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Asset allocation strategies for a new investment landscape

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Industry Discussion: Going for growth – balancing risk in investing in emerging market equities

Gustaf Hagerud

Deputy CEO

AP3

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AP3

Going for Growth Balancing Risk in Investing in Emerging Markets Equities

Gustaf Hagerud

Deputy CEO AP3

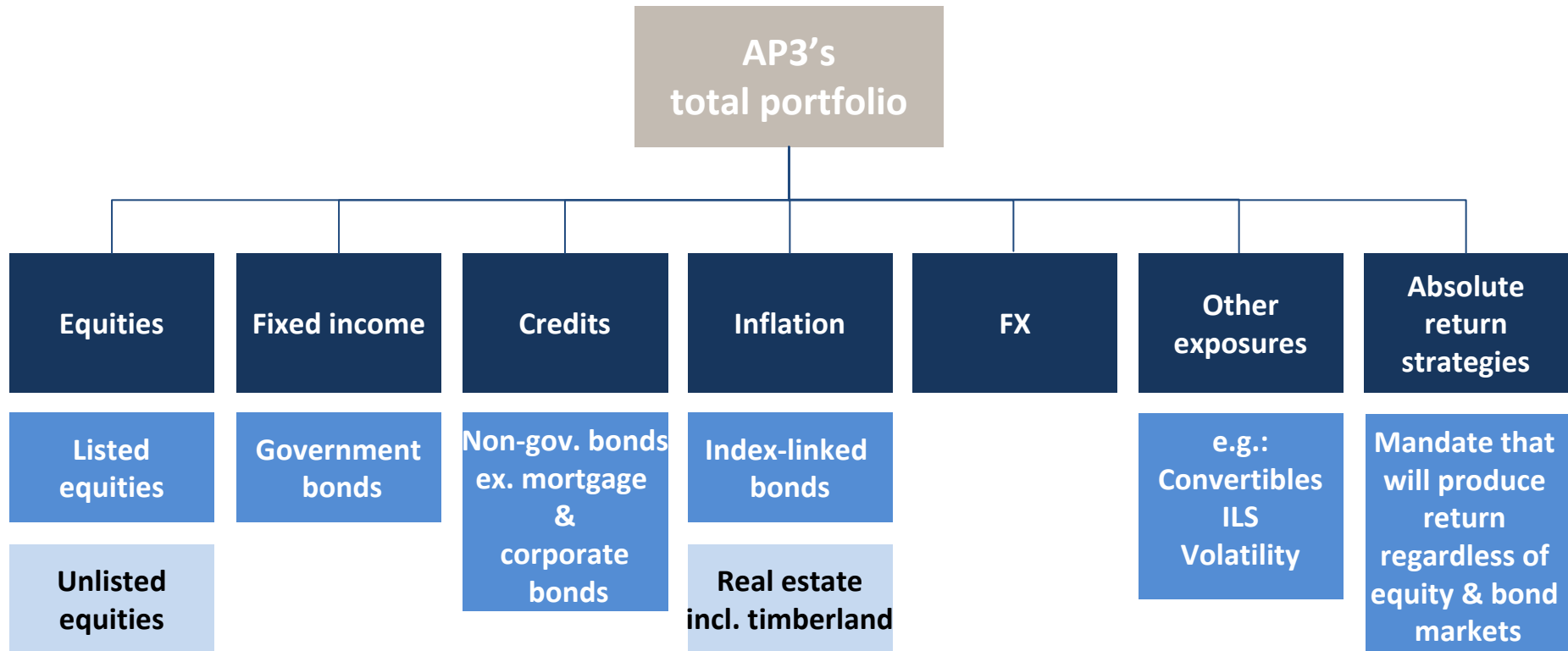
Stockholm 22 October 2013



Agenda

- Short on AP3's emerging markets equities allocation
- Why should you invest in emerging markets equities?
- Emerging markets under performance
- Is this the time to increase your allocation to emerging markets?
- Questions and discussion

