

Heavy outflows for once-popular high-yield bond funds in Taiwan

By [Selena Li](#) April 10, 2019

Taiwanese investors fled global firms' offshore high-yield bond funds over the 12 months ended February due to rate hike concerns, while emerging market bond funds stole the limelight during the same period.

A total of 54 high-yield bond funds bled US\$2.8 billion over the 12-month period, with offshore funds the most impacted, according to data from consulting firm Keystone Intelligence.

For the first time, local investors pulled out money in droves from the once popular offshore funds.

Despite the redemptions, about one quarter, or US\$25.7 billion, of Taiwanese investors' total offshore investments were in high-yield bond funds as of February.



Donna Chen, Keystone Intelligence

U.S. interest rate hikes were the main driver of the outflows, in addition to the U.S.-China trade disputes and a sharp oil price drop as “a lot of” high-yield bond issuers are oil companies, says Donna Chen, Taipei-based founder and president of Keystone.

Among the 10 offshore funds with the largest net outflows between end-February 2018 and end-February this year, seven are high-yield, or investment-grade, bond funds, according to information from the **Securities Investment Trust and Consulting Association**.

Together, the seven offshore funds saw a total of NT\$69 billion (US\$2.24 billion) in net redemptions during the period, with about 42% of the outflows from **AllianceBernstein**'s Global High Yield fund.

The fund, previously the offshore fund with the largest locally sourced assets in Taiwan, suffered NT\$29.2 billion in new outflows in the 12 months. It had NT\$381 billion in locally sourced assets as of end-February.

The outflows from the AllianceBernstein Global High Yield Fund accounted for about 30% of the overall outflows from all offshore global high-yield funds in Taiwan during the period, according to a Hong Kong-based spokesperson for the firm, which is leading its global peers in offshore fund sales in Taiwan.

“It was merely a market cycle where the investment rotated to other sectors as we saw bifurcated growth between the U.S. and non-U.S. economies alongside increased geopolitical tensions,” a Hong Kong-based spokesperson for AllianceBernstein tells *Ignites Asia*.

It led to “a challenging year for risk assets,” the spokesperson says, adding that the firm saw its multi-asset funds recording positive flows over the same time horizon.

Even after the significant net redemptions, about half of Taiwan's offshore high-yield investments are still concentrated in this single fund currently, the company claims.

Following AllianceBernstein, **NN Investment Partners'** Global High Yield Bond Fund saw the second-largest outflows of NT\$11.4 billion during the same period, according to Sitca data.

"At this point, Taiwanese investors make up the maximum percentage of 50% allowed of the fund's global assets," a Singapore-based spokeswoman for NNIP tells *Ignites Asia*.

In Taiwan, offshore funds are subject to a 50% to 70% cap on locally sourced assets against their global assets, depending on a foreign manager's contribution to the market. These contributions are mostly local hirings and investments in onshore teams and operations.

Assets from Taiwanese investors in the NNIP fund reached NT\$41.3 billion as of end-February, accounting for 53.1% of its global assets. That means the fund cannot take in additional subscriptions and is only allowed to take redemption orders, which contributed to the net outflows, the spokeswoman notes.

"But since the beginning of this year, we have observed a slowdown in outflows from Taiwan," she adds.

Fidelity, which saw the third and sixth largest net redemptions for its US High Yield Fund and Asian High Yield funds respectively among all offshore funds during the period, declined to comment.

Nonetheless, Keystone's Chen believes the trend has been reversing since the start of this year for high-yield bond funds.

"As oil prices began to rebound, the softening in U.S.-China trade disputes and the suspension of U.S. interest rate [hikes], high-yield bonds started to see net inflows since the beginning of 2019," she says.

The AllianceBernstein spokesperson also says there were "significant net inflows" into its high-yield bond fund within the first two months that account for 30% of the overall new flows to high-yield offshore funds.

Meanwhile, foreign firms' emerging market bond funds have risen in popularity, with US\$2.9 billion in net new flows over the same period, Keystone data show.

Four out of 10 best-selling offshore funds in the market in the 12 months are emerging market bond funds.

Leading the pack is **Franklin Templeton**, which saw its Templeton Emerging Markets Bond Fund attract NT\$50 million in new subscriptions.

It is followed by the **Amundi** Emerging Market Bond Fund and the **Neuberger Berman** Emerging Market Debt – Local Currency Fund, which recorded NT\$27 million and NT\$11.7 million in net sales respectively.

