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Asset allocation insights 2020

Asia

Pension allocation insights from government, corporate and mandatory pension plans in Asia*

Mercer's Asset Allocation Insights 2020 report analyzes US$5.2 trillion in retirement plan assets across Latin America, the Middle East, Africa and Asia to help investors benchmark their portfolios in search of better outcomes.

In the report, we look at Asia, excluding Japan, as well as providing data on Japan separately.

Asset allocation for the region aligns broadly with growth markets in aggregate; however, it has the highest allocation to alternatives (~8%) among all regions.

Over the full measurement period of six years, allocations for Asia ex-Japan investors have been relatively flat, with modest increases to alternatives (+1.6%) and decreases to fixed income and cash (-1.3% and -0.8%, respectively).

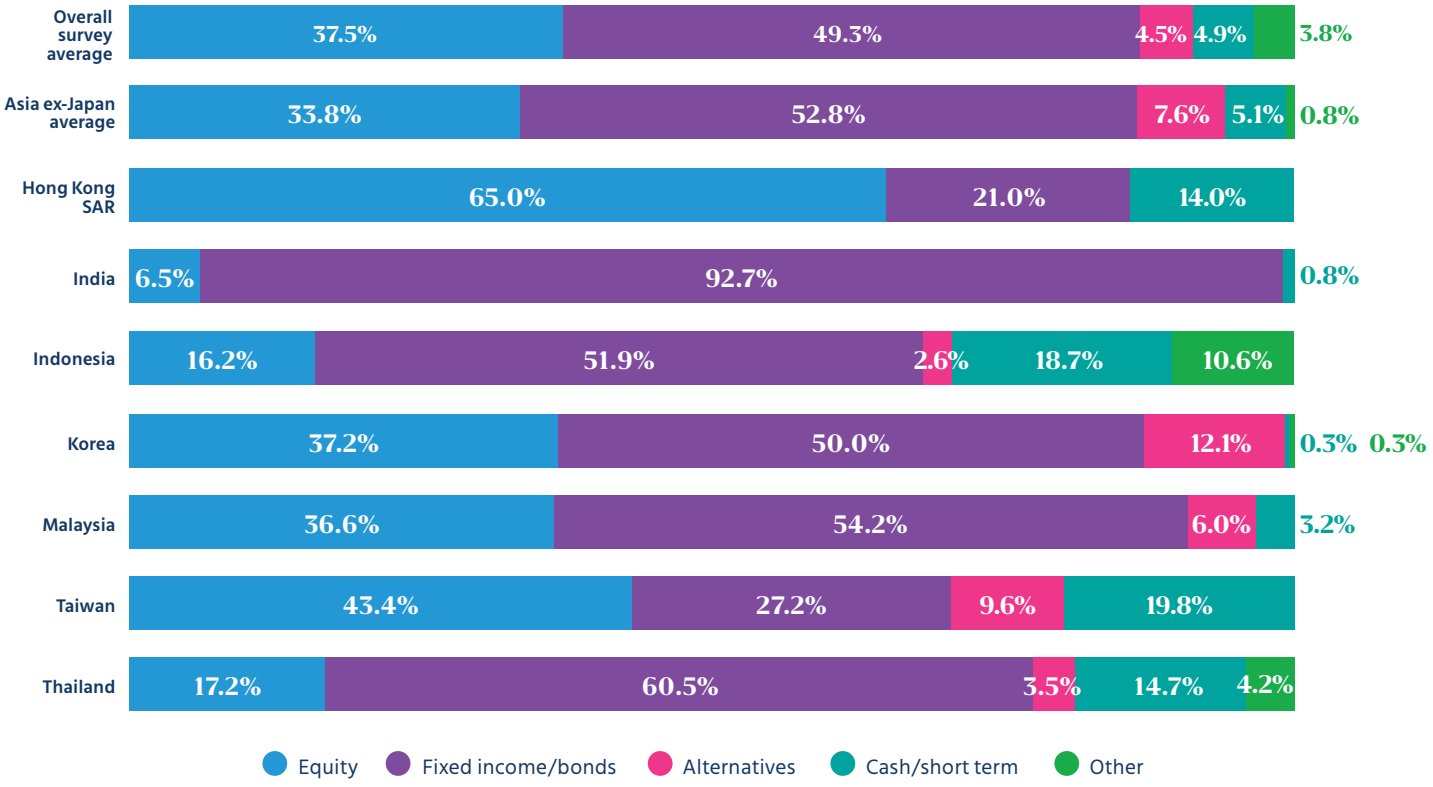
Equity portfolio assets have shifted to foreign equities to 48% foreign, up from 34% in the inaugural period), and fixed income is moving in this direction but to a much lesser extent (9% of the fixed income portfolio allocated to foreign securities, which has not changed significantly over the period).

