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Huge in Korea? California's Bond Bankers See Big Fan Base Abroad.

- **Banks describe possible investors for state deal next week**
- **Japan, Korea, Taiwan among those that may buy the taxable debt**

California's not just big in Japan. It probably has bond-market fans in South Korea and Taiwan, too.

That's the message from JPMorgan Chase & Co. and Citigroup Inc., the lead underwriters of California's \$2.1 billion taxable debt sale, which is scheduled for April 17. In a presentation to the state treasurer's office, the banks broke down why they think there would be "significant demand" from Asian investors for California's municipal bonds.

Wary of low and sometimes even negative rates on government bonds in their home countries, foreign investors have become a small but growing presence in the \$3.9 trillion U.S. state and local government bond market. By the end of last year, overseas buyers owned a record \$105 billion of the nation's municipal debt, about twice what they held a decade ago, according to Federal Reserve Board data.

That means more competition for U.S.-based firms with mandates to buy California debt — and potentially lower costs for the state.

For Korean life insurers investing in dollar-denominated debt, their "sweet spot" is in maturities between 20 and 30 years, according to the JPMorgan and Citi presentation dated March 14 and released to Bloomberg News this month. In Taiwan, where California general obligations have been "one of the most favored credits," investors would likely prefer long duration with maximum yield, it said.

Hong Kong firms would prefer short to intermediate maturities, the banks said, noting that life insurers there have bought state general obligations in the 15-year range, while the three to 10-year range has been targeted by sovereign fund and central bank buyers.

Meanwhile, Japanese securities firms have bought taxable Build America Bonds in the 20 to 30-year range, and some asset managers are picking up taxable municipals in the 15 to 30-year range, JPMorgan and Citi said.

Middle East investors, who were included among the Asian countries, may be interested in five and 10-year maturities, the presentation showed.

The U.S. banks didn't exclude Europe: although investors there have been "less active recently" in municipals, large firms are already familiar with California, they said. British life insurers have recently bought the state general obligations, and Nordic investors "have historically been constructive" on such debt. Meanwhile, Swiss life insurers are "struggling to meet yield targets" in locally-denominated securities.

Jessica Francisco, a spokeswoman for JPMorgan, and Scott Helfman, a spokesman for Citigroup, declined to comment.

California in the past has seen interest from foreign investors, said Deputy Treasurer Tim Schaefer by telephone.

"It offers any investor the opportunity to diversify his or her portfolio, pick up a little bit of yield, and buy a name that's believed by many to be quite liquid," he said.

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