

Asian Bond Investor Survey - Edition 4

October 2017

Research fieldwork executed over the 5 week period ending 21 August, 2017 inclusive

Research Results

% of Total

A Investor Macro Considerations

1 What are your top macro-economic concerns over the next 12 months?

(N: 176)	% of FI Institutional Investors	Asia Investors (N: 99)	ROW Investors (N: 77)
China: GDP growth below expectations	50.0	40.4	62.3
Commodities: Prices continue falling	13.1	14.1	11.7
Equity market: Continues correcting with high price volatility	53.4	47.5	61.0
Property: Correction in several markets	26.7	22.2	32.5
U.S. political risks	27.3	25.3	29.9
Europe: Rising Political Risk (Brexit, etc.)	50.0	43.4	58.4
Reversal of easy monetary conditions (e.g. Fed's rate rise)	33.5	30.3	37.7
Political and regulatory imposts	44.3	40.4	49.4
Potential international trade conflicts	15.3	18.2	11.7
Material industrial risk	20.5	14.1	28.6

Note: multiple responding enabled, not ranked

1a "Other" Concerns Noted

Military / political / social tensions in Asia	19.9	27.3	10.4
Default risks in emerging markets	18.2	14.1	23.4
Reducing yields on offer	10.8	10.1	11.7

2 How would you prioritise the following in terms of research that can be provided to help you make more informed investment decisions?

(N: 176)	% of FI Institutional Investors
External risks (e.g. climate change)	47.2

Macro-credit risks (e.g. economic)	57.4
Industry or sector risks	75.6
Individual issuer risk	98.3
Futures/Forecasting analyses	54.0
Currency outlooks	72.7
ESG	40.3
Scenario analysis	11.9

Note: multiple responding enabled, not ranked

2a	"Anything else"	
	Large infrastructure / project financing	23.3
	Government / regulatory insights	21.6

B
 Credit Market Considerations

3	From an investment perspective and looking ahead over the next 12 months, do you expect to:			
	(N: 176)	% of FI Institutional Investors	Asia Investors (N: 99)	ROW Investors (N: 77)
	Add to exposure to Asian credit	84.7	91.9	75.3
	Maintain exposure to Asian credit	11.9	6.1	19.5
	Decrease exposure to Asian credit	3.4	2.0	5.2
	TOTAL	100.0	100.0	100.0

4	What are your expectations for spread movements in 2017?					
	(N: 176)	% of FI Institutional Investors				
		G3 Sovereign (N: 101)	3 Investment Grade Corpora (N: 147)	G3 High Yield Corporate (N: 94)	G3 Financials (N: 103)	TOTAL
	Widen	63.4	22.4	57.4	36.9	107.4
	Stable	29.7	36.7	40.4	40.8	93.2
	Tighten	6.9	40.8	2.1	22.3	52.3
	TOTAL	100.0	100.0	100.0	100.0	252.8

5	What sectors within Asian fixed income do you think will be most attractive in 2017?			
	(N: 176)	% of FI Institutional Investors	Asia Investors (N: 99)	ROW Investors (N: 77)
	Financial institutions, insurance	47.2	40.4	55.8
	Governments (sovereigns and public finance)	40.3	33.3	49.4

Infrastructure and utilities	71.0	78.8	61.0
Property developers	14.8	15.2	14.3
Resources (metals & mining, oil & gas)	21.6	18.2	26.0
Technology and telecoms	60.8	63.6	57.1
Transport and logistics	67.6	69.7	64.9
Note: multiple responding enabled, not ranked			
"Other" sectors.....			
NIL			

6 Do you expect default rates to increase in Asian fixed-income markets in the next 12 months?	
(N: 176)	% of FI Institutional Investors
Yes, increase significantly	9.1
Yes, increase slightly	26.1
Remain stable	62.5
No, decrease slightly	1.1
No, decrease significantly	1.1
TOTAL	100.0

7 If you answered “yes” to the above question, what sectors do you expect to see most default?	
(N: 62)	% of FI Institutional Investors
Property developers	67.7
Financial services	9.7
Manufacturing	6.5
None specifically - more a regional risk issue	16.1
TOTAL	100.0

Note: multiple responding enabled

Note: "yes" responses are fundamentally a China story representing 36 of the 62 countries noted above

