

**Foreign Portfolio Investors'
Approaches to Thailand's Equity
Market: Survey Findings and
Preliminary Analysis**

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Abstract

This paper directly follows on from an earlier one, *Constraints on Thailand's Equity Market as an Allocator of Foreign Investment Capital: Some Implications for Post-Crisis Southeast Asia*, which assessed the various — objective, subjective and external — constraints on the Thai equity market as a conduit for foreign investment capital. This paper provides the results of a recent global survey of investment approaches, and perceptions, of foreign fund managers active in the Southeast Asian equity markets. An initial analysis of the survey results, as they pertain to Thailand, is also proffered. In addition to supporting some of the assertions made in the earlier paper, the survey sheds new light on the applied dynamics of the Thai equity market, as perceived by its foreign participants. It also points to ways in which the Thai stock market might be improved, in order to play a more effective role as an allocator of foreign capital inflows to Thailand's corporate sector. Although this paper pertains directly to Thailand, some of the findings are also applicable in part to three other Southeast Asian countries (Indonesia, Malaysia and the Philippines) with relatively substantial equity markets.

INTRODUCTION

In an earlier paper — *Constraints on Thailand's Equity Market as an Allocator of Foreign Investment Capital: Some Implications for Post-Crisis Southeast Asia* — we assessed the various objective, subjective and external constraints on the Thai equity market as a conduit for foreign investment capital inflows, as part of the post-crisis economic recovery process. This in turn followed on from a paper by George Abonyi — *Thailand: From Financial Crisis to Economic Renewal* — which found that a range of investment measures and ratios commonly employed by portfolio investors had all signaled a deterioration in the country's corporate performance in the years immediately leading up to the financial crisis of mid-1997. This may explain in large part why the index for the Thai stock market, the SET index, had been consistently trending down since early 1996, having peaked as far back as late 1993.

Now that Thailand's post-crisis recovery process is well underway, various challenges confront the economy. While the list of challenges is quite long, it includes restructuring the corporate sector and its heavy debt burden (both foreign and domestic), as well recapitalising the local banks and getting their non-performing loans down to levels where they can resume their role as financial intermediators. Such tasks require fairly substantial injections of fresh capital, a large proportion of which will have to be sourced from overseas, if only because of the weak state of the domestic financial sector. Yet having also incurred substantial loan losses in Thailand, foreign commercial banks are likely to be quite shy about increasing their loan portfolios in Thailand, at least in the short-term. Indeed, regional data from the Institute of International Finance Inc. indicates that the major commercial banks are continuing to contract their aggregate loan exposure to emerging markets and the Asia Pacific region, in general.¹ With no established fixed income market on which to issue debt paper, this leaves Thailand's equity market — the Stock Exchange of Thailand (SET) — as a potentially important conduit through which to channel foreign capital inflows into the country, and to help finance Thailand's post-crisis recovery programme.²

But as discussed in the previous paper, there are a number of objective, subjective and external constraints on the SET being able to perform this role. Without wholly recounting the contents of the previous paper, the major constraints can be summarised as follows:

- a reluctance by existing shareholders to enact new rights issues that might dilute their stakes in listed banks and corporates;³
- the relatively small aggregate market capitalisation and trading volume of the SET, in comparison with some of the major equity markets, and even some individual corporates listed in the major equity markets;⁴
- and a growing imbalance between the scale of emerging markets like Thailand and the increasingly large size of funds managed by the major institutional investors overseas;
- the over-representation of some sectors in the SET — including some sectors (such as the banking sector) that have been hit hardest by the crisis — which have a tendency to act as a drag on the overall market's performance;⁵
- and conversely, a lack of listed stocks in some of the sectors currently most attractive to foreign institutional investors;
- an equity market that does not wholly reflect the full range of the Thai corporate sector, and therefore does not allow portfolio investors an

opportunity to use the SET as a ‘play’ on (ie. gain adequate exposure to) the Thai economy and/or the Thai economic recovery;

- a possible imbalance in the range of investment strategies employed by portfolio investors, with insufficient ‘value investors’ and excess ‘growth-oriented’ investors;⁶
- a change in perceptions towards emerging markets, like Thailand, as an asset class, and investor appetite for the risk-reward ratio that pertains;⁷
- increasing intensity of competition from ever-more numerous emerging equity markets for foreign portfolio capital;
- and the increasing use of cross-border comparative analysis of companies (in emerging and developed equity markets alike), by sector, possibly resulting in more demanding performance expectations by institutional investors.

Using the discussion contained in the previous paper as a platform, this follow-up paper provides the results of a recent global survey of perceptions and investment approaches by foreign fund managers currently active in the Southeast Asian equity markets. In addition to providing some empirical evidence in support of various assertions made in the earlier paper, the survey sheds new light on the applied dynamics of the Thai equity market, as perceived by its foreign participants. This paper goes on to provide some initial analysis of the survey results, and discusses some of the potential policy implications arising from the survey.

THE SURVEY

The survey was in the form of a questionnaire, which was distributed in mid-December 1999. The questionnaire was mailed to portfolio investors in the major financial centres of Asia (excluding Japan), the US and Europe that were identified as having investment remits that included Southeast Asia and/or emerging markets.⁸ With the sole exception of Singapore, the sample did not include any regional (eg. Thai or Malaysian) portfolio investors. Identifying pertinent portfolio investors was done by reference to various data sources.⁹ The breakdown of respondents, by location, is provided in figure 1. It is perhaps not surprising that the response rate from the Singapore element of the sample was stronger than for other locations, as one would expect a substantial proportion of global portfolio assets invested in Southeast Asia to be managed from this regional financial centre. Therefore, the strong response rate from Singapore need not be interpreted as an over-representation of ‘Singapore money’

or a 'Singapore investment strategy' per se, since a fairly substantial proportion of these will be assets managed by foreign institutions, albeit from their Singapore regional offices.¹⁰ That said, it would have been preferable to get a slightly larger rate of response from the US sample, if only to better reflect the very considerable scale of funds under management in this country.

The questionnaire was divided into six sections: a basic profile of the respondent's organisation; the investment criteria employed by the respondent's organisation; the respondent's investment profile within Southeast Asia; asset allocation and stock selection methods employed by the respondent; the respondent's current perceptions of Southeast Asian equity markets (including Thailand); and a final section on some miscellaneous issues. Reporting of the main results, below, also follows this broad format.

SURVEY RESULTS AND INITIAL ANALYSIS

Slightly under 60% of the total sample were institutional investors with more than US\$10 billion under management globally (see figure 2). In terms of Southeast Asian equity exposure, the distribution within the sample was more diverse, with just over 25% managing over US\$1 billion in Southeast Asian equity, just over 55% in the US\$100m to US\$1bn range, and 10% with regional portfolios below US\$100m (see figure 3). Almost 93% of respondents' organisations have been investing in the Southeast Asia region for five years or more, with 69% having been active in the region's equity markets for 10 years or more (see figure 4). In terms of specifically investing in Thailand, over 41% of respondents had experience in the SET that exceeded 10 years, with 82% having been active for 5 years or more (see figure 5). To put this in some historical perspective, Thailand's equity market is just 25 years old, having opened in April 1975. The proportion of total funds that respondents currently have invested in Thailand, and the five equity markets of Southeast Asia as a whole, are provided in figure 6. It indicates that most respondents (59%) have less than 1% of their total funds invested in the SET at present, and the vast majority (91%) have less than 5% of total funds invested in Thailand. With regard to Southeast Asia as a whole, 77% of respondents have 10% or less of their total funds invested in the region's five equity markets.

The range of investment approaches used by the respondents in the sample was quite varied, with ‘growth investors’ well represented (52% of the sample), followed by value investors (14%), just 7% were index investors, while the majority of the remaining 28% mixed both the value and growth approaches.¹¹ In terms of broad asset allocation decisions, again the sample adopted a spectrum of methods: 24% employed a ‘bottom-up’ approach, 17% used a ‘top-down’ approach, and 59% used a mixture of the preceding two approaches. A similar diversity of approach was apparent in the way respondents compare listed stocks in Southeast Asia; whether it be on a strictly country basis (ie. comparing firms in differing business sectors but listed on the same stock market), or a sectoral basis (ie. comparing firms in the same business sector but listed on different stock markets). While 25% subscribed to the country basis approach, and 11% used a sectoral approach, 64% stated that they use a combination of the two.¹²

With regard to the statistical methods employed by the sample to select and compare Southeast Asian equities, the survey found that the following methods were most frequently cited (by more than three-quarters of the sample): Price/Earnings ratio, Return on Equity, Price to Book, and EV/EBITDA. Figure 7 provides a full list of statistical methods and ratios employed by the sample (by at least two or more of the respondents). When asked if the methods used currently differed in any way to those employed prior to July 1997, just 17% replied that their methods had undergone change, with 72% stating that the statistical methods used were roughly the same and 10% stating that they were entirely the same. This seems to indicate that no substantial shift has occurred in the way most fund managers assess and compare Southeast Asian equities — including those listed on the SET — in the period since the onset of the Asian financial crisis. That said, written comments made by some respondents suggest that as corporate earnings tended to evaporate during and immediately after the crisis, ratios that pertained to profits (eg. like P/E) were abandoned, and calculations relating to book value, leverage levels, and return on capital have come more to the fore.¹³

Respondents were also asked to rank the importance of various, rather more subjective, factors in assessing Southeast Asian and Thai listed firms. Figure 8 provides a diagrammatic representation of all the responses given (by at least two or more respondents in the sample). It appears that issues like overall management acumen, respect for minority shareholders, management’s propensity to focus on the

company's core business, and the quality of information provided by the company, are the most sought-after attributes by foreign fund managers. And when asked to identify the main weaknesses of the business environment in Thailand (relative to the industrialised countries), some broadly congruent issues were evident in the answers. More than half the respondents cited the following factors: lack of transparency, low corporate governance levels, an inadequate banking sector, insufficient minority shareholder rights, inadequate management acumen, inadequate business legislation, and political interference. (See figure 9, which provides details of all main weaknesses of the business environment in Thailand, as recognised by at least a third of the respondents.)

