DISCERN AND DIVERSIFY

Asian bonds increasingly sought for better diversification

Thought Leadership Studio

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Foreword

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Eastspring Investments is one of the largest fixed income managers in Asia. Throughout our 20-plus years of investing in Asia, Eastspring has provided its clients with customised investment solutions amid the significant increase in the breadth and depth of both the local and foreign currency denominated Asian bond markets. While Asian bonds have developed into an important and established asset class, we believe the markets are still under-researched and offer many compelling opportunities which skilled managers can exploit.

With this in mind, we conducted a survey to find out if investors globally are aware of the opportunities offered by this growing fixed income universe. Close to 200 institutional and wholesale respondents across Asia, Europe, and North America were surveyed on their attitudes and appetites for Asian fixed income. Many new insights have surfaced, and the distinctions across the regions are particularly striking.

Interestingly, survey respondents wish to diversify and expand into new fixed income segments amid anxiety over the global growth and inflation outlook. Further, despite the heightened volatility in the Asian bond markets, most are bullish on Asian fixed income, especially China bonds, and are likely to invest in this asset class in the next 12 months. The results also reveal a growing interest in a pure Asian fixed income exposure via high-quality Asian sovereign and investment-grade issues as most respondents agree that Asian fixed income provides higher risk-adjusted returns than developed market fixed income.

The need for deep market knowledge and expertise of the region is evident in investors' preference for actively managed strategies. Investors also seek to align portfolios to ESG objectives, but they cite the lack of suitable offerings as a major constraint. On the choice of the right Asian fixed income asset manager, a key consideration is to partner with one that can offer customised solutions.

This survey is most timely as it provides strategic information for investors seeking investment opportunities amid the current volatile environment. At the point of this writing, China's capital markets have seen significant regulatory changes. Meanwhile, global central banks are looking to normalise interest rates given the ongoing post-pandemic global recovery and the marked rise in inflation. That said, from a global perspective, Asia remains the high growth region where the movement from traditional bank lending to capital market financing continues.

We hope that the insights from this survey will create greater awareness and interest in Asian fixed income. We expect Asian bonds to play a major role in global portfolios in the future. More than ever, investors need to discern and diversify into this asset class. We at Eastspring Investments welcome the opportunity to continue the conversation with you about fixed income opportunities in Asia.

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Introduction

Since early 2020, the COVID-19 pandemic has upended economic, commercial, social and investment activities around the world. Amid travel bans, stay-at-home orders, and supply-chain disruptions, the global economy has endured a crisis that is unique in the modern period. In response to 18-plus months of pandemic, national governments – and the US federal government in particular – have delivered unprecedented fiscal and monetary stimulus. The economic disruption and government relief in the form of readily available, low-cost cash have driven equity markets to new, often volatile heights, kept bond yields down, and reintroduced the prospect of high inflation for the first time in a generation. So far, national governments have managed to keep their economies afloat, albeit unevenly, and to chart a course that will lead us out of the pandemic – eventually.

Now, as the pandemic wanes in some regions but surges elsewhere, investors confront an unfamiliar dilemma: rising volatility and correlations between equity and bond markets, which may reveal portfolios to be insufficiently diversified to withstand an inflationary environment. Meanwhile, the movement toward investing through an ESG lens has reached a new level of maturity, as nearly all institutions in recent research indicate a commitment to ESG in some form.

Investors have long sought new markets and regions in search of assets that deliver stable returns that are uncorrelated with their current holdings. With this in mind, fixed income investments in the developing markets of Asia are a logical choice. Despite Asia's varied economic landscape, most Asian markets bear investment grade sovereign credit ratings[1], a reflection of the region's sound economic fundamentals. Asian government and corporate bonds offer relatively attractive yields compared to similarly rated bonds in the developed markets, thus providing investors with an avenue to diversify their fixed income portfolios, while enhancing overall portfolio yield.

And as the region progresses toward more efficient modern economies, with increasingly transparent, well-governed fixed income markets, allocations to the growing Asian bond markets seem natural. Indeed, amid an uneven global pandemic recovery and rising inflation risk, investors increasingly recognise the potential of Asian fixed income to provide the portfolio diversification, income, and capital appreciation they seek.

Asian fixed income is a large and growing universe – China alone is the world's third-largest sovereign bond market. Given the potential that snarled global supply chains and rising labour costs may combine to drive simultaneous volatility in global equity and bond markets, investors have begun to consider novel shifts in portfolio allocation policy. These include portfolio tilts toward the Asian bond markets and even the establishment of dedicated Asia-specific fixed income mandates.

Thus, investors enter the end of 2021 by confronting a gradual, uneven recovery in which some economic regions, fixed income assets, and portfolio manoeuvres are likely to thrive, while others will founder.

Against this backdrop, Eastspring Investments and Institutional Investor's Custom Research Lab conducted a global study among asset owning institutions and wholesale institutions to examine how investors view the Asian fixed income markets as a source of diversification, capital appreciation, and income. To do so, we surveyed nearly 200 investment decision makers around the world on their outlook for fixed income markets in Asia, the strategies and sectors they find most suitable, and the challenges they face when investing in the region. Through this survey and an interview programme with investment professionals at institutions in Asia, Europe, and North America, we have sought to document a new and emerging role for fixed income allocations and the opportunities to use allocations to Asian assets in it.

[1]Asian bond markets that have investment grade ratings (foreign currency sovereign ratings) include China, South Korea, Taiwan, Philippines, Malaysia, Singapore, Indonesia, India and Hong Kong. Source: S&P ratings. As of 18 October 2021.

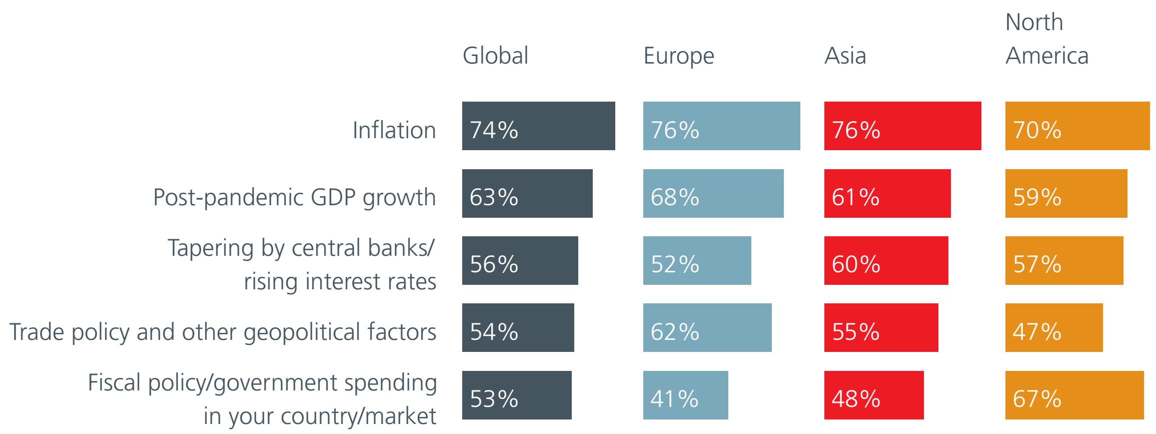
I.