C Investment & Geographical Considerations

8 Do you expect to increase your fixed income exposure to the infrastructure sector in the next 12 months?				
(N: 176)	% of FI Institutional Investors	Asia Investors (N: 99)	ROW Investors (N: 77)	
Yes, significantly	31.8	35.4	27.3	
Yes, somewhat	33.0	38.4	26.0	
No, have no exposure and not likely to change	13.1	8.1	19.5	
No, will maintain current exposure	21.6	18.2	26.0	

No view expressed / not sure	0.6	-	1.3
TOTAL	100.0	100.0	100.0

9	If you answered yes, are thinking specifically about infrastructure in China, are you likely to participate in the “ belt and road” agenda?	
	(N: 114)	% of FI Institutional Investors
	Yes	43.0
	No	6.1
	No view developed as yet	50.9
	TOTAL	100.0

10	Are you invested in Green Bonds?			
	(N: 176)	% of FI Institutional Investors	Asia Investors (N: 99)	ROW Investors (N: 77)
	Yes	14.8	8.1	23.4
	No - not familiar with green bonds	11.4	16.2	5.2
	No - familiar with green bonds but not yet invested	73.9	75.8	71.4
	TOTAL	100.0	100.0	100.0

11	Do you expect to increase/decrease your exposure to the following instruments?						
	(N: 176)	% of FI Institutional Investors					
		Significant Increase	Moderate Increase	Hold Position	Moderate Decrease	Significant Decrease	Total Invested
	Floating rate notes	23.9	33.5	32.4	5.7	4.5	100.0
	Green Bonds	25.9	30.0	43.5	0.6	-	96.6
	Panda bonds	14.9	26.4	56.8	2.0	-	84.1
	Masala bonds	33.3	50.0	16.7	-	-	3.4
	Formosa bonds	16.7	58.3	25.0	-	-	6.8
	High Yield Bonds	29.5	46.6	18.8	3.4	1.7	100.0

Note: rows not summing to the full N count exclude those FI investors with no views / positions

Note: high yield bonds not previously asked

12	How strongly are ESG (Environmental, Social & Governance) factors impacting your future credit investment decisions?			
	(N: 176)	% of FI Institutional Investors	Asia Investors (N: 99)	ROW Investors (N: 77)
	Already factored in	34.7	25.3	46.8
	Likely - in the next 12 months	25.6	21.2	31.2
	Likely - in the next 12-24 months	27.3	35.4	16.9

Likely - beyond 24 months	10.8	15.2	5.2
Not likely at all	1.7	3.0	-
TOTAL	100.0	100.0	100.0

Note: "ESG" = Environmental, Social and Governance

Note: slight change to question phrasing relative to previous round

13	If you already factor in or answered “Likely” above, what will drive this change?	
	(N: 173)	% of FI Institutional Investors
	Board/management direction	20.8
	Stakeholder expectations	60.1
	Regulations	50.9
	Yield/returns	34.7
	Corporate Social Responsibility	56.6
	UN PRI (United Nations Principles on Responsible Investments)	3.5
	Other	
	Improved information/analysis/transparency/definitions	22.5
	Improved / verifiable disclosure by issuers	44.5
	TOTAL	293.6

Note: multiple responding enabled

14	In the next 12 months how will your exposure to public unrated bonds in Asia-Pacific change	
	(N: 176)	% of FI Institutional Investors
	Increase significantly	12.5
	Increase slightly	37.5
	Reduce slightly	4.5
	Reduce significantly	4.5
	Will not change	39.2
	No view expressed / not sure	1.7
	TOTAL	100.0

15	If you are likely to increase exposure what are the primary drivers? (e.g. Chase for yield, access asset classes not typically rated, etc.)	
	(N: 88)	% of FI Institutional Investors
	Chase for yield	94.3
	Access alternative/typically unrated asset classes	39.8
	Rebalance/re-weight general portfolio	12.5
	Stakeholder expectations/directions	12.5
	TOTAL	159.1

Note: multiple responding enabled

16	How important is it for an issuer and/or a bond issue to have a public credit rating?	
	(N: 176)	% of FI Institutional Investors
	Very important	58.0
	Important	38.6
	Somewhat important	1.1
	Not important	2.3
	TOTAL	100.0