In terms of the investment criteria and constraints facing foreign portfolio investors active in the Thai equity market, the survey results are quite illuminating. The sample gave a wide range of responses when asked to specify the minimum capitalisation of a Thai listed company necessary to be considered a candidate for investment, with 36% stating that they had no minimum capitalisation limit, and 40% citing a minimum limit of US\$100m or more. This seems to suggest that the capitalisation figure of a listed firm need not be an important issue per se, at least for some portfolio investors. However, other minimum size constraints do seem to pertain. Just under half the sample cited other minimum limits, of which 93% of this sub-sample (or 45% of the full sample) referred to the need for adequate trading volume — or 'liquidity' — in a specific stock and/or the size of a company's total shares listed on the market (the scale of 'free float').¹⁴ Similarly, when asked what is the maximum proportion of total outstanding shares in a Thai listed company that respondents are willing to hold, 82% cited a figure of 10% or less, with some adding that it must be considerably less than 10%. Only 7% had no ceiling limit on the proportion of total outstanding shares they were willing to hold.

Given the above constraints on share volume and liquidity, respondents were then asked how difficult or easy was it for them to invest in SET-listed companies. The response was fairly disappointing, albeit quite diverse, with 34.4% regarding it to be difficult or very difficult, and only 27.5% stating that it was easy or very easy. The rest of the sample (38%) were neutral on this issue. The SET's performance in this regard does not compare very favourably with the other equity markets in Southeast Asia, as

only Jakarta's stock market ranked as being more difficult. Figure 10 provides details of this regional comparison. The sampled fund managers were also asked to select other factors that the SET could implement in a bid to make investing in Thai listed firms easier. The range of their responses are provided in figure 11, with issues such as improving: corporate disclosure levels, market volume, the regulatory environment, the spectrum of firms listed, trading and settlement operations, and ending foreign limits — all being cited by a substantial proportion of the sample.

All but two of the respondents provided some indication of the scale of their investment exposure to the SET, relative to the other Southeast Asian equity markets, both in 1H97 (ie. prior to the financial crisis in Thailand) and at present. In no case did an investor in this sub-sample (93% of the total sample) have more funds invested in the SET than the other regional equity markets prior to mid-1997, while at present just two respondents have more funds committed to Thailand than any other Southeast Asian country. In the period between 1H97 and the present, Thailand's relative regional ranking — as measured by the scale of funds that respondents have invested in the SET, compared with Jakarta, Kuala Lumpur, Manila and Singapore — seems to have improved, as evidenced by the fact that 37% of this sub-sample have raised their relative ranking for Thailand over that period, 15% have lowered their ranking, and 48% have maintained the ranking at the same level. This would tend to suggest that fund managers are more up-beat (although not necessarily bullish) about the future prospects for Thai listed firms in 2000 than they were in early 1997, at least relative to the rest of the Southeast Asia region.

The sample was asked whether the SET is a market that's performance is driven by volume (ie. the rise and fall of the index is determined by the amount of net flows entering or leaving it). Of those that responded, 21% stated that the market was wholly driven by volume and 75% thought the market was partly driven by volume. In other words, 96% thought the SET was driven by volume, at least in part. This was the highest percentage recorded across Southeast Asia's equity markets, with 88% regarding the Jakarta market (JSE) wholly or partly driven by volume, 80% regarding the Manila market (PSE) wholly or partly driven by volume, 72% regarding the Kuala Lumpur market (KLSE) partly driven by volume, and 50% regarding the Singapore market (SGX) partly driven by volume. (See figure 12.) Similarly, the sample was

asked how important are retail investors in the performance of the Thai stock market. Only 3.7% of those that responded regarded retail investors as unimportant for the SET's performance, with 85% regarding retail 'punters' as either very important or important in the performance of the SET. Again, this figure — the importance of retail investors — is the highest across the Southeast Asian equity markets, as can be seen in table in figure 13. In terms of company fundamentals as a determinant of equity market performance, the SET appears broadly in line with the region, with 74% of respondents judging corporate fundamentals as being very important or important. (See figure 14.)

The sample was also asked to what extent they thought the performance of the SET is sensitive to the major global equity markets (eg. New York, London and Tokyo), and to the other equity markets in Southeast Asia.¹⁵ More than two-thirds of the respondents (68%) regarded the SET to be sensitive or very sensitive to the major global equity markets, and 62% regarded the SET to be sensitive or very sensitive to the other equity markets in the region. Indeed, with the sole exception of Singapore in both cases, Thailand's equity market is the most sensitive in Southeast Asia to the major global equity markets and to the other markets in the region, albeit only slightly in some cases. (See figures 15 and 16.) The fact that the SET appears more sensitive to the major global equity markets than to its fellow-ASEAN equity markets is, perhaps, worth noting. Finally in this section, we asked the sample to what extent could they gain investment exposure to Thailand by investing in transnational companies listed in the major global equity markets, rather than by investing in SET-listed companies. Only 21% of respondents said that they could do this to some degree, while 61% stated that this way of gaining exposure to Thailand offered an inadequate degree or no degree at all (the rest of respondents were neutral).

Just over half the sample (55%) stated that their general view of the corporate sector in Thailand had changed for the better since the Asian crisis, with only 10% regarding the corporate sector to have worsened (the rest were neutral). This view of post-crisis corporate sector improvement in Thailand was the best in Southeast Asia, after Singapore. (See figure 17.) In terms of the post-crisis reforms enacted by Thailand, 38% of the sample were favourably impressed and 24% were unimpressed. With specific regard to business liberalisation measures enacted by Thailand since the

crisis, 27.5% were either impressed or very impressed, and 21% were either unimpressed or very unimpressed, within our sample. Figures 18 and 19 show these perceptions for the five major economies of Southeast Asia, and indicate the extent to which Thailand compares favourably with all but Singapore.

In terms of the general view of the Thai equity market since the crisis, 68% of those that responded regarded the SET as having improved or much improved. Again, this view of the post-crisis equity market in Thailand was the best in the region, after Singapore. (See figure 20.) Yet in terms of overall ease of use, the portfolio investors in our sample did not rank the SET either particularly high or low, when compared with other Southeast Asian equity markets. (Only one respondent ranked the SET the best equity market in the region, and just one respondent ranked it equal-worst, with Jakarta and Manila.)

The sample was also asked to indicate which sectors were under-represented or over-represented on the Thai equity market, and although the response rate to these specific questions was fairly low, thereby making the results only roughly indicative, some interesting broad trends are apparent. With regard to sectors *under-represented* on the SET, both the IT and electronics sectors were cited by at least half of the respondents. Other sectors cited by at least a fifth of respondents included: food and beverages, commerce, transport, and travel and tourism. (See figure 21.) Conversely, no respondents in the sample thought either the banking and finance sector or the communication sector was under-represented on the SET. In terms of sectors *over-represented* in the SET, the banking and finance sector was identified by all the respondents to this question. At least a fifth of respondents also cited both the property development, and energy and power sectors as being over-represented. Conversely, no respondent cited the following sectors as being over-represented on the SET: IT, electronics, transport, travel and tourism, commerce, and food and beverages. With regard to future listing of firms on the SET in the future (IPOs), the following sectors were identified as potentially being of greatest interest by at least a quarter of the respondents: IT (over 90%), electronics (over 70%), travel and tourism, and communications.

POTENTIAL POLICY IMPLICATIONS

There appear to be a number of factors cited by institutional investors, which if addressed by Thailand's policy-makers might serve to improve the capability of the SET as a conduit for foreign capital, if only by improving foreign fund managers' perceptions of the Thai equity market as a whole. One could propose that Figure 11 — ways to make investing in the SET easier — provides a check-list of what these factors are, and suggests their order of priority. While some factors may be beyond either the capability or remit of policy-makers to improve, other factors undoubtedly could be addressed by regulators in some way.

Clearly, the issue of liquidity in listed shares is an important one for portfolio investors, both with regard to the overall equity market and individual stocks listed on that market. While a foreign fund manager may be willing to invest in a company with a relatively low capitalisation figure per se, if the company's listed shares lack sufficient liquidity — determined in part by the liquidity of the market as a whole, as well as the scale of the 'free float' of the specific counter and the vigour with which it trades on a daily basis — then it may be neglected by institutional investors, regardless of the fundamental merits of the business. The SET's poor regional ranking in this regard may merit some attention, in a bid to improve liquidity levels of listed Thai firms. It also seems likely that any liberalisation in the various foreign ownership restrictions that relate to listed equities would be very well received by foreign institutional investors.

