Performance Appraisal of SEA Emerging Market Conglomerates :

Effects of and Modifications to Downside Risk-Adjusted Measures

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Abstract

Investing in conglomerate firms operating within the Association of South East Nations (ASEAN) region remains a relatively unchartered academic topic, despite several studies that argue in favor of their superior stock returns. These publicly-listed conglomerates are traded on the newly-established ASEAN Exchange, a capital market collaboration between member countries' stock exchanges. Much of performance evaluation tools applied to ASEAN Exchange equities work within a narrow unadjusted returns approach. Nevertheless, more sophisticated global investors are concerened with quantitative evidence that accounts for a balance between risk and returns. These include components relating to benchmarks, downside risk factors and time-varying periods that influence the performance outcomes. Via performance appraisal methods, this research attempts to validate the performance of ASEAN Exchange conglomerates, particularly for publicly-traded firms in Indonesia (ID), Philippines (PH) and Thailand (TH). In this regard, the study aims to compare risk-adjusted returns against downside risk factors in time-varying scenarios. It examines ranking effects between unadjusted, risk-adjusted and modified adjusted returns to determine an optimal measure. Finally, incorporating downside risk factors, it generates a revised risk-adjusted metric, Semideviation Risk-Adjusted Performance (SRAP), as an alternative performance appraisal metric for emerging markets economies in ASEAN. As a

supplementary effort, it also explores relationships of determinants influencing the stock returns of the conglomerate cohort.

Using a combination of performance appraisal methods and emerging market comparisons, this study has come out with the following key findings. Firstly, the conglomerates outperformed benchmarks for the time-varying periods, but with lower overall unadjusted excess returns as compared with previous research. Secondly, applying risk-adjusted performance, the conglomerates continued to show higher excess returns across the country sample size as well as time-varying panel data. Performance rankings experienced wide shifts when comparing unadjusted returns to risk-adjusted and downside measures. Further, unlike what most empirical studies on emerging markets observe, results from both the regression and correlation analysis yielded no clear relationship between variables (such as downside factor, market size, debt levels) with average mean returns. Thirdly, based on empirical literature review and analysis of the congomerate sample, exising risk-adjusted measures can be further supplemented by SRAP. This is supported by established academic findings that argue for its usage for firms operating in emerging markets due to factors of significance, time-varying periods, and degree of integration. Likewise, SRAP returns have minimal effects on ranking compared to other risk-adjusted measures. Although there are indeed numerous methods existing, practitioners may consider exploring this intuitive SRAP model as an appropriate measure of risk-adjusted returns in emerging markets.

Keywords: Investing, ASEAN, performance appraisal, Conglomerates risk-adjusted returns, emerging markets, downside risk, semideviation, downside beta, Philippines equities, Indonesia equities, Thailand equities