CHALLENGES, FRAGILITIES AND OPPORTUNITIES

In a very short space of time, Asia has become the growth hub of the world economy, while the Middle East remains a major capital generator. Yet problems abound elsewhere, posing unique challenges for government investors from these regions. A major lesson of the financial markets shock is that the capacity of governments and policymakers to intervene effectively in markets is waning, with the result that fiscal and monetary imbalances have actually deteriorated in the last three years. Meantime, sovereign debt crises and recession fears in the West have severely impacted stock and bond markets. At the roundtable, delegates will explore whether the current environment is predominantly one of challenge or of opportunity. They will test the proposition that investors are better prepared this time around, and that strengthened governance, new forms of collaboration and the ability to take longer term risks will be sufficient to achieve required performance targets.

Advisory Board

Chia Tai Tee, Chief Risk Officer, Government of Singapore Investment Corporation

Ludwig He, Managing Director, Head of Private Equity Investment Department, China Investment Corporation

Asad Qureshi, Executive Director, Markets and Reserve Management, State Bank of Pakistan

Adriaan Ryder, Managing Director, Strategy, Queensland Investment Corporation

Chiu Shean-bii, Chairman, Pension Fund Association of Taiwan

David Iverson, Head of Portfolio Design, New Zealand Superannuation Fund

Lao Tzu Ming, Chief Risk Officer, Temasek Holdings

Donghyun Park, Principal Economist, Asian Development Bank

Scott Kalb, Chief Investment Officer, Korea Investment Corporation

Ashby Monk, Research Director, Stanford University

Mohamed Ahmed Maait, Deputy Minister of Finance, Ministry of Finance, Egypt
While the economic surge in emerging Asia – along with other emerging markets – has been impressive, challenges and fragilities remain which will be of great importance to the performance of official sector portfolios. The nature of the Chinese slowdown is critical to the global economic outlook. The internationalisation of the renminbi is becoming a priority for the stability of the international financial system. Japan, still central to Asia’s fortunes, is beset by post-earthquake rebuilding imperatives and an appreciating currency. Even without a further round of quantitative easing from the U.S., the inflationary outlook for this region is concerning. Our panellists will discuss current economic conditions and the implications for government funds.
10:20 - Panel Discussion:
11:15  NEW APPROACHES TO DIVERSIFICATION FOR GOVERNMENT FUNDS

Speakers:
Stephen Glover (Moderator)  Adrian Orr
Executive Director Chief Executive Officer
Institutional Investor Memberships New Zealand Superannuation Fund
London Auckland

Andrew Rozanov Adriaan Ryder
Head of Sovereign Advisory Managing Director, Strategy
Permal Investment Management Queensland Investment Corporation
London Brisbane

The practice of asset allocation has dramatically evolved at many government funds in the past five years. For example, an audience poll at the last Roundtable told us that 83 percent of government funds had changed their views on diversification. For the most conservative investors, efficient diversification is becoming ever more difficult, as the low yield environment persists, “risk-free” becomes increasingly meaningless and the trade-offs between safety and return intensify. At the more sophisticated government funds, investment professionals are innovating. Whether we are talking about risk factors, alternative indexation, absolute return or “dynamic” asset allocation, the conversation has changed. Expert panellists will discuss the innovations taking place within their institutions and highlight the expected effect on long-term investment performance.

11:15 -
11:45  COFFEE BREAK

11:45 - Panel Discussion:
12:30  THE SHIFTING SANDS OF SOVEREIGN DEBT

Speakers:
Stephen Glover (Moderator)  Jim McCaughan
Executive Director Chief Executive Officer
Institutional Investor Memberships Principal Global Investors
London New York

Garry Hawker Rajan Govil
Global Director Of Consulting for National Funds Head of Investment Strategy, Asia
Mercer Investment Consulting BSI Bank
Singapore Singapore