With regard to some of the attributes that foreign investors wish to see in the Thai corporate sector, it is rather difficult to legislate for improved levels of management acumen and business focus among firms. However, for some other factors — such as respect for minority shareholders and the quality of information disclosure provided by companies — regulations pertaining to companies listed on the SET could be further revised (perhaps by the Securities Exchange Commission) in order to encourage improved standards in these fields. Concerns over opacity were very apparent, as were minority shareholder rights, yet tangible initiatives could be undertaken to allay such concerns.

The over-representation of banks on the Thai equity market can also be tackled by some form of programme to bring currently unlisted corporates to the SET, ideally

in those sectors where foreign investor appetite is most strong. These sectors would include: food and beverages, travel and tourism, electronics, and IT. While one can make a convincing argument as to the undesirability of direct government intervention here, in what should be a process solely propelled by market forces, presumably there are ways in which policy-makers could provide some encouragement and general facilitation.

Finally, the possible policy implications for Thailand's privatisation programme are also worth mentioning here. As part of the post-crisis recovery programme, the Thai government is committed to divesting itself of some equity in the Bangchak oil refinery, the Thai national airline, the Electricity Generating Authority of Thailand (EGAT), and various other state firms. There will also be the need for the government to divest itself of five banks 'nationalised' during the financial crisis, and return them back into the private sector.¹⁶ While it is conceivable that some of these equity divestments could be enacted as private equity deals, with strategic partners acquiring a large part (or all) of the shares on sale, it is likely that at least some of the divestments will entail share issues on the SET.¹⁷ Or put another way, the privatisation programme will result in new equity paper being listed and traded on the stock market. For adequate demand to meet this new 'supply' of equity paper, it is likely that at least some degree of foreign portfolio investor participation will be required, which brings us back to the utility of seeking ways to improve foreign institutional investors' perceptions of the Thai equity market in general, in order to provide an improved platform for these privatisation initiatives.

CONCLUDING REMARKS

Forces of globalisation are apparent in many areas of business, and the field of portfolio investment is no exception. Indeed, the financial industry is witnessing very rapid change, as a partial result of technological and communication innovations, as well as the freer flow of capital across time zones and national borders. The recent consolidation trend within most areas of the financial industry, including the fund management industry, is also having an impact, as firms seek to 'bulk up' and thereby hopefully reap economies of scale and/or synergies of convergence. Although much of this change is most apparent within the industrialised countries, one should not under-

estimate its potential impact on the financial markets of the developing world, including ‘emerging equity markets’ like Thailand.

The utility of diversifying funds across the globe is now being challenged, as the virulence of financial crisis contagion — sometimes even leaping whole continents — becomes more evident, and institutional investors re-assess the risk-reward ratio that pertains to equity markets like the SET in Thailand.¹⁸ One important consequence of this trend is the increasing ‘gravitational pull’ of the major financial centres on the smaller ones, with US assets in particular becoming a benchmark from which all others are being measured and compared.¹⁹ In the context of Thailand, this means that the corporate performance of a Thai cement firm listed on the SET is increasingly assessed in comparison with another in Mexico, another in the UK, Japan, the US, and so on. This raises the bar in terms of international competitiveness levels.²⁰ In the specific case of Thai equities, firms listed on the SET must offer something extra to fund managers — typically sitting in Edinburgh or Boston — in order that the additional risks (eg. less liquidity) of investing in this particular emerging market can be adequately discounted.

Such a trend towards increasing competition between listed firms within the same business sector, although listed on equity markets in different countries, is also probably true of the markets themselves. Institutional investors managing pan-global and emerging market remits will make comparisons between the reliability of an Asian market with a Latin American market, for example, and this comparison will have some impact on their asset allocation decisions. This should come as little surprise, given the parallel intensity of competition between emerging markets as hosts for foreign direct investment. Here too, developing countries are competing to provide the most conducive business environment for foreign direct investors. And as the foreign investment legal regimes become uniformly liberal across the globe, the areas of competition are gravitating to other pertinent issues, like standards of human capital, physical infrastructure, financial markets, and other host country attributes.²¹

A similar trend is apparent in the field of portfolio investment, as the performance bar is continually being raised. This not only impacts on institutional investors that participate in the equity markets, but also on companies using the equity markets as vehicles on which to list their shares. One of the major new challenges

facing emerging equity markets like the SET will be the ‘pull’ of competing equity markets as an alternative vehicle for listing Thai corporates, where issues of improved liquidity and greater public profile are a determining factor.²² One possible solution may be for markets like the SET to establish alliances with other equity markets, in order to remain attractive to institutional investors and potential listing candidates alike. However, such alliances are no alternative to providing an equity market that meets the needs of its participants.

NOTES

1. The latest figures from the IIF show that, having recorded net outflows of US\$49bn and US\$39.1bn in during 1998 and 1999 respectively, this year commercial banks are forecast to withdraw net US\$3.1bn from emerging markets. With regard to the Asia Pacific region, commercial banks net withdrew US\$58.5bn and US\$30.7bn from the region in 1998 and 1999 respectively, and are forecast to withdraw a further US\$14.2bn in 2000. See IIF (2000), pp. 1-3.
2. An additional source of foreign funding, not mentioned here, is foreign direct investment (FDI). While FDI has the potential to play a major role in this regard — and fairly considerable FDI activity has been apparent in the Thai banking sector — it is probably true to say that the cumulative scale of post-crisis FDI activity has not met initial expectations.
3. This trend was exemplified by the hybrid shares issues enacted by some of the major domestic commercial banks in Thailand during 1H99. Although these hybrids helped raise the banks’ official capital adequacy ratios to levels that were more acceptable to the Bank of Thailand, there was some criticism over their reluctance to issue common stock. See Standard and Poor’s (1999) and Winn (1999).
4. The aggregate capitalisation of the SET is just 0.4% of New York, and all the five equity markets of Southeast Asia have a cumulative capitalisation that is less than Microsoft alone. See Freeman (2000), p. 18.

5. See Freeman (2000), p.10.
6. See Wilcox (1999).
7. See IMF (1999), p. 63.
8. Approximately 24% were located in the US, 25% were located in the UK, 9% in continental Europe (excluding the UK), 22% in Singapore, and 21% in Hong Kong.
9. The sources comprised of the following: the *FT Guide to Investment Managers in Asia* (1998 edition); *Nelson's Directory of Investment Managers* (1998 edition); the investment advisors list contained on the Monetary Authority of Singapore website; the membership list contained on the Investment Association of Singapore website; the membership list contained on the Hong Kong Investment Funds Association website; 'authorised' and 'FSA-recognised' fund managers listed in the *Financial Times* newspaper.
10. Although Singapore represented 22% of the aggregate population to whom questionnaires were sent, it constituted 48% of the respondents.
11. For explanations of some of the terms used in this section, please see the glossary.
12. The relatively low response rate for the sectoral approach (11%) may reflect in part the paucity of US respondents in the total sample, as this method of stock comparison appears more popular among US fund managers than UK fund managers, for example.
13. One respondent wrote, "more concentration on enterprise value". Issues relating to the general cost of capital may also have come to the fore in recent years.
14. Ways that individual portfolio investors actually measure the degree of liquidity in a specific stock seems to vary. One respondent stated "we must be able to complete an investment within 5 days", two referred to a minimum of US\$500,000 per day trading volume, one stated "we do not want to own more than five days average trading volume", while another applied a ratio that divided minimum daily turnover by the size of his/her 'position' in the stock, and so on. However, the most common measure appears to be some form of

- calculation based on the average daily trading volume of a stock, over a certain period (eg. 10 or 5 days).
15. Respondents were asked how ‘sensitive’ the SET was to the major equity markets, and not whether it’s performance was actually correlated to these markets.
 16. At the time of writing, the process of restructuring the banking and finance sector in Thailand is on-going. Seven banks were nationalised during the financial crisis (along with 68 finance companies). Five of the seven banks are expected to be returned to the private sector at some point, along with the privatisation of Krung Thai Bank (into which one bank and some finance firms have been folded), and an unknown number of finance companies.
 17. And even for private equity deals to strategic partners, a secondary market for equities can provide a crucial element of support, if only as a subsequent exit route for the new investors, should they later seek to ‘realise’ their direct investment.
 18. As the survey indicated, institutional investors thought the SET was quite sensitive to the major equity markets, even more than its regional contemporaries. At the time of writing, the world’s lowest-risk asset class — US treasury bills — are yielding close to 6.5% returns per annum, and one major US equity market index — the NASDAQ — provided returns in excess of 75% in 1999. Yet emerging equity markets have a very mixed record in providing comparable returns, at least in a convincing and sustained manner that could partially discount the additional risks that pertain to these markets. The Asian financial crisis, and its contagion through Latin America and Russia, served to remind investors that these additional risks are very real.
 19. Just as non-US equities are becoming benchmarked off US equities, US equities tend to be benchmarked off US Treasury bills. Ultimately, I suppose the “benchmark’s benchmark” is the floor of the Chicago Board of Trade.
 20. Any such trend towards increasing competitiveness in the performance of listed Thai equities is congruent with a more general trend towards increasingly intense competition over corporate rates of return in emerging markets. See Glen et. al. (1999).

