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PIMCO Fund Value Falls Following Announcement to Invest in Chinese Bonds

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Emerging market bond funds decline following PIMCO's surprising announcement that it will expose investors to "Toxic Risk" of Chinese bonds despite Chinese government's defaulted debt and exclusionary payments to non-U.S. bondholders.

Washington, D.C. (PRWEB) December 11, 2007 -- Commentary by Sovereign Advisers - In a surprise announcement, Pacific Investment Management Company ("PIMCO") announced that, despite the refusal of the Chinese government to honor repayment of its sovereign debt held by Americans, it would begin investing in Chinese corporate and government bonds (Financial News, Nov. 15, 2007).

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"Desperate Strategy" Exposes Investors to Hidden Risks
Commenting on the surprising announcement by Bill Gross, PIMCO's chief investment officer, that PIMCO actually intends to move into Chinese debt despite the risks posed by China's massive sovereign bond default (estimated at \$260 billion), Sovereign Advisers president Kevin O'Brien speculated that the drop in PIMCO's emerging markets funds' value following the announcement might be the result of a reaction by institutional investors fearing exposure to the increased risk represented by such a desperate strategy, including the risk of seizure of interest payments by defaulted creditors. "I have to wonder why any sane investor would buy the bonds of a government which is facing economic sanctions, including expulsion from U.S. capital markets (see link #1) as a result of its refusal to honor repayment of the



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Chinese government's sovereign bonds held by Americans, and engages in predatory financial markets practices including repudiation of its sovereign debt, selective default, exclusionary payments to non-U.S. creditors, and discriminatory settlement in favor of British bondholders (see link #2). In light of these factors, I would certainly expect the vast majority of institutional risk managers understand the toxicity of government and quasi-sovereign Chinese bonds (which comprise over 90% of the domestic Chinese fixed-income market).

Toxicity vs. Flight to Quality

In today's credit environment, PIMCO's announcement of its plan to invest in Chinese debt comes as a stark contrast to the flight to quality occurring globally. Of course, PIMCO's decision, evidencing a casual regard for risk, may also help explain PIMCO's position in the bottom 20% of managed institutional bond funds as ranked by performance (Wall Street Journal, May 16, 2007). The decision to load up on Chinese debt might further explain why PIMCO trails three-quarters of similar funds. Upon hearing of PIMCO's announcement to target Chinese bonds, Mr. O'Brien said the decision "would certainly cause me to head for the exit."

U.S. Bondholders Group Pursues Collection of Defaulted Bonds

The American Bondholders Foundation (ABF) represents United States bondholders in prosecuting the collection of their outstanding claims against the Chinese government. The ABF has filed a complaint with the SEC, NYSE and NASDAQ exchanges against Chinese state-owned enterprises alleging failure to disclose the refusal of the Chinese government to repay its defaulted sovereign debt held by American bondholders (see link #3).

The ABF has previously been the subject of public attacks by Geert Rouwenhorst of Yale University, until disclosure appeared in a court brief exposing Yale's close ties to the Chinese government including Yale's designation as the sole U.S. university endowment permitted to invest in the domestic Chinese stock market (China Allows Yale to Invest in Domestic Markets, Associated Press, April 19, 2006).

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References

Link #1:
http://www.globalsecuritieswatch.org/China_Denied_Access_to_U.S._Capital_Markets.pdf

Link #2:
http://www.globalsecuritieswatch.org/Amended_SEC_Complaint.pdf

Link #3:
http://www.globalsecuritieswatch.org/ABF_Press_Release_of_10_18_07.pdf

Additional Information

<http://www.globalsecuritieswatch.org/world-news.pdf>

Note re: Fund Valuation

Valuation data for PIMCO emerging markets funds obtained directly from PIMCO website:

<http://perfcap.pimco-funds.com/index.aspx>

Data indicates decline in value immediately following date of announcement (November 15, 2007).

