# Carving out Asian portfolios to find more value

*By separating Asia from the emerging markets (EM) bucket, the direct exposure to the region will bring with it benefits of access to its unique growth potential, says Alexandre Bouchardy of Credit Suisse.*

Foreign investors should separate their Asian portfolios from within the EM category if they want to take full advantage of the opportunity the region offers.

This is according to Alexandre Bouchardy, head of Credit Suisse Asset Management in Singapore, and also the firm's fixed income chief in Asia – who says that, only then, will these investors be able to identify and access countries that offer the best long-term outlook.

"Separating Asia from EM is critical because [investors] may have exposure via the emerging market allocation but not necessarily enough to Asia itself," he explains. "And Asia is totally different from the rest of the emerging markets."

Among some of the distinguishing features of the region are current account surpluses, export prowess and high levels of financial reserves. Plus, the deepening of liquidity in Asia over recent years suggests that it demands attention of its own. For example, the total size of the market for Asian US dollar bonds is tipped to reach around USD770 billion of outstanding debt by the end of the year, estimates Bouchardy. This represents nearly quadruple the USD200 billion level seven years ago.

If the trajectory continues and financials remain strong, it should hit USD1 trillion in the next three to four years, with annual net issuance up to between USD80 billion to USD100 billion.

### FUNDS TRUMPING BONDS

To be able to make the most of the Asia story, Bouchardy believes, from a fixed income perspective, that investors need to clearly differentiate the bonds they assess between US dollars and local currency.

**ALEXANDRE BOUCHARDY**
Credit Suisse Asset Management

"There is not the same volatility nor opportunity, and the risks are not entirely the same," he explains. For Credit Suisse, local currency-denominated sovereigns will provide sufficient yield and returns, whereas corporates should be bought in US dollars for liquidity purposes.



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"Corporates are not really available, or are difficult to get access to in the local currency space, so investors don't have the liquidity," says Bouchardy.

Yet he and his team at Credit Suisse generally advise clients to invest in funds over direct bond purchases, for a number of reasons.

For instance, he explains, funds allow buyers to effectively play the role of institutional investors in the stock market besides creating value in the bond market.

Further, there are some big challenges in buying bonds directly. "The first one," says Bouchardy, "is having a proper credit monitoring [process and system]. This is a real hurdle especially for investors who are not familiar with the region."

To put things into context, Asia had 180 bond issuers seven years ago; today there are more than 420. "If investors can follow this, then they will be fine, but that's more likely not going to be the case," explains Bouchardy.

As a result, European and other non-Asia based investors should look at access via funds. "What they end up buying [with direct bonds] are the A and AA rated issuers, as well as the most stable bond insurers, but then they don't have enough returns," he adds.

It takes a deep knowledge and understanding of the markets in Asia to be able to go into the bonds an investor prefers.

Another important reason for investors to buy funds, stems from the lack of allocation to new issuance that is reserved for private individuals, compared with what institutional investors get.

"This is a regular complaint among private clients that they don't get enough allocation to single bonds, whereas if they invest into a fund or a different investment vehicle, they can get institutional allocations too to provide their exposure," says Bouchardy.

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## INDIA VERSUS CHINA

When looking at Asia's two economic giants, Bouchardy says he is placing his bets on China, to manage its economic transition and avoid high corporate debt defaults around the world.

Domestic Chinese stocks, relatively subdued for much of the first half of the 2017 'party' in equity markets, have since started to get into the groove.

Further, there is an expectation that China's policymakers will keep markets stable in the lead-up to the party congress on October 18. A Credit Suisse report in early September, for example, said domestic liquidity conditions in the Mainland will likely stabilise ahead of the meeting, which should also help boost the country's stockmarket.

And in line with the market being a clear favourite for investment from abroad, the firm has recently launched a China credit bond fund.

By contrast, Bouchardy says he and his team are currently avoiding USD Indian paper generally at the moment, especially Indian financials. This is due to a combination of what he describes as "weak capitalisation, high non-performing loans, assets of rather poor quality and the need for recapitalisation".

As a result, he and his team tries to avoid them. "Spreads are not compensating for the risk." ■

### *After hours with Alexandre Bouchardy*

- *Loves the mountains and being in nature – so travels regularly to Switzerland for the former and Australia for the latter*
- *He first discovered Asia on a bicycle after a six-month ride from Europe to China across Turkey and Central Asia*
- *Enjoys doing any kind of sport – from hiking to cycling to golf*
- *Rates the temples at Angkor Wat, Cambodia, as the most exciting place he has visited in Asia. He saw them for the first time when doing a half-marathon nearby, so went back at sunrise the next morning to visit at a more leisurely pace*