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Emerging market debt touted as refuge from crisis

Pension funds looking for reliable returns in a time of economic turbulence in Europe and North America should embrace emerging market debt, says the head of Rexiter asset management

Managing director and chief investment officer of fixed income, John Morton, says that pension funds should consider hedging away from holdings in 'overleveraged' developed economies that face "persistent and constant crises, perhaps as frequently as every six months and for as long as the next 20 years."



Morton claims that "diversified emerging market debt portfolios can still yield 7% on average – which can be very useful in a world where pension fund members are expecting the same solid returns on their investments that they saw in the past."

Morton adds that "unwinding the financial engineering in the developed markets from the last 20 years will make the developing market debt an attractive prospect as it is already deep, liquid, and has a broad range of participation from investors".

He argues that while debt fears plague the developed world, much of the developing world is caught in a "positive feedback loop, with strong growth driving consumer demand (with) that then creating a need for large scale investment in property and infrastructure."

He sees emerging markets on the whole as being in a period of "convergence at a time of decoupling" with the economic situation in emerging regions improving with similar characteristics whilst their economic health becomes less dependent on their traditional export markets of North America and Europe.

Morton told *Pension Funds Insider* that he believes "most big pension plans realise that they need to have emerging market debt" although he conceded that memories of the Latin America and Asian debt crises in the 1980s and 1990s respectively are making some investors view the assets with "unwarranted" scepticism.

Rexiter's fixed income research analyst Lewis Jones added that "central bankers in emerging economies have worked so hard to establish independence and credibility that they are not going to give that up easily, and the market is underestimating that fact."

The State Street Global Investors subsidiary manages some £4bn in its emerging market debt and equity funds. Their London-based global emerging markets local currency bond

strategy manages some US\$234 million in assets and is principally invested in Brazilian, Mexican, Polish, Malaysian and Indonesian bonds.

The views from Rexiter come on the back of an IMF preview of their Global Financial Stability Report which also indicated that pension funds would be well served increasing their holdings of emerging market assets.

The IMF polled pension funds and [insurance companies](#) worldwide for the report and found that one-fifth of funds are planning to increase their exposure to risk in forthcoming years to make up for poor returns in developed markets. Respondents approved emerging market exposure as a means to boost returns without taking on extra risk.

The IMF's assistant director of the monetary and capital markets department even accused pension funds of allowing fear to deter them from moves into emerging market assets.

Laura Kodres said that "one could envision the tendency of some pension funds and insurance companies to try and cover for their underwater positions by taking on riskier investments. But so far it appears they are paralysed like a deer in the headlights of a car, afraid to move."

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