



Global Asset Allocation: Critical Issues and Current Opportunities

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Acadian -- Singapore and Boston

- Founded by industry pioneers 25 years ago
- Invest about \$4 billion in world equity markets for global clients
- Cover over 50 countries and have broad spectrum of strategies: global value, emerging market equity, European hedge fund, international small cap, etc

Issues in Global Investments

- **Country selection remains critically important**
- **Opportunities and risks are multi-dimensional**
- **Great global portfolio diversification benefits remain in the long term**

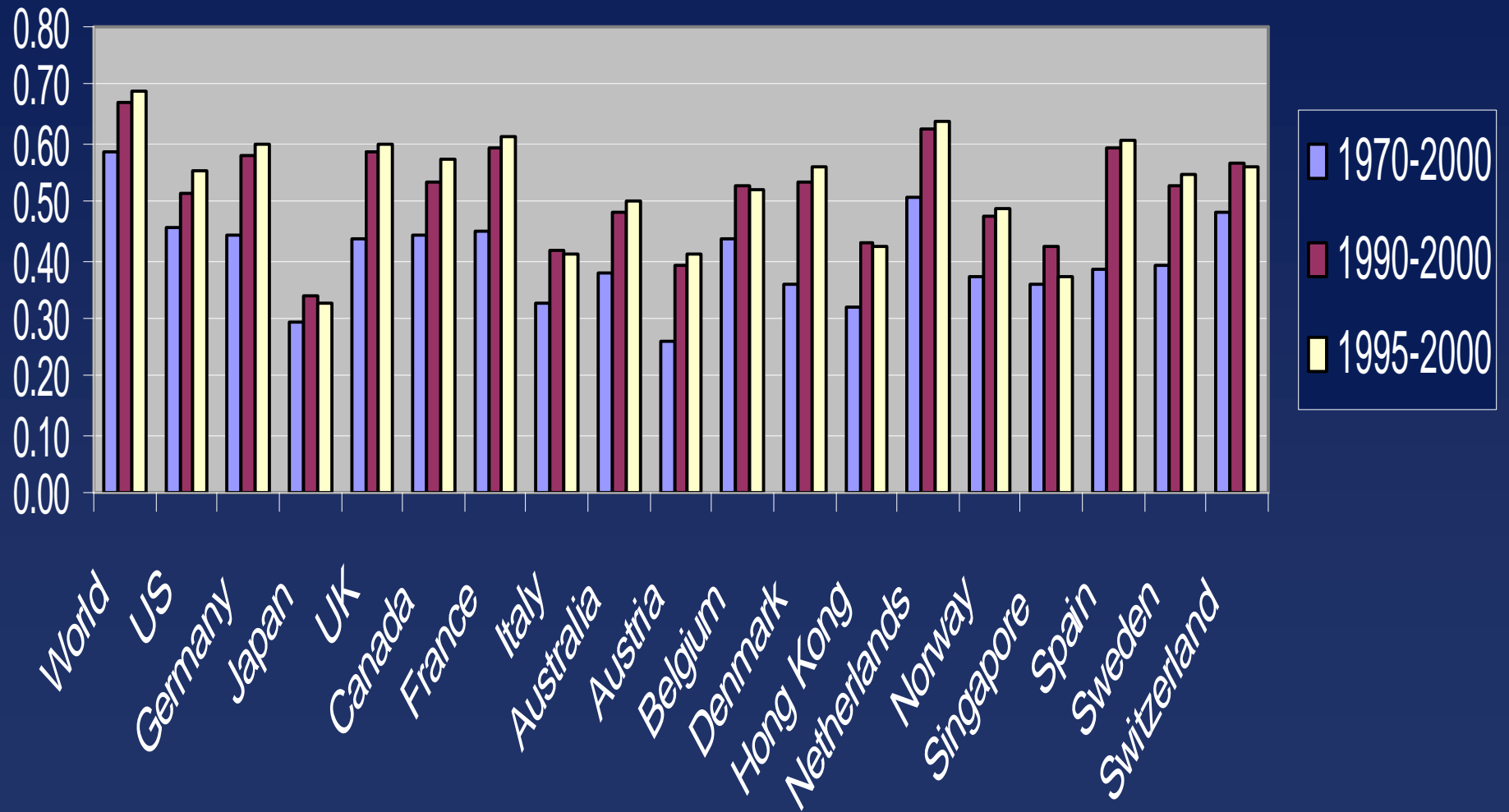
The Importance of Global Equity Asset Allocation

