Restrictions on gold Ownership**
  Order 6102 in April 1933 forbade the hoarding of gold.

- **Capital issues restrictions**
  The vast majority of capital assets are no longer held by individuals. They are held in financial institutions, and therefore much easier to manage via regulation. Secondly, much of our debt doesn’t come from banks. If I wanted to do something about debt today, I would have to do something about debt in the market place.

[Charts / data: Orlock Advisors, Global Financial Data]

**Total non-financial debt, private non-financial debt and government debt as a % of GDP**

**Chart 1: Advanced Economies**

**Chart 2: Emerging Economies**

**Chart 3: US Monetary Base as a percentage of GDP**
Other policies to lower debt

Other than repression, the following policies have also been historically used by politicians to tackle debt that was too high:

1. Austerity unpopular

The public debt of advanced economies peaked due to World War I and II, as well as the banking crisis of 1993. Today, that public debt has surpassed all previous debt crisis levels other than World War II. The history of government debt shows that when the war ended, the high government spending ended. That is a kind of austerity measure, if austerity is defined as a reduction in government spending.

The UK began a program of austerity in 2010 that is now coming to an end. During the UK’s period of austerity, its public debt-to-GDP ratio went from 80% to 100%. This austerity program was abandoned because it was unpopular. The man who invented it, George Osborne, was removed as Chancellor of the Exchequer by Theresa May when she assumed office as Prime Minister. Austerity is not what politicians like.

In the 1990s, Japan tried austerity. It didn’t succeed.

2. Default with dire consequences

Default is when a government fails to pay back interest and principal. Imagine what happens to the cost of private sector borrowing in Singapore if the government of Singapore defaults on paying back the principal of its borrowed money. There is an immediate negative impact.

The last time that the UK defaulted was in 1642. The only two countries in the developed world to have defaulted in the last 100 years were Greece and Germany. Default doesn’t happen so often because it is so dire.

3. Real growth not forthcoming

Real growth is a function of the working age population growth and productivity growth. A productivity revolution would result in much higher real growth. However, the statistics are showing poor productivity. A major leap in productivity would be a great surprise.

4. Hyperinflation

Being aggressive with your inflation rate is another way to control the debt-to-GDP ratio. France’s debt-to-GDP ratio declined from 180% to 50% in just 6 years, but their inflation was 60% to 70%.

The UK lowered public debt-to-GDP ratio from 290% in 1945 to 50% in 1980 by keeping its bond yields and deposit rates below inflation rates for a prolonged period of time. It took the British nearly 3 decades to do what the French did in 4 years.

In a world full of savers, it is possible to go for hyperinflation, but I think that is unlikely to happen. So, that leaves politicians with repression.

Excessive monetary base may lead to credit control

After the Great Depression, University of Chicago economists suggested that central banks create money by buying government debt. When the central bank buys government debt, it becomes equity in the commonwealth, and not debt. I call this a perpetual non-interest bearing transfer (a gift).

Such a policy of increasing high-powered money could lead to exploding inflation. If the yield curve is negative, the private sector would have more debt. This is because if the government is going to inflate away its debt, the debt of everybody else will also be inflated away. Then, the private sector will rush in to borrow.

That credit growth has to be stopped. The way to control that inflation is via credit control. They can’t stop that with low interest rates because interest rates have to be below inflation rates. So, they stop credit growth with controls. That is exactly what happened post World War II.

Gifts of money from the government is not a dangerous policy if it is mitigated by control over credit growth. It is only credit growth that creates money growth. If the credit growth is limited to 5% for example, it becomes equity in the commonwealth, and not debt.

Most people believe the spike in the US monetary base post 2008 (Chart 3) leads to inflation, but I believe we may end up with credit control instead.

The state is unwilling to have the central bank contract its balance sheet because that limits the size of commercial bank balance sheets unless they do away with the fractional reserve banking system. It’s unwilling to have interest rates rise to control credit because that is a rationing of credit.

Capital misallocation

There are two ways of allocating resources -- through price, or by rationing. We have left the era of price, and we are entering the era of rationing.

To bring down the private sector debt-to-GDP ratio, the private sector debt growth would have to be less than nominal GDP growth. For example, if nominal GDP growth was at 6%, the growth rate of private sector debt may be 4%. After two or three decades, the debt to GDP ratio would be under control. Every year, there is 4% more
debts than there was at the beginning of the year. Who gets this additional 4%? In a market economy, it is whoever who bids the highest price.

But now that we have a post-market economy, the government themselves will be on the top of the list to get that 4%, since they will need more and more money every year. Next on the list are the people who vote for the government. Imagine not being able to give mortgages to people who vote for the government.

Who is going to borrow less, when they really shouldn’t be getting any more credit when there is only 4% more available? Investment bankers like Goldman Sachs. Private equity funds.

As the government divides the world up into the productive and the speculative, then they no longer need investors. If the government is in the business of allocating credit and capital, we have capitalism with Chinese characteristics.

The problem with these policies is they mess up the capital allocation process over the long run. The more you take price out of the allocation process, the more you get bad allocation. Post World War II, it seemed like the British economy was going on pretty well. Growth picked up. Inflation picked up. But in the 1970s, it created some of the world’s worst automobile companies because the state was so involved in allocating capital that it allocated it to the wrong places. In 1976, the UK went bankrupt.

