

Emerging markets: Sri Lanka



Finance

By Don Freeman

IN A recent column, I discussed the current state of political affairs following the end of the bitter Sri Lankan civil war, and how infrastructure development, a strong education system and beautiful, natural and man-made attractions of the country bode well for its financial future. In this concluding column, I will examine the investment possibilities on offer in Sri Lanka in more depth.

For retail investors, investing in Sri Lanka will mean finding a way to invest in Sri Lankan stocks and bonds listed on the Colombo Stock Exchange (CSE), the country's main stock exchange whose origins date back to 1896.

As of December 2013, the CSE had 288 listed companies, which account for approximately one third of the country's GDP – but the most important listed company (as it's often used for benchmarking purposes) would be John Keells Holdings Plc, a diversified conglomerate dating back to 1870 with interests in the transportation, leisure, property, consumer foods and retail, financial services, information technology and other sectors.

Locals, and especially tourists like myself, cannot escape the influence John Keells Holdings Plc has on the island, because its brands fill the local supermarkets and convenience stores (they also own the Ceylon Cold Stores supermarket chain) plus they own at least two hotel chains (Cinnamon Hotels & Resorts and Chaaya Hotels and Resorts), travel agencies and two local or regional airlines (Cinnamon Air and Mack Air). The stock also accounts for roughly 14% of the CSE's capitalization and it's the only Sri Lankan stock with an American Depository Receipt (ADR), which is listed in Luxembourg.

As for other potential Sri Lankan investment benchmarks, foreign investors should note that the All Share Price Index (ASPI) measures the movement of share prices for all listed companies on

the Colombo Stock Exchange and the S&P Sri Lanka 20 Index (S&P SL20) follows the performance of 20 leading publicly traded companies, plus there are also some 20 sector indices.

When you look at the performance of the All Share Price Index since the 1990s, you will see that an investor with a very high tolerance for risk could have made between 400 to 600% or more, had they invested in the All Share Price Index at least a decade ago when the country was still deeply mired in civil war. Moreover, the Index has gained some 170% since the official end of hostilities (the period from May 18, 2009 to December 2013) albeit its performance over the last year has been rather mixed as it's been under-performing the MSCI Frontier Markets 100 Index but out-performing the MSCI Emerging Markets Index.

Otherwise, investors should note that the Colombo Stock Exchange (CSE) is one of the most modern stock exchanges in South Asia as

‘...Rebuilding the country's war shattered economy and improving its infrastructure to attract more tourists and further foreign investment will take time.’

it's equipped with a fully automated trading platform. Foreign investors are generally freely permitted to invest in investments listed on the exchange with the repatriation of proceeds taking place through Share Investment External Rupee Accounts (SIERA) opened with licensed commercial banks. Moreover, income from stock investments (such as interest, dividends and capital gains) is not subject to any Exchange Control Regulations by the Sri Lankan Government.

Investing directly in Sri Lanka

So how can a foreign retail investor invest in the Sri Lankan stock market? Unfortunately, there are very few ways right now to directly invest in Sri Lanka through ADRs, ETFs or funds listed on exchanges based in other countries.

A quick Google search does



SHOW ME THE GOODS: The port of Colombo commenced a large-scale expansion project at a cost of US\$1.2 billion, which is expected to dramatically increase the port's capacity and capabilities. Photo: jgmrard

come up with the Sri Lanka fund, a Cayman Islands domiciled fund, that is registered as a restricted foreign scheme with the Monetary Authority of Singapore. The Sri Lanka fund is an open ended fund denominated in US Dollars that primarily invests in equities and other equity linked securities with exposure to the Sri Lankan market. However, the Sri Lanka fund has a high minimum investment requirement of \$50,000 along with a subsequent investment of \$10,000, annual management fees of 1.5% and its unlisted – meaning it's not really suitable for most retail investors.

