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GAM Investments' Amy Kam on Asia's Exciting Future and its Rising Tide of Fixed Income

In November last year, GAM Investments repositioned its emerging markets corporate bond strategy to focus specifically on Asian bonds. Amy Kam took control of the portfolio and heads the team of four, leveraging her immense experience garnered over the previous decade with a variety of specialist asset managers. The opportunity, as she and her team saw it, was to capitalise on the fast-expanding Asian EM fixed income hard currency markets, which she says have a low correlation to other credit markets. Hubbis met up with Kam recently by video call to her London home, from which she elaborated on the opportunities and the challenges of managing the strategy through the pandemic, and of the structural trends she sees ahead, as well as the compelling market opportunities GAM is spotting within Asian EM to efficiently balance risk and reward and to deliver for clients. Kam came across as immensely passionate about her life at GAM and her roles there, fervently committed to the vision of Asia as driving the global economy for decades to come, a steadfast supporter of all things sustainable and ESG, and finally as a tireless driver of her admittedly somewhat reluctant 10-year old twins to garner some Chinese heritage by learning to read and write.

"Asian bonds represent more than half of the global emerging market hard currency bond market," she begins. "Looking through the mists of the pandemic to life on the other side, growth should remain driven by many irresistible forces. These include the incredible demographic growth and evolution in countries such as China, India, and of course in the populous southeast ASEAN economies: the increasing economic dynamism and diversification; greater government transparency; improving corporate governance; and expanding impetus towards sustainability and ESG; as well as broadly deepening and maturing capital markets across the region."

Asia: driver of global growth

Kam notes that China and India combined are expected to account for around 50% of global GDP growth in 10 years' time. "This," she says, "makes us very excited about the potential on offer from Asia's growing and liquid credit investment universe."

"What we have is an opportunity to offer investors a higher actual yield than available in the US or Europe, combined with improving diversity and liquidity," she explains. "We believe Asia offers remarkable potential in the emerging markets (EM) hard currency corporate space, compared to other regions of the world, and that Asia in the nearer term future should be a standalone allocation destination for global investors."

"The size of the corporate issuance market in Asia is now significant and has been growing apace," she elucidates, "and is forecast to continue growing much faster than other regions. Moreover, it offers a potential diversifier as it is not driven by oil and gas prices, as are other EM regions."

Diversification play

And this diversification is valuable to global portfolio managers. Asia is a very broadly diversified economic base these days, Kam states, with the best growth prospects worldwide, as more of the region's countries and economies are advancing, even the frontier economies are becoming EM countries, such as Vietnam.

"In our view, Hong Kong, Korean and Singaporean higher rated credits offer insulation to some extent from an exogenous shock somewhere around the corner, for example, the geopolitical tension between China and the US," she reports. "We like to see through short-term issues, such as those facing Hong Kong in recent times, so we see Hong Kong as under-valued as the fundamental story there remains strong for the bond issuers."

In China, the focus is currently on the technology and quasi-sovereign names, the latter mostly in large, liquid bonds and in renewable energy. Kam explains that GAM also keeps a close eye on the equity performance and trends in the region, noting that if there is a structural shift towards certain sectors or stocks, they must be on top of those movements. "That is another reason we like the technology sector from China, for example," she reports.

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"The biggest economies such as China are also aging," she remarks, "which actually provides strong support for fixed income. And we are seeing in this pandemic how resilient the region is. We see Asia as offering excellent relative value without us needing to take a lot of duration risk."

China at the core

Kam reports that the Asian bond team at GAM favours high yield Chinese bonds and is heavily focused on ESG bonds, mainly via quasi-sovereigns or public-private partnership (PP) type project funds. "India is also a central focus, with emphasis there on bonds issued by the banks and non-bank financials, and we of course expect India to overtake China before long as the most populous country in the world."

