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Principal Global Investors: Extolling the Virtues of Relevant Active Strategies to Asia Pacific Investors

Principal was founded in 1879 with the vision of helping people and businesses progress towards financial security. Principal Global Investors (PGI), the asset management arm today manages more than USD450 billion of assets. Hubbis had the chance to 'meet' up with two of their leading lights in Asia Pacific recently, Kirk West, Executive Director & Head of International Business based in Sydney and Suresh Singh, Head of Fund Distribution in Singapore. We learned of their core values of integrity, commitment and best-in-class service, we heard of their commitment to responsible investing and environmental, social, and corporate governance leadership. And we understood more of their drive to innovate and to provide investors the world over with the right products for the times we live in. The firm, they said, offers a bespoke and boutique type approach small-company mindset in a large-company environment. They explained that the firm offers investors what they consider to be the best range of attributes possible - worldwide market reach, core operational capabilities, asset management expertise, and a market-leading mutual fund platform. The multi-boutique platform, they said, offers investors access to independent investment specialists and philosophies to create customised solutions to fit their constantly evolving investment needs. As to current trends, they explained that they are constantly tailoring strategies to suit the regional market, with income, emerging markets debt and certain private real estate and other strategies finding strong demand. Meanwhile, they are also working hard to expand the private wealth business by onboarding more of the region's private banks and independent wealth managers, including multi-family offices.

KIRK WEST
Principal Global Investors

Suresh Singh has worked as Asia head of fund distribution based in Singapore since late 2016, having moved from BlackRock, where also in Singapore he had built a wealth and asset management relationship team for their iShares ETF business across Hong Kong and Singapore. And Kirk West is executive director, international business and clients at PGI, in which role he is responsible for the PGI businesses and client activities outside the United States and is also a member of the PGI global operating committee. He previously held roles at PGI as MD of Asia (ex-Japan) and CEO of the Australian and European businesses.

West opens the dialogue by explaining that he has oversight responsibility of the international offices of the PGI asset management business unit, and had been with the firm since 1999. He lives in Sydney, from which he usually travels extensively, but of course, is currently severely hampered from doing so during the pandemic.

Getting Personal with Kirk West

West is Executive Director & Head of International Business, Principal Global Investors, and covers the overall business strategy of PGI in Asia. He has been with PGI since 1999, joining as a result of the takeover of the Bankers Trust Funds Management Business, while he was working for Bankers Trust Asset Management in Australia.

Prior roles with PGI have included: Managing Director of Asia ex Japan, Chief Executive Officer of the Australian business, and Chief Executive Officer of the European business.

As to education, he earned a Bachelor of Science degree from the University of Wales and then went on to receive an MBA from Australia's Macquarie Graduate School of Management, during which time he was awarded the Allen Knott Scholar award university medal for outstanding academic achievement.

"My first job was as a paperboy at the age of 12," he recalls, "and it has been an exciting journey since then. As to hobbies outside of work, I try to keep as fit as possible, and contribute my time to certain charities, including a children's hospital near us."

PGI – all key APAC bases covered

West reports that PGI operates across all channels in Asia, and has done so since 1996, distributing to institutional, high net worth and retail investors, with JVs and dedicated, wholly-owned operations across the region, including in China where the firm has a very successful joint venture. He explains that APAC as a whole, represents more than half of PGI's international assets.

Singh reports that the private wealth/private banking business that he covers for Singapore and Hong Kong is far more nascent but has been growing apace. "When I joined in 2016," he reports, "our penetration of this segment was very low, and it has been a story of gradually introducing various strategies to the banks here in Asia, getting them onboarded and then working with those clients to raise assets for the strategies. In short, we have been gaining traction year on year."

He reports that to progress this segment, he works closely on building relationships with intermediaries of all types, from private banks to EAMs to family offices, and works closely also with the larger global distributors.

"We work mostly with accredited investors and professional investors," he explains, "and as part also of our global wealth advisory services team we work with the global as well as regional and local partners, onboarding them after building the connections and the relevant due diligence of course.

SURESH SINGH
Principal Global Investors

One of the client segments that I've been particularly focused on is the EAMs and multi-family offices, where we have seen considerable growth, especially in relation to income solutions that have resonated with clients in Asia, we call this risk-managed income strategies."

The global boutiques

PGI presents its strategies under 14 'boutiques', each of which has a different focus and houses different strategies under it. "Bringing highly specialised knowledge from our 14 investment boutiques, we provide alpha and beta strategies across a diverse set of asset classes, including fixed income, equities, real estate, asset allocation, target-date and target-risk, currency, stable value and other structured investment strategies," West reports.

Examples include Spectrum's Preferred Securities Strategy, Finisterre's Unconstrained Emerging Markets Bond Strategy, Aligned's US Blue Chip Strategy and PGI's Global Property Securities Strategy.

Getting Personal with Suresh Singh

Suresh Singh has now been working in Singapore for the past 11 years, the last four of which have been with PGI. Originally from Fiji, he worked for many years in Australia. "With my name and from Fiji, I often call myself Mr Singh from Fiji when I want to get onto some nice golf course," he quips, in reference to Fiji's famous golfer son, Vijay Singh. "Actually, he is one of our great countrymen and one of my great heroes, and remarkably fit and powerful still at his age!"

Before joining PGI, he worked for roughly five years as part of the iShares business at BlackRock. And before that he was with Bankers Trust and Macquarie Bank, both in Australia and Singapore, from January 1998.

He studied at the University of New South Wales, earning his Honours degree in Electrical Engineering and Computer Science.