RISING INFLATION, UNCERTAINTY ABOUT GROWTH, AND INTEREST RATES DRIVE A REASSESSMENT OF FIXED INCOME

Investors worldwide are most likely to see economic fundamentals – notably, rising inflation and uncertain GDP growth – as the factors that weigh most heavily on their fixed income portfolios. Queried on the factors that will have a material impact on their fixed income portfolios, nearly three out of four respondents selected inflation, and this concern rates highest across all the geographic segments in the survey (see Fig. 1).

Investors' concerns about inflation seem well founded, as consumer price inflation has reached levels not seen in more than a decade in North America and Europe. One important outstanding question is whether the current inflationary environment will be persistent or transitory – that is, will price escalation be a short-term, transitory phenomenon or will inflation persist for several quarters (or longer)? Several factors that drive inflation – notably, supply chain disruptions caused by pent-up demand and uneven labour availability tied to the pandemic – suggest that inflation may well be short lived. The surfeit of very inexpensive credit and abundant transfer payments in the form of pandemic relief, on the other hand, may well usher in a period of sustained

Fig. 1: Inflation, GDP growth, and the prospect of rising interest rates are most likely to affect fixed income portfolios



growth in prices for commodities, labour, goods, and assets.

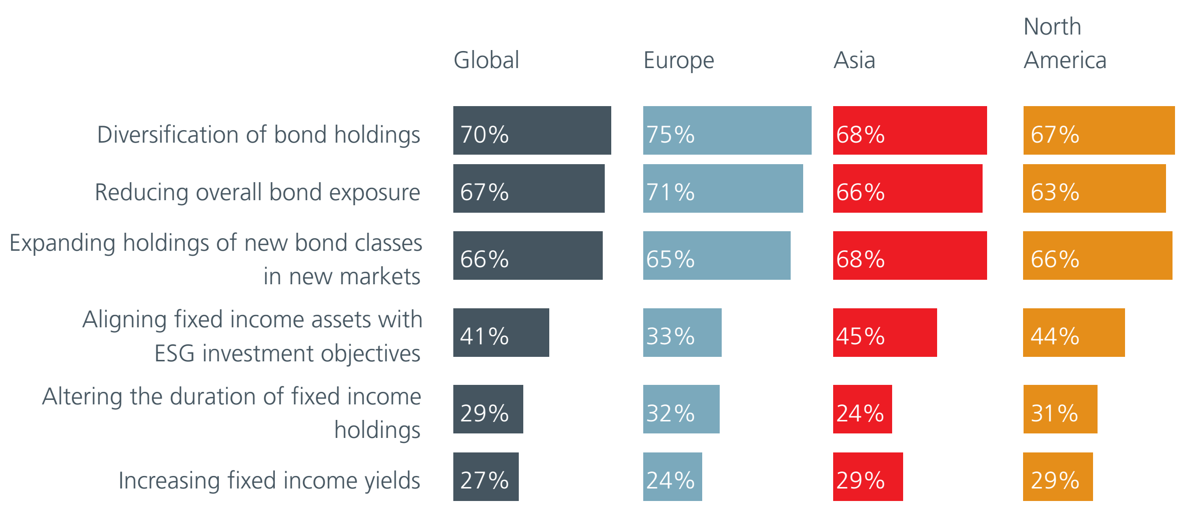
This surplus of inexpensive money is linked directly to another of investors' top concerns about fixed income – the timing of the end of quantitative easing by the US Federal Reserve, the European Central Bank, and other monetary authorities. Out of necessity, central banks have pumped the equivalent of trillions of dollars into their economies during the pandemic, and as a result, interest rates are extraordinarily low. In the United States, the Fed has signalled that it is likely to begin tapering its asset purchases in late 2021. This will lower overall demand for bonds and increase yields, thus exerting gradual upward pressure on interest rates and downward pressure on inflation. Such policy changes, however well they are signalled to markets in advance, may increase volatility in government and corporate bond markets around the world.

Such shifts in interest rates "are likely to drive a lot of what happens in the region", says a senior investment consultant based in Singapore. "Largely it's a matter of US policy for interest rates and their impact on currency strength – and what the US does in terms of how fast it makes changes. It's as much a sentiment story as it is about what the actual base rates are". Also important, he says, are economic growth in the region and the progress of the pandemic. "We need to see the effectiveness of the various vaccination programmes and the different variants of the virus. We've seen some wobbles in recent weeks in the pace of reopening".

Amid this uncertainty about the progress of the pandemic and its follow-on effects, investors in the survey from all regions reveal consistent interest in diversifying their bond holdings, reducing their overall fixed income exposure, but also broadening their fixed income portfolios to include new markets and bond classes. Fully 70% of respondents worldwide say they seek to further diversify their bond holdings over the next two years, while two-thirds anticipate a reduction of overall exposure to bonds (see Fig. 2). At the same time, they are likely to expand their holdings into new types of bonds in new markets.

Faced with limited yield potential of developed market bonds and their rising correlation with other asset classes, investors are tilting toward Asia. Survey respondents

Fig. 2: Investors seek further diversification, lower overall fixed income exposure, and new markets