Holdings of government debt of major industrialised countries used to be the secure and ‘risk free’ anchor for almost any well diversified institutional investment portfolio, and a sine qua non for central bank reserve funds in particular. Now, in quick succession, the financial world has been rocked by the continuing and seemingly intractable sovereign debt crisis in the Eurozone, and the even more pernicious fiscal crisis in the US. In both cases, the initiatives taken to resolve these crises are unsustainable and have distorted fair asset values. The burning question is this: how can, and should, government funds outside Europe and the US reposition their portfolios to protect themselves against the resulting fallout? And have these crises actually created enhanced return opportunities for the intrepid investor? Has the time now come for the emerging markets? Our expert panel will analyse what these developments really mean for government funds, discuss the practical steps they have taken at their own institutions in response to them, and explore the various scenarios which may unfold.
A pronounced lack of confidence in politicians and policymakers to restore stability to the financial system is the root cause of much of the current market turmoil. This is especially evidenced by the near-gridlock on Capitol Hill in pursuit of agreement to raise the US debt ceiling, and the large divide still prevailing among Europe’s leaders in devising a lasting solution to the sovereign debt crisis. Our speaker, a former policy advisor to the White House and a member of the National Economic Council, is uniquely qualified to examine whether there is sufficient political will among major governments to solve these pressing issues. In doing so, she will provide an insider’s view of the policymaking process and the far reaching implications for government funds.

Delegates will divide into smaller groups to discuss critical asset allocation issues raised in the morning’s sessions with peers. In particular they will consider how they are coping with the ongoing low yield environment and how they are reassessing their approaches to international investing and diversification in light of enormous fiscal stresses in Western economies.

**GROUP A: STATE PENSION FUNDS**

*Lead Discussants:*

Vicente Singson  
*Deputy Director of the Provident Office*  
*Bangko Sentral Ng Pilipinas*  
Manila

- Has risk appetite fallen in response to greater market uncertainty?
- Do institutional investors still consider that providers of capital are adequately rewarded?
- What innovations have been made to asset allocation approaches, and with what result?
- Which new products are investors adopting in the current environment?
- How are pension funds altering their approach to emerging market investments?

**GROUP B: CENTRAL BANKS**

*Discussion Moderator:*

Stephen Glover  
*Executive Director*  
*Institutional Investor Memberships*  
London

- To what extent are central banks turning to gold, emerging market debt or fixed income diversification in the current fragile economic environment?
- How have sovereign bond weightings or currency allocations been altered?
- Are there credible strategies for increasing returns without meaningfully increasing risk?
- Is the “excess reserves” debate over?
- How do you keep down the cost of holding excess reserves (besides establishing a SWF)
**GROUP C: SOVEREIGN WEALTH FUNDS**

*Lead Discussants:*
Ashby Monk  
Adriaan Ryder  
*Adviser on Special Projects*  
*Managing Director, Strategy*  
Alberta Investment Management Corp.  
Queensland Investment Corporation  
Edmonton  
Brisbane

- Are you increasing your allocations to illiquid assets?  
- Which geographies offer the greatest opportunities over the medium term?  
- Have you maintained your holdings of sovereign debt? If so, for which reasons?  
- Are market cap benchmarks still widely used?  
- How are managing your currency exposure?  
- What innovations have been made to asset allocation approaches and methodologies, and with what result?  
- What changes to governance have been needed to respond to the exceptional market conditions and outlook?

15:15 - Panel Discussion:
16:00 **MANAGER SELECTION – NEW HORIZONS FOR STATE INVESTING INSTITUTIONS**

Kathryn Saklatvala *(Moderator)*  
**IIN Sovereign & Asia Pacific Content Director**  
Institutional Investor  
London  

Saleh Al-Awwad  
**Assistant Director General - Investment Department**  
Saudi Arabian Monetary Authority  
Riyadh

Yeszhan Birtanov  
**Deputy Director Treasury Department**  
National Bank of Kazakhstan  
Almaty  

Vicente Singson  
**Deputy Director of the Provident Office**  
Bangko Sentral Ng Pilipinas  
Manila

For institutions seeking to explore new investments, the use of external managers can be critically important. More and more investors are looking for innovation or diversification as the low yield, volatile environment persists. When seeking to enter a new asset class or a new strategy, especially one where the internal staff may have less experience in identifying or monitoring investments, how can asset managers be of value? What forms of strategic partnership can be useful? What factors might affect selection besides performance? How might governance or process need to be adjusted? Here, a range of institutional investors share their experiences with innovation and manager selection.