Tailoring the APAC offerings

"For Asia Pacific," Singh reports, "the offering range is refined and tailored to local and regional preferences. Given our heritage in the retirement and insurance services in the US, our risk-managed income has been the category where we have garnered the most success; an example is our strategy that invests in junior subordinated debt issued by financial institutions, some 80% of which are investment grade. Clients like it because they can invest alongside this in some higher-octane, higher-risk strategies, while ours is much more risk-managed in approach." He adds that this UCITs strategy launched first nearly 20 years ago, has a gross yield currently of around 5% and that there is now roughly USD5 billion under management.

"The key for Asian investors is that as the fund holds around 200 different securities, it can offer both liquidity, safety and yield on a risk-managed basis," he elucidates. "Were a multi-family office, for example, to buy some of the underlying securities, perhaps they could achieve a higher yield, but lose liquidity and significantly increase their risks."

He reports that the firm has also been enjoying some success with an emerging market debt strategy. "This offers investors the upside of emerging market debt for half or less of the downside. Operating since 2013, that strategy now has over USD1 billion and we are getting traction across EAMs and the private banking segment as well."

Income needed

Singh elaborates on the evolution of demand, noting that the key driver of appetite on the fund side certainly has been income and fixed income for many years, and that he does not see that changing anytime soon. "On equities

directly," he reports, "our clients tend to buy into more thematic plays, whether it is technology, China, China tech, whereas for income, they look across the much broader spectrum and mostly through funds. Moreover, on equities, they are often buying the stocks directly, so funds tend to be a little bit on the periphery."

He reports that there is at the same time an increasing demand for private assets, where PGI has considerable expertise, especially in real estate globally.

EM without a doubt offers a premium over developed markets, beta may still not be enough, and we believe that 'active' is required to really achieve the returns as well as the risk management required by institutions. In the same way, we believe that China offers broad appeal, but active is the best way of capturing that potential.

Similarly, REITs have enjoyed strong interest this year, another area in which we are especially strong. We are also very strong, as Suresh mentioned, in private real estate and in this whole property segment, we are very gradually seeing a new price discovery taking place since the pandemic hit. We are seeing rising demand for real estate, for real estate debt and there are great opportunities in certain sectors, for example logistics and so forth, while some areas, for example hospitality are relatively sidelined."

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West adds that an ongoing challenge is how investors can meet their long-term liabilities with policy rates in developed markets at zero in nominal terms and negative in real terms. "Accordingly, we see growing interest in EM markets, a sector that has actually suffered a decade of underperformance," he reports.

West also comments that active is the way forward now, and that passive might actually now be the new aggressive.

Active's new dawn

"And what I mean by that," he elucidates, "is that given all the dislocations in the system since the pandemic hit, there are clearly going to be many more zombie companies than normal in the indices, so passive can be a quite a dangerous strategy. Even though

Looking across the region, West reports that Japan is currently the largest single market, and that as to regions, North Asia is strongest, followed by Southeast Asia, and then Australia.

They also comment on the outlook for Asia Pacific Equities, noting that similar to other parts of global equity markets, the Asia Pacific equity market has recovered from the unprecedent selloff in February

and March, and that monetary policy stays very accommodative with ample liquidity in the system.

"In general," says West, "a weakening US dollar tends to bode well for equity markets in the Asia Pacific region as it signals the capital flow direction is working to the region's favour. The recent currency move is more of a reflection of easing concerns over Covid-19, and its impact on fund performance has been limited, if any."

He adds that earnings growth will likely drive the market and PGI continues to see attractive stock selection opportunities across the region. "We like e-commerce, logistics and data centres, consumption upgrade, 5G, and technology sectors," he explains. "Travel and leisure related stocks provide attractive value potentials; although, caution and being selective are critical in that space."

Commenting further on China, a key pick of PGI and a market in which it is achieving great success, West notes that President Donald Trump's restrictions on Chinese apps and technology is a very selective and targeted move. "Stocks that have been impacted, such as Tencent Holdings, have marginal exposure to the US market, so we do not believe it will have a direct impact on how technology companies are doing business in the region or globally," he says. "That said, the US may continue to use national security as a reason to put additional restrictions on global supply chains, such as the further move on Huawei recently. This may have an impact on China's technology localisation efforts, but it may also create opportunities for companies not directly impacted."

"Over the long-term, inflation is the key global and regional risk we would highlight. Although inflation has been trending lower and staying at low levels off the peak level in 1981, geopolitical risk, receding from globalisation if not de-globalisation, unexpected energy-related events, and fundamental change in monetary policy all could cause inflation to reverse its long, sticky trend."

West adds that in the short-term, the APAC markets could see more noise and volatility heading into the US presidential election in November, and also that vaccine news will also likely be a source of global emotion and therefore volatility.

"Over the long-term," he concludes, "inflation is the key global and regional risk we would highlight. Although inflation has been trending lower and staying at low levels off the peak level in 1981, geopolitical risk, receding from globalisation if not de-globalisation, unexpected energy-related events, and fundamental change in monetary policy all could cause inflation to reverse its long, sticky trend."

Principal Global Investors - Priorities for the Year Ahead in APAC

The first priority, Singh reports, remains income strategies, while also building more AUM across other diversified strategies. "And we will continue to build out our relationships across the region, offering quality strategies, consistency and good service," he adds.

West explains that a key focus will be EM, where PGI has what he describes as "an incredible suite" of EM capabilities, globally, regionally and in terms of country-specific capabilities. I genuinely believe that 2021 the sun is going to shine on the emerging markets. And another priority for me is to get out our ESG story, where was also have a very strong track record and commitment."

They close the discussion by commenting that despite what has been a highly unpredictable and often very difficult year for the world, their business has held up remarkably well, and that assuming a resumption of some form of life as we all knew it, the prospects for growth in the region remain intact.