17	From an investment perspective and looking ahead which currency markets will you increase or decrease exposure to in the next 12 months?			
	(N: 176)	% of FI Institutional Investors		
		Increase Exposure	Decrease Exposure	No Change / No View / NA
	USD	88.1	1.7	10.2
	EUR	58.5	16.5	25.0
	GBP	95.5	1.1	3.4
	CNH	50.0	1.1	48.9
	SGD	30.1	2.8	67.0
	MYR	18.8	3.4	77.8
	AUD	61.9	4.5	33.5
	YEN	78.4	1.1	20.5

Note: multiple responding enabled

Note: all investors reported intentions across all eight listed currencies

18	Do you expect to decrease or increase your exposure to bank capital (AT1, T2 or TLAC)?	
	(N: 176)	% of FI Institutional Investors
	Increase significantly	18.8
	Increase slightly	40.3
	Remain the same	21.6
	Decrease slightly	11.9
	Decrease significantly	7.4
	TOTAL	100.0

19	If you are likely to decrease exposure what are the primary drivers? (e.g. low return for the risk, complexity of the instrument, sector exposure limits, etc.)	
	(N: 34)	% of FI Institutional Investors
	Low return/risk equation	32.4
	Product complexity	17.6

Sector exposure/weighting limits	44.1
Credit quality concerns	35.3
Regulatory imposts on the sector	73.5
Governance quality	20.6
TOTAL	223.5

Note: multiple responding enabled

20 In which Asia Pacific markets do you expect to increase or decrease your exposure over the next 12 months?		
(N: 176)	% of FI Institutional Investors	
	Increase Exposure	Decrease Exposure
Whole region / no specific country targeted	21.6	1.7
China	48.9	1.1
Japan	31.3	0.6
South Korea	12.5	2.8
Hong Kong	18.8	0.6
Singapore	6.3	1.7
India	42.6	-
Australia	25.6	4.0
Malaysia	9.1	1.7
Indonesia	20.5	1.1

Note: multiple responding enabled

Note: the difference against N counts per country represents FI investors with no current or planned investment in the region

21 If your answer is decrease - why is this?	
(N: 27)	% of FI Institutional Investors
Low return/risk equation	11.1
Unfamiliarity with specific country markets	18.5
Sector exposure/weighting limits	22.2
Credit quality concerns	37.0
Governance quality	33.3
Stakeholder directions	7.4
TOTAL	129.6

Note: multiple responding enabled

Note: these N counts are very small and not reliable

22 Are you currently invested in China's onshore bond market?			
(N: 176)	% of FI Institutional Investors	Asia Investors	ROW Investors
		(N: 99)	(N: 77)
Yes	15.3	20.2	9.1

No	30.1	19.2	44.2
Under consideration	54.5	60.6	46.8
TOTAL	100.0	100.0	100.0

New Round IV Questions

23	Do you expect to use Bond Connect in the next 12 months?			
	(N: 176)	% of FI Institutional Investors	Asia Investors (N: 99)	ROW Investors (N: 77)
	Yes - significantly	9.1	12.1	5.2
	Yes - somewhat	26.1	32.3	18.2
	No - familiar with Bond Connect but not expecting to use it	25.0	17.2	35.1
	No - not familiar with Bond Connect yet	39.8	38.4	41.6
	TOTAL	100.0	100.0	100.0

24	Please select the primary driver in either using or not using Bond Connect over the coming 12 months?		
	(N: 176)	FI Investors Planning to Use Bond Connect (N: 62)	FI Investors Not Planning to Use Bond Connect (N: 114)
	Yield attractiveness	30.6	0.9
	More favourable terms to access the onshore market	35.5	0.9
	Requirement of global asset allocation to include China deb	66.1	-
	Limited FX and interest rate hedging instruments onshore	-	15.8
	Rising defaults in China	-	10.5
	Limited cross border remittance of funds	-	60.5
	Creditor rights	-	17.5
	Information transparency	-	28.9
	Policy risk	-	18.4
	Trust in the local credit rating system	-	35.1
	Other	-	0.9
	TOTAL	132.3	189.5

Note: multiple responding enabled

25	What are the challenges in your own industry that you are dealing with?			
	(N: 176)	% of FI Institutional Investors	Asia Investors (N: 99)	ROW Investors (N: 77)
	Fee competition from passive index tracking funds	39.2	36.4	42.9
	Future AI-supported investment strategies	18.8	16.2	22.1

Competition from disruptive FinTech players	29.5	34.3	23.4
Compliance burden becoming insupportable	72.2	59.6	88.3
TOTAL	159.7	146.5	176.6

Note: multiple responding enabled