She also points to Indonesia, where there are opportunities in the most prominent quasi-sovereign names and state corporation names. But there are moral dangers that must be navigated carefully, she explains. Take, for example, a utility company that was trading at a higher price than an oil and gas (O&G) company. The O&G company had better credit fundamentals but was trading

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GAM

in an undesirable sector, given the oil price. In April, the utility company was reported to have approached local banks for "debt re-profiling", citing low power demand and large government receivables on its balance sheet causing strain on its liquidity, spooking the market. This was somewhat allayed after the company denied the earlier report and stated they would not be seeking to delay repayment, but it reiterated to us, Kam explains, the importance of focusing on credit fundamentals. Both companies are equally strategically important to the Indonesian government, but from a bottom up perspective and taking into account ESG considerations, we favour the O&G name over the utility company.

Regarding India, Kam explains their overweight stance stems from a top-down assessment relating to a huge growth potential and need for energy security. Technological development means renewables are now economically viable and allow India to diversify away from its heavy reliance on oil imports and coal-based energy. Covid-19 creates further challenges to an economy that had already started to experience growth headwinds, explains Kam, but the team remains engaged and welcomed the Indian government's timely policy support for the renewable sector announced in May.

Getting Personal with Amy Kam

Amy Kam is Head of Asian Credit and leads GAM's Asian fixed income strategy. She joined GAM Investments following its acquisition of the fixed income and foreign exchange specialist, Augustus, in May 2009. She had joined Augustus (then Julius Baer Investments Limited) in 2006 from Investec Asset Management, where she was responsible for risk/performance analysis.

Amy has a PhD in finance from Cass Business School, City University London and an MBA from Cranfield University (Ford Scholarship). She is based in London, and hails originally from Guilin, China, which is in the Guangxi province, close to the border with Vietnam. "Guilin is actually best known for being incredibly picturesque," she reports, "renowned as it is for its jagged limestone peaks and translucent rivers."

She has lived in London for 20 years, before which she lived and worked in Hong Kong for six years. "That spanned the 1997 Asian Financial Crisis," she recalls, "and that was a real eye opener. I was actually in mechanical engineering then, but soon decided to pack my bags and head to London, a move that I have never regretted, as I shifted into economics and finance and have never looked back."

Married to her husband whom she met during her MBA in 2000 the couple have two children, twins of 10 years old. "They consider themselves English," she reports, "and even though I make them go to China every year and make them study Chinese, and they can even write Chinese now, they refuse to speak it. They say that I might try to make them speak Chinese, but they are English. It's funny, really, but I will persist, as I feel that one day they will thank me for keeping up my daily battle to get them to speak Chinese."

Leisure time is spent playing squash. "I began as an adult," she recalls, "and played in the Hong Kong League for the Hong Kong Cricket Club, and I later captained a team in one of the best-known clubs in London, we even rose to number two in the National Club Championship. I am very competitive; that's how I let off steam. My other passion, aside from the family, is skiing. And amusingly I broke my wrist doing that in January and then arrived at the squash court with a cast on. A more recent interest during lockdown is gardening. I am into sustainability and the environment and am trying to be self-sufficient in vegetables. Home is in Southeast London, in the relatively leafy Blackheath, where we have a city garden, enough to become considerably more green-fingered."

Sustainability and ESG

Kam is a keen proponent of all things sustainable. Kam is passionate about this endeavour, noting that the Asia region is making strides forward. China, in particular, is rapidly addressing concerns with regard to pollution and sustainability.

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"I am a passionate advocate of investment approaches that emphasise better ESG standards," she explains. "Perhaps it relates partly to my heritage growing up in Guilin, whose natural beauty makes it one of China's most popular tourist destinations. I really hope we can preserve and protect the natural environment. This hope is also closely related to my enthusiasm about the increasing importance of so-called green bonds – bonds issued to support specific climate-related or environmental goals – which are growing robustly as a proportion of total Asian credit supply, with China proving a green bond trailblazer as it gets to grips with building out a more environmentally-friendly economy."