AP3's allocation decisions are based on seven risk classes

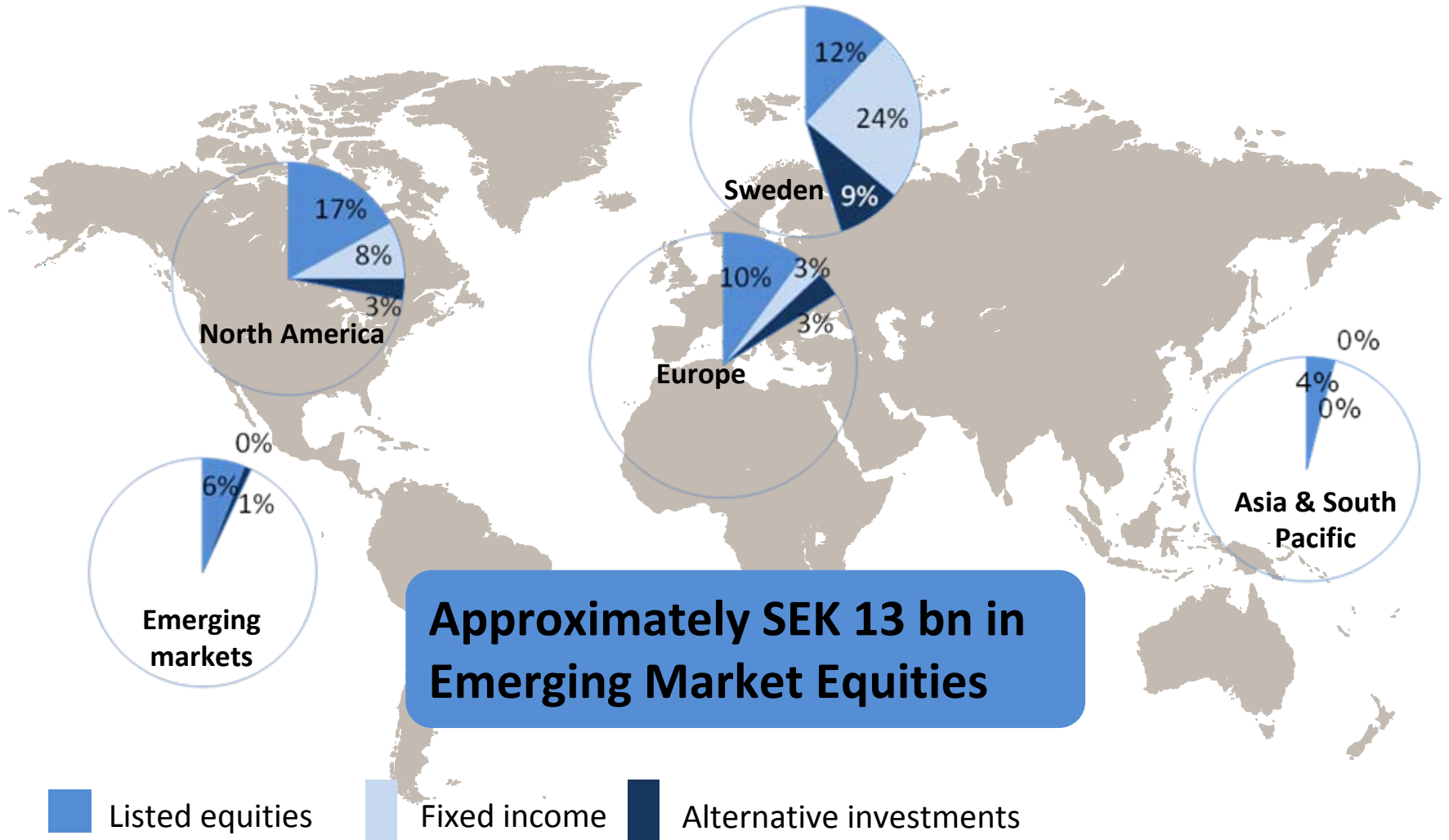


AP3's portfolio divided into risk categories, 30 June 2013

AP3	
Return:	5.4%
Risk:	0.97%
Exposure:	108.5%

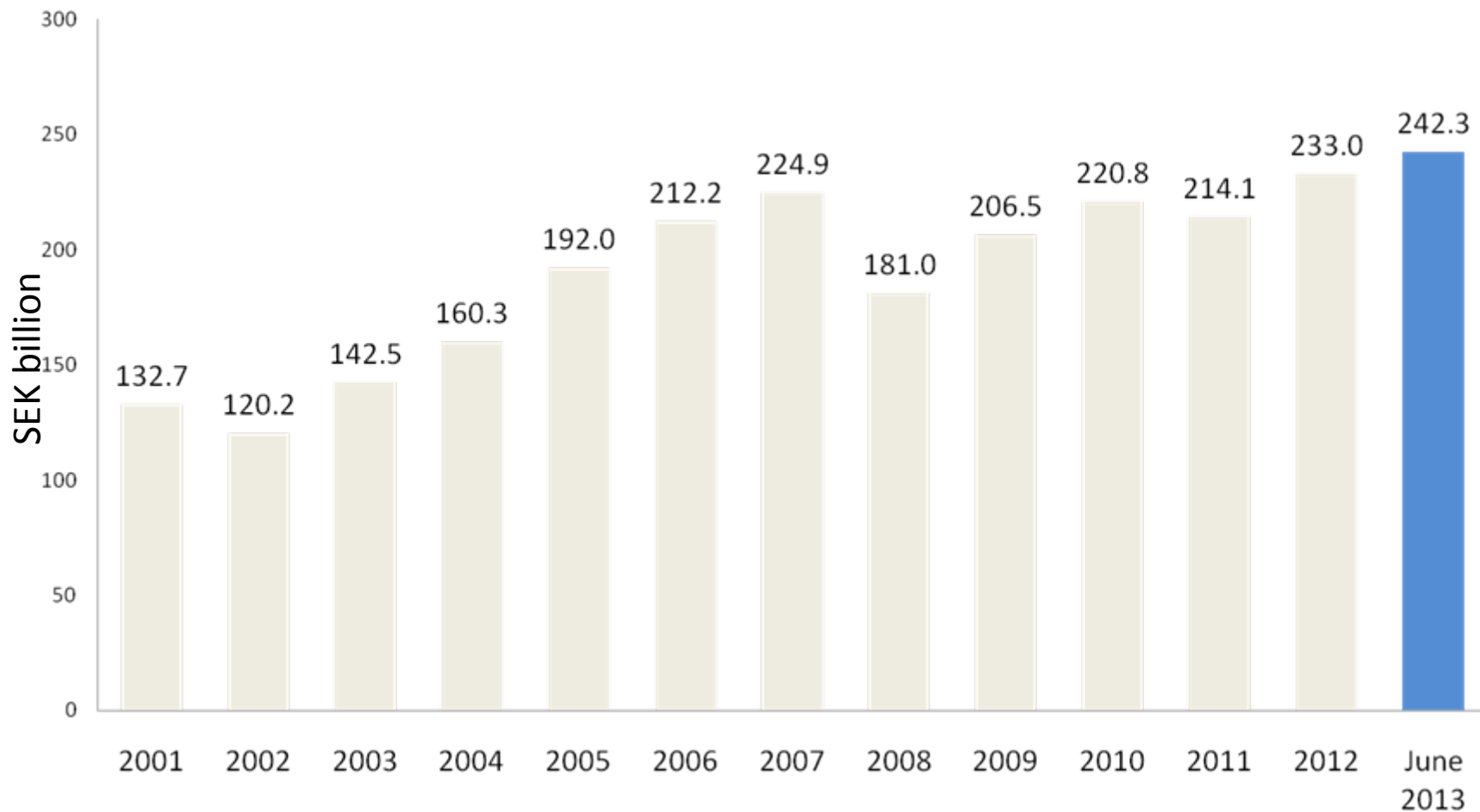
	Equities	Fixed income	Credits	Inflation	FX	Other exposure	Absolute return strategies
Share of return, %	75.6	1.6	2.4	10.1	5.5	3.0	1.9
Contribution to risk, percentage points	78.2	1.7	0.9	6.2	8.3	2.1	2.6
Exposure	53.8	13.0	11.5	20.0	21.9	2.9	7.2