Hong Kong, a British colony, was perfectly solvent – it had maintained a system where resources were allocated by price. It never got into the repression business and didn’t have any government debt. It sailed through that period and became a huge success story.

**Debt problem threatens Euro**

You can have a European Union without fiscal integration. But you cannot have an Euro without fiscal integration, and that is the fatal problem that they have.

Imagine going onto the streets of Europe and saying, I know that you really like this policy. It’s giving you more real growth. It’s giving you more inflation. It’s giving you wage growth. It’s reducing your debt relative to your wages. But it really interferes with efficient allocation of capital. The problem is: Nobody who votes would care. That is why this policy of financial repression is so beguiling, even though the long term implications are known.

In Europe, there is a new rising political movement that says: Yes, we want to be in the European Union. But we do not want to see more power passing from the sovereign parliament to Brussels. So, we have this unique schizophrenic mentality in Europe. Ask the peoples of Europe if they want to be in the European Union and the answer is usually yes. Ask them a second question: Do you believe that power should return
from Brussels to your sovereign government? Two thirds will say yes. This two thirds is from Germany.

The total debt-to-GDP ratio for the Euro area is about 270% compared to under 200% for Germany. Germany doesn’t have a problem of excessive debt. Its public debt-to-GDP ratio is falling. Its private debt-to-GDP ratio is falling. It doesn’t have to introduce any austerity, default, or hyperinflation measure. The problem is it is in a single currency zone with countries that do have a high debt problem.

What policy brings down the debt of everybody else? Repression would mean negative interest rates. You have to go to the people of Germany and say: You have to have negative real interest rates of 3% to 4% on all your savings for a few decades.

How would it be politically possible for the people of Germany to accept negative real interest rates for two to three decades in a significant way? When you are in a single currency zone, and have arbitrage on the free movement of capital, you can’t have Portugal giving you debt yields of minus 4 and Germany giving you real yields of plus 2 or 3.

The debt numbers tell you that the Euro can’t survive. The fundamental error was looking at the Euro as a financial economic being when it is actually a political being. If it fails, it fails politically. There are now huge pressures building up for the political failure of the Euro: There is a counter-revolution by the Poles, Hungarians, Czechs, and Slovaks. They are saying: Too much sovereign power has been passed to Brussels, and we want to bring it back.

The success of a single currency requires a greater fiscal federal system. But there are four countries that are refusing this – Poland, Hungary, Czech, and Slovakia.

Where to Invest

Charts 1 and 2 show that over the past 16 to 17 years, the total debt-to-GDP ratio of advanced economies was as high as 260%, while that of emerging economies was 180%. The conclusion is that governments in the developed world do not necessarily have to repress.

Emerging markets with low debt-to-GDP ratios need not follow low interest rate policies, and the key to preserving wealth is to invest where such policies are not necessary.

Repressive policies are bad for investors in bonds and equities. Repression is effectively stagflation -- pushing inflation up and holding real growth down through inefficient allocation of capital.

When selecting equity in financially repressive regimes, you want to buy assets that benefit from inflation. If you invest in a long duration asset such as a petrochemical plant or railroad, then your cost of investment doesn’t go up much, but the revenues do. This is because inflation means revenue growth is strong. On the other hand, cost is relatively low because most of the cost is depreciation on assets. Unless the accounting rules are changed, profitability reports for such assets will do very well.

Emerging markets

I would avoid investing in emerging markets with high foreign currency debt. The worst emerging markets are in the Euro area, which has total debt-to-GDP ratio of about 270%.

The difference between a developed market and an emerging market is: A developed market gets to borrow in its own currency. Even foreigners are prepared to lend that country money in their own currency. The UK has a current account deficit of about 6% of GDP and foreigners are willing to lend it money in its own currency. That hasn’t been true for countries like Argentina. That means their foreign currency debt balloons when they devalue.

A fantastic looking balance sheet of an emerging market can suddenly become one of the world’s worst balance sheet. When looking at emerging markets, we also need to examine their foreign currency debt. You can’t inflate away foreign currency debt. You can’t repress foreign currency debt.

China’s total debt-to-GDP ratio is as high as America’s. China would be in no worse position than other countries where indebtedness is concerned, if it didn’t have its exchange rate policy. You can’t inflate away your debt and have a stable exchange rate at the same time. Without its exchange rate pegged to the USD, it would be just as successful as other nations in inflating away its debt.

China does not need to introduce financial repression because it has had such policies for 17 years. All the tools for repression are already in place in China. For most of that period, its inflation has been above its deposit rate. China’s exchange rate is declining, but not enough to generate sufficient nominal GDP growth.
The World Bank came up with a model in 1994 to help policymakers formulate retirement income systems. Its idealised system had 3 pillars, as follows:

**Pillar 1: Universal access, pay-go funding**
The first pillar seeks to alleviate old age poverty. It does not require contributions and guarantees a minimum income in old age. Public pay-as-you-go plans are typically defined benefit plans where the pension benefit is an indirect function of the individual’s earnings history, with provisions for generational and intergenerational redistribution of wealth. It is a method of financing current outlays on pension benefits out of current revenues from an earmarked tax, often a payroll tax.

**Pillar 2: Employment-based, pre-funded**
The second pillar is a mandatory savings plan that is paid only to contributors. It is fully funded and links benefits actuarially to costs.

**Pillar 3: Individual-based, tax-deferred savings**
The third pillar is a voluntary occupational or personal savings plan to provide additional protection for people who want more income in their old age.