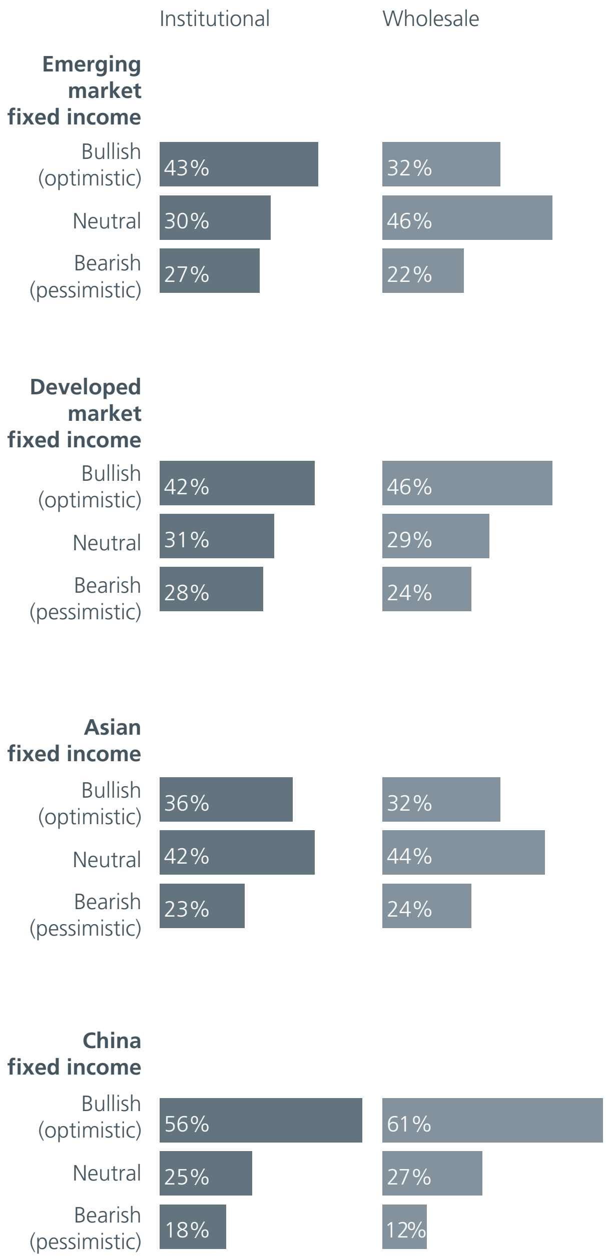
reveal that they are "bullish/optimistic" about Asian fixed income – especially bonds from China (see Fig. 3). Indeed, when queried on China's fixed income markets, the bulls outnumber the bears by more than three to one.

Investors' optimism for Asian fixed income and for China in particular is tied in large part to "the region's growth story", says the head of due diligence based in Asia for one of the world's largest diversified financial institutions. "In nearly all segments, Asian bonds hold an important edge over those in developed markets", he says. In the years ahead, "Asian high yield will beat developed market high yield. Asian investment grade will beat US investment grade. And Asian sovereigns will beat developed market sovereigns". The appeal of Asian fixed income and China's in particular is tied to the maturation of the region's economies, says the due diligence head. "We see a global search for yield that's underpinned by a strong economic growth argument", linked to the coordinated economic reforms of economies in the region. As investors around the world look for both diversification and sources of fixed income yield, he says, they are increasingly willing to invest in Asia to find it.

The economic reforms over the last decade have made investment in fixed income in the region increasingly attractive. "Equity markets in Asia have had a really good run in recent years", says the head of due diligence, "and now it's time for fixed income". He attributes his sanguine view of the region to strong, sustained economic growth in the region and a growing "investment mentality" among market participants in Asia. "Sovereigns like Indonesia and the Philippines are likely to pay yields that exceed inflation", which he says may well be unavailable in developed markets.

He adds that the Chinese government has taken "a very targeted, surgical approach to fixing some of the country's market excesses by improving governance, transparency, and reporting of firms' performance and prospects". Will the Chinese government's management of its economy be effective, compared with a strictly market-based economy? "Yes, indeed", he says, citing China's success in recent years – "I think they've got the right governance and the right people in place for this to work". He further asserts that China's well-coordinated reforms are likely to lead it to the sustained, stable success that another country in the region – Singapore – has enjoyed in recent years as a healthy climate for financial investment.

Fig. 3: Bullish on fixed income markets – especially China fixed income



II.

INVESTORS SEEK GREATER ASIAN FIXED INCOME EXPOSURE IN RESPONSE TO LOW YIELDS, EQUITY VOLATILITY, AND UNCERTAINTY

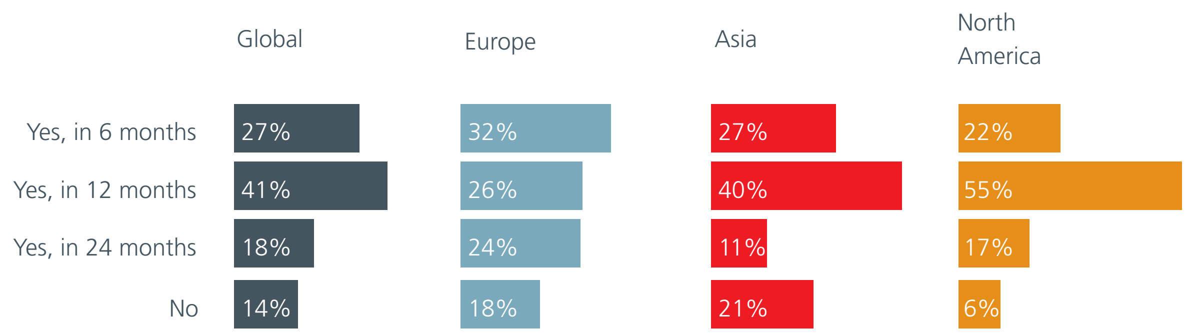
Investors have high expectations for the return potential from prospective fixed income investments in Asia, according to survey data. More than 70% of respondents worldwide agree that Asia's fixed income assets often provide higher returns at similar risk compared with those in developed markets (see Fig. 4).

When queried on their interest in increasing their exposure to Asian fixed income, two-thirds of respondents say they are likely to do so in the next year (see Fig. 5).

The substantial subset of investors anticipating an increase in Asian fixed income holdings shows greatest enthusiasm

Fig. 4: Asian bonds offer higher risk-adjusted returns compared with developed markets

Fig. 5: A solid majority of investors expect to increase Asian fixed income holdings within the next year



for high-quality bonds such as Asian sovereign debt and investment grade bonds (see Fig. 6). Investors interviewed for this report cite the combination of Asia's improvements in institutional stability – that is, governments' ability to manage inflation – and attractive yields from fixed income investments in the region.

Queried about Asian sovereign debt versus investment grade corporate bonds, a senior manager at an Asian central bank says, "Why not both? On sovereign debt, we know that developed markets have had institutional strength and stability for a long time, but debt-to-GDP ratios have risen substantially there, and we now have to more carefully consider the underlying fundamentals" for developed market government bonds. He continues, "In Asia, you won't see such a long track record of institutional stability and strength, but debt-to-GDP ratios are actually relatively lower" in the region.

Improvements in regulatory oversight by Asian governments – especially in China – contribute to investors' interest in investment grade bonds in the region as well. "In the corporate bond market, the important thing is the way in which the government is tackling the issue of leverage", says the Asian central banker, "and regularising and standardising the process for working out defaults – making sure that implicit state guarantees are not mispriced by the market. These things that are happening in the corporate bond market are generally in the direction of positive reform".