###

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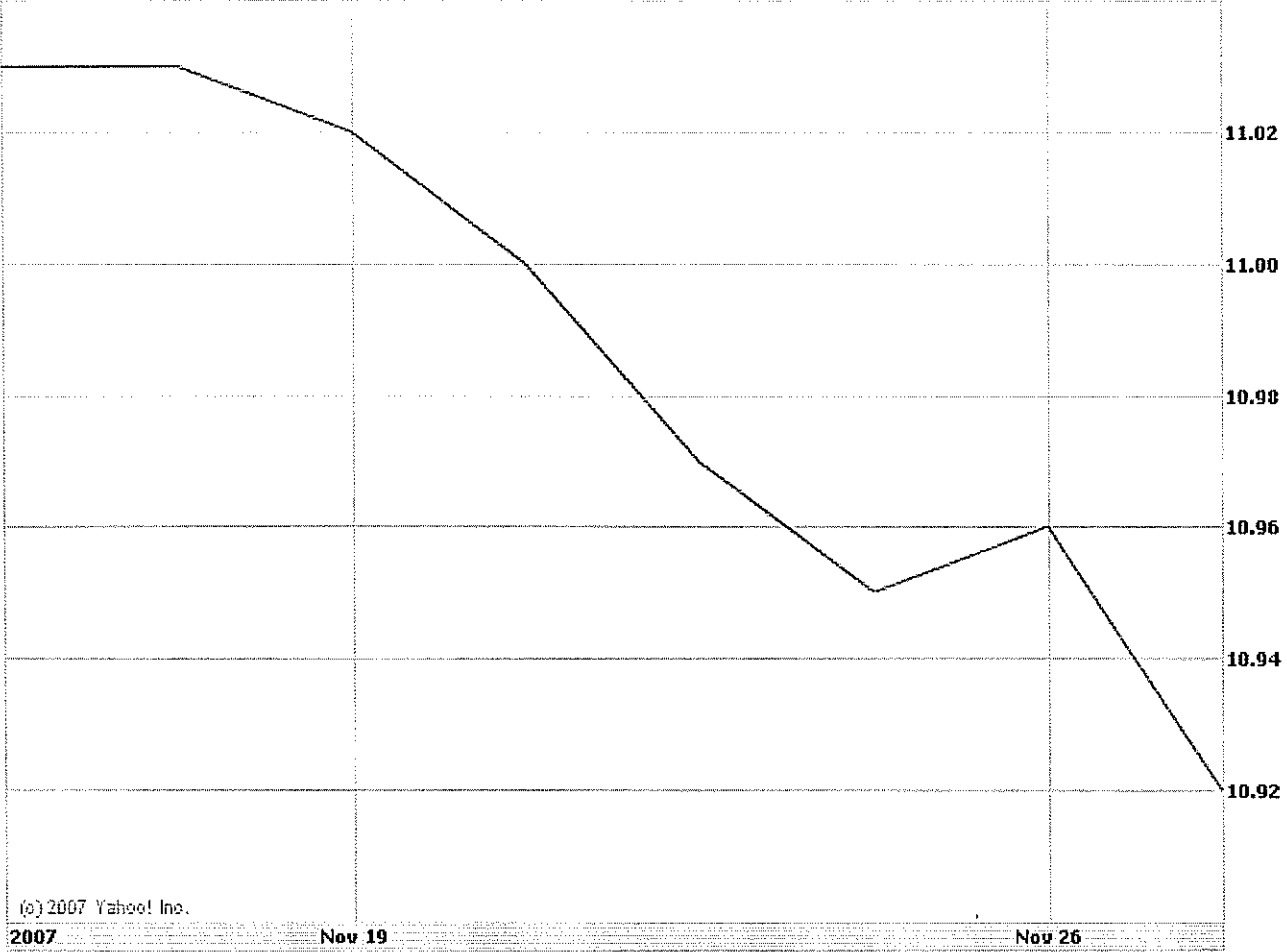
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