21. See UNCTAD (1999).
22. One fund manager noted to the author that although his fund's investment mandate was the emerging markets, a number of stocks in his portfolio are listed in the US equity markets, even though the companies themselves are located in various developing countries (and therefore eligible for inclusion in his portfolio). Several Asian tech companies have opted to list on the NASDAQ, rather than their home country equity market, primarily in order to harness the perceived advantages of the mighty US equity market, including improved exposure to institutional investment money.

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GLOSSARY OF SOME TERMS USED IN THE TEXT

‘Bottom-up’ approach. Selecting individual stocks, based on their intrinsic performance, without prior reference to economic or sectoral trends in the asset allocation process.

Capitalisation. Total value of the company, as measured by the price of each individual share, multiplied by the number of shares. This will tend to differ from the strict value of the firm’s assets, or book value / net asset value, as depicted on its balance sheet. If the prospects of the company are regarded favourably by the market, the capitalisation will be greater than (at a premium to) the net asset value.

Growth investor. A growth investor will seek to invest in growth stocks. Growth stocks tend to have faster rates of profit growth, and thereby out-perform other stocks in this regard. Growth stocks tend to make lower (or nil) dividend payments to shareholders, have a higher P/E ratio, and are regarded by some to be riskier investments than, say, value stocks.

Index investor. An index investor will tend to have a portfolio that follows a particular index, and therefore invest in stocks that are included within that index. This tends to be a more passive way of managing an investment portfolio, and is therefore cheaper. Advocates of efficient markets tend to place greater faith in index investing.

Market volume. A market’s volume is the number of stocks, or other instruments, traded over a particular period. A substantial inflow of new money into a market can also cause a ‘volume-driven rally’, as the influx of capital causes prices to rise, when demand for equity paper is greater than supply. Of course, a substantial outflow of capital from the market can have the reverse effect.

‘Top-down’ approach. Prior to investing in specific stocks, an investor using the ‘top-down’ approach will first look at wider macro-economic and sectoral trends, in order to determine how best to allocate the aggregate portfolio. Based on that allocation decision, the investor will then select specific stocks expected to benefit most from these wider trends and themes.

Value investor. A value investor will tend to invest in stocks that are perceived to offer value, relative to their peers, according to various possible methods of analysis. For example, on a P/E basis, the stock is cheaper than others in the same sector or market.

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Figure 1. Breakdown of Survey Respondents, by Location

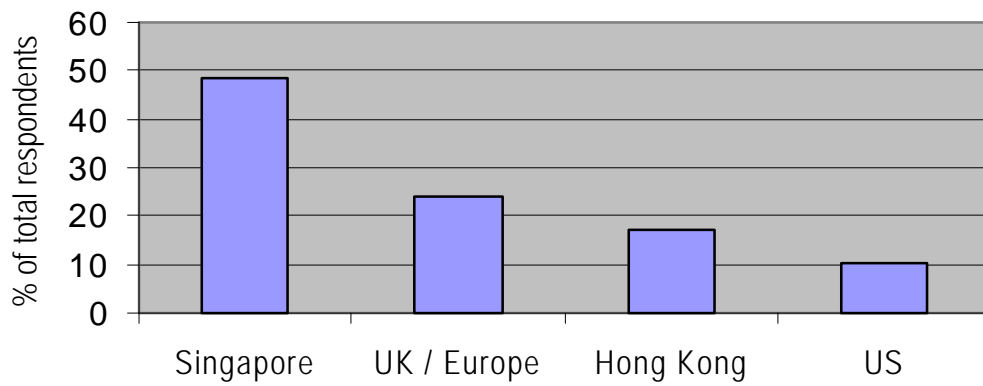


Figure 2. Size of Global Equity Funds Managed by Respondents

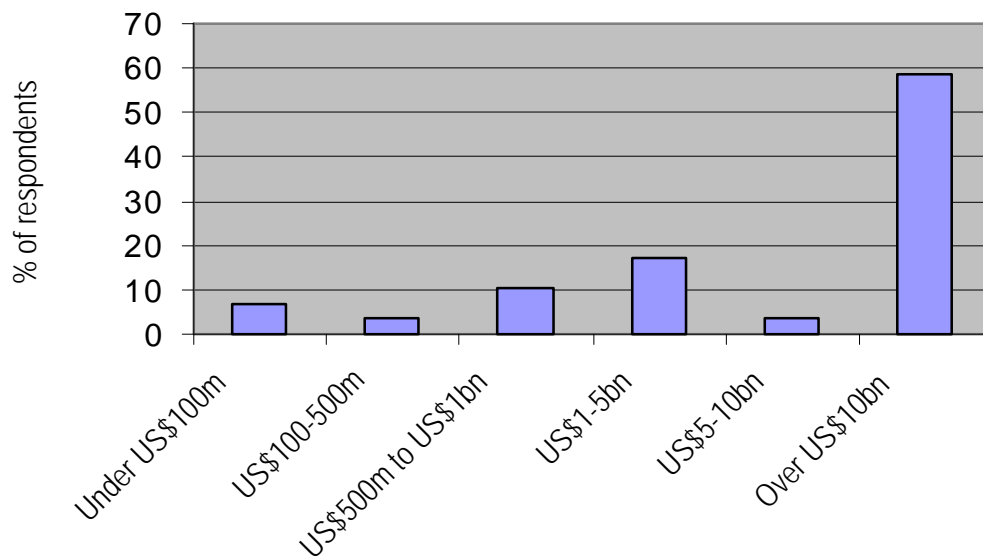


Figure 3. Size of Southeast Asian Equity Funds Managed by Respondents

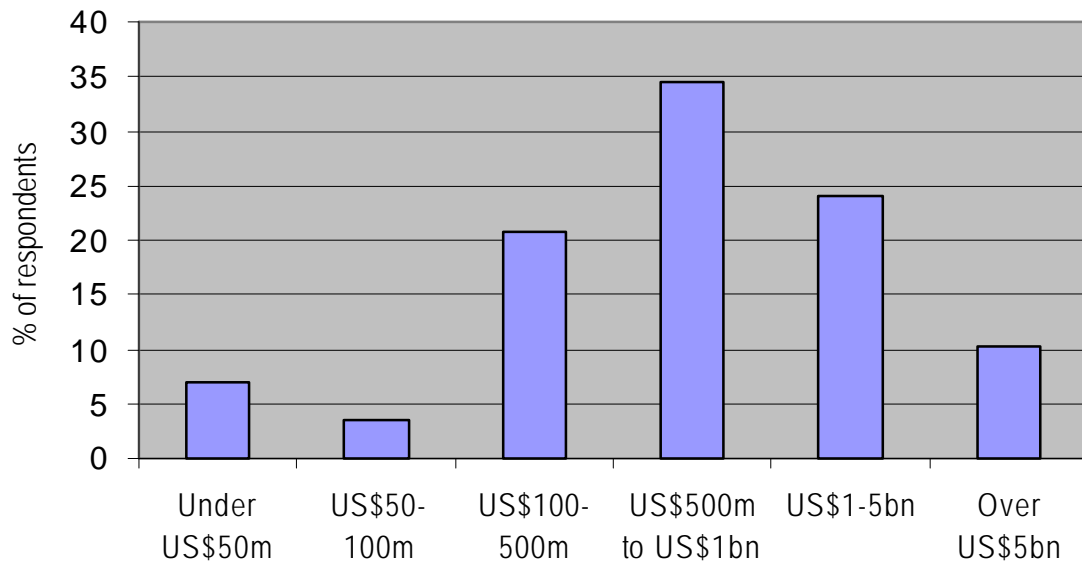


Figure 4. Length of Time Respondents have been Investing in Southeast Asian Equities

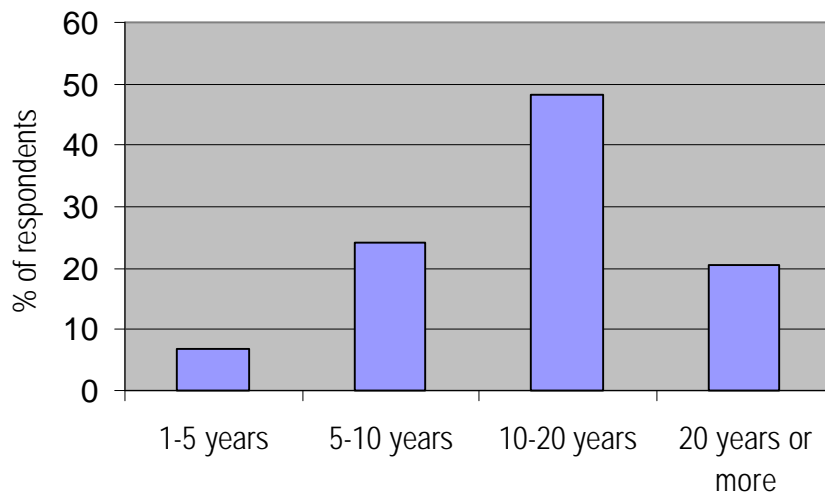


Figure 5. Length of Time Respondents Have Been Investing in the Thai Equity Market