AP3's Global Portfolio



AP3's fund capital has grown with SEK 108.3 billion since inception

Starting capital 1/1 2001 amounted to SEK 134 billion



AP3s target

- Generate 4% real return in average over time
- From an ALM study 85 years into the future
- The main focus of the fund is on the long term stability of the pension system
- .. but, short term negative outcomes can reduce current pensions
- Therefore, it is a top priority to reduce the volatility of return



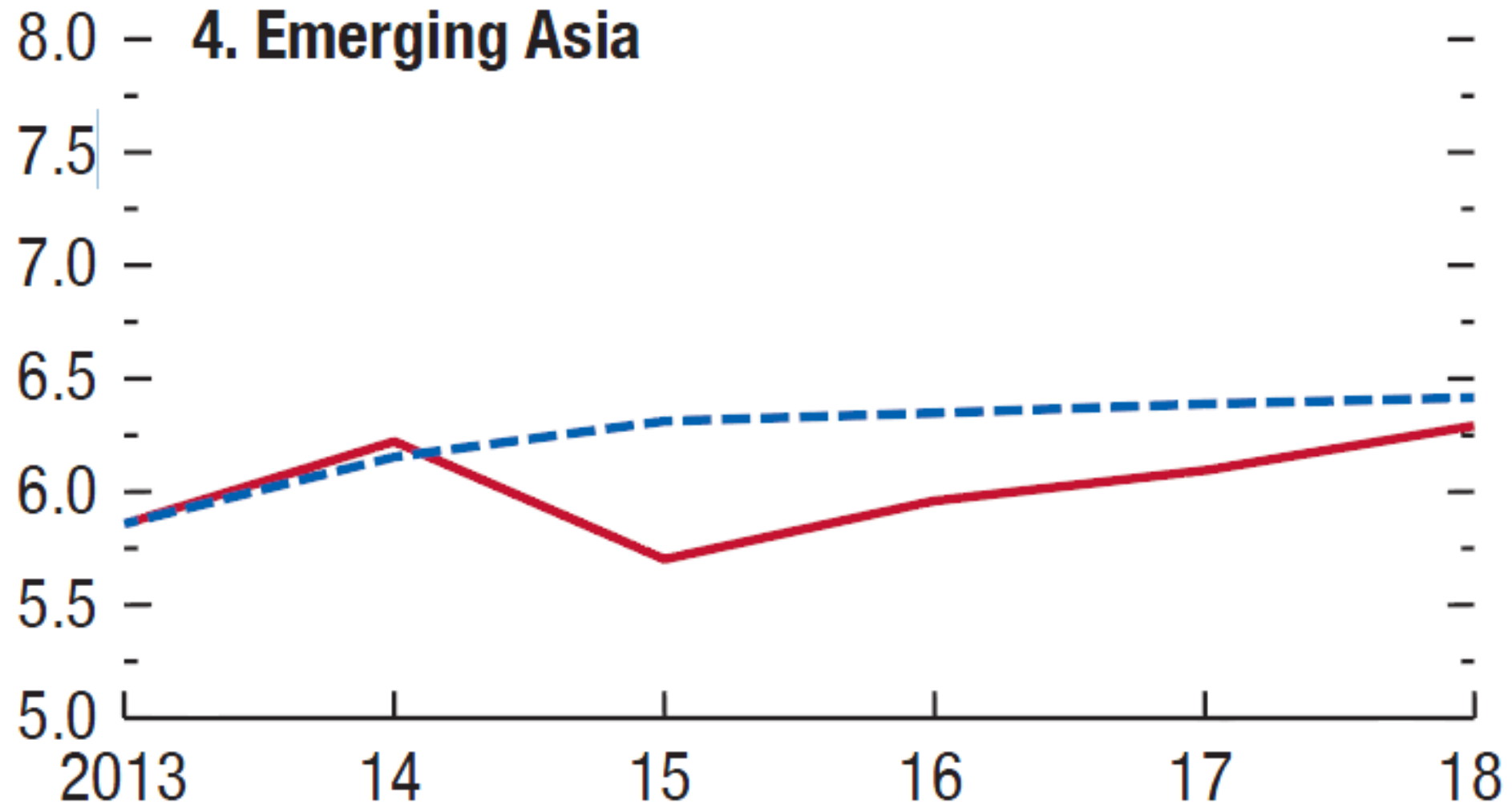
Why Emerging Market Equities

1. Increase the return potential of the funds equity portfolio, by getting exposure to high EPS growth
2. Reduce the volatility of the equity portfolio, through diversification

Two fundamental questions

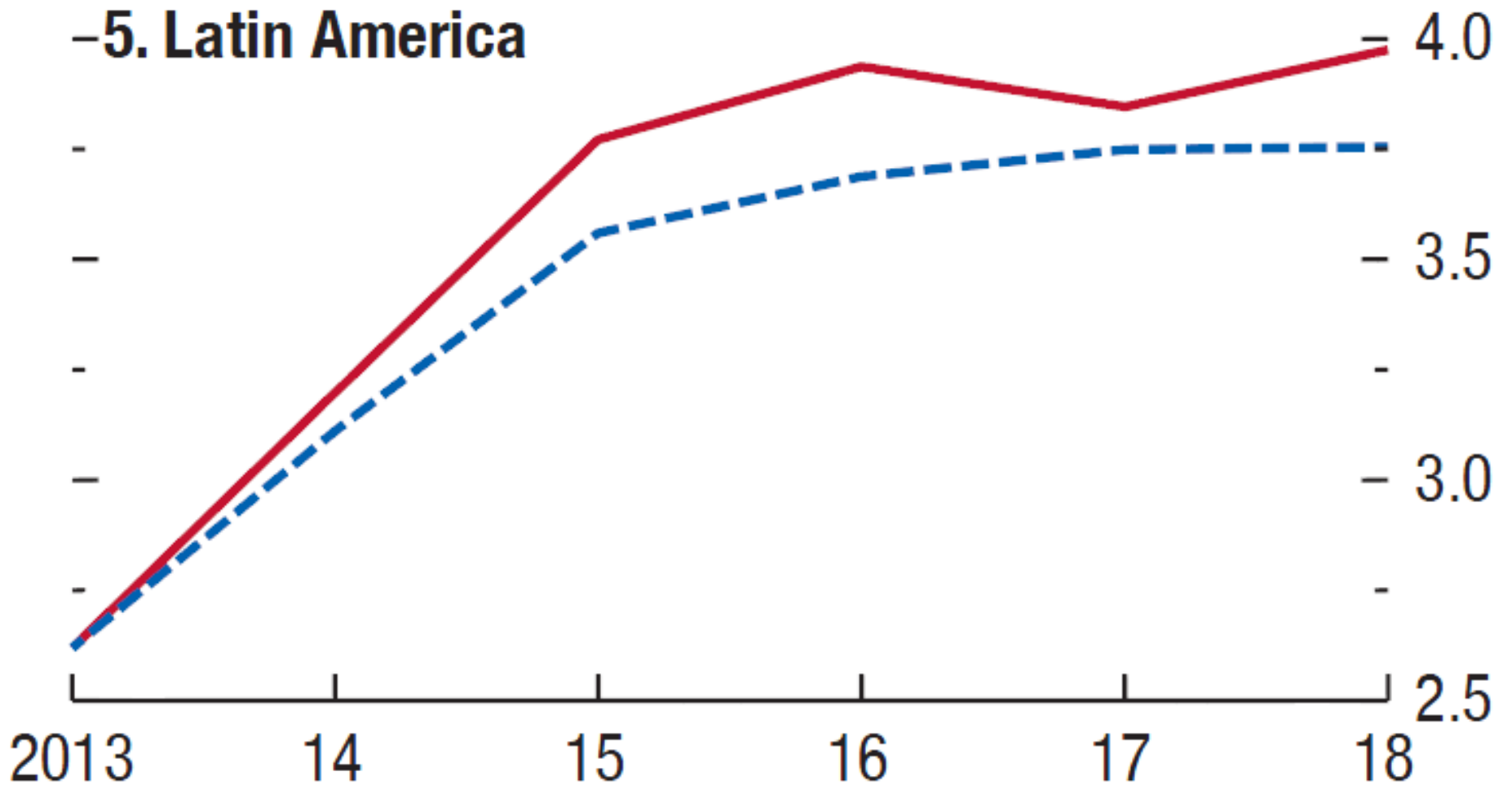
1. Does emerging market equities have a higher return potential than developed equities?
2. Does emerging market equities give diversification?