16:00 - 16:30 **COFFEE BREAK**
GROUP A: HOW THE WORLD HAS CHANGED FOR LOW RISK GOVERNMENT INVESTORS

Lead Discussants:
Gary Smith
Head of Central Banks, Supranationals & Sovereign Wealth Funds
BNP Paribas Investment Partners
London
Asad Qureshi
Executive Director
Markets & Reserves
State Bank of Pakistan
Karachi

Gatut Subadio
Deputy Chairman
Indonesian Pension Fund Association
London

Discussion Topics

- For more conservative investors who cannot take on extra risk or illiquidity, coping with today’s low-yield uncertain environment is particularly challenging.
- What do you consider a risk-free asset, or a proxy for a risk-free asset, these days?
- What are the prospects for a new reserve currency?
- Has the investment horizon changed?
- Are conservative investors moving more assets into emerging markets, especially local currency debt?
- How did the US downgrade affect diversification, if at all?

GROUP B: THE BENEFITS AND RISKS FOR GOVERNMENT FUNDS OF SEEDING MANAGERS

Lead Discussants:
Rikard Lundgren
Chief Investment Officer
IMQubator
Amsterdam
Ken Stemme
Director of Research
Larch Lane Advisors
New York

In the wake of the global financial crisis, government funds are looking for creative and innovative ways to access alternative investment strategies in the most efficient manner. Many funds are unable to bring alternative asset management in-house due to the constraints of being a public investor. In this session, we will explore the pros and cons of seeding upcoming managers with significant capital stakes. In doing so, we will compare and contrast the investment methodologies of IMQubator, a recent venture funded and supported by APG of the Netherlands, and Larch Lane Advisors, who have been actively seeding hedge fund managers for the last decade.
17:20 - Presentation:
18:00  “Bubble Trouble”: Spotting Asset Bubbles Before They Burst

Speaker:
Dr Vikram Mansharamani
Lecturer and Author of ‘Boombustology’
Yale University
New Haven

Our expert speaker will present a multi-disciplinary framework for identifying unsustainable booms and forthcoming busts. The magnitude of our recent financial crisis mandates a firm understanding of this phenomenon before the next crisis occurs. The methodology will provide an in-depth look at several major booms and busts and especially address the following:

- Why booms and busts are not random and can therefore be identified
- The theoretical and disciplinary lenses which are useful in the study of booms and busts
- How to identify forthcoming financial bubbles and the tell-tale indicators of a likely bust.
- Use of the framework to evaluate a number of likely bubble candidates: among them the Chinese economy, high yield debt, emerging market bonds, US Treasuries, gold and commodities.

18:45  Meet in Lobby

19.00 - Cocktails & Dinner
21:30  The China Club
Friday 18 November

07:30 - Breakfast

08:30 - Panel Discussion:
09:30 HEDGE FUNDS & ABSOLUTE RETURN STRATEGIES IN A LONG-TERM PORTFOLIO

Speakers:
Ludwig He
Managing Director, Head of Private Equity
Investment Department
Former Head of Fixed Income &
Absolute Return Investment Department
China Investment Corporation
Beijing

Joseph Cherian
Professor of Finance (Practice) and Director,
Centre for Asset Management Research & Investments
NUS Business School
Singapore

Gideon Berger
Head of Risk Management
Blackstone Alternative Asset Management
New York

James-Keith Brown
Partner
Och-Ziff Capital Management
New York

Traditional arguments supporting the role of hedge funds in a diversified portfolio have come under intense scrutiny following the 2008 crisis, when many strategies proved more correlated to the broad market than anticipated. It has even been argued that viewing hedge funds as a separate asset class ignores the consequences of their exposures on the overall portfolio. The panel will compare notes on the pros and cons of their own experience with hedge fund investing, and whether investors are shrinking, continuing or indeed expanding their allocations to hedge funds and absolute return strategies. They will equally address the best ways to measure the risks associated with individual hedge funds, and how to identify and select the most consistent managers.