“An ideal system is funded out of general tax revenues and is universally accessible by everybody. Secondly, it is a workplace-based, employment-based pension system. Ideally, they are pre-funded,” said Dr Ambachtsheer.

George Akerlof, who won the Nobel Prize in Economics for his analysis on markets where sellers have more information than buyers, concluded that informational asymmetry can give rise to adverse selection on markets. Such a market structure leads to buyers paying too much for too little and sellers being paid too much relative to the economic value of the service they provide.

“Akerlof’s theory tells us we should try to make Pillar 3 as small as possible when designing the way retirement assets are accumulated,” he said.

This is because markets for investment management services are asymmetrical. Most sellers know more about what they are selling than most buyers know about what they are buying. Sellers take advantage of this situation by
not competing on price, but on less tangible factors as such hope, quality, and building strong distribution channels.

Ask tough questions

The people providing oversight to pension organizations need to ask the tough questions that deal with the challenges arising from changes in demographics, retirement income systems, as well as the way that retirement savings are accumulated.

Some of these questions may be:

“How to balance the needs of today’s pensioners with those of young workers, whose retirement years lie 30 or 40 years ahead of them?

“How to ensure that pension funds are put into sustainable investments that generate returns that are adequate to support its beneficiaries 20 to 40 years from now?

“Do we need to change the retirement age of 65, now that the demographics and longevity of people have changed?

“Does everyone get to participate in the pension system, or should it only be available to middle and lower income people?

“Who is going to be in control of retirement savings three to four decades later? The government? The private sector? The financial services industry?

“What kind of institutions do we need to build in order to effectively take care of retirement incomes?

“How will the assets be actually invested?

“We should think about providing an integrated solution, rather than deal with each question one at a time,” he said.

Case study: Ontario Teachers’ Pension Plan

In the 1980s, when the Ontario government decided it wanted a public sector pension plan, Dr Ambachtsheer was invited to see how effective they were and how to make the plan more effective.

“The value-for-money metrics generated by the Ontario Teachers’ Pension Plan (OTPP) on both investment returns and inflation adjusted returns have been unparalleled in the world over the past 25 years.

“The OTPP was explicitly designed with the five Peter Drucker success drivers in mind. In a nutshell, the following elements are critical for building a high-performance pension investing organization:

1. Alignment of interests between pension plan participants and the organizations providing investment services
2. Good governance
3. Right scale
4. Competitive compensation for the right people
5. Sensible investment beliefs

“When OTPP was formed, it thought very hard about clarity and purpose. It thought very hard about how to create a 9 person board, with four members who were teachers, four...
members from the government, and an independent chairman that together had the collective set of skills and experience to provide effective oversight.

“Effective pension organizations need to have strong governance and access to the necessary resources.

“Boards for pensions need to be elected in a way that a broad spectrum of the community is represented. Resource constraint comes in a number of ways. One is that many pension organizations are too small to be effective. They don’t have the scale to put together the requisite resources in order to get the job done. Such pensions find themselves in a position of needing to outsource functions to more and more agents.

“Pension organisations with sufficient scale should bring functions in-house, including skillsets that operate in high-paying markets. Someone from Goldman Sachs or Blackrock may cost $2 million even after taking a pay cut to join your pension organization. However, outsourcing the function that this executive could have been performed may cost ten times more.

“I co-founded the CEM Benchmarking Inc, which has been measuring the cost-effectiveness of pension organizations since 1991. How do you create a comparable for a value-for-money metric related to investment? You need a passive and investible reference portfolio that represents the goals in your investment policy and your risk tolerance.

“CEM Benchmarking found that over a ten-year period from 2004 to 2013, average excess return created by 125 pension / super organizations was 10 basis points per annum (range -170 basis points to 150 basis points per annum). This happens to be a statistically significant performance. The question is: What are the performance drivers?

“Average annual cost was 50 basis points of assets (range 10 basis points to 140 basis points), including internal, external, as well as governance costs. If the pension organization was large and passive, it still needed to spend money, but the cost could then be as low as 10 basis points. There are some other funds that spend as much as 140 basis points a year.

“On the other hand, we found the average excess return created for retail mutual funds for 500,000 investors with investment advisors was -300 to -400 basis points per year relative to the index.

“So, whether you are a 10 basis point cost investor or a 140 basis point cost investor depends on your investment policy, your implementation policy, and scale,” he said.

Keith Ambachtsheer is one of the globe’s most original thinkers on pension design, governance, and investing issues. In 1985, he founded KPA Advisory Services, a well-known consultancy for pension systems. In 1991, he founded CEM Benchmarking Inc., a leading benchmarking organization in the global pensions and investments industry.

Dr Ambachtsheer has received many honours over the course of his professional career, including being named one of the 30 Most Influential People in Pensions by Pensions & Investments, and one of the 10 Most Influential Academics in Institutional Investing by aiCIO.

He is Adjunct Professor and founding Director at the International Centre for Pension Management based at the Rotman School of Management, University of Toronto; as well as Founding Editor of the Rotman International Journal of Pension Management; Founding Academic Director, Rotman-ICPM Board Effectiveness Program for Pension and Other Long-Horizon Investment Institutions.

His 4th book, The Future of Pension Management, offers a progress report from the field, referencing case studies from around the world.
Q: Can you comment on Australia’s superannuation model for its retirement income system?