Both defined contribution (DC) and defined benefit (DB) plans have reduced their allocations to fixed income over the years in favor of cash for DC plans, whereas DB plans have allocated to alternatives.

https://www.mercer.com/our-thinking/asset-allocation-insights-2020.html

* This document summarizes our findings at the region and country level. Check out the full report to learn more about aggregated trends in Latin America, the Middle East, Africa and Asia.

Asia ex-Japan: Current asset allocation by country (%)



China

- China's pension assets have grown rapidly in the past few years.
- Despite being able to invest up to 20% in foreign assets, the National Council for Social Security Fund (NCSSF) has mostly concentrated its assets in the onshore market. Less than half of the offshore investment quota has been is used, with approximately 8% of total assets in foreign markets in 2018. (This notwithstanding, the absolute value of foreign investment has increased by close to US$5 billion over the past five years.)
- Alternative asset classes have become more popular with institutional clients in recent years, particularly for large insurance companies and sovereign wealth funds.
- We've seen leading investors in China include thematic investments in their global allocations, set up environmental, social and governance (ESG) teams, incorporate ESG into their long-term strategic plans and develop policies to include ESG considerations in their investment processes.

Hong Kong SAR

- The DC approach adopted under both the Occupational Retirement Schemes Ordinance (ORSO) and the Mandatory Provident Fund (MPF) dominates and accounts for more than 90% of total pension assets.
- The average fund expense ratio within MPFs dropped from more than 2% in 2007 to 1.52% in March 2019.
- The MPF Authority (MPFA) issued a letter encouraging plan sponsors to consider ESG factors in their decision-making processes, such as making ESG-themed investment products available to members.

India

- Retirement funds in India, both DB and DC, have high allocations to fixed income. For the most part, these are held directly rather than through investment managers.
- Indian allocations remain domestic focused. Over time, we expect to see a modest increase in India's equity allocation. In 2015, regulations mandated equity investments for plans other than the National Pension

System (NPS). Investors must increase allocations a minimum of 5% each year — though to a cap of only 15%. The relatively low cap — as well as continued restrictions on investing outside India — will result in heavily domestic-fixed-income-influenced portfolios until restrictions are further relaxed.

Indonesia

- Within the corporate pension system, Indonesia continues to see a shift from DB to DC plans as the number of employers contributing to voluntary DC plans administered by a financial institution (DPLK) increases.
- We see employers investing conservatively in fixed income and cash/short-term assets to ensure they can qualify for Labour Law benefits. (This is particularly true within DPLK plans, where the average allocation to cash/short-term assets is 61%).
- Efforts to repatriate offshore assets through a tax amnesty have so far proved unfruitful, and a large proportion of individual wealth remains outside the market.
- Reduced monetary limits on mutual fund investments and emerging fintech solutions support a new trend of micro-investors. Although this trend is still in its early stages, signs are starting to show that the growing middle class is becoming more engaged with investments and more interested in putting their savings to work.

South Korea

- South Korea has seen some of the largest increases in foreign equity exposure over the full measurement period.
- The country has the largest allocation to alternatives in the survey.
- The National Pension Service (NPS) recently updated its Investment Policy Statement (IPS) to include responsible investment clauses and introduced an ESG assessment system to support investment decisions. In addition, Korea's Government Employees Pension System (GEPS) and Teachers Pension (TP) have publicly stated they will not invest in any new coal power plants.