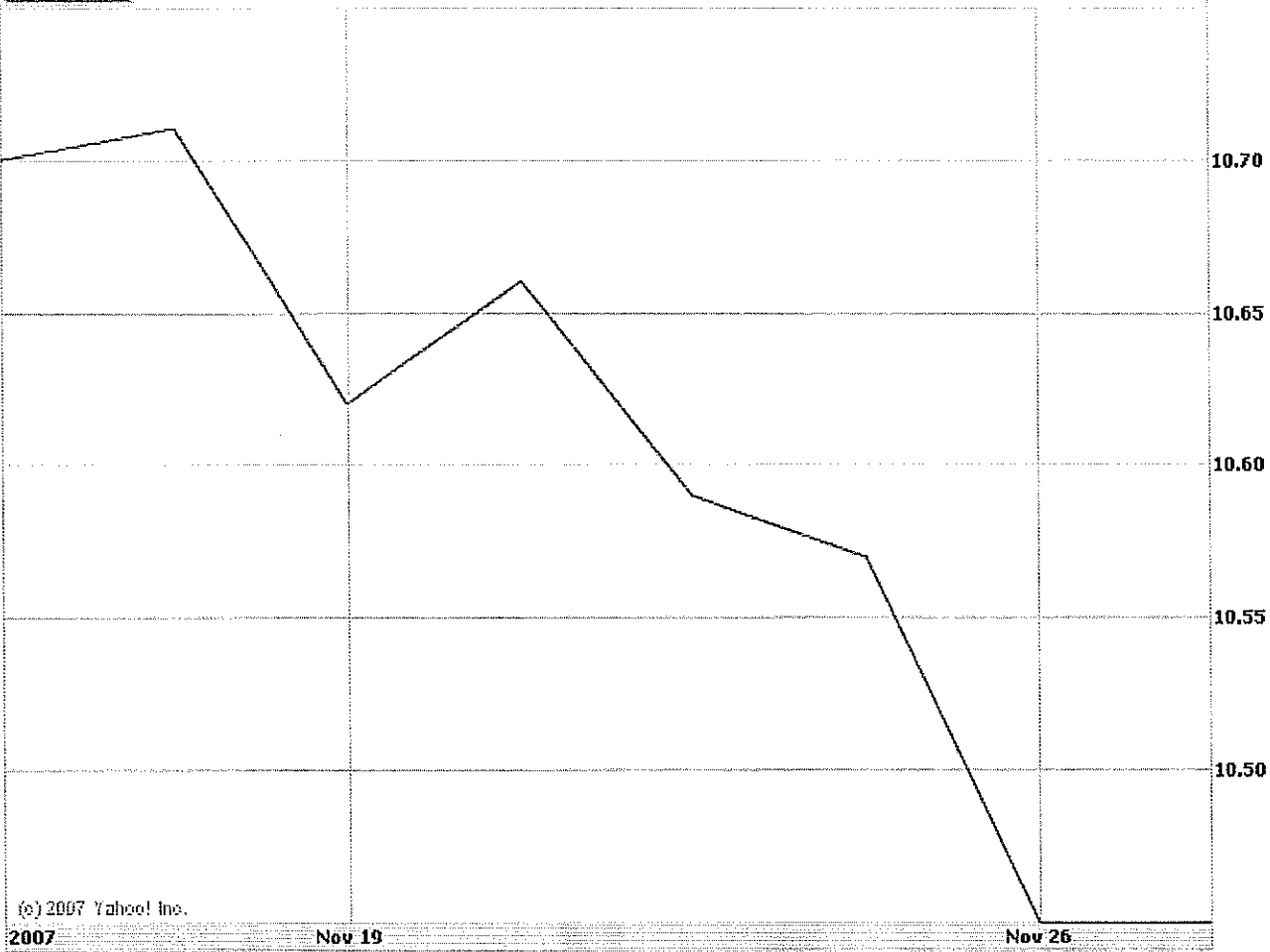
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