- **Cross-country economic differences remain large**
- **Markets are not fully efficient**
- **Global investing has become more challenging**

Cross-Sectional GDP Growth Differences For 18 Developed Countries

Year	Mean (%)	Std Dev	Max	Min	Max-Min
1989	3.58	1.98	9.62	0.26	9.37
1990	2.89	2.08	8.97	0.25	8.73
1991	1.48	2.53	7.05	-1.98	9.03
1992	1.78	2.05	6.56	-1.42	7.98
1993	1.45	3.57	12.75	-2.22	14.97
1994	3.85	2.42	11.40	0.53	10.87
1995	2.91	1.59	7.96	0.50	7.45
1996	2.63	1.80	7.54	0.32	7.22
1997	2.88	1.46	4.97	-0.41	5.39
1998	2.82	2.88	9.28	-5.30	14.58
1999	2.97	1.38	5.35	0.76	4.60
2000	3.79	1.96	10.45	1.70	8.75

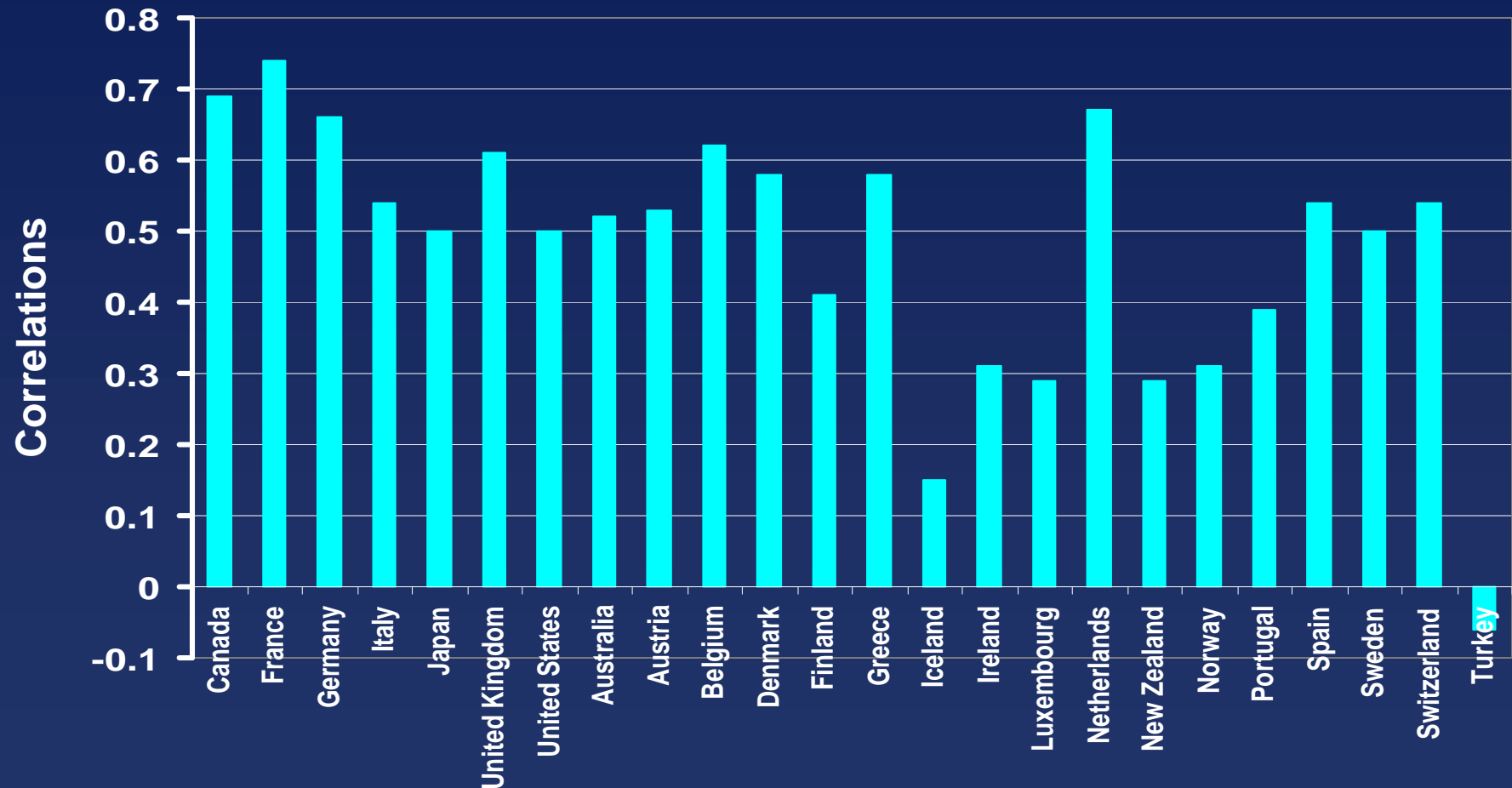
Average World Equity Market Correlations (Versus Other Developed Markets: local returns)



