

Managing Large Portfolios in the Current Market Environment

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A**CHANGES IN MARKET LANDSCAPE****B****MANAGING PORTFOLIOS IN CURRENT CONDITION****C****TAKEAWAYS**

CHANGES IN MARKET LANDSCAPE: DIFFERENT SOUP OF ALPHABETS?

Post-Covid-19 has brought a massive changes in global economic situation, especially with the rising bond yields, and the changes in markets uncertainty that need to be addressed with different portfolio management strategies.

VUCA Environments
(Volatility, Uncertainty, Complexity, Ambiguity)

TUNA Environments
(Turbulence, Uncertainty, Novelty, & Ambiguity)

Greater Shock & Impact...

TINA Environments
(There Is No Alternative Investments)

BARBARA?

Bonds Are Really Back And Really Attractive

- Monetary Policy Normalization
- Trumponomics?
- EU Post Brexit?

- Brexit Continues
- Trade War
- Slowing World Economy Growth

- Covid-19 Pandemic
- Monetary & Fiscal Policy: More Stimulus
- Low/Negative Yield Investments

Different cycle needs different approach

Bonds' Pain Is Retirees' Gain

Amid economic uncertainty, it's an 'attractive time' for investment-grade bonds, financial expert says

Are bond yields attractive or could they rise further?

"CASH FLOW MANAGEMENT"

Focused on **liquid and safe assets** (time deposits and short term treasuries were main instruments)

TURNING POINT TO "PORTFOLIO MANAGEMENT"

- Developed **strategic asset allocation** and portfolio construction
- Implemented **total return approach**
- Introduced portfolio tranching

"DIVERSIFICATION"

Growing reserves since 2008 allows **diversification** in various currencies & asset classes

"ENHANCED DIVERSIFICATION"

- Macro Factor approach for currency allocation since 2018
- Focus on **asset classes diversification** and enhance capabilities by investing **spread products** internally & complex diversification

The New York Times

Bonds Have Been Awful. It's a Good Time to Buy.

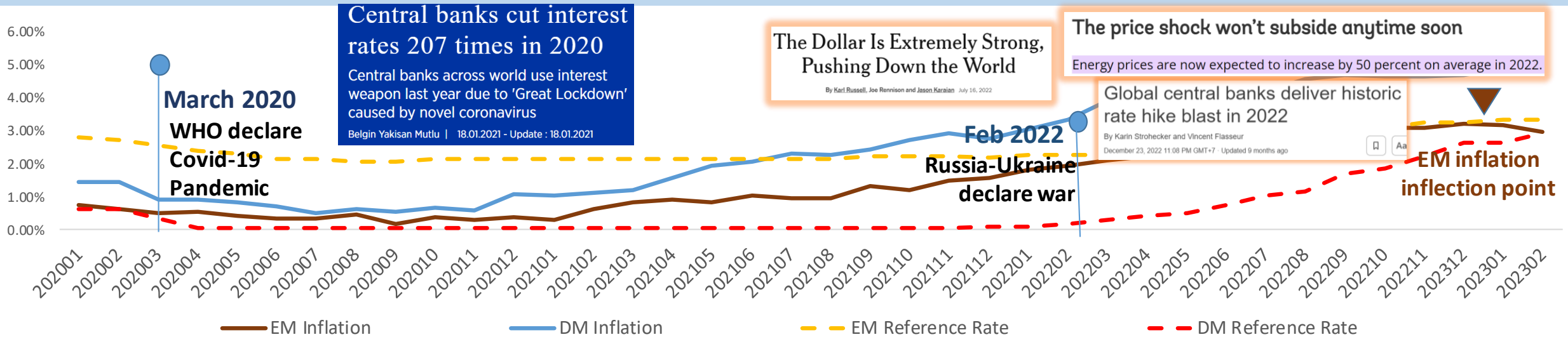
BARBIE?

Bonds Are Really Back In Earnest



CHANGES IN MARKET LANDSCAPE: SEA CHANGE?

Post Covid-19 stubborn inflation and fiscal fear has pushed global central banks to keep on rising interest rate and causing bonds yield raised to the highest level since 2007. A longer horizon view might gives different perspective...