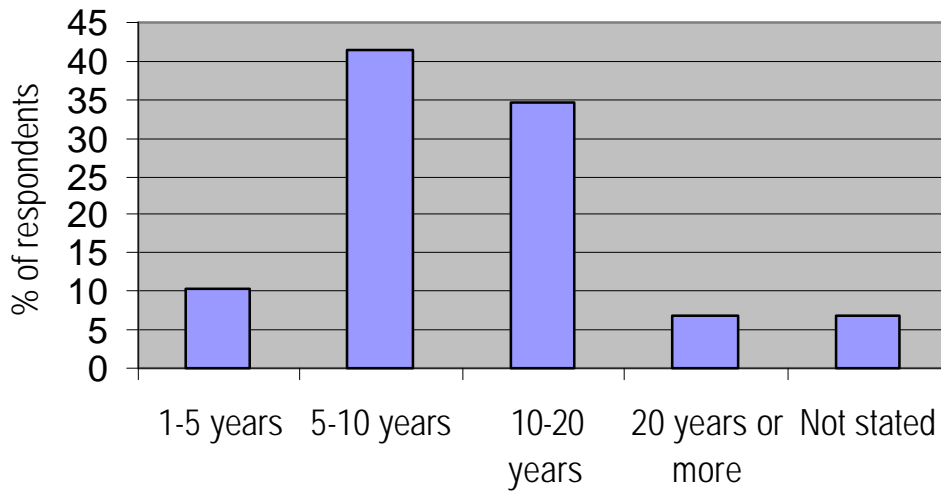


Figure 6. Proportion of Total Funds Currently Invested in Thailand and Southeast Asia

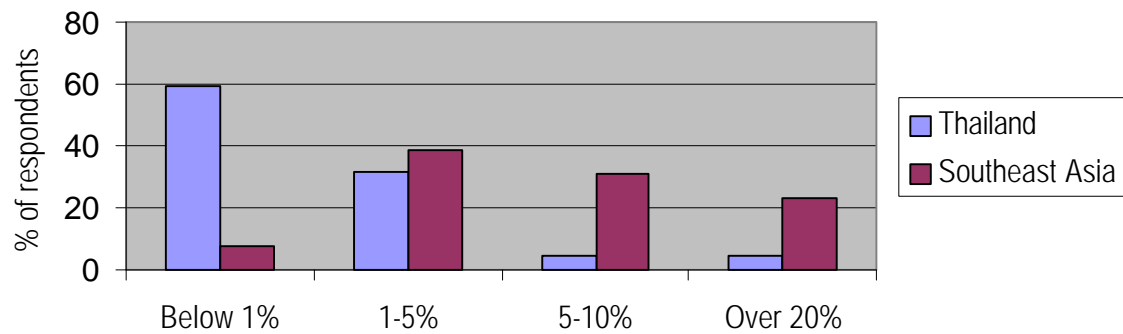


Figure 7. Statistical Methods and Ratios Employed by Sample to Select and Compare Southeast Asian Equities

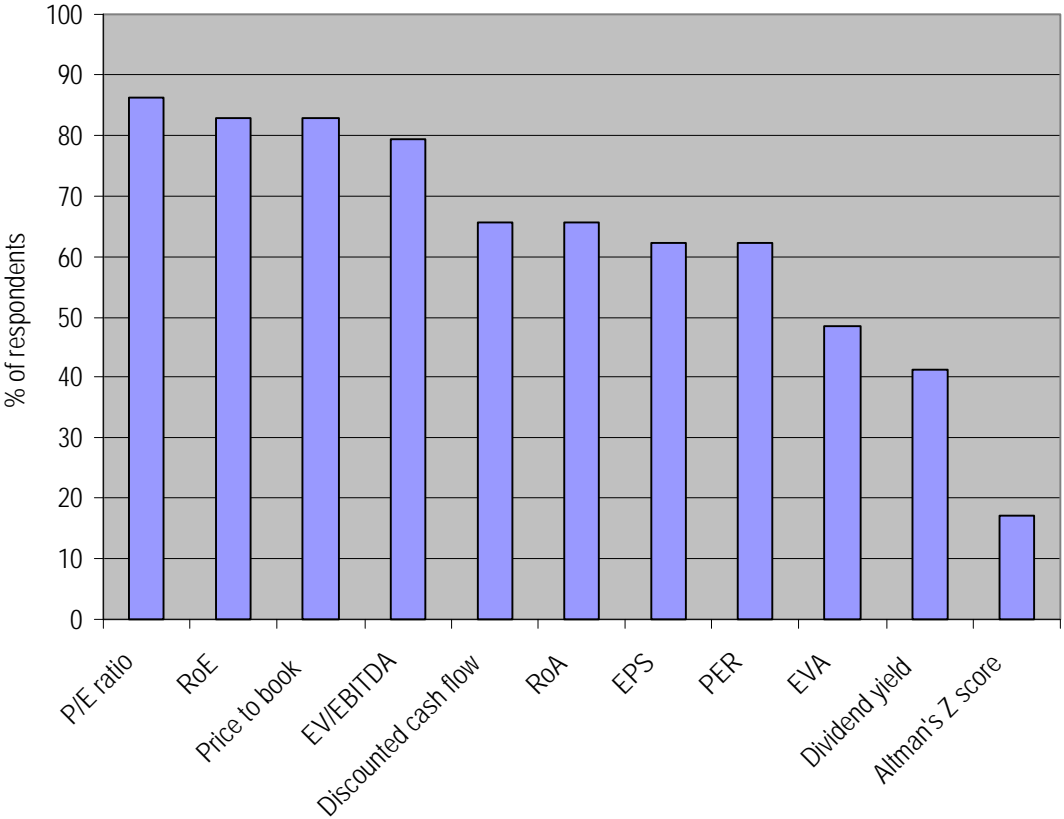


Figure 8. Importance of Various Subjective Factors in Assessing Southeast Asian Equities