Does EM Equities Offer Growth? IMF's long term scenarios



Does EM Equities Offer Growth? IMF's long term scenarios

-5. Latin America



What are you paying for growth?

Market	Reported P/E	Est. P/E 2014
S&P 500	16.7	14.2
STOXX Europe 600	20.7	13.0
CSI 300 (China)	11.8	9.1
SENSEX (India)	18.2	13.2
IBOV (Brazil)	Neg.	13.7
FTSE/JSE (South Africa)	20.3	13.0
BIST 100 (Turkey)	10.5	10.0
RTS (Russia)	5.2	4.7

Does emerging markets give you diversification?



Emerging markets underperformance Relative to developed markets

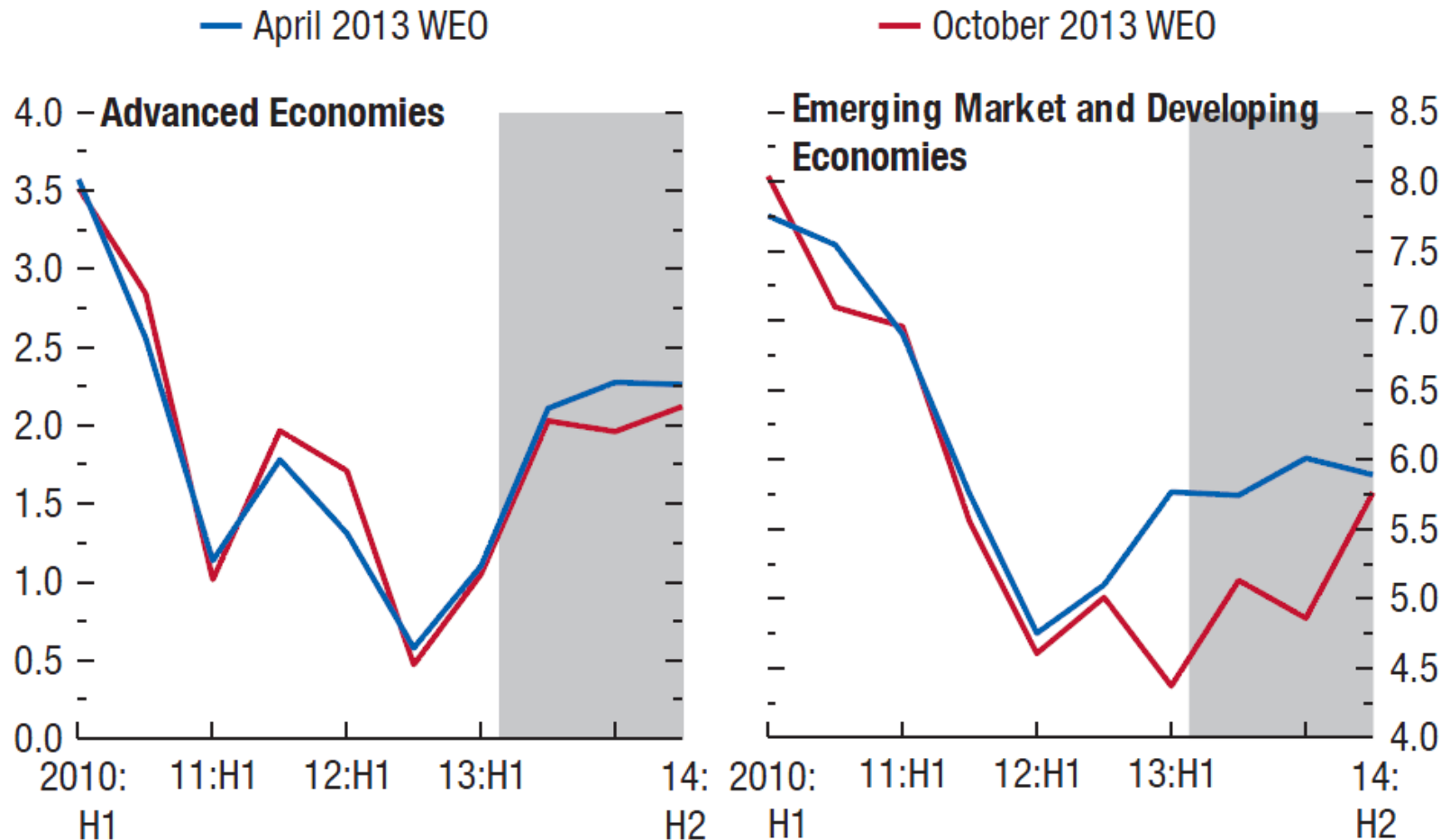


Source: Datastream, MSIM GMA Team Analysis. Data as of August 31, 2013. EM performance represents the MSCI Emerging Markets Index and DM performance represents the MSCI World

Why are emerging markets out of fashion?