US 10-Year Treasury Yield

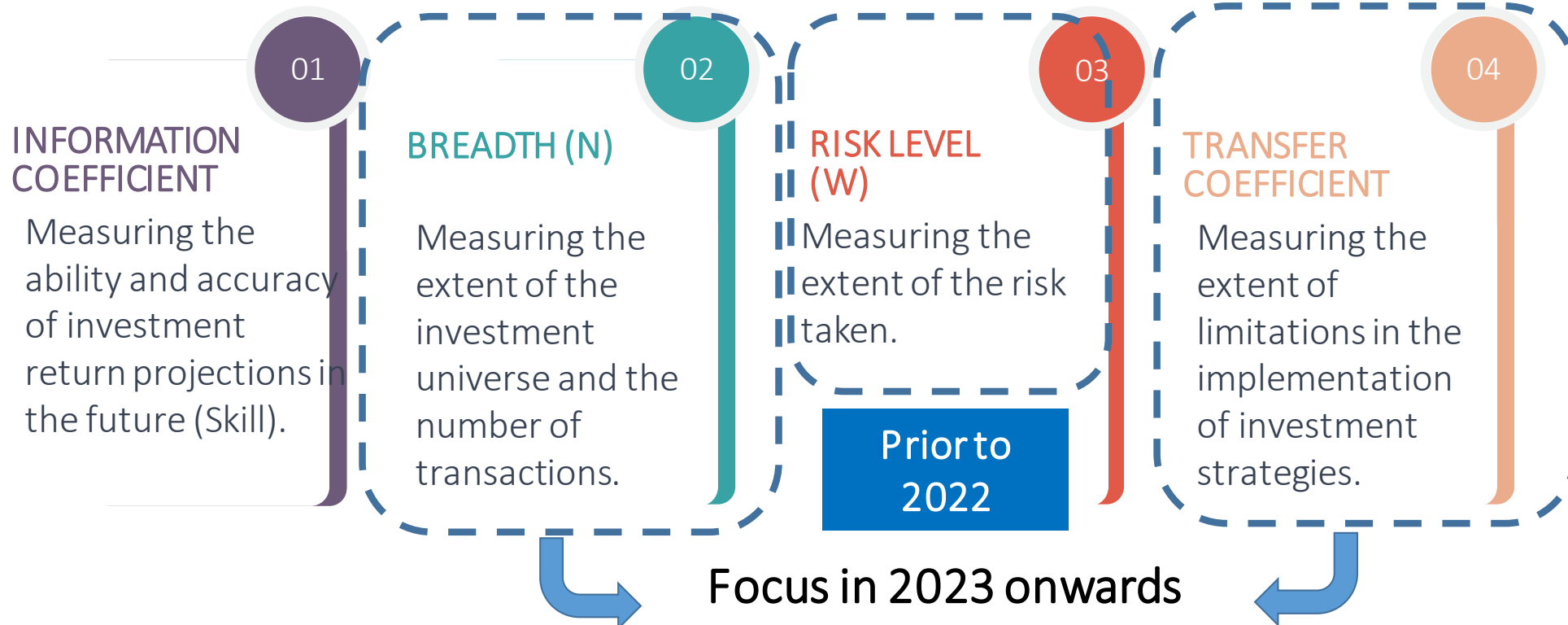


MANAGING PORTFOLIOS IN CURRENT CONDITION : FRAMEWORK ON MANAGING PORTFOLIOS

The beta avalanche has returned to the point that “easy beta” is no longer a viable investment strategy. Fundamental law of active management framework tells us to focus on being agile and resilient...

Fundamental Law of Active Management

$$\alpha = IC \times \sqrt{N} \times \omega \times TC$$



Most reserve managers are mandated with guiding principles. Given the rise in uncertainty and volatility with the keep increasing yield, being resilient might be beneficial...