Australia’s model is referenced to Pillar 1. What’s interesting about Pillar 1 is that it is wealth-tested. It has quite a strict product rule: If you start getting money from other sources, you lose your Pillar 1 pension. In 1991, they made participation in Pillar 2 compulsory. So now there are significant balances in its superannuation assets. The entire workforce has it because it is compulsory.

The issue is not they do not have enough money. The issue is with the accumulation part: How to make sure the money that you have accumulated will last for a lifetime?

As at 30 June 2015, Australians had over A$2.02 trillion in superannuation assets, even more than its GDP of A$1.62 trillion as of 2015. There are about 500 superannuation funds operating in Australia. The challenge is some of the funds are too small, and some of them have good governance but some do not.

Q: What happens if a pension plan fails and runs out of funds to pay its beneficiaries?

Pension systems are set up so that they do not fail. They are backed by an asset pool that is really there. It an asset pool that is set up to generate on the average enough current money to meet the return guaranteed to its beneficiaries.

In Detroit’s pension crisis, the fund declared insolvency because it couldn’t pay the cost of its retirement benefits. It had to go through a complicated court process which cost a lot of money. After the court process was over, the remaining assets were split. The retirees eventually got about 60 cents on the dollar. There is a regulatory process to prevent such insolvencies.

Q: Please comment on the differences between the Norwegian and Canadian pension systems.

In the 1990s, I was involved in the setting up of the Norwegian Government Pension Fund. They set it up to be very transparent as to what the rules were. They wanted to be seen so that if all else fails the Parliament would still be in control of the money. They chose to go passive so that they could explain to the people how the money was being managed.

At the same time, the Canada Pension Plan Investment Board (CPPIB) was created. CPPIB started out the same way but it eventually turned into a Drucker type organization. Now we have two very different models running side by side. The Drucker model has been generating an additional 100 to 200 basis points per year.
Stewardship Principles

What is stewardship and what are stewardship codes

Stewardship codes are a response to the debate on short-termism in the market, and to criticism of shareholders as absentee landlords.

Since the global financial crisis, there has been increased emphasis that investors – particularly institutional ones – should take on more active roles and responsibilities and serve as “stewards” of the companies in which they invest, in the interest of the ultimate beneficiaries.

Proponents of stewardship believe that engaged investors contribute to good corporate governance and in due course, long-term economic success. This is a view that has become gradually accepted and adopted in markets around the world.

Discussions on stewardship typically suggest that investors should seek to constructively challenge companies on strategy and execution, to retain a focus on the long-term well-being of the company, and to engage with companies to “protect and enhance the value that accrues to the ultimate beneficiary”, as the UK Stewardship Code stresses. They do not suggest that shareholders should become ‘micro managers’, intervening in the day-to-day running of the business. This is, and remains, firmly the role of management.

In practical terms, stewardship codes generally focus on a number of high-level principles designed to foster greater and more constructive dialogue between investors and management. Commonly, codes require investors to have a disclosed policy on stewardship, to monitor and engage with portfolio companies, to vote shares held in a company (and not to simply support management as a matter of course), and to make public record of both their voting activities and their stewardship activities more broadly. Many codes cover the issue of conflicts of interest. Some codes suggest collective engagement, i.e. working collectively with other shareholders, as appropriate.

Global context

The UK launched the such document in 2010, published by the UK’s Financial Reporting Council (FRC), with the document being updated in 2012. Similar to the UK Corporate Governance Code, the UK Stewardship Code is designed to be implemented on a ‘comply or explain’
basis, with signatories making statements as to how and the extent to which they have implemented the principles that underpin the Code. The Code recognises that the principles may not be appropriate for all investors. Here, the Code suggests that those investors that choose not to comply with one or more of the principles should “deliver meaningful explanations that enable the reader to understand their approach to stewardship”.

This notion of stewardship, and of the centrality of investors in acting in and safeguarding the long term interests of the companies in which they invest, has gained traction in the years since the UK Code was published. This traction comes both in terms of the depth of support for stewardship, with asset owners, investment consultants, and other advisers, increasingly focussing on an investors’ stewardship activities during an RFP process, and in terms of the breadth of support for stewardship, with a number of countries and territories launching similar codes. Indeed, in the years since the launch of the UK Stewardship Code, Japan, Malaysia, Taiwan, and Hong Kong have all published similar documents in Asia Pacific.

**Singapore developments / role of CFA**

Consistent with these developments, Singapore has this week released its own set of principles, known as the “Singapore Stewardship Principles (SSP) for Responsible Investors”. The SSP, as with other markets, are designed to counter increasing pressures of short-termism and to encourage responsible investor behaviour.

The SSP are unique in that the drafting of, and work behind, the document was industry-led. The development of similar codes in other markets have been driven or assumed wholly by the local regulators.

In the Singapore case, multiple stakeholders, including CFA Singapore, came together as part of the Stewardship Principles Working Group to craft a document that sought to articulate the core actions associated with investor stewardship. Representatives from the director community, the accounting community, the real estate community, as well as the investor community, worked collaboratively to develop a document that builds on Singapore’s strong foundations of corporate governance. The SSP were developed with the support and aid of the Monetary Authority of Singapore (MAS) and the Singapore Exchange (SGX).

In a recent study conducted by the Asian Corporate Governance Association (ACGA), Singapore scored the highest for corporate governance, compared to other markets in Asia Pacific. The SSP seek to ensure that this reputation for strong corporate governance continues, driven by active, informed, and engaged shareholders.