1. Clear shift in relative growth momentum

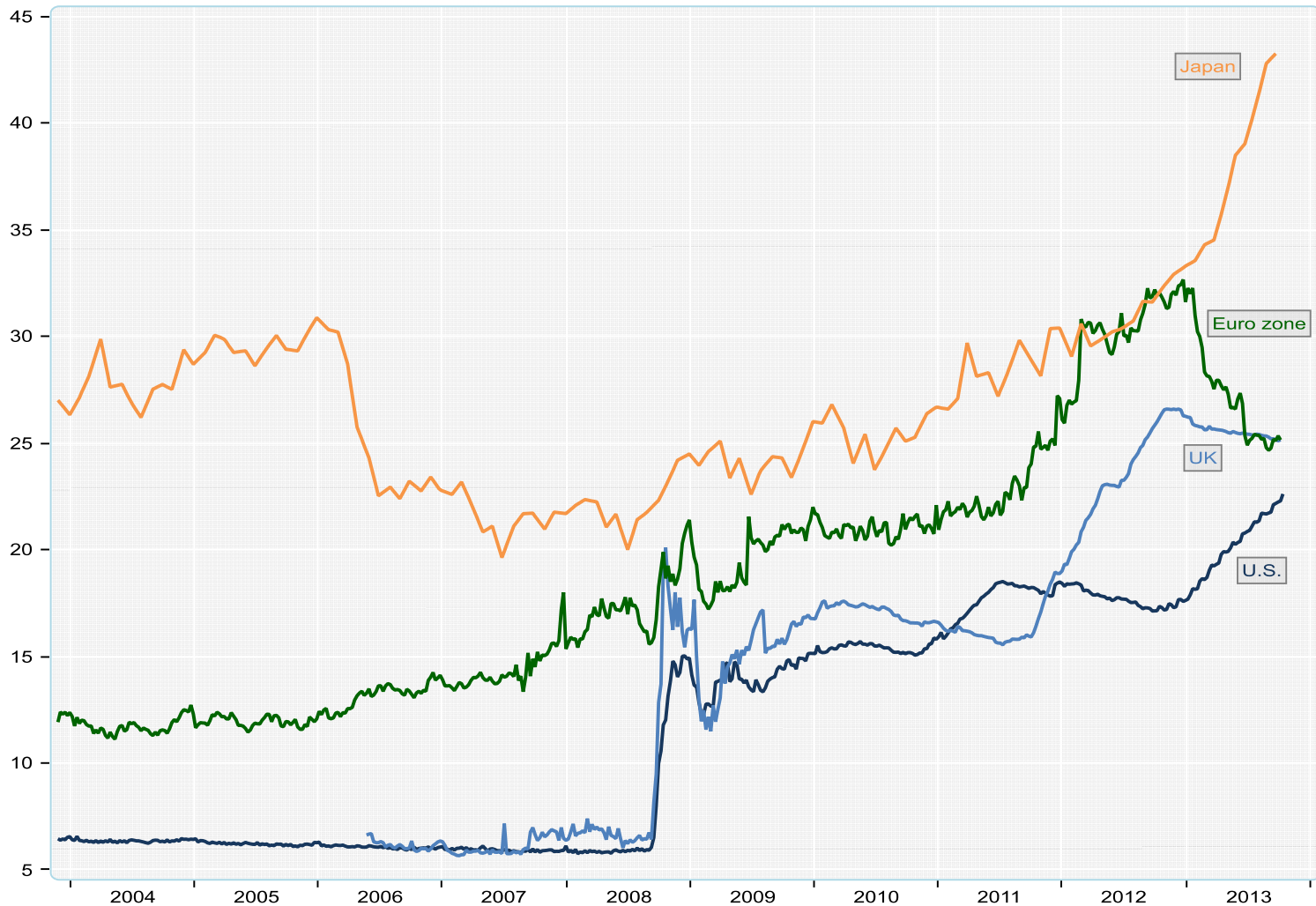
1. GDP Growth (annualized quarterly percent change)



Why are emerging markets out of fashion?