Malaysia

- The two main state-run plans in Malaysia the Employees Provident Fund (EPF) and the government pension fund (KWAP) have typically held a domestic bias. However, over the five-year period, the asset allocation for EPF has changed, with an increase in foreign equity.
- There have been increased efforts to diversify portfolios, including allocations to alternatives such as real assets and private equity.
- Some investors have already incorporated sharia-related considerations and have spoken about expanding them to include ESG considerations more broadly.

Philippines

- The Philippines' capital markets, banking sector, and pension systems are transforming and evolving. For example, for the first time in its history, the Social Security System (SSS) is looking to pilot offshore investments in 2020, with the potential to increase foreign exposure by 2021 and beyond.
- As a result of the significant and catastrophic natural events that have occurred in the country over the past few years, the Securities and Exchange Commission (SEC) has taken important steps to increase the focus on innovative financial products that address sustainability.

Singapore

- The main pension fund in Singapore is the Central Provident Fund (CPF), a mandatory DC plan. As of September 2019, the CPF system had a total account balance of US$300 billion.
- The Supplementary Retirement Scheme (SRS) is a voluntary savings arrangement with tax incentives, available to any resident of Singapore. Some multinational companies have also used the SRS as a savings vehicle for foreign workers. Statistics indicate that 28% of assets are invested in equities, 36% in unit trusts/insurance products and the balance in cash or other assets.

Taiwan

- Taiwan has relatively large exposures to alternatives, at close to 9% of total assets.
- Taiwan's cash balance is relatively high at 20%; however, it has fallen 6 percentage points over the full measurement period.

Thailand

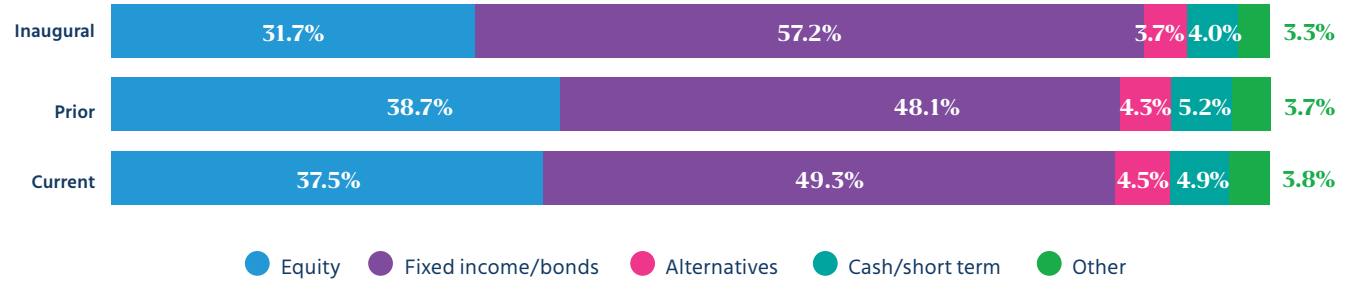
- Thailand has some of the largest increases in foreign equity exposure over the full measurement period.
- The GPF currently has the highest allocation to (domestic) fixed income and limited allocations to alternatives (especially hedge funds and private equity). This is driven by a lack of in employee choice, access, availability, regulations and a thorough understanding of this asset class.

Japan

- Japan's asset allocation shifted from fixed income to equities significantly over the period, from 31% to 43%.
- DC plans are a small but growing segment in Japan. These remain concentrated in principal-guaranteed products (defined, generally, as bank deposits and insurance policies), whereas DB plans have moved into equities.
- Within the Government Pension Investment Fund (GPIF) equity and fixed income allocation, there has been a move toward more foreign assets at the expense of domestic assets over the past year.
- GPIF has demonstrated interest in ESG-related strategies and private markets.

Japan: Asset allocation

Overall survey average: Asset allocation



Contact us

Fiona Dunsire, Investments and Retirement Leader, Growth Markets
fiona.dunsire@mercer.com

Tracy Teel, Strategy Leader, Growth Markets, Investments and Retirement
tracy.teel@mercer.com

Simon Coxeter, Growth Markets, Investments Strategic Research Director
simon.coxeter@mercer.com

6010555G-WE