Jan Richards, President of CFA Singapore, said: “The CFA community is convinced that good stewardship should be an essential component of a fair and efficient market, as it would improve governance – and performance – of investee companies, ultimately increasing overall confidence in the business. We are heartened to see that markets around the world are starting to embrace this. Since the UK first introduced a set of stewardship principles in 2010, markets in Asia have progressively taken similar actions starting with Japan followed by Malaysia, Hong Kong, and most recently Taiwan. It is timely that Singapore, a leading financial centre and investment hub, is now launching the SSP. These principles should pave the way to bring about a change in culture toward stewardship.”

**What next**

The SSP, like those elsewhere, is to be implemented on a ‘comply-or-explain’ basis, with adoption of the SSP wholly voluntary. At launch, 38 fund managers and investment organisations have expressed support for the SSP and, if experience elsewhere is a guide, more may follow suit. CFA Singapore will continue to support the SSP.

For more on the SSP, please visit [http://www.stewardshipasia.com.sg/](http://www.stewardshipasia.com.sg/). The site contains information on the SSP, including a series of FAQs about the SSP. If members wish to learn more about the SSP, please email CFA Singapore at [Advocacy@cfasingapore.org](mailto:Advocacy@cfasingapore.org).
Quite a number of jobs previously undertaken by humans are being replaced by machines. For example, many things are being replaced by technology such as sensors.

What is MAS doing about it?

In 2014, Prime Minister Lee Hsien Loong talked about a smart nation. That is when the Monetary Authority of Singapore started thinking about a smart financial centre for a smart nation. A smart financial centre is one where innovation is pervasive and technology is used to do 4 things: increase efficiency in the financial services sector, create new opportunities for our banks and citizens, better manage risk, and improve lives.

Fintech is about using technology to make things easier and more efficient.

Cross-industry technology

Right now, all vehicles on Singapore roads have ERP readers installed. The next generation of ERP that LTA will roll out from 2020 is equipped with GPS capabilities. At any point in time, the ERP sensor is able to track data on the length of time and distance that the vehicle has been driven, the vehicle speed, and destination. With the help of technology, the financial services sector can offer a wider range of products and services such as insurance plans with premiums determined by vehicle mileage.

Application Programming Interfaces

Under its Smart Financial Centre Initiative, MAS is pushing hard in the area of Application Programming Interfaces (API) — protocol that specifies how one application interacts with another. APIs will enable financial institutions to integrate their systems internally and pave the way for seamless interaction with third parties for the development of better products. In the past, companies used huge programmes burdened with lengthy time-to-market whenever

The keynote speaker for the fintech symposium was Roy Teo, Head of Technology Innovation Lab, Fintech & Innovation Group at the Monetary Authority of Singapore. Here is an excerpt of Mr Teo’s presentation.

At a fintech symposium jointly organized by CFA Singapore’s Career Development Committee and Financial Women’s Association Singapore on 6 October 2016, founders of fintech companies and senior professionals from the traditional banking industry discussed the impact that technology has on careers in the banking and investment management industry.

Panelists:

1. Tanmai Sharma, founder of Mesitis, a fintech company serving the private wealth industry
2. Frank Troise, founder of Leonteq Securities, a platform for the development, issuance, hedging, and settlement of structured investment products
3. Raghav Kapoor, CFA, founder of Smartkarma
4. Janet Young, Head Group Channels and Digitalization at UOB
5. Maggie Yung, Head of Digital Banking at Citibank

Gary Lai, managing director at Charterhouse, was the event moderator.
programming code is tweaked. If banks adopt API, time to market would be significantly reduced because API is based on plug-and-play architecture.

One objective of our smart financial centre is the creation of opportunities. It may be difficult for Singapore to birth a multinational tech company as large as Singtel. But a small homegrown tech company that plugs itself into the financial services sector is no longer a dream. When Singapore’s financial services sector had its first API conference in March 2016, most banks still did not have an open API architecture, or even API architecture that is connected the outside world. The local banks have made significance progress in this area since then.

Such technological developments are changing the job roles and skillsets required in the market place. If Singaporeans do not continually upgrade their skills, the local finance industry may lose as much as 18% of its jobs to robotic-devices or technology. The SkillsFuture Initiative is a big area that the government is working on to encourage the workforce to reskill itself.

Panel Discussion

The Boston Consulting Group predicts that Asia-Pacific (excluding Japan) will replace Western Europe as the second-wealthiest region after North America. Asia-Pacific is expected to hold 26% of global financial wealth in 2019. Given Asia’s high Internet penetration growth, robo-advisors have the potential to be a hit in the region. What are robo-advisors? Will they replace human financial advisors?

Tanmai Sharma: At Mesitis, we aggregate financial information for high net worth individuals across all their bank accounts. We tell you how much money you make, what investment strategy works and what doesn’t. Our platform currently aggregates about $1.5 billion in assets. We also have a platform that provides a bionic investment advisor for high net worth individuals.

Our clients are of a diversified investor profile and with an average net worth of $45 million. They have the best access to financial advice that money can buy. Yet, our data shows that our robo algorithm is able to outperform 90% of their human financial advisors.

It is unlikely that retail investors are in a better position than our high net worth clients. The numbers clearly and consistently show that robos outperform humans by a very fat margin.