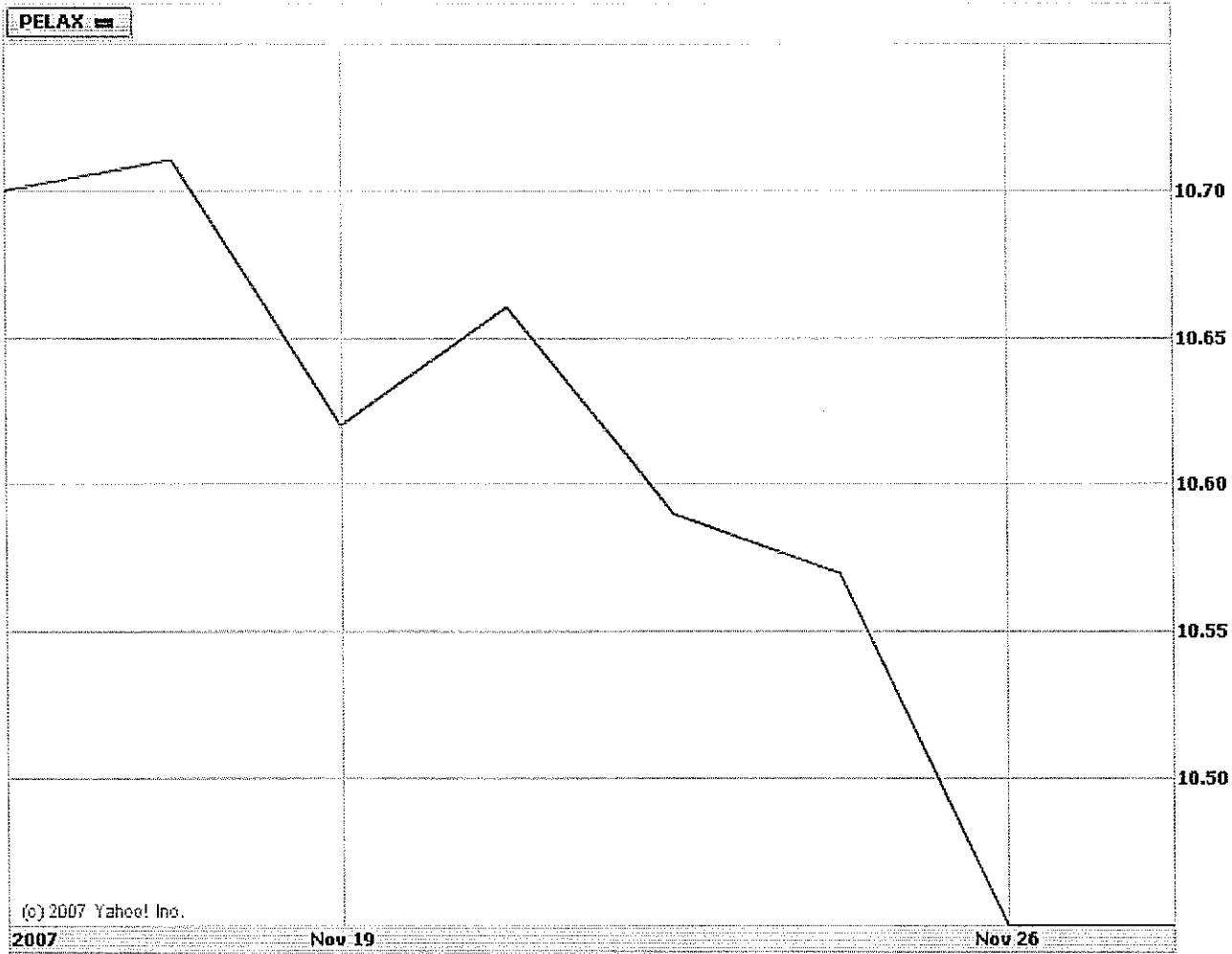
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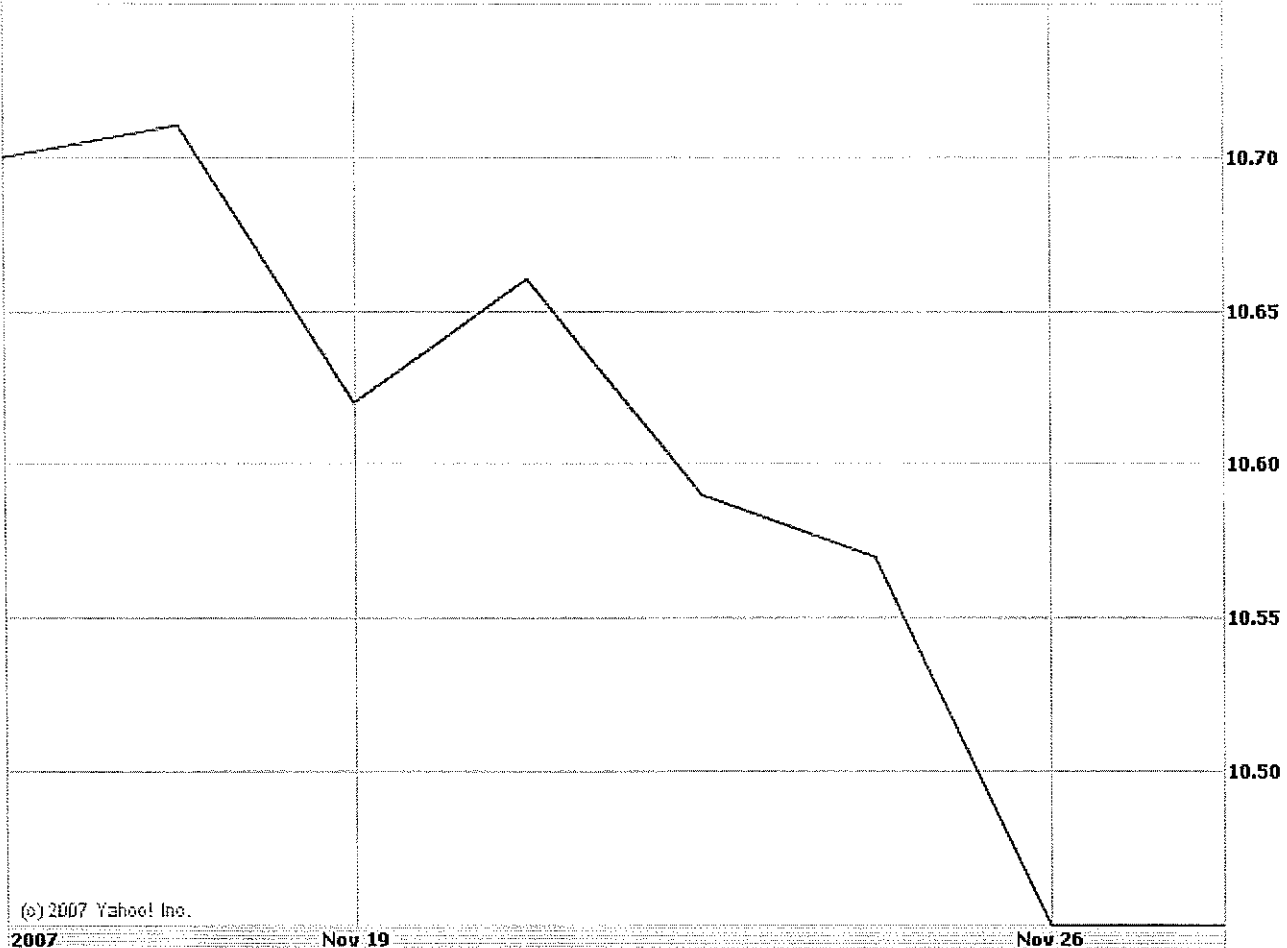