Investors from North America and Europe have preferred allocations to Asian fixed income through hard currency bonds, according to survey data. Respondents from these regions say their current bond holdings in the region are in dollar-denominated bonds, which insulate them from fluctuations – negative or positive – in exchange rates (see Fig. 7). This commitment to hard currency bonds is likely to change in the years ahead, as investors from North America and Europe anticipate increasing their use of local currency bonds.

Fig. 6: Investors seek high-quality sovereign debt and investment grade bonds from Asia

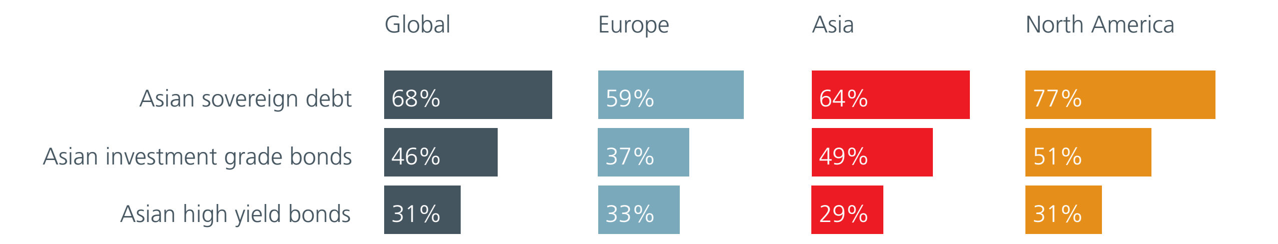
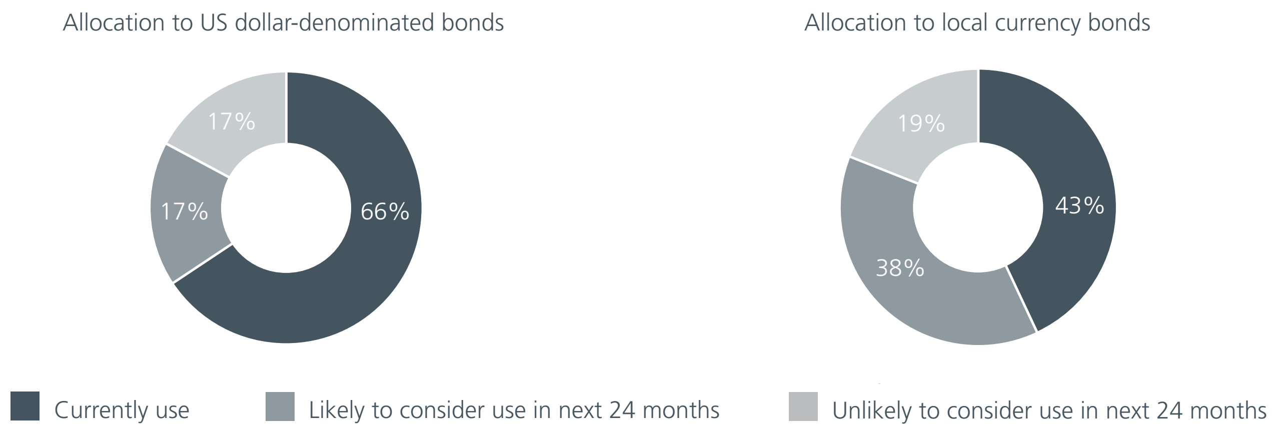


Fig. 7: Use of local currency bonds is expected to rise



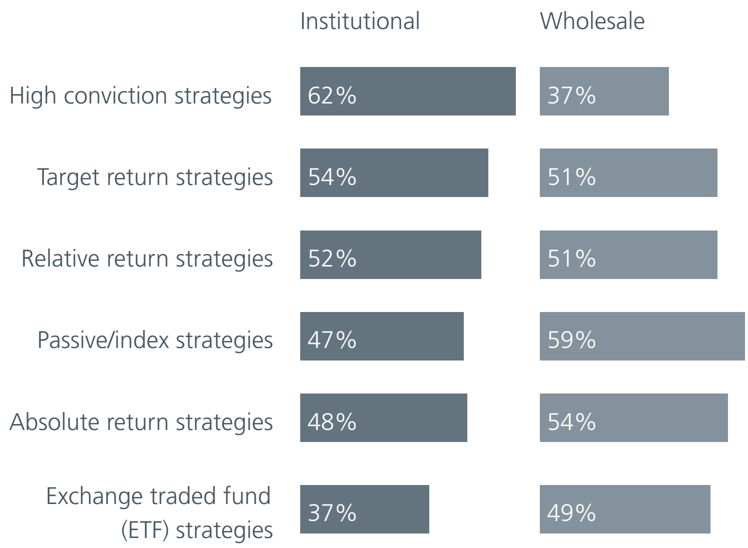
"The days of hard currency bonds are numbered", says the due diligence head from a global financial institution. "Local currency bonds have been subservient to hard currency bonds, which have been the go-to approach for investors from outside the region". However, as the region's economies continue to strengthen and the quality of information from issuers improves, he says, "local currency bonds are likely to become increasingly attractive".

As investors look to Asia in search of higher risk-adjusted fixed income returns, they tend to favour active investment strategies over passive strategies, according to survey data. Queried on the strategies most suitable for investing in the region, respondents favour active approaches – notably, high conviction, target return, and relative return strategies – over passive strategies and exchange traded funds (see Fig. 8). Asset owning institutions – that is, respondents from the institutional segment – are consistently more likely to endorse active over passive strategies, perhaps due to eagerness to take advantage of market inefficiencies in dynamic Asian fixed income markets in which manager relationships with issuers and pricing/trading expertise can be exploited to yield excess returns.

Investors that are looking for yield are especially interested in active strategies, says an investment consultant specialising in Asia fixed income. "No one's all that interested in passive strategies because it's often really hard to replicate the index and there are some liquidity and availability issues. I see this as an active management story", says the consultant. "What they're looking for is 'index-plus' through active strategies".