On the ETF front, Global X, a New York-based ETF issuer behind some of the most popular new ETFs of the last several years (including commodity and emerging market ETFs), did file plans with the SEC back in 2011 for a number of country-specific international equity ETFs, including ETFs targeting frontier markets like Bangladesh, Kazak-hstan, Nigeria and Sri Lanka. Their proposed FTSE Sri Lanka ETF would track the FTSE Sri Lanka Index by having at least 80% of its total assets in the securities of the Underlying Index and in ADRs or GDRs based on the securities in the Underlying Index – giving investors exposure to some of the biggest companies based in the country. However, as of late 2013,

the FTSE Sri Lanka ETF had yet to launch and there is no word on when or if it will actually be created.

Given the lack of a country ETF, more adventurous foreign investors could consider opening a brokerage account in Sri Lanka (again, there are few restrictions on foreigners doing so) to directly trade or invest in local stocks or Unit Investment Trusts (UITs) from important Sri Lanka based investment groups like Candor Asset Management, Ceybank and Ceylon Asset Management (who are all members of the Unit Trust Association of Sri Lanka). Sri Lankan UITs act just like open-ended mutual funds as they invest in baskets of both Sri Lankan equities and bonds.

Other ways to invest in frontier markets like Sri Lanka

Given the lack of easy ways for foreign retail investors to directly invest in Sri Lanka, the next best bet for exposure to individual emerging or frontier markets just like Sri Lanka would be the following mutual funds or ETFs which track important emerging or frontier market indices:

The Guggenheim Frontier Markets ETF (NYSEARCA:FRN), iShares MSCI Frontier 100 ETF (NYSEARCA:FM).

In addition, WisdomTree Funds and Invesco PowerShares Capital Management both have several emerging market focused ETFs

listed on US exchanges while both American and non-American investors might want to look at the large number of emerging market and frontier market products which may have exposure to Sri Lanka or similar frontier markets.

Some final words on Sri Lanka

The final defeat of the Tamil Tigers some five years ago means Sri Lanka has a chance to live up to its full potential, but rebuilding the country's war-shattered economy and improving its infrastructure to attract more tourists and further foreign investment will take time. Given the lack of easy ways to invest directly in Sri Lanka right now through internationally-listed ADRs or ETFs, most retail investors will probably want to keep the country on their watch lists while keeping in mind current frontier market ETF offerings. With that said, you should also put Sri Lanka on your list of potential holiday destinations in order to experience everything the country has to offer.

Don Freeman is president of Freeman Capital Management, a Registered Investment Advisor with the US Securities Exchange Commission (SEC), based in Phuket, Thailand. He has over 15 years experience and provides personal financial planning and wealth management to expatriates. Specializing in UK and US pension transfers. Call 089-970-5795 or email: freemancapital@gmail.com.



Siam International
38/54 Nanai Road,
Patong, Kathu, Phuket 83150

Siam
International

❖ Legal consultation Contact: K.Joy
❖ Company formations Tel: 076 346 149
❖ Notarial Fax: 076 346 150
 certifications Email:
❖ Contracts siamint@loxinfo.co.th
❖ Work permits
❖ Bookkeeping
❖ Visa service
❖ Translations

B240bn loss in GDP feared

A PROLONGED political conflict would dampen Thai economic growth, shaving up to 240 billion baht off gross domestic product (GDP) and causing the country to lag behind its neighbors, a private-sector group warned yesterday.

Meanwhile, other countries such as Indonesia, Vietnam and Cambodia are expected to enjoy GDP growth of 5-6% this year.

The Joint Standing Committee on Commerce, Industry and Banking said a political vacuum in the first half of this year due to the unresolved political conflict would have

a profound impact on the growth of Thailand's economy. This would be due to a lack of stimulation from the government, a slowdown of domestic investment and consumption, and decreased investor confidence due to higher risks, leading to missed opportunities for new investment.

The group, which includes members of the commerce, industry and banking sectors, convened its meeting yesterday.

Payungsak Chatsutipol, chairman of the Federation of Thai Industries, said the committee

estimated that if the political conflict is prolonged, the Thai economic growth rate would be 1.5 to 2 percentage points lower than the previous forecast of 5%. If it lasts for six months, the country's GDP would lose 120bn baht.

"The most worrisome aspect of a prolonged absence of government is the lack of public spending to help stimulate the economy, and the impact on the investment environment and investors' trust, which will have a negative effect on the economy in the long run," he said. — *The Nation*