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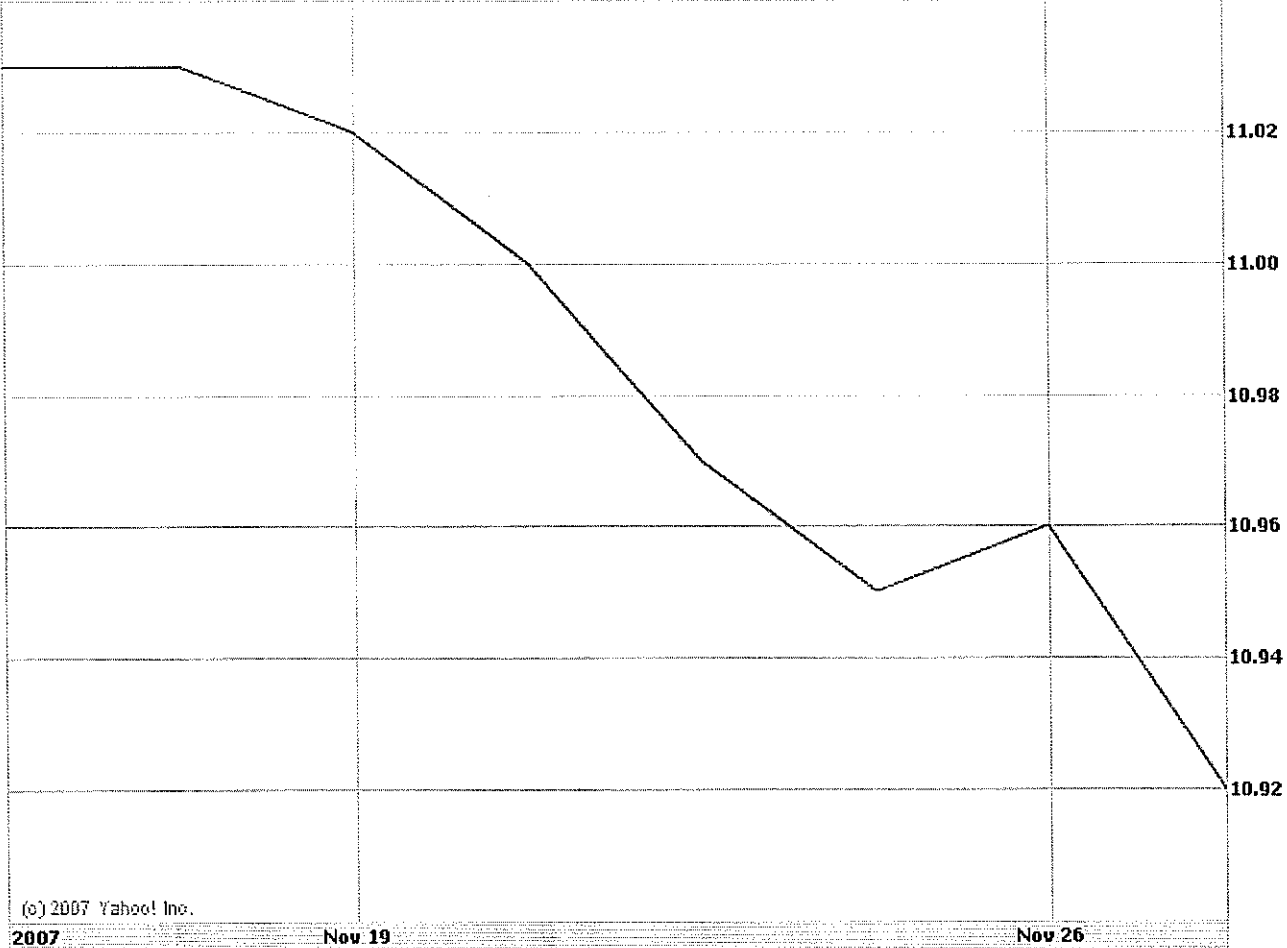
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