Queried on their current and prospective use of several fund types for emerging market fixed income investment, investors are most likely to use broad allocations that span across emerging markets or to use a more focused approach targeting markets in Asia. More than 40% of respondents say they currently gain exposure to Asian fixed

Fig. 8: Asset owning institutions are consistently more likely to endorse active strategies for Asian fixed income

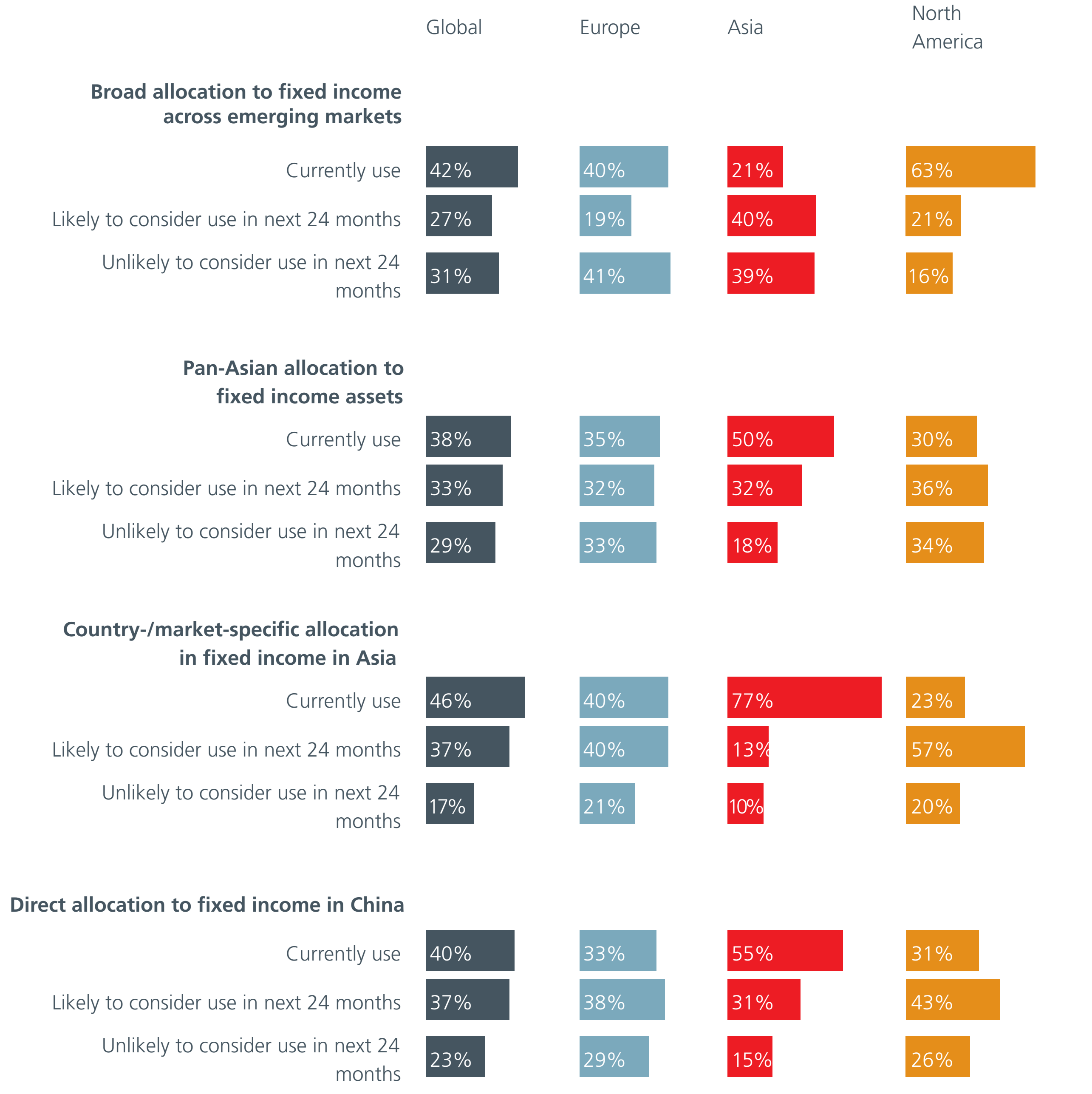


income using either broad emerging market allocations or country-/market-specific funds focused on Asia (see Fig. 9). However, respondents indicate that they are likely to turn their attention and investment capital toward funds focused on particular markets in Asia or to direct allocations to fixed income in China. Enthusiasm for these funds is notably higher among respondents from North America and Europe compared with those from Asia. Again, western institutional investors seem especially eager to seek returns and diversification in the largest fixed income market segments in which they are under-allocated.

In their quest for diversification and yield, investors seek fixed income investments in new geographies and sectors, often by using active strategies. Survey data further reveals that China bond funds, and pan-Asian funds are especially suitable destinations for their investment capital.

A solid majority of respondents – 63% – see China bond funds as "especially suitable" for their portfolios over the next two years, and those within Asia are even more likely

Fig. 9: Growing enthusiasm for standalone allocation to Asian fixed income



to view such allocations as appropriate (see Fig. 10). What draws investors to China bonds? They are most often viewed as appealing as a source of income across all the investor segments. Among the 63% of respondents who view China bond funds as suitable, fewer than 10% see diversification as the primary benefit of such allocations. Survey results show much less consensus on the difficulty or constraints of direct allocations to China bonds, as nearly 40% of eligible respondents selected the availability and transaction complexity of suitable funds and approximately 30% say they are held back by concern about either illiquidity or price volatility.

While investors look to China bonds for income, they see broader allocations across the region as a source of capital gains or diversification in approximately equal proportion (see Fig. 11). The 46% of respondents who view pan-Asian bond funds as especially suitable for their portfolios are notably less

Fig. 10: China bond funds are preferred for their income potential

	Global	Europe	Asia	North America
Suitability	63%	54%	73%	63%
Primary benefit				
Capital gains	25%	24%	18%	33%
Income	66%	65%	71%	63%
Diversification	9%	12%	11%	5%
Primary constraint				
Availability/transaction complexity	39%	33%	37%	47%
Illiquidity	32%	39%	37%	21%
Price volatility	29%	27%	26%	33%

Fig. 11: Investors see capital gains and diversification from pan-Asian funds

	Global	Europe	Asia	North America
Suitability	46%	52%	55%	34%
Primary benefit				
Capital gains	38%	32%	42%	39%
Income	23%	26%	21%	22%
Diversification	39%	42%	36%	39%
Primary constraint				
Availability/transaction complexity	31%	52%	18%	22%
Illiquidity	43%	33%	44%	57%
Price volatility	26%	15%	38%	22%