Forces Influencing Equity Market Correlations

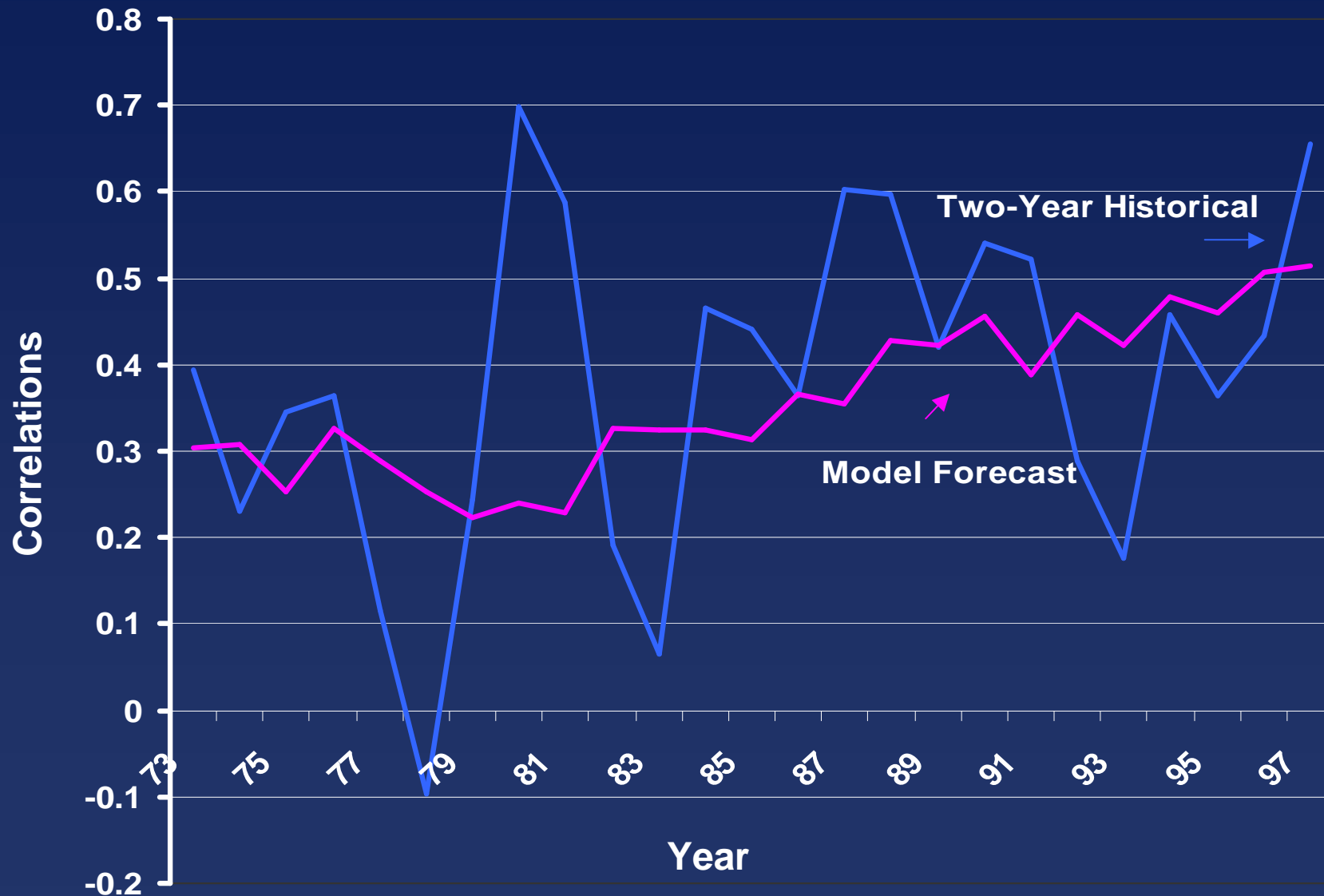
- **Psychological**
- **Financial**
 - Interest rates and currencies
 - Market sizes
- **Economic**
 - Trade
 - Economic growth
 - Business cycles
- **Geocultural**
 - Distance
 - Language