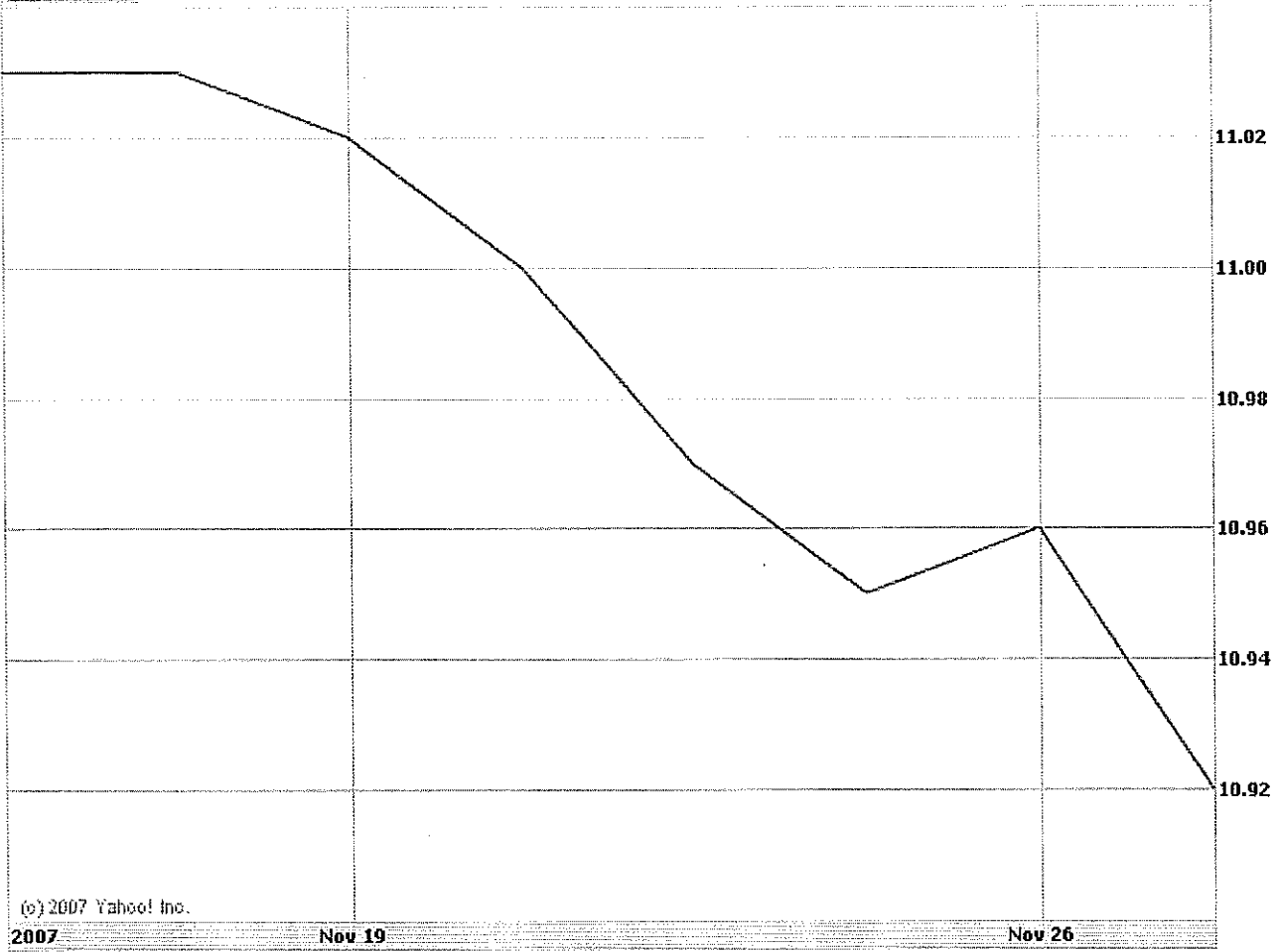
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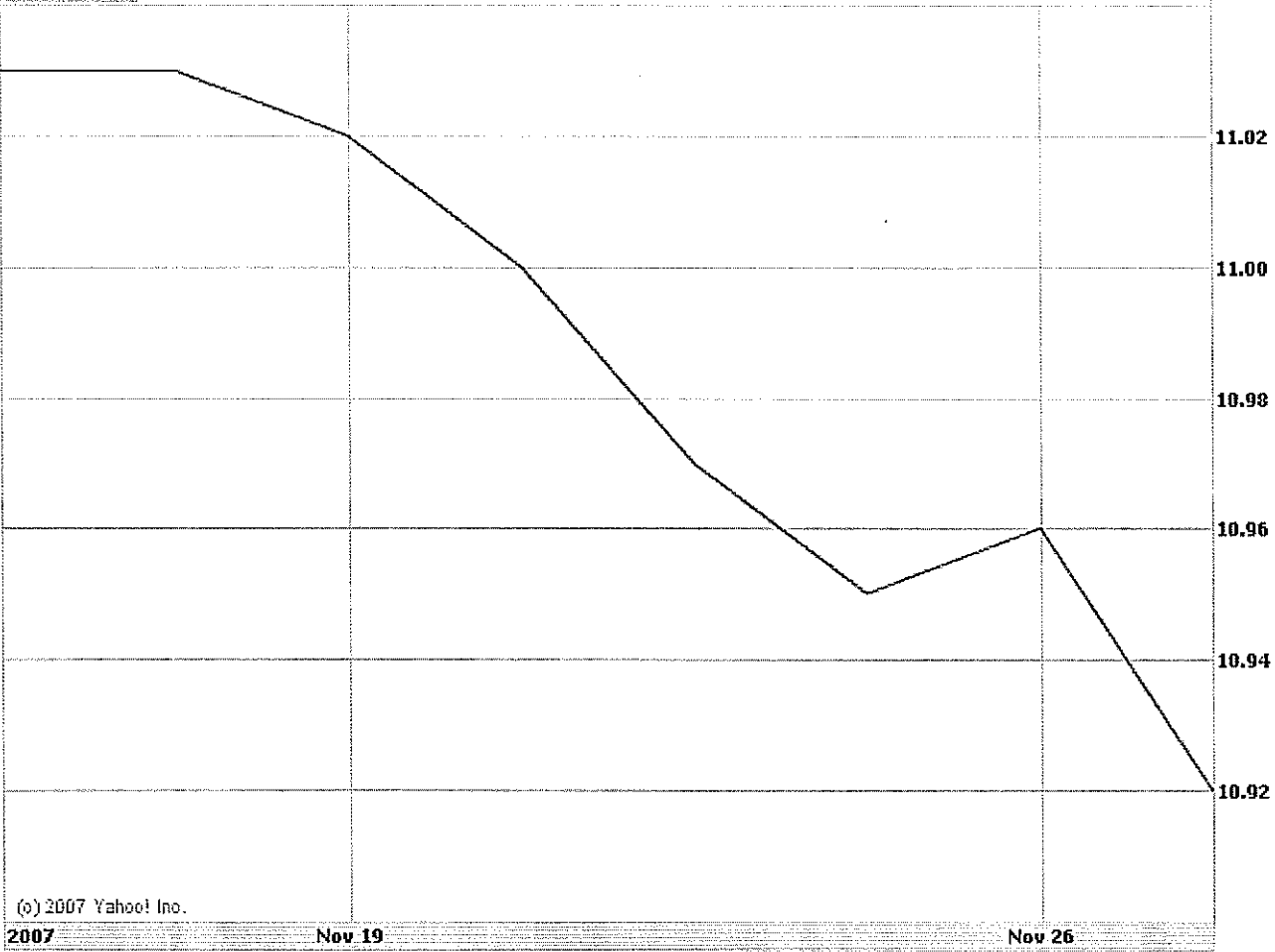