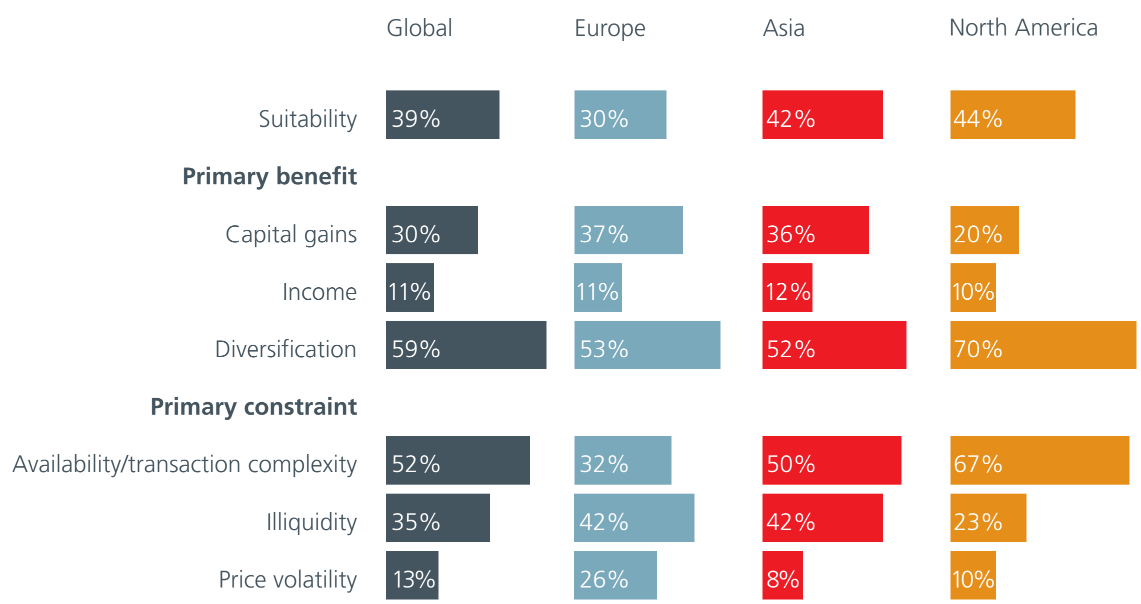
likely – only 23% – to see income as the principal benefit of such regional funds. Investors are most constrained in their use of pan-Asian bond funds by the risk of illiquidity, perhaps because of the breadth, diversity, and number of such funds available in the market.

The head of fixed income for a large European pension fund believes that investors are increasingly turning to pan-Asian local currency as a diversification play. "More and more European pensions are adopting a risk-based asset allocation approach. Under this framework, we recognise that we have a lot of equity risk tied up in Asia. Asia is an enormous driver of broad global equity risk. As allocators, we need to own an asset that will protect us when Asian equity markets get volatile; it doesn't help us that much to just buy more German bunds. We've done a lot of work to develop conviction that local currency bonds in China, Korea, and Thailand behave like safe haven assets. We've recently increased our pan-Asian local currency debt allocation to 5% of the fixed income portfolio, and this is only going to grow in the future".

Investors seeking Asian bond funds focused on environmental, social, and governance (ESG) criteria are most eager to capture the diversification benefits of such funds (see Fig. 12). Among the 39% of respondents who view Asian ESG bond funds as suitable, nearly 60% see diversification as the principal benefit of such funds, followed by 30% who see capital gains as their primary investment rationale. Notably, investors in the institutional segment are especially likely to value ESG funds for their diversification benefits, perhaps because this cohort includes pensions, foundations, and endowments, which typically have both greater conscious need for portfolio diversification and stricter ESG mandates than do their wholesale peers in private banking and wealth management.

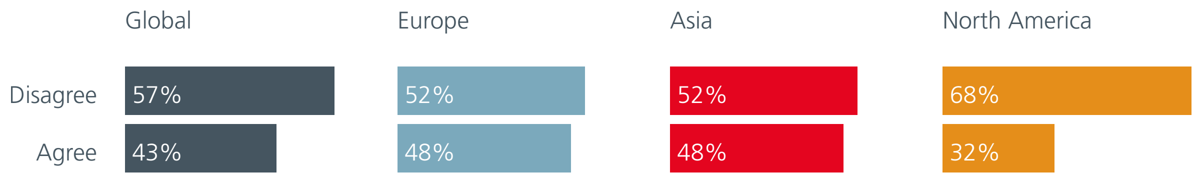
Although enthusiasm for ESG offerings have grown dramatically in recent years, a majority of investors are most likely to see the availability and transaction complexity of such funds as constraints on their use, followed by the 35% of respondents who are held back by liquidity concerns. And while the number of ESG-oriented offerings has ballooned recently, funds that are truly suitable for institutional clients and their risk/return requirements may be somewhat elusive.

Fig. 12: ESG bond funds are a source of diversification



Asked directly whether they are willing to accept lower returns in support of their ESG objectives, a majority of respondents say no (see Fig. 13). Fully 57% of investors globally disagree with the statement, "My institution is willing to accept lower returns if need be to meet our ESG mandate", and respondents from the institutional segment – especially those from North America – are decidedly opposed to this statement. Respondents' insistence that they not forgo returns suggests their anxiety about the availability of Asian ESG bond funds that truly meet their investment requirements.

Fig. 13: Investors are unlikely to forgo returns to meet ESG mandates



III.

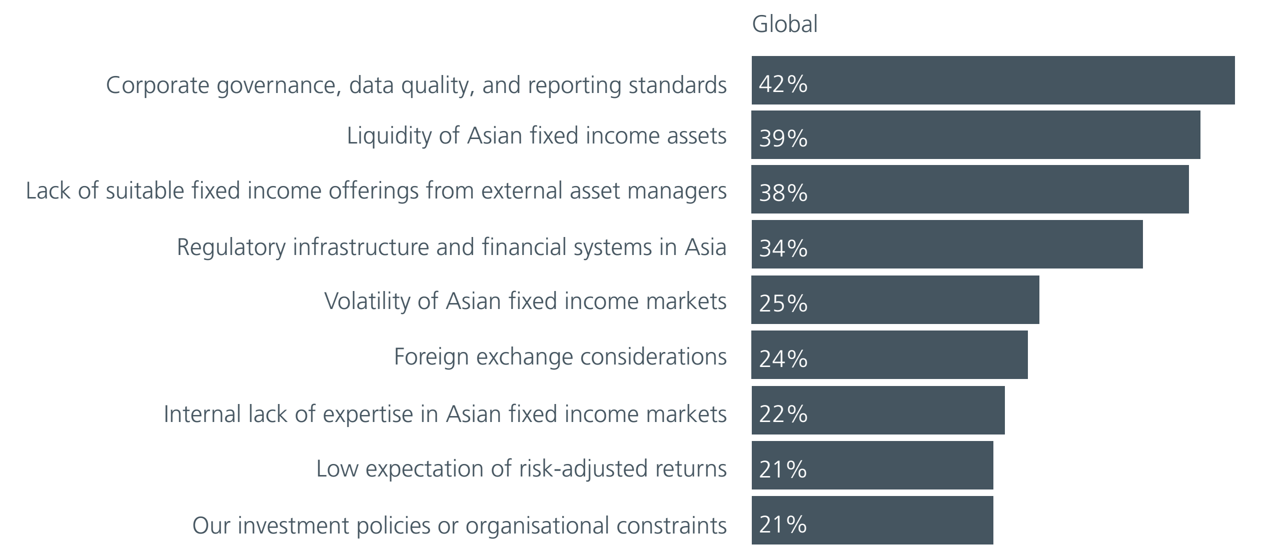
CONCERNS ABOUT GOVERNANCE, LIQUIDITY, AND AVAILABILITY OF SUITABLE OFFERINGS HOLD INVESTORS BACK

We have seen that investors around the world seek to recast their fixed income holdings, often to further diversify their portfolios and to increase cash yields to meet near-term requirements. To do so, they look to a broader investment universe that includes new markets and sectors wherein they endorse active strategies and increasingly focused, country-level allocations. Investors say they (and their managers) select from among these markets and particular types of funds often with a clear view of the benefits and constraints they offer. But investors participating in this survey perceive challenges that limit their ability and interest in investing in Asian fixed income.