China leads

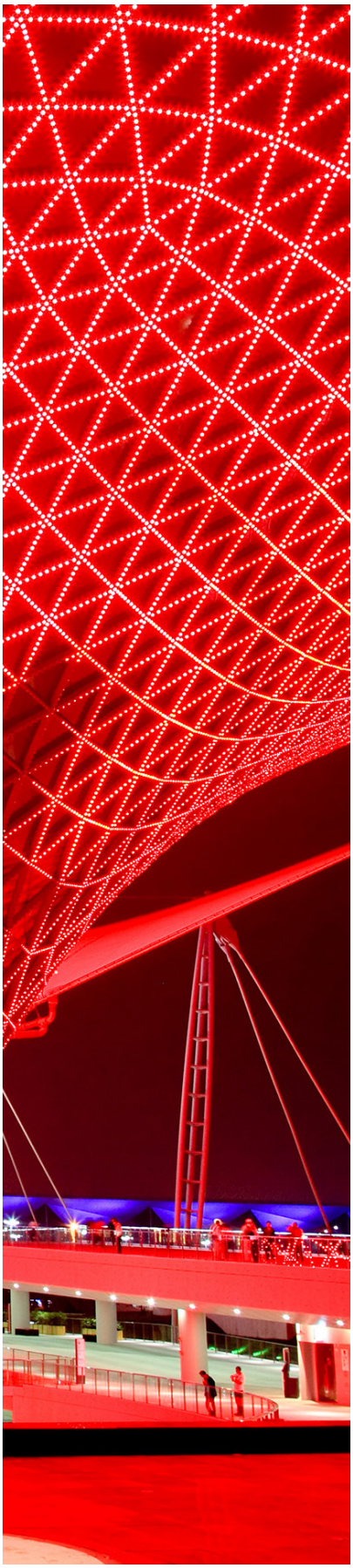
"We believe that China's example will be followed by other economies in Asia," she comments. "From an investment perspective, our approach to environmental, social and governance (ESG) is about maximising impact rather than simply minimising risk. We believe ESG is a secular trend that is here to stay, and the underlying principles of ESG are something we passionately support."

GAM in fact produced a special report in February this year highlighting how China is championing green bonds. The authors, led by Kam, explained how climate change has become increasingly prominent in the minds of consumers and investors, and how GAM and others in the wealth management community want to exert influence on emerging market bond issuers to become more environmentally friendly.

Secular trend

"We believe sustainability considerations will drive a secular trend to provide long-term outperformance for investors, and cheaper funding for 'green' companies," the report stated.

Kam notes how, as Davos 2020 demonstrated, green is the new black of economic policy. "Despite the climate change movement's frequent association with fringe extremists, the annual World Economic Forum united activists, royals, politicians, billionaires, consumers and investors under the banner of 'a cohesive and



sustainable world', and regardless of political background or alignment, we cannot deny that climate change has gone mainstream," she comments. "Davos highlighted a continuation of the significant shift regarding environmental, social and governance (ESG) issues – and brought into sharp focus the urgency and necessity to create a unified ESG definition in tandem with a unified disclosure framework."

She adds that contrary to the received wisdom that bond investors have little impact on issuers' decision-making, frequent interactions between those investors and issuers can influence behaviour. "It is even my assertion that ESG is a secular trend that will lead to sustained cheaper financing for companies," she states.

"China," she adds, "has surprised many by becoming a leader of the global green movement. Today, China stands between the US and France as the second largest issuer of green bonds, worldwide. The Chinese government's decision to go green is at least in part a consequence of international ESG evolution. For example, the country now leads the world by a significant margin in terms of its number of electric buses, and we continue to see more effort and more traction in the whole environmental initiative in China."

Asia's irresistible growth

As to the nearer-term outlook, Kam maintains that Asia is well-positioned. "Interest rates in the region are accommodative," she reports, "and it is our view that China has monetary and fiscal options to overcome most near-term weaknesses. Asian bond (and indeed equity) markets have held up well in the face of the coronavirus outbreak. In the case of fixed income, we feel this reflects the large, liquid and increasingly institutional nature of that market. We are clearly cautious about how the world will cope with the virus and its aftermath, but we believe that structurally and dynamically, Asia is an attractive place to be." ■