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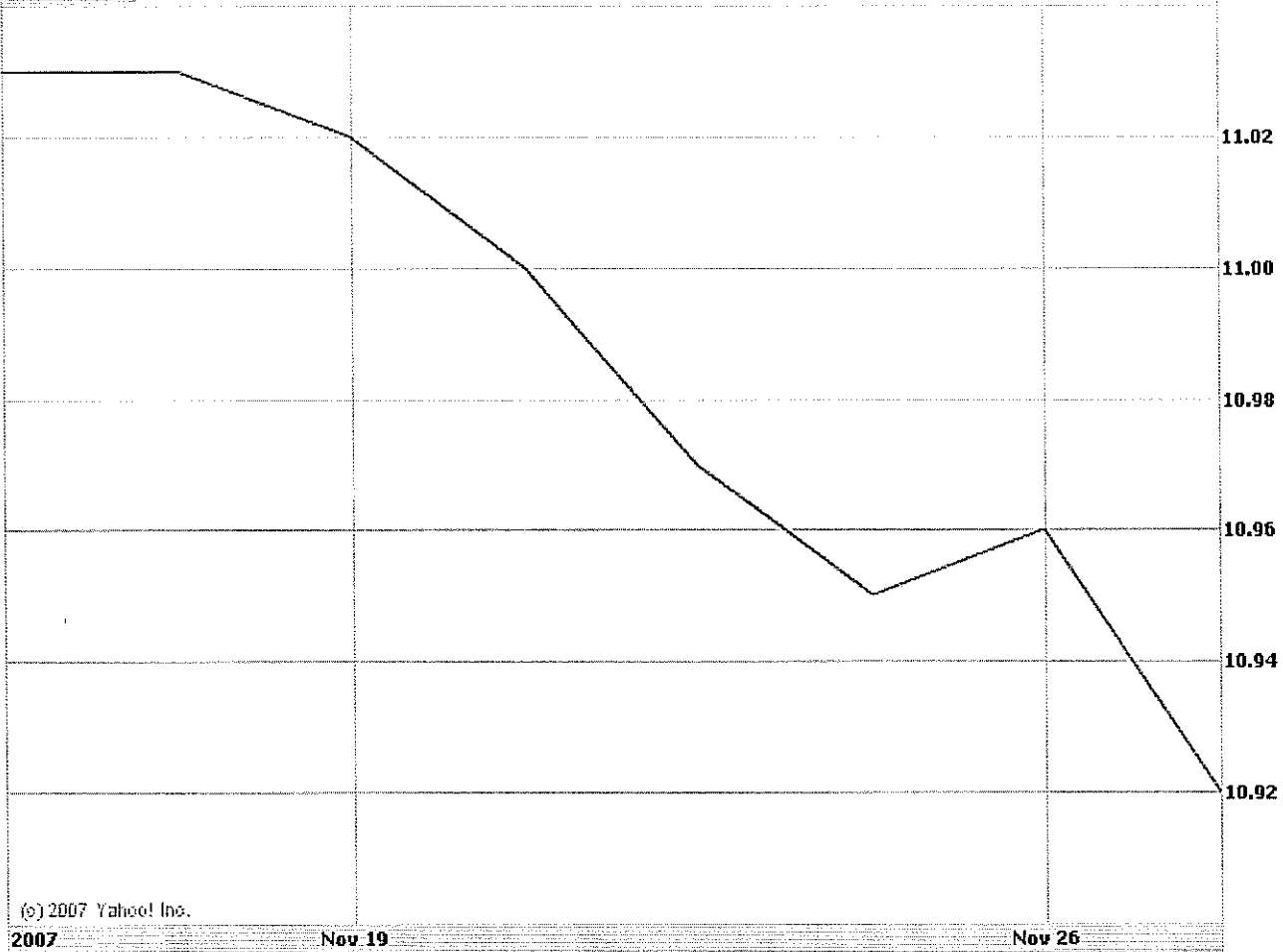