Chen believes that more managers of emerging market bond funds started to offer back-end share classes that distributors demanded, contributing to the overall rise of such offshore funds.

Mutual funds that do not charge investors front-end fees, or back-end share classes, are a big draw in Taiwan, but they put a huge strain on fund firms, which essentially have to shoulder the upfront fees paid to distributors.

Meanwhile, **Allianz Global Investors'** Income and Growth Fund became the best-selling fund in Taiwan over the 12-month period, displacing AllianceBernstein's high-yield fund, and becoming the largest foreign fund in Taiwan with NT\$398.2 billion in new flows.

Chen believes that apart from performance and continued business branding efforts, the high-dividend payout of the fund has drawn local investors and is "the main attraction of the fund".

The annualised dividend of the fund's U.S.-dollar share class was between 8.46% and 9.51% from February 2018 to February 2019, information from AillanzGI's website shows.

As of end-February, 1,033 offshore funds managed by 69 fund firms had NT\$3.46 trillion in assets sourced from local investors in Taiwan, according to Sitca.

Worst-selling offshore funds in Taiwan (2018.2-2019.2)

offshore fund	fund type	net outflows in last 12 months	assets as of end-Feb	Percentage of Taiwan-sourced assets
1 AB Global High Yield	Fixed-income	NT\$29.2 billion	NT\$381 billion	63.8%
2 NN (L) Global High Yield	Fixed-income	NT\$11.4 billion	NT\$41.3 billion	53.1%
3 Fidelity Funds - US High Yield Fund	Fixed-income	NT\$19.8 billion	NT\$17.1 billion	17.1%
4 BlackRock Global Fund - US Dollar High Yield Bond Fund	Fixed-income	NT\$13.7 billion	NT\$28.5 billion	41.5%
5 Franklin Templeton Investment Funds-High Yield Fund	Fixed-income	NT\$10.6 billion	NT\$37 billion	70.8%
6 Fidelity Funds - Asian High Yield Fund	Fixed-income	NT\$13.6 billion	NT\$26.1 billion	18.2%
7 Amundi Funds II - Pioneer Global High Yield	Fixed-income	NT\$8.4 billion	NT\$15.5 billion	53.4%
8 PIMCO Funds: Global Investors Series plc Diversified Income Fund	Fixed-income	NT\$13.8 billion	NT\$19.3 billion	8.6%
9 Neuberger Berman High Yield Bond	Fixed-income	NT\$19.3 billion	NT\$34.3 billion	27.6%
10 Franklin Biotechnology Discovery Fund	Equities	NT\$29.1 billion	NT\$18.7 billion	31.6%

Best-selling offshore funds in Taiwan (2018.2-2019.2)

offshore fund	fund type	net inflows in last 12 months	assets as of end-Feb	Percentage of Taiwan-sourced assets
1 Allianz Global Investors Income and Growth fund	Balanced (mixed-assets)	NT\$147.4 billion	NT\$398.2 billion	41.4%
2 Franklin Templeton Investment Funds- Emerging Markets	Fixed-income	NT\$50.3 billion	NT\$209.6 billion	62.1%

Best-selling offshore funds in Taiwan (2018.2-2019.2)

Bond Fund					
3	Amundi Funds II - Emerging Markets Bond Fund	Fixed-income	NT\$27 billion	NT\$93.8 billion	41.8%
4	Neuberger Berman Emerging Market Debt – Local Currency Fund	Fixed-income	NT\$11.7 billion	NT\$17.6 billion	20.7%
5	JPM Global Government Bond	Fixed-income	NT\$8 billion	NT\$8.2 billion	17.4%
6	AB SICAV I - Global Plus Fixed Income Portfolio	Fixed-income	NT\$8 billion	NT\$17.3 billion	53.0%
7	AB SICAV I - Low Volatility Equity Portfolio	Equities	NT\$7.8 billion	NT\$18.9 billion	22.0%
8	Morgan Stanley Investment Funds Global Opportunity Fund	Equities	NT\$7.2 billion	NT\$10 billion	4.2%
9	AB FCP I-American Growth Portfolio	Equities	NT\$6.4 billion	NT\$19.5 billion	19.6%
10	Fidelity Funds - Emerging Market Debt Fund	Fixed-income	NT\$6.1 billion	NT\$8.5 billion	12.9%