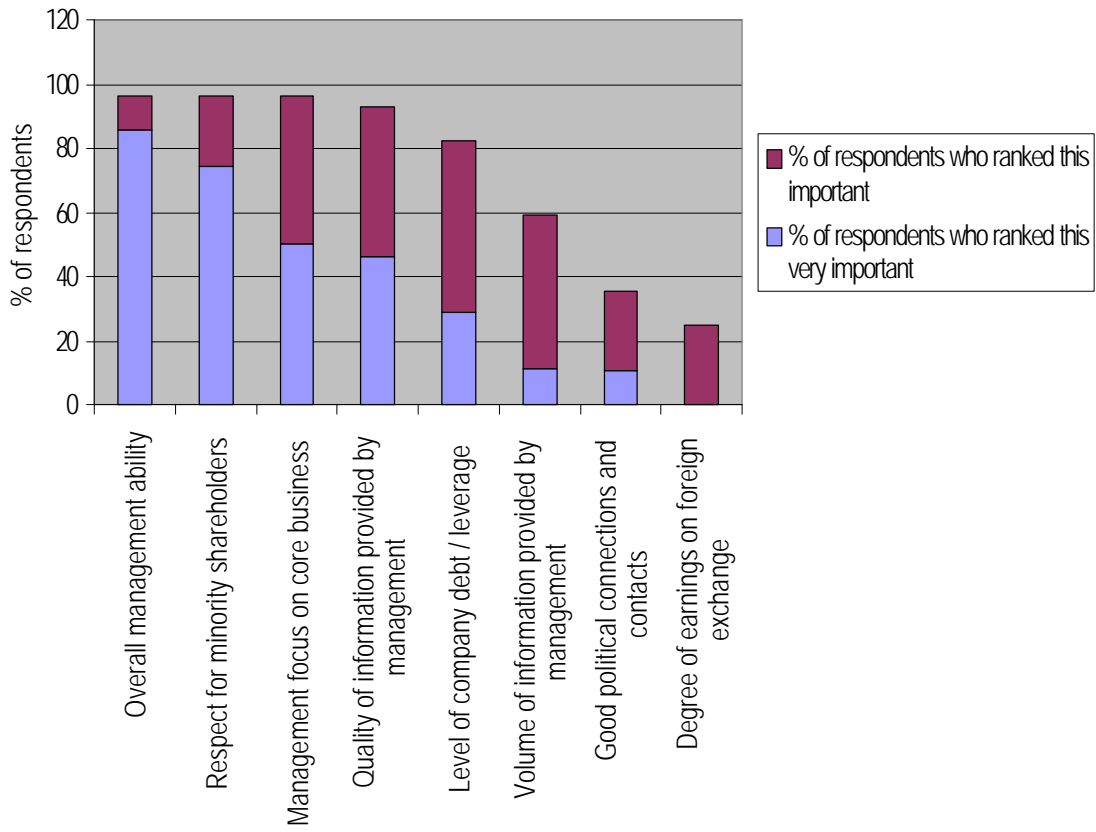


Figure 9. Main Weaknesses of the Business Environment in Thailand

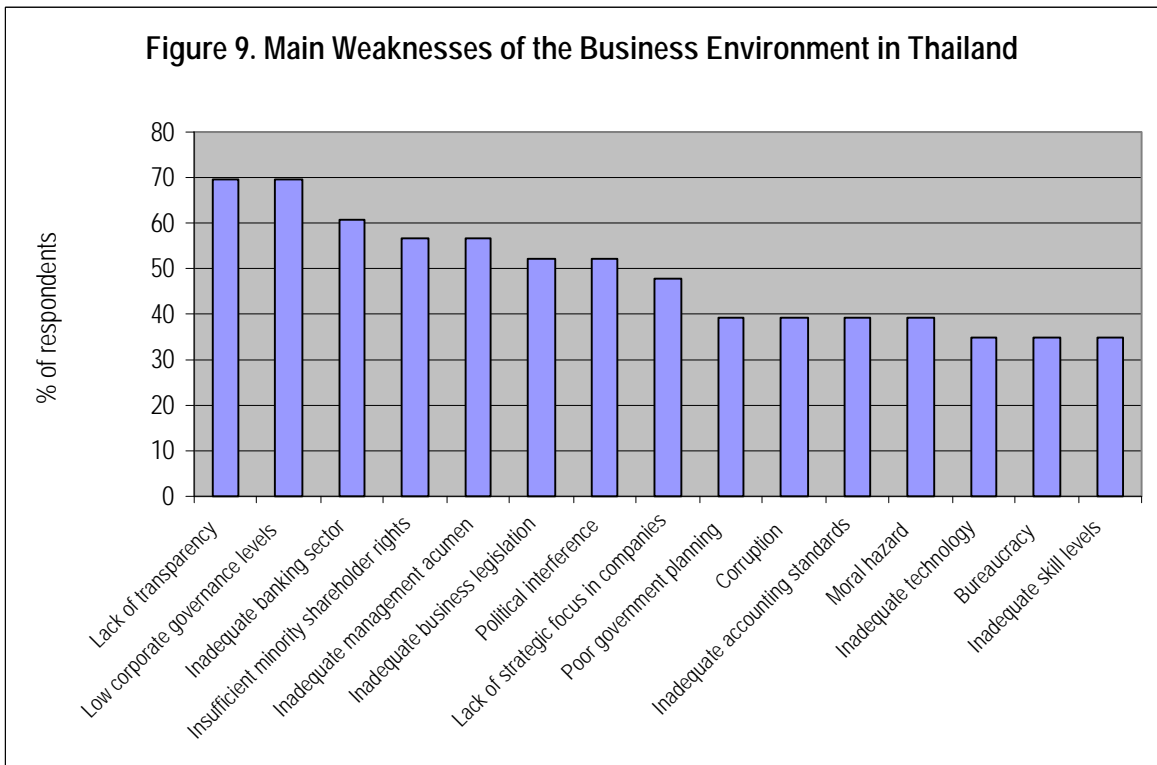


Figure 10. How Difficult or Easy to Invest in the SET, Compared

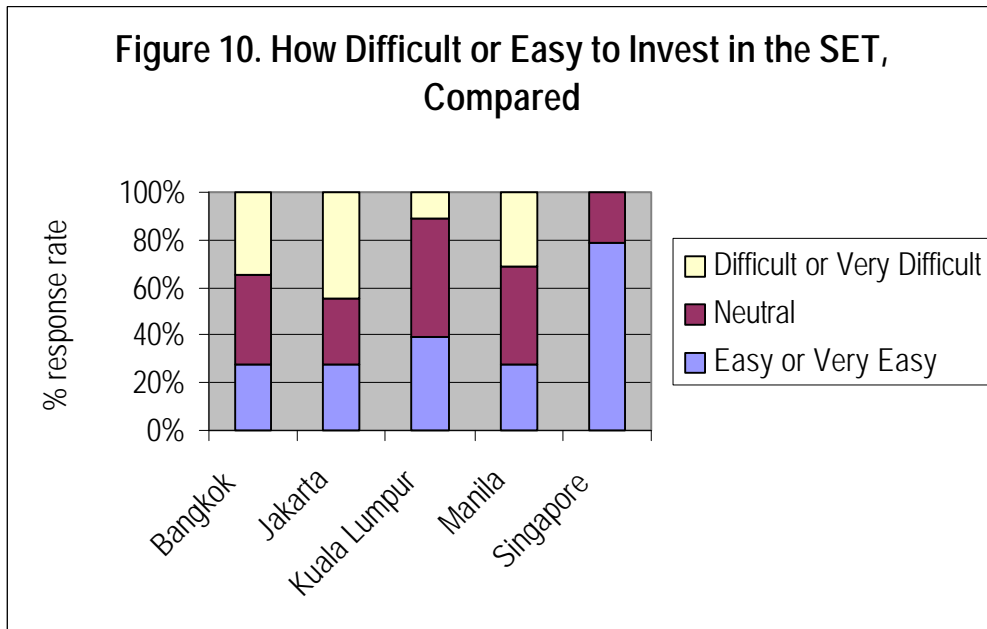


Figure 11. Ways to Make Investing in the SET Easier

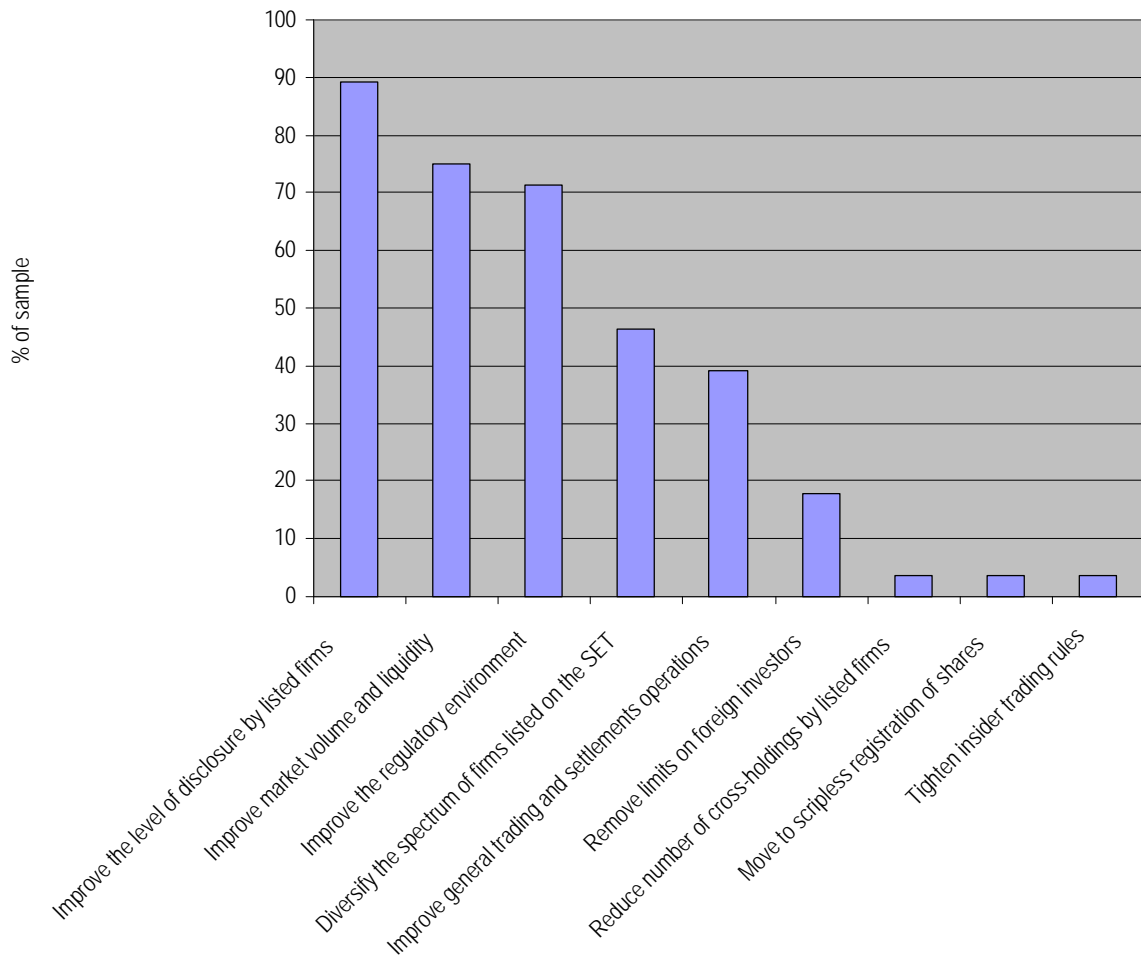


Figure 12. Extent to which the SET is Driven by Volume, Compared

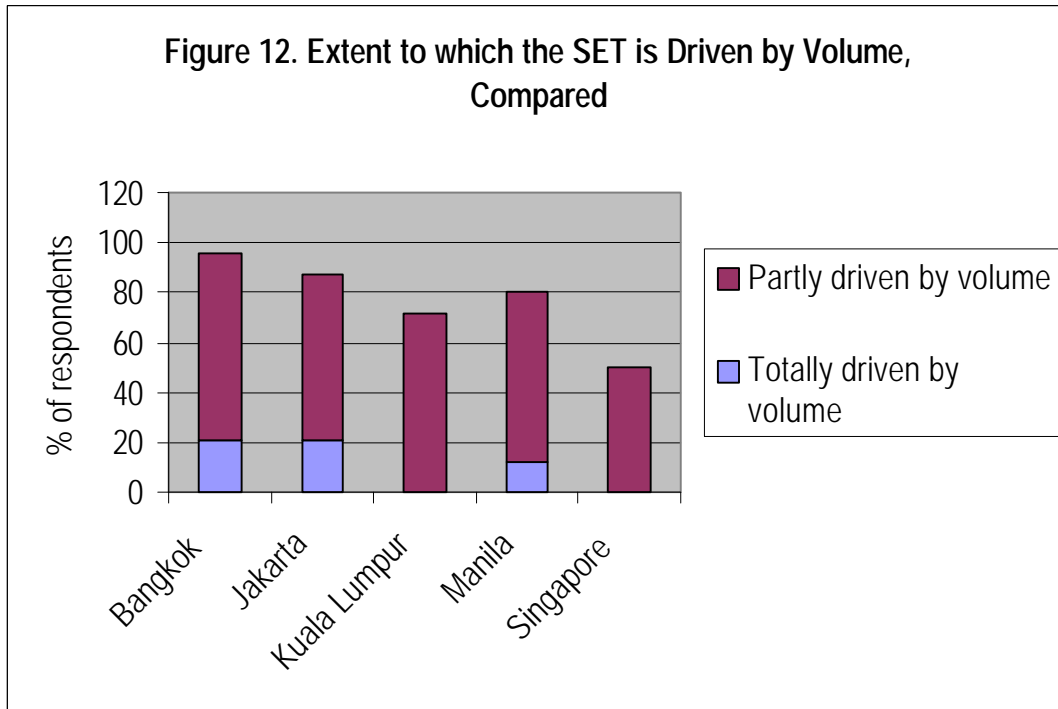


Figure 13. Extent to which Retail Investors are Important in the Performance of the SET, Compared