Trilogy of Principles of Bank Indonesia Act

LOW YIELD

Prior to
2022

SAFETY
Capital Preservation

LIQUIDITY
Provision of Liquidity

RETURN
Income Generation

SEA CHANGE

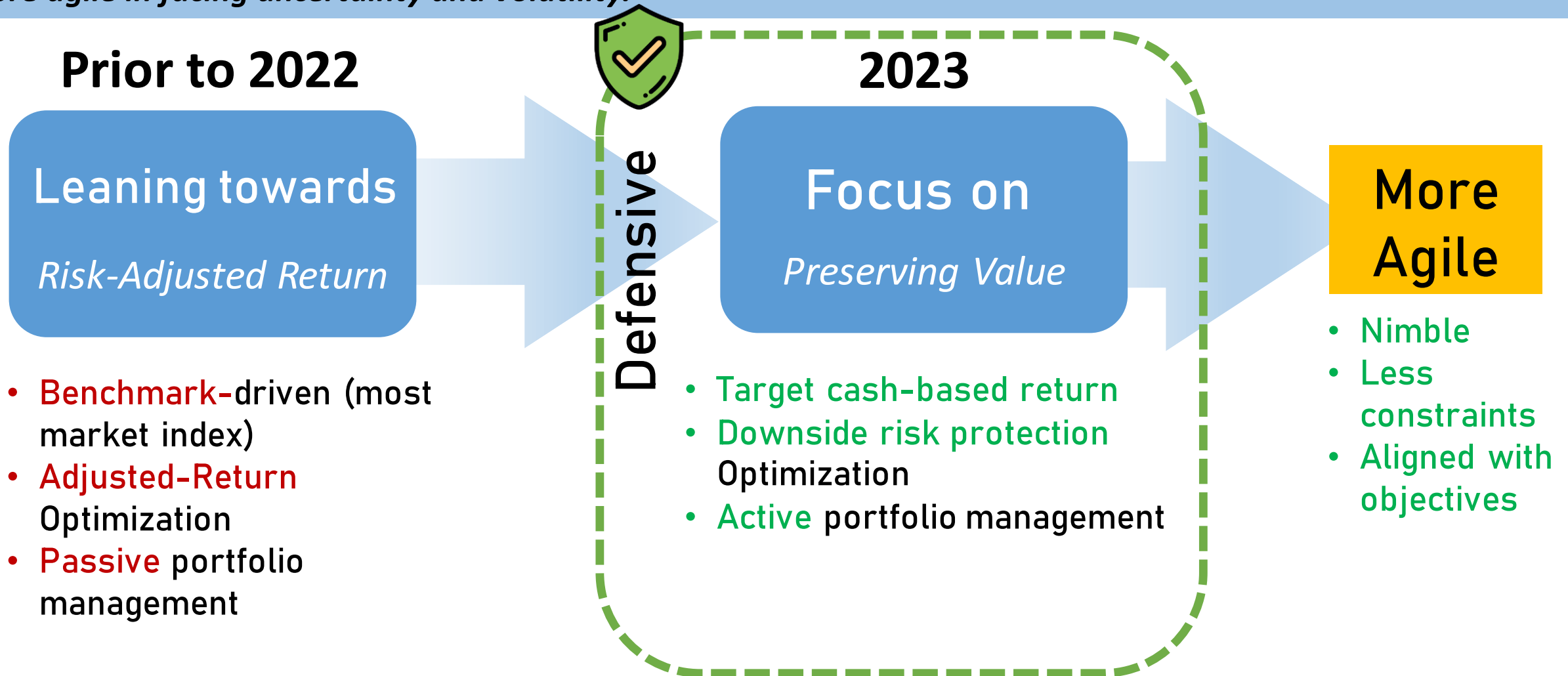
2022 onwards

Resilient by
being Defensive
& Agile

*Downside risk
mitigation*

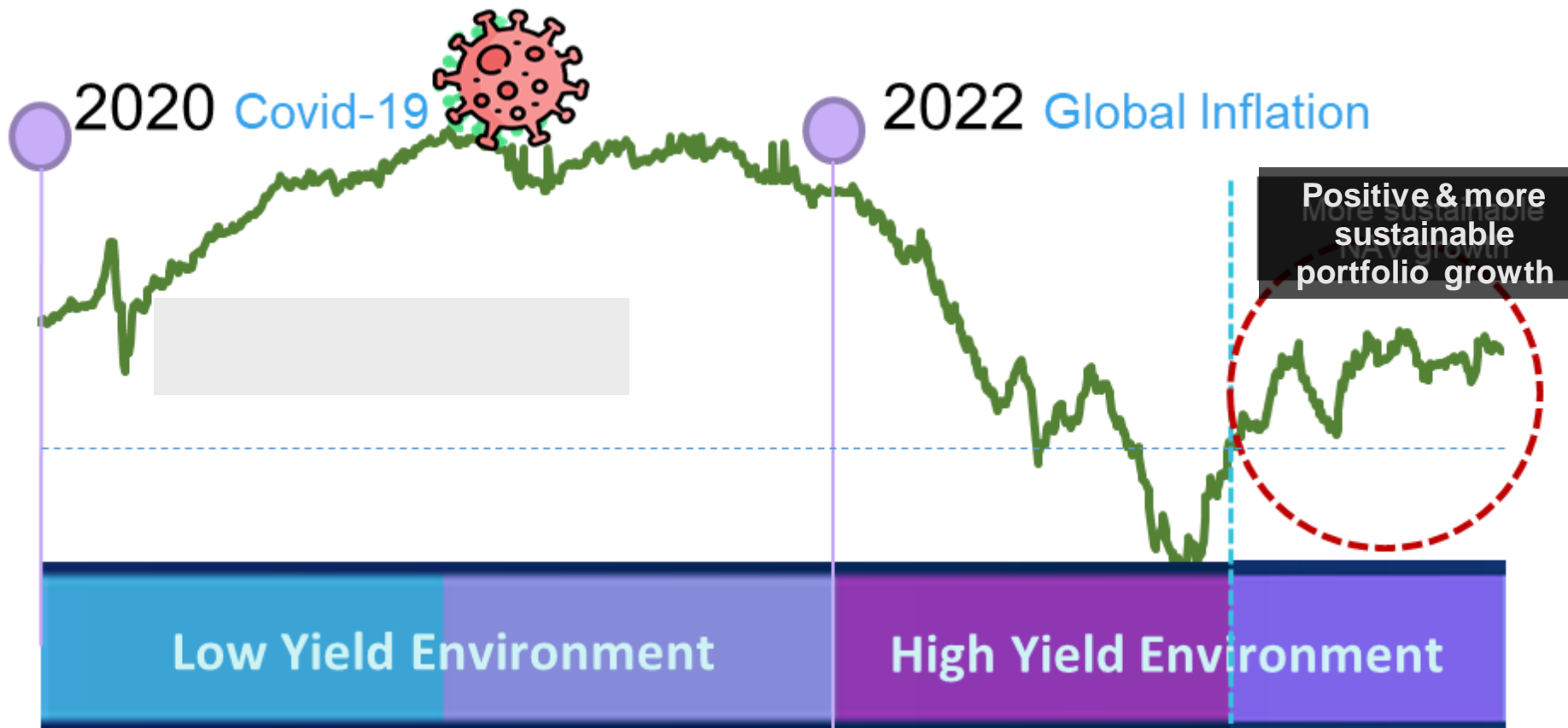
MANAGING PORTFOLIOS IN CURRENT CONDITION : GOING DEFENSIVE

By going defensive, we need to adjust parts of our framework and policy that include reducing operational constraints and focus on downside risk in addition to specific defensive portfolios. These have allowed us to be more agile in facing uncertainty and volatility.



MANAGING PORTFOLIOS IN CURRENT CONDITION : PRESERVED VALUE

The shift in reserves management focus from risk-adjusted returns to preserved value has proven successful in maintaining the stability of portfolio growth in 2023.



Bond Benchmarks Performance (YTD)

| Index | Return (YTD) |
|---------------------------------------|--------------|
| Bloomberg Global Aggregate Treasuries | -4.24% |
| Bloomberg Global Aggregate | -2.92% |
| Bloomberg US Treasuries | -2.55% |

TAKEAWAYS: STAY TRUE TO PRINCIPLES



While rising volatility and uncertainty has been an issue in the financial market for the last 10 years or more, what happened in the current condition has brought more surprises and greater challenges in managing large portfolio such as reserves.



Reserve managers not only need to adapt but also must be agile by having a flexibility on its portfolio management and stay true on guiding principles of managing reserves.





Thank You