2. Possible end to extreme monetary policy

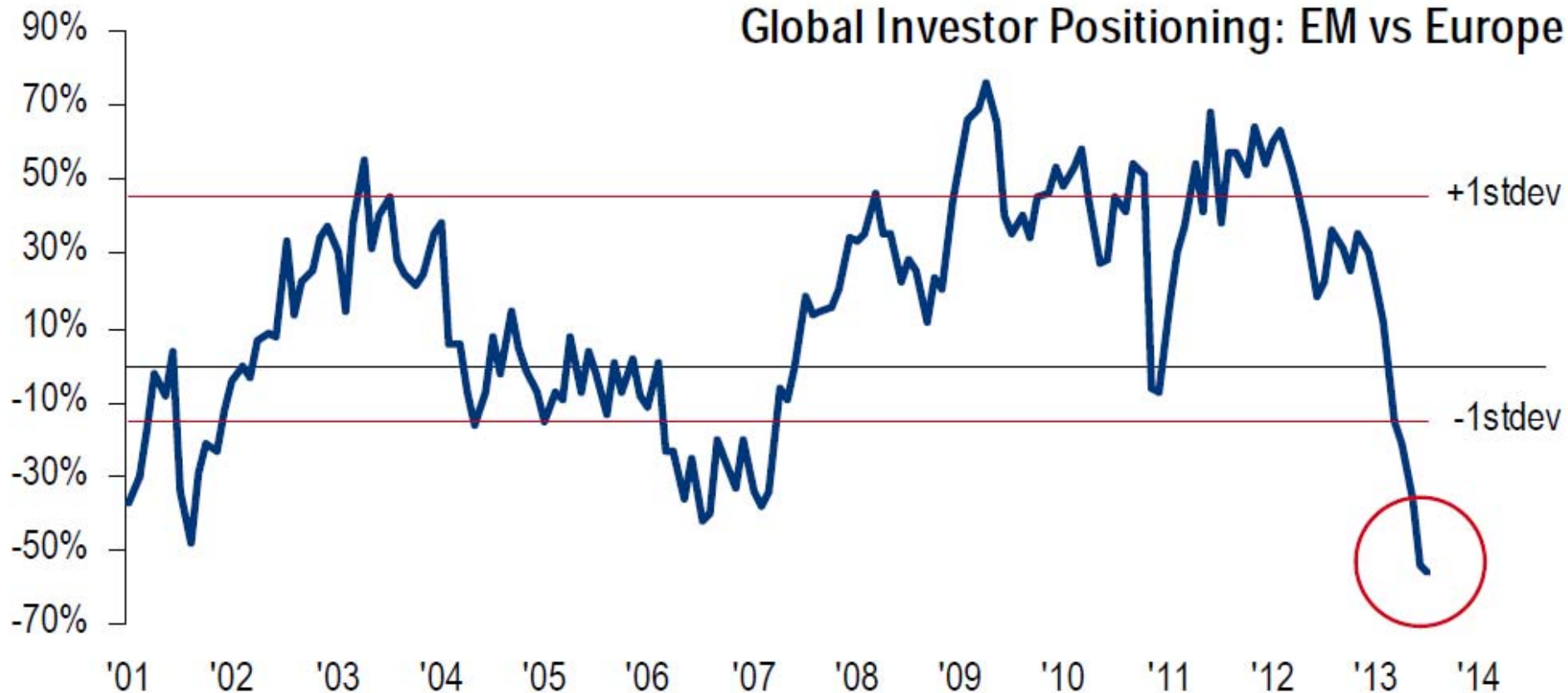
Central Bank Balance Sheet as % of GDP



Source: Macrobond

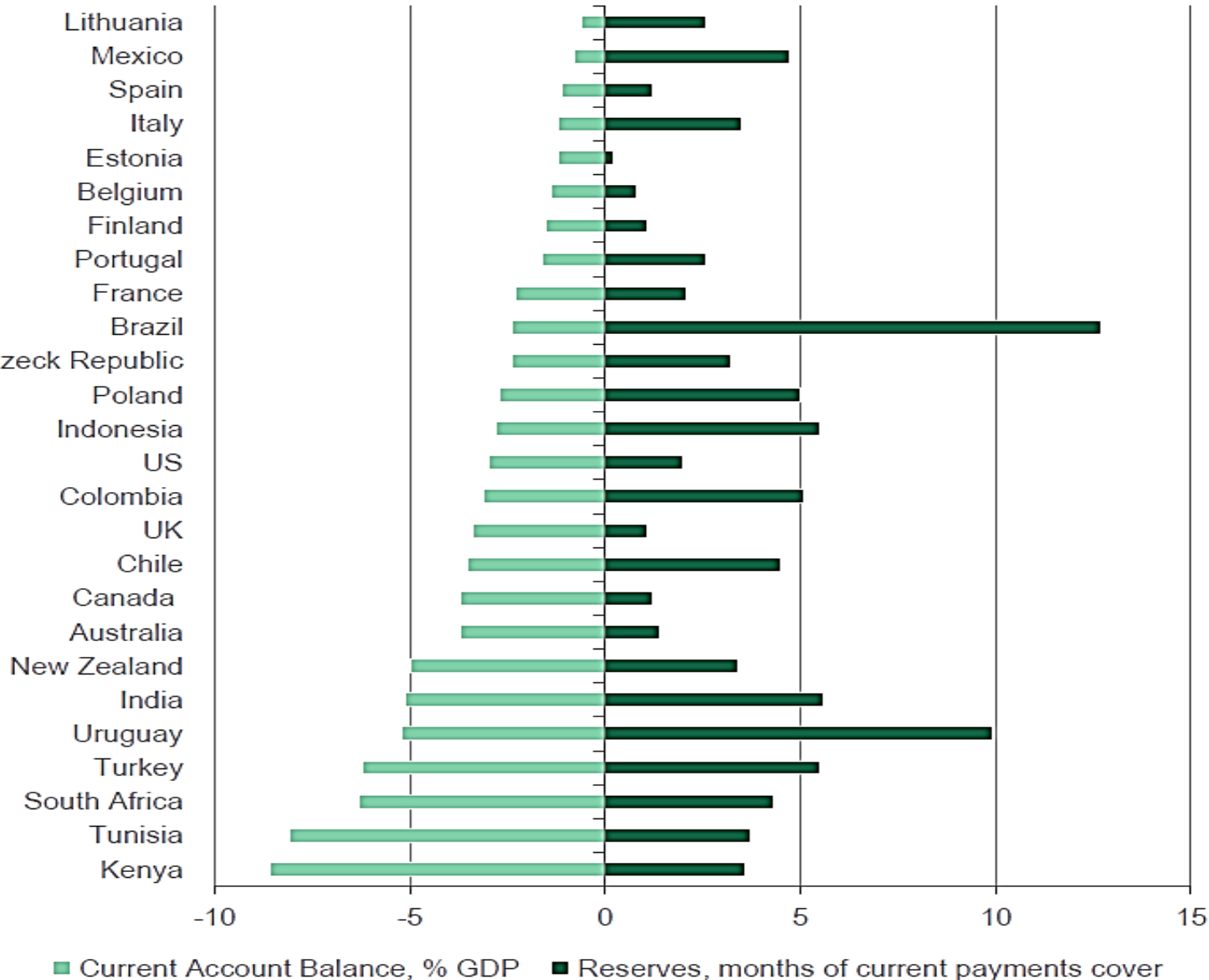
Why are emerging markets out of fashion?