Despite the well-publicised crackdowns on corruption in China and the ambitious market reforms there and elsewhere in the region, investors worldwide remain concerned about some important dimensions of Asia's financial systems. Survey data suggests they believe more can be done by Asia's issuers, regulators, and market participants to provide a well-informed, transparent, and highly liquid venue for fixed income investment.

Queried on the challenges they find most significant when investing in Asian fixed income assets, survey respondents worldwide express concerns about the availability and quality of information for use in investment decision making. More than 40% of respondents identify concern with matters linked directly to issuers: corporate governance, data quality, and reporting standards are significant challenges (see Fig. 14).

Fig. 14: Investors are challenged by concerns about governance, information quality, and market dynamics



Similarly, one-third or more of respondents cite shortcomings from entities that provide investment services or govern the region's fixed income markets. A lack of suitable fixed income offerings from third-party asset managers is a challenge to investing in the region for 38% of all respondents while 34% cite concerns about regulatory infrastructure and financial systems in the region. Investors seem less willing to acknowledge their own lack of expertise or their institutions' investment policies or other organisational constraints as barriers to investment.

For some investors who remain wary of China, concerns about data quality are linked to broader questions of trust in Chinese rule of law and protection for foreign investors. "My institution remains reluctant to invest in Chinese fixed income or credit pending further evidence of Chinese government willingness to treat foreign capital providers fairly in adverse scenarios", says the head of the investment committee of a US charitable foundation. Another US investor expressed concerns about the perceived inconsistency of regulatory enforcement in the Chinese financial system.

At the same time, there could be other reasons that make some investors forgo the benefits of investing in Asian bonds. Some with whom we spoke also claimed that career risk remains a major barrier for institutions investing in Asian fixed income. "In a crisis, you might get excoriated in the press if you own a lot of foreign assets", says the head of fixed income for a large European pension. "The one thing you'll never get criticised for is owning local bonds".

Investors' concerns may be well founded in some respects, as corporate governance and reporting standards at some issuers are likely to fall short of best practices, and regulatory oversight in any jurisdiction over any market is in some respects a moving target. Nonetheless, the region and its institutions have made great progress in recent years and demonstrated a commitment to further reform that seems to bode well for the future.

Respondents split approximately evenly between agreeing (49%) and disagreeing (51%) on the statement, "My institution is reluctant to invest in bonds from issuers in Asia due to higher risk of corporate default" (see Fig. 15).

Fig. 15: Investors are split on the risk of default as a challenge to invest in Asian fixed income

IV.

INVESTORS SEEK MANAGERS WITH EXPERTISE, CUSTOMISATION, AND EXCELLENT SERVICE ON THEIR TERMS

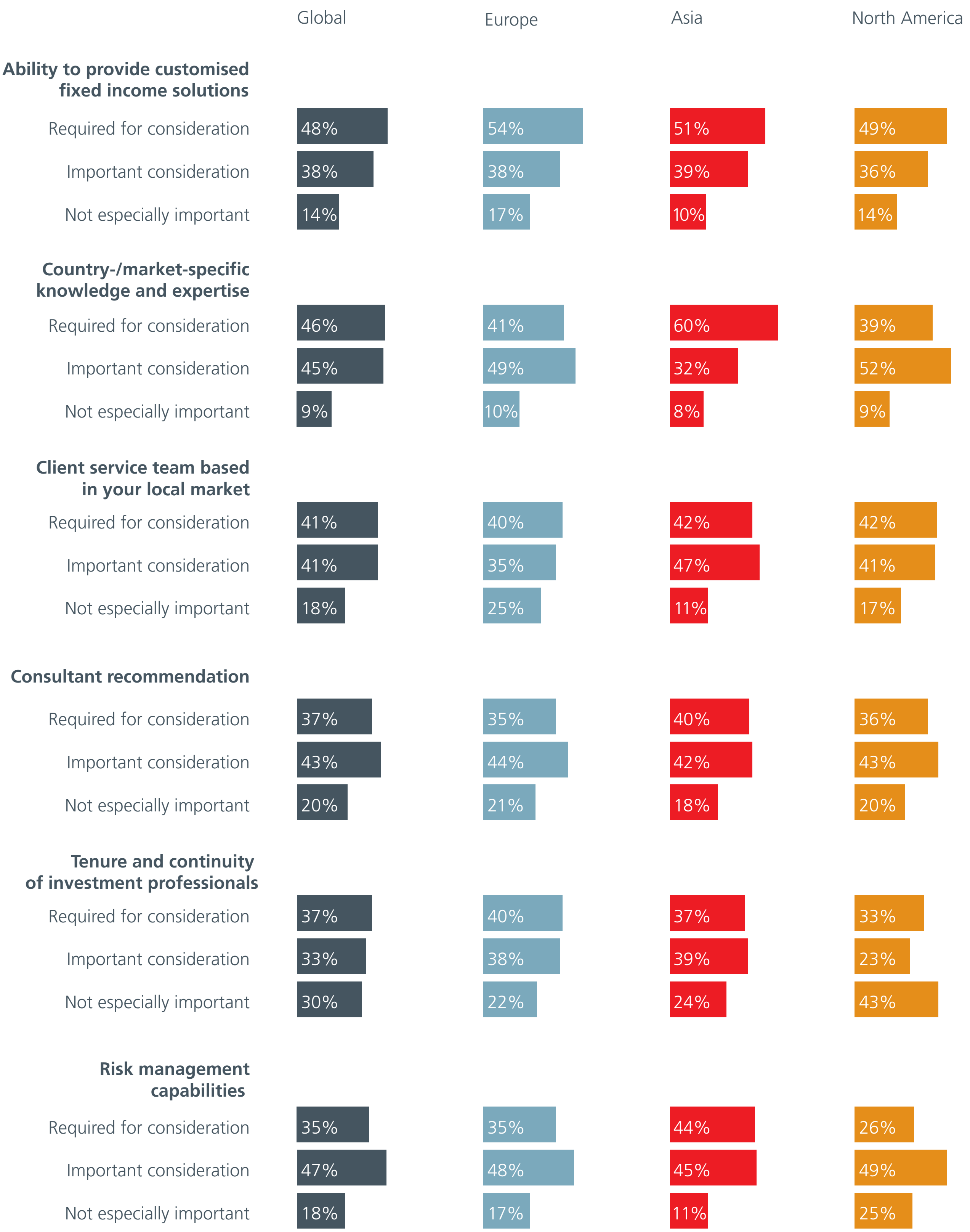
Investors are likely to say they are well served by their third-party asset managers. More than 60% of respondents worldwide – and substantially more among those from Asia – agree with the statement, "Our current external fixed income managers are able to invest in Asian fixed income in ways that meet our needs" (see Fig. 16). And while this data falls short of an across-the-board endorsement of asset managers' stewardship of their clients' capital – note the tepid response from investors in Europe – these survey results reveal the importance of investors' selection of the right asset manager when investing in Asian fixed income.