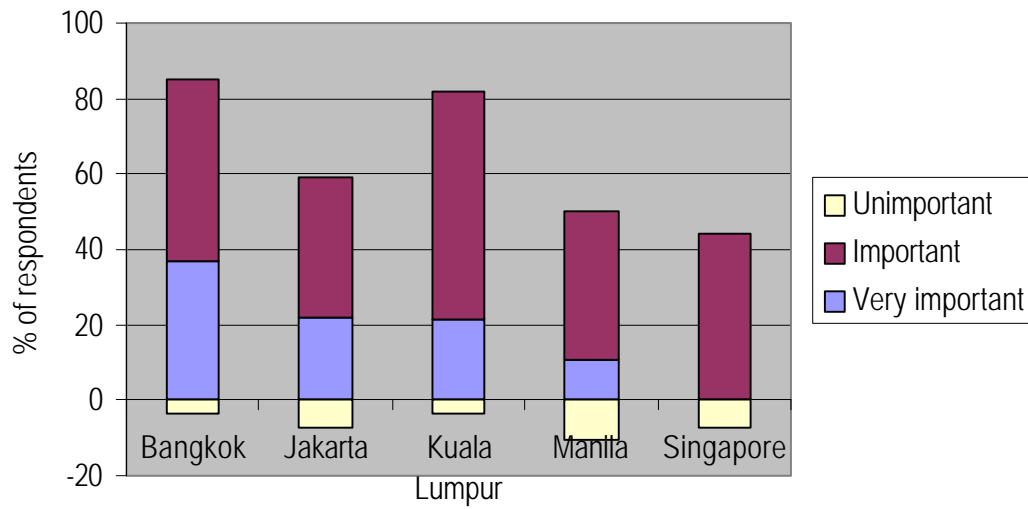


Figure 14. Extent to which Corporate Fundamentals are Important in the Performance of the SET, Compared

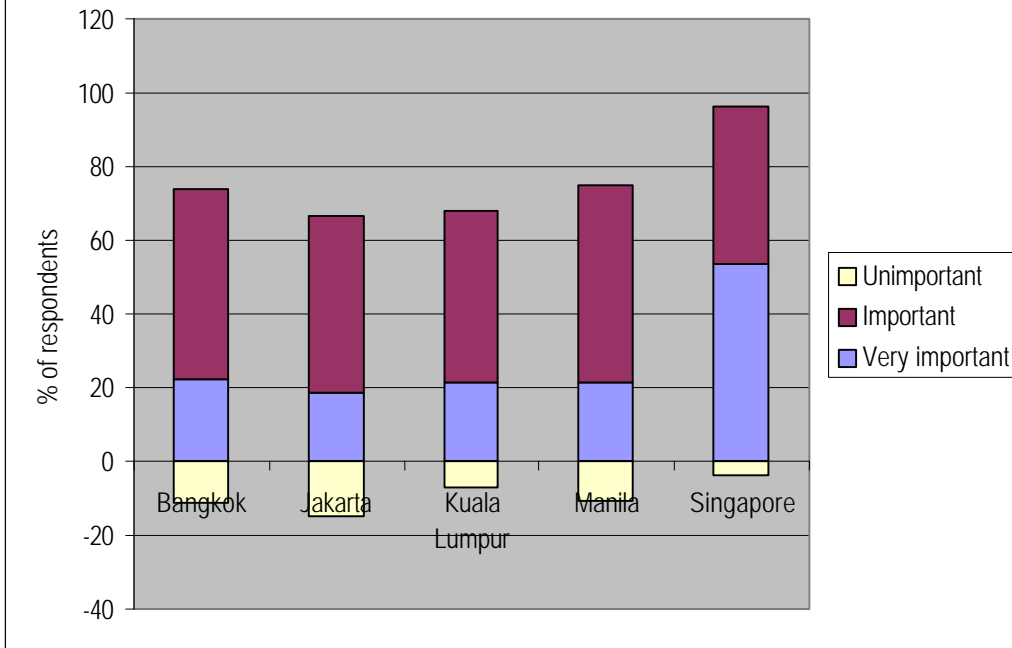


Figure 15. Degree of SET's Sensitivity to Major Global Equity Markets, Compared

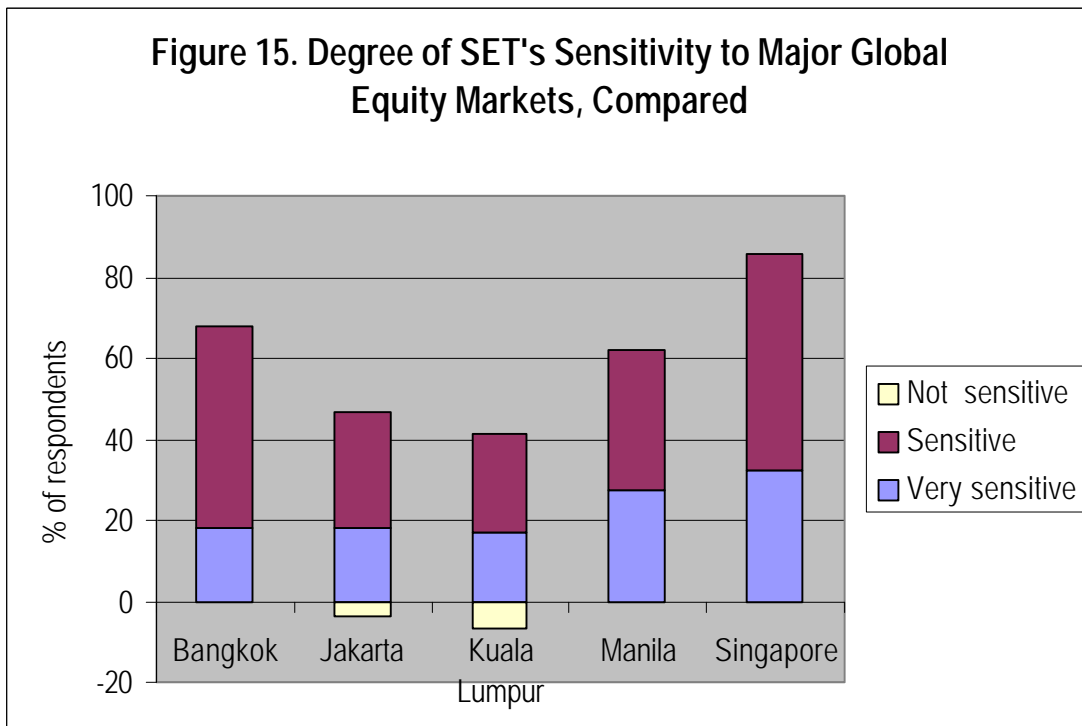


Figure 16. Degree of SET's Sensitivity to Other Southeast Asian Equity Markets, Compared

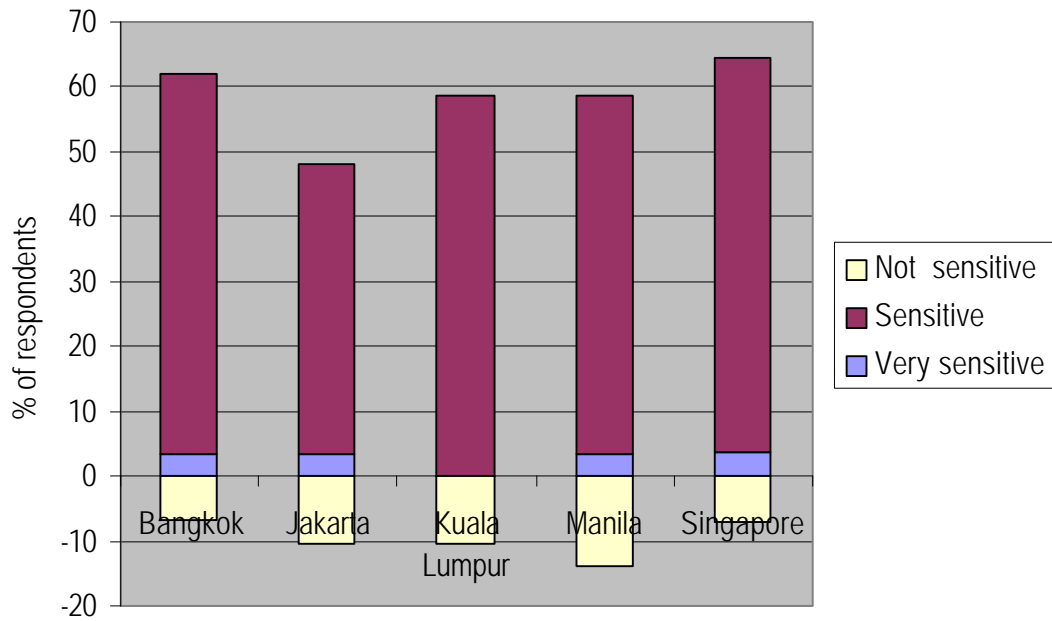


Figure 17. Extent to which Perceptions of the Corporate Sector in Thailand has Improved Since the Asian Crisis, Compared

