How are you fixed for the year ahead?

Snooze

Fixed maturity products were very popular last year and are becoming increasingly sophisticated in their hunt for yield. We asked five senior investors if they bought into the trend and how they rate the expanding innovation in the sector

IN A NUTSHELL
by Audrey Raj, Editor

Fixed maturity plans (FMPs) have become very popular among risk-averse Asian investors, resulting in several new launches last year. Fund selectors are now hoping to see more innovation in the space.

After 'judiciously' participating in FMPs in 2019 via its own launches to meet client demand, DBS Private Bank is being slightly more cautious this year.

Oreana Financial Services likes FMPs that have flexibility around trading. FMPs that use credit default swaps and treasuries instead of bonds are of interest to Trilake Partners.

The Global CIO Office believes innovative FMPs may gain some traction this year. In that regard, Indosuez Wealth Management is seeing new FMP ideas surfacing with an ESG-tilt.

PIERRE DEGAGNÉ
DBS PRIVATE BANK
Singapore

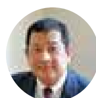
We judiciously participated in the launches of fixed maturity products (FMPs), which we view as useful income-orientated strategies that bridge the passive and active spaces. As these products are meant for simple implementation with a buy-and-hold outlook, we have a preference for high quality, low-cost and transparent asset pools. We generally avoid more esoteric asset mixes, derivatives and structures.

As many of these products are used by clients, avoiding default risk is key. We analyse the level of yields versus risk very carefully and do not believe in going out further on the risk spectrum to stretch for higher yields. As more FMPs enter the market, we're also wary of the space in the same maturity period becoming increasingly crowded and are closely watching portfolio construction.

ISAAC POOLE
OREANA FINANCIAL SERVICES
Hong Kong

We have not invested in FMPs. We see them as an alternative strategy within the credit sleeve of the portfolio, which can be useful for investors approaching retirement or in the drawdown phase of their investment lifecycle. We expect further easing policies from global central banks and FMPs, by design, are positioned with less interest rate risk and we also like the diversification they provide.

However, we have concerns around closed-end FMPs in the current environment. Rising defaults were a risk to FMPs in 2019 and we think that will continue. The volume of corporate debt continued to increase even as credit quality decreased. That remains a risk. Because of this, we prefer fixed maturity funds that have flexibility around trading the underlying positions.



ARNULFO DE PALA
TRILAKE PARTNERS
Singapore

We can see the appeal of FMPs in the region as a stand-alone product sale, as they tick off one of the 'holy trinity' of features so often sought by investors, namely, a guaranteed maturity date (the other two being a guaranteed coupon and a guarantor).

We don't sell or promote products and most of our portfolios are managed for growth on a discretionary basis. We might consider them if they coincide with a particular portfolio's cashflow requirement, but not as a strategic component of a growth portfolio.

We rarely invest in traditional FMPs as they usually come with higher management expenses and returns naturally fall off over time as maturity nears and investors exit. We have, however, invested in FMPs that use credit default swaps and treasuries instead of bonds. We like the efficient leverage and better liquidity of the strategy.

ARJAN DE BOER
INDOSUEZ WEALTH MANAGEMENT
Hong Kong

Last year was indeed a year of FMPs, as investors grew attached to the idea of having certainty with regards to managing their cashflows with a bond-like, coupon-paying fixed maturity investment, while having the diversification benefits of investing into a fund. Thus, we saw a flurry of FMPs being launched by various asset managers.

Given strong demand from clients, we also successfully launched two FMPs last year – the first in June, in collaboration with Amundi, focusing on global emerging market bonds, and another in October. The latter is more conservative with a global bond exposure.

Both launches have been well received and we're happy to see that both portfolios have been holding up well despite the recent pullbacks in the market.

This year, we have seen new FMP ideas surfacing with an ESG-tilt, with extension risk exposure, or even with an emerging market high yield focus. While each has its own advantage, at the end of the day, investors are still mostly interested in the yield that these products can generate.

Therefore, regardless of how innovative the product, yield is still a key consideration. For us as wealth managers, it is important that we ensure the associated risk is assessed, as well as managed.

JOHAN JOOSTE
THE GLOBAL CIO OFFICE
Singapore

We were not invested in FMPs in 2019. The available assets used to construct FMPs in a sensible way had become quite narrow and continue to get narrower in 2020. The demand for FMPs had more to do with a hunger for yield among investors, rather than the point in the cycle.

The construction and risk profile of the majority of FMPs tend not to afford protection against the risks that come with a late cycle. Instead, they appear to be more tailored to adding yield to portfolios ahead of any other considerations.

'Innovative' FMPs may gain some traction this year compared to last year, subject to risk appetite remaining unaffected by the coronavirus situation – a strong assumption. The additional innovations required to make FMPs viable from a target yield point of view will almost certainly add a further layer of risk.

The most notable new fixed maturity structures add either a higher level of leverage or try to exploit perceived opportunities in rates or volatility markets to add to the yield promised to investors. In an environment of higher volatility, this could be a dangerous strategy to employ.