

## home business

# Asset managers: Further upheavals expected within next decade

**Scale of recent economic stimulus in G20 countries expected to stoke inflation**

by **Melody Song & Joy Lee**  
FD@bizedge.com

**KUALA LUMPUR:** The worst of the current economic crisis may be over in 2010 but asset managers have not ruled out further upheavals within the next decade.

According to a survey on 225 asset managers in 30 countries carried out by Principal Global Investors, most respondents do not rule out more systemic crises in the next decade. It said the scale of recent economic stimulus in G20 countries was expected to stoke inflation.

"We are not completely out of the credit crunch yet. Getting credit going is the key initiative for central banks for the next year. They have been flooding the market with liquidity in hope of getting credit moving again.

"But a lot of times, this is just simply liquidity. It is not generating new credit. And there is recognition that credit is a necessary evil in the economy," COO of Principal Global Investors Barbara McKenzie said at a CIMB Principal Asset Management Bhd media briefing yesterday.

She added that until the market could get back on its feet again, it would continue to need access to credit and thus more government aid.

The survey also found that 45% of its respondents did not expect the worst of the crisis to be over till the first half of next year while 25% expected it to be even later.

The 225 asset managers and pension funds surveyed were responsible for collective assets worth US\$18.2 trillion (RM63.9 trillion) as at April 2009.

"We are now primarily driven by retail industries locally, significant fiscal stimulus and low interest rates. All these will naturally fade.

"However, the stimulus will eventually have to be removed and the key timing to withdraw this stimulus and how it is removed are important to consider as we are juggling between growth and potential inflation.

"But that will be in the second half of 2010," Principal Global Investors (S) Ltd managing director for Asia ex Japan, Kirk West said.

On the survey findings, West added that although it was carried out during "the eye of the storm", the results could be used to study investor behaviour moving forward.

"People have lost confidence in a lot of the longer-term growth assets. The whole concept of equity risk premium has made people feel uncomfortable. They will now be looking at increased liquidity.

"Several things eroded investor confidence during the crisis, especially the fact that diversification of assets hasn't worked in the short term because of deleveraging. Going forward, however, we still believe in

diversification," said West.

He added that asset managers also expected further regulatory pressures to intensify over the next three years which may result in fee compression.

Consequently, West said a majority of firms had shown a significant revenue decline of 35%.

"One of the key issues we've seen in the last 12 months is compensation within the finance industry. We expect one outcome will be greater alignment in terms of compensation. So, maybe people will have lower fixed compensation, and a higher component of variable compensation and this will be more aligned with the performance of the underlying funds," he said.

McKenzie said there was already a movement of money away from some of the traditional hedge funds centre that had light regulations to other offshore jurisdictions with higher regulatory standard as investors started understanding a need for greater regulation post crisis.