

VIDEO

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Focus on Funds: New ICI Global Research Shows Regulated Funds Are Stable Source of Capital

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In the April 17, 2015, edition of *Focus on Funds*, ICI Senior Economist Chris Plantier discusses key takeaways from the first comprehensive global analysis of regulated fund holdings and net purchases of emerging market stocks and bonds. Most notably, the analysis finds that regulated funds are a stable part of the foreign investor base in emerging markets.

Transcript

Stephanie Ortvals-Tibbs, ICI Director, Media Relations: Welcome to *Focus on Funds*, the Investment Company Institute's weekly roundup of industry news, ICI activities, and research findings.

ICI has just completed a [new economic analysis](#) of regulated funds' investments in emerging markets. I spoke with ICI senior economist Chris Plantier about its key findings.

Chris Plantier, ICI Senior Economist: The bottom-line result, or the thing that we're interested in, is, with funds' investment in emerging markets increasing, what influence does that have and how important are they? And are other factors more important?

Ortvals-Tibbs: And what you find is that there are other factors in play. What are those?

Plantier: I think that the two key things that we look at are financial market developments in the U.S., U.S. equity and bond market return seem to matter. Also, we look at all foreign investor flows to emerging markets and that seems to be quite important.

Ortvals-Tibbs: So, that's outside of the regulated fund world, that's other investors going into the markets.

Plantier: That's correct. So we're looking at a broader perspective.

Ortbals-Tibbs: Chris, looking regulated funds, they really are a net positive for these markets.

Plantier: Well, they're a sizable part of the foreign investor base, 30 to 40 percent in some countries. They only make up about 15 percent of the overall variability that we see in portfolio flows, so that suggests they're a stable part of the foreign investor base.

Ortbals-Tibbs: Chris, there's also new analysis in this paper showing that regulated funds are not driving returns in these emerging markets. What did we find there?

Plantier: So, I look at monthly and weekly data for all regulated funds, and —

Ortbals-Tibbs: And that's a first?

Plantier: And that's a first. I think what's interesting in the monthly data is that we try to see not just—you know, obviously there's a correlation between funds purchases and returns, but you want to move beyond that, and I think that the way we move beyond that is, we look at financial factors. How do U.S. equity returns, bond returns — how do they matter? We also look at all foreign investor flows. We have a measure of that. It turns out that that is actually much more important than funds' purchases. In fact, what we find is, when we include all foreign investors in the mix, it really causes the relationship that you see with funds and returns to just go away, so there's actually no relationship anymore.

Ortbals-Tibbs: There's no linkage?

Plantier: No linkage.

Ortbals-Tibbs: So Chris, looking at all this new data analysis, what are the key takeaways for fund investors, the fund industry, and fund regulators?

Plantier: Well, I think from a financial stability perspective, one of the key results is that you really want to look at all foreign investors and their flows, as opposed to just looking at regulated funds in isolation. It's really hard to judge the impact when you only look at one market actor.

Ortbals-Tibbs: The entire report is posted online. That's this week in funds. See you next week.

Additional Resources

- [ICI Global Research Perspective: "Regulated Funds, Emerging Markets, and Financial Stability"](#)
- [Press Release: Fundamental Financial Factors and Non-Fund Foreign Investors Exert Strongest Influence on Emerging Markets](#)
- [Chart: Foreign Investor Holdings of Emerging Market Equities and Bonds \(pdf\)](#)
- [Chart: Cumulative Net Purchases of Emerging Market Securities Are a Small Share of Total Foreign Investor Portfolio Capital Flows to Emerging Markets \(pdf\)](#)

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