Fund manager interview series

Eastspring leverages Asian footprint

Mr Colin Graham, chief investment officer of multi-asset solutions at Eastspring Investments, discusses his outlook on the multi-asset investment approach and markets in the latest of our series featuring fund managers and market experts.

Mr Colin Graham, chief investment officer of multi-asset solutions at Eastspring Investments, says his firm's competitive advantage lies in an investment and distribution footprint across Asia, and it can manufacture equity and fixed-income products across the region. ST PHOTO: JASMINE CHOONG

Lorna Tan
Invest Editor

Mr Colin Graham joined the company last year and is responsible for all investment management activities of Eastspring's multi-asset solutions team.

Before taking up this post, he worked at BNP Paribas Investment Partners in London as chief investment officer and led BNP's active asset allocation business overseeing €60 billion (S$91.5 billion).

He also served as managing director at BlackRock, where he racked up around 15 years of investment expertise, including managing a diverse client base from retail investors to sovereign wealth funds.

Mr Graham started his investment career at Merrill Lynch Investment Managers (formerly Mercury Asset Management) as a macro equity analyst in the asset allocation team and progressed into a multi-asset portfolio management role.

He holds a bachelor's degree in mathematics and management studies from Brunel University, London.

Q *What distinguishes a multi-asset approach to more traditional investing?*

A Unlike traditional investing, a multi-asset approach provides investors with exposure to a broader range of assets, sectors, strategies and direct investments.

This approach provides exposure to more than one asset class and ensures greater investment diversification.

While there are many different types of multi-asset investments, there are a few distinguishing characteristics.

First, multi-asset portfolios seek to deliver steadier returns, even over shorter holding periods.

By including defensive assets, drawdowns can be lowered during market downturns, such as holding government bonds during the 2008 global financial crisis.

Second, to enhance returns further, portfolios are actively managed across asset classes.

Similar to how a cyclist uses a low gear when riding uphill, an active multi-asset manager typically invests in more defensive assets during a recession.

A middle gear is selected on undulating terrain with a mix of defensive and riskier assets, depending on market conditions and risk profiles.

And a high gear is selected for high speeds on flat terrain, with more capital invested in riskier assets, such as equities, which tend to outperform during economic expansion.

Third, a multi-asset strategy allows investors to stay invested and enjoy risk-adjusted returns by actively allocating to different asset classes during different economic cycles.

Finally, multi-asset managers have a broader investment universe to implement their ideas, selecting equities, currencies, commodities, cash or bonds to best capture investment opportunity as highlighted by our research.

In addition, we can execute these strategies in various ways using internal fund managers, exchange-traded funds (or derivatives).

Q *What distinguishes Eastspring's multi-asset approach from others in the market?*

A Multi-asset solutions are not new but more importantly, our team has a 20-year track record in multi-asset investing across different market cycles.

While multi-asset is a highly competitive market in both the United States and Europe, clients in Asia are under-served with only a few asset management firms operating with a dedicated multi-asset solutions team on the ground in Asia.

Our competitive advantage lies in our investment and distribution footprint across Asia, as well as the strength of our parent company – Prudential.

What is unique about our capability is that we can manufacture equity and fixed-income products right across Asia – not just in Singapore but across all the markets we operate in, like Hong Kong, South Korea, Taiwan, Indonesia, Malaysia and Thailand (through our recent acquisition of TMB Asset Management).

Being based in Asia, we are better positioned to understand the unique needs of our clients.

Ultimately, our clients in Asia are looking for global products, with some diversification away from their home market, that they understand well.

We have assembled a very talented and experienced multi-asset solutions team here in Singapore, with several of our portfolio managers having performed well for clients through at least two business cycles.

Also, we have nearly 20 years' average experience in managing multi-asset portfolios and we are focused on building and offering global products that are tailored to local market requirements.

Our Monthly Income Plan is one of Eastspring's flagship funds in Singapore. It was innovative and market-leading when it was first launched 13 years ago as it mixed Singapore, Asian and US securities in one fund and focused on delivering regular income to Singapore investors.

Q *Amid global asset management risks, where can investors find opportunities?*

A Investors need to weigh up the risks against the opportunities and consider the time horizon in which their view is likely to be recognised by the market.

The ongoing trade war between the US and China as well as the rising US dollar have increased the risk premium in many Asian, global equity, fixed income and currency markets.

We believe that the ongoing market turmoil does not reflect the underlying strength of the global economy and appears to be an air pocket in the continuing bull market.

For example, Asian high-yield bonds are still looking attractive, along with the Indonesian rupiah and Argentinian bonds.

The recent sell-off in US equities, coupled with strong earnings growth, has also seen valuation multiples de-rate, with price-earnings ratios back to levels last seen in 2016.

Elsewhere the de-rating has been even sharper, with many emerging market equities trading near crisis levels, despite a climate of no economic recession or financial crises.

At Eastspring, we continue to hunt for value to enhance client portfolio returns.

Q *What is the impact of the trade war on Asia and emerging markets? Is there a turning point for this?*

A It is becoming clear that increasing tariffs are a handbrake on global trade, with a small effect on the headline economic growth outlook for the US and China.

The major effect will be felt in those economies that supply goods to the production processes in China and the US.

Given the mid-term election results, if the US administration is frustrated by the split in Congress, then more executive orders could be signed, which could raise trade tensions further, although recent talks have provided hope of partial resolution.

The G-20 summit and subsequent Sino-US trade negotiations have begun to thaw the deadlock and risk premium is reducing.

The outcome is still uncertain and a lasting deal that accommodates both sides may be some way off.

Another pressure point is the rise in the US dollar, driven by the Federal Reserve increasing interest rates.

Moderation in language from Federal Open Market Committee members could allow investors to focus on cheap valuations and mispriced opportunities, such as those prevalent in Asian and emerging markets assets.

Q *What were the most significant developments in 2018?*

A The most significant developments over the past year have been the geopolitical tensions between the world's two largest economies, as well as the intensification of a rollback in globalisation, that has been in place since the 1970s.

Q *How are you positioning your portfolios at the moment?*

A We have a positive view on equity risks throughout the US and parts of Asia but are avoiding Europe and the rest of the emerging markets.

There are opportunities in emerging market equities and bonds, and we are being selective on the assets we hold, for example, Indonesian rupiah and Argentinian bonds.

We are also positive on the high-yield market in the US and Asia. Since year-end, we have been reducing our positive view on the US dollar and remain positive on the outlook for the Japanese yen.

Our view on the duration of investment-grade credit is negative, and the same applies to currencies such as the euro.

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4 TIPS FOR INVESTORS

Here are four tips for investors this year:

1. Investors in Asia need to keep a close watch on how US tariff policies evolve and how the interest rate outlook will change following the Republicans' loss in the House of Representatives.
2. In addition, keep a watchful eye on whether China's government is forced to take more expansive measures to stimulate the economy if there is faster slowdown as the US-China trade war escalates further.
3. There is plenty of upside potential in Asia and global markets to look out for, as the markets are pricing in a lack of moderation in US policies and are giving China's actions the benefit of the doubt.
4. Eastspring believes that the key variable is the US dollar. Even if the dollar does not appreciate, the environment will be more rewarding for risk-taking.

Lorna Tan