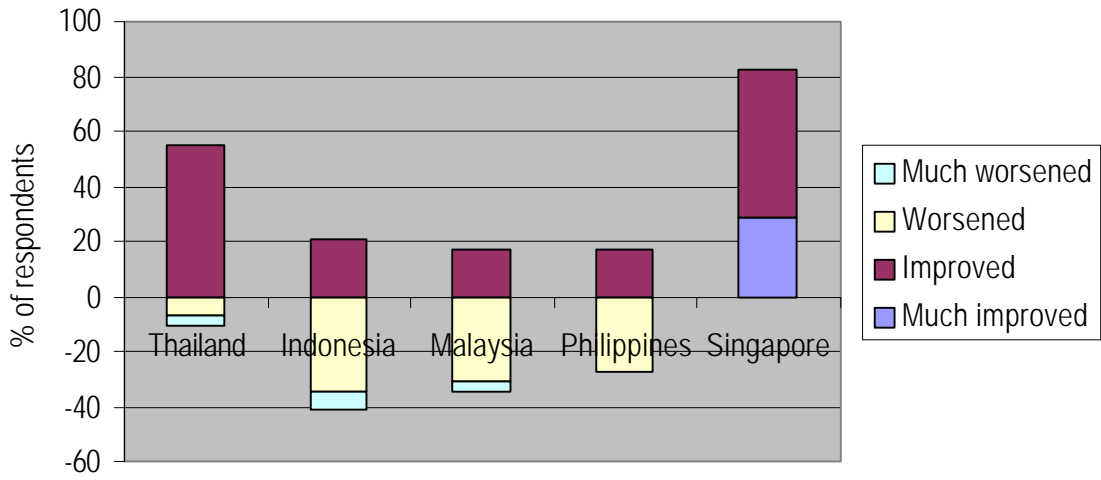


Figure 18. Perceptions of Post-Crisis Reforms in Thailand, Compared

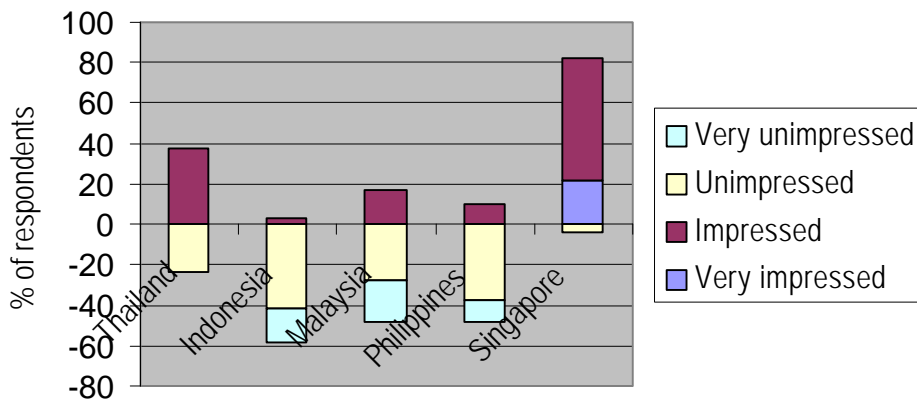


Figure 19. Perceptions of the Post-Crisis Business Liberalisation Measures Enacted by Thailand, Compared

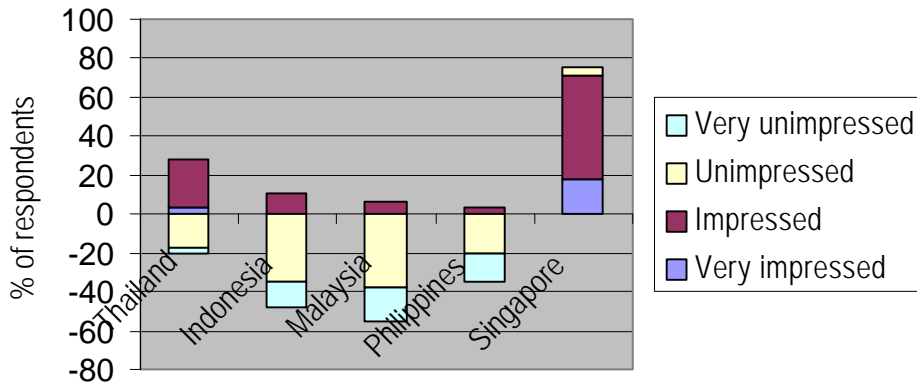


Figure 20. Extent to which Perceptions of the Equity Market in Thailand have Improved since the Asian Crisis, Compared

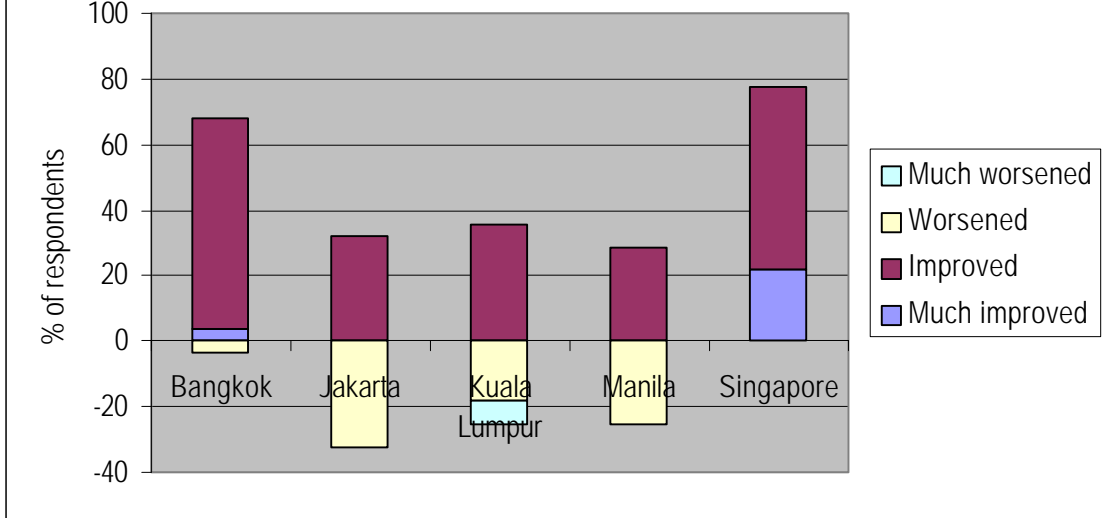
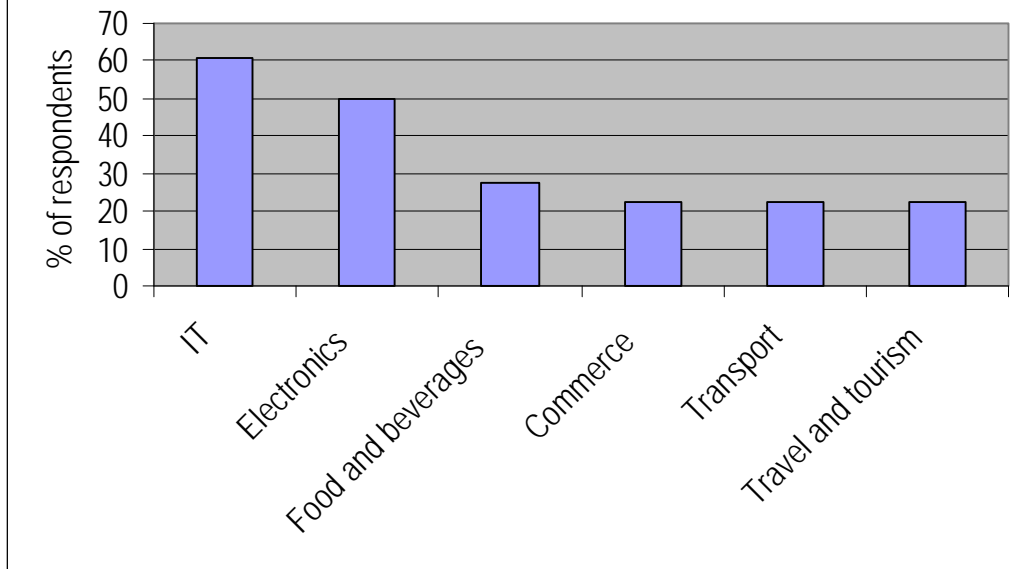


Figure 21. Main Sectors Regarded to be Under-Represented in the Thai Equity Market



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