3. Strong outflows from institutional investors

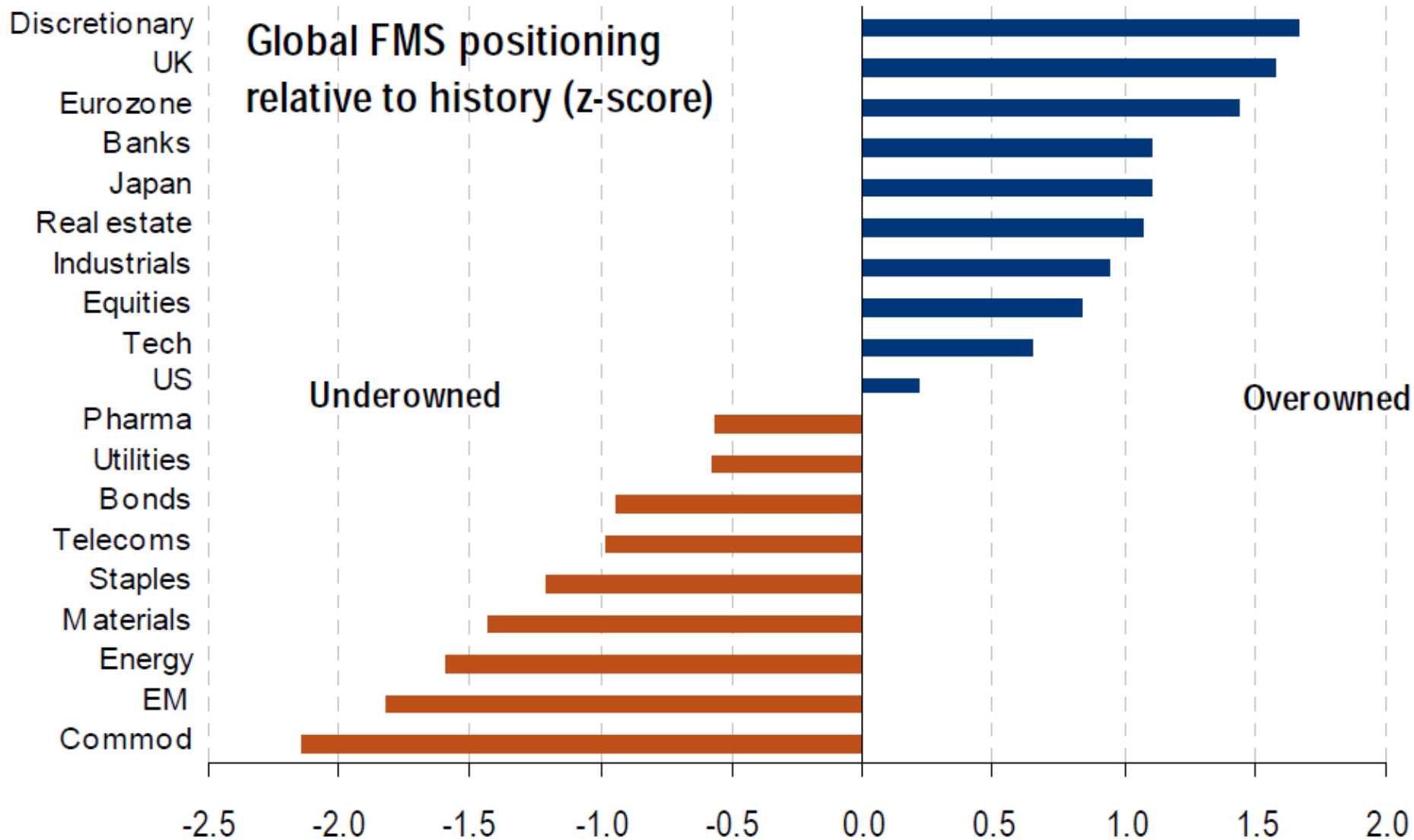


Why are emerging markets out of fashion?

4. Macro economic imbalances have become a concern



Is this the time to increase your allocation to emerging markets?





Is this the time to increase your allocation to emerging markets?

When all these issues are resolved it will most likely be too late to invest

- Improved growth momentum
- Current account issues resolved
- Domestic demand growth strategy in China implemented
- End of QE in developed markets
- Improved corporate governance
- Etc....

Questions and discussion