Mr Teo is the head of the Technology Innovation Lab at MAS. He leads the team that scans the horizon for cutting-edge technologies with potential application to the financial industry and works with the industry and relevant parties to test-bed innovative new solutions. The team’s efforts were focused on developing platforms, capabilities, tools and innovative solutions to grow Singapore’s financial sector and to foster a conducive environment for innovation to flourish.

Prior to this, he was the head of Technology Risk Supervision Division. Having been a regulator, an IT auditor and an IT specialist, Roy has acquired more than 17 years of extensive experience in technology risk management, technology audit and IT implementations in multiple regions/countries. He graduated from NUS with a Bachelor of Science in Information Systems and Computer Science. Roy is also a Certified Information Systems Auditor (CISA) and a Certified Information Systems Security Professional (CISSP).
What is the basis of your calculation that led to the conclusion that robo algorithms outperform humans 90% of the time?

Tanmai Sharma: Our clients give us access to all their bank statements. We use a data feed system to help us analyse the performance of every transaction they made. I understand the system quite well because I used to be an exotics trader with Deutsche Bank.

Frank Troise: Benchmarking performance to a peer group is one metric. Before the crash of 2007 to 2008, everyone filled out a questionnaire and said: I can deal with a 15% loss in my portfolio. When it occurred, we didn’t like it.

There are two behavioural anomalies to consider:

- **Can I look at my performance objectively?** The answer is no.
- **Am I self-selecting my risk profile through my inefficient behaviour as I derisk the portfolio?** One of the anomalies seen in robo advisory is: People’s investment decisions do not represent the inherent benchmark that they want to achieve that is identified in the Know Your Customer (KYC) process. The KYC process identifies an individual’s risk profile and the benchmark that he should be choosing. It analyses the return that he needs and what he should use as a benchmark if that is his targeted return.

As we move forward, I expect to see more qualitative factors being incorporated into benchmarking and performance.

Tanmai Sharma: One analysis that Mesitis does is benchmarking to peers. We do not reveal the identities of those in the peer group and the assets they invested in. People get very excited with that service because you usually don’t know the investment returns achieved by your peer group. The service provides a framework for people to assess whether they are doing well.

Our robo algorithm simulates a diversified portfolio allocation. We are the most efficient way of getting market beta because we outperform every other human advisor simply by cost alone. We charge 30 basis points. Banks like UBS charge 2.5%. In a low-yield world where investment returns can be as low as 2% to 3%, investing becomes a yield preservation exercise.

Frank Troise: Who is the fiduciary with robo advisors? Are robos advisors or are they disciplined mechanical tools to bankruptcy? What does a 65-year old pensioner do on a robo advisor?
It is not possible to get an 8% return on portfolio investment with a 35% allocation in equities. The other assumption is that somewhere on the yield curve are assets with returns that range from 3% to 5%. In order to get returns that range from 3% to 5%, you have to invest in high yield debt in emerging markets. That’s what the robo model is going to recommend.

At the end of the day, who is liable for the core assumptions used in the robo algorithm?

Tanmai Sharmai: Our model is bionic. It is not a DIY model. There is an advisor which guides our client through the investing process.

In 1995, if your return target was 8%, you can buy bonds and you can hit 8%. In 2005, if your target was 8%, you had to invest with a small equity allocation and you will still hit 8%. In 2015, if your target was 8%, you need equity, real estate, hedge fund, private equity, bonds, and some leverage, and maybe you will hit 8%.

In a low-return world where alpha is a zero sum game, a robo portfolio is simply an efficient way of getting cheap beta. We are seeing active fund managers actively losing money.

Our data has given us an interesting insight — there is a premium for illiquidity. None of the investors on our platform outperformed the equity benchmarks. But some investors on our platform outperformed fixed income benchmarks beautifully. Without using leverage, the best performing fixed income investor on our platform had a mind-boggling return of 26% since January 2015. Fixed income is relatively illiquid compared to equity. Investors who understand an asset class like private equity that is even less liquid shoot the lights out year after year.

There is alpha to be made, but first you must get your asset allocation right.

Raghav Kapoor: One of Alipay’s early endeavours in financial services was to collaborate with a market fund in China and distribute it through a mobile app. That led to an unprecedented amount of monies for asset management quickly going into the money market fund. At one stage, the fund’s subscription value was as high as RMB 3 million per minute.

Money market funds are regarded as the ‘dumbest’ investment products but in the case of Alipay, Yu’ebao grew to a colossal scale because of the distribution network that it was able to tap into.

Some venture capitalists travelled to China to find out why Alipay’s money market fund strategy was so successful even though it was new and not as well established as what
Ms Young currently sits on the Boards of IDA, Accuron Technologies, InnoVen (a venture debt JV between Temasek and UOB), FinLab (fintech accelerator JV between UOB and Infocomm Investment).

She is also in the following committees:

- Growth Committee of Spring Singapore, SAP
- APJ Business Advisory Council, IDA and Spring Singapore
- Committee of Future Economy (sub-committee for Future Corporate Capability & Innovation - SMEs)
- Nanyang Business School MBA Advisory Council.

Janet Young: Relationship managers cannot beat smart algorithm in technical aspects but the advisory part is still needed. Traditional high net worth customers still want to sit down with a human.

If you compare the management of financial wealth with the management of physical health, robo advisors can be compared with your annual health screen. If someone takes your blood pressure and cholesterol level, and tells you which levels are excessive, you will know what to work toward.

