

Conning Asia Pacific

New frontiers



Bo Kratz
Chief Executive Officer
Asia Pacific

Global asset management firm Conning has spent the past few years expanding its expertise from more traditional asset classes to capabilities that strive to bring higher yield.

The 100-year-old firm, which specialises in providing investment solutions to the insurance industry, has broadened its capabilities into areas such as high yield bonds, collateralised loan obligations (CLOs), emerging

market and frontier market debt, and bank debt.

Bo Kratz, Chief Executive Officer, Asia Pacific, at Conning, says: “We have added to the traditional US investment grade space over the last five years with the aim of helping our core client base manage their assets and liabilities.”

He adds that CLOs, which are actively managed floating rate instruments, are very effective for giving clients exposure to the sub investment grade universe.

Conning Asia Pacific focuses on Asian credit capabilities. “If you are restricted to investing in investment-grade securities for regulatory reasons, the Asia space gives you the opportunity to stick to that credit rating but offers a greater degree of diversification.

“There is also the potential of new issues coming out as companies and economies in the region grow,” Kratz says.

To further enhance its capabilities in emerging and frontier markets, Conning acquired a stake in dedicated emerging market debt manager Global Evolution* a few years ago.

In addition to its expertise as a debt manager, Global Evolution has also built a robust ESG framework, with a particular focus on governance, due to the important role corporate governance plays when investing in emerging markets.

“We are adding new things to our line up but from the perspective that they need to be something that meets the needs of our core client base,” Kratz says.

A strong recovery

Kratz is optimistic about the current macro-outlook, and while there are still several issues relating to the Covid-19 pandemic, he thinks the world is “well positioned to see the strongest recovery since the global financial crisis.”

He points out that the unprecedented stimulus, from both a fiscal and a monetary policy point of view, combined with the rollout of Covid-19 vaccines, could lead to a strong bounce back in growth this year.

At the same time, US President Joe Biden’s commitment to improve the country’s infrastructure could potentially unlock more stimulus in the world’s largest economy.

While Kratz acknowledges that inflation is a risk, he does not expect it to be a significant problem over the medium term.

“Even if we get a phasing out of stimulus from the Federal Reserve or the European Central Bank, we are still going to be in a very constructive environment from the point of view of stimulus,” he says.

But he adds that while the macro backdrop is currently very supportive of risk assets, volatility has been a major factor during the past year, and is something that needs to be taken into account.

Kratz points out that the “rollercoaster of 2020” has also reinforced the importance of pairing diversification with a strong global risk management framework. He suggests asset owners take the opportunity to reflect on the assumptions that go into their investment decisions, paying particular importance to their true risk tolerance.

Asian opportunities

With narrow spreads and uncertainty in the Treasury space Kratz says investors are having to look for different opportunities to get any yield on their fixed income investments.

“Asia is probably going to drive growth for the rest of the world in the next few years, not only China but also other emerging markets in this part of the world, so it is a good place to look to invest your money,” he says.

From Conning’s point of view, Kratz is particularly excited about the possibilities China offers. He points out that insurers in the Mainland face increased regulatory pressure. They are also facing restrictions on the proportion of their assets that they can invest overseas, driven by currency controls. This is not likely to change anytime soon.

He notes, not only can Conning provide tailored solutions for insurer’s asset management needs, but Conning also provides a range of risk management tools helping companies in obtaining optimal asset and liability matching.

“A reoccurring theme across the region is regulatory developments and the need for insurance companies to adhere to that from an asset-liability matching point of view and that is very interesting for us,” he adds. ■

*Global Evolution is not a corporation licensed by the Securities and Futures Commission in Hong Kong.