09:30 - Panel Discussion:
10:15 FROM RISK ALLOCATION TO RISK ORGANISATION: THE ALASKA PERMANENT FUND

Speakers:
Ashby Monk (Moderator)
Research Director
Stanford University
Stanford

Jeffrey Scott
Chief Investment Officer, & Former Chief Investment Officer, Alaska Permanent Fund
Wurts Associates
Seattle

Under the guidance of its visionary CIO Jeffrey Scott, the Alaska Permanent Fund spent the last three years transforming its internal risk management and asset allocation policies. The fund has adopted a factor-based asset allocation strategy and is well positioned for the turbulent marketplace we are now living in. Having recently departed from APF to take a position in the private sector, Mr. Scott will join our session to reflect on the accomplishments (and regrets) from his time in Juneau, Alaska. The panel will debate the wider lessons which the Alaska 'experiment' may have for government funds elsewhere in the world. How relevant is the Alaska model to other institutions, does it truly protect against future shocks, and what governance and implementation challenges does it present?
10:15 - Panel Discussion:

11:15 **HOW GOVERNMENT FUNDS CAN INVEST FOR THE LONG TERM**

Speakers

Wendy Mayall *(Moderator)*  
Managing Director and Head of Strategy  
**Stamford Associates Limited**  
London

Shean-Bii Chiu  
Member of the Investment Committee,  
Taiwan Labour Pension Fund & Chairman  
Pension Fund Association  
Taiwan

Rania Azmi  
Senior Adviser  
**Middle East Sovereign Wealth Fund**  
Kuwait

Adrian Orr  
Chief Executive Officer  
**New Zealand Superannuation Fund**  
Auckland

Distortions create opportunities. Huge imbalances in trade and capital accounts globally, combined with public intervention to bail out ailing banks and prop up sovereign debt markets, have magnified these distortions even further. Expert panellists will consider which assets have been overbought and which oversold amid all this economic and financial turmoil. In particular, they will discuss how government funds of various types can organise themselves to take advantage of both short and long term market mispricing.

11:15 - 11:45 **COFFEE BREAK**

11:45 - 12:30 **SIMULTANEOUS SESSIONS**

**GROUP A: JOINT VENTURES - FOR SOVEREIGN WEALTH & STATE PENSION FUNDS**

*Lead Discussants:*

Ashby Monk  
*Adviser on Special Projects*  
**Alberta Investment Management Corp.**  
Edmonton

Sinthya Roesly  
*Chief Executive Officer*  
**Indonesia Infrastructure Guarantee Fund**  
Jakarta

Rajagopal Ramamoorthy  
Advisor for Financial Investments  
**Arab Authority for Agriculture & Investment Development**  
Dubai

A recent spate of joint ventures is testament to the potentially valuable investment opportunities provided by collaboration with other funds. Among the benefits: minimising governance, management and operational challenges by collaborating with like-minded investors who share the same concerns; reaping economies of scale to achieve a competitive advantage; pricing discounts on club-deals; informational advantages from local partners; and political cover. Discussants will share their experiences of recent co-ventures they have been involved in, focusing on the practicalities of undertaking such projects.
GROUP B: TRANSPARENCY CHALLENGES FOR CENTRAL BANKS

Lead Discussants:
Asad Qureshi
Executive Director
Markets & Reserve Management
State Bank of Pakistan
Karachi

Enkhjargal Danzanbaljir
Director of London Office
& Former Deputy Governor
Central Bank of Mongolia
London

As reserves grow at many central banks, especially in the Asia & Middle East regions, calls for greater transparency in how central banks act in the management of these reserves are the inevitable consequence. Transparency relates to a number of issues, among them clarity of roles, responsibilities and objectives, relationships with counterparties, governance principles, and public disclosure of reserves positions and financial statements. Only one or two central banks in the world are truly transparent in all their activities. A high degree of transparency may hinder certain investment objectives and have unintended consequences. The group will debate the pros and cons of greater transparency in a central banking context.

12:30 - Closing Featured Address:
13:00 THE KEYS TO SUCCESS FOR GOVERNMENT FUNDS
Speaker:
David Murray
Chairman of the Board of Guardians
Future Fund
Sydney

In the short 5 years since its inception, the Future Fund of Australia has gained a reputation as one of the best governed sovereign wealth funds in the world. The Fund has ambitious long-term performance targets of 4.5 to 5.5 percent above inflation, which have to date been challenged by the financial markets’ crisis and the turbulent investment climate which has followed it. David Murray will reflect upon how the Fund has adapted its governance framework - the investment program, organisational structure and control procedures - to respond to the challenges of the new environment and to achieve the performance objectives in the future. In doing so, he will expound his vision of the main priorities for success for a state investment institution.

13:00 -
14:30 LUNCH
14:30 ASIA & MIDDLE EAST GOVERNMENT FUNDS ROUNDTABLE ENDS