

More money going into fixed-income market

By **DANNY YAP**
danny@thestar.com.my

PETALING JAYA: Fund managers generally agree there has been a skewing of more monies towards fixed income of late, including bonds and other financial instruments, especially after the latest financial crisis.

But is this move a result of institutional investors looking for safer havens to invest or at least protect their money from inflationary pressure?

Bond Pricing Agency Malaysia chief executive officer Meor Amri Meor Ayob said the total outstanding bonds issued as at September this year was RM730bil compared with RM634.8bil in the corresponding period in 2009.

Meor Amri said it was an increase of RM95bil, which showed that the local bond market was growing at a healthy level.

He said some government bonds were six times oversubscribed by institutional players, while private corporations such as Kinsteel Bhd, which recently issued RM15mil worth of commercial papers, was oversubscribed by 1.3 times.

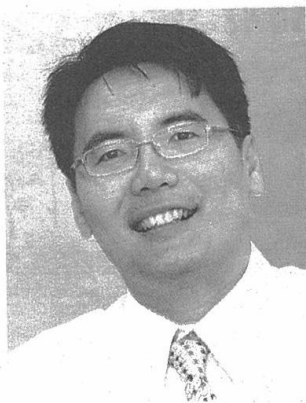
Another case in point would be Sabah Development Bank, whereby its RM50mil commercial papers was oversubscribed by four times.

"This clearly shows good liquidity and institutional interest in bonds and other fixed income instruments," said Meor Amri.

On whether the global economic uncertainty has made institutional investors favour bonds and other fixed income instruments over the equity market, he said: "There will always be institutional investors who prefer to invest in fixed instruments such as bonds in good or bad economic times."

Pacific Mutual Fund Bhd chief executive officer and chief investment officer Michael Auyeung said that investor confidence had been shaken, leading to more risk aver-

With global economic conditions still fragile, is there a trend towards investing in bonds and other fixed income instruments rather than the stock market? *StarBiz* talks to several experts in the fund management industry.



Meor Amri Meor Ayob

sion and greater emphasis on capital protection, hence the interest in fixed income investments.

"But portfolios are generally mandate/client driven," he said. He said the composition should really reflect client objectives and risk profiles, adding that discretionary portfolios should never be static.

Auyeung said "fund managers need to be aware of the risks and opportunities prevalent in the market and take opportunities where presented, as long as the potential reward justifies the risk taken."

"At any given time, monies should be actively managed and tactically allocated between equities and fixed income/cash, especially in volatile market conditions," he said.

Auyeung said nothing was 100% safe. He said bonds could put principle at risk as much as stocks, although the inherent day-to-day volatility should be less.

"The trade off is that a bond portfolio tends to have lesser upside but

also lesser downside, if the portfolio is well constructed. For a specific bond, unless it is bank guaranteed or considered sovereign or quasi-sovereign, then it is not as safe as fixed deposit, which also runs the risk of the bank's credit and the country's deposit guarantee risk (near equivalent to sovereign credit risk)," he said.

On whether fund managers were investing more into bonds and other more secured instruments such as fixed deposit, Auyeung said there was a general trend, based on the data, especially in the United States, as there was still an overwhelming amount of capital in fixed income, which has led to the distortion of the yield curve.

"In the near future, when global economic risks are downgraded, capital may flood out of the fixed income space to look for better returns in riskier assets," he said.

Auyeung said local bond prices would probably remain steady for some time, with the possibility of only marginal future rises in the overnight policy rate. "But in terms of upside, bond returns could be limited."

On Pacific Mutual's fund portfolio, he said: "Our blend of fixed income, cash and equities is always changing. In our experience, this has been the key to the sustained outperformance of our funds."

Aberdeen Asset Management equities head Abdul Jalil Rasheed said generally, when markets are subdued, investors switch to bonds to stay "stable" and switch to equities when the market rallies.

"With Asean being the market of the moment and Malaysia enjoying it's time in the sun, I'm sure many

are attracted to equities right now," he said.

Ask if bonds were getting more attractive over the equity market, Abdul Jalil said: "This will be different depending on what kind of fund manager one is."

In the case of Aberdeen Asset Management, he said funds were 100% invested in equities and the company's portfolios were 100% invested at all times.

"We don't take a tactical position nor do we time markets. We are long term value investors that only invest in companies with strong fundamentals and balance sheet, competent management and good corporate governance. We believe that a company with good fundamentals will over the long term see its share price rise," he said.

Abdul Jalil said some rating agencies have come under fire in recent times with their not-so-objective research on companies/bonds.

He said it was important that investors do their own research and not rely solely on external research.

"At Aberdeen Asset Management, we visit thousands of companies' management face-to-face and write our own independent research and this is used to determine our investment decisions. We do not rely on external research," he said.

He said the company's focus was on good quality companies with valuations "that make sense".

"Aberdeen Asset Management also downplays benchmark weightings in portfolio construction since these provide little clue to future performance. As a general rule of thumb, our asset management company avoids businesses that we do not understand," said Abdul Jalil.