Broadly speaking, an asset manager's effectiveness in serving its clients is a matter of "fit". Is the manager responsive to client requests? Does it select assets that meet a client's investment objectives? Does it find and seize market opportunities that deliver suitable risk and returns within client-specified risk parameters? Strong affirmative responses to these and other questions are hallmarks of a close and enduring fit between a manager and its client.

When selecting asset managers for investment in Asian fixed income, investors in this survey base their decisions largely on the talent, responsiveness, and expertise of investment professionals and their teams. Queried on the attributes they seek in Asian fixed income managers, nearly one-half of respondents says managers must offer fixed income solutions that are customised to their requirements (see Fig. 17). Similarly important is the managers' demonstrated knowledge and expertise of Asian fixed income markets. And more than 40% of investors say that client service teams that are based in their local markets are required for a firm to be considered to manage a fixed income allocation in Asia.

Fig. 16: Third party asset managers invest effectively on behalf of more than 60% of survey respondents

Fig. 17: Investors seek customisation, market expertise, and excellent service on their terms



Sources affirm the importance of deep knowledge, expertise, and engagement on the part of asset managers in Asian fixed income markets. "More than anything else, it's a matter of the reach of a manager's research", says the due diligence head. Managers' capabilities are not just a matter of reading widely and talking with well-informed people, but also "their ability to work with or even argue with issuers. Do they have the ability to form a block of investors who can take on an activist role?" These are among the capabilities that set the best Asian fixed income managers apart, says the due diligence head.

The breadth and diversity of Asia's constituent economies and markets mandates that fixed income managers in the region have especially well-developed research and analysis capabilities. "Asia as a region collectively is quite a large economic entity", says the Asian central banker. "But it breaks down into many smaller regulatory regimes for each country. And this is not a single currency area like Europe with the euro". As a result, he says, "because of the different jurisdictions, although the economic pie overall is large, it does takes enormous effort to understand each economy in the region".

An investment consultant specialising in Asian fixed income concurs on the importance of managers' mastery of Asian fixed income markets and their issuers. Managers, he says, must "understand the ownership structures of a particular institution with, for example, a holding company headquarters in Hong Kong that has relationships with various entities on the mainland and their linkages to the policies" of the central, provincial, and municipal governments. "You need to have people on the ground understanding the flow of news, and the nuances of how news is disseminated. And it's a huge market, so resources are often a real issue".

Investment consultants' recommendations about which managers are well equipped to provide fixed income solutions figure especially prominently for 37% of respondents, and another 43% say the guidance of such advisers is an important consideration. According to the consultant, Asian institutional clients are often more demanding and expect greater transparency that those in western countries.

"The relationship element here in Asia is very important", he says. "A meeting in London might have the investment team and one client servicing person, whereas in Asia, my experience is that it's most common to have three or four client servicing personnel in a meeting. Generally, a lot of clients here are very sophisticated and quite demanding with requests for information so managers need a bigger team to be able to meet those requests and pull that data together".

He also counsels that examining prospective managers' risk management capabilities should be an especially important consideration for institutional clients when investing in Asian fixed income. "The large, global managers typically have strong processes in place for independent risk oversight here in Asia as they do elsewhere. With regionally focused managers, that hasn't always been the case. Their risk management capabilities and frameworks are often far behind what you'll see at the global shops". He believes such capabilities are a source of competitive advantage for Asian fixed income managers focused on institutional clients.

He concluded by offering this advice to investors as they find and work with Asian fixed income managers: "They should put aside any perception that Asian markets are less sophisticated or stable. Ask prospective managers the same questions you'd ask a manager for the US or European market. Set the same guidance and standards as you would anywhere else. Evaluate how they generate ideas, how robust and repeatable their frameworks are – and their risk management frameworks in particular. You should focus on their knowledge and expertise. Having Mandarin speakers on their investment team isn't enough. So focus on their understanding and what they've done that's different from their peers".

About this survey

This report examines investors' interest in Asian fixed income markets and their expectations for altering their fixed income allocations in the next 24 months. Institutional Investor's Custom Research Lab composed a questionnaire with Eastspring Investments to examine investors' views on Asian fixed income markets. The questionnaire was fielded in July-September 2021 and includes responses from 196 investment decision makers at pensions, foundations, endowments, insurance companies, private banks, wealth management firms, and consultancies in Asia, Europe, and North America. The institutional segment referred to in this report includes respondents from pensions, foundations, endowments, insurers, and family offices. The wholesale segment comprises respondents from fund consultancies, wealth management firms, and private banks. To supplement the survey findings, we also conducted more than 10 in-depth interviews with investment decision makers at institutions in Asia, Europe, and North America.

The demographic highlights of the survey are provided below.

Institution type	
Private pension	16%
Public pension	16%
Fund consultancy	11%
Family office	11%
Endowment	10%
Foundation	10%
Insurance company	8%
Multi-employer/Taft-Hartley plan	8%
Private bank	5%
Wealth manager	5%

Geography	
Asia	32%
Europe	32%
North America	36%

Assets under management	
USD50 billion or more	24%
USD25 billion to USD50 billion	12%
USD10 billion to USD25 billion	15%
USD5 billion to USD10 billion	12%
USD1 billion to USD5 billion	22%
Less than USD1 billion	14%

Title	
Portfolio manager	21%
VP or director of investment	16%
Fund selector/fund analyst	15%
Head of asset allocation	13%
Managing director	12%
Chief operating officer	11%
Chief investment officer	11%

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