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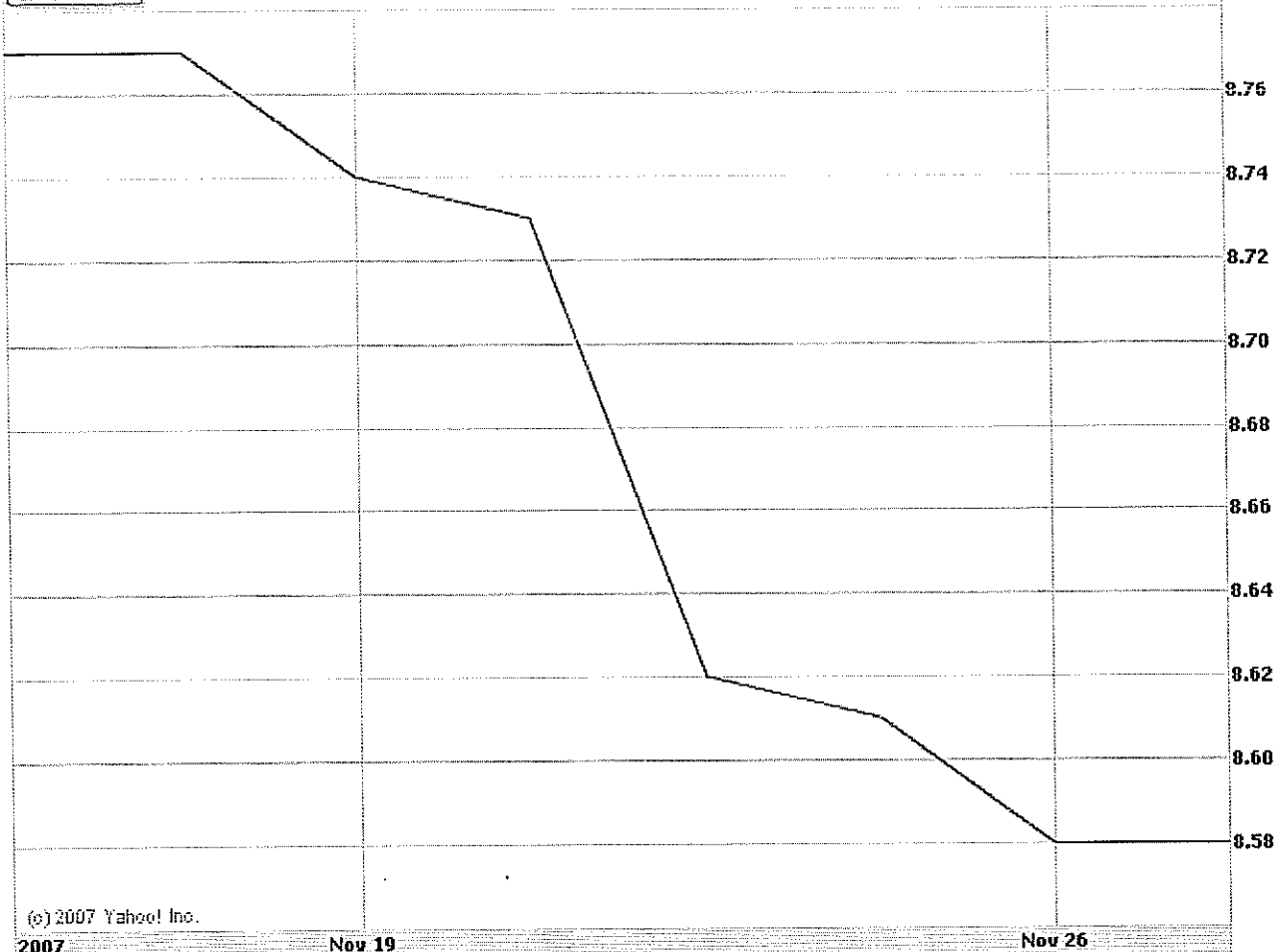
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