How to create a winning fund for investors

The USD3.3 billion-plus of inflows into Credit Suisse's fixed maturity bond fund within just a few months in 2016 showed what can be achieved by understanding the needs of Asian investors, says Alexandre Bouchardy.

The great success that Credit Suisse's asset management division saw with the fixed maturity bond fund it launched in mid-2016 has shown that the bank knows what it takes to woo investors in Asia.

Within a few months of the fund's release in May, it had amassed USD3.3 billion in AUM. And this was despite it coming off the back of a volatile few months combined with the expectation of rising rates.

The secret of its phenomenal success? An astute understanding of client needs and market environment combined with a successful collaboration with Credit Suisse Private Bank, plus good timing.

"When Credit Suisse initially thought about launching [this fund], the scenario we envisioned was that of gradually rising interest rates as well as default rates," explains Alexandre Bouchardy, head of Credit Suisse Asset Management in Singapore, and also the firm's fixed income chief in Asia.

This followed an initial six-week period at the start of 2016 which was more volatile than many market practitioners had seen for a long time. Led by Chinese equities, which experienced steep falls in prices over changes to market regulations and a dimming economic outlook, investors were in risk-off mode.

As a result, they were on the hunt for assets that were relatively safe and offered reasonable returns.

A SOLUTION TO WAVERING SENTIMENT

Bouchardy and his team believed they had an answer. They felt confident about their view of investor sentiment at the time, so decided to create and launch the CS Nova (Lux) Fixed Maturity Bond Fund 2019 (the fund is now closed for subscriptions).

ALEXANDRE BOUCHARDY
Credit Suisse

This is a Luxembourg-domiciled fund whose main objective is to offer an attractive return by investing in US dollar-denominated corporate and quasisovereign bonds with a final maturity of up to December 2019.

The fund, which is jointly managed by Adrian Chee, head of portfolio management and credit in Asia, and Lei Zhu, senior portfolio manager on the Asian fixed income team, seeks to maintain a low and reducing-duration profile, a long-term average credit rating of BBB- (on a linear calculation), and be broadly diversified in terms of sectors, issuers and countries through ongoing fundamental credit monitoring.

As of the end of January 2017, about 34% of the fund's portfolio was invested in Chinese fixed interest instruments, while another 31% was invested in global fixed interest.

REDUCING RISK

A key advantage of this type of funds is their ability to provide investors with a payout structure which is comparable to a single-bond investment, but with greatly reduced single-issuer risk given the well-diversified portfolio.

As Bouchardy notes, the goal was not to offer a higher yield; instead, it was to offer a relatively stable product with reasonable returns in an environment of rising interest and default rates.

Compared with other products in the market, this fund invests in relatively less risky bonds and aims to offer a 4% return p.a.

Its run-away success can be seen by the fact that it was initially slated to close in September 2016, but due to high subscriptions, it closed in June 2016.

Indeed, demand from investors for the product was so high that Credit Suisse launched a second fund under the series: Credit Suisse (Lux) Fixed Maturity Bond Fund 2020 S-1 (this fund is also closed for subscriptions).

This fund invests in investment grade and non-investment grade bonds from developed and emerging markets.

READY TO ACT

More broadly, given Bouchardy's view of current market conditions, he recommends that investors "be ready to react quickly to potential overshooting".

This is required, he explains, given the potential for either significantly higher or lower rates – depending on how markets move.

"There is a possibility of a risk adverse environment, accompanied usually with lower equity prices, wider credit spreads and lower US Treasury yields if the threat of trade wars grows," he says. "So, we expect some volatility, although Asia should be relatively insulated within Emerging markets."

Already in developed equity and credit markets, valuations look quite expensive versus the credit cycle, he adds.

In line with this, he sees the potential of risk aversion coming back on the credit side as investors continue to digest the implications of the Trump presidency.

And in such an environment, for investors in Asia, it will be important to understand how much regional credit is exposed to US demand.

Eye on China

In 2017, Bouchardy says that Credit Suisse is eyeing a China-focused fund launch.

"We are looking at launching a China onshore fixed income fund. It's an area in which we have the advantage of being an early mover," he explains.

The appeal is clear to see. China has the biggest bond market in Asia (ex-Japan), and its importance is underscored by the fact that the RMB is expected to become a global reserve currency over time.

"What investors should also not forget is the potential gains for China as a pro-globalisation, pro-trade nation as the other country known for globalisation and trade, the US, retreats," adds Bouchardy.

He believes this dynamic could encourage further liberalisation in China's financial market, including increased access to the corporate bond market.

By contrast, the US, under a new administration led by Donald Trump, is expected to go on reverse globalisation and free trade, should the new president decide to act on his campaign promises.

Geo-political risk is another factor he believes investors should pay attention to. "Whether it's the Middle East, European elections, South China Sea or potential trade disputes, geo-political risks are still being overlooked by investors." ■