Likewise in wealth management, the moment someone sets you a benchmark, you will know how to correct your behaviour. However, if you truly want to be very healthy, or if you want to be cured of a disease, would an annual health screen suffice?

When we speak with our high net worth clients, they tell us that they dabble in new technology for investing because they want to know what it is all about. But they still want to sit down with someone to understand, does this actually work? They ask: Is this investment portfolio for the ETF right? Is this the only channel of distribution?

The wealth management career is no longer about how to construct the client’s portfolio. It is no longer about which stock to invest in. You should be looking at how you can advise the client with the bigger picture of his total wealth in mind (if you are dealing with ultra high net worth clients).

That discussion is still critical, and can involve how the client’s personal investing synergizes with his business. The
Maggie is currently leading the Digital Product & Channel Development for Citi’s APAC & EMEA region. She has more than 15 years’ experience in driving digital business, mobile innovation, branding and marketing.

Her track record includes the development of Internet banking in 1999, the launch of the first iPhone mobile banking in 2008, introduction of the Transit Branch in Hong Kong in 2009, piloting the NFC mobile wallet with Hutchison Telecom, and product development of Citi Apple Watch App in 2015. Recently, she brought 15 markets live with Citi Mobile.

Prior to joining Citibank, Maggie was Head of Marketing in Zurich Insurance Group Hong Kong. Before that role, she held senior positions in various companies including American Express International, DDB Needham, and Standard Chartered Bank.

discussion could range from buying wineries for real estate investments to putting money into Elon Musk’s SpaceX. It is along these lines of construct that wealth management outfits should gravitate toward.

**Maggie Yung:** We still will want to talk to humans because we are humans. I can use Facetime and video conferencing facilities to talk to my clients. As humans, clients want confirmation and recognition. As a consumer banker, I can see people still want to talk to their relationship manager to make a decision. Our role is to design products that customers like and experiences that people remember.

Traditional banking, especially retail banking, is about distributing a product and that is low value add. The banker’s role can evolve into that of a value aggregator and we can also provide advice.

Rather than limit ourselves to banking services, we need to go into the customer’s ecosystem. This can range from the customer’s travel schedule, dining preferences, to loyalty points — anything that is part of the customer’s lifestyle. Bankers need to think about customer profiles and what customers want. We go to the customer and talk about KYC. We need to go where customers go instead of thinking of ourselves as a product distributor.

*We have established that investment decision making will be replaced with robo advisory. We see blockchain replacing many back office functions and crowdfunding replacing the lending business. How do you see banking development over the next 10 to 20 years?*

**Frank Troise:** Banks right now have to make the decision about what they ultimately want to be. In the US, we are looking at ourselves as verticals. Wells Fargo, despite its credit card debacle, is comparing itself to your institution and to everybody else as a vertical.

Going back to what Raghav said about what’s happening in China, the US is just coming to appreciate the whole concept of a platform.

Banks right now really only have two core functions in society: They hold stuff, such as providing custody for our securities certificates. Second, they extend credit.

From a regulatory and societal standpoint, people are saying: *What’s the value that you contribute and at what risk to society? Look at what’s happening to Deutsche Bank right now.*

Regarding the career opportunity in fintech, no one talks about fintech in the context of making money. Fintech is about cost savings.
Bank CEOs are trying to optimize the spokes on the wheel of the bank’s business segments. They ask: Do I give away free trading, acquire high net worth investor, or non-accredited investors as clients? What is my core business as an institution that makes money?

The role played by bankers is becoming increasingly regulatory and compliance focused.

FinTech, to me, is nothing more than the arbitrage that occurred back in 2007 and 2008 when all the big institutions had their faces peeled off. They said: I’ve got to get my balance sheet and all these other things fixed. And that created a vacuum. The only thing that changed is regulators now allow you to do it.

The incumbents in the banking industry are beginning to realize that the only way to survive the fintech disruption is to go into the spokes of the wheel such as embracing the start-ups and the knowledge that they are incubating.

Frank Troise is responsible for all of Leonteq Securities’ digital distribution and communications in Asia.

He has over twenty years of experience managing multi-billion dollar portfolios for corporations, endowments, foundations, and high net worth individuals.

CFA Singapore Golf Challenge 2016

Golf Challenge @ Orchid Country Club (7 Oct 2016)

Networking

Millennial Entrepreneurs Networking Drinks (14 Nov 2016)
L-R: Seow Hock Hin, CFA | Clyde Lee | Francis Er | Koh Boon Pin, CFA

Lucky draw winner with Seow Hock Hin, CFA (centre) and Jan Richards, CFA (right)
CFA Singapore Investment Conference @ SGX Auditorium

Future Trends within Wealth Management
L-R: Lim Say Boon, Moderator | Lynn Gaspers, Senior Vice President, Head of Intermediaries & Retail Clients, SGX | Torsten Linke, Head Private Banking South East Asia and Branch Manager Singapore, Julius Baer | Ernest Leung, CEO BNP Paribas Wealth Management, Singapore | Ranjit Khanna, Chief Executive, Singapore & Head of Private Banking South Asia, UBP

Making Multi-Asset Investing Work
L-R: Aaron Low, CFA, moderator | Pranay Gupta, CFA, Head of Multi-Asset Strategies at Fullerton Fund Management | Freddy Lim, Founder and Managing Director of Global Metrics Pte Ltd & former Global Head of Derivatives, Nomura | Kunal Ghosh, Portfolio Manager and Director with Allianz Global Investors

