International Section News

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Investing in the Far East

by Paul Chow

The PRACT Executive Committee and Shirley Shao (president of the Chinese Actuarial Club, New York)

Front row, standing left to right – *Cathy Lyn, Shirley Shao, Cathy Shum-Adams, Nicole Zhu and Tinny Tsun (Ashwin Raiyit - not pictured)*

Back row, standing left to right – *William Lei, Paul Chow, Sylvia Leung, Alienne Wan, Bosco Chan and Alan Wong*

Last February, the Pacific Rim Actuaries' Club of Toronto celebrated the Chinese New Year of the Rooster by inviting Raymond Chang, the chairman of the board of CI Fund Management Inc., to speak about investing in the Far East. CI is one of the three largest mutual fund companies in Canada. Ray also shared with us his story on how CI became successful by investing in the Far East and other countries.

Ray was born in Jamaica, his parents having moved there from southern China in the early 1900s. Later Ray moved to Canada to obtain his university education and start a new life. He joined CI Funds in 1984 as vice president and chief operating officer after a successful career as an accountant with Coopers and Lybrand. At that time, CI was a small company, but within 15 years, Ray and his team turned it into a mutual fund giant. He was appointed chairman of the board in 1999.

Ray said that mutual funds are sold and not bought. The investors must be sold on the products offered. Ray's time was spent primarily on building a solid backroom platform while his partner travelled to remote areas of Canada, sometimes in bitter winter, to sell mutual funds to residents who did not have easy access to them.

As CI already had North American funds, Ray started the international division by setting up the Japan Fund. He then created the first Emerging Markets and Latin American funds to be registered in Canada. With these successes, the Japan Fund was subsequently renamed the Pacific Fund to include investment in securities from "our dragons" (Singapore, Hong Kong, Taiwan and Korea) and later, China and India.

At first, CI wanted to partner with other companies but ended up operating alone. They hired analysts who had experience in these foreign countries and trained them on the CI systems. That approach worked well and families of global funds were developed with a unique structure that allowed the investor to sell one fund and buy another one without triggering any capital gains. CI continued to grow rapidly through its acquisition of other mutual fund companies including BPI, Spectrum and Clarica Diversico, with the sales force at Clarica Life helping to sell the CI funds.

Today, the focus is on the Far East countries again, especially on China. Investors and mutual fund managers must keep a close watch. China is growing and its need for raw materials is affecting world markets. China consumes 7 percent of the world's oil supply and this has helped push the price to over $50 per barrel. China consumes 30 percent of all iron ore output and 27 percent of all steel products, resulting in rising commodity prices which could eventually lead to higher inflation.

There is currently a shortage of electricity in China. Several years ago, China started a massive project in the Yangtze River near Shanghai where the world's largest dam is being built to raise the water level in the Three Gorges by several hundred feet to produce electricity. That project is expected to produce much more electricity within the next five to 10 years, but that may not be enough as China's demand for electricity continues to grow.

The banks are lending money to investors in China too quickly. Some investors are on a borrowing binge to buy up real property in China. To cool things down, there is a need to raise the value of the RMB in comparison to the U.S. dollar. However, that will not happen, as long as China thinks it will lose too many of the jobs created in China by companies in the United States and abroad. There may be a time for revaluing the RMB, but China will do that on its own timetable.

International companies are getting more and more dependent on domestic Chinese demand for new growth. Sales of such items as cars, personal computers and cell phones to Chinese customers have increased significantly in recent years. Investors must watch for any changes in these demands. If the demands start sliding, that would hurt the earnings for international companies, many of which have headquarters in the United States and Canada.

In closing, Ray said that Canada has a good supply of natural resources and we can make good use of them to bring our economy up as well.

The Pacific Rim Actuaries' Club of Toronto hosts a couple of meetings each year, where industry experts give their views on topics of interest to actuaries and related to the Pacific Rim countries. The recent Chinese New Year's meeting had another record turnout of over 150 attendees, including a few actuaries from outside the Greater Toronto Area. In addition, the meeting featured many great door prizes made possible by more than 25 corporate sponsors. The club is very grateful for the many insurance companies, reinsurers, consulting firms, accounting firms and software companies who have been loyal supporters of the club for many years. To learn more about our club and future events, please visit our Web site at *www.pacificrimactuaries.com*. ☐

Standing left to right – *Bosco Chan (president), Ray Chang (guest speaker) and Paul Chow (master of ceremonies) take time to pose for the celebration of the Chinese New Year. Ray Chang was invited to speak about investing in the Far East.*

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