Correlation of Real Per Capita GDP Growth with OECD Average



Note: Average is taken without that country. Sample period: 1960-1996

Correlation Between U.S. and Germany: Structural Model versus Sample Correlations

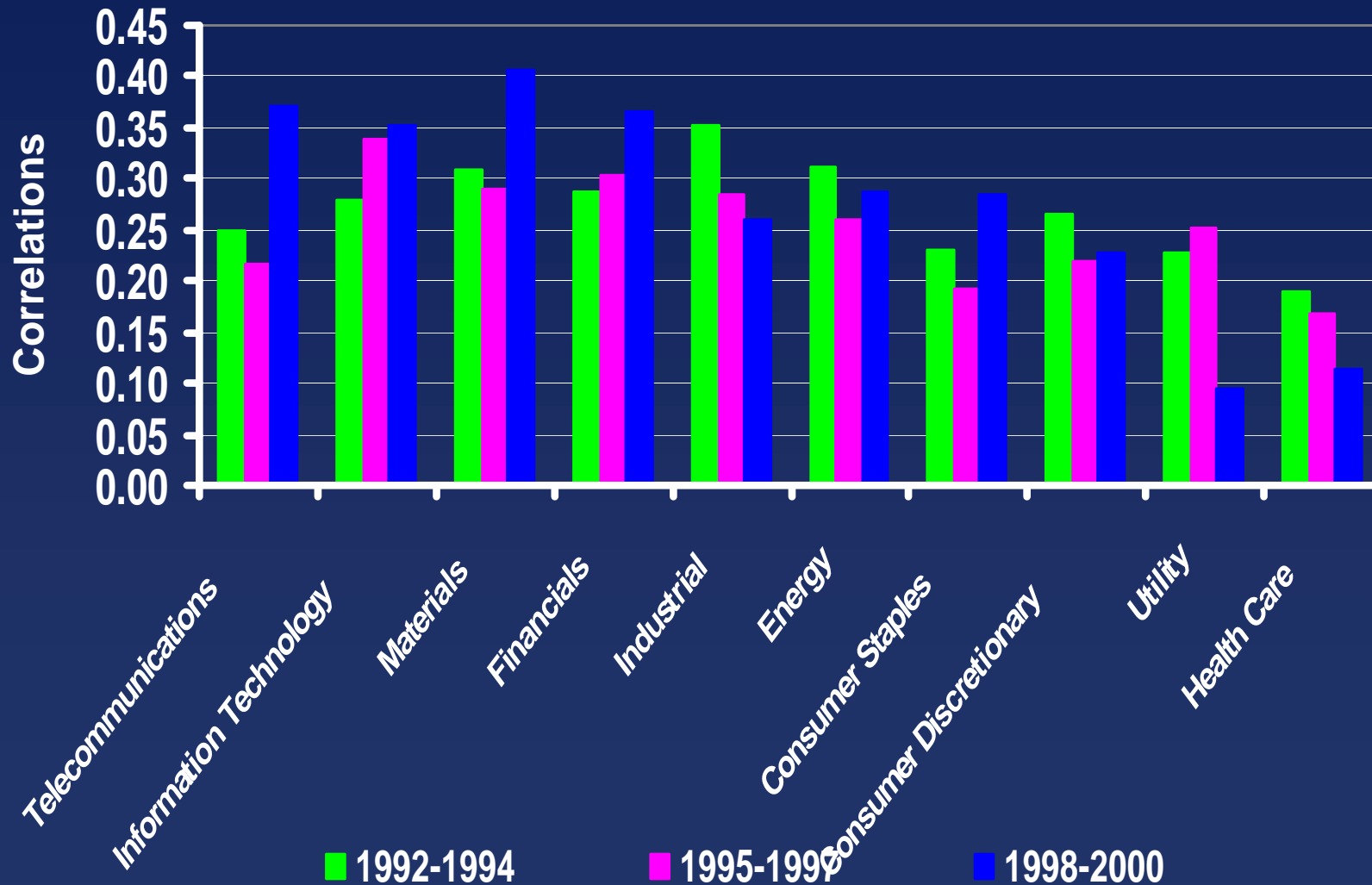


Country and Industry Effects

- **Country effects remain important**
- **Industry effects are becoming more important over time**
- **Different industries have different degrees of integration across countries**

Average Country/Sector Correlations

(MSCI Country/Sector Indices in Singapore Dollars)



Emerging Market Strategies

- Acadian invests over US\$ 300 million in 30 emerging markets
- Acadian takes a quantitative approach in selecting countries and stocks
- Quantitative approaches can consistently add value in both developed and emerging markets

Emerging Markets Equity Strategy - Composite Performance vs. MSCI EMF
(Net Total Returns in U.S. Dollars - After Transaction Costs, Before Management Fees)

Time Period	Emerging Markets Equity Strategy	S&P / IFC Investable Index	Acadian Value-Added vs. S&P / IFCI
1994	(6.5) %	(12.6) %	6.1 %
1995	(5.1)	(8.6)	3.5
1996	10.7	8.8	1.9
1997	(12.2)	(15.0)	2.8
1998	(22.4)	(22.4)	0.0
1999	65.2	66.4	(1.2)
2000	(25.1)	(32.1)	7.0
2001 through June	4.2	1.6	2.6
Since-Inception Annualized Return	(2.0)	(5.4)	3.4
Since-Inception Annualized Standard Deviation	25.5	24.1	7.1
Information Ratio			0.5

Growth of the Chinese Stock Markets

- The market capitalization of China's domestic stock market was US\$ 581 billion (year 2000), ranking 11th in the world
- Plus Hong Kong's US\$ 623 billion makes China the 6th largest market in the world
- China's stock market will overtake Japan's and become the largest in Asia by 2010

Importance of the Chinese Stock Market

- China has the fastest growing economy in the world
- China's market has distinctive geocultural, economic, and financial characteristics
- China's market has much lower correlations with the rest of the world
- China's stock market will play an important role in China's economic development and world financial markets

Challenges for the Chinese Stock Market

- China's stock market must better reflect company earnings and valuation to avoid market bubbles
- Corporate governance is crucial for investor protection and capital market development
- More institutional investors and more sophisticated retail investors are needed for the long-term success of the stock market
- China should allow domestic investors to invest in global equities, thus providing diversification and increasing capital market efficiency

A Reflection on Culture

- Rule of law, copyright protection, and shareholder rights: are they only western ideas?
- WTO and Olympics: the full engagement of China with the rest of the world
 - the impact on culture, national confidence, business management, and the world's understanding and view of China
- Overseas professionals and scholars: what have we brought to China?



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