Trends in Asian Private Equity
L-R: Gary Ng, CFA, moderator | Charles Koegler, CFA, Investment Director, Cambridge Associates Singapore | Sanjay Gujral, Regional Managing Director of L Catterton Asia | Alex Lee Sze Wei, CFA, Partner, Axiom Asia Private Capital | Dr. Jeffrey Chi, CFA, Managing Director, Vickers Venture Partners
Intellectual Property - Business Strategy and Monetization (24 Nov 2016)

L-R: Irene Cheong, Director, NUS Enterprise | Trina Ho, Director, Legal Department, Intellectual Property Office of Singapore | Pearlyn Chiang, moderator | Gerald Koh, Partner, VLP LLP, Singapore | Kwok Lih, Advisor - Mediatek and Venture Partner - Silicon Solution Partners

Roadmap to ESG Integration for Investors (16 Nov 2016)

Arisa Kishigami, Head of ESG, Asia Pacific at the global index provider, FTSE Russell (right) with Kanol Pal, CFA


L-R: Simon Ng, CFA, CFA Singapore Board Member | Sandra Chow, Senior Asian High Yield Analyst, CreditSights | Brian Gibbons, CFA, Global Head of Oil & Gas Credit Research, CreditSights | David Watts, Head of European and Asian Research, CreditSights

The Rise of Populism (24 Oct 2016)

Raj Mangal, CFA, Managing Director, Portfolio and Risk Analytics for Asia Pacific, MSCI (right) with Victor Ong, CFA

University Outreach

Cordlife CEO, Dr Wong Chiang Yin (centre), presented to the the CFA Institute Research Challenge participants. (2 Dec 2016)

Sheng Siong CEO / Executive Director Lim Hock Chee (rightmost) conducted a tour of the Group's facilities for the CFA Institute Research Challenge participants (5 Dec 2016).
CFA SINGAPORE

CHARTER AWARDS 2016

(22 Nov)

Society President Jan Richards, CFA at the CFA Singapore Charter Awards Ceremony

Keynote speaker Nick Pollard, Managing Director, Asia Pacific, CFA Institute

CFA Singapore Advisory Council member George Lee, CFA (left), presents certificate to new CFA charterholder.

Society President Jan Richards, CFA (left), presents certificate to new CFA charterholder.

Presentation by Adrian Chong, Principal Consultant, EREVNA Leadership

L-R: Dr Chen Peng, CFA | Nick Pollard | Jan Richards, CFA | George Lee, CFA | Tan Lay Hoon, CFA | Joachim Toh, CFA
### Executive education programmes

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Speaker(s)</th>
<th>Subsidy</th>
<th>CE hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>March</td>
<td>6 &amp; 7 Business Finance Mandarin (Intermediate)</td>
<td>Henry Wang Xin Bin</td>
<td></td>
<td>7</td>
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<tr>
<td></td>
<td>22 Advanced Financial Modelling Series - core series</td>
<td>Hamilton Lin, CFA</td>
<td>yes</td>
<td>7</td>
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<td></td>
<td>23 Segment Build-up and Sensitivity Modelling</td>
<td>Hamilton Lin, CFA</td>
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<tr>
<td></td>
<td>24 LBO Modeling and Debt Sweep Enhancement</td>
<td>Hamilton Lin, CFA</td>
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<td></td>
<td>30 &amp; 31 Masterclass : Excellence in Mergers &amp; Acquisitions</td>
<td>Arvind Mathur, CFA</td>
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<tr>
<td>April</td>
<td>3 &amp; 4 Asia Real Estate Investment &amp; Finance Workshop</td>
<td>Roy Ling, CFA</td>
<td>yes</td>
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<tr>
<td>May</td>
<td>11 &amp; 12 Strategic Valuation &amp; Advanced Finance Masterclass</td>
<td>Joel Litman</td>
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<td></td>
<td>15 &amp; 17 Equity Investing Workshop : Top Down Equity Investing</td>
<td>Tariq Dennison</td>
<td>yes</td>
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<td></td>
<td>18 &amp; 20 Equity Investing Workshop : Bottom up Equity Investing</td>
<td>Tariq Dennison</td>
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<td>August</td>
<td>3 &amp; 4 Masterclass : Excellence in Private Equity &amp; Deal Structuring</td>
<td>Arvind Mathur, CFA</td>
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<td>25 Business Valuation Workshop</td>
<td>Ong Woon Pheng</td>
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<td>September</td>
<td>20 Module 1 - Fundamentals of bonds</td>
<td>Tariq Dennison</td>
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<td>21 Module 2 - Fixed Income Portfolio Construction and Rebalancing</td>
<td>Tariq Dennison</td>
<td>yes</td>
<td>7</td>
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<tr>
<td></td>
<td>22 Module 3 - Credit Risk, options Yield Enhancement</td>
<td>Tariq Dennison</td>
<td>yes</td>
<td>7</td>
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</tbody>
</table>

* Eligible for SkillsFuture credit

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The CFA Singapore Quarterly features the latest in thought leadership, best practices, and investor education activities of investment professionals in Singapore. Written by a financial journalist for veterans as well as those aspiring to greater heights as an investment professional, this quarterly newsletter commissioned by CFA Singapore is produced by NextInsight (www.nextinsight.net) and circulated to about 10,000 CFA charterholders and program candidates. Email or call Sim Kih (simkih@nextinsight.net) at 6438-2990 for feedback and inquiries.